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THOMPSON THRIFT

2025 Multifamily Market Outlook

PREPARED FOR OUR INVESTMENT PARTNERS

Q2 2025

"Ultimately, we believe the market has entered a new cycle for multifamily development, and our outlook highlights the reasons why multifamily investments remain strategically positioned to deliver sustained growth and attractive returns."

-Carrie Thrift LaFay
VP, Equity Capital Markets

Market Highlights

The U.S. continues to face a **structural housing shortage of 2-3 million homes**, creating a backdrop of undersupply which should drive future demand for apartments (JBREC 2025, Brookings 2025).

Despite heightened unit deliveries in 2023 and 2024, the market saw **near-record absorption (demand) in 2024** at 729,000 units, outpacing new supply by 84,000 units. That trend continued into 2025, as the market posted the highest Q1 absorption of any first quarter in RealPage's history (RealPage 2025).

Multifamily **starts have dropped 58% from their peak** in 2022 to the end of 2024. We expect a decrease in unit deliveries starting in 2025 and continuing in 2026, 2027, and 2028, creating a favorable environment for leasing and rent growth (RealPage 2025).

The median sales price of an existing single-family home has increased from $274,600 in 2019 to $412,000 in 2024, a total increase of 50% (NAR 2025). **As home values continue to rise, many Americans are unable to afford homeownership, causing them to rent for longer.**

82% of outstanding mortgages have a rate less than 6%, while the national average mortgage rate is 4.3%. Elevated rates are causing the lock-in effect to persist, contributing to the **single-family affordability crisis** by restricting supply. This has created increased demand for multifamily (FHFA 2025).

According to the National Association of Home Builders (NAHB), **approximately 14 million Americans have been priced out of owning a new median-priced home over the last five years.** The sharp rise in home prices, combined with an increase in mortgage rates from 3.25% in 2020 to 6.75% today, has pushed homeownership out of reach for many (NAHB).

The affordability gap, or monthly cost difference between renting an apartment versus owning a home, remains prohibitively high. As of Q1 2025, the affordability gap was approximately $1,210 per month, driving more Americans to renting. (RealPage 2025, Federal Reserve Bank of Atlanta 2025).

Between 2020 and 2024, the U.S. population grew at an average rate of 0.5% per year, while **many of Thompson Thrift's target states for development, including FL, GA, TN, ID, AZ, and NV, averaged 1-2% annual growth** (Census 2025). Population growth directly impacts apartment demand, creating a more favorable leasing environment.

States such as FL, AZ, ID, NV, GA, and UT benefit from some of the highest job growth rates in the country, outpacing the U.S. annual average of 0.7% from 2000-2024. This demonstrates their ability to foster economic growth and new opportunities for rental housing (BLS 2025).

Americans are getting married later, having children later, and are buying homes later, causing pent-up demand for apartments as homeownership becomes further delayed (JBREC 2025). **The average age of a first-time homebuyer has increased from 33 in 2019 to an all-time high of 38 in 2024** (NAR 2024).

Uncertain tariff policy has contributed to a volatile 10-Year Treasury rate, slowing capital flows (Federal Reserve Bank of St. Louis 2025). Despite fluctuations in the 10-Year yield, multifamily cap rates have stabilized at 5% for the last four quarters (Walker & Dunlop 2025).

According to John Burns Research and Consulting (JBREC), recent tariff policies could impact development budgets by 2%-4%, while Thompson Thrift internal models suggest a total impact of 1.8%-2.8% (JBREC 2025).

THOMPSON THRIFT

Multifamily Market Outlook

A LETTER FROM CARRIE THRIFT LAFAY

Dear Valued Partners,

Welcome to the 2025 Multifamily Market Outlook. The current macroeconomic environment is certainly dynamic, resulting primarily from the many policy initiatives being advanced by the second Trump administration. While the recent tariff discussion is taking much of the spotlight, we are also watching the impact of policy moves focused on reducing regulation, immigration, energy, tax, and an effort to reduce government spending, among many other policy initiatives. One can certainly identify potential positives and negatives resulting from the various policy changes. It is far too early to draw definite conclusions about the ultimate outcome and impact of this unfolding storyline. We continue to watch this closely and game plan around the various possible impacts of these policy changes. Overall, we continue to be bullish on the United States economy, believing that primary fundamentals remain stable and that the U.S. remains the strongest and best choice for investors around the globe.

We remain primarily focused on how current and future circumstances impact housing. **The housing industry continues to be shaped by an ongoing housing shortage, continued demographic shifts, and evolving macroeconomic conditions.** Our business requires us to look three to four years into the future to determine our investment decisions. At this time, we find ourselves early in a new housing cycle. After several years of high deliveries of new multifamily supply, we will shortly be entering a period of reduced supply based on a sharp decrease in new starts in 2023, 2024, and 2025. **This new dynamic should result in demand outpacing supply, leading to improved fundamentals over the next three to four years. We have great conviction to invest early in this new housing cycle.**

While recent years saw a temporary surge in multifamily supply, the broader landscape continues to show a pronounced housing deficit created by over a decade of undersupply. In the past eighteen months, the U.S. has experienced robust demand and declining new construction starts. Persistently high single-family housing costs, elevated mortgage rates, and demographic trends amplify the appeal and necessity of multifamily, reinforcing its role as a critical segment within the housing sector.

In this annual update, we explore pivotal trends impacting the multifamily industry, including nuanced supply and demand dynamics, affordability challenges facing potential homeowners, shifting demographic patterns influencing rental preferences, and the economic conditions impacting multifamily capital markets.

UNDERSTANDING POTENTIAL TARIFF IMPACTS

We are closely tracking U.S. trade policy and actively assessing the potential impact on our business and the broader multifamily housing market.

Click or scan to view a message from CEO Paul Thrift on tariffs.

The Multifamily Housing Cycle: Historical Trends and Future Outlook

The current multifamily landscape is best understood within the context of the past eighteen years (2008-2025).

