BULL & BEAR RESEARCH

Fall 2024 Real Estate Outlook:

U.S. Multifamily Real Estate

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REAL ESTATE OVERVIEW

Sector Definitions

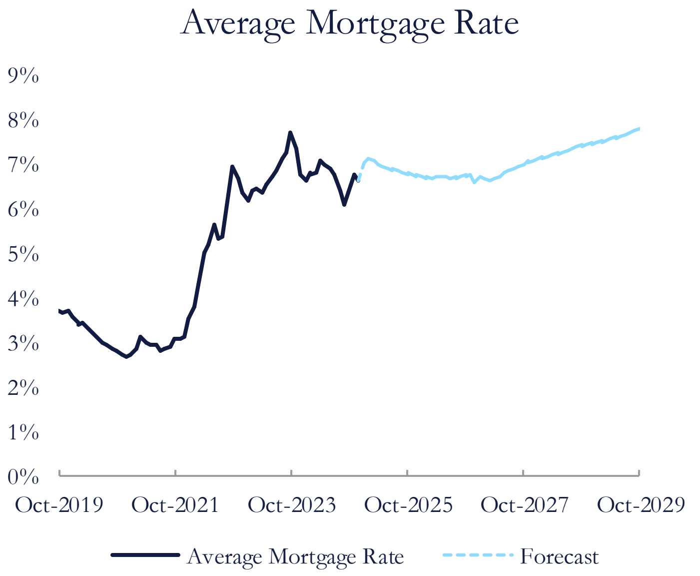
Residential:
Residential real estate includes any property designated for living purposes. These include single-family homes, condominiums, and townhouses.

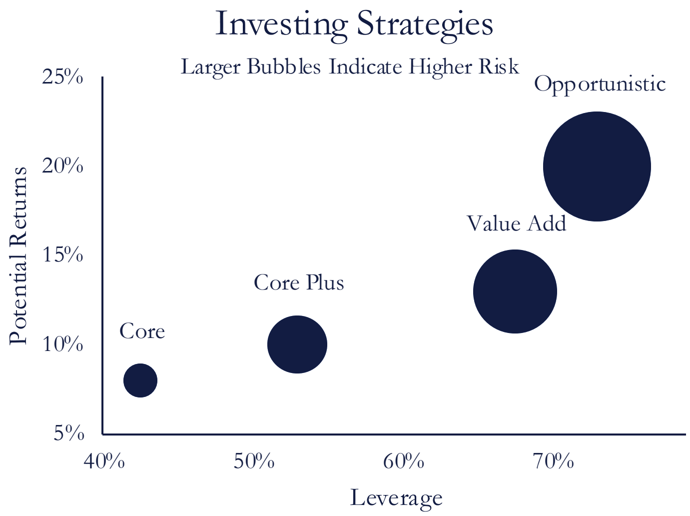
Multifamily:
Multifamily is a subsector of residential real estate, containing residential properties with multiple separate housing units within a building or complex. Large apartment buildings, duplexes, and large townhomes are usual multifamily assets. Additionally, most multifamily real estate is typically used for rental income.

Office:
Office or commercial real estate consists of buildings specifically designed for businesses carrying out their corporate work. These include high-rise office towers, single-story offices, and corporate office parks.

Industrial:
Properties used for manufacturing, production, distribution, and storage are included in industrial real estate. They also include research labs and data centers.

Retail:
Retail properties are intended for businesses that sell goods or services directly to the customer. For example, shopping centers or strip malls are classified as retail. The tenants of these properties are often clothing stores, restaurants, and grocery stores. These places are usually accessible and tailored to attract customers.





Approaches to Investments

Core:
These low-risk investments focus on predictable cash flows from maintaining fully occupied, high-quality properties in key markets. They generate moderate returns and create a buffer against market volatility.

Core Plus:
Investments in this category include steady-state properties in profitable areas. These investments carry some risk due to upcoming lease expirations and the need for minor property enhancements. In 2023, investors moved capital from core and core plus strategies at the highest level in 20+ years to gain liquidity. About 21% of US investors continue to see value in these investments, opting for core plus strategies to generate stable cash flows, making it the second most used strategy.

Value Add:
Investments in growth opportunities through renovations of older properties that are underperforming in high-growth markets. These properties begin with minimal cash flows but see significant appreciation over time.

Opportunistic:
This involves investing in assets that are often either in development or experiencing high vacancies and lacking predictable cash flows. These investments frequently use over 70% leverage but can yield annual returns of over 20%. In 2023, 24% of US investors pursued this strategy, making it the most popular.

Sources: Federal Reserve Bank of St. Louis, Econforecasting, Moody's, Clareo Real Estate

REAL ESTATE SNAPSHOT

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Sector Trends

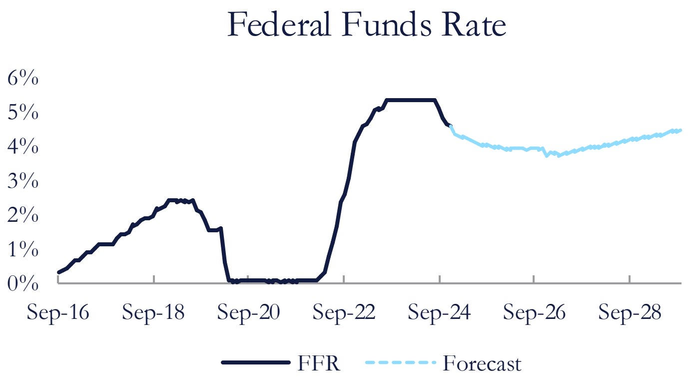
Multifamily:
The multifamily sector is expected to remain strong thanks to sustained rental demand. Fewer people can afford homeownership due to limited supply and a high mortgage rate, exemplified by the Housing Affordability Index being at its lowest point since 2007. As affordability issues persist, multifamily properties such as apartment complexes should maintain high occupancy rates.

Residential:
While the number of homes for sale has been steadily increasing for the past year, the limited housing supply is still driving home prices and keeping the rental market tight. This sector's performance is expected to be closely aligned with multifamily, as housing affordability challenges keep renters in the market.

Office:
The office space sector is still recovering from the Covid-19 pandemic, where many companies did not renew their office leases. However, the return to office increase and a lowering interest rate environment positions sector improvement in the coming years.

Industrial:
Industrial real estate has been one of the most in-demand sectors over the last several years. Specifically, demand for distribution centers and data centers remains high.

Retail:
The retail sector has experienced extremely low vacancy rates throughout the year. Additionally, some brick-and-mortar locations dependent on foot traffic are struggling to stay afloat.



General Market Trends

The effects of the COVID-19 pandemic still heavily impact the commercial real estate industry as a whole. Certain sectors such as retail, hospitality, and office have been hit harder than others, such as multifamily and industrial, but there are signs of stabilization throughout the industry.

As of Q3 2024, multifamily properties' vacancy rates have held constant QoQ at 5.8%, which is the highest it has been since 2011. This is mainly attributed to an oversupply of multifamily properties in the Sunbelt region of the United States. The sunbelt boomed just after the pandemic, and many new construction projects were financed during the low-interest-rate period of 2020-2021. As these projects are completed, demand is expected to outpace supply and multifamily vacancy rates should fall. Effective rents have risen 20% since 2019 but fell by 80 bps over the past year due to the increase in supply and have been generally constant since the start of 2023. Office vacancy rates held steady at 20.1%, and that's likely the highest it'll get, as many work-from-home policies are being reversed. Even tech companies, which are known for being the most work-from-home friendly industry, are having their employees go back in person, with Amazon ending all remote work starting on January 2nd, 2025. Retail properties' vacancy rates held steady at 4.1% in Q3 2024. This low rate is driven by reduced tenant consolidation, move-outs, and a lack of new supply. Construction starts have declined over the past two years, with rising costs being the primary reason. This has led to extremely tight availability across the retail sector throughout the year. Industrial vacancy rates decreased by 10 bps to 6.7%, which is the first vacancy rate decrease since Q3 2022. This is mainly due to a decrease in construction since high interest rates raised the cost of financing new projects.

As rates fall, overall commercial real estate vacancy rates may rise slightly as capital expenditures will likely increase. Rate cuts, combined with promising inflation data, unemployment numbers, and wage growth should continue to drive consumer spending, raise the demand for housing, and encourage more investing and refinancing activities.

Sources: St. Louis Fed, Moody's, CBRE, Colliers

FINANCING TERMS & CONCEPTS

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Government Sponsored Enterprises

GSEs are government-funded private institutions that allow more credit to be available in the housing market. The two most prominent GSEs are Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation). The biggest difference between the two is that Fannie Mae typically buys loans from larger commercial banks, while Freddie Mac buys most loans from smaller lenders. GSEs are good for the housing environment because they're closely tied with the government, meaning they can borrow capital for cheaper than other private financial institutions. This means they can issue CMBS tranches for lower interest rates, resulting in lower rates for consumers. GSEs facilitate the securitization and sale of these loans, allowing lenders to give borrowers better rates since they face less risk.

Lending

Banks
Commercial and regional banks are the most popular historically amongst real estate lenders. They provide all types of real estate loans and products to borrowers.

Insurance Companies
Due to their need for reliable returns, Insurance companies lend to commercial real estate because of the rent payments and long-term leases. They lend similarly to banks but allow for more flexibility.

Alternative Lenders
Alternative lenders are non-traditional lenders of real estate funding, with the most prevalent being debt funds. They provide loans that are backed by real estate assets. Their loans often grant investors fixed interest rates of 8% or more. Debt funds have been one of the most active real estate lenders throughout the year

Interest Rates

The Federal Funds Rate (FFR) is determined by the Fed; this is the rate at which banks lend money to each other overnight to meet reserve requirements. The Fed sets a target rate and buys/sells government securities to reach this target rate. Its purpose is to manage inflation and economic growth by adjusting the cost of borrowing for banks, which they pass onto borrowers.

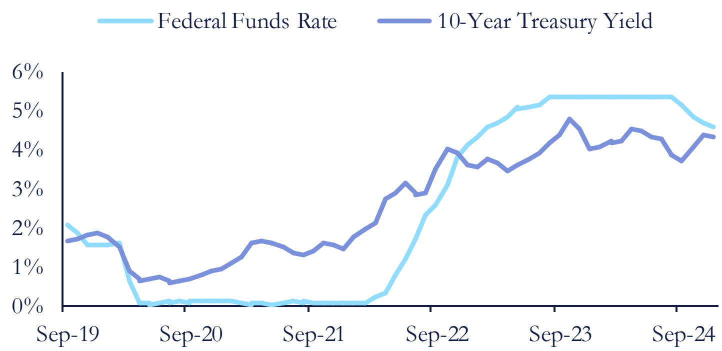
Treasury Yields are the interest rates the U.S. government pays to borrow money from investors in the form of debt securities, such as Treasury bonds, notes, and bills. The 10-year Treasury Yield is typically used as the risk-free rate, and most mortgage rates are based on the 10-year treasury yield, plus a spread, or a premium to account for risk.

The Secured Overnight Financing Rate (SOFR) is the weighted median of the overnight interest rate at which cash is borrowed overnight. Unlike the FFR, SOFR is market-driven and based on actual transactions. These transactions are commonly done through repurchase agreements (repos), where one party sells a treasury security to another party and agrees to repurchase it the next day at a slightly higher price. The difference between the selling and repurchase price is the interest paid.

Product Types

Mortgage-Backed Securities
Commercial Mortgage-Backed Securities (CMBS) are commercial real estate mortgages that are pooled together and sold as securities that are backed by the principal and interest payments on the mortgages. The primary difference between Residential Mortgage-Backed Securities (RMBS) and CMBS is that RMBS are backed by residential real estate mortgages and have higher credit risk.

Collateralized Obligations
Collateralized Loan Obligations (CLOs) are instruments that allow lenders to finance commercial real estate loans. These are often for bridge lenders where the lender becomes a junior partner in the investment. Collateralized Debt Obligations (CDOs) are similar products to CLOs except they are backed by a greater concentration of subordinated or junior debt.



