LMC Insights
4Q 2021

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Inside Look

Public Market Returns

	3Q21	1 Year	3 Year
S&P 500	0.58%	30.00%	15.99%
Dow	-1.91%	21.82%	8.55%
Nasdaq	-0.38%	29.38%	21.54%
FTSE NAREIT[1]	0.23%	31.54%	11.73%
Barclays Agg	0.05%	-0.89%	5.36%
10-yr Treasury[2]	1.52%	0.69%	3.05%
CPI[3]	0.96%	5.39%	8.66%

Private Market Returns

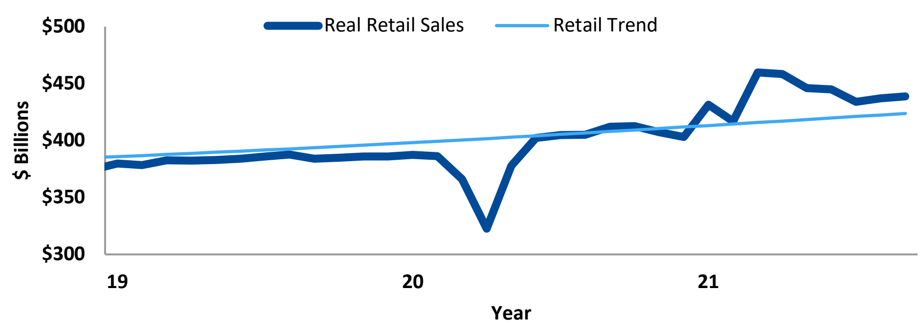
	3Q21	1 Year	3 Year
NCREIF Property Index			
Total Return	5.23%	12.15%	6.72%
Income	1.05%	4.22%	4.35%
Appreciation	4.18%	7.69%	2.29%
Hospitality	1.83%	-2.53%	-7.71%
Industrial	10.92%	32.38%	18.33%
Multifamily	6.53%	13.37%	6.92%
Office	1.87%	4.86%	4.72%
Retail	1.55%	0.74%	-1.44%

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 3Q21, 3Q20, and 3Q18, 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.

Multifamily momentum continues as macroeconomic trends rebound, inflation elevates, and home prices continue to spike

State of the Economy

The third quarter of 2021 was marked by a mix of strong economic data and a Covid surge that put a damper on the optimism that came with the reopening of the economy. U.S. economic growth decelerated in the third quarter of 2021, expanding at an annualized growth rate of 2%, down from 6.5% a quarter earlier. Consumption continues to be an important part of economic growth, accounting for 70% of GDP and 89% of growth since the recovery began. Retail sales showed notable staying power, declining only 1.6% from the stimulus-fueled peak, and remaining 20% above pre-pandemic levels. The emergence of the Delta variant was in part a contributor to this staying power as service spending growth decelerated in the summer yielding higher gross private savings (20.5% above February 2020 / pre-pandemic levels).



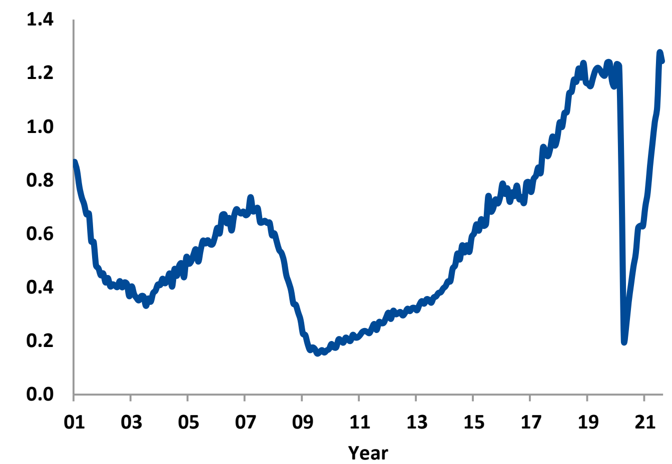
Source: US Census Bureau; CoStar Advisory Services — As of September 2021
Note: Above chart excludes inflation; Trend represents 30-year dataset

The labor market also saw decelerating growth in the third quarter. Over 1 million jobs were added in July, but August and September combined for only an additional 560,000. A surge in Covid cases was certainly detrimental to job growth, but labor shortages have been the main problem for the U.S. economy. Total quits[4] surpassed 4 million a month for the first time in the third quarter, and job openings averaged over 10.5 million, 3 million higher than the pre-recession peak. The shortage is fairly widespread, with the majority of major industries reporting a record job openings rate in either July or August of 2021. This has lead to an acceleration in average hourly earnings, growing at an 6.7% annualized rate, the second fastest quarter since 1982.

