

LIFE IS WHAT **WE** MAKE IT

# MULTIFAMILY MARKET TRENDS

MICHAEL TIDWELL



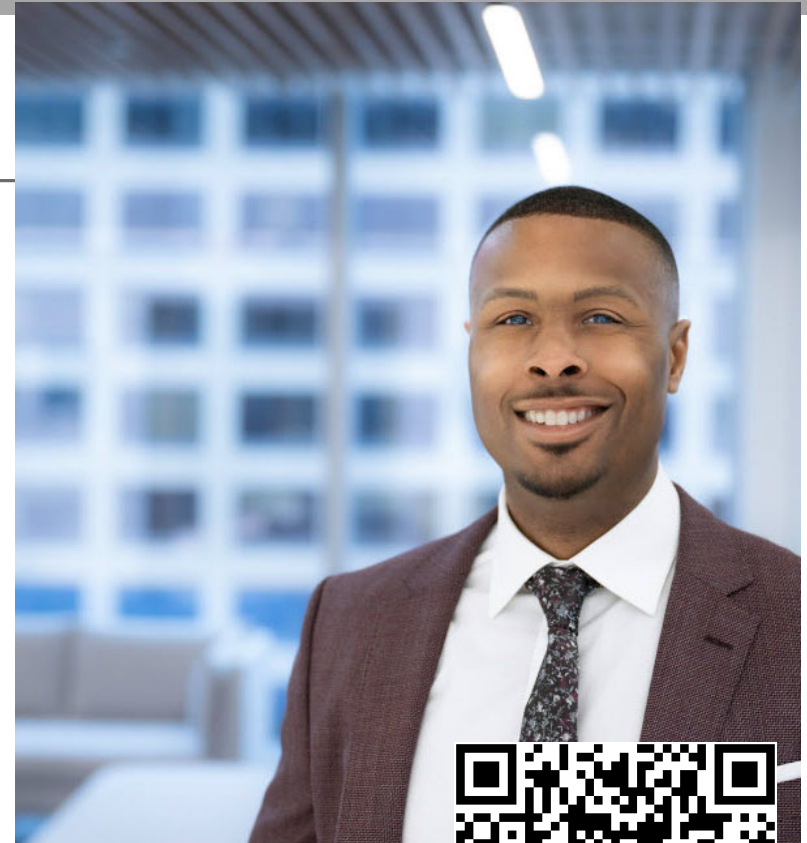


## Speaker Bio

### ***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:

- **2023 Summary:** Inflation is high but stabilizing, with a mild recession likely. The Federal Reserve's policies aim to temper financial market volatility, affecting treasuries and corporate spreads.
- **2024 Outlook:** "Soft Landing" is hoped for, but recession risks persist. Inflation remains a concern, with the Fed's response hinging on labor market indicators.



## MULTIFAMILY:

- **2023 Summary:** Fundamentals stay strong against a backdrop of negative sentiment, bolstered by a favorable demographic trend and a significant housing shortage.
- **2024 Outlook:** Fundamentals are sound, though new supply could challenge the market. Apartment demand surges due to single-family market disruptions.



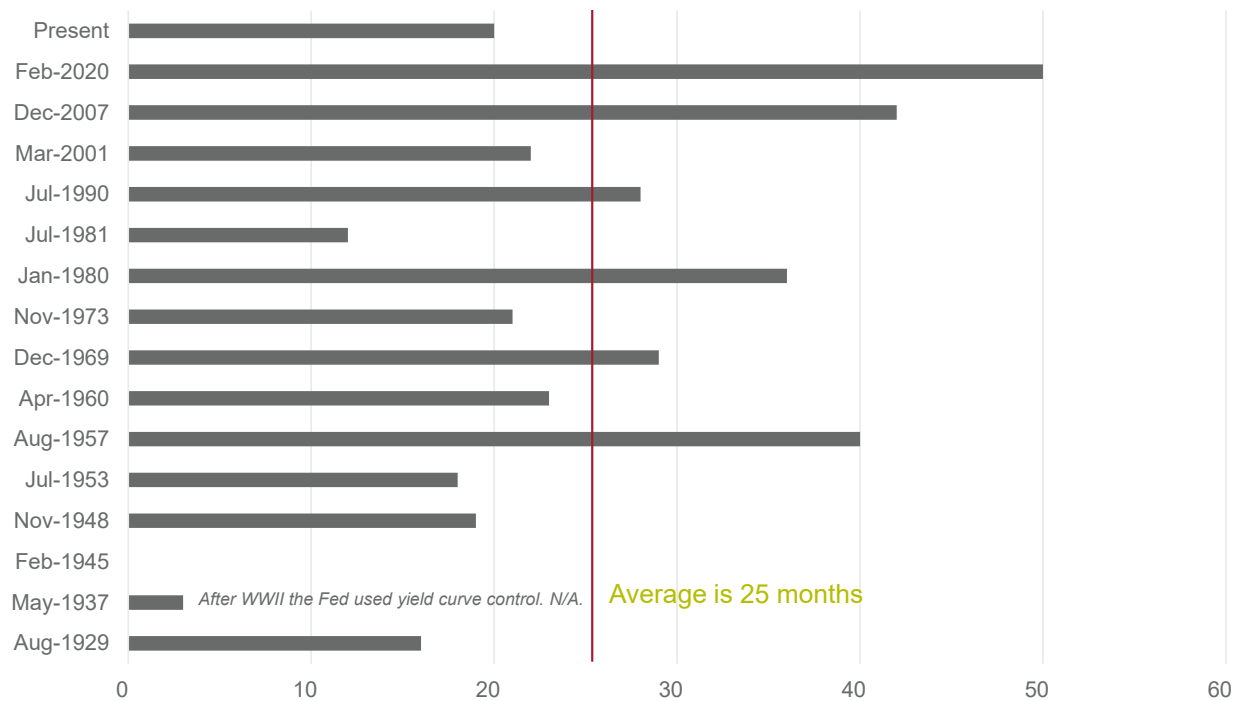
## CAPITAL MARKETS:

- **2023 Summary:** CRE debt markets are expected to revive as stability improves, presenting good buying opportunities amidst interest rate adjustments.
- **2024 Outlook:** Private CRE yields lose their luster against other investments, and pricing aligns more with public markets. Expect concentrated distress in older assets with variable debt..



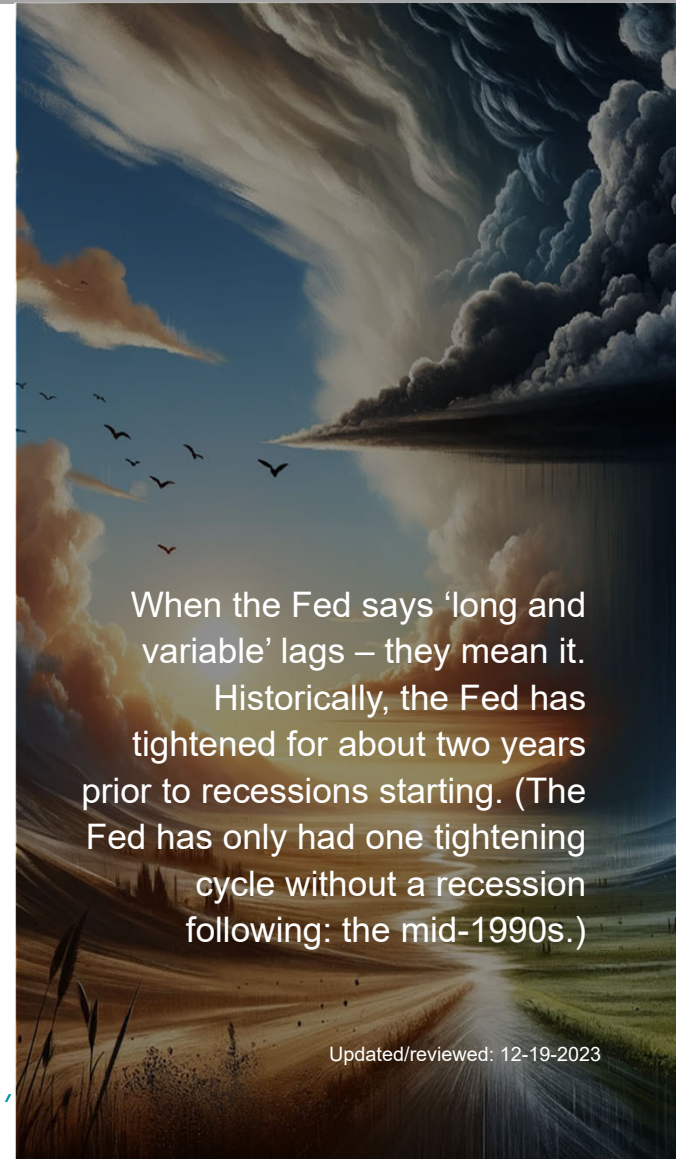
# PERSPECTIVE ON PRIOR RATE HIKING CYCLES

## Months of Fed tightening before recession start



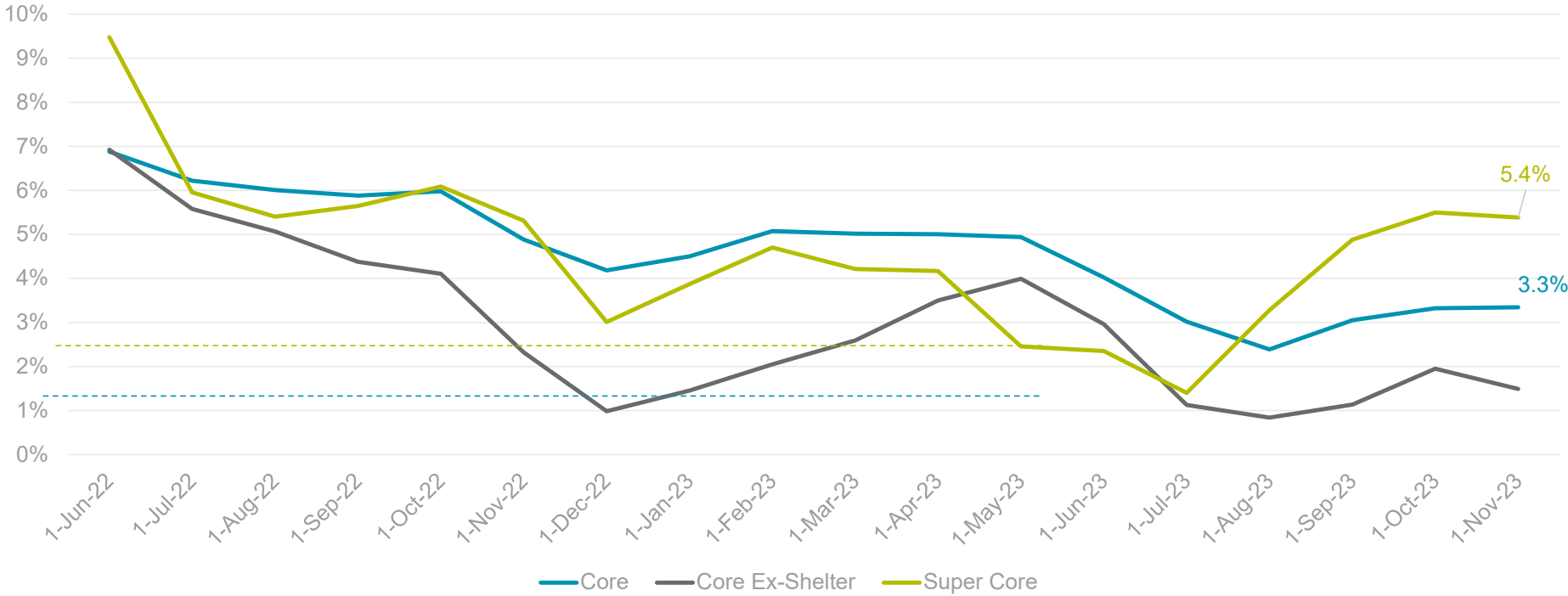
Source: Federal Reserve, Cushman & Wakefield Research

