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Demographic Trends Point to Continued Strong Housing Demand

The analysis by RealPage, utilizing data from the U.S. Census Bureau and the Pew Research Center, examines generational population trends and their impact on housing demand. The study highlights that Baby Boomers, at their peak, numbered 78 million, surpassing Generation X by 13.5 million. Millennials reached a peak of 73 million, about five million more than Generation Z. The median age of apartment renters is 32, while first-time homebuyers have a median age of 35. These insights suggest that as younger generations enter the housing market, demand for housing is expected to remain strong.

Key Takeaways:

- Generational Population Trends: The Baby Boomer generation was the largest, followed by Millennials and Generation Z.
- Median Ages: Apartment renters have a median age of 32, and first-time homebuyers are typically 35 years old.
- Implications for Housing Demand: The aging of Baby Boomers and the increasing number of Millennials and Generation Z entering the housing market are likely to sustain strong housing demand.

Evergreen Capital Insight:
Understanding these demographic trends is crucial for investors and developers. The aging Baby Boomer population may lead to increased demand for senior housing and downsized homes, while the influx of Millennials and Generation Z into the housing market could drive demand for starter homes and rental properties. Strategically aligning investments with these demographic shifts can offer long-term growth opportunities.

Conclusion:

Demographic changes are a significant driver of housing demand. The aging Baby Boomer generation, coupled with the growing numbers of Millennials and Generation Z entering the housing market, suggests a sustained need for diverse housing options. Stakeholders in the housing sector should consider these trends to make informed investment and development decisions.

Strong Apartment Demand Persists in 3rd Quarter as Supply Hits 50-Year High

In the third quarter of 2024, the U.S. apartment market demonstrated robust demand, with 192,649 market-rate apartment units absorbed between July and September. This contributed to an annual absorption of 488,773 units, resulting in a net difference of just over 69,000 units between annual supply and demand. Despite a record number of deliveries—557,842 units over the past year—the national occupancy rate remained stable at 94.4%, a slight decrease of 10 basis points from the previous year. Monthly rents averaged $1,838 as of September 2024. Midwest markets, including Kansas City, Detroit, Milwaukee, Cleveland, Chicago, Columbus, Indianapolis, and Cincinnati, reported annual rent growth above the national average.

Conversely, markets like Austin, Raleigh/Durham, Jacksonville, Phoenix, San Antonio, and Atlanta experienced rent declines exceeding 4%, attributed to substantial new supply in these areas. The construction pipeline is expected to remain active, with nearly three-quarters of the current 762,000 units under construction slated for completion within the next year. However, the number of new units starting construction has decreased, with less than 40,000 units initiated in the third quarter of 2024, indicating a potential slowdown in future supply growth.

Key Takeaways:

- Strong Demand: The U.S. apartment market continues to experience significant demand, with substantial absorption rates in the third quarter.
- Stable Occupancy: National occupancy rates remain high, reflecting sustained interest in apartment living.

- Regional Variations: Midwest markets are outperforming in rent growth, while certain Sun Belt markets are facing rent declines due to oversupply.
- Construction Trends: The construction pipeline remains robust, but the initiation of new projects has slowed, potentially impacting future supply dynamics.

Evergreen Capital Insight:

The current market dynamics present both opportunities and challenges for investors. The strong demand and stable occupancy rates suggest a favorable environment for investment in well-located, high-quality apartment communities. However, the regional disparities in rent growth and the potential oversupply in certain markets warrant careful consideration. Investors should focus on markets with balanced supply and demand, particularly in the Midwest, where rent growth is above the national average. Additionally, monitoring the construction pipeline is crucial, as a slowdown in new unit starts could lead to a more balanced market in the coming years.

