

HUNTER
HOUSING
ECONOMICS

MARKET STUDY

BUILT-FOR-RENT MANUFACTURED HOUSING

ZEPHYRHILLS, FLORIDA

November 30, 2022

Zephyr Park in Zephyrhills Florida

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MARKET DATA

INSIGHTS

GUIDANCE

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Homebuilding



Multifamily



Mixed-Use



Built-to-Rent/SFR

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Overview	4
Conclusions	10
Rental Market Data	16
Site and Area Analysis	21
Demographics and Economics	28
Housing Market Overview	34
Multifamily Market Overview	37
Cost to Own Comparison	39
Representative Listings	42
Built for Rent Presence	51
HHE Survey of Renters	54
Macro Risks	60
Methodology	64
Appendix National BFR Trends	66
Disclaimer	71



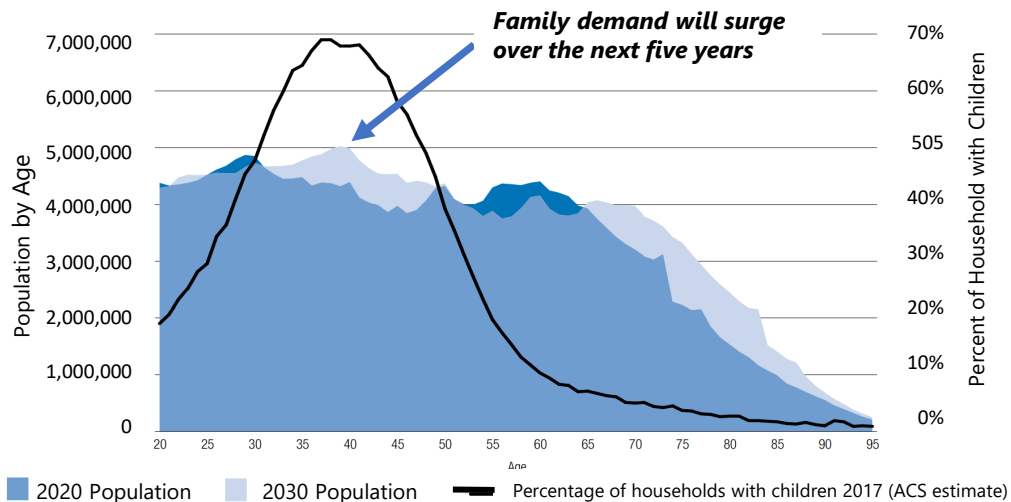
OVERVIEW

This study examines the need for a built-for-rent community of manufactured homes in Zephyrhills Florida, and it is useful to start the analysis with an overview of some key facts about the underserved need for this type of housing.

The Shortage of Family-Oriented Housing

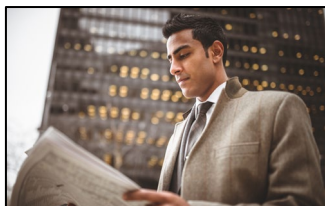
"Family-oriented rental housing is being delivered in relatively *small quantities*, even though *the need for this product type is increasing*." This is the key conclusion of the Terwilliger Center report: "Family Renter Housing: A Response to the Changing Growth Dynamics of the Next Decade," published in 2020. More millennials are forming families now, and that is triggering a surge of demand for homes in the suburbs, but homebuilders have not been building enough homes to meet the needs of these young families.

Although the pace of rent inflation has slowed sharply relative to the breakneck levels of the last couple of years, the long-term demand drivers will likely keep rent growth strong after the current slowdown is resolved.

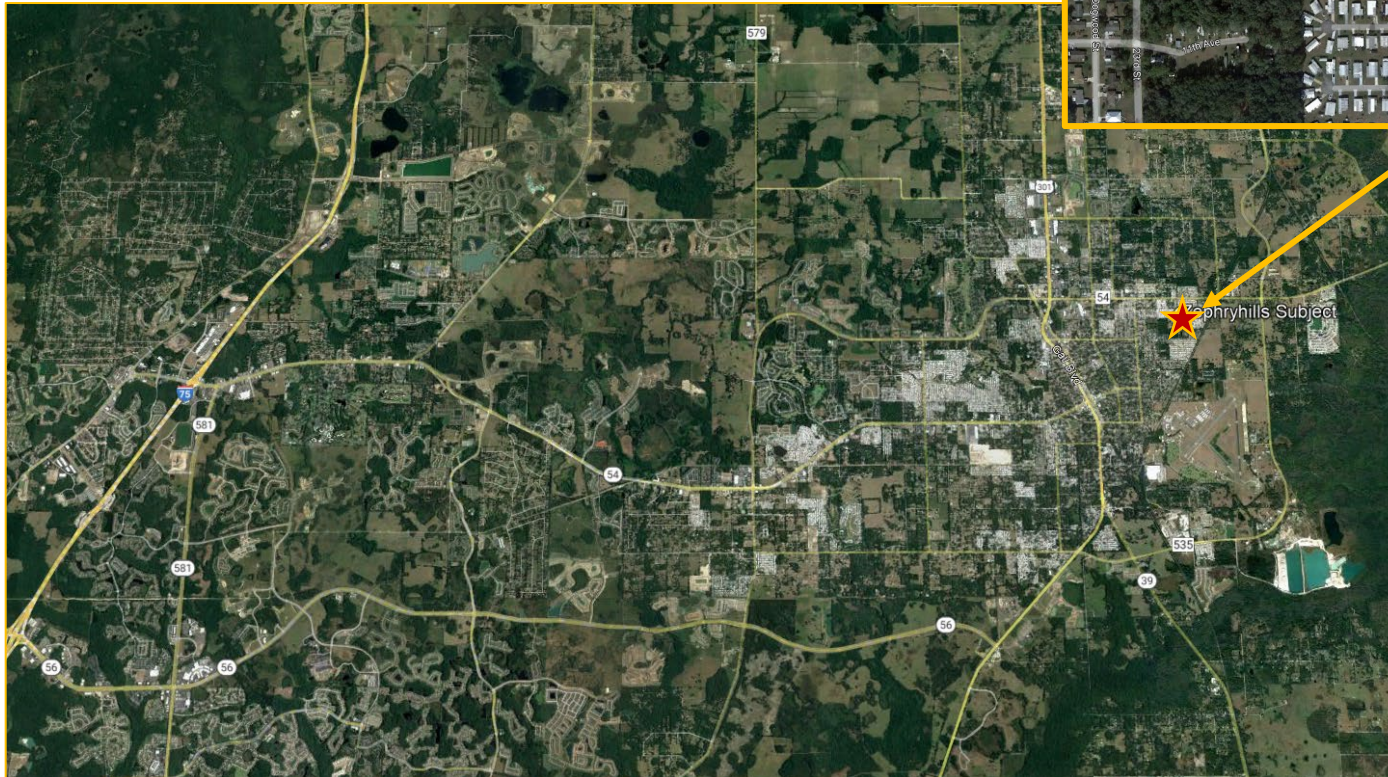


Source: Terwilliger Center Report "Family Renter Household: A Response to the Changing Growth Dynamics of the Next Decade" 2020

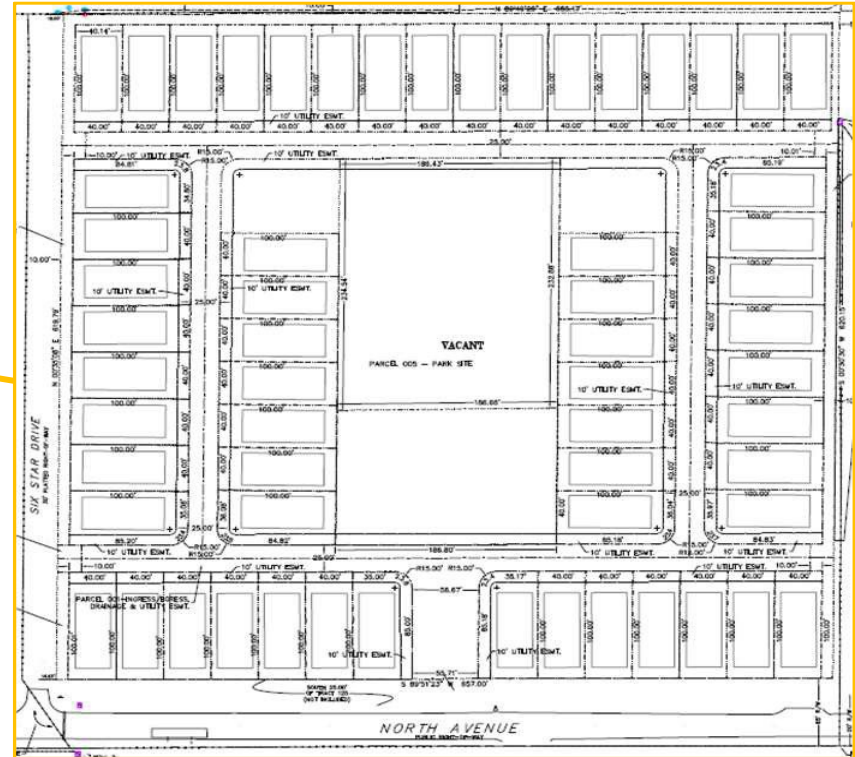
The built-for-rent sector of residential development has emerged at a fortuitous time, bringing the opportunity for families (and empty-nesters, singles, and single parents, for that matter), to live in a suburban location in a home with a yard for the kids, parks nearby, other children in the neighborhood, and other factors that are important to these people. Even while the rate of overall population growth is slowing, the rate of population growth in the key age segment of 28 to 35 is rising, and set to continue rising for several more years. Income growth among the renter population is estimated by HHE, utilizing data on thousands of tenants and leases analyzed by RealPage, to be running at about 11% to 13% annually.



The Subject Site is located on North Avenue in Zephyrhills, FL which is located in Pasco County Florida. The Subject's location is identified on the maps shown.



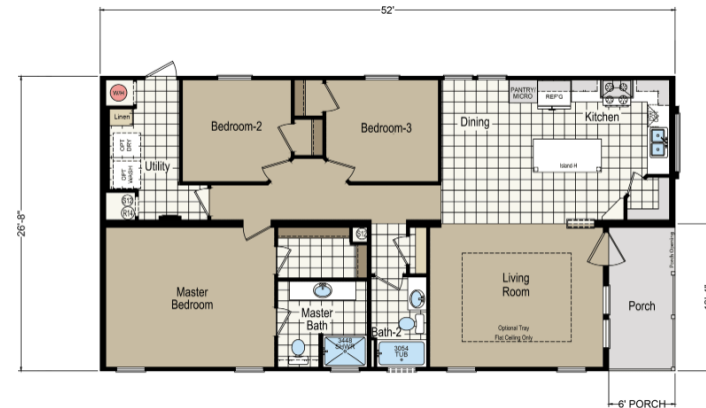
The Subject's phase one will include 60 built-for-rent mobile homes in Zephyrhill, FL, located in Eastern Pasco County. The entire project includes a second phase, for a total of 164 units.



With manufactured homes, 80% of the construction is completed at the factory, saving time and money. Construction of the home can happen while the site work is being done. This provides the Subject a clear advantage by bringing the homes to market faster and more efficiently than site-built homes, especially important during this time of unprecedented inventory shortage in the market and rapidly increasing construction costs.



Floor Plan



Product shown is representative of the homes planned at the Subject property but may not be the exact model.

The Primary Market Area (“PMA”) was created by HHE to designate the area from where a share of the targeted tenants may come and in which they will search for housing. The area was designed to exclude the core of Tampa, as such an urban area is not reflective of the suburban nature of a Zephyrhills center. The PMA includes areas that are higher and lower in income. US Highway 301 is a central spine road through this submarket, and I-75 is an important artery as well. Protected environmental areas create a hard border on the eastern edge. The PMA straddles Pasco and Hillsborough counties. The Subject is approximately 30-45 minutes outside of the core business districts of downtown Tampa and Westshore. Historically, this area was considered a bedroom community for Tampa. However, in recent years economic development activity and accelerated growth has brought more healthcare, manufacturing, retail and entertainment venues into Pasco county.

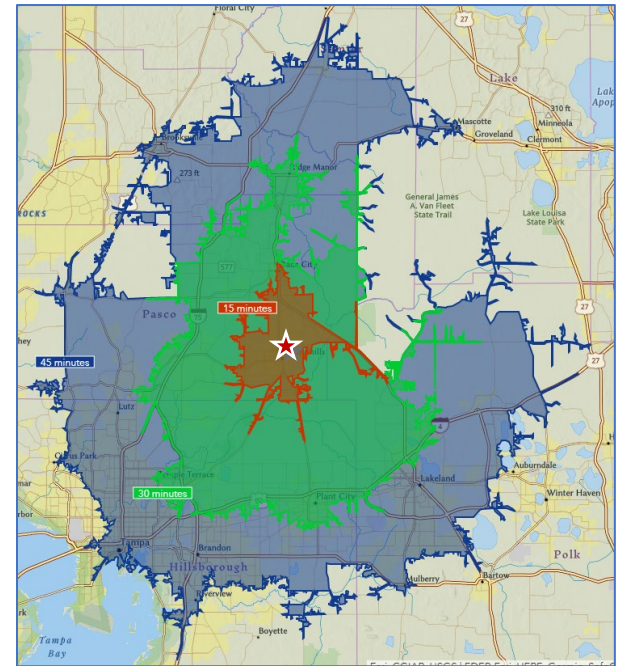
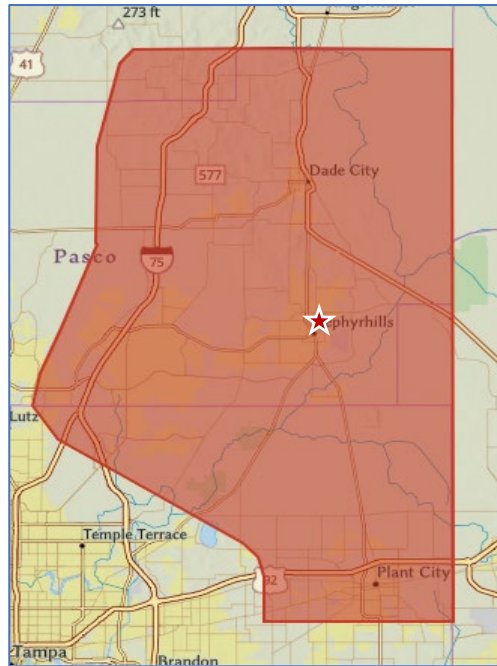
Zephyrhills is a growing community, accessed by US 301 and S.R. 54.

Areas just south of I-4 and along US 301 are similar in character, demographics, and work-commute times. These submarkets are expected to provide potential renters for the subject property. Dade City and Plant City are important nodes in this PMA.

Population growth is robust in this area, particularly among those looking to rent a home, as is discussed and quantified within this report.

Within 30 minutes of the subject site are large-scale employment nodes and a wide variety of shopping and entertainment options. Downtown Tampa, Tampa International Airport and the Westshore business district are within a 40-minute drive. The subject site is at the edge of the hottest region for new development in the MSA, dubbed New Tampa. Also nearby are the University of South Florida and local hospitals – University Community Hospital and AdventHealth Wesley Chapel.

The subject is within 5-10 minutes of several grocery stores, including Publix at the Zephyr Commons shopping plaza, Winn Dixie, and Walmart. AdventHealth Zephyrhills, an award winning 149-bed regional medical center is only 6 minutes from the proposed community which is expected to provide some renters to the Subject property due to proximity.



CONCLUSIONS

Our conclusions begin with a high-level SWOT analysis which establishes the context for this report and its conclusions. By identifying these aspects of the proposed development, a balanced view is portrayed. By identifying the weaknesses and threats, they can be understood and mitigated. The identification of the strengths and opportunities establishes and promotes the goals and objectives of the development.

	<p>STRENGTHS</p> <ul style="list-style-type: none"> • The Subject’s new manufactured home product features attractive entryways and interior finishes while providing a substantial monthly savings over site-built single-family homes, townhomes, and nearby multifamily. • The floorplan is open with full-sized kitchen with cabinetry and dedicated dining area, operating like a single-family home. • The Subject site’s proximity to the economic centers and job nodes via US 301 and State Road 54 would be an attraction for potential renters.
	<p>WEAKNESSES</p> <ul style="list-style-type: none"> • Manufactured housing is less desired than site-built homes, but this explains the substantial difference in rents. Despite this preference, manufactured home rentals are in demand (as corroborated by local housing authorities) as they meet a need for new workforce housing in the Zephyrhills area. • The community does not offer any amenities as it is intended to provide affordable housing which is in very short supply.
	<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • Local housing authorities indicate that more housing options are needed in the immediate area. Additional housing is needed within the Subject’s market, per local economic development department, in order to attract more employment. The Subject is well positioned to help satisfy this pent-up demand • There are no direct purpose-built manufactured rental comparable communities. The availability of 3-bed rentals is extremely low in Zephyrhills. • Although rents have adjusted downward in many parts of the country, the data in this submarket still show rising rents.
	<p>THREATS</p> <ul style="list-style-type: none"> • Major storms (e.g., hurricanes) pose threats to all housing in Florida, and manufactured housing is one of the most susceptible types of housing to hurricane damage. This threat is mitigated by higher-quality and well-designed homes and by the Site’s in-land location. • The double-digit increases in rents experienced in recent years are gone, but we do expect some modest rent growth after the current macro-cyclical downturn is over. We are forecasting rent gains for the next few years to be a fraction of the rates of increase of this year and last.

Hunter Housing Economics finds the Subject development is feasible and expected to perform well. The PMA is projected to grow twice as fast as the State of Florida and several times faster than the nation. Demand for attainable rental housing in Zephyrhills is very high as developers have concentrated on larger developments along the coasts leaving in-land cities with less supply. The product is well designed and attractive, and the living experience is very similar to detached single-family housing, but at attainable rents.

The recommended rents are as follows:

Recommended Rental Rates

Floorplan	Average SF	Rent/Mo	Rent/SF
3-Bedroom	1,380	\$1,750	\$1.27

Rent Growth

Although some instances of rent declines showed up in 2H2022 in many parts of the country, the data in this particular submarket still show *rising* rents. To be conservative and to account for a likely slowdown in the economy in 2023, we recommend assuming that **rent escalation will remain flat through early 2023, then begin to rise in the range of 4%-5% per year in 2H2023 and through 2024, rising to 6% in 2025.** See p. 63 for more analysis of the outlook for rents.

