2023 U.S. ECONOMIC OUTLOOK

AND MULTI-SUITE RESIDENTIAL RENTAL MARKET FUNDAMENTALS

4TH ANNUAL EDITION

MORGUARD

LOOK BEYOND THE SHORT TERM

Morguard

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NATIONAL

METROPOLITAN

ABOUT

Note: All $ amounts in USD

NATIONAL ECONOMIC AND MULTI-SUITE RESIDENTIAL RENTAL OUTLOOK

Economic growth is expected to slow significantly in 2023, following a two-year period of robust expansion. Economic uncertainty will reduce family formation activity, which will erode rental demand. Rental market supply is expected to exceed demand, resulting in rising vacancy levels and downward pressure on rents. Property values will likely decline while capitalization rates rise.

NATIONAL

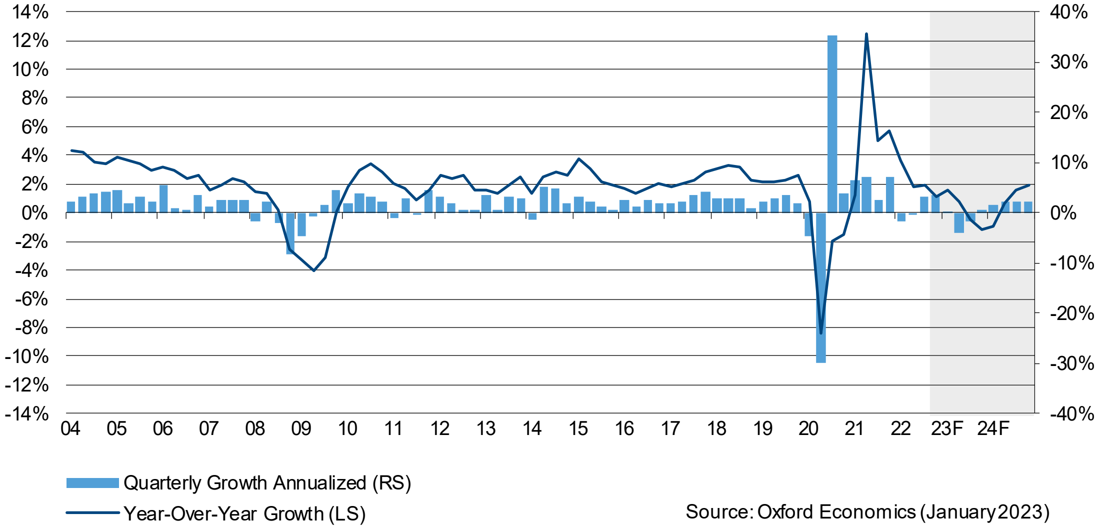
ECONOMIC REPORT

ECONOMY TO GEAR DOWN

The U.S. economy will gear down over the near term, continuing the second half 2022 trend. Gross Domestic Product (GDP) is forecast to expand by less than 1.0% in 2023, with a similar performance expected for 2024. Tighter monetary policy, high inflation, declining household wealth, and the knock-on effects of weaker global demand will ensure the U.S. economy expands at a relatively slow rate over the next 12 to 24 months. ensuredampen economic perfweaker global economic growth will ensure output rises at a conservative ensure

U.S. REAL GDP GROWTH

% Change



Source: Oxford Economics (January 2023)

The slow growth forecast for 2023 and 2024 will follow a two-year period of relatively robust expansion. The U.S. economy bounced back strongly from the 2020 pandemic-influenced contraction. In 2021, GDP rose by a stellar 5.9%, driven in part by pent-up consumer demand. U.S. households returned to the nation's shopping centres and streets and purchase goods. At the same time, businesses expanded and created new jobs at a record rate. The unemployment rate fell more than 270 bps to 5.4% in 2021. In 2022, GDP increased by a solid 2.1%, a period during which the economic recovery matured. Inflation rose well beyond the Federal Reserve's (Fed) 2.0% target, due in large part to strong consumer demand and supply chain disruptions. The Fed responded with a series of rate hikes to reduce demand and drive inflation back down to its target level. The U.S. economy will gear down over the near term, as domestic demand slows.

LABOUR MARKET CONDITIONS WILL SOFTEN

U.S. labour market conditions will soften over the near term, having strengthened considerably over the past couple of years. Labour market demand is expected to ease this year and in 2024, as economic growth slows. Job growth will stall during the first half of 2023, with losses forecast in the second half. The national unemployment rate will gradually rise, having dropped to a historic low of 3.5% in December 2022. The unemployment rate is projected to rise 60 bps to 4.2% this year and a further 40 bps to 4.6% in 2024. Wage growth is also expected to cool in 2023, which will reduce inflation in several labour-driven service sectors. The national labour market exhibited early signs of softening in the second half of 2022. Job growth slowed for a fifth consecutive month in December. Additionally, wage growth also began to ease in the final month of 2022. In short, labour market conditions will continue to soften over the near term, in keeping with second-half 2022 trend.

PRIVATE CONSUMPTION GROWTH TO TREND MARKEDLY LOWER

The national private consumption growth rate is projected to trend markedly lower this year and next. Private consumption will rise by just 0.8% and 0.9% in 2023 and 2024, respectively. Despite the growth moderation, private consumption will remain a leading economic growth driver. The forecast consumption growth downdraft can be attributed to several factors. Higher borrowing costs will weigh heavily on household finances and spending. Persistently high inflation will erode goods and services outlays. Rising unemployment levels will also factor into the consumption growth slowdown. The negative wealth effects of house and stock price declines will also dampen spending growth over the near term. The depletion of consumer savings and weaker wage growth will also reduce spending to some degree. Corporate earning declines will erode consumer confidence. While still accounting for more than two-thirds of U.S. GDP, consumption growth will trend markedly lower this year and next.

Labour market demand is expected to ease this year and in 2024, as economic growth slows.

NATIONAL ECONOMIC PULSE

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
REAL GDP GROWTH*	▼	▼
UNEMPLOYMENT	▼	—
RETAIL SALES GROWTH*	▲	▲
HOUSING STARTS*	▼	▼
TRADE BALANCE*	—	▼
TOTAL INFLATION	▲	—

* The trend indicators do not necessarily represent a positive or negative value (i.e., real GDP growth could be +/-, yet indicate a growing/shrinking trend).

HOUSING MARKET CORRECTION WILL CONTINUE TO UNFOLD

The U.S existing home sales market correction will continue to unfold over the near term. Sales activity will fall significantly short of the pandemic-influenced housing boom of 2021 and early 2022. In addition, values will continue to decline. The extent to which prices fall will vary across the country. Expensive west coast and high-growth markets will see prices fall sharply. The housing market correction began in the spring of last year. By October 2022, the rate for a 30-year fixed mortgage rose above the 7.0% mark, due largely to the Fed's aggressive campaign of monetary policy tightening. As mortgage rates climbed, the gap between buyer and seller price expectations widened. In some regions, homes sat on the market for months, sales were cancelled, asking prices declined, and available inventory dwindled. By the end of 2022, mortgage rates edged lower while the probability of a recession increased. There was some hope that lower mortgage rates would have a positive impact on the nation's housing market. However, the forecast economic and job market softening is expected to negatively impact housing demand. Therefore, the nation's housing market correction will continue to unfold over the near term.

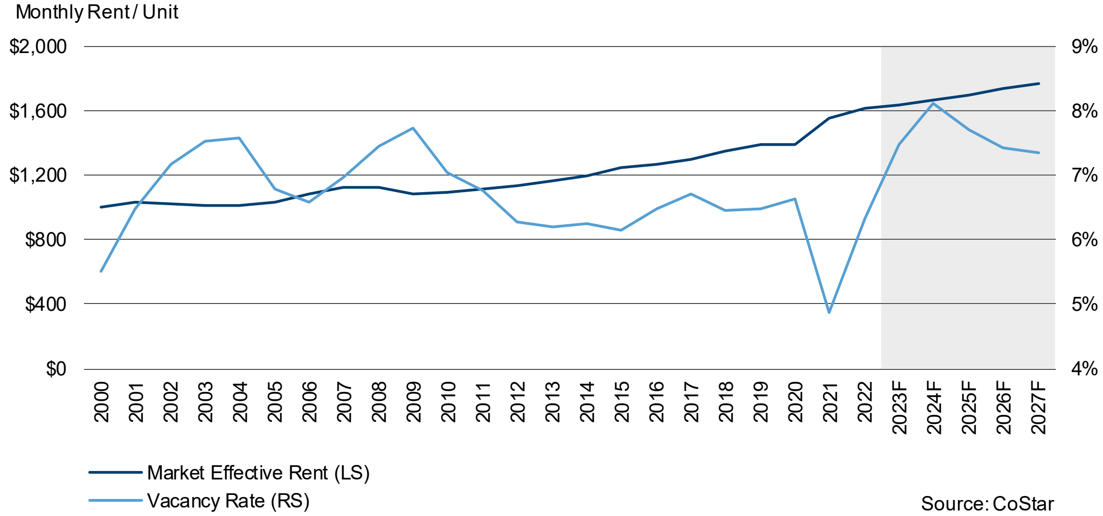
MULTI-SUITE RESIDENTIAL RENTAL OUTLOOK

RENTAL MARKET SUPPLY WILL OUTSTRIP DEMAND

Multi-suite residential rental market supply will outstrip demand over the near term, reversing the trend of the past few years. Vacancy will rise steadily this year and in 2024. The national vacancy rate will exceed the 7.0% mark in 2023. New supply deliveries will drive vacancy markedly higher over the near term.

MULTI-RESIDENTIAL RENT & VACANCY

Historical & Forecast Aggregates



Source: CoStar

Over 440,000 newly constructed rental units will be added to inventory in 2023, which is just shy of the annual high for the decade. In 2024, new supply volume is expected to decline, as vacancy levels rise in many regions. However, volume will remain above the long-term average. Rental demand softened significantly in the second half of 2022, having peaked in 2021 and the first half. Rising inflation levels cut into the budgets of households that might otherwise have rented accommodation.

In addition, the threat of a recession has also had a negative impact on rental demand. Demand was particularly soft during 2022's traditional summer leasing season. As a result, rent growth slowed substantially. Year-over-year growth dropped sharply in markets where new construction had peaked. Modest rent increases are forecast in 2023 and early 2024. Rents may decline this year in some markets where supply outdistances demand by a significant margin.

