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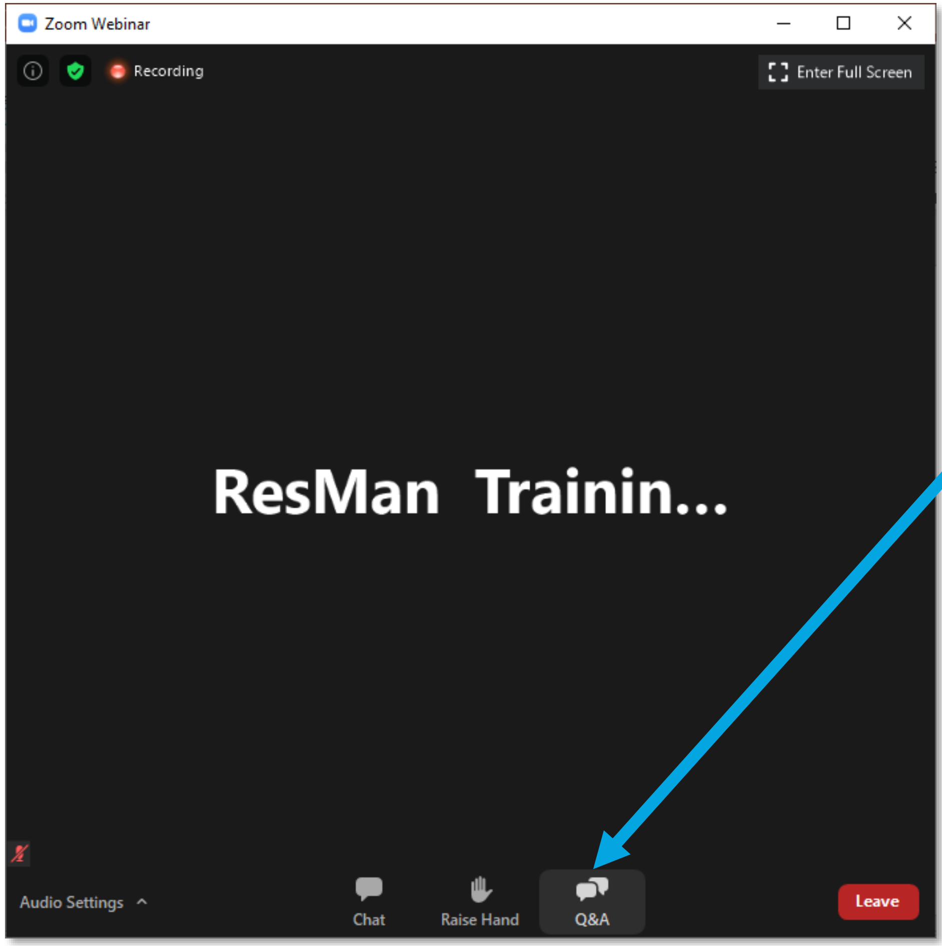
Webinar with ALN Apartment Data www.alndata.com

Multifamily Market Update: Where Are We in 2023 and What's Potentially in Store for '24?

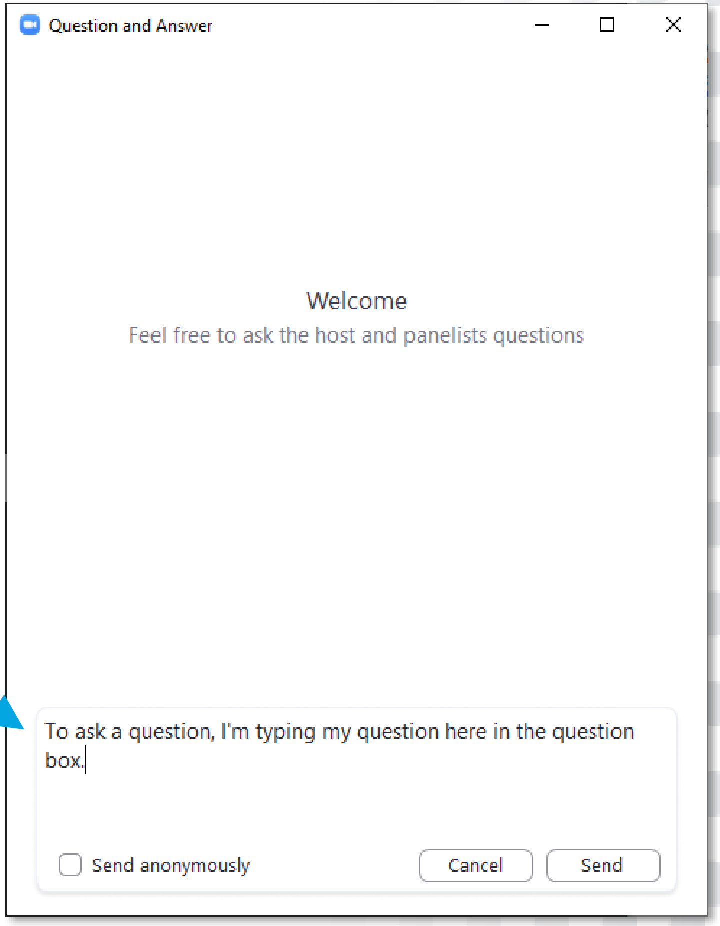
November 7, 2023

Ask Questions through the Q&A Panel



Step 1: Click the Q&A button at the bottom of your Zoom window and a Question & Answer popup will open

Step 2: Type your question in the question box and press "Send".



Nice to Meet You!

Elizabeth Francisco
Chief Experience Officer
Inhabit IQ

Jordan Brooks
Senior Market Analyst - Multifamily
ALN Apartment Data

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Today's Agenda

- Introductions
- Where Are We in 2023?
- Top and Bottom Performers.
- Economic Indicators and Tenant Solvency
- Single Family Impact
- What’s in store for 24
- Fed Rates, Cap Rates
- Tangible Take Aways
- Q&A

Headwinds and Tailwinds Going into 2024

The Headwinds are real!

Headwinds and Tailwinds Going into 2024

So are the Tailwinds!

Bracing the Winds: 2024’s Challenges

- Increasing Vacancy.
- Increasing Utilization of Concessions.
- Positive rent growth is elusive in some markets.

The Headwinds are real!

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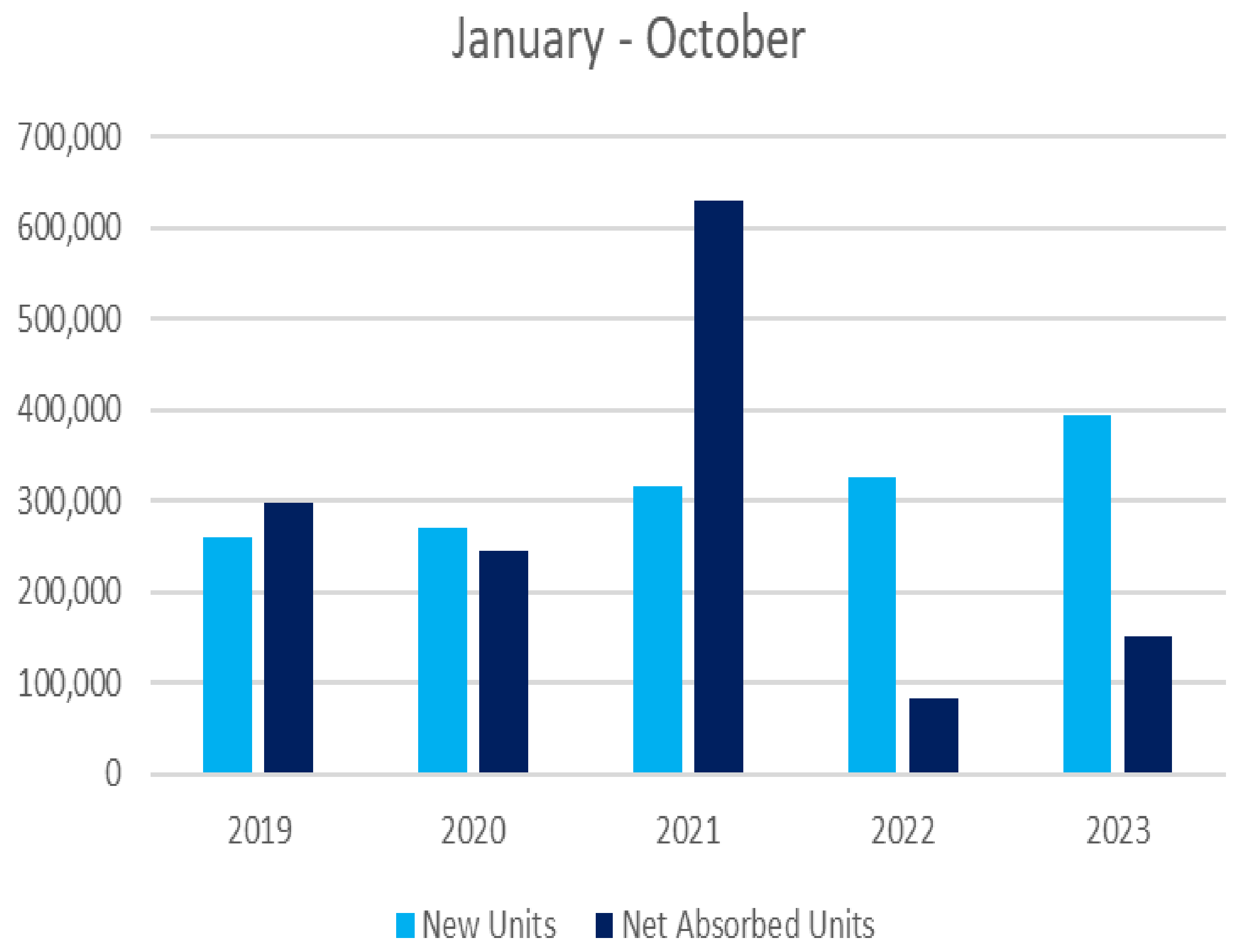
Where Are We in 2023?

