Freddie Mac
MULTIFAMILY

2022 Multifamily Midyear Outlook

August 2022

Multifamily Research Center

2022 Midyear Multifamily Outlook

The economy has entered a turbulent time as interest rates have moved up and inflation is very real for consumers. The likelihood of recession later this year or next is much higher than the beginning of 2022 according to most macroeconomic forecasters. These factors should be watched, but at this time, performance of multifamily rent and occupancy remains solid although does reflect moderation from the record-breaking highs of 2021. However, the sharp rise in interest rates has already impacted volume as borrowers and investors may have sidelined deals until the volatility levels out. Despite increased uncertainty, the multifamily industry is positioned well, and we forecast solid performance for the year.

- Rent growth remains exceptionally high, up 16% over the year ending in June, and occupancy remains well above the long-term average.
- Multifamily fundamentals started to see signs of moderation in the second quarter – which are expected to continue the rest of the year – albeit with year-end growth forecasts well above long-run averages: gross income is expected to increase 6.8% and the vacancy rate to remain unchanged at 4.8%.
- Tight rental markets suggest that high levels of construction will have a limited impact on the market this year. The number of permits and starts remains high, which will keep completions elevated for the next couple of years.
- In 2022 we expect every market we cover to experience gross income gains. Florida and the Southwest markets are generally expected to outperform the nation while the smaller markets in the Midwest, along with a few large markets, are generally expected to be among the comparatively weaker performers.
- Despite higher Treasury rates, cap rate movements are much less volatile and take longer to adjust to Treasury rate movements, which is causing cap rate spreads to compress. Any upward pressure on cap rates would be smaller in magnitude than Treasury rates movements but would put downward pressure on valuations.
- Given the higher degree of economic uncertainty and volatile Treasury rate environment, we expect a slight contraction in total origination volume in 2022 to $440-$450 billion, but strength in underlying multifamily fundamentals will continue to attract investors.

Inflation and Rising Interest Rates Taking a Bite out of Economic Growth in 2022

As we enter the second half of 2022, economic conditions have weakened compared with the beginning of the year. The rapid rise of inflation, not seen in more than 40 years, is at the heart of the quickly changing economic situation. The Federal Open Market Committee (FOMC) has started to raise the Federal Funds Rate aggressively in an effort to tame inflation, leading to higher interest rates across the board and spurring volatility. Consumer confidence and sentiment have been trending down and are near historic lows. Although there are reports of job openings being pulled and offers rescinded the labor market appears strong. Economists are forecasting a slower second half of the year with a possible recession later this year or in 2023.

Signs of economic slowing were already being seen near the end of 2021. In the first quarter of 2022 Gross Domestic Product (GDP) growth was -1.5%. As of June, inflation, as measured by the Consumer Price Index (CPI), was up to around 9% year-over-year; increasing by at least 4% on a year-over-year basis each month since April 2021. As of May, Personal Consumption Expenditures (PCE) index was also up drastically at around 6.3% year-over-year. PCE trends suggest inflation peaked in March of this year at 6.6% and has since moderated slightly.[1] Irrespective of which measure of inflation is used, the current inflation levels are the highest they have been in four decades.

In attempt to combat the inflation threat, the FOMC increased the Federal Funds Rate three times so far in 2022: a 25 bps increase in March, a 50 bps increase in May, and a 75 bps increase in June. The 75 bps increase was the largest single rate hike since 1994. As the FOMC continues its commitment to lower inflation, more rate hikes are likely. As of June, the current range of the Federal Funds Rate is set at 1.5% to 1.75%, with the FOMC forecasting it to be 3.25% to 3.5% by the end of 2022. Even at 3.5%, the Federal Funds Rate is still well below its historical average going back to the 1950s but would be at its highest level since 2008.

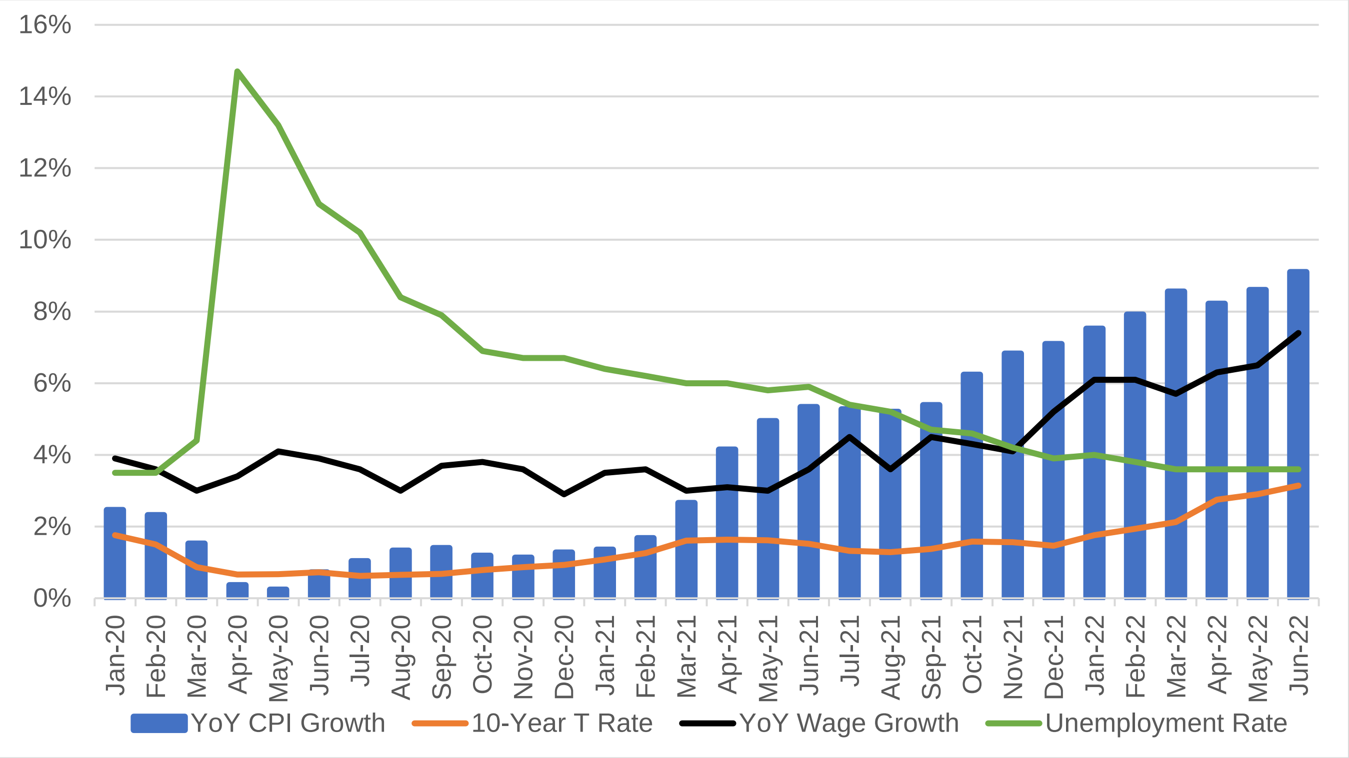
In response to the Federal Funds Rate hikes, the 10-year Treasury yield has been extremely volatile from mid-June through early July – peaking at 3.48% on June 14, before falling to 2.78% on July 5 – a drop of 70 bps in just three weeks. It has since rebounded again to about 3% as of the middle of July, up 150 bps over the past year and 130 bps since January. Given the overall volatility, there is a lack of clarity as to where the 10-year Treasury rate will stabilize, which will impact debt-seeking borrowers and investors.

