GRIFFIN CAPITAL
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Five Themes for 2025

The property depicted is a representative example of the types of multifamily development properties Griffin Capital has been involved in. **This property is owned by Griffin Capital or its affiliates.**

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THEME 1

Red Sweep

The results are in. What was supposed to be a close election cycle was far from it, with Republicans prevailing in the House, Senate and White House.

While both parties talked on the campaign trail about the undersupply of housing and associated affordability issues, their stated approach to addressing these issues vastly differed. While the new government will focus first on getting nominations and appointments through the process and then shift focus to a reconciliation bill, policy discussions have already started to take shape. Depending on the extent of some of the proposed policies on immigration, trade and tax, outcomes for the dynamics in the housing market are likely to be impacted. Policy to address housing supply is likely going to be accommodative to developers and investors, easing the red tape and regulatory burdens that have stymied housing creation. We expect an expansion of legislation like the "Investing in Opportunity Act" that spurred billions of private sector capital into Opportunity Zone Funds and see a path for further expansion of private sector incentives to develop affordable housing.

Conversely, trade policy could serve as a headwind for housing development depending on the scale and scope of tariffs and the associated cost of construction materials. The same can be said about immigration, as the construction industry relies heavily on the migrant labor pool. Higher materials and labor costs could be a counter-balance to new development but serve as a rent growth catalyst for existing supply. One of the important observations as it pertains to the incoming administration is that those who have been nominated to craft and implement housing policy have a background in the field of housing development and understand the nuanced issues that developers face and how to properly incentivize them to create the housing that Americans need.

