1Q23

United States Multifamily Capital Markets Report

NEWMARK

Market Observations

- As of the first quarter of 2023, the average multifamily rental unit is $699 less than the total median monthly home payment**. Renting has become significantly more economical than owning a home**, driven by the growth in debt costs. This means **more households will continue to rent**, supporting demand.
- Following three quarters of negative demand, the first quarter of 2023 saw absorption rebound to 19,243 units. Looking ahead into 2023, **demand projects to advance even further, reaching the highest levels since the third quarter of 2021 and well above the long-term average.**
- **New supply will also see a large increase, expected to reach nearly 550,000 in 2023 and an all-time high of nearly 588,000 units in 2024**. New supply in the first quarter of 2023 was the highest first-quarter figure in history, at 95,237 units.
- Both quarterly and trailing 12-month **vacancies spiked in the first quarter of 2023**, reaching 5.2% and 4.4%, respectively. Despite the uptick, both vacancy rates **still sit below the long-term average of 5.4%.**
- After escalating for seven consecutive quarters, **rents declined in the fourth quarter of 2022 and the first quarter of 2023**. In the first quarter of 2023, rents fell by 0.1% nationally; however, that marked a 90-basis-point quarter-over-quarter improvement, while year-over-year rents continue to pull back from outsized growth post-COVID. **More sustainable levels of growth are expected in 2023, with 3.6% projected for the full-year, in line with 2014 to 2019 averages.**
- **Debt originations continued to decelerate in the first quarter of 2023**. While the volumes are subject to future revision, adjustments are likely to be limited. The MBA's originations index found similar results, with first-quarter originations **down 55.0% year-over-year**, lending further credibility.
- **Bank and debt fund maturities are heavily concentrated in the 2023 to 2025 period**, which is not surprising given that these are more likely to be transitional or construction finance. In contrast, GSE maturities are concentrated in the second half of the decade and beyond. **These are the loans most likely to encounter distress**. 47% of securitized debt maturing in 2023-2024 have a DSCR of 1.5x or less.
- **Sales volume** totaled $25.4 billion in the first quarter of 2023, **down 64.4%-year-over-year and 51.9% quarter-over-quarter**. Deal activity **is likely to remain subdued until values have adjusted to higher rates** over the medium-term. This is unlikely to occur before the fourth quarter of 2023 or possibly early 2024.
- **Allocation to multifamily among US commercial real estate declined from 40.2% in 2022 to 29.9% in the first quarter of 2023**. Multifamily remains the largest recipient of capital, and it's likely that allocation to multifamily returns to the 30% to 40% range as the year goes on.
- Since the second quarter of 2022, **transactional cap rates have increased** in each consecutive quarter, up 50 basis points during that timespan, while implied cap rates bottomed two quarters earlier in the fourth quarter of 2021. Both **yields have moved more in line with the BAA corporate bond proxy of 5.7% in the first quarter of 2023**.
- **Although total returns fell into negative growth in the first quarter of 2023, income growth remains durable as much of the slowdown in returns came out of declining appreciation.** Multifamily could potentially be a bright spot in the near term as the sector outperformed in 2010 to 2012, following the Global Financial Crisis and again, 2021, following COVID.

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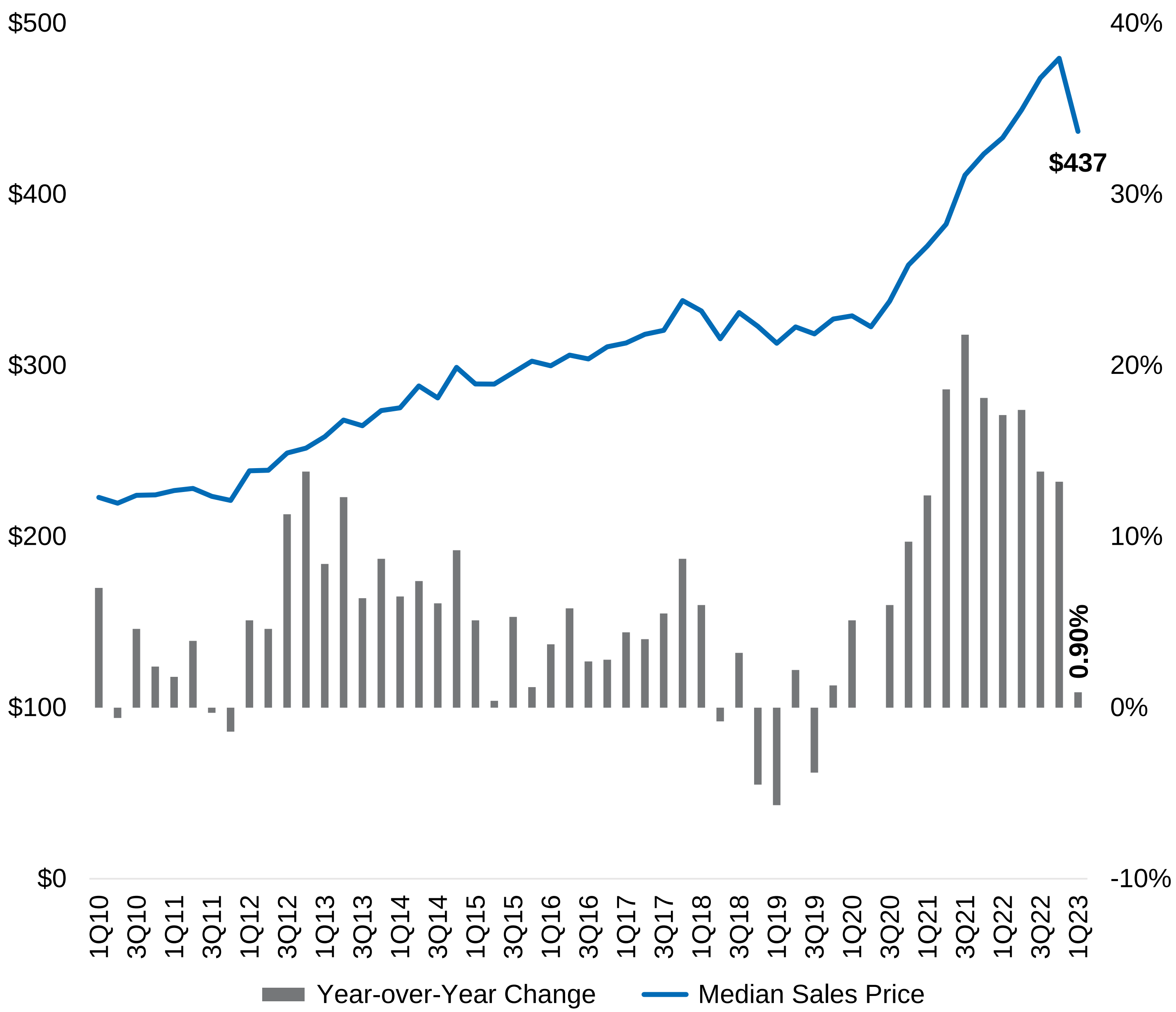
Demand Drivers

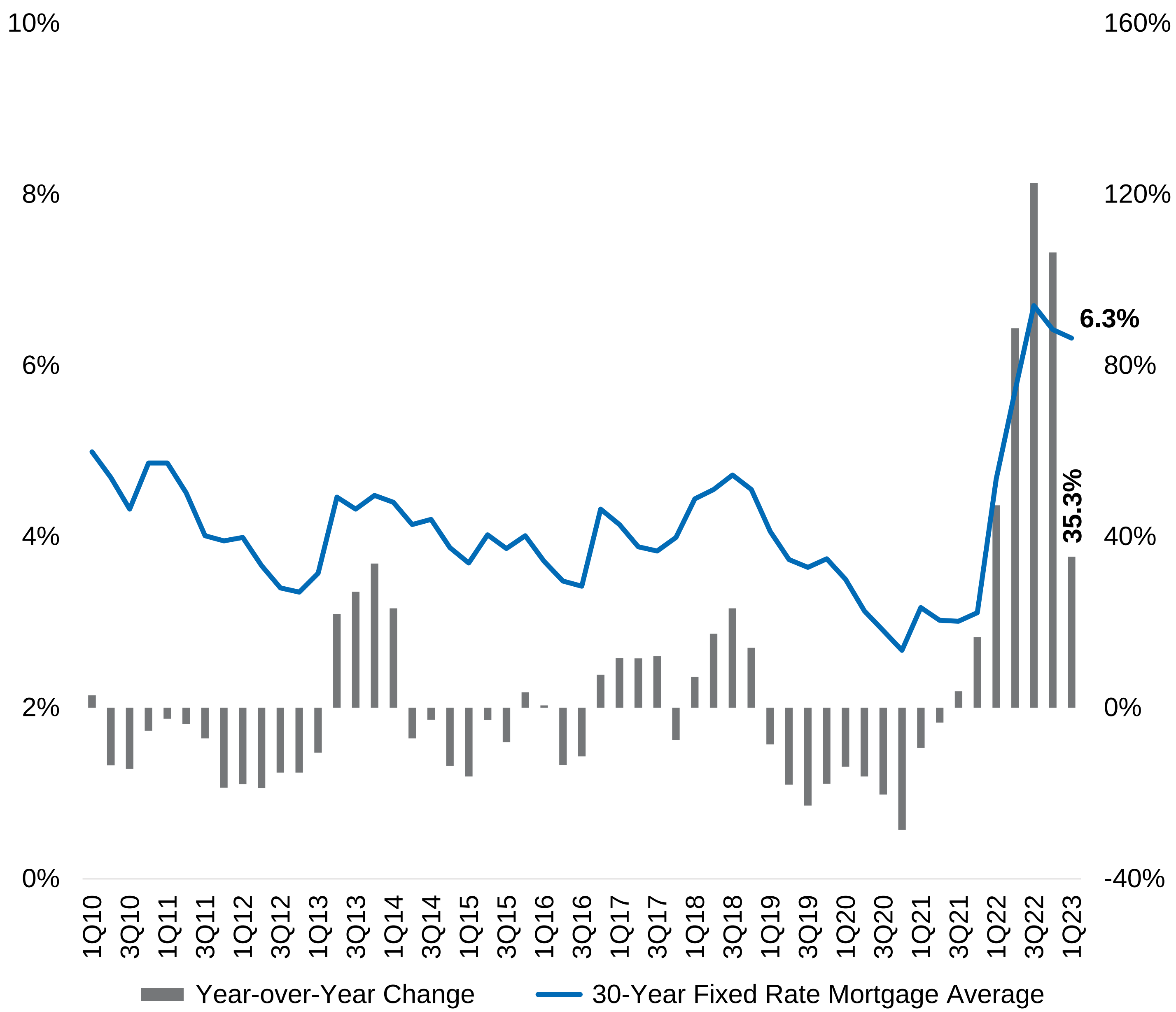
Elevated Sales Prices and Greater Debt Costs Continue to Benefit Multifamily

Home prices continue to hover near all-time highs and mortgages remain significantly elevated, causing many would be home buyers to remain renters. These dynamics have caused robust demand for rental properties.

Median Sales Price of Houses Sold (Thousands)



30-Year Fixed Rate Mortgage Average

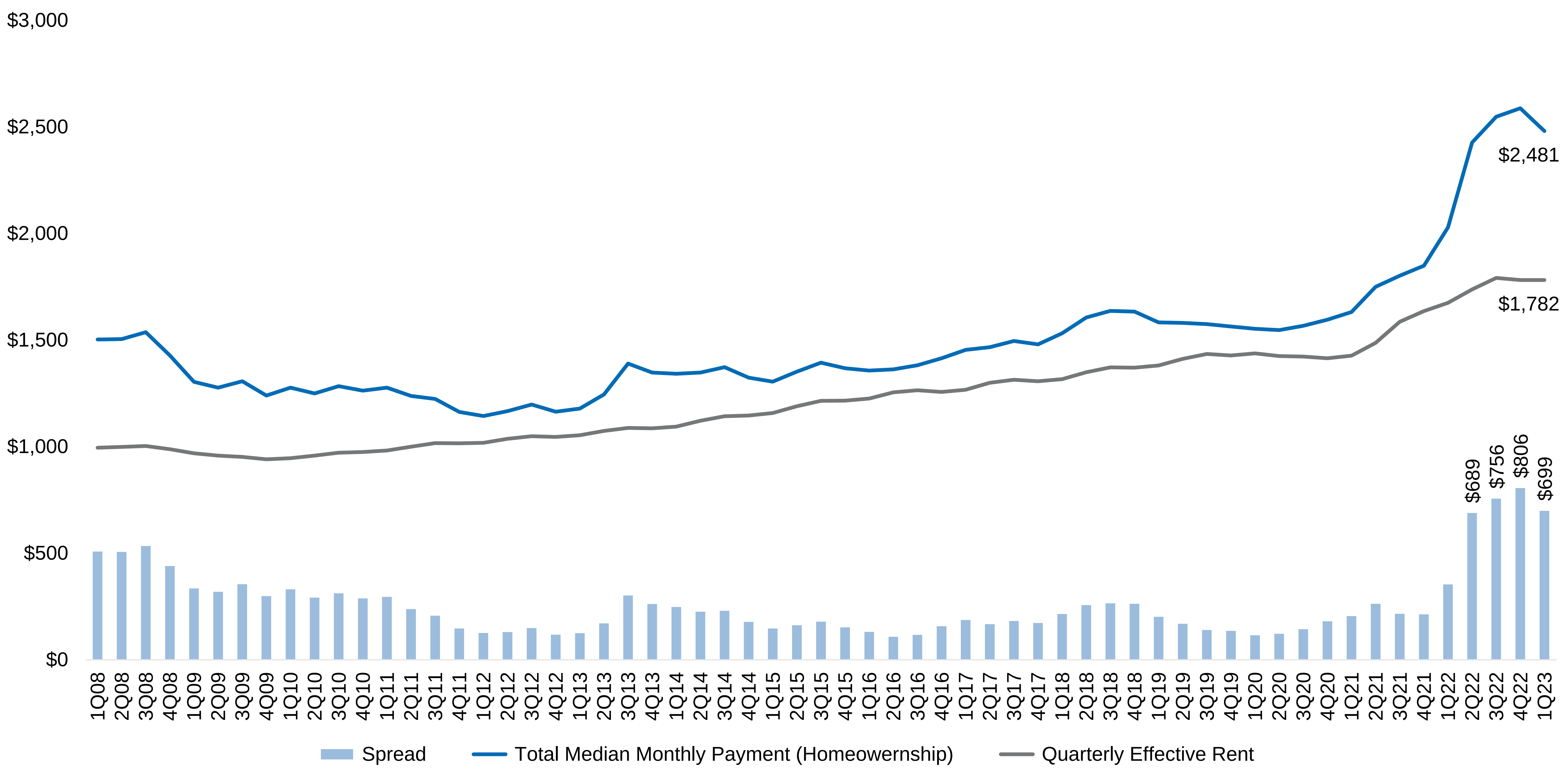


Source: Newmark Research, Federal Reserve Bank of St. Louis

Higher Interest Rates Continue to Make Renting More Economical than Owning

As of the first quarter of 2023, the average multifamily rental unit is $699 less than the total median monthly home payment. Renting has become significantly more economical than owning a home, driven by the growth in debt costs.

Cost of Owning vs. Renting



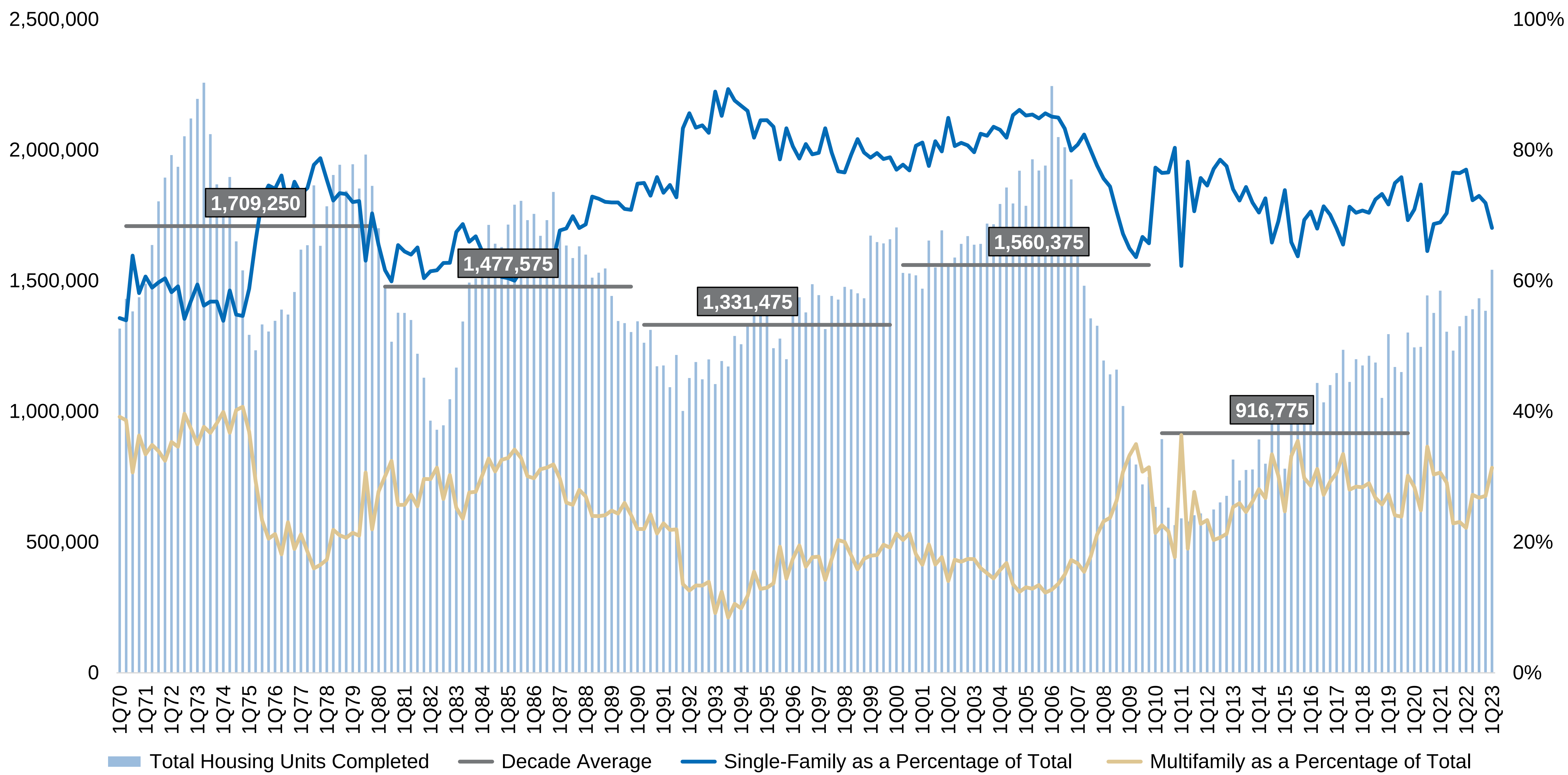
Source: Newmark Research, Federal Reserve Bank of Atlanta, RealPage

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

Shortage of New Housing, Particularly in the past Decade, Has Amplified Demand

Total housing units completed declined 41.2% in the 2010s compared with the previous decade average. While deliveries have increased to nearly 1.4 million single-family and multifamily units per year in the early 2020s, there remains meaningful pent-up demand as deliveries slowed for an extended period following the Global Financial Crisis.

New Privately-Owned Housing Units Completed

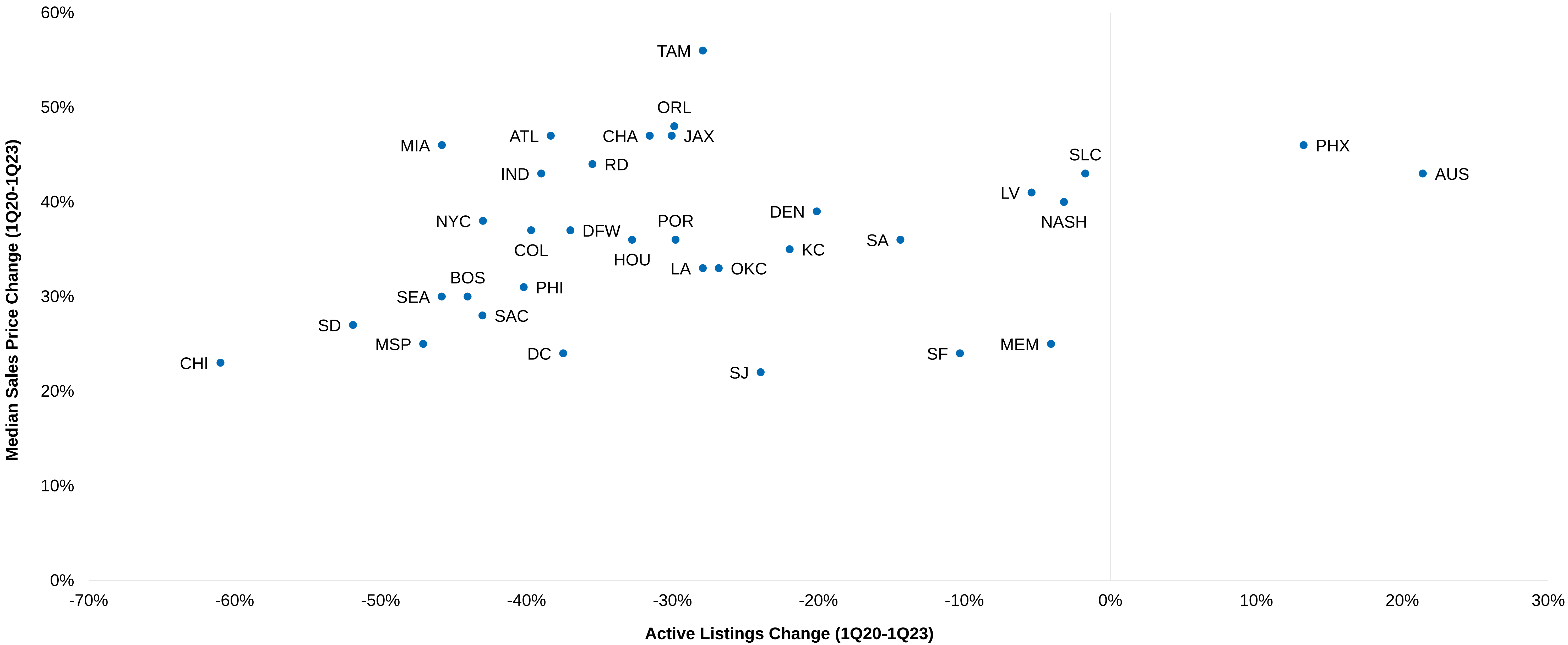


Source: Newmark Research, Federal Reserve Bank of St. Louis

Lack of For-Sale Housing and Strong Price Appreciation Impede Capacity to Buy

Only two of the top 50 markets, Phoenix and Austin, have seen for-sale listings for existing single-family houses in excess of the first quarter of 2020. Throughout the US, active listings are down 39.8% as many homeowners were able to purchase and/or refinance at sub-3% rates, there is less motivation to sell in the current climate, furthering robust demand for rental housing.

