

# U.S. AND FLORIDA APARTMENT OUTLOOK - 2024 AND BEYOND

## *TURNING CHANGE INTO OPPORTUNITY*

November 29, 2023

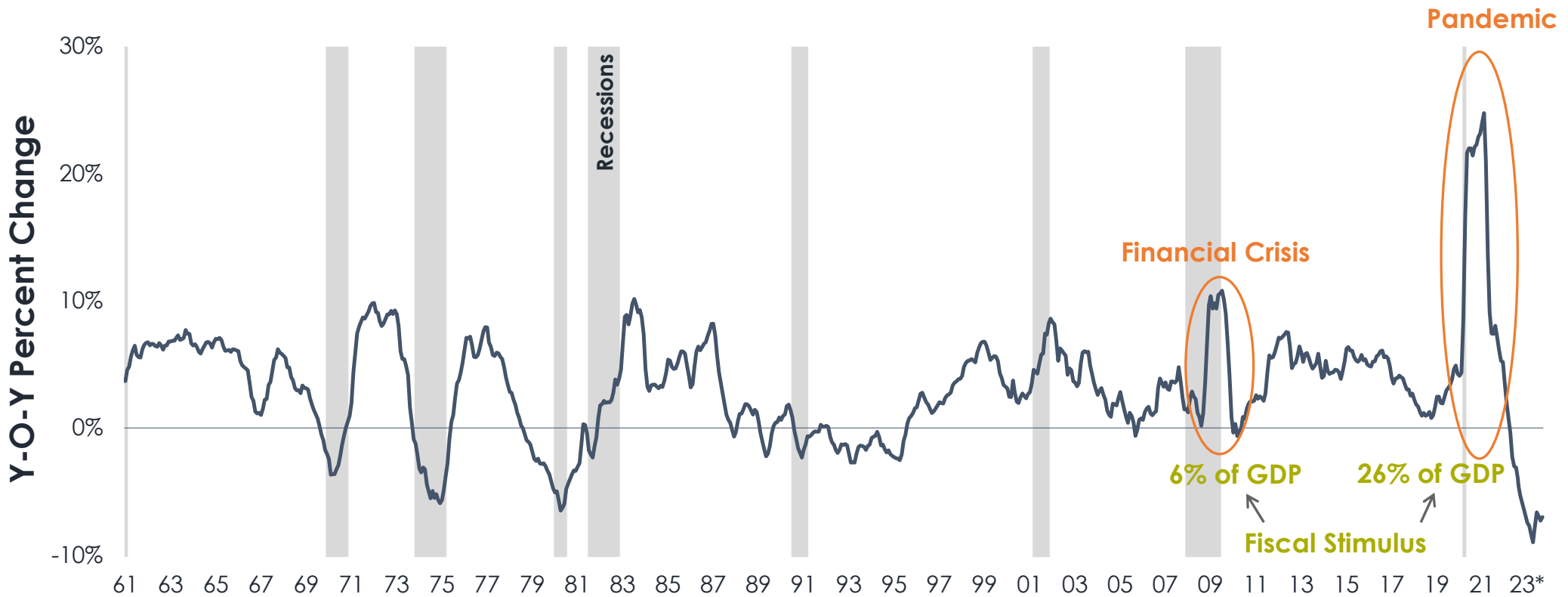
**PRESENTED BY**  
**HESSAM NADJI – PRESIDENT/CEO**

**IPA** | INSTITUTIONAL  
PROPERTY  
ADVISORS

Marcus & Millichap

# REAL MONEY SUPPLY INCREASE UNPRECEDENTED TO OFFSET PANDEMIC

## Rapid shift restraining capital flows



\* Through September

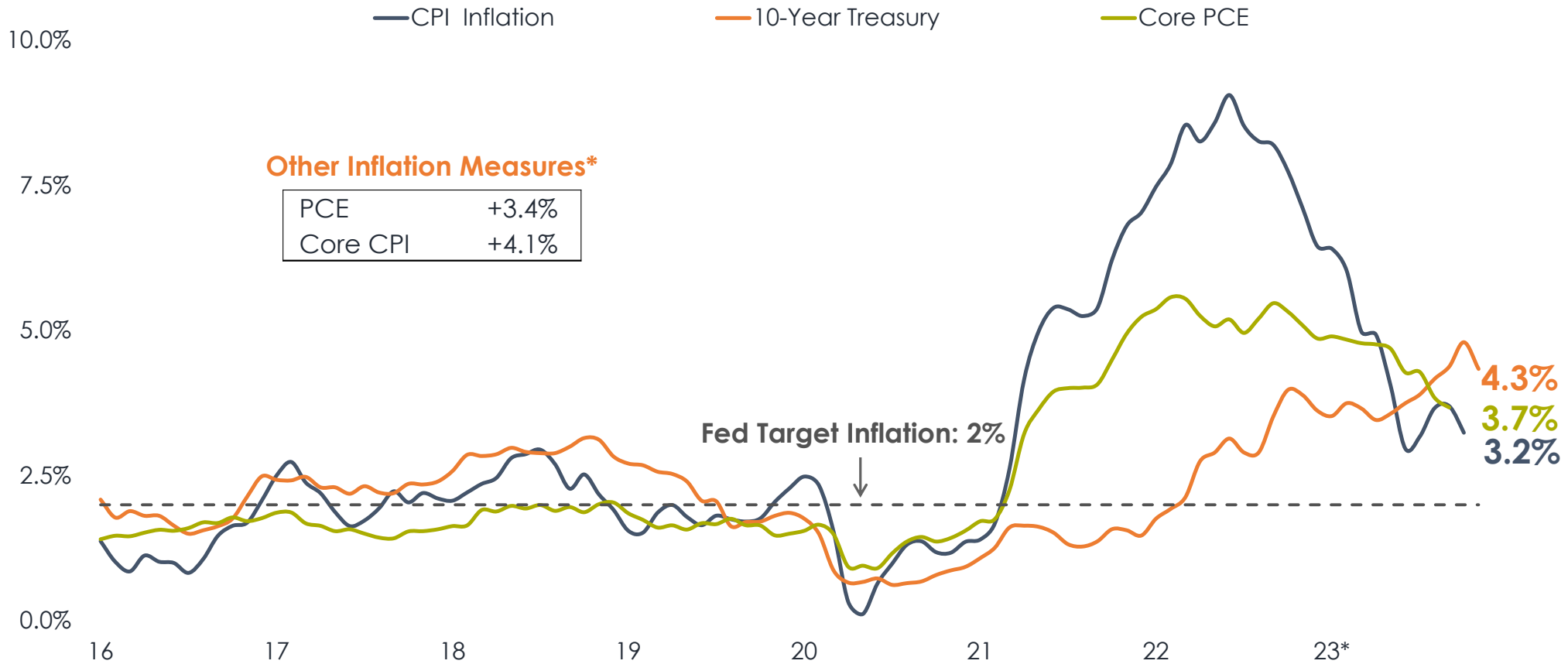
Real M2 includes inflation-adjusted cash, checking deposits, savings deposits, money market securities, mutual funds and other time deposits

Sources: Marcus & Millichap Research Services, Federal Reserve

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# INFLATION PRESSURE HAS ABATED SUBSTANTIALLY

## Rate still remains above target

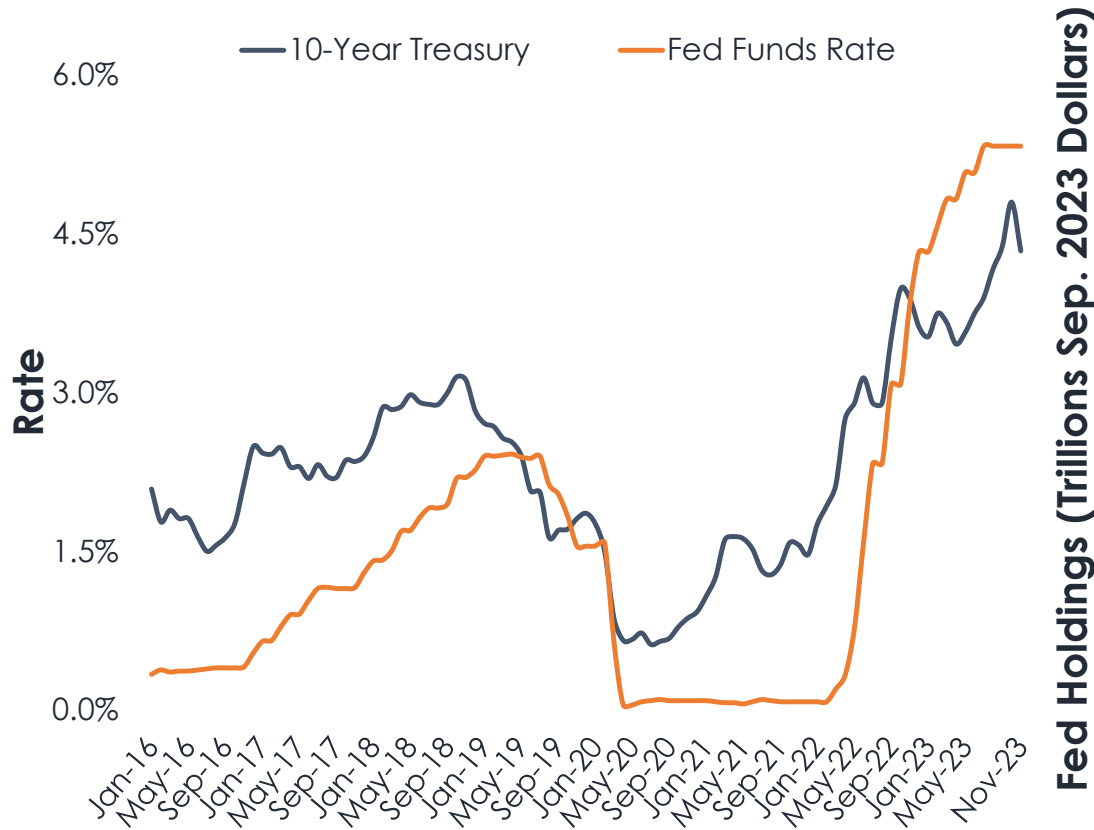


\* CPI through October; PCE through September; 10-Year Treasury through November 28  
 Sources: Marcus & Millichap Research Services, Federal Reserve, BEA, BLS

