CROWN BAY GROUP

2024

U.S. MULTIFAMILY FORECAST

INTRODUCTION

After two years of stellar rent growth, rents decelerated in 2023, despite strong demand thanks to a resilient economy, according to Yardi. Rising interest rates, new construction, and slower rent growth has contributed to a reset of asset prices, which will provide ample attractive investing opportunities over the next 12 to 24 months, but challenges remain, such as rapid operating expense growth and a potential slowdown.

This market report is meant to empower investors and stakeholders alike in navigating the intricacies of the multifamily real estate market in 2024. We credit Yardi Matrix for many of the facts and figures.

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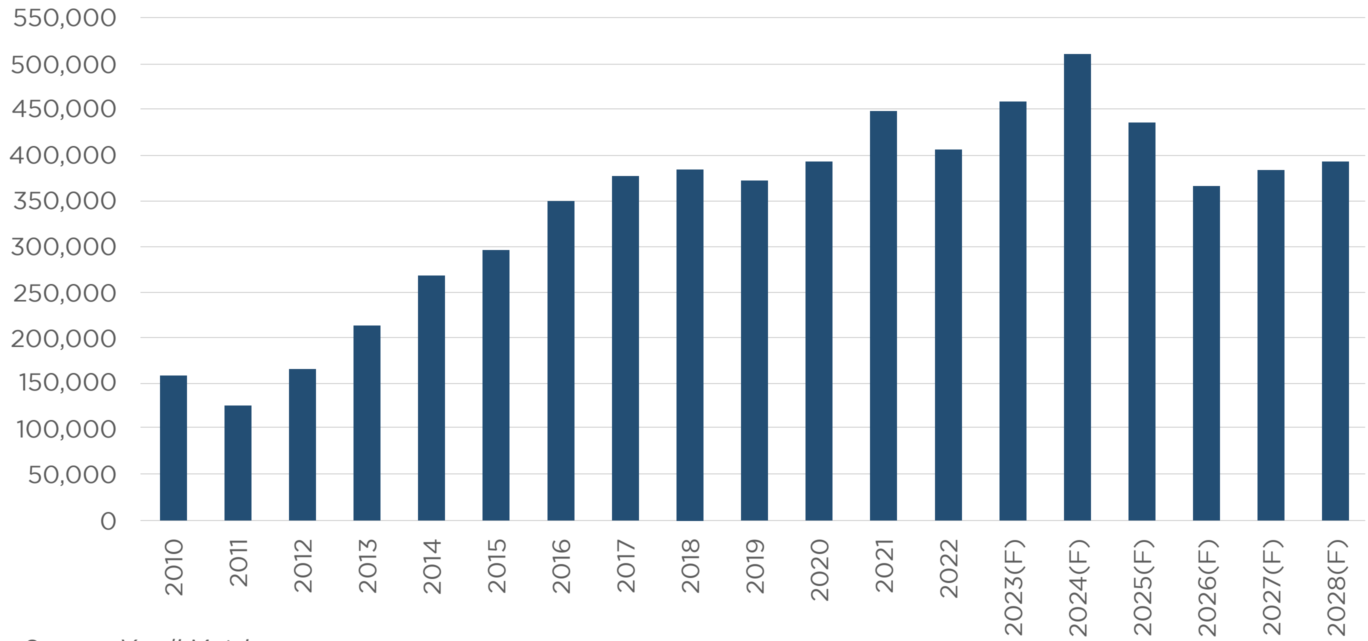
MULTIFAMILY DEVELOPMENT ACTIVITY

According to Yardi, supply growth is at decades-long highs, with more than 1.2 million units under construction. Deliveries should top 500,000 units in 2024, with concentrations in rapidly growing markets in the South and West. However, the rise in construction financing is putting a lid on new starts, so 2024 is expected to be a peak year for deliveries. It is important to note the vast majority of new construction represents Class A multifamily projects.

Multifamily Supply to Peak in 2024



Source: Yardi Matrix

The increase in supply is essential but also poses a challenge to short-term rent growth in certain markets, especially those assets that compete with new construction. Following the 2008 recession, housing construction saw a significant decline, and despite the current rebound in supply, there is a shortage of several million units in the U.S., as stated by housing experts.

MULTIFAMILY DEMAND AND PRICING

According to Yardi, national rent growth moderated to 0.4% year-over-year through November 2023, down from a combined 23.5% in 2021 and 2022. Absorption stabilized in 2023, albeit much lower than the unsustainable levels seen in 2021.

