GREA

National

MARKET INSIGHT REPORT

SPRING

2023

Employment / Unemployment

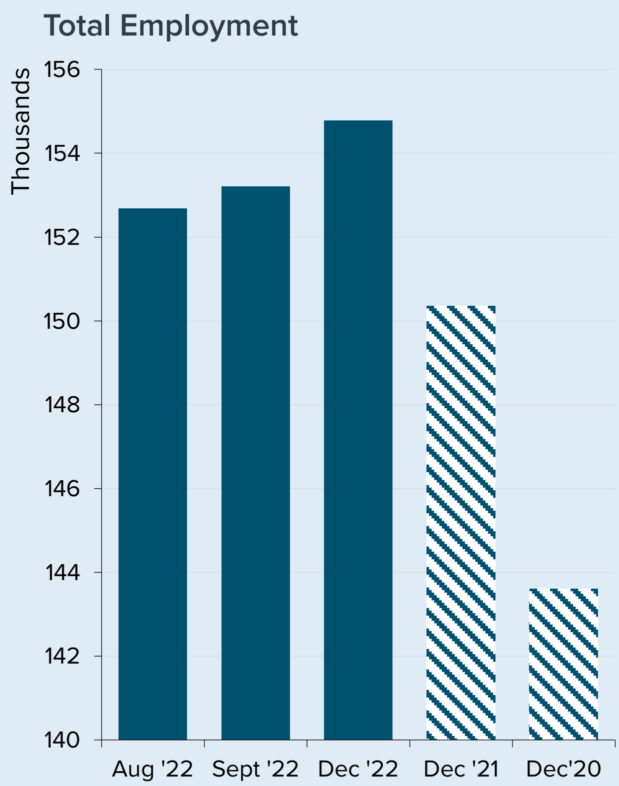
An "overall healthy 2023 with indicators that the second half of the year will be stronger than the first" was the consensus reached in the Freddie Mac 2023 Multifamily Outlook report published in December 2022. According to the report, "Rents are expected to remain positive but continue to moderate. Vacancy rates will increase from a combination of slower demand due to economic uncertainty and the high volume of new supply entering the market. Similarly, volume will be muted until interest rate volatility can be curbed allowing for price discovery. The timing of this will determine how strong the multifamily market will grow in 2023. Even so, the tailwinds remain that will help prop up the multifamily market in the long run."

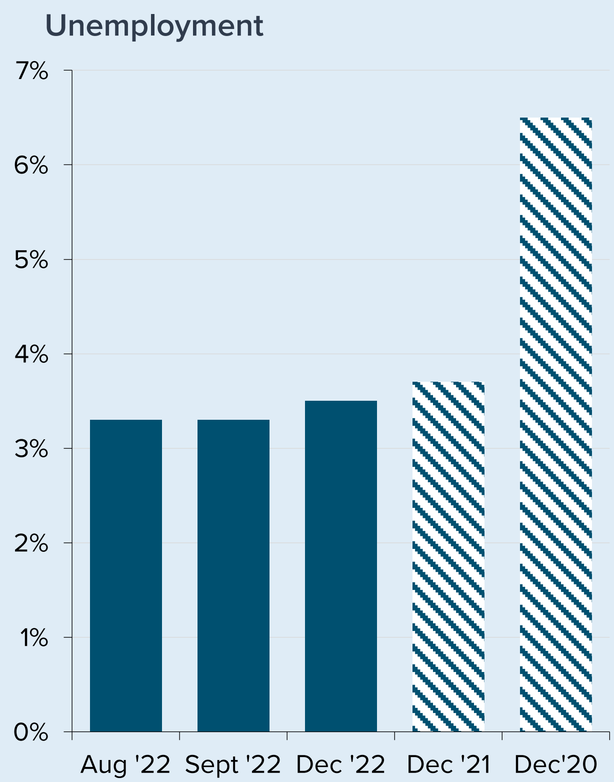
GREA

Despite recession concerns, the multifamily market remains at the forefront of investment activity, and a continued shift to more favorable economic conditions is expected by the second half of 2023. A sustained shortage of housing supply, affordability, and fluctuating interest rates will keep rental demand elevated.

Multifamily rent growth will adjust closer to pre-pandemic, historical average norms.

