September 2023

PANTHEON

Introduction to the Single-Family Rental ("SFR") Sector

Pantheon invests in essential real estate sectors that benefit from secular demand drivers and offer strong risk-adjusted returns regardless of economic environment. This paper is designed to introduce the SFR sector, explain the inherent dynamics that differentiate SFR from other property types, and highlight elements of Pantheon's strategy to invest in the sector.

Summary of Patheon's SFR investment thesis and strategy:

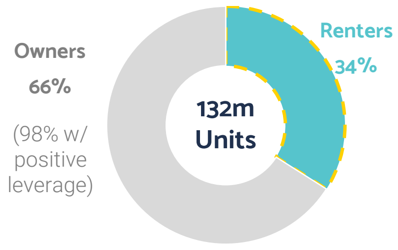
- Despite institutional interest in the sector in recent years, SFR ownership remains highly fragmented, providing an attractive consolidation opportunity.
- Following the trends of workforce multifamily over the past decade, the affordable end of the SFR spectrum has experienced resilient demand and higher rates of both rent growth and value appreciation but has been overlooked by most institutional investors, creating a compelling opening to generate attractive returns without increased risk.
- A significant shortfall of single-family home supply (both new supply and re-sales), coupled with homeownership costs that continue to outpace household income growth, is keeping the largest generational cohort, Millennials, in an extended period of rentership during their prime family formation years.
- SFR is a beneficiary of post-pandemic lifestyle shifts, as remote work drives demand for larger living spaces and reduces the need to live within the urban core.
- Rent growth in excess of inflation and improvements in operating platforms / vendor ecosystems have enabled SFR owners to achieve operating margins in line with or in excess of multifamily operating margins.

Pantheon opinion. There is no guarantee these trends will continue or that the investment thesis will be achieved.

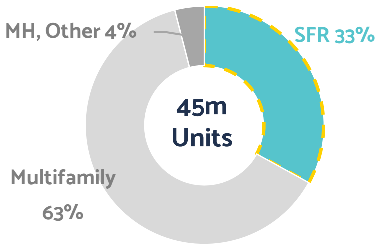
1. Market Size and Investment Landscape

SFR represents an underserved and highly fragmented market opportunity, with SFR homes representing only 11% of the U.S. housing stock and "institutional" ownership (portfolios of 100+ SFR homes) representing only ~5% of all SFR homes (compared to institutional ownership representing 55% of the multifamily sector).[1]

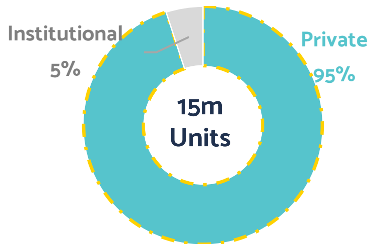
U.S. Households[2]



U.S. Renter Households[2]

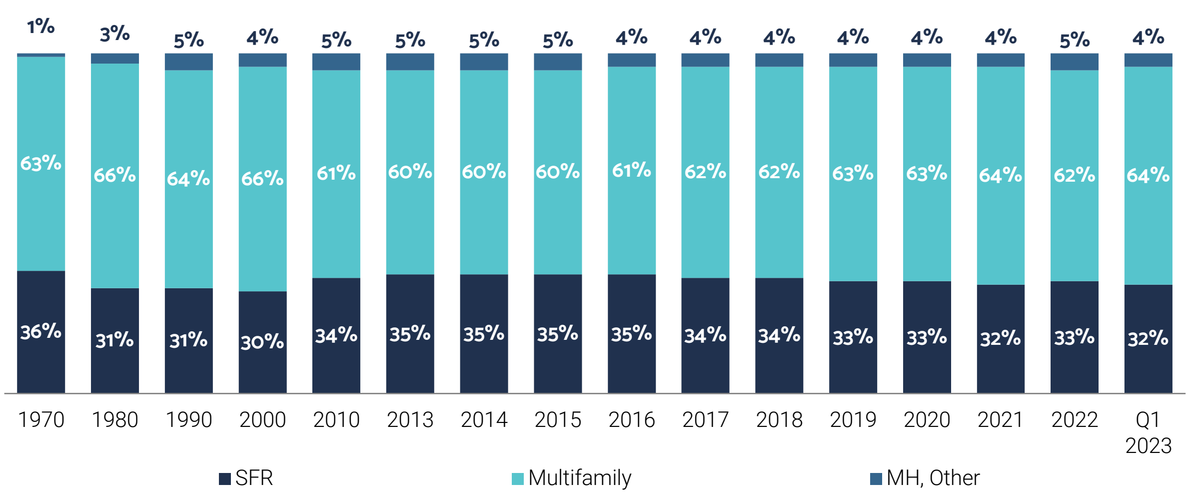


SFR Ownership[3]



- "Local" owners (1-2 homes each) control the majority of SFR housing stock, estimated at 10.6m units, typically occupied by "renters by need" paying rents below the institutional average.[3]
- As operating and borrowing costs rise, local owners of SFR (largely comprised of legacy owners with a low cost basis) are increasingly finding themselves facing downside risk for the first time, creating an attractive consolidation opportunity for institutional buyers that can operate and borrow more efficiently.
- There are currently 32 (and growing) "Mega" SFR investors (portfolios of 1,000+ homes) that make up 78% of institutionally owned SFR homes, providing for a deep pool of potential buyers for scaled portfolios.[3]
- The holdings of institutional SFR investors are concentrated, with top-20 largest institutional SFR markets (predominately high-growth Sun Belt MSAs) home to almost 77% of all institutional-owned properties.[3]
- SFR represents only 32% of all rental product nationally (in line with historical averages going back to 1970) and SFR homes as a percentage of all occupied single-family homes have only increased by 3-4% in the top-20 SFR markets since 1970.[3]

U.S. Occupied Rental Units by Type[3]



[1]Source: Multi Housing News (Dec 2021).
[2]Source: John Burns Real Estate Consulting (Jun 2023).
[3]Source: Urban Institute (2023).

