

FIXED-INCOME
INVESTOR
DAY 2024



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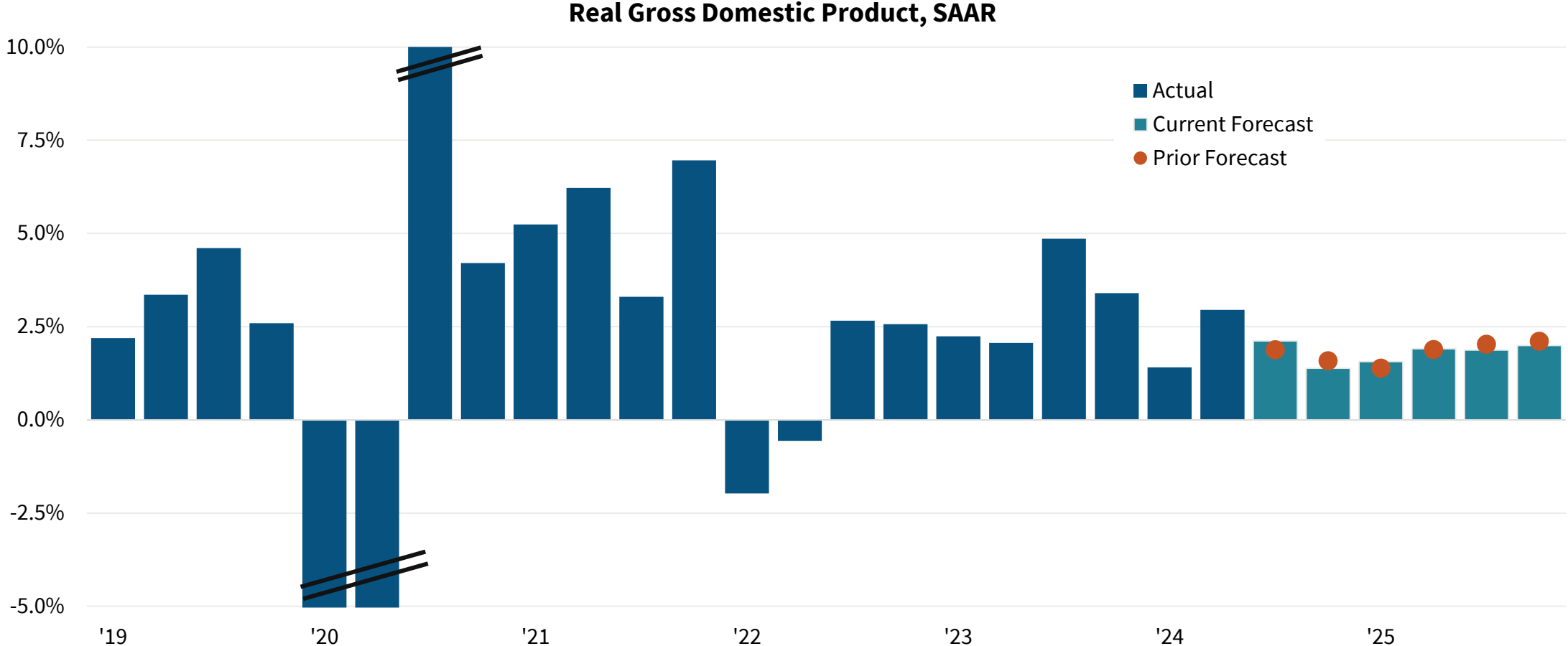


Housing Seeks Balance Amid Economic Uncertainty

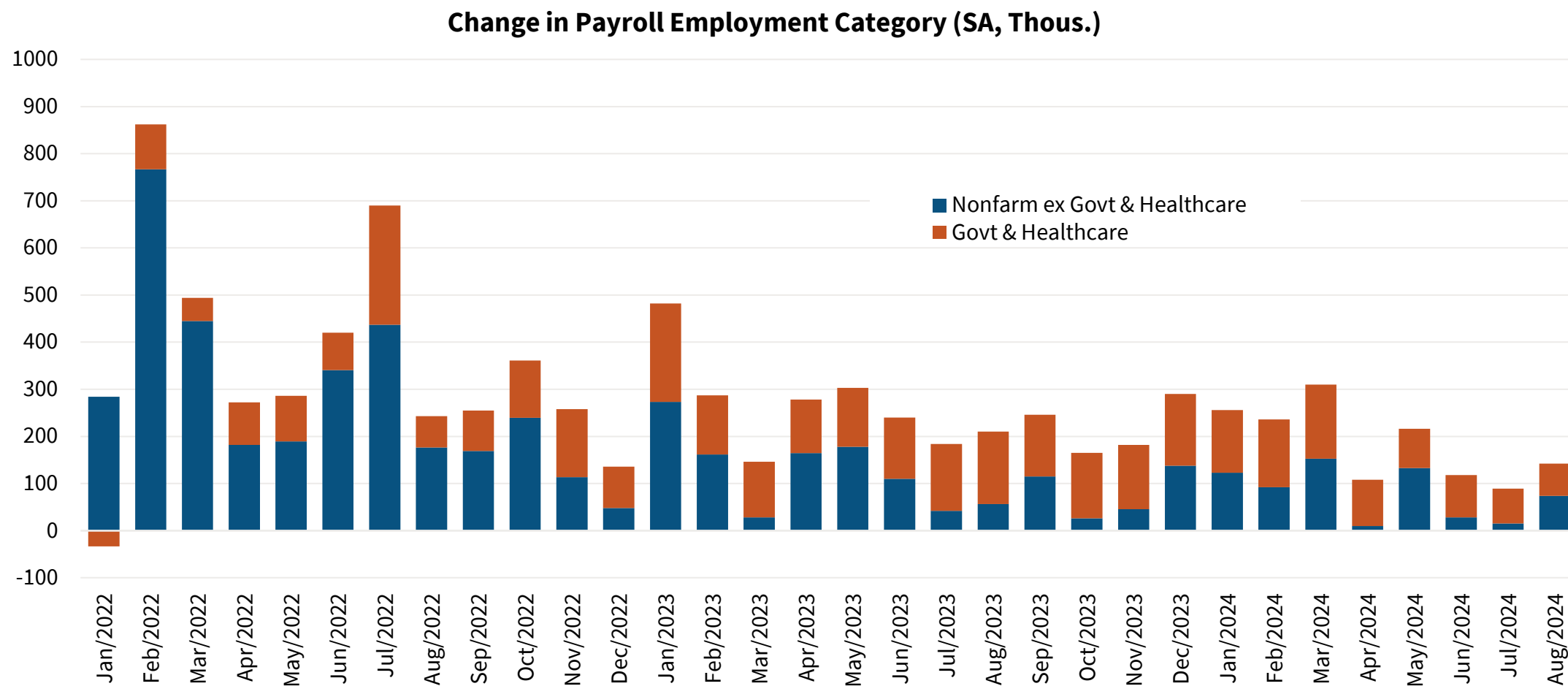
Mark Palim, Chief Economist and Senior Vice President

September 24, 2024

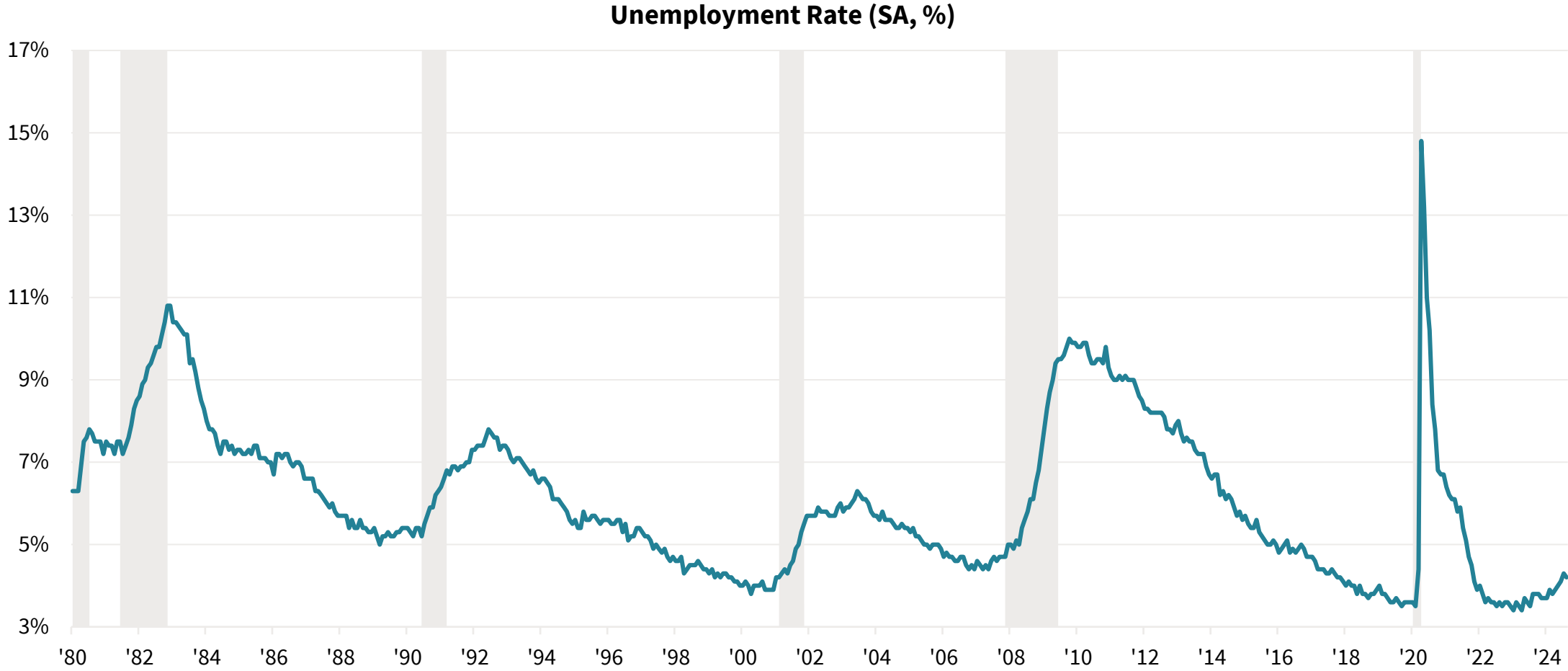
Growth surprised to the upside in Q2, though we expect sub-trend in Q4 2024 and Q1 2025



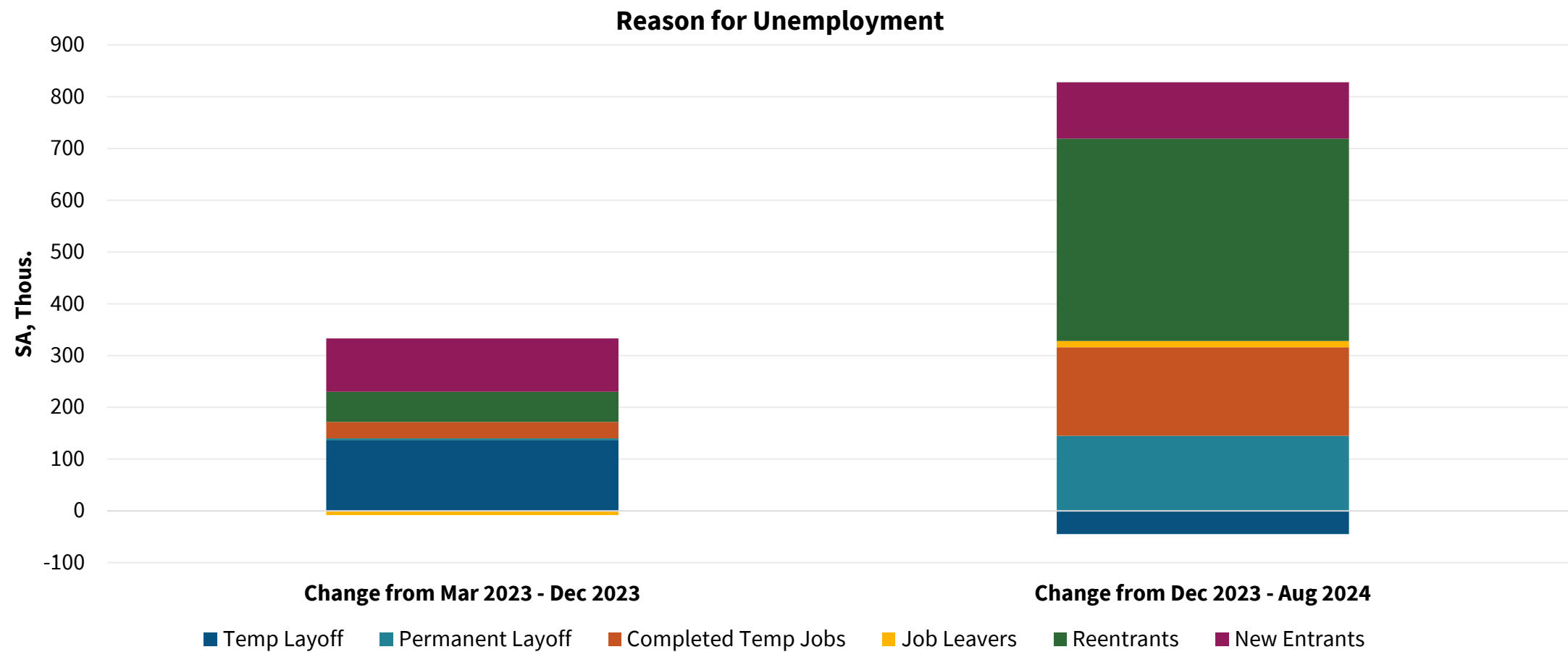
Job growth has slowed, and a higher-than-usual share of those jobs are in non-cyclical sectors



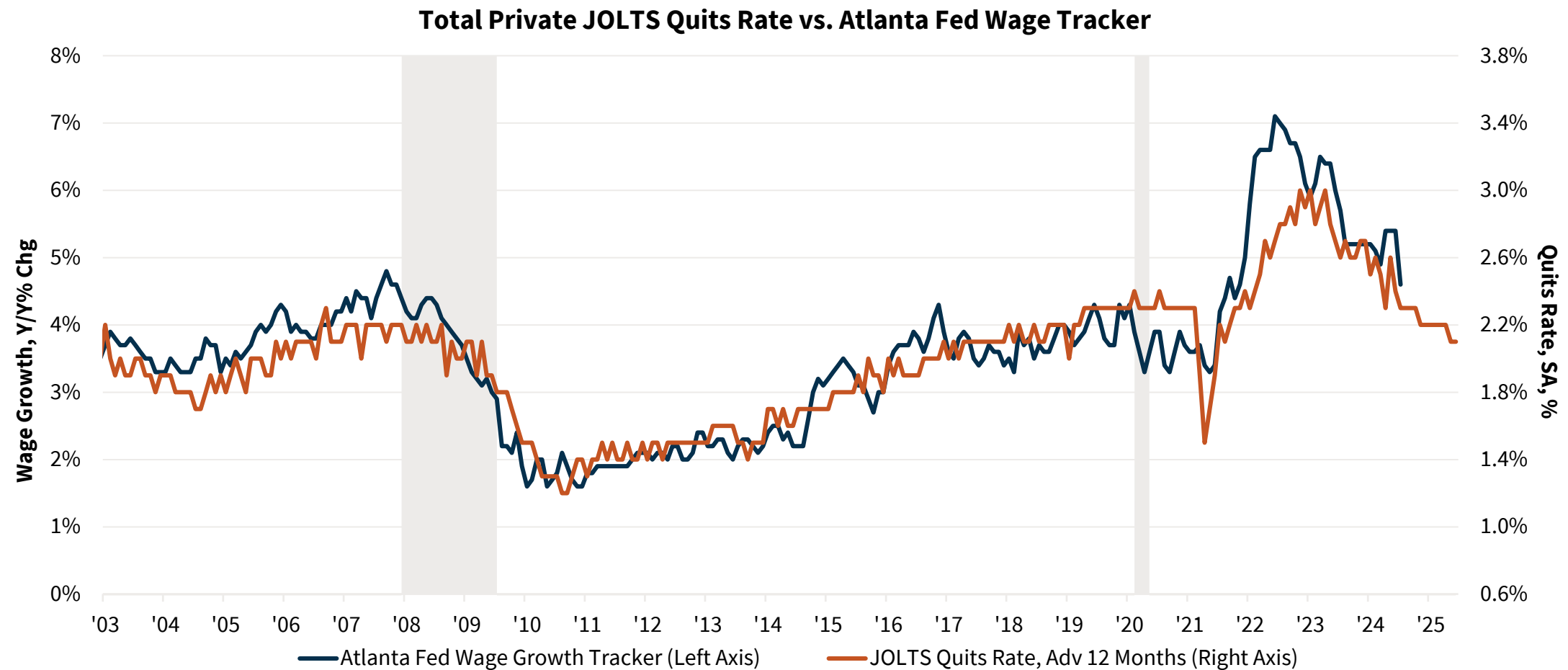
Rising unemployment rate adds further evidence that the labor market has cooled



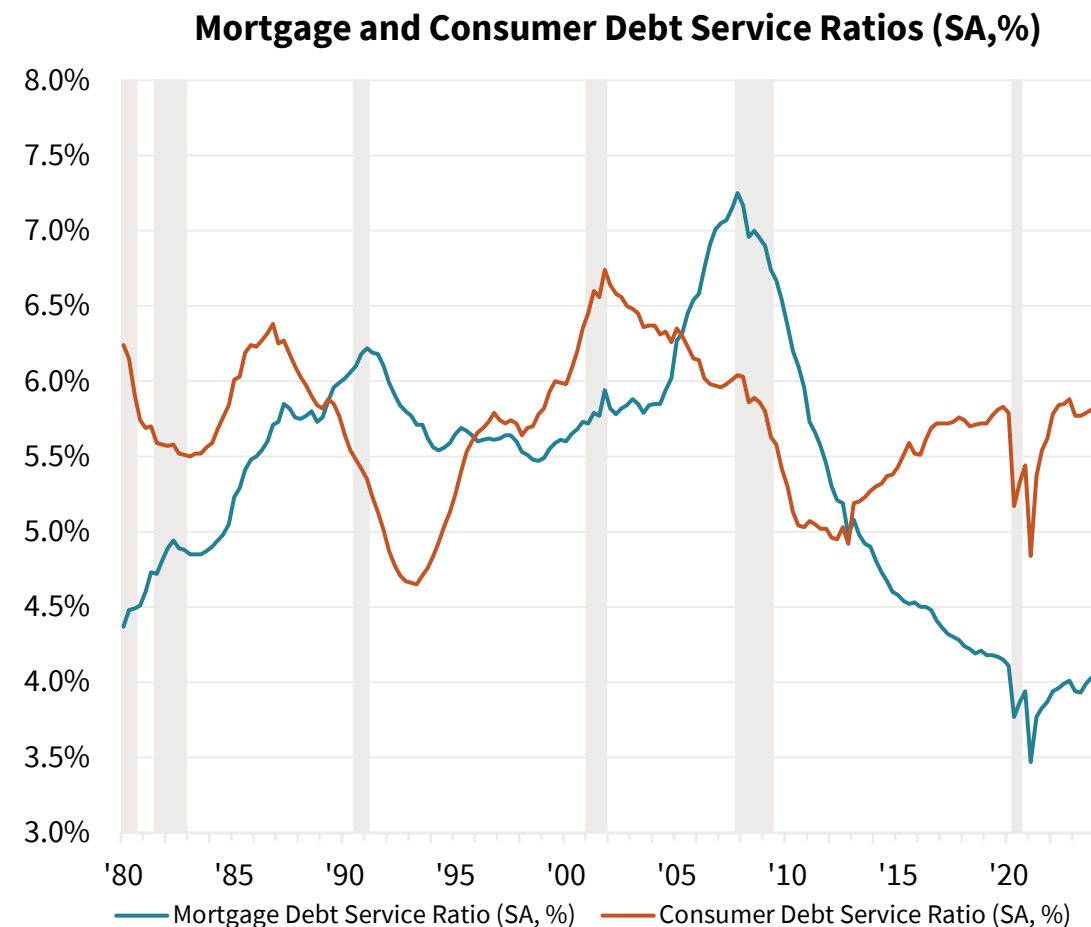
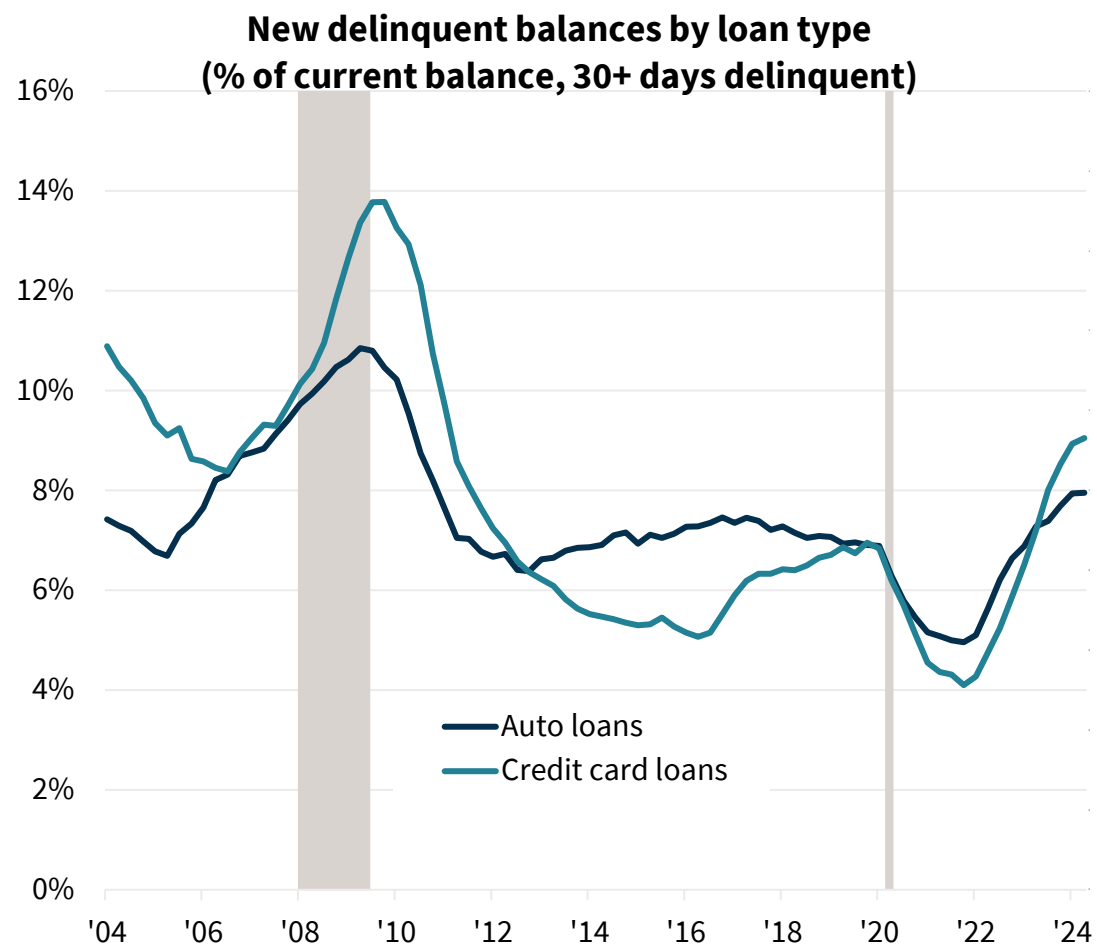
Since unemployment began rising in April 2023, much of the increase has been due to new and reentrants to the labor force



