

Apartment Market Update

March 2023

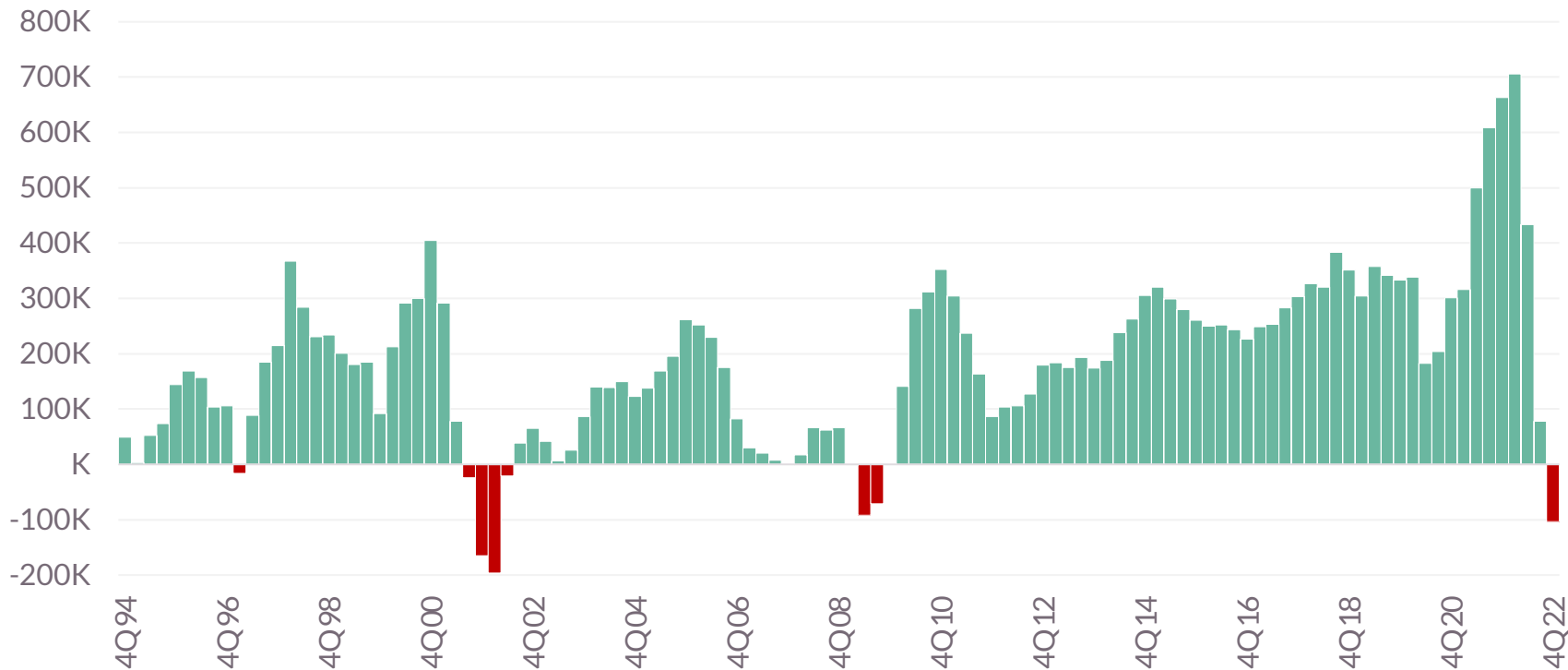
Presented by:

Jay Parsons – SVP, Head of Economics & Industry Principals



Apartment absorption turned negative in 2022 for the first time since the Great Recession

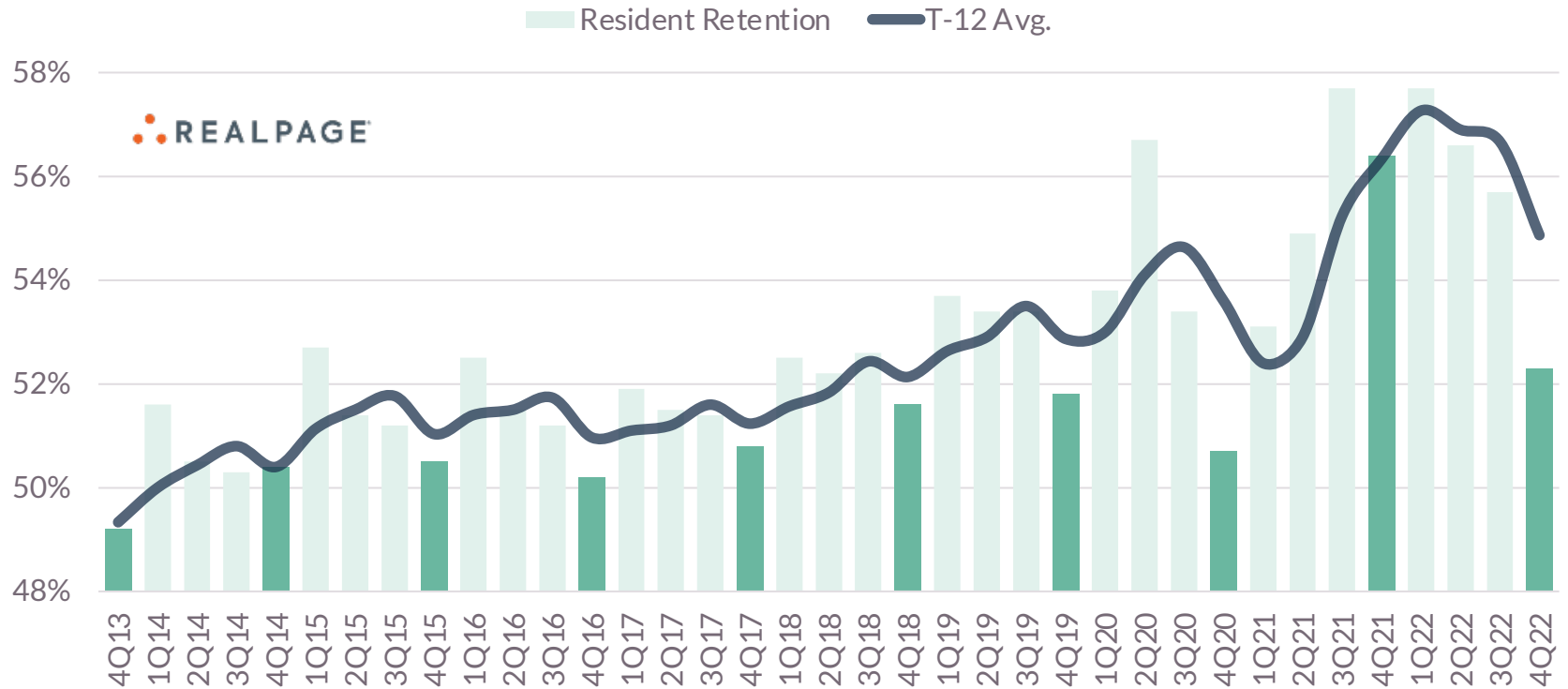
U.S. T-12 Net Apartment Absorption



Source: RealPage Market Analytics

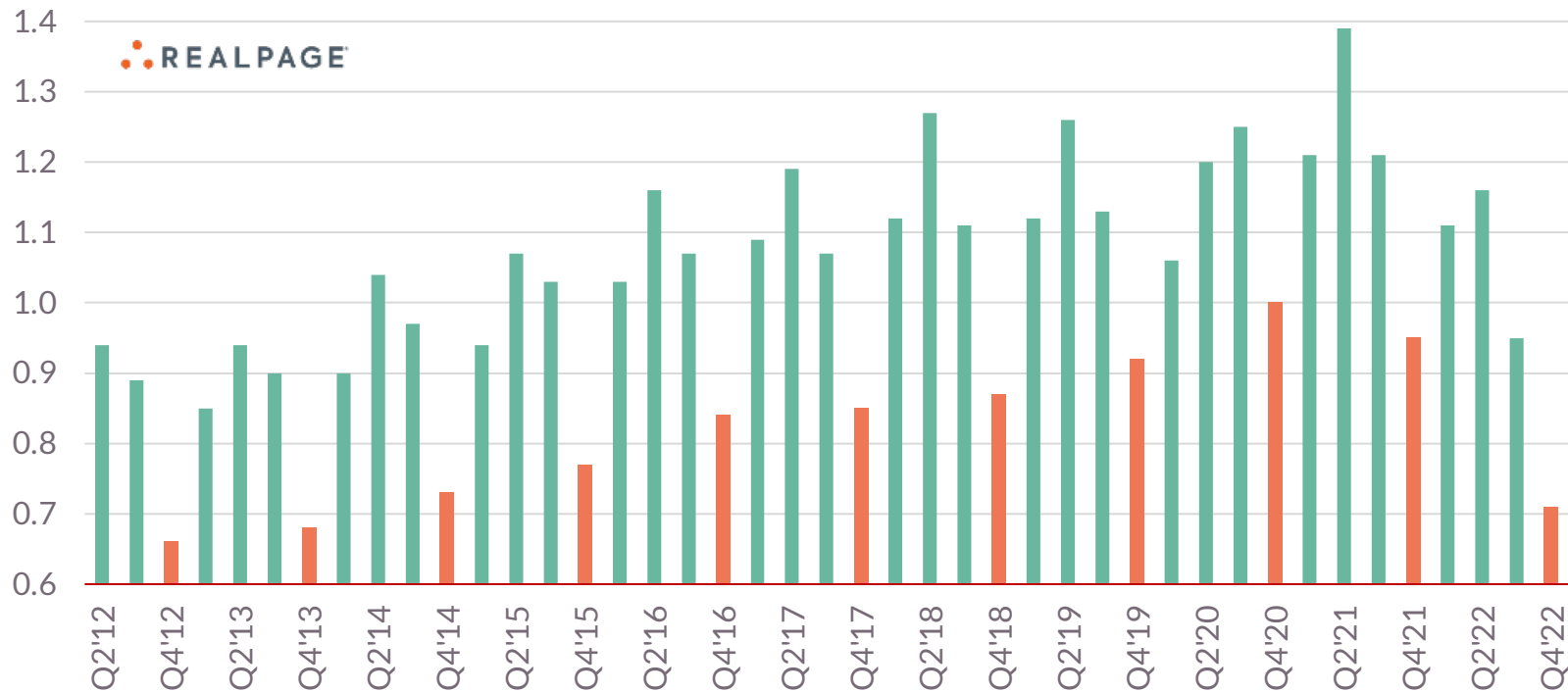
It's not the back door: Retention (while normalizing) remains high

