

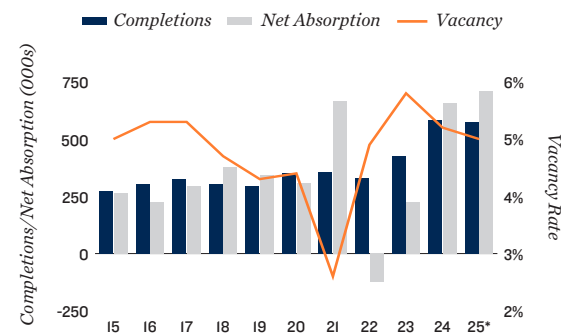
Improving Fundamentals Position Multifamily Sector to Overcome Potential Volatility

Period of uncertainty tests span of vigorous leasing. Renters absorbed a net of nearly 147,000 units during the first quarter of this year, capping off a historic 12-month period for apartment leasing that lowered national vacancy by 90 basis points. Even in the face of elevated construction, vacancy compressed year over year in 48 of 50 major metros, with all three apartment classes noting reductions of 70 to 90 basis points. Since then, however, growing concerns over tariffs and rapid policy shifts have weakened both consumer and business sentiment, which may curb household formation, hiring activity and ultimately rental demand moving forward. Fortunately, the multifamily sector is on sound footing entering this period of uncertainty. At 5.0 percent in March, national vacancy was at its lowest point in two years and 50 basis points below the long-term average. At the same time, a pullback in construction is materializing, and recent job creation has been concentrated in sectors whose workforces historically slot into the renter pool. These dynamics, along with rising wages — up 4.4 percent year over year in the first quarter — should continue to aid household formation during a potentially inflationary period, allowing supply and demand to align over the near term.

Barriers to entry favor apartment operators. As potential headwinds approach, healthy demand from delayed homeownership by the country's largest generational cohort — millennials — should help sustain apartment vacancy and rent growth in many regions, especially those experiencing standout job creation and in-migration. For these and other renters, home price increases are exacerbating the long-standing barrier to purchasing their first home. Following a 4 percent year-over-year increase, the median single-family home price stood at a record of nearly \$420,000 in March. This recent appreciation widened the disparity between the median priced home payment and average rent to a historically large \$1,350 per month. Combined with elevated mortgage rates, which were in the high-6 percent range as of late April, only a select percentage of renters will purchase a home in 2025, strengthening renter retention for multifamily operators.

Retention on an upward trajectory. Amid unrelenting barriers to homeownership, more renters are staying put. In the first quarter, the renewal conversion rate hit 55.3 percent — up 160 basis points from the same three-month period last year. Velocity trended upward across property tiers, with the Class A and B sectors registering 220- and 170-basis-point improvements, respectively. The Class C segment, meanwhile, logged the highest retention rate at 58.7 percent. That momentum supported a 3.7 percent annual rent lift among lease extensions, compared with a 1.4 percent drop for new tenants. While this would appear to favor an increase in relocations, the current period of uncertainty and the rising cost to move will deter many households from leaving their existing residence in 2025.

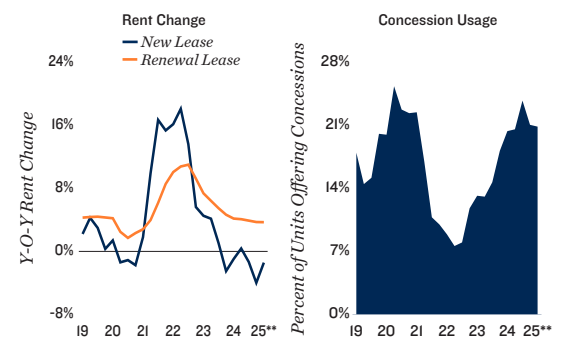
Record Net Absorption Outpaces Supply Influx



Lease Renewals Up Across Property Classes



Renewals Drive Rents, Concessions Common

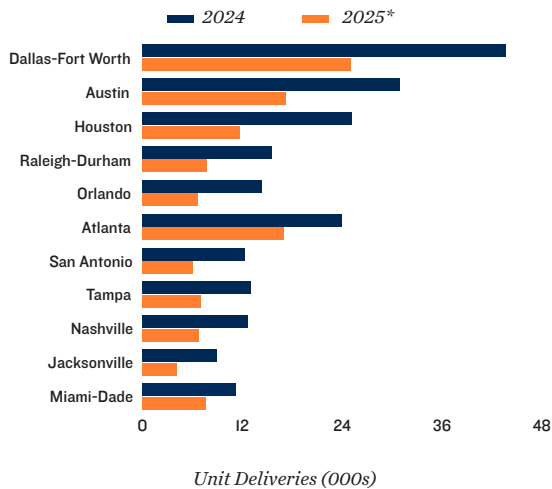


* Trailing 12-month period ending in March for completions and net absorption; 1Q vacancy

