NATIONAL APARTMENT ASSOCIATION

NAVIGATING CHALLENGES
IN THE APARTMENT INDUSTRY

Strategies for Adapting to an Evolving Housing Market

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INTRODUCTION

Real estate markets are experiencing a wave of uncertainties resulting from rapid changes in macroeconomic conditions, geopolitical realities and technological disruptions. Some changes are part of an ongoing long-term trend, such as demographic changes, while others are more recent, like the restructuring of the federal workforce and the government's renegotiation of trade agreements through tariffs.

On the economic front, the past year has been dominated by the continued rise in inflation and the Federal Reserve's efforts to curb price growth without harming employment, to achieve what the central bank has termed a "soft landing." The impact of these forces is reverberating throughout corporate and household finances, hiking borrowing costs, moderating consumption and altering investment strategies.

With tariff initiatives roiling markets, companies have been working through supply chain disruptions. For some consumers, the threat of continuing escalation in prices has tempered expectations of spending. In addition, volatile energy prices—gasoline, natural gas, electricity—have exacerbated the uncertainty for many consumers and businesses.

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Compounding these factors, the rapid deployment and evolution of artificial intelligence (AI) has disrupted every aspect of the economy and the real estate industry. As companies, employees and policymakers grapple with the impact and implications of incorporating AI into daily functions, the number of questions and uncertainties grows.

Within this context, the National Apartment Association (NAA) engaged in a research initiative to identify major uncertainties and explore how the industry is adapting and addressing them. NAA Research approached the research study with a two-pronged methodology. One prong involved fielding a survey of senior-level real estate professionals, collecting insights and information from more than 350 respondents across the industry. The survey examined reactions to rising interest rates, construction costs and other challenges while also gathering projections on how centralization strategies may evolve during the next five years. The other prong consisted of a series of in-depth interviews with C-suite and Independent Rental Owners (IRO) to uncover deeper concerns and provide more detail about the ways in which the industry is responding to current challenges.

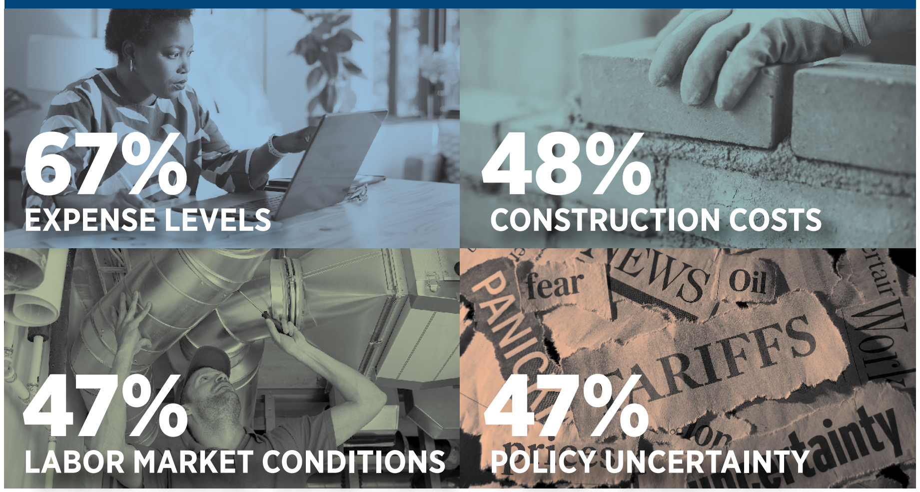
350 Respondents Participated in our Survey

450 Pages of Interview Transcripts Collected

SIGNIFICANCE OF KEY MARKET **UNCERTAINTIES**

During the past 12 months, expense levels emerged as the most pressing operational challenge, outpacing interest rates and labor issues, with 67% of survey respondents rating rising expenses as a highly significant issue that has affected business operations.

TOP 4 INDUSTRY UNCERTAINTIES



These findings underscore the broad inflationary pressures on line item costs such as materials, repairs, ongoing maintenance and vendor contracts. Companies are facing increased difficulty in maintaining profitability amid rising baseline operational costs.

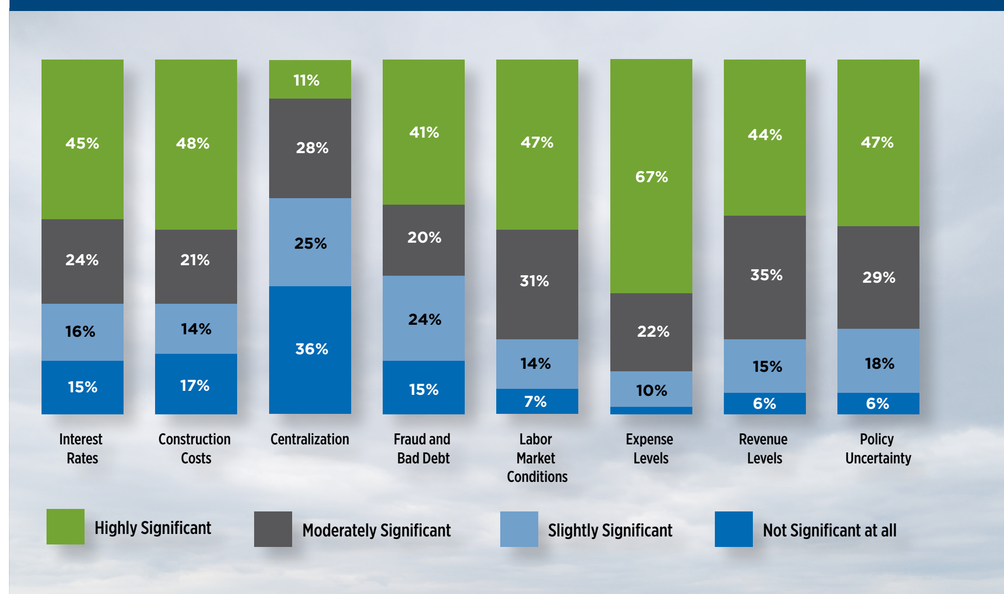
Next in severity were construction costs, with **48%** of respondents placing them in the top two tiers. These costs are driven by persistent inflation, supply chain disruptions, labor shortages and extended project timelines, reflecting financing strains. The impact reflects the deep interconnectedness between macroeconomic trends and development feasibility.

