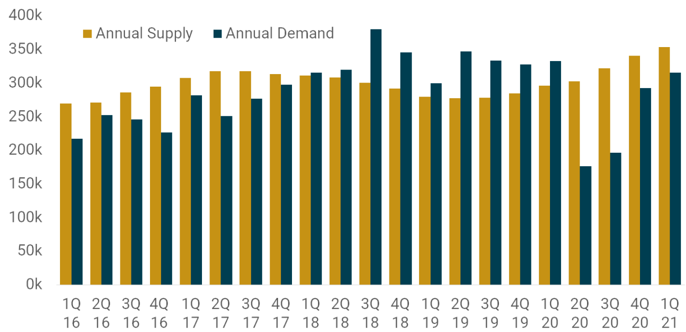
APARTMENT ADVISORY

JUNE 2021

U.S. metropolitan areas have seen unprecedented numbers of new apartments entering the market in the past three years. But strong demand drivers underpinning the market has allowed for quick absorption of new units in most areas.

New apartment supply in the U.S. overall totaled around 903,700 units since 2017. This included 2020's delivery volume of over 340,000 new units, which set a new record high for calendar-year deliveries, despite some delays brought on by the COVID-19 pandemic.

Supply and Demand Have Been Solid



Source: RealPage, Inc.

Still, while apartment construction across the nation has ramped up significantly in recent years, demand has managed to keep pace – for the most part – with new supply. In the past three years, specifically, U.S. absorption totaled nearly 950,000 units, topping concurrent supply volumes by over 44,000 units. This performance was boosted by the robust demand achieved in much of 2019, which made up for the slow leasing activity during the worst of the pandemic in 2020. After the drop off around mid-2020, demand volumes in the U.S. soared back into notable standing, reaching over 315,000 units in the year-ending first quarter.

Among the country's 25 largest apartment markets, 10 saw apartment demand top supply over the past three years. Of those, the most impressive outperformers were Atlanta, Philadelphia, Baltimore and Phoenix, where demand surpassed supply by roughly 3,500 to 5,500 units in the past three years. With relatively little new construction, Detroit demand also topped deliveries by about 3,400 units. West region markets Anaheim and Las Vegas both saw absorption top supply by about 2,000 units. Tampa absorbed about 1,400 more units than were delivered, while San Diego and Portland deserve honorable mention, with apartment demand landing just ahead of new construction (by about 300 units) over the three-year period.

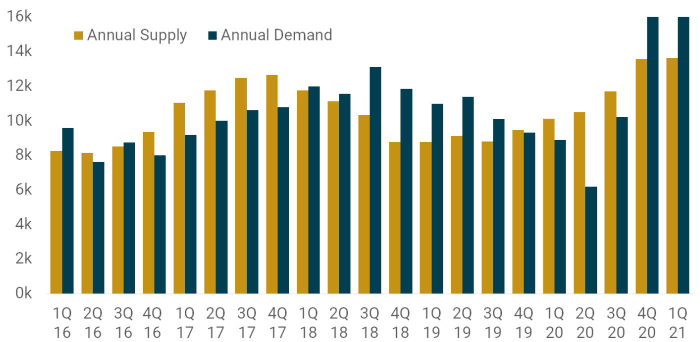
Atlanta easily topped the list of markets where demand outpaced supply in the past three years, despite nation-leading delivery volumes that topped 31,600 units, increasing the inventory base by a significant 6.4%. Demand in the past two quarters alone reached historic peaks in Atlanta, with annual volumes getting as high as 17,210 units in the year-ending first quarter 2021. This was the nation's largest demand volume in the past year, beating out typical demand giants Houston and Dallas. Long standing as the key economic hub for the southeastern United States, Atlanta has boasted strong economic growth throughout the past decade. While the job market here did take a hit with the rest of the nation in 2020, recent recovery has returned the employment base to within 4.6% of pre-pandemic levels. The nation overall is 5.3% away from a full recovery. Additionally, Atlanta continues to show solid population growth, as the market was among the top five metros for net population change, adding 60,500 residents in 2020, according to the U.S. Census Bureau.

Demand Topped Supply in Several Large Apartment Markets

Rank	Market	Three-Year Supply	Three-Year Demand	Difference
1	Atlanta	31,594	37,078	5,484
2	Philadelphia	16,557	21,016	4,459
3	Baltimore	7,547	11,313	3,766
4	Phoenix	25,311	28,827	3,516
5	Detroit	3,280	6,650	3,370
6	Anaheim	8,774	10,933	2,159
7	Las Vegas	8,017	9,670	1,653
8	Tampa	14,510	15,897	1,387
9	San Diego	9,585	9,916	331
10	Portland	16,224	16,515	291
	U.S.	903,721	948,121	44,400

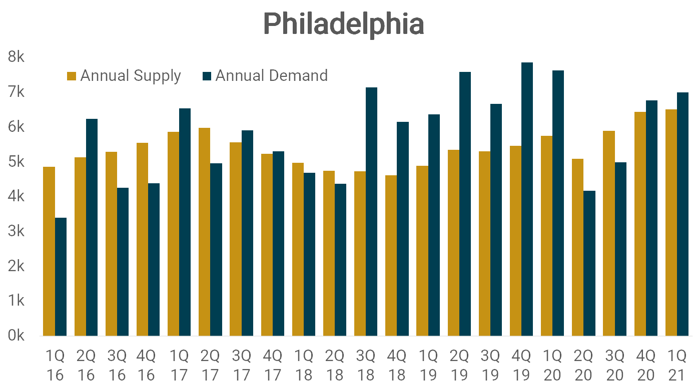
Source: RealPage, Inc.

