



VIKING CAPITAL

2025 Real Estate Predictions





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INTRODUCTION

At Viking Capital, we've built a legacy over the last decade with over 6,000 doors acquired and \$1.2 billion in assets under management nationwide. As we enter 2025, pivotal shifts in the multifamily real estate market are emerging. This white paper presents comprehensive predictions from our CEO and VP of Investor Relations, for Multifamily Real Estate in 2025, supported by data, market trends, and expert insights.



EXECUTIVE SUMMARY

At Viking Capital, we don't just follow trends—we analyze data, economic cycles, and capital flows to stay ahead. With 6,000+ doors and \$1.2B in assets under management, our 2025 predictions are rooted in historical insights and market fundamentals. This year, multifamily real estate is at a turning point, shaped by policy shifts, debt pressures, and evolving investor priorities.

Key Market Drivers

Federal policy will play a major role—potential 100% Bonus Depreciation could boost investor confidence, while tariffs may push construction costs higher. CBRE projects a transaction rebound by Q2, and Yardi Matrix forecasts 4-6% rent growth, marking a return to pre-pandemic pricing power.

Investment Hotspots & Debt Pressures

The Sun Belt remains the prime target for multifamily investment, but nearly \$1T in commercial mortgages maturing in 2025 could trigger distressed sales. Operators with variable-rate debt are facing compressed NOI, creating rare acquisition opportunities for well-positioned investors.

Supply Constraints & Investor Shifts

Slower development due to tariffs, labor shortages, and financing challenges will tighten supply, driving rental demand. Build-to-rent (BTR) is surging, especially in the Sun Belt. Meanwhile, institutional capital is pivoting from luxury Class A to workforce housing (Class B & C), where demand is strongest.

Capital Markets & Strategic Positioning

Cap rates should stabilize as borrowing costs ease. Rising Treasury yields and an overheated stock market suggest capital will shift toward real estate as a hedge. Sustainability is now a necessity—green-certified assets attract premium rents, lower vacancies, and long-term cost savings.

Conclusion: Navigating 2025

Market cycles bring both risks and opportunities. Historical data suggests that 2025 will favor disciplined investors who act strategically—whether through acquisitions, value-add plays, or shifting toward resilient markets. This white paper explores the data and insights investors need to capitalize on the evolving multifamily landscape.



**History Doesn't Repeat Itself,
But It Often Rhymes**



BONUS DEPRECIATION RETURNS TO 100%

In 2025, the multifamily real estate sector is poised for significant growth, driven by anticipated tax policy changes under the Trump administration. A key component of this growth is the proposed reinstatement of 100% bonus depreciation, a move expected to enhance investment activity and offer substantial tax benefits to investors. Viking Capital's CEO, Vikram Raya, is confident Multifamily will be bolstered by the return of 100% Bonus Depreciation in 2025.

BACKGROUND ON BONUS DEPRECIATION

The Tax Cuts and Jobs Act (TCJA) of 2017 introduced a 100% bonus depreciation, allowing investors to immediately deduct the full cost of qualifying property in the year it was placed in service. This provision significantly boosted real estate investments by improving cash flow and reducing tax liabilities. However, the TCJA outlined a phased reduction of this benefit, decreasing to 80% in 2023, 60% in 2024, and 40% in 2025, with complete phase-out by 2027.

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PROPOSED POLICY CHANGES

The Trump administration has proposed reinstating the 100% bonus depreciation and making it permanent. This proposal aims to stimulate economic growth by encouraging businesses to invest in new properties and equipment. If enacted, the policy would allow real estate investors to continue fully deducting the cost of qualifying assets in the year of acquisition, reversing the scheduled phase-out. ²

PROJECTED IMPACT ON MULTIFAMILY INVESTMENT

The National Multifamily Housing Council (NMHC) anticipates that reinstating 100% bonus depreciation could lead to a 15-20% increase in multifamily investment activity. This surge is attributed to the enhanced tax advantages, making real estate investments more attractive. Increased capital flow into the sector is expected as investors seek to capitalize on the immediate expensing of property costs, thereby improving their return on investment.

INVESTOR TAKEAWAYS

Investors should consider the following strategies to maximize benefits from the anticipated policy change:

- **Cost Segregation Studies:** By identifying and classifying components of a property that qualify for shorter depreciation lives, investors can accelerate depreciation deductions, leading to immediate tax savings.
- **Strategic Acquisition Planning:** Timing property acquisitions to align with the reinstatement of 100% bonus depreciation can optimize tax benefits. Investors may consider expediting purchases to take advantage of full expensing provisions.
- **Portfolio Expansion:** The enhanced cash flow resulting from immediate expensing can be reinvested into additional properties, facilitating portfolio growth and diversification.

By proactively adapting to these anticipated tax reforms, investors can position themselves to capitalize on the favorable tax environment, thereby enhancing their investment returns in the multifamily real estate market.



INCREASED TRANSACTION VELOCITY BY Q2

Multifamily real estate is poised for increased transactional velocity, particularly by the second quarter. At Viking Capital, our team anticipates a surge influenced by interest rate dynamics, market optimism, and strategic decisions by the Federal Reserve.

IMPACT OF INTEREST RATE DYNAMICS ON MULTIFAMILY TRANSACTIONS

Interest rate fluctuations play a pivotal role in shaping multifamily real estate activities. Lower interest rates typically reduce borrowing costs, making financing more accessible and attractive for investors. This environment can lead to heightened acquisition and development activities within the sector. Conversely, elevated rates may constrain borrowing capacity, potentially dampening investment enthusiasm.

MARKET OPTIMISM FOR 2025

Despite economic headwinds, the multifamily market is optimistic about 2025. Several leading multifamily investment firms have expressed intentions to increase their activities, including buying, selling, and initiating new developments, more than in previous years. This proactive stance suggests a collective belief in the sector's resilience and potential for growth.

FEDERAL RESERVE'S JANUARY 2025 DECISION AND ITS IMPLICATIONS

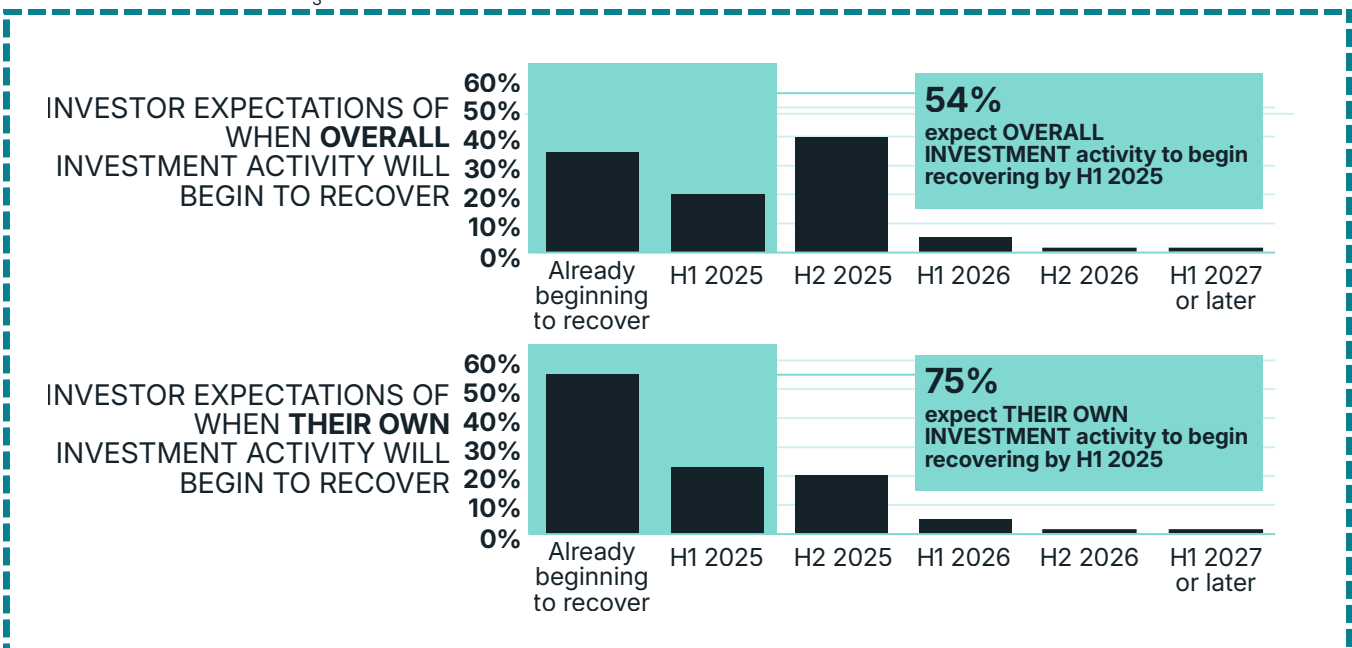
In January 2025, the Federal Reserve opted to maintain the federal funds rate at 4.3%, refraining from additional cuts. This decision was influenced by concerns over potential inflationary pressures, partly attributed to robust consumer spending and specific policy proposals. The Fed's cautious approach indicates a focus on balancing economic growth with inflation control.