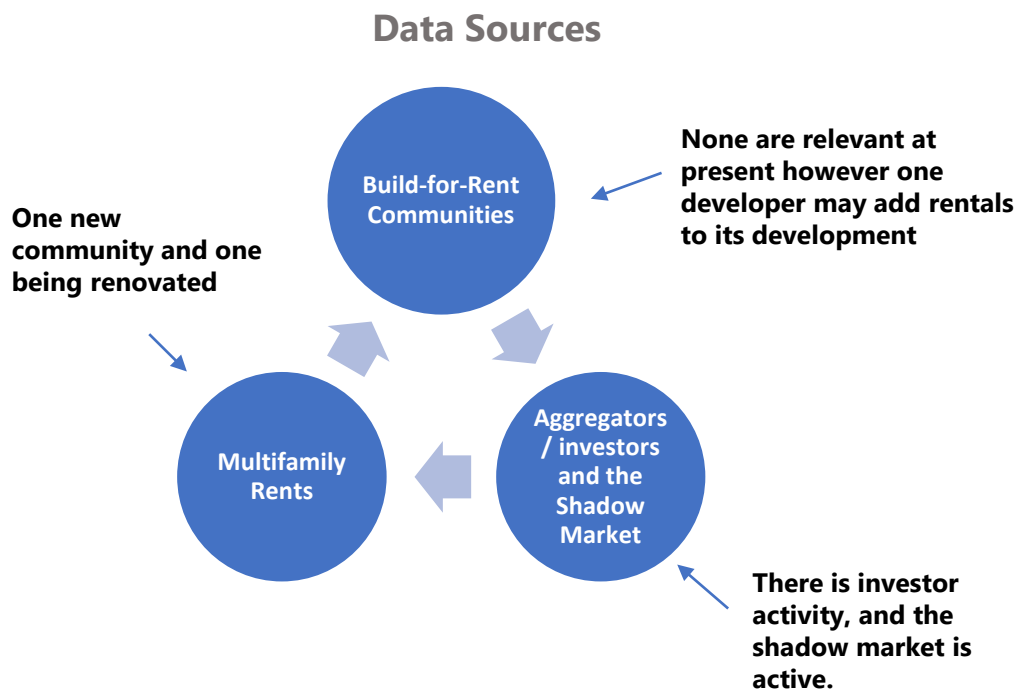
Absorption

Pent-up demand for affordable detached homes is massive. **Absorption for the Subject’s Phase 1 (60 units) is expected to be complete within two to three months** given the plan for pre-leasing for four months before the first home is ready for move-in, and then absorption for future phases is expected to average **18-20 units per month.**

The primary tool of estimating rents is the *Rent Positioning Matrix* ("RPM") using a broad range of market data by product types, locations, and other attributes impacting rent levels.

Using three categories of listings is necessary for estimating rents for the Subject. The most useful data come from build-for-rent (BFR) communities as these are typically representative of the proposed communities we study. In the absence of BFR communities, data from aggregators, followed by shadow listings for SFD and townhomes, and then multifamily rents are used.

The matrices forms the basis of our rent estimating methodology as each data point can be individually researched and explained, and important patterns can be seen. On the following pages are RPMs for the 3- bedroom floorplans. Below is a depiction of the function of these matrices.



Methodology

- Relationship of Size to Rent
- Patterns
- Product attributes
- Listing attributes
- Positioning uncovered & quantified
- Rents estimated

Rent/Mo

Matrix

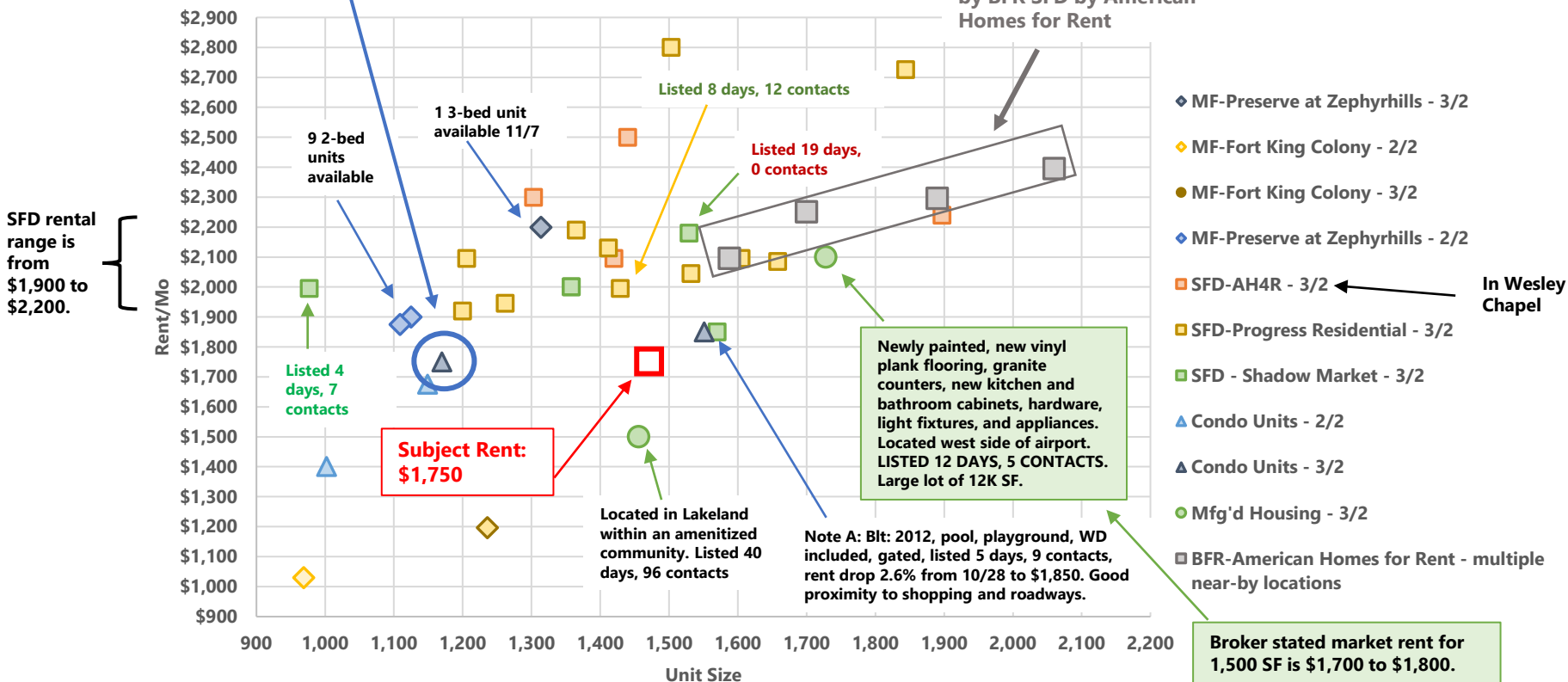
SF

The matrix encompasses all relevant rental data from a variety of locations and for a range of product from multifamily garden-style communities, single-family detached rentals, to individual condo unit rentals. Following are observations generated from the matrix.

- There is no direct manufactured product for comparison. This forces reliance on attached product with guidance from single-family detach listings, which have rents from \$1,900 to \$2,200.
- The lack of supply will support the Subject's rent estimate. There are only 5 listings under \$2,000 and just 3 under \$1,900. A new 3/2 condo listing at \$1,750 has recorded a high number of contacts indicating that this is a feasible rent for the area.
- A local broker, Michael Mann, stated that a 1,500 SF manufactured home would rent from \$1,700 to \$1,800.
- Given the low level of supply for 3-bed units and the Subject's high-quality manufactured product, the rent is estimated to be \$1,750.

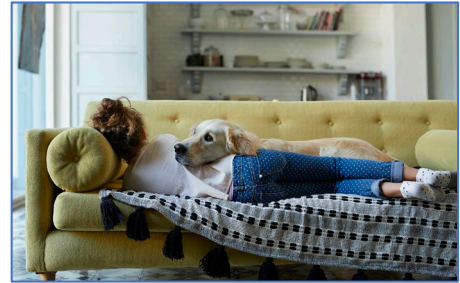
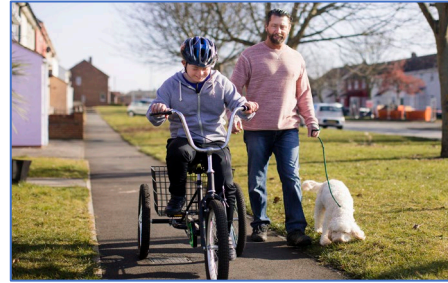
Strong activity – listed 2 days, 18 contacts, 2 applications, good location, good proximity to shopping. In Belmont at Royal Chase. Attached product.

Non-competitive, near-by BFR SFD by American Homes for Rent



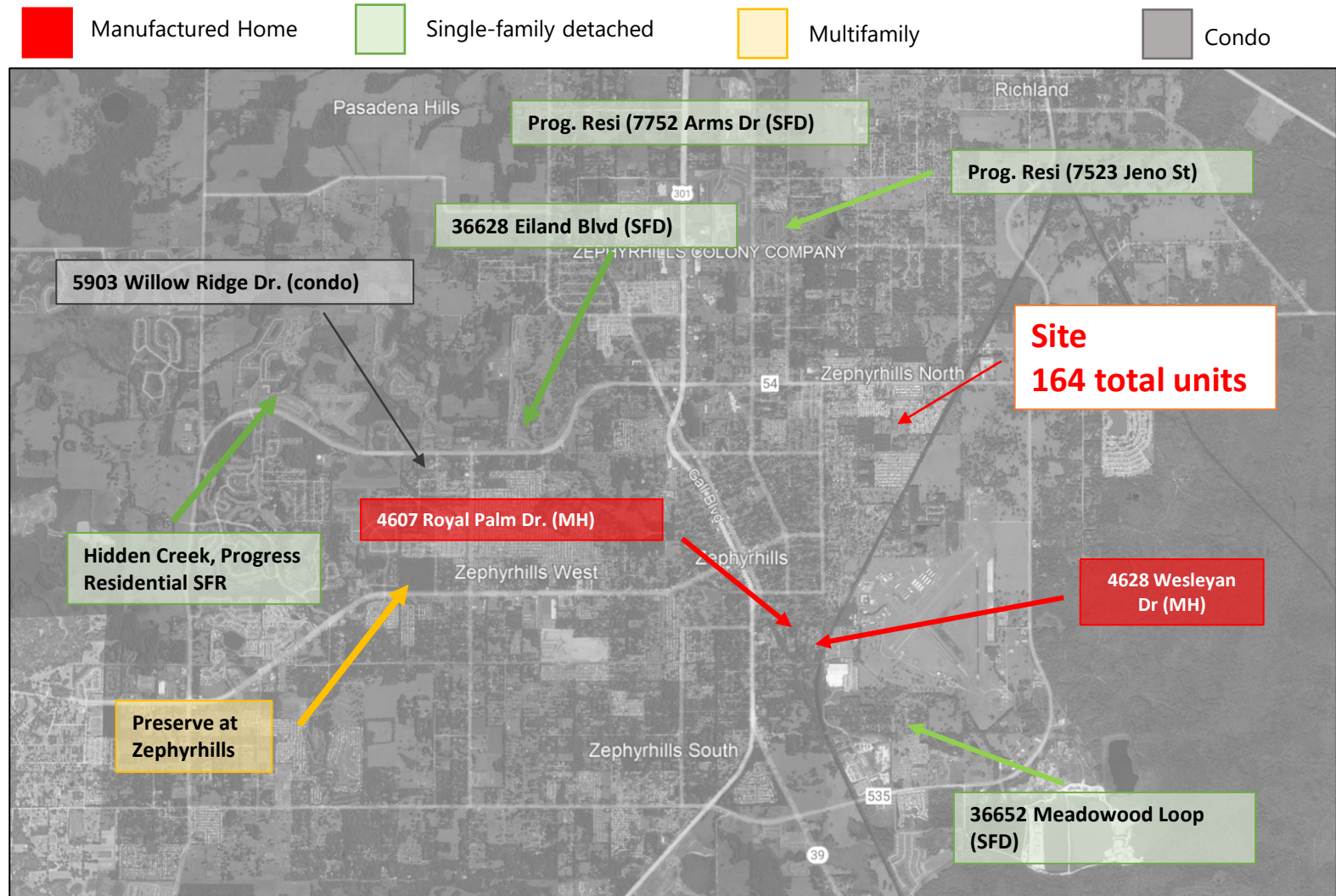
Expected renter types are derived from field research work and from economic modeling software (ESRI's Tapestry segmentation analysis) with the former more indicative of current demand patterns and the latter better used to illustrate the potential for the renter types.

- Field Research Work:** The premise for the development is to provide needed and attainable housing in Zephyrhills in high quality manufactured homes. The Client has met with local housing officials who believe this development will satisfy family-oriented housing. The renter is expected to be families living in and around Zephyrhills the area with young families.
- Esri's Tapestry Segmentation:** Two tapestry segments within the Subject's PMA known as 'Heartland Communities' and 'Traditional Living' with national HH incomes of \$42,400 and \$39,300, respectively are likely target renters for the Subject. The average household sizes are approximately 2.5 with median ages of 42.3 and 35.5 which indicates that young families wanting a new home would welcome the Subject product and its efficiencies of limited amenities.



RENTAL DATA ANALYSIS

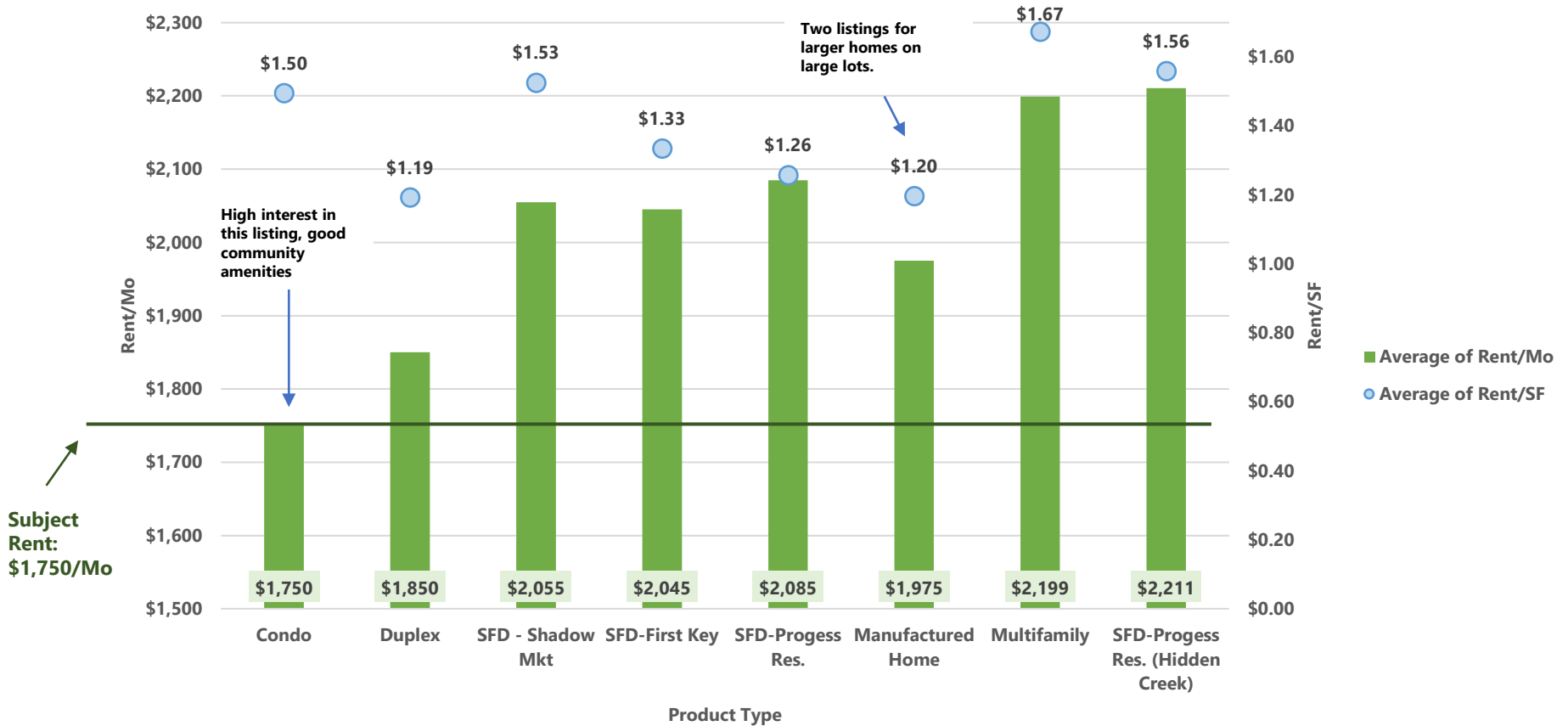
The relevant listings have diverse locations and proximity to shopping which impacts rents. The differences in locations, product type, and age are all considered and adjusted on the rent positioning matrix. As there are no direct competitive communities to the Subject, a wide range of data points is required to formulate the rent estimates.



The data set contains multiple products due to the lack of directly comparable manufactured home rentals. The greatest reliance is placed on the condo and duplex listing as the manufactured home listing is for a larger home size on a large lot. Following is a listing of the rentals, which are identified on the preceding map.

