

1Q24

United States Multifamily Capital Markets Report



NEWMARK

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Market Observations

- The **spread between homeownership and apartments rental costs grew to \$824** in the first quarter of 2024, **increasing 18.4% year over year**. Simultaneously, **mortgage applications** for home purchases have **declined to a near-14-year low**, and active listings remain well below pre-pandemic levels.
- **Foreign-born workers** have been a **catalyst for labor force growth** of late and can be credited for multifamily demand, given their propensity to be renters. As of the latest census data, **55% of the foreign-born population were renters**, as opposed to just 42% of native-born population. The share is even higher for recent immigrants; **those who immigrated between 2018 and 2022 have an average renter rate of 68%**.
- Demand surged in the first quarter of 2024 with **103,826 units absorbed**, representing the **largest first quarter total since 2000**, as well as **outpacing the long-term first-quarter average** of 38,005 units **by 2.7x**. Additionally, **rolling four-quarter demand accelerated to 317,241 units**, the highest level since the second quarter of 2022.
- New supply continues to break records as **135,652 units were delivered in the first quarter of 2024**, breaking the previous largest quarterly sum in the fourth quarter of 2023. **New deliveries are expected to continue to accelerate in the second and third quarters of 2024**, before decelerating in the fourth quarter of 2024, where a reversion to the mean is expected. Based on annual average absorption, several Sun Belt markets with robust pipelines of new deliveries in 2024 are expected to take upwards of two to three years to absorb.
- Year over year, **vacancies rose 66 basis points to 5.9% nationally**. This is the ninth consecutive quarterly increase in vacancy; however, the pace of growth is slowing on an annualized basis. Meanwhile, **quarterly rent growth declined to negative 0.1% in the first quarter of 2024, while year-over-year growth remained flat at 0.2%** for the second quarter consecutively. Rent growth is projected to increase throughout 2024, reaching 2.0% year over year as new supply is set to slow in the second half of the year.
- Multifamily debt **originations declined to the lowest level since 2015**. While recent activity has been lackluster compared to pre-pandemic levels, **originations in the first quarter of 2024 were down just 7% year over year**, suggesting that activity may be close to bottoming. Additionally, **\$669 billion in multifamily loans mature between 2024 and 2026**.
- **Investment sales volume totaled \$20.6 billion** in the first quarter of 2024, **decreasing 25.3% year over year**. Sales volume on a **rolling four-quarter basis declined to \$113.0 billion, the lowest point since the fourth quarter of 2014 and 42.2% below the long-term average**; however, **multifamily remains the largest share of investment sales** of all US commercial real estate property types at 26.2% through the first quarter of 2024.
- As of the first quarter of 2024, the **spread between major markets and nonmajor market cap rates totaled 25 basis points, 69.1% below the long-term average of 80 basis points**. The market is pricing nonmajor markets with lower barriers to entry, favorable demographics and strong demand fully compared with major markets, which are more supply constrained.
- Multifamily **expenses increased 6.5% year over year, led by a 36.1% surge in insurance costs**. The first quarter of 2024 represents the seventh consecutive quarter on a year-over-year basis, with double-digit increases in insurance expenses.

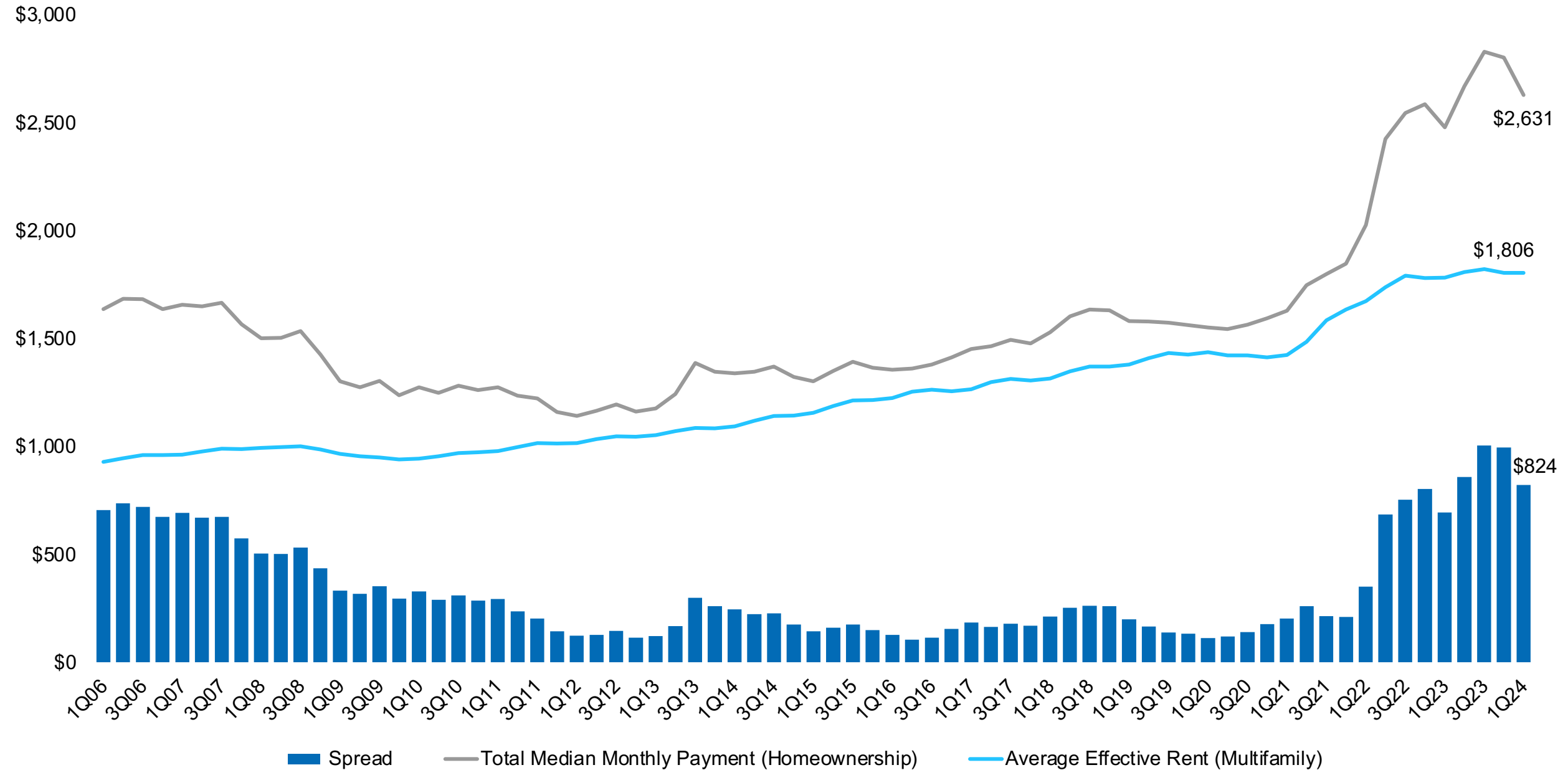
Demand Drivers



Economics Continue to Favor Renting over Homeownership

Increasing 18.4% year over year, the spread between homeownership and rental costs grew to \$824 in the first quarter of 2024. Driven by record-level interest rates, renting continues to be significantly more economical than owning a home.

Cost of Homeownership Compared to Renting



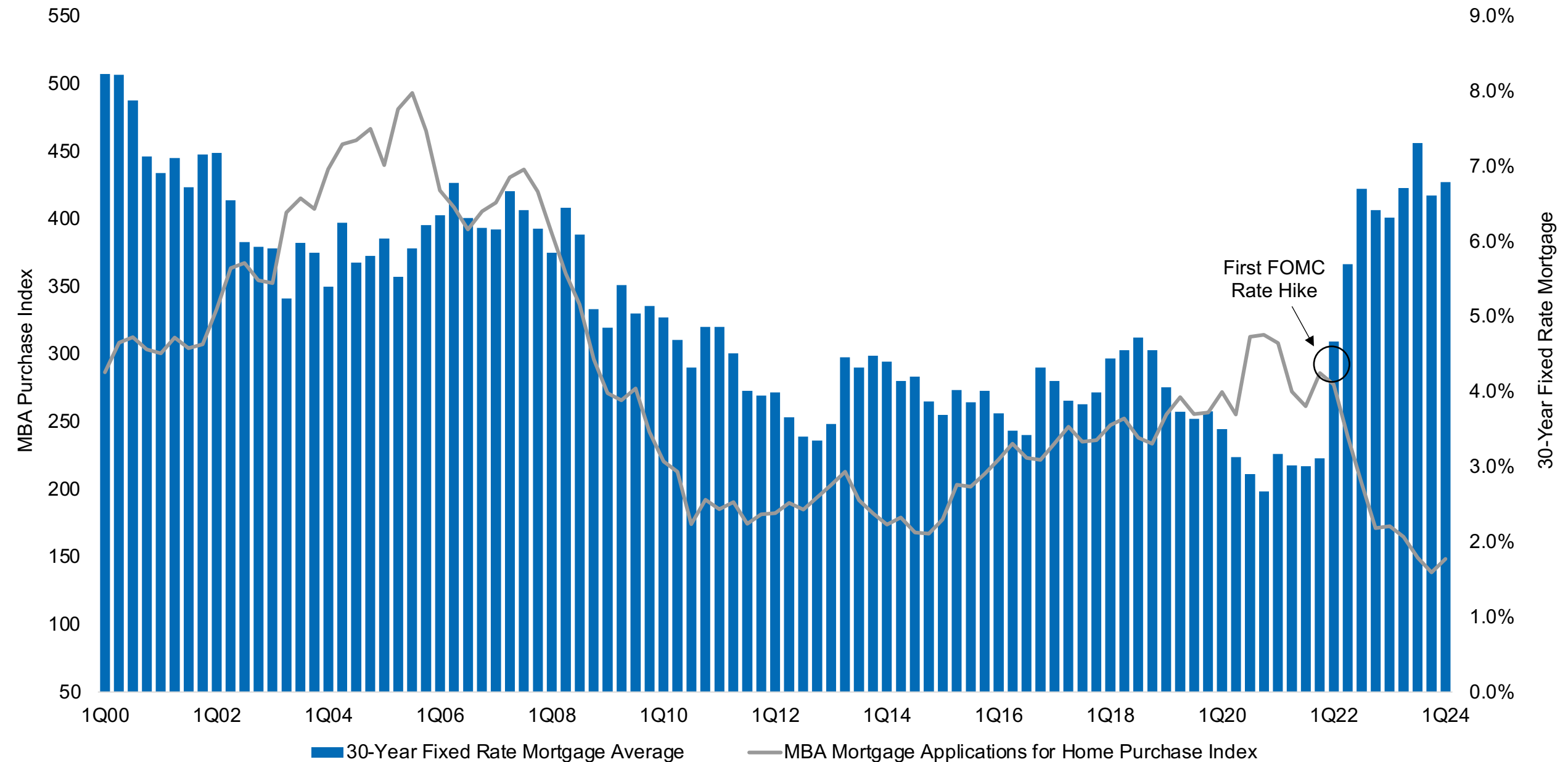
Source: Newmark Research, Atlanta Federal Reserve, RealPage

* Total Monthly Median Home Payments include P&I, Taxes, Insurance and PMI.

Purchase Applications Plummet 47% Following Initial Fed Rate Hike

As the Fed began increasing interest rates in the first quarter of 2022, many would-be homebuyers exited the market, as evidenced by the 46.5% reduction in applications. High interest rates continue to depress home purchases, as the mortgage application index hovers close to a 14-year low.

MBA Mortgage Applications for Home Purchase Index

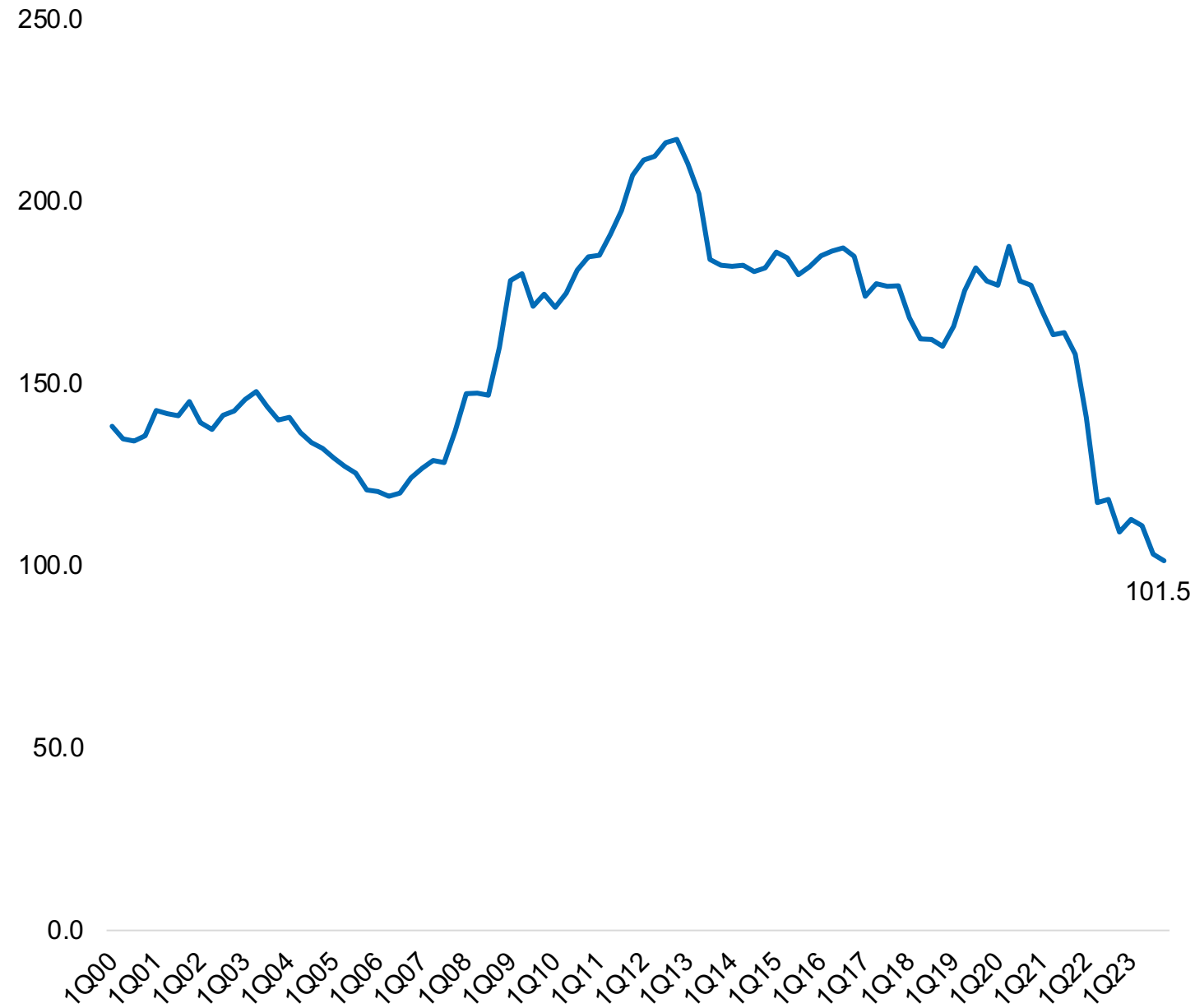


Source: Newmark Research, Federal Reserve Bank of St. Louis, Moody's Analytics, Mortgage Bankers Association, Freddie Mac

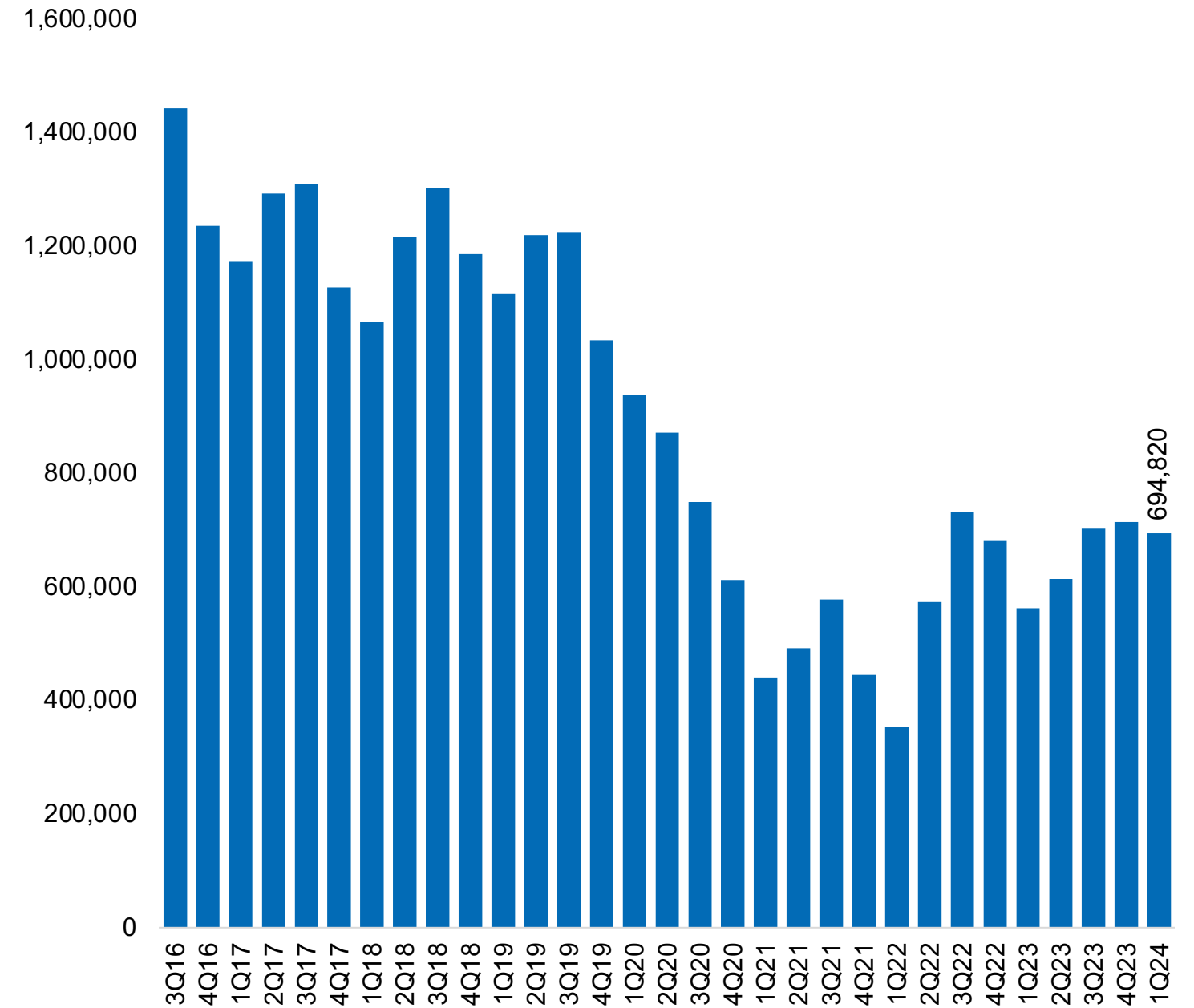
Affordability and Lack of For-Sale Product Contributing to Demand for Rentals

Housing affordability declined to a 20-plus year low and has declined 46.0% since the second quarter of 2020. Additionally, active listings throughout the United States declined quarter over quarter and have dropped 32.8% since pre-COVID levels.