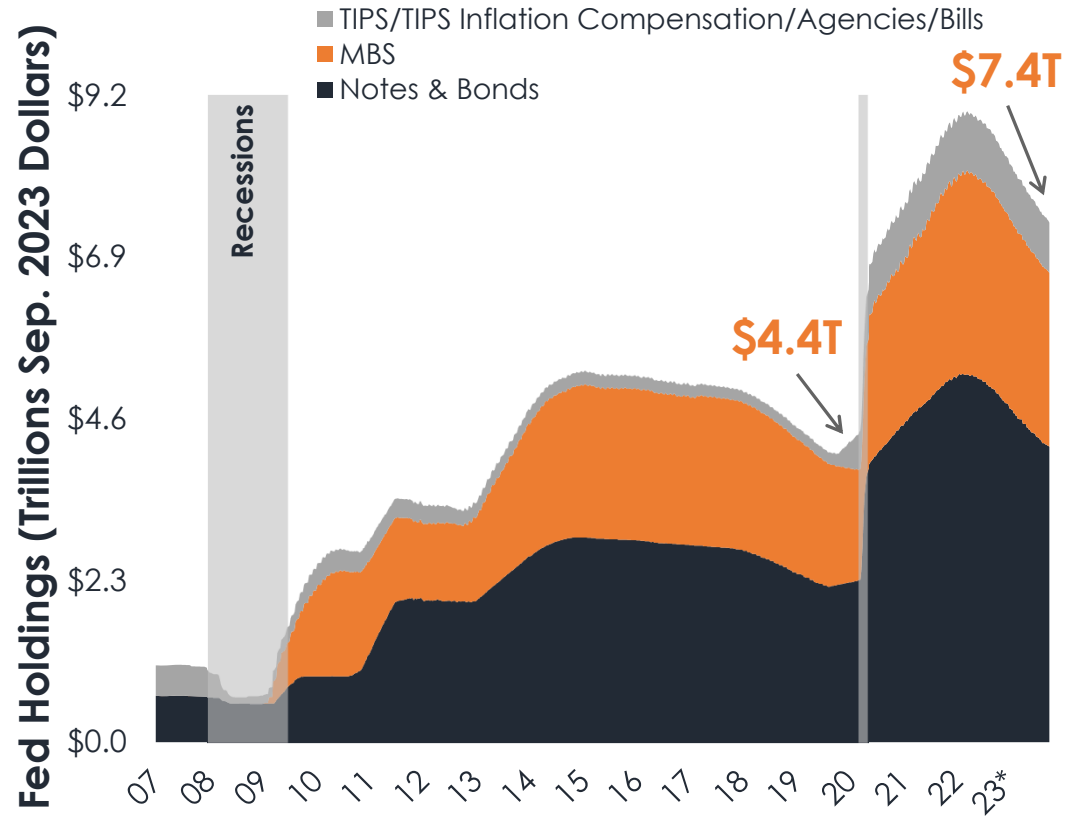
# MOST AGGRESSIVE FED TIGHTENING SINCE 1980 DISRUPTED CRE MARKETS

## Quantitative tightening creating a severe liquidity squeeze

### 10-Year Treasury vs. Fed Fund Rate



### Inflation Adjusted Fed Balance Sheet



\* Through November 20  
 10-Year Treasury and Fed funds rate through November 28, 2023  
 Adjusted for inflation using Core PCE  
 Sources: Marcus & Millichap Research Services, Federal Reserve, BEA

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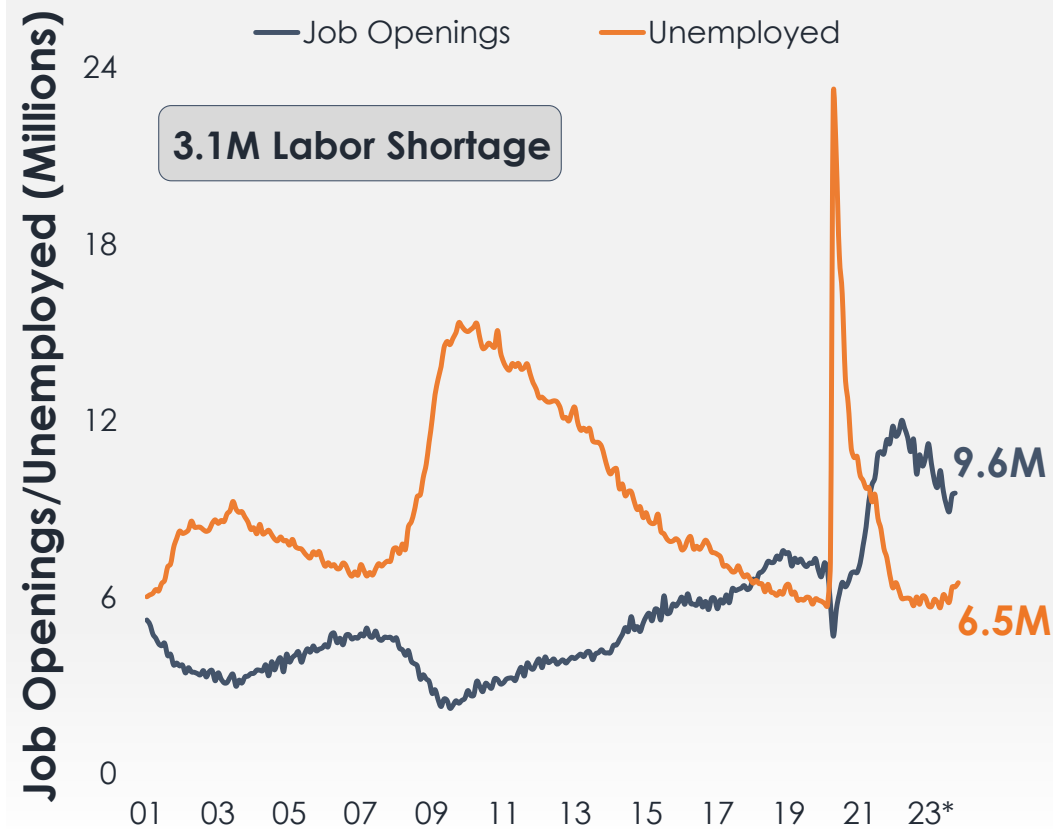
# LABOR MARKET REMAINS STRONG; LIKELY TO SLOW FURTHER BUT AVOID MAJOR CORRECTION

Monthly job growth pace slowing as desired by the Fed

## Total Employment



## Job Openings vs. Unemployed



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\* Through October; Job openings through September  
Sources: Marcus & Millichap Research Services, BLS

# JOB STRENGTH STANDS OUT IN GROWTH MARKETS

## Ranking by YOY growth rate through October 2023

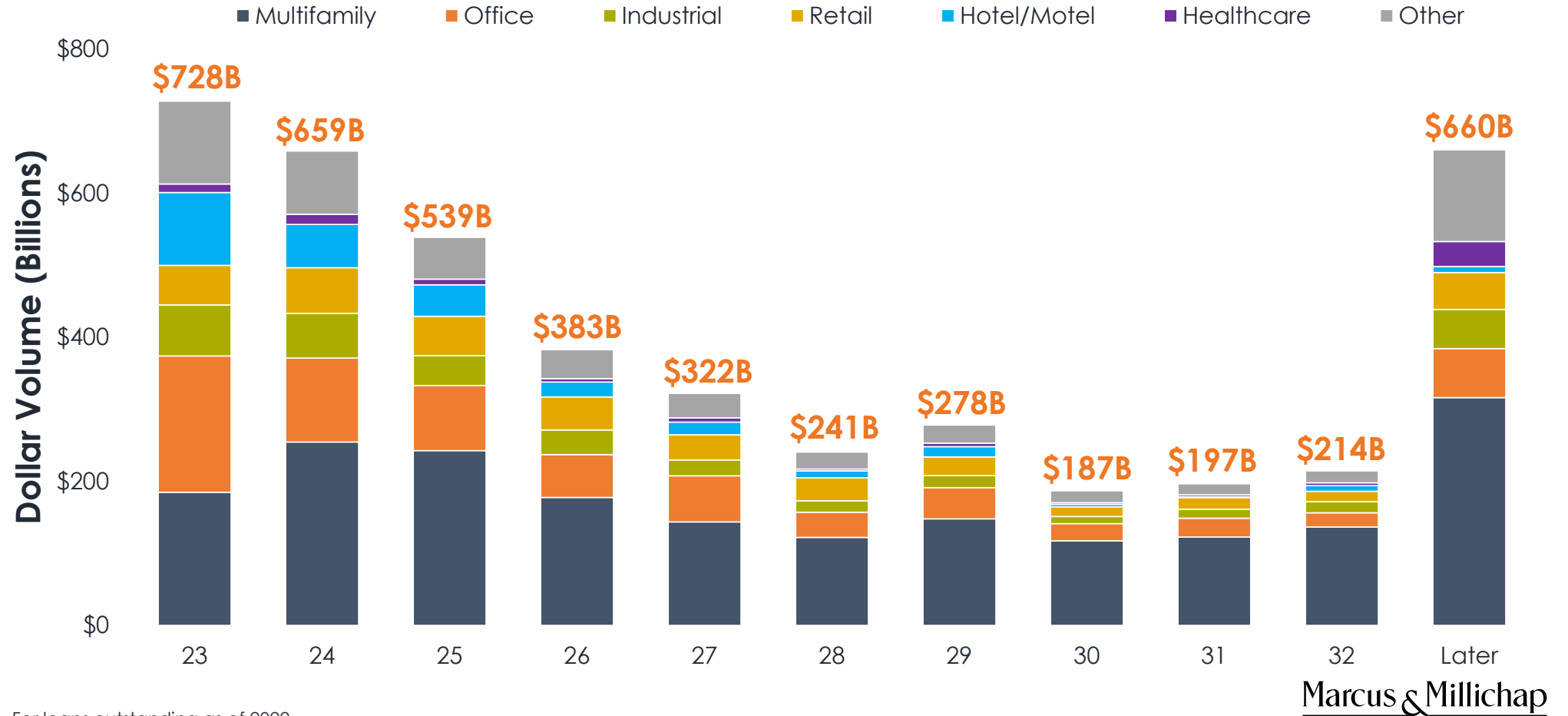
Top 10 Metros	Absolute Change	Percent Change
Jacksonville	30,800	3.9%
Las Vegas	39,900	3.6%
Miami	44,800	3.5%
Dallas-Fort Worth	144,400	3.5%
San Antonio	33,100	2.9%
Austin	35,400	2.7%
Philadelphia	82,900	2.7%
Fort Lauderdale	23,300	2.6%
Charlotte	34,300	2.6%
Tampa	38,900	2.6%
U.S. Total	2,917,000	1.9%

Bottom 10 Metros	Absolute Change	Percent Change
Denver	-7,300	-0.5%
Detroit	600	0.0%
Milwaukee	2,700	0.3%
Columbus	7,600	0.7%
Chicago	42,800	0.9%
San Jose	12,100	1.0%
San Francisco	15,000	1.3%
West Palm Beach	8,700	1.3%
Minneapolis-St. Paul	25,600	1.3%
St. Louis	18,600	1.3%
U.S. Total	2,917,000	1.9%

