

Workforce Housing

- What is Workforce Housing?
- Challenges
 - Revenue Growth
 - Collection issues
 - Operating costs
 - Cost of capital – rising interest rates
 - Regulatory
- Future Opportunities

Sources of Information

- CoStar
- RealPage
- Carolinas Real Data
- Yardi
- NAA and NMHC
- Deloitte
- Various others
- Mark Twain – 3 kinds of lies...

Workforce Housing

- Market rate with little to no subsidy
- Affordable to 60% to 120% of Area Median Income
- Often confused with subsidized “Affordable Housing”
 - Big “A” vs. Little “a”
- CoStar 2 and 3 star out of 5 - but not exactly
- Renter by “Necessity” vs “Lifestyle”
- ABC Ratings – B-/C

Workforce Housing

- NOAH – Naturally Occurring Affordable Housing
- Age is often an indicator, typically 30+ years old
- Uncle Sam Tax Subsidy supported aggressive apartment development until 1990
- Typically:
 - Lower rental rates
 - Higher occupancy
 - Higher operating and capex costs except property taxes
 - Often closer in locations, many now gentrifying

Charlotte Comparison

KEY INDICATORS

Current Quarter	Units	Vacancy Rate	Asking Rent	Effective Rent	Absorption Units	Delivered Units	Under Constr Units
4 & 5 Star	112,150	10.2%	\$1,728	\$1,711	338	0	15,621
3 Star	69,534	7.6%	\$1,392	\$1,381	423	773	7,922
1 & 2 Star	21,768	5.3%	\$1,165	\$1,155	(16)	0	835
Market	203,452	8.8%	\$1,562	\$1,548	745	773	24,378

Age Group Comparison								
	Total Units	Vacant Units	Vacancy Rate	Average Sq. Ft.	Average Rent	Average Rent/SF	Absorption - 6 mos.	Units Complete
In Lease-up	6,669	1,434	21.5%	1,008	\$1,920	\$1.904	2,298	2,579
1-5 Years in Age	33,476	1,542	4.6%	974	\$1,862	\$1.912	228	0
6-15 Years in Age	40,769	1,708	4.2%	986	\$1,758	\$1.783	34	0
16-30 Years in Age	45,462	1,868	4.1%	987	\$1,522	\$1.543	86	0
30+ Years in Age	47,134	1,623	3.4%	898	\$1,294	\$1.441	115	0
Stabilized Apts.	166,841	6,741	4.0%	959	\$1,583	\$1.652	463	0
Total/Average	173,510	8,175	4.7%	961	\$1,596	\$1.662	2,761	2,579

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Raleigh/Durham Comparison

KEY INDICATORS

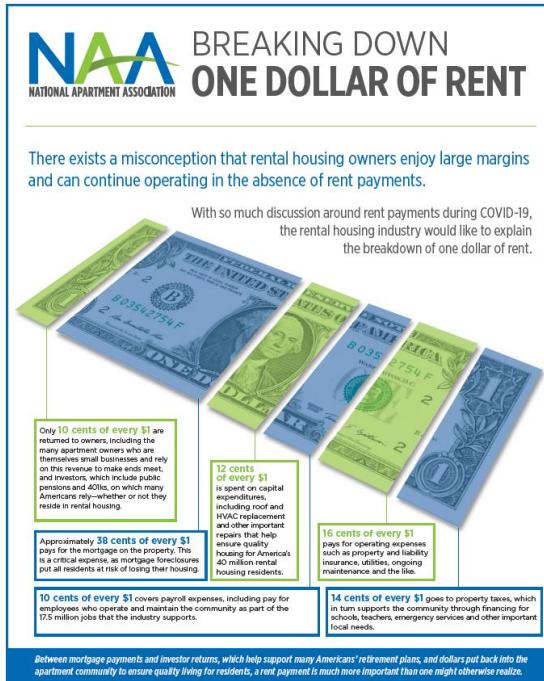
Current Quarter	Units	Vacancy Rate	Asking Rent	Effective Rent	Absorption Units	Delivered Units	Under Constr Units
4 & 5 Star	61,084	10.5%	\$1,661	\$1,635	448	1,295	10,785
3 Star	42,384	7.8%	\$1,423	\$1,403	22	0	2,532
1 & 2 Star	12,182	6.6%	\$1,201	\$1,192	(14)	0	1,115
Market	115,650	9.1%	\$1,534	\$1,512	456	1,295	14,432