Market analysts expect demand for multifamily to remain healthy in 2024, but headwinds include potentially slower job growth, increasing supply and waning affordability in some markets. Those factors should keep rent growth restrained. Yardi forecasts a tepid 1.5% rent growth nationally in 2024.

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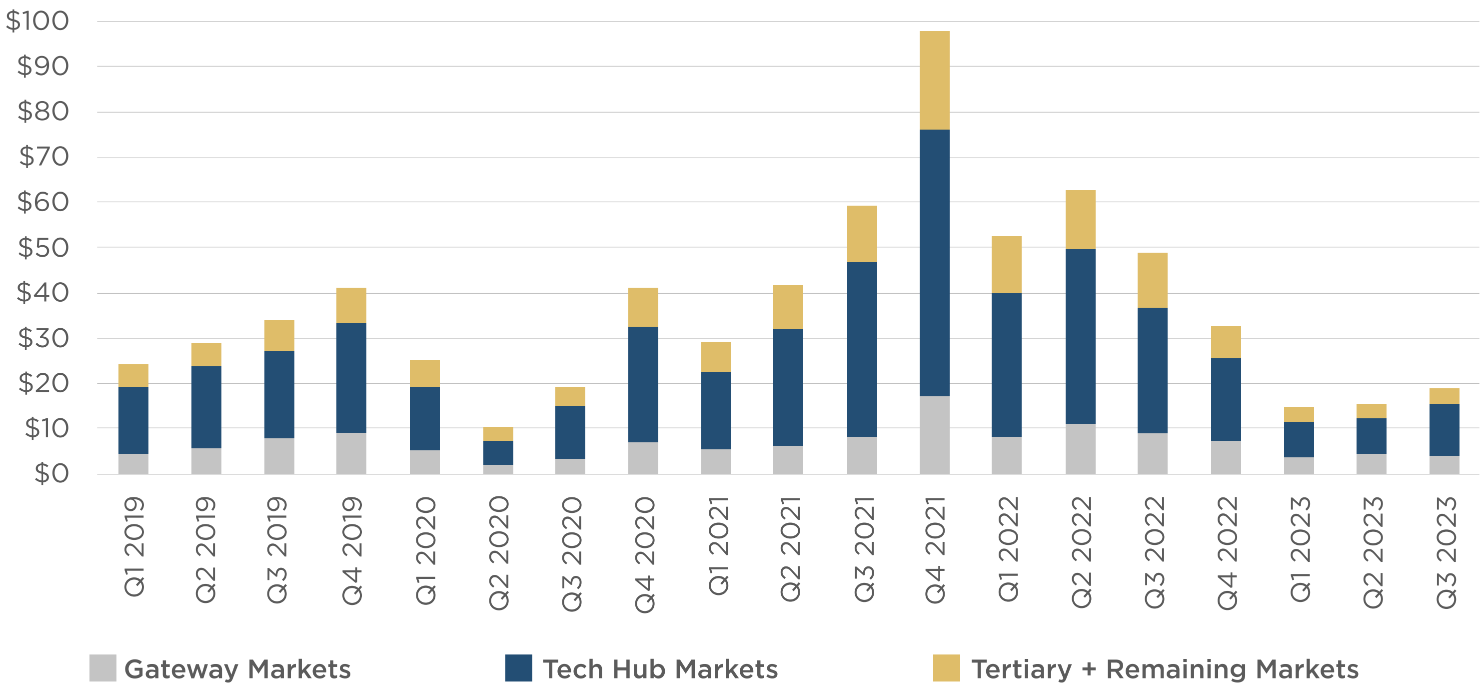
INVESTMENT SALES VOLUME AND PRICING

While the fundamentals of the multifamily sector remain acceptable, the influence of higher interest rates is undeniable. Property sales have decelerated, and obtaining debt has become both scarcer and more costly. The pace of deals will persist in a sluggish state until interest rates stabilize, regardless of their specific level.

Achieving price discovery will prove challenging until volatility subsides. The decline in property sales has been stark. Following the record-high multifamily sales volumes of $228.3 billion in 2021 and $196.9 billion in 2022, sales volume through November 2023 was only $57.6 billion, marking a substantial 70% year-over-year decline, according to Yardi. The primary cause for this lack of transaction activity was volatility in interest rates and uncertainty in prices. Property values have decreased, yet buyers and sellers remain at odds regarding the extent of this decline. Most market participants believe the Fed will not hike rates in 2024. This will bring more certainty to the market thus allowing transaction volume to increase.