As of January 2023, inflation continues to moderate and mortgage rates are on the decline, with rates at their lowest level since September 2022. The average 30-year fixed rate mortgage was at 6.15% in the week ending January 19th. Mortgage rates are nearly a full percentage point lower than the reported peak in October 2022.





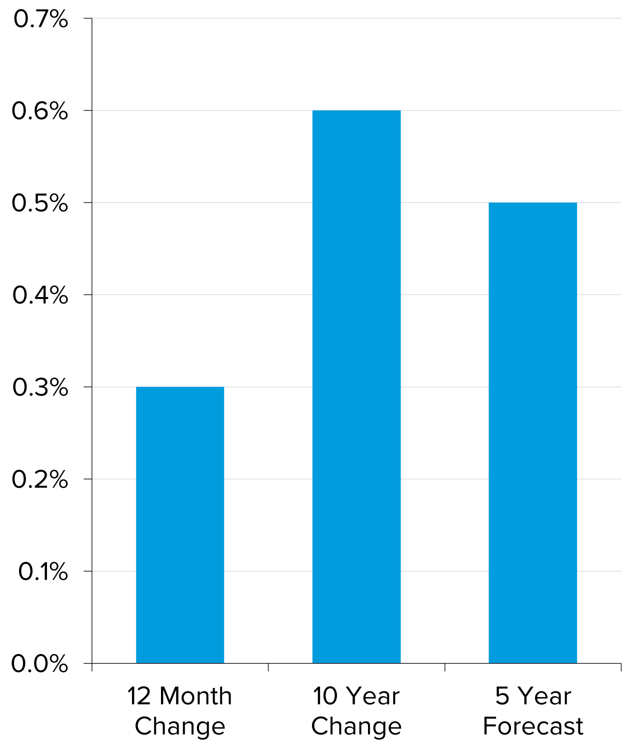
Metro Area Employment (Thousands)	Dec. 2022	% Change from Dec. 2021
Total Non-farm	154,771	2.9%
Mining and Logging	643	9.2%
Construction	7,691	3.2%
Manufacturing	12,947	2.9%
Trade, Transportation, and Utilities	29,512	1.6%
Information	3,066	4.8%
Financial Activities	9,029	1.5%
Professional and Business Services	22,541	2.6%
Education and Health Services	25,052	4.0%
Leisure and Hospitality	15,766	6.5%
Other Services	5,759	3.1%
Government	22,765	1.5%

Source: GREA Research, U.S. Bureau of Labor Statistics (BLS)

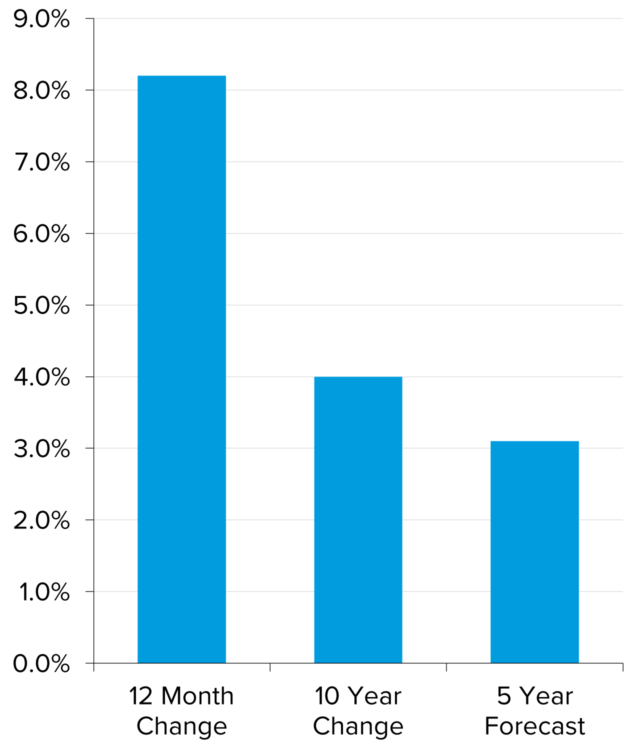
Demographics

- The median income needed to buy a typical home has risen to $88,300, almost $40,000 more than it was prior to the start of the pandemic, in 2019.
- The monthly mortgage payment on a typical existing single-family home with a 20% down payment was $1,840 – up 50% year-over-year.
- Less than half of metro markets (46%) posted double-digit annual price appreciation (80% in the previous quarter).

