



# 2024 Multifamily Outlook



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The multifamily market saw performance slow in 2023, brought on by the uncertainty in the economy along with a high level of new supply entering the market. Rent growth saw meager gains, while occupancy rates continued their downward trend — albeit at a much slower pace than the prior year. The multifamily supply pipeline remains elevated with peak completions expected in 2024. The high rate of new supply will continue to moderate potential rent gains, rent growth is expected to be positive in 2024, but below longer-run averages. A stable interest rate environment, even if rates remain elevated, could help spur transaction volume in 2024. Cap rates have increased throughout the year, albeit at a lesser degree than Treasury rate movements, which could put upward pressure on cap rates and downward pressure on property values. The economy appears to be on track for a soft landing, although it may be bumpy throughout the year. The multifamily market may see additional strain from continuing high-levels of new supply and higher interest rates but remains a favorable asset class given the expensive for-sale market and demographic trends.

- Positive demand returned for the multifamily market in 2023 but at lower rates than seen historically. Coupled with the high level of new supply, rents grew modestly for most of 2023 at much slower rates compared with the prior few years, while vacancy rates slowly crept up.
  - Growth in 2024 is expected to be muted given a continued high rate of new supply scheduled to enter the market, keeping rent growth below long-run averages and vacancy rates above. Market performance will feel slow especially in comparison with the pandemic boom years and even the years leading up to it.
  - The multifamily construction pipeline remains robust with just under 1 million units currently under construction, with a majority of those units expected to be completed in 2024.
  - Performance at the metro level is expected to be bifurcated: Generally slower moving secondary or tertiary markets that are less expensive and have constrained new product pipelines will outperform markets that saw high rent growth during 2021 and 2022 and are now seeing high levels of new supply.
  - Cap rates have been increasing slowly, while interest rates remain elevated and volatile, leading to tight cap rate spreads. While interest rate hikes may be behind us, the tight cap rate spread may put additional upward pressure on cap rates in 2024 despite less volatile interest rates.
  - Interest rate stability could help drive transaction volume in the multifamily market. We expect volume growth to return in 2024, up to \$370 billion to \$380 billion, which is in line with 2019 volume but well below the post-pandemic years of 2021 and 2022.
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## *The Moderating Multifamily Market*

The multifamily market continued to perform relatively well throughout 2023 but saw growth come in weaker than historical long-run averages. Demand turned positive in the first quarter of the year, and by the third quarter was showing relatively healthy levels driven by the resilient labor market. But the high level of new supply entering the market eclipsed demand, causing rent growth to be subdued and occupancy rates to decline. Interest rates were volatile and increased sharply throughout most of the year, causing the multifamily investment market to slow. Cap rates have increased since the middle of 2022 — albeit much slower than interest rates — and combined with the slowing market conditions put additional downward pressure on property prices.

While the economy avoided a recession in 2023, several headwinds remain throughout 2024 for the multifamily market including high-levels of new supply, labor market impacts from higher-for-longer interest rates, and a relatively high level of multifamily maturities coming due over the next two years. Despite these risks, multifamily growth is expected to be positive in 2024, but below long-run averages, driven by the prevailing demographic trends and an expensive for-sale housing market.

## *A Potentially Turbulent Descent but Approaching a Soft Landing*

In these uncertain economic times, every piece of economic data, large or small, is capable of turning sentiment and causing volatility in the market. It currently appears that the Federal Reserve is finished raising interest rates this cycle, but it may take up to a full year to see how much impact the rate hikes have on the economy. Although the Federal Reserve is expected to pause rate hikes, many economists have indicated a higher-for-longer interest rate environment to ensue throughout 2024. That being said, current economic conditions and projections indicate we very well may achieve the soft landing that the Federal Reserve has been hoping for, but the descent may feel bumpy and turbulent along the way.

The economy continued to grow throughout 2023 despite concerns of a recession. Real Gross Domestic Product (GDP) in the third quarter of 2023 grew at an annualized rate of 4.9% after growing a little more than 2% annualized during the first half of the year. According to Moody's Analytics, annual GDP growth is expected to end the year at 2.5%, representing a relatively healthy growth rate. Given the higher interest rate environment, Moody's expects GDP to slow to 1.3% in 2024. However, despite the relatively benign forecast, there are many risks that could derail the economy. Potential issues that could lead to a greater slowdown or even a recession include overtightening by the Federal Reserve, a spike in oil prices, an expansion of current conflicts across the globe, a collapse of property prices, and the banking system faltering again. Given these risks, the chance for a recession is elevated in 2024, with Moody's estimating about a 25% chance the country slips into a recession next year, which is slightly elevated compared with historical averages.<sup>1</sup>

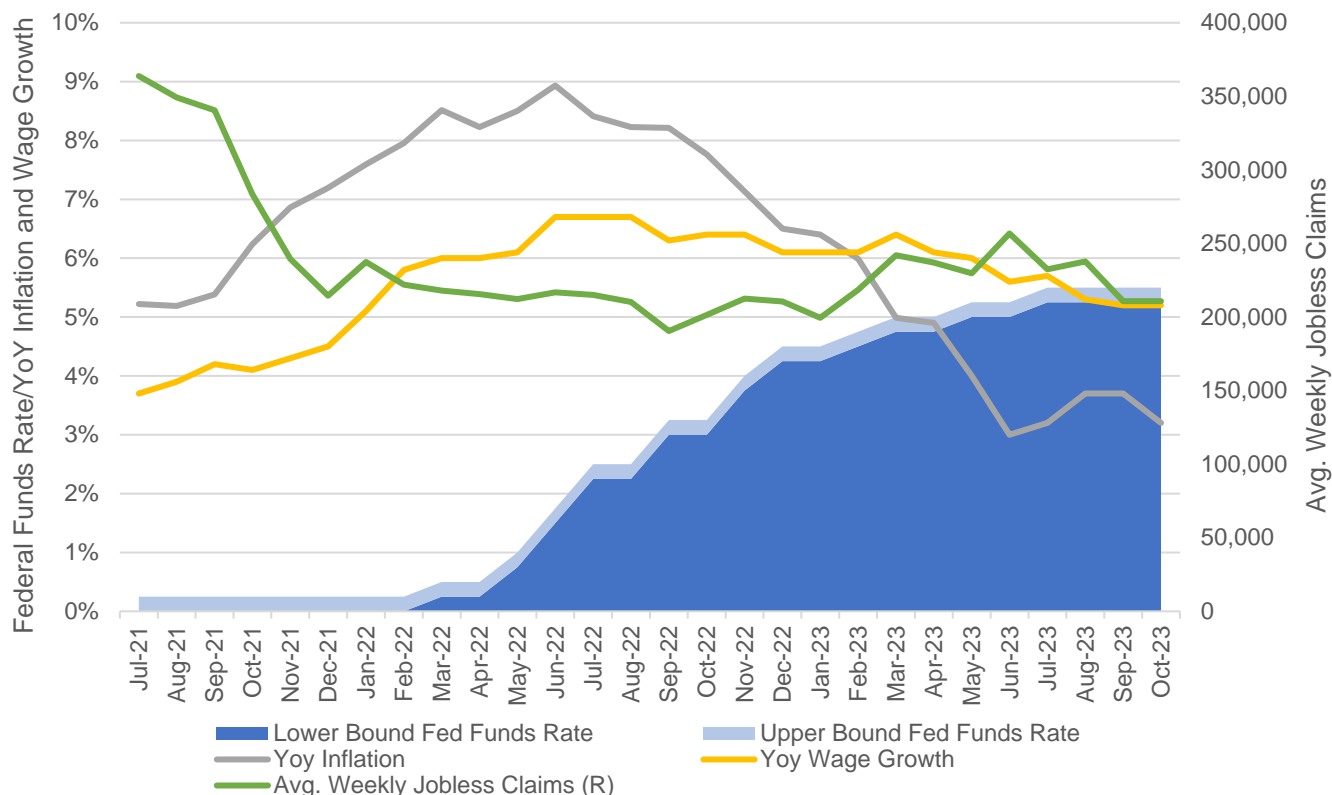
The Federal Reserve has slowed the pace of interest rate hikes considerably in 2023; up 100 basis points (bps) compared with 425 bps in 2022. Many economists expect that as long as the economic data maintains current trends, the Federal Reserve will not raise interest rates any more during this cycle and will likely start lowering rates in mid-2024. Despite the slower pace of Fed hikes in 2023, the 10-year Treasury rate changes remained volatile, vacillating between 3.5% and 4% in the first half of the year then steadily increasing and peaked at

