Midyear Outlook Shows Multifamily Demand Returning Slowly in Uncertain Economic Climate

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MCLEAN, Va., Aug. 03, 2023 (GLOBE NEWSWIRE) -- As multifamily rental demand slowly returned in the first half of 2023, Freddie Mac (OTCQB: FMCC) projects the market will continue to stabilize but see below-average growth throughout the rest of the year. Macroeconomic headwinds, including the elevated 10-Year Treasury rate, will lead to a contraction in multifamily origination volume to $370 billion. However, the economy is maintaining positive momentum, propelled by a strong labor market helping to maintain multifamily fundamentals.

"Midway through the year, we are starting to see a return to more normal patterns although performance is a bit weaker," said Sara Hoffmann, director of Multifamily Research at Freddie Mac. "We expect multifamily fundamentals to perform slightly below long-term averages this year, which will feel particularly slow compared with the pandemic boom years, and even the years leading up to it. But positive demand and modest rent growth indicate the multifamily market is stabilizing."

The Multifamily 2023 Midyear Outlook from Freddie Mac's Multifamily Research Center is available online here. The paper outlines several key findings:

Uncertainty Remains in the Economy

While growth expectations for the economy are lower, we have managed to avoid a recession so far this year, primarily due to the strength of the labor market. At the same time inflation growth is moderating, while interest rates are elevated. The continued strength of the labor market will support household formations and in turn the multifamily market through this year, but at relatively modest levels. Over the longer term, the multifamily market will continue to be propelled by an overall housing shortage, expensive for-sale housing and favorable demographics.

Stabilizing Multifamily Market

Through the first half of 2023, the multifamily market appears to be returning to a more normal seasonal pattern, although slightly weaker than the years leading up to the pandemic. After falling during 2022, demand was positive during the first half of 2023, which led to positive rent growth. Meanwhile occupancy rates have declined slightly so far in 2023, albeit at a much slower pace than 2022, and are near the long-term average. An active pipeline of new units entering the market, mostly in the Class A space, along with slower economic growth, will put some stress on multifamily fundamentals, resulting in less-than-average growth for 2023. Freddie Mac expects rent growth to remain modest this year as the market continues to work through uncertainty and elevated new supply.

Origination Volume Decline

Considering the heightened degree of economic uncertainty and the elevated and somewhat volatile interest rate environment, multifamily transaction value has slowed. The upward pressure on cap rates due to the higher 10-Year Treasury rate has put downward pressure on property prices. Additionally, given the higher interest rates and slowing fundamentals, buyers and sellers are having a hard time agreeing on asset value. As a result, Freddie Mac expects originations in 2023 to experience a contraction to $370 billion, down 17% from 2022.

Multifamily's outlook and additional related materials are available online here.

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