

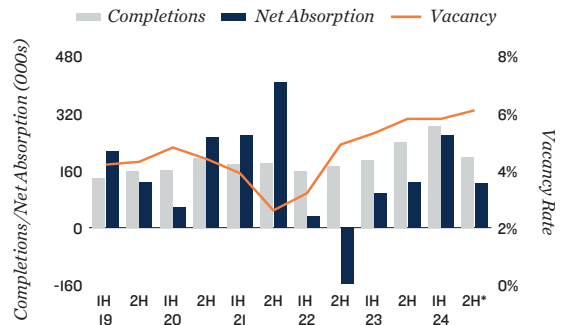
Expansionary Renter Pool Limiting Vacancy Impact From Record Inflow of New Apartments

Supply and demand realignment provides stability. The net absorption of nearly 260,000 apartments across the opening two quarters of this year exceeded the prior 12-month total by almost 35,000 units. Surging demand, stimulated by rising household creation as inflationary pressures cooled, held national vacancy at 5.8 percent entering the second half of 2024, unchanged from the start of this year. Strength was spread across the quality spectrum from April to June 2024, with all three apartment tiers notching 10-basis-point vacancy reductions quarter over quarter. Still, the overall midyear rate stayed 40 basis points above the long-term second-quarter average, as historic construction is counterbalancing robust demand. Supply pressure is expected to remain a near-term headwind for vacancy, with roughly 1 million units underway nationwide as of July. Development has likely peaked, however, as multifamily project starts fell by more than 18 percent year over year during that month, while permits decreased by 15 percent.

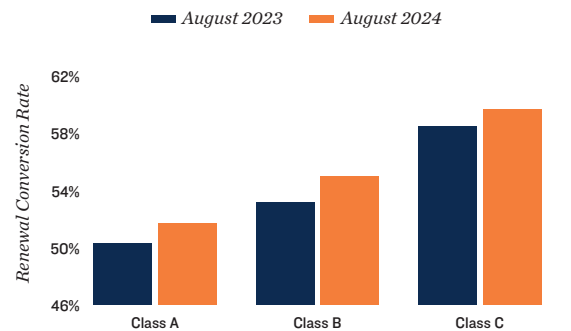
Renewals drive rent growth as concessions stymie gains. Upward vacancy pressure has increased the prevalence of discounts as operators face greater competition to fill units. The share of apartments offering concessions reached 14.1 percent in August 2024, rising by more than 500 basis points year over year. That metric has leveled out among Class A properties, however, after peaking in March 2024. In more recent months, Class B and C apartments are driving the swell as discounts at luxury-tier rentals erode the relative cost savings of lower-quality units. This trend is hindering overall rent growth, but stronger renewal velocity is helping to reinforce gains. The renewal conversion rate hit 54.9 percent in August 2024, increasing by 150 basis points year over year. That momentum supported a 4.0 percent annual rent lift among lease extensions, compared with a 0.8 percent drop for new tenants. Renters are staying put in the midst of unrelenting barriers to becoming a first-time homeowner as well as a softening labor market.

Despite easing mortgage rates, high home prices curb affordability. The share of U.S. households that can qualify for a median-priced home loan from Freddie Mac fell to just 26 percent in the second quarter of 2024, compared with a trailing-decade average of roughly 46 percent. That compression correlates with the existing single-family home price reaching an all-time high median of \$412,400 in July, elevating by more than 50 percent in five years. While mortgage rates have started to come down, record-high prices are offsetting relief for potential homebuyers. Those barriers are not set to recede in the near term due in part to extremely limited inventory, with listings in July 2024 almost cutting the two-decade average in half. As a result, owners with lower rate mortgages have little incentive to sell, which could sustain this dynamic and continue to support the cost-saving benefits of apartments, driving net absorption along with renewal activity.

