APARTMENT ADVISORY

JUNE 2018

Sitting near the top of an apartment supply peak, bolstered by a robust economy and hearty demand, it's easy to forget we were at the precipice of an economic downturn just 10 years ago. Looking back at the fallout, and subsequent stabilization, it's clear the apartment market has come a long way in a short time.

Ten years ago, the U.S. was in the early months of the Great Recession, a time personified by people losing their jobs, homes and financial stability. The housing bubble had burst, and unemployment was on the rise as jobs were starting to disappear.

New additions were increasing the apartment base by a rate of 0.8% annually in early 2008, which was slightly below average for the time. Demand was way below average and amounting to less than half of new supply levels. This left occupancy at just 93.4%, below the country's long-term norm and on a downward trajectory that would soon bottom out. Apartment rents seemed to be the last holdout before the crash. At 2.9%, annual rent growth was down from the recent peak of 5% seen in 2006, but was still solid in historical perspective. This would be the last time in a while, however, that rent change would come close to 3%.

It would be two years before performance metrics started to get back on track. In the early months of 2010, jobs slowly began coming back to the market and unemployment started to drop. Demand for apartments surged, and developers took notice, kicking off a building spree that would lead to a peak in 2017.

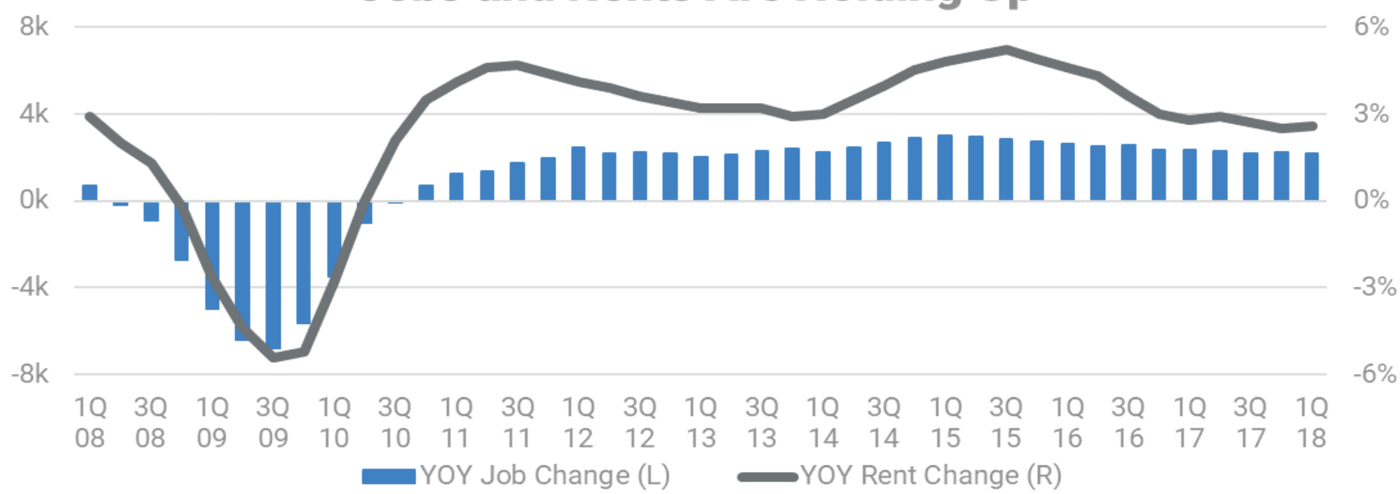
Now, in the early months of 2018, the recession is behind us, demographic and economic drivers are strong, both millennials and baby boomers are choosing more apartments, and the makeup of inventory is changing as deliveries continue to flood the market at an

Then and Now

Metric	1Q 08	1Q 18	Difference
Annual Supply	163,600	319,276	155,676
Inventory Change	0.8%	1.9%	110 bps
Annual Demand	32,371	295,650	263,279
Occupancy	93.4%	95.0%	160 bps
Rent Change	2.9%	2.6%	- 30 bps
Unemployment	5.1%	4.1%	- 100 bps
Annual Job Change	716,700	2,199,700	1,483,000

Source: RealPage, Inc.

