2025 Multifamily Outlook

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Multifamily Research Center

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As we approach the end of 2024, the multifamily market has proved to be resilient in the face of the highest level of new supply since the 1980s. Fortunately, demand has been exceptional but rent growth over the past year has been modest while vacancy rates have held relatively constant. For 2025, we predict positive rent growth, but below the long-term average, while vacancy rates are expected to continue to creep up. Cap rates have flattened out, while interest rates remain elevated and volatile, exerting negative pressure on property values, all while property performance is subdued. The multifamily origination market is expected to pick up but will remain below the highs seen in 2021 and 2022. Although the multifamily market is facing short-term stress from elevated supply, higher-for-longer interest rates and moderating performance, over the longer term multifamily will likely remain a favored asset class due to the lack of alternative housing options, continued economic strength and demographic tailwinds.

- The economy continues to perform well, but is generally slowing, seen more meaningfully in the labor market.
- Multifamily demand has been outstanding, while new supply is expected to be at its cyclical high in late 2024 and early 2025.
- For 2025, we expect rent growth to be positive but below long-term average growth rates, while vacancy rates will see modest increases, remaining above the long-run average.
- The Sun Belt and Mountain West regions of the country are seeing the bulk of the new supply but are met with some of the strongest demand.
- On an individual market level, performance will differ. Generally, metro areas with less supply and that have seen less rent growth since the pandemic will likely outperform, while higher supply markets are expected to have weaker performance.
- Interest rates remain elevated and volatile while cap rates have been flat, leading to a cap rate spread that is compressed and well below the long-term average.
- Meanwhile property prices continue to decline but the rate of decline has moderated throughout 2024.
- Even though interest rates remain volatile and higher for longer, multifamily transaction volume is expected to increase in 2024, up to about $320 billion, and another $50 billion to $60 billion in 2025 up to the $370 billion to $380 billion range.

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The Multifamily Market is Holding Steady Nationally

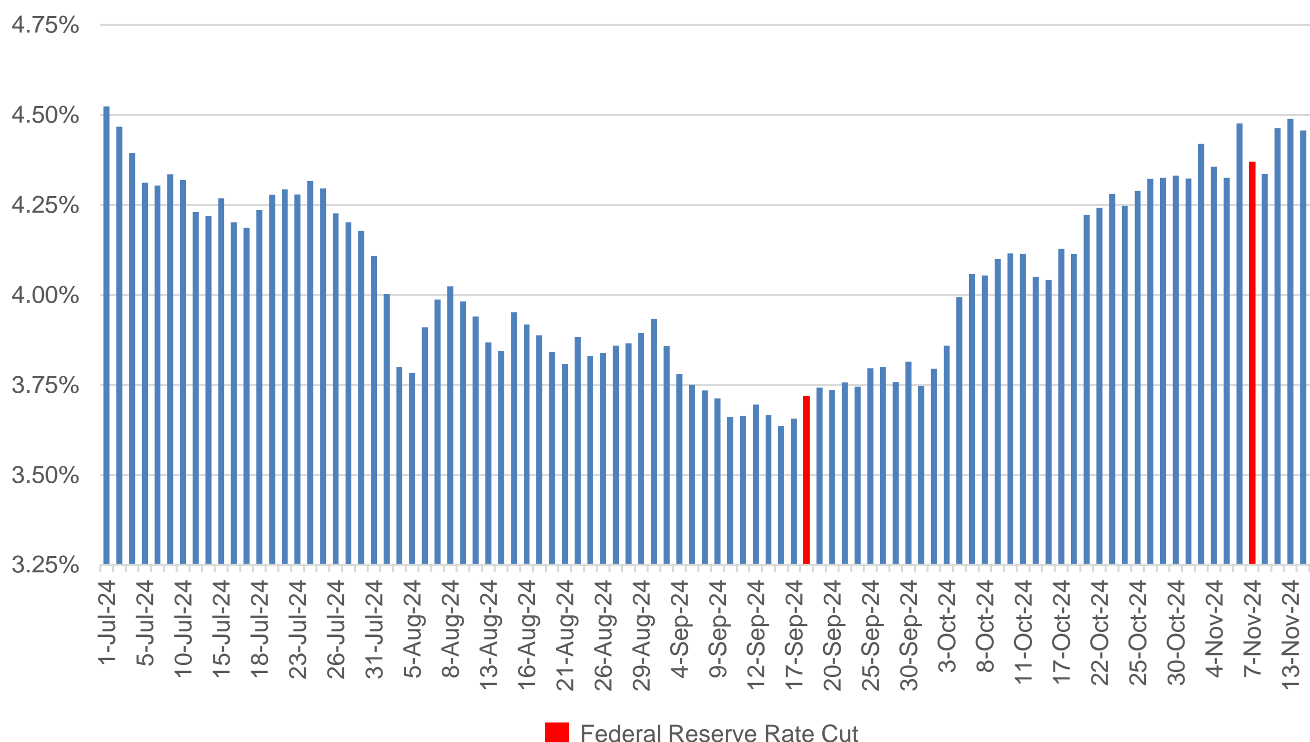
Despite slowing fundamentals due to new supply headwinds at levels not seen in 40 years, the multifamily market continues to keep its head above water, showing modest year-over-year rent growth of 0.3% and stable occupancy of 94.4% as of third quarter 2024, per RealPage. This relative strength is due to the extremely high levels of demand, which on a yearly basis was only eclipsed by the post-pandemic boom in 2021 and into 2022. High-supply markets, which are generally concentrated in the southern third of the country and in the Mountain West, are generally seeing negative rent growth and elevated vacancy rates, but demand is also strongest in these areas. Typically, lower-supply secondary and tertiary markets are performing the best, which are located in the Northeast or Midwest. The continued high interest rates, moderating property performance and elevated cap rates have put downward pressure on asset prices, but some data and market sentiment indicate a bottom may be near or already found.

The economy continues to perform well, with solid gross domestic product (GDP) growth, moderating inflation, and a job market that, although slowing, is still performing well by most historic measures. Risks of an economic downturn through 2025 remain elevated, with the primary concerns being the Federal Reserve held interest rates too high for too long (even though rate cuts have begun) or a resurgence of inflation, which could lead to a higher interest rate environment and a recession. If an economic downturn were to occur while supply levels are still elevated, it could have an outsized impact on the performance of the multifamily market. Although, there are some headwinds in the short-term, the multifamily market looks to be on solid ground, with continued strong demand, a resilient labor market, favorable demographics over the next decade, continued overall housing shortage and an expensive for-sale housing market.

The Fed Has Pivoted But…

In September, the Federal Reserve pivoted and lowered the federal funds rate by 50 basis points (bps) and in November by another 25 bps, to a 4.50% to 4.75% target, indicating its confidence in achieving its dual mandate of inflation returning to its target while maintaining full employment. However, the 10-year Treasury rate has been volatile, declining 90 bps from July to September, then rebounding back up to 4.5% by November. The risks of recession remain elevated in 2025 at about 33%, according to Moody’s Analytics. If a recession is avoided, we will very likely see the coveted soft landing, with inflation abated and a continued robust economy. As of October, Moody’s Analytics believes that by the end of 2025 the federal funds rate will be about 4% indicating two to three more 25 bps rate cuts in 2025. The Fred forecasts the 10-year rate to be around 4% in late 2025.

