



Multifamily Market Update

April 2023

Prepared for:

Dallas Association of Business Economists

Presented by:

Jay Parsons – SVP, Head of Economics & Industry Principals

jay.parsons@realpage.com





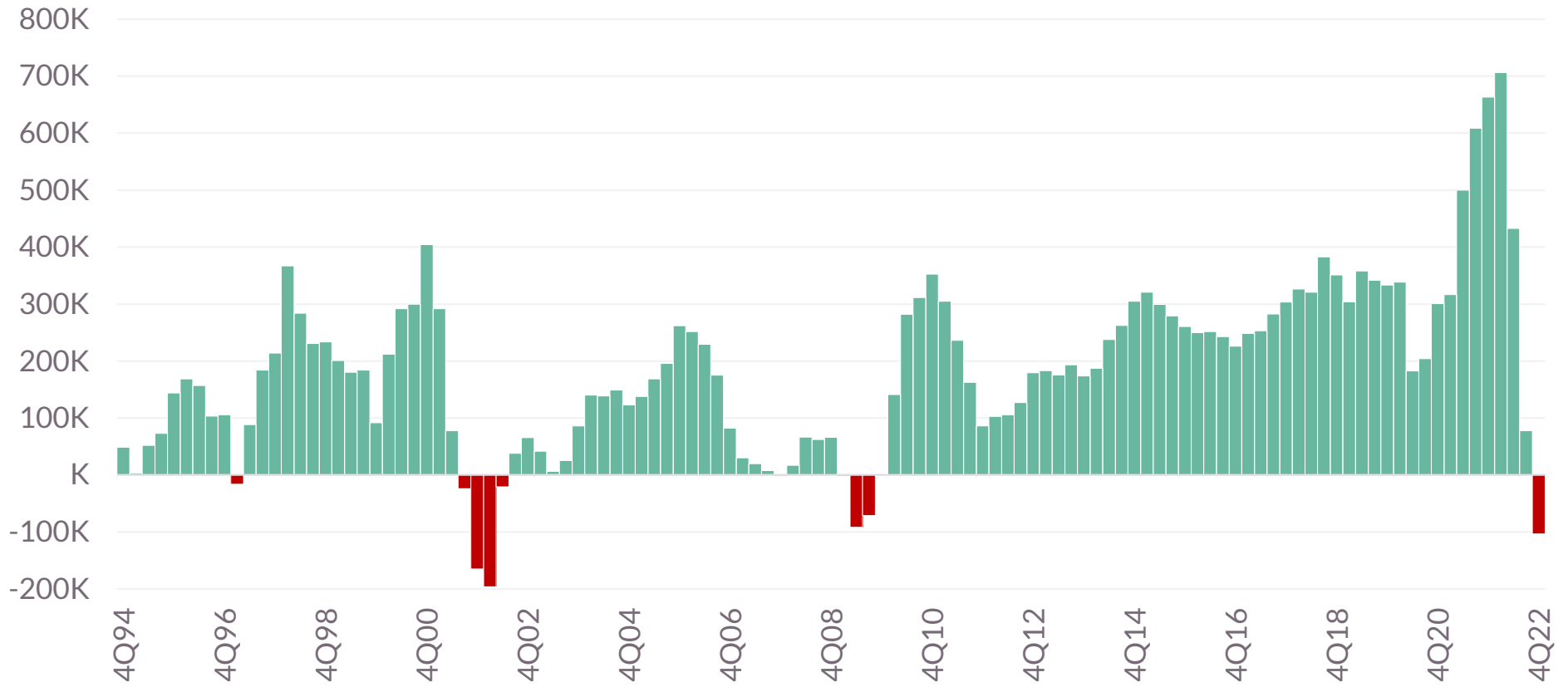
It's been a **roller coaster** since COVID hit, from

1. Surprisingly **brief market freeze**, followed by...
2. **Biggest rental demand surge** on record, followed by...
3. **Evaporation of demand** (for all housing types) in 2022

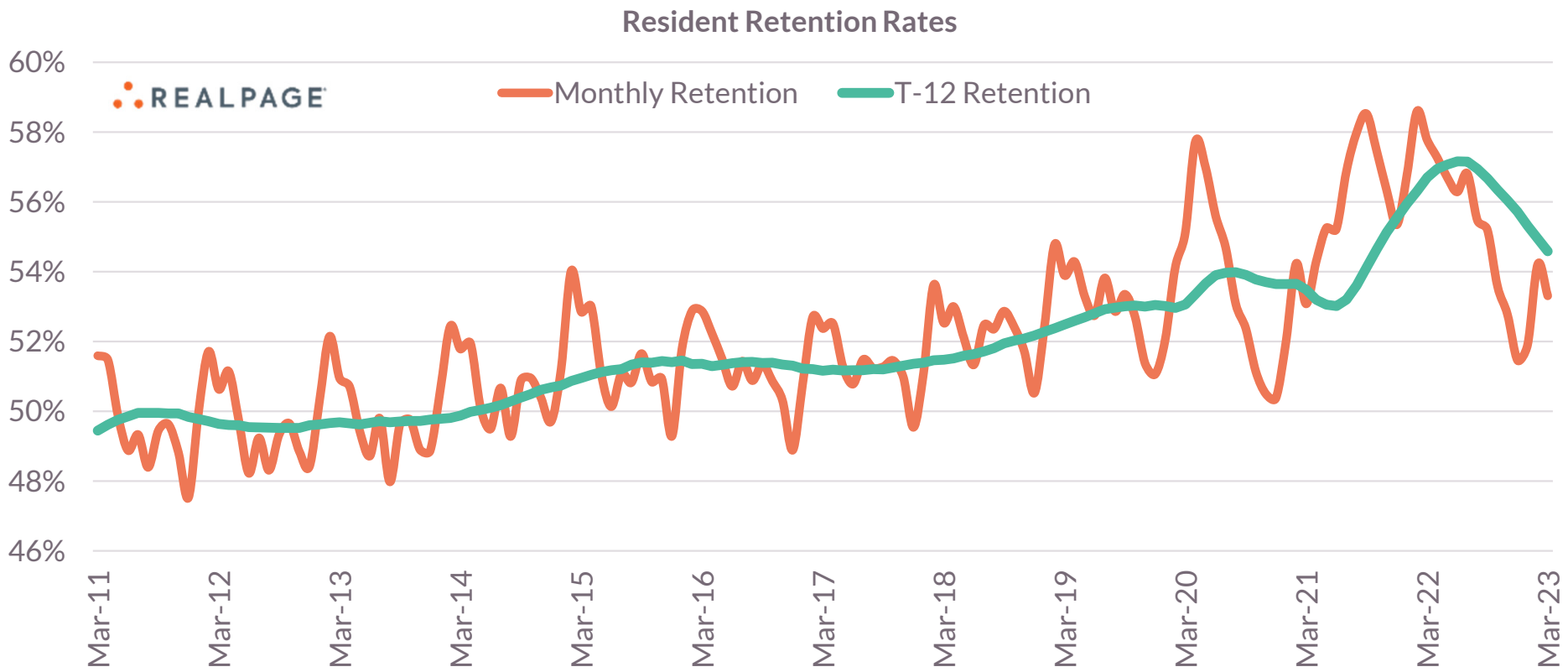
What's **next**?