Sales Volume Drops Amid Uncertainty



Source: Yardi Matrix

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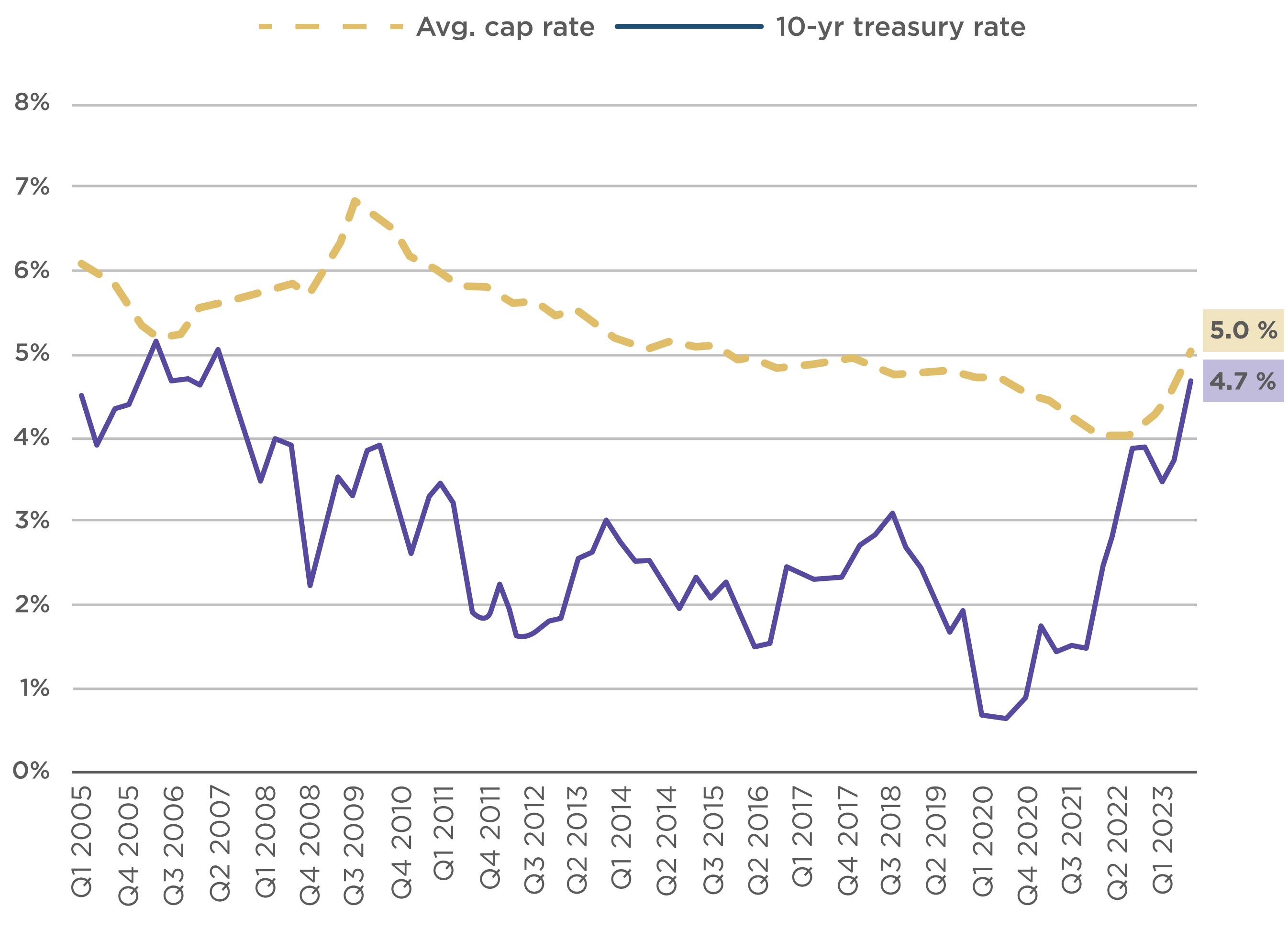
MULTIFAMILY AVERAGE CAP RATE & 10-YEAR TREASURY

The surge in investor demand for multifamily properties in the low-interest-rate environment until early 2022 resulted in unprecedented sales volume, with cap rates reaching 4% or lower for stable assets and ranging between 4.5-5% for value-add assets. However, as the 10-year Treasury hovers around 4.1% and the floating-rate index SOFR exceeds 5%, mortgage coupons now commence at 5.5% and, in many cases, even higher. As of this writing, it appears long-term treasury rates have stabilized, and fallen from their October 2023 high of 4.98%, which is a positive sign.

