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THE CASE FOR U.S. MULTIFAMILY INVESTMENT IN 2025

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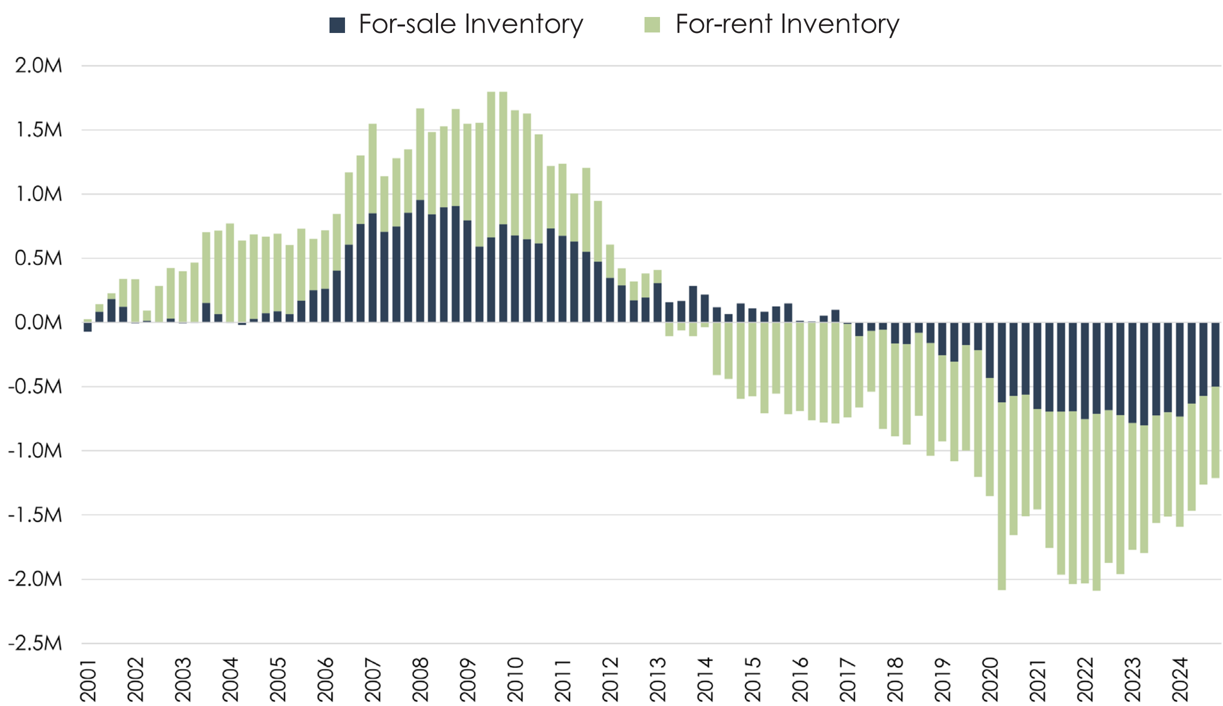
After several years of supply and demand volatility following the pandemic, 2025 may present a compelling re-entry point for multifamily investors. Key real estate market fundamentals favoring rental housing, including multifamily homes, are currently in play: a shortage of housing, slowing construction starts due to lesser market liquidity and high capital costs, demographic and behavioral shifts, homebuyer affordability challenges, and what we believe to be attractive pricing.

In this white paper, Stockbridge, in collaboration with John Burns Research and Consulting (JBREC), will examine the prospects for U.S. multifamily investment in 2025.

