# Takeaways from Las Vegas S/F Rental REIT Meetings

## Summary

We recently visited Las Vegas, meeting with AMH & SFR. Our key takeaways include: 1) Both companies' single family rental portfolios are performing strongly, supported by an improved local economy, favorable sub-market positioning and concentrations; 2) We believe S/F rental REITs can support mid-to-high single digit ssNOI through 2018 given available operating leverage and upside potential via lowering turn times, cap ex, and further enhancing operating platforms and fully implementing smart home technologies; 3) Despite its recent run, we believe the S/F rental REITs are one of the most compelling investment opportunities in REITs today given favorable demand, valuation and growth, especially in contrast to slowing growth and fundamentals in other subsectors.

| Company | Symbol | Price (3/17) | Rating Prior | Rating Curr | PT |
|---|---|---|---|---|---|
| American Homes 4 Rent | AMH | $23.19 | – | Neutral | $24.00 |
| Colony Starwood Homes | SFR | $33.93 | – | Buy | $37.00 |

Source: Bloomberg and Mizuho Securities USA

## Key Points

**Las Vegas Still Hot.** The Las Vegas market, AMH's 16th largest market and SFR's 9th largest, ranks among both companies' top performers by revenue growth (4%+), operating margins (70%+) and embedded HPA (50%+). The Las Vegas economy has continued its expansion, supported most meaningfully by a vibrant tourism industry and an improving real estate / construction industry. Looking ahead, regional economists (at Colliers International and CBER) project continued economic growth, which should provide a favorable demand tailwind, especially for the rental side of the equation.

Today, both AMH and SFR's Las Vegas portfolios are full (95%-ish) and enjoy good pricing power (~3-4% renewal / 3-6% new lease growth), as they head into the mid-year quarters (2Q & 3Q) that tend to have stronger demands, but also higher turnover / lower operating margin. AMH and SFR homes are also both largely concentrated in the northern Las Vegas (Summerlin) and southern Las Vegas (Henderson) sub-markets, marked by higher population density and household income. Putting this all together along with low new supply and formidable operating platforms, we expect both companies' Las Vegas portfolios to continue to perform strongly in the near future.

**"How Much Better Can it Get?"** Despite hitting their l/t occupancy (95%) and operating margins (65%) targets a bit sooner than we expected, AMH and SFR management see further operating margin potential with occupancy upside (to 96-97%), lower cap ex, lower turn times, and optimizing operating platforms through greater experience and data as AMH begins and SFR fully implements smart home technologies. For 2017, we project ~5% ssNOI growth; every 100 / 200bps of margin expansion would add $2c / $4c to AMH 2017 core FFO/sh and $3c / $6c SFR 2017 core FFO/sh.

**Haendel St. Juste**
**Managing Director**
+1 212-205-7860
Haendel.St.Juste@us.mizuho-sc.com

**Jieren Huang**
+1 212 205 7862
jieren.huang@us.mizuho-sc.com

**Robust Near-term Earnings Growth; Remain Buy on SFR, Neutral on AMH.** We project above-average AFFO/sh growth in 2017 / 2018 (18% / 13%) vs REIT sector averages of 9% / 8%. We also project the sector to generate superior ssNOI growth, with 5%+ expected through YE18, compared to low-3% for the REIT sector average. At recent pricing, SFR trades at 92% of NAV and 23.6x '17 AFFO/ sh compared to AMH / all REITs' averages of 101% / 96% and 24.4x / 19.7x. While 17% YTD outperformance vs RMZ has narrowed the valuation gap vs the REIT sector, we see continued upside and a favorable risk / reward given favorable sentiment, valuation, growth, interest rate hedge advantages, and NAV upside. We remain Buy-rated on SFR / Neutral on AMH given the sizable valuation gap.

## I. Overview

We recently spent time in Las Vegas with both AMH (management meeting) and SFR (meeting / tour). The Las Vegas market, AMH's 16th largest market and SFR's 9th largest (by number of homes), ranks among both companies' top performers by revenue growth (4%+), operating margins (70%+) and embedded HPA (60%+). Both companies' Las Vegas portfolios are full (95%-ish) and enjoy good pricing power (~3-4% renewal / 3-6% new lease growth), as they head into the mid-year quarters (2Q & 3Q), which tend to have stronger demand, but also higher turnover / lower operating margin. Reading the tea leaves, we expect both companies' portfolios can continue to perform strongly in the near future given limited supply coupled with strong demand, as well as favorable submarket positioning. AMH and SFR homes are concentrated in the northern Las Vegas (Summerlin) and southern Las Vegas (Henderson) submarkets, marked by higher population density and household income.

