



A CHANGING U.S. HOUSING MARKET

The Case for Secondary Markets



As owners and operators of multifamily real estate, Monday Properties closely analyzes the forces shaping housing demand across the United States. Our latest research highlights a growing imbalance between supply and demand that is redefining the rental housing market. Declining homeownership affordability, demographic shifts toward renting, and sustained migration to the Southeast are driving strong demand for rental housing, particularly in naturally affordable communities. At the same time, new development has largely bypassed many secondary markets where rents do not support new construction. Together, these dynamics are creating a compelling opportunity to invest in well-located, naturally affordable multifamily assets in growing secondary markets across the Southeast.

The U.S. housing market is undergoing a deep restructuring, driven by the combination of a decade-long shift in how housing is consumed, a historic and persistent lack of affordability and a macroeconomic migration trend away from traditional manufacturing/employment centers in the Northeast and Midwest to the Sunbelt.

These macro-level forces have created a barbell effect in rental housing demand away from homeownership. At one end of the spectrum, younger buyers have been priced out of the market. At the other end, older Americans are increasingly choosing to rent rather than own. The increasing number of renters, both by necessity and by choice, has led to one of the lowest new mortgage originations in 30 years.

Affordability pressures are also straining household budgets, driving tenants to more affordable markets and less expensive housing.

Demand Side: The Disappearing First-Time Home Buyer

Focusing on demand at the younger end of the market, the average age of a first-time home buyer has increased significantly. From 28 in the 1980s, the average first-time home buyer is now 38. Last year also saw a historically low participation from first-time home buyers at 21% versus 34% pre-COVID. The single biggest factor driving this shift is the lack of affordability. After the Global Financial Crisis, banks tightened lending standards and increased down payment requirements. During the COVID period, historically low interest rates fueled a dramatic sharp increase in home prices.

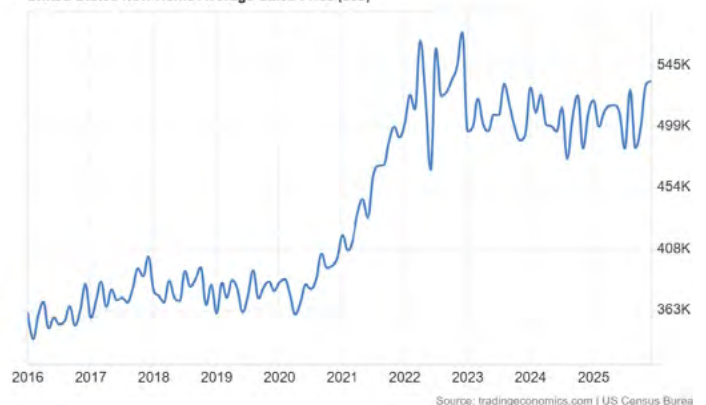
Post COVID, high rates of inflation in related costs, such as insurance and property taxes, have moved home ownership further out of reach. In 2021, a family needed an annual income of \$79,000 to afford the median priced home in the US. Today, applying a standard lender affordability ratio of 31% debt to income, that income requirement has increased to \$127,000.

According to Harvard University's Joint Center for Housing Studies, only 6 million of the nation's 48 million households would meet this benchmark and a key factor behind home sales hitting a 30-year low. As Gen-Z enters the workforce, they are further reshaping housing demand. Over the past five years, Gen-Z has added 4.4 million new renters at home ownership levels significantly below those of millennials at a similar life stage. Their geographic preferences are also shifting. While large metros like New York continue to attract Gen-Z in absolute numbers, the fastest growth in the Gen-Z population is occurring in the South, driven by affordability, job opportunities, and lifestyle considerations. A recent study by RentCafe ranks Birmingham, AL first for growth in Gen-Z renters, followed by Raleigh, NC—a market where nine out of ten Gen-Z residents rent.

