Blackstone

US Rental Housing in an Inflationary Environment

The Great Misperception

The question of the day is, "Should we be worried about US housing in an inflationary environment, with rates rising and owning a home becoming increasingly less affordable for more individuals?" If you are buying a home today, then yes, you should be thinking about the impact of rising rates. However, if you own existing apartments and homes to **rent**, the fundamentals have never been stronger. Rental housing has been a high conviction theme for Blackstone for years – our conviction is even stronger today.

Tailwinds in Rental Housing

Short Supply Housing has been undersupplied since the 2008-2009 financial crisis when homebuilders dramatically scaled back production. Supply has never caught back up to demand. Since 2010, production of US homes has been at half the rate of the long-term average, creating a 4 million home deficit.[1] New supply has begun to decline again in 2022 as a result of supply chain challenges, cost pressures and the sharp upward movement in mortgage rates.

Not surprisingly, apartment occupancy has risen 500 bps above 2009 levels to 97%.[2]

Strong Demand Simply put, renting a home or apartment is more compelling today because it is more affordable than owning and that differential is the widest it has been in 20+ years.[3] As the chart on the next page illustrates, US mortgage payments have widened to 1.5x market rents, up from 1.2x less than three years ago.

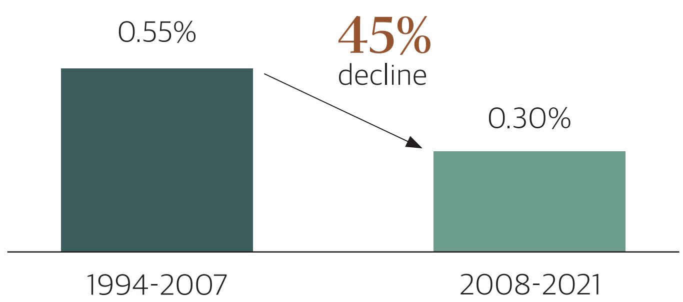
Pricing Power The combination of short supply and rising demand has resulted in exceptional rent growth. The average multifamily market rent in Blackstone Real Estate Income Trust (BREIT)'s top markets is **up 19% year-over-year in June.**[5]

We refer to rental housing as a short-duration asset because leases are typically one year and can quickly reflect changes in market rents. BREIT's portfolio is deliberately oriented towards shorter-duration real estate to be more defensive against inflationary pressure in the economy.

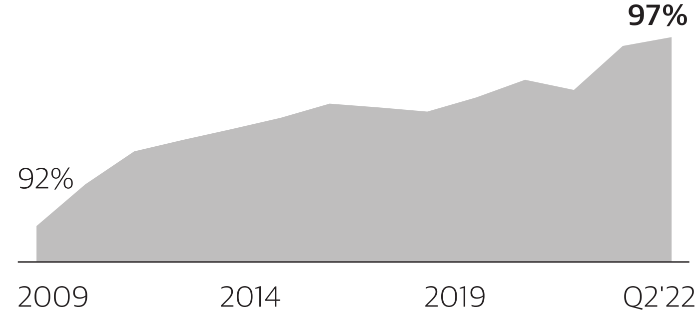
Additionally, BREIT has focused on markets in the South and West US regions which benefit from the additional tailwinds of higher population growth vs. the rest of the country, and even stronger multifamily rent growth.[6]

For historical context, from 1978-1982, the last period the US experienced high inflation, CPI averaged 9% and so did

Average US Housing Completions as Percentage of Population[4]



Historical US Multifamily Occupancy[2]



apartment rental increases.[7] Notably, at the start there had been a much greater supply of homes under construction but that ultimately declined by 50%, supporting rent increases.[8]

Values, Cap Rates, NOI – What We Can Expect It is reasonable to expect rising cap rates (or lower valuation multiples) in real estate given higher interest rates. However, this is why we believe it is critically important to own assets that produce significant cash flow growth which can more than offset the valuation impact. Rental housing, with its significant in-place supply-demand imbalance which is exacerbated by rising building costs and higher mortgage rates, should have exceptional tailwinds in this environment.

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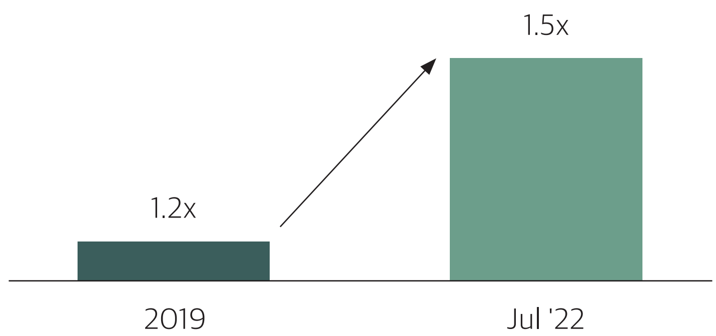
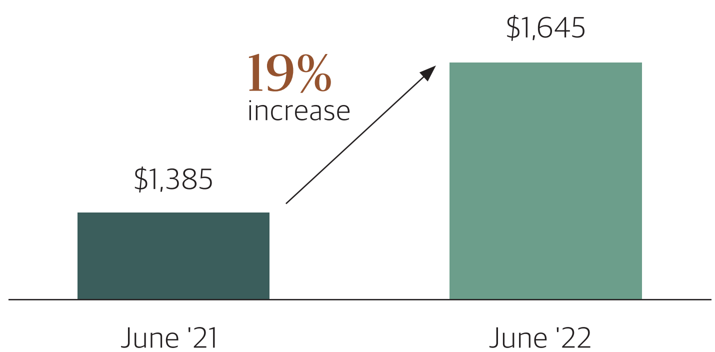
US Mortgage Payments vs. Market Rents[3]



Multifamily Market Rent Growth in BREIT's Top 10 Markets[5]



End Notes

1. Freddie Mac, as of December 31, 2020.
2. Axiometrics, as of June 30, 2022. Axiometrics data reflects market-rate, attached dwellings with five or more units leased through a central management company or agent.
3. Axiometrics, Zillow and Blackstone Proprietary Data, as of June 30, 2022. Represents the difference between the cost to own a home and multifamily rents. Reflects the 30-year fixed rate mortgage, as of July 12, 2022. Monthly mortgage payments assume median home prices are financed at 80% loan-to-value and include closing costs, insurance, taxes and monthly capital expenditure.
4. US Census Bureau. Represents difference in average annual single family and multifamily housing completions as a percentage of total US population between 2008-2021 and 1994-2007.
5. Axiometrics, as of June 30, 2022. Rent growth represents June 30, 2022 effective rent versus June 30, 2021 effective rent.
6. Population growth reflects Census Bureau data, as of July 2021, released in May 2022. Rent growth reflects Axiometrics data as of June 30, 2022. Key growth markets in the South and West reflect BREIT's top 10 multifamily markets (excluding affordable housing) as of June 30, 2022.
7. US Bureau of Economic Analysis. Rent reflects Personal Consumption Expenditures: Services: Housing: Imputed rental of owner-occupied nonfarm housing, US Bureau of Labor Statistics. CPI reflects Consumer Price Index for All Urban Consumers: All Items in US City Average. Represents year-over-year growth. Market rent growth may not be correlated to or continue to keep pace with inflation.
8. US Bureau of Labor Statistics. Reflects single family and multifamily completions as a percentage of population and represents the percent change from 1978-1982.