TALOS HOLDINGS
Better Life, Better Living

2025 MULTIFAMILY MARKET OUTLOOK

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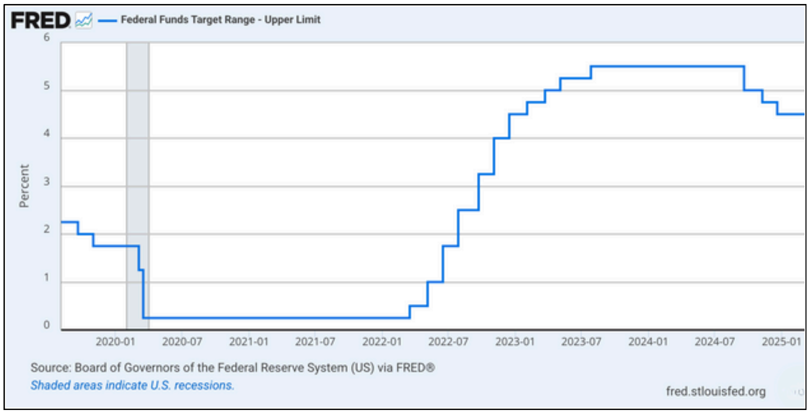
THE PERFECT STORM

Back in 2021 and 2022, when the Fed kept rates near zero, construction financing was readily available at historically low rates. According to the Brookings Institution, the Fed had committed that rates would remain low "until labor market conditions have reached levels consistent with maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time"[1].

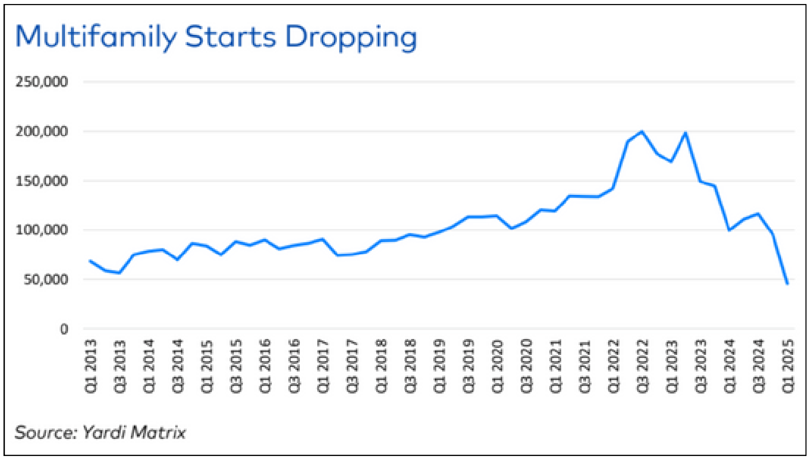
With rent growth on the rise, strong demand for multifamily housing and cheap financing, underwriting processes became more optimistic than careful.

So developers went on an absolute building spree. According to Arbor, multifamily construction starts reached 529,000 units in 2022 - the highest annual total in 36 years[2].

Many sponsors were too optimistic in their underwriting. They expected interest rates to remain low. They trended rents. They trended cap rates. And their success became dependent on these factors.



The Fed ensured low interest rates in 2021-2022



Quarterly starts surged in 2022 and have collapsed from late 2023 and into 2025

But here's the thing about construction projects: once you break ground, you're committed. Many developers broke ground in 2022 with 3% floating-rate construction loans and they trended rents. They subsequently took a beating as interest rates rose, rents didn't increase, and their profit margins slimmed – or in some cases, they were completely wiped out. Today, as their projects are being delivered, their permanent loan financing will have to be at 7% to 8%. And that leaves some projects fundamentally upside down - where the cost of debt alone can wipe out all projected cash flows, forcing sponsors to sell, restructure, or hand the keys back to lenders.

THE NUMBERS TELL THE STORY

A large amount of debt is coming due. According to Jones Lang LaSalle, $1.5 trillion in commercial real estate debt is due by end of 2025, with a $400 billion gap between amount owed and available refinancing capital[3]. Multifamily represents 40% of these maturities[4].

Multifamily delinquency rates have increased by 213% from three years ago. But these aren't beat-up buildings - they're brand-new Class A properties with broken capital stacks.

Here's what's actually happening: Construction loans are temporary - typically 18-36 months with floating rates. But developers underwrite these projects assuming they'll secure permanent financing at completion. A project that started in 2022 was underwritten expecting 4% permanent financing. Today, that same property may find that they are offered 7.5% on a permanent loan. If a property generates $3.5 million in annual income, a $40 million loan at 4% requires $2.4 million in debt service (comfortable 1.46 coverage ratio). At 7.5%, that same loan demands $3.7 million annually - more than the property generates.

THE CAPITAL MARKETS REALITY

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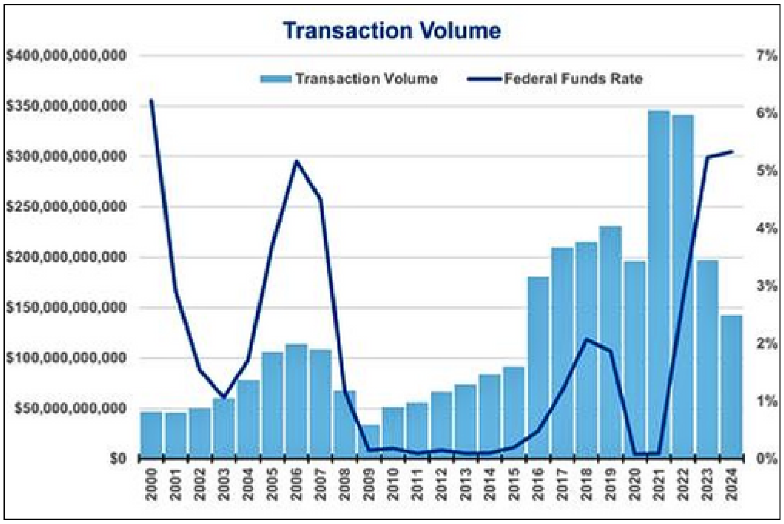
Transaction volume dropped 25% year-over-year in Q1 2024[6]. The capital that would normally solve these problems has largely disappeared.

