Multifamily Economic and Market Commentary

Fannie Mae

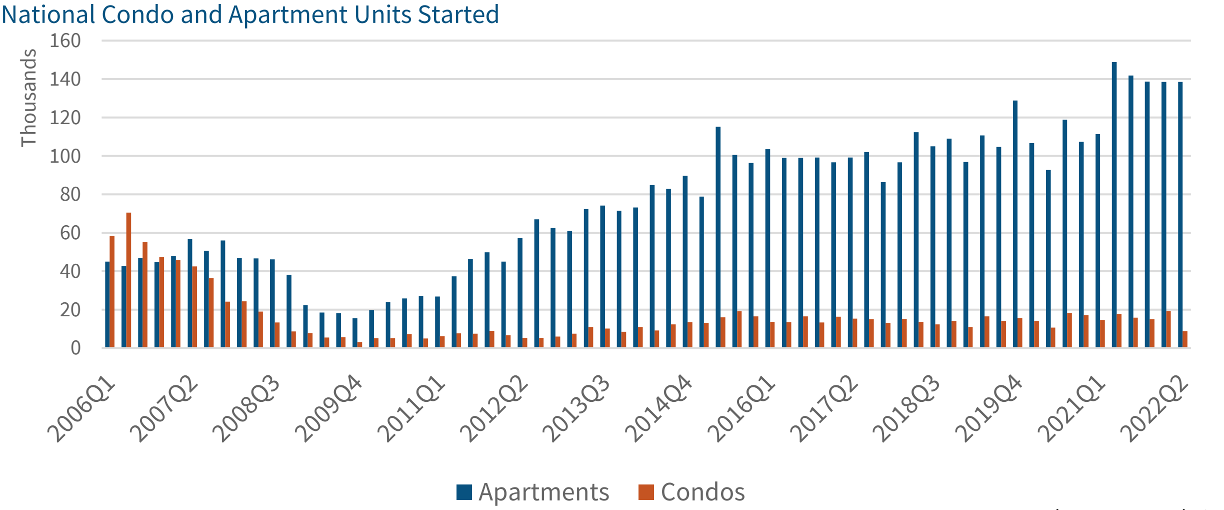
AUGUST 2022

Mid-2022 Multifamily Construction Update

Starts for new multifamily rental and condominium construction have continued at historically high levels in 2022, though the levels of the first half of the year are down modestly from the record levels achieved in mid-2021, according to the Dodge Data & Analytics Supply Track construction pipeline. As shown in the chart below, although the total number of new apartment rental units started in the first half of 2022 increased 6.5% from the same period of 2021 to approximately 277,000 units, the number of units started each quarter has been in decline since the second quarter of 2021, when it peaked at 149,000 units. It has since declined each quarter, with an estimated 139,000 units started in the second quarter of 2022. Revised data for the full year of 2021 show apartments units started increased significantly in 2021, rising 27% from 2020 starts to 541,000.

Apartment rental units continue to be the predominant format of multifamily construction in 2022, which has been the case since 2008. Just 28,100 condo units were started during the first half of 2022, which is down significantly from 32,400 units in the first half of 2021, according to Dodge Data & Analytics.

