February 2025 – Election Honeymoon Ends for Markets

Markets erased most of their 2025 gains in the last two weeks of February, as fears about Trump's tariffs coincided with softer-than-expected economic data. The S&P 500 declined 1.42%, while safe-haven assets rallied. The benchmark 10-year treasury ended the month at 4.20%, down 59 basis points from its recent January peak.

Market Benchmarks

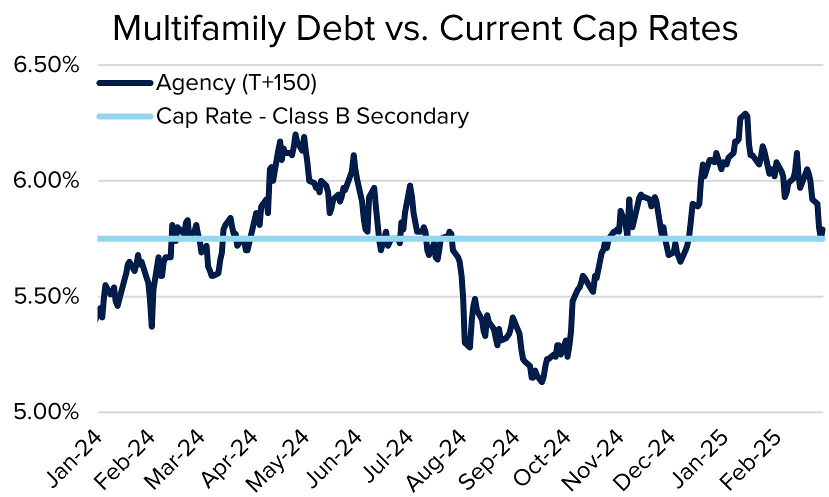
	YE-2024	Jan-25	Feb-25	1-Month Change Δ	1-Month Change % Δ
Fed Funds	4.33%	4.33%	4.33%	0.00%	0.00%
1-Month SOFR	4.33%	4.31%	4.32%	0.01%	0.22%
10-Yr Treasury	4.57%	4.54%	4.20%	-0.34%	-7.48%
S&P 500	5,881.63	6,040.53	5,954.50	(86.03)	-1.42%
REIT Index[1]	126.31	128.41	133.05	4.64	3.61%
VIX	17.35	16.43	19.63	3.20	19.48%

1. Vangaurd Real Estate Index Fund (VGSLX) tracks the MSCI U.S. REIT Index

Fed Chair Powell delivered his semi-annual monetary policy report to congress earlier in the month, underscoring the Fed's commitment to independence. He emphasized that politically unpopular actions are often crucial to control inflation and reiterated that more progress is needed before considering additional rate cuts. Powell also acknowledged that Trump's economic policy agenda could impact growth and inflation, noting that the Fed will evaluate these effects as they materialize.

Treasury Yield Dip Likely to Drive Multifamily Transactions

The recent rally in the bond market is expected to spur increased multifamily transaction activity, like what occurred in late Q3 2024. The key driver is positive leverage for "average Class-B" deals, which are currently trading at cap rates between 5.25 – 5.75%, depending on the market.



While the illustrative graph on the right highlights general trends, every deal is unique. In this example, we assume a 5.75% cap rate for Class-B assets (light blue line) and a 150-bps spread over the 10-year for agency debt costs (dark blue line). Whenever the dark blue line is below the light blue line, leverage is positive and whenever it is above, leverage is negative. Caisson Capital remains disciplined in underwriting and cautiously optimistic about near-term acquisition opportunities.

Secondary & Tertiary Market Outperformance

The largest 50 MSAs receive the bulk of institutional attention, given their transaction volume, visibility, and deep capital markets. However, performance in these markets has been mixed, as higher capital inflows have driven down cap rates while increased supply has weighed on rent growth.

In contrast, tertiary markets (including much of the Heartland) have demonstrated steadier performance. As Jay Parsons, one of the most respected analysts in the rental housing space, recently highlighted, liquidity in these markets is improving, and supply-demand dynamics remain more balanced. This is precisely the investment thesis that Caisson Capital has pursued—identifying resilient, high-yield opportunities in markets less susceptible to volatility. Our team has spent years cultivating the relationships and operational expertise necessary to execute successfully in these environments, so we feel ahead of the curve.

GSE Privatization Proposal

Fannie Mae and Freddie Mac, the government-sponsored enterprises (GSEs) that dominate multifamily lending, have been in conservatorship since the GFC. Scott Turner, the new HUD secretary, has signaled privatization is a key priority for the administration.

For multifamily investors, this presents both risks and opportunities. The GSEs remain the largest source of permanent financing for multifamily assets, and their transition to private entities could bring material changes. Two primary concerns must be addressed prior to any privatization:

1. Capitalization: the GSEs require an estimated $150 billion in additional capital to operate independently.

2. Mortgage bond guarantees: Currently, Fannie and Freddie enjoy explicit government backing, which lowers borrowing costs. If privatized, the structure of these guarantees remains uncertain.

Caisson Capital is closely monitoring the situation and will assess the implications for debt pricing, liquidity, and transaction volume as policy details emerge.

More Consolidation Among Large Managers

The ongoing trend of consolidation in real estate private equity continued this month, with two notable acquisitions further concentrating assets under management (AUM) among the largest firms:

- Barings ($421 billion AUM) acquired Artemis Real Estate, a Washington DC-based value-add & opportunistic manager with $11 billion of AUM. This represents a 20% expansion of Barings' real estate platform, which currently manages $50 billion AUM.
- Apollo Global Management announced the acquisition of Bridge Investment Group ("Bridge Invest") in a $1.5 billion all-stock transaction. The deal nearly doubles Apollo's real estate business, adding Bridge Invest's $50 billion in AUM. Bridge is also one of the largest multifamily owners in the U.S., with a portfolio of ~55,000 units.

This consolidation reflects an industry-wide shift as firms seek scale advantages, operational efficiencies, and expanded investor bases. For independent sponsors like Caisson, these trends reinforce the importance of specialization, agility, and strong regional expertise in executing differentiated investment strategies.