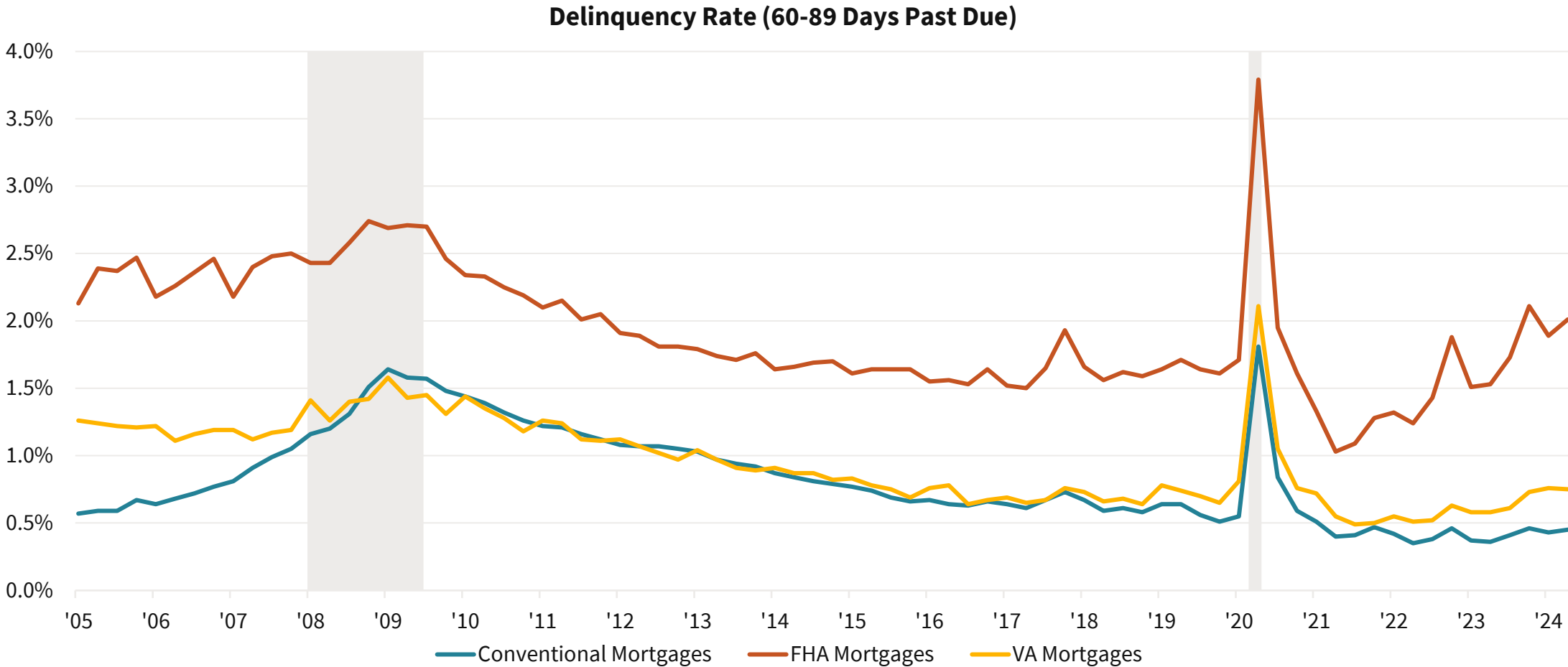
Wage growth was strong during the pandemic but is now on a more sustainable path



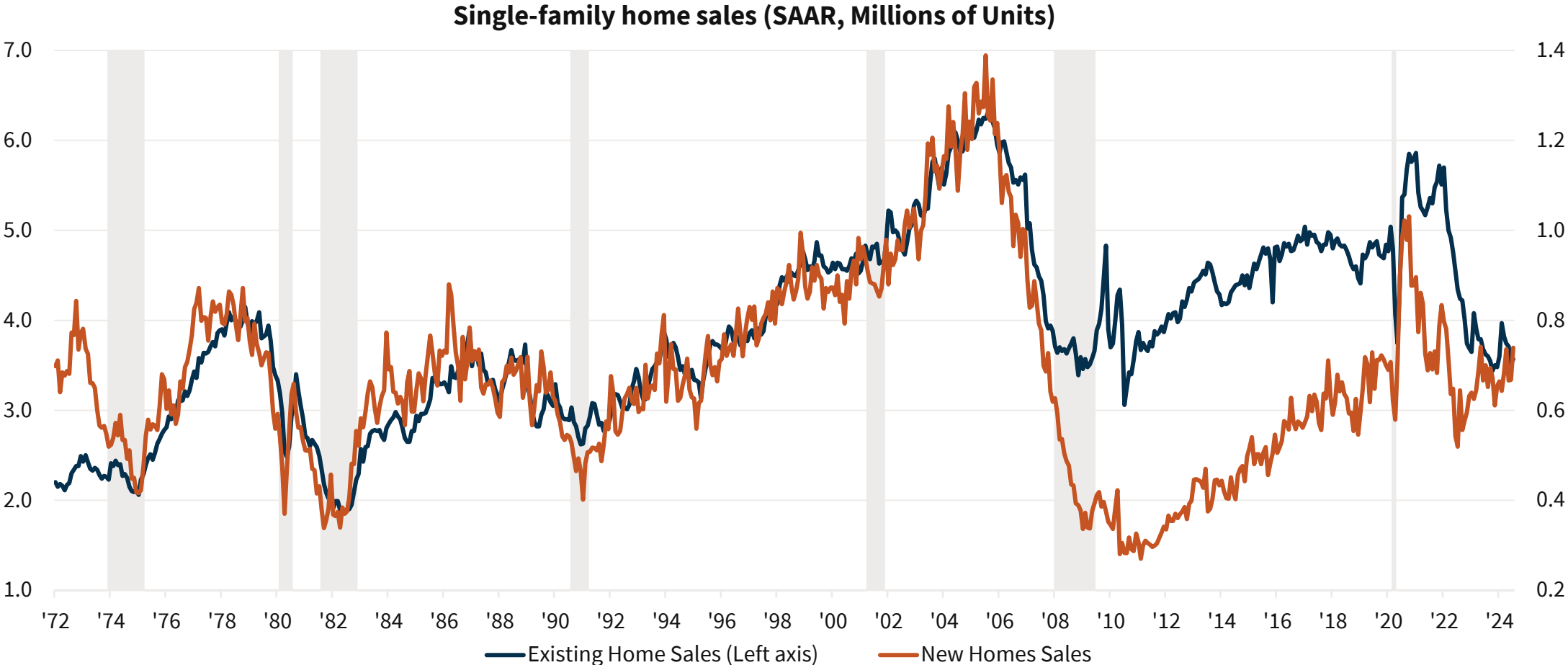
New delinquent balances have risen for both auto and credit card loans



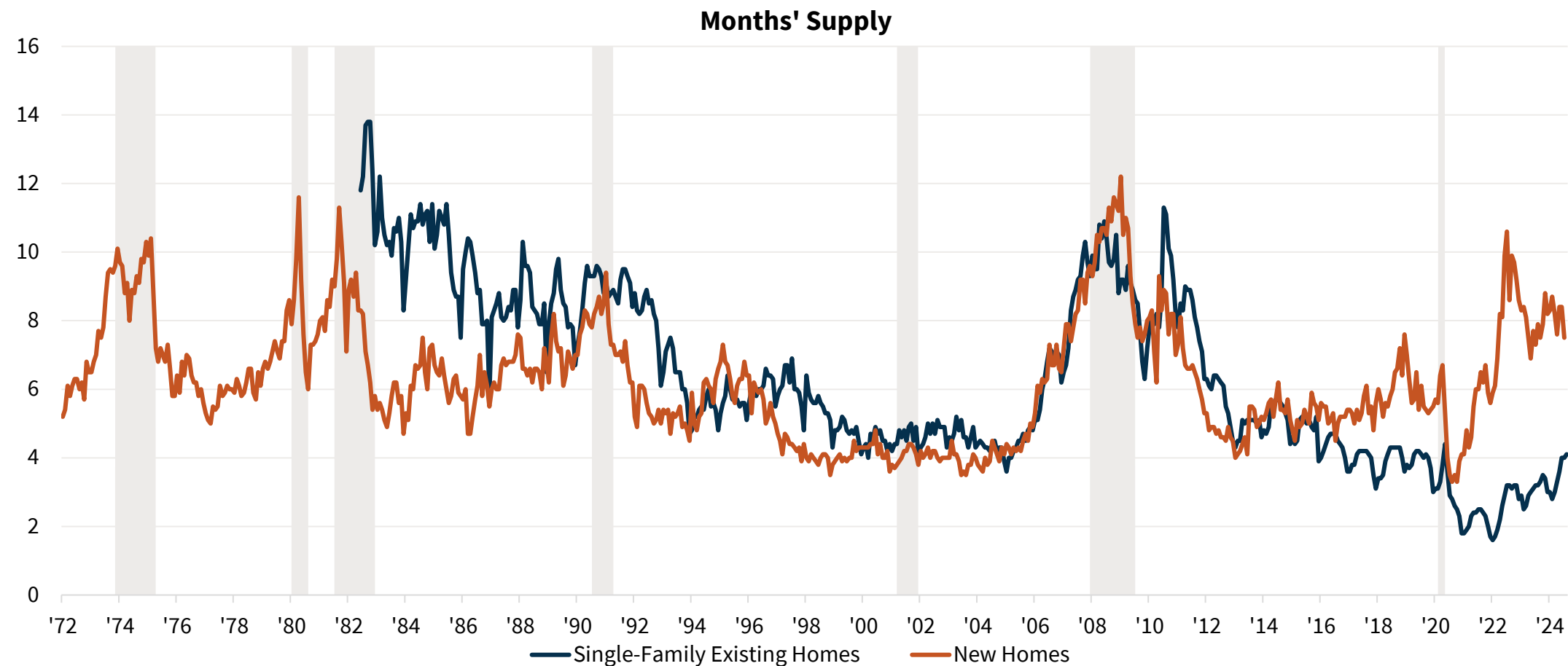
FHA delinquencies continue to climb, while conventional and VA delinquencies remain low



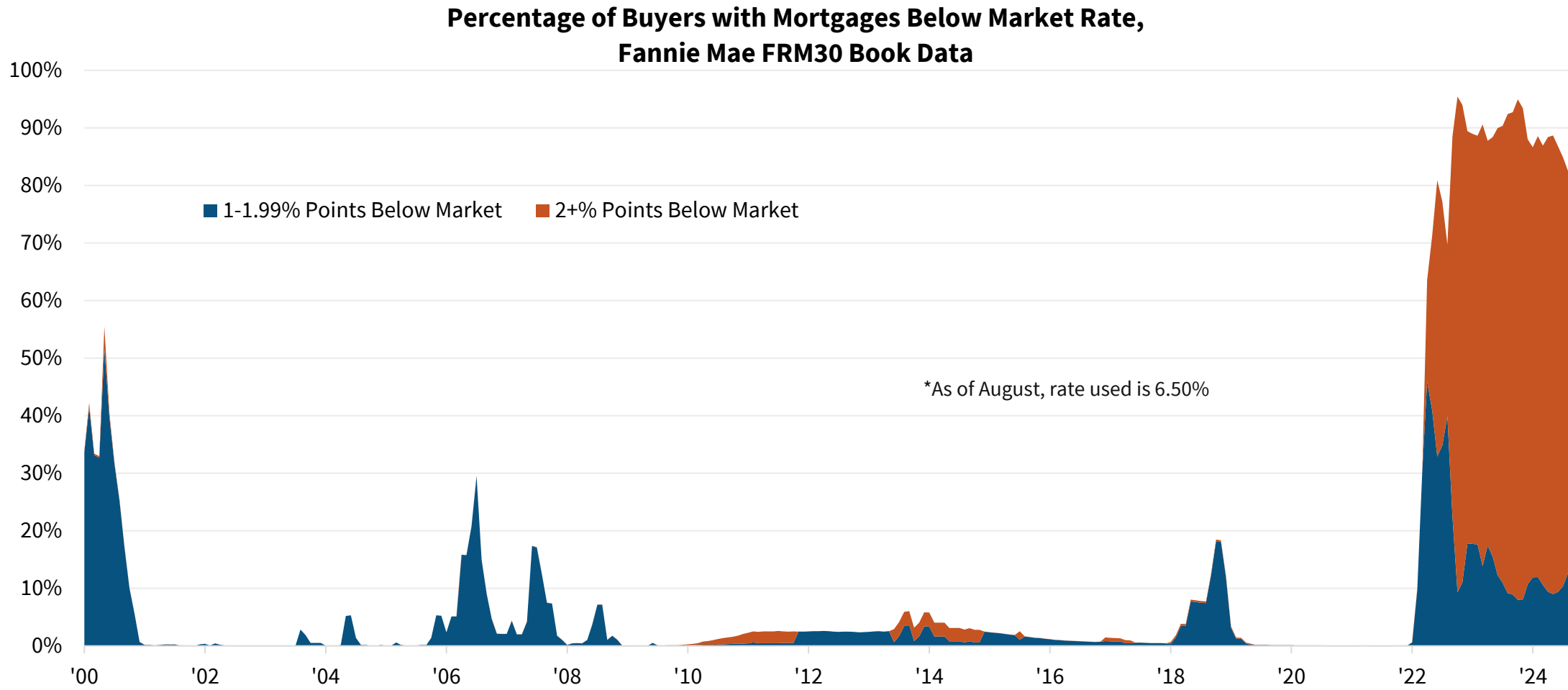
Existing sales fell further in August and are expected to remain sluggish through rest of 2024 despite the decline in rates



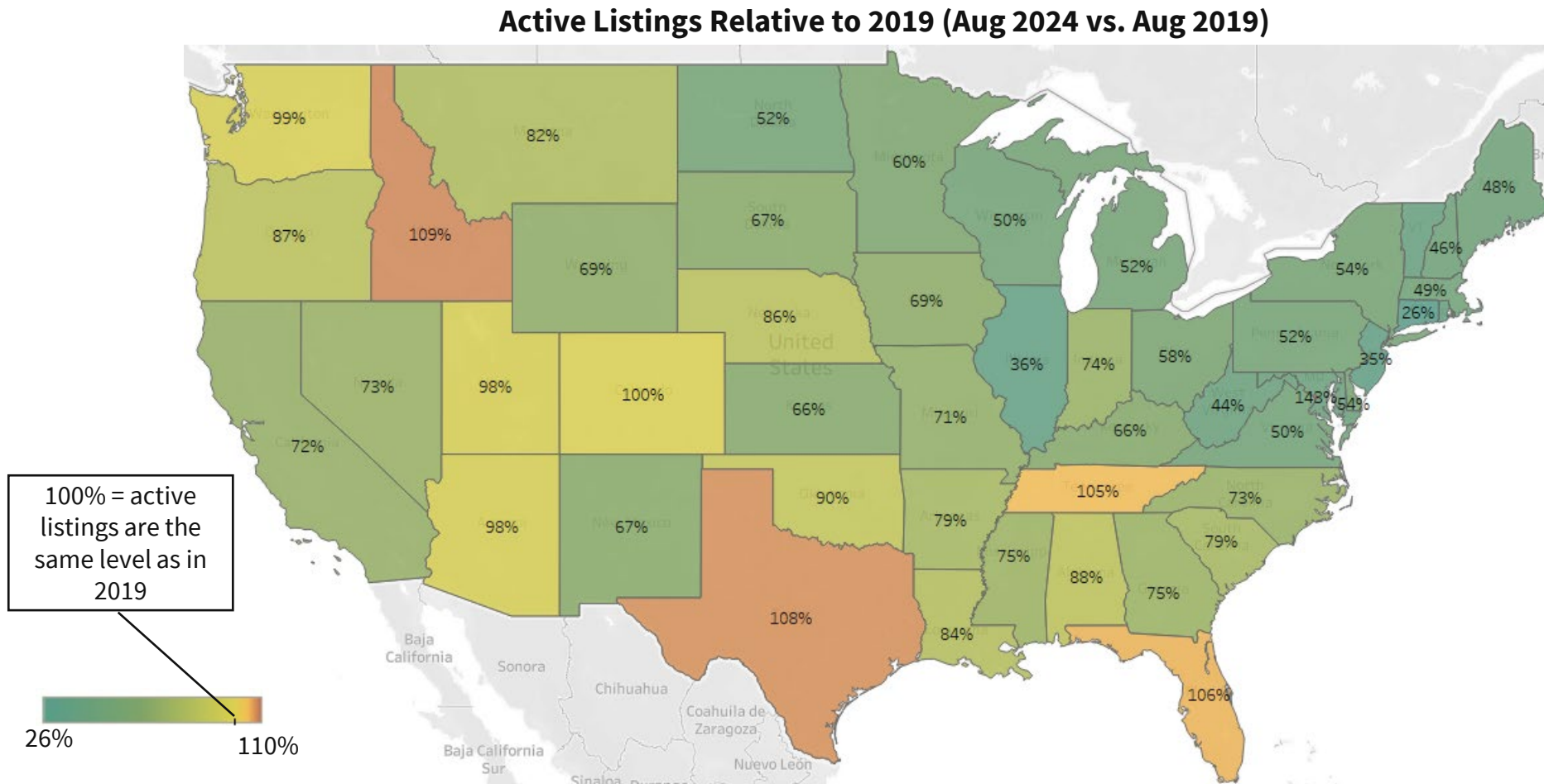
The months' supply of new homes remains elevated, while existing home inventory continues to slowly rise



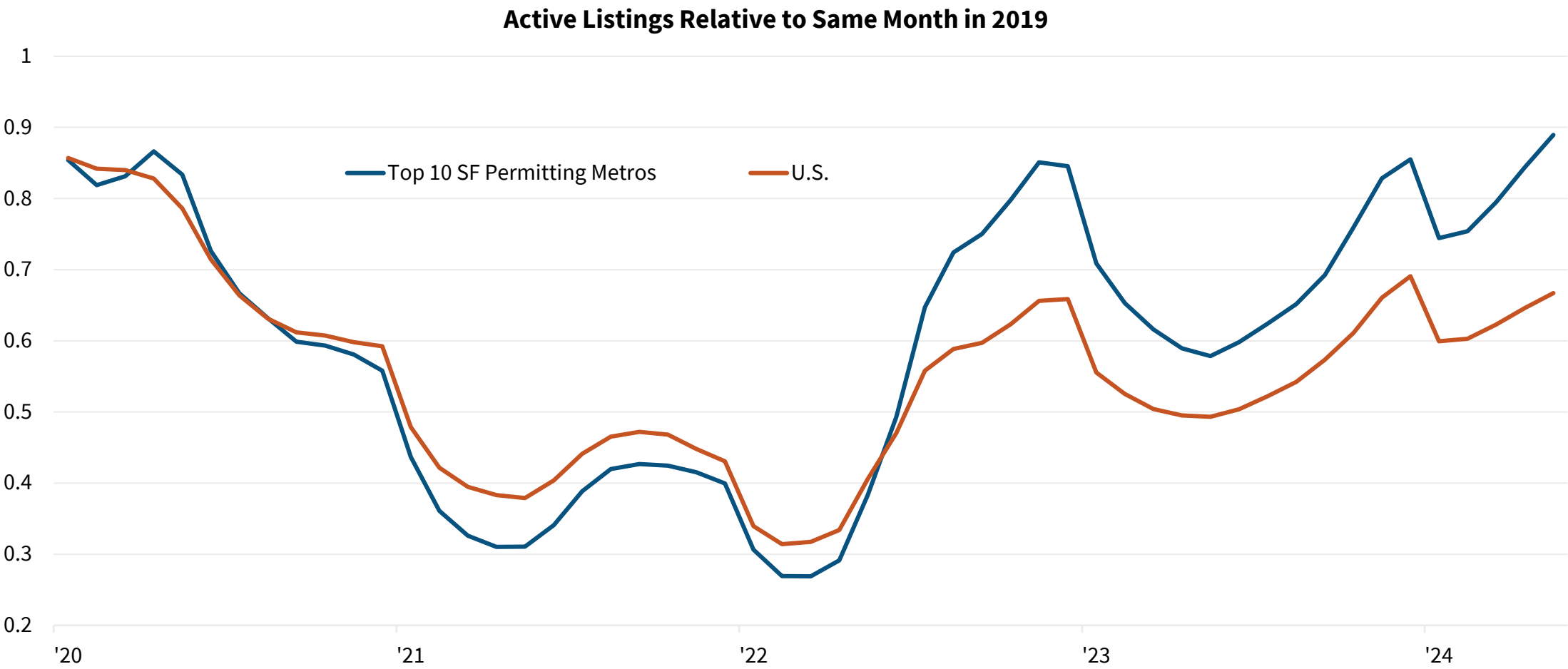
Many borrowers are "locked in" at low interest rate, creating a financial disincentive to move