The labor market was strong at the end of last year, and indicators suggest it remains in good condition. Monthly job growth this year has averaged about 450,000 but slipped to under 400,000 per month from March through June. For comparison, from 2015 through 2019 the average monthly job gains were less than half the current rate at 190,000. Weekly jobless claims in 2022 averaged about 205,000, in line with the pre-pandemic rate, but have averaged about 230,000 more recently. As of June 2022, the unemployment rate sits at just 3.6%, amongst the lowest rates of the past 50 years and just 10bps above pre-recession levels. The strong labor market conditions have led to strong wage growth, which is up 7.4% over the past year as of June, but not as high as current inflation growth. The labor force participation rate continues to lag at 62.2%. It is 120 bps below the pre-pandemic rate in February 2020, although generally improving slowly.

---

[1] A comparison of CPI and PCE: https://www.bls.gov/osmr/research-papers/2017/pdf/st170010.pdf

Exhibit 1: Consumer Price Index, 10-Year Treasury Rate, and Wage Growth



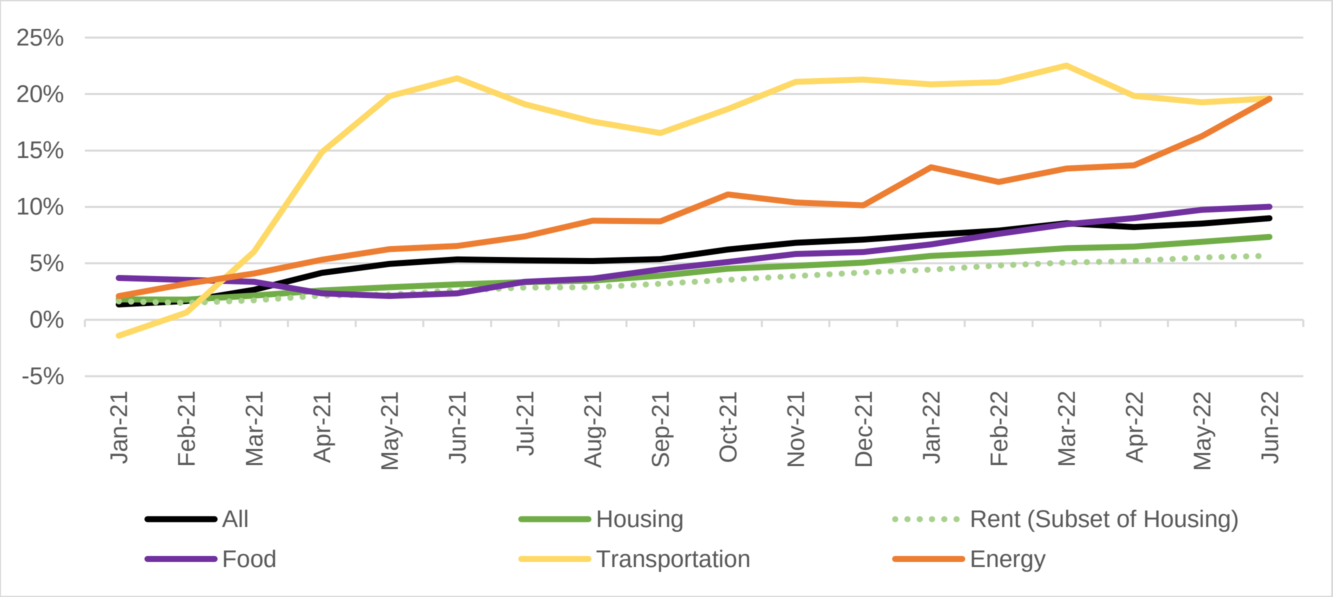
Sources: Moody's Analytics, St. Louis Fed, Freddie Mac

There are many factors influencing high inflation rates: supply chains are still scrambled from the pandemic, a lack of workers to move goods from ports to consumers, the impact to energy markets from Russia's invasion of Ukraine, excess savings built up from the pandemic, and the aforementioned strong wage growth. All of these factors and more have led to consumer demand outstripping supply and prices rising rapidly.

As shown in Exhibit 2, the cost of transportation and energy are two of the main drivers of higher inflation. Energy along with transportation costs, which include new and used automobile prices, are up nearly 20% over the past year. Housing and rent (which is a subset of housing), shown as the green solid and dotted lines, has increased more slowly than the overall rate of inflation at 7.3%[2]. The main concern stemming from long-term high inflation is that personal income will not keep pace and consumer purchasing power will erode, leading to a decreased standard of living for wage earners.

[2] This growth rate generally lags the headline rent growth rates discussed elsewhere in the report due to the collection methodology.

Exhibit 2: Year Over Year Growth Rates of Select Components of Inflation



Sources: Freddie Mac, Bureau of Labor Statistics, Moody's Analytics

This concern is shown in declining confidence among consumers. The Consumer Sentiment Index (CSI), which is reported by the University of Michigan and goes back to the early 1950s, is at an all-time low of 50.0 and notes inflation as the biggest concern. Meanwhile, the Consumer Confidence Index (CCI) is also in decline, although not near historically low levels.[3] Both measures note inflation as the biggest concern for consumers due to rising food and gas prices. These low index levels indicate weaker economic growth for the rest of the year and an increase in the likelihood of a recession. However, one tailwind is the tight labor market which could continue to support spending.

Looking forward, Moody's Analytics projects that inflation will moderate slightly the rest of year and end 2022 at an average of about 6%, with year-over-year inflation declining to less than 2.5% during the second half of 2023.

[3] The Consumer Confidence Index (CCI) and the Consumer Sentiment Index (CSI) both survey consumers on their attitudes and expectations of economic and personal consumption. The survey sizes and timing can differ. More information can be found https://www.conference-board.org/topics/consumer-confidence and http://www.sca.isr.umich.edu/

Higher Mortgage Rates Impacting the Residential Housing Market

The robust single-family house price appreciation is expected to be quickly impacted by much higher mortgage rates. Very strong demand – partially due to Millennials entering prime home buying age – pushed prices up quickly over the past two years. As seen in Exhibit 3, the median price of a home has increased $110,000, or more than 38%, since first quarter 2020. Meanwhile, mortgage rates are up 160 bps from early 2020 and up nearly 250 bps from the low seen in the fourth quarter of 2020. The combination of extreme home price appreciation and higher interest rates has made the monthly principal and interest costs jump $842, a 67.3% increase from first quarter 2020. Even as mortgage rates started to rise quickly in early 2022, prices kept increasing as homes kept selling amid extremely low inventory.

