

JANUARY 2025

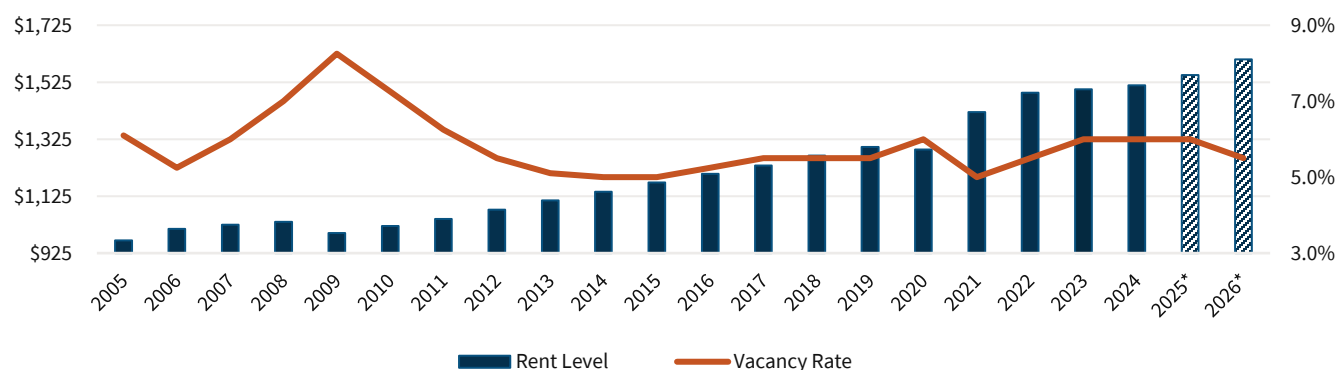
2025 Multifamily Market Outlook: Clearer Skies Ahead

Based on preliminary third-party data, multifamily rental growth is estimated to have turned negative during the fourth quarter of 2024, after having been positive earlier in the year. Our prediction of instability in the multifamily market last year was correct, but we do expect it to start improving in most places in 2025. Rental demand in 2024 differed depending on the metro: Those with a lot of new supply, such as **Austin, Phoenix, San Antonio, and Raleigh**, have seen negative rent growth over the past year. In contrast, metros that are supply-constrained, such as **Chicago, Cleveland, Cincinnati, and Louisville**, have seen above-average rent growth, according to data from RealPage. At a national level, rental demand remained positive for much of 2024, due to ongoing job growth and rising wages, with elevated mortgage rates and continued higher single-family housing prices keeping many tenants renting.

We expect positive economic growth in 2025, with gross domestic product to increase by an estimated 2.2% by year end. We estimate that between 550,000 and 600,000 new multifamily rental units were completed in 2024, bringing the total number of new units underway to about 875,000. Combined with expected job growth of 1.0% in 2025, as well as positive demographic trends, we expect rent growth to increase slightly in 2025 to a range of 2.0% to 2.5%, compared to an estimated increase of just 1.0% in 2024.

The national multifamily vacancy rate is expected to rise to 6.25% early in the year, most likely in the first quarter of 2025, but then decline to 6.0% before year end. The pace of absorption is expected to remain positive despite the amount of new supply that has recently entered the market, but that may increase the percentage of units offering concessions in some oversupplied markets.

Annualized Multifamily Rent and Vacancy — Estimated and Projected



Source: Fannie Mae MF ESR * Projected

Absorption Expected to Slow but Stay Positive in 2025

Demand for multifamily rental units has remained robust over the past year, after starting slow in early 2024 and picking up during the second and third quarters, but then slowing down during the last three months of the year. According to data from CoStar, annualized multifamily absorption was estimated at a whopping 552,292 units at the end of 2024, compared to 327,682 units at the end of 2023. In addition, CoStar is anticipating that absorption will slow but remain positive in 2025, ending the year with an annualized 370,163 units, primarily due to fewer new units expected to complete this year.