Apartment Demand Improved in Q3

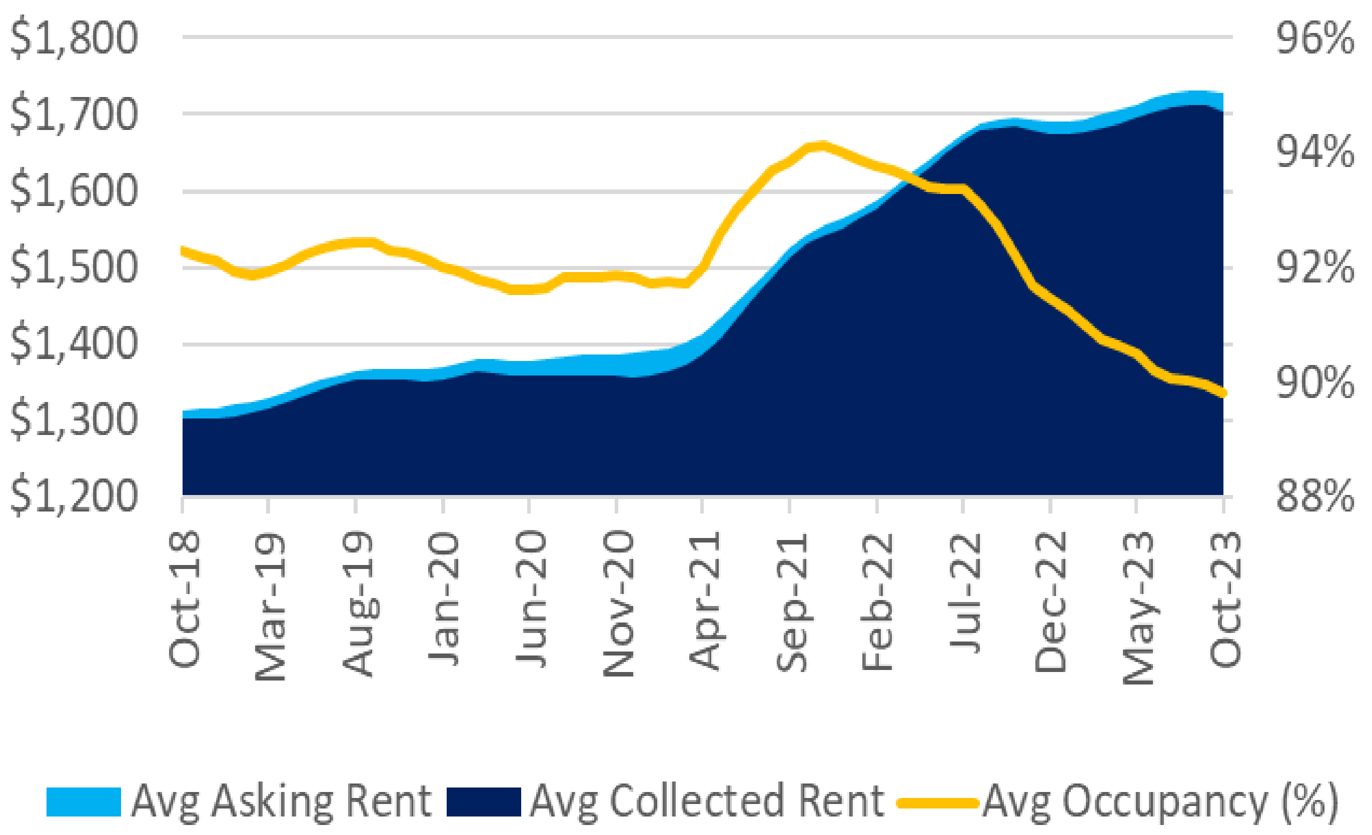
- Net absorption of more than 75,000 units in Q3 was the best quarterly performance since Q4 2021.
- Q3 2023 was the fourth consecutive quarter to see more than 100,000 new units delivered - only one other quarter in the last five years hit that mark.
- Despite recent improvement, year-to-date apartment demand has been relatively tepid.
- The demand shortfall this year has been in the workforce housing segments – particularly Class D.



Source: ALN Apartment Data

National Overall Average Occupancy at Five-Year Low

- Overall average occupancy dipped below 90% for the first time in more than five years in October 2023.
- The 0.4% average effective rent decline for new leases in October was the largest monthly decline of the last five years.
- Average effective rent declines in 2022 began in November, this year's declines began in September.
- Lease concession availability has increased nearly 50% this year through October, with 16% of conventional properties offering a discount for new leases.



Source: ALN Apartment Data

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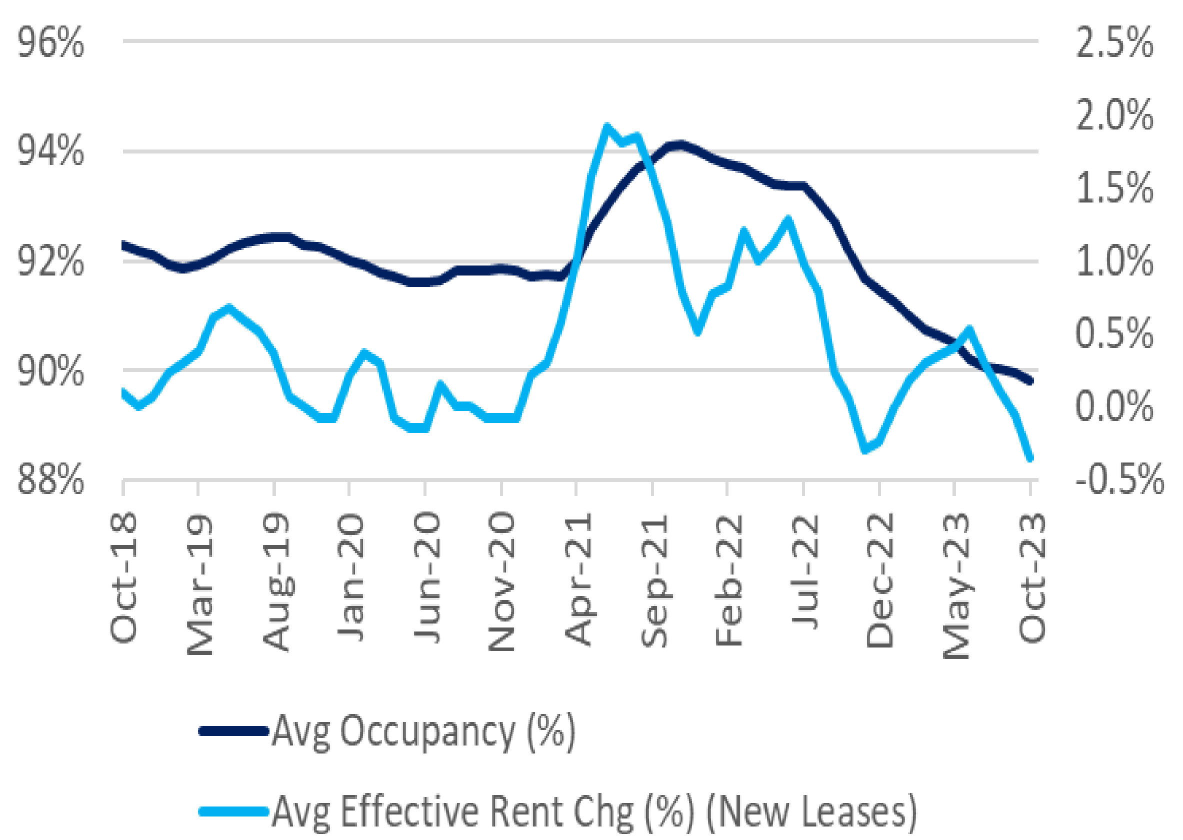
Typical Seasonal Trend in Rent Growth Returned in 2022