Population Growth



Income Growth

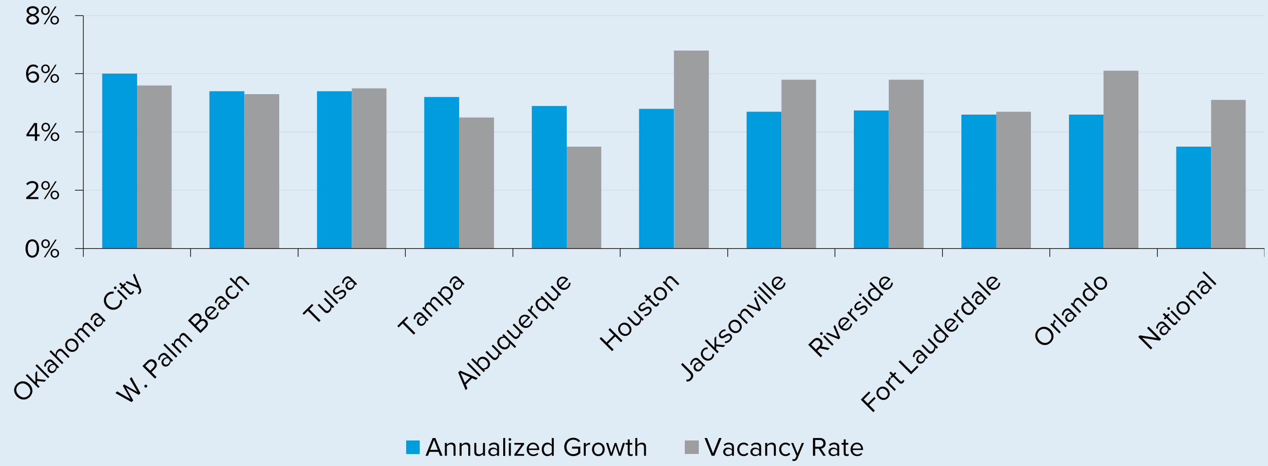


Source: GREA Research, CoStar, Oxford Economics

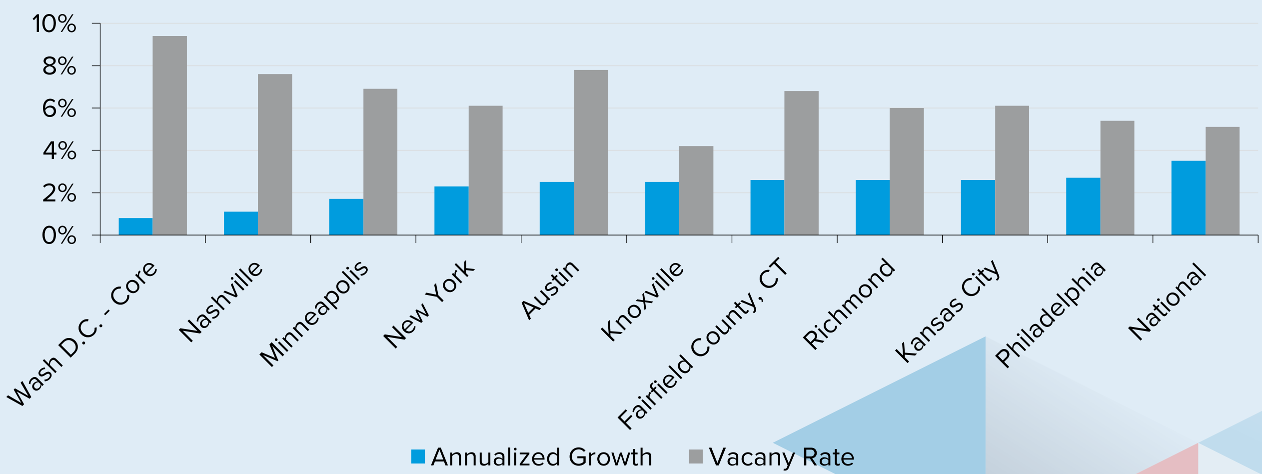
Gross Income

- 2023 predictions for gross income growth in the top 10 metro markets will be predominantly driven by strong household income growth, historically low vacancy rates, and limited new supply compared with the historical average. While vacancy rates are projected to increase slightly in 2023, all top 10 markets are expected to perform well below their historical average at the beginning of the year except for Fort Lauderdale. Concurrently, the employment growth rate in all top 10 markets except of Albuquerque is projected to be above the national average. New supply levels will be below the historic average in all areas except Houston and Orlando.
- The 10 metro markets expected to have the lowest gross income growth will still experience rent growth between 3.6% to 4.4% in 2023. However, increases in vacancy rates between 100 to 170 basis points will lower their gross income growth projections, and employment and household income growth are expected to match or trail behind the national average.

