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Residential Market Update

Spring 2024



Overview of the U.S. Housing Market



Home prices grew 43% between 2019 and 2022 vs. income growth of 7%.



Mortgage rates have doubled since 2020.



Affordable home listings⁽¹⁾ down 75% since 2013.

The housing market is fundamentally strong, but sentiment varies drastically depending on your seat at the table.

Longstanding homeowners are reaping the benefit of price appreciation, whereas millennials are struggling to buy their first home. Institutional investors are finding it difficult to pencil housing deals regardless of sector in the current rate environment, and those who invested at the multifamily market peak are struggling with unsustainable capital structures.

The combination of home prices outpacing income growth and elevated mortgage rates has caused homeownership affordability to reach its lowest levels since 1984. Many Americans simply cannot afford to buy homes—the American Dream is increasingly unrealistic. Younger generations are renting longer, and many believe the prospect of homeownership is unattainable altogether.

Renters currently make up 34% of the occupied housing units. This percentage is expected to grow as millennials delay homeownership decisions and the cost of owning a home continues to rise.

Affordability is constrained by a fundamental undersupply of housing.

In the post-GFC era, apartment construction per capita has nearly recovered to pre-GFC levels, whereas single-family construction per capita stands at half of the 2000s' population-adjusted level.



Overall Undersupply Of Housing

Conservative estimates of the U.S. housing supply shortage are around 2.5 million units.



Declining Construction Permits

Permits for housing development decreased across 70% of U.S. metros in 2023.

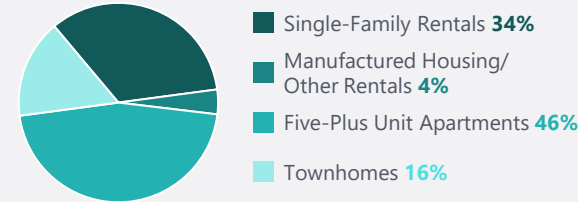


Existing Inventory at Historic Low

Existing home sales reached a near 30-year low in 2023 as the spread between existing mortgages and rates on new loans reached 3.2%.

