3Q23

United States Multifamily Capital Markets Report

NEWMARK

Market Observations

- The **spread between renting and owning accelerated in the third quarter of 2023, increasing 15.4% quarter-over-quarter, representing a $994 savings** in rent. Driven by an increase in home prices and record-level interest rates, renting continues to be significantly more economical than owning a home.

- The third quarter of 2023 saw **demand rise to 91,000 units**, increasing 12.7% quarter-over-quarter. The second and third quarters, which typically represent the strongest leasing activity, had 171,000 units absorbed in 2023, compared with negative 148,000 the prior year. The top three markets for nominal demand year to date were **Houston, Dallas/Ft. Worth and Austin**, which **combined for 30.3% of demand** throughout the US.

- Over **128,000 units were delivered in the third 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 2.1%, **inventory growth** is 70 bps above the long-term average and **is expected to climb to 3.4% throughout 2024**. As of the third quarter of 2023, new supply outpaced demand by 278,000 units. While still negative, this marks a strong improvement from the first quarter of 2023.

- **Quarterly rent growth rose 0.5%, while year-over-year growth contracted to 0.4%.** Annualized rent growth has declined for six consecutive quarters and, as of the third quarter of 2023, is at a 10-quarter low. While rent growth has cooled in recent quarters, as of the third quarter of 2023, **renewals are outperforming new lease trade-outs by 430 basis points**. Northeast and Midwest markets now occupy the top markets for rent growth, led by Newark and Cincinnati at 4.9% and 4.5%, respectively. Growth markets throughout the Sun Belt have experienced the largest year-over-year decline.

- Multifamily **expenses increased 8.1% year-over-year, led by a 25.4% surge in insurance costs.** While insurance growth rose substantially, management and other expenses also saw double-digit year-over-year increases, putting a strain on landlords. Coastal markets, including Charleston, Orlando and Tampa, lead the nation with the greatest increase in year-over-year expenses, due in part to each of these markets experiencing insurance growth of 38.0% or greater.

- **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.

- **$682 billion in multifamily loans mature between 2023 and 2025.** Banks account for 32% of debt maturities in the full 2023-to-2032 period, but they account for 52% of maturities in 2023 to 2025. Debt fund maturities are similarly frontloaded, accounting for 19% of near-term maturities vs. 11% in the full period. The same is true of securitized lending. It is troubling and perhaps not coincidental that these are the lending sectors that have the most reduced activity of late.

- Price dislocation and an elevated interest rate environment continues to hinder the investment sales market, as evidenced by the **61.7% year-over-year decline to $30.1 billion** in quarterly sales volume. **Multifamily remains the largest share of investment sales of all US commercial** real estate property types at 32.4% year-to-date through the third quarter of 2023; however, higher rates paired with lower yields in the property type have resulted in an 7.3% decrease in market share since 2022.

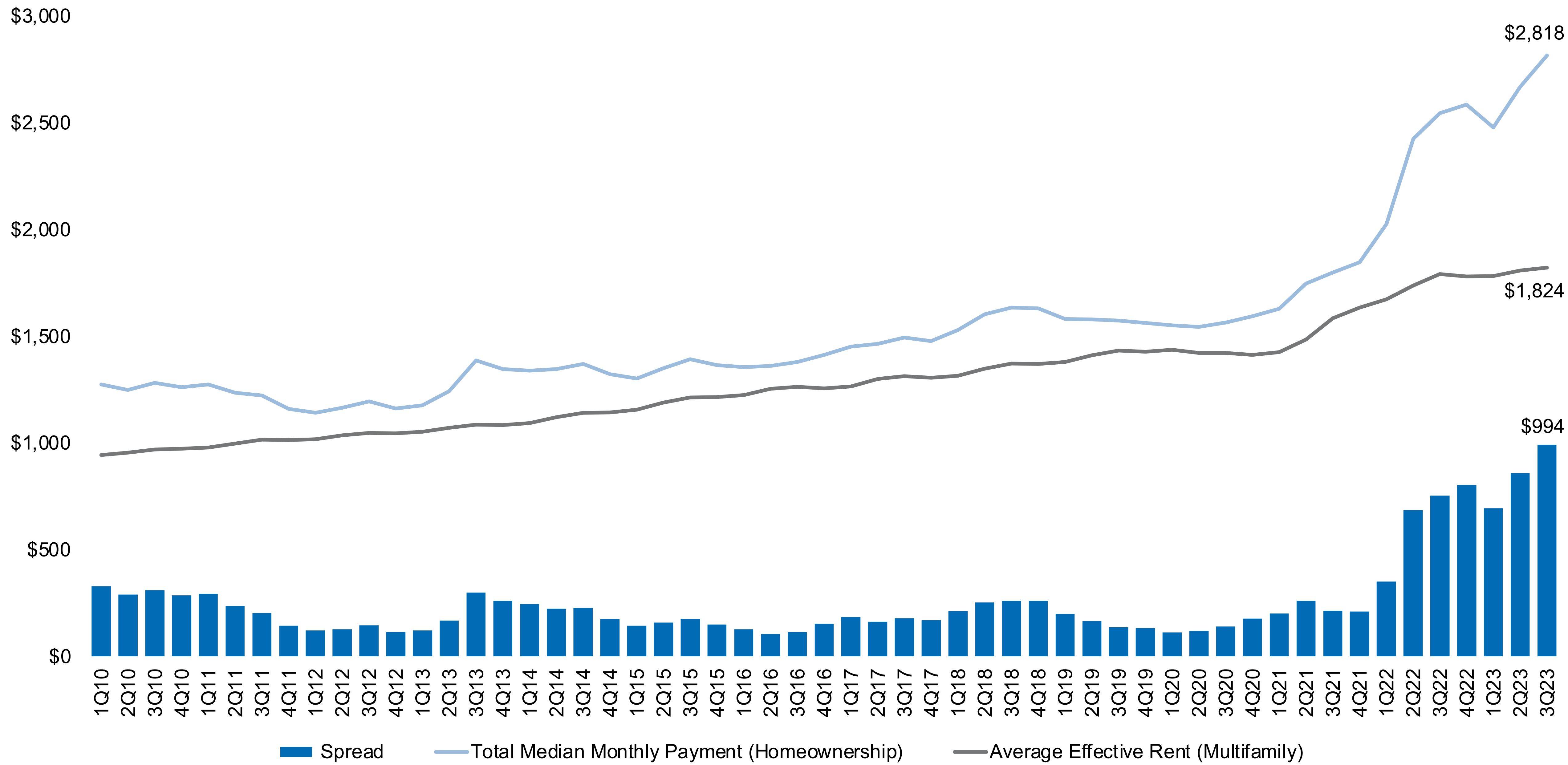
- In the years following the Global Financial Crisis and the COVID-19 outbreak, **multifamily proved more resilient to investors as it generated greater returns than other property types.** Although still down in 2023, as a more defensive and less volatile asset type, multifamily has higher returns than the broader property index thus far in 2023.

Demand Drivers

Spread between Rent vs. Own Accelerates; Renting Significantly More Affordable

Increasing 15.4% from the second quarter of 2023, the spread between homeownership and rental costs grew to $994 in the third 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



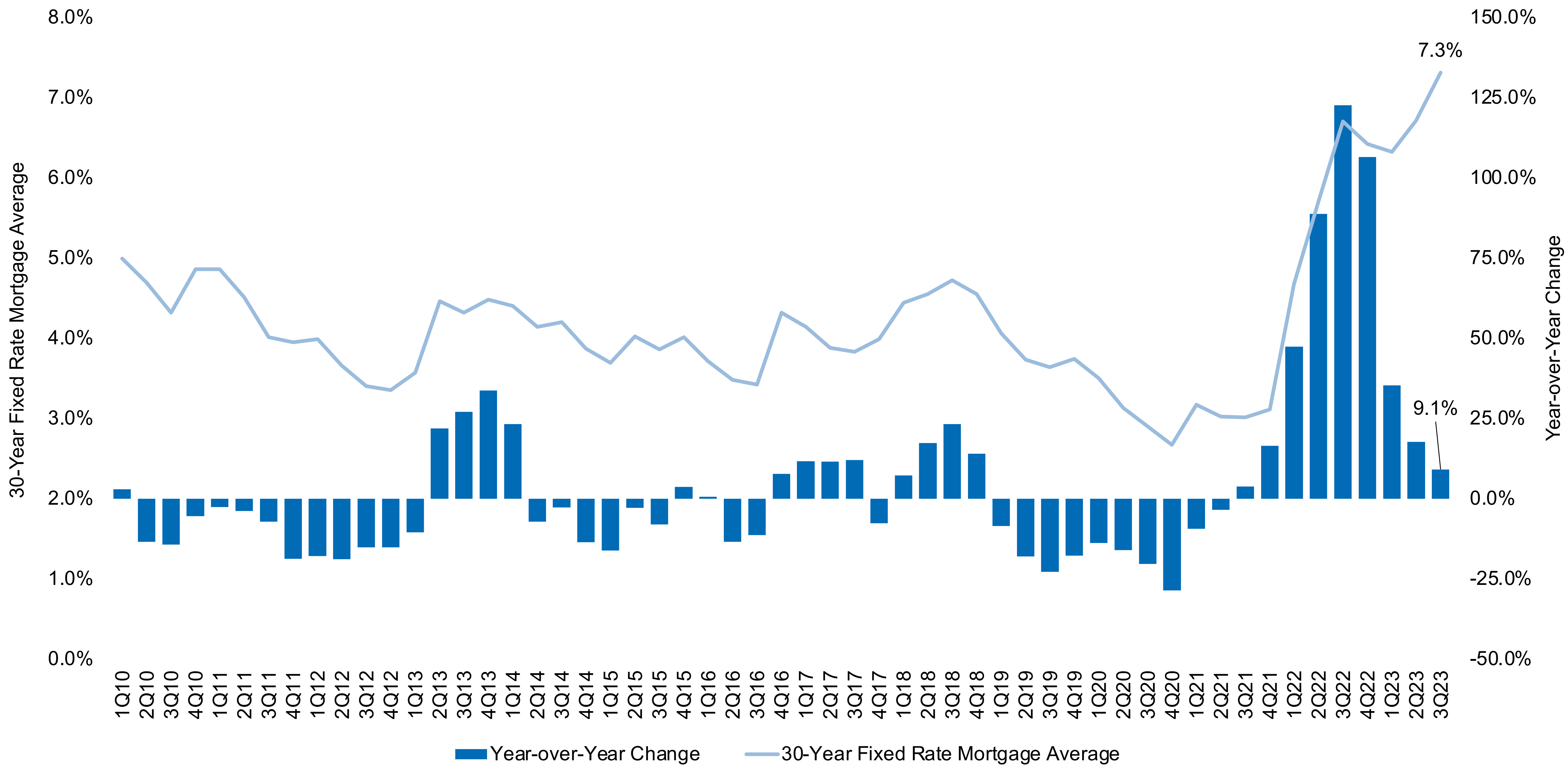
Source: Newmark Research, Atlanta Federal Reserve, RealPage

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

Pace of Growth Slows, but Buyers Remain on Sidelines as Rates Accelerate

Despite a deceleration in year-over-year growth, the 30-year fixed rate mortgage average still increased 9.1% between the third quarters of 2022 and 2023. These elevated interest rates continue to force potential home buyers to seek rental solutions.

