JULY 2024

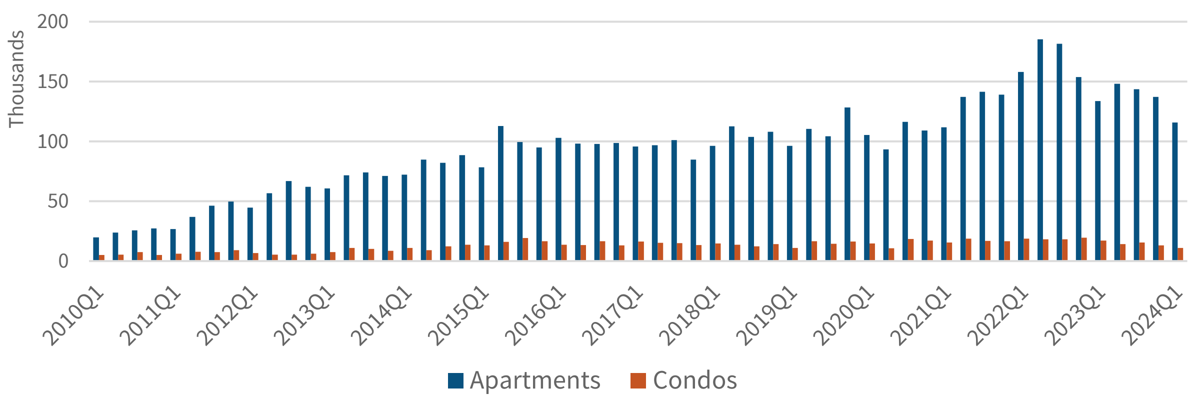
Mid-2024 Multifamily Construction Pipeline Update

Starts for new multifamily rental and condominium construction continued to decline in the first half of 2024 from higher levels in 2023 and 2022, according to data from the Dodge Construction Network's Real Estate Analyzer construction pipeline. As shown in the chart below, since second quarter 2022, starts have declined at a relatively consistent rate. Moreover, the first quarter of 2024 saw a drop in apartment starts to a level that resembles pre-pandemic levels of around 100,000 units annualized.

We believe the decline is driven by a mix of temporary market saturation on the supply side, higher interest rates that have made financing new construction considerably more costly, reports of some lenders pulling back on construction lending, and of hesitancy by real estate equity investors to participate in new projects due to a concern of elevated supply and softening multifamily demand.

Apartment rental units continue to be the predominant form of multifamily construction in 2024, which has been the case since 2010, as seen in the chart below. Only 10,774 condo units were started during the first quarter of 2024, making up only 8.5% of starts, according to Dodge. Furthermore, condo starts are declining at a much faster pace: Apartment starts declined 13.4% year over year, as of first quarter 2024, while condos declined 37% during the same time period.

National Condominium and Apartment Units Started



Source: Dodge Construction Network – Real Estate Analyzer, June 2024
Note: Q1 2024 project starts are preliminary estimates and subject to significant revision

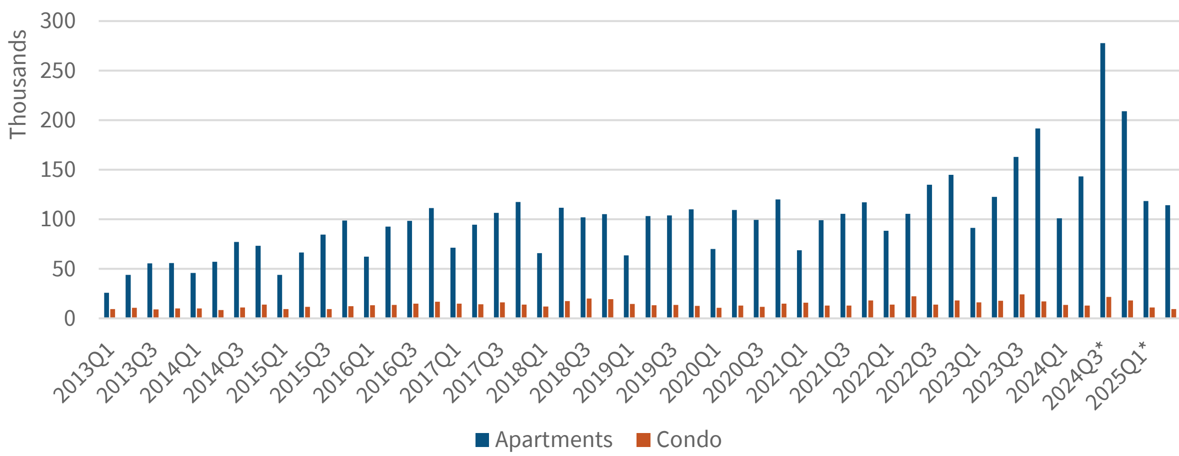
Census Bureau Starts Data Estimates a Greater Number of Units