National Condo and Apartment Units Started



Source: Dodge Data & Analytics

Note: Q2 2022 project starts are preliminary and subject to significant revision

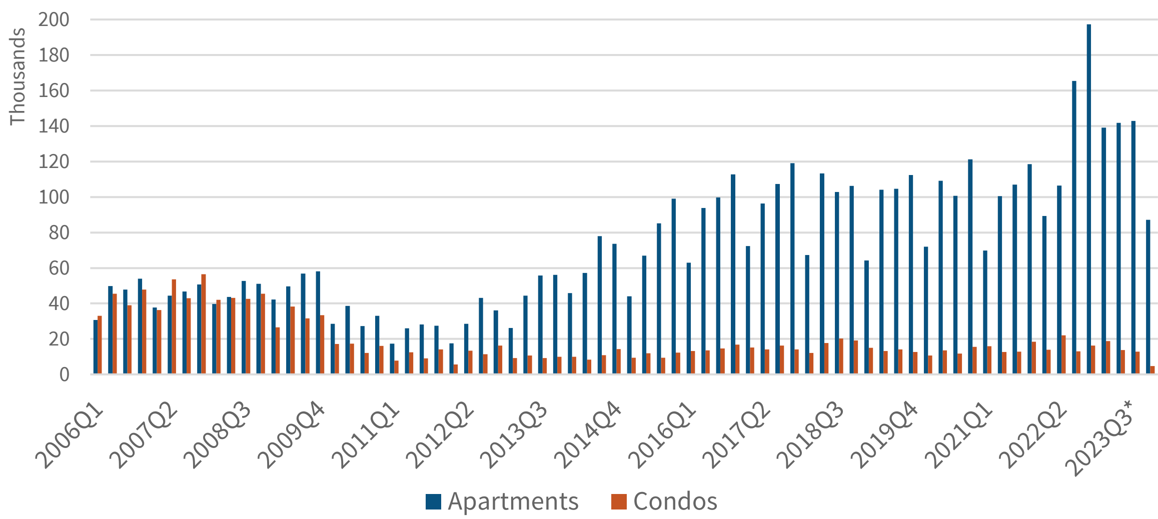
Census Bureau Starts Continue to Rise

The Census Bureau's estimated multifamily starts has averaged 555,000 units for the first half of 2022, which includes condominiums and two- to four-unit properties. This is a remarkable increase compared to the 461,000 units started during the first half of 2021, which itself was a sizable rebound from the onset of the pandemic. We forecast that multifamily starts will increase by slightly less than 6% in 2022 from the prior year, rising to 502,000 units. While the level of supply continues to be visibly robust, overall starts remain well below the extraordinary levels achieved in the 1970s when Baby Boomers were reaching peak apartment rental age – more than 1 million units were started in 1973.

Construction Pipeline Further Expands

According to the Dodge Data & Analytics Supply Track construction pipeline data, the number of apartment units underway across the country continues to grow. As illustrated in the chart below, over 1,140,000 units are estimated to have been under construction as of July 2022. That's compared to 844,000 units in January 2022 and 778,000 units in July 2021. Condo units have also been increasing, rising to 120,000 units as of July 2022 compared to 86,000 units in January 20222, and 78,000 as of July 2021.

National Condo and Apartment Completions and Units Underway



**Units currently underway with an expected completion date after 2022Q2*
Source: Dodge Data & Analytics

Class A and Major Metros Remain Focus of Developers

Multifamily rental development continues to be concentrated in the largest metros in the country, as seen in the table on the next page. New York remains the most active metro in the country, with more than 130,000 units either recently completed or underway. Washington, DC, is in second place with over 66,000 units. Dallas and Austin have over 62,000 and 57,000 units, respectively, underway or recently completed. Los Angeles, Seattle, Houston and Atlanta are close behind with each having more than 43,000 units underway, while Phoenix and Orlando round out the top 10.

While much of the current development underway is concentrated in the largest metros, in most metros it is further concentrated in only a few submarkets, particularly in more dense and urban-focused submarkets. Additionally, most units being developed are more expensive, Class A-type apartment units. While these type of submarkets and units were the first to experience rising vacancies at the onset of the pandemic in 2020, they also saw a sustained recovery in 2021 and 2022. For example, CoStar is expecting Class A unit rents to see the highest level of rent growth among the apartment classes in 2022, forecasted at 6.9% for Class A, though that would be down from the unsustainable 14.7% growth seen in 2021.

Also noteworthy is the continued absorption of recently constructed Class A units without significant market disruption. Class A concession levels remain higher than those for Class B and C units, but according to RealPage, just 6.9% of all Class A units across the country are offering concessions as of June 2022, which is a notable decline from 12.5% in June 2021.

