Lincoln Property Company

multifamily outlook 2023

APARTMENTS ARE ESSENTIAL

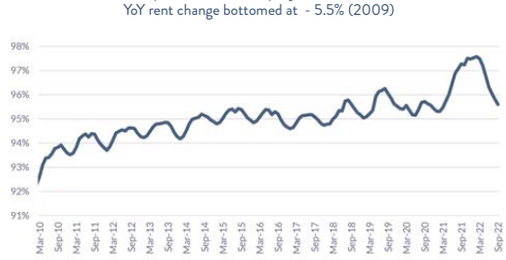
- Rental demand should rebound ahead of for-sale demand
- U.S. apartment occupancy remains high, but dips back to pre-COVID levels

apartments stay full

- CASHFLOW EVEN IN DOWN TIMES

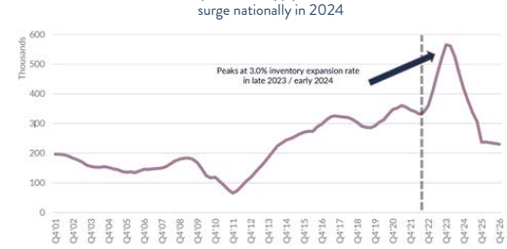
U.S. MARKET-RATE APARTMENT OCCUPANCY

30-year low for vacancy is just 8% (2009);
YoY rent change bottomed at - 5.5% (2009)



T-12 MARKET-RATE NEW APARMENT COMPLETIONS

New apartment supply scheduled to
surge nationally in 2024



"RENTER LIFESPAN" IS EXTENDING

The renter journey is lengthening, meaning renters are spending more time researching, before they call multifamily operators.

SPECIFICALLY, IN THE PAST YEAR, RENTERS ARE RESEARCHING 18% LONGER AND ARE TAKING NEARLY 40 STEPS

- this means clicks and views across marketing sources - before making that first phone call

FACTORS EXTENDING THE RENTER LIFESPAN

6.6 million renters are ages 25-34; they are more favorable to renting vs buying

With mortgage interest rates around 6 percent, American homebuyers have 24% less spending power than they did a year ago

Home inventory remains too low to meet demand, dropping at 0.8%, meanwhile home prices are continuing to rise - the median sale price is now $379,100

Home prices are up nearly 2x more than apartment rents since COVID hit in March 2020 (~40% to ~20%) despite very similar supply/demand dynamics

Increased quality/ desirability of apartments/ locations built in last 2 decades

Return of Baby Boomers into the rental market

Private investors are buying available single family home stock

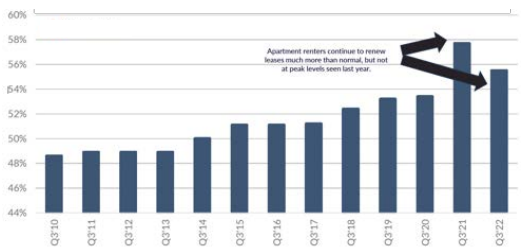
THE FOCUS ON PROTECTING THE FRONT AND BACK DOORS

GUARDING AGAINST IDENTITY FRAUD

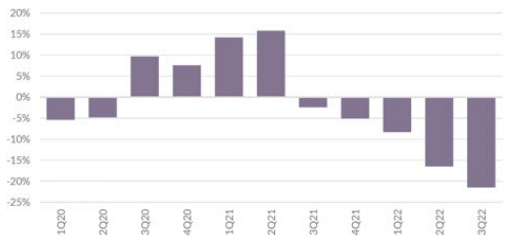
With the FTC showing a 120% rise in identity fraud from 2019 to 2022, and the overall shift to more digital interactions, Identity Verification is of growing importance

APARTMENT RENTERS CONTINUE TO RENEW LEASES MUCH MORE THAN NORMAL, BUT NOT AT PEAK LEVELS SEEN LAST YEAR.

SHARE OF U.S. MARKET RATE APARTMENT RENTERS WITH EXPIRING LEASES SIGNING RENEWALS IN Q3 BY YEAR



U.S. Y.O.Y. CHANGE IN LEASING TRAFFIC (GUESTS CARDS CREATED)



Leasing Traffic Dropped Faster than Expected in 2022

57% RENEWAL RATES

FOCUS ON RETENTION GIVEN LESSER NEW LEASE DEMAND

Renter renewal rates are at approximately 57 percent – an all-time high. And these residents are renewing at about 10 percent more rent.

so why has demand slowed?