The U.S. Census Bureau estimated that multifamily starts averaged 343,000 units annualized in the first quarter of 2024, but this data includes two- and three-unit structures and utilizes a different methodology than Dodge in determining when a project is classified as having been started. Nevertheless, we expect that Census Bureau multifamily starts will remain consistent in the second half of 2024 and end the year down 17.8% compared to 2023. While the level of supply remains above the levels seen during the depths of the Great Recession, overall starts remain well below the extraordinary levels achieved in the early 1970s due to the creation of the Housing and Urban Development Act of 1968. For instance, in 1973, more than one million multifamily units were started.

2024 May be a Another Record Year for Completions of Apartment Units

According to Dodge data, the number of apartment units completed across the country may reach a record in 2024. As illustrated in the chart below, over 730,000 units are underway with completion dates expected in 2024. This can be compared to full-year totals of 568,000 units in 2023 and 473,000 units in 2022. The overall pipeline underway is slightly higher than it was a year ago: As of June 2024, 1,213,000 multifamily units were underway, compared to 1,116,000 in July 2023. Additionally, with supply chains operating more efficiently in 2024 than in prior years, we expect more units may be able to complete this year than in 2023 or 2022. Nevertheless, we expect between 500,000 and 550,000 multifamily units will complete this year, far below Dodge's more optimistic estimate.

National Condo and Apartment Units Completed and Underway



** Projected completions.* *Source: Dodge Construction Network – Real Estate Analyzer, June 2024*

Class A Supply Comes Online and Pressures Rent Growth, Particularly in Large Metros

Multifamily rental development continues to be concentrated in some of the largest metros in the country, as seen in the table on the next page. **New York City** continues to be the most active metro in the country, with over 143,000 units either recently completed or underway. **Dallas** and **Austin** remain in second and third place, with **Dallas** at 74,000 units, and **Austin** with 68,000 units. **Houston** and **Atlanta** have also slightly overtaken **Washington, DC**, with **Atlanta** sitting at around 57,000 units, and **Houston** and **Washington, DC** both at around 55,000 units either recently completed or underway. **Seattle**, **Denver**, **Los Angeles**, and **Phoenix** are expected to round out the top 10.

Development efforts are predominantly concentrated in major metropolitan areas, with a notable focus on dense urban submarkets. Additionally, most units being developed are more expensive, Class A-type apartment units. We believe this potential oversupply of Class A units may depress rent growth relative to Classes B and C, particularly through early 2025. For example, CoStar, Inc. is forecasting that Class C year-over-year rent growth will be 3.4% for the year ending first quarter 2025, compared to the projection for Class A of 3.0% for the same period.

New Supply Is Elevated in Terms of Inventory in Many Metros – But Not For Long

According to Dodge data, the number of units underway is elevated in terms of existing inventory levels, as seen in the chart below. Metros such as **Austin**, **Charlotte**, **Nashville**, **Raleigh**, and **Salt Lake City** all currently have pipelines at or above 9% of inventory.