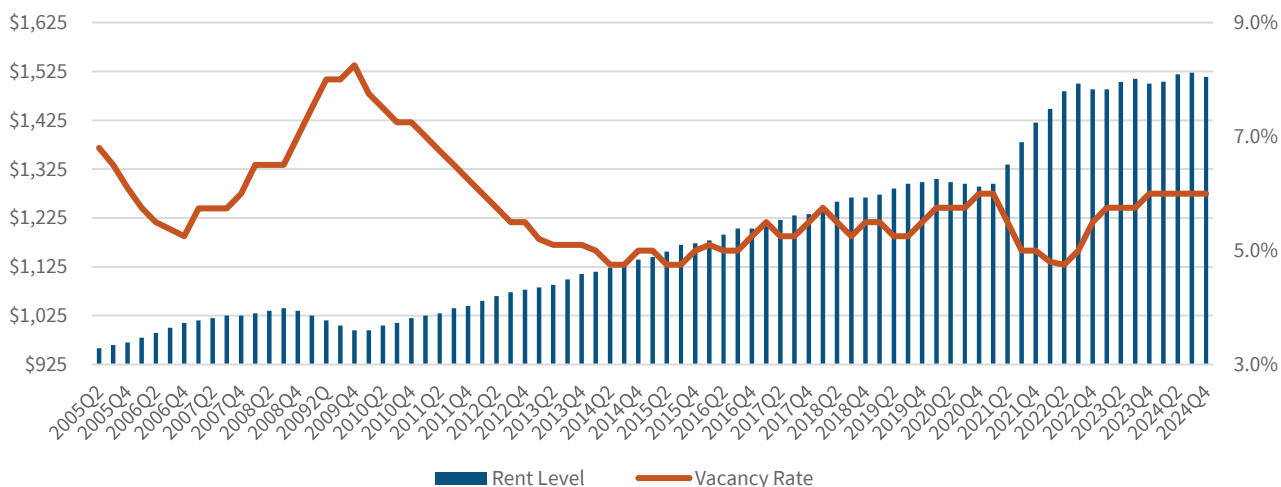
Multifamily Economic and Market Commentary

Vacancy Expected to Increase Briefly

The national multifamily vacancy rate is estimated to have stayed flat all last year at 6.0%, despite the elevated level of new supply that is estimated to have delivered in 2024. As a result, we expect that the national multifamily vacancy rate will increase in the early part of the year because of the excess amount of supply that delivered late in 2024. Much of this new supply consists of more expensive, Class A units in many places, which should help improve the pace of filtering down the existing multifamily housing stock, resulting in a larger number of less expensive Class B units.

As a result, we expect that the amount of new supply completing over the short term will push the national vacancy rate up to 6.25% in the first quarter of 2025. This elevated level is expected to be short-lived and is expected to drop back down to 6.0% by mid- to late 2025, as seen in the chart on the previous page. A vacancy level of 6.0% to 6.25% is not that much higher than the long-term average of 5.75% from 2005 through 2022.

Estimated National Vacancy and Rent Trends through Fourth Quarter 2024



Source: Fannie Mae Multifamily ESR

Rent Growth Expected to Increase in 2025

National rent growth was positive in 2024, estimated at 1.0%, despite turning negative at the end of the year. Last year's annualized rent increase is up slightly from 2023's estimated rent growth of about 0.8%, but still well below 2022's estimated 4.75% rent growth. We expect rent growth to start the year flat but then turn positive during the second and third quarters, and then moderate again in the fourth quarter, resulting in an annualized range between 2.0% and 2.5%.

Our expectations for higher rent increases are based on projected job growth along with positive demographic trends for the age 20- to 34-year-old segment of the population, which is the cohort most likely to rent multifamily units. Coupled with still-elevated mortgage rates and housing prices, as well as fewer new single-family home completions and home sales overall, we believe that many tenants will keep renting their multifamily units over the next few years.