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# FIGHT'S NOT OVER: LAST MILE OF INFLATION IS STILL A CHALLENGE

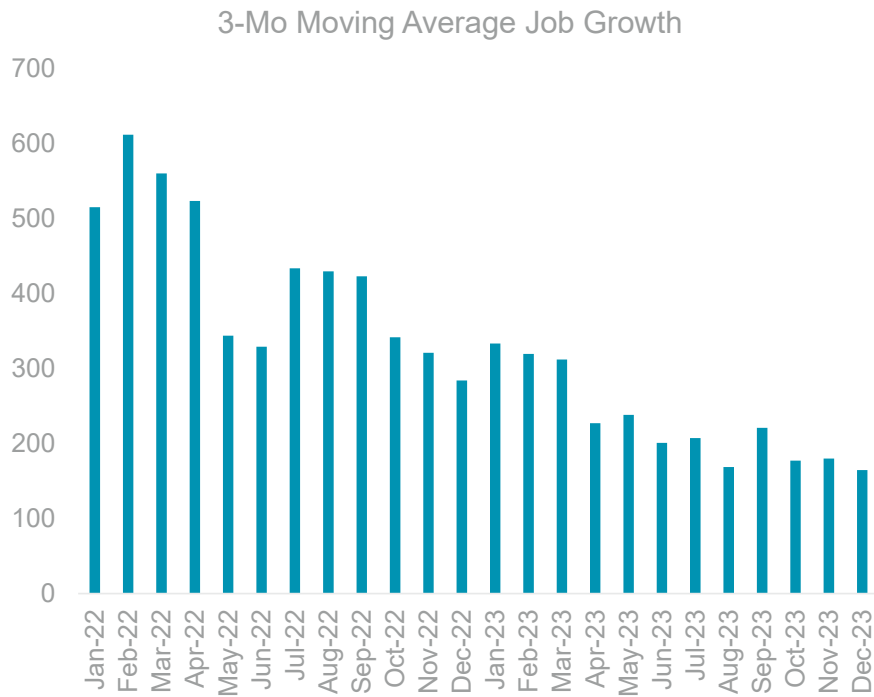
## The Path Ahead Will Be Stubborn



Source: Bureau of Labor Statistics, Cushman & Wakefield Research

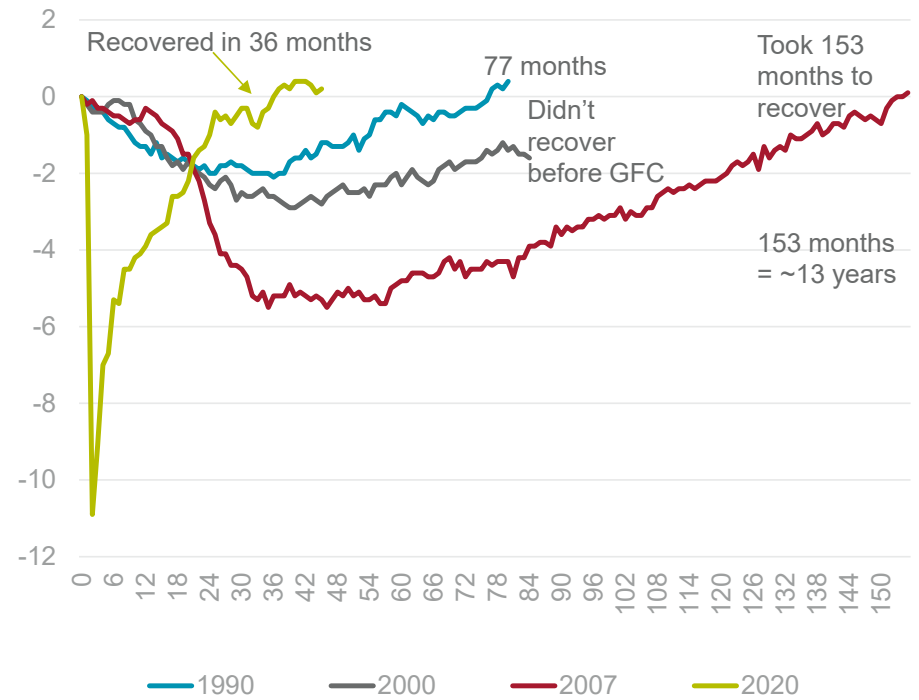
# THE LABOR MARKET IS RESILIENT, BUT FOR HOW LONG?

## Job Growth Has Clearly Slowed

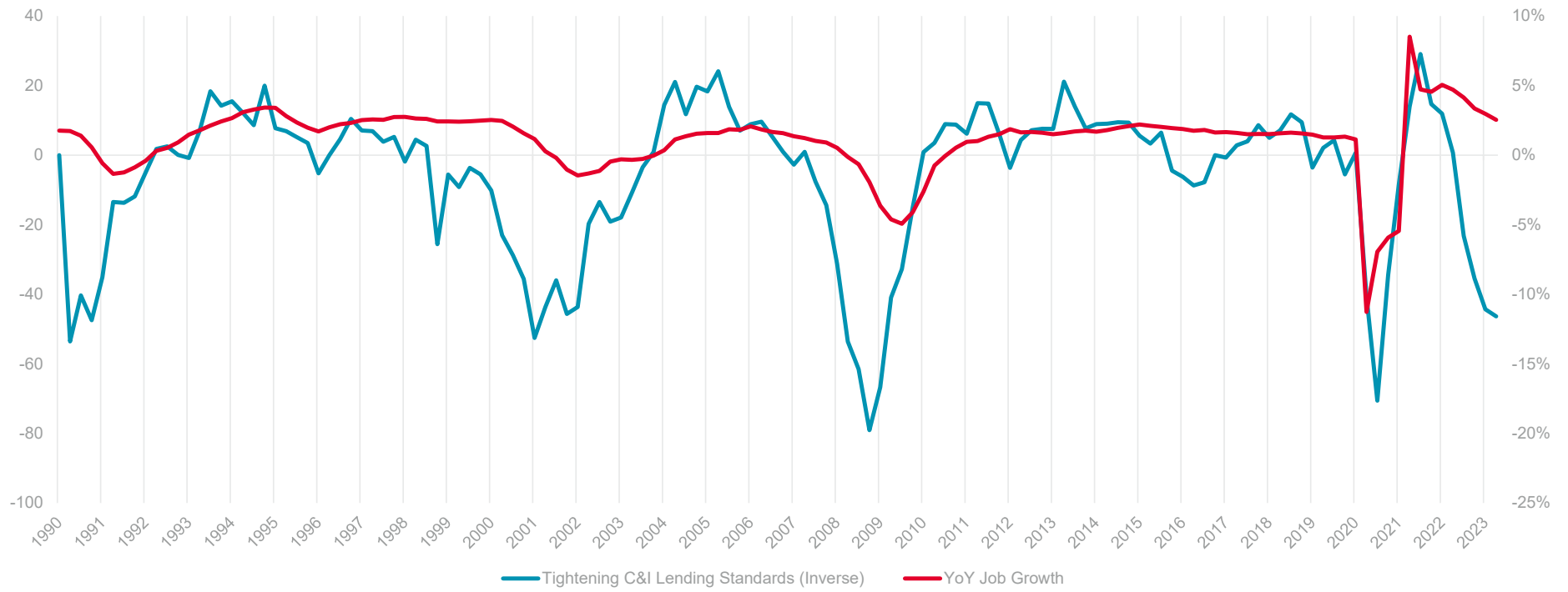


## There Aren't That Many People Left Without A Job

Prime Age Employment to Population Ratio Indexed to Recession Start



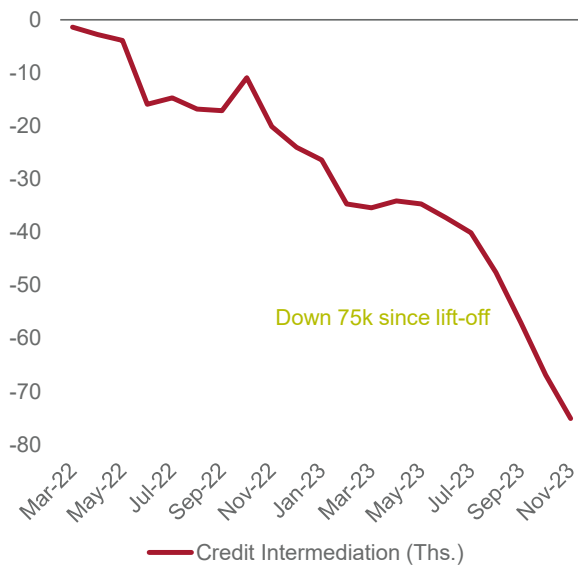
# TIGHTER CREDIT CONDITIONS TYPICALLY LEAD JOB LOSSES BY 6-9 MONTHS



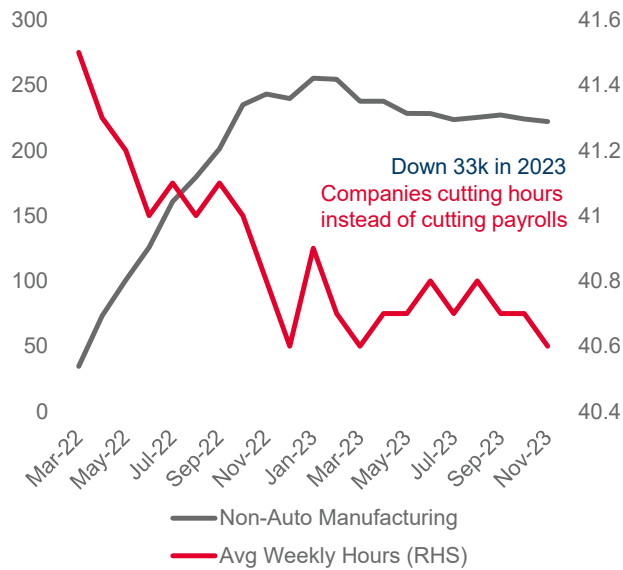
Source: BLS, Fed SLOOS, Cushman & Wakefield Research