U.S. Resident Retention (% of Expiring Leases Renewed)



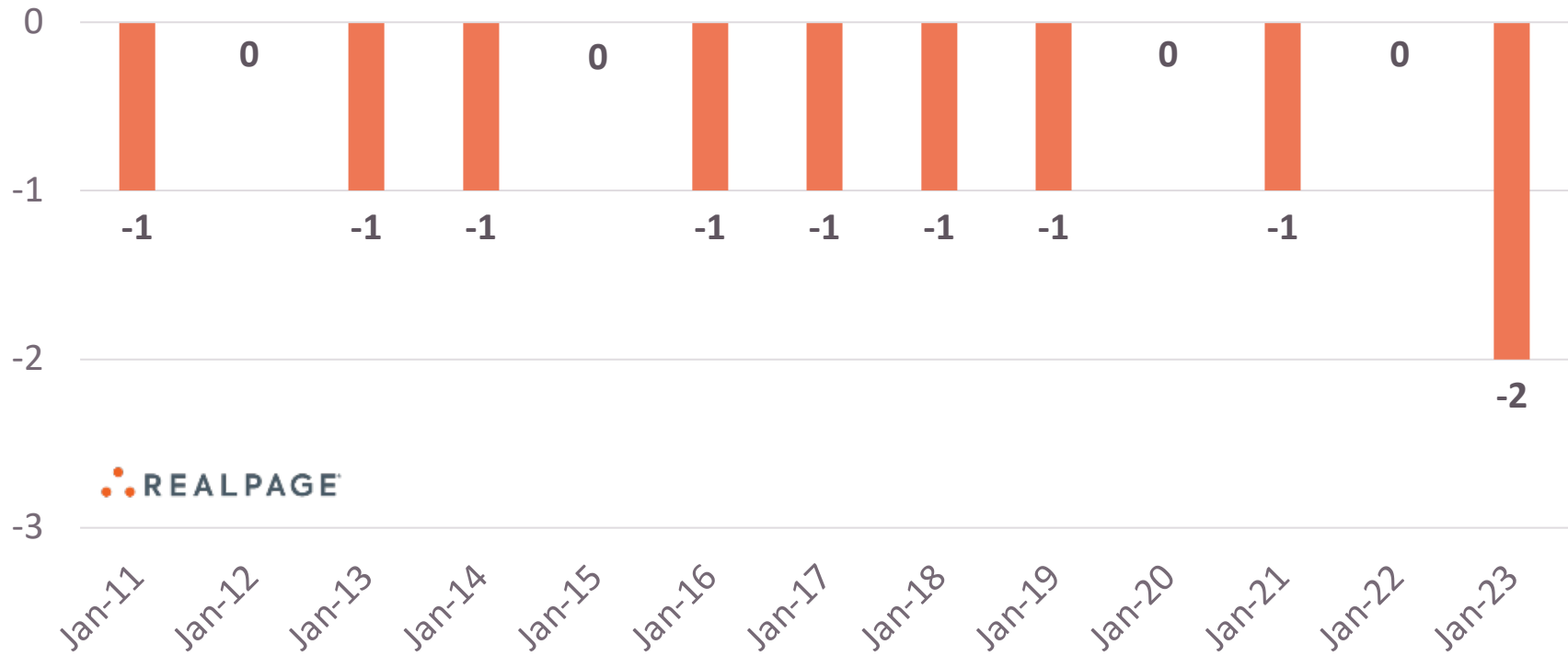
It's the front door: Apartment leasing traffic plunges to lowest volumes in a decade

Leads/Guest Cards Created (Per Unit) by Quarter



Leasing Momentum Accelerated More than Normal Between Dec to Jan

Change in Average Number of Days Vacant, December to January, by Year



Source: RealPage Market Analytics

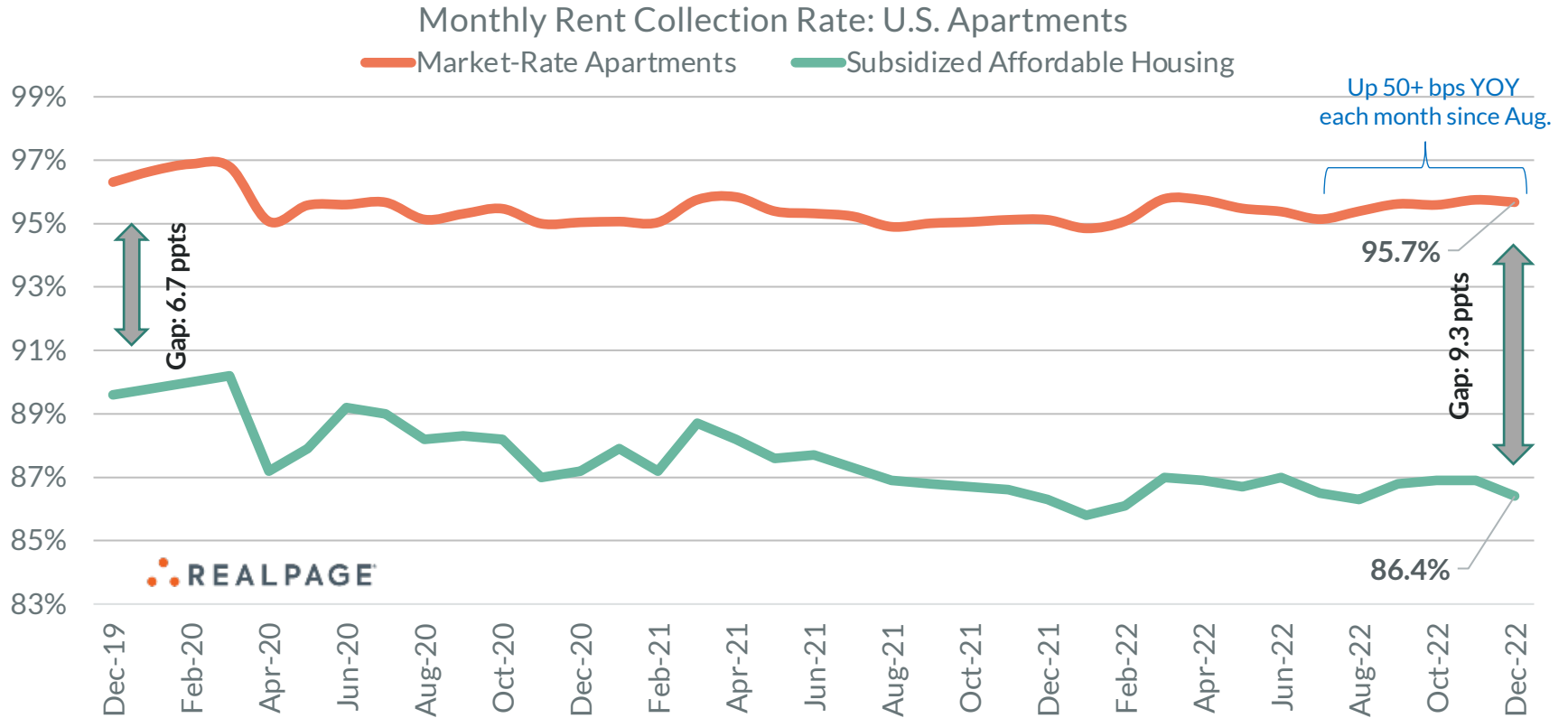
Renter Retention Returns to Normal in January 2023 after Last Year's Spike

