GREA

National

MARKET INSIGHT REPORT

FALL
2023

Summary

The national economy was stable and resilient in the first half of 2023, despite persistent interest rate hikes by the Federal Reserve intended to quell inflation. The downturn in economic growth from the 3.2% and 2.6% annualized rates of the second half of 2022 to 2.0% in the first quarter of 2023 fared better than most expected, indicating a "mild" recession commencing later in the second half of 2023 or in the early part of 2024. Yardi Matrix released an update to its Multifamily Supply Forecast in July 2023, stating that new multifamily construction activity has been relatively unaffected by the Federal Reserve's rate hiking cycle and that strong multifamily fundamentals will limit the extent of the downturn.

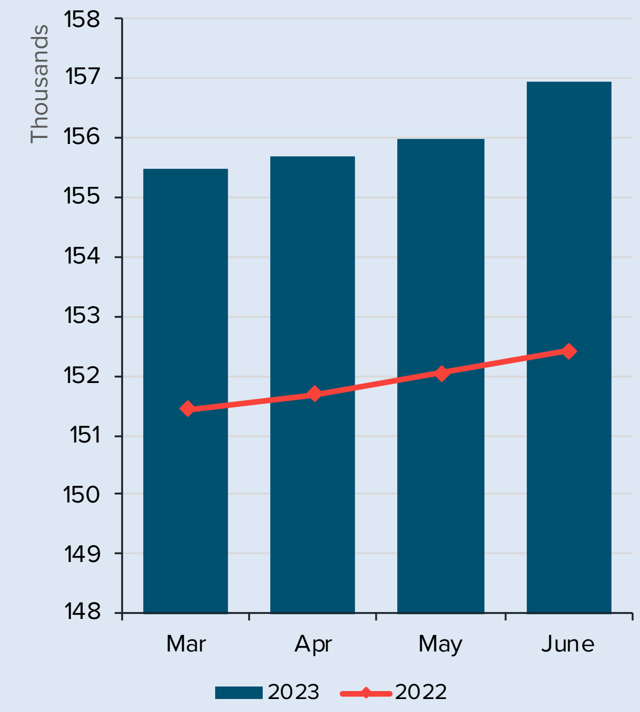
A recent Freddie Mac U.S. Economic, Housing and Mortgage Market Outlook reported inflation has been cooling in recent months, and the U.S. Bureau of Economic Analysis's "core" price index for personal consumption expenditures came in at 4.1% for June, which was down from 4.6% for May and 4.7% for April.

The Q2 2023 Multifamily Earnings Highlights release by Fannie Mae reported 139,000 rental units were financed, with a significant majority of the units categorized as affordable to households earning at or below 120% of area median income, thereby providing support for both workforce and affordable housing. Multifamily revenue was driven by $1.1 billion in net interest income, and over 75% of Fannie Mae's multifamily net interest income was derived from guaranty fee income, which continued to provide a stable driver of earnings for the business. The release also states that the overall credit profile of Fannie Mae's multifamily book remains strong, with a weighted-average original loan-to-value ratio of 64% and a weighted-average debt service coverage ratio of 2.1 times.