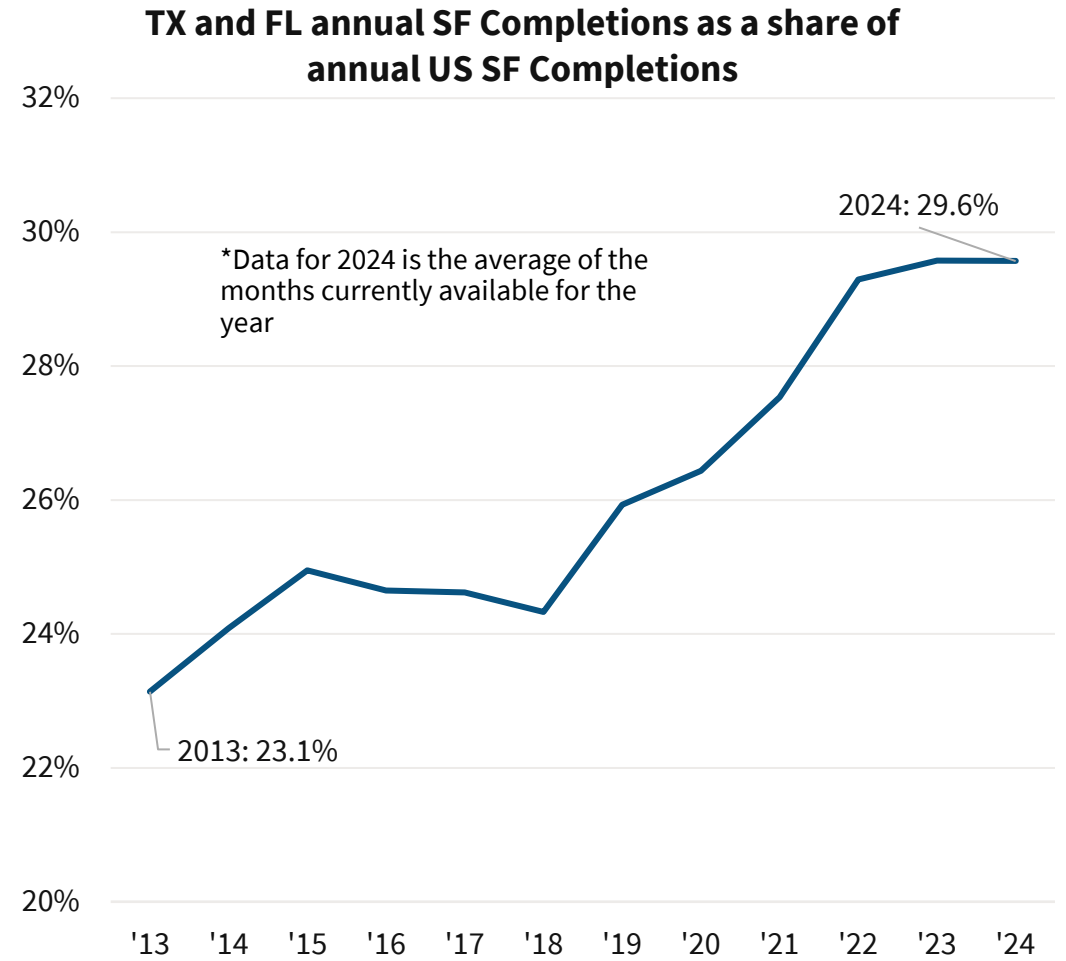
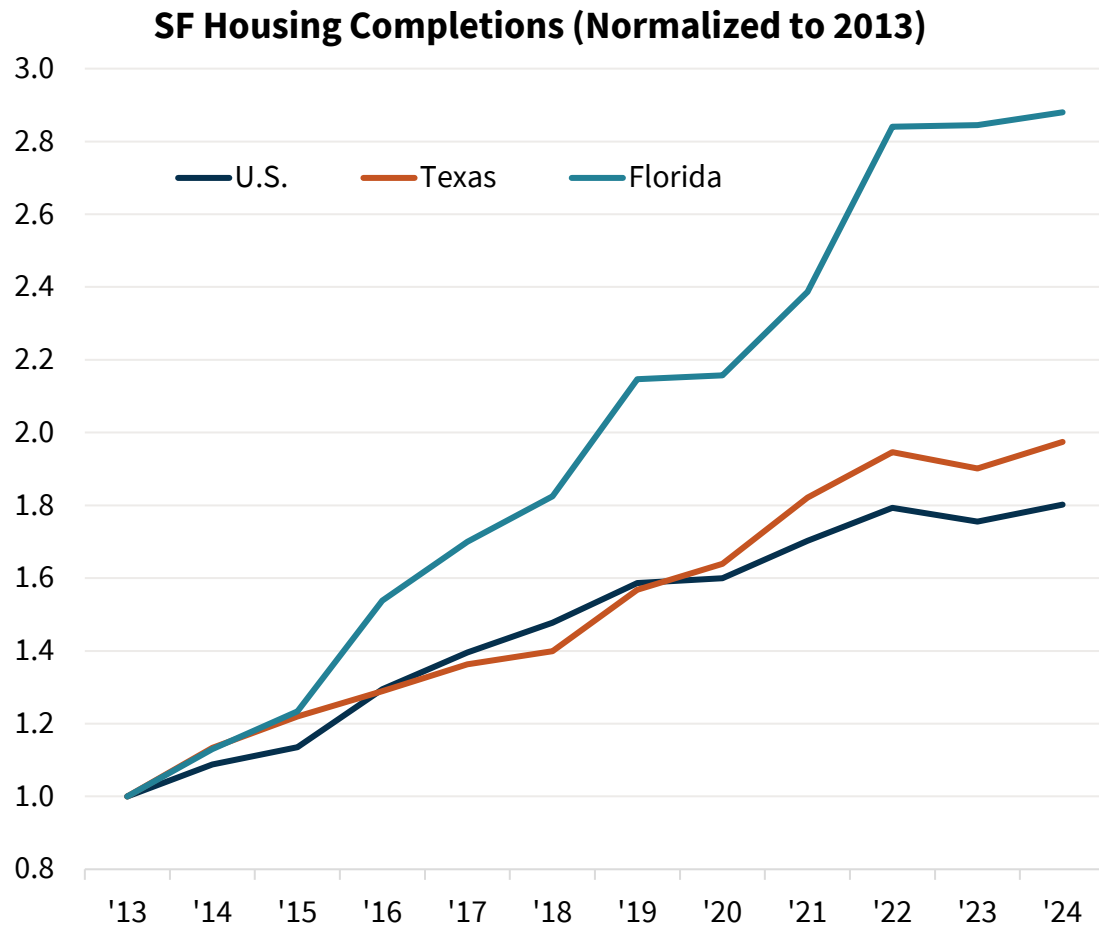
Sunbelt, Northwest have most listings relative to 2019; Midwest and Northeast have fewest



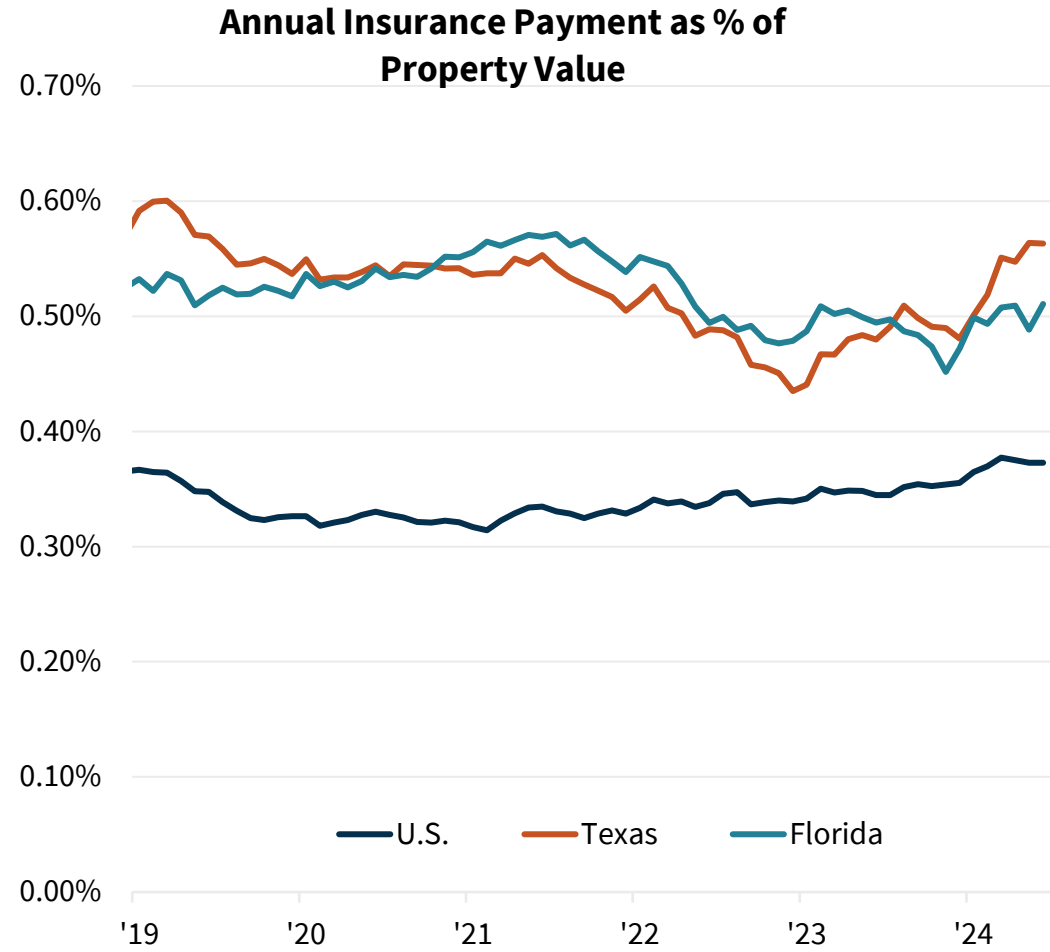
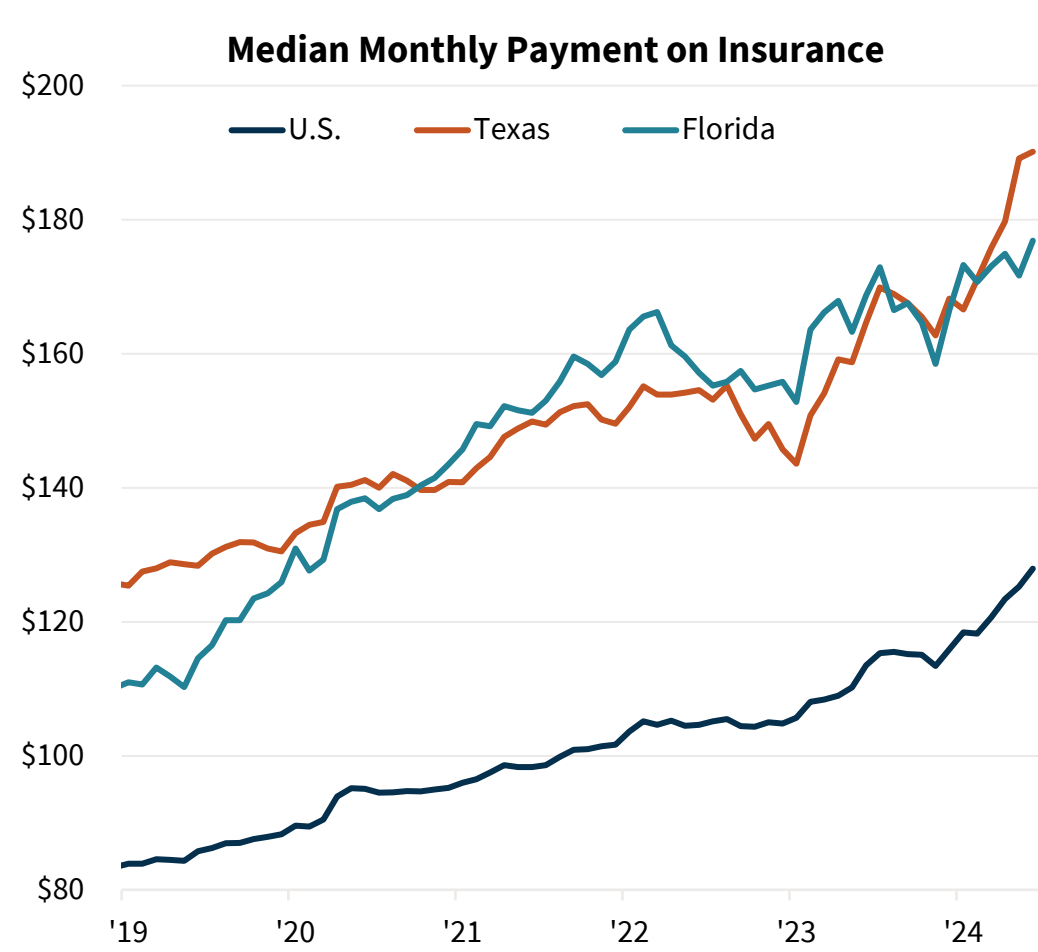
Homebuilders are currently concentrated in metros that have experienced a larger rise in listings



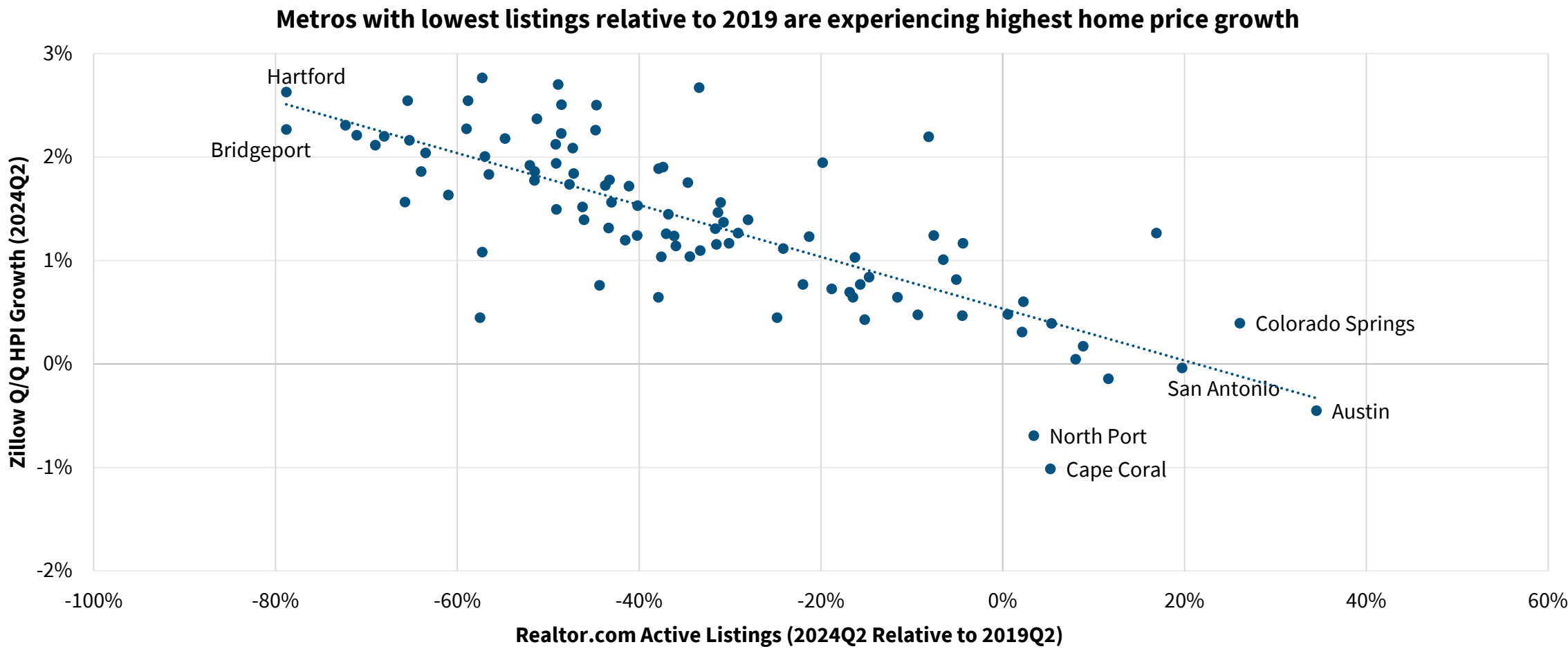
Texas and Florida have an outsized share of all U.S. new home construction



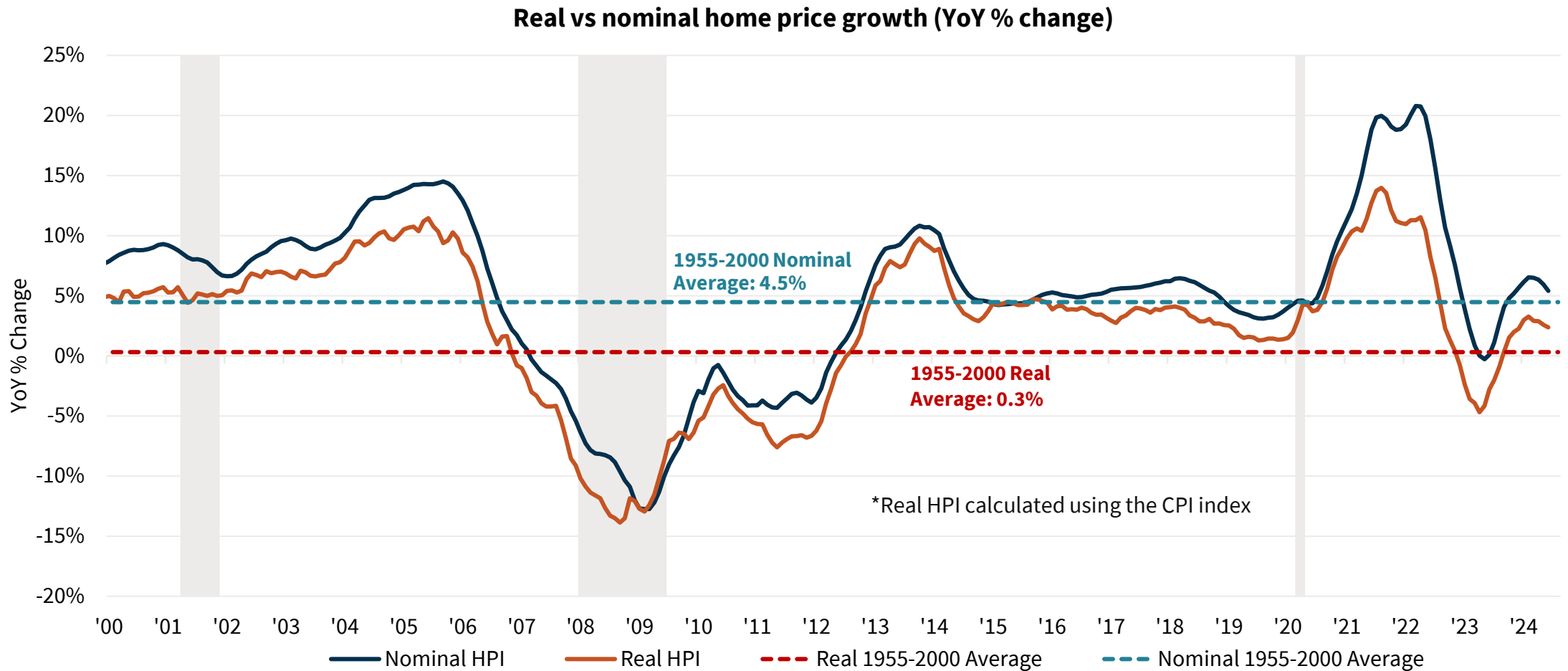
Insurance costs may help explain higher listings in Texas and Florida