LONG-TERM HOUSING UNDERSUPPLY

U.S. LONG-TERM SUPPLY-DEMAND BALANCE OF VACANT HOUSING UNITS

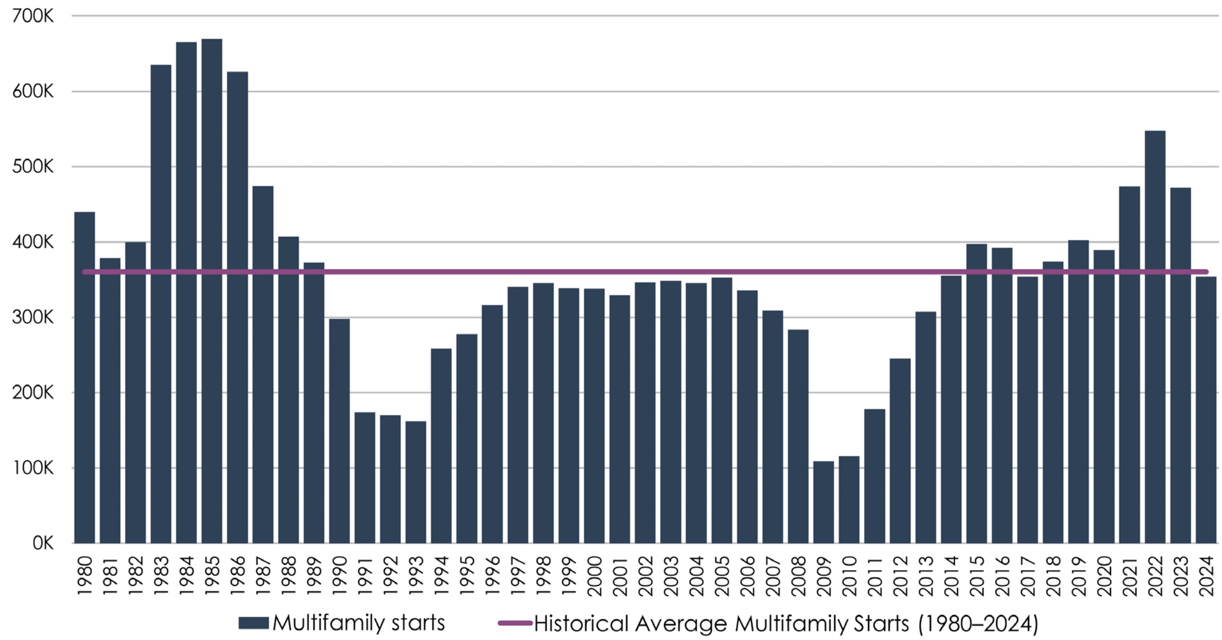


Source: U.S. Census Bureau, John Burns Research and Consulting, LLC. (Data: 4Q24, Pub: Mar-25)

We believe that the U.S. housing market remains deeply undersupplied, with an estimated shortfall of at least 1.2 million units as of 2025, with over half being rental housing according to JBREC's recent research. This research indicates that supply/demand imbalance will help fuel apartment demand, ultimately supporting both occupancy and rent growth. To meet population growth and close the existing housing shortage, the U.S. must build between 1.3 to 1.6 million new residential units annually through 2034. Until this production target is met, rental housing will likely continue to benefit from structural tailwinds of the demand/supply imbalance.