INVESMENT SALES VOLUME TO REMAIN MODERATE

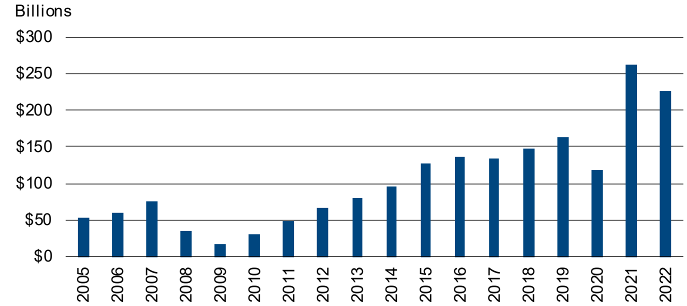
U.S. multi-suite residential rental property investment sales volume will remain moderate over the near term, having peaked in 2021 and the first half of 2022. In some cases, buyers will continue to hold off on acquiring multi-suite residential rental investment property until the economic and financial market outlooks improve. Others will choose to wait for property pricing to stabilize. Increasingly, buyers will look for price adjustments. However, some vendors will be unwilling to reduce their pricing expectations. The inability of buyers and vendors to agree on price will erode investment sales activity through at least the first half of 2023. Investors with a longer-term view will continue to acquire multi-suite residential rental property over the near term. Class A high-rise towers in the country's largest cities will generate strong interest from institutional groups. Well-capitalized private groups will also be active in this market. However, leverage buyers will be less active, given increased borrowing costs. In short, investment sales volume will remain moderate over the near term, following the 2021 and first half 2022 peak.

INVESTMENT RETURNS WILL TREND LOWER

Multi-suite residential rental sector investment returns will trend lower over the near term, in keeping with the broader property sector trend. Investment returns will trend materially lower, after an extended run of strong results. However, returns will remain attractive. Capitalization rates will continue to decompress this year, resulting in a measure of capital erosion. At the same time, rents in many U.S. markets will either level off or decline in 2023, which will also negatively impact investment performance. The strongest downward pressure on rents is forecast for class B and C properties. Vacancy levels will rise across much of the country, especially in high-growth and the more expensive west coast markets. A significant number of owners across the country will see property revenues decline as vacancy rises and rents fall. Multi-suite residential rental property sector returns have been attractive over the past few years. Properties tracked in the MSCI Index registered an annual average total return of 17.4% for the year ending September 30, 2022. The return was just shy of 5.0% higher than the previous year and much stronger than the pandemic-influenced 2.2% return posted two years earlier. Over the near term, however, investment returns are likely to trend somewhat lower.

INVESTMENT ACTIVITY

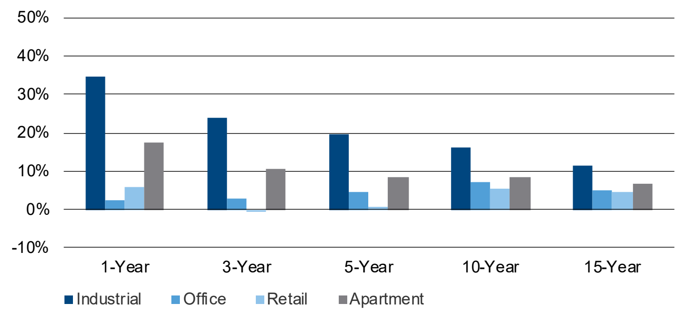
Total Multi-Suite U.S. Investment Volume to Year End 2022



Source: CoStar

U.S. MSCI RETURNS

Annualized Returns by Property Type to Sept 2022



Source: © MSCI Real Estate 2022

Multi-suite residential rental property investment sales volume will remain moderate over the near term, having peaked in 2021 and the first half of 2022.

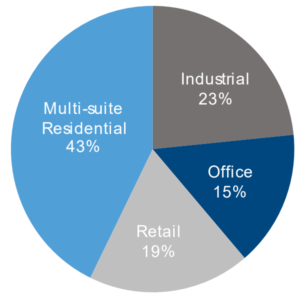
WAVE OF NEW SUPPLY IS ON THE WAY

A wave of new supply will be introduced to the U.S. multi-suite residential rental sector over the next couple of years, resulting in significant upward pressure on vacancy. More than 445,000 rental units will be completed in 2023, according to CoStar's December 2022 forecast. The total number of new rental units to be completed this year is just shy of the 2020 peak when 446,000 units were completed. The 2023 new supply wave will unfold during a period of relatively weak demand. As the economic outlook deteriorated in late 2022, family formation activity slowed. As a result, rental demand patterns weakened. Demand will continue to fall short of supply, resulting in significant upward pressure on vacancy. The national vacancy rate will rise to a decade high in 2023, as a wave of new supply is brought to the market.

Properties tracked in the MSCI Index registered an annual average total return of 17.4% for the year ending September 30, 2022. MSCI Index generated an attractive double-digit average annual total return at the end of 2021.

TOTAL SALES BY PRODUCT

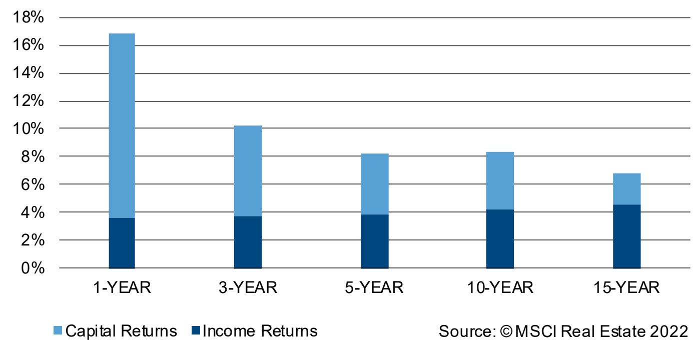
For The 1-Year Period 2022



Source: CoStar

U.S. MULTI-SUITE ANNUALIZED RETURNS

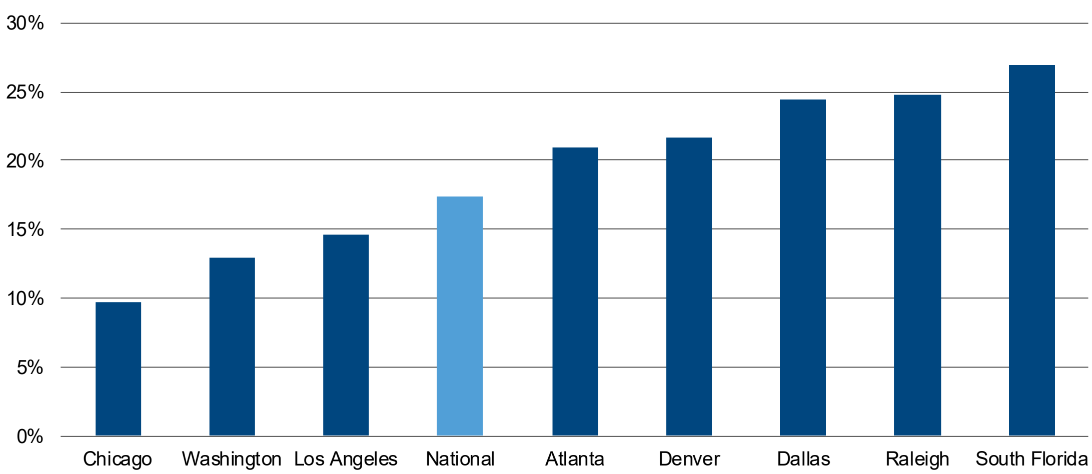
Performance For The Period Ending Sept 2022



Source: © MSCI Real Estate 2022

MULTI-SUITE TOTAL RETURNS

For The 1-Year Period Ending Sept 2022



Source: © MSCI Real Estate 2022

INVESTMENT MARKET TRANSACTIONS

WASHINGTON DC

PROPERTY	DATE	PRICE	SUITES	PER SUITE	YEAR BUILT	CLASS	PURCHASER
8250 Westpark Dr	Nov-22	$145.5M	354	$411,017	2012	A	Combined Properties Inc.
3300 East West Hwy	Oct-22	$103.5M	396	$261,364	2010	A	Carter Multifamily
8001 Woodmount Ave (50%)	Oct-22	$115.0M	322	$714,286	2021	A	JBG SMITH Properties
10301 Grosvenor Pl	Jul-22	$95.3M	237	$401,899	1987	B	Grosvenor Properties Ltd.
1771 N Pierce St	Jul-22	$334.6M	455	$735,477	2021	A	Cortland
11212 Chatterly Loop	Jul-22	$175.0M	576	$303,819	2001	B	TGM Communities LLC

RALEIGH

PROPERTY	DATE	PRICE	SUITES	PER SUITE	YEAR BUILT	CLASS	PURCHASER
6421 Campus Dr	Sep-22	$79.0M	312	$253,205	1997	B	Mill Creek Residential Trust LLC
141 Stobhill Ln	Jul-22	$129.5M	384	$336,589	2020	A	Aldon Management

ATLANTA

PROPERTY	DATE	PRICE	SUITES	PER SUITE	YEAR BUILT	CLASS	PURCHASER
60 Perimeter Center Pl NE	Nov-22	$105.0M	323	$325,077	2006	A	The Connor Group
2951 Satellite Blvd	Nov-22	$108.0M	424	$254,717	1999	B	Birge & Held Asset Management
605 Athens Hwy	Oct-22	$95.0M	344	$276,163	2022	B	Investcorp/Titan Corp
10 Lakeside Way	Sep-22	$140.0M	561	$249,554	1990	B	The Related Companies
3450 Blair Cir NE	Sep-22	$111.3M	335	$332,090	2013	A	Carter-Haston Real Estate Services

PALM BEACH

PROPERTY	DATE	PRICE	SUITES	PER SUITE	YEAR BUILT	CLASS	PURCHASER
Amalta Broken Sound	Sep-22	$194.0M	297	$653,199	2022	A	Lincoln Property. Co./Cadillac Fairview

CHICAGO

PROPERTY	DATE	PRICE	SUITES	PER SUITE	YEAR BUILT	CLASS	PURCHASER
353 N Desplaines St	Aug-22	$133.0M	350	$380,000	2008	A	Morguard
400 Randall Rd	Jul-22	$108.0M	380	$284,211	2020	B	EQT Exeter

NEW ORLEANS

PROPERTY	DATE	PRICE	SUITES	PER SUITE	YEAR BUILT	CLASS	PURCHASER
100 Greenbrier Wy	Aug-22	$26.6M	144	$184,375	2003	B	Kushner Companies

DALLAS

PROPERTY	DATE	PRICE	SUITES	PER SUITE	YEAR BUILT	CLASS	PURCHASER
7740-7777 McCallum Blvd	Nov-22	$52.0M	419	$124,105	1984	C	Hampshire Capital/Private
120 Main St	Oct-22	$51.0M	161	$316,770	2014	A	Varia US Properties/Stenweg U.S. LLC
3601 Melcer Dr	Sep-22	$75.0M	302	$248,344	2021	B	TTI Capital/Brick Street Capital

DENVER

PROPERTY	DATE	PRICE	SUITES	PER SUITE	YEAR BUILT	CLASS	PURCHASER
8400 E Yale Ave	Oct-22	$58.1M	168	$345,833	1994	B	Avanath Capital Management, LLC
401 Interlocken Blvd	Oct-22	$142.5M	343	$415,452	2014	A	Ladera Capital Partners
9641 E Geddes Ave	Oct-22	$95.0M	215	$441,860	2022	A	Centerspace
7700 E Peakview Ave	Sep-22	$115.0M	304	$378,289	2014	A	Griffis Residential
663 W 148th Ave	Sep-22	$150.0M	394	$380,711	2014	B	CORE Realty Holdings Mgt. Inc.
3255 S Parker Rd	Sep-22	$99.5M	336	$296,131	1980	B	Phoenix Realty Group LLC
7575 E Arkansas Ave	Sep-22	$66.0M	233	$283,262	1980	B	The Paskin Group
4957 S Prince Ct	Jul-22	$78.5M	248	$316,532	1987	B	Security Properties, Inc.