The Roller Coaster Ride of Apartment Demand

U.S. T-12 Net Apartment Absorption

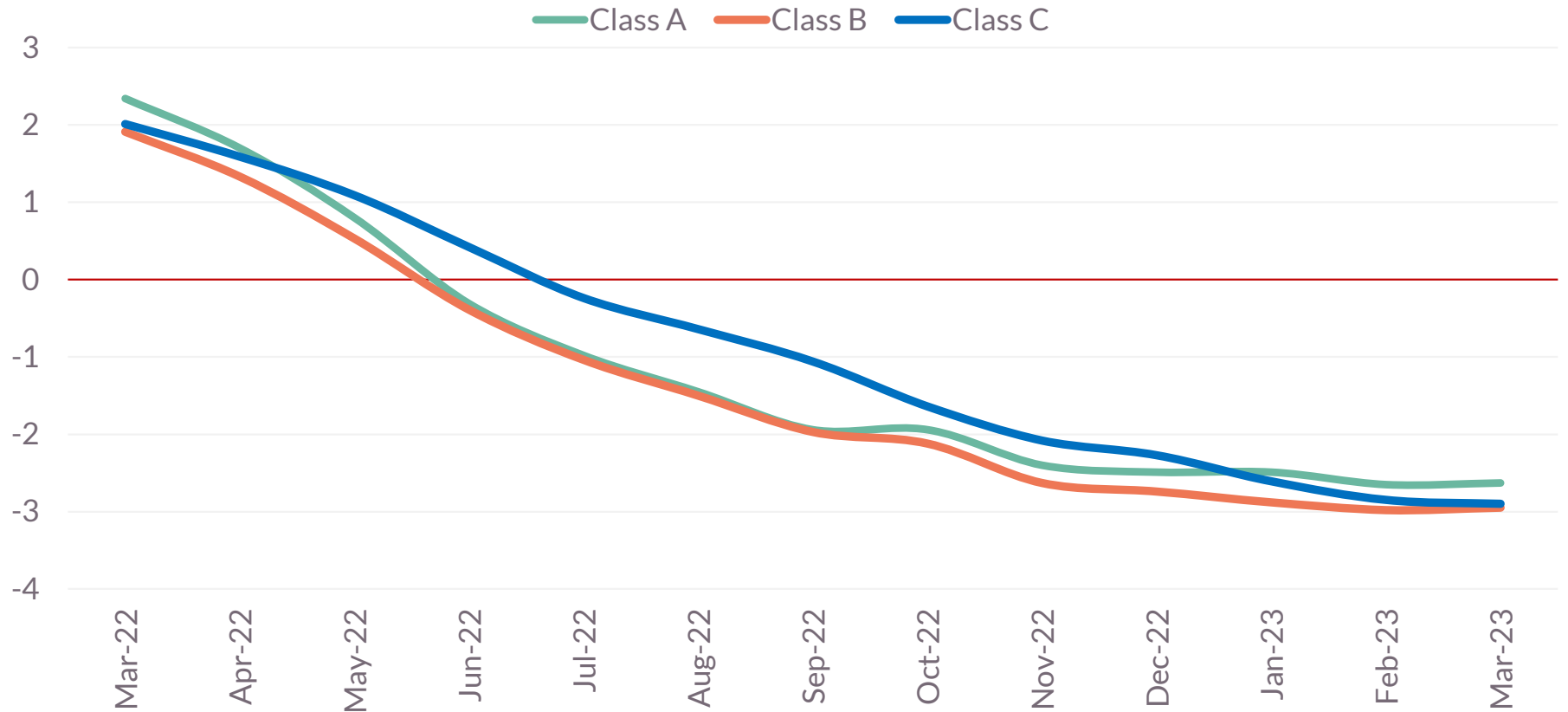


No, Mass Move-Outs was Not (and is Not) the Issue



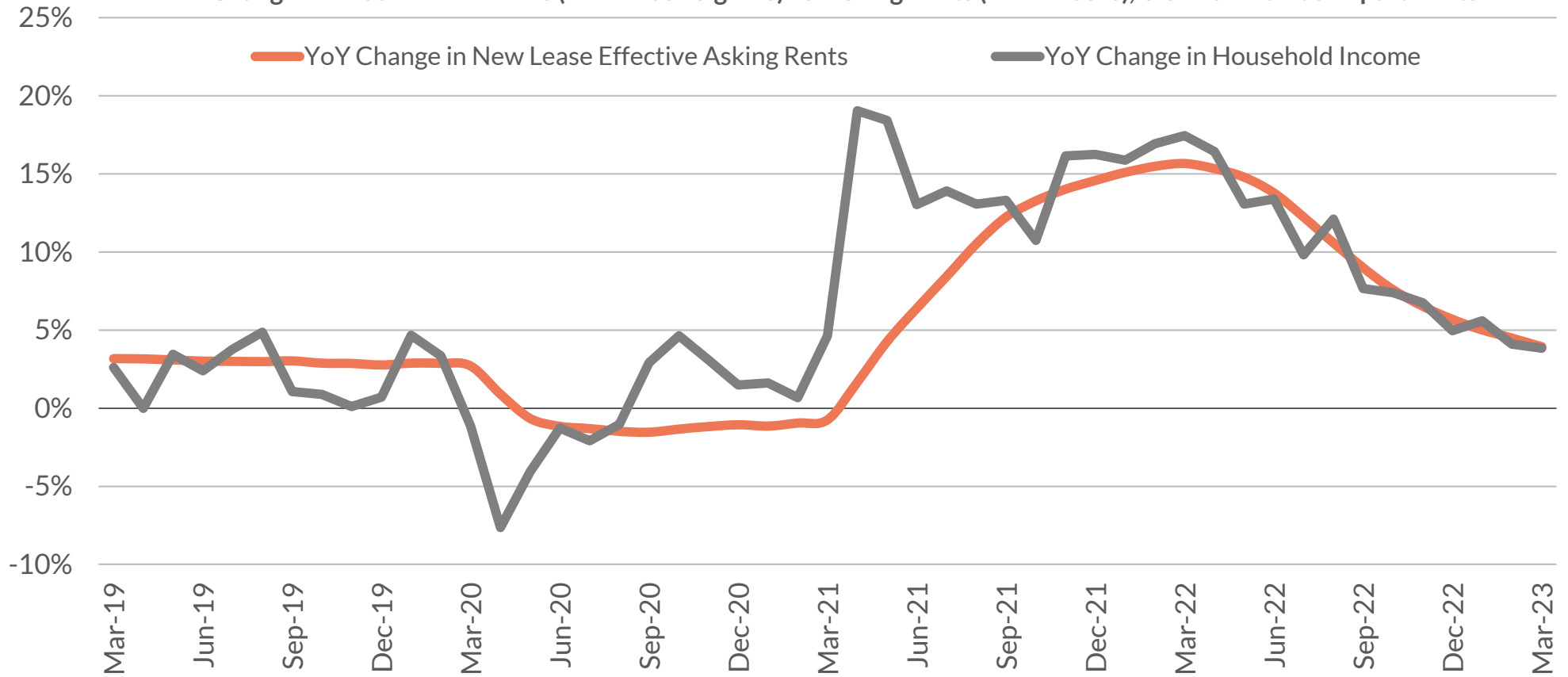
No, There isn't a "Flight to Affordability"

U.S. YoY Change in Occupancy Rate (in ppts)



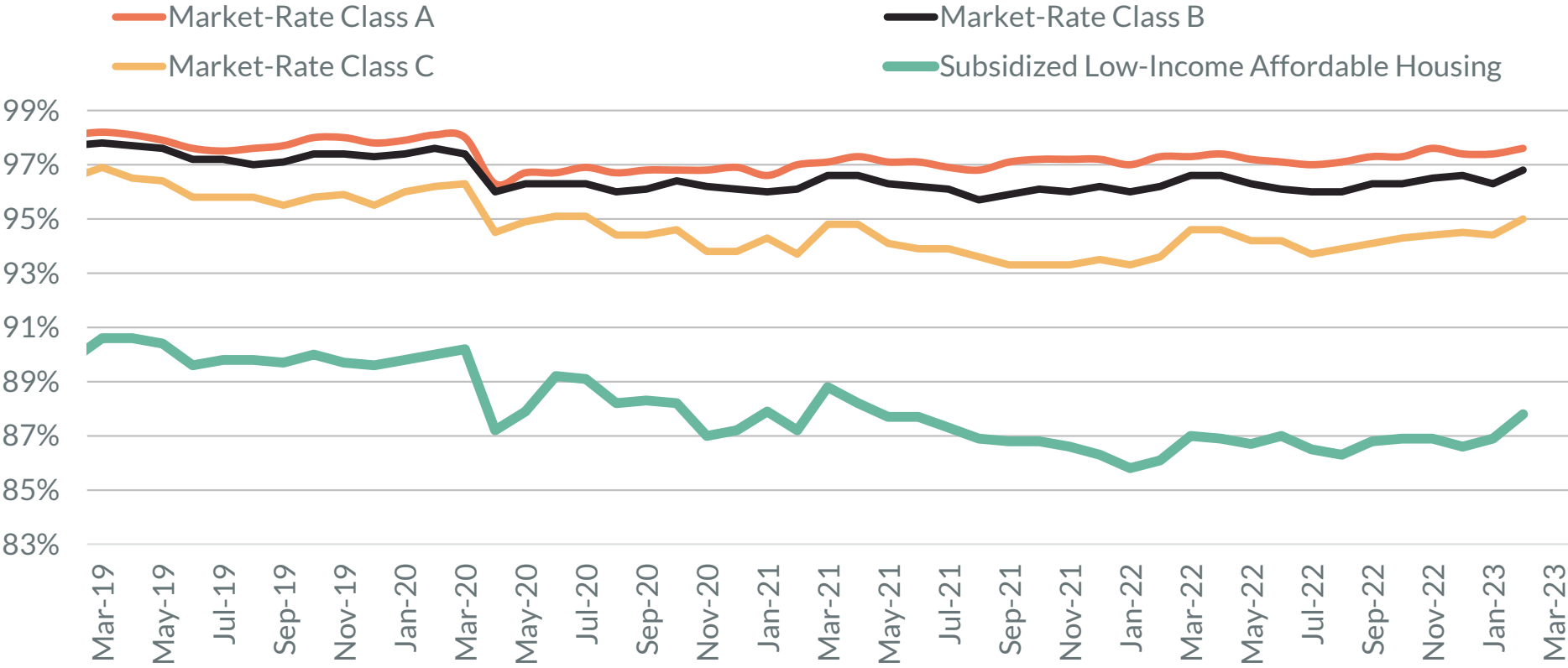
No, There Isn't a Mass Affordability Challenge