# ROLLING RECESSION IS ALREADY HERE: INTEREST RATE SENSITIVE INDUSTRIES ARE ALREADY IN CONTRACTION MODE

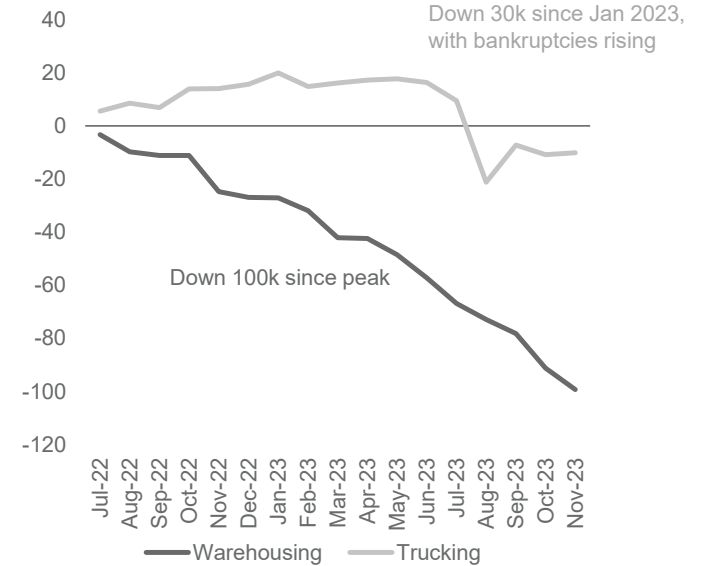
### Cumulative Job Loss Since Lift Off



### Manufacturing: Hours Cut First



### Cumulative Job Loss Since mid-2022

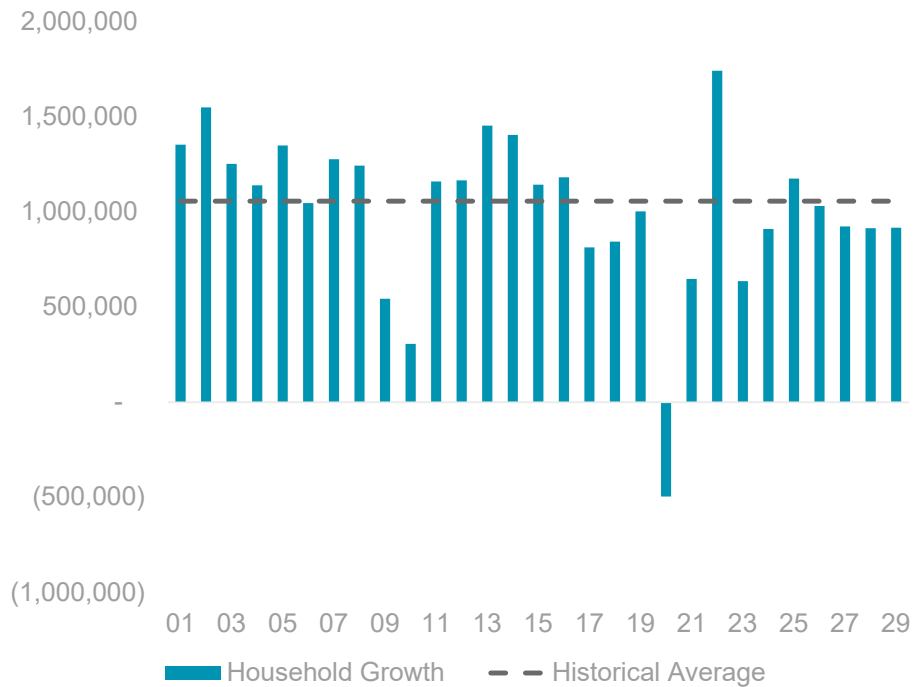


Source: U.S. Bureau of Labor Statistics  
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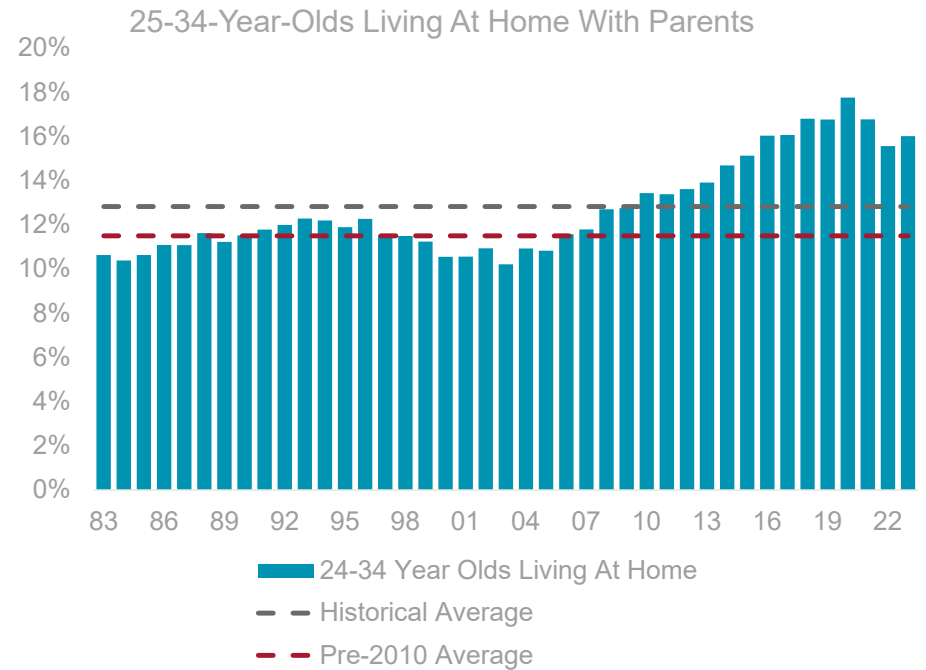


# FOLLOW THE HOUSEHOLDS, NOT (NECESSARILY) THE PEOPLE

## Household Growth Expected To Rebound



## But There Is Upside In The Outlook



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

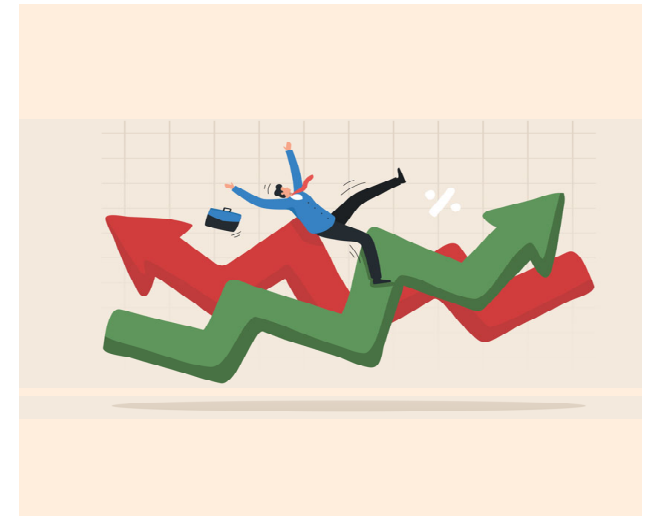
# PARTICIPATION QUESTIONS




1. "How do you manage appraisal valuations in a volatile market, especially with fluctuating cap rates and NOI projections?"



2. "What tools or data sources have proven most reliable for you when appraising properties in uncertain economic times?"



3. "Could you share an example where market volatility significantly impacted your appraisal outcome?"

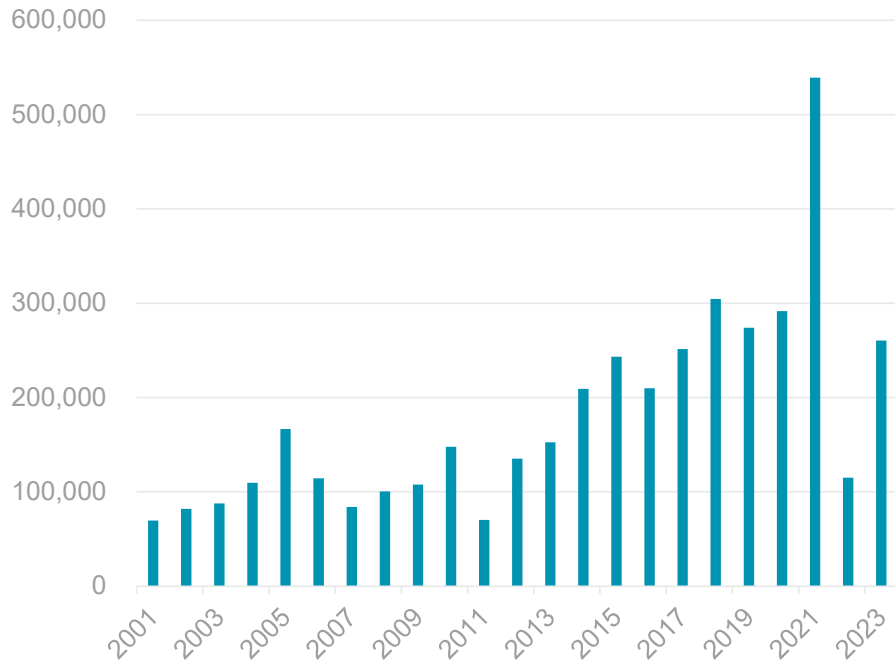


The background features a complex digital interface with various elements: a hand pointing at a screen on the right, several charts and graphs, a world map, and various icons representing business and technology. Text elements include 'Brand Reputation CRM Quality', 'Innovation Strategy Solutions Analysis', 'VISION SOLUTIONS INNOVATIONS STRATEGY DIRECTING MANAGEMENT RESOURCE MANAGEMENT', and 'Plan'. The central text 'MULTIFAMILY PERFORMANCE DRIVERS' is prominently displayed in white.

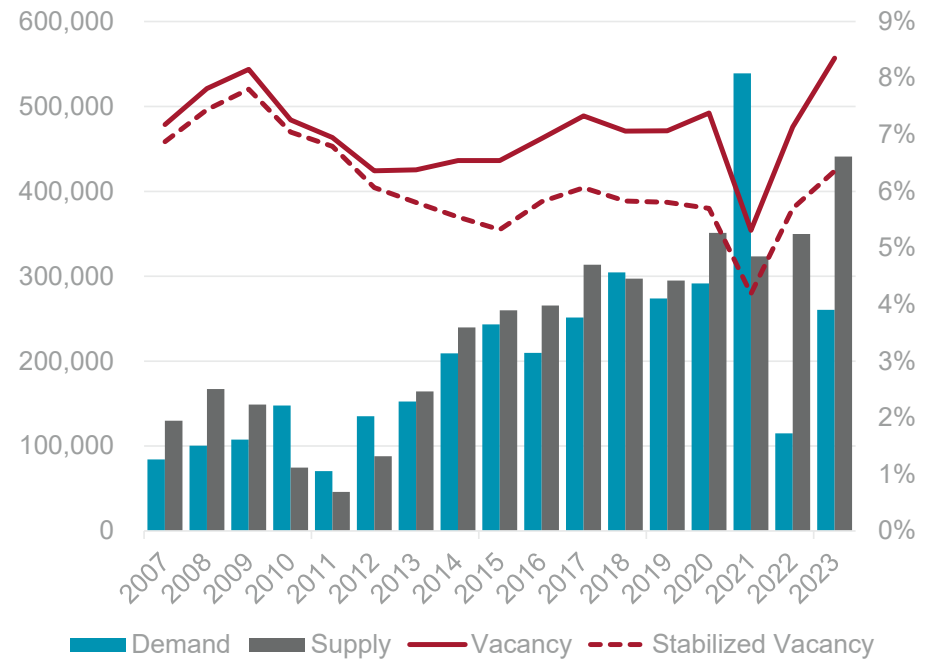
# MULTIFAMILY PERFORMANCE DRIVERS

# FUNDAMENTALS ARE DETERIORATING, BUT DEMAND HAS PICKED BACK UP

## 2023 Demand Was Back To Normal



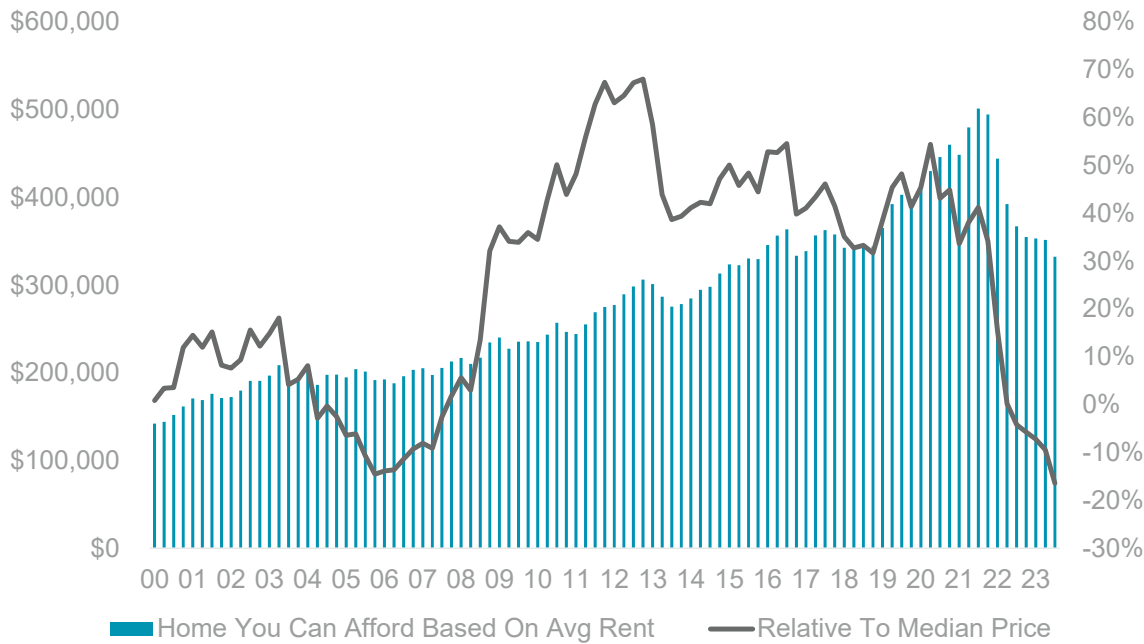
## But Construction Levels Continue To Outpace



Source: CoStar, Cushman & Wakefield Research

# SINGLE-FAMILY AFFORDABILITY HAS COLLAPSED

Prospective Home Buyers Can Afford A Home 17% Below Median Today Based On Rents



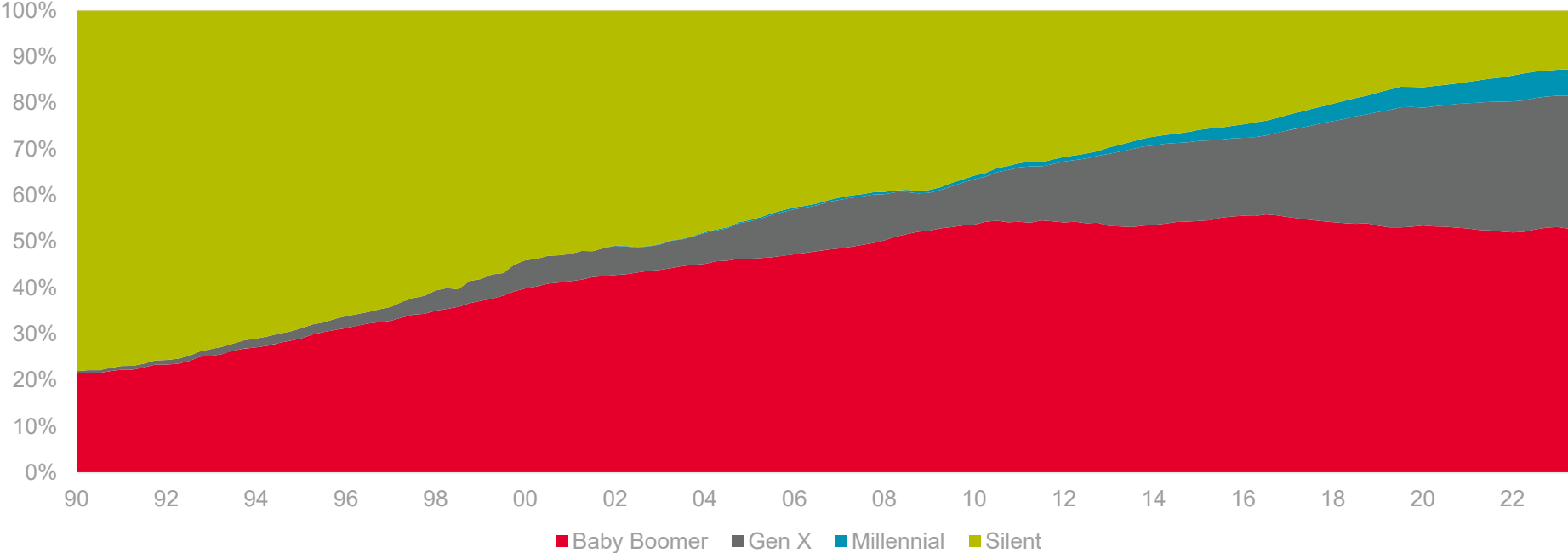
Source: NAR, Freddie Mac, Cushman & Wakefield Research  
Note: Assumes 20% down, and excludes taxes/insurance

