2023 U.S. ECONOMIC OUTLOOK

AND MULTI-SUITE RESIDENTIAL RENTAL MARKET FUNDAMENTALS

MID-YEAR UPDATE 4TH ANNUAL EDITION

MID23

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ABOUT

Note: All $ amounts in USD

NATIONAL ECONOMIC AND MULTI-SUITE RESIDENTIAL RENTAL OUTLOOK

Economic growth is expected to slow significantly in 2024, following a two-year period of modest expansion. Rental demand will moderate while construction completions peak in many regions of the country. Supply will exceed demand resulting in rising vacancy levels and rent growth moderation. Investment activity will remain muted, as capitalization rates edge higher over the near term.

NATIONAL

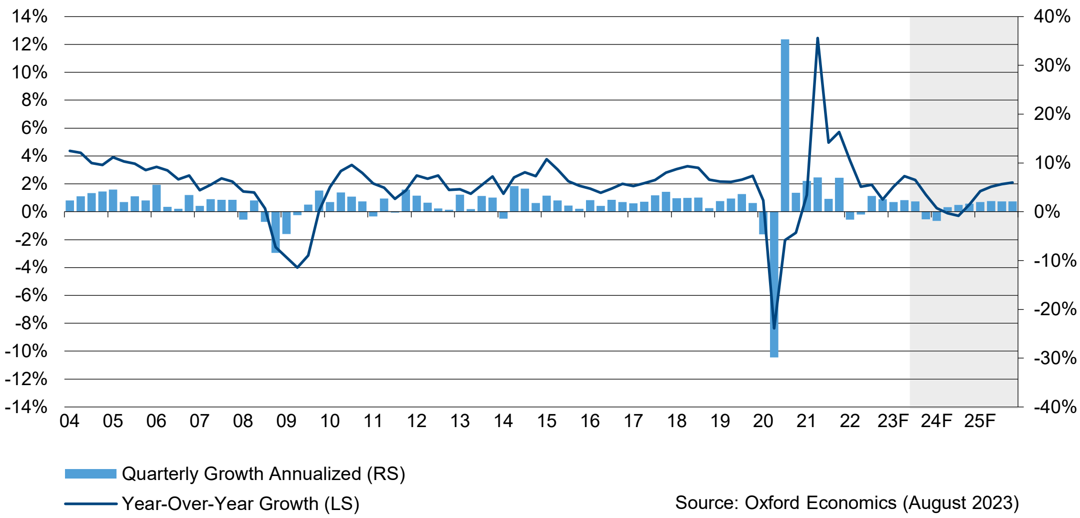
ECONOMIC REPORT

WEAKER ECONOMIC PERFORMANCE FORECAST

A weaker performance pattern is forecast for the U.S. economy over the near term. Gross domestic product (GDP) is projected to expand by just 0.1% in 2024, following a solid 2.0% advance this year. The U.S. economy exhibited signs of weakness during the first half of 2023, despite a stronger-than-anticipated expansion rate year-to-date. The nation's labour market began to soften. Job growth is expected to slow considerably over the near term, given a weaker economic performance pattern.

U.S. REAL GDP GROWTH

% Change



Source: Oxford Economics (August 2023)

The weaker economic performance forecast is predicated on several factors. The Fed's monetary policy tightening of the past year will have a decidedly negative impact on growth in the latter half of 2023 and next year. Fiscal policy is also expected to have an adverse impact on performance over the next six to 12 months. In addition, credit availability and more stringent lending standards will force some businesses to delay expanding their operations. Consumer spending will slow, as students begin to pay off loans in October 2023. Consumer spending has been a key driver of economic growth over the past year. Inflation will also reduce the spending power of U.S. households. Businesses will cut back on spending, hiring and investment in machinery and equipment while interest rates remain high. In short, a weaker U.S. economic performance pattern is forecast over the near term, following an extended period of positive momentum.

LABOUR MARKET RESILIENCE TO CONTINUE

The U.S. labour market resilience of the recent past is expected to continue over the near term, in keeping with the trend of the past couple of years. Conditions will remain tight across much of the country through to the end of the year. The national unemployment rate is expected to hold firm in the high 3.0% range until the end of 2023, up slightly year-over-year. In the following year, the rate will rise by more than 100 bps according to Oxford Economics due in large part to weaker job growth. Despite the increase, labour market conditions will be relatively tight over the short-to-medium term. The ranks of the nation's employed will decrease slightly in 2024, following a forecast increase of more than 3.0 million positions this year. Over roughly the same time-period, labour force growth will slow, resulting in modest upward unemployment rate pressure. The U.S. labour market outperformed expectations in the first half of 2023, due largely to a stronger-than-anticipated economic performance. Despite the strong showing, however, the rate at which jobs were created declined. The U.S. labour market is expected to continue to exhibit a measure of resilience over the near term, in keeping with the recent trend.

CONSUMER SPENDING TO SLOW

Consumer spending is projected to slow down over the near term, following a period of stronger-than-anticipated growth. Private consumption is forecast to rise by a modest 2.0% this year, with a 0.3% advance predicted for 2024. In the second half of 2023, spending will begin to slow down, due to income growth moderation, elevated inflation levels, tighter lending standards, and high interest rates. Weaker economic and job growth performances will translate into reduced private consumption in the second half of 2023 and in 2024. Students will begin to pay back their school loans in October 2023. The resulting spending power reduction will reduce economic activity over the near term. Previously, spending boosted output in the first half of 2023 and helped avert a recession. Consumer spending rose by 4.1% in the first quarter and a modest 1.6% in the second quarter. Private consumption is forecast to continue to slow over the near term.

Private consumption is forecast to rise by a modest 2.0% this year, with a 0.3% advance predicated for 2024.

NATIONAL ECONOMIC PULSE

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
REAL GDP GROWTH*	▼	▼
UNEMPLOYMENT	▲	▲
RETAIL SALES GROWTH*	▼	▼
HOUSING STARTS*	—	—
TRADE BALANCE*	▼	▼
TOTAL INFLATION	▼	▼

* The trend indicators do not necessarily represent a positive or negative value (i.e., real GDP growth could be +/-, yet indicate a growing/shrinking trend).

HOUSING MARKET ACTIVITY TO REMAIN TEPID

Activity levels in the U.S. existing housing market are expected to remain tepid over the near term. Supply constraints will reduce activity across much of the country. Increasingly, owners who purchased homes with record low interest rate mortgages in recent years will stay put, with 30-year fixed-rate mortgages rising to the 6.0%-7.0% range. The market will remain very competitive, however, as buyers compete for a very limited supply of homes on the market. Some buyers have been priced out of the market recently, as interest rates continued to rise, lending standards tightened, and inflation remained elevated. Existing home prices will remain high over the near term, considering the forecast demand supply imbalance. In August 2023, the U.S. median existing home sale price exceeded the $400,000 mark, as reported by the National Association of Realtors. The median was expected to eclipse the $410,200 all-time high in short order. The upward pressure on prices is expected to continue over the near term, a period during which existing home sales activity will remain tepid.

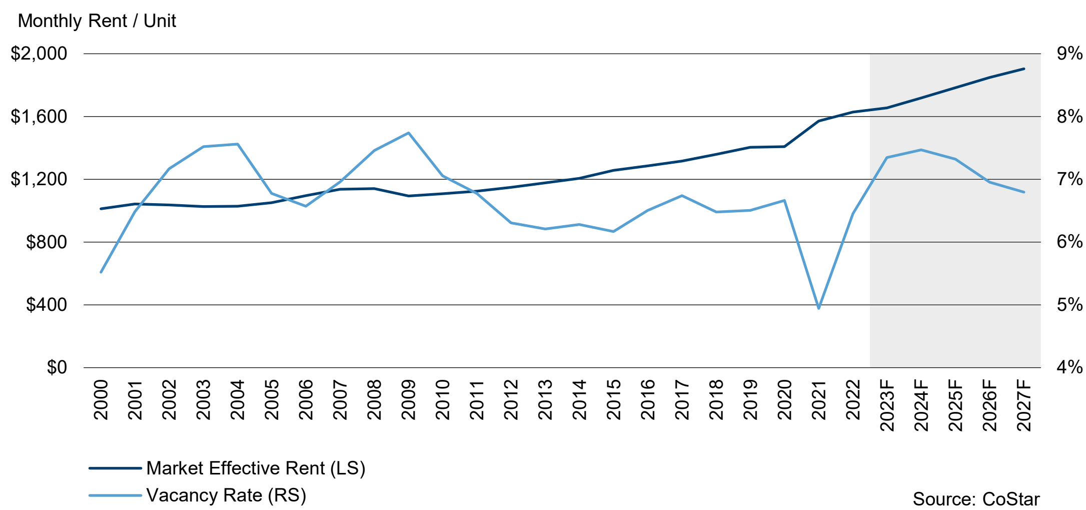
MULTI-SUITE RESIDENTIAL RENTAL OUTLOOK

NEW SUPPLY TO OUTDISTANCE DEMAND

New supply is forecast to outdistance demand in the U.S. multi-suite residential rental market over the near term, continuing the 2022 trend. The nation's purpose-built rental inventory is projected to increase by a record high of 520,000 units in 2023, surpassing the previous annual high of just shy of 453,000 units in 2022. During 2023/2024, rental demand patterns will moderate and fall short of new supply volume.

MULTI-RESIDENTIAL RENT & VACANCY

Historical & Forecast Aggregates



Source: CoStar

Conditions in the nation's multi-suite residential rental market will soften over the near term, due in large part to the forecast supply demand imbalance. Vacancy will rise to a 13-year high of 7.5% next year, up 20 bps from the previous high set in 2023. The national average vacancy rate had rested at a decade-low of just 4.9% in 2021, having been driven lower by pent-up demand after the initial wave of pandemic lockdowns. As vacancy rises over the next couple of years, rental growth will continue to moderate. The national average monthly rent is projected to rise by a modest 1.8% in 2023, which is less than half of the average reported by CoStar for 2022. The 2022 growth rate was markedly lower than the record-high double-digit increase of 2021. Rent growth will be weakest in submarkets where new supply deliveries peak. Overall, the nation's multi-suite residential rental market will soften over the near term, as new supply outdistances demand.

