Inland Research Report: 2025 Residential Sector Review

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Executive Summary

The first quarter of 2025 has been marked by economic uncertainty stemming from tariffs and potential government spending cuts. Most economists agree that tariffs negatively impact economic welfare, but there may be foreign policy or national security implications for which the administration believes tariffs can be an effective tool. The overall direct effect on the U.S. economy has been moderate, but continued uncertainty surrounding global trade may drive down economic growth over the short-term, potentially into recession territory.

Macroeconomic Trends

- Long-term nominal GDP growth is expected to remain between 2.50 percent and 5.00 percent, resembling trends from the 2010s.
- Inflation continues to ease, reflecting a return to economic stability. Factors such as low birth rates, an aging population, and an oversupply in global markets are expected to keep inflationary pressures subdued.
- While economic indicators such as an inverted yield curve and slowing cyclical sectors signal an elevated risk of recession, strong income growth and a resilient employment market have helped maintain economic stability.

Amid economic turbulence, the multifamily sector has demonstrated resilience despite concerns stemming from the 2021/2022 construction boom. Stronger-than-expected absorption and stabilizing occupancy levels in early 2024 helped mitigate significant losses. With occupancy on the rise despite record completions, the sector appears to be on the verge of renewed growth.

Multifamily Highlights

- By 2027, net inventory growth is expected to stabilize at just over 1.00 percent, setting the stage for strong rent growth and potential undersupply.
- Per-unit apartment values have resumed gains in spite of elevated interest rates.
- Interest rates have contributed to capitalization rate (cap rate) expansion, yet the narrowing spread between cap rates and the 10-year Treasury signals continued investor appetite.
- Affordability, demographic shifts, and immigration/domestic migration will play vital roles in multifamily growth.
- Unique fundamentals of manufactured housing communities continue to make this sector stand out as a recipient of strong demand.
- Build-to-rent may be particularly compelling given its distinctive characteristics and the evolving needs of renters.

With tightening supply, strong fundamentals, and continued lender support, we believe the residential sector is positioned for stable growth. Whether the broader economy experiences continued expansion, or a mild recession, the sector's resilience and long-term investment appeal remain intact.

Overview

The multifamily sector continues to demonstrate strength and resilience, amid economic uncertainty. As shifting market dynamics challenge various industries, multifamily remains a vital and attractive sector, supported by strong demand fundamentals. This report examines key macroeconomic trends, demographic shifts, and sector-specific factors that support the expected long-term success of multifamily. By analyzing GDP growth, inflation and interest rate trends, the current recession risk, housing affordability constraints, along with immigration and domestic migration patterns, we will explore why multifamily investments continue to perform well and are positioned for future growth. Considered subsectors of multifamily, this report also includes a robust discussion of how demographics will drive build-to-rent (BTR) and manufactured housing community (MHC) demand.

Macroeconomic Environment

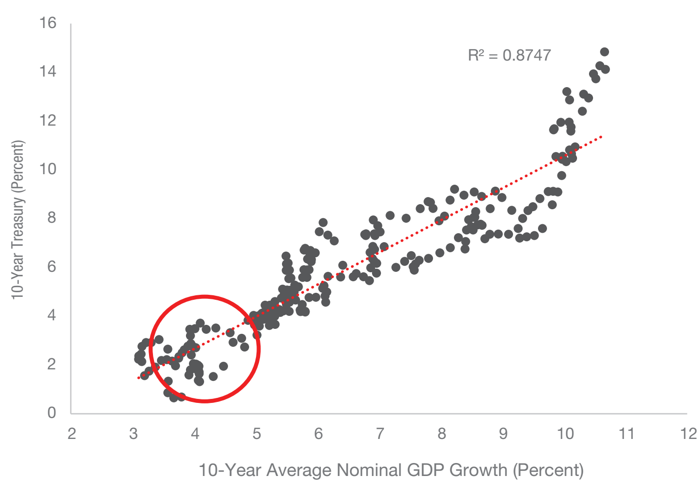
The impact of tariffs and potential cuts to government spending has been dominating the headlines during the first quarter of 2025. Ninety-five percent of economists agree that tariffs and import quotas negatively impact economic welfare.[1] However, the overall direct impact of tariffs on goods, relative to the large and service-oriented economy of the United States may be relatively moderate, depending on the ultimate degree and breadth of the tariffs imposed. The uncertainty surrounding economic decisions may have a more severe impact than the tariffs themselves, as businesses may press the pause button on hiring and expansion decisions until the dust settles. Further, it appears that the current administration may be using tariffs as a negotiating tactic rather than a permanent revenue generator, so tariff rates may fluctuate or be removed as the year goes on.

Early indications from financial markets show economic distress, seen in widening credit spreads and volatile equity markets. With many leading indicators suggesting a slowdown prior to the tariff announcements, these new developments do increase the potential for a recession. However, should these trade issues be resolved swiftly, a refocusing on tax cuts and deregulation may provide the boost needed to avoid the more negative potential outcomes.

Nominal GDP

The 10-year Treasury yield is down approximately 35 basis points since mid-January 2025[2], reflecting some economic uncertainty surrounding tariffs. 10-year Treasury rates in the low four percent range remain elevated relative to the recent past, which has put upward pressure on cap rates. Longer term, the 10-year Treasury tends to move with the 10-year average nominal GDP (NGDP) growth.

10-Year Average NGDP Growth and 10-Year Treasury Rate[2]



Our long-term outlook for real GDP growth remains tepid due to demographic factors and government debt loads. Coupled with our outlook for moderating inflation, we expect the long-term average nominal GDP growth to look like it did in the 2010s, ranging from 2.50 percent to 5.00 percent.[2] Without an economic shock, this implies similar interest rates on the 10-year Treasury, with a good chance that the high watermark was reached in the fall of 2023.

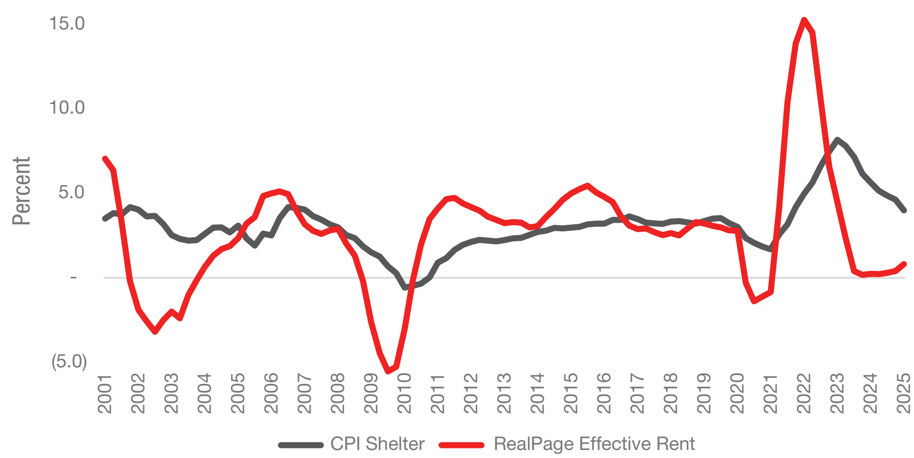
[1] https://www.cato.org/publications/separating-tariff-facts-tariff-fictions#how-do-economists-measure-impact-tariffs

[2] Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis [DGS10], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DGS10

Inflation

Inflation continues to ease, with headline Consumer Price Index (CPI) growth of 2.41 percent in March 2025. CPI excluding shelter is at 1.48 percent, falling to 0.77 percent as far back as June of 2023 and only exceeding 2.00 percent in four of the last 21 months.[3] Removing the shelter component provides a clearer picture of real-time inflation due to the lag relative to actual changes in rent. Remarkably, this caused inflation to be *understated* in 2021 and 2022 but is now causing headline inflation to be overstated, as actual rent growth is well below reported shelter increases in the CPI.

