



Cautious optimism at the outset of **2023**

**NATIONAL
MULTIFAMILY OUTLOOK**

SPECIAL REPORT

COMMERCIAL REAL ESTATE

Debt & Equity | Investment Sales | Loan Servicing | Fund Management

INTRODUCTION

How will the market perform within a softening economic environment?

THE NATIONAL MULTIFAMILY market reached an inflection point in the second half of 2022. After several consecutive years of strong but steady performance, there was a surge in renter demand that fueled some of the most rapid rent growth in generations in 2021 and during the first half of last year. Those trends largely reversed course in recent quarters, setting the stage for greater uncertainty—but also new opportunities—in 2023.

The uncertainty surrounding the outlook for the multifamily market in the year ahead stems from both sides of the supply-demand equation. On the supply side, developers are

expected to be particularly active in 2023, with deliveries forecast to spike nearly 20 percent from levels recorded in 2022.

The rise in new development will come at a time when economic growth is likely to slow. Many economists are warning of a recession, although the market has not reached a consensus outlook. These forecasts are being fueled by restrictive action by the Federal Reserve, a yield curve that has been inverted since July of last year, and persistently high levels of inflation that are dragging on consumer confidence and household savings.

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The uncertainty surrounding the outlook for the multifamily market in the year ahead stems from both sides of the supply-demand equation.

Operators and investors are conscious of the economic backdrop as they formulate strategies for how to proceed in the current market cycle. In the near term, there will likely be a greater use of concessions to attract and retain tenants in an increasingly competitive leasing environment. Renters will have choices when evaluating whether to renew leases or move to a competing property.

Investors have already begun to underwrite potential acquisitions more conservatively. Cap rates have trended higher, but there is likely more upward movement to come in 2023. Loan originations volumes have slowed and will likely lag year-earlier levels throughout the coming months.

Against this backdrop, it would be easy to take a pessimistic view of present and future market conditions. While acknowledging the current stresses in the market, this forecast calls for more measured performance in the multifamily market in 2023, with operating conditions unlikely to stray too far outside of historical averages.

In this special report, we will identify a handful of key trends that will underpin the performance of the multifamily market in 2023. The outlook for the sector is cautiously optimistic, but we are forecasting some softening in operating metrics, highlighted by rising vacancy rates. Further, some of the regions that were among the top performers in recent years, will likely face more significant challenges in 2023.

THE ECONOMY

**Flat economy
more likely
than a recession.**

A healthy labor market is the primary reason consumers continue to fuel the economy.

WHILE THE U.S. ECONOMY began 2023 with an overhang of uncertainty, the reality is that current conditions are mixed but generally showing signs of fairly good health. After modest GDP declines in the first half of 2022 prompted some to forecast the economy was going into recession, conditions recovered in the second half of the year, supported by persistent strength in consumer spending. A healthy labor market is the primary reason consumers continue to fuel growth. The economy is essentially at full employment, and jobs are still perceived as easy to get.

The biggest threats in the economy are connected: the elevated levels of inflation and the Federal Reserve's efforts to cool growth—and inflation—through interest rate increases. The Fed raised rates seven times in 2022, including four consecutive 75-basis-point spikes in the period from June through November. The elevated costs of capital have slowed transaction activity—particularly in the single-family housing market—and the rate of inflation has begun to tick lower.

Economic growth uneven, consumer remains active

Sources: Northmarq, Bureau of Economic Advisors



- GDP
- Personal consumption

GDP

Minimal growth forecast for 2023.

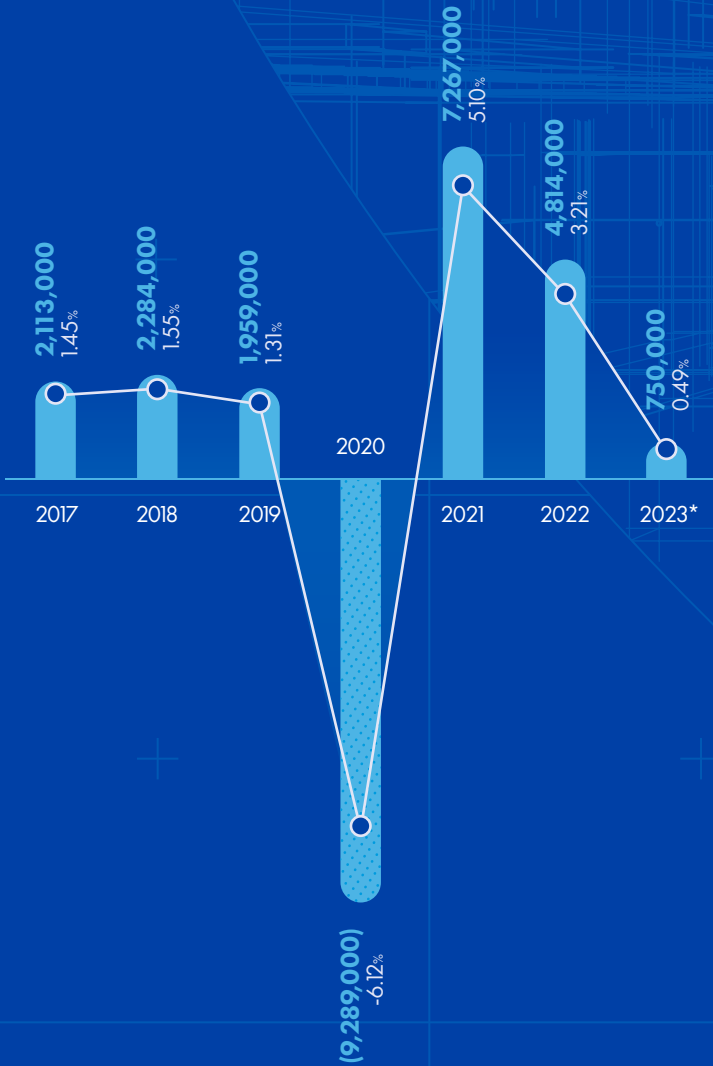
The national economy has largely settled into a period of modest expansion after declines in 2020 and a rebound in 2021. Two consecutive negative readings in the first two quarters startled markets, signaling the potential threat of recession. These readings proved to be largely related to supply-chain disruptions and flows of imports and exports more than any significant declines in productivity or consumer demand.

