

4Q23

United States Multifamily Capital Markets Report



NEWMARK

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Market Observations

- Increasing 5.9% from the third quarter of 2023, **the spread between homeownership and rental costs grew to \$1,066** in the fourth quarter of 2023. Driven by an increase in home prices and record-level interest rates, renting continues to be significantly more economical than owning a home.
- Following a below-average year for demand in 2022, demand was robust in 2023. **58,200 units were absorbed in the fourth quarter** of 2023, totaling **233,741 units for the full year**. On a nominal basis, markets throughout the South dominated the top markets for absorption, led by Houston, Phoenix and Austin.
- Despite nearly **440,000 units delivered in 2023**, new supply is anticipated to **surge 53% year over year in 2024**; however, the high cost of capital and limited financing available for new construction will keep new supply in check in the coming years, with a **42% deceleration in new supply projected in 2025**.
- Quarterly **rents declined 1.3% in the fourth quarter of 2023**, while **year-over-year growth increased 0.2%**. Annualized rent growth has declined for seven consecutive quarters. Midwest and Northeast markets now occupy the top markets for rent growth, led by Cincinnati and Chicago, at 3.6%.
- Multifamily **expenses increased 7.7% year-over-year**, led by a **33.5% surge in insurance** costs, putting added pressure on operations. Insurance has increased for four consecutive quarters.
- Price dislocation and an elevated interest rate environment continue to hinder the **investment sales market**, as evidenced by the **50.0% year-over-year decline** to \$26.9 billion in quarterly sales volume and **61.1% decrease annually**. Multifamily **remains the largest share of investment sales of all US commercial real estate property types**, at 31.8% in 2023. There is growing optimism that rate cuts will spur activity in the second half of the year.
- **Dallas and Atlanta were the top recipients of capital for the third consecutive year**. Of the top 25 markets for sales volume, only San Francisco experienced a year-over-year increase of 12.2%.
- Year over year, **vacancies rose 92 basis points to 5.8% nationally**. The current vacancy rate surpassed its highest rate during the first quarter of 2014.
- Multifamily **debt origination declined 52% year over year in 2023**, with weakness persisting through the fourth quarter of 2023. While originations were down across lender groups, the **GSEs and, to a lesser extent, life insurance companies were relative bright spots**.
- **36% of upcoming securitized multifamily debt maturities had a DSCR of 1.25x**, per their most recent financials, compared with only 23% with a DSCR of 2.0x or greater. These maturities will struggle to refinance even before taking valuation concerns into account. The maturing loans are biased towards CRE CLO loans, which include higher shares of transitional, floating-rate debt. This is a bad proxy for insurance and GSE lending, but a great proxy for debt funds and a significant share of bank lending.

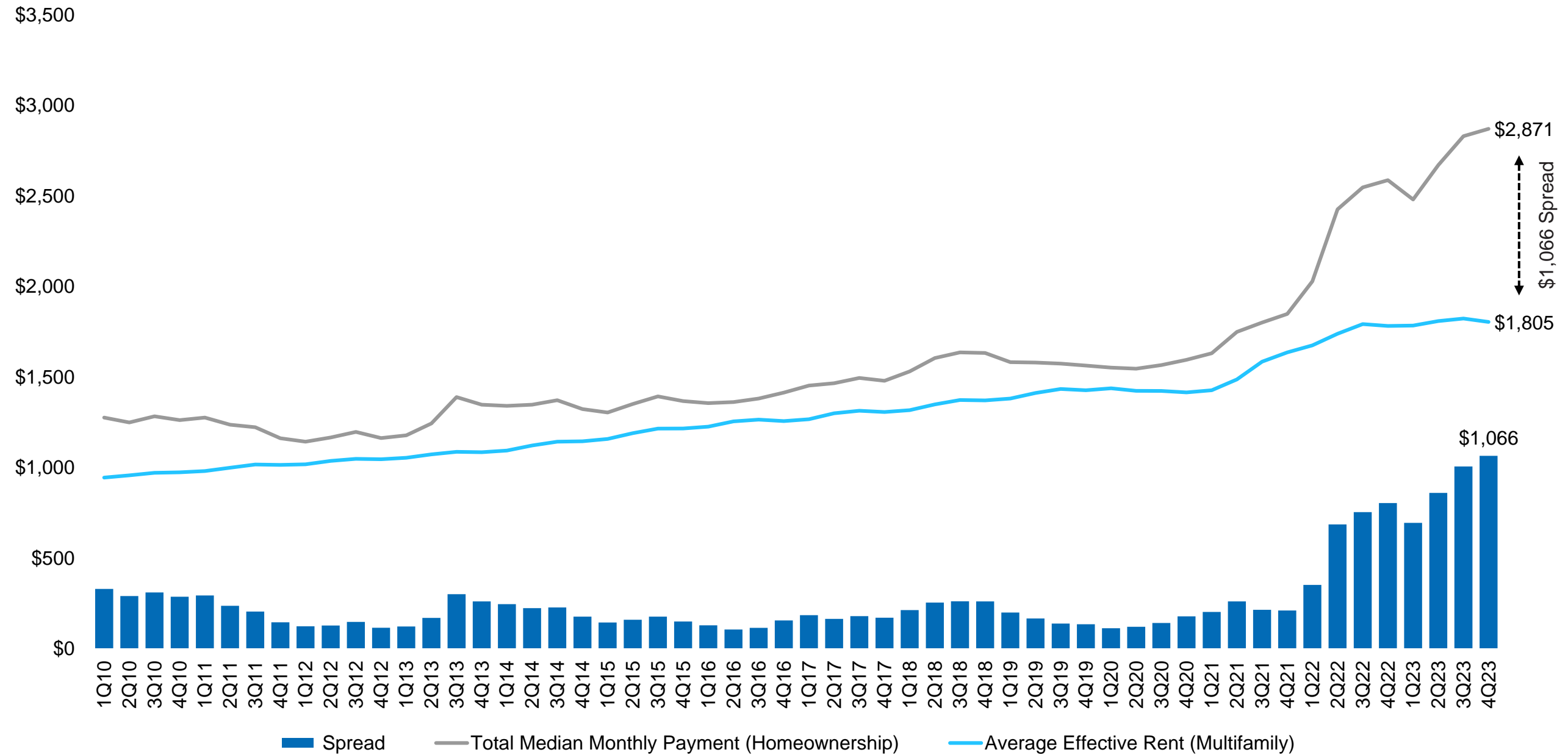
Demand Drivers



Renting Continues to be Cost-Effective Option as Homeownership Pricing Accelerates

Increasing 5.9% from the third quarter of 2023, the spread between homeownership and rental costs grew to \$1,066 in the fourth quarter of 2023. Driven by an increase in home prices and record-level interest rates, renting continues to be significantly more economical than owning a home.

Cost of Homeownership Compared to Renting



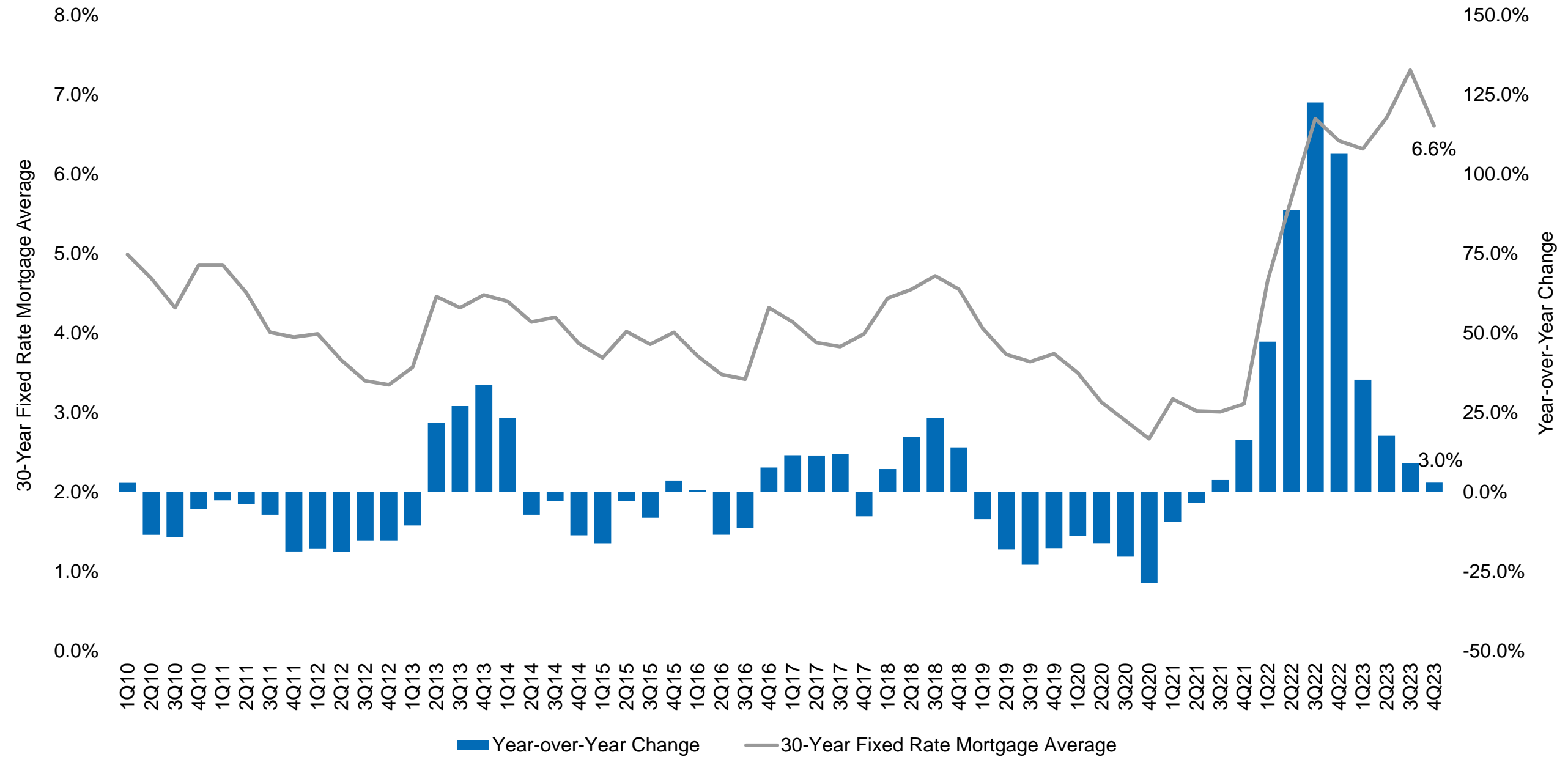
Source: Newmark Research, Atlanta Federal Reserve, RealPage

* Total Monthly Median Home Payments include P&I, Taxes, Insurance and PMI.

Despite Pace of Growth Slowing, Mortgage Rates Remain Elevated

Despite a deceleration in year-over-year growth, the 30-year fixed rate mortgage average still increased 19 basis points between the fourth quarters of 2022 and 2023. Elevated interest rates continue to force potential home buyers to seek rental solutions.

30-Year Fixed Rate Mortgage Average

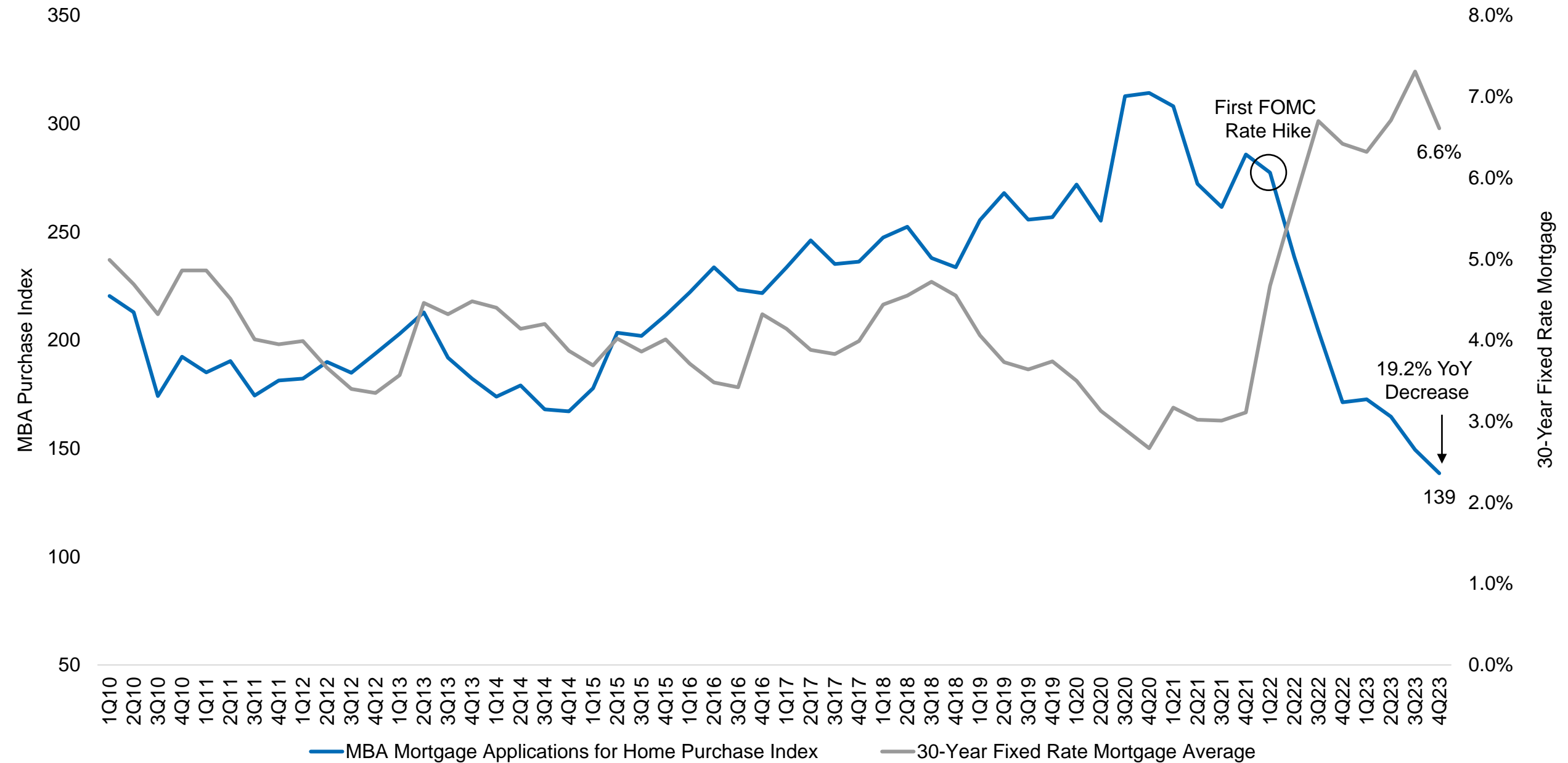


Source: Newmark Research, Federal Reserve Bank of St. Louis, Freddie Mac

Purchase Applications Plummet 50% Following Initial Fed Rate Hike

As the Fed began increasing interest rates in the first quarter of 2022, many would-be home buyers exited the market as evidenced by the 50.1% reduction in applications. High interest rates continue to depress home purchases, as the mortgage application index fell to a 14-year low in the fourth quarter of 2023.

