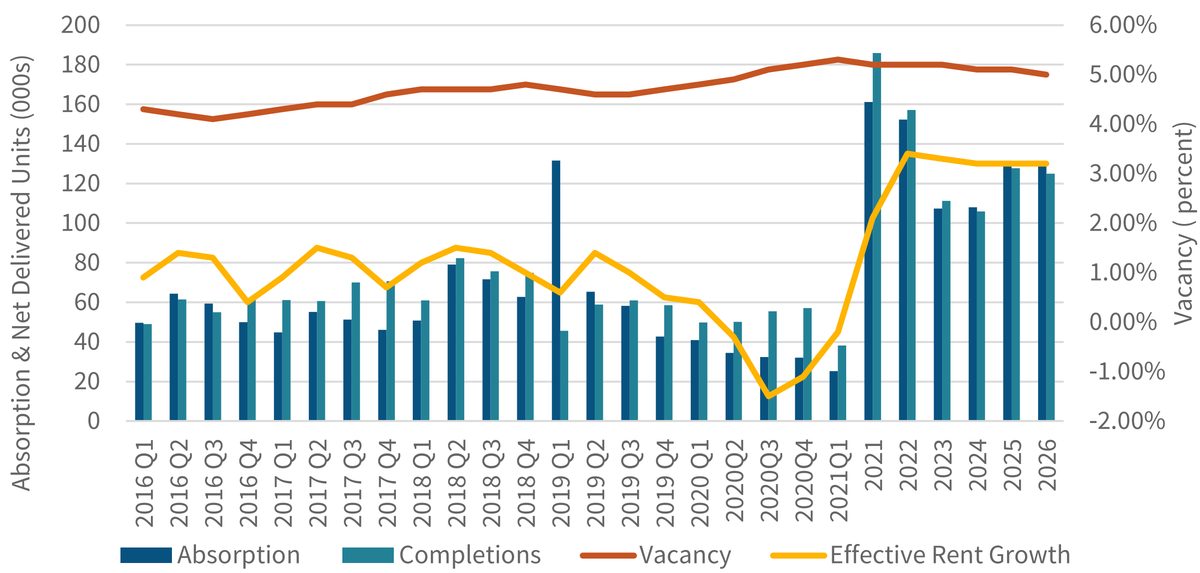
JULY 2021

2021 Multifamily Market Mid-Year Outlook – Demand Improving

What a difference a year makes. National multifamily market fundamentals, which include factors such as vacancy rates and rents, were negatively impacted throughout much of 2020. Beginning at the end of 2020 and continuing through the first half of 2021, however, there has been a significant turnaround, with multifamily demand increasing quickly, leading to improving rent growth and occupancy levels. We believe this multifamily rental housing demand is due to a combination of demographics, ongoing job growth, a nationwide shortage of housing, federal stimulus payments, and more local economies reopening and loosening or ending pandemic restrictions. As a result, we expect this overall trend to help boost multifamily housing demand over the next five years as well, as seen in the chart below.

Forecasted National Multifamily Trends



Source: Moody's Reis

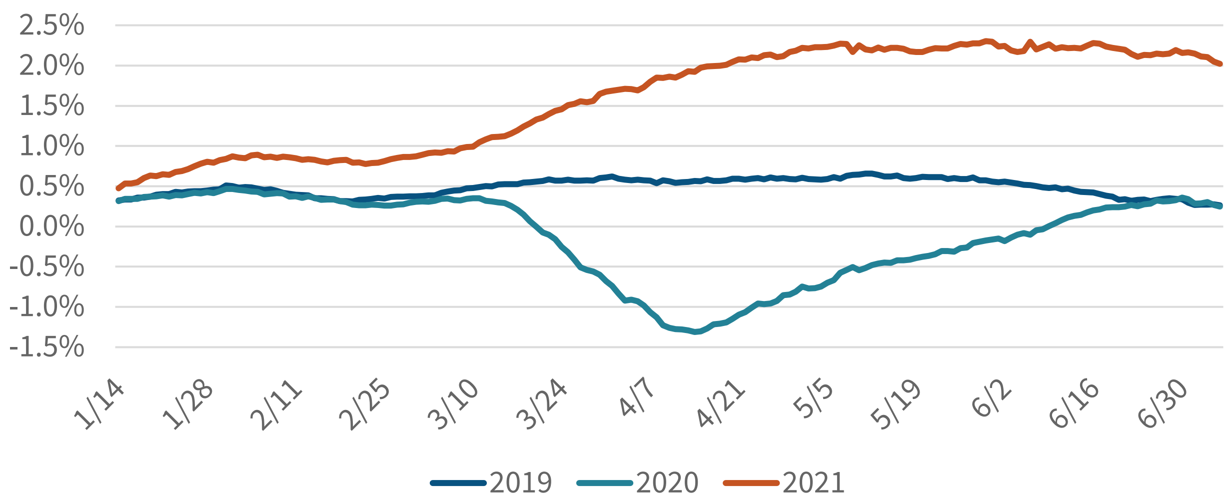
Multifamily Vacancy Expected to Decline but not Plummet