YoY Change in Household Incomes (New Lease Signers) vs. Asking Rents (New Leases), U.S. Market-Rate Apartments



And Renters Continue to Pay the Rent (Especially in A/B)

Monthly Rent Collection Rate: U.S. Apartments



U.S. Job Growth ¹

+4.5m jobs, 2nd highest total since 1939

Rent vs. Own ³

Entry premium to buy is highest on record (>\$800/mo)

Market Rate Affordability ⁶

Median rent/income = 23.2% (same as 2012)

Average Renter Income ²

Up 13% year-over-year to \$95,000

Apartment Rent Collections ⁴

<1% off pre-pandemic level in 2022 at 96%

Summary: Economic drivers favored a stronger 2022 than what transpired. The combination of 2021 accelerated demand + waning consumer sentiment resulted in sluggish absorption and suggests pent-up demand for 2023.

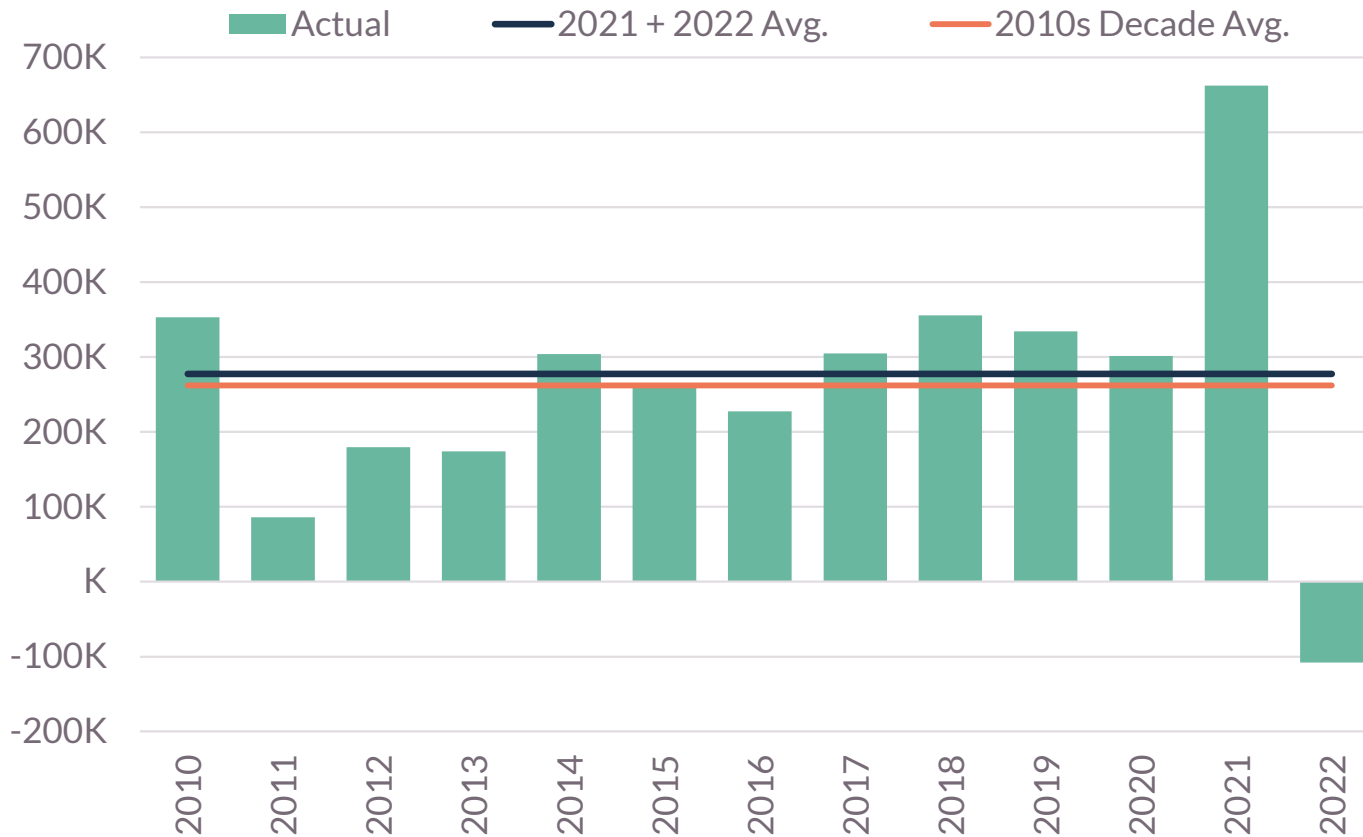
Sources:

1 - Bureau Labor Statistics | 2/6 - RealPage (New Resident Lease Agreements) | 3 - John Burns Real Estate Consulting |

4- RealPage (Market-Rate Segment Only, Excludes Affordable) |

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COVID Likely “Pulled Forward” Some Demand from 2022



Adding 2021 + 2022 absorption shows a two-year average of 278k units (blue line).

That closely matched the 2010s decade average (267k units, orange line).

Additionally, low consumer confidence in 2022 appears closely correlated with weak demand for all types of housing – including (but not limited to) apartments.

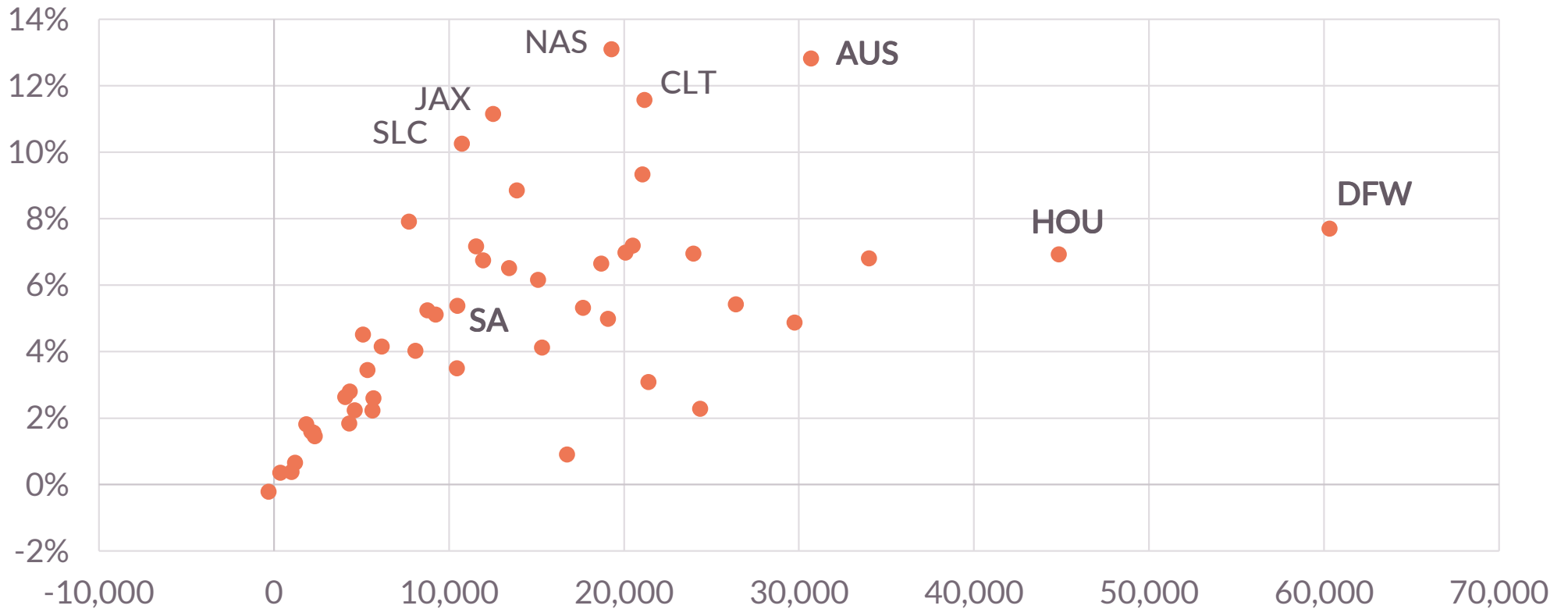
Apartment Demand Returns to Positive Territory in Q1

Quarterly Net Apartment Absorption (Q1s in teal)