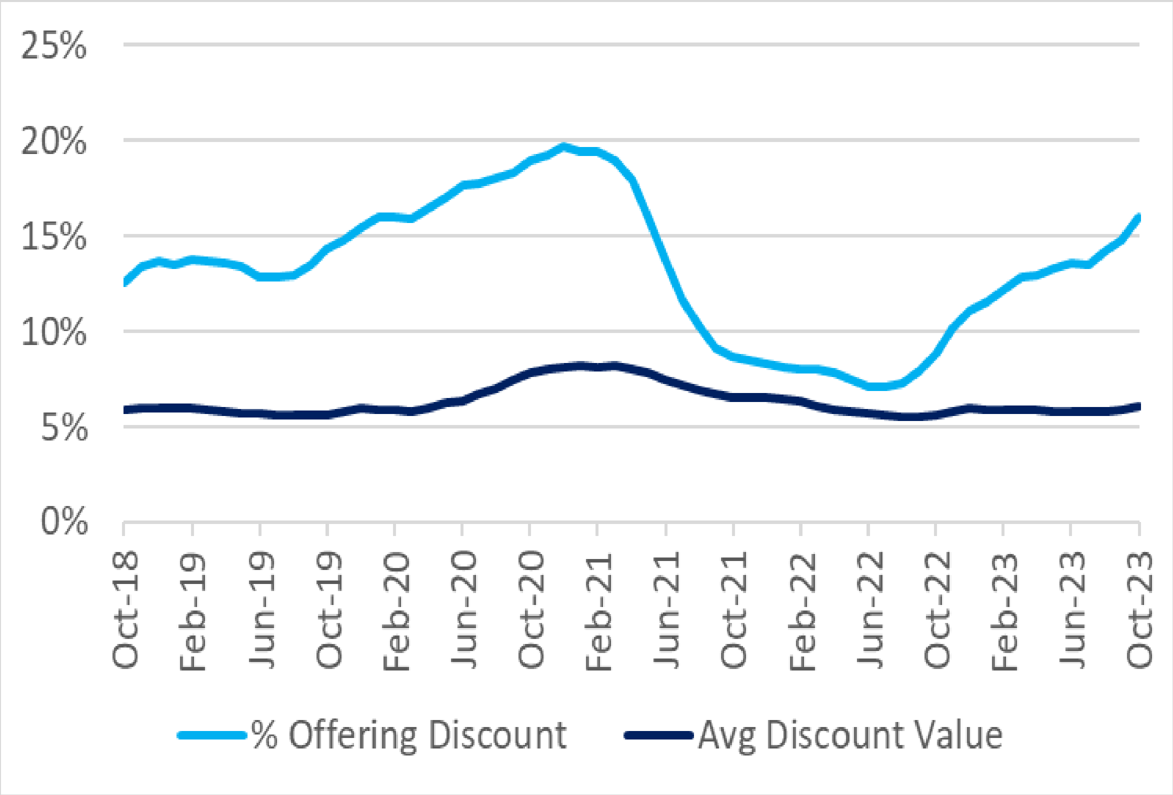
- Seasonal improvement in rent growth in H1 has been present for last three years, but the monthly peak has been on the decline along with average occupancy.
- Based on recent performance, the winter trough in monthly average effective rent change is likely to be a decline of 0.5% or more and occur in November or December.
- Monthly rent growth may struggle to break out of the downward trend in annual peak in 2024 due to supply pressure on occupancy.



Source: ALN Apartment Data

Lease Concessions Continue to Grow in Prominence

- Lease concession availability in October was the highest since April of 2021 when discounts were receding from their run up in 2020.
- Discount availability has increased in 14 of the last 15 months.
- The average discount value has seen much less movement this year with a 1.6% YTD gain, but this gain was the first for the period since 2020.
- Both lease concession availability and average value have increased most significantly this year in the Class C and Class D price tiers.



Source: ALN Apartment Data; Conventional properties; Avg discount based on 12-mo lease

Top and Bottom Performing Markets

Apartment Demand Through October

Market	Net Absorption	% of Existing Stock
San Francisco - Oakland	9,325	2.7%
Dallas - Fort Worth	8,789	1.1%
Houston	8,177	1.2%
Phoenix	7,798	2.2%
Washington DC	7,372	1.4%
Seattle	7,214	2.2%
Chicago	6,885	2.1%
Nashville	6,697	3.9%
Tampa	6,539	2.6%
Denver – CO Springs	6,376	1.9%

Market	Net Absorption	% of Existing Stock
New York	-2,948	-0.5%
Albany	-1,176	-2.7%
Detroit	-1,069	-0.4%
Birmingham	-843	-1.2%
Oklahoma City	-652	-0.7%
Las Vegas	-596	-0.3%
Fayetteville, AR	-569	-2.1%
Milwaukee	-453	-0.5%
Tucson	-447	-0.6%
Tallahassee	-443	-2.6%

Average Effective Rent Change Through October

Market	Avg Effective Rent Change	Avg Effective Rent
TX – Midland - Odessa	12.1%	$1,365
MO – Columbia	10.0%	$983
ME – Augusta - Portland	8.2%	$1,906
AK – Anchorage	8.1%	$1,422
NE – Lincoln	8.1%	$1,134
IL – Springfield	8.0%	$1,009
TX – Abilene	7.3%	$966
WI – Madison	7.1%	$1,469
ND – Fargo	7.1%	$985
VA – Roanoke	7.0%	$1,198

Market	Avg Effective Rent Change	Avg Effective Rent
Fort Myers - Naples	-4.9%	$2,010
Austin	-4.1%	$1,615
Boise	-1.7%	$1,541
Jacksonville	-1.6%	$1,489
Phoenix	-1.6%	$1,588
Orlando	-1.5%	$1,770
San Antonio	-1.4%	$1,245
Atlanta	-1.4%	$1,635
Las Vegas	-1.3%	$1,457
Tallahassee	-1.3%	$1,346

Source: ALN Apartment Data; rents for new leases

New Units Delivered Through October

Market	New Units	% of Existing Stock
Dallas - Fort Worth	28,536	3.4%
Houston	18,768	2.8%
New York	16,368	2.7%
Austin	15,545	6.0%
Orlando	15,236	6.9%
Atlanta	13,843	2.9%
Phoenix	13,749	3.9%
Denver - CO Springs	13,675	4.0%
Los Angeles - OC	13,178	2.3%
Washington DC	12,338	2.4%

Source: ALN Apartment Data

Markets With Negative Supply – Demand Imbalance So Far in 2023

Market	Net Absorption (% of Existing Stock)	New Units (% of Existing Stock)	Size-Adjusted Supply and Demand Measure
SD – Rapid City	-6.7%	11.6%	-18.3%
SC – Myrtle Beach	8.0%	16.6%	-8.6%
NH - Concord	-5.5%	2.6%	-8.1%
FL – Fort Myers - Naples	-1.0%	6.3%	-7.4%
FL - Jacksonville	0.3%	7.5%	-7.2%
NY - Albany	-2.7%	2.7%	-5.4%
WA – SE Washington	0.7%	5.6%	-4.9%
TX - Austin	1.4%	6.0%	-4.6%
FL - Orlando	2.4%	6.9%	-4.5%
SD – Sioux Falls	-0.4%	4.1%	-4.4%