Exhibit 3: Monthly Principal and Interest Costs for a Median-Priced Home

	Mortgage Rate	Median Home Price	Amount Financed	Monthly P&I	YoY Change
1Q 2020	3.50%	$287,048	$278,437	$1,250	0.9%
2Q 2020	3.13%	$275,980	$267,700	$1,147	-4.0%
3Q 2020	2.90%	$312,783	$303,399	$1,263	4.5%
4Q 2020	2.67%	$316,104	$306,621	$1,239	-1.5%
1Q 2021	3.17%	$333,620	$323,612	$1,394	11.1%
2Q 2021	3.02%	$340,190	$329,985	$1,395	24.1%
3Q 2021	3.01%	$354,264	$343,636	$1,451	15.2%
4Q 2021	3.11%	$367,280	$356,262	$1,523	22.8%
1Q 2022	4.67%	$386,405	$374,813	$1,937	39.4%
May 2022	5.10%	$397,134	$385,220	$2,092	--
Change Since 1Q 2020	1.60%	$110,086	$106,783	$842	67.3%

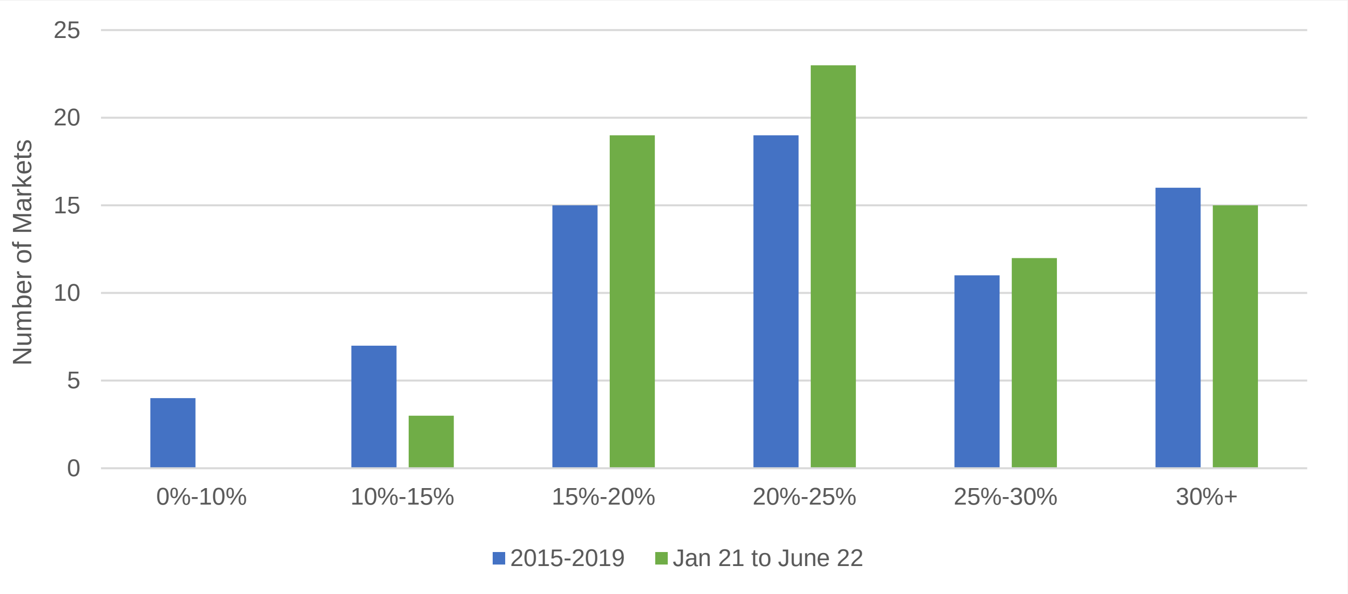
Sources: Freddie Mac, National Association of Realtors
Note: For each period, assumes a median-priced home, a 30-year mortgage and a 3% down payment.

However, now that mortgage rates have climbed past 5%, many would-be buyers are either being priced out of the market or waiting for a more affordable time to buy. According to the National Association of Realtors (NAR), the number of months of supply for existing sales has increased from 1.5 months in January of 2022 to 2.6 months in May, signaling potential moderation. This continues to fall well below the long-run average of 6.7 months from 1982-2019. Along with the rise in monthly principal and interest costs, a higher median home price requires a higher down payment, which has left many would-be buyers out of the ownership market.

Multifamily Performance Continues to Excel in the First Half of 2022

The strength of the rental market since the end of 2020 has been remarkable, with more markets seeing higher rent growth in the past 18 months compared with the five years leading up to the pandemic, as shown in Exhibit 4. Since January 2021 every market experienced rent growth of at least 10%, while roughly two-thirds of markets saw rent growth of 20% or more. Markets in Florida and the Sunbelt have generally performed the best, while markets in the Northeast and Midwest have lagged but still saw rent growth in excess of 10% over the past 18 months.

Exhibit 4: Distribution of Rent Growth January 2021 to June 2022 Compared with 2015 to 2019



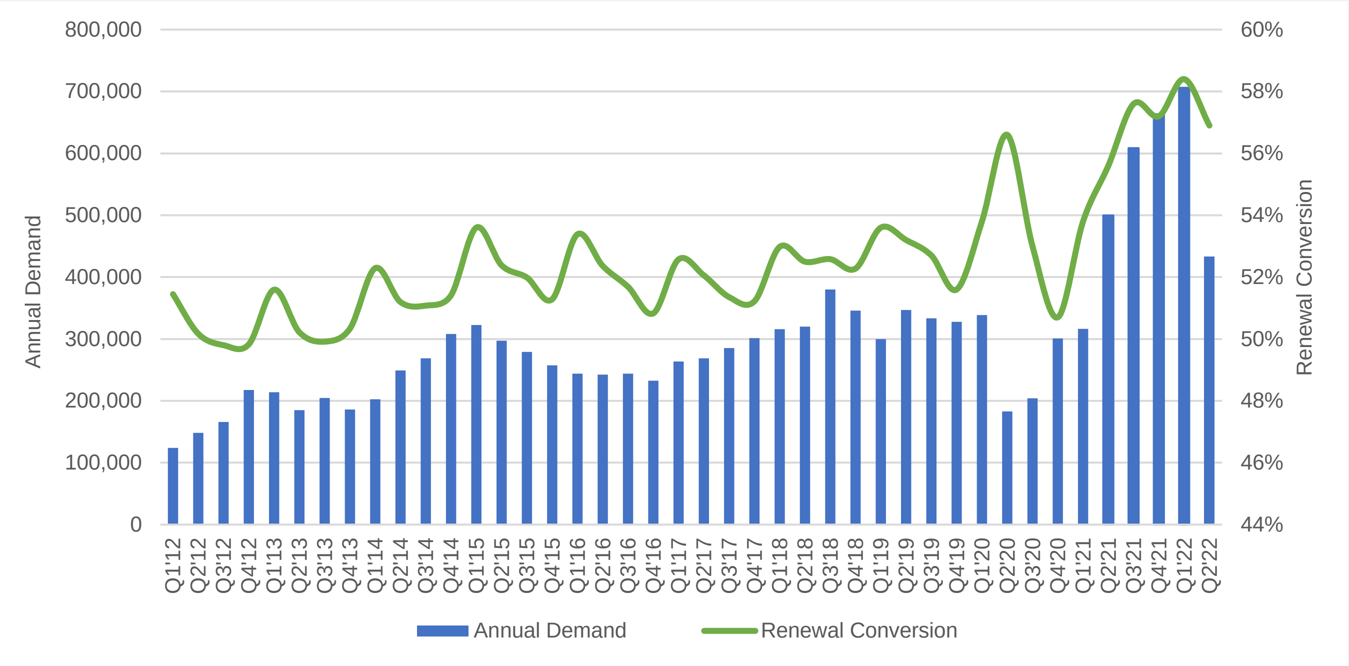
Sources: RealPage, Freddie Mac

Through June of 2022, rent growth is still high. On a year-over-year basis, rent growth totaled 16.1%, as reported by RealPage. Overall occupancy hit its highest quarterly levels going back to 2000 during the first quarter of 2022 at 97.6%, according to RealPage, although occupancy moderated slightly since then to 96.3%.