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# MILLENNIAL'S SHARE OF NET WORTH AT ONLY 6%

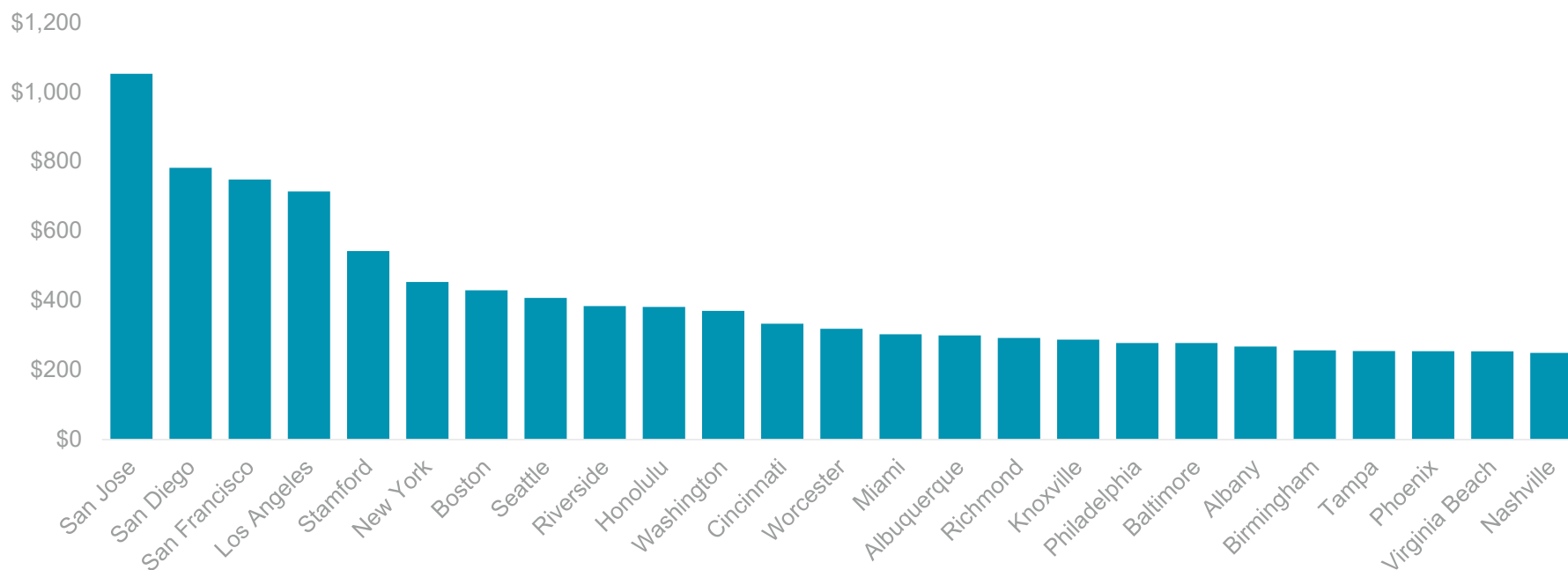
Making It Hard To Not Just Afford The Monthly Payment, But Also The Down Payment



Source: Federal Reserve, Cushman & Wakefield Research

# SINGLE FAMILY MARKETS ARE BROKEN ACROSS THE U.S. – ESPECIALLY ALONG THE WEST COAST

Change in Monthly Mortgage Payment, YoY



Source: Zillow, CoStar, Cushman & Wakefield Research

## PARTICIPATION QUESTIONS



1. "What are some challenges you face when appraising properties in markets with rapidly changing housing demand?"

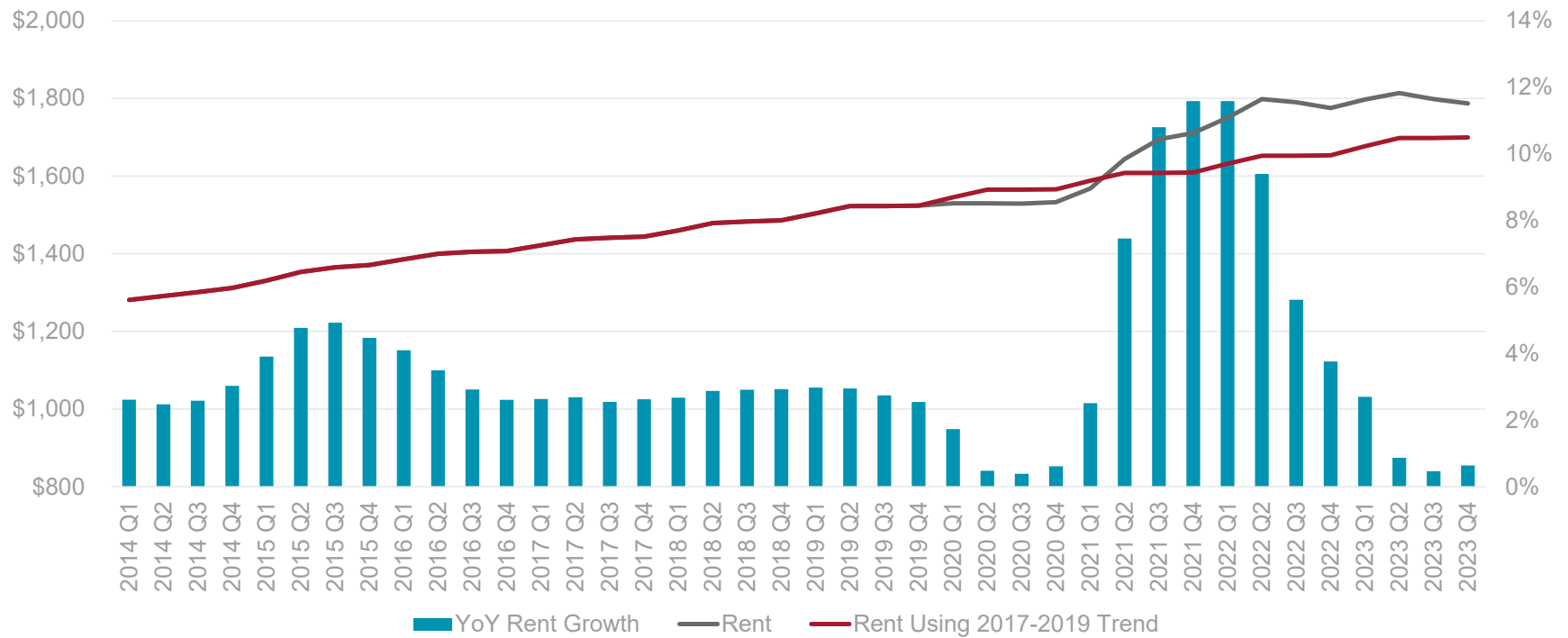


2. "Can you give an example of how a demographic shift significantly affected an appraisal?"



# RENTS GROWTH IS WEAKENING

As the Pandemic Boost In Rents Fades – Catching Up To Trendline

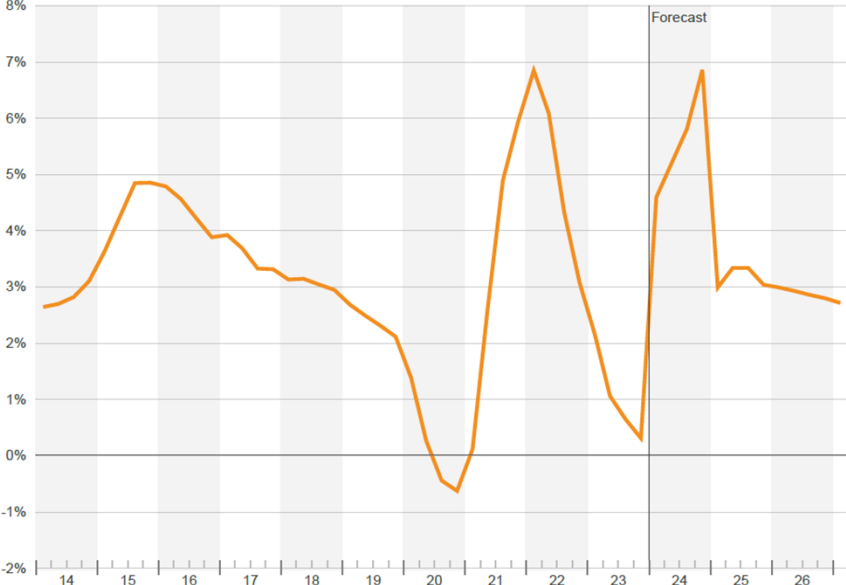


Source: CoStar, Cushman & Wakefield Research

# RENTS GROWTH LOCALLY

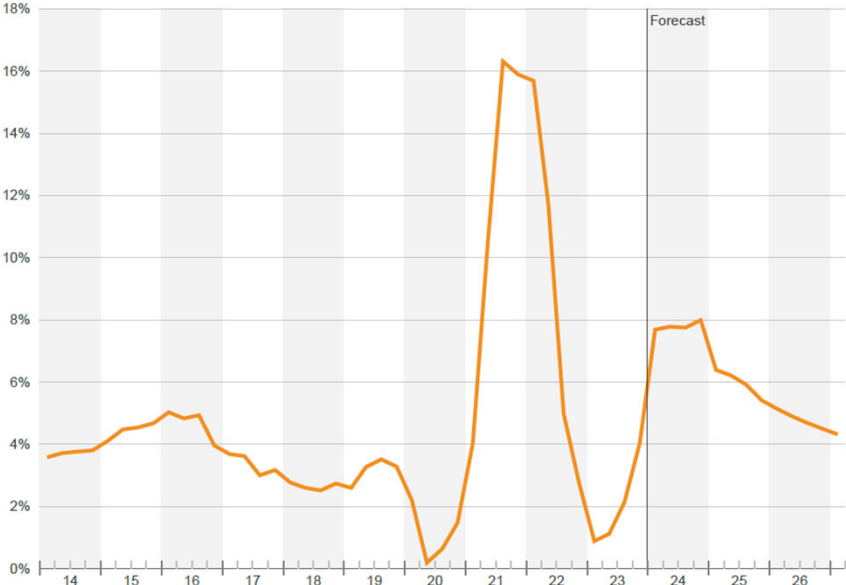
## Los Angeles County

Market Rent Growth (YOY)



## Orange County

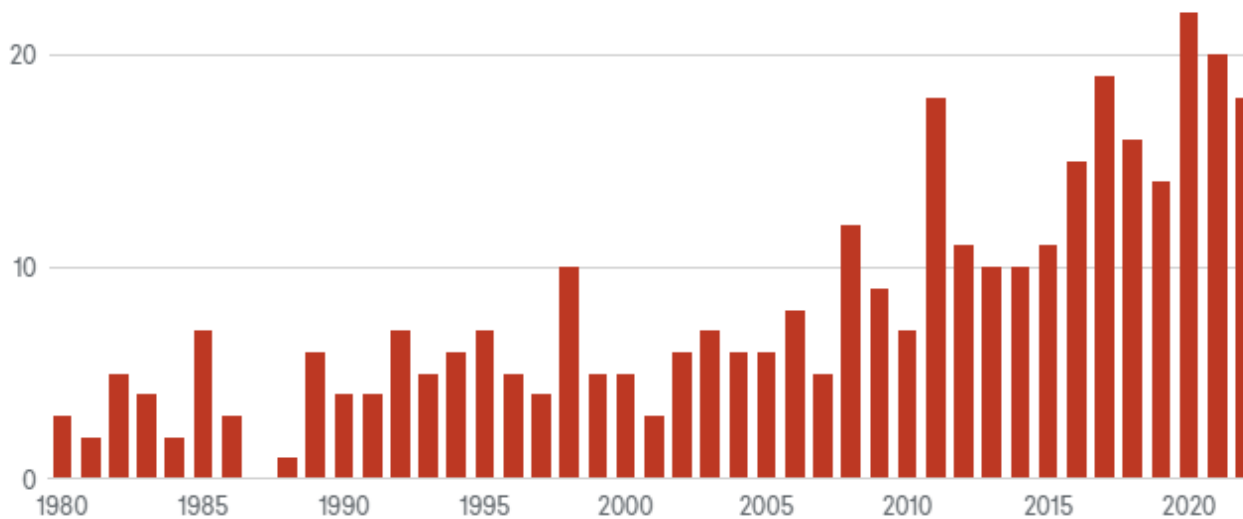
Market Rent Growth (YOY)