We believe that the national multifamily vacancy rate will decline in 2021, but not as much as the current trajectory might suggest. That's because new completions are expected to outpace demand, at least over the next 12 to 24 months, as illustrated in the chart above. Despite the expected ongoing increase in multifamily rental demand, newly delivered supply is expected to remain elevated throughout the year, which we believe will keep estimated vacancy levels relatively stable. As a result, we anticipate that the U.S. national multifamily vacancy rate should remain within an estimated range of between 5.25 percent and 5.75 percent by year-end 2021.

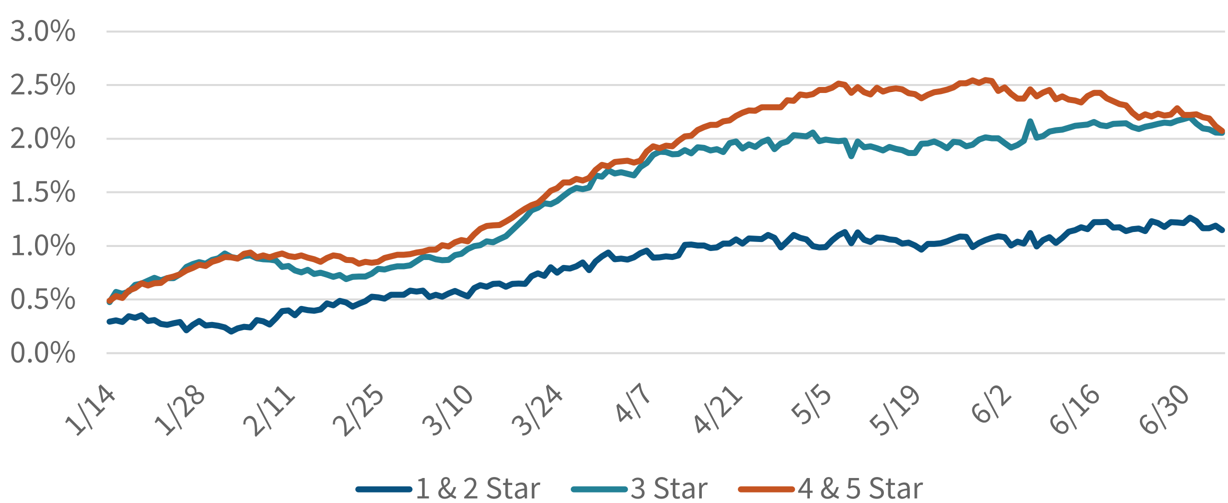
Rent Growth Expected to Remain Positive

Rent growth was positive in the first half of 2021 after remaining negative during most of 2020, with much of the current momentum taking place during the second quarter of 2021, as seen in the charts below. We are estimating that rent growth surged in the second quarter by 3.0 percent for the quarter alone, but we do not believe this elevated pace will be sustained. Instead, we believe that this unusually large increase is due to pent-up demand stemming from the pandemic. As a result, we believe that rent growth will moderate quite a bit over the second half of the year, but annualized rent growth for 2021 could still come in at an above-average peak of 5.0 percent.