The decision to hold rates steady suggests that borrowing costs for consumers and investors may not decrease in the immediate term. This stability allows investors to plan with a degree of certainty regarding financing conditions, potentially leading to strategic investment decisions in the multifamily sector.

MARKET FORECAST

Industry analyses project a positive trajectory for multifamily investments in 2025. CBRE's market outlook anticipates a 10% increase in investment sales, with multifamily assets being a significant contributor. Additionally, cap rate⁵ compression is expected, with multifamily cap rates projected to decline by 17 basis points by the end of the year.

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This forecasted growth is supported by several factors:

- **Improved Financing Conditions:** While the Fed has paused rate cuts, the existing rate environment remains conducive to investment, with borrowing costs more manageable than in previous high-rate periods.
- **Renewed Investor Confidence:** The combination of stable interest rates and positive market projections fosters an environment of confidence, encouraging investors to engage in more transactions.

INVESTOR TAKEAWAYS

To capitalize on the anticipated increase in market activity, investors should consider the following strategies:

- **Leverage Favorable Financing Terms:** With interest rates holding steady at relatively low levels, securing financing for acquisitions or developments can be advantageous.

Investors should explore loan options that align with their investment horizons and risk profiles.

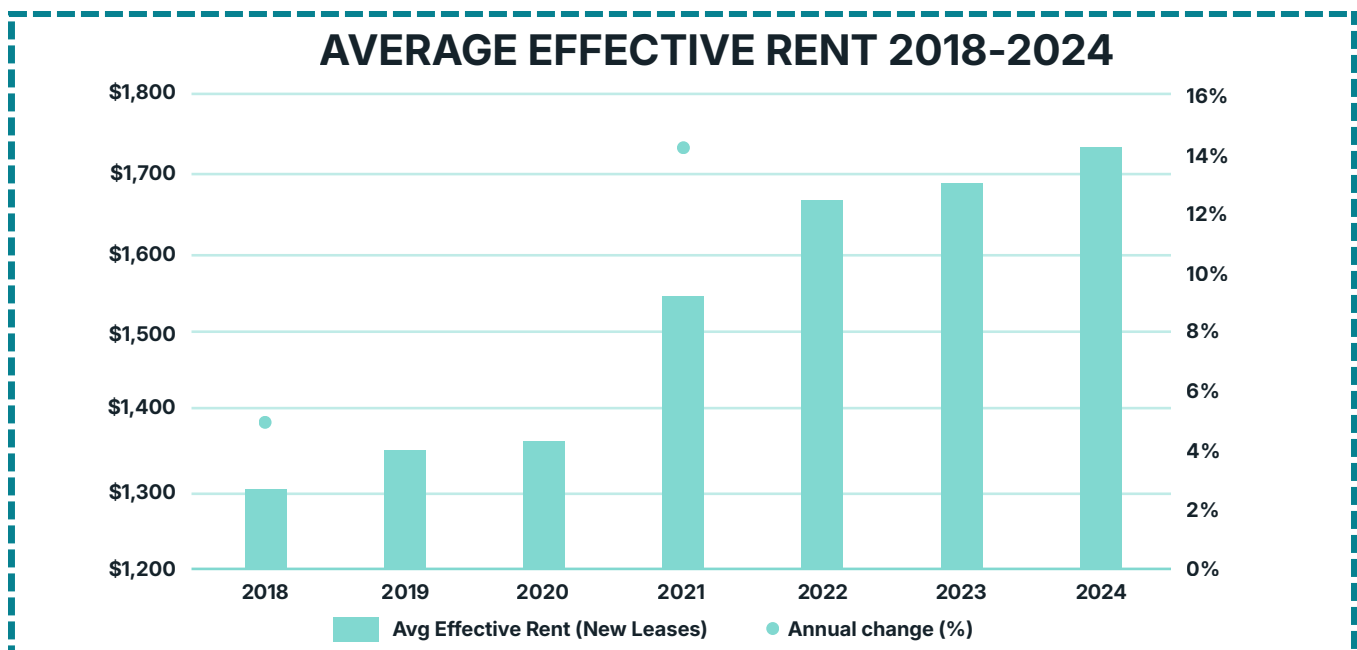
- **Position for Increased Market Activity:** Proactive engagement in the market, including identifying potential acquisition targets and conducting thorough due diligence, can position investors to act swiftly as opportunities arise. Staying informed about local market trends and maintaining flexibility in investment strategies will be key to navigating the dynamic landscape of 2025.

By understanding the interplay of interest rates, market sentiment, and Federal Reserve policies, investors can make informed decisions to optimize their portfolios in the evolving multifamily real estate market.

RENTS REBOUND TO PRE-PANDEMIC LEVELS BY SUMMER

As of January 2025, the U.S. multifamily market is showing signs of resilience, with advertised asking rents increasing by \$3 to an average of \$1,746, marking a 0.8% year-over-year growth.

This uptick follows a six-month period of declining rents, indicating a potential rebound. Viking Capital is tracking rent growth at the property level which supports the data seen from Yardi Matrix. ⁷





MARKET FORECAST

Analysts project that rent growth will continue to rise moderately throughout 2025. Yardi Matrix anticipates a 1.5% national increase in advertised rents for the year. ⁸

Similarly, Fannie Mae forecasts annualized rent growth between 2.0% and 2.5%, driven by job growth and favorable demographic trends among the 20- to 34-year-old cohort. ⁹

Notably, markets in the Northeast and Midwest are leading in rent growth. Metropolitan areas such as New York City (5.4%), New Jersey (4.2%), Detroit (4.1%), Kansas City (3.9%), and Philadelphia (3.1%) have experienced significant year-over-year increases. ⁹

In contrast, high-supply Sun Belt markets, including Phoenix, Dallas, and Atlanta, are expected to see more modest rent growth due to the substantial influx of new supply. ⁹

DRIVING FACTORS

Several key factors are contributing to the anticipated rent growth in 2025:

- **Continued Domestic Migration:** The Northeast and Midwest regions are benefiting from steady population growth, bolstering housing demand. While the Sun Belt continues to lead in-migration for the U.S.
- **Strong Housing Demand Outpacing Supply:** Despite a robust supply pipeline, with forecasted completions of approximately 525,000 units in 2025, demand remains strong, particularly in markets with less new supply.

INVESTOR TAKEAWAYS

For multifamily investors, the current landscape presents opportunities to capitalize on rising rental rates, especially in markets demonstrating strong demand and manageable supply growth. Focusing on regions with favorable demographic trends and economic stability can position investors for higher returns.

SUPPLY ABSORPTION CREATES SHORTAGES

2024 experienced a notable supply-demand imbalance, characterized by increased absorption rates and a decline in new developments. This dynamic is expected to persist throughout 2025, leading to even more housing shortages, higher occupancy levels, and opportunities for operators to enhance rental income and net operating income (NOI).

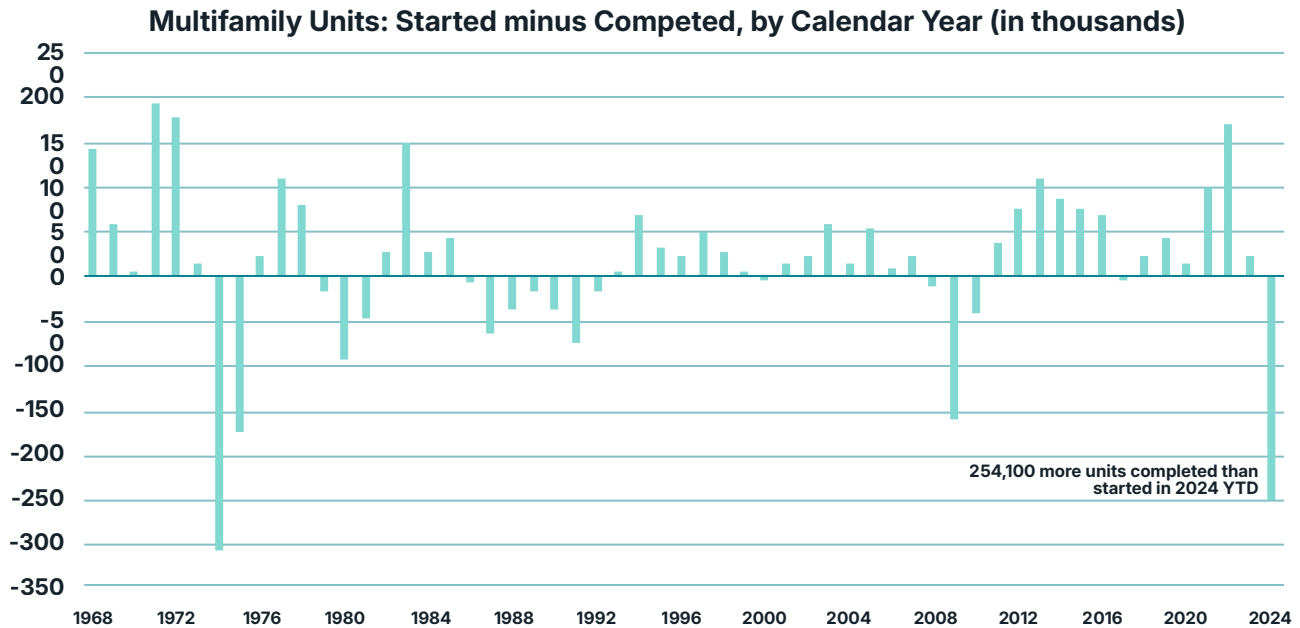


"After attending multiple multifamily conferences this year, the overwhelming consensus is that while underlying fundamentals remain soft, record absorption over the past 12 months signals a strong demand trend. If this momentum continues into 2025—coupled with fewer new deliveries—we anticipate a positive outlook for multifamily demand."

