

LEXERD CAPITAL MANAGEMENT

A MULTIFAMILY REAL ESTATE INVESTMENT FIRM

RESEARCH REPORT

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EXECUTIVE SUMMARY

Recent Developments and Trends

The US Economy

- Strong GDP growth at 6.7%
- Inflation rate at 5.4%
- Tremendous global liquidity
- Funds rate at 0.25% with \$120Bn monthly bond-buying
- Unemployment at 4.8%
- Low participation rate with 5 million people missing from the labor force
- Wage increases across all sectors
- Supply Chain issues create pressure on prices

The Housing Market

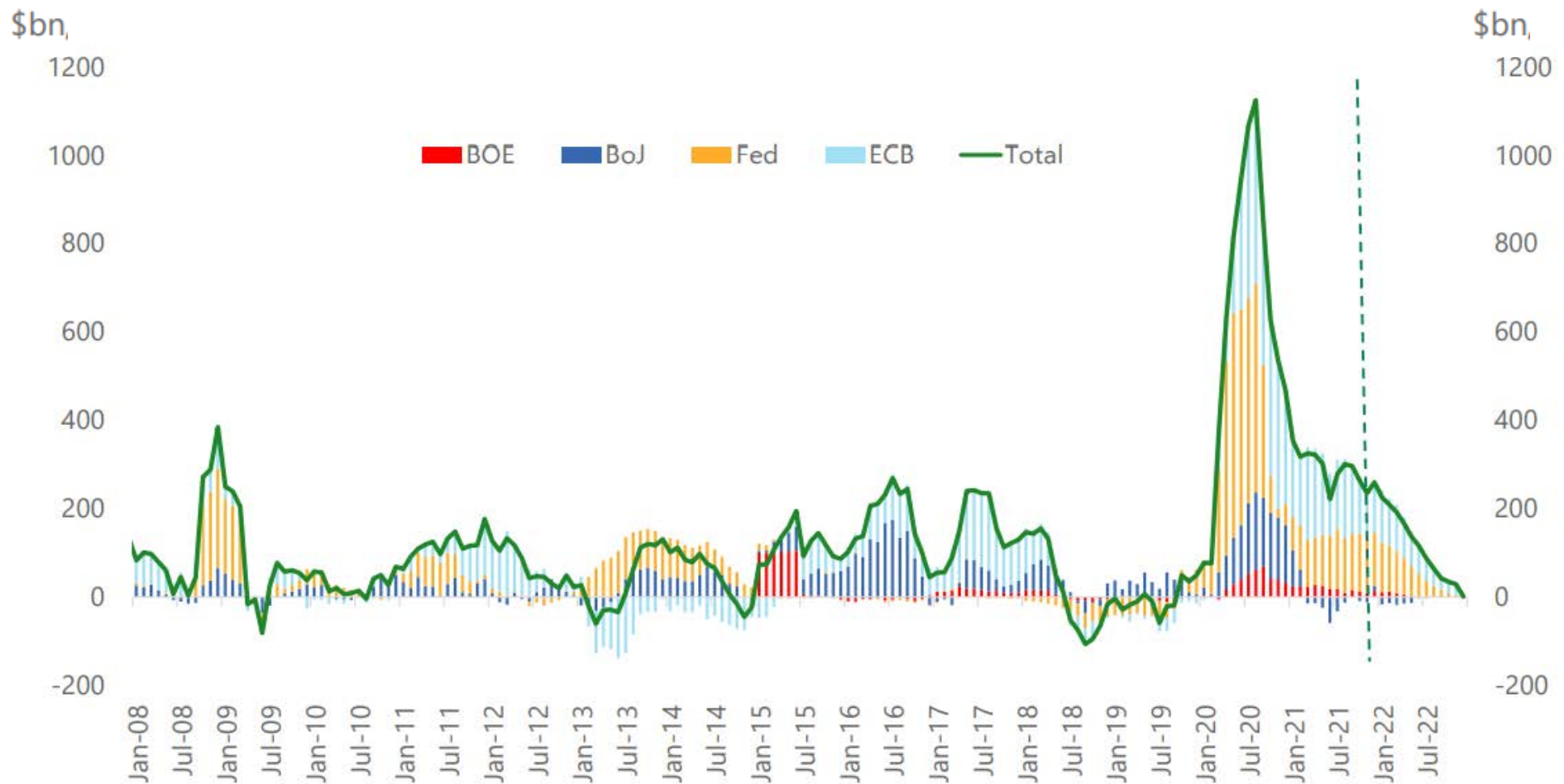
- Sound Household balance sheets with strong consumer spending
- Dramatic price increases in real estate across all asset classes
- Housing shortage intensified by limited inventory
- Affordability issues in the entry single-family segment
- Declining Consumer Confidence

The Multifamily Sector

- Contained supply in new units with limited inventory
- Improved vacancies and delinquency rates in post-covid
- Slow construction due to permitting and shortages
- Higher rents due to higher demand and wage growth
- Post-pandemic improved vacancy and delinquency rates
- Class B properties are the winners in this cycle as Class A properties experienced higher vacancy rates and offered more concessions
- The millennial generation is a strong tail wind for the MF sector

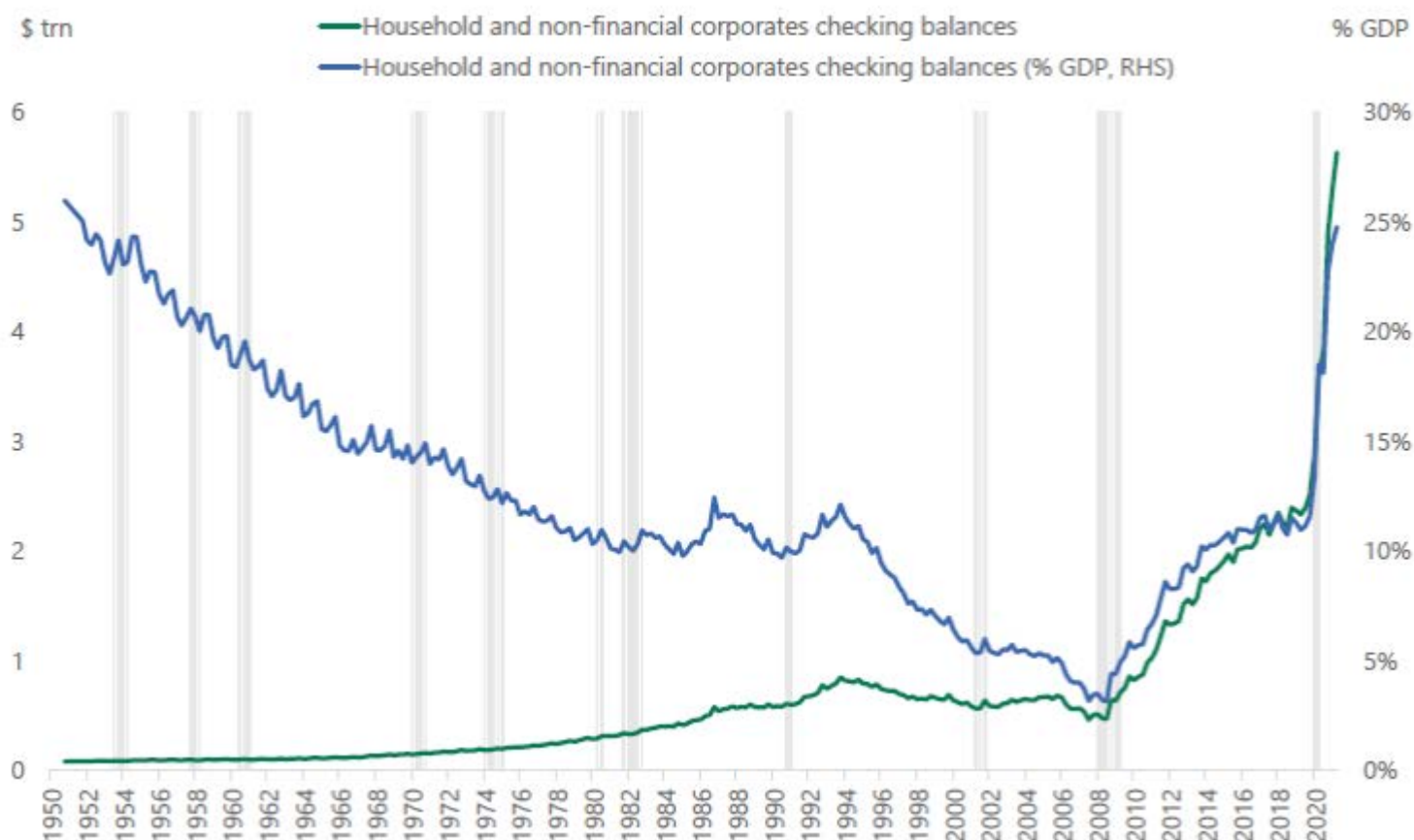
GLOBAL CENTRAL BANK LIQUIDITY IS EXTRAORDINARY