Multifamily 28-Day Rent Change as of July 6, 2021 – All Property Average



Multifamily 28-Day Rent Change as of July 6, 2021 – By Class Average



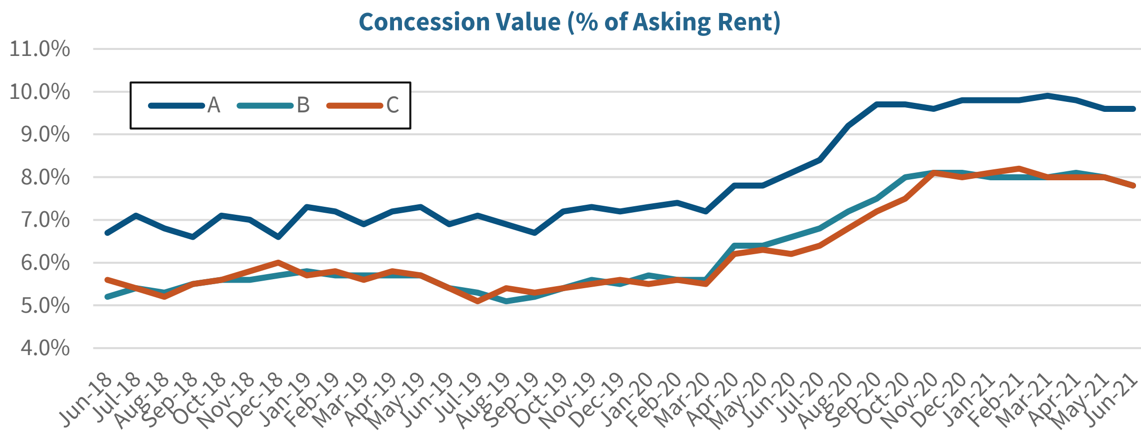
Source: CoStar Advisory Services

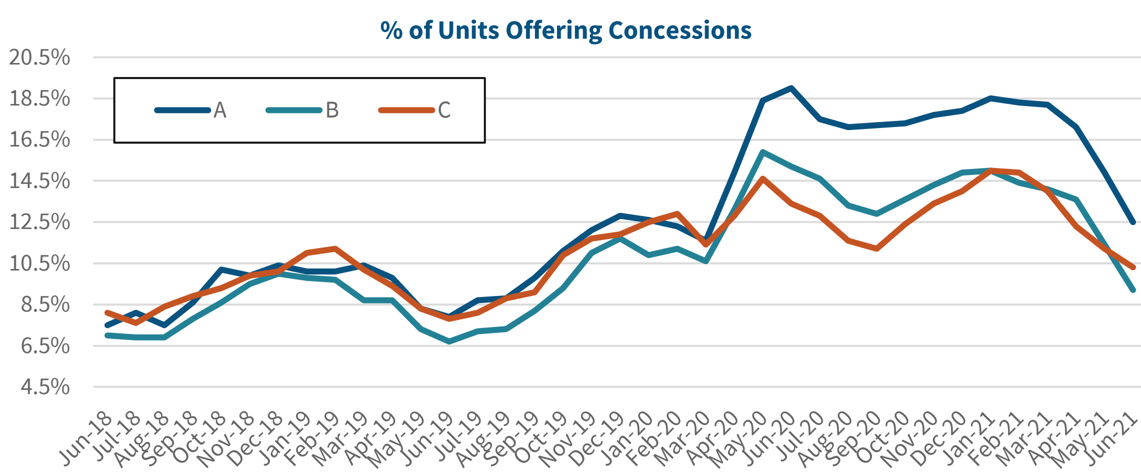
Concessions Starting to Tick Down

With rent growth trends increasing for all classes, as seen in the charts on the previous page, the number of multifamily units offering concessions has started declining. As of June 2021, 10.7 percent of all multifamily units are offering concessions, down from 15.8 percent as of June 2020. Although the average national concession rate across all multifamily properties of 8.6 percent is still elevated, it is just starting to tick down, as seen in the charts below.

Class A concession levels remain higher than Class B and C units, indicating that property owners are continuing to offer more generous concessions upfront for newer class A units to compete with newly delivering supply. For those Class A units offering concessions, the average concession rate as of June 2021 was 9.6 percent – more than a month's free rent – compared to the recent peak of 9.9 percent in March 2021. Class B and C units are faring slightly better, with an average concession rate of 7.8 percent as of June 2021, which is down from February 2021's peak of 8.0 percent for Class B and 8.2 percent for Class C.

National Concession Rates by Class





Source: RealPage, Inc.

Net Absorption Soared

Demand for multifamily rental units has soared over the past several months, resulting in significant positive net absorption. Quarterly demand is estimated to have totaled 219,909 units in the second quarter of 2021 alone compared to 48,308 units in the first quarter, according to data from RealPage, Inc. – a new peak. CoStar is also estimating a big increase in net absorption for all of 2021, with more than 524,000 units expected to be absorbed this year, compared to the more than 358,000 units that were estimated to have been absorbed in 2020.