– VIKING CAPITAL'S
VP OF INVESTOR RELATIONS,
CHRIS PARRINELLO



MULTIFAMILY STARTS TRAILED COMPLETIONS BY HISTORIC PACE IN 2024



MARKET TRENDS & EXPERT INSIGHTS

John Chang, Senior Vice President and Director of Research Services at Marcus & Millichap, highlights the current market conditions:

"We are seeing an increase of absorption in many markets with a decrease of new development, creating housing shortages, which will drive up occupancy levels in apartments, and creating an opportunity for operators to increase rent prices, increasing NOI."¹⁰

Supporting this perspective, CoStar Group reports a significant reduction in new supply deliveries across major property types. In the 12 months ending December 2024, deliveries reached 623.6 million square feet, a 35.8% decrease compared to the same period in 2023. This decline in new developments, coupled with sustained demand, contributes to the tightening of the multifamily market.¹¹

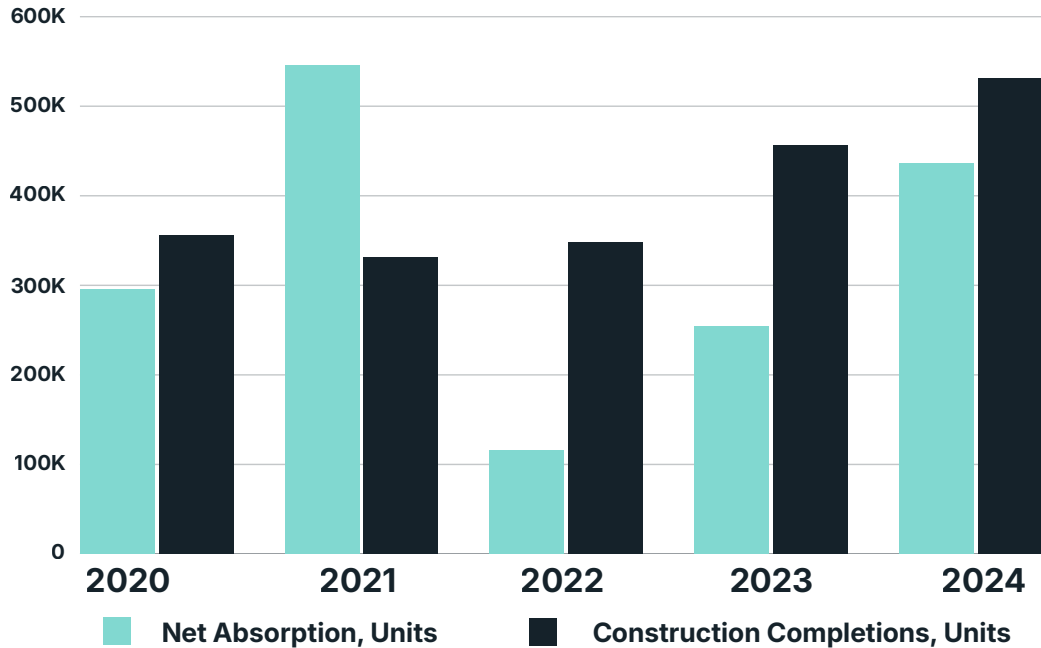
IMPACT ON MULTIFAMILY INVESTMENTS

The convergence of rising absorption rates and declining new supply has several implications for multifamily investments:

- **Higher Occupancy Rates:** As the availability of new units diminishes, existing properties are experiencing increased demand, leading to higher occupancy levels.
- **Increased Rental Prices:** The supply shortage enables property operators to implement rent increases, as prospective tenants face limited housing options.
- **NOI Growth Opportunities:** Elevated occupancy and rental rates directly contribute to improved net operating income for property owners and investors.



SPACE DEMAND / DELIVERIES



INVESTOR TAKEAWAYS

The current market fundamentals present a favorable environment for multifamily investors:

- **Capitalizing on Supply Constraints:** Investors can benefit from the reduced competition in new developments by focusing on existing properties with potential for rent growth and value appreciation.
- **Strategic Market Positioning:** Identifying high-demand areas with pronounced supply-demand imbalances allows investors to maximize returns through strategic acquisitions and property enhancements.

2025 offers promising opportunities for investors and operators to leverage supply shortages, driving occupancy rates and rental income to new heights.

CONTINUED SUN BELT MIGRATION

In 2025, we expect to see the Sun Belt region continue to experience significant population growth, with cities such as Phoenix, Dallas, Atlanta, and various Florida markets emerging as top migration destinations. This trend is driven by factors including affordability, abundant job opportunities, and favorable climates.

With a strong portfolio presence in the Sun Belt region, Viking Capital remains confident in its continued growth potential and is actively pursuing new acquisitions in 2025.

TOP MIGRATION DESTINATIONS

- **Texas:** Leading the nation in population growth, Texas added approximately 562,941 residents between mid-2023 and mid-2024.
- **Florida:** Closely following Texas, Florida saw an influx of about 467,347 new residents during the same period.
- **South Carolina:** Notably, South Carolina has emerged as a prominent destination, topping U-Haul's 2024 Growth Index for the first time, indicating a significant increase in inbound moves.



DATA-DRIVEN INSIGHTS

- **U.S. Census Data:** The latest U.S. Census Bureau reports confirm that Texas and Florida are leading the nation in numeric population gains, reflecting sustained migration to these states.
- **U-Haul Migration Trends:** U-Haul's 2024 data highlights South Carolina as the top growth state, with Texas and Florida also ranking high, underscoring the continued appeal of the Sun Belt region for relocations.

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INVESTOR TAKEAWAYS

The sustained population influx into the Sun Belt offers promising prospects for real estate investors:

- **Strategic Investments:** Focusing on high-growth areas like Texas, Florida, and South Carolina can yield favorable returns due to escalating housing demand.
- **Development Opportunities:** The need for additional housing creates avenues for new developments and expansions in multifamily housing sectors.

