

LIFE IS WHAT **WE** MAKE IT

MULTIFAMILY MARKET TRENDS

MICHAEL TIDWELL





Speaker Bio

Mr. Tidwell specializes in Multifamily Investment Sales in Greater Los Angeles.

He is a trusted advisor who offers an advanced valuation skillset, high emotional intelligence, and familiarity with the local, regional, and national apartment market trends. As a native of Los Angeles, he uniquely provides investors with deep-rooted market knowledge that considers market activity, participants, and historical changes in the Greater Los Angeles area. Tidwell has a proven record for delivering results and fostering trust amongst clients.

With a robust national platform of coverage and apartment inventory, Tidwell uniquely provides investors with an extensive suite of advisory services for multifamily assets such as agency for property acquisition and disposition, property management, debt, DST and 1031 exchanges, ESG, valuation/appraisal, and financial reporting.



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KEY TAKEAWAYS



ECONOMY:

- Inflation has likely peaked but remains elevated. Monetary policy takes time to influence economic growth, though mild recession is most likely.
- Clarity on the path of the Fed will help to steady broader financial markets, downshifting treasuries and bringing in corporate spreads.



CAPITAL MARKETS:

- CRE debt markets will grow more active as financial market stability gains hold.
- Pricing is adjusting to interest rate environment – there are good buying opportunities today.



MULTIFAMILY:

- Underlying fundamentals remain healthy despite doom-and-gloom headlines.
- Long-term demographics remain favorable – U.S. housing shortage of five million homes.
- Downside risk more protected than other asset classes
- Multifamily and Industrial remain the investment darlings.

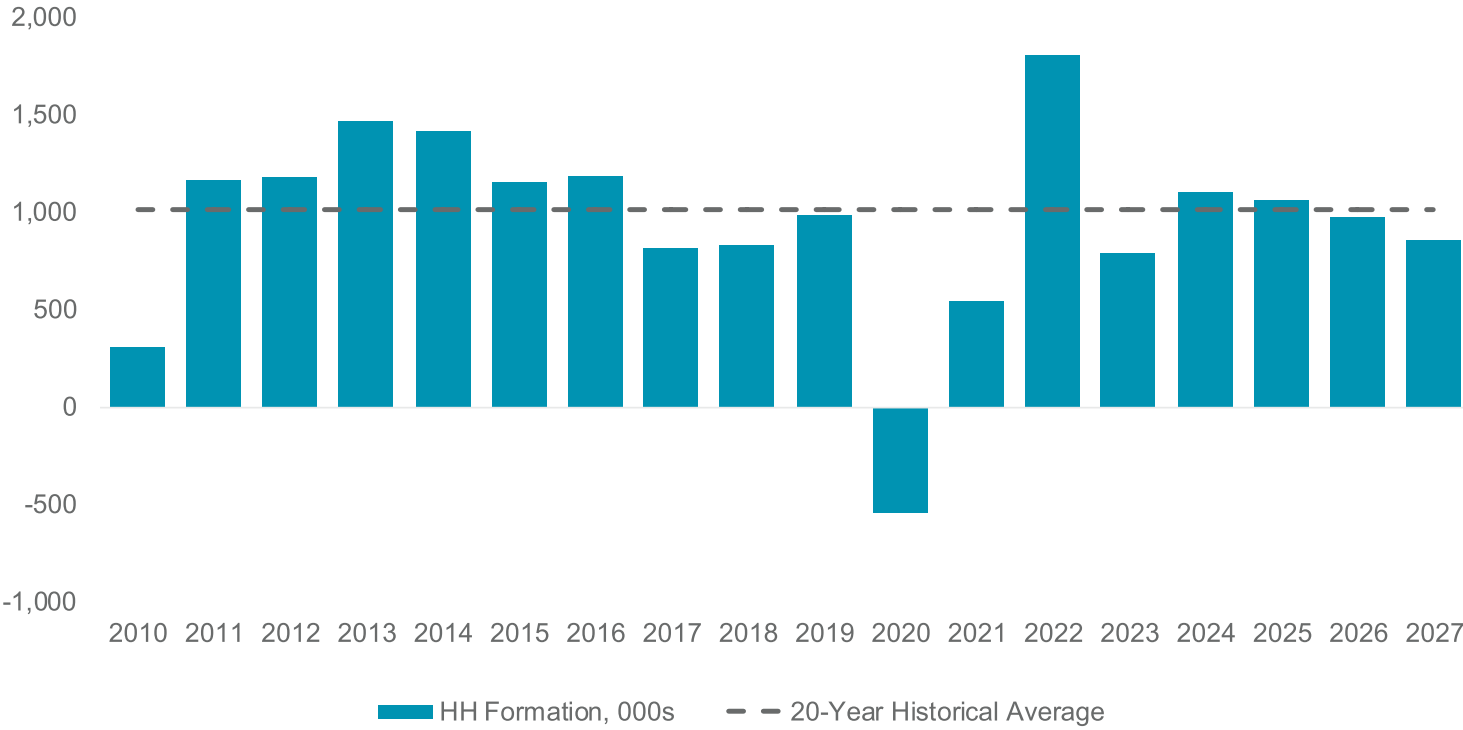


A hand is shown interacting with a futuristic digital interface. The interface is dark blue and black, featuring various data visualization elements such as bar charts, line graphs, pie charts, and network diagrams. A hand is visible on the right side, with fingers touching the screen. The background is filled with these data elements, creating a sense of a complex, interconnected system. The overall aesthetic is high-tech and professional.

MULTIFAMILY PERFORMANCE DRIVERS

U.S. Household Formation Slowing From Peaks

Will Remain Strong, But Recessions Typically Result In Pullback

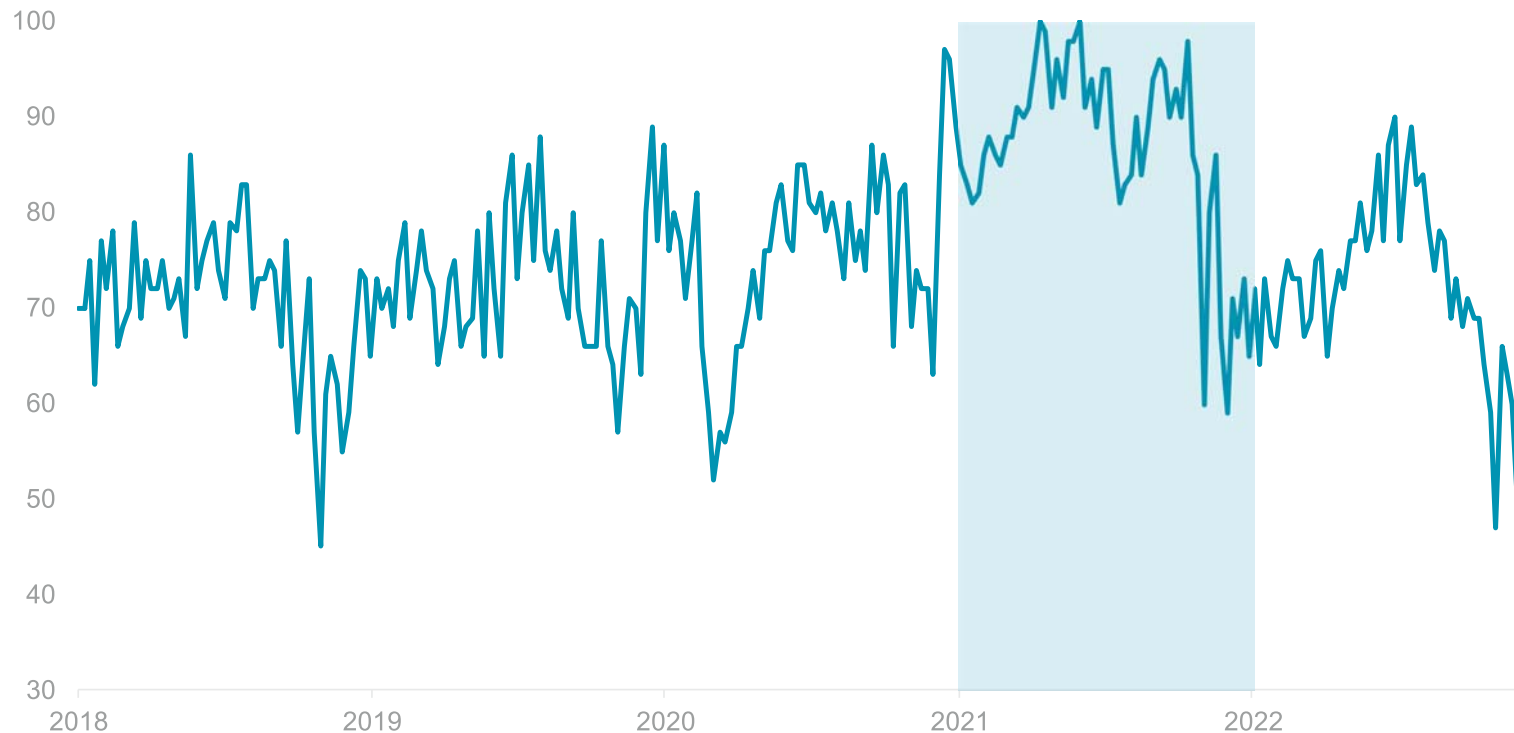


- The Census data encompasses the 2H of the previous year, along with the 1H of the present year,
- Much of the growth in households happened in 2H21, rather than through 2022.
- Given apartment demand trends in 2022, it's likely that the 2023 Census data will come in light.

Source: U.S. Census Bureau, Moody's Analytics, Cushman & Wakefield Research

Divorces Likely Picked Up In '21, But Plunged In '22

Google Search Trends: Divorce Lawyers



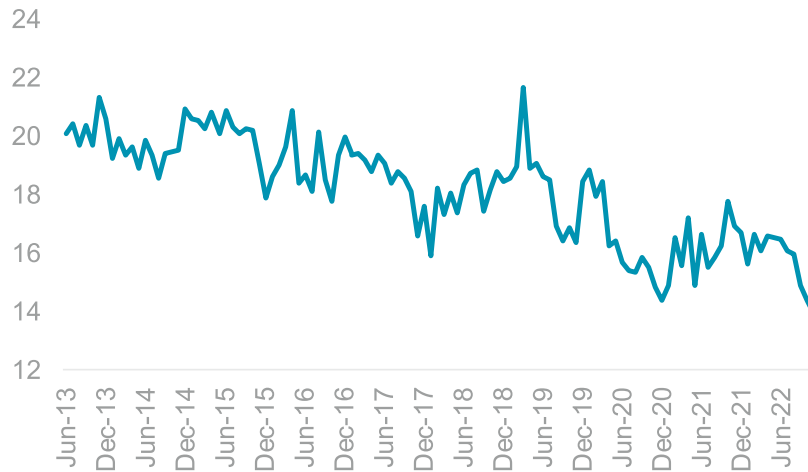
- A number of one-off life events that spurred household formation occurred in 2021 as Covid restrictions waned as vaccines became available.
- Search activity for “divorce lawyers” is a proxy for this and peaked in 2021.
- Pandemic assistance tipped the scales and spurred additional housing formation.

