



OCTOBER 2024 | QUARTERLY MARKET UPDATE

A Welcome Rate Cut Sparks Green Shoots in CRE



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Macroeconomic Landscape

A Rate Cut

The long-awaited rate cut is finally here. At their September meeting the Federal Open Market Committee (FOMC) voted to lower interest rates by 50 basis points, the first rate cut in over four years.

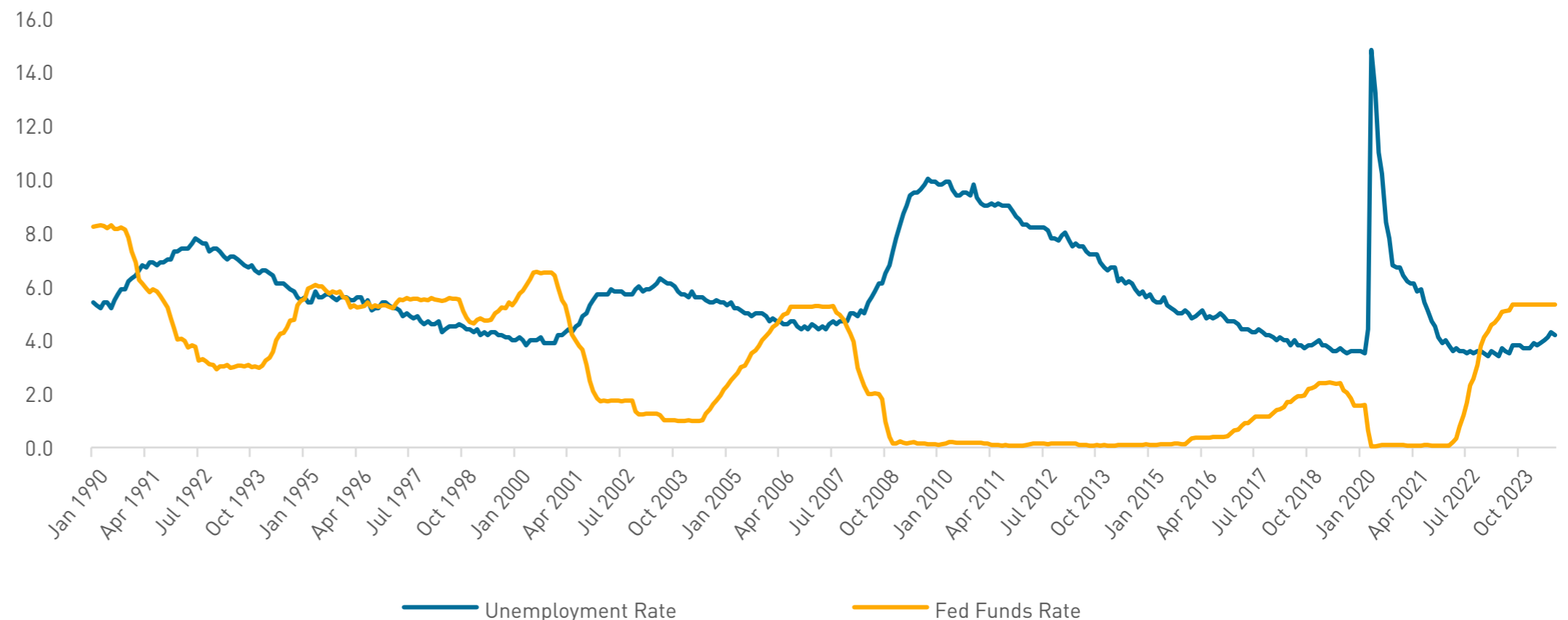
The decision marks a hard pivot in monetary policy as the Fed shifts its focus from the price stability/inflation side of its dual mandate to the labor market side. Despite no material change in data since the beginning of the blackout period, Fed policymakers surprised the market with their 50-basis-point cut, normally reserved for a “break glass in case of emergency” situation.

While a rate cut never appeared to be in doubt, the size of the cut certainly was. **The stated rationale for the 50-basis-point rate cut is that the Fed has concerns about the labor market, and recent prints have given them reason to express concern.** The nonfarm payrolls and unemployment, JOLTS job openings, and ADP employment prints released in late August all missed analyst projections to the downside.

On top of recent missed prints, the labor market reported that the U.S. economy created 818,000 fewer jobs than originally reported in the 12-month period through March 2024. Fed officials updated

their quarterly economic forecasts, raising their median projection for unemployment at the end of 2024 to 4.4% from the 4.0% forecasted in June. The year-end unemployment rate forecast for next year is also 4.4%, same as the median Fed policymaker forecast for this year. While that could incorporate a higher peak rate at some point during 2025, it does suggest that the Fed expects the job market to remain strong, averting any significant increase in unemployment. The Fed will be keeping a keen eye on the labor market as historically when the labor market weakens, the unemployment rises can spike quickly.

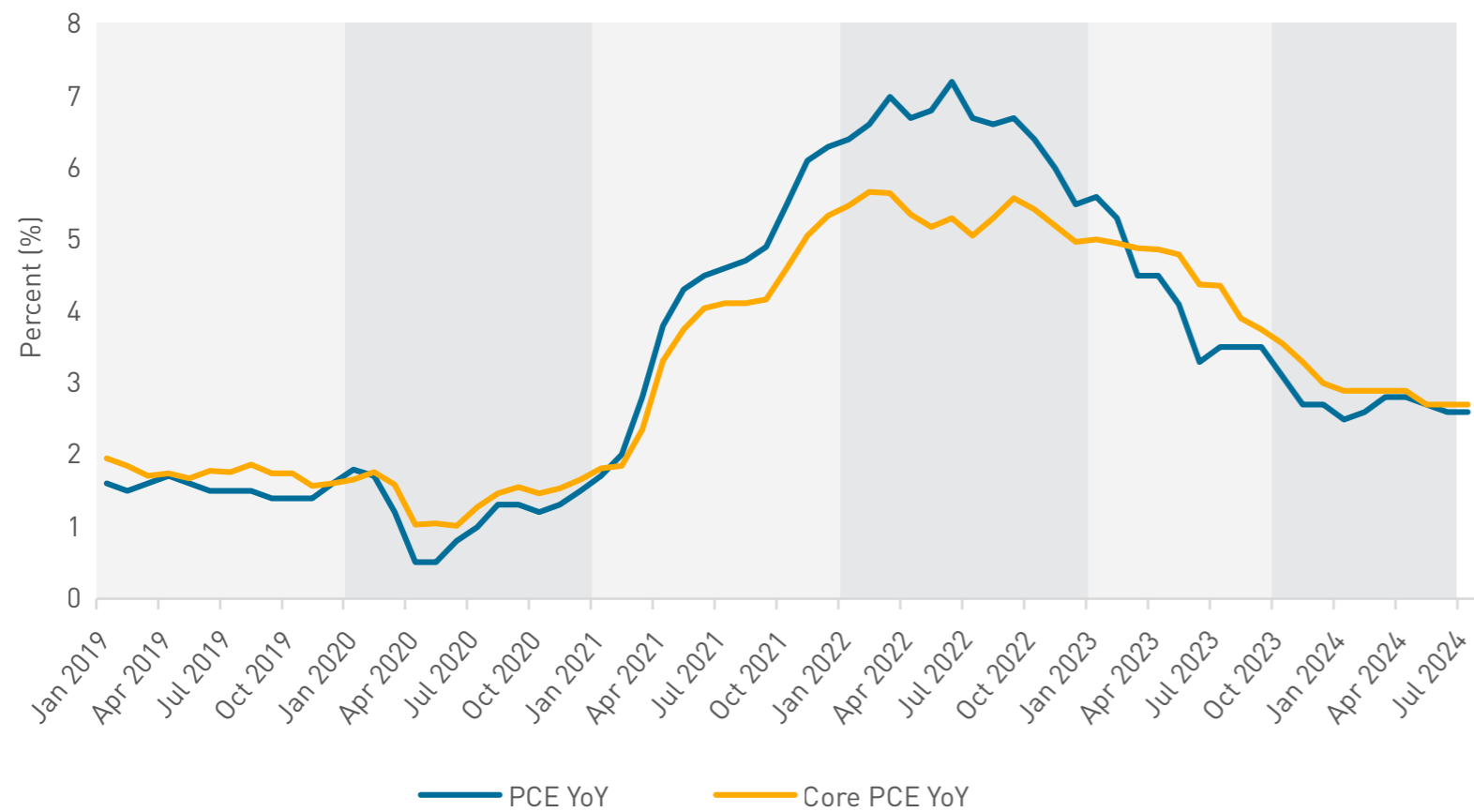
Figure 1: Historical Unemployment Rate vs. Fed Funds Rate