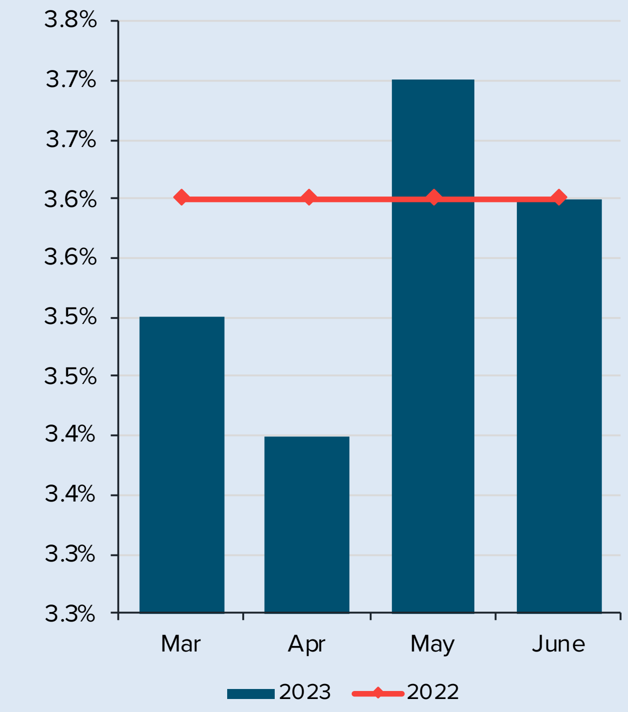
Multifamily rent growth is likely to soften but remain positive in the second half of 2023, adjusting closer to pre-pandemic, historical average norms. A sustained shortage of housing supply, affordability, and fluctuating interest rates should keep rental demand elevated.

Source: Freddie Mac, GREA Research, CoStar, Yardi Matrix

Total Employment



Unemployment



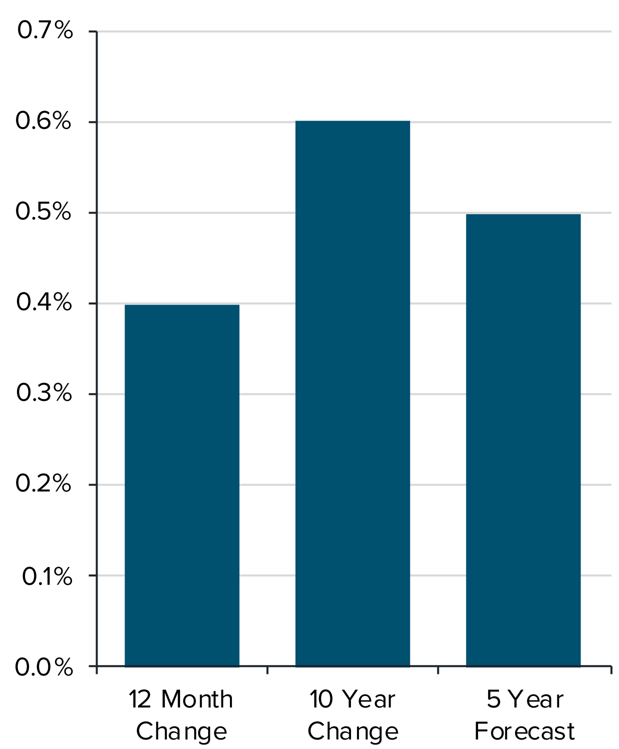
National Employment (Thousands)	June 2023	% Δ from June 2022
Total Non-farm	156,963	2.4%
Mining and Logging	647	5.5%
Construction	8,131	2.5%
Manufacturing	13,059	1.2%
Trade, Transportation, and Utilities	28,851	0.7%
Information	3,113	0.1%
Financial Activities	9,187	1.1%
Professional and Business Services	23,087	2.1%
Private Education and Health Services	25,089	4.2%
Leisure and Hospitality	17,273	4.7%
Other Services	5,952	3.2%
Government	22,574	2.8%