Top 10 Metros by Gross Income Growth



Metros by Lowest Gross Income Growth



Source: GREA Research, Freddie Mac, Moody's Analytics

Rental Market

- The apartment market was remarkably strong in mid-to-late 2021 through mid-2022, with the majority of markets seeing more rent growth than the five years leading up to 2020. Rents increased by 6.4% on average in 2022, the second-highest annual growth this century, only behind 2021 growth of nearly 15%. U.S. asking rents dropped $4 to $1,715 in December 2022, and YoY growth declined 80 bps to 6.2%, the lowest level since May 2021.
- While the market reached an infection point towards the end of 2022, REIS reported rents continued to grow through September and vacancy rates were declining throughout 2022.
- For 2023, asking rents are expected to rise moderately after remaining flat or slightly decreasing through Spring. Yardi Matrix's forecast for national average rent growth is 2.6%, down from 3.1% as reported in its U.S. Outlook Winter 2023 report. The change was primarily driven by the lowering of forecasts in large market areas that have an outsize effect.

Metro	Avg. Rent as of Dec. 2022	YoY Rent Forecast 2023
National	$1,715	3.1%
San Jose	$3,078	4.9%
New York	$4,190	3.7%
Tampa	$1,798	3.7%
Miami Metro	$2,356	3.7%
Charlotte	$1,608	3.6%
Austin	$1,766	3.6%
Boston	$2,655	3.6%
San Francisco	$2,787	3.6%
Seattle	$2,206	3.5%
Inland Empire	$2,118	3.4%
Nashville	$1,648	3.3%
Los Angeles	$2,594	3.3%
Portland	$1,770	3.2%
Baltimore	$1,659	3.1%
Raleigh-Durham	$1,618	3.1%
Denver	$1,896	3.1%
Dallas	$1,560	3.0%
Houston	$1,324	2.9%
Kansas City	$1,216	2.9%
Orange County	$2,709	2.9%
Orlando	$1,840	2.8%
Chicago	$1,817	2.8%
Indianapolis	$1,227	2.8%
Washington D.C.	$2,068	2.8%
Philadelphia	$1,701	2.7%

Source: Yardi Matrix

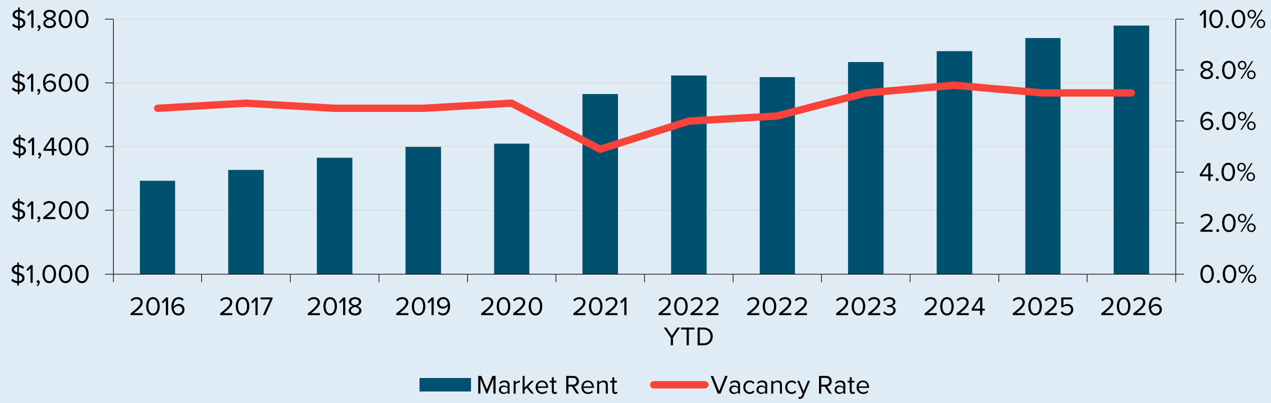
Vacancy

- Oversupply has pushed the national vacancy rate up from an all-time low of 4.7% just over a year ago to 6.0% at the end of 2022.
- 1 and 2 Star properties had little change in vacancy rate in the last half of 2022.
- 4 and 5 Star vacancy rates have steadily increased following an all-time low in the third quarter of 2021. The change is a result of slower absorption of existing inventory combined with elevated new multifamily deliveries.