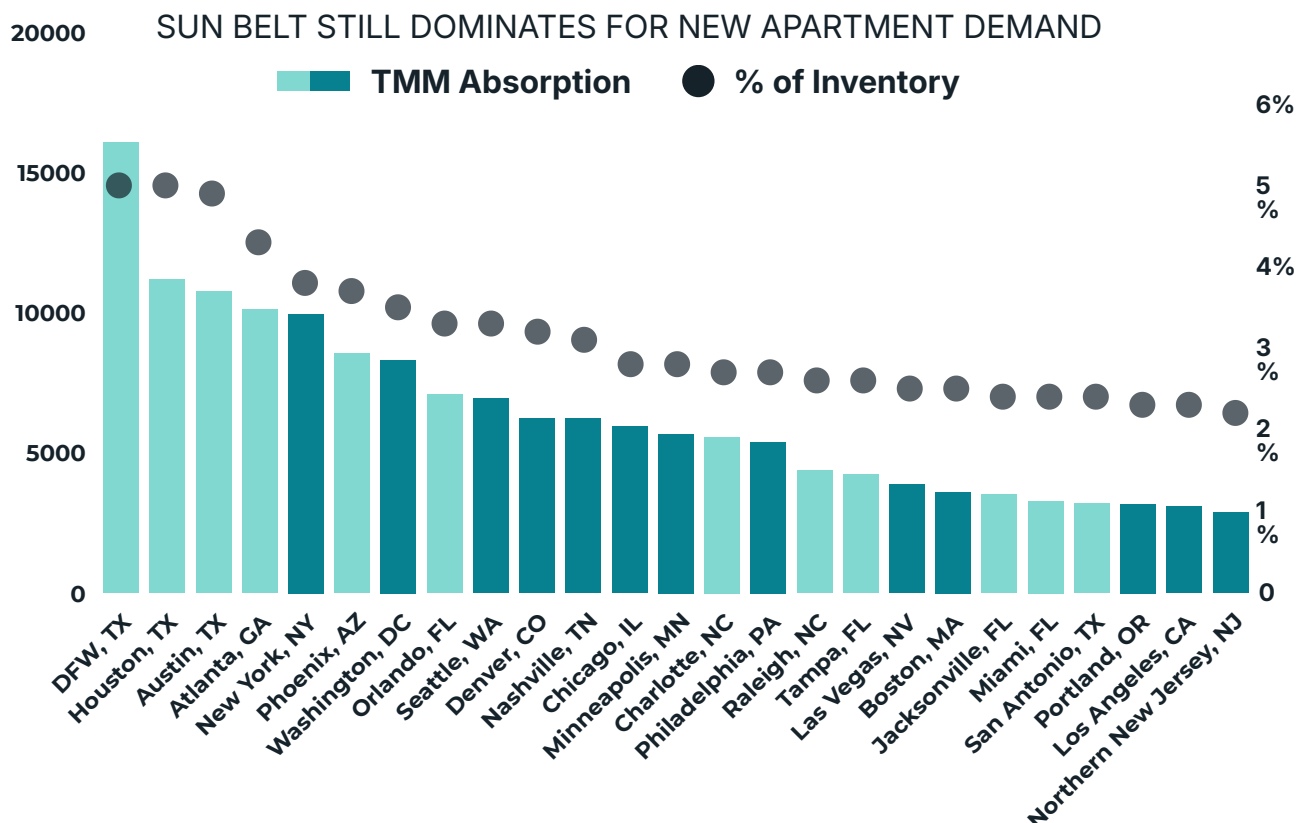
IMPACT ON HOUSING DEMAND

The ongoing migration to Sun Belt states is intensifying housing demand, leading to:

- **Increased Rental Demand:** As more individuals and families relocate to these regions, the need for rental properties rises, presenting opportunities for multifamily real estate investments.
- **Rising Property Values:** The surge in demand contributes to appreciating property values, benefiting current owners and attracting new investors.

Migration trends toward the Sun Belt states is expected to persist, bolstering housing markets and presenting lucrative opportunities for investors in the multifamily real estate sector.

TOP MARKETS FOR DEMAND ARE MOSTLY IN THE SOUTH





STRESS ON MULTIFAMILY OPERATORS WITH VARIABLE RATE DEBT

Financial challenges are becoming more significant as a substantial number of loans approach maturity in 2025. According to the Mortgage Bankers Association (MBA), 20% of the \$4.8 trillion in outstanding commercial mortgages—approximately \$957 billion—are set to mature in 2025, marking a 3% increase from 2024.

At Viking Capital, our acquisition team is actively navigating this financial turbulence, analyzing thousands of deals each month to uncover the strongest investment opportunities in 2025. In times of uncertainty, strategic investors can find exceptional opportunities, and we're committed to positioning our investors for success.

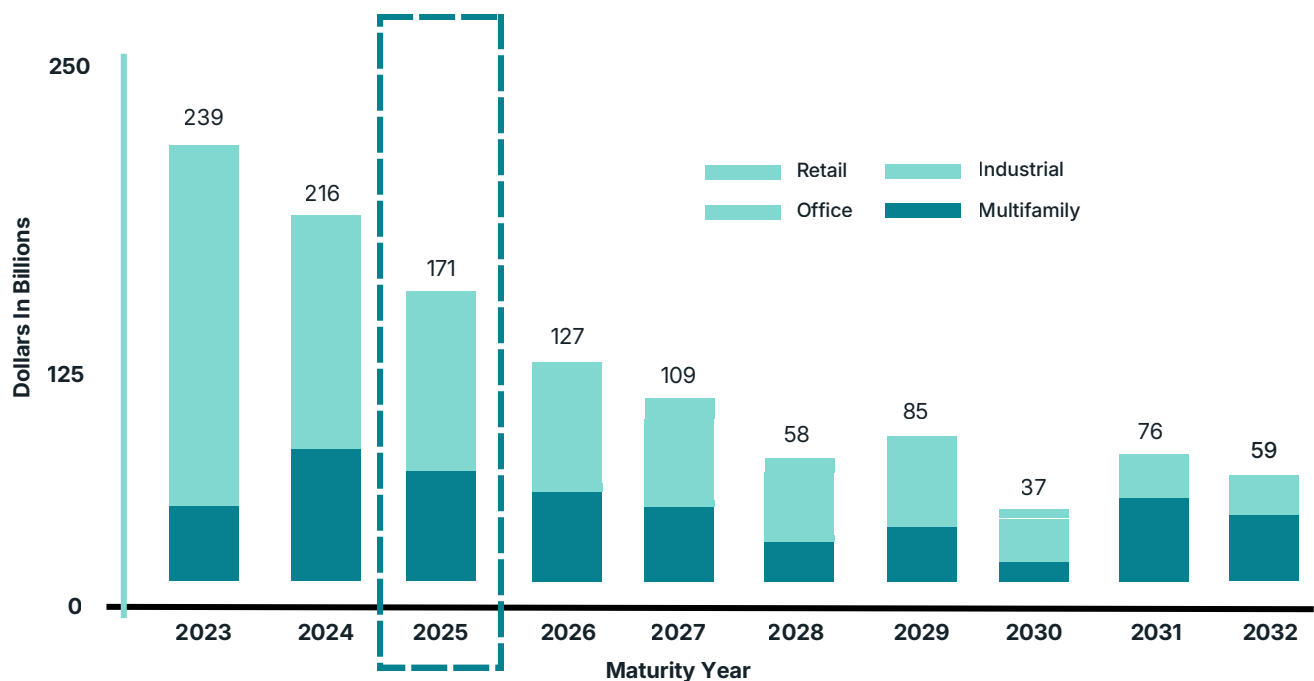
¹⁴
This impending wave of maturities, coupled with rising interest rates, is intensifying debt service obligations and creating refinancing hurdles for operators, especially those with variable rate debt.

RIISING DEBT SERVICE COSTS

The escalation of interest rates has led to increased borrowing costs, significantly elevating loan payments for multifamily operators. This surge in debt service obligations is compressing net operating income (NOI) and straining cash flows, thereby challenging operators' financial stability.

POTENTIALLY TROUBLED LOANS BY MATURITY YEAR:

\$1.2 T of Outstanding CRE Debt Is Potentially Troubled, \$626B Maturing In 2023-2025





LOAN MATURITIES & REFINANCING RISKS

The substantial volume of maturing loans necessitates refinancing under potentially less favorable conditions. MSCI Real Assets estimates that nearly \$500 billion of loans are set to mature in 2025, with approximately 14% of these loans potentially being underwater—where the outstanding loan balance exceeds the current asset value—if they mature at Q3 2024 price levels.

This scenario poses significant refinancing challenges, as lenders may impose stricter underwriting standards, making it difficult for some borrowers to secure sustainable refinancing terms.

MARKET IMPLICATIONS

The convergence of increased debt service costs and refinancing difficulties may lead to a rise in loan defaults, foreclosures, and distressed asset sales. Secondary and tertiary markets, often supported by regional lenders, could experience heightened volatility and liquidity constraints. However, some economists suggest the possibility of a soft landing, with lenders potentially offering extensions and operators employing strategies such as capital calls and engaging with debt funds to meet new loan terms.

The expiration of rate caps and the impending surge in loan maturities present considerable challenges for multifamily operators. Proactive financial planning and strategic engagement with lenders are essential to navigate this complex landscape. For investors, these market dynamics may unveil opportunities to acquire distressed assets at adjusted valuations, positioning themselves advantageously in the evolving multifamily real estate market.

TARIFFS AND IMMIGRATION POLICIES SLOW DEVELOPMENT

Tariffs and stricter immigration policies under the current administration are poised to significantly impact multifamily real estate development in 2025. Viking is expecting increased costs for building materials and labor shortages, which may lead to delayed project timelines, reduced new supply, and upward pressure on rents. Developers and investors must adapt to these shifting economic conditions to navigate these challenges effectively.

RIISING CONSTRUCTION COSTS

- **Tariffs on Key Materials:** The administration has reinstated a 25% tariff on steel and aluminum imports, effective March 12, 2025. These tariffs are expected to increase the cost of essential building materials, making new multifamily developments more expensive.
- **Projected Cost Increase:** The National Association of Home Builders (NAHB) estimates that proposed tariffs on imports from China, Canada, and Mexico could raise the cost of imported construction materials by \$3 billion to \$4 billion, depending on specific rates. This substantial increase may strain developers' budgets and impact project feasibility.