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

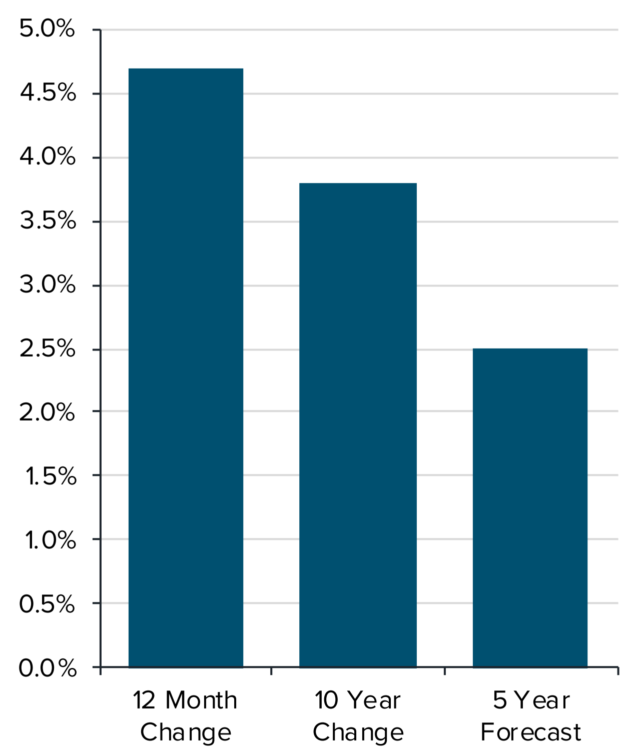
Demographics

- The national home affordability index at the end of Q2 2023 was below 100, which means that the typical family cannot afford to buy a median-priced home.
- The median income needed to buy a typical home has risen to $97,203, down by $5,567 from the previous quarter but up 27.68% year-over-year.
- The monthly mortgage payment on a typical existing single-family home with a 20% down payment is $2,268 – up 17% year-over-year.
- Low in-place mortgage rates are discouraging homeowners from selling homes, keeping inventory low and single-family prices high.
- High mortgage rates create an affordability hurdle for first-time buyers and middle-income families looking to trade up, which will continue to drive apartment demand.