INVESMENT SALES ACTIVITY WILL REMAIN BELOW PAR

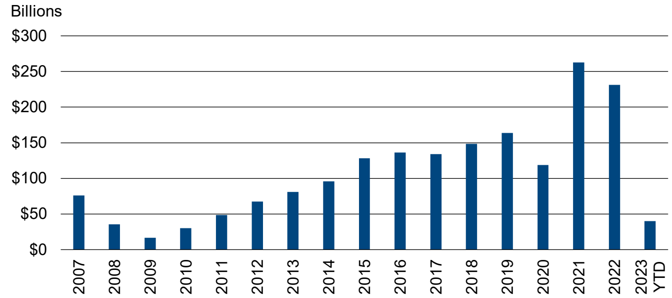
Sales of multi-suite residential rental investment property will remain below par over the near term, continuing the trend that began in the first half of 2022. Institutional and pension fund investors are expected to remain on the sidelines while the cost of debt capital is high. Moreover, buyers that rely on positive leverage are also expected to hold-off on acquisitions in this sector until the lending environment stabilizes. Lending requirements will remain relatively stringent, having tightened considerably in 2022. Properties with assumable low-priced debt will be frequent buyer targets. In some cases, vendors will continue to command peak pricing when disposing of properties while buyers look for discounts to offset the increased cost of debt. The resulting gap between vendor and purchaser pricing expectations will continue to have a negative impact on deal volume. Capitalization rates will continue to rise at a modest rate. Private capital will remain the dominant buyer group over the near term, in keeping with recent trend. Private groups with sufficient dry powder will look to capitalize on reduced competition levels to build their portfolios. Institutional buyers will reassess their portfolios and return expectations as rent growth slows and exercise caution when assessing opportunities. In short, investment sales activity will remain below par over the near term.

WEAKER INVESTMENT PERFORMANCE PATTERN FORECAST

A weaker investment performance pattern is forecast for the U.S. multi-suite residential rental sector over the near term. The weaker performance forecast is predicated on two factors. The first is the continued easing of the market's rent growth trend. Rent growth is expected to slow in most markets, due in large part to weaker rental demand and rising vacancy levels projected for 2023 and 2024. The second factor is an expectation that property values will continue to decline over the near term. The combined effects of weaker investment demand characteristics due to the elevated cost of debt and weaker market fundamentals will drive property values lower. Vendors will continue to command peak pricing when selling assets. However, buyers will look to offset higher borrowing costs, resulting in upward pressure on property yields. Multi-suite residential rental property sector investment performance peaked in 2022. Subsequently, a total average return of -5.8% was posted for the year ending June 30, 2023. Sector investment performance is forecast to weaken over the near term, continuing the recent trend.

INVESTMENT ACTIVITY

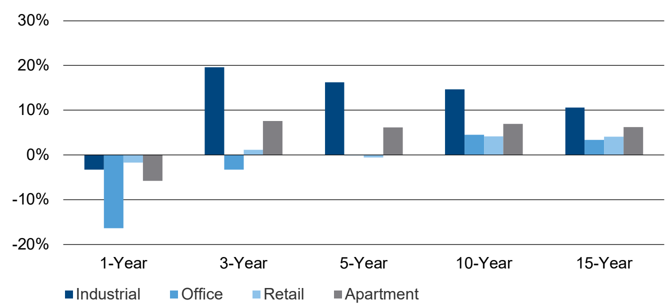
Total Multi-Suite U.S. Investment Volume to June 2023



Source: CoStar

U.S. MSCI RETURNS

Annualized Returns by Property Type to June 2023



Source: © MSCI Real Estate 2023

In some cases, vendors will continue to command peak pricing when disposing of properties while buyers look for discounts to offset the increased cost of debt.

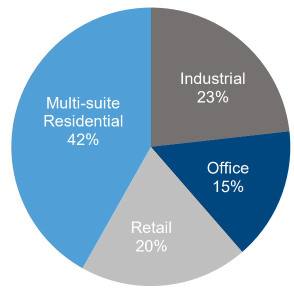
CONSTRUCTION ACTIVITY TO PEAK

Construction activity in the multi-suite residential rental sector will peak over the near term. There are roughly 520,000 units of new supply forecast for completion in 2023, which will mark a 40-year annual high. The 2023 total is significantly higher than the 445,000 units previously forecast by CoStar near the end of 2022. More than 1.1 million multi-suite residential rental units were under construction at the midway mark of 2023. Most of the projects underway were mid- and high-rise in format. Developers have focused increasingly on maximizing density over the past several years to offset the rising cost of construction and land. The Sun Belt regions and Austin, Texas will see a record-high number of units completed in 2023. Construction activity is expected to slow over the medium term, following the near-term peak.

There are roughly 520,000 units of new supply forecast for completion in 2023, which will mark a 40-year annual high.

TOTAL SALES BY PRODUCT

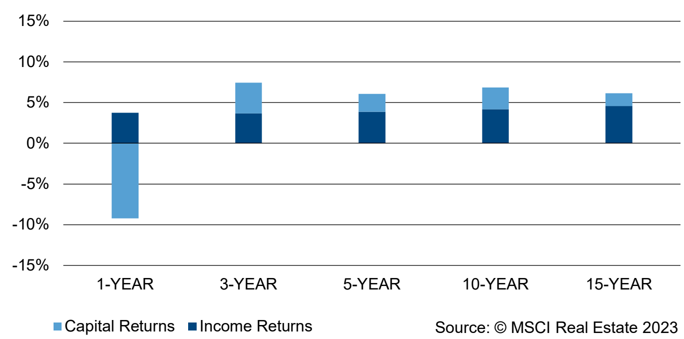
18 Months To June 2023



Source: CoStar

U.S. MULTI-SUITE ANNUALIZED RETURNS

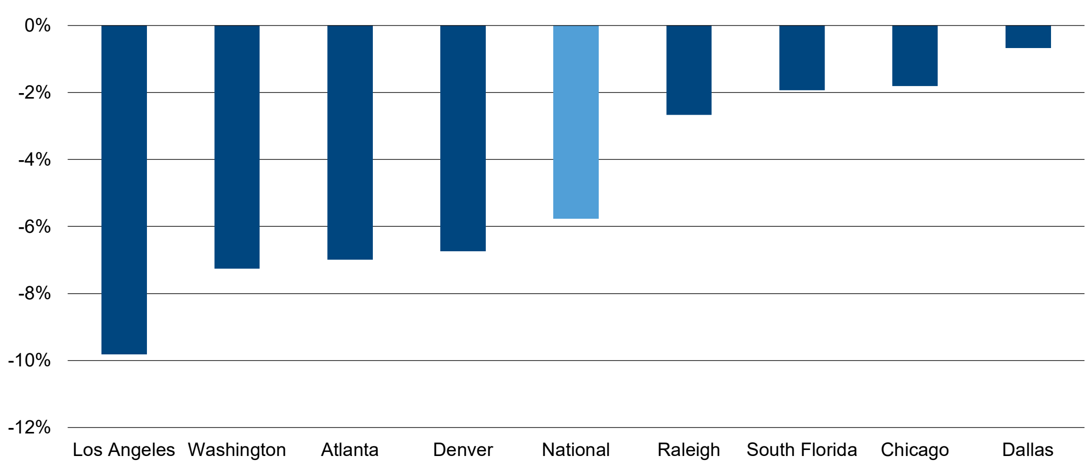
Performance For The Period Ending Sept 2023



Source: © MSCI Real Estate 2023

MULTI-SUITE TOTAL RETURNS

For The 1-Year Period Ending June 2023



Source: © MSCI Real Estate 2023

INVESTMENT MARKET TRANSACTIONS

WASHINGTON DC

PROPERTY	DATE	PRICE	SUITES	PER SUITE	YEAR BUILT	CLASS	PURCHASER
1924 8th St NW	Jun-23	$81.5M	245	$332,653	2015	A	Bernstein Mgt, Corporation
3051 Mount Vernon Ave	Apr-23	$52.0M	141	$368,794	2009	A	Caruthers Properties
465 Elmcroft Blvd	Mar-23	$123.0M	434	$283,410	1999	A	AEW Capital Management
7915 Jones Branch Dr	Mar-23	$137.0M	395	$346,835	2017	A	Kettler/Pacific Life Insurance Co.
6050 Edgeware Ln	Mar-23	$179.0M	556	$321,942	1989	B	GID Investment Advisors LLP
222 M St SW	Feb-23	$82.0M	221	$371,041	2018	A	Bernstein Mgt. Corporation
1699 Yale Pl	Jan-23	$90.0M	210	$428,571	1970	C	Fairstead/InterVest Capital

RALEIGH

PROPERTY	DATE	PRICE	SUITES	PER SUITE	YEAR BUILT	CLASS	PURCHASER
7303 Hihenge Crt	Jun-23	$80.0M	452	$176,991	1985	B	Two Sigma
2911 Mid Century Dr	Feb-23	$93.3M	335	$278,358	2022	A	Westbrook Partners
4428 Mill Village Rd	Jan-23	$56.5M	220	$256,818	1984	B	Covenant Capital Group

ATLANTA

PROPERTY	DATE	PRICE	SUITES	PER SUITE	YEAR BUILT	CLASS	PURCHASER
2506 Meadow Church Rd	Apr-23	$91.0M	333	$273,273	2002	A	Olen Properties
345 Heatherden Ave	Jan-23	$82.0M	263	$311,787	2020	A	Stockbridge Capital Group LLC

PALM BEACH

PROPERTY	DATE	PRICE	SUITES	PER SUITE	YEAR BUILT	CLASS	PURCHASER
3590 Village Blvd	Jun-23	$105.5M	280	$376,786	2022	A	Harbor Group International LLC
900 Water Tower Wy	Jun-23	$138.0M	348	$369,552	2021	A	The Praedium Group

CHICAGO

PROPERTY	DATE	PRICE	SUITES	PER SUITE	YEAR BUILT	CLASS	PURCHASER
340 E North Water St	Jun-23	$173.0M	398	$434,673	2015	A	Crescent heights
210 N Wells St	Apr-23	$98.0M	329	$297,872	1964	A	The Green Cities Company
625 W Division St	Mar-23	$81.0M	240	$337,500	2015	A	Morguard
5700 N Ashland Ave	Feb-23	$53.5M	155	$345,161	2020	A	Lake Street Management Company

NEW ORLEANS

PROPERTY	DATE	PRICE	SUITES	PER SUITE	YEAR BUILT	CLASS	PURCHASER
3700 Orleans Ave	Mar-23	$68.4M	268	$255,224	1926	B	Key Real Estate Company

DALLAS

PROPERTY	DATE	PRICE	SUITES	PER SUITE	YEAR BUILT	CLASS	PURCHASER
13100 Pandora Dr	Feb-23	$39.1M	328	$119,055	1983	B	Rise48 Equity

DENVER

PROPERTY	DATE	PRICE	SUITES	PER SUITE	YEAR BUILT	CLASS	PURCHASER
10756 E Virginia Ave	Jun-23	$41.4M	198	$209,091	1984	B	Trion Properties
3715 Bilberry St	Apr-23	$67.2M	204	$329,167	2020	A	MG Properties
12929 Washington St	Mar-23	$88.1M	283	$311,452	2022	A	Birge & Held
11001 W 15th Pl	Feb-23	$77.0M	230	$334,783	2019	A	Bascom Group/Artemis Partners

