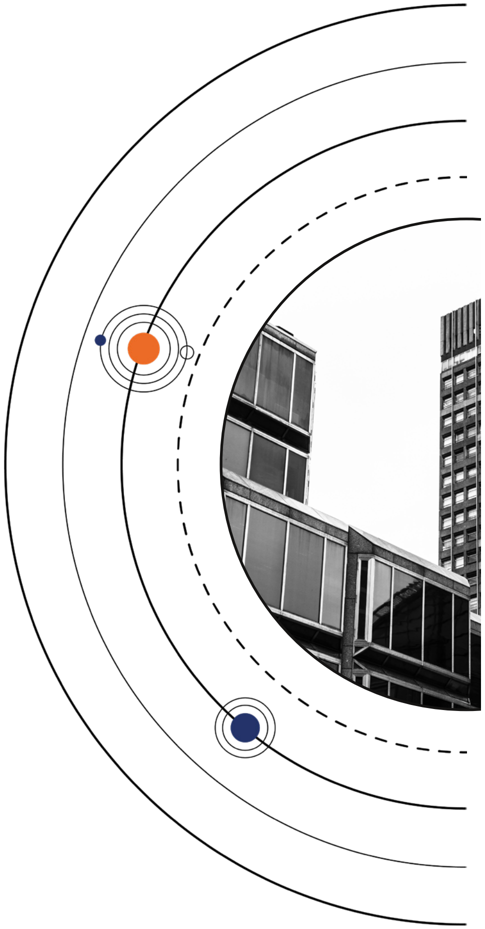
SVN® RESEARCH

State of the Market Report

MULTIFAMILY | 2023

Multifamily

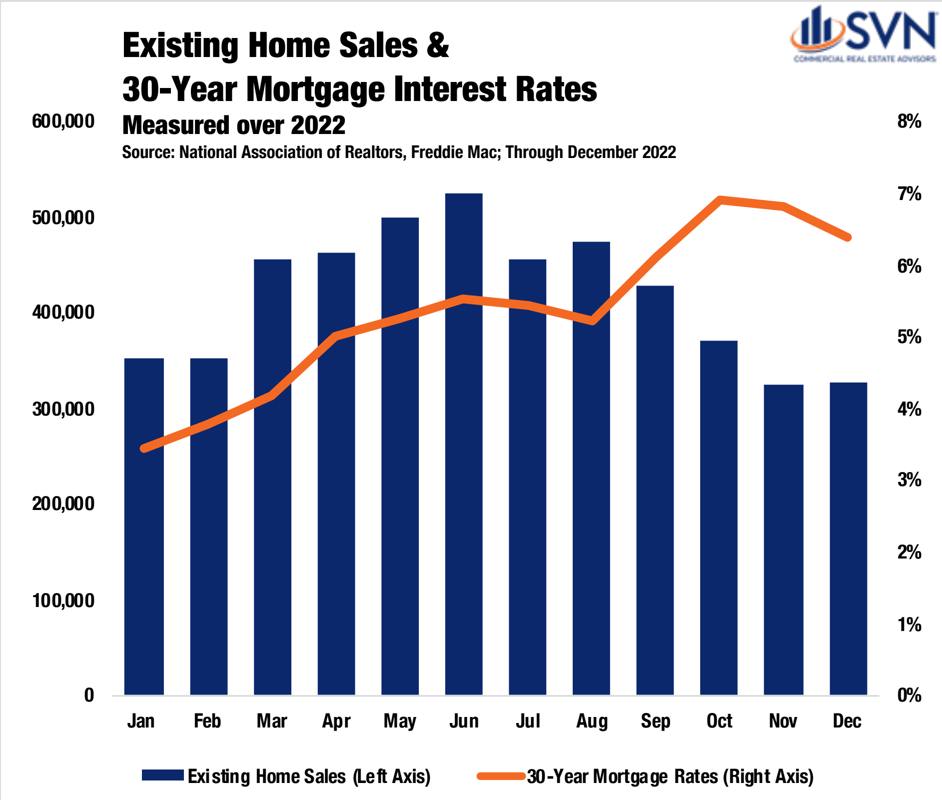


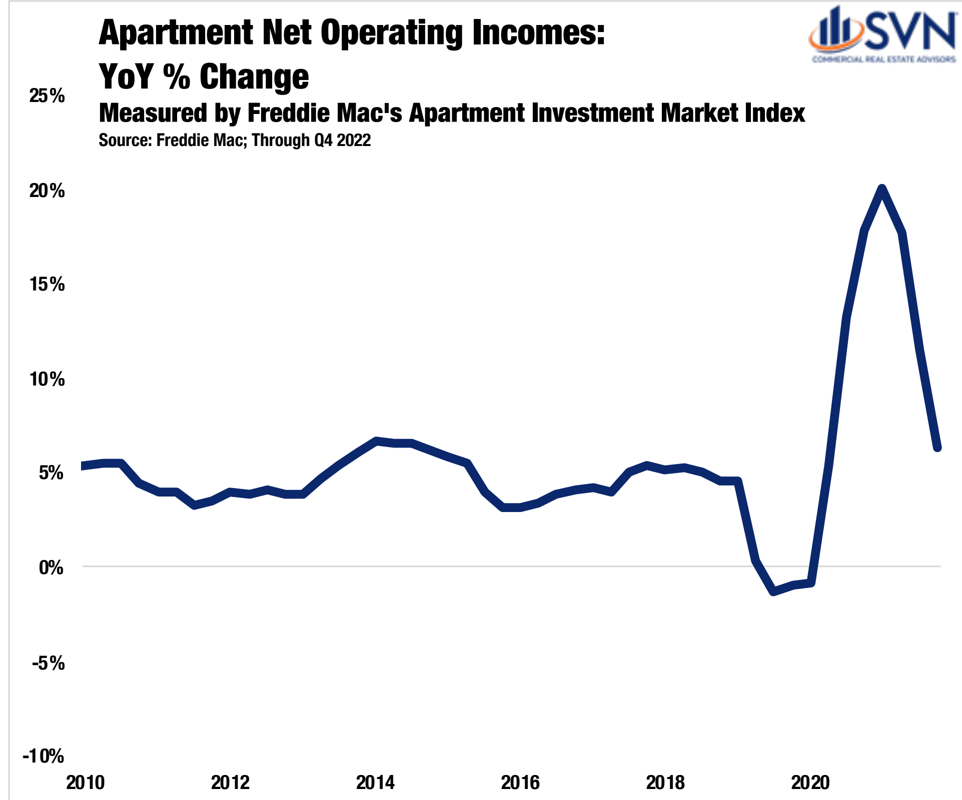
NATIONAL OVERVIEW

The multifamily sector saw a mixed bag of results in 2022. On the one hand, underlying fundamentals for the property type continue to act as a long-term tailwind. On the other hand, the impact of rapidly rising interest rates was ankle weight to all asset classes — and multifamily was no exception.

From the beginning of the year, when 10-year Treasury rates sat at just 1.6%, to the end of the year when they breached 4.2%, the cost of debt more than doubled for prospective borrowers in 2022. With the ground shifting quickly and the hope that interest rates will return to lower levels once the Fed regains control over inflation, buyers took a cautious approach to acquisitions last year. According to MSCI Real Capital Analytics, 19% fewer properties traded hands in 2022 than in 2021.

However, while no property type was immune from the pain of rising interest rates, multifamily was the unique case of a sector realizing at least some benefits. Rising interest rates proved to be even more detrimental for





prospective homebuyers, placing an affordable transition into ownership further out of reach. As a result, existing home sales cratered through the second half of 2022. With many would-be buyers priced out of homeownership, they remained engaged with the rental market, leading to a rise in aggregate demand and a surge in rent prices. According to Yardi Matrix, through the end of 2022, rent prices were up 6.2% from a year earlier, marking the second-highest growth rate this century.

Moreover, according to Freddie Mac, average apartment net operating incomes increased by a comparable 6.3% last year.