Population Growth



Income Growth

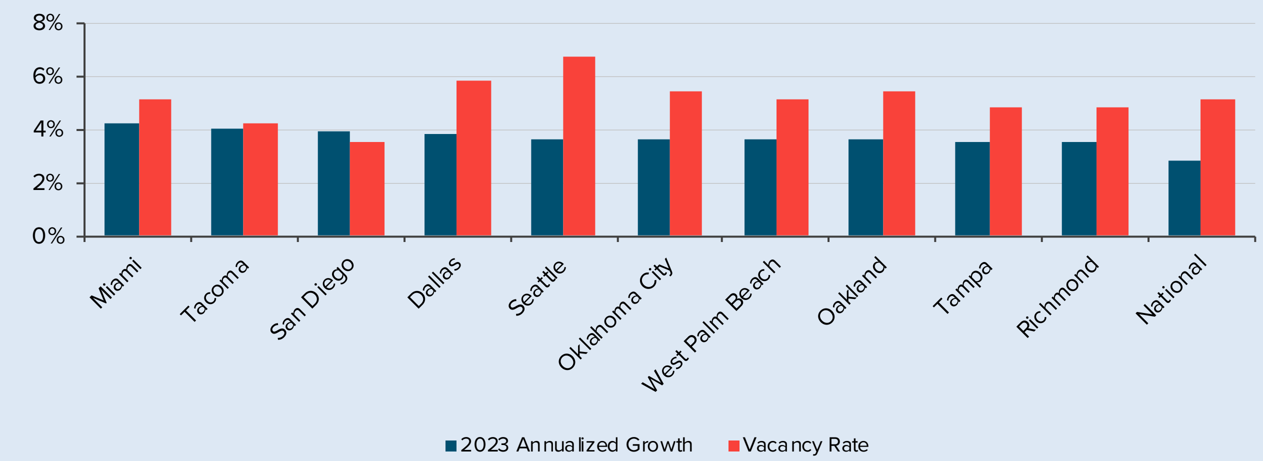


Source: GREA Research, NAR, CoStar, Oxford Economics

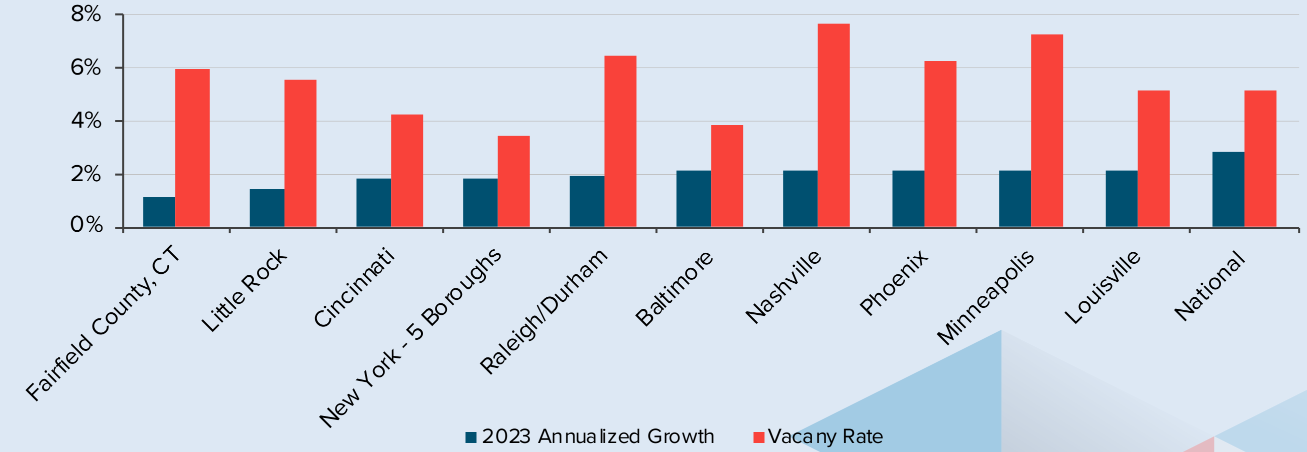
Gross Income

- 2023 predictions in the top markets for gross income growth 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, the top markets are expected to perform well below their historical average. Concurrently, the employment growth rate in top markets is projected to be above the national average.
- The 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. Even though the market reached an infection point towards the end of 2022, multifamily demand remained relatively healthy in the first half of 2023. However, rents began to wane across some major market areas.
- National rent growth declined by 90 basis points in the first quarter of 2023. According to Moody's Analytics, preliminary data for the second quarter suggests the rent decline will be short-term, and rent growth will remain positive in the second half of 2023, albeit weak. Given that the relevant data will not be captured for roughly six to nine months by the Consumer Price Index (CPI), Moody's Analytics forecasts a falling shelter inflation rate for the remainder of the year.
- National rent growth for the second half of 2023 should increase to 1.1% year-over-year.
- Four- and five-star properties are at the forefront of rent deceleration as new supply from the fastest-growing market areas in 2020 and 2021 comes online.
- The Midwest region surpassed the Sun Belt markets in terms of rent growth in the first half of 2023, and the trend is expected to continue for the remaining year.

Metro	Avg. Rent as of July 2023	Forecast 2023 Rent Growth
National	$1,716	2.50%
Central NJ	$2,091	3.70%
Austin	$1,782	3.30%
Charlotte	$1,626	3.20%
Salt Lake City	$1,622	3.20%
Raleigh	$1,644	3.00%
Nashville	$1,689	2.90%
Indianapolis	$1,265	2.90%
Baltimore	$1,690	2.90%
San Jose	$3,059	2.90%
Seattle	$2,196	2.80%
Boston	$2,742	2.80%
Kansas City	$1,252	2.80%
Manhattan	$4,656	2.70%
Los Angeles	$2,858	2.60%
Houston	$1,314	2.40%
Miami	$2,427	2.40%
San Francisco	$3,074	2.40%
Washington DC	$2,049	2.30%
Chicago	$1,884	2.10%
Dallas-Ft. Worth	$1,553	2.10%
Orlando	$1,873	2.10%
Atlanta	$1,717	2.00%
Denver	$1,933	2.00%
Philadelphia	$1,744	1.80%
Phoenix	$1,675	1.50%