Source: Google, Cushman & Wakefield Research

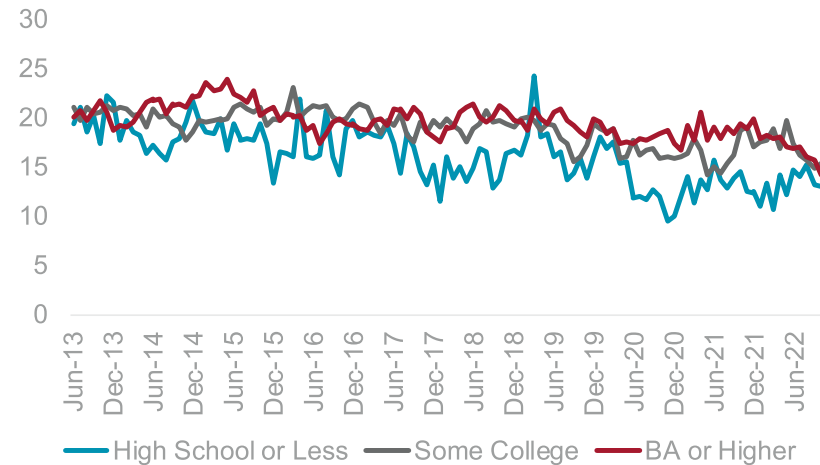
People Don't Want To Move Right Now

Especially Higher Educated Individuals

Probability Of Changing Primary Residence, Next Yr



Broken Down By Educational Attainment

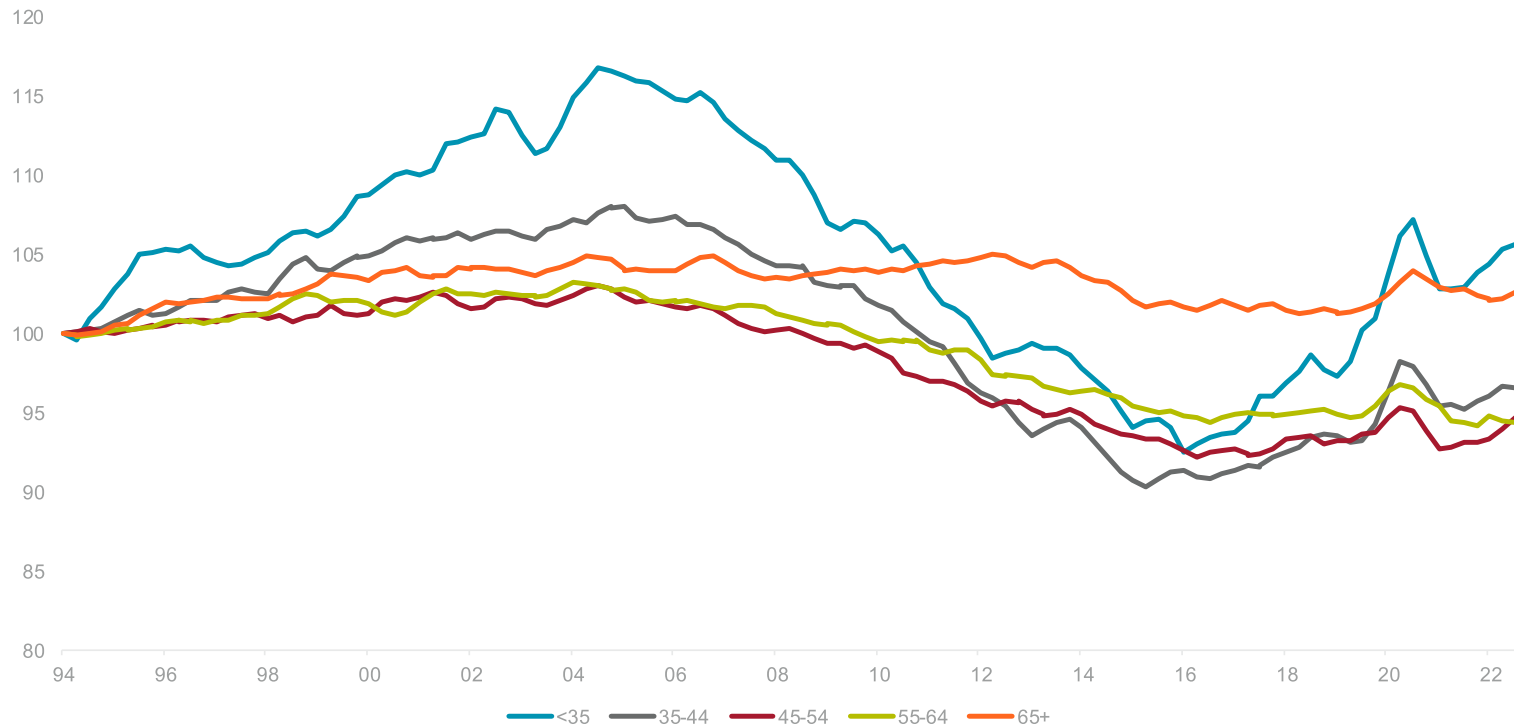


- With consumer confidence waning and pandemic assistance gone, households have been reticent to move in 2022.
- Falling “real” wages is likely a driving factor.
- The greatest fall off has been from individuals with a bachelor’s degree or higher.
- Further household formation will depend more on economic vitality than other dynamics.

Source: New York Fed, Cushman & Wakefield Research

Homeownership Rising Most In Millennial Cohort

Homeownership Rate Index – 1994=100



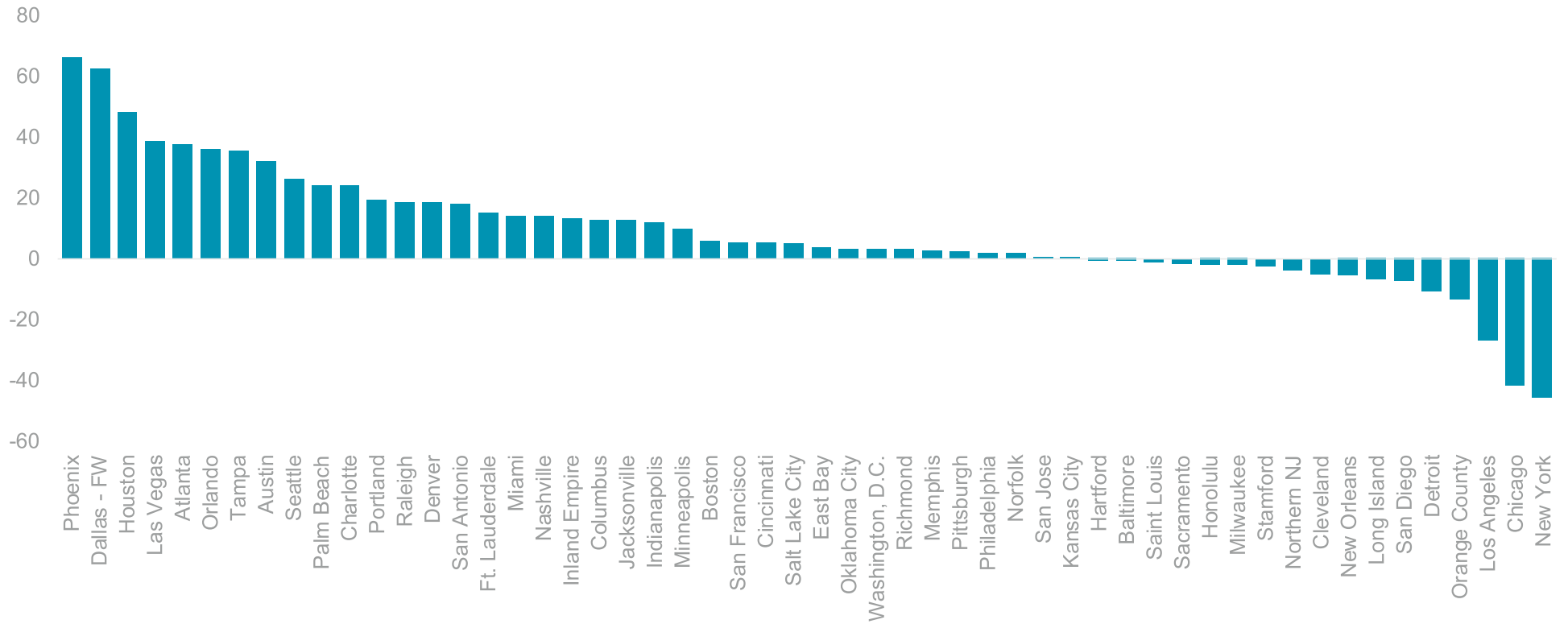
- While the <35 age cohort retains the lowest homeownership rate across age groups, the homeownership rate has risen substantially as Millennials age into prime home-buying years.
- Conversely, both the 55-64 and 65+ age cohorts have seen homeownership fall as Baby Boomers trade large suburban homes for highly amenitized apartments.

Three Quarter Moving Average. 1994=100. Note there were data collection issues during the 2020.

Source: U.S. Census Bureau; Cushman & Wakefield Research

Migration To The Sunbelt Expected To Continue

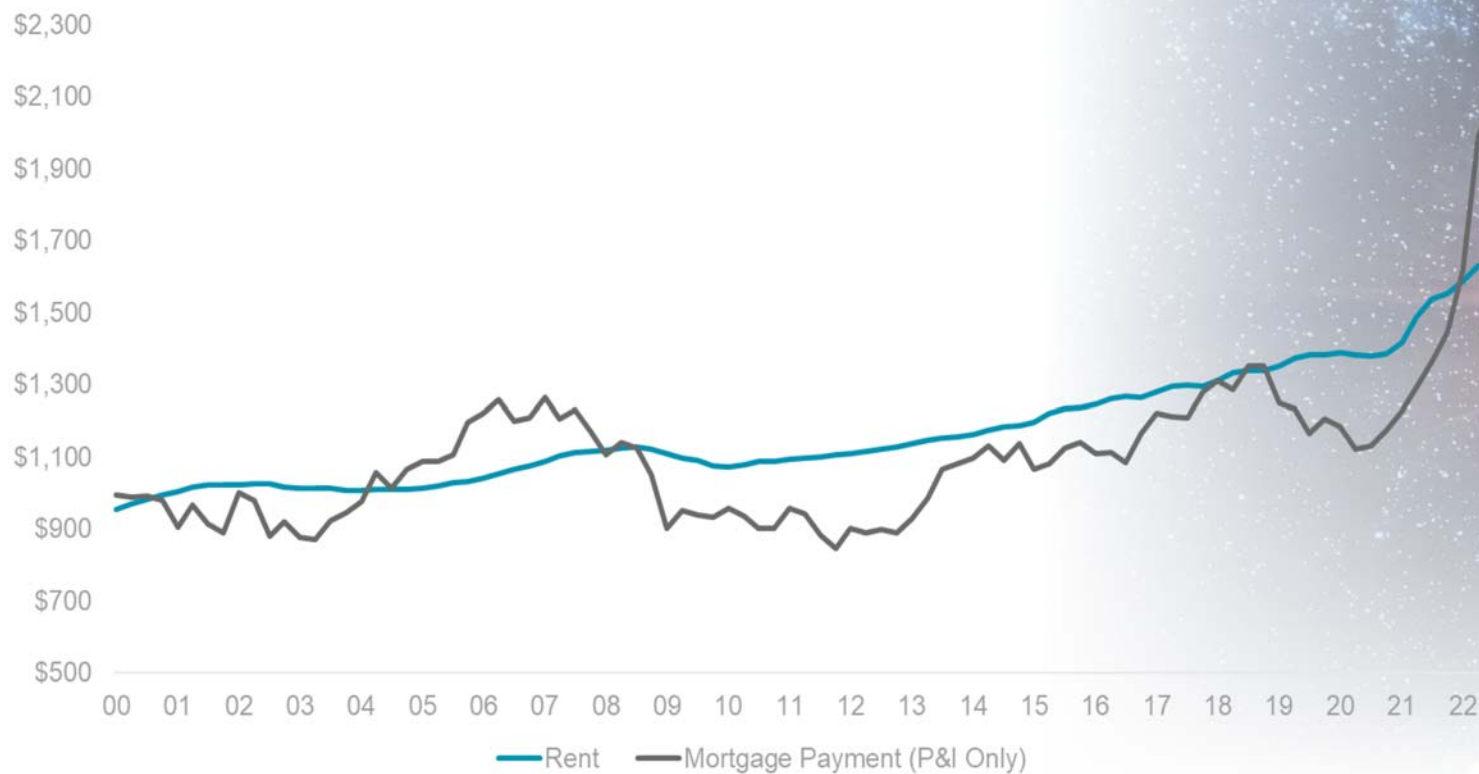
Net Migration, 2020-2030 (Thousands)



Source: Moody's Analytics, Cushman & Wakefield Research

Cost of Purchasing A Home Skyrocketing

Rents Relative to Mortgage Payments – U.S.