Change in Median Sales Price of Existing Single-Family Homes and Active Listings

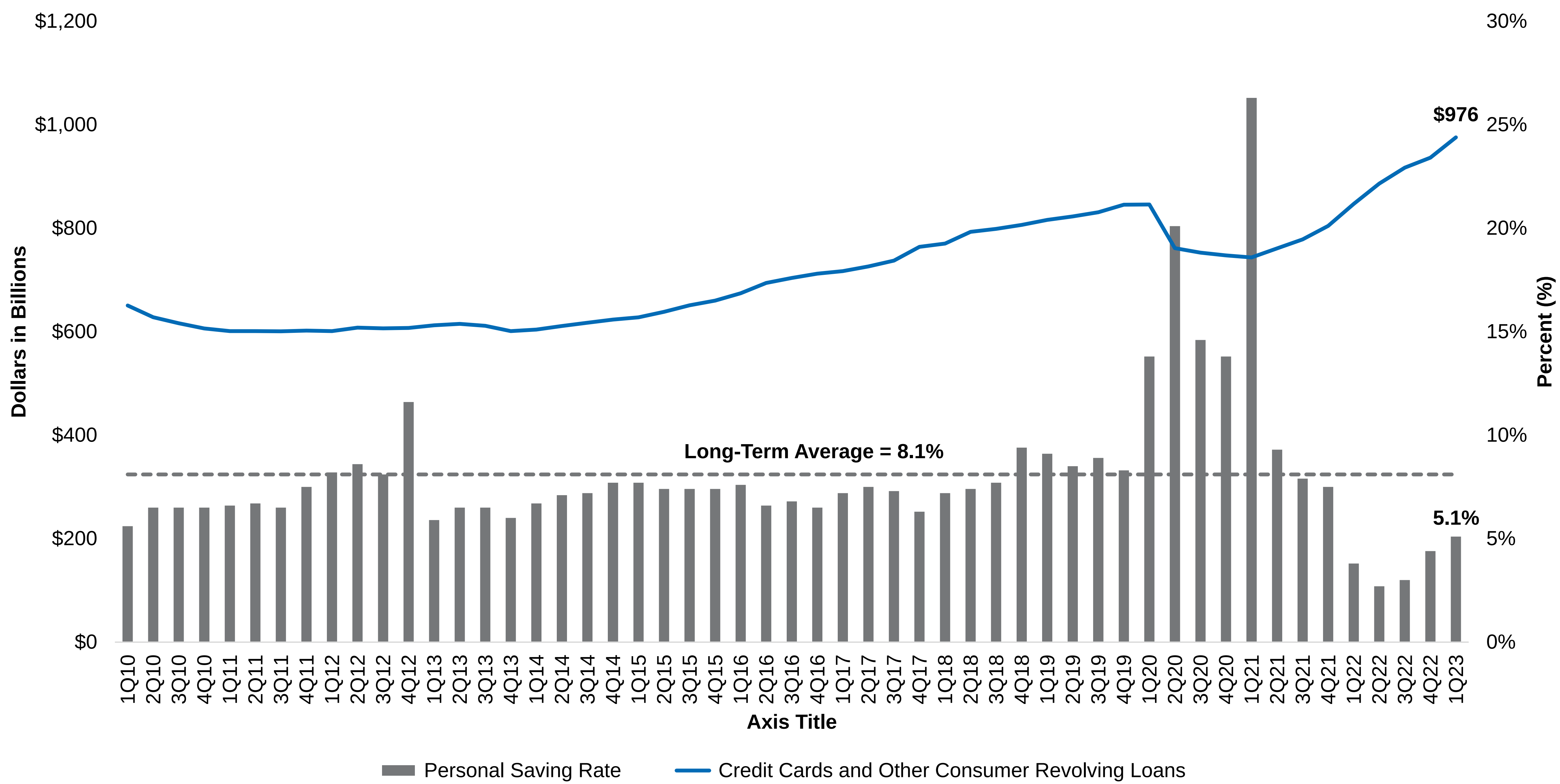


Source: Newmark Research, Federal Reserve Bank of St. Louis, Moody's

Contributing to Inability to Buy, Consumers Have More Debt and Less Savings

Consumers are even further hindered from purchasing a home due to increasing levels of debt and dwindling savings. As of the first quarter of 2023, credit card debt in the US reached the highest levels since 2010; meanwhile, the national personal savings rate remains 300 basis points below the long-term average.

Personal Savings Rate vs. Consumer Credit

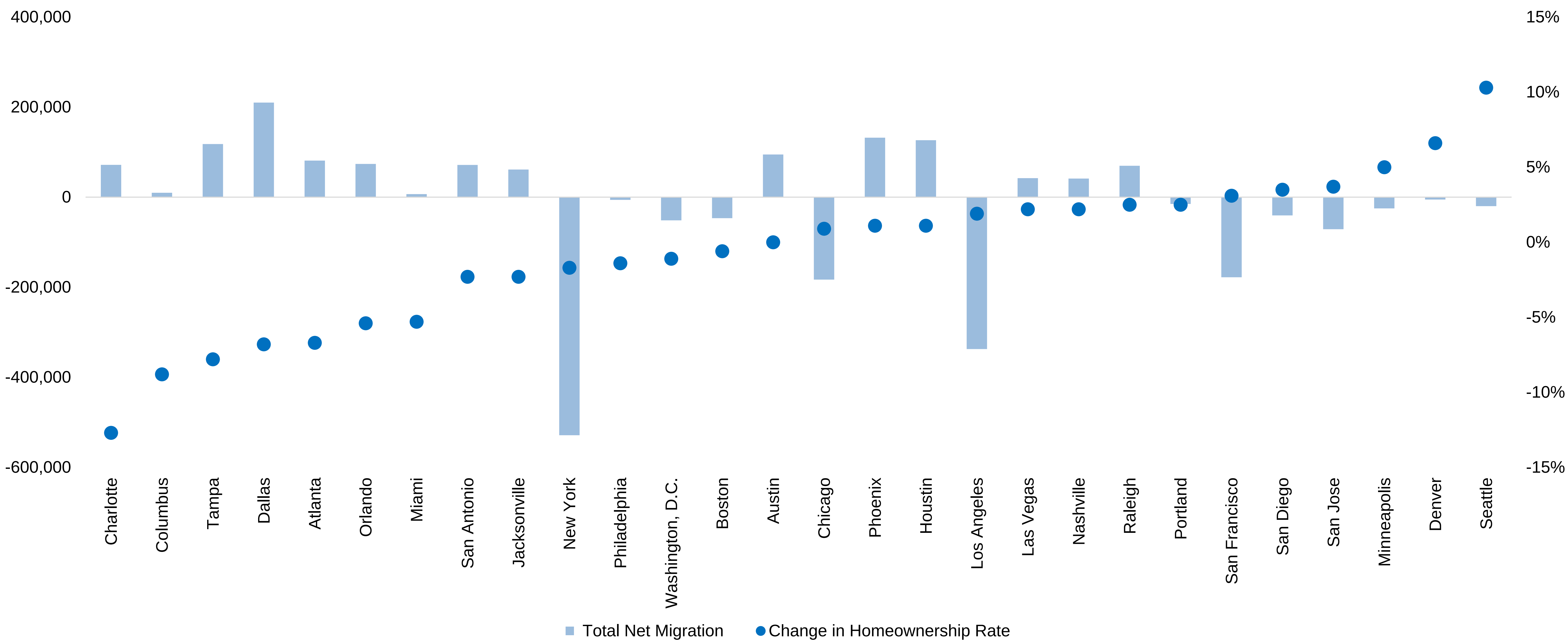


Source: Newmark Research, Federal Reserve Bank of St. Louis

Post-COVID Demographic Patterns Favor Rental Housing, Especially in the Sunbelt

Migration patterns have favored markets throughout the Sunbelt region, while also creating a host of new renters as homeownership has decreased in key multifamily markets, such as Charlotte, Tampa, Dallas and Atlanta.

Net Migration and Homeownership Rate (2021-2022)



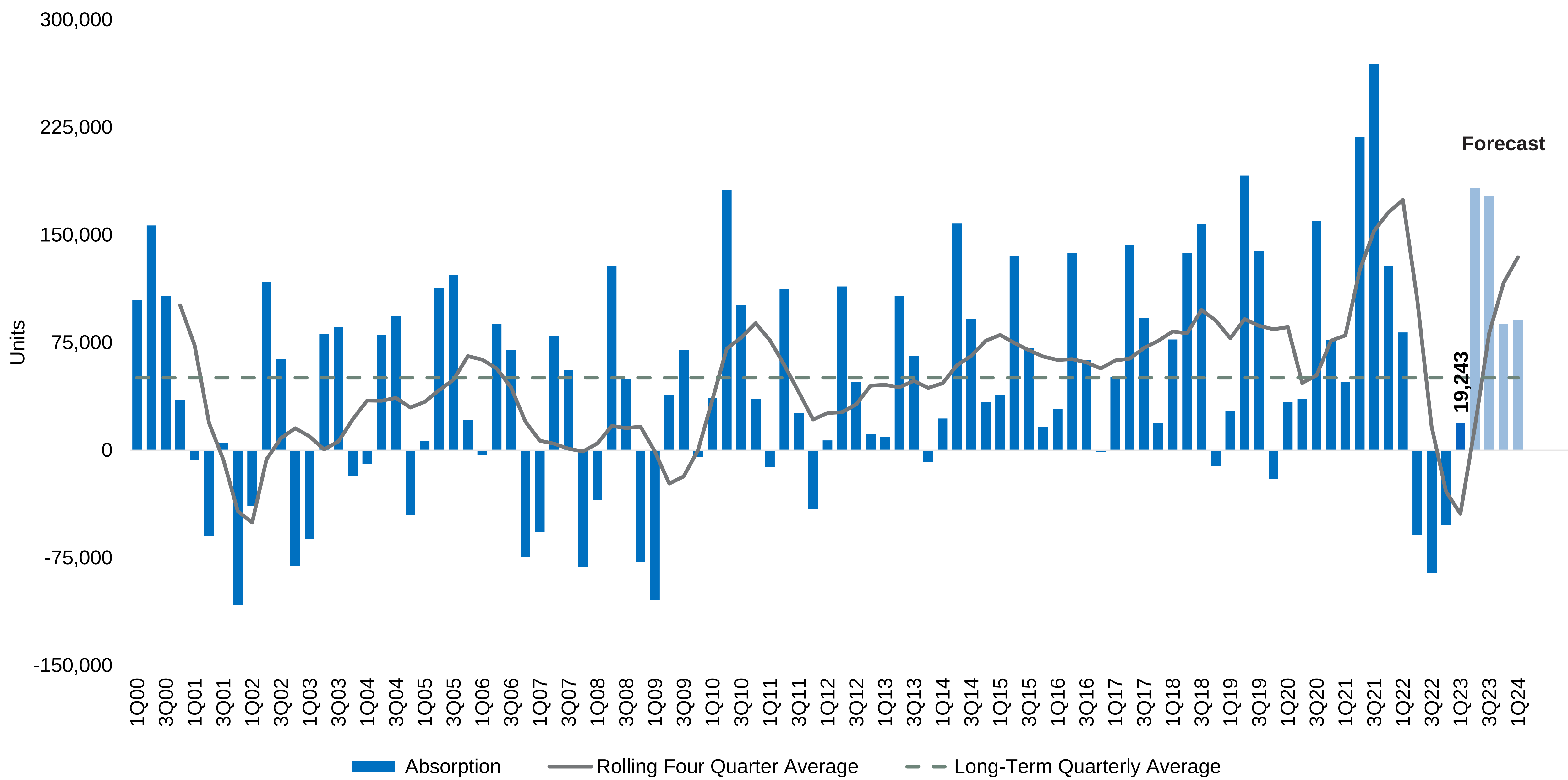
Source: Newmark Research, Moody's, US Census Bureau

Leasing Market

Absorption Rebounds in 1Q23 after Gloomy 2022; Strong Demand Anticipated in 2023

With negative demand coming in each of the last three prior quarters, the first quarter of 2023 saw absorption rebound to 19,243 units. Looking ahead into 2023, demand projects to advance even further, reaching the highest levels since the third quarter of 2021 and well above the long-term average.

Quarterly Absorption

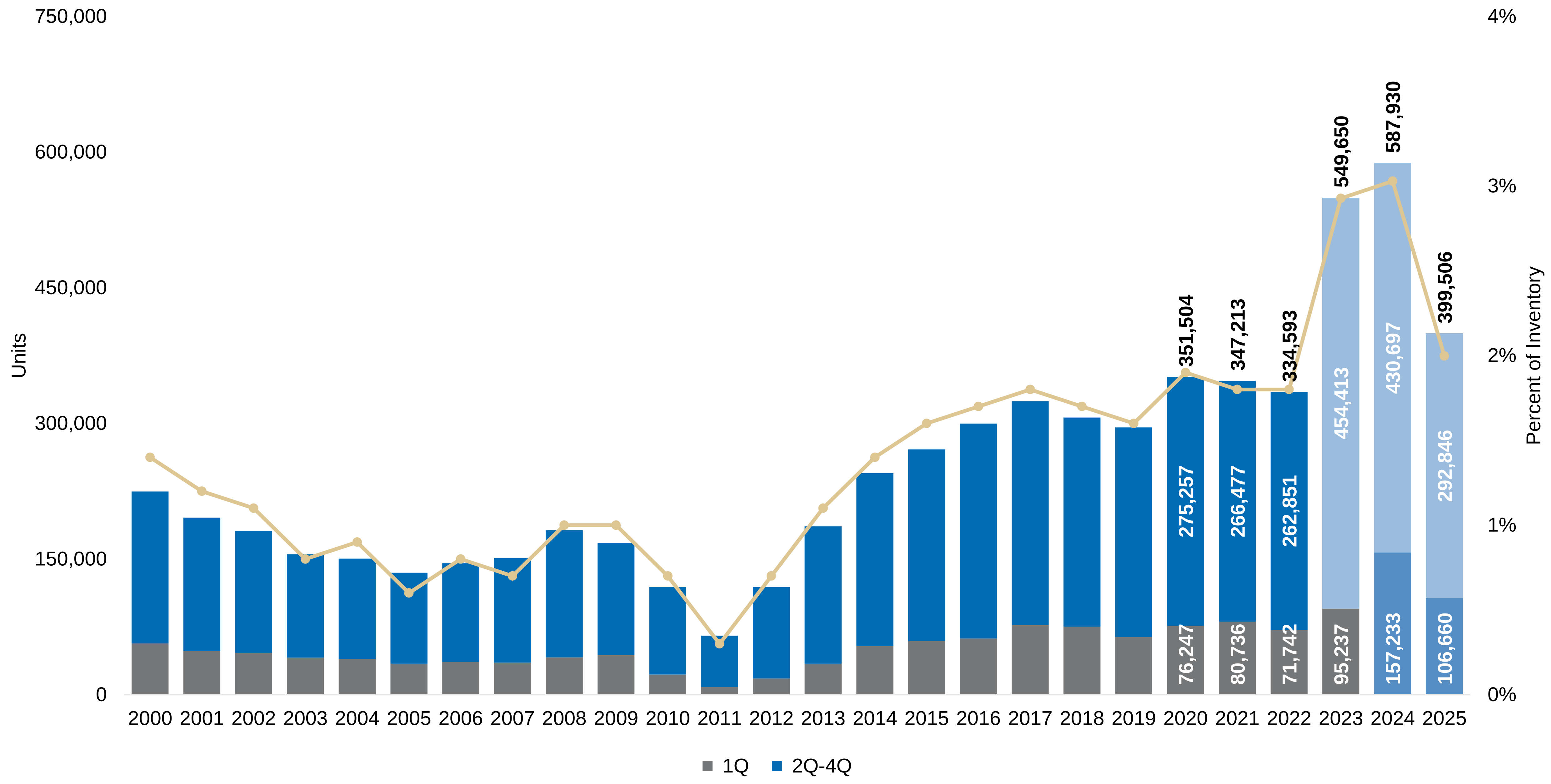


Source: Newmark Research, RealPage

New Supply and Inventory Growth to Remain Robust in 2023 and into 2024

While demand has started to accelerate in 2023 and is projected to continue into early 2024, new supply will also see a large increase, expected to reach nearly 550,000 and an all-time high of nearly 588,000 units in 2024. New supply in the first quarter of 2023 was the highest first-quarter figure in history, at 95,237 units.

New Supply and Inventory Growth

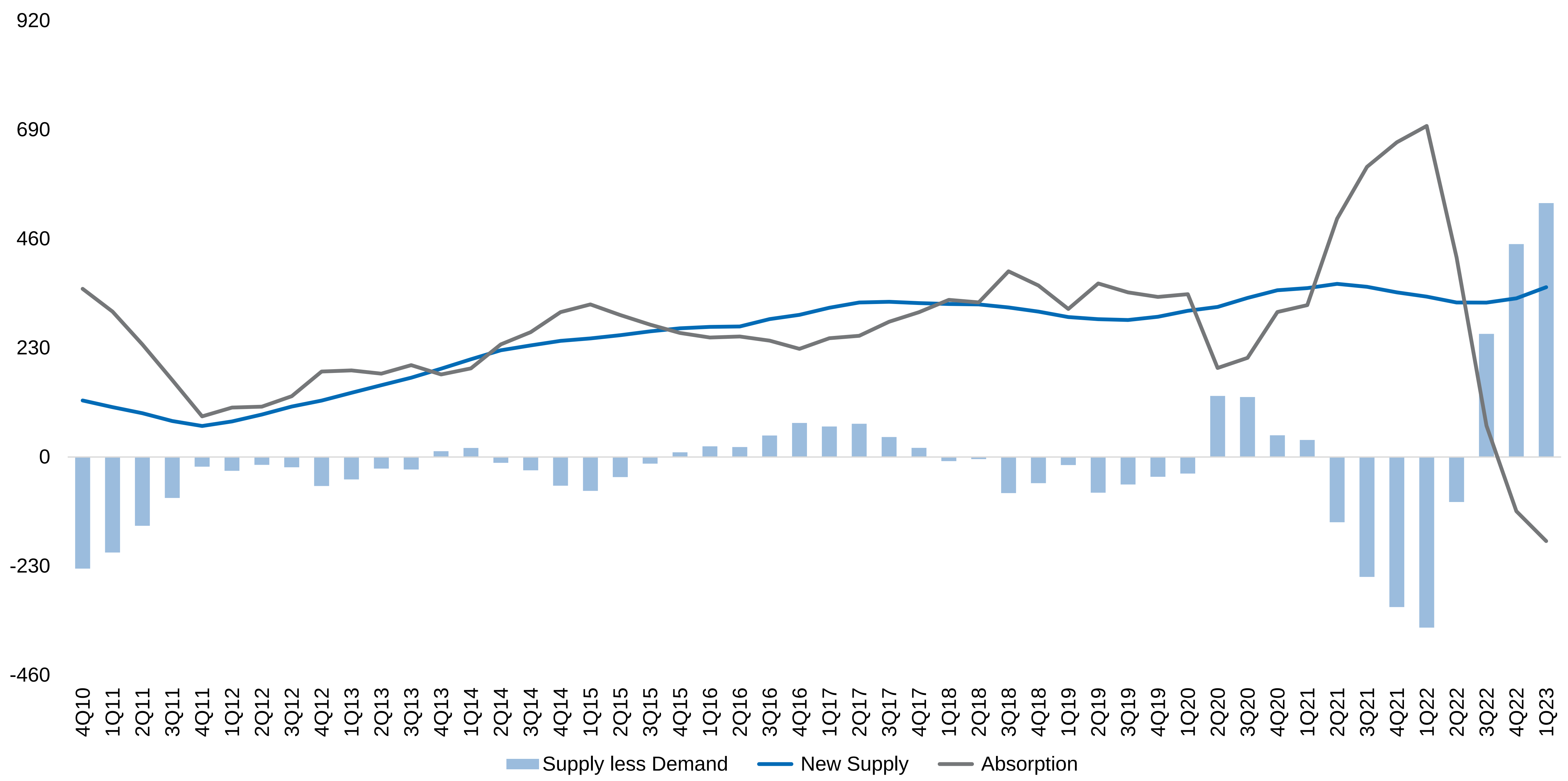


Source: Newmark Research, RealPage

Supply Outpaces Demand for Four Consecutive Quarters

While robust demand outpaced supply from the second quarter of 2021 to the second quarter of 2022, in the last four consecutive quarters, supply has outpaced demand markedly.

Rolling 4-Quarter, Units in Thousands

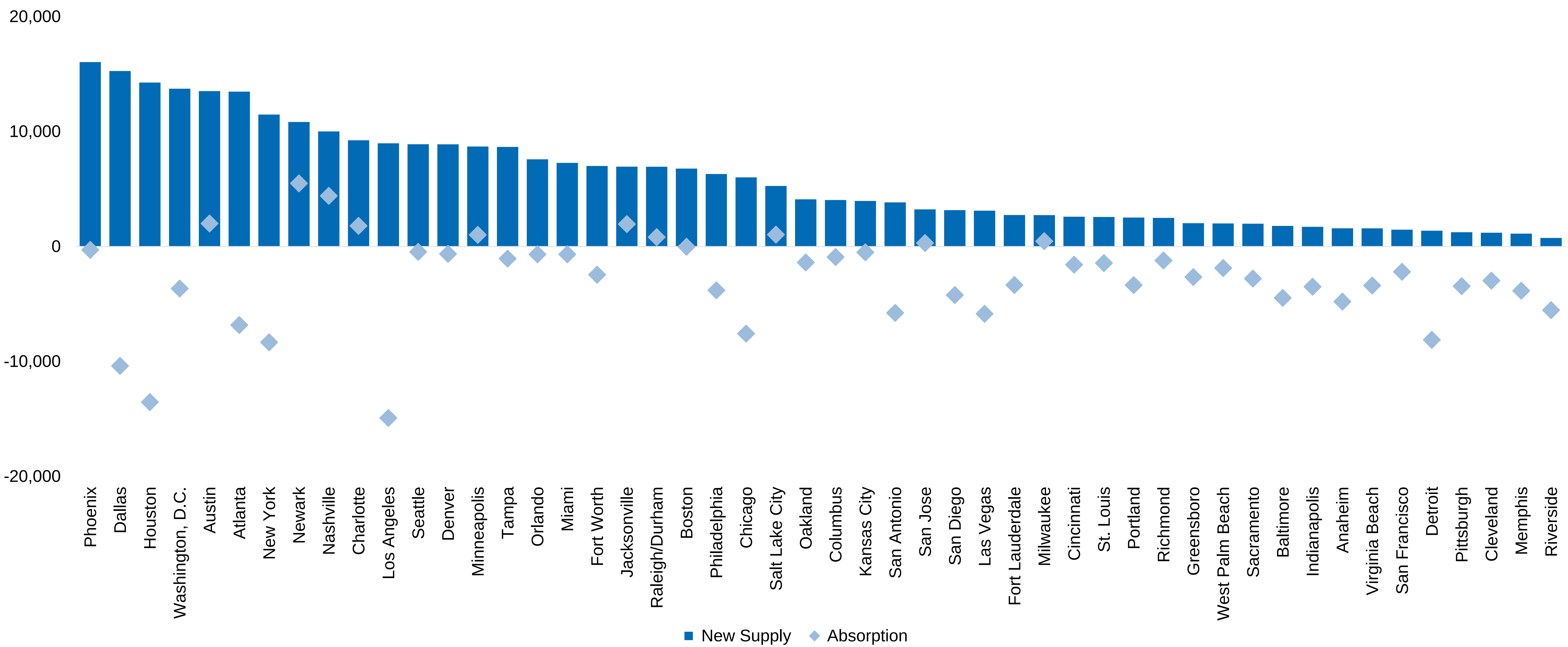


Source: Newmark Research, RealPage

Deliveries Surpass Demand Universally; Southwest Markets See Heaviest New Supply

While new supply was in excess of demand across the country, markets in the Southwest region saw the highest levels of new supply. Four of the top five markets that received the highest new supply over the last 12 months are all Southwestern markets, with Washington, D.C. being the only outlier.