CPI Shelter Growth vs. RealPage Effective Rent Growth[4]



The transitory inflation of the pandemic era is now reverting to economic fundamentals. Low birth rates, slow population growth, and an aging population tend to create an environment of low inflation, as the existing global capacity is sufficient to service demand, despite deficits and aggressive central banks. In fact, global capacity utilization continues to wane[5] despite low unemployment and strong growth in the recovery from the pandemic, suggesting that the likelihood of significant demand pressure on prices is low. With plenty of excess capacity to produce goods globally, and global demand growth slowing due to aging populations, the prospects for high inflation remain muted. With this, the odds favor a slow growth, low inflation, low interest rate environment going forward, barring another shock to the system that precipitates further rounds of direct-to-consumer stimulus.

[3] CPI: https://fred.stlouisfed.org/series/CPIAUCSL; CPI excluding shelter: https://fred.stlouisfed.org/series/CUUR0000SA0L2; CPI: Shelter Only component: https://fred.stlouisfed.org/series/CUSR0000SAH1

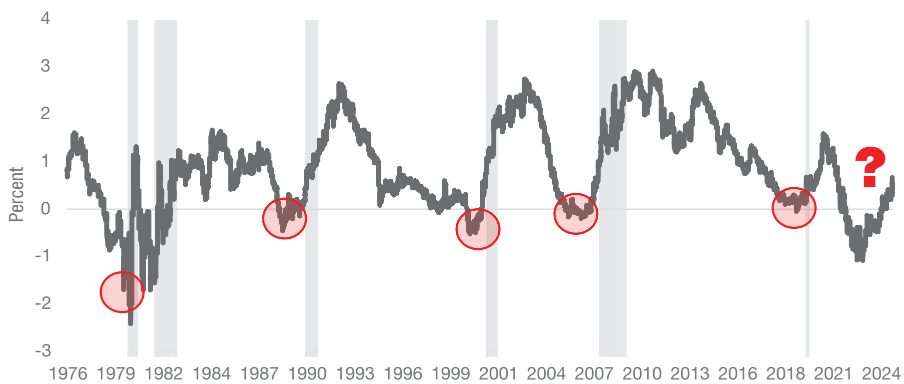
[4] FRED CPI: Shelter (CUSR0000SAH1) & RealPage Effective Rent Growth YoY

[5] Hoisington Investment Management Company. Quarterly Review and Outlook. Fourth Quarter 2024.

Recession Watch

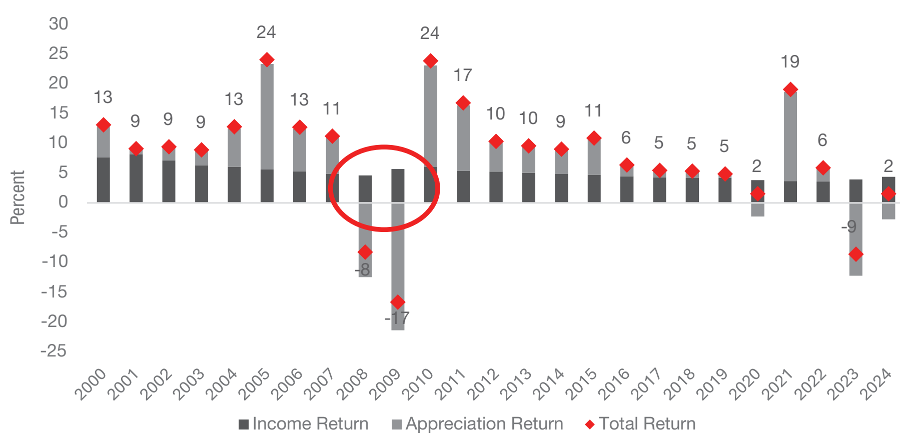
Recessions typically begin with unemployment starting to rise after reaching cycle lows, an inverted yield curve that has recently re-steepened, and a slowdown in the cyclical sectors of the economy. The first signs of weakness are often seen in residential construction jobs and new manufacturing orders. These factors are beginning to present themselves, albeit moderately, creating a need to watch carefully for further deterioration. However, the economy has been very resilient up to this point, thanks to solid income growth and a stable employment market. Additionally, as the economy shifts away from goods and more towards services, particularly healthcare, Americans are less exposed to large cyclical shocks than economies relying on manufacturing and consumer goods. As these changes unfold, factors that may have reliably predicted recessions 50 years ago may not provide the same degree of confidence in forecasting today.

Inverted Yield Curve – 10-Year Minus 2-Year Treasury[6]



While recession risk remains somewhat elevated, we continue to see the multifamily sector as an attractive investment option. Multifamily has shown great resiliency during economic contractions. Even during the Great Financial Crisis (GFC), income in the sector remained positive, with negative total returns driven by cap rate expansion. Should a recession again bring uncertainty, many people will likely opt to rent over own until they have the confidence to make mortgage payments and take on maintenance responsibilities. This suggests that well-structured, properly underwritten multifamily investments that utilize moderate leverage and long-term debt can allow investors to ride out economic downturns.

Multifamily Returns[7]



[6] FRED 10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity (T10Y2Y)
[7] NCREIF – Apartment Returns – Q4 2024

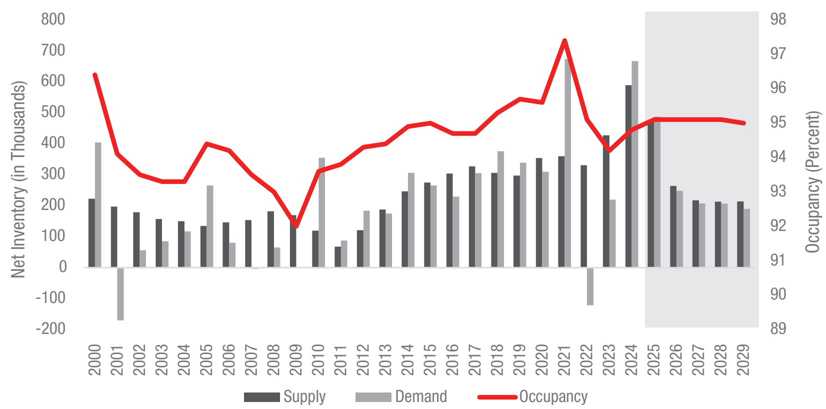
National Multifamily Review

The 2021/2022 construction boom caused concern regarding rent growth across the multifamily sector. However, absorption surprised to the upside, mitigating some concerns of potentially steeper rent declines. With occupancy stabilizing in early 2024 and now rising slightly despite record completions, the sector has been able to weather the storm with moderate losses and may be on the cusp of growth. RealPage expected supply to peak in Q1 2025 before falling sharply due to higher interest rates and construction costs.[8]

Current projections show net inventory growth as a percentage of existing stock will fall sharply and level out barely over one percent by 2027,[8] a level at which strong rent growth and undersupply could be expected.