MBA Mortgage Applications for Home Purchase Index

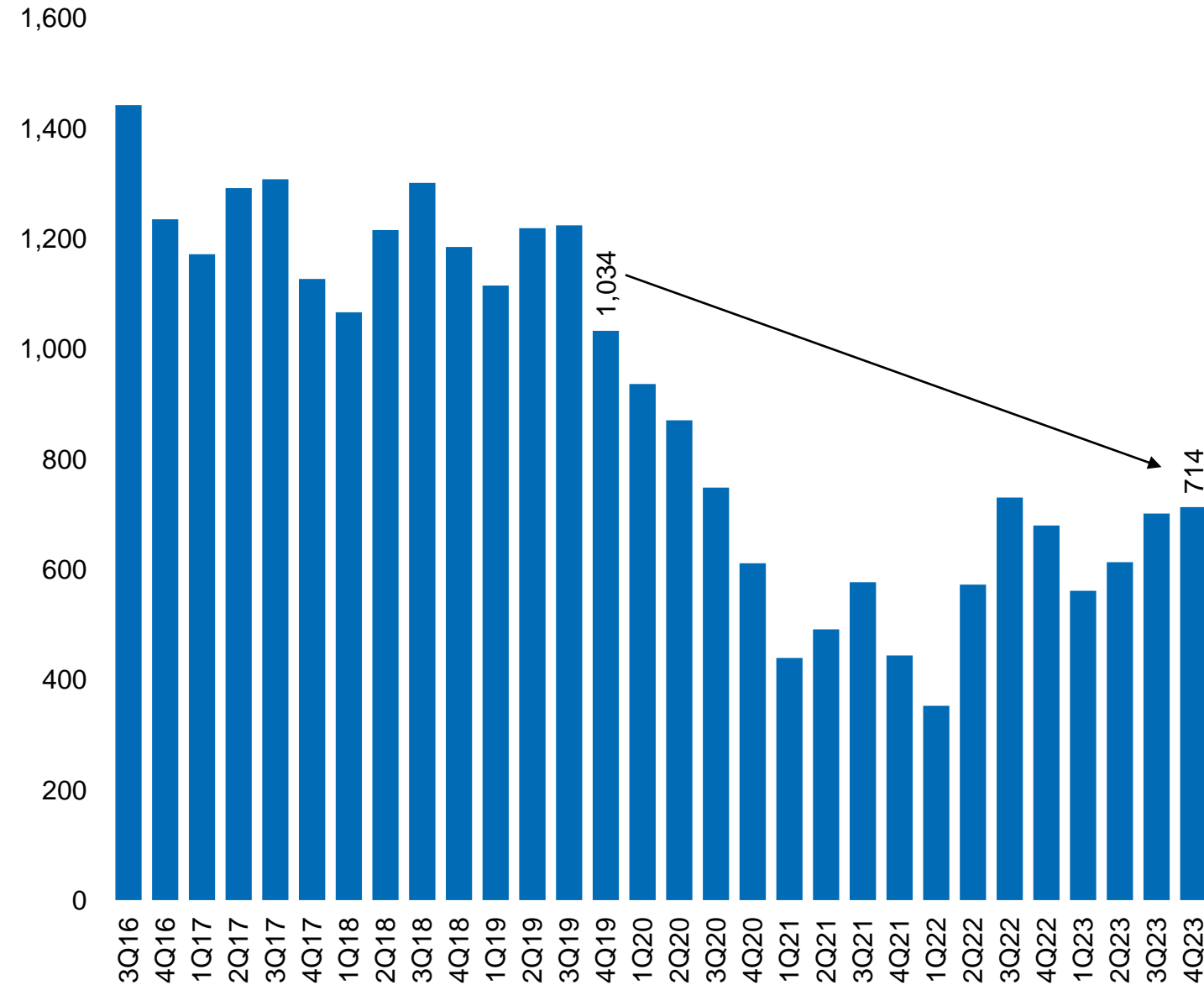


Source: Newmark Research, Federal Reserve Bank of St. Louis, Moody's Analytics, Mortgage Bankers Association, Freddie Mac

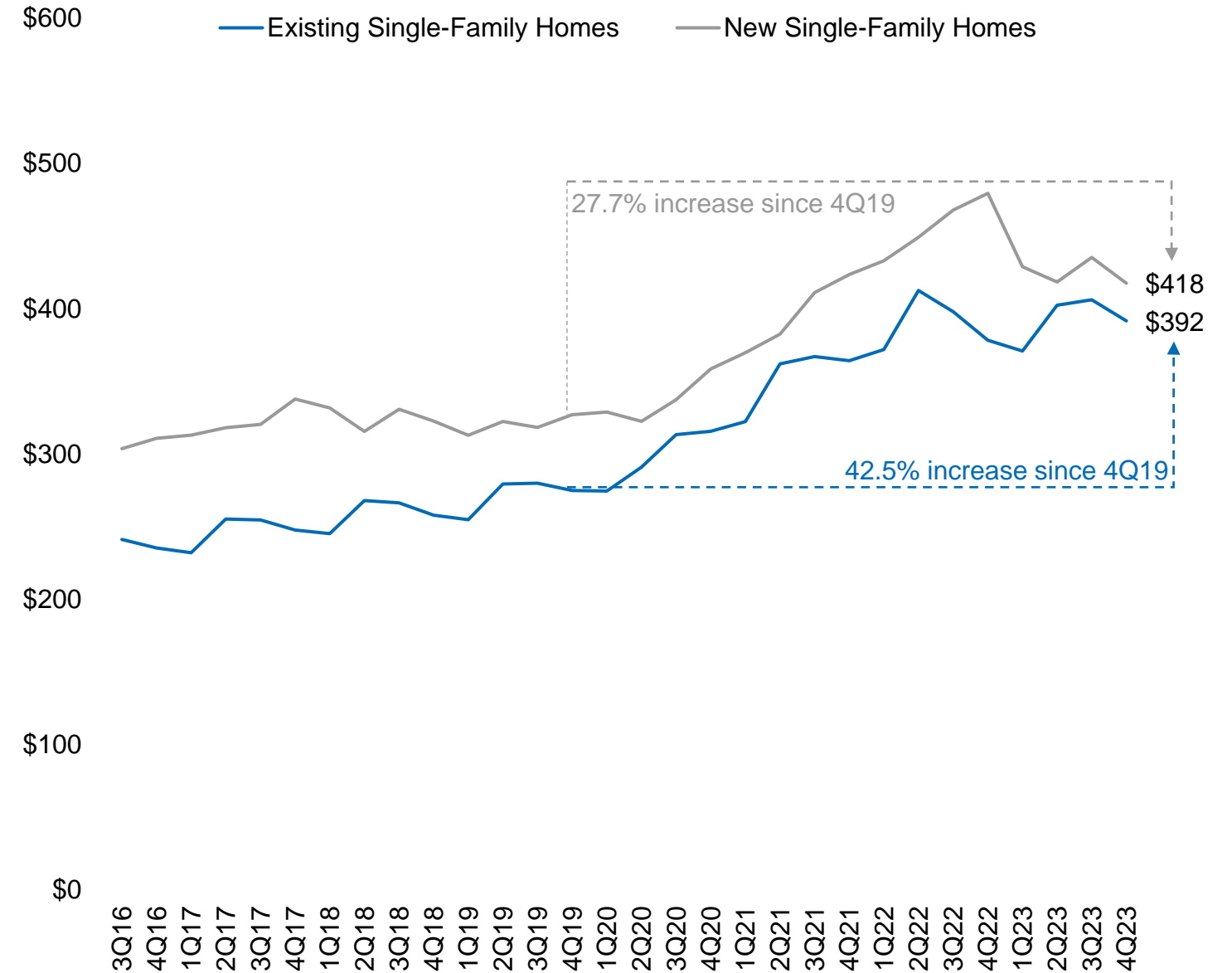
Active Listings Have Decreased 31% Since COVID; Prices Have Surged

New and existing single-family homes have increased steadily in price, at 27.7% and 42.5%, respectively, since the end of 2019. Meanwhile, prices have increased in part due to the limited availability of homes for sale, which have fallen 30.9% over the same period.

Active Listing Count (in Thousands)



Single-Family Sales Price (in Thousands)



Source: Newmark Research, Federal Reserve Bank of St. Louis, Realtor.com, National Association of Realtors, U.S. Census Bureau

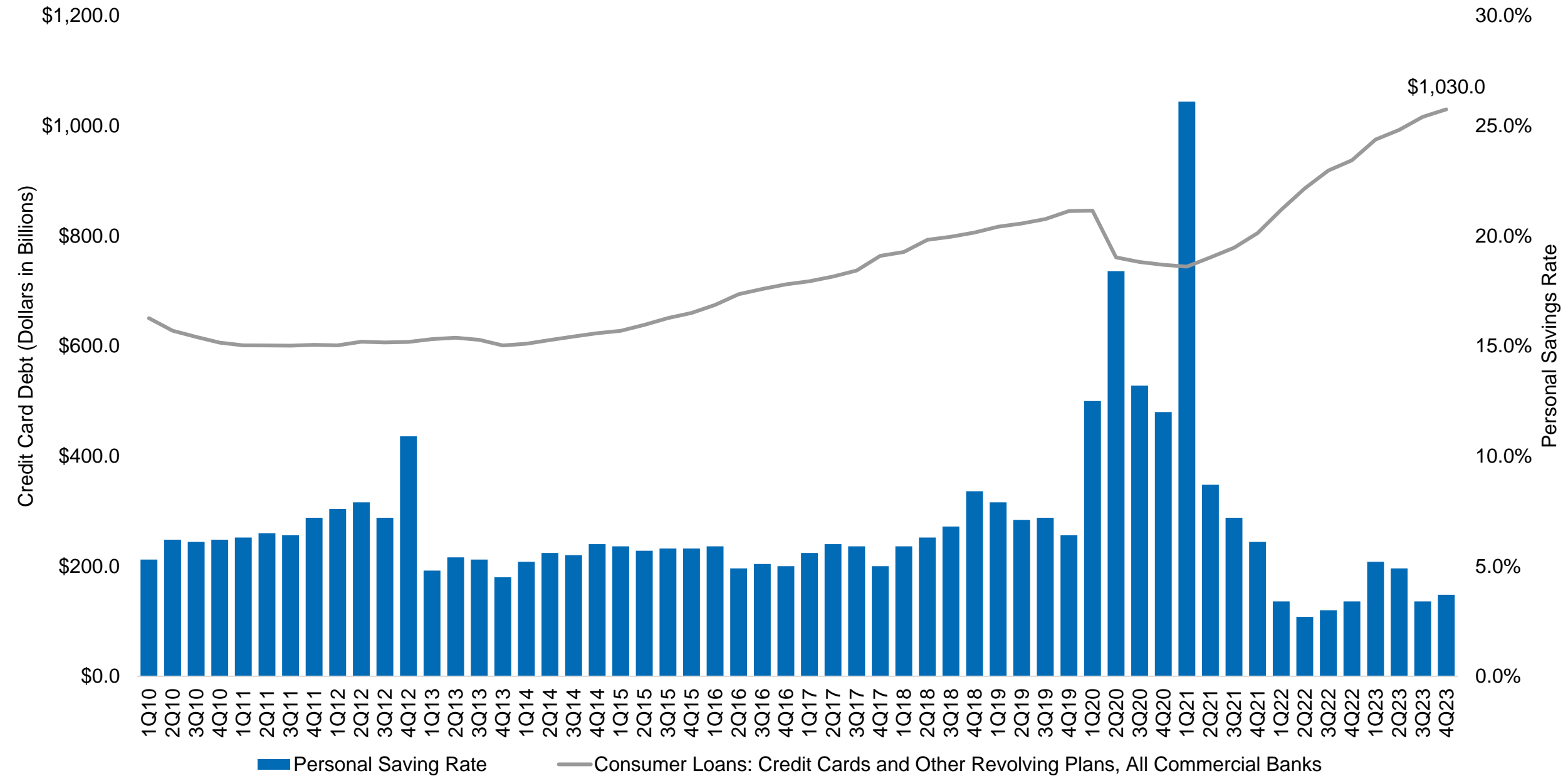


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Credit Card Debt Grows as Savings Declines, Adding to Inability to Buy Homes

Credit card debt in the US continues to reach all-time highs with each passing quarter, as the national savings rate remains significantly below the long-term average. This financial stress on consumers further increases the burden of buying a home.

Credit Card Debt and Personal Savings

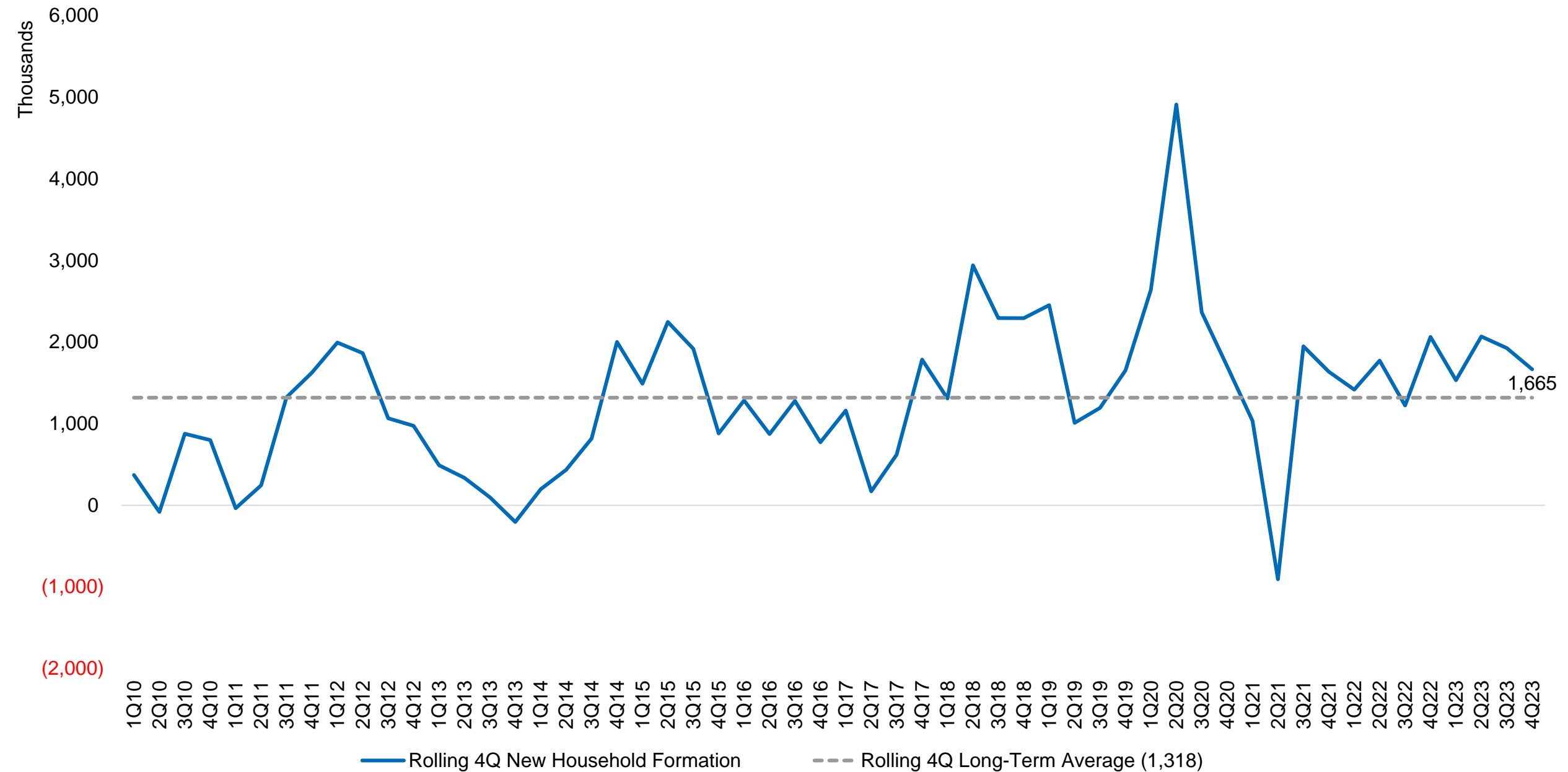


Source: Newmark Research, Federal Reserve Bank of St. Louis, U.S. Bureau of Economic Analysis, Board of Governors of the Federal Reserve System

Continued Strength in New Household Formation Boosts Demand for Housing

As of the fourth quarter of 2023, rolling four-quarter new household formation totaled just over 1.6 million, representing a 47.0% increase over the long-term average.

