

3Q 2025

Management Commentary

Persistent Complexity



November 2025

A Word from our President, Mark Pasierb

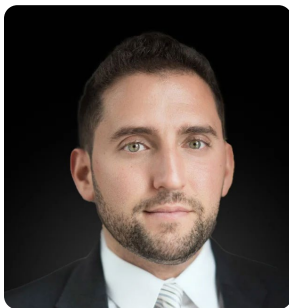


The current economic environment, though challenging, presents significant opportunities. The Fed's policy is exposing distressed assets, creating buying opportunities for buyers with capital. While real estate faces pressures from financing costs and the administration's evolving policies, we believe these factors will ultimately support a long-term recovery for the sector.

We're at a critical juncture for real estate. New apartment supply is slowing, while absorption rates continue to reduce available inventory, especially in the multifamily sector. However, transaction volumes remain low as sellers resist price reductions, creating a bottleneck. This is particularly problematic for owners with debt service outpacing cash flow, leading to an increasing number of distressed assets.

Acknowledging the challenges in today's environment, we want to reaffirm what does not change—our unwavering commitment to act as responsible stewards of your capital. Every decision we make is guided by our fiduciary duty and a deep alignment with you, our partners. We are navigating complexity with discipline, creativity, and a long-term perspective, because we believe that resilience and integrity are the foundation of enduring wealth preservation and growth.

Market Commentary from our Chief Investment Officer, Vincent Di Salvo



Persistent Complexity

The macro-economic backdrop for hard assets remains complex. Long-term interest rates are proving stubborn even as the front end of the rate curve begins to ease. Mixed jobs and GDP growth data support a case for faster rate easing but relief at the long end (10-, 20-, and 30-year Treasuries) would require credible macro policy

changes, a reliable base of buyers for U.S. debt, or fiscal sustainability, none of which is likely in the near future. Stubbornly above-target inflation dynamics are likely to give the FOMC pause, worsening this dynamic. With an expanded budget deficit and steady net new issuances of US debt there are limited prospects for lower long-term yields and it is likely we see a version of the challenging environment we've lived with in recent years continue in the near term.

If “higher for longer” is the new normal, the capital markets may adapt. Lenders may capitulate to new valuation dynamics and foreclose on loans they would have previously extended or modified, as we are starting to see play out nationally. We will also likely continue to see distressed owners, who would have injected new capital into struggling assets, sell or give back the keys rather than increase their basis further. This dynamic will create new opportunities for buyers and investors to purchase at discounted prices, which will inject fresh liquidity into the sector. We are seeing signs of this activity already with transactions up 13% YoY, despite cap rates remaining flat nationally at 5.6%.¹

Fundamentals

Across U.S. apartments, absorption (demand) over the last 12 months totaled ~500,000 units nationally, tracking almost exactly with new deliveries, keeping occupancy stable at ~92% throughout the year. Yet, the development pipeline is normalizing: units under construction have fallen to the lowest level since 2015, at just 550,000.² Similarly, starts and permit issuance are down 64%³ and 32%⁴ from their peaks. Overall, just 225,000 units are expected to deliver in 2026.⁵ These supply dynamics represent a significant shortfall from the ~720,000 annual unit deliveries needed to progress to a consensus market equilibrium and will only exacerbate the already meaningful deficit in supply.⁶

On the income side, rents have been flat (-0.1% nationally) although the use of concessions has increased by 8%.⁷ Certain metros, particularly those in the Southeast (e.g., Texas and Alabama) have softened more dramatically as they absorb the peak of their supply and have been disproportionately affected by immigration policies. There is mounting evidence that immigrants (legal and illegal) have reduced local spending dramatically, leading to business stress.

Overall, the multifamily sector's recent issues have been primarily supply and rates driven, rather than due to demand destruction. With supply peaked and expected to decline to just 215,000 deliveries per year through 2029, we expect rent growth to revert to the historic norm in balanced markets.⁸ This, combined with the normalization of financing conditions at the front end, will, over time, reduce stress within the sector.

¹ Real Capital Analytics

² CoStar

³ CoStar

⁴ US Census Bureau

⁵ CoStar

⁶ Internal Calculations Based on Census, CoStar, and Federal Reserve Data

⁷ CoStar

⁸ CoStar

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