Year	Annual MF Units Delivered	National Occupancy
PRE-2008		
2008		
2009	202k	92.0%
2010	136k	93.6%
2015	296k	95.0%
2020	379k	95.6%
2021	386k	97.4%
2022	365k	95.1%
2023	471k	94.2%
2024	646k	94.8%
2025	470k	95.1%
FUTURE		
2026	324k	95.0%
2027	239k	95.0%
2028	231k	95.0%

A Decade of Overbuilding Preceding the Great Financial Crisis (GFC)

In the decade leading up to the GFC, single-family and multifamily housing was overbuilt as starts surged to an average of 1.7 million units per year, outpacing the annual average of 1.5 million starts per year since 1959. As a result of increased supply, national occupancy fell to 93%, below the 94.5% average from the previous 25 years.

2008: The Great Financial Crisis

2009-2020: Underbuilding and Rising Valuations

From 2009 through 2020, the post-GFC U.S. experienced a prolonged housing market defined by low multi and single-family housing new supply, steady rent growth, low interest rates, increasing housing construction cost, and compressing cap rates. These dynamics drove multifamily and single-family valuations higher and **contributed to a deepening structural housing shortage.**

2020: Capital Lockup and Slowed Starts, Increasing the Supply Gap

In 2020, during the COVID-19 shutdowns, we saw a freeze of capital and much lower starts for a period of 9 to 12 months, exacerbating the housing shortage.

2021-2022: Inflation and Housing Costs Surge

Inflating rents, rapidly increasing housing values and general inflation skyrocketed in 2021 and 2022.

2021-2022: Demand Outpaces Supply and Record Multifamily Starts

Following the COVID years of 2021 and 2022, we saw interest rates dive and capital flood into the market. Debt and equity were plentiful and cheap, demand for housing skyrocketed, and given the limited new supply and the structural shortfall of housing units, multifamily rents and single-family values soared. Capital was widely available, demand spiked, and developers rushed to build into a supply-constrained environment. Rents rose sharply, valuations increased quickly, and a wave of construction began, resulting in the largest volume of multifamily deliveries in over 50 years.

Mid-2022: Investment Climate Shifts Amid Rising Rates

Rapid interest rate increases mid-2022 and tightening credit conditions quickly changed the investment environment.

Late 2022-2023: Transactions Drop, Development Slows

By late 2022, many institutional buyers had moved to the sidelines, and transaction volume dropped sharply in 2023, ushering in a period of rising cap rates and declining valuations that continue to today. At the same time, the combination of higher rates and limited credit significantly slowed new development.

2023-2024: Demand Slows Then Rebounds, Absorption Outpaces Supply

Demand softened in 2023 but rebounded in 2024, with national absorption outpacing even the elevated level of deliveries.

2024: Occupancy Holds Strong Amid Record Deliveries

National occupancy ended 2024 higher than where it began, despite the record supply originating from 2021 and 2022 starts, and the U.S. continues to face a fundamental housing shortage.

2023-2025: Multifamily Starts Hit Decade Lows

Following peak activity in 2022, multifamily starts fell a total of 58% in 2023 and 2024. **In 2024, only 270,000 units were started across the U.S., the lowest in more than 25 years.** This trend is expected to continue through 2025.

2025: Wave of Deliveries Expected to be Absorbed

By mid to late 2025, we expect most of the 2021 and 2022 starts to be delivered and absorbed (rented).

2026-2028: New Cycle Emerging

The slowdown in multifamily starts from 2023 to 2025 is expected to result in significantly lower deliveries in 2026, 2027, and 2028, **setting the stage for a more favorable supply-demand dynamic**. As this imbalance emerges, we anticipate a return to rent growth, which should support improved buyer outlook and drive valuation recovery. At the same time, we expect capital markets activity to increase as credit conditions ease and capital re-enters the market, driving greater competition and upward pressure on values. **We believe the market is entering a new housing cycle, and the next three to five years present a compelling environment for multifamily value creation.**

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SUPPLY & DEMAND

The United States housing market continues to face a shortage of both single-family and multifamily housing. While the estimated scope of that shortage varies, we believe the deficit is approximately 2-3 million units based on recent reports by John Burns Research and Consulting and the Brookings Institute (JBREC 2025, Brookings 2025). This shortfall underscores an essential principle of our development outlook: despite an increase in new unit deliveries in 2023 and 2024, demand is outpacing supply, contributing further to the shortfall of housing.

Multifamily and single-family supply remained anemic after the Great Financial Crisis (GFC) and did not recover to the pre-GFC, multi-decade-long average until 2021. In 2021 and 2022, the market took advantage of cheap debt, bountiful equity, extreme under supply, and a rebound in demand, resulting in rapidly rising rents and peak starts at 647,000 units in 2022 (RealPage 2025). However, elevated interest rates, a constrained debt environment, muted capital flows, and persistent economic uncertainty have limited multifamily starts in 2023, 2024, and 2025. **According to RealPage, starts have declined by 58% from their peak in 2022 through the end of 2024, settling at just 270,000 units, and that decline has continued into 2025** (RealPage 2025).

Projects that started in 2021 and 2022 have moved steadily through the development process over the past two to three years, temporarily inflating multifamily supply in the near term. New multifamily unit deliveries peaked in 2024 at 646,000 units, soaring well above the 25-year annual average of 268,000 units (RealPage 2025). Even so, as new project deliveries have declined, the market's demand for rental housing remains robust.

Demographic trends and a lack of affordable single-family housing caused 2024 to register the second strongest annual absorption (demand) since RealPage began tracking this data in 2000, outpacing new supply by 84,000 units (RealPage 2025)**.** That trend has continued into 2025, as Q1 recorded an impressive 153,000 units absorbed, the strongest first quarter performance in RealPage's history (RealPage 2025). Occupancy dipped to 94.2% by the end of 2023 as new supply delivered but has increased to 95% as of Q1 2025 due to strong absorption (RealPage 2025).

Rent growth trends further underscore the market's evolution. In 2024, national rent growth slowed, ending the year at a 0.4% increase in the U.S. Top 150 markets as the market adjusted to the recent influx of supply (RealPage 2025). However, rent growth has rebounded to 0.8% as of Q1 2025 and is projected to return to the 25-year average of 2.8% in 2026 (RealPage 2025).

