

AUGUST 2024

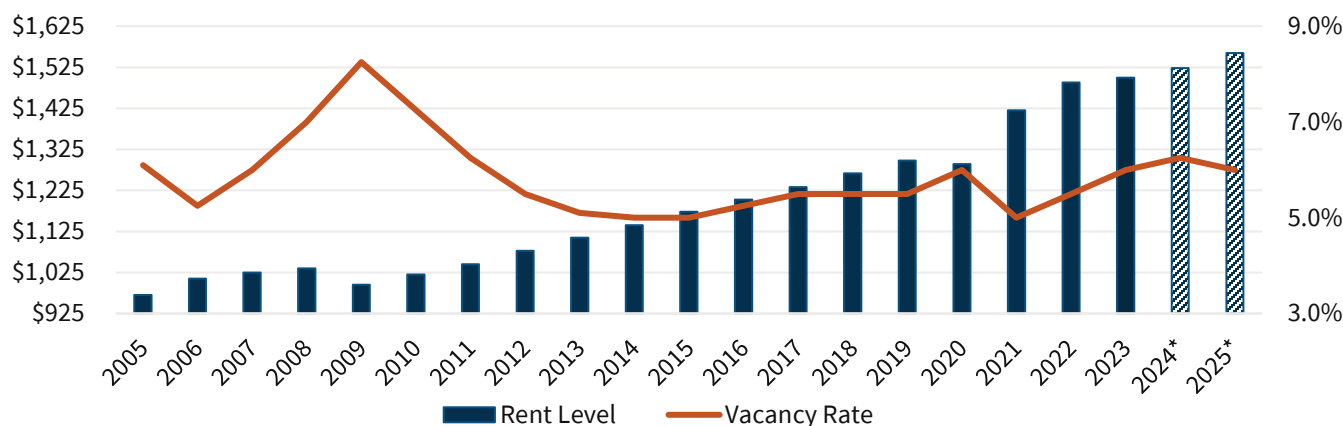
2024 Mid-Year Multifamily Market Outlook – Skies Remain Cloudy

Multifamily market fundamentals, which include factors such as vacancy rates and rent growth, improved during the first half of 2024, due to an increase in demand and despite elevated levels of new supply entering various markets across the country. Although the national vacancy rate is estimated to have remained steady, estimated national rent growth was positive.

For the remainder of the year, our more tempered outlook for the sector is based on several trends, primarily the elevated amount of new multifamily supply – totaling more than one million units underway – that is expected to place continued stress on the balance of multifamily supply and demand, impacting growth in rents over the remainder of the year. Combined, we expect the national vacancy rate to rise over the next six to 12 months.

Nevertheless, we believe that demand for multifamily rental housing will remain subdued but relatively stable over that period due to homeownership affordability constraints. Renters who would like to pursue homeownership but are encountering both high interest rates and home prices, as well as managing elevated levels of household debt, are likely to choose staying in their rental units for another year.

Annualized Multifamily Rent and Vacancy – Estimated and Projected



* Projected Source: Fannie Mae MFESR

Multifamily Vacancy Expected to Rise

Based on preliminary third-party data, we estimate that the national multifamily vacancy rate for institutional investment-type apartment properties remained steady at 6.0% as of June 30, 2024, the same as of March 31, 2024, but up from 5.8% as of June 30, 2023. The estimated average national multifamily vacancy rate over the last 15 years is approximately 5.8%.

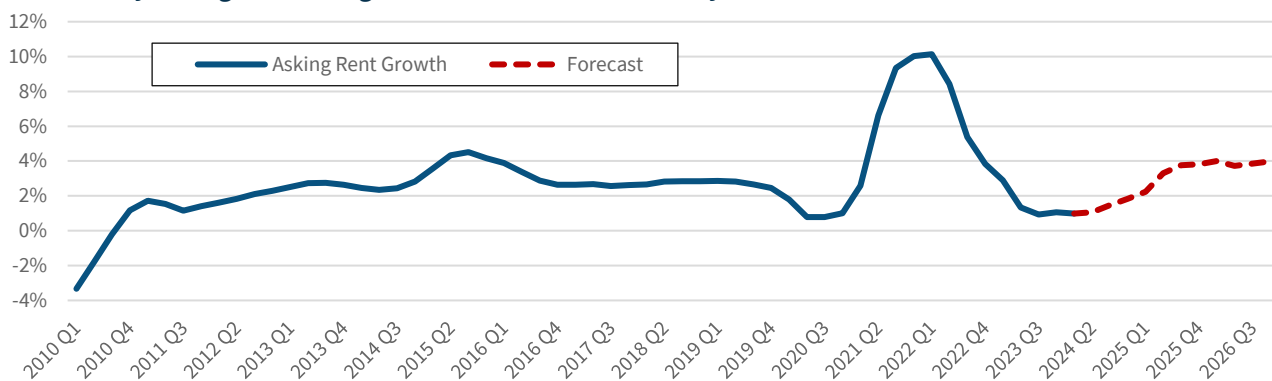
We expect that the vacancy rate may rise later this year, possibly reaching 6.25%, primarily due to the elevated level of new multifamily supply that is expected to enter the market over the next six to 12 months. Despite expected ongoing multifamily rental demand, we expect newly delivered supply to remain elevated throughout this year and next, thereby pushing up estimated vacancy levels, as seen in the chart above.