Projects Started Declines in 2022

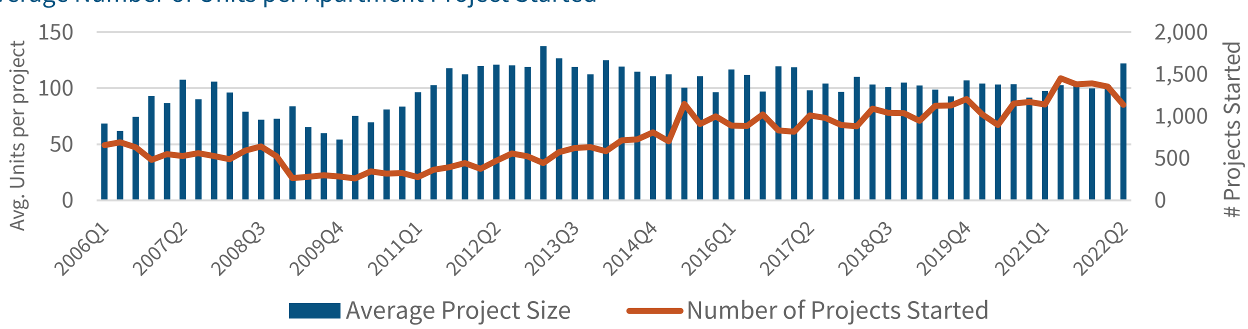
According to the Dodge Data & Analytics Supply Track pipeline, the number of projects started in the first half of 2022 decreased slightly, declining to 2,485 projects for the first six months of 2022, down from 2,592 in the first half of 2021, as seen in the chart below. The average number of units per project increased year over year to approximately 111 units per project for the first half of 2022, which is above the average of 100 units for the same period of 2021.

Units Recently Completed and Underway

Metro	2021	2022	2023	Beyond	Total
New York	31,835	46,378	47,830	4,109	130,152
Washington, DC	15,348	24,699	17,944	8,464	66,455
Dallas	15,417	18,388	20,440	7,903	62,148
Austin	12,914	20,775	20,242	3,300	57,231
Los Angeles	14,668	16,067	14,473	1,991	47,199
Seattle	9,943	19,757	14,125	2,540	46,365
Houston	16,115	16,125	10,347	2,097	44,684
Atlanta	8,465	16,599	17,399	656	43,119
Phoenix	9,886	19,396	9,766	2,626	41,674
Orlando	8,082	13,249	17,115	284	38,730
Denver	10,862	11,636	14,322	1,704	38,524
Minneapolis	11,183	13,577	10,574	450	35,784
Philadelphia	6,005	11,853	16,781	528	35,167
Miami	7,919	10,168	13,107	3,574	34,768
Nashville	7,898	13,509	11,819	306	33,532
Boston	7,565	14,806	7,833	1,577	31,781
Charlotte	7,159	9,536	7,826	647	25,168
San Antonio	5,951	7,881	7,145	2,025	23,002
Fort Worth	6,465	7,863	7,177	1,314	22,819
Tampa	5,715	9,764	5,199	1,190	21,868
Chicago	6,462	6,913	7,070	362	20,807
Newark	4,268	7,978	5,518	1,081	18,845
Salt Lake City	2,397	5,966	9,191	490	18,044
Portland	6,375	6,665	4,302	622	17,964
San Diego	4,330	6,400	6,528	478	17,736

Source: Dodge Data & Analytics

Average Number of Units per Apartment Project Started



Source: Dodge Data & Analytics
Note: 2022Q2 project starts are preliminary and subject to significant revision

2022 Multifamily Supply Continues Rising

Despite worldwide disruptions to supply chains that have impacted development activity, the multifamily industry continues to see elevated levels of new construction. Fortunately, the industry also continues to experience solid absorption, due to the ongoing rebound from pent-up demand coupled with the long-term national housing shortage. While rent and vacancy fundamental measures were already likely to ease from their recent exceptional growth, continued deliveries of new units may push some metro areas to see supply-driven increases in their vacancy rates over the next 12 months. Additionally, the more expensive Class A segment may see a more enhanced softening of its vacancy rates, as the overall market eases and the multi-year ongoing surge of development is almost entirely comprised of these types of units. Despite this softening, we expect the overall multifamily sector to remain stable as the nation needs much more housing to satisfy the needs of the growing population.

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