A PULLBACK IN MULTIFAMILY CONSTRUCTION

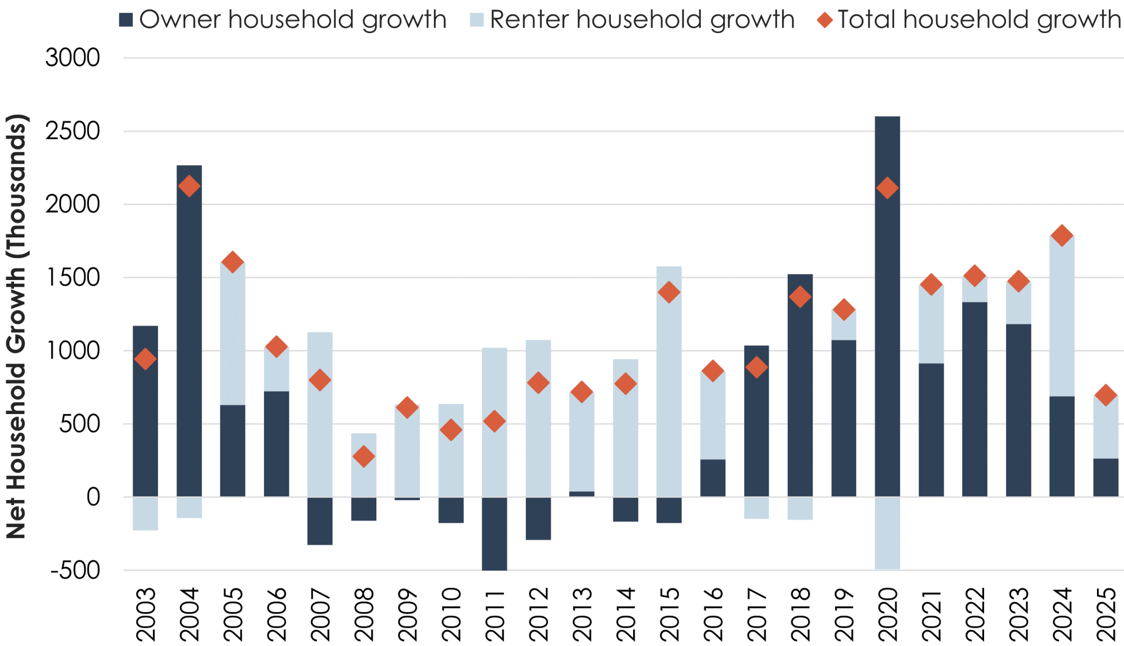
U.S. MULTIFAMILY ANNUAL CONSTRUCTION STARTS



Source: U.S. Census Bureau, John Burns Research and Consulting, LLC. (Data: Feb-25, Pub: Mar-25)

Not only is the rental market undersupplied, but there has also been a sharp decline in new multifamily construction. In 2024, multifamily housing starts fell 25% year-over-year. After a wave of near-record deliveries, developers have hit the brakes on multifamily projects in response to rising interest rates and escalating construction costs. Looking forward, tighter financing conditions are projected to lead to scaled-down construction pipelines. Additionally, recent policy shifts, particularly around tariffs and immigration, could drive up construction costs, further diminishing the multifamily development pipeline.

ANNUAL NET HOUSEHOLD GROWTH (THOUSANDS)



Source: U.S. Census Bureau, John Burns Research and Consulting, LLC. (Data: 4Q24, Pub: Mar-25)