If the 'wait and see' scenario plays out and the job market remains strong, we should see pent-up demand unlocked ahead of the Spring 2023 leasing season.

"WAIT AND SEE MODE"

Inflation - contributing to weakened consumer confidence & heightened uncertainty. "Wait and see mode."

HOUSEHOLD SLOWDOWN

Likely seeing a slowdown in household formation (the big driver in 2021's demand).

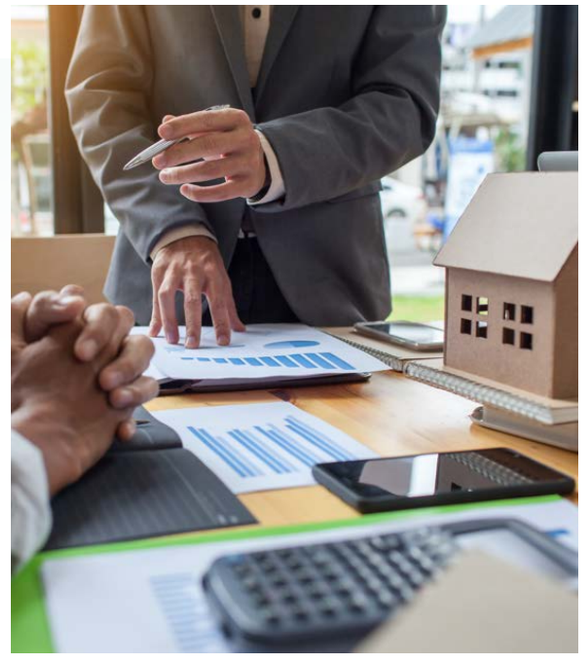
PANDEMIC & REMOTE WORK

Pandemic (and remote work) likely accelerated future demand into 2021, 'stealing' from 2022.

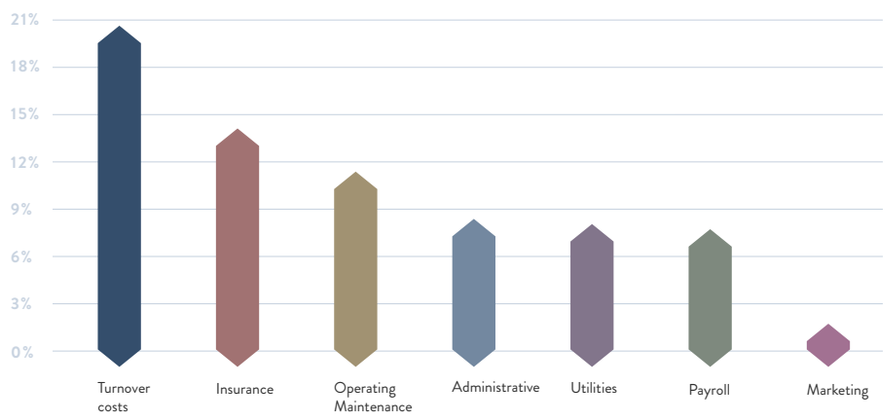
SHIFT IN FOCUS TO DRIVING EFFICIENCY WITHOUT SACRIFICING PERFORMANCE

Apartment operating expenses climb more than 2x above pre-COVID norms

PRE -COVID AVERAGE 3.5% YTD
2022 AVG: 7.6%

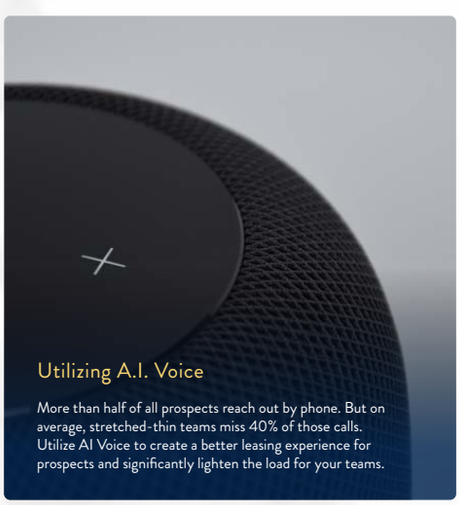


6 of 7 big areas where we're seeing outside expense growth



how to combat these?

FIND WAYS TO EMPOWER YOUR BEST PEOPLE WITH HIGH TOUCH, HIGH VALUE TASKS; AUTOMATE/CENTRALIZE THE REST.



