

IPA

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Q3 2025 *State of the Market*

U.S. MULTIFAMILY OUTLOOK



Recovery Solidifies Setting the Stage for 2026

The commercial real estate (CRE) recovery is firming despite macroeconomic and geopolitical headwinds. The worst of policy uncertainty seems to be behind us, but delayed effects, due largely to trade and immigration, are concerning. Borrowers and lenders are adjusting to higher-for-longer and transacting amid building pressure to deploy capital. Private and public real estate price trends suggest the market is well past bottom. Demand is on pace to overtake a depleted supply pipeline, while catalysts for continued improvement, such as the recent tax bill, could surprise investors positively. If 2025 has been about surviving, 2026 could be about *thriving*.

Multifamily fundamentals moving to equilibrium, followed by undersupply

Lenders working through distress as CMBS, GSEs bright spots for borrowing

Institutional investors, including foreign buyers, still targeting Multifamily, Industrial

Stabilized property returns turned positive; CRE cycle moving past bottom

1H '25 registered strongest first half of apartment net absorption on record

Fund managers, sellers course correcting on valuations and return expectations

Dry powder remains off peak, but global investors prioritize U.S. CRE exposure

2025 tax reform codifies incentives around CRE investment, including development

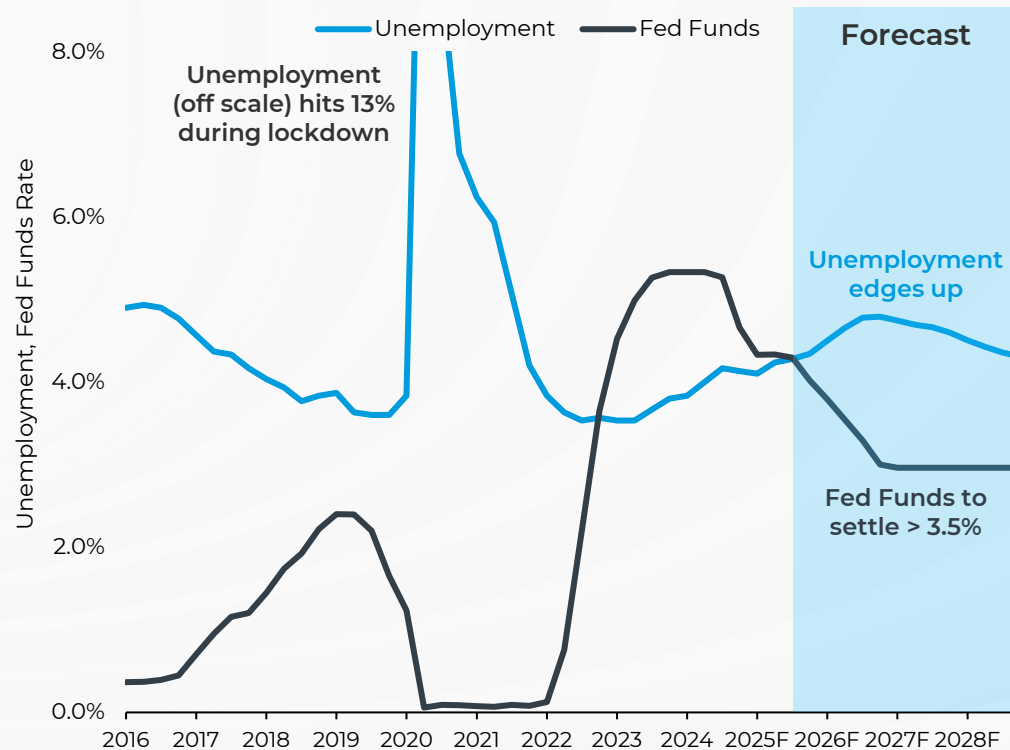


Economy & Fundamentals

August 2025

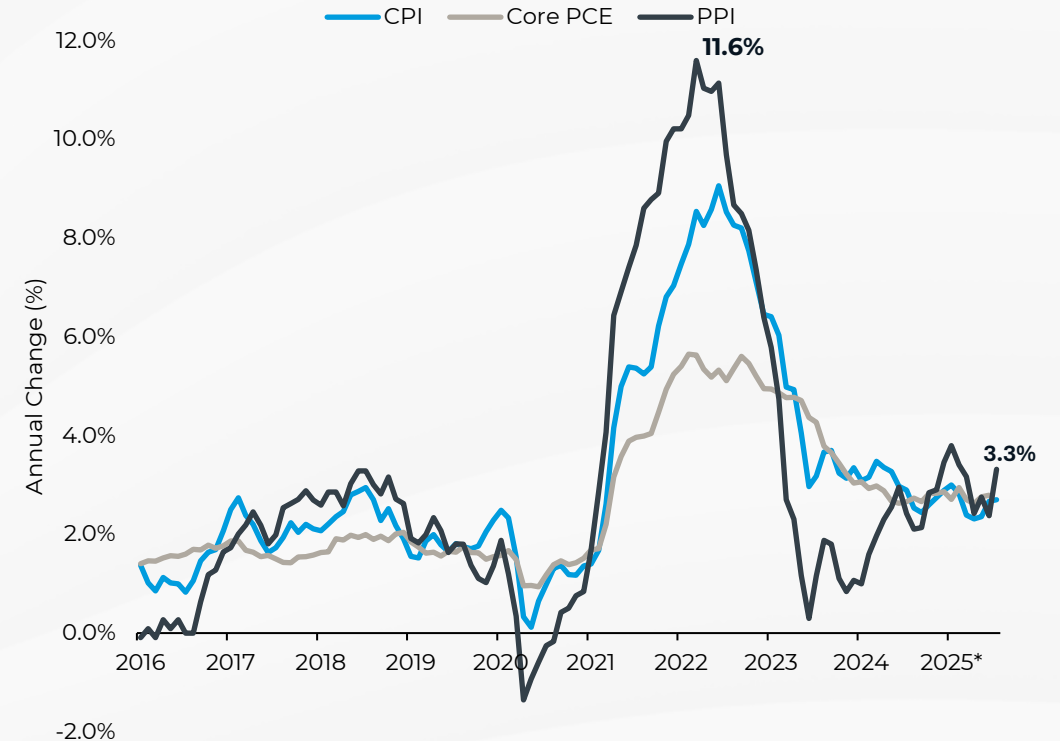
Economy Holding Up, Though Tariff-Related Inflation Risks Persist

Base Rates Recede as Uncertainty Weighs on Outlook



- Despite bullish public markets, economic downside risks still present
- Unemployment rate expected to rise through 2027
- Fed funds rate at 3.8% by YE 2025 — below 3.5% by YE 2026

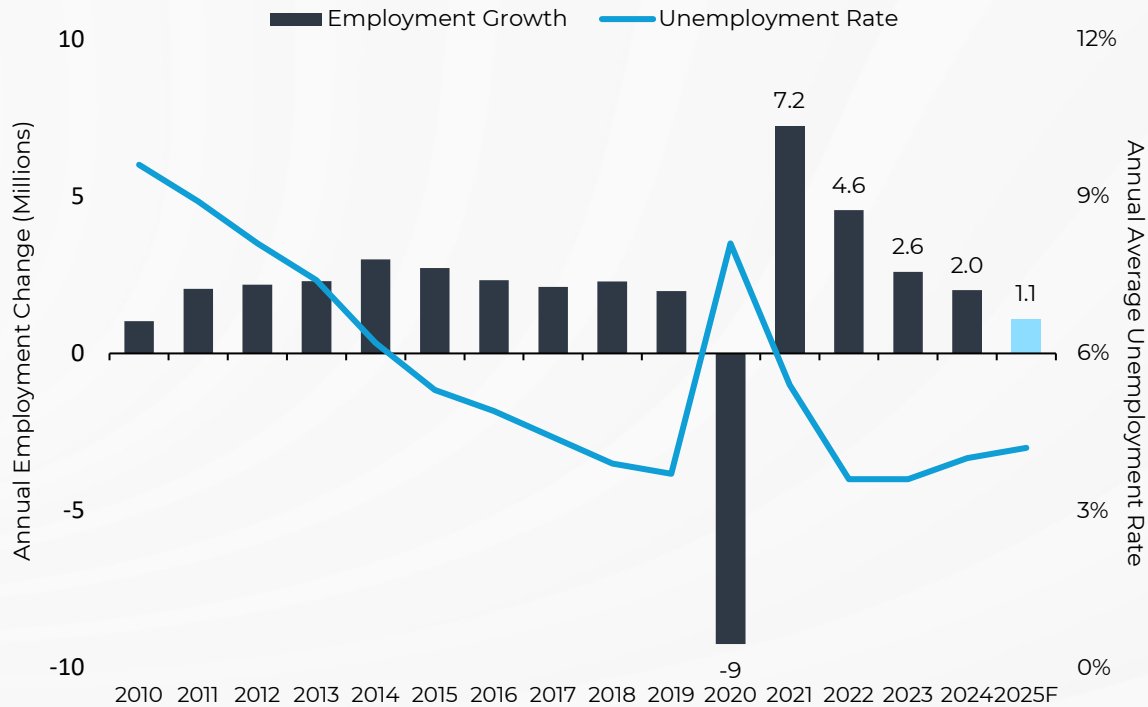
Inflation Contained So Far, But Prices Pressures Building



- Producer prices for commodities jumped to 3.3% in July from 2.4% in June
- May, June core inflation at 2.8% suggest inflation contained thus far
- Companies absorbing some tariff costs, masking full impact

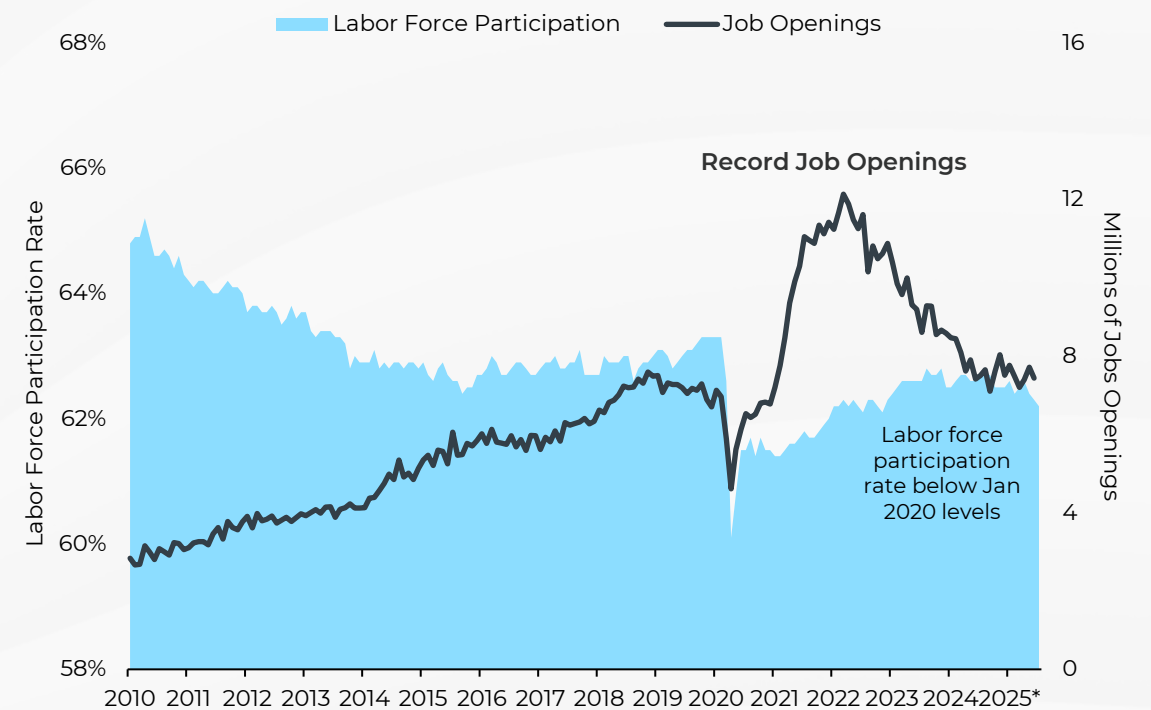
Jobs Engine Slowing, Labor Market Shows Signs of Slackening

Slowing Growth in Payrolls as Unemployment Remains Low



- July's addition of 73K jobs well below 12-month pace of 128K
- U.S. expected to add only around 1.1 million payrolls in 2025
- Downward revision of May and June point to cooling labor market