Interest rates were a key concern, with **45%** of respondents rating them as highly significant. However, labor market conditions and policy uncertainty were rated even higher. This indicates that while interest rates remain a central pressure point, staffing constraints and regulatory ambiguity are weighing more heavily on business operators.

Following successive Federal Reserve rate hikes, borrowing costs have risen sharply, directly restricting refinancing activity, deal flow and the financial viability of new development or acquisition efforts. As a result, many companies are pivoting toward a risk-averse approach – capital preservation and portfolio optimization.

In contrast, centralization was not broadly perceived as a major disruptive force to operations in the current market environment. Only **11%** of respondents rated it as a highly significant challenge. This suggests that while many firms are pursuing centralization for strategic efficiency or experimenting with centralized models, it has not created widespread operational friction.

IMPACT ON OPERATIONS IN THE PAST 12 MONTHS



INTEREST RATE SHIFTS: **CHALLENGES**

Most interview respondents observed noticeable effects of rising interest rates. Higher rates have made it more challenging to develop new projects, refinance existing ones, and have compounded other rising costs like insurance, wages and taxes.

The impact of higher rates is felt nationwide and across the property value spectrum, affecting both large corporate entities and individual rental owners and operators. Interview participants highlighted several headwinds stemming from higher interest rates.

TOP 4 CHALLENGES AFFECTED BY INTEREST RATE SHIFTS

NEW PROJECT DEVELOPMENT STRAINS

Rising interest rates and inflation have strained development projects in many parts of the country, leading to unexpected cash infusion calls from investors and increased debt service during the development phase. In addition, desirable projects that could bring much-needed housing to market are on hold—including some that combine affordable housing with transit-oriented development.

INVESTMENT MANAGEMENT CHALLENGES

The current interest rate environment has made it difficult for investment companies to initiate new projects, forcing them to be more selective and slowing down the pace of acquisitions. Some interview participants mention that existing projects were shelved until the financial picture improves.

CLOSING REFINANCING DEALS DIFFICULTIES

The apartment industry is experiencing challenges in closing deals due to rising interest rates. Higher rates change the refinancing math, especially when coupled with higher insurance costs and real estate taxes. For many owners, higher rates mean traditional refinancing becomes unworkable, prompting owners to seek and adopt creative financing solutions. With rent growth slowing, many owners are also dealing with moderating net operating income, which complicates refinancing.

SUPPLY AND FINANCING ISSUES

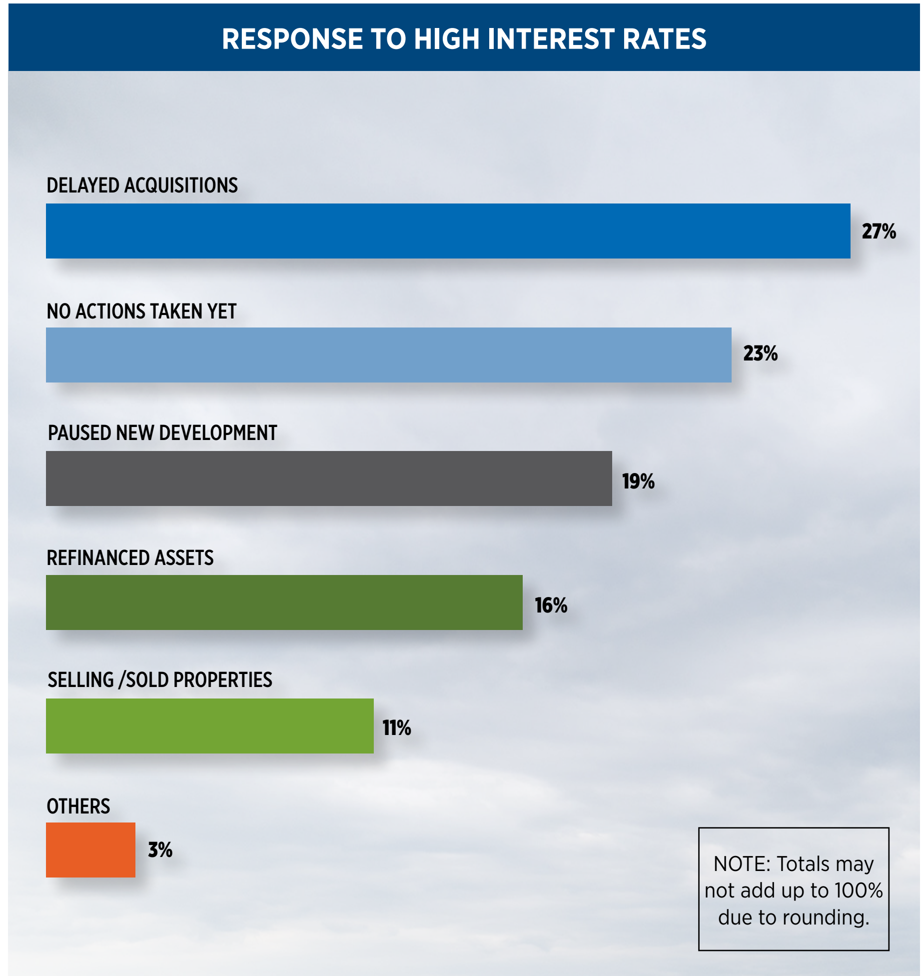
Interview participants also highlighted the complicated financing structures that many owners resort to, which contribute to the current supply problem and hinder their ability to address the affordability crisis. In addition, some owners who placed their properties on the market for sale struggled with offers that, because of higher interest rates, came in below what they felt was fair, causing them to cancel the listings.

INTEREST RATE SHIFTS: **RESPONSES**

Survey results show that higher interest rates are prompting more cautious strategies among operators, as many seek to preserve flexibility and reduce exposure to volatile capital markets.

The most common action reported is delaying acquisitions, noted by **27%** of respondents. Additionally, **19%** have paused new development projects and **16%** have refinanced assets, demonstrating that a significant share of businesses is implementing defensive strategies. Notably, **23%** have taken no action yet, suggesting either a wait-and-see approach or lag in decision-making cycles. On the other hand, **11%** stated that they were selling assets. Other responses included delaying refinancing, lowering construction costs, reducing personal or business spending, canceling debt restructuring and modifying operational strategies.

