February 2024

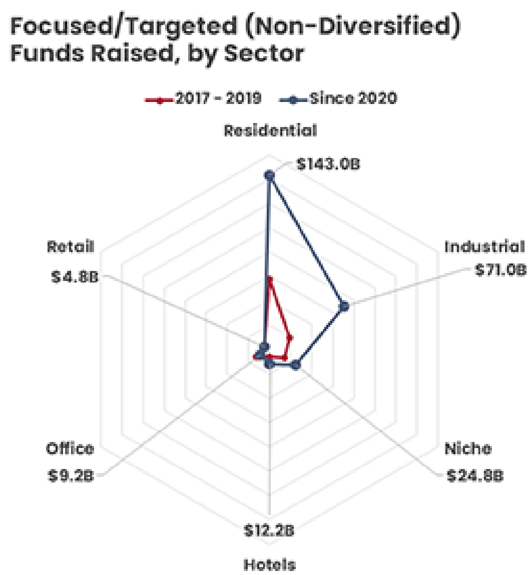
Good morning,

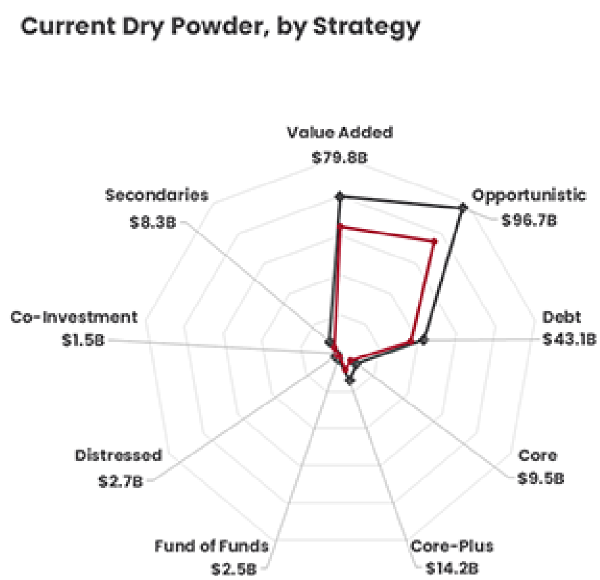
Last week at the National Multifamily Housing Council (NMHC) conference in San Diego, we spent plenty of time meeting with our clients and friends across the industry. More than 150 colleagues from Cushman & Wakefield and Greystone attended, and collectively we met with more than $1.5T in AUM across close to 1,000 meetings, and some common themes and takeaways continued surface. Below are some of the trends and comments I heard frequently in the meetings I was able to attend, in no particular order.

- **2024 will be a great vintage year for acquisitions.** This was a common quote thrown around in meetings – the expectation is that we may not be at the exact bottom in terms of pricing, but the common thought was that we're very close. So, it's a good time to start acquiring multifamily assets.
- **Supply will remain a challenge, but fundamentals will quickly shift.** With near-record-level construction activity, new deliveries will continue to pepper the market in 2024, but with starts pulling back 60% YoY nationally, there is real optimism that the tide will quickly shift in 2025-2026.
- **Second half of 2024 will see a pickup in activity.** With the prospect of rate cuts on the horizon, there was widespread belief that more deals will transact in the second half of the year, once there is more clarity on the path of interest rates.
- **Not as many opportunities for pref equity and mezz debt, *yet*.** Current owners have largely "kicked the can," but the expectation is that there will be a greater need for this rescue capital to step in this year, whether that's from groups with syndicated capital stacks, or new development that struggles to get to permanent agency financing thresholds.
- **Institutions are starting to come off the sidelines.** There was a hint of caution among some groups. But, after a slow 2023, most groups expect to be net buyers in 2024.

We think these themes are very prescient for the year ahead. We outlined a few of these points in previous newsletters, as well as our latest MarketBeat, but it is always nice to hear confirmation our clients are seeing the same trends as we are.

As I was putting together material to share at the event, one slide really stood out.





Source: Preqin, Cushman & Wakefield Research

Here, we're looking at the relative level of fundraising for sector-specific funds. Since 2020, more than $140B has been raised by multifamily-specific funds, or about twice the level of the next largest asset class: industrial. This data specifically excludes diversified funds, though with challenges in other sectors, we would expect a greater share of those diversified funds to be allocated towards the multifamily sector. With this much capital raised, we would expect to see deployment start to pick up, especially for assets that require a capital infusion, as evidenced by the fact that the majority of that capital that's been raised is geared towards value add and opportunistic strategies.

For yet another pulse on what our clients are thinking, some colleagues within Cushman & Wakefield's Midwest Investment Sales team put together a survey at the end of last year. Click here to see the results, covering topics such as development yields, investor concerns, and investment strategies.

This edition will feature insights from the conference from our colleagues across our teams, spanning debt, operations, and valuations. There's inevitably some overlap, but we think these themes bear repeating.

Thank you

Sam Tenenbaum, Cushman & Wakefield's Head of Multifamily Insights shares his thoughts and research on the Multifamily market.

Debt Update

Rich Martinez, Head of Production – Agency, shares his takeaways and key themes he picked up on at NMHC in San Diego.

