



August 2025 – Cuts on Deck, with Conditions Still Mixed

August closed with a modest risk-on tone. The S&P 500 rose 1.9% despite a late pullback on the final trading day, the Dow gained over 3%, and the Nasdaq climbed 1.5%. Breadth improved, led by small caps, as expectations for a rate cut firmed.

The 10-year Treasury yield declined 14 bps to 4.23%, with the curve steepening modestly. Markets are now pricing in a September rate cut but there is less consensus about further easing.

Market Benchmarks

	YE-2024	Jul-25	Aug-25	1-Month Change	
				Δ	% Δ
Fed Funds	4.33%	4.33%	4.33%	0.00%	0.00%
1-Month SOFR	4.33%	4.35%	4.28%	-0.07%	-1.61%
10-Yr Treasury	4.57%	4.37%	4.23%	-0.14%	-3.20%
S&P 500	5,881.63	6,339.39	6,460.26	120.87	1.91%
REIT Index ¹	126.31	126.33	130.68	4.35	3.44%
VIX	17.35	16.72	15.36	(1.36)	-8.13%

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

The backdrop for a cut continues to build. Second-quarter GDP was revised up to 3.3% annualized, driven by steady consumer spending and stronger business investment, though some of that demand may have been pulled forward ahead of tariff resets. Still, real GDP growth for the first half of 2025 averaged just 1.4% annualized, down sharply from 2.5% in 2024. Momentum has slowed.

Labor market data points to further cooling. July payrolls increased by just ~73k, and unemployment ticked up to 4.2%. The BLS also released notable downward revisions to prior payroll estimates, reinforcing a weaker trend than previously reported. At Jackson Hole, Chair Powell struck a measured tone, while Governor Waller (a leading contender to succeed Powell) expressed support for a 25 bps cut in September.

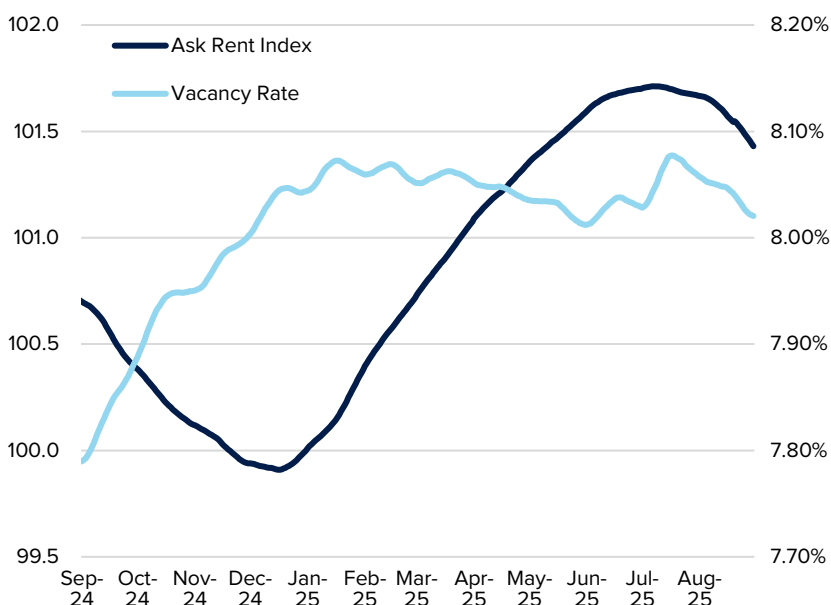
On inflation, July core PCE was 2.9% year-over-year. This is still above target but moving in the right direction. Services inflation remained higher than goods inflation, led by categories such as financial services and insurance, while prices for goods were broadly subdued. That could shift in the second half as tariff-driven cost pressures begin to filter through.