Below we provide additional takeaways from our meetings and tours, as well as an assessment of the economic backdrop and outlook for the Las Vegas region.

## II. Las Vegas Macro Overview

**Las Vegas Economy Continues to Expand**. The Las Vegas MSA economy appears in good shape and poised to further expand, supported by vibrant tourism (36.2M visitors in 2016, a new record) and an improving real estate / construction industry. Since 2010, Las Vegas' unemployment rate has fallen to 5.0% at YE16 from 13.9% at YE10, compared to US national averages of 9.3% at YE10 vs 4.7% at YE16, according to the Bureau of Labor Statistics

(BLS). More recently (4Q16 vs 4Q15), the Las Vegas economy added ~13k net jobs (+1.4%), with the majority created in construction (+8,500 jobs), education and health services (+5,000 jobs) and retail (+2,800 jobs), offset by job losses in professional and business services (-5,300 jobs), information technology (-1,500 jobs), per Colliers International. Looking ahead over the next two years, UNLV's Center for Business and Economic Research (CBER) projects "modest growth for the Las Vegas MSA in employment (+2.6% annual average), personal income (+3.9%), as well as visitor volume (+1.25%), housing prices (1.6%) and population growth (2%+).

## Exhibit 1: Las Vegas Map & Submarket Demographic Snapshot


| Las Vegas Submarket | Estimated Population (2016) | Estimated Households (2016) | Average Household (2016) | Renter Occupied (2016) | Median H'Hold Income (2016) | Proj. Ann. Growth Rental H'Holds (2016-2021) |
|---|---|---|---|---|---|---|
| Downtown | 137,200 | 49,000 | 2.8 | 65% | $ 31,000 | 170 |
| East | 216,000 | 80,000 | 2.7 | 44% | $ 42,000 | 337 |
| **Henderson / Southeast** | **397,800** | **153,000** | **2.6** | **37%** | **$ 62,000** | **793** |
| **North Las Vegas** | **406,100** | **131,000** | **3.1** | **36%** | **$ 85,000** | **698** |
| Northeast | 161,700 | 49,000 | **3.3** | 49% | $ 39,000 | 238 |
| Northwest / Southwest | 452,400 | 174,000 | **2.6** | 35% | $ 64,000 | 977 |
| University | 79,200 | 36,000 | **2.2** | 77% | $ 33,000 | 176 |
| West Central | 168,000 | 70,000 | **2.4** | 52% | $ 47,000 | 413 |
| **Total** | **2,006,100** | **743,000** | **2.7** | **43%** | **$ 51,000** | **3,802** |

Source: Claritas, Company Data and Mizuho Securities USA Research.

## III. Meetings / Tour Takeaways

### *A. Key Takes from AMH Meeting*

Below we outline key takeaways from our meeting with COO Jack Corrigan and Head of Leasing Matt Halladay. AMH's Las Vegas portfolio, its 16th largest market by number of homes, totals 1,023 homes ($1,384 avg monthly rents / 70+% average margins). In 4Q16, AMH's Las Vegas portfolio posted 3.8% blended rents (3.6% renewal / 6.1% new rent growth), compared to +2.8% for FY16 and ended the 2016 with 96.8% homes occupied; see Exhibit 2 for more 4Q16 and FY16 operating detail for SFR's portfolio. For FY17, we project ssNOI of 4.5%; every 100 and 200bps of stronger ssNOI equate to $2c and $4c to our 2017 core FFO/sh estimate of $1.11/sh.

- In response to our question on "How much better can it get with portfolio occupancy at 95%, operating margins ~65%, retention ~70%?" Corrigan noted the favorable economic and rentership tailwinds and viewed it as "not unreasonable" to think they can get occupancy up to 96-97%, with additional operating efficiency to be had in further efficiencies in cap ex, lowering turn times, fully implementing its in-house maintenance program (AMH has rolled out its in-house management in 90% of its markets, not homes) and eventually implementing a smart home technology program. AMH also still pays broker fees on ~10-15% of its leases, suggesting incremental cost savings potential as well (SFR no longer pays broker fees, per management). Corrigan believes AMH can deliver mid-to-high single digit ssNOI over the next couple years.