Economic conditions produced more stable paces of growth in the second half of the year. Gains in the third quarter were revised higher twice, ultimately reaching an annualized pace of growth of 3.2 percent. The fourth quarter produced a

growth rate totaling 2.9 percent, reflecting an economy that continued to expand at a healthy pace in the second half. For the full year, GDP growth in 2022 of 2.1 percent was only marginally slower than the pace in 2019 when the annual pace of growth checked in at 2.3 percent.

Looking ahead, most current forecasts call for GDP expansion of about 1 percent. The higher costs of capital are expected to restrict demand, and businesses are showing signs of increased caution. These two factors should drag on growth, although as China moves toward a more broad-based reopening, this could increase the pace of global growth and spur some additional domestic activity.

With businesses acting cautiously, job growth to slow.



The employment market has recovered, with more than 4.8 million jobs added last year. After topping pre-pandemic levels during the third quarter, total domestic employment is up by more than 2.7 million jobs from early 2020 totals. While there have been some very high-profile layoff announcements, the economy is adding workers to payrolls at a fairly steady pace.

In aggregate, employers are adding workers and generally limiting turnover. The unemployment rate has remained at 4 percent or below for more than a year, signaling essentially that nearly everyone who wants a job has one or is optimistic about obtaining one. In the beginning of this year, the rate dipped below 3.5 percent. Initial claims for unemployment insurance averaged about 225,000 per week in the fourth quarter, lower than levels from the previous quarter. Continuing claims have been under 2 million for more than a year.

Year-over-year job growth & employment change

- Jobs gained/lost
- Annual change %

*Year-end forecast

Sources: Northmarq, Bureau of Labor Statistics

Payroll gains in January of this year were unexpectedly strong, with more than 500,000 net new jobs added.

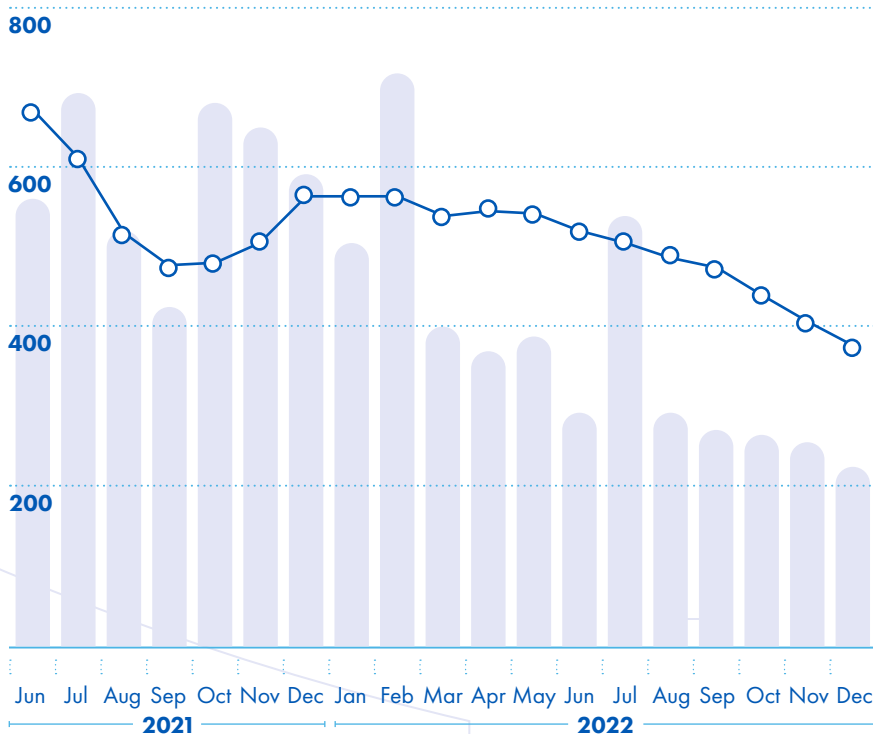
While job seekers have had the advantage during the past several quarters, national labor market conditions will likely be more balanced in the year ahead. Businesses are seemingly hiring more cautiously, and the combination of fewer openings and more people looking for work will likely cool the pressure on wages.

While current employment conditions signal the overall health of the labor market, expectations are for very modest growth—or even some net losses—in the year ahead. Payroll gains in January of this year were unexpectedly strong, with more than 500,000 net new jobs added. There

are a number of reasons why this reading is expected to be an outlier and may represent a high-water mark for the economy in 2023.

New business formation will likely cool in a period of modest economic growth and tighter lending. Several large national and global employers have announced plans to shrink workforces in recent months. Employment growth will likely total between 750,000 and 1 million net new jobs, or approximately 0.5 percent. It is likely that the market will post a handful of months where net losses are recorded, and monthly gains will likely be about half of the levels during previous expansion cycles.

New business formation will likely cool in a period of modest economic growth and tighter lending.



Employment growth still positive, but slowing (thousands)

● Monthly job growth
○ Rolling 12-month average

* Year-end forecast
Sources: Northmarq, Bureau of Labor Statistics

Inflation lingering, *but for how long?*

One factor in the economy dominated all others in 2022: the steep upward climb in prices. Rates of inflation started the year at about 7.5 percent, peaked at more than 9 percent in June and ended 2022 at a still stubbornly high 6.5 percent.