Looking ahead, we expect these dynamics to continue in favor of multifamily housing. Earlier this year, Jon Gray, COO of Blackstone, was a guest on The Walker Webcast with renowned real estate advisor Willy Walker (Walker Webcast 2025). His comments on multifamily supply and demand solidify our outlook on future rent growth:

> **Back to these very simple supply [and] demand factors, new building in multifamily is down two thirds from the peak of 2022, the U.S. population continues to grow, there is some obsolescence in housing, and we've been underbuilding housing now really since the financial crisis, unfortunately. And when you have that kind of dynamic, invariably you're going to see rental growth that I think will be above inflationary rental growth once we absorb some of the supply that's coming through the system back from that '22 period.**
>
> *-Jon Gray, COO of Blackstone*

With construction starts continuing to decline, new supply in 2026, 2027, and 2028 will be constrained, reducing competition and yielding faster lease-ups and stronger rent growth. We believe these dynamics should ultimately drive net operating incomes higher and produce enhanced property values.

AFFORDABILITY

As single-family home values continue to rise and interest rates remain elevated, the cost of homeownership has driven more Americans to renting. The median sales price of an existing single-family home has increased from $274,600 in 2019 to $412,400 in 2024, a total increase of 50% (NAR 2025). Mortgage rates have similarly surged and remain elevated at approximately 6.75%, creating a lock-in effect which reduces the already limited levels of single-family inventory (Freddie Mac 2025). According to the Federal Home Finance Administration (FHFA), 82% of

Continued on page 6

outstanding mortgages have an interest rate below 6%, creating a disincentive for homeowners to list their homes and limiting the supply of single-family housing options (FHFA 2025).

As a result of increasing prices, elevated interest rates, and limited supply, the median qualifying income for homeownership increased dramatically, from $50,592 in 2019 to $103,344 in 2024 (NAR 2025). According to the National Association of Home Builders (NAHB), **approximately 14 million Americans have been priced out of owning a new median-priced home over the last five years.** The sharp rise in home prices, combined with an increase in mortgage rates from 3.25% in 2020 to 6.75% today, has pushed homeownership out of reach for many (NAHB).

> The affordability gap, or monthly cost difference between renting an apartment and owning a home, remains prohibitively high.

An analysis of RealPage and Federal Reserve data indicates the affordability gap is approximately $1,210 per month when comparing average rents to the total monthly payments due on a median-priced, single-family home (RealPage 2025, Federal Reserve Bank of Atlanta 2025). This gap does not include the up-front down payment necessary to secure a loan, estimated to be nearly $40,000, nor does it include maintenance costs which could average hundreds of dollars each month. **We believe the affordability gap will continue to drive more Americans to rent longer, increasing demand for multifamily**.

By comparison, while the cost of single-family housing has increased, wage growth has outpaced rent growth for eight consecutive quarters, and rent-to-income ratios have declined, peaking at 23.8% in 2022 and easing to 22.5% by the end of 2024 (Jay Parsons 2024, RealPage 2025). Lease renewal rates have also increased from an average of 53% in 2023 to nearly 55% in 2024 as many Americans have continued renting an apartment rather than purchase a home (RealPage 2025). This dynamic further illustrates the relative affordability of multifamily, prompting many Americans to remain in the rental market and creating sustained demand for our properties.

DEMOGRAPHICS

Our development strategy remains focused on high-growth suburban markets that offer robust job creation and an exceptional quality of life. **We are currently evaluating opportunities in more than 20 states, targeting areas with favorable population growth, migration trends, capital investment, and job opportunities.** Between 2020 and 2024, the U.S. total population grew at an average rate of 0.5% per year, while target states like Florida, Georgia, Tennessee, Idaho, Arizona, and Nevada all averaged 1-2% annual growth, ranking as some of the most sought-after locations in the country (Census 2025).

These faster-growing states have attracted significant domestic migration, as new residents seek better career prospects, greater affordability, and a higher standard of living. In particular, the Southeast and West continue to enjoy high rates of net domestic migration from metro areas such as New York, Chicago, Los Angeles, San Francisco, and Seattle as residents seek a lower cost of living and higher quality of life (Census 2025). Target states like Florida, the Carolinas, Georgia, Arizona, Nevada, and Idaho continue to attract thousands of newcomers each year, increasing the pool of potential renters.

We closely monitor states that have strong job growth. Many states in the West have outperformed the rest of the country in job creation; in particular, Utah, Idaho, Nevada, and Arizona have continued to foster economic growth. While the national average job growth rate from 2000-2024 was 0.7%, these states grew employment by more than 1% per year on average, creating opportunities for rental housing as an expanded employment base promotes new household formation (BLS 2025).

Generational preferences are causing many Americans to remain renters as they are marrying, starting families, and purchasing homes later in life than previous generations (JBREC 2025). Today, only 33% of 30-year-olds own a home, down from 47% in 1984 (JBREC 2025). The typical first-time homebuyer in 2024 was 38 years old, up from 32 just six years ago, while first-time buyers now account for just 24% of all home purchases, the lowest share since data collection began in 1981 (NAR 2024).

These long-term demographic trends reinforce the drivers fueling future growth in multifamily demand. As households delay homeownership, demand for quality rental housing remains elevated.

Continued on page 7

CAPITAL MARKETS

Capital markets remain highly dynamic. Following a period of low interest rates during the pandemic, the Fed asserted a hawkish policy stance in 2022, aggressively raising interest rates in order to combat inflation (Federal Reserve Bank of St. Louis 2025). Over the course of eighteen months, the effective federal funds rate increased from zero to 5.25%, dramatically affecting the development landscape by increasing the cost of capital and tightening credit conditions, influencing the ability to source new debt.

These conditions also affected the investment environment, causing institutional buyers to pause investment activity in late 2022 as the market evaluated the new economic paradigm. Transaction volumes have dropped significantly from the highs seen in late 2021 and early 2022. After reaching their lowest point in 2023, transactions steadily picked up throughout 2024, marked by several large multifamily transactions by institutional players such as KKR, Equity Residential, and Blackstone. Sales in Q1 2025 have continued to improve, though we expect volume to remain muted throughout 2025 as the market continues to stabilize.

FUTURE OUTLOOK

While markets continue to navigate this period of heightened uncertainty, we see significant opportunity on the horizon for multifamily investment.