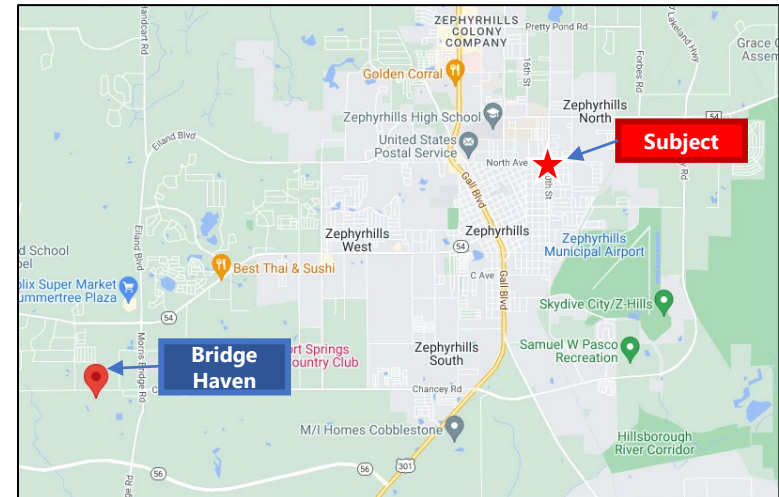
Type	Address	Plan	SF	Rent/Mo	Rent/SF
Condo	5903 Willow Ridge Dr, #102	3/2	1,170	\$1,750	\$1.50
Duplex	37622 Georgina Tr	3/2	1,551	\$1,850	\$1.19
Subject's Manufactured Home	North Avenue	3/2	1,380	\$1,750	1.27
Manufactured Home	4628 Wesleyan Dr	3/2	1,728	\$2,100	\$1.22
Manufactured Home	4607 Royal Palm Dr	3/2	1,570	\$1,850	\$1.18
Multifamily	35940 Inspiration Dr	3/2	1,314	\$2,199	\$1.67
SFD - Shadow Mkt	38916 9th Ave	3/1	977	\$1,995	\$2.04
SFD - Shadow Mkt	36652 Meadowood Loop	3/2	1,358	\$2,000	\$1.47
SFD - Shadow Mkt	4628 Wesleyan Dr	3/2	1,728	\$2,100	\$1.22
SFD - Shadow Mkt	7632 Merhcantville Cir	3/2	1,529	\$2,180	\$1.43
SFD - Shadow Mkt	39652 Meadowood Loop	3/2	1,358	\$2,000	\$1.47
SFD-First Key	36122 Shady Bluff Loop	3/2	1,532	\$2,045	\$1.33
SFD-Progress Res.	7523 Jen0 St	3/2	1,658	\$2,085	\$1.26
SFD-Progress Res. (Hidden Creek)	3239 Allen Rd	3/2	1,503	\$2,800	\$1.86
SFD-Progress Res. (Hidden Creek)	34949 Daisy St	3/2	1,412	\$2,130	\$1.51
SFD-Progress Res. (Hidden Creek)	35055 Daisy St	3/2	1,206	\$2,095	\$1.74
SFD-Progress Res. (Hidden Creek)	6413 Ashville Dr	3/2	1,365	\$2,190	\$1.60
SFD-Progress Res. (Hidden Creek)	35174 White Water Lily Way	3/2.5	1,605	\$2,095	\$1.31
SFD-Progress Res. (Hidden Creek)	7752 Arms Dr	3/2	1,262	\$1,945	\$1.54
SFD-Progress Res. (Hidden Creek)	7928 Wheat Stone Dr	3/2	1,844	\$2,725	\$1.48
SFD-Progress Res. (Hidden Creek)	35063 Daisy St	3/2	1,429	\$1,995	\$1.40
SFD-Progress Res. (Hidden Creek)	35166 White Water Lily Way	3/2	1,200	\$1,920	\$1.60

This exhibit shows how 3-bed rents differ by product type. The manufactured home average rent represents two listings for larger homes on good sized lots (7,000 to 10,000 SF). The most active listing from this data is for the condo unit for \$1,750 which shows that this rent is well within the reach of many living in Zephyrhills.



3430 Bridge Haven Drive, Wesley Chapel, FL 33543

- **\$2,250/** month 1,700 square feet.
- Built in 2021 in the Bridge Haven community. Additional information on this project is found in the Built for Rent Presence section of this report.



SITE AND AREA ANALYSIS

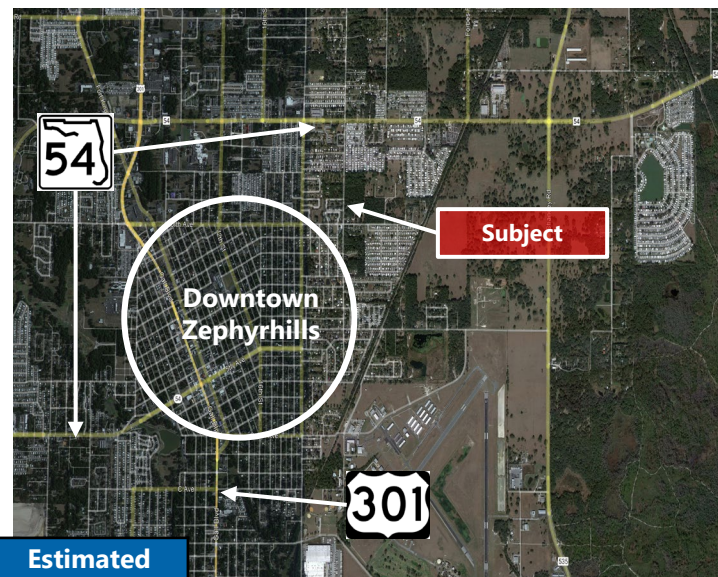
The Subject enjoys convenient access to U.S. 301 within a 5-minute drive providing travel northward to Dade City or southward to the major economic centers of Tampa, FL, Clearwater, and St. Petersburg. Access westward via S.R. 54 provides travel to the regional supporting communities of Wesley Chapel, FL, Land O'Lakes, Odessa, and further to the U.S. Highway 19 corridor in Pasco County. Access southward on U.S. Highway 98 leads to the economic and job centers of Lakeland and Plant City in under 45 minutes.

The Subject site's proximity to economic centers and job nodes would be an attraction for potential renters. Residents in the areas north of Zephyrhills in and around Dade City & Brooksville would be likely to consider the Subject site as a viable location due to its closer proximity to downtown Zephyrhills and regional employment centers.

Map of Subject's Proximity to Economic Centers



Map of Downtown Zephyrhills

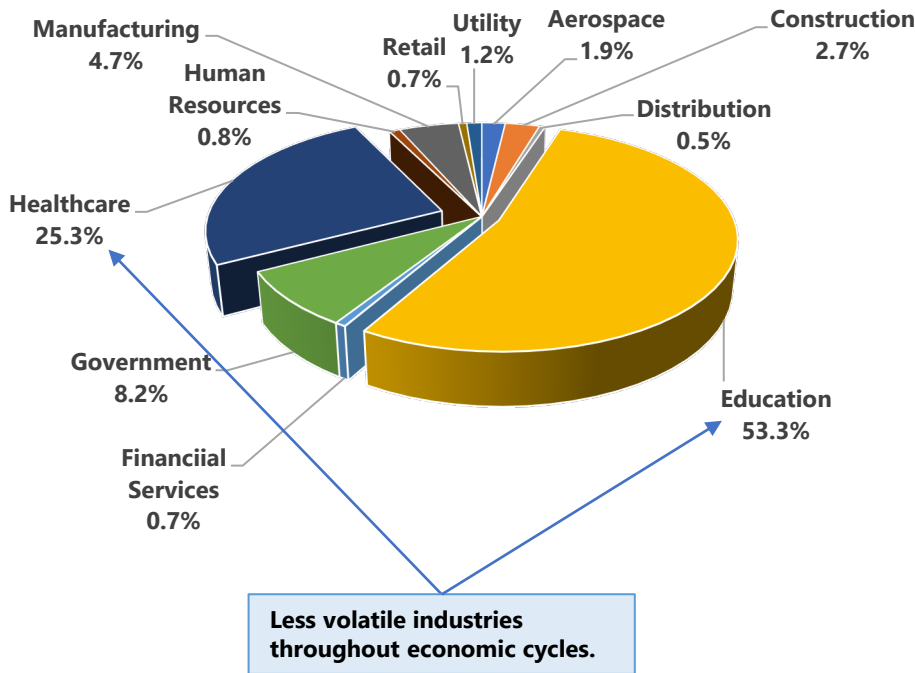


Economic Center	Distance from Subject Site	Estimated Drive Time
Downtown Zephyrhills	1.6 miles	5 minutes
Dade City	10.9 miles	15 minutes
Wesley Chapel	13.2 miles	20 minutes
Brooksville	33.6 miles	45 minutes
Lakeland	24.7 miles	40 minutes
Tampa	30.8 miles	45 minutes
Clearwater	58 mimles	70 minutes
St. Petersburg	53.3 miles	65 minutes
Orlando	70.2 miles	75 minutes

The economic drivers in Pasco County are diverse but with heavier concentrations in the less volatile industries of education and healthcare which serves to provide additional insulation against economic downturns. The education industry's strong presence is heavily influenced by the 11,800+ employees of the Pasco County School District out of the total 16,000+ educational industry employees.

Total healthcare industry employment of 7,775+ is spread across seven different employers with the largest two being **HCA Healthcare** (3,084) and **AdventHealth** (1,410).

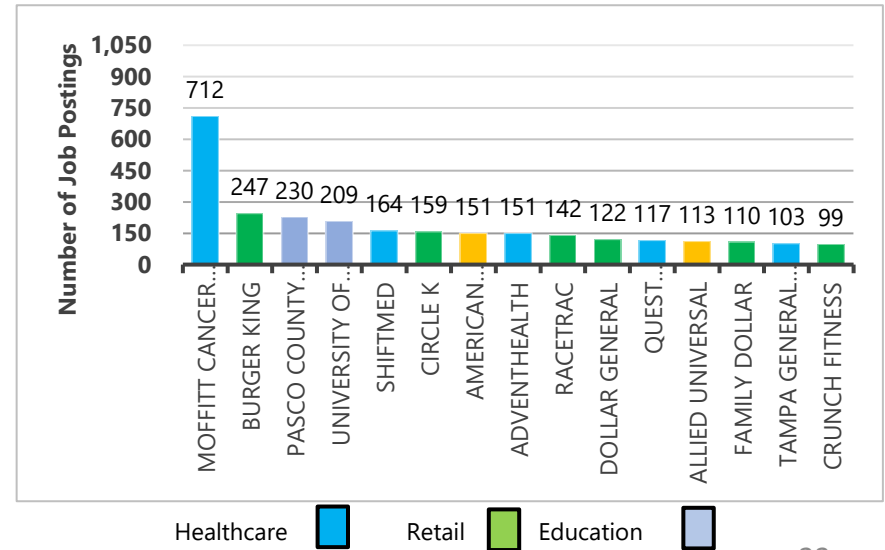
Pasco County – Leading Industries with 100+ Employees



In 11/2022, **HHE** studied currently available employment positions near the proposed Subject site to determine if existing opportunities were commensurate with existing industry concentrations within Pasco County. After researching **nearly 17,100+ local full-time employment (FTE) job postings** within a 25-mile radius of Zephyrhill, our findings of local employment demand were derived.

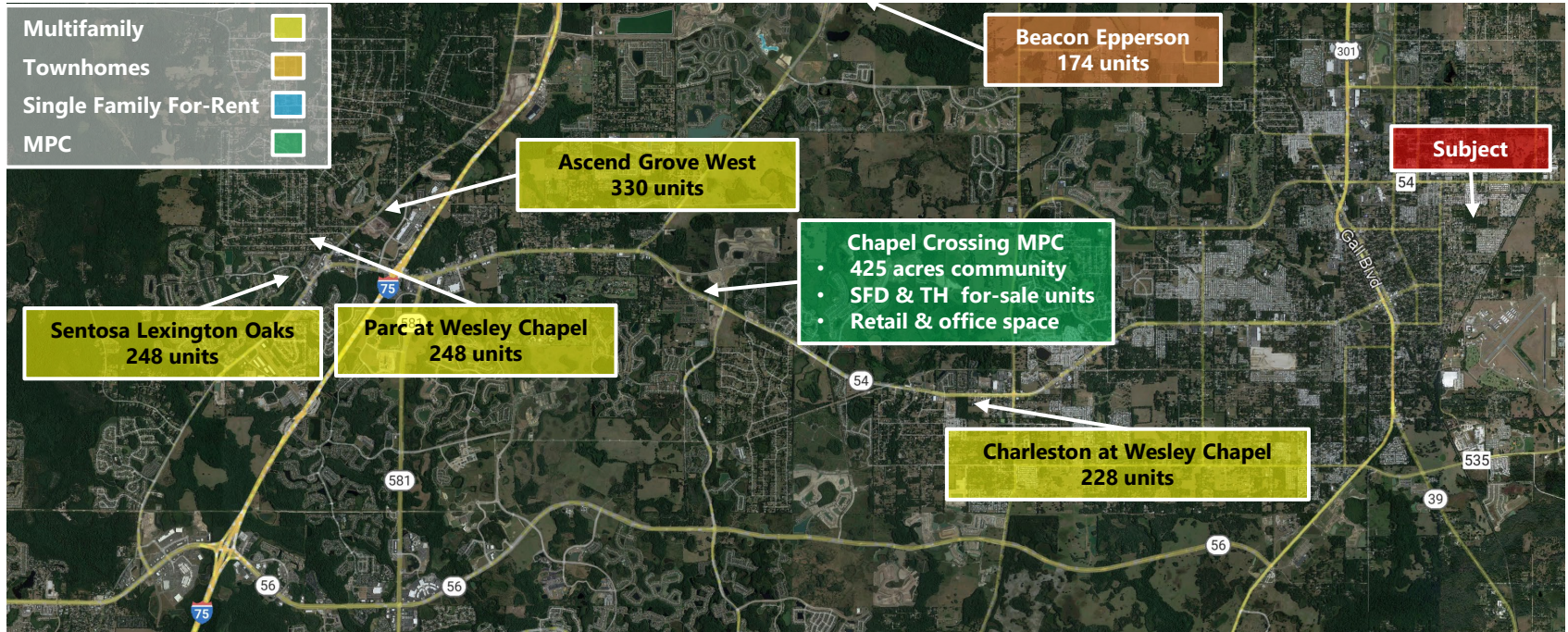
Within the Zephyrhill market there is diversified employment demand with strong concentrations in a few industries. The graph below reflects a visual illustration of the employers within the PMA with the greatest number of current position advertisements. Of these, employment demand is strongest within the healthcare (40.8%), retail (29.8%), and food service (15.3%) industries. The strong healthcare concentration is similar to that of Pasco County while the retail and food service industries have a stronger concentration.

Employers with Largest # of Job Postings (11/2022)



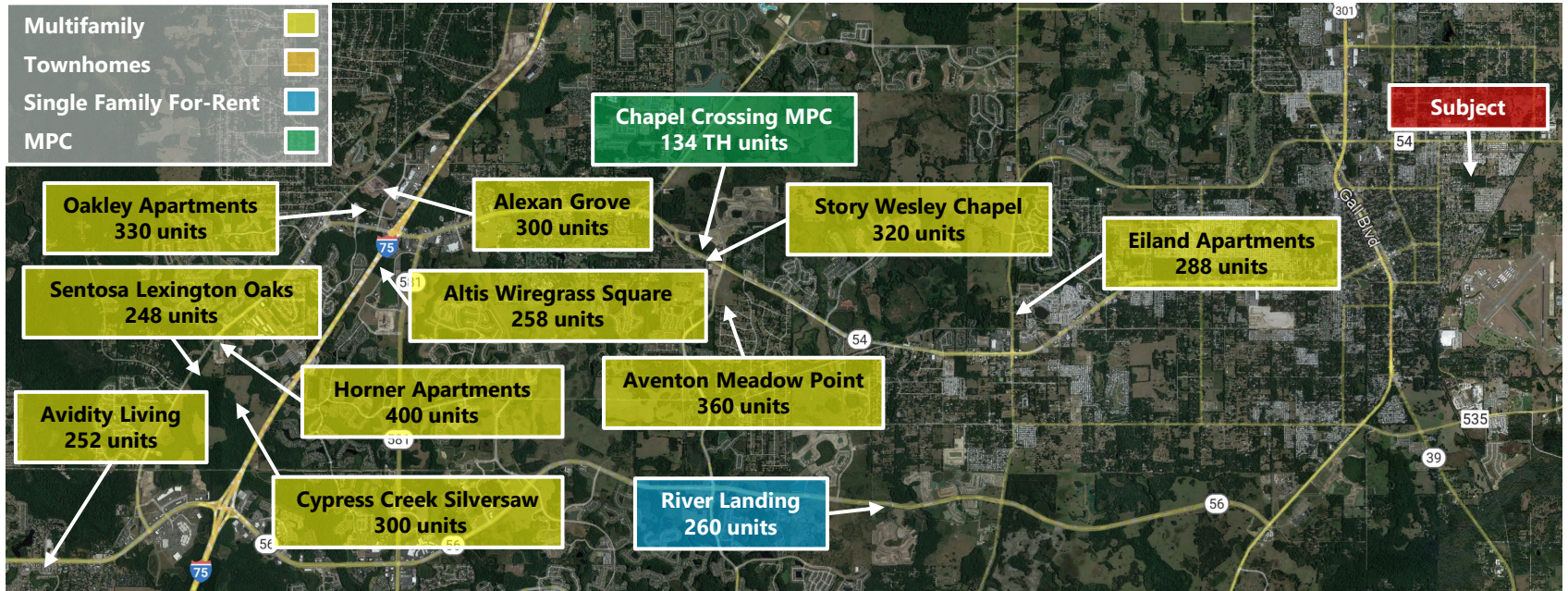
Demand for housing in the State of Florida has been at historically high levels during much of 2020, 2021, and early 2022. Strong demand emanating from mass population migration to sunbelt locations, especially the Tampa metro area, has facilitated higher median home prices and rental rates which has sparked new for-sale and for-rent housing developments. HHE has identified several recent housing developments along the S.R. 54 corridor from Zephyrhills and slightly beyond its intersection with I-75 which could complete for renters at the proposed Subject site as reflected below.

Map of Recent Housing Developments



Year Built	Community Name	Housing Type	Unit Count
2020	Parc at Wesley Chapel	MF	248
2021	Charleston at Wesley Chapel	MF	228
2022	Beacon Epperson	TH	174
2022	Sentosa Lexington Oaks	MF	248
2022	Ascend Grove West	MF	330
Total Units			1,228

Incoming multifamily development is centered mostly along the I-75 corridor near Wesley Chapel with additional incoming multifamily and townhome being located along S.R. 54. A single SFR BFR community, River Landing, is anticipated in the Cross Creek MPC south of S.R. 54.



Status	Community Name	Housing Type	Unit Count
Under Construction	Cypress Creek Silversaw	MF	300
Prelim Site Plan - Conditional	Altis Wiregrass Square	MF	258
Prelim Site Plan - Conditional	Avidity Living	MF	252
Prelim Site Plan - Conditional	Alexan Grove	MF	300
Prelim Site Plan - Approved	Aventon Meadow Point - Phase 1	MF	360
Prelim Site Plan - Conditional	Story Wesley Chapel - Chapel Crossing	MF	320
Prelim Site Plan - Conditional	Eiland Apartments	MF	288
Prelim Site Plan - Approved	Homer Porperty Apartments	MF	400
Prelim Site Plan - Conditional	Oakley Apartments	MF	330
Preliminary Planning	River Landing - GTIS Partners	SF BFR	260
		Total Units	3,068

Retail in the surrounding area is great with many regional and nationally known retailers and grocers. Within just a few miles of the Subject site are several grocery stores including **Publix, Winn Dixie, Dollar General, and Walmart Supercenter** along with an assortment of locally owned boutiques and shops.

Non-grocery retailers are convenient with **Lowe's, TJ Maxx, Harbor Freight, Big Lots, Ace Hardware, and Hobby Lobby** being just minutes from the Subject site.

Dining by nationally known chains is also available from **McDonalds and Culvers** but with a wide variety of cuisine available from locally owned authentic restaurants such as **Plaza Mexico, Little Ninja, and the Zephyrhills Brewing Company.**

The list to the right reflects the mixture of nationally and locally owned restaurants within a two-mile radius of the proposed Subject site which reflects the diversity of dining options available to potential renters.