Housing Affordability Index (HAI)



Housing Inventory: Active Listing Count in the United States

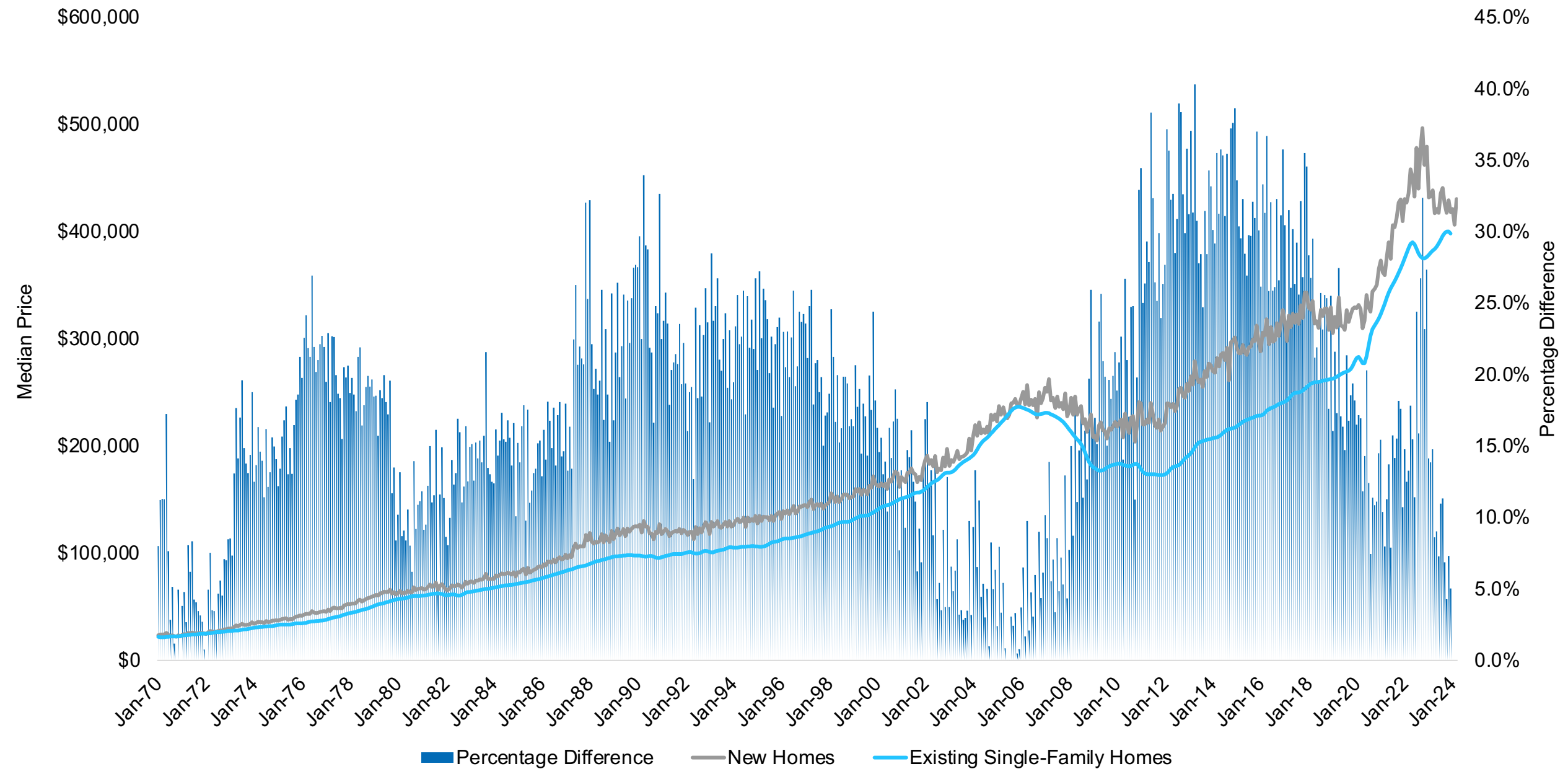


Source: Newmark Research, National Association of Realtors, Realtor.com, Federal Reserve Bank of St. Louis

Market Dynamics Have Caused New and Existing Home Prices to Nearly Converge

From 1970 through 2023, the average new home commanded a 17.5% premium to the average existing home. Through year-end 2023, that premium has declined to just 5.0% due to inventories remaining tight and high borrowing cost. Demand for multifamily is a beneficiary of high home prices.

Median Home Prices

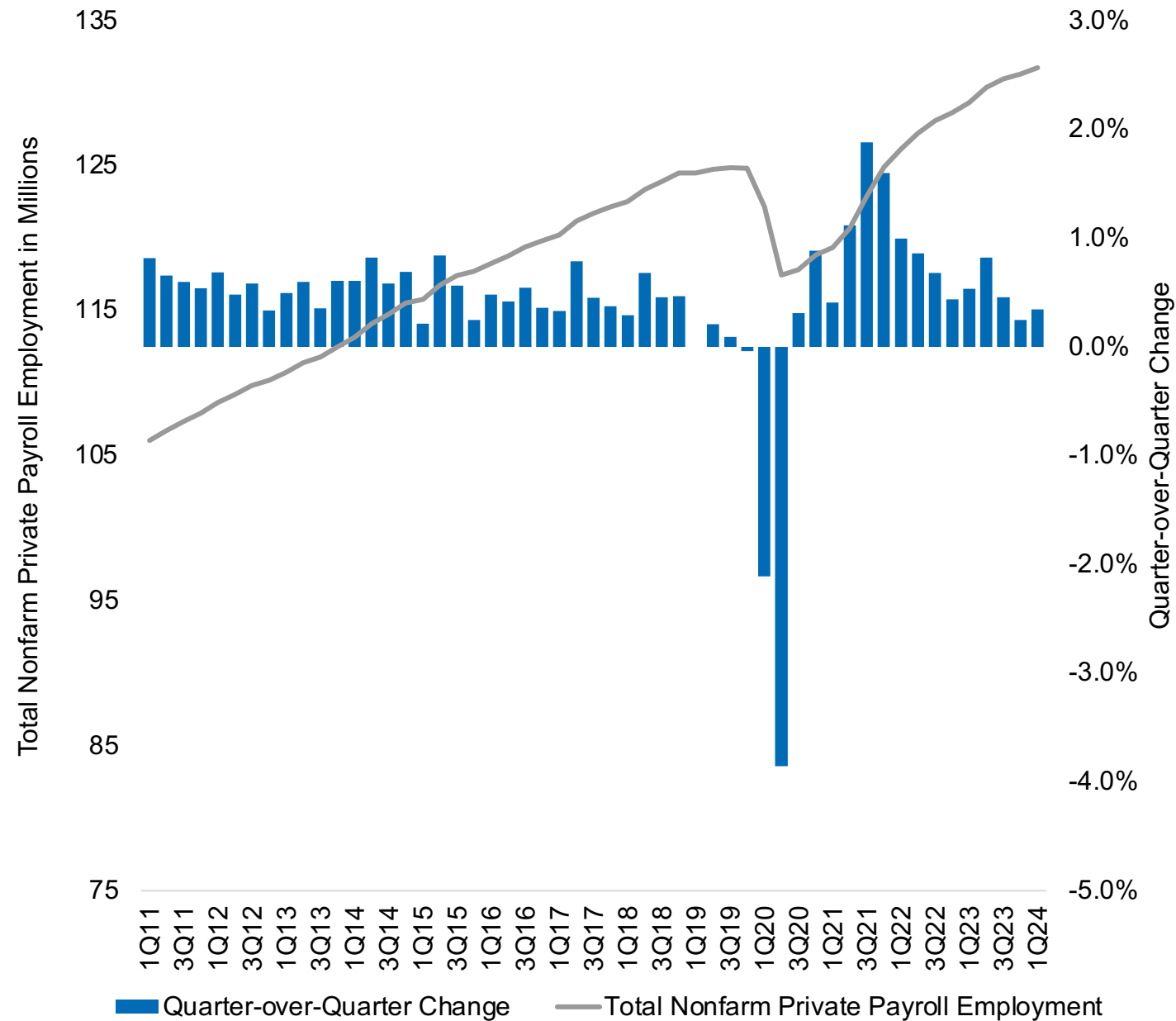


Source: Newmark Research, U.S. Census Bureau, U.S. Department of Housing and Urban Development, Federal Reserve Bank of St. Louis, Moody's, National Association of Realtors

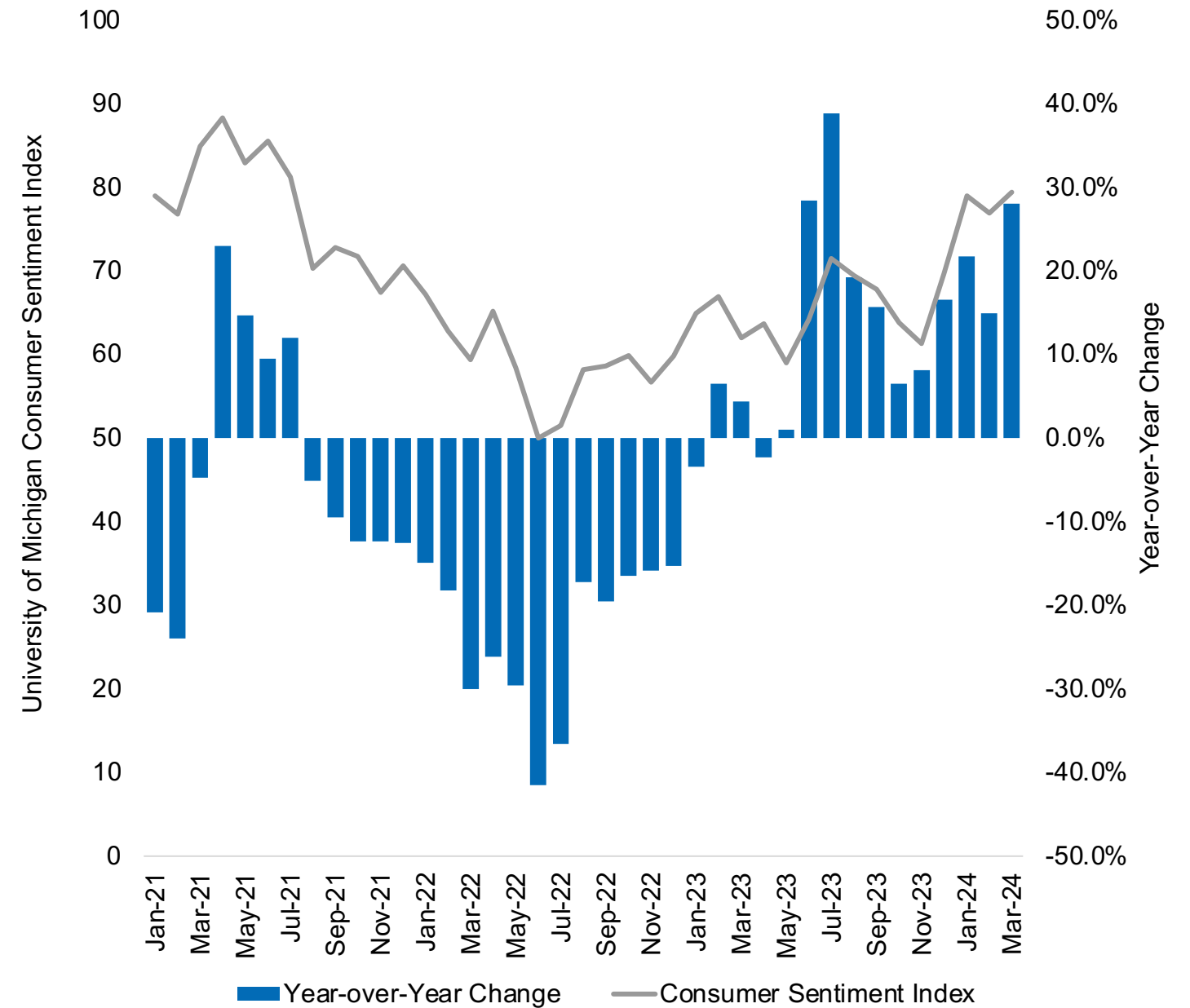
Strong Labor Market Conditions and Consumer Sentiment Bodes Well for Multifamily

Total nonfarm private payroll employment increased 0.3% in the first quarter of 2024, marking the 15th consecutive quarter-over-quarter increase. After posting a 28.1% year-over-year increase, consumer sentiment has rebounded to a 32-month high.

Total Nonfarm Private Payroll Employment



University of Michigan Consumer Sentiment Index



Source: Newmark Research, Automatic Data Processing, Inc., University of Michigan, Federal Reserve Bank of St. Louis

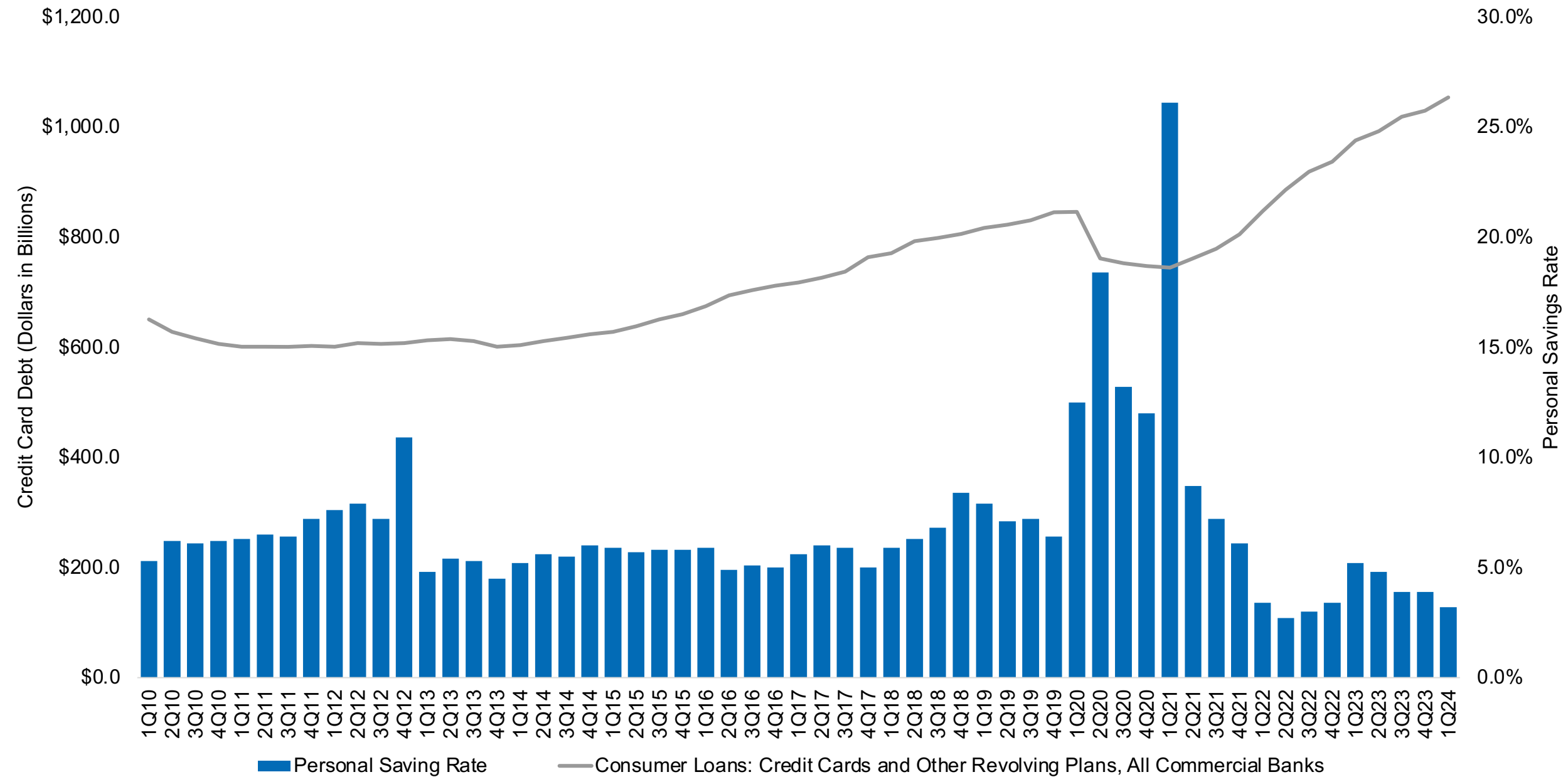


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Credit Card Debt Grows as Savings Declines, Adding to Inability to Buy Homes

Further increasing the burden of buying a home, credit card debt in the US continues to reach all-time highs with each passing quarter. Simultaneously, the personal savings rate declined for the fourth straight quarter to 3.2% in the first quarter of 2024, 360 basis points below the long-term average

Credit Card Debt and Personal Savings



Source: Newmark Research, Federal Reserve Bank of St. Louis, U.S. Bureau of Economic Analysis, Board of Governors of the Federal Reserve System

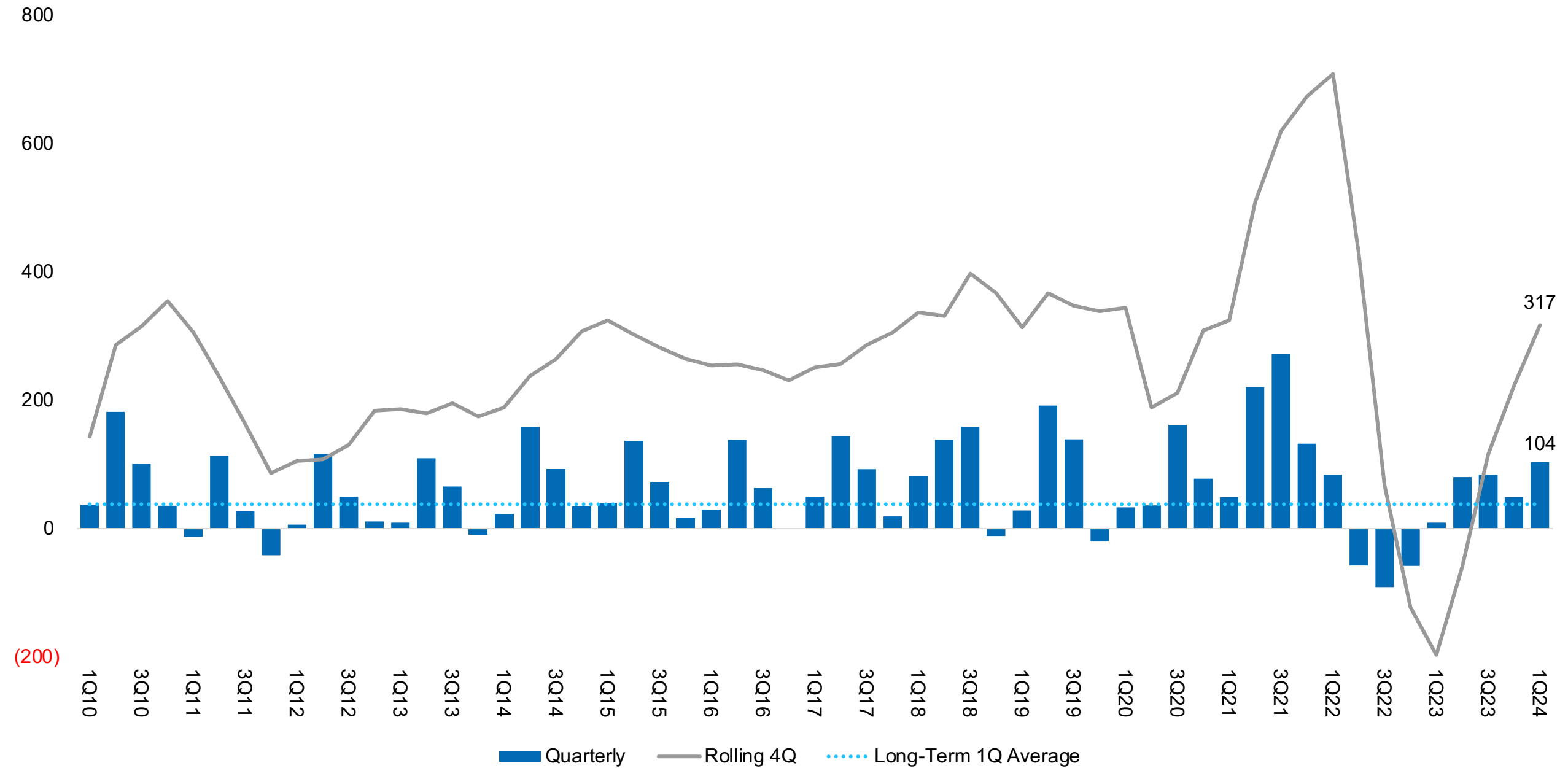
Leasing Market



Demand Surges in 1Q24; Rolling Four-Quarter Absorption Accelerates

Demand totaled 103,826 units in the first quarter of 2024, representing the largest first-quarter total since 2000, as well as outpacing the long-term first-quarter average of 38,005 units by 2.7x. Additionally, rolling four-quarter demand accelerated to 317,241 units, the highest level since the second quarter of 2022.