Atlanta



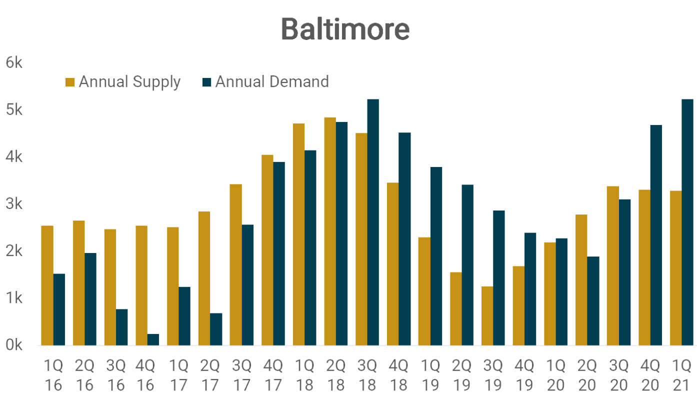
Source: RealPage, Inc.

Philadelphia's apartment stock increased by nearly 16,600 units, or 4.4% in the past three years. Despite elevated completions, apartment demand came in nearly 4,500 units ahead. Philadelphia has been one of the nation's most stable apartment market performers in the past few years, avoiding the fluctuation seen among some other large markets. In the year-ending first quarter, apartment demand reached over 7,000 units, one of the strongest showings nationwide. While recent apartment demand volumes have come down a bit from the peaks this market was seeing in the latter half of 2018 and much of 2019, absorption is still solid by historic measures. The Philadelphia economy – which is heavy in education and health care jobs – is 5.8% away from full recovery, a little further than the national average. Philadelphia did not gain much in net population over the past year, as growth was limited to only about 3,100 or so people.



Source: RealPage, Inc.

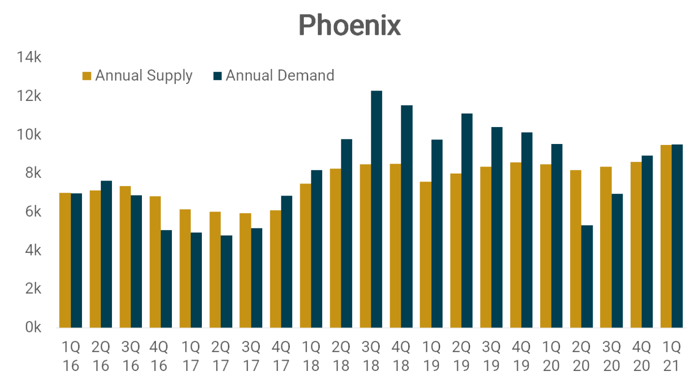
Baltimore's demand volumes hit a record high in the year-ending first quarter 2021, with absorption of over 5,200 units. The only time in the last 20 years Baltimore has seen comparable demand was in 3rd quarter 2018, when the market absorbed just six more units on an annual basis. Demand in the past three years ran over 3,700 units ahead of concurrent completions of 7,600 units, which grew the existing unit base by 3.3%. Even Baltimore's urban core is experiencing positive demand, bucking the trend of poor downtown performances in the nation's coastal metros. One stable demand driver in Baltimore is the local economy, which is fueled by the anchor of federal government institutions and health and education employers. After a stumble during the



Source: RealPage, Inc.

COVID-19 pandemic, Baltimore's job base recovered quickly, and is now only 4% away from full recovery. Working against apartment demand, Baltimore saw net population decline of more than 3,700 people in 2020, falling into negative territory for the first time in at least a decade.

The apartment stock in Phoenix expanded by a significant 7.4%, or roughly 25,300 units, over the past three years. Still, that elevated volume came in about 3,500 units shy of solid absorption. In the year-ending first quarter, specifically, apartment demand for over 9,500 units in Phoenix was one of the best showings in the nation, topped only by performances in Atlanta, Houston, and Dallas. Phoenix demand drivers include a thriving job market that is only 2.7% away from pre-pandemic levels, and nation-leading population growth. Phoenix has been the net migration leader in the U.S. for each of the past three years, bumping out Dallas-Fort Worth for the lead position in 2018.



Source: RealPage, Inc.

Looking at the supply and demand balance prior to 2020 helps underscore how disruptive COVID-19 was. During the unprecedented building cycle from 2010 to 2019, only five of the top 25 markets failed to see demand keep pace with supply, and the differences were tiny in most cases. In fact, supply topped demand by fewer than 700 units in those years in Baltimore, Seattle, Miami, and Raleigh-Durham. In Washington, D.C., the delta was larger at 2,200 units, driven largely by a spike in deliveries in 2019.

Indeed, supply and demand imbalances appear driven by the dramatic slowdown in leasing when life in many metros came to a literal standstill in mid-2020. The bounce back in demand that accompanied the reopening of businesses and the slow return to normalcy bodes well for the lease-up landscape going forward. That said, the already high levels of new supply are set to increase further in the year ahead, with deliveries scheduled to top 400,000 units across the U.S. by the end of 2021. The crush of new apartments will take time to absorb in many metros, but the demographic and economic drivers underlying the market will help support new product lease-up.