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<sup>1</sup> Since 1950 there have been a total of 11 recessions averaging a little less than one year in duration, meaning that over the past 72 years we would expect to see a recession about every six and a half years, or each year there is about a 15% chance of a recession.

nearly 5% in October. As of the end of November, the rate has fallen to 4.4% as the market anticipates the rate hikes are done and rate cuts are more likely to come mid- to late next year.

### Exhibit 1: Federal Funds Rate, Avg. Weekly Jobless Claims, Annual Wage Growth, and Inflation



Sources: Moody’s Analytics, U.S. Bureau of Labor Statistics (BLS), Federal Reserve Bank of Atlanta, Federal Reserve Bank of St. Louis, Freddie Mac

Inflation has come down significantly from the peak seen during the middle of 2022, reaching 3.2% for the year ending in October 2023, but continues to remain higher than the Federal Reserve Board’s stated goal of 2% annual growth. Core inflation growth, which excludes volatile categories such as food and energy, has been consistently higher than overall inflation this year, and as of October 2023, growth sits at 4% over the past 12 months. Even though home price growth has moderated and rent growth has slowed down considerably, the shelter component of the Consumer Price Index (CPI) is still up 6.7% for the 12 months ending in October, which is due to the intentional lag in the data collection methodology. Monthly increases in the shelter component have been moderating on a month-over-month basis and should begin to have a cooling effect on inflation soon. Shelter is the single biggest segment of the CPI and is also part of the core inflation calculation. Moody’s Analytics expects that inflation growth will continue its downward trend for the rest of 2023 and is projected to total 2.5% for 2024.

One of the factors that contributed to the current inflationary environment is the amount of excess savings accumulated by Americans during the pandemic. Moody’s calculates that excess savings peaked in late 2021 into early 2022 at about \$2.5 trillion cumulatively but has since retreated to a little less than \$1.5 trillion. While

during the pandemic all demographics and income groups saw a growth in excess savings, most of the remaining excess savings are primarily concentrated among older households and those with higher incomes.

Although the labor market is slowing from the highs seen in 2021 and 2022, it is still performing well by most measures. Through the first nine months of 2023, the U.S. economy added on an average of almost 240,000 jobs per month — which is nearly 50% more jobs per month than the average seen in 2019. The unemployment rate remains very tight, at 3.9% in October, although it has been inching up from the cyclical lows seen earlier in the year. Wage growth continues to grow, but at a slower pace, and remains elevated, up 5.3% over the year ending in October, when compared with the 2019 annual average of 3.6%.

While the labor market remained resilient during 2023, announced layoffs increased during the first half of the year — totaling nearly 65,000 per month<sup>2</sup>. Since July, the rate of announced layoffs has moderated, averaging just over 45,000 per month, which is just above the 2017 to 2019 monthly average of 43,000 but about 50% higher than the 2022 monthly rate of about 30,000. About one-quarter of those announced job eliminations have come from the information/technology industry, which is in the process of downsizing after rapid staff growth during the pandemic. Weekly jobless claims were slightly elevated in 2023 compared with 2019, averaging about 227,000 per week this year compared with 218,000 per week in 2019. Voluntary quit rates have been coming down during the year and averaged 2.3% during the third quarter, down 50 bps from the 2022 rate and 20 bps from the first half of the year. Although the labor market is undoubtedly slowing, by most historical standards it is still performing well above average, which helped propel the economy and housing market during 2023.

### *The For-Sale Market is Stagnant, but Prices are Rising Again*

The for-sale housing market remains tight, despite the highest mortgage rates in more than 20 years. As of October, the National Association of REALTORS® (NAR) reported the number of months of supply for existing sales is about 3.6 months, which is above the historic lows seen in early 2022 but about half of the long-term average of 6.7 months from 1982 to 2019. Even though mortgage rates are elevated, the low inventory of for-sale homes has caused prices to increase throughout 2023. At the same time, insurance costs and property taxes have also increased substantially due to the increased home value and replacement costs, putting further financial pressure on those looking to purchase a home and pricing many out of the market.

Monthly home costs are up 9.3% year over year, as of the third quarter, shown in Exhibit 2. This was driven by home prices increasing 2.8% and mortgage rates up 60 bps over the same time period. Since the start of the pandemic, the monthly principal and interest (P&I) payment of a for-sale home has more than doubled. Meanwhile, rent growth during 2023 has slowed, up 0.4% during the past year as of the third quarter, but nearly 20% higher than the start of 2020. Wage growth has not kept pace with the cost of for-sale purchases but is in line with rent growth, on average, over the past four years.

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<sup>2</sup> As reported in the Challenger, Gray & Christmas Inc.: October Job Cut Report

## Exhibit 2: Monthly P&I Costs for the Median-Sales Price of a Home Compared with Rent

Quarter	For-Sale				Multifamily Monthly Rent	Multifamily YoY Rent Growth	YoY Wage Growth
	Mortgage Rate	Median Sales Price	Monthly P&I	YOY Change			
1Q 2020	3.50%	\$284,711	\$1,023	-16.8%	\$1,439	2.8%	3.5%
2Q 2020	3.13%	\$278,490	\$955	-21.0%	\$1,425	-0.3%	3.8%
3Q 2020	2.90%	\$311,640	\$1,038	-13.9%	\$1,424	-1.4%	3.5%
4Q 2020	2.67%	\$317,447	\$1,026	-18.8%	\$1,416	-1.2%	3.4%
1Q 2021	3.17%	\$335,588	\$1,157	13.1%	\$1,428	-0.9%	3.4%
2Q 2021	3.02%	\$347,218	\$1,174	22.9%	\$1,488	4.1%	3.2%
3Q 2021	3.01%	\$354,924	\$1,199	15.5%	\$1,586	10.4%	4.2%
4Q 2021	3.11%	\$368,457	\$1,260	22.8%	\$1,637	13.9%	4.5%
1Q 2022	4.67%	\$384,659	\$1,590	37.5%	\$1,676	15.3%	6.0%
2Q 2022	5.70%	\$391,734	\$1,819	54.9%	\$1,740	14.5%	6.7%
3Q 2022	6.70%	\$383,071	\$1,977	65.0%	\$1,793	10.6%	6.3%
4Q 2022	6.42%	\$376,409	\$1,888	49.8%	\$1,783	6.6%	6.1%
1Q 2023	6.32%	\$380,696	\$1,889	18.8%	\$1,784	4.5%	6.4%
2Q 2023	6.71%	\$388,202	\$2,006	10.3%	\$1,810	2.4%	5.6%
3Q 2023	7.31%	\$393,737	\$2,162	9.3%	\$1,824	0.4%	5.2%
Change Since 1Q 20	3.81%	\$109,026	\$1,139	111.3%	\$385	19.6%	19.7%