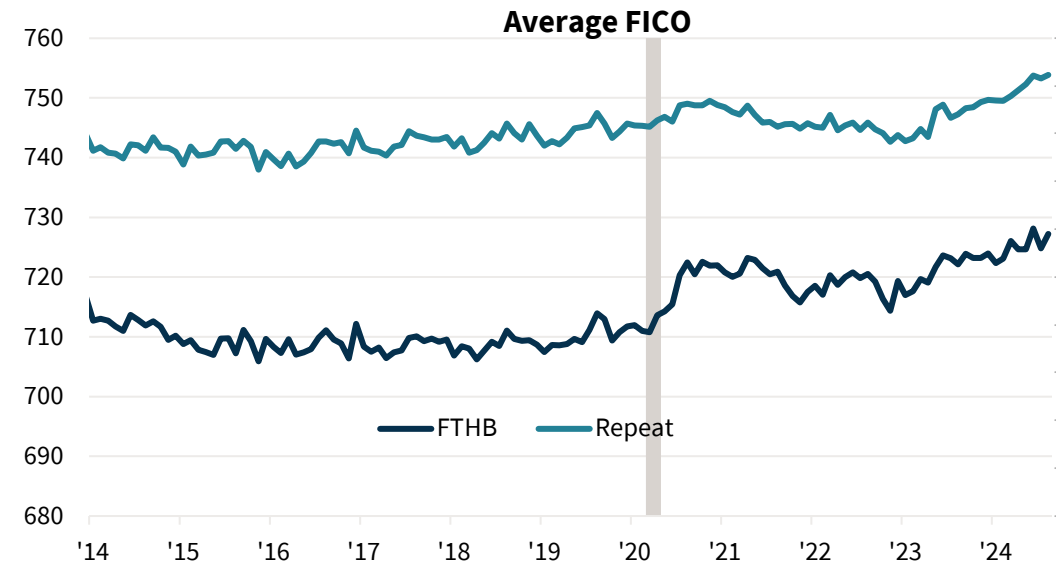
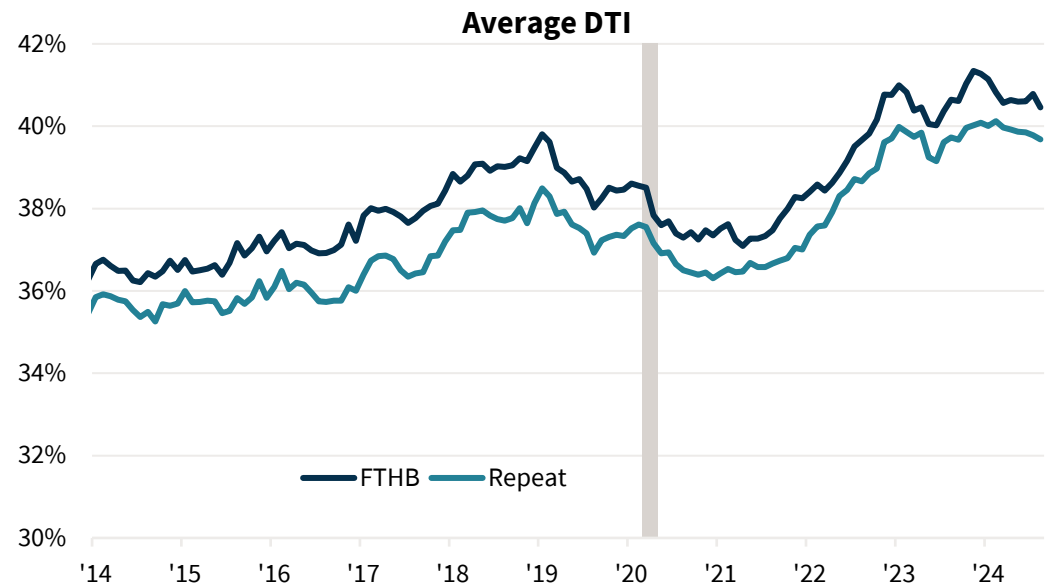
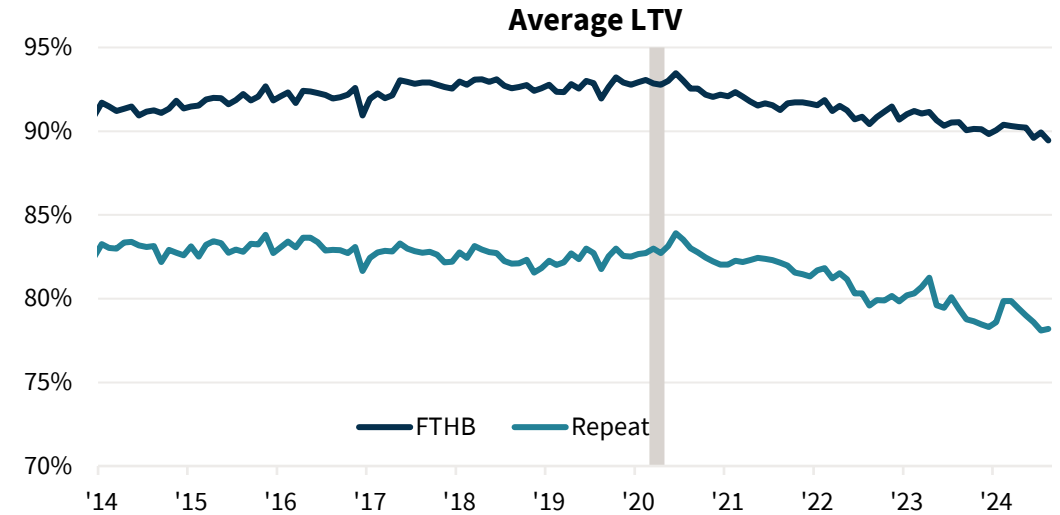
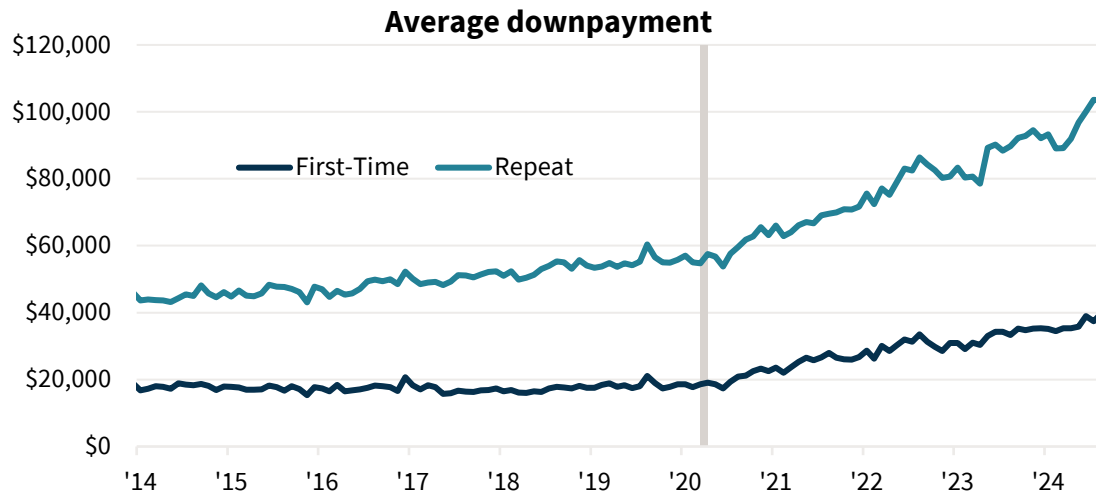
For top 100 metros, there is a strong relationship between listings and price growth



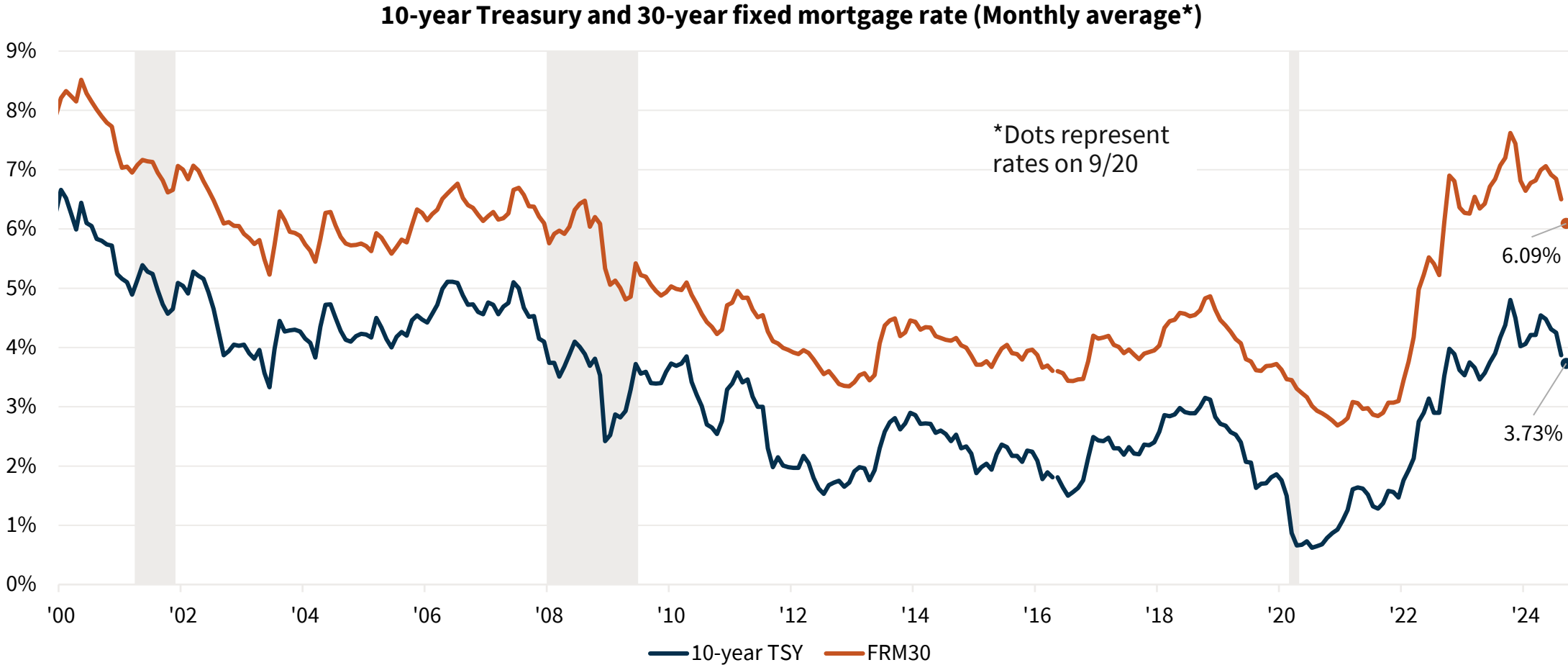
Home price growth has started to decelerate



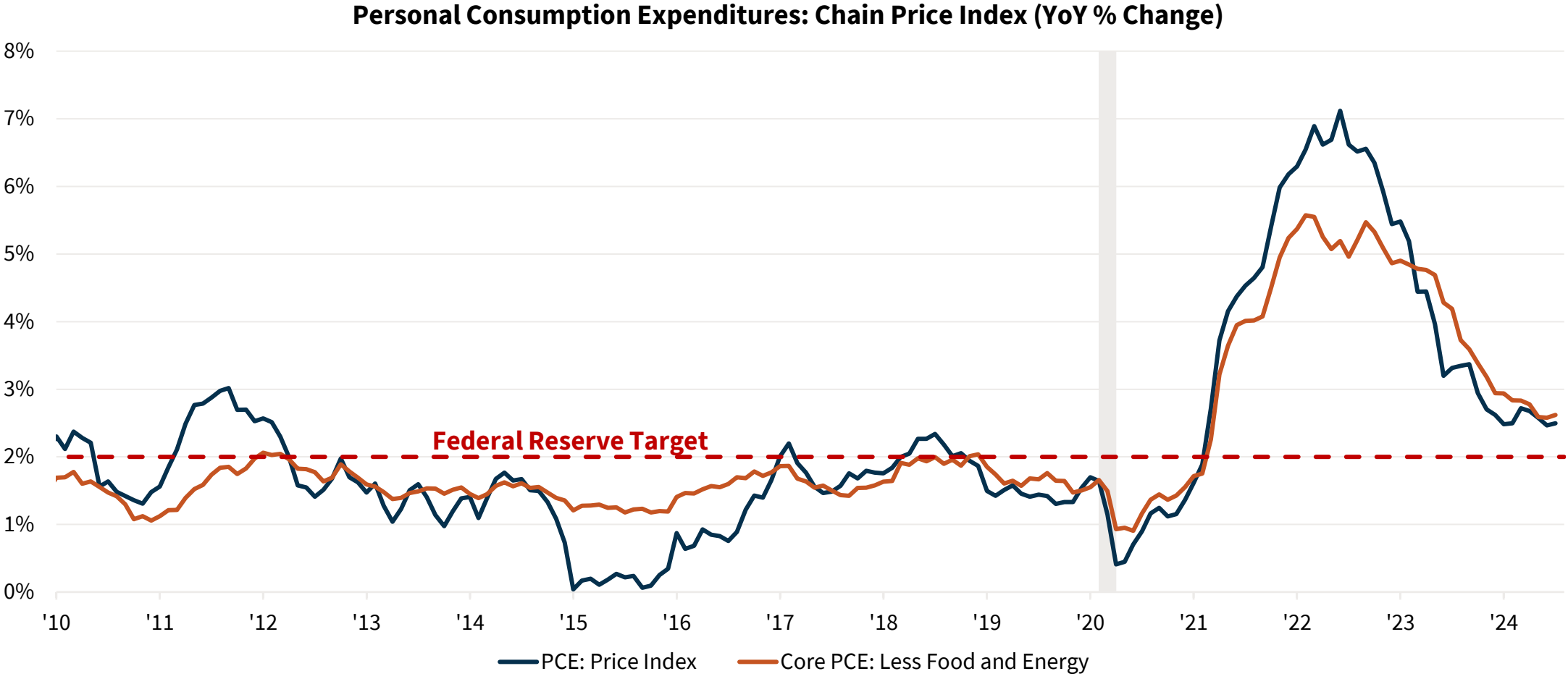
Recent homebuyers have needed a higher down payment and willingness to carry more debt



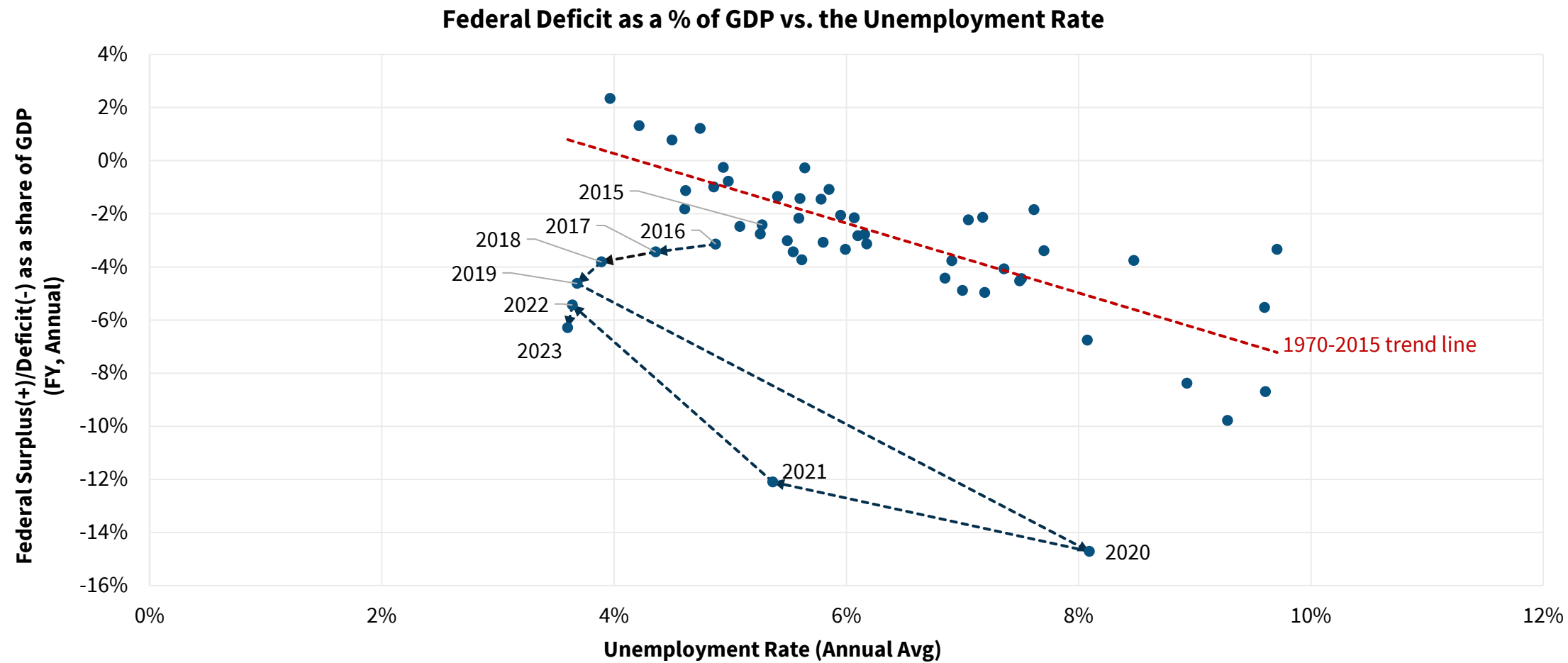
Rates have fallen recently in anticipation of Fed cuts, and will fall further as the Fed continues to cut



PCE inflation has decelerated, though shelter inflation remains elevated



Federal deficit as a share of GDP remains disconnected from pre-2015 trend



Macroeconomic outlook

	2022	2023	Forecast	
			2024	2025
Real GDP annual growth (% Q4-over-Q4)	0.7	3.1	2.0	1.8
Unemployment rate (% , Q4)	3.6	3.7	4.4	4.6
Core CPI (year-end, % year-over-year)	7.1	4.0	2.9	2.4
10-year Treasury bond yield (%, Annual average)	3.0	4.0	4.1	3.9
30-Year Fixed-Rate Mortgage (% , Annual average)	5.3	6.8	6.6	5.9

For the full forecast and economic commentary, visit: <https://www.fanniemae.com/research-and-insights/forecast>

Source: Fannie Mae Economic & Strategic Research September 2024 Forecast – Data in Forecast as of 9/10/2024 - Interest rate forecasts are based on rates from August 30, 2024



Housing and mortgage market outlook

	2022	2023	Forecast	
			2024	2025
10-Year Treasury (Annual Average)	3.0%	4.0%	4.1%	3.9%
30-Year Fixed-Rate Mortgage (Annual Average)	5.3%	6.8%	6.6%	5.9%
Single-Family Housing Starts (Percent Change Year-Over-Year)	1,005 thousand -10.8%	948 thousand -5.7%	993 thousand 4.8%	989 thousand -0.4%
Multifamily Housing Starts (Percent Change Year-Over-Year)	547 thousand 15.5%	472 thousand -13.7%	345 thousand -26.9%	368 thousand 6.6%
New Single-Family Home Sales (Percent Change Year-Over-Year)	641 thousand -16.9%	666 thousand 3.9%	680 thousand 2.2%	703 thousand 3.3%
Total Existing Home Sales (Percent Change Year-Over-Year)	5.030 million -17.8%	4.090 million -18.7%	4.062 million -0.7%	4.505 million 10.9%
Fannie Mae HPI (Percent Change Q4/Q4)	7.9%	6.0%	6.1%	3.0%
Single-Family Purchase Mortgage Originations (Percent Change Year-Over-Year)	\$1,644 billion -13.5%	\$1,222 billion -25.7%	\$1,305 billion 6.8%	\$1,506 billion 15.4%
Single-Family Refinance Mortgage Originations (Percent Change Year-Over-Year)	\$730 billion -72.7%	\$248 billion -66.1%	\$375 billion 51.5%	\$649 billion 73.1%
Total Single-Family Mortgage Originations (Percent Change Year-Over-Year)	\$2,374 billion -48.1%	\$1,470 billion -38.1%	\$1,680 billion 14.3%	\$2,155 billion 28.3%

For the full forecast and economic commentary, visit: <https://www.fanniemae.com/research-and-insights/forecast>

Source: Fannie Mae Economic & Strategic Research September 2024 Forecast – Data in Forecast as of 9/10/2024 - Interest rate forecasts are based on rates from August 30, 2024.