Map of Surrounding Retail & Dining



Name	Type	Name	Type
Fresh Country Café	American	China Taste	Chinese
Golden Corral	American	Golden Panda	Chinese
R&J Fried Chicken	American	ABC Pizza	Italian
Sunrise Eatery	American	Commandoughs Pizza	Italian
Tima & Joe's Café	American	Dominos Pizza	Italian
Z Hills Café	American	Hungry Howies Pizza	Italian
Nico's Cheesesteaks	American	Little Caesar's Pizza	Italian
Living Food Bakery	Bakery	Plaza Mexico	Mexican
Tubby's Q & Smokehouse	Barbeque	Taco Amigo	Mexican
Hole In One Donuts	Breakfast	Corozal Restaurant	Puerto Rican
Starbucks	Coffee	Riverside Seafood Market	Seafood
Burger King	Fast Food	The Great Catch	Seafood
Checkers	Fast Food	Little Ninja	Thai
Culvers	Fast Food	Saigon Café	Vietnamese
Dunkin Donuts	Fast Food		
KFC	Fast Food		
McDonalds	Fast Food		
Wendy's	Fast Food		

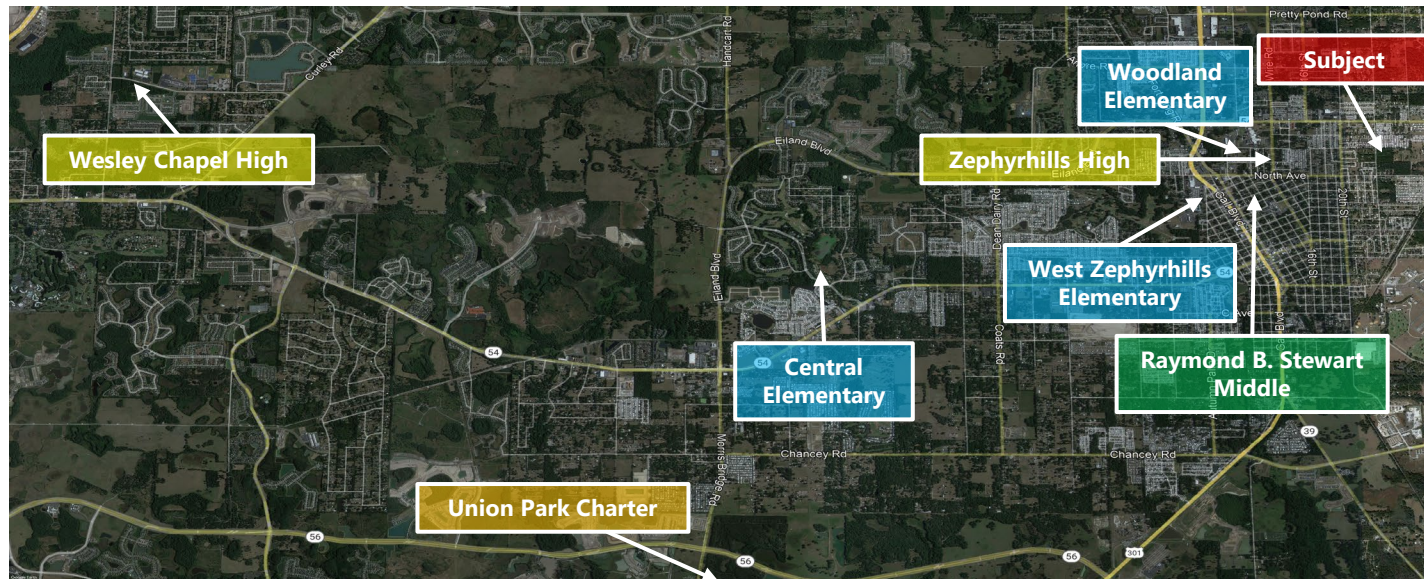
Pasco County School District

The Pasco County School District (the "District") is comprised of 119 schools providing Pre-K to 12th grade education to over 75,048 students. Overall, the District's ratings are average with similar ratings to the state averages. The geographically assigned schools for the proposed Subject site are **Woodland Elementary**, **Raymond B. Stewart Middle**, and **Zephyrhills High School**.

Surrounding Schools							
School Name	Assigned or Alternate Enrollment	Grades	Overall Rating	Test Score Rating	Student Progress Rating	Equity Rating	# Students Enrolled
Woodland Elementary	Assigned	PK - 5th	3	3	4	2	868
West Zephyrhills Elementary	Alternate	PK - 5th	2	2	3	2	857
Raymond B. Stewart Middle	Assigned	6th - 8th	3	4	3	3	989
Centennial Elementary	Alternate	6th - 8th	4	4	4	3	688
Zephyrhills High School	Assigned	9th - 12th	3	4	2	4	1,477
Wesley Chapel High	Alternate	9th - 12th	5	6	3	5	1,433
Union Park Charter Academy	Charter	K - 6th	8	8	6	-	610
Academy at The Farm (Dade City)	Charter	K - 8th	9	9	9	9	588

The geographically assigned schools all have below average ratings, which would not be a strong point of attraction for potential renters with school age children. However, it should be noted the public charter schools in the surrounding area have high ratings and could be a good opportunity for enrollment, pending availability.

It should be noted parents/guardians have the option of choosing other schools for their children to attend under a School Choice model. Parents/guardians can choose for their child to attend any other available public school in Pasco County.



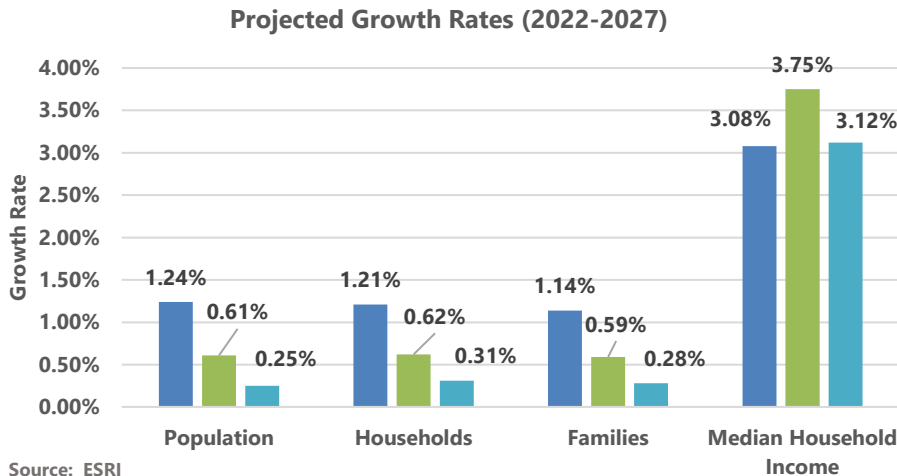
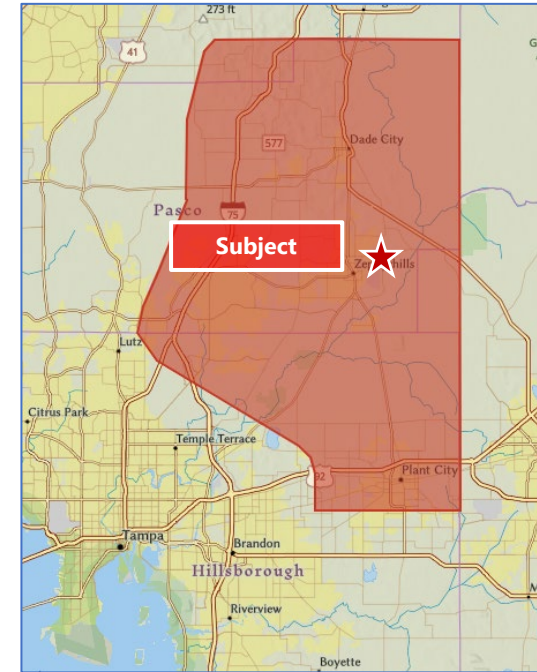
DEMOGRAPHICS AND ECONOMICS

Household and population growth rates are extremely strong in this area. The Primary Market Area (“PMA”) is an area outlined by HHE to designate the area from where the targeted tenants may come. We create a custom-determined boundary as the PMA for every site we analyze.

There are an estimated 327,427 people living within the PMA, an increase of 64,562 residents since the 2010 census – **a growth of 24.5% in just 12 years, which equates to an annual growth rate of 2.01%**. The projections from 2022 to 2027 call for an additional 20,859 residents, equating to a population **growth rate of 1.24% over the next 5 years**.

The PMA’s growth rate forecast for the next five years significantly exceeds both the state of Florida and the nation, though income growth is less strong. The population growth implies an additional 7,568 households, including 1,763 renter occupied units. With this robust growth in population and households will come strong demand for housing, both for-sale and for-rent.

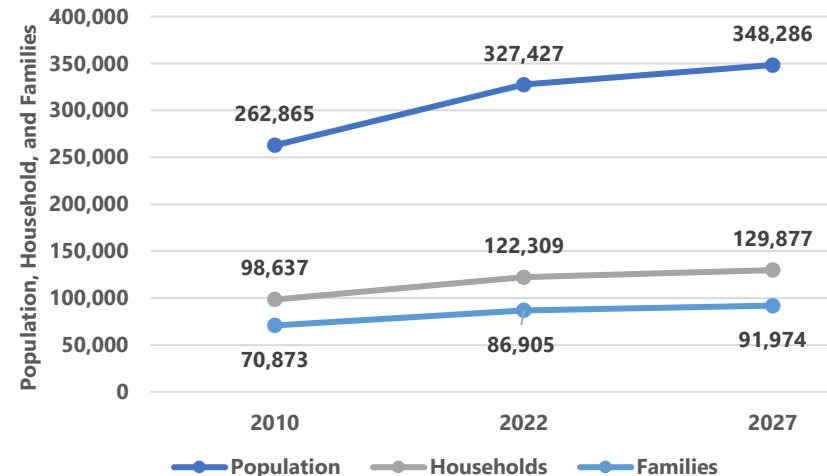
It is likely the PMA will enjoy household formations above the ESRI data projections shown, as residents within Hillsborough county are priced out of the market.



Source: ESRI

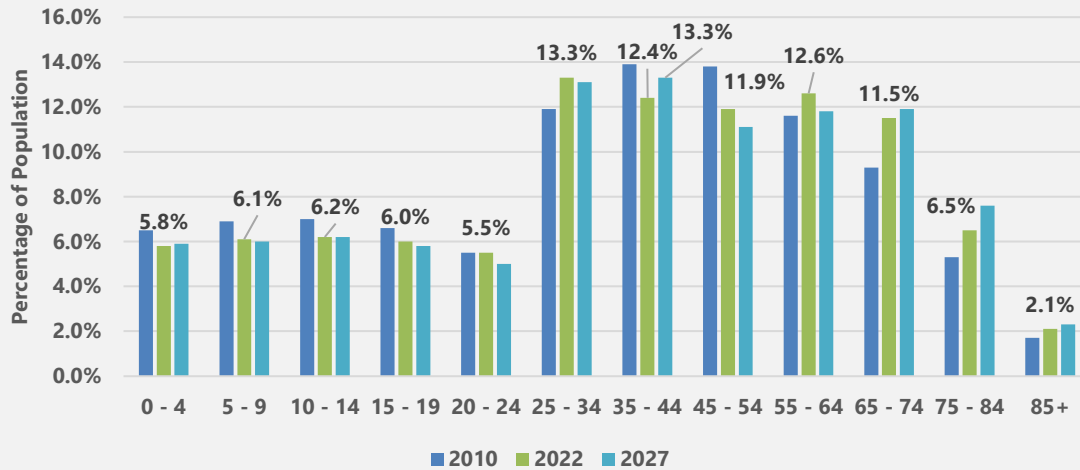
■ PMA ■ Florida ■ USA

PMA Demographic Growth



Source: ESRI

Age Composition of the PMA



The median age in the PMA for 2022 is 40.6, up from 39.1 in 2010, but is not expected to change by 2027.

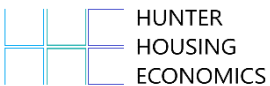
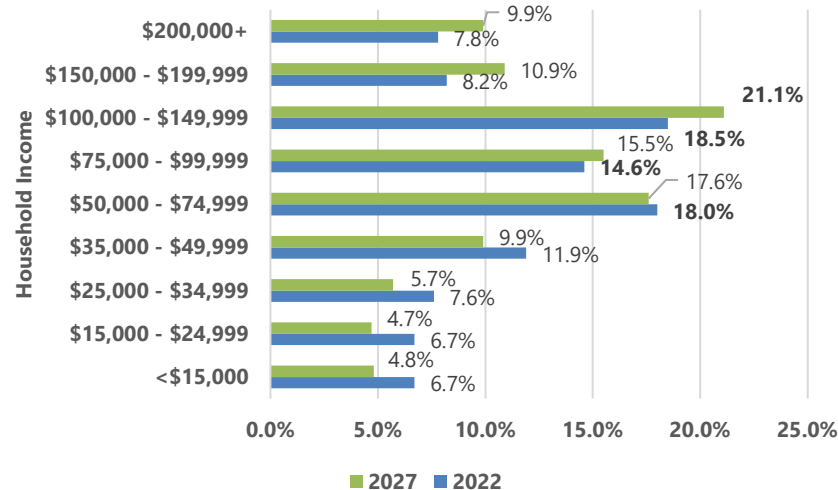
The fastest growing segment of the population in the PMA, the “elder millennials” aged 35-44, are projected to add 5,502 people over the next 5 years, increasing the demand for family-oriented housing.

In 2022 the median/average household income for the PMA was \$73,174/\$98,929 respectively, and by 2027 these figures are projected to increase to \$85,141/\$117,048, according to ESRI forecasts based on U.S. Census data. The shared growth rate of median and average incomes indicate that this growth is likely to maintain the existing income distribution pattern.

Household incomes in the PMA are strong, with all categories over \$75k per year forecast to grow in the next 5 years. Though there is a relatively low share of existing high-income households, exceptional growth is expected in these categories over the next five years.

Household Income	Households ('22-'27)	Growth ('22-'27)
\$75,000-\$99,999	+2,325	+13%
\$100,000-\$149,999	+4,754	+21%
\$150,000-\$199,999	+4,158	+41.3%

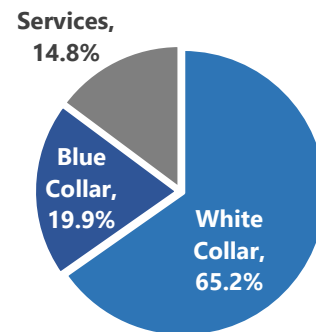
Household Income Projections



The overall employment makeup by job type for the PMA is primarily White Collar (65.2%), with Blue Collar (19.9%), and Service jobs (14.8%) representing a smaller portion than the national averages.

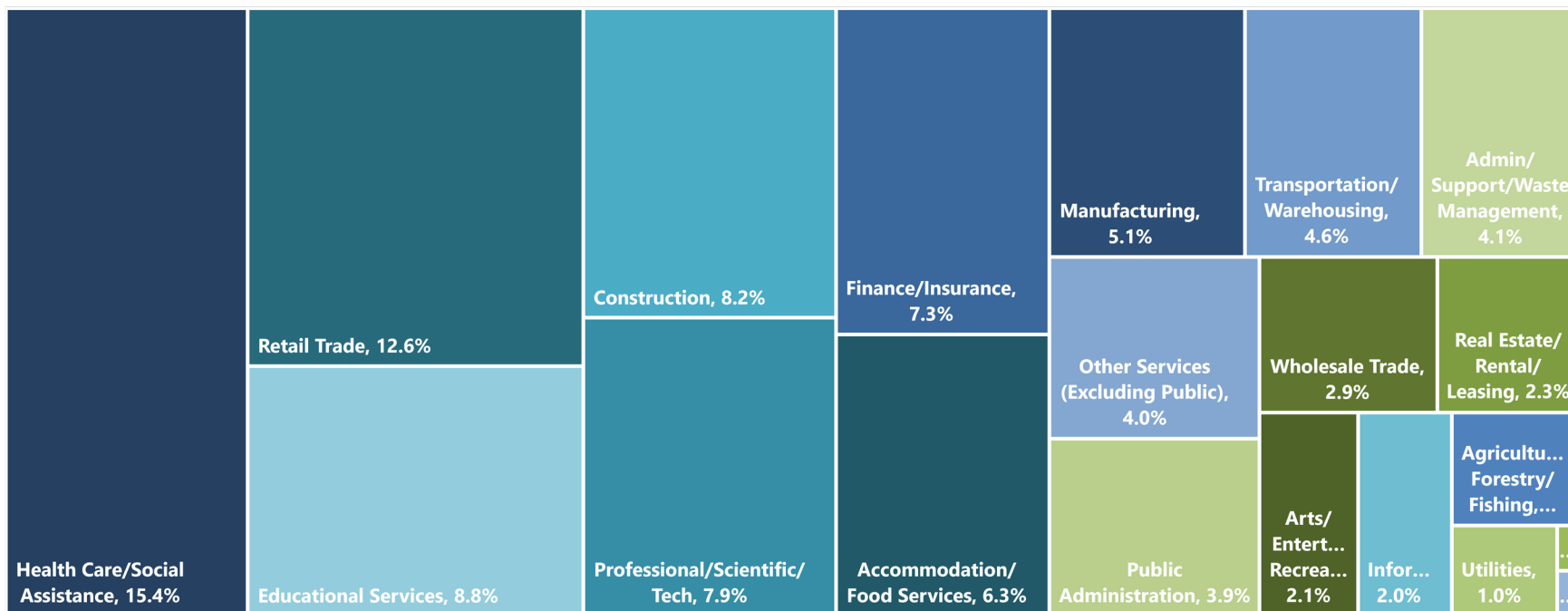
When these job types are further broken down into industries, a number of distinct outliers appear. Health and Social Services comprise the largest share (15.4%), Educational Services (8.8%) and Construction currently sits at 8.2% of employment. Finance/Insurance (7.3%) and Manufacturing (5.1%) are also well represented – providing solid diversity to the PMA’s employment base.