NMHC 2024 KEY TAKEAWAYS

Market Conditions:

- Supply is a real issue in many markets.
- Many assets will see NOI decline in 2024 due to flat rents and increasing expenses.
- Insurance costs pose challenges for operators.
- Improvement perceived in rates, pricing and insurance

2024 Multifamily Impact:

- Potential impact next year due to extensions on bridge/debt fund loans.
- Banks/lenders reluctant to take over real estate assets unless the operator/sponsor is problematic.

Investor Sentiment/Capital Deployment:

- More optimism from private capital/quasi-institutional investors.
- Institutions remain cautious.
- Much capital on the sideline for deployment; Anticipation of opportunities in 2H 2024.
- Some tie increased deal volume to a potential rate cut at the FOMC meeting in June.

Investor Activity and Debt Markets:

- Buyer Selectivity: limited opportunities that make sense in terms of cash for yield/return
- Overall optimism in debt markets and compared to last year.
  - CMBS/agency spreads have tightened.
  - Positive trends in index (5, 7, 10 yr) post 12/13 Powell comments.
  - Acceptance that rates are not going back down to 3%.

Construction and Supply:

- Indicates less supply by 2025 and in the next few years (2026/2027).

Operational Insights

ASSET SERVICES POST NMHC WRAP UP

After a busy week of meeting with and celebrating our Clients at NHMC, the asset services team is hard at work operating and implementing solutions on behalf of our clients and their assets.

There were a few trends that we heard from our clients that are worth speaking to for the broader community:

- **Insurance:** Insurance rates continue on the rise and as renewals are coming due, we are assisting our clients though our strategic partnerships to help reduce cost or align coverage. Cushman & Wakefield has partnered with a team at Commercial Insurance Solutions (CIS), to develop a Master Insurance Policy for Commercial Property, General Liability, and Umbrella coverage. We know this is such a critical need for many of our clients, and we recognized the need to enroll the assistance of a firm proven in creating the programs in the multifamily space.
- **Operational Efficiency:** There will be a continued focus on operational efficiency as multifamily fundamentals take a hit. Our teams are actively looking at cost saving solutions, creative staffing structures and leveraging technology to assist with cost reduction.
- **Regional Operators:** We have seen an increase in regional and owner operators get out of the multifamily management space. This is due to rising costs of operations and limited reach. Our clients are looking for a national firm with a platform of resources to deploy to ensure efficient and stabile operations
- **AI Technology:** The Cushman & Wakefield team believes AI tech in the operations space will be transformative. We have partnered with Microsoft to leverage AI technology across the platform and work closely with our vender partners to redefine tasks, create time savings as well as allow our team members to focus on providing exceptional customer service to our residents. We also continue to leverage best of breed multifamily technologies in areas like tours, chat and collections.

We look forward to continuing to partner with our clients and expanding our relationships in 2024.

VALUATION & ADVISORY NMHC KEY THEMES

Overall sentiment from the recent NMHC conference was positive as market participants regain certainty in the capital markets along with certainty in stabilized operations. This certainty will allow buyers and sellers to gain the confidence needed to transact in a meaningful way again. There is an acute focus on balancing near-term supply-side pressure from construction completions while recognizing the strong long-term fundamentals. Multifamily remains a promising asset class from both an ownership and operational perspective, with overall market sentiment being cautiously bullish as lenders and investors look to increase transaction activity in to 2024.

Recent Thought Leadership

As one of the largest third-party property managers nationally, with over 178,000 multifamily units managed, Cushman & Wakefield Asset Services data shows unique insights not available through third-party data sources. Utilizing this data, we look back on key trends that stood out in 2023 and what opportunities we'll be watching in 2024.

Looking back at 2023, a handful of key trends stood out. While the market faced its share of challenges, there were also plenty of opportunities and green shoots as we look at the year ahead. Whether that's the efficiencies we've realized from strategies we've helped our clients integrate, to our new strategic partnership to assist clients in reducing insurance expenses, we continue to remain optimistic about the prospects for growth and better operating fundamentals in 2024.

Read our full data analysis here.

Important Announcements

To better fit the research-driven direction Blake Okland announced last month, the cadence of this newsletter is evolving. We will still use this platform to inform and educate you, our audience, but we will be producing fewer issues to ensure each edition is full of insights and useful content. Our next newsletter will be released in a few months, likely at the beginning of Q2.

UPDATES FROM GREYSTONE

Greystone Gains Volume and Market Share in Fannie Mae, Freddie Mac Multifamily Lending in 2023

Greystone Ranks #4 for Overall, Combined Agency Lending with $7.7 Billion in Total Volume
Firm Achieves Ranking of #3 Overall Lender by Volume for Fannie Mae, #6 Overall for Freddie Mac; Maintains #1 Fannie Mae Small Loans Ranking

Click Here to read more.

GREYSTONE

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FANNIE MAE DUS®

#3 Overall by Volume

#1 Small Loan
#2 Seniors Housing
#2 Student Housing
#4 Green Financing
#4 Affordable Housing

FREDDIE MAC OPTIGO®

#6 Overall by Volume

#2 Small Balance Loan
#2 Affordable Housing
#5 Seniors Housing

*Rankings based on 2023 lending volume from Fannie Mae and Freddie Mac.

Insights Magazine 2024 Outlook

IN THIS ISSUE:

- Industry Experts Weigh in on Construction Boom Impact & Rent Growth
- Back to the Future: Multifamily Outlook for 2024 with Sam Tenenbaum
- 2024 Interest Rate Outlook: Exclusive Q&A with Serafino Tobia

Click Here to read the issue.