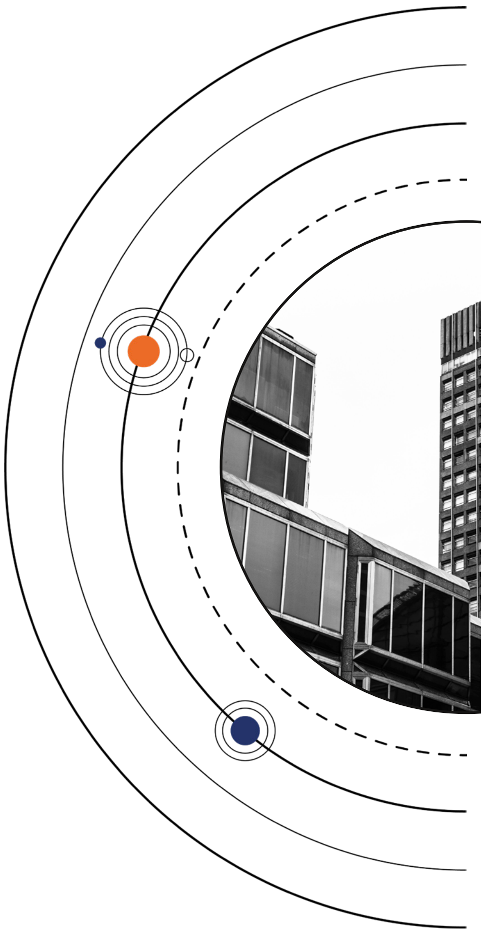
SVN® RESEARCH

State of the Market 2024

MULTIFAMILY

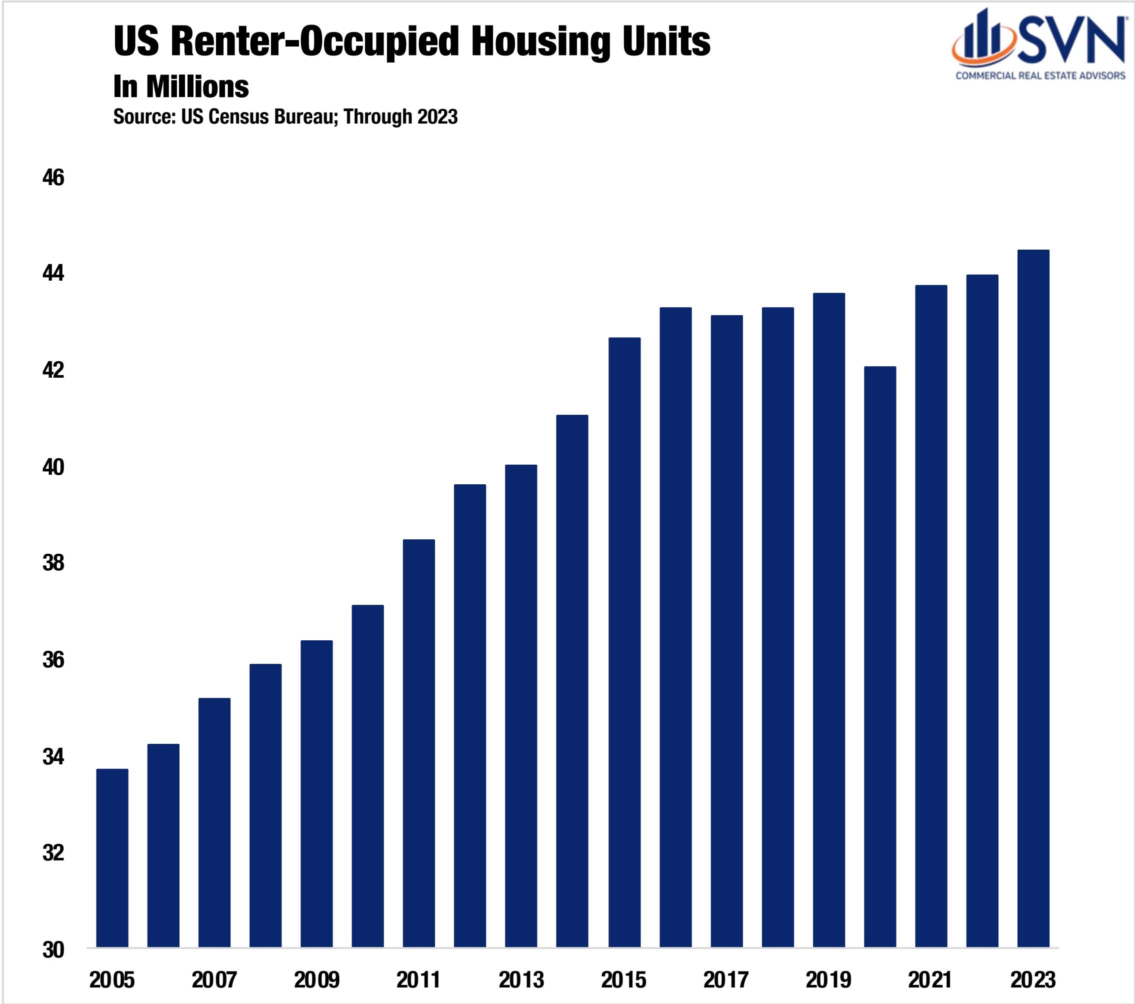
Multifamily



NATIONAL OVERVIEW

As was the case across all commercial real estate verticals, including the apartment sector, 2023 was a challenging market environment. The monetary policy tightening cycle initiated by the Federal Reserve in 2022 continued throughout 2023, with four rate hikes coming last year alone. Given the pace and severity at which the capital cost landscape has shifted, the gaps between what buyers are willing to pay and what sellers are willing to accept have grown substantially — leading to an absence of deal activity. According to MSCI Real Capital Analytics data, last year experienced the fewest apartment assets changed hands nationally since 2011.

While the short-term financials proved challenging for deal-making, the long-term fundamentals of the apartment sector strengthened. **Due to a mix of shifting household preferences and a drop off in affordable access to home ownership, more Americans are renting now than at any point in history.** According to The US Census Bureau, the number of occupied renter households increased by 514,000 in 2023.



[Forecasts](#) by Fannie Mae suggest that mortgage rates will likely remain elevated for the next several years, reinforcing demand for rental housing over the medium term.

As more certainty around the interest rate outlook comes into focus, there is hope that the bid-ask spread between buyers and sellers will narrow, and 2024 will see the green shoots of recovery.