Sources: St. Louis Fed, Investopedia, Moody's, CBRE, EquityMultiple

INVESTMENT PRODUCTS

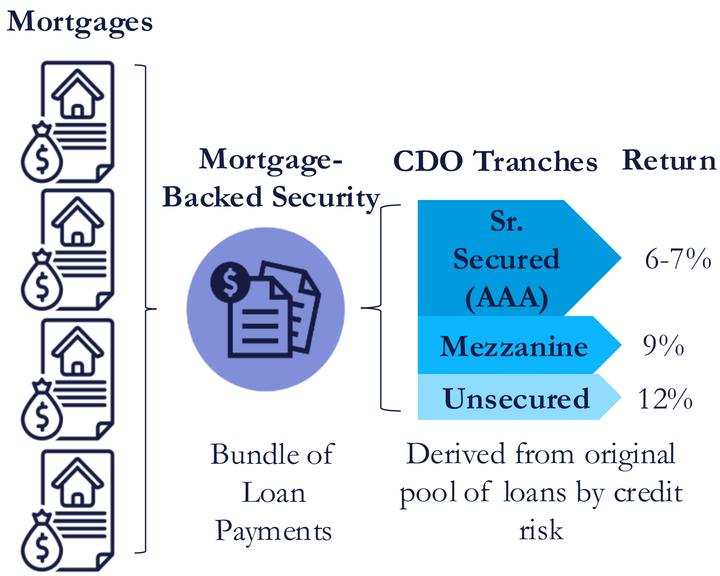
Real Estate Investment Trusts

One of the best ways to invest in real estate is through REITs (Real Estate Investment Trusts) — offering unique exposure to sector-specific industries like multifamily, office, or industrial. They are traded on exchanges just like stocks. Some REITs own and manage properties, while others invest in mortgages and derive their income from interest payments. Additionally, these investments differ from a common exchange-traded fund or mutual fund because they are legally required to distribute 90% of their taxable income as dividends. Thus, REITs primarily return capital through dividends generated from the properties or mortgages a REIT manages. These quarterly dividends can be cyclical and interest-rate sensitive, so with a promising soft landing, the outlook for REITs looks strong in 2025. As interest rates have started to fall in 2024, real estate is seeing renewed investor interest. Lowering interest rates spurs interest in home buying and makes it cheaper for businesses to purchase industrial or commercial properties.

Risk and Return

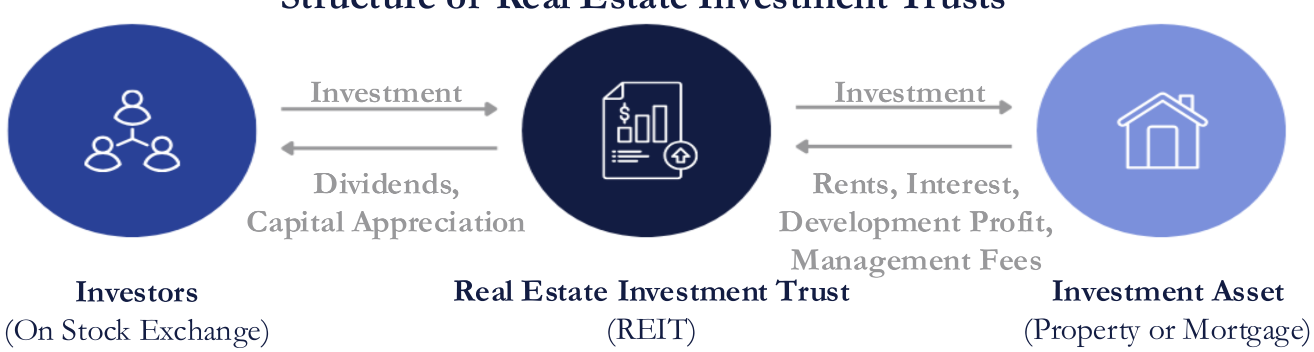
REITs are used by investors to gain exposure to real estate without purchasing the underlying asset. However, REITs can often mirror the volatility of the greater securities market rather than the steadier real estate market. Short-term returns can drastically differ from quarter to quarter, especially in response to cyclical events such as interest rate hikes. However, these swings largely disappear over a longer term and more closely resemble the earnings of those directly holding real estate. Therefore, investors likely should hold REITs for several years to ensure returns and volatility levels match what is expected from a real estate investment.

Structure of Mortgage-Backed Securities



Mortgage-backed securities (MBS) play a major role in the global financial system by enabling greater mortgage lending. Banks lend money to homebuyers through mortgages, then "pool" them together to diversify the risk of loan default. However, the pooled mortgages are often then transferred from the bank's balance sheet to the government-sponsored enterprises (GSEs), such as Fannie Mae and Freddie Mac, who structure them into an MBS. The loans are then divided into tranches with varying risk and return profiles. These tranches are sold to investors who receive returns based on the principal and interest payments on the underlying mortgages. Since banks sell loans to GSEs and receive cash back, they can issue more loans and boost the total number of people who can purchase a home. A wide array of organizations and people hold mortgage-backed securities such as foreign investors, money managers, the U.S. Treasury, the Federal Reserve, Banks, and REITs.

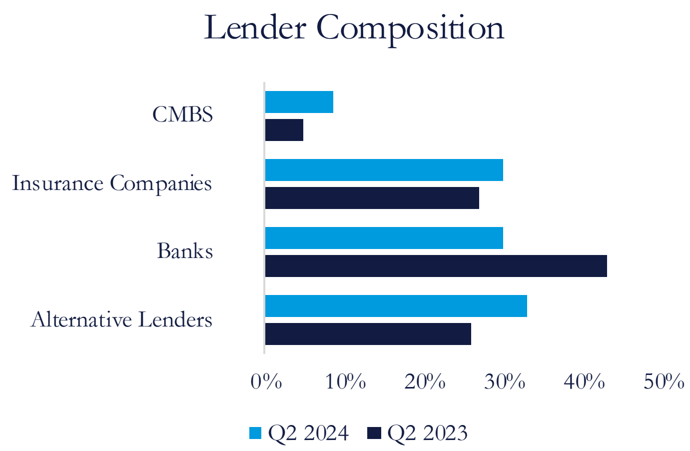
Structure of Real Estate Investment Trusts



FINANCING TRENDS

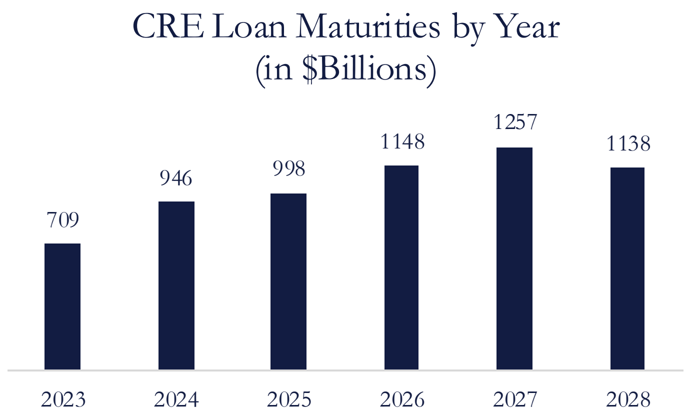
Capital Markets

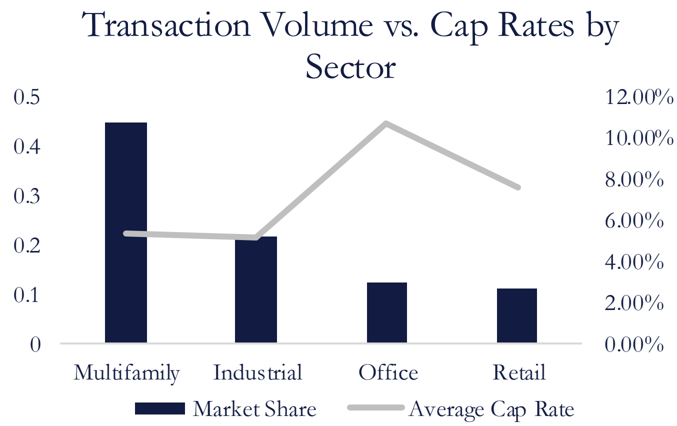
The overlying capital markets environment heavily affects the commercial real estate (CRE) industry, primarily through the federal funds interest rate. After lowering rates to 0-0.25% during the pandemic in April 2020 to boost financial activity, high inflation led the Fed to raise rates to 5.25-5.5%, where they stayed from July 2023 until September 2024. A decline in the Consumer Price Index (CPI), which measures inflation, from 9.1% in June 2022 to 2.4% in September 2024 led to the Fed finally cutting interest rates. In September 2024, the Fed announced they were cutting rates by 50 basis points to 4.75-5.0%. Then in Q4 2024, two rate cuts of 25 basis points each reduced the federal funds rate to 4.25-4.50%. Currently, two rate cuts are expected in 2025, down from prior estimates due to new inflation expectations. As interest rates decline, money becomes more liquid, and market activity is stimulated. This leads to more investors looking to purchase properties, pushing up property values and thus lowering the market cap rate. Investors will also often refinance loans at lower rates, freeing up capital for other investments such as acquisitions or major renovations/capital expenditures. There are approximately $950 billion of CRE loans maturing in 2024, a figure that will rise to $1.26 trillion by 2027. The average interest rate of loans maturing in 2024 is 4.3%, which is much lower than the average interest rate of loans originated in 2024 so far (6.2%). The Fed's future decisions regarding interest rates will shape investors' abilities to refinance their maturing loans at affordable rates over the next few years. It is important to keep an eye on office loans, which make up 10% of all CRE loans maturing in 2024 and have struggled since the pandemic.



Shifts in the Lending Landscape

An extended high-interest rate environment has caused commercial banks to reduce their real estate lending as they look to avoid risk. This has prompted an increase in lending from CMBS lenders, insurance companies, and alternative lenders such as debt funds. This shift has materialized into a year-over-year reduction in market share of 13% for banks. Consequently, CMBS lenders, insurance companies, and alternative lenders have increased their market shares year-over-year by 3.8%, 3%, and 7% respectively. As risk aversion has dictated the lending landscape, it has accordingly impacted capital allocation to each property sector. Through the first half of 2024, multifamily and industrial have received the most investment, while also retaining the two lowest average cap rates. Conversely, office and retail have seen the lowest levels of market share, while they've operated with the two highest average cap rates. Investors' flight to lower cap rates signifies risk aversion that appears present within all elements of commercial real estate throughout the year.