9 out of 10

Gen-Z residents in Birmingham, AL and Raleigh, NC

United States New Home Average Sales Price (USD)



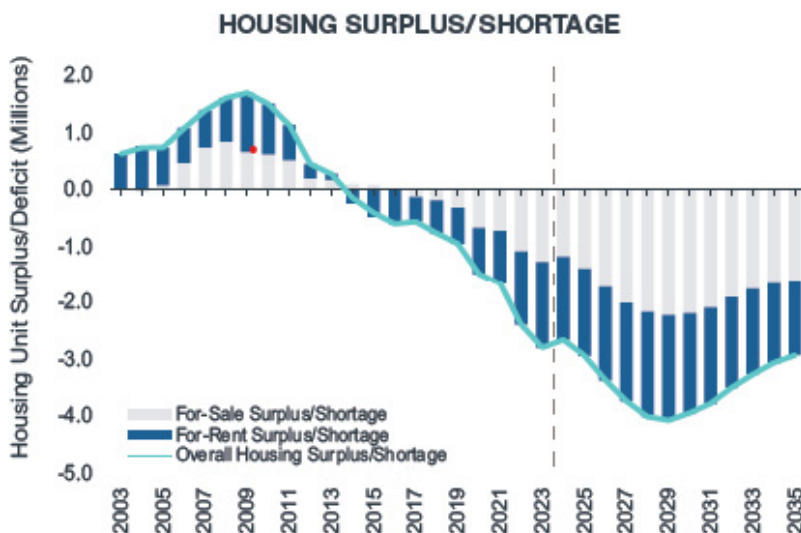
Demand Side: Renting as a Lifestyle Choice

The number of households choosing to rent is also expanding. Many are opting to rent for flexibility, as a financial or investment decision, or because they are drawn to the amenity-rich offerings of newer rental communities. According to the U.S. Census Bureau, one-third of renters are now classified as renters by choice, an increase of over 3 million households in the last decade. A significant portion of that growth has come from renters over 65, a cohort which has grown by 2.4 million over the last ten years. Generally, this demographic can afford higher rent and tends to select areas close to their grandchildren—effectively following where Gen-Z and Millennials are choosing to live.

A Mismatch of Supply and Demand

According to the National Association of Realtors and Zillow, there is a national housing shortage of 4.5 million homes when comparing household formation to new construction.

While new rental supply has increased in the last five years, it has been focused on the higher end of the rental market. According to the National Low Income Housing Coalition (NLIHC), between 2015 and 2022 the share of rental units renting with asking rents above \$2,000 per month doubled, while the share of units with asking rents below \$1,000 per month declined by 66%. Supply challenges at the more affordable end of the market are further exacerbated by an aging housing stock. The Urban Institute estimates that approximately 11.7 million rental units were built before 1980 and are in need of renovation.



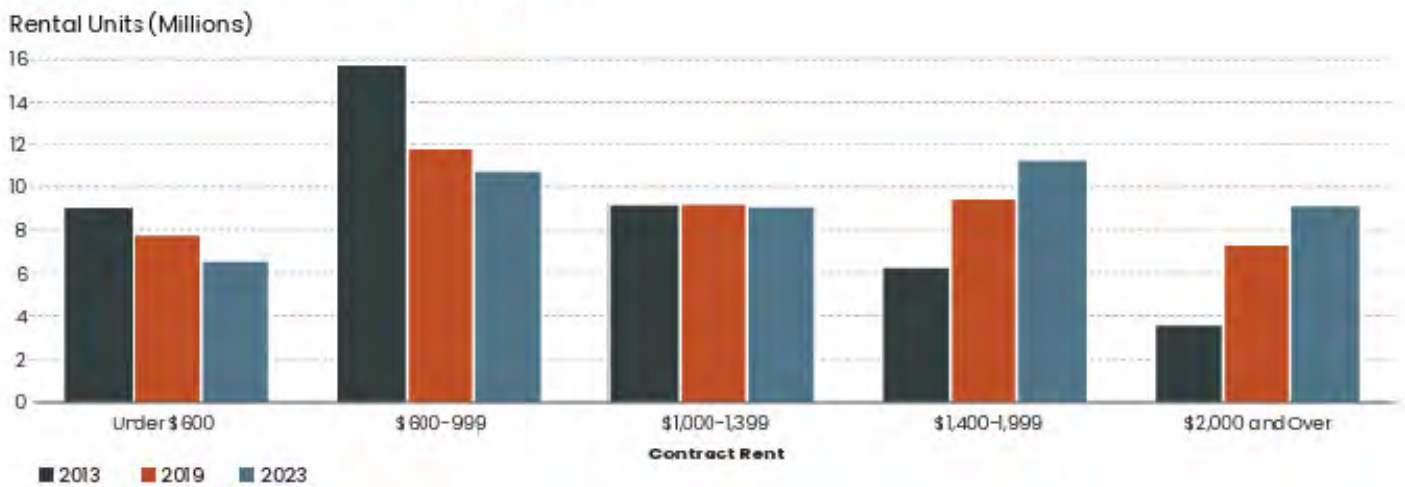
Source: U.S. Census Bureau; Moody's Analytics; Clarion Partners Investment Research, as of April 2024.

