

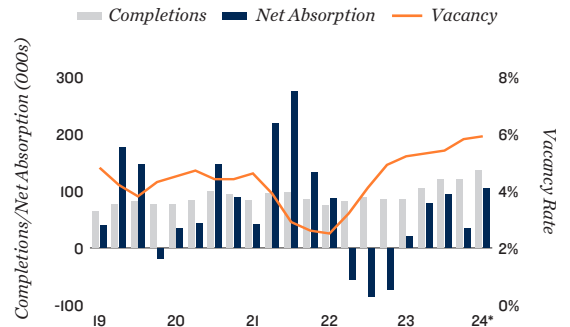
## Demand Hits a First Quarter Record, but New Supply Curbs Vacancy and Rent Progress

**Multifamily indicators reveal substantial demand momentum.** The number of occupied apartments nationwide surged by nearly 104,000 rentals from January through March 2024, the strongest first quarter net absorption on record. Over the opening three months of the past 30 years, only about 12,500 units were absorbed on average. This abnormally robust start to 2024, with traditionally strong spring and summer months still to come, should put net absorption on track to reach a three-year high, barring any unexpected setbacks. Several other indicators help demonstrate the ongoing improvement. In April of this year, the average amount of time that an apartment in the U.S. sat vacant dipped to 28 days, an eight-month low and a significant recovery from 34 days in December of 2023. The number of new lease applications per unit also rose to an eight-month high in April, while the rate of signed renewals reached the strongest measure since August 2023, reflecting demand from both new and existing tenants. Despite these favorable trends, the influx of new supply remains a major influence on vacancy and rents.

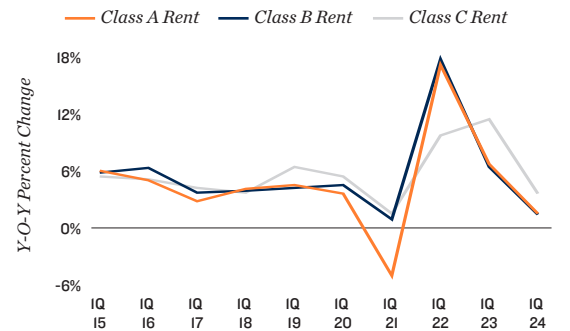
**Apartment completions notch a new high.** More than 135,000 units finalized across the U.S. from January through March 2024, the largest quarterly tally on record. Exemplifying the hurdles presented by a historic supply infusion, even record-setting demand was unable to keep pace, as vacancy rose by 10 basis points during the first quarter to 5.9 percent. At the same time, construction remains clustered with just eight major U.S. markets — Atlanta, Austin, Charlotte, Dallas-Fort Worth, Houston, New York City, Orlando and Phoenix — combining for more than one-third of national completions during the first quarter. These same eight metros, meanwhile, accounted for an even higher share of the country's overall net absorption during that span, exhibiting a relative alignment between development and demand. Nevertheless, concession use has accelerated in many construction-heavy markets, taking momentum out of rent growth nationally across all apartment classes. Looking beyond 2024, the construction pipeline is smaller, but remains sizable for 2025 and 2026. A recent pullback in multifamily permits, however, may signal a longer-term, more substantial, slowdown is brewing.

**Housing dynamics lead to near-term turbulence.** The growing affordability gap warrants elevated multifamily construction, despite supply-side pressure creating temporary vacancy and rent headwinds. During the first quarter of 2024, the difference between a typical monthly mortgage payment on a median-priced home and an average apartment rent in the U.S. remained in excess of \$1,200, tripling over the past three years. That extreme gap will likely persist as the median home price hit an all-time high in early 2024, while the average 30-year mortgage rate remained near 7 percent. A shortage of houses on the market, with listings in March down 45 percent relative to the trailing 20-year average, is reinforcing values.

