U.S. multifamily opportunity post-pandemic

Strong tailwinds ahead for rental housing

Over time, U.S. rental housing has become increasingly in demand by institutional real estate investors. In 2021, U.S. multifamily investment sales reached a record high and represented by far the largest share of total transaction volume among the core property types at nearly 50%. The sector has led in overall sales by sector since 2015 *(Figure 1)*. Clarion Partners maintains a high conviction that demand for institutional-quality multifamily will continue to be robust due to various significant demographic, economic, and supply factors across a broad mix of U.S. markets.

Key factors driving demand: acute housing shortage, affordability challenges, & robust job growth

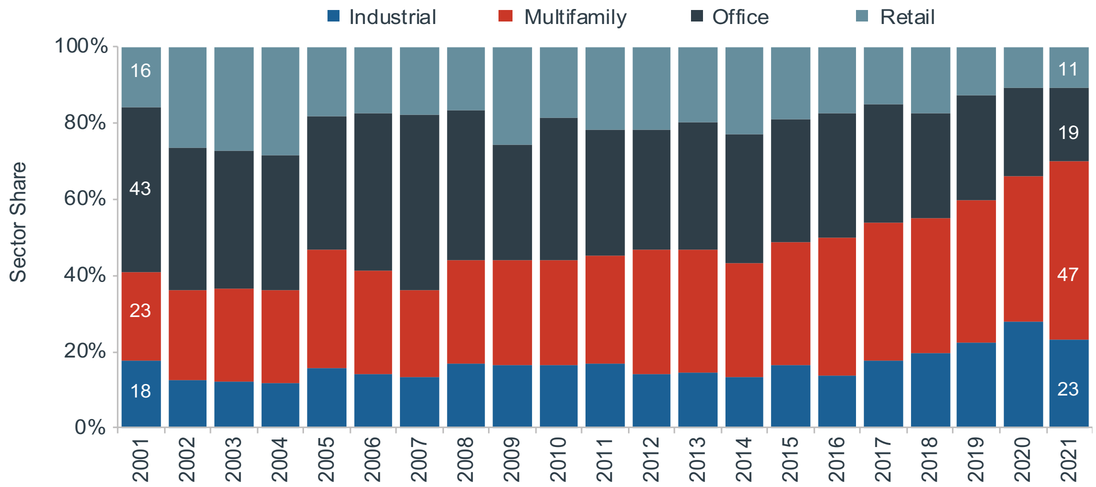
In 2021, U.S. multifamily property-level fundamentals were the strongest in decades. Annual effective rent growth reached a two-decade high and vacancy fell to an all-time low. We are optimistic about the outlook for U.S. multifamily as a result of the factors below:

1) Significant demand from pent-up household formation;
2) Historically low for-sale housing inventory;
3) Record high single-family home prices;
4) A recent surge in construction costs, which will likely moderate new supply pipelines;
5) Potentially 7 million new jobs from 2022 and 2024 according to Moody's Analytics estimates; and,
6) A rising interest rate (and inflation) environment, where landlords may be able to adjust rents annually along with inflationary pressures.

Multifamily sector may offer attractive investment opportunities

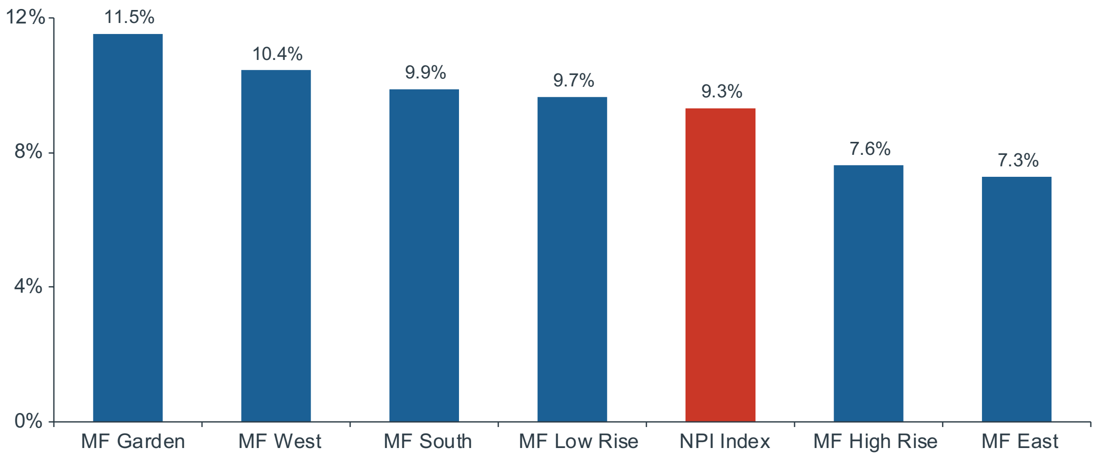
Clarion Partners expects rental housing trends that were well underway pre-COVID, and during the pandemic, to endure in the coming years. More specifically, investment performance has been very strong in the Sun Belt states, lower-cost financial centers in secondary markets, tech hubs, and select suburban submarkets. NCREIF total returns also show that the top-returning multifamily segments have been garden-style, low-rise, and the South and West regions over the past 10 years *(Figure 2)*.

Figure 1: U.S. multifamily leads in investment Sales



Source: Real Capital Analytics, Clarion Partners Investment Research, Q4 2021.

Figure 2: Multifamily 10-year NCREIF total return by subtype & region



Source: NCREIF Property Index, Clarion Partners Investment Research, Q4 2021. Note: NCREIF Property Index (NPI) is the U.S. unlevered benchmark for private, core real estate investments.

Single-family rentals (SFRs) have also performed very well over the past year with high occupancy and rent growth.

Multifamily's positioning as an integral part of private real estate investment portfolios is demonstrated by its current weighting of nearly 30% in the NPI. Looking ahead, we anticipate faster population and job growth in low-tax and business-friendly states and more work-from-home may also accelerate recent net migration patterns, benefitting some metros more than others. Build-to-core multifamily investments in those higher growth markets may offer attractive returns on a relative basis. At the same time, we are confident that most rental housing in top employment hubs in major U.S. population centers will continue to offer investors steady income. Over the long-term, multifamily investments have proven to be an effective hedge against inflation in a rising interest environment because landlords can adjust rents more quickly than in other sectors – a significant positive during an economic expansion.

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