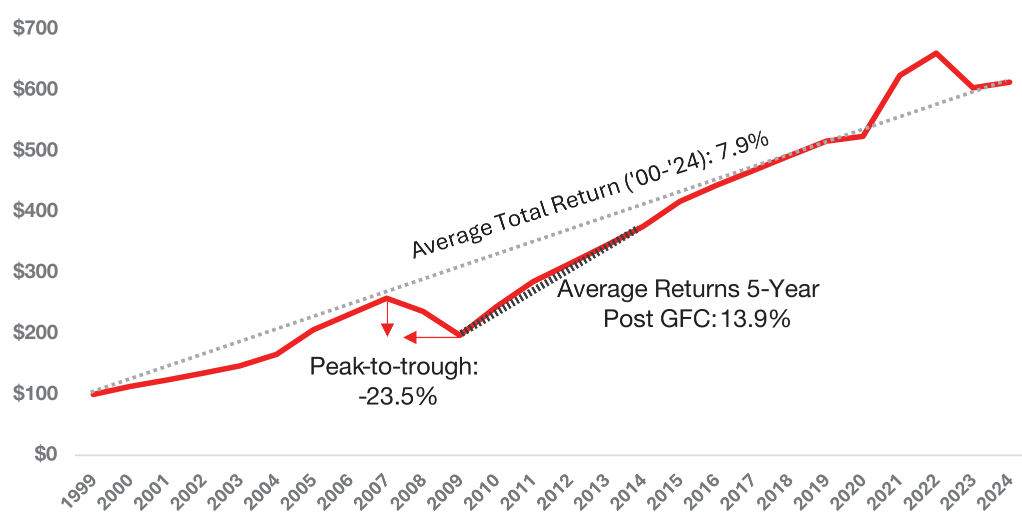
The demand picture remains robust for the multifamily sector. Paired with the coming shortage of new supply, the fundamentals appear to be setting up nicely for long-term investors.

Supply vs Demand – U.S.[8]



After pulling back by 13.50 percent, per-unit apartment values in the NCREIF ODCE Index bottomed out in early 2024 and have resumed gains in recent quarters[9] despite elevated interest rates, highlighting the robust investment demand for multifamily. Should an economic slowdown materialize, sentiment in the sector may be muted. However, strong assets in quality markets have shown great resiliency in prior periods of weakness and maintain a deep and liquid market. **Considering these factors, we believe the multifamily sector will continue to demonstrate solid performance going forward, whether the expansion continues or is interrupted by a mild recession.**

Apartment Total Returns ($100 Invested in 1999)[9]

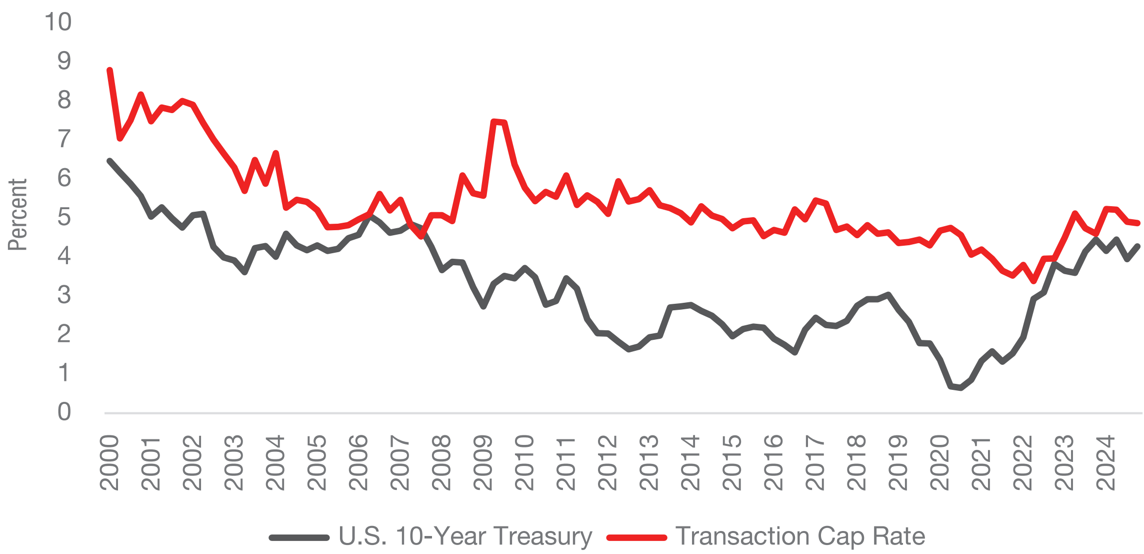


[8] RealPage – Data Download
[9] NCREIF – ODCE Returns at Share Apartment Total Return– Q4 2024

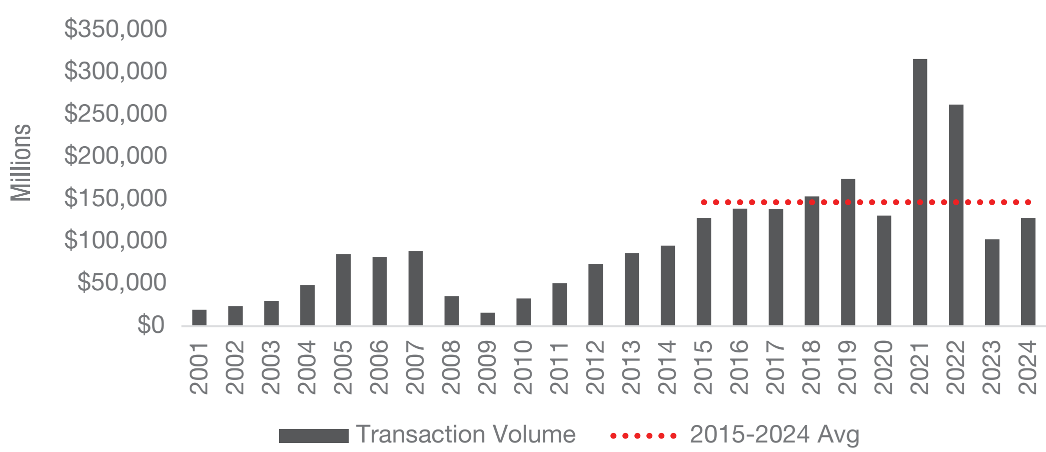
Capital Markets

Rising interest rates have caused some cap rate expansion in the multifamily sector, but the spread between cap rates and the 10-year Treasury has narrowed considerably, suggesting strong demand to place capital in the sector. Transaction volume, likewise, has fallen from the extreme levels in 2021 and 2022, but was quite healthy in 2024, reaching levels similar to the late 2010s.