These results suggest that many companies are taking measured approaches, with some opting to wait for rate stability before reentering the development or acquisition pipeline. In the meantime, efforts are shifting toward cost control, capital planning and internal operational efficiencies.



INTEREST RATE SHIFTS: **OPPORTUNITIES**

Interview participants also discussed opportunities that emerged over the past year as a result of a higher rate environment. They mentioned that companies have been adjusting to higher rates in a variety of ways.

ACQUISITION OPPORTUNITIES

The challenging interest rate environment is leading some property owners to consider selling, especially if refinancing poses barriers. As these properties come to market, well-capitalized firms leverage the acquisition opportunities to expand their portfolios in existing markets or enter new ones.

STRATEGIC FINANCIAL PLANNING

Industry professionals mentioned that their companies are forced to think strategically about income and expenses, incorporate lessons from past economic challenges, and take a long-term view of planning and portfolio management.

SOME PARTICIPANTS VIEW THE CURRENT ENVIRONMENT AS AN OPPORTUNITY

LOAN ASSUMPTIONS

With higher rates, interviewees identified loan assumptions as a significant opportunity, allowing buyers to take over existing loans at lower rates, despite the complexities involved in closing some of the deals.

CREATIVE FINANCING SOLUTIONS

Strong relationships with lenders and alternative financing methods, such as seller financing, are becoming essential in navigating the current financial landscape and meeting increased equity requirements.

PARTNERSHIPS AND GOVERNMENT ASSISTANCE

Several conversations highlight that rising equity requirements are driving many companies toward partnerships to make deals work. For some companies, leaning into government funding, such as multifamily loans insured by the U.S. Department of Housing and Urban Development or financed through the Federal Housing Administration, presents a viable path to mitigate the challenging interest rate environment.

OFFICE BUILDING CONVERSIONS

Another opportunity that surfaced in the interviews was the conversion of existing office buildings into multifamily housing projects. With high vacancies and declining values, some office properties can offer better value re-purposed for residential housing.

CONSTRUCTION COSTS: **OVERVIEW**

The past few years have witnessed noticeable shifts in real estate development and construction costs. From the pandemic-period shortage of materials stemming from the global supply shocks to the shortage of qualified workers on construction sites, the industry has been buffeted by changes.

Industry professionals discussed how the construction landscape is faring and how they address various challenges.

LABOR AND MATERIALS COSTS

For many companies actively engaged in building multifamily housing, the cost of labor remains a challenge. While lumber prices have retreated from the highs experienced in 2021 and 2022, they remain higher than prior to the pandemic. In addition, costs for other components such as fasteners, drywall and steel remain elevated.

IMPACT OF TARIFFS

With international trade changes and tariffs in 2025, volatility in the price of materials has added to cost uncertainties. Tariffs on steel and imported products—lumber, appliances, electrical components—have resulted in significant cost increases to construction projects.

REGULATORY ISSUES

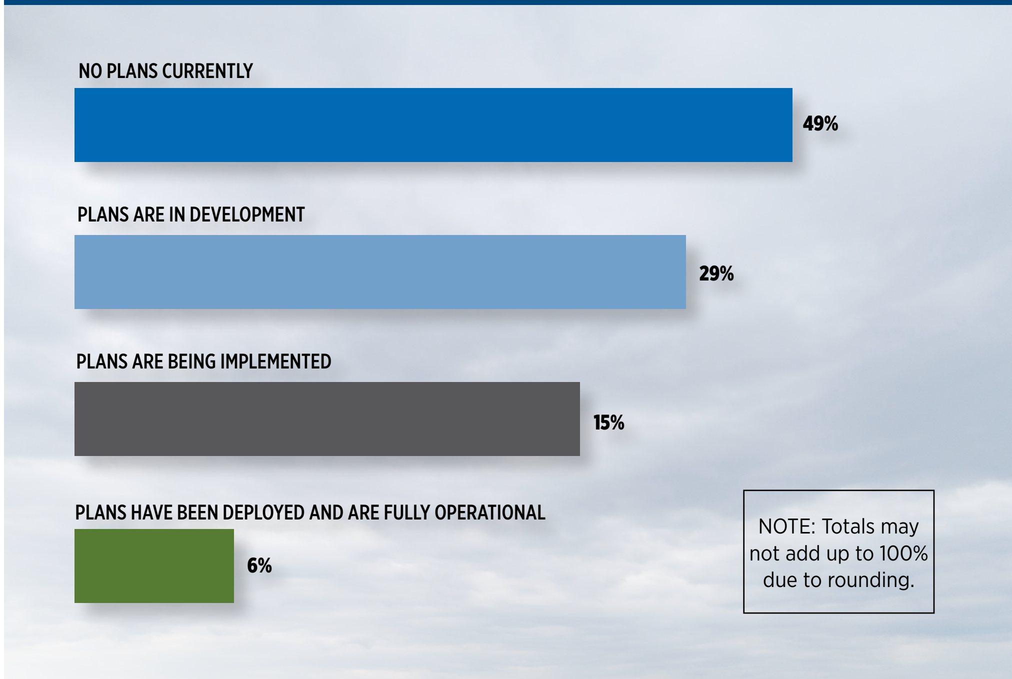
For most construction projects, a significant component of cost comes from local zoning regulations, impact fees and code interpretations. Variability in any of these factors can lead to delays and increased costs, complicating project timelines.

CHALLENGES IN RURAL AREAS

Rising construction costs, driven by limited competition and high insurance rates, have impacted operations in rural areas where, historically, projects cost less and offered more affordability.

According to survey responses, a significant portion **(49%)** of respondents reported they had no current plans in motion for managing the ripple effect of construction costs. However, **29%** stated that plans were in development and **15%** said that plans were being implemented. This indicates a lag between cost pressures and active strategic planning, likely driven by the uncertainty around how long elevated prices will persist.

PLANING FOR CHANGES IN CONSTRUCTION COSTS



CONSTRUCTION COSTS: **STRATEGIES**

The information below summarizes the specific actions and strategies companies are taking to respond to the rise in construction costs.