Prices have risen for nearly every item in the basket of goods, highlighted by double-digit rates of increases for food and energy. Costs for real estate also contributed to overall inflation, with rising rents making up a significant share of the rise in core CPI.

While inflation has been trending lower since the middle of last year, the rate remains well above the Fed's target of 2 percent. It is unlikely the rate will even approach that level in 2023, suggesting that the year ahead will be a challenging one for consumers and for businesses.

The pace of annual inflation has been elevated since April 2021, averaging 7 percent in that time. These accumulated price increases

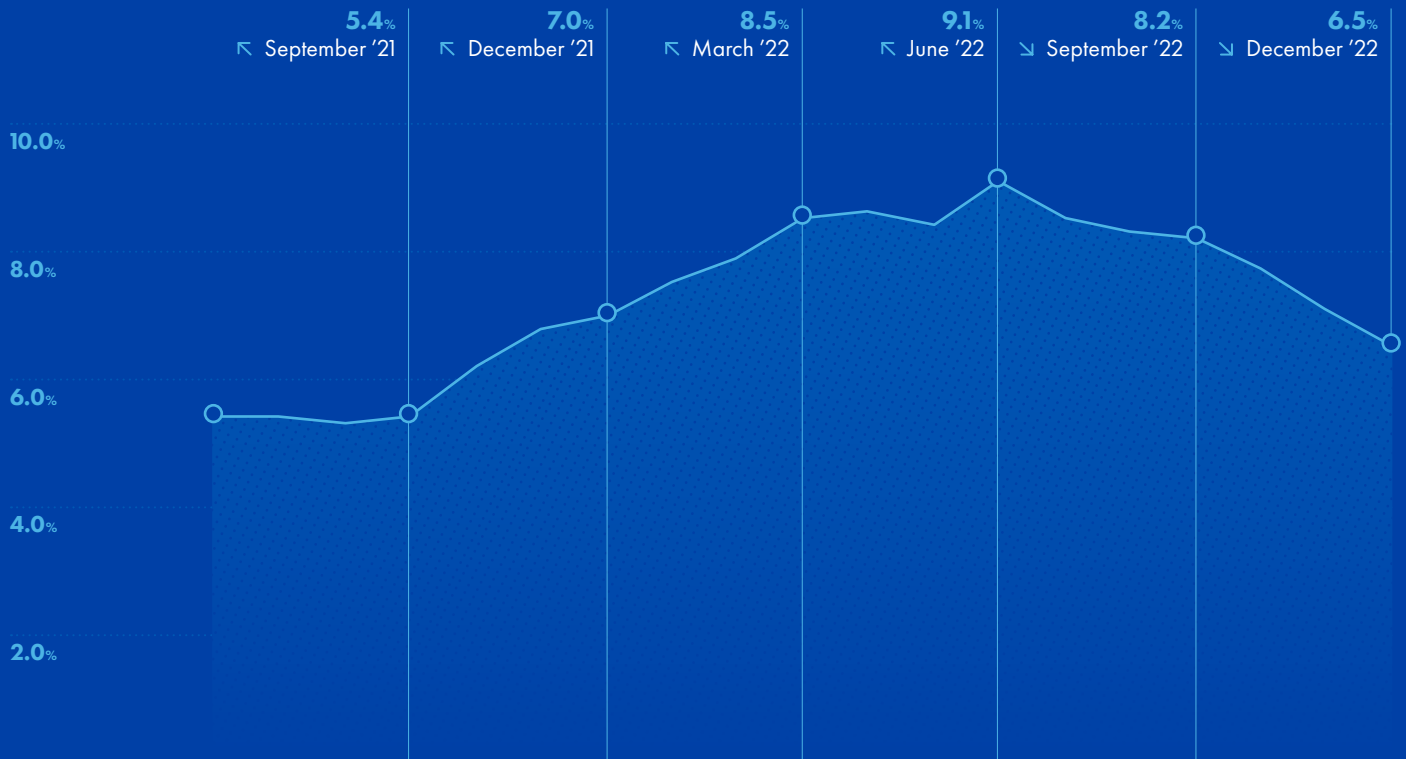
will continue to weigh on renters, who will likely see the pace of wage increases slow as businesses hire fewer workers.

A more granular review of the inflation data shows several signs of easing price pressures that should carry over into 2023. Specifically, inflation trends surrounding fuel, food, and housing will have a significant impact on overall price pressures, and on the corresponding moves made by the Federal Reserve in the coming quarters.

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Gasoline prices began trending lower in the second half of 2022, falling in five of the final six months of the year. Fuel costs actually ended 2022 lower than they began the year, although the January 2023 reading showed some renewed upward pressure on gas prices.

Inflation has peaked,
but remains well above target
 (CPI 12-month change)



Food costs shot up in 2022, spiking by more than 10 percent year over year through the December reading. There were some signs of easing pressures in the final few months of 2022 and at the outset of 2023. After posting increases of nearly 1 percent per month in the second quarter and third quarter, the pace of food inflation eased late in 2022. Since November, monthly increases for food costs averaged between 0.3 percent and 0.5 percent.

The final component of inflation that is worth monitoring is housing costs. The CPI measurement for shelter includes both owners' equivalent rent and rent of primary residence, and these data points

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generally lag the current trends in the for-sale and for-rent housing markets by a quarter or two. With rents leveling off and home prices declining, the housing element in the CPI measurement should drop as well throughout 2023, bringing down the overall rate of inflation.