Demand in Thousands



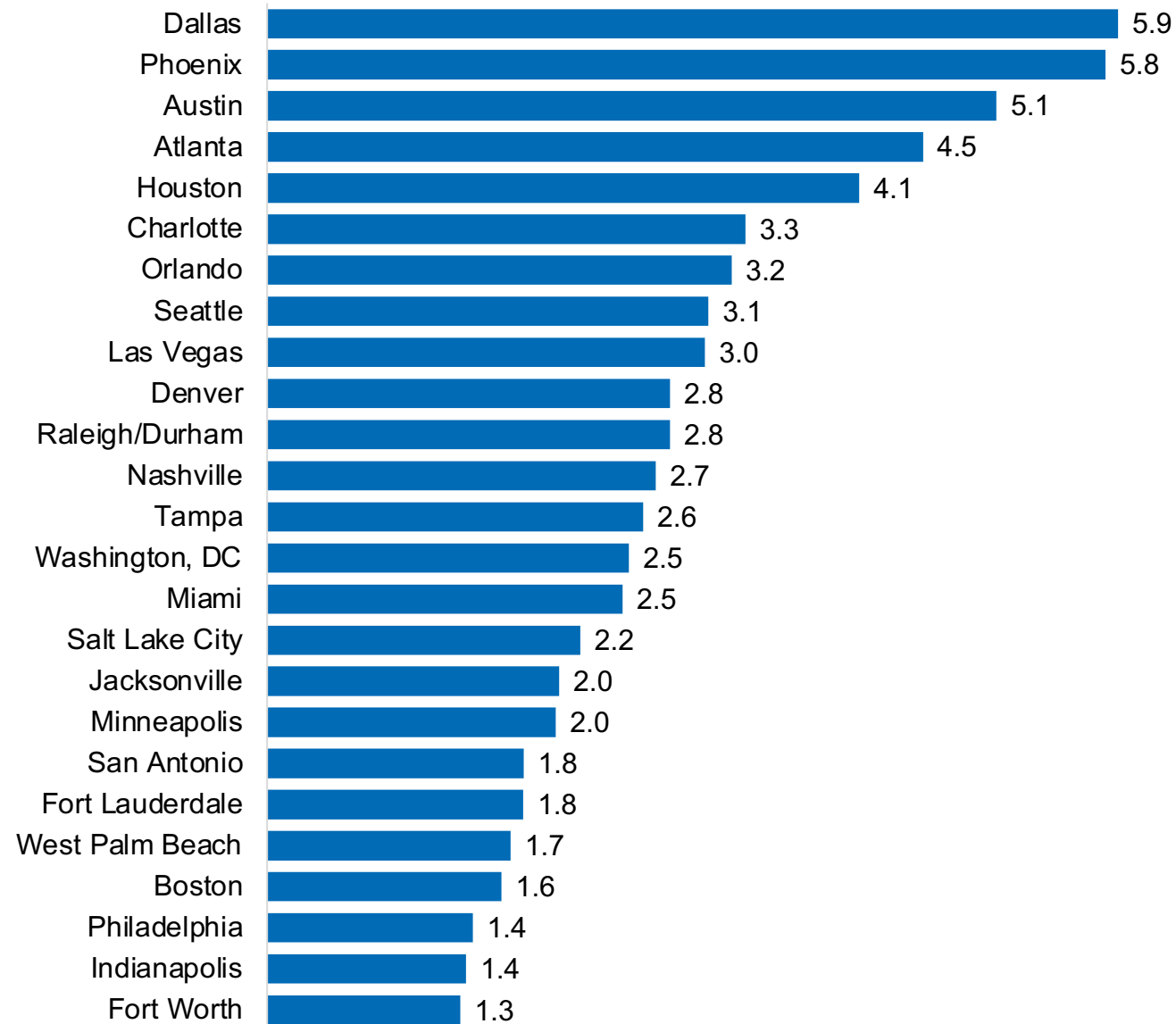
Source: Newmark Research, RealPage

*Demand is defined as the change in occupied units.

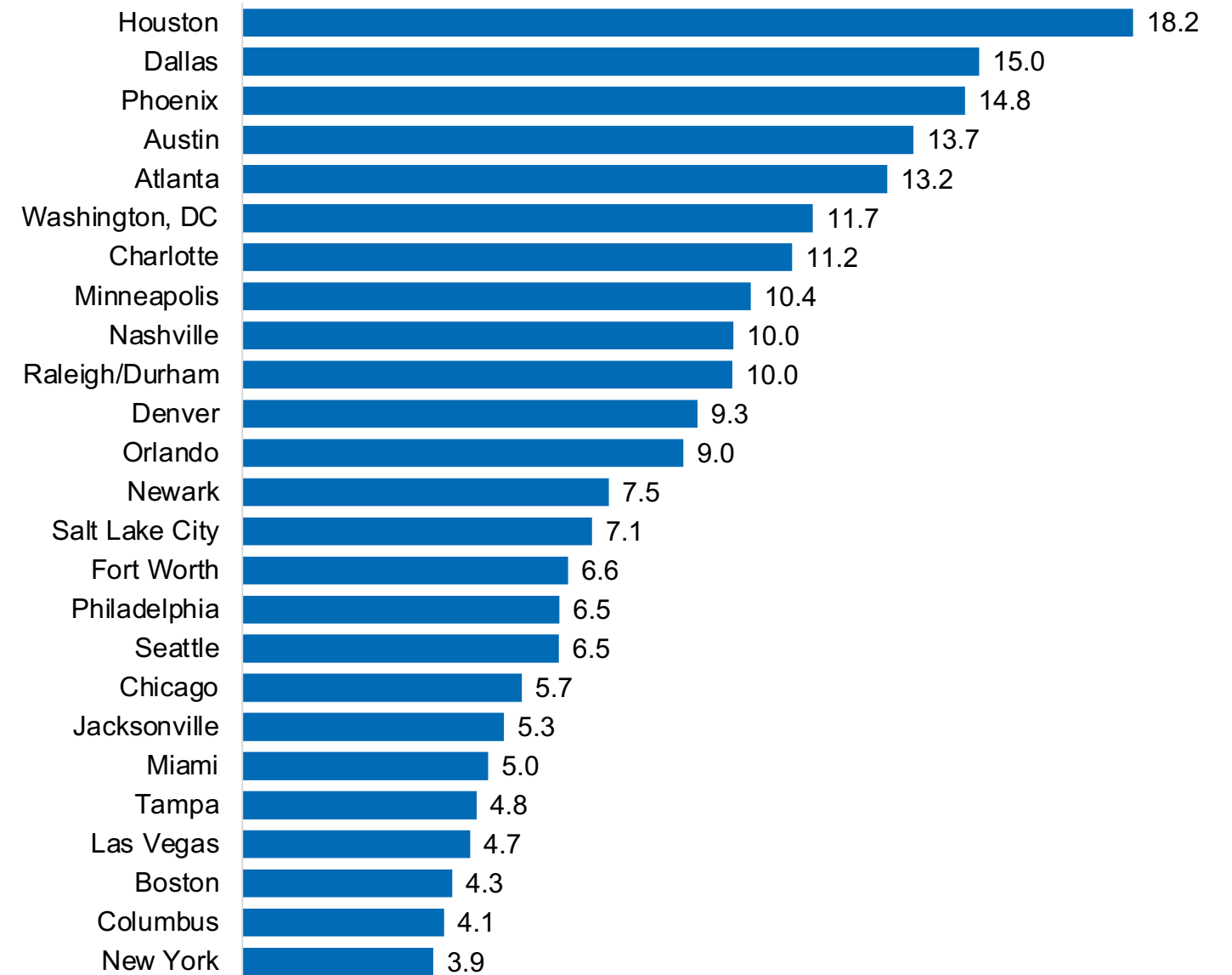
Southern Markets Continue to Display Strongest Demand

Led by Dallas, Phoenix and Austin, the South region accounted for 58.2% of demand in the first quarter of 2024. On a trailing 12-month basis, the South region once again led the way with Texas markets occupying three of the top four markets for demand.

Top 25 Markets for Demand in 1Q24 (in Thousands)



Top 25 Markets for Demand TTM (in Thousands)



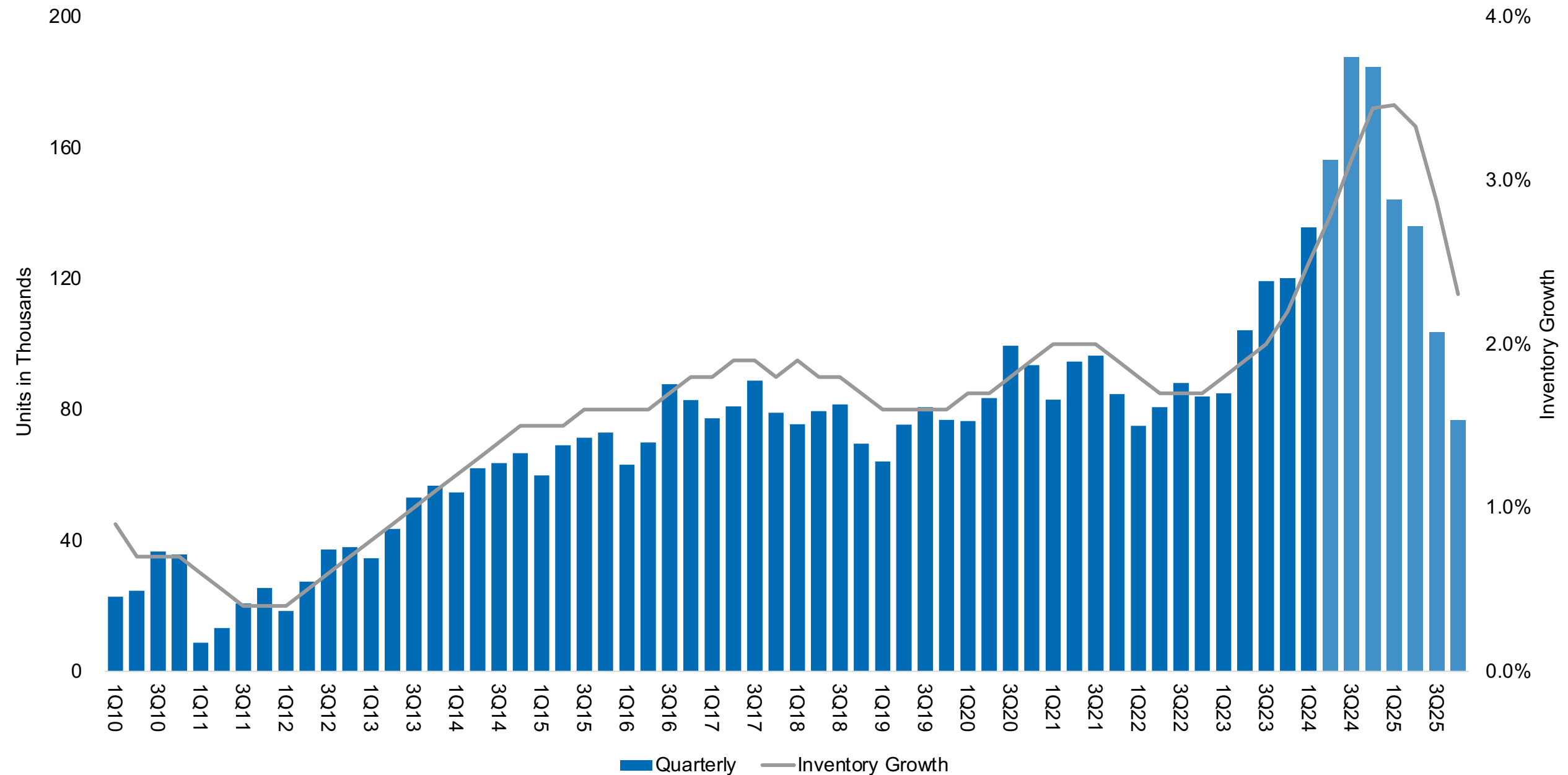
Source: Newmark Research, RealPage

*Demand is defined as the change in occupied units.

New Supply Breaks Prior All-Time Quarterly High; Deliveries to Peak in 3Q24

135,652 units were delivered in the first quarter of 2024, breaking the previous largest quarterly sum on record of 120,226 in the fourth quarter of 2023. New deliveries are expected to continue to accelerate in the second and third quarters of 2024, before decelerating in the fourth quarter of 2024, where a reversion to the mean is expected.

Quarterly New Supply



Source: Newmark Research, RealPage



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Forward-Looking Metrics Indicate Slowdown in Deliveries Coming

Despite high levels of new supply, rolling four-quarter starts and permits have declined 25.9% and 35.3% respectively from the peak in the third quarter of 2022. A reversion to more normalized levels is expected in 2025 and 2026, which should in turn boost NOI growth.

New Privately-Owned Housing: 5 Units or More

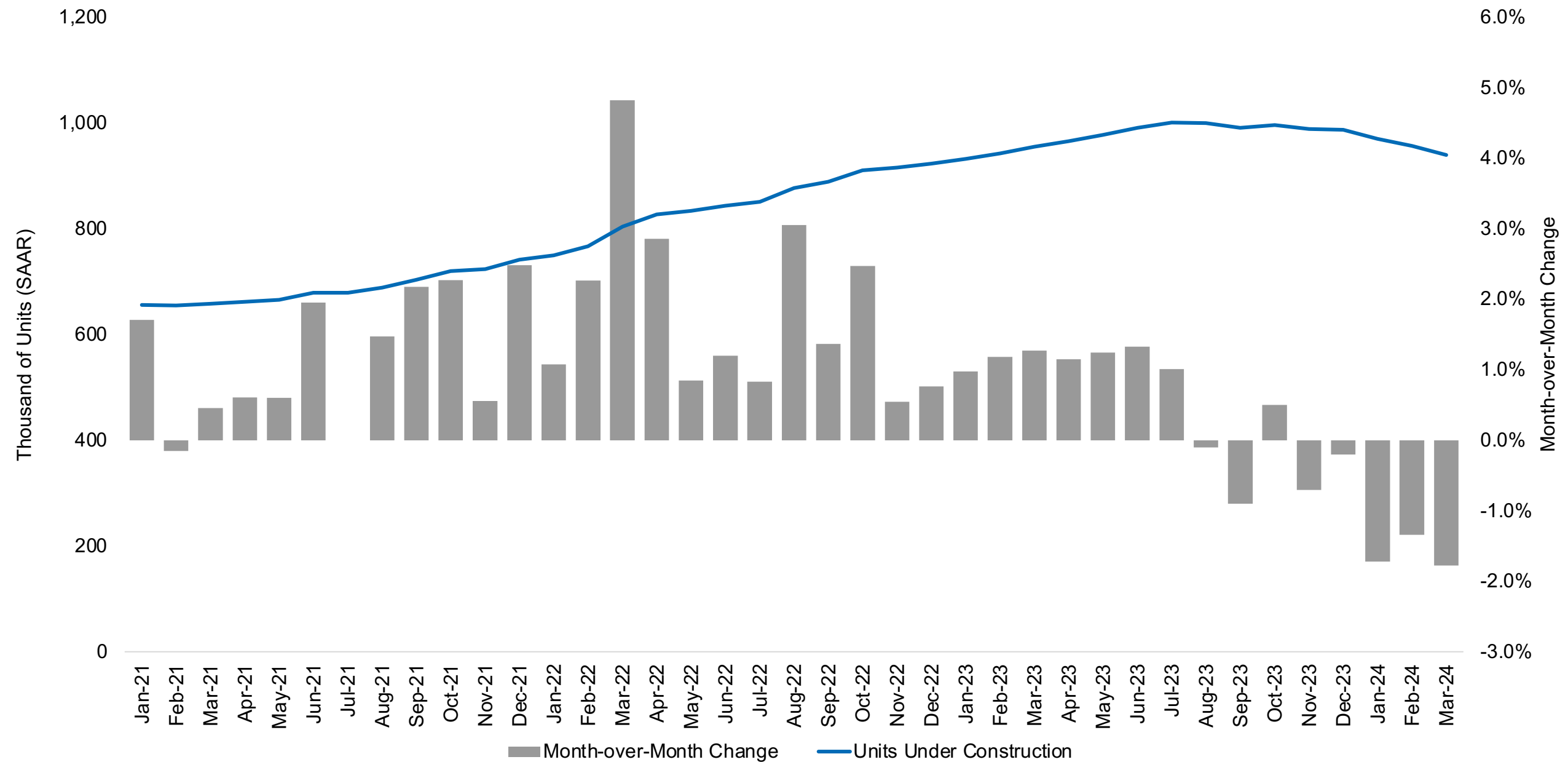


Source: Newmark Research, U.S. Census Bureau, U.S. Department of Housing and Urban Development, Federal Reserve Bank of St. Louis

Units Under Construction Has Peaked; Five Consecutive Quarters of Less Units

As of March 2024, the number of multifamily units under construction declined to 940,000 from the previous peak of 1,001,000 units in July 2023. Units under construction have decelerated consecutively over the past five months on a month-over-year basis and slowed seven of the past eight months.

New Privately-Owned Housing: 5 Units or More

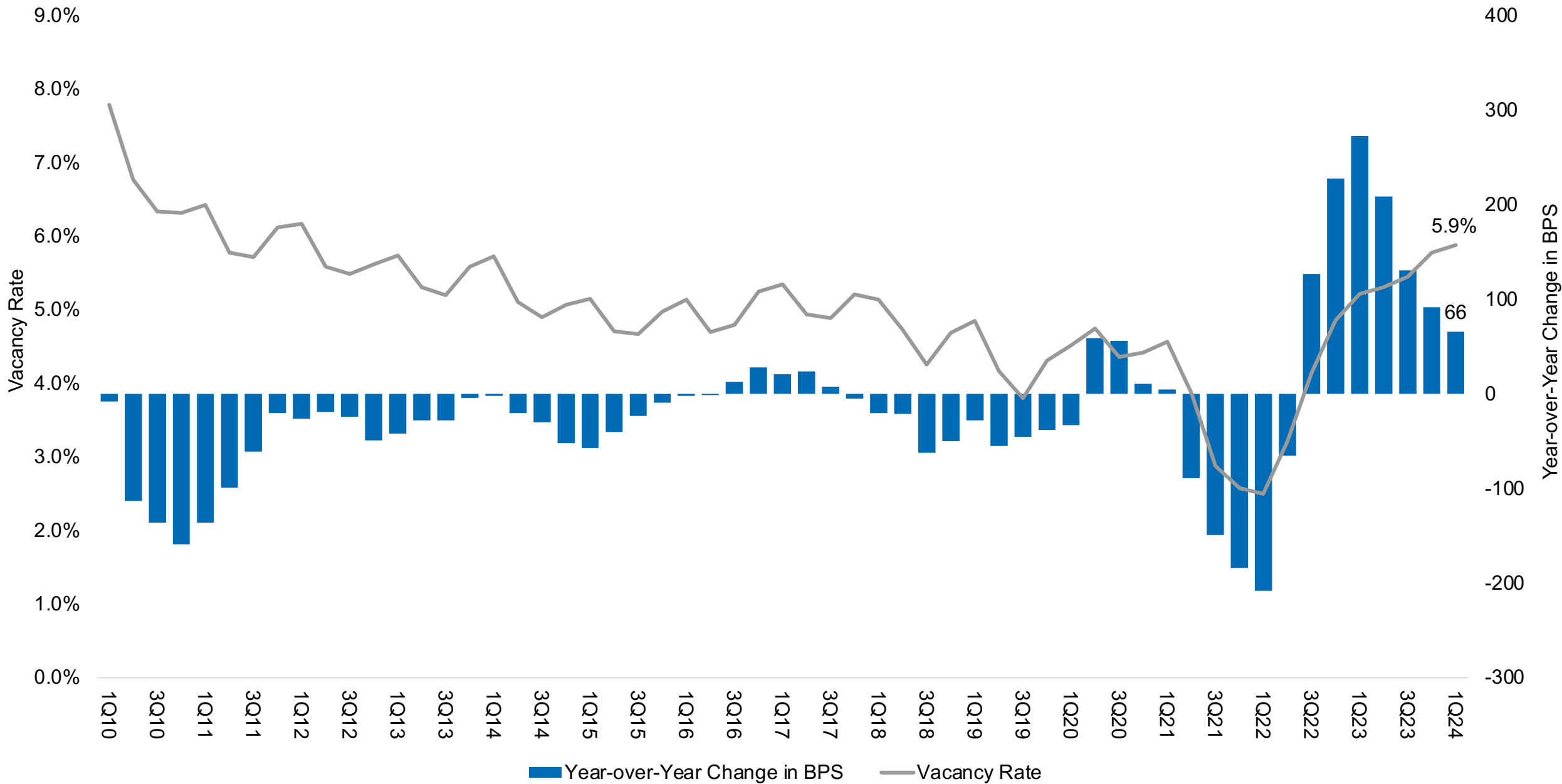


Source: Newmark Research, U.S. Census Bureau, U.S. Department of Housing and Urban Development, Federal Reserve Bank of St. Louis

Vacancies Continues to Increase as New Supply Puts Pressure on Fundamentals

Year-over-year, vacancies rose 66 basis points to 5.9% nationally. This is the ninth consecutive quarterly increase in vacancy; however, the pace of growth is slowing on an annualized basis. Additionally, the 5.9% vacancy rate in the first quarter of 2024 is the highest rate since the first quarter of 2012.