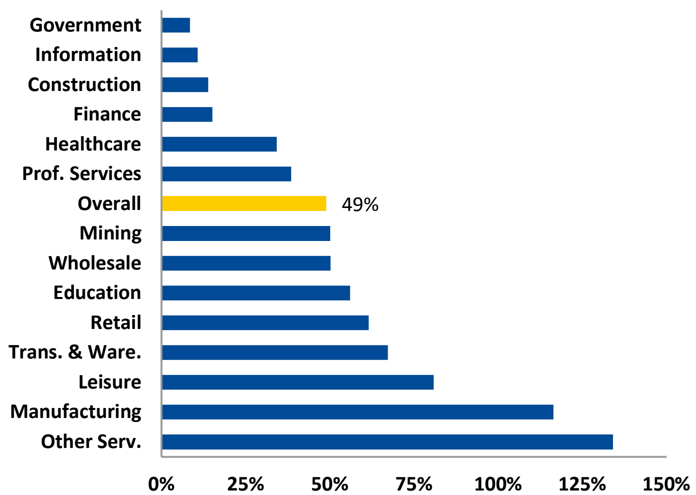
4. US Bureau of Labor Statistics. Job Openings and Labor Turnover Survey (JOLTS). Quits are employees who left voluntarily. Excludes retirements or transfers to other locations, as they are reported with "other separations."

LMC Investments

Job Openings/Unemployment Ratio



Job Openings % Change by Sector (Feb. 20 – Aug. 21)

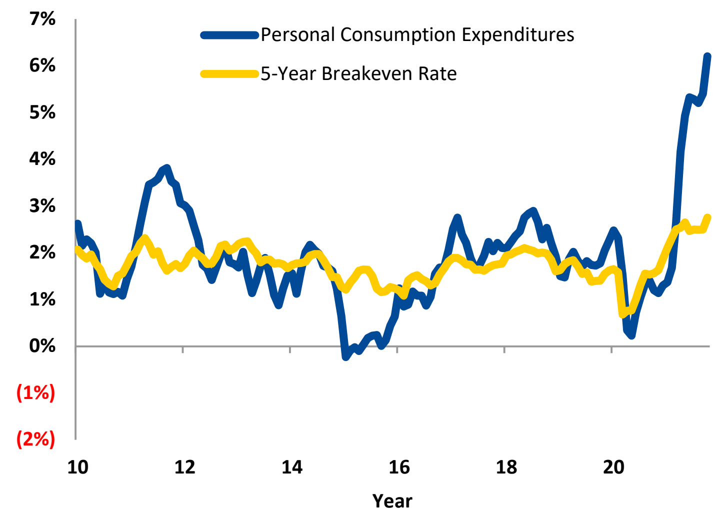


Source: Bureau of Labor Statistics; CoStar Advisory Services As of August 2021

Accelerating wages, strong spending, along with some severe supply chain bottlenecks, meant inflation remained elevated at 5.4% year-over-year. The magnitude of inflation growth has taken some officials by surprise, and recent Federal Reserve messaging has moved to a more hawkish stance. Rate hikes likely remain a few quarters away as the Fed first needs to taper its bond purchasing program, barring a further acceleration in inflation.

Covid remains a remote threat to the U.S. economy, but other problems have begun to weigh heavily on growth. Labor shortages continue to constrain growth, while supply chain concerns are unlikely to be solved in the next few months, allowing inflation to remain a force absent any rate hikes.

Inflation[1]



Sources: CME Group; Bureau of Labor Statistics; U.S. Treasury Department; CoStar Advisory Services As of October 2021

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%.

Multifamily Investment Outlook

The third quarter of 2021 saw a continuation of the record setting second quarter, even as the Delta variant surge peaked, national eviction moratoriums were lifted, and pandemic-era unemployment assistance was ended. New units under construction fell slightly, while demand and rent reached new heights and vacancy plummeted to 4.5%, down from 5.1% in the second quarter and 6.7% in 2020 Q3.