Utilizing A.I. Voice

More than half of all prospects reach out by phone. But on average, stretched-thin teams miss 40% of those calls. Utilize AI Voice to create a better leasing experience for prospects and significantly lighten the load for your teams.

Utilizing Marking Technology

Marking Technology can save 20 minutes of work per prospect per day, totaling 40 hours per month or one whole work week.

USE AI & SMART TECHNOLOGY AS AN OPPORTUNITY FOR SAVINGS

GO GREEN TO MAKE GREEN
WITH SMART TECHNOLOGY

SUSTAINABILITY INITIATIVES TODAY NOT ONLY HELP THE ENVIRONMENT, BUT ALSO HELP IN REDUCING OPERATIONAL EXPENSES

Water Management can reduce portfolio-wide water consumption by as much as **20%**

Waste Management can reduce property owner costs by more than **$100** per unit

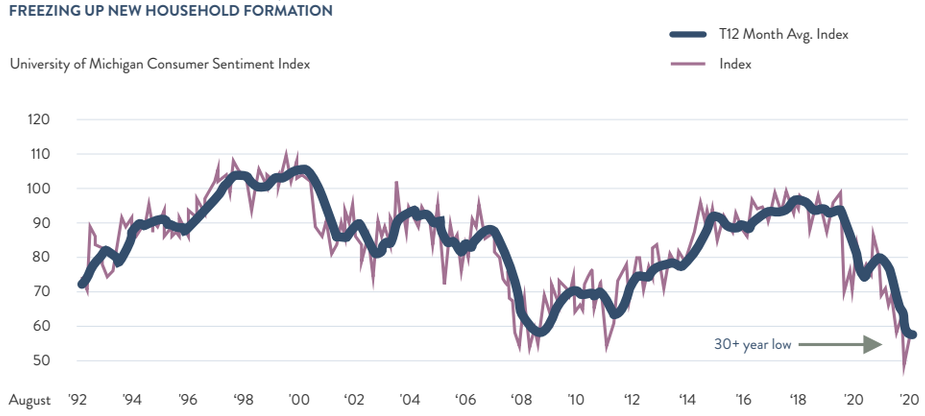
SAVE ON ADVERTISING SPEND WITH A.I. FROM SMART ADTECH

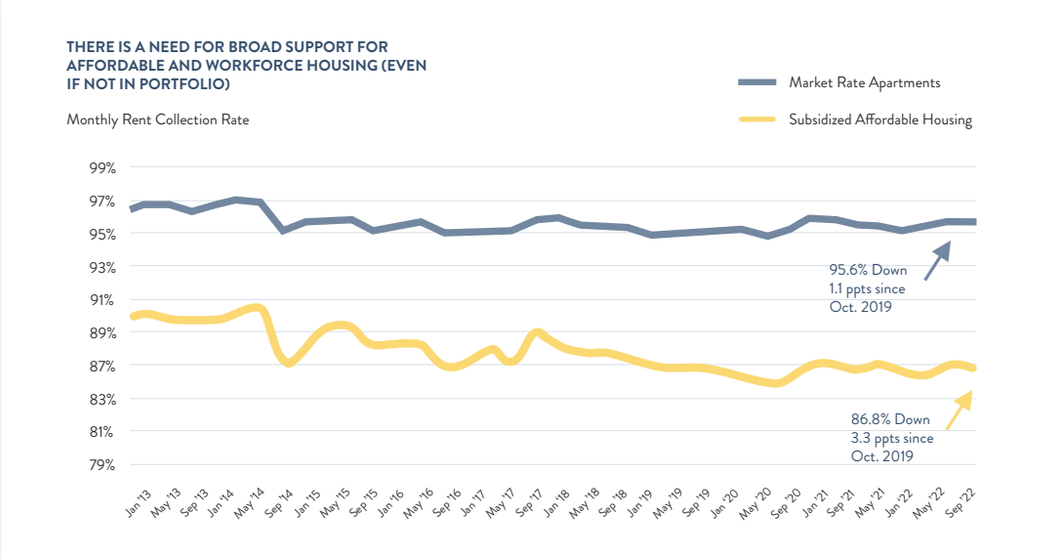
Leverage Artificial Intelligence to score calls, and automatically spend ad dollars, daily, on the best performing campaigns (leveraging advanced multi-touch attribution modeling)