Household Formation



Source: Newmark Research, Federal Reserve Bank of St. Louis, U.S. Census Bureau

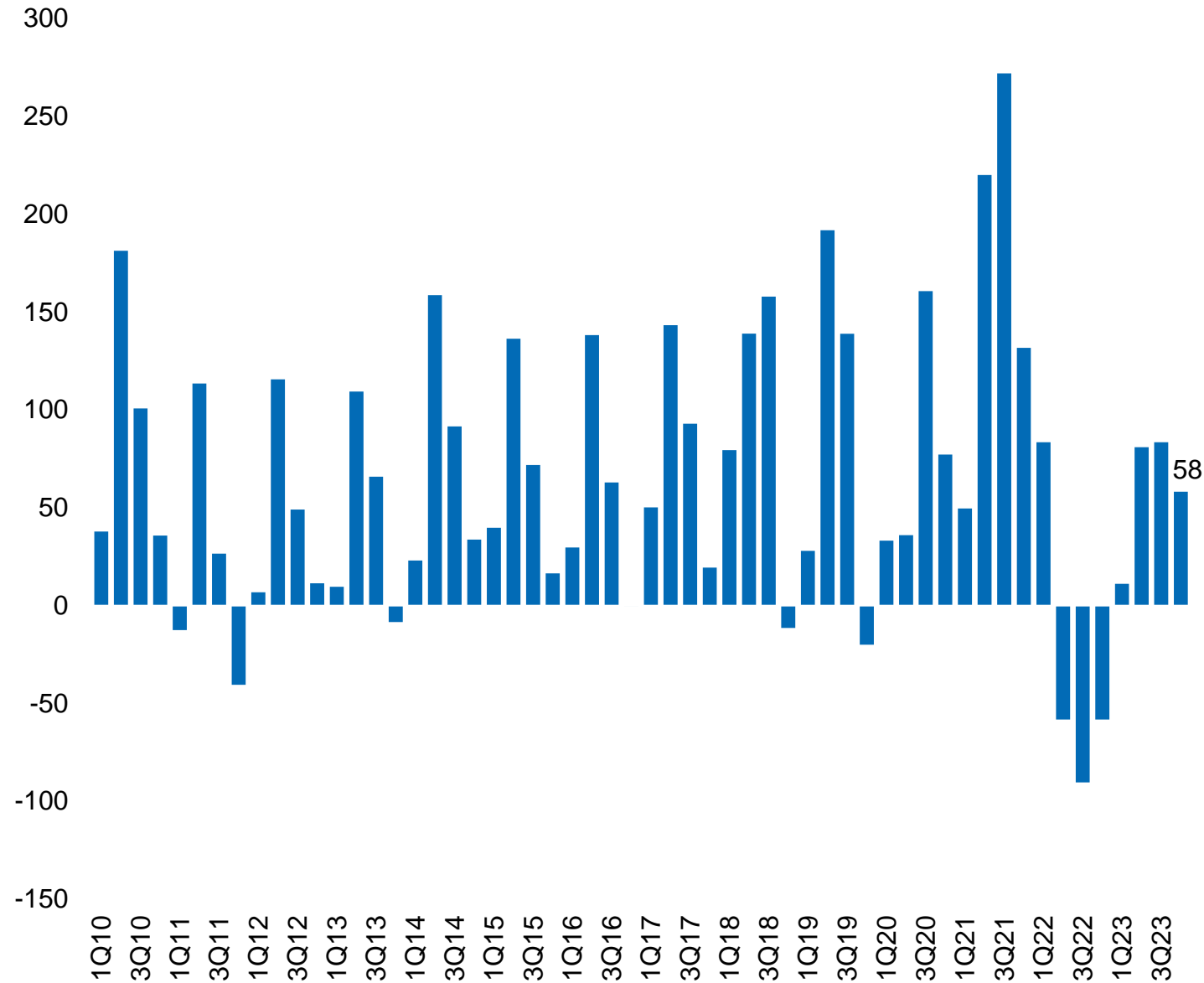
Leasing Market



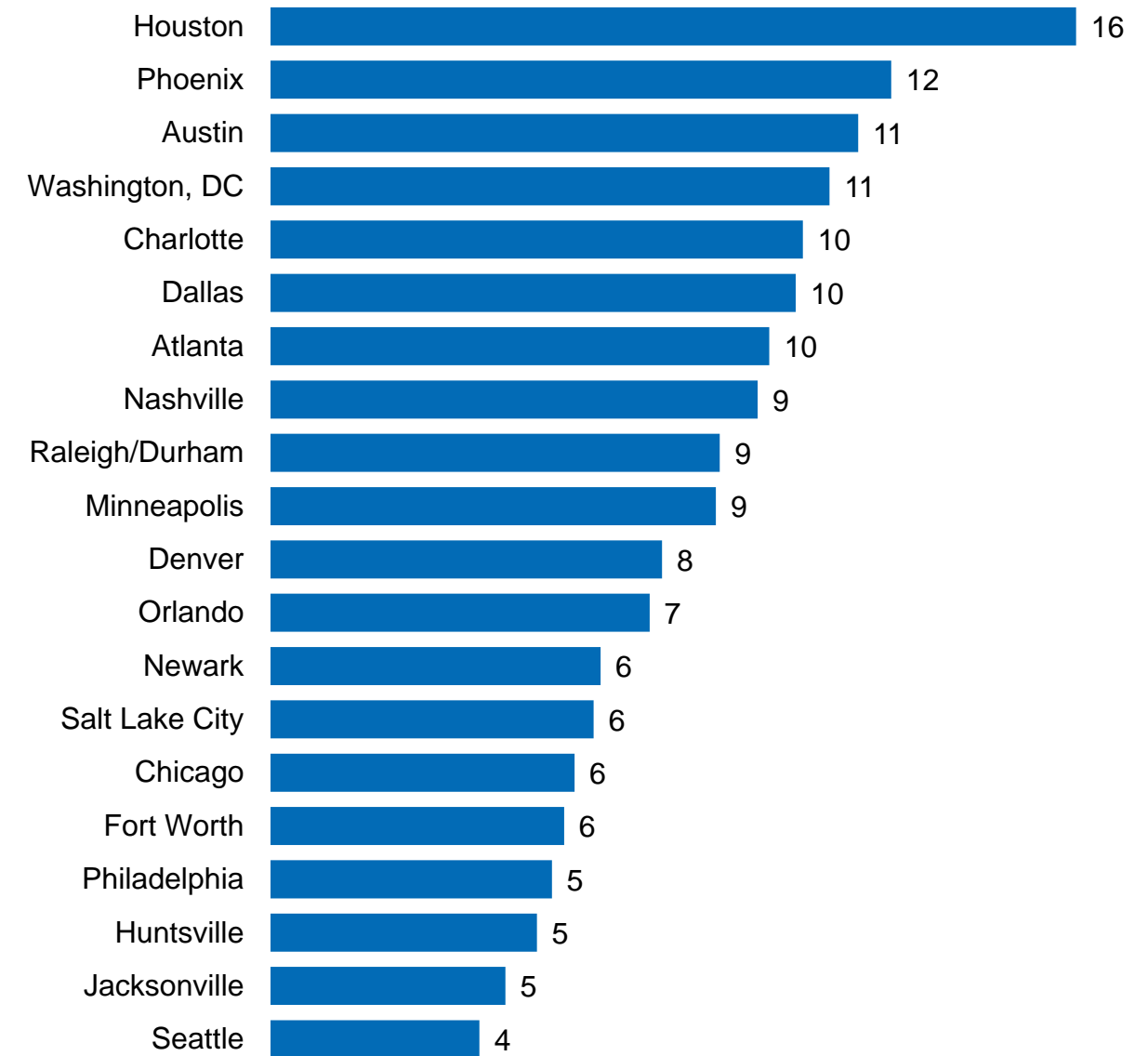
Demand Ends Year on a Positive Note; South Dominated Top Markets for Absorption

Following a below-average year for demand in 2022, demand was robust in 2023. 58,200 units were absorbed in the fourth quarter of 2023, totaling 233,741 units for the full year. On a nominal basis, markets throughout the South dominated the top markets for absorption, led by Houston, Phoenix and Austin.

US Quarterly Demand (in Thousands)



Top 20 Markets by Demand (2023, in Thousands)



Source: Newmark Research, RealPage

*Demand is defined as the change in occupied units.

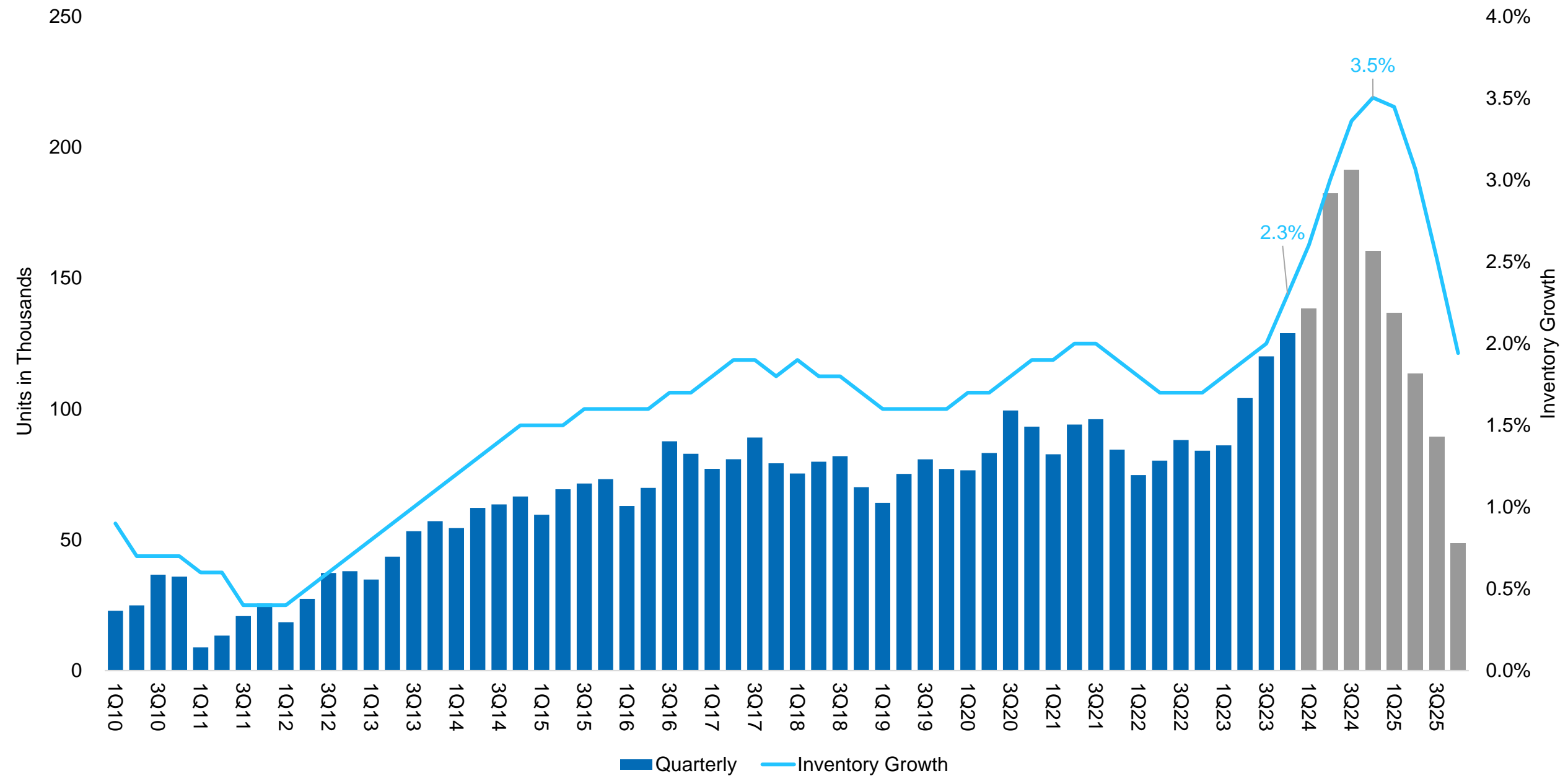


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New Supply Rises to All-Time Quarterly High; Inventory Growth Set to Surge in 2024

Over 129,000 units were delivered in the fourth quarter of 2023, representing the largest quarterly sum on record. That record is projected to be broken several times in the next handful of quarters. At 2.3%, inventory growth is 90 bps above the long-term average and is expected to climb to 3.5% throughout 2024.

Quarterly New Supply

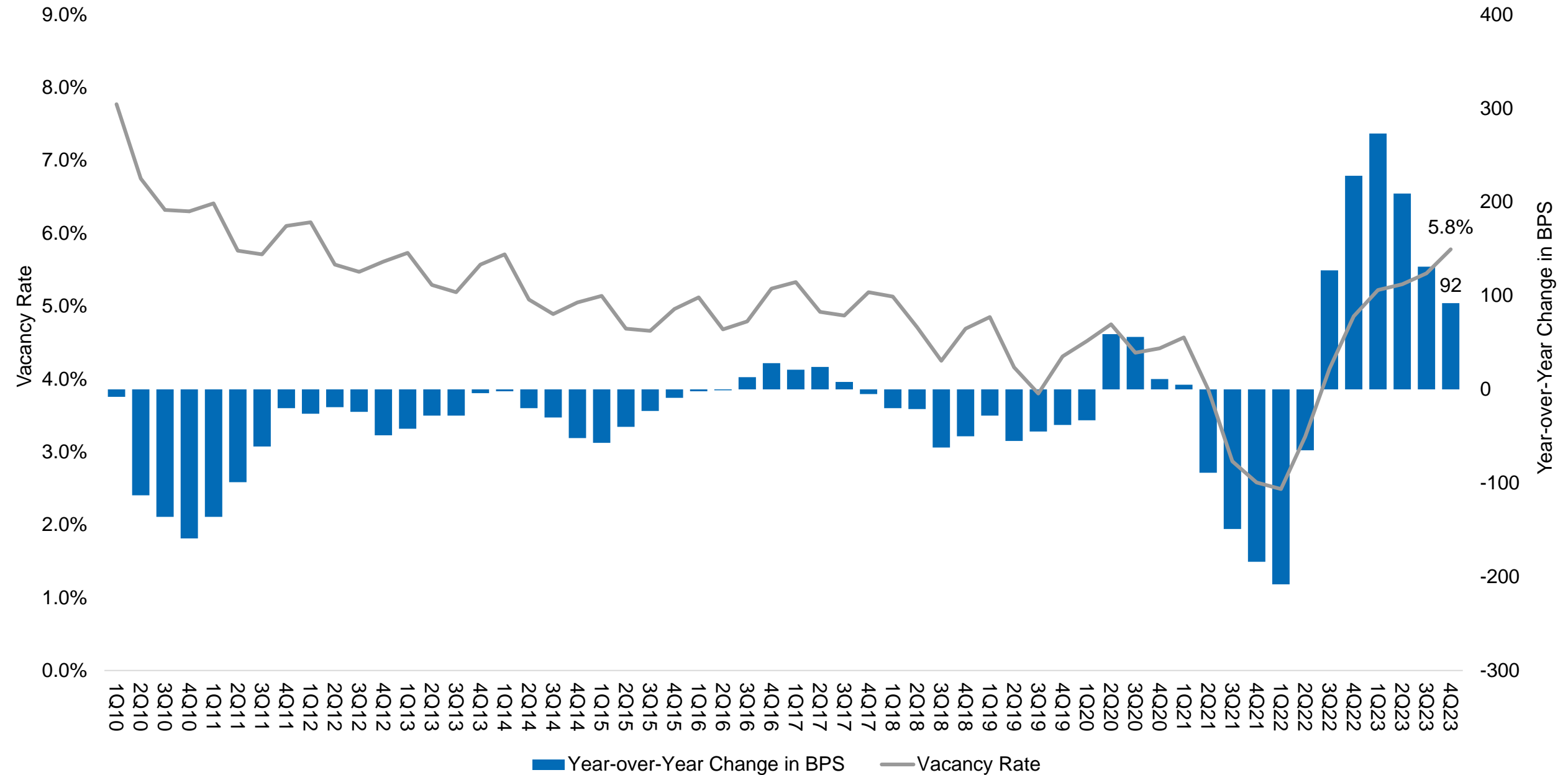


Source: Newmark Research, RealPage

Vacancy Trends Upward as Wave of New Supply Delivers

Year over year, vacancies rose 92 basis points to 5.8% nationally. The current vacancy rate surpassed its highest rate during the first quarter of 2014.

