# 2025 Multifamily Outlook

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| **Duration** | 00:19:46 |
| **Speakers** | Corey Aber, Vice President of Mission, Policy & Strategy, Freddie Mac Multifamily<br>Sara Hoffmann, Senior Director of Multifamily Research, Freddie Mac Multifamily<br>Michael Donnelly, Manager of Multifamily Research, Freddie Mac Multifamily |

**Sara Hoffmann** [00:00:00] Hey, Corey, do you feel it in the air?

**Corey Aber** [00:00:01] I do. I don't know what it is. What's in the air?

**Sara Hoffmann** [00:00:04] Well, it's that time of year again.

**Corey Aber** [00:00:06] So it's a new day. It's a new year. But is it a new Outlook? That's what I want to know.

Hello and welcome to this episode of the Freddie Mac Multifamily podcast. I'm Corey Aber.

**Sara Hoffmann** [00:00:20] And I'm Sara Hoffmann. Today on the show, we're going to talk about our 2025 Multifamily Outlook. And joining us today is Mike Donnelly from the Multifamily Research Team and author of the 2025 Outlook Report. Mike, thanks for being here today.

**Michael Donnelly** [00:00:35] Thanks, Sara. Happy to be here.

**Sara Hoffmann** [00:00:37] So, Mike, what's the answer? Is it a new outlook this year?

**Michael Donnelly** [00:00:40] I don't know that it's all new, but things are certainly changing. And overall, the economy is performing well, but the labor market is slowing. The multifamily market is holding up relatively well as it works its way through a 40-year peak of new supply.

**Corey Aber** [00:00:54] Thanks, Mike. That gives us some some grounding. And every time I feel like, you know, even as much as things might stay the same, there are always some surprises. So, what do you have in store for us?

**Michael Donnelly** [00:01:03] So I have two things that are a little bit counterintuitive. So far, we've had two rate cuts totaling 75 basis points, which we've been waiting for for quite a while at this point. But unfortunately, the 10-year is not cooperating. And since just before the rate cut in September, the 10-year is actually up about 60 basis points as of mid-December. And it's been quite volatile with swings of 65 basis points within the month of October.

And for the second one, I'm going to turn the tables on you a little bit, but we're going to have to wait.

**Corey Aber** [00:01:34] All right. Building some suspense. I like it. All right. Well, let's look at that. So that's, like you said, counterintuitive, and it sounds like markets trying to figure some things out a little bit with the rate cuts, but also the change in Treasury. But let's look at the broad economy a little bit. You know, you said it's performing well, but what do we mean by that? What's going on in the numbers?

**Michael Donnelly** [00:01:53] Inflation continues to come down. It's up 2.4%, according to the CPI [consumer price index], year over year as of October. But different metrics are not quite as low, particularly the core PCE [personal consumption expenditure], which is the Fed's preferred inflation metric, which is at 2.8%. GDP [Gross domestic product] growth continues to be strong at 3% in the second quarter and 2.8% in the third quarter and is expected to end the year at 2.2%. Moody's expects both the federal funds rate and the 10-year rate at about 4.5% by late 2025.

**Sara Hoffmann** [00:02:27] So, Mike, those numbers, especially in GDP, definitely point towards a pretty resilient economy. And while we're still dealing with the sticky inflation numbers, especially with the Fed already starting to cut rates, definitely kind of showing that we look like we're turning the corner a bit. But what are we talking about in the labor market? I know that's definitely high on our minds when we think about multifamily demand.

**Michael Donnelly** [00:02:48] Sure. So, the labor market has really been exceptionally strong over the past couple of years. But so far in 2024, it's moderating. That being said, it's still strong by most historic measures. Job growth as of October 2024 is averaging 180,000 per month and over the past 12 months has totaled 2.2 million, which is well above the 2019 total of 1.8 million. However, unemployment is up 70 basis points from a cyclical low of 3.4% at 4.1 but is still below full employment at about four and a half. Weekly job claims, again, are up. They’re at about 230,000 a week and that's about equal to that 2019 rate.

**Corey Aber** [00:03:28] Sara, you mentioned maybe turning the corner and I know we've talked about a soft landing before. So, you know, Mike, what do you think about that?