Sources: Northmarq, Bureau of Labor Statistics

SUPPLY AND DEMAND

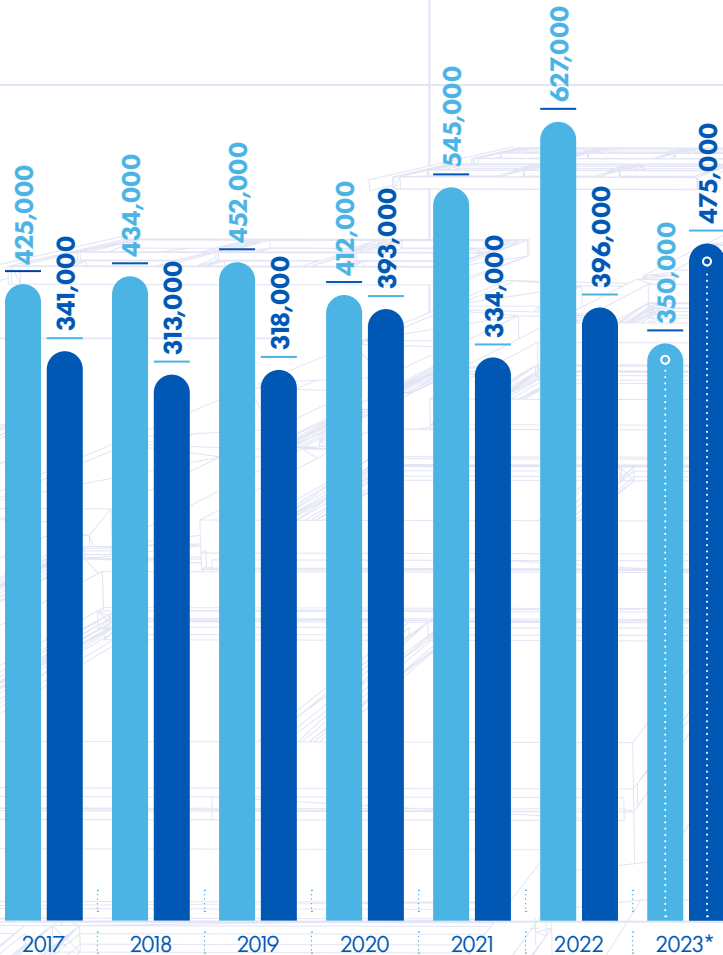
New additions to supply to outpace absorption.

SUPPLY-DEMAND CONDITIONS reversed course during the second half of 2022, with absorption lagging previous periods while developers remained active, adding new projects to the multifamily inventory. Development occurred throughout much of the country, with activity concentrated in several high-growth markets where vacancy rates had reached or approached all-time lows just a few quarters earlier.

The conditions that prevailed during the second half of last year should linger throughout much of the coming year as well. Developers are forecast to complete approximately 475,000 units in 2023, up nearly 20 percent from 2022 levels.

While the pace of supply growth in 2023 is largely predetermined by projects that are currently under way, absorption levels will present the greatest uncertainty in the multifamily market. By traditional measures of employment growth to renter demand for apartments, net absorption in 2023 should total approximately 125,000 units.

The current forecast calls for apartment absorption to outpace the historical models and total closer to 200,000 units, similar to levels from 2022. Residential mortgage rates are expected to remain elevated throughout much of 2023, making it more difficult for current renters to transition into home ownership. This should support continued demand from existing renters, while a significant share of new households that are formed in 2023 will move into rentals.



Multifamily construction starts + completions

- Multifamily permits
- Apartment completions

* Year-end forecast
Sources: Northmarq, Census Bureau, CoStar, Reis

Vacancy to trend higher for a second consecutive year



* Year-end forecast
Sources: Northmarq, CoStar, Reis

The vacancy rate is expected to push up approximately 50 basis points in 2023.

With new supply growth likely to outpace renter demand for units, vacancy is forecast to rise for a second consecutive year. The rate is expected to push up approximately 50 basis points in 2023, ending the year at 6.1 percent.

While the average vacancy rate at the national level will trend higher, there will likely be some significant varying performance across several markets. In recent years, nearly every market has recorded a persistent tightening in local vacancy rates. Renter demand was elevated, and developers could not keep up. This trend was highlighted by a sharp increase in absorption in 2021.

In 2023, there will likely be a clearer divergence in vacancy trends between high-growth markets and more supply-constrained areas. The past year was a particularly active one for multifamily permitting and construction starts across many of the fastest-growing regions in the country. In markets throughout the Sunbelt, multifamily deliveries will likely come in significantly higher than absorption in 2023, and vacancies will push higher. These conditions are not new for operators in these markets, who will utilize past strategies to compete with new product.

In many markets where supply constraints are more significant, vacancy increases will likely be more modest in 2023. Markets such as Orange County and San Diego on the West Coast, and New York City and Northern New Jersey on the East Coast generally have structural conditions that keep vacancies in fairly tight ranges throughout economic cycles.

RENT TRENDS

Modest increases *expected, some markets likely to record slight dips.*

HOUSING COSTS are expected to remain elevated in 2023 and the overall rate of inflation is forecast to continue to put upward pressure on costs across the economy in the year ahead. These cost pressures will spill over to apartment operating expenses and to rental rates.

Asking rents are forecast to rise about 2.5 percent in 2023, following a gain of more than 5 percent in the preceding year. The pace of rent growth reached its apex in 2021,

topping 10 percent, and healthy growth continued into the first half of last year before cooling in recent quarters.

Still, with vacancy rates rising and an influx of new supply coming online, there will be a more widespread use of concessions, particularly in projects that are leasing-up more slowly than originally forecast. The use of free rent, which was greatly reduced when demand was outpacing supply, will return closer to long-term averages.

