



APARTMENT ADVISORY

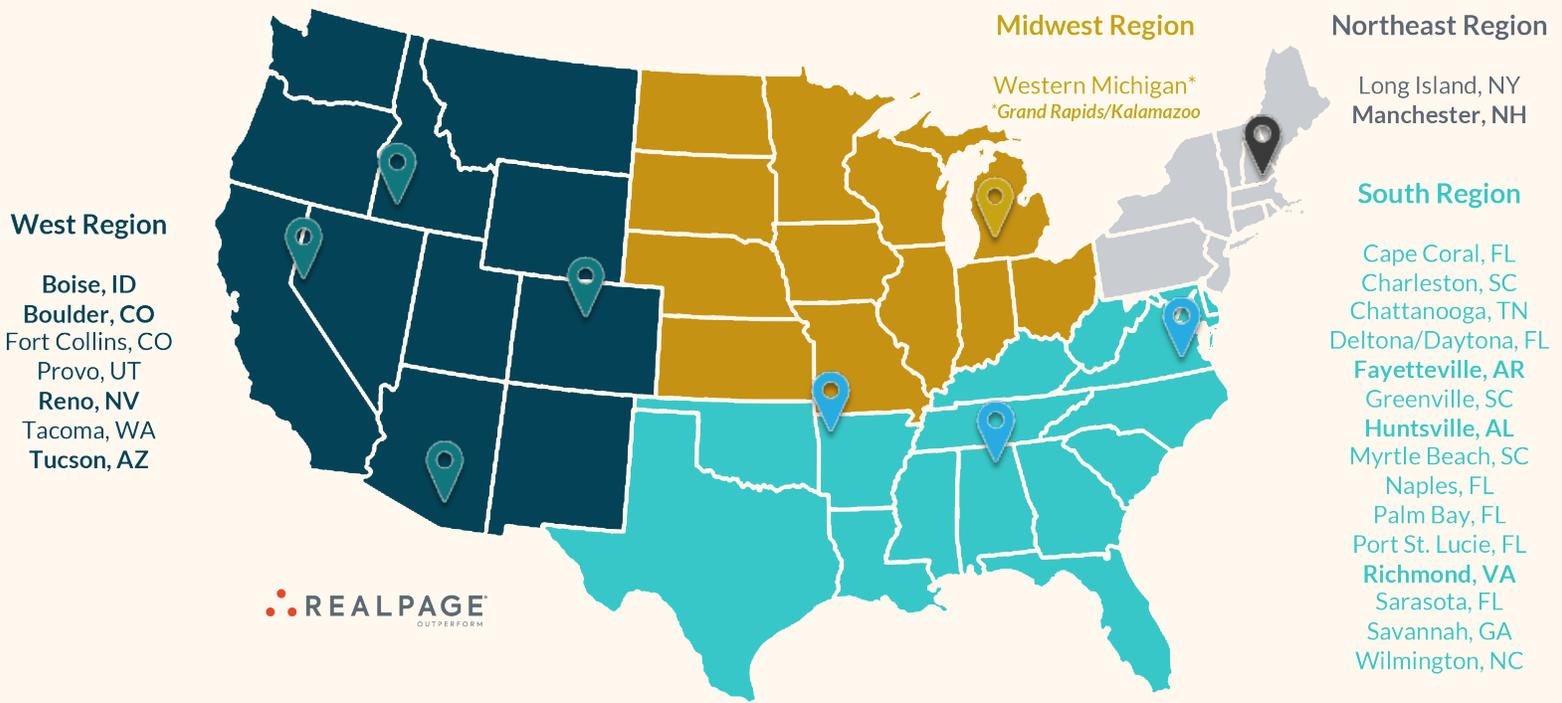
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NATION'S ZOOMTOWNS OUTPERFORM MANY PRIMARY MARKETS

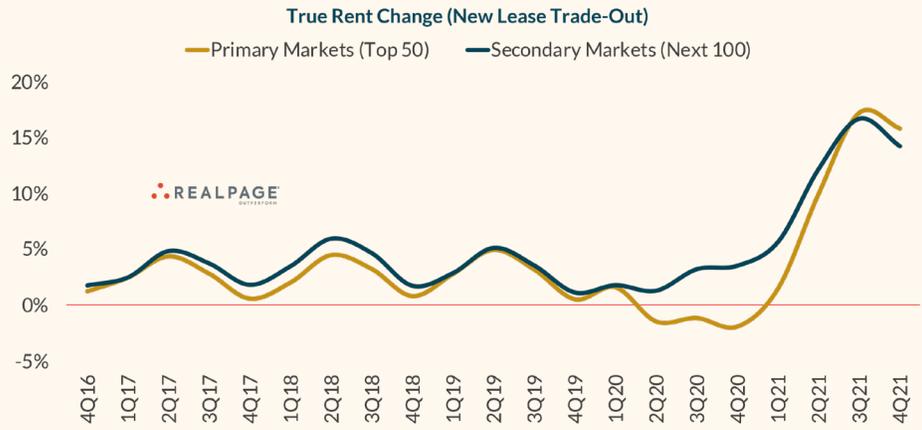
Small markets usually carry more risk due to their limited nature, but throughout the COVID-19 pandemic, another phenomenon has emerged. Many secondary and tertiary markets have demonstrated great performance in recent months as the work-from-home era solidified and renters gained more housing flexibility. Enter, the Zoomtowns.

