LMC A Lennar Company

Inside Look

Public Market Returns

	2Q21	1 Year	3 Year
S&P 500	8.55%	40.79%	18.67%
Dow	4.61%	33.67%	12.44%
Nasdaq	9.49%	44.19%	24.53%
FTSE NAREIT[1]	12.03%	32.80%	11.83%
Barclays Agg	1.83%	-0.33%	5.35%
10-yr Treasury[2]	1.49%	0.64%	2.85%
CPI[3]	2.57%	5.39%	7.82%

Private Market Returns

	2Q21	1 Year	3 Year
NCREIF Property Index			
Total Return	3.59%	7.37%	5.50%
Income	1.06%	4.19%	4.37%
Appreciation	2.54%	3.08%	1.09%
Hospitality	0.61%	-8.27%	-7.29%
Industrial	8.88%	22.98%	15.58%
Multifamily	3.62%	6.96%	5.23%
Office	1.44%	3.25%	4.66%
Retail	0.90%	-1.32%	-1.76%

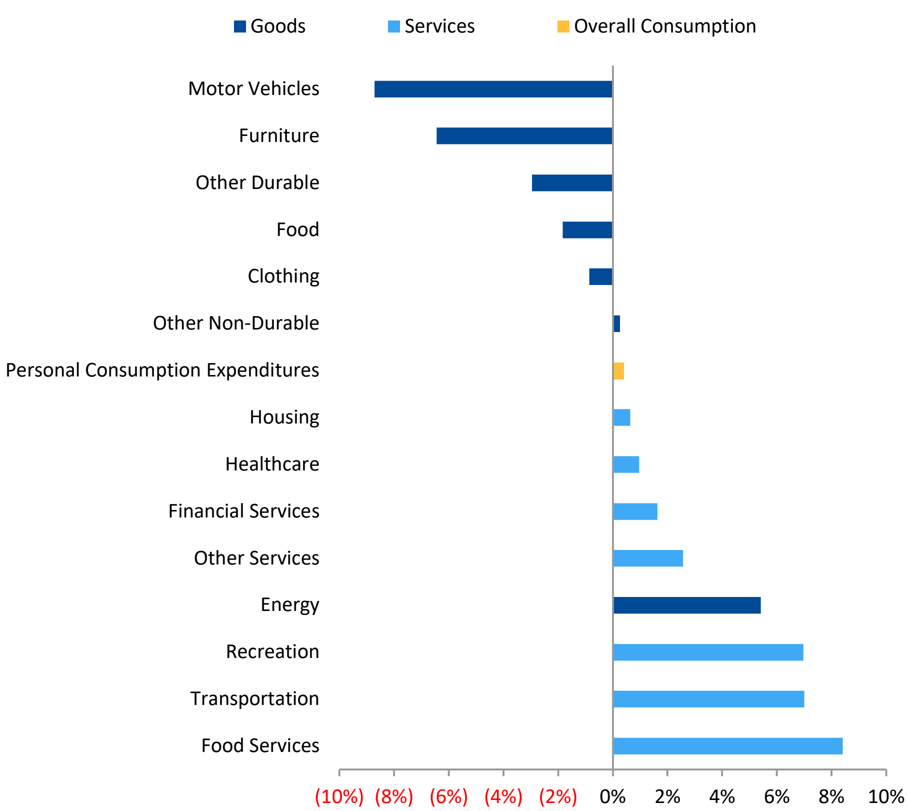
Source: NCREIF, Morningstar, Federal Reserve Bank of St. Louis (FRED)
(1) FTSE NAREIT All Equity REITs Index.
(2) Represents current yield at the end of 2Q21, 2Q20, and 2Q18, respectively.
(3) Consumer Price Index: All Items for the US, not seasonally adjusted. Represented as a percentage change at end of quarter over the specified time frame.

GDP roars back as US economy largely unaffected by Delta variant; Investors, seeking an inflation hedge, turn to real estate

State of the Economy

The second quarter of 2021 continued the strong momentum of the first quarter, with GDP growing at an annualized rate of 6.5%, the fastest rate in almost 20 years. Consumption has been the driving force behind GDP outperformance, contributing 91% of GDP growth since the end of the 2020 recession, despite accounting for only 71% of GDP. While consumption of goods remains robust, there has been a considerable rotation into services as the economy reopens. Services spending, previously restrained by social distancing rules and capacity limits, finally felt some relief in the second quarter, and is only 3.1% below pre-recession highs, vs. 20% below in the second quarter of 2020.