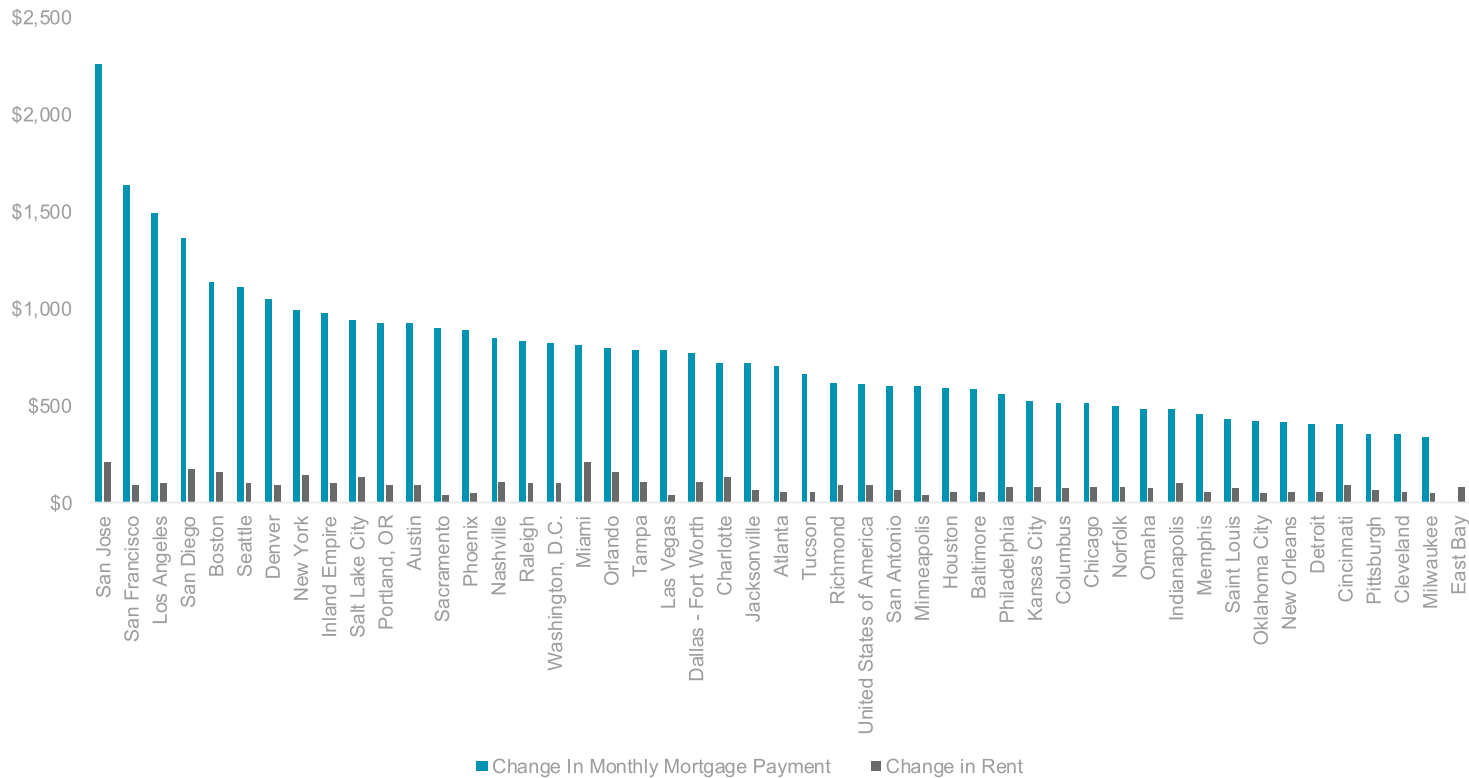


Assumes a 20% Down Payment and Average Prevailing Mortgage Rate that Quarter

Source: FRED, Census, HUD, Cushman & Wakefield Research

Homeownership Increasingly Unattainable

Change in Monthly Mortgage Payment And Rent, YoY



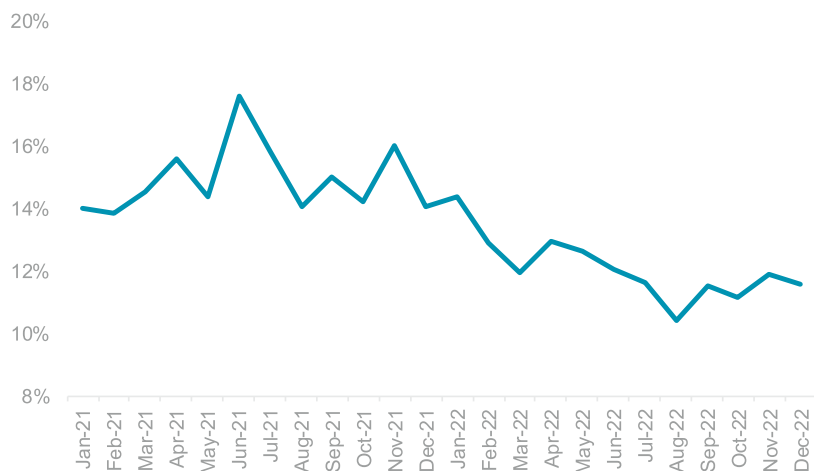
- The monthly mortgage payment for the median single-family home, assuming 20% down with the prevailing interest rate is up by more than \$2,000 per month in San Jose
- That will likely keep people renting for longer, even if rent growth picks up significantly.

Source: Zillow, CoStar, Cushman & Wakefield Research

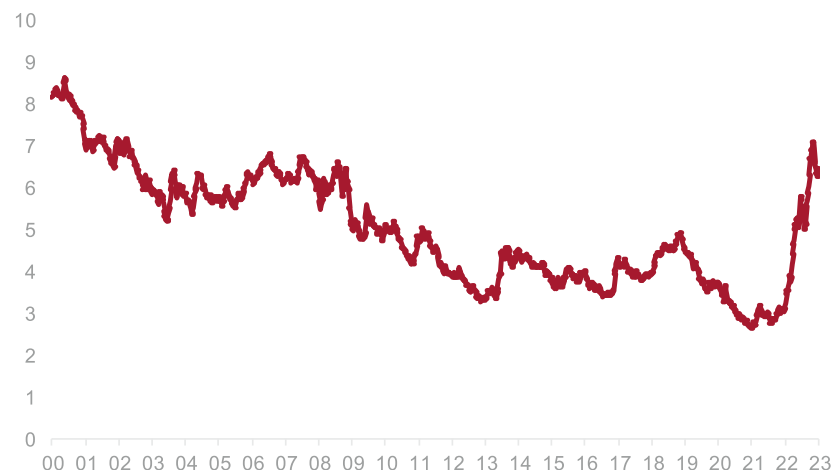
Fewer People Are Leaving To Buy Homes

High Rates Today Are The Primary Driver

Reasons For Move Out – Buy A Home



Average 30Y Mortgage Rate Highest Since GFC



- Within Cushman & Wakefield’s managed portfolio, we track why our residents move out.
- If we look at the share of residents leaving to purchase a home over time, we see a substantial decrease as mortgage rates rise. With mortgage rates ticking above GFC levels during the summer of 2022, move-outs to purchase a home dipped.
- As mortgage rates come back in, move-outs to purchase a home have leveled off.

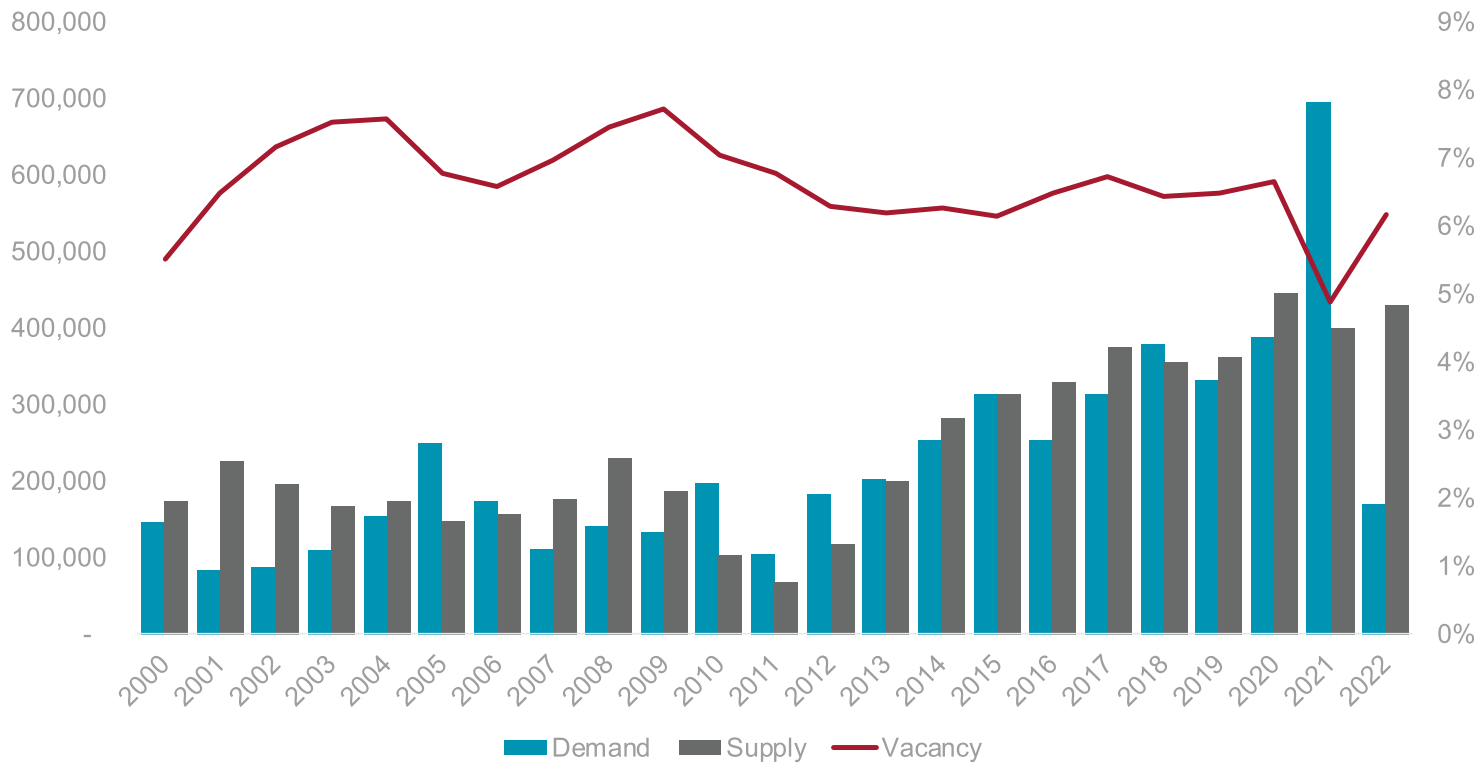
Source: Cushman & Wakefield Asset Services

A photograph of a modern multi-story apartment building. The building features a facade of dark wood paneling and blue accents around the windows and balconies. Several balconies are visible, some with dark metal railings and others with built-in planters containing greenery. The lighting is dramatic, with strong shadows and highlights, suggesting a low sun position. The text "MULTIFAMILY FUNDAMENTALS" is overlaid in the center in a bold, white, sans-serif font. There are also two decorative horizontal lines of small blue dashes, one above and one below the text.

MULTIFAMILY FUNDAMENTALS

U.S. Fundamentals Remain Strong

Annual Supply, Demand & Vacancy

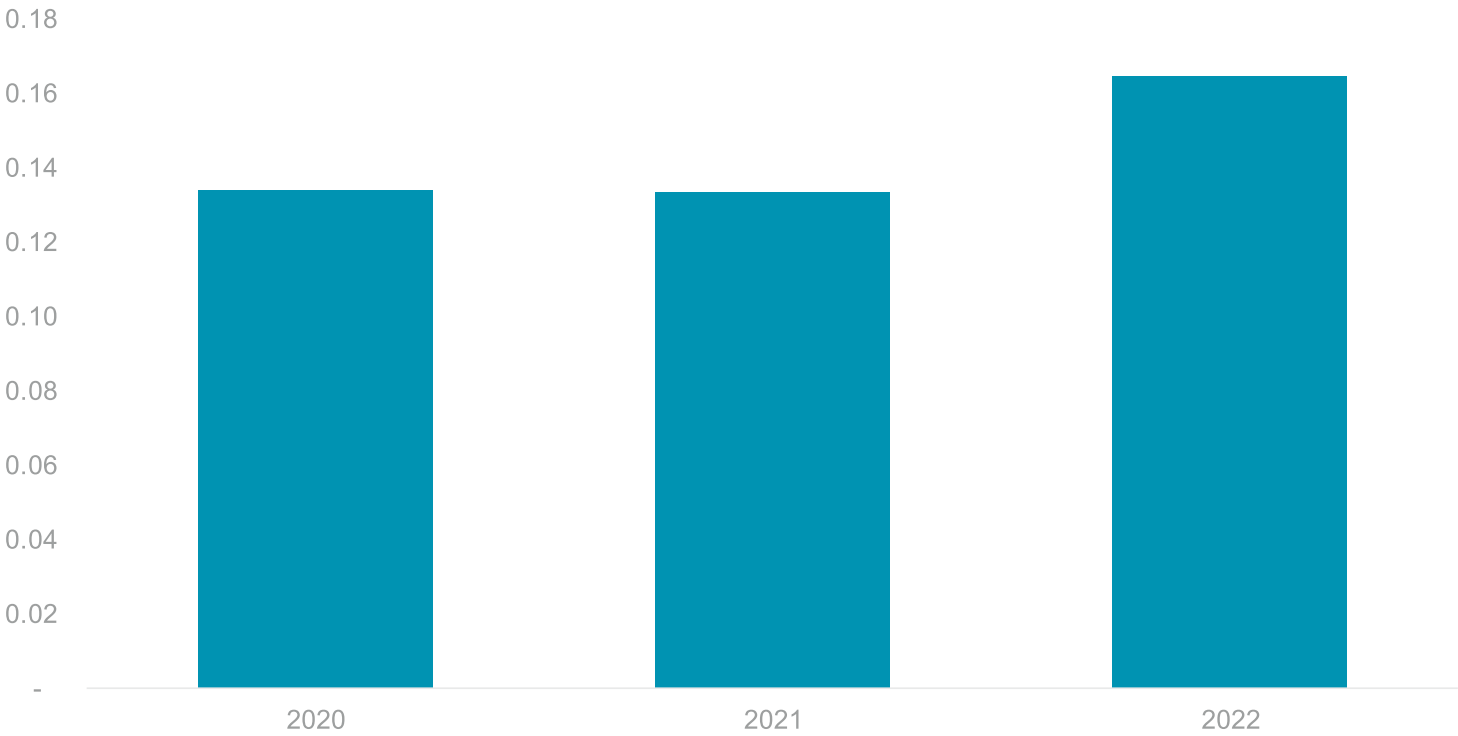


- Unprecedented household formation boosted demand in 2021 at levels never seen. U.S. saw 700k units absorbed, double the historical average
- Demand was much weaker in 2022 as household formation was pulled forward.
- Overall vacancies remain ~30 bps below pre-pandemic level.
- With economic uncertainty and a looming recession, demand is unlikely to keep pace with new construction levels over the next two years.