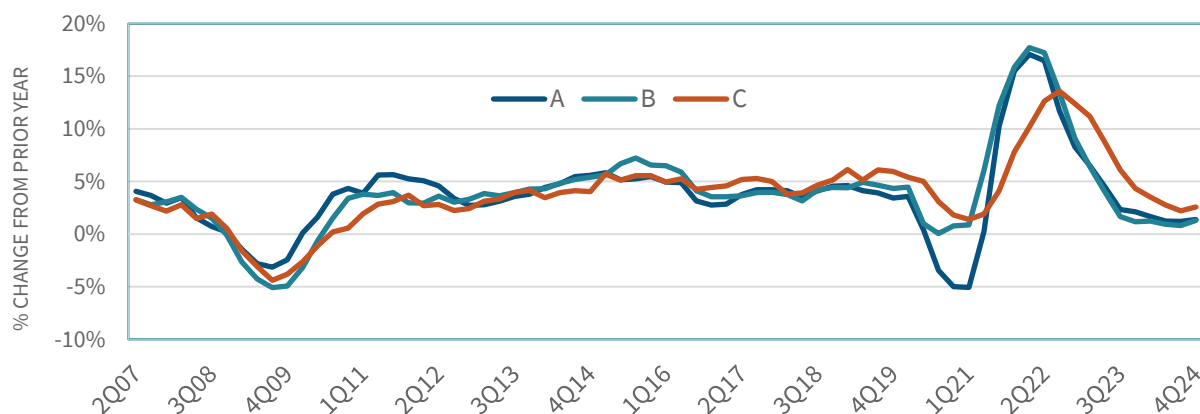


Multifamily Economic and Market Commentary

All Classes Experienced Moderate Rent Growth in 2024

Demand for all classes of multifamily units remained stable for 2024. Although quarter-over-quarter rent growth was negative as of the fourth quarter of 2024, annualized rent growth remained positive for all classes, according to data from RealPage. Annual rent growth for Class A in 2024 was an estimated 1.4%, and 1.3% for Class B. Class C annual rent growth was estimated to have been higher, at 2.6%. We believe that the slowing rent growth across all classes late in the year was the result of new supply entering many local markets, despite ongoing demand and absorption.

National Effective Rent Growth by Class



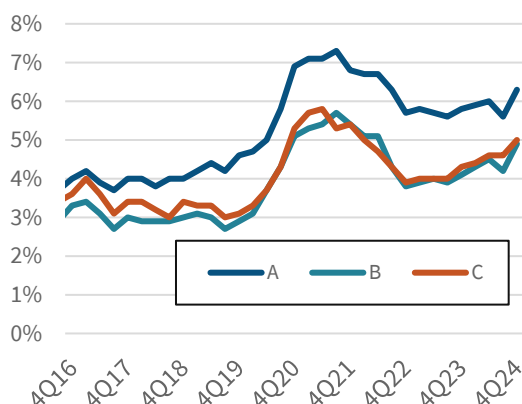
Source: RealPage, Inc.

Concession Rates Are Inching Up

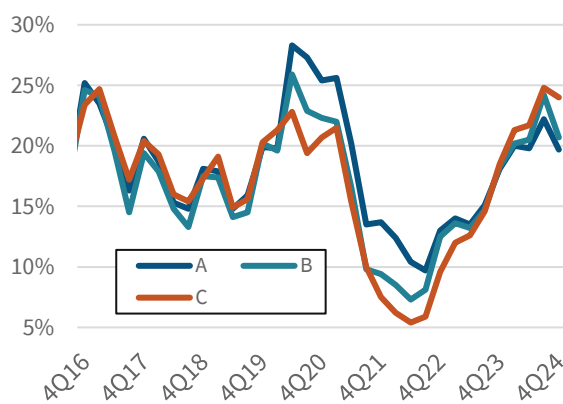
The number of units offering concessions increased throughout much of last year, but then declined in the fourth quarter of 2024, as seen in the chart below on the right. As of the fourth quarter of 2024, an estimated 19.7% of Class A units were offering concessions, up from 18.1% a year ago. Class B units offering concessions increased to 20.7% from 18.3% in fourth quarter 2023, as did Class C units, which reached an estimated 24.0% as of the fourth quarter of 2024, compared to 18.5% a year ago.

Although the percentage of units offering concessions has been increasing for a while, the concession levels themselves remained below one month's free rent, or 8.3%, as seen in the chart below on the left. Nevertheless, both the value of concessions and the number of units offering them may increase in early 2025, primarily in oversupplied metros.

National Multifamily Concession Rate by Class



Share Of Units Offering Concessions



Source: RealPage, Inc.