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LABOR SHORTAGES

- **Stricter Immigration Policies:** Enhanced immigration enforcement and mass deportation policies are likely to reduce the availability of construction labor, exacerbating existing workforce shortages. Approximately 13% of the U.S. construction workforce comprises undocumented workers, and their removal could significantly impact labor availability. ¹⁷
- **Higher Wages & Project Delays:** A shrinking labor pool may result in increased wages and longer construction timelines, leading to delays in delivering new multifamily units. These labor challenges could further elevate development costs and hinder the timely completion of projects. ¹⁸

IMPACT ON NEW SUPPLY

- **Slower Development Pipeline:** Rising material costs and labor shortages are likely to decelerate the pace of new multifamily construction, further constraining housing supply. Developers may postpone or cancel projects due to financial infeasibility, leading to a tighter housing market.

KEY INSIGHTS FROM VIKING CAPITAL

As these economic policies unfold, multifamily investors must remain agile, adapting their strategies to mitigate risks and capitalize on shifts in supply and demand within the real estate market. Staying informed about policy changes and market dynamics will be crucial for making strategic investment decisions in this evolving landscape.

Forming strategic partnerships with experienced developers—those with proven track records, land ownership, and in-house construction teams—will be crucial in capitalizing on market opportunities. With new development starts at an all-time low, well-positioned projects have the potential for significant upside. Investors who align with strong development teams can take advantage of this unique timing to maximize long-term success.

IMPACT FOR INVESTORS

- **Navigating Rising Costs:** Investors should focus on markets with lower construction risks and explore value-add opportunities over new development. By investing in existing properties that require renovation or repositioning, investors can mitigate exposure to escalating construction costs and labor uncertainties.
- **Long-Term Implications:** Reduced multifamily supply could enhance the value of existing assets, making stabilized properties more attractive investment opportunities. As new development slows, demand for existing units may rise, leading to increased occupancy rates and rental income.
- **Potential for Higher Rents:** With fewer new units entering the market, rental prices may increase as demand outpaces supply, benefiting existing multifamily operators. This imbalance could exacerbate affordability issues for renters and intensify competition for available units.



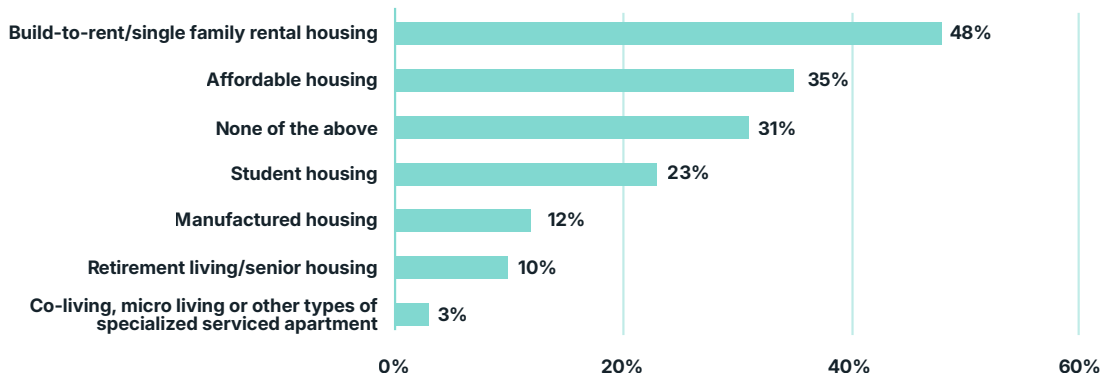
BUILD-TO-RENT (BTR) EXPANSION

The Build-to-Rent (BTR) sector is experiencing significant growth, particularly in Sun Belt markets, as demand for single-family rental living continues to rise. Affordability challenges are limiting homeownership, leading renters to seek suburban living options that offer additional space, amenities, and flexibility—needs that BTR communities are uniquely positioned to meet. ¹⁹

MARKET GROWTH & PROJECTIONS

- **BTR Developments on the Rise:** John Burns Real Estate Consulting reports that for-sale housing costs for entry-level homes are 55% above BTR rents nationally, up from 10% in 2021. This affordability gap is driving increased demand for BTR developments.
- **Sun Belt Dominance:** Markets such as Texas, Florida, Arizona, and Georgia are leading the expansion, benefiting from population growth, job migration, and strong rental demand. The Sun Belt now holds about 50% of the national population (335 million), which is expected to rise to about 55% by 2040. ²⁰

FAVORED MULTIFAMILY ALTERNATIVE ASSETS



APPEAL OF BTR COMMUNITIES

- **Single-Family Living with Rental Flexibility:** BTR communities offer the space and privacy of single-family homes while maintaining the flexibility of renting. This model caters to individuals and families seeking the benefits of suburban living without the long-term commitment of homeownership.
- **Attractive to Suburban Renters:** Families and professionals desiring larger living spaces, private yards, and modern amenities are increasingly turning to BTR properties as a preferred housing option. In markets like Austin, Texas, the average BTR rent is \$2,529, while the average monthly payment plus maintenance costs for an entry-level home is \$4,296—a 70% premium to own.¹⁹



VIKRAM RAYA,
CEO OF VIKING CAPITAL,
on Diversifying with BTR:

"While traditional multifamily remains a core focus for Viking Capital, Build-to-Rent (BTR) introduces a diversified revenue stream that aligns with long-term market trends. These asset classes serve distinct renter demographics and investor preferences, allowing us to adapt to evolving market conditions and position our portfolio for sustained growth."



INVESTMENT OPPORTUNITIES

- **Resilient Asset Class:** BTR has proven more stable than traditional multifamily housing during economic downturns, attributed to strong demand and lower turnover rates. This resilience makes BTR an attractive option for investors seeking steady returns.
- **Long-Term Appreciation & Stable Returns:** Investors in BTR communities benefit from consistent rental income, extended lease durations, and appreciating asset values in high-growth areas. The ongoing expansion in the Sun Belt region, driven by favorable economic and demographic trends, further enhances the investment potential of BTR properties.

With sustained population growth, affordability challenges in homeownership, and rising demand for suburban rental options, the BTR sector is poised for continued expansion in 2025. Investors should view BTR communities as a key opportunity within the evolving multifamily landscape, offering long-term value and resilience in high-demand markets.

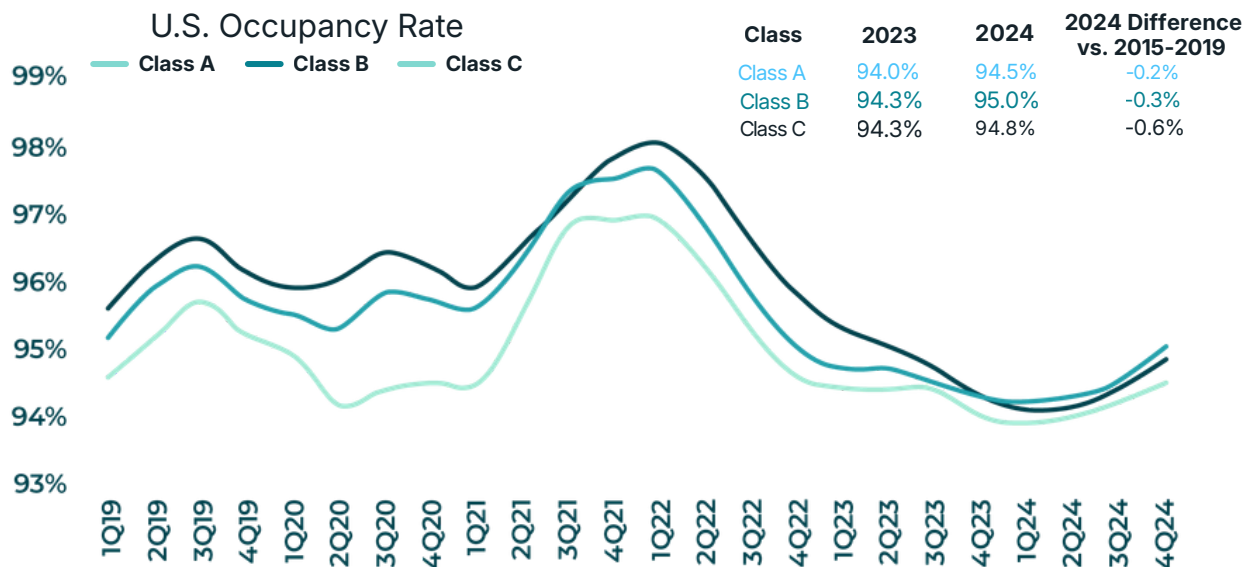
INSTITUTIONAL INVESTMENT IN WORKFORCE HOUSING

In 2025, institutional investors are increasingly focusing on workforce housing, particularly Class B and C multifamily assets, as affordability challenges persist. This strategic shift aims to capitalize on the stable cash flows and long-term appreciation these properties offer.