Multifamily — Near-term Softness, Improving 2026–27 Setup

Leasing season cooled earlier than usual. Nationally, average asking rents peaked in early July and have since returned to May levels, while vacancy rates have remained rangebound, according to daily CoStar data. Additionally, data reflects more renters paying late—suggesting increased consumer strain. Late payments hit nearly 12% in June, the highest since mid-2024. Although full collections remain stable, the pay-late-then-catch-up pattern tightens working capital and raises bad debt risk.

Operators are walking a fine line. Short concessions are returning in competitive submarkets, while renewal rent growth and tenant retention remain solid. At the same time, operating costs, especially insurance and taxes, continue to pressure margins after a decade of expense inflation.

Asking Rent (index to YE '24) vs. Vacancy





Recent Q2 earnings from the major apartment REITs reinforce the mixed near-term picture:

- **Equity Residential (EQR):** ~3% blended rent growth; increased use of short concessions in competitive submarkets.
- **AvalonBay (AVB):** Flagged muted job growth in the second half.
- **Mid-America (MAA):** ~0.5% blended lease-rate growth; sequential improvement in new-lease pricing.
- **Camden (CPT):** Modestly negative new-lease rate change in several Sun Belt markets.
- **UDR:** Slightly better-than-expected occupancy; raised year-end guidance.
- **Essex (ESS):** ~3% same-property revenue and NOI growth on the West Coast.

Supply is finally bending in the right direction. July's reported jump in starts drew some data-quality questions, but completions and the forward pipeline still point to meaningfully lower 2025–26 deliveries in many large markets. Multiple forecasters expect demand to exceed supply by year end, setting the stage for vacancy relief and bolstering rent growth into 2026.

Credit conditions are improving slowly, but spreads are still wide for transitional assets. Multifamily CMBS delinquencies and special-servicing rates are higher year-over-year, and lenders continue to favor well-located, stabilized assets with in-place cash flow. Heavier CapEx plans or lease-up risks still command lower leverage and higher costs of capital.

The takeaway? The first half of 2025 was a transitional period marked by mixed fundamentals and high execution premiums. But with supply rolling over, concessions peaking, and better affordability versus for-sale housing, we expect stronger pricing power to emerge by 2026. For patient capital, the entry point looks increasingly compelling.

Policy Path & the Capital Stack: How Cuts, Politics, and GSE Chatter Impact Pricing

With a softening labor market and moderating inflation, the Fed appears poised to resume rate cuts in September. The market expects a gradual path, but there is less clarity on additional 2025 cuts.

Two additional policy threads now matter a lot. First, the administration has revived its push to move Fannie Mae and Freddie Mac out of conservatorship, and press reports indicate the White House is exploring a partial sale of shares as early as late 2025. Multiple analysts view that timetable as aggressive, and the path remains uncertain; the pivotal question is whether an explicit federal guarantee would remain—without one, investors would likely demand wider agency spreads. Second, the Fed's independence is in the headlines. A court hearing on the attempt to remove Governor Lisa Cook ended without a ruling; the outcome could affect her participation at the September meeting and, if a replacement is seated quickly, could tilt the Board's balance. Chair Powell is working to preserve a consensus approach against that backdrop, but headline-driven volatility is a risk.

What it means for multifamily financing and pricing:

1. **Rates & spreads.** Lower Treasury yields have eased benchmarks, but lenders often widen credit spreads when base rates fall. Net result: slightly lower coupons, not a step-change.
2. **Agencies & privatization risk.** If Fannie/Freddie privatization advances without an explicit guarantee, agency mortgage spreads could widen, and proceeds could fall (tighter DSCR constraints). Our base case for 2025 is status quo, but we are stress-testing +25–50 bps on agency spreads and moving to lock rates as soon as is practicable in acquisition processes.
3. **Price discovery & cap rates.** There's no material change to our view. As we've mentioned several times, real estate tends to follow a very U-shaped recovery, and the consensus continues to strengthen that we are either at the bottom or past the bottom and on the way back up. The early innings of the next cycle have started, and we believe it's an opportune time to buy. Cap rates will take a gradual path, but generally follow the cycle, so we expect modest compression over the next several years.