Multifamily Economic and Market Commentary

Rent Growth Expected to Decline but Normalize Longer-Term...

Rent growth increased during the first half of the year, but we do not expect it to keep its momentum over the remainder of the year. We are estimating that rent growth was 1.3% for the first half of 2024 due to positive-but-subdued rental demand stemming from ongoing job growth. We expect that the trajectory of rent growth over the second half of the year will begin to ease, ending the year in the range of 1.0% to 1.5%. For comparison, as of August 7, 2024, CoStar is expecting overall annual rent growth to be within our range at 1.3% in 2024, and then to improve over the next few years, as seen below.

Multifamily Asking Rent Change 2010 – 2026 – All Multifamily Classes



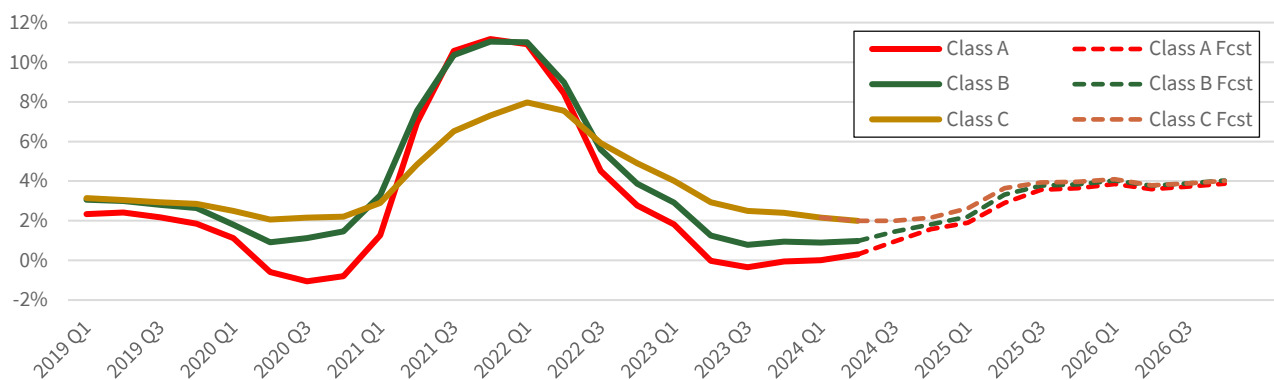
Source: CoStar, Inc. – Data as of August 7, 2024

... With Very Little Differentiation Between Classes

Demand for all classes of multifamily units continues to be below recent trends. In fact, as of August 7, 2024, CoStar is expecting Class A unit rents to experience the lowest level of rent growth this year, forecasting just 0.7% growth. Class B rents are expected to fare a bit better as they are forecasted to grow by 1.3%. Class C units are forecasted to have positive annualized rent growth of 2.1% this year.

Further out into the forecast, CoStar expects that rents for all classes of units will increase starting next year, as evidenced by the minimal distinction in rent growth percentages between classes of units, with Class C rent growth expected to slightly outpace both Class B and Class A in 2025.