Quarterly Vacancy Rate

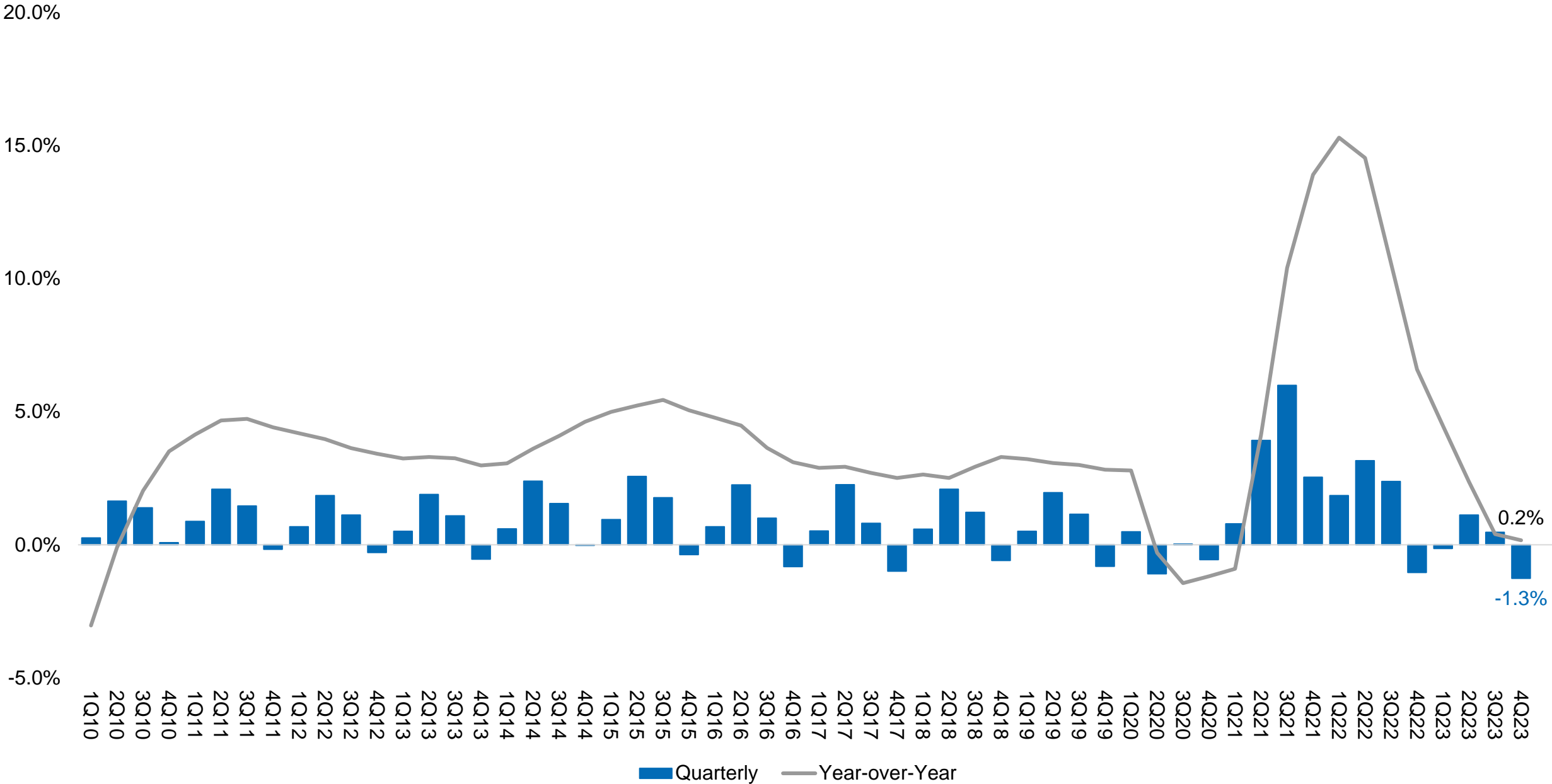


Source: Newmark Research, RealPage

Year-over-Year Rent Growth Drops to Near Zero as New Supply Pressures Prevail

Quarterly rents declined 1.3% in the fourth quarter of 2023, while year-over-year growth increased 0.2%. Annualized rent growth has declined for seven consecutive quarters.

Effective Rent Growth

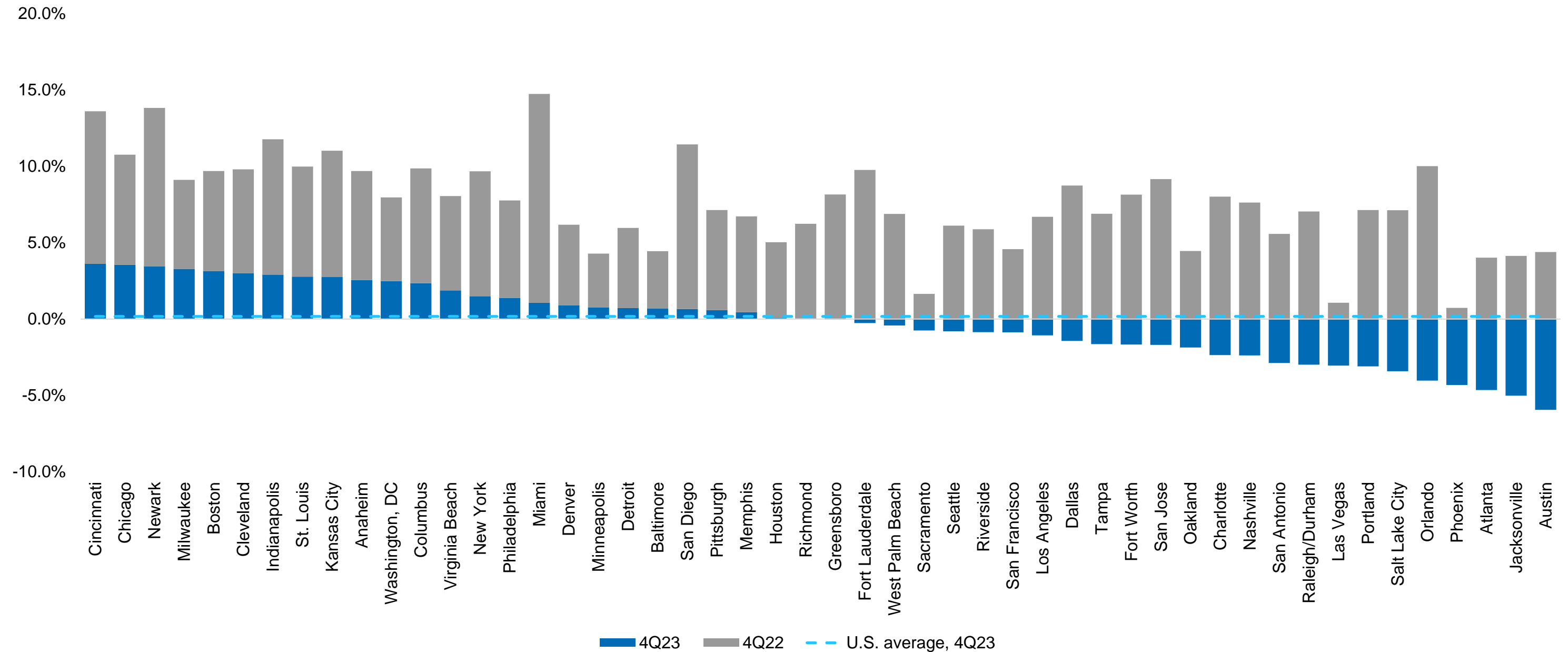


Source: Newmark Research, RealPage

Rent Growth Decelerates Universally; High-Growth Sun Belt Markets Cool

Over the past 12 months, effective rent growth has declined by 642 basis points. Midwest and Northeast markets now occupy the top markets for rent growth, led by Cincinnati and Chicago, at 3.6%. Growth markets throughout the Sun Belt have experienced the largest year-over-year decline.

Year-over-Year Effective Rent Growth (Top 50 Markets)



Source: Newmark Research, RealPage



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Debt Capital Markets





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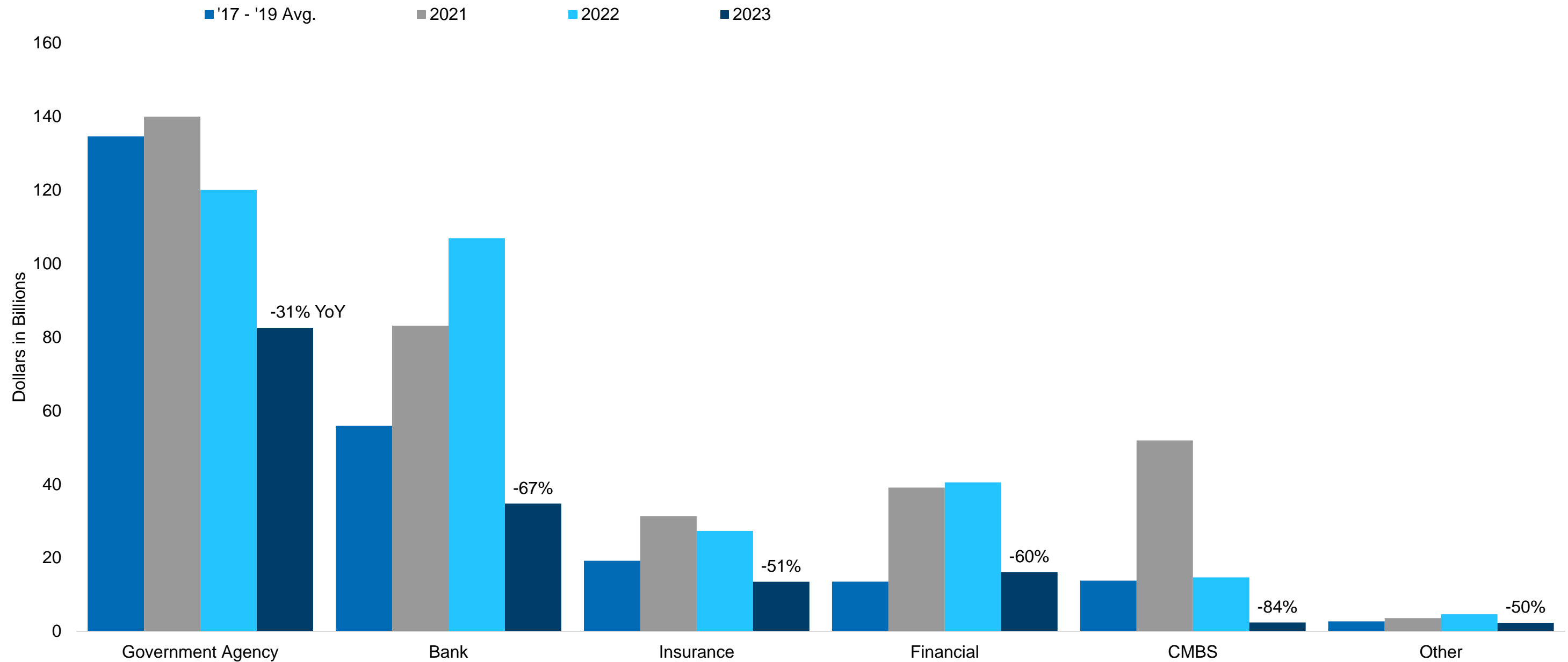


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Multifamily Originations Declined across Lender Groups in 2023

Agency lenders and insurance companies were relative bright spots, but even these provided less credit to the market than they had in 2017 to 2019. RCA's data varies from Fannie and Freddie activity, which totaled \$101.2 billion in 2023. Fannie and Freddie originations decreased 29% year over year, inline and directionally similar to RCA's 31% decline.

Multifamily Loan Origination Volume



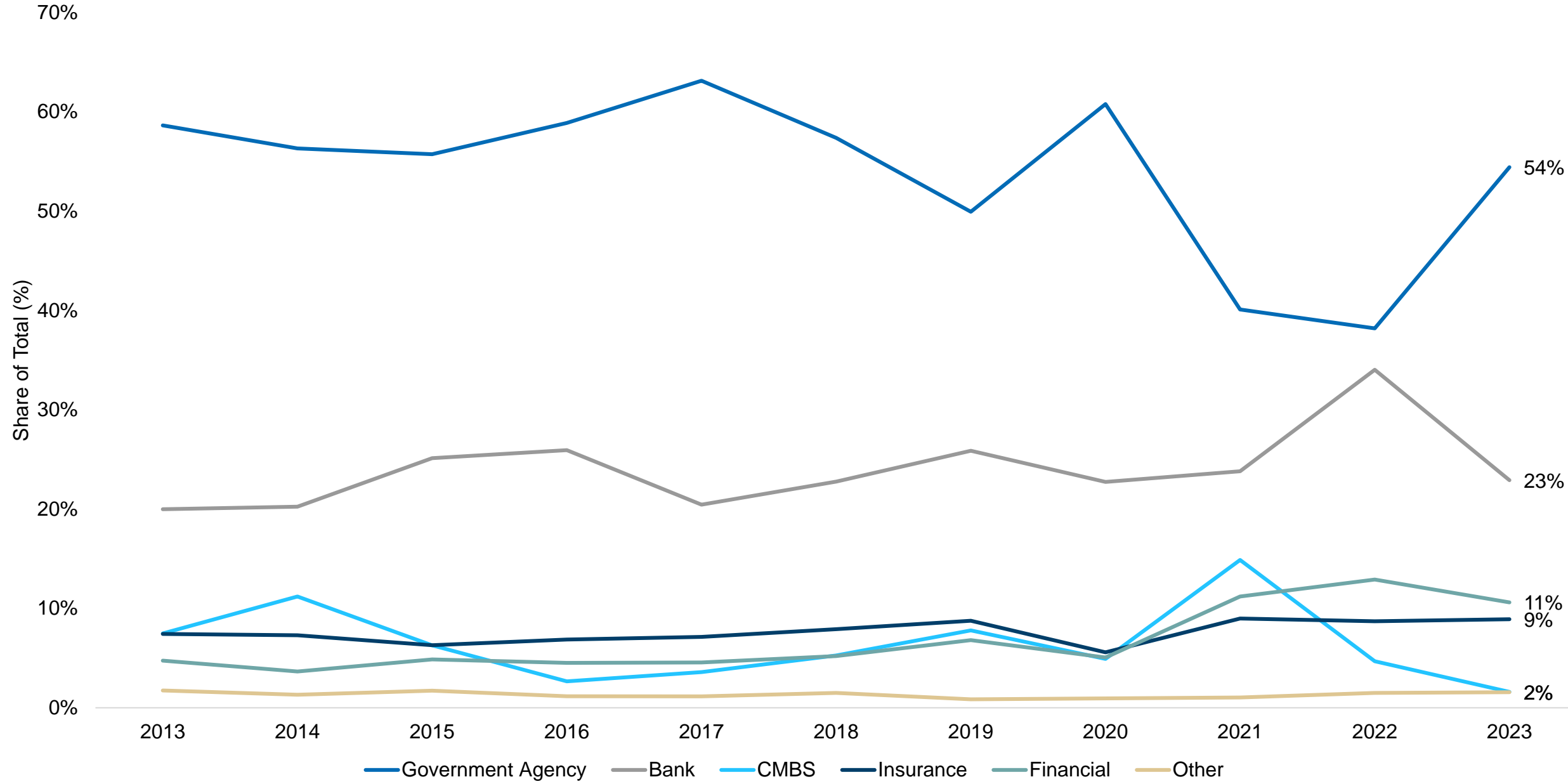
Source: RCA, Newmark Research as of 2/2/2024

* Excludes construction finance. Data is based preliminary loan sums, which are subject to future revision – potentially significant.

GSE Share of Multifamily Finance Has Increased Sharply in 2023

The bank and CMBS/CRE CLO shares of multifamily lending have contracted sharply in 2023, while the insurance share has remained stable. Debt funds lending share has declined modestly but remains above pre-pandemic levels. Meanwhile, GSEs have gained, rebounding from multiyear lows and playing their role in improving stability in the finance markets.

Origination Share by Lender Group



Source: RCA, Newmark Research as of 2/2/2024
 * Excludes construction finance. Data is based preliminary loan sums, which are subject to future revision – potentially significant.