Sources: U.S. Bureau of Labor Statistics, FOMC

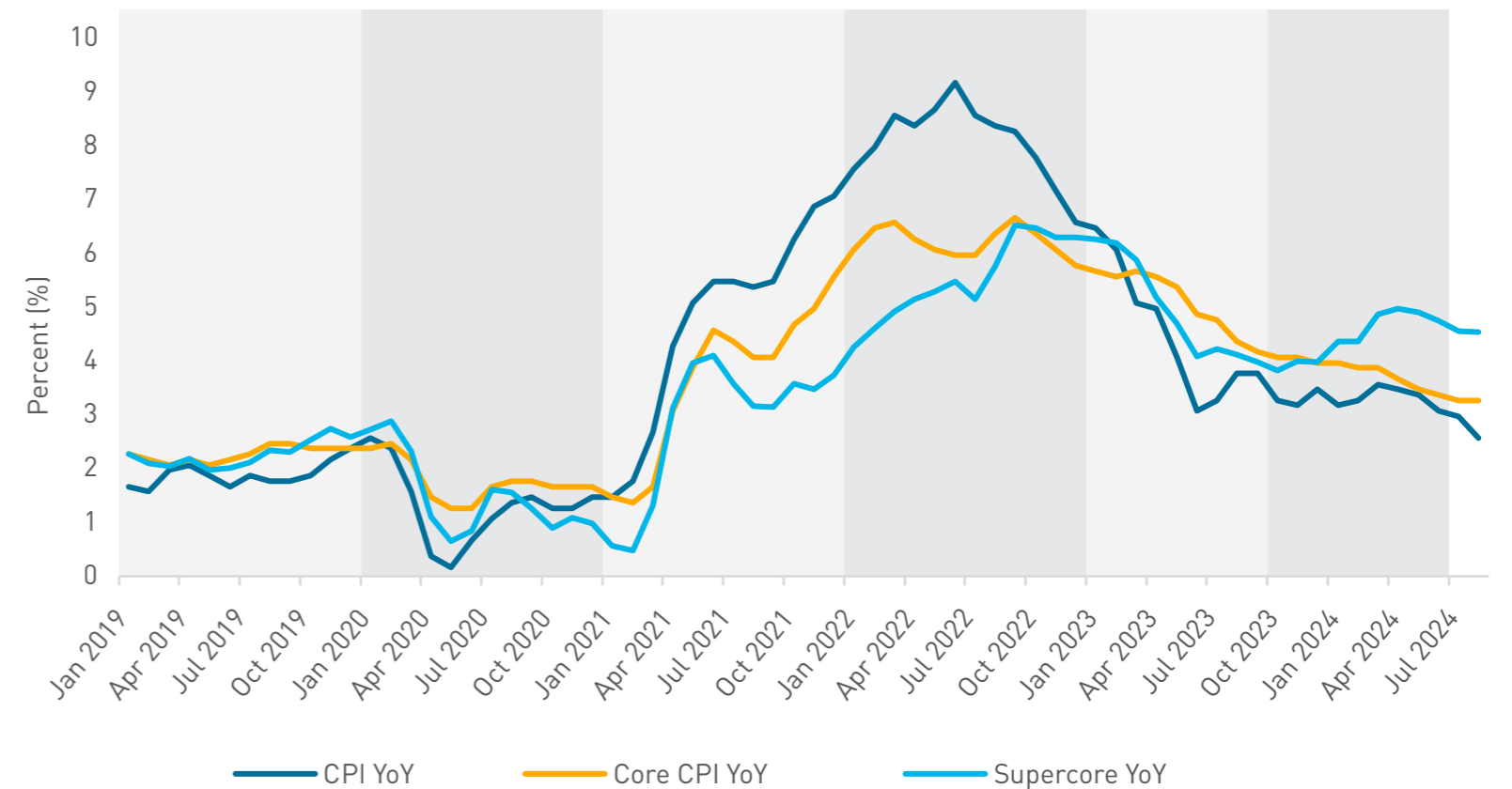
The Fed’s two-year battle against inflation seems to have finally come to an end. In their statement, policymakers indicated that they now see the risks to employment and inflations as “roughly balanced.” The most recent inflation reads have been favorable and are projected to continue that way, allowing the Fed to potentially take swift action against the weakening labor market with minimal fears of reigniting inflationary pricing pressures.

Figure 2: Personal Consumption Expenditure (PCE)



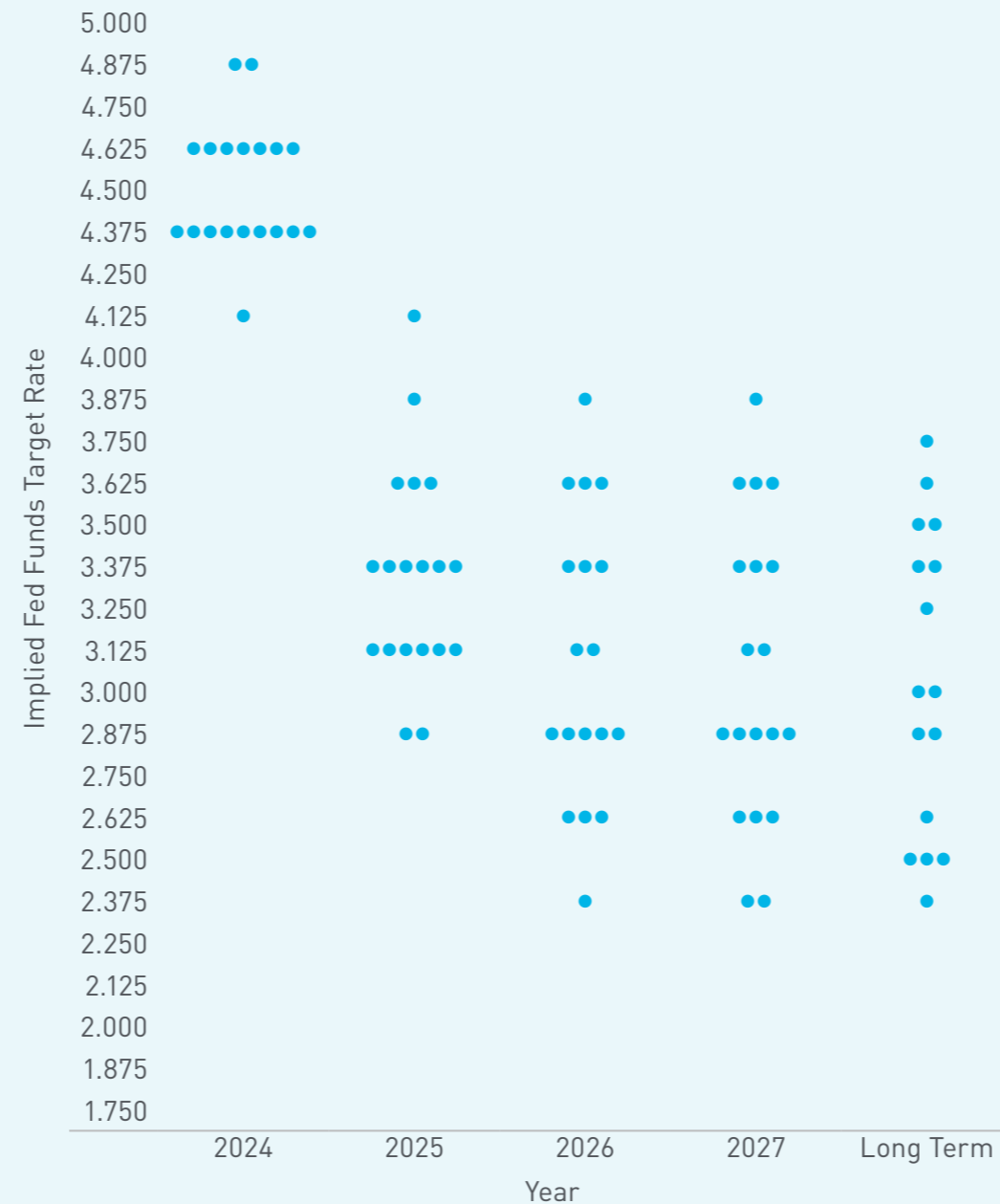
Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics

Figure 3: Consumer Price Index (CPI)



Fed Chair Powell led the post-announcement press conference by proclaiming that the Fed has growing confidence that with an appropriate recalibration of policy stance, strength in the labor market can be maintained, but the job market is not imparting inflationary pressure on the economy. “We are not on any preset course and will make our decisions meeting to meeting,” and “We will move as fast or as slow as we think is appropriate,” Powell said. **The Fed’s dot plot shows the median expectation of 100 basis points of total cuts this year**, implying two more quarter-point cuts or one larger, half-point cut. Nine of the 19 officials penciled in 75 basis points or less of total cuts, showing the margin here is thin. Median rate forecast for 2025 fell to 3.4% from 4.1% in June, implying four additional quarter-point moves next year.

Figure 4: September 18th FOMC Dot Plot



Source: FOMC

The Fed has begun its search for the economy’s neutral rate-- the interest rate that supports the economy at full employment/ maximum output, while keeping inflation constant. The Fed’s dot plot and the market’s projections disagree on the amount of rate cuts the Fed will need to achieve this theoretical level. The Fed will continue to leverage labor market prints to determine future policy, and market projections surrounding these prints will surely cause short-term treasury rate volatility. Trying to reconcile the Fed Chair’s press conference statements of “I don’t see anything in the economy right now that suggest the likelihood of a recession,” and that the committee is in no hurry to get to neutral with the surprising jumbo cut, will keep the market off balance in future meetings, but will likely further fuel the market belief that they can will another 50-basis-point cut into existence come November.