U.S. Multifamily Cap Rates & U.S. 10-Year Treasury[10]



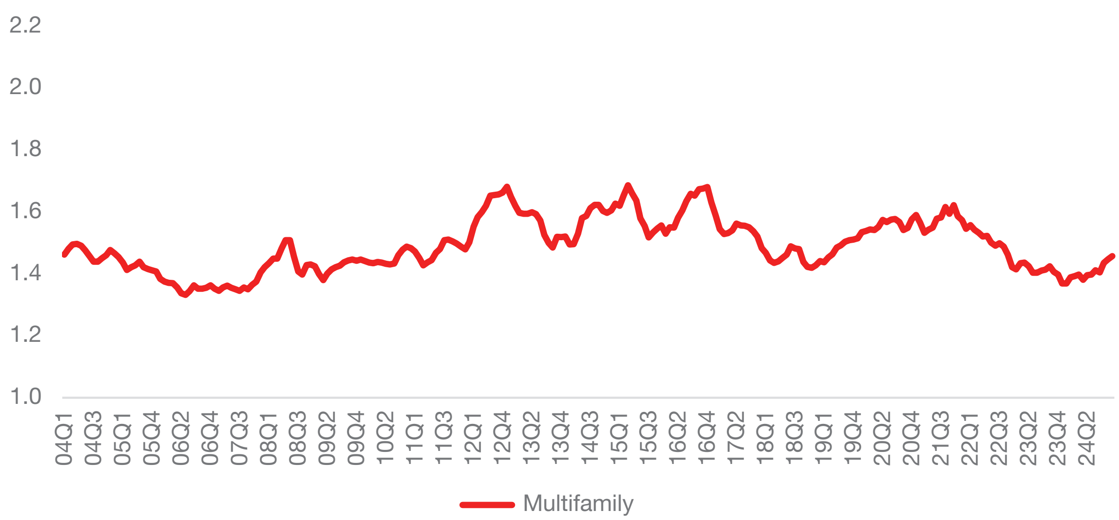
Transaction Volume[11]



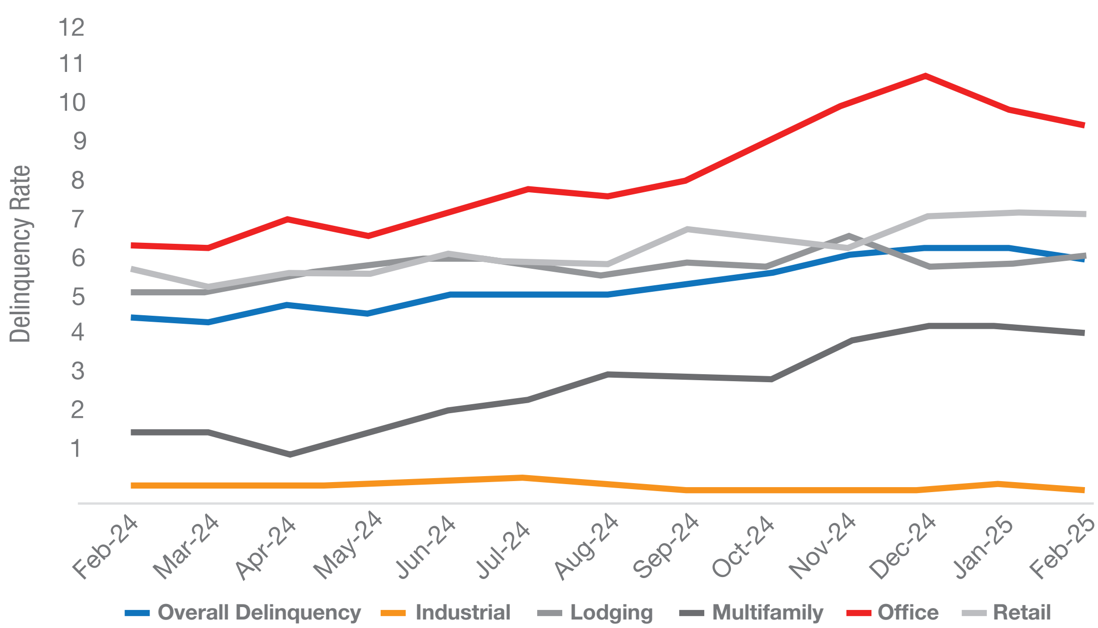
[10] NCREIF – Apartment Transaction Cap Rates – Q4 2024, FRED Database
[11] RealPage - Data Download

Government-Sponsored Enterprise (GSE) demand to lend into the sector continues to be a strong tailwind for multifamily investors. Notably, the Federal Housing Finance Agency (FHFA) raised the purchase caps by four percent for Fannie Mae and Freddie Mac in 2025 to $146 billion.[12] Lending from life insurance companies, banks, and private credit also remains robust. **With low delinquency rates, stable and improving debt service coverage ratios (DSCRs), and strong fundamentals, we believe the sector will continue to see strong support from lenders.**

Debt Service Coverage Ratios (DSCR)[13]



CMBS Delinquency Rates by Major Property Type[14]



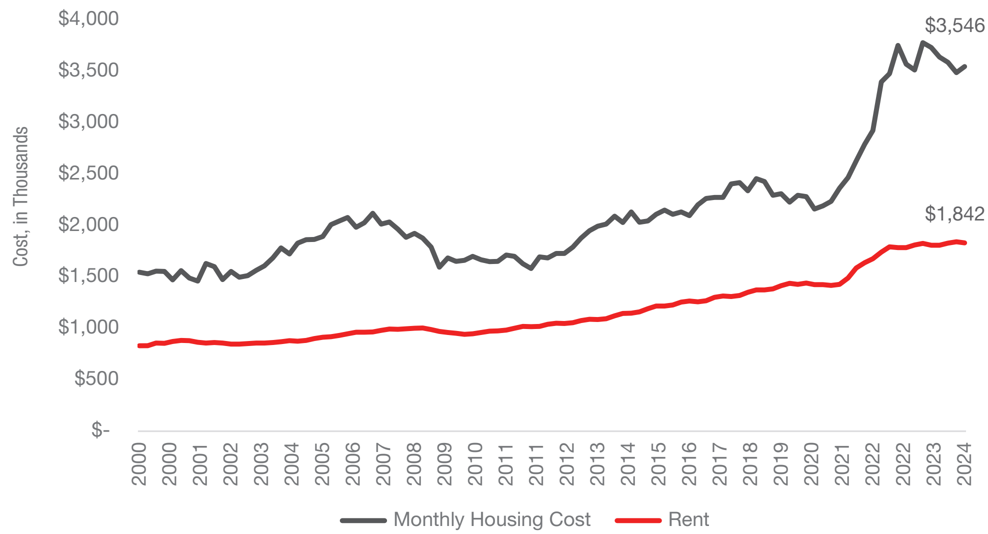
[12] https://www.jpmorgan.com/insights/real-estate/agency-lending/fhfa-raises-agencies-multifamily-loan-caps-for-2025
[13] MSCI – Apartment Debt Metrics– Q4 2024
[14] https://www.trepp.com/trepptalk/cmbs-delinquency-rate-decreases-further-in-february-2025

Multifamily Demand Factors

Affordability: Renting Has Historically Been More Affordable Than Homeownership

The cost of homeownership, including taxes, insurance, and maintenance, is a significant financial obligation, particularly in desirable markets. Using four percent of value as a proxy for additional cost in excess of mortgage payment,[16] homeownership costs at a national level are nearly double where rents currently sit.[15]

Rent vs Own Comparison[15]



Further, the majority of mortgages are originated for borrowers with credit scores of 760 or higher.[16] This, along with significant down payment requirements, add up to a large and growing segment of the population who will rent instead of own, whether by choice or necessity.