30-Year Fixed Rate Mortgage Average



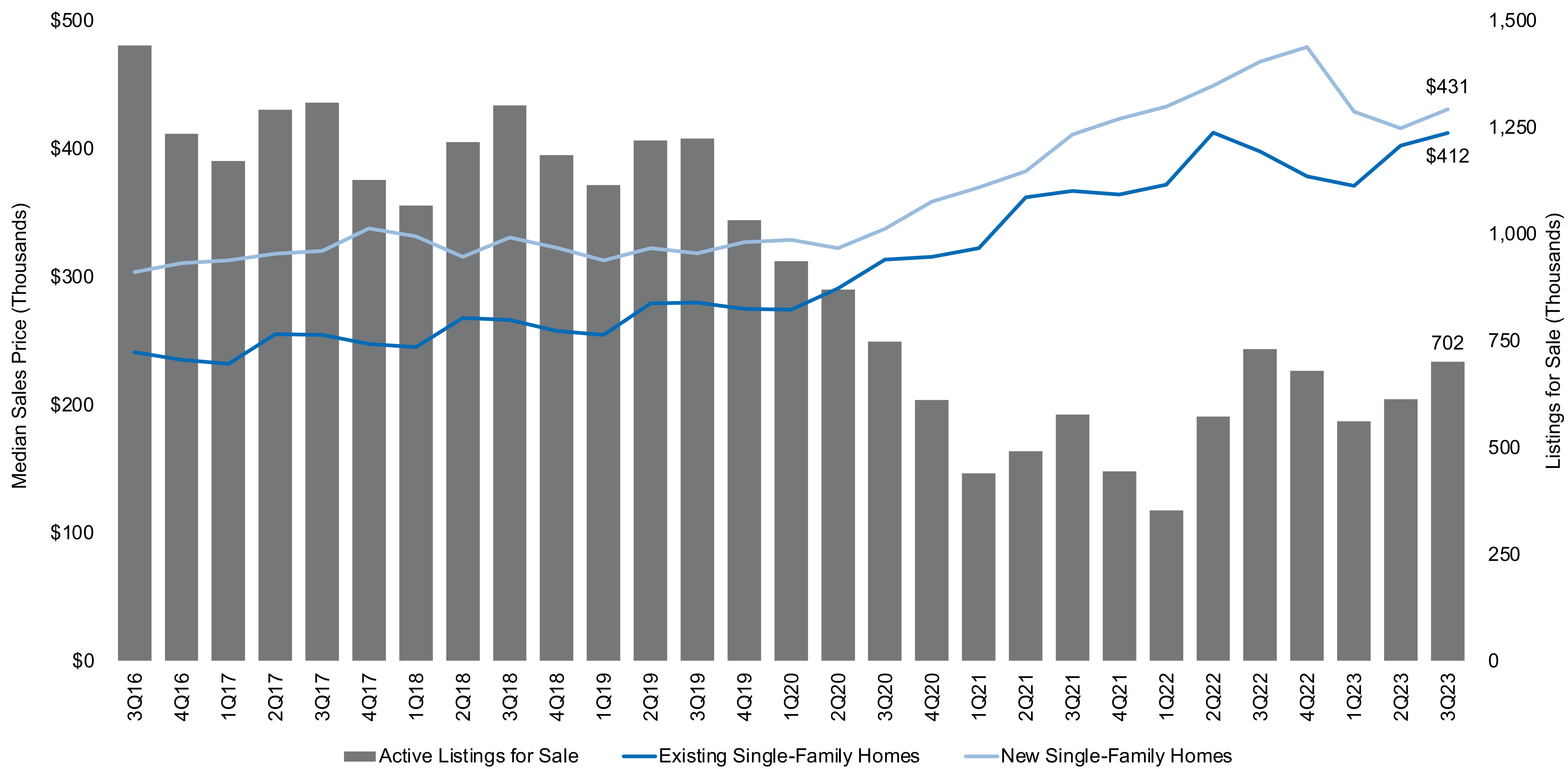
Source: Newmark Research, Federal Reserve Bank of St. Louis, Freddie Mac

Purchase Applications Plummet to Five-Year Low as Mortgage Rates Reach 7%+

Active Listings Increase Quarter-over-Quarter, as Do New and Existing Home Prices

Despite a 14.3% uptick in housing inventory in the third quarter of 2023, new single-family home and existing home prices rose 2.5% and 3.6%, respectively quarter-over-quarter.

Median Sales Price and Housing Inventory

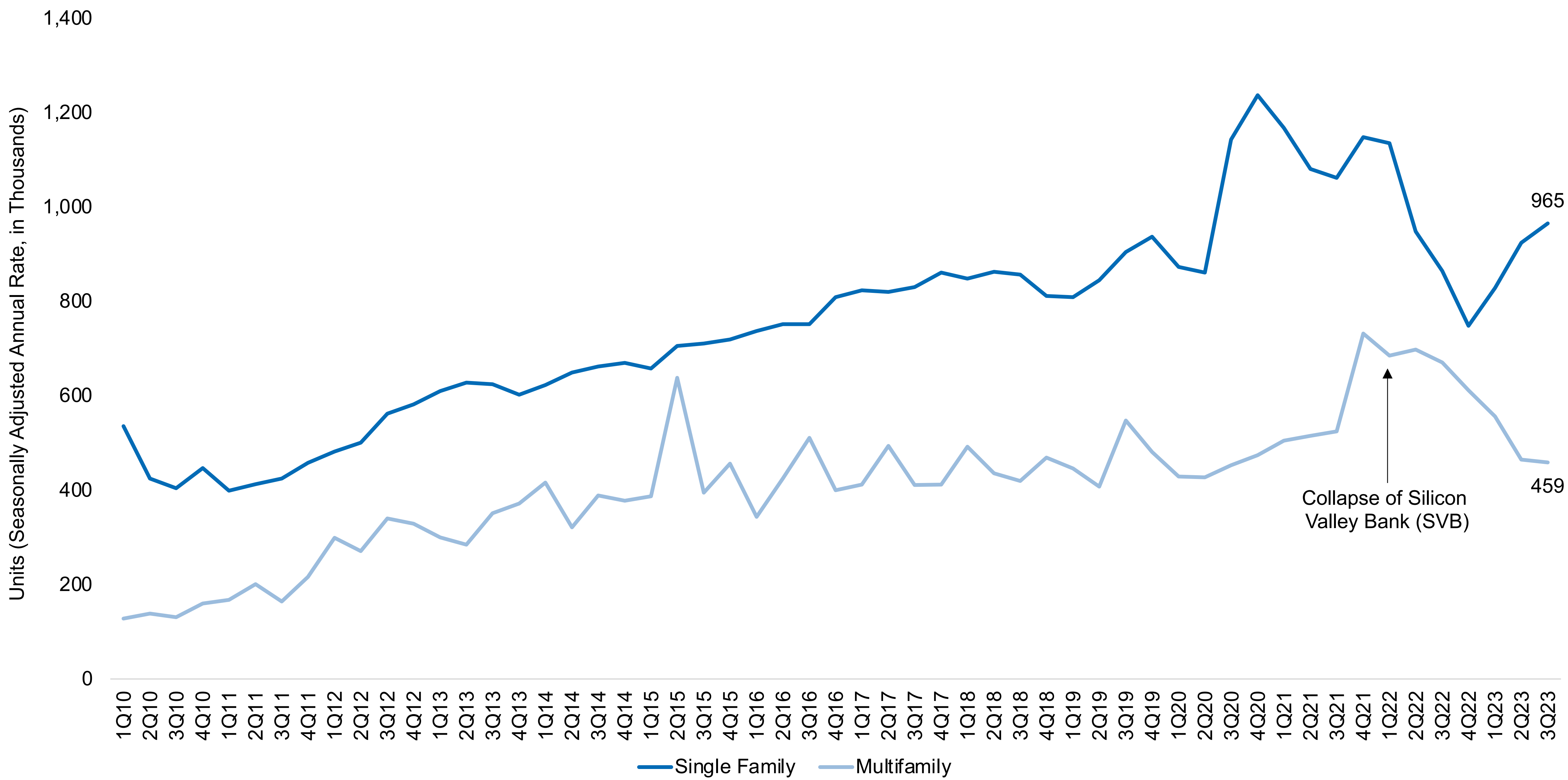


Source: Newmark Research, Federal Reserve Bank of St. Louis, Realtor.com, National Association of Realtors, U.S. Census Bureau

Despite Near-Term Inventory Growth, Housing Likely to Tighten as Permitting Slows

As banks curtail their lending, multifamily properties have experienced a substantial pullback in access to capital. As a result, permitting declined 37.3% from the peak in the fourth quarter of 2021. Single-family permitting has decelerated 22.0% from the peak in the fourth quarter of 2020.

New Privately-Owned Housing Units Authorized in Permit-Issuing Places

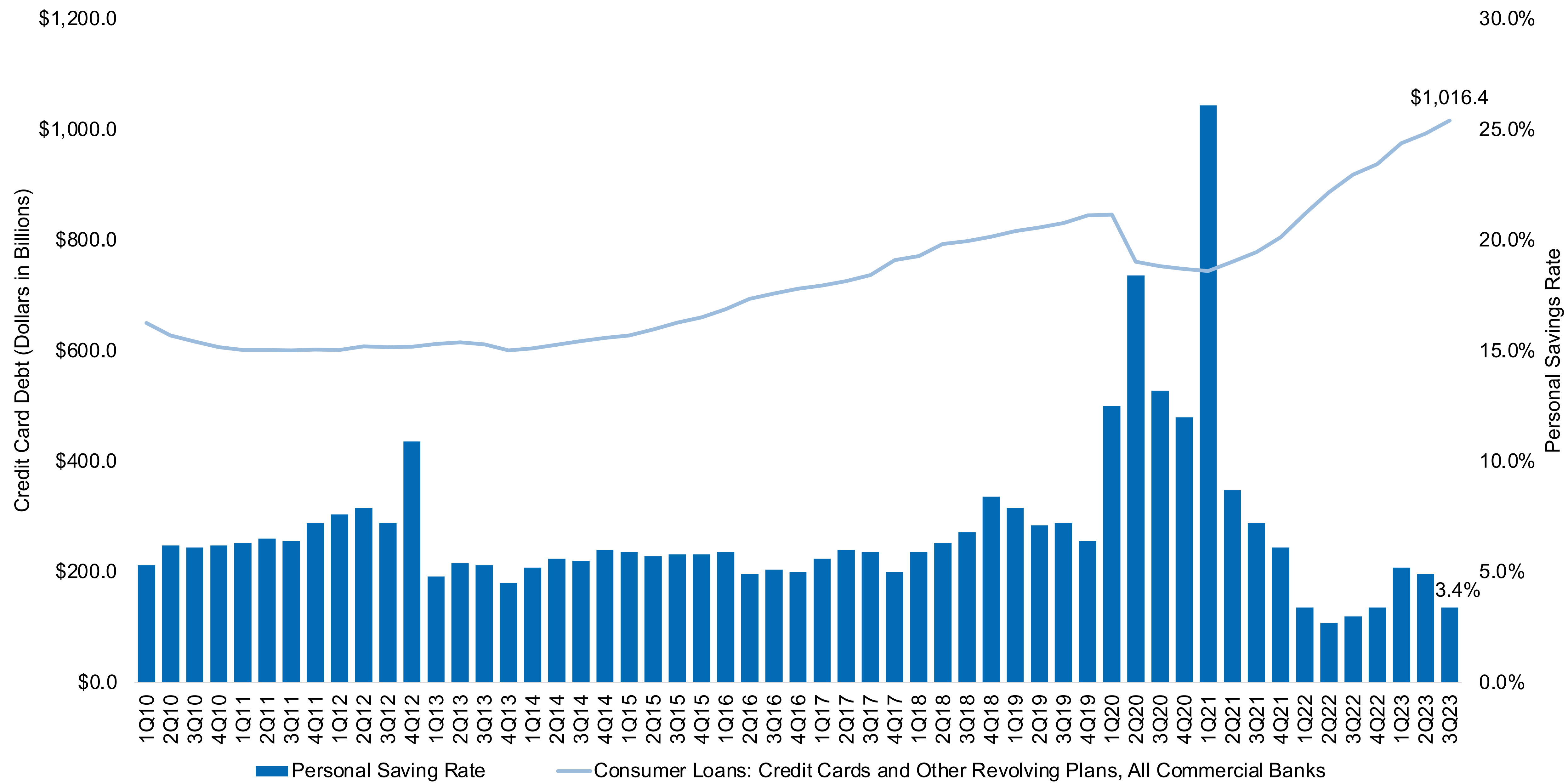


Source: Newmark Research, Federal Reserve Bank of St. Louis, U.S. Census Bureau

Consumers Have More Debt and Less Savings, 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