LOS ANGELES

PROPERTY	DATE	PRICE	SUITES	PER SUITE	YEAR BUILT	CLASS	PURCHASER
3150 Wilshire Blvd	Nov-22	$235.0M	464	$506,466	2014	B	Harbour Group International
1000 W 8th St	Nov-22	$504.0M	685	$735,766	2020	A	Northland
950 E 3rd St (50%)	Sep-22	$155.5M	472	$658,898	2019	A	Legendary Developments, LLC
5901-5921 Center Dr	Aug-22	$230.7M	375	$615,093	2018	A	California Home Builders

METROPOLITAN ECONOMIC AND MULTI-SUITE RESIDENTIAL RENTAL OUTLOOK

METROPOLITAN

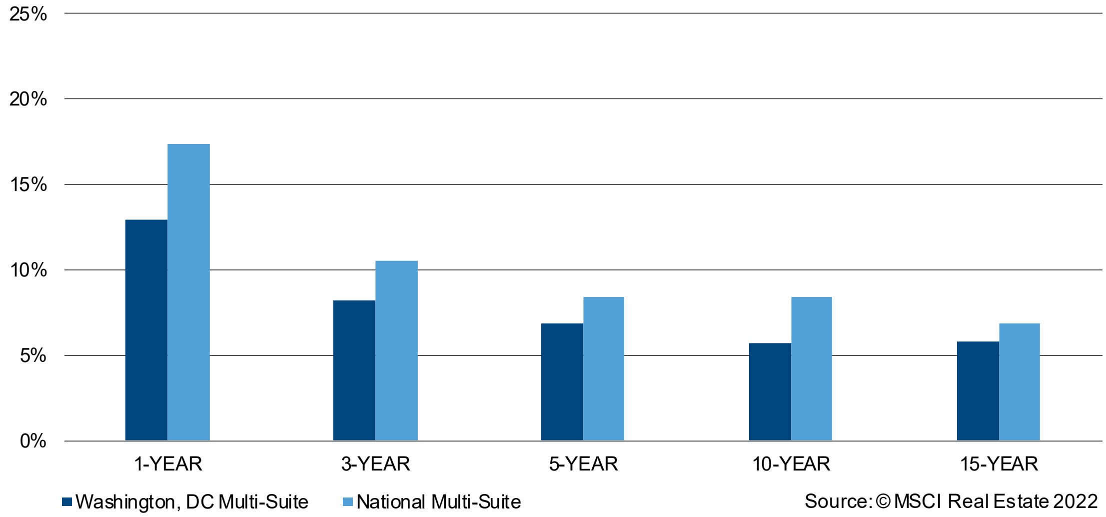
WASHINGTON, DC

GROWTH SLOWDOWN TO UNFOLD

The Washington-Arlington-Alexandria (WAA) metropolitan statistical area (MSA) economic growth rate will decline in 2023, continuing the previous year's trend. GDP is forecast to rise by just 0.3% in 2023, according to Oxford Economics. Economic output rose by a modest 1.6% in 2022, following the 5.0% surge in 2021. WAA labour market gains will be relatively modest over the near term, due in large part to the continuation of the region's economic growth slowdown.

HISTORICAL PERFORMANCE

For the period ending Sept 2022



Source: © MSCI Real Estate 2022

The WAA's labour market recovery will moderate during 2023, following a two-year period of strong performance. Regional employment will increase by 1.4%, having risen by a robust 3.1% in 2022 and 1.6% in 2021. The regional employment rate will stabilize, having dropped 140 bps to 3.5% in 2022. In general, WAA labour market conditions will remain relatively tight in 2023, a period during which its recovery from the pandemic-influenced decline is expected to slow down.

The WAA's consumer spending near-term growth outlook is moderately positive. Consumer spending volume will rise by 1.3% in 2023, following a healthier 2.2% lift this year. Wage inflation will be a key driver of spending growth in 2023. The WAA's average weekly wage will increase by a solid 3.3% in 2023, up from the previous year's 2.7% gain. Employment growth will fuel spending growth over the near term. In short, the WAA's consumer spending outlook is moderately positive.

RENTAL MARKET SOFTENING FORECAST

The WAA's multi-suite residential rental market will soften over the near term, following the record-breaking performance posted in 2022. The main cause of the rental market softening will be the combined impact of weaker rental demand fundamentals and the region's new supply onslaught. Rental demand will remain moderate next year, given an expected economic and job market slowdown. Rental demand began to slow in the second half of 2022. CoStar is forecasting the completion of roughly 15,500 units of new supply in 2023. Most of the newly constructed buildings will be four-and five-star quality and in the downtown area. Demand will fall short of supply with a forecast of roughly 11,000 units absorbed in 2023. Previously, demand reached a record high in 2021, a trend that was sustained through to the midway mark of 2022. With new supply outstripping demand over the near term, vacancy will steadily rise. The WAA's average vacancy rate will rise to 7.5% by the end of 2023, up 60 bps year-over-year. Vacancy had dropped to a decade-low of 5.8% as recently as July 2022. Rent growth will be modest by comparison over the near term. Low single digit rent growth is forecast for 2023, having almost reached into the double digits in 2022. The rent growth moderation is a byproduct of the WAA's rental market softening forecast over the near term.

MUTED ACTIVITY LEVELS FORECAST

Investment sales activity in the WAA multi-suite residential rental property sector will remain muted over the near term. Activity levels began to decline in the second half of 2022, as borrowing costs increased and the economic outlook grew increasingly uncertain. Property prices will likely decline to some extent in 2023. In some cases, buyers will hold off on acquiring assets in this market until prices stabilize. However, institutional groups will continue to target recently built downtown properties given an expectation of above-average rent growth over the near term. Private groups will look for value-add opportunities that will generate relatively high returns and offset higher debt costs. Investment performance patterns will weaken to some extent over the near term, as values decline. At the same time, weaker rent growth patterns will negatively impact performance. Investment returns are expected to decline, following the outperformance of the past couple of years. Investment sales volume reached a record high $10.7 billion in 2021, which was followed by $8.3 billion in 2022. Investment sales activity will remain muted through the first half of 2023, continuing the second-half 2022 trend.

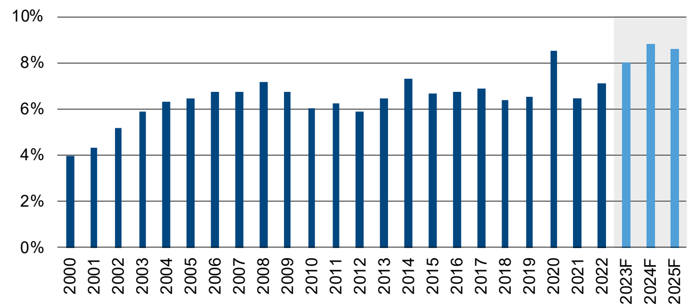
TRENDING STATISTICS

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
VACANCY RATE	▲	▲
NET ABSORPTION	▼	▼
LEASE RATES	—	—
NEW SUPPLY	—	▲

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

AVERAGE RENTAL VACANCY

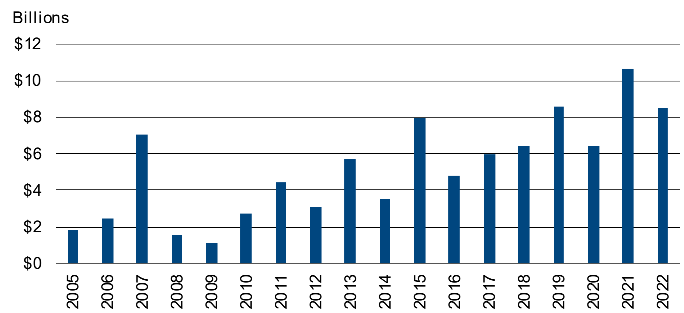
Washington, D.C. Multi-Suite Residential



Source: CoStar

INVESTMENT ACTIVITY

Washington Multi-Suite Investment Volume to Year End 2022



Source: CoStar

Investment sales in the Washington-Arlington-Alexandria multi-suite residential rental sector will remain muted over the near term.

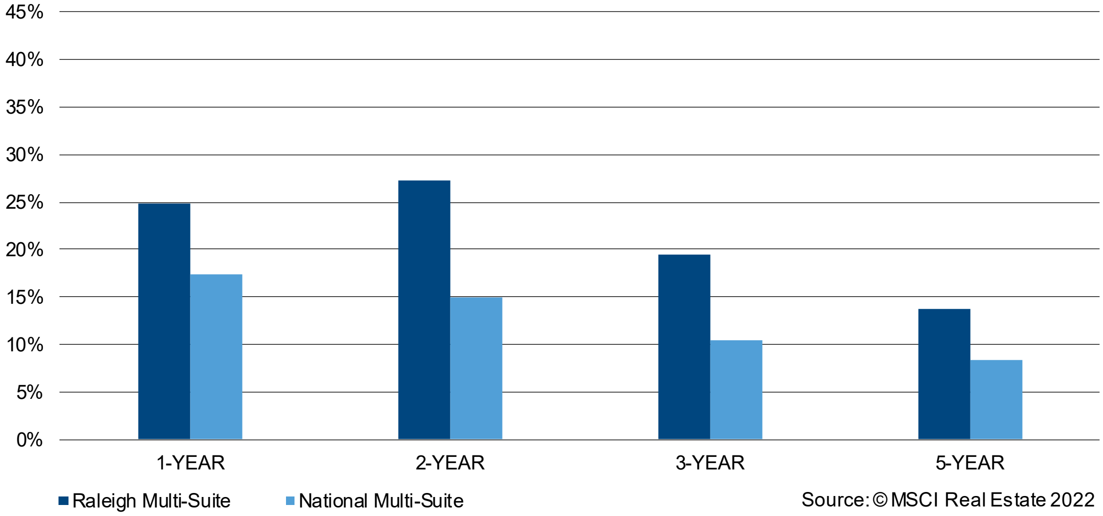
RALEIGH, NC

SLOW GROWTH TREND FORECAST

The Raleigh MSA economy will grow slowly over the near term, following a two-year period of robust expansion. Economic output is projected to rise by just 0.4% and 1.3% in 2023 and 2024, respectively. Previously, output had increased by an annual average of 7.3% in 2021/2022. Most of the region's industrial sectors will generate increased output over the forecast period, with the services sector leading the way.

HISTORICAL PERFORMANCE

For the period ending Sept 2022



Source: © MSCI Real Estate 2022

Raleigh's labour market will continue to strengthen over the near term. Regional employment will increase by an above average 1.3% in 2023, with an additional 0.8% gain forecast by Oxford Economics for 2024. The unemployment rate will increase to 3.6% in 2023, from the cycle-low 3.0% last year. Despite the modest increase, labour market conditions will be tight. As a result, wages will continue to rise at a solid rate. The Raleigh MSA's forecast near-term labour market strengthening will persist over the next several years.