Asking rents are forecast to rise about 2.5 percent in 2023, following a gain of more than 5 percent in the preceding year.

The other noteworthy rent trend that is expected to emerge in 2023 is a slowing pace of gains in Class B and Class C properties. In recent years, these older properties had been prime acquisition targets for value-add investors. The value-add strategies made a great deal of sense at a time when housing prices were rising by 15 percent or more annually, apartment absorption was elevated, new supply growth was restricted, and vacancy rates were at cyclical lows.

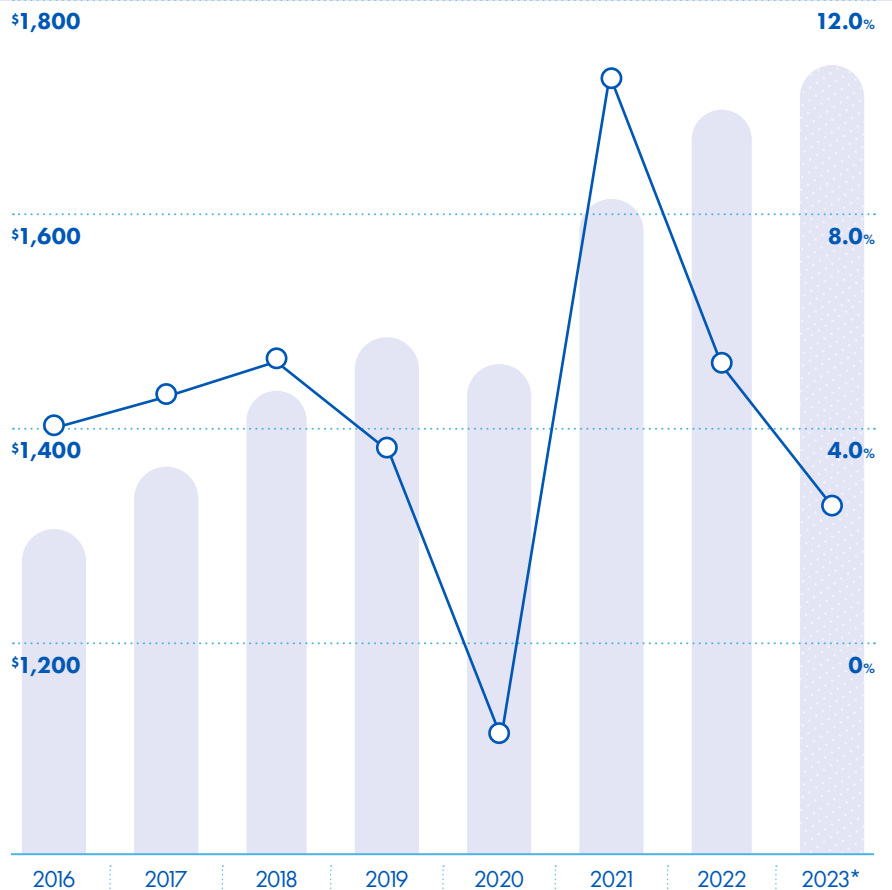
In recent years, older properties had been prime acquisition targets for value-add investors.

These same conditions are not likely to be in place in 2023, and lenders are taking a more cautious approach when underwriting value-add transactions. Looking ahead, rent growth will likely be more tied to rising costs than demand surges.

Asking rents + annual change forecast

- Asking rents
- Annual change %

**Year-end forecast*
Sources: Northmarq, CoStar, Reis



SINGLE-FAMILY BUILD-TO-RENT

Single-family rentals expected to thrive as for-sale housing cools.

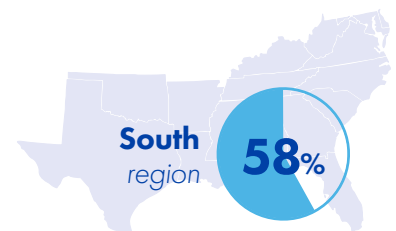
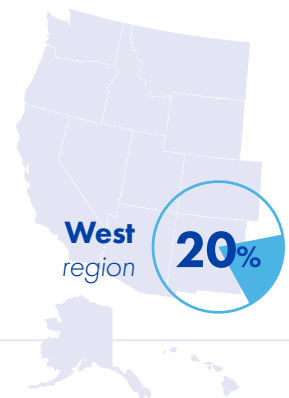
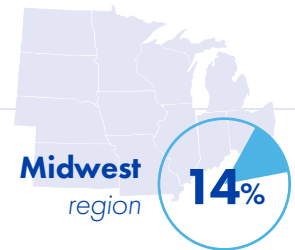
THE SINGLE-FAMILY BUILD-TO-RENT (SF BTR) market had already been on an upswing in recent years as renters got older and more affluent and sought alternatives to traditional apartments. The trend has gained additional momentum as work-from-home has boomed and renters embrace less dense, private living in suburban areas instead of crowded downtowns. The next phase in the growing popularity of SF BTR is likely to take shape beginning in 2023.