The Fannie Mae HPI forecast is updated on the first month of every quarter (last updated July 2024)





Multifamily Market Outlook

Kim Betancourt, CRE

Vice President

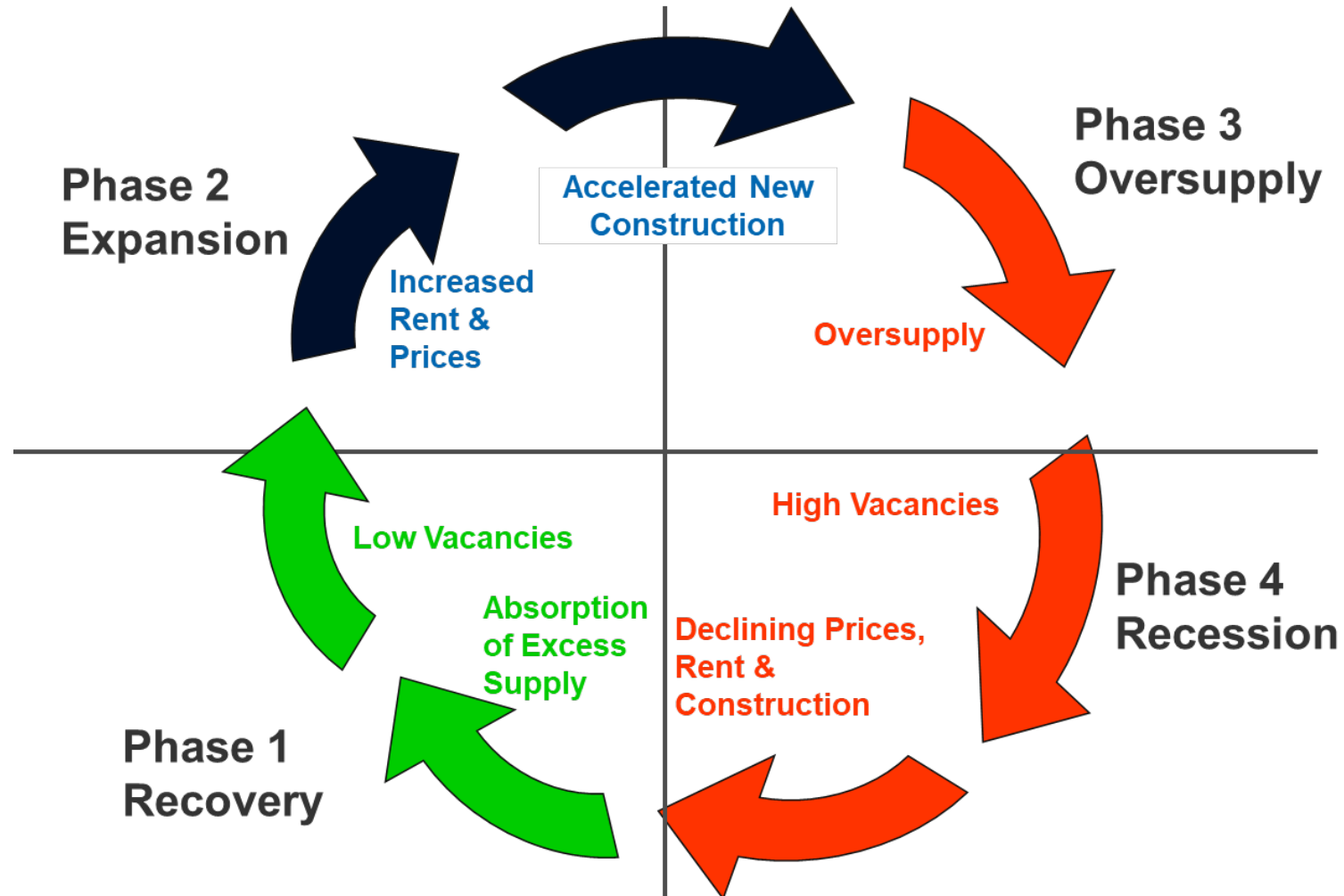
Multifamily Economics and Strategic Research

September 2024



Multifamily Market Fundamentals

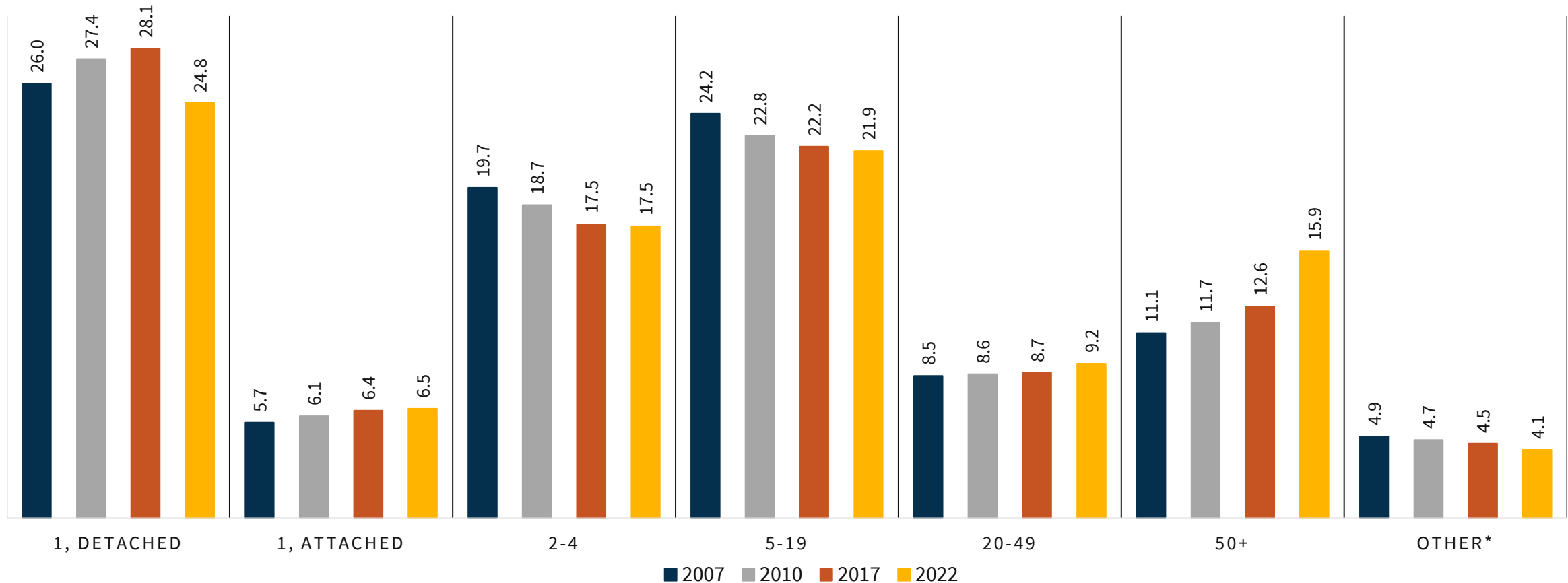
The Life Cycle of Commercial Real Estate



Multifamily Market Fundamentals

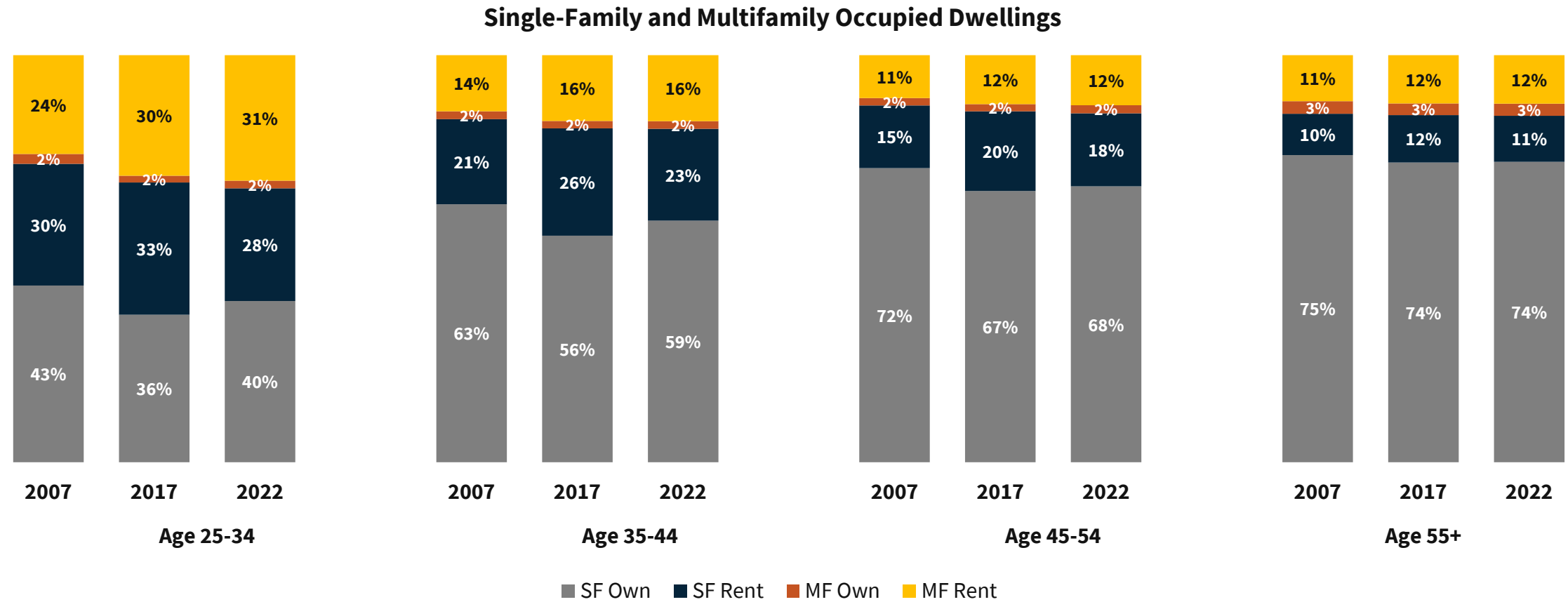
There are more renters in one-to-four-family units than in five-or-more-unit buildings...

Distribution of Renter Occupied Stock (%) by Structure



Multifamily Market Fundamentals

... and because many renters tend to be younger, they tend to live in multifamily buildings.



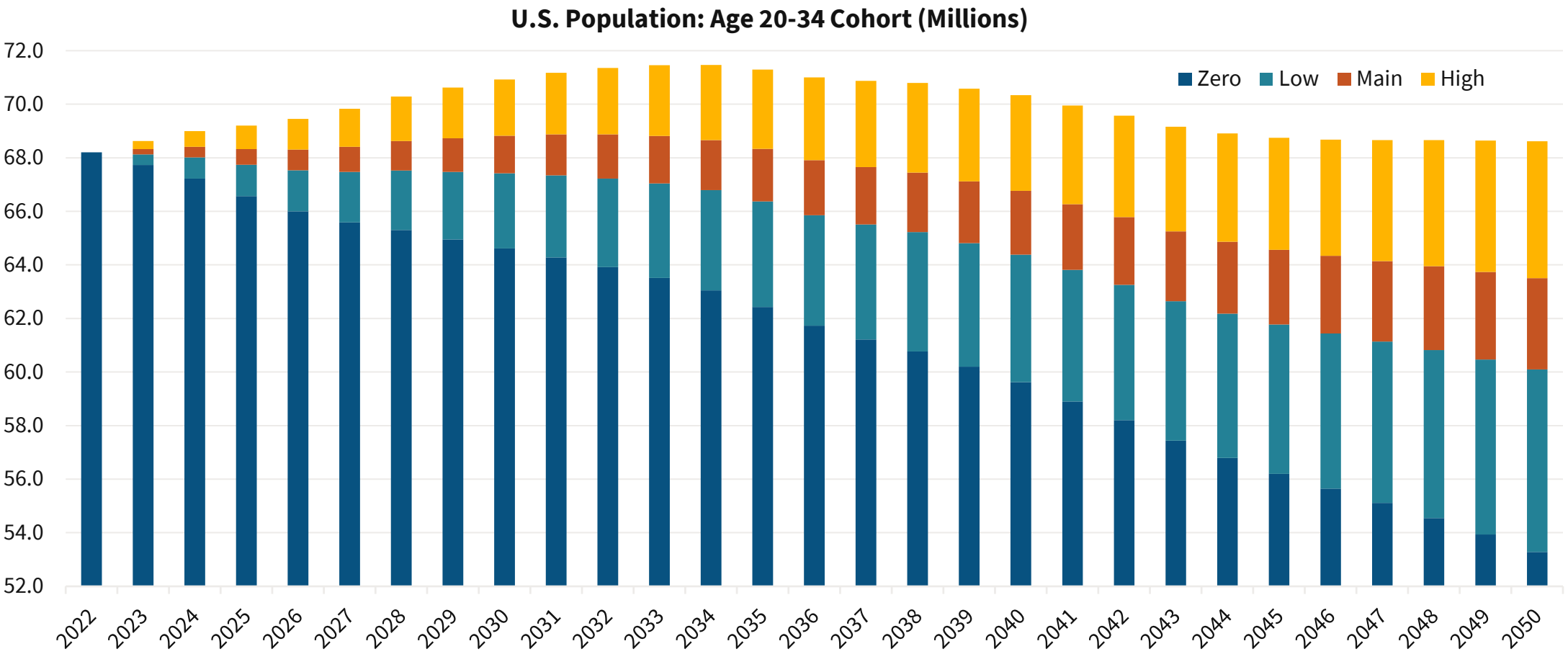
Source: Fannie Mae ESR computations from the American Community Survey Public Use Microdata Sample 1-year estimates, 2007, 2017 and 2022.

Note: Single-family includes housing units in structures with 1-4 units. Multifamily includes units located in 5+ unit structures. Excludes manufactured/mobile homes and other less common types of housing units (e.g., boat or RV).



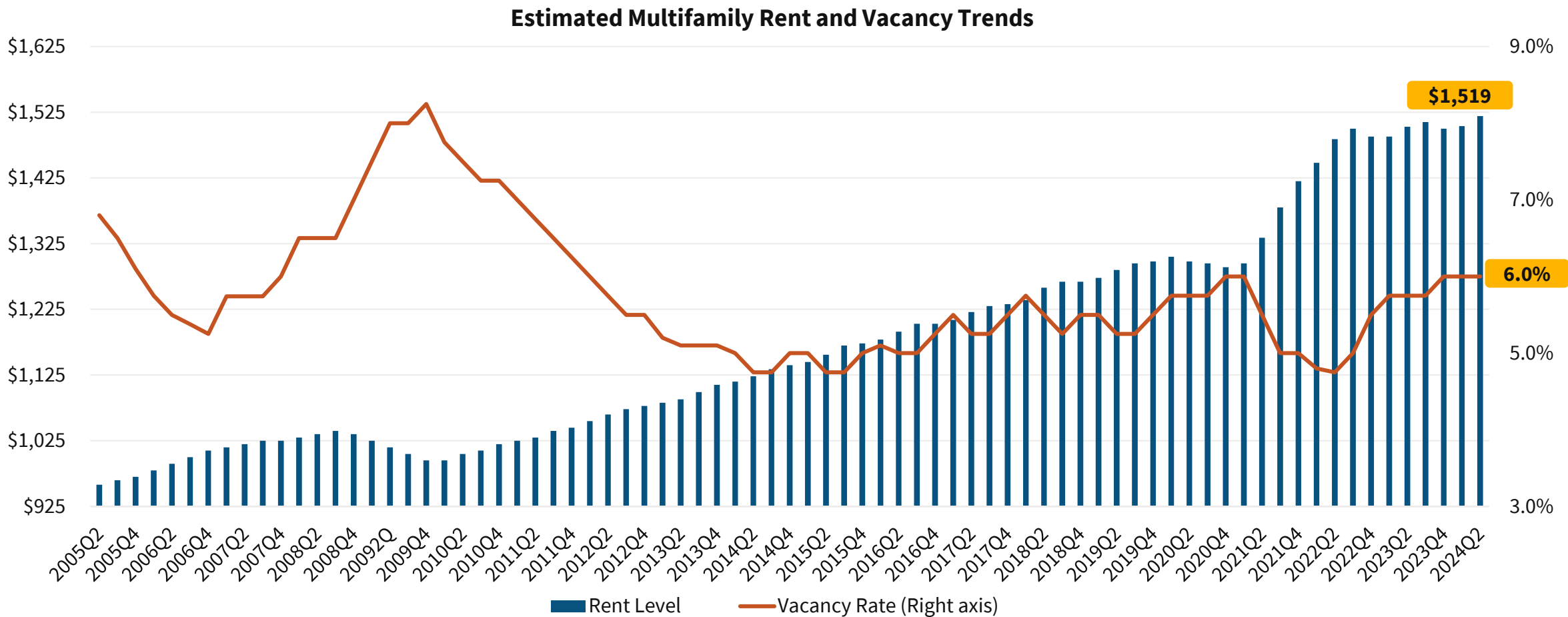
Multifamily Market Fundamentals

Demographics are in the rental sector's favor over the next 10 years, though the level of immigration will have a great influence on the size of this age cohort.



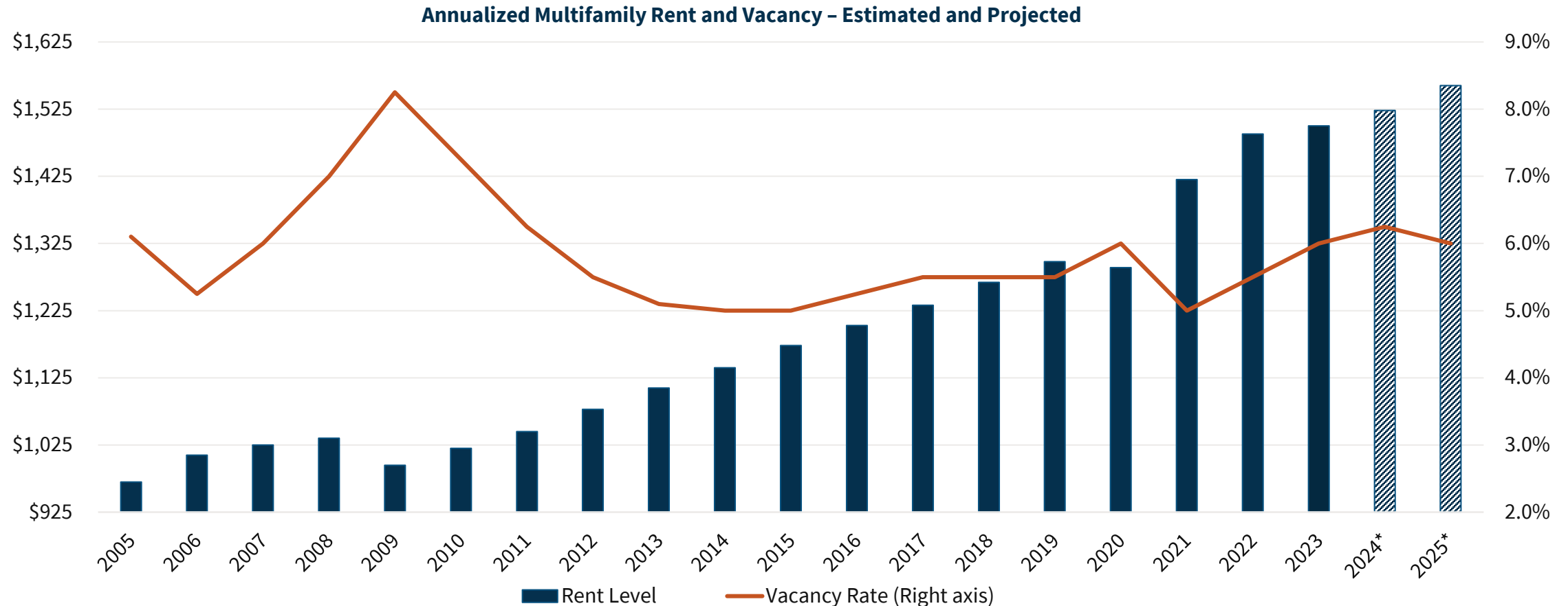
Multifamily Market Fundamentals

The vacancy rate is estimated to have remained stable in 2Q2024 with an increase in rent growth.



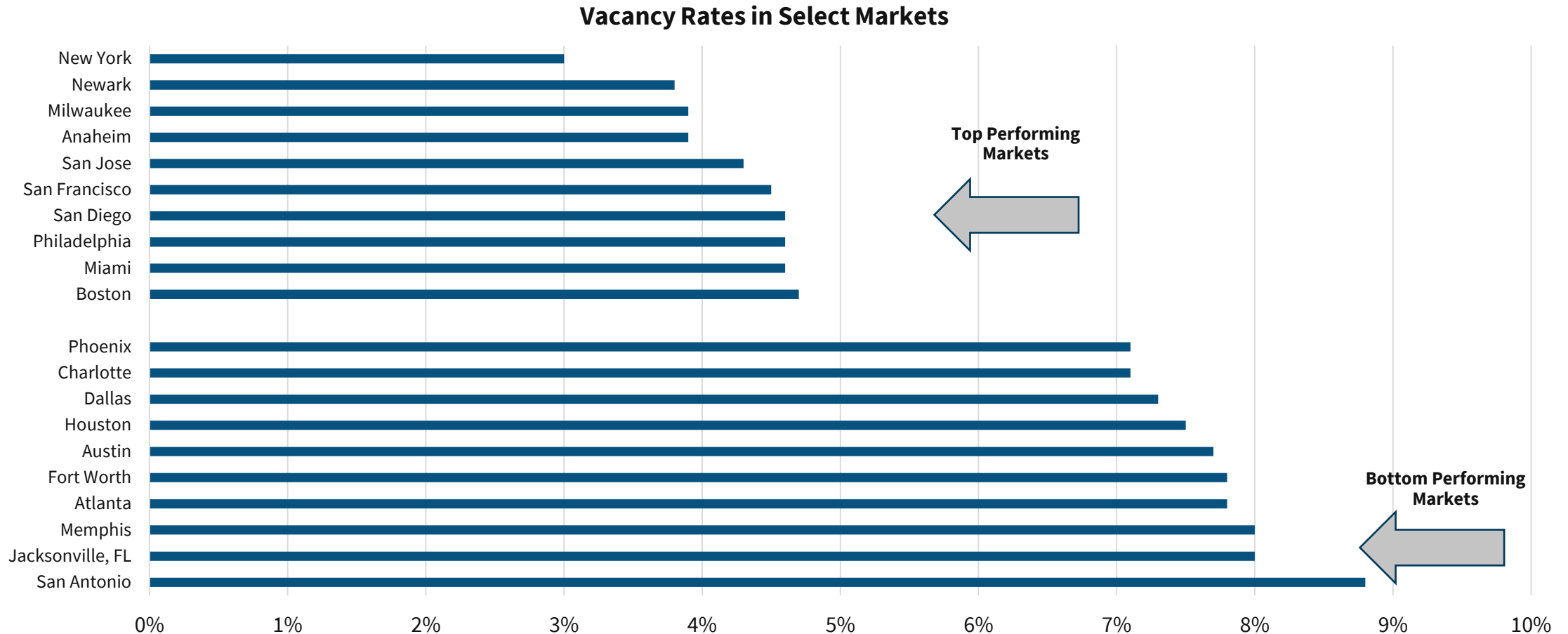
Multifamily Market Fundamentals

We estimate that annualized rent could end 2024 between 1.0% and 1.5%. The vacancy rate could increase to 6.25% in 2024 or early 2025 due to anticipated completions.