Sources: Freddie Mac, National Association of Realtors, RealPage

Note: For each period, assume a median-priced home, a 30-year mortgage and a 20% down payment. Monthly Rent dollar figures are from the "performance metrics" data from RealPage, but here, and throughout the report, we use same-store growth rates which provide a better idea of how true rents have changed and may not have the same growth rate as the rent dollars shown. Same store rent dollar figures are not available, but we provide the performance metrics to give context of rent cost to Monthly P&I.

One of the main reasons for the resumption of home price appreciation is the mortgage rate lock-in effect, where a homeowner with a low-rate mortgage has less incentive to move given the historically low interest rates many locked into during the pandemic. If they were to move, they would have to pay substantially more in interest costs even for a similarly priced home. Another factor limiting the supply of for-sale homes is the aging baby boomers staying in place more than anticipated. Historically, as seniors reach 75 to 80 years of age, they would sell their homes and move into dedicated seniors housing or in with family members. While this is still happening, the pace of seniors selling their homes is slower than expected. As a result, the sale of new, previously unoccupied homes has been increasing as a share of overall housing sales in 2023. According to Census data tabulated by the National Association of Home Builders, through the first three quarters of 2023, new home sales have accounted for 14% of all home sales, up from just over 10% in 2018.

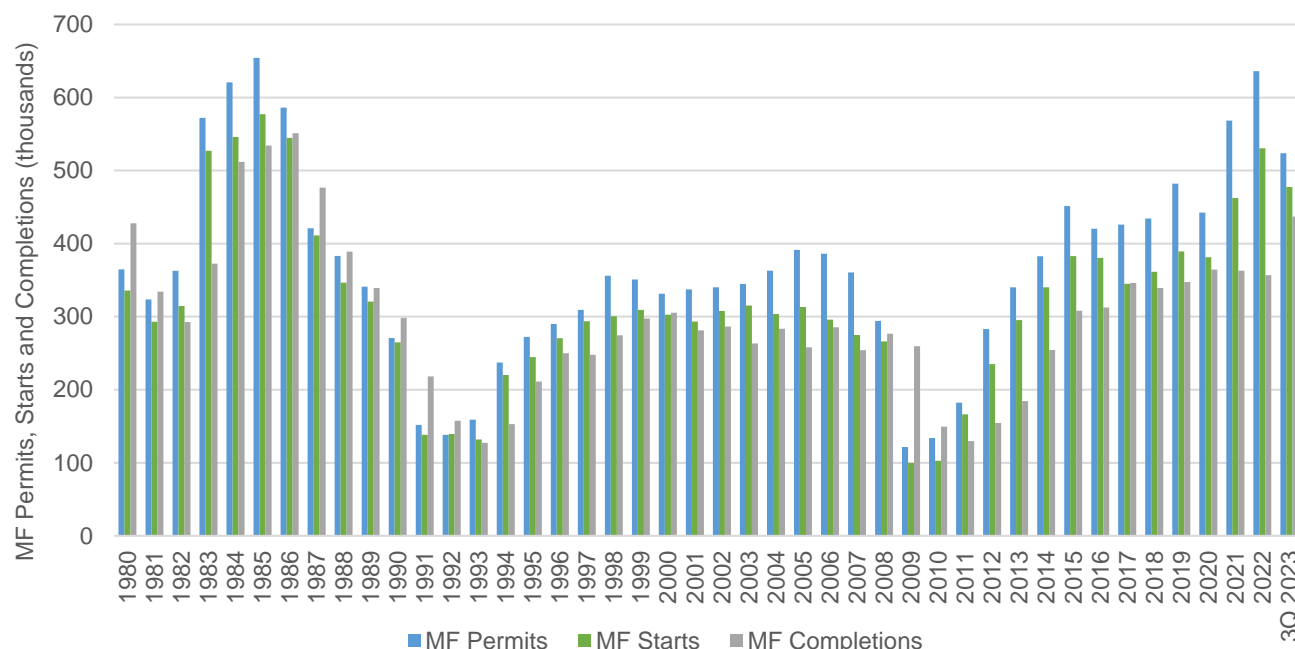
The expensive for-sale market has impacted many first-time homebuyers. Higher monthly costs and higher downpayments required from the increasing property values are pricing them out of the market. In October, first-

time homebuyers made up 26% of home sales, which is down three percentage points since April and is well below the typical 40%, according to the NAR. This will keep many would-be first-time homebuyers renting longer. While this does not create long-term demand, it will help keep units occupied, especially as new multifamily supply enters the market.

### Higher-for-Longer Supply Impacts Multifamily Performance

While the construction in the for-sale market has not kept pace with demand, construction in the multifamily market has picked up considerably to match the housing demand. Much of that new multifamily supply has started to enter the market which will continue to face high levels of new supply over the next two years. Since 2022, completions are up 22% to 437,000 units annually as of the third quarter of 2023, a level not seen since the late 1980s and about 170,000 units more than the 2000-through-2019 annual average, as shown in Exhibit 3. Meanwhile, permits and starts have slowed from the highs seen in 2022 but remain elevated. Permits and starts are down -18% and -10%, respectively, so far in 2023, but remain above 2019 levels. However, RealPage believes that the U.S. Census Bureau (Census) is significantly overreporting construction starts in 2023. While the Census reports that starts are down only marginally this year compared with 2022, RealPage believes the drop is actually 40% or more.<sup>3</sup> RealPage reports that units under construction topped out at just under 1.1 million units at the beginning of 2023 but have since declined -8% indicating that more units are being completed than started throughout 2023. At the beginning of 2023, the majority of the units under construction were expected to enter the market in 2023 and 2024. However due to construction delays that timeline has shifted out slightly, with some timelines extending into 2025, which will prolong the impact supply has on multifamily performance.