2. Pantheon's Differentiated Focus on Affordable SFR Segment

While institutional owners of SFR are mostly focused on buying and building larger / more expensive homes, Pantheon sees an attractive opening to aggregate a portfolio of affordably priced homes that offer less competition and higher yields without additional risk.

- Mega SFR operators tend to buy more expensive homes that are newer, larger, and in higher-income areas; by doing so, they overlook a large pool of low- to moderate-income tenants most in need of SFR product.
    - On average, as the income level of a U.S. household declines, their birthrate increases, implying that the population most in need of affordable rental options is also most in need of single-family offerings.[1]
    - Additionally, while the unemployment rate remains historically low, increases in unemployment are more concentrated in households earning $125k or more (up 60% this year, compared to a 40% increase for households earning $50-125k).[2]
- Local investors have been successful in servicing the moderate- and lower-income population by buying homes that are older, smaller, and less expensive.
    - Given that the homes of local investors have roughly the same average bed / bath count as institutional investors (as shown below), they operate more efficiently by competing for the same size family, but paying less in OpEx per home.
    - Low- and moderate-income renters lack quality alternatives, setting a "rent floor" for the product
    - Local investors have the advantage of being micro-market experts who purchased their homes prior to institutions entering their market, meaning their homes are often better located in more mature, high barrier-to-entry markets.
- Given the low basis and lack of resources of many of these local owners, their properties are often undermanaged and can be sold at a discount to their stabilized value; as operating and borrowing costs rise for these local owners, Pantheon believes more local owners will elect or be forced to sell their homes, creating a large and attractive opportunity to consolidate small value-add / cash-flowing portfolios.[3]

Characteristics of SFR Homes by Ownership Type[4]

	Median Year Built	Median Size	Median Value	Median Bed / Bath
Mega Institutional Investors	1999	1,687 sf	$354k	3 / 3
Local Investors	1964	1,260 sf	$195k	3 / 3

- A comparison of Pantheon's portfolio, which prioritized relative affordability in high barrier-to-entry markets over the size and age of a home, to that of Altus' appraisal clients, who represent a large portion of the institutional SFR universe, shows that Pantheon's portfolio has similar market rents but a lower cost basis, providing Pantheon with higher rent yields.

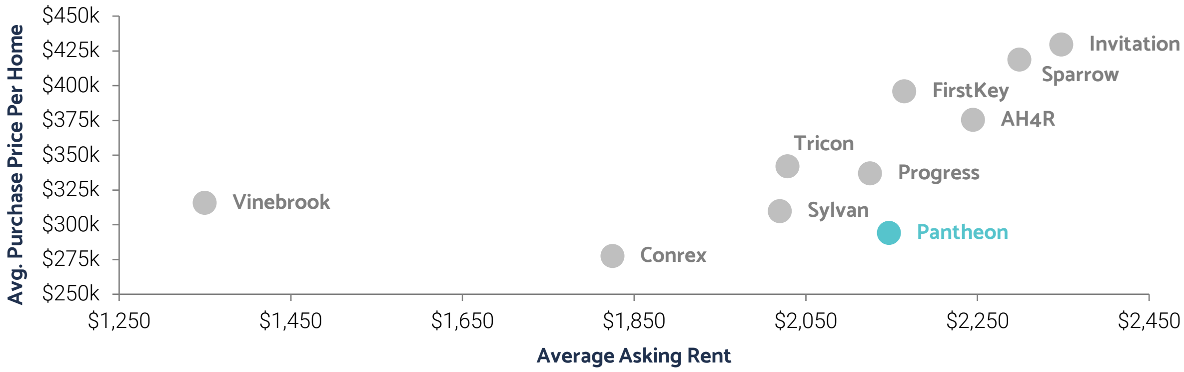
Comparison of SFR Holdings (Q2 2023)

	Avg. Age	Avg. Size	Avg. Cost	Avg. Mkt. Rent	Avg. Rent Yield
Altus Comps	19	1,816 sf	$348k	$2,216	7.86%
Pantheon	32	1,623 sf	$299k	$2,101	8.58%

[1]Source: U.S. Census Bureau (2019).
[2]Source: Bank of America, BLS (Jul 2023).
[3]Pantheon opinion. There is no guarantee these trends will continue or that the investment thesis will be achieved.
[4]Source: Urban Institute (2023).

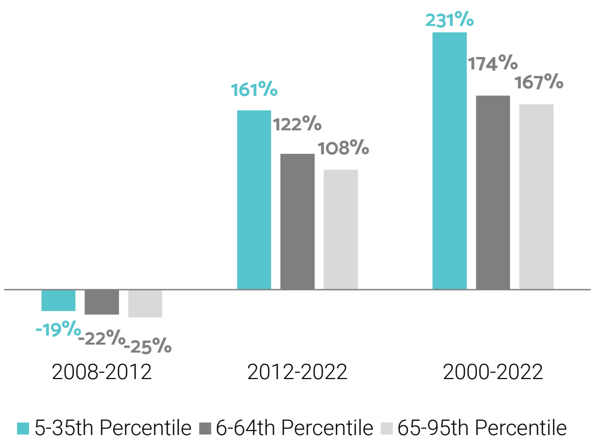
2. Pantheon's Differentiated Focus on Affordable SFR Segment (continued)

Pantheon Rent and Cost Basis Compared to Notable Institutional Operators[1]



- As the resiliency of lower cost homes continues to prove out because of limited supply and as SFR operators require higher yields to make up for rising borrowing costs, Pantheon expects high demand from institutional buyers for its scaled portfolio upon its election to sell.

