LANDandBUILDINGS

COVID-19 Has Supercharged the American Dream of Living in a Single-Family Home

– Land & Buildings believes single-family homes to own and rent are poised to see substantial tailwinds as millennials move to suburbs has been accelerated by COVID-19 –

–Millennials taking advantage of improved affordability with low mortgage rates as their families grow setting stage for strong demand for purchase of single-family homes –

– Single-family for rent demand is strong with occupancy and rents increasing post COVID-19 –

– Homebuilder D.R. Horton saw orders for new entry level homes accelerate throughout April –

– Entry-level homebuilder D.R. Horton and single-family rental REIT Invitation Homes seeing strong pick-up in demand –

Stamford, CT (May 19, 2020) – Today Land and Buildings Investment Management LLC (together with its affiliates, “Land & Buildings”) issued a report on its belief that single-family homes to own and rent are poised to see supercharged tailwinds post-COVID-19. Land & Buildings explains why entry-level homebuilder D.R. Horton (NYSE: DHI), and single-family rental REITs Invitation Homes (NYSE: INVH), are particularly well positioned to capitalize on opportunities in the industry.

COVID-19 Has Supercharged the Already-Growing Trend Towards Living in a Single-Family Home

Single-family homes to own or rent were enjoying strong secular demand prior to COVID-19. Stay-at-home orders and generational low interest rates have supercharged these trends.

Single-family home ownership rates were already increasing as the millennial age cohort (23-39 years old) began moving out of cities, starting families, and living in homes. Major cities were also feeling the impact of population decline prior to the stay at home orders, and this trend is likely to pick up speed post-pandemic. Homebuyers are seeing the affordability to buy a home improve materially with the decline in mortgage interest rates and entry-level home purchases are seeing a strong recovery from late-March lows. Single-family for rent leasing saw a surge in April that is continuing into May.

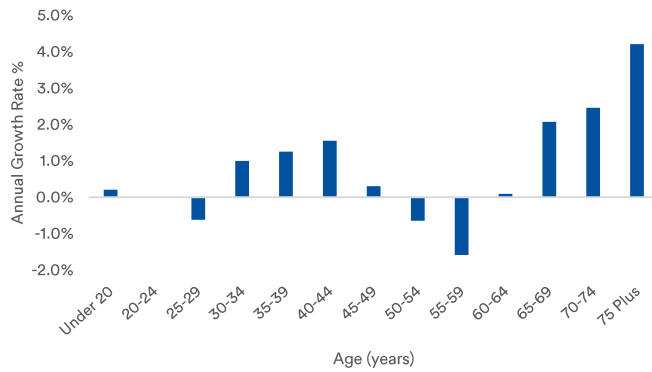
While this initial surge may subside in coming months, the trend is in place and the pace of millennials moving into single-family homes will likely be stronger after the pandemic subsides. With a shortage of new housing construction since the Great Financial Crisis (GFC) and near record low mortgage interest rates, we expect demand to outstrip supply over the next 3 to 5 years.

Homebuilder D.R. Horton, and single-family for rent REITs Invitation Homes and American Homes 4 Rent, are all trading well below pre-pandemic valuations and will likely see valuations expand as sales and leasing volumes strengthen, home prices and rental rates rise, and earnings growth accelerates.

Preference for Living in the Suburbs is Solidifying

Demand for suburban living has been building due to demographic trends prior to the emergence of COVID-19. Millennials have begun reaching the prime ages to start a family and desire larger places to live. Households in the 30 to 44 year age range are likely to see some of the strongest growth over the next five years of any age cohorts. This trend should drive incremental single-family housing demand, as the median age for first-time homebuyers is 32 while the average age of Invitation Homes' resident is 39 years old.

Millennials Reaching 30-39 Years Old Driving Outsized Population Growth and Housing Demand



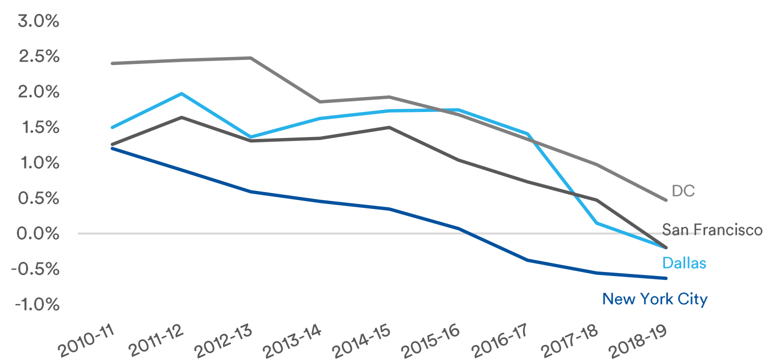
Source: U.S Census Bureau

An exodus out of cities and into the suburbs had begun in recent years, with many cities seeing slowing in population growth or outright declines. New York City, for example has experienced an outright decline in its population, while even Sunbelt cities like Dallas have seen growth slow materially and may go negative.