**Exhibit 3: Multifamily Permits, Starts and Completions (5+ Units)**

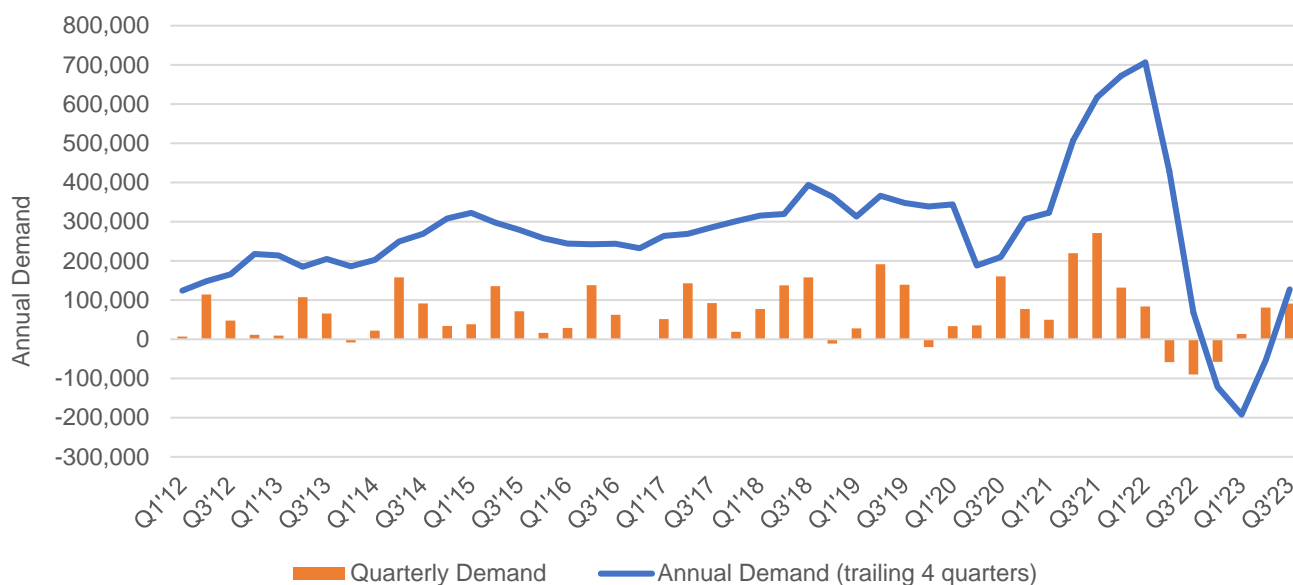


Sources: Freddie Mac, Census Bureau, Moody's Analytics

<sup>3</sup> <https://www.realpage.com/analytics/us-census-starts-probably-overstated/>

Demand for multifamily units has been positive in the first three quarters of 2023, after ending 2022 in negative territory. But the rate of demand has been weaker compared with the pre-pandemic average. When broken down by quarter, the first two quarters of the year saw rates well below the historical average, but by the third quarter, demand was in line with the previous third quarter demand levels. The annual demand (prior four quarters summed) moved back into positive territory as of the third quarter of 2023.

#### Exhibit 4: Quarterly and Annual Multifamily Demand



Sources: RealPage, Freddie Mac

Despite positive demand, multifamily performance has slowed in 2023 due mainly to supply outpacing demand. Because of the supply/demand imbalance, operators have seen reduced pricing power, and they are choosing to limit rent increases in order to attract new tenants, retain current ones and keep buildings full. Across the nation, RealPage reported just over 405,000 units were delivered into an inventory of about 19.2 million units, equating to a new supply ratio of 2.1% — defined as the number of units delivered during the 12 months ending in the third quarter of 2023 compared with the overall inventory. As a result, RealPage reports that rent growth slowed considerably over the past year, with quarterly gains of 1.1% and 0.5% in the second and third quarters, respectively. As of October, year-over-year growth slowed even further and was reported as essentially flat at 0.1%. This is well below the 7.6% growth rate as of October last year and the long-term average of 2.9% from 2000-2022. At the same time, occupancy is reported at 94.3% in October 2023, which is a 100-bps decrease from October last year. While this is slightly below the long-term average of 94.6% from 2000-2022, the rate of decline has slowed throughout 2023.

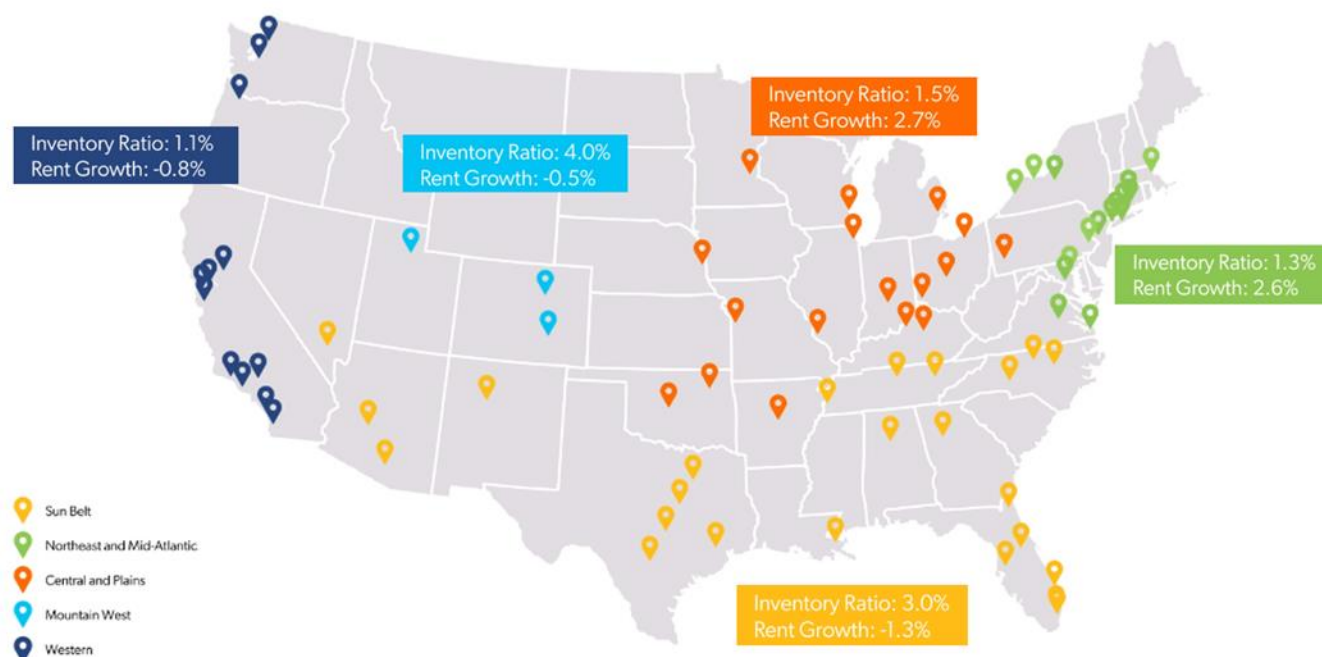
While these trends are evident at the national level, performance varies across geography. Areas with higher levels of new supply typically saw greater downward pressure on rent growth. Exhibit 4 shows the new supply ratio and rent growth during that same time period by region.

Metros in the Sun Belt and Mountain West saw some of the highest levels of new supply, at 3% and 4%, respectively, which caused rents to decline, down -1.4% and -0.5%, respectively. The markets with the highest



supply ratio are Salt Lake City, Nashville, Austin, Charlotte, and Colorado Springs, which all have a new supply ratio of 5.5% or higher. Meanwhile, the Midwest and Northeast saw much lower new supply ratios, representing only 1.5% and 1.3% of inventory, respectively, and as a result, annual rent growth on average was positive as of the third quarter 2023. The stronger than average rent growth in these areas is a product of lower supply, but the rent growth is also attributable to rent increases in these smaller Midwestern markets and secondary or tertiary markets in the Northeast, which are less expensive alternatives to their higher priced neighbors. The markets with the lowest new supply ratio are Tulsa, Rochester, Long Island, Syracuse, and New Orleans, which all feature a new supply ratio of 0.4% or less. The West Coast region has not generally followed this pattern, as new supply remains low at 1.1% of inventory but rents declined -0.8%. The West Coast story is due to outmigration trends instead of new supply putting downward pressure on rents.