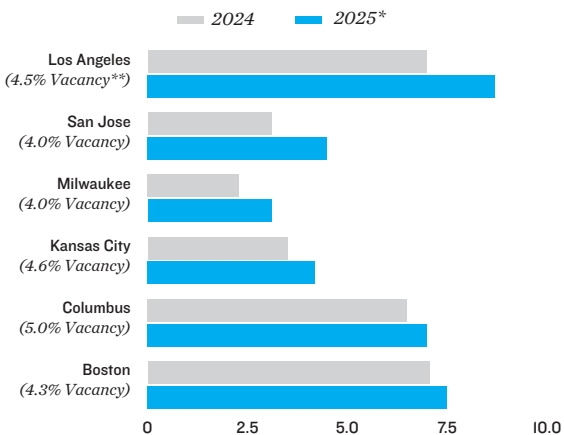
** 1Q 2025

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

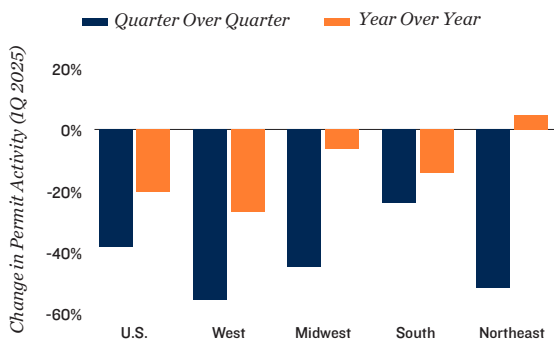
Supply Pressure Eases Across Sun Belt



Areas of Tight Vacancy Note Upticks



Developer Pullback Apparent Across Regions



* Forecast

** As of 1Q 2025

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

Deliveries Begin to Ease From Historical High Point With Broader Pullback on the Horizon

METRO-LEVEL CONSTRUCTION TRENDS

- Developers completed 116,000 units in the first quarter of 2025, expanding apartment inventory by 0.6 percent. While well above the long-term quarterly average of 54,000 apartments, this total also represented the lowest three-month tally since the second quarter of 2023. Moving forward, the number of unit deliveries is expected to trend downward, with 40 of the nation's 50 major markets seeing fewer opening in 2025 than in 2024.
- Major Texas and Southeast metros will record the largest year-over-year drops in delivery volume during 2025, with most declines ranging from 3,500 to more than 18,000 units. Though this will somewhat ease supply-side pressure here, completions across the Sun Belt remain historically elevated. Texas' four major markets will account for 60,000 new units — 15 percent the national total — this year, while Atlanta, Miami, Nashville, Orlando, Tampa and Jacksonville will each note inventory growth above the national rate of increase. Regional supply additions could soften over time, however, as a 10 percent drop in Texas and Southeast multifamily permit activity was noted in the first quarter.
- Most markets set for an increase in completions entered April with a vacancy rate below the national average, suggesting these new units should be generally well received. The exception is Phoenix. Home to a vacancy rate 110 basis points above the U.S. mean, the metro notes the largest rise in deliveries among major markets, fueled by the area's strong net in-migration outlook.

PERMIT ACTIVITY TRENDS

- The number of multifamily permits pulled nationwide in the first three months of 2025 — approximately 54,000 — represented the lowest quarterly total since at least 2015. Pullbacks in permit activity were apparent across regions, with the West, Midwest and Northeast all recording quarter-over-quarter declines of more than 45 percent, and the South noting a 24 percent drop. Should this recent slowdown materialize into a larger pullback in construction, the impact to deliveries will not arrive for several years. Historically, an eight- to 10-quarter gap exists between a permit pull and a reasonably sized project's completion.
- The recent slowdown in permit activity is likely to be compounded by building material tariffs, including potentially higher levies on Canadian soft lumber, and an expected tightening of immigration rules that could weigh on construction labor availability. These dynamics, along with a shifting construction financing landscape centered around greater investor-driven and government agency activity, will impact the project proposal pipeline. Rising operating costs will also be monitored by developers, namely those with mid- to long-term hold strategies. Insurance costs will be a point of focus, as the average cost to insure a unit rose 75 percent over the four-year span ending this March. Should permit activity become further restricted, additional emphasis will be placed on existing apartments, aiding leasing and potentially reining in concessions usage.