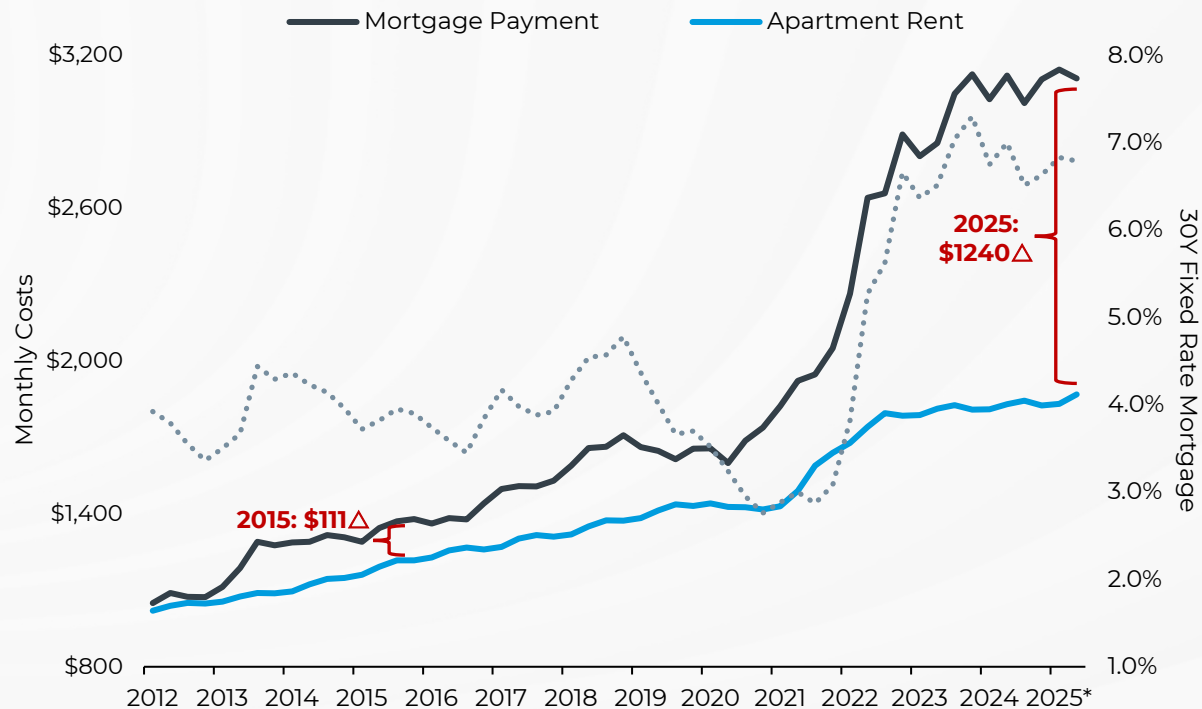
Labor Market Slack Returns to Pre-Pandemic Level



- Job openings have retreated to pre-pandemic levels
- Labor force participation rate now sits well below January 2020 level
- Older workers (> 54 yrs) dropping out of workforce after losing jobs

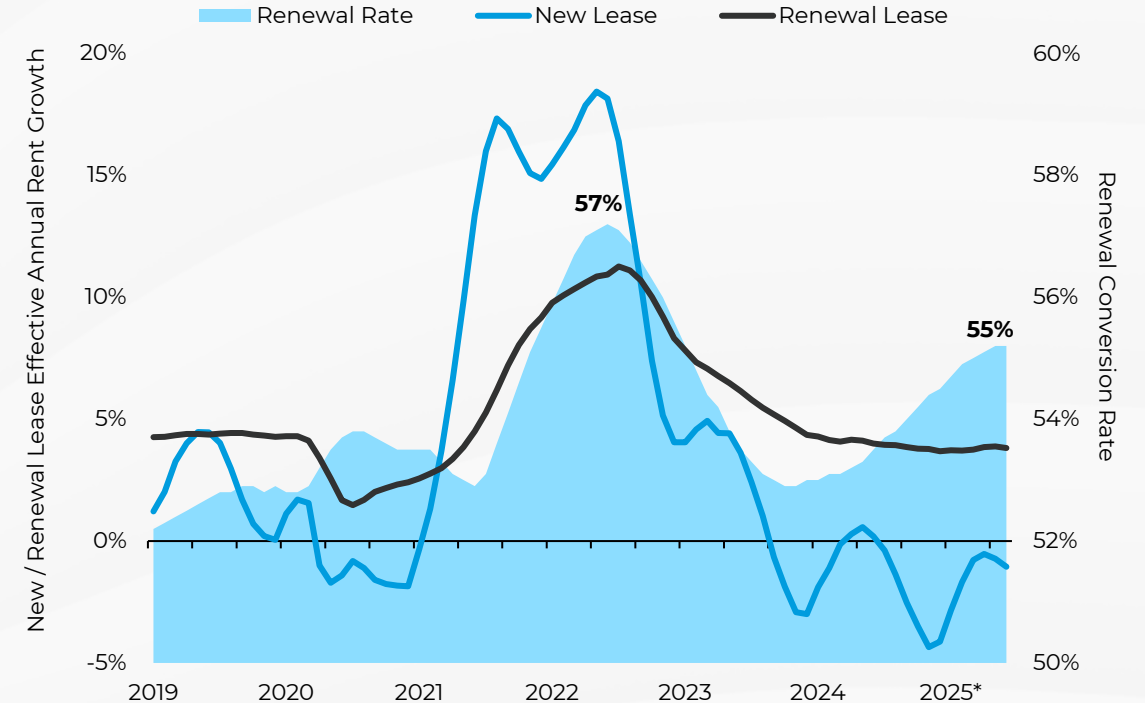
Home Affordability Abysmal, Pushing Renewal Conversion Rates Higher

Record Cost Gap Between Renting Versus Owning ...



- High mortgage rates, record home values lead to plummeting affordability
- Monthly homeownership versus rent gap more than 10x higher than in 2015
- Even with rate cuts, mortgage and housing costs likely to stay elevated

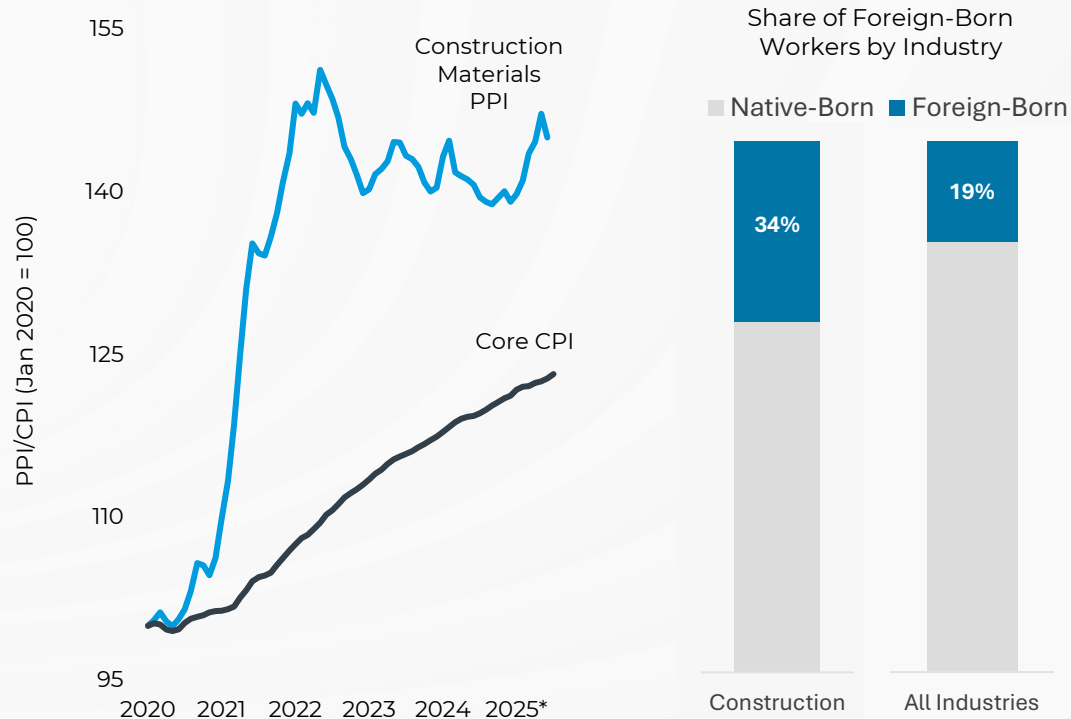
... Keeps Households Renting for Longer



- Effective annual rent change for renewals 3.8% versus -1.1% for new leases
- National renewal conversion rate rises to 55% — highest since 2022
- First-time homebuyers delay purchasing for longer

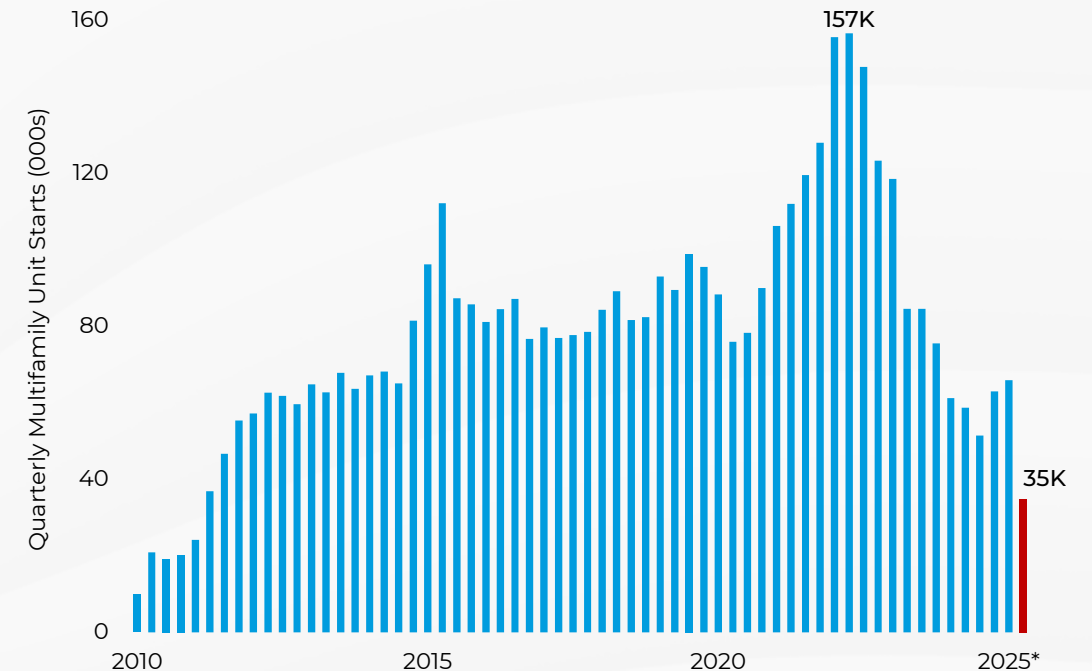
Construction Headwinds, Rising Costs Pressure Supply Activity

Construction Costs, Immigration Policy Headwinds for Development



- Construction materials rose more than 2x core CPI components
- Steel, copper tariffs at 50% and Canadian lumber at 15%
- 34% of construction workers foreign born versus only 19% for all industries