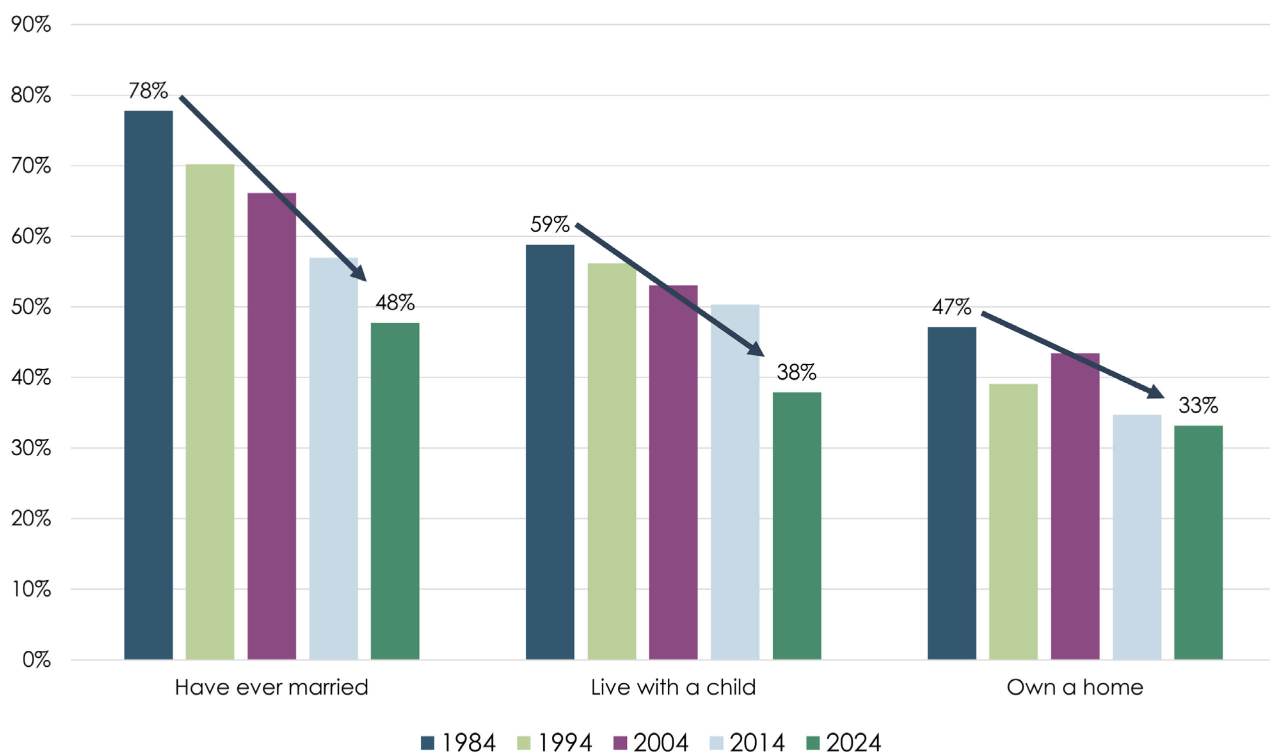
At the same time, improving rental affordability and difficult homebuying conditions have fueled the strongest growth in renter households since 2005. Fewer renters are moving out of professionally managed[1] apartments. Over the past five years, the percentage of renters moving out of professionally managed apartments has dropped from 51% to 41%. This means fewer high-earning renters are buying homes and moving out of quality apartments.

For long-term investors, the slowdown in construction is a favorable trend that we expect will allow landlords to experience rent growth in line with normal market conditions. A decline in future supply means reduced competition for attracting tenants in the years ahead. Multifamily operators of existing communities are positioned to benefit from improved occupancy rates and pricing power. Today's investments in the multifamily market could capitalize on the waning supply environment, just as demand accelerates.

[1]The data on renters moving out of apartments is sourced from JBREC Group, which tracks publicly available REIT same-store turnover. Additionally, professionally managed multifamily properties involve onsite oversight and administration of residential buildings.