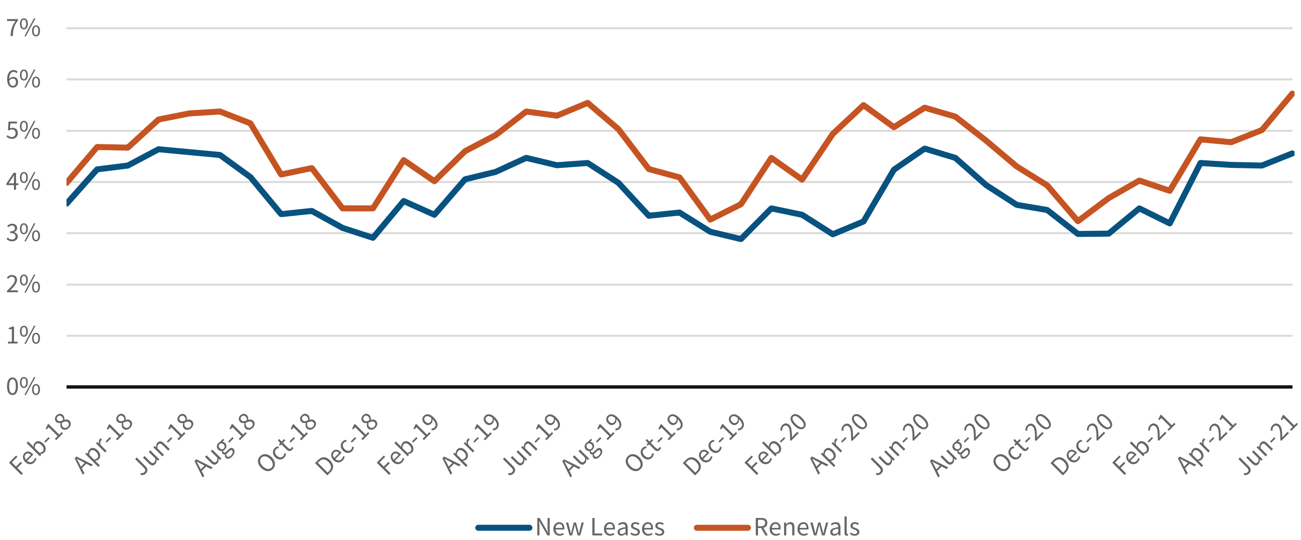
Both Renewal and New Leases on the Rise

Although new multifamily leasing activity plunged at the end of March 2020 during the beginning of the pandemic and the resulting shutdowns, the trend has reversed itself in 2021 and has been on the upswing since February. As seen in the chart below, based on leasing data from RealPage, renewals tend to lead over new leases and have accelerated over the past several months.

But there has been improvement in new lease signings as well. As seen in the chart below, new lease activity typically slows down quite a bit toward the end of each year, which reflects the seasonality of fewer move-ins during what is considered the holiday months. New lease activity tends to pick up during the latter part of the first quarter and then accelerates from early spring through early fall.

While we are seeing that trend occur again in the 2021 data, at least through June, we are also seeing a trend suggesting that multifamily tenants are tending to renew their existing leases, most likely due to ongoing concessions that many property owners are still offering, even for existing tenants.

Year-over-Year Change in Multifamily Executed Lease Signings



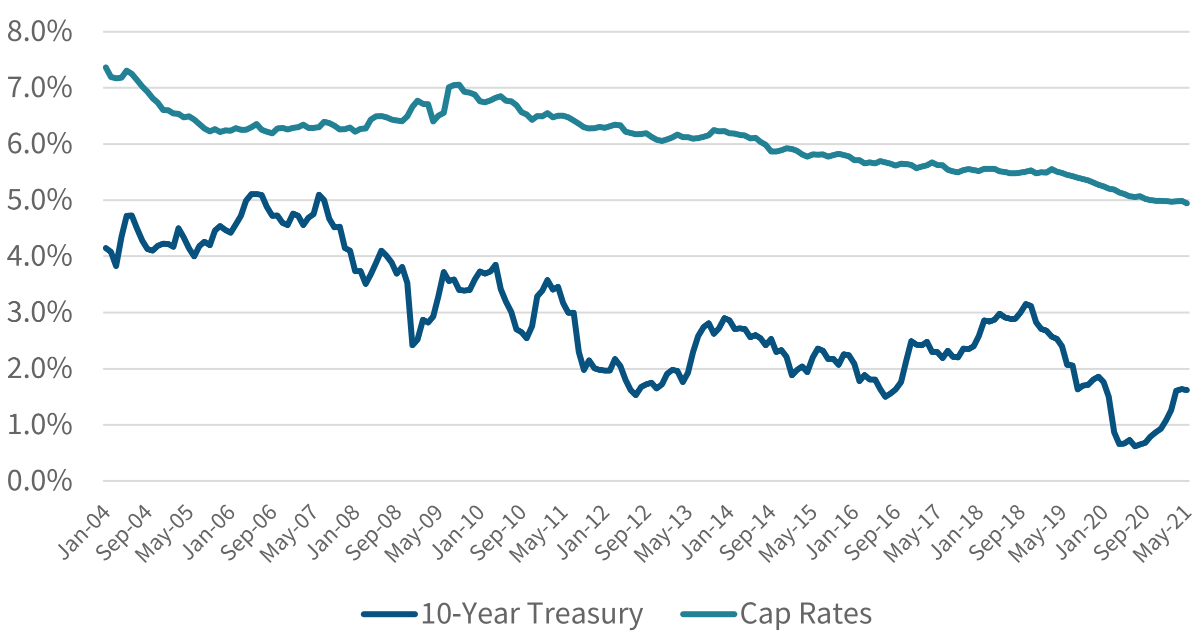
Source: RealPage, Inc.