MARKET SHIFT & INVESTMENT TRENDS

- **Pivot Toward Workforce Housing:** Institutional capital is moving away from luxury Class A properties toward workforce housing to meet the growing demand for affordable rental options.
- **Focus on Income-Generating Assets:** Investors are prioritizing assets that provide reliable income streams, with workforce housing emerging as a resilient sector.

IMPROVEMENT IN CLASS B OCCUPANCY HELPED DRIVE 2024 REBOUND





FINANCIAL PROJECTIONS & STABILITY

- **Stable Cash Flows and Appreciation:** According to JLL's Global Real Estate Outlook, workforce housing is expected to deliver steady cash flows and long-term appreciation, making it an attractive investment option.
- **Resilient Cap Rates:** Despite market fluctuations, cap rates for workforce housing are projected to remain stable, ensuring favorable risk-adjusted returns for investors.

INVESTMENT OUTLOOK & OPPORTUNITIES

- **Sustained Demand:** The persistent affordability gap continues to drive demand for workforce housing, leading to high occupancy rates and potential rental growth.
- **Value-Add Potential:** Investors have opportunities to enhance property values through strategic renovations and operational improvements, further increasing returns.

As affordability challenges reshape the multifamily investment landscape, institutional interest in workforce housing is poised to grow. The sector offers a compelling combination of stability, resilience, and growth potential, positioning it as a key focus area for investors in 2025 and beyond.



As the affordability gap continues to widen, demand for workforce housing remains strong, leading to high occupancy rates,"
says CHRIS PARRINELLO,
VP OF INVESTOR RELATIONS AT
VIKING CAPITAL

"With growing institutional interest in this sector, early investors have a unique opportunity to capitalize on rising valuations and improved liquidity."

INSTITUTIONS EMBRACE RETAIL INVESTORS



"At a recent conference, I had conversations with several institutional firms and developers who were eager to learn about Viking Capital's strategy for attracting retail investors,"
says CHRIS PARRINELLO,
VP OF INVESTOR RELATIONS

"They recognize the strategic value of tapping into this growing source of capital to fuel future multifamily investments."

In recent years, institutional investment firms have increasingly recognized the potential of retail investors as a significant source of capital. This shift is leading to the development of tailored programs and platforms designed to attract and accommodate individual investors.



THE POWER OF RETAIL INVESTORS

The demand for alternative investments among high-net-worth individuals is on the rise. Retail investors are seeking access to opportunities traditionally reserved for institutional clients, such as private equity, real estate, and other alternative assets. This trend is evident in the substantial growth of retail participation in exchange-traded funds (ETFs), with 509,000 retail investors engaging in ETF transactions in Europe in 2024, up from 296,000 in 2023. ²²

INSTITUTIONAL ADAPTATION & PROGRAM DEVELOPMENT

To meet this growing demand, institutional firms are expanding their offerings to include investment platforms tailored for retail participation. For instance, Hamilton Lane has partnered with Republic to broaden access to private markets, aiming to open a \$13 trillion global market to retail investors. ²³

Additionally, alternative asset managers are introducing products with lower minimum investments and more investor-friendly structures to attract individual investors. ²⁴

MARKET IMPLICATIONS & GROWTH POTENTIAL

The infusion of retail capital into alternative investments is poised to significantly impact the market. Estimates suggest that global alternative investments could grow from \$25 trillion in 2023 to \$60 trillion by 2032, driven in part by individual investors' increasing allocations. ²⁵

This surge in retail participation may enhance liquidity, diversify investor bases, and democratize access to investment opportunities previously limited to large institutions.

The evolving synergy between institutional firms and retail investors is reshaping the investment landscape. As institutions continue to innovate and adapt their offerings, retail investors are gaining unprecedented access to a wider array of investment opportunities, fostering a more inclusive and dynamic market environment.

CAP RATE STABILIZATION

The multifamily market is experiencing a period of volatility, with cap rates fluctuating in response to rising interest rates and shifting market conditions. However, projections indicate that cap rates will stabilize by late 2025 as borrowing costs begin to decline. This stabilization presents significant opportunities for investors looking to lock in favorable returns and capitalize on value appreciation in high-demand markets.

FACTORS DRIVING STABILIZATION

The anticipated stabilization of cap rates can be attributed to a number of factors:

- **Decrease in Borrowing Costs:** As interest rates ease, borrowing costs for multifamily investors are expected to decline. This will help reduce the financial pressure on both buyers and sellers, promoting more consistent cap rate trends.²²
- **Increased Investor Confidence:** As market conditions normalize, investor sentiment is expected to improve, resulting in increased capital inflow and liquidity returning to the market.²⁴



MARKET PROJECTIONS

- **Cap Rate Compression:** According to CBRE, prime Sun Belt markets like Phoenix, Dallas, and Atlanta are expected to see cap rate compression of 25-50 basis points by late 2025. This trend is expected as demand in these areas remains robust, driven by continued population growth, job migration, and favorable economic conditions.
- **Strong Demand in Sun Belt Markets:** The continued strength of Sun Belt markets will further contribute to this compression, creating opportunities for both new and existing investors to secure attractive deals.²⁷

INVESTMENT OPPORTUNITIES

The stabilization of cap rates presents a unique opportunity for multifamily investors:

- **Value Appreciation Potential:** As cap rates compress, property valuations are likely to increase. Investors can capitalize on these rising valuations to achieve higher returns on investment.²⁸
- **Locking in Favorable Returns:** Investors who move early, securing investments before full stabilization occurs, can lock in favorable returns, positioning themselves for long-term profitability as market conditions improve.

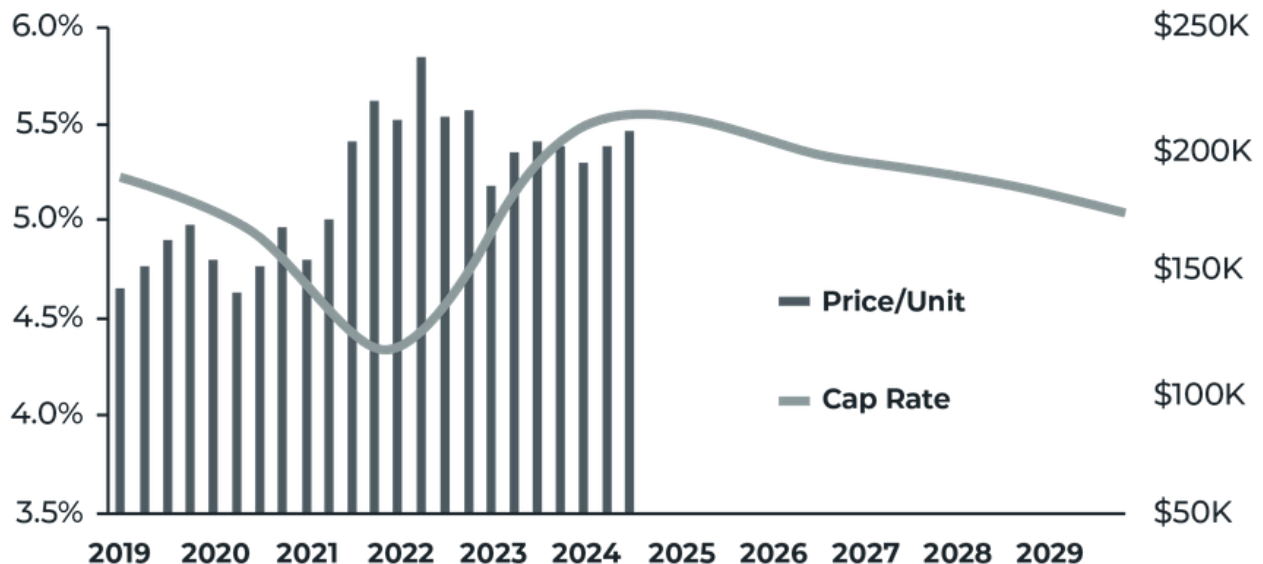
IMPACT ON PROPERTY VALUATION

As cap rates compress, property valuations will rise. Investors will benefit not only from the appreciation of their assets but also from the strong underlying market fundamentals that drive this growth. This combination of higher property values and favorable market dynamics enhances the appeal of multifamily investments in high-demand markets.

The stabilization of cap rates marks a significant turning point in the multifamily real estate cycle, signaling opportunities for investors to take advantage of favorable market conditions. Viking's strategic investment in prime Sun Belt markets presents strong potential for long-term growth and profitability. Investors should monitor cap rate trends closely and consider positioning themselves for the projected stabilization by late 2025 to maximize returns.