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New Multifamily Completions Likely Reached a New Peak in 2024

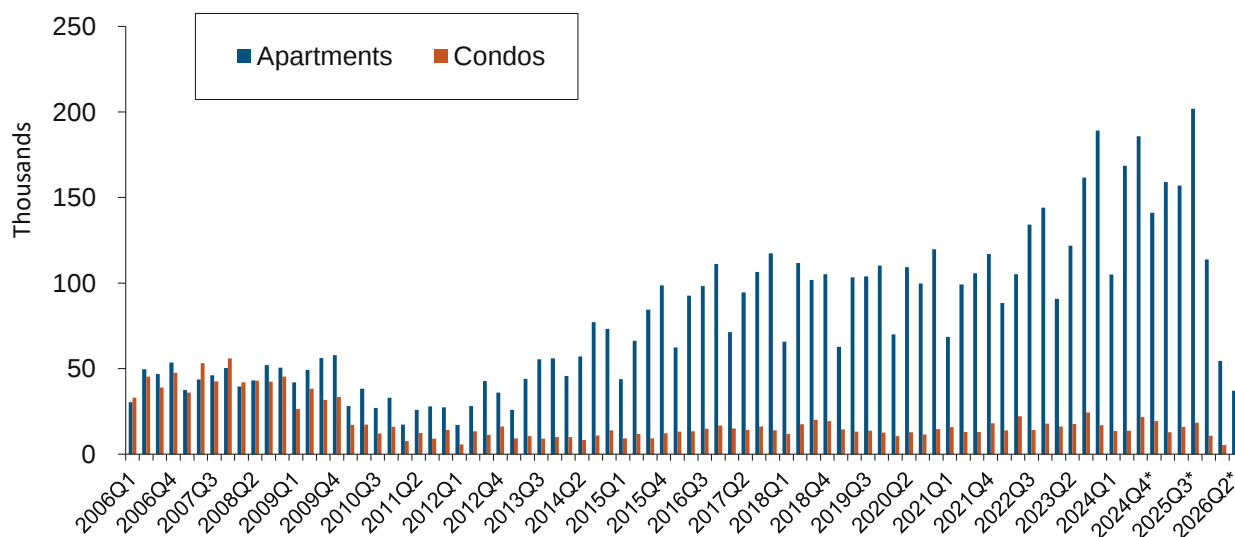
According to preliminary data from Dodge Data & Analytics Real Estate Analyzer, which distinguishes between multifamily properties consisting of apartment and condominium units, between 550,000 and 600,000 apartment units were likely completed in 2024, as compared with 2023's estimated 563,000 units — the most recent peak year for new deliveries. Although Dodge Data & Analytics is currently tracking more than 632,000 multifamily rental units slated for completion in 2025, we believe it is very unlikely that all those units will be completed before year end, due primarily to ongoing labor shortages and construction delays, notably permitting delays.

According to the National Multifamily Housing Council's Construction Survey, as of December 2024, 78% of respondents reported construction delays, with 95% stating the delays were caused by permitting requirements. Of those experiencing delays getting their projects started, 68% said it was due to economic feasibility, and 42% said it was due to economic uncertainty.

Construction costs remain a concern for most respondents. Although the majority, 69%, expect that construction costs will remain stable over the next three months, 54% said they expect construction costs will increase over the next six to 12 months.

One bright spot in the survey was that the same majority of respondents said they believed there will be more availability of equity financing available over the next six to 12 months.

Multifamily New Construction



Note: Real Estate Analyzer data is not an actual forecast of activity' it is a monitor of activity reported to-date. As more projects are planned and tracked, figures in future periods might go up.

Source: Dodge Data & Analytics Real Estate Analyzer, December 2024 (2024 completions through October)

* Anticipated completion date.