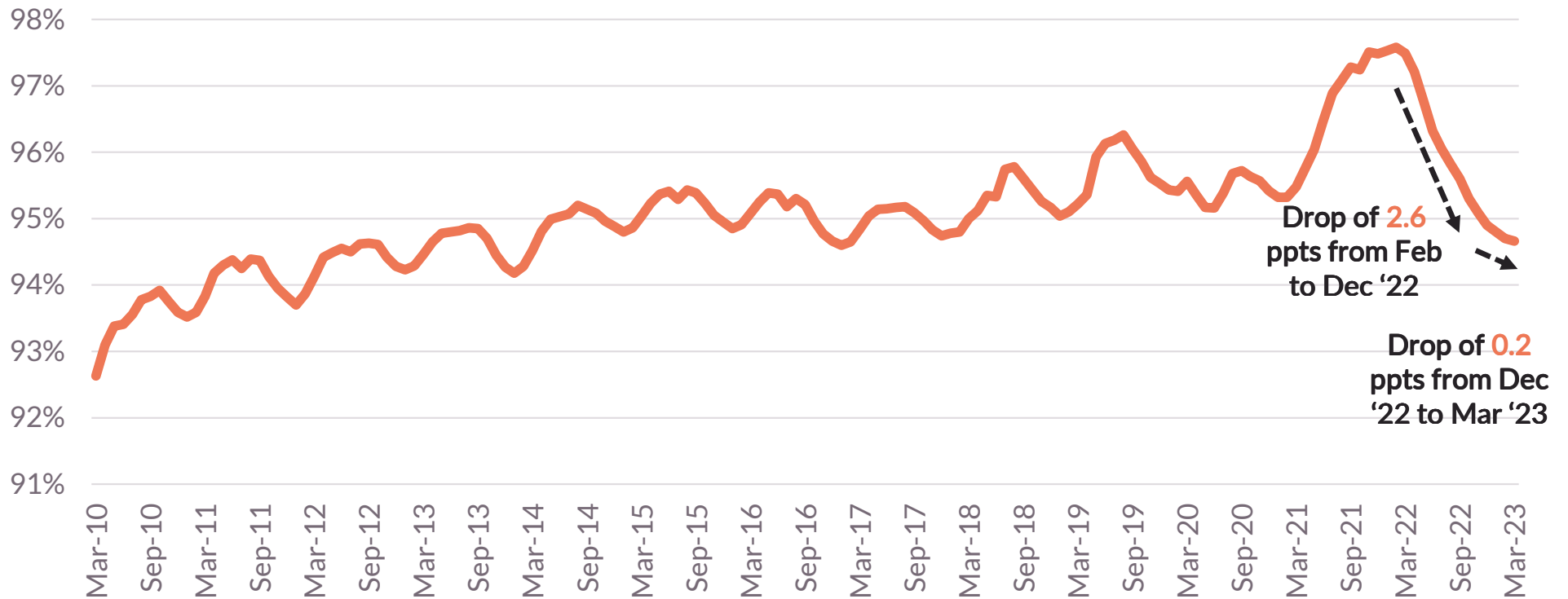
Texas Ranks as Leader in Adding New Apartment Households

Net Change in Occupied Apartment Units, March 2020 to March 2023



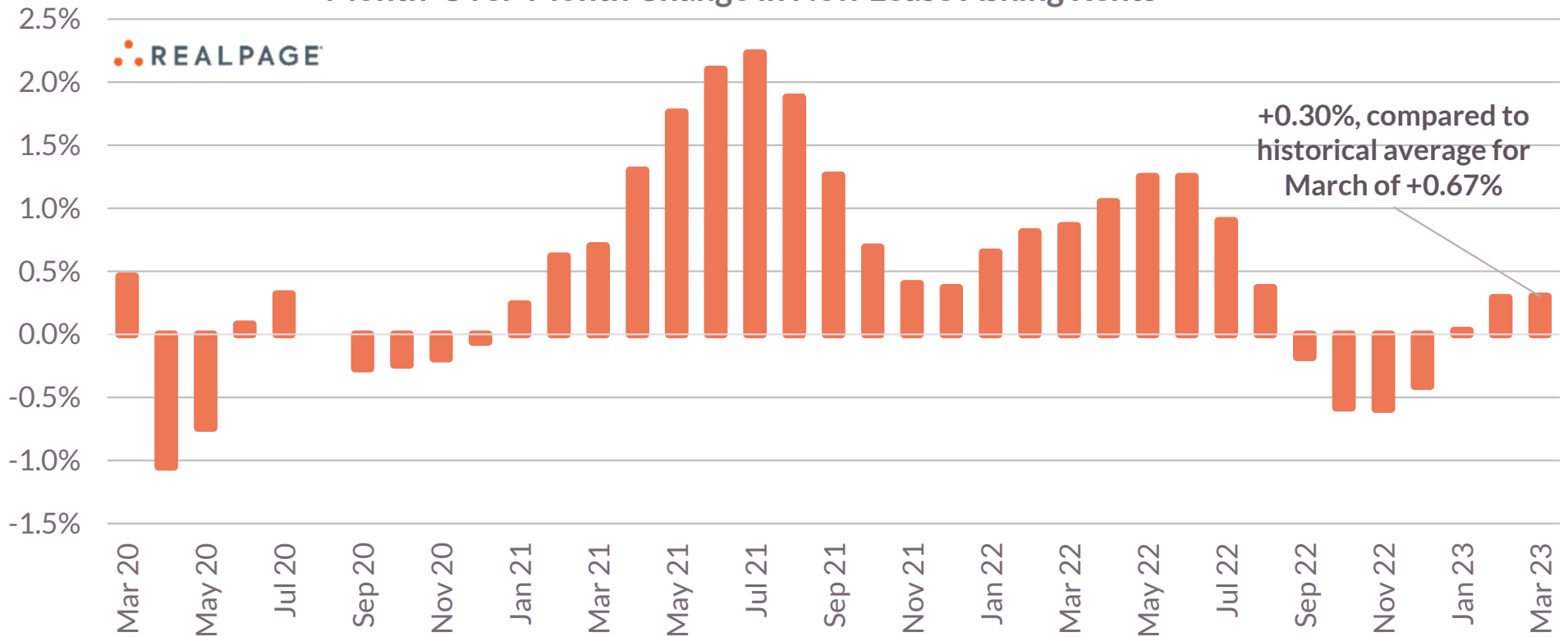
Apartment Occupancy is Dropping, But Still Healthy

U.S. Market-Rate Apartment Occupancy



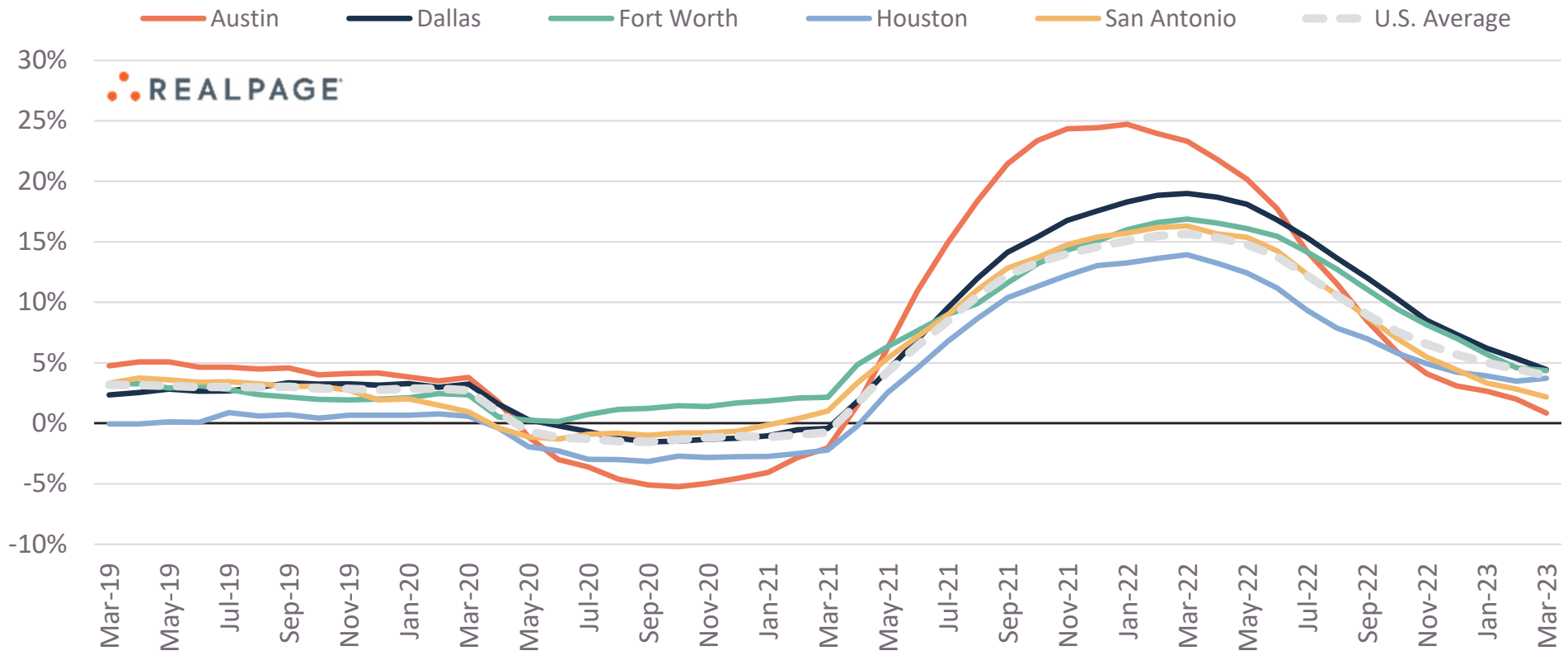
Rent Growth is Moderating, But Not Disappearing