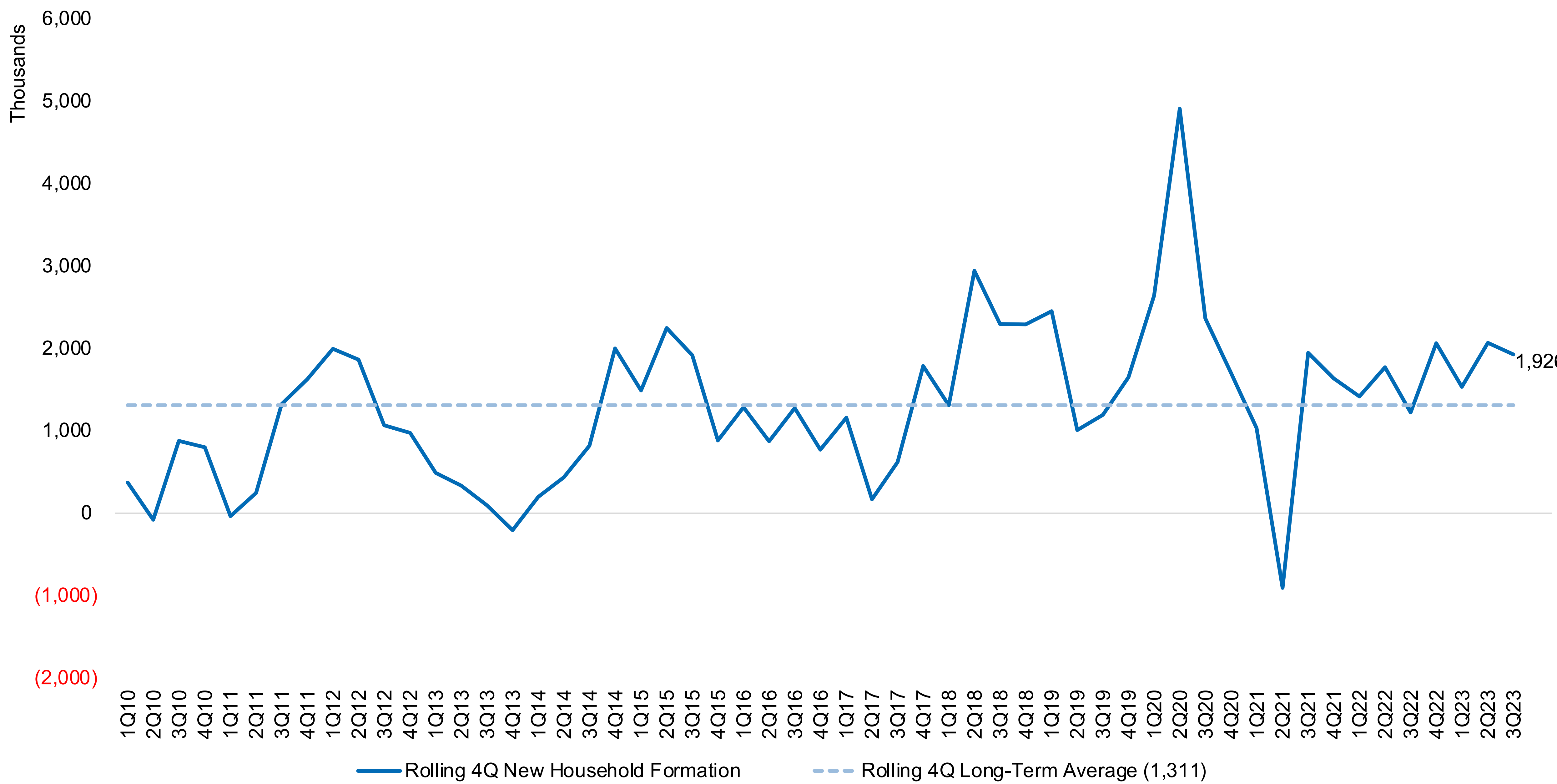


Source: Newmark Research, Federal Reserve Bank of St. Louis, U.S. Bureau of Economic Analysis, Board of Governors of the Federal Reserve System

Strong Household Formation Boosts Demand for Housing

As of the third quarter of 2023, rolling four-quarter new household formation totaled just over 1.9 million, representing a 47.0% increase over the long-term average.

Household Formation



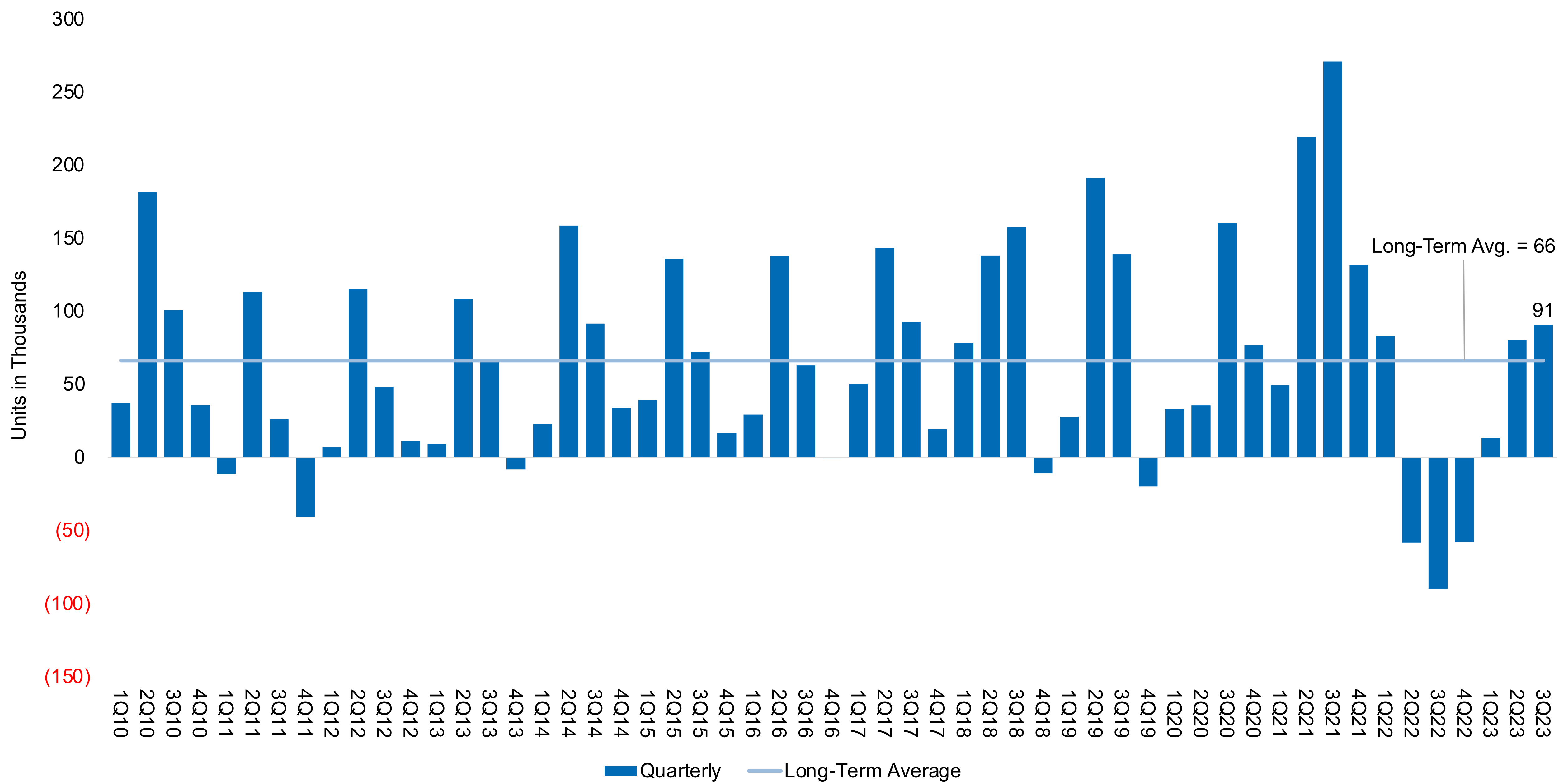
Source: Newmark Research, Federal Reserve Bank of St. Louis, U.S. Census Bureau

Leasing Market

Demand Accelerates in 3Q23; Seasonal Leasing Rebounds after Dismal 2022

The third quarter of 2023 saw demand rise to 91,000 units, increasing 12.7% quarter-over-quarter. The second and third quarters, which typically represent the strongest leasing activity, had 171,000 units absorbed in 2023, compared to negative 148,000 the prior year.

Quarterly Demand



Source: Newmark Research, RealPage

**Demand is defined as the change in occupied units.*

Strongest Absorption Coming from the South; Texas Sweeps Top Three Spots

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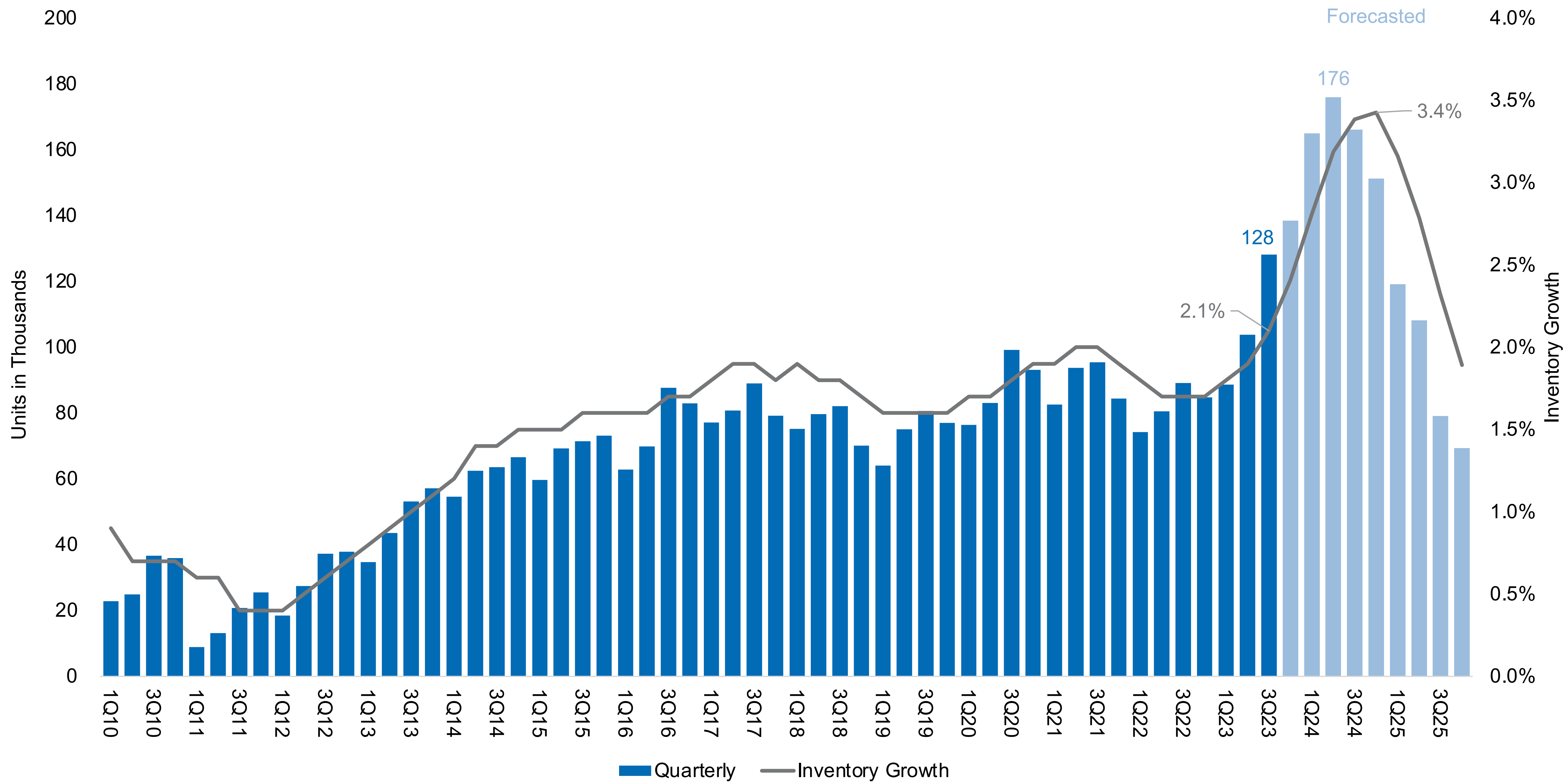
New Supply Rises to All-Time Quarterly High; Inventory Growth Set to Surge in 2024

Over 128,000 units were delivered in the third 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 2.1%, inventory growth is 70 bps above the long-term average, and is expected to climb to 3.4% throughout 2024.

