

# Multifamily Market Update

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3Q 2021

Permanently Transitory Inflation

Dear Vanamor Partners:

We hope that this letter finds our partners, friends, and families all in good health. The 3<sup>rd</sup> quarter of 2021 has brought a continued sense of normalcy as businesses have thankfully reopened. As we saw during the summer leasing season, fundamentals in multifamily have continued to strengthen. Rents have increased and are now higher year-over-year in almost all markets, vacancy rates have dropped to historic lows, and rentals delinquencies have continued to trend down. And perhaps most impactful, the Fed induced excess liquidity and low interest rates have led to considerable demand for multifamily acquisitions.

Summary of the National Market:

- According to RealPage, national effective asking rents jumped 2% just in the month of June, driving up prices 6.3% year-over-year. That annual rent growth is the biggest 12-month hike recorded since early 2001.<sup>1</sup>
- Lower-cost metros in the West continued on an upward trend, sustained by strong demand for housing—the Phoenix (19.2 percent), Las Vegas (16.7 percent) and Riverside (15.8 percent) led all markets on a year-over-year basis. Limited new supply and robust migration boosted the average rent in Tampa (15.7 percent).
- Sales activity increased to 95% of 2019's record pace and there's no shortage of dry powder looking to buy apartments.

### **New Opportunities**

Vanamor entered the Tampa market in May of 2021 by purchasing Adagio at Westshore Palms Apartments. While we had hoped to have other investment opportunities this past quarter, the market has proven to be overly aggressive and quality investments have been difficult to find. As we enter the 3<sup>rd</sup> quarter, we continue to actively pursue new opportunities but remain focused on our core investment principles. We believe that an appropriate level of patience is prudent and necessary in order to find better-than-market opportunities.

We continue to focus on suburban locations with an emphasis on low cost of living metropolitan areas. While pricing across the multifamily spectrum remains aggressive, larger communities of 200+ units in headline cities continue to be pursued most aggressively as larger institutions are pressured to place capital rather than find quality opportunities. With that said, relative to other investable asset classes, multifamily continues to offer the best fundamentals.

Vanamor appreciates the interest we have had from our investors as well as the recent referrals. If you would like to discuss any of our recent offerings, please let us know. If you are not already signed up for our investor portal, you can do so [here](#).

### NMHC Rent Payment Tracker Finds 76.5 Percent of Apartment Households Paid Rent as of July 6

**JULY 1-6, 2021**



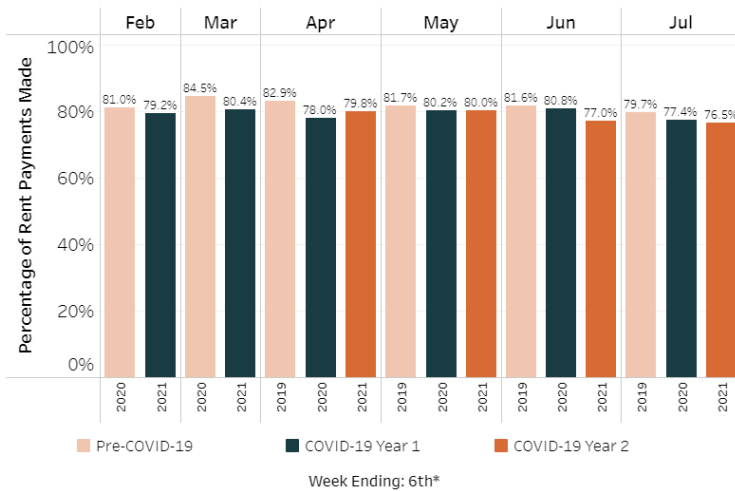
**JUNE 2021**



The National Multifamily Housing Council (NMHC)'s Rent Payment Tracker found 76.5 percent of apartment households made a full or partial rent payment by July 6 in its survey of 11.6 million units of professionally managed apartment units across the country. This marks one year of tracking rent payment data following the onset of the pandemic.