Financials

APARTMENT: TRANSACTION VOLUME

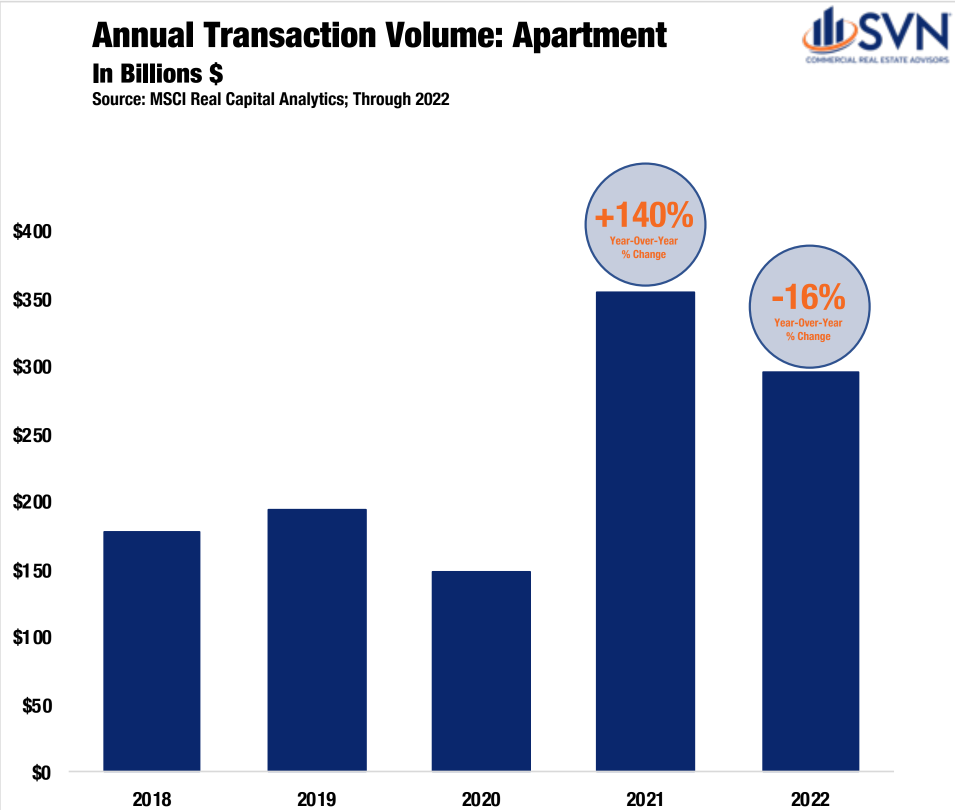
According to MSCI Real Capital Analytics, **multifamily transaction volume** totaled $296.0 billion in 2022 — a **16.3% drop-off from the previous year.** However, 2021's total was an outlier, and a slight pullback in 2022 transaction activity was to be expected. In 2021, the apartment sector (and commercial real estate generally) had two significant tailwinds causing a transaction surge.

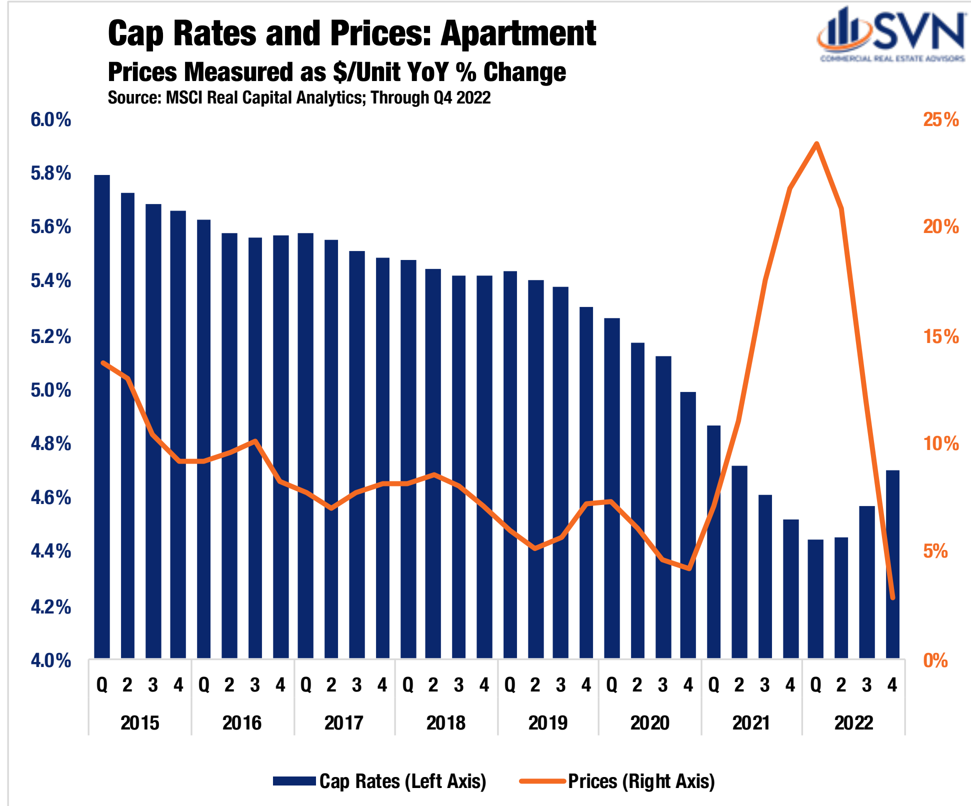
The first was **pent-up demand** from the pandemic. The uncertainty of 2020 kept many would-be buyers on the sidelines, and once confidence returned, they came rushing back onto the field. The second was the widespread **anticipation of a Federal Reserve tightening cycle** in 2022. Investors understood in 2021 that their window to lock in rock-bottom interest rates was closing, which led to a rush to complete deals.