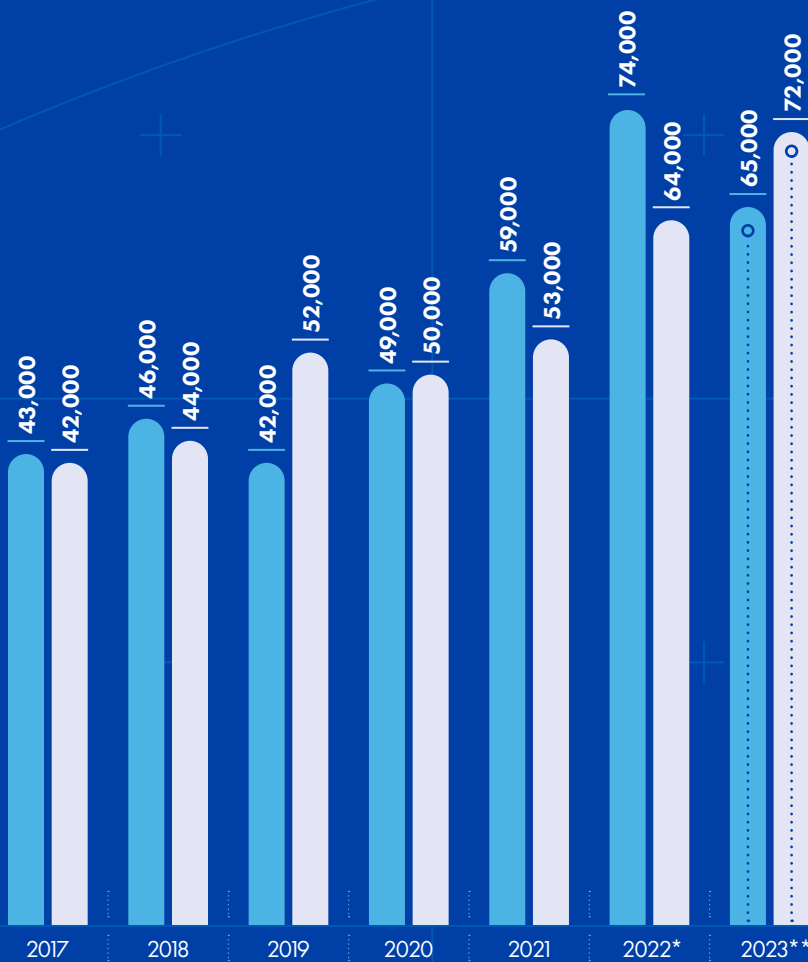
While final year-end totals for 2022 will not be released for another few weeks, construction starts for single-family rentals were on pace to top 70,000 units in 2022, up approximately 20 percent from levels in 2021. Deliveries were projected to approach 65,000 units, a 23 percent increase. As recently as 2017-2019, construction totals for this emerging product type averaged about 40,000-45,000 units per year.

The development of these projects is expected to maintain its momentum as the for-sale housing market weakens. Rises in mortgage rates have made home ownership unattainable for many would-be home buyers and renting will remain an economic necessity for many. Single-family rentals will continue to appeal to higher-income renters who prefer the privacy of single-family living to the traditional apartment option.

Construction starts by region 2022 (single-family build-to-rent)

Sources: Northmag, U.S. Census Bureau





Development pipeline
single-family build-to-rent
construction

- SF BTR starts
- SF BTR completions

* Estimate
** Forecast

Sources: Northmarq, Census Bureau, CoStar

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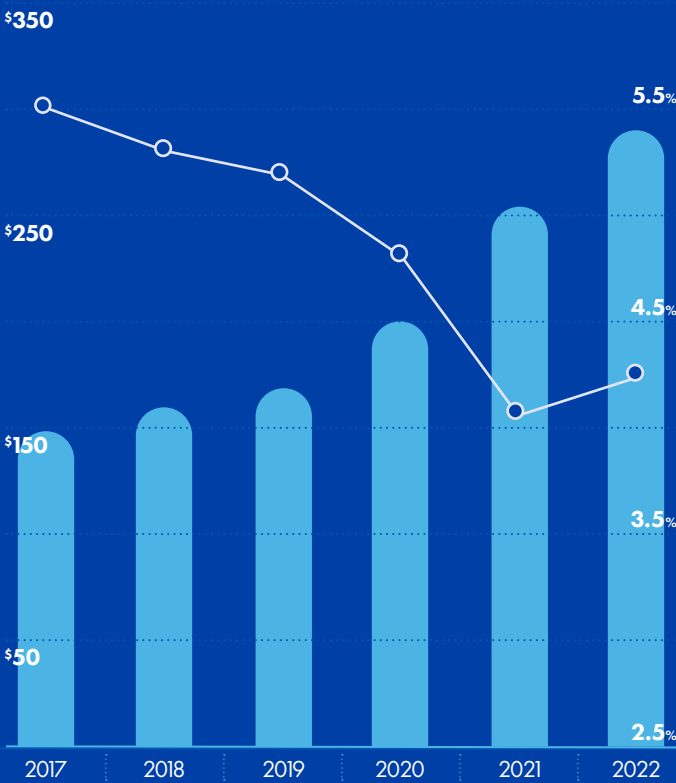
After institutions committed billions of dollars of equity in recent years to building up their inventory of single-family rental communities, the biggest impediment to new development has been a scarcity of available land sites for new projects. The weakness in the for-sale housing market should partially remove this barrier to entry in some instances as builders are expected to free up land sites for single-family rental construction.

New home sales peaked in late 2021 and early 2022 and have been trending lower. A recent data reading showed the pace of new home sales down more than 15 percent year over year, with homebuilders holding 10 months of inventory, nearly double the figure from one year earlier.

With residential mortgage rates elevated and the economic outlook less certain, conditions in the for-sale housing market are expected to remain soft and builders will look for ways to clear out inventories and reduce overhead. One way of accomplishing these goals could be sales of developments of new homes or blocks of finished lots to single-family rental operators.

INVESTMENT TRENDS

Less transaction volume likely, but new opportunities will emerge.



THE MULTIFAMILY INVESTMENT market got off to a strong start to 2022, with sales velocity during the first half of the year ahead of the 2021 pace. That trend changed course dramatically during the second half of last year, setting the stage for a more uncertain investment landscape in the new year.

The timing of the decline in acquisition activity coincided with the Fed’s aggressive action in repeatedly raising interest rates beginning in May. This followed several years of very low borrowing costs and strengthening apartment operating conditions that pushed the multifamily investment market to unprecedented heights. These conditions had also led to a period of very low cap rates throughout nearly every major market in the country, with investors competing for available properties and underwriting acquisitions aggressively.