Marcus & Millichap

Sources: Marcus & Millichap Research Services, BLS

# ANNUAL COMMERCIAL REAL ESTATE LOAN MATURITIES BY PROPERTY TYPE

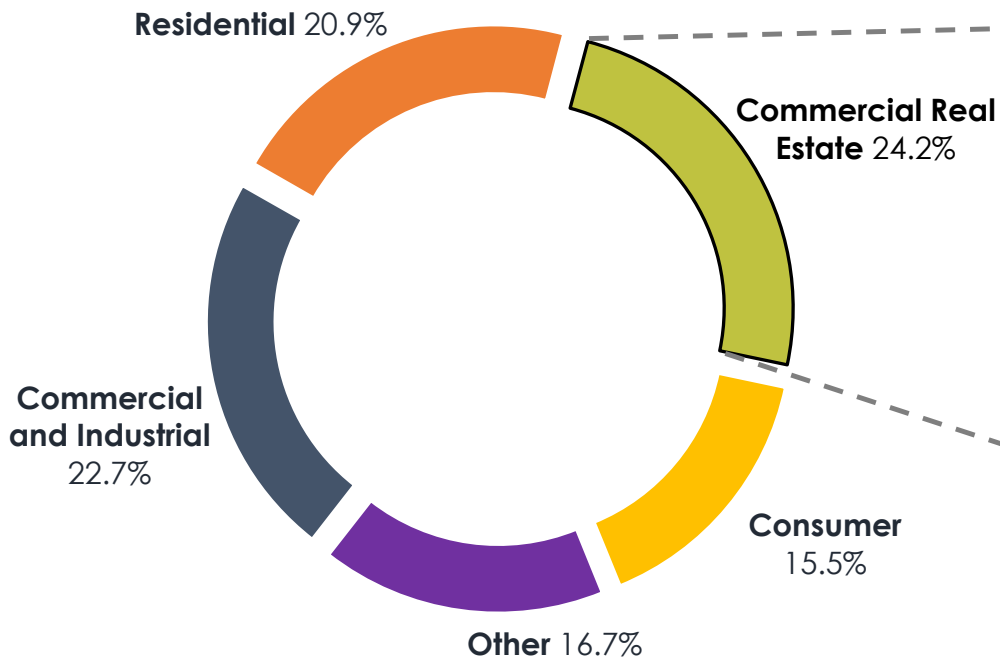


For loans outstanding as of 2022  
 Sources: Marcus & Millichap Research Services, Mortgage Bankers Association

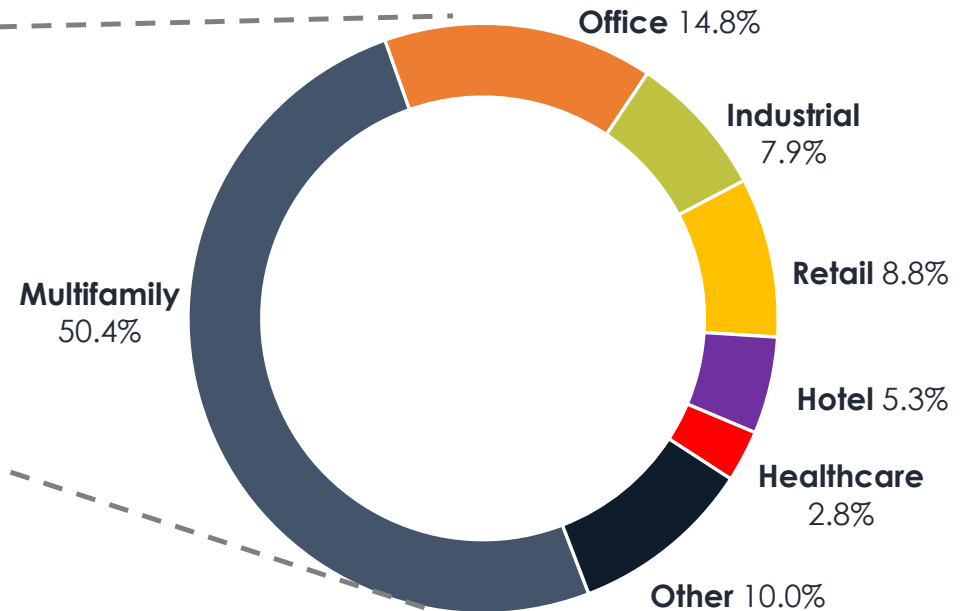
# BANKING SYSTEM EXPOSURE TO CRE TOO GENERALIZED

## Office loans account for just 3.6% of total bank outstanding loans

Bank Debt by Type



CRE Debt by Property Type Estimate



Marcus & Millichap

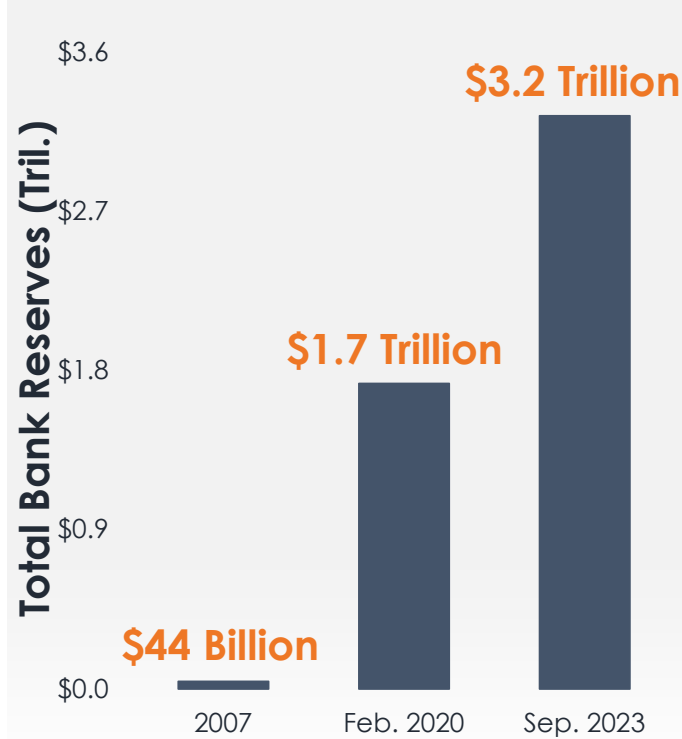
As of 2022  
Sources: Marcus & Millichap Research Services, Mortgage Bankers Association, Federal Reserve