Exhibit 1: Daily 10-Year Treasury Rate



Sources: U.S. Board of Governors of the Federal Reserve System, Moody's Analytics, Freddie Mac.

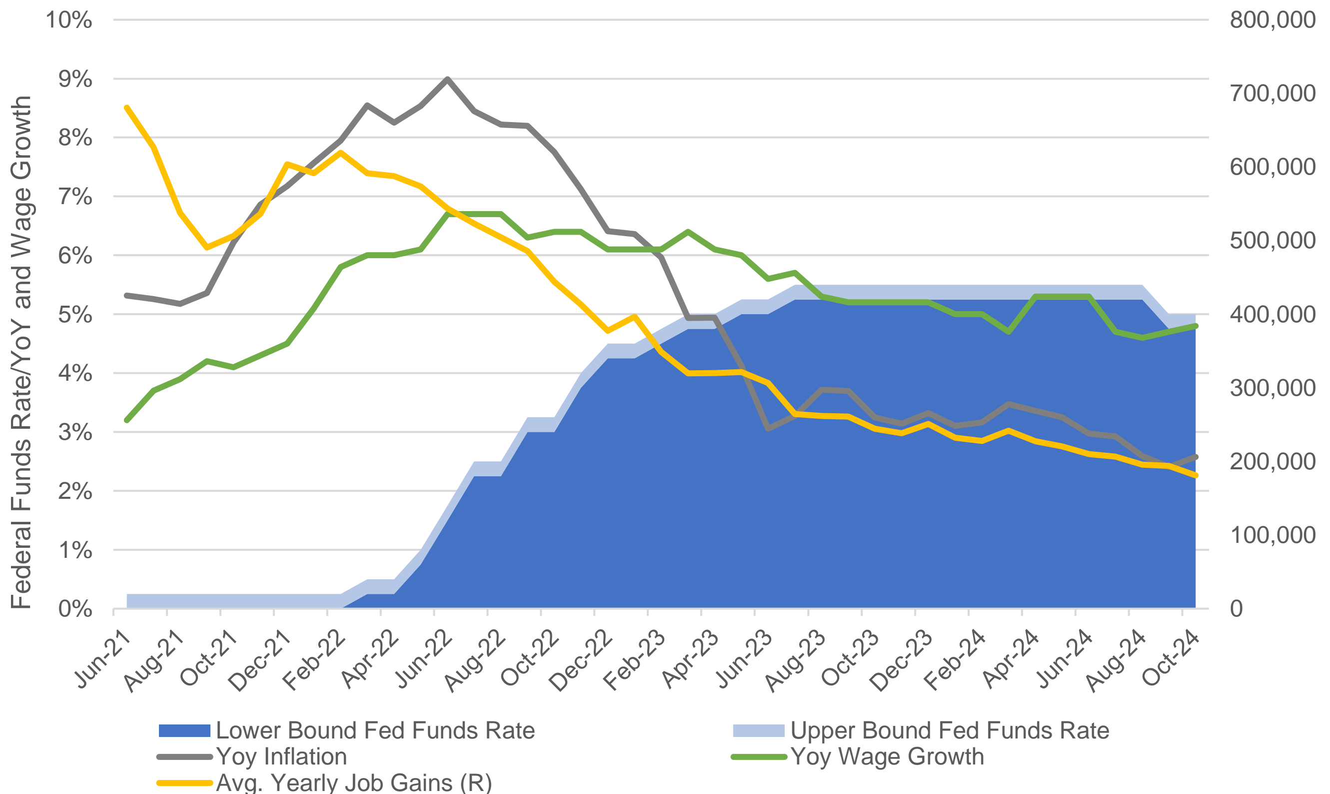
During the second and third quarters of 2024 economic growth was very healthy, with real GDP growth of 3% and 2.8%, respectively, according to the Bureau of Economic Analysis. A large portion of that growth recently is due to a rebound in exports, along with increases in consumer and government spending. The Federal Reserve Board of Philadelphia's Survey of Professional Forecasters[1] indicates that as of November 2024, GDP growth for 2024 and 2025 is expected to be 2.7% and 2.2% respectively. Although these forecasts indicate that a soft landing is possible, there are several risks that could cause the economy to falter. Chief among those risks is a re-emergence of inflation or a misstep by the Fed, according to Moody's Analytics. Other risks include an expansion of current or new geopolitical conflicts, a faltering of the banking or financial systems, and a debt limit fiscal standoff.

Inflation moderated during the second half of the year and as of October sits at 2.6% per the consumer price index (CPI) and has been below 3% year-over-year growth since July. However, the price index for core personal consumption expenditures, the Fed's preferred measure of inflation, was still elevated at 2.8% in October, well above the 2% inflation goal the Fed has set. While headline rent growth over the past year has been minimal, and the cost of for-sale housing has risen about 3.7%[2], the shelter component of inflation is still elevated and is a major driver of the increased inflation measure. It is possible that renewal rental rate increases, which are conflated in the headline rent growth rates we typically discuss, are the main driver of high growth of the shelter

[1] https://www.philadelphiafed.org/surveys-and-data/real-time-data-research/spf-q4-2024
[2] https://www.freddiemac.com/research/indices/house-price-index

component of CPI. Along with housing, the services component of inflation accounts for an outsized portion of inflation compared with pre-pandemic norms.

Exhibit 2: 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 St. Louis, Freddie Mac

Although slowing throughout the year, the labor market remains strong. For the 12 months ending in October 2024, average monthly job growth was just 180,000, totaling about 2.2 million for the year, according to the Bureau of Labor Statistics. This remains well above 2019, when job growth totaled 1.6 million, but well below the 2023 total when more than 3 million jobs were added. Year-over-year wage growth fell from nearly 7% in the middle of 2022 to 4.7% in September of 2024, but has been inconsistent, jumping between 4.7% and 5.3% for much of the year so far. Even though job growth has been strong, the unemployment rate has been steadily ticking up since the cyclical low of 3.4% in early 2023 to 4.1% in October 2024. While the unemployment rate has been increasing, weekly jobless claims have been steady in 2024, with the weekly average essentially unchanged from the 2023 rate at 223,000 per week, according to the Department of Labor.

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The For-Sale Market: Low Supply and Increasing Prices

For the year ending in September 2024, just over 3.8 million existing homes were sold, according to the National Association of REALTORS® (NAR), which is a decline of only 3.5% from a year ago but more than 40% decline from the 2022 sales total of about 6.5 million units. Although supply as measured by months of inventory is increasing, equaling 4.3 months as of September, it is still well below the average from 1982 through 2019 of 6.7 months. The share of first-time homebuyers is decreasing, while home price, insurance, down payment and property taxes are all increasing. Going back to 1981, the NAR finds that the average first-time homebuyer represents 38% of sales annually, however in 2023, they represented just 24%, a historic low. While the NAR reports on all homebuyers, including those paying in cash, Freddie Mac data indicates that among those buying homes with a mortgage, first-time homebuyers represent just over half of the homebuying market[3].