Raleigh-Durham-Chapel Hill - Age Group Comparison								
	Units Surveyed	Vacant Units	Vacancy Rate	Average Sq.Ft.	Average Rent	Average Rent/SF	Absorption - 6 mos.	Change in Supply
Lease-Up	4,569	858	18.8%	1,022	\$1,877	\$1.836	1,520	1,980
1-5 Years in Age	20,465	1,048	5.1%	992	\$1,897	\$1.913	29	0
6-15 Years in Age	35,985	1,652	4.6%	987	\$1,716	\$1.739	-55	0
16-30 Years in Age	43,439	1,834	4.2%	1,030	\$1,588	\$1.542	-169	0
30+ Years in Age	45,155	2,104	4.7%	885	\$1,361	\$1.538	-455	0
Stabilized Apts.	145,044	6,638	4.6%	969	\$1,593	\$1.644	-650	0
Totals/Averages	149,613	7,496	5.0%	970	\$1,601	\$1.650	870	1,980

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For Every \$1.00 of Rent

16 cents Operating Expenses

10 cents Payroll

14 cents Property Tax

12 cents Capital Expenditures

38 cents Mortgage Debt Service

10 cents to Owners Equity

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Revenue (Simplified)

Rental Rate

x

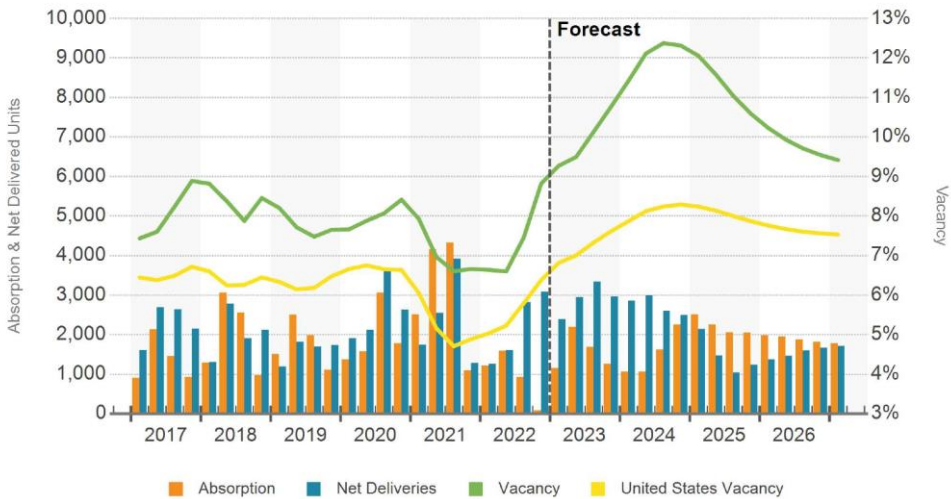
Occupancy %

x

Collection %

Charlotte

ABSORPTION, NET DELIVERIES & VACANCY



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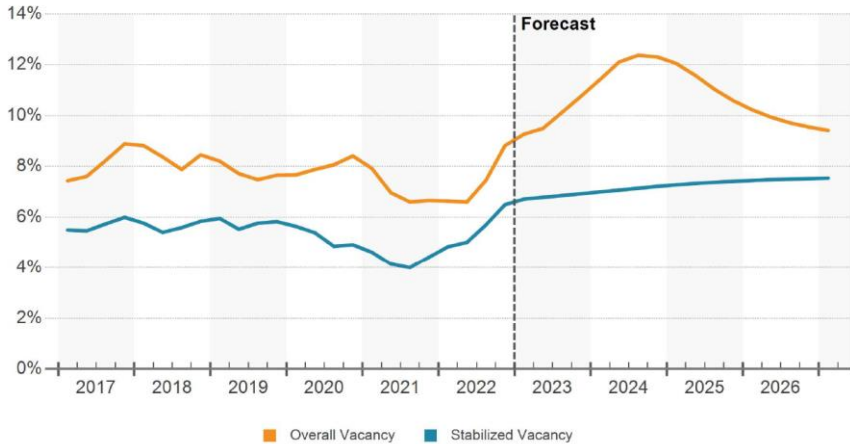
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Charlotte Overall vs Stabilized Vacancy