Our targeted approach to market selection, prioritizing high-growth and suburban locations, remains the cornerstone of our strategy as the multifamily market enters a new development cycle.

Falling supply, outpaced by demand over the next several years, will produce positive dynamics for multifamily leading to higher rent growth. We believe the market is entering an exceptionally favorable cycle for multifamily investment, with potential for significant value creation in the near term.

We are deeply grateful for the trust you place in us and remain dedicated to being excellent stewards of your investments. Should you have any questions about our projects, market trends, or the information in this report, please reach out. We look forward to another year of working together to create vibrant apartment communities and deliver strong, risk-adjusted returns.

Sincerely,

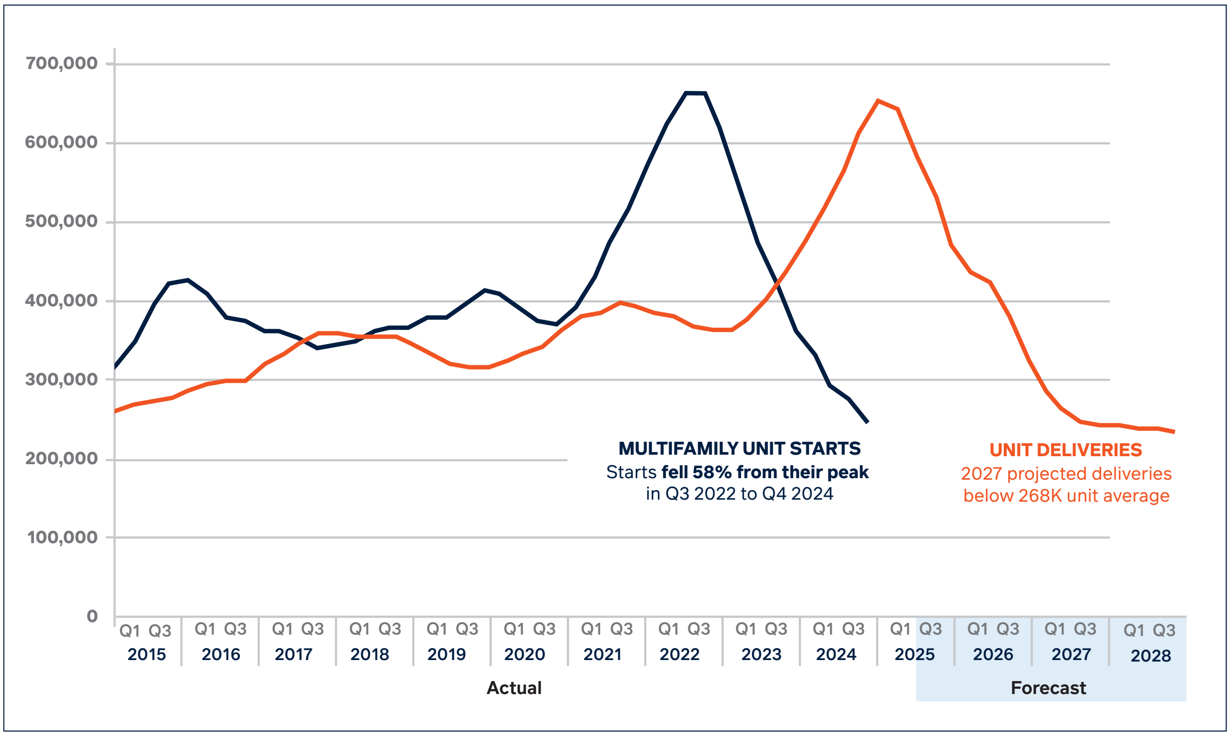
Carrie Thrift LaFay
VP, Equity Capital Markets

Market Data

Multifamily Demand Drivers

STARTS VS DELIVERIES

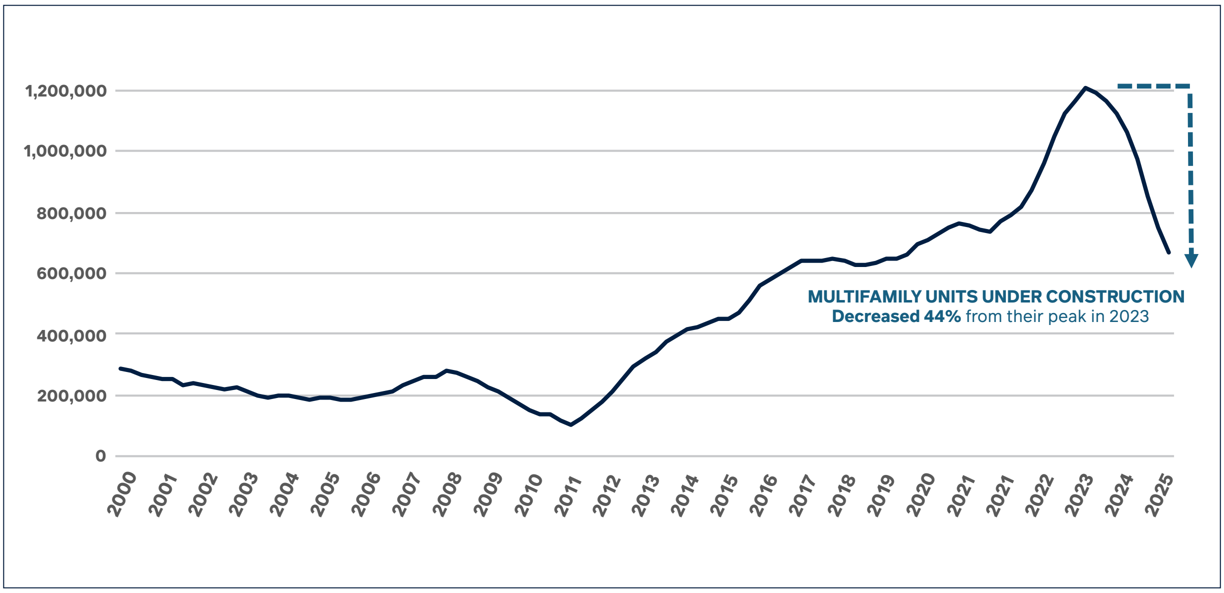
As the cost of debt has increased and credit and equity have tightened, multifamily starts have dropped significantly from 647,000 units in 2022 to 270,000 units in 2024, a total decrease of 58% (RealPage). This drop in supply should translate to a favorable environment for leasing, rent growth, and valuations in 2026, 2027, and 2028 as fewer projects deliver into a supply constrained environment.