Consumer spending growth will be relatively modest over the next couple of years, having trended lower in 2022. Consumer spending will increase by 1.3% in each of 2023 and 2024, following a healthy 3.8% rise in 2022. Higher interest rates and weaker job market trends will have a negative impact on spending growth rates over the forecast period. By 2025 the consumer spending growth is expected to strengthen considerably.

VACANCY TO RISE SUBSTANTIALLY

Vacancy is projected to rise substantially in the Raleigh MSA multi-suite residential rental sector over the next couple of years. The combination of weaker demand fundamentals and a surge of new construction completions will drive vacancy materially higher in both 2023 and 2024. CoStar is projecting the region's aggregate vacancy rate will rise 240 bps in each of 2023 and 2024. By the end of 2024, vacancy will eclipse the 13.0% mark, which will represent a decade high. Previously, vacancy had dipped to a decade low of 5.3% in 2021 at the height of Raleigh's most recent rental market peak. However, rental demand slowed in the second half of 2022. As a result, absorption dipped well below the long-term average. In 2021 and early 2022, rental demand had reached a record high. New supply completions will remain elevated over the next couple of years. Raleigh's built inventory will expand by more than 13,000 units in 2023/2024 combined. As vacancy rises, market rents will first level off and then edge lower. Over roughly the same time period, vacancy will rise substantially.

INVESTMENT MARKET SLOWDOWN TO CONTINUE

The Raleigh MSA investment market slowdown will continue over the near term, having emerged in the second half of 2022. In keeping with the national trend, buyers will remain on the sidelines until at least the midway mark of this year. Some buyers will continue to await further clarity on the economic outlook before making their return to the market. In addition, some groups will continue to reassess their return expectations in the face of higher borrowing costs and weaker rental market performance. Investment sales activity peaked during 2021 and early 2022. The second highest annual total sales volume on record was recorded in 2022, at $2.9 billion. Capitalization rates rose slightly in the second half of 2022, having steadily compressed over the past several years. Rates will continue to edge higher in the first half of 2023, as buyers look to offset the combination of higher interest rates and elevated performance risk. Institutional and well-capitalized private groups will continue to look for premium properties to acquire in this market. Properties with proximity to major transportation hubs will generate relatively strong interest. The Northeast Raleigh and North Cary/Morrisville submarkets will remain popular acquisition targets. Lower-risk properties with strong performance records will continue to transact while properties with riskier profiles may sit on the market longer. Investment sales activity will increase in the second half of 2023 or early 2024, having slowed in the first half.

TRENDING STATISTICS

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
VACANCY RATE	▲	▲
NET ABSORPTION	—	—
LEASE RATES	—	▼
NEW SUPPLY	▲	▲

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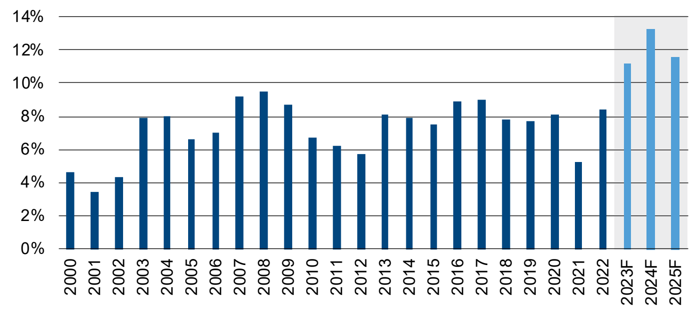
AVERAGE RENTAL VACANCY

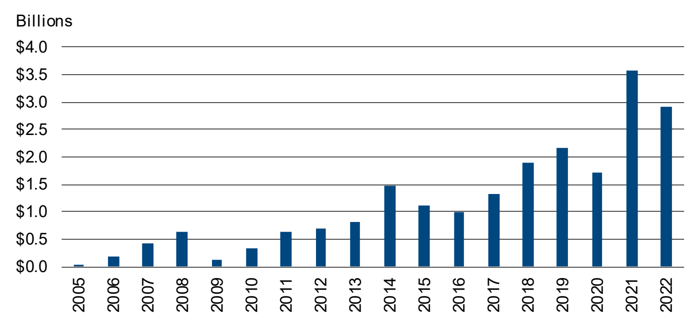
Raleigh Multi-Suite Residential



Source: CoStar

INVESTMENT ACTIVITY

Raleigh Multi-Suite Investment Volume to Year End 2022



Source: CoStar

Investment sales activity will increase in the second half of 2023 or early 2024, having slowed in the first half.

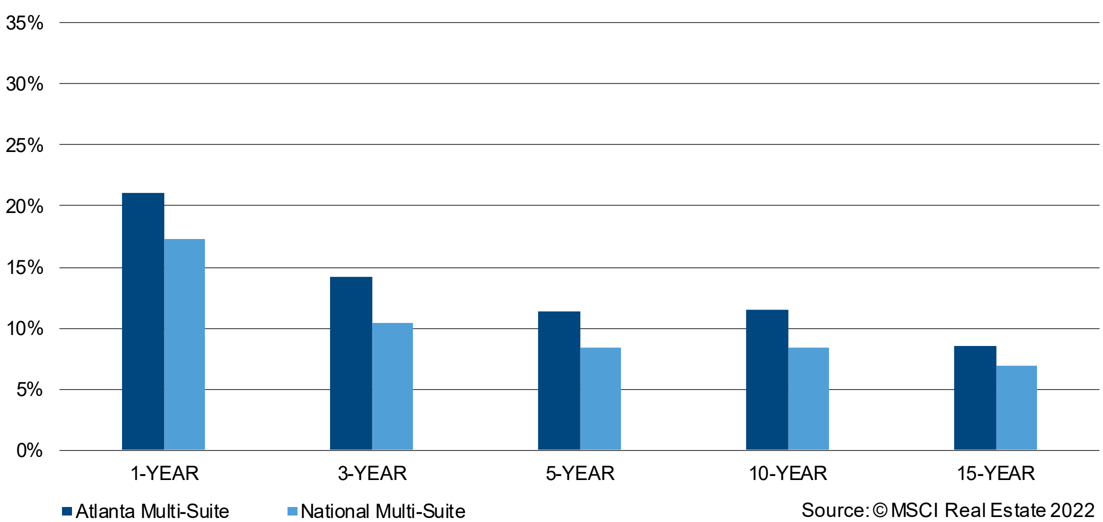
ATLANTA, GA

ECONOMY WILL DECELERATE

The Atlanta-Sandy Springs-Roswell (ASSR) MSA economy will decelerate over the near term, in keeping with the national trend. GDP is forecast to expand by 0.3% in 2023 and a healthier 1.1% over the following year. In 2022, economic output rose by a healthy 3.7%, after a record-breaking 8.0% advance in 2021. The finance and real estate sectors along with information industries, will remain the region's leading growth drivers.

HISTORICAL PERFORMANCE

For the period ending Sept 2022



Source: © MSCI Real Estate 2022

ASSR employment growth will trend markedly lower over the near term. The number of employed individuals will rise by an annual average of 0.8% in 2023/2024. Previously, employment had risen by an annual average of just over 4.8% in 2021/2022. Over the next couple of years, the ASSR labour market will remain tight. Wages will continue to rise, partially offsetting higher interest rates and inflation. The unemployment rate will rise to a still healthy 3.7% by the end of 2024, a period during which employment growth will slow.

Moderately healthy consumer spending patterns are forecast for the near term. Consumer spending is projected to increase by an average of 1.7% annually in 2023/2024. Spending growth will average between 2.7% and 2.8% annually through to 2027, according to Oxford Economics' forecast. The region's above-average medium-term economic growth will support the healthy spending outlook. The region's continued emergence as a head office hub will boost employment, resulting in moderately healthy spending patterns.

RENTAL MARKET SUPPLY TO OUTSTRIP DEMAND

ASSR multi-suite residential rental market supply will outstrip demand over the near term, reversing the trend of the past few years. New supply completions will drive vacancy levels markedly higher in this market in 2023 and 2024. More than 25,000 units will be delivered to the ASSR over the two-year period. A significant share of new construction scheduled for completion over the next couple of years will be in the Midtown, Buckhead and West Midtown, South Atlanta and Eastside submarkets. Rental demand is expected to continue to fall short of the record-high levels reported in 2021 and 2022 over the near term. In the second half of 2022, rental demand slowed sharply, and fewer new renter households were formed. At the same time, renter households transitioned to the region's relatively low-cost ownership market. As demand softened, rent growth eased. By the end of 2022, year-over-year rent growth had dropped to low single digit range, having reached into the double-digits in 2021. Vacancy increased significantly in 2022. Double-digit vacancy is projected in 2023/2024, a period during which supply will consistently outstrip demand.

INVESTMENT CAPITAL FLOW TO EASE

The flow of investment capital into the ASSR multi-suite residential rental property sector is expected to slow over the near term, having reached a record-high level over the recent past. By the second half of 2022, some buyers had adopted a wait-and-see approach to investing in this market until interest rates decline. In addition, buyers expressed concern with the changing rental market landscape. In the last few months of 2022, absorption plunged and rent growth slowed significantly. Buyers have become increasingly concerned with the prospect of a recession in 2023, which has also had a negative impact on sales activity. Investment capital flowed into the ASSR at a record pace in 2021, with $18.7 billion in sales volume reported. The 2021 total was more than double the previous decade high. Sales remained brisk through the first half of 2022, with out-of-state buyers accounting for much of this activity. During 2021 and the first half of 2022,capitalization rates compressed to a record low. However, by the second half of 2022, upward pressure on capitalization rates increased, as investors looked to offset the rising cost of debt. The flow of investment capital into the market began to ease in the final few months of 2022, a trend that will continue over the near term.

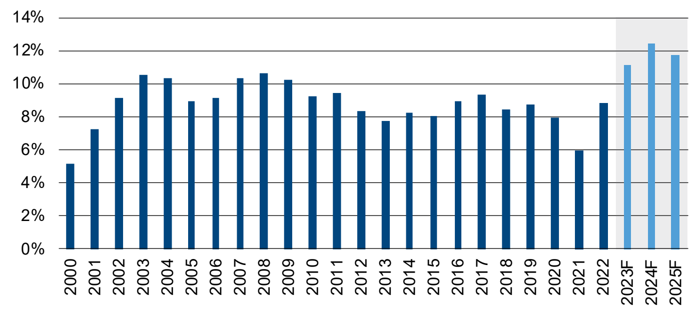
TRENDING STATISTICS

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
VACANCY RATE	▲	▲
NET ABSORPTION	▼	▼
LEASE RATES	▼	▼
NEW SUPPLY	▲	▲

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

AVERAGE RENTAL VACANCY

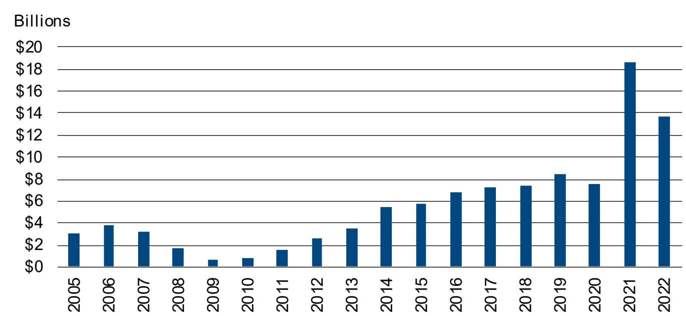
Atlanta Multi-Suite Residential



Source: CoStar

INVESTMENT ACTIVITY

Atlanta Multi-Suite Investment Volume to Year End 2022



Source: CoStar

New supply completions will drive vacancy levels markedly higher in this market in 2023 and 2024.