VENDOR & CONTRACTOR STRATEGY

- Price shopping for contractors and finishes
- Multi-sourcing for materials/resources
- Reevaluating vendor relationships
- Buying out existing contracts
- Leveraging in-house general contractor teams or multiple subcontractors

COST CONTROL & PROCUREMENT

- Paying subcontractors in installments, not hourly
- Bulk purchasing materials
- Pre-ordering fixtures and supplies to mitigate market uncertainties and price fluctuations caused by tariffs
- Postponing low-priority new construction
- Delaying start times
- Just-in-time construction to reduce costs by building based on expected leasing rates, avoiding overcommitment

VALUE ENGINEERING (VE) AND STANDARDIZED FINISHES

- Revisiting project scopes with contractors
- Evaluating VE measures
- Using more cost-effective materials or finishes
- Optimizing design choices and materials for cost-effectiveness is a key strategy to balance quality and expenses. For larger projects, utilizing the same line of appliances and finishes, as well as purchasing in bulk, can minimize costs.

STRATEGIC PRIORITIZATION

- Prioritizing only high ROI construction efforts
- Deferring major capital improvements
- Scaling back on new developments
- Focusing on value-add acquisitions

RESEARCH & PLANNING

- Conducting internal market research
- Seeking multiple bids
- Studying rent trends in markets to guide construction timing and pricing

POLICY & REGULATION

- Advocating for regulatory shifts
- Monitoring regulatory opportunities that may offset costs

CONSTRUCTION COSTS: REASONS FOR NO CURRENT PLANS

For the 49% of respondents who indicated that they have not developed plans yet to address rising construction costs, they provided the following reasons:

There is a clear divide between those actively adapting to construction cost pressures and those deferring action because of uncertainty or strategic misalignment. Among active respondents, strategies span from contract renegotiation and value engineering to delayed execution and internal planning. Those who remain inactive often do so intentionally, with valid operational or investment priorities elsewhere. As cost pressures persist, more firms may shift from passive observation to active preparation.

49%

Have Not Developed a Plan for Rising Construction Costs

1. FOCUSED ON ACQUISITIONS, NOT DEVELOPMENTS

Construction costs are less relevant for businesses that leverage already-existing buildings.

2. NO PLANS FOR EXPANSION

Business is in a holding phase or consolidating existing assets.

3. PRIORITIZING OPERATING EXPENSES (OPEX) OVER CAPITAL IMPROVEMENTS

The current business strategy focuses on repairs, maintenance and other operational needs.

4. WAITING FOR RATES AND COSTS TO DECREASE

Hesitant to invest in new construction during a period of inflated costs. Monitoring the market for signs of rate stabilization or potential cuts.

5. PAUSED NEW DEVELOPMENT DUE TO UNCERTAINTY

Lack of clarity around how long cost pressures will persist, leading to long-term planning difficulty.

6. TAKING A "WAIT-AND-SEE" APPROACH

Aggressively monitor market conditions before committing to construction strategies.

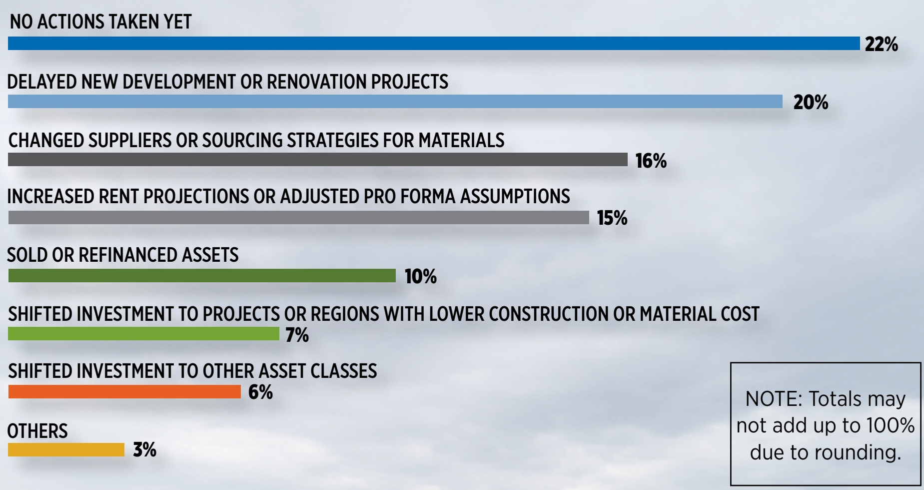
LEGISLATIVE AND REGULATORY UNCERTAINTIES

Policy uncertainties, including active and proposed tariffs, federal funding volatility, and shifting regulatory reforms at the state and local levels, continue to weigh heavily on operator decisions.

Survey responses reflect a spectrum of risk-mitigation strategies: **20%** of responses show operators have delayed development or renovation projects, **16%** have switched suppliers or changed material sourcing strategies, **15%** have adjusted rent projections and **10%** have sold or refinanced assets in reaction to the policy climate.

These actions depict a cautious approach as firms navigate unpredictable fiscal and regulatory environments. Additionally, some operators are venturing into alternative approaches, pursuing affordable housing conversions through public facility corporations (PFCs) to unlock better debt terms. Others are focused on targeting newer assets to curb operational expenses, monitoring federal funding more closely, reducing reliance on contract labor, shifting focus to distressed assets and pulling back on renewal increases. These alternative strategies indicate a more hands-on approach to risk and cash flow management.

REACTIONS TO POLICY UNCERTAINTY
(RECENT AND PROPOSED TARIFFS, FEDERAL FUNDING CHANGES, ETC.)



Uncertainties stemming from new legislation and government regulations were another common thread in the interviews. These ranged from changes at the federal level to the state and local municipalities which either have enacted or are in the process of enacting laws and regulations that add complexity, costs and unintended consequences for real estate companies.

The consensus among participants is that the industry needs to monitor ongoing initiatives, raise awareness, engage with legislators and regulatory agencies and adapt to the changing environment.

LEGISLATIVE CHANGES

Bills are regularly being introduced that affect various segments of real estate. Many legislative changes can have unintended consequences, which would impact industry participants and exacerbate affordability challenges.

