



BRENEMAN
CAPITAL

What's Going on in the Markets?

By Evan Dillon

Background

There are bad deals in good markets and there are good deals in bad markets. This is a principle we live by, and it's an important heuristic for making sound investment decisions.

Buying anything in a white-hot market isn't a great strategy, nor is ignoring slower-growth markets solely because of the fact they are slower growth. Successful real estate investment comes down to local knowledge, understanding the fundamentals, and execution – this is true regardless of the macroeconomic environment or the MSA in which you are investing.

Of course, the ideal scenario is doing good deals in good markets. But in a volatile economy, it becomes much more difficult to constitute exactly what defines a market as being “good”. It requires discipline, exhaustive research, and a willingness to challenge preconceived notions.

This is why Breneman Capital developed its *Market Outlook Model*, a predictive appreciation model for the 52 largest markets in the US. The primary purpose of which is to understand not only how each market has performed, by why each market behaved the way it did. The model comprises data spanning economic, demographic, affordability, new supply, apartment fundamentals, and single-family home indicators.

We also use the model to forecast near-term market performance and can do so with impressive accuracy.

The Market Outlook Model denominates how each market performed (or is expected to perform) relative to the national average.

Analysis

We categorized markets into three tiers:

- ◇ Those that had **above-average** performance over the last 10 years;
- ◇ Those that had **average** performance over the last 10 years; and
- ◇ Those that had **below-average** performance over the last 10 years.

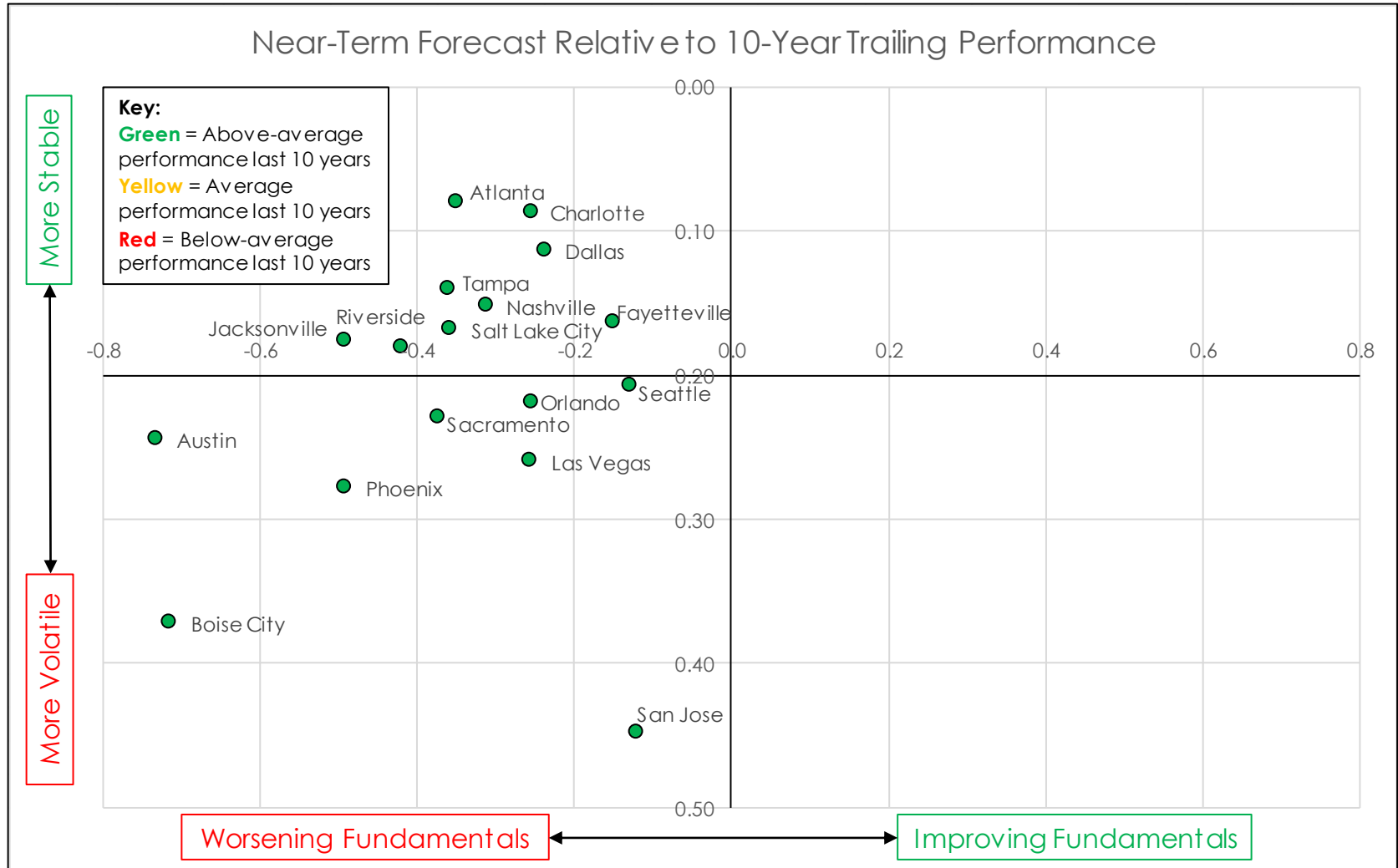
We then measured each market's expected expansion/contraction using the following equation:

$$\text{Expected Expansion/Contraction} = [\text{2024-2025 Average Forecasted Rating}] - [\text{Trailing 10-Year Rating}]$$

The above analysis framework uncovered some interesting insights that we'll incorporate into our investment strategy moving forward.

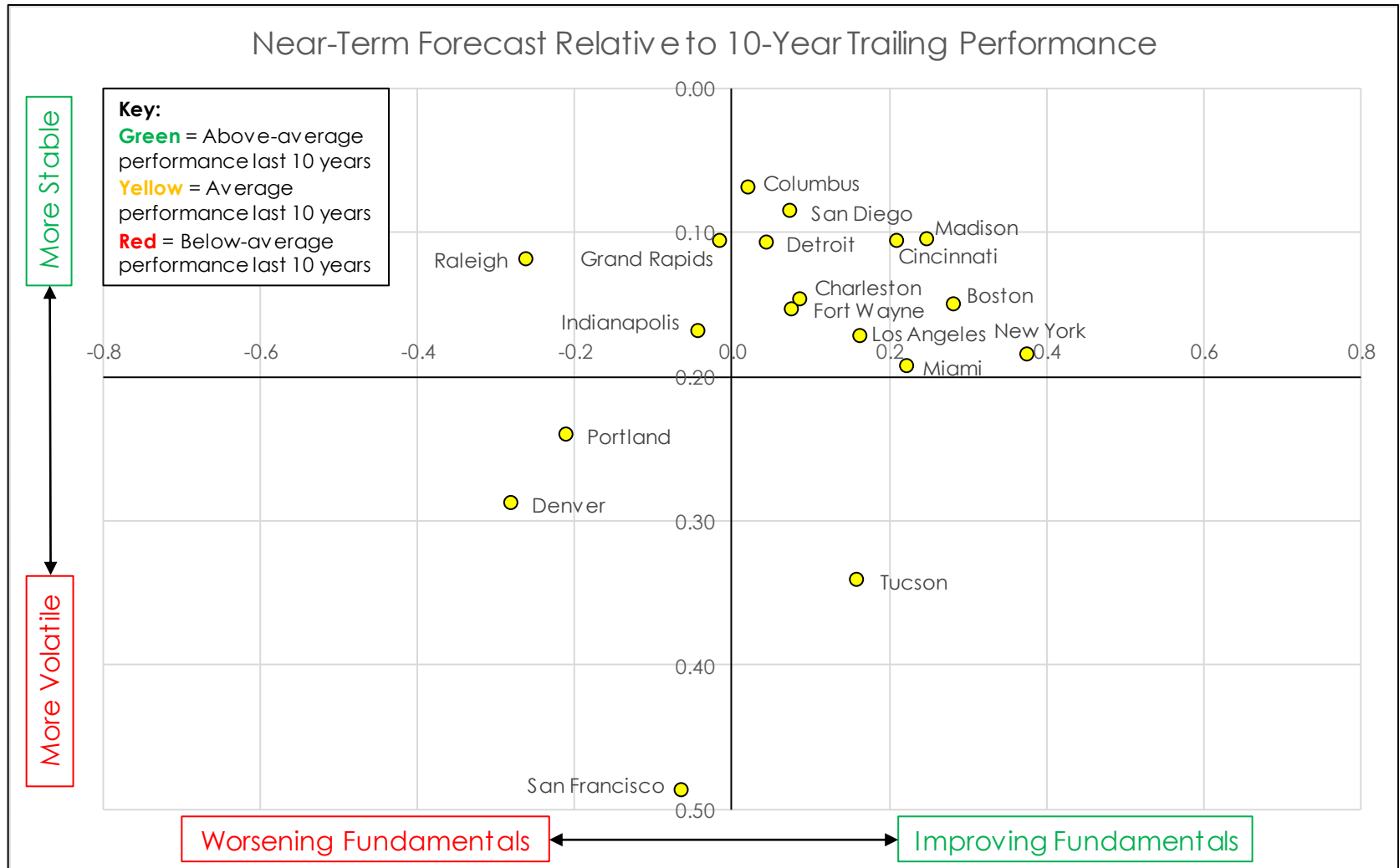
Above-Average Markets

Across the board, above-average markets from the last 10 years are expected to contract relative to their long-term performance.