Demographics: Population Trends Point to Strong Demand for Residential Rentals

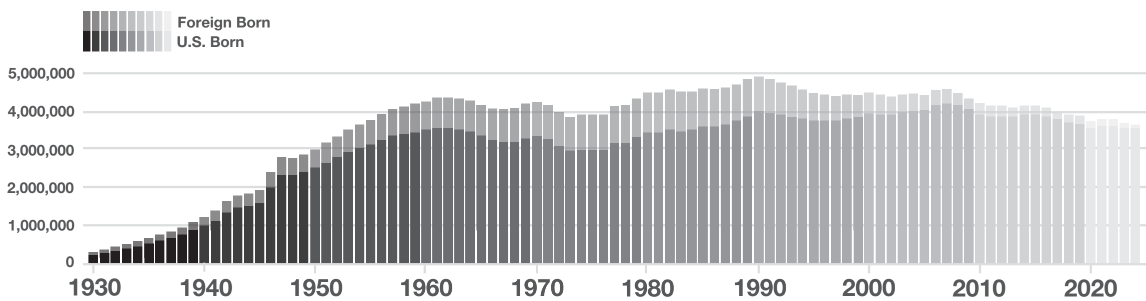
Millennials make up the largest population segment in the United States.[17] With most of the generation in their mid-30s, this cohort is looking to form households, as their relationships and career prospects grow. The financial dynamics discussed above will naturally cause much of this demand to flow into rentals. Build-to-rent assets may benefit from this trend as well, as they provide more space and an owner-like experience.

Baby boomers may also contribute positively to rental demand in the coming years. As more people retire, many are downsizing, seeking more flexibility in their living arrangements to facilitate travel, leisure, or simply less maintenance and effort. Baby boomers may also continue to relocate to be near cities, state parks, warmer weather, or closer to grandchildren. Along with traditional multifamily and build-to-rent, manufactured housing communities (MHC) are likely to benefit from relocating retirees. High-quality MHCs and recreational vehicle (RV) rental properties may be attractive to those looking for a community of people in a similar stage of life who wish to keep housing costs low to enjoy retirement.

[15] Monthly housing cost = monthly principal and interest based on 30-Year mortgage rate (FRED –MORTGAGE30US) and median sales price of homes sold U.S. (FRED – MSPUS) plus a 4% of total home value added as Operating costs of owning a home (Operating Costs of Owning a Home - National Association of Home Builders); Rent = Realpage Effective Rent
[16] New York Fed Consumer Credit Panel/Equifax – Q4 2024, https://www.experian.com/blogs/ask-experian/what-is-the-average-credit-score-in-the-u-s/
[17] https://www.pewresearch.org/short-reads/2020/04/28/millennials-overtake-baby-boomers-as-americas-largest-generation/

Each decade-born generation between the 1960s and 2010 has 40M-46M people; generations born in the 1990s and later will grow through immigration[18]

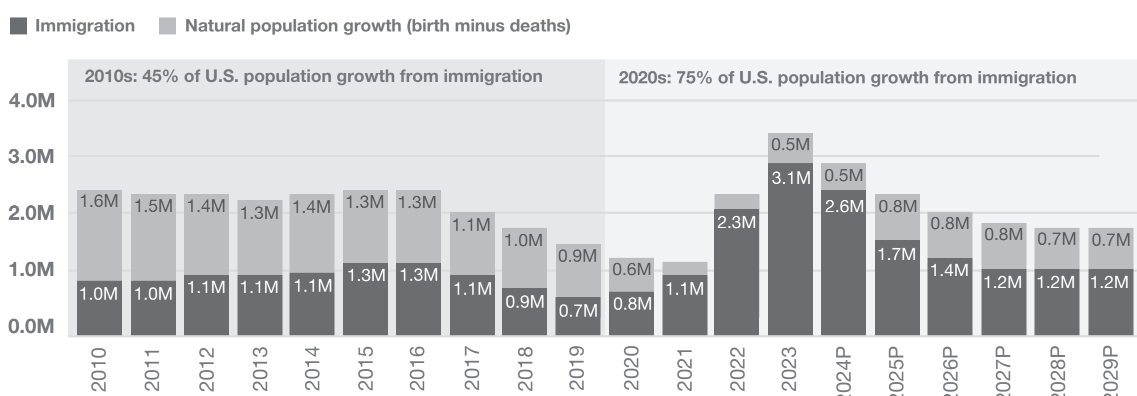
2024 U.S. Population by Year Born[19]



Immigration & Domestic Migration: Newcomers to the U.S. and Movement within the Country Play an Outsized Role in Population Growth and Rental Demand

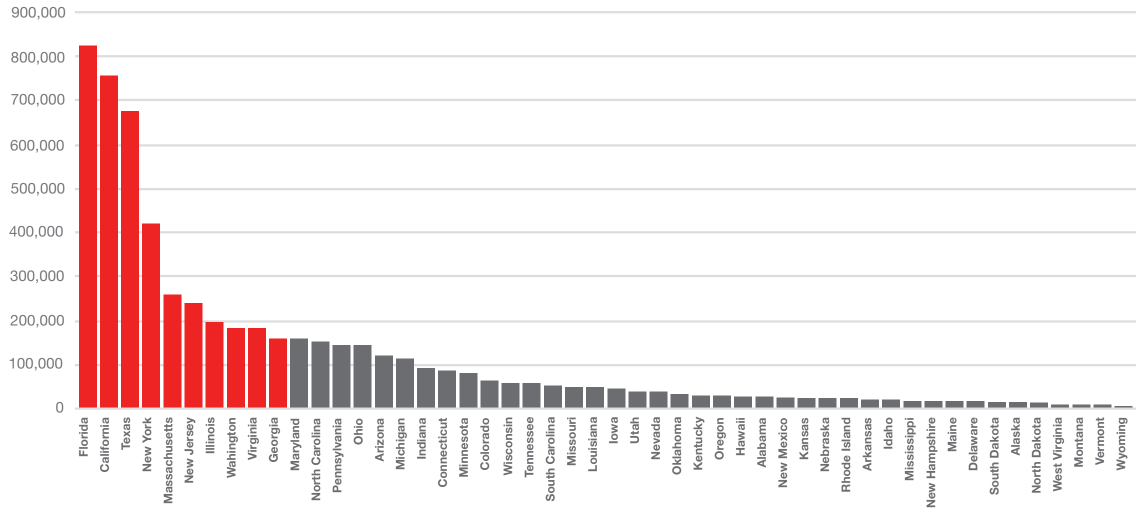
As domestic birth rates continue to decline and the U.S. population ages, the logical way to fill the gap is with population from abroad. John Burns Consulting estimates that roughly 75 percent of U.S. population increases in the 2020s will come from immigration.[19] These increases will be lumpy and directed toward certain markets as immigration ebbs and flows due to the political and economic climate. We expect Florida, California, Texas, and New York to continue to see the lion's share of immigration. Markets in these states will likely see excess demand for affordable housing options near employment centers.

U.S. Population Growth: Components of Annual Change[19]



[18] PWC & Urban Land Institute. 2025 Emerging Trends in Real Estate.
[19] Bureau of Labor Statistics, John Burns Research and Consulting LLC (Data: July 2024; Pub: September 2024) As seen in Burns U.S. Demographics Insights and Strategies.