THEME 2

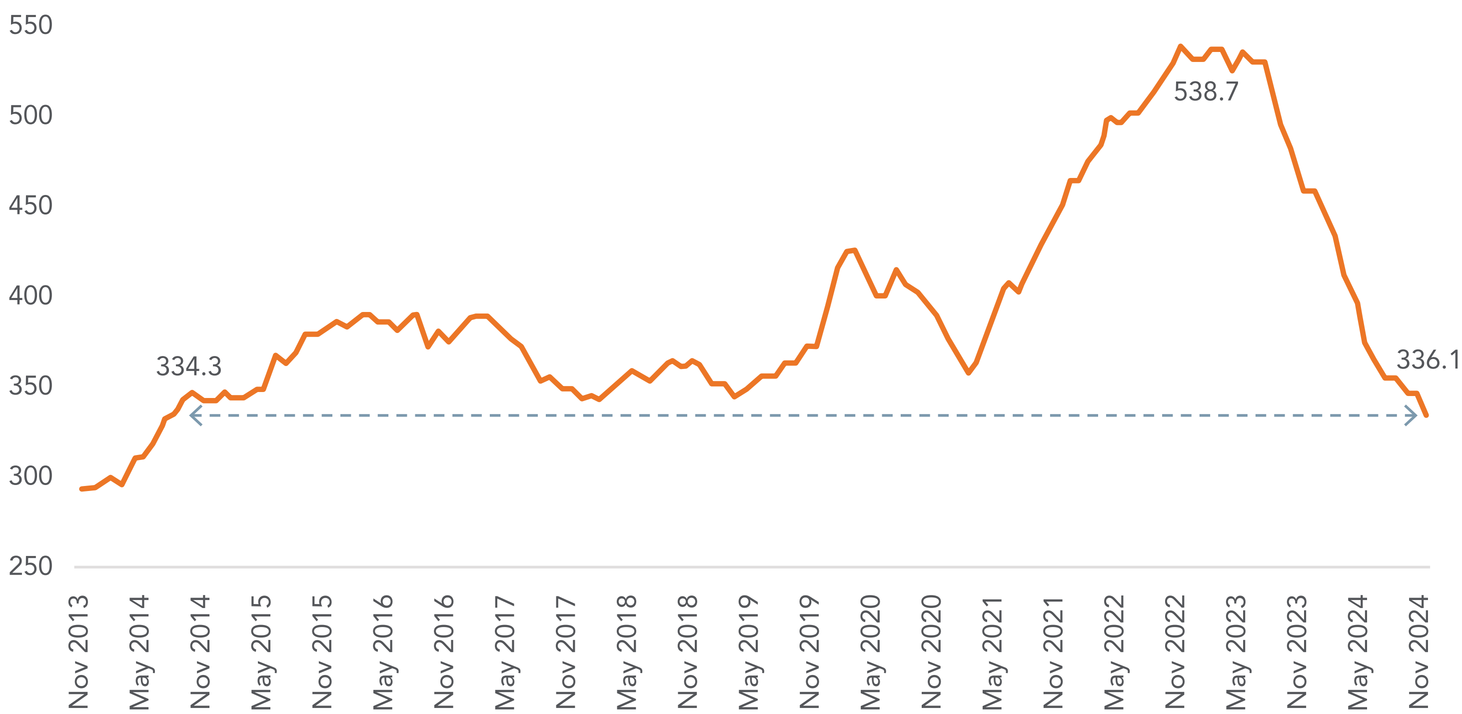
The Supply Cliff

In 2024, we had the largest spread between new apartment deliveries and new starts since 1975, a continuation of a trend from 2023.[1]

The easiest thing to predict is new apartment deliveries; one must only look at new starts and extrapolate the construction timeline to completion to understand the future of supply. New starts and future deliveries are highly correlated, and what we know for certain is that new starts have declined dramatically. In many of the high-growth markets, peak-to-trough starts are down more than 60%,[2] driven by less liquid debt markets, uncertainty around valuations as interest rates were rising, higher costs of construction and capital rotating away from real estate over the past 24 months to less interest rate sensitive sectors. As we look at the delivery pipeline, we see a dramatic fall-off starting in the second half of 2025. We expect this to lead to improved operating fundamentals for landlords, which will be realized through fewer leasing concessions and higher rental rates on renewals and new leases.

U.S. Multifamily Housing Starts Plunge to 10-Year Low

T-12 Multifamily Housing Starts (NSA), in thousands



Source: Madera Residential research, U.S. Census.

Past performance is no guarantee of future results.