2025 Forecast

EMPLOYMENT

1.1% increase Y-O-Y



- While job growth is cooling, employers added 575,000 roles in the first four months of 2025. A labor shortage and declining business sentiment, however, will impact the rate of employment growth moving forward.

CONSTRUCTION

410,000 units completed



- Deliveries moderate on a year-over-year basis, yet the number of units added remains historically elevated, increasing inventory by 2.0 percent. Phoenix is slated to lead all metros in completions for the first time.

VACANCY

10 basis point decrease Y-O-Y



- As of April, national suburban and CBD vacancy rates were comparable, with overall demand inline with supply. These dynamics hold over the near term as deliveries moderate, lowering vacancy to 5.1 percent.

EFFECTIVE RENT

3.0% increase Y-O-Y

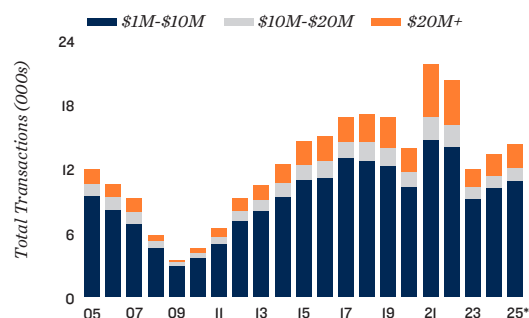


- The third-highest net absorption total on record supports rent growth, placing the year-end average at \$1,878 per month. Concessions usage and a dip in new-lease rents prevent a larger gain from occurring.

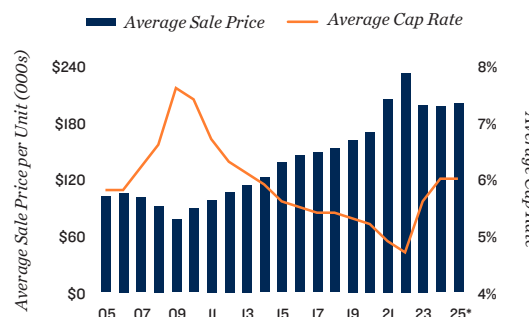
2025 INVESTMENT OUTLOOK

- Uncertainty causes slight trading retreat.** Based on preliminary data, deal flow slowed from January to March after trending upward for three straight quarters. Private investors remained active, however, as sub-\$5 million trades accounted for three-fourths of all sales. If U.S. trade and economic policies stay fluid, multifamily investment may continue to represent one of the more durable options for these investors. Average pricing has recently stabilized in the sector, adjusting modestly to roughly \$200,000 per unit over the 12-month span ending in March. The mean multifamily cap rate, meanwhile, reached 6.0 percent during the period, which is the highest recording since 2013.
- Private investors steering overall deal flow.** Renter demand for lower-cost apartments is poised to stay steadfast for the foreseeable future — a dynamic that will drive private investor competition for Class C assets. Major markets with a combination of tight lower-tier vacancy and some of the nation's highest overall rents stand to garner attention. Many of these metros are in Southern California and the Northeast; however, Miami and Chicago also fit this bill.
- Available capital reaccumulates.** Dry powder in closed-end funds that are targeting North American real estate reached \$206 billion in March — an \$8 billion rise over the year-end 2024 tally. While uncertainty has recently placed more capital on the sidelines, institutional-grade activity — trades above the \$20 million threshold — was still visible in the multifamily sector during the first quarter, indicating a portion of built-up funds should be released later this year.