Net Absorption Spike Helps Stabilize Vacancy



Lease Renewals Rise Across Quality Spectrum



Rent Growth Buoyed by Renewal Leases

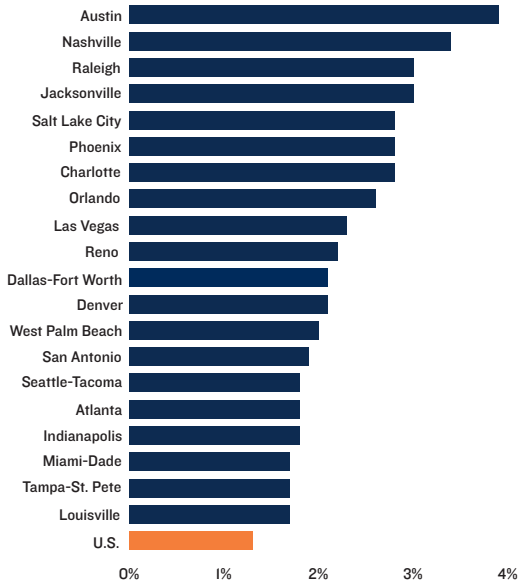


* Forecast

** Through August

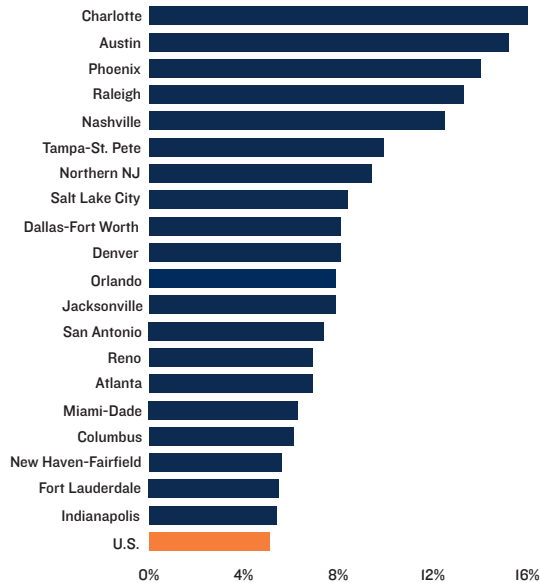
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Freddie Mac; Moody's Analytics; National Association of Realtors; RealPage, Inc.; U.S. Bureau of Labor Statistics; U.S. Census Bureau

Sun Belt Metros Remain Appealing to Renters



Net Absorption as Percent of Inventory (1H 2024)

Supply Pipeline is Large but Aligned with Demand



Units Underway as Percent of Inventory*

Massive Construction Pipeline Mostly Confined Within a Handful of Fast-Growing Markets

DEMAND TRENDS

- About half of the 50 major U.S. markets recorded vacancy reductions between the end of last year and the midpoint of 2024. Declines of at least 30 basis points spanned several geographic regions but were most prevalent along the western portion of the country. Las Vegas led the nation with a 90-basis-point decrease, while Oakland, Portland, Sacramento, Salt Lake City and San Jose all had dips ranging from 30 to 40 basis points. Elsewhere, a pair of midwestern markets — Indianapolis and Louisville — noted 30-plus basis-point contractions. Fort Lauderdale was the only major Florida market to achieve that.
- More than 15 major U.S. markets logged modest 10- to 20-basis-point vacancy drops during the first half of 2024. Dominated by gateway and midwestern metros, this group included some of the nation’s largest population hubs like Chicago, Miami, New York City, San Francisco, Seattle-Tacoma and Washington, D.C., as well as a range of smaller markets. Within the midwest, Cincinnati, Columbus, Detroit and Milwaukee registered mild vacancy pullbacks; as did Nashville, Orlando, Phoenix and West Palm Beach in the Sun Belt.

- Fewer than 20 major U.S. markets had rising vacancy from January to June 2024, and none exceeded a 30-basis-point climb. Most of these areas are facing supply pressure. Annual stock growth above 3 percent created mild vacancy lifts in: Atlanta, Austin, Charlotte, Dallas-Fort Worth, Denver, Houston, Jacksonville, Minneapolis-St. Paul, Raleigh, San Antonio and Tampa-St. Petersburg.