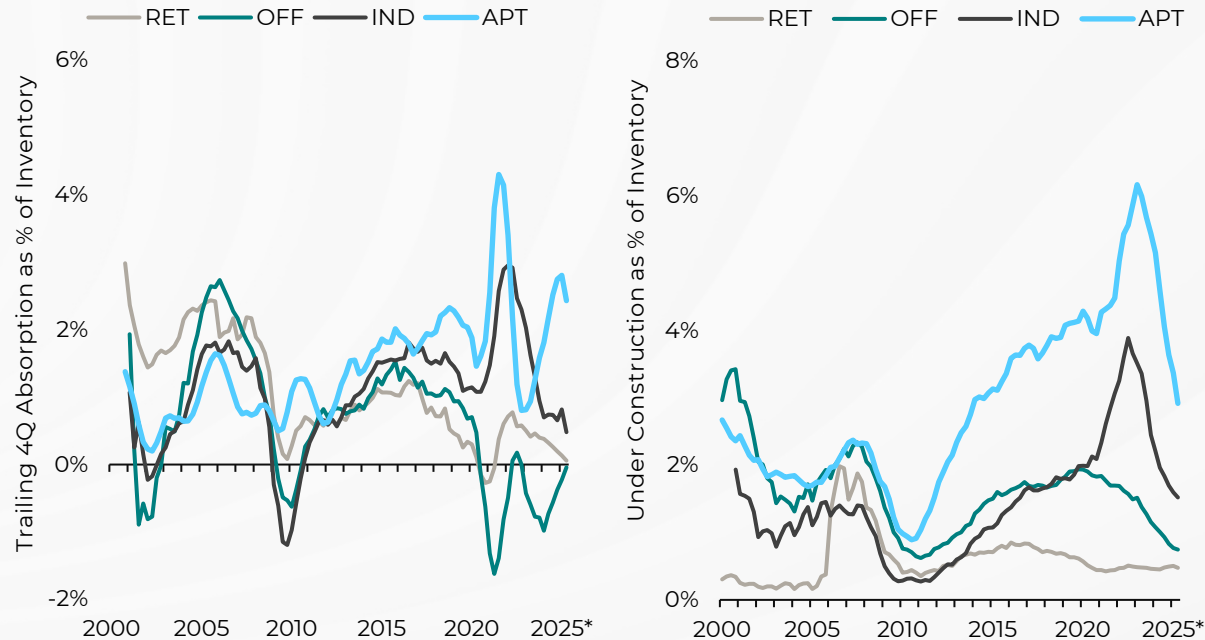
Multifamily Starts Plummet



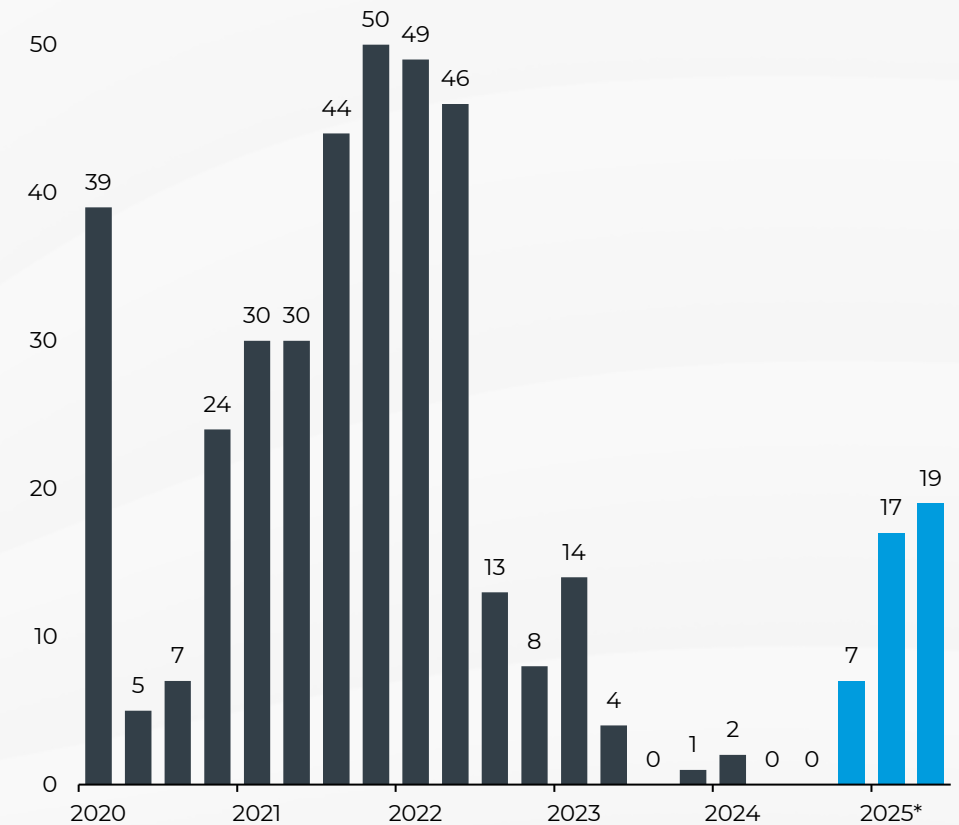
- Q2 '25 MF starts lowest since 2011 at 35K units — down 122K from peak
- Households moving due to job changes more likely to rent than buy
- Fall in starts means many metro areas face undersupply near term

Fundamentals Settle, Multifamily Vacancy Returning to Equilibrium

Supply Demand Outlook Favorable to Balanced After Intense Fluctuations



of Top 50 Multifamily Markets At or Below 2019 Vacancy



- Wild swings in demand fed post-pandemic rent surge for Apartment, Industrial
- Construction activity now decelerating, while absorption stable or growing
- # of Top 50 multifamily markets at or below 2019 vacancy, highest in 12 quarters

2025 Tax Reform Codifies Incentives for CRE Investors

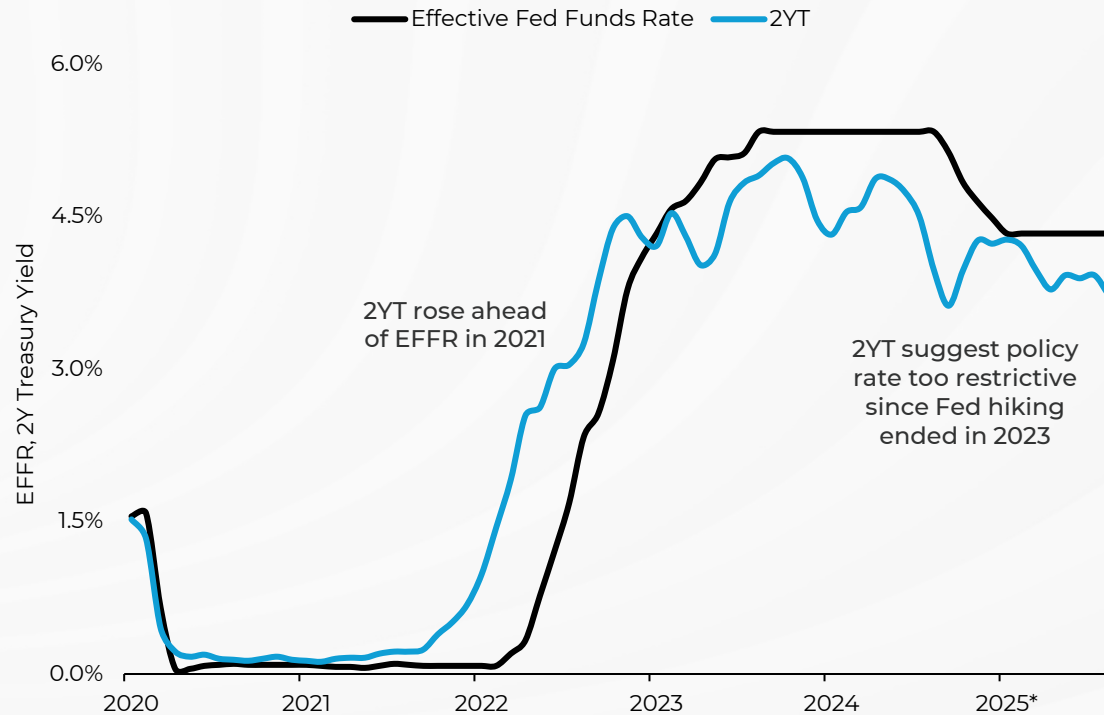
OUTCOMES	KEY PROVISIONS	CONSIDERATIONS
Restores, Preserves Tax Efficiencies	<ul style="list-style-type: none"> • Qualified Business Income Deduction 20% • 100% Bonus Depreciation restored • Carried interest and 1031 exchange rules preserved • Higher SALT deductions, exemptions for estate/gifts 	<ul style="list-style-type: none"> • More stable framework aids longer-term tax planning • Provisions collectively strengthen after-tax returns • Bonus depreciation mitigates up-front capital costs
Spurs Affordable Housing Development	<ul style="list-style-type: none"> • Permanent 12% increase in LIHTC allocation • Bond test lowered from 50% affordable units to 25% • Expands designation of Difficult Development Areas • 30% basis boost for tribal lands, rural areas 	<ul style="list-style-type: none"> • Financing of additional 500K of affordable units by 2029 • Construction costs, HUD funding cuts still headwinds • Eased lending standards could raise risk in aggregate
Makes Opportunity Zones (OZ) Permanent	<ul style="list-style-type: none"> • Program returning in 2027 on 10-year reoccurring cycle • Standardizes 5-year window to defer capital gains • 10% basis step up after 5 years, 30% in rural areas • OZ tract selection criteria narrowed 	<ul style="list-style-type: none"> • Addresses concerns about program's initial design • Encourages more risk-averse investors into OZs • Expands OZ geographic footprint • Immediate impact of policies delayed until 2027
Raises Fiscal Burden, Sustainability Concerns	<ul style="list-style-type: none"> • Section 179D repealed after July 1, 2026 • Funds rescinded for clean energy retrofit programs • Up to \$5 trillion in additional federal outlays authorized 	<ul style="list-style-type: none"> • Rollback of clean energy incentives • Sustainable CRE development practices discouraged • Higher fiscal burden to pressure rates and risk premiums

Financing

August 2025

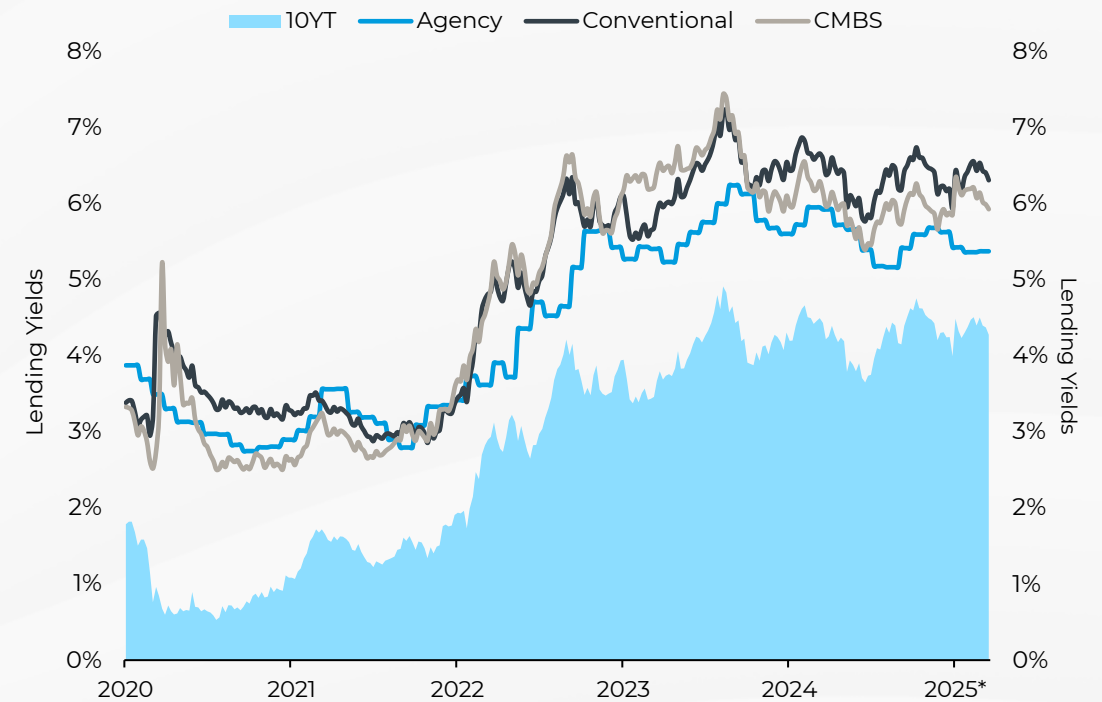
Borrowers Adapting to Higher-for-Longer

2Y Yield Suggests Policy Rate Overly Restrictive



- 2Y Treasury yield often leading indicator of policy rate
- Treasury yield rose ahead of policy rate in 2021, anticipating Fed hiking
- Currently suggests Fed should lower policy rate

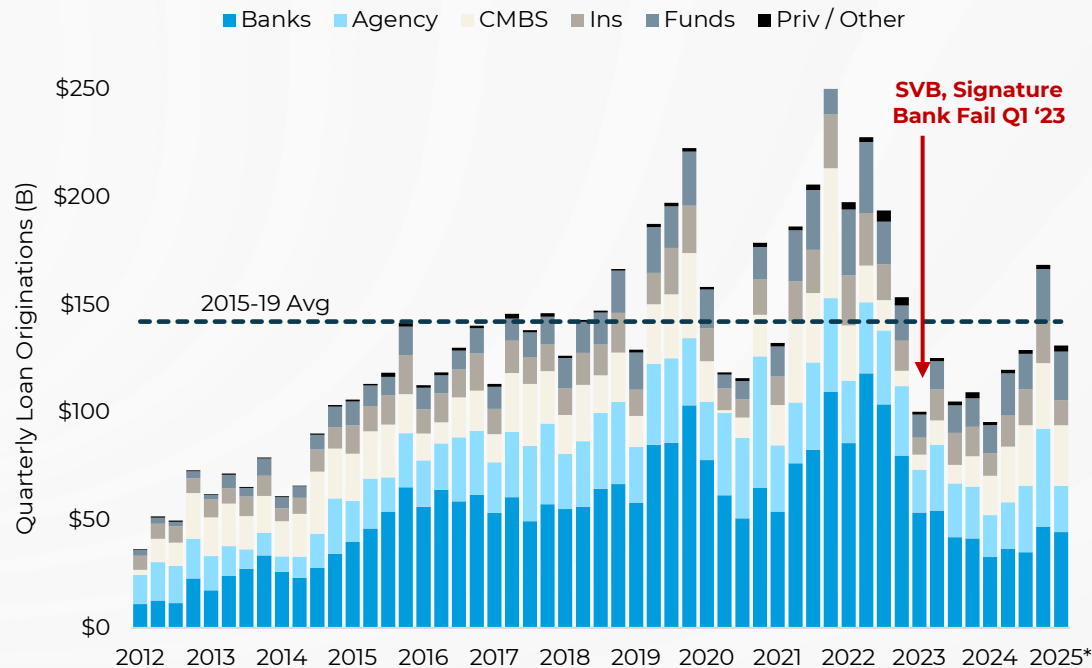
Base Rates, Spreads (Except for Agency) Have Risen



- Borrowers, lenders adapting to prolonged credit cycle
- Conventional lending spreads (all sectors) wider versus pre-2020
- Agency spreads tighter than pre-2020, providing debt capital liquidity