Source: Yardi Matrix

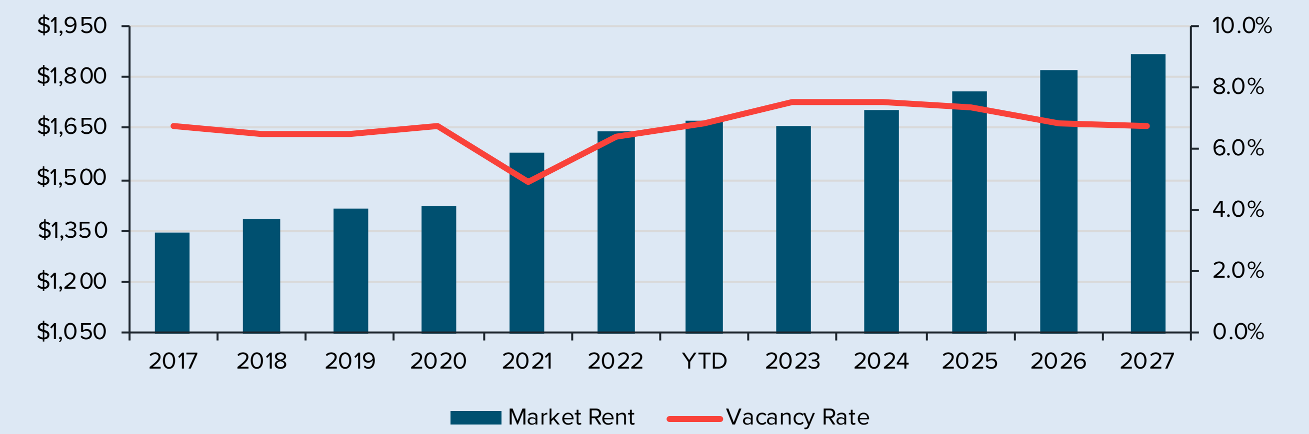
Vacancy

- Oversupply has pushed the national vacancy rate up by approximately 210 basis points, from an all-time low of 4.7% in the first quarter of 2021 to 6.8% year-to-date.
- After increases in 2022, vacancy rates held steady or decreased over the past 12 months in Chicago, Northern New Jersey, and San Francisco.
- 4- and 5-Star vacancy rates have steadily increased following an all-time low in the third quarter of 2021. This is due to slower absorption of existing inventory combined with elevated new multifamily deliveries in that property category.