LOS ANGELES

PROPERTY	DATE	PRICE	SUITES	PER SUITE	YEAR BUILT	CLASS	PURCHASER
100 Long Beach Blvd	Apr-23	$58.0M	156	$371,795	2016	A	Advanced Real Estate Services
1530 N Poinsettia Pl	Mar-23	$48.3M	136	$354,779	1989	B	Phoenix Group
2245 S Beverly Glen Blvd	Mar-23	$66.1M	113	$584,956	1999	B	Xenon Investment Corporation
6530 Independence Ave	Mar-23	$54.0M	205	$263,415	1985	B	LAApartments.Biz
915 N La Brea Ave	Mar-23	$112.5M	179	$628,492	2016	A	Olympus Property
11405 Chandler Blvd	Feb-23	$32.0M	82	$390,244	2017	A	MLT Properties
710 N El Centro Ave	Jan-23	$46.5M	84	$553,371	2015	B	H & R Investments LP

METROPOLITAN ECONOMIC AND MULTI-SUITE RESIDENTIAL RENTAL OUTLOOK

METROPOLITAN

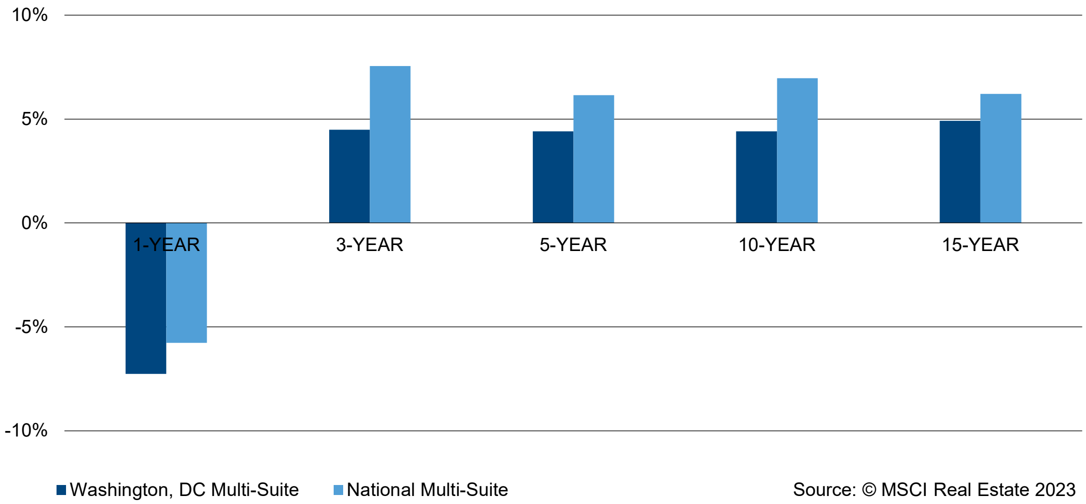
WASHINGTON, DC

ECONOMY WILL GEAR DOWN

The Washington-Arlington-Alexandria (WAA) metropolitan statistical area (MSA) economy is expected to gear down in the second half of 2023. GDP will contract slightly, with a subsequent advance of 0.5% forecast for 2024. Previously, output had increased by 5.0% and 1.7% in 2021 and 2022, respectively. Employment is also forecast to decline in the second half of 2023, to be followed by modest increases in each of 2024 and 2025, according to Oxford Economics.

HISTORICAL PERFORMANCE

For the period ending June 2023



Source: © MSCI Real Estate 2023

The WAA's labour market will soften in the second half of 2023 and gradually stabilize next year. Employment will initially decline in the second half and edge 0.4% higher in 2024. Labour market conditions will, however, remain tight. The unemployment rate will rise to 3.8% next year, having averaged just 3.0% in each of 2022 and 2023. The average weekly wage will rise by at least 5.0% in 2024 while labour market conditions stabilize.

Consumer spending patterns will weaken over the near term, following a period of moderate growth. Spending is projected to rise by a modest 0.8% next year, having increased by an annual average of almost 2.5% in each of 2022 and 2023. Wage growth and rising employment levels will boost spending. Conversely, interest rate hikes and weaker economic growth will negatively impact spending in the second half of 2023 and through much of 2024.

RENTAL MARKET STABILIZATION TO GRADUALLY UNFOLD

Gradual stabilization is forecast for the WAA multi-suite residential rental market over the second half of 2023 and in early 2024. The forecast is predicated on a continuation of the demand recovery that began toward the end of the first half of 2023. In the second half of 2022, rental demand dropped sharply, having climbed to a record high in 2021. The region's operators and managers grew increasingly concerned rental market conditions would worsen with the ongoing delivery of new supply and weaker demand patterns. The combination of weaker demand and new supply deliveries drove vacancy higher in the latter half of 2022 and much of the first half of 2023. At the same time, owners and managers of properties in development heavy submarkets were forced to offer concessions in order to compete. By the spring of 2023, the WAA rental market began to stabilize. The volume of vacant units absorbed increased substantially during the traditional leasing season in the second quarter of 2023. CoStar reported net absorption was just below the 10-year average for this market over the three-month period. In the same quarter, supply deliveries fell below the long-term average. Asking and achieved rents had stabilized in some market segments by the end of the first half of 2023. The continuation of this trend will be an indicator of the broader rental market stabilization forecast to gradually unfold over the near term.

INVESTMENT SALES SLUMP TO PERSIST

The WAA multi-suite residential rental property investment sales slump will persist over the near term. The slump is expected to continue while lending costs remain high. Some investors will delay acquiring assets in this market until the Fed's rate hike cycle ends. The investment sales slump was evidenced in the first half of 2023, having emerged in late 2022. CoStar reported approximately $1.2 billion in property sales in this market for the first half of 2023. The first-half sales pace was well below the 2021 peak when $10.7 billion of investment property transaction volume was reported, which was followed by another strong showing of $8.7 billion in sales in 2022. Sales dipped to a low point dating back to 2010. As the market began to slump in late 2022, upward pressure on capitalization rates increased. Rates decompressed more modestly for newer, aspirational properties. MSCI data was indicative of the downward valuation trajectory. A total annual negative return of 7.3% was reported for properties tracked in the index for the year ending June 30, 2023. The negative outcome was due entirely to capital value erosion. Downward pressure on value is expected to persist over the near term, a period during which investment sales will remain tepid.

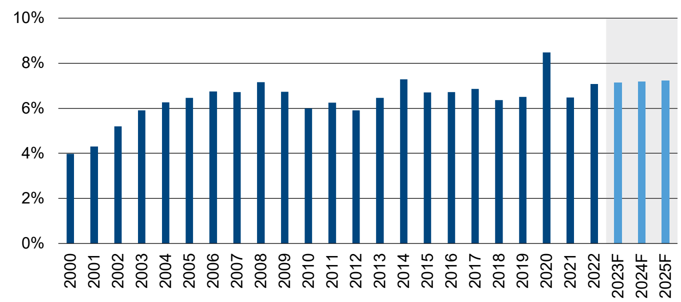
TRENDING STATISTICS

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
VACANCY RATE	—	—
NET ABSORPTION	▲	▲
LEASE RATES	▲	—
NEW SUPPLY	▲	—

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

AVERAGE RENTAL VACANCY

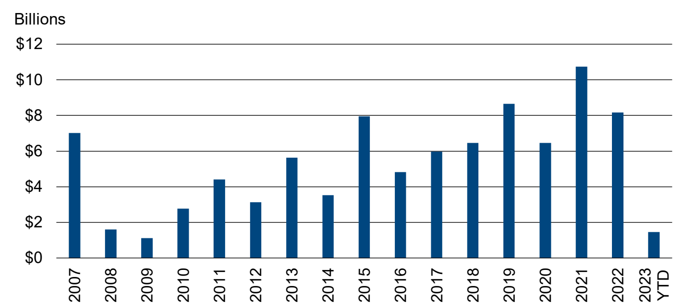
Washington, D.C. Multi-Suite Residential



Source: CoStar

INVESTMENT ACTIVITY

Washington Multi-Suite Investment Volume to June 2023



Source: CoStar

Gradual stabilization is forecast for the WAA multi-suite residential rental market over the second half of 2023 and in early 2024.

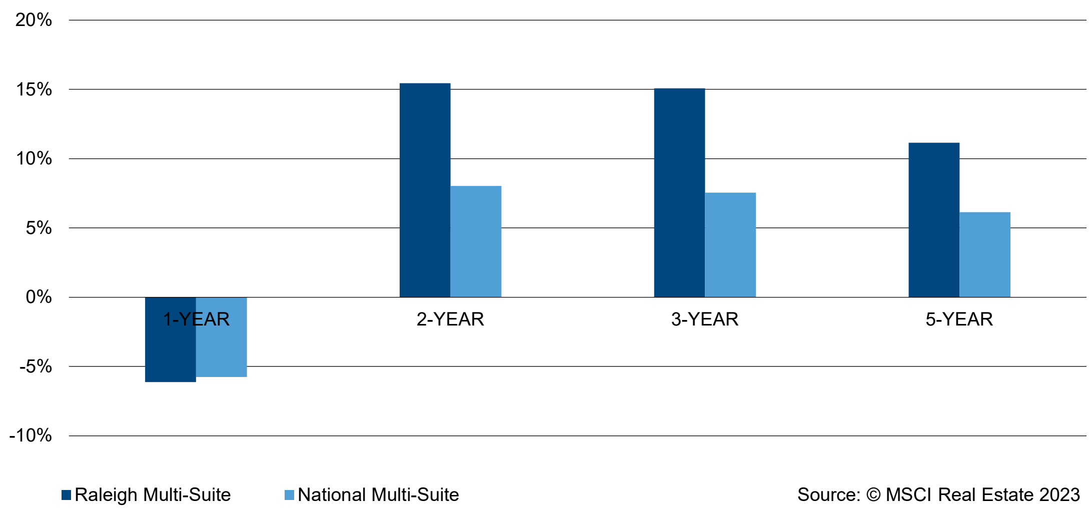
RALEIGH, NC

ECONOMY WILL STRENGTHEN

The Raleigh MSA economy will strengthen over the next couple of years, after a brief period when output declined. Economic output is projected to expand by a modest 0.7% next year, having contracted slightly in the second half of 2023. GDP will subsequently advance by an annual average of 2.4% and 2.8% in 2025 and 2026, respectively. Public sector and services companies are expected to be the region's key growth drivers.

HISTORICAL PERFORMANCE

For the period ending June 2023



Job growth will slow significantly in the Raleigh MSA over the medium-term, following a two-year period of above-average gains. Employment is projected to increase by a relatively modest 2.5% this year and less than 1.0% in 2024. Previously, employment had surged by an annual average of 5.7% in 2021/2022. State and local government, retail trade and restaurants will boost employment over the next few years. The regional unemployment rate will range between 3.3% and 4.3% over the next few years, as job growth slows.

