March 2025 – Correction Looms: Markets Slide on Recession Fears and Fed Caution

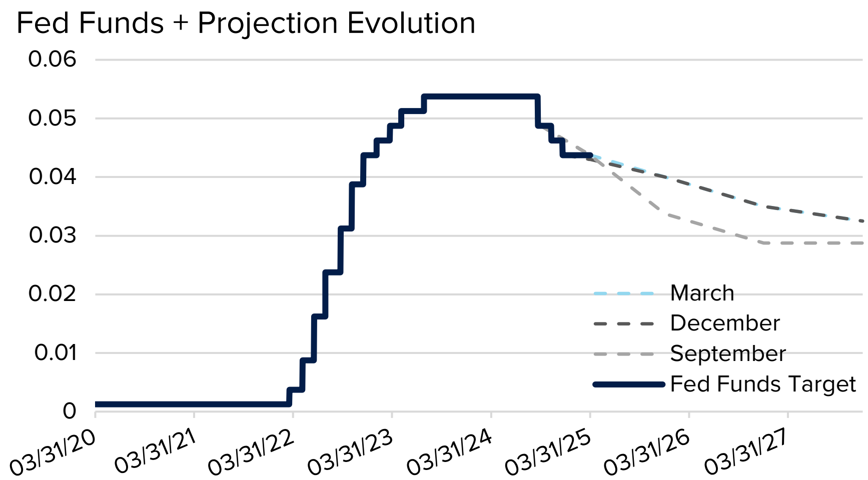
Markets declined sharply in March as mounting recession concerns and a volatile policy backdrop rattled investor confidence. The S&P 500 fell 5.75%, while the tech-heavy NASDAQ slid 8.2%. With the S&P now down nearly 10% from its February peak, equities are flirting with correction territory. Despite renewed inflation concerns, rates held steady. The 10-year treasury ended the month at 4.21%, up just 1 basis point.

Market Benchmarks

	YE-2024	Feb-25	Mar-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%	4.32%	4.32%	0.00%	0.00%
10-Yr Treasury	4.57%	4.20%	4.21%	0.01%	0.19%
S&P 500	5,881.63	5,954.50	5,611.85	(342.65)	-5.75%
REIT Index[1]	126.31	133.05	128.34	(4.71)	-3.54%
VIX	17.35	19.63	22.28	2.65	13.50%

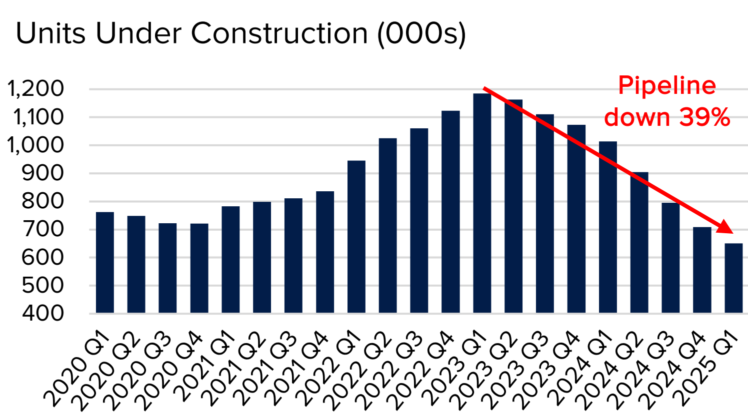
1. Vangaurd Real Estate Index Fund (VGSLX) tracks the MSCI U.S. REIT Index

President Trump added to the uncertainty by refusing to rule out a recession, telling Fox News there would be a "period of transition, because what we're doing is very big." In response, Wall Street economists have revised down their forecasts for U.S. growth, citing softer consumer spending and diminished capital investment.



The Federal Reserve echoed this cautious tone. While it held rates steady at its March meeting, the Fed simultaneously raised its inflation outlook and lowered its projections for GDP growth and employment. Chair Powell emphasized a "wait-and-see" posture. Notably, the Fed's dot plot has shifted meaningfully over the past six months, now reflecting fewer near-term rate cuts and a higher terminal rate.