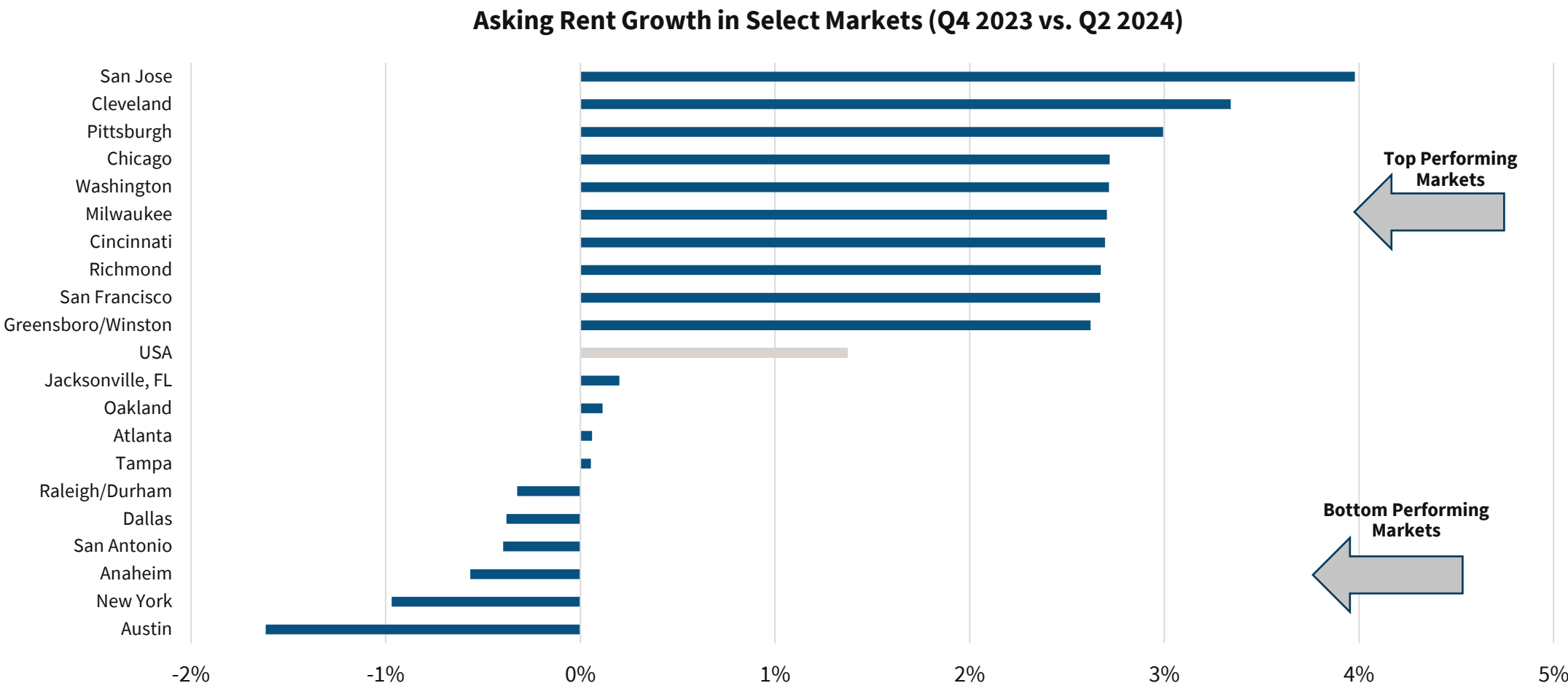
Multifamily Market Fundamentals

Multifamily rental demand differs depending upon the metro...



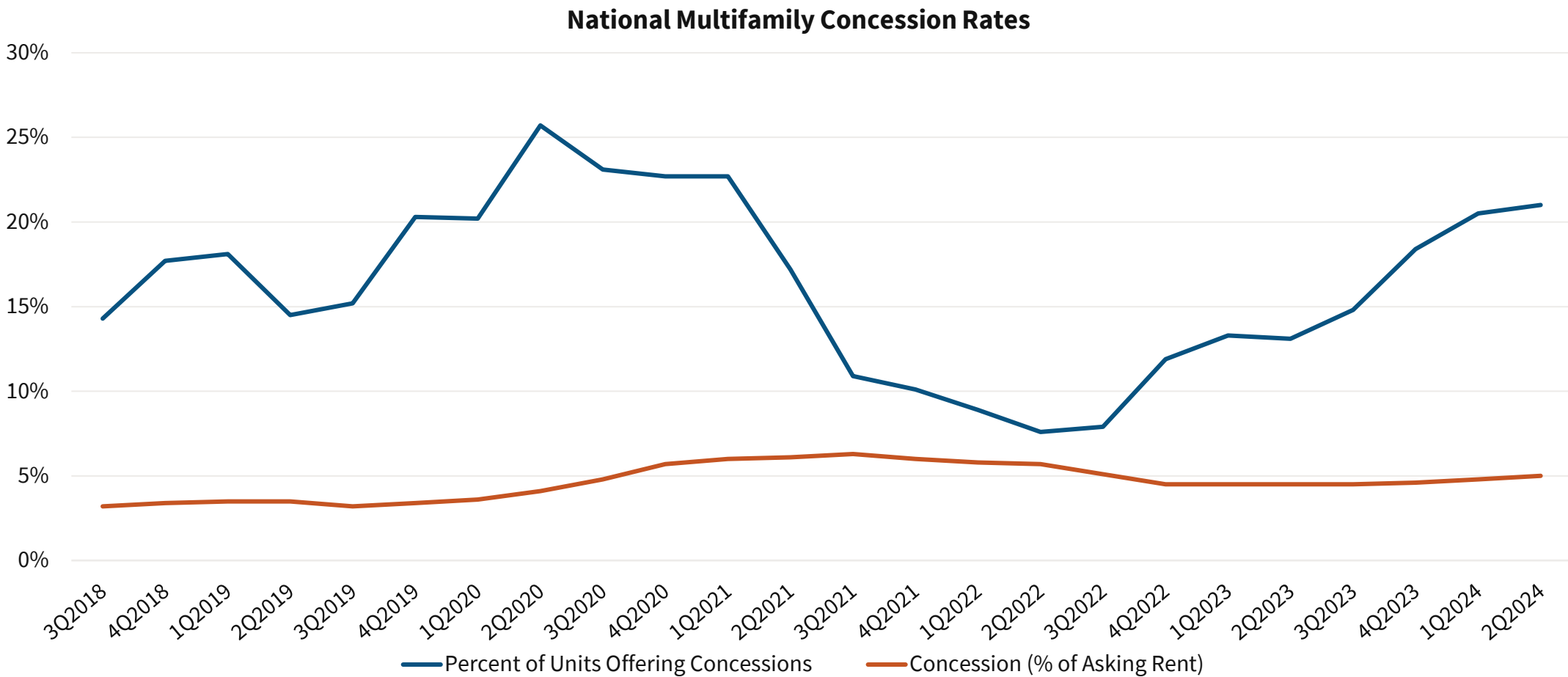
Multifamily Market Fundamentals

... as does rent growth.



Multifamily Market Fundamentals

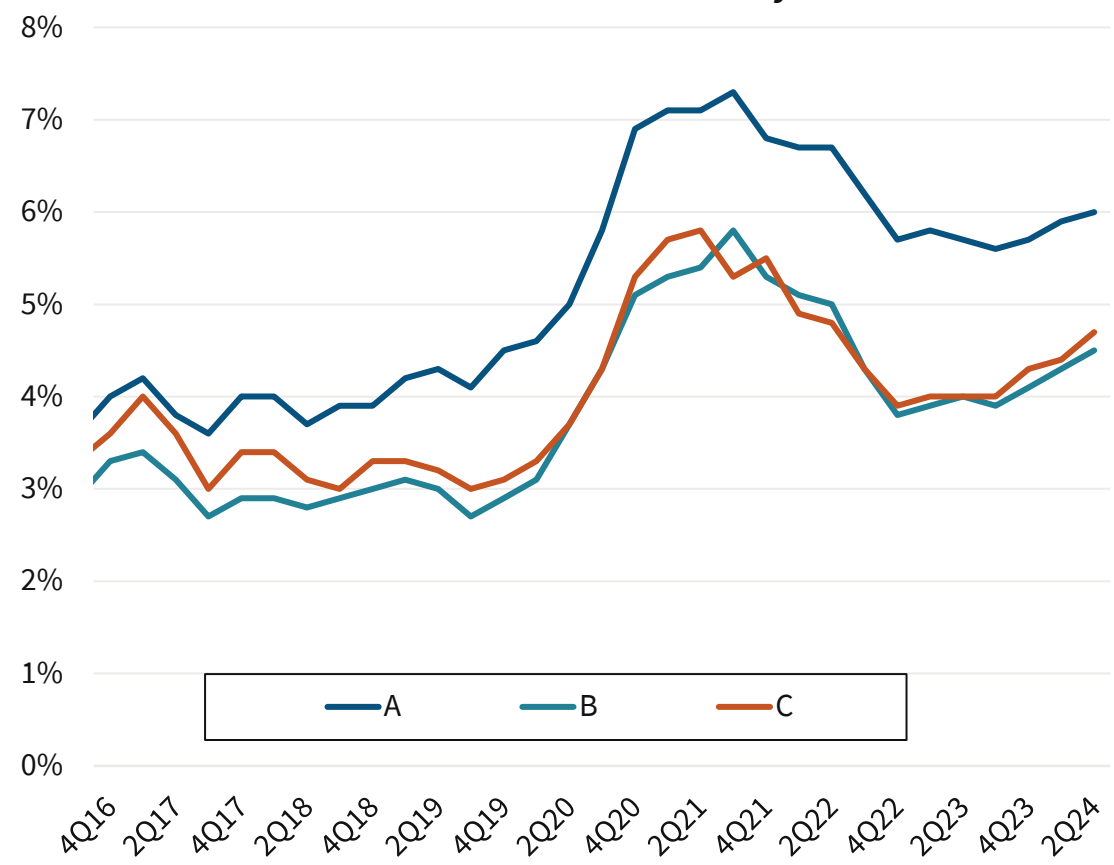
Concession rates haven't moved all that much, but the percentage of units offering concessions has been rising for awhile now...



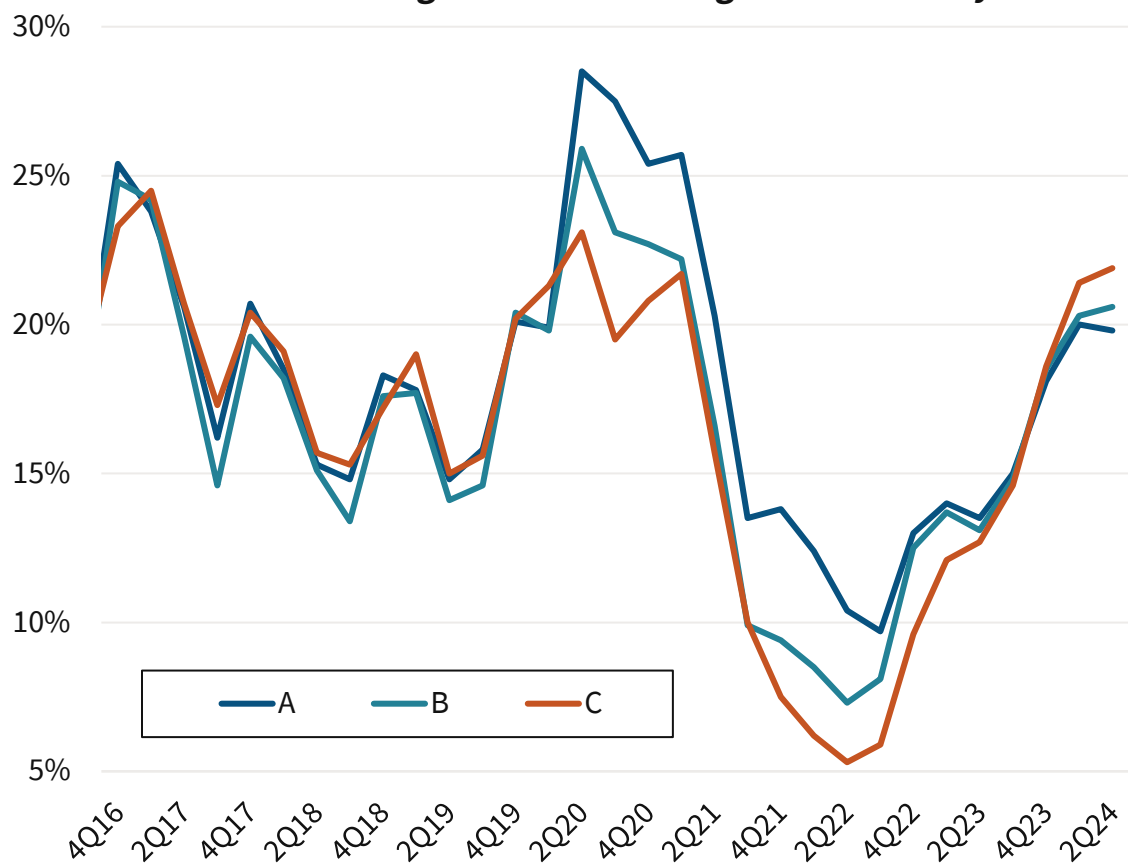
Multifamily Market Fundamentals

... for all classes of units.

National Concession Rate by Class

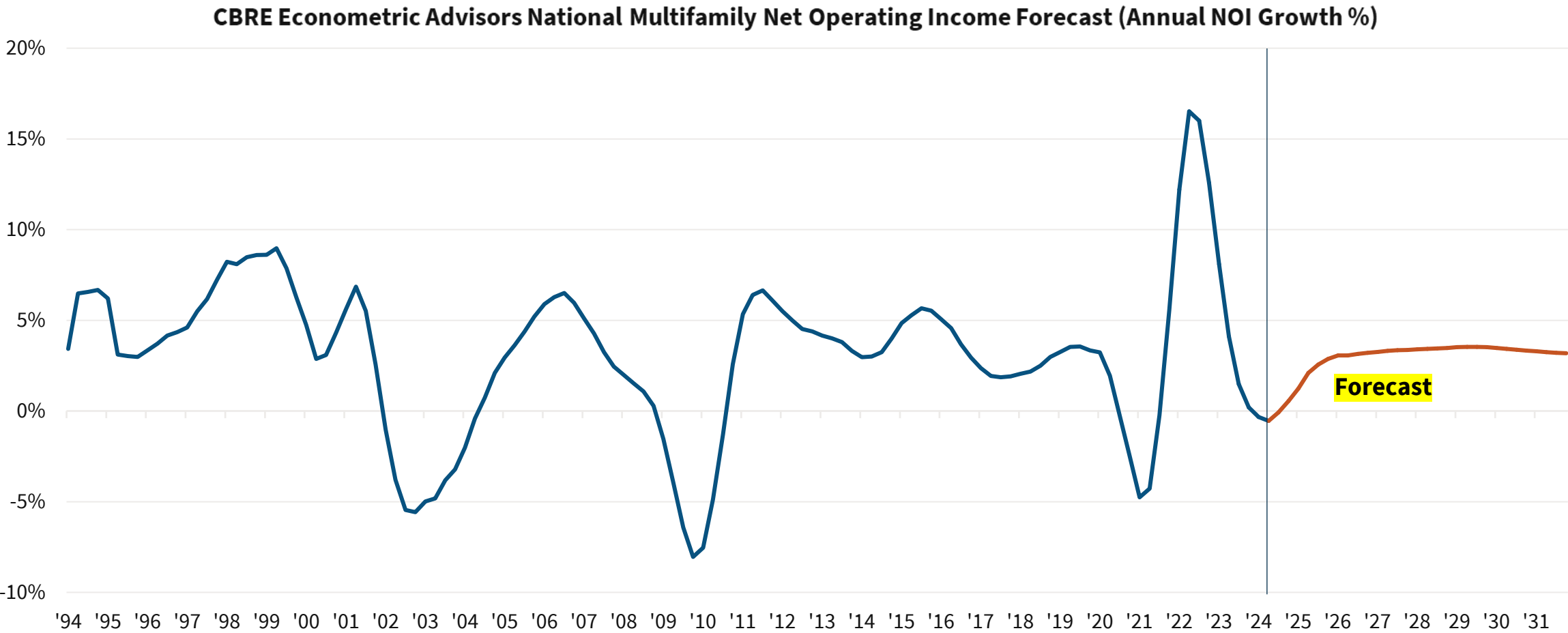


National Percentage of Units Offering Concessions by Class



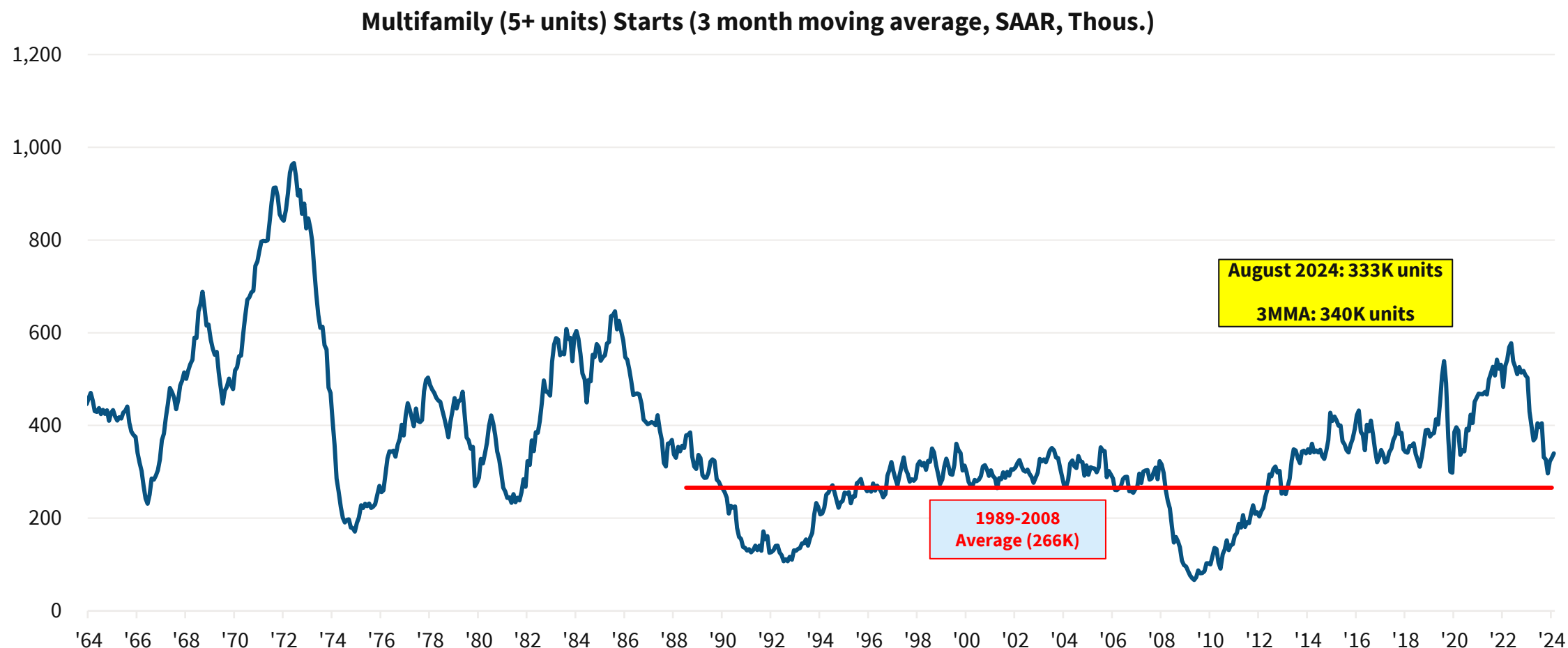
Multifamily Market Fundamentals

Net operating income is forecasted to bottom out in 2024 and then stabilize over the long-term.