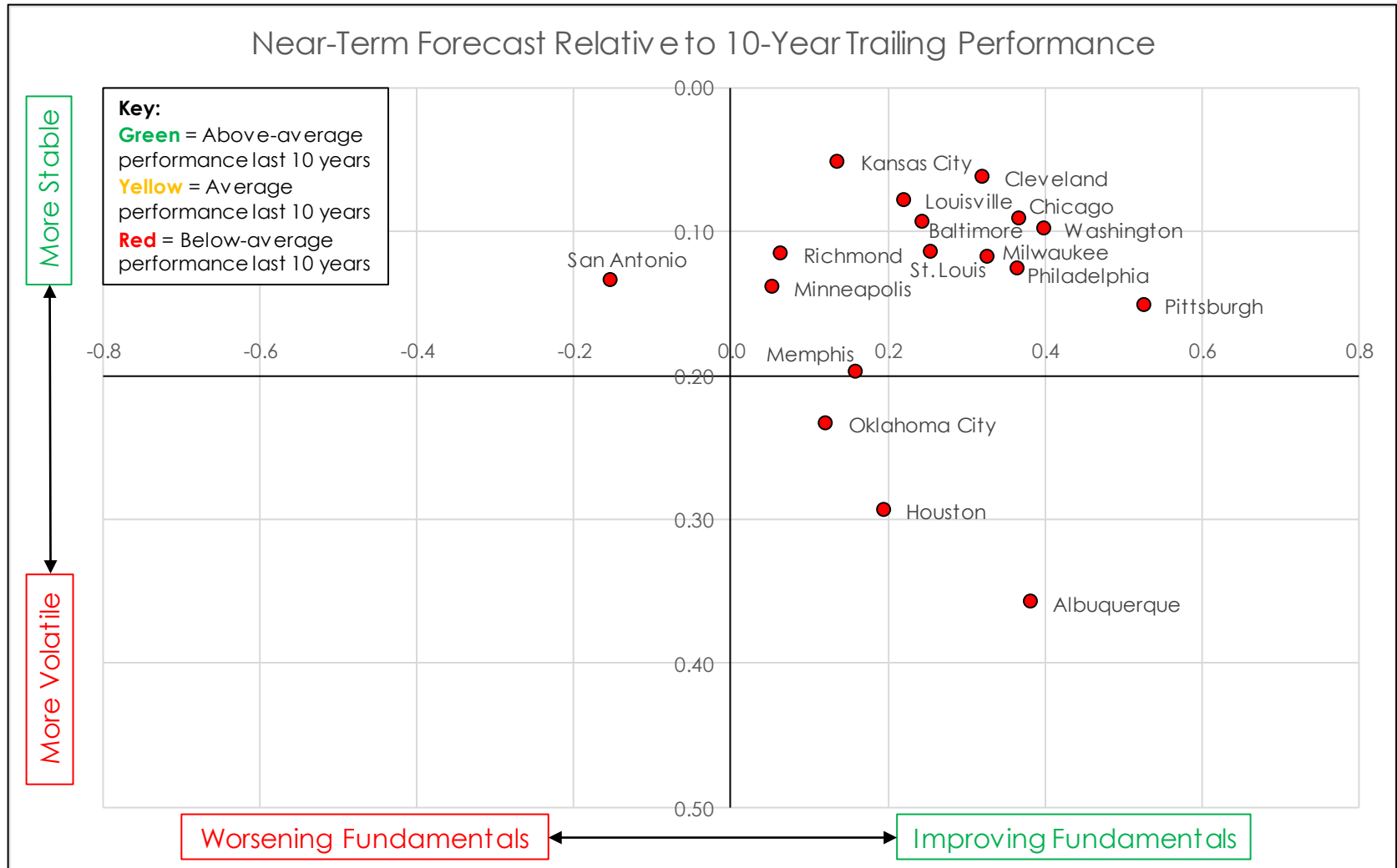
Average Markets

Average markets from the last 10 years are a bit of a mixed bag, but the majority (12 of 18) are forecasted to perform better than their trailing 10-year history.



Below-Average Markets

In contrast to above-average markets from the last 10 years, the exact opposite phenomenon is expected to occur for below-average markets. All but one market (16 of 17) are expected to perform better than their prior 10-year history.