Source: Real Page

MULTIFAMILY UNITS UNDER CONSTRUCTION

The number of multifamily units under construction has decreased 44% from the peak in 2023 as a result of new starts falling in 2023, 2024, and 2025.

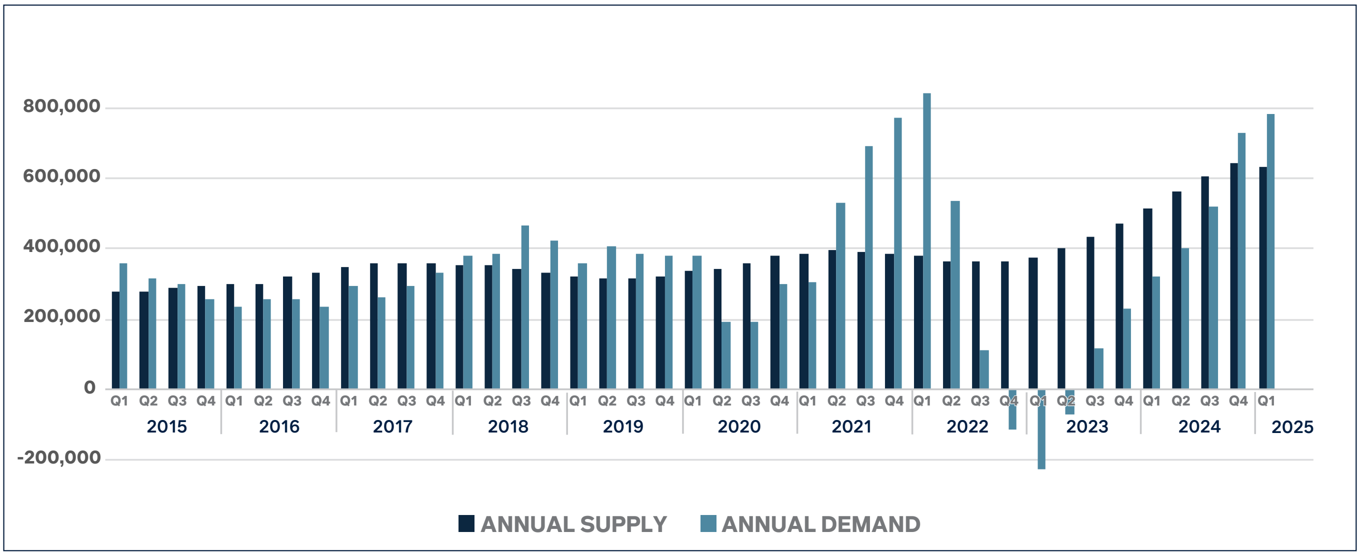


Source: Real Page

Multifamily Demand Drivers

SUPPLY VS DEMAND

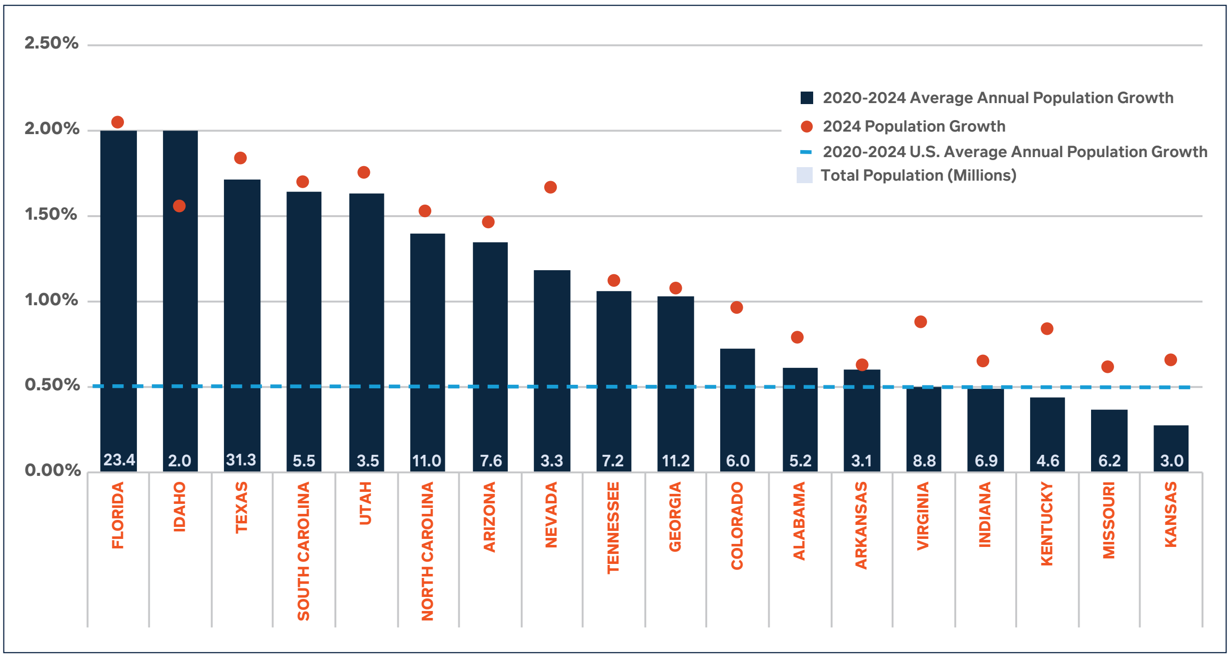
The housing market has seen record absorption (demand) for multifamily units as single-family unaffordability drives more Americans to renting. 2024 represented a record year for apartment demand at 729,000 units absorbed, and that trend has continued into 2025 as Q1 has posted the strongest absorption rate of any Q1 since RealPage began tracking supply and demand in 2000.