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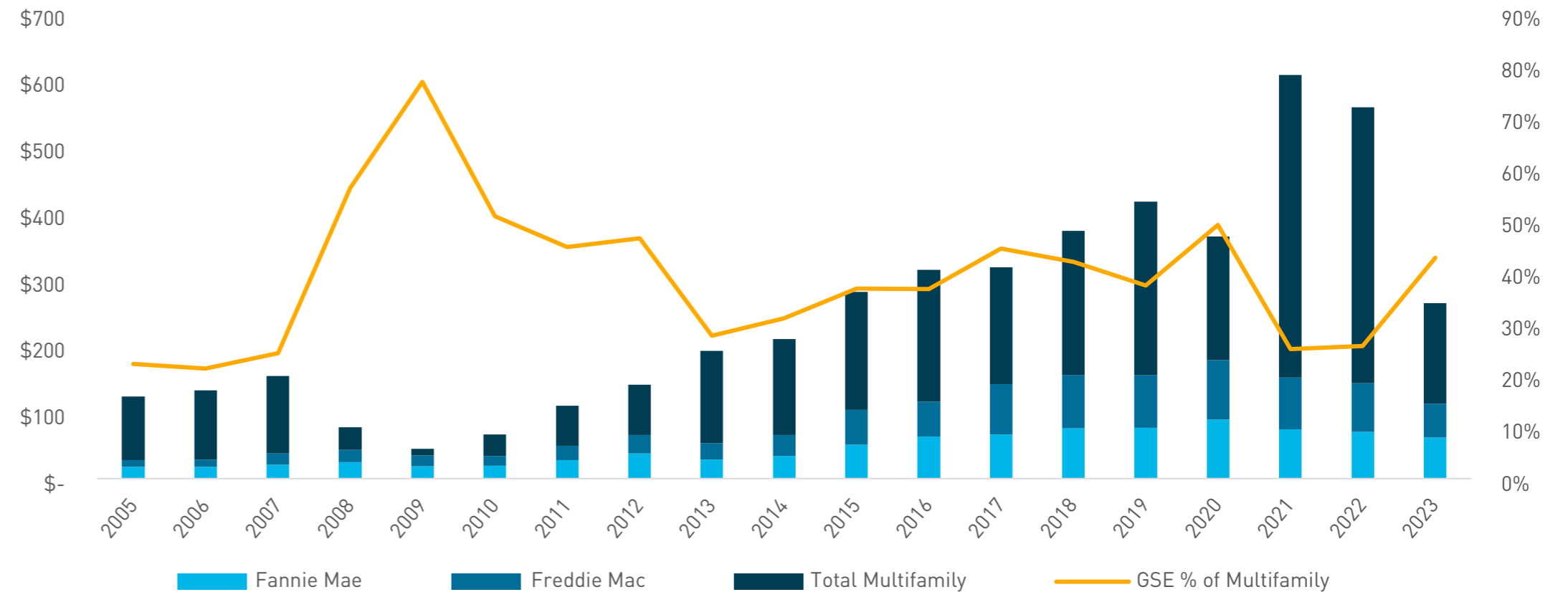
GSE Trends

GSEs and Volume

The landscape of commercial real estate (CRE) financing has dramatically shifted throughout the current economic cycle.

CRE transactions decreased significantly during the rising rate environment of 2022 and 2023. Fannie Mae and Freddie Mac (the GSEs) have seen a decrease in total volume since 2021, however, their market share of CRE originations increased significantly. The GSEs financed over 42% of CRE transactions in 2023, and current projections show that they will represent almost 40% of the market this year. Going back at least as far as the Global Financial Crisis, Fannie Mae and Freddie Mac have sought to support the multifamily market in a meaningful way. When access to debt liquidity is low, they have supported upwards of half the multifamily market or more.

Figure 5: Multifamily Originations by Year (\$U.S. Billions)



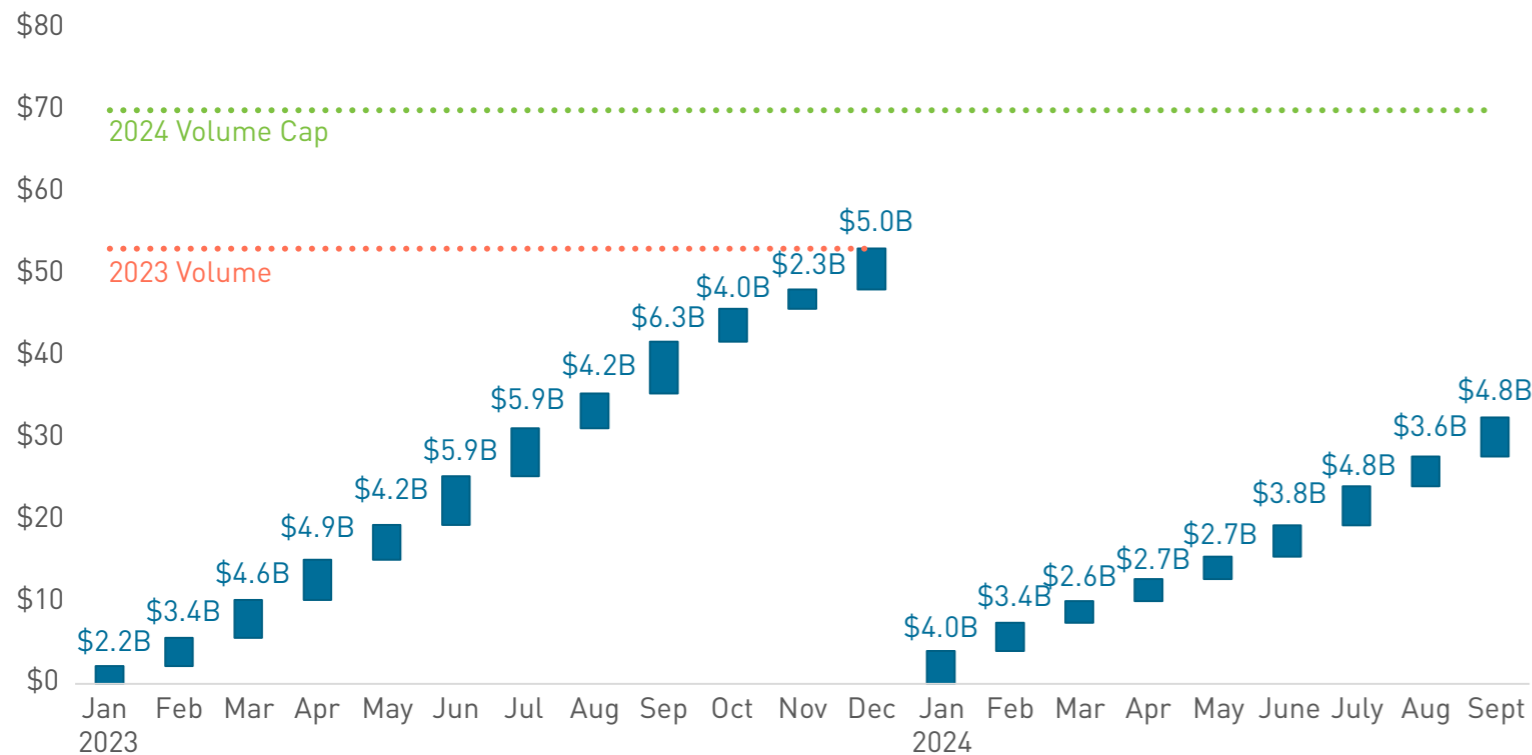
Source: Mortgage Bankers Association

Issuance

Fannie Mae issuance is down 23% from September of 2023; year-to-date issuance figures total just over \$32.5 billion. With an annualized run rate of \$43 billion, this could leave Fannie Mae \$10 billion shy of last year’s production, and \$27 billion shy of their cap.

Freddie Mac is running at a slightly better pace than last year, up 2% through the first half of 2024. Despite this slight increase, Freddie Mac is also on pace to finish well short of both last year’s production and their \$70 billion cap.