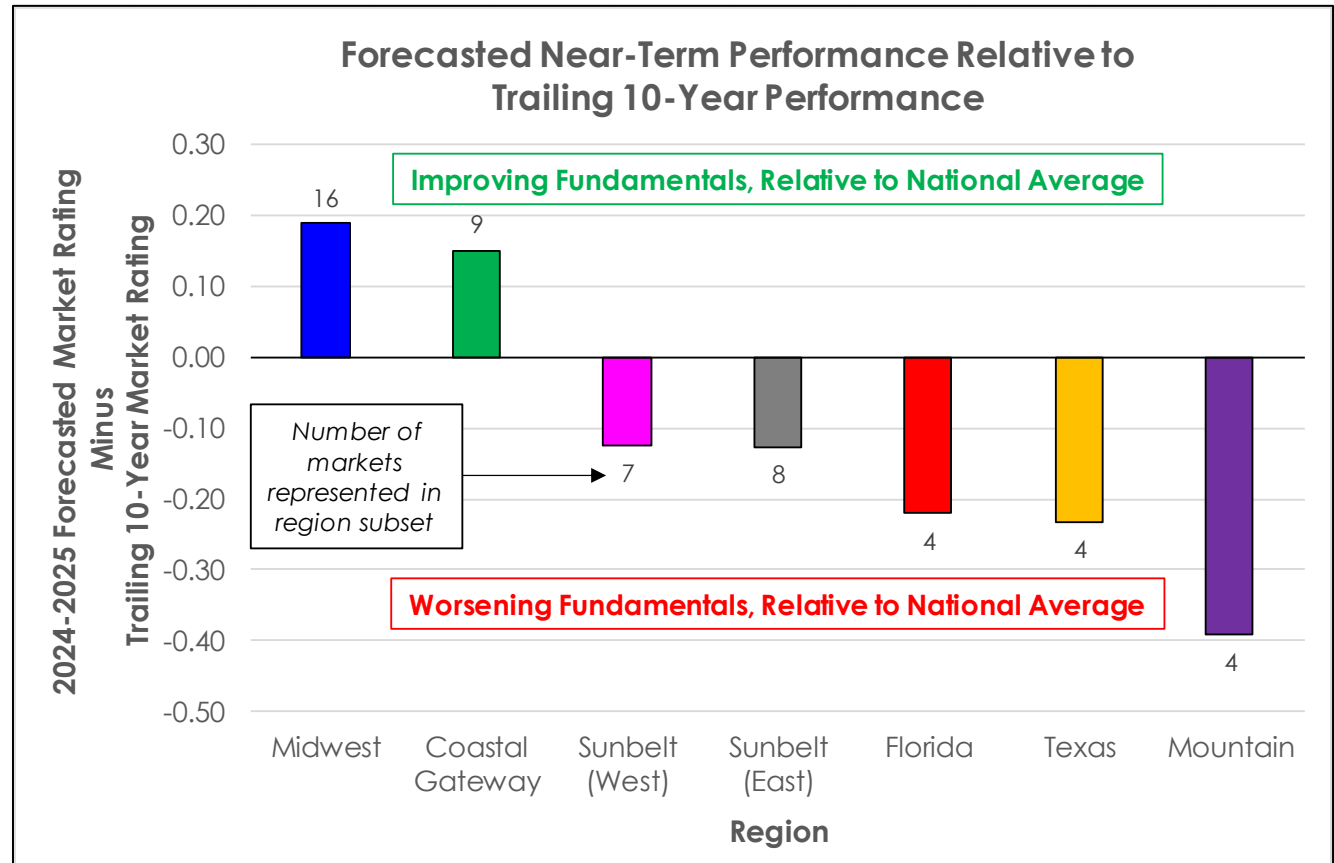
Regional Analysis

Another data point we found to be interesting was that Midwest and Coastal Gateway markets were very well-represented in terms of markets whose fundamentals are expected to improve relative to the national average.

What both of these regional subsets have in common is that they weren't nearly as subjected to the ramifications following the post-covid housing boom that resulted in unsustainable growth rates, speculation, high-risk investments, and bouts of new supply to keep up with (since withered) demand.

In the Midwest's case, these markets' slow and steady growth is a feature – not a bug. Stable migration patterns, low levels of new supply, and affordability have been crucial for their resiliency.

With regard to the Coastal Gateway markets, urban areas are still experiencing recovery following the pandemic. Moreover, these markets also have lower levels of new supply, have much higher occupancy, and are much more economically diverse – with the average resident being more likely to weather inflationary and recessionary pressures due to being wealthier and having access to higher-caliber jobs.



Application to our Investment Strategy

These insights afford us a sound decision-making framework from which we can appropriately allocate resources and discover where opportunity lies. And opportunity may just lie in areas where others aren't necessarily looking.

