# Market Perspective

## GREEN CITIES' QUARTERLY PERSPECTIVE ON THE MULTIFAMILY MARKETPLACE | 2Q 2025

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In last quarter's Market Perspective (published Mar'25), we demarcated our position among broader US macroeconomic dynamics as analogous to being mid-slope on a moguls ski-run traversing bumpy and difficult conditions. Today, that is still true; however, we also face a growing fog of uncertainty shrouding near-term obstacles as well as a sightline to the end of the run and smoother conditions.

The key dynamics at play continue to be centered around US trade policy and tariffs, and the accompanying uncertainty surrounding the unsystematic approach to tariff announcements, delays, escalations, carve-outs and roll-backs. All of which create a wide-range of potential outcomes and a conundrum toward generating reliable views of base conditions.

To date, lagging economic indicators largely haven't recognized material adverse effects to the overall economy, with, for instance, the unemployment rate remaining healthy at 4.2%[1] in Apr'25 and near historic lows and a robust 7.2M[2] job openings available. Real-time data, however, is beginning to draw contrasting coloration.

For example, China's exports to the US fell 21% in Apr'25 against a year earlier[3] and Southern California ports – where the ports of Long Beach and Los Angeles alone account for about 40% of container ship volume across the Top-10 US container ports[4] – have seen a roughly 30% drop in scheduled container ships since late Apr'25 into early May'25 in comparison to levels dating back through 4Q'24.[5] A level attained prior to the mid-May US-China agreement to broadly slash reciprocal tariffs that had reached 125% to 10% for 90-days.[6]

According to a May'24 report from the California Center for Jobs & the Economy, the ports of Long Beach and Los Angeles support more than 3 million jobs nationwide, or the equivalent of one out of every 51 US jobs (i.e. 2%).[7]

In addition, if the scale of tariff front-running behavior during 1Q'25 that is coming into greater view with recent data releases is any indication, we should expect further economic irregularities as demand was pulled-forward and behaviors expectedly changed. GDP growth components, as shown in Figure 1.1, highlight:

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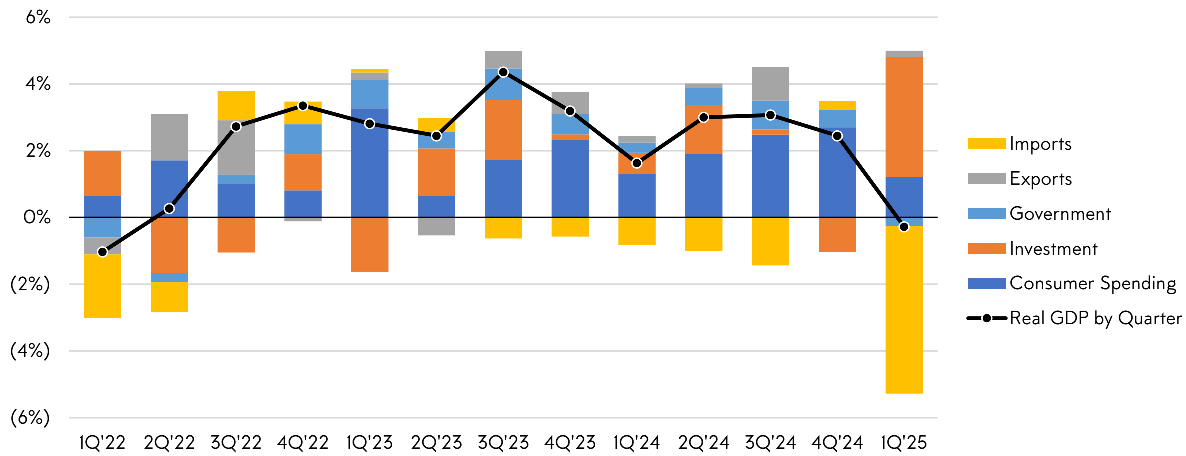
1 US Unemployment Rate. US Bureau of Labor Statistics, Apr'25.
2 Job Openings, Nonfarm. US Bureau of Labor Statistics, Mar'25 (latest available).
3 China's General Administration of Customs via Wall Street Journal, May 9, 2025.
4 TEUs by Port, 2024-Mar'25. US Bureau of Transportation Statistics.
5 Containerships Expected at Southern California Ports in the Following Two Weeks: Marine Exchange of Southern California via Wall Street Journal.
6 The White House. Fact Sheet, May 12, 2025.
7 "Economic Importance of Trade & the Ports of Southern California," California Center for Jobs & The Economy, May 2024.

a / ‘Imports’ increased precipitously and uncharacteristically in 1Q’25, contributing (-5.0%) to real GDP in 1Q’25;[8,9] but which was largely offset by,

b / soaring private ‘Investment’ (+3.6% overall) concentrated in accumulating nonfarm inventories (+2.3%) or, effectively and in large part, outsized imports needed for production and, ultimately, sales;[10] and,

c / ‘Consumer Spending’ (+1.2%), which was positive but decelerated to its lowest growth since 2Q’23.[11] (A somewhat expected outcome based on consumer sentiment, which declined for a fourth consecutive month by falling 8% in Apr’25 to a near COVID-era low while also marking its sharpest three-month percentage decline since the 1990 recession.[12])

(FIG 1.1) REAL GDP COMPONENTS BY QUARTER




Altogether, as one in a crowd of many mid-slope who are navigating moguls in-kind amid a thickening fog, we hope that by recognizing and proactively considering certain risks, as outlined here, we can create better and more informed investment decisions to the benefit of our strategic plan. That said, we’re also caught between moguls without much visibility as a result of shifting tariff rhetoric, renegotiations and policy that could worsen or improve our path. Notwithstanding, we’ll be watching for a line of sight opening to a more predictable or smoothed ski run ahead.