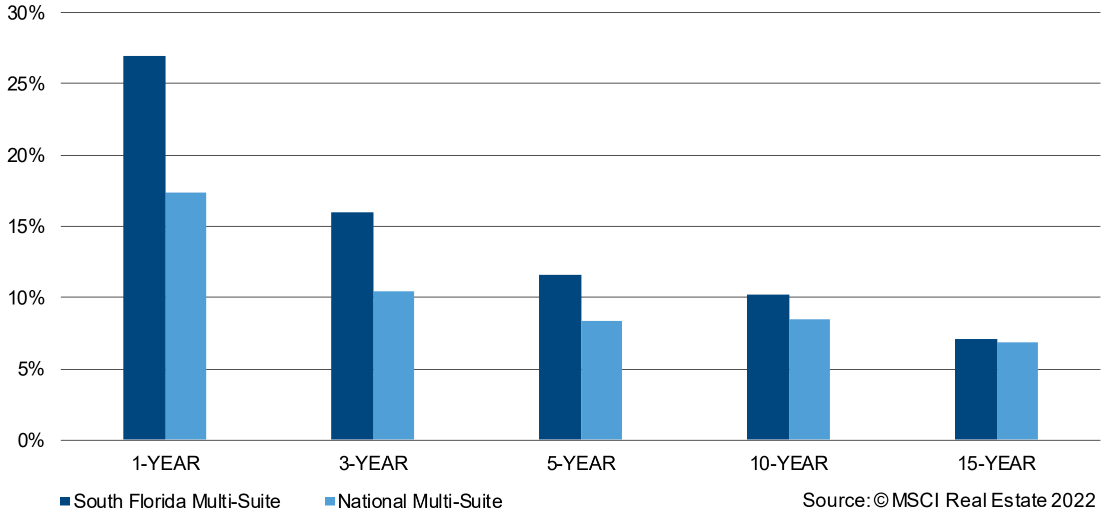
PALM BEACH, FL

ECONOMY WILL GEAR DOWN

The Palm Beach MSA economy will gear down significantly in 2023, following a better-than-expected 2022 performance. GDP is forecast to expand by just 0.1% this year, on the heels of a stellar 5.1% advance in 2022. The economic gearing down forecast for 2023 is predicated on the negative impacts of higher interest rates, inflation, and a markedly weaker consumer spending outlook.

HISTORICAL PERFORMANCE

For the period ending Sept 2022



Source: © MSCI Real Estate 2022

The Palm Beach MSA labour market will remain tight over the next few years, continuing the recent trend. The region's unemployment rate will average 3.1% in 2023, up just 30 bps year-over-year. The rate will rise by a further 30 bps over the subsequent year. Employment will increase by a modest 1.2% in 2023, on the heels of a healthy 5.4% lift in 2022. Over the medium term, regional employment will continue to slowly rise. Labour market conditions will remain tight over the next several years, in keeping with the recent trend.

Consumer spending will stabilize over the near term, after a two-year run of strong growth. Consumer outlays are projected to rise by just 0.3% in 2023, after a 3.4% advance in 2022 according to Oxford Economics. A decade-high 10.4% surge was recorded in 2021. Consumers will tighten their purse strings over the near term, given higher interest rates, elevated inflation, and an uncertain economic outlook. Spending patterns will strengthen over the medium term.

VACANCY WILL PEAK

Palm Beach multi-suite residential rental market vacancy will peak over the next couple of years, due to a surge of new construction completions. CoStar is predicting the region's average vacancy rate will climb to 9.5% by 2024, having risen 170 bps year-over-year to 8.1% in 2023. Vacancy had plunged to a decade-low of just 4.4% in 2021. The vacancy upswing will be driven to a large extent by a forecast surge of new construction completions. More than 6,000 units of new supply will be added to the Palm Beach market in 2023/2024. Supply is expected to exceed demand over much of the two-year period. As a result, most landlords will be unable to increase rents in their portfolios. As vacancy rises, some landlords will be forced to offer incentives to prospective tenants to lease-up vacant units while standing firm on asking rents. In 2023/2024, rental demand will remain relatively weak when compared to the most recent peak in 2021/2022. Household formation will slow over the near term, given increased economic and job market uncertainty. Supply is projected to exceed demand in Palm Beach's multi-suite residential rental market over the near term, thereby driving vacancy to a record high.

INVESTMENT ACTIVITY WILL BE RELATIVELY MUTED

Investment sales activity will be relatively muted over the near term, a trend that began to unfold in the second half of 2022. Leverage-driven investment groups will hold off on increasing their holdings in this market until borrowing costs fall to acceptable levels. At the same time, buyers will await further clarity on pricing before increasing their exposure to this market. Buyers have become increasingly cautious in their investment approach as rental market conditions have softened. Rental demand dropped sharply across the Palm Beach area in the second half of 2022 while rent growth slowed significantly. At the same time, investment activity has declined. Previously, investment activity peaked in 2021, when a record-high $3.4 billion of property sales was reported. The $1.7 billion of sales reported for 2022 was the second highest annual total on record. More than three-quarters of the 2022 sales were completed in the first half of the year before activity declined. Capitalization rates will likely begin to rise over the near term, having dropped to an all-time low last year. Buyers will look for pricing adjustments to offset higher borrowing costs and weaker rental market fundamentals. Vendors, however, may be unwilling to meet the pricing demands of buyers. In short, investment sales activity in this market will be relatively muted over the near term, in keeping with the national trend.

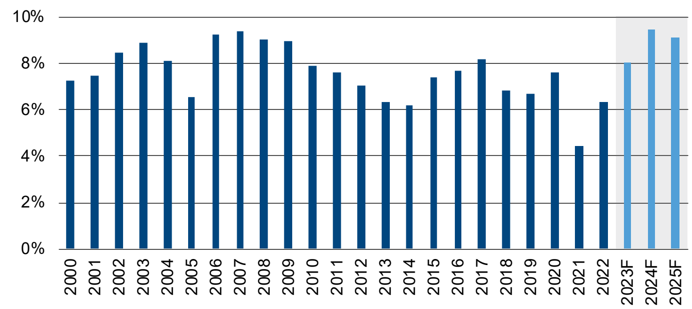
TRENDING STATISTICS

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
VACANCY RATE	▲	▲
NET ABSORPTION	▼	▼
LEASE RATES	—	▼
NEW SUPPLY	▲	▲

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

AVERAGE RENTAL VACANCY

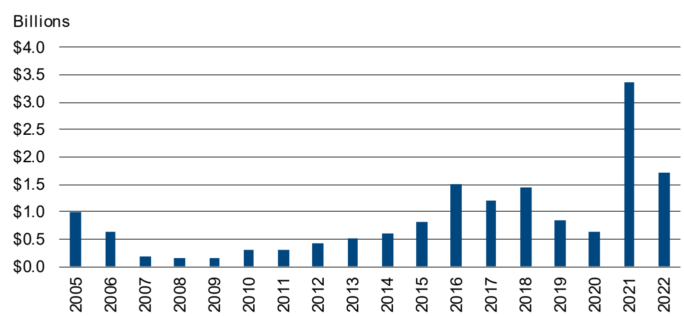
Palm Beach Multi-Suite Residential



Source: CoStar

INVESTMENT ACTIVITY

Palm Beach Multi-Suite Investment Volume to Year End 2022



Source: CoStar

Rental demand dropped sharply across the Palm Beach area in the second half of 2022 while rent growth slowed significantly.

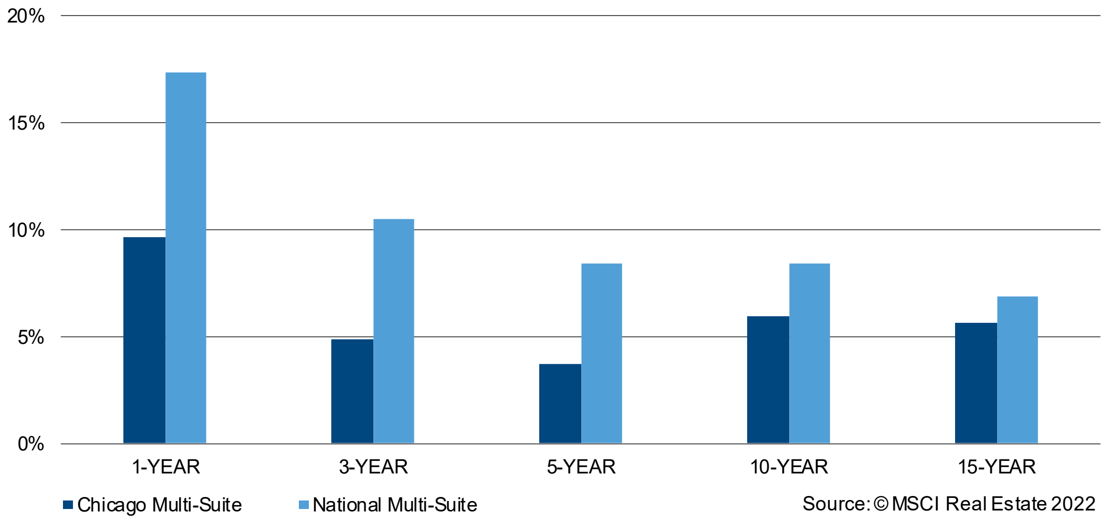
CHICAGO, IL

ECONOMY TO UNDERPERFORM

The Chicago-Naperville-Elgin (CNE) MSA economy is projected to underperform over the next couple of years, having largely recovered from the pandemic-driven decline. Output is forecast to contract by 0.6% in 2023 with a slight 0.6% advance projected for 2024, according to Oxford Economics. The weak growth outlook is predicated to some extent on the region's continued overdependence on low-growth industries.

HISTORICAL PERFORMANCE

For the period ending Sept 2022



Source: © MSCI Real Estate 2022

The CNE MSA labour market is expected to soften over the near term, having strengthened significantly over the past few years. Employment will increase by a modest 0.6% in 2023 and then contract by 0.2% over the subsequent year according to Oxford Economics' late-2022 forecast. The region's unemployment rate will rise by 130 bps to 5.7% by 2024 from the cycle low of 4.4% posted in 2022. By 2025, the region's labour market will begin to strengthen.

The CNE MSA's consumer spending outlook is relatively weak. Consumer spending is projected to rise by just 0.2% and 0.3% in 2023 and 2024, respectively. Weaker economic and job market performance will have a negative impact on spending. In addition, consumers will be more frugal over the near term, given higher mortgage rates and elevated inflation levels. Consumer spending patterns will improve substantially in 2025, as economic activity picks up.