- While management refused to entertain the possibility of 70% operating margins portfolio-wide, we view it as possible, though likely not probable near term. We cannot rule it out given the potential for remaining operating efficiency upside and for benefits yet to be gleaned from in-house property management and smart-home technology.

- AMH has 20 regional directors managing its ~47k home portfolio (~2k per person). Management believes it can add incremental 500-1,000 homes more per person, suggesting further cost synergies and margin tailwind as the company continues to grow. AMH didn't provide a target number for portfolio size, but believes it can easily double the size of its portfolio without straining its operating platform.

- AMH acknowledged its higher quality tenant base (with higher incomes) is more at risk for buying homes. But we think buyer psychology is still negative and the market has significant cumulative under supply last few years, providing some defense against housing policy risk, as the Trump Administration could potentially look to ease mortgage lending in a bid to help jump-start the economy.

- AMH is seeing less competition to buy homes. It expects to continue buying selectively in Vegas, and look at buying build-to-rent homes, but AMH is currently seeing better opportunities (in terms of total return) in Florida, Southeast and select Midwest markets.

## Exhibit 2: AMH Las Vegas Portfolio

| AMH | Las Vegas | AMH Portfolio |
|---|---|---|
| **As of 4Q16** | | |
| # of Homes | 1,023 | 47,303 |
| Leased % | 97.4% | 94.7% |
| Occupancy as of 4Q16 | 96.8% | 94.2% |
| FY16 Disposotion | 6 | 713 |
| % of Total NOI | 2.8% | |
| Avg Investment Per Home | 174,508 | 171,810 |
| Avg Home Size (sq. ft) | 1,841 | 1,960 |
| Wtg Avg Home Age (years) | 13.9 | 13.8 |
| Avg Rents Per Home | 1,384 | 1,482 |
| Renewal Rent Growth | 3.6% | 3.3% |
| Re-leasing Rent Growth | 6.1% | 2.7% |
| Blended Rent Growth | 3.8% | 2.8% |
| HPA Index Chg Since 12/31/12 | 61.9% | 37.4% |
| **4Q16 Same-store Stats** | | |
| Same Home Occupancy | 96.5% | 94.8% |
| Avg Investment Per Home | 174,674 | 173,058 |
| Avg Rents Per Home | 1,426 | 1,502 |
| Blended Rent Growth | 5.0% | 3.7% |
| **FY16 Same-store Stats** | | |
| Same Home Occupancy | 96.6% | 95.1% |

Source: Company Data and Mizuho Securities USA Research.

## *B. Key Takes from Our SFR Meeting / Property Tour*

Below we outline key takeaways from our meeting with SFR regional director Ryan Quinlan. We also toured homes in the Henderson (South Las Vegas) submarket. SFR's Las Vegas portfolio, its 9th largest market by number of homes, totals 1,722 homes ($1,420 avg monthly rents / 72.5% average margins). In 4Q16, SFR's Las Vegas portfolio posted 3.5% blended rent growth (4.3% renewal / 2.5% new rent growth), compared to +3.7% for FY16, and ended 2016 95.6% occupied; see Exhibit 3 for more 4Q16 and FY16 operating detail for SFR's portfolio. For FY17, we project ssNOI of 4.8%; every 100 and 200bps of stronger ssNOI equate to $3c and $6c to our 2017 core FFO/sh estimate of $1.88/sh.

- Core NOI margins are above 70% in Las Vegas (and in Phoenix), supported by low real estate taxes, its favorable submarket positioning, asset concentration and SFR's strong operating / technology backbone.

- 64% of 4Q16 tours were self-show, while ~20% of leases last year were done sight unseen; SFR is no longer using any outside agents to rent homes (AMH still does 10-15% of rentals through brokers though the number will likely continue to decline).

- SFR has very low bad debt in Las Vegas portfolio (<1%) because it can get non-paying tenants out after 30 days, effectively equal to the security deposit of one month's rent. Homeownership and job relocations remain the top reasons for move-outs.

- SFR is looking to selectively buy homes in Las Vegas (especially in the Henderson and Summerlin submarkets). It is seeing good opportunities with low-to-mid 5% net yields, and believes these acquired assets have operational upside given SFR's stronger platform and scale efficiencies compared to smaller operators.