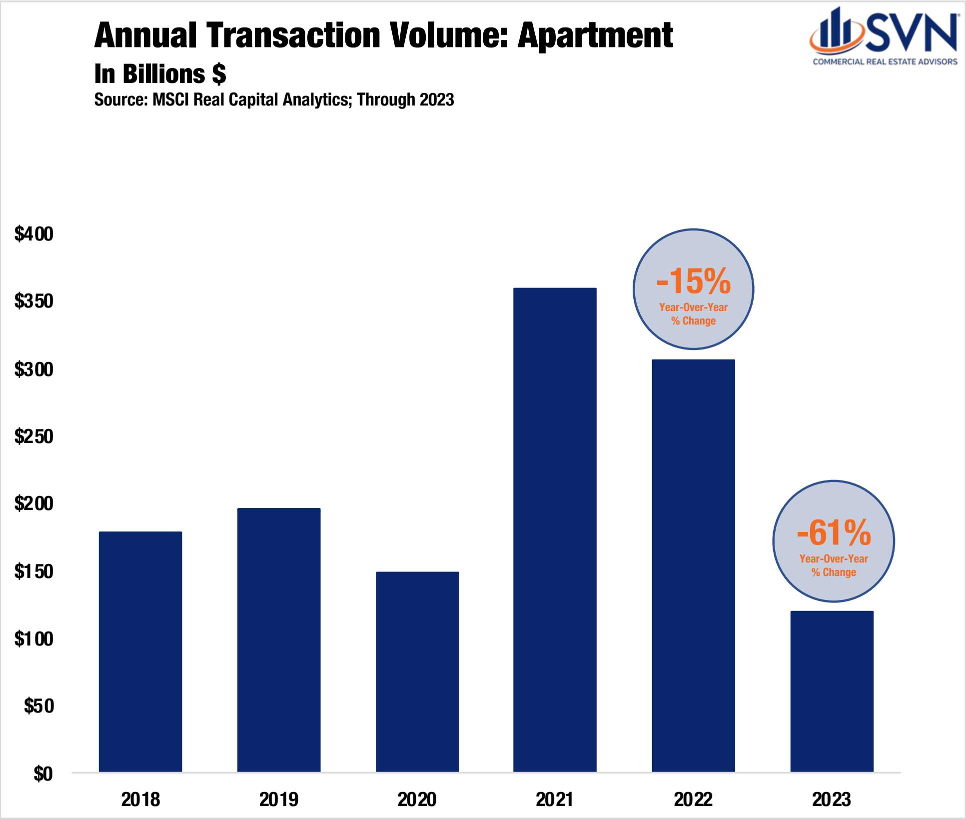
Financials

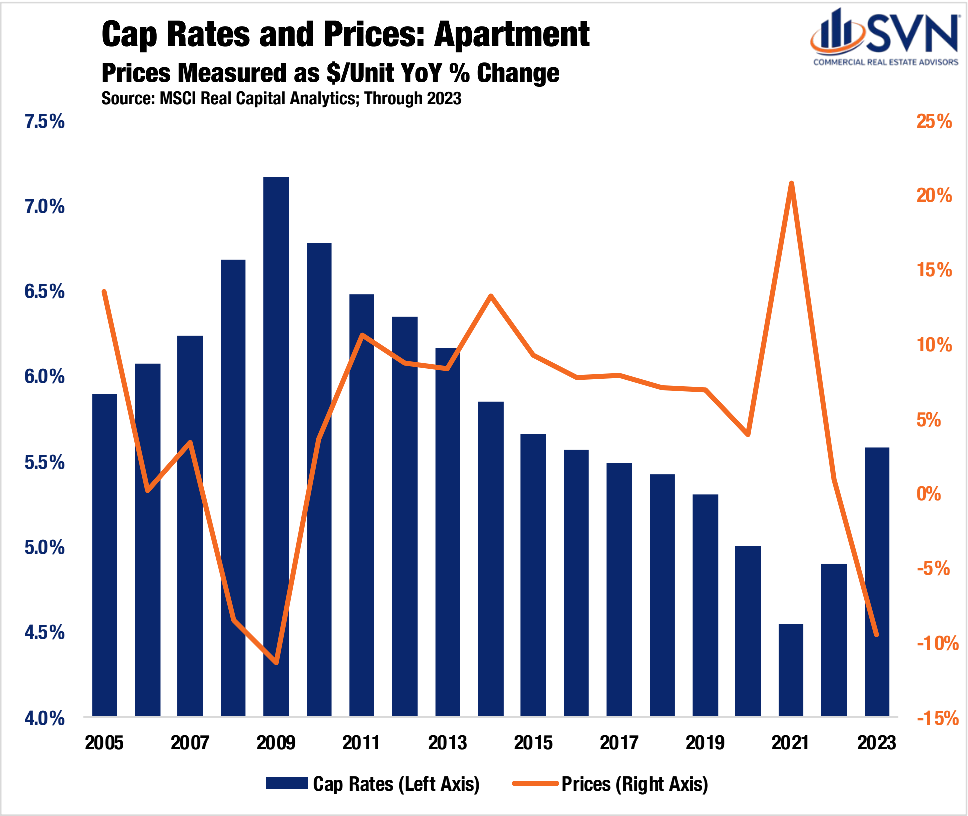
APARTMENT: TRANSACTION VOLUME

According to MSCI Real Capital analytics, multifamily transaction volume totaled $119.6 billion in 2023 — a substantial 60.9% drop-off from the previous year. After transaction volume peaked at $358.4 billion in 2021, the market pressed pause in 2022 as the Federal Reserve initiated its monetary tightening cycle, with volume sliding to $305.6 billion. With more monetary tightening and the threat of a recession looming large in 2023, the market went from a pause to powering down. The $119.6 billion in apartment deal activity was the lowest annual total since 2014.