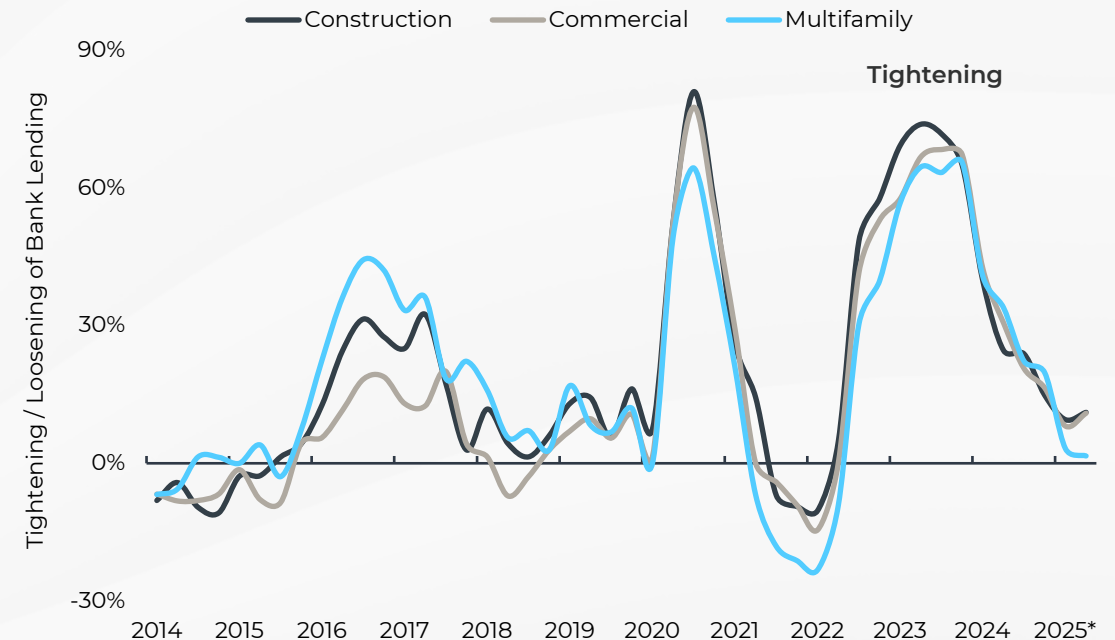
Lending Pullback Followed 2023 High-Profile Bank Failures

Total Originations Lower Since Banks Retreated 1H 2023



- After GFC, regional, community banks increased share of CRE lending
- Silicon Valley, Signature Bank highlighted asset liability duration mismatch
- Other lenders pulled back as well, but banks are largest CRE lender

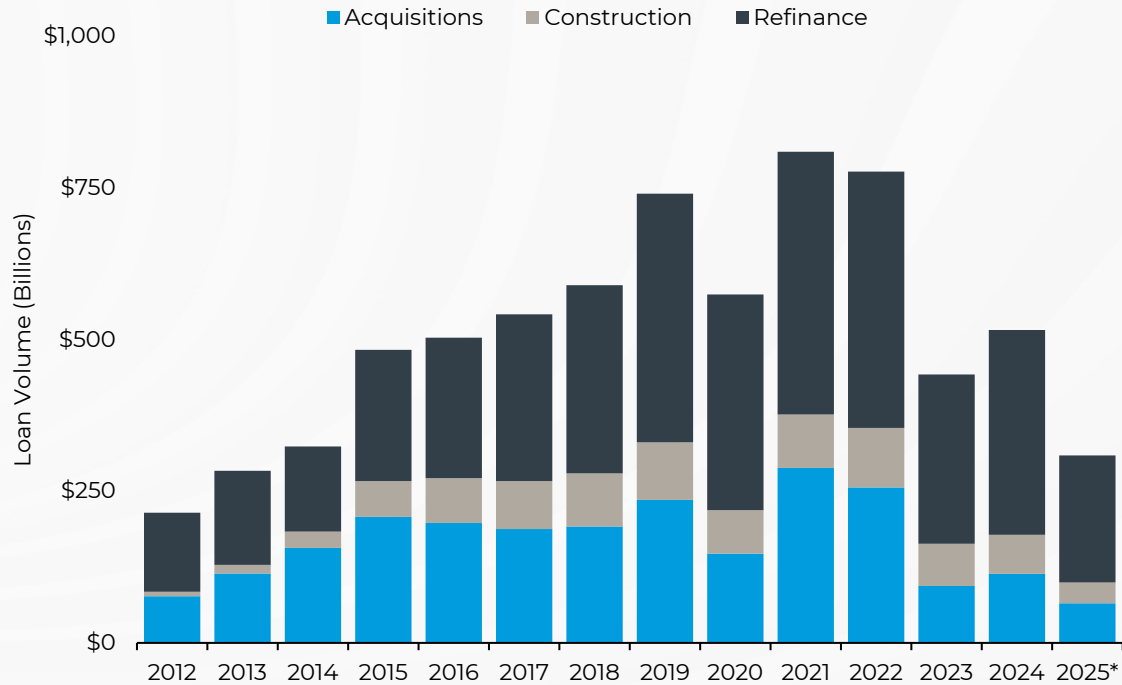
Regional and Community Banks Led Tightening Cycle



- Banks comprised 48% of commercial mortgage lending in 2022
- Regional, community banks alone comprised 29%
- Many regional, community banks still overexposed to commercial mortgages

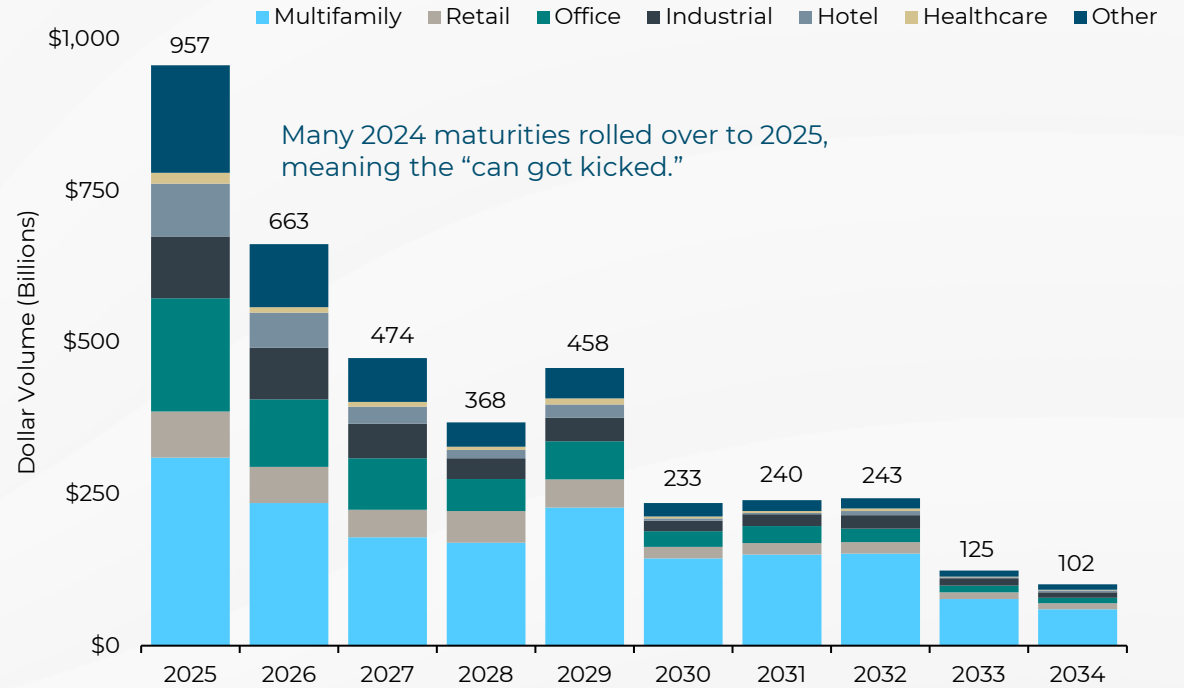
Refinancing Share of Originations Steady as Acquisitions Lending Slow

Refinancings Buoyed Originations Activity



- 2024 refinancing volume 17% higher than 2015-2019 average
- Post-pandemic refinancings allowed borrowers to avoid default ...
- ... but at all-in rates that were lucrative for lenders

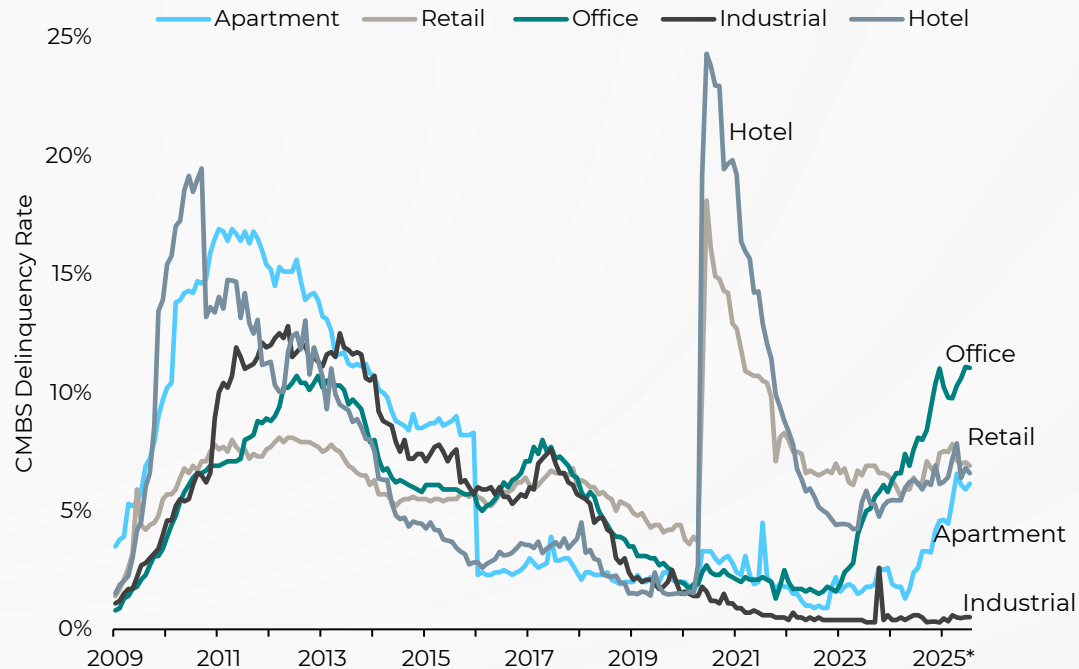
Maturities Roll Forwards As Debt Capital Deployed



- Fed explicitly encouraging borrower and lender “cooperation”
- Distress elevated but not a systemic threat
- Maturity waves have historically been given debt capital availability

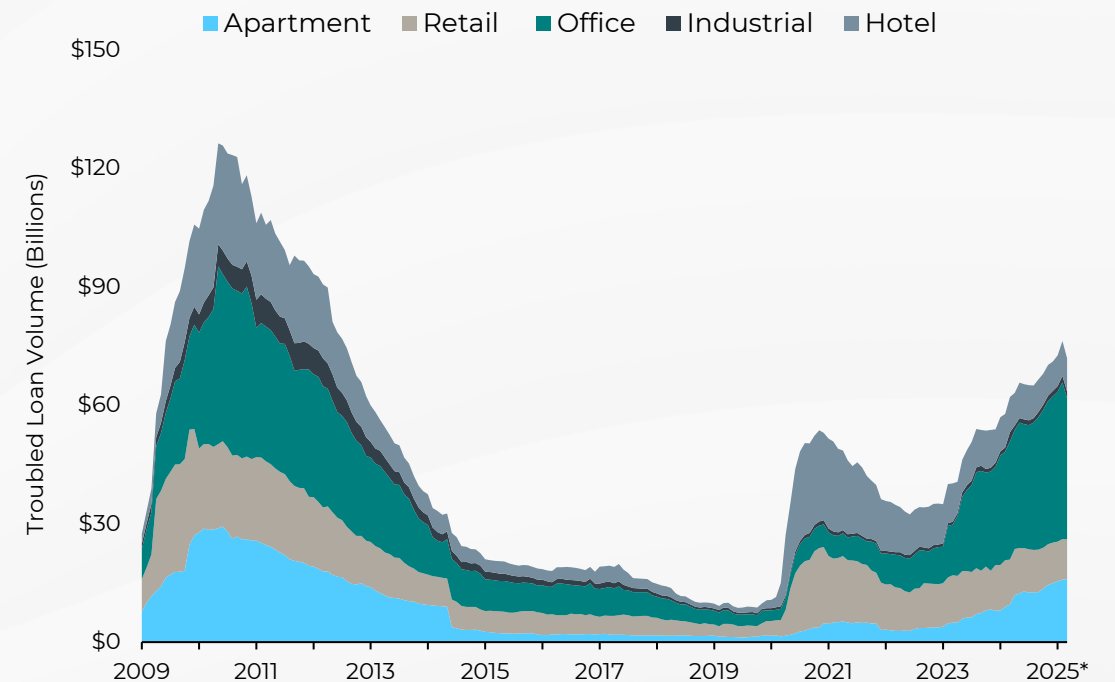
Delinquencies Jump, Adding to Volume of Troubled Loans