### Exhibit 5: New Supply Ratio and Rent Growth by Region



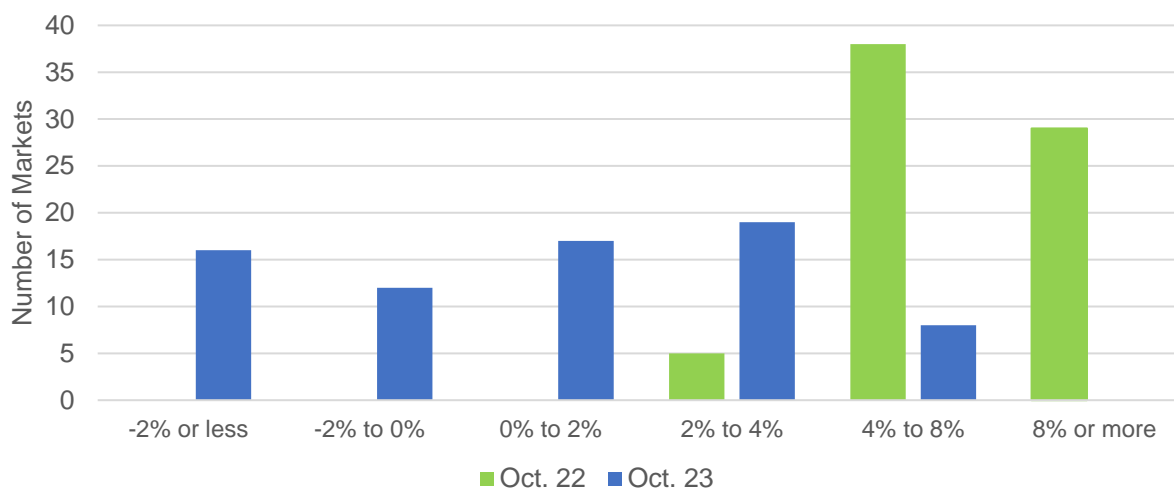
Sources: RealPage, Freddie Mac

With the slowdown in rent growth over the past year, there is a shift in the rent growth distribution, shown in Exhibit 6. In October 2022, no markets had negative year-over-year rent growth, while 93% experienced growth above 4%. Fast forward to October 2023, when 39% of markets saw negative year-over-year rent growth and only 11% of markets saw rent growth above 4%. Similar to the regional trends in Exhibit 5, all of the markets that saw the highest rent growth as of October 2023 are secondary or tertiary markets located in the Northeast, with Trenton, New Jersey leading the way with rent growth of 5.9% over the past year. The next markets with the highest rent growth are the three Upstate New York markets of Rochester, Buffalo and Syracuse which saw year-over-year rent growth of 4.7% to 5.8%.

On the flip side, the markets seeing the greatest rent declines in 2023 were those that saw some of the highest growth rates during the pandemic boom, and subsequently have seen some of the greatest supply growth rates. Austin, Texas, which has been a high supply market for years, has seen the steepest rent decline at -5.9% for the

year ending in October 2023. Other markets with significant rent declines include Atlanta, Jacksonville, Florida, Phoenix, Orlando, Florida, and Las Vegas, each of which have seen rent fall anywhere from 3.5% to 4.7% year over year. Despite these recent declines, these six markets experienced a total of 17% to 30% rent growth since October 2019. Among the gateway markets<sup>4</sup>, year-over-year rent growth was positive except for those in Los Angeles and San Francisco, as these areas have seen outmigration trends attributable to the high cost of living.

### Exhibit 6: Distribution of Annual Rent Growth by Metro Areas October 2023 Compared with October 2022

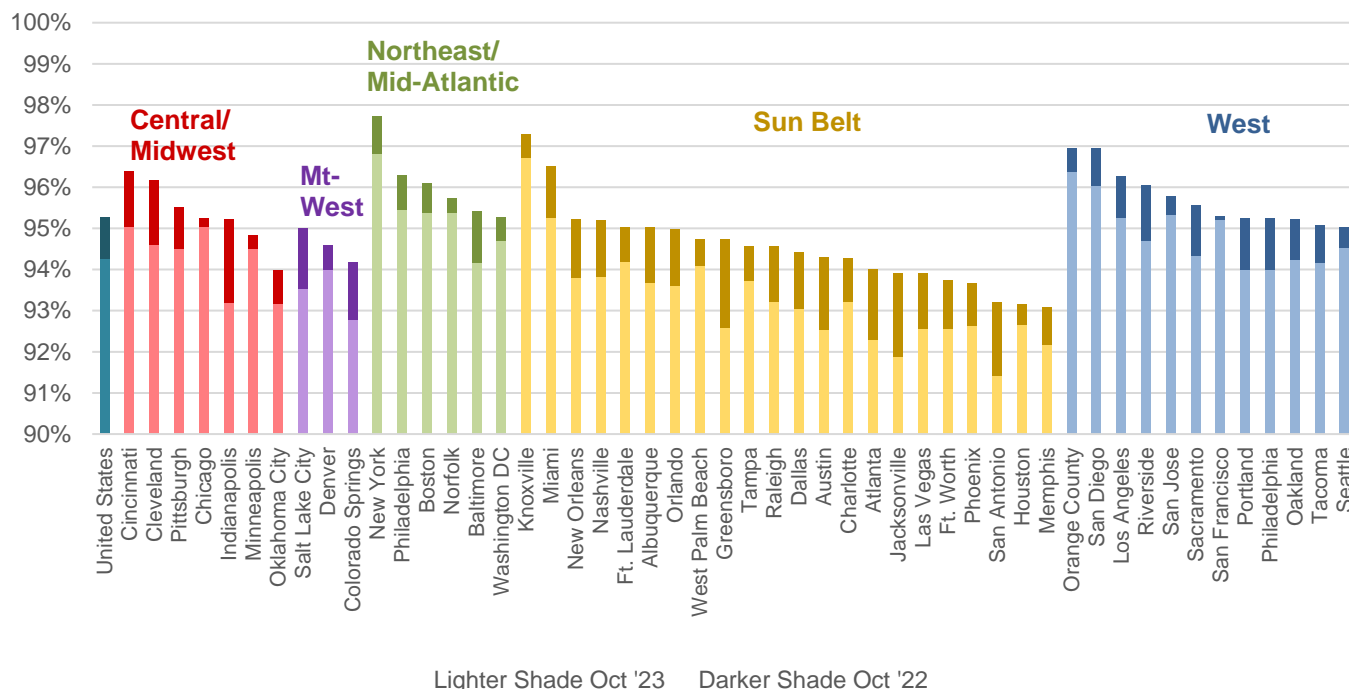


Sources: RealPage, Freddie Mac

In Exhibit 7, we see occupancy rate changes in the past year follow a similar regional trend to rent growth, although rates are down across all 50 major metro areas. Nationally, the occupancy rate has dropped 100 bps for the year ending in October 2023 to 94.3%, which is about 30 bps lower than the long-term average from 2000 through 2022. Markets that have seen the most stable occupancy rates include San Francisco, Chicago, and Minneapolis, which have seen occupancies decline just 10 to 30 bps over the past year. Additionally, the Northeast and West Coast markets have experienced slightly less severe declines over the past year and also operate at higher occupancy rates on average compared with the nation and other regions. Generally, the high-growth Sun Belt markets have seen the largest declines in occupancy, led by Greensboro, North Carolina at 220 bps, followed by Jacksonville at 200 bps.