Midwest and Coastal Gateway markets appear compelling today given their higher-than-average cap rates and their near-term performance prospects. With higher-than-average cap rates, the opportunity to achieve positive leverage (which is a rarity in today's market, given the current interest rate environment) and legitimate cash-on-cash yields is very attractive. Moreover, these markets' fundamentals when compared to the national average are the best they have been in a long time, thus providing greater certainty for property-level strategy execution. The combination of these factors will be a very important consideration as we continue to evaluate opportunities across our target markets.

This analysis is a great case study, not only for how and where to invest today but also for the sake of diversification. It can be easy to be solely concentrated on investing in flashy, name-brand markets like Tampa, Austin, and Nashville. But oft-forgotten markets serve their purpose by having low correlation with higher-growth markets. After all, when one investment is "zigging", it's ideal to have other investments "zagging". Diversification is an essential component for minimizing risk and maximizing returns within a portfolio.

It has been our goal to ramp up our efforts in the Sunbelt to meet investor demand. And we believe it's a question of *when*, not *if*, growth comes back to these more high-profile markets. But overall, we anticipate fundamentals in the Sunbelt to worsen further before they improve.

Breneman Capital continues our pursuit to source and execute high-quality investments on behalf of our investors – and we do so with the utmost urgency and discipline while prioritizing our investors' best interests.

Data

The below excerpt from Breneman Capital's Market Outlook Model is the data used for this analysis, where a rating of 1.0 equals the national average rate of appreciation.