CMBS Cumulative Delinquency Rates Rising



- CMBS composite delinquency rate (DQ) at 7.1%, highest since Jan '21
- Apartment and Office DQs rose ~350 bps year-over-year
- Office has highest DQ (11.1%) of any sector, pulling overall distress higher

Office, Apartments Driving Troubled Loan Volume Higher



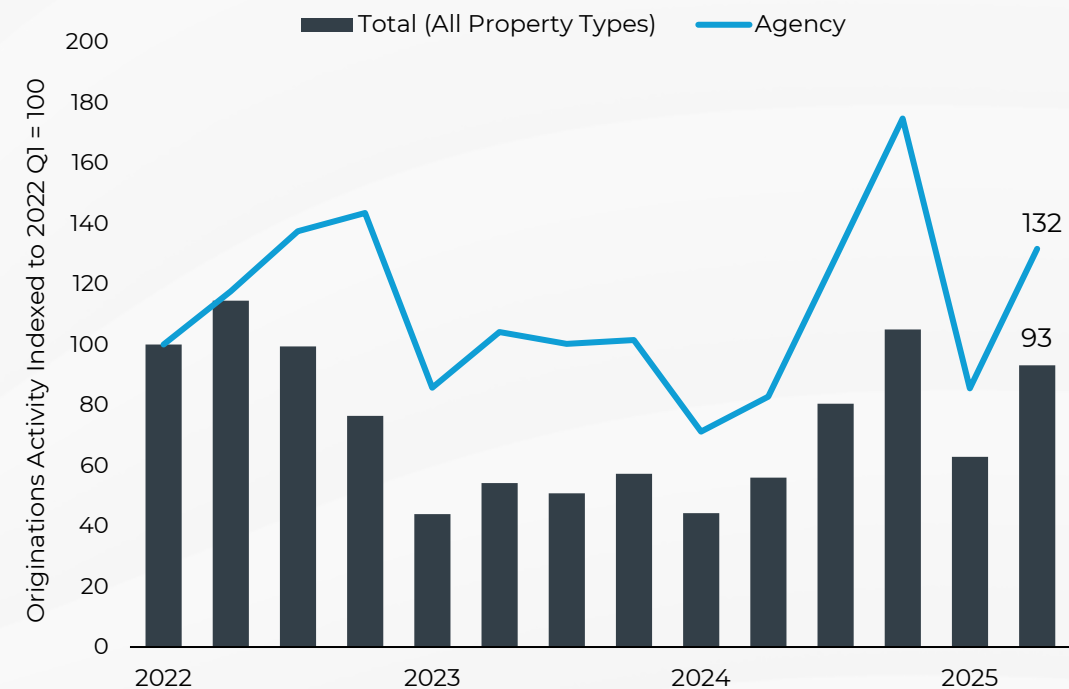
- Troubled loan volume show loans at higher risk of default
- Apartment and Office largest contributors to troubled loan expansion
- Higher incidences of distress pressures property values

IPA Snapshot of Financing Market Terms (July 31, 2025)

IPA Capital Markets Stabilized Financing Market Terms

Lender Type	LTV	Rate	Term (Yrs)	Fixed / Floating (Index)	Recourse
Life Cos.	50-60%	5.25-6.00%	5-20	Fixed (Treasury)	Non-Recourse
CMBS	60-70%	6.00-7.25%	5-10	Fixed (Treasury)	Non-Recourse
Bank	60-70%	5.50-6.50%	3-10	Fixed / Floating (varies)	Varies
Credit Union	60-70%	5.50-6.50%	5-10	Fixed (varies)	Varies
Agency	55-65%	5.25-6.50%	5-30	Fixed / Floating (Treasury)	Non-Recourse
Debt Fund	65-75%	6.75-8.75%	2-5	Floating (SOFR)	Non-Recourse

Agencies Backstopped Multifamily Lending Since 2H 2022



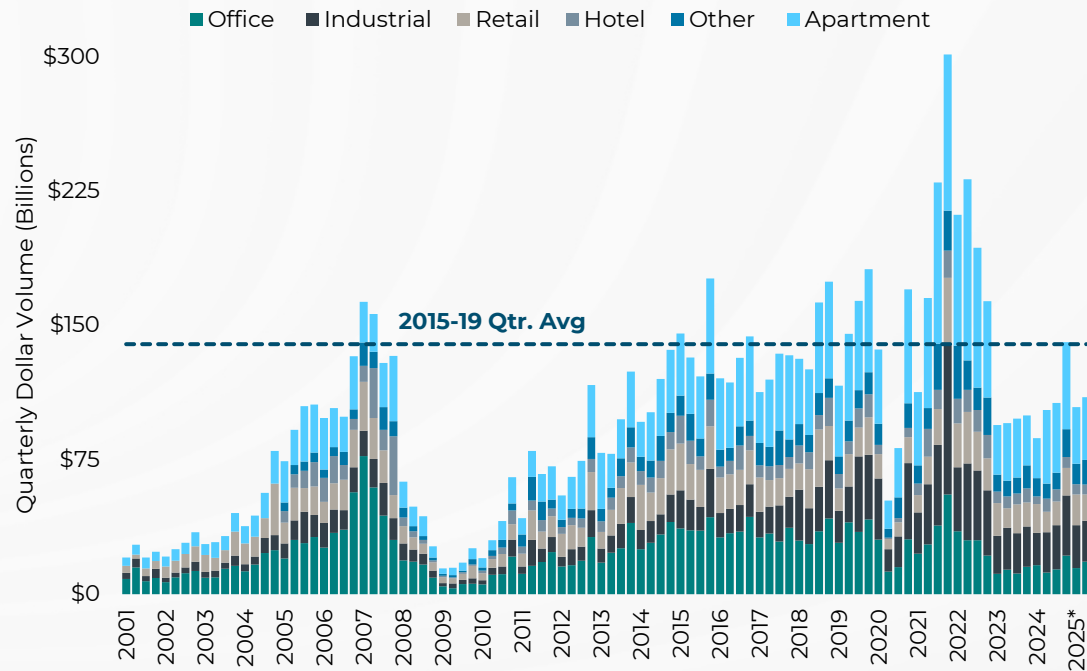
- Total, Agency originations activity rebounded following Q1 '25 trade turmoil
- Fannie, Freddie aggressive with increased 2025 production targets
- Wide range of debt capital sources active, expected to stay engaged

Transactions & Capital Sources

August 2025

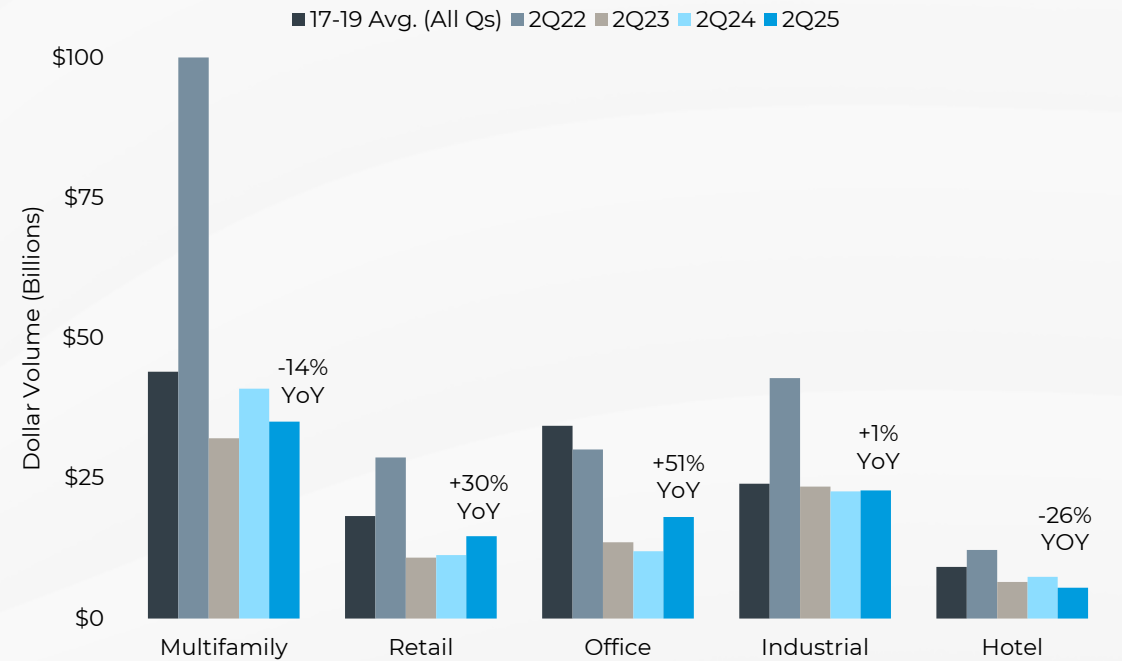
Sales Dollar Volume Rebounding, Still Below Pre-Pandemic Average

Q2 Dollar Volume Below 2015-2019 Average



- Q2 '25 sales dollar volume pace only 21% below 2015-2019 quarterly pace
- Declined for 7 quarters y-o-y ended Q1 '24, longest stretch since GFC
- Average office transaction pace only 40% of 2015-2019 quarterly pace

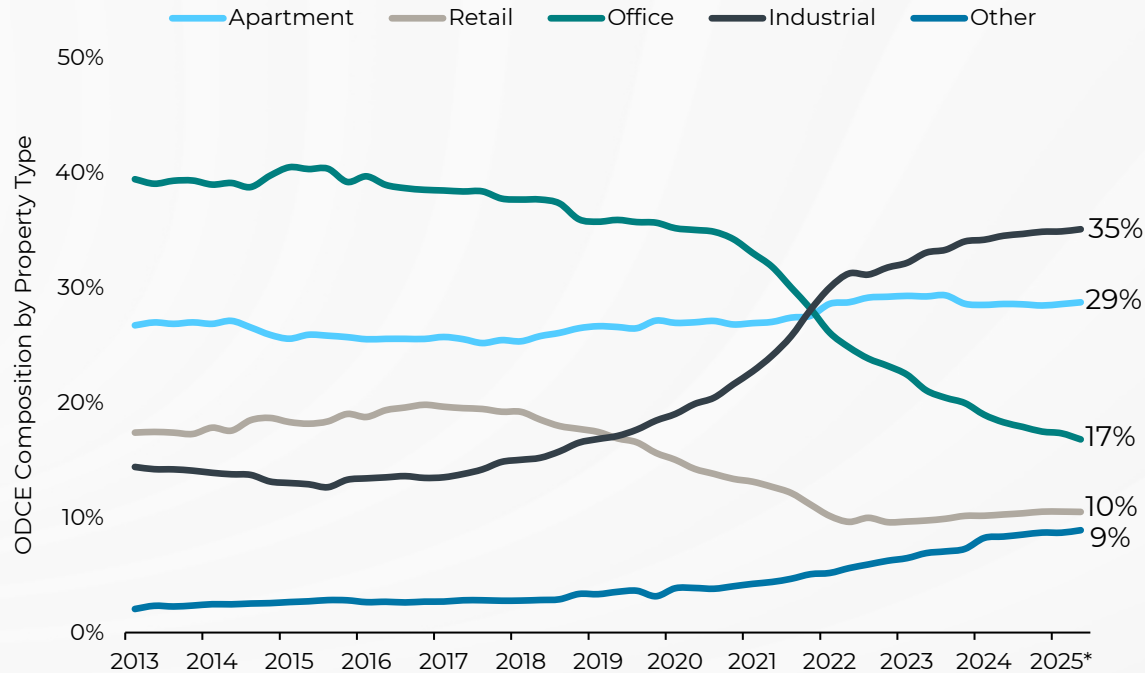
Quarterly Sales Volume by Property Type Generally Steady



- IPA research's proprietary transaction data shows marked improvement
- Retail, Office increase in sales activity led other sectors in Q2
- Modest rebound in transactions reflects absence of monetary stimulus