Consumer spending will increase at a relatively modest rate over the near term, having bounced back strongly from the pandemic-influenced corrrection. Spending is projected to rise by a solid 2.4% this year and 1.4% in 2024, after which growth will average 2.7% annually through to 2027. Wage growth will exceed the national average over the next few years, which will help drive spending volume higher. Job growth will also support moderately stronger near-term spending patterns.

PLENTY OF NEW SUPPLY ON THE WAY

New construction deliveries will peak over the near term, resulting in significant upward pressure on vacancy. More than 9,000 units are expected to be added to the Raleigh MSA's multi-suite residential rental property inventory this year, which is a 14-year high. For 2024, roughly 7,000 newly built units will be readied for occupancy. Approximately 18,000 units were under construction across the region at the midway mark of 2023, which represented 14.7% of the market's total inventory. Vacancy will rise into double-digit range over the next couple of years, due to the expected surge of new supply completions and moderately positive rental demand patterns. Vacancy is projected to climb into double-digit range by the end of 2023. Until 2023, single-digit vacancy was the norm for this market dating back more than a decade. New supply will outdistance demand over the next 12 to 24 months, resulting in downward rent pressure. The average market rent for all building classes combined will dip slightly in 2023, having already declined 0.8% year-over-year by mid-year. Rents peaked during 2022, as demand outpaced supply. Over the near term, downward rent pressure will increase as new supply deliveries peak.

BELOW AVERAGE INVESTMENT SALES ACTIVITY FORECAST

Below average multi-suite residential rental investment property sales activity is forecast for the Raleigh MSA over the near term. The forecast is predicated on an expectation that investors will continue to delay property acquisitions until borrowing costs decrease and the economic backdrop stabilizes. Transaction volume will continue to fall short of the long-term average, in keeping with the first-half 2023 trend when just $124.9 million of property sales was reported. Previously, investment transaction volume had averaged more than $1.4 billion annually between 2018 and 2022. Annual transaction volume is expected to dip to a 12-year annual low in 2023. Multi-suite residential rental property yields will edge higher over the near term, continuing the first-half 2023 trend. Investors looked to offset the high cost of debt capital during a period when the buyer pool had decreased substantially. Yields for recently built stabilized properties were generally more stable over the recent past, a trend that is expected to continue into 2024. Investment performance patterns have weakened recently, with properties contained in the MSCI Index posting an aggregate negative annual total average return of 6.1% for the year ending June 30, 2023. Investment performance is expected to continue to underwhelm over the near term, a period during which investment sales activity will remain below the long-term average.

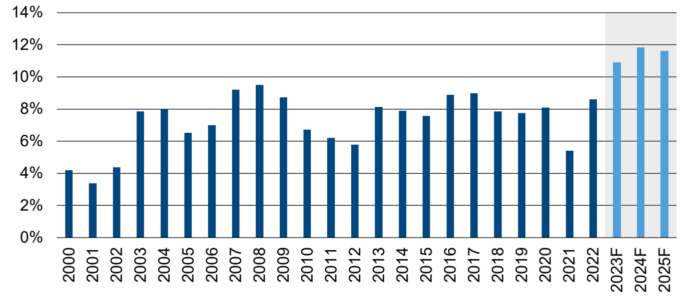
TRENDING STATISTICS

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
VACANCY RATE	▲	▲
NET ABSORPTION	▲	▲
LEASE RATES	▼	—
NEW SUPPLY	▲	▲

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

AVERAGE RENTAL VACANCY

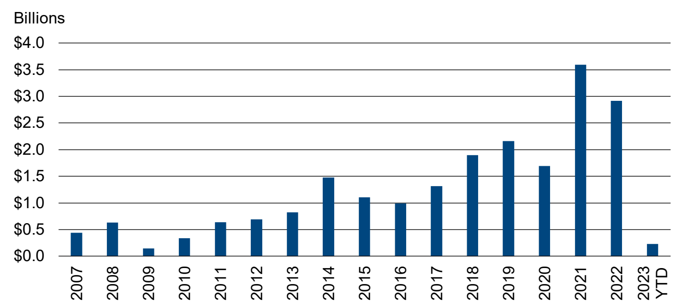
Raleigh Multi-Suite Residential



Source: CoStar

INVESTMENT ACTIVITY

Raleigh Multi-Suite Investment Volume to June 2023



Source: CoStar

New construction deliveries will peak over the near term, resulting in significant upward pressure on vacancy.

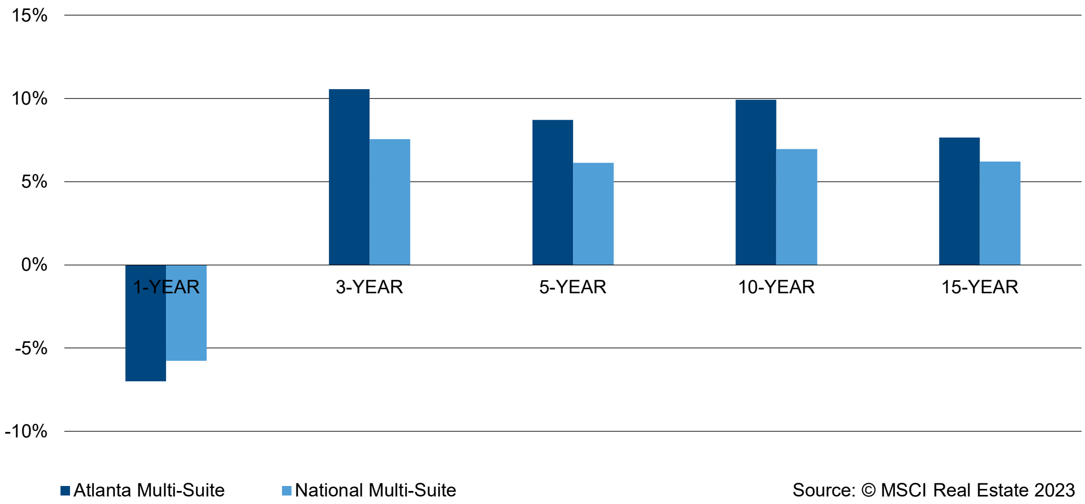
ATLANTA, GA

UNEVEN GROWTH PATTERN FORECAST

An uneven economic growth pattern is forecast for the Atlanta-Sandy Springs-Roswell (ASSR) MSA over the near term, in keeping with the national trend. Regional economic expansion of roughly 2.0% is forecast for 2023, despite a modest contraction in the second half. In 2024, the regional economy will expand by less than 1.0%. Growth will stabilize over the subsequent three-year period, ranging between 2.0% and 2.5% annually.

HISTORICAL PERFORMANCE

For the period ending June 2023



Source: © MSCI Real Estate 2023

The ASSR labour market will remain tight over the near-to-medium term, mirroring the national trend. The region's unemployment rate will average between 3.5% and 4.5% up to and including 2027, according to Oxford Economics. As a result, some workers will have difficulty finding jobs across the region. Employment growth will average less than 1.0% annually between 2024 and 2027, due in part to a shortage of available positions. Above-average wage growth is forecast over the medium term, as the labour market remains tight.

ASSR consumer spending patterns will remain relatively healthy over the next few years. Spending will rise by a solid 2.7% this year, with a modest advance of 1.4% predicted for 2024. Subsequently, consumer spending will rise by an annual average of just over 2.5% through to and including 2027. Healthy labour market and economic performance will drive spending higher over the forecast horizon. Wage growth will also be a key spending growth driver over the near-to-medium term, continuing the recent trend.

EROSION OF MARKET FUNDAMENTALS FORECAST

The erosion of ASSR multi-suite residential rental market fundamentals will continue over the near term. The main cause of the erosion will be the market's demand supply dynamic. Rental demand will remain moderately positive through to 2024, having softened significantly in 2022 and in the first half of 2023. Demand was particularly weak in the market's older building segment. Fewer renter households were formed due in part to the financial pressures associated with the inflation pressures of the recent past. In addition, rental demand will be eroded in younger worker age cohorts when student loan payments begin in October 2023. A forecast surge of new supply completions will erode market fundamentals. Construction completions will remain elevated in 2024, following the 13-year annual high of over 18,000 units to be completed in 2023. New supply will outdistance demand until at least the end of 2024. As a result, double-digit vacancy is forecast over the near term. Vacancy had increased into double-digit range for the first time in more than a decade in 2023. The market's average rent will drop by between 1.0% and 1.5% in 2023. Downward rent pressure will persist over the near term, as market fundamentals continue to erode.

INVESTMENT SALES ACTIVITY WILL REMAIN MUTED

Investment sales activity in the ASSR multi-suite residential rental property sector will remain muted over the near term, having dropped sharply over the past year. Investors will continue to wait until borrowing costs decrease and the economic outlook firms before re-entering the acquisition market. This investor sentiment will hold firm until the end of this year and into 2024 while the Fed's interest rate plans remain uncertain. As borrowing costs rose steadily over the past year, investors retreated to the sidelines. Buyers looked to offset higher borrowing costs with higher yields. However, vendors were reluctant to lower their expectations on pricing. Activity levels decreased substantially, as vendors and purchasers were often unable to agree on pricing. An underwhelming $396.9 million of investment transaction volume was reported in July 2023 year-to-date. Values declined in 2023, which had a negative impact on performance. Properties contained in the MSCI Index posted a negative 7.2% return for the year ending June 30, 2023. Capital depreciation accounted for the negative outcome. Performance is expected to continue to underwhelm over the near term while investment sales activity remains muted.

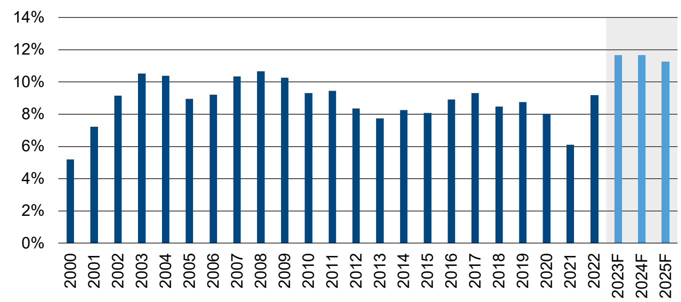
TRENDING STATISTICS

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
VACANCY RATE	▲	▲
NET ABSORPTION	▲	▲
LEASE RATES	▼	▼
NEW SUPPLY	▲	▲

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

AVERAGE RENTAL VACANCY

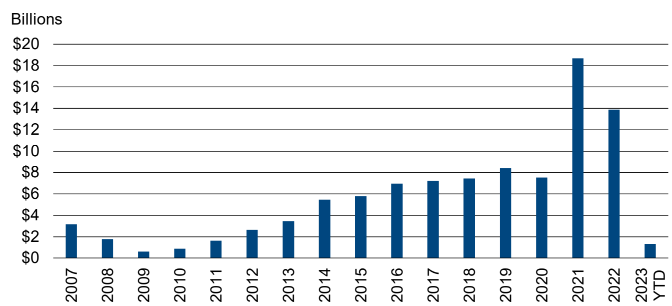
Atlanta Multi-Suite Residential



Source: CoStar

INVESTMENT ACTIVITY

Atlanta Multi-Suite Investment Volume to June 2023



Source: CoStar

Construction completions will remain elevated in 2024, following the 13-year annual high of over 18,000 units to be completed in 2023.