1Q21 vs 2Q21 % Change In Spending



Source: CoStar Advisory Services, Bureau of Economic Analysis — As of June 2021

The strength of the labor market recovery provided the foundation for continued consumption growth, as 1.7 million jobs were added in the quarter, the second largest number of jobs added in any quarter since 1940. The job market recovery's pace has led to a reversal of fortunes for workers, as there is nearly one job opening for every worker and businesses have been forced to raise wages, particularly for low-skilled workers. June 2021 was only the third month since 1998 when low-skilled worker wage growth has been faster than that of high-skilled workers[1].

The combination of high consumption and difficulty hiring is not a free lunch however, and inflation has begun to rear its head. Year-over-year CPI growth for July was 5.4%, more than double the Federal Reserve's target. Fed officials expressed surprise at the amount of acceleration in prices and have raised the prospect of rate hikes earlier than expected. That said, any rate increases are likely more than a year away, and the Fed has stated they still believe the spike in inflation is transitory.

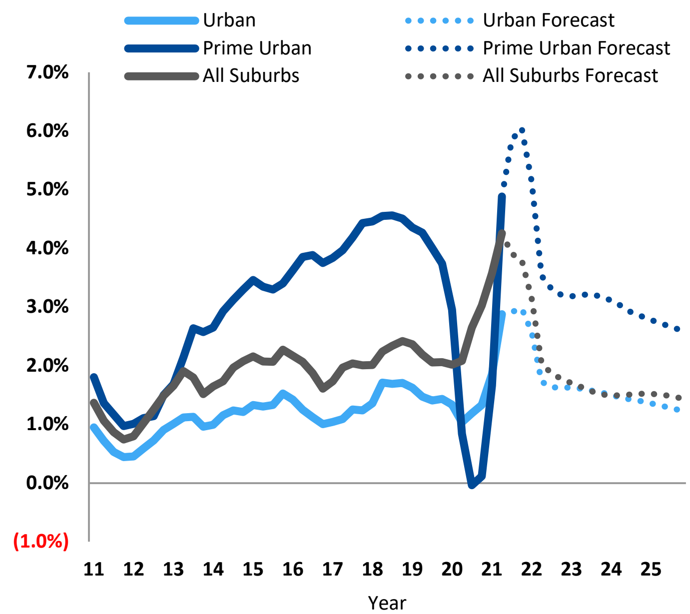
Inflation is not the only threat to the U.S. economy. The Delta variant began to pick up steam at the end of the second quarter, and while lockdowns akin to 2020 are unlikely, the great reopening that many of the optimistic forecasts relied on, looks less likely as both vaccinated and unvaccinated are asked to put the masks back on in most cities.

Multifamily Investment Outlook

While Covid-19 is beginning to surge again in the U.S. due to the Delta variant, reluctance to bring back restrictions and the continued effectiveness of vaccines has helped extend the positive prospects of the multifamily sector. Households, flush with savings, pushed demand to record levels in the second quarter. Meanwhile supply has slowed down and is expected to continue to slow through 2022. Nationally, multifamily vacancies have fallen to 5.3%.

The second quarter of 2021 beat the record for demand… by 37%, with more than 238,000 units of net absorption

Multifamily YoY Demand Growth



Source: CoStar Advisory Services — As of 2Q 2021

The second quarter of 2021 beat the record for demand set in the first quarter by 37%, with more than 238,000 units of net absorption. Demand is propelled both by households who expect to continue to work from home, and housing prices that have grown 20% since the pandemic began. Prime urban, or downtown, areas have seen the biggest year-over-year growth, surpassing suburban and urban demand for the first time since Q1 2020.

Deliveries ticked up slightly in the second quarter, adding 94,000 units. However, units under construction dropped to its lowest level since the end of 2017, and construction starts were at their lowest levels since the end of 2012 as speculative projects were shelved. There are large differences in starts among markets. Primary and tech focused markets like San Francisco, Austin, and New York have seen large year-over-year declines, while southern growth markets and suburban markets like Palm Beach, Nashville, and Northern New Jersey have seen a marked increase in activity.

Strong demand and limited supply growth have sharply accelerated rent gains, and year over year rent growth hit 7.2% in the second quarter, outpacing the previous 20-year-old record by 2.2 percentage points. Multifamily rent has now averaged 4.7% annualized growth since the pandemic began, with Sunbelt metros like Phoenix, Austin, and Atlanta leading the way.

1. Atlanta Fed (https://www.atlantafed.org/chcs/wage-growth-tracker)

Sales volume has also returned to pre-recession levels, with deal volume through the first half of 2021 on par with the first half of 2019. Sunbelt markets have made up for severe declines in primary markets, as Phoenix has seen nearly double its level of activity while major Texas markets like Dallas and Austin are also well above typical levels. Valuations per unit saw significant increases as well, increasing 7% year over year.

