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April 23, 2025

GRIFFIN CAPITAL MARKET RESEARCH NOTE

Housing as a Shelter from Volatility

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Prior to “Liberation Day,” market forecasters were wary of the growth potential in public markets given how extended valuations had become. With recent developments, that outlook has become more draconian as most have increased their probability of a recession in the near term and lowered price targets for equity markets.

With significant uncertainty surrounding U.S. Trade Policy upending public markets, investors are reminded of the benefits of diversification. One refuge worthy of consideration is Private Real Estate, particularly the rental housing market, which could be well positioned for the reasons outlined herein.

One of the potential outcomes of the current administration’s trade policy is that aggressive tariffs levied against U.S. trading partners result in elevated inflation and a headwind to growth. That puts investors in a position to consider what assets can deliver risk-adjusted returns in such an environment and importantly, act as an inflation hedge. Gold, farmland and real estate have long been viewed as safe havens during times of volatility. Capital has poured into gold, driving prices higher, while farmland is directly exposed in a potential trade war, given much of its production is exported.

Real estate entered the year signaling an attractive entry-point, having seen values reset during the prior interest rate hiking cycle and as all major indices report prices have bottomed. Further, the new construction pipeline declined during the hiking cycle, creating tailwinds in the near term. Real estate has historically served as a good inflation hedge because there is a limited supply in investible locations, and replacement costs increase as material costs increase, creating barriers to new production and opportunities for rent growth. If there is strong demand for a sector and replacement cost increases restrict new supply, this is generally favorable in most economic conditions. In certain market environments rent growth exceeds inflation, and real estate goes beyond being simply a hedge, producing excess returns, particularly in sectors where demand is the strongest.

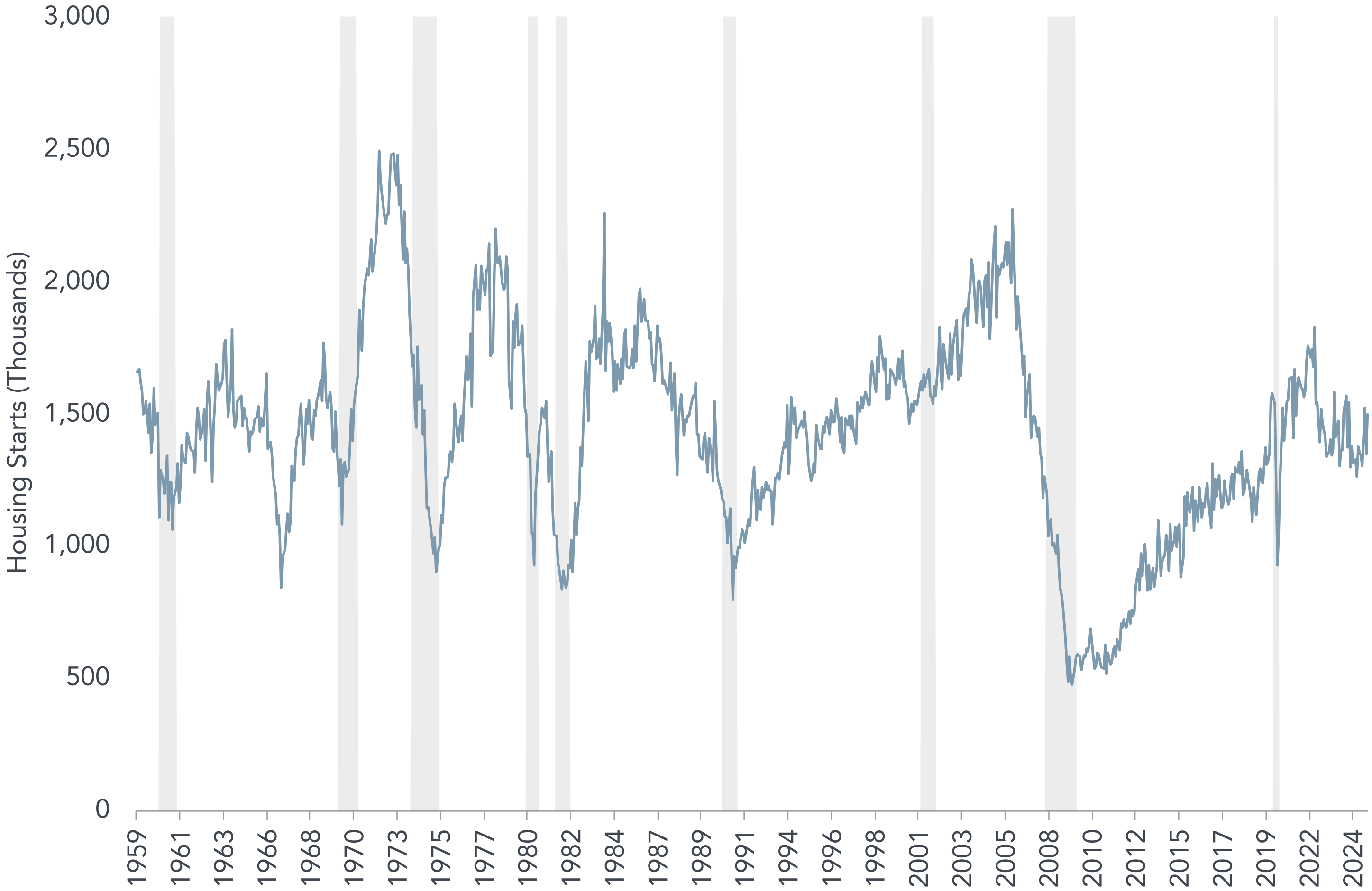
Housing Supply Contracts During Recessions but Household Formation Does Not