Source: Real Page

2020-2024 POPULATION GROWTH, THOMPSON THRIFT TARGET STATES

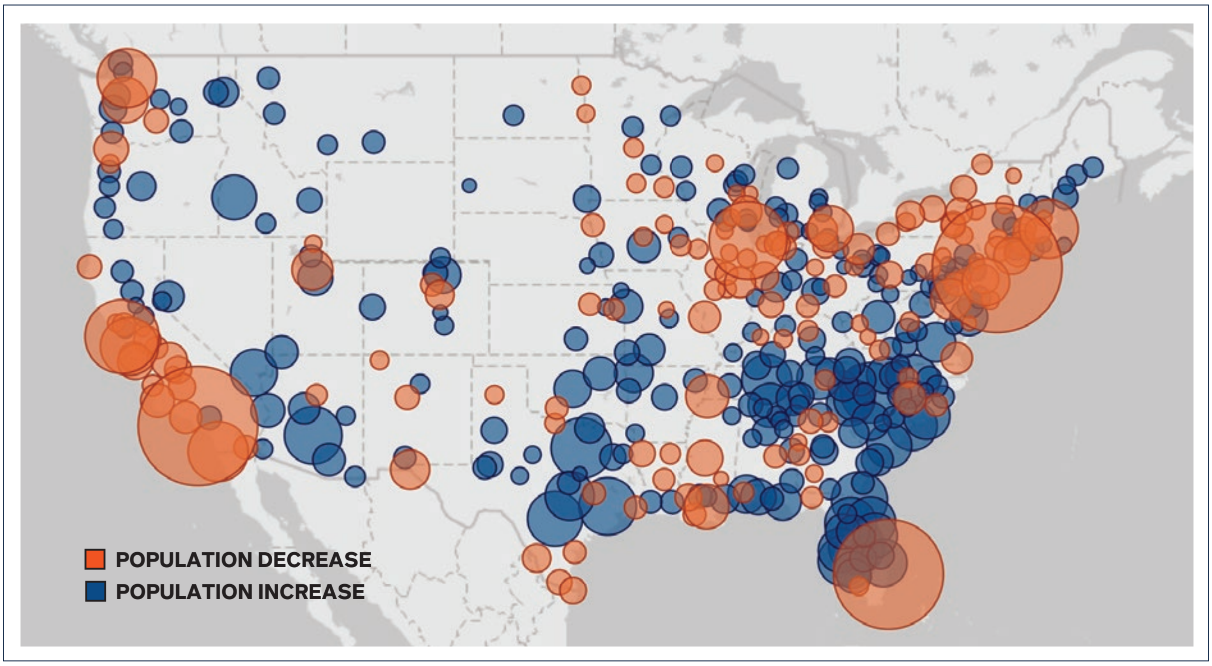
Population growth in Thompson Thrift's target states remained strong in 2024 as high-growth areas in the Southeast and West continued to benefit from domestic and international migration. These states outpaced the U.S. average annual growth of 0.5% from 2020-2024.



Source: Census Bureau

U.S. NET DOMESTIC MIGRATION 2020-2024

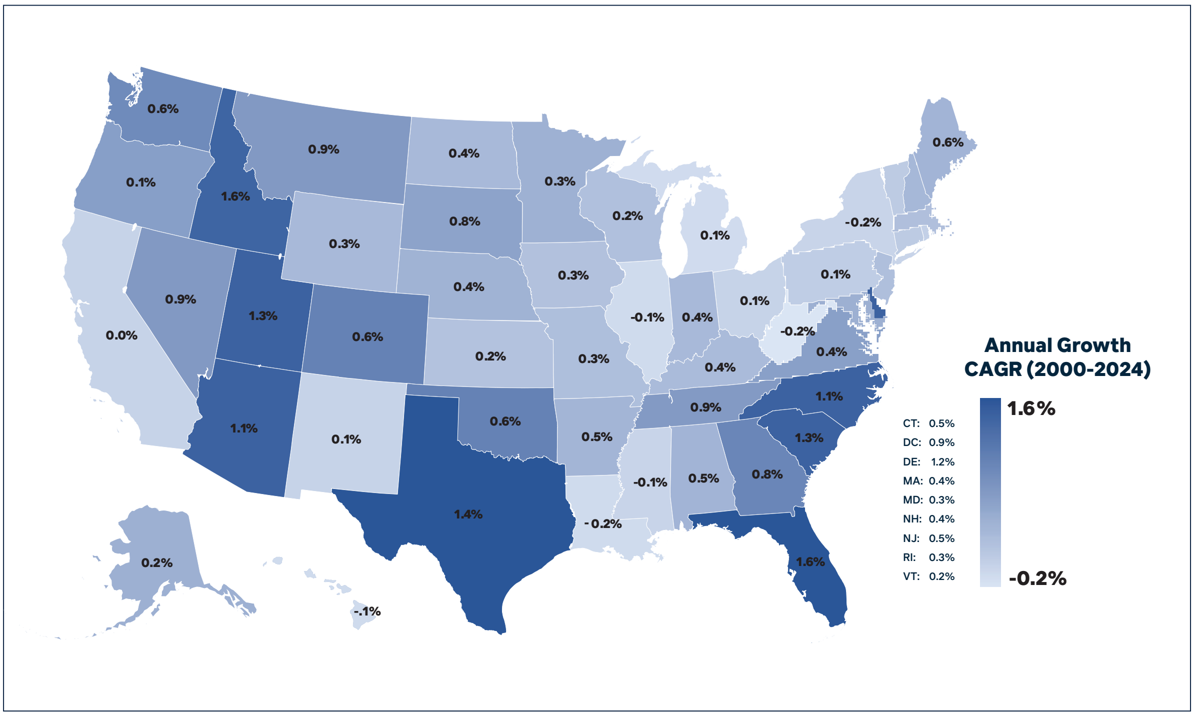
Domestic migration trends from 2020-2024 show a large population influx into Sun Belt and Mountain West markets, particularly as Americans seek greater affordability and quality of life.