Source: CoStar, Cushman & Wakefield Research

Underlying Demand Remains Solid

Applications Per Available Unit

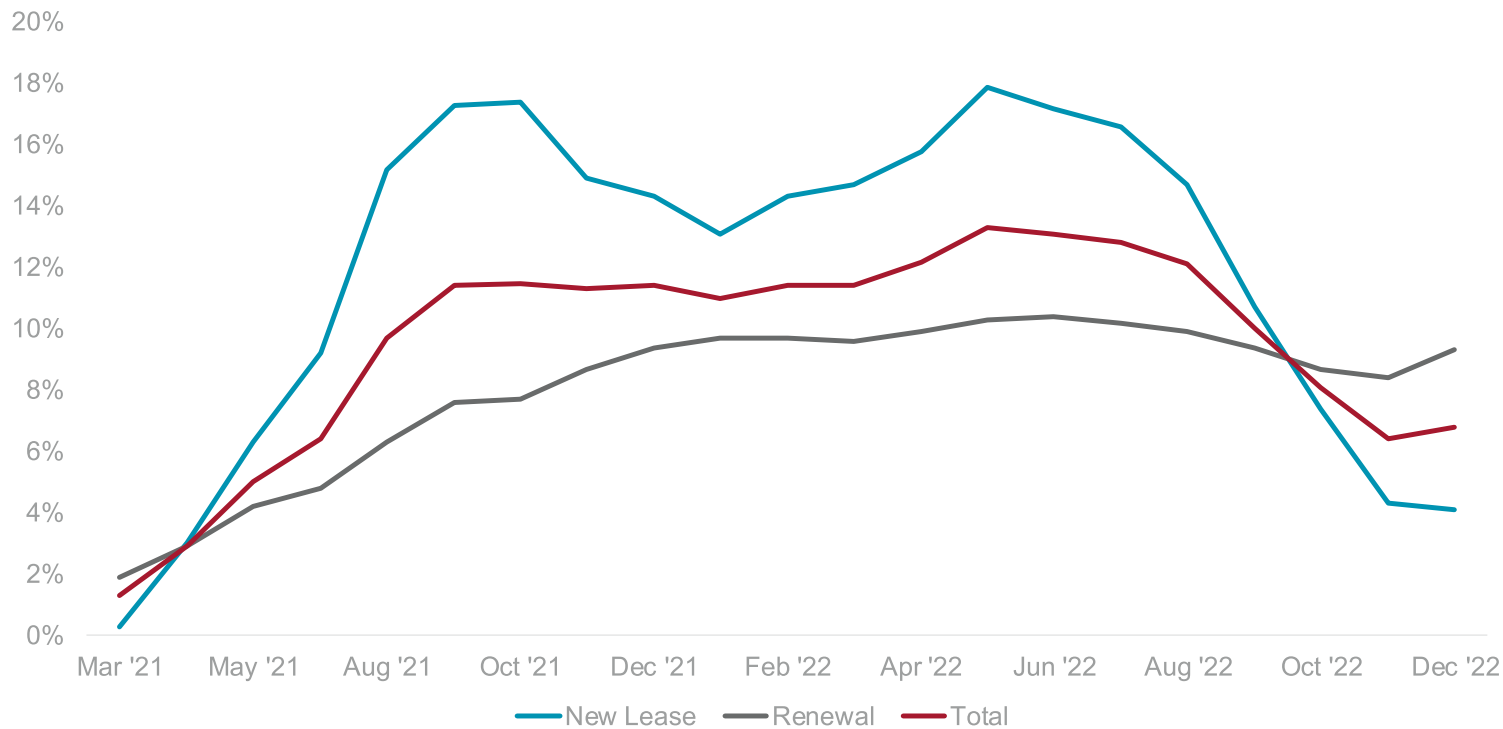


- Relative to the number of available units, renter interest in 2022 was higher than in 2021, despite fewer applications.
- With national occupancies at all-time highs at the end of 2021, there were limited choices for renters to move into.
- Limited availability of units constrained the number of applications renters submitted.

Source: Cushman & Wakefield Asset Services

Lease Trade Outs Remain Solid

Lease Trade Out, Excluding Units Vacant 90+ Days

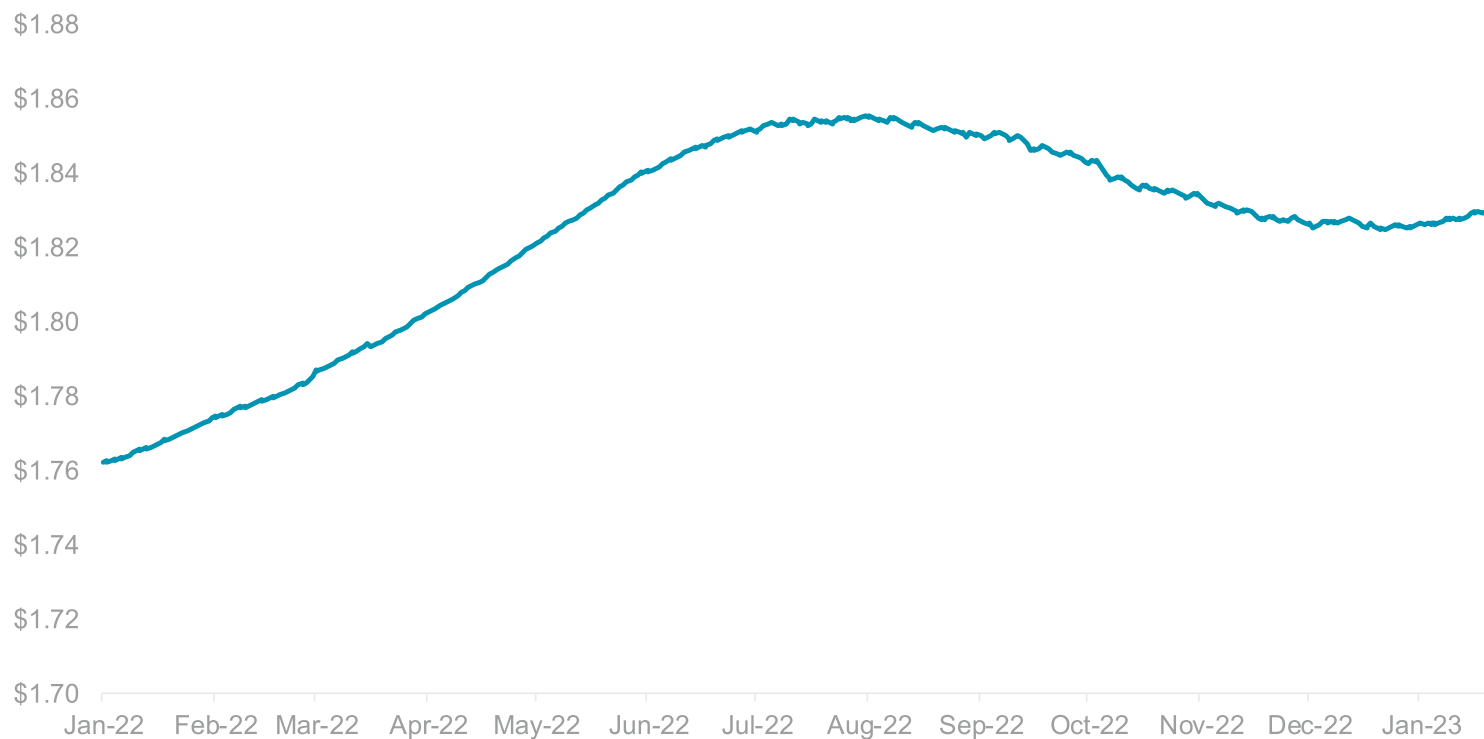


- Within Cushman & Wakefield's managed portfolio, we continue to see leases trading out at above-average levels.
- New lease trade outs have fallen, reflecting increased competition, though they stabilized in December at above the 3.3% historical norm.
- Renewal trade outs should remain above-trend as residents are moved closer to market.

Source: Cushman & Wakefield Asset Services

Daily Rents Show Market Is Picking Back Up

Daily Multifamily Asking Rents/SF



- News headlines from 2H22 were doom and gloom, leaving out the context that rents typically fall in the second half of the year.
- Rents for the early portion of January imply that 2H rent declines were more a product of seasonality than of some forthcoming unwinding of multifamily fundamentals.

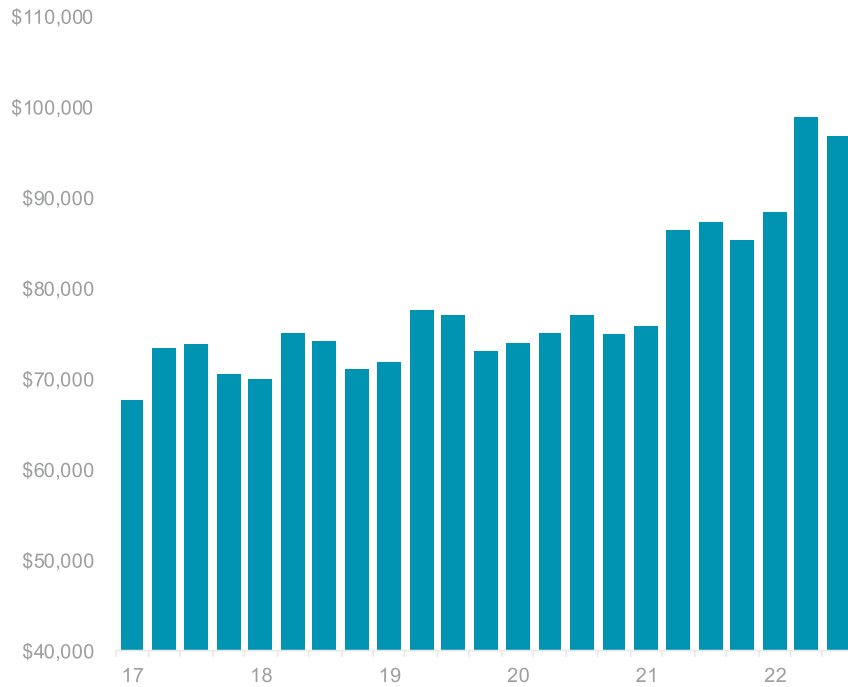
Source: CoStar, Cushman & Wakefield Research



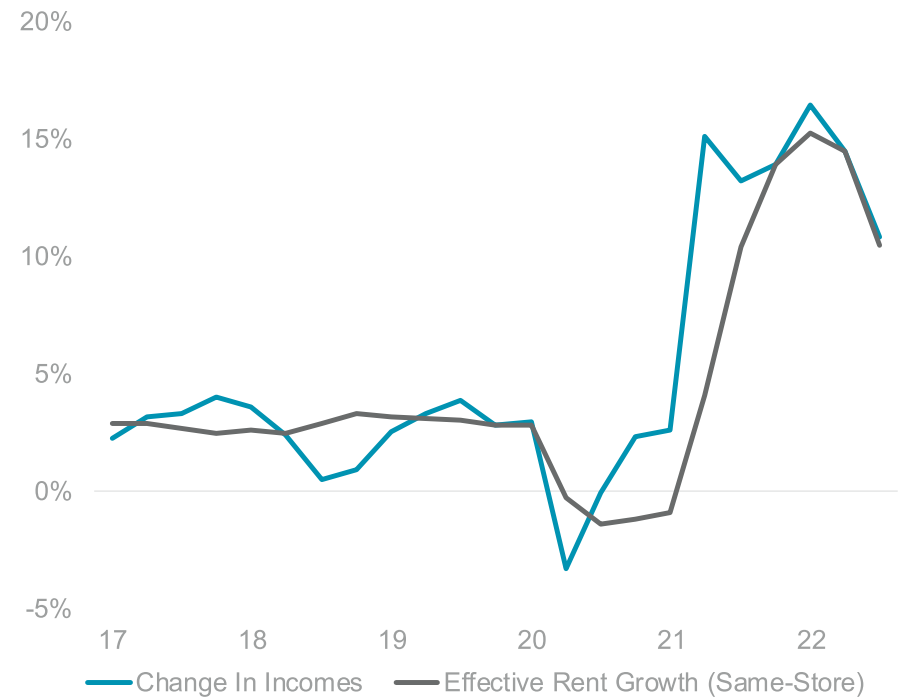
Renter Incomes Growing Quickly

Average Annual Renter Income

Renter Incomes Continue To Rise



Income Growth Keeping Up With Rent Growth



Source: RealPage, Cushman & Wakefield Research

Delinquency Remains Low

National Delinquency Rate, Cushman & Wakefield Managed Properties



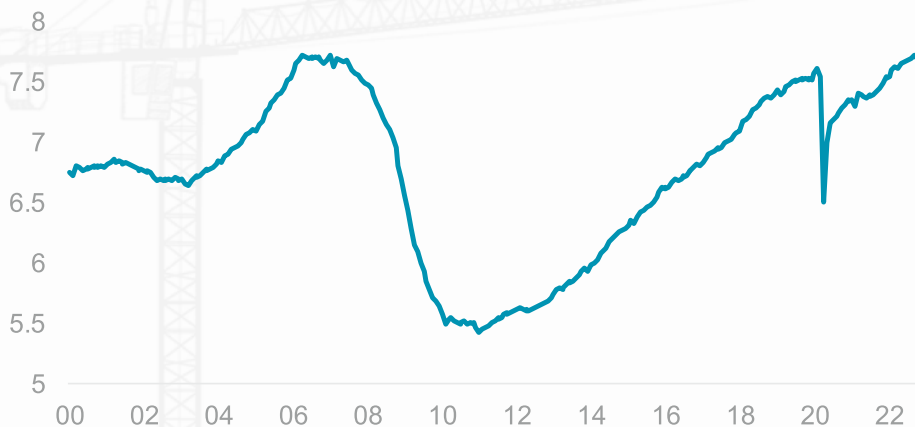
- Assessing the health of the renter is always difficult. With data from Cushman & Wakefield’s managed portfolio, however, we can look at whether residents are able to make rent.
- Despite weak economic confidence, our residents have been able to continue paying rent, implying the overall health of renters remains strong.