Vacancy

Charlotte Multi-Family

OVERALL & STABILIZED VACANCY



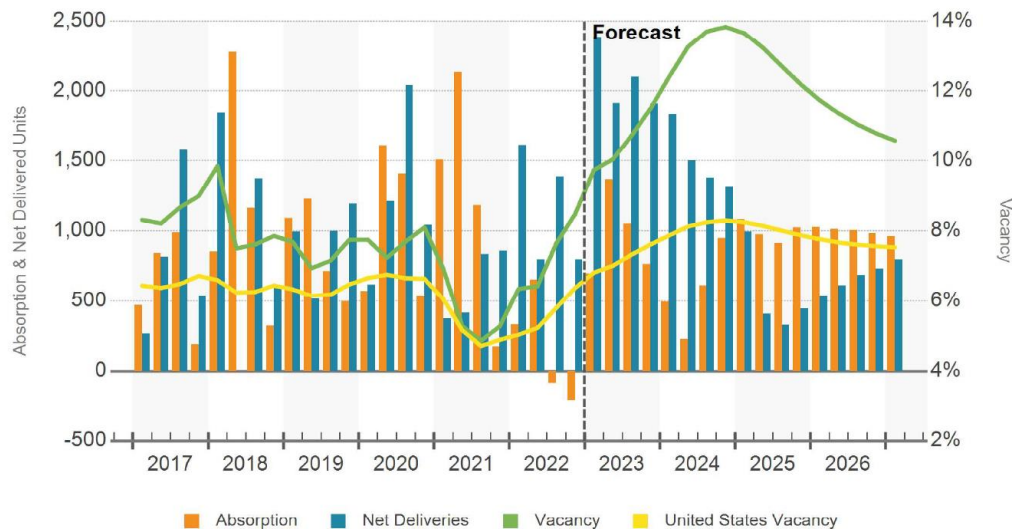
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Raleigh

ABSORPTION, NET DELIVERIES & VACANCY



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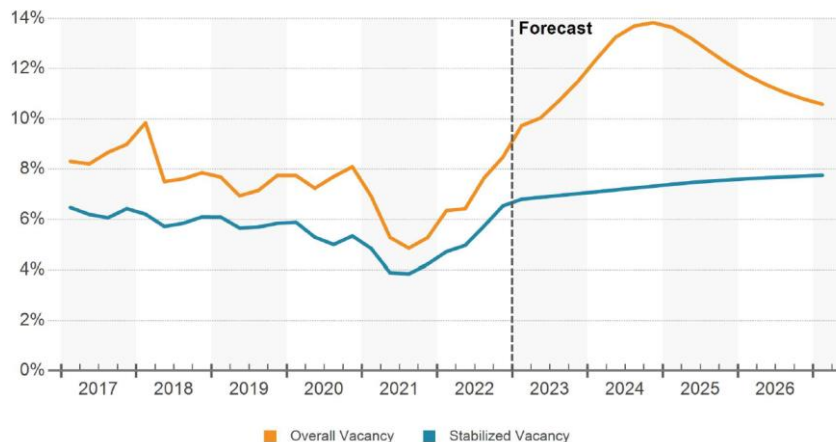
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Raleigh Overall vs Stabilized Vacancy

Vacancy

Raleigh Multi-Family

OVERALL & STABILIZED VACANCY



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Rent Growth 2005 to 2022 – 4.6% Annual Growth