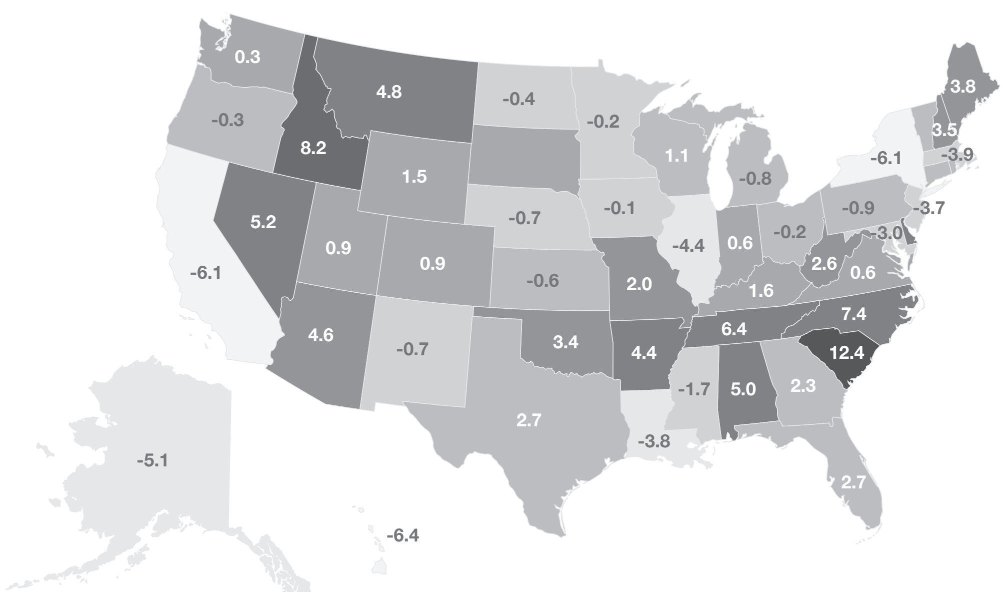
10 States Account for 2/3 of International Migration Over the Past 3 Years[20]



Continuing with the theme of slower overall population growth, net domestic migration will be a critical factor in overall rental demand. We expect to see a continuation of migration trends from the past decade, with states like California, New York, and Illinois losing domestic population (which will be somewhat offset by immigration) to states in the Sunbelt. Multifamily owners will need to understand the profile and demand characteristics of these new renters to provide proper housing options.

Where Americans Moved in 2024[21]

Net domestic migration across U.S. states between July 2023 and July 2024, shown as a ratio per 1,000 residents



Net domestic migration is calculated as the difference between the number of Americans moving into a given state (in-migration) and the number of people leaving the state (out-migration) over a specific period.

[20] Bureau of Labor Statistics, John Burns Research and Consulting LLC (Data: Jul-24; Pub: Sept 24). As seen in the Burns U.S. Demographics Insights and Strategies. PWC & Urban Land Institute. Demographics Steering Real Estate Markets in 2025 and Beyond.

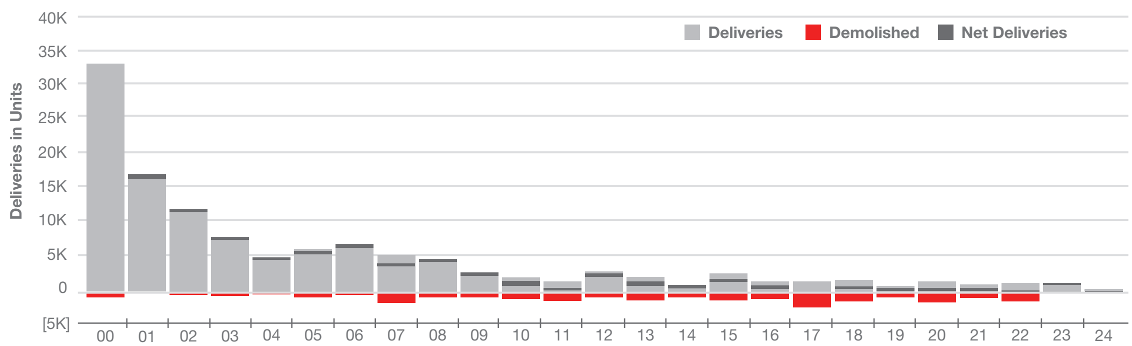
[21] https://www.resiclubanalytics.com/p/net-domestic-migration-which-states-are-gaining-and-losing-americans

Residential Subsectors

Manufactured Housing Communities (MHCs)

Manufactured housing communities have unique fundamentals providing the sector with long-term tailwinds. As previously mentioned, the aging demographic and affordability components make the sector stand out as a recipient of strong demand. Further, due to political dynamics and difficulty finding suitable land, the new supply of MHCs has been, and will likely continue to be, well below necessary levels to support demand. This points to a likelihood of strong rent increases in the sector, particularly for well-located communities that fit the needs of new renters.

Manufactured Housing Completions & Demolitions (2000 to 2024)[22]



Age 55-plus MHCs have seen robust rent growth in all regions of the country, with rents growing 6.60 percent nationally as of Q2 2024.[22] As the U.S. population continues to age, this dynamic is likely to continue, barring a major shift in the desire to zone for and allow development of MHCs.

Age 55-Plus - MHC Occupancy and Pad Site Rents for Select Regions[22]

Region	Occupancy Q2 2024	Occupancy Q2 2023	Change	Rent Q2 2024	Rent Q2 2023	Change
Midwest	95%	93%	2%	$581	$545	6.6%
Northeast	98%	98%	0%	$604	$576	4.9%
Pacific	99%	99%	0%	$911	$862	5.7%
South	96%	96%	0%	$752	$700	7.4%
Southwest	96%	96%	0%	$704	$656	7.3%
West	95%	94%	1%	$808	$757	6.7%
National	**97%**	**96%**	**1%**	**$774**	**$726**	**6.6%**

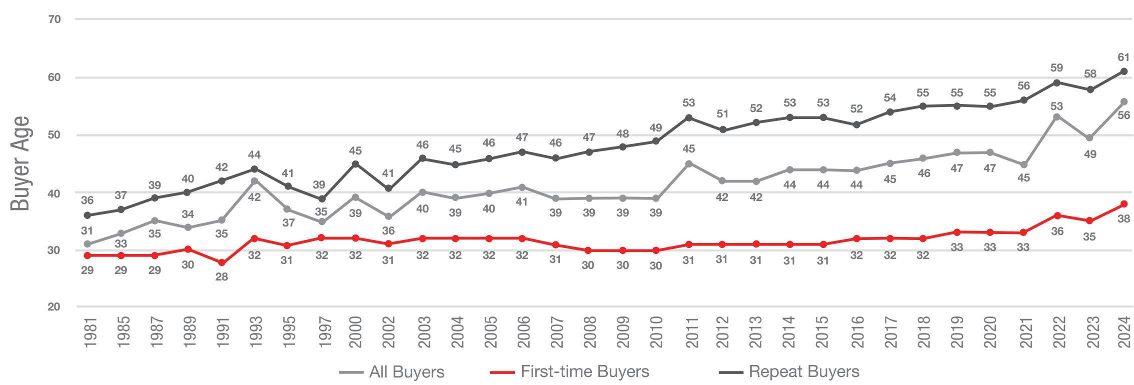
As of July 1, 2024. Based on Trailing 12-month average. Note: Pad Site rents exclude utility payments
Southeast: 13 states including Florida, Georgia, and the Carolinas. Northeast: 7 states including Pennsylvania, New York, and New Jersey

[22] https://www.fanniemae.com/media/53321/display

Build-to-Rent (BTR)

BTR is another subsector worthy of careful consideration due to its unique ability to provide an ownership-like experience with many of the benefits of renting, while avoiding some of the downsides of owning a home. The largest population segment in the history of our country is now reaching peak household formation age. As shown below, the average age of a first-time homebuyer has increased from early 30s just a few years ago to late 30s more recently.[23] This reflects the difficulty in homebuying. As affordability and lifestyle demand restrict the ability to buy, many in this cohort will find renting a more attractive option.