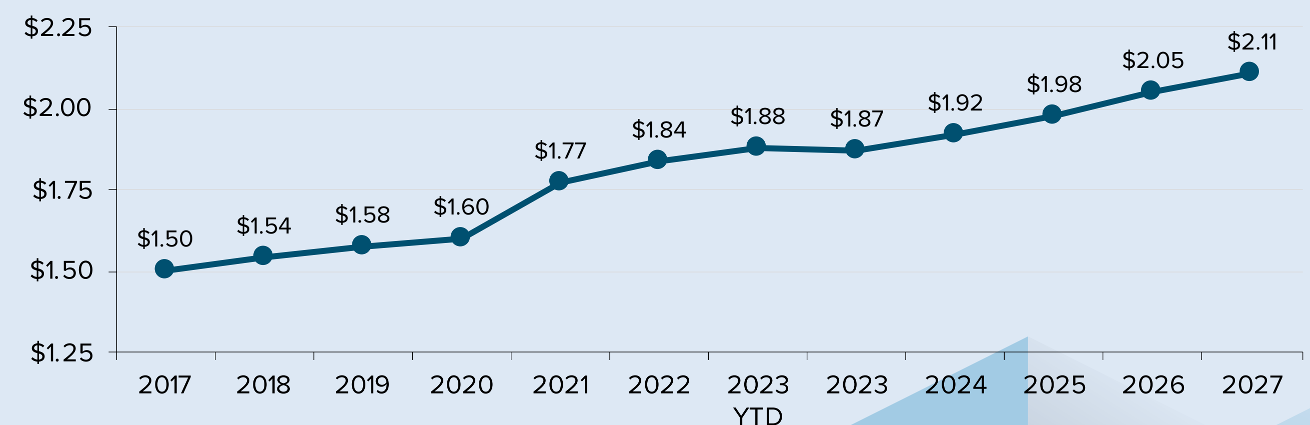
6.8%
National Vacancy Rate

7.5%
National Forecast Average

Overall Rent and Vacancy Trend



Overall Rent / SF Market Trend



Source: GREA Research, CoStar

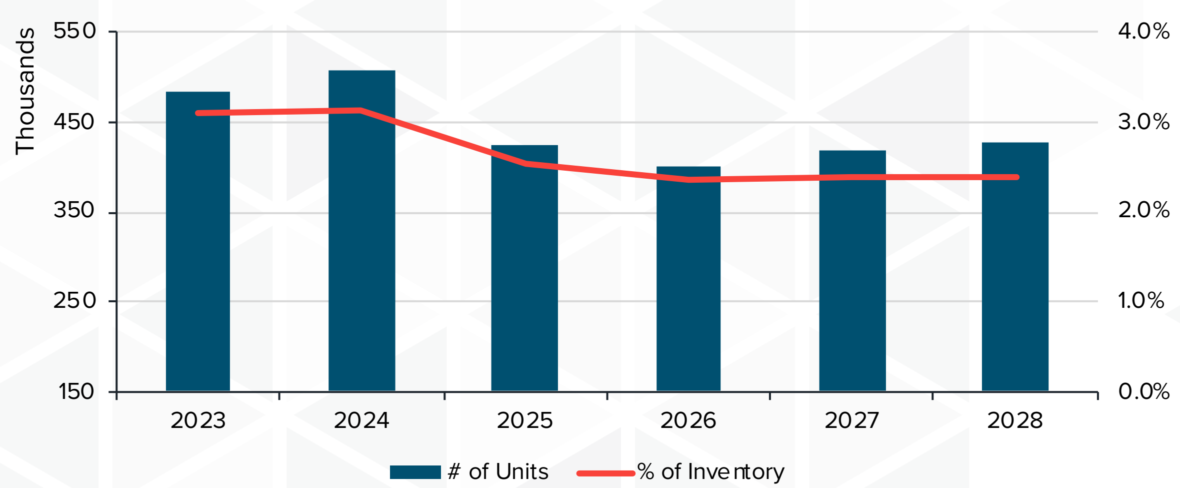
Multifamily Construction

- In Q2 2023, robust renter demand absorbed 107,000 units, the highest since Q3 2021's recovery.
- Supply improved due to eased pandemic-related backlogs and labor shortages, delivering around 140,000 units nationwide.
- Yardi Matrix forecasts 453,730 Q2 2023 deliveries, with 484,000 by year-end and 507,000 in 2024; CoStar estimates around 530,000 year-end deliveries.
- Supply continues to outpace demand throughout the second half of 2023 and into 2024, and deliveries will be highly concentrated in the fastest-growing markets, particularly in the sunbelt states.
- Strong multifamily fundamentals will balance effects, expecting new deliveries to bottom in 2026.