Source: CushWake Living. For non-disclosure reasons, we cannot share the raw percentages

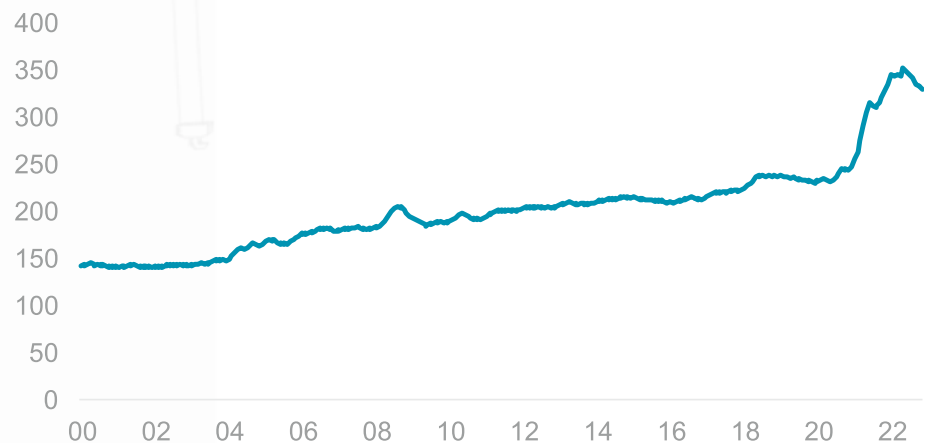
Labor Shortages & Construction Costs Remain Problematic

Some Easing, But Remain Obstacles To Construction Activity

Total U.S. Construction Employment, Millions



Price Index, Construction Materials



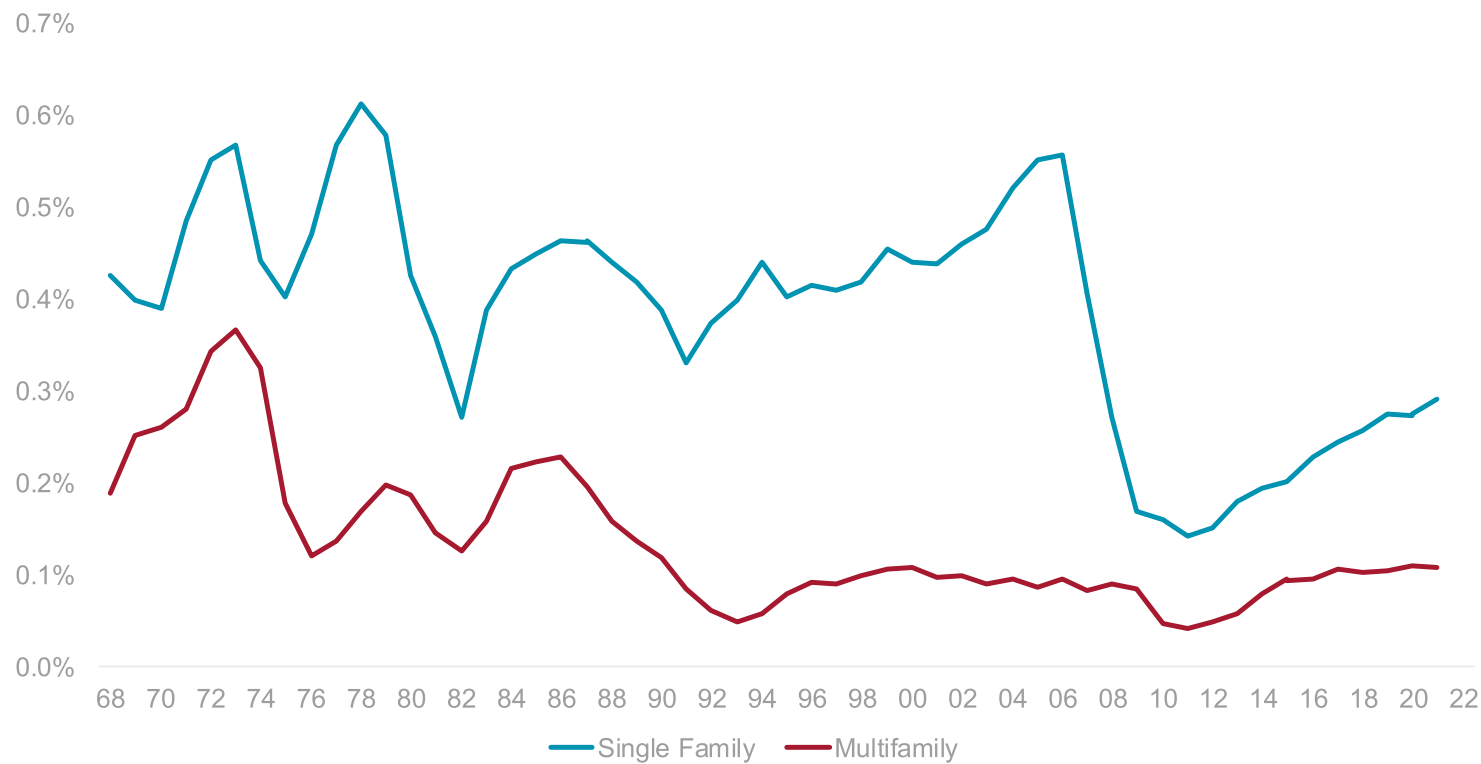
- Construction employment has only recently surpassed pre-GFC levels of employment.
- As workers age out of the workforce, the shortage of construction workers is likely to persist.

- Cost pressures have started to ease, but remain well above the pre-pandemic trend.
- A pullback in starts should keep prices falling, but it remains to be seen if they return to normalized levels.

Source: CushWake Living. For non-disclosure reasons, we cannot share the raw percentages

Are We Building Enough Housing?

Completions Per Capita



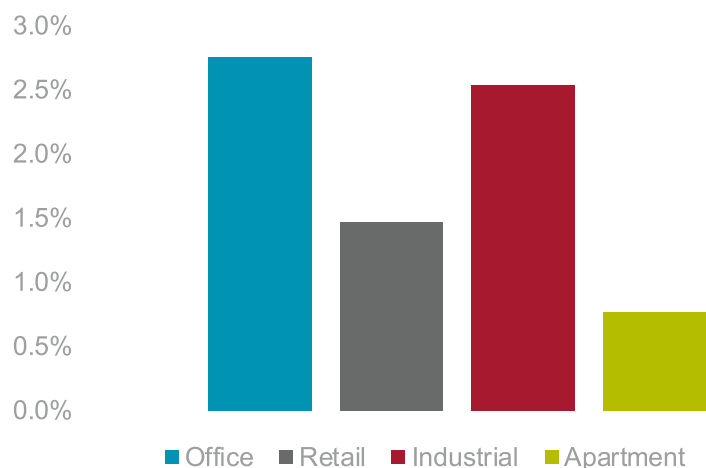
- While overall nominal construction activity remains high, cost pressures and labor availability remain constraints to deliveries.
- Despite record high completions in 2022, relative to the U.S. population multifamily completions remain on par with the past 30 year average.
- Single-family completions have yet to recover to GFC levels

Source: Census Bureau, FRED, Cushman & Wakefield Research

Apartment Has Outperformed During Past Recessions

Fundamentals Hold Up Better During Recessions

Vacancy Increases Were Minimal During GFC



As Were Rent Losses



- If the U.S. economy enters a recession, multifamily's performance during the GFC highlights the asset class's relative lack of volatility.
- During the GFC, apartments saw a relatively minimal vacancy increase relative to the other asset classes which are more exposed to the real economy. The sector was the fastest to rebound as multifamily represents the only true needs-based asset class.

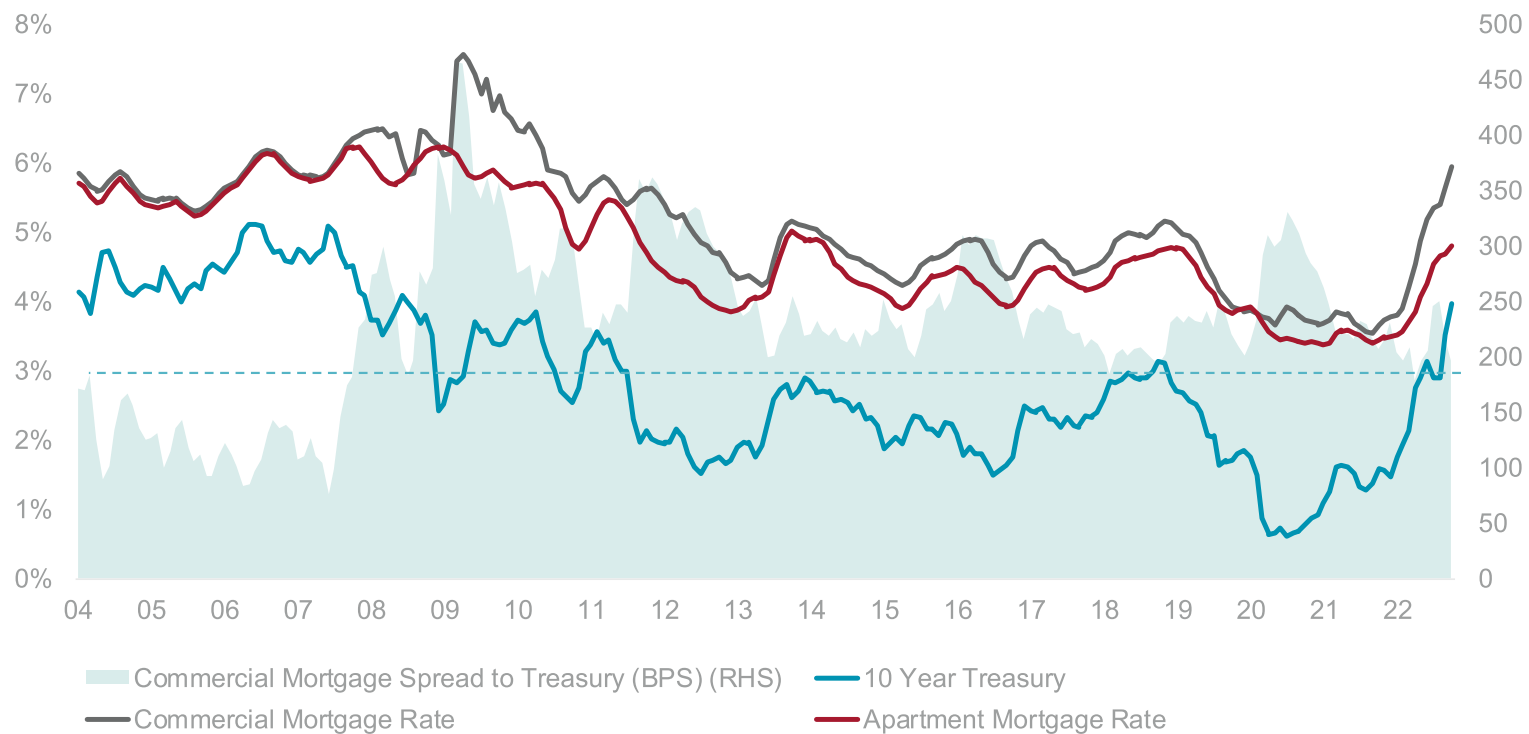
Source: CoStar, Cushman & Wakefield Research

An aerial photograph of a city skyline, likely Los Angeles, featuring a complex highway interchange with multiple overpasses and ramps. The city is filled with various high-rise buildings, some with distinctive architectural features like the Transamerica Pyramid. The sky is a mix of blue and grey, suggesting an overcast day. The text 'CAPITAL MARKETS' is prominently displayed in the center of the image in a bold, white, sans-serif font. There are also two decorative blue dashed lines: one horizontal line above the word 'CAPITAL' and one curved line following the path of the highway interchange below the word 'MARKETS'.

CAPITAL MARKETS

Lending Spreads Widening, But Not Blown Out

Commercial Mortgage Spreads to Treasuries



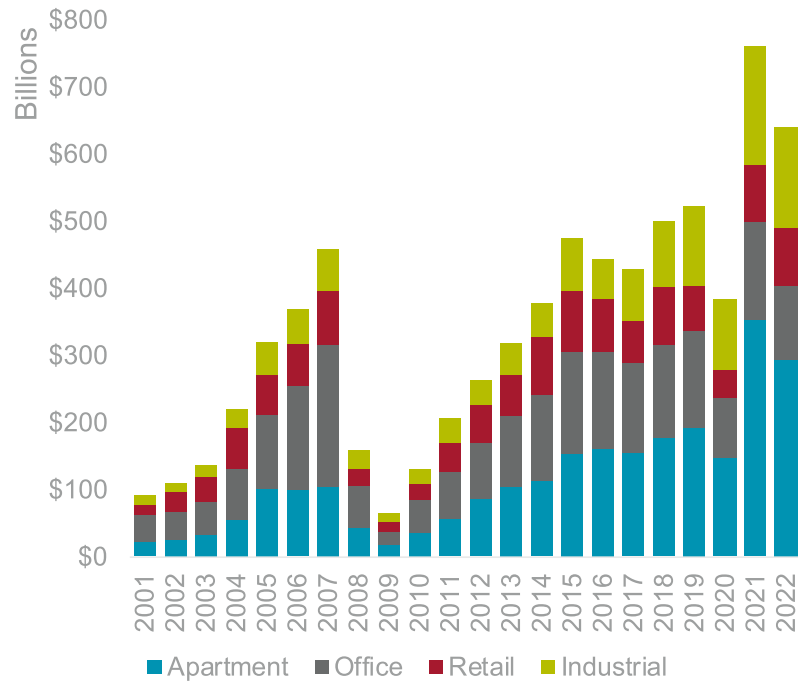
- Spreads between lending rates and the 10 Year treasury rate remain in line with historical norms.
- During recessions, spreads increase rapidly as investors look to be compensated for perceived increased risk.
- The market's implied risk for multifamily lending remains low.