Share of U.S. Apartment Renters Renewing a Lease Expiring in January, by Year

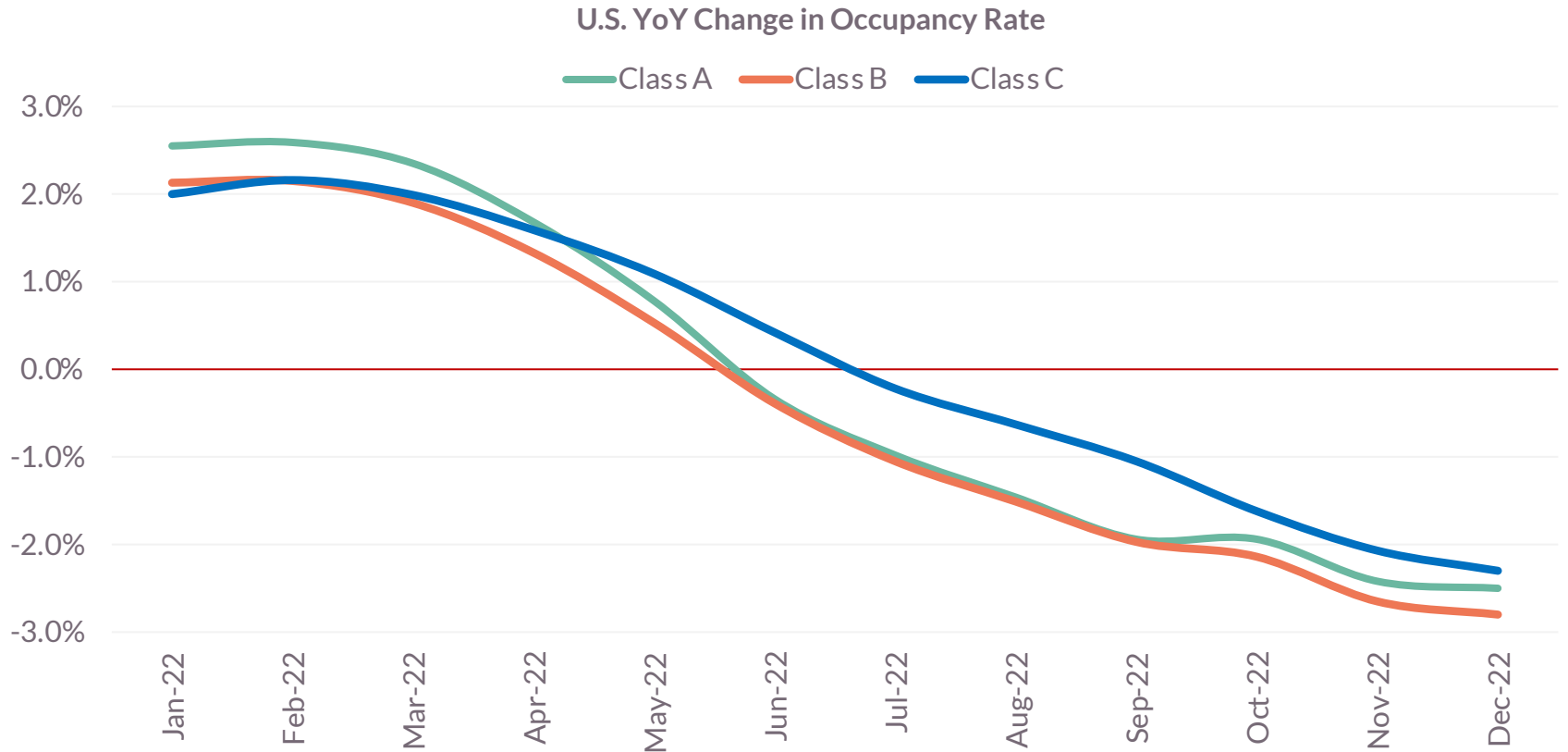


Source: RealPage Market Analytics

Market-rate renters continue to pay rent steadily, while Affordable lags



Declining occupancy across all product types in 2022, which suggests there is no “flight to affordability” thus far



Source: RealPage Market Analytics

Are residents doubling up? Not according to the REIT earnings transcripts...

*“We're not seeing any kind of doubling up. Our average occupant per unit is the same, whether you're looking at efficiencies, one-bedrooms, two-bedrooms, three-bedrooms. So **we're not seeing [a] phenomenon of people trying to double up** or anything like that.”*

- [Tim Argo, Chief Strategy & Analysis Officer, Mid-America](#)

*... we see cash collections in the month continuing to improve even here in October. Cash collections are looking better. **You are not seeing doubling up**. So, overall, really not seeing those cracks.*

- [Joe Fisher, President & CFO - UDR](#)

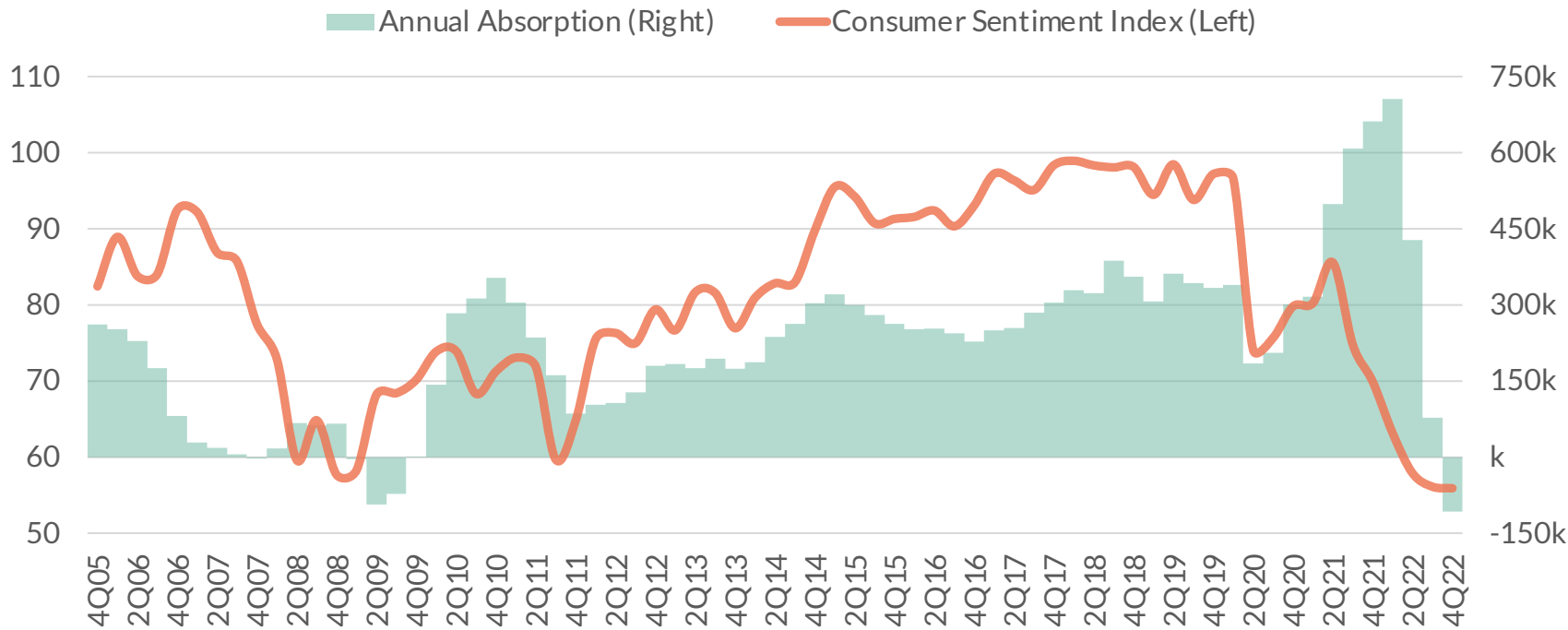
Q: “Are you seeing any behavioral trends, doubling up, roommates...”

A: “**No [doubling up] at this point**. The trend [through COVID] was the **fewer number of adults per household**. We're not seeing... elements that related to people feeling pinched”.

- [Sean Breslin, COO AvalonBay](#)

Consumer sentiment has a tangible impact on new household formation, weakening demand for all types of housing (including apartments)

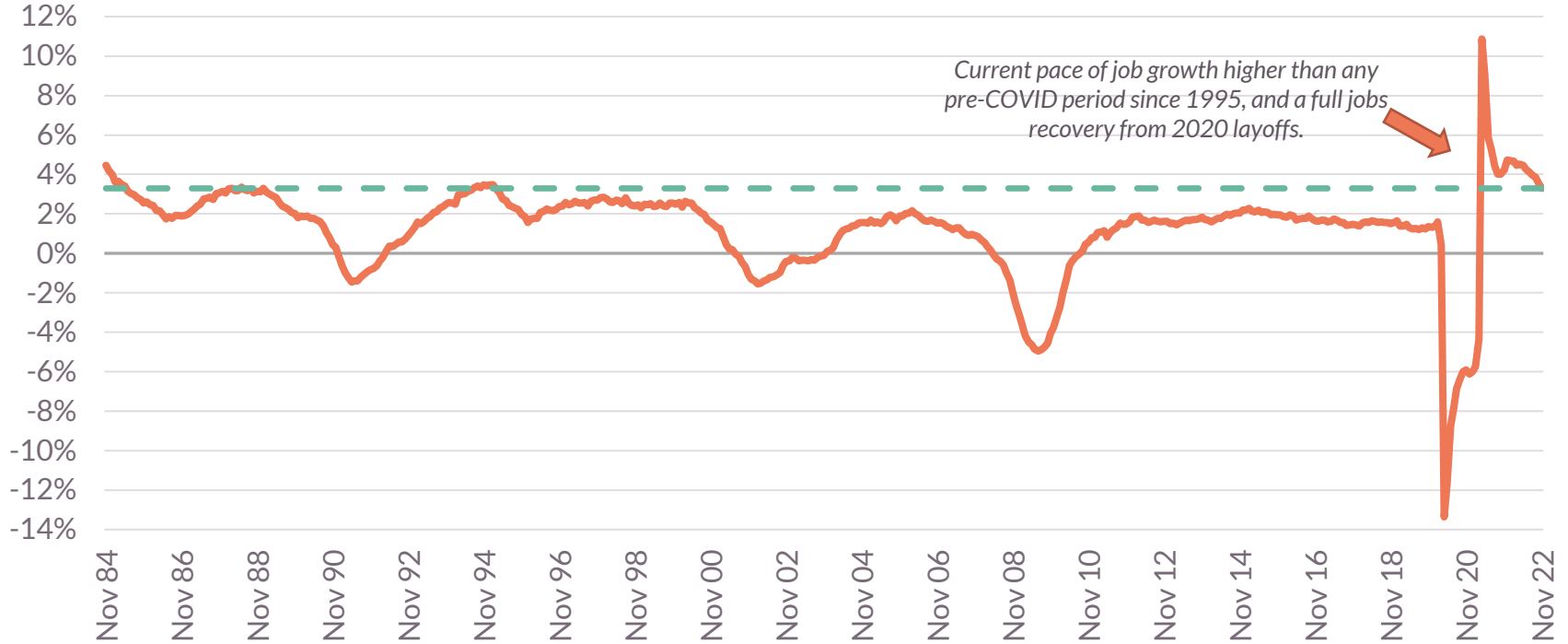
Apartment Absorption vs. Consumer Sentiment