Conclusion:

The U.S. apartment market in the third quarter of 2024 reflects a complex landscape characterized by strong demand, stable occupancy, and regional variations in rent growth. While the overall outlook remains positive, investors should exercise due diligence, focusing on markets with favorable supply-demand dynamics and being mindful of areas experiencing oversupply. Strategic investment decisions, informed by current market trends and construction forecasts, will be essential for capitalizing on opportunities and mitigating risks in the evolving apartment market.

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Strong Economy, Demand Boost Multifamily Optimism

In September 2024, the multifamily housing market experienced a slight decline in advertised rents, dropping by $3 to an average of $1,750. This marks the second consecutive month of rent reduction, with year-over-year growth remaining unchanged at 0.9%. The national occupancy rate held steady at 94.8% for the fourth month in a row. The report attributes the rent decline primarily to a 0.3% month-over-month drop in the Lifestyle segment, while the Renter-by-Necessity segment remained flat. Despite the slight downturn in rents, the multifamily market continues to demonstrate resilience, supported by strong economic indicators such as interest rate cuts and robust GDP and job growth. However, the substantial delivery pipeline is expected to constrain rent growth in the near term

Key Takeaways:

- Rent Trends: The average U.S. advertised asking rent decreased by $3 to $1,750 in September, maintaining a 0.9% year-over-year growth.
- Occupancy Rates: National occupancy remained stable at 94.8% for the fourth consecutive month.
- Segment Performance: The Lifestyle segment experienced a 0.3% month-over-month rent decline, while the Renter-by-Necessity segment remained unchanged.
- Economic Indicators: Interest rate cuts and strong GDP and job growth have positively impacted the multifamily market.
- Supply Pipeline: A significant delivery pipeline is anticipated to limit rent growth in the near future.

Evergreen Capital Insight:

The multifamily housing market's stability, despite slight rent declines, presents both opportunities and challenges for investors. The steady occupancy rates and strong economic fundamentals suggest a resilient market. However, the substantial delivery pipeline may lead to increased competition and potential rent pressures in certain markets. Investors should focus on regions with balanced supply and demand dynamics and consider the long-term economic outlook when making investment decisions.

Conclusion:

The multifamily housing market in September 2024 reflects a period of slight rent decline amid strong economic growth and stable occupancy rates. While the market demonstrates resilience, the substantial delivery pipeline warrants cautious optimism. Stakeholders should remain vigilant, monitoring economic indicators and supply trends to navigate the evolving multifamily landscape effectively.

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Impact of Interest Rate Cuts on Real Estate Cap Rates

The Federal Reserve's decision to cut interest rates has led to a decrease in the 10-year Treasury yield, which, in turn, is expected to lower cap rates and enhance asset values in the real estate sector. This environment is anticipated to stimulate investment activity and support resilient commercial real estate fundamentals, excluding the office sector. The report forecasts that cap rates will begin to compress slowly in the fourth quarter of 2024 and more noticeably in 2025. Specifically, from their peaks to the end of 2025, industrial cap rates are expected to fall by 40 basis points, retail by 35 basis points, multifamily by 25 basis points, and office by 20 basis points. In the long term, stabilized cap rates are projected to be higher than pre-COVID levels, with industrial and multifamily at 4.5%, office at 5%, and retail at 4.6%.
CBRE

Key Takeaways:

- Interest Rate Impact: The Federal Reserve's interest rate cuts are anticipated to lower the 10-year Treasury yield, which is expected to reduce cap rates and increase asset values in the real estate market.
- Cap Rate Projections: Cap rates are forecasted to compress gradually in late 2024 and more significantly in 2025, with varying rates across property sectors.
- Long-Term Stabilization: Stabilized cap rates are expected to be higher than pre-COVID levels, indicating a shift in the real estate investment landscape.

Evergreen Capital Insight:

The anticipated reduction in cap rates presents a favorable environment for real estate investors, as lower cap rates typically correspond to higher property values and potentially higher returns. Investors should consider the varying impacts across different property sectors and regions, as the extent of cap rate compression may differ. Strategic investment decisions should account for these dynamics to optimize returns in the evolving market.