Global bank asset repurchase programs provided massive liquidity



DRAMATIC INCREASES IN HOUSEHOLD/CORPORATE LIQUIDITY

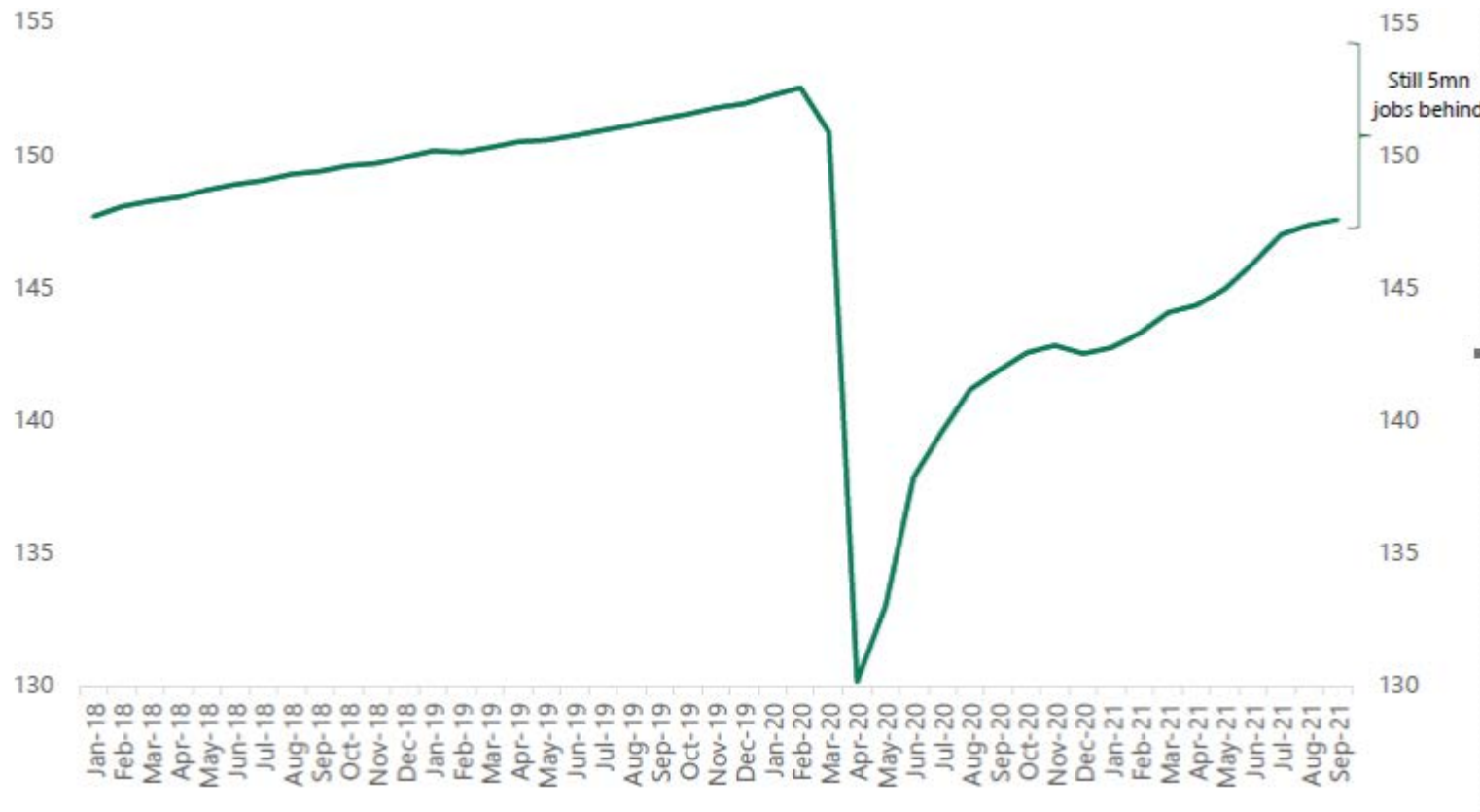
The private sector's increase in cash is bullish for consumer spending and capex spending With the economy already operating in full employment, any additional acceleration in growth from excess savings will create more inflation



Source: Federal Reserve Bank and Bureau of Economic Analysis 2021

EMPLOYMENT IS LESS THAN 5 MILLION JOBS

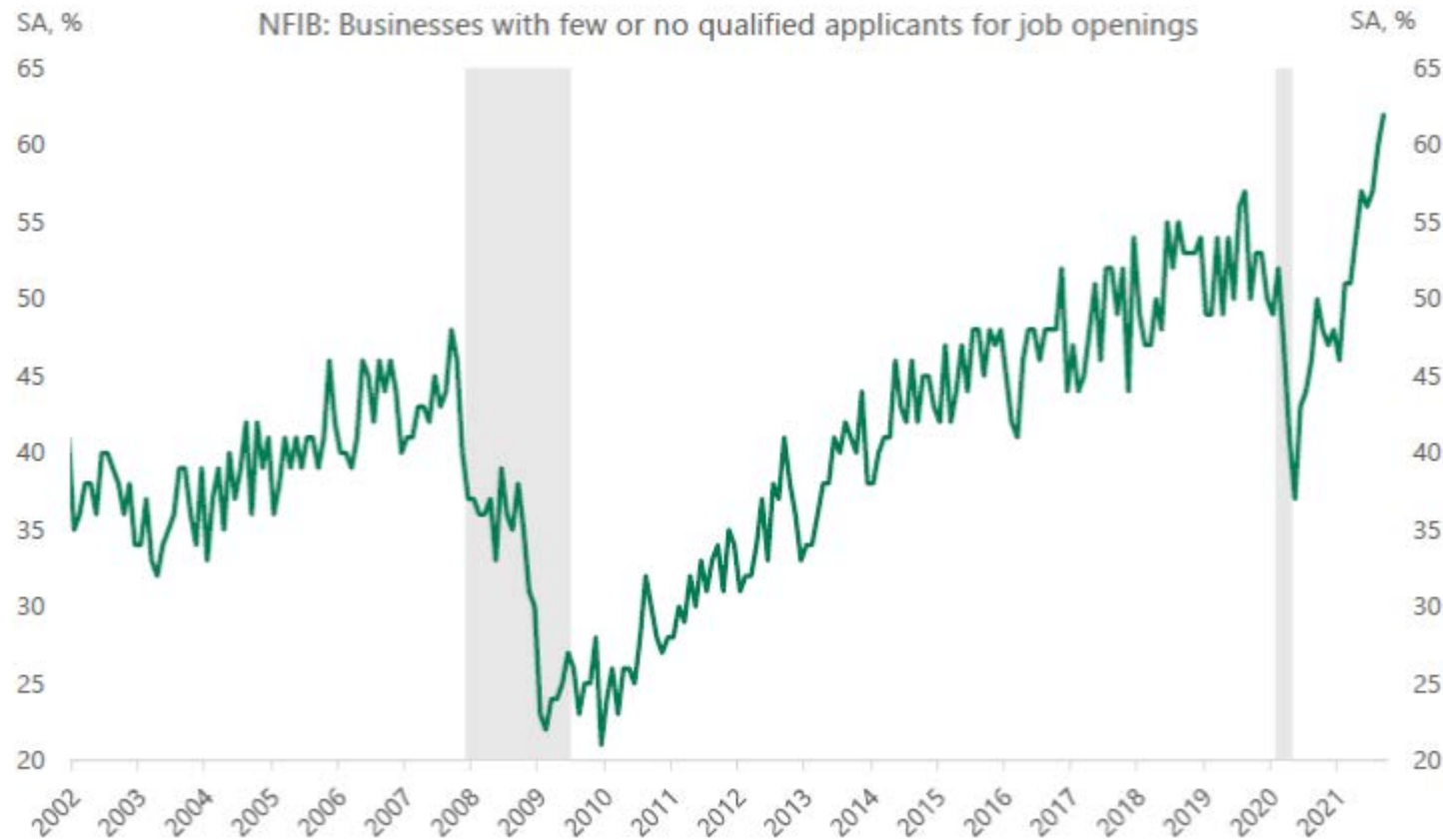
Total US employment is 5 million jobs lower than in Feb 2020 while wages continue to increase. Participation rates are lower, and immigration will not fill the gap soon



Source: Bureau of Labor Statistics, Bloomberg Sept 2021

LIMITED LABOR TO FILL JOBS

Record-high share of businesses have few or no qualified applicants for job openings