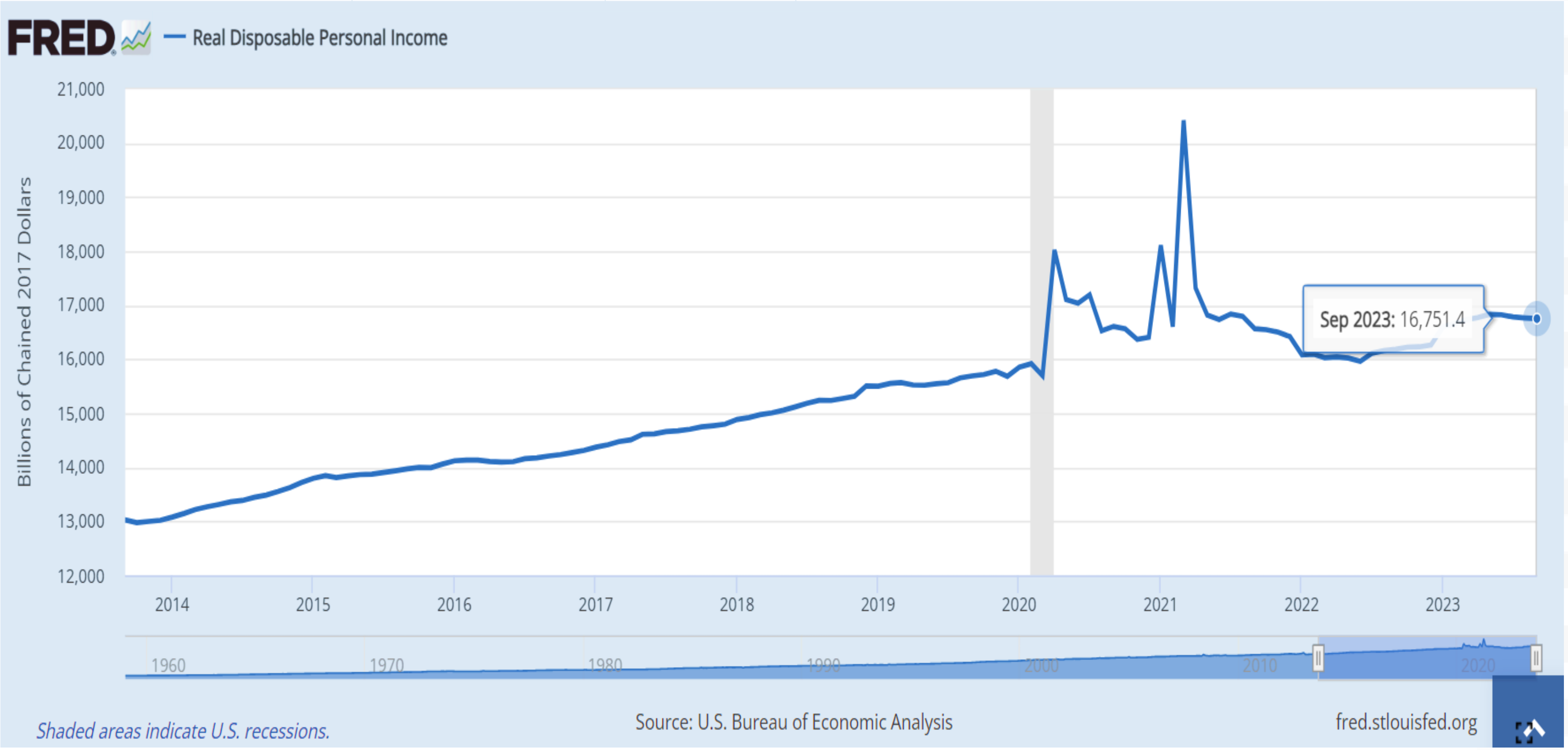
Source: ALN Apartment Data

Bracing the Winds: 2024's Challenges

- Vacancy has increased.
- Utilization of concessions has increased.
- Positive rent growth is illusive in some markets
- Renters' financial health is changing.
- Inflation has taken a toll on operational expenses.
- SF impact New Construction-vs-Existing

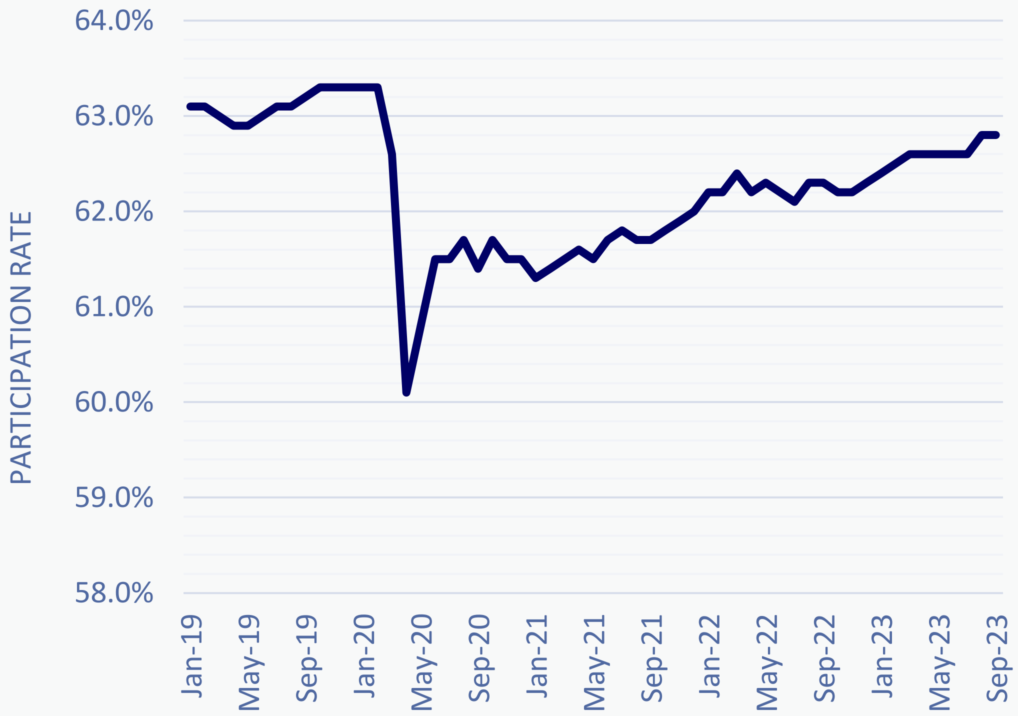
The Headwinds are real!

Tailwind or Headwind: Real Disposable Personal Income



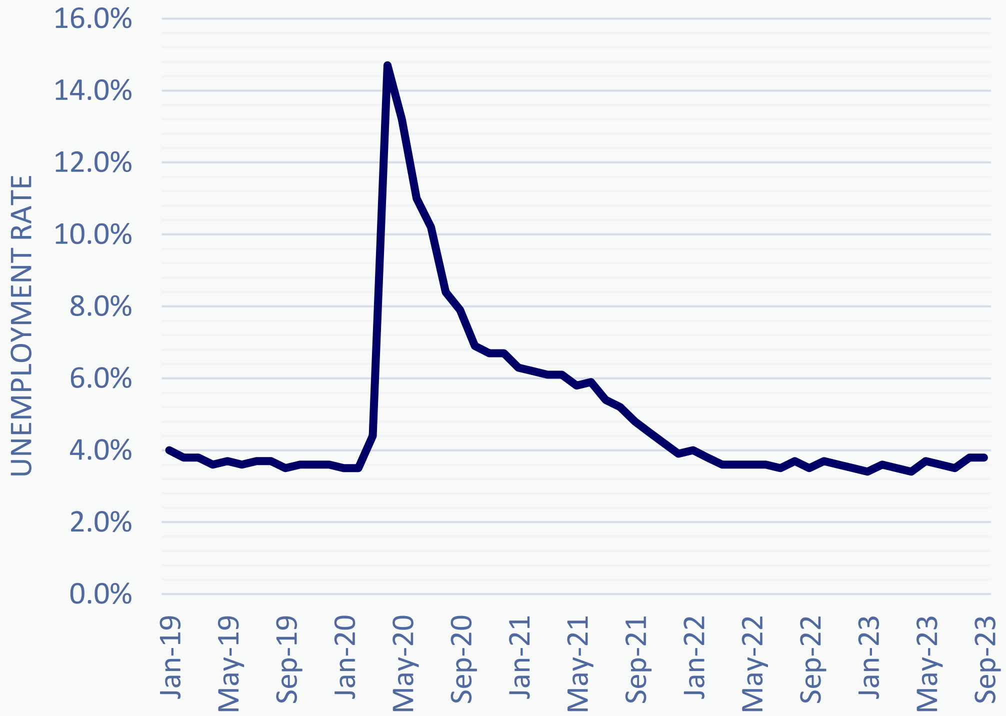
Tailwind or Headwind: Labor Market

Labor Force Participation Rate (%)



Source: U.S. Bureau of Labor Statistics

Unemployment Rate (%)