Source: RealPage Market Analytics, U Michigan Consumer Sentiment Index, St. Louis FRED

Housing demand slowed in 2022 despite typically strong indicators such as robust job growth & wage growth

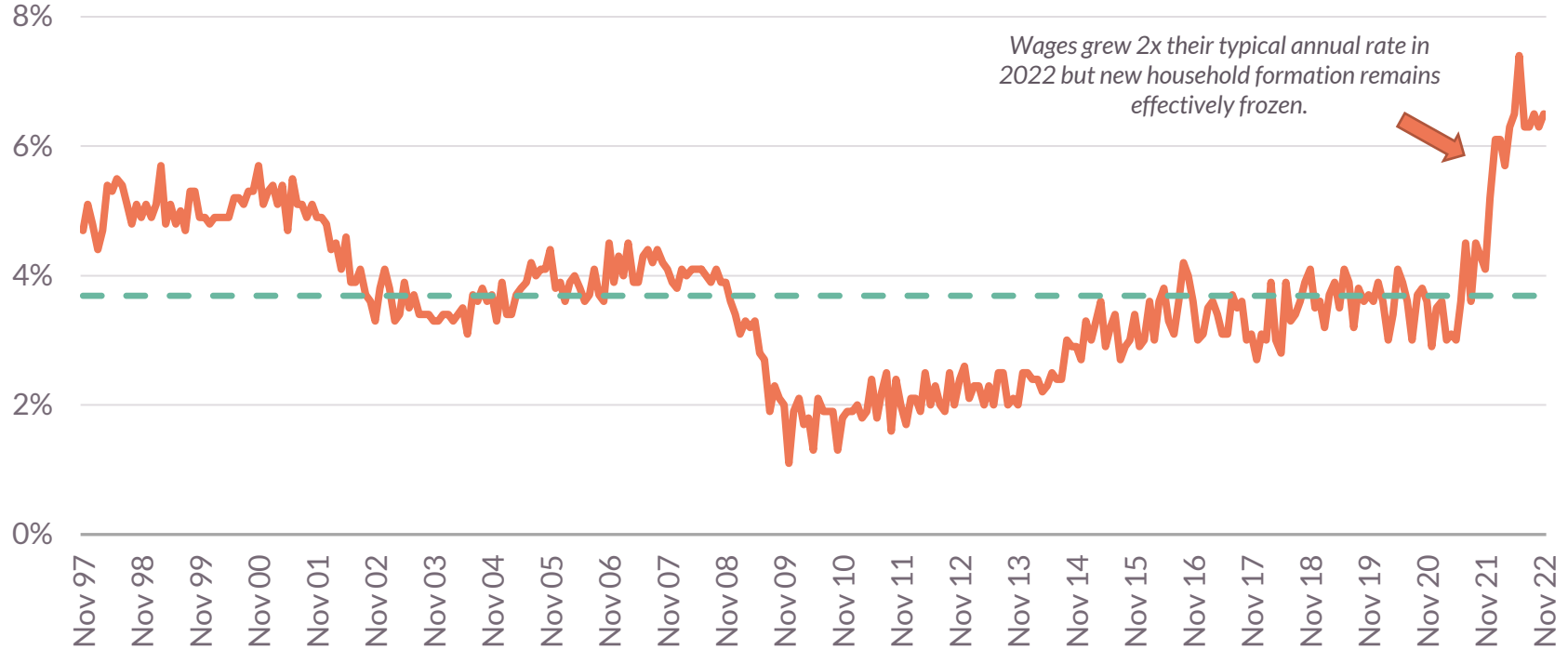
YoY Change in Nonfarm Employment



Sources: RealPage Market Analytics, BLS, FRED

Housing demand slowed in 2022 despite typically strong indicators such as robust job growth & wage growth

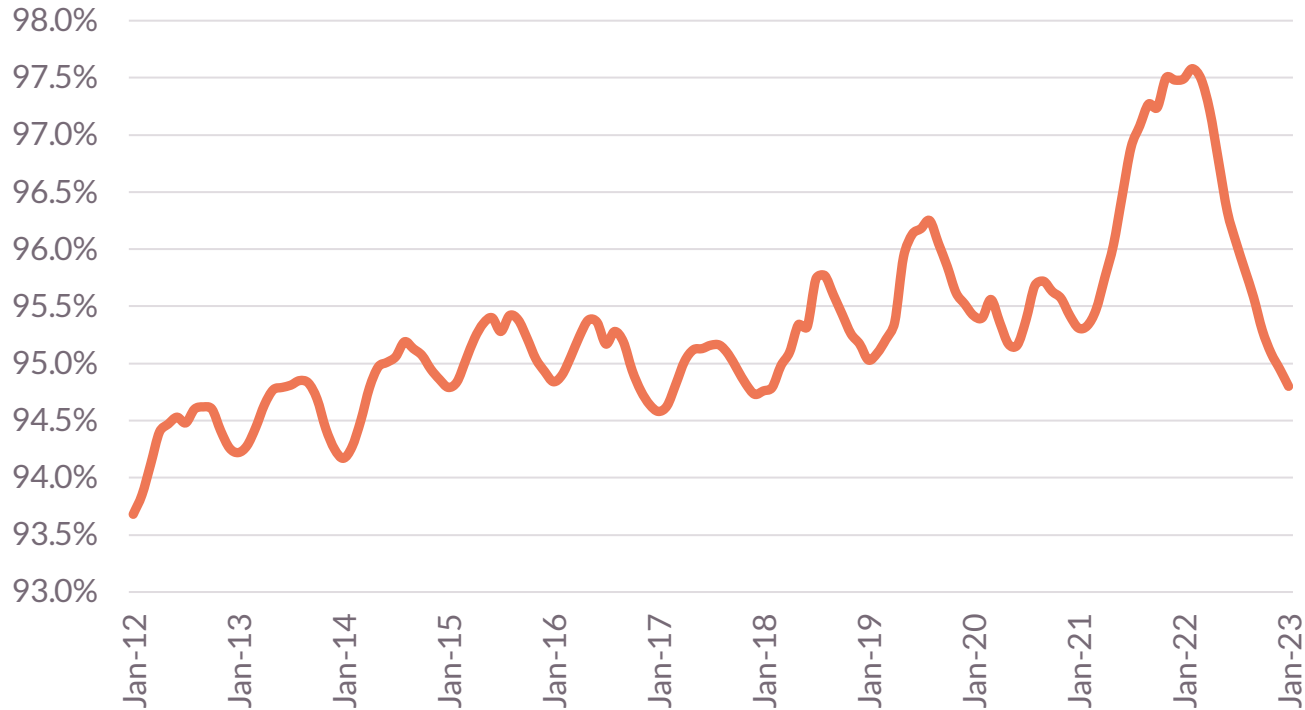
YoY Change in Employee Wages



Wages grew 2x their typical annual rate in 2022 but new household formation remains effectively frozen.