Rent growth has been particularly strong in Class A and Class B units, at 15.6% and 16.3%, respectively, while rent growth for Class C units was more moderate but still extremely high at 12.8% over the year as of June. While wage growth is up broadly, the high rent growth in Class B and C units, along with the disproportional impacts of higher inflation on these generally lower income earners are squeezing many tenants' budgets, is likely making the affordability crisis worse.

This continued strength of the overall multifamily market is partially due to robust household formations. At the start of 2022, we anticipated demand would moderate and rent growth would do the same. However, the first quarter of 2022 saw demand again at an all-time high, with annualized absorptions in excess of 700,000 units. Absorption did moderate in the second quarter, falling to about 430,000 units, but still remains historically high.

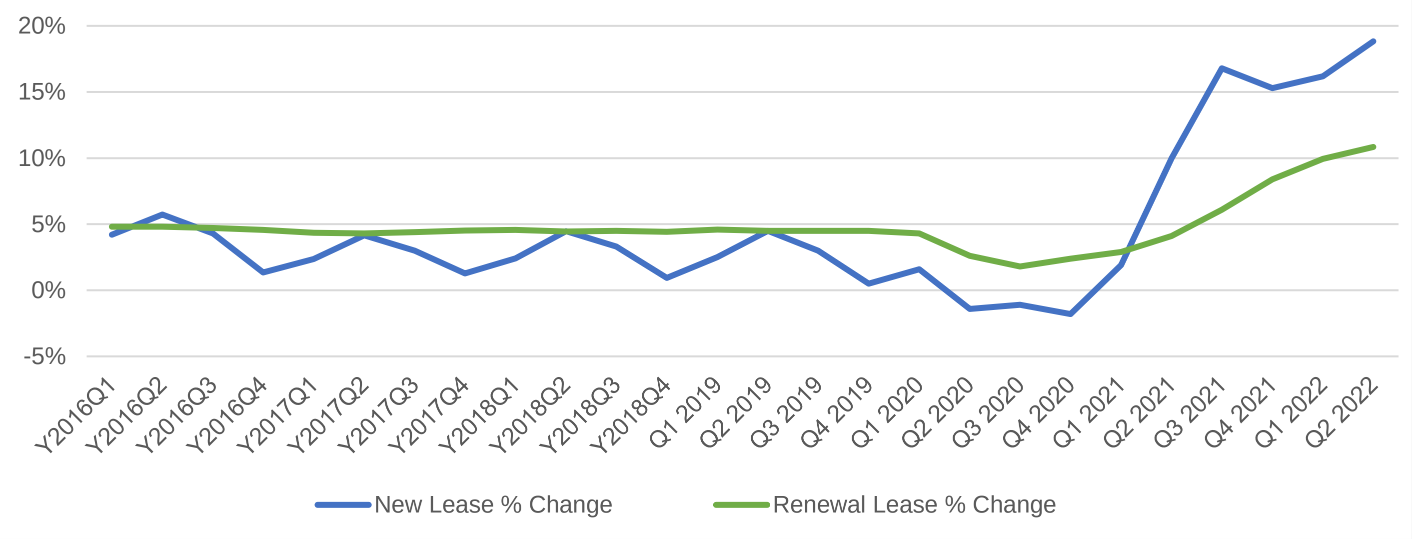
Exhibit 5: Annual Multifamily Absorptions and Renewal Rate



Sources: RealPage, Freddie Mac

As rental rates increased throughout 2021, renewal rates hit a new record in the first quarter of 2022 at 58.4% before moderating to 56.9% in the second quarter. The high renewal rate can be attributed to the much higher new lease rental rate, shown in Exhibit 6. As of the second quarter of 2022, the rent on a unit vacated and then leased to a new tenant increased, on average, 18.8%. Comparatively, a tenant renewing a lease in the same quarter saw an increase in rent of 10.8%. Given the tight occupancy rate and very strong demand, landlords have more pricing power once a unit is vacated and they can relist it at the going market rate. Therefore more tenants may opt to stay and renew their lease if it is getting increasingly difficult to find another unit at a reasonable price point. Typically, new lease rates are seasonal and move more dynamically. From late 2016 through early 2021, new lease rate increases have been less than or equal to those for renewal rates. However, since the second quarter of 2021 new lease rate increases have far surpassed renewal rate increases.