Source: RCA, Cushman & Wakefield Research. Data through Oct-22 to account for lag in loan data

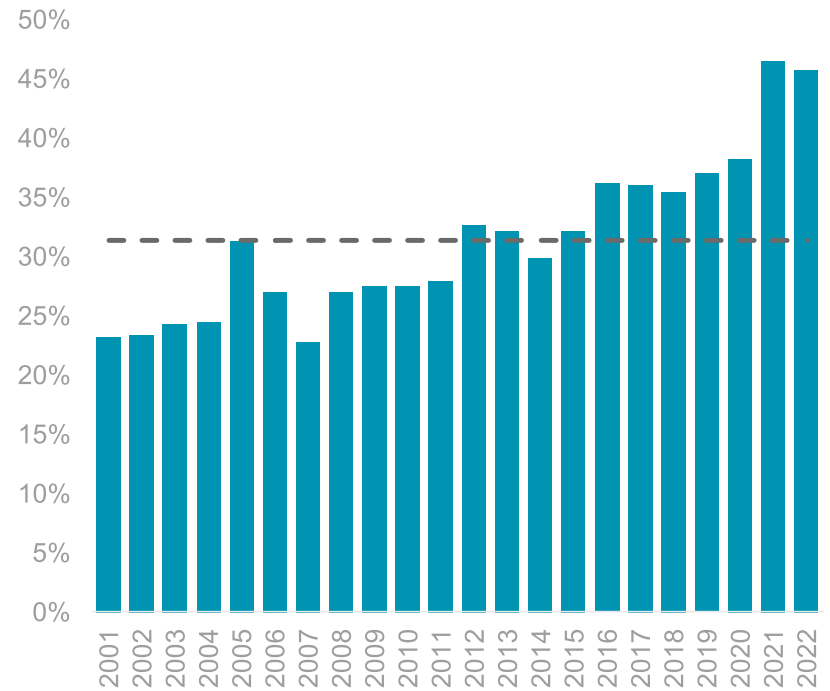
Investors Retreating To Multifamily Amid Uncertainty

Total Volume By Asset Class

Overall Sales Volume



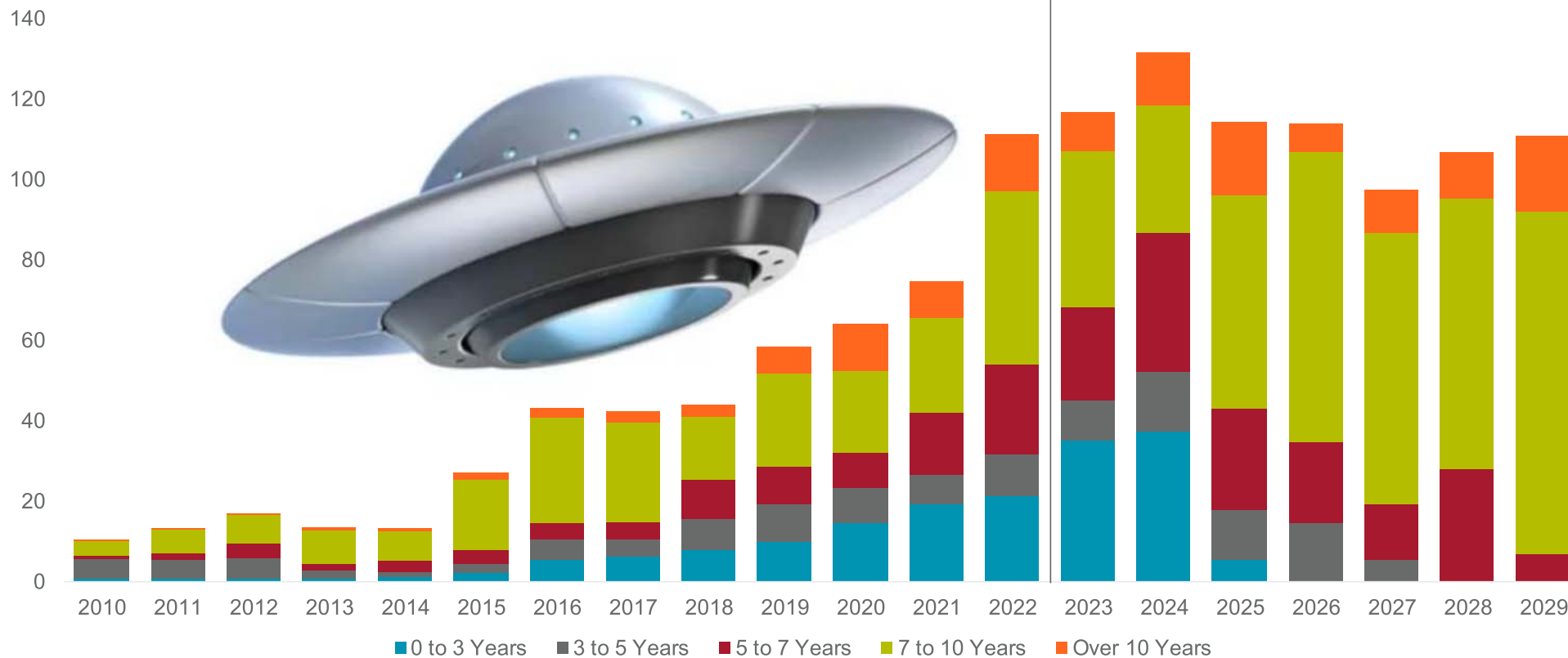
Multifamily Share Of Total Volume



Source: RCA, Cushman & Wakefield Research

A Wave Of Multifamily Debt Is Coming Due

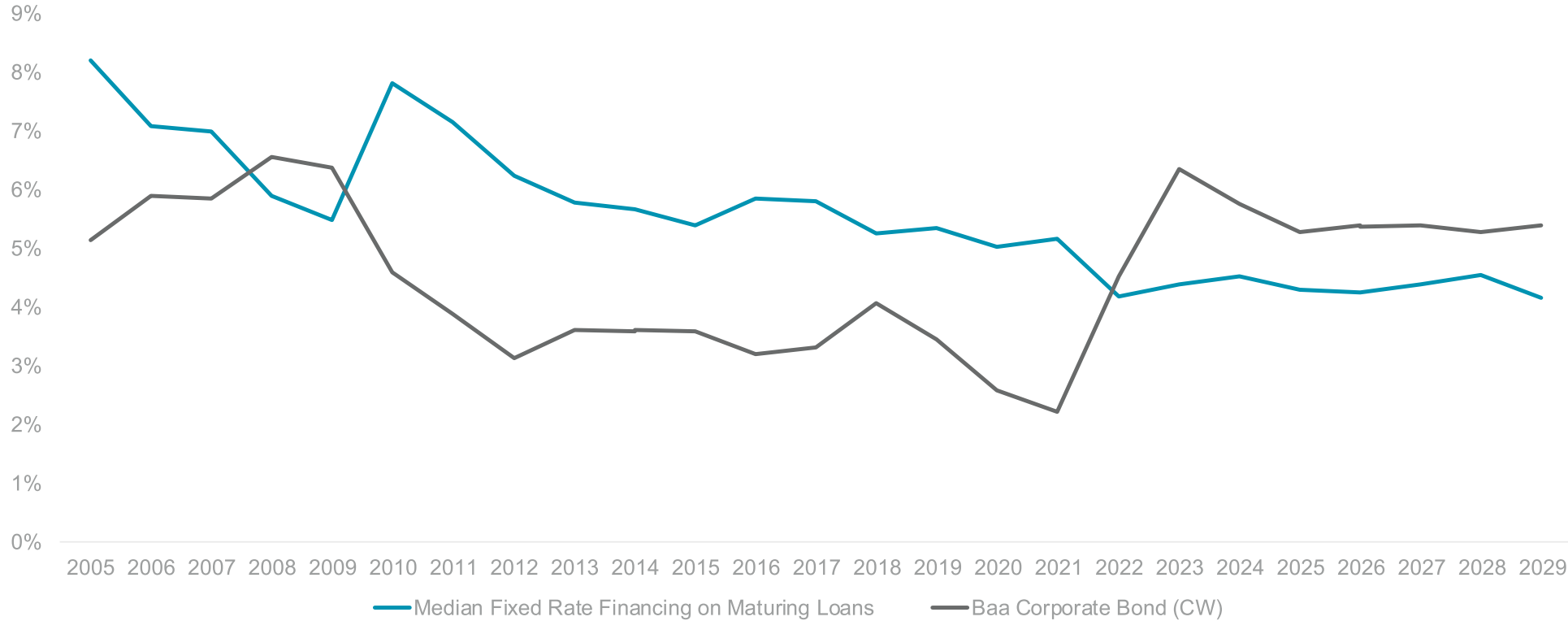
Multifamily Debt Maturities By Year



Source: RCA, Cushman & Wakefield Research

Refinancing Will Be Costly For First Time since GFC

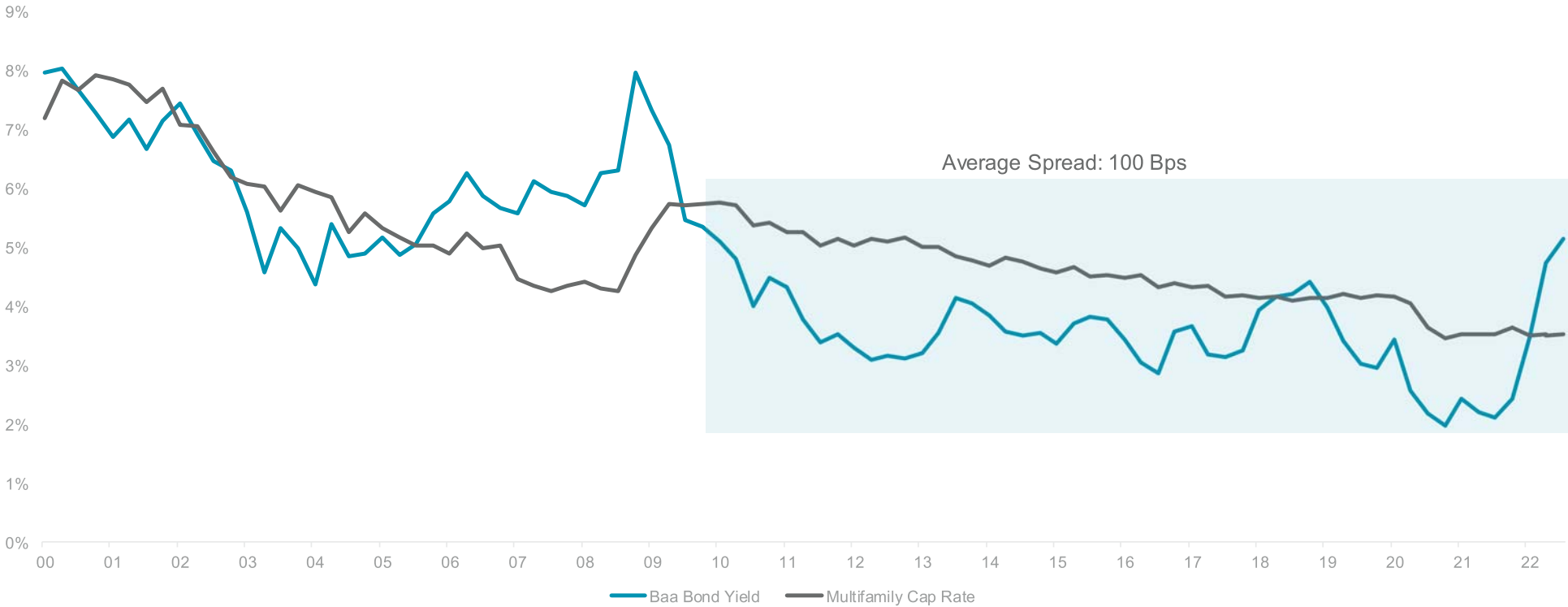
Cost of Financing on Maturing Loans vs. Baa Corporate Bonds (CRE Proxy)