U.S. Housing Supply—130 Million Occupied Housing Units

Renters: 44M Units



Single-Family Rentals: 15M Units



Five-Plus Unit Apartments: 20M Units

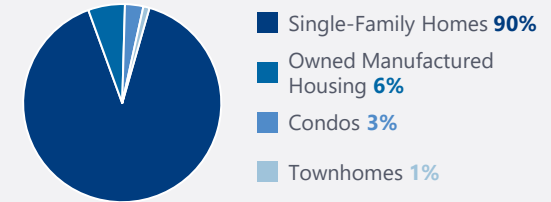


Manufactured Housing/Other Rentals: 2M Units



Attached Townhomes: 7M Units

Owners: 86M Units



Single-Family Homes: 77M Units



Condos: 3M Units



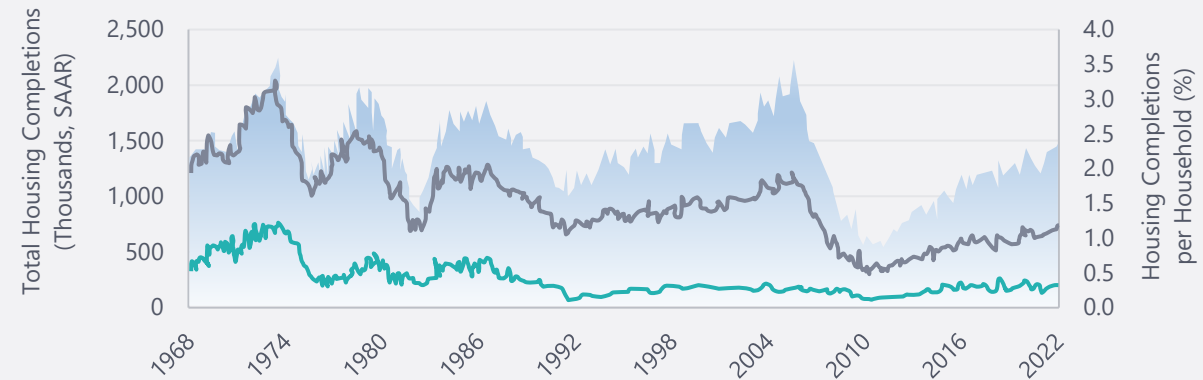
Owned Manufactured Housing: 5M Units



Townhomes: 1M Units

Structural Undersupply of Housing

Completions — Completions per HH — Five-Plus Unit Completions per HH



Sources: AvenueOne, Institutional RE Americas, FRED, FHFA, Green Street, Harvard JCHS, John Burns Research & Consulting, NAR, Point2 Housing Construction Report, Realtor.com, RedFin, U.S. Census.

(1) A home listing is considered affordable if the estimated monthly mortgage payment is no more than 30% of MHI.

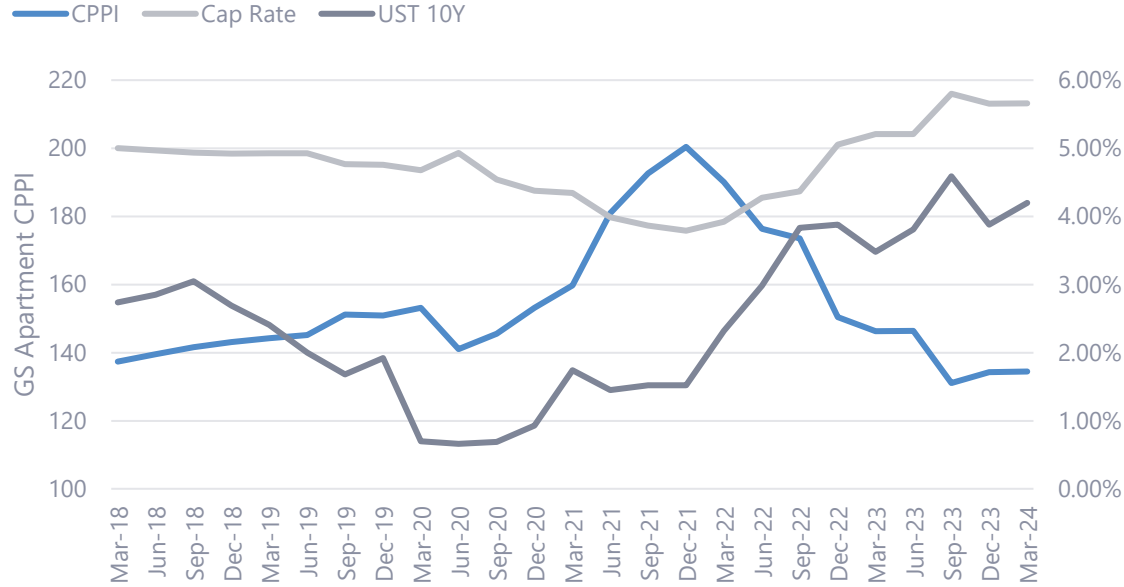
Key Themes in the U.S. Housing Market and Across Asset Classes

The U.S. housing market encompasses traditional single-family homes and apartments as well as niche asset classes such as student and seniors housing.

