

ACRE Equity Market Snapshot

Q1 2025 Research Note

The U.S. apartment market is at a turning point, as new supply – the primary headwind of the past two years – rapidly declines. Supply levels will plunge below pre-COVID norms by 2026 in most markets. Meanwhile, the gap between rent vs. buy has never been wider, and demographic tailwinds remain favorable.

A Quick Rewind: Post-GFC, apartments thrived on strong fundamentals and cheap debt, driving record investment and construction. By 2022-23, rising interest rates and surging supply flattened rent growth, leading to distress as cap rates expanded and asset values adjusted.

Demand Dynamics & Long-Term Optimism: Despite increased supply, apartment demand remains strong, with 2024 absorption at near-record levels. Early 2025 data shows improving fundamentals, as the U.S. remains underhoused by 3.7 million units. Low single-family supply, high mortgage rates, and sticky home prices continue to drive rental demand. As supply slows, rent growth is expected, especially in markets with less supply pressure.

Financing Distress & Opportunity: There's significant distress that rebounding supply/demand alone can't solve, driven by loan maturities in a higher-rate environment, creating opportunities to buy from capital fatigued sellers or lenders needing an exit or, in some cases, providing rescue pref. With cap rates leveling off in the second half of 2024, the market appears to have bottomed out on price, especially for institutional-grade apartments.

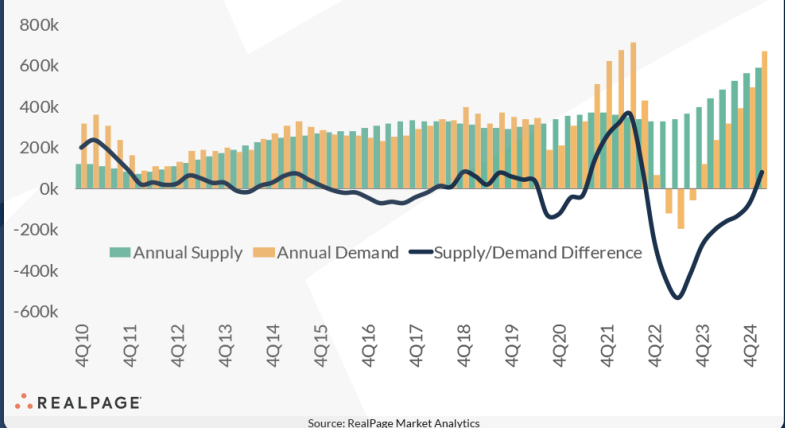
ACRE's Target Markets are Ahead of the Curve: The national flat rent trend hides regional differences. The Midwest, Mid-Atlantic, and Northeast continue to see stable 3%+ rent growth, outperforming weaker Southern and Western markets. These regions also show lower rent volatility and more favorable regulations, aligning with ACRE's strategy.

ACRE Equity Fund V Strategy: ACRE targets rescue pref, value-add acquisitions, new development, and build-to-rent projects, particularly in areas with high barriers to entry and sustainable growth potential.

Census: U.S. Multifamily Housing Starts Plunge to 10+ Year Low



Demand Outpaces Supply For First Time Since Mid-2022



Nothing New: Midwest & Mid-Atlantic are Low Volatility Regions