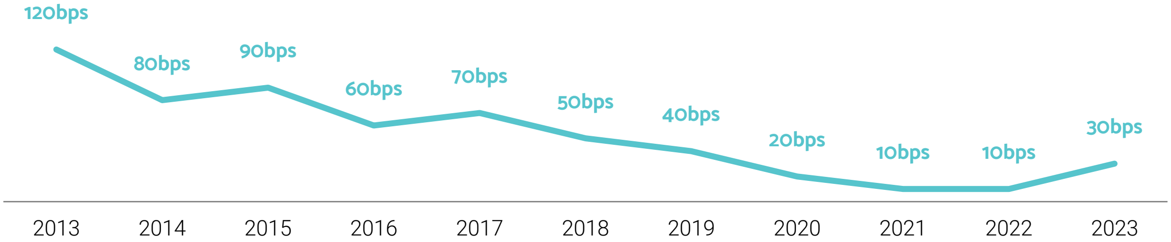
Single-Family Home Values by Price Tier[2]



SFR Rent Index by Rent Tier (2011 = 100)[3]

- Pantheon believes the evolution of institutional demand for "Class-B/C" apartments (i.e., workforce multifamily) provides an indicative roadmap for the lower-cost (affordable) segment of SFR; early concerns around CapEx and liquidity of workforce multifamily has since given way to widespread institutional acceptance, cap rate compression and high levels of liquidity.

Spread Between Garden and Mid/High-Rise Multifamily Avg. Cap Rates[4]



[1]Source: Entera (avg. purchase price in TTM Jun 2023), John Burns Real Estate Consulting (Asking Rents in Jul 2023).
[2]Source: Zillow.
[3]Source: John Burns Real Estate Consulting.
[4]Source: Real Capital Analytics (Aug 2023).

3. Overview of Trends Impacting SFR and its Value Proposition

A combination of positive demographic trends, worsening home affordability, and changing lifestyles post-pandemic have created robust demand for SFR.

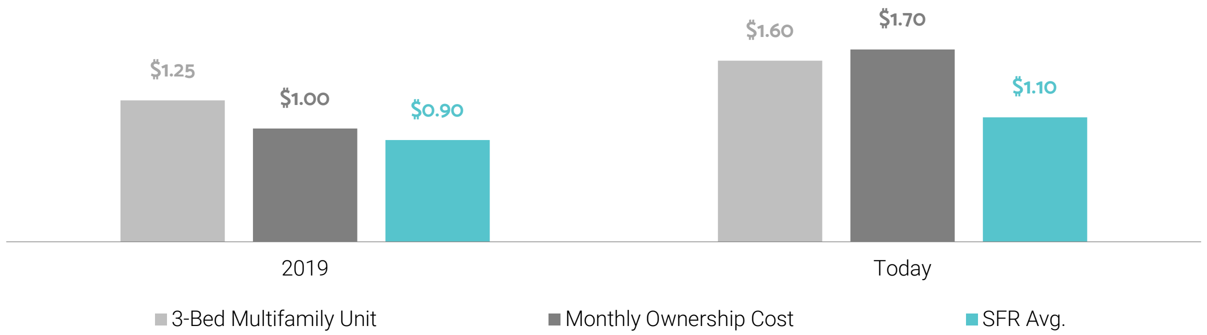
- While SFR and multifamily are supported by many of the same tailwinds increasing long-term rentership, demographics and the fallout from COVID-19 have led to an increased preference for detached single-family homes which offer more indoor and outdoor space.
- The evolution of SFR homes from mom-and-pop to professional management is providing residents with an improved experience, comparable with what Millennials are accustomed to experiencing from multifamily buildings, making the transition from multifamily to SFR easier.

General Rental Demand Drivers	SFR-Specific Demand Trends
▶ Preference towards flexibility and spending on experiences ▶ Majority of future household formations expected to come from lower-income populations with a higher propensity to rent ▶ Home price growth exceeding wage growth due to supply shortfalls ▶ Tightened home mortgage requirements since the GFC, coupled with rising interest rates ▶ Low household savings rates and high personal debt ▶ Increasing 'aging in-place' trend among seniors, contributing to lower inventory turnover	▶ Millennial family formation ▶ Improving tenant experience (tech enablement and robust vendor networks) ▶ Post-COVID demand for more space (need for home office, yard for pets and kids) ▶ Work-from-home trends (short work commutes less important, access to suburban amenities becoming more important) ▶ Migration from expensive cities to less dense suburbs in the Sunbelt

SFR provides the highest value on a per-square-foot ("psf") basis when compared to multifamily rentals and home ownership; today, the average cost psf of SFR is 55% less than the average cost to own a home (the SFR psf discount to home ownership averaged just 5% in 2015-2019).

- The large gap between the monthly cost to own a home and lease an SFR home should help keep a floor under rents and implies a 50% upside case for SFR rents to return to its historical (2015-2019) relationship (assuming no changes to the cost of home ownership).
    - 65% of SFR homes contain 3+ bedrooms, compared to 11% of multifamily units, minimizing the level of direct competition between the two product types.

Monthly Cost or Rent per Square Foot (Top-25 SFR Markets)[1]

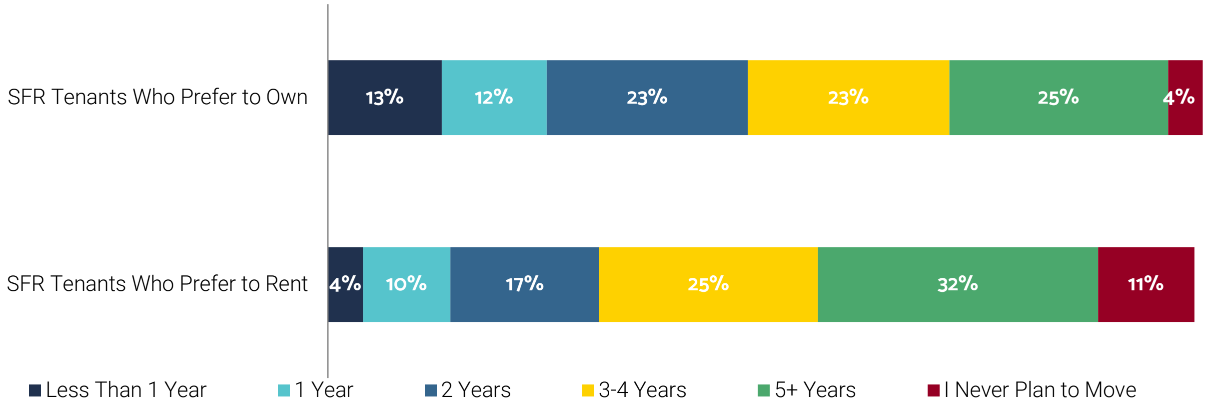


[1]Source: REIT disclosures, Green Street assumptions, NAR (Jul 2023). Based on avg. monthly payments for a home after a 20% downpayment. Assumes a high-3% mortgage in 2019 and high-6% rate.