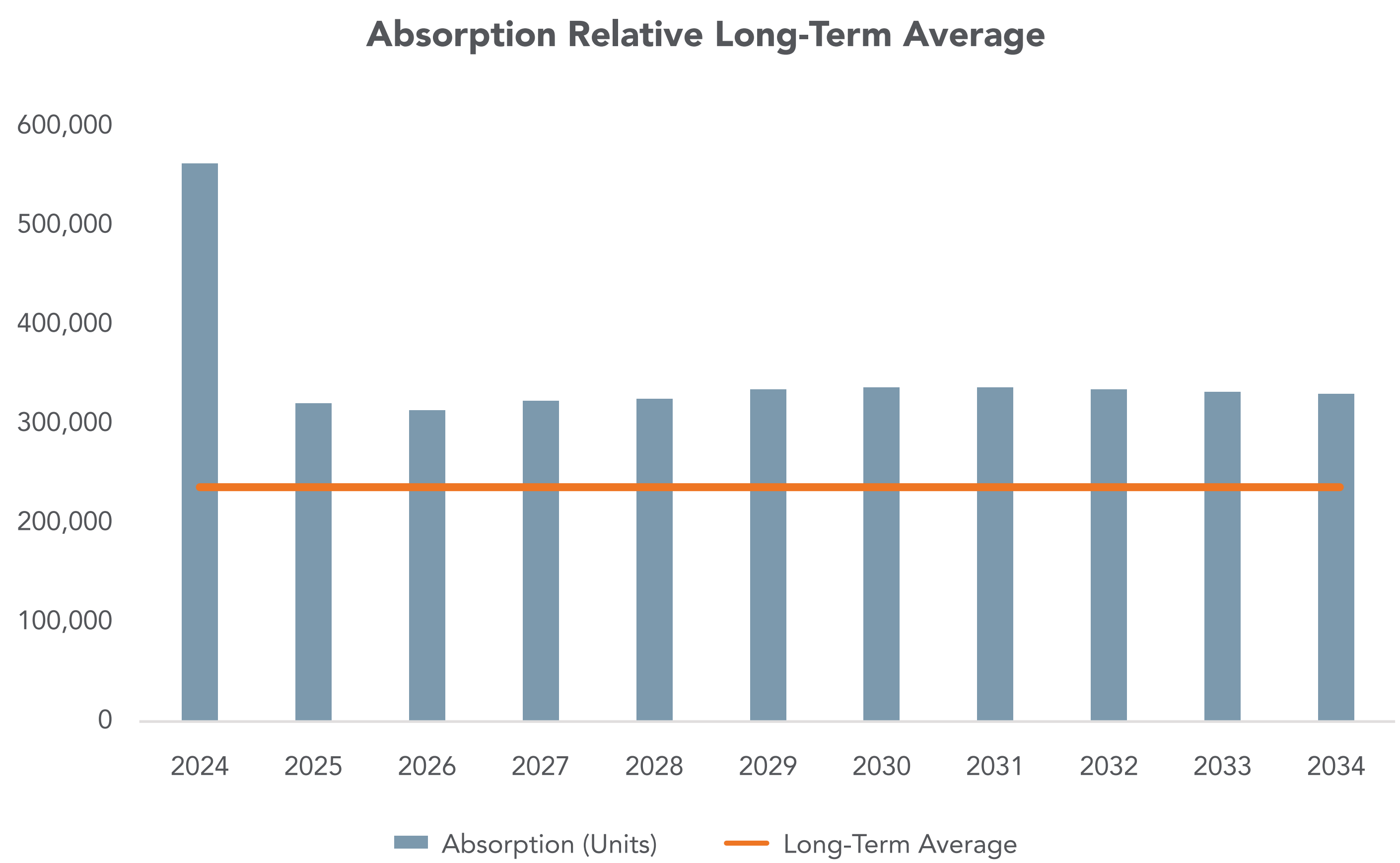
1. U.S. Census Bureau and U.S. Department of Housing and Urban Development, New Privately-Owned Housing Units Started and Completed: Units in Buildings with 5 Units or More [COMPU5MUSA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org, December 19, 2024.
2. CoStar.

THEME 3

The Demand Story Continues

Housing selection is a binary choice between owning and renting.

Inadequate single-family housing production dating back to the GFC and limited for-sale inventory created a significant increase in home values over the past three years that has remained sticky. Only 9% of the single-family housing supply being developed is "entry-level,"[3] creating challenges for those who wish to leave the rental pool. With consumer debt rising, personal savings rates declining and more significant components of our population skewing younger, we anticipate continued strong demand for rental housing. In Q4 2023, Q1 2024, and Q2 2024, the rental market had double the normalized demand, a trend we expect to continue to be elevated over the next several years. Given the decline in new deliveries starting in the second half of 2025, if demand persists as we expect it will, the operating environment for multifamily owners should be advantageous.



Source: CoStar.

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3. U.S. Census Bureau. Percentage of entry-level housing defined as units less than 1,400 square feet completed as a percentage of total homes completed for the year ended December 31, 2023.