SUPPLY TRENDS

- As of July 2024, approximately 1 million units were underway nationwide. Although this volume is historically large, only 12 major U.S. markets account for about half of that total. Dallas-Fort Worth leads the country with nearly 77,000 apartments under construction, while New York City and Phoenix also have more than 50,000 rentals in progress. Rounding out the top five, Austin and Northern New Jersey each have over 42,000 units underway as well. The remainder of that list includes Atlanta, Charlotte, Denver, Houston, Raleigh, Tampa-St. Petersburg and Washington, D.C. This mass of construction poses near-term hurdles for some of these locations, but many are also among national leaders in household creation, in-migration and apartment absorption.
- While the nationally sizable supply pipeline warrants attention, several metros have a small share of apartments underway relative to existing inventory. Baltimore, Chicago, Cleveland, Detroit, Los Angeles, New York City, Oakland, Pittsburgh, San Francisco and St. Louis all had less than 2.5 percent of stock under construction as of July. This should help many of these areas maintain steadier vacancy and potentially stronger rent gains amid less competition to fill units.
- Declining permit activity should ease supply pressure over a longer horizon. Markets with the most notable annual drops as of July include Atlanta, Dallas-Fort Worth, Houston, Jacksonville, Raleigh, San Antonio and West Palm Beach — areas facing some of the greatest near-term pressure from new supply.

* As of July

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Moody’s Analytics; National Association of Realtors; National Association of Home Builders; RealPage, Inc.

2024 Forecast

EMPLOYMENT

1.3% increase Y-O-Y



- Job growth is cooling, with about 1.5 million positions created year to date through August, compared with 2.1 million in the same span of 2023. Unemployment rose 40 basis points annually to 4.2 percent in August.

CONSTRUCTION

480,000 units completed



- The record-setting completion total in 2024 expands inventory by 2.4 percent and brings the two-year volume to about 910,000 units. During the prior decade, roughly 300,000 apartments finalized per annum.

VACANCY

30 basis point increase Y-O-Y



- Supply pressure pushes vacancy to a 13-year high of 6.1 percent despite the second-strongest net absorption on record. While the rate continues to rise, the margin tapers after last year's 90-basis-point hike.

EFFECTIVE RENT

1.2% increase Y-O-Y

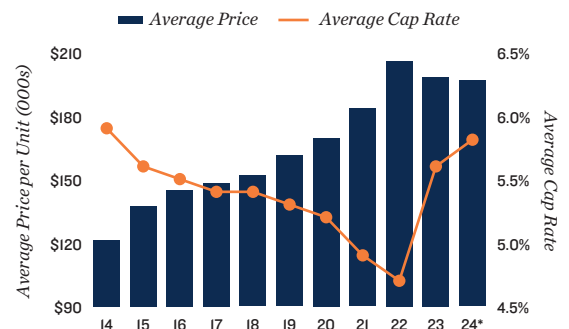


- Increased use of concessions amid supply-driven competition curtails rent growth. Stronger gains among renewal leases, however, help elevate the national average effective rate to \$1,829 per month.

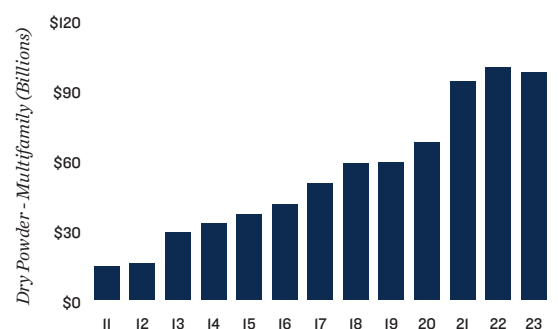
2024 INVESTMENT OUTLOOK

- **Deal flow is heating back up.** Based on preliminary data, national trading activity from July to August 2024 was trending upward relative to the prior three quarters. That momentum should persist as lower debt costs and higher cap rates re-open the yield spread, allowing more deals to pencil. The average multifamily cap rate for trades completed from July 2023 to June 2024 rose to 5.8 percent, increasing by 110 basis points from 2022's all-time low and representing the highest recording since 2014. Sale prices, meanwhile, are stabilizing as reduced financing uncertainty helps buyers and sellers come to terms.
- **Release of dry powder should add fuel.** Capital has been building up on the sidelines amid financing hurdles and softer fundamentals. Now, that backlog is starting to flow back into the sector amid positive trends. National vacancy held flat across the first half of 2024 after rising by 90 basis points last year, boosting sentiment. Indicators of returning institutional-level activity are emerging as well, with preliminary July-to-August 2024 data showing rising dollar volume in that segment. Further fueling investor appetite, primary markets had the most stable vacancy over the past year, especially in downtown areas.
- **Buyers wary of supply headwinds may target the midwest.** Outside of a handful of Sun Belt markets, many other locations are facing relatively mild supply pressure. Among the top 10 major U.S. metros for rent growth over the year ended in June, gains in places like Chicago, Cincinnati, Cleveland, Milwaukee, Pittsburgh and St. Louis were aided by sub-2 percent inventory expansion.