Source: NFIB and Bloomberg

LABOR IS FULLY EMPLOYED

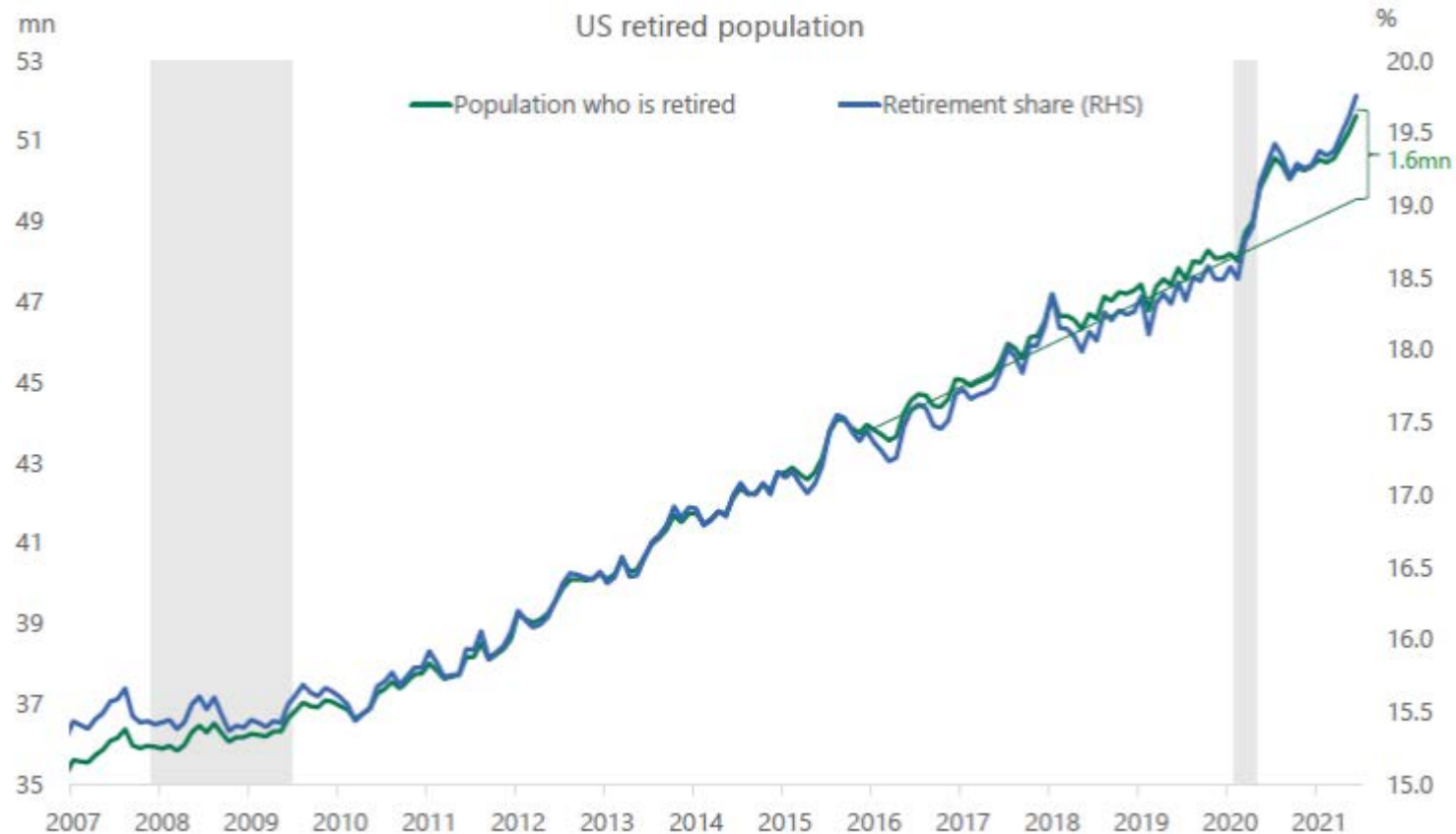
Very difficult for businesses to find workers. With the economy operating in full employment, labor costs will continue to rise which means more inflation



Source: NFIB and Bloomberg. Index of job openings

EMPLOYMENT GAP IS NOT EXPLAINED BY RETIREES

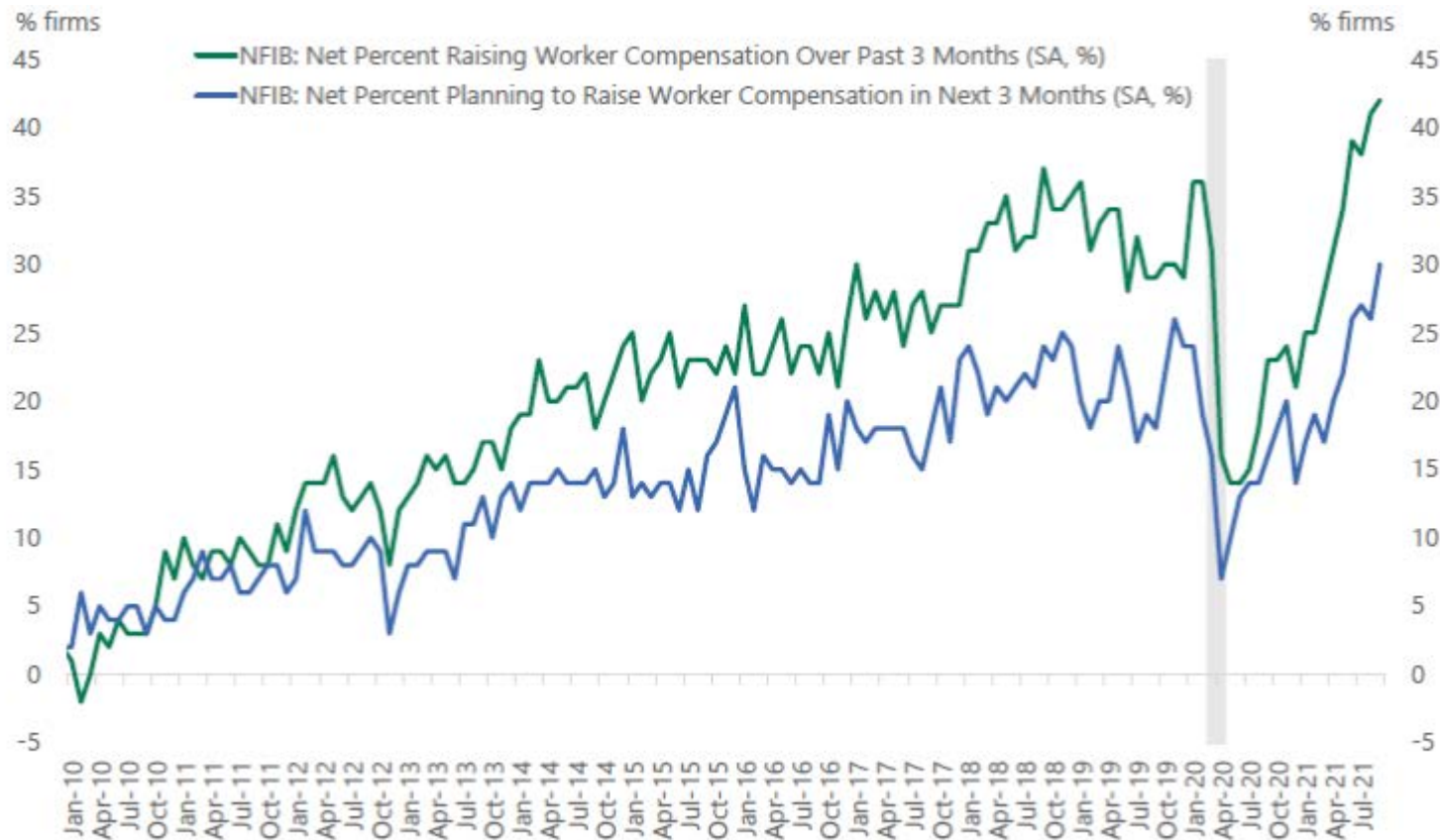
The number of retired people in the US is 1.6 million above pre-pandemic trend after accounting for the increasing numbers of babyboomers reaching retirement



Source: Federal Reserve Bank of Kansas, Census Bureau Sept 2021

RAISING WAGES ACROSS ALL BUSINESSES

A record-high share of businesses are raising WAGES and planning to increase them further



Source: National Federations of Independent Businesses 2021

INFLATION EXPECTATIONS HAVE NOT BEEN STABILIZED

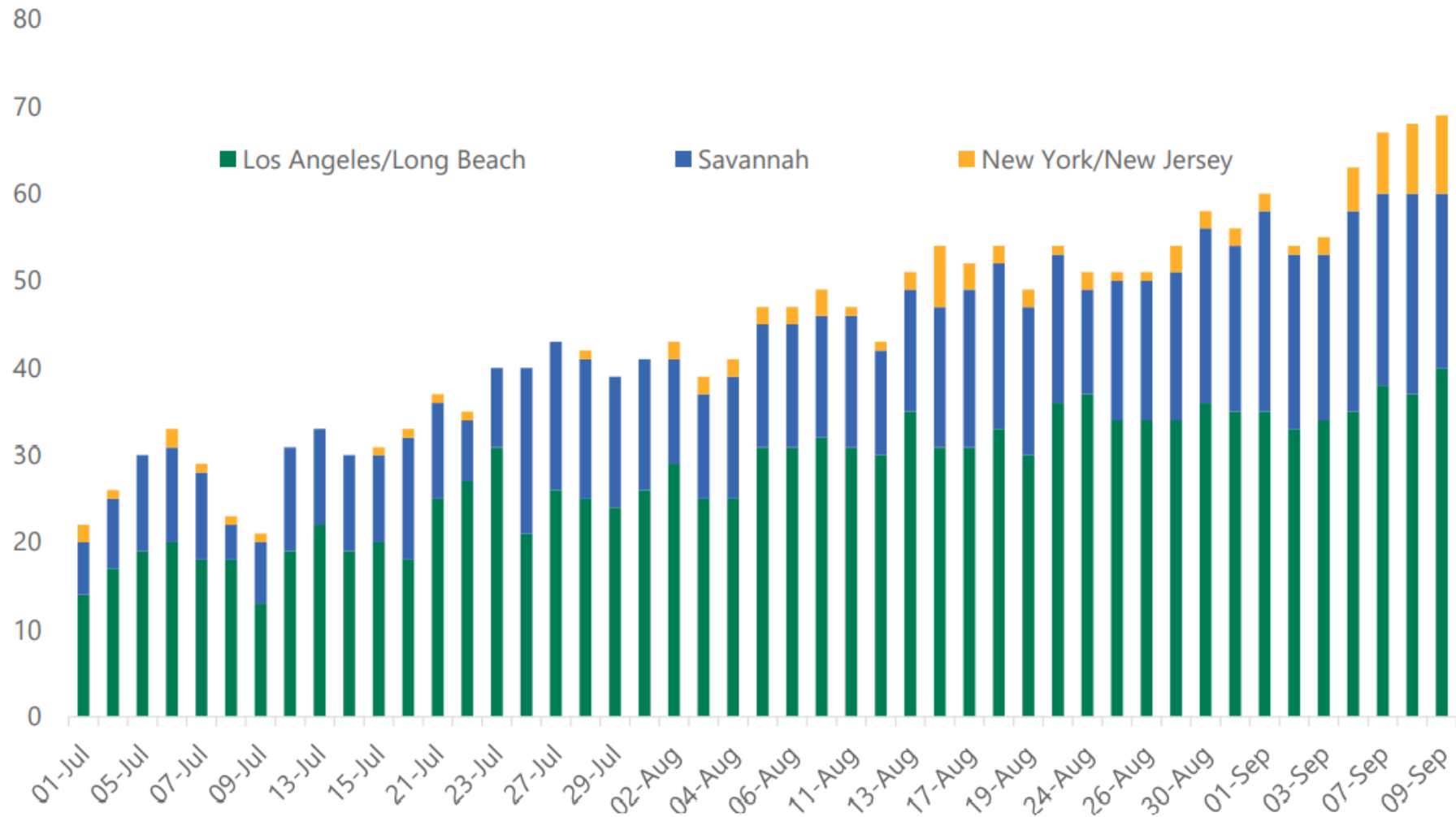
Higher inflation expectations and significant upward pressure on cost of production lead to higher inflation and lower margins