Median Age of Home Buyers, 1981-2024[23]



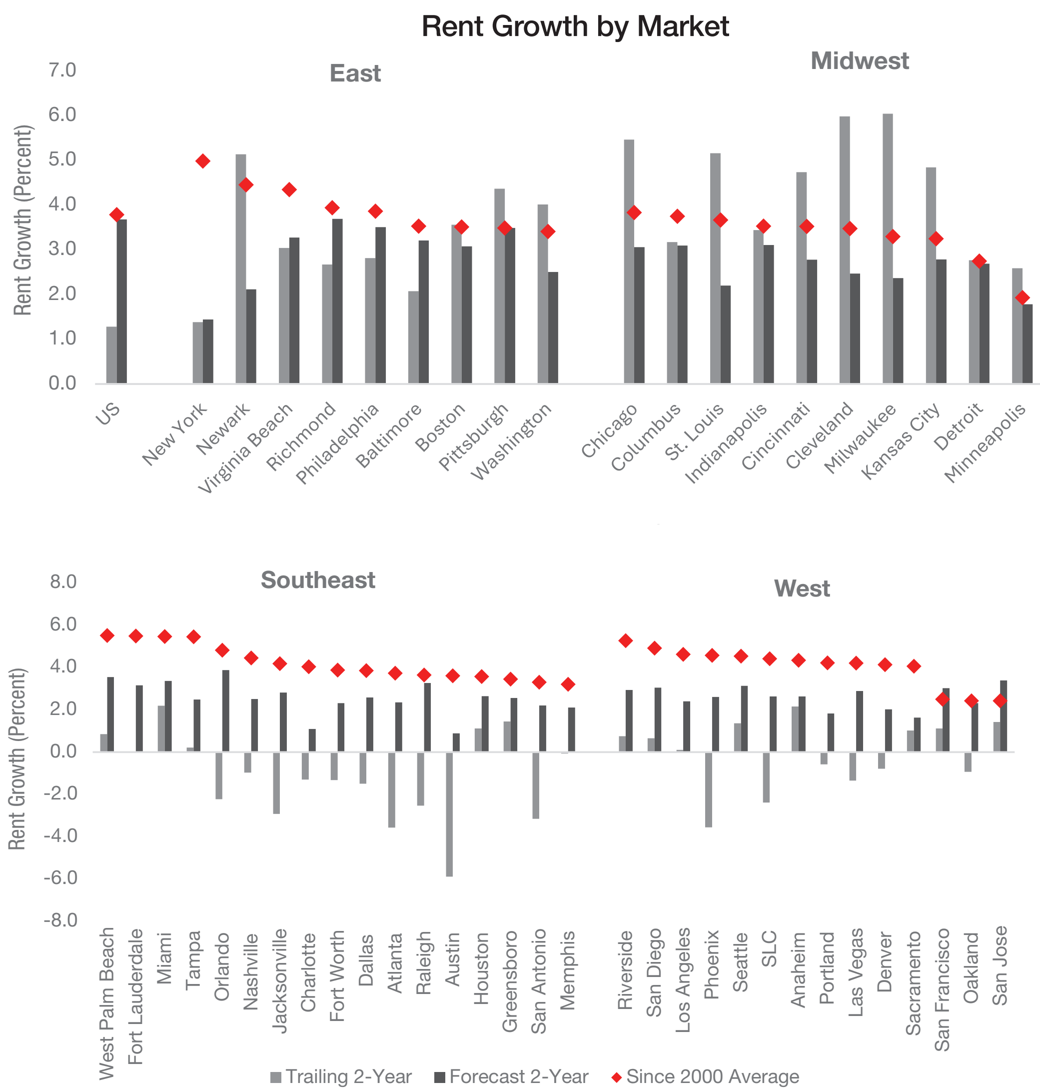
10 to 15 years ago, the millennial cohort wanted to live close to employment opportunities and enjoy city life. Today, on the other hand, they favor more space and a yard to raise children, have dogs, and work from home. BTR offers renters a unique opportunity to enjoy the best of both worlds: private space without the shared hallways, walls, sounds, and smells of apartment living combined with the amenities, affordability, flexibility, and lack of financial and time commitments associated with maintaining an owned home.

While BTR projects are becoming more popular with developers, they typically require more land and relatively high rents for projects to make sense. Therefore, there is a likelihood that BTR will see outperformance relative to other sectors as these demand tailwinds unfold in the coming years.

[23] National Association of REALTORS® | 2024 Profile of Home Buyers and Sellers

Market Analysis[24]

Historically favored markets have seen underperformance since 2023. This is due to the lion's share of the construction boom targeting markets like Atlanta, Nashville, Charlotte, Raleigh-Durham, and major Texas and Florida markets. All these markets saw rents fall as a result of both a return-to-normal from the outsized gains of previous years and the incoming new supply pushing rents down. However, long-term demand fundamentals such as population and job growth, remain firmly in place. As construction starts decline and new supply is absorbed, we expect rents to resume an upward trajectory in these markets.



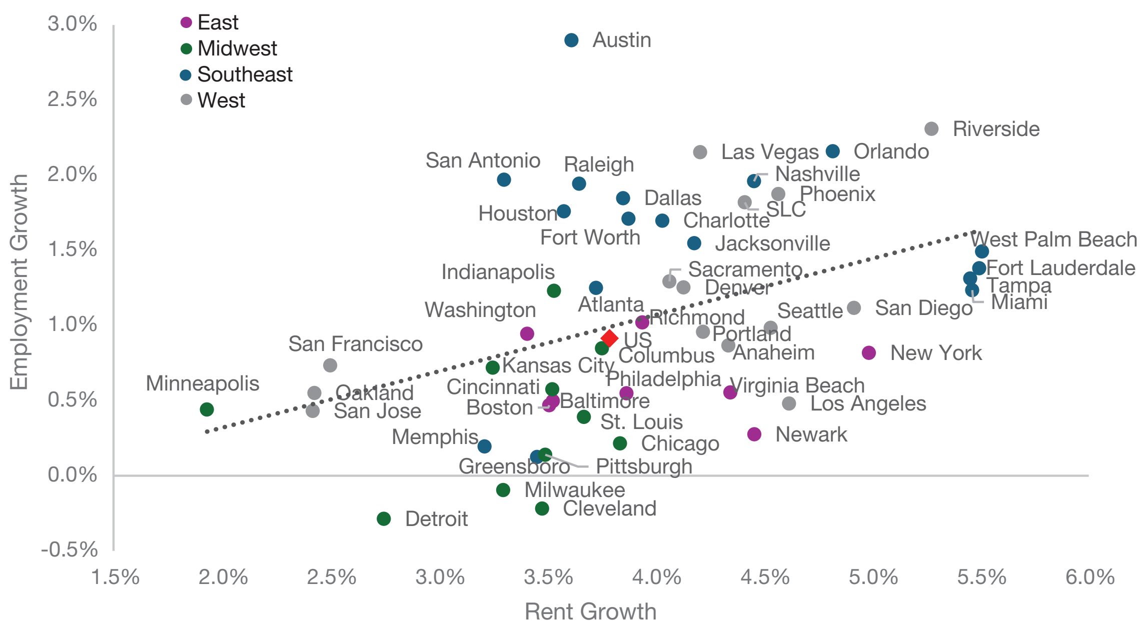
In the meantime, there is important information to glean in the Midwest, with significant outperformance of markets like Chicago, St. Louis, Milwaukee, and Kansas City. Developers historically steered clear of these markets, leading to rents growing at a strong clip despite weakness in the multifamily sector at large. In formulating an investment thesis in the multifamily sector, it may make sense to include exposure to these markets, which may see muted rent growth when supply and demand are in balance but may offset losses elsewhere when supply booms push high-growth markets out of equilibrium.