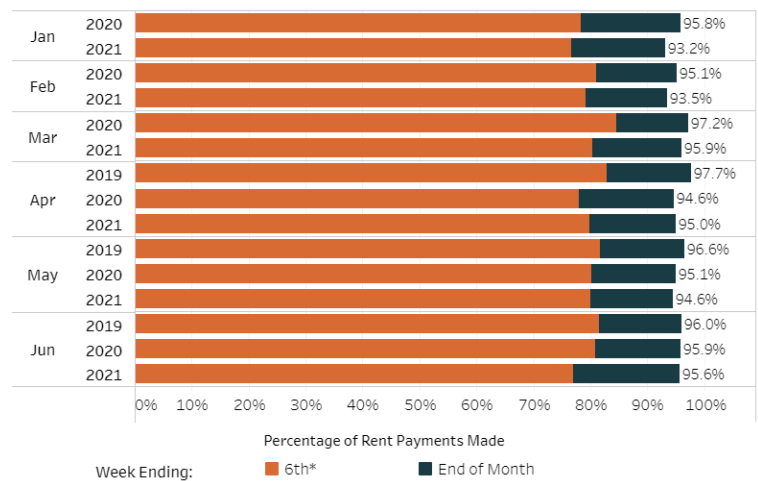
#### Rent Payment Tracker: Weekly Results

\*\*Data collected from between 11.1 - 11.7 million apartment units each month



#### Rent Payment Tracker: Full Month Results

\*\*Data collected from between 11.1 - 11.7 million apartment units each month



Nationally, there is little weakness left in the multifamily sector. YoY rent growth is back to pre-pandemic levels, and rents on a dollar amount basis increased the most in a single month in the history of our data set.

While the sunbelt continues to perform the strongest, gateway markets are showing signs of recovery. Some are recovering faster than others. In New York, rents increased by 3.4% on a month-over-month basis, well above all other top 30 metros.

On the other hand, Seattle (0.2% MoM) and San Francisco (0.3% MoM) are rebounding, but at a much slower pace. Part of the difference in rebound could be due to the type of industries concentrated in each city and their return-to-work plans.

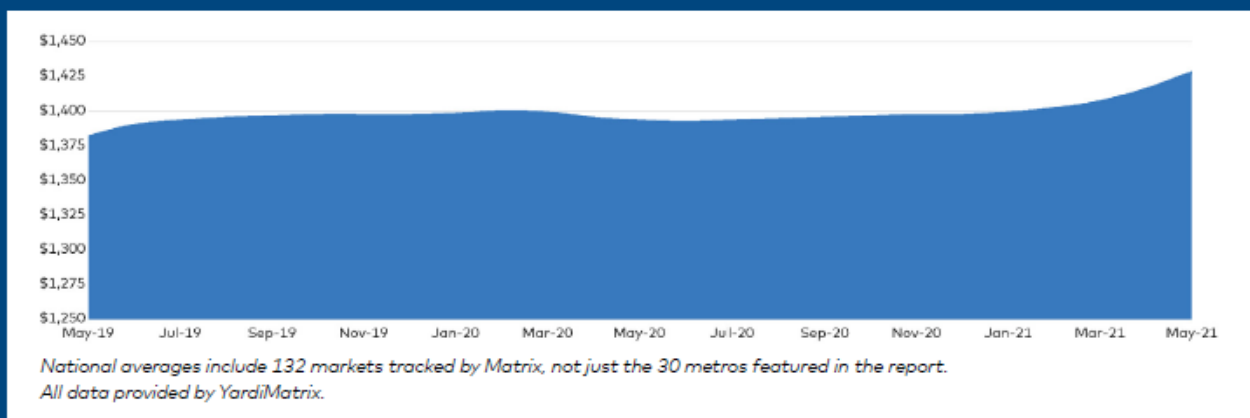
Through the end of June 2021, almost 120,000 units, or 0.8% of stock, were absorbed nationally. This puts absorption on track for one

of the best years since the 2008 recession; it will easily top the 270,000 units absorbed in 2020.

The Inland Empire and Sacramento continue to top the charts with extremely strong rent growth. Both metros enjoyed strong demand in 2020, but that demand has fallen in 2021. The Inland Empire had almost 6,500 units absorbed (or 4.1% of stock) in 2020, and Sacramento had almost 3,500 units absorbed (2.6% of stock).