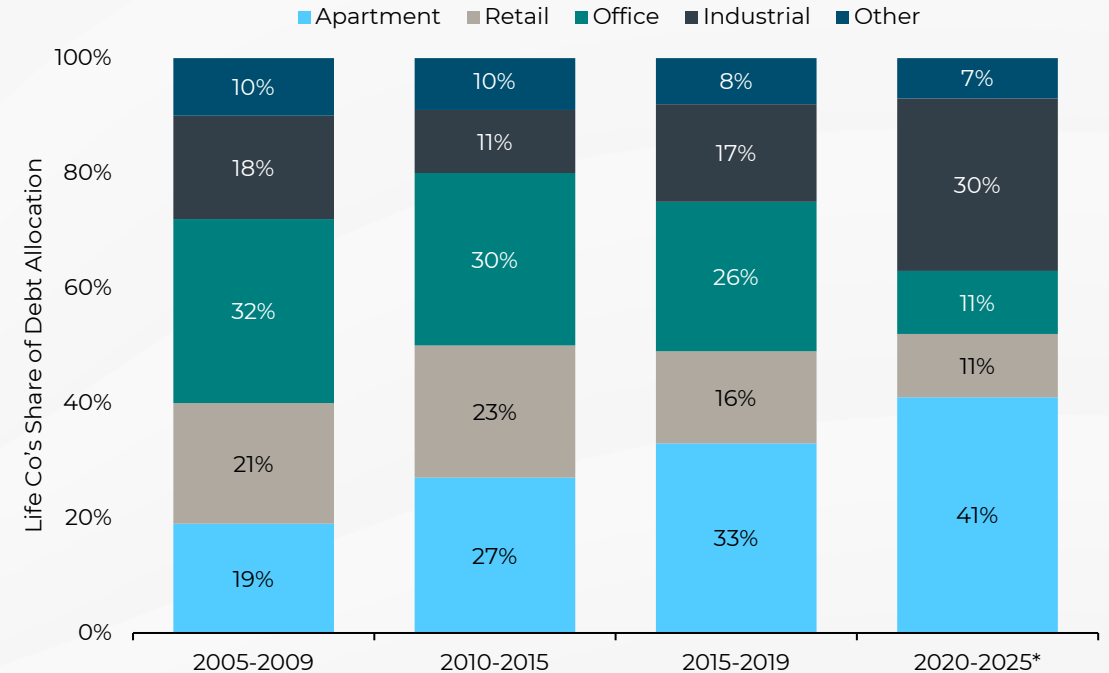
Institutional CRE Portfolios Increasingly Concentrated

Core Equity Allocations Shifted to Multifamily, Industrial



- Major shift in institutional diversified CRE portfolios over past 10-15 years
- Office composition of ODCE declined from 39% to 17% from Q1 '13 to Q1 '25
- Industrial, Niche (Other) combined compose almost half of ODCE index

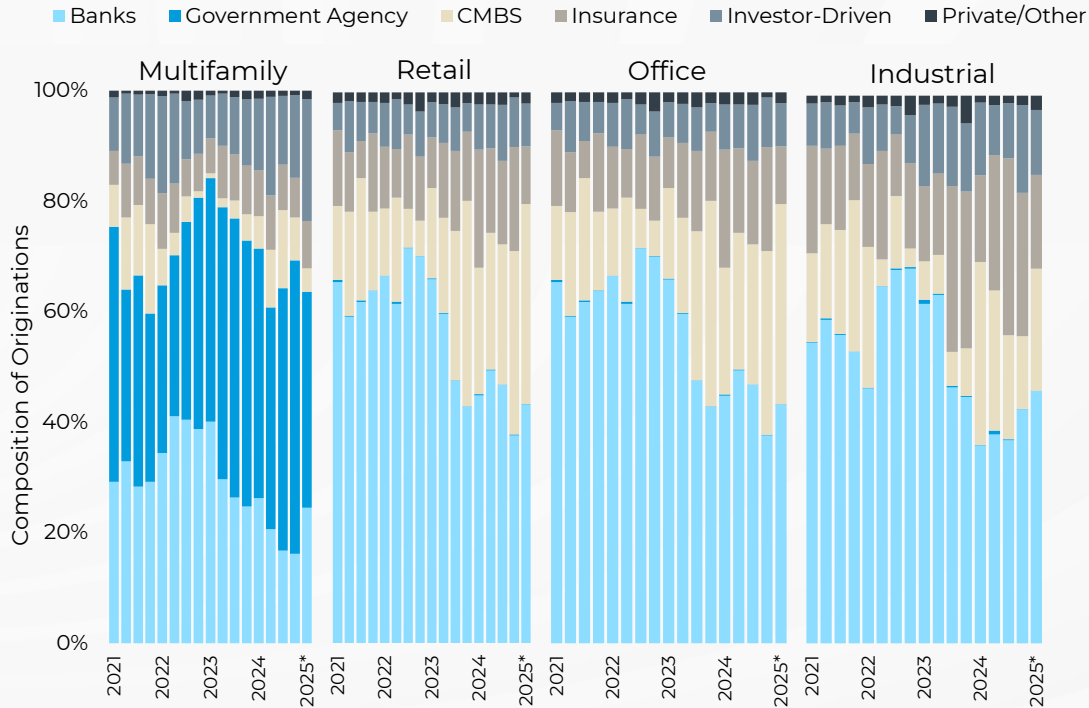
Debt Allocations Overweight “Beds and Sheds”



- Similar shift for institutional CRE debt portfolios
- Core / Core + Apartment and Industrial debt originations competitive
- Non-bank lenders turning to Office, Retail, Hotel (Other) for higher spread

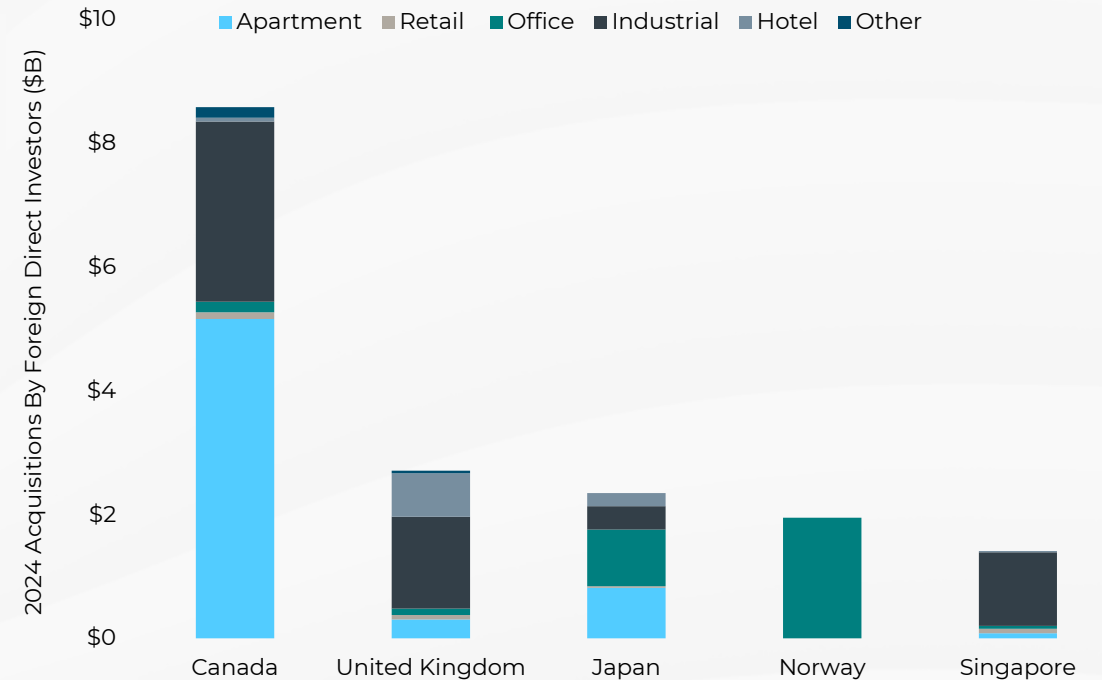
GSEs, Foreign Direct Investors Key Capital Sources

Fannie, Freddie Consistent Sources of Debt Capital



- Post-pandemic GSEs a critical backstop for multifamily borrowers
- For Retail and Office, CMBS have filled in the gap left by banks
- Privatizing GSEs a yearslong process requiring ample political will

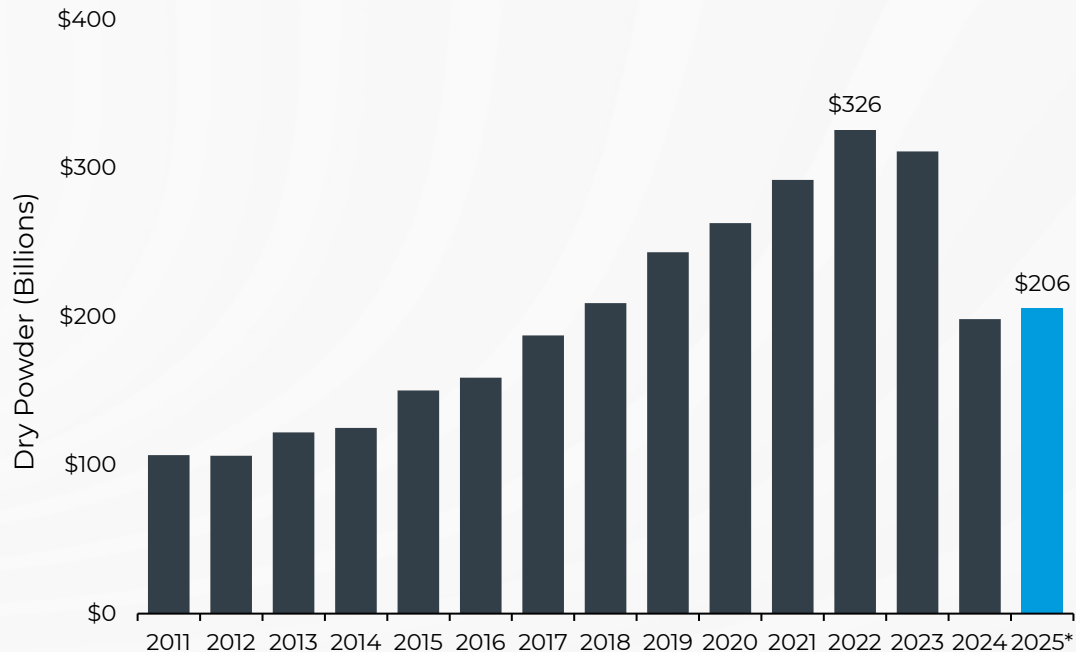
Cross-Border Buyers Focused on Industrial, Apartment



- Major foreign direct investors also targeting U.S. Apartment and Industrial
- Foreign capital pushing more into non-gateway, secondary metros
- Canadian investors posted a sharp drop in net investment at start of 2025

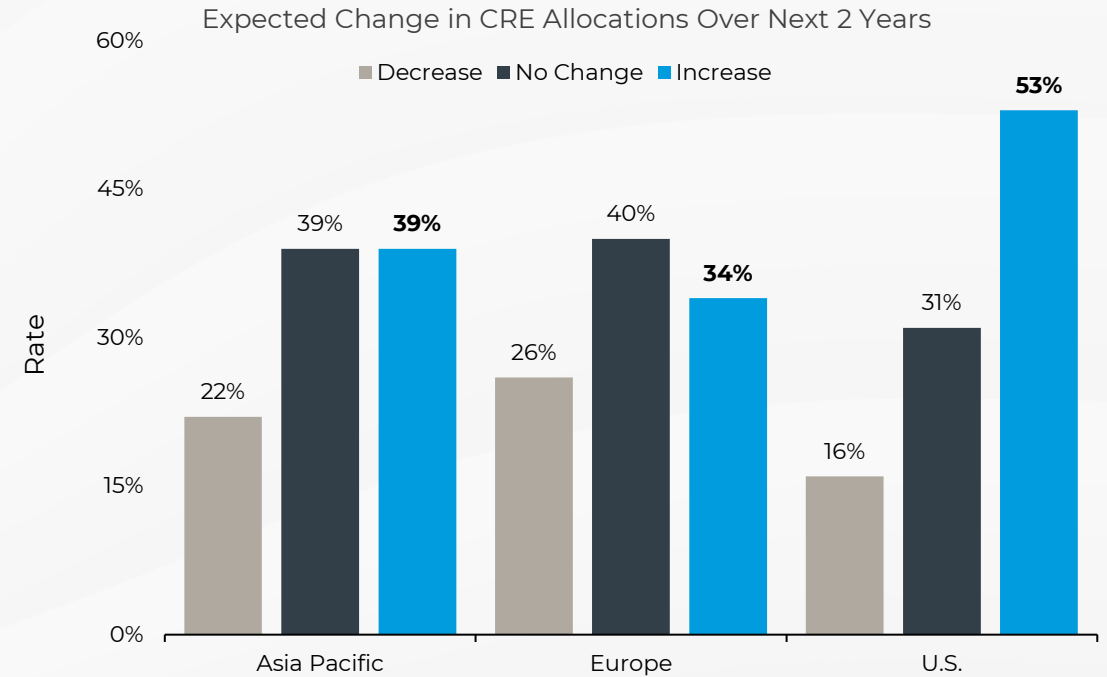
Dry Powder Off Peak, Global Investors Focused on U.S. Real Estate

Dry Powder Down from 2022 Peak



- Dry powder off its 2022 peak, reflecting tough fundraising environment
- Core / Core + return outlook improves, dry powder should grow again
- Relative value of certain CRE fund strategies increasingly attractive

Global Institutional CRE Investors Still Targeting U.S.