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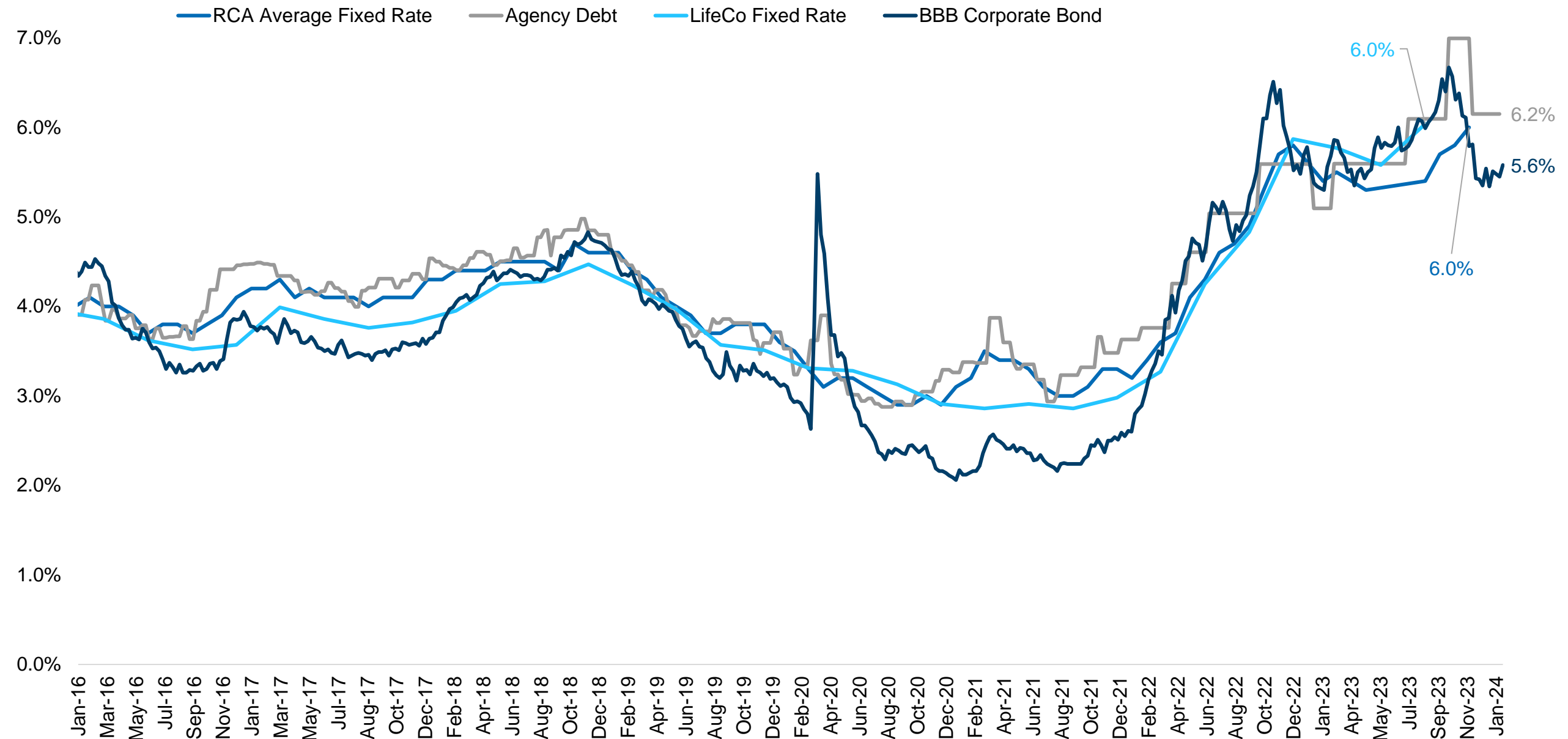


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Multifamily Debt Costs Continue to Follow Pied Piper of Corporate Bonds

Historically, multifamily debt rates have run somewhat above those of BBB corporate bonds. Yields on multifamily agency debt have tended to trade closely with the broader fixed-rate transaction market yields. Until recently, multifamily debt benchmarks were lagging movements in corporate bonds. As corporate bond yields have declined from early November highs, multifamily benchmarks have in effect caught up. While further declines in debt costs are likely to be limited, the market could benefit from greater stability.

Multifamily Cost of Debt Capital

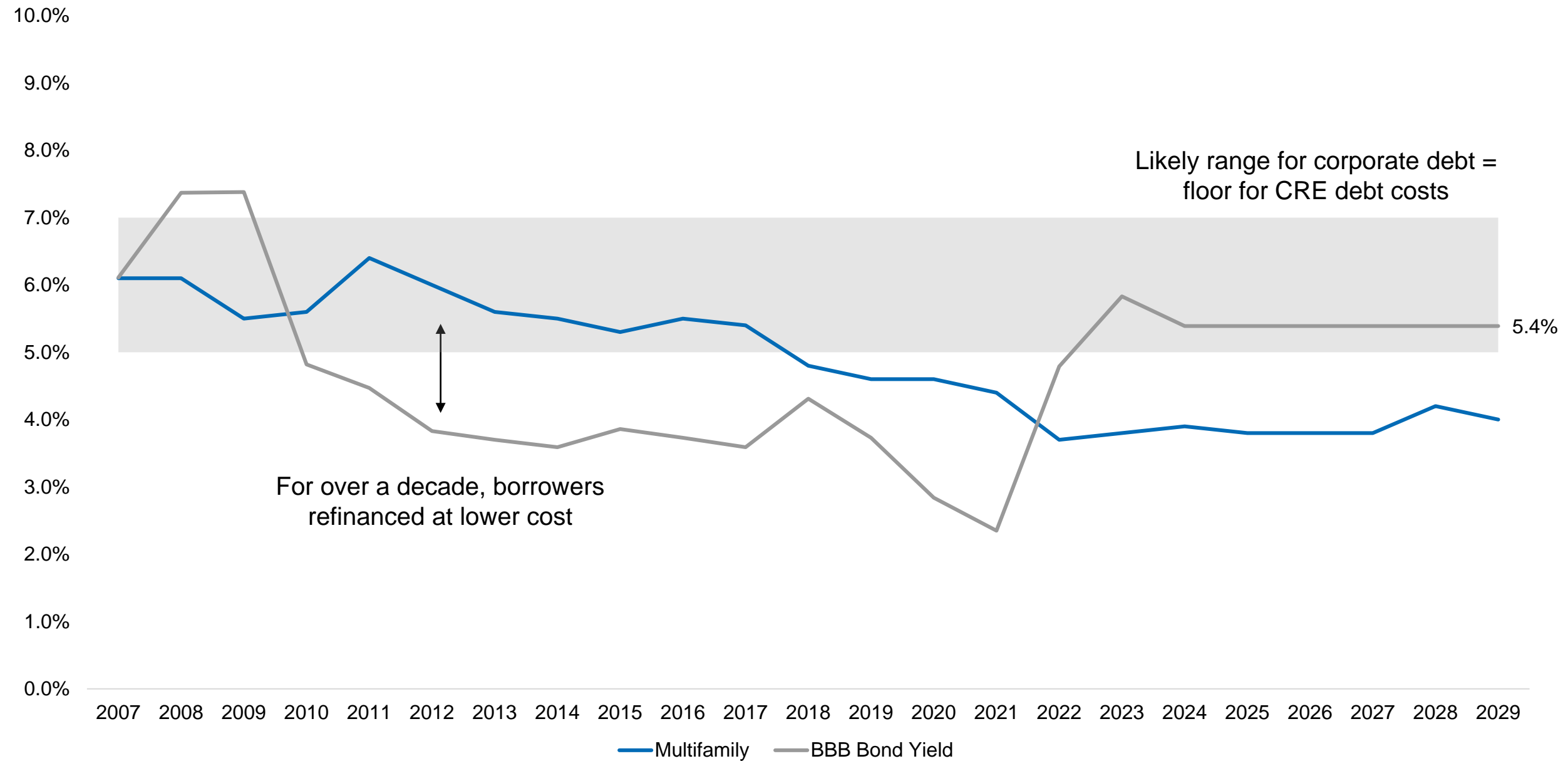


Source: RCA, Green Street, ICE Data Indices, ACLI, Federal Reserve, Newmark Research as of 2/13/2024
 Note: Excludes construction financing

Multifamily Borrowers Face Starkly Higher Costs as Loans Mature

Higher debt costs on refinancing will lower return for all and will give rise to a range of reactions within the market. Some borrowers will choose to pay down their debt, especially if the asset has appreciated meaningfully. Others will refinance the principal or partially pay down, whereas in a lower cost-of-capital environment, they would have re-levered. Still others will be unable to make the math work and will need to pursue a loan modification, return the keys and/or source rescue equity at an appropriate price point.

Weighted Average Interest Rate on Maturing Debt vs. Prevailing Bond Yields

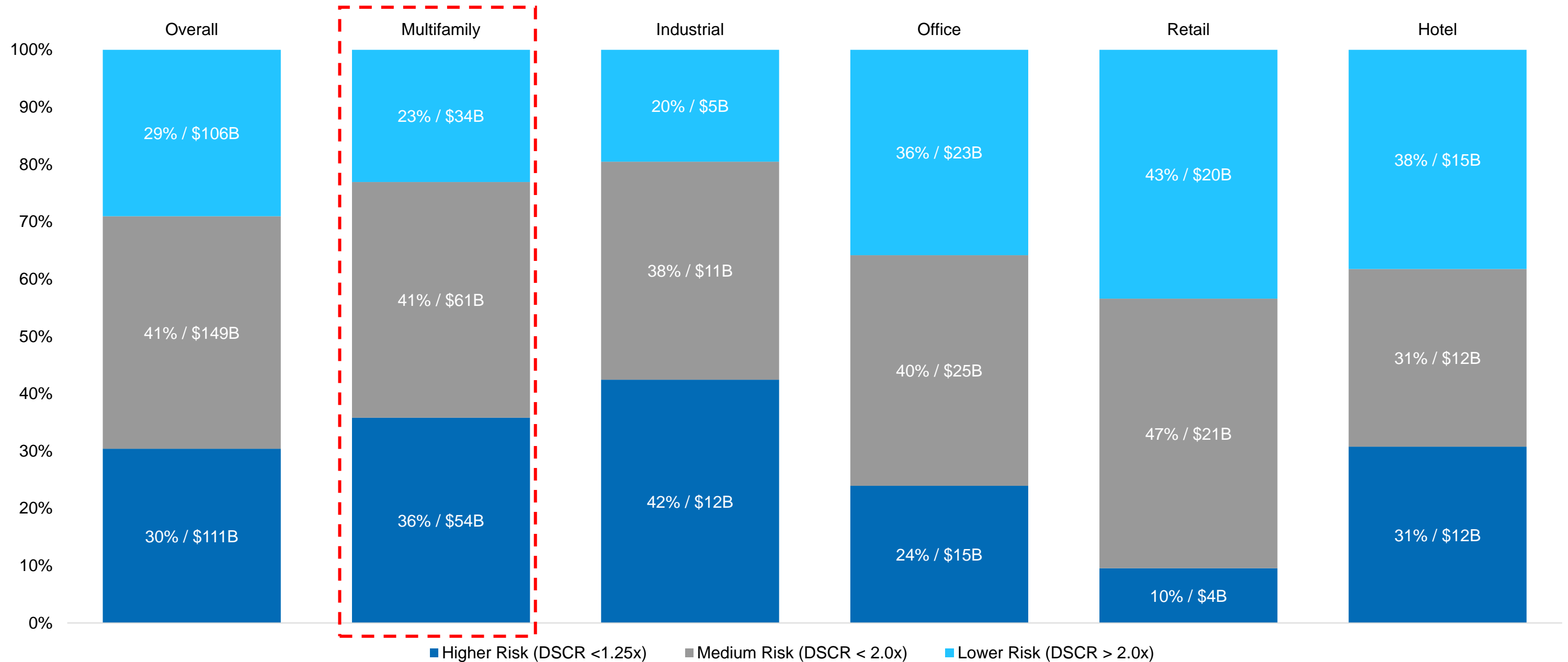


Source: RCA, ICE Data Indices, Newmark Research as of 2/6/2024

Some Loans Will Be Able to Absorb Higher Interest Costs; Many Will Not

36% of upcoming securitized multifamily debt maturities had a DSCR of 1.25x, per their most recent financials, compared with only 23% with a DSCR of 2.0x or greater. These maturities will struggle to refinance even before taking valuation concerns into account. The maturing loans are biased towards CRE CLO loans, which include higher shares of transitional, floating-rate debt. This is a bad proxy for insurance and GSE lending, but a great proxy for debt funds and a significant share of bank lending.

DSCR Profile of Securitized CRE Debt Maturing between 2023 and 2025

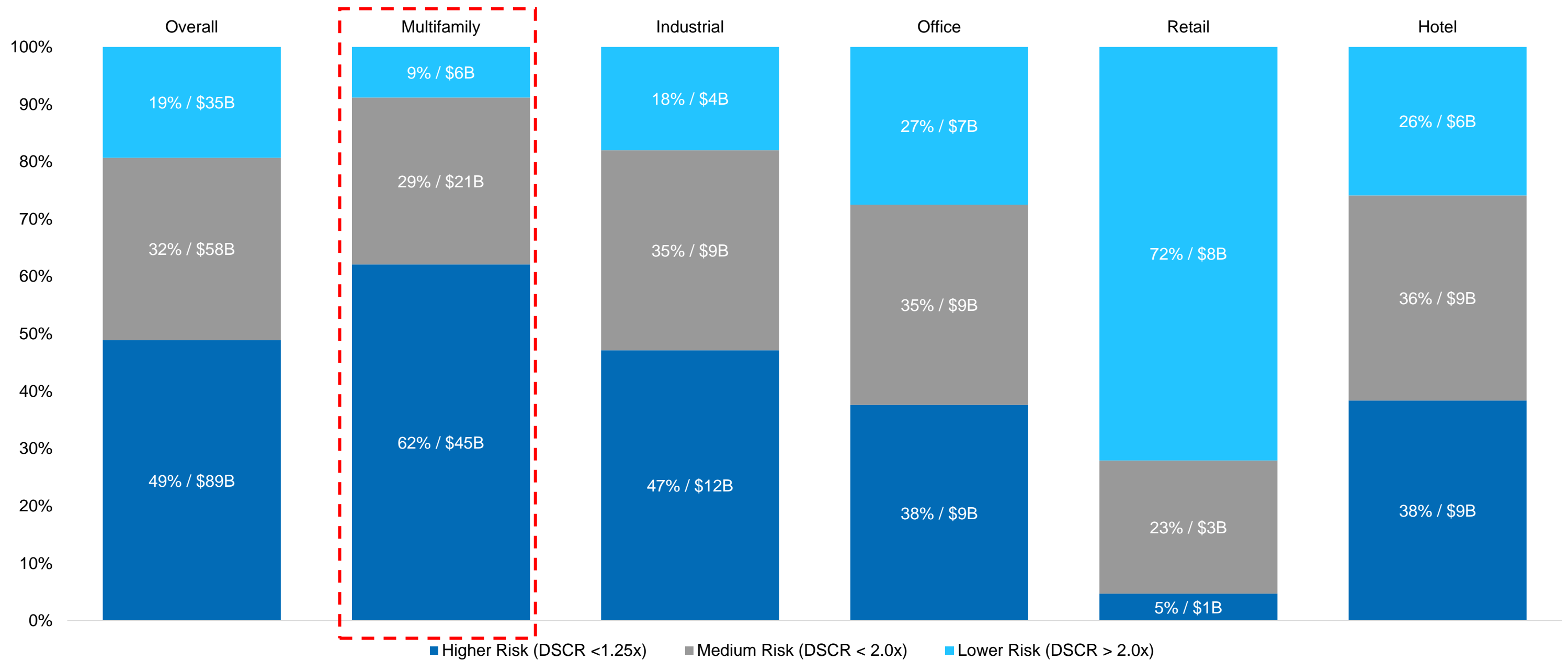


Source: Trepp, Newmark Research as of 2/7/2024

Floating Rate Multifamily Maturities Are in Trouble

SASB and CRE CLO loans are heavily represented among upcoming multifamily maturities. Even in December 2022, the period from which most of these measures were taken, 60% of such loans face potential payment stress. Debt fund originations and significant portions of lending books are likely to face similarly scaled pressures.