The monthly cost to finance a home, principal and interest (P&I), has declined about 9% over the past year as of the third quarter of 2024, as shown in Exhibit 3. The decrease is attributable to a decrease in mortgage rates of 125 bps, while median home price increased about $12,000. Over the past four and a half years, since the onset of the pandemic, P&I costs have nearly doubled from just over $1,000 per month to about $1,950 per month. Over the same time frame, multifamily rents grew about 20%. While wage growth of 25% during this period has outpaced rent growth, broad measures don't necessarily reflect the experiences of all renters. The increasing monthly costs of for-sale housing makes renting a comparatively more affordable choice, all things being equal. The higher costs associated with home ownership will likely keep some renters out of homeownership.

Exhibit 3: Monthly P&I Costs for the Median Sales Price of a Home Compared with Rent

Year/ Quarter	For-Sale				Multifamily Monthly Rent	Multifamily YoY Rent Growth	YoY Wage Growth
	Mortgage Rate	Median Sales Price	Monthly P&I	YoY Change			
2020	3.1%	$298,485	$1,012	-17.6%	$1,426	0.0%	3.6%
2021	3.1%	$352,048	$1,199	18.6%	$1,535	6.9%	3.8%
2022	5.9%	$384,461	$1,821	51.8%	$1,749	11.7%	6.3%
1Q 2023	6.3%	$379,473	$1,883	18.7%	$1,786	4.5%	6.4%
2Q 2023	6.7%	$386,928	$1,999	10.2%	$1,811	2.4%	5.6%
3Q 2023	7.3%	$392,047	$2,152	8.7%	$1,825	0.4%	5.2%
4Q 2023	6.6%	$394,804	$2,019	6.0%	$1,807	0.2%	5.2%
1Q 2024	6.8%	$398,563	$2,077	10.3%	$1,808	0.2%	4.7%
2Q 2024	6.9%	$404,170	$2,121	6.1%	$1,828	0.2%	5.3%
3Q 2024	6.1%	$403,825	$1,954	-9.2%	$1,841	0.3%	4.7%
Change Since 1Q 2020	3.0%	$105,340	$942	85.7%	$415	20.2%	25.0%

Sources: Freddie Mac, National Association of Realtors, RealPage

[3] https://www.freddiemac.com/research/forecast/20241018-us-economy-remains-strong

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 indication 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. 2020 through 2023 data is the average of the quarterly data.

Strong Multifamily Demand and Even Higher Supply

The low interest rates and strong multifamily property performance spurred new development during 2021 and 2022, which is now leading to new-unit delivery levels not seen since the mid-1980s. Multifamily permits and starts have been falling over the past two years. Data from the U.S. Census Bureau (Census) indicates that multifamily permits and starts through the first nine months of 2024 are down -20% and -28%, respectively, compared with 2023. Due to the lack of financing options multifamily starts are especially impacted, and through the first three quarters of 2024, are at their lowest level in a decade. However, deliveries are very high through the first three quarters of 2024. Census reports deliveries have totaled about 591,000 units annualized, which is higher than any year in the data set going back to 1980, as shown in Exhibit 4.

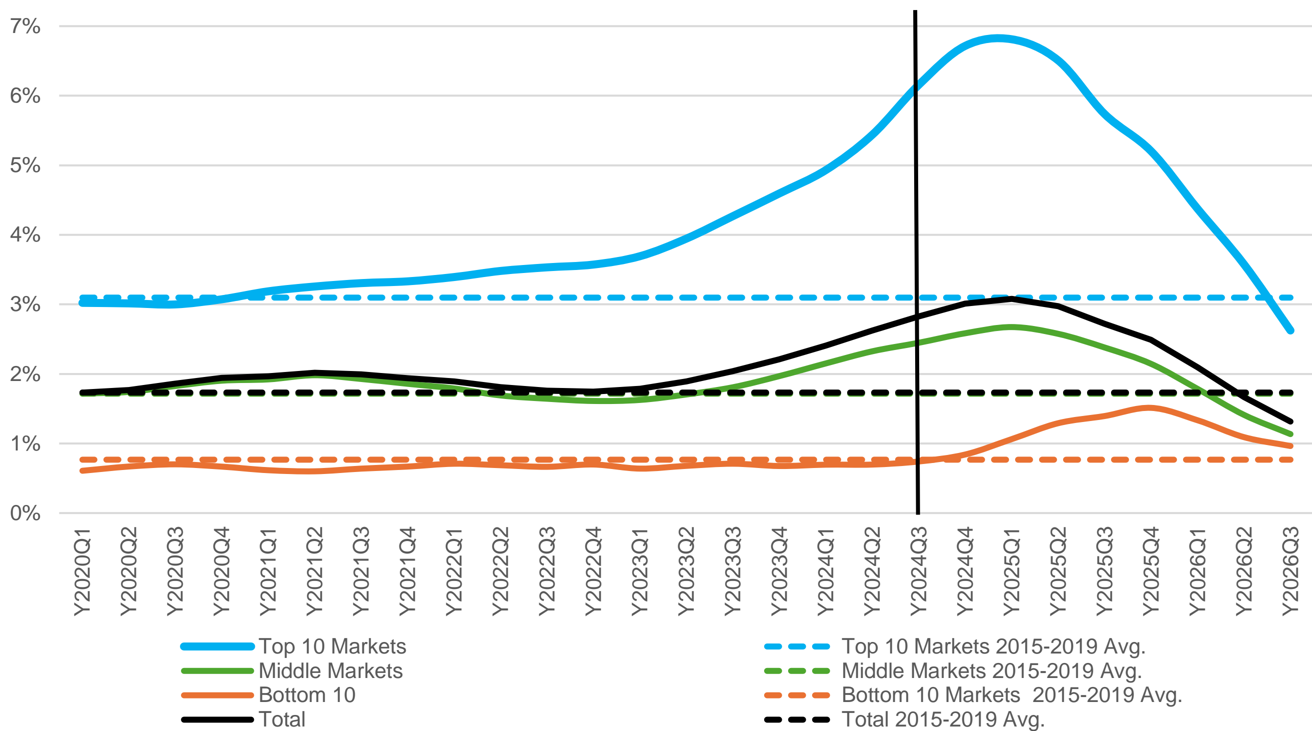
Exhibit 4: Multifamily Permits, Starts and Completions (5+ Units)

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

Across the country, RealPage reports nearly 560,000 new units were delivered in the year ending in September 2024, which differs from Census data in that it covers different geographies and is over a slightly different time frame. RealPage predicts peak multifamily deliveries to occur in 2024 and 2025 with between 500,000 to 600,000 total units delivered each year, which is roughly double the average annual rate of about 300,000 from 2015 through 2019.

