MARKET STUDIES

Our Market Evaluation Framework

How we think about multifamily markets before we evaluate an individual property.

A good apartment property can struggle in the wrong market. A strong market can still produce a poor investment if a property is purchased at the wrong price, in the wrong submarket, or with an unrealistic business plan.

That is why we do not evaluate markets using a single statistic. Population growth matters. Job growth matters. Rent growth matters. But none of those factors, by themselves, tell us whether a market is attractive for apartment investment.

THE IMPORTANT IDEA
We do not invest in statistics. We invest in properties located inside real markets.
The market analysis gives us context. The individual property still has to earn the investment.

OUR OBJECTIVE IS TO UNDERSTAND HOW THE MAJOR PIECES FIT TOGETHER:

Who Is Moving There?	Where are they working?
How Much Apartment Supply Is Being Built?	Can renters afford the rents being charged?
What Does It Cost To Operate Apartments There?	Which submarkets are actually benefiting?

And does the investment still make sense at the price we are being asked to pay?

01 POPULATION, HOUSEHOLDS AND RENTER DEMAND

Is the market creating more potential renters?

Population growth is often the first statistic investors see. It is important - but the headline number is only the beginning.

- Is the population actually growing, and how quickly?
- Is growth accelerating or slowing?
- What age groups are growing?
- Are new households being formed?
- Where within the metro is growth occurring?
- Are those households likely to rent?
- Is the growth supported by employment?

For multifamily, household formation can be more meaningful than population alone. Two people moving into the same household do not create the same apartment demand as two people forming separate households.

PRIME RENTER-AGE POPULATION

We also pay attention to the age of the population. Young professionals and households in the years before homeownership can be particularly relevant to apartment demand. In our Carolinas Market Preference Analysis, for example, we examined growth among Charlotte's 20-to-34-year-old population rather than relying only on total population growth.

THE QUESTION: Is population growth actually translating into sustainable apartment demand?

02 EMPLOYMENT DEPTH AND ECONOMIC DIVERSITY

People need a reason to live there.

Long-term apartment demand depends heavily on employment. We therefore look beyond the unemployment rate or a simple job-growth percentage.

- How many jobs exist and are they growing?
- Which industries are creating them?
- How well do those jobs pay?
- How many major employers support the market?
- Are those employers expanding?
- Is the economy dependent on one industry?
- How vulnerable are major industries to disruption?

DIVERSITY MATTERS

A market supported by healthcare, education, finance, professional services, logistics, manufacturing, technology, government, energy and aviation may be more resilient than one heavily dependent on a single employer or sector.

In our Carolinas analysis, Charlotte's headquarters base was evaluated not just for direct employment, but also for the legal, accounting, consulting, technology, real estate and vendor ecosystems that develop around those companies.

THE QUESTION: Is the employment base large, growing, diversified and durable enough to support renter demand through different economic conditions?

03 APARTMENT SUPPLY AND DEMAND

Population growth does not protect a market from overbuilding.

A market can add thousands of new residents and still experience falling rents because apartment supply can temporarily grow faster than renter demand. That is why we evaluate both sides of the equation.

WE STUDY SUPPLY	AND WE STUDY DEMAND
Existing apartment inventory	Absorption
Units under construction	Occupancy
Planned projects	Leasing velocity
Recent deliveries	Household growth
Construction starts	Concessions
Pipeline trends	Effective rents
Supply as % of existing inventory	

USING THE CAROLINAS AS AN EXAMPLE

Raleigh-Durham retained many strong long-term demand characteristics, but a very large wave of apartment deliveries contributed to several years of rent softness. Our analysis therefore distinguished between long-term demand strength and a near-term supply imbalance. Charlotte showed the same principle: strong population and employment growth did not prevent near-term rent and occupancy pressure when new deliveries temporarily moved ahead of demand.

THE QUESTION: Is new apartment supply moving ahead of demand - or is the market beginning to absorb what has already been built?

04 RENTS, OCCUPANCY AND CONCESSIONS

Headline rent growth does not tell the whole story.

We look at how apartment performance is actually behaving, including historical rents, recent rent growth, effective rents, physical and economic occupancy, concessions, absorption, renewal performance and new-lease performance.

WHY CONCESSIONS MATTER

An apartment may advertise rent of $1,800 per month. If the resident receives significant free rent or another concession, the effective rent is lower. Asking rents alone can therefore overstate actual pricing power.

WHY HISTORICAL TRENDS MATTER

- What happened before the current cycle?
- What caused the recent change?
- Is the market improving or deteriorating?
- Is weakness structural or largely supply-driven?
- Are leading indicators improving before headline rent statistics do?

THE QUESTION: What are renters actually paying, and what does current performance tell us about pricing power?

05 AFFORDABILITY

Rent growth has limits.

Apartment rents ultimately have to be paid by real households. We examine median household income, wage growth, rent-to-income relationships, home prices, mortgage costs, and the cost of renting compared with owning.

RENTING VS. OWNING

When homeownership becomes significantly more expensive than renting, households may remain renters longer. That can support apartment demand. But affordability works both ways: if apartment rents themselves rise too far relative to household incomes, the market may eventually resist further increases.