Sources: KKR, JP Morgan, S&P Global, NY Federal Reserve, US Bureau of Labor Statistics, CBRE, GreenStreet

REIT MERGERS & ACQUISITIONS

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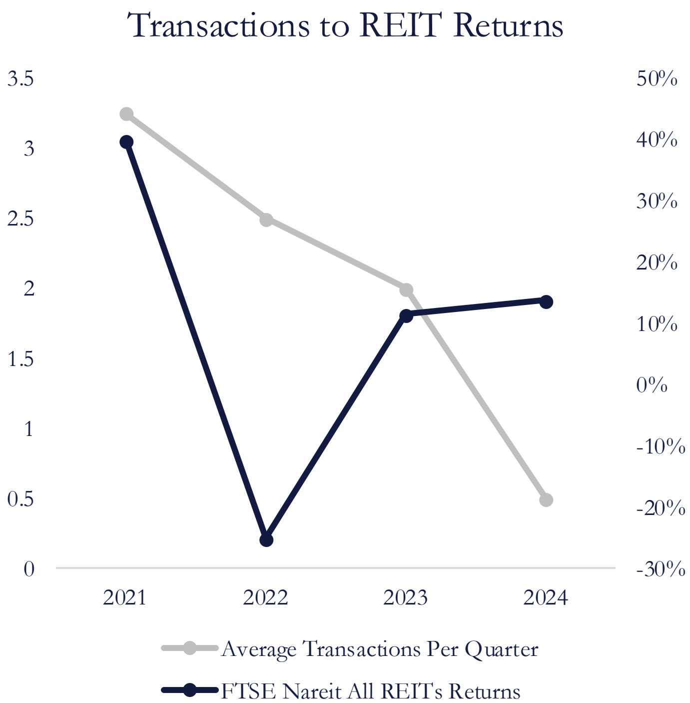
Privatization Spotlight

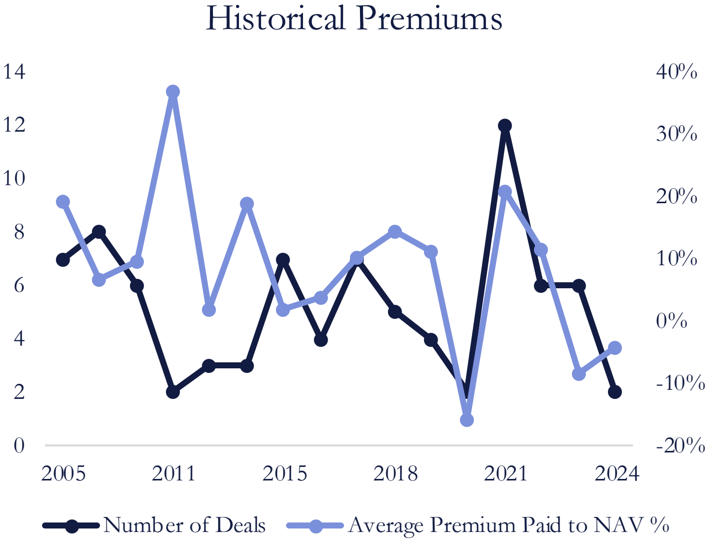
Continuing the downward trend of mergers and acquisitions activity for public U.S. REITs, the only deal announced in the first half of 2024 was Blackstone Inc.'s privatization of Apartment Income REIT Corp. in an all-cash transaction. The first half of 2024's one deal had a value of $10.00 Billion, lower than the $17.50 Billion deal value in the second half of 2023. Due to elevated interest rates and a higher cost of debt for REITs, transactions have slowed. With falling interest rates, this volume could pick up going forward in 2025, but it is unlikely to approach the historic deal value seen in 2022 of $81.86 Billion. After a dry first quarter, this second quarter deal represents confidence in interest rates and improved access to capital.

Apartment Income REIT Corp. (AIR) was a publicly traded, self-administered real estate investment trust focused on the multifamily sector. AIR's portfolio comprises over 27,385 homes and apartments located in 10 states and the District of Columbia. Blackstone is paying $39.12 for each share of the REIT, a premium of approximately 25%. Blackstone also plans to invest $400 Million to improve the firm's 76 rental housing communities. Additionally, this deal adds to Blackstone's real estate portfolio valued at approximately $586 Billion.



Industry Benchmarks

Blackstone paid an approximate 25% premium for each share they acquired. This is historically a reasonable premium to pay, as seen below. However, the number of deals in each year is generally correlated to the average premium paid. Thus, since there have been few deals in 2024 it appears unusual for Blackstone to pay the high premium to net asset value. This might be a sign that Blackstone and the market expect deal volume will pick up shortly and price their assets on that assumption.



Outlook

As many REITs have remained withdrawn from the mergers & acquisitions market amidst a prolonged state of elevated borrowing costs, improved performance along with further expected reductions to the federal funds rate should cause a significant uptick in activity over the next year. Continued interest rate reductions would grant REITs easier access to debt, allowing divergence from the all-stock transactions that have dominated the market since 2023. This foreseeable combination of more versatile means of financing and easier access to capital has led many REITs to prepare for their re-entry into the mergers & acquisitions market. In a survey regarding expected mergers & acquisitions activity over the next 12-18 months, 80% of REITs declared they plan to increase their mergers & acquisitions activity over the period. This result vastly outpaced the 68% expectation of increased activity amongst respondents across all industries.

Sources: S&P Global, Blackstone, Reuters, Deloitte, NAREIT, GreenStreet

REGULATORY LANDSCAPE

BULL & BEAR REAL ESTATE

Tenant Protections

Several recent legislative changes have intensified the focus on protecting tenants and promoting affordability within the residential sector, creating new challenges for both owners and investors. In 2024, governments implemented stricter regulations, with California at the forefront. One such regulation, CA Assembly Bill 2347, creates delays for landlords in repossessing properties by increasing eviction response times from 5 to 10 court days. With a vacancy rate of just 4.4% in California, demand is high, and new regulations could strain landlords, reducing turnover rates and cash flows for multifamily properties. Additionally, the state's Justice for Renters Act ballot measure, currently under consideration, seeks to expand local rent control powers. If passed, this measure could reduce rental income potential and deter future multifamily investments in the state. At the federal level, the Biden Administration has proposed a 5% annualized rent growth limit for landlords owning over 50 units, affecting over 20 million units nationwide. This highlights the national push for housing affordability but could also squeeze profitability margins for larger investors, affecting portfolio management strategies in markets with high inflation and demand. While these regulations reflect a shift towards tenant protections, they also increase compliance-related risks and tighter margins for investors.

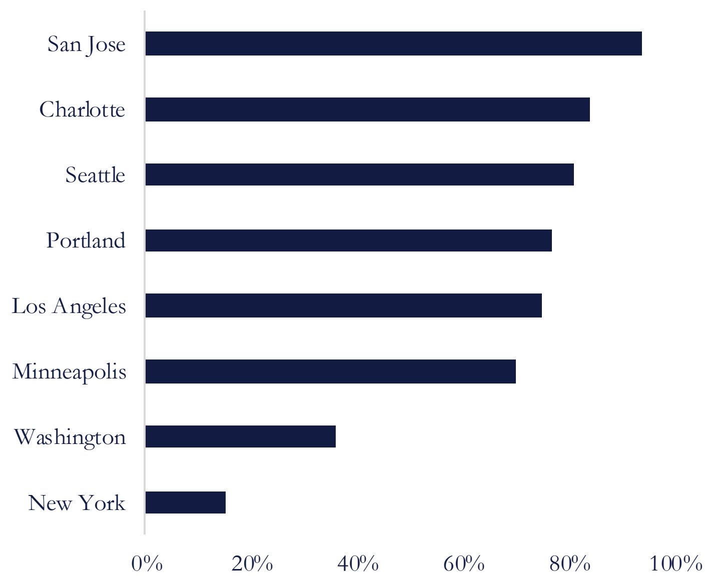
Zoning Changes

In 2019, 75% of all residential land was only zoned to accommodate single-family, detached homes. A recent wave of regulatory changes, especially in high-demand urban locations, is slowly reshaping this landscape. For example, NYC has extended its tax abatement program, 485x, to encourage high-density multifamily developments with rent-stabilized or affordable housing units in previously limited areas. Consequently, May 2024 saw only 36 multifamily permits, the lowest level in a decade aside from the 2020 pandemic. Under 485x, projects with 100+ and 150+ units have steeper wage standards than under the previous 421-a program, so this tax exemption has yet to prove effective.
This highlights tensions between incentivizing development and managing highly regulated projects.

Basel III

Basel III is a regulation that was originally developed in response to the Great Financial Crisis, seeking to establish stability in the banking system through regulating banks' capital requirements. In July 2023, its final implementation was proposed and was met with extreme backlash. The proposal increased capital requirements by approximately 19% for banks with $100 Billion or more in assets. Additionally, banks would have increased capital requirements if they had high loan-to-value (LTV) ratios or were selling mortgages to GSEs such as Fannie Mae or Freddie Mac. Many within the industry felt this would hurt banks lending even more in an already capital-constrained environment. On September 10th, 2024, there was a revised proposal that reduced the capital requirements from a 16% average increase to a 9% average increase. Additionally, banks will have reduced capital requirements for mortgage loans with up to 90% LTV ratios. While banks would have unchanged capital requirements for mortgage loans with LTV ratios that exceeded 90%. Although the September proposal reduced the impact that Basel III will have on banks' lending ability, it still may hinder their capital allocations across all industries, including real estate. The long-term effects of Basel III on credit availability and economic growth remain central to debates among policymakers and stakeholders.

Detached Single Family Home Zoning



MULTIFAMILY OVERVIEW

BULL & BEAR REAL ESTATE

Forms of Multifamily

The multifamily sector has many subsectors, including apartments, condominiums, mixed-use properties, student housing, senior living, low-income, and mobile homes. Currently, there is an affordable housing crisis across the country, mainly fueled by inflation and unemployment struggles after the pandemic. The chart below shows that as of March 2024, there are 11 million extremely low-income households (below the poverty line), but only 7.1 million units are affordable to them (assuming households spend no more than 30% of their income on housing). Of these units, about 3.4 million are occupied by households in a higher-income group, meaning only 3.7 million units are available for 11 million households. This is a problem throughout the country but is worst in Las Vegas, NV, where there are only 13 affordable and available rental homes for every 100 extremely low-income renter households.

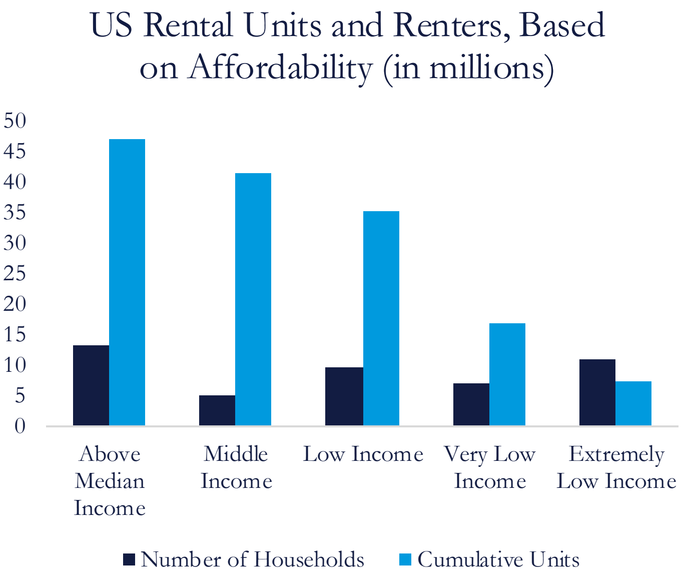
All CRE property types, multifamily included, are split up into Class A, B, and C, depending on the property's physical, geographic, and demographic features. Class A is the highest tier, and properties are typically newer, have more high-quality amenities, are in nice locations, and are overall seen as the safest investment. Class B is a tier below, as these properties are typically near but not in a primary market and are in slightly worse condition than Class A. Class C properties are the riskiest, and oldest, and will need the most renovations to make the investment worthwhile.

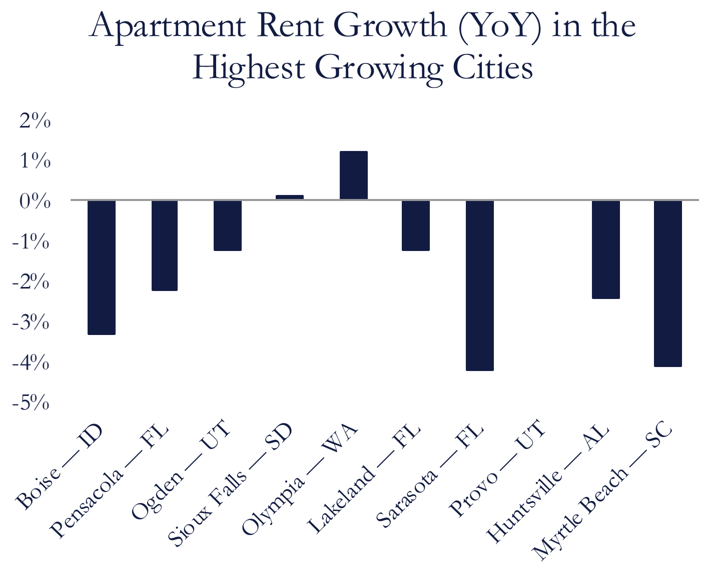
Multifamily Construction

A record number of new apartments are expected to hit the market by the end of 2024 as high rental demand continues to push multifamily construction. This increased supply is expected to slow rent growth. A Q3 2024 survey of Construction & Development Activity collected data from 29 leading multifamily construction firms. Notably, 52% of respondents reported experiencing construction delays over the past three months, a significant improvement from 70% from Q2 2024. This trend suggests improving conditions for developers, which fits together with the trend of increasing multifamily supply. Additionally, 78% of survey respondents expected building conditions to improve over the next 6 to 12 months. Overall, the multifamily construction market is cautiously optimistic with expectations for greater equity and debt financing in the coming months due to lower interest rates.