Source: Federal Reserve Bank of New York

SUPPLY CHAIN DELAYS REMAIN A PROBLEM

Number of containerships waiting at top 3 ports in the US

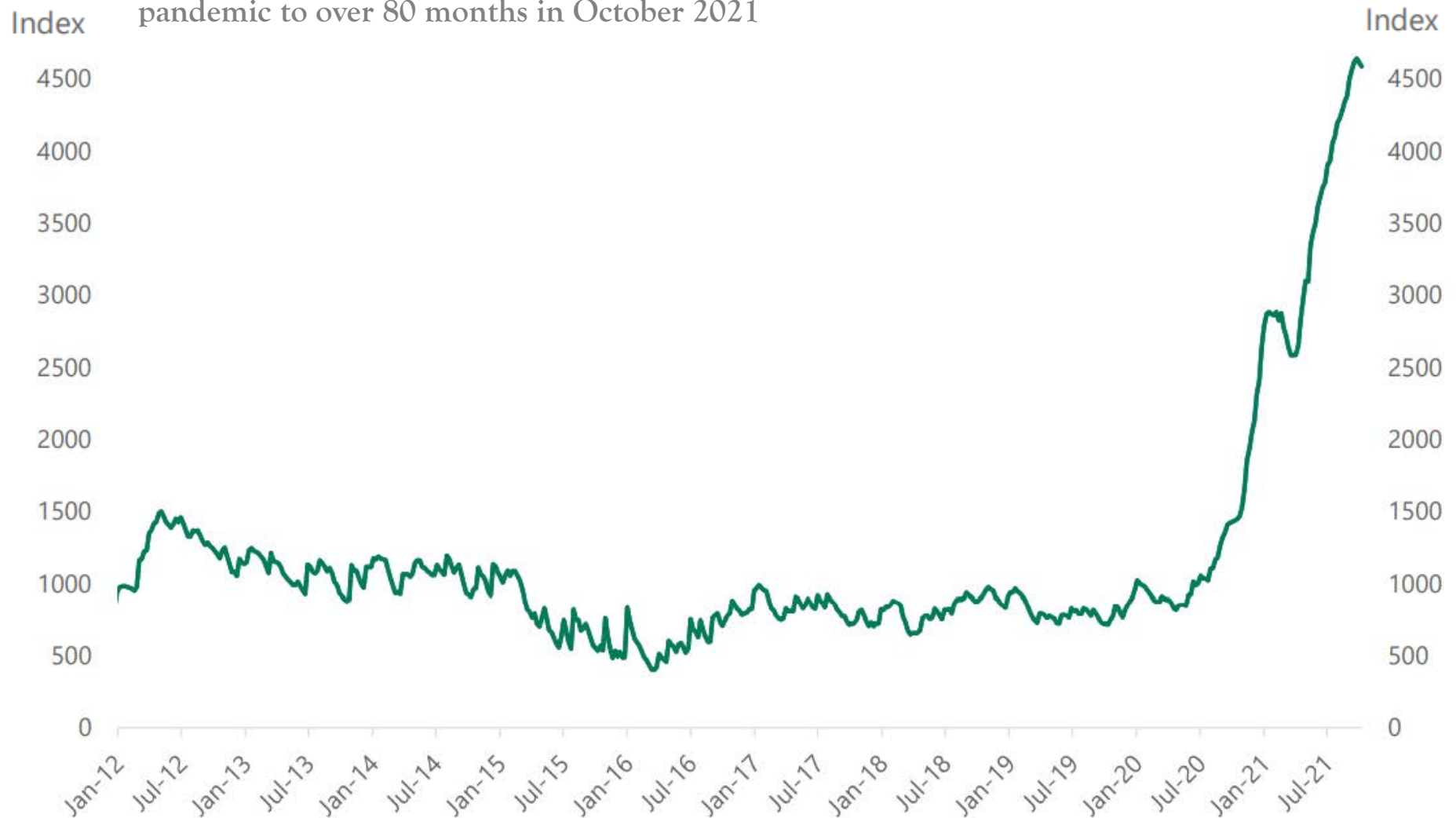


Source: Bloomberg

COST OF TRANSPORTATION AT RECORD HIGH LEVELS



Shanghai Shipping Exchange Containerized Freight Index is elevated. The average transit time (end-to-end) between China and US has increased from 44 months pre-pandemic to over 80 months in October 2021



Source: Bloomberg

HOUSING MARKET HIGHLIGHTS

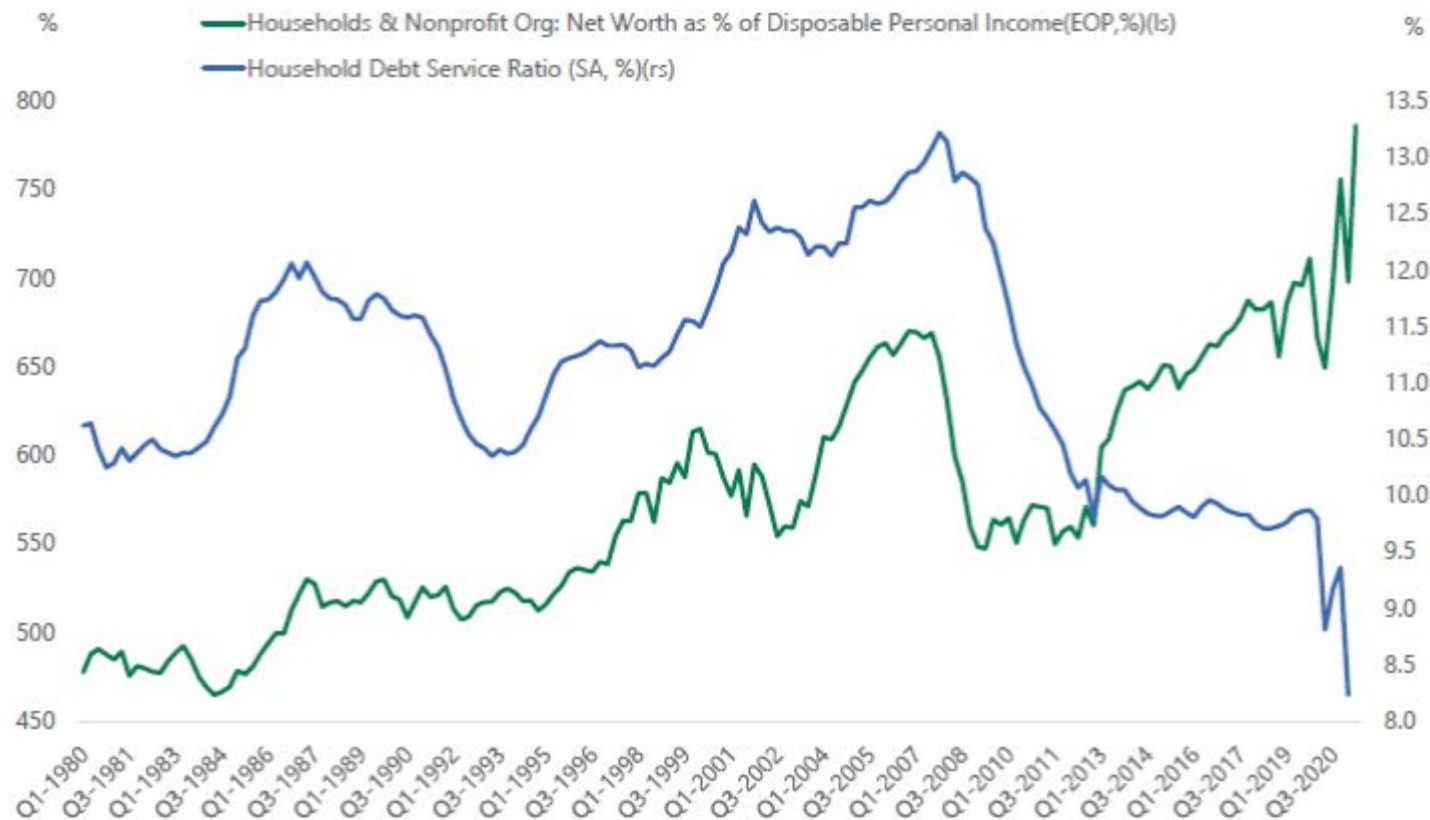


Trends and Structural Issues

- Healthy spending and solid household balance sheets have fueled dramatic increases in housing prices creating in turn declines in consumer confidence
- Home ownership decreased from 65.4% in 2021Q2 to 65.6% in 2021Q1.
- Home sales jumped 7% in Sept 2021 reducing home inventory.
- The S&P CoreLogic Case-Shiller 20-city home price index increased to the record of 20% year-on-year in July 2021
- Median existing-home price was \$352,800 up 13.3% from Sept 2020
- Housing affordability is an issues in the entry level of single-family housing
- Prices in the high-end housing market experience greater increases than prices in the middle- level
- Year-on-year house prices surged 19.2% in July 2021
- The supply is very tight. Housing starts fell by 1.6% to annual rate of 1.55 million units in September 2021. Costs of materials, labor shortages and permitting are the key factors for the decline
- Permits dropped 7.7% to an annual rate of 1.58 million unios in September 2021 the lowest level in a year and well below expectations. Supply chain disruptions, labor shortages and permitting have been the key issues