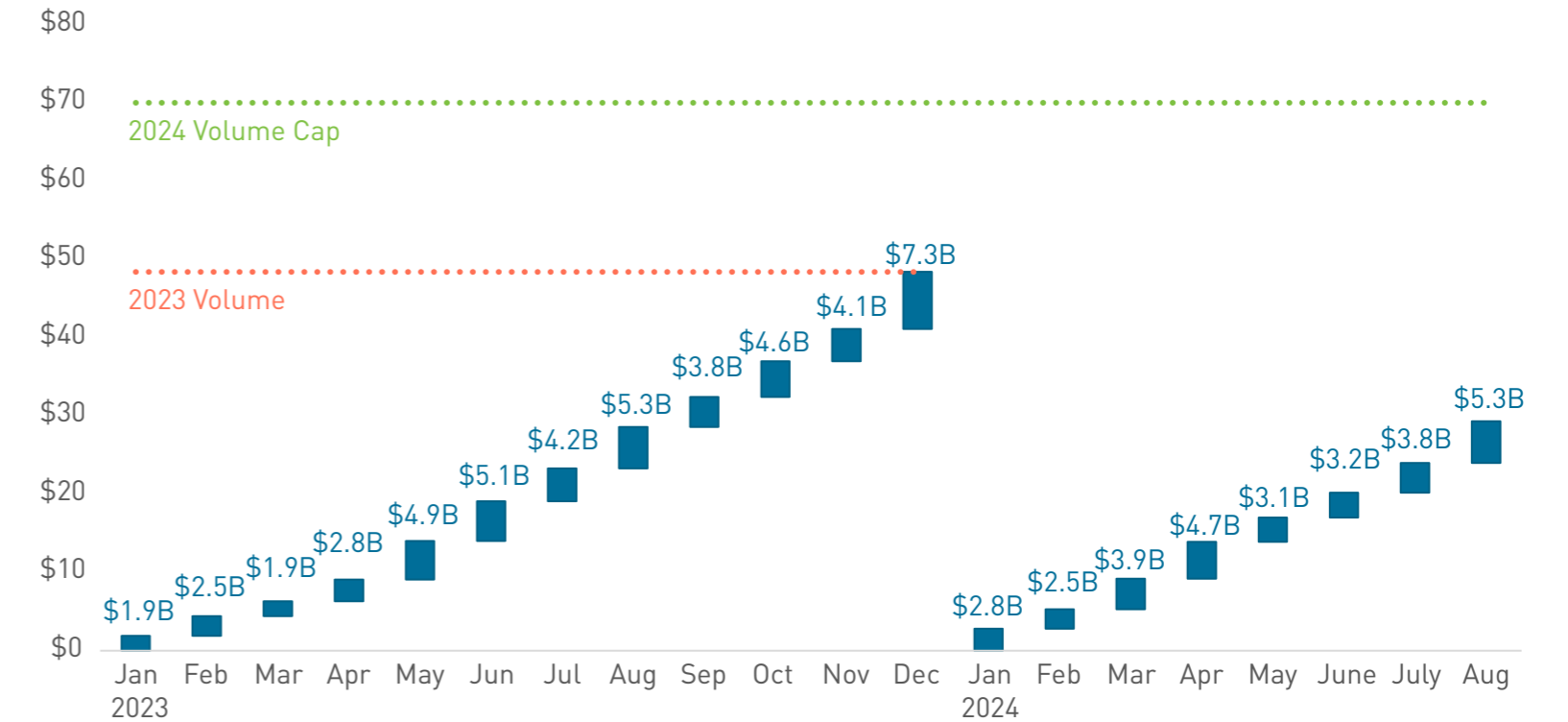
Figure 6: Fannie Mae Multifamily Issuance, 2024 YTD (\$U.S. Billions)



Source: Fannie Mae

The GSEs are focused on mitigating fraud in 2024 – both agencies introduced rules around brokered transactions and further increased inspection requirements. Additional underwriting requirements focused on less experienced sponsors, REO verification, and increased diligence to verify recent acquisitions were also introduced to help mitigate risk concerns.

Figure 7: Freddie Mac Multifamily Purchased Volume, 2024 YTD (\$U.S. Billions)



Source: Freddie Mac

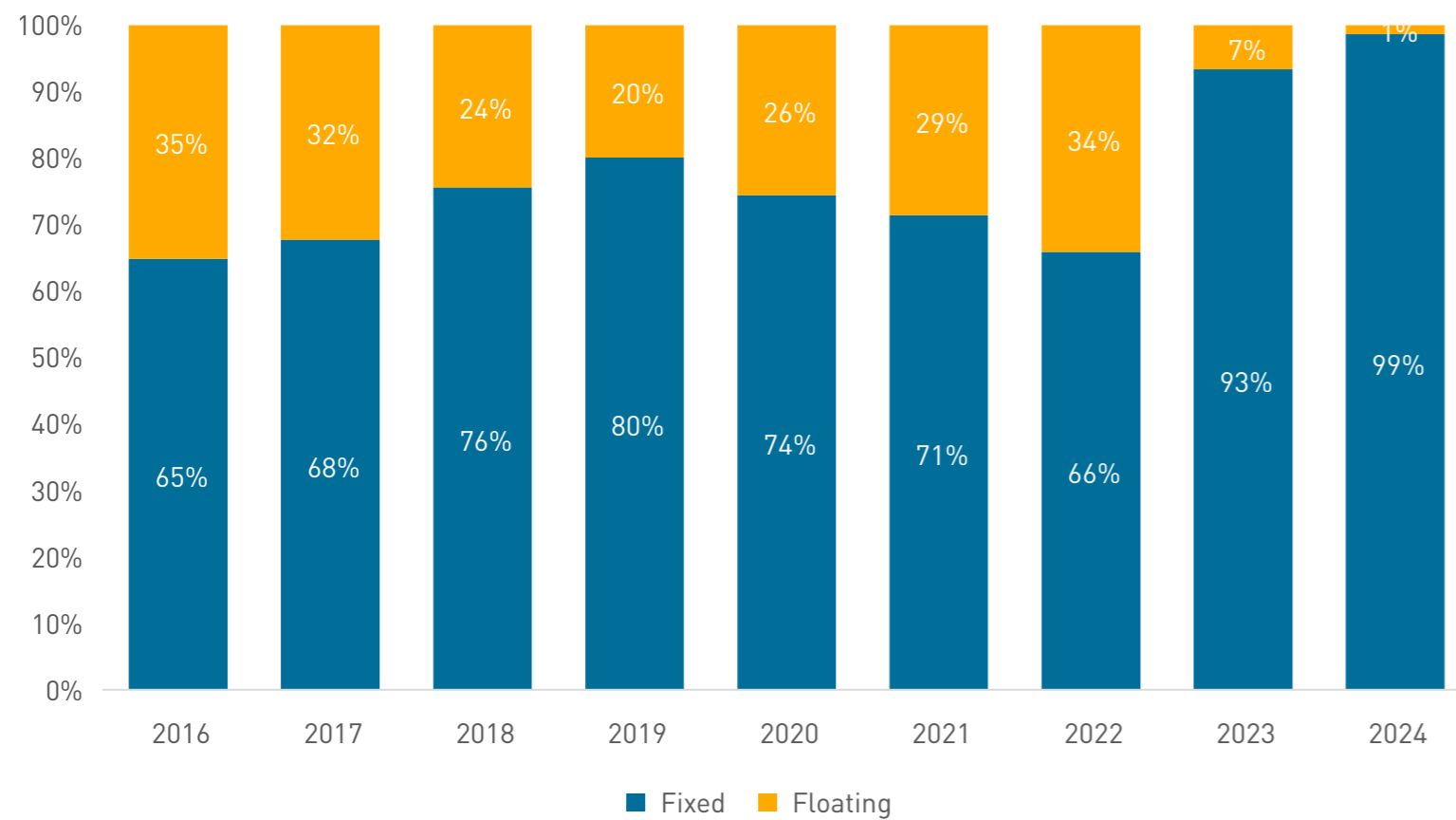
KEY TAKEAWAY:

A surge in application activity over the past two months has poised GSE volumes to vault past 2023 levels, and to possibly test significantly higher levels.