Multifamily Transaction Activity



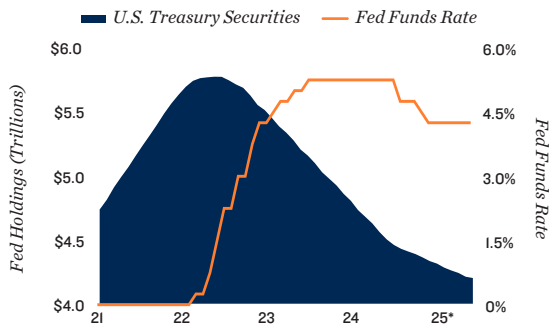
Price vs. Cap Rate



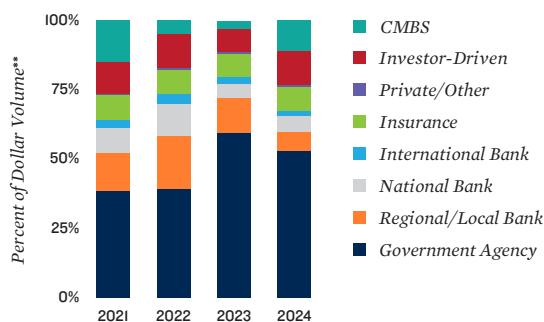
* Trailing 12-month period ending in 1Q 2025

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Preqin; Real Capital Analytics; RealPage, Inc.

— Fed Holds Rate, Reduces Its Balance Sheet —



— Multifamily Lender Composition —



* Fed Funds Rate through May 7; U.S. Treasury Securities as of May 1

** Sales \$2.5 million and greater

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Federal Reserve; Federal Reserve of St. Louis; Real Capital Analytics

Capital Markets Disrupted by New Policies; Outlook for Interest, Treasury Rates Clouded

Fed waits for clarity; 10-year yield seesaws amid tariff turmoil. The Federal Reserve held the overnight lending rate unchanged through the first five months of this year, with competing pressures at play in regard to their future policy choices. The Fed's latest economic projections reveal expectations of slower employment and economic growth, coupled with higher core inflation, by year-end. As such, Fed officials are signaling a more cautious path, wary that lower rates may be ineffective if uncertainty — rather than high borrowing costs — is the main drag on activity. Contrasting the federal funds rate, the 10-Year Treasury has been fluctuating, blurring the outlook for longer-term borrowing costs. Despite a temporary pause on some tariffs, the 10-year yield quickly jumped to 4.5 percent in early April before ending the month at 4.2 percent. The recent surge in Treasury yields highlights growing unease among investors over the trajectory of inflation, trade policy and demand for U.S. debt. While short-term volatility could bring the 10-year yield closer to 4 percent — the consensus tipping point below which deal flow may accelerate — pressure from increased bond issuance, lower anticipated foreign participation and sticky inflation may drive rates higher in the months ahead. For borrowers, the current volatile environment may offer narrow windows to secure financing.

Alternative sources may gain ground amid demand for higher leverage.

Financing hurdles moderated in 2024. As the spread between the average multifamily cap rate and 10-Year Treasury re-opened somewhat, fewer banks tightened their loan standards. Apartment loan-to-value levels trended up during the year, with most lenders providing leverage in the 60 percent to 70 percent range. Since then, however, the spread between the 10-year Treasury and the average multifamily cap rate has narrowed amid tariff-induced uncertainty, which could impact the number of deals that pencil. Nevertheless, Freddie Mac and Fannie Mae should continue to provide most of the liquidity in the sector, with each prioritizing borrowers with previous multifamily exposure and offering LTVs in the 55 percent to 65 percent range. In 2025, the combined disbursal cap for the two agencies has been raised to \$146 billion and, under the current administration, some regulations may be eased. Borrowers seeking alternative, higher-leverage financing may look to investor-driven sources along with regional and local banks. Among private investors, the latter sources will represent primary alternatives, as these banks composed the bulk of non-agency, sub-\$10 million loan issuance last year — with leverage, on average, nearing 70 percent. Smaller developers seeking construction financing may also look to these lenders after regional and local banks accounted for half of all construction lending under \$10 million last year.

Multi Housing Division

Peter Standley

Vice President | National Director, Multi Housing Division
Tel: (317) 218-5300 | peter.standley@marcusmillichap.com

Prepared and edited by:

Erik Pisor

Research Analyst II | Research & Advisory Services

For information on national multifamily trends, contact:

John Chang

Senior Vice President, Chief Intelligence & Analytics Officer | Research & Advisory Services

Tel: (602) 707-9700

john.chang@marcusmillichap.com

Price: \$1,500

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Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Federal Reserve; Federal Reserve Bank of Atlanta; Federal Reserve of St. Louis; Freddie Mac; Moody's Analytics; National Association of Home Builders; Prequin; Real Capital Analytics; RealPage, Inc.; U.S. Bureau of Labor Statistics