RENTAL MARKET RESILIENCE FORECAST

The CNE multi-suite residential rental market is expected to exhibit a measure of resilience over the near term. The forecast resilience can be attributed to a combination of factors. New construction delivered to the market over the next couple of years will be in line with the historic average. Construction activity levels in this market have historically been largely demand-driven. Demand will generally keep pace with supply over the near term. Renters will continue to return to the CNE's downtown area to take advantage of the range of amenities offered. Previously, renters looked to the CNE's suburbs to escape the downtown area's congested mid-and high-rise towers during the intitial stage of the pandemic. Demand will generally match supply over the next couple of years. As a result, vacancy will be relatively stable when compared with other medium-to-large markets. The CNE's average vacancy rate is forecast to rise by a relatively modest 50 bps in 2023 to 5.9% and a further 50 bps to 6.4% in 2024. Rental market conditions will remain relatively tight while rents rise modestly. Rents will continue to rise at close to the long-term average rate of 2.2% annually over the next couple of years. The moderate rent growth outlook is in keeping with the market's forecast resilience.

INVESTMENT SALES SLOWDOWN TO CONTINUE

The investment sales slowdown that began in the second half of 2022 will continue over the near term. The higher cost of debt capital will continue to reduce the rate at which properties are sold in this market over the next several months. Leverage buyers will be significantly less active, given limited access to low-cost debt capital. Some buyers will hold off on bidding on available properties while economic and rental market risk remain elevated. In some cases, buyers will remain on the sidelines until interest rates decrease and the economic and financial market outlook improves. Buyers with access to low-cost debt or significant cash holdings will continue to target acquisitions in this market. The CNE's forecast rental market resilience will attract some buyers. The market's long-term performance track record will provide justification for investing in this market for some groups. CNE properties contained in the MSCI Index posted an attractive annual total return of 9.7% for the year ending September 30, 2022. Market rents are forecast to increase at a modest rate over the near term, which will also draw buyers to the market. In summary, the investment sales slowdown that began in the second half of 2022 will carry over into much of the first half of 2023.

TRENDING STATISTICS

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
VACANCY RATE	–	▲
NET ABSORPTION	▼	–
LEASE RATES	–	▼
NEW SUPPLY	▲	▲

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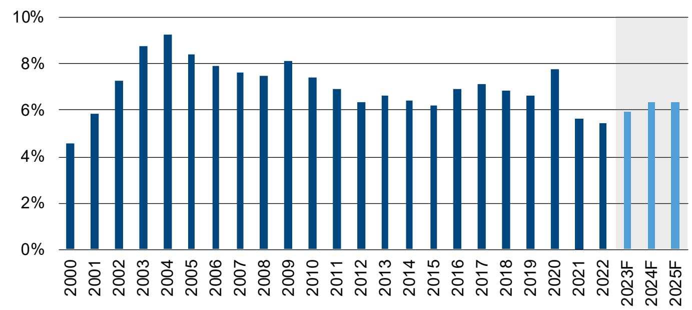
AVERAGE RENTAL VACANCY

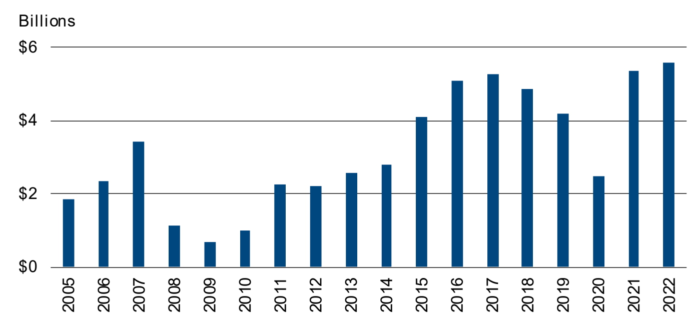
Chicago Multi-Suite Residential



Source: CoStar

INVESTMENT ACTIVITY

Chicago Multi-Suite Investment Volume to Year End 2022



Source: CoStar

CNE properties contained in the MSCI Index posted an attractive annual total return of 9.7% for the year ending September 30, 2022.

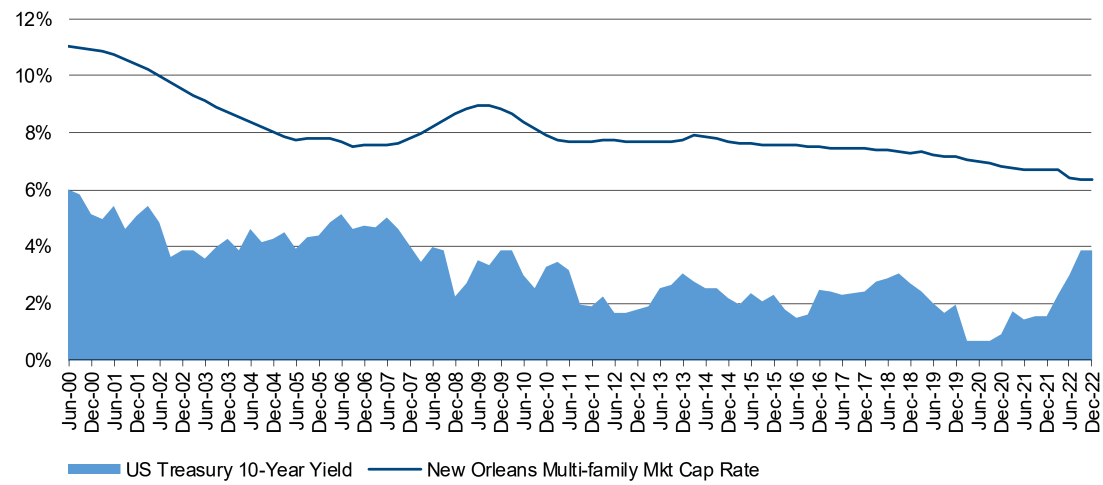
NEW ORLEANS, LA

ECONOMIC GROWTH WILL SLOW

The New Orleans-Metairie (NOM) MSA economy is projected to grow at a relatively slow rate over the near term, continuing the trend of the past few years. Regional output will increase by a modest 1.5% in 2023. In 2024, the regional economy will gear down with expansion of just 0.2%. Previously, GDP rose by 0.8% and 0.5% in 2021 and 2022, respectively. The relatively weak growth outlook is due primarily to a slower-than-expected tourism sector recovery from the pandemic-influenced decline.

YIELD SPREADS

New Orleans Multi-Res Cap Rates vs. 10-Year Treasury Yield



Source: CoStar, U.S. Department of the Treasury

The NOM MSA labour market will continue to gradually recover from the pandemic-driven setback over the near term. Employment is forecast to increase by a solid 2.6% in 2023, with a modest annual average gain of 0.4% projected for 2024/2025. It will take several years for the jobs lost in 2020 to be recouped. The region's unemployment rate will rise to 5.5% by 2024 from the cycle-low of 4.4% in 2022. Despite the rising unemployment trend, overall labour market conditions will slowly strengthen over the near term.

Consumer spending will increase at a moderately healthy rate over the near term, continuing the 2022 trend. A 1.3% advance is forecast for 2023, following a 2.0% lift in 2022. Wage growth will boost spending volume over the near term. The NOM MSA's average weekly wage is projected to rise by 3.9% and 3.2% in 2023 and 2024, respectively. To some extent, the positive impact of higher wages will be offset by weaker economic performance and inflation. On balance, consumer spending will rise at a moderately healthy rate.

RENTAL MARKET SOFTENING TO CONTINUE

The NOM MSA multi-suite residential rental market will continue to soften over the near term, continuing the trend of the past year. The market average vacancy rate is projected to climb to a 12-year high of 9.8% in 2023. Subsequently, moderately healthier demand patterns will drive vacancy back down by 80 bps to 9.0% in 2024. However, near-term vacancy in this market will range between 100 and 200 bps higher than the decade average in 2023/2024. The erosion of the market's supply fundamentals will coincide with weaker rental demand patterns. Job growth will continue to slow over the near term. As a result, family formation volume will decline, along with rental demand. Eviction notices are expected to increase over the near term, which will also negatively impact rental demand characteristics. The rising cost of groceries and other necessities will make it more difficult for individuals and families to form new renter households. Downward pressure on market rents will increase over the near term, due to a combination of weaker demand and rising vacancy. Low single-digit rent growth is forecast for 2023, down sharply from the 9.1% year-over-year average in early 2022. The weaker rent growth outlook is in keeping with the broader rental market softening forecast over the near term.

INVESTMENT SALES ACTIVITY DOWNDRAFT WILL PERSIST

The NOM MSA investment sales activity downdraft that began in the second half of 2022 will persist over the near term. The Federal Reserve's interest rate hikes will continue to have a negative impact on sales activity. Leverage buyers will hold off on acquiring property in this market until rates drop to more palatable levels. Cash buyers will look to the country's lower risk and typically larger markets for acquisition opportunities. Therefore, investment sales activity will fall significantly short of the 2022 peak when $317.6 million of transaction volume was posted for this market. Buyers will look to offset higher borrowing costs over the near term. As a result, we may see capitalization rates edge higher in this market. Cap rates dipped to a decade-low average of 6.3% in 2022. As interest rates increased, investment activity began to slide. In addition, rental demand softened, and evictions increased. Absorption patterns in this market turned decidedly negative in 2022 while vacancy rose to a 12-year high level. As rental market risk and interest rates increased, investment activity levels declined. The investment sales activity downdraft is expected to persist through to at least the midway mark of 2023.

TRENDING STATISTICS

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
VACANCY RATE	▲	▲
NET ABSORPTION	▼	▼
LEASE RATES	▼	▼
NEW SUPPLY	▼	▼

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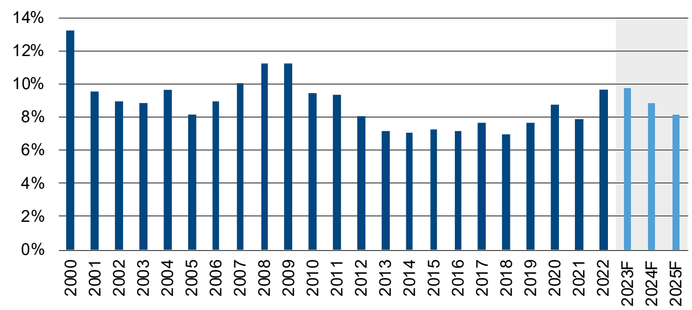
AVERAGE RENTAL VACANCY

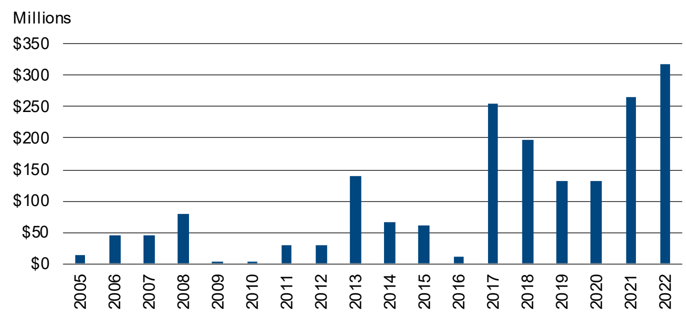
New Orleans Multi-Suite Residential



Source: CoStar

INVESTMENT ACTIVITY

New Orleans Multi-Suite Investment Volume to Year End 2022



Source: CoStar

Absorption patterns in this market turned decidedly negative in 2022 while vacancy rose to a 12-year high level.

