National Multifamily Market

JANUARY 2020

OVERVIEW

The national multifamily market is forecast to continue to post strong performance in 2020. There are several factors supporting the favorable outlook, a few of which are outlined here. To be sure, there are also a handful of factors present in the market that add uncertainty to the outlook. Despite a few challenges, on balance, the pluses are expected to outweigh the minuses in the economy, the capital markets, and the multifamily sector in 2020.

Healthy Labor Markets Driving Demand for Apartments: Sustained employment growth is forecast to continue to fuel household creation, and the multifamily market will capture its share of new households. Preliminary estimates show employers added approximately 2 million net new jobs in 2019, marking the ninth straight year where payroll growth came in at or above 2 million positions. With the country essentially at full employment, it will be tough for the economy repeat this performance in 2020; gains will likely be more modest in the year ahead.

Homeownership Rates Holding Steady: With the economy remaining in an extended growth cycle, employers expanding payrolls, consumer confidence high, and mortgage rates low, conditions would seem ripe for a rise in the national homeownership rate. To this point in the current expansion cycle, however, homeownership rates have held steady around 64.0-64.5 percent, remaining essentially unchanged from five years ago and down 500 basis points from the pre-recession peak. An unexpected flight to homeownership could create a supply/demand imbalance for rental housing, but there is little indication of any significant shift in homeownership trends occurring in 2020.

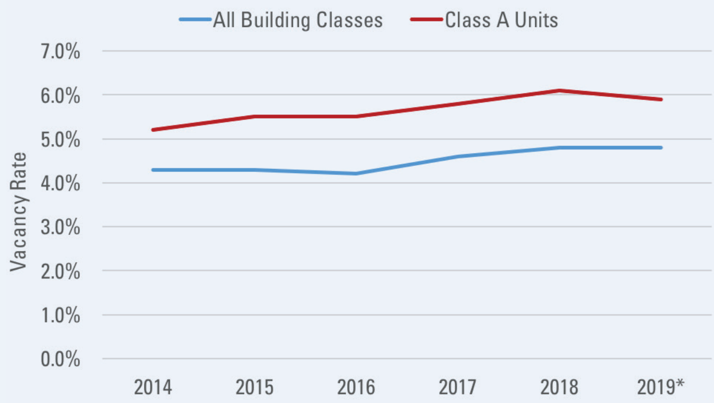
Affordability to Remain a Challenge as Rent Control Measures Likely to Have a Minimal Short-Term Impact: Apartment rents have been rising faster than the rate of inflation for the past several years, and affordability has been one of the prevailing themes in the multifamily market. Late in 2019, California passed rent control legislation, but with the law allowing for annual rent increases of 5 percent plus the rate of inflation, renters are unlikely to find significant relief. The more pressing realities driving rents higher—in California and in other high-demand states—include elevated demand for apartments, rising land and construction costs, and a wave of higher-end, luxury projects coming online. With these conditions in place, renters are going to find themselves facing higher rents again in 2020.

VACANCY

The national vacancy rate has remained very steady over the past several quarters, generally averaging in the mid- to high-4-percent range since the beginning of 2018. Vacancy has remained below 5 percent for nearly a decade, even as developers have aggressively brought new apartment units online. Looking ahead to 2020, the national vacancy rate will likely tick higher, settling in at approximately 5 percent.

The Class A vacancy rate trended higher a few years ago when the pace of deliveries ramped up. Even as deliveries of Class A apartments have continued to accelerate, the vacancy rate in these top properties has leveled off and even begun to improve. Vacancy in Class A units posted a modest improvement in 2019, with the average rate dipping below 6 percent.

Vacancy Overview



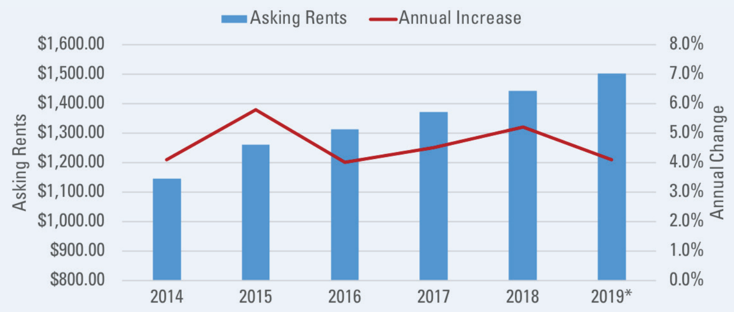
* Year-End Estimate
Sources: NorthMarq, Reis

RENTS

Multifamily rents continue to rise throughout the country, fueled by a strong labor market that is supporting renter demand for apartments. Asking rents posted an estimated annual increase of approximately 4 percent in 2019, after spiking by more than 5 percent in 2018. Rent growth has averaged more than 4.5 percent annually during the past five years.

Nearly all of the markets across the country are recording rent increases. Some of the strongest rises have been recorded in high-growth areas, including Phoenix, Las Vegas, and Austin. These are markets where job growth is faster than the national pace, in-migration from other markets continues, and housing prices are on the rise.

Rent Overview



* Year-End Estimate
Sources: NorthMarq, Reis

CONSTRUCTION

Multifamily development has been very active in recent years, coinciding with a steady pace of renter demand growth. Construction was on pace to slow by about 10 percent from 2018 to 2019, easing some of the supply-side pressures and allowing the vacancy rate to stabilize.

A handful of markets will likely account for a significant chunk of the anticipated development in 2020. Dallas-Fort Worth will lead the way with new development, followed by markets like Seattle, Atlanta, Phoenix and Los Angeles.

Construction Overview

* Year-End Estimate
Sources: NorthMarq, Reis

FINANCING

In the upcoming year, the GSEs (Fannie Mae, Freddie Mac, FHA/HUD, etc.) will continue to comprise a majority of the overall multifamily debt market. The GSEs' mission-driven focus on affordable housing should allow life company lending volume to increase, particularly for Class A properties. According to the Mortgage Bankers Association (MBA), the level of multifamily mortgage debt rose 2.8 percent from the second quarter to the third quarter 2019 to $1.5 trillion. Agency and GSE portfolios hold the majority at 48 percent, followed by banks and thrifts with 30 percent and life insurance companies with 10 percent.

Investment sales activity will continue to drive multifamily financing demand. New construction has been slowed by increasing costs of supply in certain markets. Debt and equity capital remains available for projects that have sound underwriting and good market fundamentals.

Investment sales activity will continue to drive multifamily financing demand

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