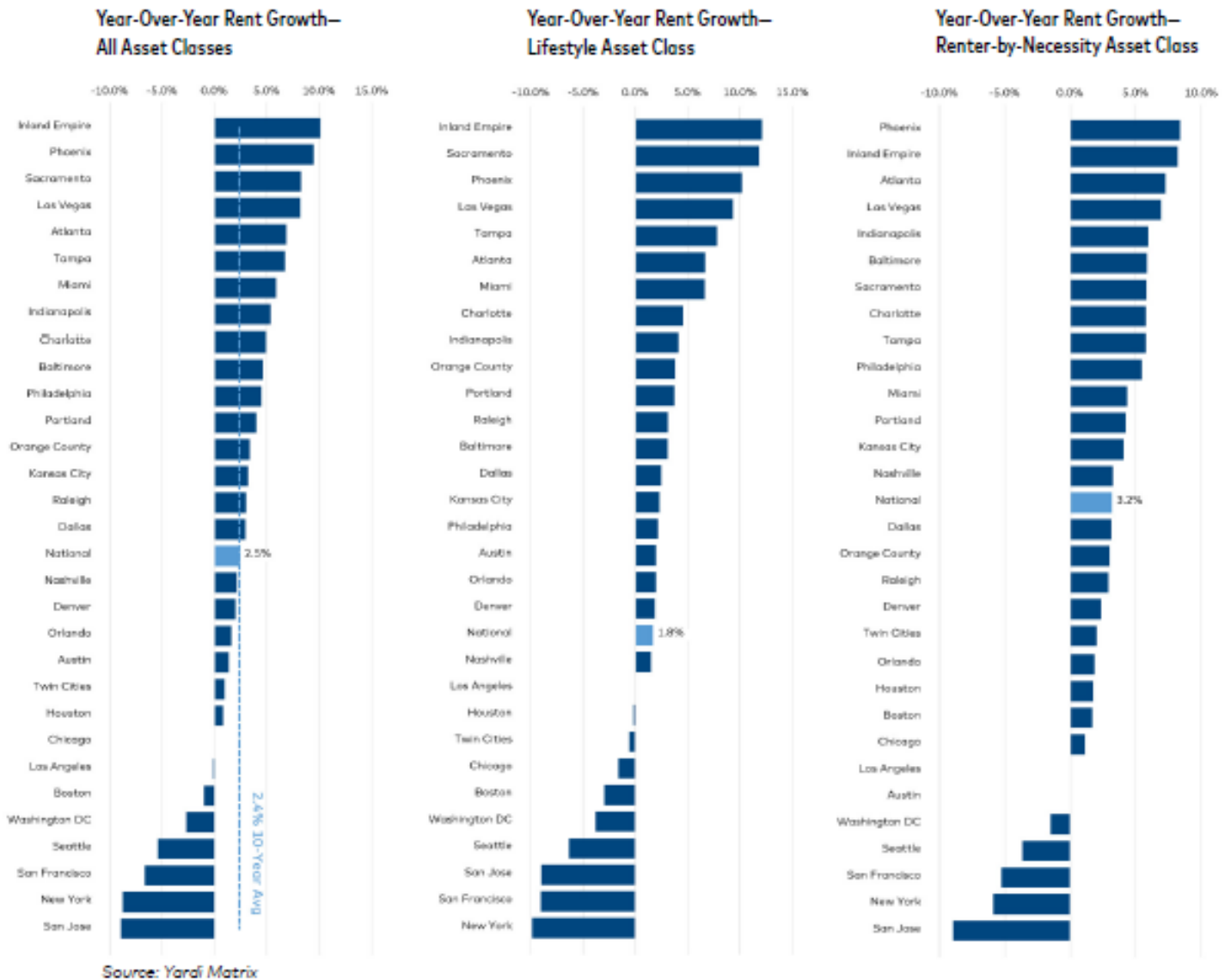
As rents continue to skyrocket in both metros, YTD absorption is extremely weak, falling at the bottom of the top 30 metros. The Inland Empire has had only 531 units absorbed this year (0.3% of stock), and Sacramento has had 209 units absorbed (0.2% of stock). These metros are still underpriced compared to other California markets, but with double-digit YoY rent increases, the gap in cost of living is starting to narrow.

National Average Rents



**Year-Over-Year Rent Growth:  
Lower-Cost Metros Continue to See Upward Trend**

- Year-over-year gains in the Inland Empire (10.2%), Phoenix (9.6%) and Sacramento (8.3%) seem unstoppable. YoY growth reached double digits in the Inland Empire this month—the first time in the metro’s history.
- Gateway market rents continued to rebound, with Miami (6.0%) posting the strongest gains. Chicago (0.0%) and Los Angeles (-0.1%) are likely to turn positive next month. San Jose (-9.0%), New York (-8.8%) and San Francisco (-6.7%) still have a lot of ground to make up, but the recovery is in full swing.



