ARCAPITA

US Multifamily Housing Market Review

April 2021 | Newsletter

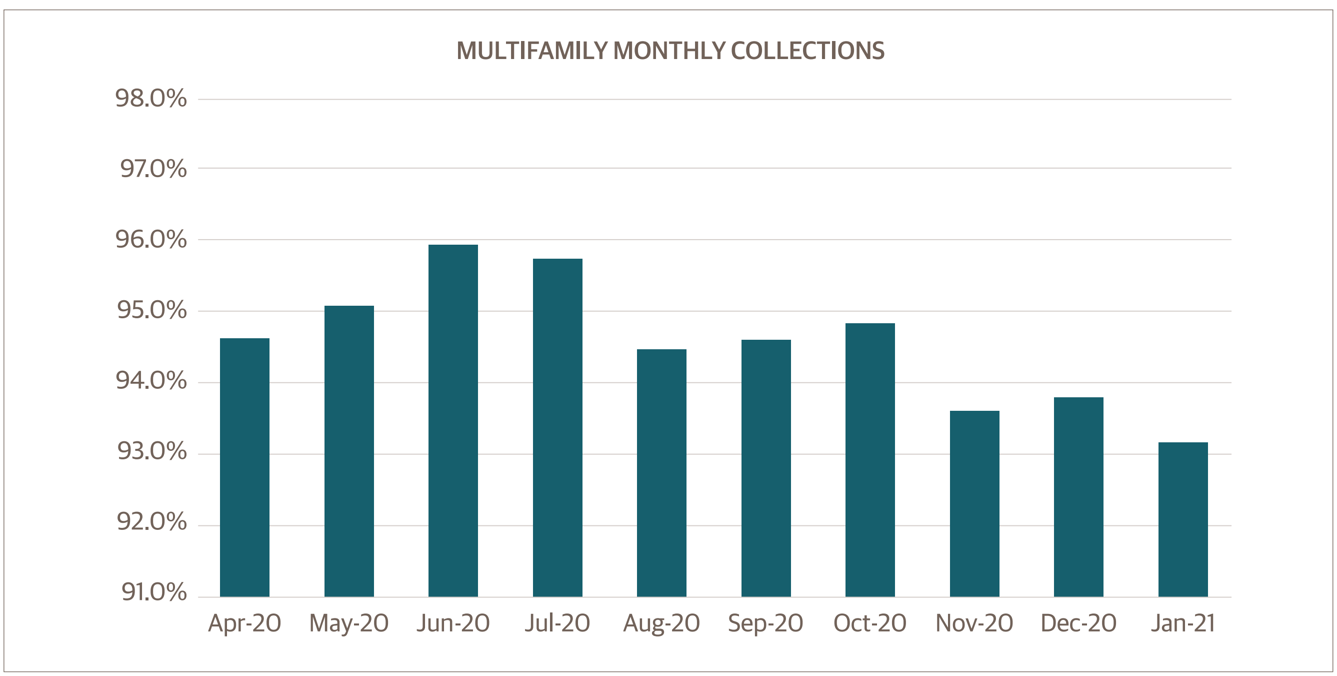
Millennial generation's demonstrated preference for renting over homeownership due to lifestyle preferences and lower savings rates resulted in homeownership rates in the US steadily declining over the past 10 years

The pandemic has forced investment managers across the globe to review their investment strategies in the wake of accelerating trends and structural shifts occurring within the economy. Within the real estate space, different subsectors were faced by varying challenges that affected their market dynamics. However, US multifamily has demonstrated its defensive nature over the past year, outperformed only by industrial. It also showed greater resilience than witnessed in previous recessions.

Since the 2009 financial crisis, the domestic multifamily housing market has benefited from multiple, secular demographic tailwinds. Chief amongst them is the Millennial generation's demonstrated preference for renting over homeownership due to lifestyle preferences and lower savings rates, which resulted in homeownership rates in the US steadily declining over the past 10 years. Millennials and Post-Millennials are delaying family formation as well, while in certain cases managing student loans and other debts, which together are expected to keep downward pressure on homeownership. We see these trends persisting, creating significant long-term tailwinds for multifamily.

We also expect renters to increasingly become long-term renters, in the case of both wage and salary earners. Median income households with lower savings rates result in higher tenant retention and rent growth within applicable multifamily properties, particularly Class B properties and increasingly build-to-rent single family.

The multifamily sector experienced several challenges and shifts during the pandemic. Rent collection dipped due to elevated vacancies, rental deferrals, and defaults. A noticeable shift from



Source: NMHC, CBRE

urban to suburban submarkets was driven by working-from-home and pandemic regulations limiting access to urban amenities. This reduced the merits of rental premiums paid in urban markets. A migration away from Class A units was also seen, specifically in gateway cities, such as San Francisco and New York. As individuals came to terms with the financial effects of the pandemic, household consolidation occurred as many moved in with family or friends, or to more affordable Class B units.