As a result, apartment transaction volumes rose by 140% in 2021 over 2020's beleaguered pandemic total. However, even compared to the previous annual all-time high (2019), 2021's total was 83% higher. With these above data in mind, the 2022 transaction volume decline appears less significant. The 2022 total remains the second highest on record, and it stands 53.1% higher than the pre-pandemic record set in 2019.

APARTMENT: CAP RATES AND PRICES

In 2022, multifamily cap rates started to do the impossible: they rose. In the first half of the year, apartment cap rates continued their long descent, falling to an all-time low of 4.6% in Q2 2022. However, in the second half of the year, cap rates finally hit a moment of inflection. First, cap rates ticked up by a minuscule 3 basis points (bps) in Q3 — an exceedingly marginal





movement considering 10-Year Treasuries had already increased by a significant 231 bps from the start of the year. However, in Q4, apartment cap rates saw their first major increase in over a decade. Apartment cap rates rose by 22 bps quarter-over-quarter in Q4 2022 to land at 4.7%. Notably, the single-period increase was the largest since 2009.

With cap rates starting to pick themselves up off of the floor, it has meant a deceleration in pricing. Of course, after year-over-year price gains topped out at 23.8% in Q1 2022, a reversion in momentum did not come as a surprise. Through Q4 2022, prices were up a meager 2.9% from a year earlier. Moreover, prices have now fallen for two consecutive quarters. According to MSCI RCA, apartment units finished the year with an average valuation of $228,310 — $16,081 less than its Q2 2022 peak (-6.6%).