Top 50 Markets, Past 12 Months

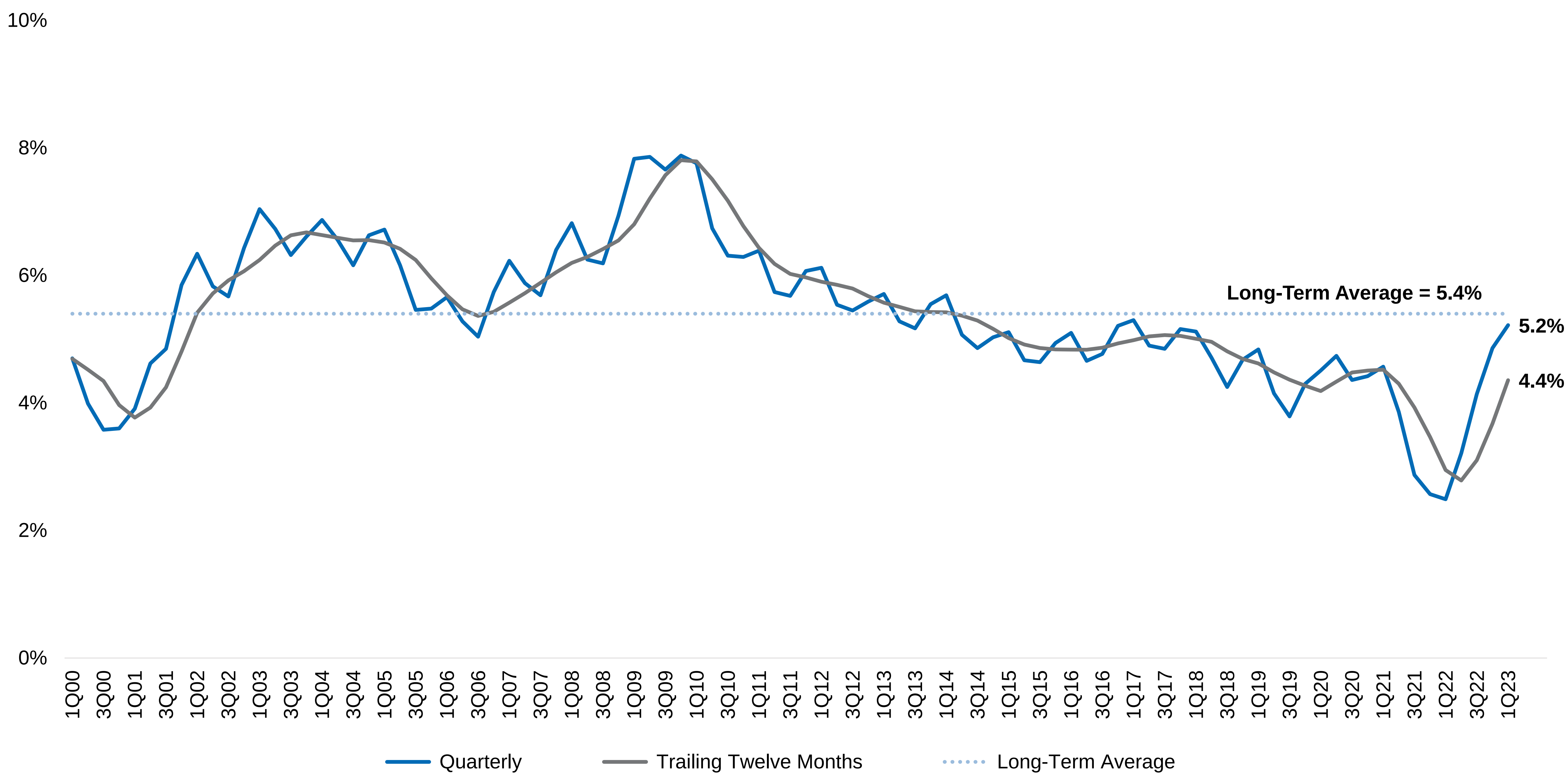


Source: Newmark Research, RealPage

Vacancies Continue to Trend up in 1Q23, Albeit below Long-Term Average

Both quarterly and trailing 12-month vacancies saw a spike in the first quarter of 2023, reaching 5.2% and 4.4%, respectively. Despite the uptick, both vacancy rates still sit below the long-term average of 5.4%. This will soon change.

Vacancy Rate

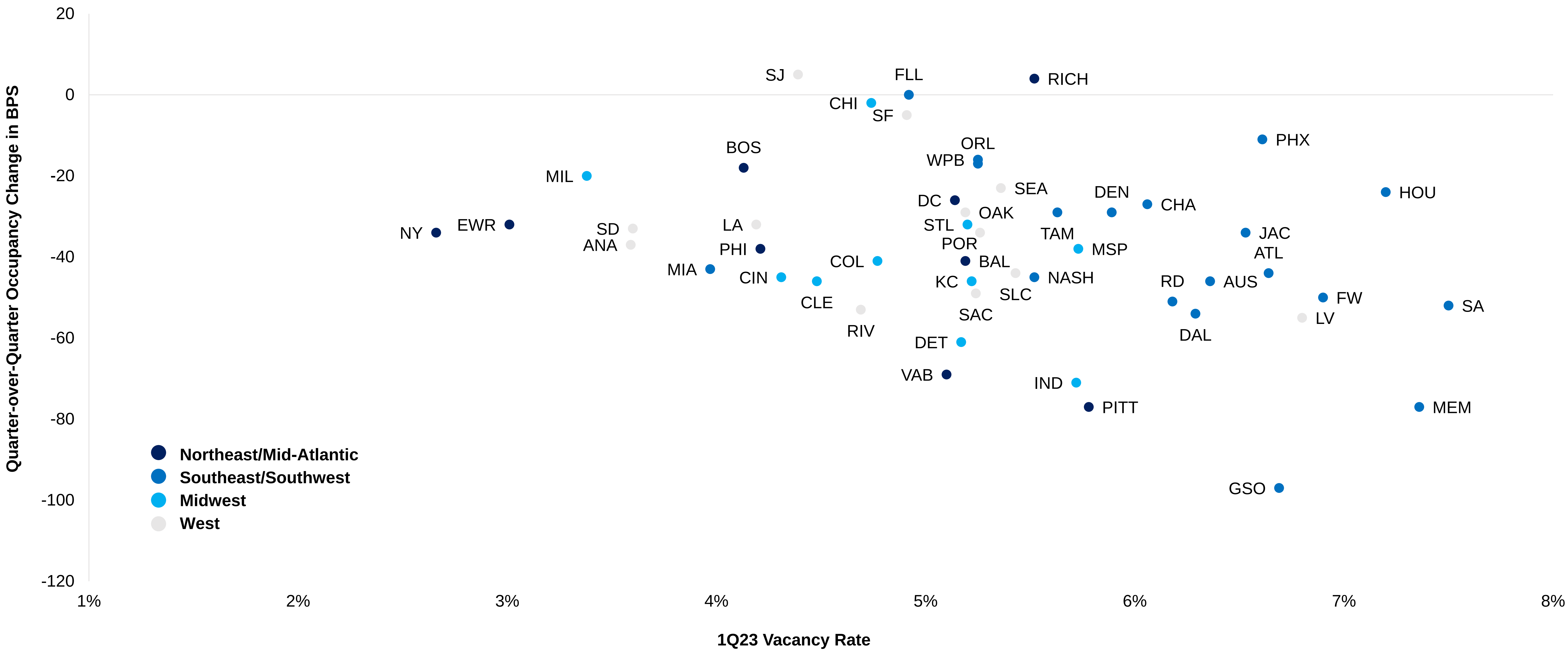


Source: Newmark Research, RealPage

Occupancy Reduction Nearly Everywhere in 1Q23

All but three of the top 50 markets across the US experienced a quarter-over-quarter reduction in occupancy in the first quarter of 2023. Fort Lauderdale, Richmond and San Jose exhibited relative strength, while Greensboro suffered a 97-basis-point increase.

Vacancy by Market

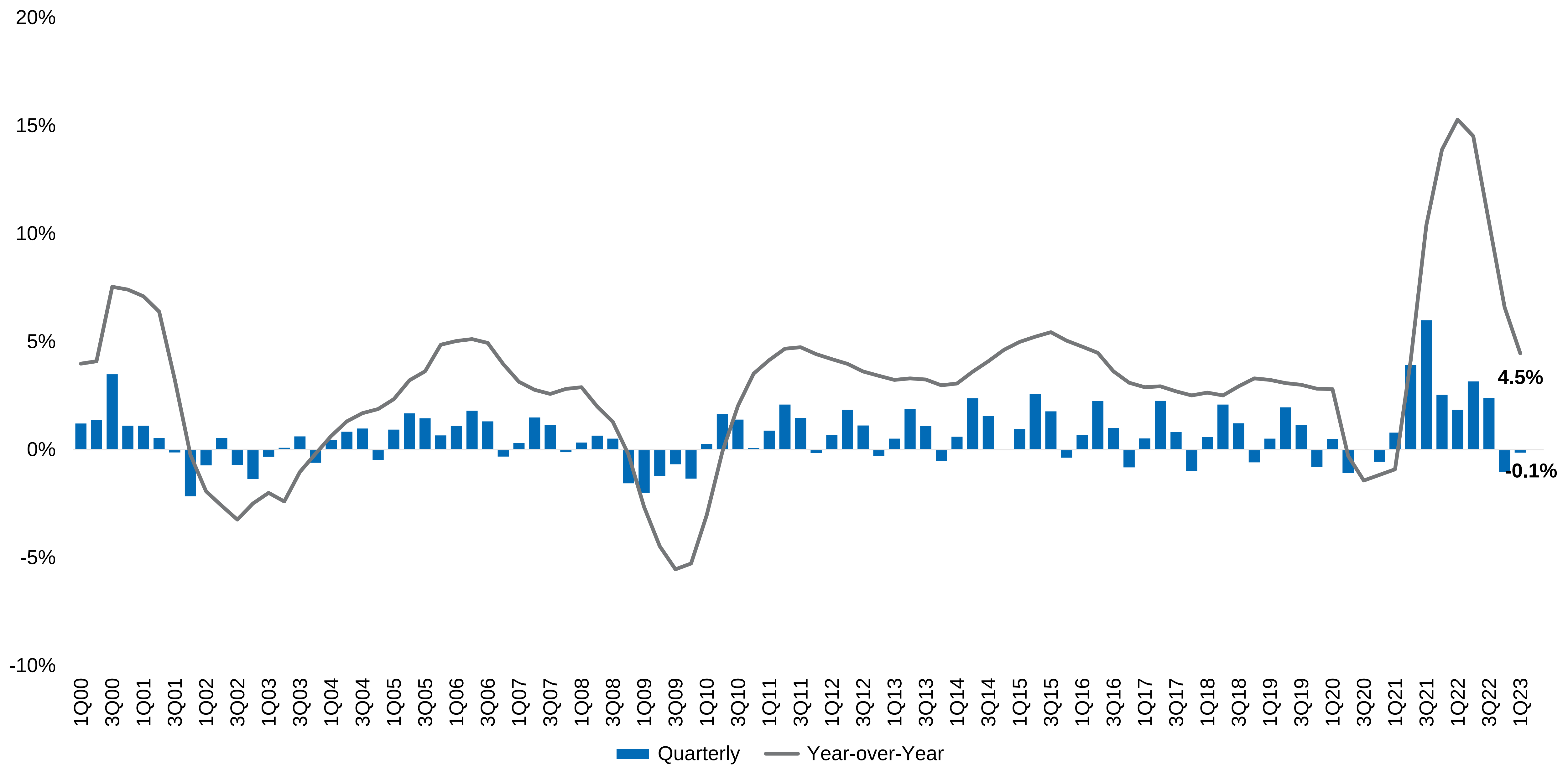


Source: Newmark Research, RealPage

Rents Dip In 1Q, Reversion to Mean Likely for Rent Growth in 2023

After escalating for seven consecutive quarters, rents declined in the fourth quarter of 2022 and the first quarter of 2023. In the first quarter of 2023, rents fell by 0.1% nationally; however, that marked a 90-basis-point quarter-over-quarter improvement, while year-over-year rents continue to pull back from outsized growth post-COVID. More sustainable levels of growth are expected in 2023, with 3.6% projected for the full-year, in line with 2014 to 2019 averages.

Effective Rent Growth

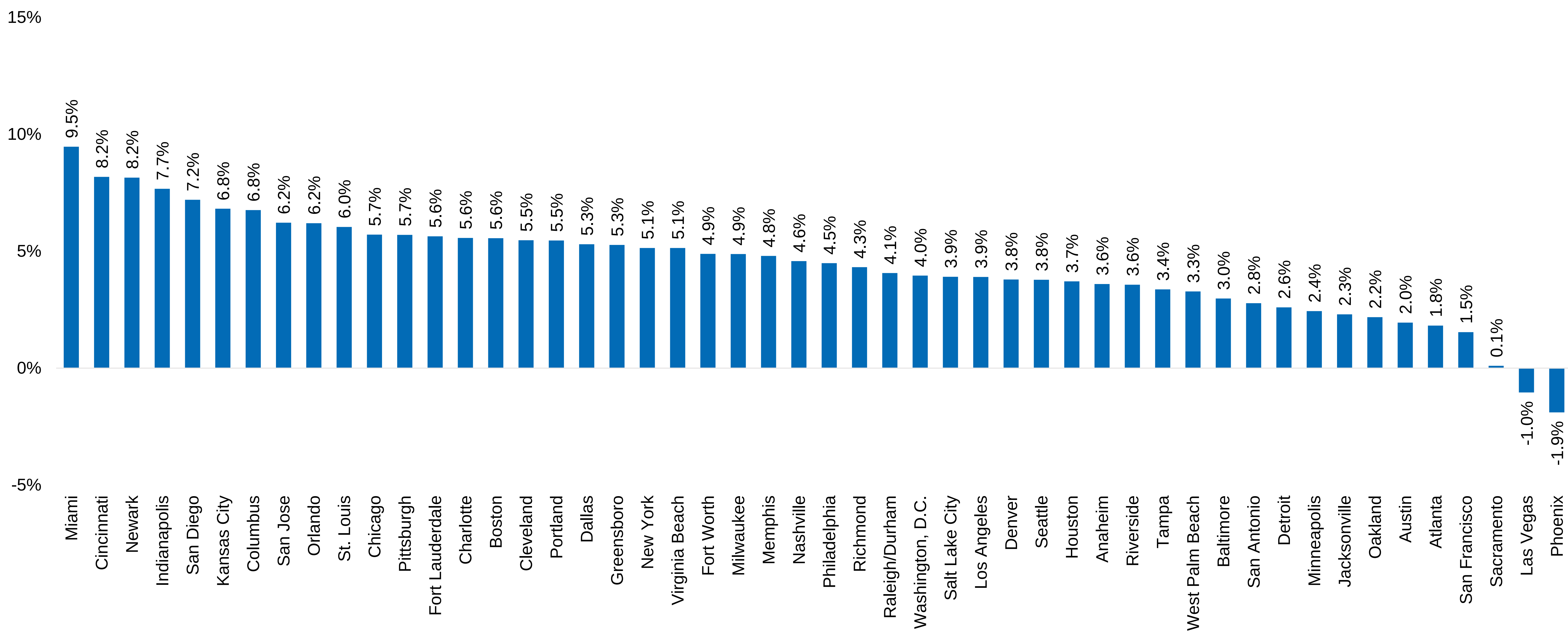


Source: Newmark Research, RealPage

Sturdy Midwest Markets Exhibit Strongest Rental Growth, but Miami Still Leads Pack

Miami continues to see the largest year-over-year rental growth at 9.5%; however, there has been a rotation of top-performing markets, with a host of Midwest markets led by Cincinnati, Indianapolis, Kansas City and Columbus are experiencing strong levels of growth.

Year-over-Year Effective Rent Growth, Top 50 Markets

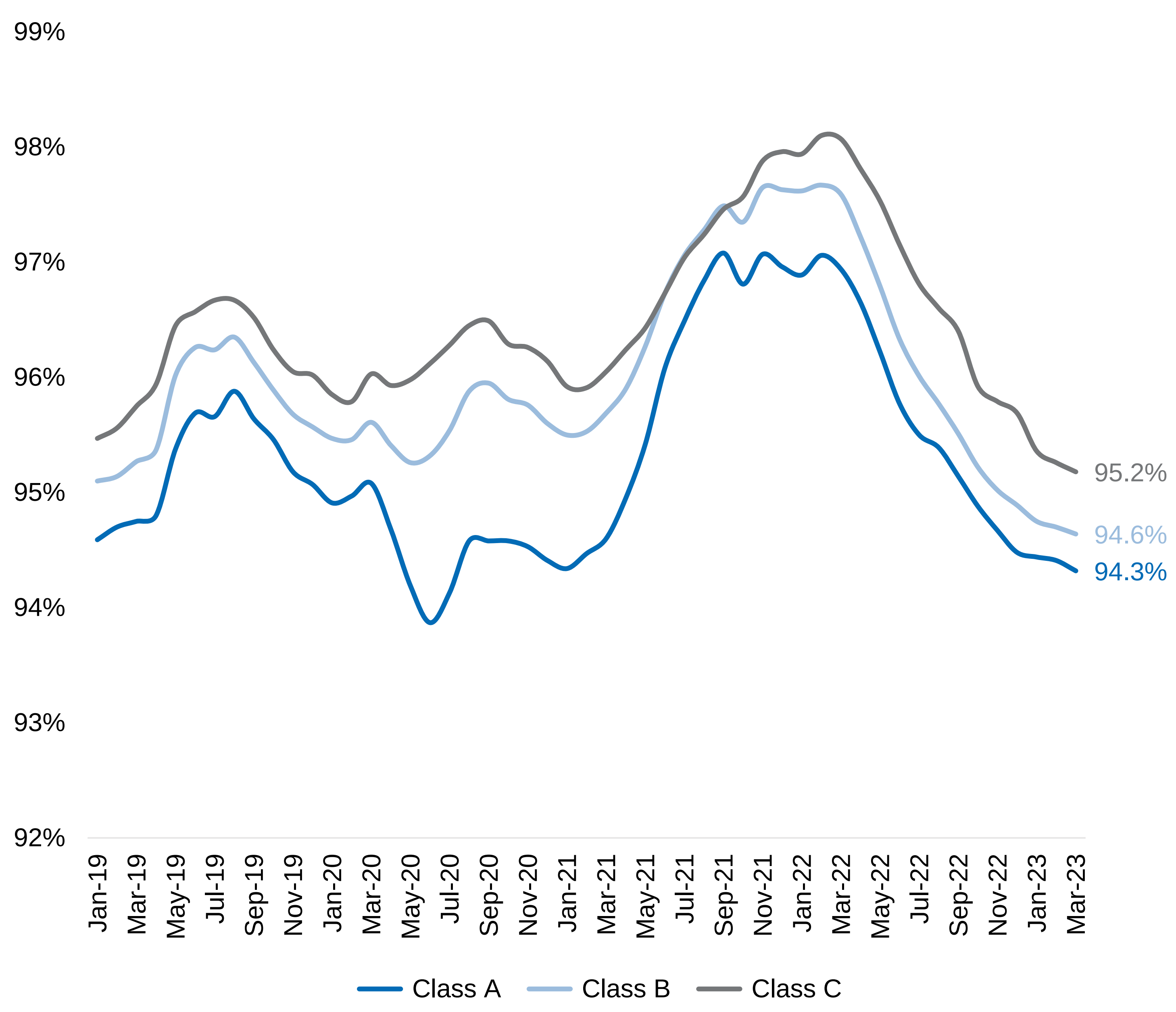


Source: Newmark Research, RealPage

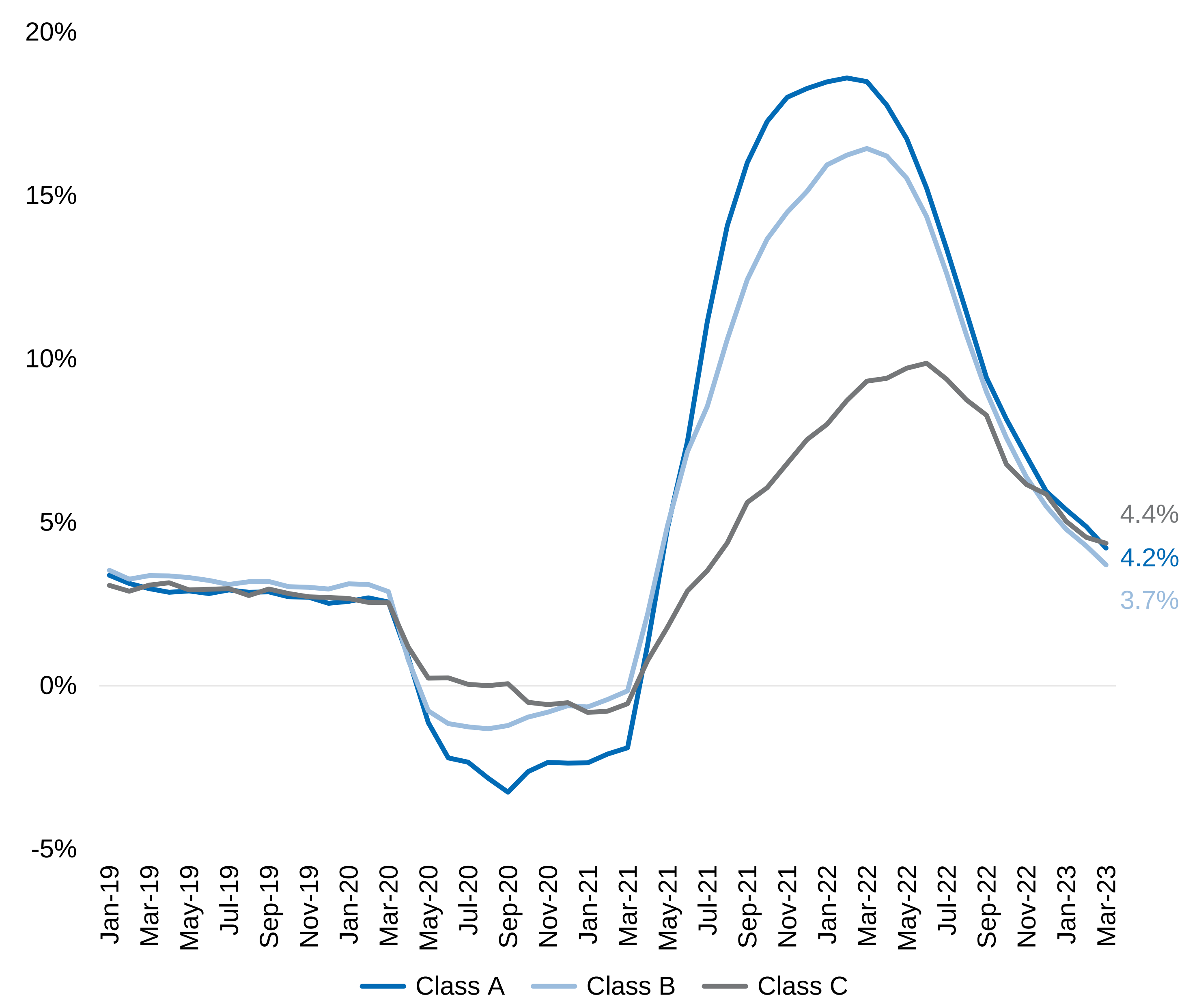
Relative Strength in Class C with Highest Occupancy and Rent Growth

Compared to class A and class B, class C multifamily product has outperformed in terms of both occupancy and same-store effective rent growth year-over-year. Class C has proved resilient in unfavorable market conditions due to sticky demand dynamics.