Quarterly New Supply

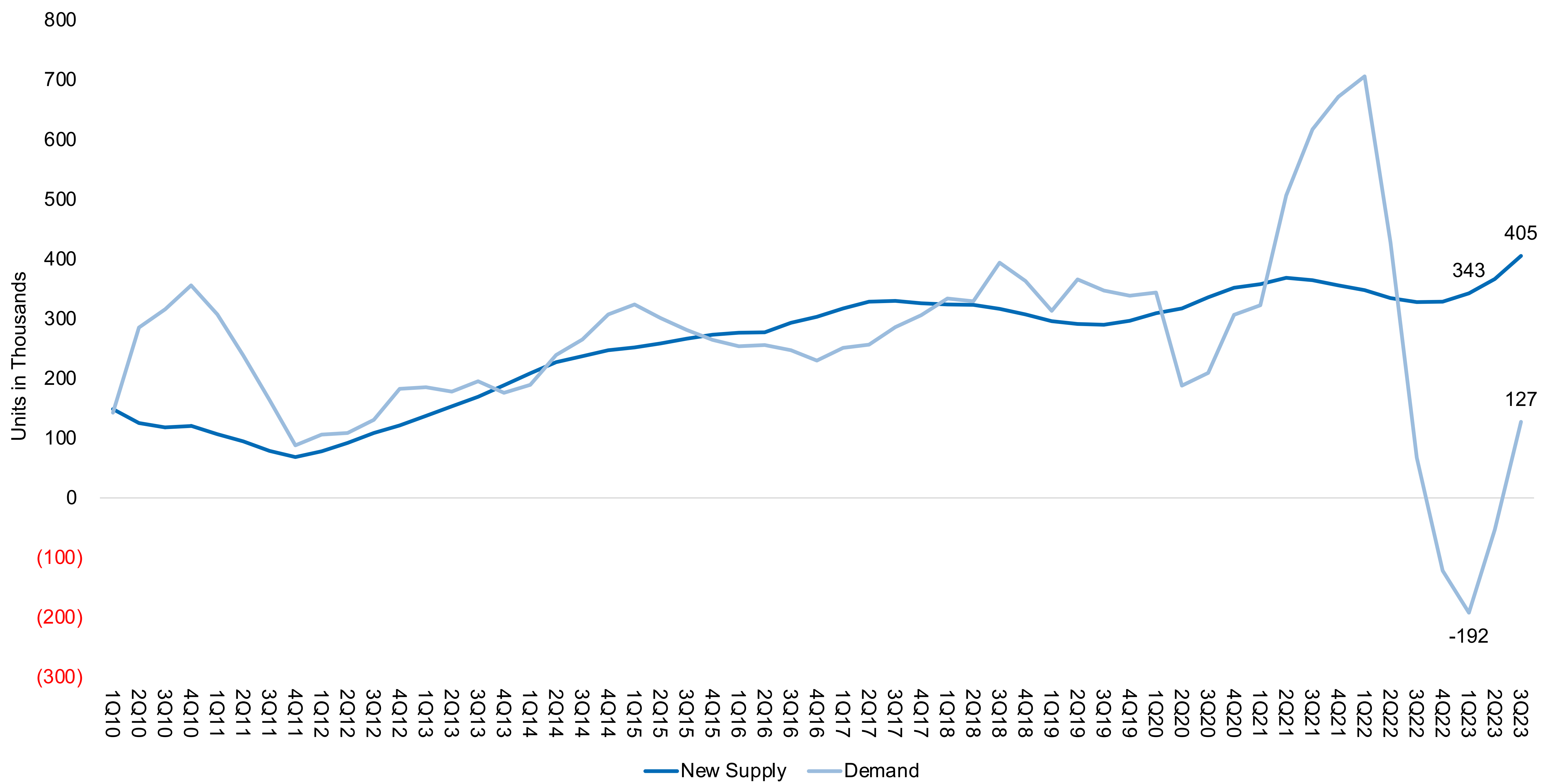


Source: Newmark Research, RealPage

New Supply Continues to Outpace Demand, Albeit Improvement Year-to-Date

For most of the previous decade, there was an equilibrium between new supply and demand. Following the onset of COVID-19, demand strongly outpaced new supply; however, that has been reversing as of late, given the robust pipeline. As of the third quarter of 2023, new supply outpaced demand by 278,000 units. While still negative, this marks a strong improvement from the first quarter of 2023.

Rolling Four Quarter

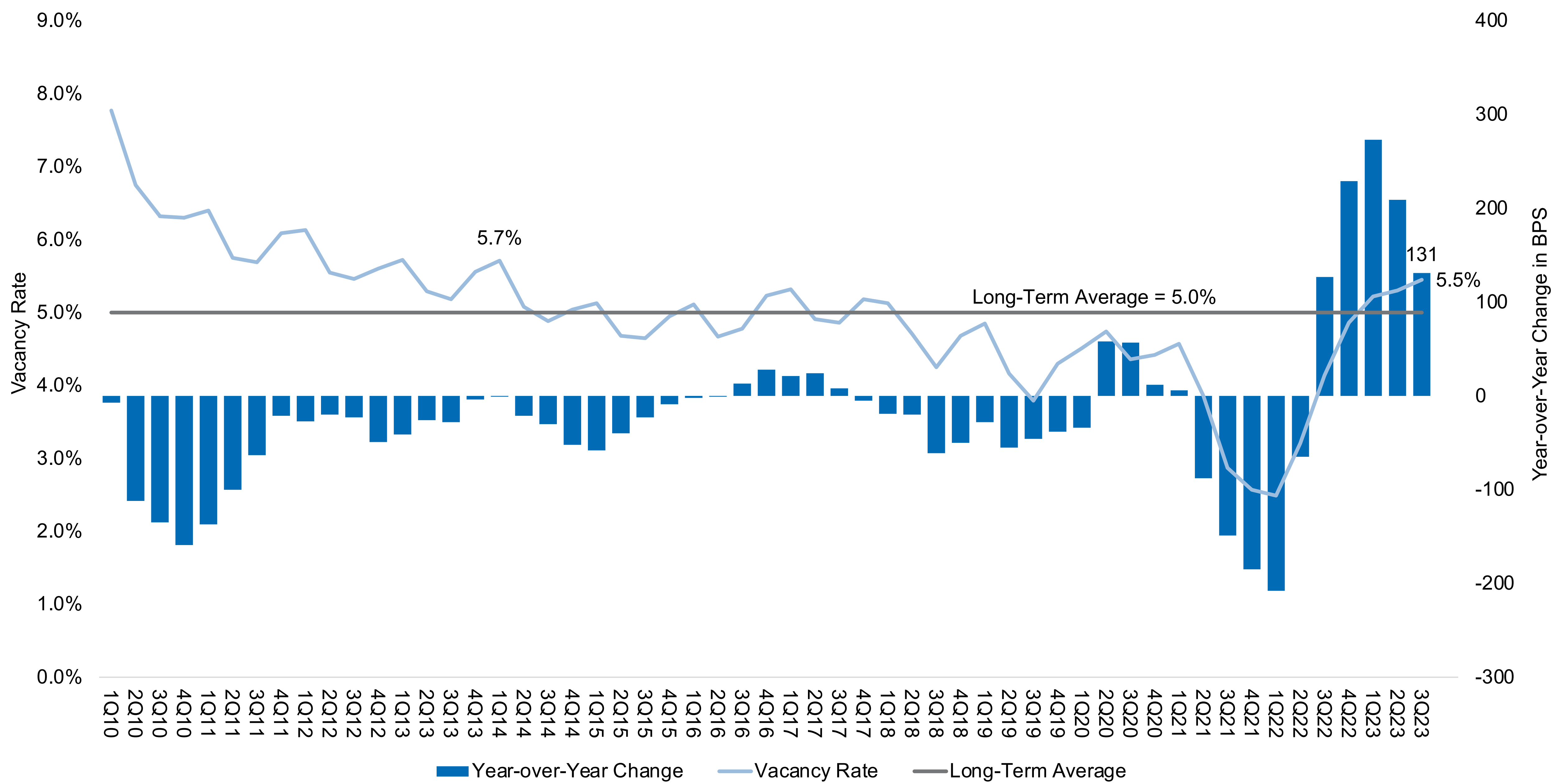


Source: Newmark Research, RealPage

Vacancy Trends Upward for Fifth Consecutive Quarter; Highest Rate Since 2014

Year-over-year, vacancies rose 131 basis points to 5.5% nationally. The current vacancy rate is the highest rate since the first quarter of 2014.

Quarterly Vacancy Rate

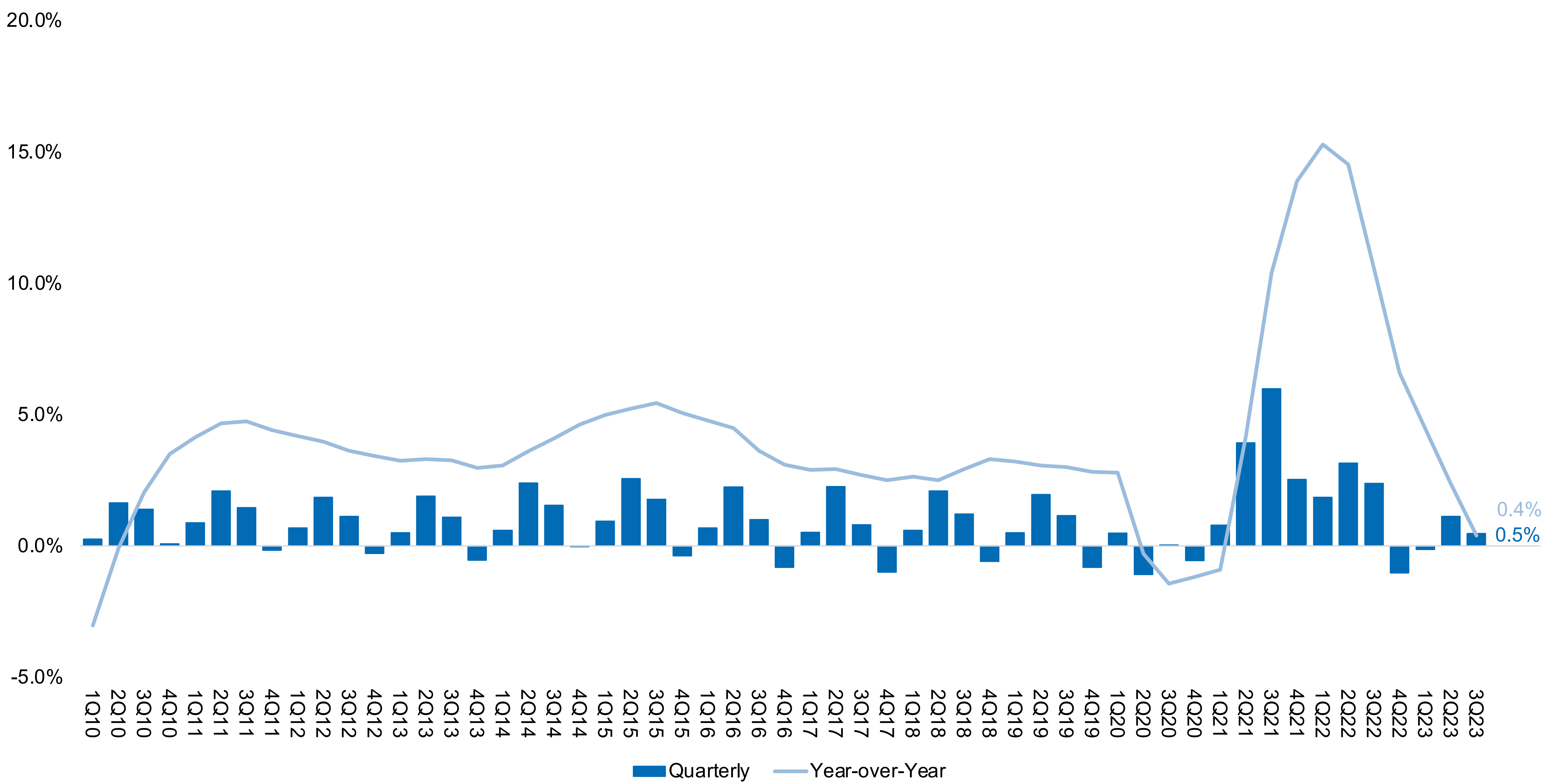


Source: Newmark Research, RealPage

YOY Rent Growth Drops to 10-Quarter Low as New Supply Pressures Prevail

Quarterly rent growth rose 0.5%, while year-over-year growth contracted to 0.4%. Annualized rent growth has declined for six consecutive quarters and, as of the third quarter of 2023, is at a 10-quarter low.