DSCR Profile of Securitized CRE Debt Maturing between 2023 and 2025: Floating Rate Loans Only



Source: Trepp, Newmark Research as of 2/7/2024



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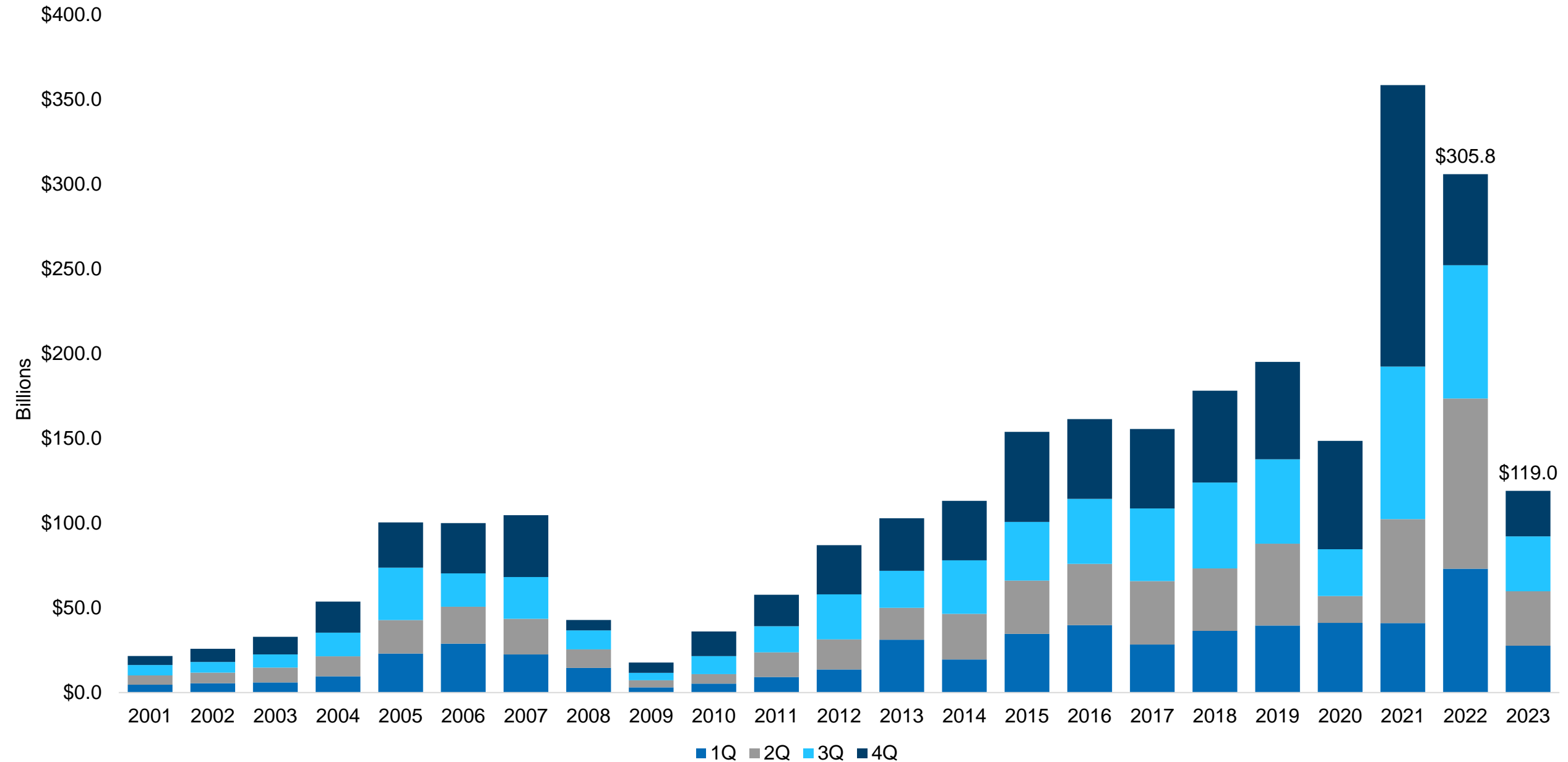
Investment Sales



Sales Volume Plunges 50% Year over Year as Prices Continue to Reset

Price dislocation, volatility and an elevated interest rate environment continue to hinder the investment sales market, as evidenced by the 50.0% year-over-year decline to \$26.9 billion in quarterly sales volume. Annual sales volume declined 61.1%.

Sales Volume



Source: Newmark Research, MSCI Real Capital Analytics

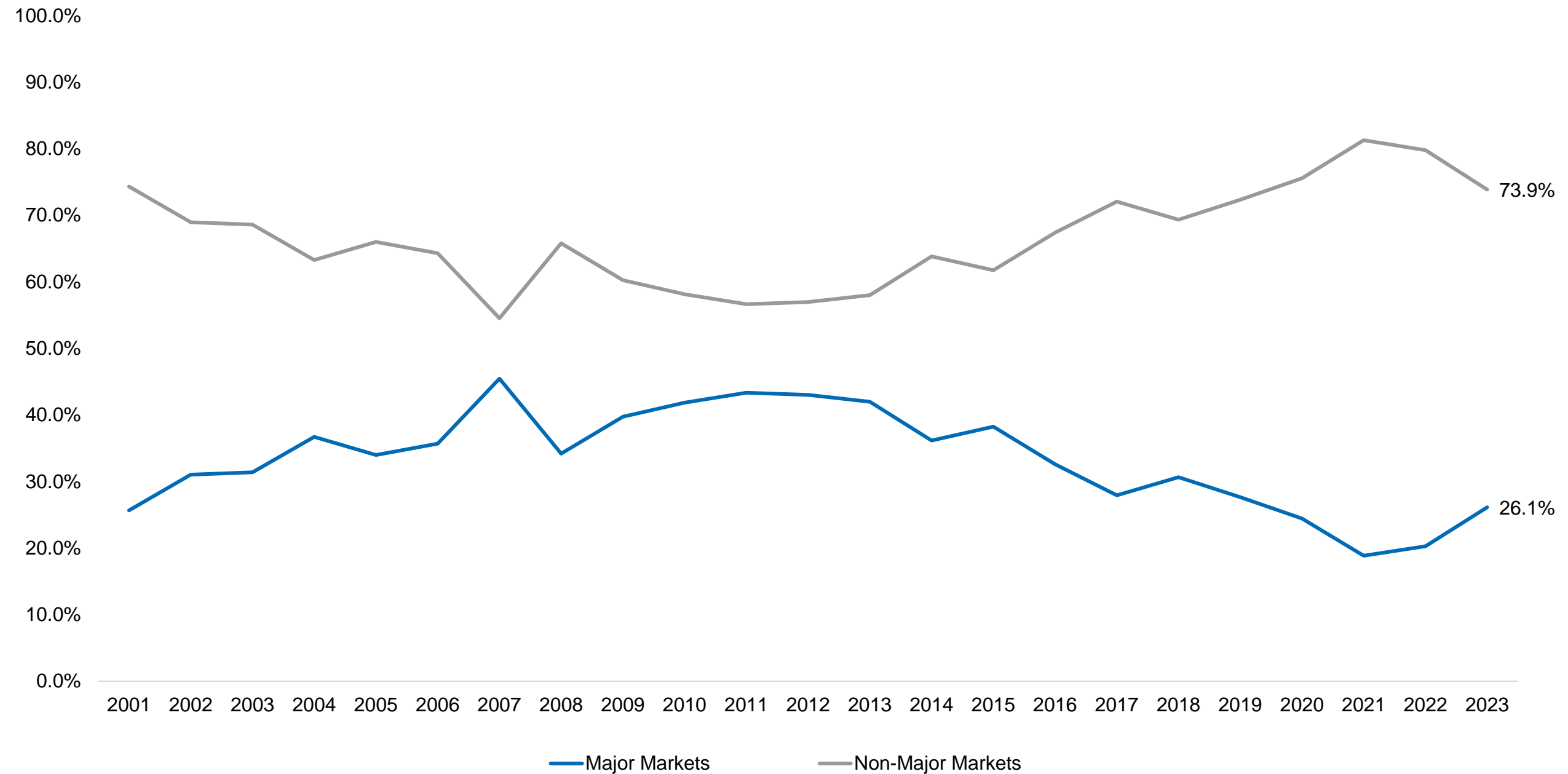


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Despite Slowing Fundamentals, Investors Continue to Target High-Growth Markets

Allocation to major markets has experienced a 5.8% increase from year-end 2022. While major markets have ticked up in the first half of 2023, nonmajor markets continue to attract the bulk of volume.

Multifamily Market Share



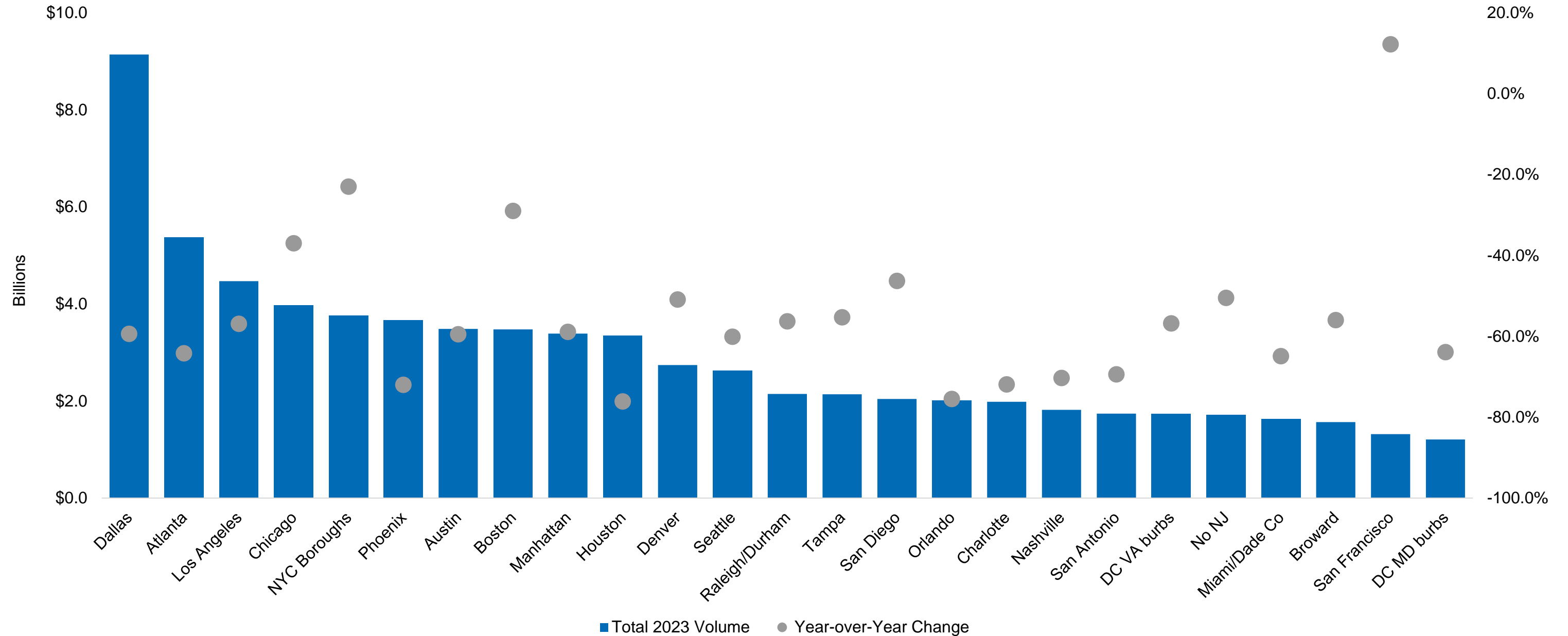
Source: Newmark Research, MSCI Real Capital Analytics

*Major markets are defined as Boston, Chicago, Los Angeles, New York, San Francisco, and Washington, DC metro areas

Capital Drawn to Sun Belt Gateway Markets; Dallas and Atlanta Continue Streak

Dallas and Atlanta were the top recipients of capital for the third consecutive year. Of the top 25 markets for sales volume, just San Francisco experienced a year-over-year increase of 12.2%.

Top 25 Markets



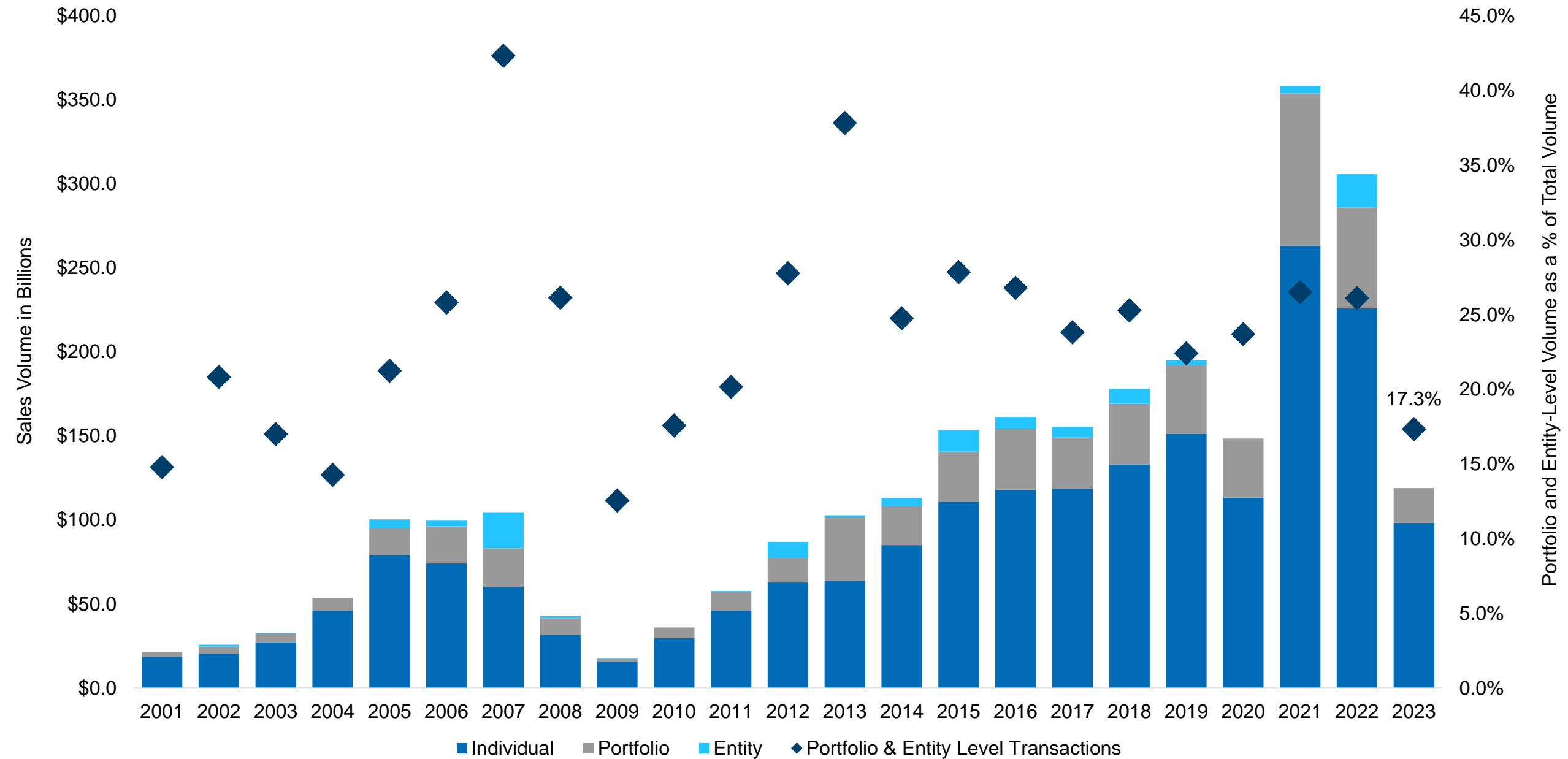
Source: Newmark Research, MSCI Real Capital Analytics

*Major markets are defined as Boston, Chicago, Los Angeles, New York, San Francisco, and Washington, DC metro areas

Mega Deal Volume Sinks to Decade 15-Year Low

Individual deal volume accounted for 82.7% of transactions in 2023, well above the 10-year average (75.5%). Due to high financing costs, portfolio and entity-level transactions sank 74.2% year over year to 17.3%, the lowest mark since 2009.