Occupancy



Same-Store Year-over-Effective Rent Growth

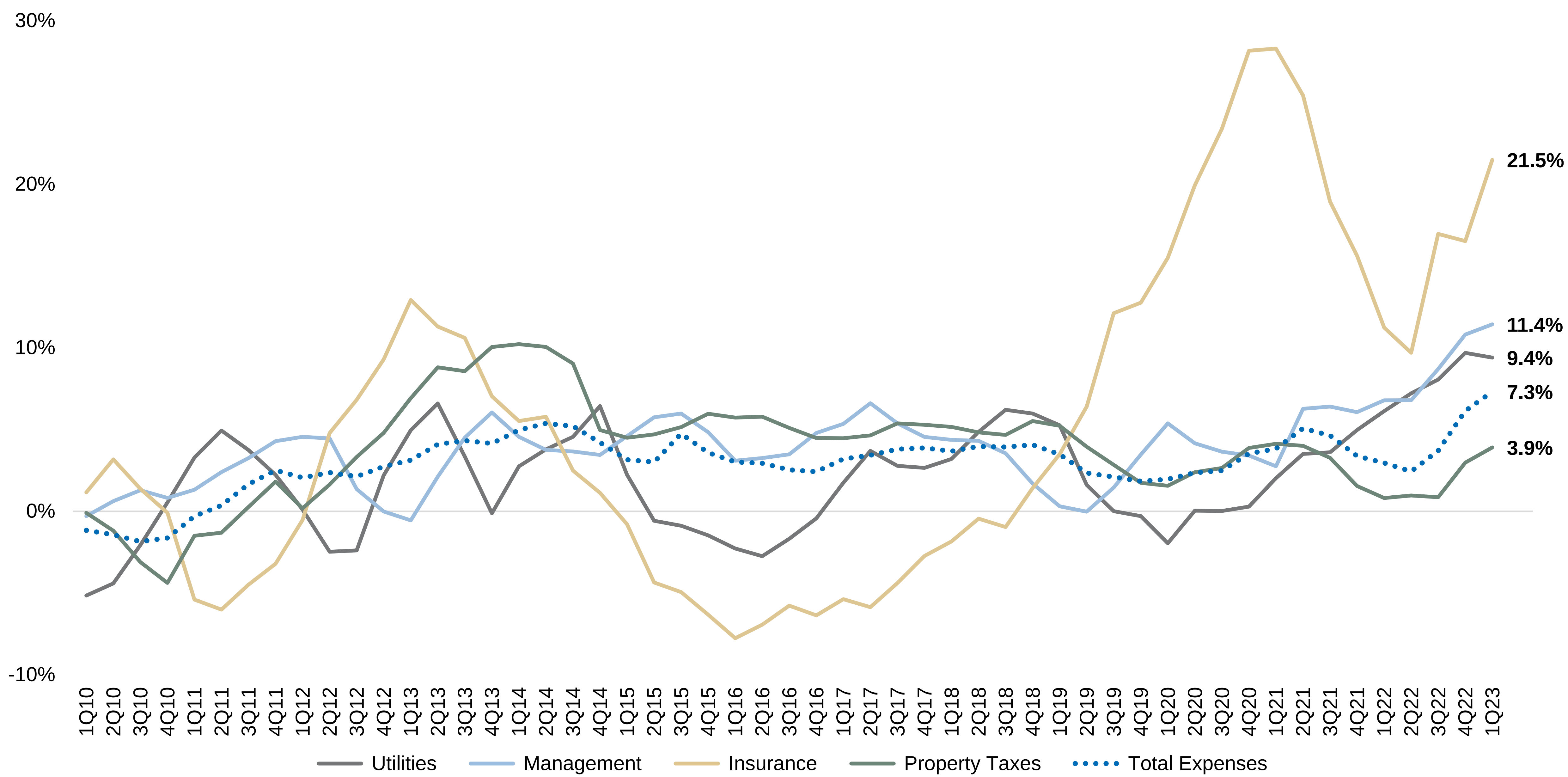


Source: Newmark Research, RealPage

Expenses Accelerate to Largest YOY Uptick Since 2010, Led by Insurance Surge

Total expenses for multifamily increased 7.3% year over year as of the first quarter of 2023; however, nearly every cost, such as utilities, taxes and, most notably, insurance increased at a higher rate than rental growth, putting pressure on operations.

Year-over-Year Change (Per Square Foot)

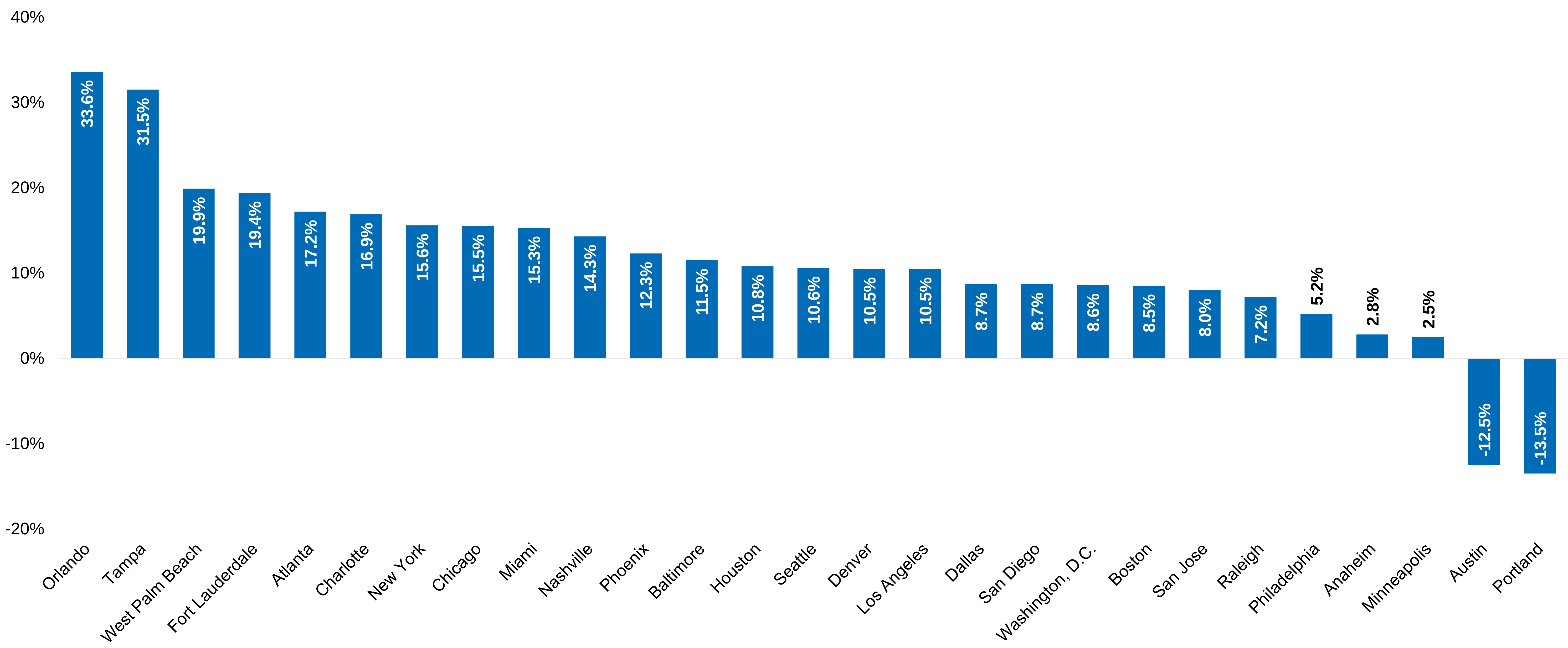


Source: Newmark Research, NCREIF

Up Nearly Universally, Rising Insurance Costs Accelerate Most throughout Florida

The largest markets throughout Florida have experienced the largest year-over-year increase in insurance costs, led by Orlando and Tampa, both who have seen in excess of 30% growth.

Year-over-Year Change (Per Square Foot)

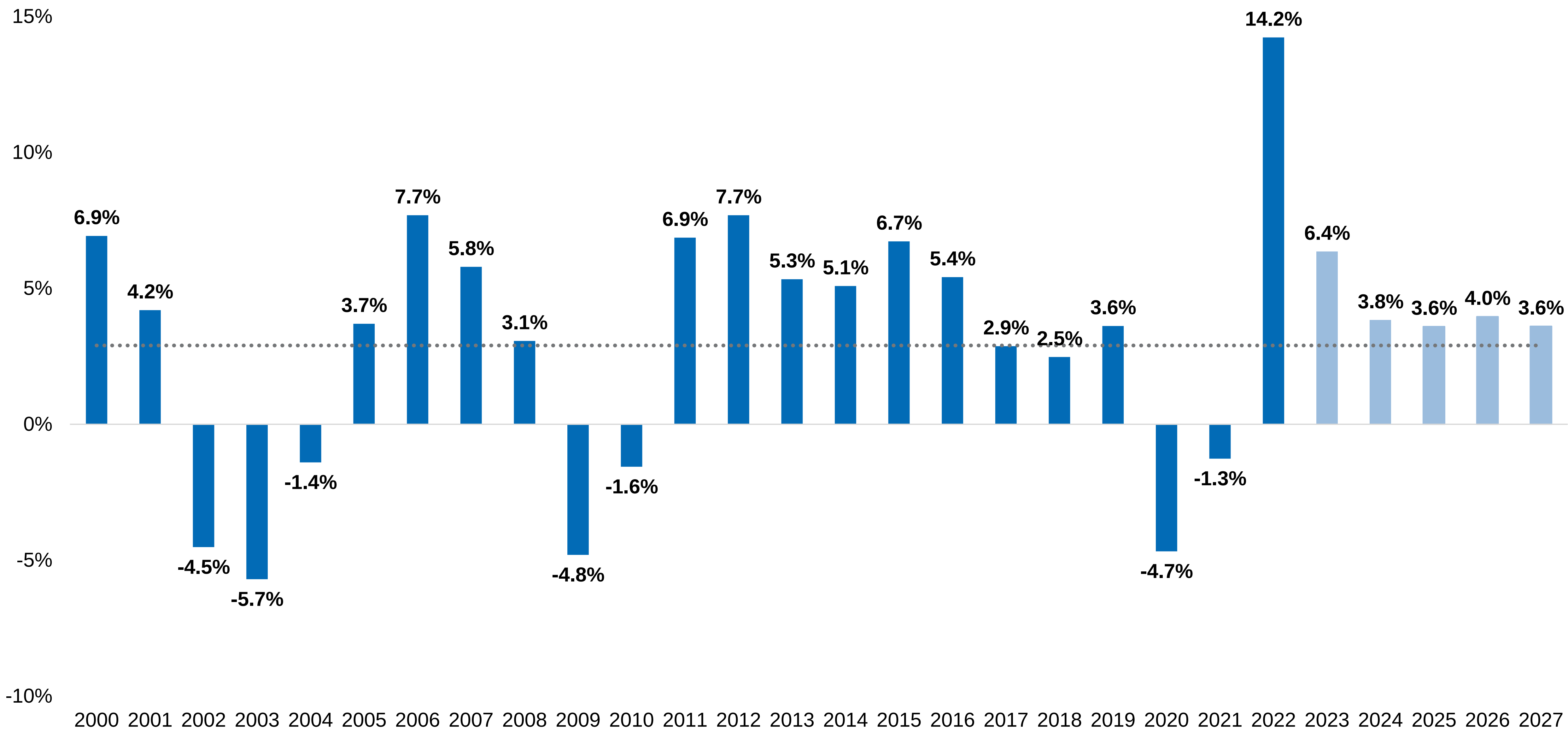


Source: Newmark Research, NCREIF

Strong Same-Store NOI Growth Anticipated in 2023, Above Long-Term Average

After a historic NOI growth of 14.2% in 2022, NOI growth is expected to level off to 6.4% in 2023, albeit more than double the long-term average of 2.9%. Following 2023, the annual average NOI growth through 2027 is projected to be in the mid-3% to 4% range.

NOI Growth (Same Unit)



Source: Newmark Research, Green Street Advisors

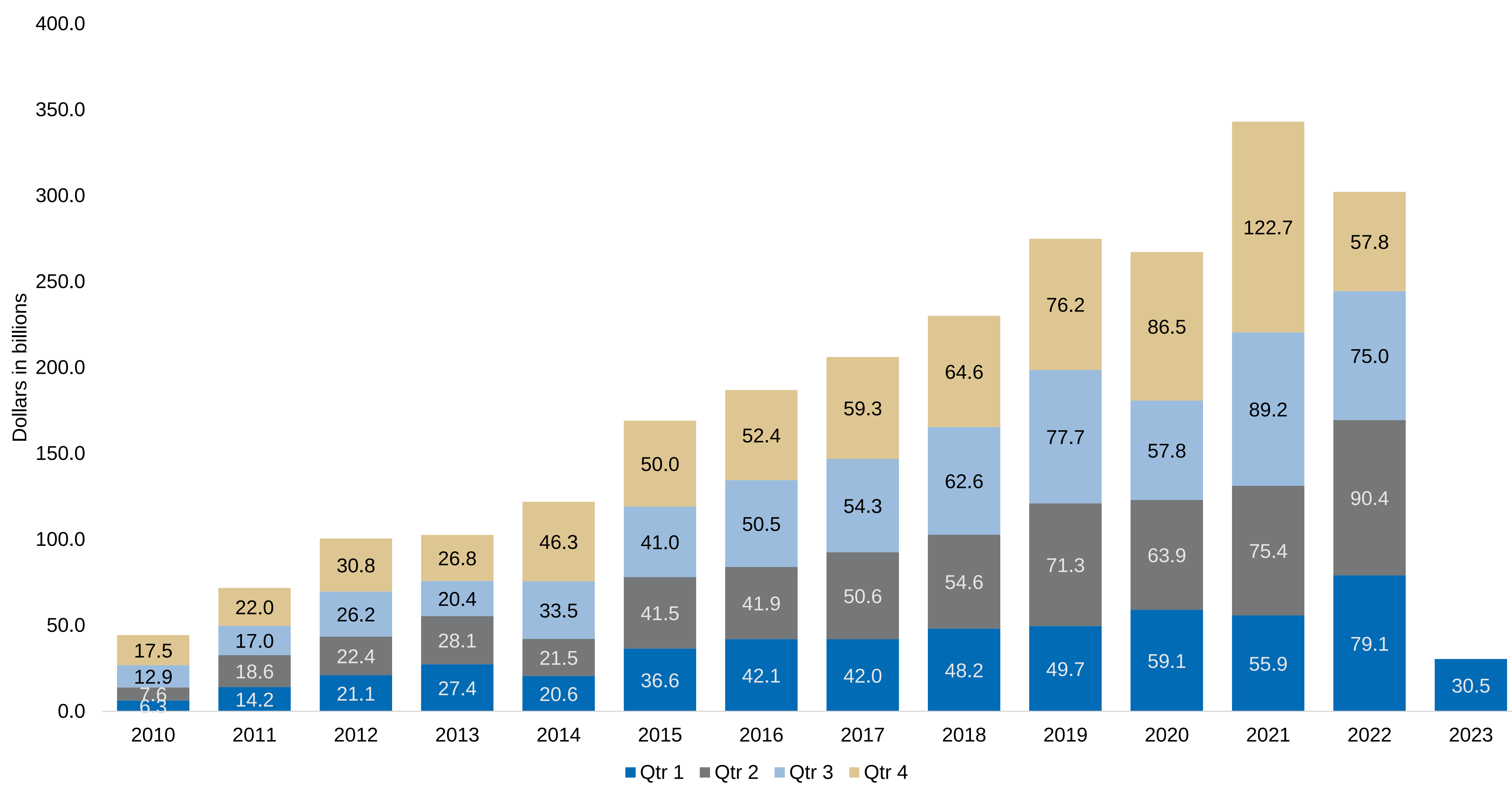
1Q23 US MULTIFAMILY CAPITAL MARKETS REPORT

Capital Markets

Multifamily Debt Originations Down 61% Year-over-Year in 1Q23

Debt originations continued to decelerate in the first quarter of 2023. While the volumes are subject to future revision, adjustments are likely to be limited. The MBA's originations index found similar results, with first-quarter originations down 55.0% year over year, lending further credibility.

Multifamily Debt Origination Volume*

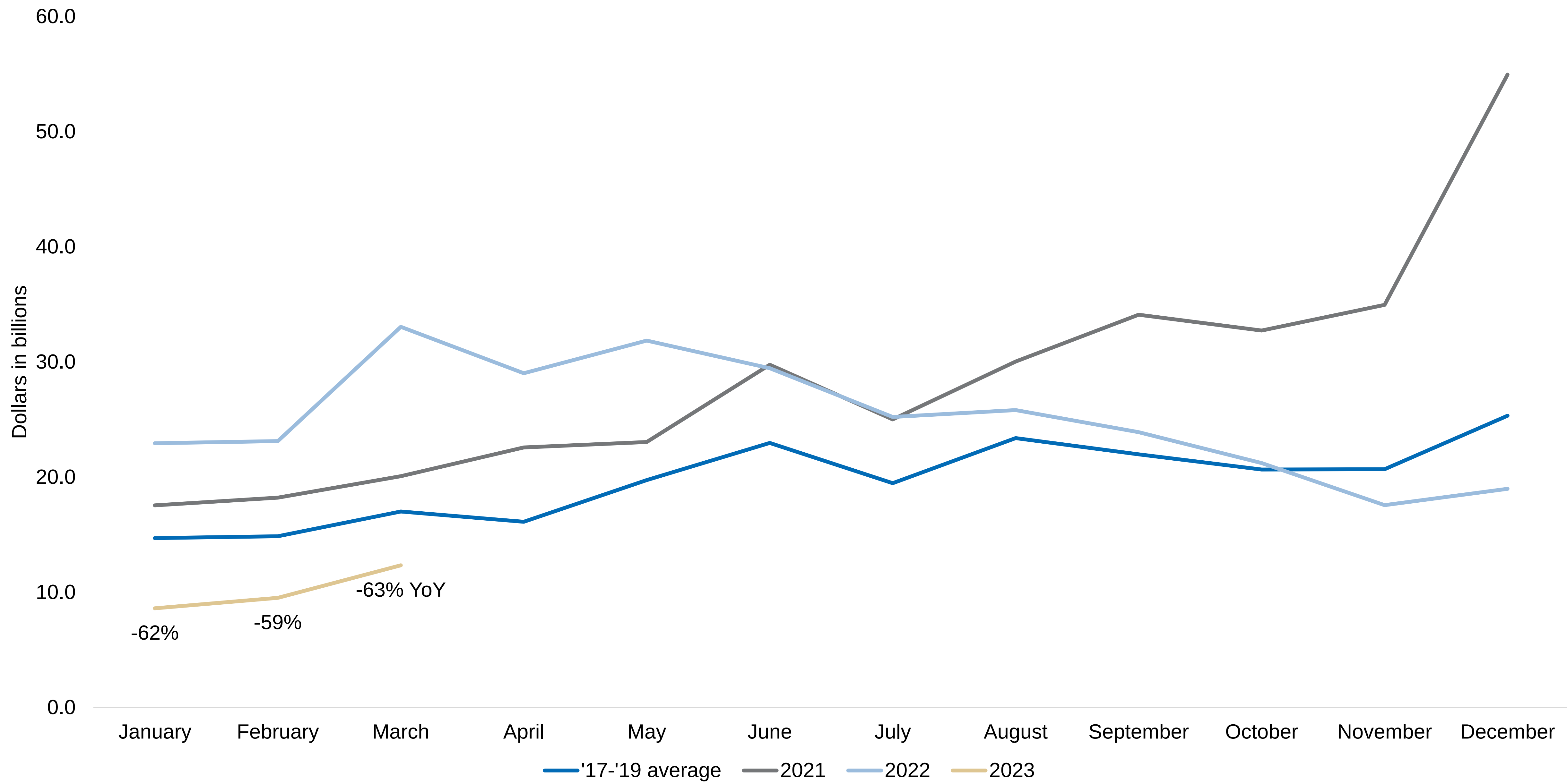


Source: RCA, Newmark Research as of 5/3/2023
*Excludes construction loans. Data is based preliminary loan sums, which are subject to future revision – potentially significant.

Originations Are Trending Well below Pre-Pandemic Levels

Originations peaked in March of 2022 and have since been on an inexorable downward mach. By August, they fell below the 2021 record, and in the fourth quarter, had fallen below pre-pandemic levels. Based on preliminary data, originations have been weaker still in the first three months of the year, trending well below pre-pandemic levels, to say nothing of 2021 and 2022.

Monthly Multifamily Debt Originations Volume*

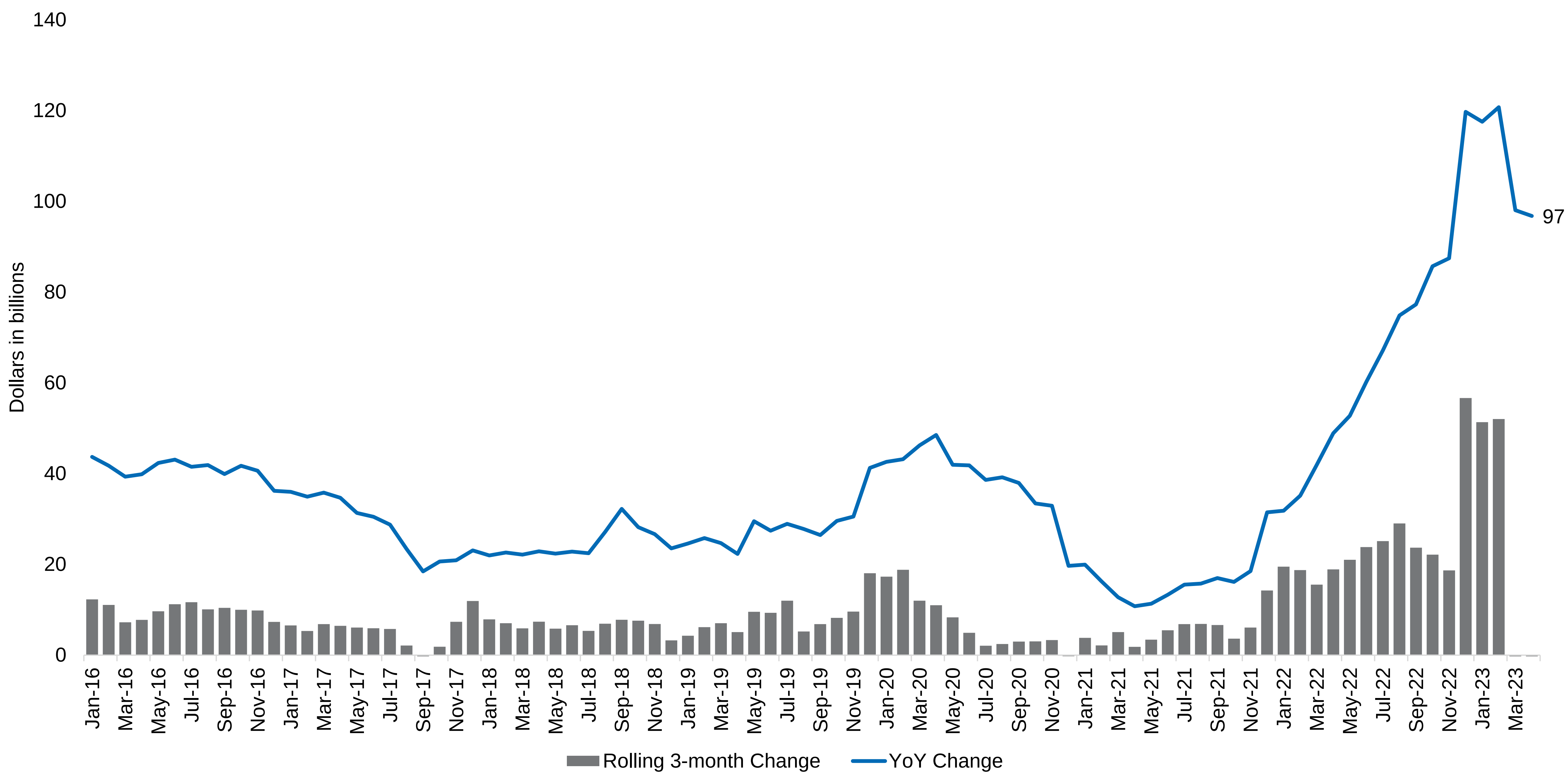


Source: RCA, Newmark Research as of 5/3/2023
*Excludes construction loans. Data is based preliminary loan sums, which are subject to future revision – potentially significant.