Quarterly Vacancy Rate

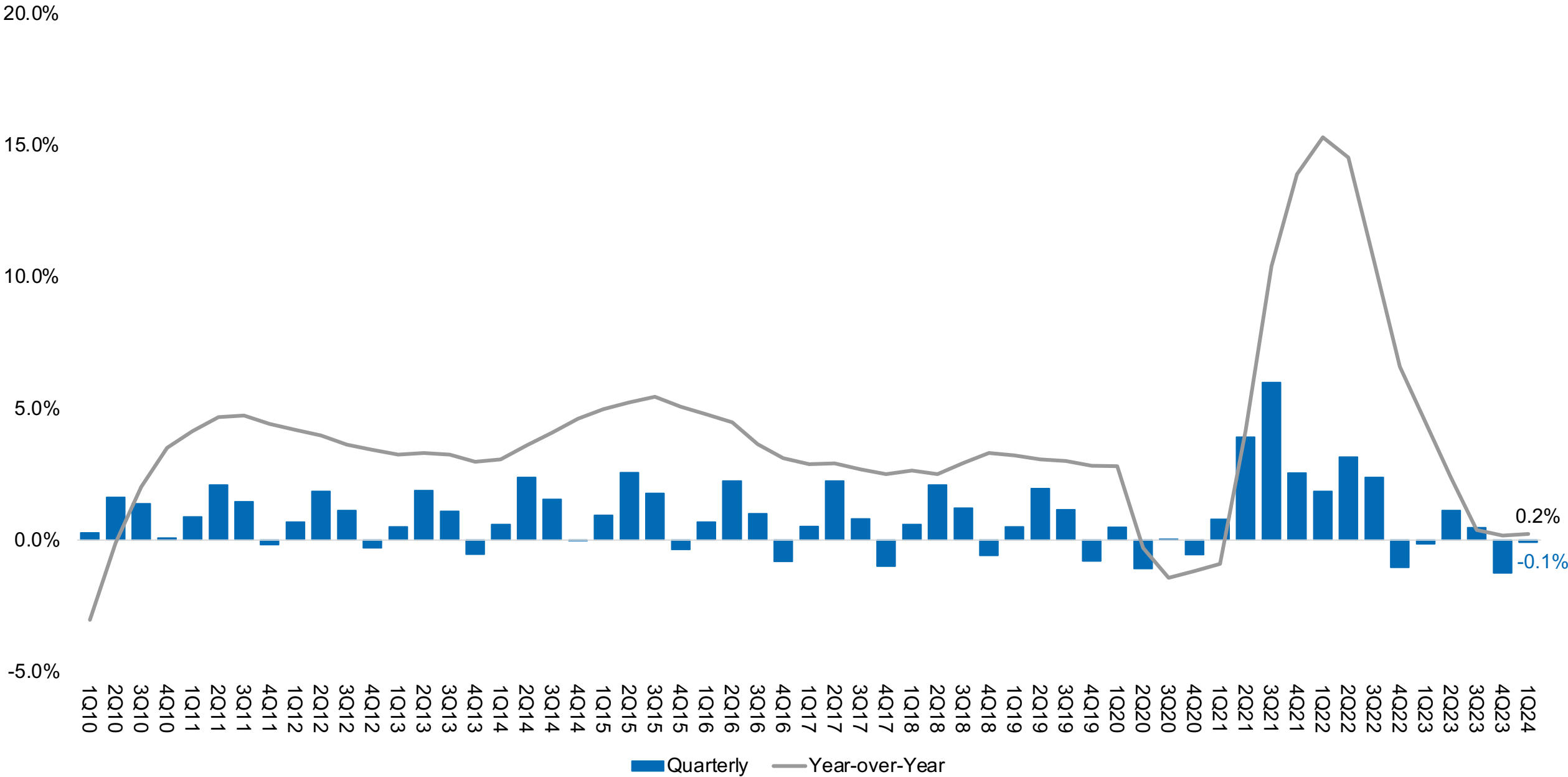


Source: Newmark Research, RealPage

Year-over-Year Rent Growth Drops to Near Zero as New Supply Pressures Prevail

Quarterly rent growth declined to negative 0.1% in the first quarter of 2024, while year-over-year growth remained flat at 0.2% for the second quarter consecutively. Rent growth is projected to increase throughout 2024, reaching 2.0% year over year as new supply is set to slow in the second half of the year.

Effective Rent Growth

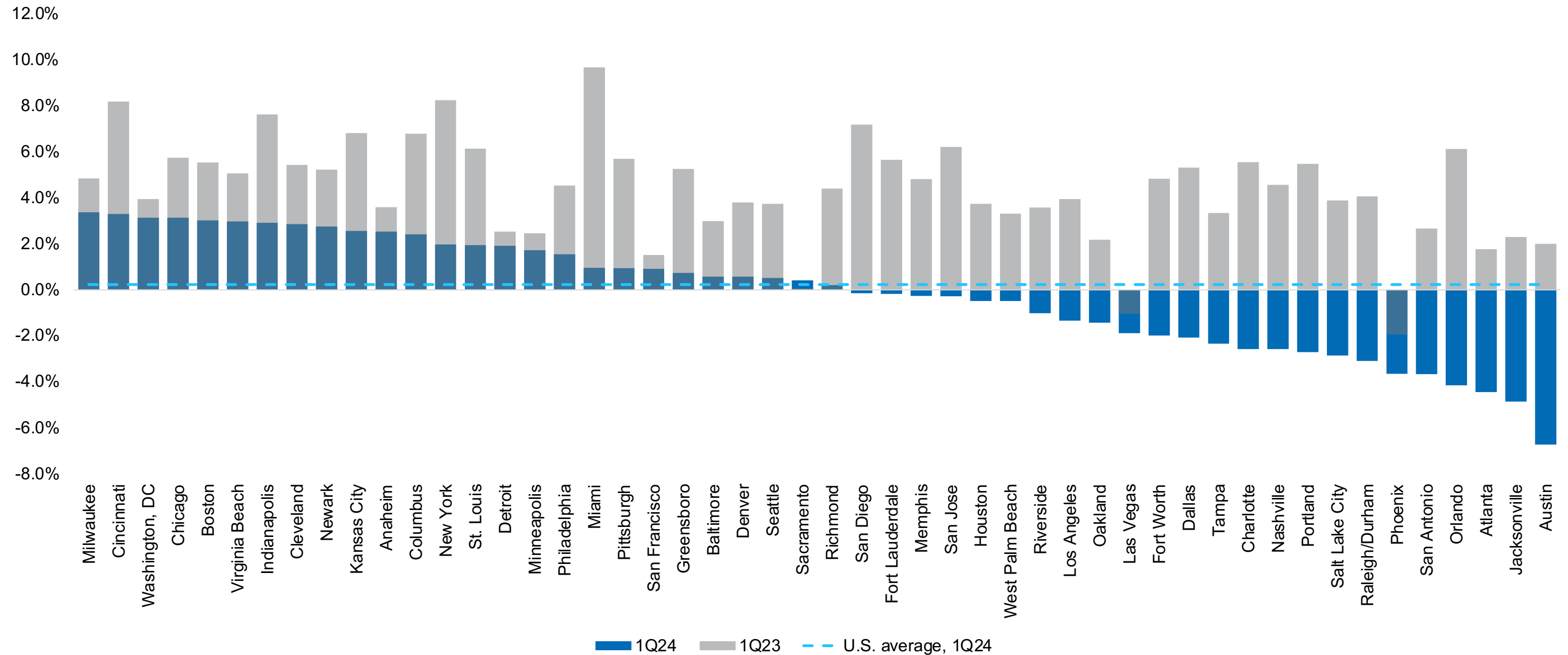


Source: Newmark Research, RealPage

Rent Growth Decelerates Universally; High-Growth Sun Belt Markets Cool

Over the past 12 months, effective rent growth has declined by 449 basis points. Midwest and Northeast markets continue to occupy the top markets for rent growth, led by Milwaukee and Cincinnati, at 3.4% and 3.3%, respectively. Growth markets throughout the Sun Belt have experienced the largest year-over-year decline.

Year-over-Year Effective Rent Growth (Top 50 Markets)



Source: Newmark Research, RealPage



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1Q24 US MULTIFAMILY CAPITAL MARKETS REPORT

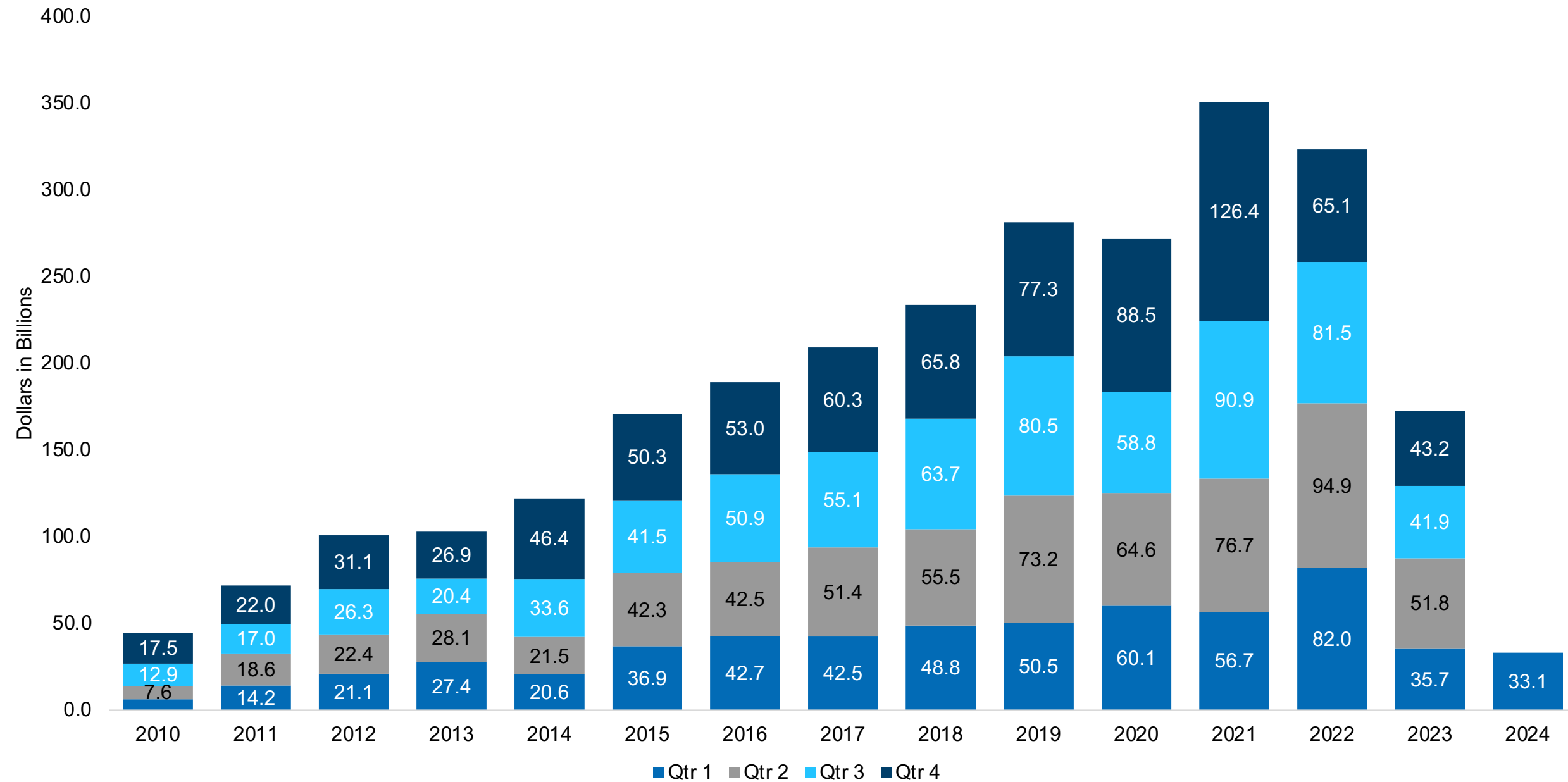
Debt Capital Markets



Multifamily Debt Originations Lowest Since 2015 in 1Q24

While recent activity has been anemic compared to pre-pandemic levels, there is a silver lining in that originations in the first quarter of 2024 were down just 7% year-over-year, suggesting that activity may be close to bottoming.

Multifamily Debt Origination Volume*



Source: RCA, Newmark Research as of 4/26/2024

Note: loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models

**Excludes construction loans

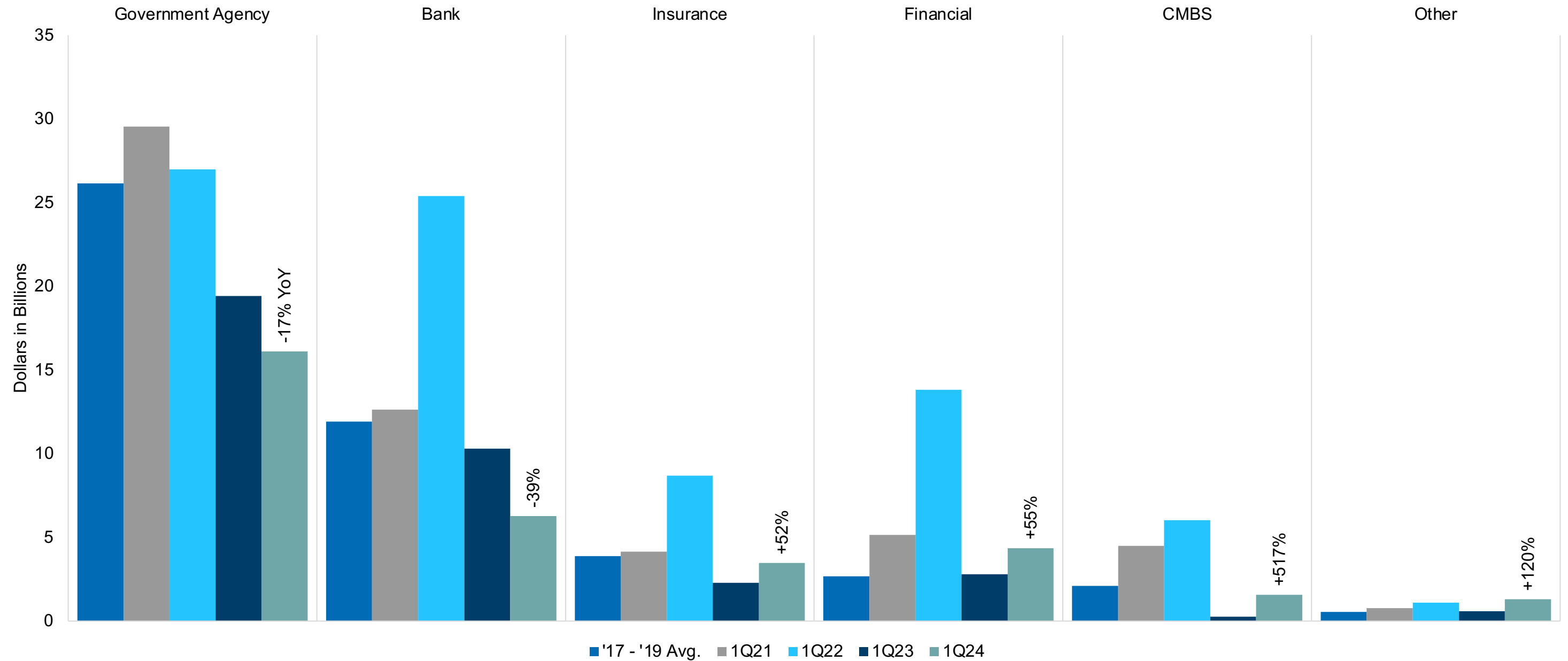


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Multifamily Originations Declined in 1Q24 among Largest Lenders

GSEs and banks remain the largest lenders, despite originations declining 17% and 39% year over year respectively. CMBS has been a bright spot, with a 517% year-over-year surge in the first quarter of 2024.

Multifamily Loan Origination Volume



Source: RCA, Newmark Research as of 4/26/2024

Note: loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models

**Excludes construction loans



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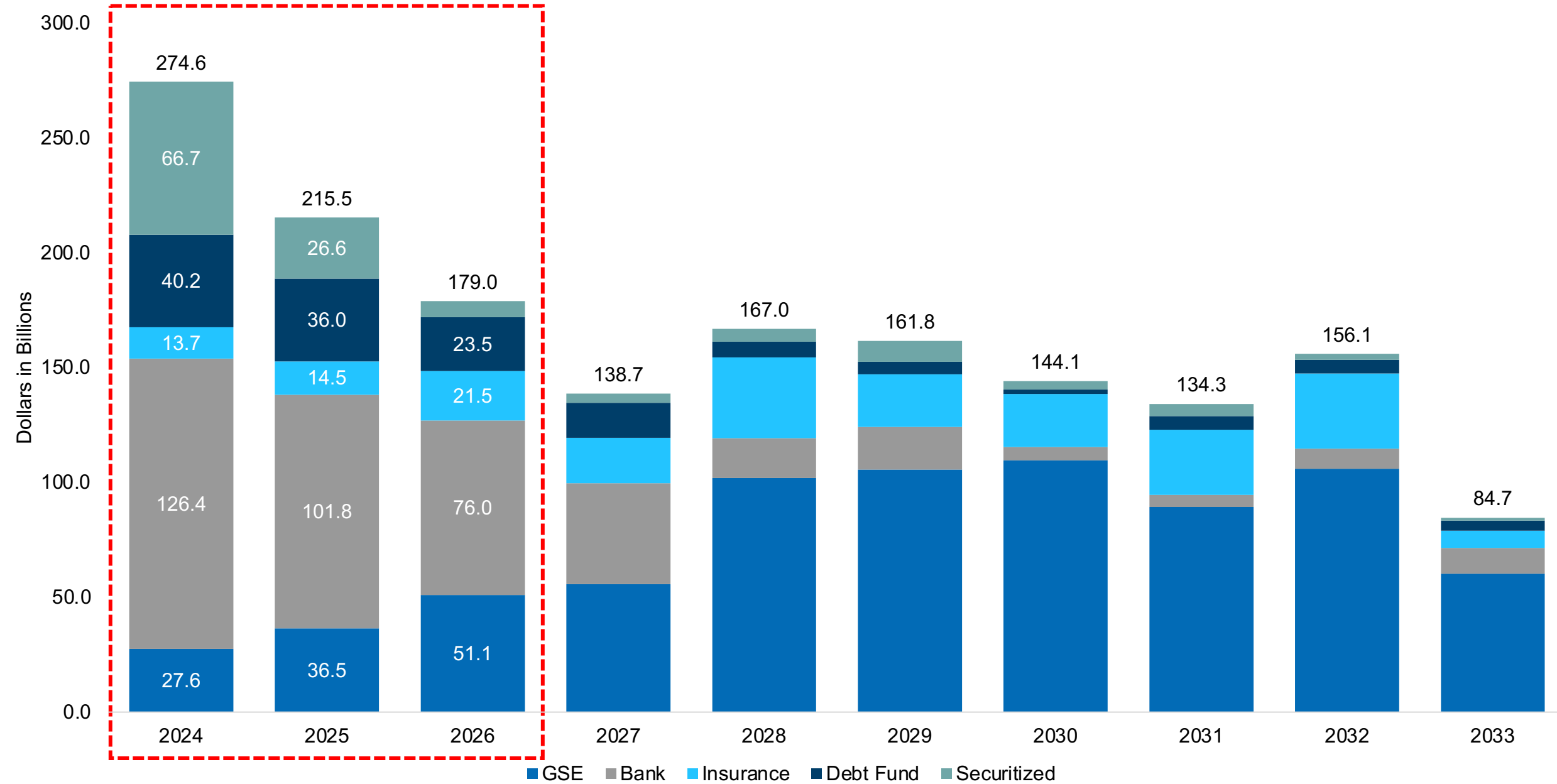


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\$669 Billion in Multifamily Loans Mature between 2024 and 2026

Banks account for 25% of debt maturities in the full 2024-to-2033 period, but they account for 46% of maturities between 2024 and 2026. Debt fund maturities are similarly frontloaded, accounting for 14% of near-term maturities vs. 9% in the full period. The same is true of securitized lending, driven by CLOs. In contrast, GSE maturities are heavily backloaded.