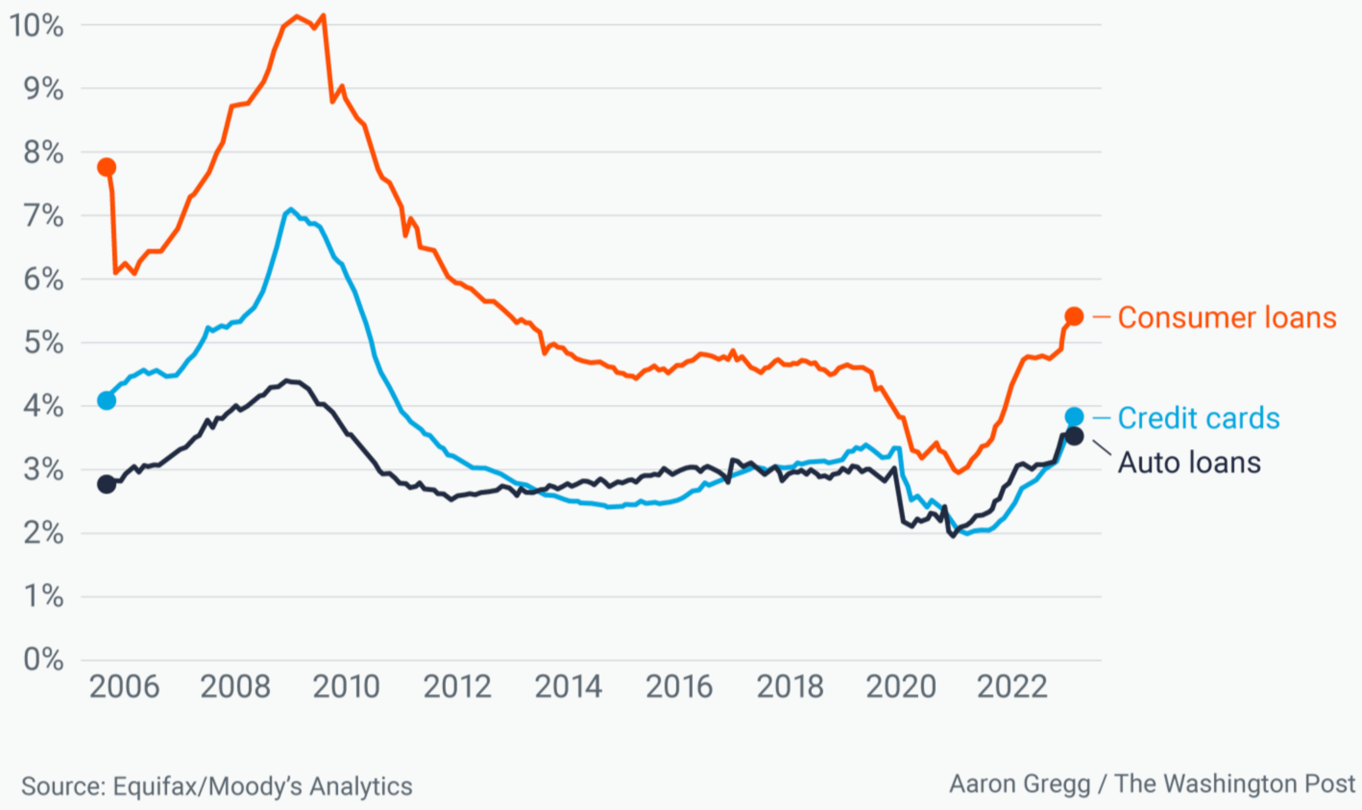
Source: U.S. Bureau of Labor Statistics

Tailwind or Headwind: American's Saving Account Balances

PERSONAL SAVINGS 07/2023	
Account balance	Percentage of respondents
$0	11%
$1 to $500	30%
$500 to $1,000	8%
$1,001 to $5,000	22%
$5,001 to $10,000	8%
$10,000 to $20,000	7%
Over $20,000	14%

- **71%** Americans have $5,000 or less in savings
- **41%** of Americans have **$500** or less
- The average American's monthly expenses are $5,577
- The median saving account balance is $1,200, while the mean (average) is $25,898.

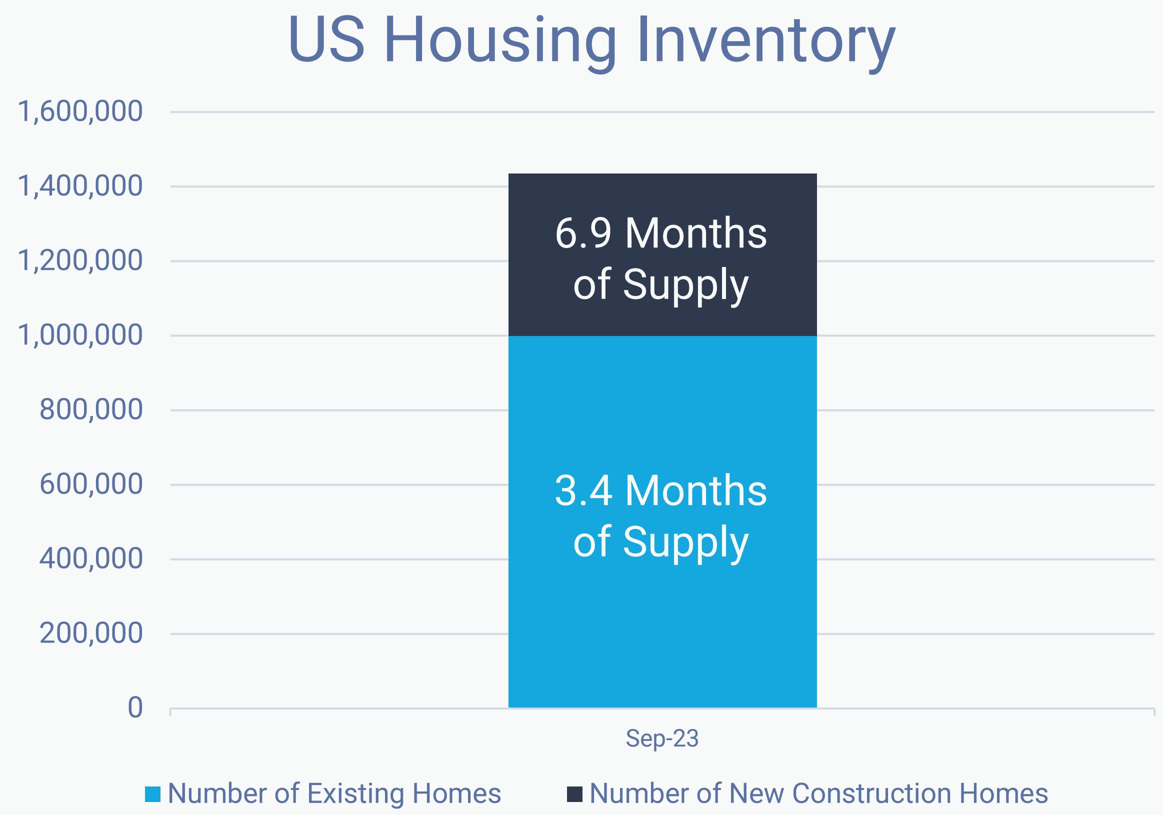
Tailwind or Headwind: Loan Payment Delinquency



Loan Payment Delinquencies

	2009	2019	2023
Consumer Loans	10.2%	4.3%	5.4%
Credit Cards	7.1%	3.3%	3.8%
Auto Loans	4.4%	2.9%	3.6%

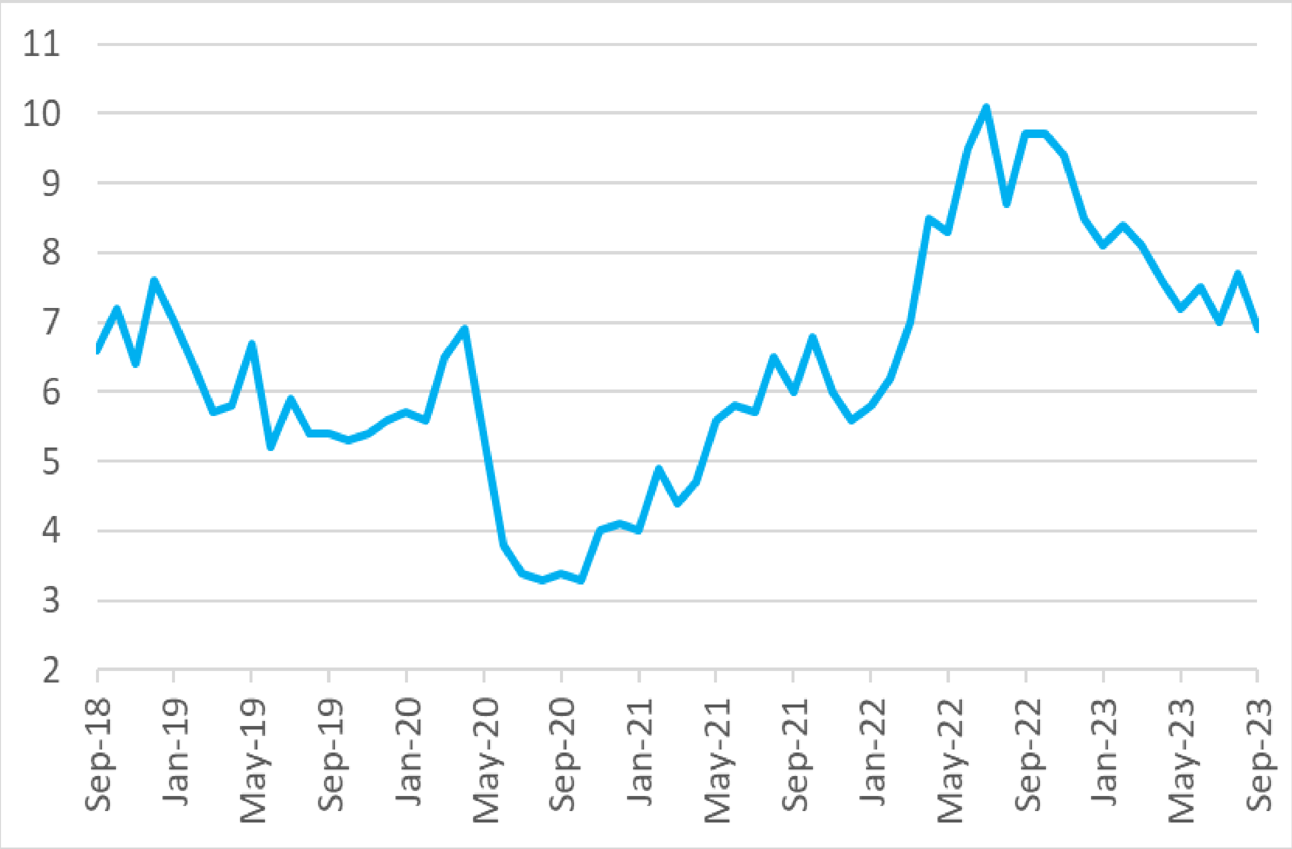
Tailwind or Headwind: SFH Market



Source: National Association of Realtors - fred.stlouisfed.org

Monthly Supply of New Houses on a Downward Trend

- Home builders seem to be adjusting to the new environment – one tool has been swapping upgrade allowances for rate buydowns.
- Stubbornly high prices and elevated interest rates have resulted in lower transaction volume for SF and this has been a boost for MF demand.
- The status quo appears to be holding on the existing home sales side, but continued movement in the new home space could be relevant to MF demand – especially at the top of the market and in markets skewed toward home ownership.



