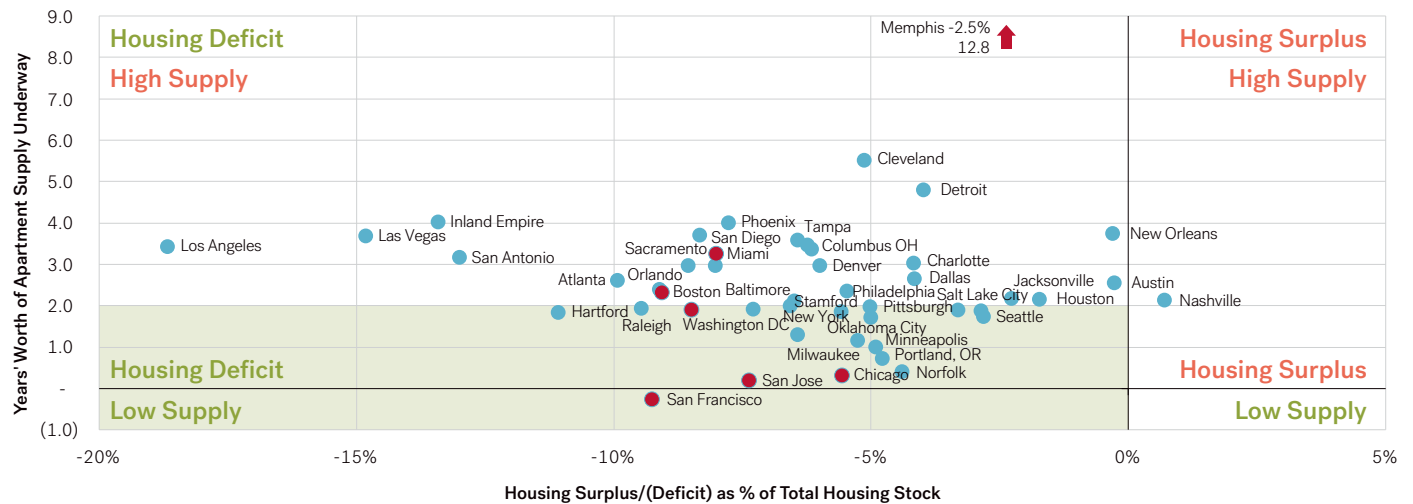


Perspectives

Where Development Makes Sense During This Cycle: *Apartments*

U.S. Apartment Markets Housing Surplus or Deficit as a Percentage of Total Number of Housing Units Relative to Years' Worth of Supply



The U.S. apartment sector has seen a recovery in fundamentals. As one example, net absorption (the change in the total number of units leased) turned negative in the fourth quarter of 2022, marking the first decline since the first quarter of 2002. However, the sector has since recorded three consecutive years of positive quarterly demand growth, averaging approximately 77,000 units per quarter versus a historical quarterly average of just under 45,000 units since 2000.

In Hines' view, there is significant opportunity across several U.S. apartment markets for investment and development. This chart shows the major apartment markets followed by Hines Research, with the shortage in housing, meaning the number of housing units Hines believes there is pent-up demand for, on the horizontal axis, shown as a percent of the total housing inventory in each market. The vertical axis shows the years' worth of supply. This metric measures

the number of years it might take to fill the number of units under construction given the typical amount of leasing done in each of those metros from year to year. The green box highlights markets that not only need housing but also lack a sufficient supply.

All things equal, this should be a very positive set-up for development. There may also be opportunities in select markets outside that green box. Many of those markets are in the Sunbelt. Hines Research likes the case for Sunbelt markets over the next five years or so with relatively healthy demographics and economic growth. There very well may be opportunities to go back into those markets but at a better price point and with fundamentals on the way to a bottom. It appears to be an interesting time for the living sector with an opportunity set broader and deeper than many investors might think.

Source: CoStar, NCREIF, CoStar, Census Bureau, American Community Survey, Moody's, Hines Research. As of 4Q2025 although for the housing surplus/(Deficit) analysis using the most recent calendar year available, 2024.

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