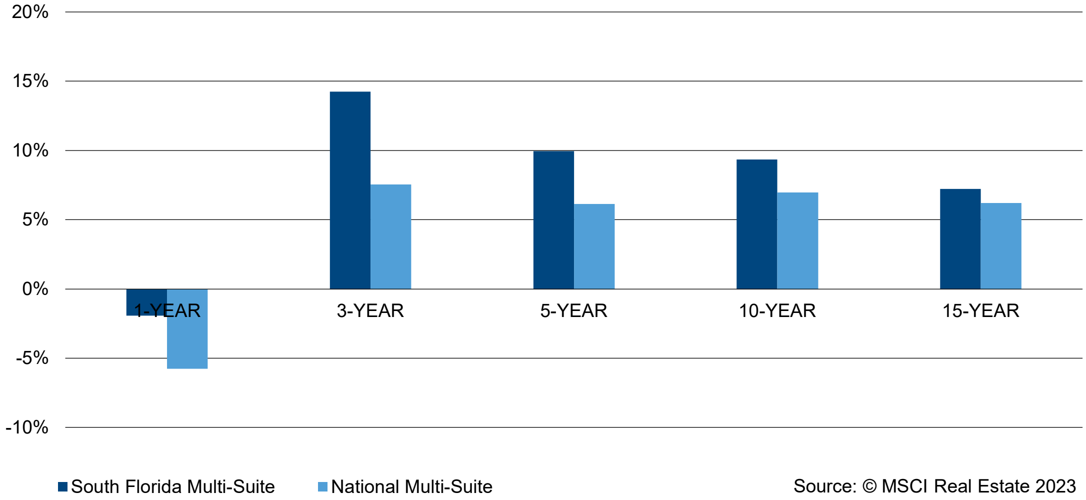
PALM BEACH, FL

GROWTH WILL STABILIZE AFTER BRIEF PAUSE

Economic growth will stabilize over the next few years, following a period of weaker performance in the second half of 2023. Real GDP is forecast to increase by a modest 0.7% in 2024, after a slight contraction over the second half of 2023. Subsequently, economic output is projected to rise by an average of 2.0% annually from 2025 through to 2027. Employment will rise modestly over roughly the same time-period, having increased by a solid 2.3% in 2023.

HISTORICAL PERFORMANCE

For the period ending June 2023



Source: © MSCI Real Estate 2023

The Palm Beach MSA labour market outlook is generally positive. The unemployment rate is projected to range between 2.8% and 3.5% between 2024 and 2027. A rate of close to 2.5% is forecast for 2023. Employment will continue to rise over the medium term, albeit at a relatively slow pace. Growth will be driven by the region's state and local government, health care and leisure and hospitality sectors. Wages will continue to rise at a healthy rate over the next few years, in support of consumption growth.

Consumer spending patterns are expected to remain relatively healthy over the next few years. Spending is projected to increase by an annual average of just over 2.0% over the medium term, after a modest 0.5% lift in 2024 according to Oxford Economics. Consumers are expected to spend less freely over the near term, given the adverse effects of higher interest rates and inflation. However, the Palm Beach MSA consumer spending outlook is generally positive.

NEW SUPPLY TO EXCEED DEMAND

New supply will exceed demand in the Greater Palm Beach (GPB) area's multi-suite residential rental market over the near term. New supply will peak in 2023/2024, with roughly 3,000 units forecast for completion annually. Over the same time-period, just short of 2,400 vacant units will be absorbed on an annualized basis, according to CoStar. Vacancy will rise to a decade-high, with new supply exceeding demand. The GPB average vacancy rate will hover close to the 8.0% mark in 2024/2025. Upward pressure on vacancy will be more modest for properties catering to lower-to-middle income households. Over the medium term, vacancy is projected to stabilize and gradually decline as development activity slows and rental demand firms. Downward pressure on rents is expected to increase over the near term, especially in the recently built, aspirational segment of the market. Rents will be relatively stable in workforce-oriented submarkets. The downward pressure on rents will result from a market dynamic whereby new supply exceeds demand.

INVESTMENT ACTIVITY SLOWDOWN TO CONTINUE

Sales of multi-suite residential rental investment property in the GPB area over the near term will fall significantly short of the most recent peak level. The shortfall will continue while the cost of debt capital remains elevated. Purchasers that have previously relied on access to low-cost debt to build their portfolios will remain relatively inactive. Investment sales activity slowed sharply recently, with just $330.0 million of property sold over the first half of 2023 as reported by CoStar. The six-month total was the lowest since the pandemic-influenced first half of 2020. Relatively few large-scale properties were offered for sale during the latter half of 2022 and first half of 2023. At the same time, some vendors continued to command peak pricing when disposing of properties. Purchasers, on the other hand, looked for discounts to offset the rising cost of debt capital. As a result, sales activity slowed significantly. Previously, investment sales had peaked in 2021/2022, when annual transaction volume averaged just over $2.5 billion. As activity slowed in the latter half of 2022, property yields began to rise and valuations declined. The downward pressure on values negatively impacted performance. Properties tracked in the MSCI Index in South Florida registered a negative 1.9% total annual return for the year ending June 30, 2023. The negative outcome was due solely to the decline in value of the properties over the period. With borrowing costs expected to remain elevated over the near term, investment sales will continue to fall short of the most recent peak.

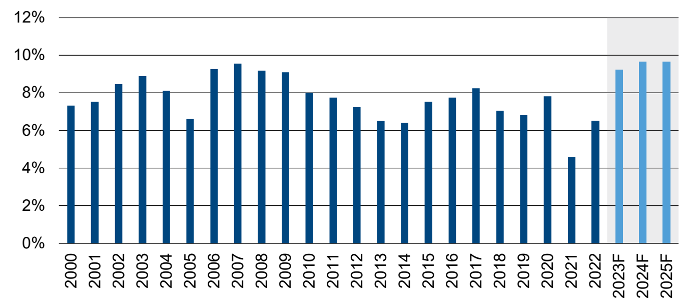
TRENDING STATISTICS

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
VACANCY RATE	▲	▲
NET ABSORPTION	▲	▲
LEASE RATES	—	—
NEW SUPPLY	▲	▲

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

AVERAGE RENTAL VACANCY

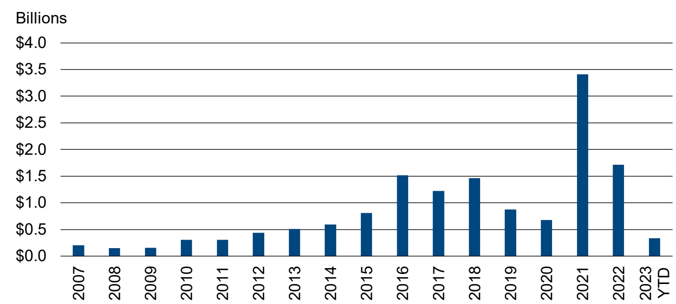
Palm Beach Multi-Suite Residential



Source: CoStar

INVESTMENT ACTIVITY

Palm Beach Multi-Suite Investment Volume to June 2023



Source: CoStar

Investment sales activity slowed sharply recently, with just $330.0 million of property sold over the first half of 2023.

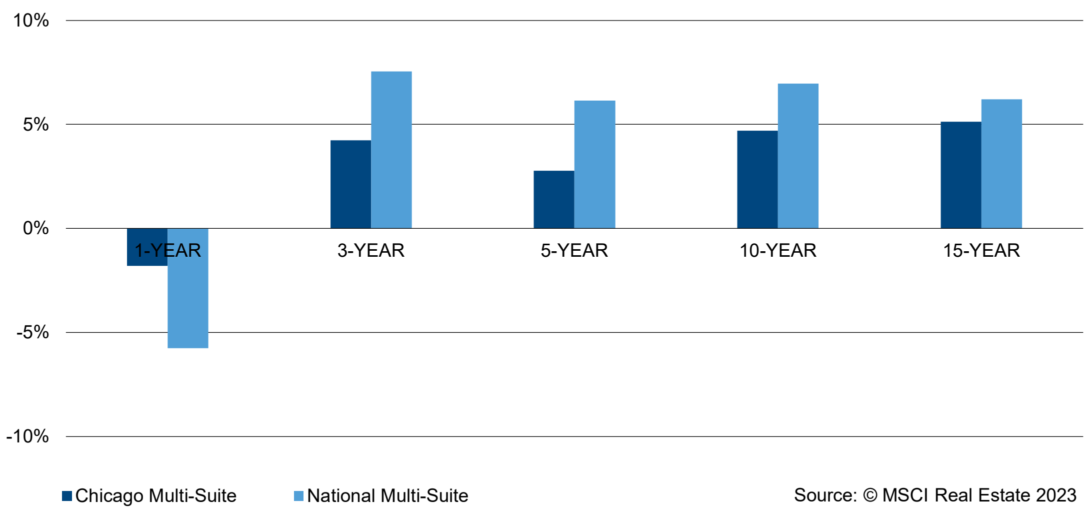
CHICAGO, IL

ECONOMY WILL EXPAND RELATIVELY SLOWLY

A relatively slow rate of expansion is forecast for the Chicago-Naperville-Elgin (CNE) MSA economy over the near term. In 2024, output will be relatively flat on the heels of a 0.9% advance in 2023. The slow-growth outlook is attributable to the region's dependence on low-growth industries and ongoing weakness in its office market and tourism sector. Growth will firm in 2025 and range close to the 2.0% mark until 2027.

HISTORICAL PERFORMANCE

For the period ending June 2023



Source: © MSCI Real Estate 2023

The CNE MSA labour market is expected to underperform over the near-to-medium term. Employment is forecast to rise by just 0.1% annually between 2024 through to and 2027, 30 bps lower than the national average growth rate. Employment will decline by close to 1.0% in the second half of 2023, having recovered the jobs lost as a result of the pandemic in the first half. Labour market performance is expected to continue to underperform next year and over the medium term.

The CNE MSA's near-term consumer spending outlook is largely underwhelming. Spending is projected to rise by a modest 1.3% in 2023 and just 0.2% in 2024. Consumers are expected to cut back on spending to some degree over the near term, as borrowing costs and inflation remain high. Job growth activity is also expected to disappoint over the next couple of years, which will also have a negative impact on consumer spending growth.