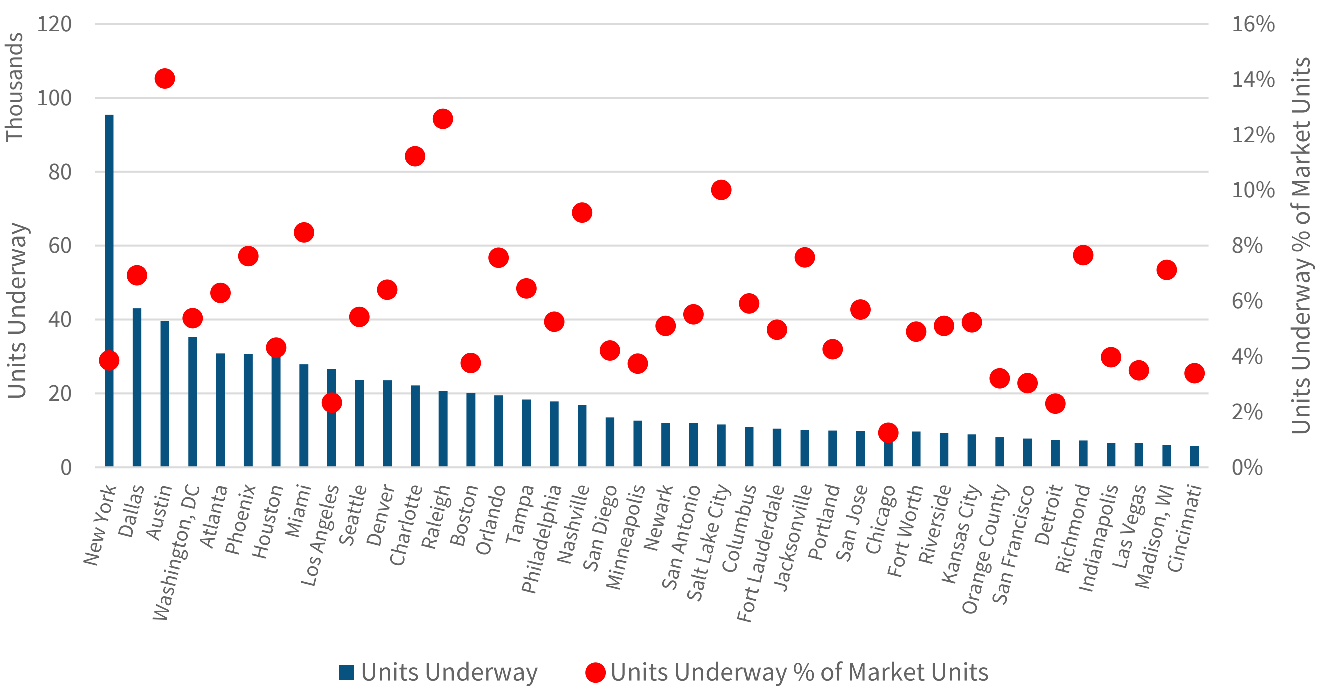
But they are not alone, as numerous metros are experiencing elevated inventory levels. However, we anticipate eventual rebalancing of supply and demand driven by projected demographic trends, stable but ongoing job growth, household formations, and single-family housing prices remaining elevated in many places over the longer term.

Units Recently Completed and Underway

Metro	2023	2024	2025	Beyond	Total
New York	37,421	55,984	39,459	10,519	143,383
Dallas	22,415	33,427	15,715	2,908	74,465
Austin	21,000	28,320	17,363	867	67,550
Atlanta	20,463	22,436	14,172	201	57,272
Houston	18,624	23,407	12,617	719	55,367
Washington, DC	15,576	19,783	16,621	3,171	55,151
Phoenix	15,493	18,252	13,934	3,039	50,718
Los Angeles	16,901	18,697	9,745	2,411	47,754
Denver	16,607	21,108	7,346	1,351	46,412
Seattle	14,871	20,463	7,492	2,160	44,986
Orlando	18,254	17,722	7,635	862	44,473
Miami	9,664	19,236	10,366	2,553	41,819
Boston	11,463	13,702	9,209	1,404	35,778
Charlotte	10,184	12,801	9,965	1,441	34,391
Philadelphia	10,705	15,061	7,066	363	33,195
Nashville	11,982	13,984	6,328	203	32,497
Raleigh	8,234	13,852	7,802	789	30,677
Tampa	7,320	15,191	7,059	967	30,537
Minneapolis	13,332	11,236	5,112	-	29,680
Salt Lake City	9,166	9,595	4,432	617	23,810
San Antonio	7,939	10,206	3,825	300	22,270
Chicago	9,041	9,198	2,227	1,024	21,490
San Diego	6,499	7,033	6,121	1,794	21,447
Newark	6,488	8,308	4,942	1,071	20,809
Jacksonville	7,663	8,585	4,523	-	20,771