Exhibit 6: New Lease vs. Renewals Rate Growth Change



Sources: RealPage, Freddie Mac

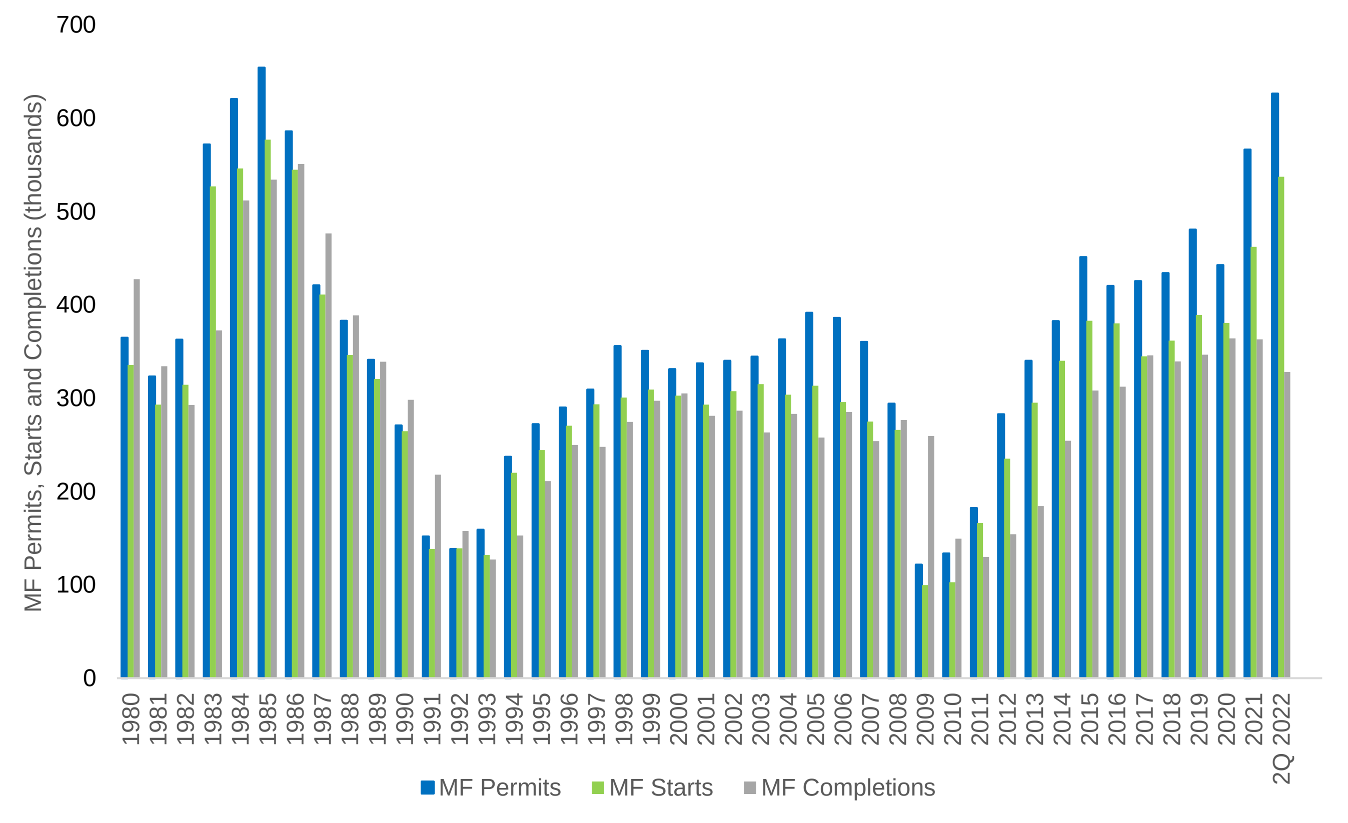
The other side of equation is the supply of multifamily housing. While demand for multifamily housing increased over the past several quarters, supply of new units could not keep pace. According to data from the Census Bureau, shown in Exhibit 7, annualized completions totaled 363,000 units in 2021 – down about 0.3% compared with completions in 2020. The downward trend has continued into 2022. As of second quarter 2022, annualized completions are down -9.7% compared with completions in 2021.[4] This completion rate is annualized for only the first half of the year, but the downward trend indicates construction delays continue to plague the market and new supply is not being delivered fast enough to meet the high levels of demand.

At the mid-point of 2022, supply chain issues and the rising costs associated with them are still abundant and greatly affecting the amount of time it takes for new apartment units to reach the market. Items such as wood, steel, appliances, countertops, lighting and fixtures are seeing limited availability and price fluctuations, which affect project timelines. For example, the cost of lumber, one of the key materials for all types of construction, has been varying wildly since late 2020. Lumber prices in 2019 averaged $372 per 1,000 board-feet. In 2022 lumber prices peaked in February at nearly $1,175 per 1,000 board-feet, up 215%. In June of 2022, prices averaged $584, a decline of nearly 50% in just four months. As lumber prices quickly move up and down, apartment developers may have a difficult time making their projects pencil out. Similarly, the availability of labor is causing construction delays. The number of construction job openings is at its highest level in the data set of more than 20 years at 434,000 according to the Bureau of Labor Statistics.

Despite lower completion rates, multifamily permits and starts increased over the past 18 months and are at their highest levels since the mid-1980s. Permits through June of 2022 are up 10.6% compared with 2021 and up more than 40% compared to the five years leading up to the pandemic (2015-2019). Meanwhile, starts have increased more than 16%. Given the remarkable performance in the multifamily market, this increase in construction is not surprising.

[4] Seasonality is not likely one of the causes, from 2015 through 2021 quarterly supply was remarkably consistent varying less than 4% from the low to high quarter.

Exhibit 7: Multifamily Permits, Starts and Completions (5+ Units, thousands)



Sources: Freddie Mac, Census Bureau, Moody's Analytics

The large increase in multifamily construction so far in 2022 is not evenly distributed across all metros. Many metros that have seen robust rent growth recently are also seeing some of the highest growth in starts compared with pre-pandemic (annual average 2015-2019) rates.

The top metros by number of multifamily starts are similar post pandemic (annual average 2021 Q1 – 2022 Q1) to pre-pandemic, mostly due to the sheer size of these markets. New York City saw very little change between the two time periods and remains the top market given its high renter population. Austin moved up to the second highest number of starts followed by Dallas, Houston and Philadelphia. Notable markets that were within the top ten in the number of starts prior to the pandemic but no longer rank among the top ten are the District of Columbia, Atlanta and Chicago. The latter two saw declines in the number of starts while D.C. saw only modest increases and was eclipsed by other markets that have seen greater growth.

The largest net increases in multifamily starts were in Austin and Philadelphia. Austin saw the number of multifamily units starts nearly double while Philadelphia's nearly tripled. Austin's was driven by increased demand while Philadelphia's was partially due to a change in its tax abatement policy that accelerated many developers' plans. Phoenix and Nashville also saw meaningful increases in starts. Minneapolis rounds out the top five and is unusual relative to the other markets with the largest increases because its rent growth was not been as strong at 4.8% in 2021 while the others were all 11% or higher, according to Reis.

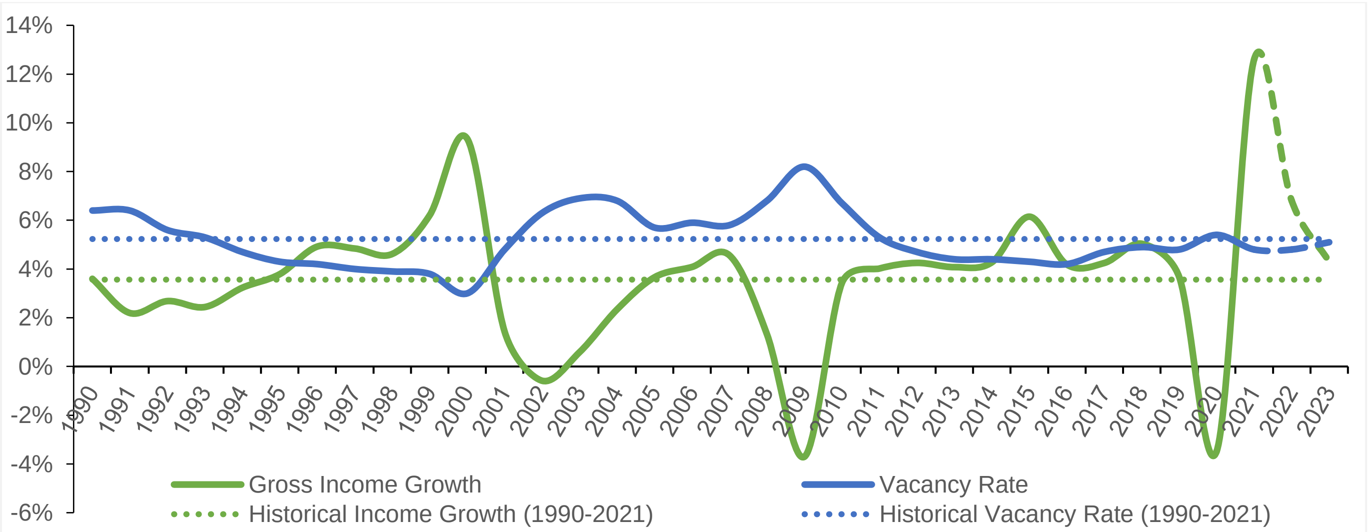
Meanwhile, several smaller metros saw a substantial growth in starts, although their overall multifamily size is much lower compared to those in some of the larger renter-based metros. Albuquerque tops the list with a 268% increase in multifamily starts followed by Colorado Springs at 221%. While these are stark increases, Albuquerque has seen historically strong periods of construction in the early 2000s and in 2013. Colorado Springs, on the other hand, has not seen this level of construction starts since the 1980s. RealPage reports that in Albuquerque, the units under construction make up 2.5% of the metro's total multifamily inventory – highest going back to 2000 – but below the national average of 4.6%. Meanwhile, units under construction in Colorado Springs make up 12.7% of its inventory – well above any level going back to 2000. Both metro areas experienced strong rent growth and current vacancy rates below their historical averages, which will help the markets absorb new supply. But there could be some softening depending on how strong demand is at the time of delivery.