The extent to which the rise in interest rates is impacting cap rates remains uncertain. Historical data indicates that there isn't a direct one-to-one correlation in the short term, as investor perspectives on future income growth play a crucial role. Investors are inclined to reduce risk premiums when anticipating an increase in rent growth. Nevertheless, given the current scenario where rates are somewhat elevated, and rents and net income growth projections are slowing, it is likely that investors will seek a higher premium above mortgage rates.



Source: AVANT by Avison Young, RCA, U.S. Treasury

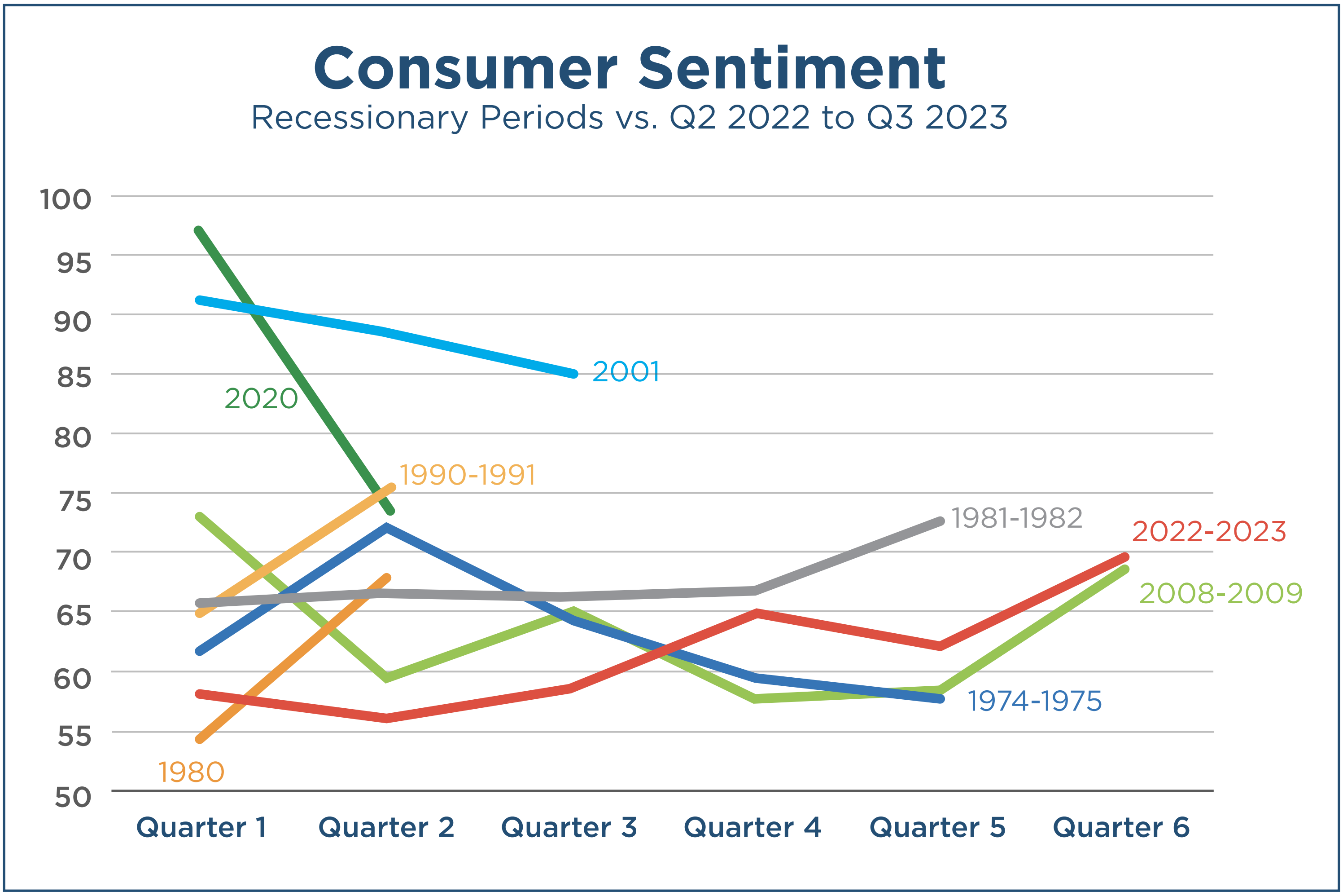
TOP RENTAL MARKETS THIS YEAR

- Atlanta is the top city for renters to watch in 2024 after attracting the highest rental activity on RentCafe.com in the last 12 months.
- Kansas City, MO, ranks second in Yardi's annual ranking, closely followed by Cincinnati. Both cities demonstrated increased rental activity in 2023.
- The Midwest is the #1 region for renters to keep an eye on in 2024, with 12 cities in our top 30 and soaring engagement rates in the last year.

Sales Volume Drops Amid Uncertainty

MULTIFAMILY REAL ESTATE PROJECTIONS 2024

In 2023, the U.S. experienced economic fluctuations without a recession. Growth varied, the labor market cooled but remained strong, and inflation persisted alongside high-interest rates. Despite economic concerns, consumer spending increased due to wage growth and increased family finances. Q3 GDP hit a two-year high at 4.9%, driven mainly by consumer spending. However, the absence of business investment and prolonged pessimism among businesses, reflected in the Small Business Optimism Index, raised concerns. Labor quality topped business concerns, narrowly surpassing inflation.



Univerity of Michigan

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REAL ESTATE INVESTMENT OPPORTUNITIES IN 2024

MULTIFAMILY REAL ESTATE

In 2024, investing in multifamily properties presents a strategic opportunity driven by a combination of factors. While interest rates have remained relatively high, their recent stabilization signals a favorable environment for investment.

Deals that make financial sense today, with conservative underwriting and exit expectations, are poised to outperform. Many potential investors are waiting for lower rates, creating a window of opportunity for those who recognize the value in the current market conditions. The hesitancy among some buyers has resulted in less competition, allowing savvy investors to negotiate favorable terms and secure properties at potentially better prices. As market dynamics continue to evolve, strategic investors can position themselves for success by capitalizing on the unique opportunities presented in 2024 and 2025.