Effective Rent Growth



Source: Newmark Research, RealPage

Relative Strength in Renewals and Class C Rent Growth

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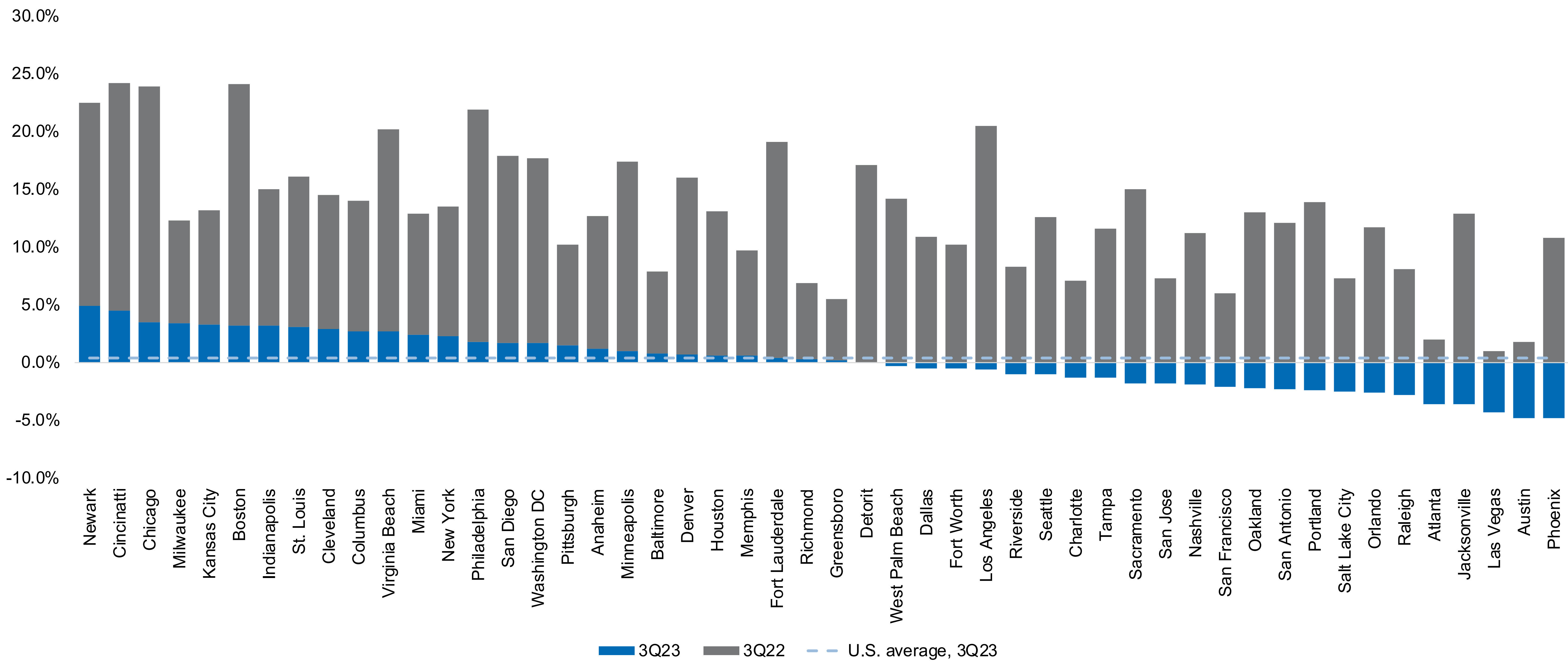
Rent Growth Decelerates Universally; High-Growth Sun Belt Markets Cool

Over the past 12 months, effective rent growth has declined 1,015 basis points. Northeast and Midwest markets now occupy the top markets for rent growth, led by Newark and Cincinnati at 4.9% and 4.5%, respectively. 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

Expenses Continue to Rise, Putting Pressure on Operations

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Expenses Rising Everywhere, Primarily Driven by Insurance

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3Q23 US MULTIFAMILY CAPITAL MARKETS REPORT

Debt Capital Markets

Multifamily Debt Originations Down 55% Year-Over-Year in through 3Q23

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Monthly Originations Remain Soft; Running Consistently below Pre-Pandemic Level

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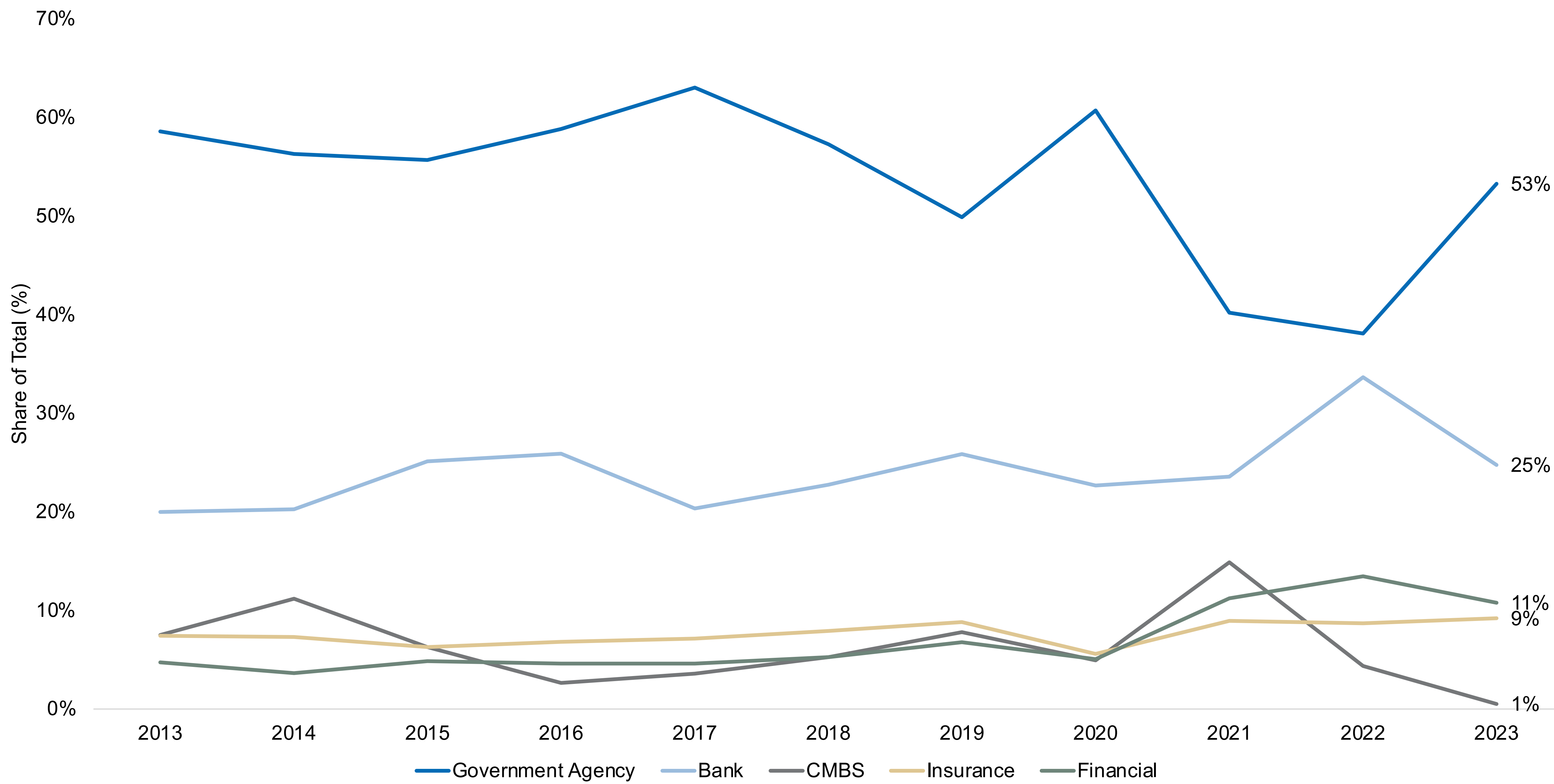
GSE Share of Multifamily Finance Has Increased Sharply in 2023

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 10/24/2023
* Excludes construction finance. Data is based preliminary loan sums, which are subject to future revision – potentially significant.

$682 Billion in Multifamily Loans Mature between 2023 and 2025

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Upcoming Maturities Heavily Exposed to Bubble-Era Loans

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Multifamily Debt Costs are Rising Sharply, Playing Catch Up with Corporate Bonds

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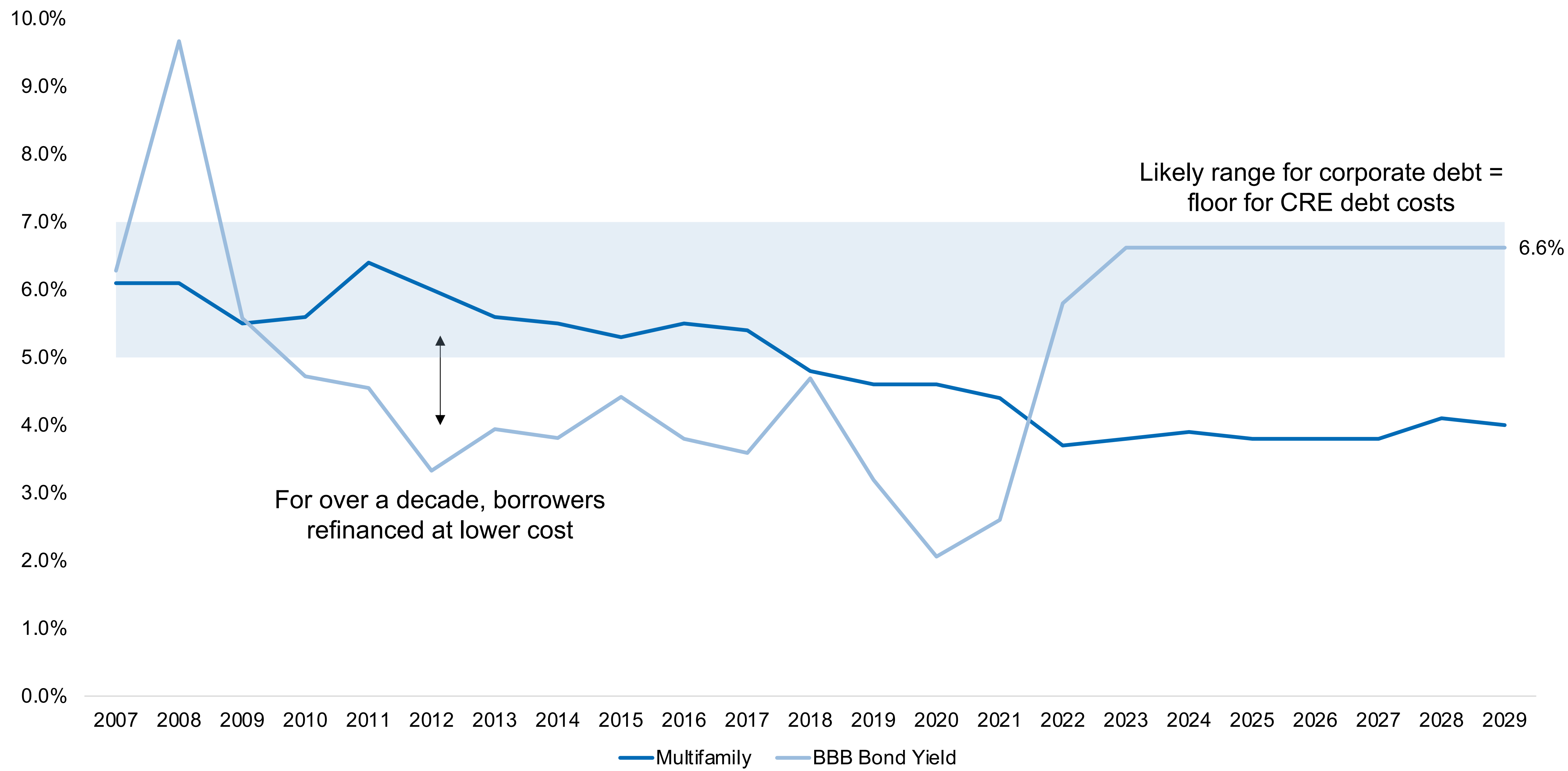
Multifamily Borrowers Face Starkly Higher Costs as Loans Mature