Source: Dodge Construction Network – Real Estate Analyzer, June 2024

Multifamily Units Underway and Percent of Market Units – Select Metros



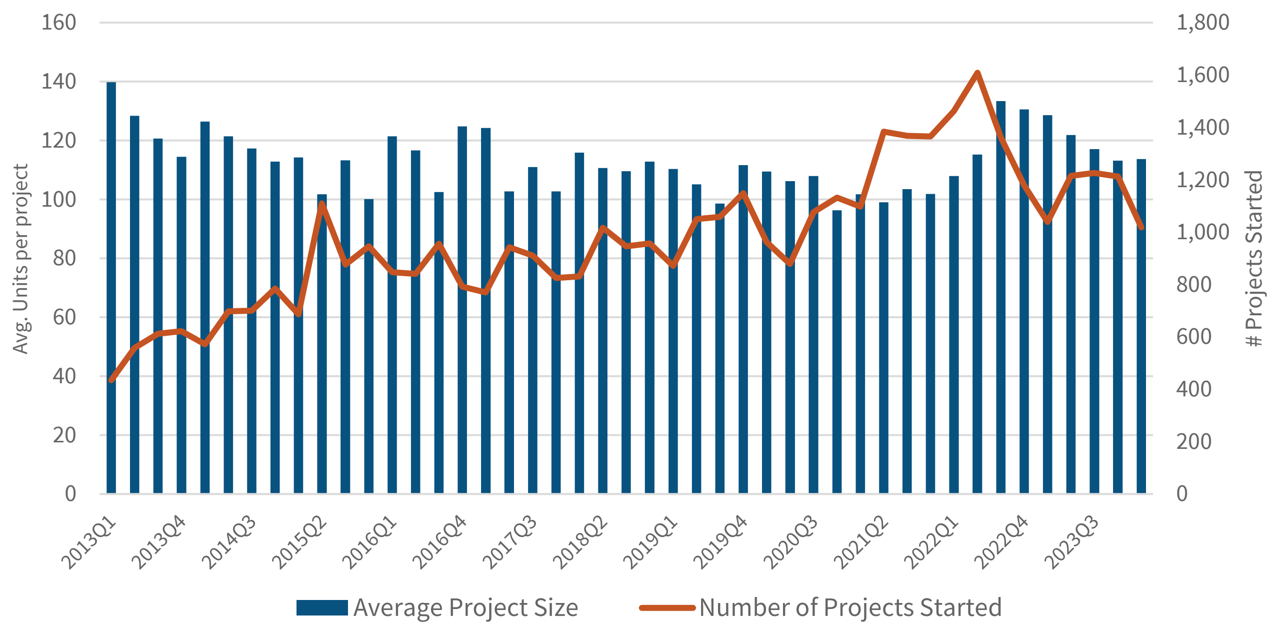
Source: CBRE-Econometric Advisors and Dodge Construction Network – Real Estate Analyzer, June 2024
Note: Q1 2024 project starts are preliminary and subject to significant revision

Number of New Projects Started Still Declining in 2024

According to Dodge, the decline in starts discussed previously reflects that, while the number of units per project has increased slightly, the actual number of projects themselves has continued to consistently decline in early 2024, declining to an estimated 1,018 projects, down from 1,215 in the later half of 2023, as seen in the chart below.

The average number of units per project decreased year over year to approximately 113 for the first quarter of 2024, which is above the average of 129 units per project for the same period in 2023.

Average Number of Units per Apartment Project Started



Source: Dodge Construction Network – Real Estate Analyzer, June 2024
Note: Q2 2023 project starts are preliminary estimates and subject to significant revision

Multifamily New Supply Peaking

The financing costs of new developments have increased substantially as interest rates have stayed elevated since early 2022, which is another reason why we anticipate a slowdown in starts activity. Additionally, we believe the more expensive Class A segment may see a disproportionate uptick in vacancy rates, as well as very modest rent growth, as the upcoming surge of completions is almost entirely comprised of these types of units. Indeed, an estimated 86.3% of apartments completed in the first quarter of 2024 are classified as Class A units, according to Moody's CRE.

A number of renters are increasingly seeking larger units with enhanced amenities, and we believe that future demand could keep pace with the influx of new supply, as long as the national job market continues to see positive growth. Although there may be a short-term oversupply in those markets seeing a surge in supply, many metros across the country continue to face a significant shortage of housing. We anticipate that demographic trends will drive a sustained increase in demand for various types of housing over the long term, though brief periods of localized weak fundamentals may arise because of a short-term surge in new multifamily apartment deliveries.

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