Expected Low Rent Growth

As stated above, the U.S. is heavily investing in new apartments, with record construction in 2024. Will the recent surge of multifamily apartment supply correlate with a sharp moderation in the rise of apartment rents? According to data from Q3 2023, this should be expected. The metro areas below had the highest apartment supply growth last year and most had negative rent growth.



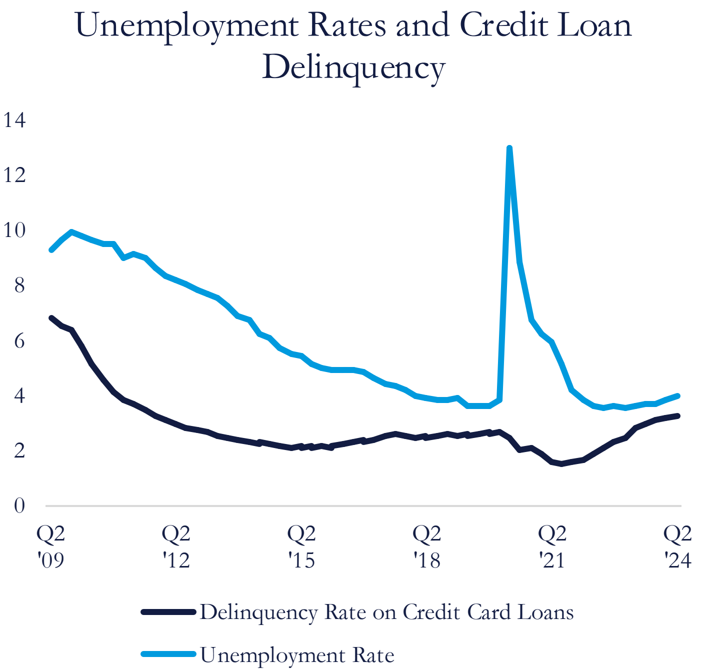


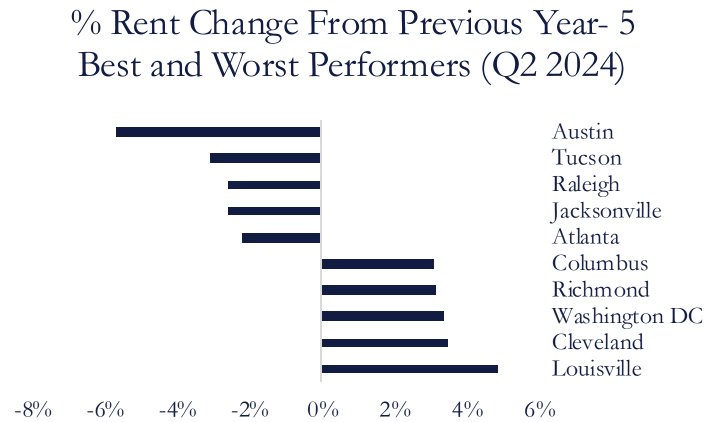
Sources: National Low Income Housing Coalition, National Multifamily Housing Council, CoStar

MULTIFAMILY HEADWINDS

Softening Labor Market

Monthly net job creation is expected to be in the low-100,000 range through the remainder of 2024, and into 2025, highlighted by reduced hiring activity in recent months. Additionally, unemployment is projected to increase slightly, reaching a rate of 4.4% by 2025 as wage growth slows and payroll gains begin to stabilize. This could have the effect of reducing disposable income for renters, especially in more financially vulnerable regions, impacting rental affordability and overall occupancy rates. Despite relatively low current unemployment levels, credit card and auto delinquency rates have been slowly rising. Companies tied to discretionary spending have also experienced sharper drops in stock values, reflecting cutbacks by consumers. NOI growth projections for 2025 have been brought down by 70 basis points, now expected to sit just over 1%. If the economy continues to slow, demand is expected to shift towards budget-friendly affordable housing options like mobile homes, single-family rentals, and class-B apartments that tend to be steadier in tough times. High housing costs could help sustain rental growth, but this growth is expected to continue at a slower pace than in recent years. While expected rate cuts could provide some relief, the lagged effects of earlier hikes and sustained high rates still weigh on consumer behavior and rental demand patterns in the short term.

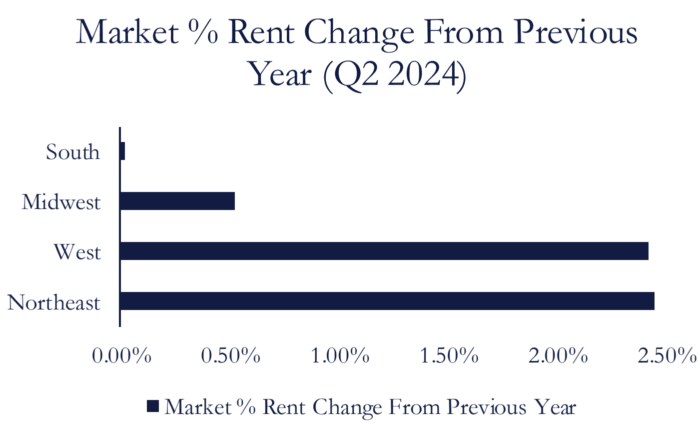




Sunbelt Oversupply

The sunbelt boom between 2021 and 2022, when millions of Americans left cities such as NY and LA for cheaper alternatives in Texas, Florida, and the Carolinas, has slowed down. Further, as of the end of 2023, population trends are back to their pre-pandemic levels. Despite this, 670,000 apartments are expected to be completed by the end of the year, many of which are being built in the sunbelt, as they began in 2021/22, during this region's rapid growth.

As demand for this part of the country slows down while supply increases, there are serious concerns regarding vacancies as the market corrects itself. The graph below shows how the rest of the nation is outpacing the Sunbelt in rental growth YoY. Q1 2024 saw Sunbelt apartment rents fall by 3.8% on average, so growth being positive this past quarter is a step in the right direction. The worst-performing city for the second straight quarter was Austin, with rents falling 5.7% YoY. Some other cities that saw rents fall were Tucson, Atlanta, Raleigh, and Jacksonville.



Sources: Green Street, RealPage, CoStar, National Association of Realtors, St. Louis Fed

MULTIFAMILY TAILWINDS

Home Price Appreciation

Home prices are predicted to appreciate by 4.4% in 2025, driven by expected interest rate cuts and economic stability. While mortgage rates dropped to under 6.5% in September 2024 after peaking at 7.8% in October 2023, rising home values suggest that potential homebuyers may get pushed out of the market. Despite current challenges, employment trends don't indicate higher permanent layoffs, keeping consumer balance sheets relatively robust. Consequently, while home prices have risen at an advanced pace in recent years, rental demand is expected to increase while prospective buyers are being priced out of homeownership. The multifamily sector stands to benefit from this shift, as the forecasted decline in mortgage rates may lead to continued increases in home values, reinforcing the cycle. The Midwest, Northeast, and especially California are expected to see high home price appreciation, with markets such as San Jose predicting increases of 10% in the next year. Ultimately, as home prices continue to appreciate and affordability constraints rise, the multifamily market is poised to benefit as more renters enter the space.

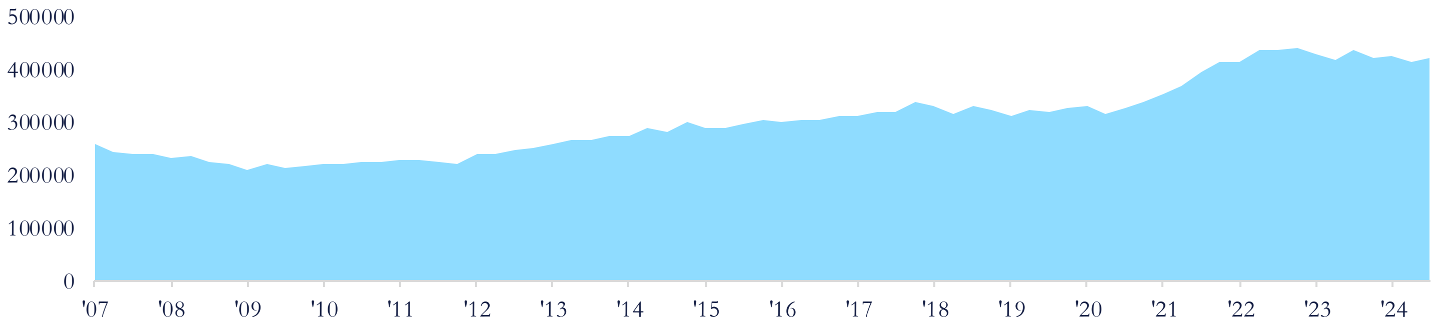
Moderating Expenses & Rising Values

While overbuilding has caused rents to fall in many major markets throughout the U.S., their decline has been countered with a decline in operating expense growth. This moderation has helped both current and forward NOIs sustain an extended period of revenue misses for many REITs. As expense growth has slowed and upheld NOIs, values have subsequently begun to rise at both the REIT and private property levels. Apartment REITs have seen a 4% increase in their NAVs prompted by future expected NOI growth, and a 50-bps reduction in cap rates. Additionally, apartment values have risen 10% since the bottoming of their values in late 2023. As overbuilding is expected to dampen in certain markets throughout 2025 and nationwide throughout 2026, rents should soon begin to rise again. While expenses and NOIs have held up valuations, the eventual return of rent growth should allow for major and sustained improvements in both operating income and asset values throughout the sector. Thus, the improvement in operating expenses seen in 2024 is a tailwind that provides near-term relief and long-term growth within multifamily real estate.

Multifamily REIT Balance Sheets

Relative to the overall REIT universe, residential and multifamily REITs have shown positively positioned balance sheets that will allow for healthy expansion amidst a relatively subdued market as loans become due. Considering both total leverage and upcoming refinancings, REITs in the multifamily and residential sectors have less total debt and less of it coming due through 2026 in comparison to REITs across all real estate sectors. This will further position multifamily REITs to pursue attractive acquisitions. In addition, they'll be better positioned to allocate capital to improving internal performance by investing in existing properties in their portfolios. They'll also be able to sufficiently handle debt maturities as they come due, which is an issue that many borrowers across all sectors will be unable to adequately face over the coming years. Coupling their favorable balance sheets with investors' preference towards the multifamily sector throughout the year, multifamily REITs should expect to perform and grow at an advanced pace relative to the overall REIT universe.

Median U.S. Home Sale Price



Sources: Green Street, Goldman Sachs, St. Louis Fed

PORTFOLIO TRANSACTIONS

BULL & BEAR REAL ESTATE

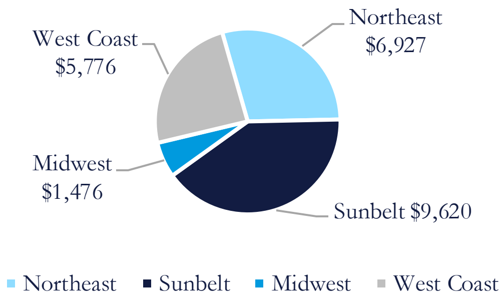
Starwood Portfolios	
Date: May 16, 2024	*Price:* $1.6 Billion
Buyer: Brookfield	*Seller:* Starwood

On May 16th, 2024, Brookfield Asset Management acquired a multifamily portfolio from Starwood Capital Group comprised of 7,300 units across 23 properties. The portfolio primarily exists in Texas and Florida, but also has properties in Utah, Arizona, Colorado, and Georgia. Despite Starwood committing capital to over $90 Million of improvements across the portfolio since 2019, Brookfield intends to invest an additional $100 Million in renovations and amenity improvements over the next five years.