THE QUESTION: Can the households who live in this market continue to afford the rents the business plan assumes?

06 SUBMARKETS AND EMPLOYMENT NODES

A metro is not one market.

Apartment performance can vary dramatically within the same metropolitan area. One submarket may combine strong employment access, limited new supply, established retail, good schools and strong renter incomes, while another area 15 miles away may face heavy construction, weaker employment connectivity and limited infrastructure.

USING CHARLOTTE AS AN EXAMPLE

In our Carolinas Market Preference Analysis, we identified multiple distinct Charlotte demand nodes - including Uptown, South End, SouthPark, Ballantyne, University City, Midtown, the airport corridor and the Lake Norman area. Each is supported by different combinations of finance, professional services, healthcare, education, aviation, logistics, corporate employment and household growth.

WHY THIS MATTERS
Saying simply "We like Charlotte" does not go far enough. We still need to determine which submarket, what demand supports it, what new supply is coming, and whether the specific property fits that local environment.

WE PREFER PROVEN DEMAND

Population forecasts alone are not enough. We are generally more comfortable when a submarket already has jobs, transportation, retail, schools, healthcare, infrastructure and established renter demand rather than depending primarily on future growth that has not yet arrived.

THE QUESTION: Where inside the metro is renter demand actually being created?

07 TAXES, INSURANCE, REGULATION AND OPERATING COSTS

Revenue is only half the equation.

A market can have excellent rent growth and still produce disappointing investment economics if operating costs rise faster. We therefore consider property taxes, insurance, utilities, payroll, maintenance labor, vendor costs, regulatory requirements, landlord-tenant rules, licensing and inspection requirements.

These items can materially affect Net Operating Income. We address them in greater detail in the separate Learning Hub resource Taxes, Insurance, Regulation and Operating Costs.

THE QUESTION: What will it actually cost to own and operate apartments in this market?

08 MARKET SCALE AND LIQUIDITY

Eventually someone else may need to buy the property.

Market analysis should not stop with apartment operations. We also consider the capital markets. A larger, more liquid apartment market may offer more lenders, more buyers, more brokers, greater transaction volume, more comparable sales, better refinancing options and more institutional participation.

Smaller markets can still produce excellent opportunities, but investors should understand that liquidity can be thinner. In our Carolinas work, for example, Greensboro-Winston-Salem and Greenville-Spartanburg showed attractive characteristics while also having thinner investment liquidity than Charlotte or Raleigh-Durham.

WHY THIS MATTERS

A business plan usually assumes that someday the property will be refinanced or sold. The depth of the lending and buyer markets can materially affect both outcomes.

THE QUESTION: If we eventually need to refinance or sell, how deep is the market for this type of property?

09 BASIS AND PROPERTY ECONOMICS

A great market can still be a bad buy.

We can like a market and still reject an investment because price matters.

- Purchase price and price per unit
- Current income and cap rate
- Replacement cost
- Required capital improvements
- Current cash flow
- Debt structure
- Expected return
- Downside protection

BASIS MATTERS

A property acquired at an attractive basis may have room to withstand slower rent growth, higher expenses, longer renovation periods or market weakness. An aggressively priced property may require nearly everything to go right.

Our Carolinas analysis demonstrates this philosophy. Even in markets we viewed favorably, we emphasized selectivity based on basis, in-place cash flow and submarket supply rather than simply buying because we liked the metro.

THE QUESTION: Are we paying a price that gives us room to be wrong?

10 THE BUSINESS PLAN MUST FIT THE MARKET

The same market does not support every strategy.

A stabilized apartment property and a heavy value-add property may respond very differently to identical market conditions. A market experiencing temporary oversupply may still offer an attractive opportunity to acquire a well-occupied stabilized property at the right basis. The same market may be much less attractive for a plan requiring significant vacancy, aggressive renovation premiums, rapid rent increases, large numbers of unit turns or immediate refinancing.

MARKET + BUSINESS PLAN

We ask: What does this particular investment require the market to do?

If the plan needs substantial rent growth, we want evidence supporting it. If renovated units are expected to command a significant premium, we want comparable properties already achieving it.

THE QUESTION: Does the business plan match the market we actually have - not the market we hope to have?

11 FORWARD-LOOKING RISKS

Today's data is only the starting point.

Real estate is a long-term investment. A five-to-seven-year ownership period means we have to consider what could change, including new construction, employer contraction, industry disruption, interest rates, insurance, regulation, migration, infrastructure, technology and consumer affordability.

Thinking Beyond Today's Employers

Our Charlotte work provides an example. Because the market has significant financial-services, business-services and technology employment, we specifically considered the possible effect of artificial intelligence and automation on certain occupations rather than assuming today's employment structure would remain unchanged indefinitely. We then weighed that risk against broader diversification across healthcare, energy, logistics, aviation, advanced manufacturing, education and public-sector employment.

We Do Not Need Certainty

No market study can predict the future. The objective is to identify the assumptions and risks that matter most.

THE QUESTION: What could materially weaken the demand thesis during our expected ownership period?