Multifamily Loan Maturities by Lender Group*

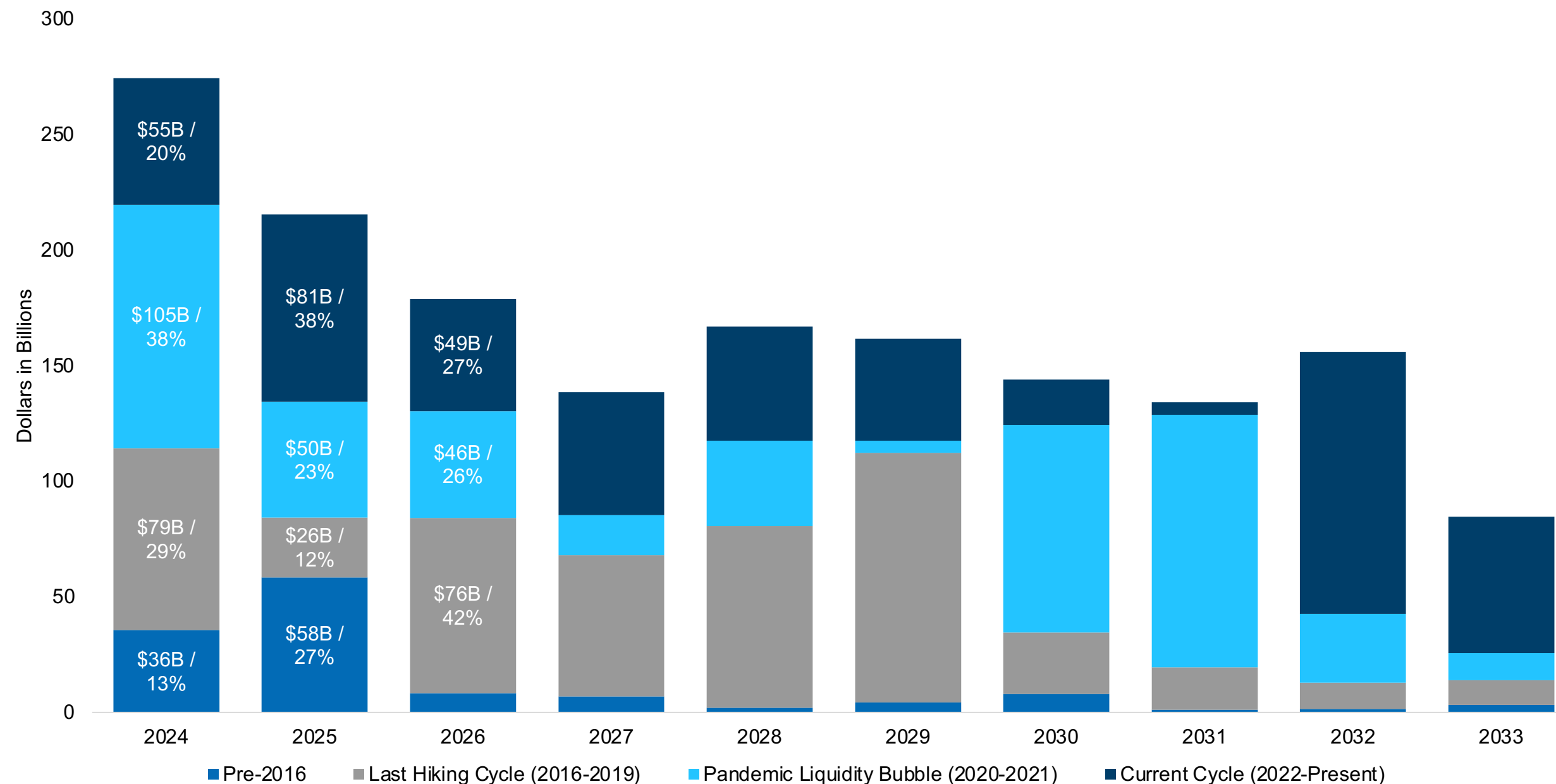


Source: MBA, Trepp, RCA, Newmark Research as of 4/30/2024
 *Adjusted for year-to-date estimated loan originations

Upcoming Maturities Heavily Exposed to Bubble-Era Loans

Multifamily received tremendous capital inflows during the pandemic liquidity bubble of 2020 to the first half of 2022. This was reflected both in transaction activity, as well as pricing for both debt and equity. A significant portion of these loans had short duration and were financing value-add projects. Now those loans are coming due and in a very different environment than when they were originally issued.

Multifamily Loan Maturities by Origination Period*

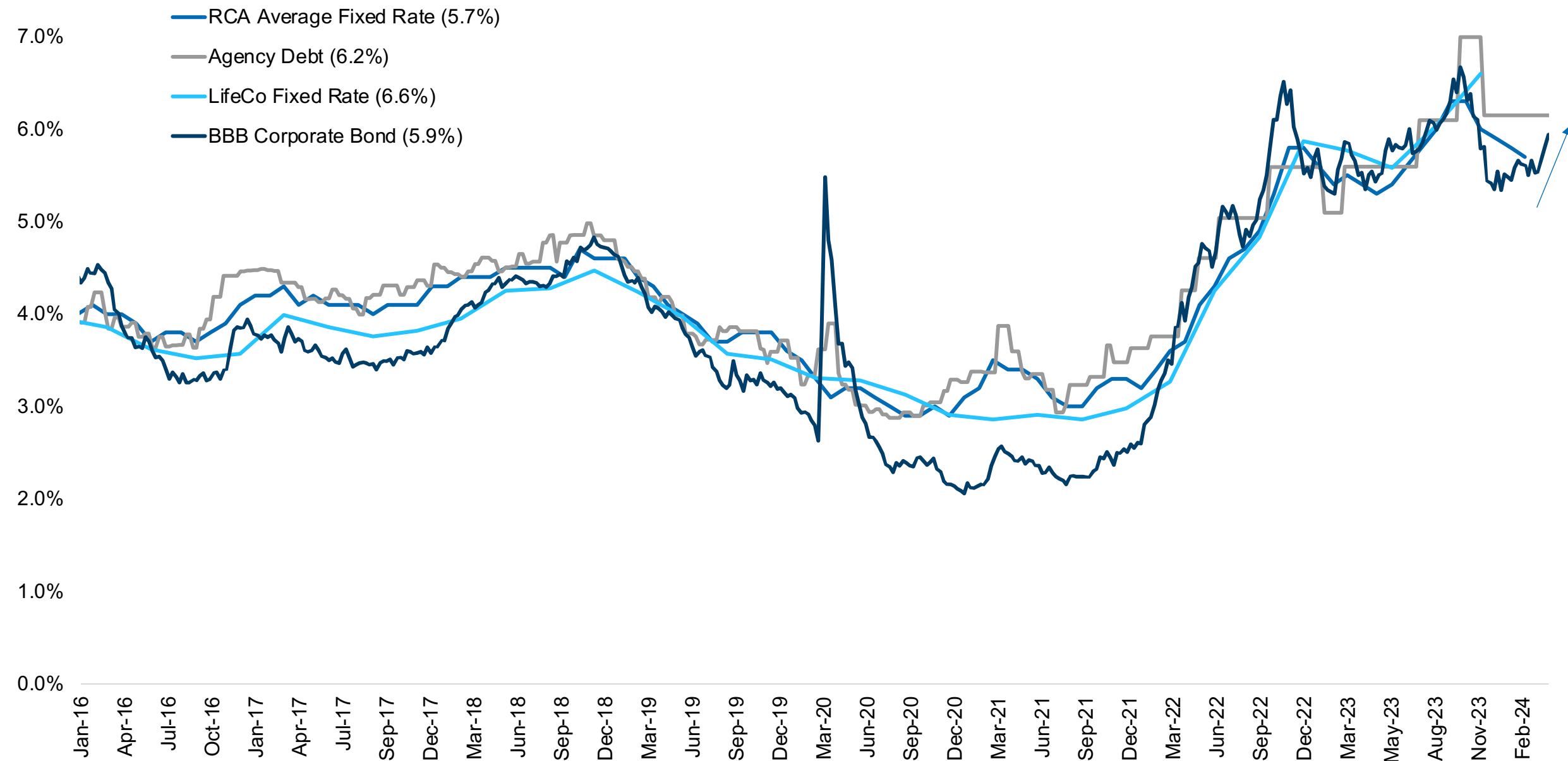


Source: Newmark Research, MBA, Trepp, MSCI Real Capital Analytics as of 4/30/2024
*Adjusted for year-to-date estimated loan originations

Multifamily Debt Costs Continue to Follow Pied Piper of Corporate Bonds

Historically, multifamily debt rates have run somewhat above those of BBB corporate bonds. Yields on multifamily agency debt have tended to trade closely with the broader fixed-rate transaction market yields. Until recently, multifamily debt benchmarks were lagging movements in corporate bonds. As corporate bond yields have declined from early November highs, multifamily benchmarks have in effect caught up. While further declines in debt costs are likely to be limited, the market could benefit from greater stability.

Multifamily Cost of Debt Capital



Source: RCA, Green Street, ICE Data Indices, ACLI, Federal Reserve, Newmark Research as of 4/26/2024
 Note: Excludes construction financing

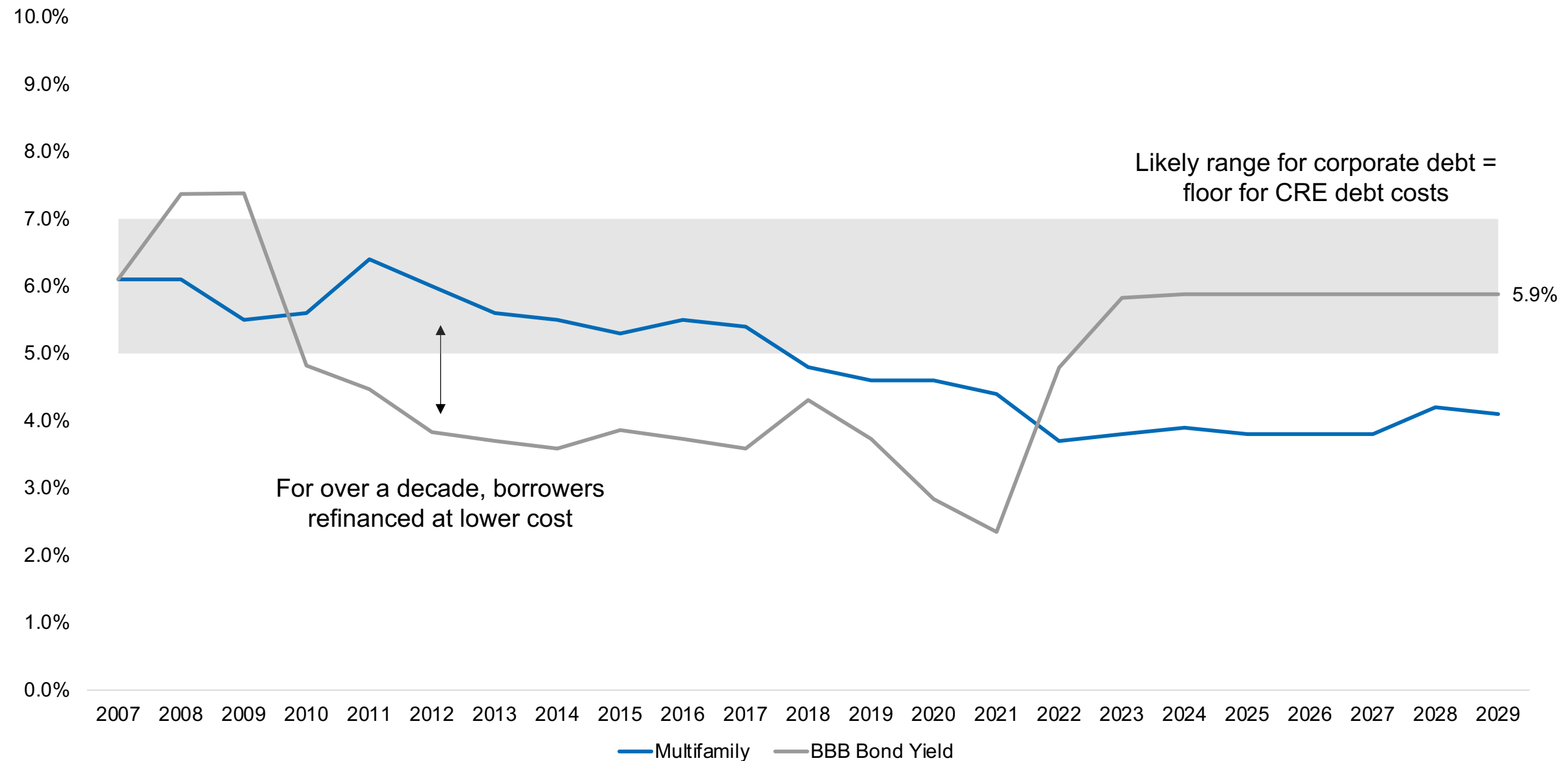


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Multifamily Borrowers Face Starkly Higher Costs as Loans Mature

Higher debt costs on refinancing will lower return for all and will give rise to a range of reactions within the market. Some borrowers will choose to pay down their debt, especially if the asset has appreciated meaningfully. Others will refinance the principal or partially pay down, whereas in a lower cost-of-capital environment, they would have re-levered. Still others will be unable to make the math work and will need to pursue a loan modification, return the keys and/or source rescue equity at an appropriate price point.

Weighted Average Interest Rate on Maturing Debt vs. Prevailing Bond Yields



Source: Newmark Research, MSCI Real Capital Analytics, ICE Data Indices as of 5/8/2024



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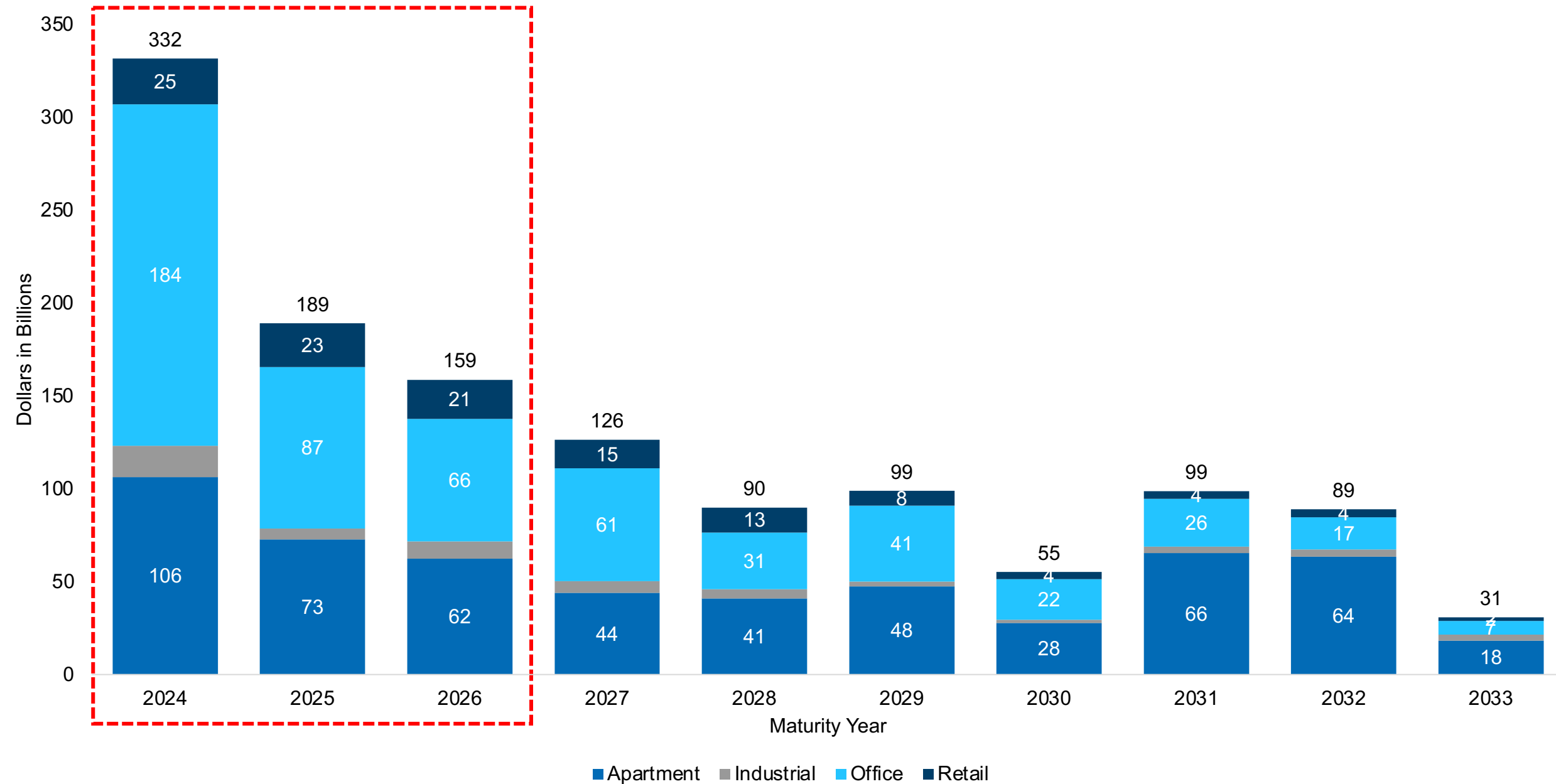


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\$1.3T of Outstanding CRE Debt is Potentially Troubled, \$679B Maturing in '24 to '26

Combining our analysis of mark-to-market LTVs with the structure of debt maturities, we estimate the volume of debt that currently is potentially troubled.* Office and multifamily loans constitute most potentially troubled loans, particularly in the 2024-to-2026 period. The high office volume results from most loans being underwater. The distribution of LTV ratios for multifamily are more favorable overall, but the greater size of the multifamily market and the concentration of lending during the recent liquidity bubble drive high nominal exposure.