THEME 4

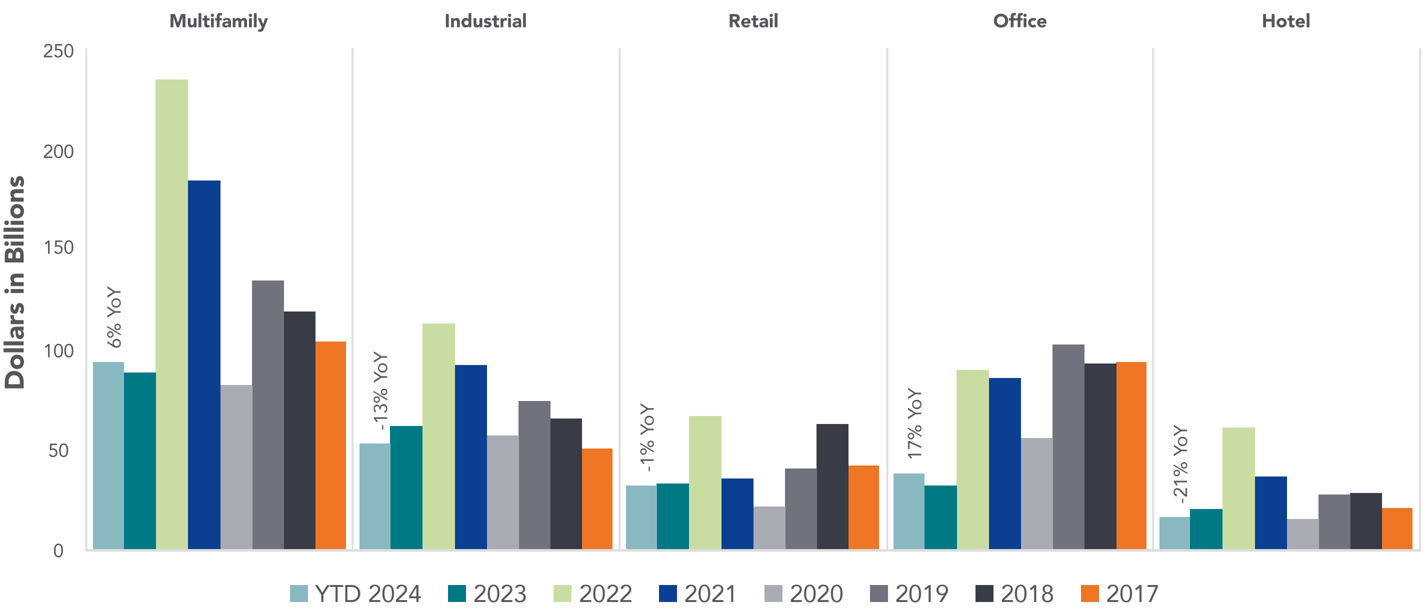
Liquidity Returns

As interest rates were rising, valuations were adjusting.

Consequently, transaction markets were muted with buyers and sellers unable to come to a consensus. The Green Street Property Index indicates that values troughed in Q4 2023 and have rebounded ever so slightly over the course of 2024. The NCREIF Property Index, which is a diversified Core Real Estate Index comprised of Institutional Funds, reported a positive total return in Q4 2024, with both income and appreciation components of returns skewing positive. The biggest players have begun to step back into the market with sizeable transactions recorded in the second half of 2024, including Blackstone, KKR, Brookfield and Equity Residential. This is just the beginning. Market participants are under-allocated to private real estate relative to their target allocations, have significant dry powder earmarked, and multifamily remains a favored sector. As interest rates have stopped rising and fundamentals such as demand remain clearly enduring, 2025 will likely be a year in which transaction volume accelerates meaningfully. Multifamily exposure offers investors portfolio diversification, defensive income, stability and tax efficiency, all attributes we expect investors to want more exposure to if they are confident valuations have stabilized.

Transaction Activity in 3Q24 Roughly Flat YoY

Investment Sales Volume



Source: RCA, Newmark Research as of October 23, 2024.

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THEME 5

A Tale of Two Halves but a Good Whole

The first half of 2025 is likely to be markedly different than the second half. In the first half, rent growth will remain muted as the last of the new deliveries from the cyclical peak of new supply get absorbed. Housing, trade and tax policy will be a moving target and have implications relative interest rates that property market investors will seek to gain clarity on before jumping in with both feet. The headline narrative around real estate will shift slowly from cautious optimism to full-fledged conviction. Investors who place capital in advance of that sea change will likely benefit the most as we move through the cycle, but the dispersion of returns across the 2025 entry-point will likely not have a dramatic impact on investors. We expect 2025 will be viewed in a historical context as an attractive vintage for capital deployment.

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