Distribution by Job Type



■ White Collar ■ Blue Collar ■ Services

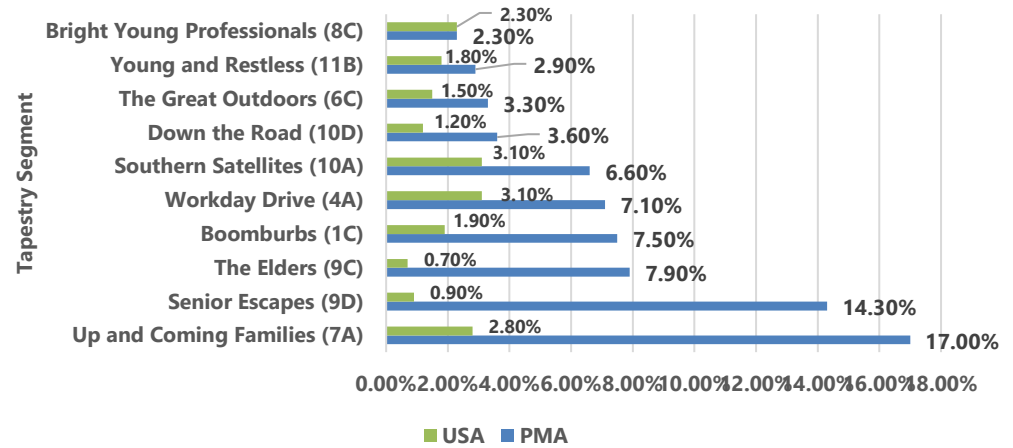
PMA Employment by Industry






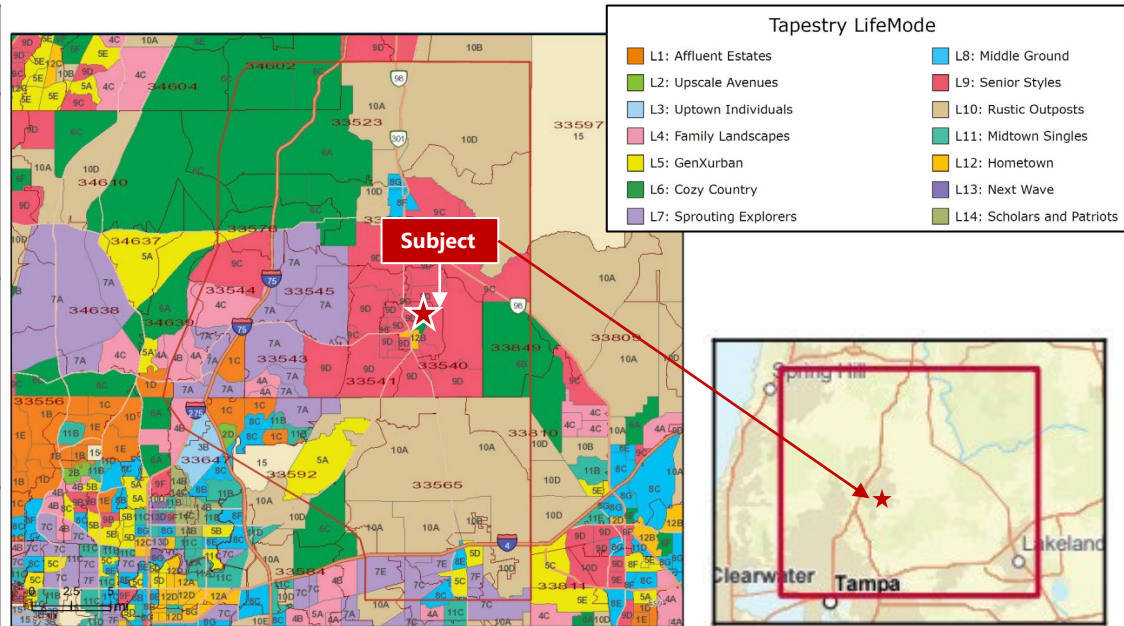
The ESRI Tapestry Segmentation system goes beyond demographics by accounting for psychographic factors, purchasing trends, and social activity patterns and is used to help identify the Subject's Expected Renter Profile. Within the Tapestry system there are 14 LifeModes, each with subgroups.

The high presence of **Up-and-Coming Families (17%)**, **Boomburbs (7.5%)**, and **Workday Drive (7.1%)** indicates that the area is a proven destination for families with higher incomes. These groups are the most likely potential renters for the Subject property within the Tapestry's top 10 segments. However, the Subject's target renter is more likely to be within the 'Heartland Communities' and 'Traditional Living' segments found in the Subject's immediate area.

Top Ten Tapestry Segments



Group	Ave. HH Size	Median Age	Median HH Income
 Up and Coming Families	3.12	31.4	\$72,000
 Boomburbs	3.25	34	\$113,400
 Workday Drive	2.97	37.0	\$90,500



Source: ESRI Tapestry Research

HHE's demand model is used to confirm the Subject's feasibility and to forecast absorption. This assumes that by the time leasing begins, the current national recession/slowdown should be giving way to the next recovery. The Subject development is projected to stabilize in just over a year.

Absorption in the initial months could be even higher if an effective pre-leasing regimen is followed.

Population Growth 2022 to 2027	Income and Rental Brackets		PMA Household Growth		
	Annual Household Income	Estimated Monthly Rent	2022 Households	Change	2027 Households
	\$0 to \$25k	\$0 - \$800	16,388	-4,121	12,267
	\$25k to \$35k	\$800 to \$1,000	9,317	-1,978	7,339
	\$35k to \$50k	\$1,000 to \$1,250	14,543	-1,690	12,853
	\$50k to \$75k	\$1,250 to \$2,000	22,059	747	22,806
	\$75k to \$100k	\$2,000 to \$2,500	17,835	2,325	20,160
	\$100k to \$150k	\$2,500 to \$3,500	22,623	4,754	27,377
	\$150k+	\$3,500+	19,543	7,532	27,075
	Totals		122,308		129,877

Rental HH Growth 2022 to 2027	Income and Rental Brackets		Calculation of Rental Household Growth		
	Annual Household Income	Estimated Monthly Rent	2022 Rental Households	Change	2027 Rental Households
	\$0 to \$25k	\$0 - \$800	30% 4,916	-1,052	32% 3,864
	\$25k to \$35k	\$800 to \$1,000	25% 2,329	-403	26% 1,926
	\$35k to \$50k	\$1,000 to \$1,250	28% 4,072	-293	29% 3,779
	\$50k to \$75k	\$1,250 to \$2,000	41% 9,044	1,241	45% 10,286
	\$75k to \$100k	\$2,000 to \$2,500	33% 5,886	1,433	36% 7,318
	\$100k to \$150k	\$2,500 to \$3,500	24% 5,430	1,798	26% 7,228
	\$150k+	\$3,500+	15% 2,931	1,536	17% 4,467
	Totals		28% 34,608		30% 38,868

Rental HH Demand	Income and Rental Brackets		Rental Household Demand at Subject Site				
	Annual Household Income	Estimated Monthly Rent	Annual New Rental HH for PMA	% of Renters for Subject	Annual New Rental HH Demand at Subject	% of Existing Renters for Move-Up at Subject	Move-Up Demand at Subject
	\$0 to \$25k	\$0 - \$800	-210	0.0%	0	0.0%	0
	\$25k to \$35k	\$800 to \$1,000	-81	0.0%	0	0.0%	0
	\$35k to \$50k	\$1,000 to \$1,250	-59	0.0%	0	0.5%	20
	\$50k to \$75k	\$1,250 to \$2,000	248	32.0%	79	0.3%	23
	\$75k to \$100k	\$2,000 to \$2,500	287	5.0%	14	0.0%	0
	\$100k to \$150k	\$2,500 to \$3,500	360	0.0%	0	0.0%	0
	\$150k+	\$3,500+	307	0.0%	0	0.0%	0
	Totals		852	11.0%	94	0.12%	43
			TOTAL ANNUAL DEMAND				137

Demand will come from: (1) new households in the area, and (2) existing households in the area who are renting in apartments or scattered SFR who will choose to move up to the Subject.

Conclusions:

- Based on this analysis, it was found that there will be an annual demand for 852 new rental units stemming from **new households that will be formed within the PMA**, equating to **94** units per year.
- **Move-ups** are conservatively forecast to be **43** units of annual demand.
- These come to the **total demand** of **137** units per year at the Subject site.

The demand model cannot account fully for pent-up demand for affordable detached homes, which will be a significant source of additional initial leases. **Absorption for the Subject's Phase 1 (60 units) is expected to be within two to three months given the plan for pre-leasing (for four months), and absorption for future phases is expected to be 18 to 20 units per month.**

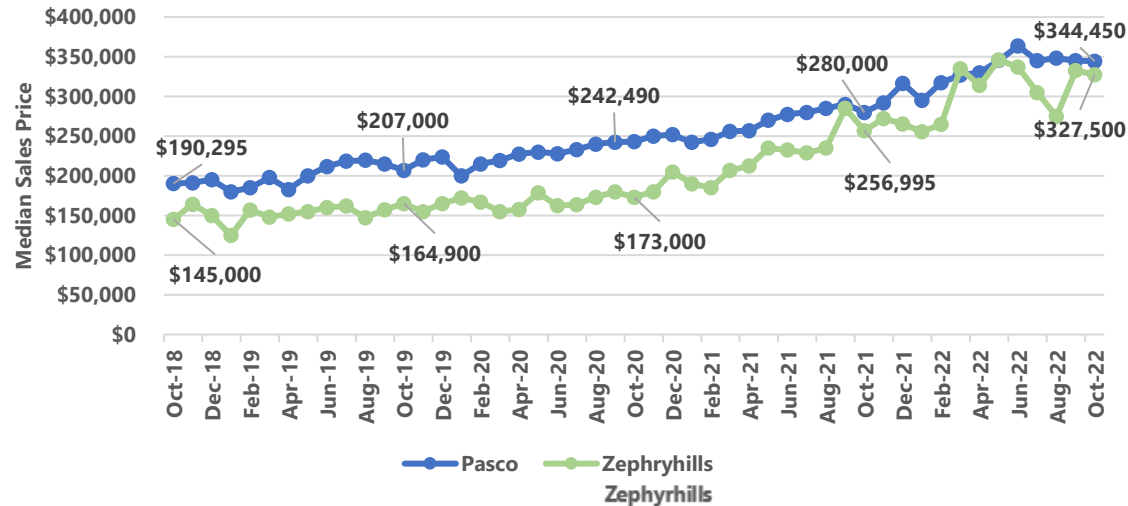
Based on the demographic information provided by the US Census Bureau and ESRI, a demand model was developed to predict the absorption capacity for this product type at the Subject project. *Local county officials have also indicated that there is a tremendous amount of pent-up demand for detached housing at this price point, which leads to an absorption forecast that exceeds the demographically-driven model forecast.*

HOUSING MARKET OVERVIEW

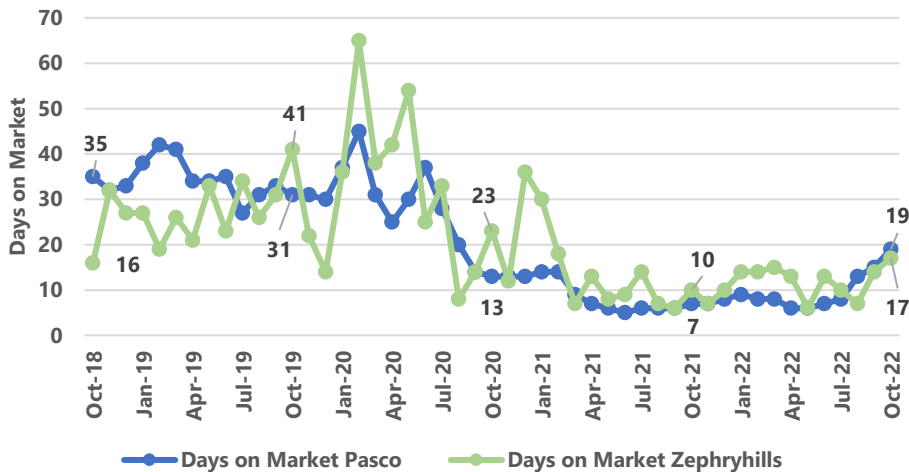
Despite the rapid increases in interest rates slowing demand nationwide, the Subject's market is still performing very well. The Zephyrhills housing market is still appreciating at a rapid pace, days on the market is currently only 17 days (showing inventory is turning over rapidly) and months of supply, at 2.5, indicates supply is still tight.

- **The Median Sales Price in Zephyrhills as of Oct 2022 is \$327,500, a 26.4% increase year over year, and an 89.3% increase from Oct. of 2020.**
- Days on Market is currently 17 in Zephyrhills and 19 in Pasco, a 143% increase YoY.
- Months of Supply has also increased substantially YoY, rising from .9 in Oct. 2021 to 2.2 in Oct. 2022. This reflects the historic supply constraint and high demand of 2021 and is still considered well below the equilibrium of 6 months.

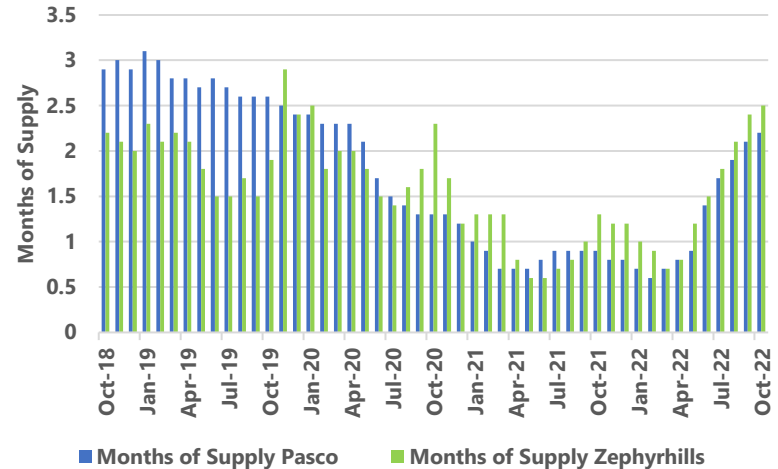
Median Sales Price



Days on Market



Months of Supply



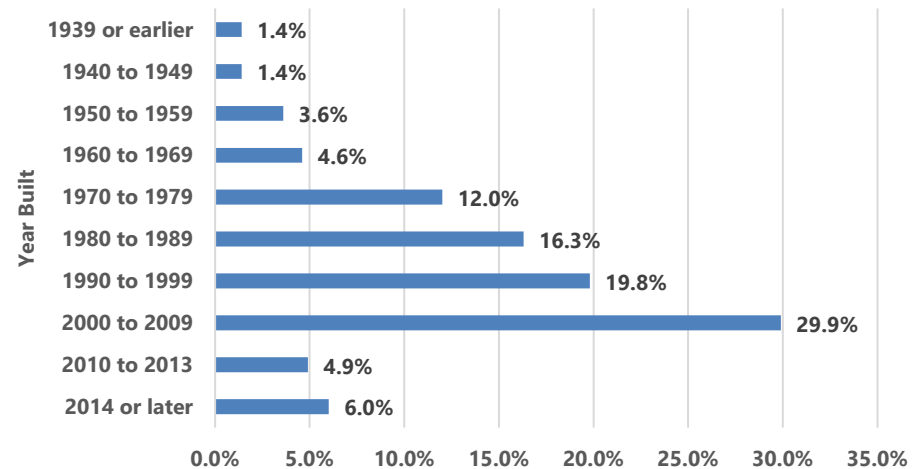
The existing housing stock is analyzed by age, type, and occupancy to assist in determining supply and demand within the PMA.

The **Housing Stock by Year Built** graph to the right depicts the percentage of homes in the PMA by the age of their construction. The lack of consistent residential construction after the Great Recession has been a contributing factor to the tight housing supply. This constraint in supply has pushed values to accelerate rapidly over the past four years.

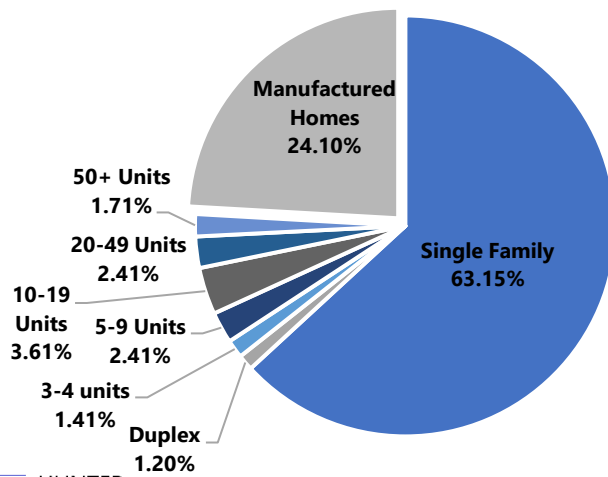
Housing stock in the PMA Key Points:

- 23.3% is currently renter occupied and 65.7% is owner occupied. ESRI projections suggest an increase in owner occupancy. However, this data lags and does not reflect the recent increases in mortgage rates which will likely cause more many would be homeowners to continue renting, thereby increasing the percentage of renter occupied units.
- 63.15% is single-family, and 24.10% is manufactured housing.
- Homes built after 2010 account for only 10.9% of all housing.

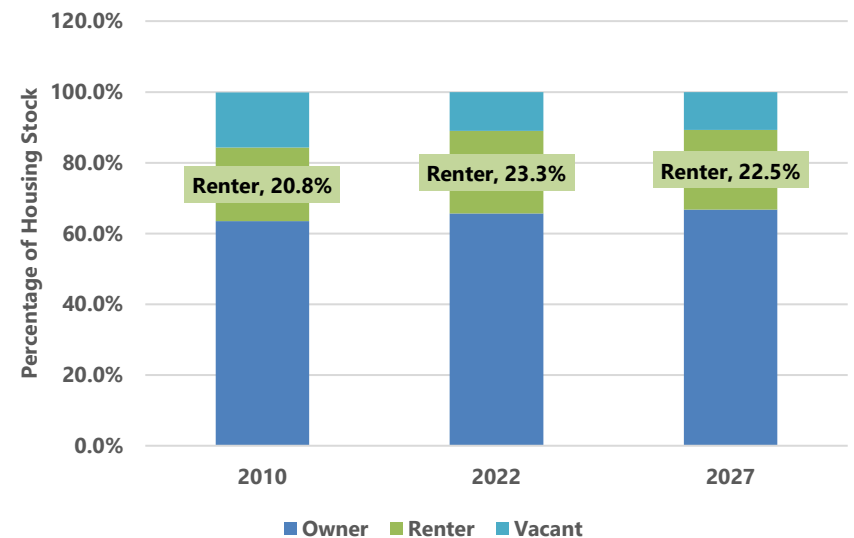
Housing Stock by Year Built



Housing Units by Structure



Housing Stock by Occupancy Type

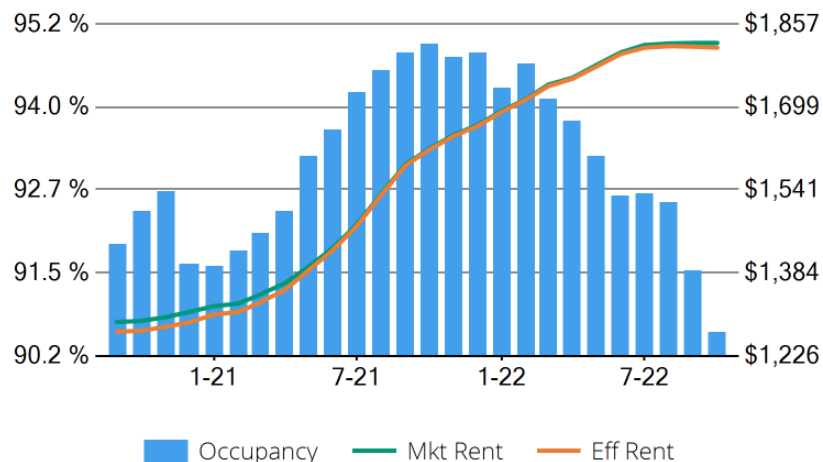


MULTIFAMILY MARKET OVERVIEW

The multifamily overview provides guidance on the rental market overall. However, the Subject is not expected to compete directly with multifamily projects in the Subject’s submarket.