Source: Census Bureau

U.S. JOB GROWTH 2000-2024

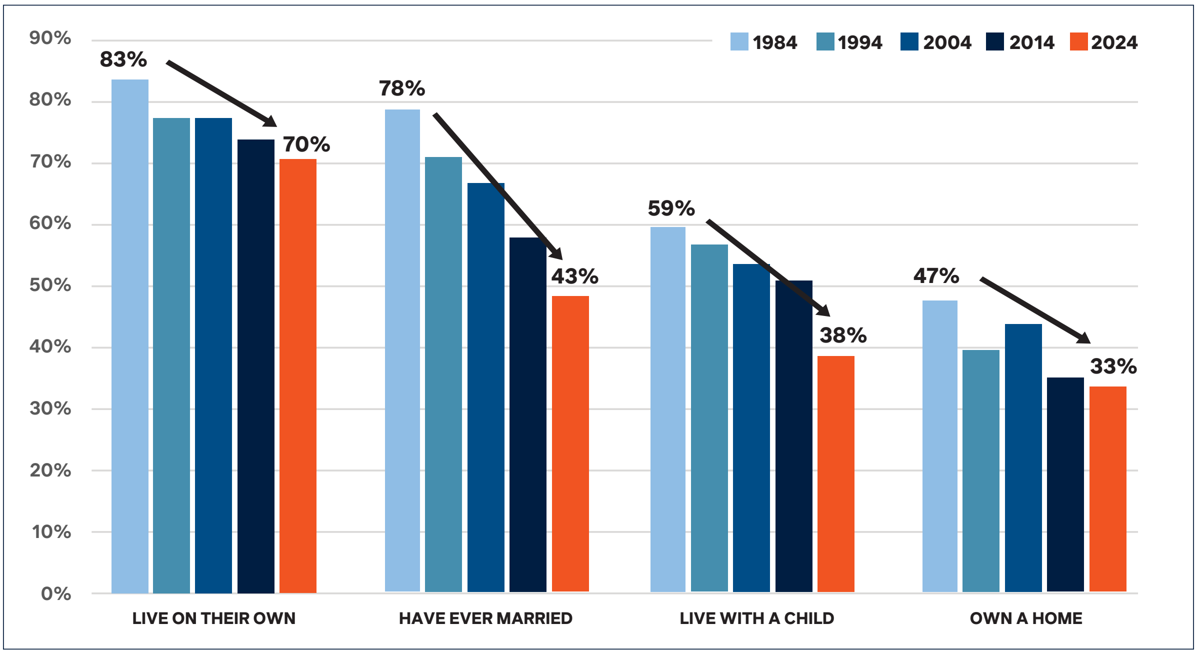
Job growth from 2000-2024 remains particularly strong in the West as states like UT, ID, NV, and AZ outperform the U.S. average annual growth of 0.7%. States in the Southeast, including FL, GA, and the Carolinas have also expanded their employment bases through business attraction and pro-growth policies, creating more demand for apartments.



Source: BLS

PERCENTAGE OF 30-YEAR-OLDS REACHING 'ADULT' MILESTONES

Americans are taking longer to reach major adult milestones such as getting married and having children. In 1984, 47% of 30-year-olds owned their own home compared to 33% of 30-year-olds today (JBREC 2025). According to John Burns Research and Consulting, "U.S. adults are staying renters longer than previous generations, becoming homebuyers later in life" (JBREC 2025).



Source: John Burns US Demographic Report, March 2025

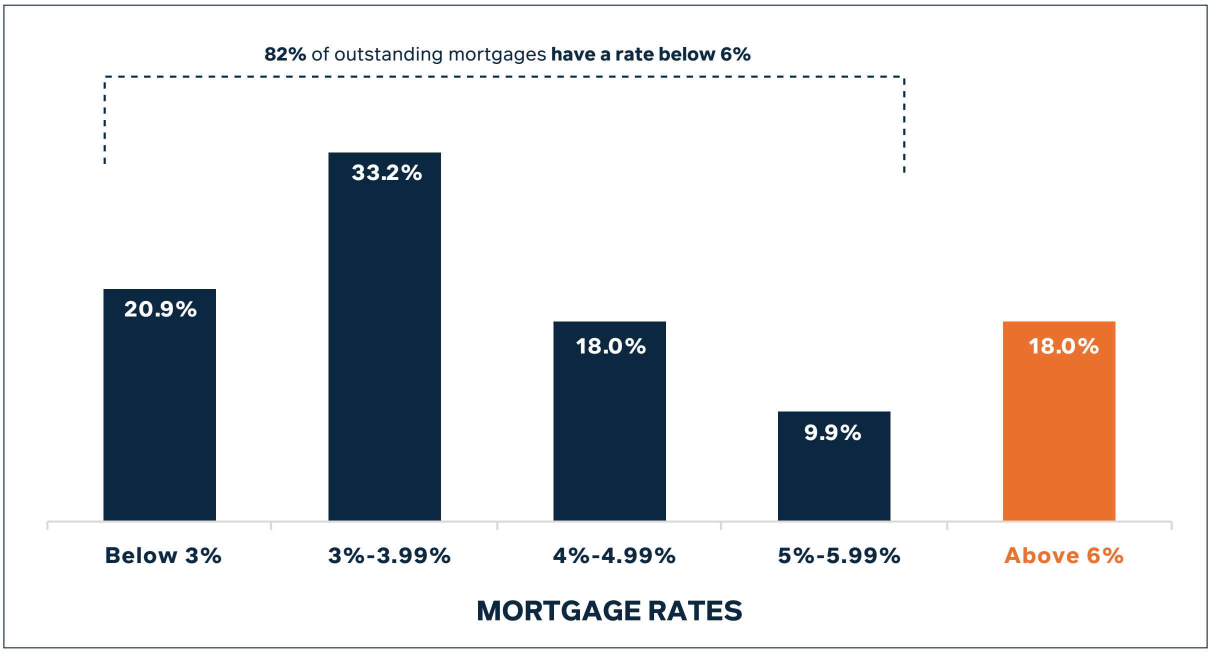
WAGE GROWTH VS RENT GROWTH 2020-2024

Wage growth has outpaced rent growth in the U.S. Top 150 markets since the end of 2022, creating a more affordable alternative to single-family homeownership as home prices have skyrocketed and interest rates remain elevated at 6.75%.

