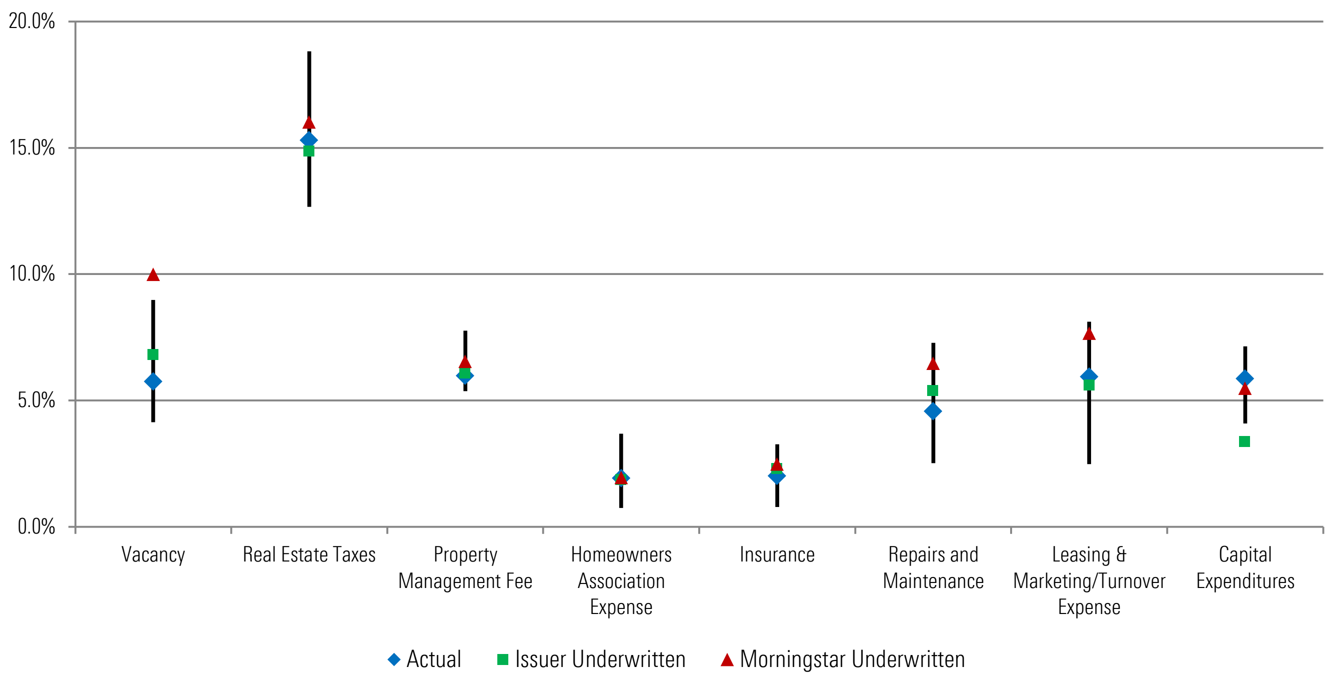
# Benchmarking Expenses and Net Cash Flow in Single-Family Rental Securitizations

## Morningstar Perspective

Actual net cash flow in single-family rental securitizations has been in line with issuers' expectations at new issuance; however, the expense components that lead to the bottom line have been hurt by higher-than-expected actual capital expenditures and helped by lower-than-expected vacancy. Chart 1 shows the actual level for each expense component along with the issuer and Morningstar Credit Ratings, LLC base case underwritten assumptions at issuance. Each expense component is shown as a percentage of gross revenue. The high and low of each component for the 17 transactions in our sample are also displayed.