Rates and Terms

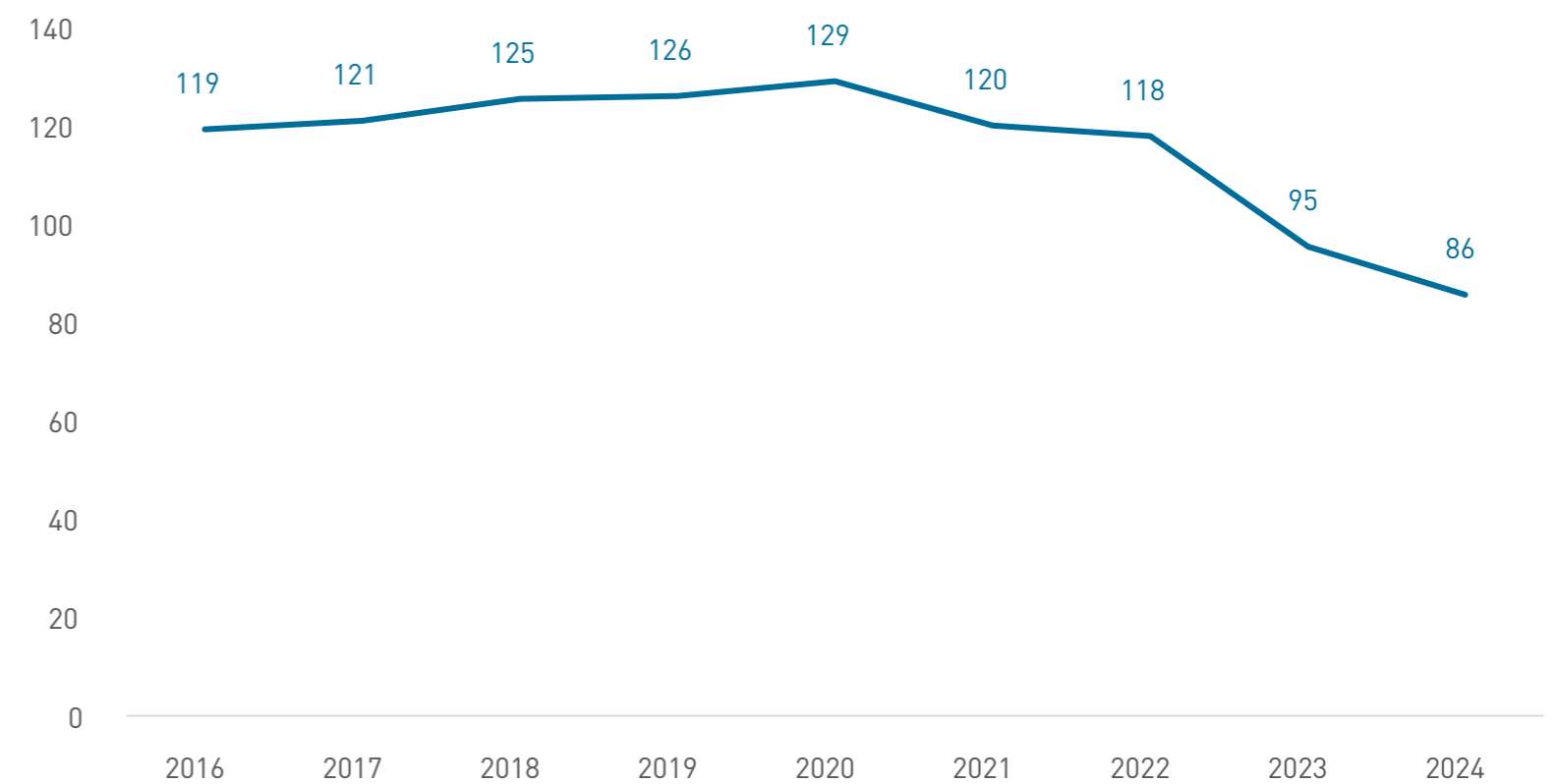
In the recent rate environment Adjustable-Rate Mortgages (ARMs) have understandably waned in popularity. In fact, securitized data tells us that Fannie Mae has not delivered a single adjustable-rate loan year-to-date. Borrowers transacting in today’s rate environment are often looking for the prepayment flexibility that ARMs provide. Agency CMBS volume has undergone a considerable shift from 10 and 12-year loan terms to 5 and 7-year paper as borrowers anticipate downward treasury rate pressure in the medium to long term.

Figure 8: GSE Loan - Rate Type



Sources: Fannie Mae, Freddie Mac

Figure 9: GSE Fixed-Rate Loan Term



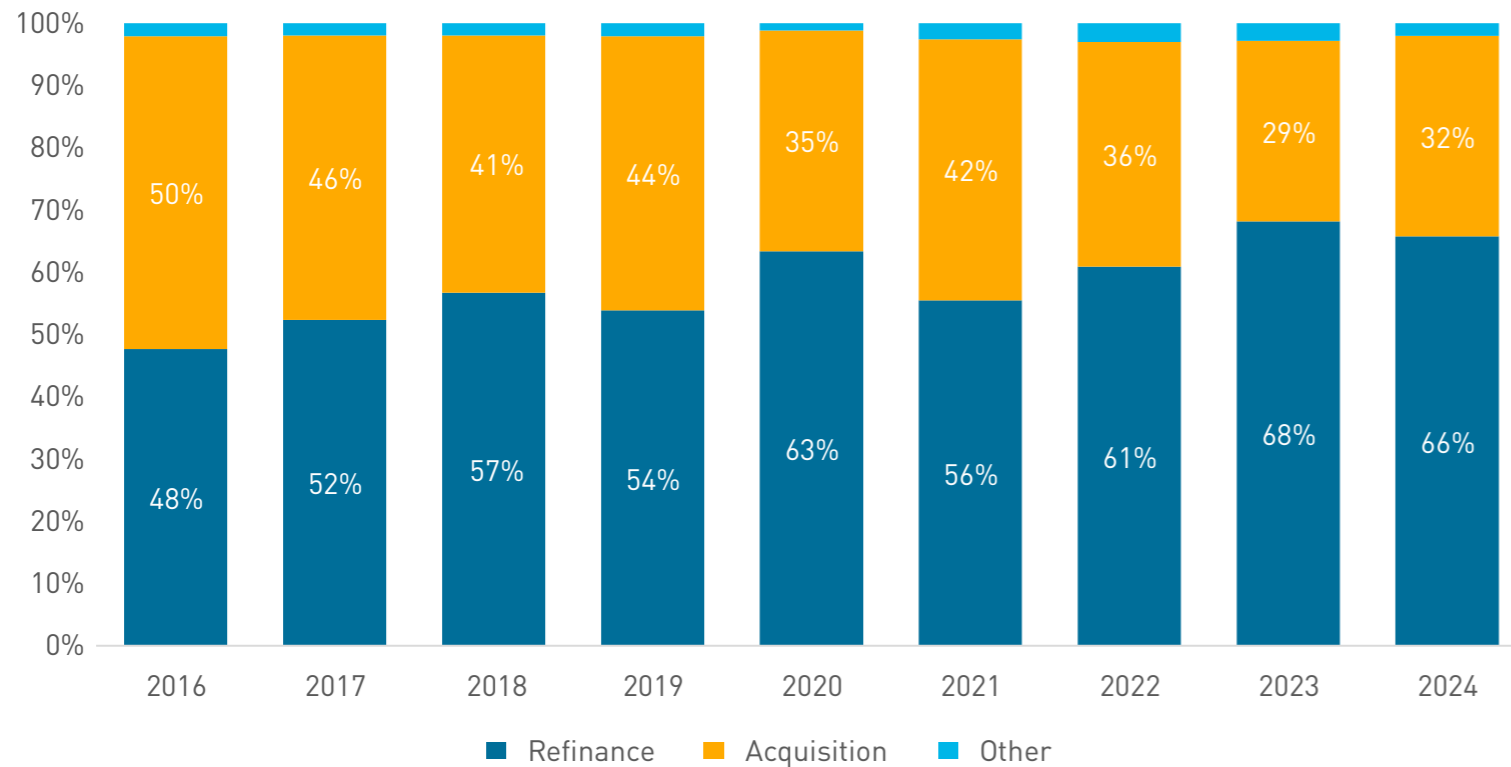
Sources: Fannie Mae, Freddie Mac

Acquisitions and Refinances

As one gauge of the health of the acquisition market we often look to the ratio of acquisitions to refinances.

Pre-pandemic, the typical acquisition ratio was around 40% on GSE originations. This ratio hit a near-term low in 2022 as buyers and sellers took a pause post-pandemic to confirm market stability. The ratio dipped again in 2023 due to an increase in Treasury rates (a 5% high on the 10-year UST). Over the last several months we have seen a positive reversal in this trend, with a significant increase in transaction activity. The acquisition to refinance ratio on Fannie Mae loans has increased 6% from 2023, currently sitting at 34% year to date.

Figure 10: Loan Purpose



Sources: Fannie Mae, Freddie Mac

Fannie Mae and Freddie Mac are both aggressively pricing deals for current year delivery, and rates are sticking to a relatively tight trading range. **One of the key features of the Fannie Mae and Freddie Mac programs are the speed with which they can move from application to a locked rate, with their streamlined rate lock or index lock programs.** Due to a lack of forward guidance from the Fed, treasury market volatility has been a staple of the current economic cycle. The rate cutting cycle was initiated with a drastic and somewhat unexpected move in terms of the size of the rate cut - we can expect to continue to see rate volatility surrounding important economic announcements as the market debates the magnitude of each cut. Moving your deal to be in a position to take advantage of the speed to lock of the GSE program gives you the ability to take your chips off the table if you see an advantageous move in treasury yields.

Table 1: Historical Treasury Rate Volatility

Year	Total Trading Days	>20BP	% of Days	10-20BP	% of Days	<10bp	% of Days
2024	188	2	1.06%	46	24.47%	140	74.47%
2023	250	13	5.20%	107	42.80%	130	52.00%
2022	249	13	5.22%	140	56.22%	96	38.55%
2021	250	1	0.40%	24	9.60%	225	90.00%
2020	251	12	4.78%	22	8.76%	217	86.45%
2019	250	0	0.00%	30	12.00%	220	88.00%
2018	250	0	0.00%	8	3.20%	242	96.80%
Totals	1688	41	2.43%	377	22.33%	1270	75.24%

Sources: Bloomberg, Berkadia

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Investment Sales

Treasury Volatility

U.S. Treasury volatility significantly impacts multifamily transactions by influencing borrowing costs and investor sentiment.

When U.S. Treasury yields fluctuate, it creates uncertainty in the market, impacting interest rates and the cost of capital. Higher volatility can lead to increased borrowing costs, making it more costly to finance new development. This can result in a transaction slowdown and potentially lower property valuations. Additionally, heightened volatility can cause investors to become more risk-averse and slow investment activity. It is critical that decision-makers understand and can manage this volatility in order to effectively navigate the complexities of the market.