Source: RCA, Moody's Analytics Forecasts, Cushman & Wakefield Research

Apartment Pricing Hasn't Adjusted As Quickly As Bonds

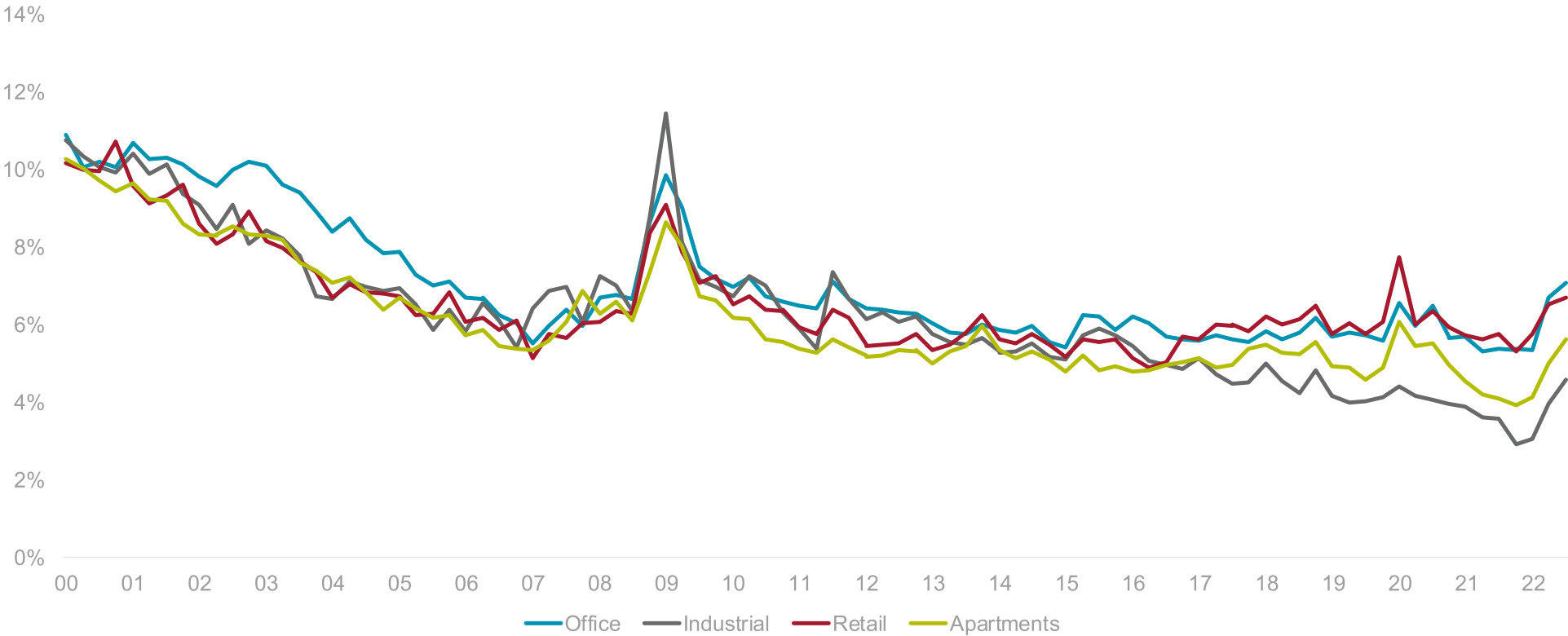
Spread Inversion Most Extreme Since GFC



Source: NCREIF, Moodys, Cushman & Wakefield Research

Public Market Yields Showing Effects of Rising Rates

REIT Implied Cap Rates



Source: NAREIT, Cushman & Wakefield Research

Most Didn't Purchase At Peak Pricing

NOI Growth Needed To Maintain Values, 21Q4 Vs. Average Pricing 2017-2019

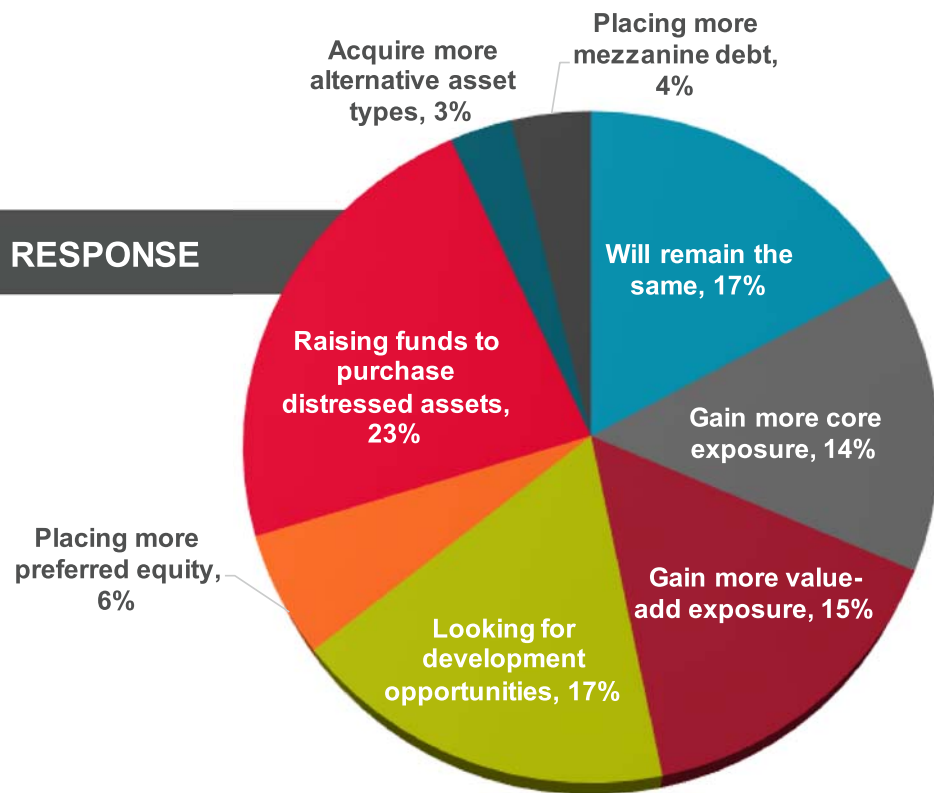


Source: NAREIT, Cushman & Wakefield Research

An aerial photograph of a city at dusk. In the foreground, a hillside is covered in dense green trees. A modern building with a glass facade is under construction on the left side of the hill. The city below is illuminated by streetlights and building lights, with a hazy skyline visible in the distance under a dark, cloudy sky. Two decorative horizontal lines of blue diagonal dashes are positioned above and below the main text.

INVESTOR SURVEY

How Do You Anticipate Your Multifamily Investment Strategy Shifting In The Next 12-18 Months?



KEY TAKEAWAYS

INVESTORS EXPECTING DISTRESS OR AT LEAST SOME STRESS:

- 23% of respondents are pivoting to raise capital for distressed assets.
- Another 10% of respondents were looking to place more pref equity and mezz debt.

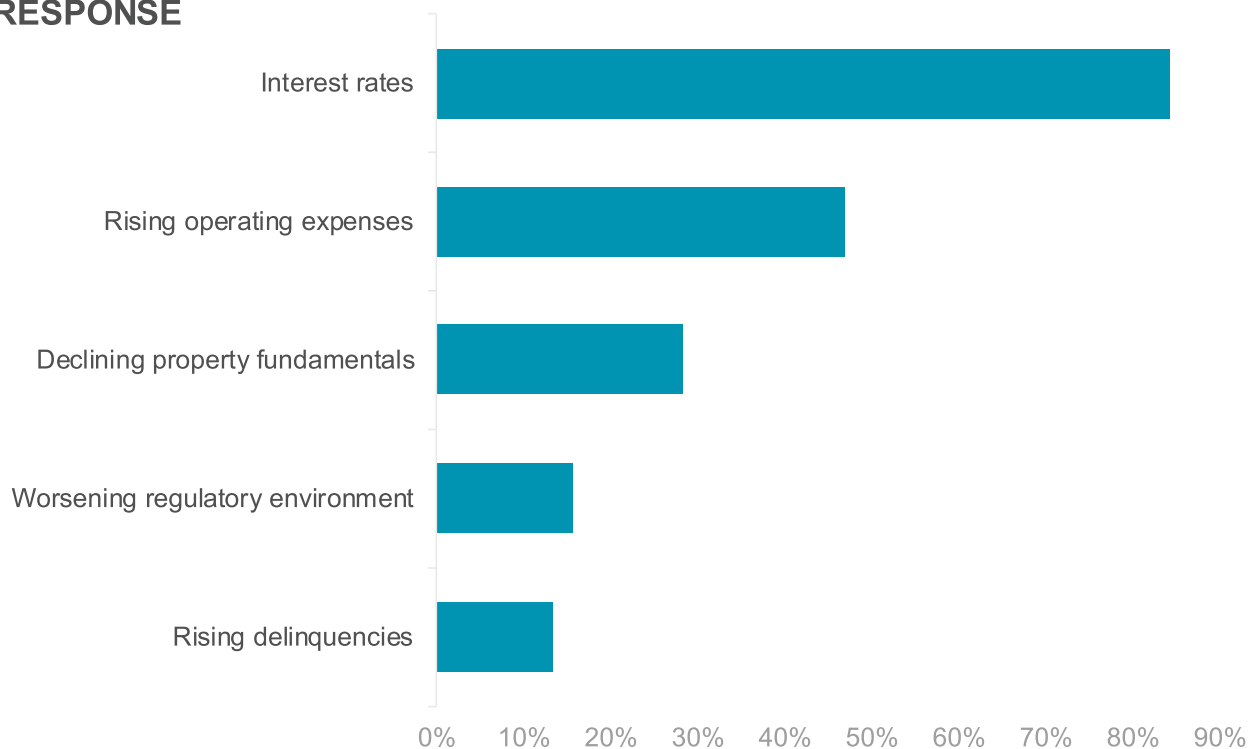
RISK-ON IS STILL PREFERABLE:

- Nearly a third of respondents indicated they were looking at more development and value-add exposure.

Note: Respondents could check any that apply

What Do You See As The Two Greatest Challenges To The Multifamily Market In 2023?

RESPONSE



KEY TAKEAWAYS

Interest rates are top concern for 2023:

- 84% of respondents selected interest rates as one of two challenges facing the market, nearly double any other concern
- Interest rate volatility has weighed on confidence this year, but the Fed appears to be approaching its terminal rate, meaning there might not be much volatility left.

Little concern that renters will be able to make rent payments:

- Some concern for slipping property performance, but despite elevated inflation, investors believe renters should be able to meet rent obligations.

Note: Respondents could check two options, though the percentages are based on the total number of respondents meaning the totals exceed 100%.

Do You Anticipate Multifamily Debt/Equity To Be More Available In 2023?

RESPONSE



KEY TAKEAWAYS

Capital availability is expected to shrink in 2023:

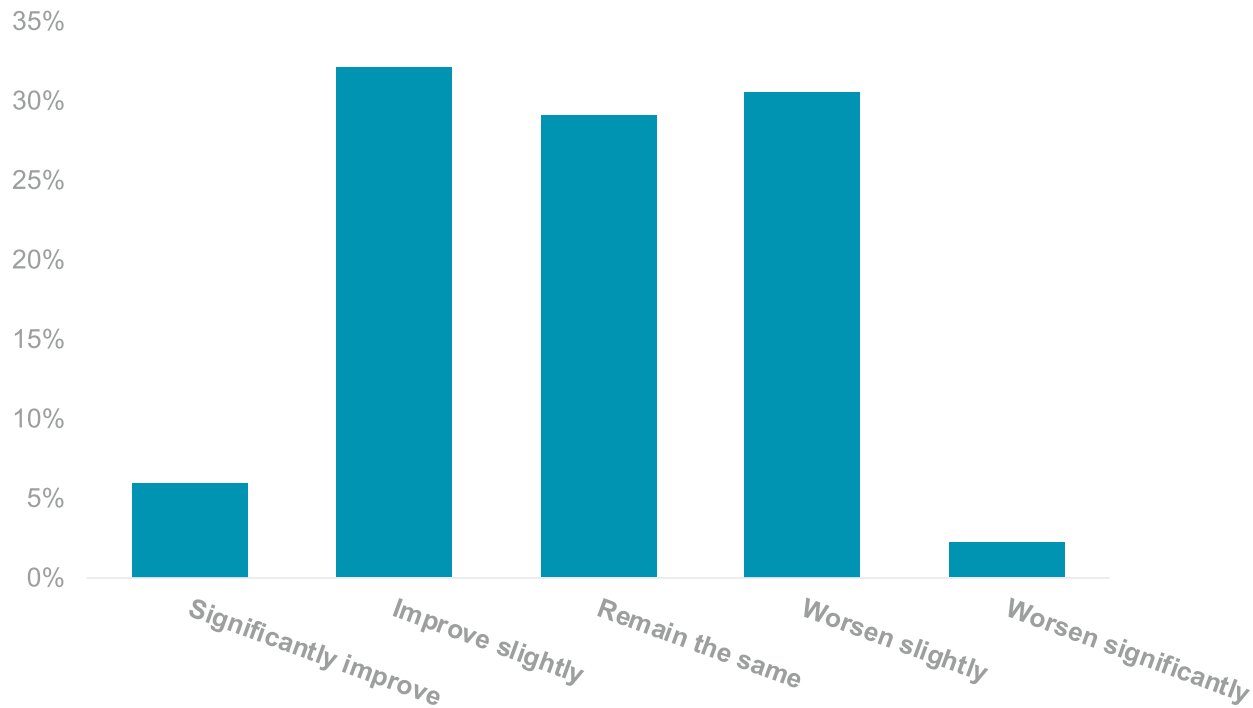
- About 60% of respondents believe that debt and equity will be less available compared to about 17% who said capital would be more available.