Potentially Troubled Loans by Maturity Year*



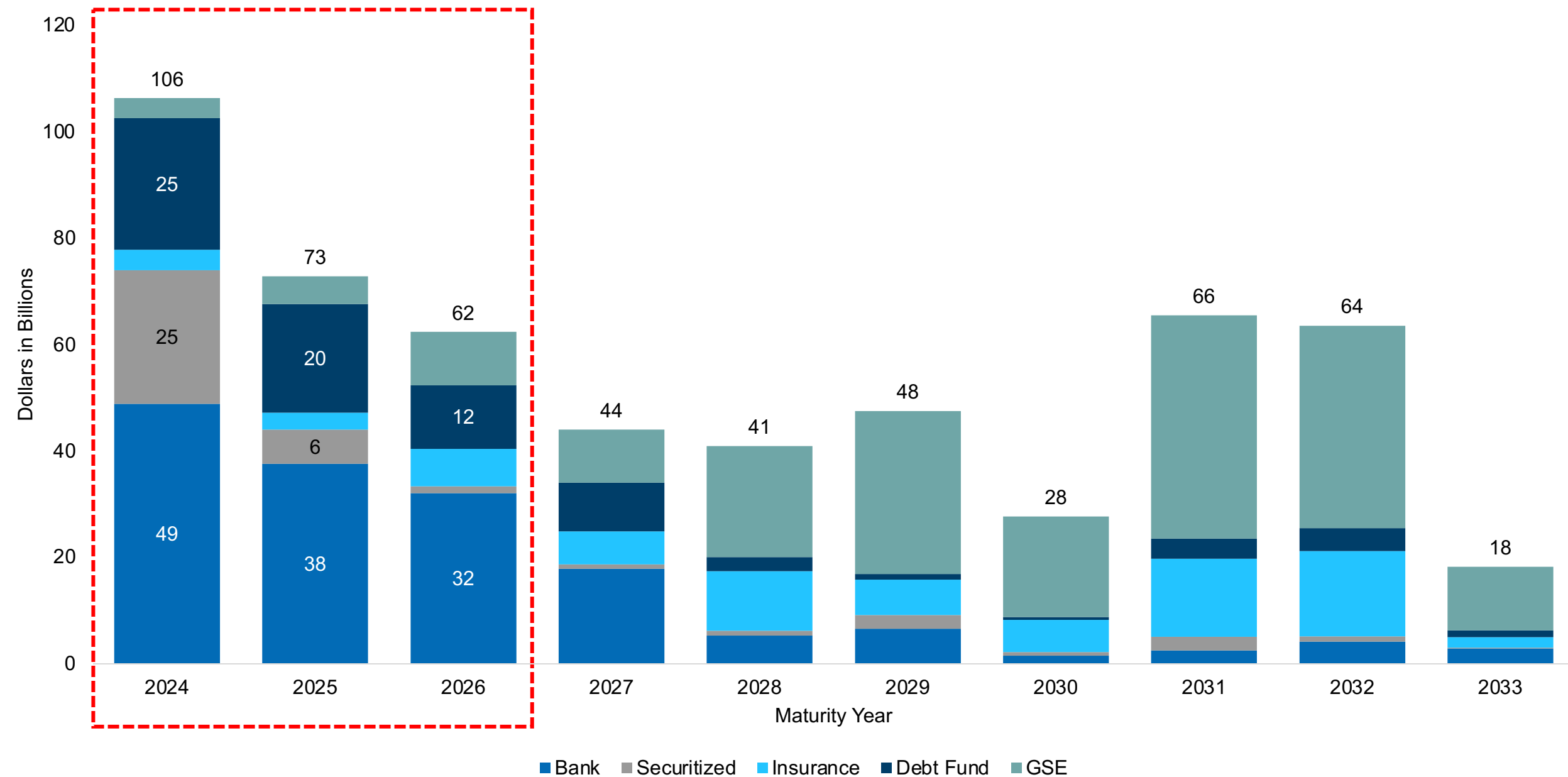
Source: Green Street, NCREIF, RCA, Trepp, MBA, Newmark Research as of 4/30/2024

*Loans with an estimated senior debt LTV of 80% or greater are potentially troubled. The loans are marked-to-market using an average of cumulative changes in the Dow Jones REIT sector price indices, REIT sector enterprise value indices and Green Street sector CPPI.

Potential Multifamily Distress Concentrated in Bank, CLO and Debt Fund Lending

Focusing on the 2024-to-2026 period, banks are most exposed to potential distress in nominal terms, but this mostly parallels their share of maturing loans. The same is true of securitized financing. In contrast, debt funds account for 18% of potentially distressed loans but only 14% of maturing loans, a ratio of 1.3x. GSE is the most significant outlier but in the opposite direction with a ratio of 0.4. There are significantly more at-risk GSE loans later in the decade, but it is premature to focus overmuch on these.

Potentially Troubled Multifamily Loans by Maturity Year*



Source: Green Street, NCREIF, RCA, Trepp, MBA, Newmark Research as of 4/30/2024

*Loans with an estimated senior debt LTV of 80% or greater are potentially troubled. The loans are marked-to-market using an average of cumulative changes in the Dow Jones REIT sector price indices, REIT sector enterprise value indices and Green Street sector CPPI.

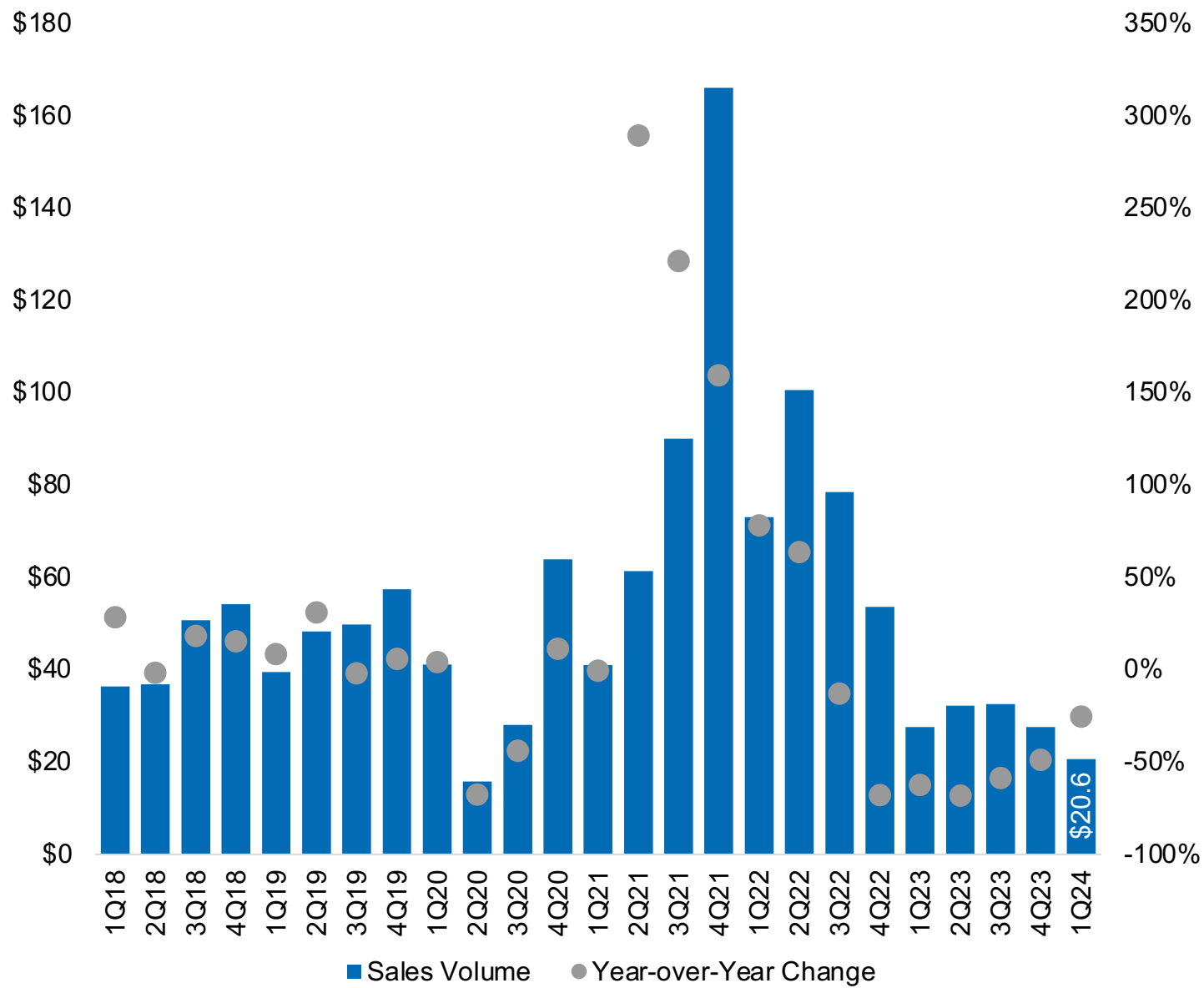
Investment Sales



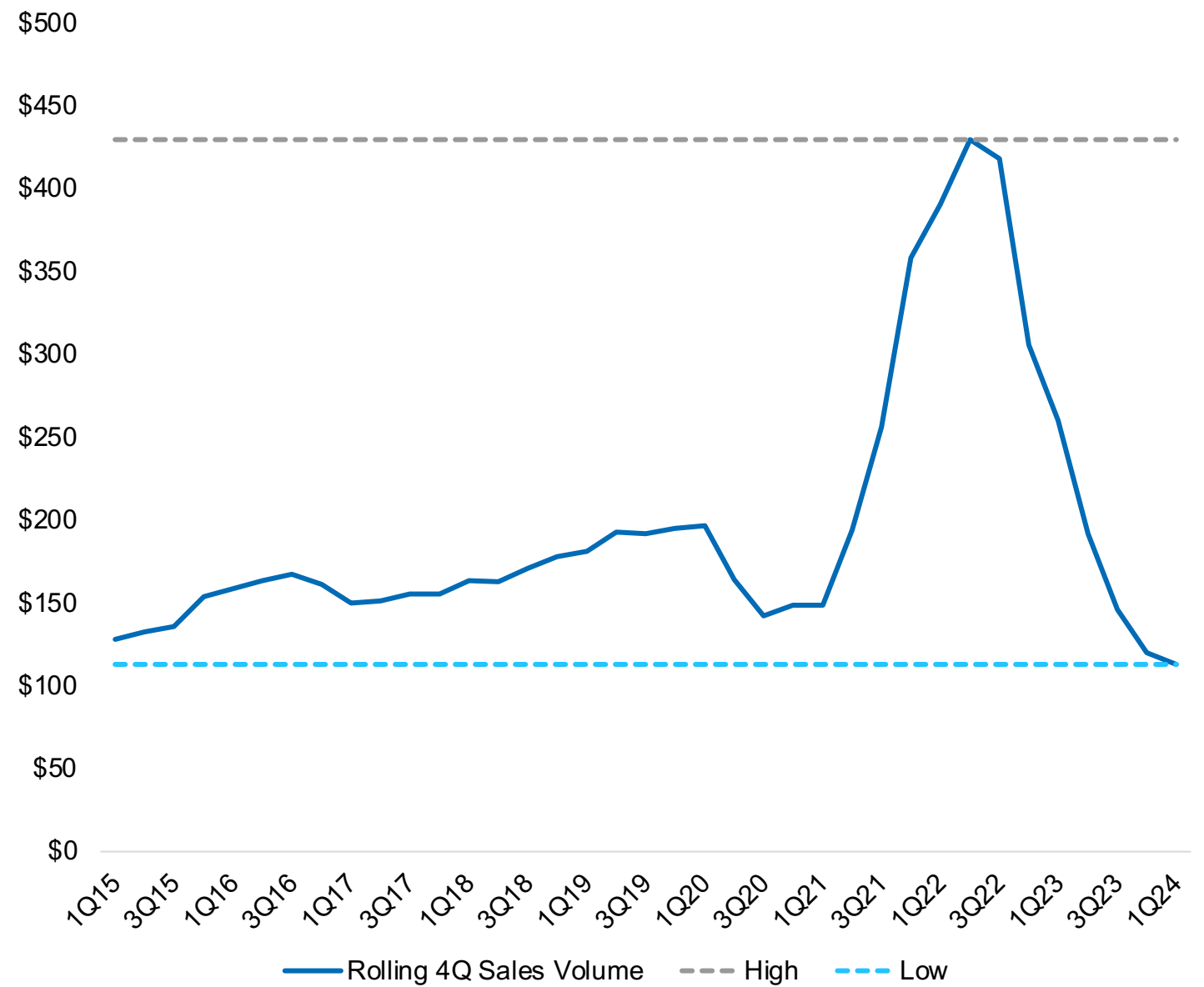
1Q24 Sales Volumes Fall 25% Year over Year; Pace of Decline Moderating

Investment sales volume totaled \$20.6 billion in the first quarter of 2024, decreasing 25.3% year over year. Sales volume on a rolling four-quarter basis declined to \$113.0 billion, the lowest point since the fourth quarter of 2014 and 42.2% below the long-term average.

Quarterly Sales Volume (in Billions)



Rolling 4Q Totals (in Billions)



Source: Newmark Research, MSCI Real Capital Analytics

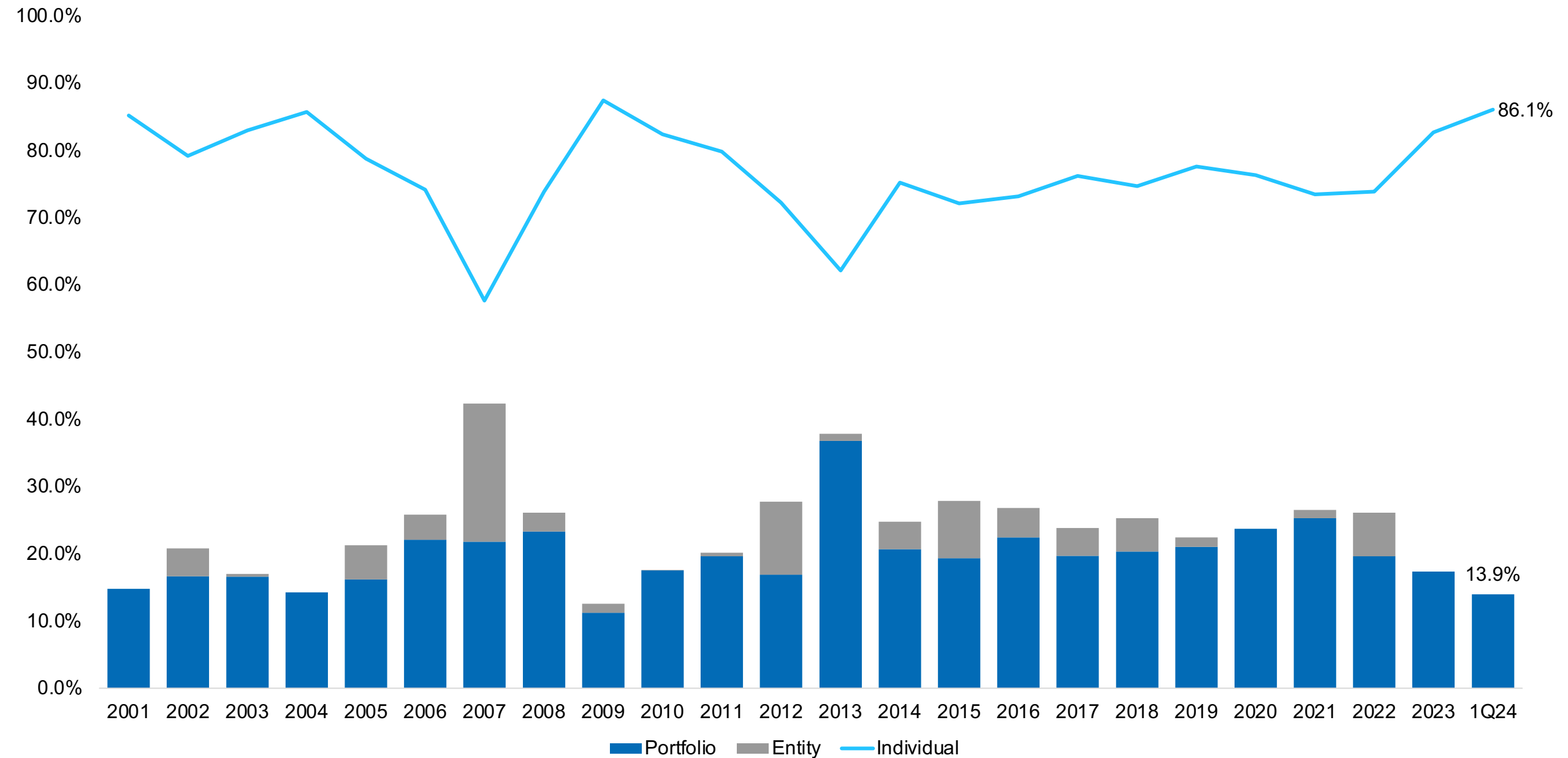


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Mega Deal Volume Sinks to 15-Year Low

Individual deal volume accounted for 86.1% of transactions during the first quarter of 2024, well above the 10-year average (75.5%). Portfolio and entity-level transactions sank 13.9%, the lowest mark since 2009.

By Transaction Type



Source: Newmark Research, MSCI Real Capital Analytics

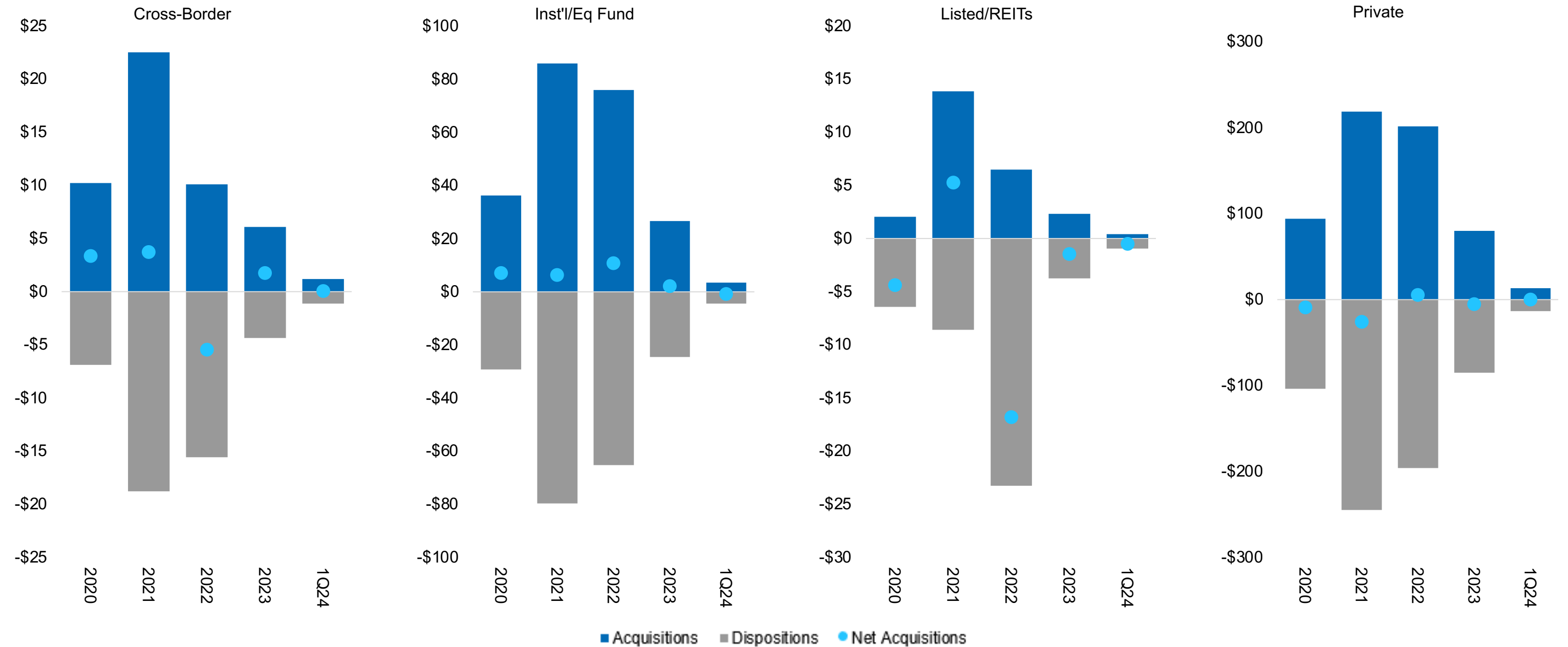


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Private Capital Remains Leading Source of Transactions

Private capital sources, including owners, operators and developers, accounted for 64.6% of acquisitions, and 64.9% of dispositions in the first quarter of 2024. Only cross-border capital groups have been net acquirers year-to-date.