**Home tour #1 (in Henderson):**

- 4BRs / 2,400 sq ft / $1,585 per month rent (+~5% vs prior rent)

- Paid $240k in 2015 (worth ~$300k now, +~25%)

**Home tour #2 (in Henderson):**

- 3BR / 1,700 square ft / $1,325 per month (same as prior rent)

- Paid $170k in 2014 (worth $240-250 now, +~33%); house built in 2005

## Exhibit 3: SFR Las Vegas Portfolio

| SFR | Las Vegas | SFR Portfolio |
|---|---|---|
| **As of 4Q16** | | |
| # of Homes | 1,722 | 31,331 |
| Occupancy as of 4Q16 | 95.6% | 94.3% |
| FY16 Acquisition | 6 | 1,079 |
| FY16 Disposotion | 12 | 976 |
| % of Total NOI | 6.3% | |
| | | |
| **4Q16 Same-store Stats** | | |
| Same Home Occupancy | 95.6% | 95.5% |
| Avg Investment Per Home | $204,346 | $193,066 |
| Avg Rents Per Home | $1,420 | $1,564 |
| Avg Home Size (sq. ft) | 2,033 | 1,844 |
| Wtg Avg Home Age (years) | 17 | 28 |
| Core NOI Margin | 72.5% | 66.2% |
| Turnover Rate | 37.6% | 34.8% |
| Retention Rate | 70.7% | 72.3% |
| Renewal Rent Growth | 4.3% | 4.8% |
| Replacement Rent Growth | 2.5% | 1.9% |
| Blended Rent Growth | 3.5% | 3.6% |
| | | |
| **FY16 Same-store Stats** | | |
| Same Home Occupancy | 95.8% | 95.9% |
| Avg Investment Per Home | $202,000 | $187,663 |
| Avg Rents Per Home | $1,414 | $1,528 |
| Avg Home Size (sq. ft) | 2,019 | 1,810 |
| Wtg Avg Home Age (years) | 17 | 29 |
| Core NOI Margin | 70.9% | 63.8% |
| Turnover Rate | 37.2% | 34.7% |
| Retention Rate | 71.7% | 72.8% |
| Renewal Rent Growth | 4.2% | 5.2% |
| Re-leasing Rent Growth | 3.1% | 4.3% |
| Blended Rent Growth | 3.7% | 4.8% |

Source: Company Data and Mizuho Securities USA Research.

## IV. S/F Rental REITs Offer Above-Average Growth at a Fair Price; Remain Buy on SFR / Neutral on AMH

The S/F Rental REITs remain among our top sector picks given favorable demand, growth and valuation. We project above-average AFFO/sh growth in 2017 and 2018 (18% and 13%) vs REIT sector averages of 9% and 8%. We also project that the sector to generate superior ssNOI growth, with 5%+ expected through YE18, compared to low-3% for the REIT sector average. See Exhibit 4 for more detail.

At recent pricing, SFR traded at 92% of NAV and 23.6x '17 AFFO/ sh compared to AMH / all REITs' averages of 101% / 96% and 24.4x / 19.7x. While 17% YTD outperformance vs RMZ has narrowed the valuation gap vs the REIT sector, we see continued upside and a favorable risk / reward given favorable sentiment, valuation, growth, interest rate hedge advantages, and NAV upside. We remain Buy on SFR / Neutral on AMH given the sizable valuation gap.

### Exhibit 4: S/F Rental REIT Comp Sheet

| Company | Ticker | Stock Rating | Closing Price 3/17/2017 | Market Cap | Price Target | Upside to PT | Dividend Yield | NAV: MSUSA Est. | NAV: Implied Cap Rate | NAV: Applied Cap Rate | NAV: Warranted Premium | NAV: Price to NAV |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **American Homes 4 Rent** | **AMH** | **Neutral** | **$ 23.19** | **$ 5,650** | **$ 24.00** | **3%** | **0.9%** | **$ 23.00** | **5.2%** | **5.3%** | **5%** | **101%** |
| **Colony Starwood Homes** | **SFR** | **Buy** | **$ 33.93** | **$ 3,837** | **$ 37.00** | **9%** | **2.6%** | **$ 37.00** | **5.5%** | **5.3%** | **0%** | **92%** |
| Altisource Residential* | RESI | NR | $ 14.86 | $ 798 | NR | na | 4.0% | $ 19.67 | na | na | na | 76% |
| Silver Bay Realty Trust* | SBY | NR | $ 21.70 | $ 767 | NR | na | 2.4% | $ 24.14 | 6.1% | na | na | 90% |
| Invitation Homes* | INVH | NR | $ 21.60 | $ 6,775 | NR | na | na | na | na | na | na | na |
| **Single Family Rental REITs Wtd. Avg.** | | | | **$ 17,826** | | **6%** | **1.8%** | | **5.4%** | | | **95%** |
| **REIT Sector** | | | | | | | **3.9%** | | **6.4%** | | | **96%** |