Looking beyond the immediate effects in the public markets, it is important to consider how changing policy and economic conditions will impact the real economy and the housing market. Looking at previous periods of economic slowdown, household formations, both for-sale and rental, have been incredibly resilient. Through 12 recessions, dating back to 1949, including the housing-induced recession of 2008, household formations shrank only during the pandemic of 2020. It bears repeating that recessions have not historically caused a decline in the number of households nationally.

What has historically declined during recessions is housing construction. In the past two recessions, construction starts fell 41% and 51% from the month before the recession to the month the recession ended. The chart below, which shows housing starts historically, makes it clear that these two downturns are not unique. During recessions, housing construction declines.

EXHIBIT 1

Housing Construction Slows During Recession



Source: U.S. Census Bureau, Total Households. Shaded Areas indicate NBER Recessions.

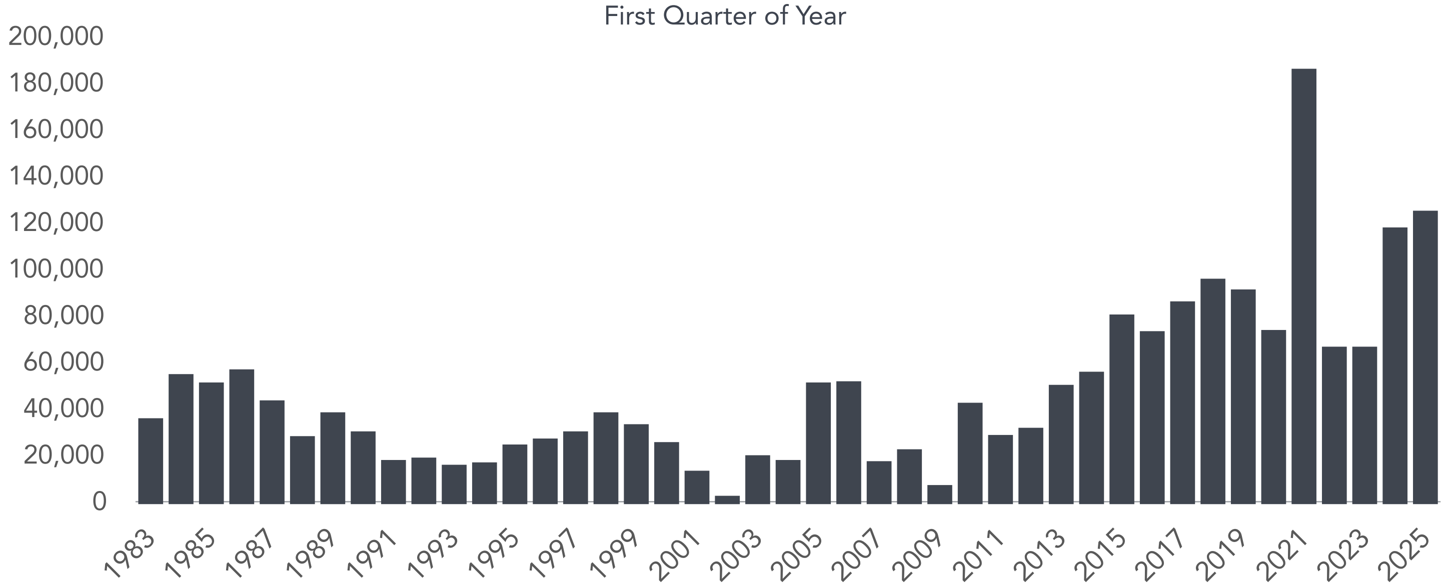
Considering that housing supply is already insufficient to meet demand, it is reasonable to believe that housing investments would be resilient in the face of any impending stress to the macroeconomy.