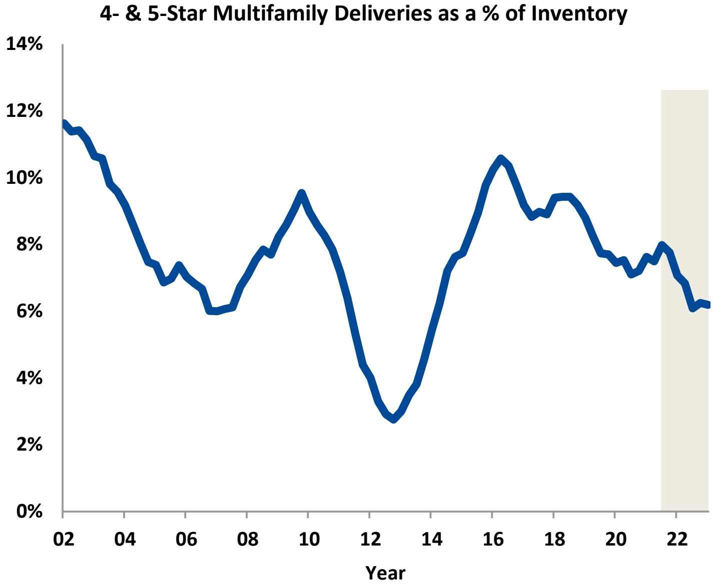
Demand in the third quarter was the second highest on record for any quarter, behind only 2021 Q1, and beat the previous third quarter record by 54%. Demand has been concentrated in the high end of the market. Whereas 1-, 2-, and 3-star vacancies remain relatively flat, 4- and 5-star vacancies have declined from 10.6% to 6.5% since 2020 Q2[2]. Geographically, southern metros continue to see the best growth, with Austin, Nashville, and Raleigh seeing vacancy declines between 400 and 500 basis points since 2020. However, core metros such as New York and San Francisco occupancy rates have recovered most of what they had lost during the pandemic, as workers return to core metros and their amenity-rich downtowns.

2. Source: CoStar. A 5-Star building represents the luxury end of multi-family buildings defined by finishes, amenities, the overall interior/exterior design and the highest level of specifications for its style (garden, low-rise, mid-rise, or high-rise). 4-Star buildings are constructed with higher end finishes and specifications, providing desirable amenities to residents and designed/built to competitive and contemporary standards.

Despite the strength of multifamily fundamentals, construction has remained relatively steady. Roughly 93,000 units were delivered in the third quarter, on par with five-year averages, while total units under construction declined by 3% quarter over quarter. Construction has largely been concentrated in the Sunbelt markets, though, given the level of demand, most markets are experiencing a smaller development pipeline than otherwise would be expected.

Even the new deliveries that are underway are likely going to take some time to come to market, as roughly 75% of under construction units are mid-rise or high-rise properties, which take longer to develop than garden properties.

4- & 5-Star Multifamily Deliveries as a % of Inventory

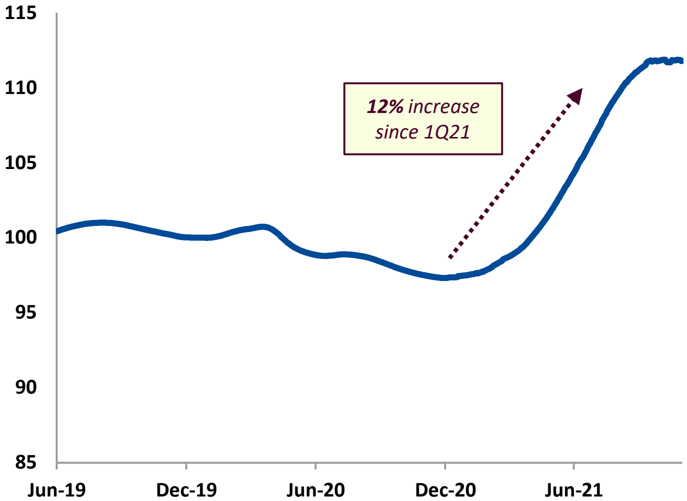


Sources: CoStar Advisory Services As of 3Q21

Continued strong demand along with supply constraints led to further gains in rent. Year-over-year rent growth accelerated to 10.7%, up 3.4 percentage points from the second quarter. The gains are relatively equal between suburban and urban areas, and while core metros like Boston, New York, and San Francisco are recovering, Sunbelt rent growth is explosive. Tampa, Phoenix, Las Vegas, Orlando, and Austin annual rent growth all surpassed 20% in the 3rd quarter as demographic growth continues to propel the Southeastern U.S. In fact, 4- and 5-Star rents, which struggled in 2020, have made up all of their losses and then some, and sit 12% higher than in the first quarter of 2021.