In Focus: Multifamily as an Inflation Hedge

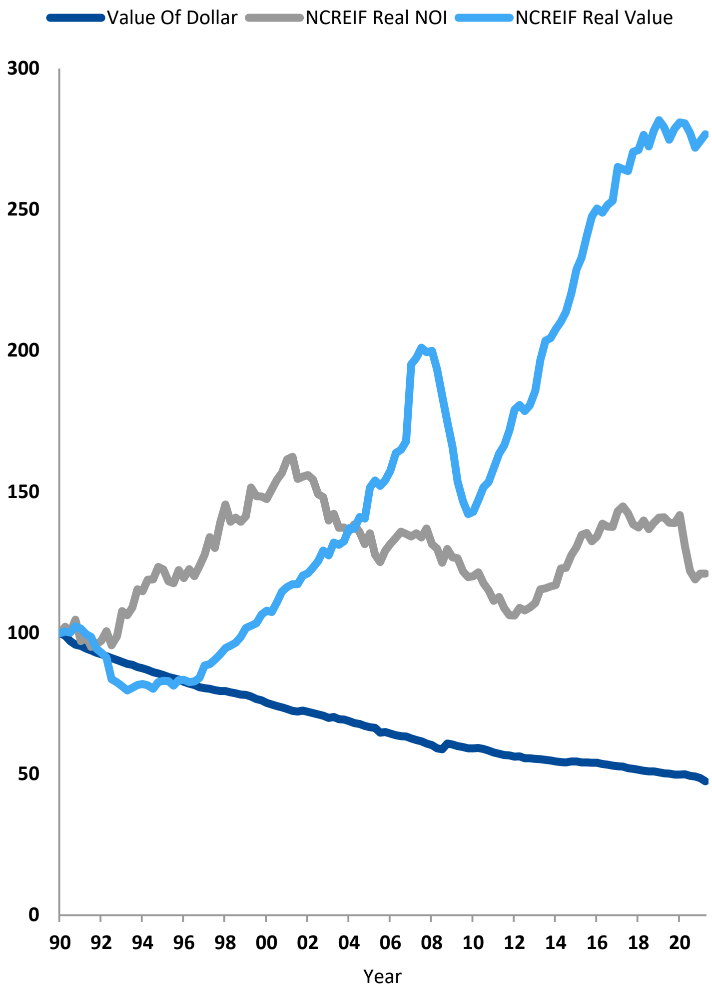
Inflation has been a topic of concern through the first half of 2021, as the perfect storm of stimulus-fueled demand, accelerating wage growth, pandemic restrictions lifting, and lagging production internationally has combined to strain markets. For multifamily investors, high inflation rates are a concern as they can erode real (inflation adjusted) returns over time. Commercial real estate, however, has some significant advantages over other asset classes, especially multifamily. Generally, real estate is thought of as a good inflation hedge as real assets hold intrinsic value, i.e. they physically exist compared to soft assets like stocks and bonds. Additionally, the ability of commercial property owners to adjust rents, particularly during lease turnovers, gives the sector an advantage over fixed income assets.

Multifamily real NOI has consistently either maintained or grown compared to its level 30 years ago… while the value of the dollar… has declined by 50%

While rent adjustment applies to any property type within the commercial space, multifamily is better positioned to take advantage of this characteristic than its peer sectors. A property type like office must build in rent escalations with a predicted inflation rate if a landlord wants to ensure consistent real returns. Multifamily leases are typically much shorter in duration than other property types, so rents can adjust to their "post-inflation" level much faster and with more flexibility. Inflation typically occurs when economic growth is outpacing an economy's ability to produce, and short leases can allow landlords to take advantage of that growth quickly, while other property types often need to wait for leases to expire.

Theory and a supply-demand model often oversimplifies what happens in the real world. High vacancy rates, for example, could inhibit a landlord's ability to adjust rent. While the situation will vary among markets, adjusting national NCREIF NOI and value for inflation shows multifamily holds up in real terms.

Inflation vs. Multifamily (Indexed 100 = Q1 1990)



Source: CoStar Advisory Services, Bureau of Labor Statistics, NCREIF As of 2Q 2021

Multifamily real NOI has consistently either maintained or grown compared to its level 30 years ago, providing investors with steady real income while the value of the dollar, and coupon payments on a 30-year fixed-income asset, has declined by 50%. Value gains for multifamily, whose prices have been more stable than other sectors, have also produced strong real returns, especially during the last cycle.