Occupancy sits around 95% nationally, the lowest rate since early 2019

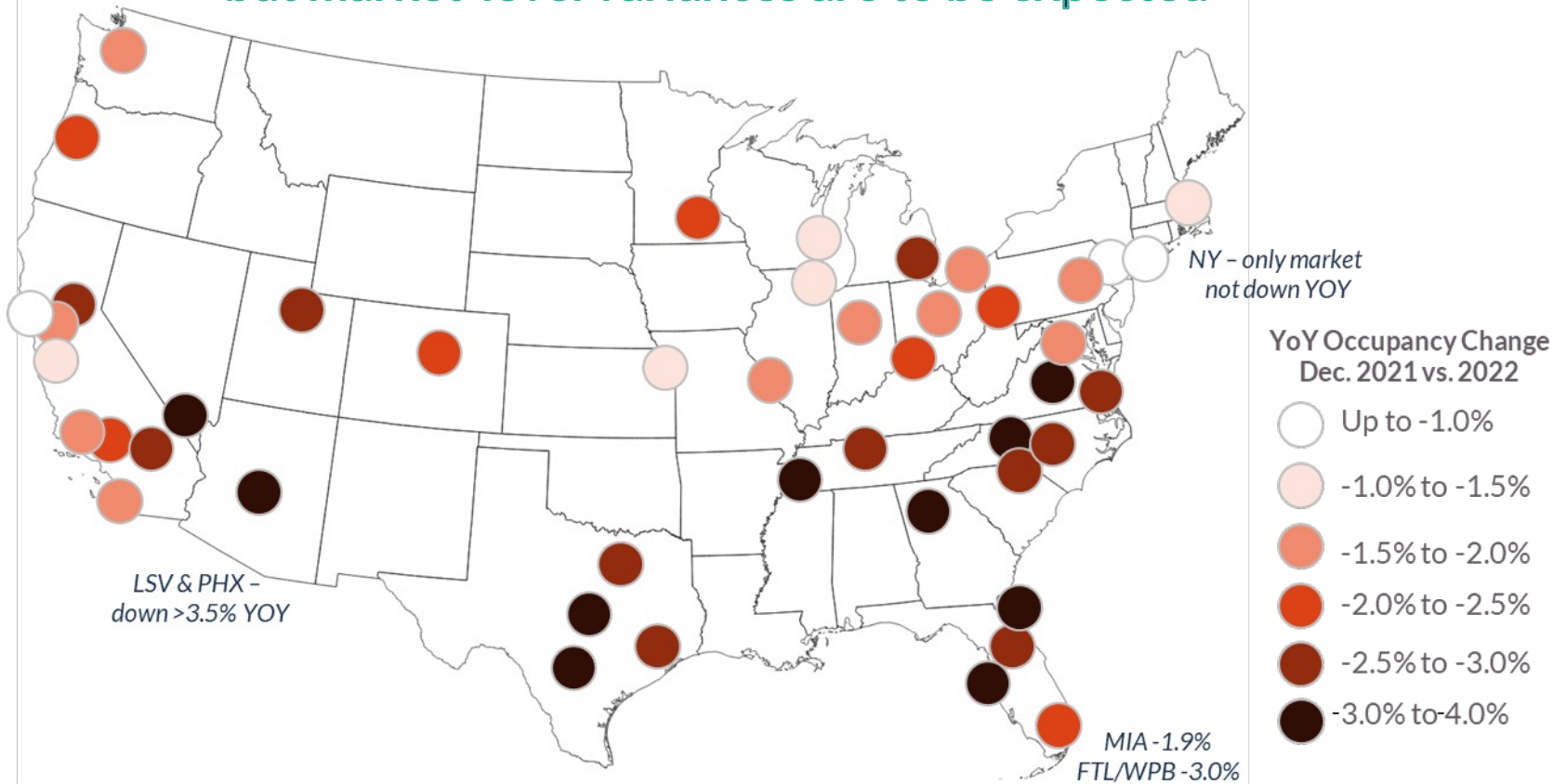
National: Occupancy Rate (Survey)



Share of Markets >97% Occupancy	
Feb 2022	78%
Dec 2022	24%

Share of Markets <94% Occupancy	
Feb 2022	4%
Dec 2022	20%

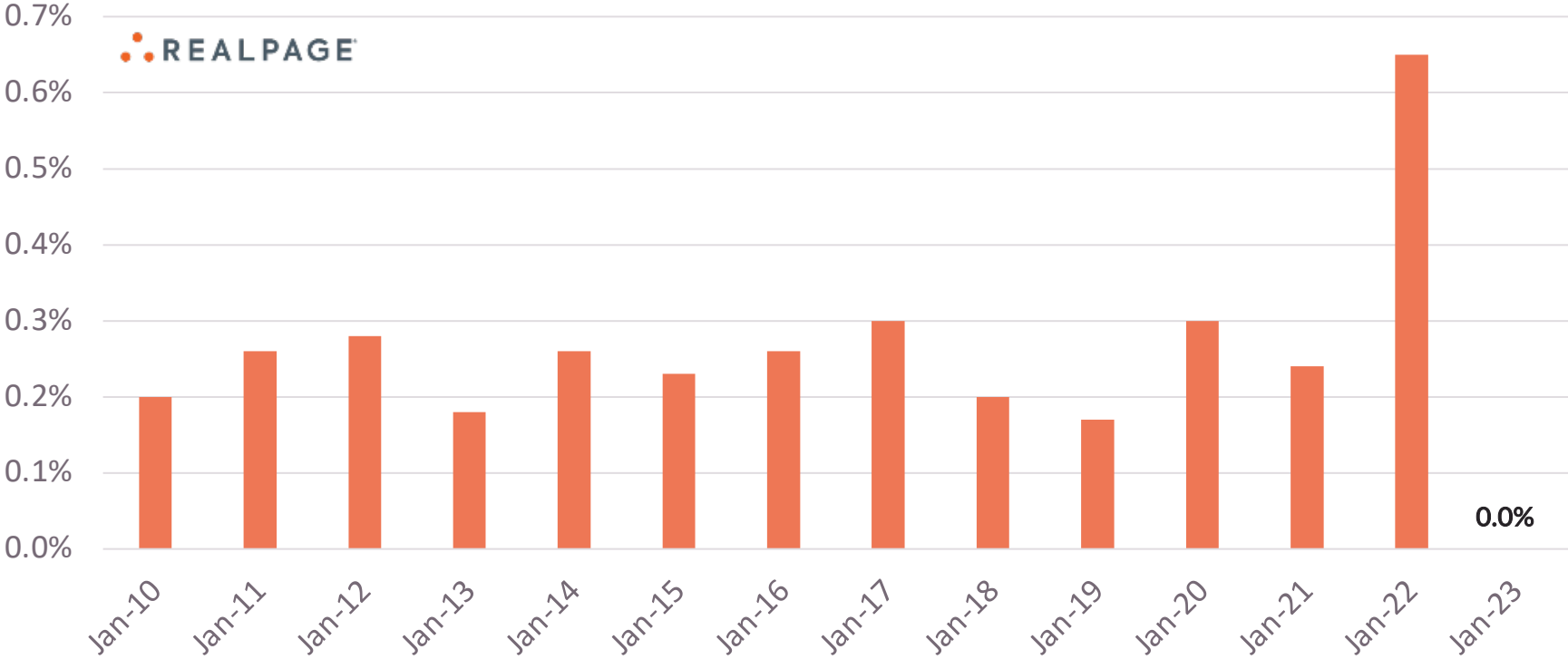
U.S. occupancy rates have declined sharply in the wake of slowing traffic, but market-level variances are to be expected



Source: RealPage Market Analytics

For the First Time in 10+ Years, Rents Do Not Increase in Month of January

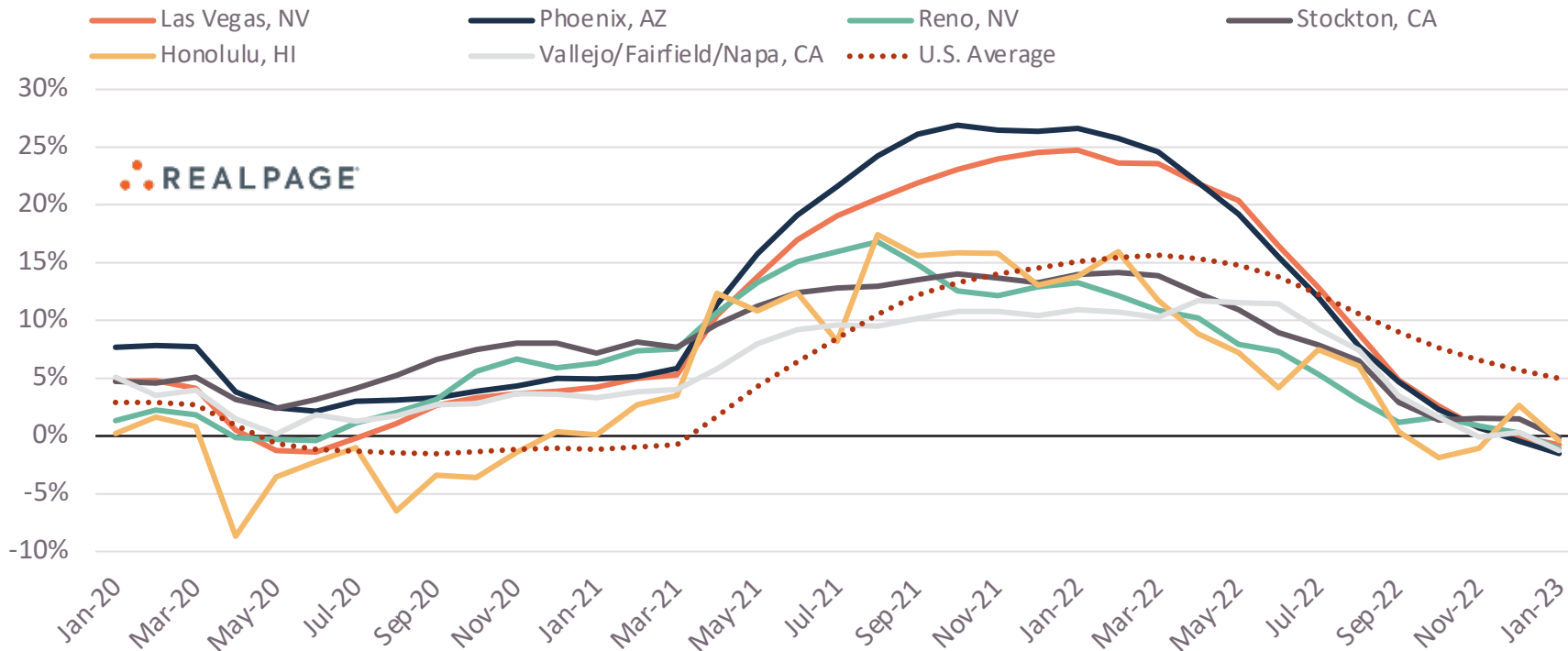
January vs. December Change in Effective Asking Rents, U.S. Market-Rate Apartments