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 10/24/2023

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

Floating Rate Multifamily Maturities Are in Trouble

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Debt Service Risk Will Rise Dramatically as Fixed Rate Loans Face Market Rates

Falling Asset Values Means That Some Loans Are Already Underwater

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$1.6T of Outstanding CRE Debt is Potentially Troubled, $792B Maturing in ’23-’25

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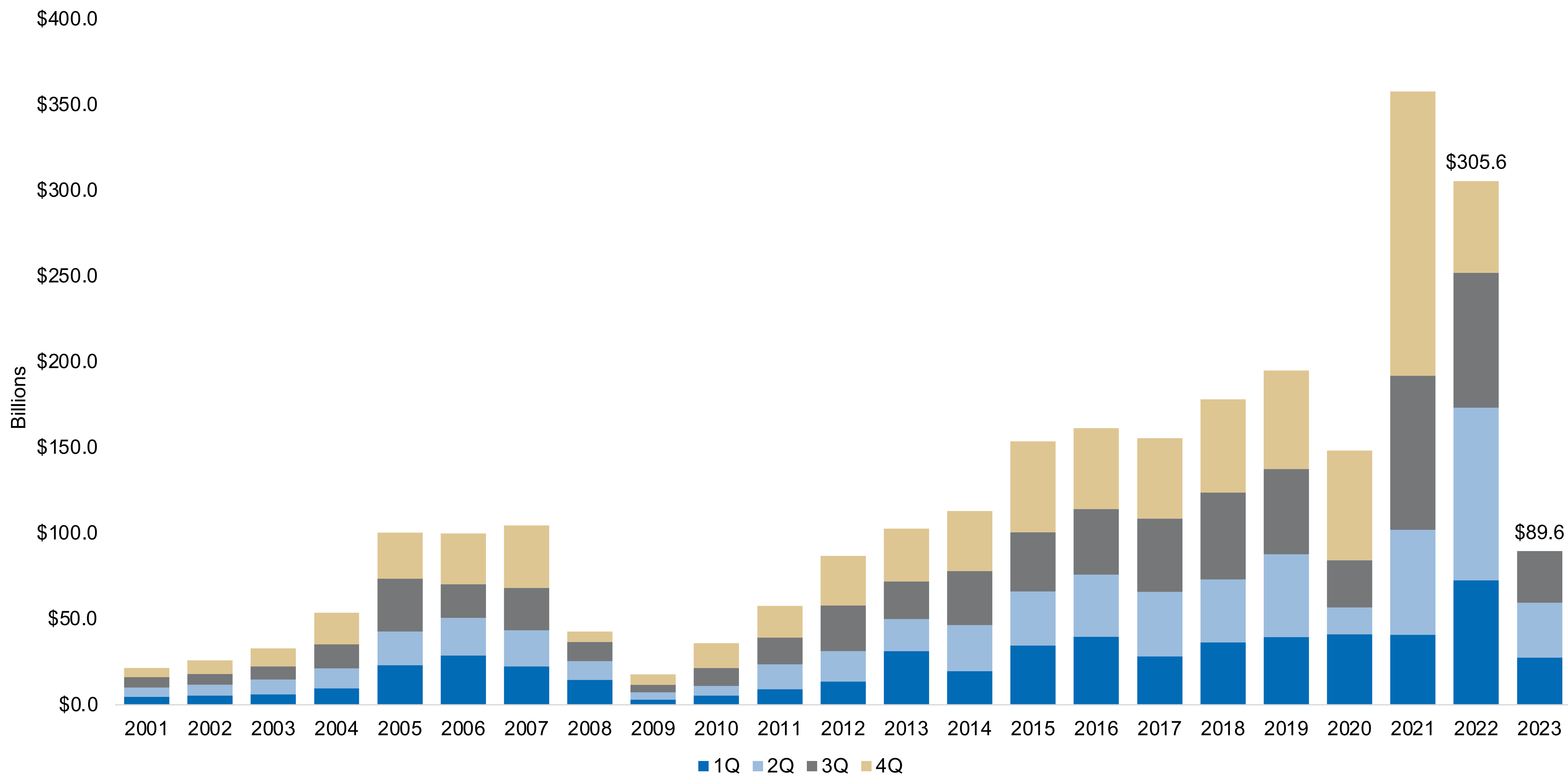
Potential Multifamily Distress Concentrated in Bank and Debt Fund Lending

Investment Sales

Sales Volume Plunges 61.7% Year-over-Year as Prices Continue to Reset

Price dislocation and an elevated interest rate environment continues to hinder the investment sales market, as evidenced by the 61.7% year-over-year decline to $30.1 billion in quarterly sales volume.

Sales Volume

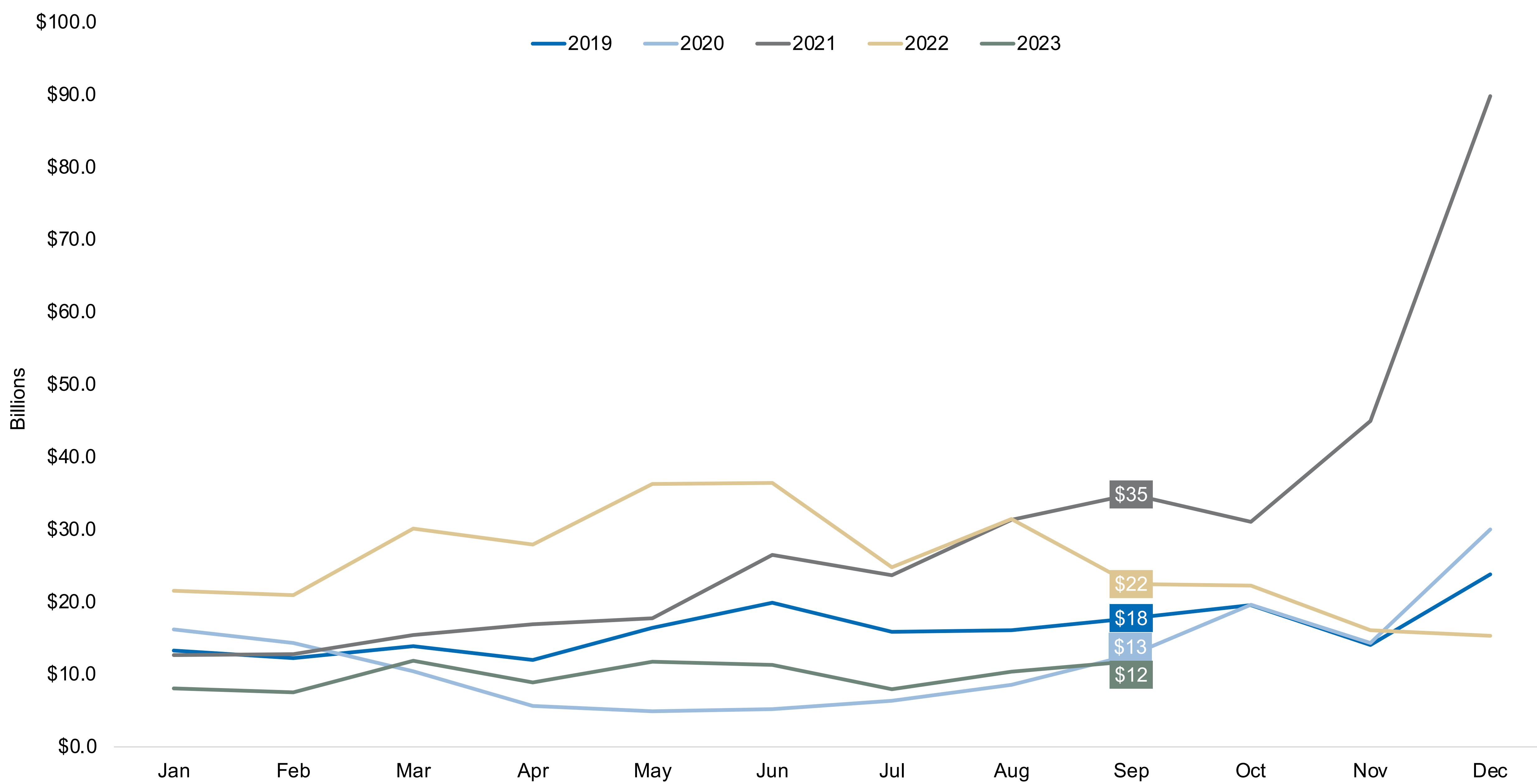


Source: Newmark Research, MSCI Real Capital Analytics

Monthly Sales Volume Remains Depressed Comparatively

Sales volume averaged $10.0 billion in the third quarter of 2023, with September volumes increasing to $11.8 billion. The September volume is the highest monthly sum since December 2022.

Sales Volume by Month



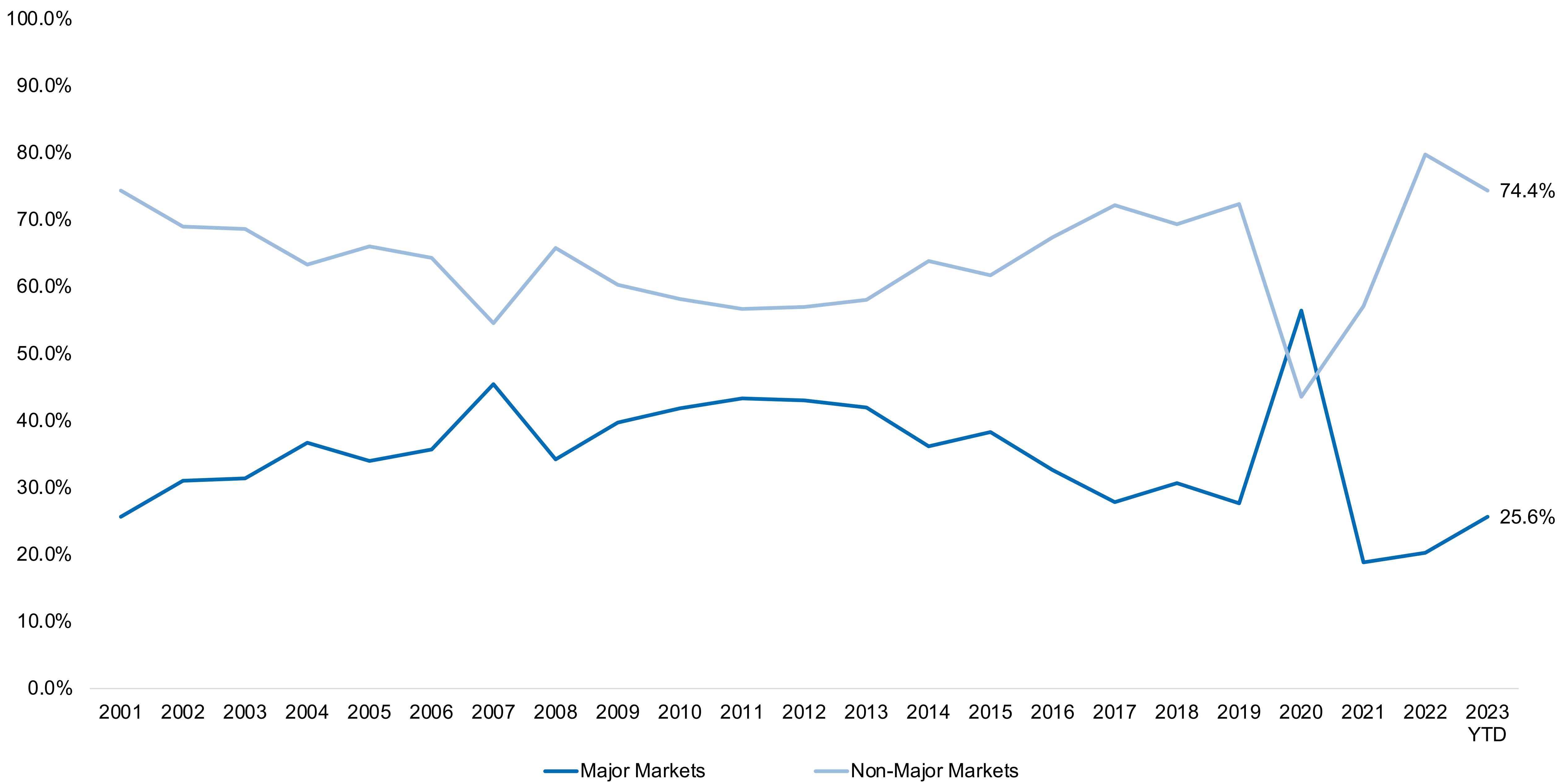
Source: Newmark Research, MSCI Real Capital Analytics

Market Share Slides as Higher Rates & Relatively Lower Yields Have Slowed Activity

Major Markets Increases; Investors Still Overwhelmingly Place into Non-Majors

Allocation to major markets has experienced a 5.3% increase from year-end 2022. While major markets have ticked up in the first half of 2023, non-major markets continue to attract the bulk of volume.