3. Overview of Trends Impacting SFR and its Value Proposition (continued)

The value proposition of SFR is also expected to reduce tenant turnover, leading to lower operating costs / higher operating margins for landlords compared to multifamily, which has an average annual tenant retention rate of just over two years.[1]

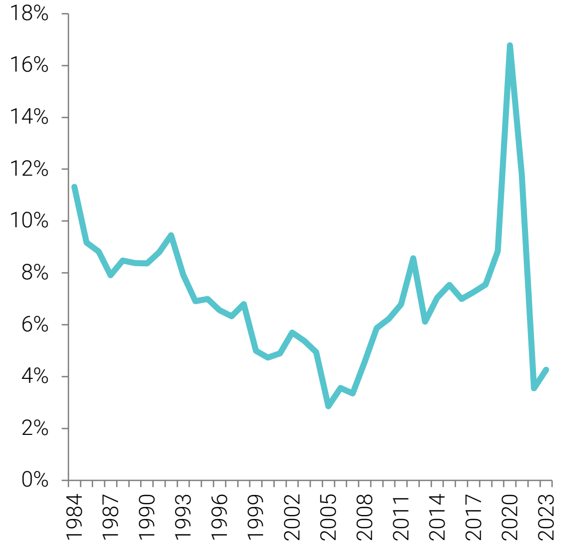
Survey of SFR Tenants Regarding Their Planned Length of Stay in Current Home[2]



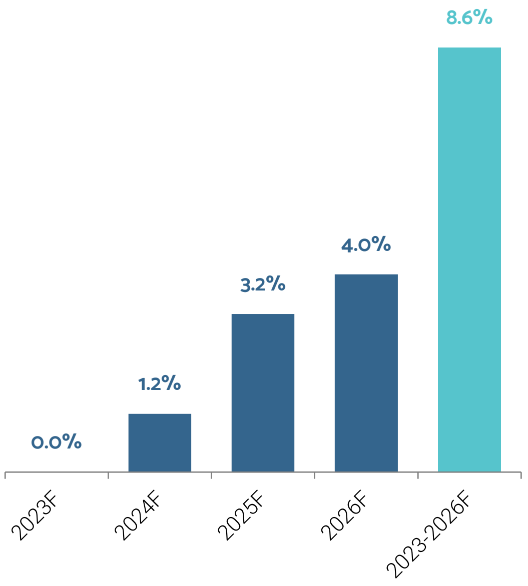
Despite an expected "correction" in the housing market due to rising interest rates, high demand and low supply are keeping home price appreciation positive; 100 economists surveyed by Zillow expect U.S. home prices to be flat in 2023 and then grow by 9% between 2024-2026.

- Due to inflation, rising interest rates, and the end of federal stimulus (cause of the 2020 spike), household savings are near a 40-year low at 4.3% of income in 2023.
- The negative impact of low household savings rates on home ownership is made worse by rising home prices, which have increased 121% since the GFC.

Avg. U.S. Household Savings Rate[3]



Economist Expectations for Home Prices



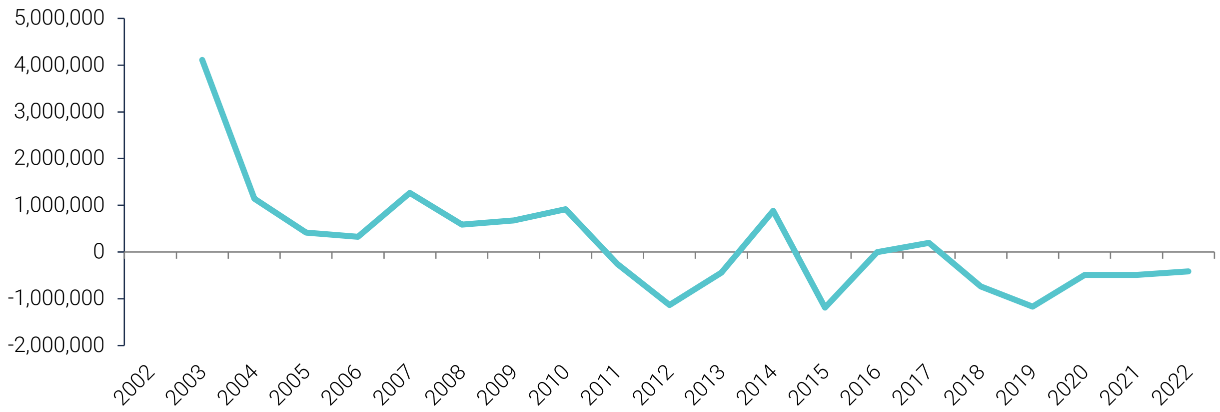
[1]Source: Real Page (Aug 2022).
[2]Source: John Burns Real Estate Consulting.
[3]Source: FRED.

4. Housing Supply Shortage Keeping Values High

Single-family construction, especially of entry-level homes, declined substantially after the GFC and has yet to fully recover; the deficit of annual supply to demand for new housing is running at an estimated range of 100-135k per annum, with an aggregate estimated deficit of 1.7-2.3m units.[1]

- In 11 of the last 13 years, the growth in the number of U.S. households has exceeded the growth in the number of housing units; given the current deficit, plus projected growth in demand and obsolescence, the U.S. will need an estimated 17.1m new housing units between 2020-2030 to bring supply and demand in balance, highlighting the structural challenges in the housing market.