**Michael Donnelly** [00:03:34] I agree. The soft landing is the most likely scenario, but the risks of recession remain elevated. And Moody's Analytics puts it at about 1 in 3 chance for a recession next year. The main risks are a recurrence of inflation or a Fed misstep. Although rates have been cut, it takes time for those effects to flow through the economy. So, the higher-for-longer rates we have seen may still lead to recession.

**Sara Hoffmann** [00:03:58] All right. So, looks like we're on a trajectory still to have that soft landing. But one question that comes in my mind when we talk about the labor market slowing, is how does that have any impact on demand for multifamily?

**Michael Donnelly** [00:04:09] No, not really. So far, demand has been excellent. For the year ending third quarter 2024, we've seen total demand of nearly 500,000 units. And during the second and third quarters of 2024, demand totaled nearly 350,000 units. And that's above the typical year of 300,000 from 2015 through 2019.

**Sara Hoffmann** [00:04:31] So wait, Mike, sorry, in two quarters alone, we had more demand than you’ve typically seen in a whole year before the pandemic?

**Michael Donnelly** [00:04:39] Correct.

**Sara Hoffmann** [00:04:39] Wow.

**Corey Aber** [00:04:39] Is that, is that your second surprise?

**Michael Donnelly** [00:04:41] Not there yet, no. Sorry, Corey.

**Corey Aber** [00:04:42] We’ll keep waiting. So, what what's driving that demand?

**Michael Donnelly** [00:04:47] So there's a few things. Part of that demand is attributable to the high cost of for-sale housing, which has nearly doubled in monthly cost since the pandemic. And while renting has become more expensive, too — it's up about 20% — wage growth has actually outpaced it since early 2020.

**Corey Aber** [00:05:02] I know that that's an interesting point that I know we've dug into in past Outlook discussions. But, you know, I'm not an economist, but I know that when you ask about demand, you also end up asking about supply. So, what are you seeing on the supply?

**Michael Donnelly** [00:05:15] There's a lot — the most in 40 years. We expect the quarterly peak in early 2025. But if you look at the supply on a yearly basis, 2024 and 2025 will likely be very close, somewhere in the neighborhood of 500[,000] to 600,000 units each year. And that high supply has led to below average national rent growth and vacancy rates. Over the past year, as of October 2024, rent growth totaled just 30 basis points and occupancy stood at 94.4, per RealPage.

**Corey Aber** [00:05:45] Mike, one thing that's interesting about this, you know, when we think about supply and demand, you know, we've been talking about for a long time that there's just been this incredible supply shortage. We can't keep up with the demand in building things. We're like we keep falling farther and farther behind. Now we've got a lot of supply and we're all a little bit nervous about all the supply and what what that's doing, what that's doing to the market. But is it fair to say that sort of this is a period where like, yes, you you get some new supply in the market and that is helpful over the long run, you feel some short-term kind of impacts of that, but it's still kind of getting the market to where it needs to be over time.

**Michael Donnelly** [00:06:21] Yeah, we're we're still have a housing shortage for both multifamily and single family combined. However, multifamily has been, let's just say, doing its fair share recently.

**Sara Hoffmann** [00:06:33] And while those definitely hold true at the national level, a lot of what we all look into is kind of more specific metro or specific markets and how the supply and demand factors are playing out there. So, what can you tell us kind of diving in a little bit more into certain areas? Maybe there are some areas that have finally caught up on that undersupply issue.

**Michael Donnelly** [00:06:54] Yes, Sara. So, we're looking at this in the new supply and we're think of it in terms of waves. So, we look at supply ratio, which is the number of new units delivered into a market over the past year and to its total inventory. So, a theoretical 100-unit market with five new units would have a supply ratio of 5%. So, we took all the markets that we survey, and we broke them into categories: the top 10 markets, the bottom 10 markets, and then the ones in the middle. We looked at the 10 highest supply markets. And, you know, you think of markets like Colorado Springs, Austin, Raleigh, Nashville, you know, kind of really high-supply markets in the Sun Belt generally or the Mountain West that we've been talking about for a while. So, we grouped those markets together and these markets are expected to see a peak supply ratio of just below 7% with that peak occurring during the first quarter of 2025. If you look at the nation as a whole, we also expect the supply ratio to peak in the first quarter of 2025, but much lower at just 3%. While the bottom 10 markets, markets like New Orleans, Rochester, Syracuse and even L.A. are projected to see a of supply ratio of just 1.5%. But interestingly, that peak is expected towards the end of 2025 or possibly into 2026, depending on construction delays.