GENERATIONAL SHIFTS TO FUEL RENTAL DEMAND

PERCENTAGE OF U.S. 30-YEAR-OLDS REACHING 'ADULT' MILESTONES



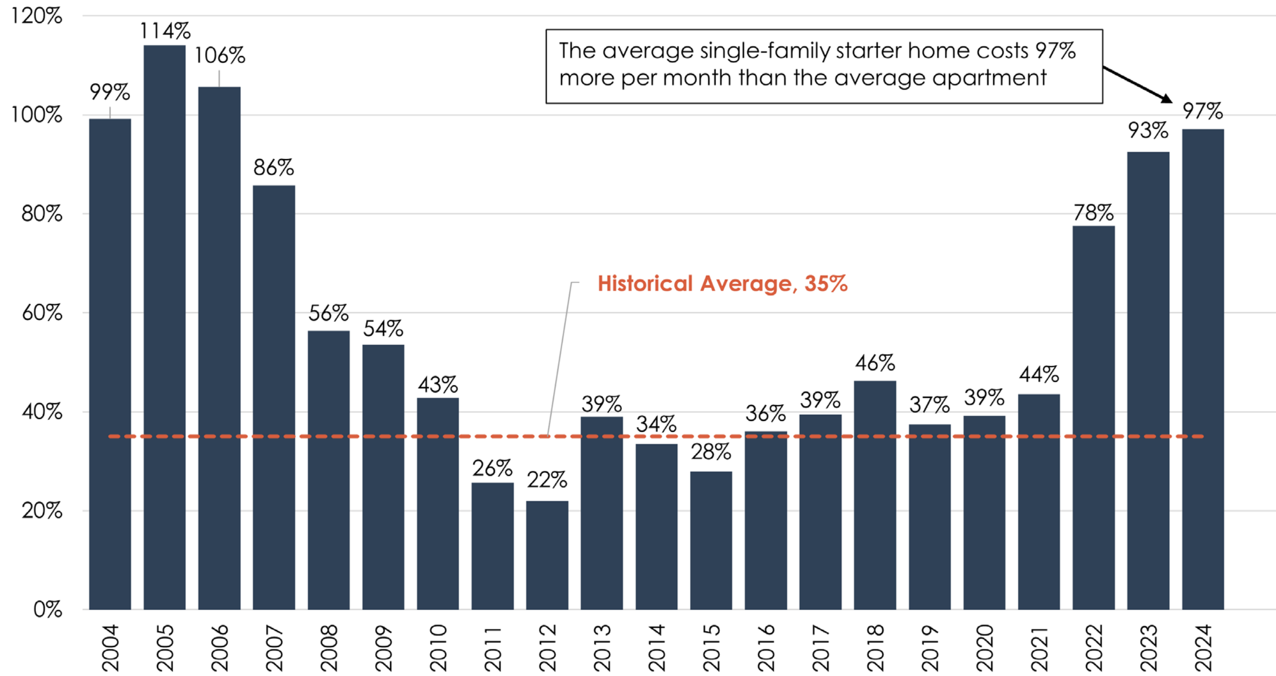
Source: U.S. Census Bureau; John Burns Research and Consulting, LLC (Data: Jan-25, Pub: Mar-25)

There has been a clear and consistent generational behavioral shift in the timing of key life milestones among U.S. adults. Compared to previous generations, significantly fewer 30-year-olds are married, live with a child, or own a home. These delays in reaching traditional adulthood milestones suggest an extended renter lifecycle. For example, the decline in marriage and parenting reduces the urgency for larger, ownership-oriented housing, prolonging demand for rental units. Most notably, the steady drop in homeownership highlights affordability barriers and shifting priorities. Together, these trends suggest that rental housing could be an increasingly chosen housing solution for many as they become homebuyers later in life.

AFFORDABILITY CRISIS DRIVES HIGHER RENTERSHIP

NATIONAL COST OF OWNING VS RENTING

Monthly cost of ownership for single-family starter home vs. monthly apartment rent %