Investment Sales Trends

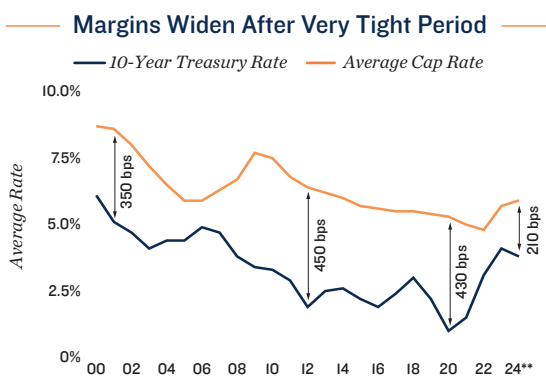
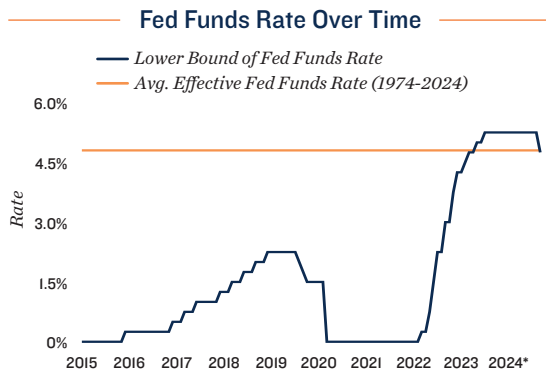


Dry Powder Has Accumulated on the Sidelines



* Through 2Q

Sources: CoStar Group, Inc.; Prequin; Real Capital Analytics; RealPage, Inc.



* Fed Funds Rate through Sept. 18

** Cap rate is a trailing 12-month average as of 2Q; Treasury rate as of Sept. 9

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

Federal Reserve Rate Cut Likely an Inflection Point for the Multifamily Investment Market

Interest rate reduction sets stage for trading momentum. After keeping the gauge unchanged for more than a year, the Federal Open Market Committee cut the overnight benchmark rate by 50 basis points in September to a lower bound of 4.75 percent. This marked the first decrease since the pandemic-era tightening in 2020, representing a substantial change in the Fed's stance. A cooling economy and slowing inflation warranted the shift in policy to remain on course for a soft landing. Average monthly job growth year to date through August 2024 measured at about 184,000 new roles, compared with 266,000 created positions during the same span in 2023. This hiring moderation elevated unemployment by 40 basis points year over year to 4.2 percent in August, still well below the two-decade mean of 5.8 percent but a notable increase from the 3.6 percent average spanning 2022 and 2023. Core PCE inflation — the Fed's preferred metric — fell by 160 basis points annually to 2.6 percent in July 2024, higher than the 2.0 percent target but trending in the right direction. The softer economic outlook, meanwhile, contributed to the 10-year Treasury rate falling to its lowest level since June 2023 as of the first week of September 2024. This is reducing the cost of debt and re-opening the yield spread relative to cap rates — a gap that had become very tight in recent years and presented a substantial challenge for deal-making. Reduced headwinds to penciling trades, along with steadier apartment performance in recent quarters, could create an inflection point for the investment market.

Multifamily lending environment poised to loosen. Financing hurdles have been particularly notable in the sector since the Fed started aggressively hiking interest rates in mid-2022. The spread between the 10-year Treasury and the average multifamily cap rate had narrowed to a 16-year low of 160 basis points in 2023, but that gap had already re-opened to 210 basis points by mid-2024, before more recent downward pressure on borrowing rates. This ongoing widening should help fuel greater lender appetite as more deals pencil. Freddie Mac and Fannie Mae continue to be active financiers in the sector, as they offer the most efficient and available debt. At the same time, agencies still prioritize borrowers with previous experience and have become cautious when providing capital to owners that lack multifamily exposure. LTVs in the 55 percent to 65 percent range and debt service coverage ratios of 1.25 are common. While life insurance companies — especially those managed by debt funds — heightened activity earlier this year amid volatility, lower interest rates are now steering borrowers to other capital sources, including CMBS, banks and credit unions. Additionally, some lenders have been pulling away from heavily syndicated equity structures, resulting in a steady decrease in that type of financing.

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