Source: RealPage Market Analytics

Six U.S. Markets Showing YoY Rent Declines, and the List is Likely to Grow

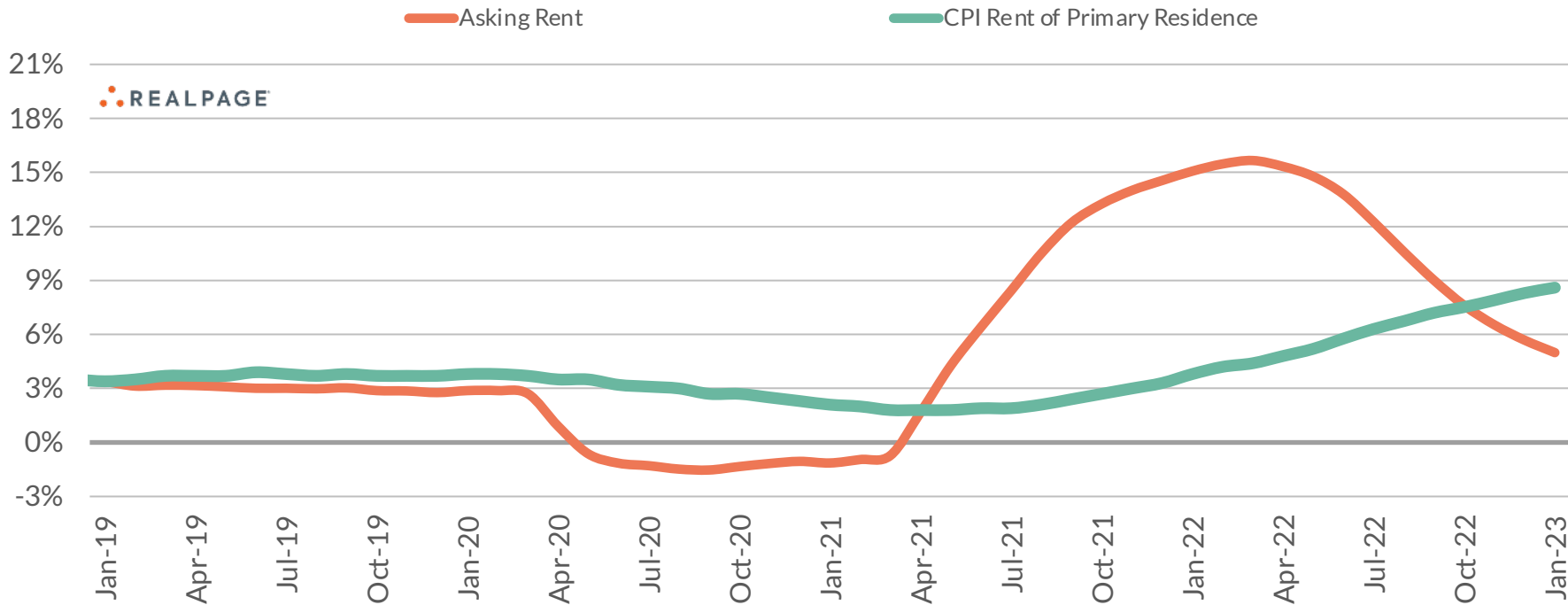
YoY Change in Effective Asking Rents (New Leases Only), Market-Rate Apartments



Source: RealPage Market Analytics

Rents are cooling by every measure, except the government's official one

Comparing Different Measures for Market-Rate Apartment Rent (RealPage) vs. CPI Rent (BLS)

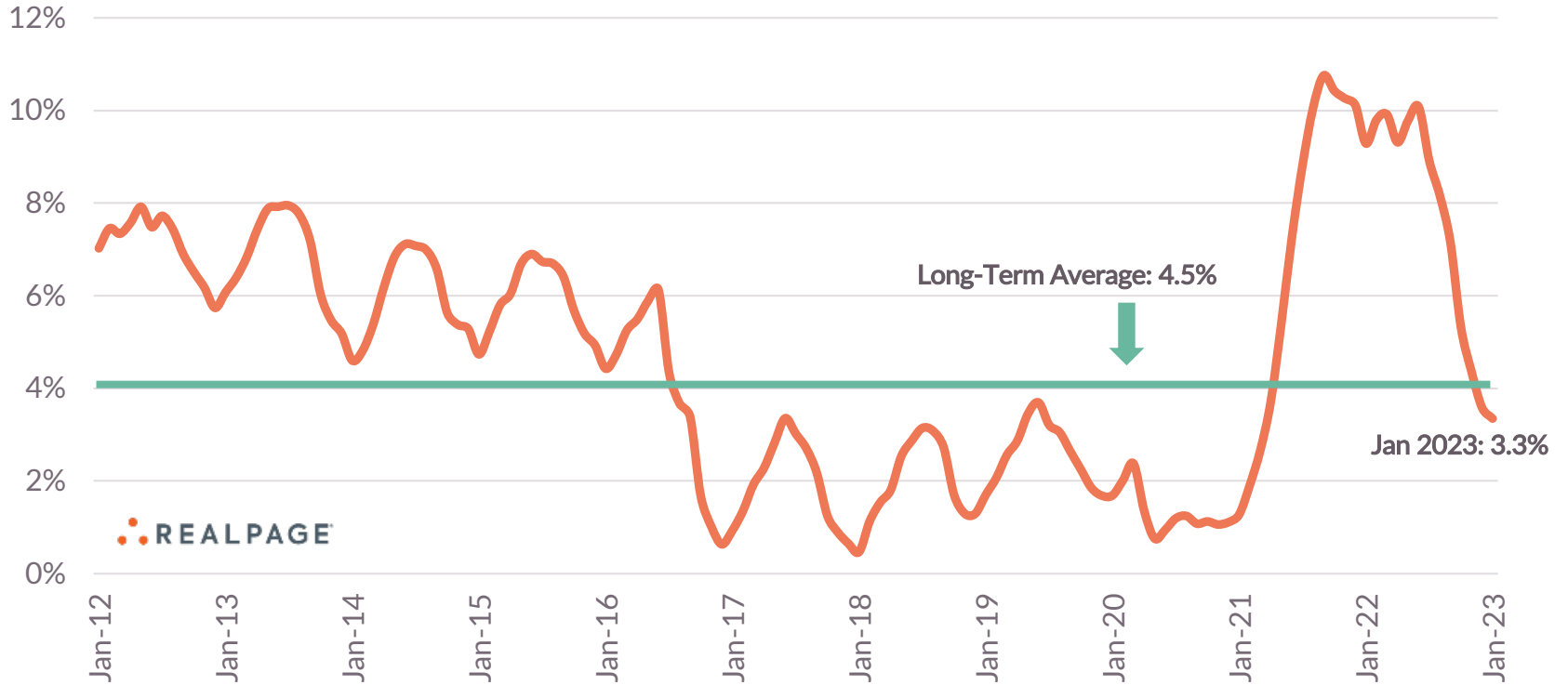


Note: RealPage data covers only market-rate, professionally managed apartments and therefore not a proxy for all rental housing.

