ESSENTIAL REALTY CAPITAL

MARKET RESEARCH

Sunbelt & Midwest Submarket Rankings

Scoring the submarkets where in-migration, AI-era investment, and supply constraints overlap.

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essentialrealtycapital.com

INSIDE THIS REPORT

SUMMARY

Executive Summary

This report describes the framework Essential Realty Capital uses to screen Sunbelt and Midwest multifamily submarkets - the places where the three forces of our investment thesis overlap most strongly. It is a screening tool, not an underwriting substitute: it tells us where to look, not what to buy. Every acquisition is underwritten asset by asset against the Three Guidelines.

The framework scores submarkets across five factors: employment and capital-expenditure gravity, in-migration and household formation, the supply pipeline relative to existing inventory, the affordability spread between owning and renting, and regulatory posture. This edition sets out the factors and the verified inputs behind them. To avoid implying precision the data does not support, we do not publish specific numerical submarket ranks here; the framework is qualitative in this edition.

FRAMEWORK

The Scoring Framework

A strong multifamily submarket is one where durable demand is arriving faster than new supply can meet it, where residents are locked into renting by affordability, and where the regulatory environment allows an operator to run the business well. We decompose that into five factors, each grounded in named third-party data. No single factor is decisive; the submarkets we favor score well across most of them at once.

The factors are weighted toward the durable and the measurable. Capital-expenditure gravity and supply constraints are heavily weighted because they are slow to reverse; affordability and formation set the depth of the renter pool; regulatory posture is a gate that can disqualify an otherwise attractive submarket.

FACTOR 1

01

Employment & Capex Gravity

Where is large-scale capital being spent, and what job and income growth follows it?

The AI-era capital cycle is the clearest demand signal available, and it is measurable. US Census Bureau data show private construction spending on data centers reached approximately $41 billion in 2025, up about 32% year over year, while manufacturing-facility construction totaled roughly $220 billion - with plants for computers and electronics alone at about $104 billion, up from roughly $9 billion in 2020. Announced projects such as TSMC's planned investment of approximately $165 billion centered on Phoenix anchor demand in specific metros for years.

US construction spending, full-year 2025 (US Census Bureau)

Category	2025 spend	vs. 2020
Data centers	~$41B	+~344%
Manufacturing (all)	~$220B	+~192%
Computer/electronics plants	~$104B	from ~$9B

We score submarkets higher where announced and underway capital spending is large relative to the existing employment base, because construction jobs arrive first and durable operations and supplier employment follow - the foundation of rental demand.

FACTOR 2

02

In-Migration & Formation

Is the renter pool growing, and is it growing in the suburbs?

Demand is only useful if it translates into households that rent. An Arbor Realty Trust and Chandan Economics analysis of Census data found US renter households rose by roughly 898,000 in 2025 to a record 46.1 million, accounting for approximately 79% of all US household growth. Crucially for our strategy, renting is suburbanizing: a Point2Homes analysis found renters now outnumber owners in 203 suburbs of the 20 largest US metros.

We score submarkets higher where renter-household growth is outpacing the core city and where in-migration is supported by the employment gravity measured in Factor 1. Formation and migration set the depth and durability of the renter pool.

FACTOR 3

03

Supply Pipeline vs. Inventory

How much new supply is arriving relative to what already exists - and when does it thin out?

Demand meets price only through the supply pipeline. US Census data compiled by NAHB show multifamily starts fell roughly 35% from their 2022 peak, and Yardi Matrix projects national deliveries declining to roughly 441,000 units in 2026 and about 407,000 in 2027 after the 2024 completions high. Because a project cannot deliver for years after it starts, the near-term trough is largely already set.

US apartment deliveries, projected (Yardi Matrix) 000s of units

We score submarkets higher where the forward delivery pipeline is thin relative to existing inventory and relative to the demand arriving under Factors 1 and 2. Submarkets with the widest gap between arriving demand and arriving supply clear excess inventory first.

FACTOR 4

04

Affordability Spread

How locked-in are residents to renting rather than buying?

The wider the cost gap between owning and renting, the stickier the renter pool. Per CBRE research, the average monthly cost of buying a median-priced US home was approximately $4,643 in the second quarter of 2025 - a premium of roughly 108% over the average apartment rent of about $2,228, against a pre-pandemic norm near 68%. The National Association of Realtors reported the median first-time homebuyer age reached a record 40, and the first-time buyer share fell to 21%, the lowest since 1981.

108%
Cost premium to buy vs. rent, Q2 2025 (CBRE).

Age 40
Median first-time homebuyer age, a record (NAR).

46.1M
US renter households, a record (Arbor, 2025).

We score submarkets higher where the local buy-versus-rent spread is widest, because affordability barriers keep residents renting for longer regardless of the broader cycle.

FACTOR 5

05

Regulatory Posture

Can an operator run the business well - on rents, renovations, and turnover?