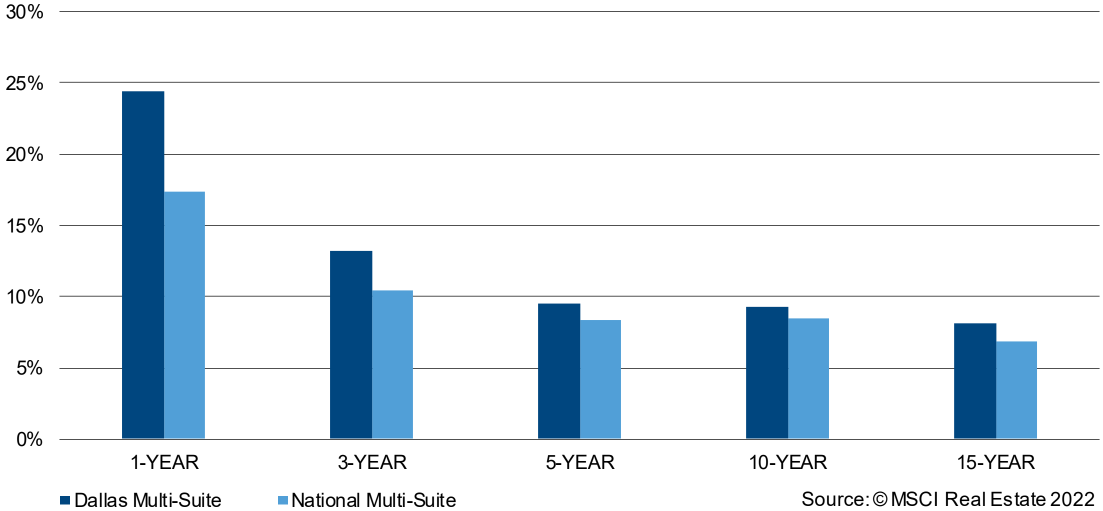
DALLAS, TX

ECONOMIC GROWTH WILL MODERATE

The Dallas-Fort Worth-Arlington (DFWA) MSA economy is expected to gear down over the near term, after a two-year period of robust expansion. The regional economy is projected to expand by less than 1.0% in 2023, following advances of 7.0% and 4.7% in 2021 and 2022, respectively. Technology and professional services sector output will continue to rise at a relatively healthy rate. Despite gearing down, the region's economy is expected to continue to outperform.

HISTORICAL PERFORMANCE

For the period ending Sept 2022



Source: © MSCI Real Estate 2022

Tightness will continue to characterize the DFWA labour market over the near-to-medium term. The regional unemployment rate will rest below the 5.0% mark through 2023/2024. Subsequently, the rate will drop below the 4.0% mark between 2025 and 2027, according to Oxford Economics. As a result, wages will continue to rise at a steady rate. Job growth patterns are expected to strengthen in the second half of 2023 as labour market conditions remain tight.

Generally healthy consumer spending patterns are forecast for the DFWA MSA over the near term. Consumer spending will rise by close to 1.5% annually in 2023/2024. Subsequently, growth of close to 3.0% is forecast through to 2027. The relative strength of the region's economy and labour market will support positive spending patterns. Wage growth over the next few years will also be supportive of healthy DFWA MSA consumer spending patterns.

WEAKER RENTAL MARKET PERFORMANCE FORECAST

Weaker rental market performance patterns are predicted for the DFWA's multi-suite residential sector over the near term, in keeping with the national trend. Rental demand will slow this year, contrasting with the 2021/2022 surge. Household formation activity will fall short of the recent peak over the next 12 to 24 months, due in large part to the forecast economic and job market slowdown. Historically, household formation has been a key rental demand driver across the country. Demand is expected to soften more substantially in the renter-by-necessity market segment, as evictions increase, and inflation pressures erode household income. To some extent, population growth and in-migration will offset the demand softening in this market over the near term. On aggregate, supply will exceed rental demand in 2023/2024, resulting in a rising vacancy trend. The DFWA average vacancy rate will likely reach into double-digit range by 2024. Rent growth will cool over the near term, given weaker demand patterns and rising vacancy. Low single-digit rent growth is forecast for the next couple of years, which is in line with the long-term average. Downtown and Uptown submarket rents had climbed by roughly 15.0% between the beginning of 2021 and the end of 2022. Rents will rise modestly over the near term, during a period of weaker rental market performance.

BELOW-AVERAGE ACTIVITY FORECAST

Investment sales activity will continue to rest below the decade average over the near term. Transactions in the market will remain below par, given the relatively high cost of debt and elevated economic, financial market, and sector risk. Coincidentally, buyers will be unwilling to invest funds in this market during a period when property values may decline. In late 2022, vendors continued to command peak-pricing when looking to sell their properties. However, buyers looked increasingly for pricing adjustments to offset rising interest rates and weaker rent growth patterns. The resulting gap between vendor and buyer pricing expectations resulted in a slowdown in transaction volume in late 2022. Capitalization rates had edged higher by the end of 2022. During this period of price discovery, investment activity slowed across the country. Investment transaction volume had surpassed $5.0 billion annually in five out of the past six years up to and including 2022. Over the near term, investment sales activity is expected to range below both the decade average.

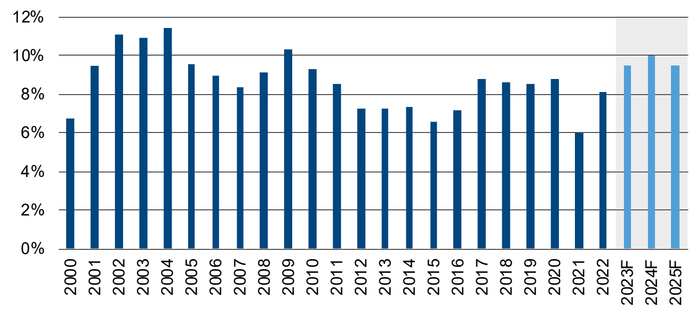
TRENDING STATISTICS

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
VACANCY RATE	▲	▲
NET ABSORPTION	▼	▼
LEASE RATES	—	▼
NEW SUPPLY	▼	—

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

AVERAGE RENTAL VACANCY

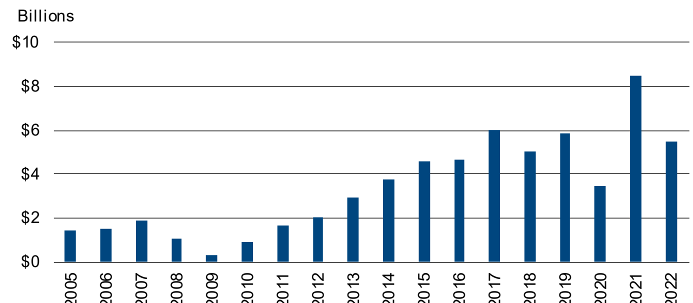
Dallas Multi-Suite Residential



Source: CoStar

INVESTMENT ACTIVITY

Dallas Multi-Suite Investment Volume to Year End 2022



Source: CoStar

Rent growth will cool over the near term, given weaker demand patterns and rising vacancy.

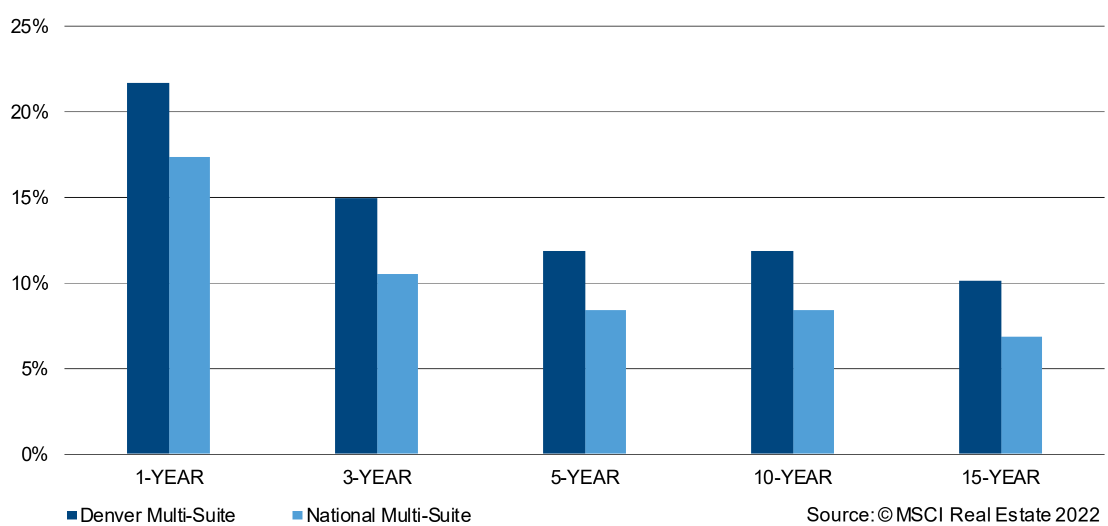
DENVER, CO

GROWTH OUTLOOK IS MODEST

The economic growth outlook for the Denver-Aurora-Lakewood (DAL) MSA is modest when compared with the past two years. GDP is forecast to advance by 0.7% in 2023 and a slightly healthier 1.3% in 2024. GDP rose by an annual average of 6.2% over the previous two-year period. The modest growth outlook is in keeping with the national trend. The DAL MSA economy will strengthen in 2025, after a period of modest growth.

HISTORICAL PERFORMANCE

For the period ending Sept 2022



The volume of new jobs created in the DAL MSA will decline significantly over the near term, in keeping with the national trend. Employment will increase by a modest 1.2% and 0.8% in 2023 and 2024, respectively. Employment rose by an annual average of 3.9% in 2021/2022. Many of the region's private sector companies will hold off on hiring, given reduced economic and financial market stability. Despite the hiring downturn, the region's unemployment rate will remain low, ranging close to the 4.0% mark in 2023 and 2024.

Consumer spending growth will moderate over the next few years, with increases of roughly 1.6% in each of 2023 and 2024. Considerable upward pressure on consumer prices and relatively high interest rates will erode household spending power over the forecast period. The moderately weaker job market will also negatively impact spending growth over the near term. By the midway mark of the decade, consumer outlays are expected to strengthen significantly.