# MOTHER NATURE HAS BEEN WREAKING HAVOC

# of disasters in the U.S. causing >\$1 billion in damages (inflation adjusted)

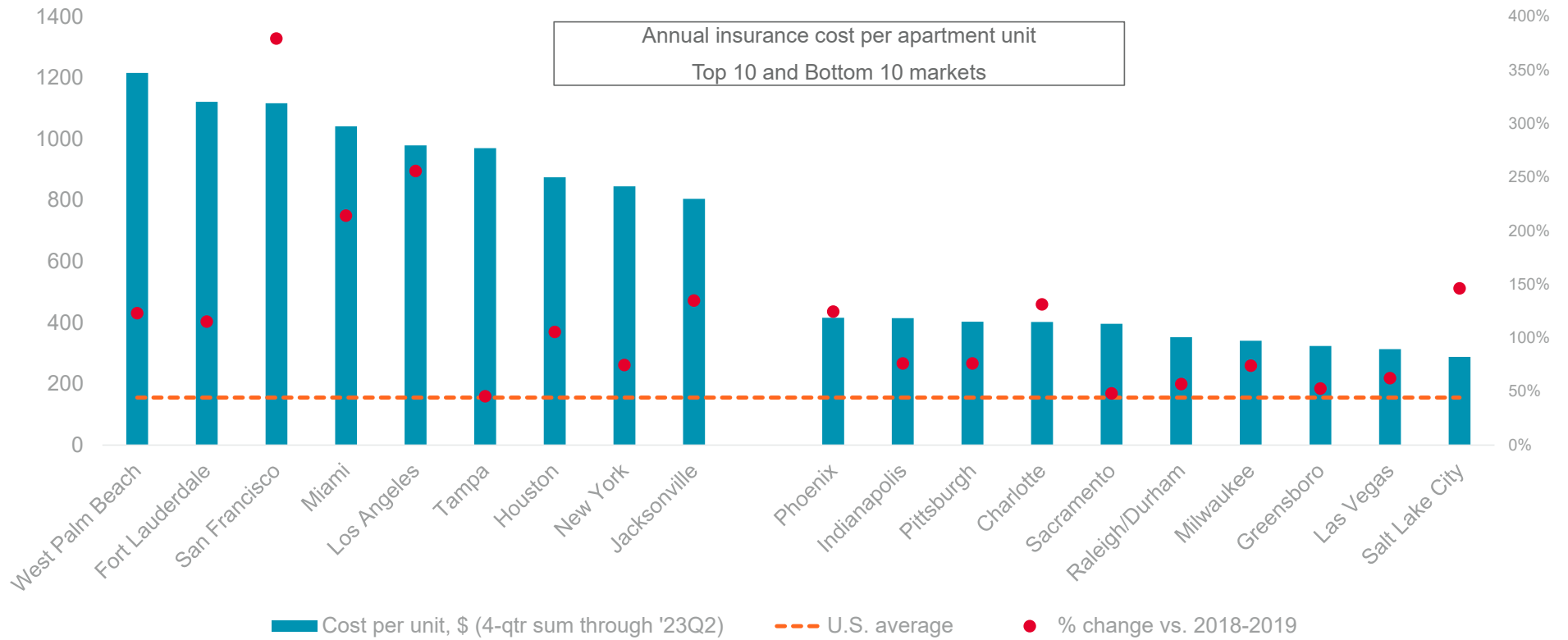


Source: National Oceanic and Atmospheric Administration, Council on Foreign Relations, \*Swiss Re

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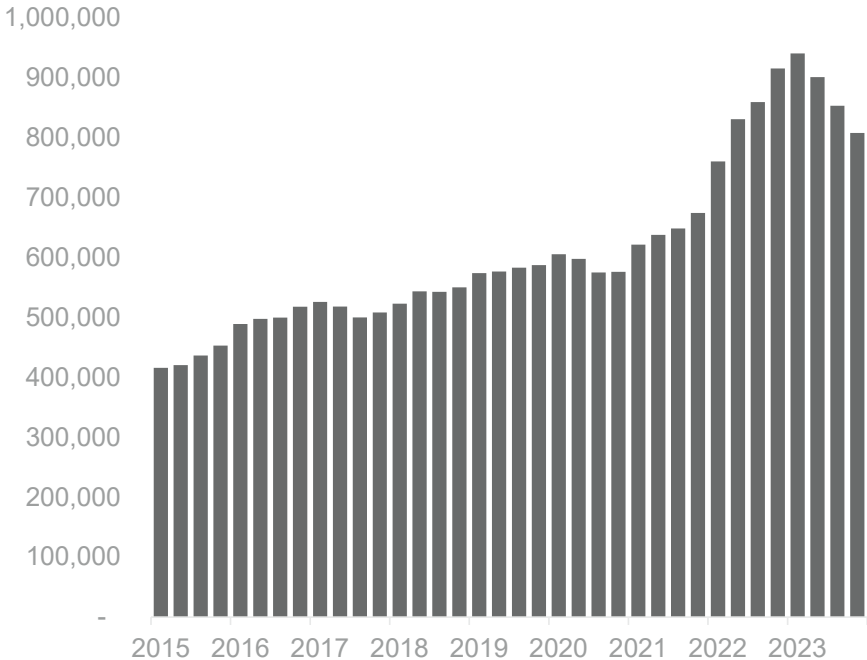


# SURGING RATES MOST ACUTE ON THE COASTS...

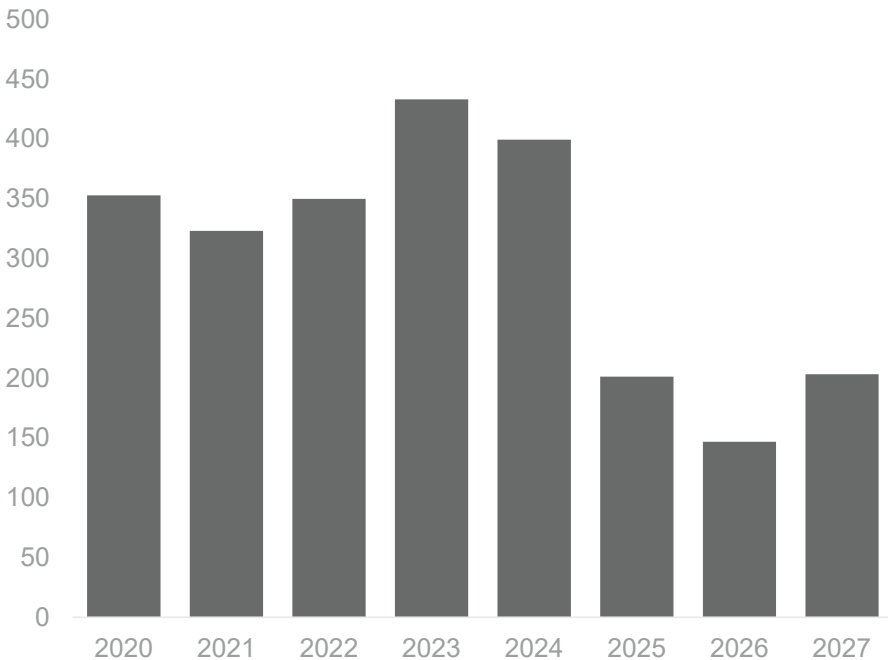


# THE PEAK OF THE CONSTRUCTION WAVE IS BEHIND US

### Overall Construction Levels Are Down 14% From Peak



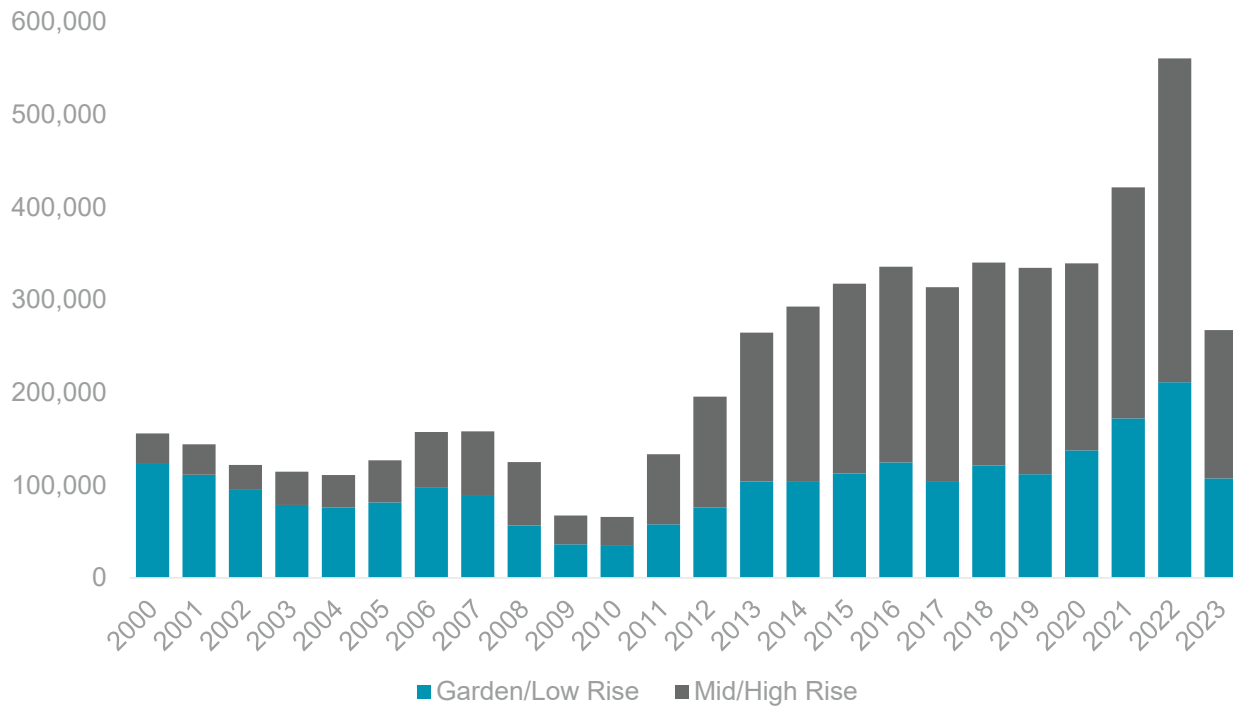
### Delivery Wave Peaked In 2023



Source: Census, HUD, Cushman & Wakefield Research

# CONSTRUCTION RISK IS MINIMIZING QUICKLY

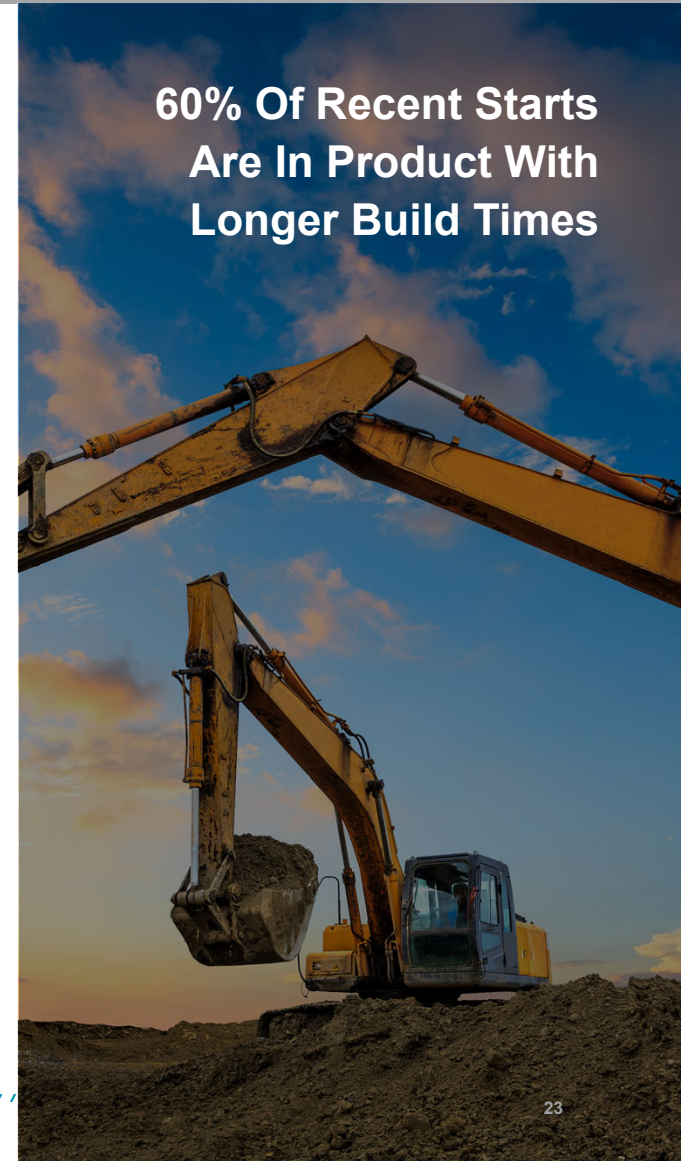
Multifamily Construction Starts Were Down ~50% In 2023