Nationally, the supply ratio[4] has increased dramatically over the past year, according to data from RealPage, up from 1.8% in the first quarter of 2023 to 2.8% during the third quarter of 2024, as shown in Exhibit 5. For comparison, the 2015 through 2019 average is 1.7%. Among the 10 markets with the highest supply ratios, the weighted average inventory ratio is much higher at 6.2% in the third quarter of 2024, compared with the 2015 though 2019 average of 3.1%. The markets with the highest supply ratios include Colorado Springs, Colorado; Austin, Texas; Raleigh, North Carolina; Nashville, Tennessee; and Charlotte, North Carolina, among others. Conversely, the 10 markets with the lowest supply ratio during the third quarter of 2024 have a supply ratio of 0.7%, which is actually below the 2015 through 2019 average of 0.8%. These low-supply ratio markets include New Orleans; Rochester, New York; Syracuse, New York; Los Angeles; and Pittsburgh. Each group of markets, except for the bottom 10 markets, are expected to see their peak supply ratio during the first quarter of 2025, before receding throughout the remainder of 2025 and into 2026, when supply ratios are expected to drop below their pre-pandemic rates. However, among the bottom 10 markets, the supply ratio is predicted to peak during late 2025, at 1.5%, showing the comparatively delayed timing of the new supply wave in these lower-supply markets.

Exhibit 5: Multifamily Forecasted Supply Wave



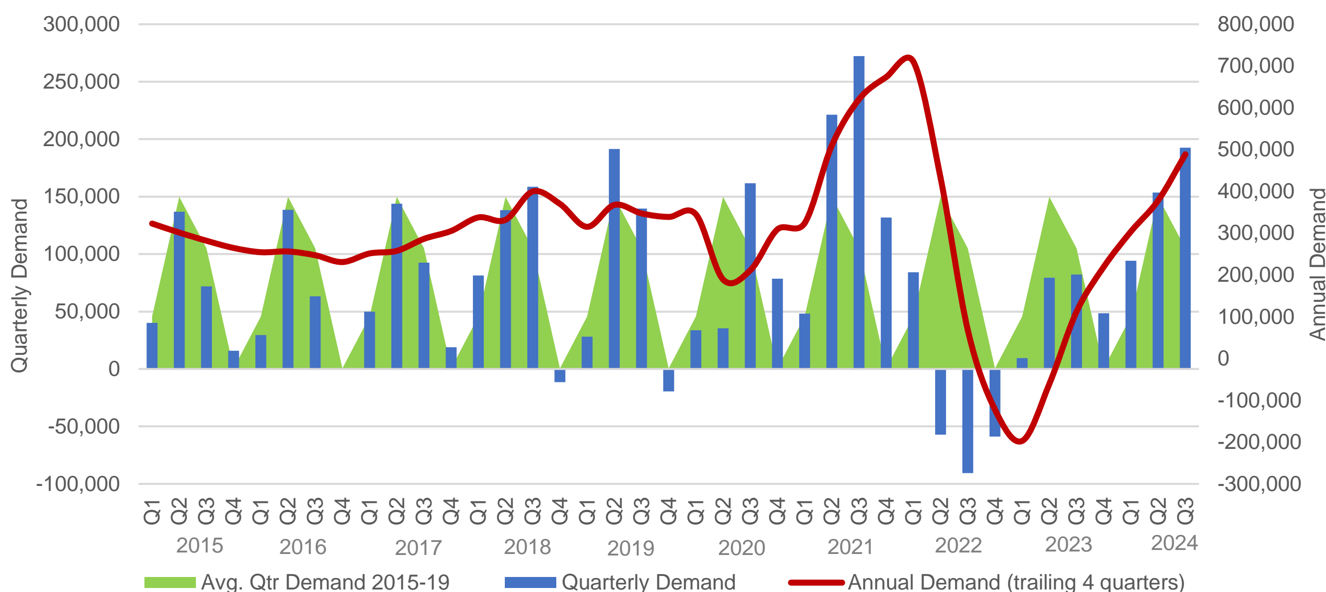
Note: Top/Bottom 10 markets are by inventory ratio as of 3Q 2024.

Demand has rebounded sharply for the year ending in third quarter 2024, totaling nearly 490,000 units, which has only been eclipsed during the peak of the pandemic boom during 2021 and early 2022 per RealPage. As shown in Exhibit 6, quarterly demand has been positive for the past seven quarters, but during the second and third

[4] Supply ratio is the number of new units delivered over the prior 12 months over the number of existing units.

quarters demand has been exceptional totaling about 346,000. This level of demand in just two quarters is well above the typical yearly average of about 300,000 units seen from 2015-2019. Demand seen during each of the previous four quarters has also exceeded the average quarterly demand seen from 2015 through 2019 as well.

Exhibit 6: Quarterly and Annual Multifamily Demand, 2015-2019 Quarterly Average Demand



Sources: RealPage, Freddie Mac

Although demand has been quite strong recently, high levels of supply are keeping vacancy rates elevated and rent growth muted. RealPage reports that rent for the year ending third quarter of 2024 totaled just 30 bps, while over the past year occupancy has decreased 10 bps to 94.4% but remained relatively flat during 2024.

Exhibit 7 shows the new supply ratio, the demand ratio[5], rent growth and the current occupancy rate compared with 2015 through 2019 average regionally for the year ending in the third quarter of 2024 calculated from RealPage data. The highest levels of new supply as a percentage of existing inventory are seen in the Mountain West and the Sun Belt regions, with inventory ratios of 5.5% and 4.3%, respectively. The markets with the highest supply ratios are Colorado Springs, Austin, Raleigh/Durham, Nashville and Charlotte with supply ratios of 6.5% to 8.8%. While the Western, Central and Plains, and Northeast and Mid-Atlantic regions are seeing much lower supply ratios of between 1.3% and 1.8%. The markets seeing the lowest supply ratios are New Orleans, Rochester and Syracuse, with supply ratios of 0.4% or less. However, it's not just smaller markets with low-supply ratios, Los Angeles and New York City have the fourth and sixth lowest supply ratios of 0.7% and 0.8%, respectively.