U.S. median asking rental price

In current dollars; Quarterly; Q1 2005 to Q2 2022



Data: Census Bureau; Chart: Jacques Schrag/Axios

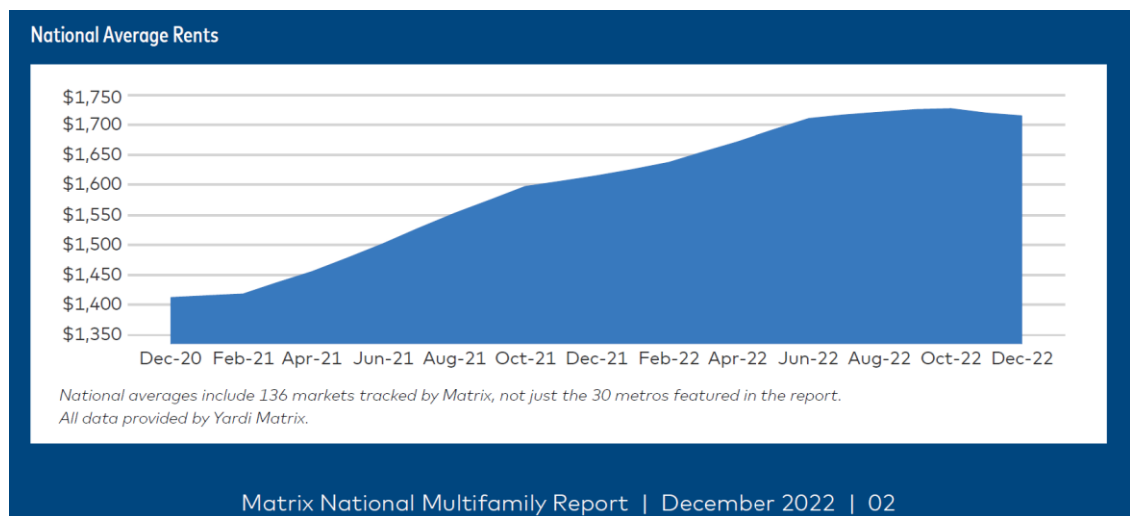
Median is increased by the addition of new, higher rent apartments.

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National Rent Growth 2021 to 2022 16% in 2021 vs 6% in 2022



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Rent Changes in 2021

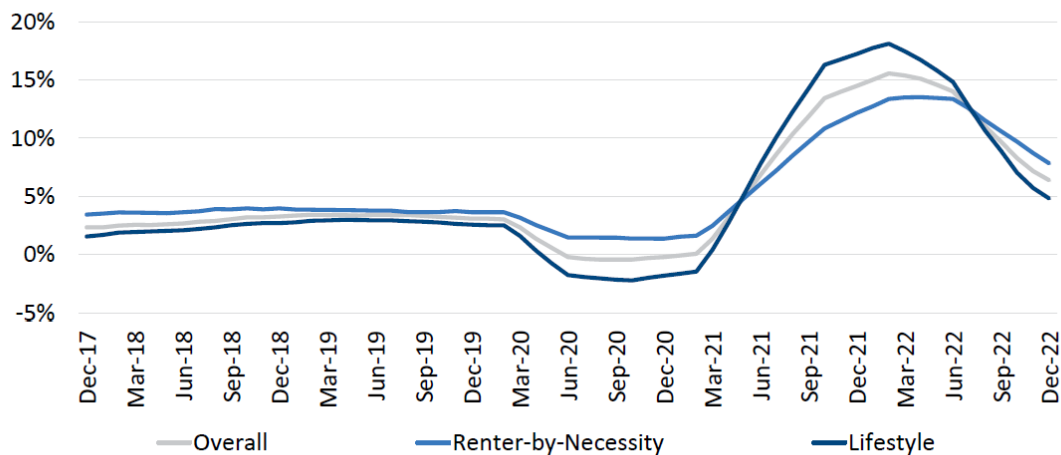
	Overall	Same Units	30+ Years Old
Charlotte	16.1%	9.1%	6.7%
Raleigh/Durham	16.0%	9.1%	7.3%