Banks Leaned into Multifamily Lending in 2022, but Now Ground to a Halt

Bank exposure to loans secured by multifamily properties, not including construction finance, increased by $121.0 billion from February 2022 to February 2023. This was already an unsustainable pace even before the regional banking crisis. Bank holdings of multifamily debt fell by $15.0 billion in March, presumably related to the failures of SVB and Signature Bank. Since then, bank exposure has increased modestly, but the rolling trend remains negative and certainly a far cry from the massive accumulation of last year.

Commercial Bank Multifamily Loan Exposure

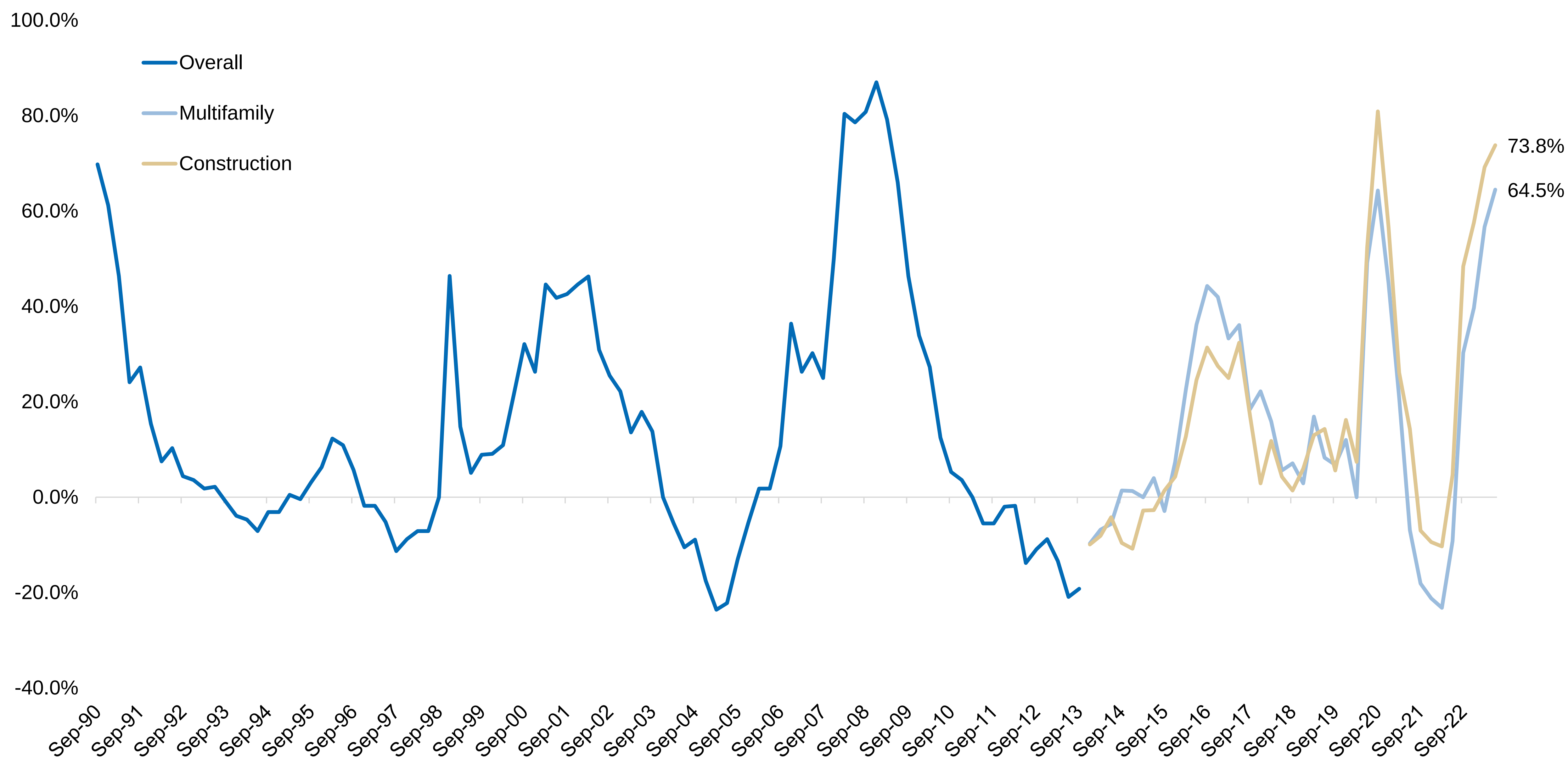


Source: Federal Reserve, Newmark Research

Bank Lending Standards Are Rapidly Tightening

The resurgence of bank lending has been short-lived. Banks are tightening their lending standards, which, as in 2020, means shrinking the profile of not only assets but sponsors with whom they are willing to lend. While delinquencies remain low, bank managers anticipate increased distress across their credit portfolios, including within their CRE books.

Net Percentage of Banks Tightening Lending Standards

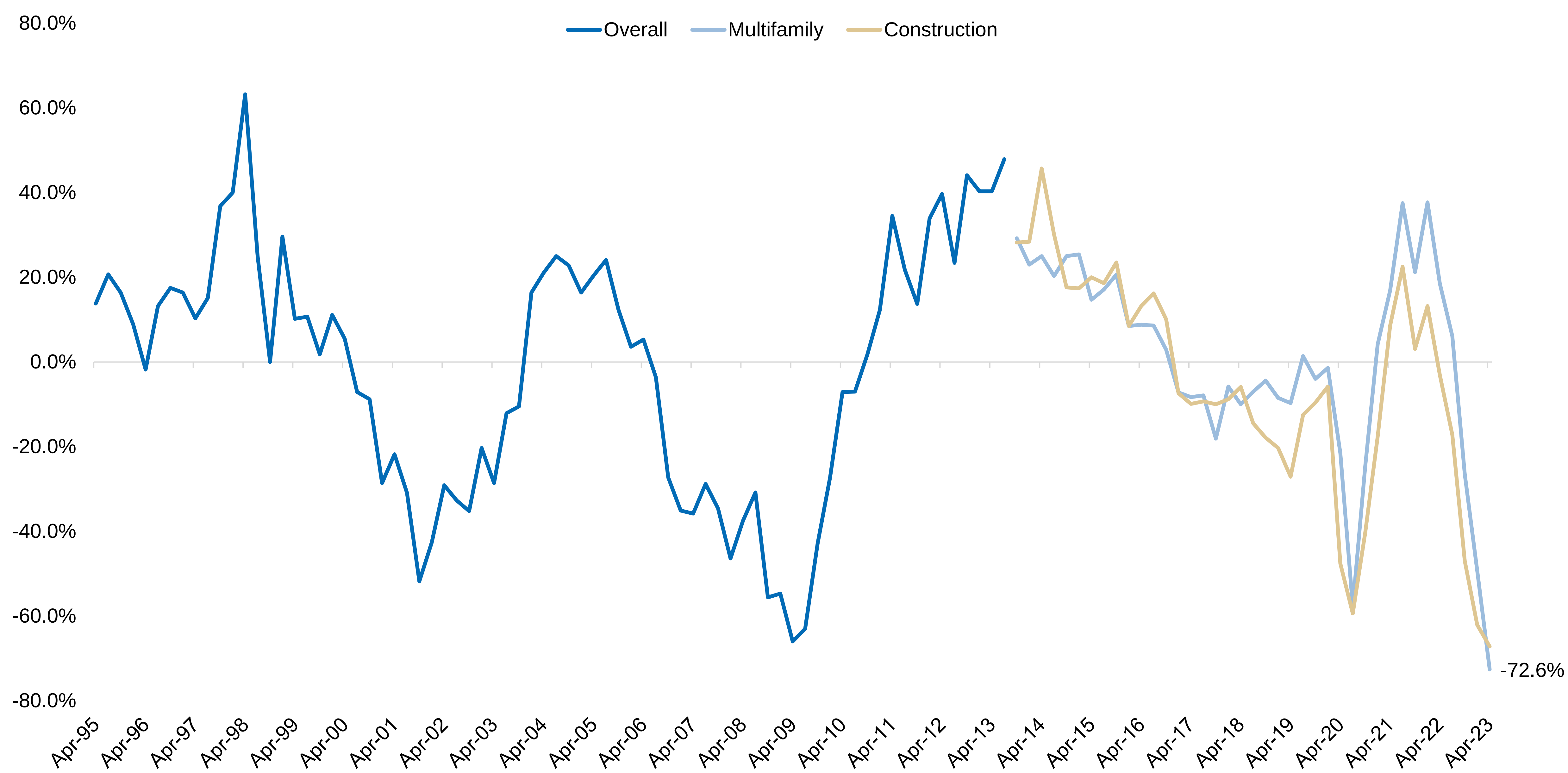


Source: Federal Reserve, Newmark Research

Demand for Bank CRE Credit Collapsing

The same trends are playing out across the banking industry, not just regional banks.

Net Percent of Banks Reporting Stronger CRE Loan Demand

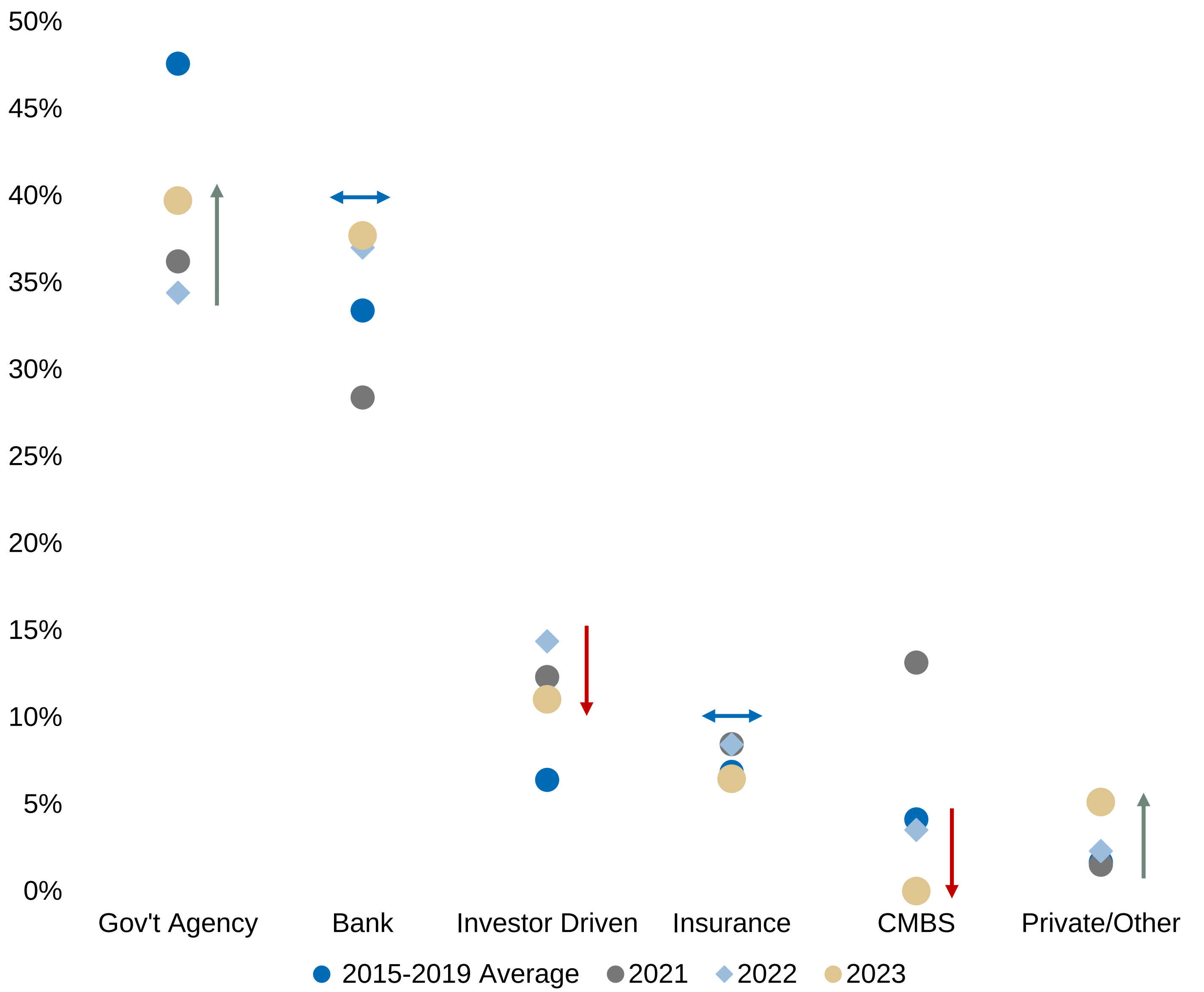


Source: Federal Reserve, Newmark

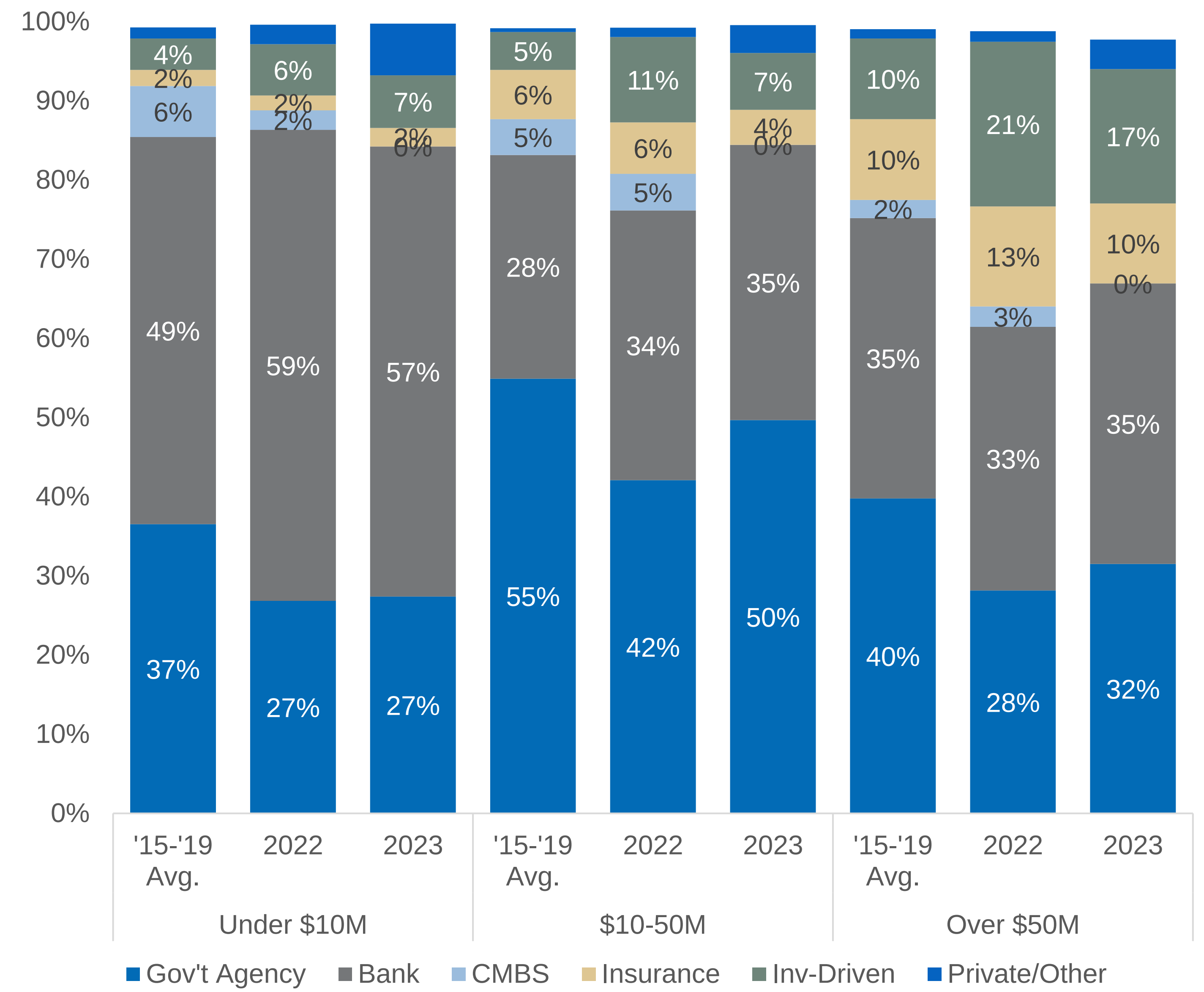
GSEs Provide a (Limited) Buffer against Cyclical Lending Conditions

The GSEs act as a backstop to the market; however, their overall function has been somewhat diluted of late, as: 1) lending caps have been imposed, and those are growing slowly; and 2) they have become more exclusively focused on mission-driven lending. As the market grows, they are providing less proportional and more targeted liquidity support, which makes a repeat of 2009 less likely but also leaves the market subject to greater volatility.

By Year



By Deal Size

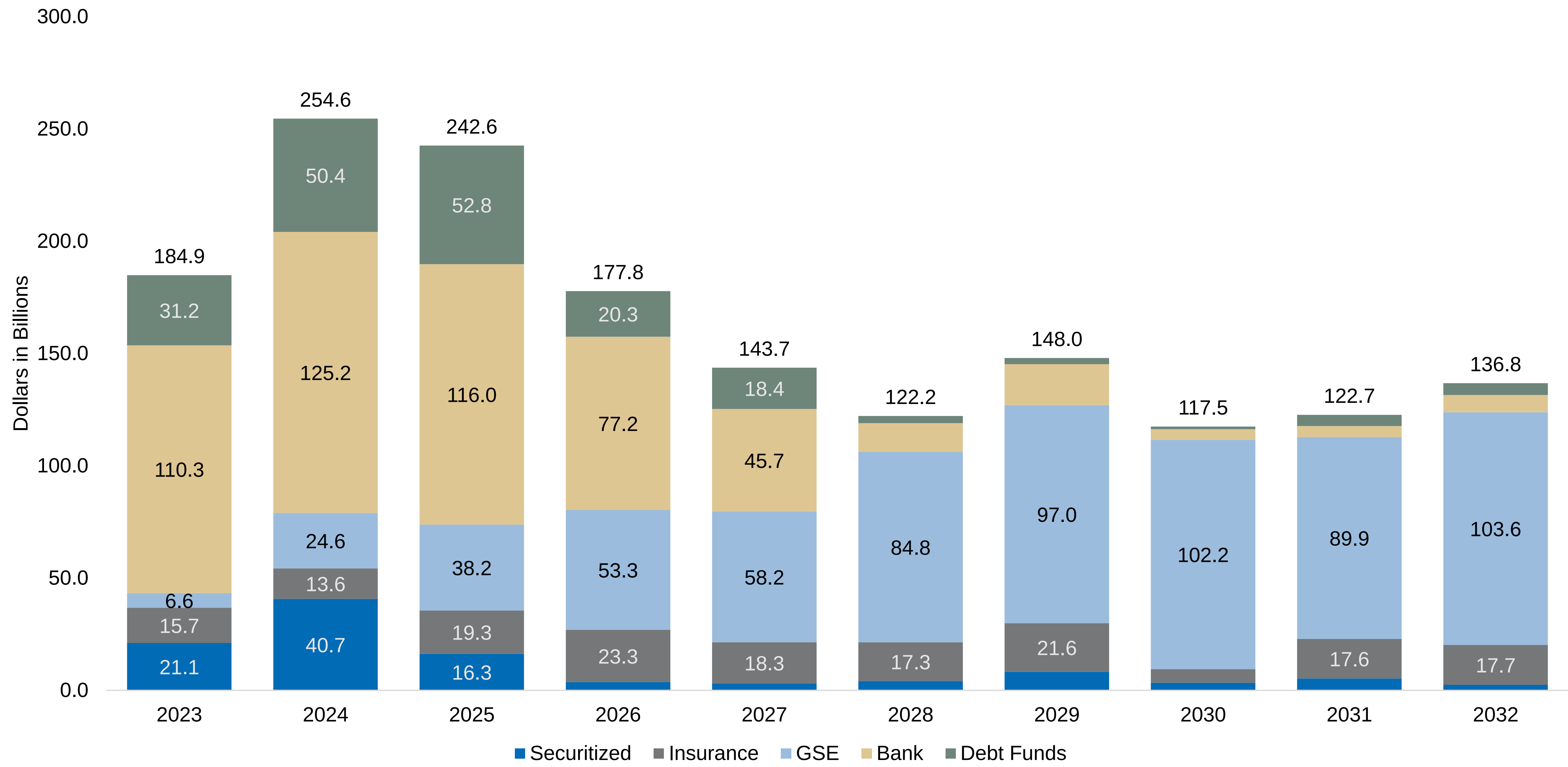


Source: Newmark Research, MSCI Real Capital Analytics as of 5/3/2023
Includes construction financing, transactions over $5M in total deal value

Multifamily Maturities Elevated Over Next Several Years

Bank and debt fund maturities are heavily concentrated in the 2023- to 2025 period, which is not surprising given that these are more likely to be transitional or construction finance. In contrast, GSE maturities are concentrated in the second half of the decade and beyond.