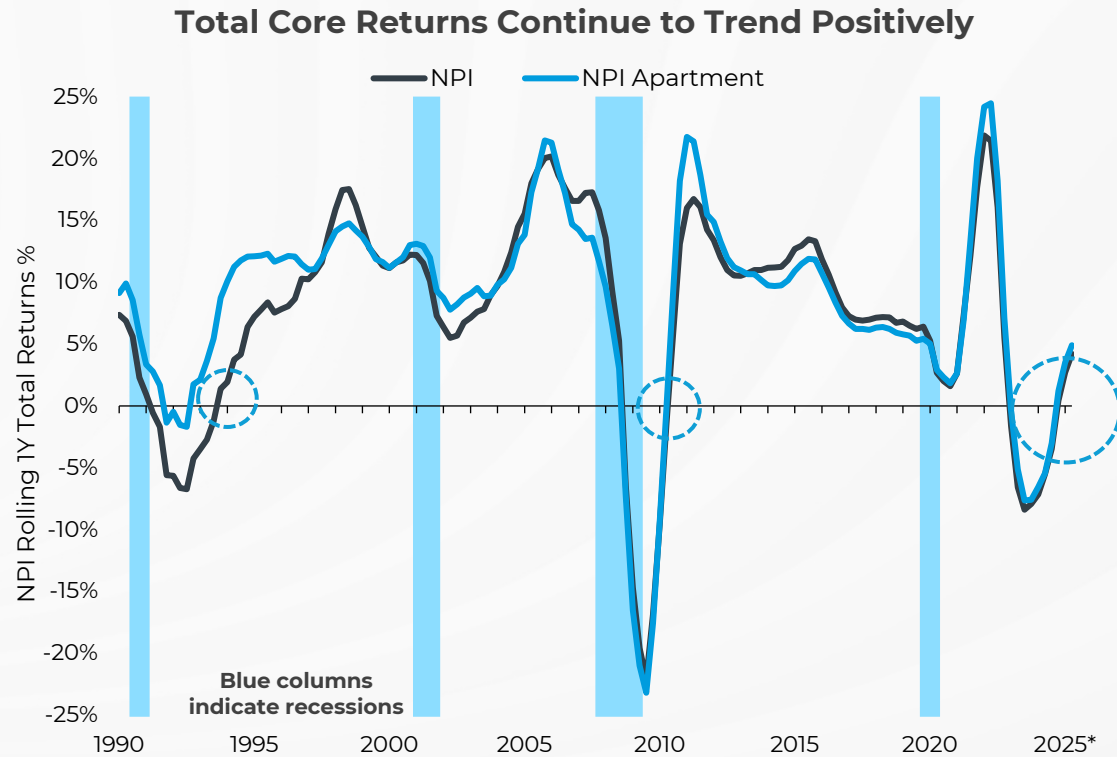


- Global institutional real estate investors remain focused on the U.S.
- 53% seek to increase U.S. allocations
- 31% intend to maintain allocations at current levels

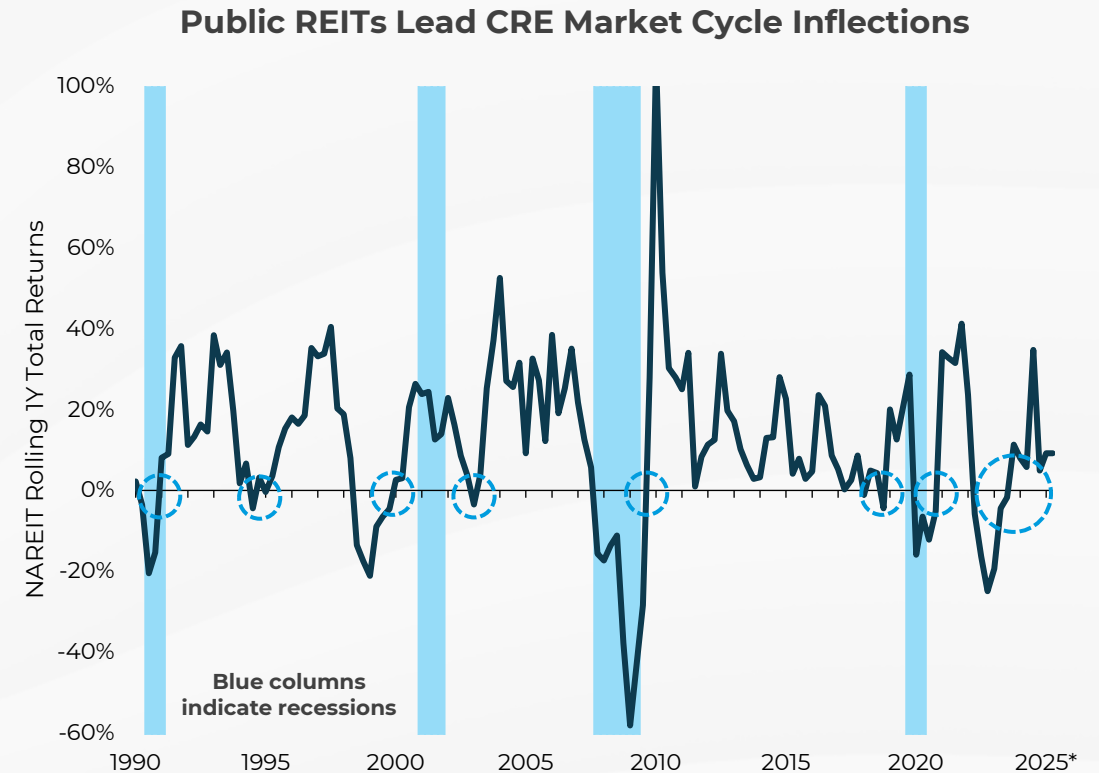
Returns & Pricing

August 2025

Core Total Returns Indicate CRE Cycle In Recovery Phase



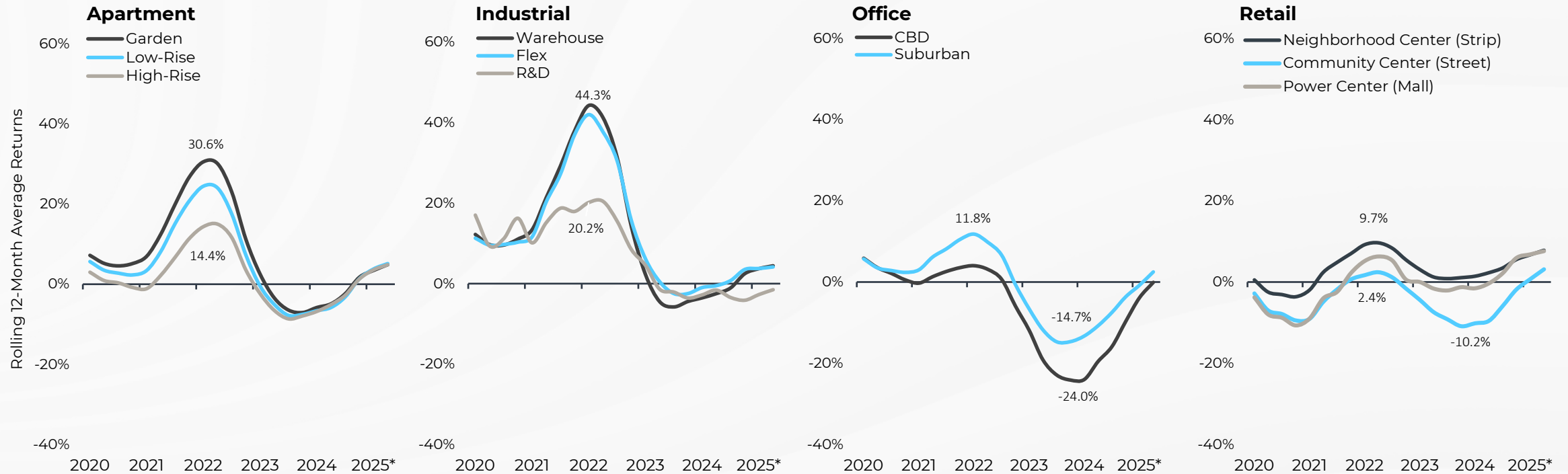
- CRE recovers an investment window to achieve outsized returns
- 1Y NPI total return 4.3% for Q2 '25 versus 8.5% since inception annualized
- Total quarterly returns positive last 4 quarters for Q2 '25



- Public REIT total 1Y return 9.2% for Q2 '25 versus 11.3% since inception
- REITs inflect 2-3 quarters ahead of private CRE, exhibit greater volatility
- REITs bottomed in 2H 2023 as Fed ended hiking campaign

Stabilization, Recovery Evident Across Sub-Property Types

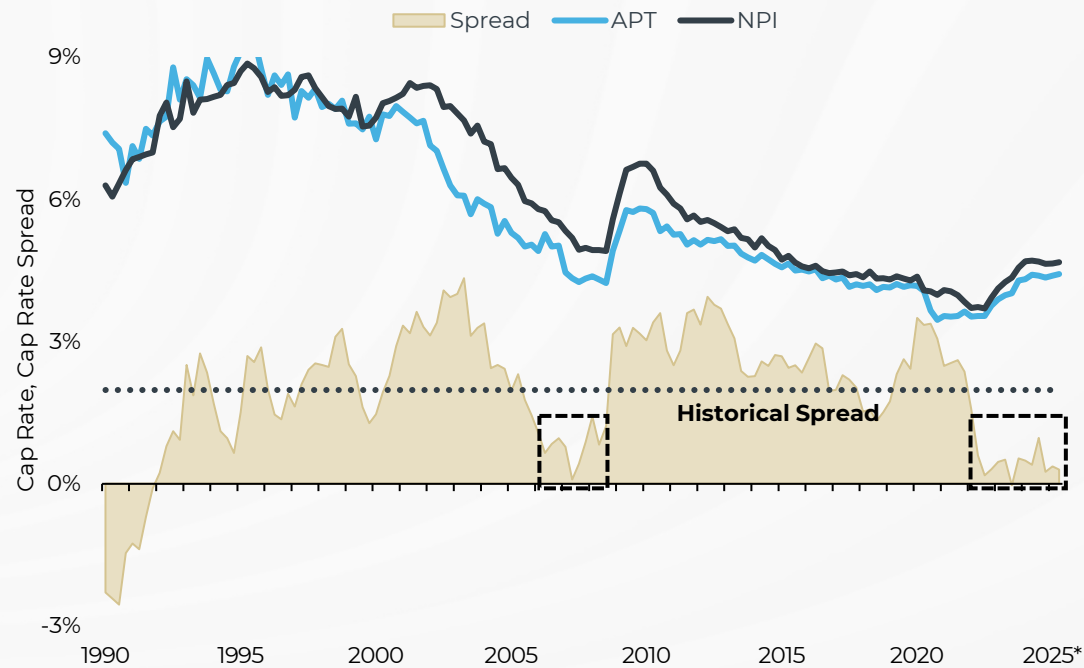
Rolling 1-Year Total Returns by Sub-Property Type



- Sub-property type total returns varied widely coming out of COVID pandemic
- As recovery materializes, sub-property type returns are converging and turning positive
- Office have lagged but are now stabilizing, with property values down 50%-60% from peak

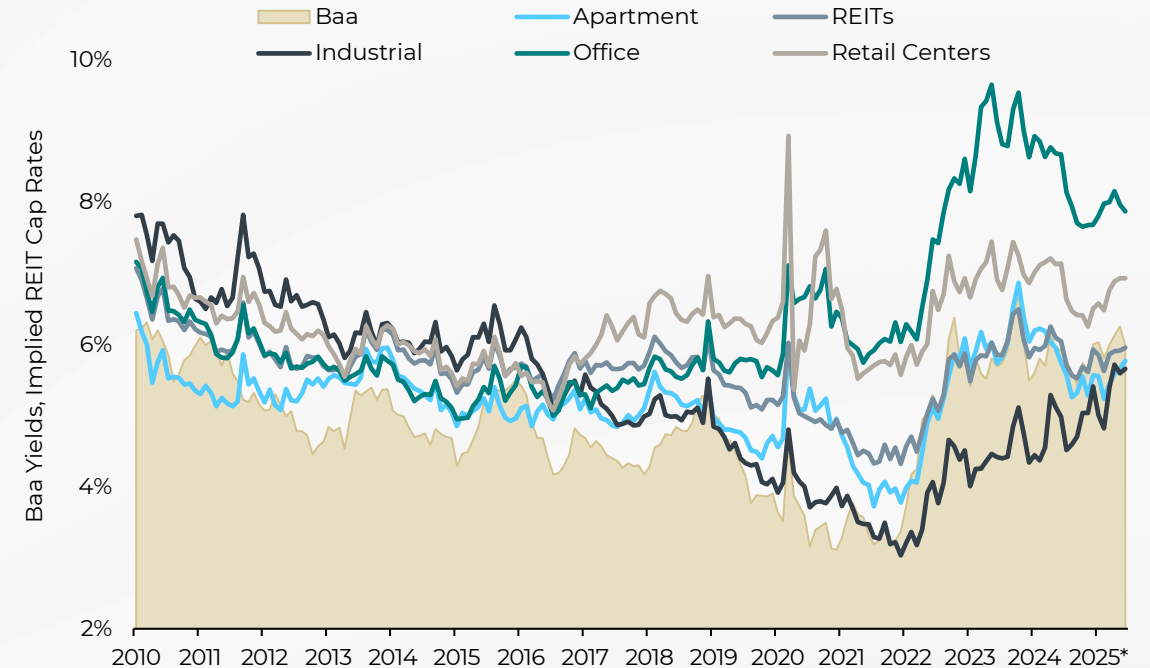
Private Cap Rates Lag Public Cap Rate Adjustment to Higher Debt Costs