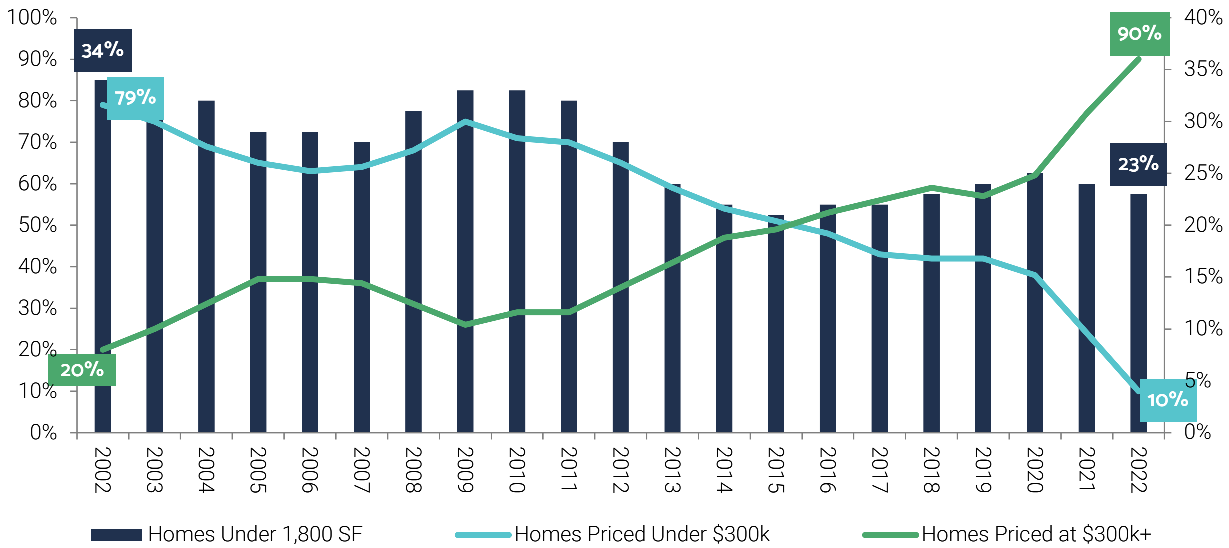
Spread Between Annual Housing Inventory Growth and Household Formation Growth



The supply shortage of entry-level homes for sale (those most likely to compete for SFR tenants) is particularly acute, as the percentage of homes built with less than 1,800 sf and priced below $300k has fallen by 10% and 85%, respectively, since 2002.

- In 2022, the median price of new homes was $414k and the median size was 2,486 sf[2]

Percentage of New Home Sales by Size & Price[2]



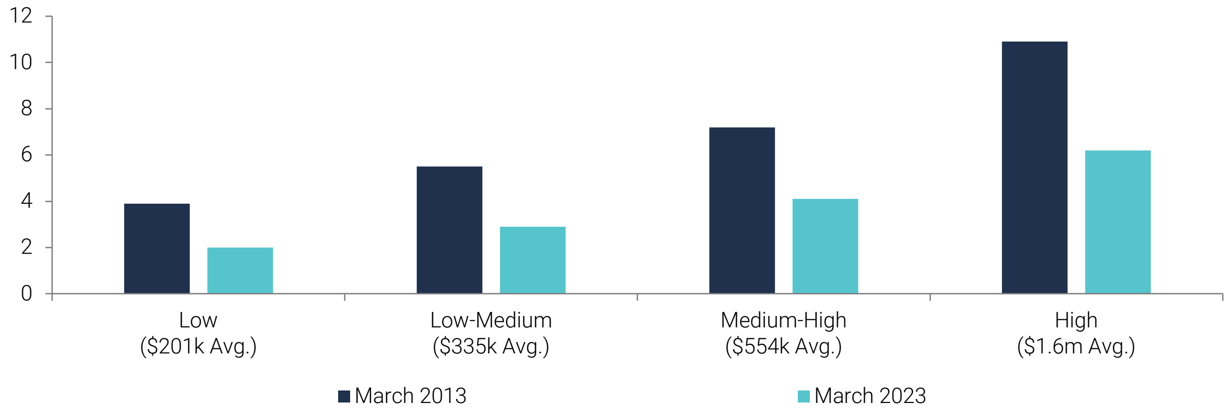
[1]Source: John Burns Real Estate Consulting, Realtor.com (2023).
[2]Source: John Burns Real Estate Consulting.

4. Housing Supply Shortage Keeping Values High (continued)

In addition to the shortage of new home supply, the number of existing homes on the market has fallen drastically because most owners do not want to replace their current mortgage with a new one at today's rates, further locking out first-time home buyers.

- 81% of mortgage borrowers are locked into a rate that is less than 5.00%, while the current average rate for a 30-yr fixed mortgage in the U.S. is 7.52%.[1, 2]
- Total active listings have declined by ~575k units (almost 50%) from June 2019 (pre-COVID) to June 2023, with listings of homes priced below $350k representing the largest share of the decline.[1]
- Availability of lower-cost homes in the re-sale market has been lower than the other price tiers over the last decade and is expected to remain tight in the near term, further bolstering the demand for SFR as the viable alternative.

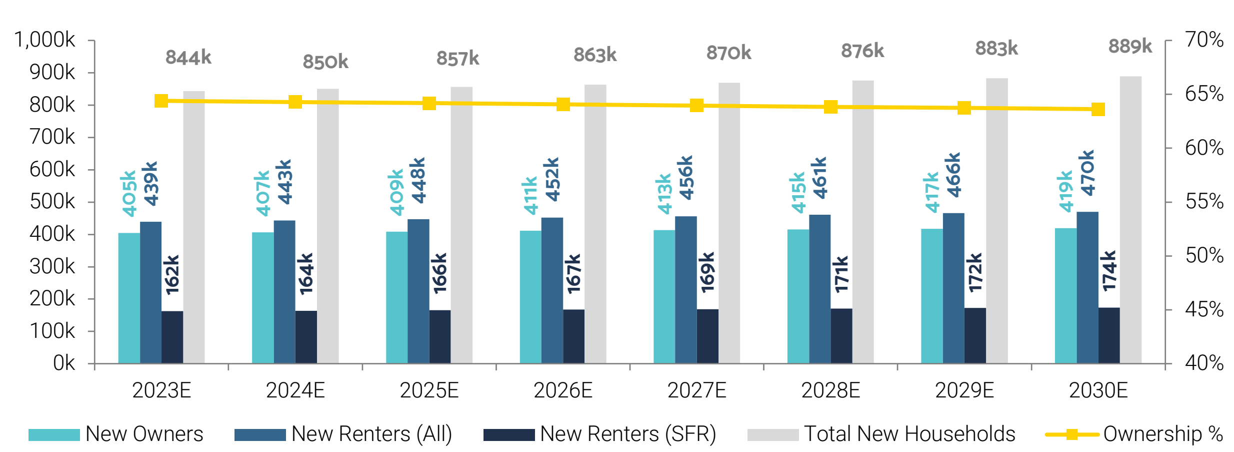
Months of Re-Sale Supply by Price Tier[1]