## Employment and Supply Trends; Forecast Rent Growth

- Jobless claims fell to 350,000 in the week ending July 15, the fewest since the beginning of the pandemic. As the labor market recovers, one metric we will be following is the labor force participation rate. The rate dropped when the pandemic hit, especially among older workers who were forced into retirement. Some economists are projecting that labor force participation won't recover until the end of 2022.
- With 23 states and counting soon ending their emergency unemployment programs, continuing jobless claims will likely decline rapidly over the next few months. This will also be a new test for markets that have relied heavily on unemployment assistance, especially those that have experience rapid rent growth at the same time.

| Market        | YoY Rent Growth as of May - 21 | Forecast Rent Growth (YE 2021) | YoY Job Growth (6-mo. moving avg.) as of Mar - 20 | Completions as % of Total Stock as of May - 21 |
|---------------|--------------------------------|--------------------------------|---|--|
| Phoenix       | 9.6%                           | 6.1%                           | -3.5%   | 3.3%   |
| Inland Empire | 10.2%                          | 5.5%                           | -5.5%   | 0.7%   |
| Miami Metro   | 6.0%                           | 5.4%                           | -7.4%   | 3.2%   |
| Sacramento    | 8.3%                           | 5.4%                           | -5.9%   | 1.0%   |
| Orlando       | 1.7%                           | 5.3%                           | -10.9%  | 3.4%   |
| Las Vegas     | 8.3%                           | 4.6%                           | -13.7%  | 1.4%   |
| Austin        | 1.4%                           | 4.6%                           | -2.8%   | 4.3%   |
| Portland      | 4.1%                           | 4.5%                           | -8.1%   | 2.8%   |
| Charlotte     | 5.0%                           | 4.4%                           | -3.7%   | 4.3%   |
| Atlanta       | 6.9%                           | 4.1%                           | -5.5%   | 2.9%   |
| Tampa         | 6.8%                           | 3.9%                           | -2.6%   | 2.6%   |
| Houston       | 0.9%                           | 3.8%                           | -6.6%   | 2.0%   |
| Philadelphia  | 4.5%                           | 3.7%                           | -7.5%   | 1.9%   |
| Nashville     | 2.2%                           | 3.5%                           | -4.0%   | 2.4%   |
| Raleigh       | 3.1%                           | 3.4%                           | -3.3%   | 3.3%   |
| Denver        | 2.1%                           | 3.3%                           | -5.9%   | 3.3%   |
| Indianapolis  | 5.4%                           | 3.2%                           | -4.1%   | 1.3%   |
| Chicago       | 0.0%                           | 3.2%                           | -8.2%   | 1.8%   |
| Dallas        | 3.0%                           | 3.2%                           | -3.4%   | 2.9%   |
| Kansas City   | 3.3%                           | 3.1%                           | -4.3%   | 2.9%   |
| Orange County | 3.4%                           | 3.0%                           | -10.1%  | 1.0%   |
| San Jose      | -9.0%                          | 2.9%                           | -8.2%   | 3.2%   |
| Twin Cities   | 1.0%                           | 2.9%                           | -8.2%   | 3.9%   |
| Boston        | -1.0%                          | 2.8%                           | -9.0%   | 2.8%   |
| Baltimore     | 4.7%                           | 2.7%                           | -6.2%   | 1.3%   |
| New York      | -8.8%                          | 2.2%                           | -11.4%  | 0.7%   |
| San Francisco | -6.7%                          | 2.1%                           | -10.7%  | 2.7%   |
| Los Angeles   | -0.1%                          | 1.6%                           | -11.2%  | 2.9%   |
| Washington DC | -2.7%                          | 1.5%                           | -6.3%   | 2.0%   |
| Seattle       | -5.4%                          | 1.3%                           | -6.8%   | 2.7%   |

Source: Yardi Matrix



## Thoughts on the Remainder of 2021

The multifamily industry went through an unprecedented time in 2020, only to go through another unprecedented time in 2021. Albeit this time unprecedented is used to describe remarkably good fundamentals and performance for the industry. Surpassed perhaps only by new demand for the asset class, it's clear that Fed policy and enhanced unemployment benefits have had a significant positive impact on the industry.