Multifamily Market Share



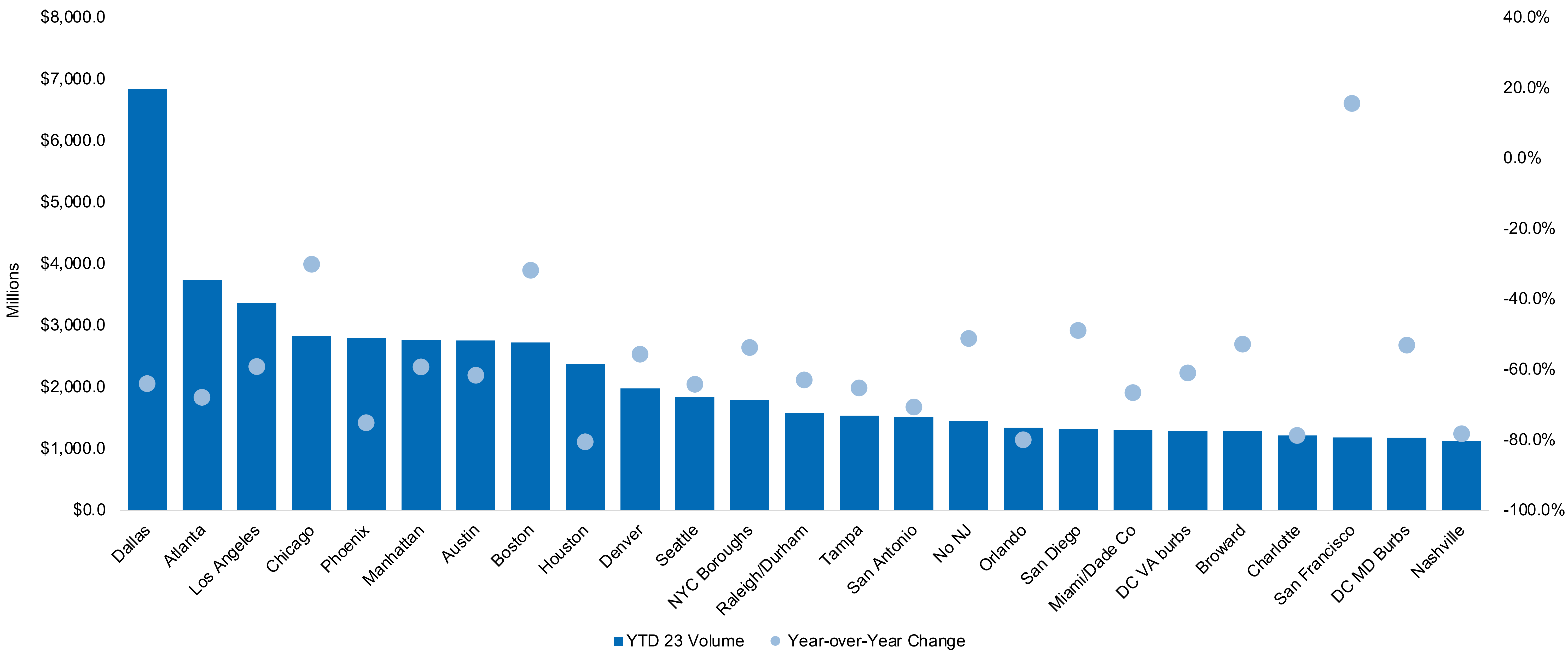
Source: Newmark Research, MSCI Real Capital Analytics

**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

Through the first three quarters of 2023, Dallas and Atlanta have been the top recipients of capital. This trend is not new as the fast-growing Sun Belt gateway markets have been the top markets for multifamily sales volume each year since 2021.

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*

Pricing & Returns

Larger Deals Experiencing Most Evident Reset in Pricing

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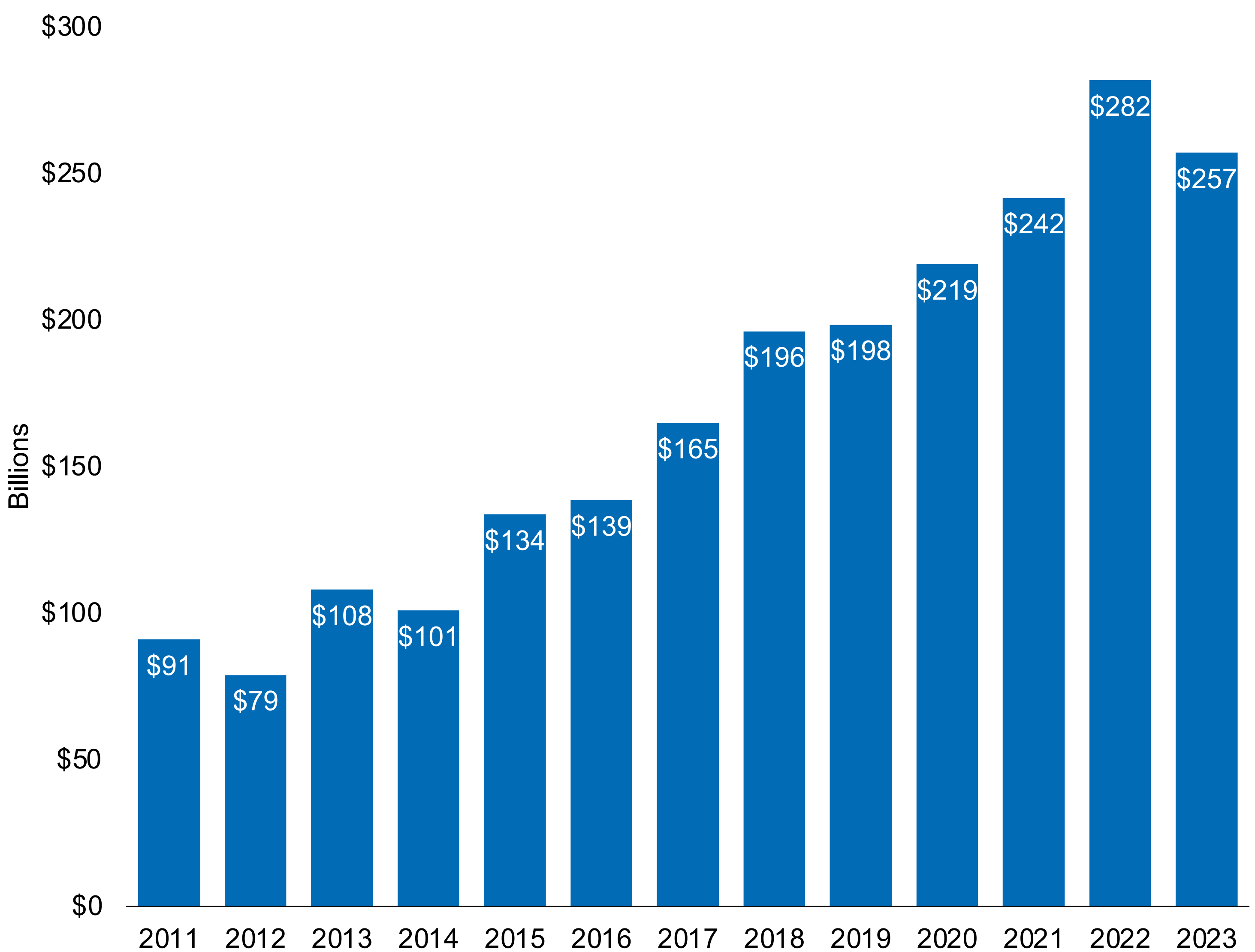
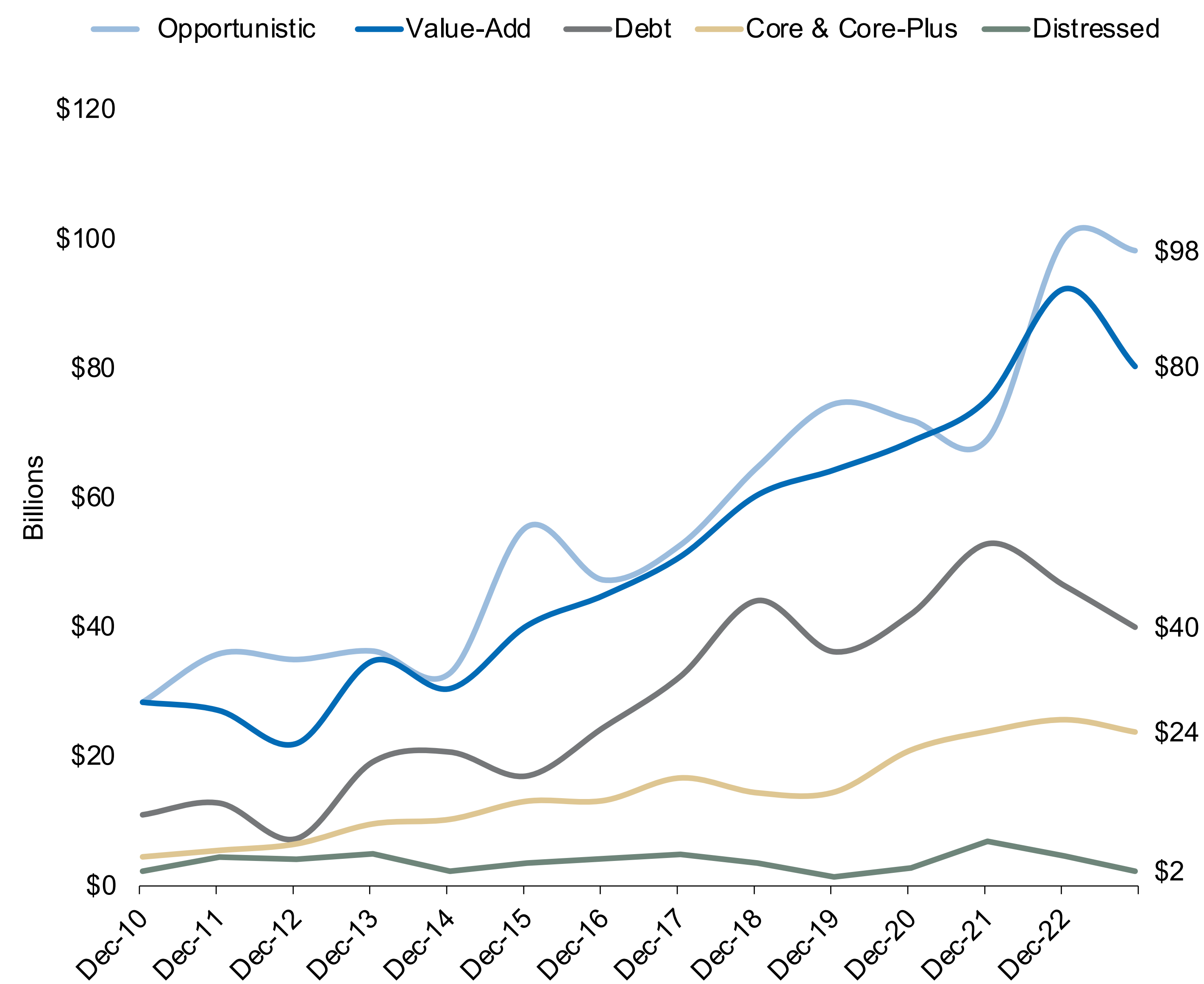
Private Equity Dry Powder Has Declined; Still Elevated Overall

Dry powder at closed-end funds has declined 9% since the start of the year. This is mostly due to revisions to previous estimates rather than negative developments in the third quarter of 2023. The revised picture shows that debt fund dry powder continues to moderate, while both value-add and opportunistic funds continue to have above-trend levels of dry powder, despite a sharp decline for the former since year-end 2022.