Blackstone Portfolios	
Date: August 7, 2024	*Price:* $964 Million
Buyer: Equity Residential	*Seller:* Blackstone Inc.

On August 7th, 2024, Equity Residential announced the $964 Million acquisition of multifamily properties from several Blackstone real estate strategies. The properties consist of 3,572 units that are roughly equally weighted across Atlanta, Denver, and Dallas. As rents have fallen throughout the year in these markets, this acquisition reflects Equity Residential's perspective that apartment values and construction are at or approaching their bottom, which will be followed by rent growth and thus appreciating values in the coming years. This strategy of acquiring discounted properties with the expectation of rent increases is one that Equity Residential has shared with many big players within the multifamily sector this year.

Transaction Volume by Region



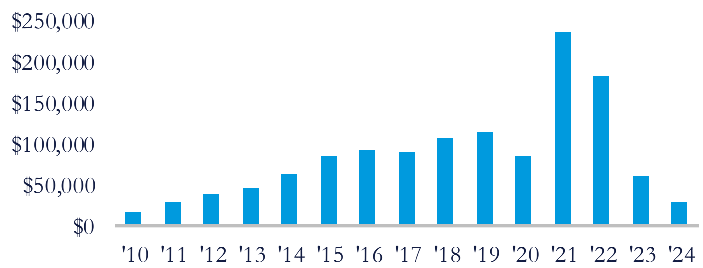
Quarterra Portfolio	
Date: June 25, 2024	*Price:* $2.1 Billion
Buyer: KKR	*Seller:* Quarterra

On June 25th, 2024, KKR announced the acquisition of Quarterra, their largest investment into multifamily in their history. The portfolio consists of 18 mid to high-rise buildings across California, Texas, and New Jersey. Additionally, Quarterra had reported losses over recent periods. Thus, causing KKR's acquisition to reflect the common strategy of large investors acquiring discounted multifamily portfolios with expected future rent growth as construction in over-supplied markets continues to slow.

Multifamily Transaction Volume

Transaction volume within the multifamily sector has seen declines, as there have been $30.49 Billion of transactions through August 2024. This was the lowest level since 2013 and a sharp decline from the $61.93 Billion that traded during the same period in 2023. However, this is somewhat a result of overall real estate transaction volume being down throughout the year as multifamily has attracted more capital than any other sector in 2024. Some buyers have pursued assets in the sunbelt that are discounted due to falling rents from overbuilding. This strategy has been commonly deployed by large investors that are financially positioned to wait for rents to climb. While the Sunbelt has drawn large investors, many smaller or less financially advantaged investors have invested in markets that have shown stable rent growth, such as the Northeast. Many have assigned the multifamily sector a positive outlook as financing costs fall and rents in the Sunbelt are expected to eventually rise.

Multifamily Transaction Volume ($M)

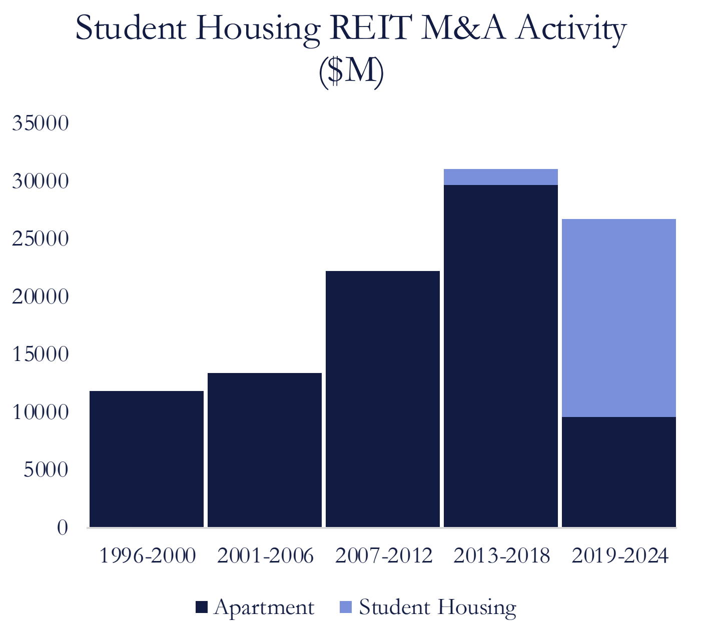


MULTIFAMILY REIT M&A

Date	Target	Acquirer	Deal Size	Property Type
Q2 2015	Associated Estates	Brookfield	$2.5 Billion	Apartment
Q2 2015	Home Properties	Lone Star	$7.8 Billion	Apartment
Q4 2015	Campus Crest Communities	Harrison St.	$1.4 Billion	Student Housing
Q3 2016	Post Properties	Mid-America Apartment Communities	$5.1 Billion	Apartment
Q3 2017	Monogram Residential Trust	Greystar & Others	$3.4 Billion	Apartment
Q2 2018	EDR	Greystar	$4.3 Billion	Student Housing
Q2 2022	American Campus Communities	Blackstone	$12.8 Billion	Student Housing
Q2 2024	Apartment Income REIT	Blackstone	$9.5 Billion	Apartment

Student Housing

In 2015, the multifamily REIT mergers & acquisitions environment was changed with the explosion of the student housing sector. All-time highs were reached in student housing investment sales in 2015 and 2016 reaching $6 Billion and exceeding $10 Billion respectively. This sentiment was reciprocated in the REIT mergers & acquisitions market as Campus Crest Communities was acquired by Harrison St. for $1.4 Billion. This transaction was largely driven by Harrison St.'s long-term belief in the fundamentals of student housing and helped set a positive environment for student housing REIT transactions going forward. Additionally, in 2022 Blackstone privatized American Campus Communities for $12.8 Billion, the largest investment into student housing ever. Blackstone attributed this acquisition to their belief in the student housing sector as well, which is a stance they have maintained since their IPO. This transaction privatized the last remaining student housing public REIT, thus mergers & acquisitions activity within the sector may be muted going forward. However, the trends over the last decade highly reflect the positive sentiment towards the sector amongst all institutional investors which should remain. This interest in the sector may lead to new student housing REITs being created.



Outlook

The multifamily sector had the only REIT merger and acquisition this year, with Blackstone acquiring Apartment Income REIT for $9.5 Billion. This greatly reflects institutional investors' attraction and preference to the sector that is expected to grow and persist in the future. As rate cuts continue, and REIT mergers & acquisitions volume subsequently increases, the multifamily sector should be a primary focus amongst transactions.

Sources: Greenstreet, Daily Journal

MARKET COVERAGE: NYC

BULL & BEAR REAL ESTATE

Market Demand and Stability

New York City remains one of the most attractive multifamily investment markets, benefitting from historically low vacancy rates, strong demand, and a diverse economy that supports long-term stability. With one of the lowest vacancy rates in the nation, sitting at 3.2% overall and 0.8% for rent-controlled properties in Q2 2024, the city's rental market continues to be exceptionally tight. This follows a 1.4% vacancy rate in 2023 that plummeted to the lowest level seen in five decades. As demand for housing continues to outpace supply, this trend creates a promising environment for investments. While overall transaction and dollar volumes saw quarter-over-quarter declines, Q3 2024 saw $2.33 billion in transactions and 7,009 units, up from a year ago, highlighting NYC's continued appeal in multifamily investments. Additionally, NYC has an expected 2.4% long-term growth rate, a 6.9% risk-adjusted IRR, and expected stable cap rates, making the city's multifamily market an appealing option for those looking for long-term returns in a market with high demand.

Rent-Stabilized Growth

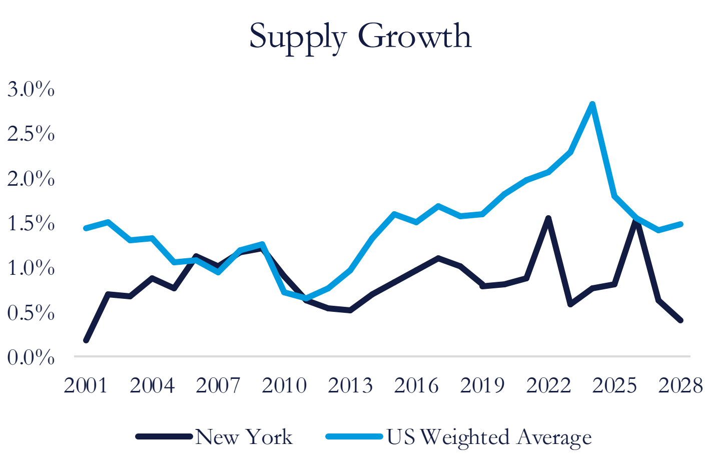
The rent-stabilized segment, which makes up 50% of dollar and transaction volume, has experienced growth, remaining popular among investors despite restrictions on rent growth for these units due to the Housing Stability and Tenant Protection Act (HSTPA). With expectations for further interest rate cuts, investors have reassessed potential returns, becoming more aggressive in underwriting. The recent $370 million sale of 20 Exchange Place, a property with about 70% rent-controlled units, best illustrates this trend.

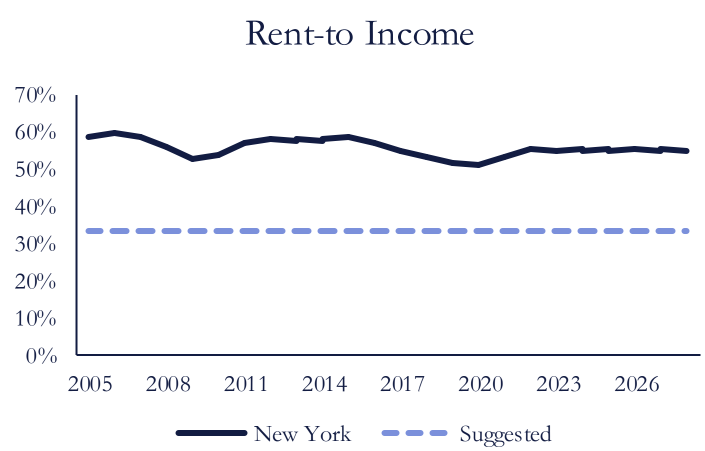
Submarket Gains

Rent-controlled properties are priced below pre-HSTPA levels, yet NYC's average price per square foot rose in Q3 2024. Northern Manhattan saw a 17% increase, driven by its mix of rent-controlled and market-rate units, offering balanced risk and growth. Key transactions, like the $64 million acquisition of 107-145 West 135th Street, reflect investor interest in affordable pricing near central Manhattan. Brooklyn saw an 11% increase in price per square foot, with the $58.5 million sale of 275 Park Avenue demonstrating the borough's appeal among young professionals and families.

City of Yes and Affordable Housing

City of Yes is a plan for NYC aiming to promote sustainable and affordable housing. It has three main goals: carbon neutrality, economic opportunity, and housing opportunity. NYC has a rental vacancy rate of just 1.4%. Well over half of New Yorkers spend over one-third of their income on rent, and new construction cannot keep up with increasing demand. The proposal was approved by the NYC council on December 5th, 2024; it is expected to result in 60,000-110,000 new housing units by 2039 and will loosen existing housing regulations. Some of these regulations include allowing 2-4 more stories of apartments above existing properties (given that they will all be affordable housing units), loosening parking spot requirements, less regulation regarding conversions of office spaces to housing units, and allowing for attic and basement affordable apartments. These have been faced with some pushback, with many critics claiming that NYC Mayor Eric Adams isn't looking out for the safety of potential tenants and that the proposal is impractical.