| Company | FFO 2016A | FFO 2017 | FFO 2018 | AFFO 2016 | AFFO 2017 | AFFO 2018 | Price/FFO 2016 | Price/FFO 2017 | Price/AFFO 2016 | Price/AFFO 2017 | FY17 / FY16 Growth FFO/sh | FY17 / FY16 Growth AFFO/sh | FY17 PEG Ratio |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **American Homes 4 Rent** | **$0.88** | **$1.07** | **$1.18** | **$0.83** | **$0.95** | **$1.06** | **26.4x** | **21.7x** | **27.9x** | **24.4x** | **21.6%** | **14.5%** | **1.7** |
| **Colony Starwood Homes** | **$0.96** | **$1.48** | **$1.73** | **$1.22** | **$1.44** | **$1.66** | **35.3x** | **22.9x** | **27.8x** | **23.6x** | **54.2%** | **18.0%** | **1.3** |
| Altisource Residential* | $0.20 | $0.75 | $0.96 | ($1.85) | $0.03 | $0.51 | na | na | na | na | na | na | na |
| Silver Bay Realty Trust* | $0.80 | $0.89 | $0.96 | $0.52 | $0.75 | $0.83 | 27.1x | 24.3x | 41.9x | 29.1x | 11.4% | 43.8% | 0.7 |
| Invitation Homes* | na | na | na | na | na | na | na | na | na | na | na | na | na |
| **Single Family Rental REITs Wtd. Avg.** | | | | | | | **29.8x** | **22.3x** | **28.9x** | **24.4x** | **33.0%** | **18.0%** | **1.5** |
| **REIT Sector** | | | | | | | **17.9x** | **16.9x** | **21.1x** | **19.7x** | **3.0%** | **9.2%** | **2.1** |

(Estimates in the second table are MSUSA Estimates.)

Note: RESI, SBY and INVH are not covered by MSUSA. We include consensus estimates for comparison.

Source: Company Data and Mizuho Securities USA Research.

## Price Target Calculation and Key Risks

### *American Homes 4 Rent*

Our price target of $24/sh equates to our NAV estimate of $23/sh with an applied 5% premium due to formidable operating platform and superior balance sheet. Macro risks include changes to the economic backdrop, interest rates and / or the sector's cost and availability of capital. Industry-specific risk includes competition for investor wallet- and mindshare given skepticism over the sector as a l/t public investment vehicle and the recent Invitation Homes IPO, which should draw more capital and attention to the space, but likely be a short-term drag on AMH and SFR.

### *Colony Starwood Homes*

Our price target of $37/sh equates to our NAV estimate of $37/sh with no premium or discount given its above-avg leverage, high quality portfolio and sector-leading operating margins. Macro risks include changes to the economic backdrop, interest rates and / or the sector's cost and availability of capital. Industry-specific risk includes competition for investor wallet- and mindshare given skepticism over the sector as a l/t public investment vehicle and the recent Invitation Homes IPO, which should draw more capital and attention to the space, but likely be a short-term drag on AMH and SFR.

**Companies Mentioned (prices as of 3/17 )**

Invitation Homes Inc (INVH)

Silver Bay Realty Trust Corp (SBY)

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| | |
|---|---|
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| **Neutral:** | Stocks for which the anticipated share price appreciation is within 10% of the share price. |
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### Rating Distribution

| (As of 3/17 ) | **% of coverage** | **IB service past 12 mo** |
|---|---|---|
| Buy (Buy) | 41.97% | 42.97% |
| Hold (Neutral) | 54.43% | 37.35% |
| Sell (Underperform) | 3.61% | 45.45% |