Sales Volume by Transaction Type



Source: Newmark Research, MSCI Real Capital Analytics

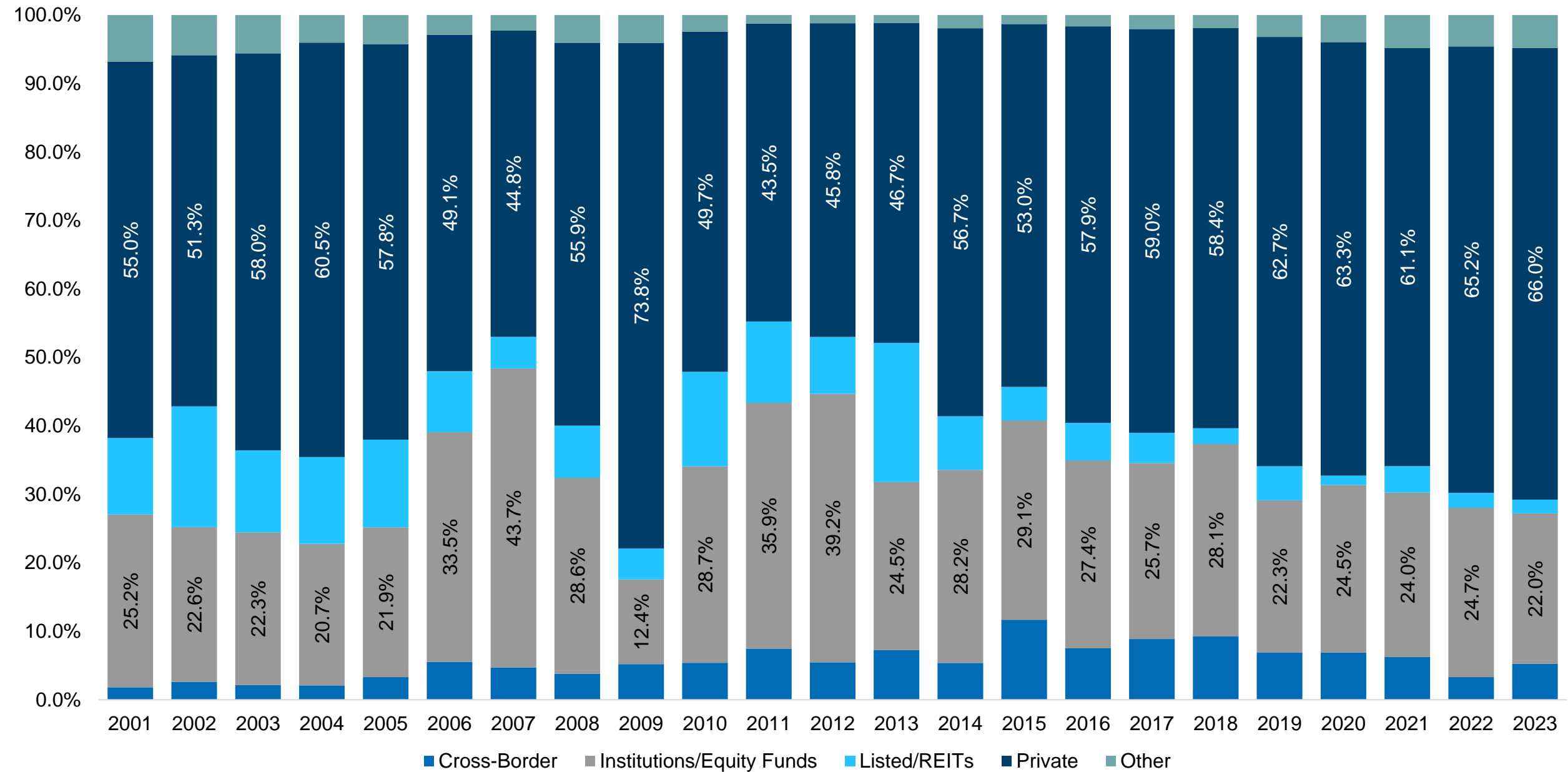


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Institutions and Private Capital Poised to Be Top Buyers in 2024

While private capital has been the largest acquirer of US multifamily historically, institutional capital seems poised for an uptick, similar to increased activity in 2011 to 2012, given large mandates for rental housing and expected rate cuts.

Buyer Composition by Capital Group



Source: Newmark Research, MSCI Real Capital Analytics

Pricing & Returns



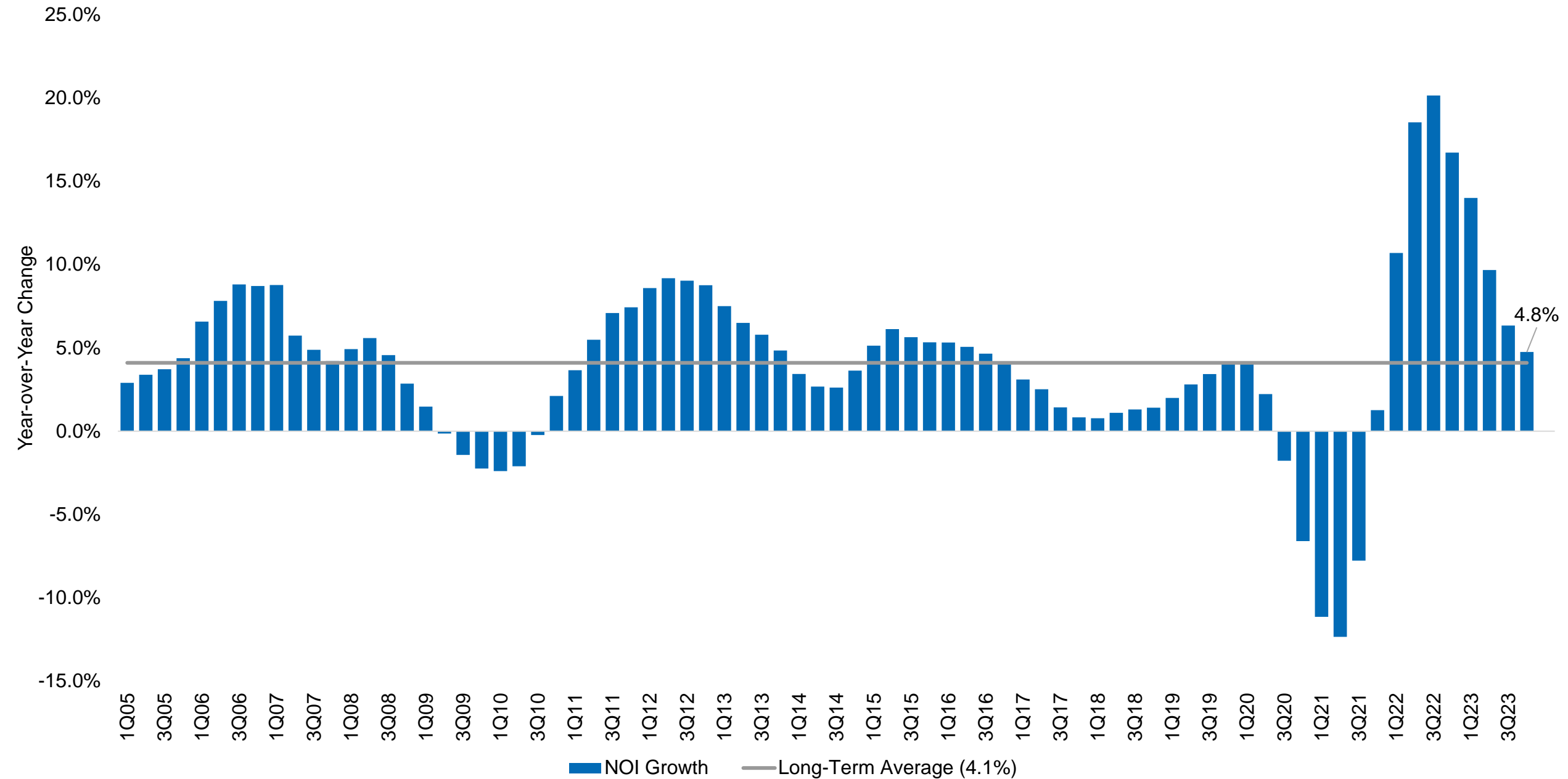


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Despite Headwinds, NOI Growth Remains above Long-Term Average

Year-over-year net operating income (NOI) grew 4.8% as of the fourth quarter of 2023. While the fourth quarter metric is 70 basis points above its long-term average, the pace of NOI growth has fallen for five consecutive quarters.

Net Operating Income

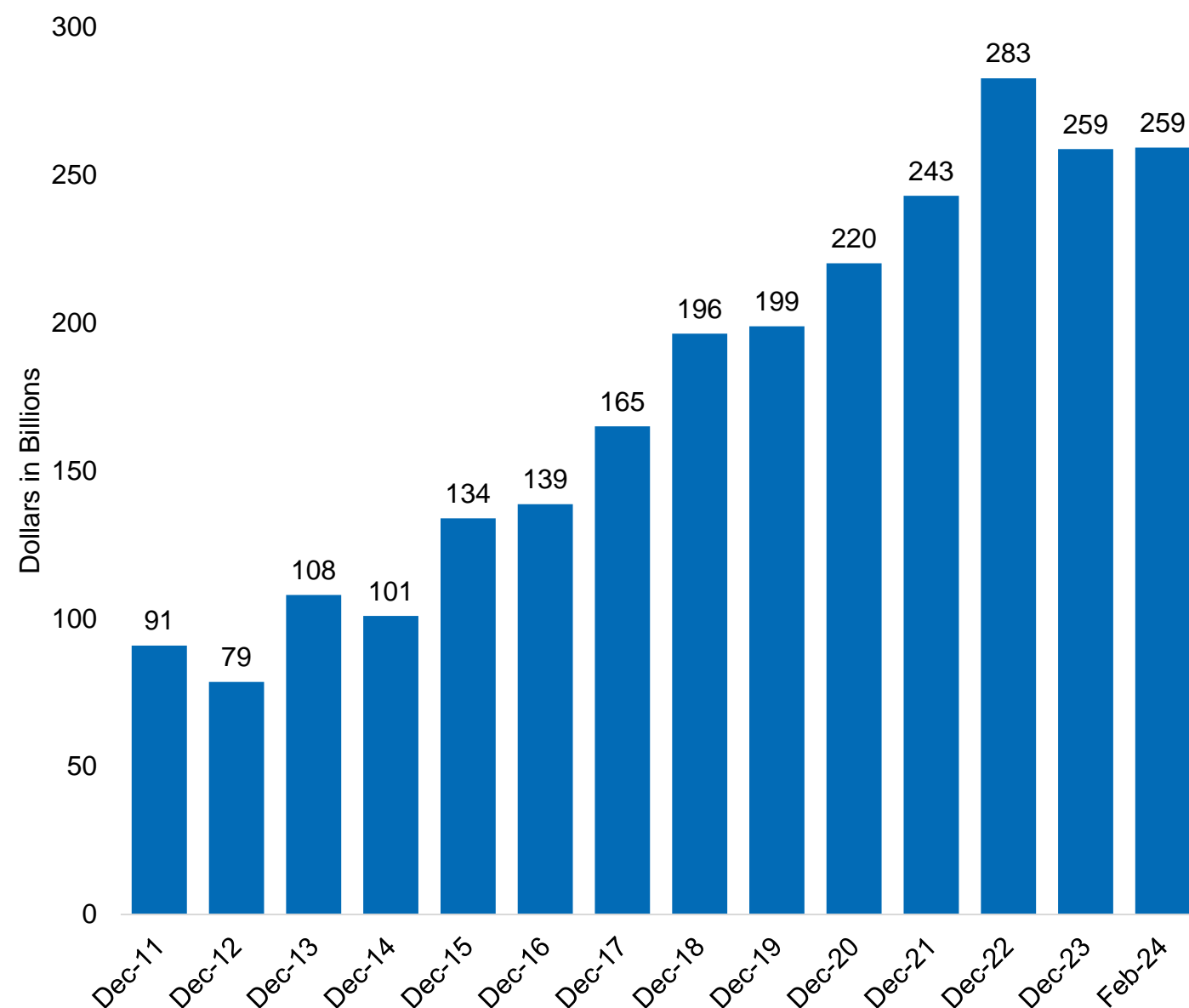


Source: Newmark Research, NCREIF

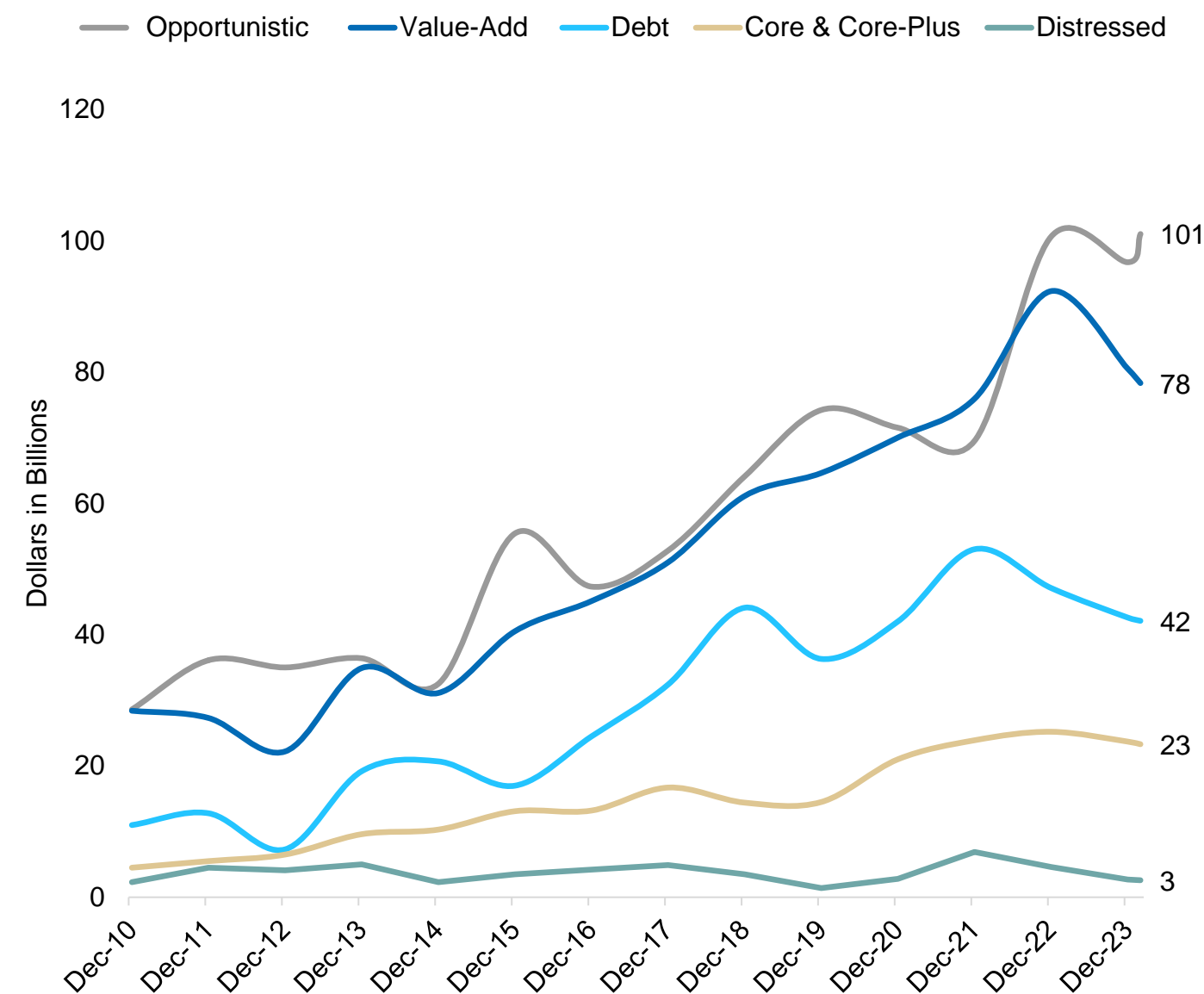
Private Equity Dry Powder Has Declined from 2022 Peak, But Still Elevated Overall

Dry powder at closed-end funds is 8% below its December 2022 peak, reflecting declines in dry powder at value-add and debt funds. Opportunistic fund vehicles are also off the peak but by a smaller margin. New fundraising declined sharply from \$199B in 2022 to \$148B in 2023. Capital deployment was also weak as funds have husbanded their powder in anticipation of new, attractive entry points. Less positively, some funds will find it necessary to use dry powder to bail-in investments made in early years.