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National Multifamily Year-over-Year Rent Growth



Source: Yardi Matrix

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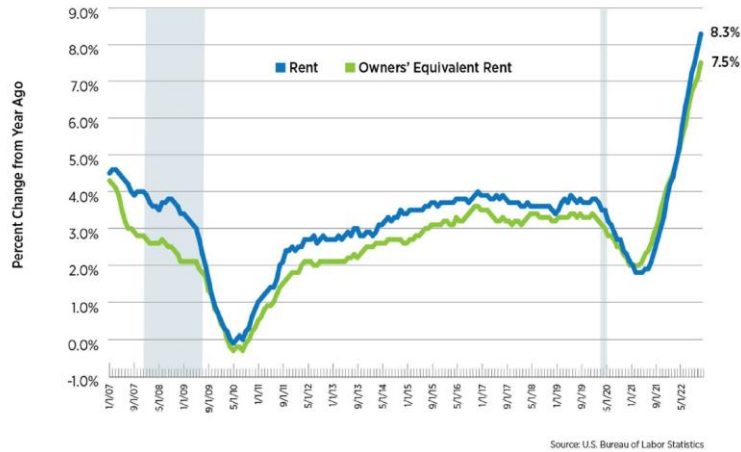
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Shelter Cost Inflation

CPI Shelter Costs

(As of December 2022)



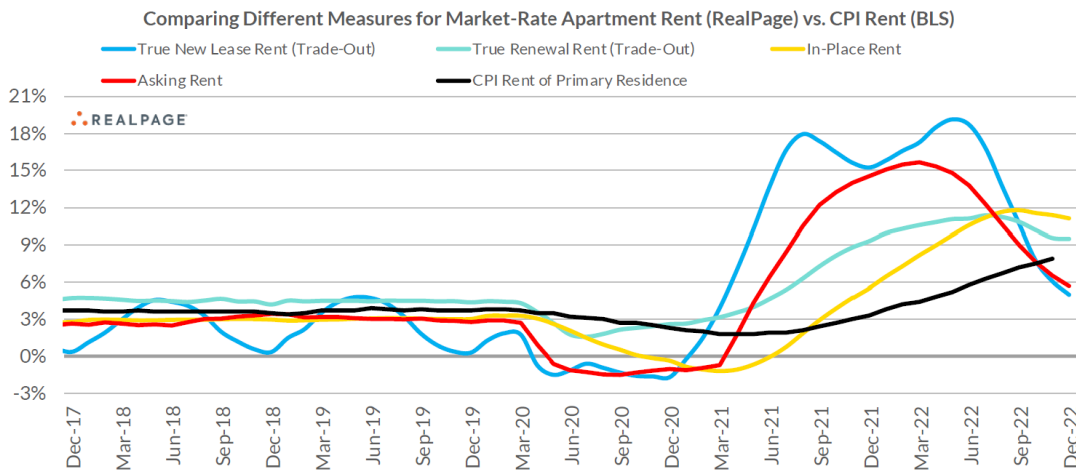
Lagging indicator that makes up about one-third of CPI number

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Rents are cooling by every measure, except the government's official one



Note: RealPage data covers only market-rate, professionally managed apartments and therefore not a proxy for all rental housing.

Sources: RealPage Market Analytics (Rent Data); Bureau of Labor Statistics (CPI Data)