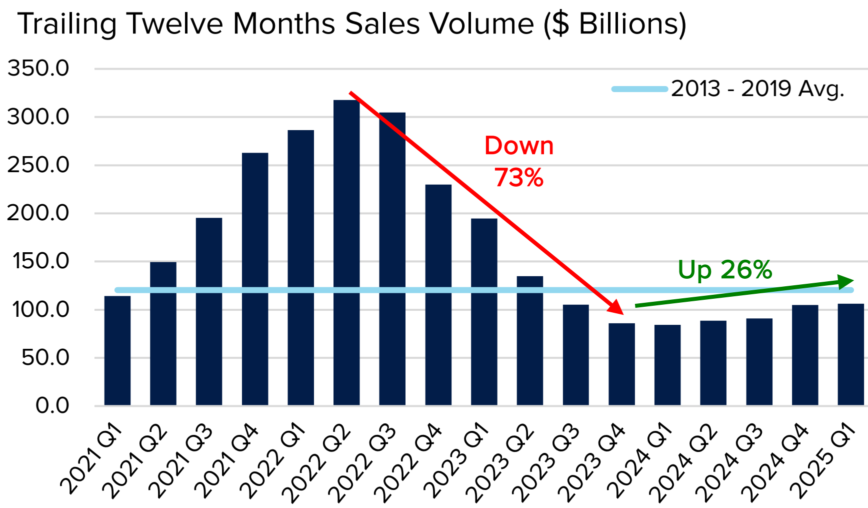
Multifamily Momentum Builds as Supply Tapers and Demand Firms



After several challenging years—defined by rising operating costs, elevated interest rates, and heavy new supply—the multifamily market is finally showing signs of meaningful improvement. In February, median U.S. asking rents posted their first year-over-year gain in six months, rising 0.4%. Development starts are falling sharply, and the wave of new supply is beginning to crest—helping restore balance to the supply-demand dynamic. While select markets like Austin, Jacksonville, and Huntsville remain oversupplied, the broader market is stabilizing.

Demand is holding up well. Elevated mortgage rates and home prices continue to price out many would-be buyers, pushing more households toward long-term renting. Millennials, in particular, are embracing rental living—even as they enter prime family-formation years. The result: lease renewal rates now sit between 52 – 58% across renter segments, the highest in three years.

Apartment sales volumes are beginning to rebound after a sharp decline in 2023. TTM volumes peaked at $318 billion in Q2 2022, bottomed at $84 billion in Q1 2024, and now sit at $106 billion—still 12% below the 2013–2019 average, but rising.



Institutional investors are also returning to real assets. A new Nuveen survey of 800 institutions managing $19 trillion found rising interest in sectors like real estate that offer long-term growth, income, and inflation protection. Allocations to private real estate jumped from 24% to 37%.

Finally, a recent CBRE sentiment survey showed a notable shift in cap rate expectations: the majority of respondents now expect cap rates to remain flat over the near- and medium-term, a meaningful change from the rising-rate consensus that prevailed just months ago.

Tariffs Tighten the Screws on New Supply—A Win for Stabilized Assets

The re-imposition of Trump-era tariffs—and fears of further escalation—are rippling through commercial real estate, particularly on the development and capital expenditure side. Contractors are already reporting higher prices for key materials such as steel, lumber, aluminum, and appliances, and CBRE estimates the new tariffs could increase overall development costs by 3–5%.

While painful in the short term, these dynamics are accelerating a long-anticipated shift. Development pipelines were already contracting due to high interest rates and tight capital availability. Now, rising input costs and volatile construction timelines are making new starts even less feasible. CBRE projects that multifamily starts will be 74% below 2021 levels by midyear—with 1.5 units delivering for every new unit breaking ground.

This contraction in new supply comes at a time when rental demand remains steady, and replacement costs continue to rise. The result is a more favorable long-term setup for existing assets, particularly those with strong in-place cash flow and durable tenant demand. Blackstone's $10B acquisition of AIR Communities at a 25% premium last year reflects growing institutional conviction in this thesis.

Our team remains focused on sourcing stabilized multifamily properties below replacement cost in submarkets where new supply is unlikely to return quickly. In an environment where fewer groups can build—and even fewer can transact with clarity—we see selective acquisition as a durable advantage.