Given the incredibly tight housing market, both single-family and multifamily, the national multifamily market is expected to absorb the high levels of new supply. As it is delivered, the new supply will impact local markets and submarkets. Most markets will stay in balance with new units absorbed. However, it is worth keeping an eye on high supply metros as the new units are delivered.

Multifamily Fundamentals Positioned Well Through the Rest of 2022

Considering the strength in the multifamily market already this year, we expect fundamentals to remain quite strong with vacancy rates flat at 4.8% and a full year total income growth of 6.8% in 2022. These forecasts are based on the current economic trajectory holding steady throughout the rest of the year. In our current forecast, the labor market remains stable and the multifamily market continues to perform well, with both vacancy and income growth more favorable than long-run averages. Looking into 2023, vacancy rates are expected to increase modestly to 5.1%, just below the long-term average, while gross income growth will slow to 4.3% but remain above the long-term average of 3.6%.

Exhibit 8: Vacancy Rate and Gross Income Growth, History and Forecast



Sources: Reis for historic data, Freddie Mac projections for 2022 and 2023 are represented by the dashed lines.

Renter preference for generally smaller and less expensive markets in the southern and western areas of the country continues, but recently the gateway markets that were battered during the pandemic have seen strong rent growth in 2022. New York City rent grew 7.2% through the first six months of 2022 while Boston saw rent growth of 7.3%. Meanwhile, rent in San Francisco still trail the pre-pandemic level, but has grown nearly 6% in 2022.

For 2022, we expect the vacancy rate to decrease in more than 60% of the markets we cover relative to 2021. Generally speaking, in 2022, vacancy rates are expected to decline in the gateway and smaller markets in the Northeast and Midwest.

In 2022, the top ten markets by gross income growth are generally secondary and tertiary markets in Florida, the Southwest and the Southeast. Six of the top ten markets are expected to see vacancy rates increase as construction in many of these markets has picked up over the past few years in response to overwhelming demand. But markets remain tight even in those where vacancy rates may increase given the incredibly tight single-family and multifamily housing market. Vacancy rates are expected to be below 5% in seven of the top ten markets by the end of 2022, and most of these markets are operating well below their historic norms. The main drivers of such strong gross income growth are high population and income growth along with tight occupancy.

The bottom ten markets are a mix of large and smaller apartment markets, scattered across the country, but with a slight concentration in the Midwest. Despite their ranking, gross income in these markets is expected grow at what would normally be considered a healthy rate of 3.1%-4.8%. However, these growth rates are lower than the expected inflation rate, around 6%, so real income growth in these metros would be negative.

Exhibit 9: Top and Bottom 10 Metros by Gross Income Growth for 2022

Metropolitan Area Top 10	2022 Annualized Growth in Gross Income	2022 Vacancy Rate	Metropolitan Area Bottom 10	2022 Annualized Growth in Gross Income	2022 Vacancy Rate
Jacksonville	12.7%	4.4%	Minneapolis	3.1%	6.7%
Albuquerque	12.5%	2.7%	Washington, DC - Core	3.3%	8.9%
Tampa	12.4%	4.0%	Lexington	3.4%	5.5%
West Palm Beach	11.4%	5.4%	Knoxville	4.0%	3.6%
Orlando	11.0%	5.5%	Kansas City	4.3%	5.9%
Phoenix	10.9%	5.2%	St. Louis	4.3%	4.3%
Tucson	10.5%	4.1%	New Orleans	4.6%	4.8%
Memphis	10.3%	4.7%	Columbus	4.7%	4.5%
Raleigh/Durham	9.9%	4.6%	Buffalo	4.8%	2.7%
Ft. Lauderdale	9.8%	4.9%	San Jose	4.8%	5.0%
United States	**6.8%**	**4.8%**			

Source: Freddie Mac

One of the pandemic's lasting effects is the trend of work from anywhere, which has helped shift demand from densely populated, expensive gateway markets to warm-weather, less expensive secondary and tertiary markets. Kastle Systems, which provides security and controlled access systems for commercial real estate, has tracked badge swipes to track the percentage of employees returning to in-person work.[5] Prior to the pandemic, Kastle Systems reported occupancy at about 95% across its ten largest metro areas. During the early days of the pandemic, it fell to about 15%. Since then, it has been recovering slowly, sitting at 42% at the end of June. We will continue to track the impacts of remote work on local housing markets across the country.

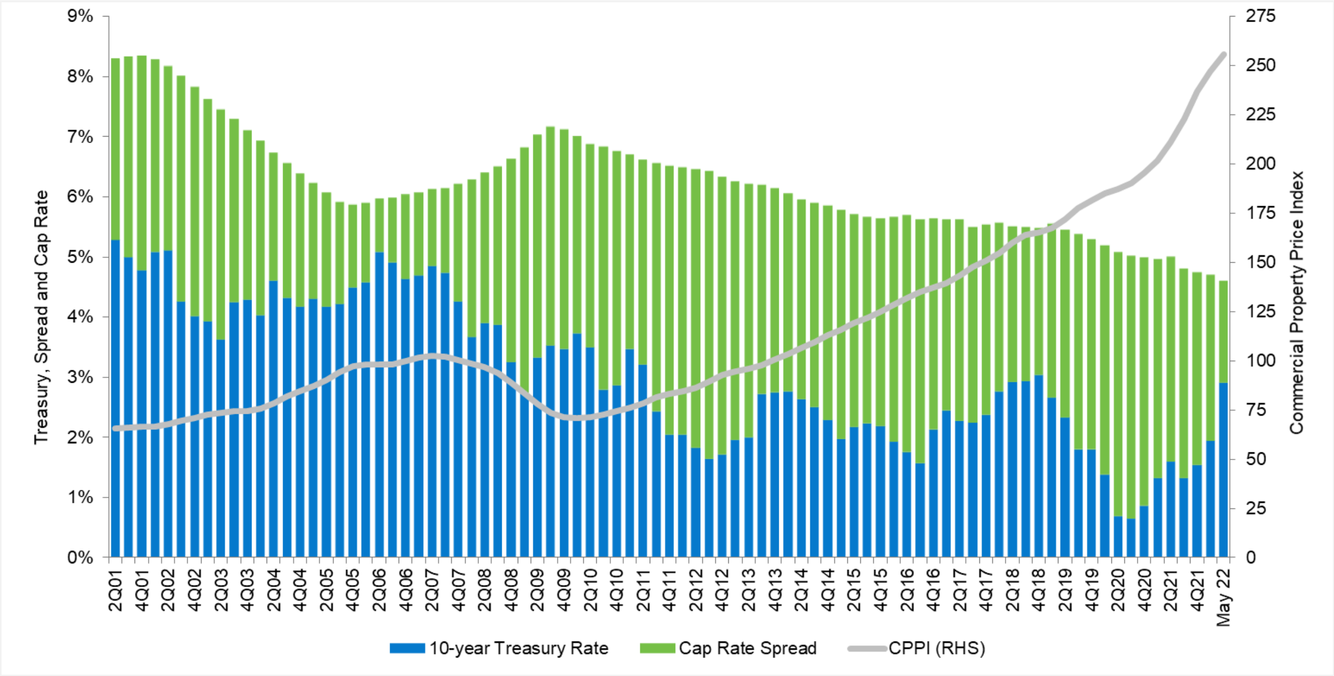
Increased Pressure on Multifamily Cap Rates and Valuations