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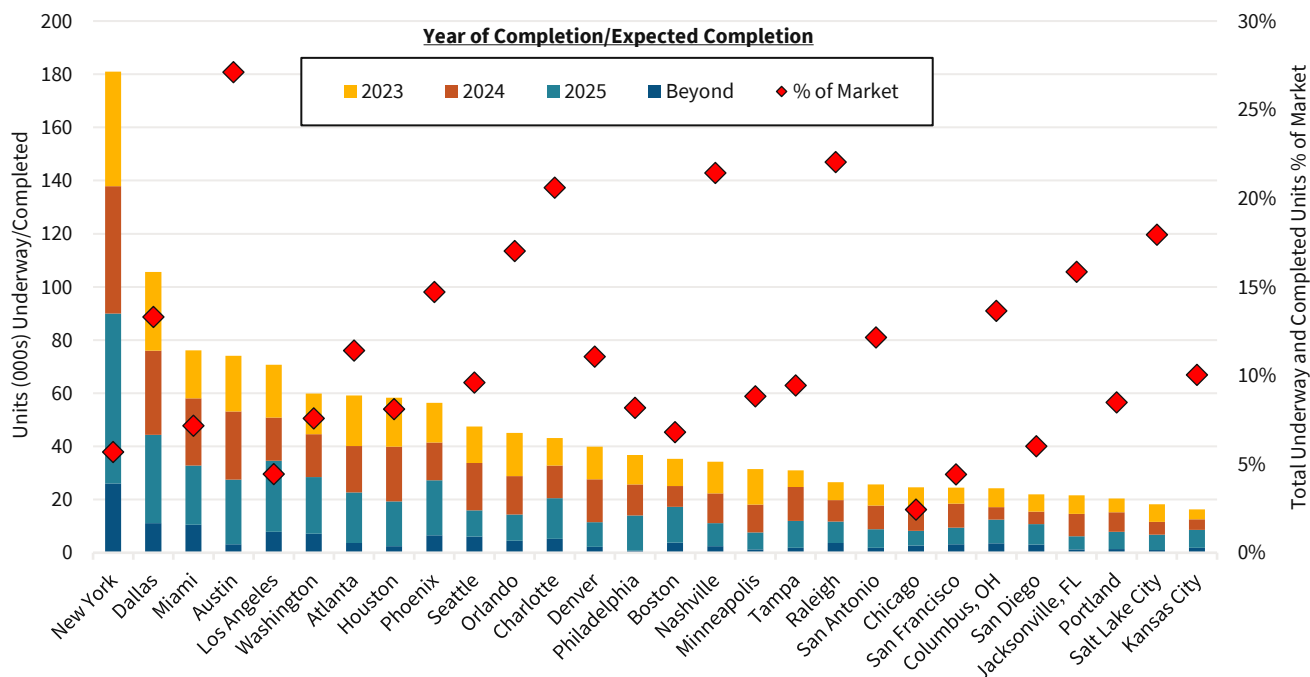
Continued Multifamily Demand Expected to Stay Strong Overall but Vary by Metro

At a national level, we believe that demand for multifamily rental will increase slightly in 2025, based on expected job growth and household formations as well as demographic trends. As of 2022, there were an estimated 68 million people between the ages of 20 and 34 years old, which is the cohort most likely to rent a multifamily unit. The U.S. Census Bureau estimates that this cohort could increase by nearly 1.0% by 2032 — meaning an increase of more than 670,000 people in this age cohort in just a decade. This growth is one key reason we expect demand for multifamily rental to continue over the long term.

In the short term, a rise in new jobs is the other reason. Year-over-year job growth is expected to remain positive through at least 2026, according to Fannie Mae's latest economic forecast. We expect the economy will add an estimated 4.5 million new jobs between 2024 and 2026. This should help keep new multifamily rental demand steady over the next few years.

Much of the multifamily sector's new supply is primarily concentrated in about 15 metros. In addition, several of the impacted submarkets are in some of the most expensive metros in the country, including **New York, Washington, D.C., Seattle**, and **Los Angeles**. Although Moody's Analytics expects some metros to see positive job growth in 2025, such as **Austin, Charlotte, Orlando, Raleigh-Durham**, and **Phoenix**, the amount of new construction in these metros is already at elevated levels compared to their existing inventories. And while it may take a little while longer for the elevated amount of new construction in these metros to get absorbed, we believe many will see their supply-demand imbalance improve by the beginning of 2026.

Multifamily Apartment Units Underway — Select Metropolitan Statistical Areas



Note: Real Estate Analyzer data is not an actual forecast of activity; it is a monitor of activity reported to-date. As more projects are planned and tracked, figures in future periods might go up.