Source: U.S. Census Bureau; Seasonally adj

Steady Paddling: Small Wins for a Stronger Tomorrow

- Could rent growth return by the end of 2024?
- Will the new influx of new construction continue?
- What should we expect with FED RATE?

So, are the Tailwinds!

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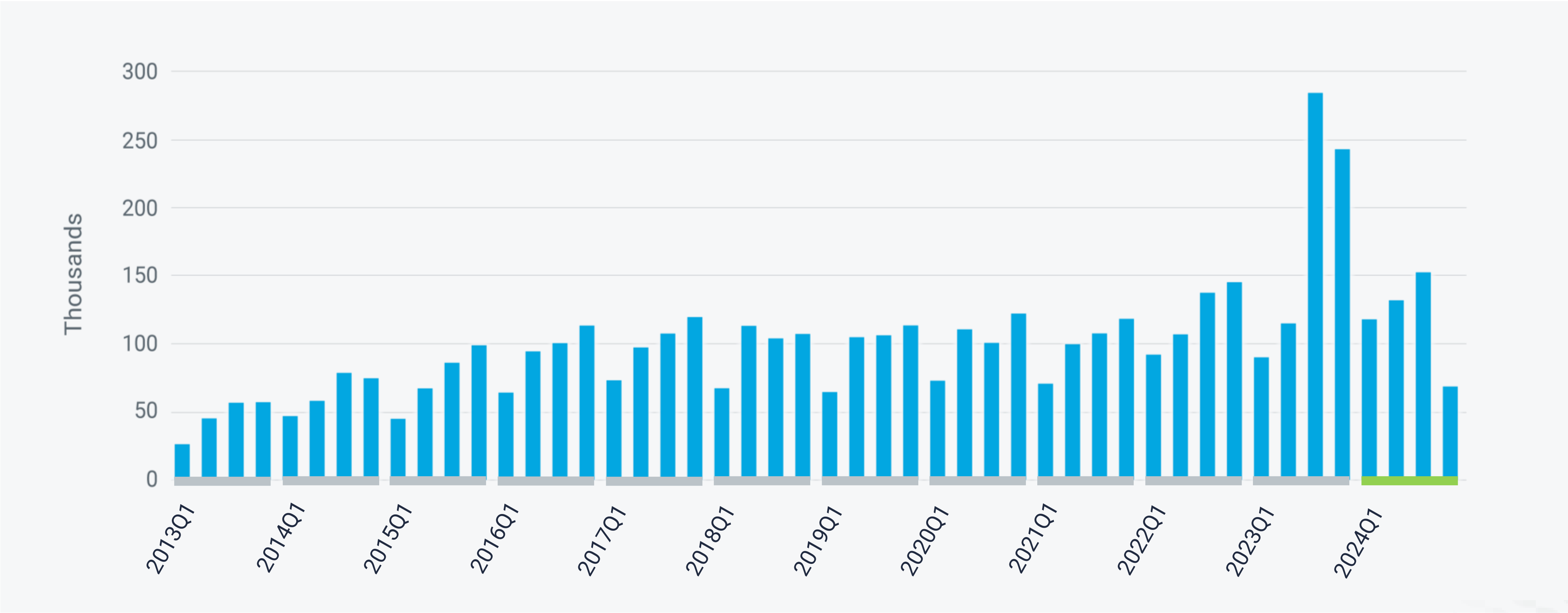
Vacancy & Market Asking Rent Per Unit