Multifamily Asking Rent Change 2019 – 2026 – By Class



Source: CoStar, Inc. – Data as of August 7, 2024



Multifamily Economic and Market Commentary

Concessions Expected to Keep Inching Up

The number of properties offering concessions has been rising, as expected, due to the amount of elevated new supply that entered many larger metros. As of second quarter 2024, nearly 21% of all multifamily units were offering concessions of 5.0% on average. As seen in the charts below, while the level of concessions differs between Class A, Class B, and Class C units, the trajectory is similar. As of second quarter 2024, an estimated nearly 20% of Class A units were offering concessions, about the same as in first quarter 2024 but up from 13.5% a year ago. Class B units offering concessions increased to 20.6% from 20.3% in second quarter 2024, and up significantly from 13.1% a year ago. The number of Class C units offering concessions is slightly higher than both Class A and B, increasing to 21.9% of all units, compared to an estimated 21.4% as of first quarter and up from just 12.7% in second quarter 2023. We believe that many tenants are dealing with higher debt levels and above-average inflation, and therefore even many Class C units will need to keep offering concessions over the short-term.

It is important to note that, for units offering concessions, concession levels remain below one month's free rent, or 8.3%. Still, we expect that both the value of concessions and the number of units offering them will keep increasing in 2024, primarily in oversupplied metros.

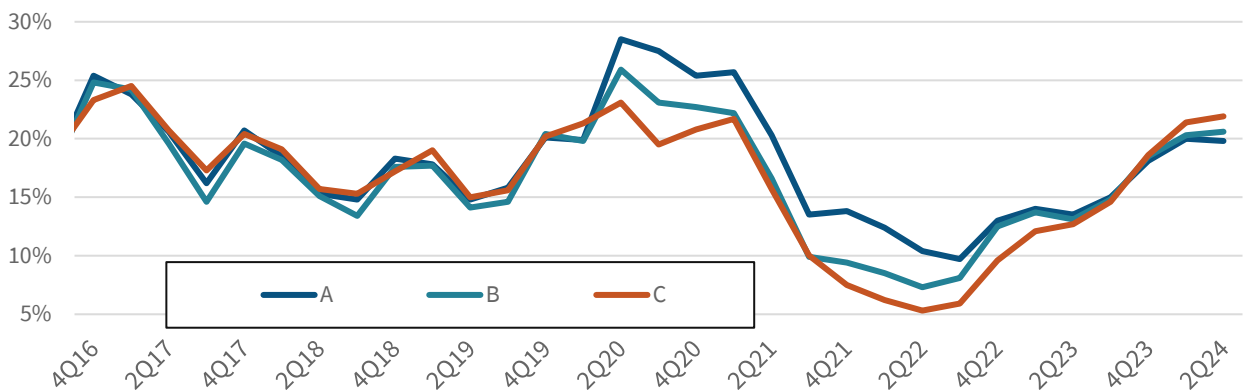
National Concession Rates by Class

Concession Value (% of Asking Rent)



Source: RealPage, Inc.

% of Units Offering Concessions



Source: RealPage, Inc.

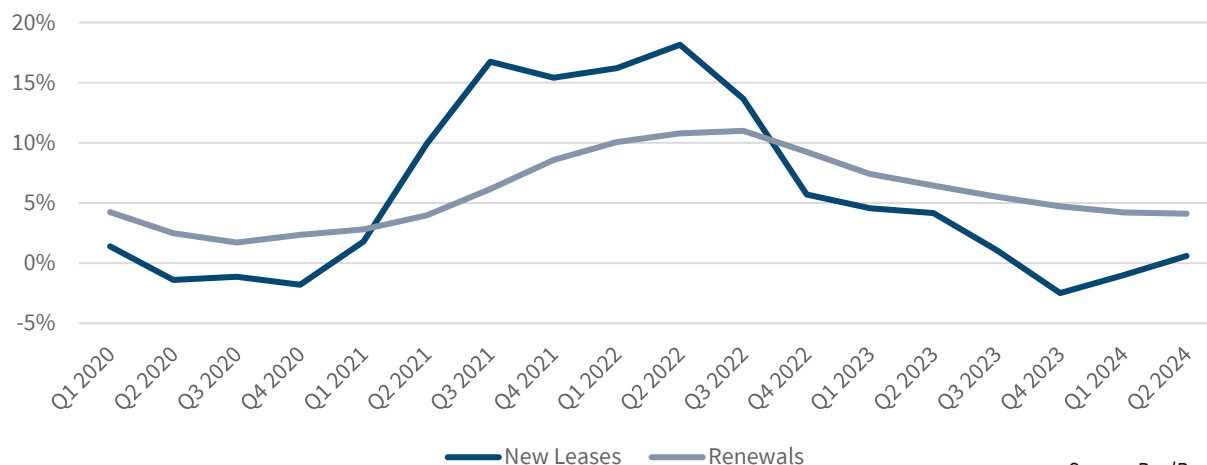


Multifamily Economic and Market Commentary

Lease Rates Normalizing

Usually, the rental increase rate for lease renewals tends to be slightly higher than those for new leases. While that might seem counter-intuitive, it is because property owners are often competing for tenants with other new units that have recently entered the market, as well as those units that are offering concessions. Although that trend changed between 2021 and 2022, it has now reverted, with renewal rates higher than new lease rates, as seen in the chart below.