- Rents in the greater Tampa Bay market have continued to rise, up 12.2% Year over Year (YoY).
- The multifamily market in Tampa Bay consists of 238,728 conventional units with an occupancy rate of 90.6%, which while down 4.7% YoY is considered a healthy market.
- The percentage of properties offering concessions has increased to 8%, a substantial increase over last year. However, 2021 experienced a very tight supply and therefore historically low concessions. Nevertheless, this is indicative of softening demand, impacted by pricing and the perceived threat of recession in the marketplace. Rent growth will likely remain low for MF housing in 2023 then begin recovering in 2024.

Tampa, FL



Market Metrics **As of October 2022**

Total Units	238,728
Total Properties	1,213
Unit Change	11,818
Units absorbed	516
Average Size (SF)	929

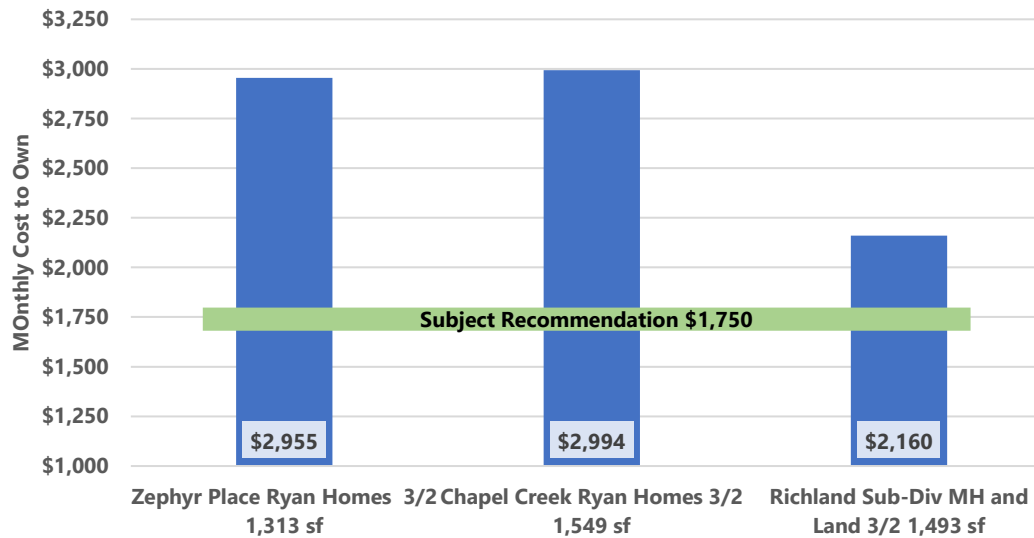
Comparison to Prior Year **Year Over Year** **As of October 2022**

Effective Rent	+12.2%	\$1,811
Effective Rent per SF	+12%	\$1.95
% Properties Offering Concessions	+225	8%
Occupancy	-4.7%	90.6%

COST TO OWN COMPARISON

Renting at the Subject will cost less per month than owning either a manufactured or a site-built home. The for-sale comparables shown below are the available new homes closest in size and location to the Subject's proposed 3-bedroom floor plan.

- Richland: Although the Subject's product is of superior quality to the MH for-sale comparable shown, this new 2022 manufactured home is included based on its proximity. Richland homes are sold on 1/4 acre lots, with no amenities or fees.
- Ryan Homes: Zephyr Place is nearly sold out, with only one inventory home left. Chapel Creek opened for sale, as Zephyr Place entered close-out, demonstrating steady demand for entry-level homes (now priced at over \$300,000) in Zephyrhills.



The assumptions for this exhibit are shown on the following slide.

The table below provides the detailed assumptions used on the graph on the preceding page.

	Zephyr Place Ryan Homes 3/2 1,313 sf	Chapel Creek Ryan Homes 3/2 1,549 sf	Richland Sub-Div MH and Land 3/2 1,493 sf
Out-the-Door Price	\$335,990	\$344,390	\$249,900
Down Payment ¹	\$16,800	\$17,220	\$12,495
Mortgage	\$319,191	\$327,171	\$237,405
Mortgage Rate ²	7.000%	7.000%	7.000%
Term	30	30	30
Monthly Property Tax ³	\$378	\$388	\$281
Monthly HOA Fee	\$75	\$75	\$0
Monthly CDD Fee	\$0	\$0	\$0
PMI ⁴	\$238	\$211	\$195
Annual Maintenance Cost ⁵	\$70	\$72	\$52
Monthly Property Insurance ⁵	\$70	\$72	\$52
Estimated Monthly Cost ⁶	\$2,954.99	\$2,994.04	\$2,160.04

¹ - Assuming Down Payment of 5% Home Price.

² - Data from Bankrate.com, 30-year fixed, accessed 10/24/2022.

³ - Assumed tax rate of 1.59% and Assessed Value that is 85% of market value.

⁴ - See PMI Calc Tab

⁵ - Estimated at 1/4% of home price, in months.

⁶ - Calculation includes monthly property tax, insurance costs, HOA estimate.

⁷ - Assumes 5% upgrades or lot premiums above base pricing, where applicable.

REPRESENTATIVE LISTINGS

This manufactured home for rent is in proximity to the Subject, and similar in product size and type, providing strong support for the Subject's recommended pricing.

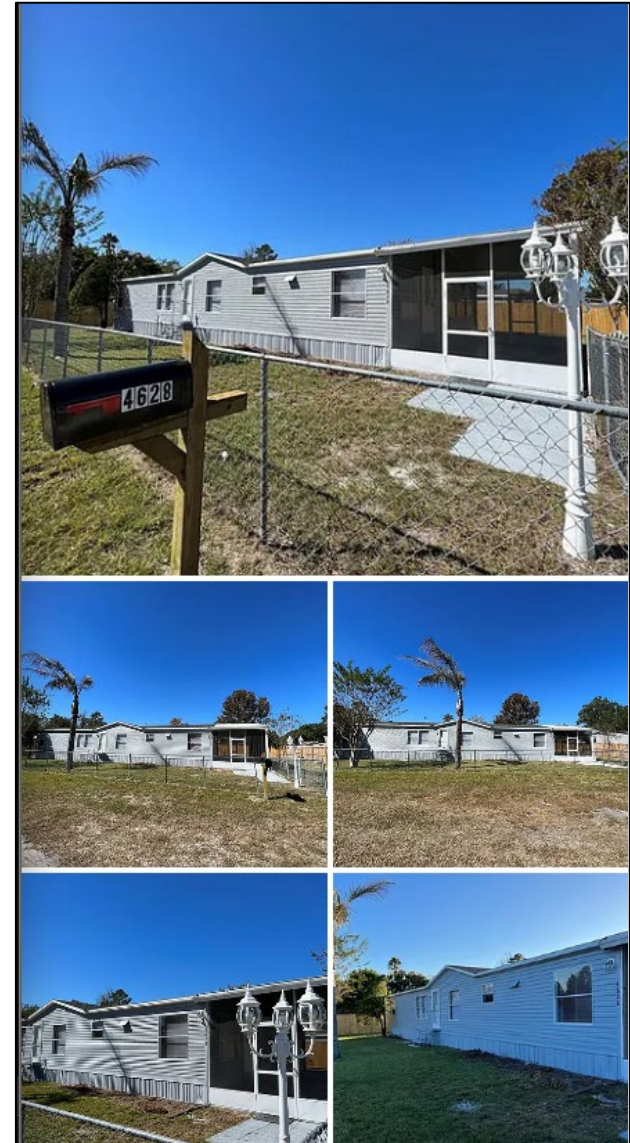
Address	4607 Royal Palm Dr
Plan	3/2
SF	1,570
Rent/Mo	\$1,850
Rent/SF	\$1.18
Listing Activity	Listed 66 days, 9 contacts
Comments	Blt: 2012, lot size is 5,663 SF, No pets allowed
Broker	Julie Ciociola, CB, 813-546-3050



Note: Property, located in Palm Estates was originally listed too high, for \$2,100 and has since dropped twice, to \$1,950 on 9/8, then to \$1,850 on 10/25. Broker reports property is now rented, and that the community previously had a 55+ designation but lost that a few years ago.

A manufactured home for rent on private land, which is similar in product size and type. Pricing is \$350 per month higher than the Subject's recommended rents, factoring in the large private lot and larger home size.

Address	4628 Wesleyan Dr, Z
Plan	3/2
SF	1,728
Rent/Mo	\$2,100
Rent/SF	\$1.22
Listing Activity	11 days listed, 5 contacts
Comments	New: paint, vinyl plank flooring, granite counters, cabinets in kitchen and bathroom, hardware, light fixtures. HVAC recently replaced. Built: 1993. Large yard



This comparable is a site built, single family home for rent in proximity to the Subject. Rates for site-built homes are expected to be higher than the manufactured homes within the Subject community. Residents at the Subject would save \$440 a month over this Site built property, 25% monthly savings.

Address	6413 Ashville Dr, Z
Plan	3/2
SF	1,365
Rent/Mo	\$2,190
Rent/SF	\$1.60
Comments	Under renovation



This comparable is a site-built, single-family home for rent in proximity to the Subject. Rates for site-built homes are expected to be higher than the manufactured homes within the Subject community. Residents at the Subject would save \$250 a month over this Site built property, over 14% savings.

Address	39652 Meadowood Loop, Z
Plan	3/2
SF	1,358
Rent/Mo	\$2,000
Rent/SF	\$1.47
Listing Activity	Listed 8 days, 13 contacts
Comments	Walking distance to dog park, playground and ball fields. Fenced backyard



Residents at the Subject would save \$170 a month over this Site built, single-family property. Built in 2003, Hidden Creek offers no amenities.



Amenities & Features

Additional amenities included with this home:

- Living Areas**
 - Ceiling Fan
 - Open Floor Plan
 - Vaulted Ceiling
 - Vinyl Plank Flooring
- Kitchen**
 - Pantry
 - Eat-in Kitchen
 - Quartz Countertops
- Additional**
 - Central Air/Heat
 - Ceiling Fan
 - Tile Flooring
 - Smart Home
 - Wood-Look Blinds
 - Garden Tub
- Outdoor**
 - 2-Car Garage
 - Fenced Yard
 - Porch
 - Large Backyard
 - Patio
- Features**
 - Garage
- Interior**
 - Laundry Room
 - Ceiling Fan
 - Tile Flooring
 - Walk-In Closet
 - Garden Tub
 - Vinyl Plank Flooring



Address	7752 Arms Dr, Z
Plan	3/2
SF	1,262, lot size is 8,119 SF
Rent/Mo	\$1,920, initial rent of \$2,000 (8/29/2022), steady drop to \$1,920 (11/2/2022)
Rent/SF	\$1.52
Listing Activity	Listed 29 days, 58 contacts, available now.
Comments	BFR by Progress Residential, Blt: 2003

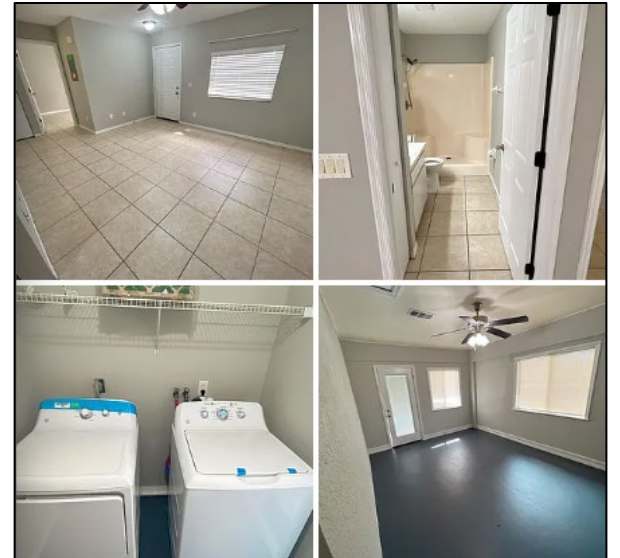
Hidden Creek is a private community located in central Zephyrhills near Tampa Bay and the surrounding communities of Orlando, Lakeland, Wesley Chapel, and Tampa. Zephyrhills offers a small-town feel with a historic downtown featuring a variety of delicious restaurant cuisines and unique shops to explore. The Tampa Premium Outlets and the Shoppes at Wiregrass are nearby. You'll appreciate the convenience of easy access to major roadways like SR 54, Highway 301, and I-75. The neighborhood features a dog park, tot lot, and a pool with cabanas. Three- and four-bedroom rental home floor plans are available.

Community Highlights

- Dog Park
- Pet Friendly
- Playground
- Clubhouse
- Swimming Pool

This site-built, single-family home is significantly smaller, and older than the Subject, which accounts for the discounted pricing.

Address	36628 Eiland Blvd.
Plan	3/1
SF	1,000
Rent/Mo	\$1,595
Rent/SF	\$1.59
Listing Activity	Listed 1 days, 22 contacts.
Comments	New paint, rent includes water, W&D included. Two months recently paystub min 2x rent.



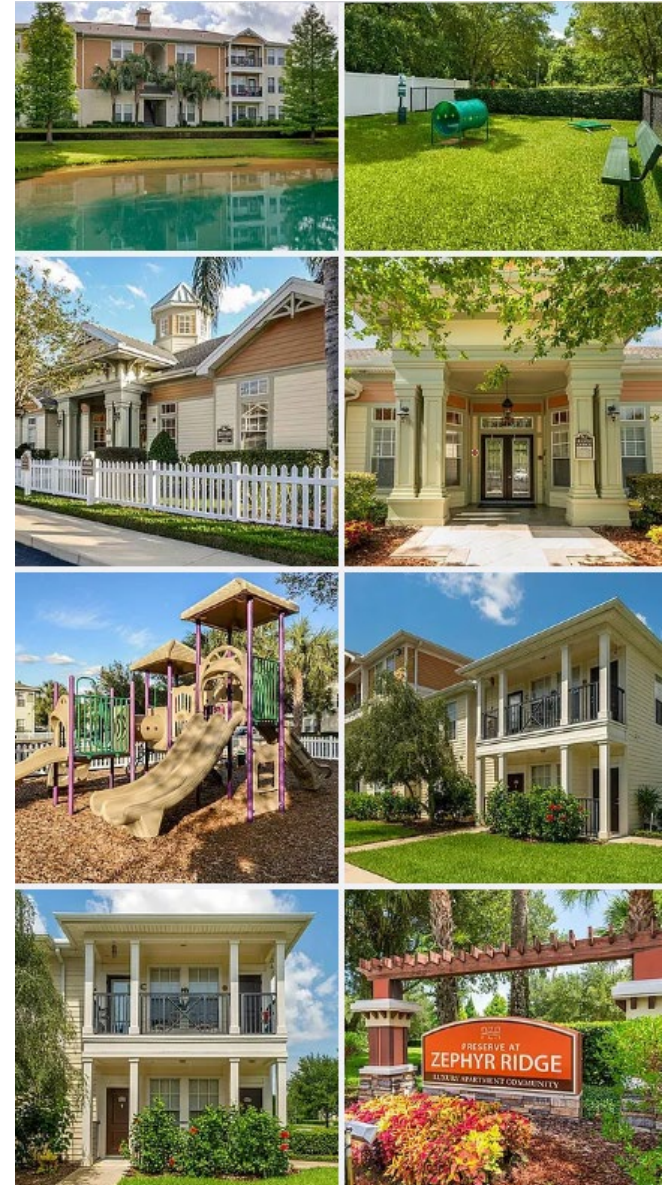
This townhome offered for rent in proximity to the Subject is smaller and older than the manufactured homes within the Subject community. Residents at the Subject would save \$50 a month over this TH and enjoy more privacy as a detached unit, as well as private parking.

Address	5903 Willow Ridge Dr., #102
Plan	3/2
SF	1,170
Rent/Mo	\$1,800
Rent/SF	\$1.54
Listing Activity	Very strong interest
Comments	condo



There are limited multifamily communities near the Subject, with the Preserve at Zephyr Ridge representing the closest comparable. The Subject’s product is similar in size to the 3/2 unit offered here. As with most Multifamily product, the community offers an amenity package likely to be attractive to potential renters at a price that is nearly \$450 per month higher than the Subject’s recommended rates.

Community	Preserve at Zephyr Ridge
Address	35940 Inspiration Dr, Z
Plan	3/2
SF	1,314
Rent/Mo	\$2,199 + , Available 11/7/2022
Rent/SF	\$1.67
Listing Activity	Only 1 3-bed unit will be available 11/7. It is likely that the unit will be leased before it become it is vacated.
Comments	W/D included



BUILT FOR RENT PRESENCE



Avilla Suncoast is a new BFR community in Pasco County by NexMetro, located off SR 54, near the Suncoast expressway.

Amenities

Pool, spa and hot tub, outdoor kitchen, fire pit, walking paths, on-site maintenance and trash valet, dog park, maid and concierge services

Units

Granite countertops, stainless steel appliances, plank flooring, private fenced back yards front porches, wash and dryer



Floor Plan	SF	Price at Lease Up	Price 12/22	# Units 12/22
------------	----	-------------------	-------------	---------------

1/1	660	\$1,700	\$1,881	2
2/2	1,000	\$2,200	\$2,431	4
3/2	1,316	\$2,500	\$2,930	4



Bridge Haven is a BFR community featuring new homes with granite countertops, stainless steel appliances and two car garages. Amenities include a clubhouse, community pool and fitness center. Lawn maintenance is included.

Prices shown below as of 12/5/2022.



Wesley Chapel, FL 33543

33959 Night Lily Drive
\$2395 /month

🚗 4 🚗 2.5 1977 Sq Ft



Wesley Chapel, FL 33543

33923 Night Lily Drive
\$2650 /month

🚗 4 🚗 2.5 2449 Sq Ft



Wesley Chapel, FL 33543

3203 Bridge Haven Drive
\$2475 /month

🚗 4 🚗 2.5 2078 Sq Ft



Wesley Chapel, FL 33543

33872 Night Lily Drive
\$2395 /month

🚗 4 🚗 2.5 1977 Sq Ft



Wesley Chapel, FL 33543

3430 Bridge Haven Drive
\$2250 /month

🚗 3 🚗 2 1700 Sq Ft



Wesley Chapel, FL 33543

33947 Night Lily Drive
\$2550 /month

🚗 4 🚗 2.5 2297 Sq Ft



HHE SURVEY OF RENTERS

A National Survey of Renters Reveals the Preference for a Detached Home

Much of the demand for the manufactured homes at the Subject site will come from people who are currently renting apartments. As a supplementary analysis, we present here the results of a survey HHE conducted, to determine what premium renters would pay over a multifamily apartment to rent a single-family home in a new, purpose-built, professionally managed community, HHE performed a survey.