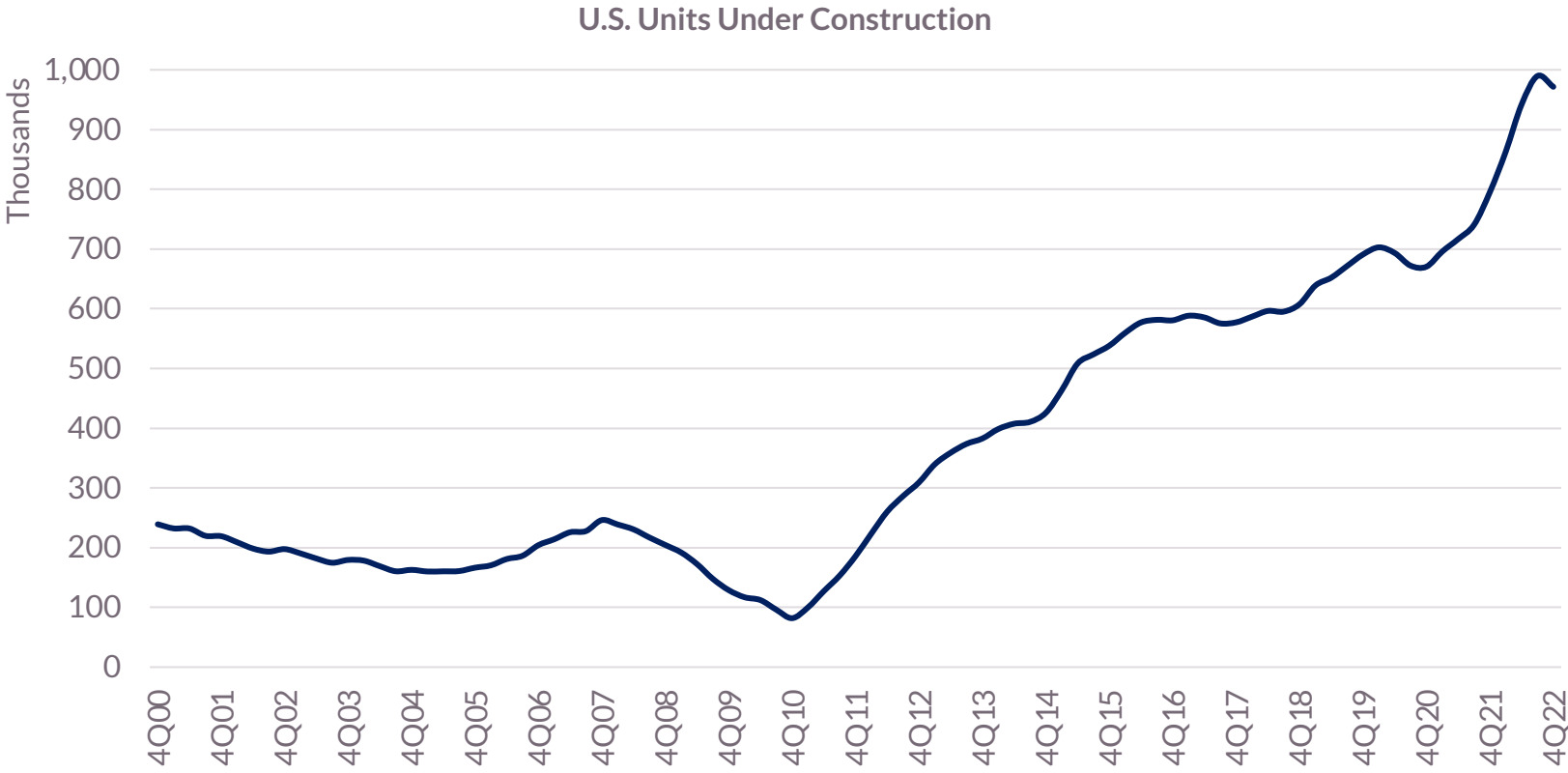
Sources: RealPage Market Analytics (Rent Data); Bureau of Labor Statistics (CPI Data)

Plunging Loss-to-Lease Suggests Renewal Rents Will Cool Off Fast

U.S. Estimated Loss-to-Lease (Premium for New-Lease Rent vs. In-Place Rent)

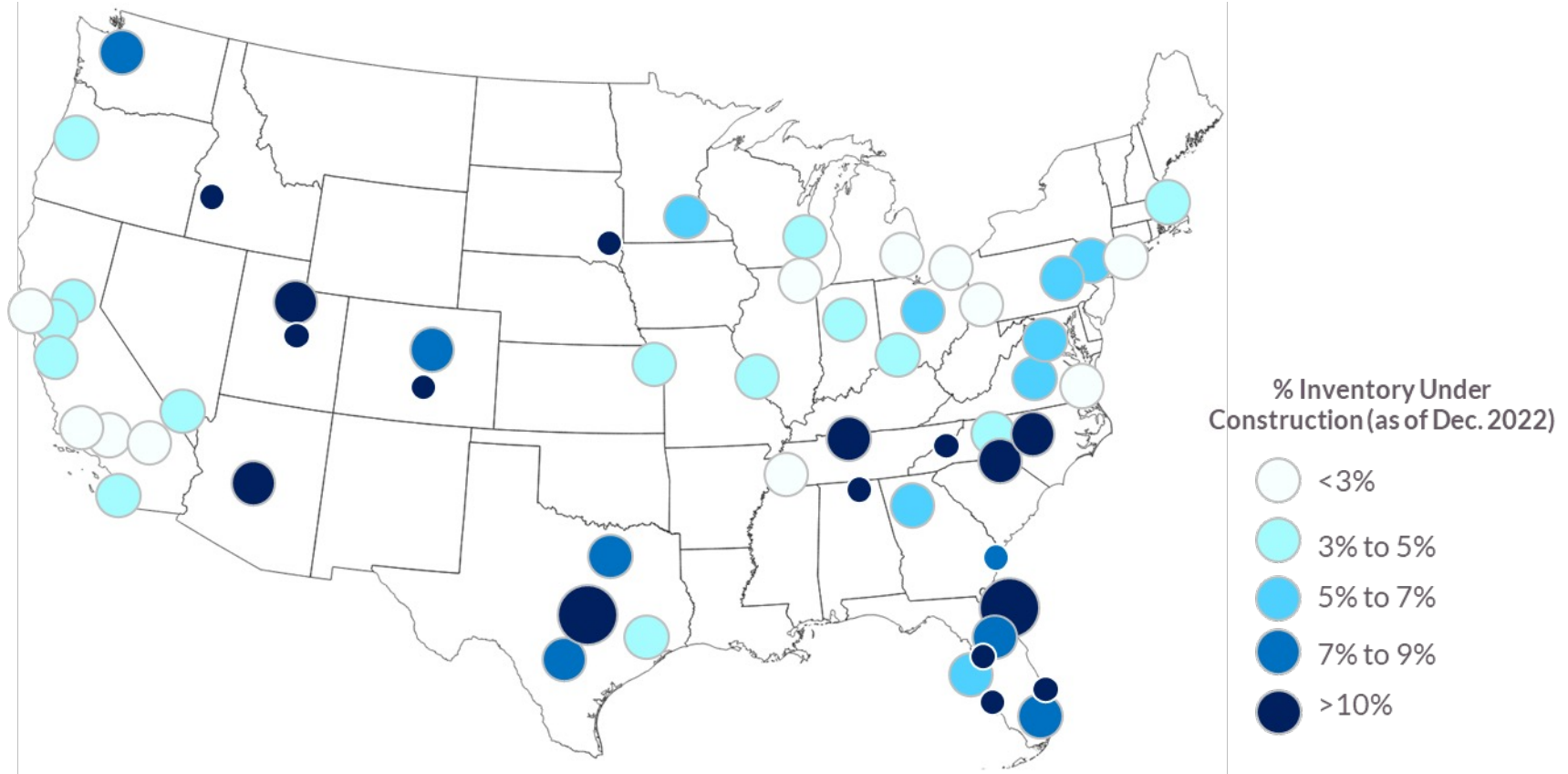


More than 970K units are underway national, the highest level in four decades



Source: RealPage Market Analytics

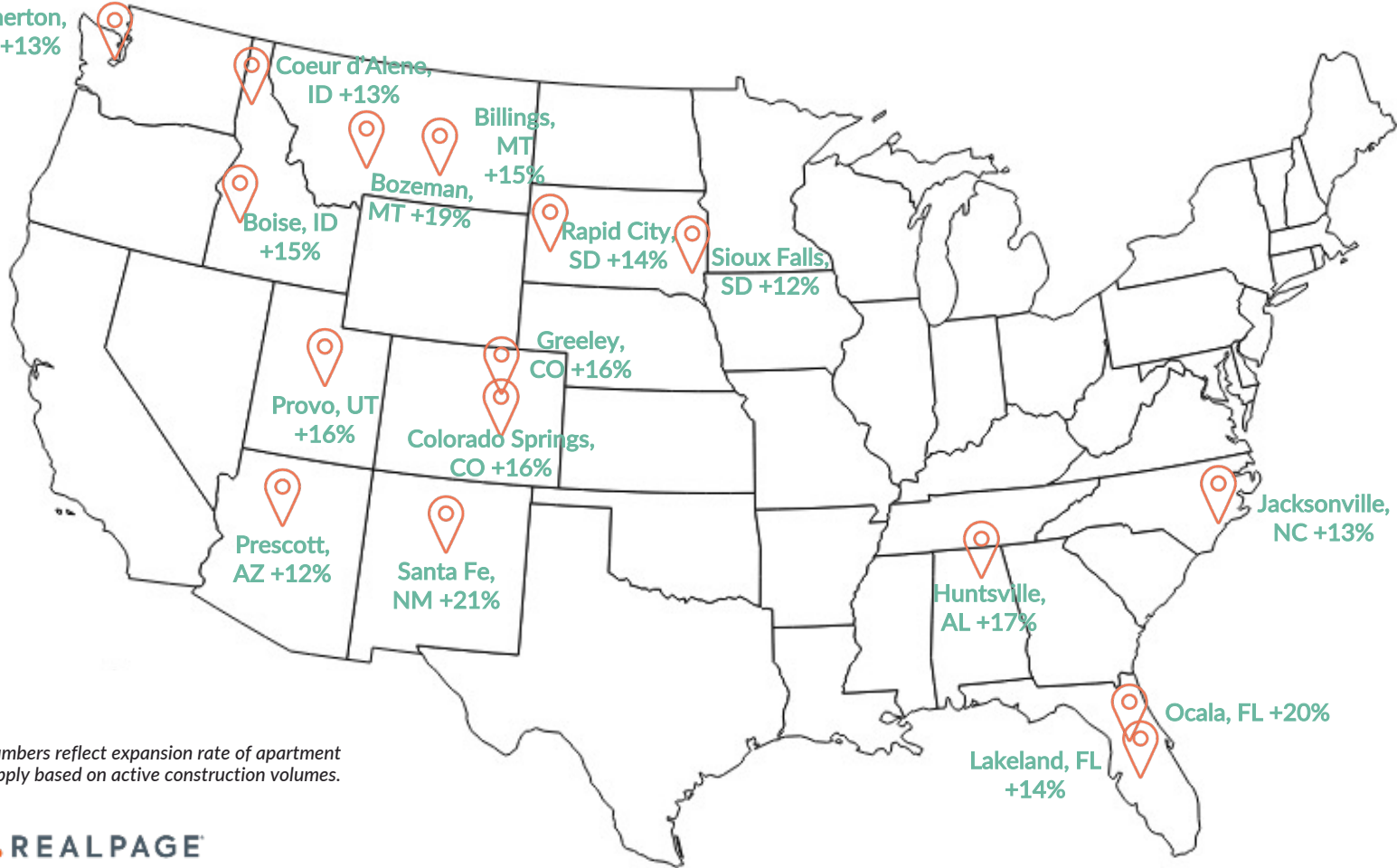
Construction is significant across many major metros, but none more so than Austin, Nashville, and Charlotte with about 15% of inventory underway