CODE INTERPRETATION

Several interviewees, with operations in multiple states, emphasized that code interpretations by local municipalities vary significantly, causing delays and increased costs. Some provided examples of how the same building plan could be interpreted differently in different cities, leading to months of delays and retrofitting requirements.

REGULATORY CONCERNS/RENT CONTROL

Several professionals expressed concerns about increased regulatory activity, particularly in western states. While the regulations aim to offer relief to burdened renters, imposing stricter regulations on operators often increases the cost of housing for both providers and renters alike. On the topic of rent control, interviewees highlighted existing research and case studies showing that rent regulations lead to pullback in development and construction, resulting in a decline in affordability over time.

LABOR MARKET: **CHALLENGES**

Labor market changes over the past year have impacted apartment owners and operators. Despite continued employment growth, companies emphasize that finding skilled talent remains both a priority and a challenge.

DIFFICULTIES IN FILLING ROLES

Many professionals interviewed mentioned that their companies had difficulties finding skilled candidates. Most noted that maintenance technicians and leasing consultants are the hardest roles to fill due to a combination of factors. For some, the level of market compensation and an on-demand lifestyle make the value proposition less appealing. For others, the pool of available specialists is diminishing due to an aging workforce and a lack of younger technicians.

PROPERTY TYPE AND GEOGRAPHIC IMPACT

The labor market challenges are impacting professionals in different ways depending on the size of the properties or portfolios and geographic locations. For companies with properties in higher-density locations, leveraging the available local workforce may be comparatively less cumbersome than for operators in rural areas or those with properties scattered over a larger geographic footprint. Professionals managing single-family homes also highlighted additional challenges tied to labor availability.

The survey results indicated that labor supply challenges pose a greater threat to multifamily housing operations than wage increases. Sixty percent of survey respondents identified labor shortages as more disruptive than rising compensation costs. The inability to secure reliable, skilled labor – particularly in maintenance, repairs and other front-line roles – is straining operational capacity and elevating turnover risks. These hiring challenges highlight a systematic mismatch between labor demand and availability, suggesting a need for long-term workforce development, more attractive employment models or deeper investments in automation and outsourcing.

LABOR MARKET'S IMPACT ON OPERATIONS

LABOR MARKET: **STRATEGIES**

Industry participants are keenly aware of labor market challenges and are employing several strategies to attract and retain talented employees.

FLEXIBILITY AS A RETENTION TOOL

Offering flexible work arrangements, such as remote work options, is a key approach for companies to retain employees, especially in corporate positions. With the rise in automation and centralization, some companies have found that the approach also works for select leasing positions.

ADDRESSING PAY DISPARITIES

For some companies, the period following the pandemic was marked by a growing disparity between the pay of long-term employees and new hires, with newer workers seeing much higher starting compensation. Adjusting the gap by bringing the pay of existing employees in line with current market values is underscored as an important approach to maintaining morale and retaining successful talent.

COMMISSION-BASED PAY, BONUSES AND BRANDING

Some respondents indicate that the key to attracting and retaining talent is to offer commission-based pay, complemented by personal branding opportunities, especially for younger employees. In addition, regular bonuses for outstanding performance as well as work anniversaries are being offered.

IMPORTANCE OF MENTORSHIP AND PROMOTION PATHWAYS

Implementing a mentorship program and identifying clear promotion pathways are also cited as successful strategies to motivate employees and enhance retention.

TRAINING AND RECOGNITION

In response to a shrinking pool of technical workers, some companies are implementing extensive training programs, accompanied by competitive compensation. Industry professionals highlighted the importance of recognition initiatives that boost employee engagement and lead to greater retention, as companies show employees their value and growth potential within the company.

LABOR MARKET STRATEGIES

CENTRALIZATION

Centralization plays an important role in the operation of multifamily properties.

Companies of various portfolio and staff sizes are adopting different approaches to centralize operations, such as consolidating leasing personnel and using technology solutions throughout the renting journey. However, many professionals note that while centralization offers benefits, it also presents challenges. This is particularly true when it comes to technology, as several interviewees underscored the importance of balancing technology with personal interaction.

OPERATIONAL EFFICIENCY

Many industry professionals view centralization as a means to enhance operational efficiency. For some, this involves centralizing back-office functions like accounting, collections, and customer service by moving them to the corporate level. Additionally, some owners and operators are exploring ways to streamline leasing processes through centralization. However, they caution that removing the human element can lead to a decline in quality.

TECHNOLOGY'S ROLE IN THE LEASING PROCESS

Several industry professionals discussed the growing role of technology in front-end leasing operations. Leveraging artificial intelligence (AI) to facilitate self-guided tours by prospective renters is becoming increasingly common. Technology is being used to improve rent collection, customer communication and the scheduling of maintenance tasks. Some companies are also employing standardized lease forms to manage risk compliance and keep up with changing regulations.

PROPERTY SIZE AND TYPE

Centralization differs depending on the property type. For several independent rental owners and operators, particularly those managing single-family rentals, centralization has been the primary way of doing business for years. However, for owners of larger portfolios, the process of centralizing operations has accelerated in recent years.

IMPLEMENTATION CHALLENGES

Most interview participants highlighted that centralization comes with challenges. Improper implementation, especially of technology solutions, can lead to friction. When implementing any changes or technologies, interviewees emphasized the importance of planning each step and informing residents along the way to avoid disruptions. In addition, providing adequate training in the use of technology tools is paramount in securing efficiencies, as untrained staff can cause unnecessary disruption. For operators, maintaining the human presence in communication with residents is a priority to balance operational needs with customer satisfaction.

OVERRELIANCE ON TECHNOLOGY

Some industry professionals pointed out that another challenge of centralization is the overreliance on technology to handle problems, which can escalate during unforeseen events. They mentioned that some managers can lose skills or fail to acquire them due to centralization processes that place too much emphasis on software and support staff.