MULTIFAMILY CAP RATES, PRICE/UNIT:

Trends and Projections for Q1





HIGHER FOR LONGER-FORCE SELLERS TO ADAPT AS BUYING CYCLE CONTINUES

OVERVIEW OF THE CURRENT

MARKET CYCLE

The multifamily real estate market continues to evolve under the influence of a "higher-for-longer" interest rate environment, shaped by the Federal Reserve's reactive approach to economic data. As the Fed responds to inflationary pressures and fluctuating economic indicators, borrowing costs remain elevated, influencing both investment decisions and market dynamics. The impact of these conditions continues to shape the buying cycle, creating both challenges and opportunities for investors.

IMPACT OF HIGHER-FOR-LONGER

INTEREST RATES

- **Prolonged Elevated Rates:** The Federal Reserve's cautious stance has resulted in a period of prolonged elevated interest rates. This "higher-for-longer" policy has kept borrowing costs high, which in turn affects the affordability of debt and investment strategies across the multifamily sector.²⁹
- **Influence on Investment Decisions:** High borrowing costs continue to weigh on investor sentiment, as the cost of capital remains a significant consideration when acquiring new properties or refinancing existing ones. As a result, deals are being scrutinized more carefully, with investors seeking opportunities that offer strong risk-adjusted returns despite the financial pressure³⁰
- **Adjustment in Seller Expectations:** As cap rates expand, sellers are forced to recalibrate their pricing expectations to align with the realities of the higher-rate environment. This adjustment creates potential buying opportunities, as sellers seek to offload assets before refinancing terms become more difficult.

PRESSURE ON SELLERS

- **Expanded Cap Rates:** The persistent high interest rates have expanded cap rates, creating pricing adjustments for sellers. Many owners are facing refinancing challenges and may be more motivated to sell, often at more favorable terms for buyers. This has led to increased transaction activity, particularly among owners who need to liquidate or adjust their portfolios in response to rising debt service costs.³¹

INVESTMENT OPPORTUNITIES

- **Benefits for Buyers:** Buyers in the current market have the advantage of higher cap rates, which result in higher initial yields and more favorable entry points for acquisitions. Additionally, motivated sellers and an increase in transaction activity create unique opportunities for strategic acquisitions.
- **Strategic Acquisitions in a Shifting Market:** As financial³² conditions shift, well-positioned investors to take advantage of the changing landscape can capitalize on motivated sellers and higher cap rates. This is particularly beneficial for buyers who can secure financing at favorable terms, whether through traditional loans or other creative funding mechanisms.

The buying cycle in the multifamily real estate market remains active despite the challenges posed by elevated interest rates. Sellers facing refinancing pressures and motivated to adjust pricing have created fertile ground for strategic acquisitions. Investors who remain agile, prepared, and well-funded are poised to capitalize on these opportunities as the market continues to evolve under the "higher-for-longer" rate environment. As conditions shift, maintaining flexibility and readiness for opportunities will be crucial to navigating the ongoing buying cycle.



MARKET CORRECTION AHEAD

OVERVIEW OF CURRENT STOCK MARKET CONDITIONS

As we head into 2025, the stock market faces increasing uncertainty, with signs pointing to an overheated market. Valuations across several sectors are at historically high levels, and with the economic dynamics shifting, a correction may be on the horizon. The combination of rising treasury yields and corporate earnings pressure suggests a volatile period ahead.

For multifamily investors, a market correction could create an opportunity to recalibrate strategies and find strategic opportunities.³²

Potential Impacts on Investors

For multifamily investors, a market correction does not necessarily signal a crisis but rather an opportunity to recalibrate strategies. The key implications include:

- **More Favorable Buying Conditions:** A correction in both stock and real estate markets could present opportunities for investors to acquire multifamily assets at lower prices.
- **Enhanced Cash Flow Potential:** As investors shift towards stable, income-generating assets, multifamily properties with strong cash flow will be in high demand.
- **Long-Term Stability:** Although short-term uncertainty can lead to fluctuations, multifamily real estate³³ is a historically stable asset class with strong long-term fundamentals.³³

RISING TREASURY YIELDS & MARKET IMPACT

- **Higher Yields Making Bonds More Attractive:** Treasury yields have been rising, creating competition for equities as investment vehicles. As capital moves away from volatile equities and into fixed-income securities, real estate—especially multifamily assets—presents a compelling opportunity due to its ability to generate consistent cash flow and hedge against inflation. This shift creates a favorable environment for multifamily investment as investors reallocate funds into tangible assets with long-term value.³³

POSITIVE IMPACT ON THE MULTIFAMILY SECTOR

- **Increased Investment Interest:** As stock market volatility rises, institutional and private investors may increasingly turn to multifamily real estate as a safe-haven asset.
- **Stronger Demand for Income-Producing Properties:** As bond yields draw investors away from stocks, cash-flowing multifamily properties present a dependable alternative with potential for appreciation.
- **Acquisition Opportunities:** As cap rates continue to rise we may see more favorable entry points for investors, allowing them to purchase assets at lower valuations.
- **Stabilized Rental Demand:** Despite economic uncertainty slowing rent growth in some markets, demand for quality rental housing remains robust, especially in the workforce and affordable housing segments.³⁴

5 YEAR TREASURY RATE





HOW SHOULD INVESTORS NAVIGATE THE POTENTIAL CORRECTION

To mitigate risks and capitalize on emerging opportunities, investors should consider:

- **Diversifying Market Exposure:** Focusing on resilient markets with strong job growth and diversified economies.
- **Enhancing Operational Efficiency:** Streamlining property management, reducing costs, and optimizing tenant retention strategies.
- **Securing Fixed-Rate Debt:** Locking in favorable financing terms before further rate hikes impact borrowing conditions.
- **Targeting Workforce Housing:** Demand for affordable rental housing remains robust, making this an attractive segment for long-term stability.

Shifting economic conditions present a unique opportunity for investors. As capital moves away from traditional stocks and into alternative assets, multifamily real estate stands to benefit from increased investor interest seeking stability and strong cash flow. By adopting a strategic, data-driven approach, multifamily investors can capitalize on this market shift, leveraging new opportunities for acquisitions at favorable pricing and positioning themselves for long-term growth in an evolving financial landscape.

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RISE OF SUSTAINABILITY IN MULTIFAMILY

Sustainability has become a central focus in the multifamily real estate sector as Environmental, Social, and Governance (ESG) initiatives gain prominence. Property owners, developers, and investors are increasingly adopting green practices, aligning with the growing demand for sustainable living environments. As ESG standards continue to evolve, the multifamily market is set to see a significant shift towards energy-efficient, eco-friendly properties in 2025.

MARKET DEMAND FOR SUSTAINABLE PROPERTIES

Sustainability is no longer just a trend; it is a market-driven demand. According to a Deloitte report, properties with sustainable features command 5-10% higher rents and enjoy lower vacancy rates compared to traditional counterparts. This growing preference for eco-friendly homes is being fueled by tenants' increasing awareness of environmental issues and their desire to live in energy-efficient spaces. Sustainable multifamily properties are not only more attractive to potential renters but also tend to maintain higher occupancy levels, making them a lucrative option for investors.

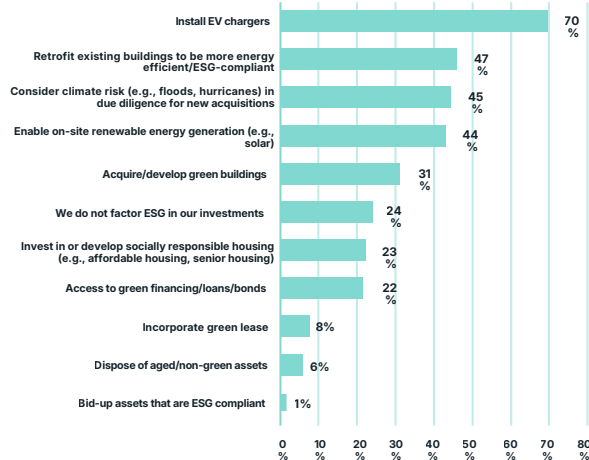
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- **Higher Rents & Lower Vacancy Rates:**

Sustainable properties are commanding premium rents and seeing reduced vacancy rates due to tenant preferences for greener, more energy-efficient homes. This trend is particularly noticeable in urban areas where there is a high concentration of environmentally-conscious renters.

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ESG INITIATIVES FOR REAL ESTATE INVESTMENTS





KEY SUSTAINABILITY FACTORS

The multifamily sector's shift toward sustainability is driven by several key factors, including green certifications, energy-efficient upgrades, and the use of renewable resources.