APARTMENT: CAP RATES AND PRICES

Driven by rising capital costs, cap rates continued their ascent for every core property type in 2023, and the apartment sector was no exception. According to MSCI Real Capital Analytics, apartment cap rates averaged 5.6% last year, rising to their highest point since 2013. After cap rates fell for 12 consecutive years between 2009 and 2021, cap rates inched up in 2022, growing by 35 bps in 2022. In 2023, multifamily cap rates followed up with a more sizeable jump of 68 bps — the most significant one-year increase in the MSCI Real Capital Analytics post-2000 dataset.





With cap rates rising and rent growth cooling, the net effect has been a haircut to asset values. According to MSCI Real Capital's hedonic data, apartment units had an average valuation of $191,499 in 2023, declining 9.5% from the average in 2022. Still, compared to 2020, prices remain up by an average of 10.3%, reflecting just how much prices accelerated in 2021 and 2022 before the rate hikes took effect.

Regional Performance

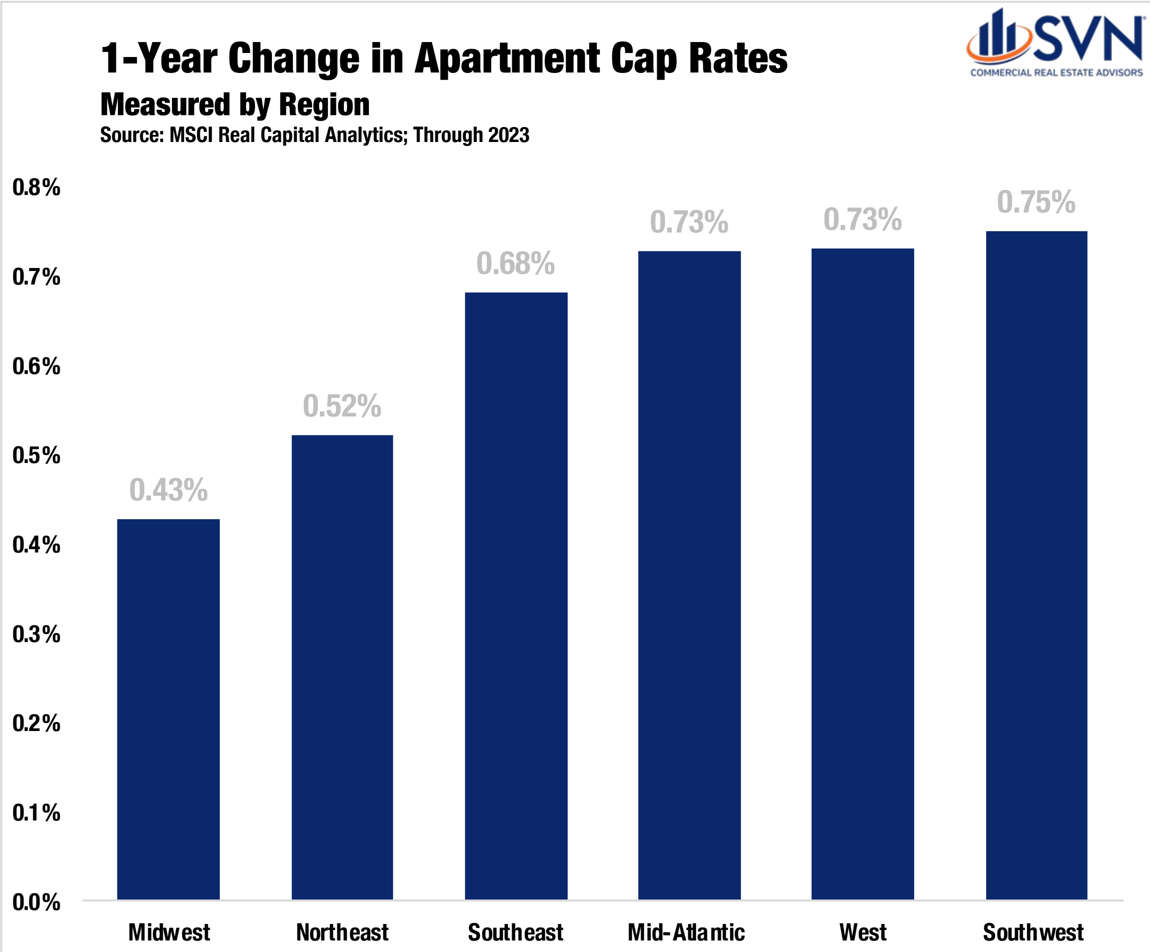
In the development of the multifamily regional rankings, the SVN Research Team utilized a scoring matrix. The matrix offers a comprehensive view of how regional markets performed within the context of growth from a year earlier. The three following criteria were included in the matrix:

1. Transaction Volume: 1-Year % Change
2. Cap Rates: 1-Year Change
3. Pricing: 1-Year % Change

2024 Regional Market Rankings: Multifamily

Source: SVN Research, MSCI Real Capital Analytics; Through 2023

Rank	Region
1	Midwest
2	Northeast
3	West
4	Southeast
5	Mid-Atlantic
6	Southwest



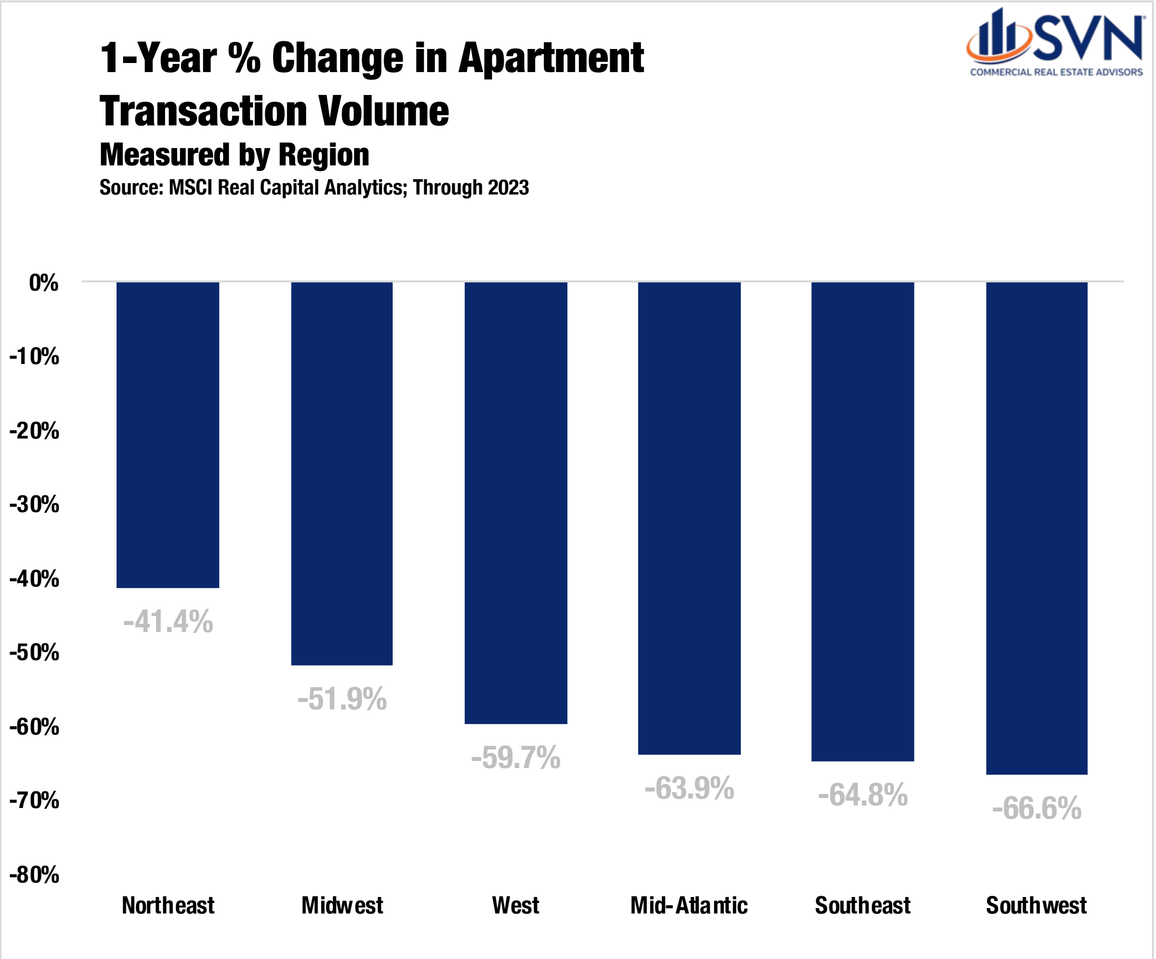
TOP PERFORMERS: MIDWEST

In recent years, the standout regions within the multifamily sector were lauded for their robust levels of growth. Now, after the market turned in 2023, this year's standouts rise to the top thanks to their penchant for stability.

The Midwest leads the way in our 2024 rankings, driven by resilient cap rates. **While cap rates still rose in the Midwest last year, they did so by a smaller magnitude than in every other region.** According to MSCI Real Capital Analytics, Midwest apartment cap rates rose from an average of 5.7% in 2022 to 6.1% in 2023 — climbing 43 basis points (bps) in total.

Meanwhile, every other region saw cap rates rise by at least 52 bps. Moreover, two standout markets — Cleveland and Indianapolis — each saw extremely mild cap rate increases of just 14 bps and 18 bps, respectively. Transaction volume in the Midwest declined to $14.9 Billion last year — a drop off of 52% from 2022's total. While the transaction pullback was severe, it was less so than most other markets, with only the Northeast posting a milder annual decline (-41%).

TOP PERFORMERS: NORTHEAST



Since the pandemic, the occasion to say something positive about the Northeastern real estate economy has been rare. At last, here we are! Transaction volume sank in the region by 41.4% year-over-year, which stood as a high watermark nationwide.

Manhattan's apartment sector — the most densely populated in the country — remained sleepy in 2023, with transaction volume sliding by 59.0%. However, other parts of NYC fared much better. Deal activity only dropped off throughout the outer boroughs by 22.9%. Moreover, **it was the first time on record that more transaction activity in the outer boroughs outpaced Manhattan.** Cap rates increased an average of 52 bps across the region in 2023, rising to 5.9%. However, markets such as Westchester (+14 bps), NYC outer boroughs (+29 bps), and Hartford (+37 bps) all saw milder increases than the rest of the Northeast.

About SVN®

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COMMERCIAL REAL ESTATE ADVISORS

SVN International Corp. (SVNIC)
185 Devonshire Street, M102
Boston, MA 02110
www.svn.com