

# The Multifamily Digest



CUSHMAN & WAKEFIELD | GREYSTONE

August 2024

Good morning everyone,

As we close the door on the second quarter, I think it's safe to say that momentum is building. While the market isn't quite rocking and rolling like it was in the wake of the pandemic, green shoots are forming. Inflation has improved, the labor market has remained resilient, the Fed appears poised to cut rates, and multifamily fundamentals look to have turned the corner on the back of incredibly strong demand. In fact, in our latest [U.S. Multifamily MarketBeat](#), we highlighted this change in momentum, summarized in this graphic:

# FIVE *FAST* FACTS

## MULTIFAMILY MARKET SHIFT

01

### FOR THE FIRST TIME SINCE 2021,

the **U.S. multifamily vacancy rate declined**, dropping by 10 basis points (bps) in the second quarter.

02

### ABSORPTION REACHED NEARLY 140,000 UNITS IN THE SECOND QUARTER,

**marking the fourth-highest figure since 2000**, surpassed only by the first three quarters of 2021. Through the first half of 2024, absorption has nearly matched the entirety of 2023's demand.

03

### THE SUNBELT LED WITH DEMAND

**exceeding 100,000 units this year**, representing more than 2% of the region's inventory.

04

### CONSTRUCTION STARTS HAVE PLUNGED:

Only 103,000 units have broken ground this year, **down 60% from this time last year**. If demand remains strong, the supply wave should be absorbed over the next 18-24 months.

05

### RENT GROWTH REMAINS SLUGGISH BUT POSITIVE,

**at 1.7% over the last year**—about half the historical average.

The momentum for the multifamily market – especially on the demand side – is starting to build. We're seeing it build in the portfolio of more than 180,000 units we manage across the country (more on that in the Operational Insights section). Anecdotally, stories of new deliveries with 30+ leases signed per month are more common than many probably thought at the beginning of the year.

But there's more good news beyond the fundamentals. The capital markets appear to be thawing as well. In the second quarter, MSCI Real Capital Analytics reported total U.S. multifamily transaction volume of more than \$38 billion. While it's a far cry from the all-time peaks of 2021-2022, it's **higher than any quarter last year (up 19% YoY) and it also surpassed the second quarter of both 2017 and 2018**. Interest is clearly picking up, and there is pressure to get deals done. There's been a significant uptick in broker-opinion-of-value (BOV) volume

since April, which has ballooned our pipeline by roughly 25% since January. Our Letters of Intent (LOIs) are up even more than BOVs – **over the last 30 days, our LOI count is up 2.5x over our normal levels** . More debt sources are available at compelling prices/terms, which points to the ongoing recognition of the ‘higher for longer’ outlook that we discussed in the [last edition of the Multifamily Digest](#).

As for what this means for investors moving forward – the Cushman & Wakefield Think Tank recently released our [U.S. Macro Outlook](#) report, which details our view of the economy, capital markets, and multifamily fundamentals forecasts through 2028. Although we note that some sectors of the economy are currently in recession, we believe the U.S. will avoid an outright recession due to the relative strength of the economy. Growth will likely slow, allowing the Fed to loosen monetary policy this fall.

### Baseline Economic Forecast Scenario

	2022	2023	2024	2025	2026
<b>U.S. Economy</b>					
<b>Real GDP</b>	1.9	2.5	1.9	1.1	2.3
<b>Unemployment Rate</b>	3.6	3.7	4.4	4.2	3.9
<b>Job Growth, mils</b>	4.9	2.9	1.0	0.9	0.9
<b>CPI Inflation</b>	8.0	4.1	2.9	2.6	2.3
<b>Fed Funds Rate</b>	3.6	5.3	4.6	3.9	3.1
<b>10-year Gov’t Bond</b>	3.8	4.4	4.2	4.1	4.0

Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Federal Reserve, Cushman & Wakefield Research

The acceptance of this outlook has already started to permeate the market, evidenced by tightening spreads across most debt products, but most notably in CMBS products. And as a result of a resilient economy, demand for multifamily will likely remain robust, allowing fundamentals to recover over the next 18 months. As fundamentals improve, rent growth will accelerate – likely not to 2021 levels – but mirroring the strong growth in the mid-2010s. Through the rest of this quarter’s edition, you’ll find some other reports on how the market performed in the first half of 2024 and where our experts think it will go from here.

Thank you



**Sam Tenenbaum**, Cushman & Wakefield’s Head of Multifamily Insights shares his thoughts and research on the multifamily market.

## NMHC Announcements

We are starting to gear up for the 2025 annual NMHC conference and hope to see you there! Look here for more information or [contact us](#) if you want to set up time to meet before or after the conference.

## Debt Update



[Serafino Tobia](#), Managing Director & Head of Agency CMBS Trading, Greystone.