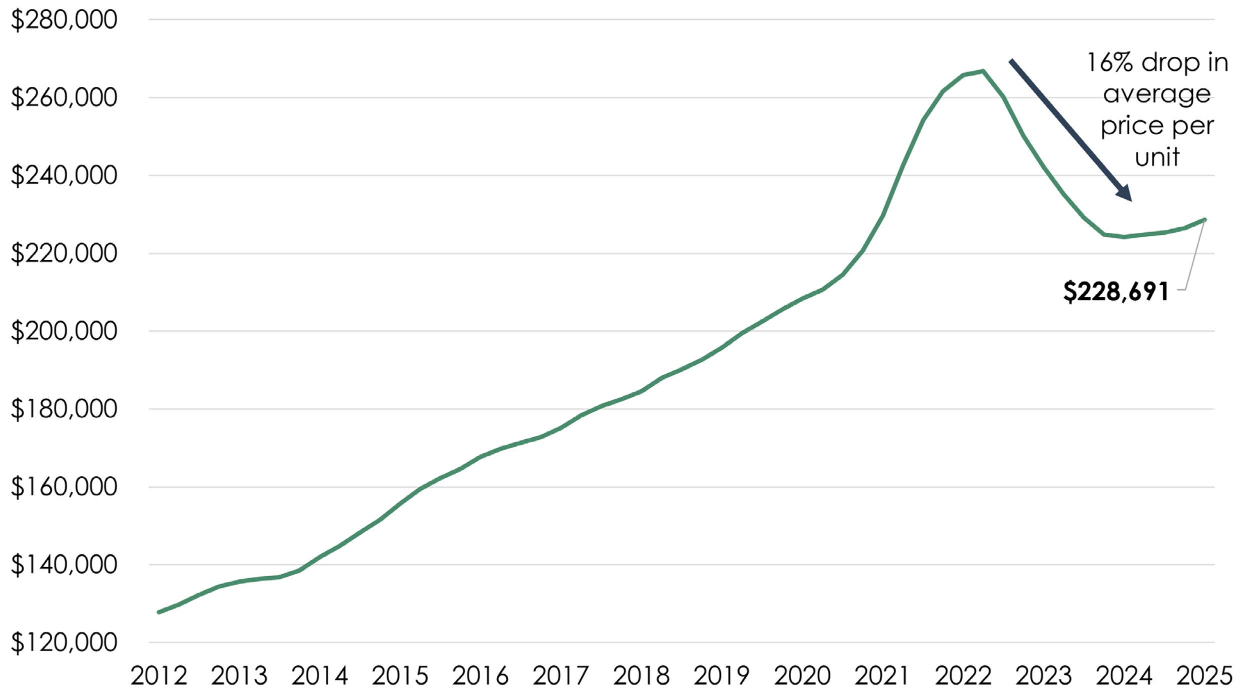
Home payment, entry-level (mortgage): 5% down payment, 30-year fixed rate mortgage, PITI payment, plus mortgage insurance premium.
Housing costs: Monthly home payment plus annual maintenance, costs ranging from 0.85% to 1.25% of the home price set in 2014 and historically adjusted for inflation, factored in monthly.
Source: John Burns Research and Consulting, LLC. (Data: Feb-25, Pub: Mar-25)

Rapidly rising home prices and a spike in mortgage rates have pushed the cost of homeownership out of reach for many households, forcing a larger share to rent. Per JBREC, the average monthly payment for an entry-level home was 92% higher in February 2025 than it was in February 2019.

With the cost of homeownership so prohibitive, it's no surprise that many "would-be" buyers are remaining renters by necessity as well as by choice. Purchasing an entry-level home in 2024 required monthly payments nearly double those of renting an average apartment. This is the largest rent-versus-buy cost gap in nearly 20 years per JBREC's recent research. In practical terms, millions of young adults and families who might prefer to buy simply cannot qualify to purchase at today's prices and rates. Until incomes increase materially or mortgage rates and/or home prices come down substantially, renting could be the default choice for many.

ATTRACTIVE MULTIFAMILY PRICING

AVERAGE U.S. MULTIFAMILY PRICE PER UNIT



Source: CoStar; John Burns Research and Consulting, LLC. (Data: Mar-25, Pub: April-25)

We believe that investors stand to benefit from significantly lower pricing on multifamily acquisitions compared to just a few years ago. Valuations for multifamily assets have dropped meaningfully, creating what could be considered a "buy low" opportunity. After peaking in 2022, the average multifamily price per unit declined by approximately 16% by 2024, providing buyers with the ability to acquire properties at meaningful discounts. Price per unit has increased in each of the past four quarters but remains about 14% below the 2022 peak.

The lower purchase prices mean investors may be able to acquire income-generating assets at more compelling valuations, just as rent fundamentals are showing signs of positive momentum. As market conditions stabilize and demand returns, prices should continue to appreciate. Additionally, if interest rates ease in the future, pricing could recover even more sharply.

With many rate-sensitive buyers remaining on the sidelines, we consider today's acquisition landscape to be more favorable for buyers than it was just a few years ago. We contend that this dynamic presents investors with an exceptional opportunity to purchase high-quality multifamily assets at a potential relative discount.

CONCLUSION

For investors with a long-term view, the current multifamily market offers not only what may be viewed as attractive pricing but also the potential for future appreciation as supply tightens and rent growth follows. In a less competitive landscape, strategic acquisitions made today could become the outperformers of the next cycle. With improving fundamentals and clear long-term demand drivers, multifamily housing stands out as an investment opportunity in today's market.

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