<sup>4</sup> Gateway markets include Boston, Chicago, Los Angeles, Miami, New York, San Francisco, and Washington D.C.

### Exhibit 7: October 2023 Occupancy Rate Compared with October 2022



Sources: RealPage, Freddie Mac

Even though the majority of new supply entering the market is in the Class A space, rent growth among Class A properties has been strongest at 0.9% over the past year as of October 2023. During that time, rent growth for both Class B and C properties was negative at -0.2% and -0.4%, respectively. Occupancy rates vary little by class with all classes coming in at 94.2% or 94.3%. Yet, the Class C properties have seen the highest rate of decline at 160 bps, while Class A and B declined 70 bps and 90 bps, respectively. Overall, the percent of units offering concessions has increased over the past year but faster among Class C properties. Class A properties though are offering the highest concessions on a dollar basis and as a percent of asking rent. Typically, as new supply enters the market, Class A properties are at more risk given the increased competition from the new construction.

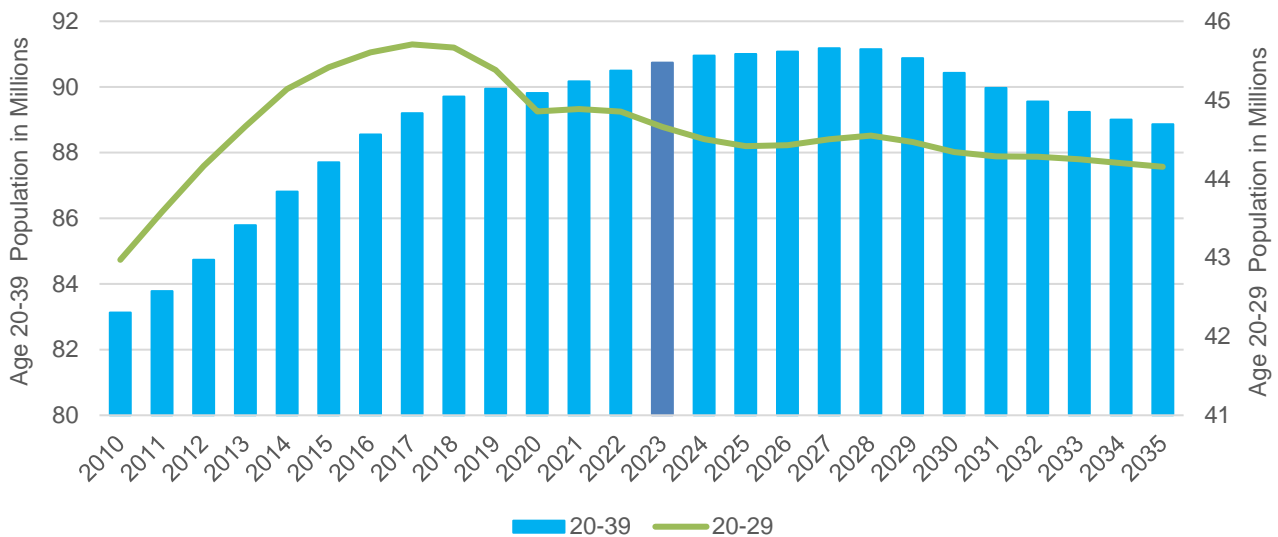
The other half of multifamily property net operating income (NOI) performance is the expense side of operations, which since the onset of the pandemic have been increasing meaningfully. While inflation has slowed throughout 2023, multifamily property expenses have been declining as well but at a much slower rate. During the third quarter of 2023, expenses grew 7.2%, more than double the rate of inflation. Taxes and payroll expenses are up the most at 10.5% and 8.4%, respectively, over the past year, while insurance is up a comparatively moderate 3.4%. Coupled with the slowdown in rent growth, higher expenses will put further pressure on (NOI).

## The Next Generation of Renters

The oldest millennials were born from 1981 through 1996. Many of whom are now more than 40 years old, and their propensity to own their home has increased. This implies the country’s largest generation will likely provide less demand for rental housing going forward. However, Generation Z, the generation born between 1997 and 2012, are beginning to enter prime renting age, with the oldest of the generation turning 26 years old this year. While not quite as large as millennials or baby boomers, Gen Z represents about one-fourth of the U.S. population.

Exhibit 8 shows the population between the age of 20 to 39 — considered prime renting age across both generations — as well as a subset of that those aged 20 to 29 years. The total population for the 20 -39-year-old cohort in 2023 is about 90.7 million and is expected to continue increasing in size through 2027, up to 91.2 million, according to Moody’s Analytics. By 2035, that group is expected to total 88.8 million people, a decline of nearly 2.4 million from the high in 2027. However, the rate of decline will not mirror the rate of increase seen in 2010-2018, partially due to the more gradual decline in the 20 -29-year-old cohort over the next 12 years. This indicates that as millennials age out of the 20 -39-year-old cohort, Gen Z, although slightly smaller, will continue to provide demographic tailwinds for the multifamily market as the younger age cohort remains elevated.

**Exhibit 8: Total Population Aged 20 to 39 and 20 to 29**



Sources: Moody’s Analytics, Freddie Mac

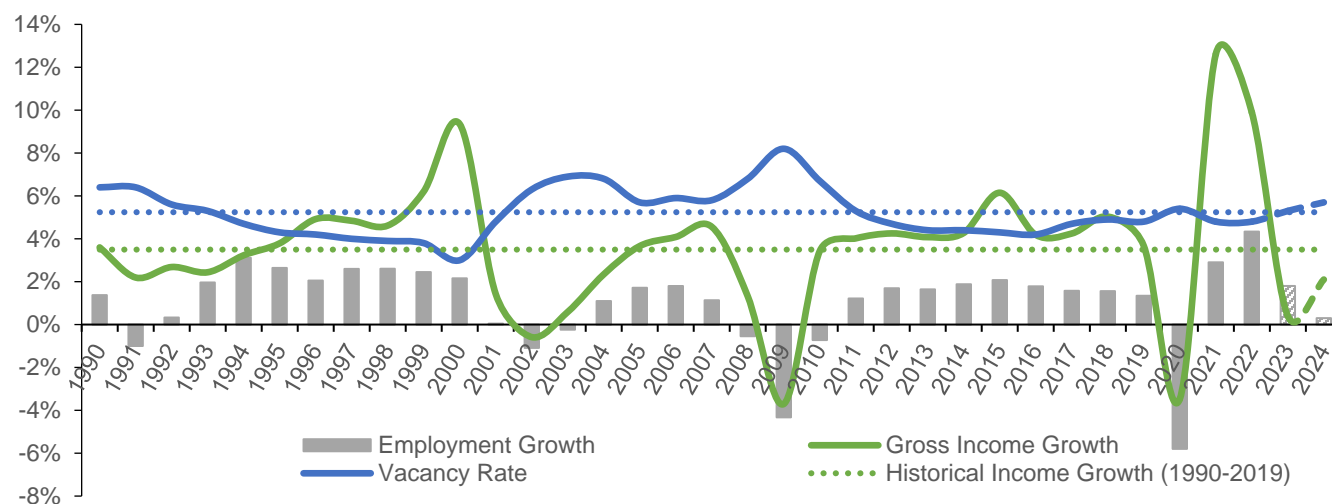
## Multifamily Fundamentals Outlook for 2024