Rising interest rates directly impact multifamily investors through the cost of debt and valuations. As with all borrowers, rising interest rates impact the cost of debt almost immediately as rates change borrowing costs. While higher rates also impact valuations, the timing and magnitude are less certain. These two impacts make the current run-up in rates notable. The 10-year Treasury rate averaged 1.94% during the first quarter of 2022. In the second quarter, it is up about 100 bps. It is then reasonable to expect upward pressure on cap rates to follow.

However, other factors are important too, and adjustments are not immediate. As of May, Real Capital Analytics (RCA) reported the cap rate for the prior three months averaged 4.6%, which is down 40 bps from the prior year and down 10 bps since the beginning of the year as seen in Exhibit 10. In the most recent data available the current cap rate is 4.6% and the cap rate spread to the 10-year Treasury rate is about 170 bps, much tighter than the average of 320 bps going back to 2001. Part of the reason for the short-term tightening is that appraisals happen at a point in time, but interest rates move constantly. By the time the transaction takes place, with the value sticky at or near the appraisal estimate, the cap rate spread is tighter. Prices also may not adjust given the attractiveness of multifamily investment compared with other types of investments.

[5] https://www.kastle.com/safety-wellness/getting-america-back-to-work/

Exhibit 10: Multifamily Price Index, Cap Rate Spread and Treasury Rate



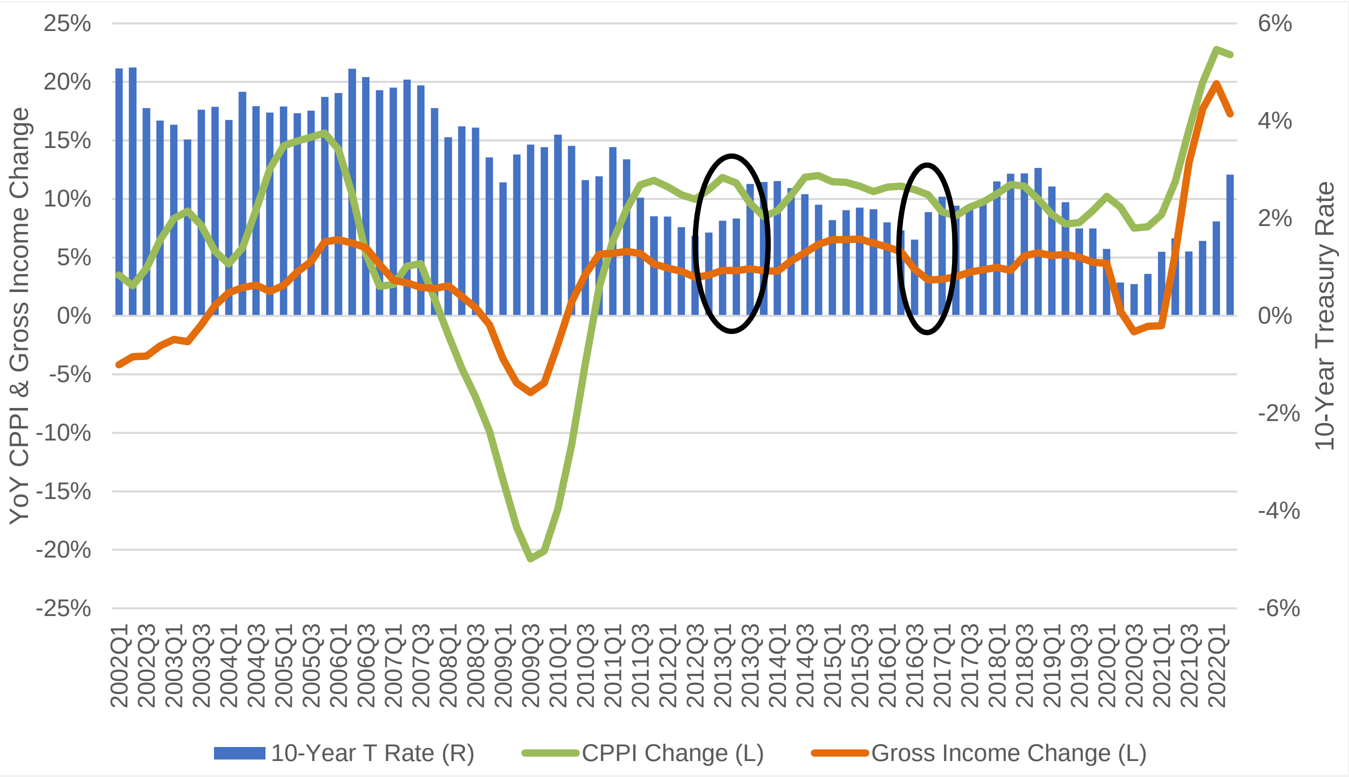
Sources: Freddie Mac, Real Capital Analytics CPPI, Federal Reserve Board, Moody's Analytics

Looking back, 1994 was the last time 10-year Treasury rates increased by an average of 100 bps over a single quarter. Also, the FOMC increased interest rates 50-75 bps each of the five quarters from 1994Q1 to 1995Q1, which is relevant to the current situation in which the FOMC is expected to aggressively increase interest rates to fight inflation. Using data from the American Council of Life Insurers (ACLI), which measures cap rates going back to 1965 using life insurance companies' transactions, we can analyze the impacts to their reported cap rates during the mid-1990s. On average, cap rates increased roughly 20 bps the same quarter that Treasury rates increased 100 bps. Throughout the rest of 1994, the 10-year Treasury rate increased another 70 bps, but cap rates remained relatively flat, increasing at most an additional 10 bps at the start of 1995. Treasury rates then started to contract throughout 1995.