Capital Flows by Investor Group (in Billions)



Source: Newmark Research, MSCI Real Capital Analytics



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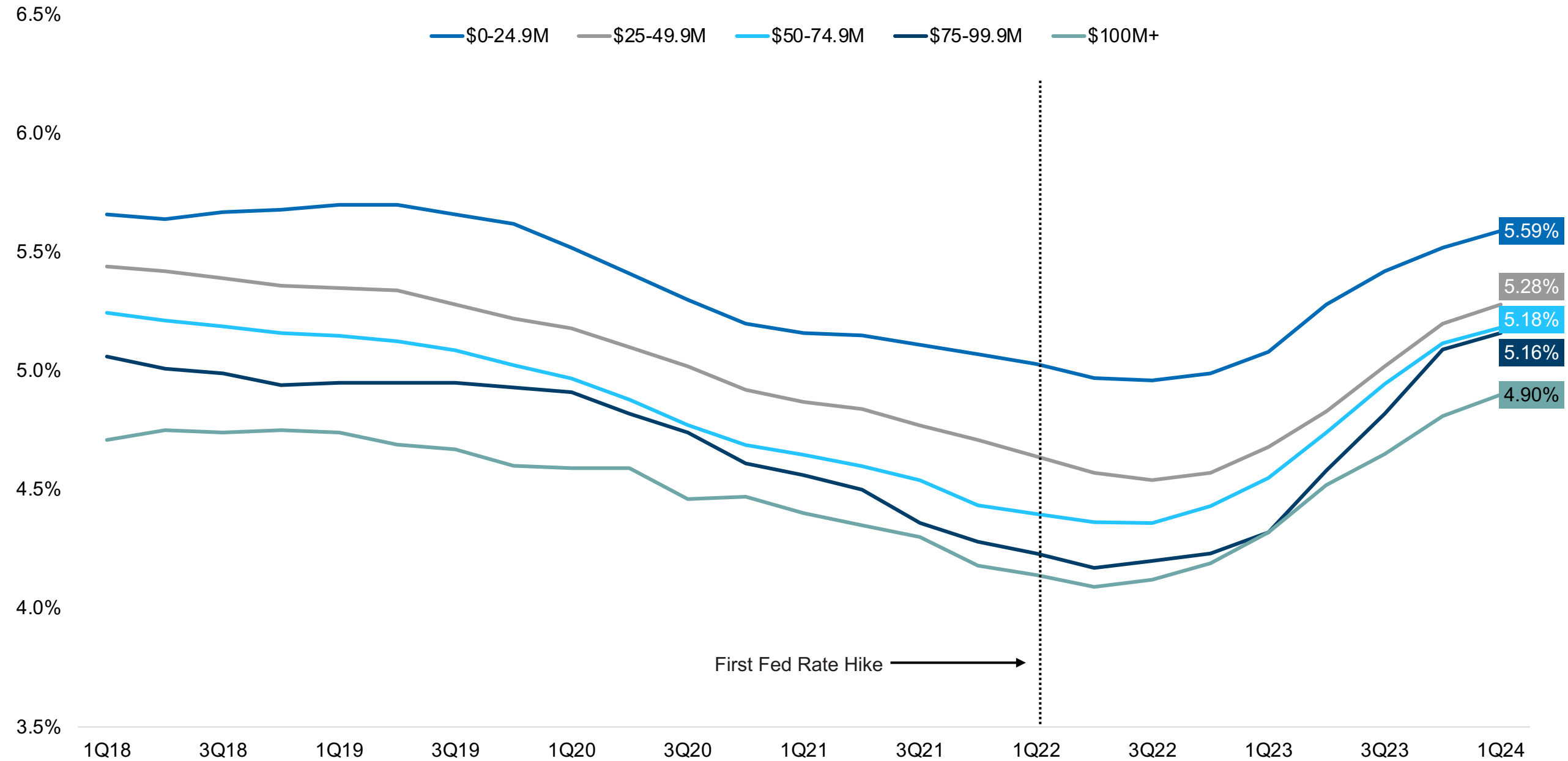
Pricing & Returns



Larger Deals Experiencing Most Evident Reset in Pricing

Following the first rate hike in March 2022, average cap rates have accelerated 60 basis points across all deal sizes. Deals \$50 to \$74.9 million have increased 79 basis points, \$75 to \$99.9 million have increased 93 basis points and deals \$100 million and greater have increased 76 basis points.

Average Cap Rate by Price Tier



Source: Newmark Research, MSCI Real Capital Analytics



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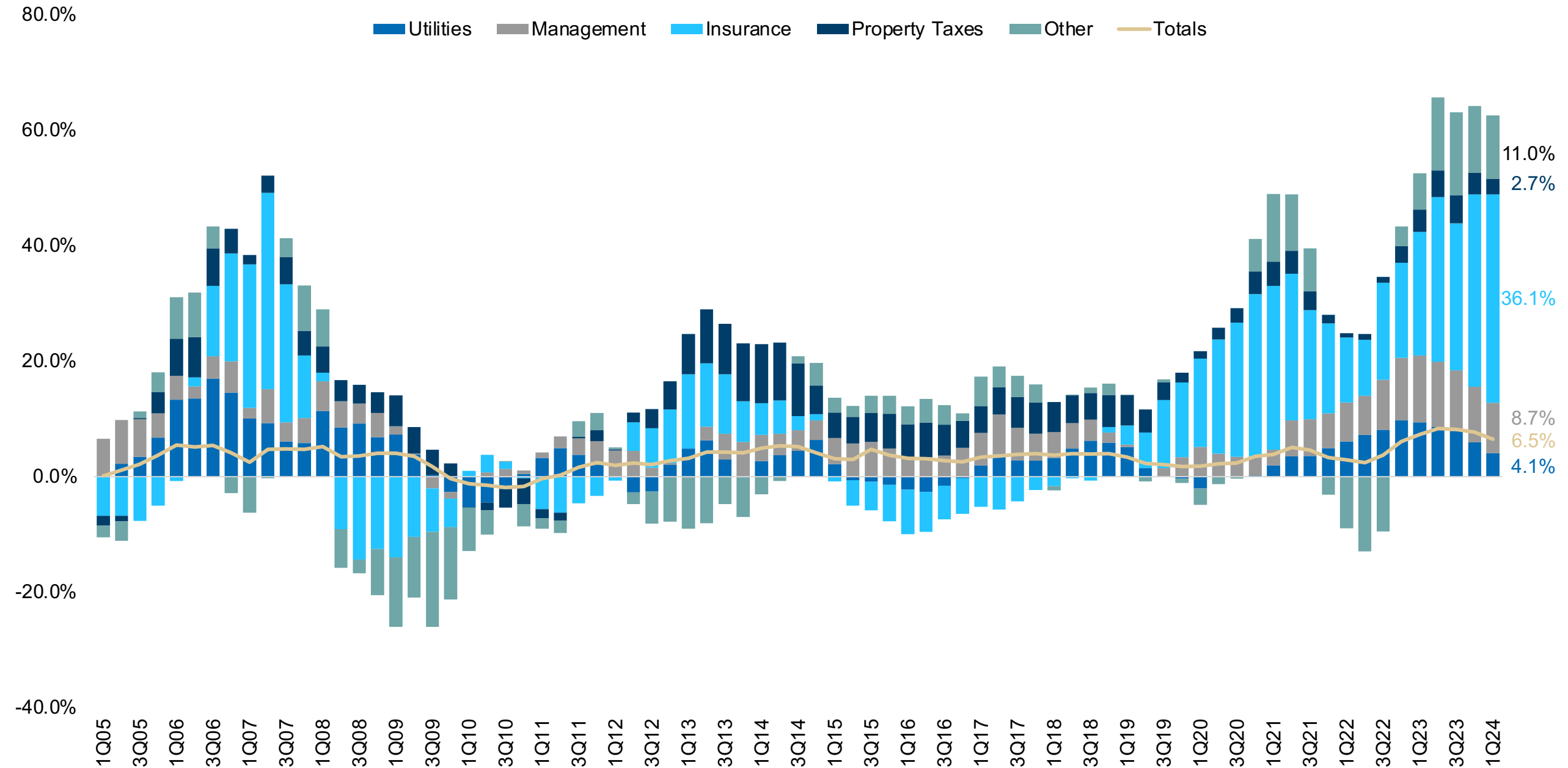


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Investors Confronted by Rising Operational Costs; Insurance Continues to Accelerate

Multifamily expenses increased 6.5% year over year, led by a 36.1% surge in insurance costs. The first quarter of 2024 represents the seventh consecutive quarter on a year-over-year basis with double-digit increases in insurance expenses.

Year-over-Year Change

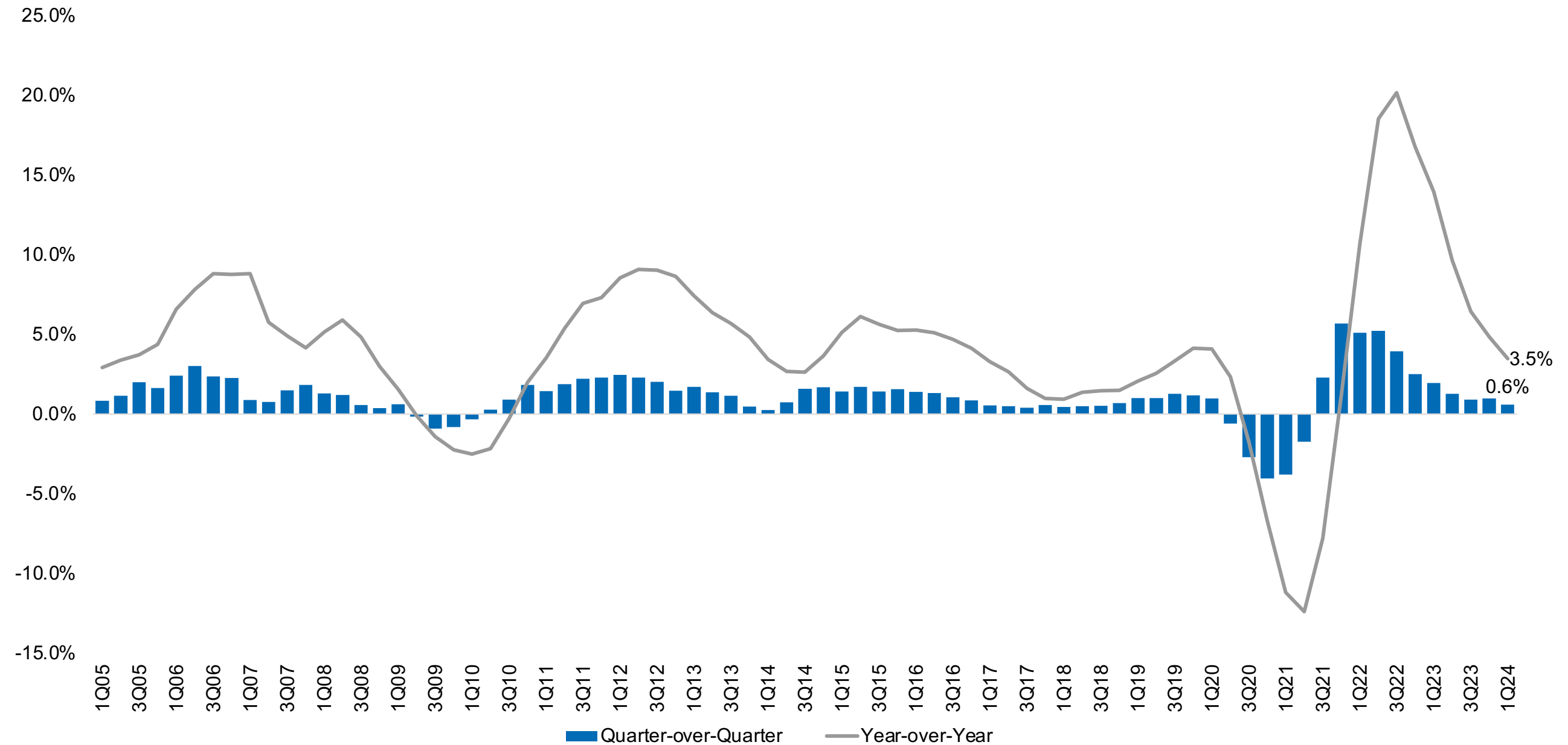


Source: Newmark Research, NCREIF

NOI Growth Remains Positive; Pace of Growth Continues to Decline

On a quarter-over-quarter basis, net operating income declined to 0.6% and year-over-year declined to 3.5%. On a year-over-year basis, this marks the seventh consecutive decrease in the pace of growth.

Net Operating Income

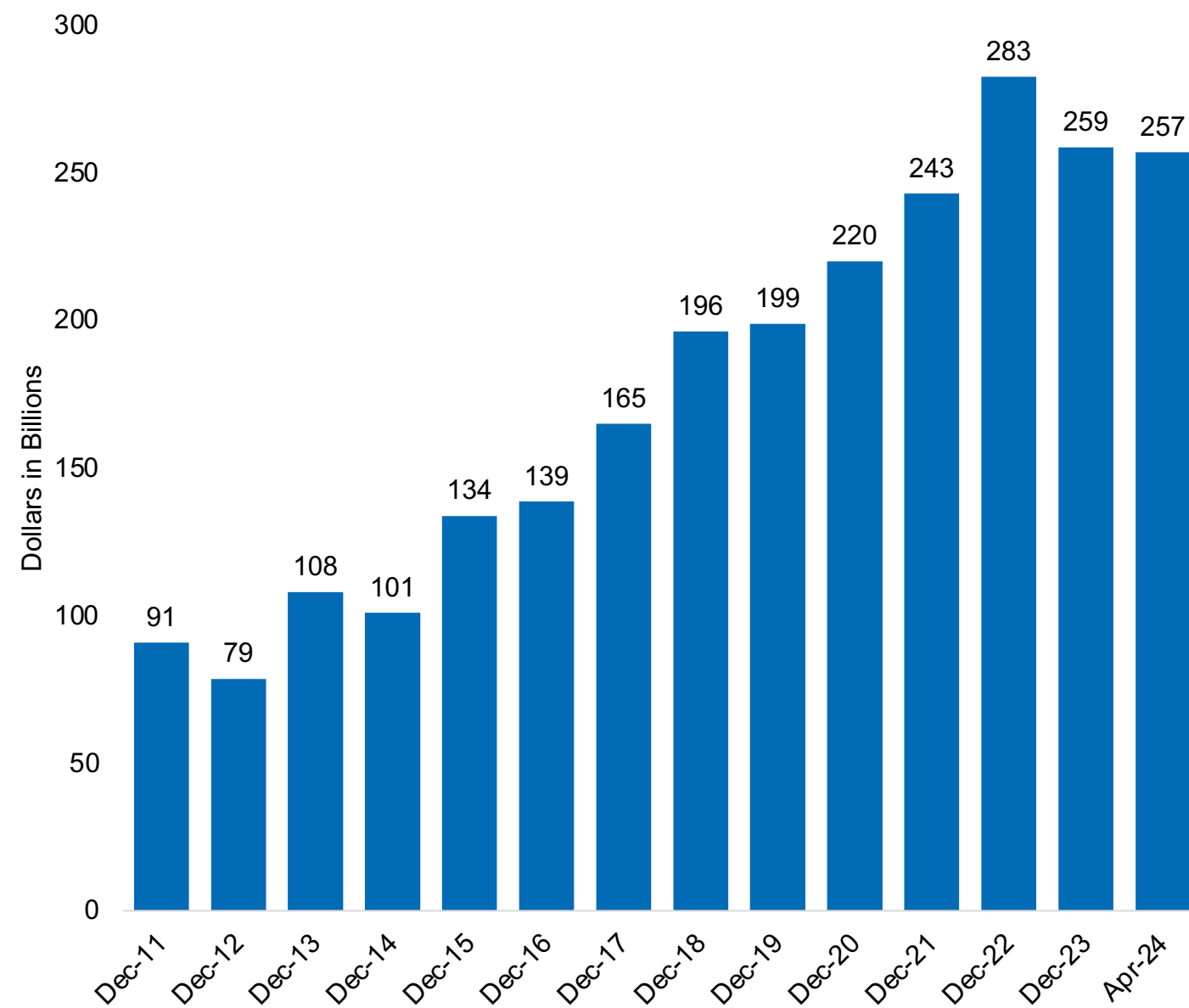


Source: Newmark Research, NCREIF

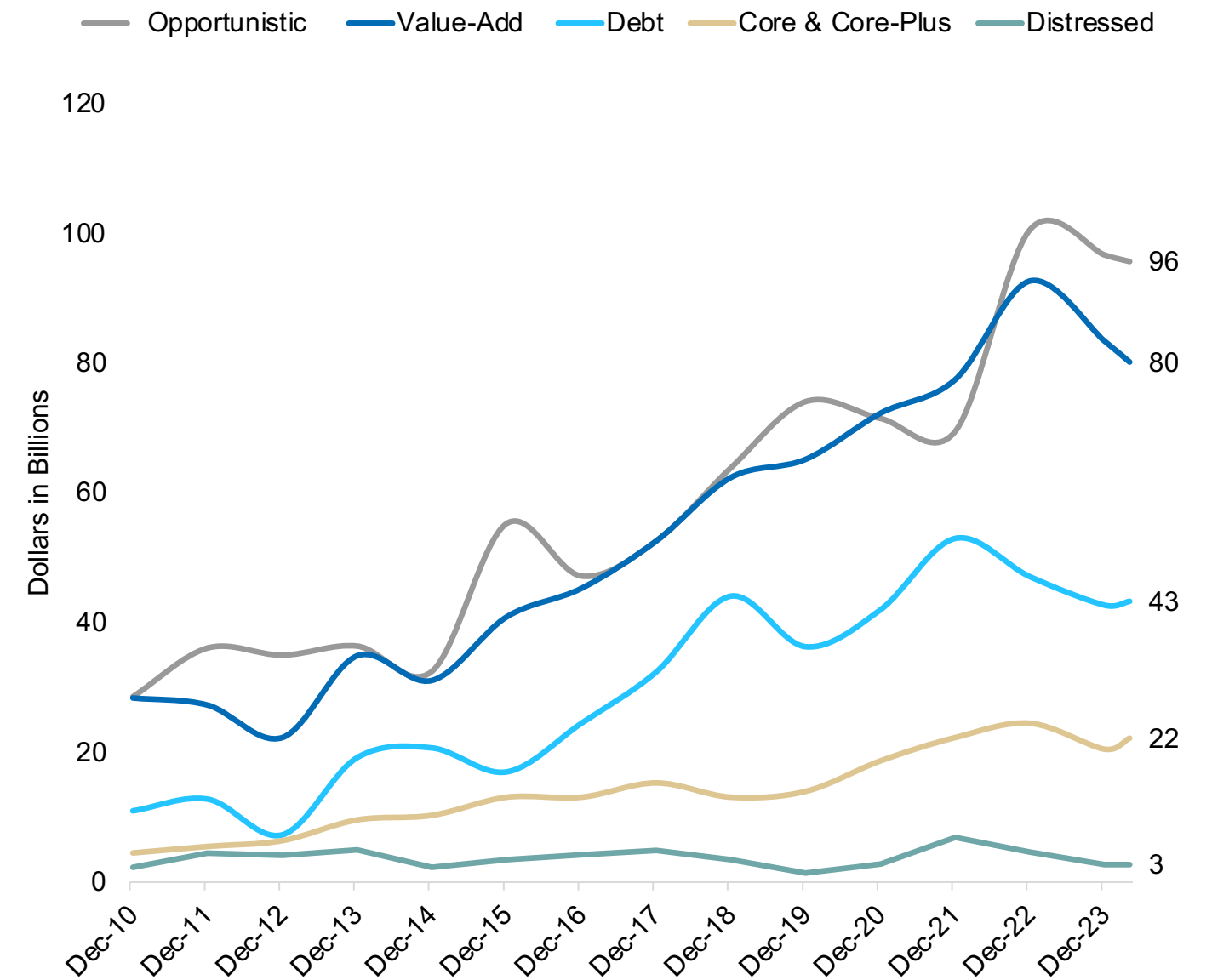
Dry Powder Has Declined from 2022 Peak, but Still Elevated Overall

Dry powder at closed-end funds is 9% below its December 2022 peak, reflecting declines in dry powder at value-add and debt funds. Opportunistic fund vehicles are also off the peak but by a smaller margin.