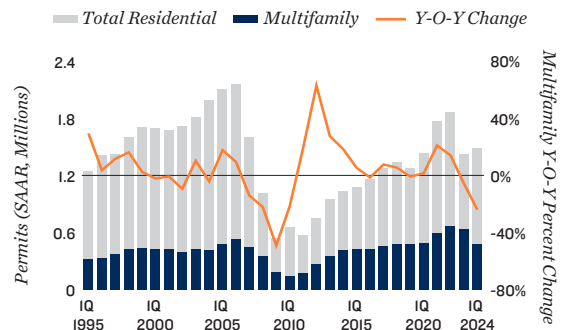
### Net Absorption Surged in the First Quarter



### Rent Growth Settling Across Apartment Tiers



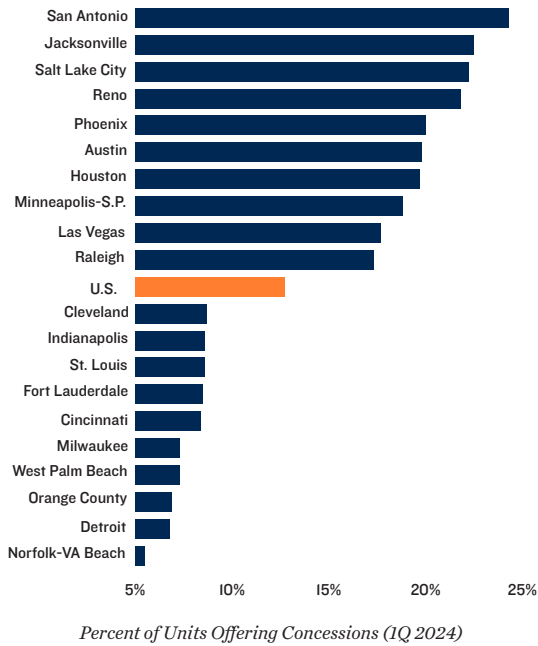
### Multifamily Permit Activity is Decelerating



\* Through 1Q

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Moody's Analytics; National Association of Realtors; RealPage, Inc.; U.S. Bureau of Labor Statistics; U.S. Census Bureau

Highest and Lowest Metros by Concession Use\*

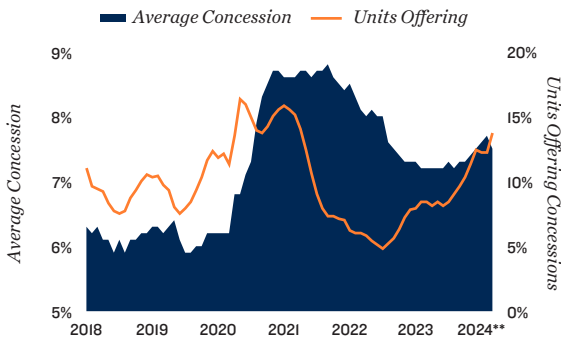


Concessions are Rising in Construction-Heavy Regions, Most Other Areas are More Insulated

SUPPLY TRENDS

- Coming off a record-setting completion total during the first quarter, an additional 1 million-plus units were underway nationwide as of April 2024. Despite the historic volume, roughly one-third of those groundbreakings are condensed within just six major U.S. markets — Atlanta, Austin, Dallas-Fort Worth, New York City, Northern New Jersey and Phoenix.
- During the yearlong span ended in March 2024, nine major U.S. markets had annual inventory growth of over 4.0 percent, headlined by Austin, Charlotte, Nashville, Raleigh and Salt Lake City, which had supply expansions of at least 6.5 percent. The wave of new openings is having a notable impact on fundamentals in these five locations, with each metro recording a year-over-year vacancy jump of 60-plus basis points and an average effective rent drop at or beyond 1.5 percent. The near-term supply surges in these markets, however, are supported by strong economic and household growth outlooks.
- Annual inventory growth of 1.0 percent or lower was registered in 11 major U.S. markets during the 12-month period. Moderate construction helped metros like Chicago, Detroit, New York City, Orange County, Pittsburgh, San Francisco, San Jose and Virginia Beach-Norfolk have year-over-year vacancy lifts of 20 basis points or lower. As such, many of these locations have limited concessions, and, in the case of Chicago, Cleveland, Orange County, Pittsburgh and Virginia Beach-Norfolk, achieved annual rent gains of at least 3.0 percent.

Concession Activity on the Rise Nationally



CONCESSION TRENDS

- In March 2024, the share of U.S. apartments offering concessions climbed to a 35-month high of 13.6 percent, rising by over 500 basis points from the same month one year prior. Historic new supply in a cluster of Sun Belt markets is the primary contributor to this national hike. Discounts are not only found in higher-end units, but concessions have increased in lower-quality rentals amid rising vacancy as well. The percentage of Class A units using concessions was the highest among segments in the first quarter; however, the rate at Class C rentals jumped the most year-over-year.
- A pair of tertiary Sun Belt markets — San Antonio and Jacksonville — had the highest vacancy rates in the country as of the first quarter of 2024, and correspondingly registered the largest share of apartments offering concessions. Aligning with that dynamic, Austin, Houston, Las Vegas, Phoenix and Raleigh each ranked in the top 10 nationally for both highest vacancy and greatest percentage of apartments offering concessions. While these metros remain in-migration hotspots, rent growth could remain soft near term.
- Orange County and Milwaukee ranked in the top 10 for both lowest vacancy and smallest share of units offering concessions. Most other metros with limited concessions have an affordability advantage like a range of Midwest markets, as well as Fort Lauderdale, West Palm Beach and Virginia Beach-Norfolk, where rents are lower than in nearby metros.