RealPage has highlighted about 25 markets that fall within our Zoomtown definition. These markets fall outside the RealPage Top 50 markets and have existing unit bases between 100,000 units and about 20,000 units. This consortium of Zoomtowns claim all or most of the following characteristics:

- More affordable than a larger, nearby major market, such as Richmond.
- Subject to a large in-migration surge in recent months, such as Boise.
- Located in a scenic area with lifestyle options, such as the mountains around Boulder or along a beach in Florida.
- Adjacent to a major metro, such as the New York/Long Island interplay.



Even before the pandemic, many secondary markets had been performing well. New lease trade-out in secondary markets have performed remarkably in-line with the larger metros across the nation of late. In 2020 and 2021, secondary metros comfortably outperformed primary metros.

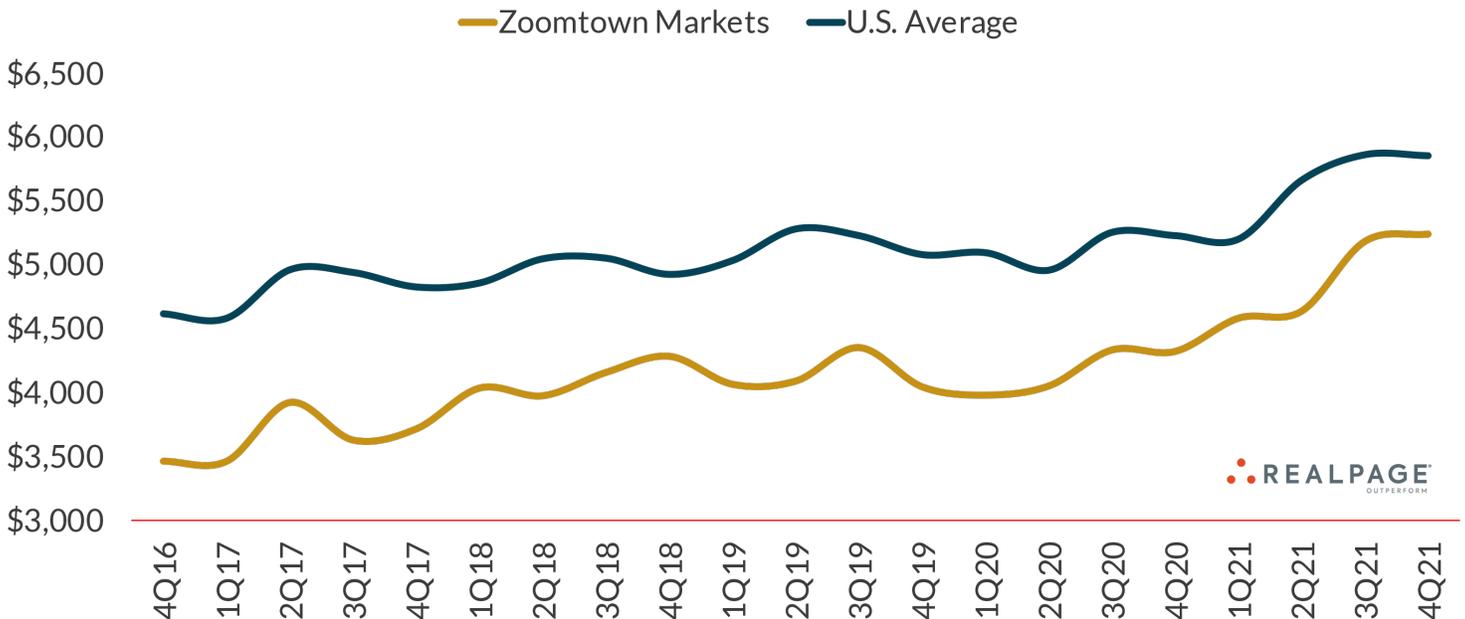


As for Zoomtowns, three major factors have made these markets worth a look.