This is where our advantage becomes clear. Life insurance companies are quietly offering distressed notes to trusted partners rather than managing foreclosures. After 30 years building these relationships, we're often their first call.

We're seeing opportunities for acquisitions at 20-30% discounts to replacement cost. And these are on newly constructed Class A properties. These aren't distressed buildings - they're distressed balance sheets that will be exactly what institutional investors want in a normalized market.



Rising interest rates trigger decrease in transaction volume

WHERE WE'RE FINDING VALUE

Upside is the greatest in submarkets with stronger economics than their greater metro area. Take North Scottsdale, where we've operated for decades:

Case Study: North Scottsdale

- Absorbed 1,274 units vs. 1,267 delivered
- 2.2x 10-year average absorption
- 7.5% vacancy vs. 11.7% metro-wide
- 39% rent premium over metro average

Despite "oversupply" headlines applied to the entire Phoenix metro, North Scottsdale is anticipating significant job growth and already seeing positive absorption.

North Scottsdale Multi-Family

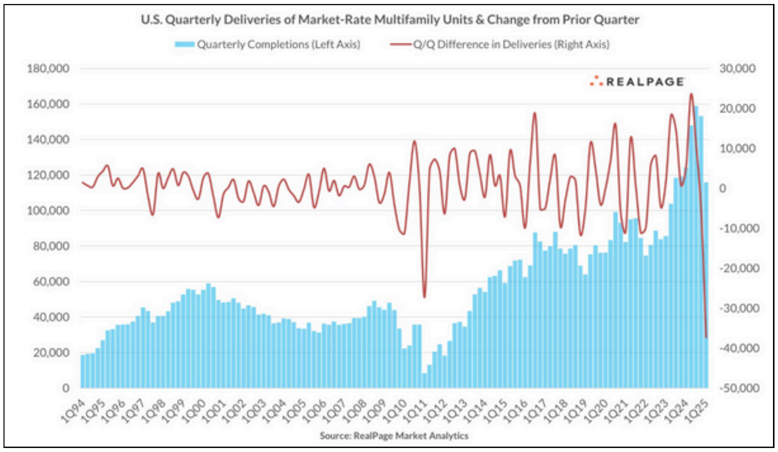
12 Mo Delivered Units	12 Mo Absorption Units
1,267	**1,274**
Vacancy Rate	**12 Mo Asking Rent Growth**
7.5%	**-0.6%**

North Scottsdale absorbed a major wave of new supply, with vacancy now sitting just above the 10-year average of 7.3%.

THE SUPPLY VACUUM

This Here's what everyone's missing: Quarterly deliveries of market-rate multifamily units just collapsed by over 40,000 units from Q4 of 2024 to Q1 of 2025. That constitutes the largest quarterly drop in the number of units delivered in 30+ years.

We're absorbing the last apartments from the cheap debt era, but the pipeline behind them is nearly empty. And considering the natural lag-time between starts and deliveries, markets appearing oversupplied today will likely face shortages by 2026-2027.



A 40,000-unit quarterly drop shows the pipeline has hit a wall.

DISCIPLINED APPROACH

Over 37 years and 31 realized projects, Talos has delivered a 31% average IRR without ever losing investor capital.
Our biggest risk isn't finding distressed sellers - it's maintaining underwriting discipline. We'll return capital rather than chase marginal deals, which is exactly why our partners trust us.

Why Now

This window won't last. We anticipate the optimal acquisition window will remain open through late 2025, with market recovery beginning in 2026.
It's a classic market inefficiency that will allow well-capitalized operators and investors to benefit disproportionately as markets stabilize and institutional capital returns to the sector.

The math is compelling, and the timing is right. These are exactly the assets sophisticated investors will want in recovery.

ABOUT TALOS

Talos Holdings is a real estate development firm with 37 years of experience, 32 projects completed, over 7,500 units developed, and an average realized IRR of 31%. We focus on building Class A multifamily communities in the Sunbelt and currently have 700 units in our construction pipeline. We're also the only developer we know of that offers life coaching as an amenity to all residents.

Talos Holdings Multi-Family Fund I is a $200 million fund we are raising to acquire newer multifamily projects that broke ground in 2021 or 2022 and are now facing refinancing challenges due to rising interest rates. These are high-quality assets with strong fundamentals but broken capital stacks. We believe the current dislocation creates a rare opportunity to buy at a discount, step in with disciplined capital, and deliver strong long-term outcomes for residents and investors alike.

OUR FOUNDERS

JOHN K. MCWILLIAMS JR. | CHAIRMAN & CEO

John brings 40 years of commercial real estate experience, having managed 7,500+ multi-family units and done over $800 million in transactions. His background in investment banking coupled with first-hand experience makes him extremely conservative in his underwriting. This careful approach has resulted in all 31 of Talos Holdings' realized projects generating positive returns.

JACQUES BAZINET | PRESIDENT & COO

Jacques brings over 35 years of leadership and operations experience, with the past decade focused on commercial real estate development. He previously served as a Director in the office of Stephen R. Covey and has consulted for 98 of the Fortune 1000 companies. Since partnering with John eight years ago, Jacques has helped expand Talos Holdings' development and acquisition pipeline. He brings a rare combination of high-level strategic insight and day-to-day execution that continues to drive Talos Holdings' growth.