Luxury Unit Discounts Ripple to Lower Tiers



\* Excludes New York City, Northern New Jersey, Oakland, San Francisco and San Jose  
 \*\* Through March  
 Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; RealPage, Inc.

## 2024 Forecast

### EMPLOYMENT

1.3% increase Y-O-Y



- The national labor market continues to be resilient in 2024 with roughly 2 million jobs expected to be added. This is only two-thirds of last year's gain, but the expansion is on par with pre-pandemic periods.

### CONSTRUCTION

480,000 units completed



- Apartment completions escalate to an all-time high this year, surpassing the 2023 total by over 50,000 units and eclipsing the trailing-decade annual average by almost 160,000 rentals.

### VACANCY

30 basis point increase Y-O-Y



- Historic development sustains vacancy pressure, despite strengthening demand. Net absorption will improve to a three-year high, but the metric remains below completions, pushing vacancy up to 6.1 percent.

### EFFECTIVE RENT

1.2% increase Y-O-Y

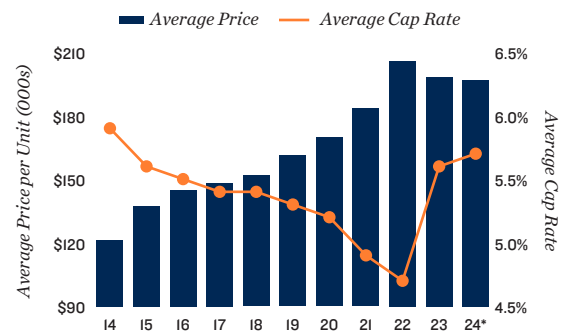


- Greater concession use as a response to rising vacancy amid historic supply pressure keeps rent growth below the long-term average of 3.7 percent per annum. The mean effective rate still rises to \$1,828 per month.

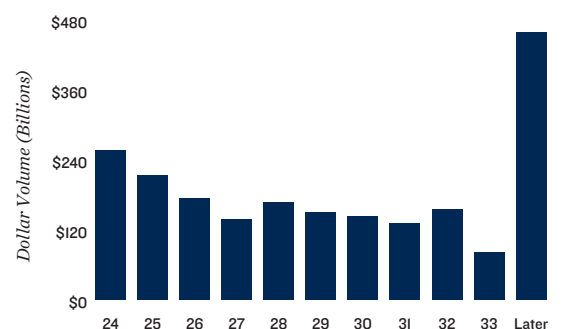
## 2024 INVESTMENT OUTLOOK

- Elevated debt costs remain a persistent challenge.** Based on preliminary data from January through March 2024, multifamily transactions fell for a third straight quarter. While the Federal Reserve has not hiked interest rates since July 2023, the absence of rate cuts thus far has maintained a difficult environment to pencil deals. Strong first quarter absorption may help boost sentiment going forward; however, soft rent growth and a supply-induced concession surge may counterbalance the improved demand outlook.
- Prices and cap rates recalibrating.** During the yearlong period ended in March 2024, the average per-unit sale price nationally dipped to about \$197,000, down 4 percent from 2022's peak but still more than 20 percent above the trailing-decade mean. The average cap rate, meanwhile, rose to 5.7 percent, the highest recording since 2014. Cap rate decompression may help facilitate multifamily trading in an elevated borrowing cost environment.
- Homeownership barriers reiterate multifamily appeal.** Preliminary data from the first quarter of 2024 implies higher-end assets are attracting buyers, as a challenging single-family housing market is encouraging residents to opt for luxury rentals. Class A trades from January through March comprised a higher share than in any year from 2012-2019. The percent of deals in primary markets — where homeownership barriers present the greatest hurdles — was also trending at a six-year high in early 2024. Relatively higher cap rates in secondary and tertiary metros nevertheless help ease financing challenges.