33%
of renters are now classified as renters by choice

New supply has been concentrated in the larger, more urban markets such as Charlotte, Atlanta, Nashville and Austin, where rents are sufficient to justify new construction. In many secondary markets and in certain submarkets within those hotter urban markets, rent levels are too low to justify new construction at current investor return requirements. Based on our recent experience in these markets, existing multifamily assets trade for \$150,000 to \$175,000 per unit. With the cost of new construction at \$250,000 to \$260,000 per unit, those more affordable markets effectively have an economic barrier-to-entry.

The AMI to average rent levels in those markets show a good level of affordability (typically incomes are five to six times average rent). That makes asset improvement more effective than adding new supply. For example, a unit renovation can cost between \$6,000 to \$8,000 and generate a monthly rent premium of \$125 to \$150, while new construction would require a monthly rent premium of \$700 to \$1,000.

Stock of Lower-Rent Units Declines Further



Notes: Rents are adjusted for inflation using the CPI-U for All Items Less Shelter. Units that are occupied but do not receive payment are excluded. Contract rents exclude utility costs.
Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.

Even markets that have experienced significant supply are starting to demonstrate a tightening market. Permits for new construction have largely come to a halt in the last 18 months. After peaking at more than 700,000 units delivered in 2024, according to CoStar, deliveries are expected to decline by 40% this year, falling below pre-COVID annual averages. While we have seen some slight softening in demand last year due to flattening demographics, the growth in the renter population has outpaced supply. According to the U.S. Census Bureau, renter households jumped by 408,000 in 2023 and by another 848,000 in 2024.

By comparison renter household growth averaged just 171,000 annually between 2019 to 2022. At this level of absorption, by year-end, markets that recently experienced elevated supply, like Charlotte and Nashville, are expected to tighten. In Atlanta for example, vacancy is projected to fall to 5.2% this year with rent growth expected to grow by 4.1%.

Renter Household Growth Outpaces the Surge in Apartment Construction

Units in Professionally Managed Properties (Thousands)



Note: Estimates are four-quarter rolling totals for professionally managed apartment buildings with five or more units.
Source: JCHS tabulations of RealPage data.

The Southeast Growth Story

Driven by job growth, greater affordability, lower tax and regulatory burdens, and pro-growth policies, the U.S. has experienced significant net migration into Sunbelt markets, particularly the Southeast. Over the past decade alone, jobs in the Southeast grew by 20%, compared to 9% in non-Sunbelt markets. As a result, according to RealPage, the Southeast now accounts for approximately 60% of national multifamily demand while representing only 42% of the nation's existing stock.