CENTRALIZATION: **OUTLOOK & EXPECTATIONS**

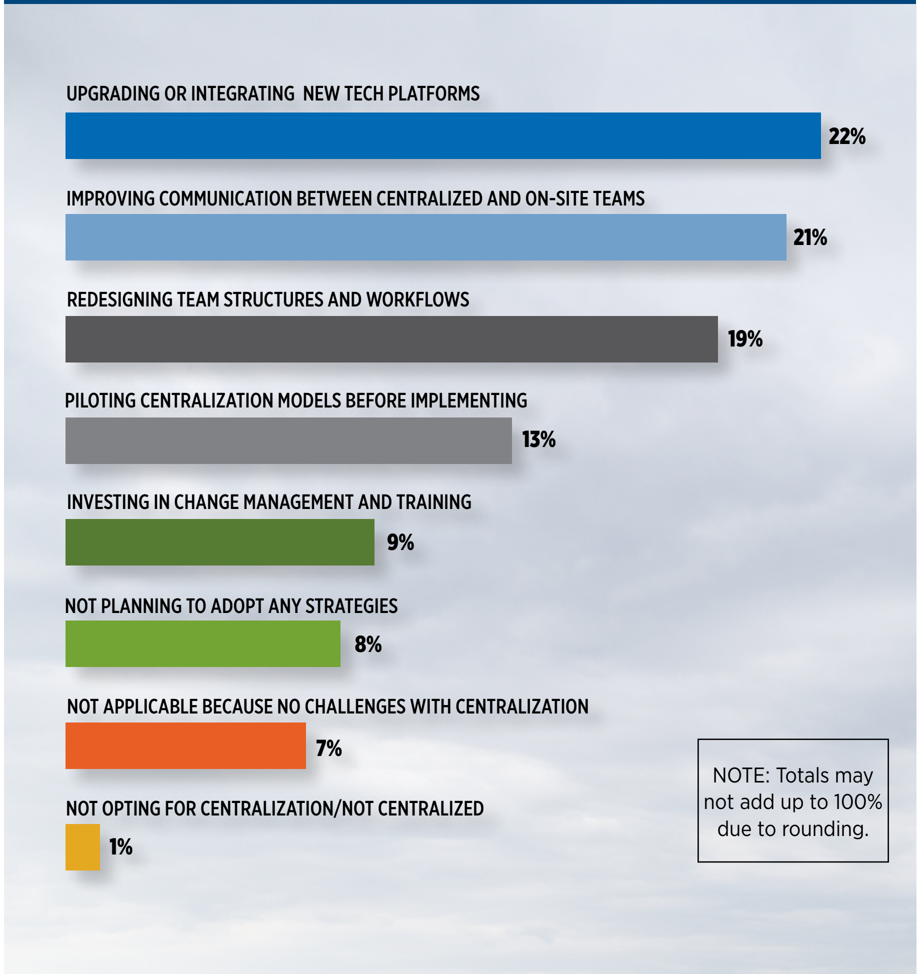
Looking ahead, centralization is emerging as a dominant strategy, with 63% of respondents indicating plans to expand centralized operations within the next five years.

While not the top disruptor, centralization is viewed as a critical path toward greater efficiency and consistency, particularly in functions like accounting and finance, marketing and advertising, leasing and resident services (emails, phone calls, etc.).

To manage the growing challenges that come with this transformation, **22%** of operators are investing in upgraded tech platforms, **21%** are enhancing communication between centralized and onsite teams, and **19%** are redesigning organizational structures altogether. These responses suggest an intentional move toward scalable, integrated operations capable of withstanding both workforce and other external disruptions. As demographic shifts continue and hybrid workforce expectations evolve, a company's ability to effectively implement centralized strategies, both culturally and operationally, will shape the next phase of performance in the multifamily housing industry.

63% Plan to Expand Centralized Operations

STRATEGIES TO ADDRESS OPERATIONAL OR CULTURAL CHALLENGES CREATED BY CENTRALIZATION



SINGLE-FAMILY VS MULTIFAMILY RENTALS

Interview participants were also asked about their experiences with the two main rental asset classes: Single-family and multifamily.

The responses revealed a varied and shifting landscape. Some industry professionals focus only on multifamily buildings, while others manage only single-family properties. And some of the larger firms own and manage a combination of both. The interviews highlighted a growing demand for both types of rentals with a renewed focus on affordability.

SINGLE-FAMILY RENTALS (SFR) DEMAND

The increasing demand for single-family homes, specially build-to-rent communities, is being driven by younger generations seeking flexible living arrangements. As the oldest Millennials turn 44 in 2025, many are seeking single-family homes in the suburbs that offer more space, family-friendly amenities and lower rents.

TOWNHOUSE-STYLE LIVING

There is a growing preference for townhouse-style living in several parts of the country. Townhouses combine the advantages of single-family homes and multifamily housing units, emphasizing private entrances and community amenities. They are popular with both renters looking for more space and lower maintenance, as well as developers who can increase density on a given piece of land.

STRATEGIC CONSIDERATIONS FOR RENTALS

Companies are evaluating the impact of single-family rentals and build-to-rent properties on their operations, focusing on strategic locations and market segments to cater to various demographics. Some industry professionals are placing single-family properties near their multifamily buildings to offer renters more choice and flexibility. This arrangement also allows property managers to leverage maintenance staff more efficiently. In rural areas, single-family homes are the primary property type due to zoning regulations, consumer preferences and economic factors.

GEOGRAPHIC DELINEATION

Several professionals observed that in their markets, the two asset types are not in competition due to geographic delineations. Multifamily buildings are typically clustered in downtown areas, while single-family homes are located in suburban neighborhoods. Interviewees expressed optimism about the future of single-family rentals, especially in small towns, predicting increased demand as more people retire and seek slower-paced living environments.

Despite growing industry-wide interest in the SFR sector, **61%** of survey respondents reported having no plans to pursue SFR strategies, either now or in the future. Only **8%** are actively expanding their single-family units, while **23%** maintain a stable presence without plans to scale. This hesitancy may point to operational complexities and expertise gaps, especially among operators who remain focused on conventional multifamily housing portfolios. Nevertheless, other businesses have divested from individual single-family homes while expressing interest in BTR models. These master-planned communities, tailored for institutional investment and professional management, are gaining traction as a revenue diversification strategy, particularly for operators seeking long-term growth outside of traditional multifamily housing constraints.

OPERATING EXPENSES

Industry professionals who participated in NAA's interview sessions emphasized that operating expenses have been rising, adding to the list of uncertainties during the past year. Conversations highlighted specific areas of concern and strategies for managing costs.