Market	10-Year Avg	10-Year Std Dev	2024	2025	Region	Market	10-Year Avg	10-Year Std Dev	2024	2025	Region
Boise City	1.48	0.37	0.8	0.8	Mountain	Los Angeles	0.98	0.17	1.1	1.2	Coastal Gateway
Tampa	1.33	0.14	1.0	0.9	Florida	Boston	0.96	0.15	1.2	1.3	Coastal Gateway
Phoenix	1.30	0.28	0.8	0.8	Sunbelt (West)	Columbus	0.96	0.07	1.0	1.0	Midwest
Orlando	1.29	0.22	1.1	1.0	Florida	New York	0.95	0.19	1.3	1.3	Coastal Gateway
Jacksonville	1.26	0.18	0.8	0.7	Florida	Detroit	0.95	0.11	1.0	1.0	Midwest
Sacramento	1.23	0.23	0.8	0.9	Sunbelt (West)	Indianapolis	0.95	0.17	0.9	0.9	Midwest
Austin	1.23	0.24	0.5	0.5	Texas	Tucson	0.94	0.34	1.1	1.1	Sunbelt (West)
Riverside	1.21	0.18	0.8	0.8	Sunbelt (West)	Madison	0.94	0.11	1.2	1.2	Midwest
Charlotte	1.21	0.09	1.0	0.9	Sunbelt (East)	Cincinnati	0.93	0.11	1.1	1.2	Midwest
Nashville	1.20	0.15	0.9	0.9	Sunbelt (East)	Richmond	0.92	0.12	1.0	1.0	Sunbelt (East)
Atlanta	1.20	0.08	0.9	0.8	Sunbelt (East)	Kansas City	0.92	0.05	1.1	1.1	Midwest
Dallas	1.18	0.11	1.0	0.9	Texas	Minneapolis	0.91	0.14	0.9	1.0	Midwest
Seattle	1.17	0.21	1.0	1.1	Coastal Gateway	San Antonio	0.88	0.13	0.7	0.7	Texas
Fayetteville	1.16	0.16	1.0	1.0	Sunbelt (East)	Philadelphia	0.86	0.13	1.2	1.2	Coastal Gateway
Las Vegas	1.16	0.26	0.9	0.9	Sunbelt (West)	Louisville	0.81	0.08	1.0	1.0	Midwest
Salt Lake City	1.14	0.17	0.8	0.8	Mountain	Houston	0.80	0.29	1.0	1.0	Texas
San Jose	1.13	0.45	1.0	1.0	Coastal Gateway	Milwaukee	0.77	0.12	1.1	1.1	Midwest
Denver	1.13	0.29	0.8	0.9	Mountain	Chicago	0.77	0.09	1.1	1.2	Midwest
Miami	1.11	0.19	1.4	1.3	Florida	Washington	0.76	0.10	1.1	1.2	Coastal Gateway
Raleigh	1.09	0.12	0.9	0.8	Sunbelt (East)	Albuquerque	0.73	0.36	1.1	1.1	Sunbelt (West)
Charleston	1.07	0.15	1.2	1.1	Sunbelt (East)	Cleveland	0.72	0.06	1.0	1.1	Midwest
Grand Rapids	1.07	0.11	1.1	1.0	Midwest	Baltimore	0.72	0.09	0.9	1.0	Midwest
San Diego	1.05	0.09	1.2	1.1	Coastal Gateway	St. Louis	0.71	0.11	0.9	1.0	Midwest
Portland	1.05	0.24	0.8	0.9	Mountain	Memphis	0.70	0.20	0.8	0.9	Sunbelt (East)
San Francisco	1.01	0.49	0.9	1.0	Coastal Gateway	Pittsburgh	0.68	0.15	1.2	1.2	Midwest
Fort Wayne	0.99	0.15	1.1	1.1	Midwest	Oklahoma City	0.60	0.23	0.7	0.8	Sunbelt (West)



Proven Results. Passive Investing Made Simple.

Breneman Capital is a private real estate investment management firm specializing in the multifamily property sector. Breneman Capital employs a deliberate approach, leveraging data analytics and proprietary technology to generate superior risk-adjusted returns for investors.

To start investing with us today, click Invest Now on the top right of our homepage at breneman.com, sign up at breneman.com/invest, or email our team at investors@breneman.com.

We look forward to investing together.