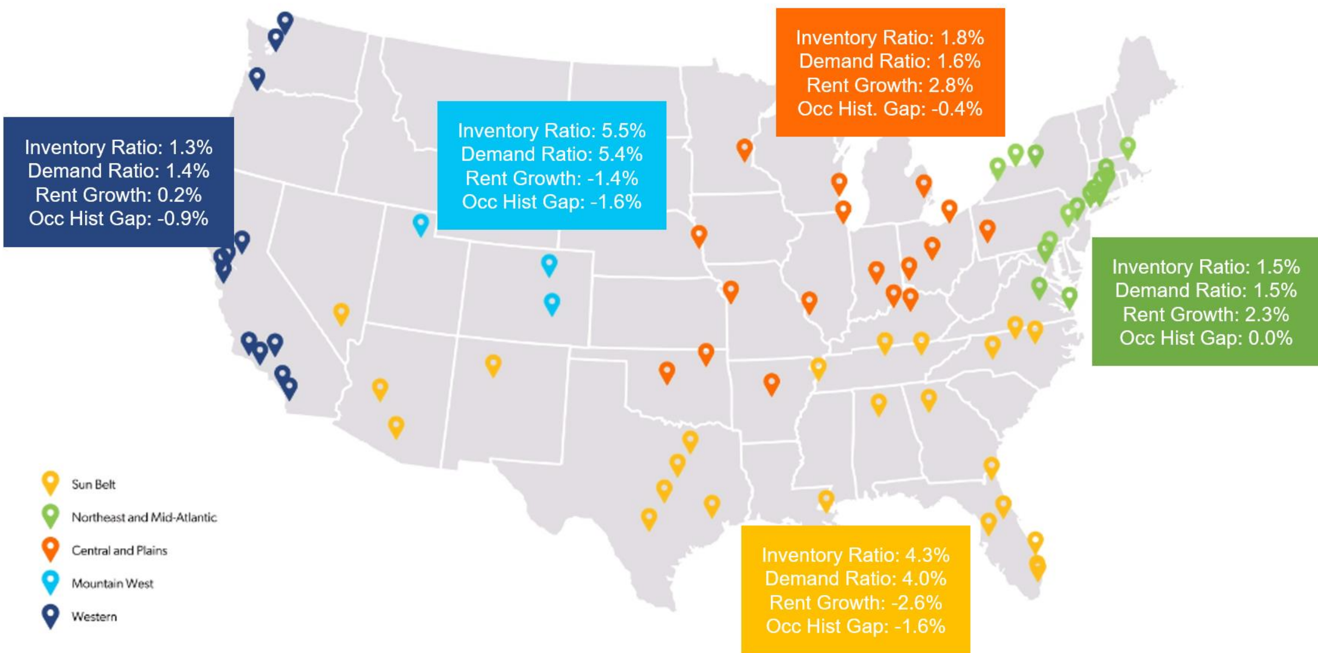
Despite relatively high demand ratios in the Sun Belt and Mountain West regions of 5.4% and 4%, respectively, rent growth has been negative in those two areas: -2.6% in the Sun Belt, and -1.4% in the Mountain West. Demand ratios are strongest within those high-supply Sun Belt and Mountain West markets. Four out of the five markets with the highest supply ratios also have the highest demand ratios, the exception being Charlotte which

[5] Demand ratio is defined as the number of units absorbed over the prior year into the number of occupied units.

has the fifth highest supply ratio but the sixth highest demand ratio. This indicates that much of the new supply is being built where demand is strongest. Demand ratios in the other regions of the county are much lower, ranging from 1.4% to 1.6%, but these areas have seen positive rent growth. Another explanation for the weaker rent growth in these high-supply ratio markets can be explained by the lower occupancy compared with historic levels. In the Sun Belt, Mountain West and West Coast, occupancy rates are roughly 100 to 250 bps lower than the 2015 through 2019 regional averages. However, not all markets in these regions are following that pattern, some secondary or tertiary markets in these regions are experiencing decent rent growth due to increased demand and modest supply.

Even in the high-supply ratio regions, the demand ratio has been close to the supply ratio, but in aggregate many of these markets are seeing higher than historic levels of vacancy. The overall high level of vacancy is limiting rent growth and pushing operators to prioritize occupancy over rent growth.

Exhibit 7: Supply and Demand Ratios and Rent Growth by Region at 3Q 2024



Sources: RealPage, Freddie Mac

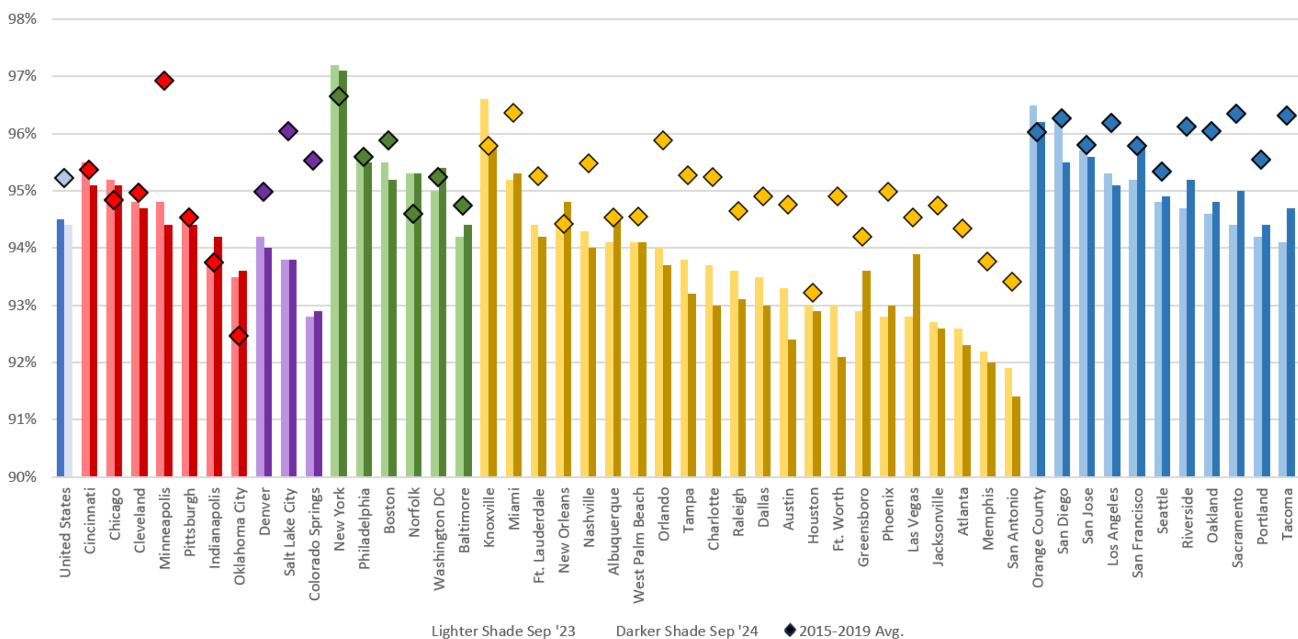
At the metro level, more than half of all metro areas we cover along with the nation have seen the pace of rent growth slow from the previous year, according to RealPage. Over the past year about 40% of markets are seeing negative rent growth, while about 60% are seeing positive rent growth. However, the markets that are seeing negative rent growth are experiencing more rent declines than the best performing markets are seeing rent growth, leading to stagnant overall rent growth for the nation. Secondary and tertiary markets located in the Northeast are leading the pack in year-over-year rent growth, with all five of the highest rent growth markets located in upstate New York or Connecticut, with rent growth over the past year of at least 4.3%.

The markets seeing the greatest rent declines as of September 2024 are generally markets that saw a significant jump in rent during 2021 and early 2022, and as a result, saw meaningful increases in new construction and are now seeing high levels of new supply. The markets seeing the greatest year-over-year rent declines include Austin; Raleigh/Durham; Jacksonville, Florida; Phoenix; and San Antonio, which are seeing rents declines of -4.5% to -8.1%, according to RealPage.