Assuming we achieve an economic soft landing, we believe the multifamily market will continue to see slow growth while it works to absorb the high level of new supply in 2024. As the overall economy slows leading to a softer labor market, multifamily demand is expected to remain positive but weaker compared with pre-pandemic rates. For 2024, our baseline forecast is for rent growth of 2.5% for the year, remaining slightly below the long-term annual average from 2000 to 2022 of 2.9% per RealPage. We expect the vacancy rate to remain relatively stable in 2024 despite what we believe will be the peak year for deliveries this cycle. For 2024, we forecast the vacancy rate to be 5.7%, 40 bps higher than the 2000-through-2022 RealPage average of 5.3%.

In 2024, we expect gross income growth to total 2.1%, which is below Moody's Analytics' projected inflation growth rate of 2.5%. When creating these forecasts, we assume that while the economy is expected to slow overall, job growth will remain positive, household income growth will continue to improve, and inflation will continue its downward trend. The combination of slower demand due to a colling labor market, and an overall slowing of the economy along with what will likely be the peak of new deliveries, are driving factors for what is anticipated to be lower-than-average multifamily market conditions in 2024.

However, if the economy does not achieve the soft landing and instead falls into a recession, the multifamily market would likely see meaningfully lower market performance. Regardless of economic conditions, the pipeline of multifamily units expected to be delivered this year is extremely high, and if demand is lowered due to a recession, the overall multifamily market would face additional upward pressure on vacancy rates and downward pressure on rents. This is particularly true of markets that are facing extremely high levels of new supply. Conversely, if the labor market maintains the strength it has seen in 2023, we could expect higher rent growth than forecasted, but we project the occupancy rate would likely be less impacted and only improve marginally compared with the baseline forecast.

### Exhibit 9: Employment Growth, Vacancy Rate and Gross Income Growth, Historic and Forecast



Sources: Moody's Analytics, Reis for historic data, and Freddie Mac and Moody's projections for 2024 are represented by the dashed lines and striped box.

When we look at gross income growth projections by market for 2024, the top performing markets are generally secondary and tertiary markets, shown in Exhibit 10. They are typically spread out in the Midwest or a lower-cost alternative to a more expensive nearby market. San Francisco is expected to see decent growth due to very low supply entering the market, as well as higher income growth which will support rent growth. However, migration trends in San Francisco remain a headwind for the metro area which has not seen softening demand in recent years.

The bottom 10 markets for 2024 comprise different size markets and are spread throughout the country. Elevated levels of new supply entering the market are driving the limited gross income growth expectations for several markets, and most of the markets on this list are seeing new supply as a percentage of existing inventory higher than the national rate. The bottom markets not seeing high supply are generally more expensive and along the coast where outmigration is eroding demand. Although these markets are expected to see the weakest gross income growth in 2024, all of them except for Nashville are expected to see positive gross income growth for the year.

### Exhibit 10: Top and Bottom 10 Metros by Gross Income Growth for 2024

Metropolitan Area Top 10	2024 Annualized Growth in Gross Income	2024 Vacancy Rate	Metropolitan Area Bottom 10	2024 Annualized Growth in Gross Income	2024 Vacancy Rate
Oklahoma City	3.6%	5.9%	San Antonio	1.4%	7.8%
Albuquerque	3.5%	2.8%	Seattle	1.3%	7.3%
Tulsa	3.5%	4.7%	New York, Outer	1.1%	7.0%
West Palm Beach	3.5%	5.5%	Philadelphia	1.1%	5.9%
San Francisco	3.4%	4.2%	Fairfield County, CT	0.9%	7.0%
Riverside	3.3%	3.7%	Colorado Springs	0.9%	6.9%
Syracuse	3.3%	2.6%	Minneapolis	0.6%	7.8%
Little Rock	3.2%	4.4%	Washington, D.C. Core	0.5%	8.9%
Norfolk	3.2%	3.6%	Austin	0.3%	9.3%
New Orleans	3.2%	5.1%	Nashville	-0.1%	9.3%
<b>United States</b>	<b>2.1%</b>	<b>5.7%</b>			