U.S. Treasury Volatility and its Impact on Multifamily Transactions

Figure 11: U.S. Apartment Sales Transaction Volume by Year, 2010-2024 YTD (\$50M+) (Excludes Portfolios and Recaps)

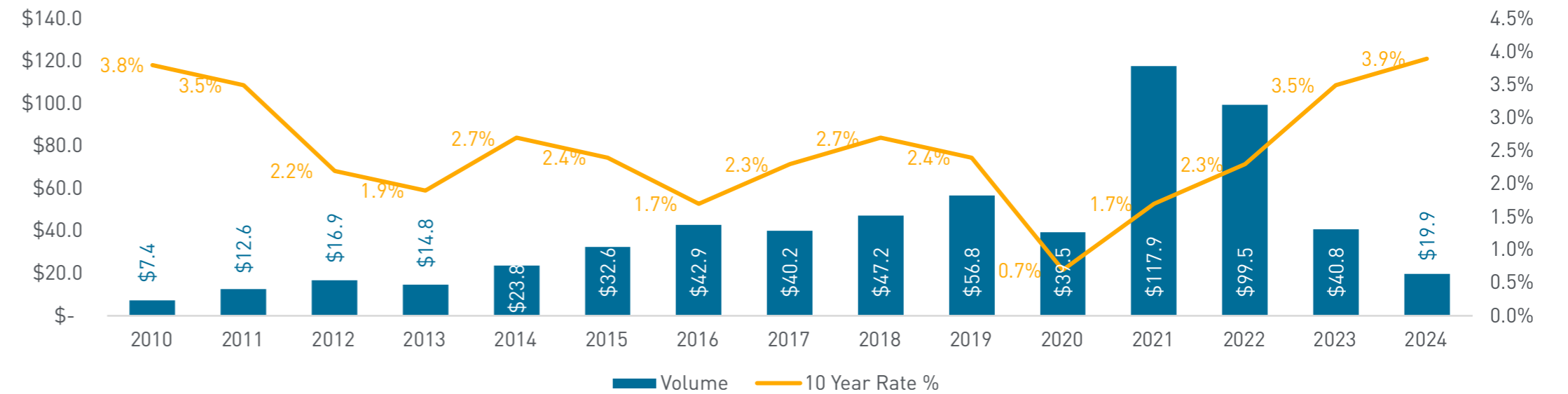


Figure 12: U.S. Apartment Deals by Year, 2010-2024 YTD (\$50M+) (Excludes Portfolios and Recaps)



Transaction Vintage

U.S. multifamily transaction volume in 2023 and year-to-date 2024 has been dominated by apartment properties built after 2017 due to several factors.

We're seeing a flight to quality as investors transition to core and core plus strategies. **Investors have been favoring newer assets for their potential to generate stable and predictable cash flows, contributing to higher transaction volumes for these properties.** Moreover, newer assets often feature modern amenities and energy-efficient designs that attract tenants and investors alike.

In the current environment, sellers are motivated to dispose of newer assets in their portfolios due to several factors. Owners are pressured to consider exit strategies, driven by liquidity needs, the end of fund life, or the need to achieve broader business goals. Additionally, loan maturities compel some owners to sell. Merchant builders may also sell due to slow lease-ups or cost overruns. Lastly, there is a need to create bank line capacity with existing construction lenders, prompting some sellers to offload newer assets.

Figure 13: 2022 U.S. Apartment Transactions by Vintage

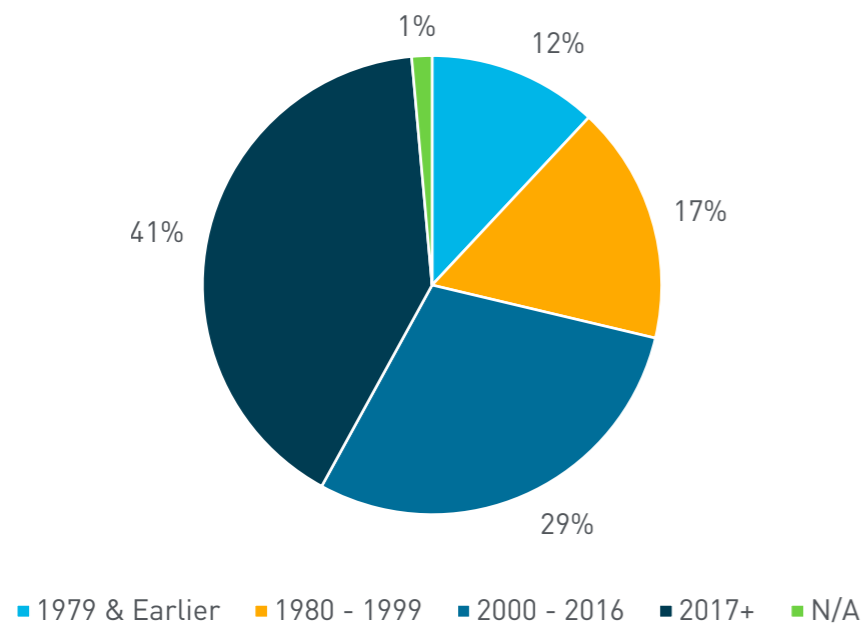


Figure 14: 2023 U.S. Apartment Transactions by Vintage

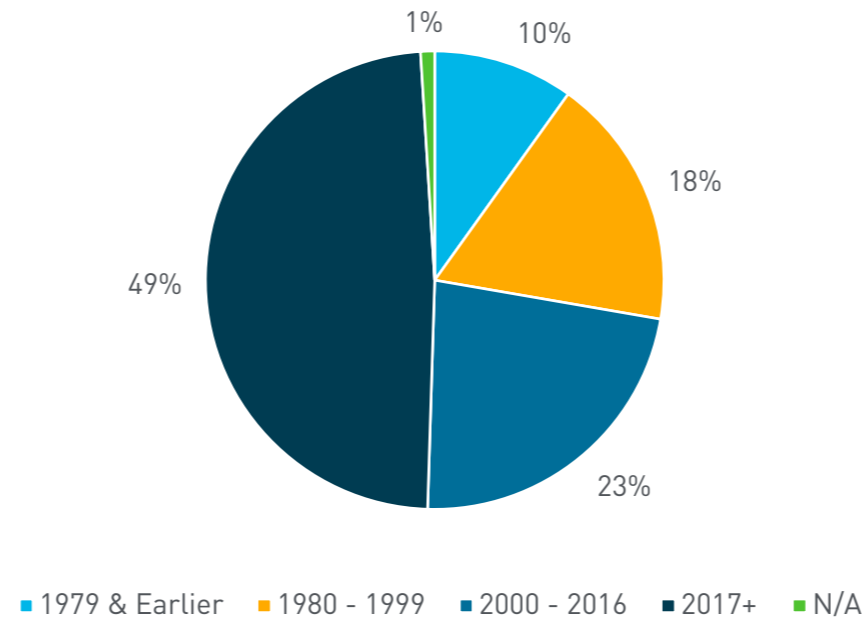
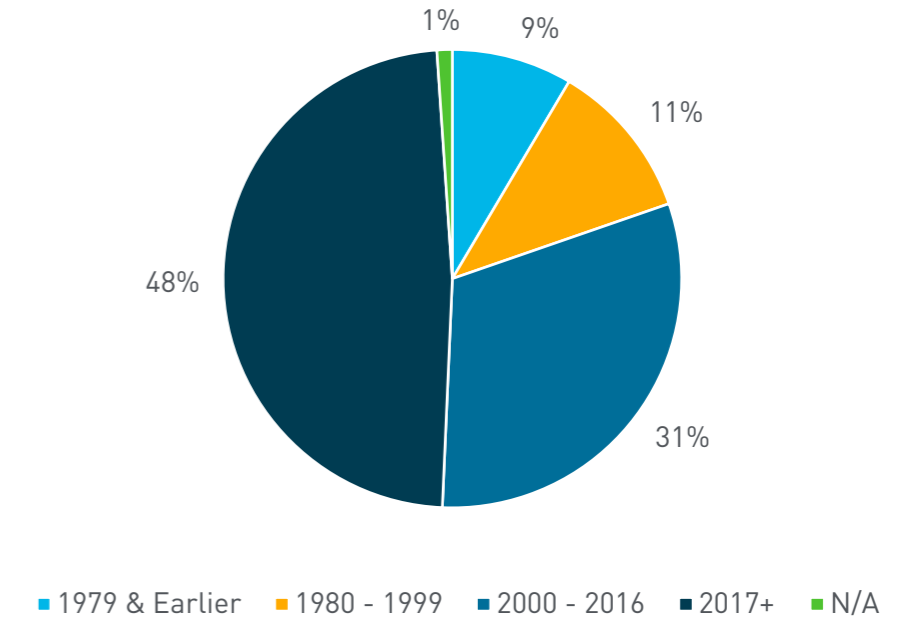


Figure 15: 2024 Q2 U.S. Apartment Transactions by Vintage



Source: RCA (Real Capital Analytics) as of Aug. 30th

KEY TAKEAWAY:

U.S. apartment transaction volumes 2022 through Q2 2024 have been dominated by core/core plus product completed after 2017.

Top Buyers and Sellers

Which firms have been the most active?