Conclusion:

The Federal Reserve's interest rate cuts are set to influence the real estate market by lowering cap rates and enhancing asset values. While the overall outlook is positive, investors should remain vigilant, considering sector-specific and regional variations to make informed investment decisions in this changing environment.

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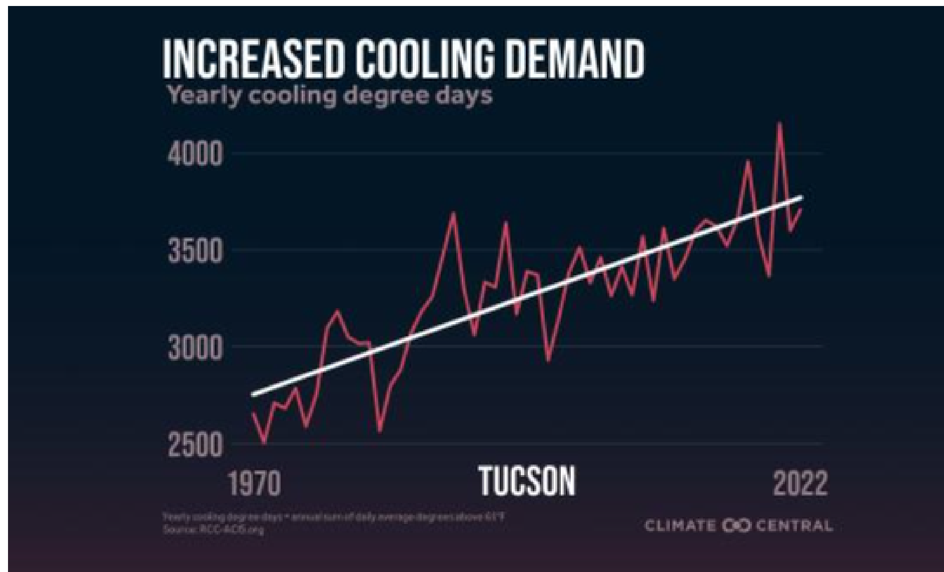
RealPage Predicts Cooling Apartment Demand Amid High Supply



In the third quarter of 2024, the U.S. apartment market demonstrated robust demand, with absorption exceeding 192,000 units, contributing to a year-to-date total of 488,000 units. RealPage projects that demand will remain strong, potentially rising about 5% above 2024 levels into 2025. However, the supply side is expected to remain high, with more than 637,000 units anticipated over the next 12 months. This influx of new units may lead to a cooling effect on demand, as the market adjusts to the increased availability. The Federal Reserve's recent interest rate cut is expected to influence the supply side, with effects continuing into 2025. Any additional rate cuts would likely have a further impact.

Key Takeaways:

- Strong Demand: The apartment market continues to experience significant demand, with substantial absorption rates in the third quarter.
- High Supply: A substantial number of new units are expected to enter the market in the coming year, potentially affecting demand dynamics.
- Interest Rate Influence: The Federal Reserve's interest rate decisions are anticipated to impact the supply side, with effects extending into 2025.

Evergreen Capital Insight:

The current market dynamics present both opportunities and challenges for investors. The strong demand and stable occupancy rates suggest a favorable environment for investment in well-located, high-quality apartment communities. However, the substantial delivery pipeline may lead to increased competition and potential rent pressures in certain markets. Investors should focus on regions with balanced supply and demand dynamics and consider the long-term economic outlook when making investment decisions.

Conclusion:

The U.S. apartment market in the third quarter of 2024 reflects a complex landscape characterized by strong demand, stable occupancy, and regional variations in rent growth. While the overall outlook remains positive, investors should exercise due diligence, focusing on markets with favorable supply-demand dynamics and being mindful of areas experiencing oversupply. Strategic investment decisions, informed by current market trends and construction forecasts, will be essential for capitalizing on opportunities and mitigating risks in the evolving apartment market.