Rental Rate Change for New Leases and Renewals - All Multifamily Units

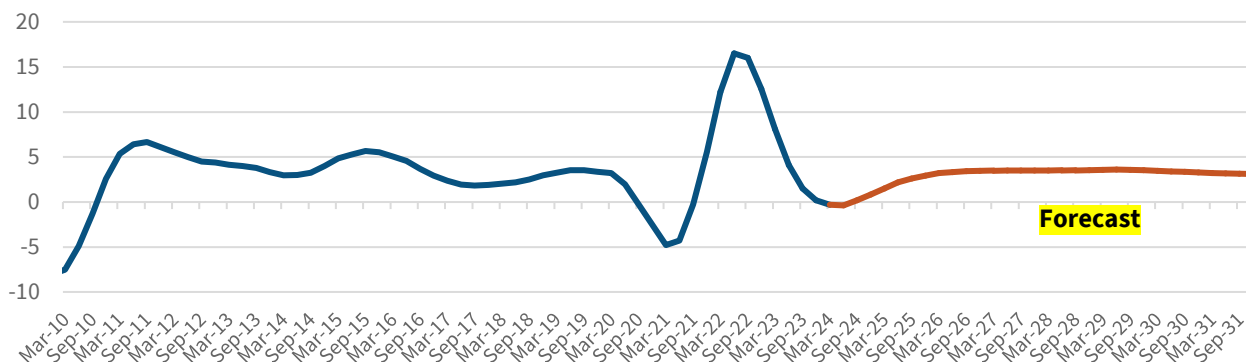


Source: RealPage, Inc.

Net Operating Income Growth Slowing but Expected to Remain Positive

Although net operating income growth has slowed quite significantly since last year, this decline is not unexpected. Indeed, the sudden increase in net operating income growth during 2021 and early 2022 was unsustainable in our view and stemmed from the sharp spike in rental demand during the pandemic but also due to the decline in rental income at the beginning of the pandemic. As seen in the chart below, CBRE Econometric Advisors is expecting net operating income growth to decline this year but then stabilize next year, and then increase in 2026.

National Multifamily Net Operating Income Growth - Historical and Forecast



Source: CBRE Econometric Advisors – Q1 2024

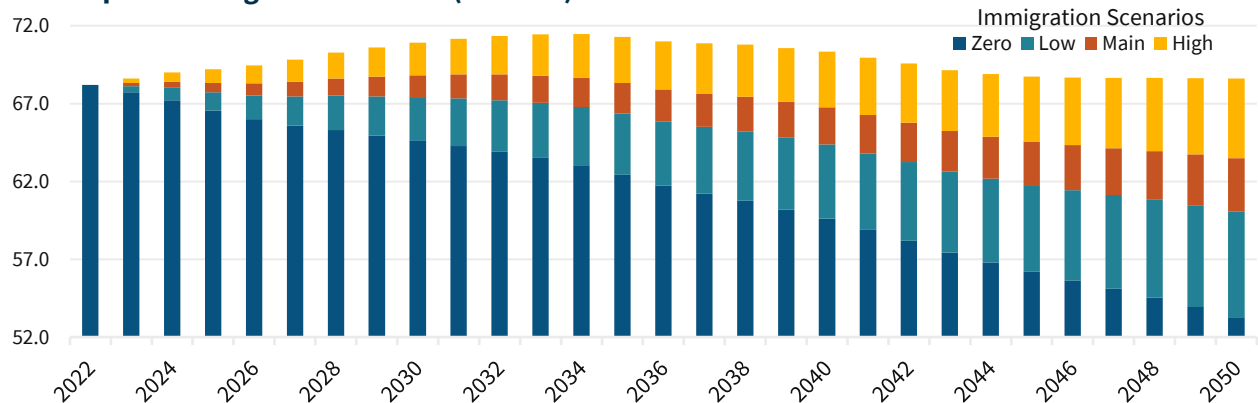


Multifamily Economic and Market Commentary

Demographics in Multifamily's Favor...