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The longevity of these recent trends post-pandemic largely depends on the pace with which the pandemic's impact is mitigated and the degree to which working-from-home will continue. With high vaccination acceptance rates in the US, herd immunity is predicted by mid-year at current rates. And with the noticeable "return to normal" behavior amongst those with immunity, working-from-home will be significantly reduced as employers

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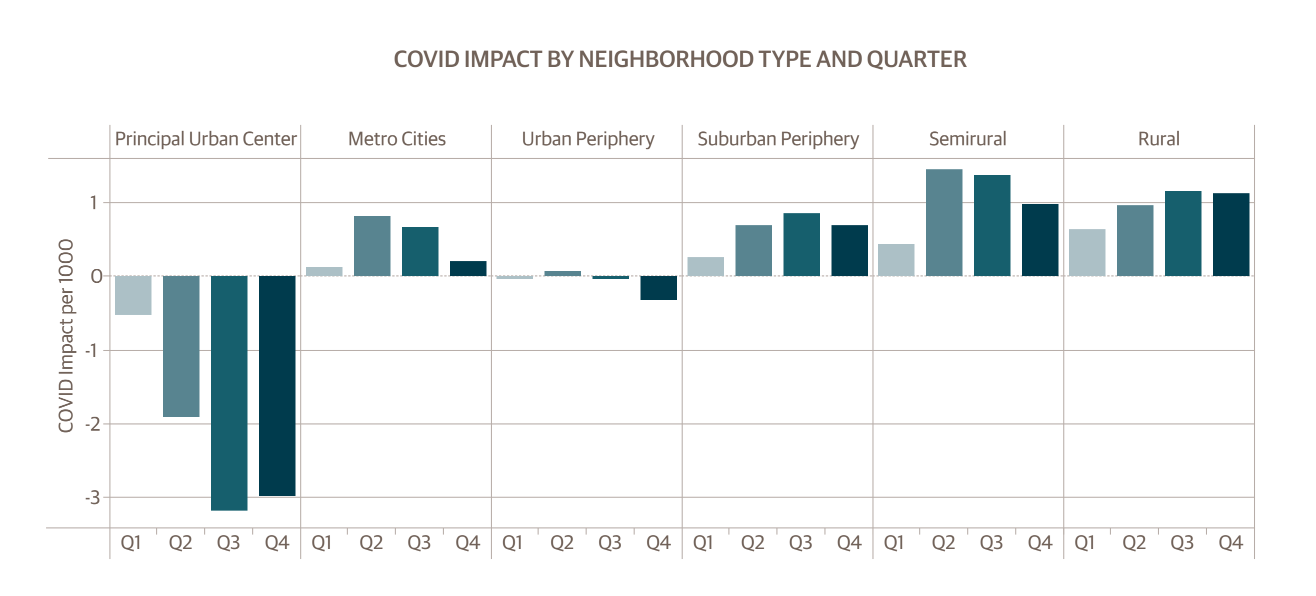

Source: CBRE, COVID-19 Impact on Resident Migration Patterns

prioritize in-office collaboration again. We anticipate a measurable return to normalized housing trends in 2H 2021, which will create targeted opportunities for both Class A & B multifamily as well as build-to-rent single family.

While the 2021 trends for multi-family are favorable, Arcapita has been equally focused on five-year trends and beyond, as we evaluate opportunities in the sector. The most significant of these, the "long-term renter", is typically served by properties in urban areas that provide equal access to amenities and employment centers, and with rents at levels affordable for median income households. Geographically, we expect increasing job growth and relocation to the southern US and non-Tier 1 cities because of cost of living and labor laws, which will drive household formation in these centers.

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Over the long-term, multifamily is expected to continue to grow, spurred by the economic recovery and strong long-term fundamentals. In the near-term, the speed of vaccine roll-out gives promise for potential herd immunization by the second half of the year and a return to normalcy. We are already seeing signs of a resumption of economic activity in the US: jobless claims (a leading indicator of employment health) have decreased as state and local governments have started to relax lockdown measures. Increased economic activity and reduced financial stress are likely to drive a reversion to pre-COVID consumption and spending patterns, including choices around rental housing. Given these dynamics, we continue to hold a positive view of the US multifamily sector and expect future investment opportunities to arise in this space.

Arcapita Overview

With two decades of experience, Arcapita's management has built a global investment platform to access the opportunities that exist in our core markets of the US, Europe, Middle East and Asia.

Arcapita is a global alternative investment manager offering diverse investment opportunities, focusing on private equity and real estate. At the center of one of the fastest growing wealth markets in the world, Arcapita's management has been serving an exclusive group of investors in the GCC region over the past two decades. With offices in Bahrain, Atlanta, London and Singapore, Arcapita's management team has completed over 90 transactions with a total value of approximately $31 billion and possesses a footprint to invest on a global scale. Arcapita focuses on defensive and counter-cyclical sectors supported by long-term macroeconomic and demographic trends.

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