A submarket can score well on demand and supply and still be difficult to operate. We assess the local regulatory environment qualitatively: the presence or absence of rent regulation, the predictability of the entitlement and renovation process, property-tax trajectory, and landlord-tenant procedures that affect turnover and delinquency management. Sunbelt and many Midwest submarkets generally offer a more operator-friendly posture than the coastal gateway markets, which is one reason our geography is concentrated there. Regulatory posture functions as a gate: a submarket that fails it is set aside regardless of its other scores.

ASSET FOCUS

Why Suburban Garden-Style

The framework points consistently to one asset type: 100-plus-unit suburban garden-style communities in A and B neighborhoods. Suburban garden-style assets sit where renter household formation is now concentrated, carry a cost basis below high-rise product, are cheaper to operate and renovate, and serve the workforce and move-up renter households that the affordability spread keeps in the rental market. It is the asset most directly exposed to the demand our framework measures and least exposed to the oversupply risk in urban high-rise submarkets.

METHODOLOGY

Methodology & Caveats

This report is a screening framework, not an investment recommendation or a ranked buy list. The scores synthesize third-party data as of the dates indicated; that data is revised over time, and forward-looking components are projections rather than facts. We deliberately do not publish specific numerical submarket ranks in this edition, because the underlying data does not support that level of precision and because ranks can imply a false confidence. Every acquisition is underwritten asset by asset against the Three Guidelines - 100-plus-unit suburban garden-style, a $5-15 million equity check, and a target of a minimum 2.0x equity multiple. Targets are objectives, not guarantees.

For how this framework fits the broader market view, see our flagship paper, The Multifamily Tsunami, at essentialrealtycapital.com/thesis.

REFERENCES

Sources & Methodology

Figures in this report are approximations drawn from the named third-party sources below, as of the dates indicated. Essential Realty Capital has not independently verified this data, and it is subject to revision. Forward-looking figures - construction and delivery forecasts in particular - are third-party projections, not statements of fact, and have been revised materially between reporting periods. Where credible sources disagree, the report presents the range and each methodology rather than a single convenient number.

1. US Census Bureau, Value of Construction Put in Place, full-year 2025 (as reported February 2026): private data-center construction ~$41 billion (up ~32% year over year); manufacturing-facility construction ~$220 billion; computer/electronics plants ~$104 billion.
2. TSMC press release (March 4, 2025): additional $100 billion of planned US investment, bringing total planned US investment to approximately $165 billion centered on Phoenix, Arizona.
3. US Census Bureau (Series C-20), New Residential Construction, as compiled by NAHB (updated June 2026): multifamily starts ~548,000 units (2022) to ~354,000 (2024); NAHB (February 2026): 2024 multifamily completions ~608,000 units, a 38-year high.
4. Yardi Matrix apartment delivery forecast, as reported by Multifamily Dive (October 31, 2025): national deliveries ~585,000 (2025), ~441,000 (2026), ~407,000 (2027).
5. Arbor Realty Trust / Chandan Economics analysis of US Census Bureau data (April 2026): US renter households rose ~898,000 in 2025 to a record ~46.1 million, ~79% of total US household growth.
6. Point2Homes analysis of US Census Bureau American Community Survey (published June 2025): renters outnumber owners in 203 suburbs of the 20 largest US metros.
7. CBRE Research (Q2 2025 data, published September 2025): average monthly cost to buy a median-priced US home ~$4,643 versus average apartment rent ~$2,228 (a ~108% premium; ~68% pre-pandemic norm); ~12.7% of renter households could afford a median-priced home.
8. National Association of Realtors, 2025 Profile of Home Buyers and Sellers (November 2025): median first-time homebuyer age 40 (record); first-time buyer share 21% (lowest since 1981).

LEGAL

Important Disclosures

This report is market commentary prepared for informational purposes only. It is not investment, legal, or tax advice, and it does not constitute an offer to sell, or a solicitation of an offer to buy, any security or investment product. Any offering is made solely to accredited investors through definitive offering documents, which contain important information about strategy, terms, fees, and risks, and not through this report or the firm's website.

Any targeted returns, including targeted equity multiples, are objectives only. Targets are not guarantees, projections, or predictions of future performance, and there can be no assurance that they will be achieved. Past performance is not indicative of future results.

Investing in real estate involves substantial risk, including illiquidity, the use of leverage, and the possible loss of the entire principal amount invested. Any hypothetical examples in this report are illustrative only, do not represent any actual investment, and are not indicative of future results.

Certain statements in this report are forward-looking and reflect current expectations based on third-party data believed to be reliable as of the dates indicated. Actual outcomes may differ materially. Essential Realty Capital undertakes no obligation to update any forward-looking statement.

Prospective investors should conduct their own investigation and consult their own legal, tax, and financial advisors before making any investment decision.

TODO(compliance): securities counsel to review prior to distribution.