## INTEREST RATE MARKET COMMENTARY: THE TREND IS YOUR FRIEND, UNTIL IT ENDS

### US Treasuries; August 2, 2024

The 10-year Treasury yield is at 3.85% as of Friday, 8/2, gapping lower today after a US employment report for July that printed just 114,000 new jobs - significantly weaker than expected. We've come a long way over the past couple months; recall 10-year yields were at 4.62% just over two months ago (5/29).

Investors and traders are now front running the notion that inflation is on a clear path towards the Federal Reserve's 2% inflation target and that interest rate cuts by the Fed are about to follow in September. For 10-year rates to move materially lower from here, we will need further bond-friendly inflation data and/or data that shows a further softening of the labor market and the economy.

There is a Wall Street axiom that applies here – “The trend is your friend, until it ends.” In other words, it may well be time to take advantage of where rates have moved to already.

[Read the full analysis here.](#)



## Operational Insights



[Avery Solomon](#), Executive Managing Director  
Investor Services, Multifamily Asset Services, Americas  
Cushman & Wakefield

## ASSET SERVICES SECOND QUARTER FINDINGS

The first half of this year has been stronger than initially anticipated within the multifamily space, as outlined in Sam's opening, and this was reflected in our third-party managed portfolio.

The Cushman & Wakefield Asset Services team provides third-party management services for over 182,000 units nationally, making our team one of the largest in the country. This operation generates a trove of data and analytics, which we share regularly through spaces like this newsletter. Utilizing the data gleaned from our managed portfolio, we look back on key trends for the first half of 2024.

Read the full analysis of the data from our managed portfolio in the latest [Top Trends Across Cushman & Wakefield's Multifamily Portfolio](#) article.



[Zach Bowyer](#), MAI, MRICS, Executive Managing Director, Valuation & Advisory, Cushman & Wakefield

## VALUATION & ADVISORY FIRST HALF TRENDS

After a choppy first quarter, volume has picked up significantly. Our multifamily valuation activity is up 24% year-over-year (YOY), a significant increase for a team with our size and presence in the market\*. We are also beginning to see an increase in activity for some specialty sectors, with senior living and care activity up nearly 12% as pipelines increase.

Valuations conducted for properties with distressed capital stacks increased from Q1 to Q2, with distress representing 0% to 10% of our Q2 valuations, depending on the market. Most distress was identified in the Southwest, mid-Atlantic and Pacific Northwest regions, led by Washington DC, San Francisco and Houston. Despite headlines pointing to the influx of supply throughout the sunbelt region, the percentage of distressed valuations remain relatively low.

Multifamily rent growth assumptions have normalized, falling more consistent with long-term underwriting averages with vacancy remaining at healthy levels in most markets.

After a spike in operating expenses realized in 2022 and 2023, YOY underwriting for key operating expenses has declined by roughly 8% yet remains above historical averages.

Cushman & Wakefield's Valuation & Advisory team regularly performs an internal cap rate survey to assess conditions by market, sub-property type and investment class. Going-in capitalization rates remained level in Q2 2024, ranging from 4.25% to 5.75% for mid/high-rise investment Class A. Capitalization rates for garden style apartments were underwritten in the 4.75% to 6.0%, also for investment Class A properties.

Spreads between the going in capitalization rate and the terminal capitalization rate tightened in the second quarter, ranging from 25 to 50 bps, primarily due to expectations of improving market conditions.

After a sharp decline in valuations from the second half of 2023, multifamily valuations have leveled out as the broader market absorption outpaces expectations and capital markets begin to stabilize. [Reach out to zach.bowyer@cushwake.com](mailto:zach.bowyer@cushwake.com) for any questions related to multifamily valuations or to receive a copy of our market level cap rate trends.

\*Our three-year average for activity in the first half of the year is approximately 5,000 properties valued at an aggregate valuation of more than \$140 billion.



## Recent Thought Leadership

### WHY INVEST IN THE MIDWEST

Recently, the Midwest has shown surprising growth and economic resilience, making this region an attractive candidate for multifamily development, investment and general interest.

Often considered the slowest growing region in the U.S., the Midwest has recently shown surprising improvements, both in the performance of its multifamily markets and in the resilience of the region's economy. The outperformance comes amid a volatile economic backdrop—the Midwest's relative stability is one of the region's defining features and highlights its importance in any multifamily portfolio.

Read our insights on [Why Invest in the Midwest here](#).

### INSIGHTS MAGAZINE MID-YEAR OUTLOOK

Read the latest on the multifamily sector

## INSIGHTS MAGAZINE

# 2024 Mid-Year Update



### In this Issue:

- 2024 Mid-Year Outlook with Cushman & Wakefield's Sam Tenenbaum
- HUD Launches Manufactured Housing Program
- Q&A: Interest Rate Outlook with Greystone's Serafino Tobia

[Click Here to read the issue.](#)



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