Initially, the first round or two of rate hikes had minimal impacts on cap rates, but yields began to trend higher during the second half of the year. The consistent upward trajectory of interest rates, coupled with a less robust leasing environment has widened the expectations gap between buyers and sellers.

Per-unit prices push higher, even as cap rates rise

- Price per unit (thousands)
- Cap rate

Sources: Northmarq, CoStar, Real Capital Analytics

Sales activity levels in the fourth quarter of 2022 were down more than 50 percent from the same period in the preceding year.

For the full year, sales velocity for apartment properties declined by approximately 25 percent. Sales activity levels in the fourth quarter of 2022 were down more than 50 percent from the same period in the preceding year. As 2023 begins, the forecast calls for a more modest annual decline in property sales, as a more restrictive capital markets climate will serve as a drag on the number of sales.

In the current environment, demand is strongest in projects that were delivered between 2000 and 2015.

Still, deals will get done. In the current environment, demand is strongest for projects that were delivered between 2000 and 2015; these properties are not generally competing directly with the new luxury supply that is coming online. In addition, newer construction projects that have been successfully leased-up will continue to attract buyers.

There is greater uncertainty surrounding the future investor demand for properties that will deliver this year and will likely face some greater challenges in reaching stabilization. Investors will track the pace of lease-up, the amount of free rent required to attract tenants, and what rental rates new construction projects can ultimately command in the current market.

Outside of newer assets, there will be investment opportunities in Class B and Class C properties. With land, labor, and development costs likely to

remain elevated, investors will target properties priced at or near replacement costs. The value-add transactions that sparked a wave of investment activity through much of 2021 and the first half of 2022 will be less common, but mid- and lower-tier assets are forecast to be stable performers in the year ahead, and these healthy operating fundamentals will attract investor capital.

One element of the investment market that will likely be supported by rising rates is the reduction of yield maintenance on transaction decisions. As recently as a few quarters ago, the prospect of significant yield maintenance obligations may have discouraged existing owners when considering a potential sale. In the current climate, these pressures have eased considerably, potentially freeing up a greater number of would-be sellers.

There is some potential stress in the investment market as short-term bridge debt comes to term in 2023. Privately capitalized owners may encounter challenges in attempts to secure longer-term financing in the new climate. Some owners in this circumstance may be forced to bring new equity into a deal or sell even if the current climate is not as attractive as in earlier periods.

Further, as the year progresses, interest rates will likely level off and buyers' and sellers' cap rate expectations should become more closely aligned. The second half of 2023 is forecast to be a more active period of property sales, particularly if the economy avoids recession, employers continue to add workers to payrolls, and new renter household formation supports a steady pace of absorption.

FINANCING CLIMATE

Less volume, but greater certainty anticipated in 2023, following a volatile second half of last year.

THE STEADY UPWARD CLIMB in interest rates in 2022 was a shock to the system, resulting in fewer apartment sales, a decline in the number of refinances, and increased challenges in raising equity for new development. Some of the trends from the end of 2022 are forecast to carry over into 2023, although there are several factors that should support a more vibrant capital markets climate in the second half of the year.

While the capital markets are not expected to be as favorable as in recent periods, it is important to highlight that there will be sufficient liquidity available for transactions. Capital costs will be higher than 12 or 18 months ago, but will be comparable to a few years earlier, when conditions would have been characterized as favorable. Assuming rates begin to decline in the second half of the year, there is the real potential of the market gaining some significant momentum in the third and fourth quarters.

The steep rise in interest rates was largely responsible for the decline in originations.

Cap rates: steady upward monthly progression throughout 2H 2022

Sources: Northmarq, CoStar, Real Capital Analytics



DEBT climate

The impact of rising rates was most clearly demonstrated in the performance of the GSEs in 2022. Neither Fannie Mae nor Freddie Mac reached their caps of \$78 billion in 2022. The agencies combined for originations volume totaling approximately \$140 billion in 2022.

The steep rise in interest rates was largely responsible for the decline in originations. Agency coupon rates began 2022 around 3 percent but ended the year averaging closer to 5.5 percent to 6 percent. This coincided with a pullback in multifamily acquisition activity late in the year which is a traditionally strong period.

Looking ahead, volume caps for each agency have been set at \$75 billion each in 2023. This figure serves as

a reasonable starting point when forecasting origination volumes, although the more tepid sales market may cause the agencies to not reach their caps. One factor supporting volumes is the agencies began the year offering competitive terms in efforts to support volumes, particularly in mission-driven transactions with an affordable component.

In addition to the agencies, the volume of short-term bridge executions slowed substantially in the second half of last year. A few factors contributed to the stall, including the steep rise in short-term rates, more conservative underwriting from lenders, and a lack of property sales volume.

INTEREST RATE *environment*

Following a period of sizable and successive rate increases, the cost of capital is the primary focus in the capital markets. The Federal Reserve raised its target rate by 25 basis points in January and current forecasts call for at least one more Fed rate hike, with two increases a more likely outcome.

Despite the expectation for higher short-term interest rates in the near term, and forecasts of “higher for

longer,” the market is showing a more optimistic outlook for longer-term rates. The yield on the 10-year Treasury reached 4.25 percent in the fourth quarter of last year but had retreated by nearly 50 basis points by the beginning of 2023. The yield on the 2-year Treasury showed a similar pattern in late 2022 and early 2023, before pushing higher in February.

Assuming longer-term benchmarks remain closer to current levels than recent peaks, debt financing will remain available at fairly favorable terms—just not at the cyclical lows from one year earlier. Still, rates will be low enough to support transactions, particularly as cap rates trend higher.