60%

of national multifamily demand
while representing only 42%
of the nation's existing stock

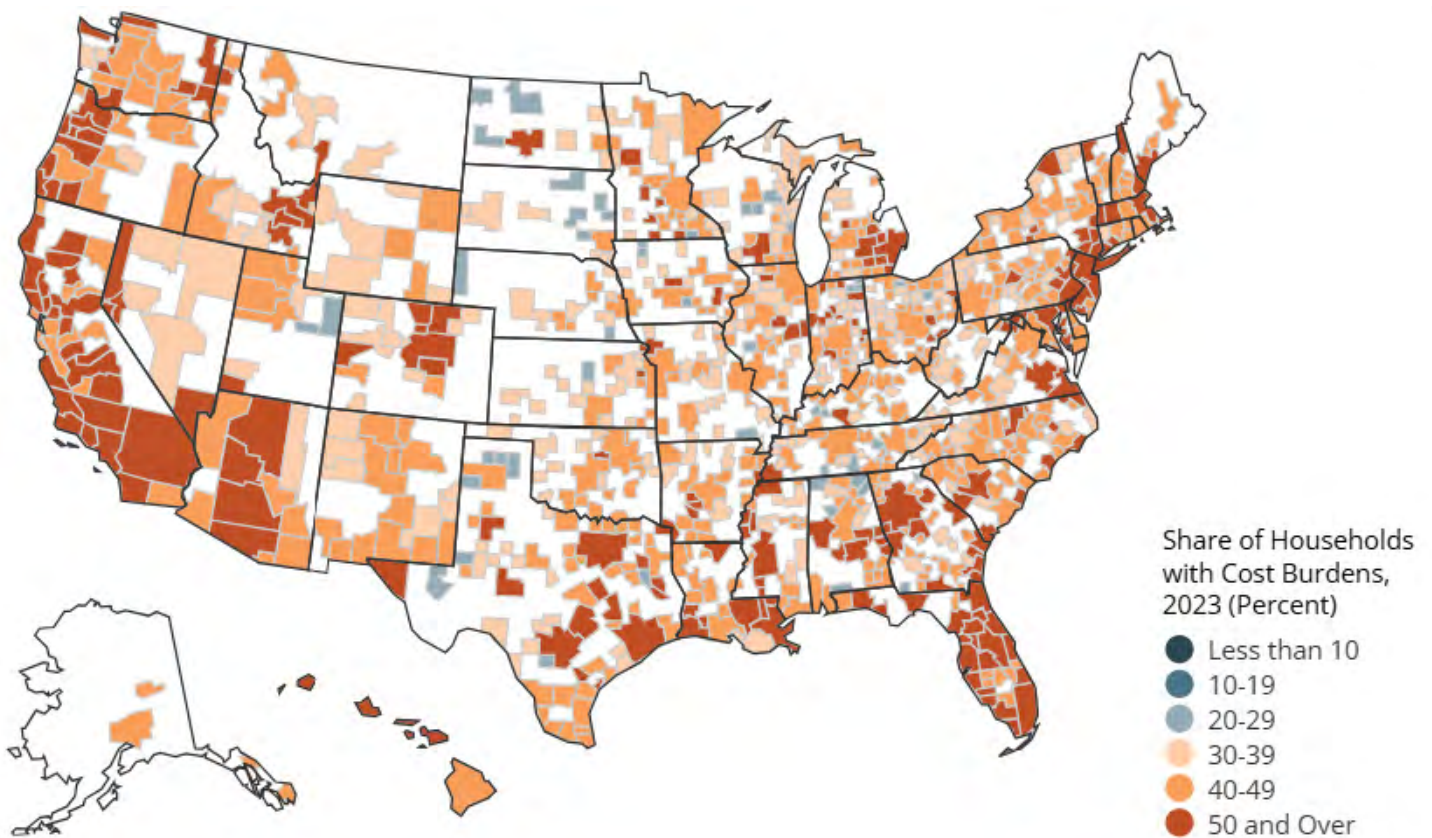


The Affordability Crisis

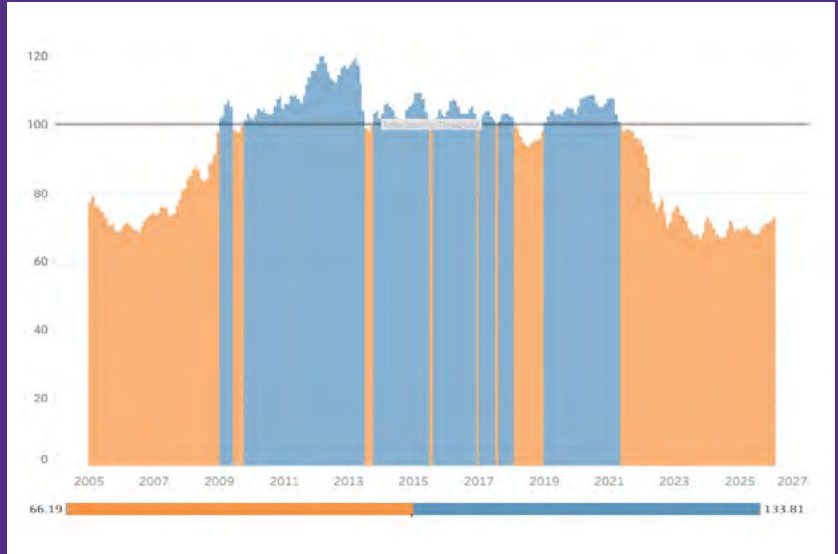
Rising housing costs and post COVID inflation are straining household budgets. According to Harvard University's Joint Center for Housing Studies, 65% of working-age renters cannot cover their non-housing necessities, leading to a significant increase in renters in the naturally affordable segment of the rental market.