**Sara Hoffmann** [00:08:08] So Mike, definitely sounds like a lot of this supply is concentrated in certain areas of the country. Kind of just to wrap up the supply demand a little bit maybe, what what are we seeing, though, in the sense of demand there? Is demand following supply? Are there any areas where maybe it's not quite being met?

**Michael Donnelly** [00:08:26] So the good news is all these high-supply markets are generally also high-demand markets. You know, the Sun Belt and the Mountain West, we're seeing mostly negative rent growth in these markets along with higher vacancy rates. And those vacancy rates are also above the

2015 through 2019 averages, with inventory ratios of 4.3% in the Sun Belt and 5.5% in the Mountain West. But as I said, demand is also strong, just not quite enough to offset that supply.

In the Northeast Mid-Atlantic and the Central regions, we're seeing much lower supply ratios of one and one half to 1.8%, while demand is consistent. These regions are seeing much stronger rent growth of 2.3[%] to 2.8%, while occupancy rates are near their historic average. The West Coast is improving. Vacancy rates are high but still coming down and the region is seeing positive rent growth now, which is a change from last time. So, Corey, it's time for the second surprise.

**Corey Aber** [00:09:20] All right. Ready?

**Michael Donnelly** [00:09:22] We're going to play a little game. I'm asking you, what are the five highest rent growth markets over the past year? And I have a hint for you. They're in just two states and they share a border.

**Sara Hoffmann** [00:09:34] Can I cue the Jeopardy music now?

**Corey Aber** [00:09:36] So you've narrowed it down to almost every state.

**Michael Donnelly** [00:09:40] All the states but Alaska and Hawaii.

**Corey Aber** [00:09:42] Okay. Can we do, like, hot or cold?

**Michael Donnelly** [00:09:45] I guess.

**Corey Aber** [00:09:46] All right. Cold.

**Michael Donnelly** [00:09:49] I don't think that's how this works.

**Corey Aber** [00:09:50] I'm guessing that these five markets are in really cold climates because we talked a lot about the Sun Belt.

**Michael Donnelly** [00:9:55] Ah, I see, I see what you’re doing.

**Corey Aber** [00:09:57] And we always talk about all these warm weather places that everybody wants to move. And now you got a surprise for me. So, I'm guessing there's no way that the, that these are warm weather markets.

**Michael Donnelly** [00:10:08] So you're gaming the game?

**Corey Aber** [00:10:09] Yeah, absolutely. Absolutely. So, I mean, that would lead me to like some of the coldest places I can think of, like Buffalo. Like it's got to be Buffalo, right? It's either Buffalo or Duluth. But I'm going with with Buffalo.

**Michael Donnelly** [00:10:21] I mean, Duluth is a pretty solid guess, but Buffalo is actually one of them.

**Corey Aber** [00:10:27] All right. So then, like, what's near Buffalo and like Rochester, Syracuse, they're kind of in that in that area. How am I doing those?

**Michael Donnelly** [00:10:35] Those are all in New York and upstate New York. Correct.

**Corey Aber** [00:10:38] All right. So, should I go north of New York, or should I go some other direction of New York?

**Michael Donnelly** [00:10:43] I mean, you guessed three out of the five right off the bat. Do you really need some more help?

**Corey Aber** [00:10:49] Well, I don't think we talked too much about like the, you know, upper New England kind of area. So probably got to look elsewhere, maybe. Maybe Connecticut. But thinking it's probably not like Stamford. It's probably, you know, maybe some of the classic Connecticut markets. Yeah, I mean … New Haven?