Jobs and Rents Are Holding Up



Source: RealPage, Inc.

elevated pace (and show no signs of slowing). Demand is also remarkably robust, driven by consistent job growth. As of early 2018, the U.S. job base totaled roughly 146.5 million, up 7.1% from 10 years earlier.

Such tailwinds have buffered the apartment market from vacancy spikes and allowed operators to maintain solid growth as the upcycle enters its ninth year. Occupancy is above average at 95% and rent growth – while below the cycle's peak and the showing from 10 years ago – has outperformed many investors' expectations in such a high-supply market.

Another change that has occurred in the past 10 years is the composition of new supply. Rather than building in remote suburban sprawl, builders have shifted focus toward taller, urbanized, infill locations with higher density.

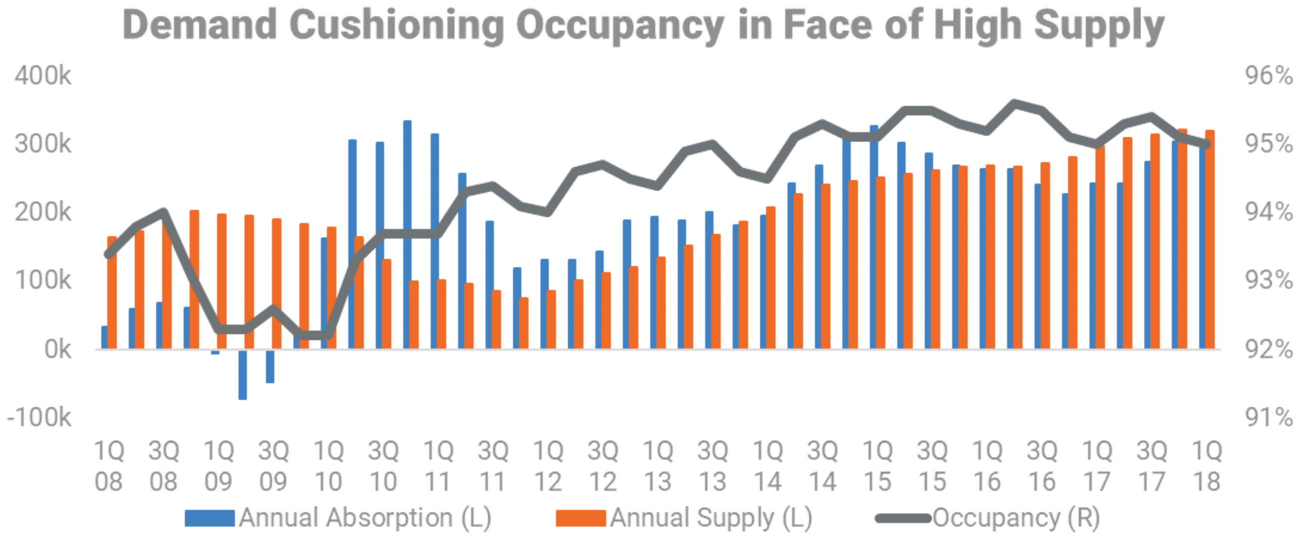
Back in 2008, new apartment supply was overwhelmingly garden-style units. By 2013, garden-style product comprised less than half of new inventory for the first time and that shift away from low-rise, garden-style projects has only accelerated since. Garden-style units accounted for only 33% of total supply in 2017. At the same time, completions of mid-rise and high-rise units have increased.

During the current economic cycle, most market-level performances have strengthened. In fact, out of the nation's 50 largest markets, 32 have performed better in terms of both average rent growth and occupancy in this cycle than in the pre-cycle period beginning in 1998.

Some of the nation's highest-achieving markets – Denver, Charlotte and Portland, for example – have benefited from their increasing economic clout in recent years.

Only a handful of markets have lagged historic levels. One example of that is Washington, DC, a market that has struggled to gain meaningful traction while facing a seemingly-endless onslaught of new supply.

Looking at the difference between 2008 and 2018, it's clear that the apartment market is materially better shape than at any other time in recent history. Many of the nation's largest markets have outperformed historic norms – by a substantial level, in many cases. It is ultimately a testament to the strong demand for multifamily housing this cycle – a trend expected to continue for the foreseeable future as structural economic and demographic drivers remain strong.



Source: RealPage, Inc.