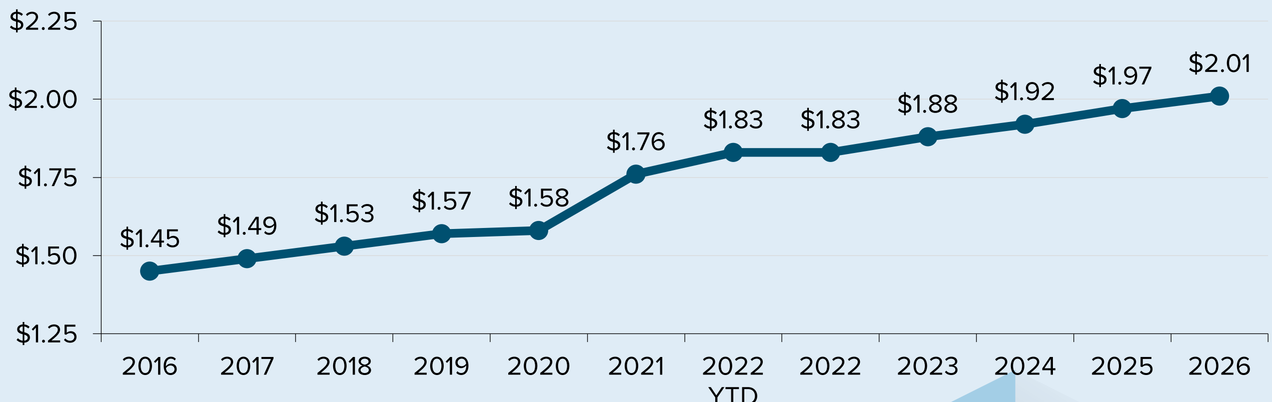
6.0%
National Vacancy Rate

7.1%
Forecast Average

Overall Rent and Vacancy Trend



Overall Rent / SF Market Trend



Source: GREA Research, CoStar

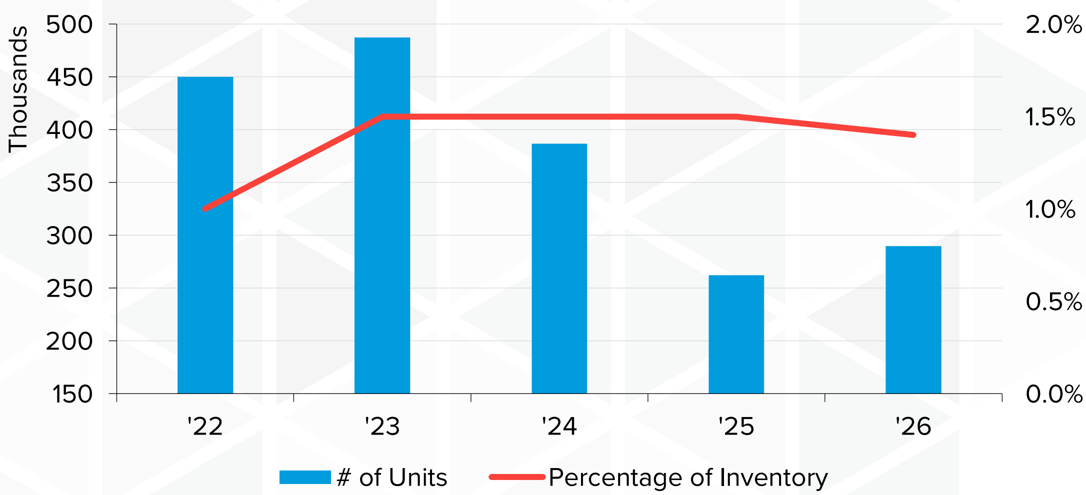
Multifamily Construction

- CoStar showed a record 902,000 units under construction at the end of the third quarter and forecasted 436,000 deliveries in 2022.
- Over 436,000 to 440,800 deliveries are expected in 2023. Cities with the highest number of expected deliveries include Dallas-Fort Worth, Austin, Miami, Houston, Phoenix, Atlanta, and New York.
- Mid-and high-rise buildings comprise the majority of new buildings and take considerably more time to complete compared to garden-style properties. Delivery trajectories are therefore spread out over a one- to three-year period.