**Michael Donnelly** [00:11:13] Four.

**Corey Aber** [00:11:14] Okay. And then the former home of the Whalers.

**Michael Donnelly** [00:11:16] Hartford, five.

**Corey Aber** [00:11:18] All right. Actually, I didn't know it was Hartford, but I did know the Whalers.

**Michael Donnelly** [00:11:21] Okay, well, I did.

**Sara Hoffmann** [00:11:22] You didn't get a wrong, a wrong guess in there. I think this is …

**Corey Aber** [00:11:28] You think the game is rigged?

**Sara Hoffmann** [00:11:29] Yes!

**Corey Aber** [00:11:29] No. No way. There's no way that in all the preparation we do for this, that I would possibly have known the answers ahead of time and pretended I didn't.

**Michael Donnelly** [00:11:38] I'll send you my Venmo soon, Corey.

**Sara Hoffman** [00:11:40] I'm going to need an auditor on this.

**Corey Aber** [00:11:43] All right. So that that's that's actually like pretty interesting that we're seeing that. Like, I, to be honest, would not have expected that as we've talked over the last couple of years. So really, what's going on?

**Michael Donnelly** [00:11:53] Again, it's kind of an inventory story. The inventory ratios in these markets are 0.3 to 1.6. So really low compared with the national average of just below 3%. Also, all these markets also have occupancy rates at least 80 points above their 2015 to 2019 averages. So, these markets are seeing limited new supply, steady demand, above-average occupancy and all that's leading to strong rent growth.

**Corey Aber** [00:12:19] It's interesting. So, my dreams of moving to Buffalo, I might want to put on hold for a little while. But what about the the lower rent growth market? So now I feel like it's the hot game. So, what's the other, the other stuff?

**Michael Donnelly** [00:12:33] It's definitely, definitely on the warmer side of things. Yeah.

Austin, Raleigh and Jacksonville are the, the three markets that are seeing the lowest rent growth. It's actually negative. It's down 6.1[%] to -8.3%. And it's almost exclusively a story of high supply. We talked about demand. It's still strong in these areas. It's just kind of being overpowered a little bit by the supply. And that's leading to negative rent growth and higher-than-average vacancy rates.

**Corey Aber** [00:12:58] And these are markets that in past Outlook discussions we talked about experiencing a fair amount of rent growth, right? And then the supply comes in and and adjusts for that.

**Michael Donnelly** [00:13:08] The Sun Belt darlings.

**Sara Hoffmann** [00:13:10] So you could probably say that, as we talked about the housing shortage and the need for more housing, these markets that you see rents slowing down, the supply chain is taking effect, where you're seeing more supply come on, so you're going to see some of that huge jump in rents from the pandemic that had all that demand go there. The supply's now catching up there. So, you're starting to see some of those metrics kind of equalize back out.

**Corey Aber** [00:13:35] Got it. So let me go from pretending I know things to just asking questions again, which I'm much better at. What do you think is going to happen in '25?

**Michael Donnelly** [00:13:43] Frankly, I think it's going to look a lot like 2024 with the Sun Belt and Mountain West still working through high supply and the rest of the nation performing comparatively better. For 2025, we project rent growth will be subdued at about 2.2% and vacancy will creep up to 6.2%, both of which are worse than the historic averages. That being said, operators may trade occupancy for rent growth — choosing to keep units occupied rather than chasing rent growth. But either way, we still expect income growth to total 2%.

**Corey Aber** [00:14:12] All right. And top 10, bottom 10, do you have some projections there?

**Michael Donnelly** [00:14:17] Sure. It's a, it's a geographically diverse mix. Lots of different sizes, secondary, tertiary and even some gateway markets. Top markets include Oklahoma City, New Orleans and Albuquerque, and then some of the larger ones, San Francisco and Chicago.

**Corey Aber** [00:14:32] All right. And bottom 10, what, what do you think is going to be in that list?

**Michael Donnelly** [00:14:36] Kind of a hot list again. A lot of high-supply markets, primarily in the Sun Belt. Raleigh, Austin, Nashville. Few others, Minneapolis and Oakland and Orange County, they're not seeing as much high supply, but they're seeing weaker demand. Despite these being our weakest performing markets, we still expect them to see positive growth, income growth for 2025, though.