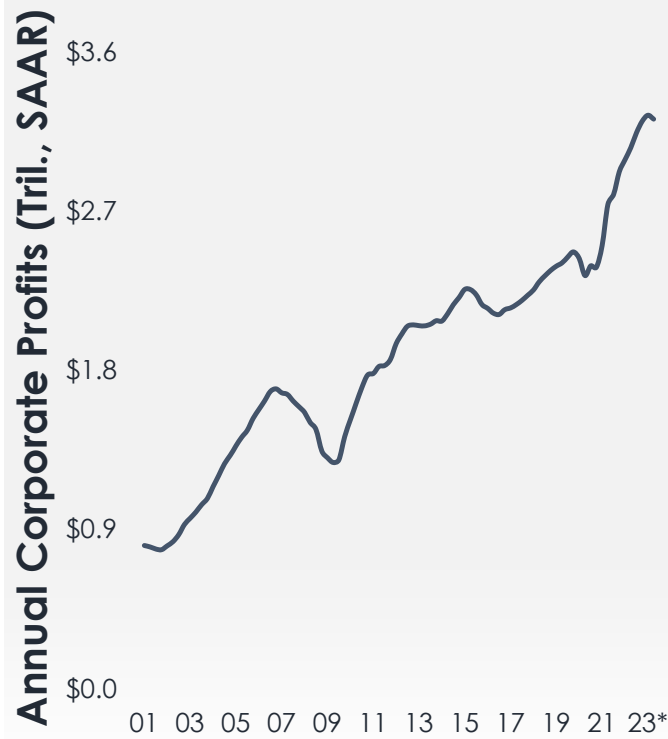
# PRE-PANDEMIC FINANCIAL FOUNDATION WAS SOLID, LOWERS SYSTEMIC RISK

## Key metrics are even stronger now

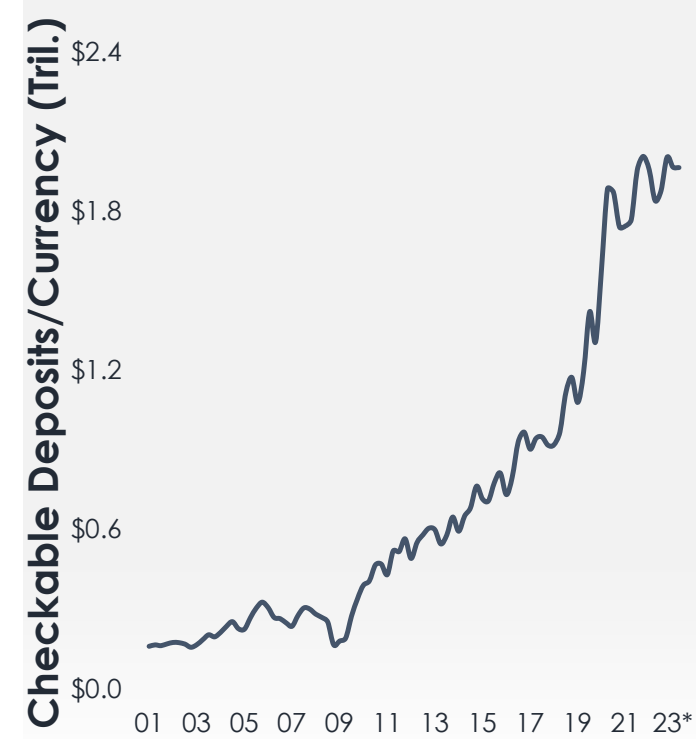
### U.S. Bank Reserves



### Corporate Profits\*\*



### Corporate Cash on Hand



\* Corporate profits through 3Q; Corporate cash on hand through 2Q

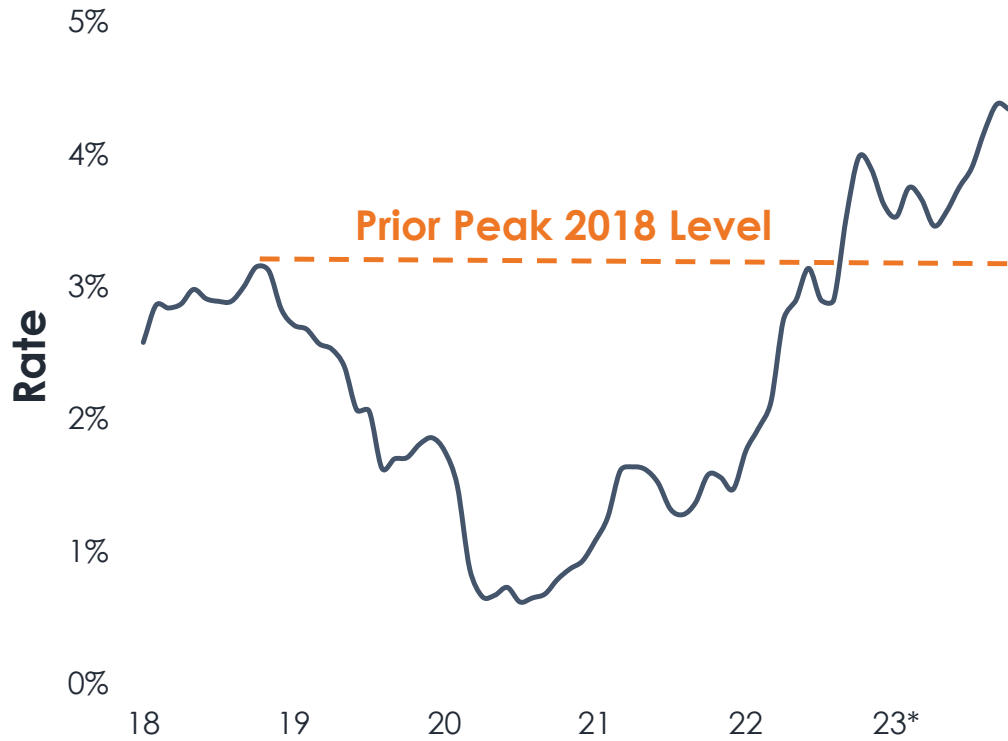
\*\* Trailing 12-month average

Sources: Marcus & Millichap Research Services, BEA, Federal Reserve Bank of St. Louis, Federal Reserve Board

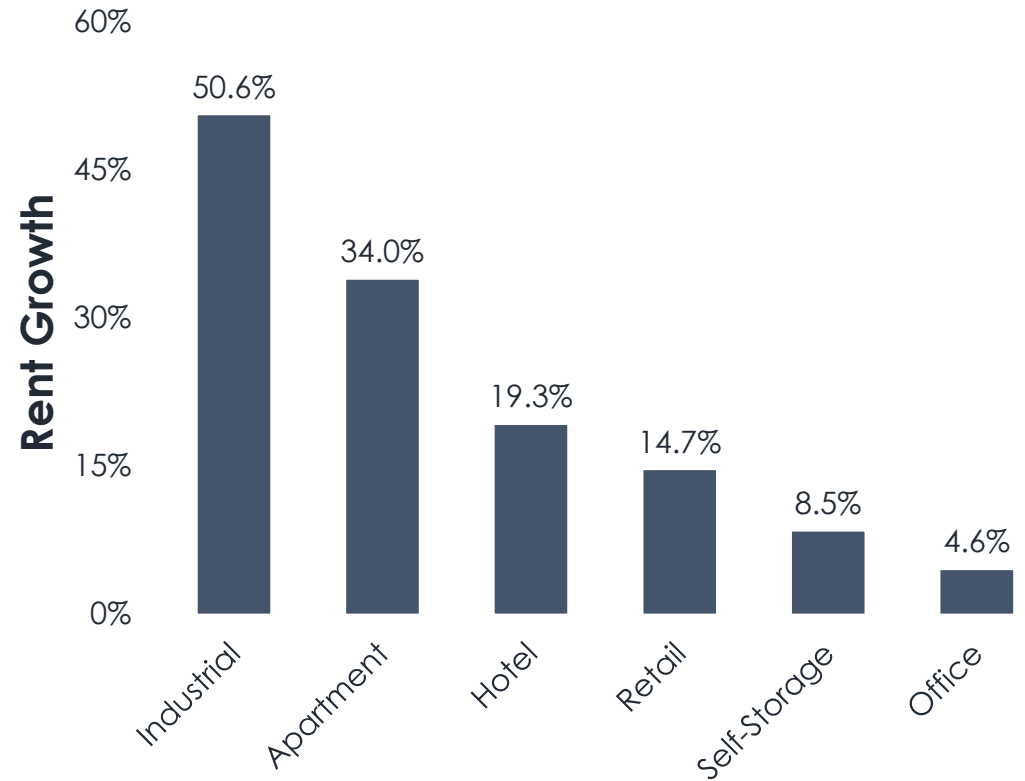
# INTEREST RATES IMPACT VARIES BY PROPERTY TYPE

## Rent growth paints a different picture by asset class

10-Year Treasury



Five-Year Rent Growth: 3Q 2018 to 3Q 2023

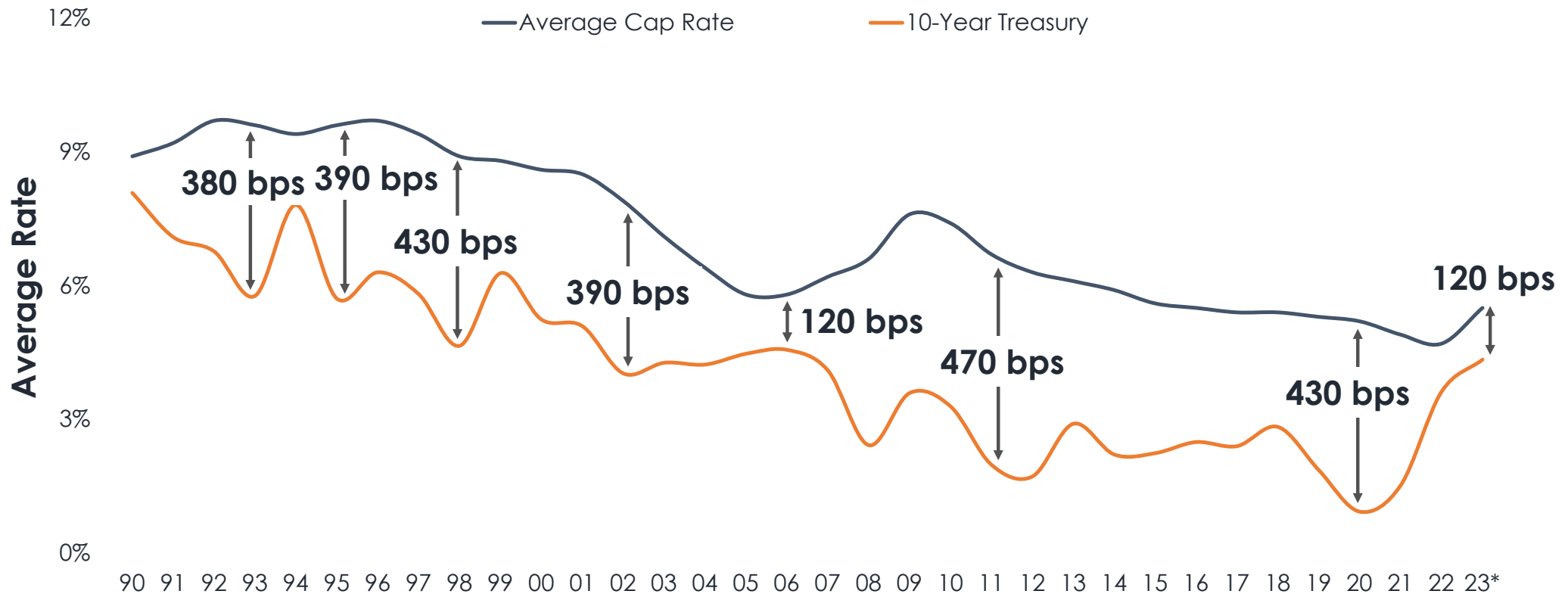


\* Through Nov. 28, 2023  
Trailing 12-month ADR for Hotel

Sources: Marcus & Millichap Research Services, Federal Reserve, CoStar Group, Inc., RealPage, Inc., Yardi Matrix

# MULTIFAMILY AVERAGE CAP RATE VS. 10-YEAR TREASURY

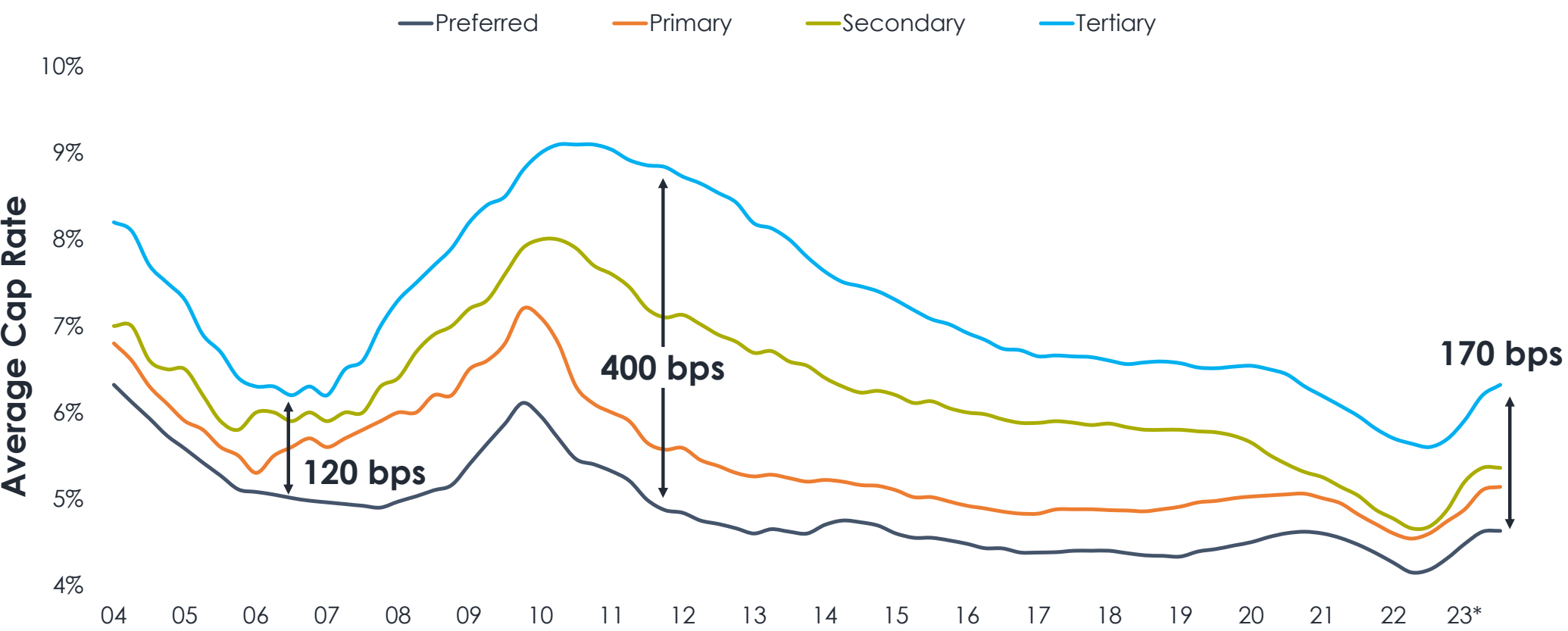
## Yield spread tightening more intense for preferred assets



\* Cap rate through 3Q; 10-Year Treasury through November 28  
 Includes apartment sales \$1 million and greater  
 Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics, Federal Reserve

# U.S. APARTMENT CAP RATES BY MARKET

Price adjustment in motion – Opportunities emerging – Balanced by market, asset quality



\* Through 3Q  
 Includes sales \$1 million and greater  
 Preferred Markets Include: NY, DC, BOS, SD, LA, OC, SJ, SF, SEA  
 Sources: Marcus & Millichap Research Services, Real Capital Analytics, CoStar Group, Inc.