Sources: Federal Reserve Bank of Atlanta Wage Growth Tracker, RealPage

SHARE OF MORTGAGES BY OUTSTANDING RATE

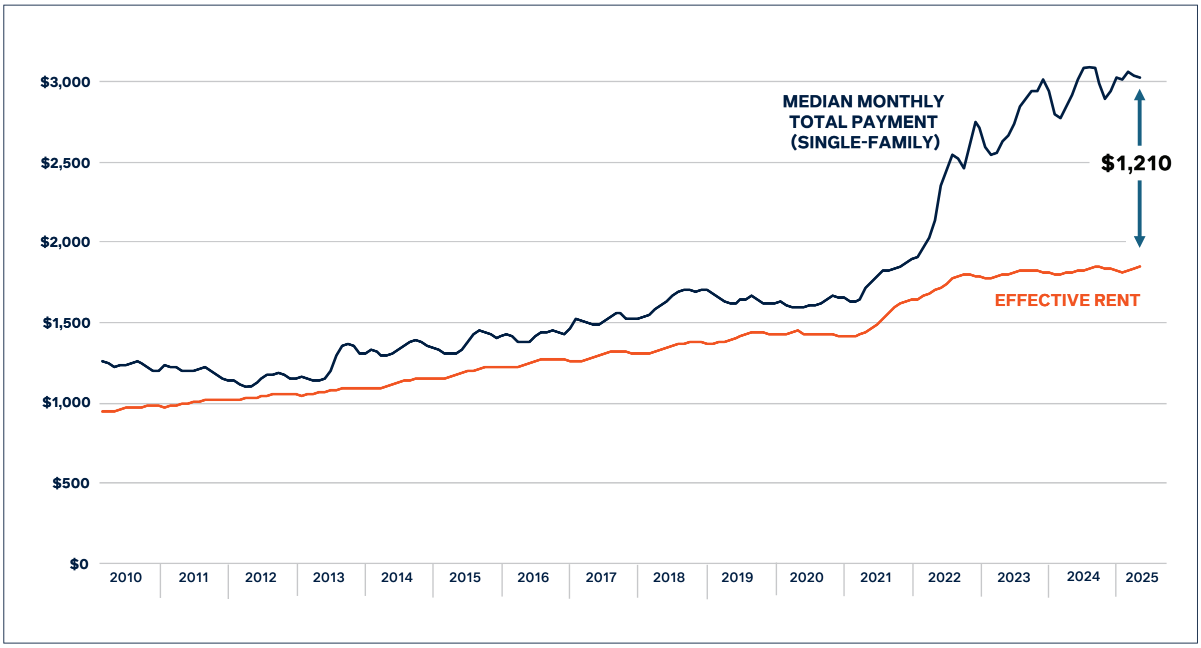
Approximately 82% of outstanding mortgages have a rate below 6%, creating a lock-in effect as existing homeowners are disincentivized to move. As of May 2025, interest rates for 30-year fixed rate mortgages are hovering at 6.75%. Limited single-family supply, combined with elevated home values and rates, continues to drive more Americans to rent.



Source: Federal Housing Finance Authority, National Mortgage Database

AFFORDABILITY GAP

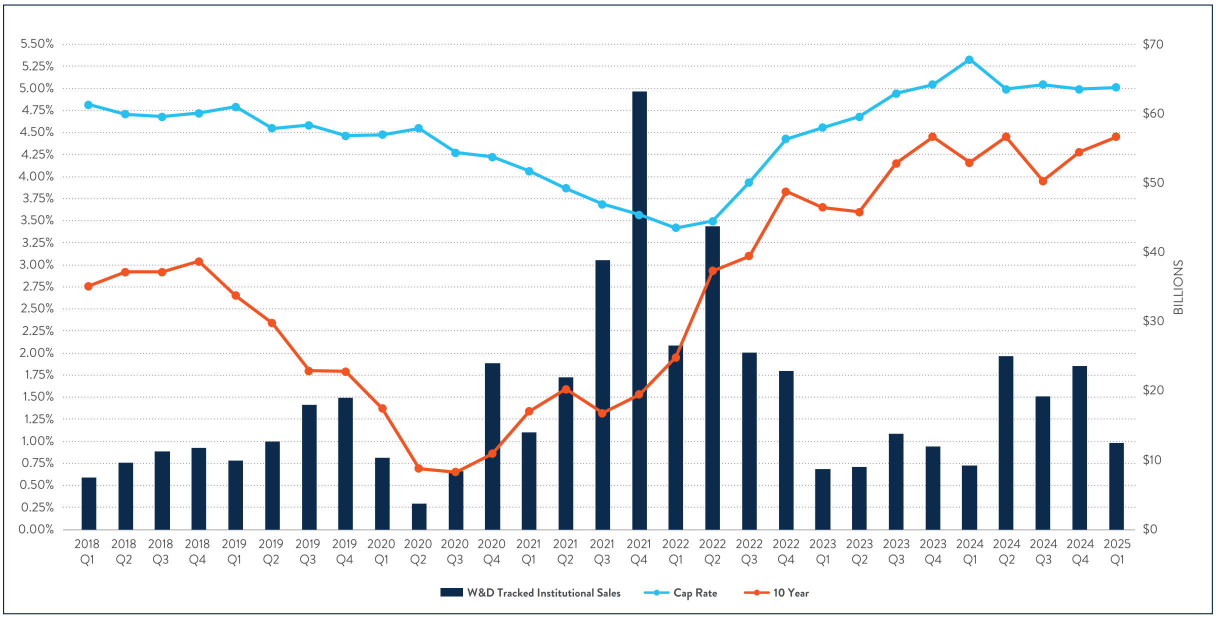
The affordability gap, or monthly cost difference between renting an apartment and owning a home, remains prohibitively wide. An analysis of RealPage and Atlanta Fed data indicates the monthly cost difference is approximately $1,210, solidifying the value proposition of renting.



Sources: RealPage, Federal Reserve Bank of Atlanta

NATIONAL SALES VOLUME AND CAP RATES

Transaction volumes were suppressed in 2023, creating a period of price discovery that resulted in cap rate expansion. The market began to stabilize in 2024, though recent market volatility has created uncertainty across the economy and multifamily capital markets, causing a pullback in institutional capital activity.



Source: Walker & Dunlop Market Intelligence - Market Update, June 2025

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