Month-Over-Month Change in New Lease Asking Rents



Rents Continue to Climb YoY, But at Decelerating Pace

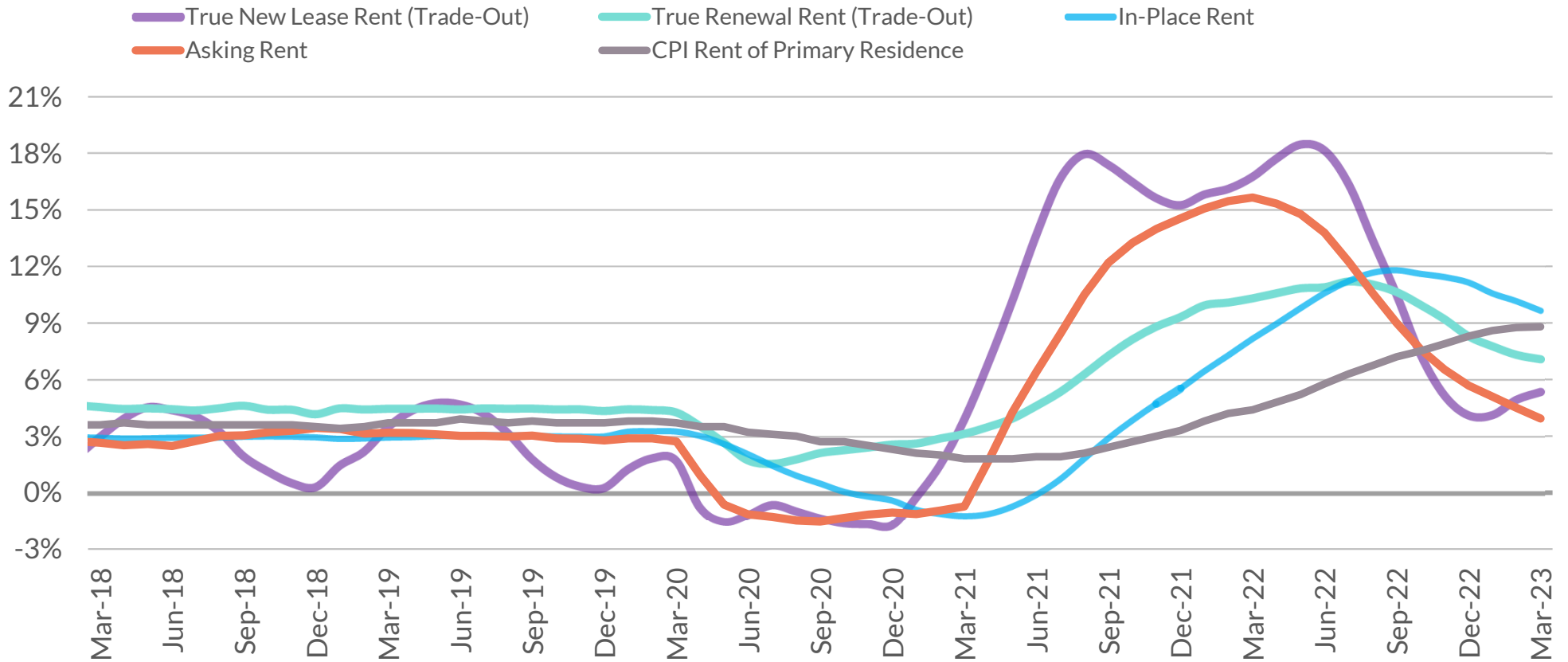
YoY Change in Effective Asking Rents (New Leases Only), Market-Rate Apartments



Source: RealPage Market Analytics

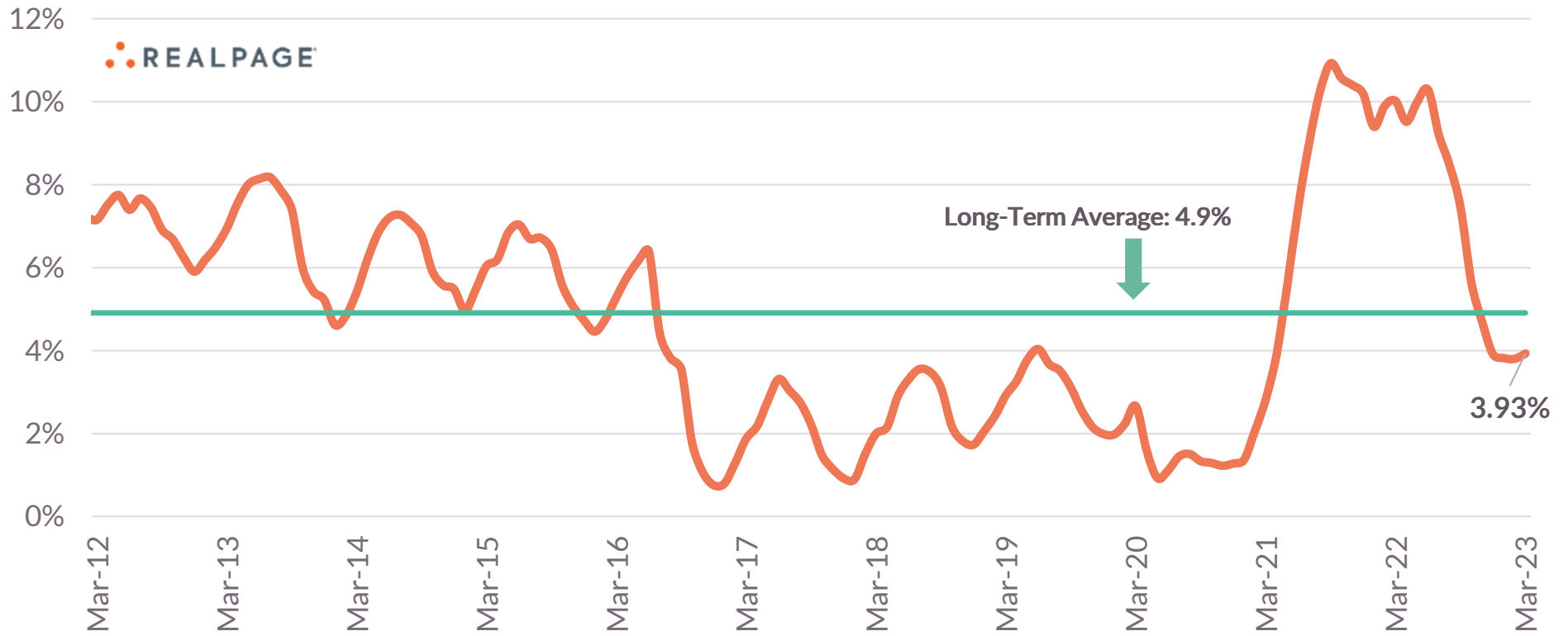
Rent Growth Cooling By Every Measure, Except the Official One

Comparing Different Measures for Market-Rate Apartment Rent (RealPage) vs. CPI Rent (BLS)



Shrinking Loss-to-Lease = Renewals to Cool, too

U.S. Estimated Loss-to-Lease (Premium for New-Lease Rent vs. In-Place Rent)