Regional Performance

APARTMENT: TRANSACTION VOLUME

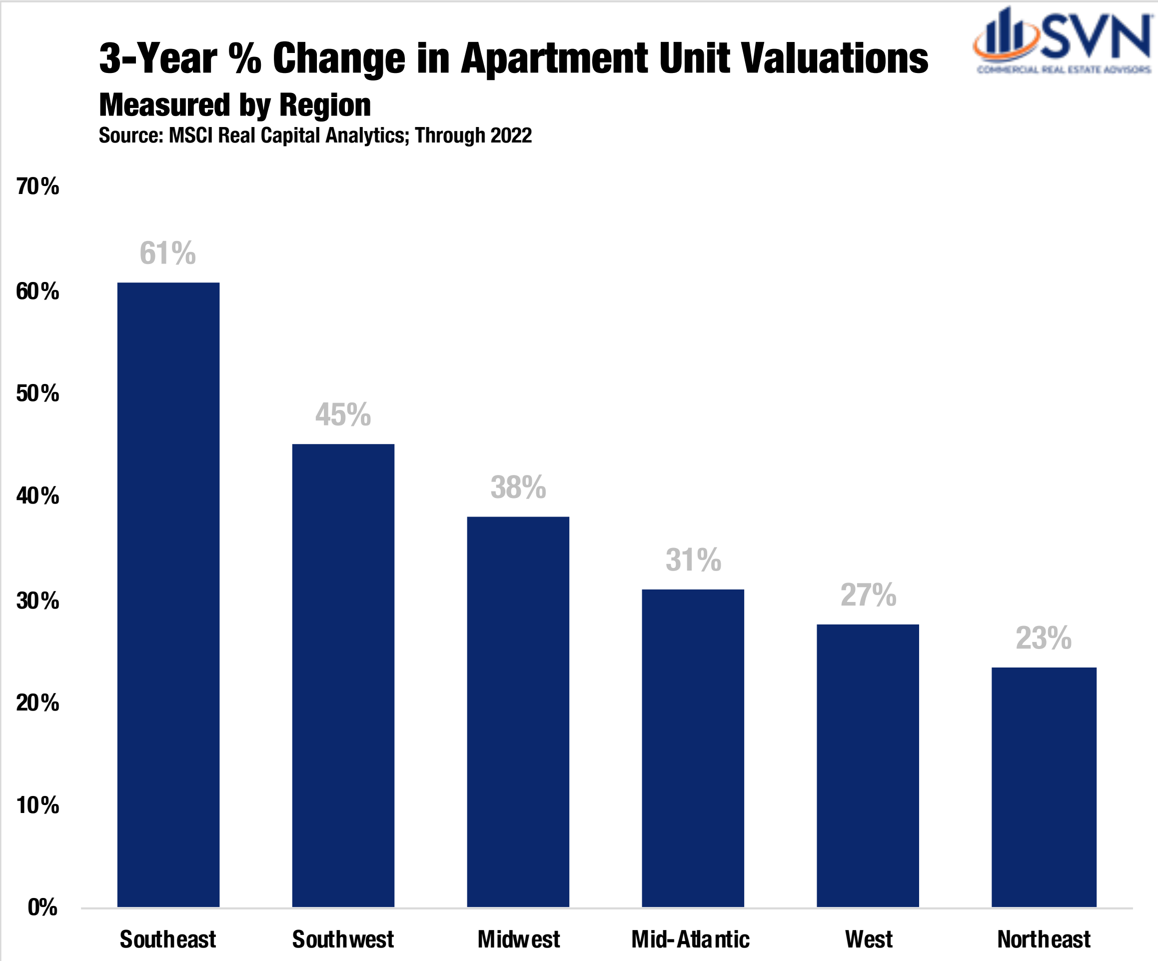
In the development of the multifamily regional rankings, the SVN Research Team utilized a scoring matrix. The matrix offers a comprehensive view of how regional markets are performing within the context of growth from a year earlier, as well as compared to before the pandemic. The **eight following criteria** were included in the matrix:

1. Transaction Volume: 1-Year % Change
2. Transaction Volume: % Change Over Pre-Pandemic (2019)
3. Share of US Transaction Activity: 1-Year Change
4. Share of US Transaction Activity: Change Since Pre-Pandemic
5. Cap Rates: 1-Year Change
6. Cap Rates: Change Since Pre-Pandemic
7. Pricing: 1-Year % Change
8. Pricing: % Change Over Pre-Pandemic

2023 Regional Market Rankings: Multifamily

Source: SVN Research, MSCI Real Capital Analytics; Through 2022

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



TOP PERFORMERS: SOUTHEAST

The Southeast came out as the **top-ranking region** for the 2023 multifamily matrix thanks to its unabated ascent and continued strong performance pre-, mid-, and post-pandemic. In 2019, the southeast region accounted for 24.0% of all apartment transaction volume in the US.