| | | | | | | |
|---|------------------------------------|---|--|--|--|--|
| 1 | Multi-Family |  | New deliveries reach an all-time high in 2023/ expected in 2024+, leading to higher vacancies. | Rising inflation and increased operating expenses. | Capital market dislocation, negative leverage, and low transaction volumes. | Upcoming loan maturities and owners under distress. |
| 2 | Single-Family Rental/Build-to-Rent |  | Resilient home prices despite two-decade-high mortgage rates. | Limited for-sale inventory and elevated cost of homeownership forcing would-be owners to rent. | Low yields and regulatory risk slowing growth in institutional scattered site SFR ownership. | Build-to-rent homes have gained investor interest; however, certain platforms increasingly face challenges in scaling. |
| 3 | Student Housing |  | Lack of university-supplied housing to meet student demand. | Inelastic demand and recession resilient asset class. | Strong pre-leasing performance for the 2024–2025 academic year. | Anticipated enrollment declines. |
| 4 | Seniors Housing |  | Aging population. | Medical advancement and specialized facilities. | Revitalized demand and investor interest post-COVID-19. | Increased regulation. |

Multi-Family

Multi-Family Property Value, Cap Rate, and 10-Year Treasury Trends

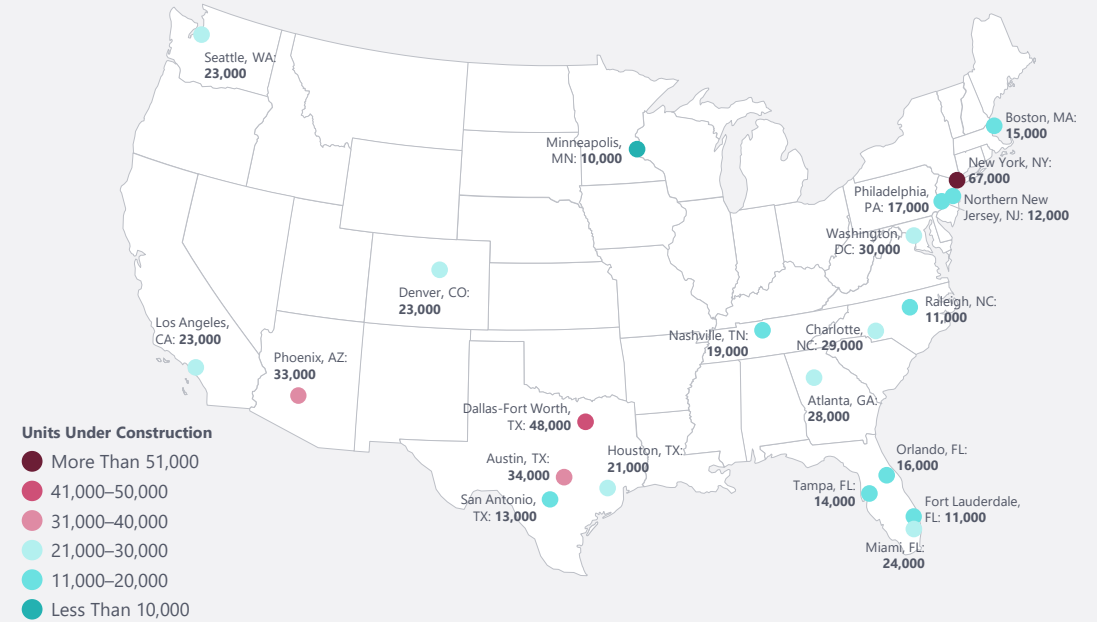


Multi-family property values peaked in Q1 2022 up 36% versus Q1 2020, driven by robust rent growth, low-interest rates, and strong demand. As of Q1 2024, multi-family property values have fallen 28% since the peak.

Current State of the Multi-Family Sector

- Price discovery phase and dislocation within multi-family capital markets.
- Despite expanding cap rates, negative leverage is prevalent, resulting from higher costs of debt, slowing rent growth, and increased operating expenses
- Over-levered investors who bought during the peak are distressed.
- Transaction volume remains muted, and the bid-ask spread has proven resilient due to worsening investor confidence in 2024 rate cuts.

Multi-Family Development—Markets With 10,000+ Units Under Construction



Apartment deliveries reached a 36-year high, with 440,000 units completed in 2023. This wave of new supply has been at the center of multi-family discussions, but not all markets, submarkets, and property subtypes are created equal.