Source: CoStar Advisory Services As of 3Q21

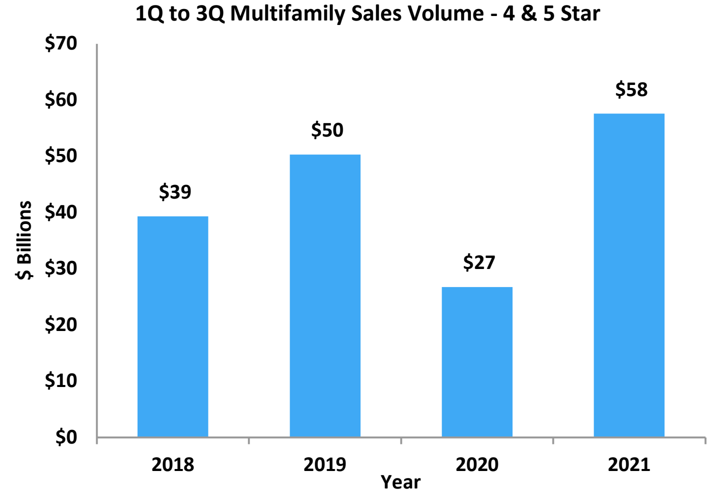
4 & 5-Star Rent Index (100 = June. 1st, 2019)



Source: CoStar Advisory Services As of 3Q21

Record demand and rent has been met with record transaction activity, with multifamily deals closed in the quarter totaling about $58.3 billion, representing an increase of 115% over the first three quarters of 2020 and 14% higher than 1Q19 – 3Q19. Price per unit has also risen significantly, growing 10% year-over-year, as investment brokers report high amounts of interest in all apartment assets. While rising interest rates are a continued risk for multifamily investment, strong rent growth means values have some cushion even if interest rates begin to push cap rates up. Cap rates also might have some room to remain steady in the face of rising interest rates, as the spread between 10-year treasuries and 4-5 Star cap rates is around its 20-year average.

1Q to 3Q Multifamily Sales Volume - 4 & 5 Star



Source: CoStar Advisory Services As of September 2021

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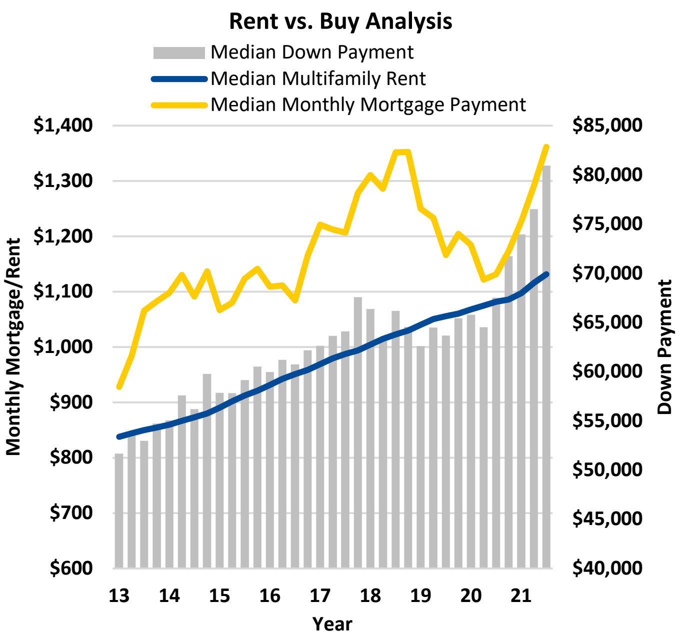
In Focus: Rising Home Prices Means Renter Demand Should Continue To Thrive

With rent growth spiking in numerous markets, it is reasonable to expect rental rates to push some renters toward diving into the U.S. homeownership pool. A couple factors point to why this scenario is more conjecture than not, and why record demand not only continues to propel the property type ahead despite such significant gains in rents but is likely to remain a force for the foreseeable future.

Most notable is the generally steady gap home pricing has maintained over rent growth. For a majority of the previous eight years, median monthly mortgage payments were generally significantly higher than median multifamily rents on a national basis. After a brief, pandemic-driven interlude when the two metrics converged, the trend has now swiftly reversed course, and the previous three quarters have seen a similar gap emerge once more. Although both multifamily rents and the cost burden of homeownership have experienced remarkable increases, down payments and monthly mortgage payments have appreciated at a much more severe rate. Prospective homeowners now need a median down payment of more than $80,000 nationally, a record in recent years.



Source: Federal Reserve Bank of St. Louis; U.S. Census Bureau; Oxford Economics; CoStar Advisory Services
As of October 2021
Note: A 20% down payment assumption was applied to median sales price of houses sold

One final piece of the puzzle is driven by this gap between median rent and median mortgage payments. For the average renter, there's a calculation to be made regarding how much equity they'd be able to build up over the course of five or ten years when buying a home when weighed against what they could save by paying a lower monthly payment when renting. For a renter pool used to high levels of amenities and potential ease of movement without the hassle of a contingent home sale, the choice is simple and obvious: rent rather than buy. With current trends again pointing away from homeownership, multifamily should continue to thrive even as rents push higher.

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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 700 professionals across 19 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