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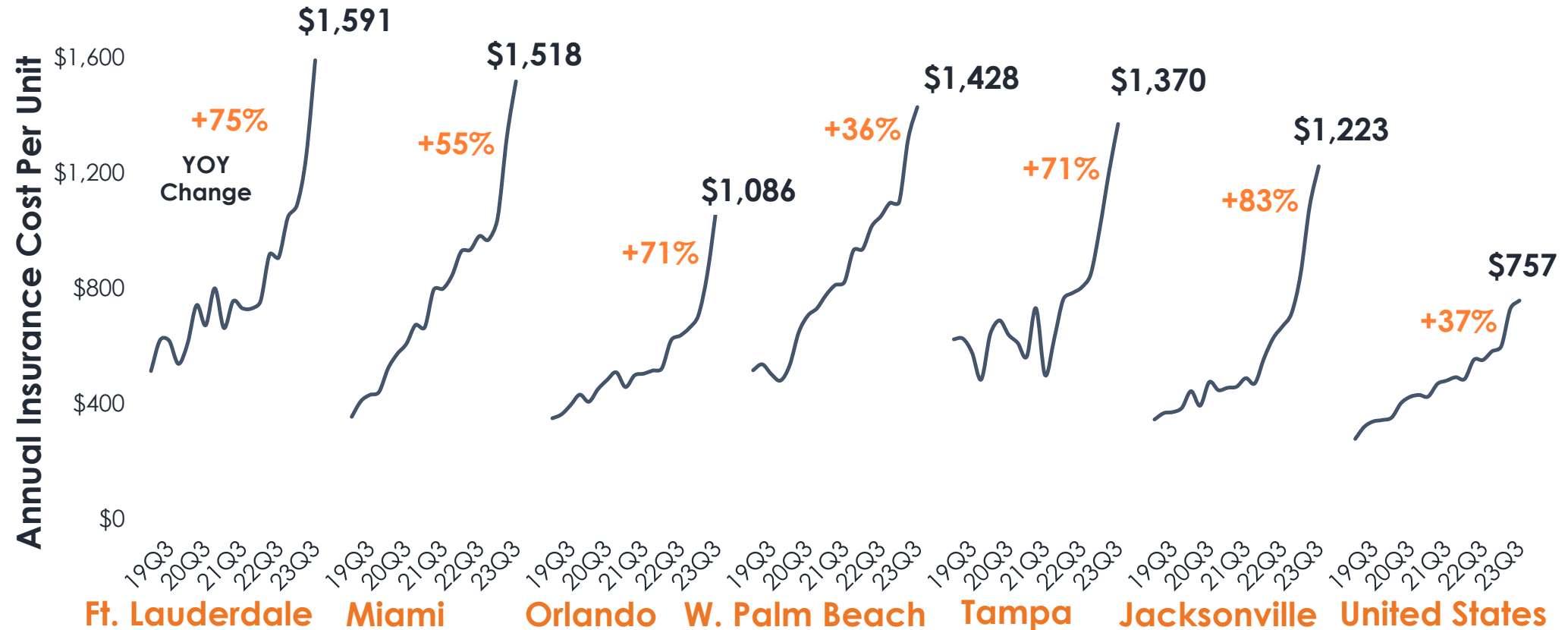
# APARTMENT RENT GROWTH VS. ANNUAL WAGE GROWTH



\* Through 3Q  
Sources: Marcus & Millichap Research Services, RealPage, Inc., BLS (Employment Cost Index)

# APARTMENT INSURANCE COSTS HAVE SURGED NATIONALLY

## Florida rates up dramatically



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Sources: Marcus & Millichap Research Services, RealPage, Inc.

# APARTMENT RENT GROWTH COOLING COMES AFTER RECORD SURGE

## Pre-Pandemic percent change

Top 10 Metros	3Q 2023 Avg. Effective Rent	Pre-Pandemic Change*
Tampa	\$1,853	48.0%
Fort Lauderdale	\$2,449	47.2%
Miami	\$2,569	46.0%
West Palm Beach	\$2,427	43.3%
Inland Empire	\$2,237	42.4%
San Diego	\$2,858	39.8%
Jacksonville	\$1,508	37.7%
Cincinnati	\$1,364	36.8%
Orlando	\$1,802	36.3%
Indianapolis	\$1,261	36.2%
U.S. Average	\$1,824	27.6%

Bottom 10 Metros	3Q 2023 Avg. Effective Rent	Pre-Pandemic Change*
San Francisco	\$2,822	-0.8%
San Jose	\$3,093	6.3%
New York	\$2,883	6.5%
Oakland	\$2,618	9.5%
Minneapolis-St. Paul	\$1,536	12.9%
Washington, D.C.	\$2,109	15.6%
Northern New Jersey	\$2,371	16.8%
Seattle-Tacoma	\$2,151	17.8%
Los Angeles	\$2,813	20.5%
Boston	\$2,939	20.5%
U.S. Average	\$1,824	27.6%

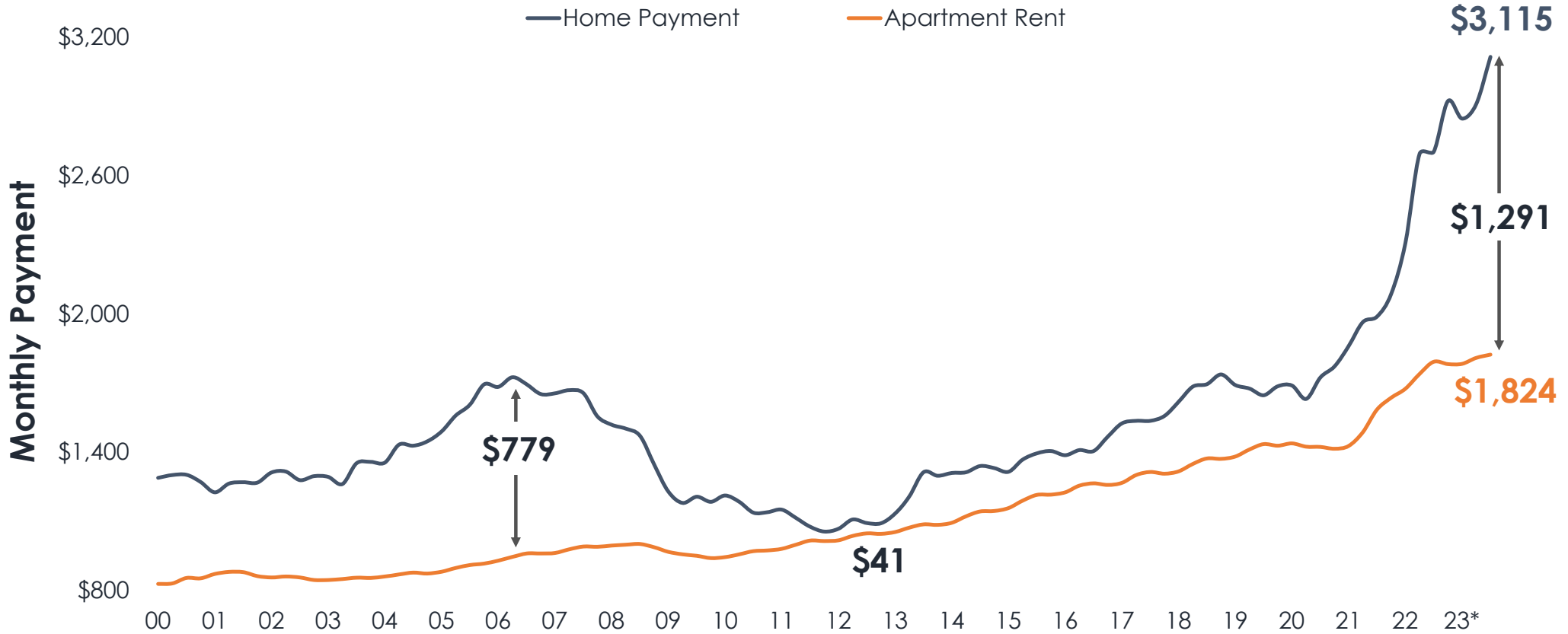
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\* Pre-pandemic change: 4Q 2019 – 3Q 2023

Sources: Marcus & Millichap Research Services, RealPage, Inc., CoStar Group, Inc.

# AFFORDABILITY GAP BETWEEN HOME PAYMENT AND AVERAGE RENT

## A key driver of renter demand for the foreseeable future



\* Through 3Q  
 Mortgage payments based on quarterly median home price for a 30-year fixed rate mortgage, 90% LTV, taxes, insurance, and PMI  
 Sources: Marcus & Millichap Research Services, RealPage, Inc., Freddie Mac, National Association of Realtors

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# HOME PRICES RESILIENT AFTER RECORD SURGE – FLORIDA METROS LEAD

## Low inventory keeping prices high despite higher interest rates

Top 10 Metros	3Q 2023 Median Home Price	Percent Change
West Palm Beach	\$1,206,200	67.1%
Miami	\$1,283,800	65.1%
Tampa	\$415,000	64.9%
Fort Lauderdale	\$1,144,500	60.6%
Phoenix	\$466,700	56.7%
Atlanta	\$369,400	56.1%
Orlando	\$436,100	54.3%
Jacksonville	\$396,300	53.0%
Cincinnati	\$281,600	50.5%
Inland Empire	\$577,600	50.2%
U.S. Average	\$400,000	42.9%

Bottom 10 Metros	3Q 2023 Median Home Price	Percent Change
Manhattan*	\$1,610,000	2.2%
San Francisco	\$1,719,900	9.4%
Minneapolis-St. Paul	\$380,200	29.4%
Chicago	\$347,200	29.8%
Baltimore	\$395,200	31.0%
Oakland	\$1,056,100	31.8%
Brooklyn	\$898,500	32.9%
Los Angeles	\$838,100	35.1%
Washington, D.C.	\$607,700	35.5%
St. Louis	\$258,000	36.0%
U.S. Average	\$400,000	42.9%