440,818 New Units

2023 Expected Completions

Supply & Demand Forecast

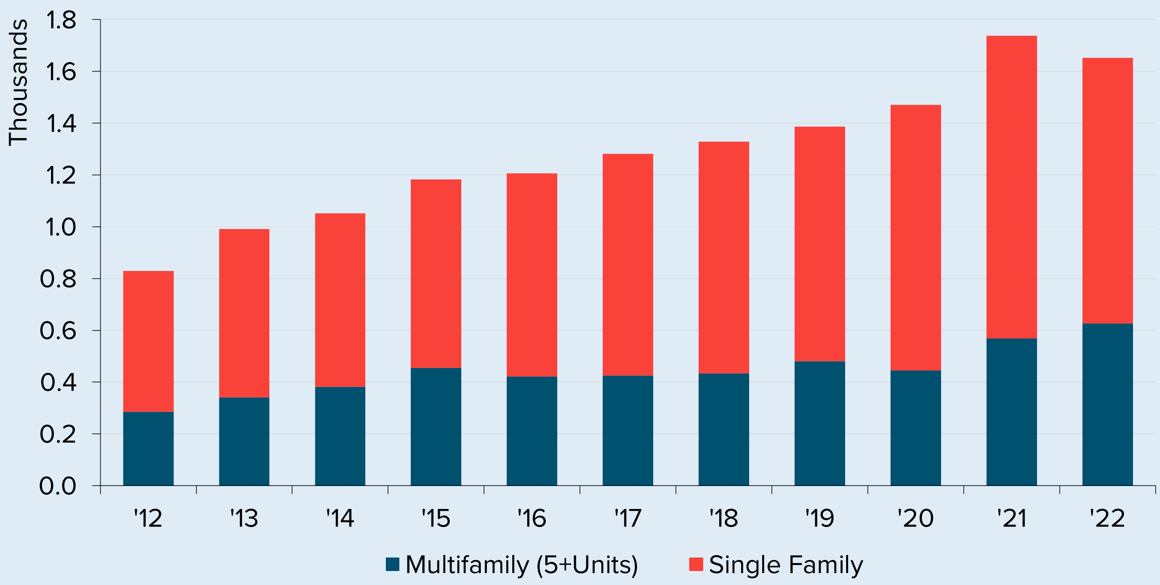


Source: GREA Research, Yardi Matrix

Permits

- While multifamily demand surged in 2021, a small number of units were delivered. Developers issued the highest level of new multifamily permits since 1985.
- A record-breaking 144,000 permits have been approved but not started.
- In 2022, persistent supply chain delays and construction labor shortages had a significant impact on the construction pipeline.