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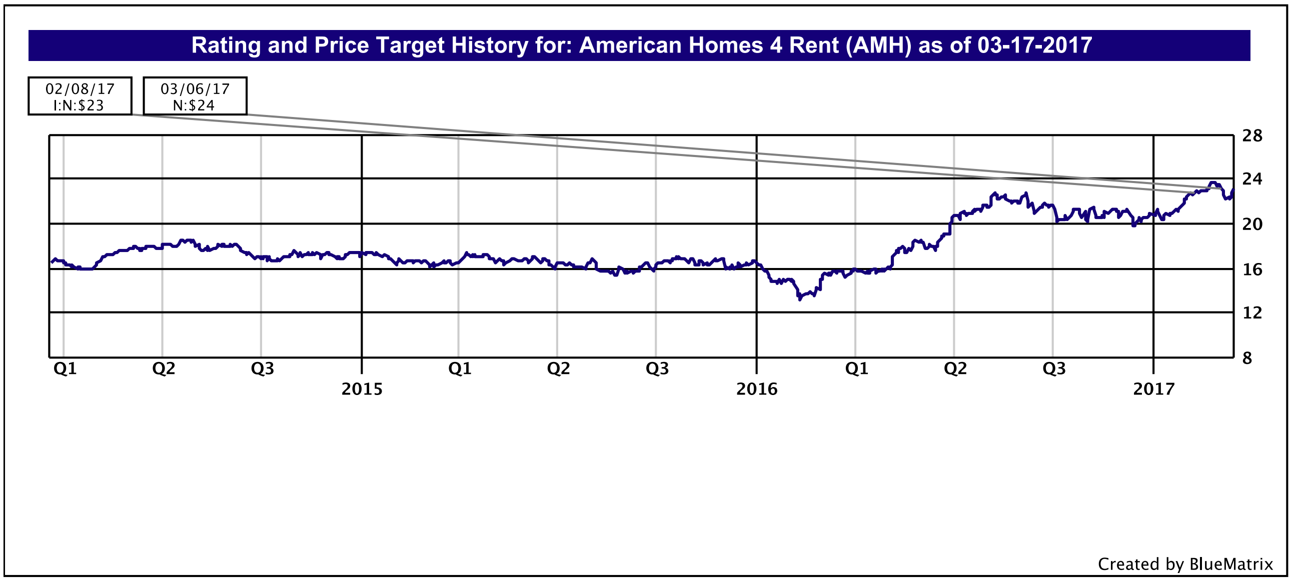


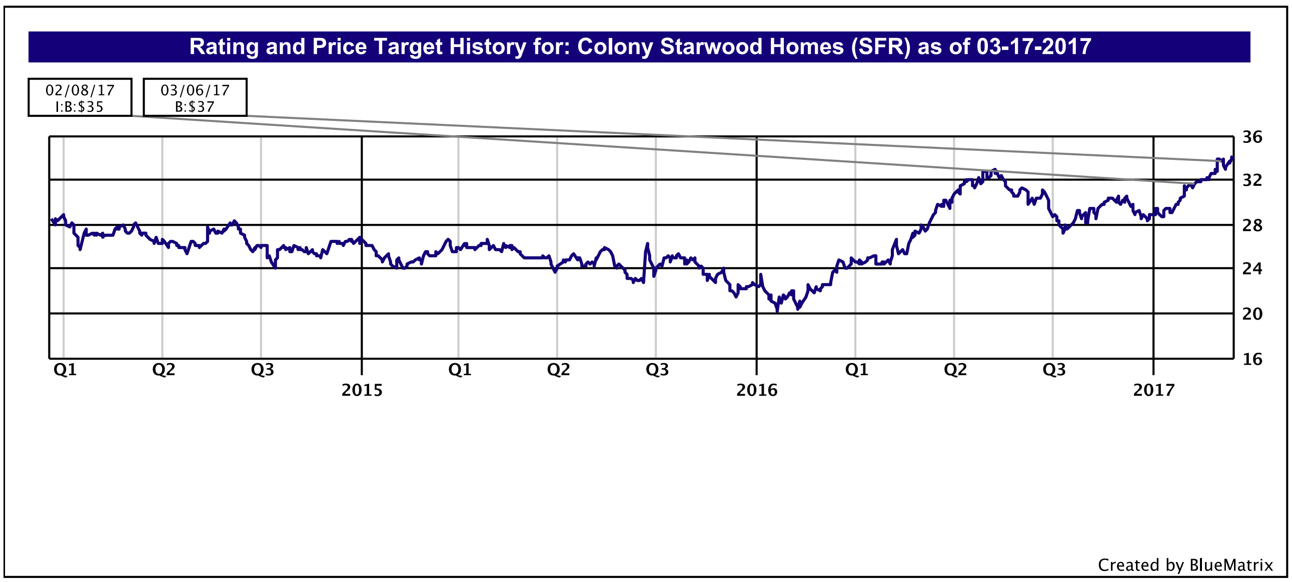


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