RENTAL MARKET CONDITIONS WILL BE RELATIVELY STABLE

Conditions in the CNE MSA multi-suite residential rental market will be relatively stable over the near term. Vacancy is forecast to rise modestly this year and subsequently stabilize. The average vacancy rate is expected to rise just 30 bps in 2023 to 5.6%, from the decade-low 5.3% average reported a year earlier. The average will hold steady through to 2027, according to CoStar's summer 2023 forecast. The market's rent growth trend is also expected to stabilize over roughly the same time-period. The average monthly rent in the CNE MSA is projected to rise by an annual rate of close to 4.5% in 2023/2024. Growth of at least 4.0% is forecast for all building-quality classifications over the same time-period. Moderately positive demand characteristics will persist in this market over the next few years. Rental demand has generally outpaced new supply over the past few years. In 2023, construction activity increased substantially, with more 13,000 units underway as of the end of June. New supply will remain elevated over the near term, resulting in modest rent growth and vacancy stabilization. The rent growth and vacancy stability will be in line with the broader market theme.

INVESTMENT SALES SLUMP TO CONTINUE

The investment sales slump that unfolded last year will continue over the near term. Institutional and pension fund buyers will remain relatively inactive until the borrowing environment stabilizes. Private capital groups will be somewhat more active over the near term, given a generally more bullish sector attitude. Downtown and North Lakefront submarkets garnered the strongest investor interest. Buyers have looked increasingly for pricing adjustments to offset higher borrowing costs. However, some vendors were unwilling to meet the pricing demands of buyers. As a result, sales activity began to slow significantly, with a modest $1.8 billion of transaction volume recorded for the first six months of 2023. Previously, a 10-year annual high of $5.6 billion of transaction volume was posted in 2022, when low-cost debt was readily available. As the investment sales slump unfolded, investment performance weakened significantly. Properties contained in the MSCI Index generated a combined negative annual total return of 1.8%. for the year ending June 30, 2023. The result followed a bullish 11.2% positive return posted for the previous year. The negative outcome was entirely attributable to capitalization rate decompression. Capitalization rates will continue to decompress over the near term, as the investment property sales slump continues.

TRENDING STATISTICS

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
VACANCY RATE	▼	—
NET ABSORPTION	▲	—
LEASE RATES	▲	—
NEW SUPPLY	▲	▲

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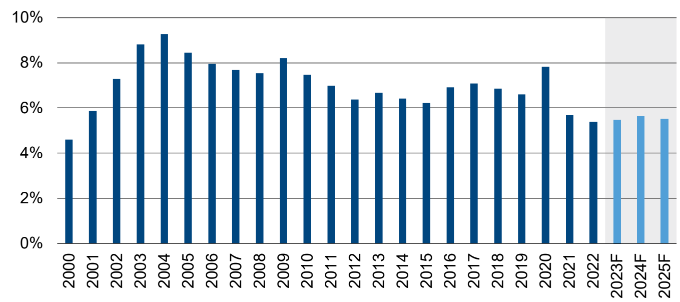
AVERAGE RENTAL VACANCY

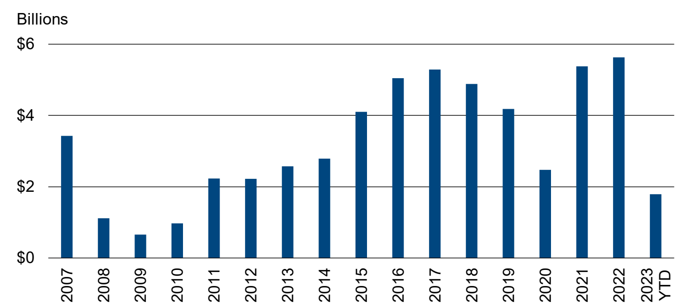
Chicago Multi-Suite Residential



Source: CoStar

INVESTMENT ACTIVITY

Chicago Multi-Suite Investment Volume to June 2023



Source: CoStar

Sales activity began to slow significantly, with a modest $1.8 billion of transaction volume recorded for the first six months of 2023.

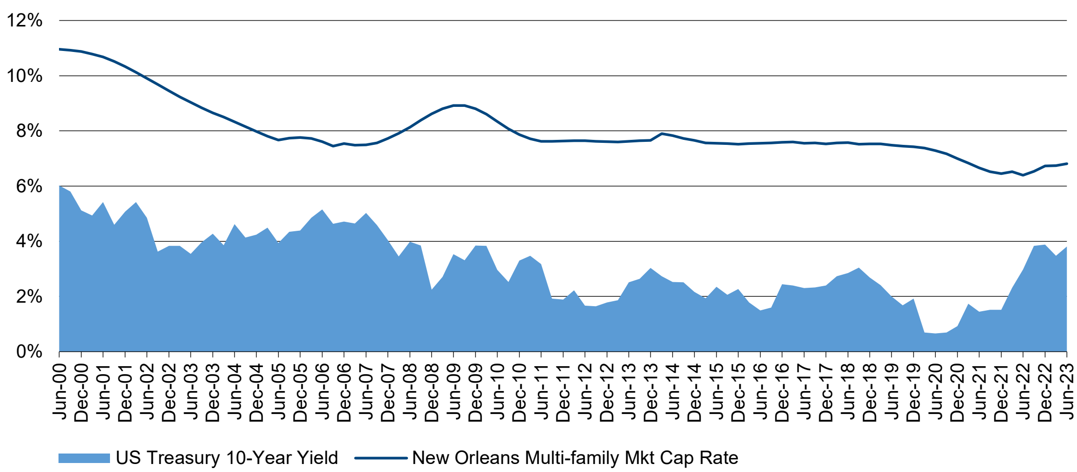
NEW ORLEANS, LA

ECONOMIC OUTPUT TO DECLINE

The New Orleans-Metairie (NOM) MSA economy is expected to contract over the near term, following a strong first-half performance. Real GDP is forecast to decrease in both the second half of 2023 and through much of 2024. The regional economy is expected to advance by a healthy annualized rate of 2.7% in 2023, despite the second-half contraction. Economic growth is projected to average just shy of 1.0% annually between 2024 and 2027, driven largely by the region's tourism, chemical manufacturing, and mining sectors.

YIELD SPREADS

New Orleans Multi-Res Cap Rates vs. 10-Year Treasury Yield



Source: CoStar, U.S. Department of the Treasury

The NOM MSA's labour market recovery will continue at a relatively slow pace over the near term. Employment levels will increase by less than half of 1.0% in 2024, a pattern that will continue over the subsequent three-year period. The region's unemployment rate will rise to a three-year high of 5.5% in 2024, as labour gains exceed employment growth. The labour market will remain tight over the next few years, which will drive wages markedly higher. Overall, however, the pace of the region's labour market recovery will be slow.

The NOM MSA's consumer spending outlook is moderately positive. Spending will increase by an annual average of 1.5% in 2023/2024. Wage growth will boost spending to some degree. Consumer price inflation and high-debt-servicing costs will erode household spending power. Consumer spending patterns will improve slightly over the medium term, with Oxford Economics forecasting average growth of just shy of 2.0% annually for 2025-2027. In short, the consumer spending outlook for the NOM MSA is moderately positive.

MODEST RENTAL MARKET GAINS FORECAST

Modest gains are forecast for the NOM MSA multi-suite residential rental market over the near term, continuing the recent trend. The gains will be driven in large part by a combination of moderately positive demand patterns and a reduction in new supply completions. The NOM MSA's economy will continue to gradually recovery from the pandemic-influenced losses, ensuring demand for rental accommodation remains moderately positive. Post secondary institutions like Tulane University and Loyola University New Orleans will drive rental demand. The rising cost of ownership will ensure many renter households continue to rent in this region. Positive demand patterns will coincide with a reduction in new supply completions. In the first half of 2023, more than 1,400 rental units were absorbed while a modest 414 new units were added to inventory. Demand will outpace new supply over the near term, resulting in modest downward vacancy pressure. The market's average vacancy rate is expected to drop by 90 bps to 6.9% in 2024, after a 150-bps year-over-year decline this year. As the market tightens, rents will steadily rise. The rent growth will be an indicator of the modest rental market gains forecast over the near term.

STABILIZATION WILL BE THE DOMINANT INVESTMENT MARKET THEME

Stabilization will be the dominant NOM MSA multi-suite residential rental investment property market theme over the near term. Acquisition demand will remain spotty, with institutions and pension funds remaining on the sidelines. Private capital groups will be relatively active. Interest-rate-sensitive buyers will delay acquisitions in this market until borrowing costs come down. Consequently, transaction closing volume will fall significantly short of the 2022 peak over the balance of this year and in 2024. Value-add opportunities will continue to generate interest, in keeping with the long-term trend. The relatively few active institutions and pension funds will continue to target larger scale, stabilized properties. The gap between vendor and purchaser pricing expectations will continue to limit property sale closings. Consistent and modest downward pressure on values will continue over the near term, in keeping with the trend of the past 6 to 12 months. In certain cases, vendors will look to achieve peak pricing when selling assets. As a result, investment sales volume will remain well below the most recent peak level. In short, investment market trends over the near term will mirror those of the recent past, in keeping with the national trend.

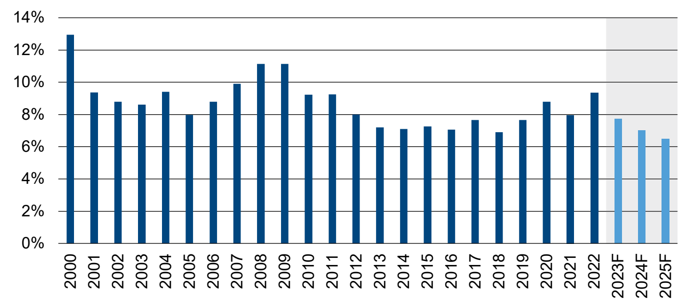
TRENDING STATISTICS

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
VACANCY RATE	▼	▼
NET ABSORPTION	▲	▲
LEASE RATES	▲	—
NEW SUPPLY	▼	▼

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

AVERAGE RENTAL VACANCY

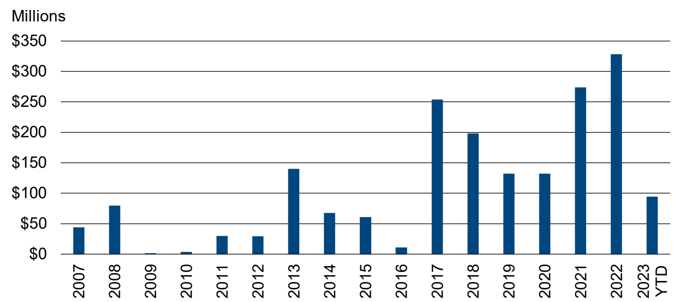
New Orleans Multi-Suite Residential



Source: CoStar

INVESTMENT ACTIVITY

New Orleans Multi-Suite Investment Volume to June 2023



Source: CoStar

In the first half of 2023, more than 1,400 rental units were absorbed while a modest 414 new units were added to inventory.