\* Includes condominiums

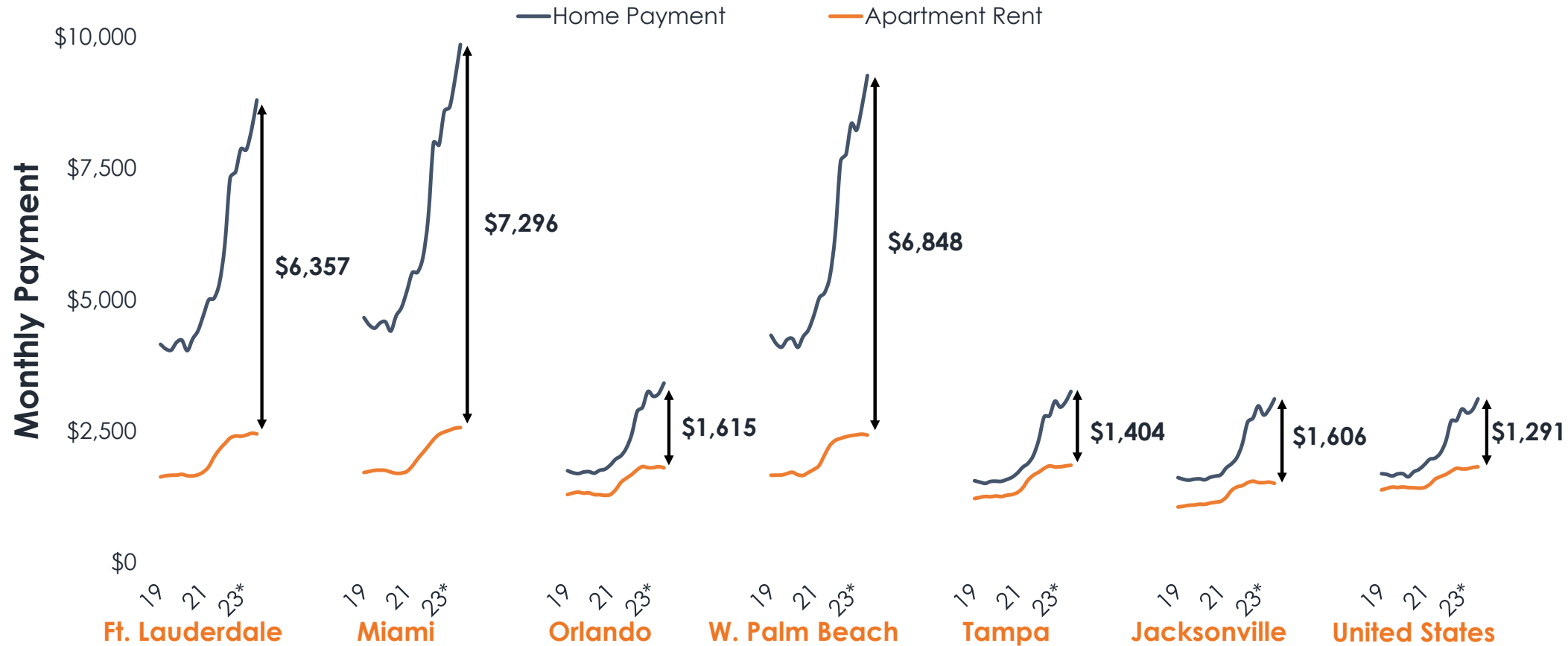
Pre-pandemic period: 4Q 2019 to 3Q 2023

Sources: Marcus & Millichap Research Services, National Association of Realtors, Douglas Elliman Real Estate

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# AFFORDABILITY GAP MORE ACUTE IN FLORIDA MARKETS

## Points to strength in renter demand

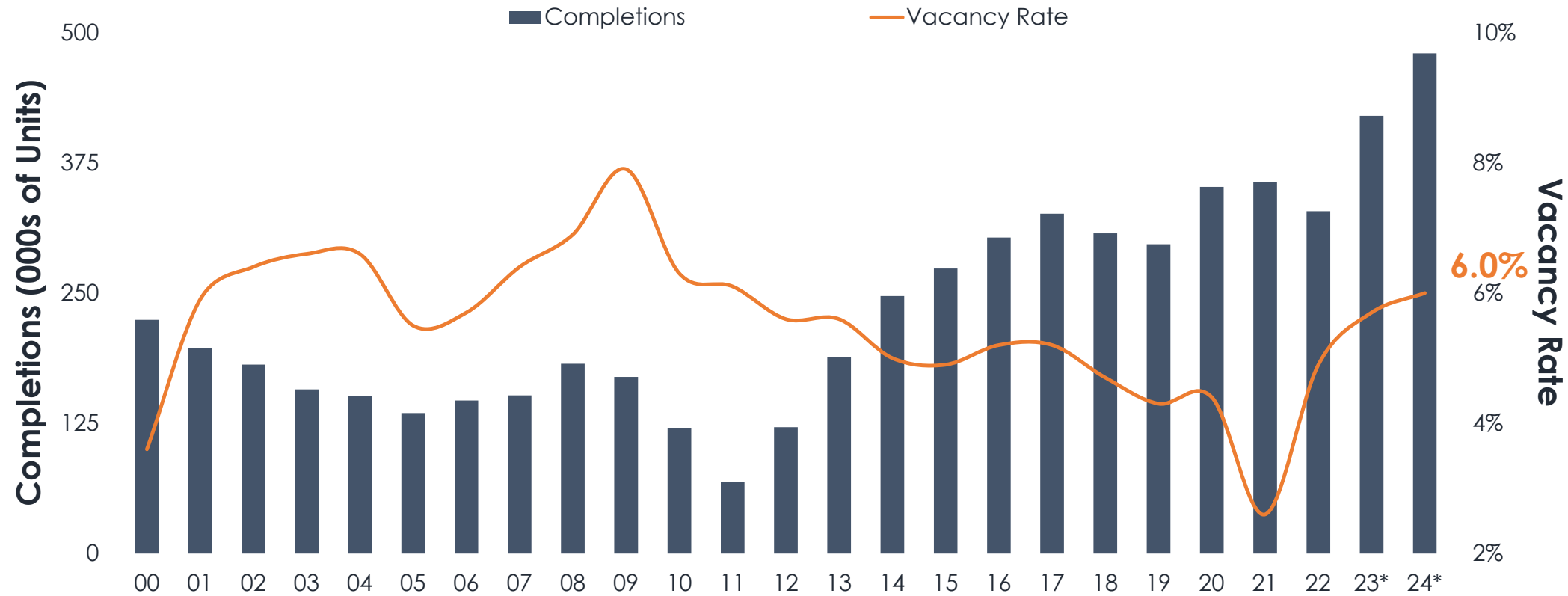


\* Through 3Q  
Mortgage payments based on quarterly median home price for a 30-year fixed rate mortgage, 90% LTV, taxes, insurance, and PMI  
Sources: Marcus & Millichap Research Services, RealPage, Inc., Freddie Mac, National Association of Realtors

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# RECORD CONSTRUCTION LEADS TO MODEST RISE IN VACANCY

## Housing shortage masked by top-line total deliveries

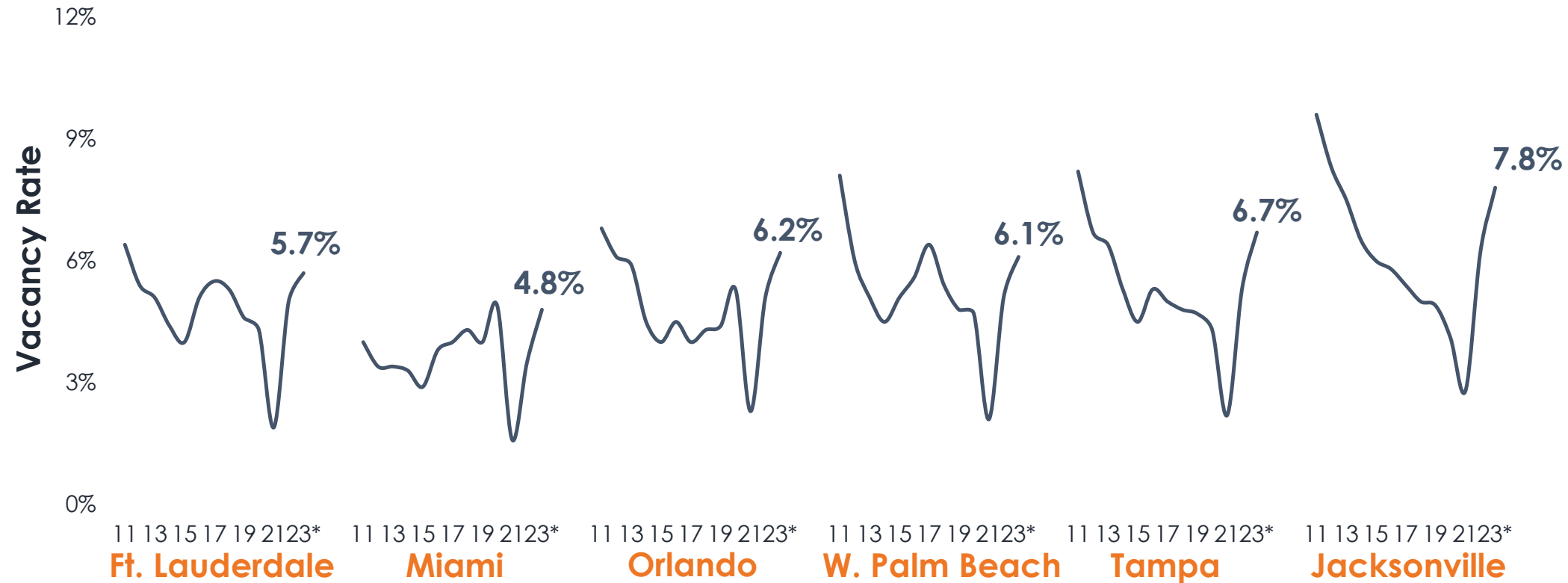


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\* Forecast  
Sources: Marcus & Millichap Research Services, RealPage, Inc.

# FLORIDA APARTMENT VACANCY TREND MIXED (S.FLORIDA TIGHTEST)

Higher rate metros impacted by new supply, cooling demand after 2019-2022 surge



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\* Forecast

Sources: Marcus & Millichap Research Services, RealPage, Inc., CoStar Group, Inc.