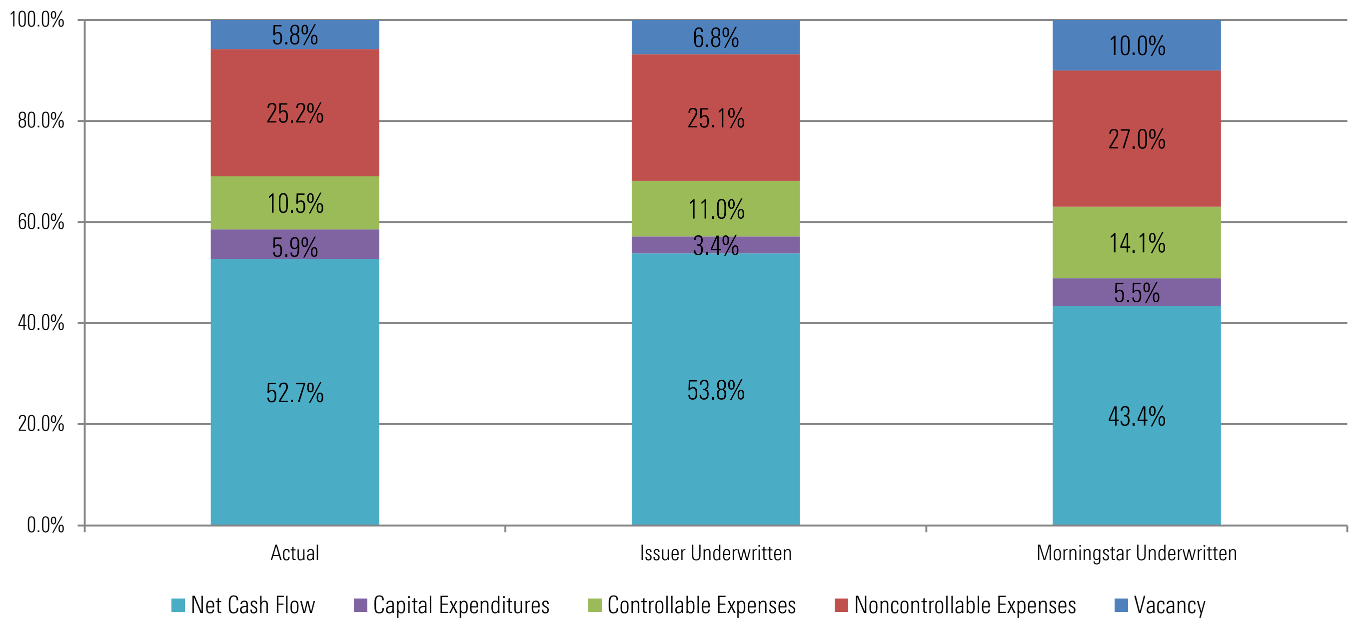
**Chart 1 – Actual Vacancy and Expenses as a Percentage of Gross Revenue**




In our analysis, gross potential rent and other income make up revenue. Real estate taxes, property management fees, homeowners association fees, and insurance are considered noncontrollable expenses. Repairs and maintenance and leasing and marketing/turnover expenses are controllable expenses. As seen above, noncontrollable expenses are nearly even with those underwritten by the issuers. The range of each expense component is generally tighter across noncontrollable expenses, except for real estate taxes, which highly depend on the properties' locations, so taxes can vary across transactions. Otherwise, the controllable expenses are generally in a wider range than the noncontrollable expenses. Actual repairs and maintenance costs have been lower than expected, decreasing controllable expenses.

Chart 2 presents actual versus issuer and Morningstar base case underwritten net cash flows and includes the net cash flow percentage. Once again, each expense component is shown as a percentage of gross revenue.

## Chart 2 – Actual Versus Underwritten Net Cash Flow




Percentages may not total 100% because of rounding.

While actual and issuer-underwritten net cash flow are close, understanding the relationship between each expense component that leads to net cash flow is important. For example, vacancy has been lower than originally underwritten. Lower vacancy is good for net cash flow; however, if vacancy were to increase even to issuer-underwritten levels, repairs and maintenance and leasing/turnover costs would likely increase. With transactions already experiencing higher-than-underwritten actual capital expenditures, managing vacancies will be even more important to maintain net cash flow. Higher capital expenditures also require some context. While in the short term this expense hurts net cash flow, depending on the nature of the improvements, capital expenditures should stabilize over time, and the long-term benefits to the transactions may flow through because of higher gross potential rents.

### Sources for Analysis

Sources for actual income and expenses in the single-family rental space are varied, and reporting is not consistent across issuers. Sources include operating statement analysis reports, quarterly property information reports, monthly property-level data tapes, and monthly remittance reports. Each source has its own way of reporting actual income and expenses, so for this analysis, we considered each data source to determine a comprehensive view of actual net cash flow. This analysis aggregates data across 17 single-borrower deals for which Morningstar conducted formal surveillance. These deals were incorporated because they are more seasoned than recent issuance and have more income and expense data available.