- **Green Certifications & Energy-Efficient Upgrades:** Green certifications such as LEED (Leadership in Energy and Environmental Design) are becoming standard in new multifamily developments. Properties that incorporate energy-efficient systems—like LED lighting, high-performance insulation, and smart thermostats—are increasingly favored by tenants and investors alike.
- **Sustainable Materials & Renewable Energy:** The adoption of sustainable materials, renewable energy sources like solar panels, and water-saving technologies are also gaining momentum. These upgrades not only reduce operational costs but also contribute to a property's environmental credentials, making them more attractive to eco-conscious tenants.³⁷

INVESTMENT IMPACT

Investors are recognizing the long-term value of sustainability in real estate. Properties that adopt ESG standards often experience higher investor interest, lower risk, and enhanced returns. According to industry reports, sustainable multifamily properties have a better chance of weathering market fluctuations due to their appeal to both tenants and investors, further solidifying their position as long-term, stable investments.

- **Enhanced Investor Returns:** Properties with strong ESG profiles are seen as more resilient, offering investors reduced risk and the potential for higher returns. These buildings not only meet the demand for sustainable living but also typically benefit from lower operating costs, contributing to stronger net operating income (NOI).
- **Investor Interest:** A growing number of institutional investors are prioritizing ESG considerations in their portfolios, recognizing that properties with strong sustainability profiles offer enhanced risk-adjusted returns.

COMPETITIVE ADVANTAGE

Sustainability in multifamily real estate provides a significant competitive advantage. Green-certified buildings attract a broader tenant pool, including millennials and Gen Z renters, who prioritize eco-friendly living. Additionally, these properties often command premium rents due to the growing demand for sustainable features.³⁵

- **Attracting Premium Rents:** The adoption of sustainable features, such as solar panels and energy-efficient appliances, allows properties to command higher rents. These enhancements can create a unique selling point, giving buildings a competitive edge in a crowded rental market. Properties with sustainable features command 5-10% higher rents compared to traditional properties.
- **Resilience to Market Fluctuations:** Green-certified buildings tend to be more resilient to market fluctuations, as tenants increasingly prioritize energy efficiency and sustainability. This resilience makes them an appealing investment, especially in uncertain economic conditions.³⁷

As sustainability continues to be a driving force in multifamily real estate, both tenants and investors are increasingly prioritizing energy efficiency, sustainability, and ESG initiatives. In 2025, the rise of sustainable properties will play a crucial role in shaping the market, creating opportunities for both developers and investors. Those who embrace green certifications and energy-efficient upgrades will likely see higher tenant demand, improved financial performance, and stronger long-term growth prospects in an increasingly eco-conscious market.



CONSOLIDATION IN THE MULTIFAMILY SECTOR

The multifamily real estate sector is facing growing market pressures in 2025, leading to an increased rate of consolidation. Smaller operators are struggling to manage rising interest rates, operational costs, and economic uncertainty, while larger, well-capitalized operators are stepping in to acquire distressed portfolios. This shift is expected to reshape the market as larger players scale their portfolios through strategic acquisitions, capitalizing on opportunities in a competitive and uncertain environment. ³⁸

DRIVERS OF CONSOLIDATION

Several factors are driving consolidation in the multifamily sector, with economic pressures playing a significant role.

- **Rising Interest Rates:** With interest rates remaining elevated, borrowing costs have risen, creating financial strain for smaller operators who are unable to secure favorable refinancing terms. This increases the likelihood of defaults and forced sales.
- **Increasing Operational Costs:** Higher costs for property management, maintenance, and construction materials further stress smaller operators, making it more difficult for them to remain competitive.
- **Economic Uncertainty:** Broader market volatility and economic uncertainty have created a challenging environment, especially for smaller, less-capitalized operators who are more vulnerable to market fluctuations.

These pressures are pushing smaller players to either exit the market or look for opportunities to partner with larger operators, leading to a wave of consolidation.

ROLE OF LARGER OPERATORS

Larger, well-capitalized operators are positioned to take advantage of the consolidation trend. With access to more resources and greater financial flexibility, these players are acquiring distressed properties at attractive valuations.

- **Strategic Acquisitions:** Larger operators are targeting smaller, struggling portfolios as part of a broader strategy to scale their operations and achieve operational efficiencies. By consolidating multiple properties into one large portfolio, they can reduce management costs and increase economies of scale. ³⁸
- **Capitalizing on Market Opportunities:** Larger firms are also better equipped to navigate market volatility, allowing them to capitalize on acquisition opportunities that arise from the distress of smaller operators. These acquisitions enable them to build larger, more diverse portfolios that can weather market fluctuations more effectively. ³⁹

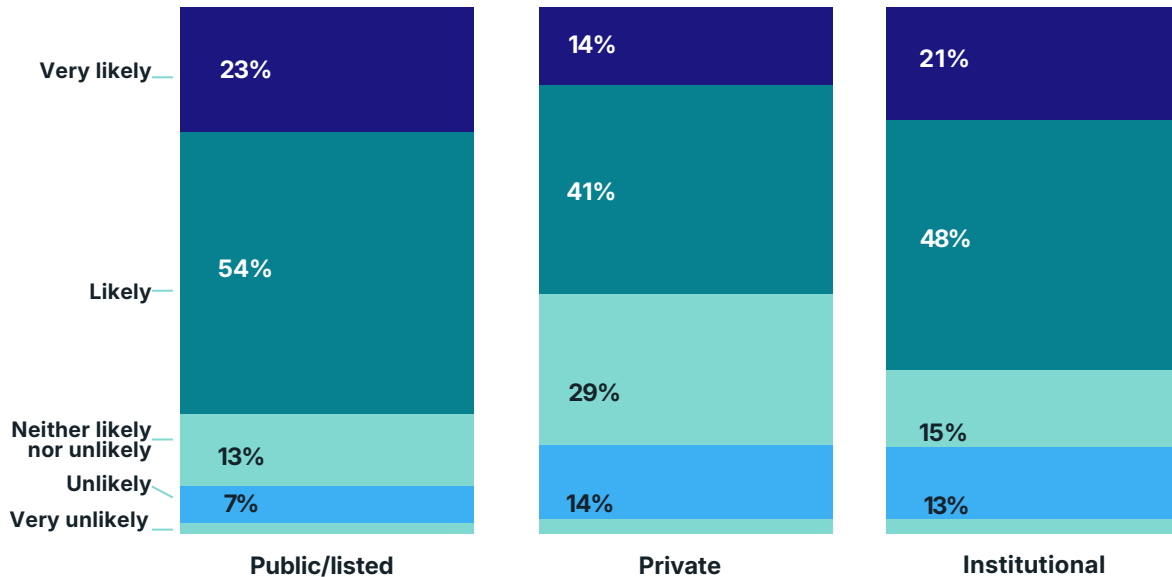
FORECAST OF M&A ACTIVITY

According to CoStar, mergers and acquisitions (M&A) activity in the multifamily sector is expected to increase by 15% in 2025 as consolidation accelerates. This surge in M&A activity will likely be driven by smaller operators struggling with financing challenges, operational inefficiencies, and economic uncertainty. Larger firms are expected to step in to acquire these properties, creating a more concentrated market with fewer but larger players. ⁴⁰



RESPONDENTS FROM PUBLIC AND INSTITUTIONAL ORGANIZATIONS ARE MORE LIKELY TO INCREASE M&A IN 2025

How likely is it that your company will increase its mergers and acquisitions activity in the next 12 to 18 months?



Note: Totals may not add up to 100% because of rounding.

IMPACT ON THE MARKET

As consolidation picks up, the multifamily market is expected to undergo significant changes.

- **Market Shifts:** Smaller players are likely to either exit the market or form partnerships with larger firms, leading to a more consolidated industry structure.
- **Increased Competition:** As institutional investors and larger operators ramp up their acquisition strategies, competition for high-quality properties is expected to intensify. This may result in higher valuations for prime assets, but also streamlined, more efficient operations as larger firms benefit from economies of scale.
- **Efficiency Gains:** Larger, consolidated portfolios allow for better asset management and cost control, enhancing profitability and long-term stability. ³⁹

OPPORTUNITIES FOR INVESTORS

The consolidation trend presents several opportunities for investors.

- **Capitalizing on M&A Trends:** Investors can take advantage of the surge in M&A activity by looking to acquire shares in larger, more capitalized operators or by seeking out distressed assets that may be sold off during consolidation.
- **Improved Asset Management:** By investing in larger, consolidated portfolios, investors can benefit from improved asset management practices, potentially leading to higher returns over the long term.
- **Long-Term Returns:** The consolidation of multifamily portfolios can result in more efficient operations and better financial performance, offering the potential for sustained value appreciation and higher yields for investors. ⁴⁰

Consolidation is set to be a defining trend in the multifamily real estate sector in 2025. As smaller operators face mounting pressures from rising costs, economic uncertainty, and financing challenges, larger, well-capitalized firms will increasingly step in to acquire distressed portfolios and scale their operations. This consolidation will create both challenges and opportunities, reshaping the multifamily landscape and providing avenues for growth and investment for those who strategically position themselves in the evolving market.³⁸



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