While U.S. multifamily transaction volume has been down, transactions are still occurring. Year to date, both private and institutional investors have dominated acquisitions. The biggest buyers were a mix of fund shops, syndicators, separate account managers, private investors, a foreign pension fund, and a public REIT. Some public REITS are partnering with foreign capital and seeding platforms with existing assets in exchange for a commitment of capital to pursue new opportunities. These groups have substantial dry powder and access to competitive financing options, enabling them to pursue large-scale deals. **They believe they can acquire high-quality assets at a discount to today's replacement cost in a less competitive market.** Multifamily properties' resilience and steady income streams are particularly appealing in a volatile economic environment.

Table 2: Top Buyers and Sellers of U.S. Apartment Trades 2022 - 2024

2022	
Buyer	Volume
Harbor Group Int'l	\$1,975,700,000
Cortland	\$1,796,944,187
MG Properties	\$1,580,475,000
BREIT	\$1,538,054,845
Orbach Group	\$1,224,500,000
Black Spruce Management	\$1,224,500,000
Capital Square 1031	\$1,161,828,000
TA Realty	\$1,084,530,000
Tides Equities	\$1,082,600,000
Bridge Investment Group	\$1,042,820,950
Total	\$13,711,952,982
Seller	Volume
Brookfield AM	\$2,321,250,436
Alliance Residential	\$1,675,639,429
TIAA-CREF	\$1,497,704,261
Wood Partners	\$1,421,504,860
Mill Creek Residential	\$1,388,601,368
Greystar	\$1,347,113,958
Crow Holdings	\$1,346,764,500
AvalonBay	\$1,237,416,667
The Connor Group	\$1,089,121,271
Pantzer Properties	\$882,925,000
Total	\$14,208,041,750

2023	
Buyer	Volume
FPA Multifamily	\$880,802,125
Post Investment Group	\$762,540,000
Harbor Group Int'l	\$685,200,000
AIR	\$631,114,167
Pacific Urban Investors	\$629,300,000
GID	\$602,982,487
The Connor Group	\$574,883,333
MG Properties	\$570,858,333
Abacus Capital Group	\$547,764,714
Beitel Group	\$545,566,107
Total	\$6,431,011,266
Seller	Volume
Wood Partners	\$1,397,125,274
BREIT	\$1,208,275,737
PGIM Real Estate	\$1,191,066,100
Alliance Residential	\$1,125,925,000
Blackstone	\$1,045,720,436
Crow Holdings	\$1,015,305,275
Carroll Organization	\$620,078,000
Harbor Group Int'l	\$572,609,447
SREIT	\$500,647,000
Davis Development Inc	\$500,580,667
Total	\$9,177,332,936

2024 Q2	
Buyer	Volume
FPA Multifamily	\$783,000,000
Kairoi Residential	\$445,400,000
Blackstone	\$422,400,000
Pacific Urban Investors	\$404,000,000
Bridge Investment Grp	\$401,400,000
Pantzer Properties	\$376,400,000
Equity Residential	\$373,600,000
PGGM (NL)	\$370,000,000
Dermot Co	\$370,000,000
Carmel Partners	\$355,900,000
Total	\$4,302,100,000
Seller	Volume
CIM Group	\$619,000,000
Heitman	\$529,400,000
AvalonBay	\$479,700,000
JP Morgan	\$439,600,000
Greystar	\$421,200,000
Goldman Sachs	\$405,900,000
Eastbridge	\$370,000,000
AG Real Estate	\$370,000,000
Metro Loft	\$370,000,000
Chinese-American Planning Council	\$335,900,000
Total	\$4,340,700,000

Source: RCA (Real Capital Analytics) as of Aug. 25th
BERKADIA

Top Markets

Where is the most activity occurring?

Since 2022, 80% of all U.S. apartment transactions over \$50 million have occurred in 25 markets. Austin, Dallas, Atlanta, Phoenix, and Miami have witnessed the most transaction activity. **These markets continue to attract investors for their strong population growth, robust job creation, and favorable economic conditions.** High demand for rental housing, driven by an influx of young professionals and families seeking lower living costs, also makes these areas appealing. Investors are drawn to these markets for their potential to generate stable, risk-adjusted returns, making them hotspots for multifamily development. While some pockets of over-supply exist, we believe they are temporary and will be absorbed over time. Additionally, markets like Boston, Chicago, DC Metro, and New York, which were not over-built in the last cycle, continue to attract investors by offering stability, liquidity, and long-term growth potential.

Table 3: Top Markets for U.S. Apartment Trades 2022 - 2024

2022			2023			2024 Q2		
Metro	Volume	% of Total	Metro	Volume	% of Total	Metro	Volume	% of Total
NYC Metro	\$9,946,943,964	8.69%	Dallas	\$3,851,499,243	8.38%	NYC Metro	\$2,282,000,000	9.70%
Phoenix	\$7,655,661,056	6.69%	Atlanta	\$3,504,343,525	7.63%	Phoenix	\$1,751,000,000	7.45%
Dallas	\$7,464,564,742	6.52%	NYC Metro	\$2,969,625,000	6.46%	Dallas	\$1,538,000,000	6.54%
LA Metro	\$6,513,855,875	5.69%	Phoenix	\$2,845,025,000	6.19%	LA Metro	\$1,351,000,000	5.75%
Atlanta	\$6,380,311,277	5.57%	DC Metro	\$2,799,003,992	6.09%	DC Metro	\$1,313,000,000	5.58%
Miami/So Fla	\$6,157,819,967	5.38%	Chicago	\$2,403,586,958	5.23%	Miami/So Fla	\$1,218,000,000	5.18%
DC Metro	\$6,067,527,044	5.30%	Austin	\$2,195,191,121	4.78%	Boston Metro	\$1,141,000,000	4.85%
Houston	\$4,941,035,746	4.31%	Boston Metro	\$2,151,075,827	4.68%	Denver	\$1,103,000,000	4.69%
Orlando	\$4,911,564,781	4.29%	Miami/So Fla	\$2,105,607,127	4.58%	Atlanta	\$1,102,000,000	4.69%
Charlotte	\$4,053,844,333	3.54%	Denver	\$1,937,037,000	4.22%	SF Metro	\$949,000,000	4.04%
Seattle	\$3,915,007,471	3.42%	LA Metro	\$1,848,517,499	4.02%	Seattle	\$700,000,000	2.98%
Austin	\$3,453,051,120	3.02%	Houston	\$1,562,463,814	3.40%	Chicago	\$693,000,000	2.95%
SF Metro	\$3,248,859,943	2.84%	Tampa	\$1,461,217,967	3.18%	Austin	\$658,000,000	2.80%
Denver	\$3,092,593,333	2.70%	Orlando	\$1,433,360,713	3.12%	Houston	\$652,000,000	2.77%
Boston Metro	\$2,933,712,975	2.56%	Charlotte	\$1,369,910,000	2.98%	Tampa	\$618,000,000	2.63%
Raleigh/Durham	\$2,695,477,750	2.35%	Raleigh/Durham	\$1,363,617,000	2.97%	San Diego	\$556,000,000	2.36%
Las Vegas	\$2,561,281,260	2.24%	SF Metro	\$1,355,142,167	2.95%	Orlando	\$486,000,000	2.07%
Tampa	\$2,531,207,294	2.21%	San Diego	\$1,227,616,125	2.67%	Raleigh/Durham	\$444,000,000	1.89%
Chicago	\$2,311,257,000	2.02%	All Others-GA,NC,SC,TN,KY	\$963,454,797	2.10%	Sarasota Metro	\$411,000,000	1.75%
Nashville	\$2,289,708,500	2.00%	Seattle	\$960,459,664	2.09%	Charlotte	\$309,000,000	1.31%
Total	\$93,125,285,432	81.32%	Total	\$40,307,754,538	87.72%	Total	\$23,515,000,000	82%

Source: RCA (Real Capital Analytics) as of Aug. 25th

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RESEARCH:

Urban vs. Suburban Trends

- Post-pandemic, the difference in the cost of renting between urban and suburban submarkets has tightened.
- This is due to urban apartment operators cutting rents more drastically than their suburban counterparts in the second half of 2020 through the first half of 2021.
- Even with elevated deliveries, suburban apartment operators have recorded higher occupancy than their urban counterparts since 2015.