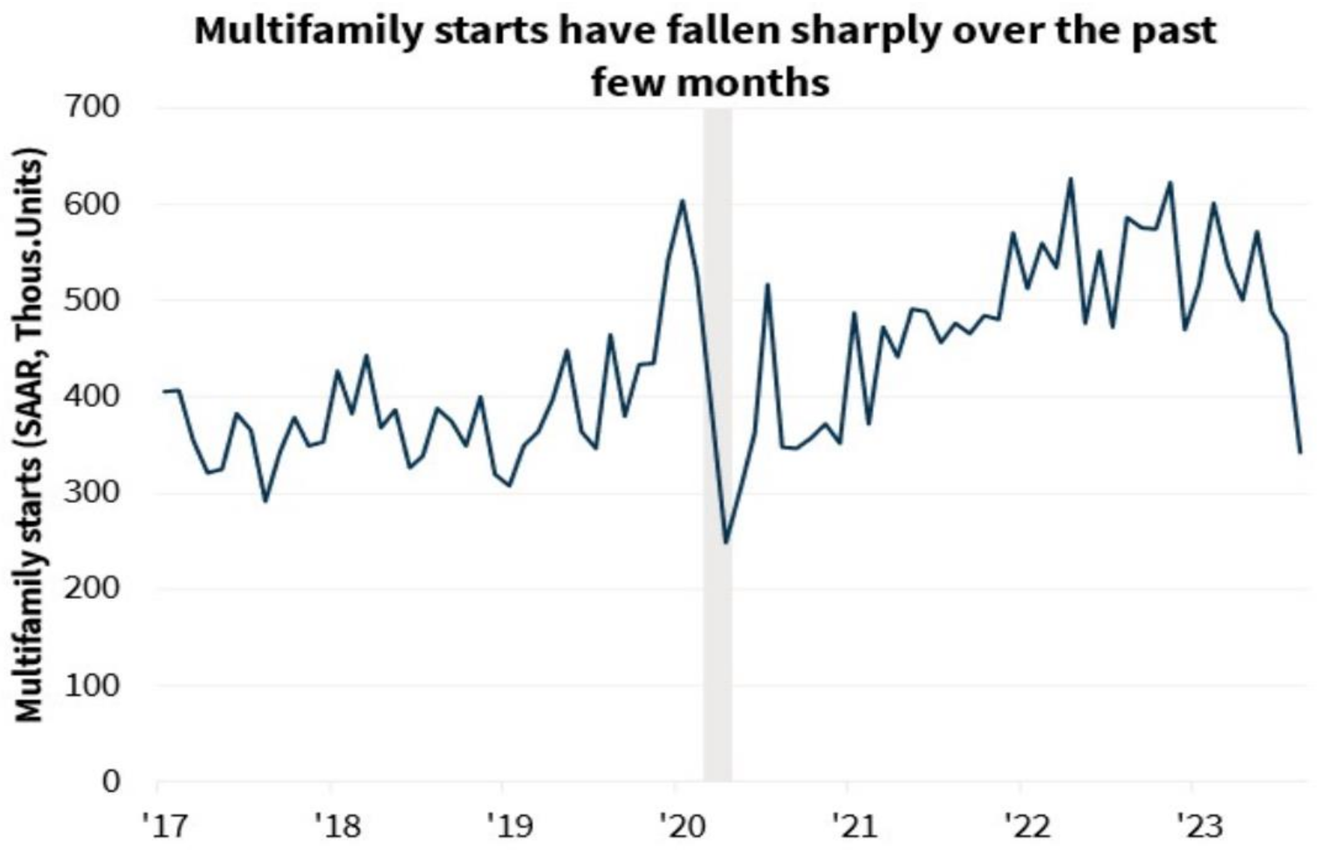
Source: CoreLogic

National Apartment Completions/ Expected Completions

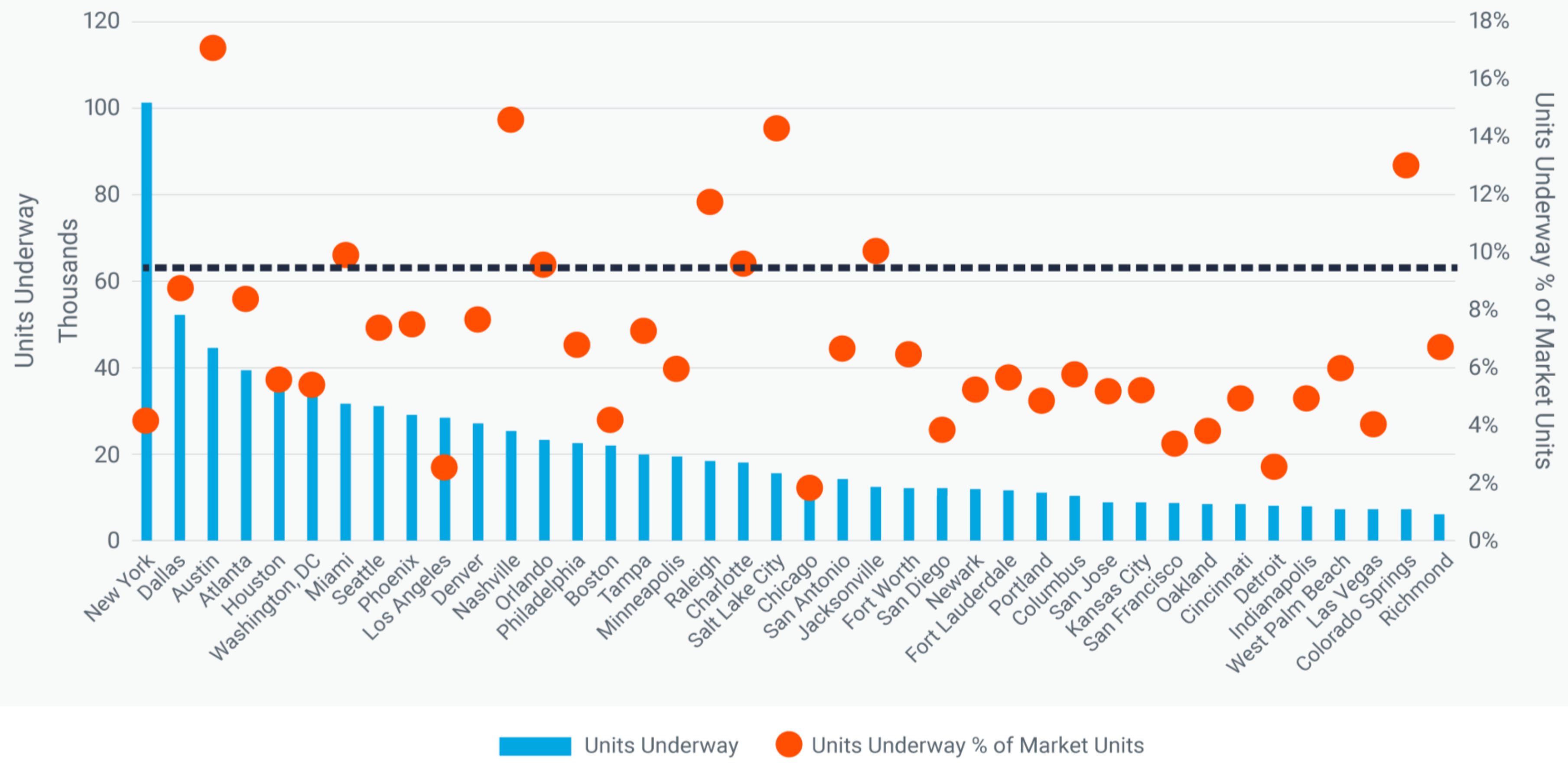


Source: Fannie Mid-2023 Multifamily Construction Update, Dodge Data & Analytics, July 2023

Multi-family authorizations

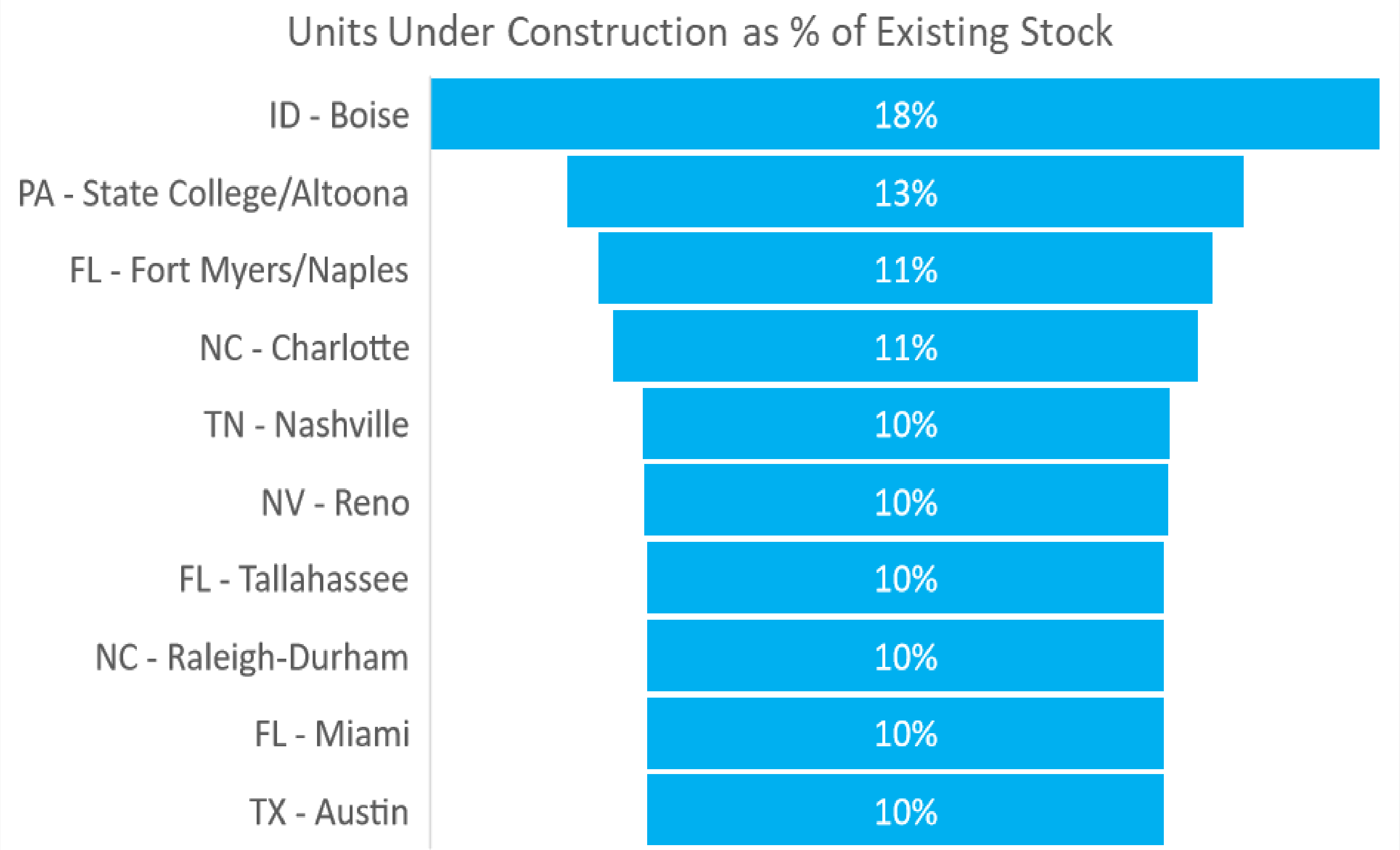


Multifamily Units Underway and Percent of Market Units - Select Metros



Not Just Large Markets Facing Supply Pressure in 2024

- Some of the usual suspects lead the nation in total units under construction – New York, Dallas – Fort Worth, Washington DC, Phoenix, and Atlanta are the top five markets.
- The national market-level average value for units under construction as a share of existing stock is 4%.
- Boise, State College – Altoona (PA), and Seattle are the only three markets in the top 20 for the size-adjusted metric that are not in the Sunbelt region.



