UPDATE: WAVE OF MULTIFAMILY LOAN MATURITIES IMMINENT

Financial distress is already re-shaping the multifamily market.

A wall of debt maturities is quickly approaching for multifamily borrowers, and pockets of the market are already adjusting in advance of greater distress and more widespread price discovery. Select opportunities are emerging as multifamily property owners anticipate broader cap rate expansion and look to get ahead of further pricing declines.

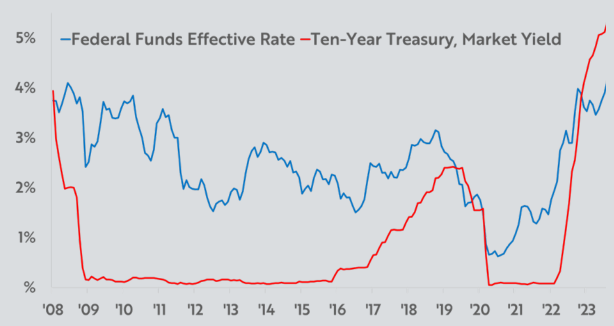
The strikingly low sales activity and sizeable bid-ask gap for multifamily investment properties in 2023 has been driven by higher interest rates that have lowered investors' returns at current prices, but lower property income growth, higher expenses, and stricter lending terms raise the potential for acute distress and contribute to a more favorable pricing environment for buyers.

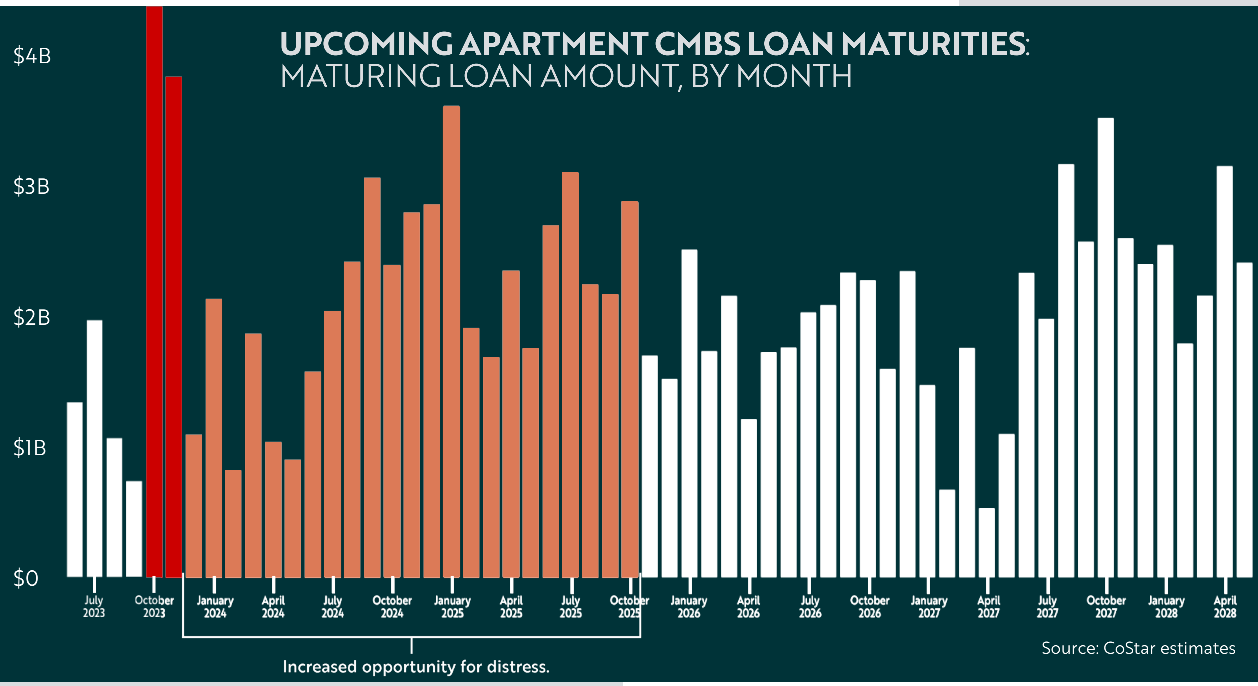
Significantly, longer-term Interest rate projections have markedly increased since Gray Capital's previously-issued report on multifamily loan maturities, with the Federal Reserve increasing its 2024 Fed Funds rate projection from 4.6% to 5.1%.

Gray Capital projects further price discovery catalyzed by greater distress due to upcoming loan maturities in Q4 2023.

Attractive investment opportunities are already emerging and will continue through 2024, supported by consistent elevated housing demand and strong apartment fundamentals.

Interest rates are at 15-year highs and will not come down in time to prevent distress.





Source: CoStar estimates

$1.99T

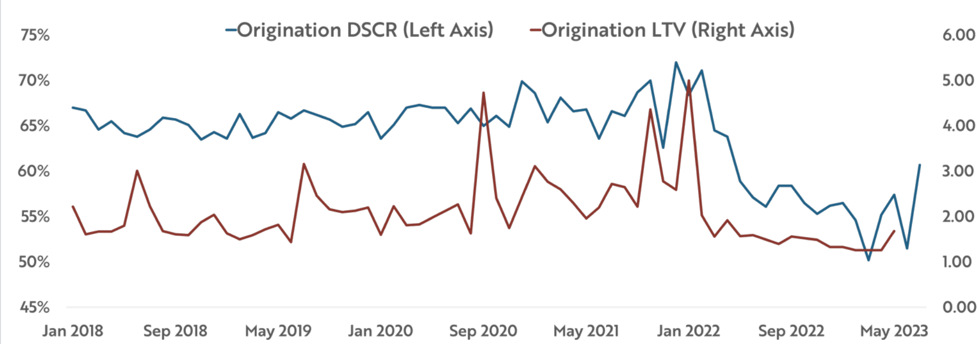
Total multifamily mortgage debt outstanding.