NEW SUPPLY WAVE IS ON THE WAY

A wave of new supply is forecast for the DAL MSA's multi-suite residential rental sector this year and next. Approximately 26,000 rental units were in various stages of construction at the end of 2022. Of the total, more than 23,000 will be ready for occupancy either this year or in 2024. Many of the new developments to be delivered are adjacent to the downtown area or close to the region's expanding Regional Transport District's Light Rail network. Rental demand in the DAL MSA slowed during 2022 following the 2021 peak, when construction activity surged. The volume of new families formed trended markedly lower, as consumers grew increasingly concerned with the possibility of a recession and outsized inflation pressures. This sentiment is expected to continue to have a negative impact on rental demand. On aggregate, supply will outdistance demand over the next 12 to 24 months. As a result, vacancy will rise significantly. By 2024, the DAL MSA vacancy rate will climb to a 12-year high and come close to double-digit range. The class A segment of the market will see vacancy rise into double-digit range. Market rents will rise at a rate below the decade-average in 2023/2024, due in large part to a wave of new supply.

WEAKER INVESTMENT DEMAND FUNDAMENTALS FORECAST

Weaker investment demand fundamentals are forecast for the DAL MSA multi-suite residential rental sector over the near term. The combination of higher interest rates and the threat of a recession will continue to erode investment demand through much of the first half of 2023 and potentially longer. Investment demand began to weaken in early 2022. As a result, the market's transaction completion rate slowed. Annual transaction volume for the DAL MSA totalled roughly $6.1 billion in 2022, down from the all-time high $10.4 billion reported by CoStar for 2021. Despite the activity slowdown, capitalization rates continued to compress. The market average rate dipped by 30 bps in 2022 to 4.6%, which represented an all-time low. At the beginning of 2023, upward pressure on capitalization rates increased, as buyers looked to minimize the impact of higher interest rates and weaker rental market conditions on performance. Buyers will continue to focus their efforts on acquiring premium properties in the downtown area. However, buyers with higher leverage aspirations will be less active this year until interest rates decrease substantially. Investment demand fundamentals will remain relatively weak in 2023, given limited availability of low-cost debt and increased economic and property sector risk.

TRENDING STATISTICS

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
VACANCY RATE	▲	▲
NET ABSORPTION	▼	▼
LEASE RATES	▼	▼
NEW SUPPLY	▲	▲

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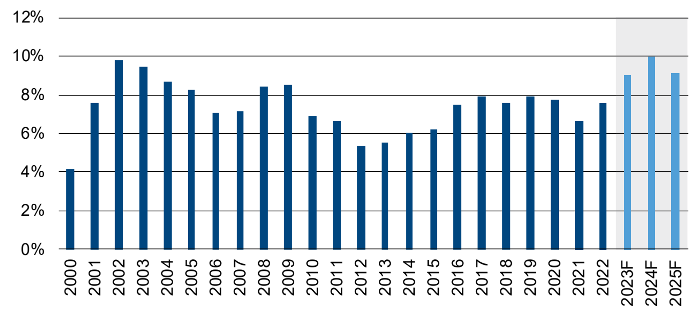
AVERAGE RENTAL VACANCY

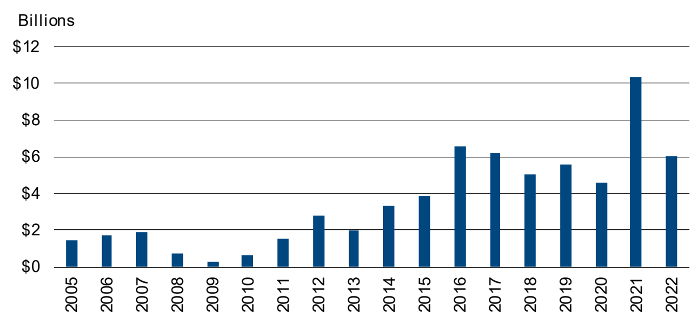
Denver Multi-Suite Residential



Source: CoStar

INVESTMENT ACTIVITY

Denver Multi-Suite Investment Volume to Year End 2022



Source: CoStar

A wave of new supply is forecast for the DAL MSA's multi-suite residential rental sector this year and next.

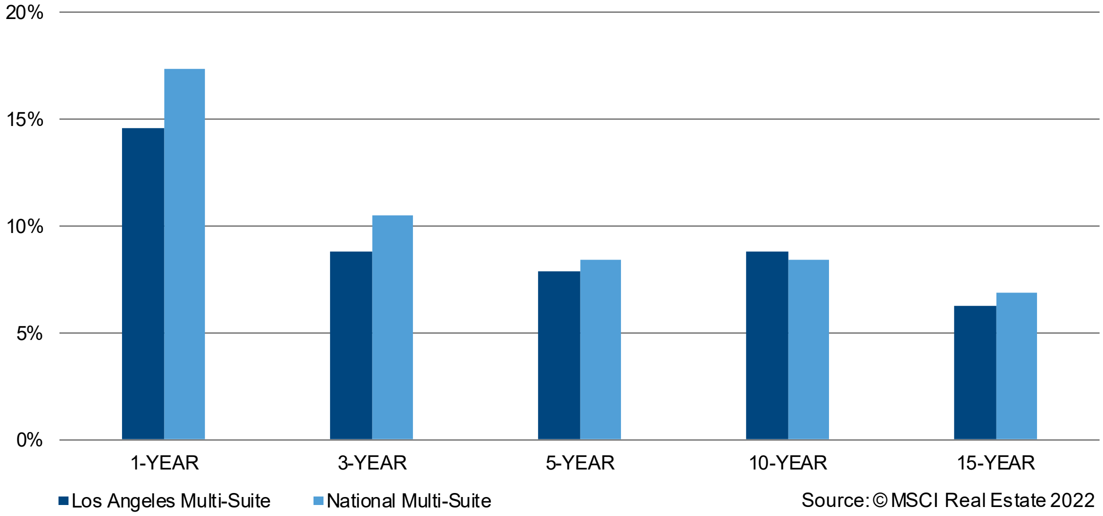
LOS ANGELES, CA

SLOW GROWTH CYCLE WILL BE EXTENDED

The Los Angeles-Long Beach-Anaheim (LALBA) MSA economy's slow growth cycle will continue to unfold over the near term. The regional economy is expected to expand by 0.9% and 0.8% in 2023 and 2024, respectively. The 2023 growth rate will match the 2022 average. The region will continue to see net out-migration over the near term, which will dampen economic activity levels. By 2025, economic expansion is expected to rise to an annual average of roughly 2.0% through to 2027.

HISTORICAL PERFORMANCE

For the period ending Sept 2022



The LALBA labour market is forecast to improve at a relatively modest rate over the near term. Employment will rise by 1.6% in 2023, on the heels of a stellar 5.4% advance in 2022. The film sector will continue to drive employment levels higher over the next few years, given the increased popularity of various streaming services. According to Oxford Economics, the region's unemployment rate will remain low over the next few years. The rate had spiked to 11.6% in 2020, as thousands of jobs were lost due to the pandemic lockdowns.

Consumer spending growth will trend markedly lower over the near term, continuing the trend that began in 2022. Spending will increase by a modest 1.3% in 2023 and fall below the 1.0% mark in 2024, according to Oxford Economics. The region's consumers will look to conserve funds given higher interest rates and inflation. However, most of the region's worker population will continue to have jobs, which will support a modest rise in consumer spending over the near term.

RENTAL MARKET SOFTENING WILL BE MODEST

The LALBA rental market softening forecast over the near term will be relatively modest. Vacancy will continue to gradually rise this year and in 2024. However, the average rate will remain below the 5.0% threshold. Market conditions will remain relatively tight. Previously, vacancy had dropped to a decade low of 3.7% in 2021 before edging just 30 bps higher in the following year. Vacancy is forecast to rise more sharply in many of the country's markets over the forecast period. LALBA rent growth will slow over the next 12 to 18 months, which is also in keeping with the national trend. However, the downward rent growth trajectory will not be as pronounced as in other U.S. markets. Although rents will hold up relatively well over the near term, an increasing number of owners are expected to offer incentives to prospective tenants as rental demand slows. Rental demand will remain below the levels observed during the most recent market peak in 2021. This year and in 2024, household formation activity is expected to be relatively muted, given weaker economic and job growth trends. Moderately weaker demand fundamentals will be a major factor in the modest LALBA rental market softening forecast over the near term.

INVESTMENT MARKET MODERATION FORECAST

The recent LALBA multi-suite residential rental investment property market moderation will continue to unfold over the near term. Sales activity will continue at a relatively moderate pace compared with the 2021 and first-half 2022 peak. Activity began to slow in the second half of 2022, due largely to the Federal Reserve's aggressive interest rate hike cycle. As the supply of low-cost debt dwindled, some buyers retreated to the sidelines. Investment activity will remain relatively modest until low-cost debt becomes more readily available. The second half investment activity slowdown coincided with weaker rental demand characteristics. Rents began to level off, following a period of record growth. As rental market conditions changed, investors reassessed their return expectations. Downward pressure on capitalization rates subsided. We may see capitalization rates decompress this year, given higher interest rates, weaker rental market performance patterns, and the ongoing threat of a recession. Despite significant performance headwinds, this market will continue to attract buyers. Institutions and private groups with cash will target the region's class A properties over the near term, as investment market conditions moderate.

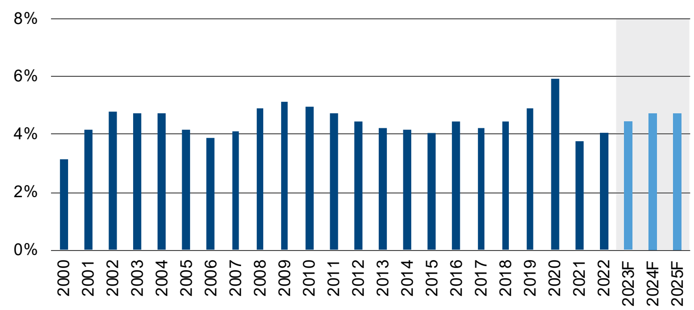
TRENDING STATISTICS

FUNDAMENTALS	Δ YTD	1-YEAR OUTLOOK
VACANCY RATE	—	▲
NET ABSORPTION	▼	▼
LEASE RATES	—	—
NEW SUPPLY	▼	—

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

AVERAGE RENTAL VACANCY

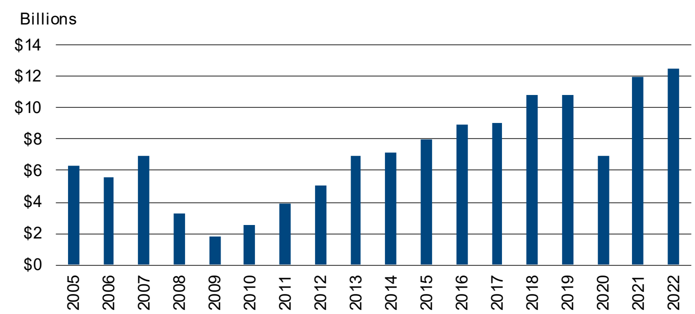
Los Angeles Multi-Suite Residential



Source: CoStar

INVESTMENT ACTIVITY

Los Angeles Multi-Suite Investment Volume to Year End 2022



Source: CoStar

Sales activity will continue at a relatively moderate pace compared with the 2021 and first-half 2022 peak.

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