Figure 14: Urban vs. Suburban Effective Rent for U.S. Apartments

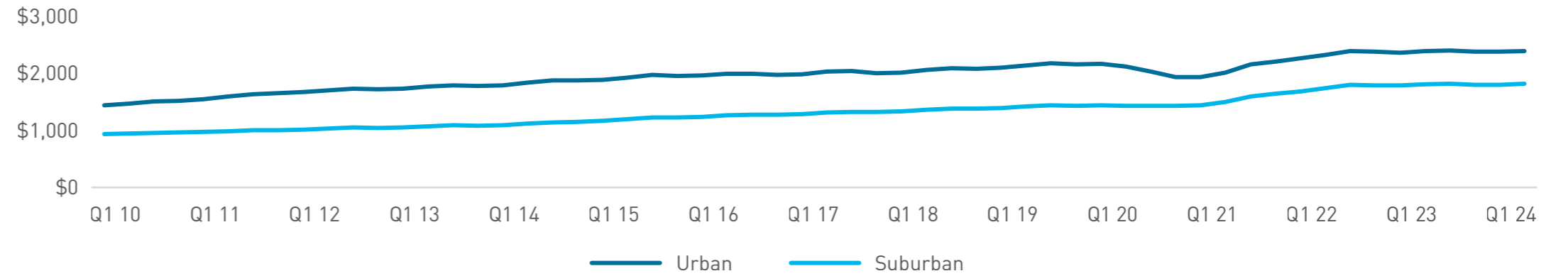


Figure 15: Urban vs. Suburban Effective Rent YOY Change (%) for U.S. Apartments

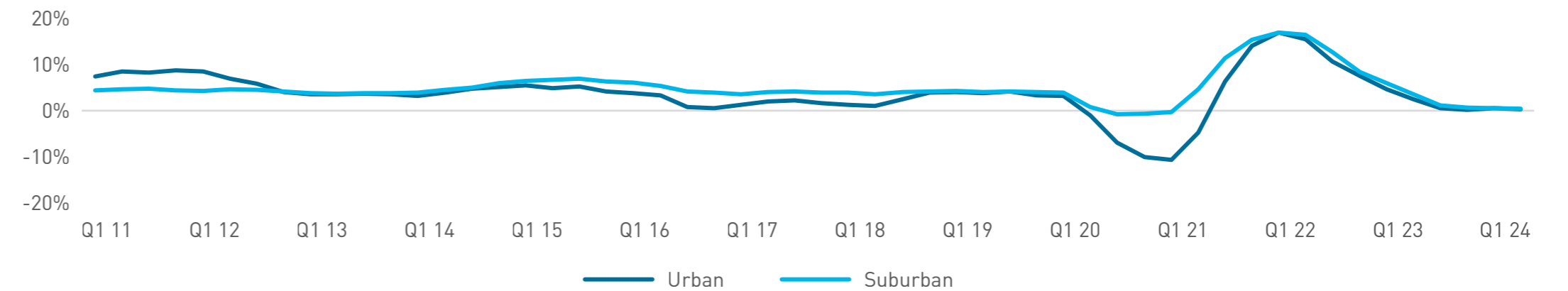
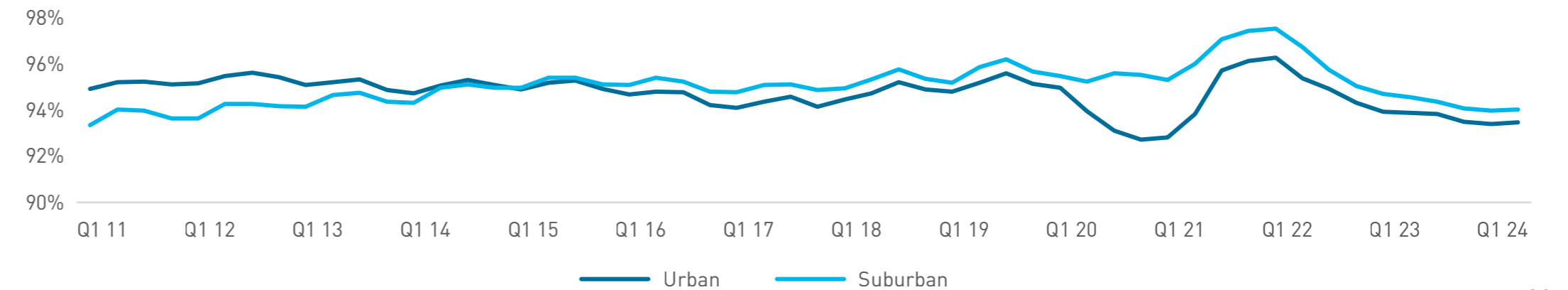


Figure 16: Urban vs. Suburban Occupancy for U.S. Apartments



Sources: RealPage; National Multifamily Housing Council; Federal Reserve Bank of Cleveland

Research: Urban vs. Suburban Trends

- Multifamily starts in suburban submarkets have significantly elevated in the last five years.
- A potential headwind for suburban submarkets was the mass move-outs in the second half of 2022 through the first half of 2023. On the plus side, net absorption has rebounded through mid-2024.
- At the same time, leasing activity among urban submarkets has steadily increased.

Figure 17: Urban vs. Suburban Deliveries for U.S. Apartments

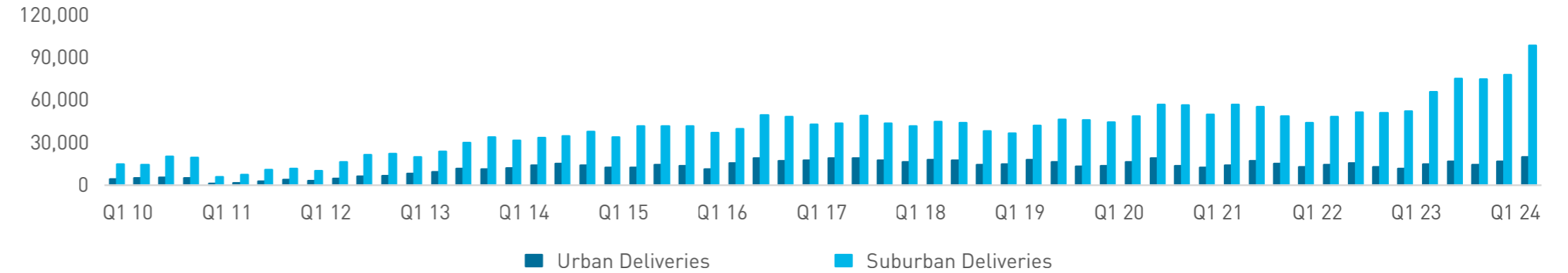


Figure 18: Urban vs. Suburban Net Absorption for U.S. Apartments

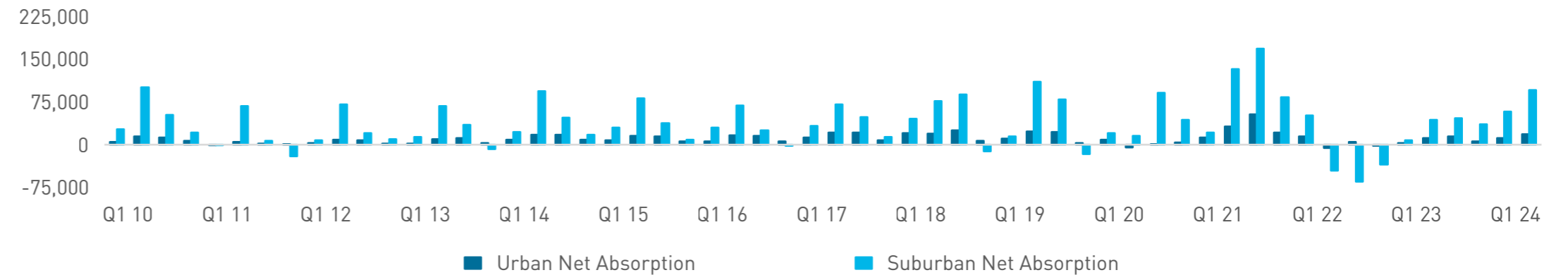
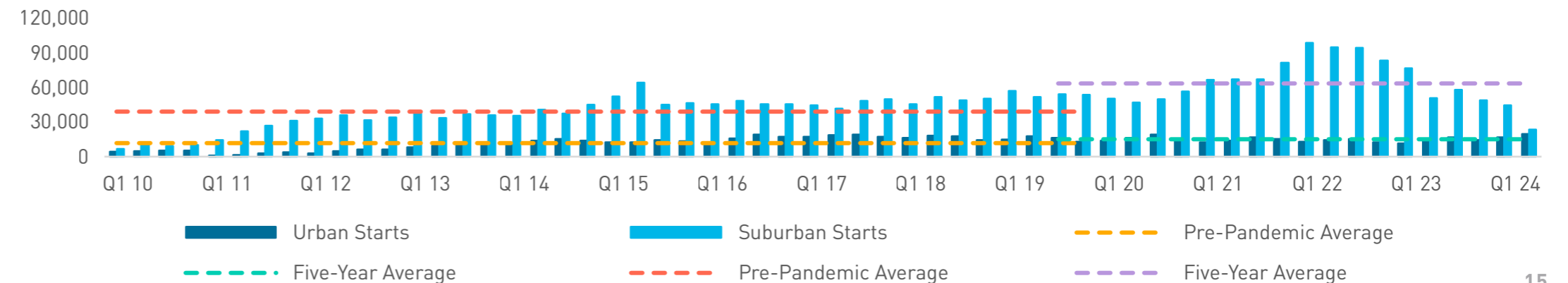


Figure 19: Urban vs. Suburban Starts for U.S. Apartments



Sources: RealPage; National Multifamily Housing Council; Federal Reserve Bank of Cleveland



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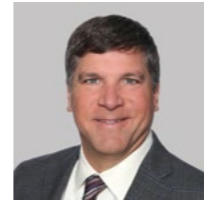
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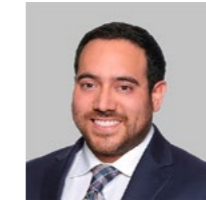
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