### Investment Sales Trends



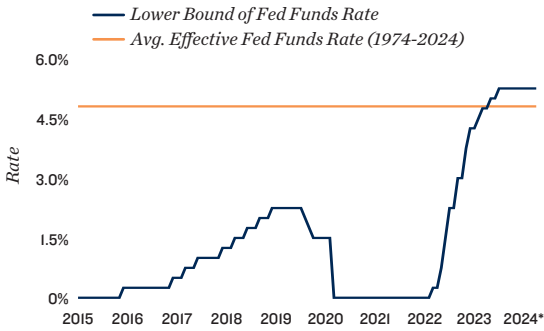
### Upcoming Multifamily Loan Maturities



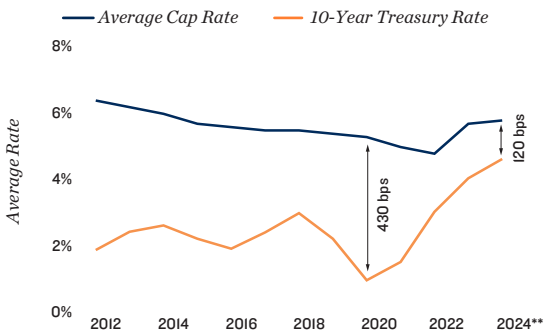
\* Through 1Q

Sources: CoStar Group, Inc.; Mortgage Bankers Association; Real Capital Analytics; RealPage, Inc.

**Fed Funds Rate Over Time**



**Apartment Cap Rate vs. Treasury**



\* Fed Funds Rate through April

\*\* Cap rate is a trailing 12-month average as of 1Q; Treasury rate as of April

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Federal Reserve; Moody's Analytics; Real Capital Analytics; RealPage, Inc.; U.S. Bureau of Labor Statistics

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**Federal Reserve Stands by Before Potentially Cutting Rates, Debt Capital Remains Available**

**Fed keeps rates steady, awaiting more meaningful progress on inflation.**

The Federal Reserve left the federal funds rate unchanged at a lower bound of 5.25 percent at the most recent FOMC meeting in May 2024, where it has rested since July 2023. This marked the seventh consecutive central bank meeting with no change to the overnight rate, following a span in which 11 hikes were enacted across an 18-month interval. Chairman Powell's comments in April 2024 indicated that the Fed is not currently considering a rate cut, and that they are willing to hold steady for as long as it takes to sustainably bring inflation closer to the 2 percent target. In March, the Fed's preferred inflation measure — Core PCE — was up 2.8 percent on an annual basis, which is a major improvement from the 4.8 percent reading one year prior, but still above the target. Core CPI, meanwhile, rose by 3.8 percent year-over-year in March 2024, which is down from 5.6 percent in the same month of 2023. The national labor market has also remained resilient through the first four months of this year by adding nearly 1 million positions, which kept unemployment below 4 percent for 27 straight months. While the Fed has postponed rate cuts for now, they have begun to taper the pace of quantitative tightening. Starting in June 2024, the Fed will allow up to \$60 billion per month to run off without reinvestment, which is down from \$95 billion.

**Multifamily debt remains costly but available.** The sector's historically low cap rates relative to other commercial real estate segments have heightened financing challenges amid elevated interest rates; although lenders remain active as borrowers seek out ways to reduce debt. For instance, loan buydowns have become a more popular strategy to get a reduction in spread. In general, fixed-rate financing activity remains muted while floating-rate loans have gained some traction in the current environment. Banks and credit unions continue to be the largest source of financing, although the pool of lenders has shrunk, and many are focusing on existing relationships. LTVs from these institutions have typically been in the 55 to 65 percent range, with rates in the 6.25 to 7.25 percent band. Among agencies, Freddie Mac and Fannie Mae have both been competitive of late, with quoted rates typically near 6.25 to 6.75 percent. Both enterprises are prioritizing borrowers with previous agency experience. Life insurance companies, meanwhile, are offering spreads in the 6.25 to 6.75 percent area, with LTVs in the 55 to 60 percent range. CMBS lenders are active in the multifamily sector as well, typically offering greater leverage at a higher cost. Meanwhile, debt funds have substantial capital ready to aggressively pursue opportunities like distress and new construction, with higher LTVs near 70 to 75 percent.

*The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.*

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Federal Reserve; Moody's Analytics; Mortgage Bankers Association; National Association of Realtors; Real Capital Analytics; RealPage, Inc.; U.S. Bureau of Labor Statistics; U.S. Census Bureau