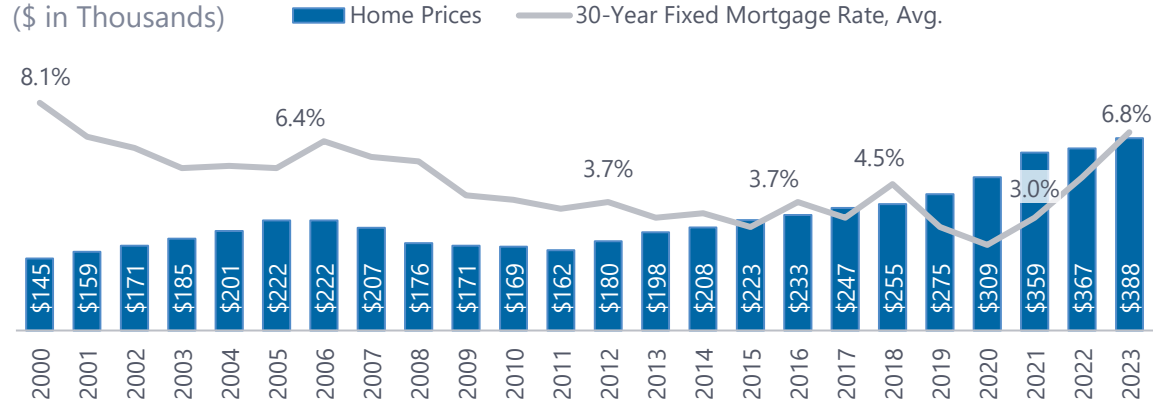
- New supply in the Sun Belt is up 60% since 2019, whereas the Midwest and Northeast are only up 8%.
- Low- and middle-income neighborhoods aren't seeing as much supply as wealthier areas.
- Top-end, Class A buildings face the most competition from these new deliveries.
- Oversupply is a short-term concern, not a long-term issue; construction permits have dropped back to pre-COVID-19 levels, signaling lower supply in the years to come.

Transaction Activity

| Target/Seller | Acquirer/Buyer | Size (Billions) | Description |
|-------------------------------|----------------|-----------------|----------------------------|
| Apartment Income REIT | Blackstone | \$10.0 | REIT Take-Private |
| 2024 YTD (as of May 2024) | Various | \$81.9 | Undisclosed Property Count |
| 2023 Total Transaction Volume | Various | \$85.2 | Undisclosed Property Count |

Single-Family Rental/Build-to-Rent

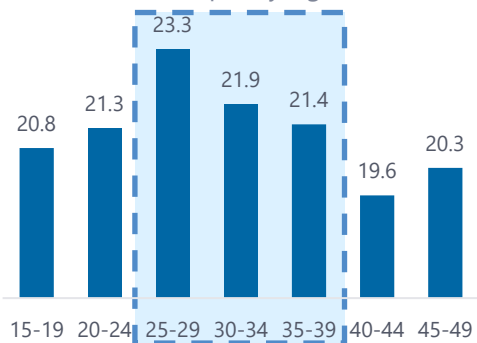
Median Home Prices Are at Record Highs Despite Increases in Interest Rates



- Rise in mortgage rates is keeping likely buyers in the rental market and limiting supply by reducing existing home sales (due to mortgage lock-in effect); positive impact on fundamentals.
- Retail home values remain buoyed by supply-demand imbalances, contributing to recent yield compression, and the perpetual housing shortage supports the long-term sector outlook.
- The SFR sector exhibits strong fundamentals; however, elevated interest rates have limited the number of deals that pencil from an investment perspective, and as the SFR product ages, meaningful capital expenditures may drag down returns from prior expectations.

Positive SFR Demographics

Millions of People by Age Cohort



- Compared to existing SFR households, new renters entering the sector are younger, less likely to have started a family, and earn an average of \$11,000 more per year.
- With homeownership remaining prohibitively expensive for many would-be buyers, SFR is positioned to absorb a sizeable portion of housing demand.

