

MULTIFAMILY INTEREST RATES



Today's Soaring Mortgage Rates and Declining Home Sales Trends Mirror Periods Before a Crash

Existing home sales in the U.S. dipped 1.5% lower to a seasonally adjusted annual rate of 4.71 million in September 2022, the lowest reading since May 2020. The slight decline in September and August followed a revised 5.7% drop in July, marking the eighth consecutive month of falls in existing home sales. From one year prior, existing home sales have decreased 25.1%, reflecting this year's escalating mortgage rates. As of the week ending on October 20, the 30-year fixed-mortgage rate (FRM) was at 6.94%, while the 15-year FRM was at 6.23%.



Historically, whenever mortgage rates remained at an elevated level, single-family home sales lowered. Comparing current existing-home sales and mortgage rates with historical data provided by the National Association of Realtors, Moody's Analytics, and Freddie Mac, the single-family market mirrors the period right before housing crashes in 2008 and 1980.

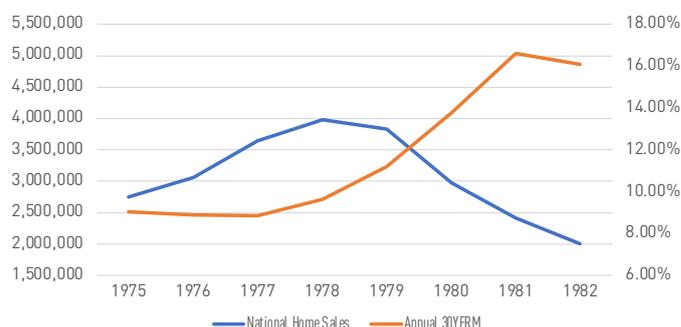
The market has not seen interest rates this high since months before The Great Recession, with the 30-year FRM peaking at 6.69% in July of 2007. Interest rates remained high in the last half of 2007 while home sales continued to trend downwardly, causing losses on mortgage-related financial assets before entering the recession in December 2007. Home sales did not pick up until midway through 2009 as the economy was exiting the 2008 recession.

Mortgage Loan Interest Rates v. Existing-Home Sales from 2007-2009



30-year FRM increased 3.69% year-over-year, the largest annual increase since interest rates started to rocket in the early 1980's. Mortgage rates peaked at 16.35% in 1980, representing a 5.67% annual increase, and 18.53% in 1981, growing 4.68% year-over-year. This caused the housing market to crash as the Housing Affordability Index rested at 62, pricing out the typical American out of homeownership. Between 1978 and 1981, existing-home sales fell by 50%, from 3.99 million homes in 1978 to 1.99 million homes in 1981.

Mortgage Loan Interest Rates v. Existing-Home Sales from 1975-1982



How Does this Affect the Multifamily Market?

The increase in interest rates has the potential to expand capitalization rates for multifamily and other property types, as the appreciating cost of capital would require a lower sales price to return similar gains that would have been achieved before rate increases.

Although the string of mortgage loan rates hikes could cause some turbulence in the commercial real estate space, the strong fundamentals in the multifamily market, especially in single-family rentals and build to rent asset classes, should soften the impact of spiking rates. Often times, commercial real estate has also shown a weak correlation with interest rates. Ultimately, investment activity in these segments and other strong performers should foster an environment that would promote significant growth throughout the remainder of the year.

Cap rates have remained low, clocking in at 4.5%, according to 3Q22 data. Compared to Berkadia's 2022 Forecast Report,

cap rates are 40 basis points below their projected rate at the national level.