Nationally occupancy rates as of the third quarter of 2024 are only 10 bps lower than they were one year ago, at 94.4%, but they have increased 30 bps since their cyclical bottom during the first quarter of 2024 at 94.1%, according to RealPage. The markets seeing the largest year-over-year declines are generally located in the Sun Belt region, while the other areas of the country are generally seeing more modest declines or slight increases in occupancy rates. Markets that have seen occupancy levels increase the most over the past year include Las Vegas and Greensboro in the Sun Belt, as well as Tacoma, Washington; San Francisco; Sacramento, California; and Riverside, California in the West. The highest occupancy rates are generally located on the West Coast as well as New York City, while the Sun Belt generally has the lowest occupancy rates. The Sun Belt markets of Austin; Fort Worth, Texas; and Knoxville, Tennessee, are seeing the largest occupancy rate decreases of 80 to 90 bps over the past year

In Exhibit 8, we see occupancy rates over the past year are down in more than half of markets, as well as the nation as a whole, while more than three quarters of markets are seeing occupancy rates lower than their 2015 through 2019 averages. Regionally the Sun Belt has the greatest gap from its current occupancy rate to its historic average at 130 bps, while the Mountain West is seeing current occupancy rates about 70 bps lower than its 2015 through 2019 average. Fort Worth, Colorado Springs and Minneapolis are seeing some of the largest gaps in occupancy rates below their 2015 through 2019 averages, ranging from -250 bps to -280 bps. Meanwhile, Oklahoma City, Oklahoma; Norfolk, Virginia; and New York City are seeing their occupancy rates above their pre-pandemic average, from 50 bps to 110 bps.

Exhibit 8: 3Q 2024 Occupancy Rate Compared with 3Q 2023 and Historic Average



Sources: RealPage, Freddie Mac

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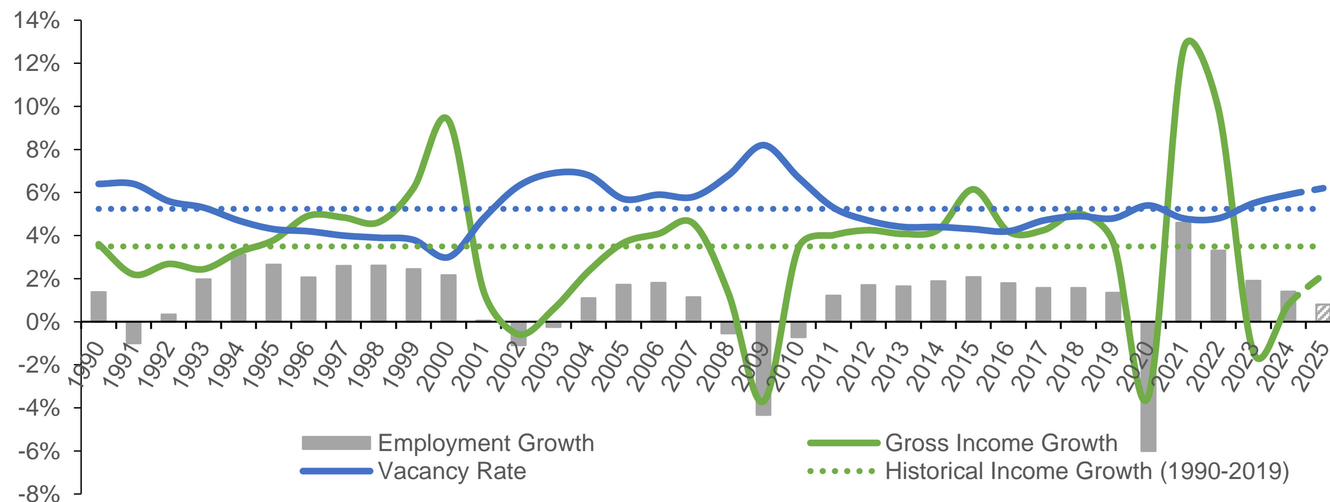
Multifamily Fundamental Expectations for 2025

Based on the assumption of an economic soft landing, we expect the multifamily market to continue to see subdued but positive growth in 2025 as the high levels of new units are absorbed. While we expect a gradual cooling of the overall economy in comparison with 2023, solid economic fundamentals and continued demographic trends suggest demand for multifamily units will continue to remain strong.

For 2025, our baseline forecast is for rent growth of 2.2% for the year, which is 60 bps lower than the 2000-to-2023 average of 2.8%, according to RealPage. Although demand is expected to remain well above average in 2025, vacancy is expected to increase to 6.2%, which is 70 bps higher than RealPage's long-term average of 5.5%. Given below-average rent growth and rising vacancy rates, we forecast gross rental income growth of 2% for 2025. Our forecast is partially based on higher vacancy rates in lieu of more rent growth. However, multifamily operators have typically chosen the inverse, maintaining occupancy levels with less rent growth. If that trend continues, we expect occupancy to remain relatively stable with rent growth less than the 2.2% projected. These forecasts are based on the assumptions that the economy and labor market continue to grow — although at a slower pace than seen in 2024, inflation returns to the Fed's stated goal of 2%, full employment is maintained, and household income growth continues.

While it is unlikely that we see a recession in 2025, if economic conditions deteriorate quickly, the multifamily market will likely see significantly weaker performance given the high level of new supply entering the market. If that scenario plays out with high supply and materially lower demand, the multifamily market will likely see significant upward pressure on vacancy rates and downward pressure on rents.

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 2025 are represented by the dashed lines and striped box.

The top 10 and bottom 10 markets expected to lead the nation in gross rental income growth in 2025 are varied across geography and metro size. Among the top 10, there are several secondary or tertiary markets located within the Sun Belt, a few gateway markets and some lower-priced alternatives to larger markets, shown in Exhibit 11. For example, Oklahoma City, Baltimore, Riverside and West Palm Beach, Florida are all markets that

could be considered a lower-cost alternative to nearby higher-cost markets. The projected bottom 10 markets for 2025 are likely to see high levels of new supply, such as Austin and Raleigh/Durham which are expected to have more than double the national rate of new inventory. Both of the bottom markets that are not seeing supply higher than the national average are higher-cost areas located in California. For 2025, even the weakest performing markets are expected to have slightly positive gross income growth.

Exhibit 10: Top and Bottom 10 Metros by Gross Rental Income Growth for 2025

Metropolitan Area Top 10	2025 Growth in Gross Rental Income	2025 Vacancy Rate	Metropolitan Area Bottom 10	2025 Growth in Gross Rental Income	2025 Vacancy Rate
Oklahoma City, OK	4.7%	5.4%	Orange County, CA	1.5%	4.5%
New Orleans, LA	4.4%	4.7%	Knoxville, TN	1.5%	4.8%
Albuquerque, NM	3.6%	3.2%	Oakland, CA	1.4%	5.3%
Chicago, IL	3.4%	5.0%	Richmond, VA	1.4%	7.0%
Baltimore, MD	3.2%	4.4%	San Antonio, TX	1.3%	9.0%
San Francisco, CA	3.2%	4.4%	Colorado Springs, CO	1.0%	6.7%
Riverside, CA	3.1%	4.4%	Nashville, TN	1.0%	8.7%
Greensboro/WS, NC	3.0%	6.1%	Minneapolis, MN	0.7%	8.3%
Cleveland, OH	3.0%	4.0%	Austin, TX	0.5%	10.4%
W. Palm Beach, FL	3.0%	7.1%	Raleigh/Durham, NC	0.4%	9.9%
United States	**2.0%**	**6.2%**			