Investor Interest Shifted Away From Scattered-Site SFR Toward BTR



Chasing Higher Yields

Favorable BTR fundamentals, fast construction, and shorter move-in timelines translate to higher returns (relative to scattered-site).



Greater Operating Leverage

Contiguous communities managed like apartments allow BTR owners to achieve better operating margins compared to scattered-site owners.

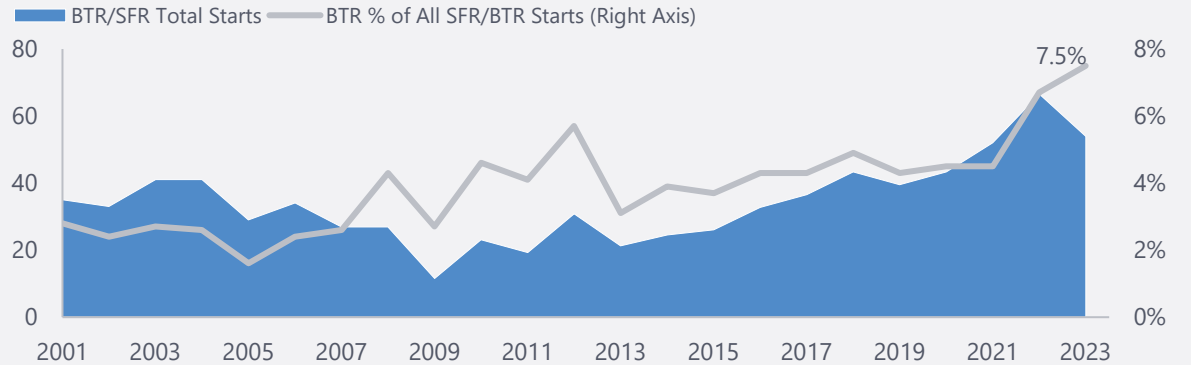


Newer Vintage Product

As an emerging asset class, the majority of BTR homes are recently built, more attractive to renters, and require less R&M capital expenditures.

BTR Starts as a Percentage of SFR and BTR Starts Are at Record Highs

Number of Homes in Thousands



- Although build-to-rent (BTR) accounts for just 1.7% (or 340,000 rental units) of U.S. single-family housing, a 2022 report from MetLife Investment Management posited that 40% of single-family rental homes could be owned and controlled by institutional investors by 2030.
- Buying a home is ~37% less affordable today than it was at the onset of the pandemic. As a result, developers are leaning into build-to-rent projects, increasing the number of SFR/BTR construction starts, even amid rising construction costs.
 - SFR/BTR construction starts reached a record high of ~75,000 in 2023, signaling a surge in development. BTR completions, in particular, grew 270% since 2019 and 62% since 2022.

Transaction Activity

| Target/Seller | Acquirer/Buyer | Size (Billions) | Description |
|--------------------|------------------|-----------------|----------------------------|
| Tricon Residential | Blackstone | \$3.5 | SFR REIT Take-Private |
| D.R. Horton Inc. | Pretium Partners | \$1.5 | BTR Home-Building Contract |

Student Housing

Student Housing Supply Overview

| Full-Time Enrollment | Inventory (Beds) | TTM Deliveries (Beds) | Under Construction (Beds) |
|----------------------|------------------|-----------------------|---------------------------|
| 7,245,186 | 4,861,246 | 115,834 | 187,013 |

Student Housing Demand Drivers



Lack of University-Sponsored Housing—Universities have fewer than 34% of the beds required to house their undergraduate population.



Elevated Costs—Higher interest rates and construction costs place further strain on investors and developers.



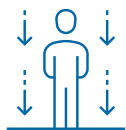
Availability of Credit—Student loans and/or parent guarantors help subsidize housing costs.



Alternative Learning—Online and asynchronous learning opportunities pose a threat to future demand.