**Sara Hoffmann** [00:14:58] So, Mike, that's interesting for the markets. It sounds like a lot of the same kind of trends for the top 10 where it's ones with not as much supply, but still seeing some of that demand come in, kind of like the Midwestern Oklahoma, New Mexico areas. Do we see any of those high-supply markets kind of popping up in the top 10, or do we see them mostly kind of concentrated in the bottom 10 for next year?

**Michael Donnelly** [00:15:24] Yeah. So, for 2025, we are not expecting to see any of these high-supply markets make it into our top 10.

**Sara Hoffmann** [00:15:31] Alright, so maybe let's kind of shift here a little bit and move into the transaction market. You mentioned earlier that we had two Fed cuts this year, but the Treasury rate still remains really volatile, especially over the last couple of months of 2024. But what are we seeing kind of play out then in terms of cap rates or valuations? Did this rate cut or the lead up to the rate cut really have any impact on the market?

**Michael Donnelly** [00:16:00] Well, cap rates so far through the first nine months of 2024 are operating within a pretty narrow range of roughly 10 basis points. They're generally in the 5.6 to 5.7 range. That being said, they've generally been trending down over the year, but very small amounts. Valuations are down about 20% from the peak in mid-2022. That trend has been flattening recently. They're down 1.4% in the second quarter and 1% in the third quarter of 2024.

So, when the interest rates decline during the second and the third quarters, we did see a little bit of a pickup in transaction volume. It hasn't really made its way through the data yet. And that makes sense because transaction data is difficult to get in general. There's a lag. So current market conditions take at least a few months to kind of be seen. And given that transactions are really muted right now, it probably takes even a little bit longer.

**Sara Hoffmann** [00:16:55] So you mentioned that transactions are muted. What does this mean with the overall origination volume that we are expecting to see in 2025?

**Michael Donnelly** [00:17:04] So before we go there, I'm going to flashback to 2023 volume since that's been announced somewhat recently. MBA [Mortgage Bankers Association] reported that 2023 volume totaled $246 billion, and that's the lowest since 2014. There's a couple of reasons for that: high and volatile interest rates, falling property values and moderating property performance. Also, many borrowers exercised loan extensions, hoping market conditions and interest rates would improve, which they have a little bit. So hopefully that volume will be picked up in 2024 and 2025. For 2024, we expect volume to rebound significantly, up 30% from 2023 to $320 billion. And for 2025 we think volume will be in the $370 [billion] to $380 billion range, which is roughly 50% higher than 2023, but well below the nearly $500 billion we saw in 2021 and 2022.

**Corey Aber** [00:17:58] All right, Mike, thank you so much. There are a lot of things I need to remember for the next surprise question you ask me in a few months, in six months when we do the Midyear Outlook. This has been a really helpful discussion. Gives us a lot of good insights on what we're seeing in the market so far and what might be ahead. So, Mike or Sara, like final thoughts here? What should we be left with? What do we want to take away from today?

**Michael Donnelly** [00:18:22] Thanks, Corey. We're facing some short-term supply headwinds, which we have been for a while. That being said, demand is still robust and the market over the long term is expected to perform well. That's because of the high cost of ownership, barriers to entry, a large renter demographic and an economy that looks set for the soft landing we all want.

**Sara Hoffmann** [00:18:41] And I'll just echo that with a little bit more on the supply headwinds that we're all looking at. We're really expected to kind of see that peak in 2025, but I think it's going to be kind of a double whammy of what we saw in 2024 and 2025. So again, it's just short-term getting through these headwinds as Mike has done a great job describing. We have the economy backing, we have a decent economy, but all holds forward through 2025. We expect there to still be a solid footing for the multifamily market.

**Corey Aber** [00:19:10] All right. Well, we'll see if a lot of that demand for those cold weather markets holds up through January. All right. Well, thank you both.

**Michael Donnelly** [00:1916] Thanks, Corey.

**Sara Hoffmann** [00:19:17] Bring the long underwear.

**Corey Aber** [00:19:20] The Freddie Mac Multifamily podcast is produced and supported by a team of our Freddie Mac colleagues, including our production lead Jenny Nguyen and our audio producer Jackson Carmichael. To listen to more and keep up with the latest episodes, be sure to subscribe wherever you get your podcasts and check out our website mf.freddiemac.com/research for the full catalog of podcast episodes and original Freddie Mac research.