Strategically investing since 2013, Crown Bay Group is a real estate investment company passionate about multifamily and dedicated to our investors. We provide opportunities for private investors – to diversify their portfolios by tapping a product that is historically stable and, many times, recession-proof.

Our product – workforce housing. We pursue well-located, but often under-performing, apartment communities. Our specialty – adding value. We work alongside our in-house management team to drive efficiency, perform improvements, and boost the bottom line. Our result – increasing returns for our investors by improving property values.

JOIN OUR INVESTOR CIRCLE

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WHAT MAKES US THE BEST IN THE MULTIFAMILY MARKET?

3,949+
UNITS

$325M+
TOTAL VALUE

$92M+
INVESTOR EQUITY

20+
DEALS

OUR TEAM

The Atlanta-based team is passionate about workforce housing. We believe that our investors deserve better than average returns, and our residents deserve a management team that is attentive, professional, and detail-oriented. Our combined decades of experience work to bring this pursuit to reality.

STEVE FIRESTONE
FOUNDER & PRINCIPAL

MICHAEL SCHMIDT
PRINCIPAL

OUR APPROACH

Our success begins with a rigorous approach to property selection. We believe that the right property, acquired at the right price, is the foundation of every successful investment. Our extensive broker network provides us with exclusive off-market opportunities across metro Atlanta and the Southeast, ensuring a steady flow of potential investments.

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OUR MISSION

Our mission is simple: to increase the value of each property we acquire. We achieve this through the deployment of proven operational strategies and by creating safe, clean, and inviting living environments. If we identify the potential to achieve these objectives, we pursue the deal with unwavering determination.

OUR EXPERTISE

Crown Bay Group is selective. Our expertise lies in closing the right deals that align with our commitment to our investors. We understand the unique needs of the workforce housing segment and tailor our strategies accordingly, ensuring sustainable growth and prosperity for our investors.

Address:
Atlanta, Georgia

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OUR PERFORMANCE

3,949+	$325M+	$92M+	20+
UNITS	TOTAL VALUE	INVESTOR EQUITY	DEALS

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