Source: ACS per Moody's (2023 5+ unit 5-year estimate) and Dodge Data & Analytics Real Estate Analyzer, December 2024 — Metros with 15,000 or more units underway or completed.



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Positive Job Growth Should Help Some Oversupplied Metros ...

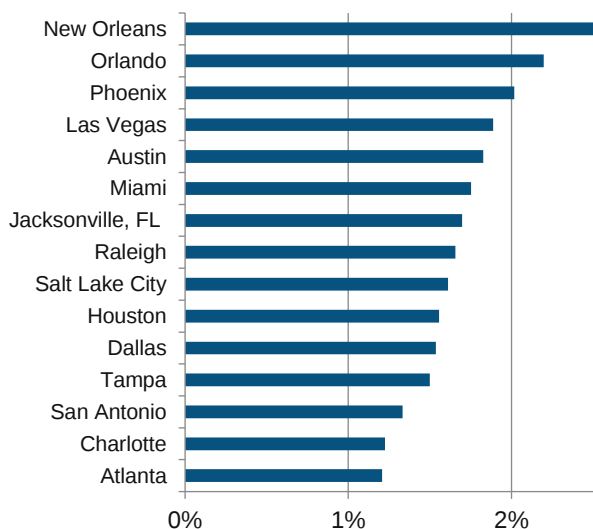
Although at a national level we expect job growth to be 1.0% in 2025, Moody's is expecting a number of metros will see job growth exceed the national average. Some **Texas** metros, such as **Austin**, **Dallas**, and **Houston**, are all expected to have job growth between 1.5% and 1.8%, making them some of the best-performing metros in the nation. Even **San Antonio** should see above-average job growth of 1.3%. Other metros expected to do well include **Phoenix** with 2.0% job growth and **Orlando** at 2.2%. Yet all this job growth is not expected to be enough to keep up with all the potential new supply, at least in the short term.

For example, with job growth forecasted at 1.8% this coming year, **Austin** could produce demand for more than 8,300 new multifamily units, but the new supply expected to deliver in 2025 totals more than 24,000 units, meaning an excess of more than 16,000 units. However, by as soon as next year, **Austin** could see a *shortage* of more than 3,000 units if projected job growth and completions estimates hold. **Houston** is in a similar situation, and although it will likely have a surplus of more than 6,000 units this year, by next year it has a projected shortage of more than 5,800 units. The same is true for **Phoenix** — it will likely have a surplus of more than 8,200 units this year despite its expected job growth of 1.5%, but it could easily have a shortage of more than 3,300 units by 2026.

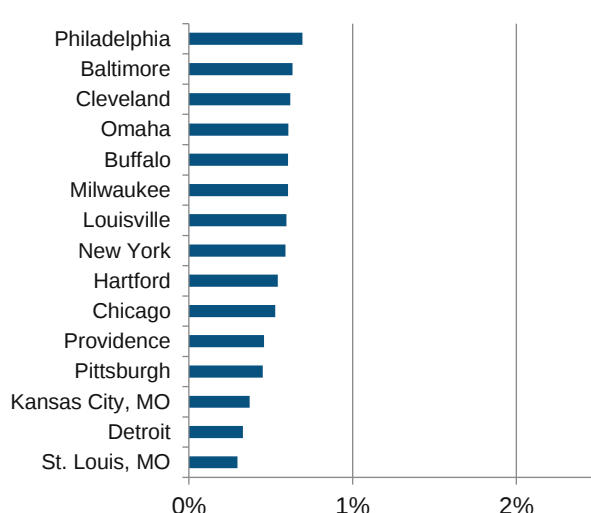
... But There Are Still a Few Undersupplied Metros in 2025

Some metros, such as **Chicago**, **San Francisco**, **Las Vegas**, and **Cleveland**, are already expected to lack the supply needed to meet potential demand this year. Although **Cleveland's** job growth is expected to be below average at 0.62%, it is likely to see a small shortage of about 158 units. In contrast, **Chicago** is expected to have job growth of just 0.53%, but its new supply has not been keeping up with potential demand, leading to an expected shortage of more than 800 units. **Las Vegas** also is likely to be short about 800 units, due to anticipated new job growth of about 1.9%. But it is expected to have an even greater shortage next year, by more than 2,800 units. **San Francisco**, perhaps surprisingly, will likely experience a shortage of nearly 2,500 units this year, due to an expectation of more than 26,000 new jobs.