Renter Incomes

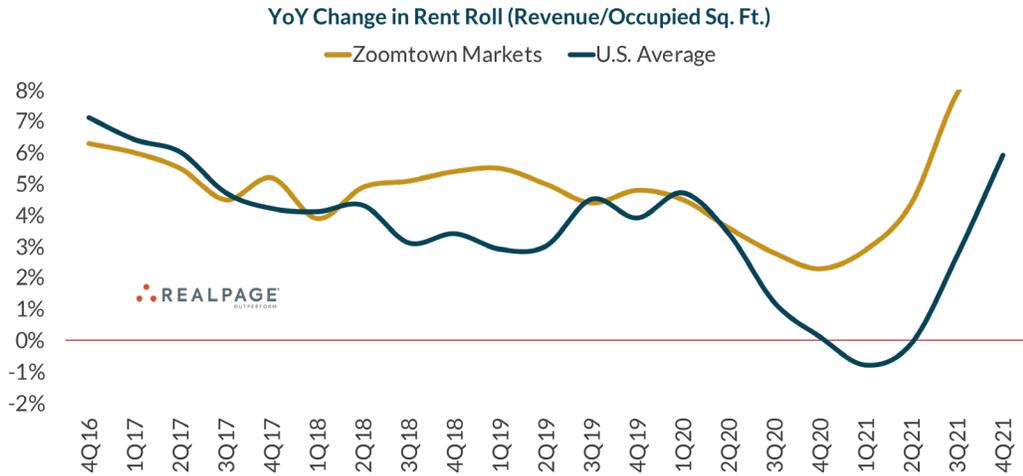
Renter income levels among Zoomtown markets have sharply risen through the pandemic. While the U.S. average renter income level has increased almost 15% since 4Q19, Zoomtown renter incomes have increased roughly twice as fast, at 29%-plus. This primarily reflects the work-from-home surge. As renters from more expensive areas have moved into these more affordable areas, they have brought their higher incomes along with them. In turn, that's helped raise the baseline for renter income. Overall wage growth is also a factor too.

Average Renter Income (Newly Signed Leases)



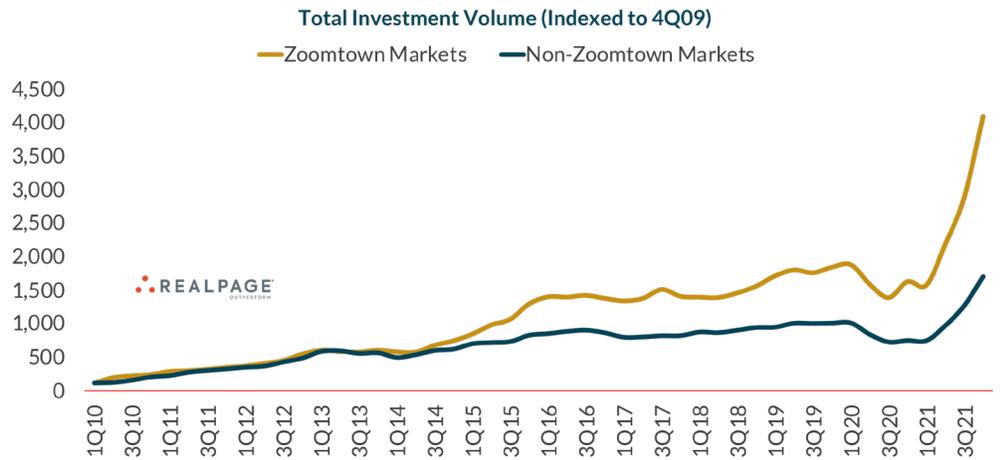
Performance Levels

The U.S. overall saw far more substantial challenges to rent rolls in 2020 than the group of 25 Zoomtowns. Even today, the U.S. revenue growth of roughly 6% as of 4Q21 trails that of Zoomtowns at roughly 10%. But even before the pandemic, Zoomtowns revenue growth had been performing very well before accelerating in 2021. Revenue growth had been generally stable, and the influx of residents into those markets has clearly provided some insulation from the full brunt of the COVID-driven downturn.



Investor Interest

Smaller markets come with a higher degree of volatility and risk. By that same token, the sustained solid performance among many secondary metros is drawing in a lot more investor interest as performance strengthens and renter incomes rise. Zoomtowns still make up a tiny portion of the nation's overall investment volume, only 7% or so as of 4Q21. But when indexing today's Zoomtown interest relative to the end of the Great Recession, a compelling story emerges.



Back in 2009, just over \$500,000 worth of properties traded hands among these 25 Zoomtown metros. Compare that to the \$21.1

billion in 2021 and it's clear just how much additional interest these metros attracted. That isn't to say that U.S. investment has been weak by any means. The Top 150 metros outside these 25 Zoomtowns increased to almost \$291 billion in 2021, a nearly 16-fold increase during that same period. Comparing today's annualized investment volume to the pre-pandemic peak of 3Q19 shows Zoomtowns are up 133%. Meanwhile, non-Zoomtowns are up roughly 70%.

Finally, the increase among investment volume in Zoomtowns relative to the non-Zoomtown group beginning around the middle part of 2014 is probably no coincidence. Around that time, U.S. apartment cap rates began compressing below 6%. While Zoomtowns were generally within 20 to 40 basis points of the U.S. overall, those tightening yields and affiliated rising prices likely fueled some additional interest in Zoomtowns.

What does the future look like for Zoomtowns now that many workers are being called back into the offices? While the work-from-home phenomenon certainly played a role in recent performance, recall that secondary and tertiary markets were already receiving increased attention prior to the pandemic. Many of these smaller markets offer attractive features, such as affordability and enhanced outdoor recreation amenities, that will continue to draw interest from renters and investors alike. Still, expect apartment performance to taper from 2021's historic highs, similar to nationwide performance. The near-term outlook calls for effective rent growth in Zoomtowns to outpace the U.S. average, while occupancy is expected to perform generally in-line with the national norm.

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