484,000-530,000 New Units

2023 Expected Completions

Supply & Demand Forecast

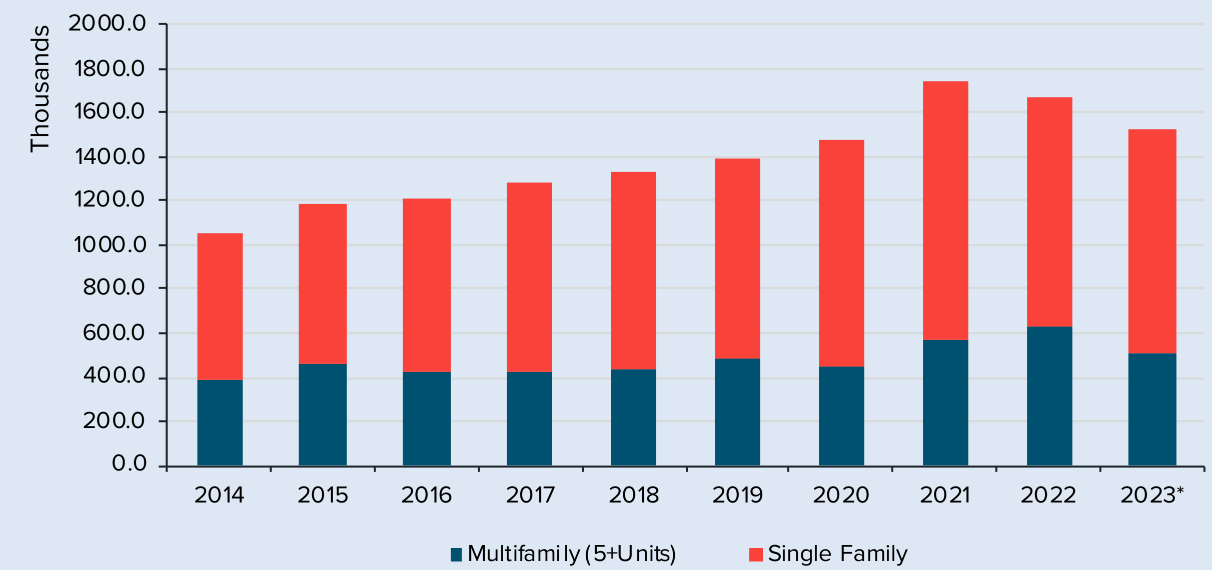


Source: GREA Research, Yardi Matrix

Permits

- Persistent supply chain delays and construction labor shortages lingered through 2022 and had a significant impact on the construction pipeline.
- Lack of housing throughout the nation and strong multifamily market fundamentals have sustained demand through 2023 despite the oversupply of new units in the major Sun Belt metros.
- New housing starts are expected to remain robust for the second half of 2023 and into 2024 and then eventually wane due to persistent inflation and the high cost of debt and development.

Total Residential Building Permits



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

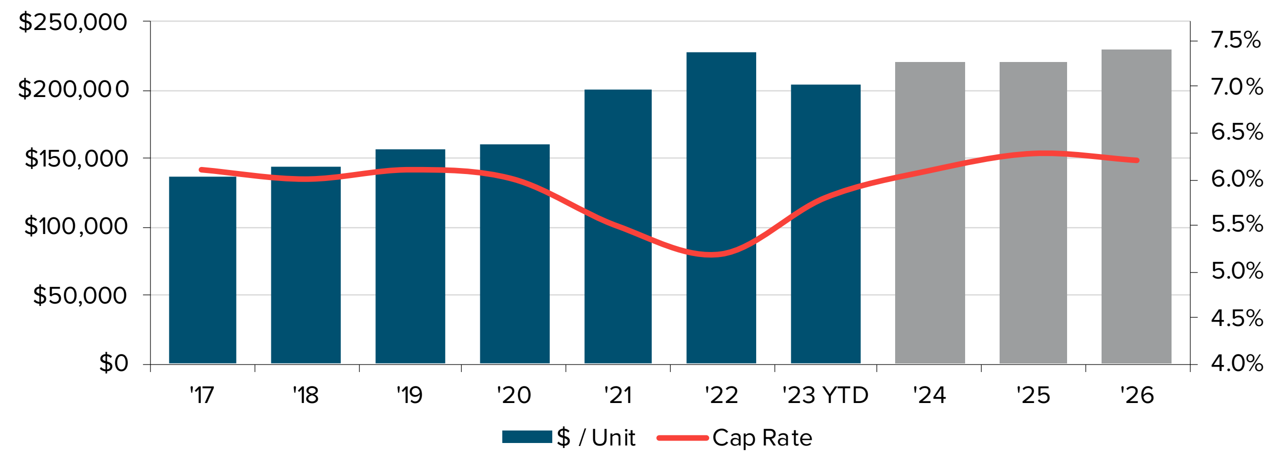
1,012,300
Single Family Permits

510,200
Multifamily Permits (5+ Units)