SOLID US HOUSEHOLD BALANCE SHEETS

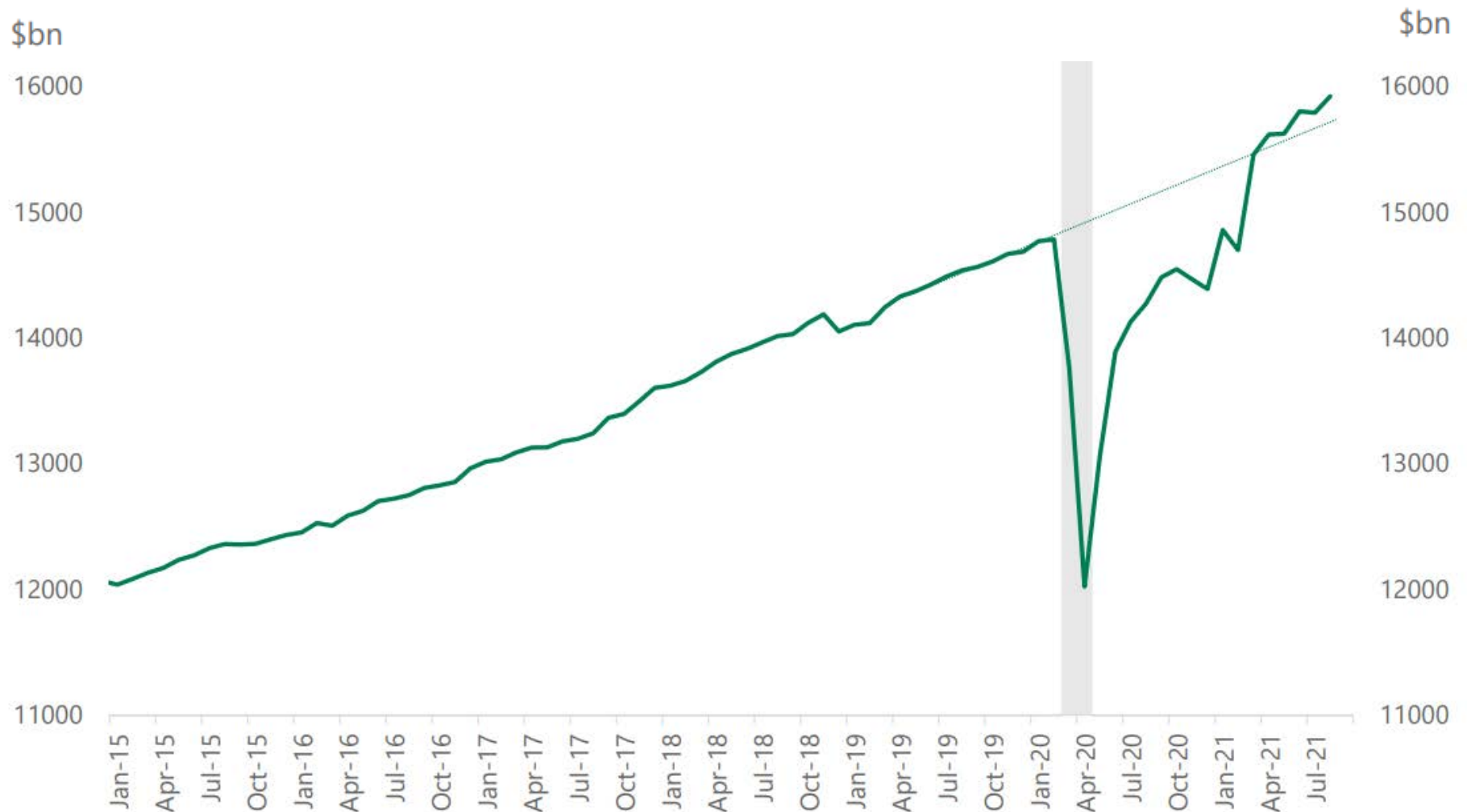
US households have record-high net worth and record low debt service payments. Strong household sector balance sheets and robust job growth provide for solid growth in consumer spending ahead



Source: Federal Funds Reports, Haver Analytics

TRENDS IN CONSUMER SPENDING

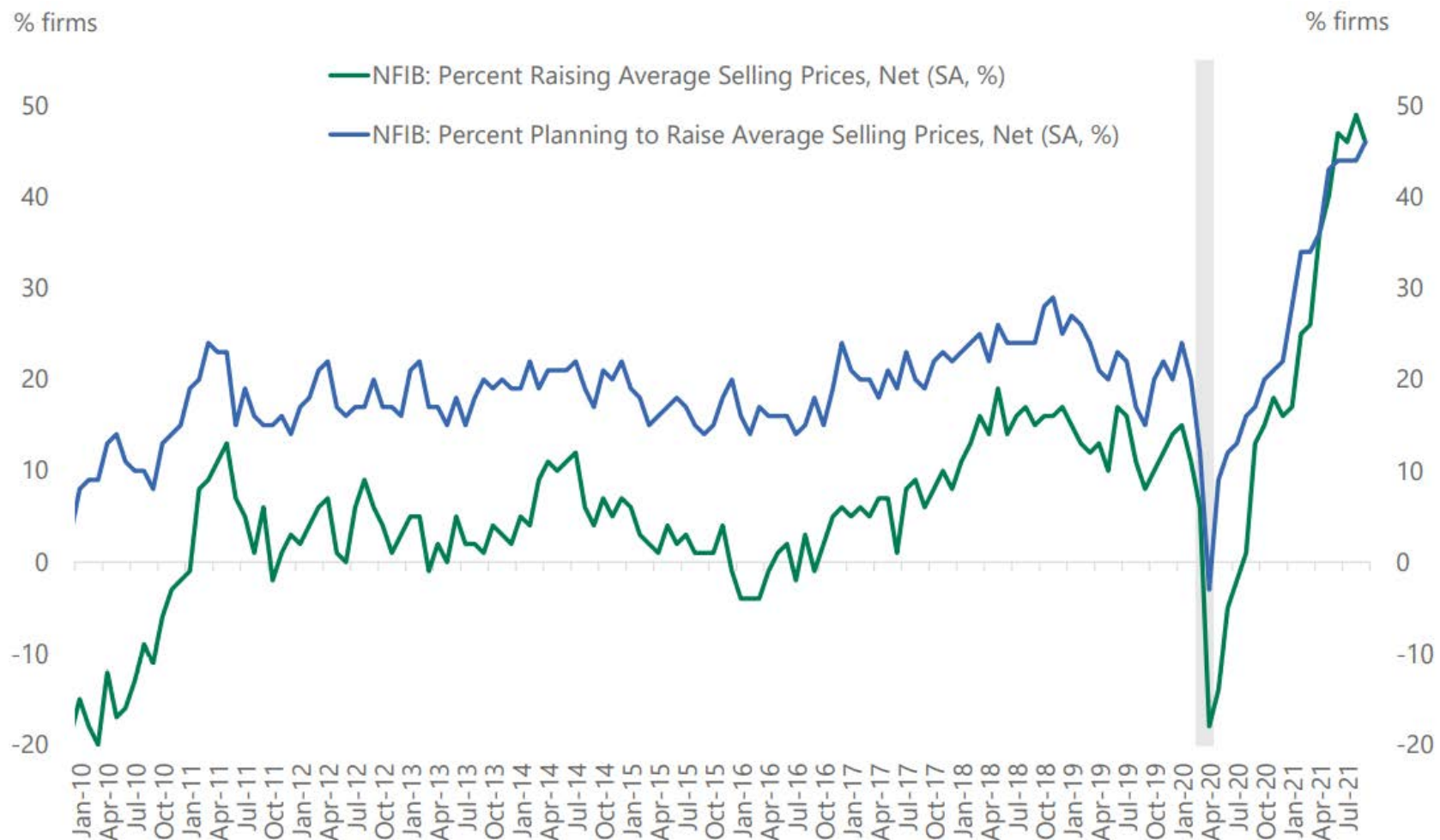
Consumer spending back at pre-pandemic trend



Source: Haver Analytics, Bureau of Economic Analysis (BEA)

BUSINESSES ARE RAISING PRICES

Inflation has arrived as a record-high share of businesses are raising prices and planning to increase prices further