Recession Proof—Higher education enrollment trends upward in the midst of and following a recession.



Declining Birth Rates—College enrollment is expected to drop rapidly beginning in 2025 due to large declines in the U.S. birth rate between 2008 and 2011.

Transaction Activity

| Target/Seller | Acquirer/Buyer | Size (Billions) | Description |
|----------------------------------|----------------|-----------------|----------------------------|
| Blackstone | KKR | \$1.64 | Portfolio—10,000+ Beds |
| TTM Transaction Volume (May '24) | Various | \$11.2 | Undisclosed Property Count |
| 2023 Total Transaction Volume | Various | \$5.73 | 276 Properties |

2024–2025 Academic Year Pre-Leasing Highlights



Preleasing stood at 68% in March 2024, which is more than 10% above the 2019–2022 average.



Average rent per bed is up 6% year-over-year, and 41 universities achieved double-digit year-over-year rent growth in March 2024.



University enrollment is only up 0.8%, making the elevated pre-leasing numbers and market rent growth more significant.

Student housing has seen tremendous rent growth over the past two decades. While there was a period of uncertainty and declining rents during the COVID-19 pandemic, March 2024 marked an all-time high for student housing rents.

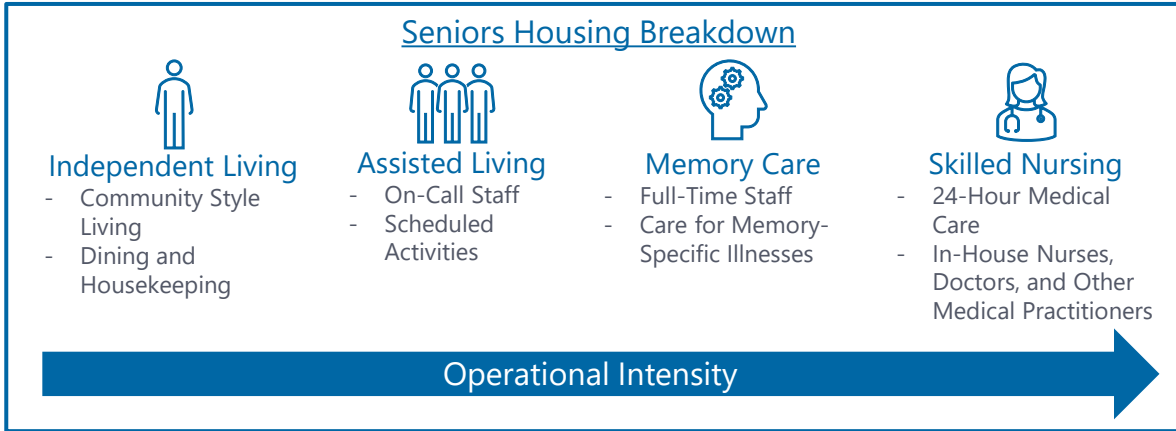
National Average Monthly Asking Rent per Bed in Off-Campus Student Apartments



Largest Year-Over-Year Pre-Leasing Changes

| University | YoY Growth in % Pre-Leased |
|----------------------|----------------------------|
| Central Michigan | 23.3% |
| UC Riverside | 22.8% |
| Univ. of Missouri | 20.5% |
| Bowling Green State | 19.8% |
| Univ. of Mississippi | 18.4% |
| Univ. of Kansas | 17.9% |
| San Diego State | 17.2% |
| Univ. of Louisville | 17.0% |
| Temple Univ. | 15.9% |
| Southern California | 15.1% |

Seniors Housing



COVID-19 had a negative impact on seniors housing demand from occupants and investors alike. Potential tenants put off moving into specialized facilities during the pandemic, and construction starts reached decade-lows. According to the National Investment Center (NIC), new construction starts between Q4 2022 and Q3 2023 were around 10,000 units, which is the lowest it's been since 2012.