While the survey was not specifically about manufactured homes, the results are still interesting in the context of this study. Respondents were only surveyed if they met the following criteria.

Qualifications

- Age 18+
- Household income \$50,000 - \$170,000
- Currently renting a market-rate apartment
- Renting in a suburban area

After the survey was complete, we rejected a small number of responses that had logical flaws or that showed little care or attention from the respondent (such as those who simply entered "999" for multiple answers, or where the zip code did not match the state).

The Gabor-Granger Methodology

Hunter Housing Economics and Dynata employed an established statistical survey approach called **Gabor-Granger**, which is a technique specifically designed to develop a demand curve, showing the percentage of respondents who would pay a given sum of money for the alternative rental experience. In this approach, the respondents are presented a particular amount of money (\$100, \$150, .. Up to \$500 for the detached home option), and asked how likely they would be to pay that amount to live in a home or townhome over what they are currently paying for their apartment. If they showed an unwillingness to pay the named premium, they were asked about paying a smaller sum, in a laddering fashion of \$50 decrements. On the other hand, if they were willing to pay the named premium, the ladder went upward in \$50 increments.

This survey was conducted in October 2021, and had 500 completed responses.

After the qualifying questions and some demographic data collection, the survey turned to the key questions, being:

Please consider the concept of a **detached rental home** (a single-family house that is detached from neighboring properties). This would be a professionally managed and maintained neighborhood consisting of all new rental single family detached homes with private yards in a suburban location. All of the homes in this neighborhood would be rental properties and the owner would maintain them like any other rental property. How likely would you be to consider moving to this type of home if such an option existed in your area after your current lease ends?

The survey asked the same question, but considering the idea of an attached home (a townhome).

Then the survey turned toward **the amount of money** they would pay beyond what they are currently paying to rent an apartment. The question was:

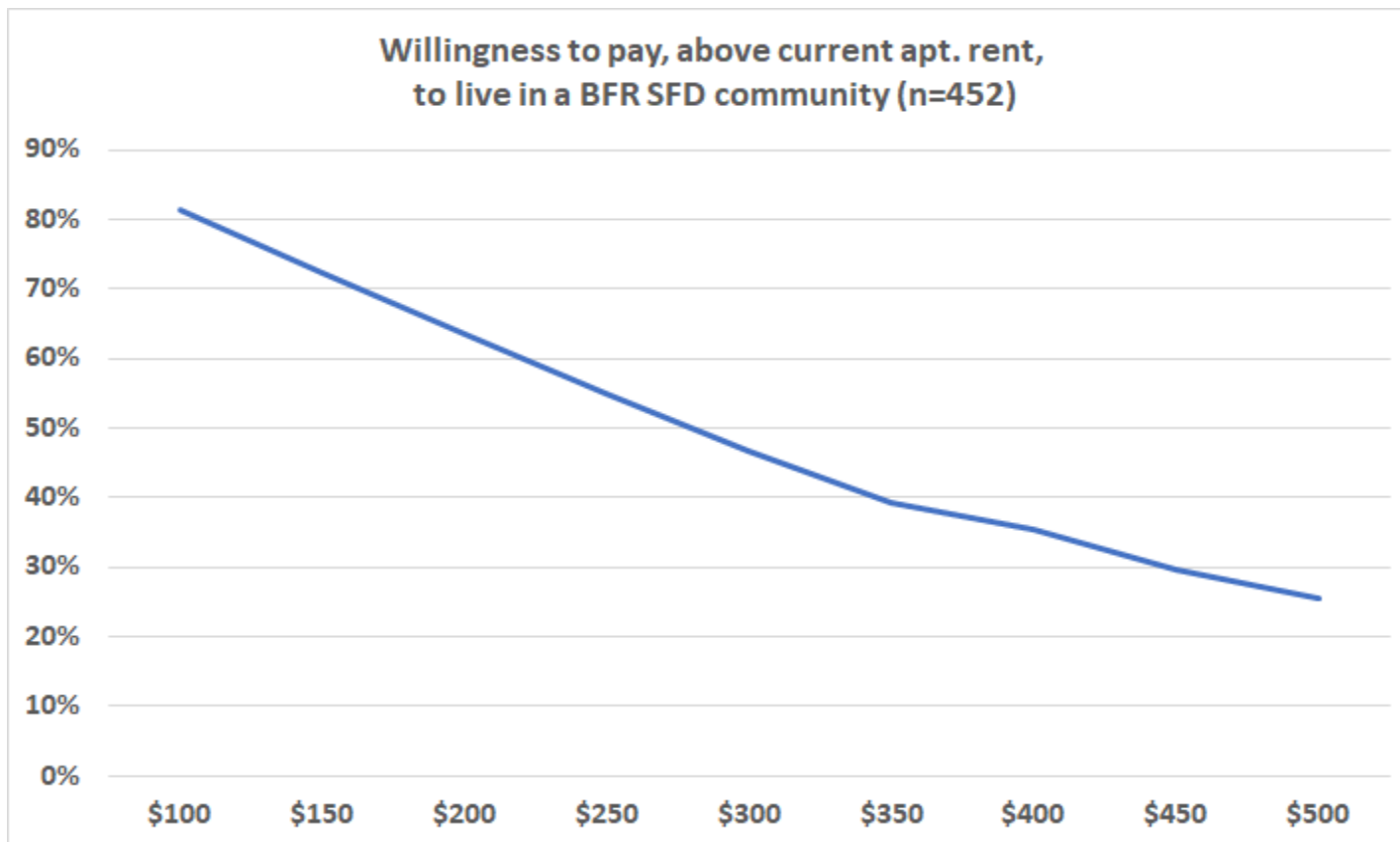
If you were to consider moving to a **detached rental home**, how likely would you be to pay the following amount **over** the rent you are currently paying? (Respondents were presented the Gabor-Granger ladder, starting at a random amount between \$100 and \$500 per month).

The survey asked the same question, but considering the idea of an attached home (a townhome). (Respondents were presented the Gabor-Granger ladder, starting at a random amount between \$100 and \$400 per month).

The data on the following page shows the results of these questions.

The key question that this survey was meant to address is how much above their current monthly rent a tenant would be willing to pay to live in a built-for-rent community.

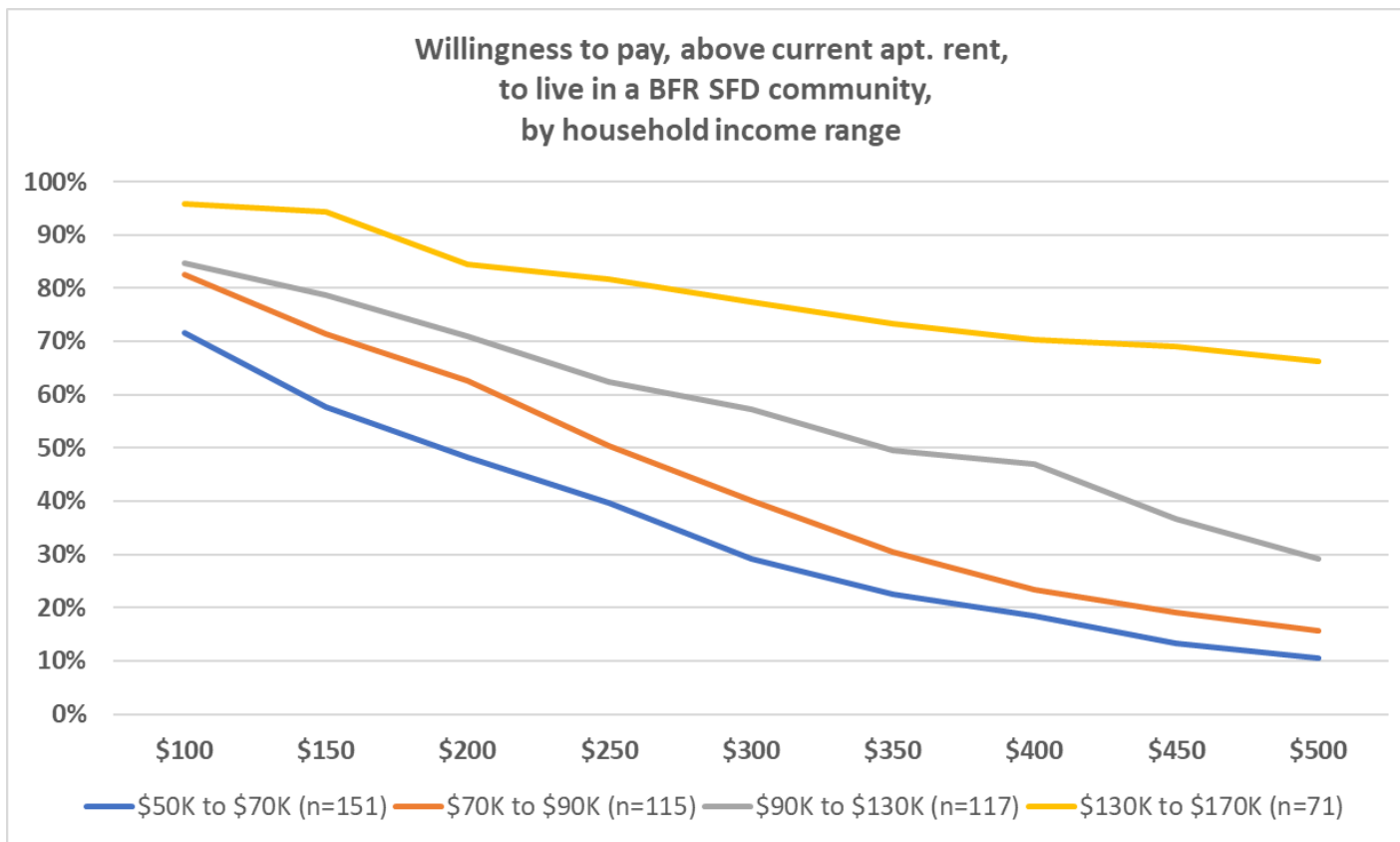
This question asked what they would be willing to pay above their current rent to live in a DETACHED SINGLE-FAMILY HOME. Just over 50% of the respondents said they would be willing to pay up to \$250 per month more. Just over 25% said they would be willing to pay \$500 more.



Source: Hunter Housing Economics

The graph below shows the percentage of respondents who said they would be willing to pay up to the the sums shown along the X axis, in excess of their current apartment rent, to live in a single-family home in a rental community. The responses are shown according to the annual income of the respondent.

For example, 50% of those who make \$70,000-\$90,000 per year gave a response of 4 or 5 on a 5-point scale, where 1 meant “not at all likely” and 5 meant “very likely” when asked if they would be willing to pay up to an additional \$250 a month, while 50% of those who make \$90,000-\$130,000 responded with a 4 or 5 when asked if they would be willing to pay up to an additional \$350.



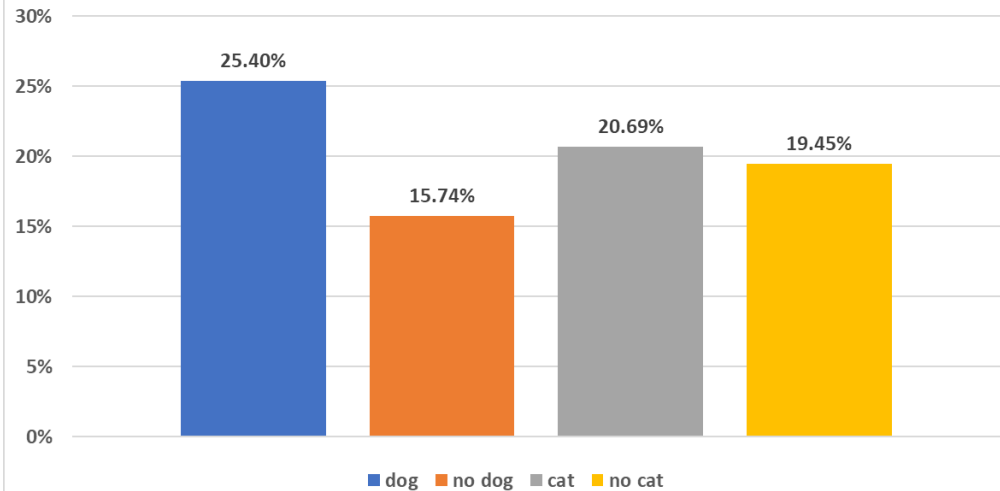
Source: Hunter Housing Economics

Detached:

Respondents indicated that they are willing to pay substantially more as a percentage of their present rent to move into a BFR community if they own a dog. This is consistent with our understanding of the convenience that comes with having a private yard, when it comes to owning a dog.

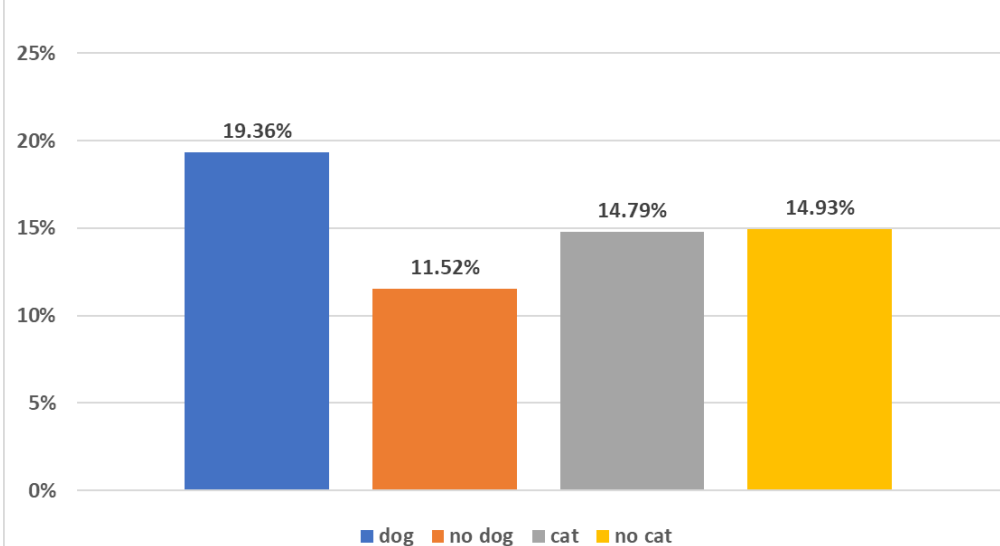
The survey asked about cats and other pets as a “control.” It is clear there is a significant premium that dog owners will pay.

Average percentage of present rent respondents indicated they were willing to pay to live in a BFR SFD community, by dog or cat ownership



Townhome:

Average percentage of present rent respondents indicated they were willing to pay to live in a BFR TH community, by dog or cat ownership



MACRO DEMAND RISKS

Rent Escalations and Risks to the Outlook

The double-digit increases in rents are gone, but we do expect some modest rent growth after the current macro-cyclical downturn is over. We are forecasting rent gains for the next few years to be a fraction of the rates of increase of this year and last. Any underwriting that includes continued double-digit increases in 2022 or 2023 would be decidedly unrealistic and risky.

That said, within a larger BFR subdivision, rent escalations would be expected to exceed the rate of increase in the submarket at large. This reflects the "filling in" of the community with people, making it feel more like a living neighborhood to prospective renters who are touring it in person. Also, if there is an amenity, rents get a boost once the recreation center is open.

Renters' incomes have been rising more rapidly than incomes in the overall population. This partly reflects the fact that people in the typical renter age groups (Millennials and Gen Z) have been advancing in their careers, as people often do when they leave their 20s and age into their 30s. Renters' incomes have risen by 7.1% so far in 2022, and we're only halfway through the year, according to Jay Parsons, the economist for RealPage. Based upon this measure, renters' incomes will probably be up 10%-12% for the entire calendar year of 2022. There is room for further rent increases — RealPage data shows that market-rate renters are currently spending only 23% of their income on rent, which is well below the 30-33% affordability ceiling.

Part of the rate of increase in incomes can be attributed to former home shoppers who recently decided

not to purchase, and who decided to rent, but most of the increase is attributed to career growth.

Nationally, the data (from RealPage) show that rental demand started hot in Q1, but softened since Q2 after the Fed's first rate hike in the second half of March. Month-over-month rent increases have continued to come in far below the record hikes seen in 2021.

Jay Parsons, the chief economist at RealPage said we can hope that 2022 is like 2020, when consumers eventually started spending and forming households and moving around in big numbers after an initial freeze. Uncertainty ruled the day in spring 2020, and today a different type of uncertainty is having the same impact. When people are uncertain, they stay in place and wait it out. Parsons said (in September 2022):

"Key now is to watch jobs and wages and consumer debt. If those numbers hold up as they have, we should see demand come back in strong numbers in spring 2023." We are now entering the seasonally slow leasing period of Q4/Q1. Demand and rents are usually negative in the winter, nationally.

After the current slowdown is over, demand for all types of housing will continue to outpace the industry's capacity to produce. The BFR industry is in position to serve a portion of that under-served demand. Hunter Housing Economics' national forecast is for a resurgence of household formations and housing demand, and an increase of BFR production from an anticipated 120,000 in the year 2022 to 150,000 annually starting in 2024.

Rising Interest Rates and Recession Risk

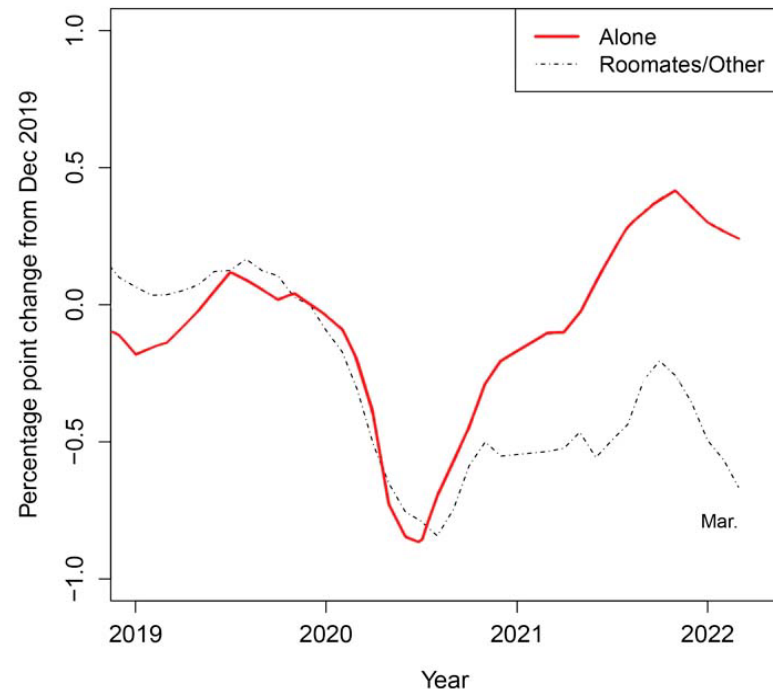
There is increasing concern of a potential recession in 2023, resulting from recent and expected future increases in interest rates. We expect built-for-rent projects to be much more resilient in the face of a possible slowdown than for-sale housing developments.