Total Residential Building Permits



Source: GREA Research, U.S. Census, Multifamily Includes Condos

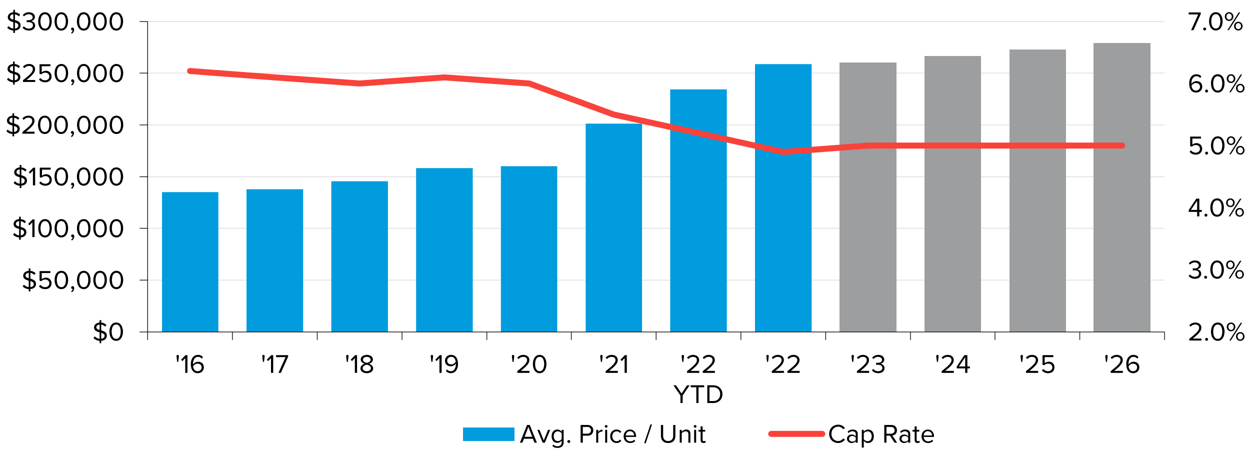
1,024,900
Single Family Permits

627,200
Multifamily Permits (5+ Units)

$366K
Median Single Family Price

Multifamily Sales

Average Sales PPU / Cap Rate



Source: CoStar

$234,460

Avg. Sold Price / Unit

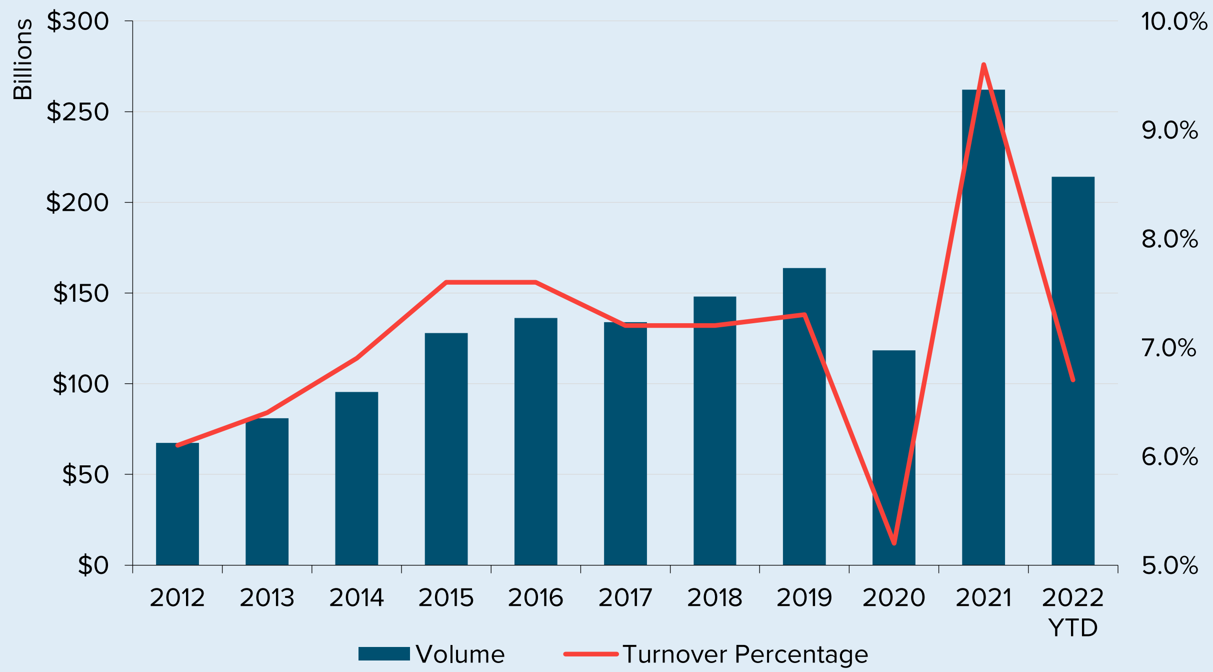
5.2%

Avg. Cap Rate

$214.1B
Sales Volume

$13.8M
Avg. Sale Price

Sales Volume & Turnover Rate



Source: CoStar

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Sources: GREA Research; U.S. Census; U.S. Bureau of Labor Statistics (BLS); Yardi Matrix; Freddie Mac; REIS; RealPage; National Multifamily Housing Council; Federal Reserve Bank of St. Louis; Moody's; CoStar; Oxford Economics