Risk Premiums for Appraisal Cap Rates Compressed



- Cap rate to 10YT spread compressed, tightest since 2006-2008
- Risk premiums may not reflate back to historical average (~200bps)
- Appraisal cap rates reflect longer-term valuations, hold periods

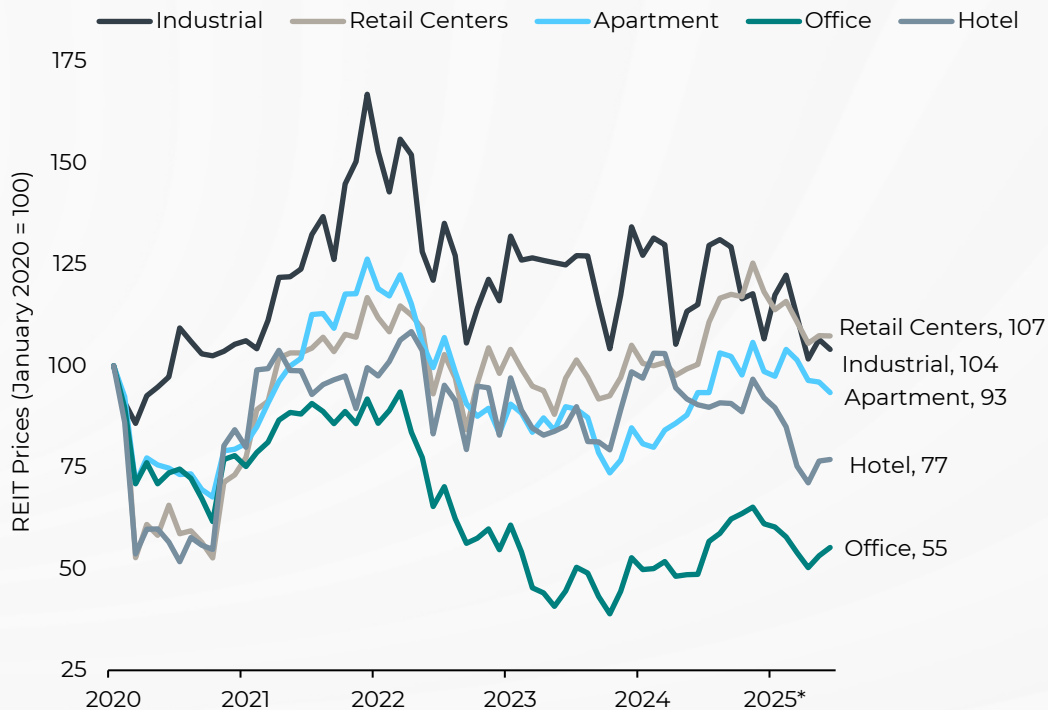
Public CRE Has Adjusted to “Higher for Longer”



- Baa corporate yields proxy for tenant credit risk
- Public risk premiums over Baa have adjusted to “higher for longer”
- Apartment, Industrial reflect greater capital appetite, growth prospects

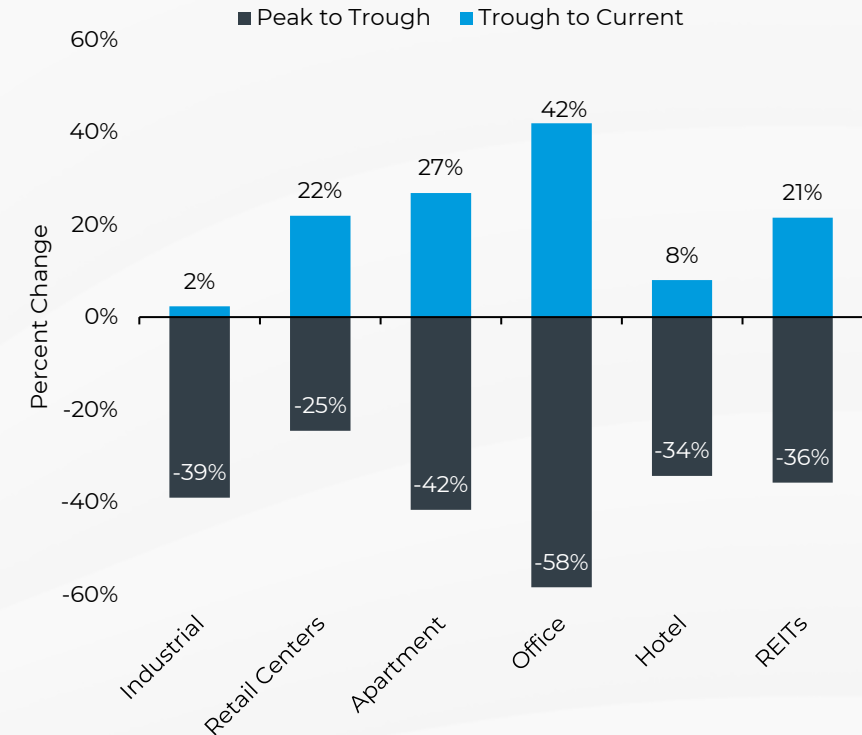
REIT Price Trends Show Impact of Rate Hikes on Asset Values

Higher-For-Longer Hit Real Estate Harder than Lockdown



- REIT composite declined by 25% peak to trough in 1H 2020
- Composite fell by 36% peak to trough from Dec 2021 to Oct 2023
- Price impact of Fed hikes trumped impact of COVID-era lockdowns

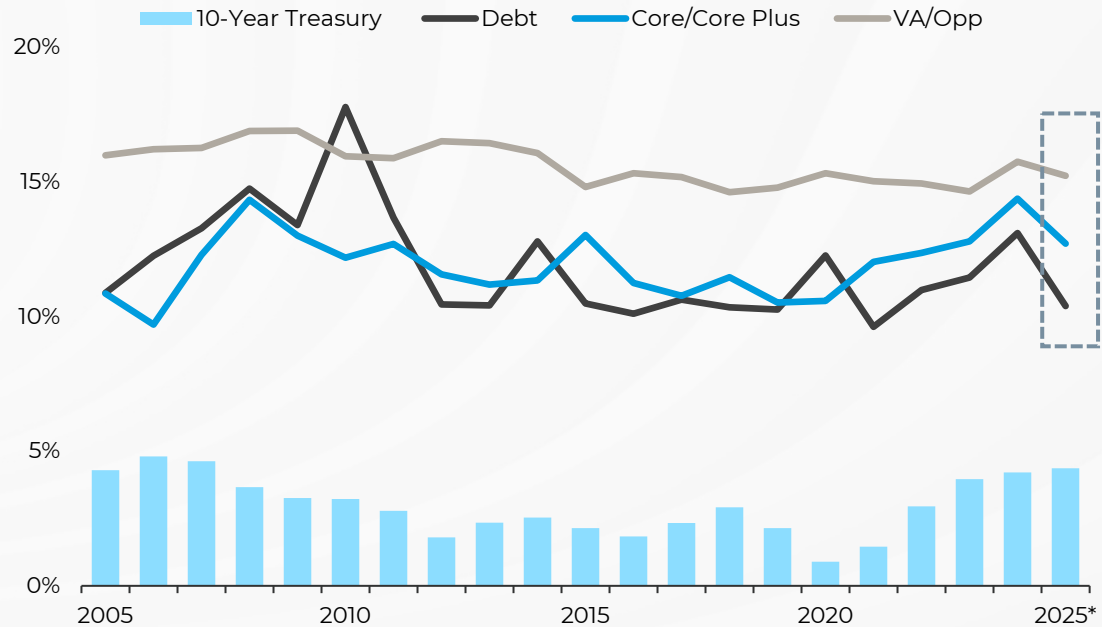
Industrial and Hotel Price Recoveries Challenged



- Since bottoming in 2H 2023, REIT prices have rebounded
- Hotels, Industrial strain under Trump administration policies
- REIT price trends can be leading indicator of private market values

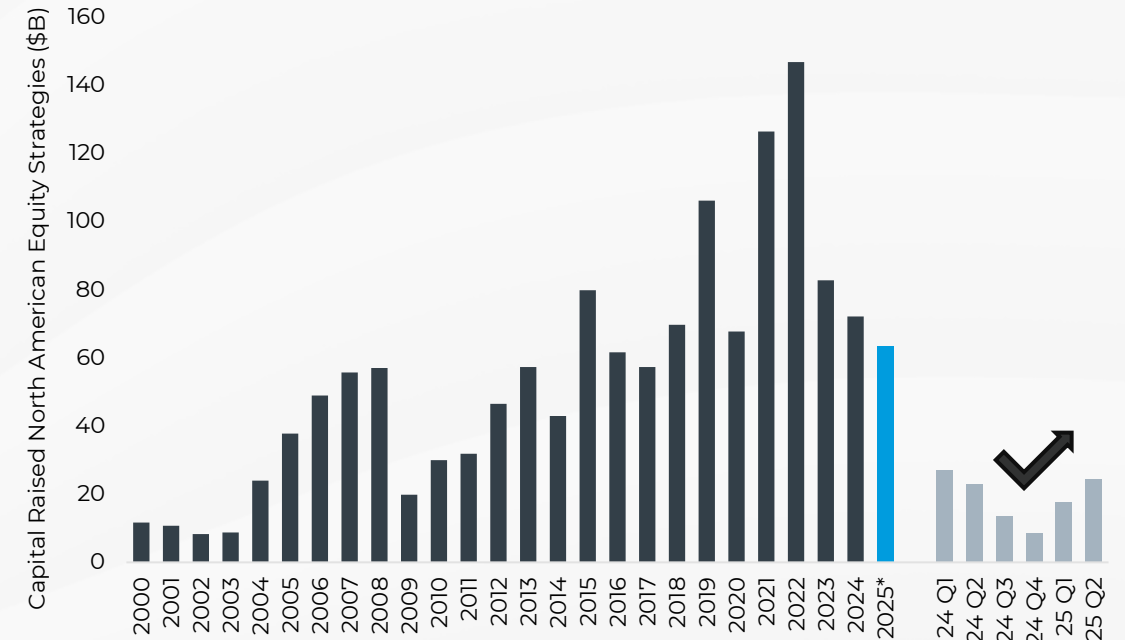
Target Returns Lowered, Green Shoots for CRE Equity Fundraising

Average Target Net IRR by Fund Strategy



- Fund managers adjusting target returns lower as debt costs stay elevated
- Debt funds face greater competition, tighter spreads
- Value-add, opportunistic return profiles tempered by macro uncertainty

U.S. CRE Equity Strategies Fundraising Rebounds in 2025



- Quarterly trend for capital raising bottomed in Q4 2024
- CRE equity strategies include Core, Core+, Value-Add, Opportunistic
- Equity returns have lagged other asset classes, poised to accelerate

Interplay Between Risks, Mitigants and Opportunities

RISK	MITIGANTS	OPPORTUNITIES
Inflation Forces Fed to Hold for Longer	<ul style="list-style-type: none"> • Slower demand growth offsets price pressures • Technological advances (e.g., AI) are deflationary • Growing chorus on maintaining Fed credibility • Fed seemingly close to negotiating a soft landing 	<ul style="list-style-type: none"> • Inflation passes through to nominal rent growth • Patient capital and “basis” buyers advantaged • Demand for creative structuring solutions • Secondaries see greater investor interest
Valuations Under Pressure	<ul style="list-style-type: none"> • Pressure to deploy capital • Ample “cash-on-the-sidelines” • Flight to quality creating haves, have-nots • Relative value of real estate for asset allocators improves 	<ul style="list-style-type: none"> • Acquisition at discount to peak • Play to differences between geographies, property types • Fund managers rejiggering investment strategies • Focus shifts from property to “Op Co. / Prop Co.”
Recession Probability Increases	<ul style="list-style-type: none"> • Administration favoring negotiated outcomes • Fed has room to cut, and base rates should fall • Weak demand could still outpace constrained supply 	<ul style="list-style-type: none"> • Core / Core + strategies attract more capital • Shift to investing in GPs • More capital pivots to distress sales • Balance of power shifts back to debt from equity
Privatization of Fannie, Freddie	<ul style="list-style-type: none"> • Both GSEs face Tier 1 shortfalls of ~\$330B combined • Issuing equity to cover massive undertaking • GSEs integration into housing financing highly complex • The role government will play post-IPO unclear 	<ul style="list-style-type: none"> • Other sectors’ cost of capital improves relative to multi • Non-agency CMBS lending within multi gains share • New types of home lending emerge • Affordability ultimately improves from market innovation

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The background features a light gray, semi-transparent image of a modern multi-story building with many windows and balconies. Overlaid on the right side of the image are two large, overlapping blue circles. The top circle is a medium blue, and the bottom circle is a slightly darker shade of blue. These circles partially obscure the building image.

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