

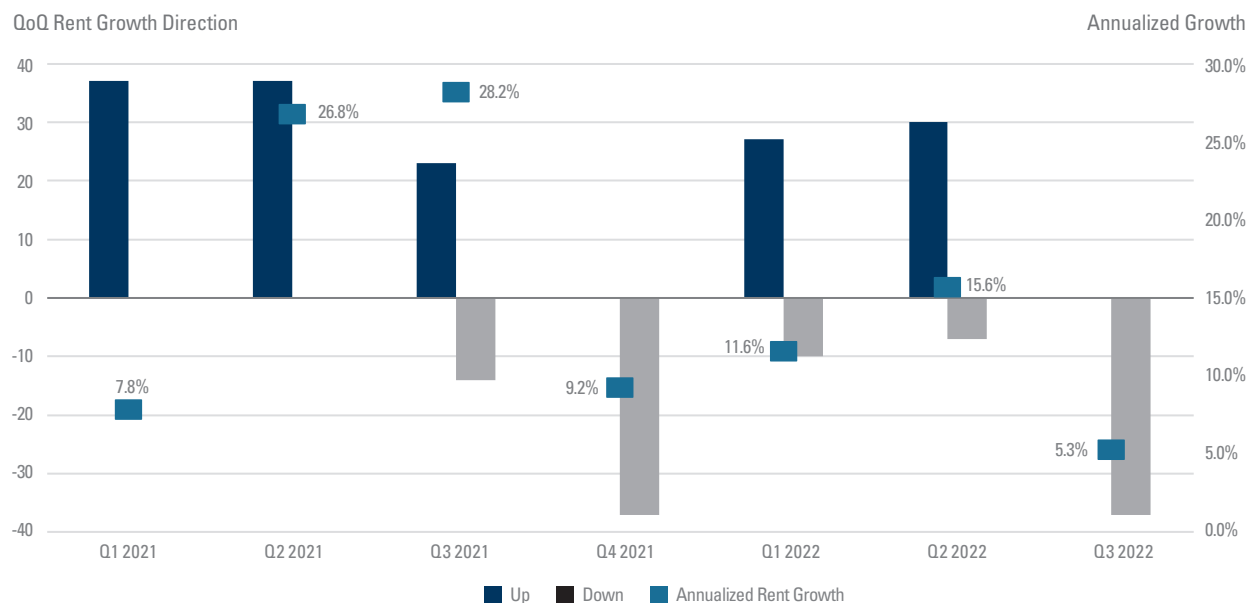
Multifamily: Still in High Elevation Despite Descent From Summit



Fundamentals in the multifamily sector reached record levels over the past 18 months. National occupancy rates peaked at 97.6% in the first quarter of 2022, and are currently at 95.9%, 120 basis points above their 27-year average. Rent growth in the United States in 2021 was 13.8% (17.6% in 37 target markets); same-store rents are up over 21% since December 2019, with significant variation across markets. While headlines are increasingly focused on slowing multifamily fundamentals, this was anticipated as 1) recent outsized rent growth was not sustainable, and 2) in normal times seasonality effects show rent growth peaking in the 2nd quarter.

- » **Exhibit 1** shows our 37 U.S. target markets and how many had QoQ rent growth increase versus decrease since December 2020. In the first two quarters of 2021, all 37 markets had positive rent momentum. In the most recent quarter, all markets had negative momentum, defined as rent growth in current quarter being lower than the rent growth in the previous quarter. In other words, slowing rent growth but not necessarily negative.
- » **Negative momentum is not equivalent to negative rent growth.** As shown by the blue squares, annualized rent growth in Q3 2022 was still 5.3%, a very healthy figure in “normal times”. Only four markets saw negative rent growth last quarter (Las Vegas, Phoenix, Jacksonville, West Palm Beach); rents in these markets are up 41% on average, compared to Q4 2019 levels.
- » That said, we believe fundamentals for core assets may experience some weakness moving forward, as our baseline view is the economy will enter a recession in the next twelve months. Net absorption remains positive but has slowed substantially, and inflation is impacting costs throughout the consumer basket.

EXHIBIT 1: Multifamily Rent Growth Momentum & Level, Top 37 MSAs



Source: Axiometrics, USAA Real Estate Research

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