65%

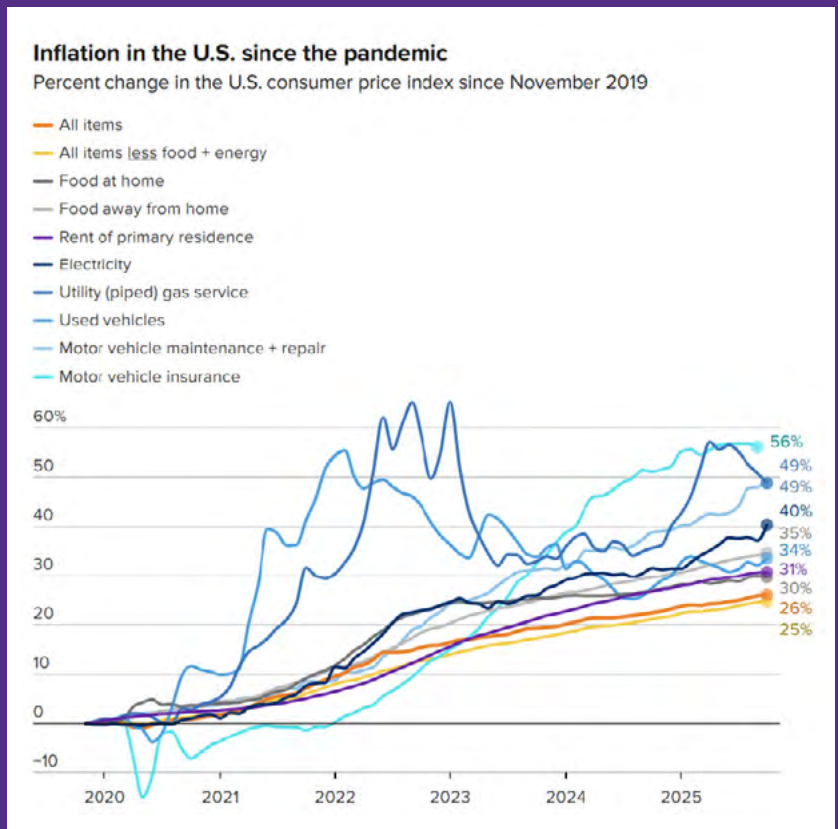
of working-age renters cannot cover their non-housing necessities



The Federal Reserve Bank of Atlanta's national affordability index on the right provides a broader measure of affordability, incorporating not only median household incomes, home sales prices, and mortgage payment, but also taxes and property insurance. An index value of 100 indicates a median-income family can afford a median-income home. A number below 100 indicates the degree of the unaffordability gap.