As seen in the chart below, the size of the nation's age 20-34-year-old cohort is expected to remain elevated over the longer-term forecast. That is a very favorable trend for the multifamily sector in terms of ongoing demand, since this is the group of people most likely to rent a multifamily unit. Many multifamily investors are aware of this trend and continue to show interest in the sector.

U.S. Population: Age 20-34 Cohort (Millions)

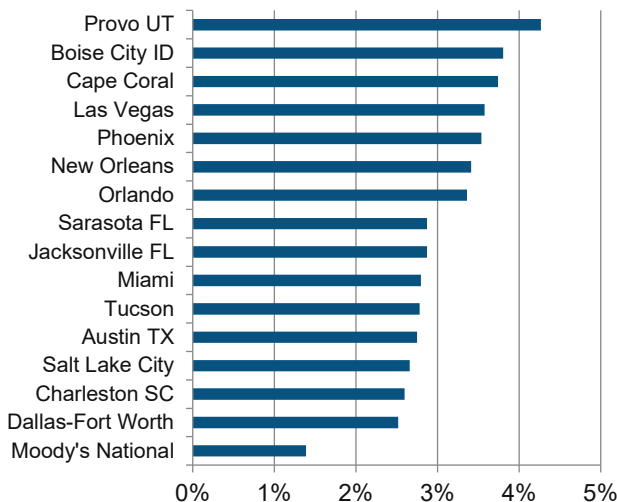


Source: Census Bureau, 2023 Update, Immigration Scenarios

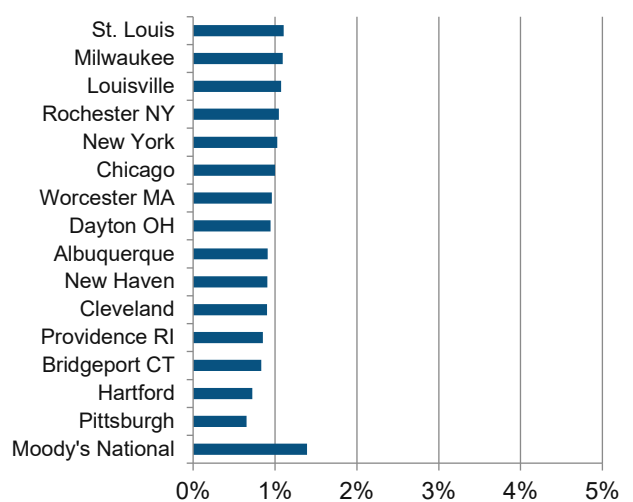
... But Job Growth Differs by Metro

Job growth helps spur new household formations, which tend to favor the multifamily sector. There are some metros, as seen below, that are expected to have above-average job growth over the next 18 months. Fortunately, some of those metros also have elevated levels of new supply entering the market over the same timeframe, including **Austin**, **Jacksonville**, **Las Vegas**, **Orlando**, and **Phoenix**. Other metros are at the opposite end of the spectrum, with below-average job growth expected, including **New York**, **Chicago**, and **Cleveland**. While the **New York City** metro has the highest level of new multifamily construction underway, it continues to suffer from a lack of affordable housing. Hence, lower job growth levels are not expected to negatively impact demand nor improve rental affordability in the metro.