Source: National Federations of Independent Businesses 2021

INFLATION'S NEGATIVE IMPACT ON PERSONAL FINANCES



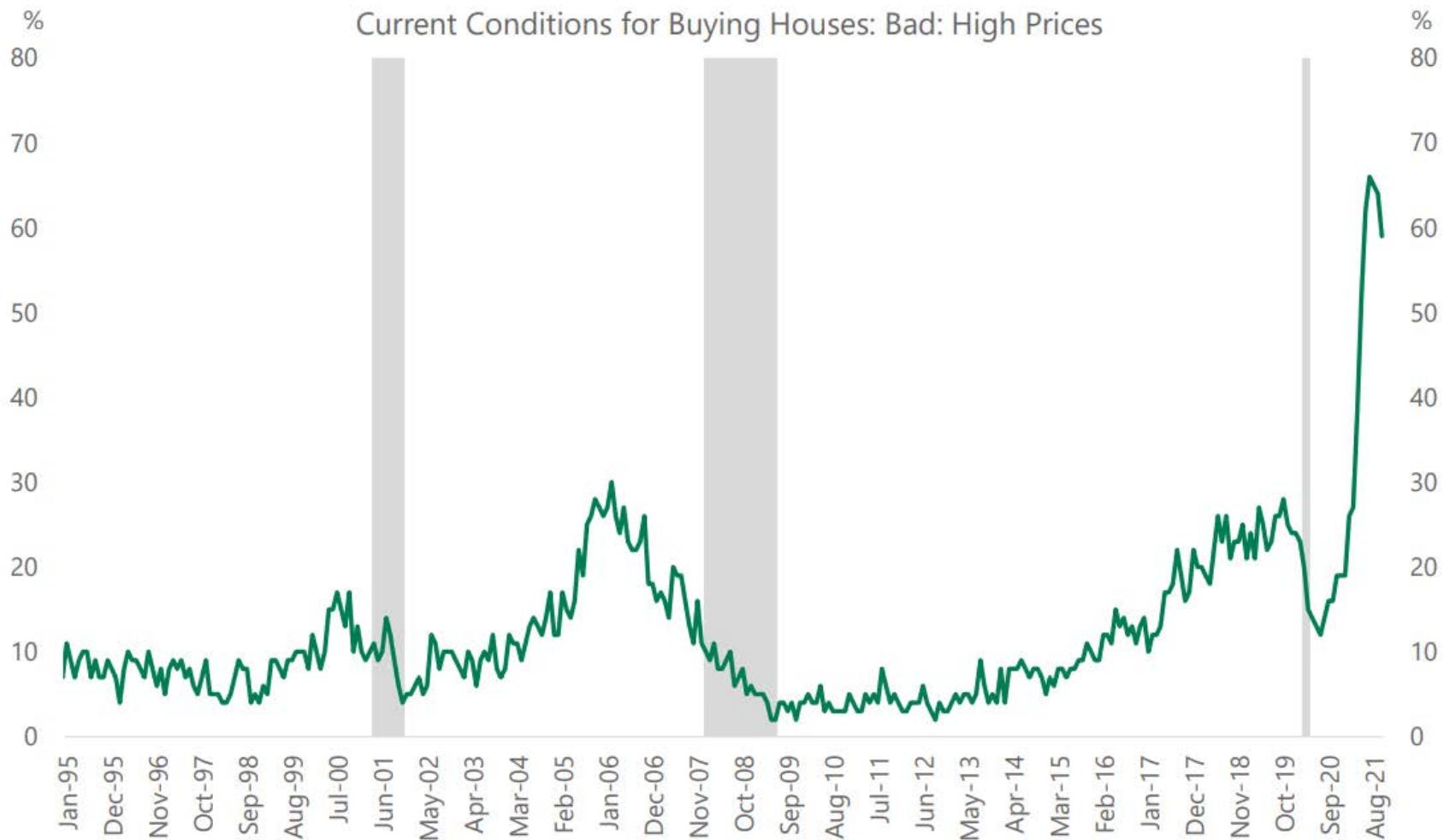
Personal Finances Compared to a Year Ago: Worse Because of Higher Prices (%)



Sources: Haver Analytics, University of Michigan Consumer Confidence Survey

HIGH HOME PRICES IS CONSUMERS' KEY CONCERN

Almost 60% of consumers believe high home prices is a problem



Sources: Haver Analytics, University of Michigan Consumer Confidence Survey

INFLATION'S NEGATIVE IMPACT ON PERSONAL FINANCES



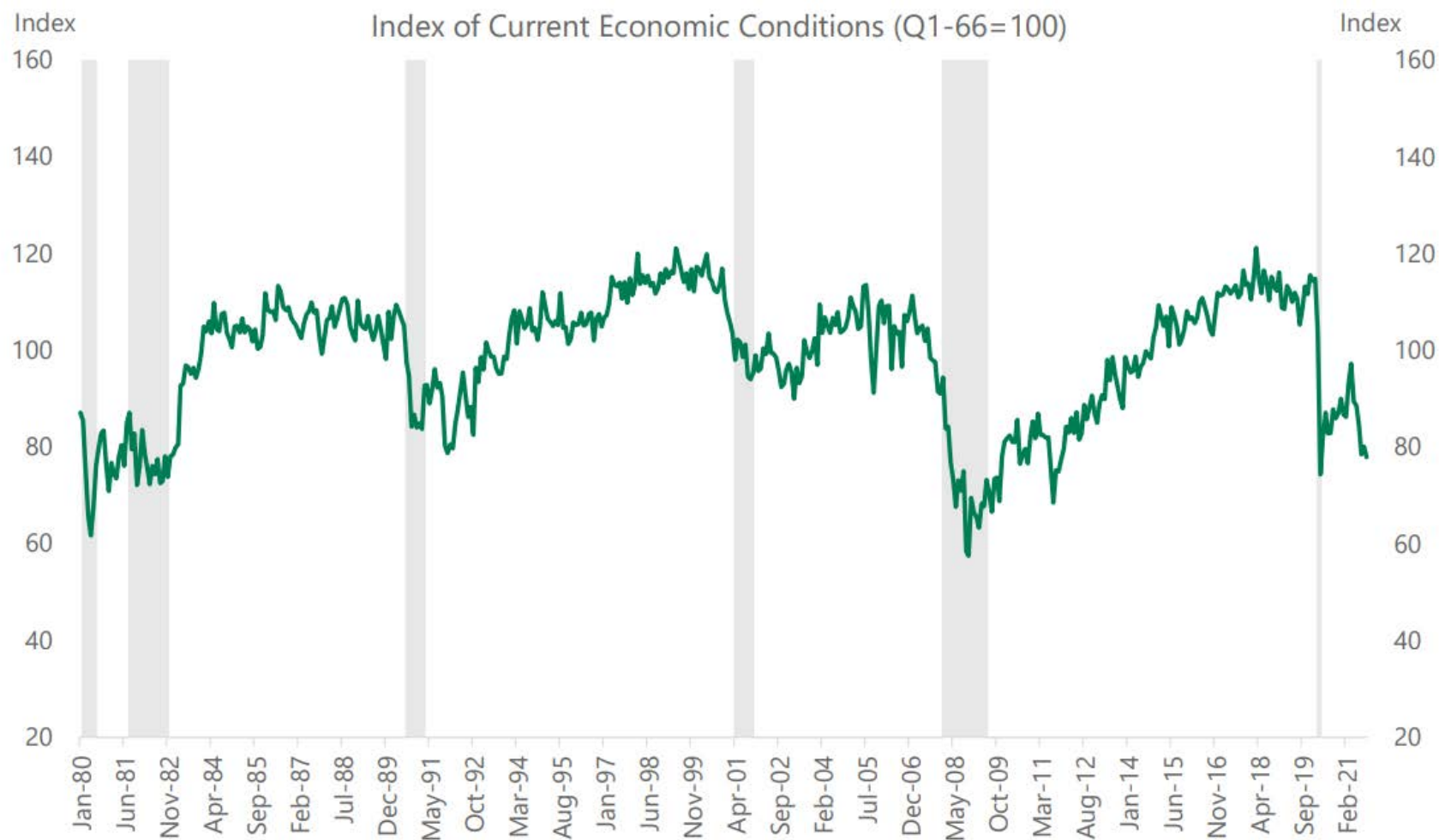
Personal Finances Compared to a Year Ago: Worse Because of Higher Prices (%)



Sources: Haver Analytics, University of Michigan Consumer Confidence Survey

DECLINING CONSUMER CONFIDENCE

With the virus subsiding and the economy improving consumer confidence has declined