Dry Powder – Closed-End Funds



Dry Powder by Strategy*



Source: Newmark Research, Preqin as of 11/8/2023
*Not shown: Fund of funds, co-investments, and secondaries strategies

Dry Powder Heavily Biased Towards Residential

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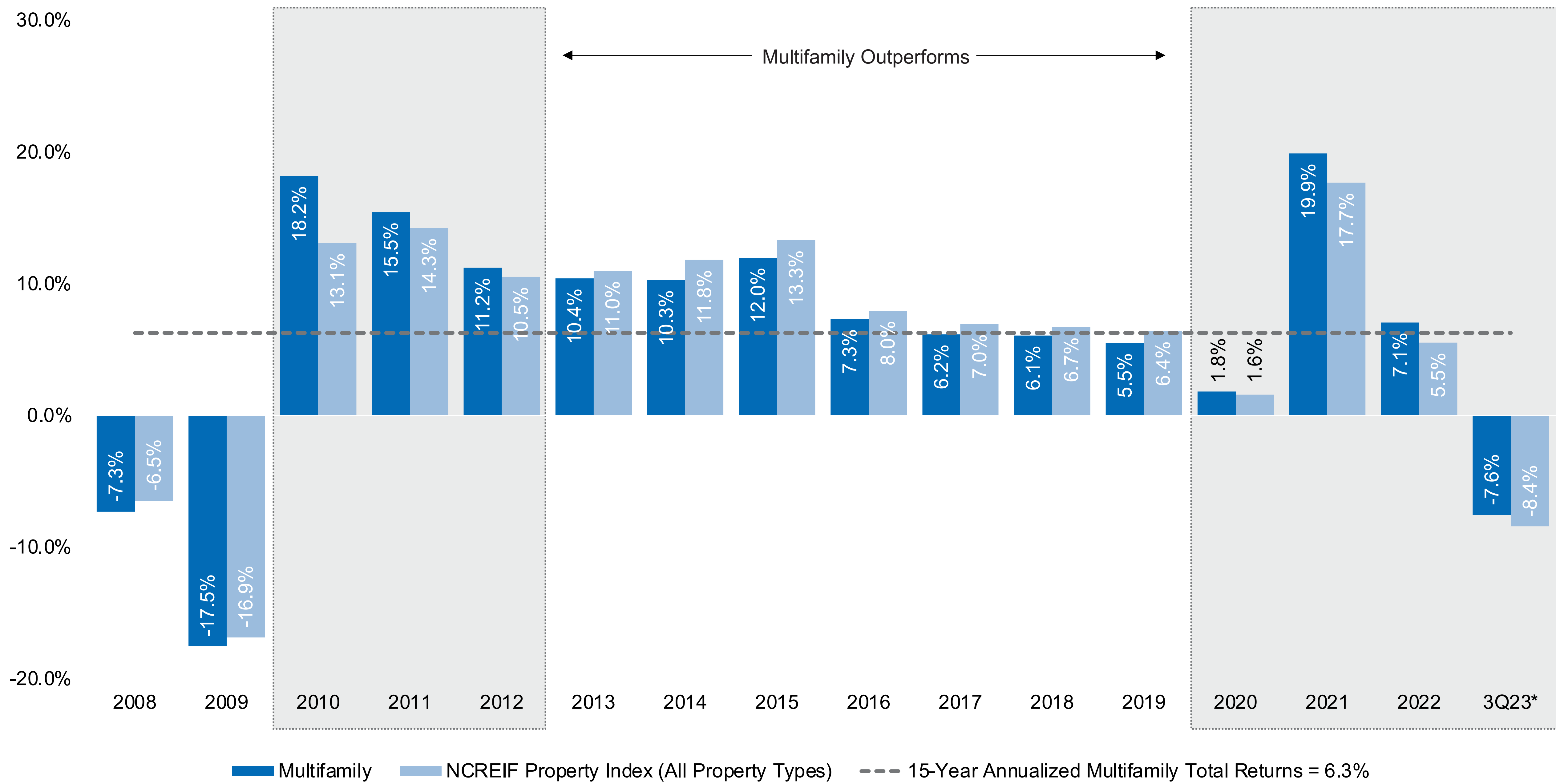
Multifamily Outperforming; Strong Track Record of Generating Alpha in Recoveries

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 has higher returns than the broader property index thus far in 2023.

Calendar Year Total Returns



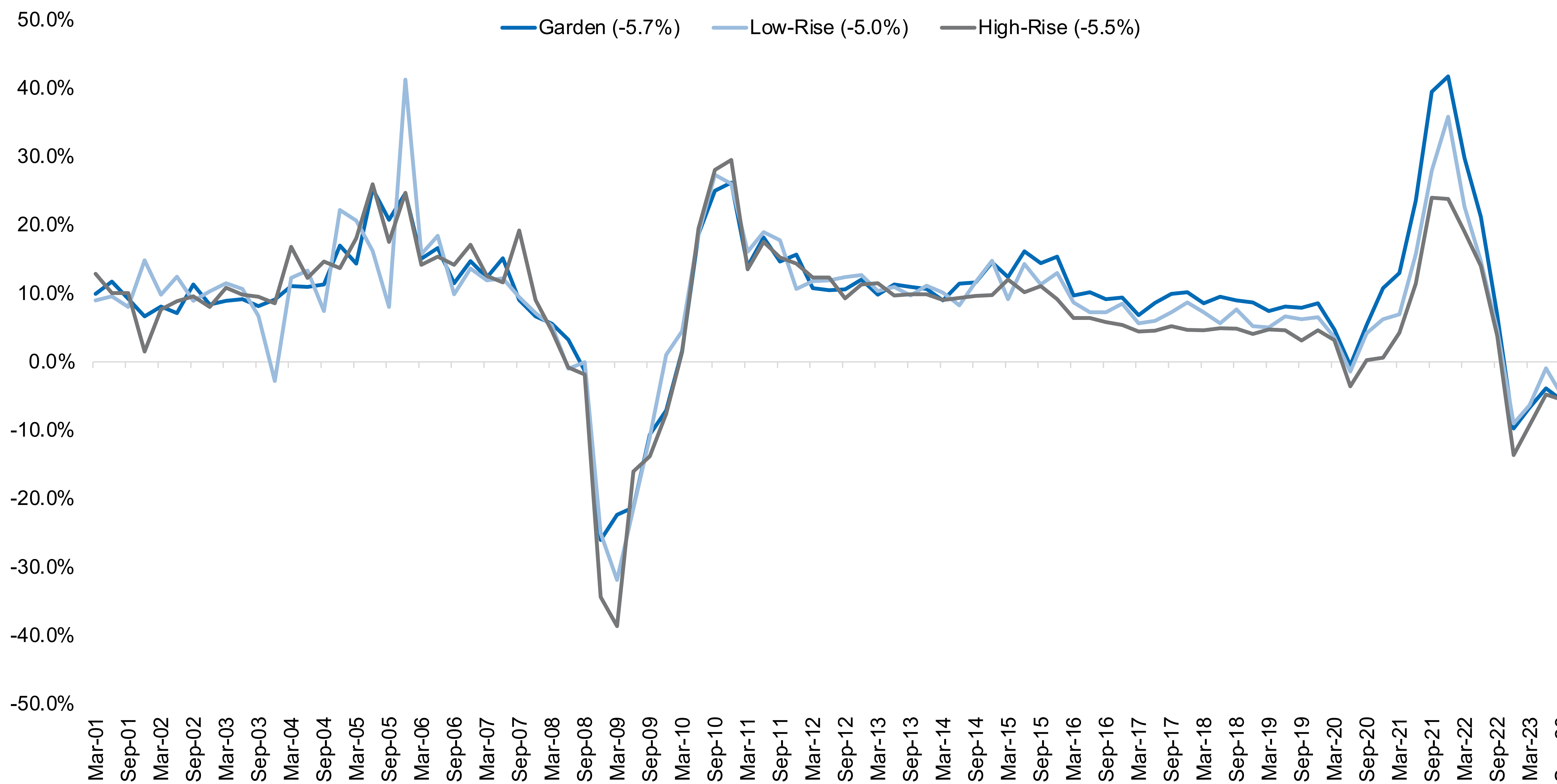
Source: Newmark Research, NCREIF

**3Q23 total returns are annualized*

Returns Remain Broadly Negative; Relative Outperformance in Low-Rise

Multifamily returns decelerated on the margin with low-rise continuing to outperform. Garden apartment returns decelerated most notably, falling below high-rise.

NCREIF National Property Index Quarterly Total Return (Percent Annualized)

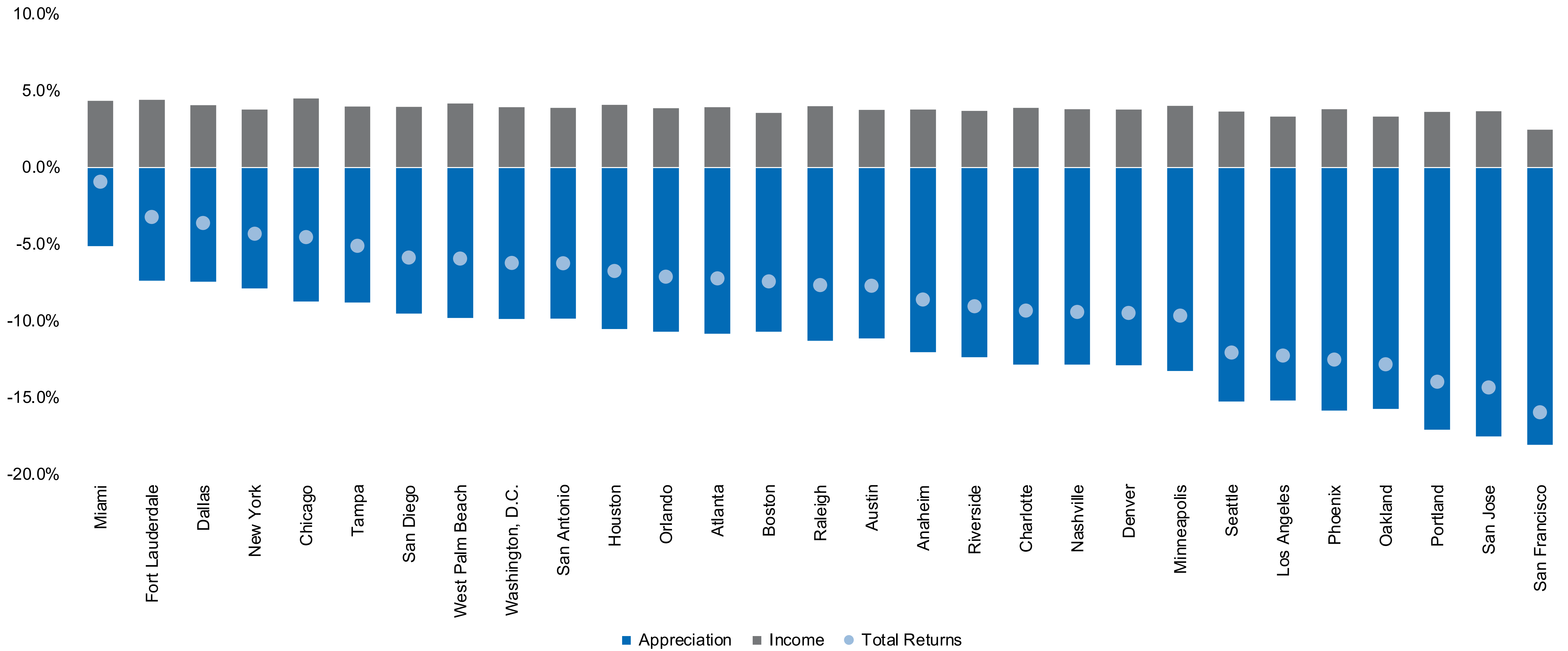


Source: Newmark Research, NCREIF

Income Growth Take Center Stage as Total Returns Turn Negative

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

NCREIF Annualized Total Returns by Market as of 3Q23



Source: Newmark Research, NCREIF

NCREIF Returns Negative in 60% of Markets; Variation by Property Type

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