(Source: Mortgage Bankers Association)

TIGHT DEBT AND LOW INCOME GROWTH

In addition to the burden of high interest rates, other factors pressure multifamily borrowers and compound the potential for distress.

Lower Loan-to-Value (LTV) percentages and lower Debt Service Coverage Ratios (DSCR) reflect lenders' stricter standards and the lower income growth for multifamily properties, respectively.



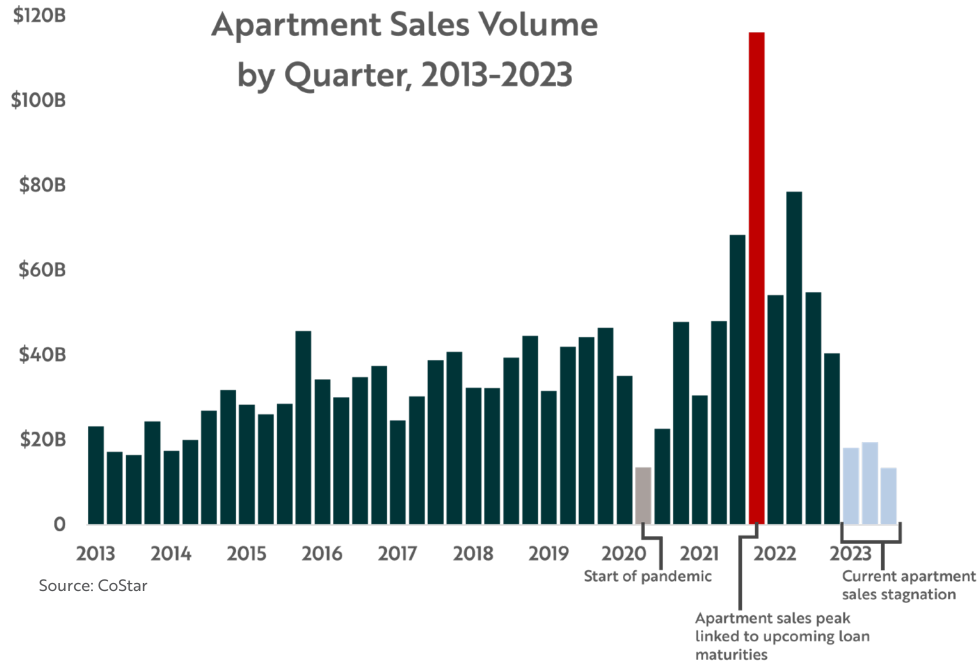
Source: CoStar estimates

NOTE: See relevant disclaimers on page 2.

MULTIFAMILY PROPERTY SALES, FROM PEAK TO TROUGH

Apartment sales rapidly climbed to over $115B in Q4 2021 at their peak, driven in part by low interest rates. The inverse is true for 2023, with high interest rates and the lowest sales volumes in a decade or more.

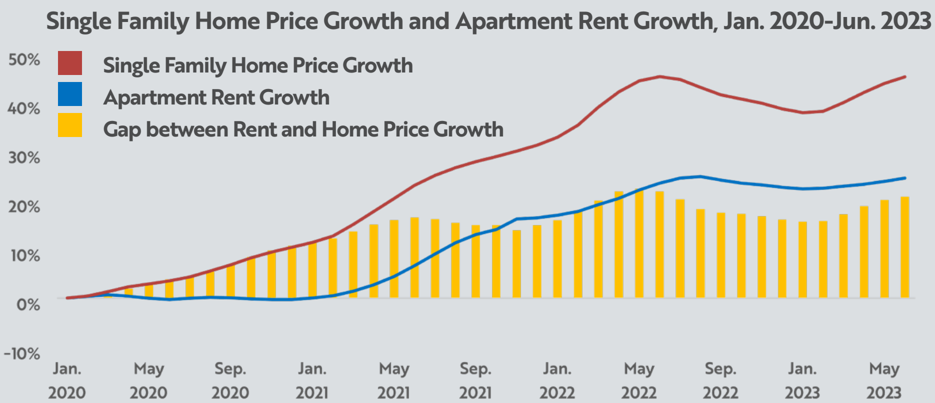
Bridge loans issued during the Q4 2021 sales peak are expected to come due in Q4 of this year. A significant amount of multifamily borrowers are facing refinancing and borrowing costs that will encourage sales at prices closer to buyers' expectations and drive higher sales volume after this period of historically low activity.



Source: CoStar

APARTMENT FUNDAMENTALS

Home Price Growth Points to Apartment Market Strength



Sources: Gray Capital National Rent Tracker, S&P/Case-Shiller Home Price Index

Apartment rents increased by 24% since Q1 2020 while single family home prices increased by nearly double that amount (44%). More recently, single family home prices have rebounded this year from declining prices in 2022, but rent growth has been more subdued in 2023 due to the greater amount of newly-built apartments entering the market.

Notably, the current increase in apartment supply is expected to level off, and the sharp uptick in home prices is a strong indication of housing demand in general, which supports a strong apartment market and single family home market alike.

INTEREST RATES AND THE ECONOMY, TWO SCENARIOS:

Higher For Longer

Interest rates remain high due to continued economic growth and persistent inflation risk.

Mild downturn with Fed Funds rate above 4% through the end of 2024 and into 2025.

Financial Crisis and Recession

Short-term CRE-driven recession.

Economic downturn leads to interest rate reduction and CRE price correction.

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