Call Scoring delivers more leads, better leads, and at a **68%** lower cost per qualified lead

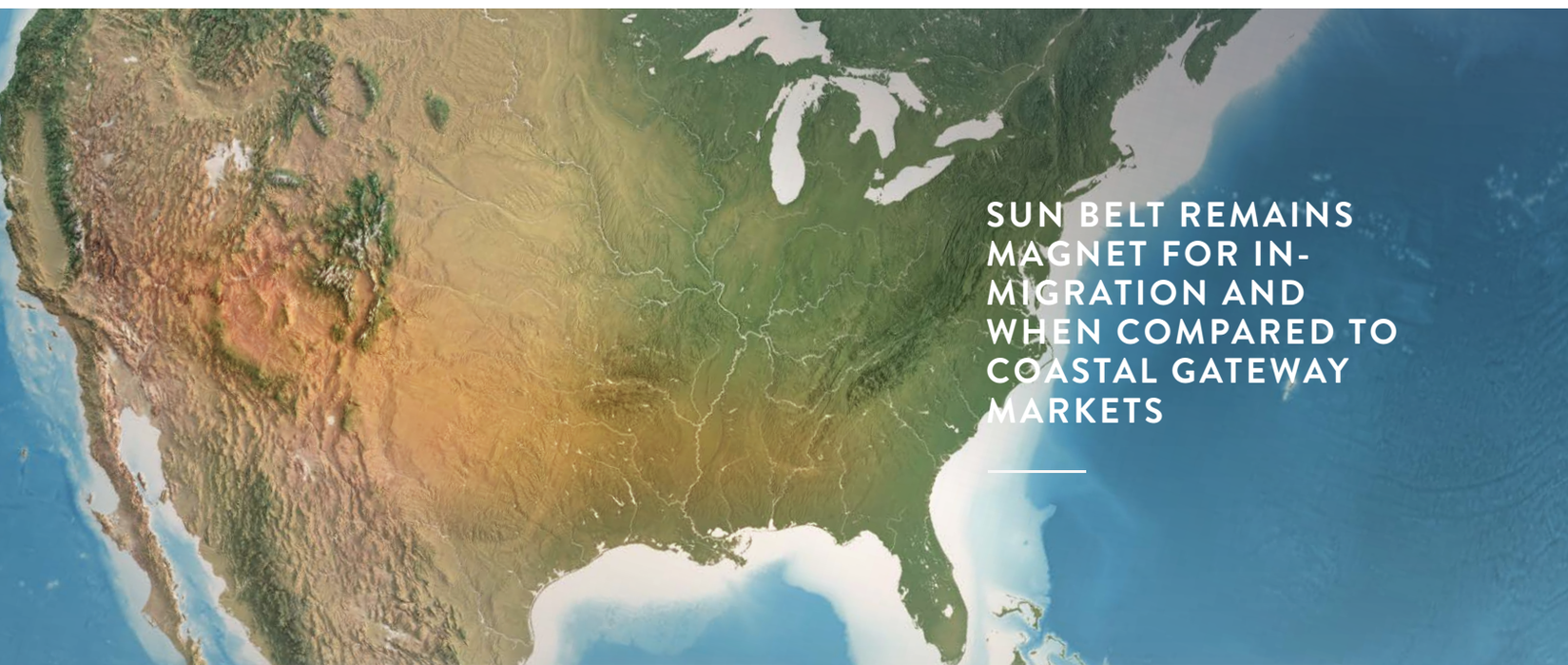
LOW CONSUMER CONFIDENCE AND WEAK HOUSEHOLD FORMATION TELLS US AMERICANS ARE IN A 'WAIT AND SEE' MODE