Investors slightly more optimistic about equity than debt availability:

- While about 45% of respondents believe both debt and equity will be somewhat less available in 2023, 41% believe that equity will at least be about the same or somewhat more available compared to 33% for debt availability

Multifamily Renter Demand Will _____ In The Next 12 Months.

RESPONSE



KEY TAKEAWAYS

Mixed signals for renter demand:

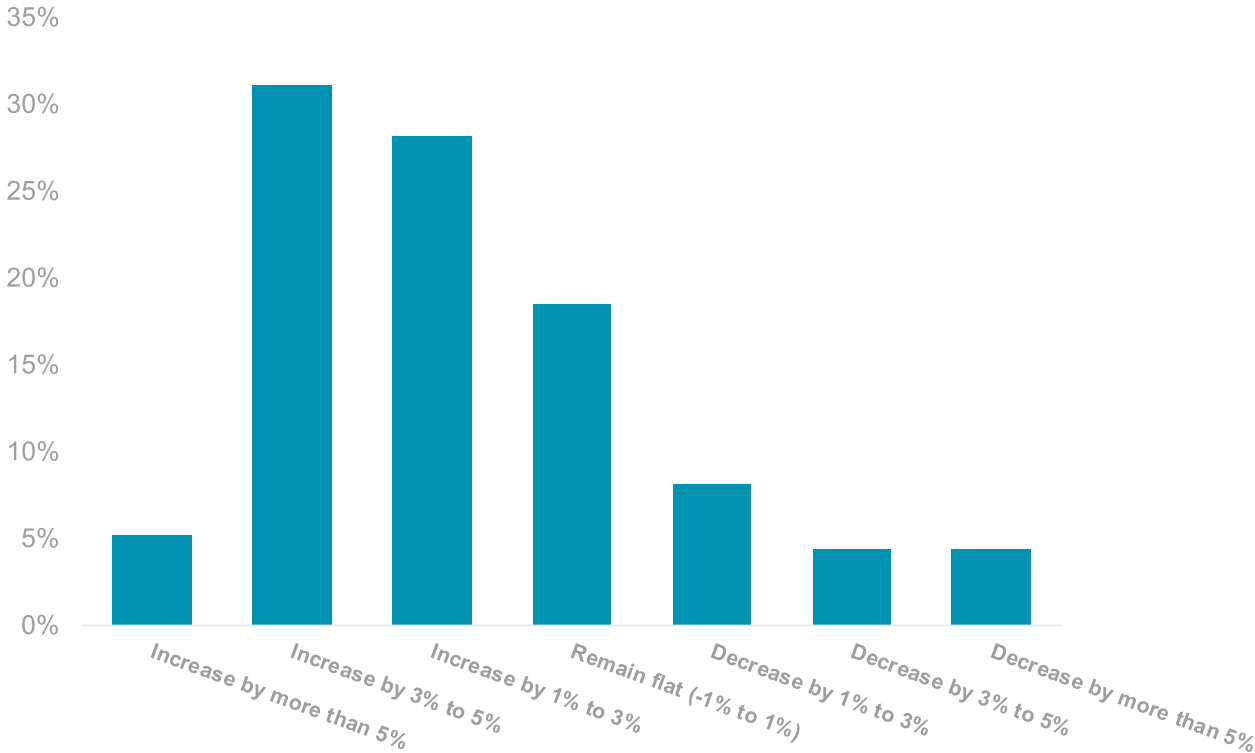
- Respondents were split when it came to demand. 32% believe demand will slightly improve, while 31% believe it will worsen slightly.
- Respondents in private equity tended to be more pessimistic, with 38% of respondents saying demand would worsen slightly.

Cushman & Wakefield Take:

- The demand outlook hinges on the path of the economy. As consumer confidence improves, household formation should follow.

Multifamily Rent Growth Will _____ In The Next 12 Months.

RESPONSE



KEY TAKEAWAYS

Investors remain optimistic about rent growth:

- Despite headlines of slowing rent growth, 31% of respondents believe that rents will increase by 3%-5%.
- Overall, 64% of respondents believe rents will grow by some amount, compared to only 17% who believe rents will fall in 2023.

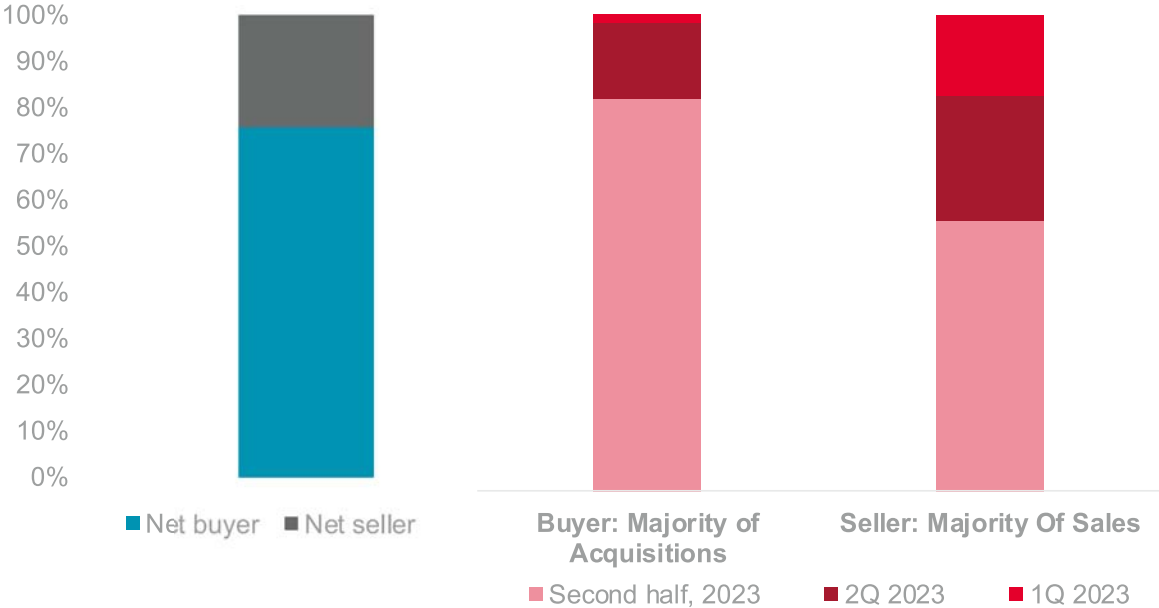
Cushman & Wakefield Take:

- Rent growth is likely to come in from 2022 growth rates, but we continue to see momentum in the market for above-average rent growth into 2023.

Will You Be A Net Seller Or Buyer Of Multifamily Properties In 2023?

Follow Up: When do you expect the majority of your multifamily transaction activity to occur in 2023?

RESPONSE



KEY TAKEAWAYS

Buyers off the sidelines:

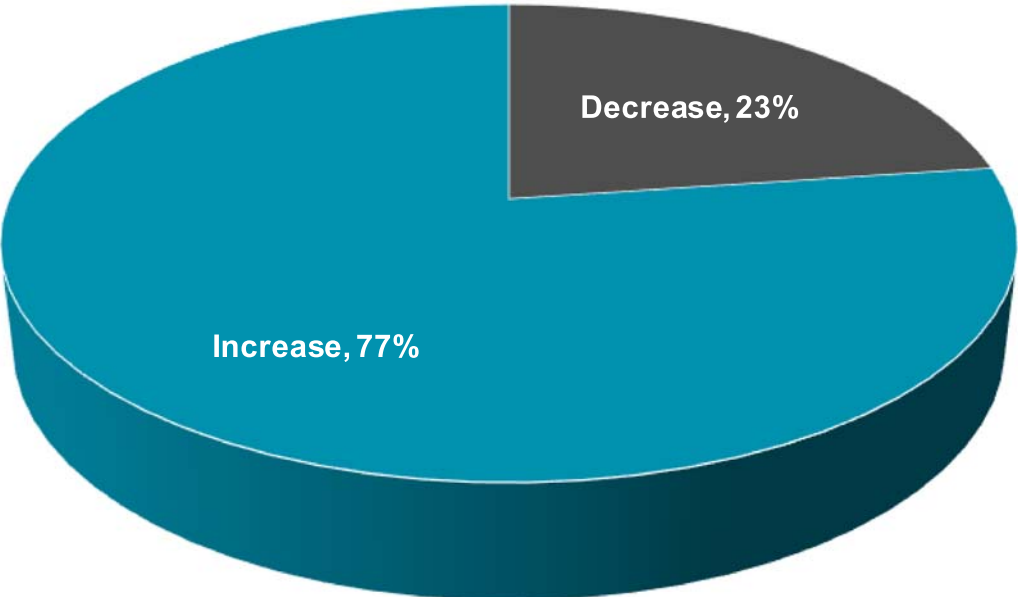
- Roughly 75% of respondents said they would be net buyers in 2023

Timing mismatch:

- Respondents planning to be net buyers in 2023 do not appear to be in a rush; nearly 80% expect the majority of purchasing activity to take place in the second half of the year.
- On the other hand, nearly 45% of net sellers expect to dispose of the bulk of their assets in the first half of the year.
- This mismatch in timing expectations could mean the price-discovery phase lasts longer into 2023.

Do You Plan To Increase or Decrease Your Allocation To Multifamily In 2023?

RESPONSE




KEY TAKEAWAYS

Optimism abounds:

- 77% of respondents who invest across asset classes plan to increase their allocation to multifamily in 2023.

Broadly consistent:

- This share was consistent across all respondent profiles, which include private equity, REITs, developers, foreign capital, and institutional investors.

An aerial photograph of a complex multi-level highway interchange with several overpasses and ramps. The image is darkened to serve as a background for text. Two horizontal dashed blue lines are positioned above and below the text.

**CRITICAL
QUESTIONS FOR
2023**

Will Labor Markets Cool Off?

3.7%

Unemployment rate in the U.S. as of November 2022, among the lowest rates on record dating back to the 1940s.



5.3%

Average rate of wage growth for private industry workers in Q3 2022, the highest since 1984.

Source: U.S. Bureau of Labor Statistics
*Wage growth as measured by the
Employment Cost Index, YoY % change

WHAT TO WATCH +

Keep an eye on the quit rate, which measures the number of employees who quit their job as a percentage of the total. A high rate means more people are leaving their jobs to accept new ones, which puts upward pressure on wages. The quit rate is currently hovering around 3%—a near record high. That needs to continue to decline to take pressure off the Fed.

Within six months of the quit rate bottoming out, job losses stabilize and new job creation begins—which in turn propels demand for all forms of property. In prior cycles, it took 2-2.5 years for the rate to bottom out. Given the rate has been steadily declining since late 2021, it could bottom out at the end of 2023.

DID YOU KNOW?

How will the Debt Markets Respond in 2023 and Beyond?

-16%

Q3 2022 lending volume, 16% below the 2017-2019 average; despite running below recent highs, lending is still supportive of a relatively active CRE landscape.

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\$9.3B

CMBS lending September 2022, 30% below the 2017-2019 average volume.

Source: Real Capital Analytics

WHAT TO WATCH

As interest rates level off and as macroeconomic uncertainty fades, financial market volatility will cool, which will help bring Treasuries, corporate bond yields and broader risk premium (spreads) down from recent highs. With more financial market clarity and less interest rate volatility, liquidity will be able to return to the commercial real estate debt markets.

DID YOU KNOW?

In December 2021, CMBS lending reached \$89.5 billion—the highest level in seven years.

Will the Central Bank be able to Tame Inflation without Causing a Recession?

7.1%

Down from its June peak of 9.0%, but still among the highest rates of consumer price inflation in the U.S. since 1980.



\$396

How much more U.S. consumers pay each month for the same basket of goods and services than in 2021.

Source: U.S. Bureau of Labor Statistics, Moody's Analytics
*CPI Urban Consumer - All items

WHAT TO WATCH

The central bank will continue to raise the policy rate until there is sustained evidence that core inflation* is coming down. Risk remains that the Fed will raise rates too aggressively and push the economy into recession. As of this writing, future markets expect the Fed to pause in mid-2023 in the 4.75% to 5.0% range and begin lowering rates end of 2023 or early 2024.

*Core inflation is the change in prices of goods and services excluding food and energy sectors.

DID YOU KNOW?

Historically when the Fed first begins to lower rates, property values begin rising 3-4 quarters later.

Can Households Afford Today's Sky-High Rents?



\$471

The difference between the average principal and interest component of mortgage payment and rent (widest gap in history). Typically, rents are about \$65 higher than mortgage payments. Relatively, renting has never been cheaper.

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22%

Current average rent-to-income ratios for U.S. multifamily REITs imply renters aren't having trouble making rental payments. 30% qualifies renters as "cost burdened" by HUD.

Source: FRED, Census, HUD

WHAT TO WATCH

Home prices have already started to decline, but for the market to return to the historical spread between rents and mortgage payments, home prices would need to fall by more than 25%. That decline would be more than home prices fell during the Great Financial Crisis (19.8%), insulating apartment demand from further erosion from the single-family market.

DID YOU KNOW?

As of now, there are no signs of underlying distress showing up in rental delinquency rates. Delinquencies are down 30 bps over last year in Cushman & Wakefield's managed portfolio.

MULTIFAMILY ADVISORY GROUP

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 50,000 employees in over 400 offices and approximately 60 countries. In 2021, the firm had revenue of \$9.4 billion across core services of property, facilities and project management, leasing, capital markets, and valuation and other services.

To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.



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