Source: Freddie Mac

Rates Elevated, Transactions Muted

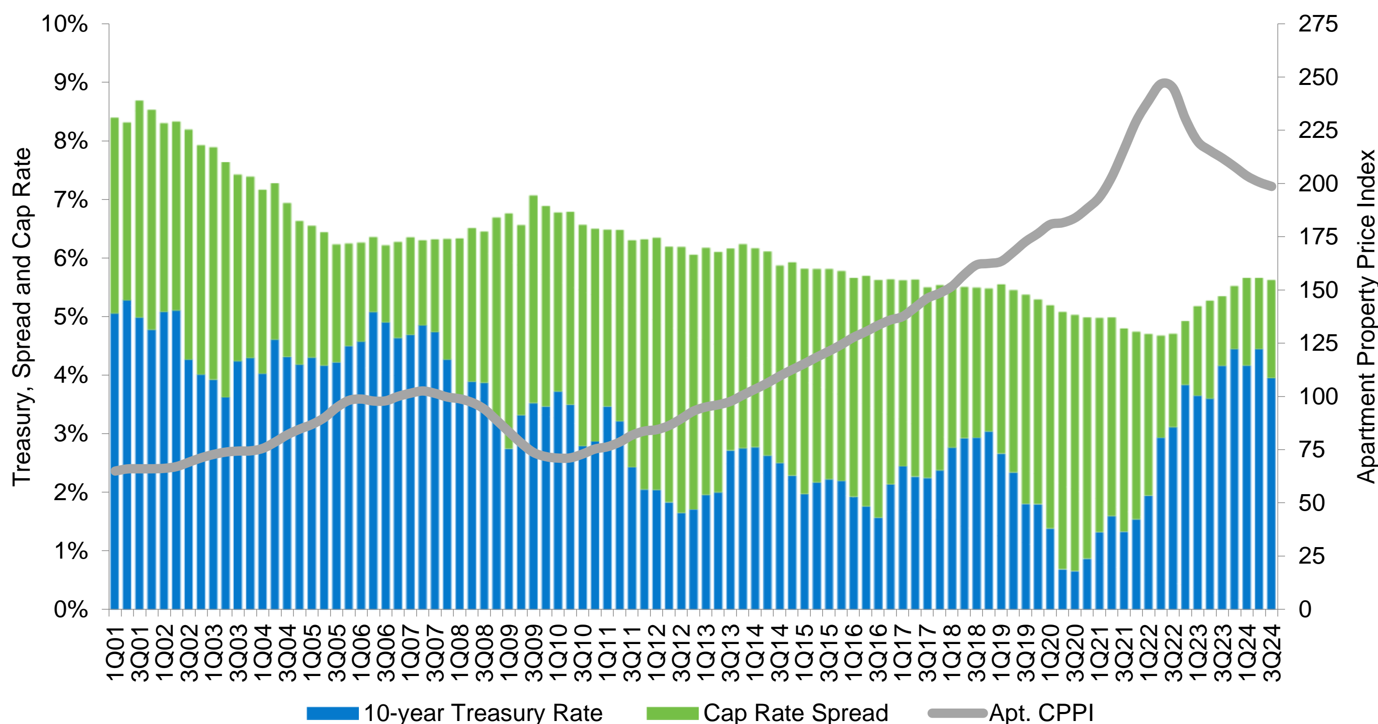
Multifamily originations have been stalled for much of 2023 and into 2024 as high and volatile interest rates, rising cap rates, lower asset values, and moderating property performance all conspired to slow the transactions market. The Mortgage Bankers Association (MBA) reported that volume in 2023 totaled just $246 billion, which is just over half of the 2022 total of $480 billion. Although interest rate volatility has slowed in 2024 supporting increased transaction volume, interest rates continued to experience large swings even after the Fed started lowering rates in September 2024. As rates remain higher for longer and the associated volatility make transactions difficult to close, deals that made financial sense at yesterday's interest rate may not today.

Despite the elevated rates and rate volatility, cap rates have been relatively stable for the first nine months of 2024, operating within a 10-bps range of 5.6% to 5.7%, according to data from Real Capital Analytics (RCA). Over the past year cap rates have increased about 30 bps to 5.6% as of third quarter 2024. However, cap rate data generally lags the actual market, as transactions are relatively limited.

As of the third quarter 2024, the 10-year Treasury rate averaged about 3.95%, indicating a cap rate spread of about 170 bps, which is up meaningfully compared with late 2023 when it was just above 100 bps but well below the historic average of about 300 bps going back to 2000. As of mid-November, 10-year rates indicate that the cap rate spread has compressed again, at roughly 120 bps if we assume cap rates are unchanged. Many market

participants indicate multifamily values may have found a bottom, although hard data on the matter is difficult to gather.

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



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

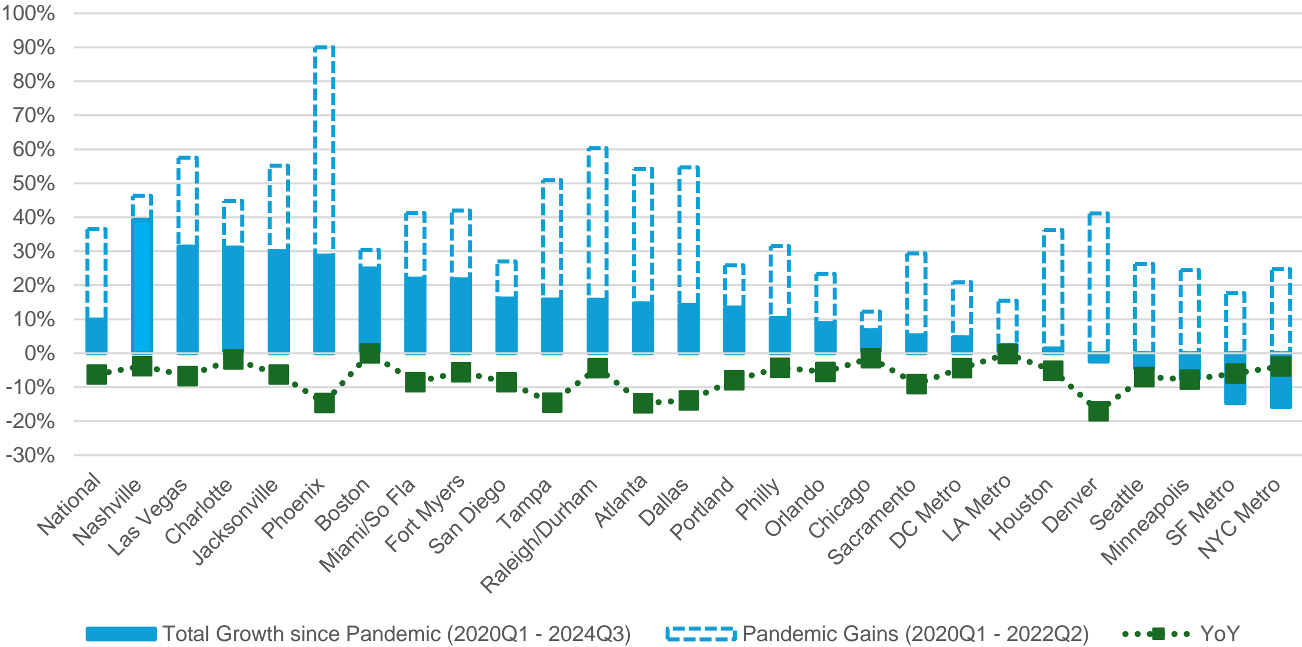
Property prices have been declining for nine consecutive quarters since their peak in mid-2022 and are down nearly 20% over that period, per RCA, due to higher cap rates and moderating property performance. However, the rate of property price declines has been flattening, and during the second and third quarters of 2024 they fell by just -1.4% and -1%, respectively. Since the onset of the pandemic, property prices nationally are still up nearly 10%.