# TOP-LINE DELIVERY NUMBERS SEEM CONCERNING FOR OVER-SUPPLY

## Growth markets account for significant share of 2023 supply

Top 10 Metros	2023 Completions*	Share of Total Completions
Dallas-Fort Worth	26,500	6.3%
Atlanta	20,000	4.8%
Houston	20,000	4.8%
New York	19,000	4.5%
Austin	18,500	4.4%
Phoenix	18,300	4.4%
Charlotte	14,100	3.4%
Nashville	13,800	3.3%
Washington, D.C.	13,700	3.3%
Denver	10,500	2.5%
<b>Top 10 Total</b>	<b>174,400</b>	<b>41.5%</b>
<b>U.S. Total</b>	<b>420,000</b>	<b>100%</b>

Bottom 10 Metros	2023 Completions*	Share of Total Completions
Cleveland	1,400	0.3%
San Jose	1,900	0.5%
Detroit	2,000	0.5%
Orange County	2,100	0.5%
San Francisco	2,200	0.5%
St. Louis	2,300	0.5%
Inland Empire	2,500	0.6%
Cincinnati	2,700	0.6%
Milwaukee	3,000	0.7%
Oakland	3,000	0.7%
<b>Bottom 10 Total</b>	<b>23,100</b>	<b>5.5%</b>
<b>U.S. Total</b>	<b>420,000</b>	<b>100%</b>

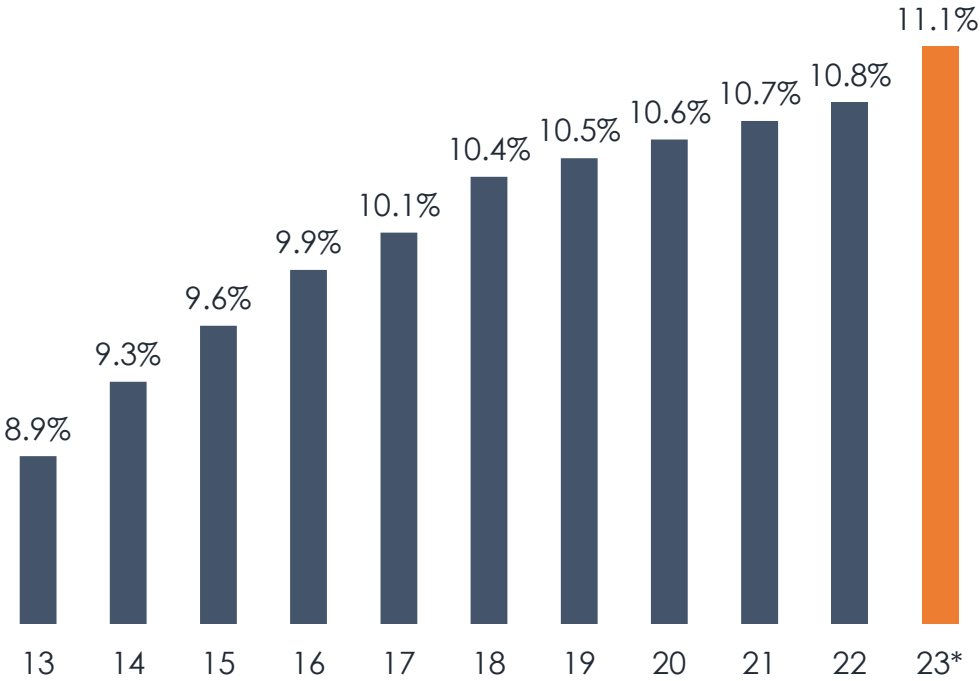
Marcus & Millichap

\* Forecast

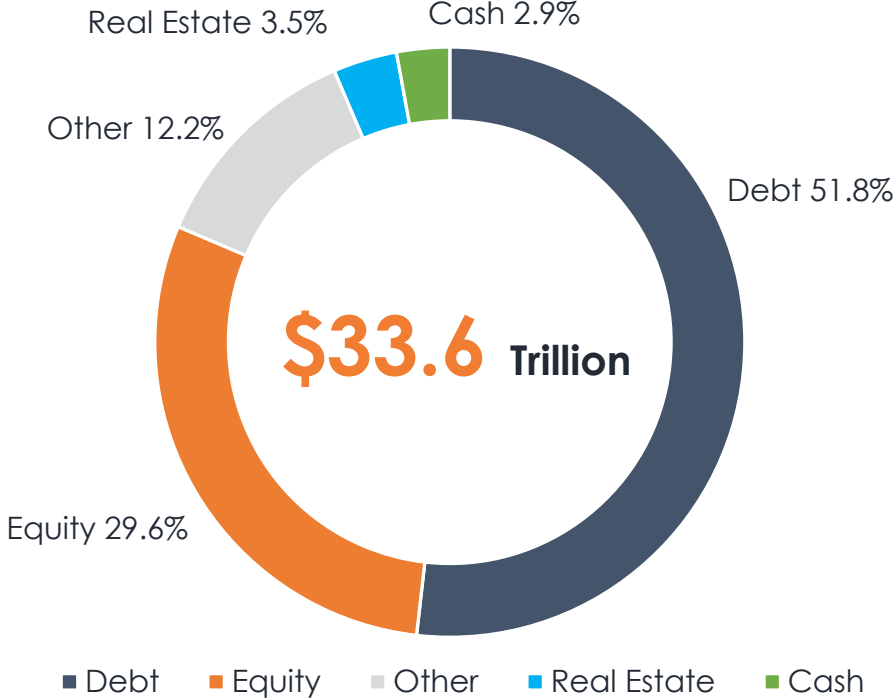
Sources: Marcus & Millichap Research Services, RealPage, Inc., CoStar Group, Inc.

# INSTITUTIONS STILL UNDER-INVESTED IN CRE DESPITE INCREASED ALLOCATIONS

**Institutional Target Allocations to Real Estate**



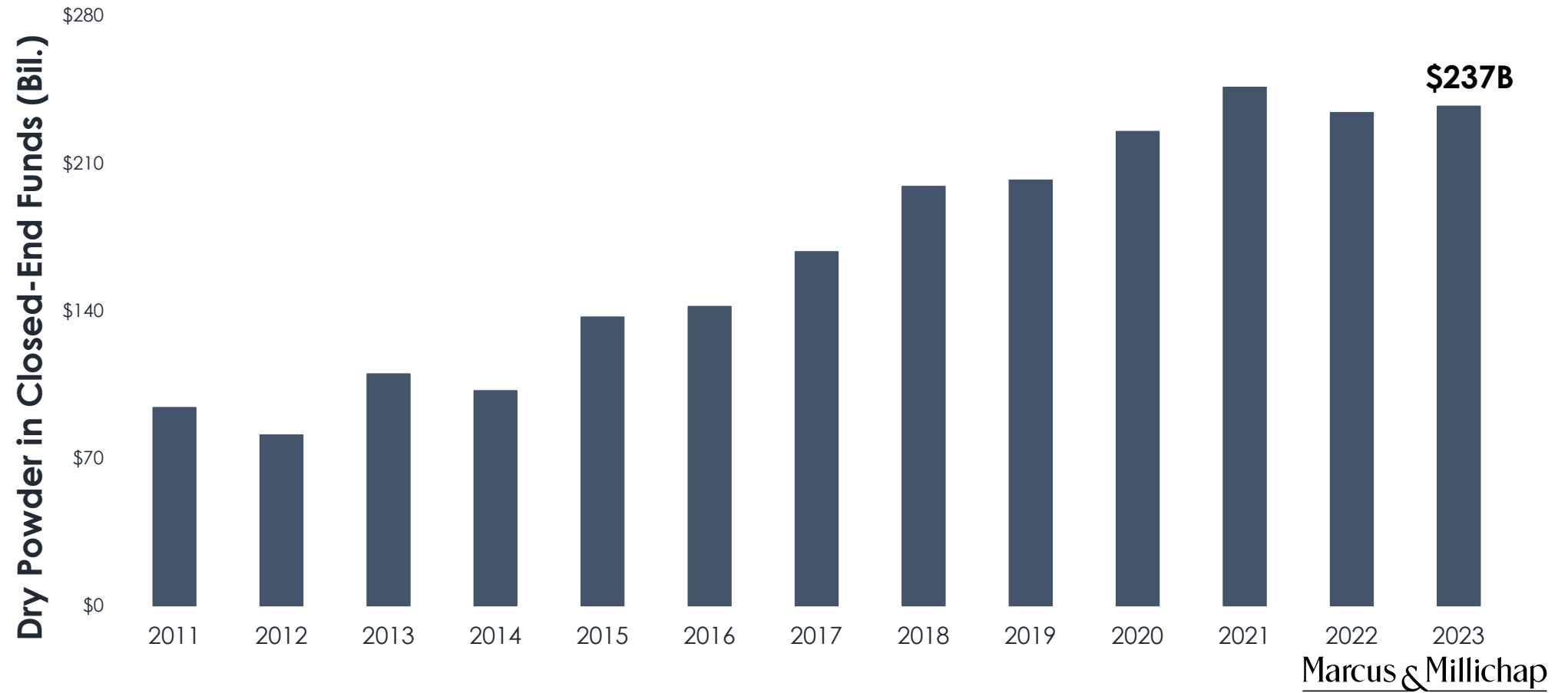
**U.S. Pension Funds Asset Allocations\*\***



\* Forecast  
 \*\* As of 2021; allocations for Fortune 1000 pension plans; other category includes hedge funds, derivatives, and interest rate swaps; cash category includes cash equivalents and money market instruments; debt category includes insurance instruments; \$33.6 trillion as of 2022  
 Sources: Marcus & Millichap Research Services, Cornell/Hodes Weill Allocations Monitor, Willis Towers Watson