Multifamily Mortgage Maturities by Lender

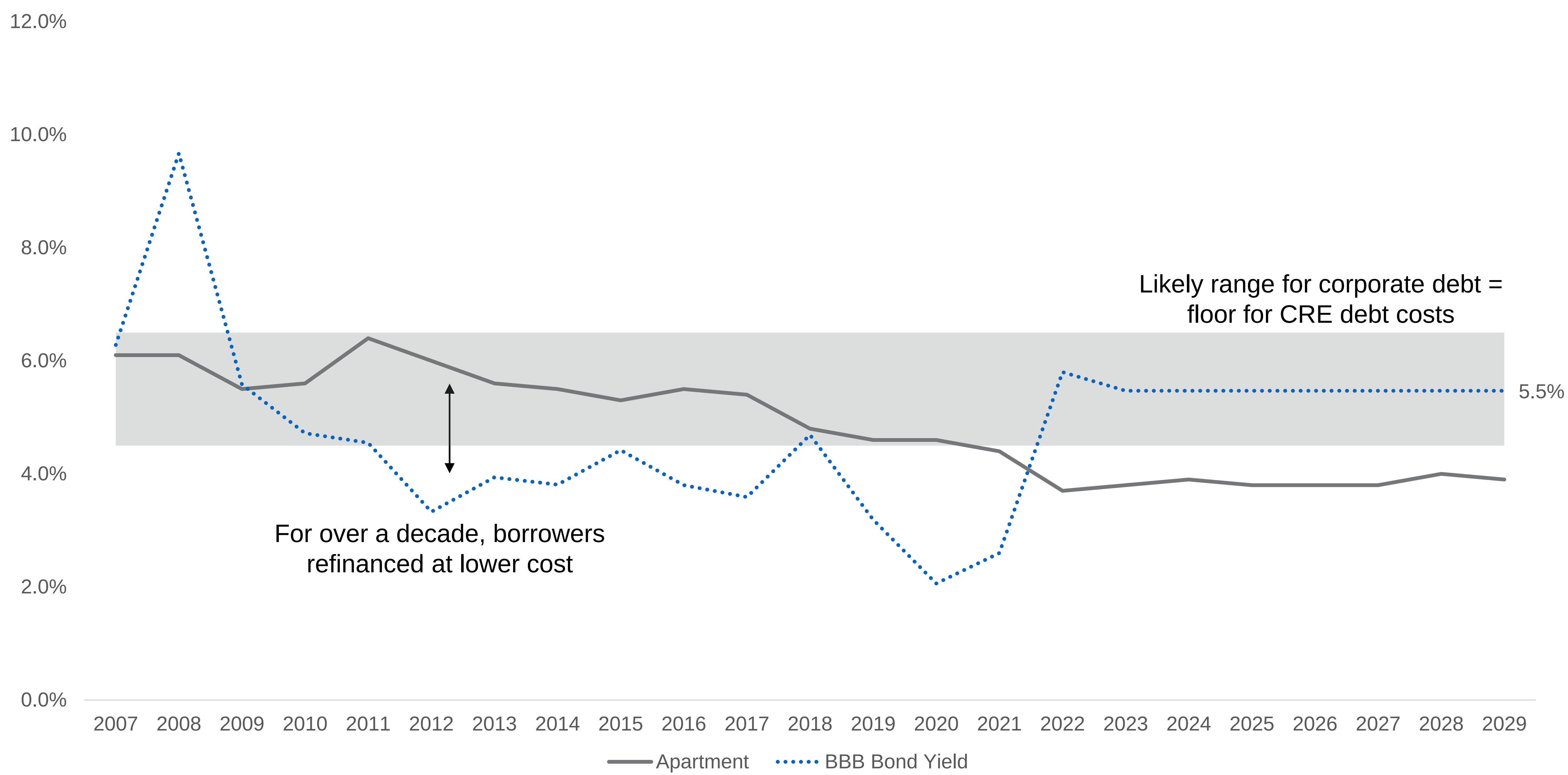


Source: MBA, Trepp, RCA, Newmark Research as of 5/16/2023

Borrowers Still 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

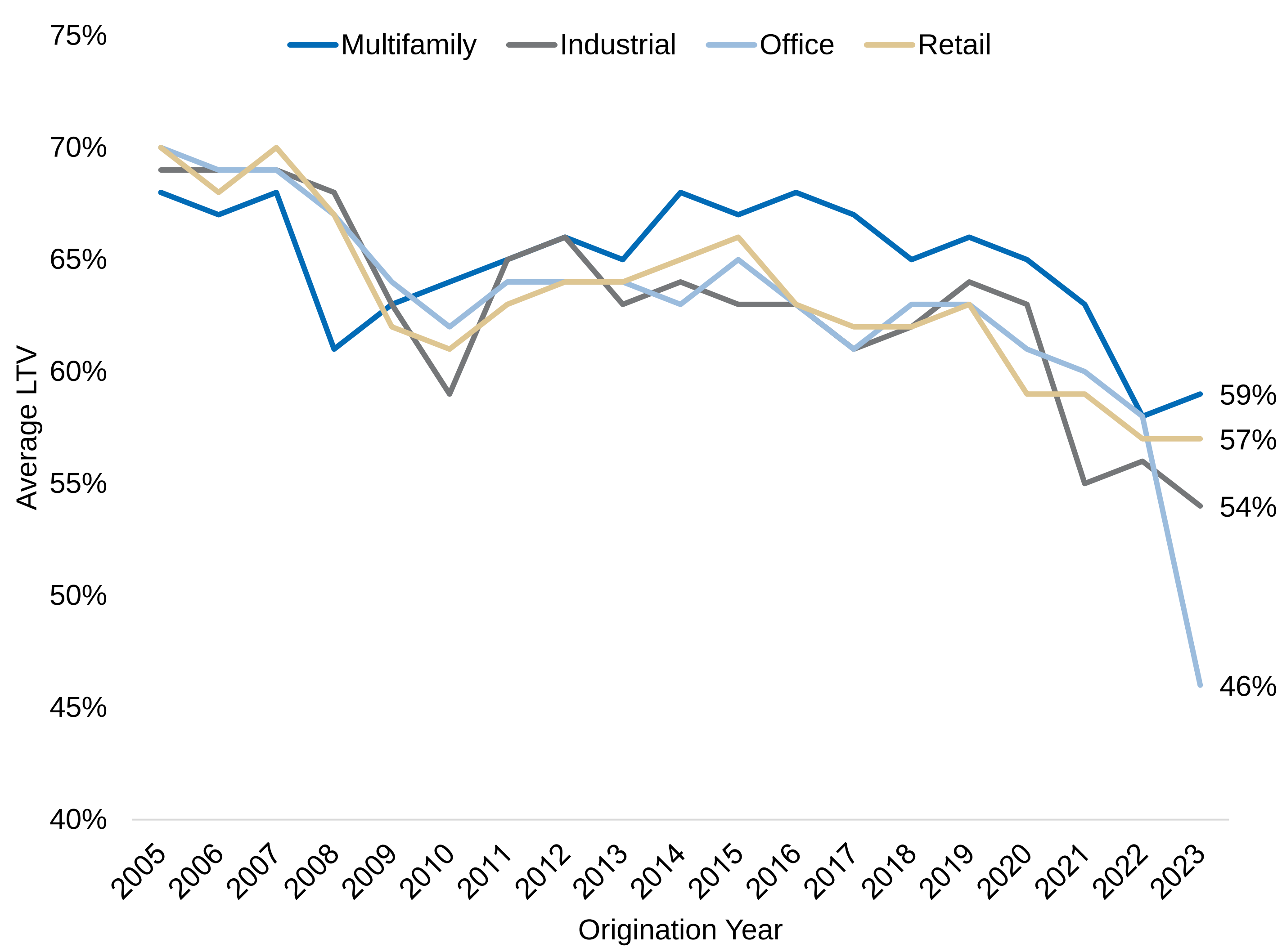


Source: RCA, ICE Data Indices, Newmark Research as of 5/3/2023

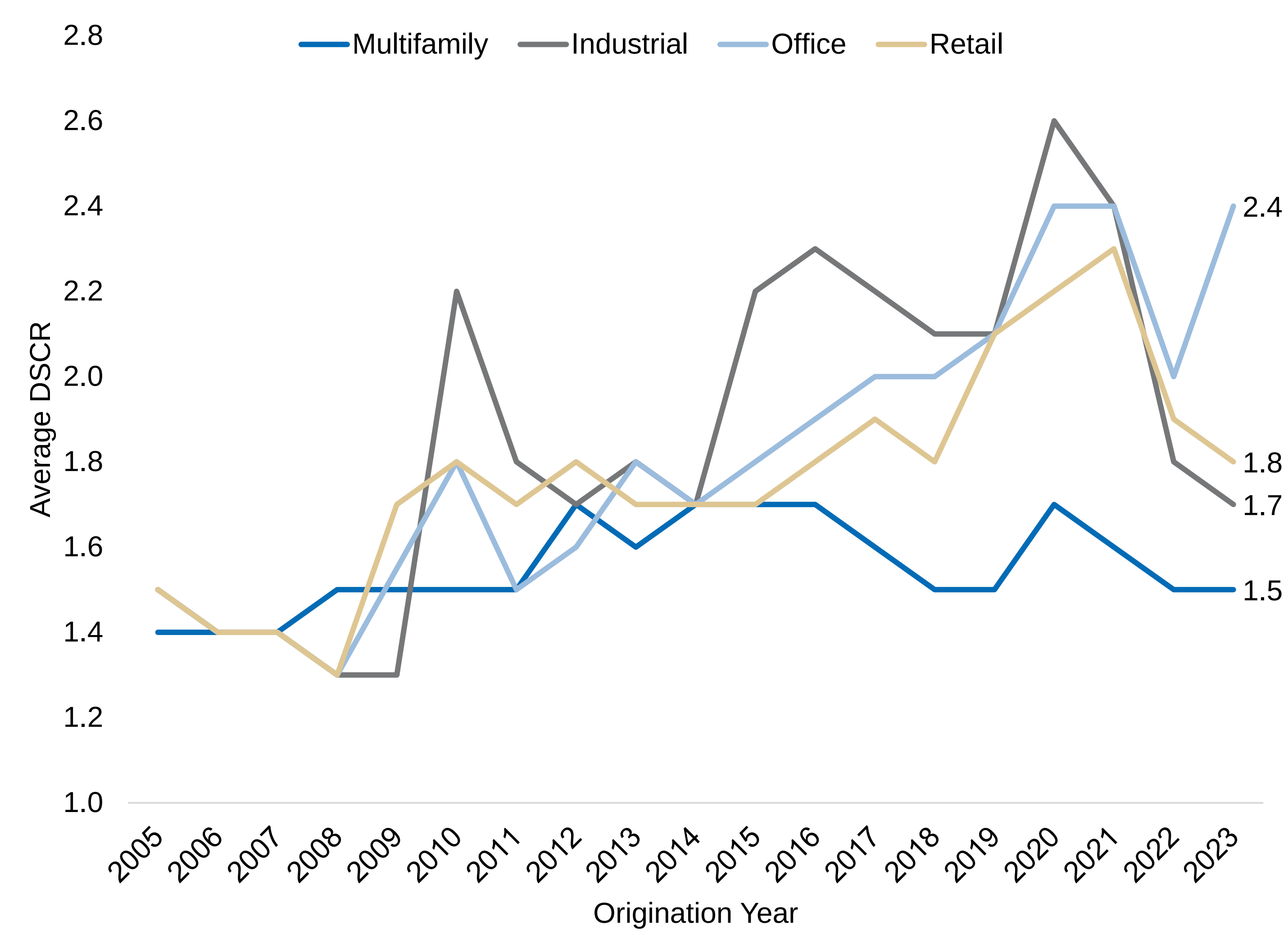
Multifamily Underwriting Has Been More Aggressive than Other Sectors

LTVs are lower and DSCRs are higher than in the period leading up to the Great Financial Crisis, but whereas these metrics improved substantially for the other major sectors in the ensuing years, multifamily metrics have seen less change. This is likely due to perceptions of the sector being less volatile, both from a cashflow standpoint and due to the existence of the stabilizing influence of the GSEs on credit supply. These suppositions are now being challenged by the increase of interest rates.

Loan-to-Value Ratios Have Been Declining Since 2013



While Debt Service Coverage Ratios Have Risen

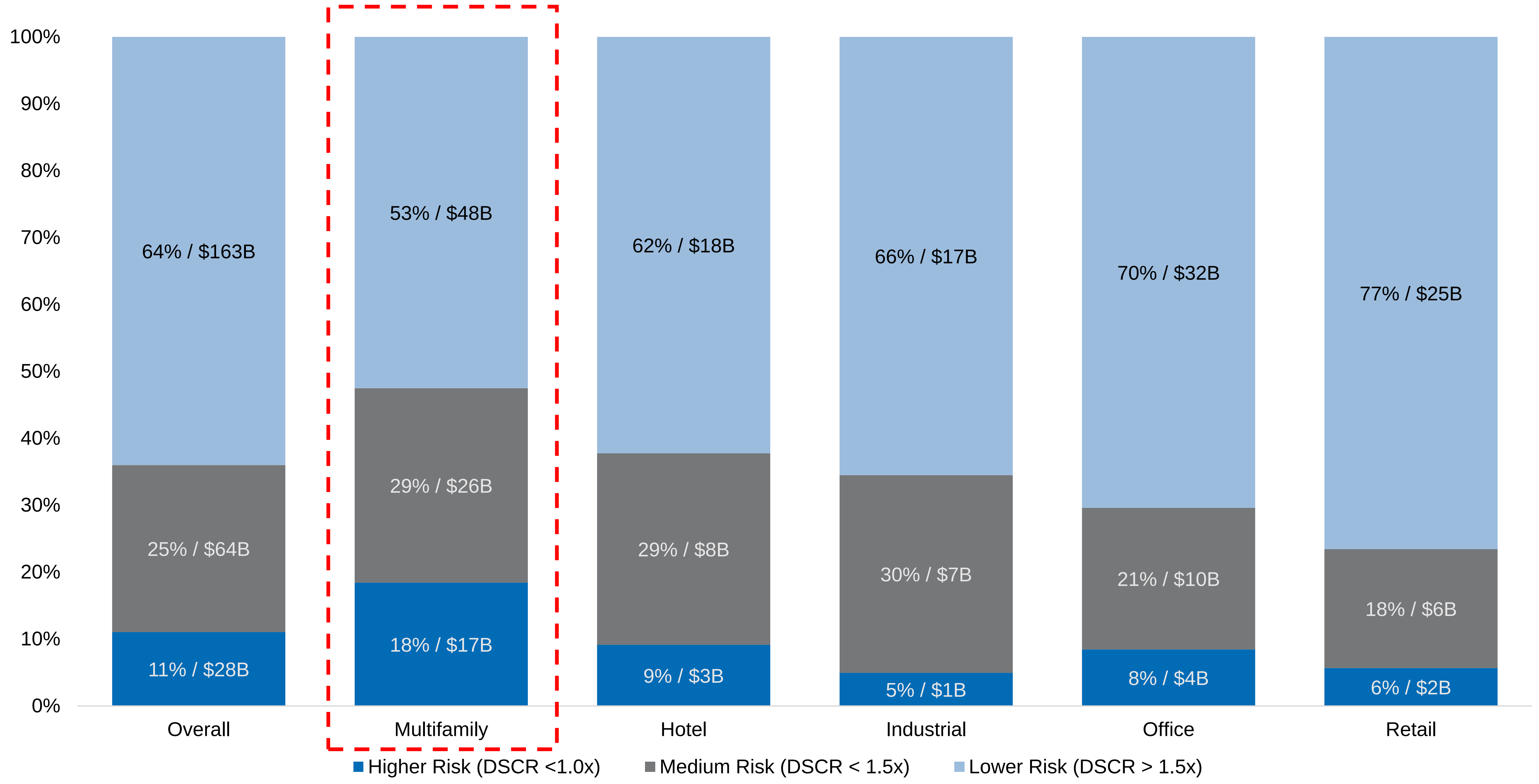


Source: Real Capital Analytics, Newmark Research as of 5/3/2023
Excludes construction financing.

Most Loans Will Be Able to Absorb Higher Interest Costs – But Not All

Even property types with strong operating fundamentals could face challenges covering new, higher interest costs. Transitional debt is likely even more fraught.

DSCR Profile of Securitized CRE Debt Maturing in 2023/4

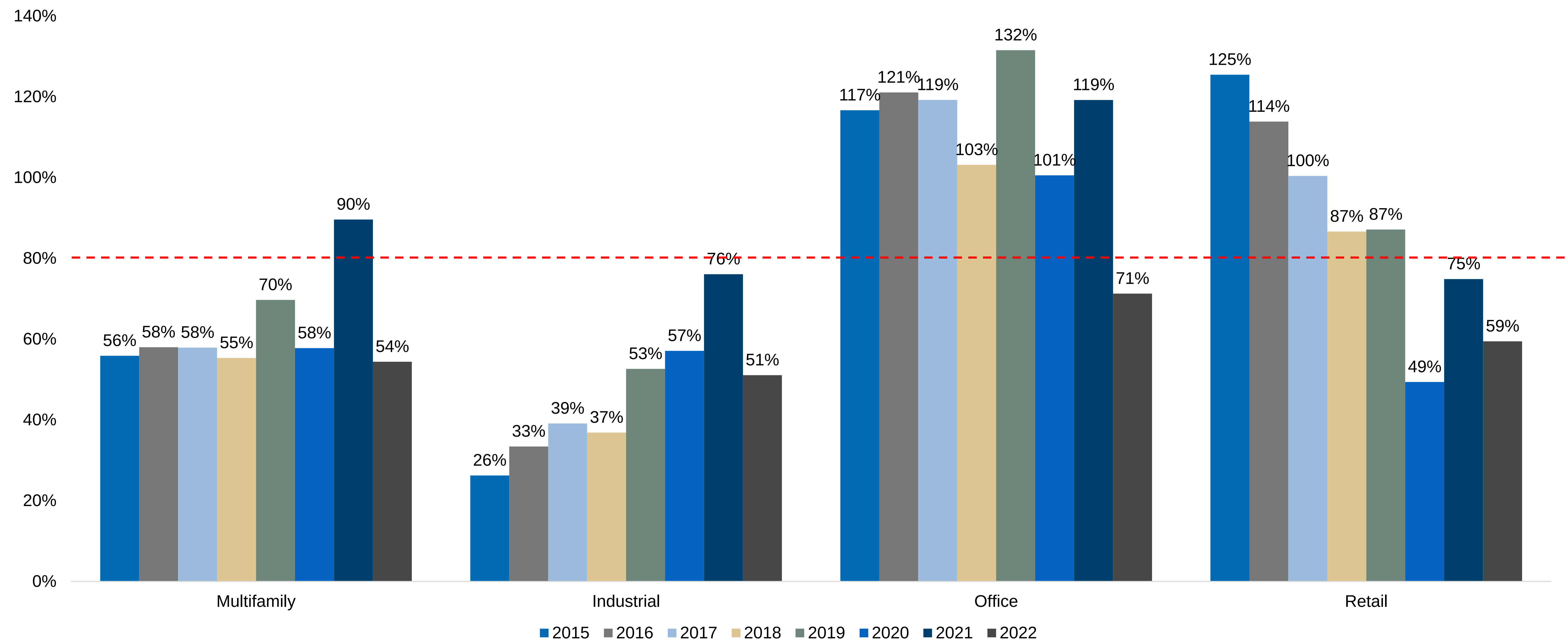


Source: Trepp, Newmark Research as of 5/11/2023

Falling Asset Values Means That Some Loans Are Already Underwater

Perhaps the larger problem comes from the value side of the equation. Appraisers have been and will be slow to write down assets, but the public markets are pointing strongly in the direction of travel. When repricing is complete, a wide range of 2021 borrowers will find themselves underwater across property types. Beyond that peak year, multifamily and industrial assets have little risk of distress. The same cannot be said for all office and retail assets.

Average Mark-to-Market* Loan-to-Value Ratio by Year Debt Originated

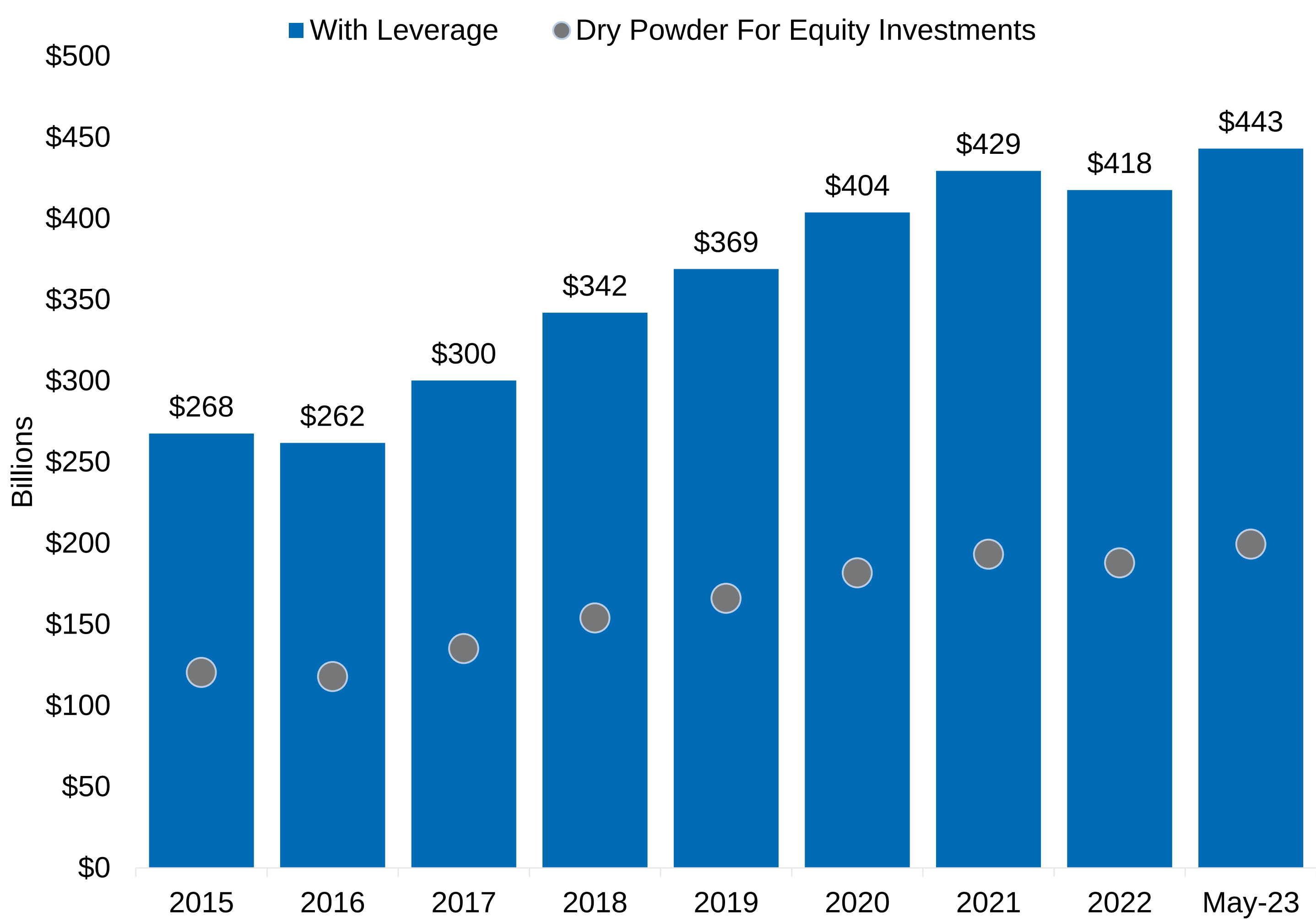


Source: RCA, Dow Jones, S&P Capital IQ, Newmark Research as of 5/11/2023
*We take the average LTV in a given year and then increase the value of the denominator by the cumulative price return of the corresponding Dow Jones REIT property sector index since the year the loan was originated. For example, apartment loans made in 2005 had an average LTV of 68%. We would then increase the denominator by the cumulative REIT price return from 2006-2022.