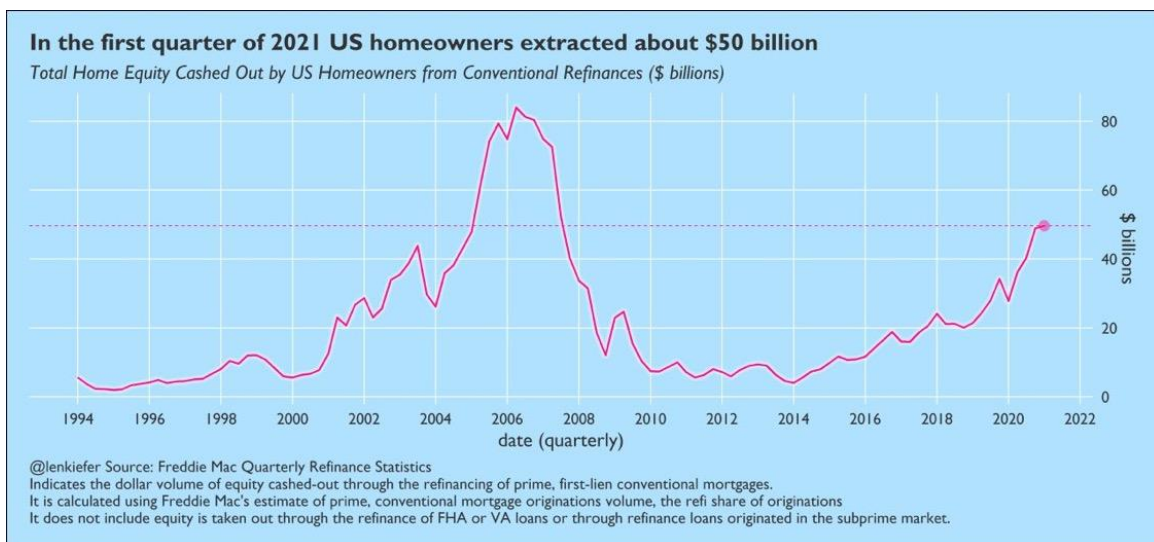
Strong apartment demand, tight vacancy, and modest supply point to further strength in the industry. It's almost certain that for the remainder of 2021, these trends will continue.

Vanamor's conservative nature leads us to question the mid-term outlook, beyond the more obvious 6 to 12 months. Inflation – transitory or not transitory; Credit – both consumer related and government; and Global Growth – could further shutdowns in other countries lead to a global recession?

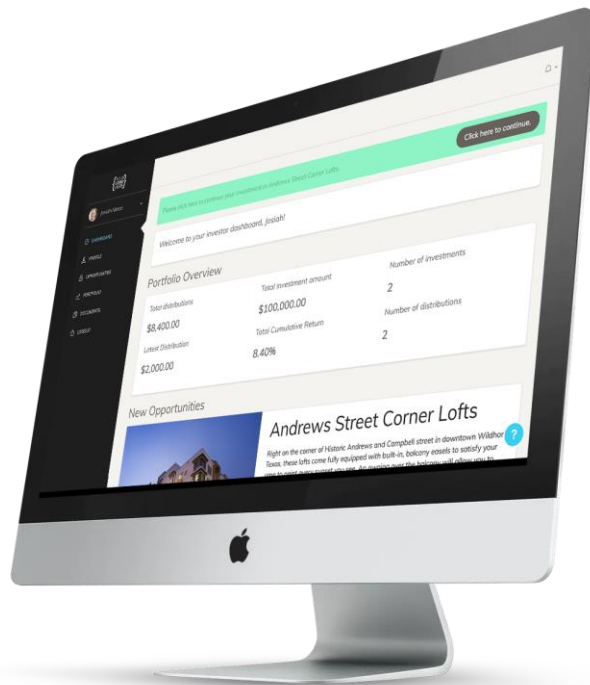
Vanamor expects inflation to be elevated for the next 12 to 24 months, which will be a positive for multifamily fundamentals but will eventually lead to higher interest rates with short term interest rates likely increasing more than long term interest rates. Vanamor attributes 2021's price appreciation mostly to low interest rates so increased pressure on pricing is likely, should rates rise materially. We expect long term interest rates to rise only modestly.

The average consumer remains in good shape with incomes rising and increased upward pressure on wages; however, consumer credit utilization is increasing, and home equity cash outs now match 2005 levels.

**What does this mean?** Vanamor plans to focus on markets with: cashflow vs appreciation and value-add vs rent growth. Despite a low return environment, Vanamor expects multifamily to perform exceptionally well in the near term and provide a great hedge should we enter an inflationary environment.



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## ABOUT VANAMOR

Vanamor is a real estate investments company that acquires middle-market properties that are under-managed and in need of light-to-moderate rehabilitation. With a long term investment horizon, our investments seek consistent cash flow and strong annual returns for investors. Vanamor strategically invests in Class A/B/C multifamily communities throughout Class A/B markets and by utilizing

tax-efficient investment vehicles such as 1031 exchanges, the Company provides investors with significant cash flow distributions while also focusing on the preservation and enhancement of their equity over the long term. Vanamor is managed by principals whose combined experience spans over 20 years and in excess of \$5 billion in real estate investments.



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