Select Markets with Higher Expected Q1 2024 – Q4 2025 Employment Growth



Select Markets with Lower Expected Q1 2024 – Q4 2025 Employment Growth



Source: Moody's Analytics – July 2024

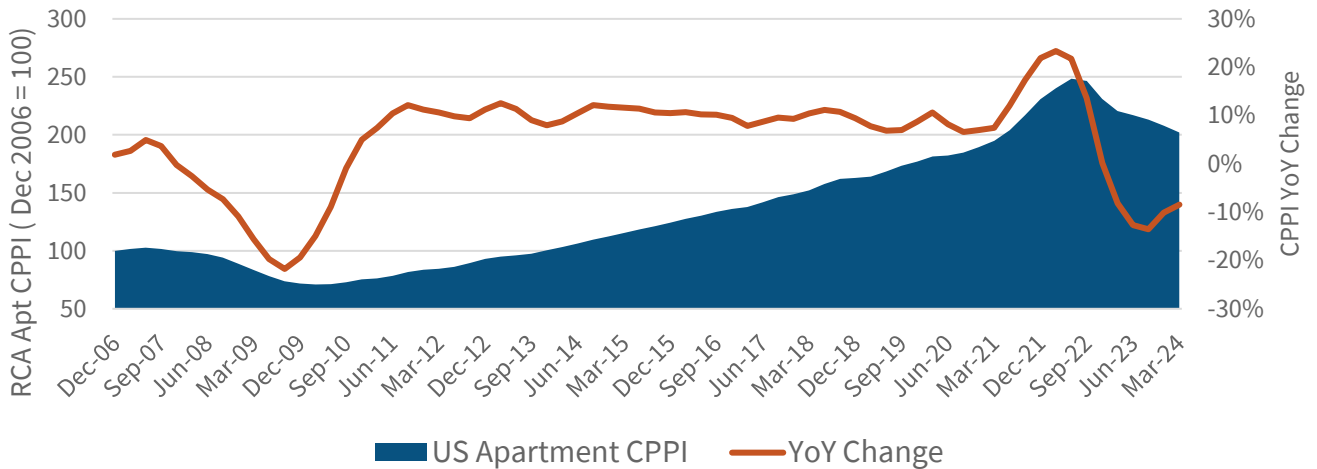


Multifamily Economic and Market Commentary

Multifamily Property Values Still Declining...

Data from MSCI Real Assets shows that multifamily property values have been declining since early last year. We expect this trend to continue through the second half of 2024, perhaps declining within a range of 20% to 25% peak-to-trough. However, multifamily property values peaked in July 2022 after an increase of nearly 24%, suggesting that the current rate of deceleration is the beginning of a return to a more normalized trend over the long-term.

MSCI Real Assets Quarterly Commercial Property Price Index - Multifamily

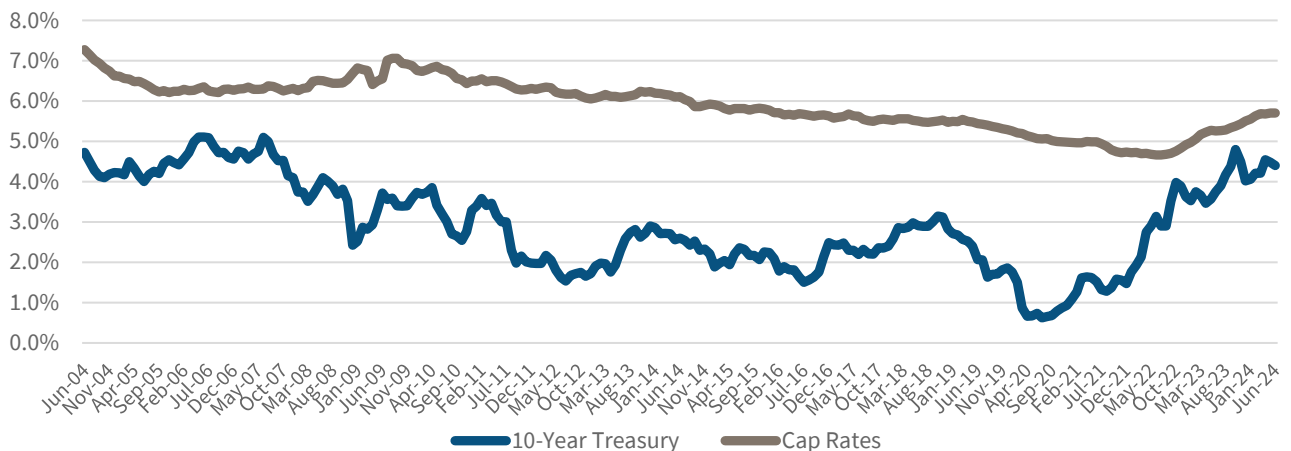


Source: MSCI Real Assets

... and Sales Volume Remaining Sluggish

The pace of property sales has remained sluggish as well. Given the year-to-date performance for the first half of the year, we expect multifamily sales will be below average again in 2024, possibly totaling less than \$125 billion compared to \$120 billion in 2023 and a peak of \$384 billion in 2022. And with multifamily cap rates having increased for several quarters, and property prices facing downward pressures, we believe cap rates could tick up to 6.0% on average during the second half of the year, from the current estimated rate of about 5.7% as of June 2024.