Source: RealPage Market Analytics

Small Markets, Big Apartment Supply

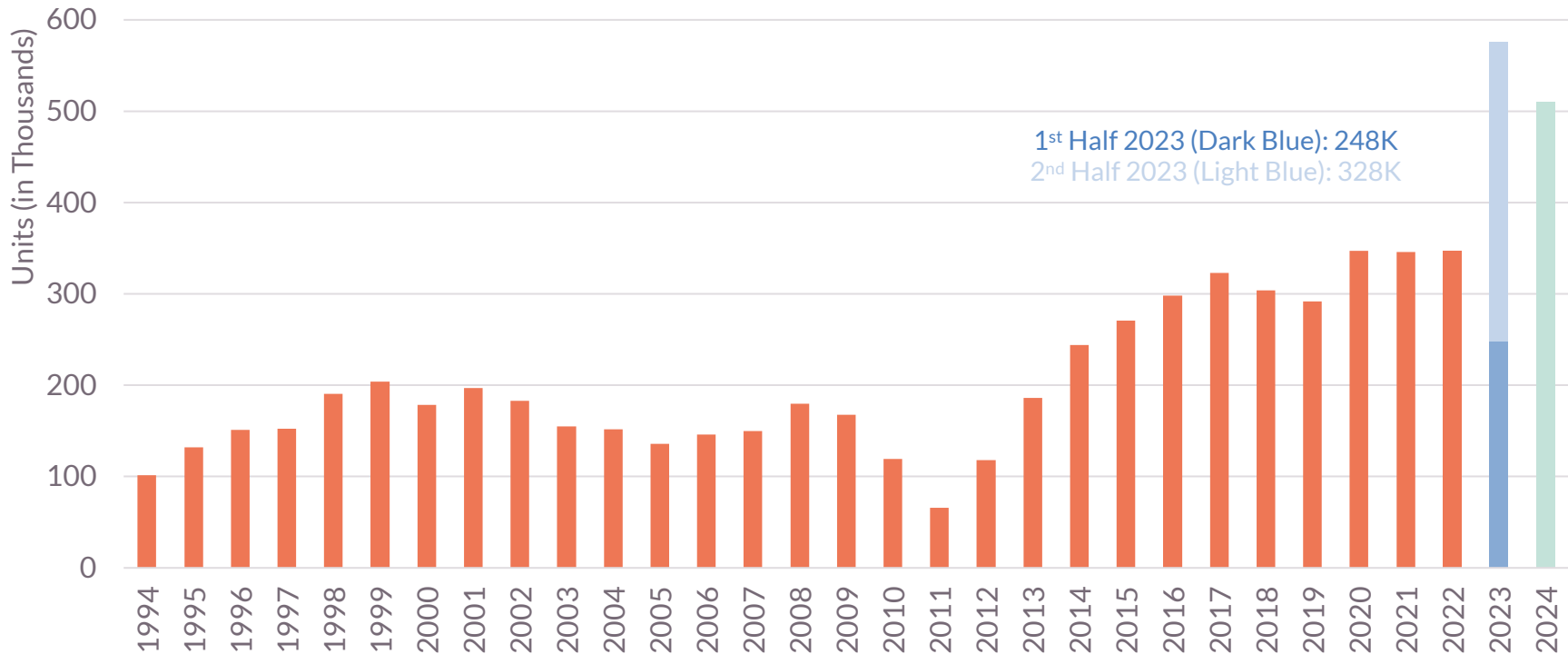
Bremerton,
WA +13%



Numbers reflect expansion rate of apartment supply based on active construction volumes.

New apartment supply is scheduled to surge in 2023/2024, peaking around 600k new deliveries (or 3% inventory expansion)

U.S. Market-Rate Apartment Completions by Calendar Year (with Forecast)






Urban markets to monitor for near-term supply pressure



Source: RealPage Market Analytics

Urban Core Seattle Apartment Construction Map

Included in this map view:

-  13.8K units under construction or in lease-up
-  37.9K stabilized apartment units
-  3 properties with more than 1,000 apiece

36% of all existing stock
is currently being developed or in lease-up

Source: RealPage Market Analytics



Goodyear/Avondale (Phoenix) Apartment Construction Map

Included in this map view:

 17K units under construction or in lease-up

 31K stabilized apartment units

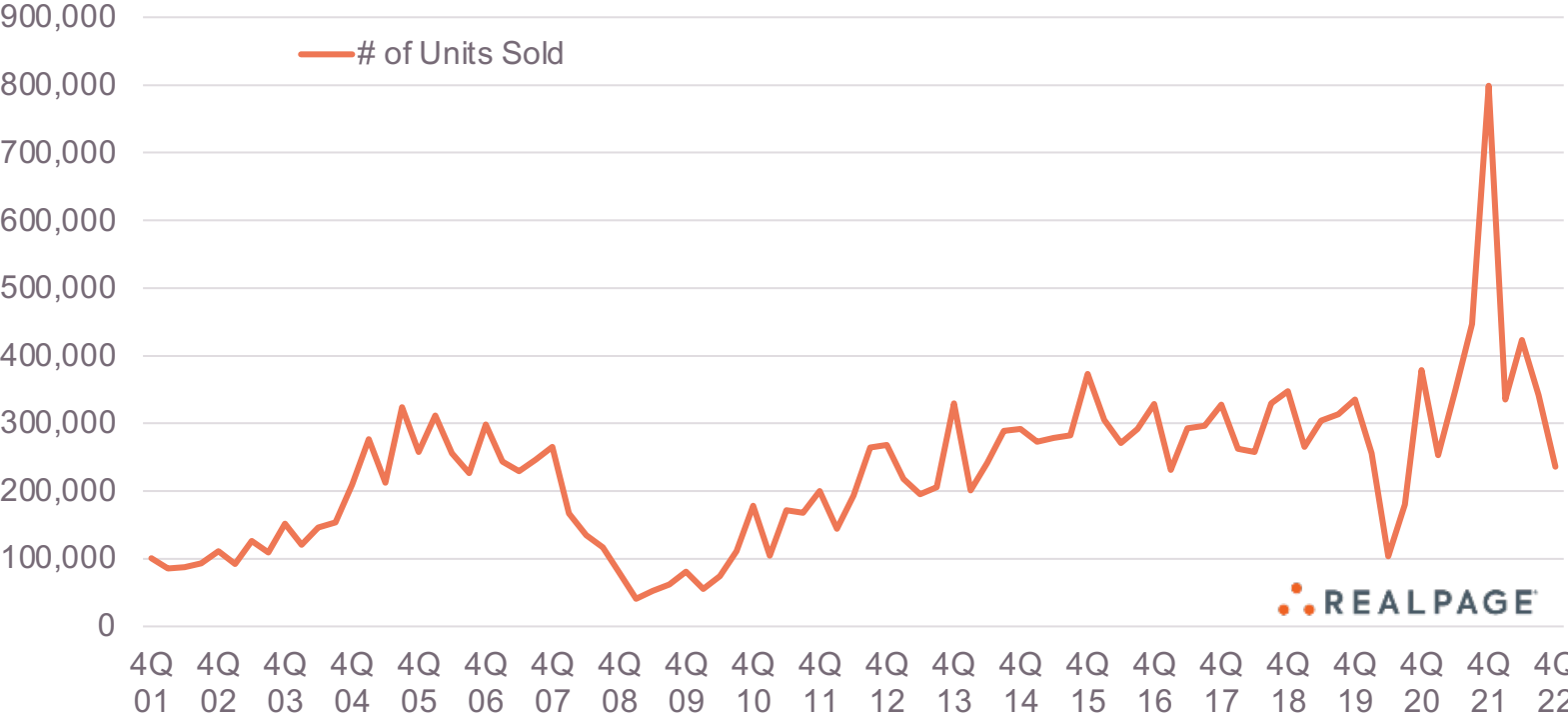
55% of all existing stock
is currently being developed or in lease-up

Source: RealPage Market Analytics



Apartment Sales Transactions Should Slow in 2023 after Big 2021-22

U.S. Apartment Sales by Quarter



Sources: RealPage Market Analytics, MSCI Real Capital Analytics

- Look for leasing traffic to improve over 2022's weak levels
- But watch the back door: Turnover will likely accelerate in 2023
- Rent movements can be volatile, and highly dependent on location/class
- Lease-ups will face significant competition, especially in/near downtowns
- Expense control is becoming major focus in 2023, including utilities
- Property trades will likely slow down, but watch for potential distress