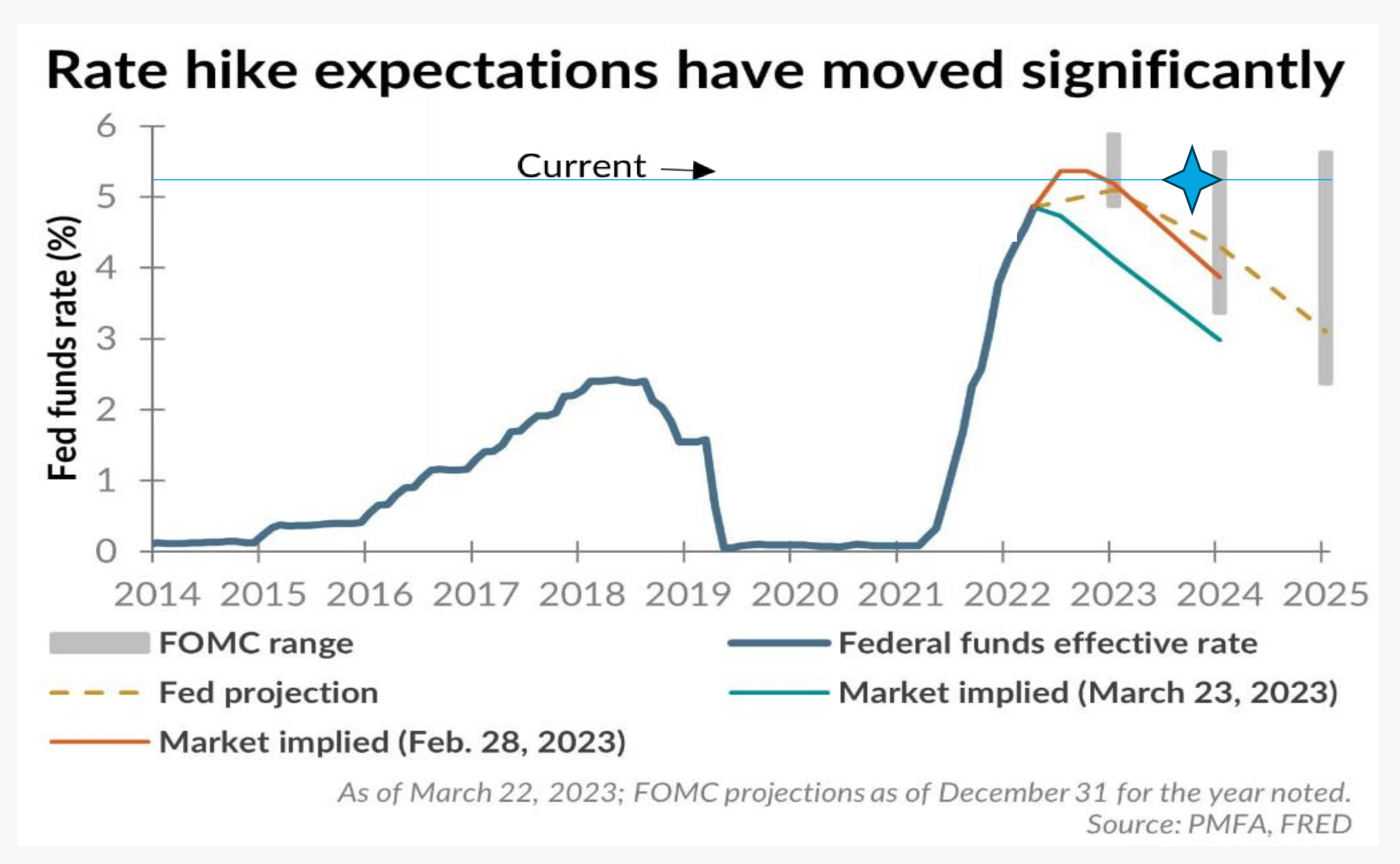
Source: ALN Apartment Data

Steady Paddling: Small Wins for a Stronger Tomorrow

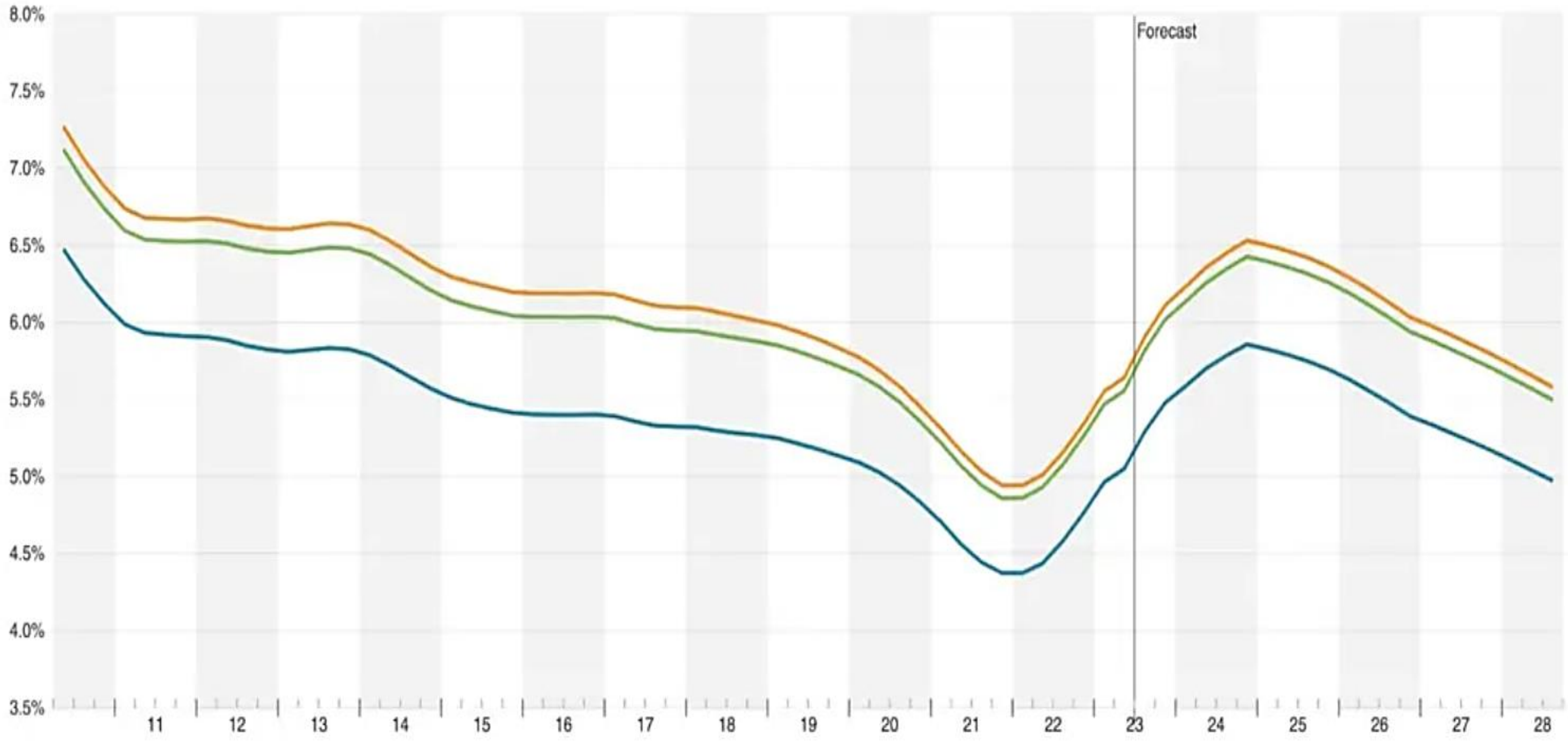
- Could rent growth return by the end of 2024?
- Retention remains above pre-pandemic levels
- New permits are slowing.
- Where is the Fed Rate headed?
- When will cap rates start to compress?
- Red October?

So, are the Tailwinds!

Forecast: Fed Rate

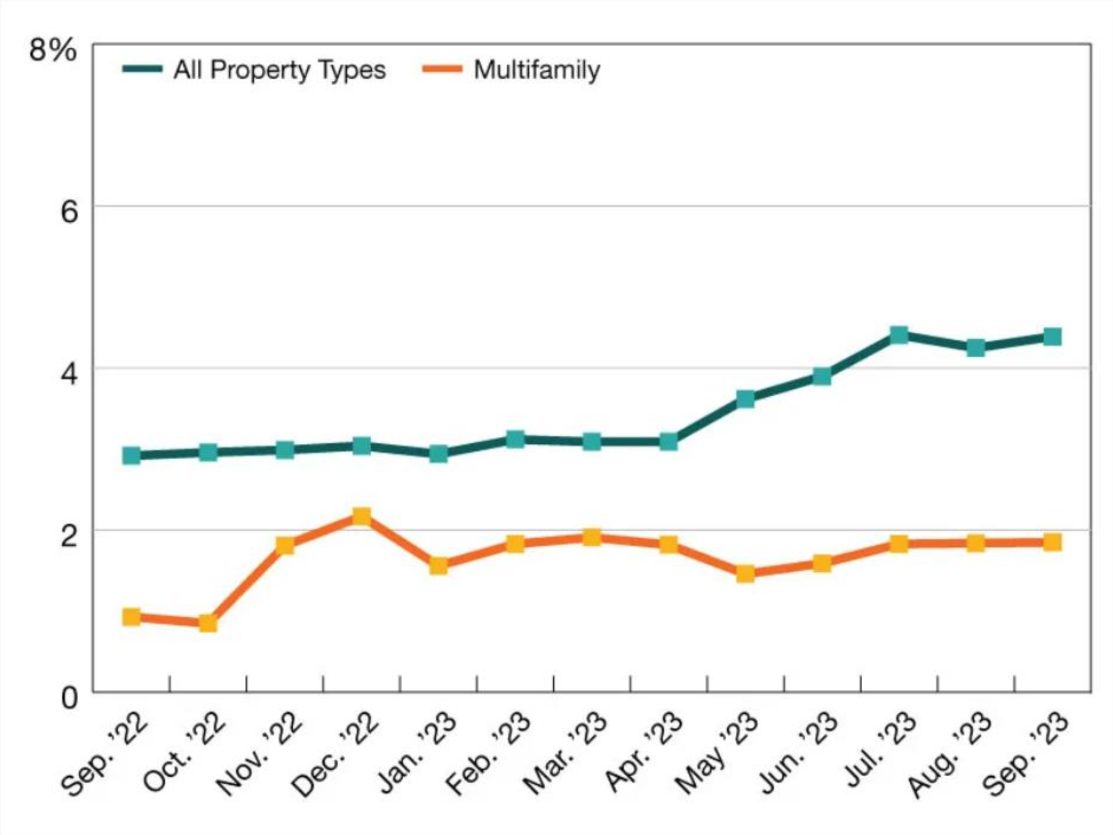


Forecast: Cap Rates



Source: CoStar

2023 Multifamily CMBS Delinquency Rates



Source: Trepp

Tangible Take Aways

Performing in a Down Market	Successful	Less Successful
Adjust to changing market conditions	Proactive	Reactive
Rent Growth, Stabilization, and Protection	Flexible & Innovative	Rigid-Slow to Act
Maintenance and Repairs	Prioritized	Deferred
Technology	Embrace	Resistant
Resident Retention Strategies	Exceeds Industry AVG	At or Below Industry AVG
Applicant Screening	Lower Amt.$ DELQ & Evictions	Higher Amt.$ DELQ & Evictions
Budgeting & Forecasting	Anticipate	React
Internal & External Communication	Proactive & Transparent	Reactive & Transparent
Employee Engagement & Development	Valuable Investment	Cost Center

Q&A

Thank You!

Elizabeth: Elizabeth.Francisco@inhabitiq.com

Jordan: Jordan@alndata.com