$410K
Median Single Family Price

Multifamily Sales

Average Sales PPU / Cap Rate



Source: CoStar

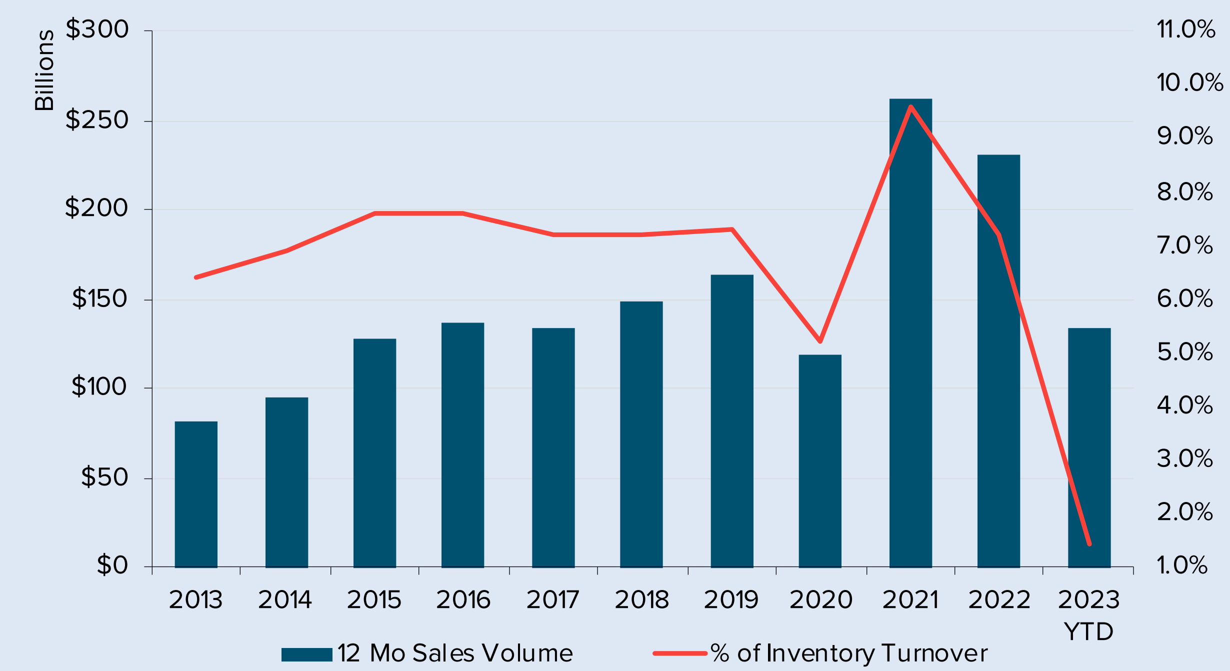
$204,660
Avg. Sold Price / Unit YTD

5.8%
Avg. Cap Rate YTD

$133B
Sales Volume YTD

$5,733
Total Units Sold YTD

Sales Volume & Turnover Rate



Source: CoStar

TO LEARN MORE ABOUT GREA AND OUR CAPABILITIES PLEASE VISIT WWW.GREA.COM

TODD FRANKS
Dallas-Fort Worth
Chairman & Founding Partner
O | 972.916.9397
todd.franks@grea.com

BARDEN BROWN
Atlanta-Hilton Head
Founding Partner
O | 678.894.2221
barden.brown@grea.com

CARY BELOVICZ
Detroit-Chicago
Founding Partner
O | 248.294.0000 x252
cary.belovicz@grea.com

JORDON EMMOTT
Houston
Founding Partner
O | 713.595.9584
jordon.emmott@grea.com

KEN WELLAR
Miami
Founding Partner
O | 215.454.2879
ken.wellar@grea.com

COREY LONBERGER
Philadelphia
Founding Partner
O | 215.454.2878
corey.lonberger@grea.com

GREG FRICK
Portland
Founding Partner
O | 971.717.6332
greg.frick@grea.com

www.GREA.com

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