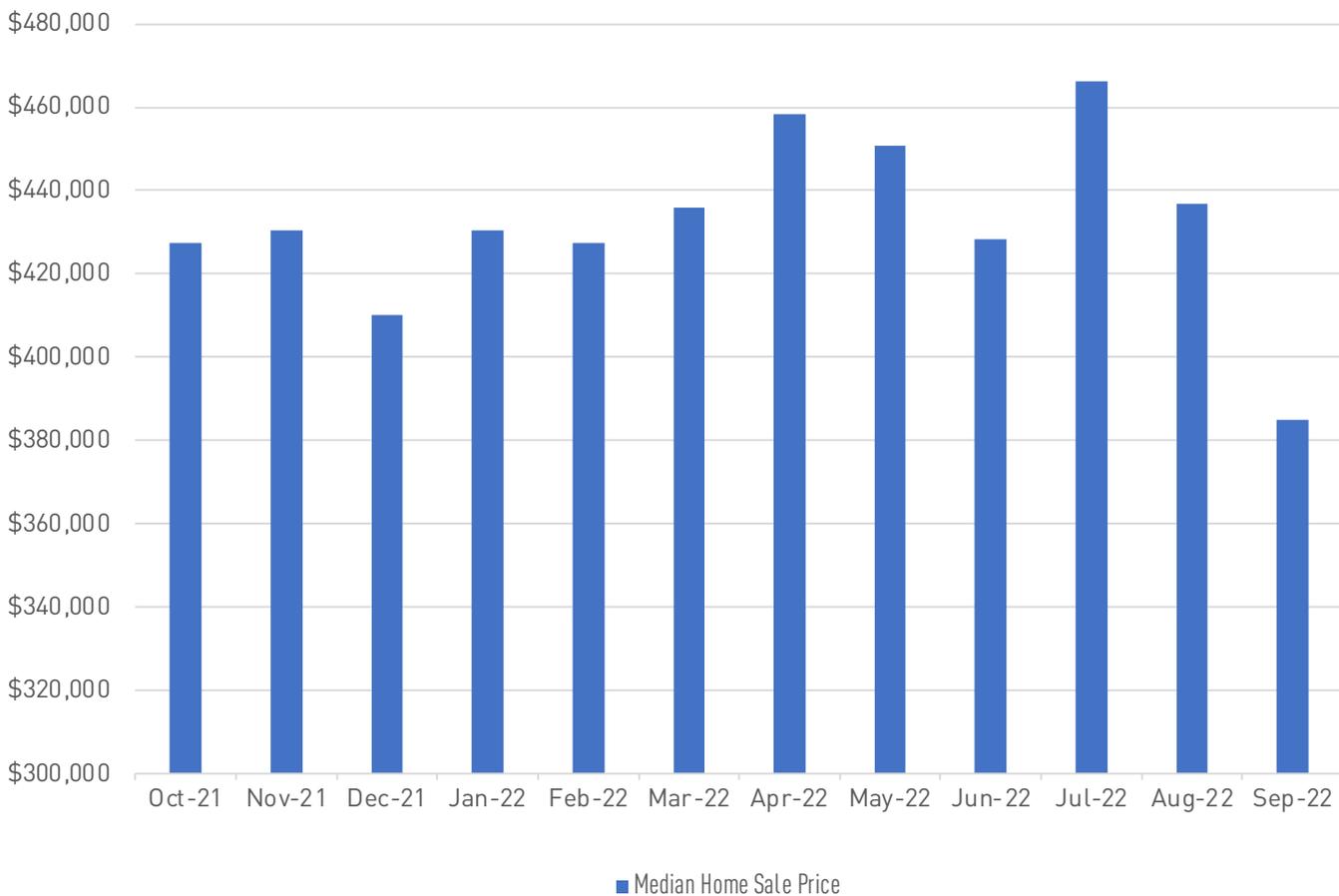
The National Association of Realtors reported that median home prices in the spring of 2022 topped \$400,000 for the first time ever. Prices are up 39% since the pandemic began in March 2020. In September 2022, the median existing-home sales price rose 8.4% annually to \$384,800.

With elevated home prices, potential home buyers have been priced out and have chosen to resort to renting. Large markets such as New York, Newark, and San Diego have vacancy rates lower than the national average of 4.0%.

Top Large Markets Outpacing the National Vacancy Rate

New York	1.9%
Newark	2.2%
San Diego	2.4%
Orange County	2.5%
Miami	2.9%

National Median Home Sale Price



BERKADIA.COM / 800.446.2226

a Berkshire Hathaway and Jefferies Financial Group company

© 2022 Berkadia Proprietary Holding LLC. Berkadia® is a trademark of Berkadia Proprietary Holding LLC. Commercial mortgage loan banking and servicing businesses are conducted exclusively by Berkadia Commercial Mortgage LLC and Berkadia Commercial Mortgage Inc. This advertisement is not intended to solicit commercial mortgage loan brokerage business in Nevada. Investment sales / real estate brokerage business is conducted exclusively by Berkadia Real Estate Advisors LLC and Berkadia Real Estate Advisors Inc. Tax credit syndication business is conducted exclusively by Berkadia Affordable Tax Credit Solutions. In California, Berkadia Commercial Mortgage LLC conducts business under CA Finance Lender & Broker Lic. #988-0701, Berkadia Commercial Mortgage Inc. under CA Real Estate Broker Lic. #01874116, and Berkadia Real Estate Advisors Inc. under CA Real Estate Broker Lic. #01931050. For state licensing details for the above entities, visit www.berkadia.com/legal/licensing/0222.