Aside from the sector's "needs based" quality of providing housing, the ability of multifamily to adjust rents quickly is an important advantage in current economic conditions. While the CPI is hitting decades-long highs, pundits and the underlying drivers of the increase suggest the acceleration is transitory. Transportation and energy contributed to 62% of the increase in prices, despite only accounting for 15% of the index. Transportation prices, particularly used cars, are being driven up by a shortage of microchips and high demand while energy prices are still recovering from the depths of the pandemic.

The bond market is indicating a belief that inflation is temporary, and the 5-year and 10-year break-even average inflation rate is hovering around 2.5%[1]. That's roughly half the current inflation level, but still 50 basis points higher than last cycle's average. High temporary inflation, followed by moderately higher price growth in the long-term means an asset's ability to continue to provide real income returns will be vital for investors, something multifamily is well positioned to take advantage of, especially in relation to its peers.

1. Break-even inflation rate is the average expected inflation rate over the maturity of the bond. A 5-year break-even rate of 2.5% indicates the bond market believes the average inflation rate to be 2.5%.

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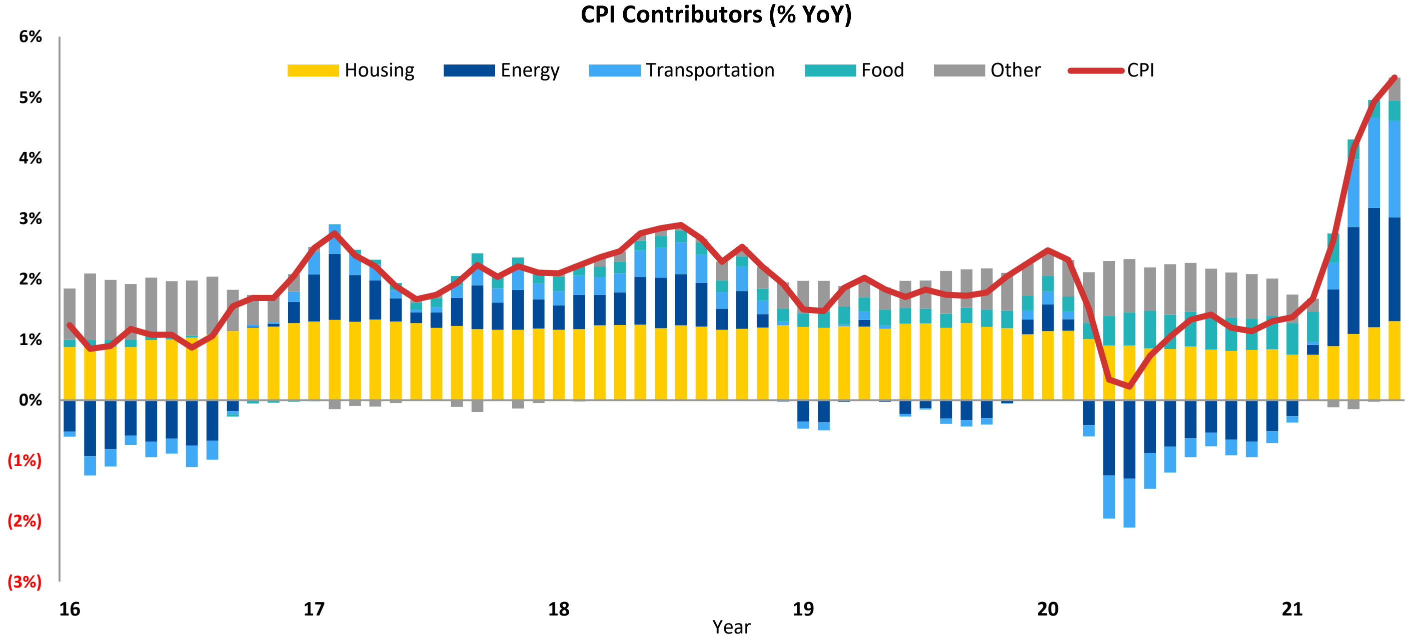
CPI Contributors (% YoY)



Source: CoStar Advisory Services, Bureau of Labor Statistics

As of 2Q 2021

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About LMC

Lennar Multifamily Communities, LLC ("LMC") is a vertically integrated multifamily real estate investment firm focused on developing, acquiring and operating Class A apartments in the United States. A wholly owned subsidiary of Lennar Corporation ("Lennar"), LMC combines the financial strength and entrepreneurial spirit of Lennar, the nation's largest homebuilder and acquirer of land, with the favorable apartment demand fundamentals nationwide. LMC currently employs over 675 professionals across 20 offices nationwide. With approximately $9.0 billion of gross assets under management[1], we offer multifamily investment strategies to a diverse set of institutional investors including pension funds, sovereign wealth funds, insurance companies, private equity companies, banks, and high net worth individuals.

(1) AUM as of 12/31/2020

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