The number of renter households is expected to increase by ~500k per year through 2030, double the expected growth rate of homeowners.

- Assuming SFR's market share to be 37% of all renters going forward (5% above the current 32% market share today), Pantheon estimates SFR demand to increase by ~1.3m units by 2030 or ~170k per year (compared to 68k BTR deliveries in the past 12 months, which represented a one-year record).

Projected New Household Formations[3]

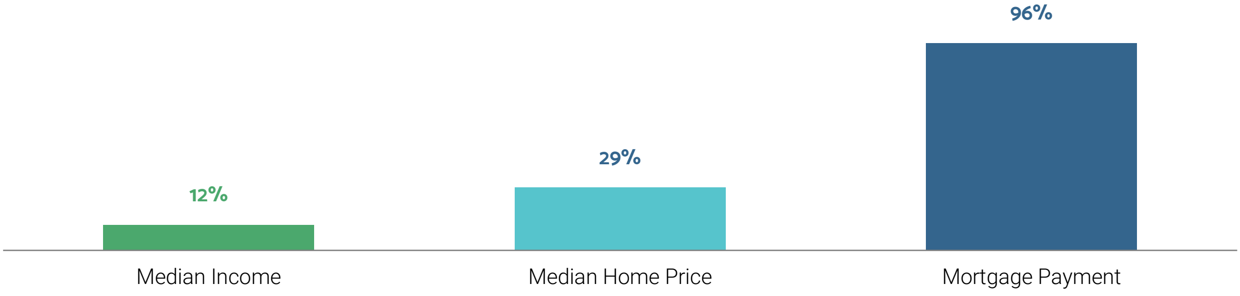


[1]Source: John Burns Real Estate Consulting (2023).
[2]Source: Bankrate.com (Aug 2023)
[3]Source: U.S. Census Bureau, Urban Institute, Pantheon projections and opinion.

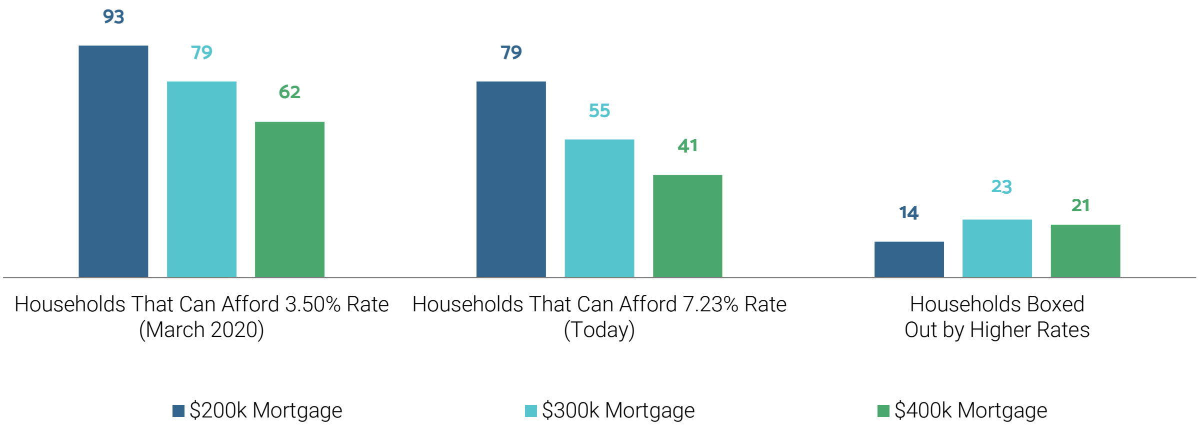
5. Rising Home Ownership Costs Driving Rental Demand

Payments on a new mortgage have increased 96% since March 2020, while incomes have only gained 12%, boxing out an estimated 14-23m people from affording a mortgage (depending on market and purchase price).

Change in Income vs. Home Ownership Cost (Since COVID Onset: March 2020)[1]



Number of Households Able to Afford a Mortgage Payment (in millions)[2]



Mortgage lending also remains restrained for individuals whose credit profiles are most like that of the typical SFR tenant (low-to-mid 600s FICO score); individuals with FICO scores below 660 account for less than 10% of mortgages today, compared to ~25% before the GFC.[3]

- As a result of much tighter supply and mortgage availability, the U.S. housing market is much more stable today than pre-GFC.
- Urban Institute's Housing Credit Availability Index ("HCAI"), which measures the percentage of owner-occupied home purchase loans that are likely to default, was at 21.8 in 2006 but has averaged only 2.7 since 2012.
- It is also expected that high borrowing costs and limited financing for local home builders will provide a barrier to new supply over the short-term.

[1]Source: FRED, NAR. Assumes Avg. 30-year mortgage rate increasing from 3.40% to 7.23%.
[2]Source: U.S. Census Bureau, Current Population, Pantheon estimates. Assuming 2021 income levels, 30% rent-to-income ratio.
[3]Source: John Burns Real Estate Consulting, Urban Institute (2023).