Housing Demand is Outstripping Supply

The pace of household formations has been outpacing the rate of housing starts, with 1.7 million households formed annually between 2017-2019, 34% above the rate of housing starts of 1.2 million. Net housing inventory is growing even less due to demolitions and obsolescence.

Slower Population Growth in Major Cities

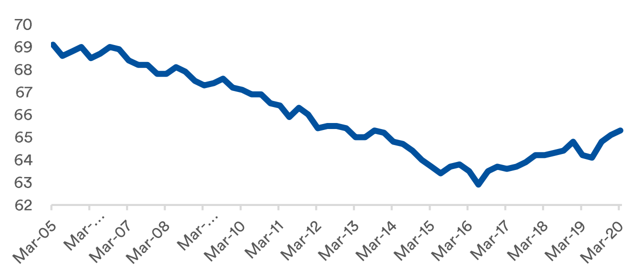


Source: U.S Census Bureau, Sidewalk Labs

The housing supply/demand imbalance will benefit rental home companies and single-family home builders. National home prices have risen over 4% over the past year and single-family rental REITs enjoyed revenue growth over 4% in 2019.

The homeownership rate has been rising for the last four years, reaching over 65% today after declining post financial crisis. With low interest rates providing an attractive cost of home ownership and more households moving to the suburbs, the homeownership rate is poised to move even higher.

Homeownership Rate Found Bottom and is Now Rising



Source: U.S Census Bureau, Bloomberg

Institutional single-family home rental platforms like INVH provide an easy transition into a single-family home with much of the leasing process online for those who may not have the resources to purchase a home.

Further, single family housing demand has been picking up momentum on the home building side as detailed by Steven J. Hilton, CEO of Meritage Homes (NYSE: MTH), “Sales momentum increased during the last two weeks of April. This increase in traffic and orders has carried over into May so we expect this month’s orders could be in-line with last May.”

And the picture is very similar in the single family for rent front, with Dallas Tanner, CEO of INVH saying, “Shelter-in-place has not impacted our ability to lease homes. In fact, residents have been moving into our portfolio at a similar rate to last year and at a greater rate than they have been moving out.”

COVID-19 is Accelerating Trend of Leaving Cities Behind

Work from home and stay at home orders have made city dwellers confined to small apartments less tolerant of lack of space and high population density. The desire for more room and a yard is growing with today’s health concerns and is likely to endure. In fact, a recent survey of more than 2,000 adults from Harris Poll found that nearly a third of Americans are considering moving to less densely populated areas in the wake of the pandemic.

Real-time housing search activity found urbanites (43%) were twice as likely than suburban (26%) and rural (21%) dwellers to browse a real estate website for homes and apartments to rent or buy. In fact, Redfin, an on-line real estate brokerage, stated “we expect something close to an exodus from these really large cities where housing is so expensive…search traffic has already shifted on our website.”

Further, the office sector is likely undergoing a permanent shift in utilization and location, as Land & Buildings discussed in a recent note highlighting the acute impact on the New York City office market (available here). This trend is likely to have ripple effects on the housing market.

Office buildings tend to be concentrated in urban city centers and, if fewer employees are working in those offices regularly, there is less need to live close to the urban core. With office employees working from home more frequently, the desire to have more living space, such as for a home office (or two) can fundamentally change housing preferences away from apartment and urban living and increase the overall share of consumer spending devoted to housing.

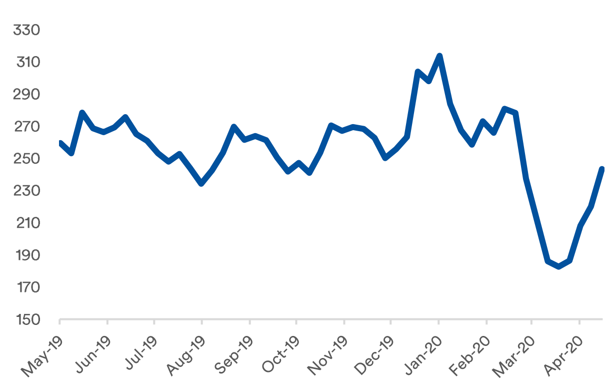
Housing is Already Seeing the Benefits of a Post-COVID-19 World

Single-family home purchases and rentals in recent weeks have accelerated across the country under stay-at-home orders. Demand for homes for both purchase and rent have surpassed even the most bullish expectations. There could be a lull after the surge in COVID-19 related demand, but the ultimate normalized level of demand for single-family housing should be higher than pre COVID-19 levels due to the likely enduring change in consumer patterns, combined with the demographic tailwinds that will start blowing even harder.