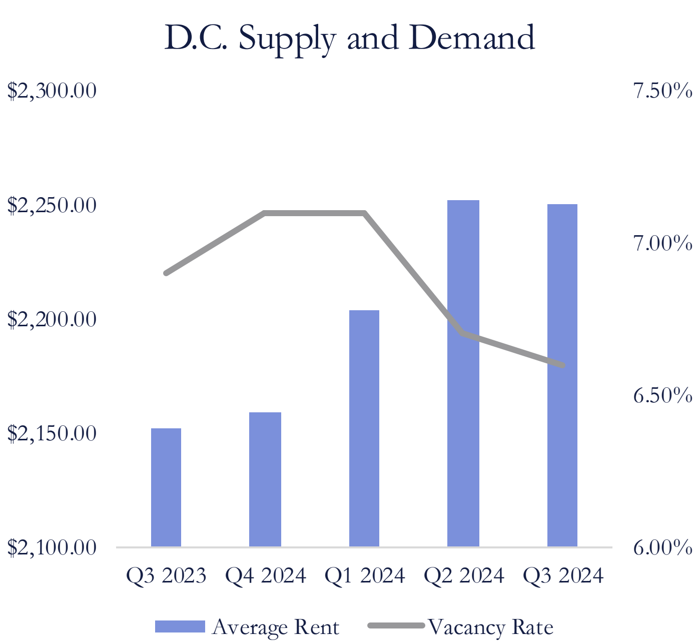


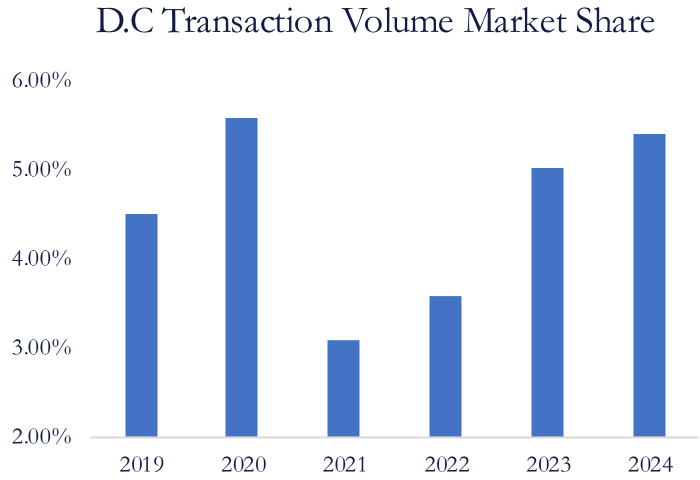


Sources: NUC Department of City Planning, The City, Greenstreet, Ariel Property Advisors, NYC Comptroller

Submarkets on the Upswing

Many D.C. metro submarkets are experiencing strong growth, as new developments and corporate expansions drive demand. The metro area is divided into three main regions: Washington D.C., Northern Virginia, and Suburban Maryland, each with its own dynamics. Northern Virginia is driven by tech and defense sectors, with Crystal City, specifically, drawing in investors as Virginia Tech constructs its Innovation Campus, a development expected to boost demand for nearby multifamily units. In Suburban Maryland, Chevy Chase, and Bethesda are also expecting increased activity, with over 2,600 apartment units expected to be completed by 2026. This signals a response to anticipated demand and continued investor confidence in these areas. Mid-tier rental demand is expected to increase in Hagerstown, Maryland, with more than 2,000 jobs set to be created from five industrial expansion projects through the end of 2024. Nearby Frederick saw a Class B vacancy decline of about 300 basis points YoY in Q2 2024. In Central D.C., Class A demand is expected to rise, driven by seven large-scale office move-ins this year, including Kellen, CareFirst, and Atlantic Council. This trend has already been observed with higher-tier vacancy rates down 330 basis points from three years ago. With an average monthly rent of $2,128, all 36 of the D.C. submarkets saw YoY rent increases, underscoring the area's strength and resilience.





Leading Fundamentals

Washington D.C.'s multifamily market has proven to be one of the most stable in the country, exhibiting some of the most positive fundamentals in 2024, while also displaying several signs of future growth. Throughout the year, D.C. has experienced rent growth of 2.09% and a vacancy rate decrease of 0.50%. Its positive demand has been paired with a 3.2% increase in inventory over the last year. The combination of rent growth, supply growth, and falling vacancies has been incredibly rare amongst major U.S. multifamily markets in 2024 and has translated to increased transaction volume, as investors have been attracted to the Metro. In 2024, D.C. has accounted for 5.40% of national multifamily transaction volume, which is third in the country and its highest since 2020. Its positive fundamentals and increased transactions are expected to increase over the next several years, as historically transaction volume has grown 20% on average in the years following an election, with even a 54% increase from 2020 to 2021. Current stability, rising rents, decreasing vacancies, and increasing transactions are all positive factors regarding the D.C. Metro market that are expected to continue. Additionally, they contrast many other markets, specifically within the sunbelt, that have experienced declining rents and rising vacancies and construction. This contrast to several other U.S. multifamily markets positions the D.C. Metro market as not only one of the most attractive in the country currently, but also going forward.

Sources: Cushman & Wakefield, Greenstreet, Northmarq, Marcus & Millichap

MULTIFAMILY STRUCTURE

Multifamily Leases

Multifamily leases are different from traditional commercial real estate leases, as they are typically shorter in length (6-12 months), compared to an office, industrial or retail lease which is typically 3-10 years. This means that property managers are constantly focused on ensuring they can renew expiring leases to maintain a high occupancy. Other CRE leases lock tenants in for longer, which means that there is more predictability and stability in future cash flows, but owners are also tied to tenants throughout business cycles. Additionally, traditional CRE leases are tied to the performance of the business/ company that is leasing out the space. Multifamily leases are typically split into three main structures based on their expense reimbursement policies. These structures include Triple Net Lease (NNN), Full Service Gross Lease (FSG), and Modified Gross Lease (MG).

Triple Net (NNN) leases mean that all of a building's operating expenses are passed onto the tenant. This includes repairs and maintenance, some property taxes, utilities, and insurance. This is most commonly used by retail and industrial properties, where landlords are looking for a low-maintenance stream of income. NNN leases are uncommon with multifamily properties.

Full Service Gross (FSG) leases bundle all operating expenses into rent, making rent more expensive, but the property owner pays for all operating expenses that arise. This is most common in luxury/Class A properties and in hotels. However, outside of multifamily, they have become increasingly common in lower-quality retail and industrial properties. It is often chosen due to its structural simplicity.

Modified Gross (MG) leases are the midway point between NNN and FSG leases, as they split operating expenses between the landlord and tenant. This typically means that the landlord will handle property taxes, insurance, and major repairs, while tenants will handle utilities and smaller maintenance/ repairs. This is the most commonly used lease structure with multifamily properties, thus making it incredibly important to understand when analyzing multifamily real estate.

Multifamily Revenue and Cost Drivers

Multifamily properties' revenue and cost drivers differ from other forms of commercial real estate. The main revenue driver is rent. Because there are more tenants in a typical multifamily property, and each lease is typically under 12 months, there is a hedge against risk. This means that multifamily properties are more resilient to individual vacancies compared to other CRE properties with fewer, larger tenants. The other major revenue drivers come from ancillary income (parking, pet, storage, laundry fees) and expense reimbursements (typically modified gross). Smaller revenue drivers include late fees and early termination fees.

The main cost drivers include payroll, property taxes & insurance, maintenance, utilities, capital expenditures (CapEx), and regulatory fees. Payroll includes paying property managers and leasing agents, and regulatory fees include legal/eviction fees and licenses/permits for local regulations such as fire safety inspections. With an FSG or MG lease structure, some of these costs will be reimbursed/paid by the tenants.

The primary item to consider when comparing multifamily cost and revenue drivers with those of other CRE properties is rent. Because of how short-term multifamily leases are, rent will change constantly, depending on how the economy is doing. Ancillary incomes, such as pet and parking fees are also more prevalent in multifamily leases.

Lease Type	Tenant's Responsibility	Landlord's responsibility
Triple Net (NNN)	Property taxes, insurance, maintenance, rent, utilities	Building structure
Modified Gross (MG)	Utilities, most minor repairs/ maintenance, rent	Insurance, property taxes, larger repairs/ maintenance, building structure
Full Service Gross (FSG)	Rent and utilities	Property taxes, insurance, maintenance, repairs, building structure

Sources: Private Capital Investors

MULTIFAMILY REIT OVERVIEW

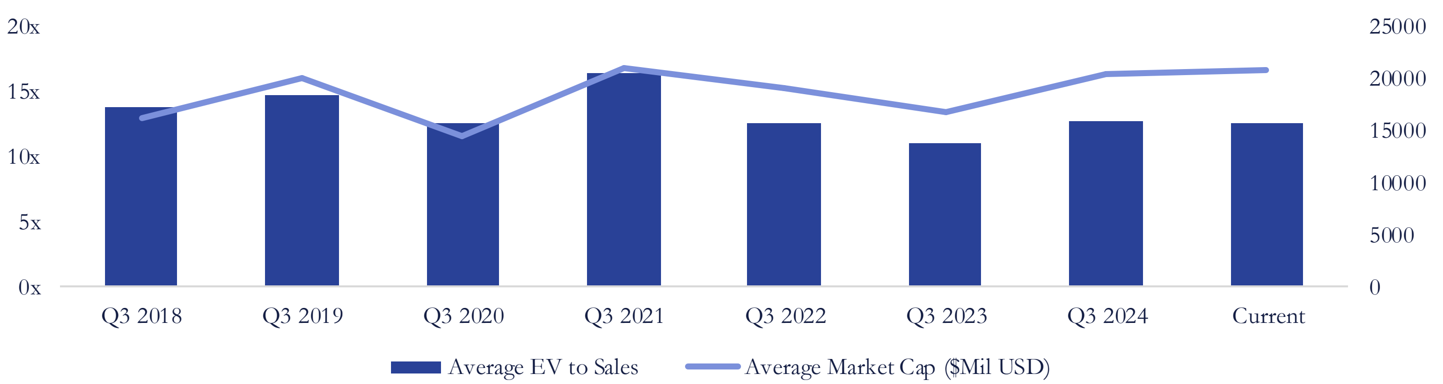
$ in millions of USD (As of 12/13/2024)

Company	Mkt. Cap	Enterprise Value	Share Price	LTM		TEV /		EPS	P/E
				Revenue	EBITDA	Revenue	EBITDA		
AvalonBay Communities	$32,147	$40,145	$226.01	$2,878	$1,741	13.9x	23.1x	5.1x	44.1x
Camden Property Trust	12,802	16,294	120.00	1,552	889	10.5x	18.3x	1.6x	76.3x
Equity Residential	27,702	36,914	73.28	2,941	1,811	12.6x	20.4x	1.4x	51.1x
Essex Property Trust	19,254	25,853	299.58	1,742	1,237	14.8x	20.9x	4.2x	71.2x
Mid-America Apartment Communities	18,572	23,673	158.90	2,183	1,248	10.8x	19.0x	4.4x	36.2x
UDR	14,670	21,859	44.46	1,662	1,028	13.1x	21.3x	0.3x	162.1x
Lower	14,203	20,468	66.07	1,635	993	10.8x	18.8x	1.1x	42.1x
Median	18,913	24,763	139.45	1,963	1,242	12.9x	20.6x	2.9x	61.1x
Mean	20,858	27,456	153.71	2,160	1,326	12.6x	20.5x	2.8x	73.5x
Upper	28,813	37,722	244.40	2,894	1,758	14.2x	21.7x	4.6x	97.7x

Compared to REITs from other real estate sectors, multifamily REITs offer increased stability and diversified exposure to apartments along with various subsectors of real estate such as student housing, senior housing, and affordable housing. The stability investors experience stems from consistent tenant demand and limited exposure to tenant vacancies since multifamily properties tend to maintain a solid base of occupied units that generate revenue. Despite these advantages, their short-term lease structure creates a high correlation between their rental income and macroeconomic events. This short-term leasing can cause large rent fluctuations in short periods of time that significantly impact revenue. The six publicly traded REITs chosen for our comparable analysis are AVB, CPT, EQR, UDR, ESS, and MAA. They all have broadly diversified portfolios across major markets around the U.S., as well as some of the highest market caps amongst multifamily REITs.

The EV/Sales ratio compares the total value of a company, debt included, to its revenue. A lower EV/Sales ratio is usually considered healthier as the value of the company is less expensive compared to its sales. The graph below suggests that the significant fluctuation in this ratio recently, with a jump in 2021 and a recent rise in 2024, is due mainly to the value of the stock price changing—thus affecting market cap—and not due to the firm taking on greater debt from changing interest rates or fluctuating sales revenue due to vacancies. While the revenue of these REITs is stable, the market price of these REITs and their valuation multiples are not.