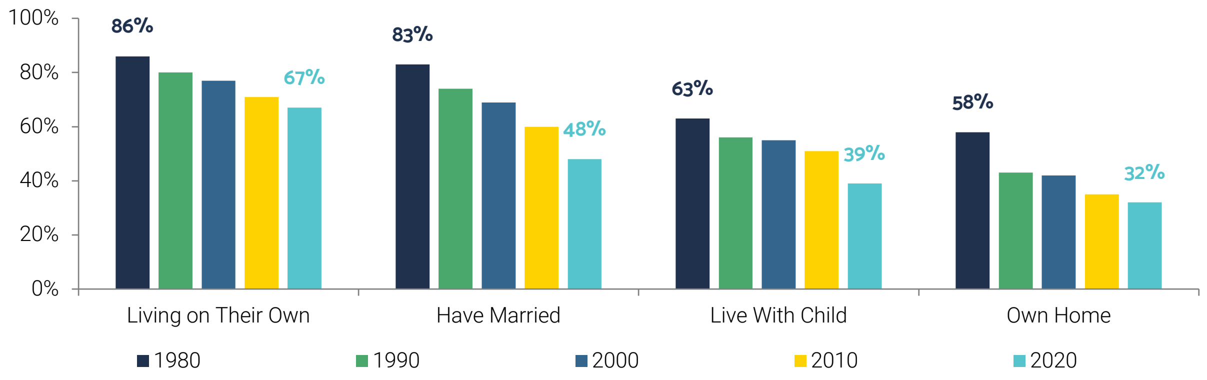
6. Demographic Tailwinds Impacting SFR

MILLENIALS

Millennials (born between 1981 and 1996) are the largest population cohort in the U.S., totaling 72.4m, and are accelerating demand for single-family homes.

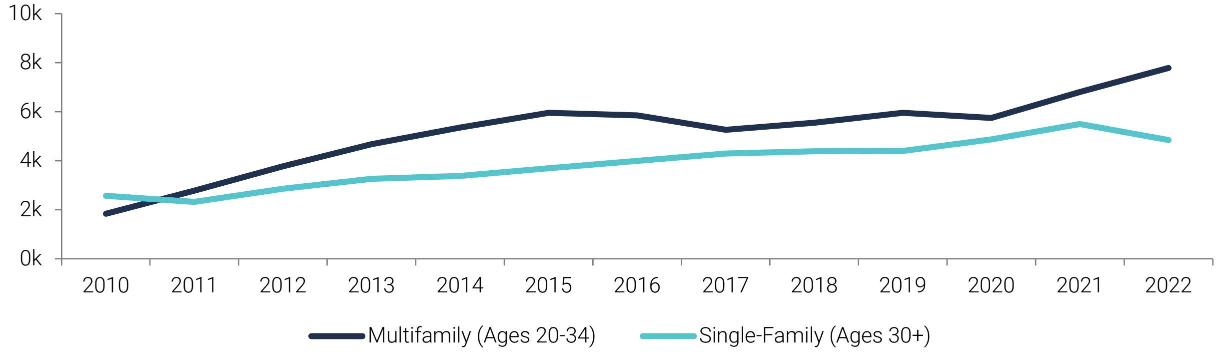
- Millennials have deferred family formation past the age of 30 more than previous generations, but as Millennials reach the average age of 34+, Pantheon expects a significant pull-through in single-family home demand from Millennials leaving their parents' homes and apartments.
- Annual household growth in the U.S. averaged ~2.2m per year from 2019-2021, well above the ~1.5m per year pace averaged in 2017-2019; driven by a pickup in growth among Millennials.[1]
    - The number of households headed by 25–44-year-olds grew by 700k per year in 2016-2021, compared to 195k households between 2011-2016.[1]

% of 30-Year-Olds Hitting "Family Formation" Milestones[2]



- Across the top 25 SFR markets over the next five years, it is estimated that the population aged 25-34 years old, which historically drove demand for urban / multifamily products, will decline by 80%, and the population aged 35-44, or those expected to drive demand for single-family homes, will increase by 35% (2x the national average).[1]
    - Despite this dynamic, new purpose-built SFR ("build-to-rent" or "BTR") housing starts represented only 11% of all rental housing starts in the past year.[3]

U.S. Housing Starts per Capita by Age Cohort[3]



[1]Source: Green Street.
[2]Source: U.S. Census Bureau, John Burns Real Estate Consulting.
[3]Source: U.S. Census Bureau, BLS, Statista Research Department.

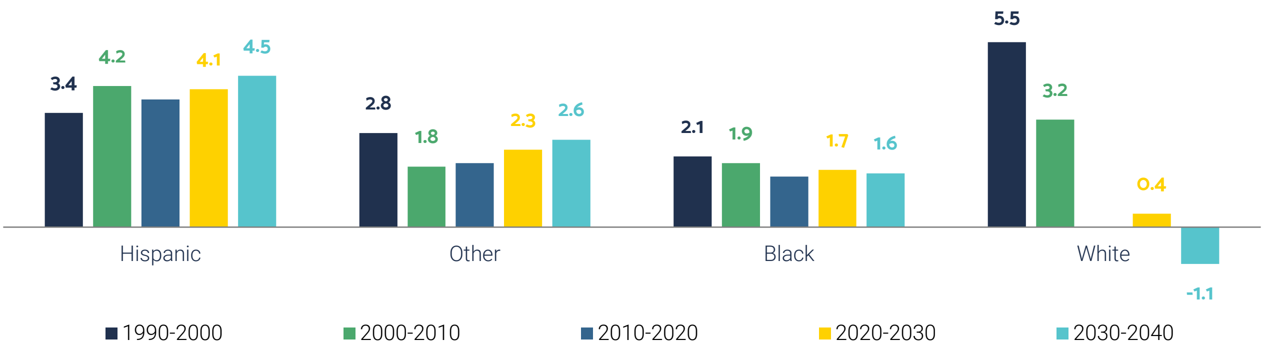
6. Demographic Tailwinds Impacting SFR (continued)

IMMIGRANTS

Immigrants and their children are expected to continue to drive strong demand for SFR housing, as 49% of the children of immigrants in the U.S. rent their home, compared to 33% of children with native-born parents.[1]

- While births among U.S.-born mothers have decreased since 1970, births from foreign-born mothers have tripled to almost 1m births annually, driving an overall increase in U.S. births; immigrant families now account for 23% of babies born in the U.S.
- Between 2020 and 2040, there will be an estimated 9.3m net new renters (an increase of 21%), comprised of 3.8m more Hispanic renters, 2.2m more Black renters, 2.1m more Asian and other ethnic renters, and 1.2m more White renters.