REALPAGE

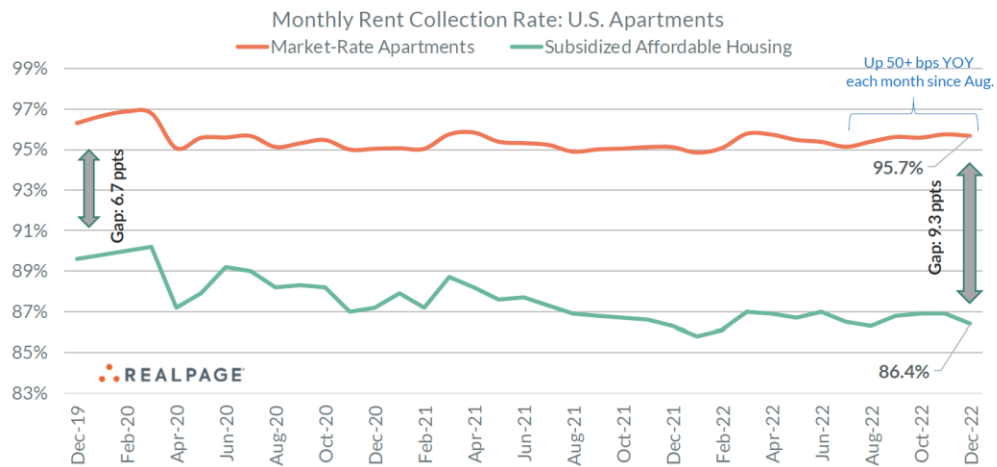
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Collection Rates

Market-rate renters continue to pay rent steadily, while Affordable lags



Source: RealPage

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Collection Issues Ahead?

- Pandemic support and child tax credit ended
- Extra SNAP payments about to end
- Restart of student loan repayments
- General impact of inflation on household expenses
- Increase in interest rates for all credit
- Utility costs continue to rise rapidly
- Impact of continued cost pass-throughs from RHPs
- Wage growth is moderating
- But job market remains very strong! 3.4% Unemployment

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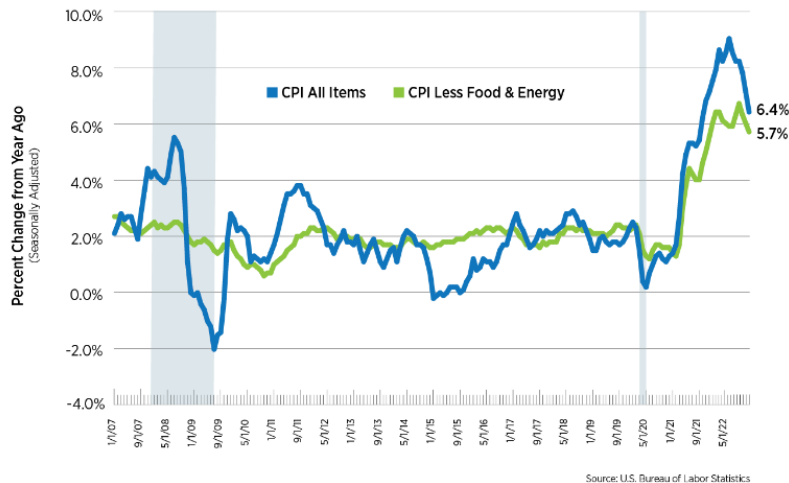
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Apartment Operations

Consumer Price Index

(As of December 2022)



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Costs Continue to Rise

- General inflation impacts apartment operating costs
- Labor costs continue to rise
- Insurance is way up!
- Increase in Goods is moderating as supply chain improves
- Increase in Services continues to accelerate – sticky!
- Utility costs continue to rise rapidly
- Interest rates have doubled and will increase rental rates!
- Bad Debt is an expense that takes the whole dollar!

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Regulatory Issues Raise Rents

- Eviction Moratorium ended but impact continues
- CARES Act
- Eviction delays and appeals add cost
- Rent Control
- Resident Screening
- Renters Bill of Rights
- Permit and inspection delays, fees, entitlements and new requirements
- All costs will be added to the rent one way or another!

Future Opportunities

- Substantial number of new apartments coming but the cost of new apartments continues to rise
- You cannot build a “new” 30-year-old apartment
- Rental rate difference is substantial at \$500 to \$600/month
- Extreme shortage of affordable housing – “a” and “A”
- Strong labor market supports market rate demand
- Continued population growth in NC
- Higher capital/loan costs impact all housing – more renters
- IMO - Long term outlook is very favorable