# PRIVATE EQUITY CAPITAL TARGETED FOR REAL ESTATE

## Pent-up capital demand near the all-time high

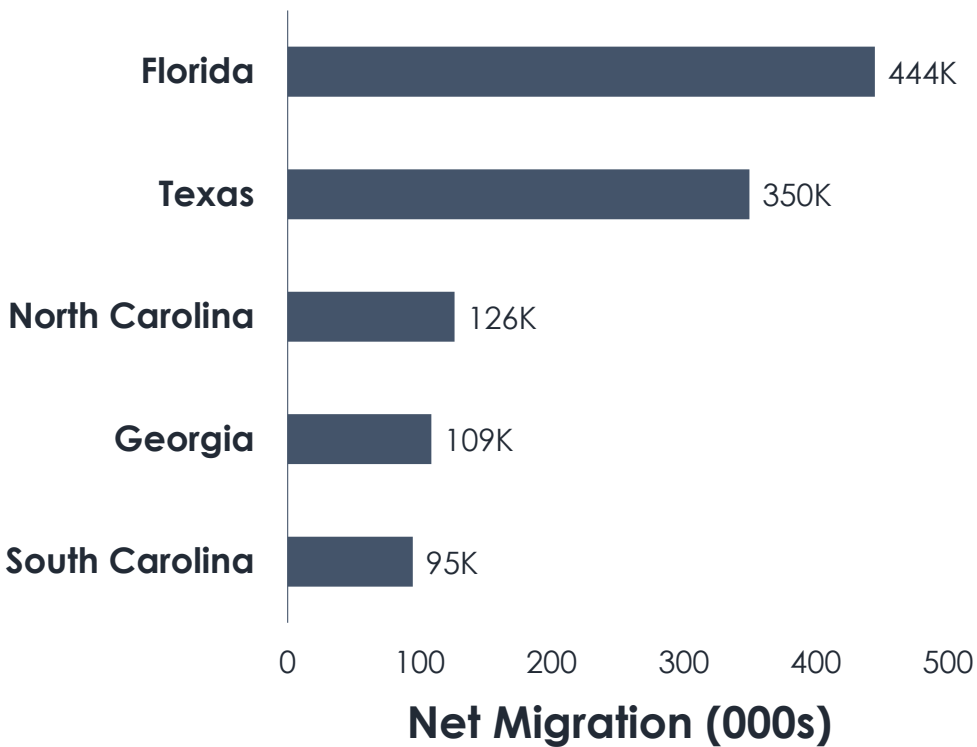


Sources: IPA Research Services, Preqin

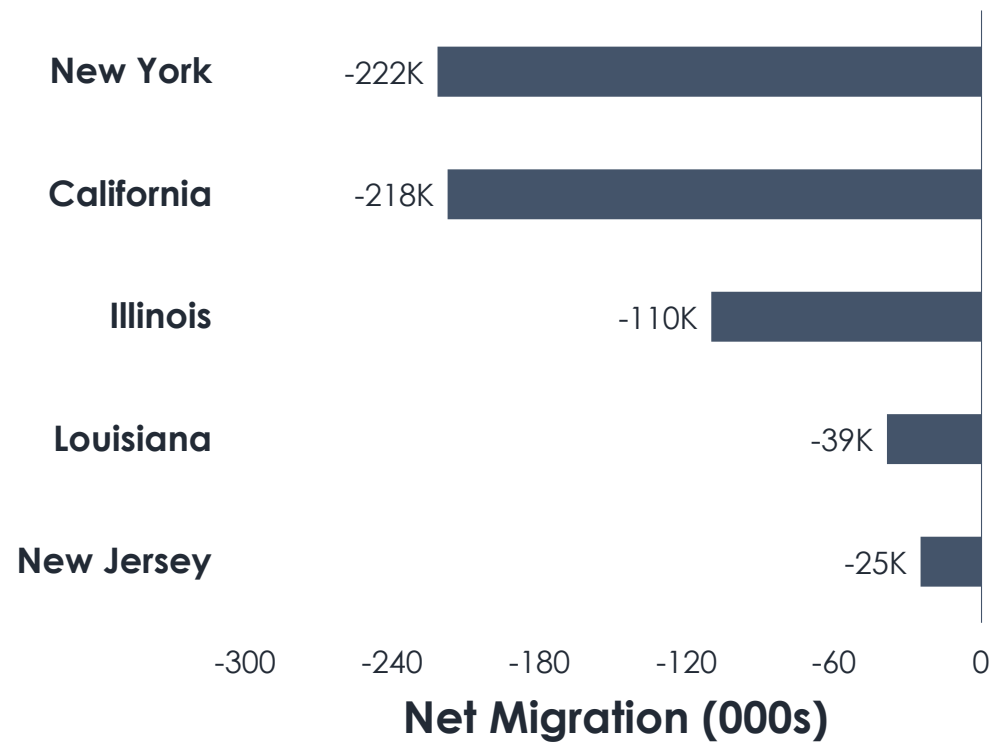
# 2022 POPULATION NET MIGRATION

## Florida leads the way in attracting people

### Top 5 Net Migration States



### Bottom 5 Net Migration States

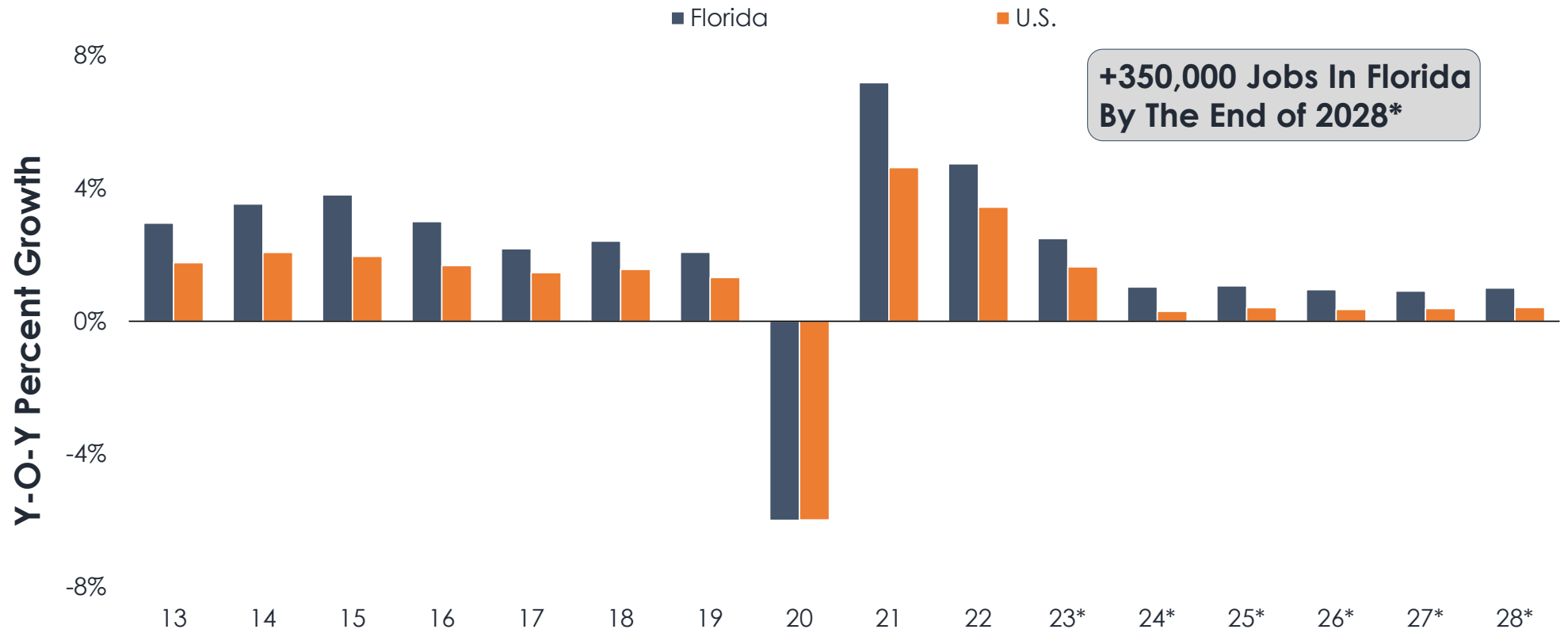


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As of 2022  
Sources: Marcus & Millichap Research Services, U.S. Census Bureau



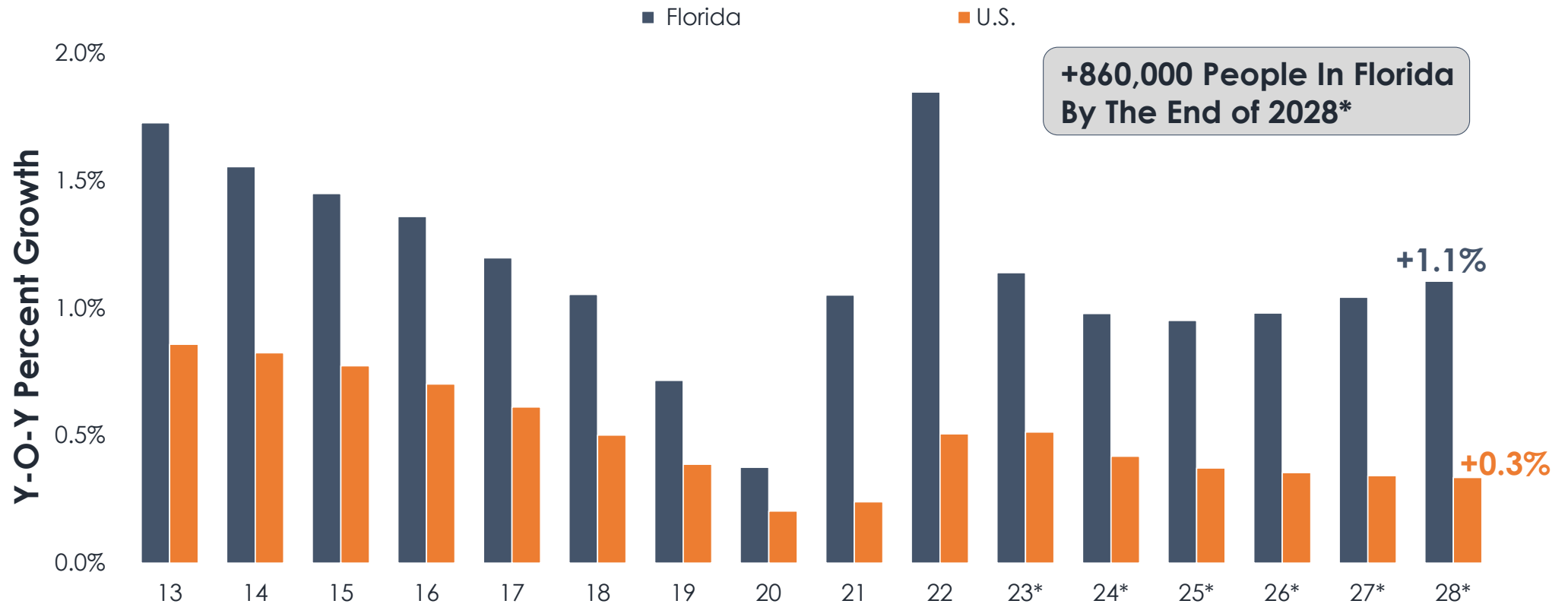
# ANNUAL JOB GROWTH – FLORIDA VS. U.S.



**+350,000 Jobs In Florida  
By The End of 2028\***

\* Forecast  
 Florida includes Fort Lauderdale, Jacksonville, Miami, Orlando, Tampa and West Palm Beach  
 Forecast using Moody's November 2023 baseline forecast  
 Sources: Marcus & Millichap Research Services, BLS, Moody's Analytics

# ANNUAL POPULATION GROWTH – FLORIDA VS. U.S.



\* Forecast

Florida includes Fort Lauderdale, Jacksonville, Miami, Orlando, Tampa and West Palm Beach

Forecast using Moody's November 2023 baseline forecast

Sources: Marcus & Millichap Research Services, U.S. Census Bureau, Moody's Analytics

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