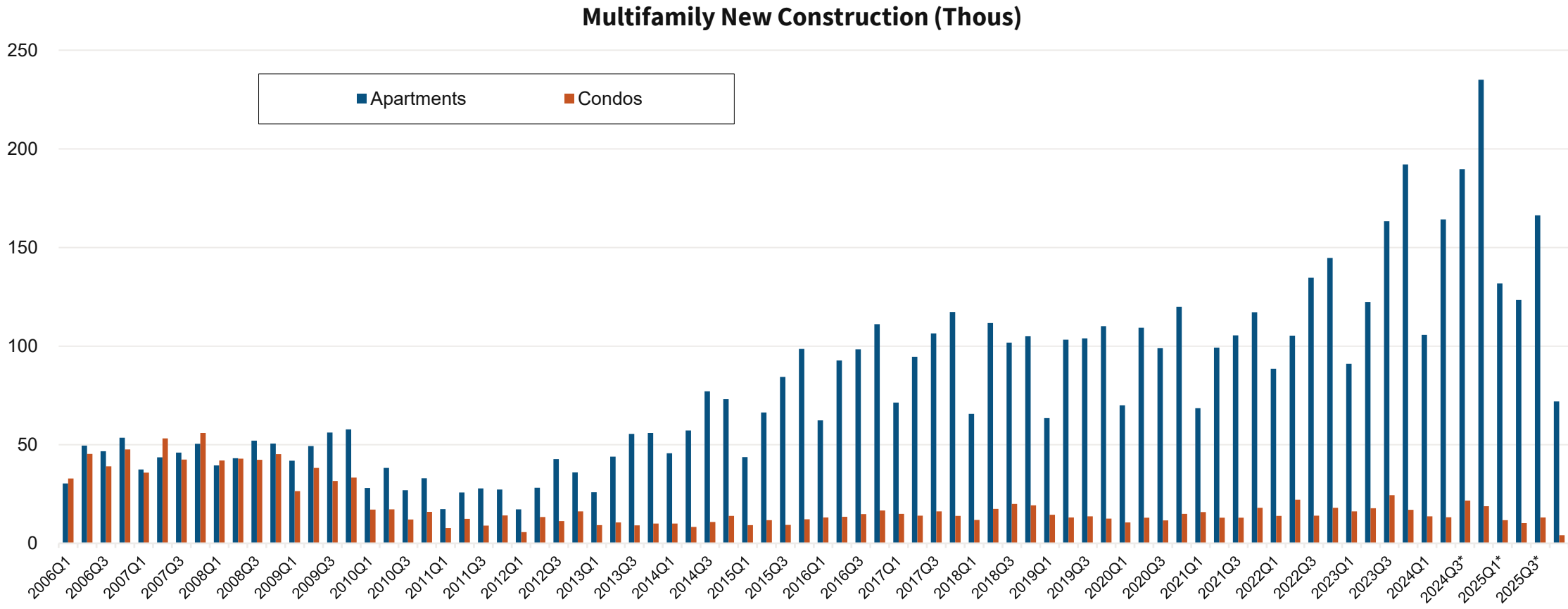
Multifamily Market Fundamentals

Multifamily new construction is well below recent levels...



Multifamily Market Fundamentals

... and there are more than 1 million units underway...

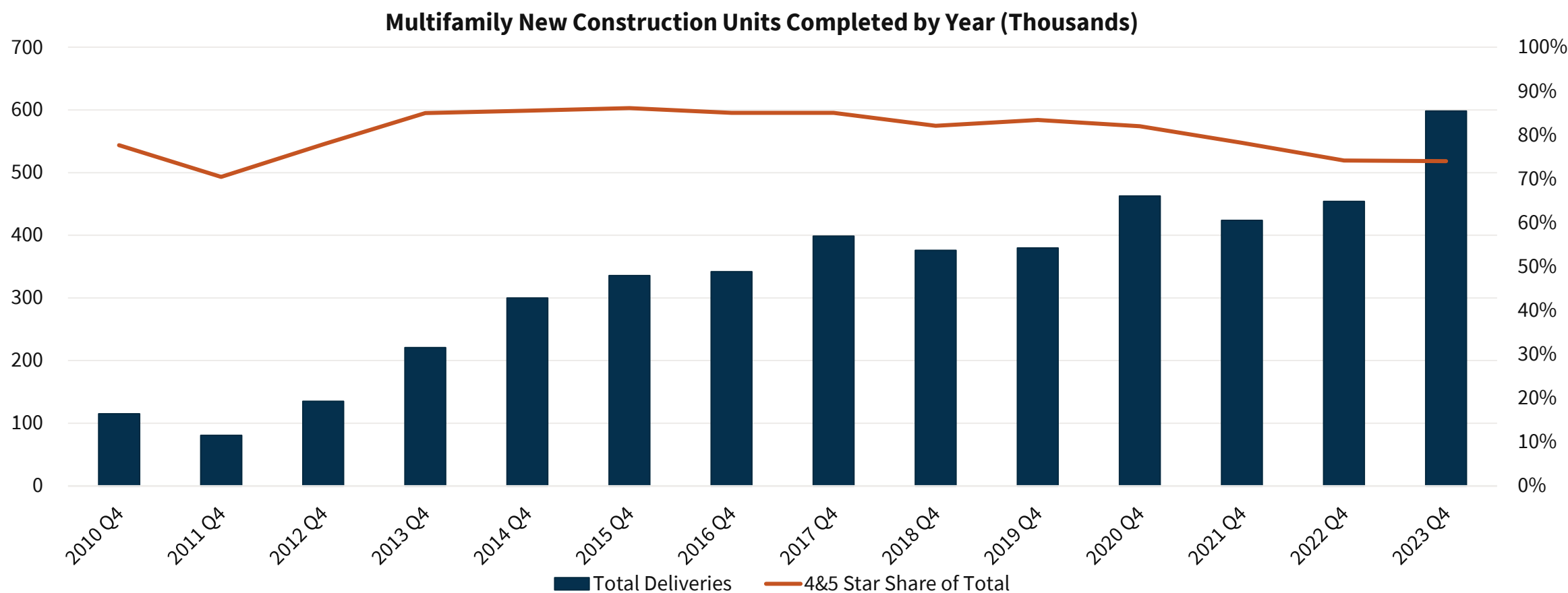


NOTE: Supply Track data is not an actual forecast of activity, it is a monitor of activity reported on to-date. As more projects are planned and tracked, figures in future periods might go up.
* Projected



Multifamily Market Fundamentals

...most of which have consisted of more expensive Class A units...

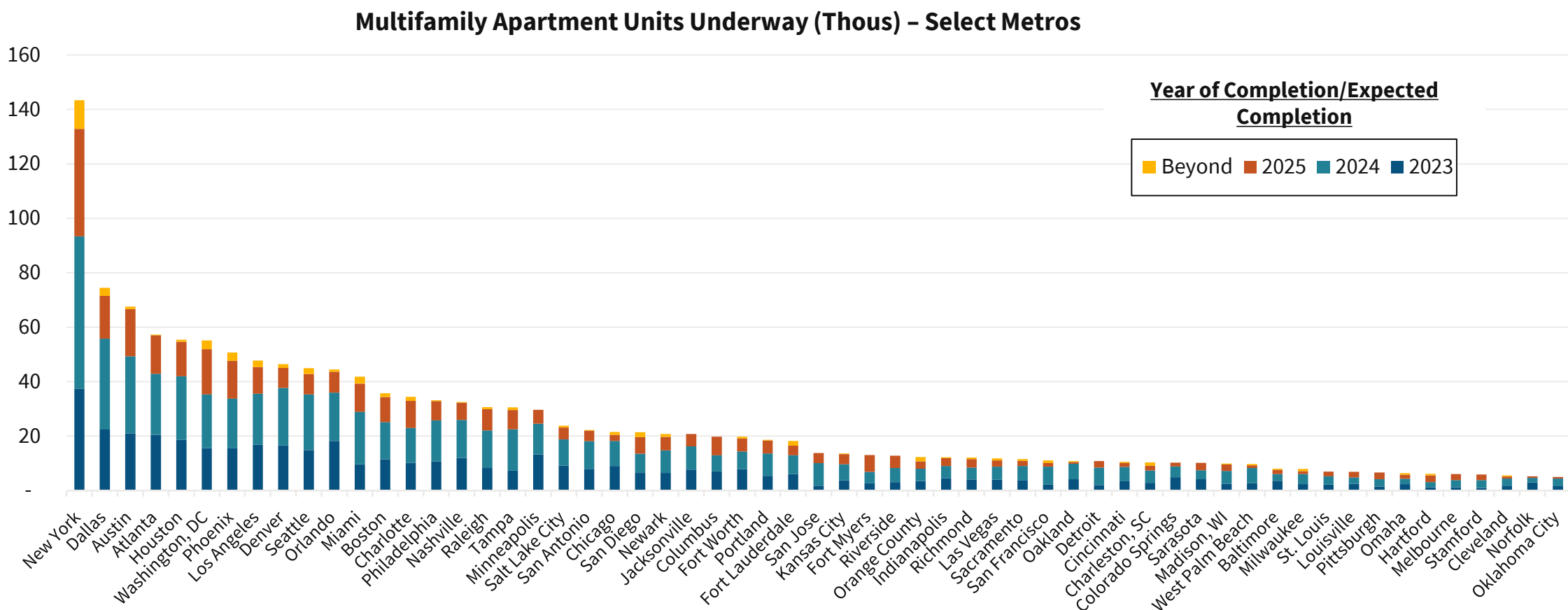


Notes: Star ranking based on quality of materials, amenities, and location with four- and five-star properties having the best of all three.



Multifamily Market Fundamentals

... with many located primarily in about 15 metros...

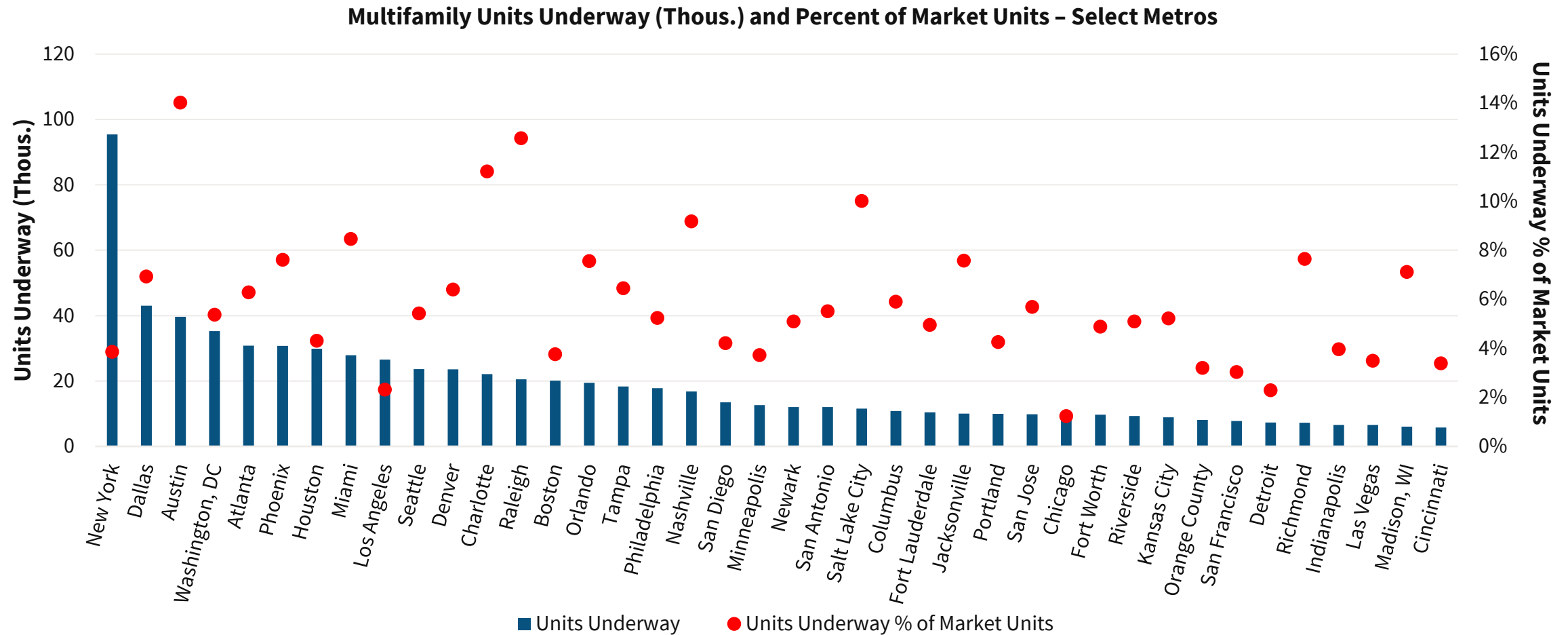


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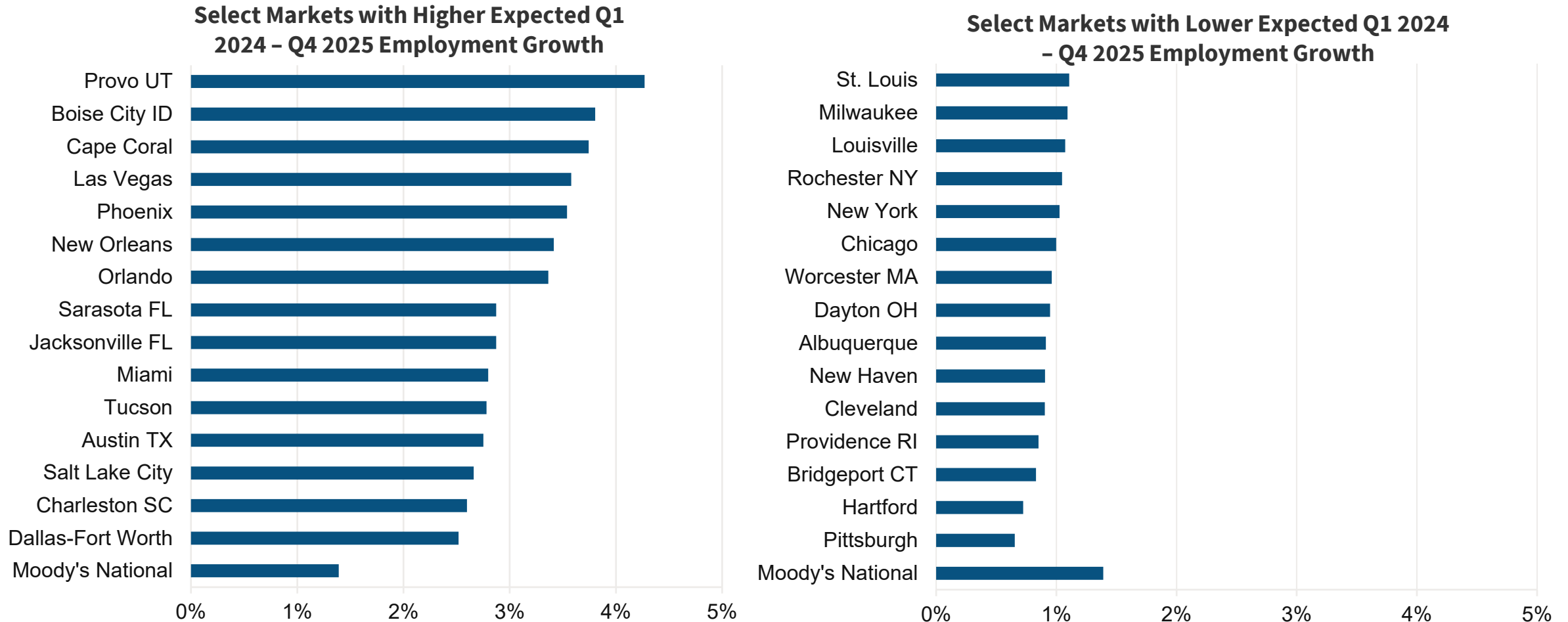
Multifamily Market Fundamentals

... and several of these growing metro areas have a sizeable number of new units underway compared to the market's existing inventory...



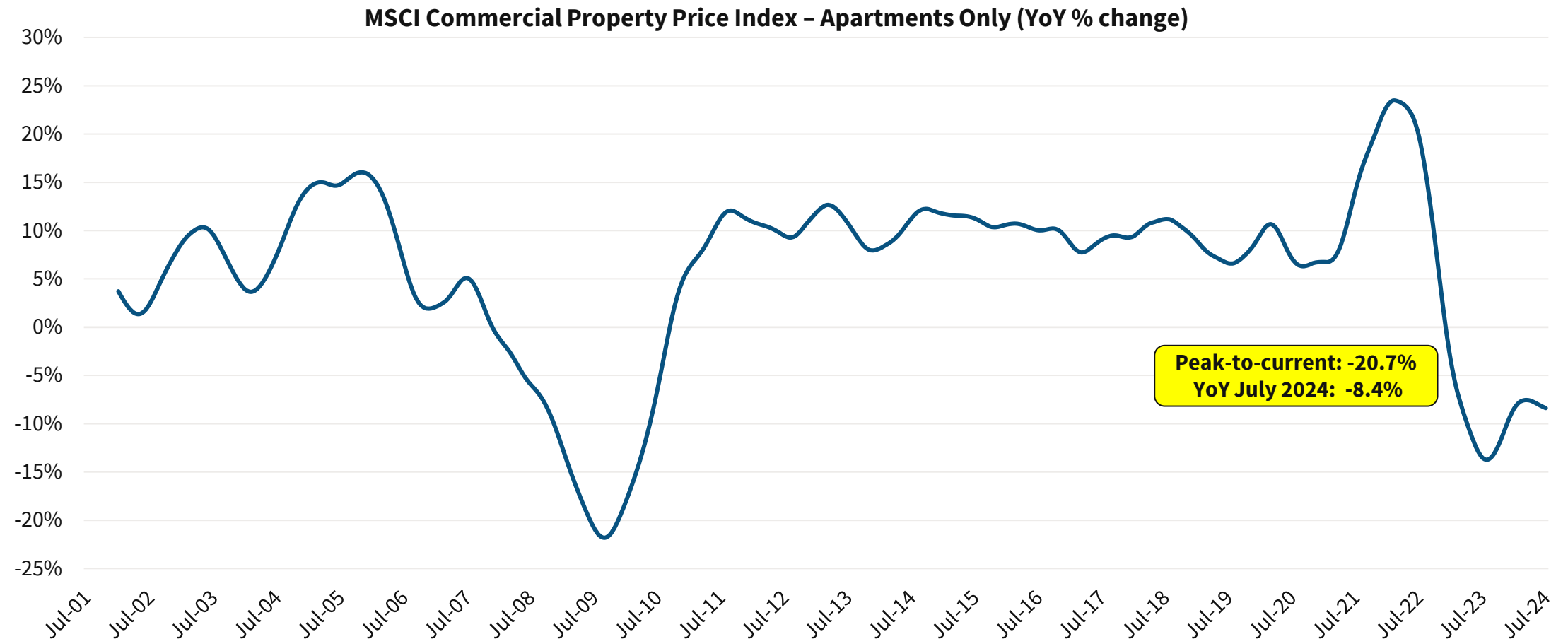
Multifamily Market Fundamentals

... but new job growth should help create new demand in some of these places – at least in the short-term.



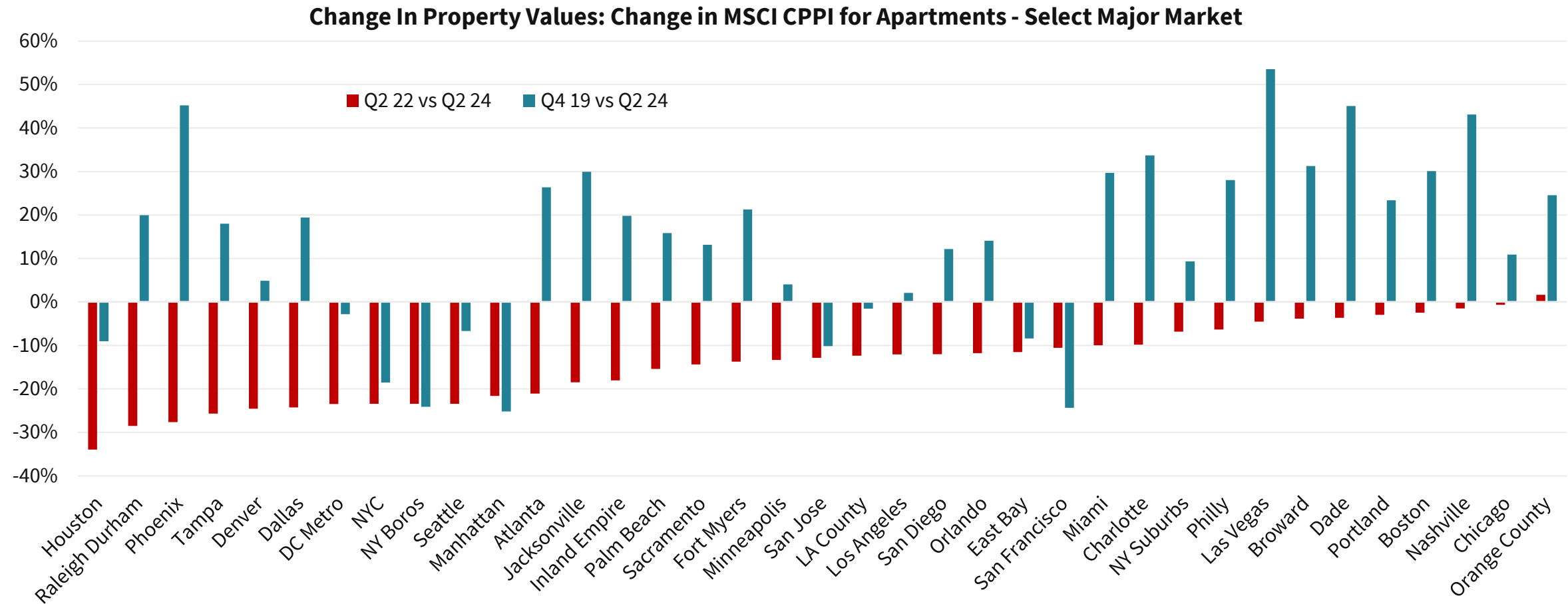
Multifamily Market Fundamentals

Peak-to-current price decline for multifamily buildings is at nearly 21%, and year-over-year price growth declines remain negative, due to a combination of unsustainable pandemic-related price appreciation, higher interest rates, below-average rent growth, higher operating expenses due to elevated inflation, declining NOI, and new supply that will total more than 1 million new units added between 2023 and 2025.