## COMMERCIAL REAL ESTATE & MULTIFAMILY

Commercial real estate and multifamily aren’t isolated from these emerging and evolving macro dynamics. However, within multifamily, the sector’s distinct characteristics do provide a degree of insulation, including:

- secular demand drivers like population and household growth;
- a relative inelasticity of demand stemming from the sector’s delivery of a basic human need (i.e. shelter) and, in certain circumstances, its position as an ‘inferior good’ and low-cost option for segments of the population, including displaced homeowners;
- its multi-tenanted composition, which mitigates binary leasing (and credit) risks, and where rent rolls can continuously capture organic and market rental growth;

8 Increasing imports are treated as negative GDP input.
9 US Bureau of Economic Analysis, 1Q’2025
10 US Bureau of Economic Analysis, 1Q’2025.
11 US Bureau of Economic Analysis, 1Q’2025.
12 Index of Consumer Sentiment. University of Michigan Surveys of Consumers, Apr’25.

- GSE financing support and liquidity.

All of which, expectedly, have contributed to the sector's historic resiliency and overarching performance.

Today, US multifamily also continues to have healthy overall fundamentals with brightening outlooks for performance with substantially declining new supply levels ahead.

Absorption has largely met historically high levels of new supply over the recent period, which totaled as many as 692k net new deliveries between 4Q'23-3Q'24 (after nearly 1.2M units were under construction in 1Q'23), with occupancy declining a mere (-40bps) since 4Q'23 to 91.9%. As we look beyond 1Q'25, a substantially improved level of new supply totaling 338k net new units are expected over the next year (2Q'25-1Q'26), which is then projected to further decline to an average of roughly 249k units per year over the next two years (2Q'26-1Q'28).[13]

Meanwhile, new US household formations are projected to be near 850k and then average about 640k over the same calendar periods, generating household-to-new supply ratios of approximately 2.5 and 2.6, respectively, which compares favorably against the 2.0 ratio seen over the past year.[14] A dynamic also supportive of multifamily against continued high home ownership costs.

According to the US Case-Shiller Index, home prices gained 0.5% between 4Q'24 and Feb'25 (latest available) and 3.9% YoY,[15] and require (a) an estimated 12.8 year down payment savings timeline – up from 9.9 and 10.8 years at Mar'15 and Mar'20, respectively; and, (b) 28.0% of gross household income (before property taxes and insurance) to service the average US 30-year fixed mortgage on a new home purchase – up from 15.3% and 16.3% at Mar'15 and Mar'20, respectively.[16]

Recent US multifamily transaction volume has also continued to grow and gain momentum, improving to $32B in 4Q'24 (latest quarter available), or a 97% gain against 4Q'23 and resembling same-quarter pre-COVID levels in 2018 ($35B) and 2019 ($38B).[17]

While prevailing US macroeconomic dynamics continue to position the market – as in 1Q'25 – analogously like we're skiing mid-slope on a black diamond mogul run traversing bumps and difficulties, a newfound fog of uncertainty surrounding US trade policy and tariffs has set in. Multifamily's healthy overall fundamentals, underlying characteristics and resiliency, however, bolster capabilities to navigate this difficult terrain and provides a smoother comparative route amongst the moguls, fog, and a crowded slope filled with a multitude of other investment strategies.

13 CoStar, 1Q'25.
14 CoStar, 1Q'25.
15 US Case-Shiller Index, Feb'25.
16 Green Cities Research via Federal Reserve Economic Data (FRED), CoStar, Zillow based on Zillow Home Value Index (ZHVI), a measure of the typical home value for homes in the 35th to 65th percentile range. Down payment saving timeline assumes 7% annual savings of average US gross household income with 20% down payment on ZHVI. Home mortgage servicing cost assumes average 30-year US fixed mortgage rate for a mortgage at 80% of ZHVI and average US gross household income.
17 Green Street Advisors. Figures represent aggregate transaction volume for deals greater than $25M+.

## Blake Walker

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Blake Walker oversees all macro-economic and market specific research and grounds the firm's strategies and investment decisions with data including developing and deploying Green Cities proprietary Heat Map Index (HMI). Previously, Blake was the Head of Research and Strategy at AIG Global Real Estate.

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ALL DATA AS OF MAY 15, 2025, UNLESS OTHERWISE NOTED.