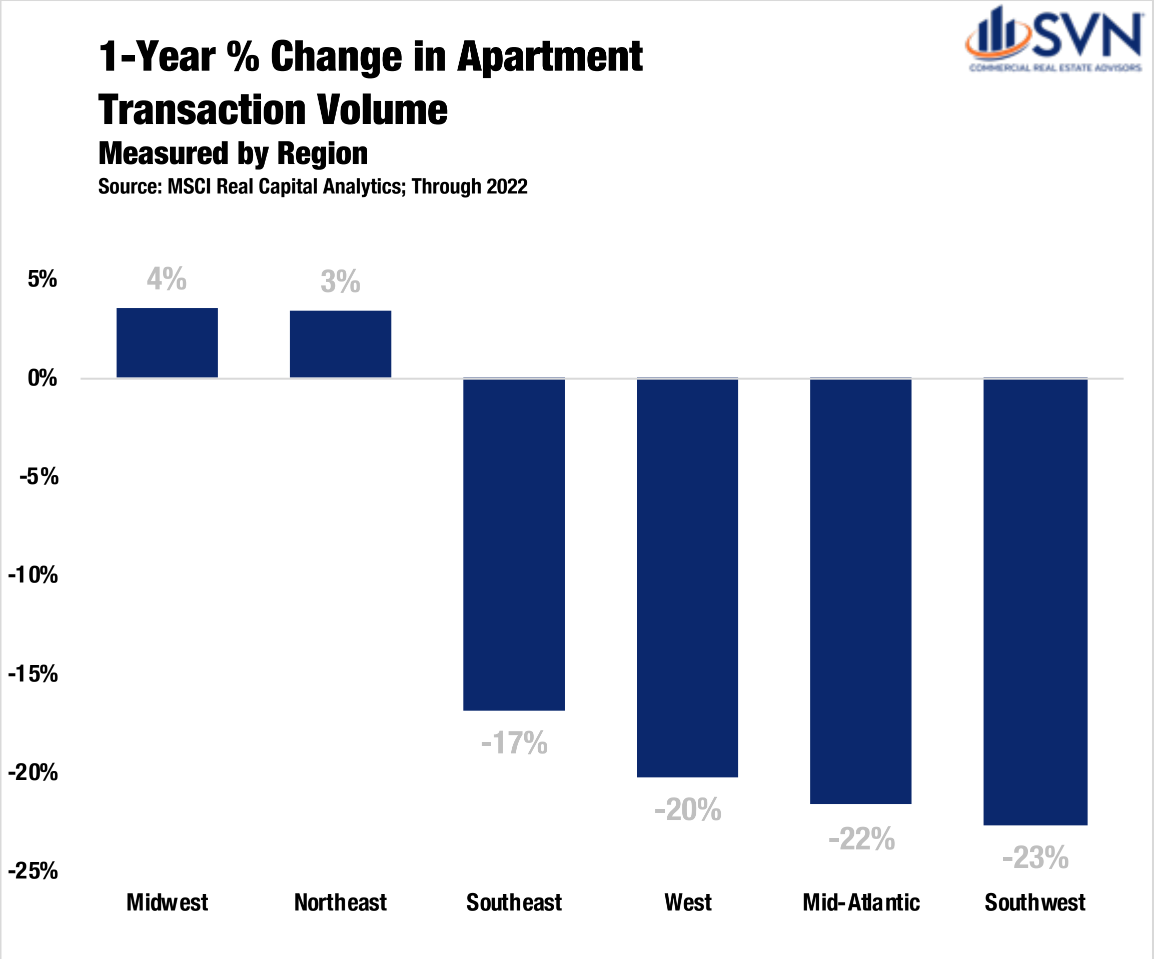
By the time the books closed in 2022, the Southeast's share of transaction activity had jumped all the way up to 30.5% — the largest increase of any region over that time. Similarly, over the past three years, the Southeast has also seen the most substantial increase in pricing.

In 2019, the average multifamily unit in the Southeast had an estimated valuation of $132,427. Fast forward to 2022, and this average unit valuation has jumped up to $212,621 — a robust relative price increase of 61%.

TOP PERFORMERS: MIDWEST

Don't let their charm fool you — Midwestern markets mean business when it comes to the multifamily sector. While Chicago remains the crown jewel, secondary markets are responsible for the region's recent rise.

Cities such as Kansas City, Indianapolis, and Ohio's Big Three Cs (Columbus, Cincinnati, and Cleveland) are propelling the region thanks to a mix of **attractive urban amenities** with **affordable housing**.



The Midwest was one of only two regions that saw an increase in transaction volume over 2021 levels, with the Northeast being the other. However, unlike the Northeast, the Midwest has continued to capture more of the multifamily sector's investment market share in recent years, gaining from 7.7% of activity in 2019 to 9.9% in 2022.

About SVN®

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