Dry Powder – Closed-End Funds



Dry Powder by Strategy*

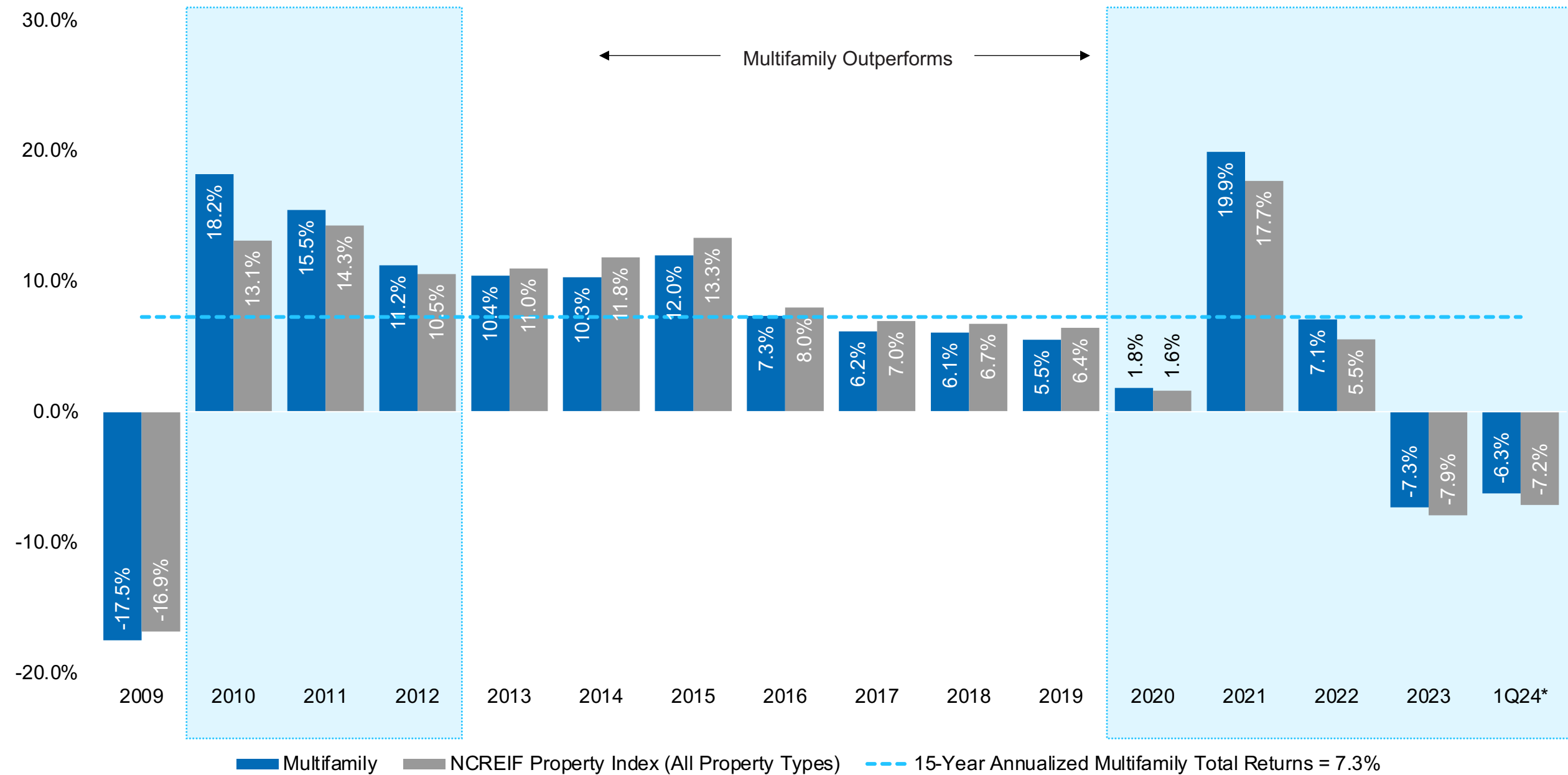


Source: Newmark Research, Preqin as of 4/29/2024
 *Not shown: Fund of funds, co-investments, and secondaries strategies

Multifamily Outperforming; Strong Track Record of Generating Alpha in Recoveries

In the years following the Global Financial Crisis and the COVID-19 outbreak, multifamily proved more resilient to investors as they generated greater returns than other property types. Although still down into 2024, as a more defensive and less volatile asset type, multifamily still outperformed the NCREIF All Property Index during the first quarter of 2024.

Calendar Year Total Returns



Source: Newmark Research, NCREIF

*1Q24 total returns are annualized

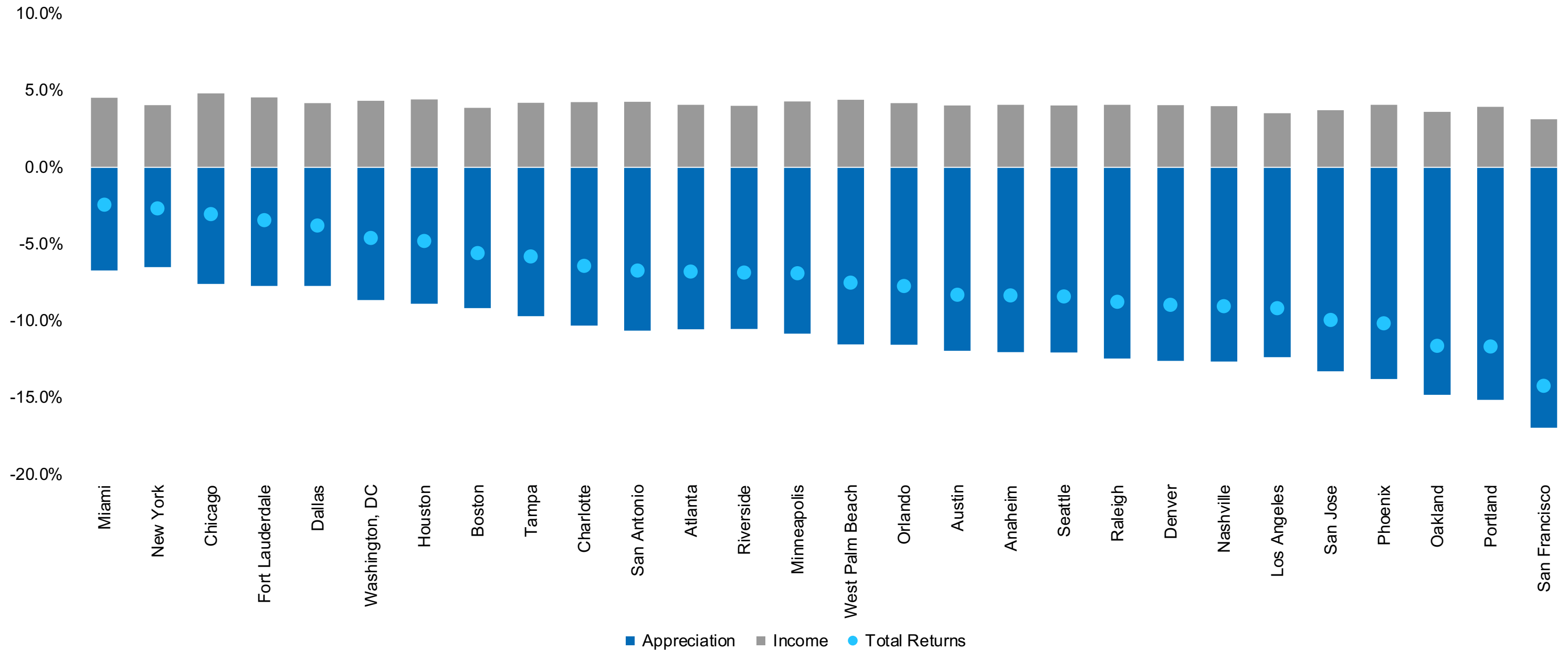


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Income Growth Helps Propel Top Markets for Total Returns

No market produced positive total returns over the past 12 months; however, markets with above average income growth, such as Miami, Chicago, Fort Lauderdale, Washington, DC and Houston, were the most resilient.

NCREIF Annualized Apartment Total Returns by Market as of 1Q24

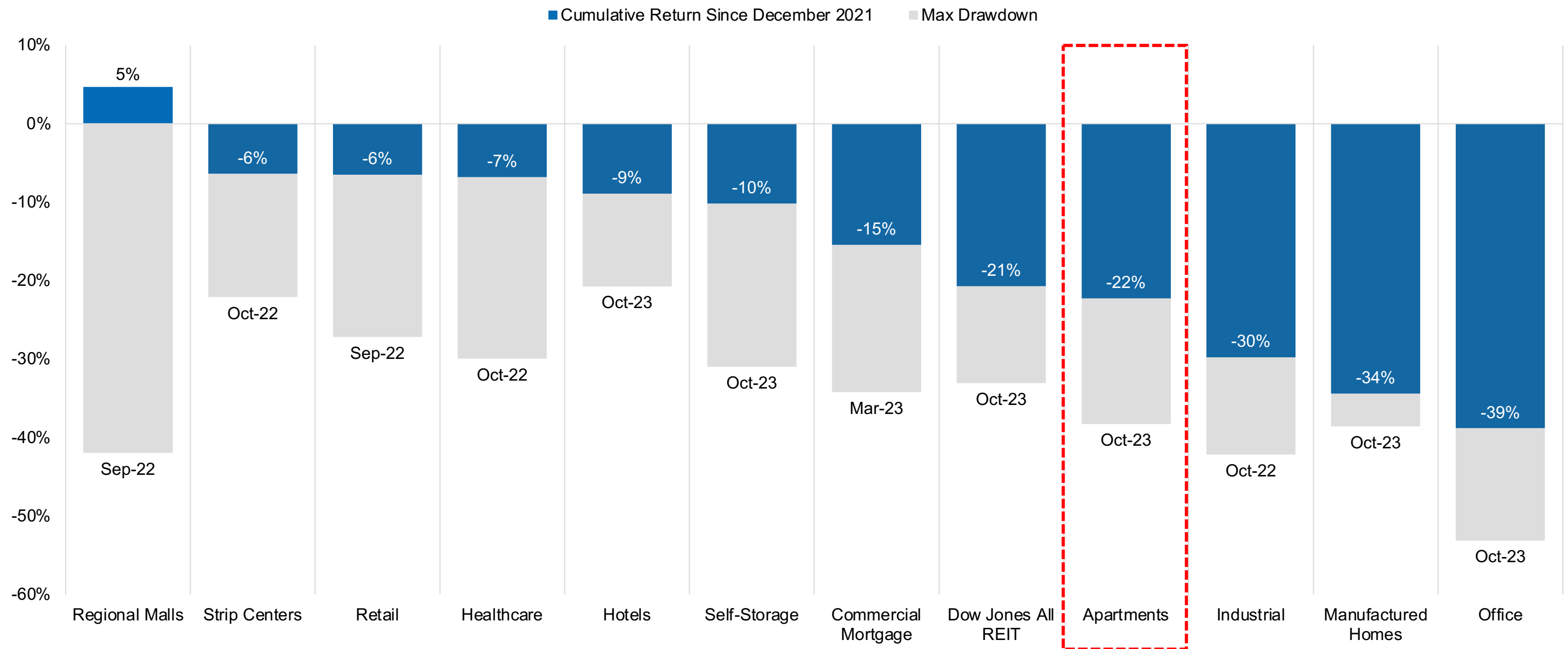


Source: Newmark Research, NCREIF

REITs Have Generated Negative Total Returns since the Hiking Cycle Began

All REIT sectors, except for regional malls, have recorded negative total returns since December 2021 or roughly when the current monetary policy cycle began. There has, however, been significant heterogeneity across REIT sectors and cyclical within the overall downward trend. To illustrate, the Dow Jones All REIT index is up 18.4% since its October 2023 lows. Office, industrial and multifamily have experienced the greatest drawdowns, while retail, healthcare and hotels have been comparatively resilient.

Dow Jones REIT Index Total Returns



Source: Dow Jones, Moody's, Newmark Research as of 5/13/2024

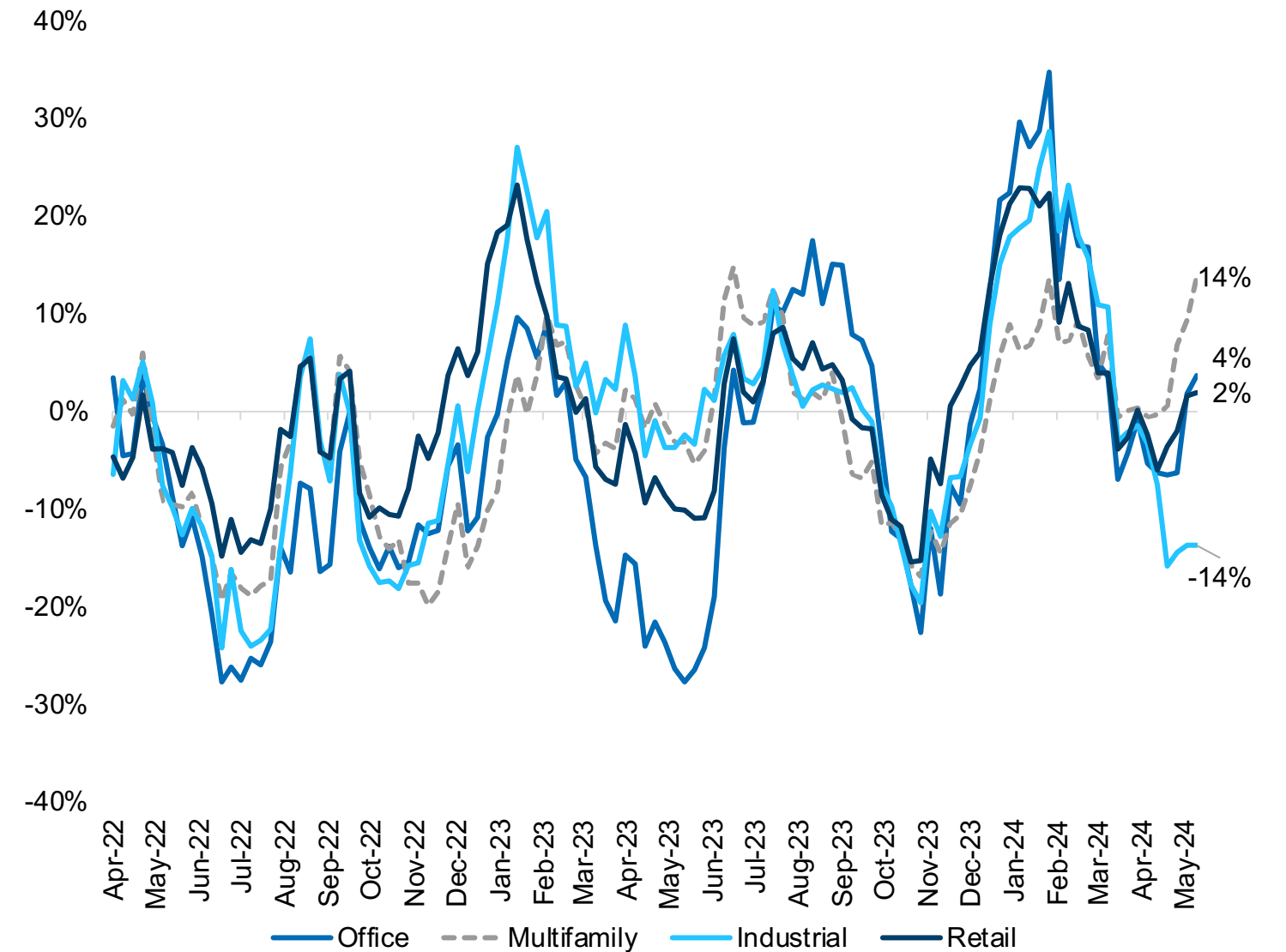
REIT Returns Have Been Volatile with Periods of Significant Appreciation

As the prospects for declining interest rates have waxed and waned, so have REIT returns. Looking at cumulative changes (left panel), while volatility is visible, the overall downward impulse from higher rates and, to a lesser extent, softening fundamentals leave the dominant impression. The rolling 13-week return reveals just how many mini-cycles the market has been subject to. This underlines the challenge of using public comparable to inform private property valuations on a tactical basis.

Dow Jones All Equity REIT Total Return Index



Dow Jones All Equity REIT Total Return Index: Rolling 13-Week Return



Source: Dow Jones, Moody's, Newmark Research as of 5/13/2024

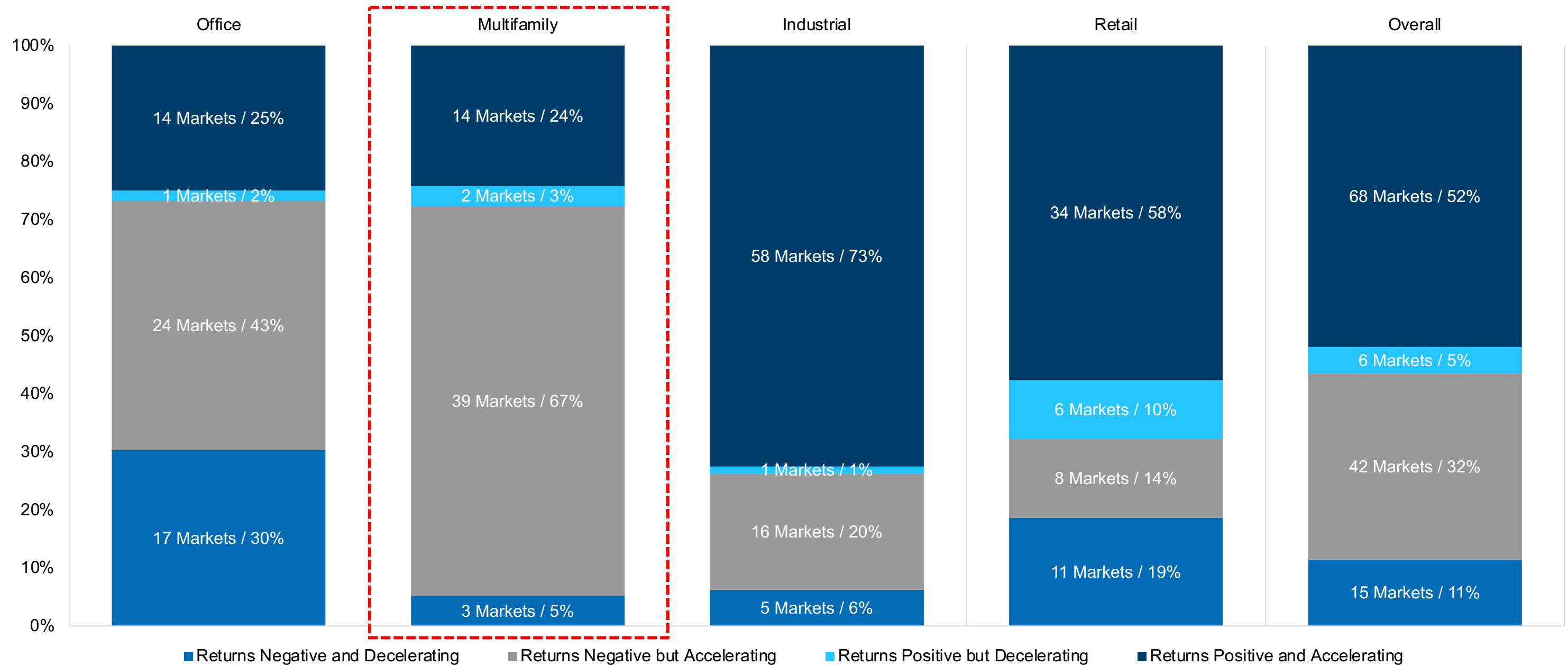


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NCREIF Returns Positive in 56% of Markets in 1Q24, up from 19% in 4Q23

Markets clearly registered the shift in return momentum in the first quarter of 2024. For office and multifamily, this shift manifested as a shift in markets from negative and decelerating to negative but accelerating. On the other hand, industrial and retail saw markets transition from negative and decelerating to positive and accelerating in a striking reversal; 73% of industrial markets and 58% of retail markets generated positive and rising total returns in the first quarter of 2024, according to NCREIF.

Breakdown of NCREIF CBSA Total Returns: 1Q 2024



Source: NCREIF, Newmark Research as of 5/13/2024

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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