As it sits presently, market vacancy rates are lower than the long-run average for both homeowner and renter markets, while the demand side of the equation remains robust. Absorption, which measures net new renter households, was strong and exceeded expectations in 2024, and 2025 has followed suit thus far with Q1 demand near record highs. Much of this can be attributed to the age profile of the U.S. population, with significant segments now residing within the prime rental cohort. Further, the median first-time U.S. home buyer is getting older, now 38 years old, suggesting households are renting longer than in previous generations.

EXHIBIT 2

Absorption

First Quarter of Year



Source: CoStar.

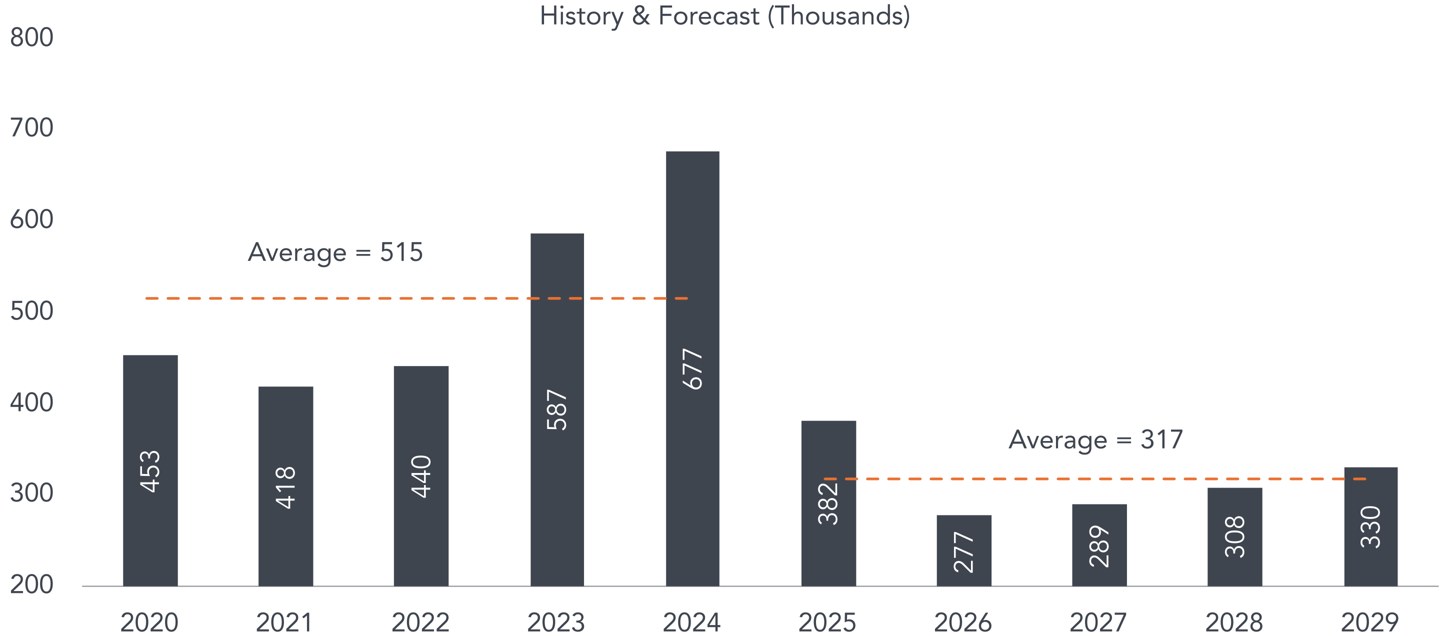
Multifamily Supply is Falling

On the supply side, new construction starts that began to slow in 2023 continued to decline in 2024, setting up for what many are referring to as a "supply cliff" with new multifamily deliveries dropping peak to trough by 40%, as is captured by new supply averaging 515,000 units from 2020-2024 and dropping to 317,000 units in 2025-2029.

EXHIBIT 3

Multifamily - Gross Delivered Units

History & Forecast (Thousands)



Source: CoStar.

Forecasters were predicting strong rent growth from 2026-2028 based on this supply/demand dynamic. Further pressure on new supply from rising construction costs could create the environment for rents to grow at outsized levels, which would create a backdrop for a period of rental housing producing outsized returns.

Summary

While the shift away from free trade and the magnitude of the impacts on the economy is historically significant, we believe that the reaction of the public market and the political discourse do not capture what will happen in the underlying economy. The rental housing market was set up for a period of strong rent growth prior to the current trade policy being enacted. Recent policy developments include factors that provide additional fuel for a period of very significant tailwinds. Regardless of whether rental housing outperforms given the current dynamics, it has historically been a resilient haven during periods of slower growth and inflation. Now might be the time to consider increasing exposure to rental housing to help reduce risk and produce reasonable risk-adjusted returns as the knock-on effects of the current upheaval are sorted out.

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