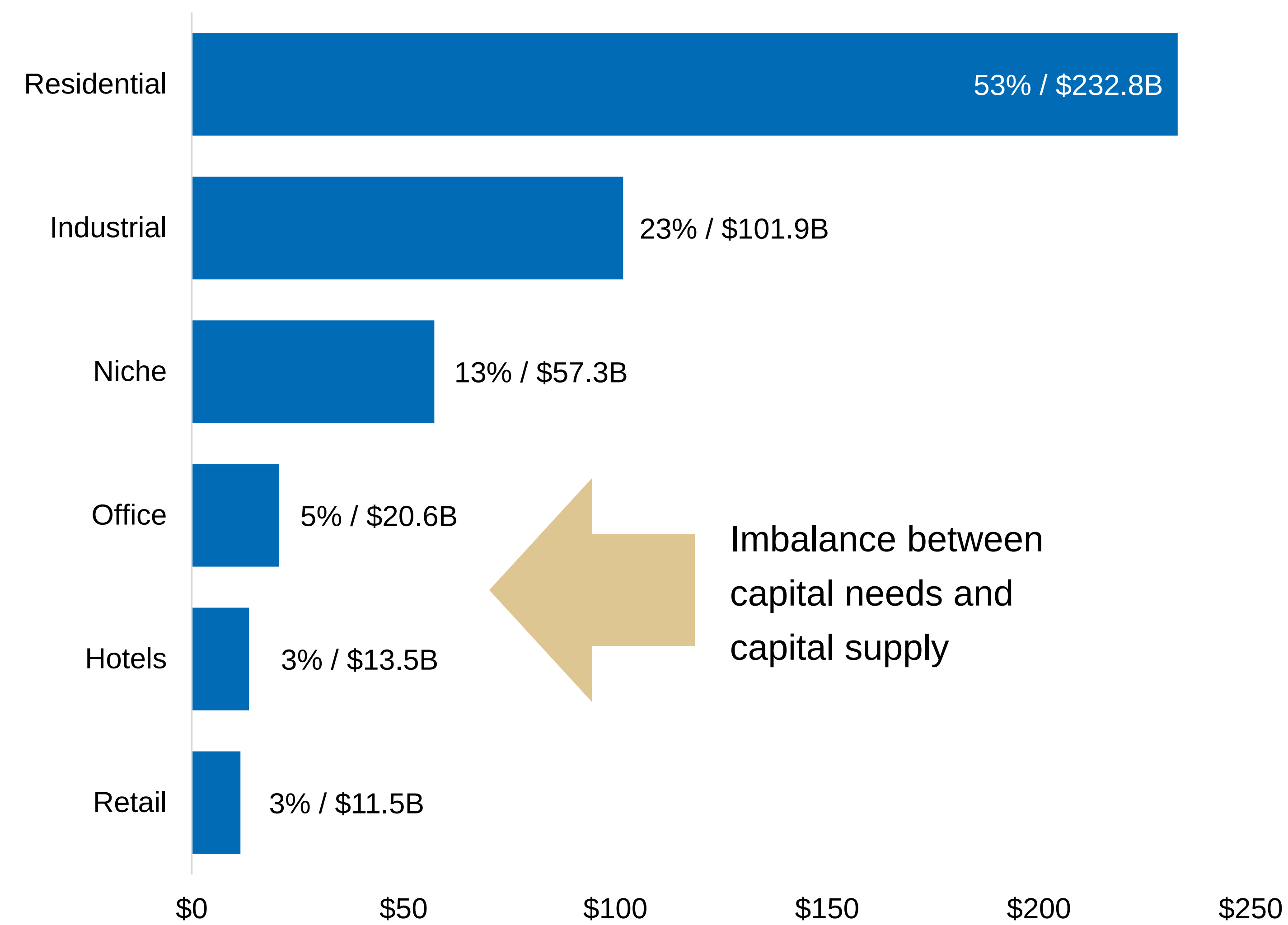
Ample Dry Powder Targeting Multifamily

The $199 billion in dry powder raised for equity investments, not including dry powder raised for debt strategies, equates to a leveraged purchasing power of $443 billion, using a 55% loan-to-value ratio. We estimate that over half of this capital is targeted at residential assets, with most of the remainder focused on industrial assets. The capital targeting office and retail assets is quite small by comparison, which could ultimately represent a contrarian opportunity.

Dry Powder at 55% Leverage



Leveraged Dry Powder By Property Type*

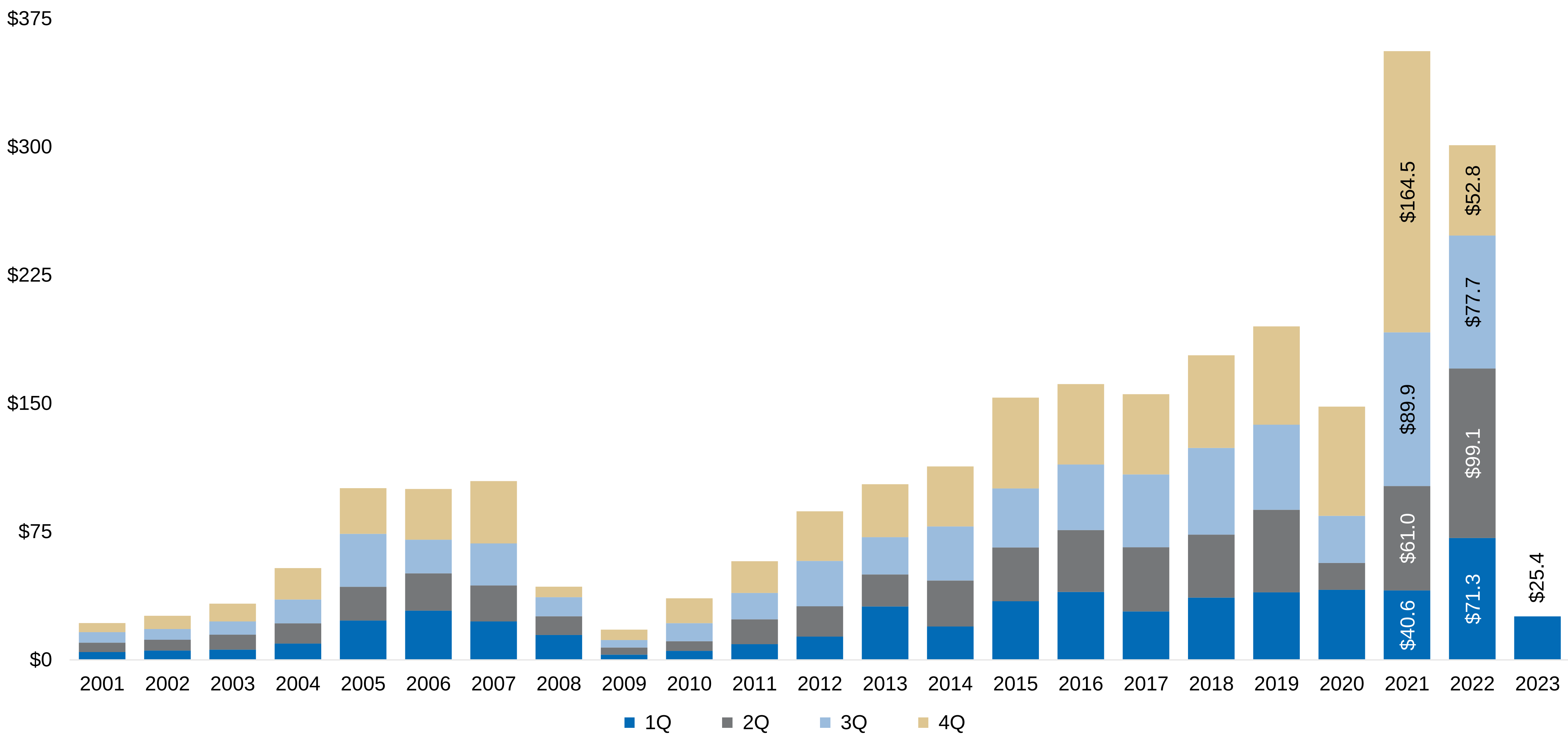


Source: Newmark Research, Real Capital Analytics, Preqin as of 5/11/2023
*We looked at the percent called by vintage year and applied this to the total amount fundraised in each year to calculate the amount of uncalled capital (i.e. dry powder), broken out by main property type. Roughly half the dry powder was at diversified funds. This was allocated to the various property types in proportion to their share of total dry powder, excluding diversified funds. Finally, we grossed up the dry powder assuming 55% leverage would be used.

Sales Volume Declined 64% YOY in 1Q23; Pick Up Expected in Second Half

Sales volume totaled $25.4 billion in the first quarter of 2023, down 64.4%-year-over-year and 51.9% quarter-over-quarter. Deal activity is expected to pick up in the second half of 2023 and into 2024 as buyers and sellers adjust to higher rates.

Investment Sales Volume in Billions

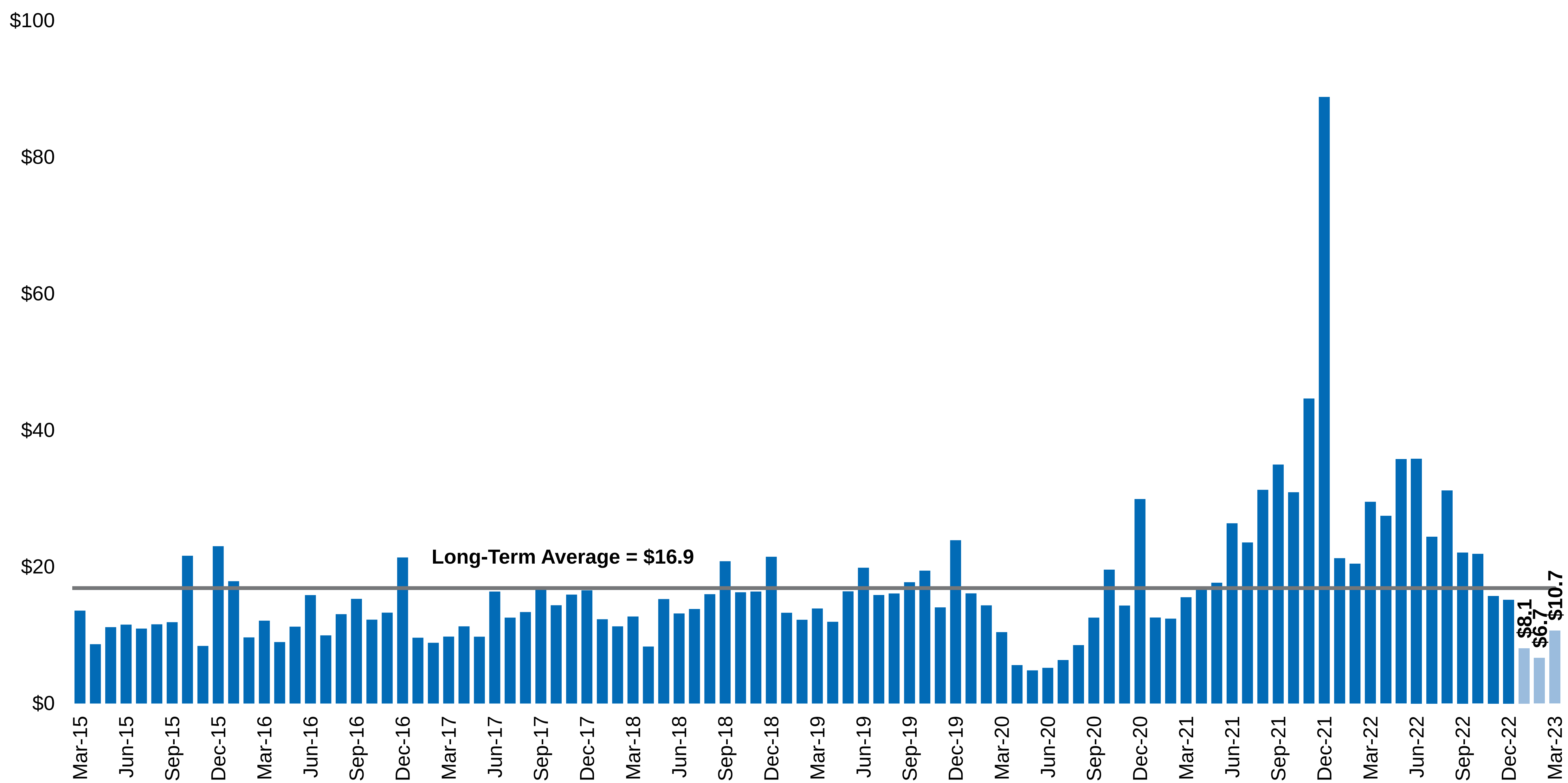


Source: Newmark Research, MSCI Real Capital Analytics

Monthly Volumes Sluggish in 1Q; March Sales 37% below Long-Term Average

Monthly sales volume in February dropped to the lowest level since July 2020, and March volumes were 36.9% below the long-term average of $16.9 billion.

Monthly Sales Volume in Billions

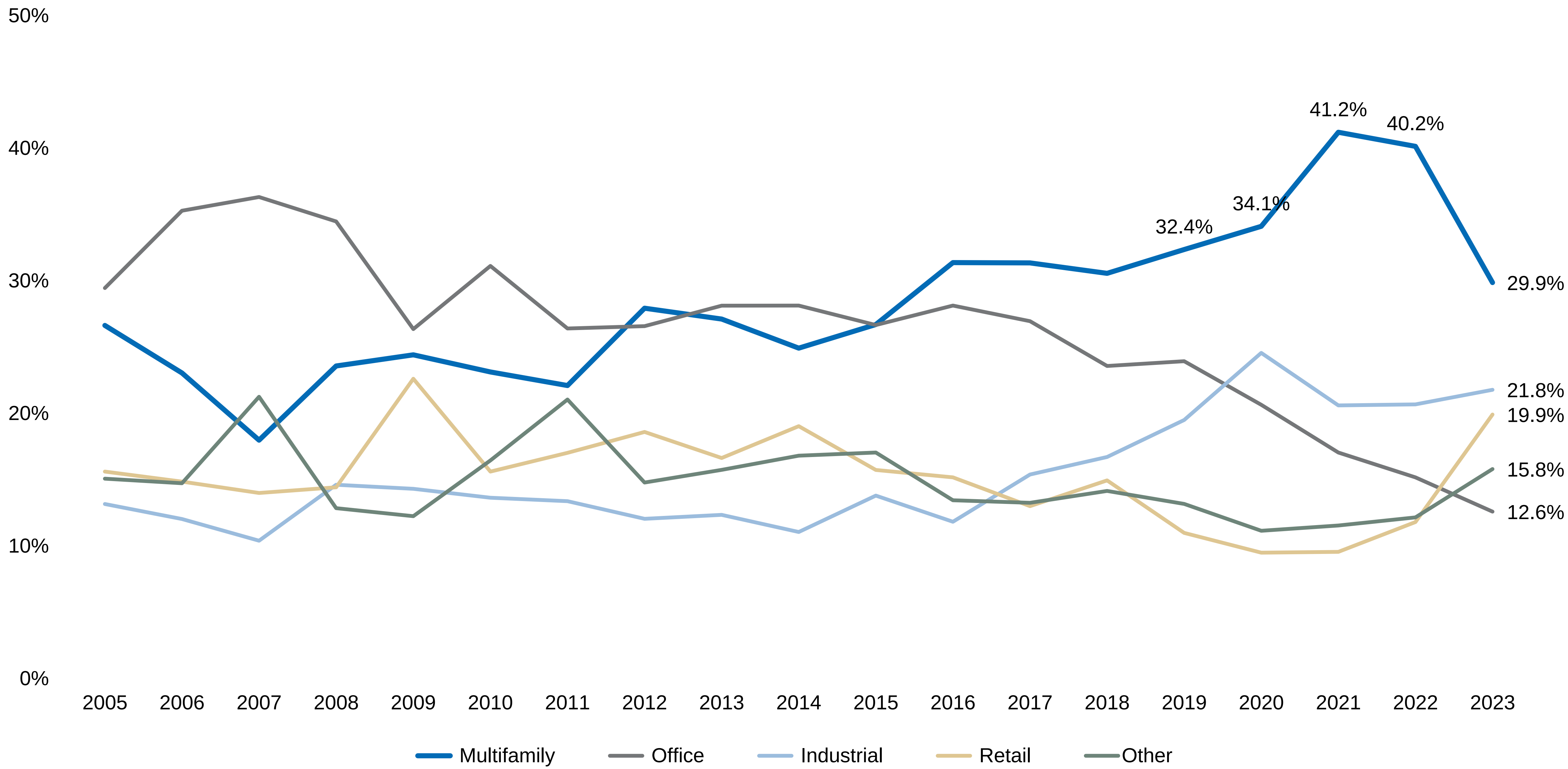


Source: Newmark Research, MSCI Real Capital Analytics

Multifamily Remains Favored Destination; However, Market Share Declines in 1Q23

Allocation to multifamily among US commercial real estate declined from 40.2% in 2022 to 29.9% in the first quarter of 2023. Multifamily remains the largest recipient of capital, and it's likely that allocation to multifamily returns to the 30% to 40% range as the year goes on.

Allocation to Multifamily

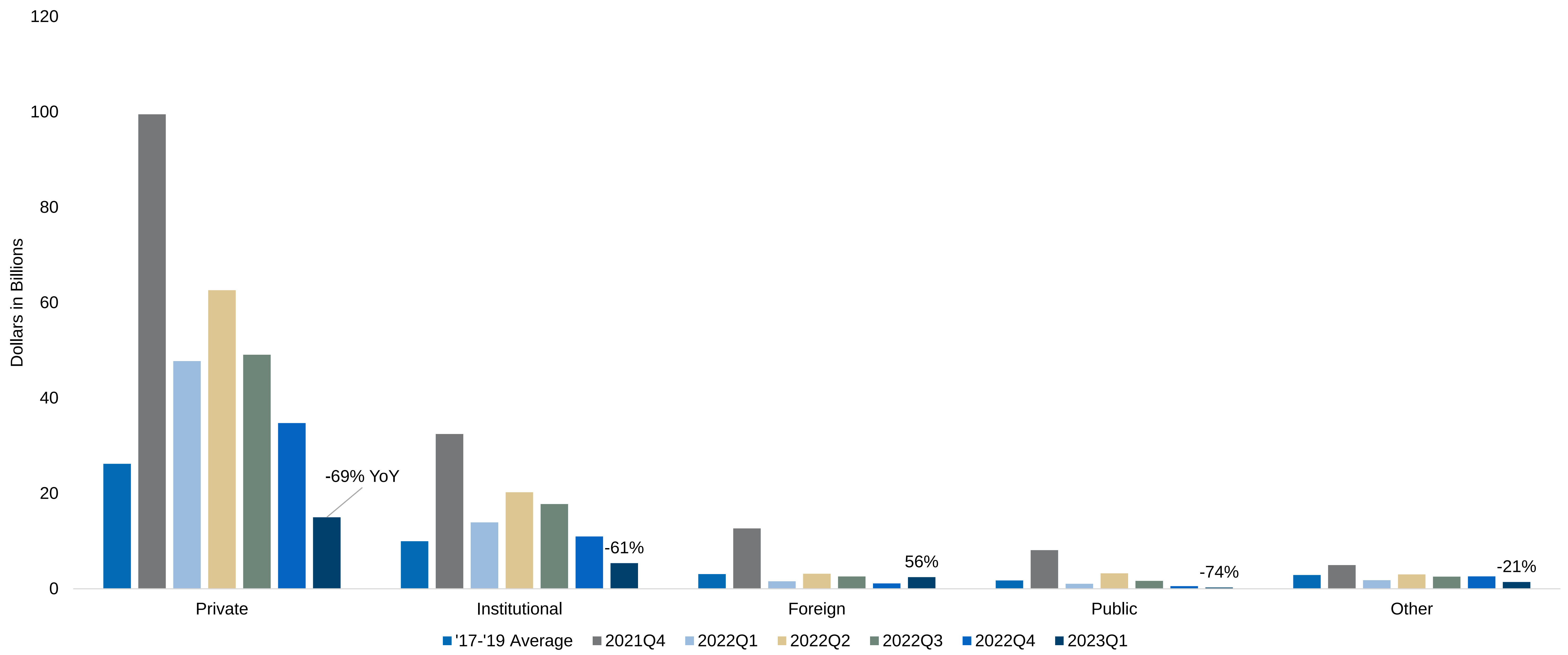


Source: Newmark Research, MSCI Real Capital Analytics

Acquisitions Down Sharply across Investor Groups

On both a year-over-year and quarter-over-quarter basis, foreign investors were the only group that saw increased investment into multifamily product.

Multifamily Acquisitions Volume by Capital Group

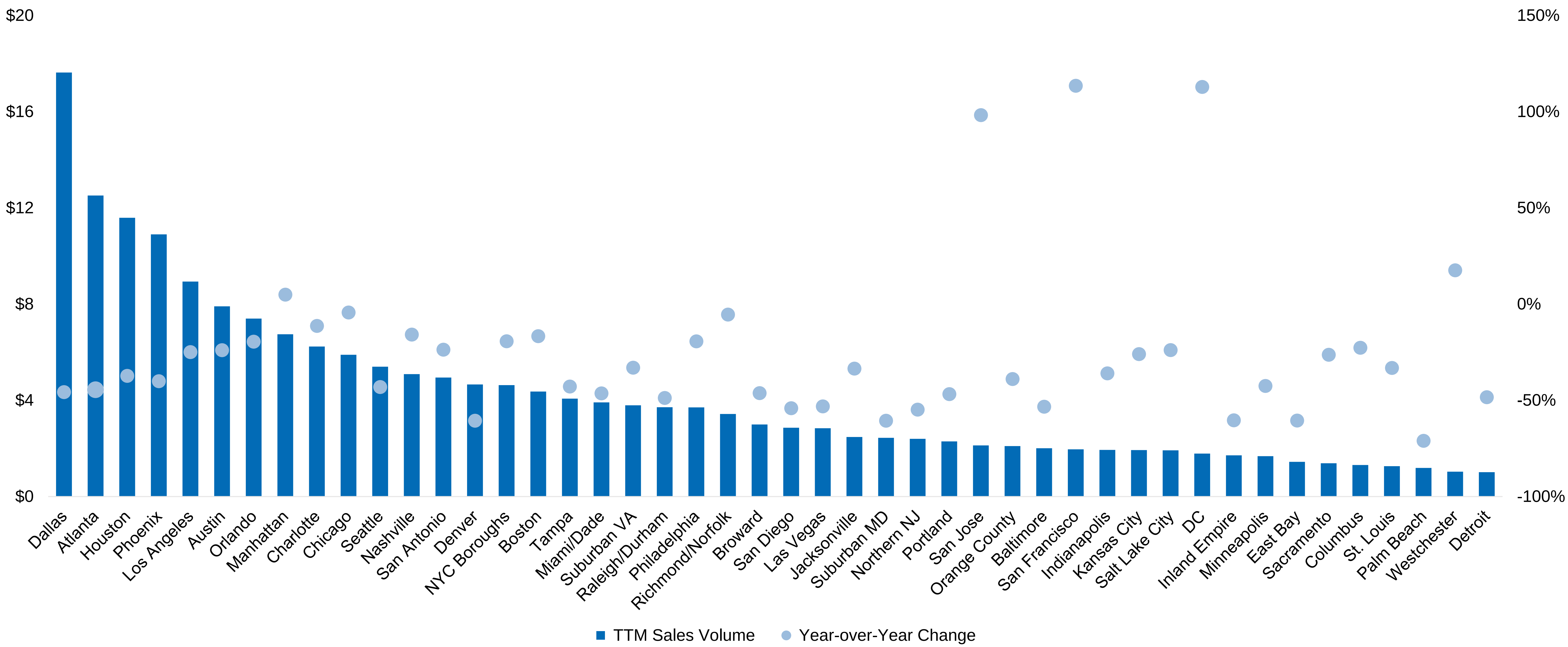


Source: RCA, Newmark Research as of 5/3/2023

Investors Continue to Target Southeast and Southwest Regions

The Sunbelt region continues to remain the preferred destination for new capital, accounting for 57.1% of volume over the trailing 12 months, led by Dallas, Atlanta and Houston. Coastal markets, which were slower to recover from COVID, have experienced the largest year-over-year growth, led by San Francisco, San Jose, Manhattan and nearby Westchester.