CONSUMER SENTIMENT IS PLUNGING, LIKELY FREEZING UP NEW HOUSEHOLD FORMATION

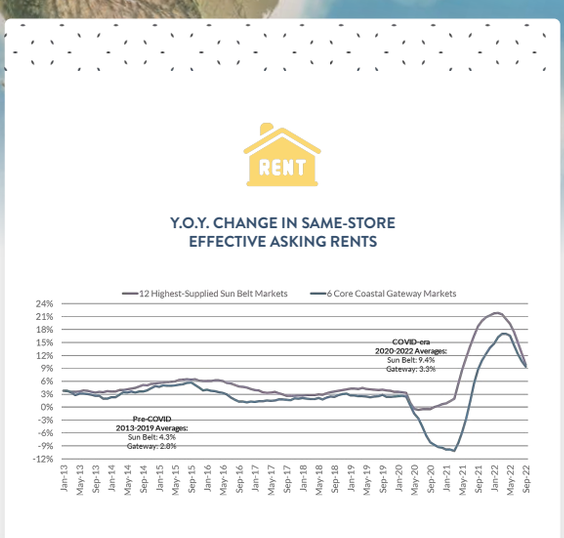


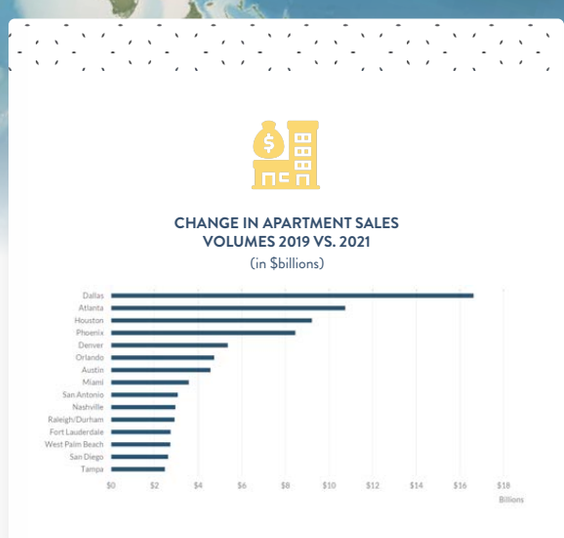


Renters in subsidized Affordable Housing are more likely to struggle paying rent



SUN BELT REMAINS MAGNET FOR IN-MIGRATION AND WHEN COMPARED TO COASTAL GATEWAY MARKETS





Significantly more affordable, less vulnerable to policy risk, plus lesser historical rent volatility

Strong demand despite elevated supply pressure

Not Just People: Substantial investment volume flowing into Sun Belt as investors look for alternatives to Gateway investment

No "late recovery premium" for Gateway markets – all markets showing similar pace of moderation in second half of 2022

CLASS B TO A IS WELL POSITIONED FOR 2023

CLASS B - INSULATED

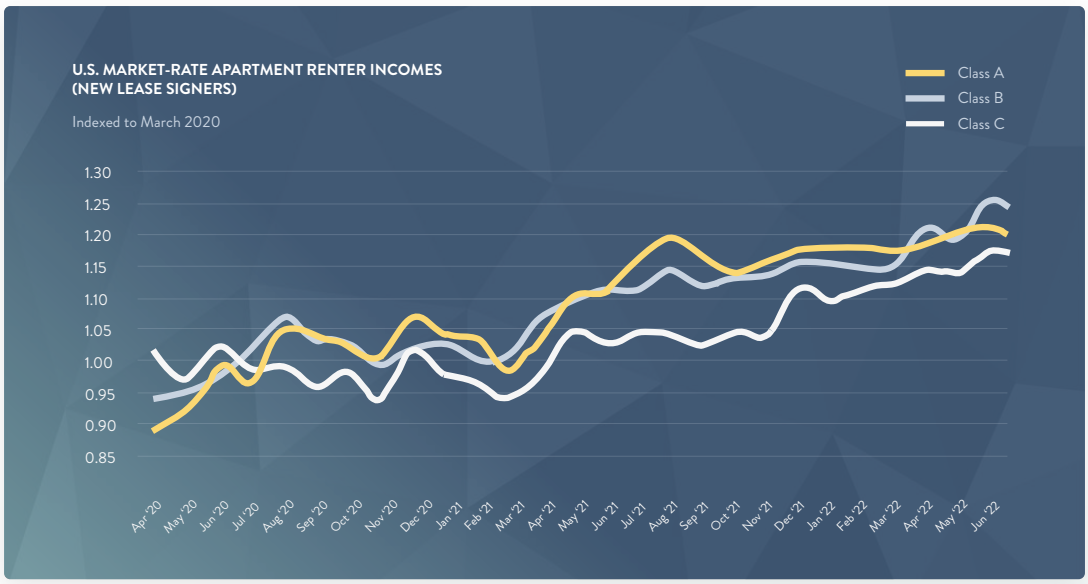
Class B is more insulated from supply competition than Class A (which could see volatility in 2023-2024) and more insulated from affordability concerns than Class C

SUITED TO WEATHER SLOWDOWN

In 2023 we should see new lease volume/ new traffic slow further, Class B likely better suited to weather slowdown as Class A properties compete for smaller pool of highest-income renters

good news!