In general, weaker economic conditions force many people toward renting instead of buying. This tends to keep the rental sector relatively stable during downturns. **An affordable rental single-family home option will be particularly attractive during an economic slowdown, being more affordable than a site-built new rental home.** There are some people who have to simply move in with relatives, but a much larger share of the market will rent. Also, there will be a rise in foreclosures, and that may add to demand for single-family rentals, as people who lose their homes typically look for a single-family home to rent.

Household formation rates were recently reported to be back up to 1.6 million annually, which is above the pace of new home construction, and are likely to ease to 1.0 to 1.2 million going forward as the economic slowdown pushes more people to move in with roommates or relatives. This "doubling-up" effect is already happening, as a result of nervousness among householders. The Fed is trying hard to slow down all kinds of housing inflation, both for-sale, and for-rent, but they have much less ability to slow rents, which are not directly affected by rising interest rates.

Based upon Fed analysis of Census data (below), there has been a recent structural decline in the share of people "living with roommates/others" and a rise in other living arrangements, including "living alone." This trend has generated increased headship rates (especially people in their 30s), and more residential demand, but this trend must continue to be monitored as the economic cycle continues to develop.

Changes in composition of living arrangements

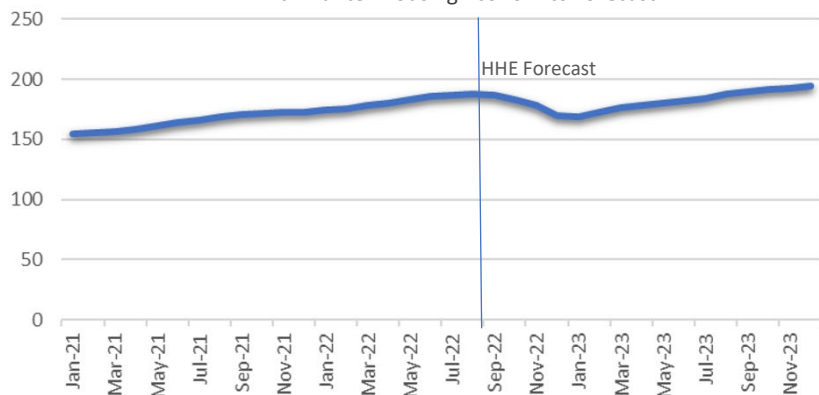


Rent Growth Outlook

Rent growth remains positive month-over-month, but is slowing now, and HHE's in-field research suggests that September will show rents declining on average. The monthly data below are from CoreLogic's national Single-Family Rent Index, with forecasts from HHE.

Rent Growth to Go Negative Through Spring 2023 and Then Recover in 2024

CoreLogic Single-Family Rent Index
With Hunter Housing Economics Forecast



Rents would normally be expected to hold firm when mortgage rates shoot up, reflecting would-be buyers being forced to (or opting to) rent instead. Today's actual performance is different than that, with rents being lowered at a number of new built-for-rent developments in the face of weak absorption paces. The weak leasing activity stems from renters who are fearful about the direction the economy is taking (and, by proxy, their own incomes). Many young people who had been thinking about breaking off from roommates or relatives and getting their own place are instead taking a moment to wait and see if their job still feels secure.

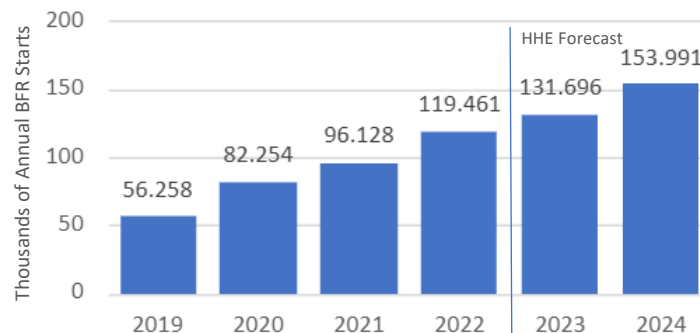
Our forecast calls for a very short-lived retracement of rents, as landlords are forced to give up some ground that was gained during the past three years with the double-digit rent increases that occurred then. Once the renters who had felt trepidation about their jobs and incomes in late 2022 start to realize that when their jobs are still secure (most of them will), they will get back to their original plan to get their own place.

After a brief dip in rents, rent growth will likely settle into a sustainable 5% to 6% per year in 2024, 2025, and beyond. This pace will be supported by 7%-9% income growth among renters in the relevant age groups, but with a typical variance across different regions and markets.

Hunter Housing Economics projects total volume of built-for-rent nationwide to follow a trajectory similar to the below. Land deal flow slows in 2H22 and 1H23 and then picks up again, with strong gains in 2024 and beyond.

Annual Built-for-Rent Housing Production

Compiled Using Census and NAHB Data
with Hunter Housing Economics Forecast

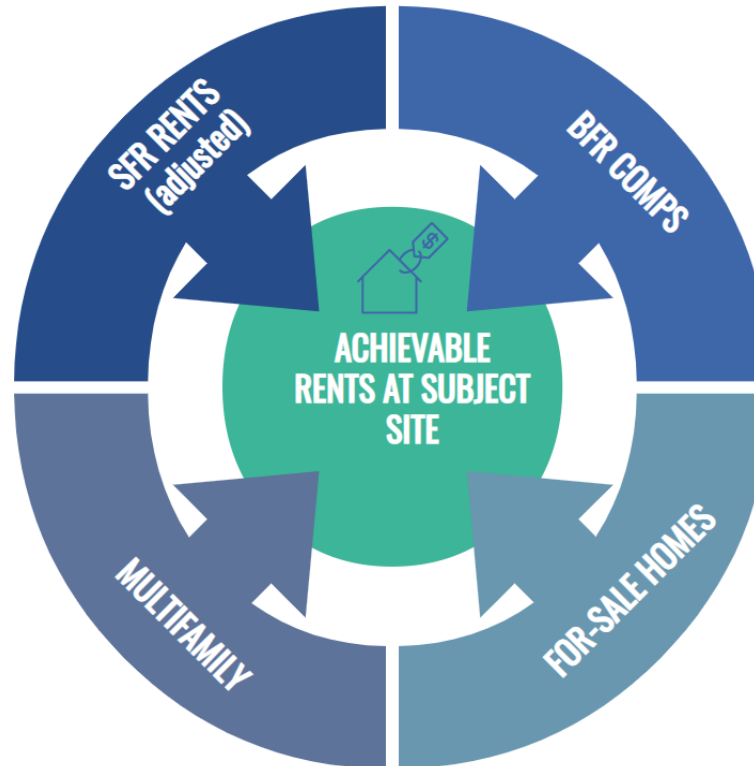


Source: Estimated Utilizing Census and NAHB Data
with Hunter Housing Economics Forecast

METHODOLOGY

Four-Spoke BFR Rent Forecasting Methodology And the RPM (Rent-Positioning Matrix)

We gather data on single-family and townhome units listed, usually splitting out those that are owned by the major platforms from those owned by private individuals.



If there are any built-for-rent comps in the market area, they represent an excellent benchmark.

Even though the renter at the BFR community may not consider a stacked apartment situation, it is important to look at the rents that people are paying in the area for apartments.

We also look at what somebody in the market area would have to pay for a newly-constructed home being sold by a builder, and we take into account all of the costs of ownership, including maintenance.

We meld the data from these four analysis in the RPM (Rent-Positioning Matrix), in which all of the relevant comps for each bedroom count are analyzed together on one scatterplot, which facilitates adjustments for outliers.

APPENDIX

THE NATIONAL BUILT-FOR-RENT TREND

The graph below shows recent history and the outlook for built-for-rent starts, based upon data from the Census Bureau, but adjusted using data and estimates from NAHB to provide a complete picture. The Census Bureau figure does not include single-family homes built and then sold to another party who then rents them out, instead focusing only on homes built and held by the builder. The time series below includes homes built and held as well as those sold to operators.

The 2023 slowdown in production we are forecasting stems from today's heightened scrutiny and selectivity concerning BFR development deals as well as the sudden adjustment of cap rates. Activity is expected to continue to gain momentum in 2024 and 2025, as more homebuilders pivot toward building homes with the intent of selling to an operator, hitting close to 150,000 units built for rent in 2024, heading toward 160,000 per year and continuing to rise. Even at these volumes, the occupancy rate is projected to be 95%. (Note: the data shown below are housing units started for rental purposes on a *per-quarter* basis).

**Quarterly Built-for-Rent Housing Production
Slows in 2023 and then Recovers in 2024**

Compiled Using Census and NAHB Data
with Hunter Housing Economics Forecast



Source: Estimated Utilizing Census and NAHB Data
with Hunter Housing Economics Forecast

Shown on this exhibit are some of the product types and configurations emerging in the evolving BFR sector.

Within each of these categories there is further stratification, in terms of unit size, community amenities, and age-targeting.

Some build all four-bedroom units, targeting larger families and those who need an office for work-from-home, while others opt for smaller product to keep “chunk” rents below a certain threshold. The optimal product depends on the particular submarket and renter types.



SINGLE-FAMILY DETACHED

4 to 6 units/acre

Popular with families, often with dogs.

Example Players: AHV Communities, AH4R, Kinloch, Lennar, Clean Living Communities, Stellar Development



SUBURBAN TOWNHOMES

10 to 11 units/acre

Attached single-family product in suburbs, for empty-nesters, singles, divorced, roommates and couples without kids.

Example Players: BB Living, Stellar Development



HORIZONTAL APARTMENTS

aka “Cottages”

12 units/acre

Combines advantages of single-family home with those of apartments. Popular with single women, singles, young families.

Example Players: NexMetro, Christopher Todd, Bungalows



INFILL

10 to 15 units/acre

Provide advantage of proximity to urban entertainment, jobs, as well as the services and shopping of a “close-in” suburb.

Example Players: Empire Group, Tricor, RedPeak



SMALL DETACHED

7 to 9 units/acre

When zoning allows small high-density detached homes. Appeals to young families, often with dogs.

Example Players: Watermark Equity Group, Tricon



MANUFACTURED HOMES

5 to 7 units/acre

Popular with middle-class families who need more than an apartment can offer.

Example Players: ERC Development

Source: Hunter Housing Economics

Family-oriented rental housing is being delivered in relatively small quantities, even though the need for this product type is increasing. This is the key conclusion of the 2020 report from the Terwilliger Center for Housing, prepared in cooperation with RCLCO and The Urban Land Institute (ULI).

The reports states that there is a mismatch between supply of and demand for family-oriented rental housing, and that this mismatch stems from a combination of regulatory obstacles and developer resistance and unfamiliarity with ways to provide for families. They cite a “chicken or the egg” conundrum.

“...the lack of existing family-oriented rental housing serves as an obstacle to its future development. Without examples of new and successful rental housing that targets families, many developers are hesitant to deliver this product type given the uncertainty surrounding its pricing and demand potential. Similarly, most available consumer research on millennial housing preferences still focuses on immediate needs rather than future housing preferences—a large gap in industry knowledge. Many developers and investors associate family-oriented rental housing with a high level of risk, in part due to the lack of market data to suggest otherwise. Coupled with the success of other business lines, these perceptions often push the real estate community to focus on “known quantities” such as its existing development and investment strategies. Ironically enough, many of these strategies are facing increasing competition, potentially making them just as risky—if not even riskier— than family-oriented rental housing development.”

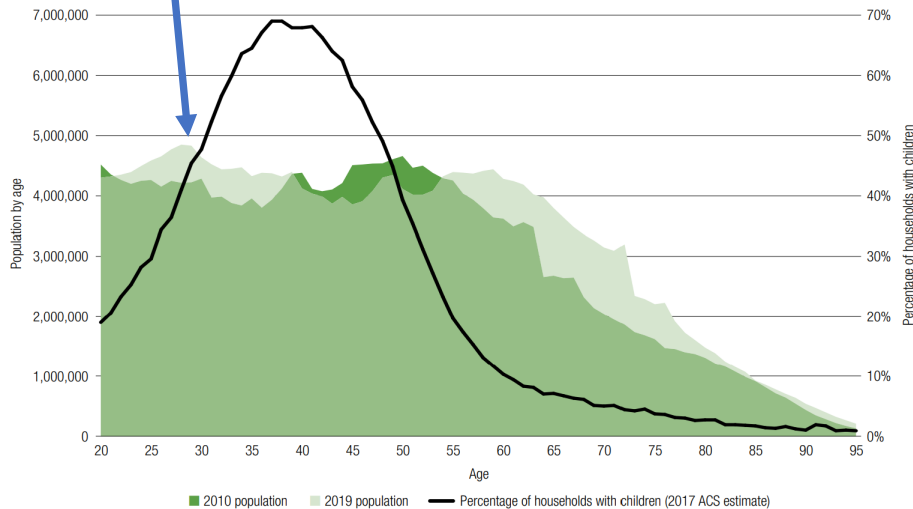
The Terwilliger study also refers to additional obstacles that are keeping the supply of family housing too low, such as:

- **Single-family zoning:** the type of development proposed at the subject site faces a number of regulatory obstacles, especially in high-end suburban communities where elected officials and local residents are often hesitant to welcome density. Today, “typical” single-family zoning is very common, even in communities that would otherwise be attractive for family-oriented rental housing development.
- **Fiscal policy that works to avoid schoolchildren:** Faced with crowded schools, many jurisdictions are unwilling to approve, and in some cases actively discourage, new housing that might attract additional schoolchildren. Rental family housing in which the tax contribution per child may well be lower than that of luxury for-sale housing proves even more problematic. For this reason, many jurisdictions currently limit or prohibit family-friendly forms of development, even as they approve seniors housing facilities, young professional-targeted apartments, and other product types that increase their tax bases without adding to their school systems.
- **Fear of traffic impacts:** Required practices—including traffic impact and adequate public facilities testing—also cut against the market’s ability to respond to family-oriented rental housing demand. Relative to multifamily product for younger and smaller households, family-oriented housing tends to yield higher trip generation rates, and the service requirements can indeed be more onerous as a result.
- **Impact fee burden:** Although impact fees are no more likely to detract from the economic feasibility of family-oriented rental housing than they are for any other product type, there may be an opportunity to tip the market in favor of more bedrooms by lessening the fees for—or even changing the payment schedules of—housing that serves working families.
- **Zoning and building codes trend toward luxury housing:** In some jurisdictions, the construction requirements and entitlement processes for suburban multifamily and/or low-density rental housing create unintended disincentives for developers who would otherwise be willing to experiment with this product type.

Demographic trends show that there will be a pronounced increase in demand for rental housing coming from families over the next five to ten years. The demand will increase year by year over the next five years and will stay high for at least ten years.

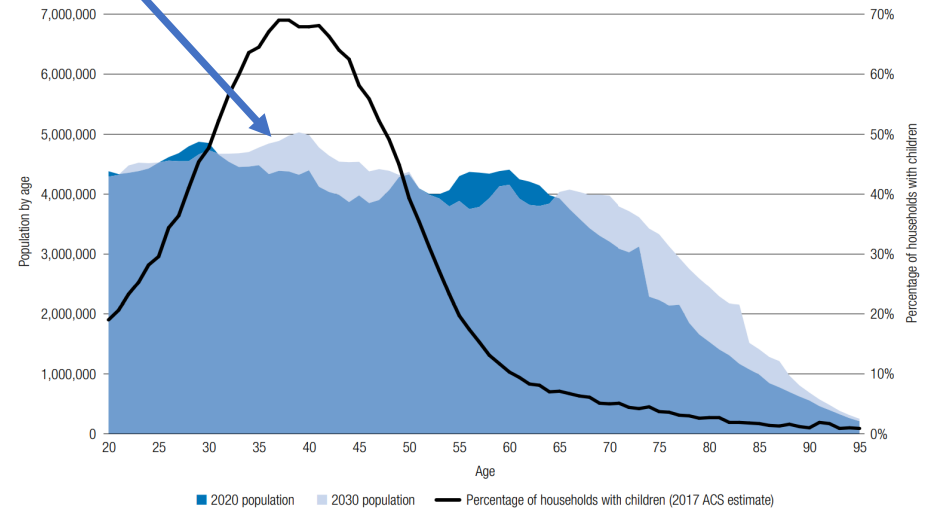
The graph on the left shows the millennial generation’s population peak as of the year 2019, centered just under the age of 30. By the year 2030, it will be centered just under age 40.

Millennial bulge has only begun to hit family-formation age



Source: Terwilliger Center report: "Family Renter Housing: A Response to the Changing Growth Dynamics of the Next Decade" 2020

Family demand will surge over the next five years



Source: Terwilliger Center report: "Family Renter Housing: A Response to the Changing Growth Dynamics of the Next Decade" 2020

Over the 2020-2030 period, it is clear that there will be a massive increase in the need for all kinds of housing for families, and many of them will be potential tenants for rental single-family housing, if it is affordable to them.

DISCLAIMER AND LIMITING CONDITIONS

Hunter Housing Economics has used reasonable efforts to ensure that the information contained in this report is reliable. The study is based upon estimates, assumptions, and other information developed in the course of this assignment, general knowledge of the industry, and discussions with the client and its representatives and consultants. No responsibility is assumed for inaccuracies in reporting or in data sources used in preparing presenting this study. This report is based on information that to our knowledge was reasonable to us at the time we compiled it, and we have not undertaken any update of the research since such date.

This report may contain prospective financial information, estimates, forecasts, or opinions that represent our view of reasonable expectations at a particular time, but they are not offered as predictions or assurances that a particular level of performance will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Therefore, no warranty or representation is made by Hunter Housing Economics that the projected results in this study will be achieved.

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Our conclusions are based on our analysis of the information available as of the date of this report. We assume that the information is correct, complete, and reliable. We are in a fluid economic situation right now, and that defies prediction. It is critical to monitor the economy and markets continuously and to revisit the aforementioned conclusions periodically to ensure that they are reflective of changing market conditions.

With the above in mind, we assume that the long-term average absorption rates and price changes will be as projected, realizing that most of the time performance will be either above or below said rates.

Further, in light of recent bad news in the economy, we recommend stress-testing the project and investment economics to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economic and real estate market conditions will not place the client outside of acceptable risk tolerances.

MARKET DATA

INSIGHTS

GUIDANCE

Hunter Housing Economics is a widely-followed resource for research in built-for-rent as well as for-sale residential development. For regular market updates, follow @bradleyhunter, and browse the resources at the company website.