Dollars in Billions, Select Markets

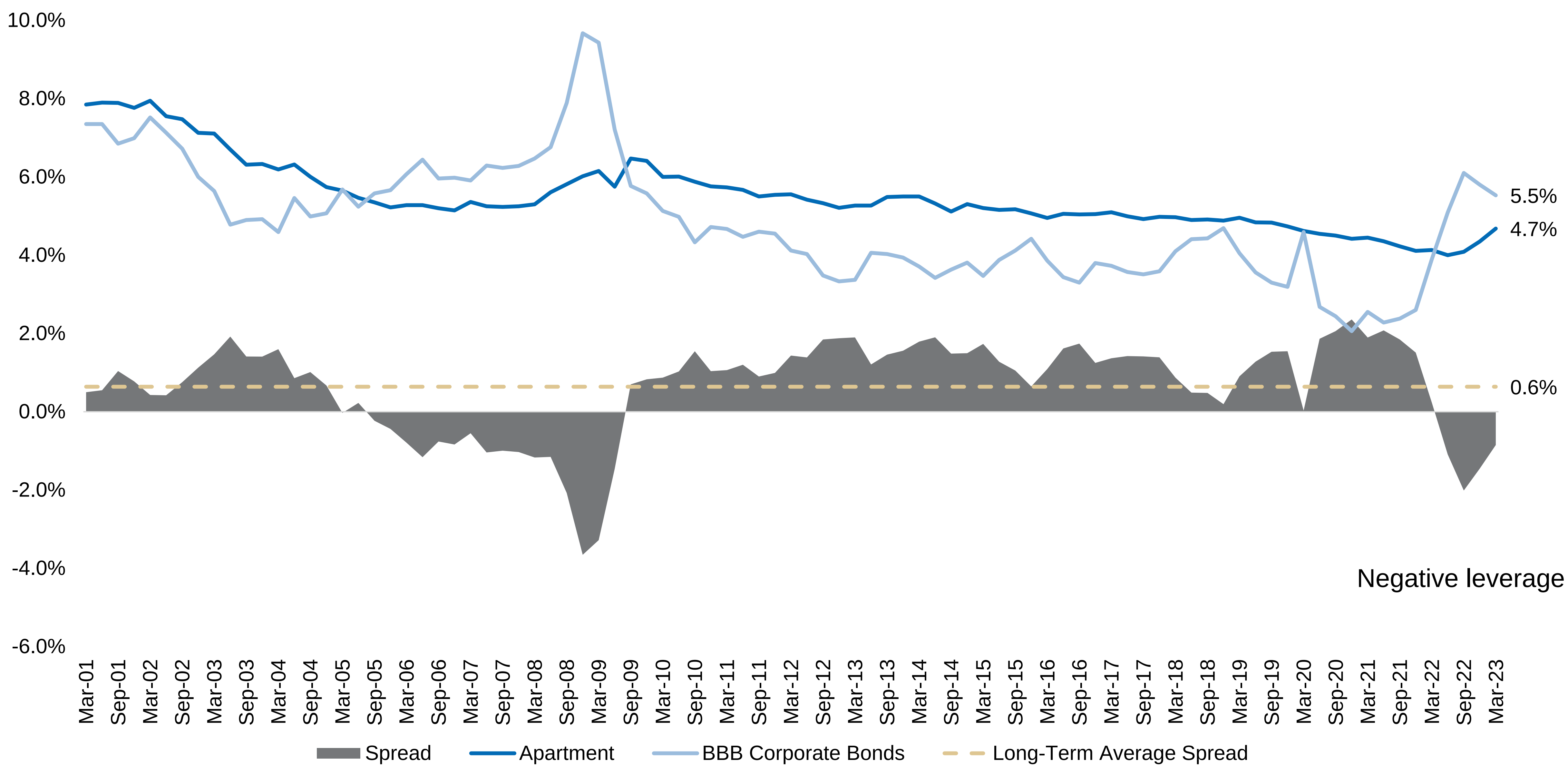


Source: Newmark Research, MSCI Real Capital Analytics

Rising Cost of Debt Placing Pressure on Cap Rates

Multifamily transaction cap rates saw significant movement in the first quarter of 2023, increasing 40 basis points from the prior quarter. The cost of debt continues to place upward pressure on cap rates as the sector remains in negative leverage. The gap is narrowing, however, both as apartment cap rates rise and the cost of debt has fallen. The market is still far from equilibrium. The long-term average spread is 0.6%, and it is negative 0.8% today. Even if equilibrium spreads have declined, there is still at least another 100 bps of adjustment to come.

Top Quartile Transaction Cap Rate*

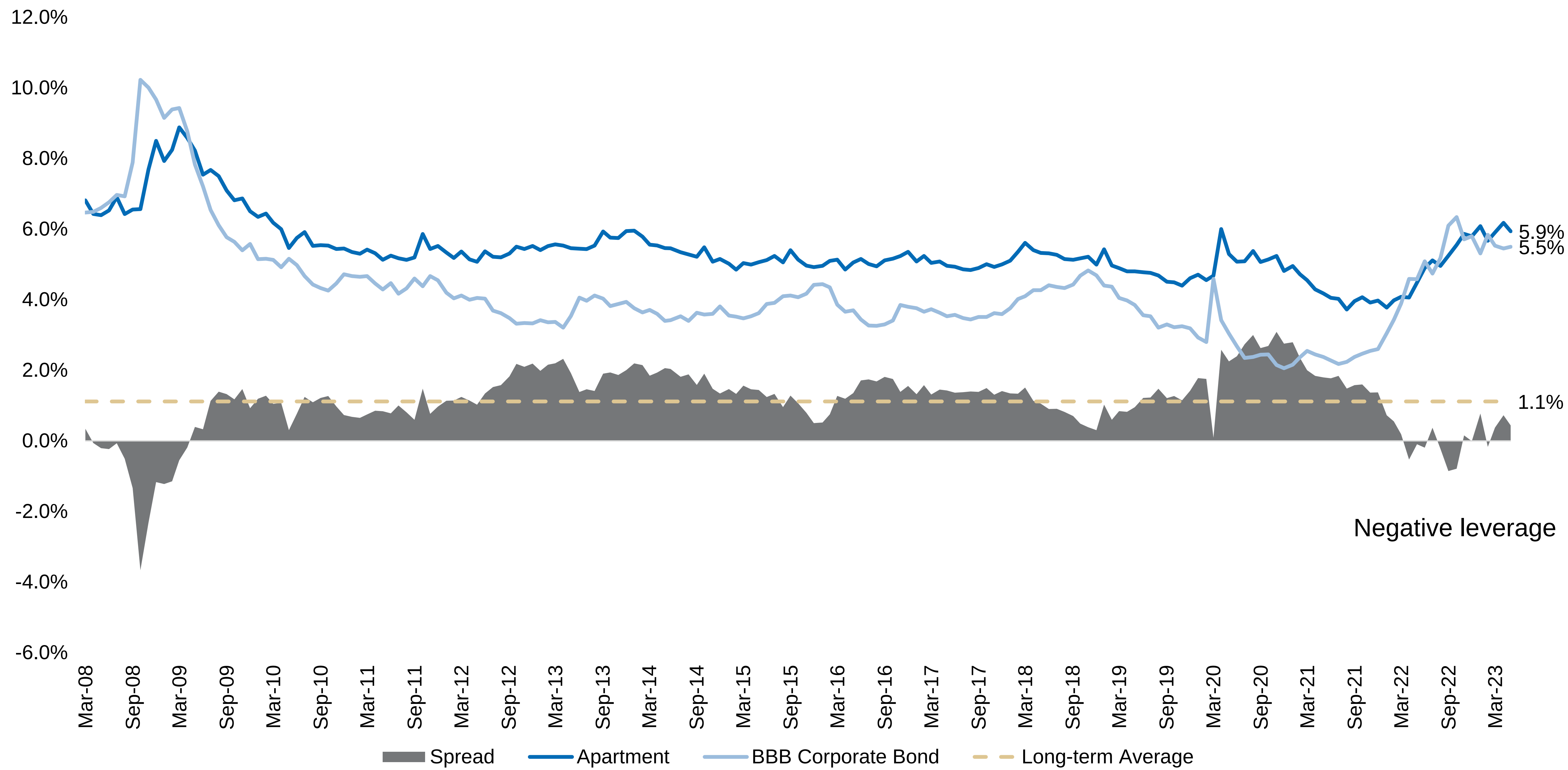


Source: Real Capital Analytics, Federal Reserve Bank of St. Louis, Moody's as of 5/16/2023
*Quarterly

Public Markets Responded Earlier but Yields Have Recently Been Range-Bound

While transaction cap rates have only begun rising in the last two quarters, REIT-implied cap rates responded quickly to rising Treasury and corporate bond yields. REIT-implied cap rates peaked, along with corporate bond yields, in October and have been range-bound since that time. Spreads are now positive, but still offering significantly less risk premium compared to history. This is increasingly untenable as NOI growth rates normalize.

REIT-Implied Nominal Cap Rate

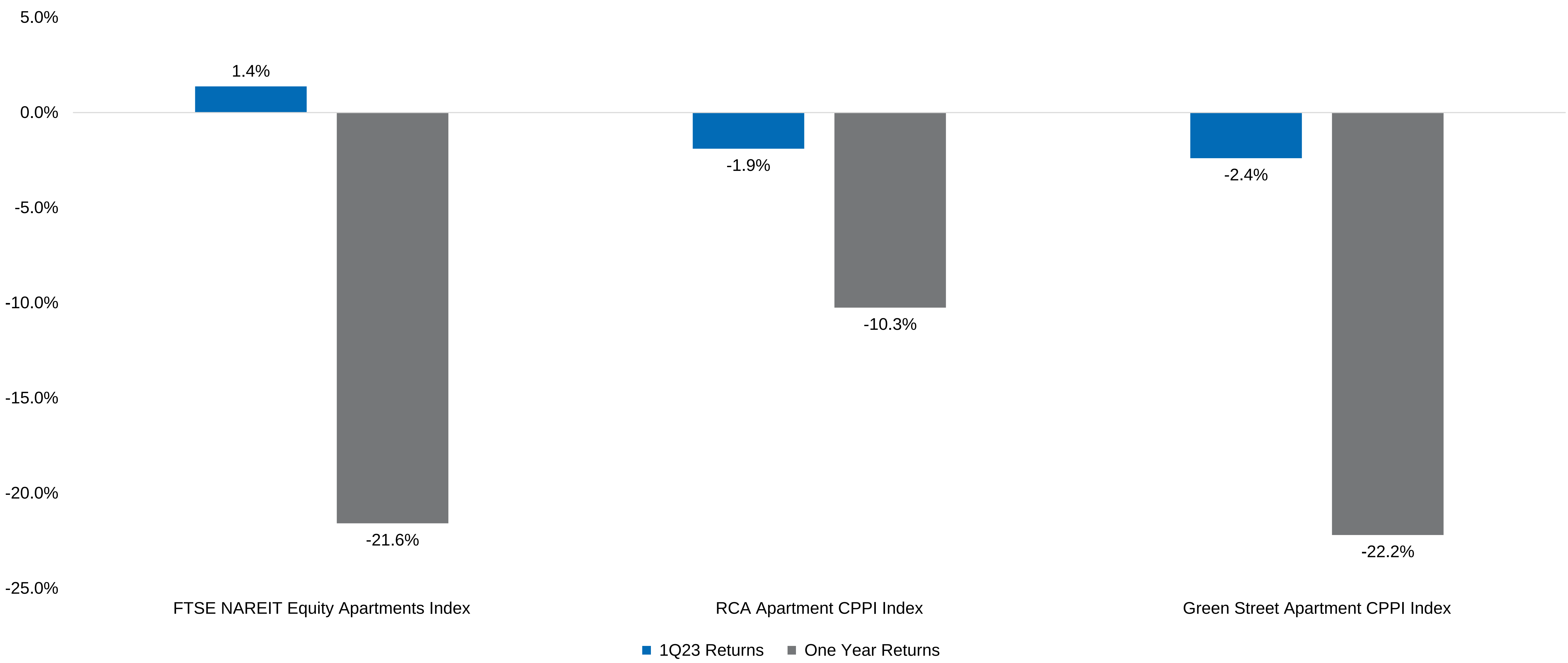


Source: Green Street, FRED, Moody's, Newmark Research as of 5/16/2023

Private and Public Returns Converge; Battered-Down REITs Turn Positive in 1Q23

While REITs were down 21.6% over the trailing 12 months, returns turned positive in the first quarter of 2023; meanwhile, private real estate contracted in the first quarter of 2023.

Public and Private Market Returns

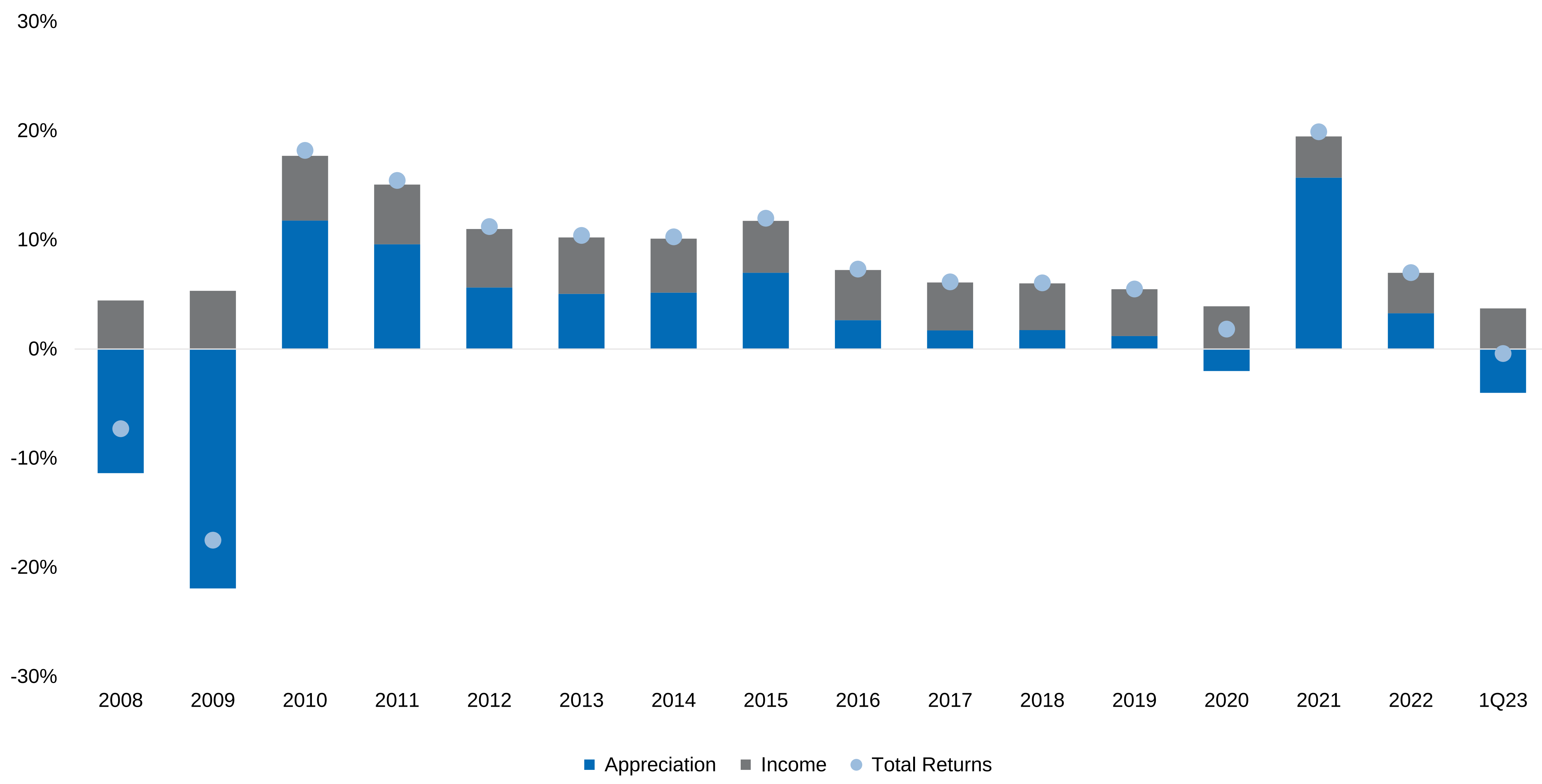


Source: Newmark Research, Green Street Advisors, MSCI Real Capital Analytics, NAREIT

Multifamily Returns Turn Negative in 1Q23, Income Remains Consistent

Although total returns fell to -0.4% in the first quarter of 2023 annualized, income growth remains durable as much of the slowdown in returns came from declining appreciation. Multifamily could potentially be a bright spot in the near term as the sector outperformed in 2010 to 2012, following the Global Financial Crisis and again, 2021, following COVID.

US Multifamily Annualized Total Returns

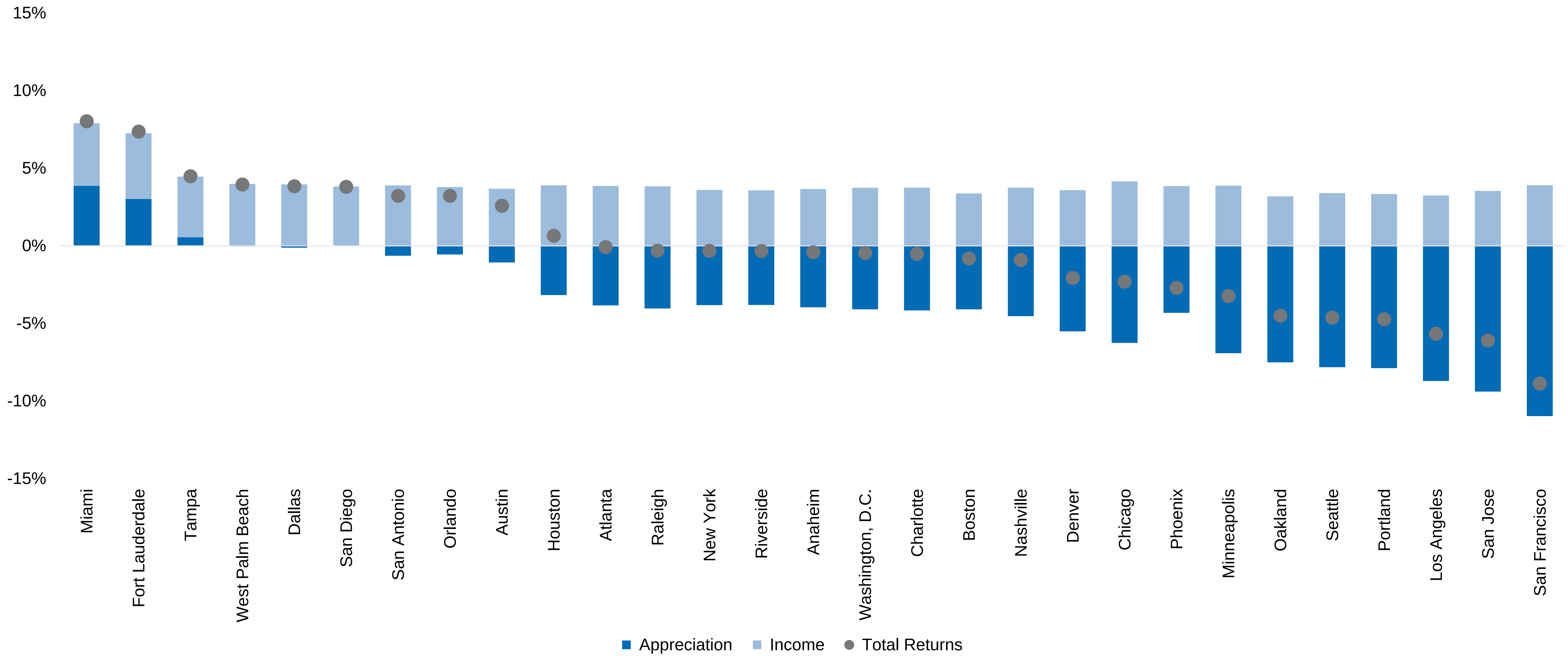


Source: Newmark Research, NCREIF

Florida Leads Top Markets for Total Returns; Major West Coast Markets Underperform

Markets located in Florida saw the highest annualized total returns over the trailing 12 months, led by Miami, Fort Lauderdale, Tampa and West Palm Beach. Major Markets on the West Coast, like San Francisco, San Jose and Los Angeles, continue to struggle with sharply negative appreciation returns.

NCREIF Annualized Total Returns by Market

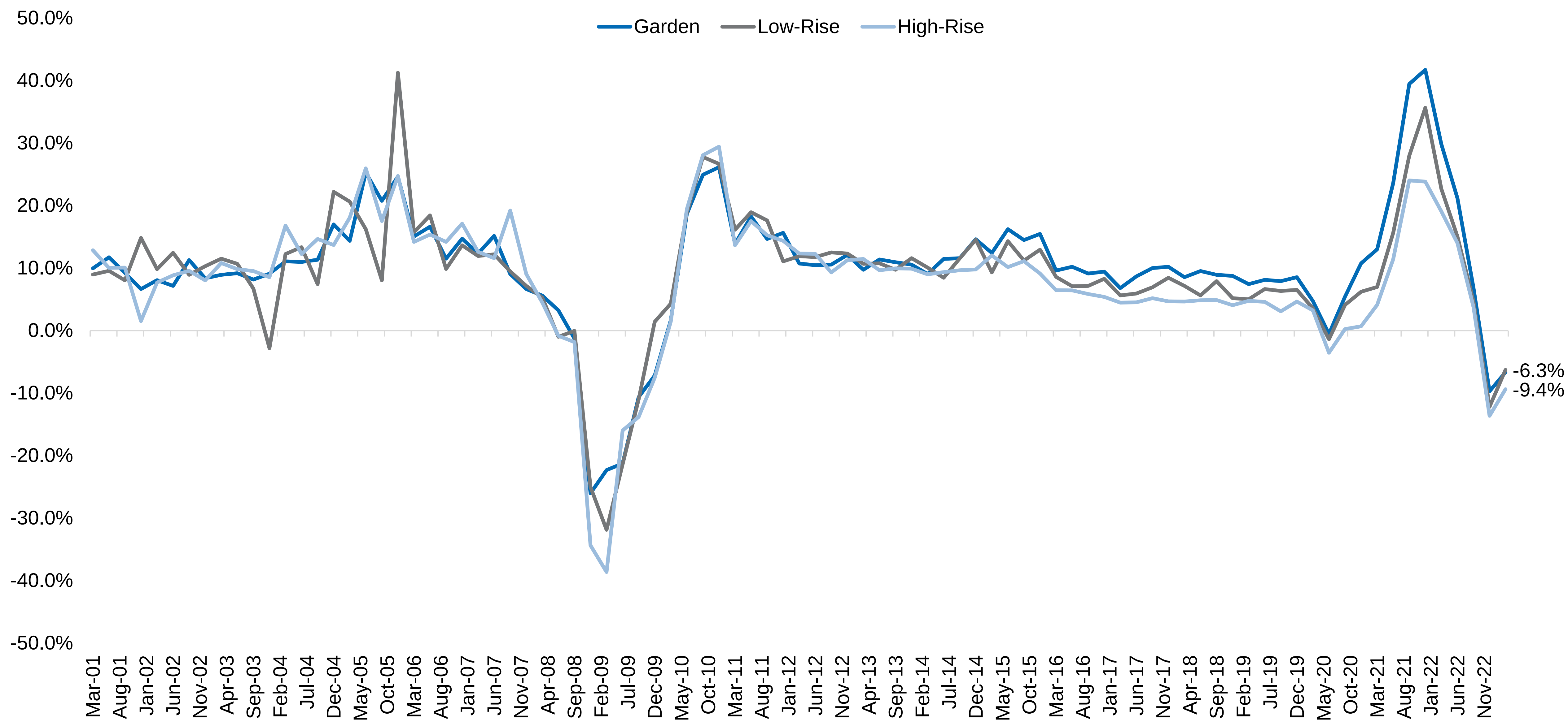


Source: Newmark Research, NCREIF

Negative Returns Persisted across Property Subtypes in 1Q23

While the deceleration in returns has been dramatic, returns are nowhere near as negative as they were during the Global Financial Crisis. Additionally, returns, while still negative, improved compared with the previous four quarters. Garden properties continue to outperform high-rise properties.

NCREIF National Property Index Quarterly Total Return (Percent Annualized)



Source: NCREIF, Newmark Research

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