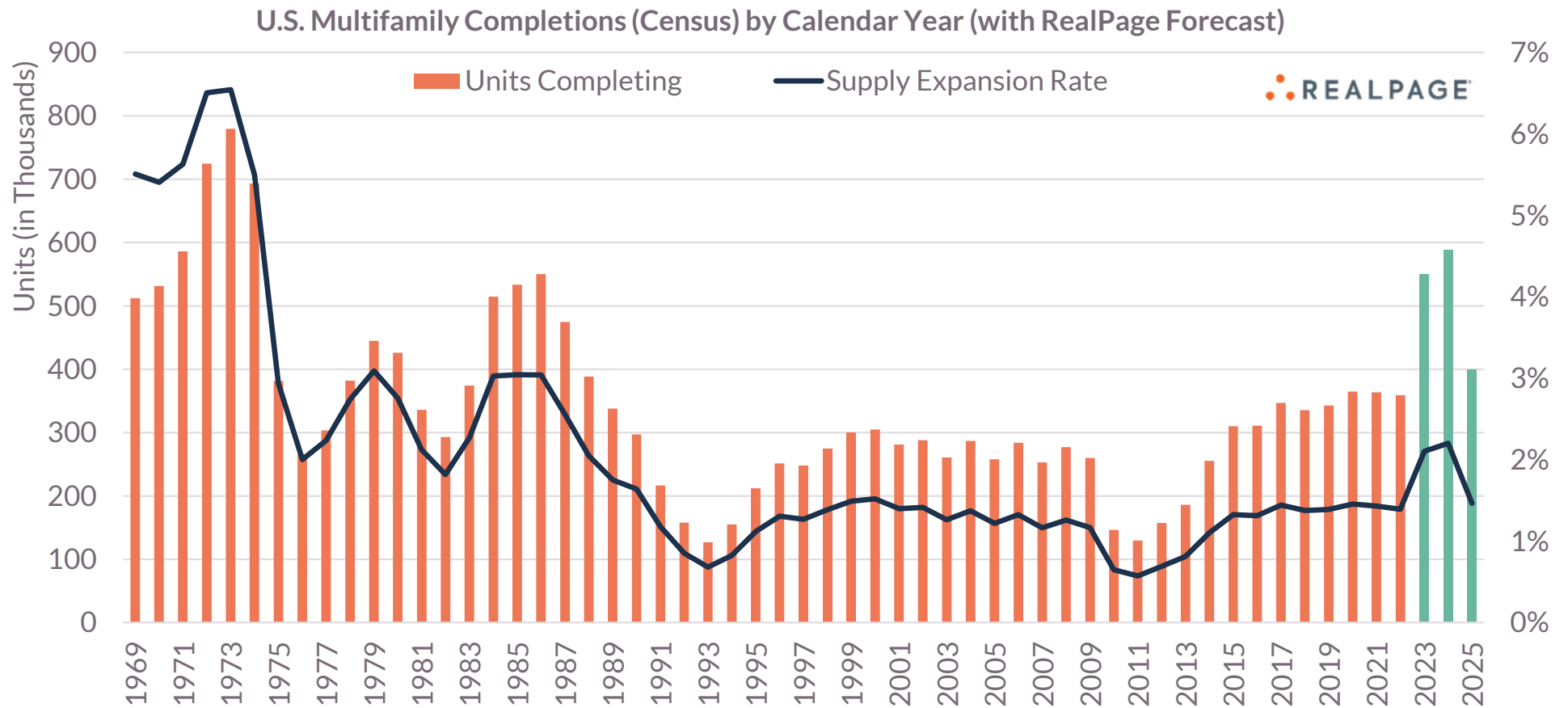


U.S. Apartment Construction Soars to 50-Year Highs

Census: U.S. Multifamily Units Under Construction



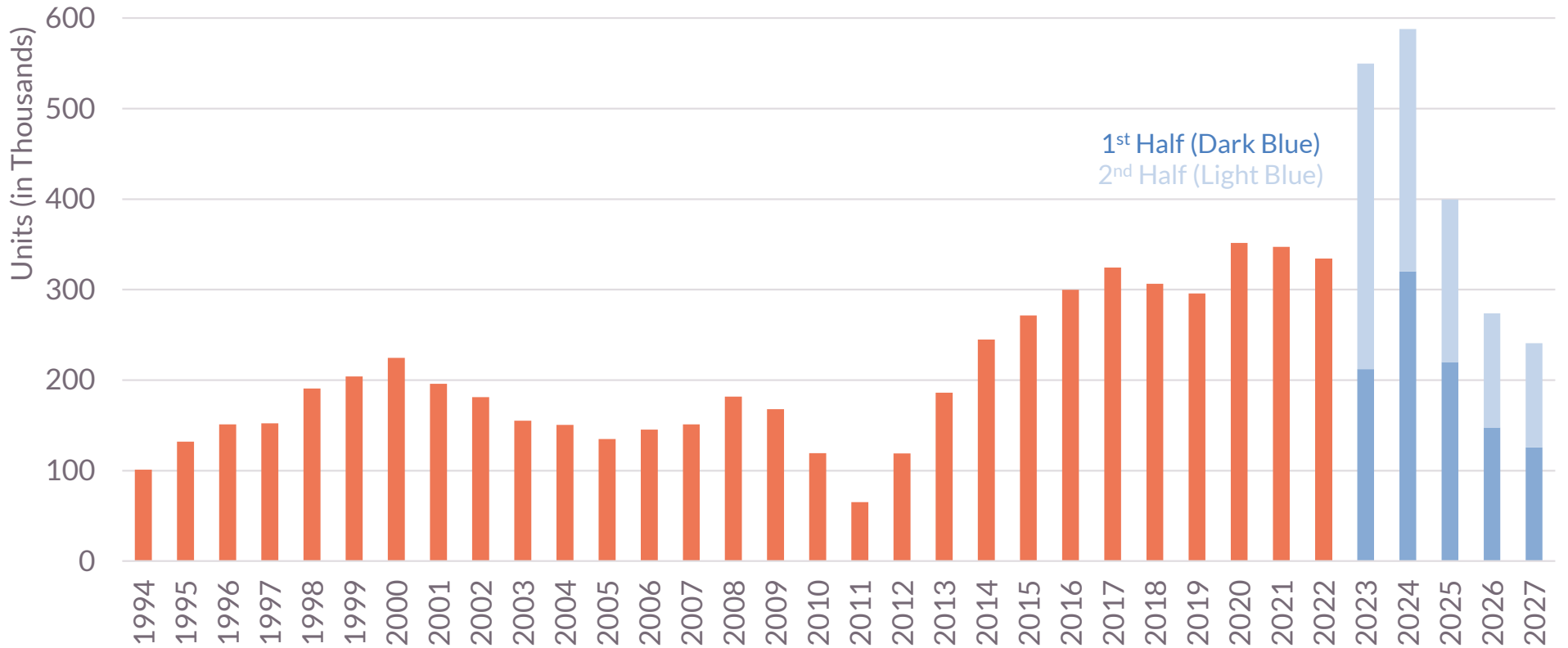
Yes, Apartment Construction is at 50-Year High, But ... Not Really



Sources: U.S. Census / RealPage Market Analytics

Peak Deliveries Scheduled to Hit from 2H'23 to 1H'24

U.S. Market-Rate Apartment Completions by Calendar Year (with Forecast)



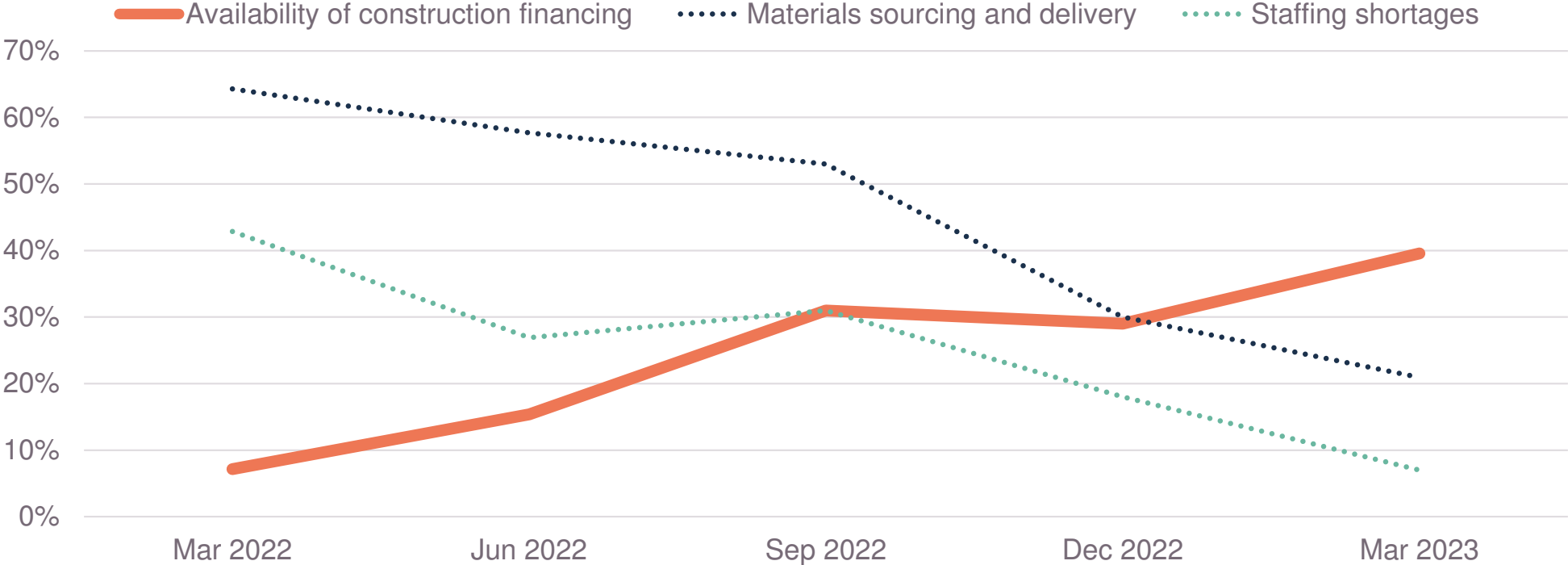
Source: RealPage Market Analytics

Where is Construction Happening? Essentially Everywhere.