Select Markets with Higher Expected 2025 Employment Growth



Select Markets with Lower Expected 2025 Employment Growth



Source: Moody's Analytics – December 2024 Forecast



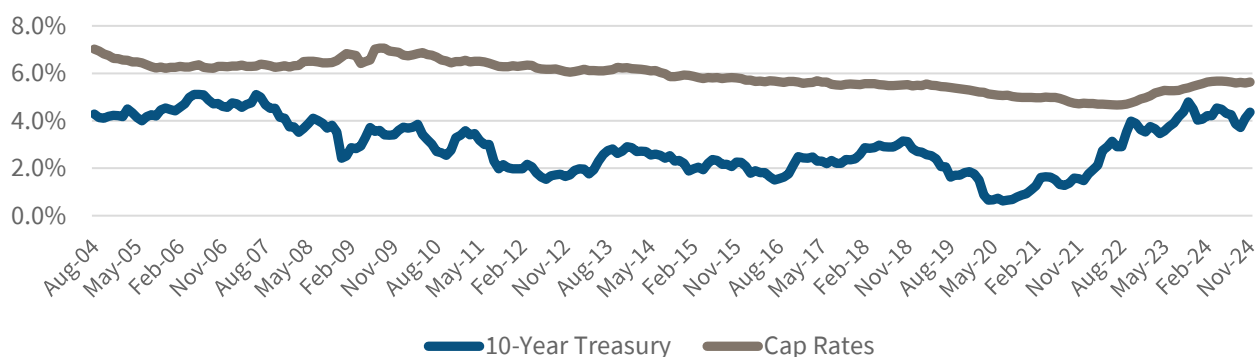
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Multifamily Property Sales Volume Expected to Increase in 2025

Sales of U.S. multifamily properties increased slightly in 2024 — totaling an estimated \$131 billion, up from \$120 billion in 2023, for properties valued at \$2.5 million or higher, according to preliminary data from MSCI Real Assets.

Although the average multifamily capitalization rate hovered around 5.7% early last year, it ticked down to an estimated 5.6% in July of 2024. The multifamily cap rate started off 2024 at about 5.6% and appears to have ended the year back at that level. We anticipate that cap rates are likely to compress a bit more during 2025, likely declining to between 5.0% and 5.5% over the next 12 to 18 months, helping to spur more sales transaction volume over that time.

Treasury Interest Rates and Multifamily Capitalization Rates



Source: Federal Reserve, Selected Interest Rates H.15, per Moody's Analytics, MSCI Real Assets

2025 Multifamily Outlook: Clearer Skies Ahead

We have upgraded our outlook for the national multifamily sector to “improving” for 2025. We expect the multifamily sector will see slow but continued improvement in demand this year, possibly resulting in flat rent growth and a slightly rising national vacancy rate during the first quarter of 2025 due to the amount of new supply entering the market, especially during what is normally a slow lease-up time of year. After that period, we expect multifamily fundamentals will strengthen, with moderately increasing rent growth and stabilizing vacancy levels.

At the metro level, demand will vary. In some metros, especially those with a large amount of supply expected to come online during the year, we believe rents could remain at below-average levels for much of the year, in turn pushing up concession rates as well as the number of units offering them, but that is likely to be at a localized, submarket level. In other undersupplied metros, rent growth is expected to be positive and will start a return to more normalized trends.

As a result, we expect multifamily origination volume levels will increase in 2025. As of August 2024, the Mortgage Bankers Association estimates that multifamily originations volume will be \$297 billion in 2024 and \$390 billion in 2025, but that is subject to change. Based on current trends, our estimated annual multifamily originations are in the same general range, albeit slightly lower: In 2024, we expect \$275 billion to \$315 billion, with a baseline of \$295 billion; and in 2025, we expect \$330 billion to \$375 billion, with a baseline of \$350 billion.



Multifamily Economic and Market Commentary

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