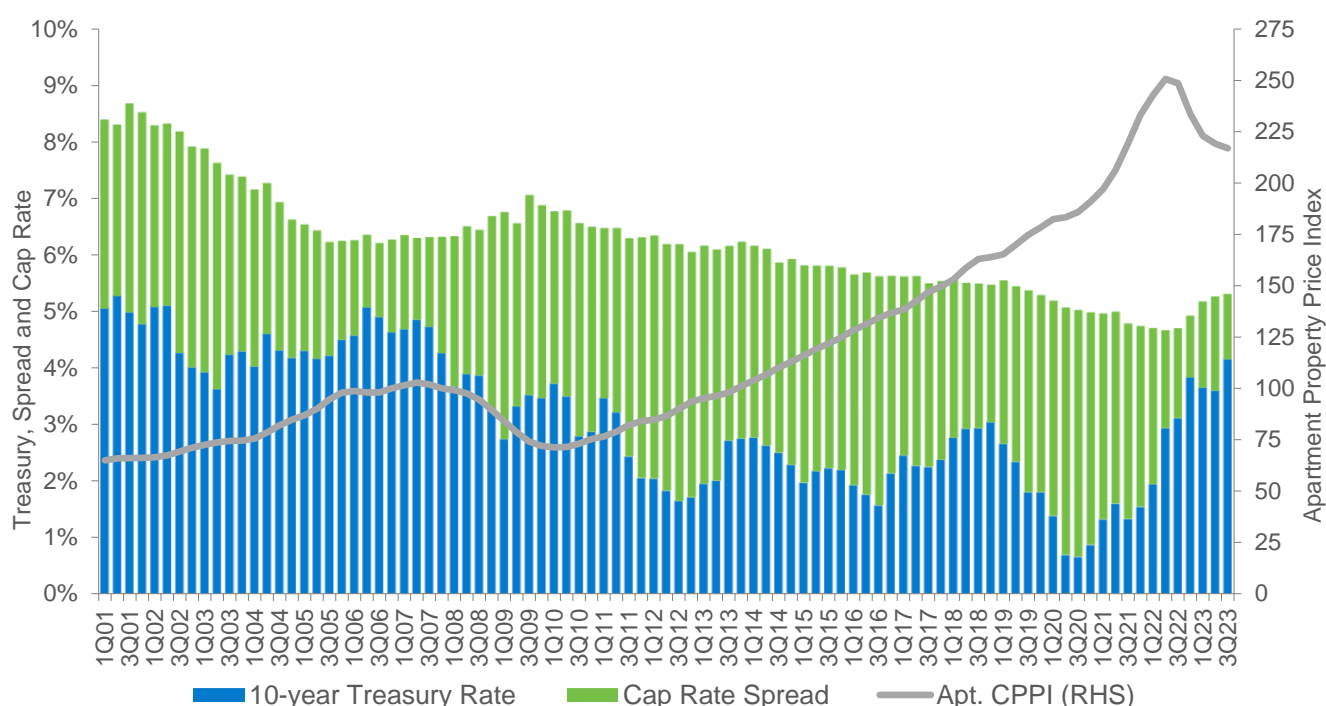
Source: Freddie Mac

### Multifamily Asset Valuations Remain Stressed

The multifamily valuation and debt market remained sluggish in 2023, due to the increasing and volatile interest rate environment. While the Federal Reserve continued to battle high inflation rates, the hope at the beginning of the year for rates to start declining, or adversely a recession resulting in lowering interest rates, did not come to fruition. As a result, multifamily originations were down throughout the year as many investors waited on the sideline throughout the rate instability. The Mortgage Bankers Association (MBA) reported that multifamily mortgage originations were down 50% annually as of the third quarter of 2023. For the full year, the MBA predicts multifamily origination volume will be down nearly -40% to \$285 billion.

While interest rate hikes seem to be over, sentiment is we are in a higher-for-longer interest rate period. This will result in more price discovery in 2024 as buyers and sellers adjust to the current higher interest rate environment. While cap rates have increased over time, gauging the cap rate increase has been difficult due to limited transaction data and sourcing. According to Real Capital Analytics (RCA), cap rates are up 60 bps since the trough in the second quarter of 2022; whereas, 10-year Treasury rates have increased twice as much during that time. This has caused the cap rate spread to tighten to 116 bps as of the third quarter of 2023, well below the average spread of 310 bps going back to 2001. This would put upward pressure on cap rates as buyers are usually unwilling to accept such a low risk-free premium. However, CBRE's cap rate survey indicates the average prime multifamily going-in cap rate has increased 155 bps and is likely nearing its peak.<sup>5</sup>

**Exhibit 11: Multifamily Price Index, Cap Rate Spread and Treasury Rate**



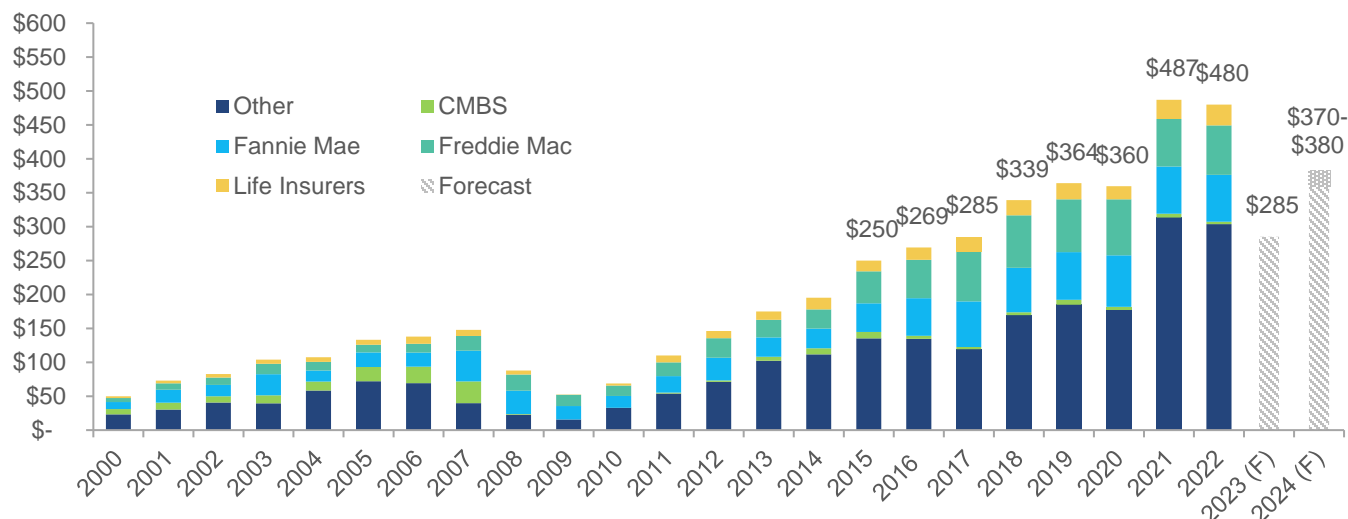
Sources: Freddie Mac, Real Capital Analytics CPPI, Federal Reserve Board, Moody's Analytics

Whether sources are lagged or methodology differs, any additional increases in cap rates will put downward pressure on property values. Property values have declined -13.4% since the peak in valuations in the second quarter of 2022. While the rate of property value decline has slowed down in the second and third quarters of 2023, property values continue to decline and could see further pressure if cap rates continue to increase.

Stabilization of the interest rates, all else equal, should help buyers and sellers find the middle ground to get transactions done. But slower rent growth and the higher rate environment may continue to suppress multifamily valuations in 2024. These factors will inhibit the debt market to see a quick snap back to 2021-2022 origination levels. As such, Freddie Mac projects origination volume to increase roughly 30-33%, up to \$370 billion to \$380 billion in 2024, which puts it more in line with pre-pandemic levels.

<sup>5</sup> <https://www.cbre.com/insights/briefs/higher-rates-push-up-prime-multifamily-cap-rates-in-q3>

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



Sources: Mortgage Bankers Association, ACLI, Wells Fargo, Intex Solutions Inc., Freddie Mac projections

Note: 2023 and 2024 projections of \$285 billion from MBA and \$370 billion to \$380 billion by Freddie Mac as of November 2023.

The confluence of higher interest rate and slower multifamily performance will increase the potential maturity risk over the next few years. Per the MBA, roughly \$250 billion in multifamily debt is due to mature in 2024 with a similar amount expected in 2025. This represents roughly 40% of all commercial real estate debt scheduled to mature over the next two years. The higher interest rate environment may make it difficult for loans to meet underwriting criteria, especially for shorter-term, higher-leveraged debt put on the past few years. There could be an increase in maturity defaults or cash-in refinances, but it is not expected to be systemic. Given the robust growth in multifamily rent and property values in the past five to 10 years, the market is in a good position for debt to refinance into today's current interest rate environment.

### Conclusion

Economic conditions appear to be moderating as we head into 2024 and expectations are for the economy to achieve a soft landing. We expect job, wage, and GDP growth to slow but remain positive, as inflation continues its downward trajectory. Assuming we achieve a soft economic landing, we expect the multifamily market to remain sluggish as it works through what will likely be peak deliveries for this cycle in 2024, with rent growth expected below the long-term average and vacancy rates higher than average. The impacts of high supply vary across the country; the Sun Belt and Mountain West regions are expected to see the highest levels of new supply and the most pressure on rent growth, while the slower moving secondary or tertiary markets are generally expected to be the better performing markets. Although interest rates are expected to remain elevated in 2024, we expect some interest rate stability which could spur multifamily lending volume for the year. With interest rate stability, cap rates and property values should stabilize allowing buyers and sellers to agree on asset value to facilitate for more transaction volume. Despite the short-term supply headwind, over the longer-term the multifamily market will continue to be supported by the overall shortage of housing, an expensive for-sale housing market, and the next generation of renters entering prime renter age.



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