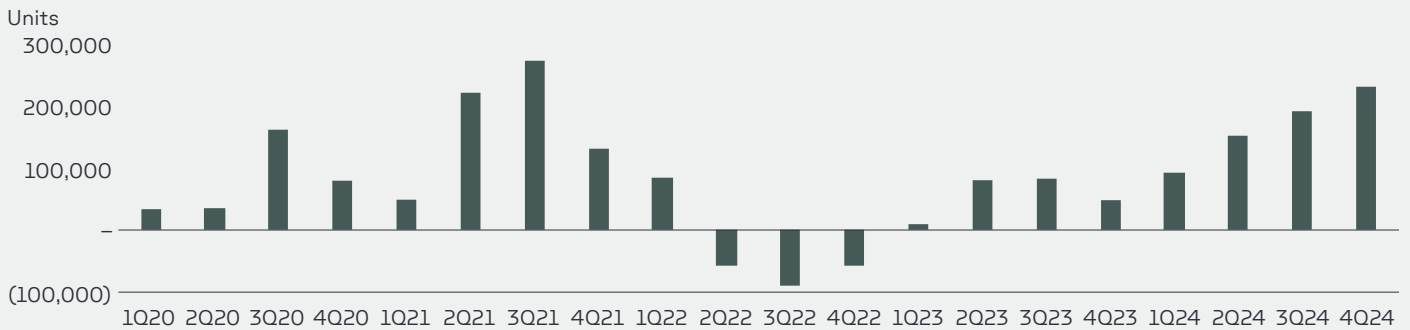


HOUSING

The U.S. rental market is experiencing improving demand driven by key demographic and economic trends. Household formation is projected to climb by an additional 1.2 million new households annually through 2030, a 30% increase from the past seven years.

U.S. MULTIFAMILY NET ABSORPTION



Source: RealPage, Affinius Capital Research

- **Shrinking Household Sizes:** Single-person households, growing fastest of any segment and now comprising 30% of all U.S. households, increasingly prefer multifamily living for affordability and community.
- **Net Immigration:** Immigration is accounting for a growing share of population growth, with many new arrivals opting to rent due to mobility and cost considerations. While net immigration is expected to slow from recent record levels, uncertainty about policy implementation under the new administration is a potential risk factor. Indications are the new administration will seek to reduce illegal, lower-skilled immigration, though has recently signaled support for potentially expanding the H1-B visa program.¹

In addition to demographic tailwinds, the affordability gap between renting and homeownership has reached its widest point since the 1970s, driven by the continued rise in home prices and elevated mortgage rates. Homeownership costs have become unattainable for many, especially younger Americans burdened by student debt and economic setbacks from the GFC and pandemic, increasing the difficulty of saving for a down payment. This unaffordability is demonstrated in recent demand; in the first three quarters of 2024, rental households made up 75% of new household formation, compared to comprising only 34% of existing households. Multifamily net absorption has accelerated to near-record levels, reflecting the growing preference for renting in an increasingly constrained housing market. This is also demonstrated via historically low turnover rates in 2024 for multifamily operators.

1. Implementation of new immigration policy may be further constrained by legal challenges, bureaucratic limitations, and resistance at the state and local levels, similar to the first Trump administration.

The surge in household formation has temporarily been met by a wave of supply, particularly in the Sunbelt markets that rapidly responded to post-pandemic demand shifts. However, long-term housing fundamentals remain strong:

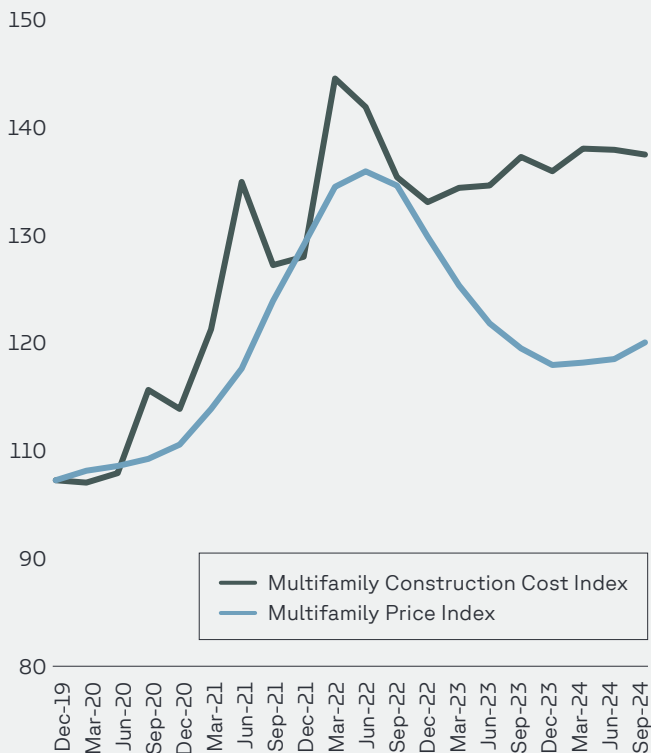
- The U.S. faces a housing shortage of several million units, which is particularly pronounced in the attainable/affordable sectors.
- High borrowing costs and elevated construction expenses have slowed development, with multifamily unit deliveries projected to drop by nearly 60% over the next two years.
- Meanwhile, post-pandemic shifts, including work-from-home flexibility, have intensified demand for multifamily housing in suburban and Sunbelt markets. These trends underscore a mismatch between available supply and evolving renter preferences, creating opportunities for investors to fill the gap with well-targeted developments.
- Public policy in some markets, while well-intentioned, continues to exacerbate the shortage with regulations that stifle new housing development.

These factors will sustain strong demand for rental housing across segments, with lower cost housing solutions leading the way. Conventional multifamily, single-family rentals, and even shared living will also benefit as demographic and economic pressures continue to favor renting.

In addition to healthy demand drivers, multifamily investment is well-positioned to withstand the risk of reaccelerating inflation that may be stimulated by additional tariffs and stricter immigration policy. As demonstrated in recent years, multifamily is a strong inflation hedge, as rents are generally reset on an annual basis, more frequently than most commercial sectors, and rents are up 28% nationally since December 2019, vs. 22% CPI growth over the same period.² Increased tariffs and reduced immigration could also make new construction more expensive; 30% of U.S. construction material imports are from China,³ and roughly 30% of U.S. construction workers are immigrants.⁴ This dynamic amplifies the acquisition opportunity available in the market today, as the divergence between multifamily pricing and construction costs has created a window to buy below replacement costs. Additionally, to the acquisition opportunity, rising construction costs will only exacerbate the challenges of developing housing that is affordable to middle- and low-income households. At the same time, declining deliveries suggest excess supply will be largely absorbed by early 2025, setting the stage for accelerating rent growth and a new development cycle delivering units in late-2026 through 2028. For investors, this convergence of factors presents a compelling long-term opportunity in multifamily housing.

2. Per RealPage and U.S. Bureau of Labor Statistics, as of December 2024.
3. <https://www.gep.com/blog/strategy/the-impact-of-covid-19-on-building-materials>
4. <https://immigrationforum.org/article/immigrant->

MULTIFAMILY PRICE INDEX & CONSTRUCTION COST INDEX



Source: RCA, FRED St. Louis, Affinius Capital Research



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