Dry Powder – Closed-End Funds



Dry Powder by Strategy*



Source: Newmark Research, Preqin as of 2/2/2024
 *Not shown: Fund of funds, co-investments, and secondaries strategies

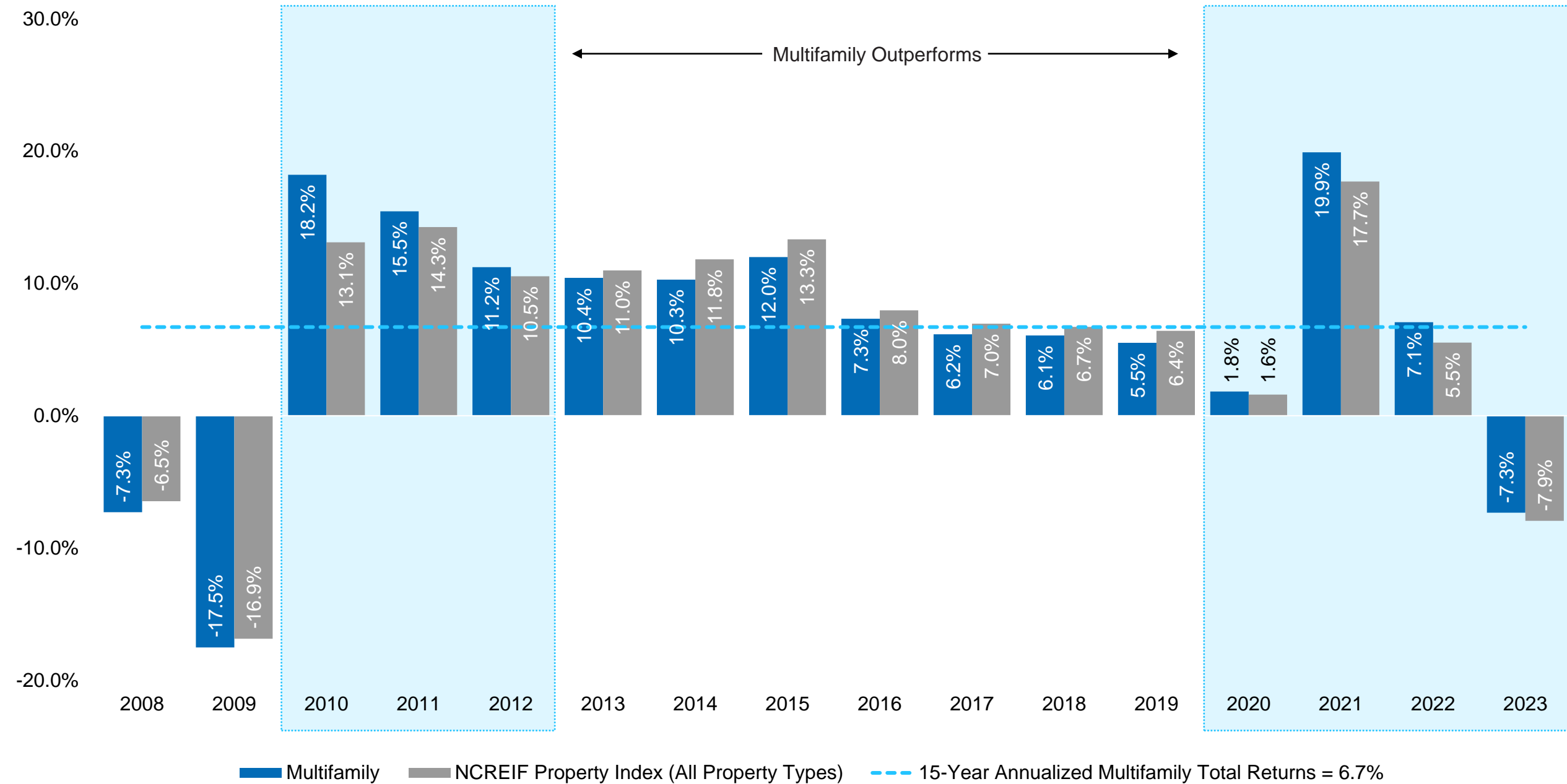


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Multifamily Outperforming; Strong Track Record of Generating Alpha in Recoveries

In the years following the Global Financial Crisis and the COVID-19 outbreak, multifamily proved more resilient to investors as they generated greater returns than other property types. Although still down in 2023, as a more defensive and less volatile asset type, multifamily once again outperformed the NCREIF All Property Index in 2023.

Calendar Year Total Returns



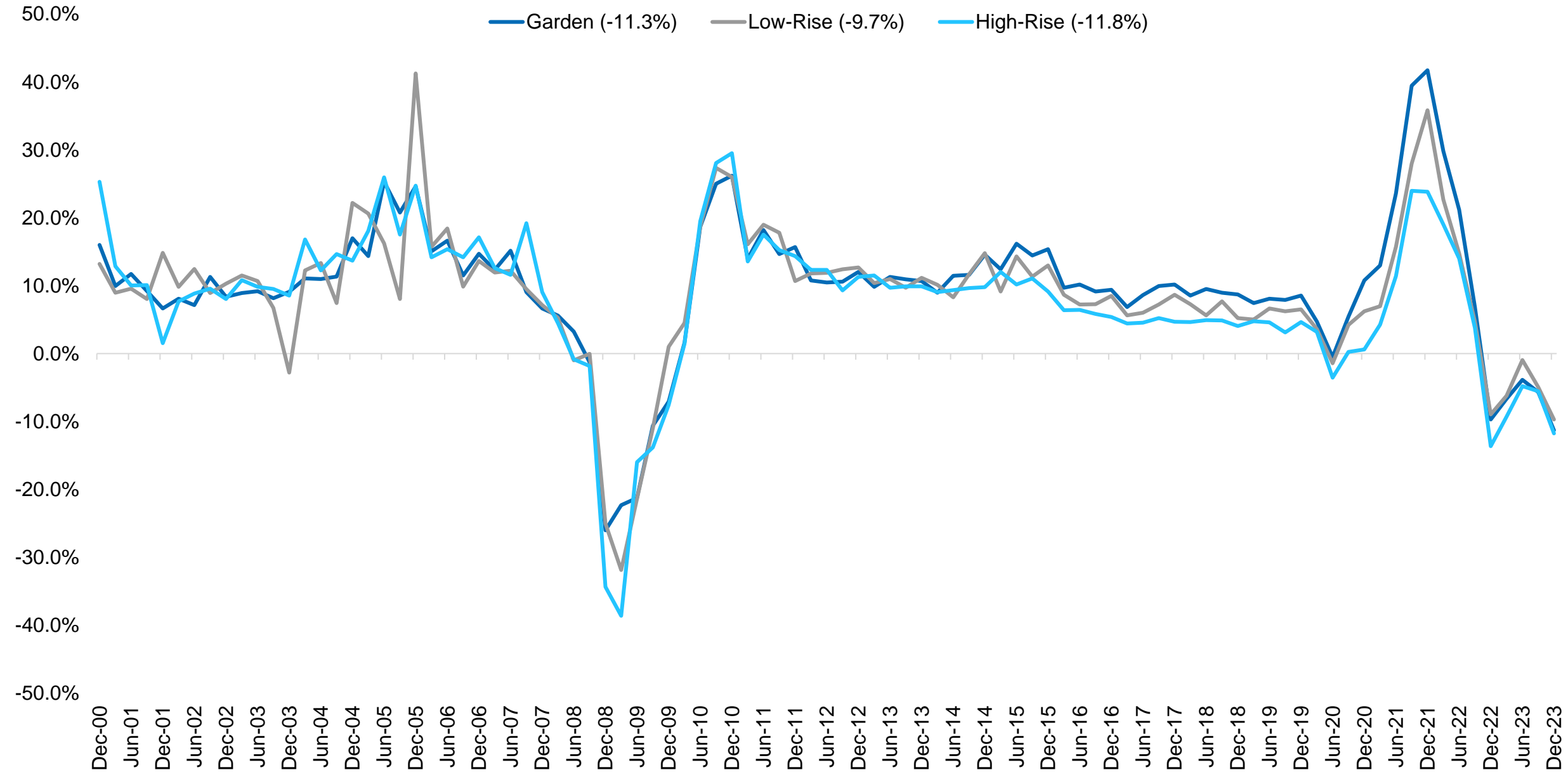
Source: Newmark Research, NCREIF

*3Q23 total returns are annualized

Multifamily Returns Decelerated for a Second Consecutive Quarter in 4Q23

Low-rise properties have been outperforming but just marginally.

NCREIF National Property Index Quarterly Total Return (Percent Annualized)

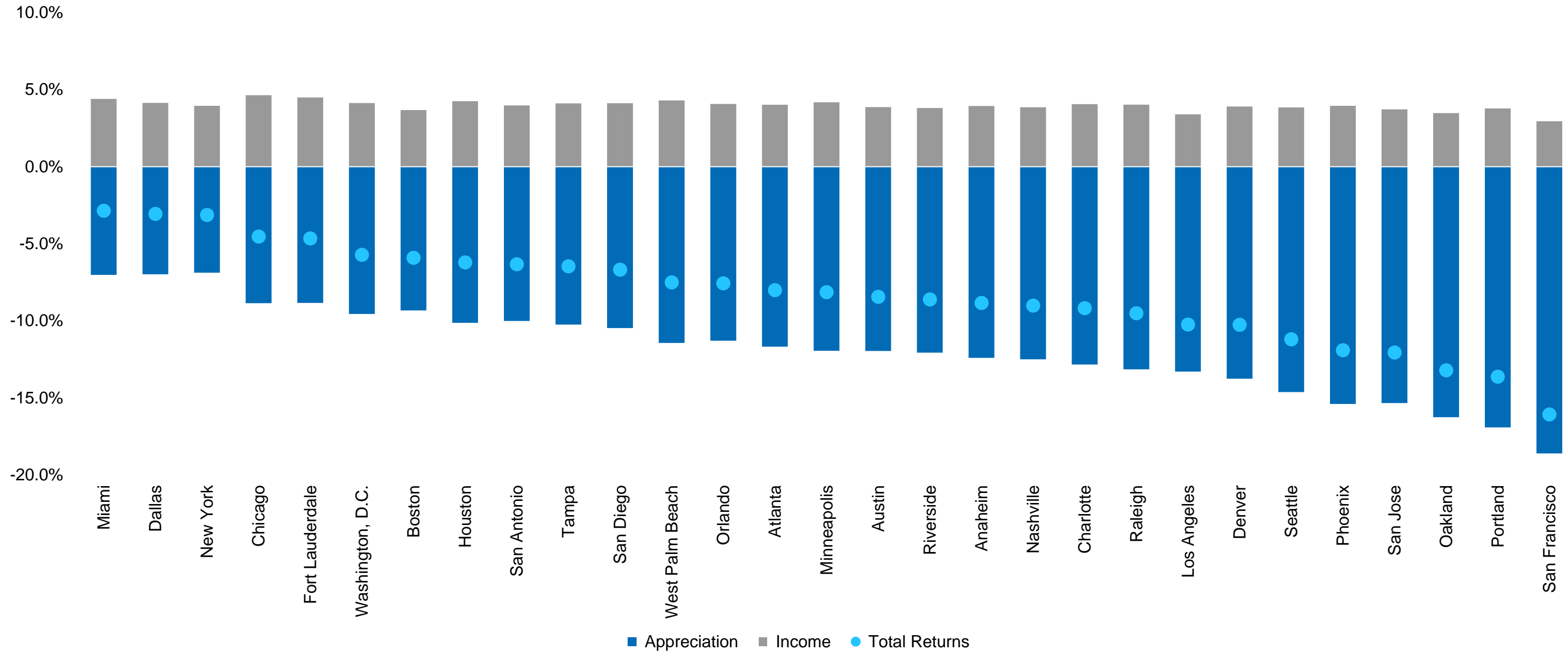


Source: Newmark Research, NCREIF as of 2/13/2024

Income Growth Take Center Stage as Total Returns Turn Negative

No market produced positive total returns over the past 12 months; however, four of the top five markets posted income growth of 4.0% and greater, including Miami, Dallas, Chicago and Fort Lauderdale.

NCREIF Annualized Total Returns by Market as of 4Q23



Source: Newmark Research, NCREIF

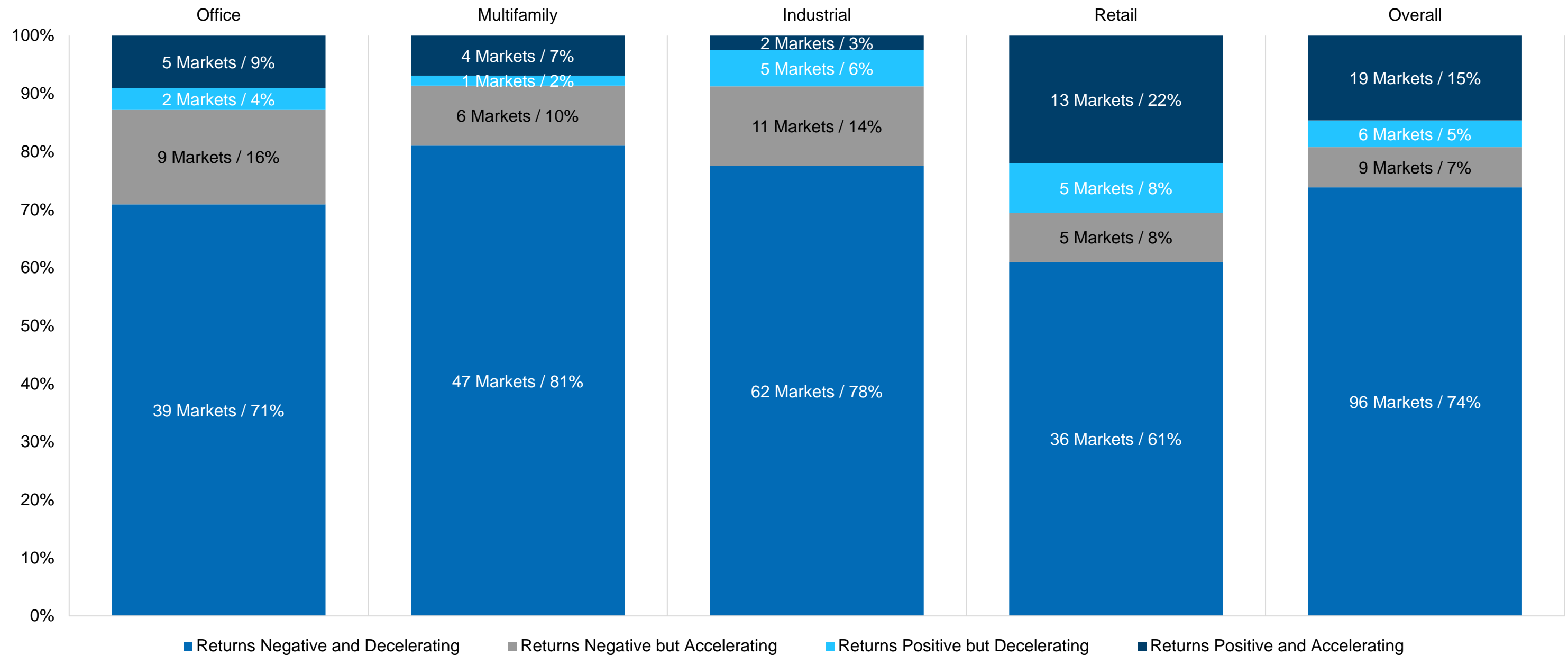


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NCREIF Returns Negative in 81% of Markets in 4Q23, up from 60% in 3Q23

Returns were negative across large majorities of all property types in 4Q23. The multifamily and industrial sectors had the highest share of negative returning markets, followed by office. Retail markets outperformed on the margin, though 61% of markets had negative and decelerating returns in the fourth quarter of 2023. For all of 2023, 80% of markets generated negative total returns. Just 7% of markets generated positive and increasing total returns compared with 2022.

Breakdown of NCREIF CBSA Total Returns: 3Q 2023



Source: NCREIF, Newmark Research as of 2/2/2024

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