Source: CoStar, Cushman & Wakefield Research

Cushman & Wakefield | Multifamily Market Trends

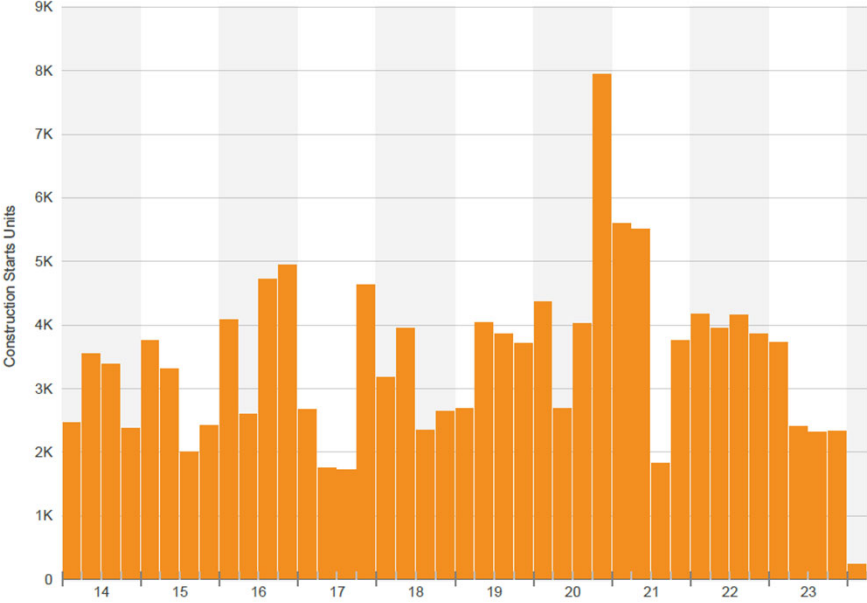
60% Of Recent Starts  
Are In Product With  
Longer Build Times



# REGIONAL CONSTRUCTION RISK

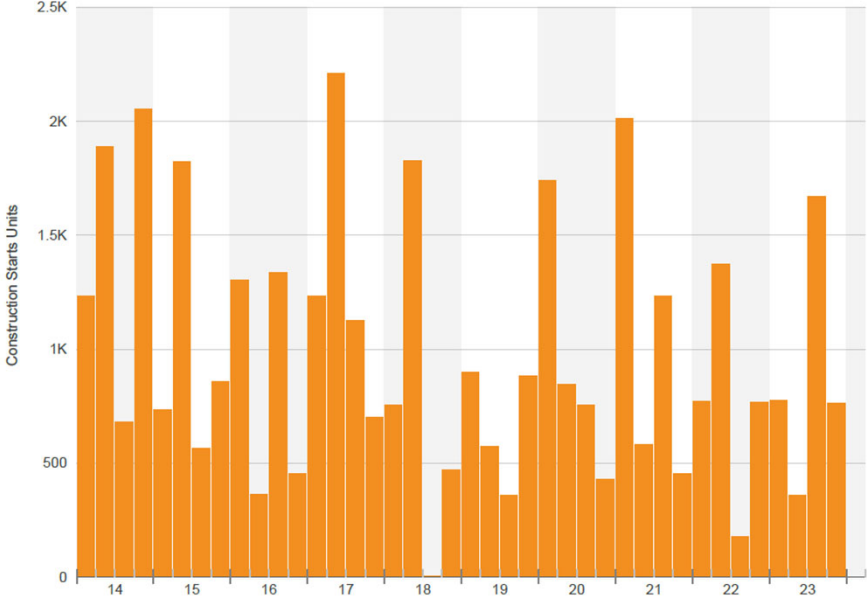
## Los Angeles County

Construction Starts



## Orange County

Construction Starts

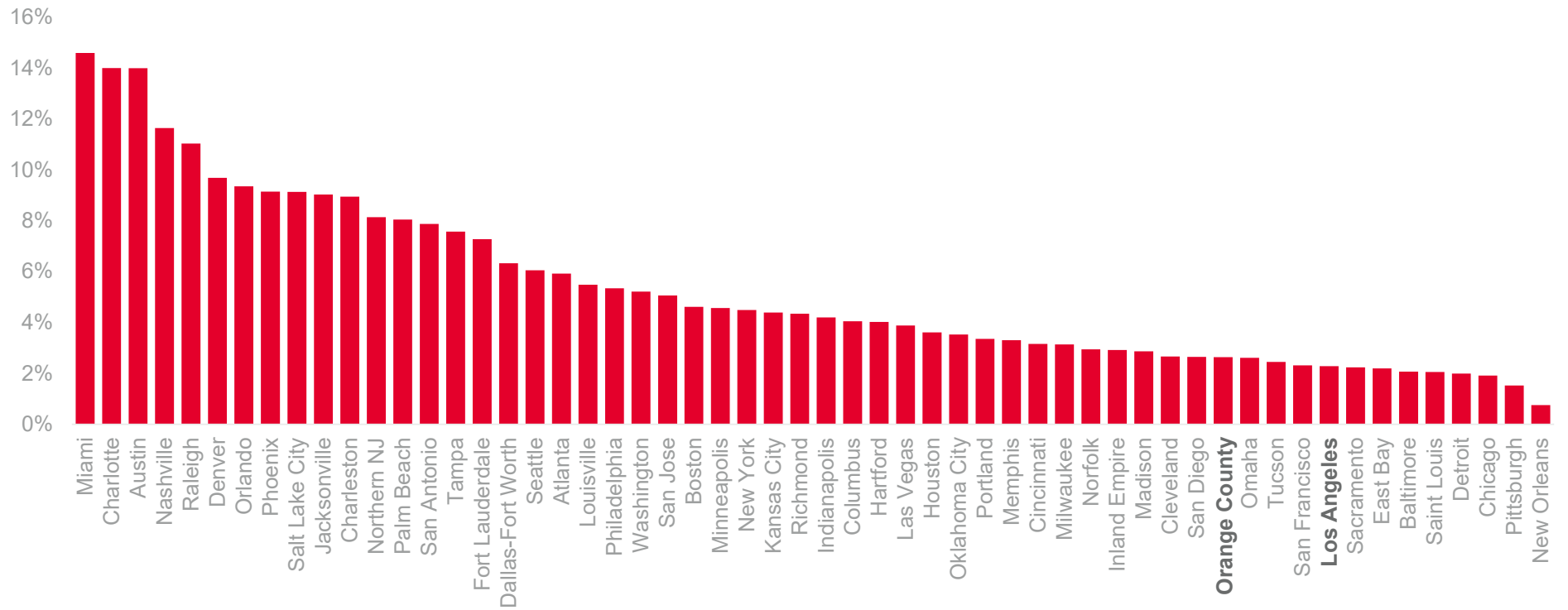


Source CoStar Jan 2024



# CONSTRUCTION STORY IS BECOMING MORE NUANCED

## Units Under Construction as a Percent of Current Inventory



Source CoStar, Cushman & Wakefield Research.  
 Note: Includes markets with 65K+ units inventory.

An aerial photograph of a city skyline, likely San Francisco, featuring a complex highway interchange with multiple overpasses and ramps. The scene is filled with various skyscrapers and modern buildings. The sky is a mix of blue and orange, suggesting a sunset or sunrise. The text "CAPITAL MARKETS" is prominently displayed in the center of the image. There are also some blue dashed lines above the text and on the highway.

# CAPITAL MARKETS

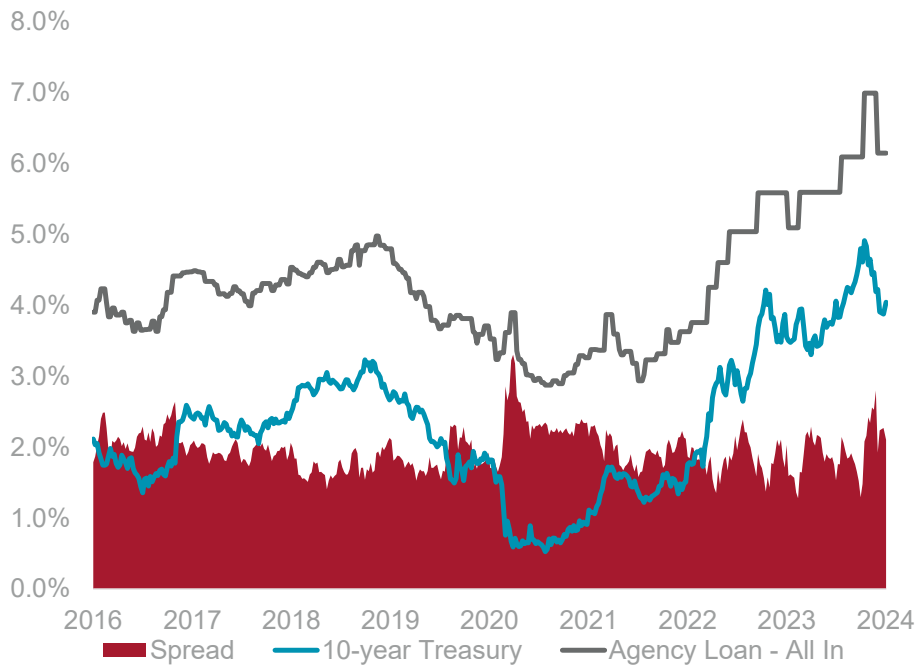
# PARTICIPATION QUESTIONS



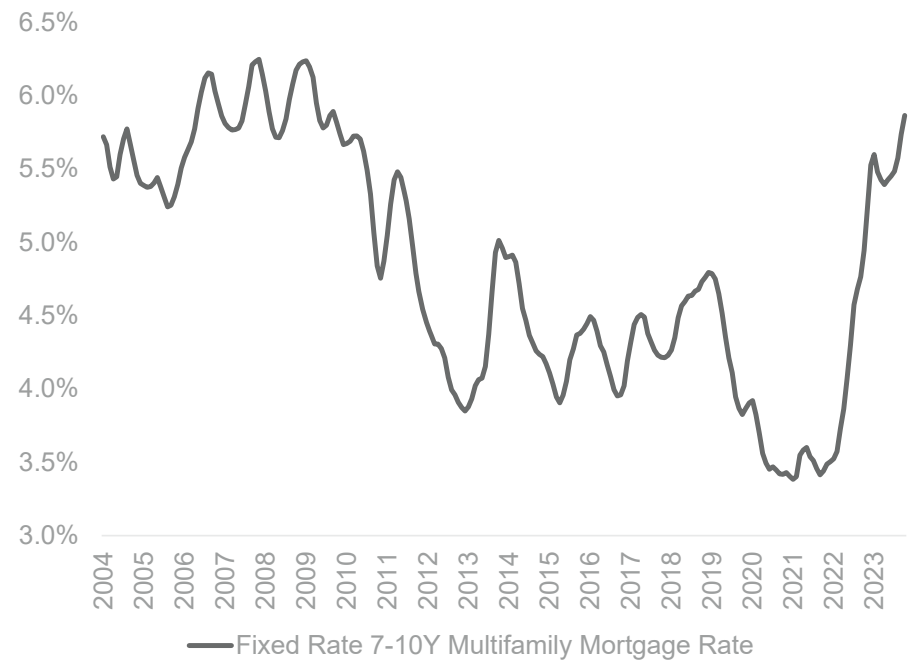
"With interest rates shifting, what strategies do you use to ensure your appraisals reflect current market conditions?"