[24] RealPage - Data Download

Long-Term Market Demand

Since the year 2000, strong employment growth is directly correlated to rent growth over the long-term (excluding supply booms and busts typical in higher growth markets). Therefore, identifying areas most likely to see stable and robust growth in employment and population over time will be key to driving investment results in the sector.

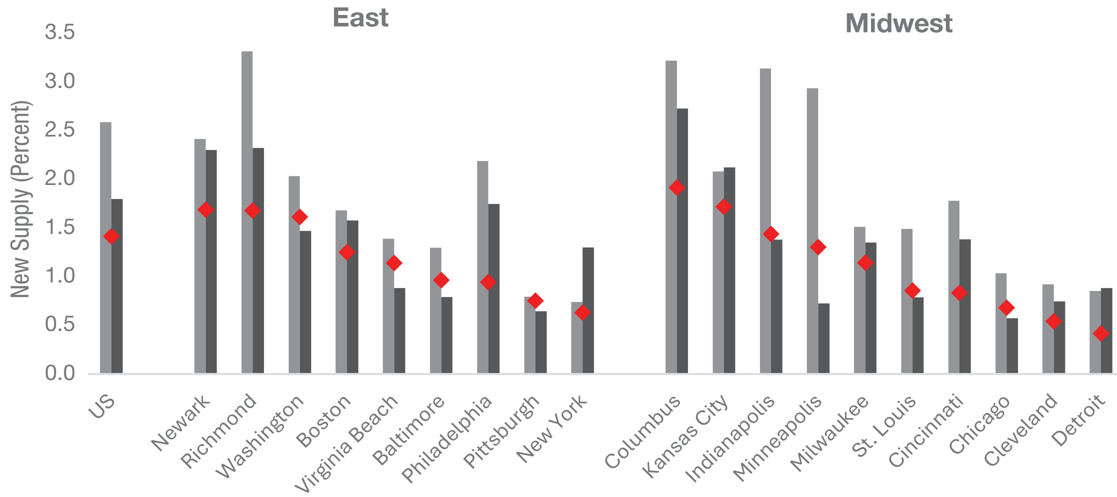
Employment Growth and Rent Growth – Since 2000 Average[25]

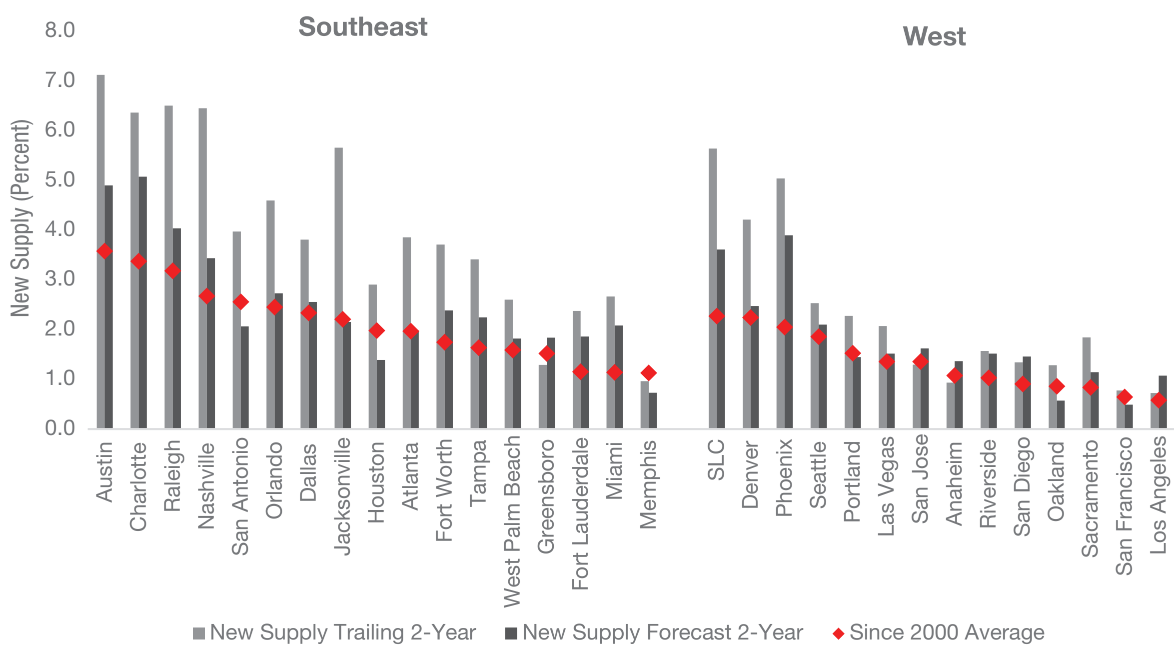


Through this lens, we continue to view many of the past winners in the southeast as likely to absorb much of the domestic migration and growth in the future. These markets offer a friendly business climate, warm weather, and solid cost of living relative to coastal markets. As new supply (as a percentage of existing stock) falls to between 2.00 percent and 3.00 percent in these markets, rent growth is expected to resume, and these markets may re-take their position as national leaders.

[25] RealPage – Effective Rent & Employment – Q4 2024

New Supply as a % of Stock[26]





[26] RealPage – Trailing 2-Year and Forecast 2-Year = average

Looking Ahead

Like many real estate sectors, multifamily has experienced a recent pullback in rent growth and valuation due to higher interest rates and new supply. However, strong demand has been able to blunt the impact, and rents and occupancies have stabilized. Both equity and debt capital continue to show a strong interest in multifamily assets, with sector returns recovering from a relatively shallow dip.

Multifamily performance continues to be market-specific, with the highest growth markets enjoying the benefits of the strongest rent growth during the boom and suffering the worst declines during the bust. Steady markets in the Midwest and elsewhere have weathered the storm better but may also see more moderate growth as supply and demand find a balance.

Over the long-term, continued robust demand is expected to drive solid multifamily results. Demographics and affordability point to a stable and growing renter pool. As the supply wave is absorbed, these factors may drive attractive returns in the sector. Both BTR and MHC are subsectors that are particularly well positioned to capture much of the future demand, while also having restricted new supply due to the nature of the product.

The residential sector continues to have strong potential to generate attractive returns. 2025 may offer a solid entry point for investors utilizing moderate leverage and a long-term investment horizon. Those that can buy at slightly elevated cap rates are able to position themselves to capture the strong performance that may come as new supply is absorbed and demand factors take center stage.

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