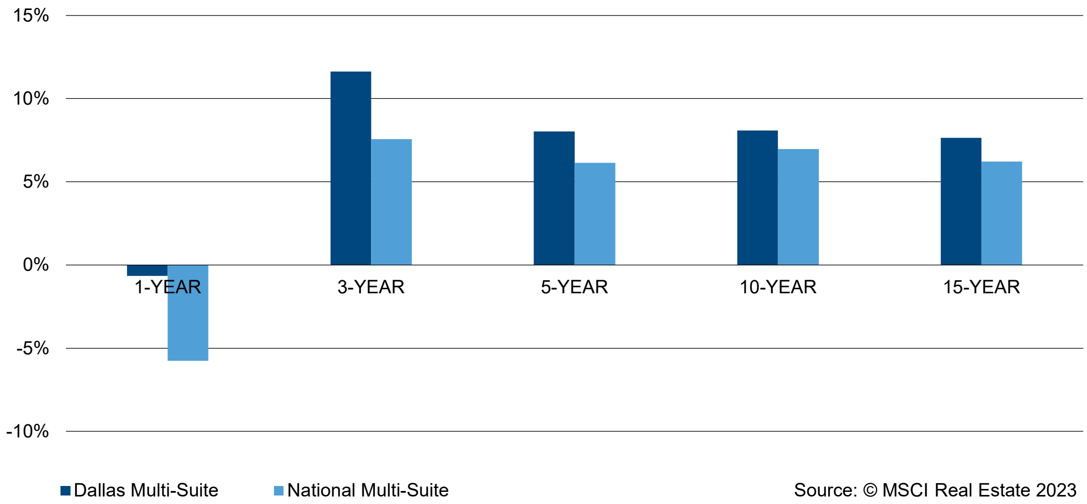
DALLAS, TX

SOLID ECONOMIC PERFORMANCE FORECAST

The Dallas-Fort Worth-Arlington (DFWA) MSA's economic outlook is generally positive. Real GDP is projected to expand by an average of roughly 2.5% on an annualized basis between 2025 and 2027. In 2024, growth of slightly less than 1.0% is forecast, due largely to the ongoing negative impacts of higher interest rates and inflation. As economic output increases, employment will rise at a moderate pace over the near-to-medium term.

HISTORICAL PERFORMANCE

For the period ending June 2023



Source: © MSCI Real Estate 2023

Conditions in the DFWA labour market will remain tight over the next few years. The region's unemployment rate will edge 40 bps higher next year to 3.9% from the 3.5% average forecast for 2023. The rate is projected to stabilize over the subsequent three-year period. Employment will rise 3.1% in 2023. After a slight increase in 2024, growth will average close to the 1.0% mark annually through to 2027. During the same time-period, labour market conditions will remain tight.

Positive consumer spending momentum is forecast over the next few years for the DFWA MSA. Oxford Economics' forecast calls for spending to rise by a solid 3.9% this year, with a modest 1.1% rise expected in 2024. Subsequently, spending increases will average just shy of 3.0% through to 2027 on an annual basis. Positive momentum will be driven by several factors including strong wage, employment and personal disposable income growth patterns over the medium term.

RENTAL MARKET SOFTENING EXPECTED

Conditions in the DFWA multi-suite residential rental market are expected to soften over the near term, continuing the 2022 trend. Vacancy will rise considerably. The market's average vacancy rate is projected to rise to a 13-year high of 9.7% by the end of 2023. The average vacancy rate will have risen 370 bps from the decade-low of 6.0% reported in 2021. Vacancy is forecast to hold at the 13-year high level in 2024. The rising vacancy trend will be driven by a surge of new construction. CoStar is projecting new supply completions will rise to a 13-year high, with more than 32,000 units in 2023 and more than 22,000 in 2024. The absorption of roughly 29,000 units is forecast over the same two-year time-period. Rental demand is expected to fall significantly short of supply in both the latter half of 2023 and much of 2024. Household formation activity slowed in the first half of 2023, due in part to the rising cost of living in this market. The continuation of these trends over the near term will erode demand for rental accommodation. Rent growth will begin to ease as demand falls short of supply. The DFWA's average monthly rent is projected to rise by just 0.3% year-over-year in 2023. The average rose by a solid 4.4% in 2022, following a double-digit advance over the previous year. Rent growth is expected to firm by the end of 2024, as the forecast near-term rental market softening eases.

DEAL VELOCITY TO REMAIN LOW

Deal velocity is expected to fall short of levels reported over the past few years over the near term. Leverage-reliant buyers will continue to hold off on acquisitions in this market while borrowing costs remain elevated. At the same time, some vendors will be reluctant to sell in a down market. Deal velocity slowed substantially in 2022, as borrowing costs steadily increased. A modest $179.4 million of investment property sales was recorded by CoStar over the first six months of 2023. Transaction volume had averaged just shy of $5.7 billion annually over the three-year period ending in 2022, which included $3.4 billion in 2020. As deal velocity declined, capitalization rates began to rise. However, the gap between vendor and purchaser pricing expectations had widened, resulting in fewer deal closings. At the same time, investment performance weakened considerably. Properties contained in the MSCI Index posted a combined negative annual average total return of 0.8% for the year ending June 30, 2023. The result contrasted to the bullish double-digit return posted for the previous year. The negative outcome was due entirely to capital depreciation. Downward pressure on valuations will continue over the near term while investment deal velocity remains low.

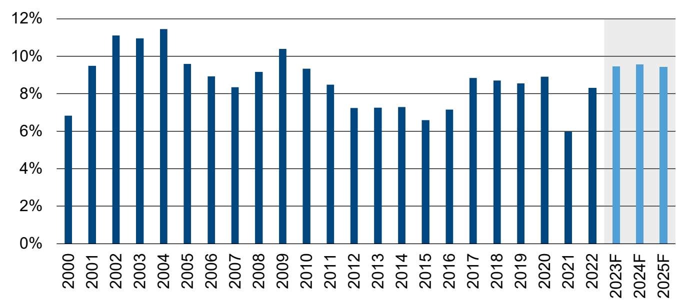
TRENDING STATISTICS

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
VACANCY RATE	▲	▲
NET ABSORPTION	▲	▲
LEASE RATES	—	—
NEW SUPPLY	▲	▲

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

AVERAGE RENTAL VACANCY

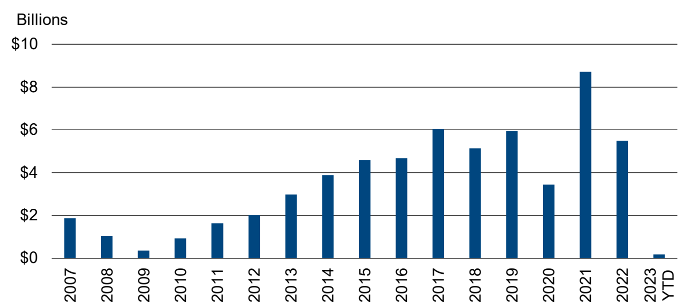
Dallas Multi-Suite Residential



Source: CoStar

INVESTMENT ACTIVITY

Dallas Multi-Suite Investment Volume to June 2023



Source: CoStar

Rental demand is expected to fall significantly short of supply in both the latter half of 2023 and much of 2024.

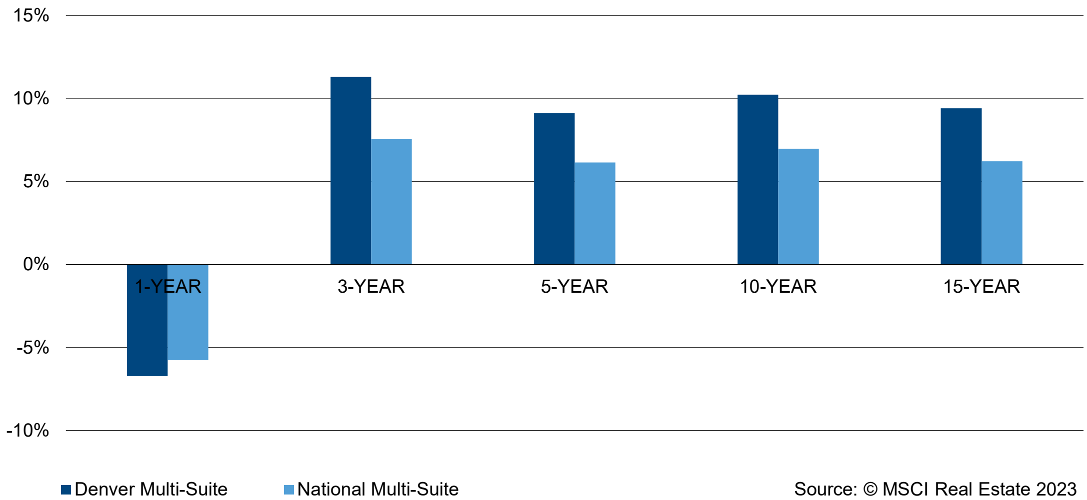
DENVER, CO

ECONOMY WILL GEAR DOWN

The Denver-Aurora-Lakewood (DAL) MSA economy is expected to gear down over the near term, in keeping with the national trend. Economic output will increase by a modest 0.8% in 2024, having contracted slightly in the latter half of 2023 according to Oxford Economics. Subsequently, the DAL MSA economy will gear up, resulting in annualized expansion of 2.5% from 2025 through to 2027. The economy is projected to strengthen over the medium term, resulting in healthier labour market conditions.

HISTORICAL PERFORMANCE

For the period ending June 2023



Source: © MSCI Real Estate 2023

Job growth will moderate over the near term, in keeping with the national trend. Employment is forecast to rise by an annual average of just 0.5% in 2023/2024. Employment growth is expected to average less than 1.0% annually over the subsequent three-year period. A 0.3% increase was tallied in the first six months of 2023, falling short of the national average of 1.1%. The region's state and local government, architectural and engineering, and leisure and hospitality sectors will lead the job growth charge over the near term.

Largely positive consumer spending patterns are forecast for the DAL MSA over the next few years. Spending volume will rise by 1.5% next year, after a firmer 2.3% advance in 2023. By 2025, consumer spending will increase more substantially, with annual gains projected through to 2027. Population growth will outpace the national average, which will drive spending volume higher. In addition, strong wage growth projected over the next few years will boost spending.

RENTAL MARKET TO WEAKEN SUBSTANTIALLY

The DAL MSA multi-suite residential rental market is expected to weaken substantially over the near term. The weakening will be driven largely by a surge of new supply completions in 2023/2024. New supply will exceed demand, resulting in the erosion of market fundamentals. Approximately 11,000 units of new supply will be delivered to this market and readied for occupancy in 2023. An additional 13,000 units of new supply will be delivered in 2024, which will be a 14-year annual high. The new supply delivered over the next few years will push vacancy materially higher. The market's average vacancy rate is forecast to rise to a 15-year high of 8.6% by the end of 2024. As vacancy rises, downward pressure on market rents will increase in all segments of the market. The DAL MSA average monthly rent is forecast to drop by 1.3% in 2023. Landlords will be forced to offer incentives to prospective tenants, particularly in submarkets with above-average new supply deliveries. The DAL MSA rental market will strengthen over the medium term, having weakened substantially this year and in 2024.