# DEBT COSTS REMAIN HIGH

## Retreat in 10Y Hasn't Moved Debt Costs As Spreads Widen



## Agency Mortgage Costs Now Higher Than Post GFC

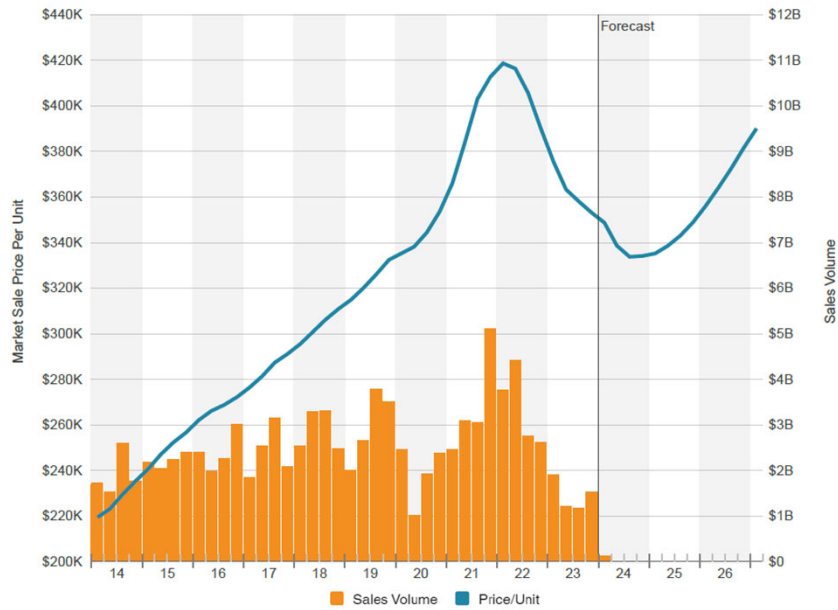


Source RCA, Green Street, Cushman & Wakefield Research

# REGIONAL TRANSACTION VOLUME & PRICE PER UNIT

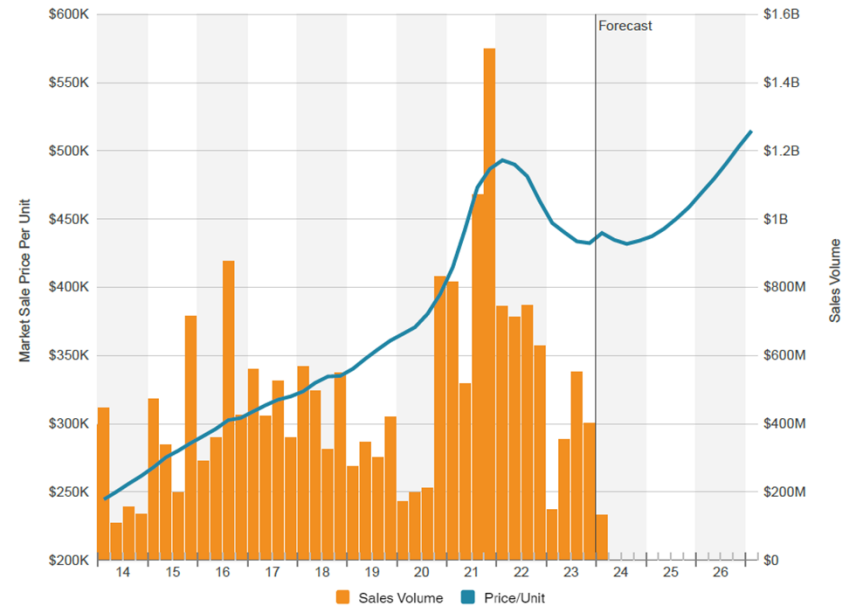
## Los Angeles County

Sales Volume & Market Sale Price Per Unit



## Orange County

Sales Volume & Market Sale Price Per Unit

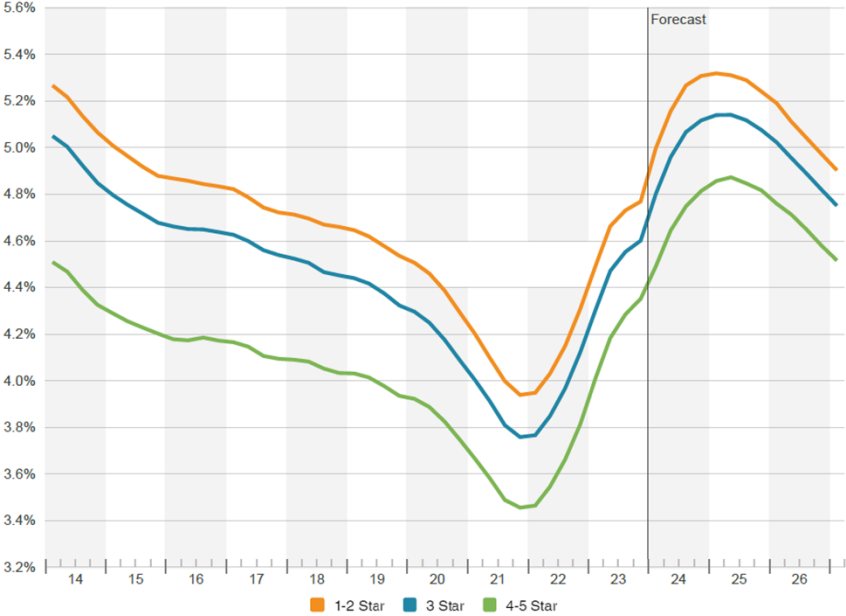


Source CoStar Jan 2024

# AVERAGE CAP RATE BY COSTAR RATING

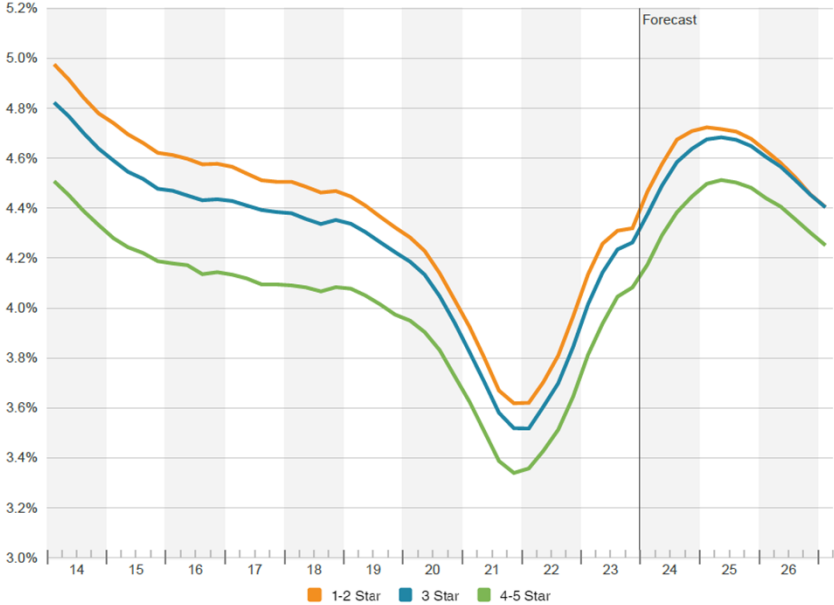
## Los Angeles County

Market Cap Rate By Star Rating



## Orange County

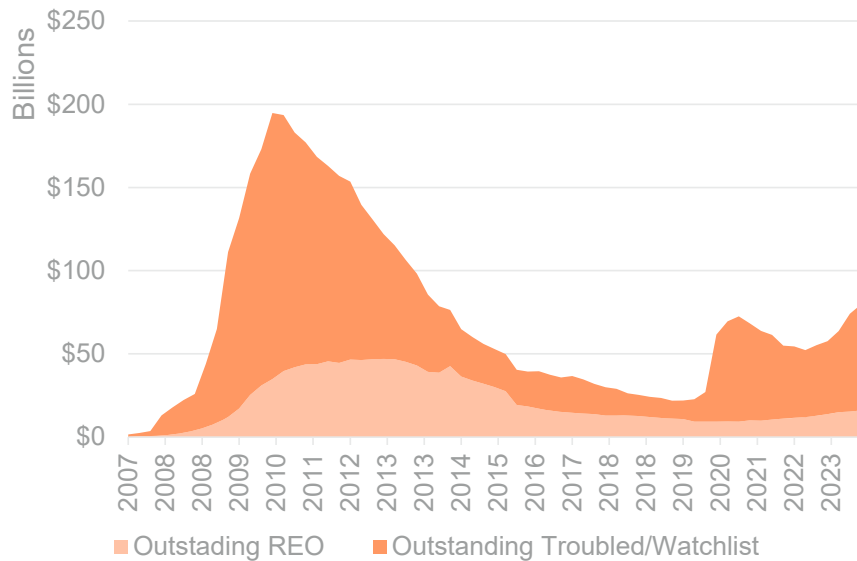
Market Cap Rate By Star Rating



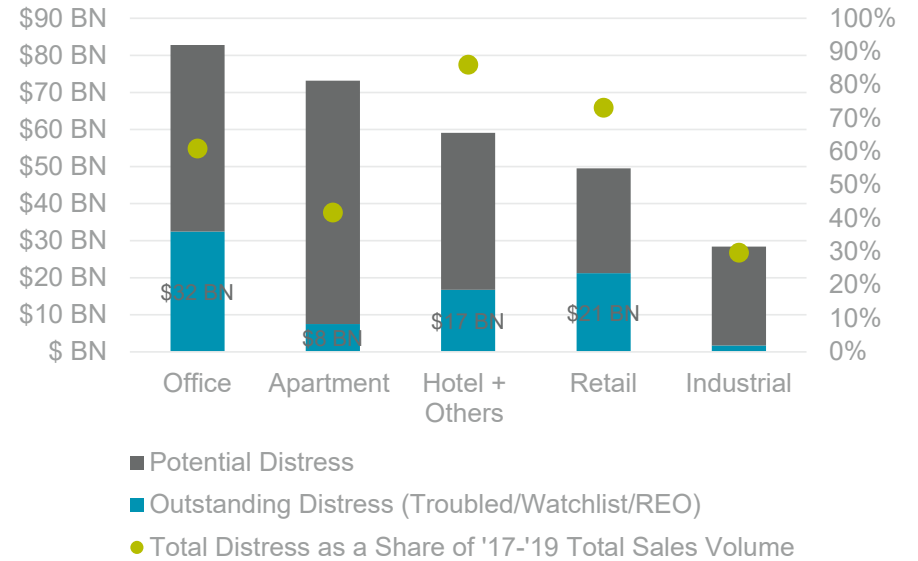
Source CoStar Jan 2024

# HIGH DEBT COSTS ARE PRESSURING CRE – EVEN MULTIFAMILY

## Outstanding Distress Conditions Mounting (All Sectors)



## ...Bifurcated by Sector

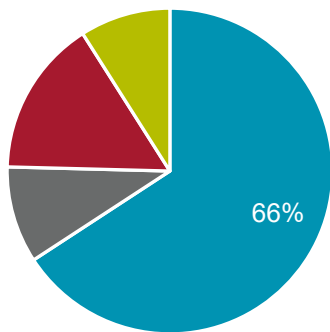


Source MSCI Real Capital Analytics, Cushman & Wakefield Research

# MULTIFAMILY COMPRISES ~66% OF RECENT LOAN ORIGINATIONS

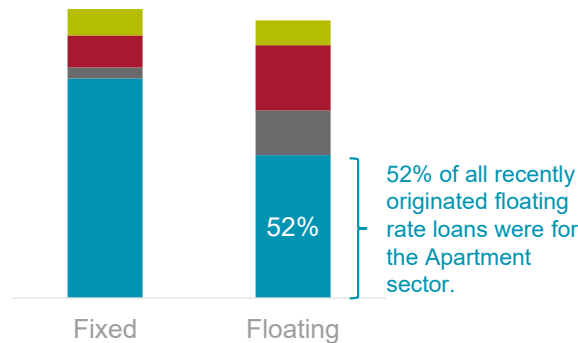
...and captures 52% of all recently originated floating rate debt;  
 ...meanwhile, 56% of Apartment's floating debt is short-term (0-3 years)

% of 2018 - 2023 Loan Originations



■ Apartment ■ Industrial  
 ■ Office ■ Retail

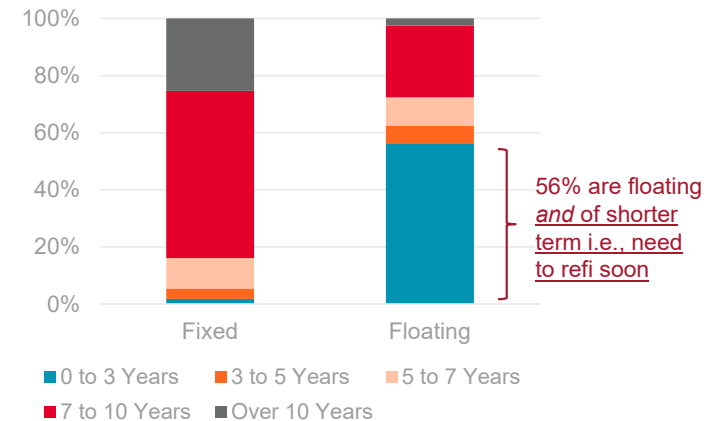
Loan Structures Originated Since 2018, Across Property Types



■ Apartment ■ Industrial ■ Office ■ Retail

52% of all recently originated floating rate loans were for the Apartment sector.