Homebuilders have generally experienced week-over-week improvements in sales throughout April, following the initial pause after the enactment of stay-at-home orders.

Mortgage purchase applications for new and existing homes have risen by 33% since their recent trough, with early data showing the entry level housing market generating the best performance. Thirty-year mortgage rates are 35 basis points cheaper so far this year and are on course for a 100 basis points decline as capital markets normalize. A buyer of a $250,000 home could save nearly $2,500 a year in mortgage interest payments, a substantial savings. Low

Mortgage Purchase Applications Improving Rapidly



Source: Mortgage Bankers Association

rates are fueling demand and it will likely only get better from here, as stated by Adam Wiener, Chief Economist at Redfin, “The V-shaped recovery in home-buying demand is powered by record-low mortgage rates and the loosening of stay-at-home orders in some states”.

D.R. Horton, which is the largest builder in the country and focuses on the entry-level segment, generated some of the best performance recently, with April orders at the time its earnings report in late April down only 11%, with orders improving week over week recently.

Single-family rental REITs have experienced strong demand as well. In April, Invitation Homes achieved record high occupancy – north of 97% – and American Homes 4 Rent noted a record number of showings. Pricing power remains strong with rental rates likely to continue to climb despite the meteoric rise in the unemployment rate over the past month.

Single-Family for Rent and Homebuilders Offer Attractive Entry Point

Shares of DHI and INVH appear to be compelling opportunities today, each down more than 20% from their highs earlier this year despite encouraging real-time data points and secular demand drivers strengthened as a result of the pandemic. The shift in consumer preference towards the suburbs is likely just beginning and should accelerate demand drivers for both the single-family for sale and rental industries in the coming years.

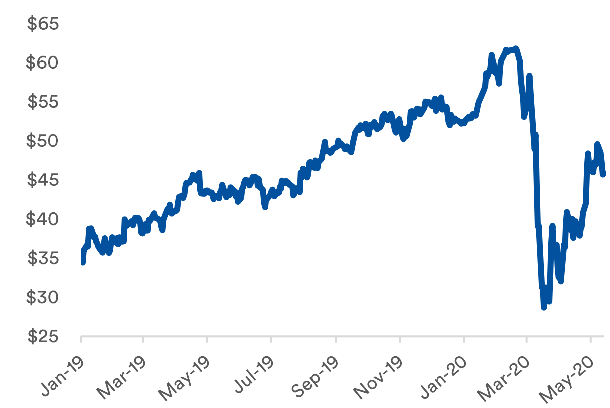
Land & Buildings has positions in DHI and INVH:

D. R. Horton – DHI is the country’s largest homebuilder with concentration on first time homebuyers. The stock has declined by 24% from its high earlier this year despite its business likely to be a beneficiary of the move to single-family homes. The company’s operating and financial performance are best in class, with sector-leading performance in April navigating the stay-at-home orders. Valuation is attractive with the stock trading at 10x 2021 consensus earnings. Those earnings estimates may prove to be too low given the tailwinds that are emerging for DHI and its peers.

Invitation Homes – INVH is the largest single-family rental landlord in the country owning 80,000 homes. The stock has declined 26% from its peak earlier this year, yet the company’s year-to-date operating results highlighted the stability of the business amidst the pandemic with record high occupancy in April. The blue-chip operating platform and management team has delivered best in class operating performance yet the stock trades at a discount to net asset value. Net asset value poised to grow with rents and home prices likely to rise as the demand for suburban living increases.

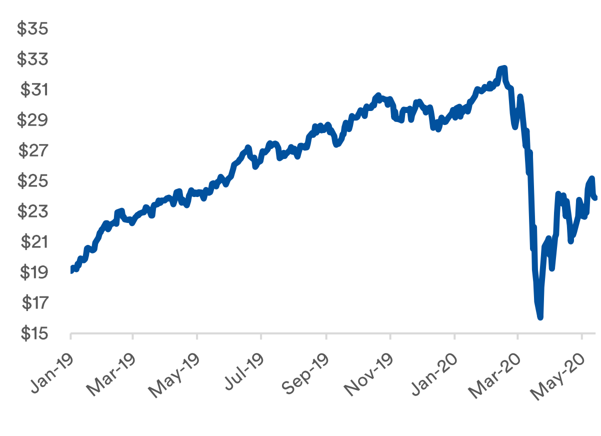
– Jonathan Litt, Founder & Chief Investment Officer

DHI: Well Poisoned to Benefit from Tailwinds



Source: Bloomberg; Pricing as of May 15, 2020

INVH: Strong Execution with Best in Class Platform



Source: Bloomberg; Pricing as of May 15, 2020

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