12 COMPARE MARKETS, DON'T ANALYZE THEM IN ISOLATION

Capital has alternatives.

A market may look attractive until it is compared with another market offering similar demand with less supply, lower costs or better liquidity. Our market work asks what each market does particularly well, where it is weaker, what risks are unique to it, what opportunities may be mispriced, and which competing markets offer attractive alternatives.

OUR CAROLINAS MARKET PREFERENCE ANALYSIS

The Carolinas study compared Charlotte, Raleigh-Durham, Greensboro-Winston-Salem, Greenville-Spartanburg and Columbia. Rather than labeling each market simply good or bad, we identified a different investment rationale for each - from scale, employment depth and liquidity to life-science demand, affordability, measured supply, manufacturing, logistics and defensive employment.

THE IMPORTANT IDEA

Market selection is comparative.

The purpose is not simply to find a market we like. It is to understand why we prefer one opportunity over the alternatives available to us.

SEE THE FRAMEWORK IN PRACTICE

Our Market Preference Analyses

The Learning Hub includes selected Market Preference Analyses so you can see how we apply this framework to real markets.

These reports move beyond headline statistics and show how we combine population, employment, apartment fundamentals, supply pipelines, rent trends, submarkets, employer activity, affordability, risks and market liquidity to reach an investment view.

START WITH THE CAROLINAS

Our Carolinas Market Preference Analysis compares five non-coastal Carolinas markets and then takes a deeper look at the market we believed offered the strongest overall opportunity at the time of the analysis. It is available in the Market Studies area of the Learning Hub.

As additional Market Preference Analyses are added, members will be able to compare how the same framework produces different conclusions in different regions.

ROBERT'S PERSPECTIVE

I DON'T NEED THE BEST MARKET.

I need the right investment in a market I understand.

It is easy to become attracted to a market because population is growing quickly, a major employer announced thousands of jobs, or rents increased dramatically. Those things get my attention. They do not make the investment decision for me.

I want to understand why people are moving there, where they work, how much apartment supply is coming, what renters can afford, what it costs to operate, and which specific submarkets are actually benefiting. Then I look at the individual property.

MY RULE

I would rather buy the right property at the right basis in a good market than overpay for the wrong property simply because it sits in a great market.

Our Carolinas work demonstrates that philosophy. Even after identifying a broad market preference, the analysis continued to emphasize basis, employment connectivity, in-place cash flow and submarket supply rather than indiscriminate exposure to the metro.

OUR MARKET EVALUATION CHECKLIST

What We Want to Understand

When we study an apartment market, we organize our work around eight connected areas.

DEMAND

- Population growth
- Household growth
- Migration
- Renter-age demographics
- Affordability

EMPLOYMENT

- Job growth
- Major employers
- Wage quality
- Industry diversity
- Employer expansions
- Economic concentration

MULTIFAMILY FUNDAMENTALS

- Existing apartment supply
- Construction pipeline
- Deliveries
- Absorption
- Occupancy
- Rent growth
- Concessions

OPERATING ENVIRONMENT

- Property taxes
- Insurance
- Regulation
- Labor
- Utilities
- Vendors

SUBMARKETS

- Employment nodes
- Transportation
- Schools
- Retail
- Infrastructure
- Local supply

CAPITAL MARKETS

- Transaction volume
- Buyer depth
- Lender availability
- Exit liquidity

INVESTMENT ECONOMICS

- Basis
- Current cash flow
- Replacement cost
- Capital needs
- Debt
- Business-plan assumptions

RISKS

- Oversupply
- Employer concentration
- Affordability
- Regulatory change
- Insurance
- Financing
- Economic disruption

THE MARKET TELLS US WHERE TO LOOK.
The property and the price determine whether we invest.

THE MOST IMPORTANT TAKEAWAY

There Is No Single "Best" Market Metric

A strong multifamily market is the result of several factors working together.

PEOPLE AND HOUSEHOLDS	supported by
DURABLE EMPLOYMENT	creating
APARTMENT DEMAND	that is not overwhelmed by
NEW SUPPLY	while rents remain
AFFORDABLE ENOUGH TO SUSTAIN DEMAND	and operating costs still allow the property to produce
DURABLE NET OPERATING INCOME	

Then we ask whether the specific property, submarket, price and business plan allow us to participate in that opportunity with an acceptable level of risk.

BOTTOM LINE
The market tells us where to look. The property and the price determine whether we invest.

POINT-IN-TIME MARKET ANALYSIS
Market conditions change. Population trends, employment, apartment supply, rents, occupancy, interest rates, insurance, taxes, regulation and investor liquidity can all evolve during the ownership period. Market Preference Analyses should therefore be understood as point-in-time research reflecting information available when each study was prepared.

EDUCATIONAL PURPOSE
This material is provided for general educational and informational purposes only and does not constitute financial, investment, tax, legal or accounting advice or a recommendation to invest in any market or property. Market research cannot predict future performance. Investors should evaluate the specific property, investment structure, offering documents and risks associated with any opportunity and consult their own qualified professional advisers before making an investment decision.