On a market level, many of the Sun Belt markets saw property prices skyrocket during the pandemic, with several markets seeing property price appreciation of 50% or more in just nine quarters from first quarter 2020 to second quarter 2022, shown in Exhibit 12. These markets include Las Vegas; Jacksonville; Tampa, Florida; Raleigh/Durham; Atlanta; and Dallas. Phoenix by far saw the most property price appreciation over that time frame, with prices nearly doubling, up 90%. Conversely the large gateway markets saw much less price appreciation during the pandemic: San Francisco (3%), New York City (9%), Chicago (12%) and Los Angeles (15%) all significantly underperformed national price growth of 37%.

Since the property value peak seen during mid-2022, many of those same Sun Belt markets that saw prices increase dramatically have seen prices come back down. Raleigh/Durham, Atlanta and Dallas have all seen property prices fall 40% or more since the middle of 2022, while Phoenix has seen prices contract just over 60%. However, all of these markets are still seeing prices meaningfully higher than they were before the pandemic, on average up about 18%. Over the past year, many of those same markets have had the largest price declines,

with Phoenix, Tampa, Dallas, Atlanta and Denver seeing prices fall between about -14% and -17%. As of third quarter 2024 five markets have prices below their pre-pandemic levels: New York City, San Francisco, Minneapolis, Seattle and Denver, which have property prices ranging from -2.4% to nearly -16% since early 2020.

Exhibit 12: Multifamily Property Price Change by Metro

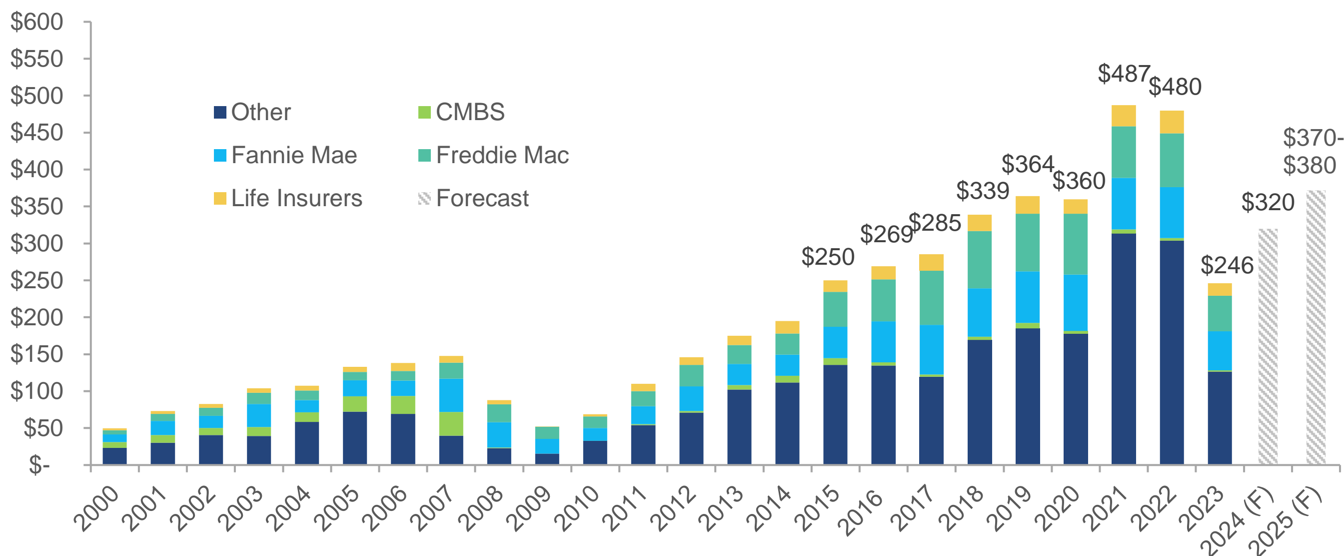


Sources: Freddie Mac, Real Capital Analytics CPPI

Quarterly multifamily transactions were subdued during the first quarter of 2024, however, as interest rates fell during the second and third quarters, volume picked up. Combining the second and third quarters, RCA shows multifamily transaction volume was up 63% and the MBA originations index was up 94% compared with the first quarter of 2024. However, given the current higher interest rates, and indications from market participants, volume during the fourth quarter may be more subdued than the previous two quarters.

For 2025, we expect volume to total from about $370 billion to $380 billion, while MBA is forecasting volume to hit $390 billion for the year, shown in Exhibit 13. The expected increase is due to a multitude of factors, including a backlog of multifamily transactions that have been sidelined while rates were elevated, loans that can no longer reasonably extend and need to refinance, as well as property price and cap rate stabilization.

Exhibit 13: Multifamily New Purchase and Guarantee Volume ($ Billions)



Sources: Mortgage Bankers Association, ACLI, Wells Fargo, Intex Solutions Inc., Freddie Mac projections
Note: 2024 and 2025 by Freddie Mac as of November 2024.

Conclusion

The economy continues to be on trajectory for a soft landing, with the Federal Reserve achieving its dual mandate of full employment and price stability although the risks of a recession remain present. Given a stable economy, we expect the multifamily market to perform modestly well in 2025, but with both rent growth and occupancy below historic averages. Demand has been strong in 2024, a trend we expect to continue into 2025, which is critical given supply is expected to be at or near its peak through 2025. Performance will be disparate across the nation, with many of the larger Sun Belt and Mountain West markets seeing very high levels of supply causing performance to lag. Conversely, markets with lower supply levels, especially smaller, secondary and tertiary markets in the Sun Belt along with larger coastal and gateway markets, are expected to see stronger performance in 2025. Transaction volume picked up in 2024 given the decline — albeit temporary — in 10-year Treasury rates, along with some rate stability. We expect volume to continue to increase in 2025 as interest rates continue to stabilize — albeit at a higher level.

Supply is still the major factor impacting the multifamily market, but it is a short-term factor — by 2026 it is expected to abate to levels similar to before the pandemic. Overall, despite some short-duration obstacles, the multifamily market is poised for continued growth as there is an overall shortage of housing, an expensive for-sale market and demographic trends expected to support demand for rental housing.

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