Average EV/Sales Ratio to Average Market Cap



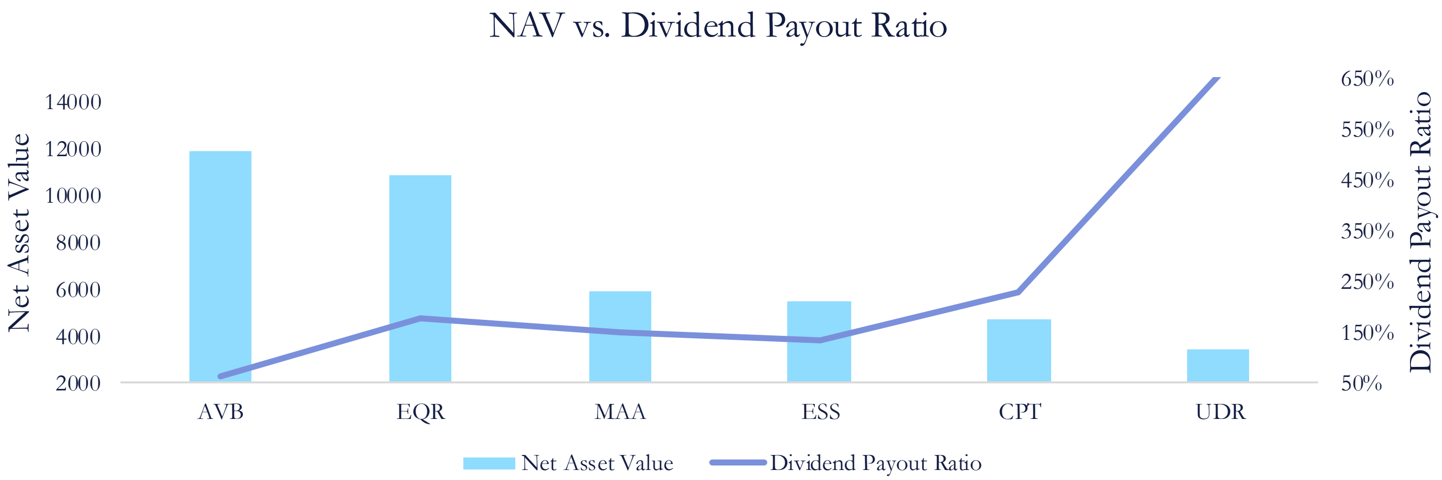
Sources: Bloomberg, Investopedia

COMPARABLE: BASIC

$ in millions of USD (As of 12/13/2024)

Company	Occupancy Rate (Q3)	Number of Properties Owned	Number of Units Owned	Net Asset Value	Dividend Yield	Dividend Payout Ratio
AvalonBay Communities	95.6%	305	92,908	$11,882	3.0%	65.0%
Camden Property Trust	95.5%	172	58,250	4,746	3.4%	226.9%
Equity Residential	96.1%	394	105,346	10,869	3.7%	178.7%
Essex Property Trust	96.2%	255	62,510	5,515	3.3%	132.9%
Mid-America Apartment Communities	95.7%	293	104,469	5,902	3.9%	150.3%
UDR	96.7%	169	55,699	3,446	3.8%	655.2%
Lower	95.6%	171	57,612	4,421	3.2%	115.9%
Median	95.9%	274	77,709	5,708	3.6%	164.5%
Mean	96.0%	265	79,864	7,060	3.5%	234.8%
Upper	96.3%	327	104,688	11,122	3.8%	334.0%

Evaluating the above metrics gives us insight into both the portfolio size and equity performance of each REIT. The number of properties owned, the number of units owned, and net asset value give context into how large their portfolio is, while occupancy rate signifies how well each portfolio is performing. The remaining, dividend yield and dividend payout ratio, give insights into how well each REIT is performing as an equity, specifically regarding their issuing of dividends to investors, which is one of the main draws to investing in REITs. Additionally, net asset value and dividend payout ratio show an inverse relation to each other. This relationship exists as the larger the net asset value of each REIT, the lower the dividends they tend to pay, and vice versa. This results from both an emphasis on reinvesting earnings towards growth rather than income to investors amongst high-NAV REITs, and higher portfolio valuations not fully coinciding with increases in income that would increase dividends. While this is a general trend shown throughout the set of comparables, it most notably exists with AvalonBay Communities and UDR. AvalonBay Communities holds the highest net asset value amongst the set, at a value of $11,882. Subsequently, they have the lowest dividend payout ratio, at 65%, which is far below the next lowest at 132.9%. UDR has the lowest net asset value at $3,446, and the highest dividend payout ratio of 655.2%. This relationship is important to understand and consider since REITs are often evaluated and invested in their ability to provide sufficient dividends.



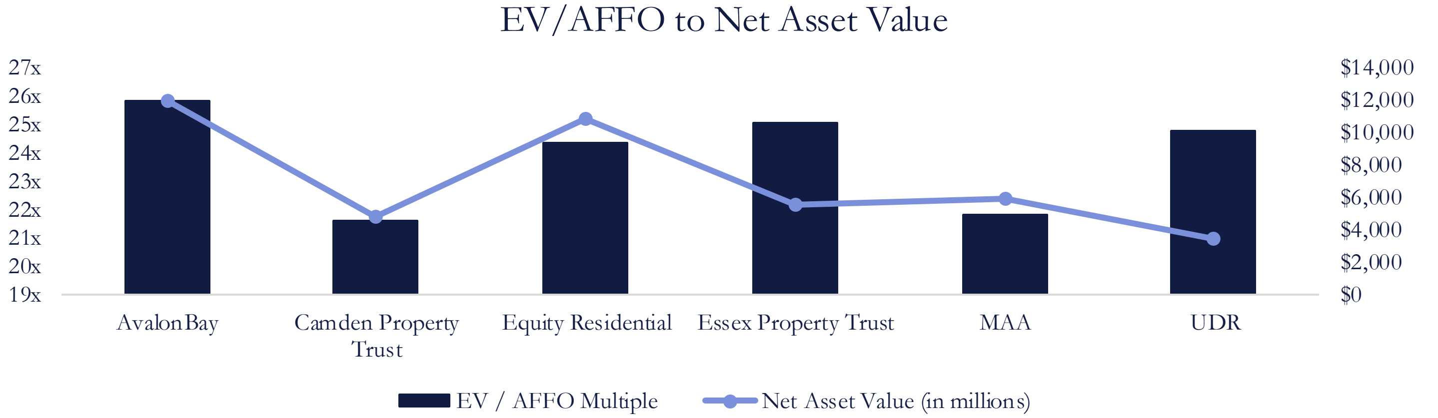
COMPARABLE: VALUATION

BULL & BEAR REAL ESTATE

$ in millions of USD (As of 12/13/2024)

Company	EV/FFO	EV/AFFO	FFO/Share	P/FFO	P/NAV	NAV[1]	Implied Cap Rate
AvalonBay Communities	25.7x	25.8x	11.0x	20.6x	2.7x	$11,882	4.5%
Camden Property Trust	21.9x	21.6x	6.8x	17.6x	2.7x	4,746	5.9%
Equity Residential	25.0x	24.3x	3.8x	19.2x	2.6x	10,869	5.1%
Essex Property Trust	24.0x	25.0x	16.2x	18.5x	3.5x	5,515	4.6%
Mid-America Apartment Communities	21.5x	21.8x	9.1x	17.2x	3.1x	5,902	5.6%
UDR	25.3x	24.7x	2.4x	18.2x	4.3x	3,446	4.9%
Lower	21.8x	21.7x	3.5x	17.5x	2.7x	4,421	4.6%
Median	24.5x	24.5x	7.9x	18.4x	2.9x	5,708	5.0%
Mean	23.9x	23.9x	8.2x	18.6x	3.1x	7,060	5.1%
Upper	25.4x	25.2x	12.3x	19.6x	3.7x	11,122	5.6%

The valuation ratios above show how the market is valuing multifamily REITs. These are essential to an accurate comparison as many REITs have varying sizes and revenues. REIT investors typically look at Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO) rather than Net Income since these add back depreciation, which is a large non-cash expense. AFFO is similar to FFO, but it also subtracts any recurring capital expenditures and lease adjustments. The EV/AFFO ratio measures how much investors are willing to pay per one dollar of adjusted cash flow, with a lower multiple suggesting the REIT is more efficiently generating cash flows relative to its market value and could be undervalued. FFO per share is similar to a traditional stock's Earnings per share metric, while P/FFO is similar to a P/E ratio. NAV is the estimated value of a REIT's assets minus the estimated value of its liabilities. Lastly, a REIT's cap rate is determined by dividing its projected NOI by its enterprise value, showing the expected yield return on the asset. The graph below shows the enterprise value to adjusted funds from operations ratio to net asset value. According to the EV/AFFO ratio, Camden Property Trust and Mid-America Apartment Communities appear to be undervalued relative to their multifamily peer group. If EV/AFFO is high relative to NAV, such as with UDR and Essex Property Trust, the REIT might be valued more heavily on its revenue generation than its underlying assets. Additionally, Mid-America Apartment Communities and Essex Property Trust have a similar net asset value, yet Essex Property Trust trades more expensively. This could be due to market expectations for growth in Essex Property Trust or strong leasing performance.



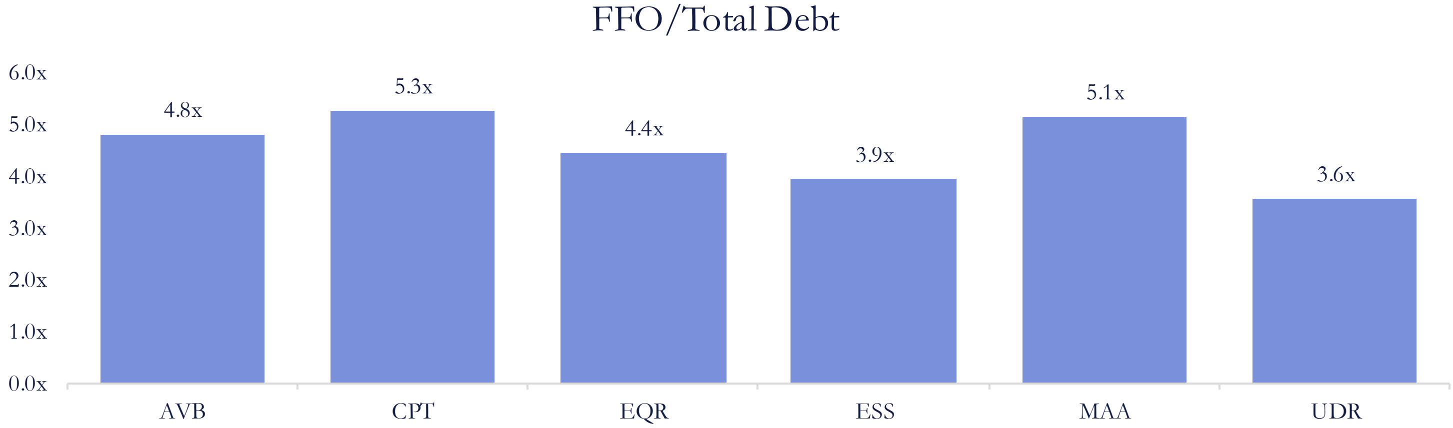
Sources: Bloomberg

COMPARABLE: LIQUIDITY

$ in millions of USD (As of 12/13/2024)

Company	Total Debt	Debt/EBITDA (TTM)	Debt Ratio (TD/TA)	FFO / Total Debt
AvalonBay Communities	$8,551	4.9x	40.1x	4.8x
Camden Property Trust	3,452	3.9x	38.6x	5.3x
Equity Residential	8,672	4.8x	41.4x	4.4x
Essex Property Trust	6,443	5.2x	50.9x	3.9x
Mid-America Apartment Communities	4,902	3.9x	41.7x	5.1x
UDR	6,048	5.9x	54.6x	3.6x
Lower	4,540	3.9x	39.7x	3.8x
Median	6,246	4.8x	41.6x	4.6x
Mean	6,345	4.8x	44.6x	4.5x
Upper	8,581	5.4x	51.9x	5.2x

Amidst a higher for longer interest rate environment that has existed since 2022, evaluating the leverage and liquidity of REITs has become increasingly important, as this has been a primary area of distress for many REITs. FFO/Total Debt and Debt/EBITDA represent how well a REIT is able to pay off its debt relative to its operating income. Additionally, the Debt ratio directly displays how highly leveraged each REIT is relative to its assets. Coupled with the current environment, REITs heavy reliance on debt for growth and operations makes understanding their current liquidity and leverage metrics even more important. Regarding FFO/Total Debt, the higher ratios signify better liquidity, since they show a higher portion of operating income available to cover debt obligations. UDR exhibits the most concerning liquidity metrics as their lowest FFO/Total Debt ratio is paired with the highest Debt/EBITDA and Debt ratios, signifying inadequate income to cover debt payments and that they are the most leveraged REIT amongst the comparable set. Further, the same can be said for Essex Property Trust as they exhibit the second-lowest FFO/Total Debt ratio, and the second-highest Debt/EBITDA and Debt ratios. Conversely, Camden Property Trust exhibits very positive leverage metrics as they have the highest FFO/Total Debt, as well as the lowest Debt/EBITDA and Debt ratios, suggesting that they can sufficiently use their earnings to cover their debts and have room to take on additional debt. Similarly, Mid-America Apartment Communities holds the second-highest FFO/Total Debt ratio along with the lowest Debt/EBITDA ratio. This suggests their earnings sufficiently cover their debt which will be an important advantage over the next year.