Apartment Loans Originated Since 2018, by Term Group



56% are floating and of shorter term i.e., need to refi soon

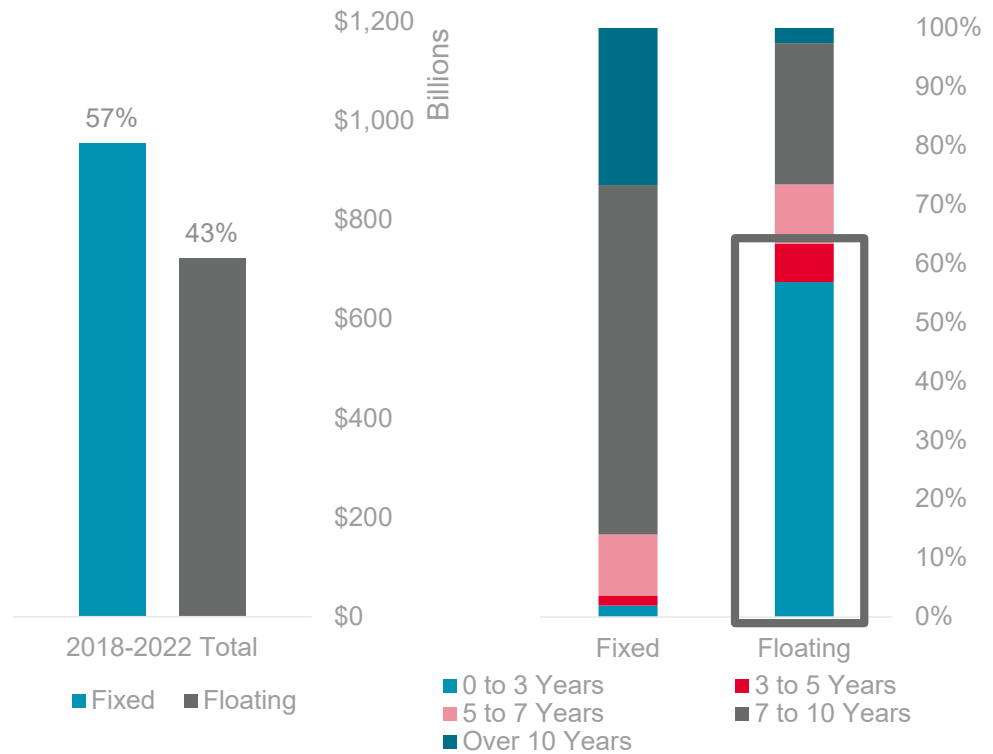
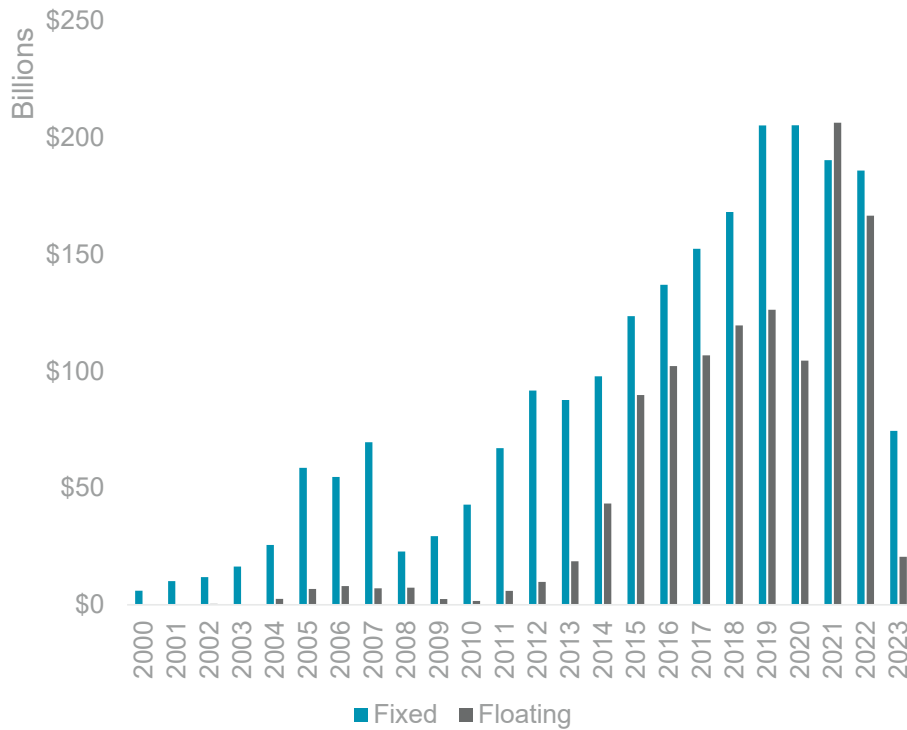
- The Apartment sector captured a striking 66% of all CRE loan volume since 2018. Much that debt was taken out as short-term bridge loans for value-add strategies. As a result, on a cross-sector basis, Apartment captured 52% of all floating rate debt originated since 2018.
- Floating rate loans made up 39% of total Apartment originations between 2018 – 2023. Meanwhile, 56% of all of Apartment's floating rate loans are of shorter-term (0-3 years). Rising debt costs for these floating rate loans have pressured property cash flows and have potentially drained existing ownership of cash flows (requiring them to infuse capital to meet debt service requirements). **These floating rate Apartment loans are likely to arise as a potentially pronounced area of opportunity for rescue capital to step-in and assist with liquidity gaps as loans come due.**

Source MSCI Real Capital Analytics, Cushman & Wakefield Research  
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# WHERE IS THE DISTRESS?

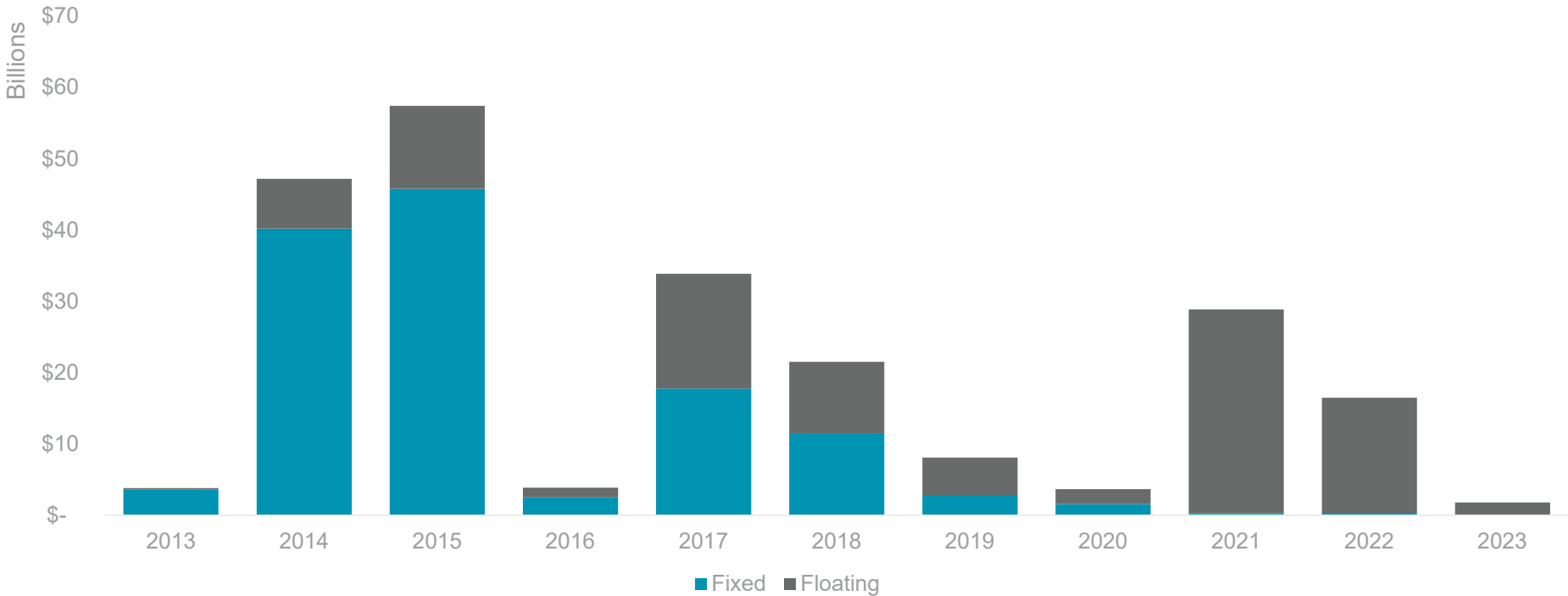
## Estimated Multifamily Debt Originations



Source RCA, Cushman & Wakefield Research  
 For unknown loans, we assume a similar proportion of fixed/floating debt as the broader sample.

# MOST OF THE UPCOMING MATURITIES WERE ORIGINATED A DECADE AGO

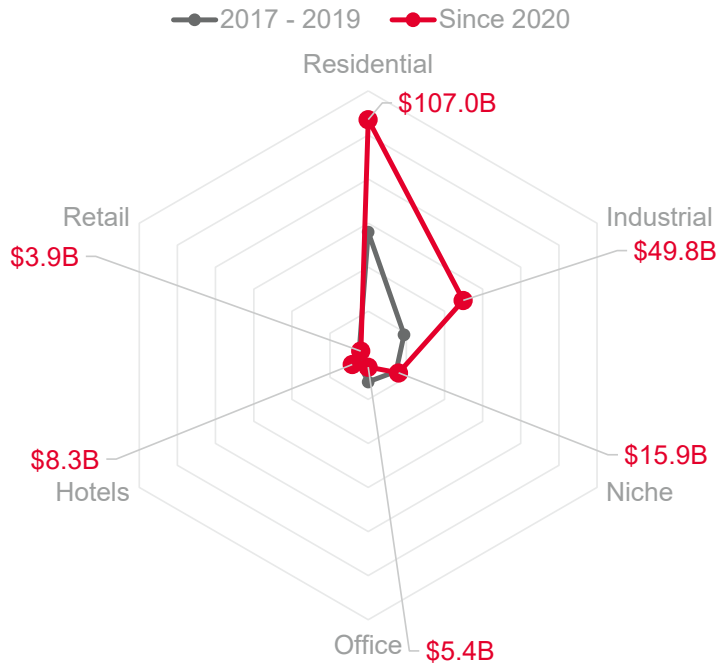
## Loans Maturing In 2024-2025 By Origination Year



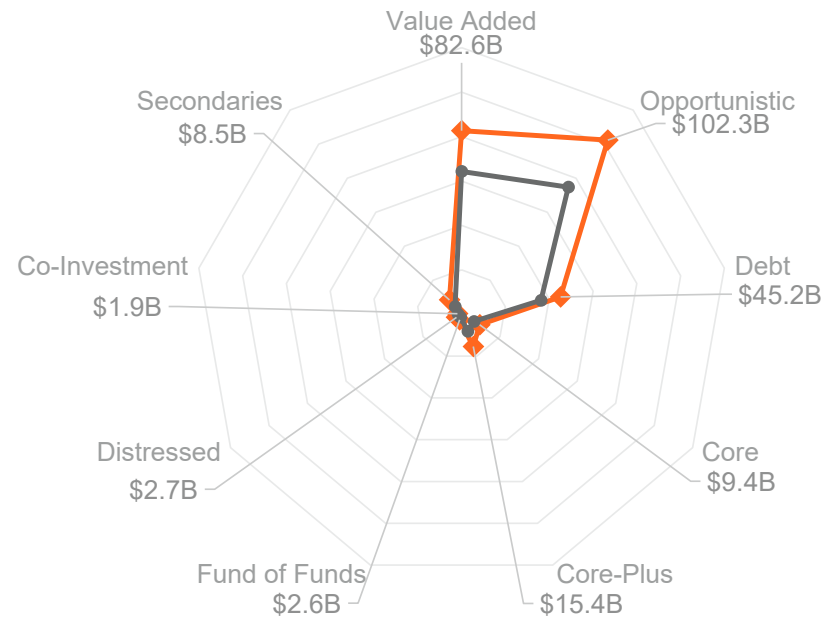
Source RCA, Cushman & Wakefield Research  
Note: Only includes loans with known maturity/origination dates

# LEADING INDICATORS TO INVESTMENT TRENDS AHEAD

## Focused/Targeted (Non-Diversified) Funds, by Sector



## Current Dry Powder, by Strategy



Source Preqin, Cushman & Wakefield Research; Data updated through September 2023.

# 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.

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