CAPITAL FLOW TO REMAIN BELOW AVERAGE

The flow of investment capital into the DAL MSA multi-suite residential rental property sector will remain below average over the near term. Investment sales will continue to underwhelm while the cost of capital remains high. As borrowing costs increased over the past year, institutional and pension fund buyers retreated to the sidelines. At the same time, the spread between vendor and purchaser price expectations widened. Investment sales activity dropped sharply. Capitalization rates began to rise, as investors looked to offset higher borrowing costs and economic uncertainty. A modest $725.1 million of multi-suite residential rental property investment sales volume was reported for the first six months of 2023, well below the five- and 10-year averages for the same time-period. Sales volume had averaged almost $4.0 billion annually over the preceding five-year period. Investment performance entered bearish territory recently, as property values decreased. DAL MSA properties contained in the MSCI Index posted a negative aggregate total return of 6.8% for the year ending June 30, 2023. The aggregate value of the properties declined by 10.0%, more than offsetting a stable and positive income performance. Investment performance patterns are expected to underwhelm over the near term, a period during which the flow of capital into this market will remain below the medium- and long-term average.

TRENDING STATISTICS

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
VACANCY RATE	—	▲
NET ABSORPTION	▲	▲
LEASE RATES	▲	—
NEW SUPPLY	—	—

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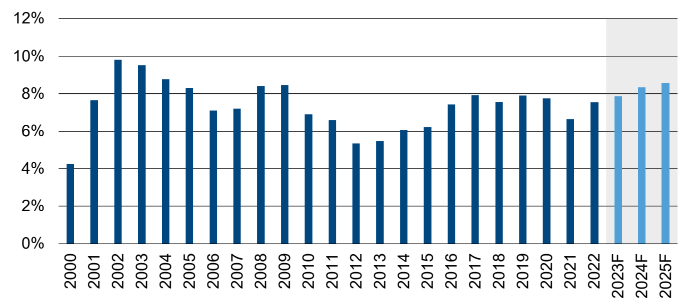
AVERAGE RENTAL VACANCY

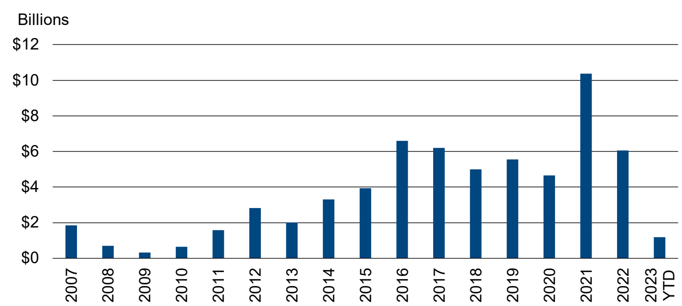
Denver Multi-Suite Residential



Source: CoStar

INVESTMENT ACTIVITY

Denver Multi-Suite Investment Volume to June 2023



Source: CoStar

Approximately 11,000 units of new supply will be delivered to this market and readied for occupancy in 2023.

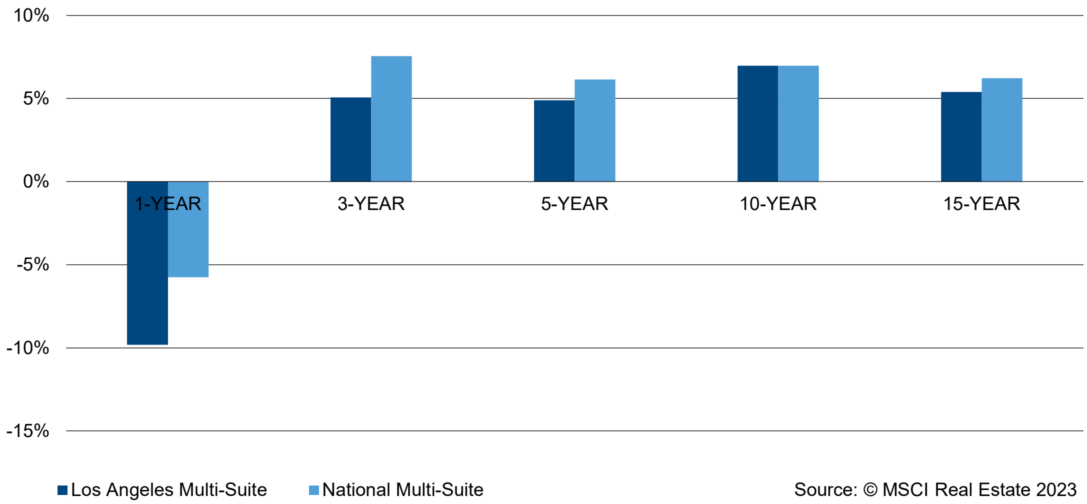
LOS ANGELES, CA

GRADUAL STRENGTHENING FORECAST

The Los Angeles-Long Beach-Anaheim (LALBA) MSA economy will gradually strengthen over the medium term, following a period of weaker performance. Economic output is projected to increase by just shy of 1.0% in the latter half of 2023 and subsequently stabilize next year. Real GDP will rise by a moderately positive 1.8% in 2025, with advances of close to 2.0% on an annualized basis over the medium term.

HISTORICAL PERFORMANCE

For the period ending June 2023



Source: © MSCI Real Estate 2023

The LALBA labour market will gradually strengthen over the near term. Employment will be largely unchanged in 2024, following a 1.6% increase this year. The region's worker ranks will subsequently rise by an annual average of just 0.5% through to 2027. The LALBA tourism, leisure and hospitality, and social services industries have racked up solid employment gains over the recent past. By early 2023, jobs lost as a result of the pandemic had been recovered. The labour market will continue to improve over the near term.

Consumer spending growth will stabilize over the medium term. Private consumption is forecast to rise by an annual average of 2.0% from 2025 to 2027. In 2024, spending will rise by just 0.4%, according to Oxford Economics. Interest rate hikes and inflation will erode consumer spending power in the second half of 2023 and in the following year. However, a firmer and more stable spending growth trend is expected to unfold over the medium term.

RENTAL MARKET CONDITIONS WILL SOFTEN

Conditions in the LALBA multi-suite residential rental property market will soften over the near term, a trend that started in the latter half of 2022. The softening will be driven by a market dynamic whereby new supply will exceed demand by a significant margin. Approximately 10,600 newly built units will be added to inventory in 2023, up from the 9,190 units added in 2022. Demand for rental accommodation slowed significantly in 2023. Family formation activity declined, due in part to rising inflation levels and economic uncertainty, a trend that is expected to continue over the near term. CoStar reported absorption of 2,700 vacant units across the region, year-over-year as of the end of the third quarter of 2023. A year earlier, 9,800 units were absorbed. The market average vacancy rate is expected to increase by 80 bps to 5.1% in 2023, which is 120 bps higher than the decade low of 3.9% set in 2021. Rent growth will ease in the latter half of 2023 and in early 2024 as vacancy steadily rises. Rent growth peaked last year, with Apartments.com reporting an average asking rent increase of 8.0% year-over-year as of March 2022. The rent growth moderation will be symptomatic of the broader rental market softening forecast over the near term.

INVESTMENT ACTIVITY TO FALL SHORT OF LONG-TERM AVERAGE

Investment activity in the LALBA MSA's multi-suite residential rental property sector will continue to fall significantly short of the long-term average over the near term. CoStar reported $2.8 billion of investment property sales for the first six months of 2023, with just $863.0 million in the second quarter. Quarterly transaction volume had averaged $2.2 billion over the past decade. Investors will struggle to achieve investment return targets due in large part to higher debt servicing costs. Financing costs began to rise in the first half of 2022. As a result, buyers looked to achieve discounts to offset the increased cost. However, some vendors continued to command peak pricing when disposing of assets. Property valuations have dropped modestly from the 2021 peak, with higher capitalization rates reported on sales over the past year. The downward pressure on property values was evidenced in recent MSCI investment performance data. Properties contained in the index posted an aggregate negative return of 9.6% for the year ending June 30, 2023. The negative result was due entirely to the depreciation of the aggregate value of the properties. The income component was stable and positive. Performance is expected to remain relatively weak over the near term, a period during which investment sales volume fall shorts of the long-term average.

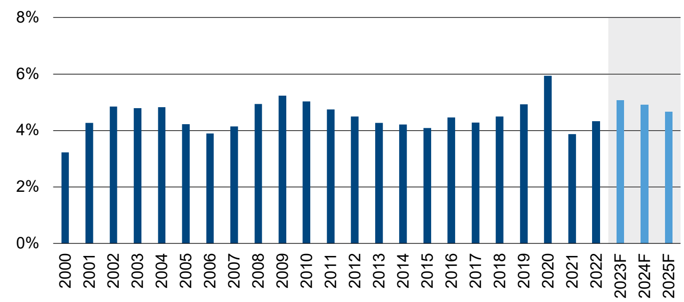
TRENDING STATISTICS

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
VACANCY RATE	▲	▲
NET ABSORPTION	—	▼
LEASE RATES	▲	—
NEW SUPPLY	▲	▲

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

AVERAGE RENTAL VACANCY

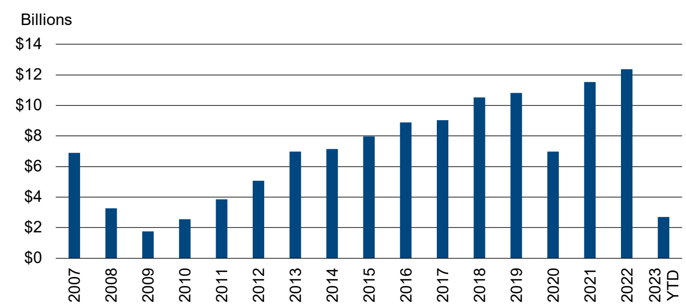
Los Angeles Multi-Suite Residential



Source: CoStar

INVESTMENT ACTIVITY

Los Angeles Multi-Suite Investment Volume to June 2023



Source: CoStar

Rent growth will ease in the latter half of this year and in the first half of 2024 as vacancy steadily rises.

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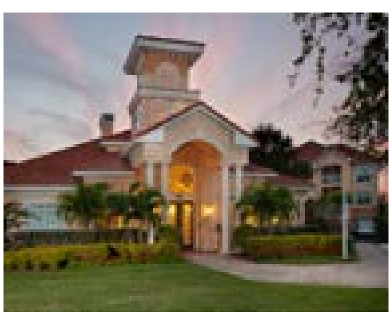

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