Source: Haver Analytics, University of Michigan CCSurvey

WHY MULTIFAMILY STANDS TO GAIN IN THE 2020'S

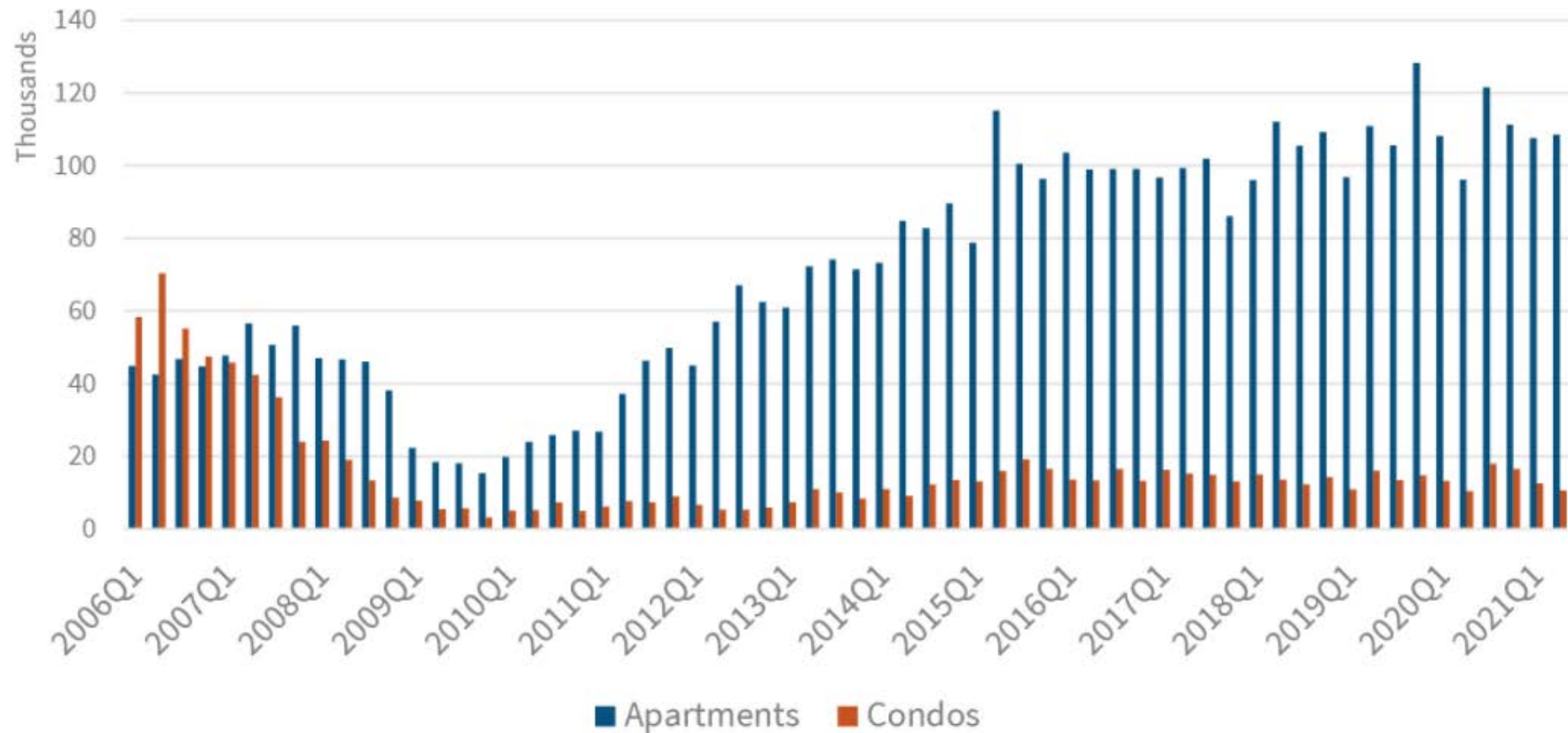


Strong Underlying Market and Economic Fundamentals

- Lack of housing in general. The housing shortage is expected to reach **6.5 million units** by 2022. The shortage is attributed to favorable demographics and the need for housing of sole-person households, a fast-growing segment of the population.
- Strengthening post-covid labor markets with very low levels of unemployment
- Strong wage growth but not in alignment with rapidly appreciation of single-family housing
- Post-pandemic homeownership rates remain low at 63.5% despite low interest rates
- Single family home prices continue to increase due to limited supply and lack of inventory
- Demand for apartments will remain elevated due to lack of affordability of entry-level single-family housing
- A large influx of the younger “millennial” generation is entering the rental market in conjunction with baby boomers choosing to downsize in retirement creating more demand for multifamily units
- Pre-pandemic construction has been focused on upscale apartments (Class A) located in high-density urban markets creating unaffordable rental rates compared to the garden-style properties in suburban areas suitable for work-from-home
- With rent increases MF investing is a great hedge for upcoming inflation

STARTS FOR APARTMENT AND CONDO UNITS

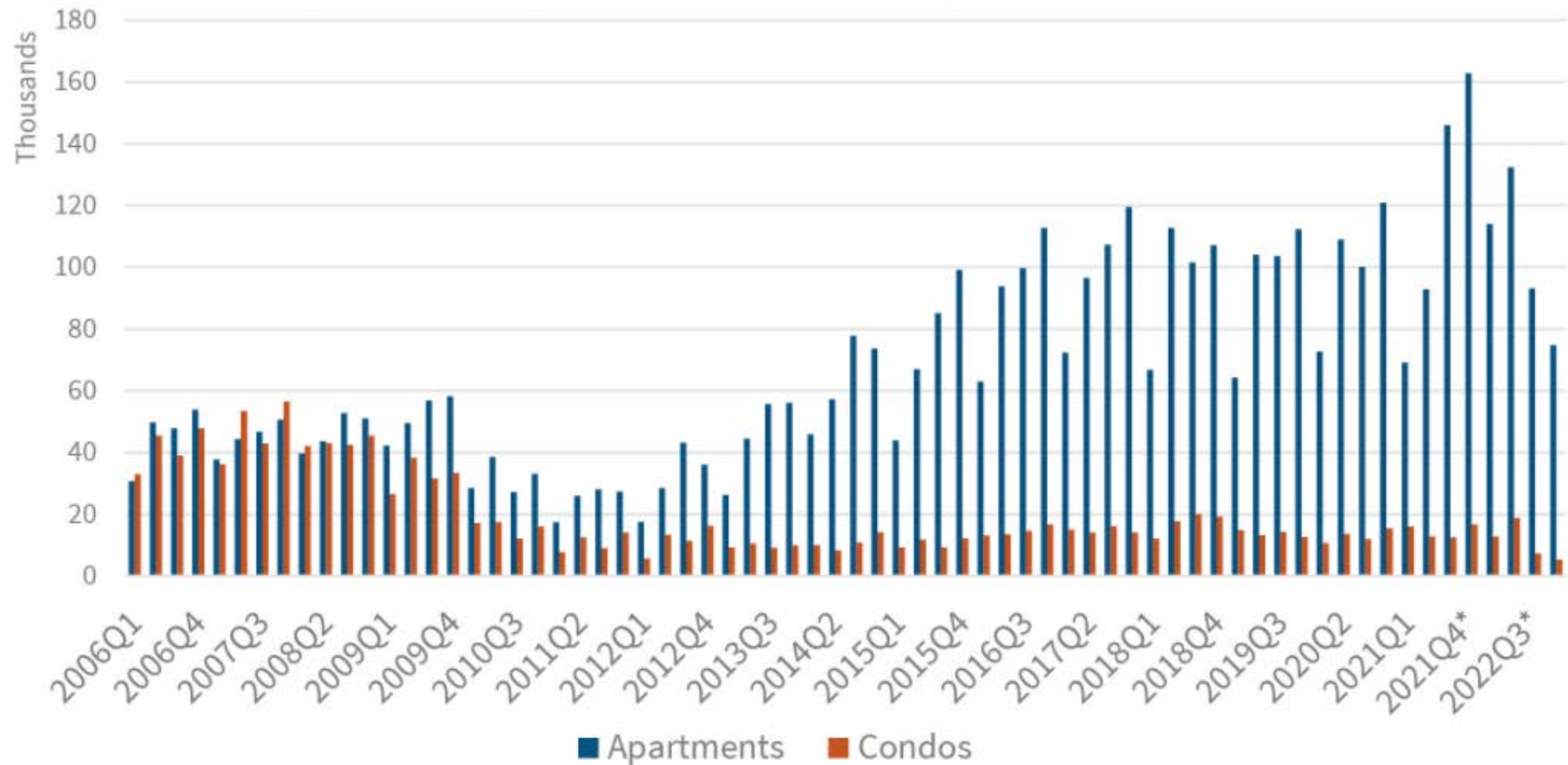
Contained productions with unbalanced geographic distribution