MAINTENANCE AND REPAIR

Most interview participants stated that maintenance costs are the top expense. Companies are finding it challenging to hire and retain skilled maintenance technicians in the current market. Additionally, with the demographic shift toward younger generations, many companies are noticing a shortage of qualified technical workers, as the work is not viewed as highly desirable. Also, companies with aging assets are experiencing rising maintenance costs.

INSURANCE COSTS

Company representatives and owners listed rising insurance premiums as another significant expense category. With the increasing number of catastrophic events—hurricanes, floods, fires, ice storms—insurance companies have been pushing premiums noticeably higher, and in some markets, discontinuing coverage. In addition, some professionals noted frustration over declining service quality from insurance providers.

UTILITY COSTS

The cost of utilities, including electricity, natural gas and water, is another expense category experiencing significant volatility across the country. Some of the costs are exacerbated by the age of assets and the more drastic shifts in weather and temperature extremes.

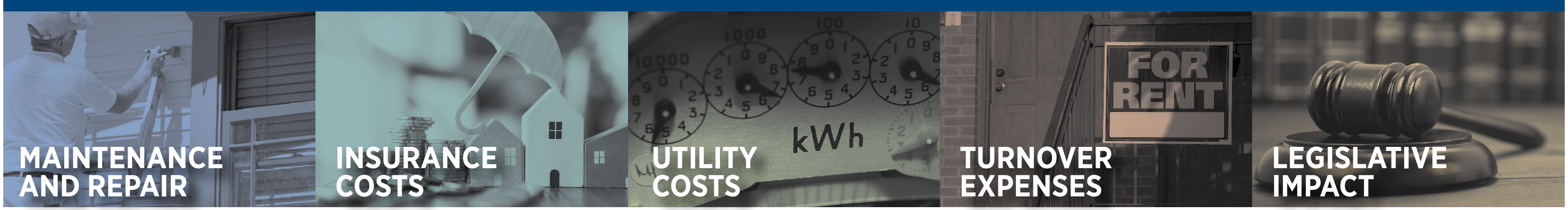
TURNOVER EXPENSES

Lengthy eviction processes result in lost rent and increased costs for repairs and replacements when units are returned in poor condition, according to several interviewees.

LEGISLATIVE IMPACT

Industry professionals also mentioned that a growing number of regulations at state and local levels are adding to expense volatility and infusing uncertainty in operations.

RISING OPERATING EXPENSES AFFECTING THE INDUSTRY



REVENUE IMPACT AND STRATEGIES

Most professionals are developing business strategies in response to market changes, rising interest rates, and expense volatility.

REVENUE MANAGEMENT THROUGH STRATEGIC RENT ADJUSTMENT

Companies are constantly monitoring the situation in local markets, tracking changes in rents and making adjustments based on the balance of supply and demand. For many professionals, rent growth has been moderate over the past year. In some cases, companies are resorting to concessions or rent reductions to either retain or attract renters. Respondents emphasized the importance of having strong rent collection systems in place, including automation strategies.

FOCUS ON RETENTION AND STABILITY

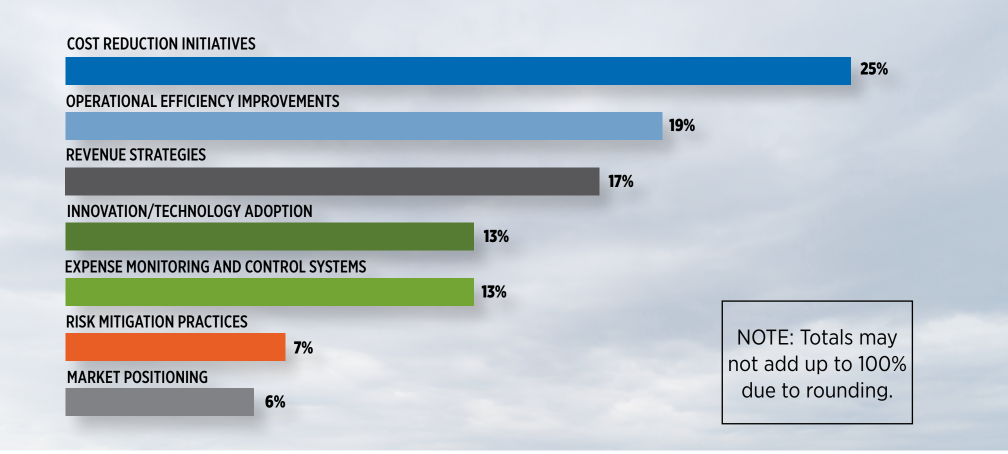
With the supply of new apartments increasing in many parts of the country, industry professionals are focused on retaining residents to reduce turnover costs and maintain stable revenue. Most interviewees view the renewal process as a critical aspect of successfully managing revenue.

UPDATING REVENUE STREAMS

Companies are updating their revenue streams to adapt to changing conditions and preferences. For some, the demand for enhanced technology platforms in buildings, such as high-speed internet and Wi-Fi routers, has increased the need for technology fees. Others have responded to changes in local utility policies, like trash collection, by adding valet services. In addition, the installation of EV charging stations is another area where companies are updating their revenue streams.

Concerns around profitability are widespread, with **82%** of survey respondents stating they are highly concerned about the balance between revenue and expenses. To combat margin compression, operators are deploying a multifaceted approach. A quarter are enacting cost-reduction efforts such as budget restructuring and contract renegotiations, while **19%** are driving operational efficiencies through centralization and automation. Technology adoption and

ACTIONS TO ADDRESS REVENUE AND EXPENSE PERFORMANCE



expense control systems, each cited by **13%** of respondents, suggest a growing reliance on tech to stabilize finances. A smaller proportion **(7%)** is actively working on risk mitigation strategies. In addition to these initiatives, companies are prioritizing resident retention to avoid costly turnover, applying rigorous applicant screening protocols and investing in frontline staff training.

Looking ahead, operators identified regulatory changes and pricing limitations as the most looming threats to their revenue strategy. Sixty-eight percent saw regulatory uncertainty as a moderate to severe risk, while **73%** identified pricing limitations (e.g. rent control, market caps) as a major threat. Demand and leasing velocity, along with increased competition, were also cited, but at slightly lower levels. Operators also cited insurance costs as a growing risk to revenue strategy. These insights reinforce how external policies and market forces might cap profitability in an already constrained environment.