Units Under Construction as a Share of Total Stock				
>10%	7-9%	4-7%	2-4%	<2%
Nashville	Denver	Atlanta	San Jose	Baltimore
Charlotte	Orlando	Richmond	Sacramento	Virginia Beach
Austin	Dallas/Fort Worth	Tampa	Portland	Pittsburgh
Raleigh/Durham	San Antonio	Houston	Riverside	Cleveland
Salt Lake City	Seattle	Washington, DC	Greensboro	
Phoenix	Miami	Las Vegas	Oakland	
Jacksonville	Fort Lauderdale	Philadelphia	San Diego	
	West Palm Beach	Columbus	Los Angeles	
	Newark/Jersey City	Minneapolis	San Francisco	
		Kansas City	Anaheim	
		Indianapolis	Memphis	
		Boston	New York City	
		Cincinnati	Chicago	

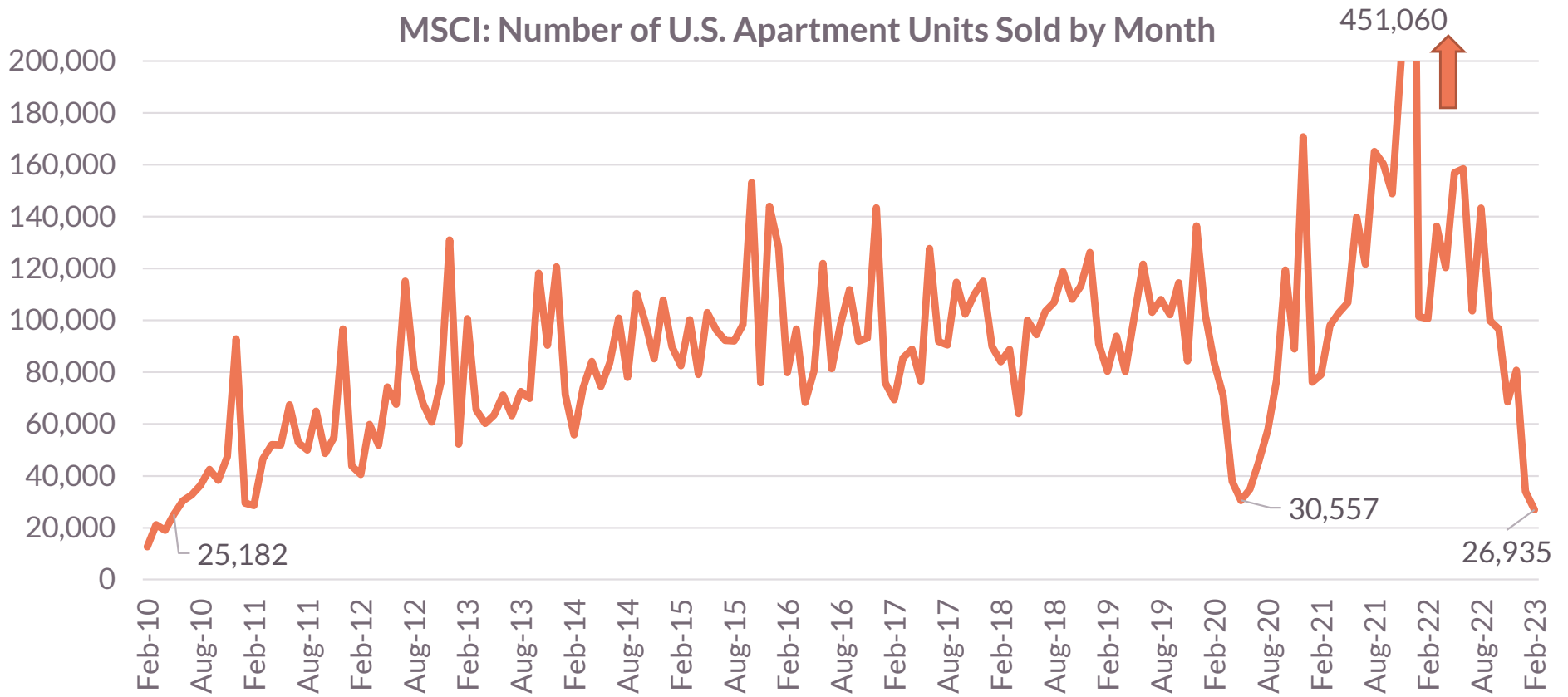
Apartment Starts Increasing Delayed by Financing Issues

NMHC Survey: Reasons for Delayed Apartment Starts (select shown)



Source: NMHC Quarterly Survey of Apartment Construction & Development Activity. Multiple responses allowed. Only select reasons shown in chart. For full survey results, visit: <https://www.nmhc.org/research-insight/nmhc-construction-survey/2023/quarterly-survey-of-apartment-construction-development-activity-march-2023/>

U.S. Apartment Sales Slow to 13-Year Low

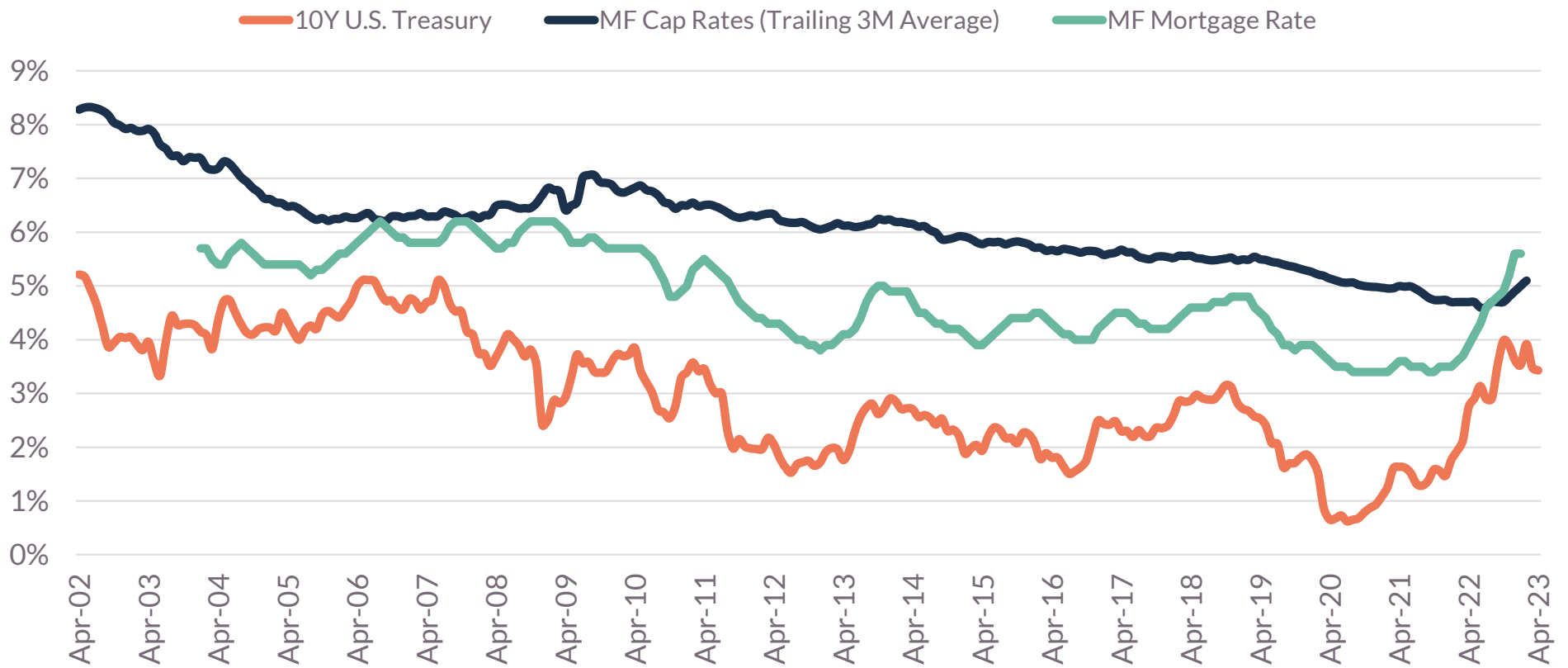


Texas Remains a Relative Hotspot for Multifamily Investors

Rank	Metro Area	T-12 Sales Volume
1	Dallas/Fort Worth, TX	\$16,180,746,429
2	Atlanta, GA	\$12,160,227,367
3	New York, NY	\$11,881,275,874
4	Phoenix, AZ	\$10,739,257,630
5	Houston, TX	\$8,734,605,602
6	Los Angeles, CA	\$7,756,248,312
7	Washington, DC	\$7,605,865,093
8	Orlando, FL	\$7,185,082,525
9	Austin, TX	\$6,707,388,319
10	Charlotte, NC	\$6,078,168,553