10-Year Treasury and Multifamily Capitalization Rates

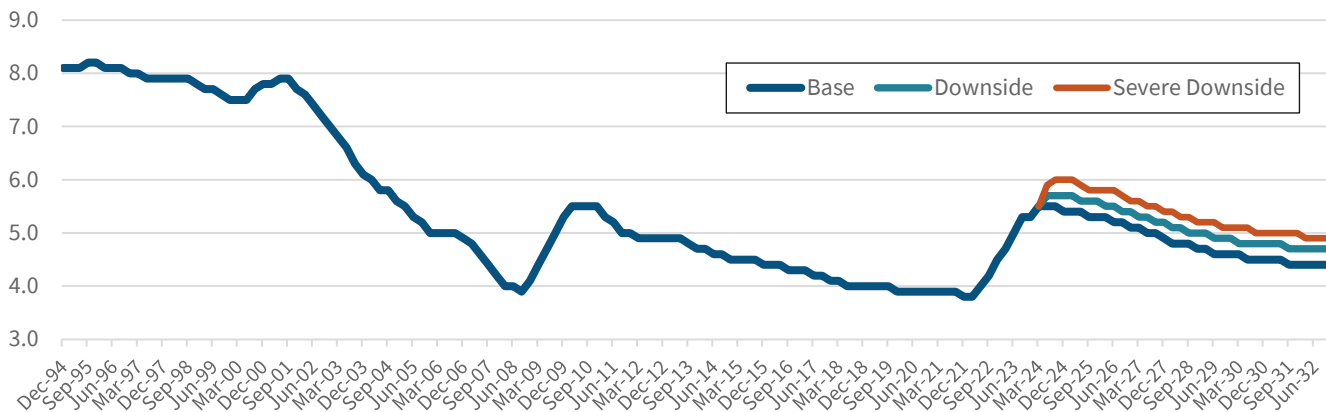


Source: MSCI Real Assets, and Federal Reserve, Selected Interest Rates H.15, per Moody's Analytics



Multifamily Economic and Market Commentary

National Multifamily Cap Rate Forecast



Multifamily Cap Rates Expected to Peak in 2024

Source: CBRE-EA

As seen in the chart above, the various cap rate forecast scenarios reflect a peak difference of only 50 basis points between baseline and severe downside occurring in 2024, according to CBRE Econometric Advisors. CBRE-EA's baseline multifamily cap rate forecast anticipates that although multifamily cap rates peak at 5.5% in 2024, they will only decline slightly to 5.4% by year-end 2025. Indeed, CBRE-EA does not expect multifamily cap rates to decline below 5.0% until late 2027 into 2028 – much further out than forecast previously. In contrast, however, the severe downside scenario is that cap rates will peak at only 6.0% this year, compared to an earlier forecast of 6.2%, and improve to 5.8% by year-end 2025. CBRE-EA's longer-term severe downside scenario is closer to our baseline view, with multifamily cap rates perhaps reaching 6.0% this year and then ending 2025 at 5.75%.

2024 Multifamily Mid-Year Outlook: Cloudy Skies Remain

We maintain a cautious outlook for the multifamily sector for the second half of 2024. As expected, we have seen a softening in demand during the first half of the year, resulting in a below-average estimated year-to-date rent growth of 1.3%. But the national trend is not representative of all the nation's metros. Some metros have seen year-over-year negative effective rent growth, including **Austin, Jacksonville, Memphis, Orlando, and Phoenix**, according to data from RealPage. Other metros both large (such as **Boston, Chicago, Cleveland, Columbus, and Virginia Beach**) and small (such as **Anchorage, Bismarck, Buffalo, Cedar Rapids, Greensboro, and Midland-Odessa**) have experienced rent growth of more than 2.0%.

Our expectation of two interest rate cuts during the second half of 2024 does not meaningfully impact anticipated multifamily sales volumes. While it should encourage a slight increase in sales activity, we believe it will still be too late in the year to significantly boost total annual sales volume over last year's level. Interest rates are nevertheless expected to remain fairly stable over the remainder of the year. Coupled with still-declining property values, we expect multifamily origination volume levels will remain below average in 2024. As a result, we have revised our 2024 originations down to a range of \$245 billion to \$315 billion with a baseline of \$275 billion. As we cautioned earlier in the year, if interest rates remain near current levels, then originations would likely be close to 2023 levels.

Overall, our outlook has not changed much since the start of the year. We still expect the multifamily housing market to experience subdued demand in 2024 with improvement not beginning until 2025.

Multifamily Economic and Market Commentary

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