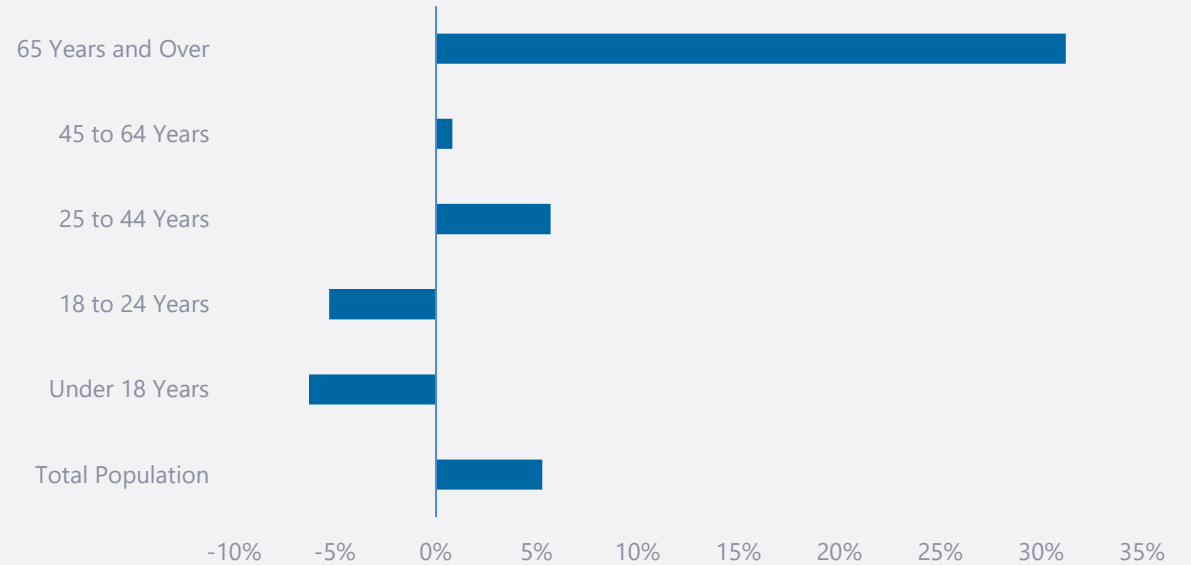


The aging population in the United States is driving demand for seniors housing. While those aged 55 and older qualify for age-oriented housing, the majority of residents are in the 70+ age group. The 75+ population is expanding at 9x faster than the overall population, with approximately 4.1 million Americans expected to turn 65 annually from 2024 to 2027. This swift increase in the elderly population is poised to put significant pressure on the existing supply of seniors housing.

Transaction Activity

| Target/Seller | Acquirer/Buyer | Size (Billions) | Description |
|----------------------|----------------|-----------------|--|
| 2023 Acquisitions | Welltower Inc. | \$4.8 | 60 Properties—14,000 Units |
| 2023 Capital Raising | Ventas | \$4.0+ | 2024 Transaction Guidance of \$350 Million |

The 65+ Population Is Forecasted to Grow 31% Between 2022 and 2035, Compared With 5% for the Overall Population



Seniors Housing Demand Forces

Positive

- Aging Population
- Supply Constraints and Minimal Development Pipeline
- Medical Advancement/ Increased Life Expectancies
- Concentrated Wealth
- Increased Desire From Seniors to Lead Active Group-Oriented Lifestyles



Negative

- Operationally Intensive
- Seniors Opting to Age in Place and Bring Care In-House Instead of Moving
- Increased Construction and Financing Costs
- Higher Minimum Staffing Requirements
- PropCo/OpCo Structures and High-Rent Costs Put Pressure on Operators

Sources: Company Investor Presentations, Matthews Real Estate Investment Services, NIC, U.S. Census Bureau.

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We run efficient, momentum-driven processes that drive results in **M&A and capital raising** for both healthy corporate finance and restructuring transactions.



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