Using U.S. Bureau of Labor Statistics data, seasonally adjusted inflation since the pandemic has been 26%, however, utility and transportation costs have risen much faster.



Implications: The Case for Naturally Affordable, Secondary Markets

Drawing on this data, we see a clear, sustained trend. It is unlikely, without meaningful policy initiatives at the federal, state and local levels, that homeownership affordability will materially improve over the medium-term. While interest rate policy may become more accommodating, allowing some renters to transition into homeownership, longer-term cost-of-living pressures continue to keep millions of Americans out of the housing market. On the cost side, home prices are likely to remain high, and the supply of “starter” homes remains underserved. Additional expenses, such as insurance, property taxes, and maintenance costs remain elevated. Household budgets show little sign of relief, with high health insurance premiums, transportation costs, and student debts.

Just as there has been a decade-long net migration into the Sunbelt, we are now starting to see internal migration within the Sunbelt to more affordable markets, as the cost of living in markets such as Charlotte, Nashville, and Atlanta, particularly in more affluent areas, has risen steeply. Markets such as Macon-Warner Robins, GA, Fayetteville, NC, and Greenville, SC, as well as more affordable submarkets like West Atlanta or suburbs such as Canton, have seen consistent economic growth and steady population inflows.

For example, the population of Macon-Warner Robins has grown by 10.46% in the last 10 years. The per capita GDP growth of Fayetteville, NC has been 21.2% over the last decade driven by defense, advanced manufacturing, and logistics. With economic activity driven by the life sciences, automotive and logistics, the GDP of Greenville-Anderson-Mauldin MSA has grown from \$48 billion in 2020 to \$63.3 billion in 2023, with Greenville County securing \$725 million in new investments in 2025 alone.

While trading at higher capitalization rates than the hub primary markets, these spoke markets have shown sufficient annual liquidity to comfortably underwrite to a five-year hold. Macon-Warner Robins, Fayetteville and Greenville have seen circa five percent of the market trade in a 12-month period.

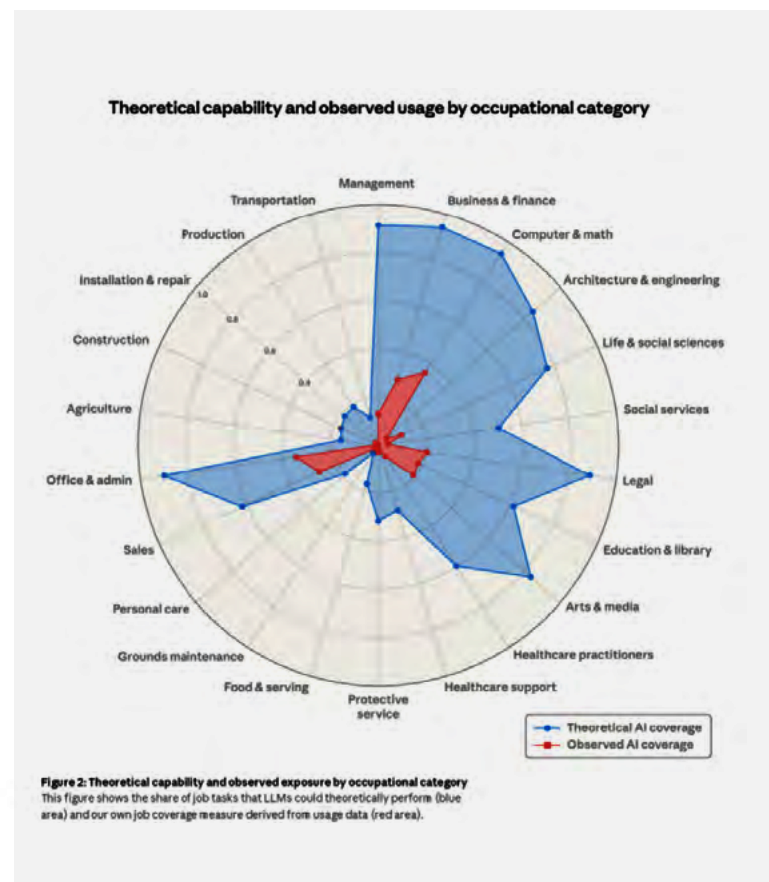
Affordability pressures have also created a more stable market for Class B multifamily. **As discussed above, when 65% of renters struggle to meet their monthly expenses, more affordable options become a necessity.**