Cap Rates Rising, But Not in Line With Interest Rates or Mortgage Rates

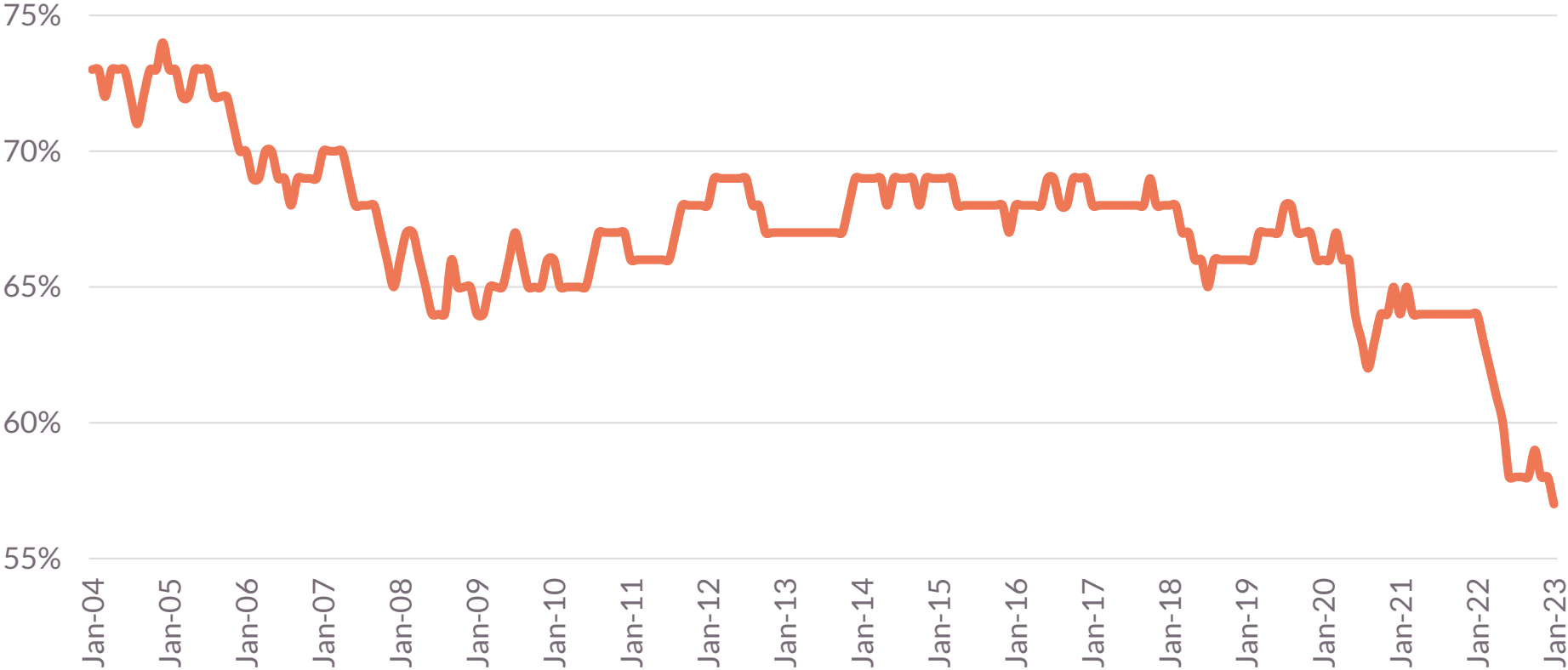
National: Cap Rates vs. 10-Year Treasury



Source: MSCI Real Capital Analytics | RealPage Market Analytics | Federal Reserve Economic Data (FRED)

LTVs Plunge as Deals Now Often Require More Equity

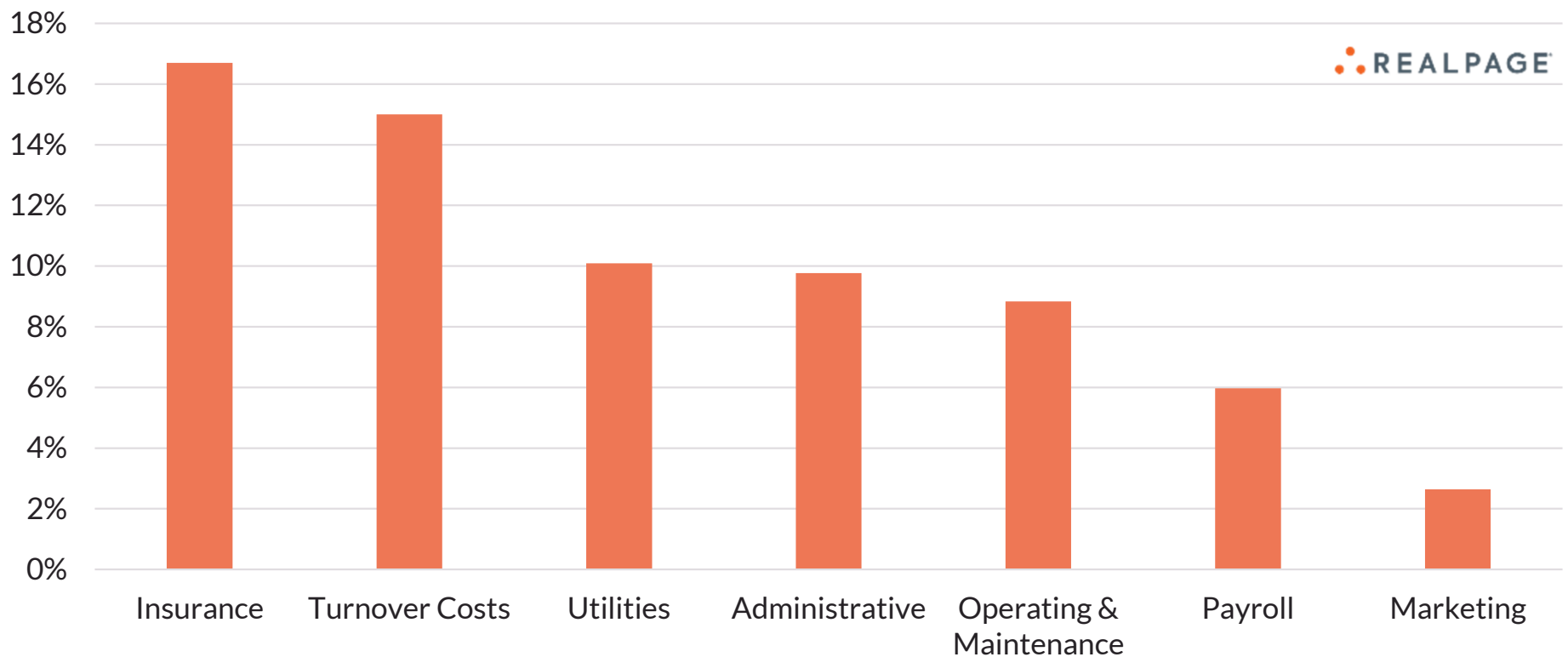
MSCI: Apartment Loan-to-Value Ratios



Source: MSCI Real Capital Analytic

Apartment Operational Expenses are Going Up

YoY Change in Expense Per Unit, 2022 vs. 2021, Select Categories



Summary of the Multifamily Outlook

1. Supply/demand balance appears tough for next 2 years, **attractive by '25**
2. Supply is concentrated at very top end of market; **need workforce housing**
3. Follow the People: **Texas / Sun Belt** will remain a demand magnet.
4. **Affordability**, counter to narrative, is more tailwind than headwind
5. Revenue fundamentals are **normalizing** and should generally remain healthy
6. Yet pockets of distress emerging due to **high refinancing costs**
7. **Property trades slowing** due to pricing uncertainty, but dry powder abounds

THANK
YOU