Source: Dodge Data and Analytics 2021

COMPLETIONS UNDERWAY FOR APARTMENT/CONDO

Construction Pipeline experiences shortages based on 2022 projections



Source Dodge Data and Analytics 2021

MULTIFAMILY 28-DAY RENT INCREASES

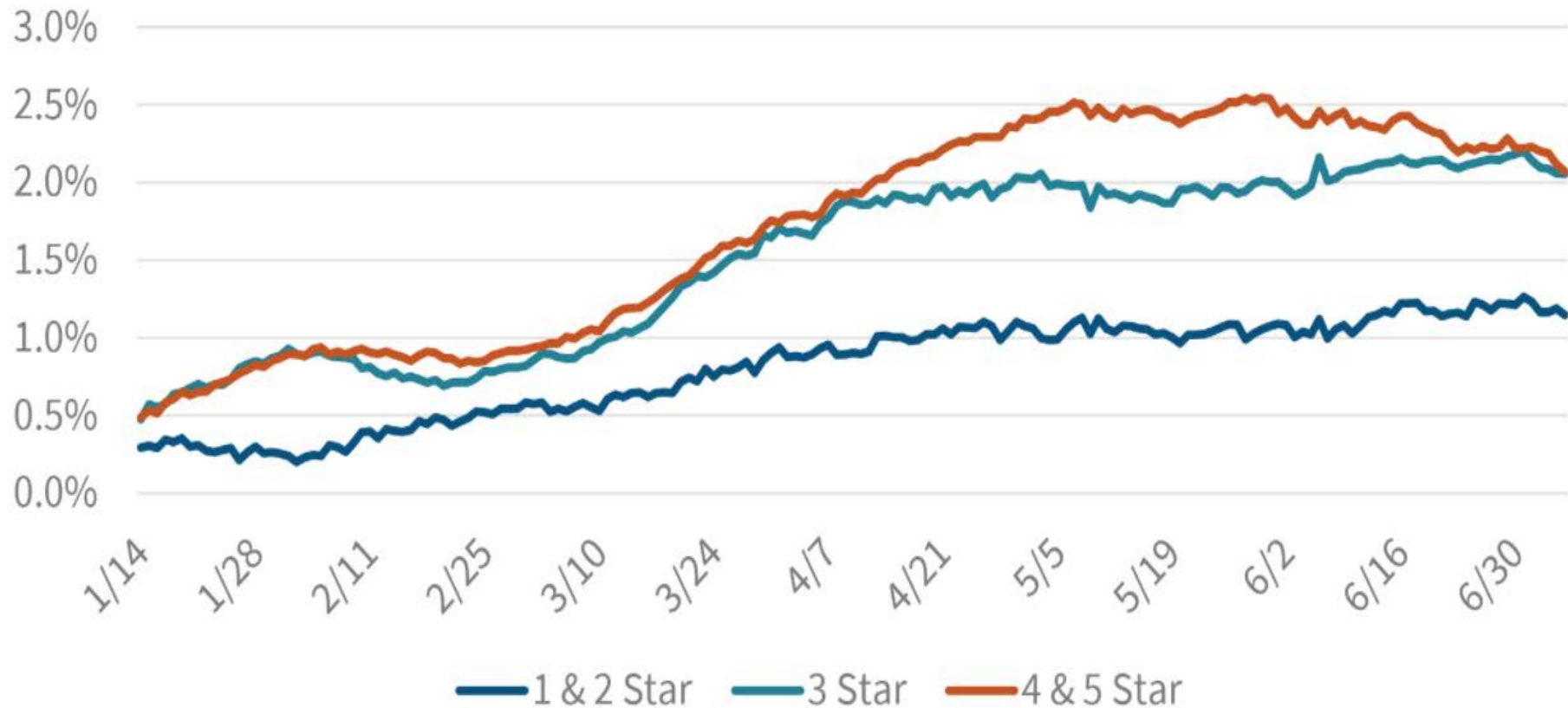
Measured from January 2021 to July 2021



Source: CoStar Advisory Services, Fannie Mae 2021

MULTIFAMILY 28-DAY RENT INCREASES BY CLASS IN 2021

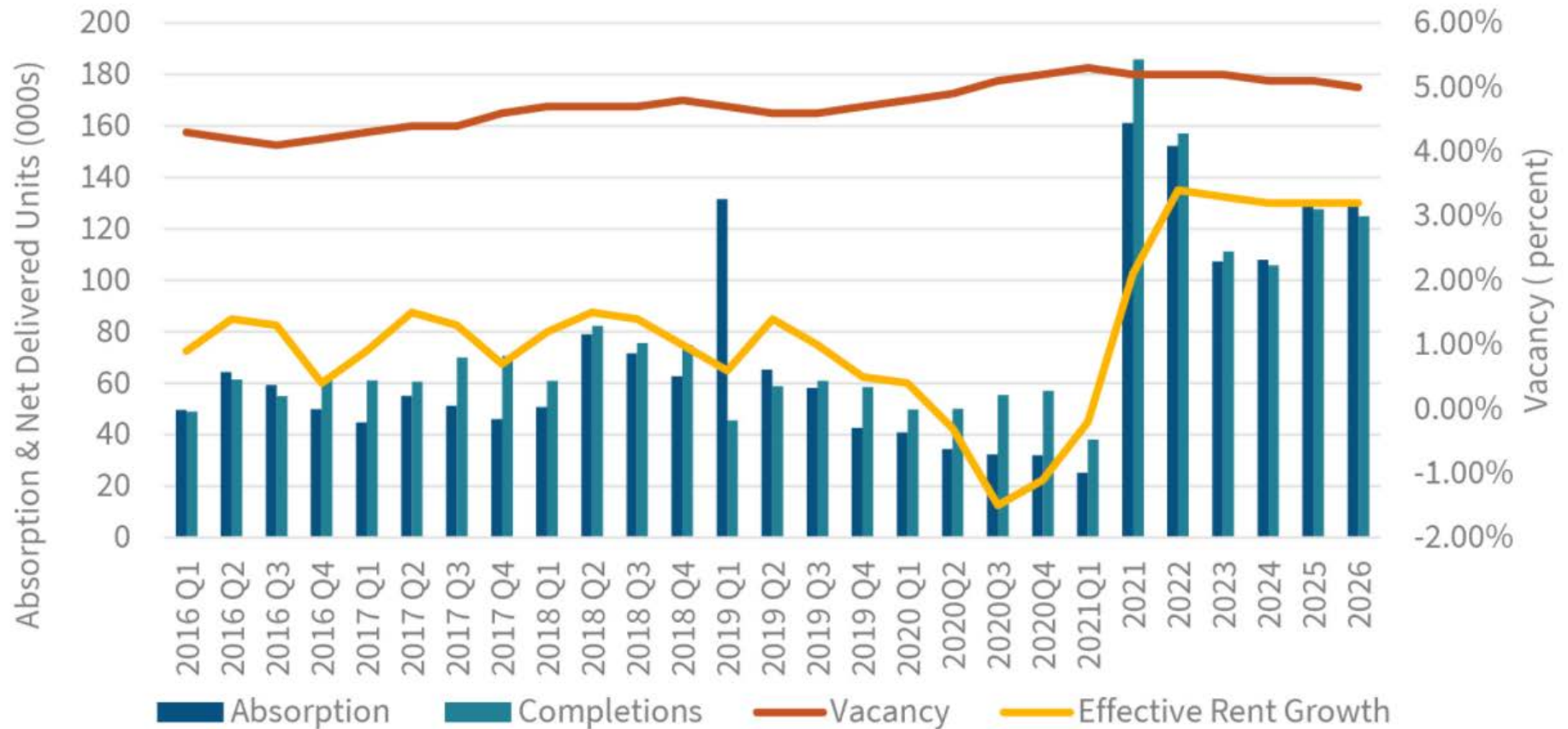
Classification by CoStar. Consistent rent increases are steady for middle quality properties



Source: CoStar Advisory Services

MULTIFAMILY TRENDS

Absorptions, Completions, Vacancy rates and Effective Rent Growth



Source: Moody's Reis

CONCESSION RATES BY CLASS

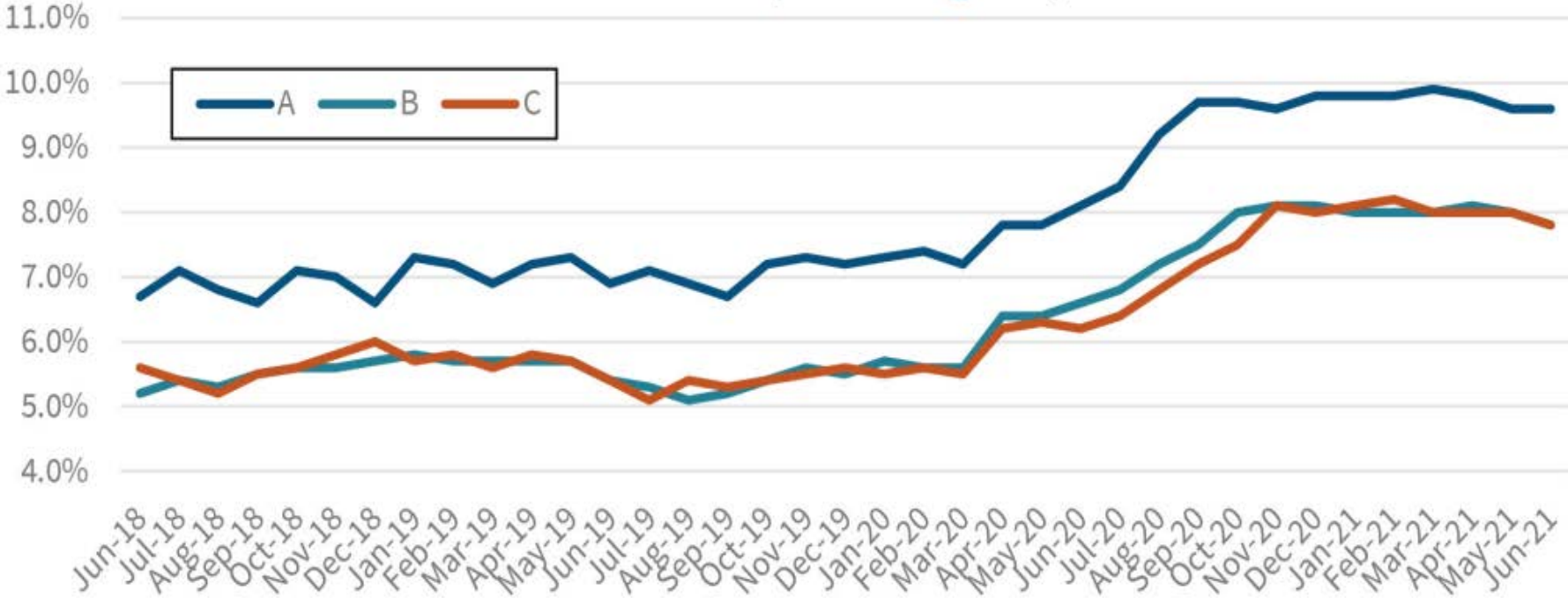
Percentage (%) of Units offering Concession by Class. Concessions are more pronounced for A class properties



Source: RealPage, Inc

CONCESSION VALUE

Class A properties offer larger concession value discounting a higher percentage (%) of Asking Rent



Source: RealPage, Inc

GROWTH IN MULTIFAMILY LEASE SIGNINGS

New Leases and Renewals



Source: RealPage, Inc

TRENDS IN MULTIFAMILY CAPITALIZATION RATES

10-Year Treasury vs. MF Capitalization Rates



Source: Real Capital Analytics and Federal Reserve