Net Household Formation by Race / Ethnicity[1]

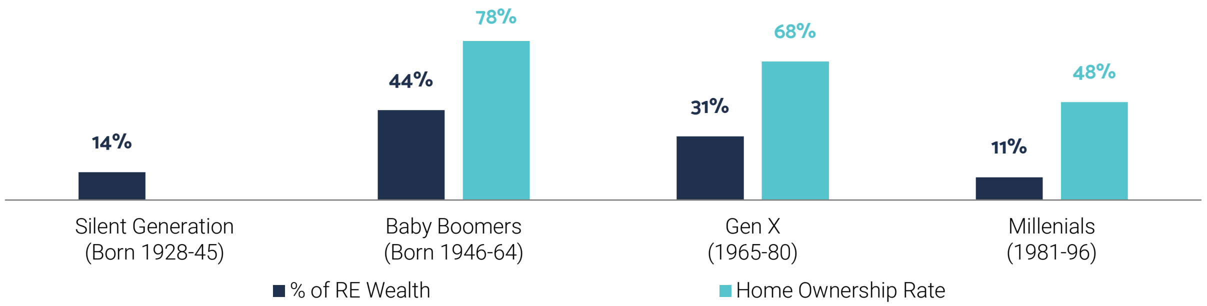


BABY BOOMERS

Millennials and recent immigrants are being crowded out of home ownership by the 70m+ U.S. Baby Boomers (born between 1946 and 1964), who control the highest proportion of real estate wealth, are living longer, and are increasingly able to age-in-place.

- Americans aged 65 and older are about 2x more likely to be homeowners than Americans under the age of 35 and approximately 48% of 25- to 34-year-olds own homes today, compared to 50% of 25- to 34-year-olds in 1960.[2]
- Baby Boomers are bucking the trend of previous generations who sold their homes late in life, which results in less home availability for Millennial buyers; the share of seniors that reported difficulty caring for themselves has fallen by 39% from 2007-2021, made possible by improved healthcare, home renovations, and increasingly prevalence of e-commerce / delivery services.[3]

% of U.S. Real Estate Wealth & Home Ownership Rate by Generation[2]



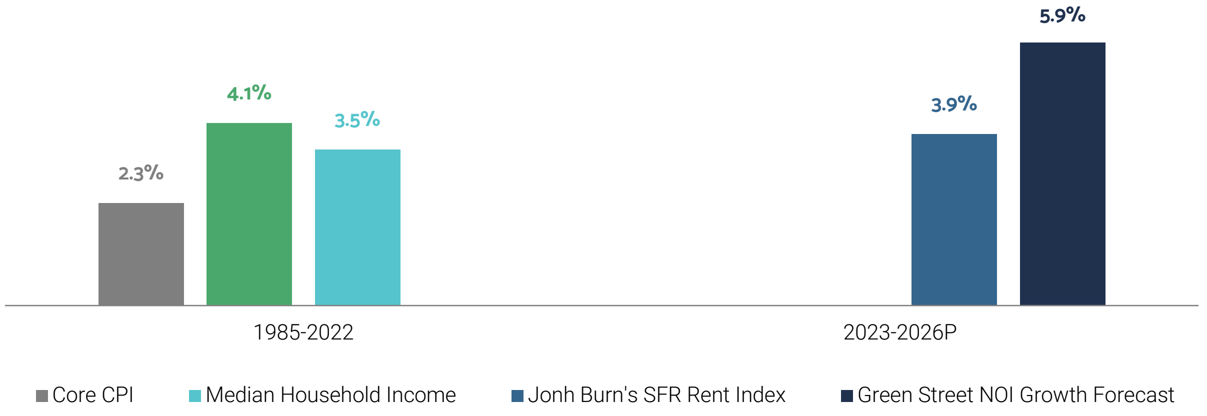
[1]Source: Urban Institute (2021).
[2]Source: U.S. Census Bureau (home ownership, 2023), New York Times (real estate wealth, 2021)
[3]Source: Redfin survey (Spring 2023).

7. Proven Operating Margins

SFR profit margins benefit from rent growth that has exceeded core inflation, as well as operating characteristics and costs that compare favorably to multifamily operating margins.

- Since 1985, SFR asking rent growth has exceeded core CPI, providing an inflation hedge, while remaining below median HHI growth, providing for healthy profit margin and rent-to-income ratios (implying SFR has more runway than multifamily to raise rents).

Annual SFR Rent Growth vs. CPI & HHI Growth[1]



- SFR provides a higher value on a psf basis when compared to multifamily rentals and 65% of SFR homes contain 3+ bedrooms vs. only 11% of multifamily units, minimizing the level of direct competition between the two product types.
- SFR benefits from no on-site staffing requirement and lower instances of tenant turnover (46% in multifamily vs. <30% for SFR).

Average Operating P&L Comparison

	Garden-Style Multifamily[2]	Single-Family Rentals[3]
Gross Potential Rent (Per Unit)	$1,367	$2,171
Gross Potential Rent (Per SF)	$1.43	$1.27
Vacancy Loss (% of GPR)	5%	4%
Collection Loss (% of GPR)	1%	2%
Concession Loss (% of GPR)	1%	0%
OpEx Margin	40%	31%
NOI Margin	60%	69%

[1]Source: John Burns Real Estate Consulting, Green Street.
[2]Source: National Apartment Association 2021 survey of properties with individual meters / recovery systems, plus sector average 2022 inflation as reported by Green Street (1.5% revenue, 5.1% OpEx).
[3]Source: Altus Q2 2023 valuation comps.

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