While this is a different inflationary environment, it exhibits the stickiness of cap rates given a similar Treasury rate environment. At most, cap rates increased 20-30 bps and cap rate spreads contracted to a low of 100 bps before widening back out. A cap rate spread this low is not sustainable for the long run, but during times of volatile interest rates spreads can compress to very low levels. Using this historical period as a guide, cap rates could be expected to increase moderately for the rest of 2022, but the severity is not expected to be as volatile as the Treasury rate movements given historic context.

An increase in cap rates would put downward pressure on price appreciation. Using property price appreciation data over the past 20 years compared with Treasury rate movements, there are two time periods that experienced a run up in Treasury rates over a relatively short period of time: late 2012 into mid-2013 during which the 10-year Treasury rate increased 110 bps, and 2016, during which the rate increased 80 bps in two quarters, as shown in Exhibit 11. During these periods, the multifamily market saw relatively stable gross income growth of generally 3% to 4% per year. Meanwhile, property price appreciation moderated, but growth remained above 8% annually.

Exhibit 11: 10-Year Treasury, YoY Change in CPPI and Gross Income



Sources: Freddie Mac, Real Capital Analytics CPPI, Federal Reserve Board, Moody's Analytics, RealPage.

RCA reports multifamily price appreciation is up 23.7% year-over-year and 8.0% year to date. Given the robust rental growth already this year and the continued healthy growth expected for the rest of the year, we anticipate price appreciation to continue for the remainder of 2022, albeit at a much more modest pace. There are two counterbalancing factors at play. On one side, a volatile financial market with increasing interest rates, along with a likely increase in cap rates in the near future as described above, could slow valuations. On the flip side, the current multifamily fundamentals and stability of the multifamily market, as well as the demographics that feed it, indicate continued demand from investors for multifamily assets, which will continue to drive property valuations.

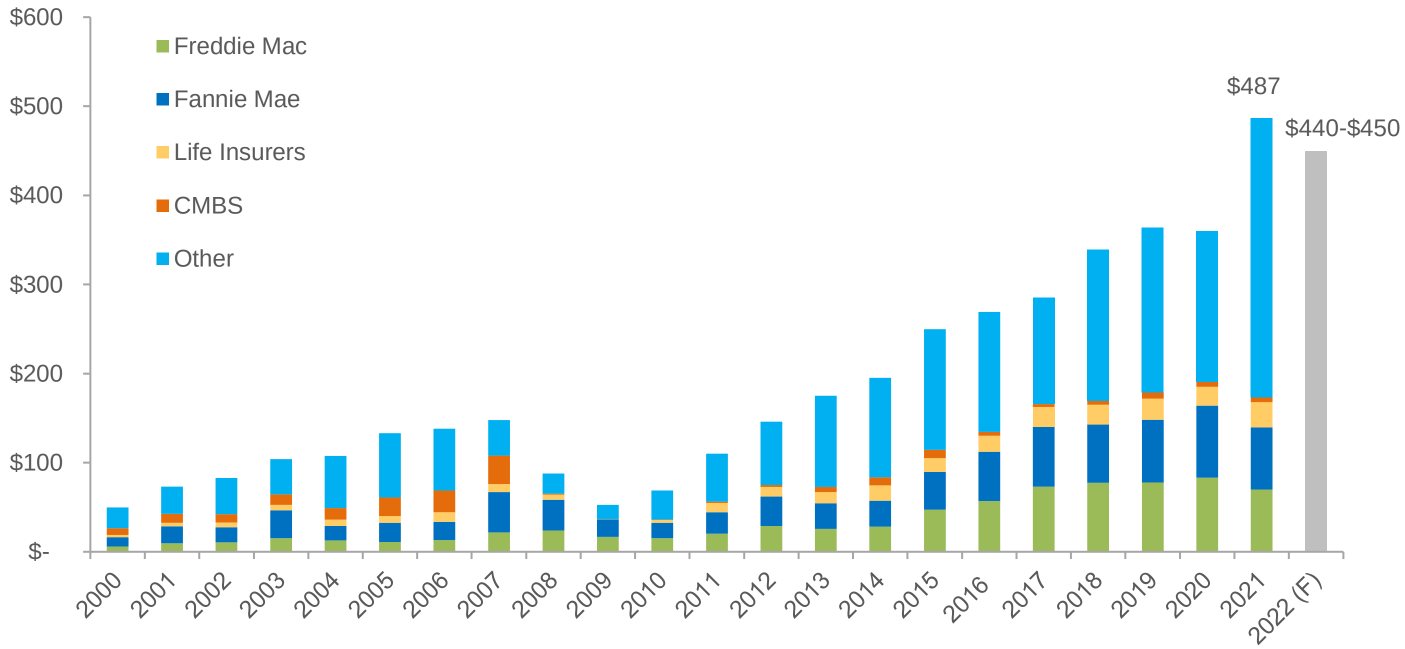
Lower Origination Volume Forecast

We expect volume in 2022 to slow down to $440-$450 billion due to the increased economic uncertainty, higher Treasury rates and downward pressure on property valuations. Given the abrupt rise in Treasury rates in June, debt and equity transactions are in a period of price discovery. This modest slowdown anticipates the economy staying on a relatively stable path throughout the rest of the year with the labor market remaining strong, 10-year Treasury rates near current levels, and only moderate price appreciation.

While rent growth and cap rates may respond slowly to the increased Treasury rates, sales transactions and total origination volume feel the impacts of interest rate volatility more immediately. A steep rise in Treasury rates may push potential deals to the sidelines as borrowers wait out the volatility. Given the strength seen in rents, many financed properties are well positioned to cover their debt payments. As such, borrowers are not as pressured to sell properties at a lower price point and may wait for more favorable investment opportunities, slowing overall business volume.

Given the increased economic uncertainty, we also examine a downside scenario where the economy slips into a recession and unemployment increases, but interest rates remain high to help battle inflation. In such a scenario we could expect total origination volume to decline further this year to $400 billion, down meaningfully, but a much softer decline than what was experienced during the Great Financial Crisis.

Exhibit 12: Multifamily New Purchase and Guarantee Volume ($ Billions)



Sources: Mortgage Bankers Association, ACLI, Wells Fargo, Intex Solutions Inc., Freddie Mac projections.
Note: 2022 projections of $440-$450 billion are by Freddie Mac as of June 2022.

Conclusion

Although apartment demand and rent growth are moderating from the record market conditions seen in 2021, fundamentals are expected to remain healthy for the remainder of the year, but the transaction side of the business will be subjected to more of the market's volatility. However, if the economy slows more than expected, that could start to show through in multifamily fundamentals later this year or into next. Nevertheless, the elevated rent growth so far this year will help pad any potential slowdown during the second half of the year. Only time will tell how the multifamily industry will perform during this period of changing macroeconomic conditions but given the broader housing shortage and robust performance in the past 12 months, the overall multifamily market is on track for solid performance in the remainder of 2022 and into 2023.

For additional information, contact:
Steve Guggenmos
Vice President, Multifamily Research & Modeling
steve_guggenmos@freddiemac.com

Sara Hoffmann
Director, Multifamily Research & Modeling
sara_hoffmann@freddiemac.com

Michael Donnelly
Manager, Multifamily Research & Modeling
michael_donnelly@freddiemac.com

For more insights from the Freddie Mac Multifamily Research team, visit
https://mf.freddiemac.com/research