Multifamily Sector Still Attracting Investment

Although data from Real Capital Analytics is showing that 2021 multifamily sales volume for the first five months of the year is up compared to the same time last year, it is still not expected to reach 2019's estimated peak of $192 billion. Total multifamily sales activity for properties valued at $2.5 million or higher totaled $146 billion in 2020, according to Real Capital Analytics, and currently 2021 is largely on a similar track. Multifamily property sales through June 2021 have totaled an estimated $73.6 billion, according to Real Capital Analytics. Based on recent transaction trends, we anticipate that multifamily property sales are unlikely to exceed $160 billion in 2021.

Despite our more somber outlook for the pace of sales activity over the remainder of the year, we are not expecting any real change in multifamily capitalization rates this year. Although multifamily prices are up 10.1 percent year over year as of May 2021, according to the Real Capital Analytics Commercial Property Price Index, cap rates are staying steady at around 5.0 percent, where they have been for several months now, as seen in the chart below. As a result, we expect multifamily cap rates to remain stable for the rest of year, between a range of 4.75 percent and 5.25 percent.

10-Year Treasury and Multifamily Capitalization Rates



Source: Real Capital Analytics, and Federal Reserve, Selected Interest Rates H.15, per Moody's Analytics

2021 Multifamily Mid-Year Outlook: Stabilization Ahead

Our outlook for the multifamily sector in 2021 has brightened with the expectation of stabilization ahead. We expect the volatility in rent growth and net absorption stemming from pent-up demand to be short lived. Additionally, we believe this momentum will last through the summer but then begin to normalize into early fall as local economies further stabilize, vaccination rates increase slightly, and the pandemic continues to recede.

The impact from the expiration of the federal eviction moratorium currently set for the end of July 2021 is the multifamily sector's big unknown. Multifamily rent collections have held up well for professionally managed properties, according to data from the National Multi-Housing Council's Rent Tracker. While that survey reflects rent collections on about 11 million multifamily rental units, it does not include all renters. Indeed, according to the Census Bureau's Household Pulse Survey from June 7, 2021, an estimated 7.1 million renters, including both multifamily and single-family renters, were behind on their rent payments, and 1.2 million renters were concerned that they would be evicted within the next 60 days. Even more sobering, although emergency rental assistance is in place, through the end of May only an estimated 350,000 renter households have received such assistance, according to a recent report issued by the U.S. Department of Treasury.

However, the recent increases in job growth help support our more optimistic outlook for the multifamily sector. As more people get back to work, and with wage growth also increasing, we believe that many renters behind on their rent payments will be in a better position to either enter a rent repayment plan or simply move before the eviction moratorium expires. We do expect some volatility in net absorption over the latter part of the year, because we are expecting a fair amount of tenant movement to occur at that time. And with more than 492,000 units of new supply expected to deliver in 2021, we believe there will be additional pressure on future rent growth – and concessions – in some of the nation's largest metros.

We believe an improving outlook is appropriate for the multifamily sector for the rest of 2021, based on demographic trends, better economic conditions, expected job growth, rising wages, and expected continued improvement containing the COVID-19 pandemic.

Kim Betancourt, CRE
Senior Director

Tim Komosa
Senior Manager

Fannie Mae Multifamily Economics and Strategic Research

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