Freddie Mac Outlook Shows Multifamily Market to Moderate but With Positive Rent Growth Expected in 2023

December 21, 2022

Higher 10-Year Treasury Rates Will Slow Origination Market Modestly

MCLEAN, Va., Dec. 21, 2022 (GLOBE NEWSWIRE) -- The multifamily market will continue to cool off in 2023, according to the Freddie Mac (OTCQB: FMCC) Multifamily 2023 Outlook, with rent growth moderating, vacancies ticking up and loan originations slowing for the year. Property values are also expected to decline, but gross income growth will remain positive. Fundamentals are likely to rebound slowly in the second half of the year as the market stabilizes.

"Volatile capital markets and a rise in the 10-year Treasury rate have driven a contraction in multifamily lending in 2022 that will persist into 2023," said Steve Guggenmos, vice president of Research & Modeling for Freddie Mac Multifamily. "Economic uncertainty and rising prices have led to waning housing demand. This paired with elevated construction levels will drive rent growth to level off and eventually normalize. This environment is putting downward pressure on property values, which have grown at a heightened pace in recent years."

The Freddie Mac Multifamily Outlook is available online at FreddieMac.com along with a companion viewpoint and podcast.

The 2023 Multifamily Outlook includes several key findings:

- Rent growth has moderated, and some data providers are now indicating rents are declining on a monthly basis. Freddie Mac expects growth for 2022 to end the year between 6-8% year over year.
- Some data sources indicate vacancy rates have been increasing throughout 2022, while others show very little change. Freddie Mac expects vacancy rates to end 2022 up slightly over the prior year.
- For 2023, Freddie Mac expects multifamily fundamentals to start the year slowly but rebound in the second half of the year. The Outlook projects gross income to increase 3.5% and the vacancy rate to rise modestly to 5.1%.
- Multifamily construction levels remain extremely high, which could put additional pressure on fundamentals in some markets.
- In 2023, Freddie Mac expects the best performing markets to be predominately smaller southwestern and Florida markets. The bottom performing markets are a geographically diverse mix of small and large markets, many of which are expected to see high levels of new supply.
- Throughout 2022, the 10-year Treasury rate has been increasing and volatile, while cap rates have held relatively stable, which is causing cap rate spreads to compress. This will put upward pressure on cap rates, which would put downward pressure on valuations.
- Given broad economic uncertainty and volatile Treasury rate environment, Freddie Mac expects origination volume in 2022 to fall about 5.5% to a total of $460 billion, with 2023 seeing a further decline of 4-5% to $440 billion.

MEDIA CONTACTS:
Mike Morosi
(703) 918-5851
Michael_Morosi@FreddieMac.com