Sources: Bloomberg, Investopedia

COMPARABLE: PROFITABILITY

$ in millions of USD (As of 12/13/2024) All data LTM, Growth is YoY

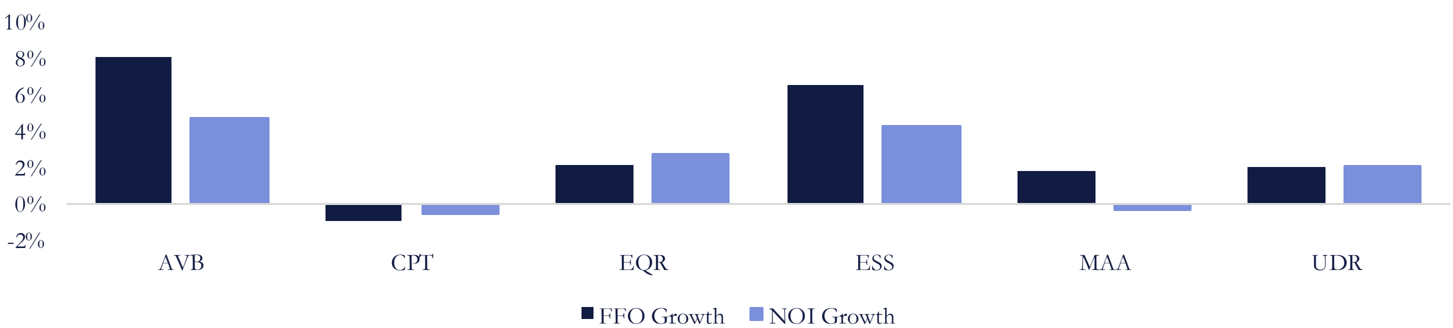
Company	FFO	FFO Growth	AFFO	AFFO Growth	NOI	NOI Growth	Profit Margin	Profit Margin Growth
AvalonBay Communities	$1,564	8.1%	$1,558	5.4%	$1,818	4.7%	36.2%	6.6%
Camden Property Trust	743	-1.0%	754	0.2%	955	-0.6%	22.2%	50.4%
Equity Residential	1,481	2.2%	1,520	4.5%	1,872	2.8%	31.6%	31.6%
Essex Property Trust	1,075	6.5%	1,031	3.3%	1,186	4.3%	31.5%	-0.2%
Mid-America Apartment Communities	1,091	1.8%	1,075	-1.8%	1,305	-0.4%	23.9%	-13.0%
UDR	863	2.1%	884	2.0%	1,078	2.1%	7.7%	-72.8%
Lower	833	1.1%	851	-0.3%	1,047	-0.4%	18.6%	-28.0%
Median	1,083	2.1%	1,053	2.6%	1,245	2.5%	27.7%	3.2%
Mean	1,136	3.3%	1,137	2.3%	1,369	2.2%	25.5%	0.4%
Upper	1,502	6.9%	1,529	4.8%	1,832	4.4%	32.7%	36.3%

The selected REITs show good operational efficiency, with profit margins in the ideal 20%-30% range. However, UDR stands out with its low 7.7% profit margin, stemming from high-cost investments in urban coastal markets such as NYC, Boston, and LA. In Q3 2024, UDR's operating expenses grew 6.8% YoY, compounded by an $8.1 million impairment charge, which reduced profitability despite modest revenue growth of 2.4%. Profit margin growth varies widely, with Camden Property Trust experiencing a 50.4% increase, driven by cost efficiencies and Sunbelt investments, while UDR experienced a -72.8% decline.

FFO and AFFO, which exclude non-cash items like depreciation, are key metrics for REIT cash flows. AvalonBay's strong 5.4% AFFO Growth reflects efficient operations and strong rental income from high-demand, high-rent urban areas. Similarly, Net Operating Income (NOI) indicates revenue consistency against expenses. While AvalonBay's NOI growth of 4.7% reflects success in capturing rental demand, Camden Property Trust's low NOI growth of -0.6% shows challenges in maintaining income growth despite strong demand. However, the company's impressive profit margin growth highlights its ability to enhance profitability despite lagging income growth.

AvalonBay and Equity Residential's higher FFO and NOI growth result from a focus on more established, high-rent markets. Camden's focus on Sunbelt markets supports its higher growth potential but subjects it to more economic sensitivity. UDR's focus on coastal cities gives it exposure to high operating costs and volatile demand, driving its profit margin growth challenges.

FFO and NOI Growth (YoY)



BULL & BEAR RESEARCH

Equity Research

Real Estate| Multifamily
13 December 2024

Equity Residential (EQR)

Equity Residential (EQR) is a multifamily REIT focused on the acquisition, development, and management of residential properties in American Cities. EQR owns over 394 properties, consisting of over 105,346 units with an occupancy rate of 96.1%.

EQR Differentiation and Strategy

EQR differentiates itself from other multifamily REITs by primarily focusing on high-quality apartments in large urban centers. These areas have a younger working demographic and have a median resident age of just 33. They also have high occupancy and growth rates. EQR mainly buys properties in large "core" cities such as NYC, D.C., Boston, and Los Angeles, which all have strong rental markets. This allows for EQR to have stability and collect higher rents. EQR is also expanding in growing cities such as Denver, Atlanta, Dallas/Ft. Worth, and Austin. Furthermore, EQR has a strong emphasis on attracting affluent, long-term renters. To do this, they focus on acquiring new buildings with many amenities in well-off urban areas.

Financial Performance

Compared with its peers, EQR has a slightly higher price to FFO ratio, which means that it may be priced at a small premium by the market. EQR's dividend yield also is strong relative to its competitors. One differentiating factor is that EQR has a large portfolio compared to its peers of ESS, MAA, or CPT. At worst, EQR is comparable to many of its peers in financial metrics and performance.

Balance Sheet Operations

The balance sheet is extremely important in understanding a REIT's position. Due to the publicly traded nature of EQR, it can easily obtain equity funding compared to private real estate firms. However, too much leverage can significantly harm the value of a REIT. Post 2008, EQR has significantly reduced its Debt to Total Assets from 66.3% to 41.4% (slightly lower compared to the peer average). The lower leverage allows for greater flexibility and a lower cost of borrowing. This allows EQR to take advantage of cyclical opportunities when rates are low.

Recent Acquisitions

In Q3 2024 EQR spent $964M to acquire 11 apartment buildings from Blackstone. The apartments are located in the Atlanta, Dallas/Ft Worth, and Denver areas, and total to 3,572 units. The average age of the apartments acquired is 8 years old, and they are all seen as high-quality, well-located buildings that align with EQR's typical investment strategy.

Outlook

Historically, EQR is a stable and growing REIT that focuses on high-barrier-to-entry urban markets. The continued stability of the multifamily sector overall will continue to allow EQR to flourish in the future.

Stock Rating	**BUY**
BBR Price Target	$89.92
Price (12/13/24)	$73.28
Ticker	EQR
Exchange	NYSE

52 Week Range	$57.33-78.83

Research Team

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Multiples

	EQR	Peers
P/FFO	19.2x	18.6x
P/NAV	2.6x	3.1x
EV/FFO	24.3x	23.9x

Stock Information

Market Cap (B)	$27.702
Shares Outs. (mm)	390.92
Free Float (%)	87.38
Dividend Yield (%)	3.70

Sources: Bloomberg, Yahoo Finance, Equity Apartments, Business Wire

Net Asset Value Model Summary

BBR R BULL & BEAR REAL ESTATE

Forecasting Assumptions

In our valuation of Equity Residential, we constructed a Net Asset Value Model originating from a three-statement operating model that forecasted into 2029. In the operating model, our forecasting assumptions were based on management guidance, historical growth, and short-term expected impacts on net operating income resulting from their recent acquisitions. These acquisitions focused on expansion markets that are currently experiencing oversupply issues which are subduing short-term rent growth and are expected to continue until 2026.

NAV & Market Consensus

We forecast an NAV of $10,368.70 Million in 2025, and an NAV per share of $28.70. This result fell slightly short of Bloomberg's market consensus estimate of $10,933 Million in 2025, and an NAV per share of $30.26. This difference primarily stemmed from our emphasis on a short-term subdued net operating income following their acquisition of the Blackstone portfolios. Despite this difference, we maintain a buy position on Equity Residential due to their attractive debt positioning, future NOI expectations, and historical performance.

NOI Growth	NAV	NAV/S
Market	**Market**	**Market**
4.28%	$10,933.00 M	$30.26
BBR	**BBR**	**BBR**
0.47%	$10,368.70 M	$28.70

Our Rating: Buy

Although EQR's NAV per share is remarkably low relative to their stock price of $73.28, multifamily REITs have traded at an average P/NAV of 2.82x over the last 5 years while EQR is trading at 2.67x, reducing concerns of a potential overvaluation. Additionally, we find that EQR's debt positioning and future NOI prospects hold significant future optimism. EQR has extremely attractive financial positioning due to their leverage management over recent years. As of the beginning of 2024, over 50% of their existing debt doesn't mature until after 2030, granting them tremendous flexibility and stability over the next five years. Additionally, in their recent acquisition of the Blackstone portfolios, they issued $600 million in fixed-rate debt at an interest rate of 4.65%, the lowest in the REIT space since interest rate hikes in 2022. This trend is expected to continue in their future issuances as interest rate cuts take place. Further, their focus on expansion markets facing oversupply issues, subdued rents, and pricing discounts will allow for extreme NOI expansion beginning in 2026 as those markets recover, stabilize, and grow. This should also allow for continued superior acquisition and development activity, which they have already begun to display by expanding their asset base by 2.5% in 2024. Beyond just their attractive leverage, they have also paid attractive dividends, with a current dividend yield of 3.7%, slightly surpassing the average dividend yield of 3.5% amongst comparable REITs. Their stock price has also performed well historically, growing 17.31% over the last year. Thus, their portfolio growth and positive performance have translated into above-average dividends and positive stock price performance. As EQR is well positioned to grow for the remainder of the decade and is deeply invested in markets with returning rent growth on the horizon, we expect its portfolio to perform positively and translate into high dividends and stock price appreciation. These forward-looking characteristics solidify our buy rating for Equity Residential.

Sources: Bloomberg, GreenStreet, Yahoo Finance, Seeking Alpha

Let's Talk

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