Looking at other housing demand risks, the naturally affordable segment of the market also looks more immunized from the risk of AI-driven job losses. This segment primarily serves “grey collar” workers such as construction workers, skilled manufacturing employees, first responders, nurses and medical technicians, service industry workers, and teachers. A recent analysis by Anthropic indicates that these roles are more resilient to both the observed and potential impacts of AI.

The multifamily market is also one of the most fragmented sectors in the U.S. economy. According to the National Multifamily Housing Council (NMHC), the top 50 owners of multifamily collectively own 11% of the U.S. apartment housing stock. As a result, the market is dominated by small, local owners. This fragmentation creates opportunities to acquire in-demand assets that can benefit from more institutional management, improved operational efficiency, and ability to implement additional revenue streams such as bulk internet, enhancing NOI.

Within this segment, in metros with strong affordability metrics (typically where AMI is 5 to 6 times average monthly rent), a light unit renovation program can meaningfully improve the attractiveness of units to prospective tenants. For example, adding basic but convenient in-unit appliances, such as washer-dryers, allows for an attractive ROI on rent premiums (typically \$40–50 per month) without running the risk of making the property unaffordable.

Finally, on the transaction side, we are starting to see increasing levels of owner stress, particularly among owners who acquired assets during the COVID period low-interest-rate acquisition boom. **Over the last 18 months, we have seen transactions driven more by investors wanting liquidity from their sponsors. We are now starting to see debt driven distressed deals as banks increasingly are unwilling or unable to further extend and pretend on those low-interest COVID mortgages.**





Conclusion

We expect to see a steady increase in stressed and distressed transactions over the next 24 months, creating opportunities to acquire assets at attractive discounts to replacement cost in Southeast markets with strong underlying fundamentals.

The highly fragmented nature of the multifamily market allows us to target assets where institutional asset management and light value-add strategies drive meaningful improvements in operations and net operating income.

Taking a five-year view, declining construction starts and continued demand across the Southeast should put upward pressure on rent growth, particularly in the more supply constrained secondary markets.



Washington D.C.

1812 North Moore Street
Suite 1150
Arlington, VA 22209
703-284-0200

New York

595 Madison Avenue
Suite 1903
New York, NY 10022
212-490-7100

Charleston

75 Port City Landing
Suite 110
Mount Pleasant, SC, 29464
201-704-8701

mondayer.com



About Monday Properties

Monday Properties is a vertically integrated real estate investment, development, and operating company focused on multifamily, office and mixed-use properties in high-barrier-to-entry markets across the Northeast, Mid-Atlantic, and Southeastern United States.

Founded in 2002 by Anthony Westreich, the firm traces its roots to the 1950s through its predecessor company, Westfield Realty. Today, Monday Properties has approximately \$1.5 billion of assets under management across its multifamily and office portfolio. This includes 8,000 multifamily units and 2.5 million square feet of office.

Over its 24-year history, Monday Properties has owned and managed more than \$5 billion of real estate assets, completed more than 130 property transactions totaling over 43 million square feet that represent more than \$17 billion of capital value, and achieved a 24% internal rate of return.

Monday Properties invests across the risk-return spectrum from core to opportunistic, leveraging its fully integrated operating platform—spanning sourcing, capitalization, development, leasing, and operations—to unlock value. This approach, combined with Monday's commitment to aggressive asset management, enables the firm to maximize asset performance while delivering transformative projects that strengthen the office and residential communities in which it invests.