FRAUD AND BAD DEBT: **CHALLENGES**

Fraud and bad debt have become more than routine nuisances; they are now recognized as persistent operational threats. Forty-one percent of survey respondents view these issues as highly significant, driven in part by a rising number of financially unstable applicants and more sophisticated fraud tactics.

Industry participants in NAA's interview panel stated that fraud and bad debt are both rising concerns and challenges, especially with the technological advances of artificial intelligence. On the fraud side, concerns are focused on the application process, where fake income documents, identification forms, credit history and other documents are much easier to create with AI. In addition, some operators are concerned about wire fraud.

41% View Fraud and Bad Debt as Significant Challenges

On the topic of bad debt, companies are still struggling with the fallout from the pandemic, unpaid rent and lingering economic concerns, especially in rural communities. Interview participants emphasized the need for effective verification, monitoring and training systems.

APPLICATION FRAUD

Most professionals discussed the prevalence of fraudulent applications, with some estimating the share of fake or inaccurate forms at **40-50%** for their companies. Applicants resort to a range of fraudulent documents, from driver's licenses or even passports, to income forms and bank account statements. As AI-generated fakes become harder to spot, it's more challenging to verify the accuracy of some documents.

UNPAID RENT

For many owners and operators, the prevalence of unpaid rent compounds what is, at times, a lengthy legal process to manage. Some participants mentioned that vacating a property with unpaid rent can take six months or longer, and many times, it involves significant legal expenses plus repair costs for the units.

FRAUD AND BAD DEBT: **MANAGING UNCERTAINTY**

Rental owners and operators are employing various strategies and tools to manage the rising wave of fraud and mitigate bad debt.

DOCUMENT VERIFICATION TECHNOLOGY

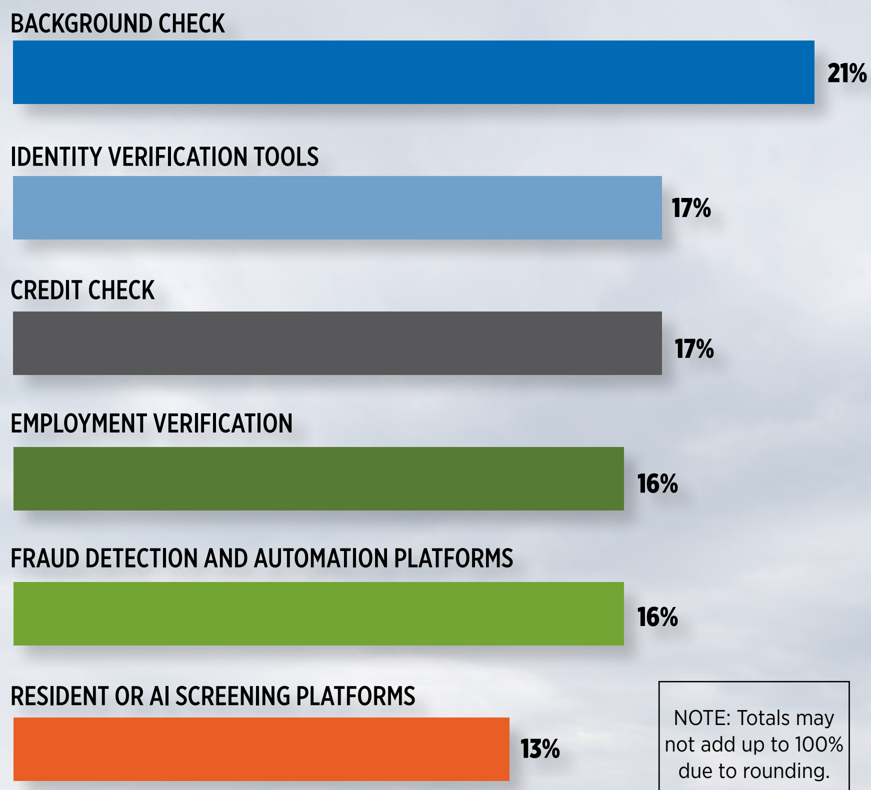
Most companies employ third-party technology platforms to conduct document verification, paired with ongoing employee training to prevent fraud and cybersecurity breaches.

COLLECTION STRATEGIES

Professionals also employ strategies for dealing with bad debt, including working with attorneys and offering deposits back to encourage voluntary move-outs.

Despite advancements in digital screening, many firms continue to rely on traditional methods such as background checks **(21%)**, credit and ID verification **(17%),** and employment checks **(16%)**. However, newer technologies are slowly gaining traction. About **16%** of respondents are using automated fraud detection tools, and **13%** are testing AI-based screening systems, although trust and adoption gaps remain. Other firms report persistent fraud even after using established platforms, prompting them to add human oversight such as in-person interviews, direct verification calls, centralized rent collection roles and even performance-based bonus programs for reducing bad debt. The tension between tech adoption and human-led processes illustrates the sector's current transition phase, where innovation is needed but skepticism lingers.

TOOLS TO MITIGATE FRAUD AND BAD DEBT



NOTE: Totals may not add up to 100% due to rounding.

FINAL TAKEAWAYS

The apartment industry is navigating a complex landscape marked by economic uncertainties, technological disruptions, and evolving regulatory environments across the country.

The industry's resilience is being tested by rising operational costs, fluctuating interest rates and labor market challenges. Revenue challenges are prompting firms to innovate and diversify, but the overarching risk lies in an increasingly regulated environment. Rent caps, insurance volatility and increased competition can challenge even well-planned strategies.

In response, companies are adopting a range of strategies to mitigate these pressures, from centralizing operations and leveraging technology to exploring creative financing solutions and strategic partnerships to control costs and increase efficiency across portfolios. As firms shift from reactive to proactive modes, success will depend on execution speed and internal alignment across departments.

The insights gathered from industry professionals highlight the importance of adaptability and proactive planning in addressing these challenges. As the market continues to evolve, the ability to balance short-term cost management with long-term strategic goals will be crucial for sustained success. The findings underscore the need for ongoing vigilance and innovation to thrive in an increasingly dynamic and uncertain environment.

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