RENTER INCOMES GROWING AT HEALTHY PACE ACROSS ALL PRODUCT CLASSES IN 2022



BUILD-TO-RENT (BTR) COMMUNITIES EMERGING AS HOUSINGS NEXT GREAT NICHE

Household formations are a key measure of housing demand.

OVER THE NEXT 5 YEARS, WE ANTICIPATE DEMAND FOR APPROXIMATELY 7.5 MILLION ADDITIONAL HOUSING UNITS

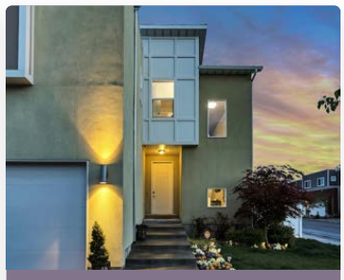
10% above the average annual growth observed over the last 10 years.

1.5X HIGHER NEW SIGN LEASES

Approximately 810,000 new households are expected to sign leases for single-family rentals, 1.5 times higher than the number of new apartment rentals.

FASTED-GROWING SEGMENT

The single-family rental industry has been the fasted-growing segment of the housing market since 2006[9]

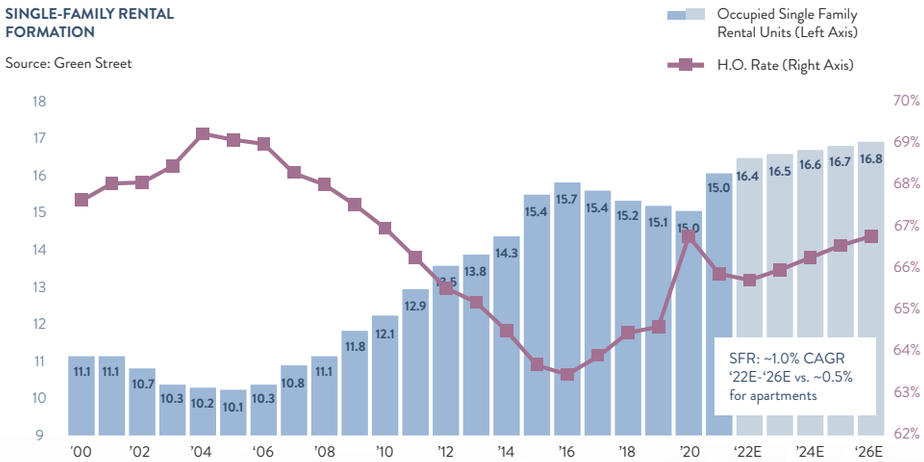


56% RENTALS GROWTH

The total number of Single-family rentals on the market today has grown 56% since 2007, compared with 20% for multifamily rentals during that same period.

SINGLE-FAMILY RENTAL FORMATION

Source: Green Street



Our homeownership rate forecast contemplates population growth and propensity to own by age and birth cohorts, taking into account cyclical factors (e.g., mortgage lending, correlation to job growth) as well as secular trends (e.g., indebted younger generations)

TRADITIONAL INVESTOR ENTRANTS

Many (if not most) new SFR/BTR entrants are traditionally apartment investors.

SINGLE-FAMILY RENTALS (INCLUDING BUILD-FOR-RENT) TOTAL MORE THAN

15MM UNITS IN THE U.S. ONLY ABOUT 2% ARE "INSTITUTIONALLY OWNED"

Per NRHC, suggestions:

- Continued upside for consolidation
- Vast majority of the market remains small and medium-sized business

MORE ONLINE TRAFFIC

Single-family rentals (SFRs) are getting **30% more online traffic**

TREND INVESTING

Operators investing in '**BTRs**' to capitalize on trend[5]

SOURCES

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- Federal Trade Commission-Identity Theft 2021 Report
- Green Street - Spotlight on US Single-Family-Rental-Demand -https://www.greenstreet.com/insights/blog/exclusive-sector-outlook-spotlight-on-u-s-single-family-rental-demand
- University of Michigan Consumer Sentiment Index; Federal Reserve Economic Data (FRED)
- RealPage Market Analytics
- Source: Knock
- Source: G5+LL Platform (Customer Data Platform that observes more than 325 million journeys) (these stats are pulled using advanced multi-touch attribution 'MTA' which stitches together renter journeys)

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