Evergreen Capital LLC

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THE MULTIFAMILY SECTOR'S RESPONSE TO THE FEDERAL RESERVE'S INTEREST RATE PAUSE

Previous hikes have already had an impact on the sector. Experts weigh in on the next steps.

Interest rates have reached their highest level in over 15 years, but they will remain unchanged for now. The Federal Reserve raised rates by 25 basis points in May, bringing the target range to 5.25 percent. Experts anticipated a shift in the recent meeting, hoping it would be the last rate hike for a while.

However, the Central Bank decided to pause due to factors like recent bank failures, persistent inflation, and concerns about a potential recession. Despite arguments for another rate hike based on high overall inflation, strong job growth, and sustained consumer spending, the need to assess the impacts of previous rate increases outweighed those considerations.

EXPECTATIONS WERE HIGH.

Before the decision was announced at the most recent Federal Open Market Committee meeting, multifamily experts predicted the outcome.

"I do not expect the Fed to raise rates in June, the recent bank failures coupled with lingering concerns about recession cause me to believe that the Fed will wait to see what develops before increasing rates any further."

-Stephen A. Sobin, President, Select Commercial Funding LLC

"Our CLA Outlook highlights that the rationale behind a Fed pause is clear: inflation data has trended down from a high of 9 percent last year to around 5 percent in the latest readings. This gives the Fed some room to pause and assess economic conditions before resuming any further rate hikes.".

- Carey Heyman managing principal of the real estate industry at CliftonLarsonAllen (CLA)

"There's really no way to anticipate or predict with total certainty what will happen next week but our hope is that the Fed does not raise interest rates further at this point. Holding steady will allow the previous interest rate hikes to continue to take effect."

-Matthew Dzbanek, senior director, capital services, at Ariel Property Advisors

WHAT THE IMPACTS ON MULTIFAMILY REALLY ARE

*Multifamily is **experiencing** the impact of **rising interest rates** in several ways. Higher interest rates are pushing **potential homebuyers** out of the market and into rental properties, benefiting investors and developers. However, rising construction costs and delays are limiting new unit deliveries, increasing demand and driving up prices. The lending landscape for multifamily is a concern, with a void left by the fallout from Signature Bank and a lack of institutions stepping in to fill that void.*

*Financing new deals and finding lenders is becoming more **challenging**, and further rate hikes would reduce **buying power, making transactions difficult**. Existing loans and rising cap rates are also affecting current multifamily communities, with rates of return below interest rates, potentially leading to a drop in values. While a pause in interest rate hikes may alleviate some **anxiety**, the loan maturity wave remains a concern for multifamily and commercial real estate.*

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