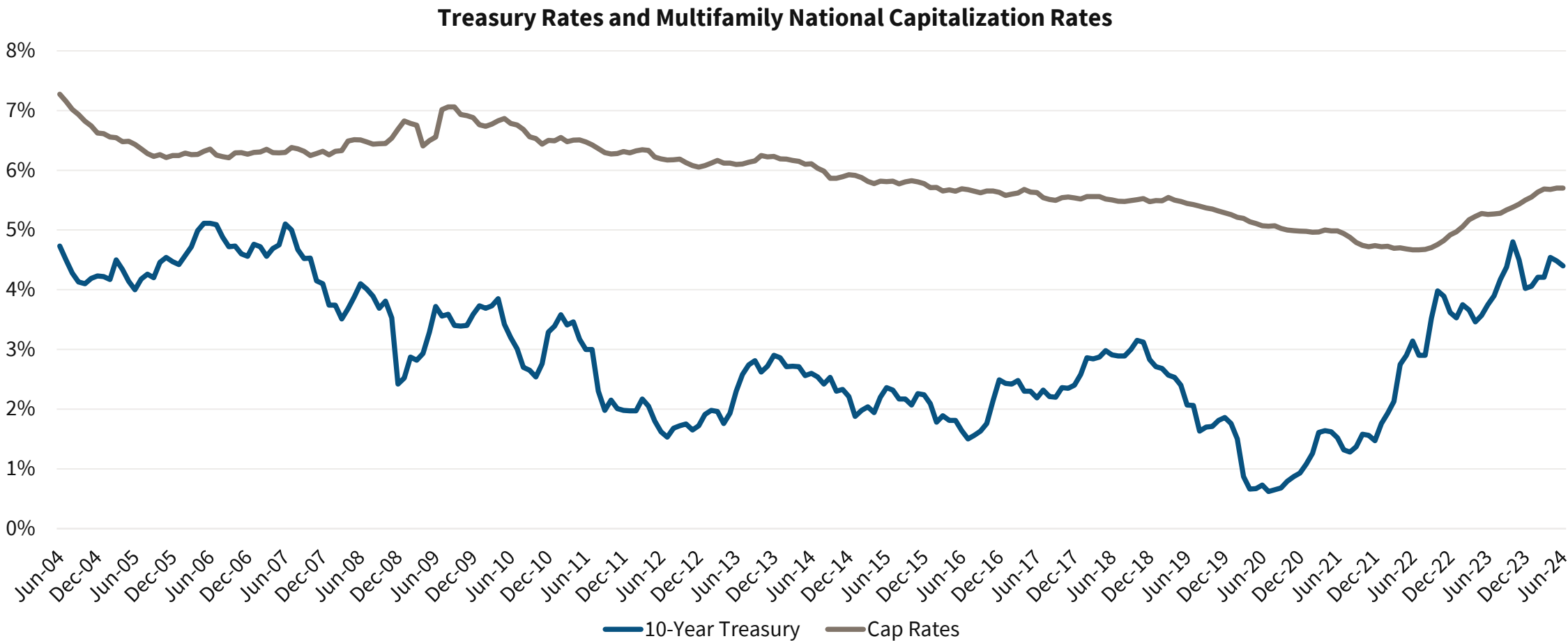
Multifamily Market Fundamentals

... but while in nearly every major market property values are lower now than they were in mid-2022, most are still higher compared to the end of 2019. Houston, New York, San Francisco, Washington DC, and Seattle are some notable exceptions with Q2 2024 values below 2019 levels.



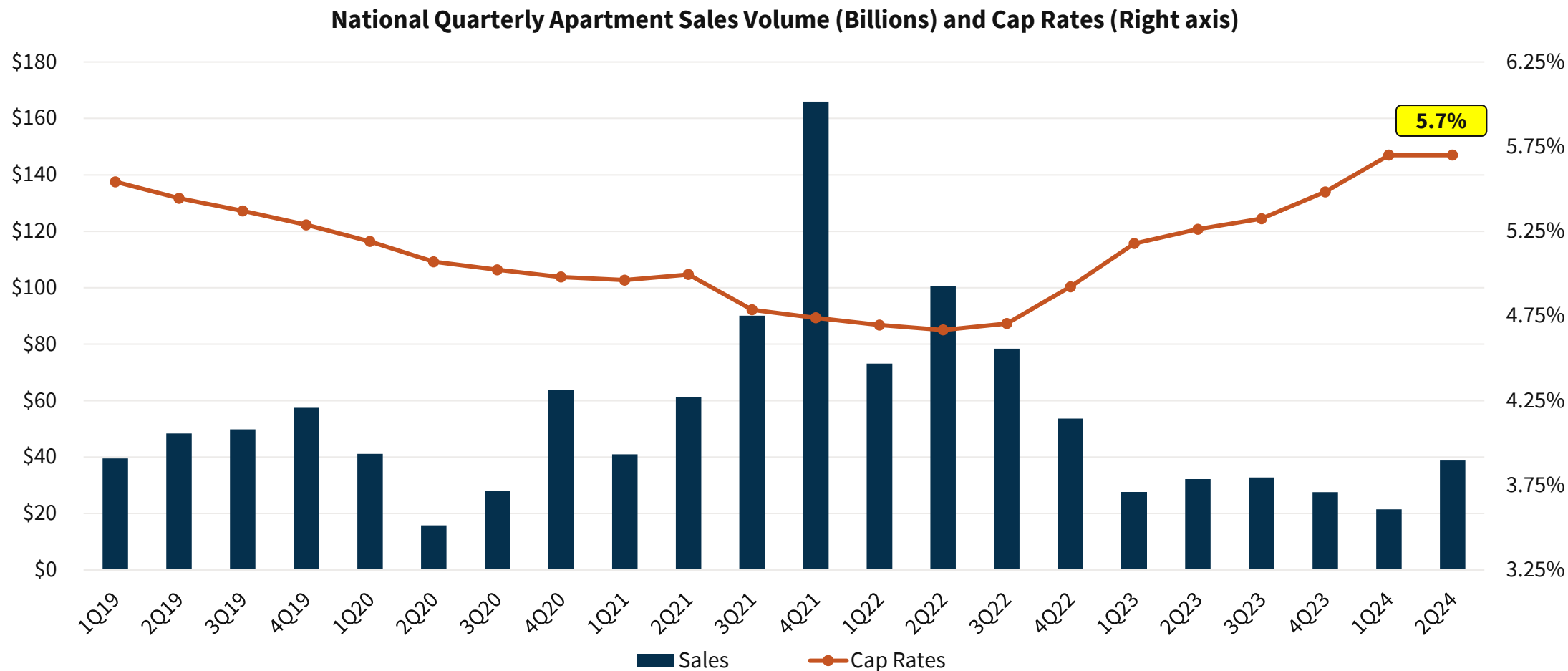
Multifamily Market Fundamentals

Cap rates are starting to stabilize...



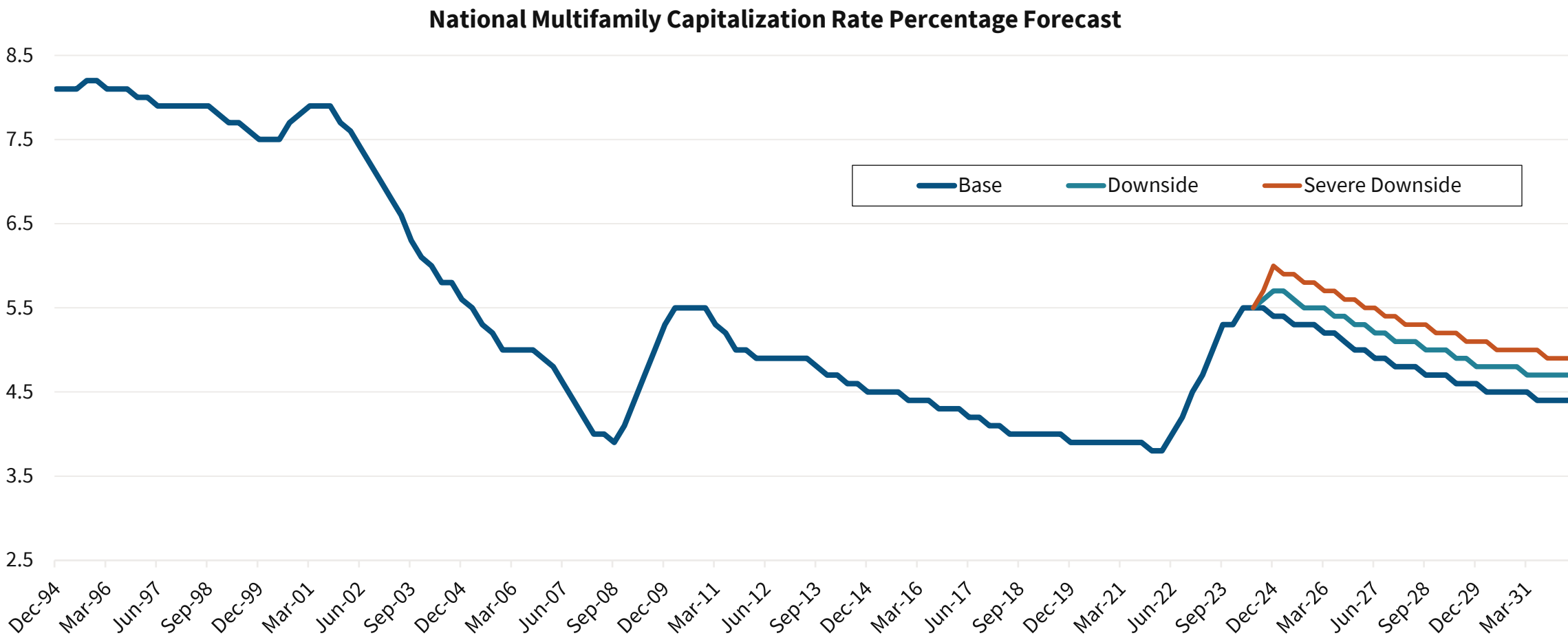
Multifamily Market Fundamentals

... and investment in multifamily starting to show some green shoots?



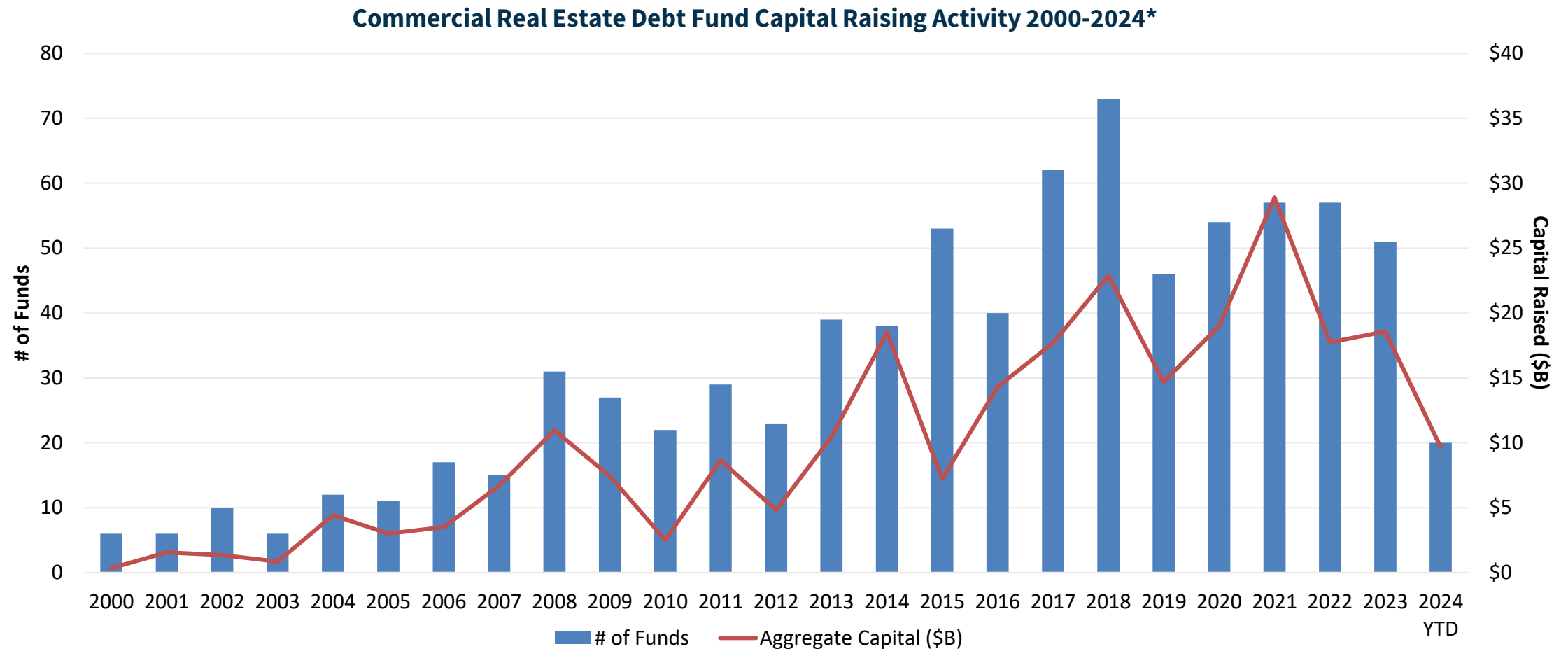
Multifamily Market Fundamentals

Forecasts are anticipating a return to higher but more normalized cap rate levels within the next few years.



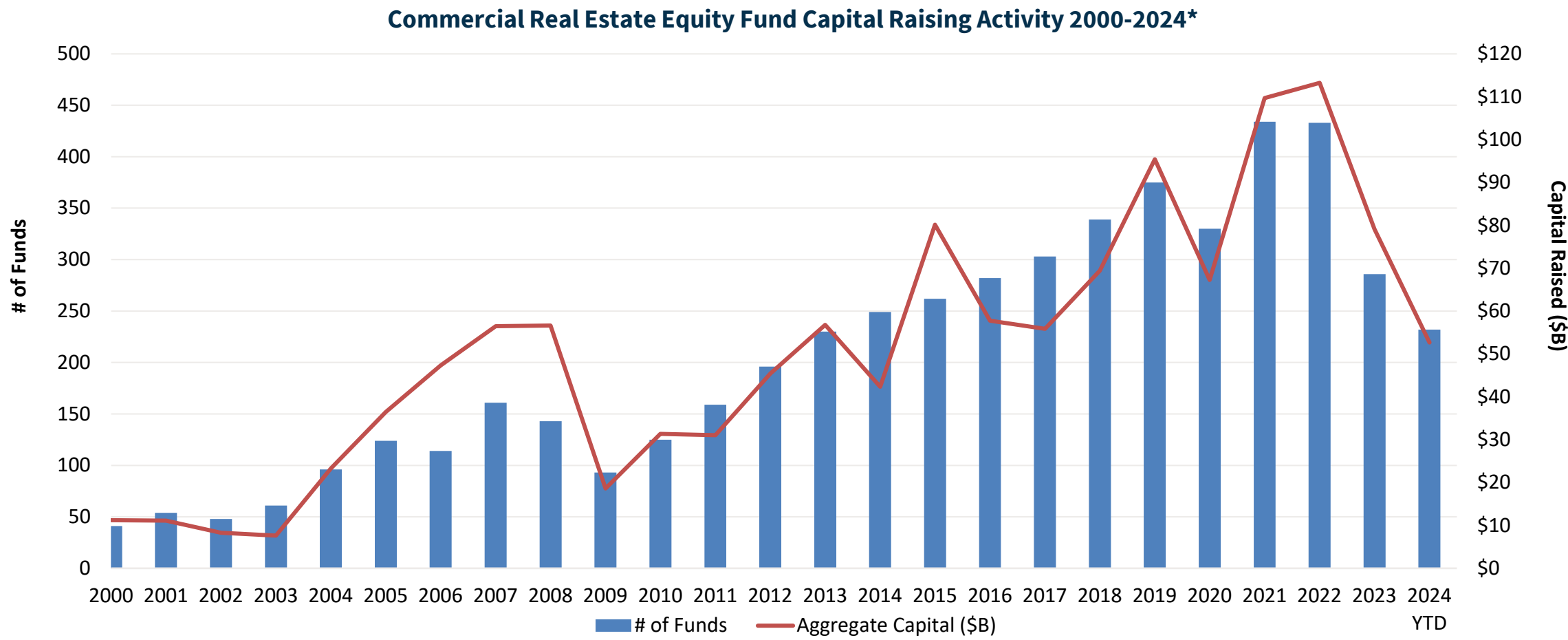
Multifamily Market Fundamentals

CRE Debt Fund capital raising activity continues to decline in 2024 after record levels in 2021 and 2022...



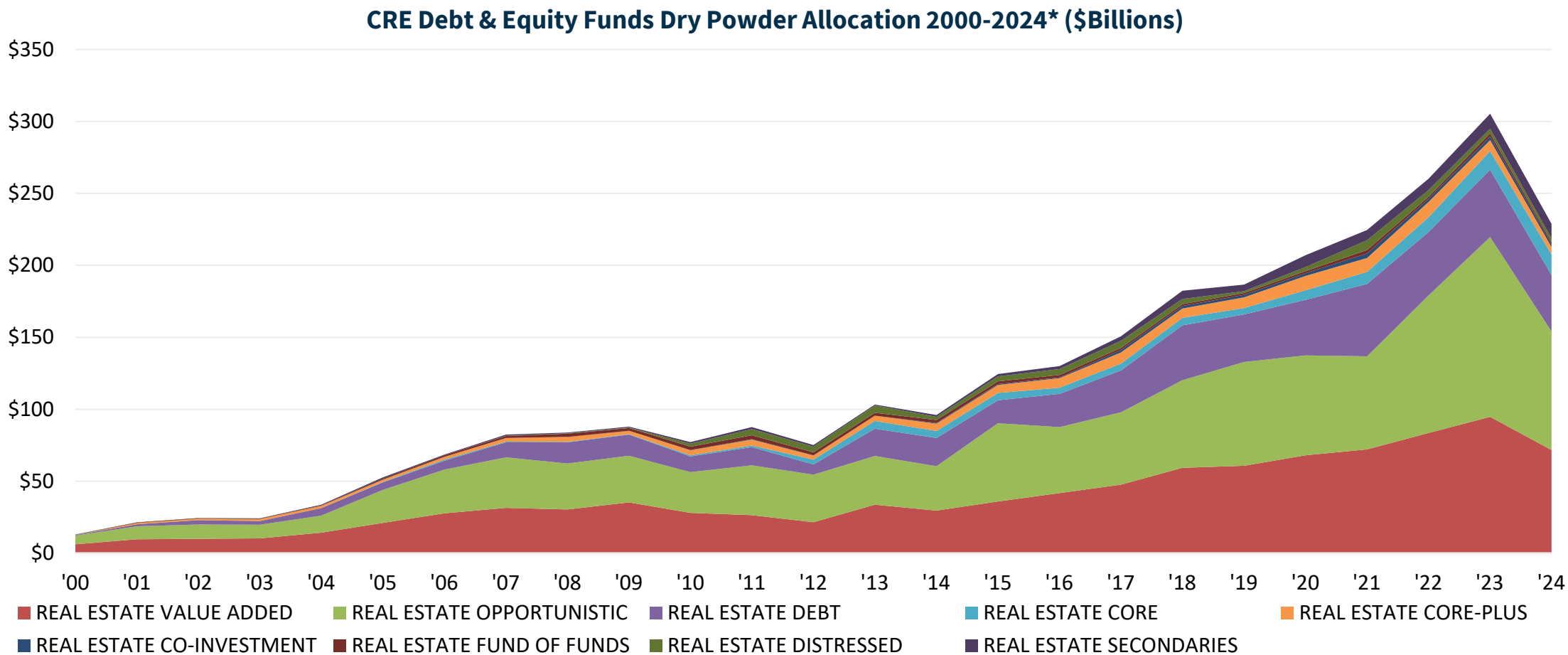
Multifamily Market Fundamentals

... as is CRE Equity Fund capital raising.



Multifamily Market Fundamentals

Dry Powder allocations for various commercial real estate strategies are still elevated despite lower amounts of capital raised, however, cumulative dry powder allocations are at their lowest levels since 2021.





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