The Federal Reserve raised its target rate by 25 basis points in January and current forecasts call for at least one more Fed rate hike.

Yield curve inverted in July 2022,
spread widening as short-term rates remain elevated



Sources: Northmarq, U.S. Treasury

With operating conditions cooling, some of the transactions that executed near the end of the cycle may need infusions of equity capital to shore up longer-term financing.

EQUITY + recapitalizations

Total multifamily debt originations in 2023 will likely lag 2022 levels, and the equity environment is expected to be even more challenging. With a record number of new multifamily units currently under construction and economic growth forecast to cool, there will likely be fewer sources of equity for new ground-up development available in 2023. For new development, equity groups will be focusing on supporting rent projections and stressing exit cap rates, which will restrict many projects from being capitalized.

Rather than targeting new construction projects, equity investors may shift focus to recapitalizing recent developments

or acquisitions. In recent years, there has been a significant volume of value-add acquisitions that were aggressively underwritten during a period of rapid rent growth. With operating conditions cooling, some of the transactions that executed near the end of the cycle may need infusions of equity capital to shore up longer-term financing.

Additional recapitalization opportunities will likely emerge in some situations where a sponsor has a need to refinance an existing loan and wants to retain a significant ownership stake in a property rather than sell in the current climate. Equity investors can step in and assist in accomplishing these objectives.



 OUTLOOK

2023 likely to outperform prevailing expectations.

Vacancies will rise, but in most cases, across most markets, the rate will end 2023 near local long-term averages.

FOR THE FIRST TIME in more than a decade, the national multifamily market begins a new year with most forecasts calling for softening operating fundamentals and a cooling investment market. While tepid economic growth and a surge in new construction are expected to create supply-demand conditions where vacancy rises across the bulk of the country's major markets, fundamentals will likely outperform many of the most dire forecasts.

The two primary threats to the apartment market in 2023 involve the pace of economic growth and the competitive impact of new construction on property performance. While these factors will influence both demand for and supply of rental housing, there is a reasonable chance that neither metric will be as negatively impactful as originally thought.

The health of the economy will certainly influence renter demand in the year ahead, and the strength or weakness in the labor market is a traditional driver of absorption of apartment units. Job growth will almost undoubtedly slow from the rapid restaffing of payrolls that has been under way since the second half of 2020. But widespread layoffs are not expected, and cuts will more likely be concentrated in a handful of industries and companies that aggressively hired in the period immediately following the COVID-19 pandemic. Labor conditions remain tight and companies that have recently undergone the challenges and costs of bringing on workers will be hesitant to make deep staffing cuts.

Absorption patterns have been volatile in recent years, outpacing the anticipated rate of demand in 2020 and 2021 and lagging expected levels in 2022. In retrospect, demand was pulled forward a few years ago, and some of the stress of rapid inflation—including rising rental housing costs—and forecasts for weaker future growth have likely artificially restrained new renter household formation in recent quarters. This will likely lead to a recovery in absorption as the economy stabilizes and the outlook brightens, either in the second half of this year or in early 2024.

The development of new units presents a threat in the near term, particularly in a handful of high-growth markets where deliveries are forecast to approach or exceed all-time highs in 2023. While the supply-side pressures are likely to appear at a time when demand is modest, this also comes during a period where the national market is undersupplied in housing stock. Vacancies will rise, but in most cases, across most markets, rates will end 2023 near local long-term averages. While most markets will remain largely in balance, there will be some submarkets where development is particularly active and vacancy rates could spike.

The most likely outcome for the multifamily market in the year ahead is for operating conditions to be somewhat softer across most markets and most properties. Operators are retaining existing renters but are not recording the leasing momentum that was present one or two years ago. This suggests that most properties that are recording healthy performance should continue to do so but are unlikely to post significant gains.

There could be some stress in the marketplace in 2023. The properties that are generally facing the greatest challenges as the year begins are newer luxury assets delivered in the past few quarters. These are also the types of projects that are slated to be delivered in the year ahead, at a time when renter demand is cooling and consumers are both cautious and feeling the impact of a sustained period of higher prices.

While the favorable conditions of recent years are not likely to repeat in 2023, the national multifamily market should be able to handle slowing economic growth and an accelerating pace of deliveries. The bulk of the interest rate increases have already occurred, and while the higher costs of capital will restrict activity in 2023, there will not be the rapid, unexpected spikes that took place in 2022. Market participants will adapt to the prevailing conditions in 2023 and find new opportunities.

The influx of new development will also present opportunities for additional financing and investment activity throughout 2023 and into 2024.

As Fed rate increases near an end and with inflation trending lower, there should be less volatility in the capital markets. The calming conditions should allow for greater stability and certainty in the pricing of debt, which should ultimately bring more capital sources back into the market.

The influx of new development will also present opportunities for additional financing and investment activity throughout 2023 and into 2024. With the steep upward pressure on land costs in recent years, properties that are slated to deliver this year likely have lower land cost basis and are not expected to encounter significant difficulties securing take-out financing.

This year begins with a feeling of cautious optimism, but there are threats present. While much of the focus of the multifamily industry has been on the competitive impact of rapid growth on the supply side, demand is the greatest uncertainty at the beginning of 2023. The chief threat to the market would be a repeat of the steep job losses and economic contraction recorded in previous recessions. While the forecast calls for the economy to steer clear of these potential downturns, there are possible scenarios where gains lag our expectations in the year ahead, resulting in softer operating and investment conditions for the national multifamily market.



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ABOUT NORTHMARQ

As a capital markets leader, Northmarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than \$37 billion, loan servicing portfolio of more than \$76 billion and the multi-year tenure of our over 1,000 people.

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