Multifamily Economic and Market Commentary

April 2023

Multifamily Urban and Suburban Submarket Performance Showing Similar Trends

The multifamily sector has experienced significant shifts over the past three years, including COVID-19-related shocks followed by an unprecedented recovery and historic rent hikes. Additionally, an ongoing surge in the supply of multifamily units, coupled with inflationary pressures, set the stage for an unusual period for the multifamily sector in 2022. While the national average rent level had rebounded to pre-pandemic levels by Q2 2021, over the second half of 2022 both urban and suburban submarkets experienced similar levels of slowing rent growth, according to data from RealPage, Inc.

Rent growth in submarkets designated as suburban by RealPage was significantly stronger than in urban-designated submarkets, especially during much of 2020, and still maintained a lead well into early 2022. Indeed, the quarter-over-quarter rent growth spread as wide as 3.0% between urban and suburban submarkets in Q4 2020. Urban submarket rent growth grew at less than half of the rent growth of suburban submarkets from Q4 2019 to Q4 2022 at 13.6% versus 26.0%, respectively.

Urban submarket rent growth closely tracked the growth levels experienced by suburban submarkets during the peak of multifamily rental demand in mid-2021. Rent growth on average jumped as high as 5.9% for urban submarkets and nearly 6.2% in suburban submarkets in Q3 2021. Following several quarters of robust growth, both the urban and suburban submarket asking rents contracted in tandem in Q4 2022, as seen in the chart below.

Quarter-Over-Quarter Change in Asking Rent – Q4 2019-Q4 2022

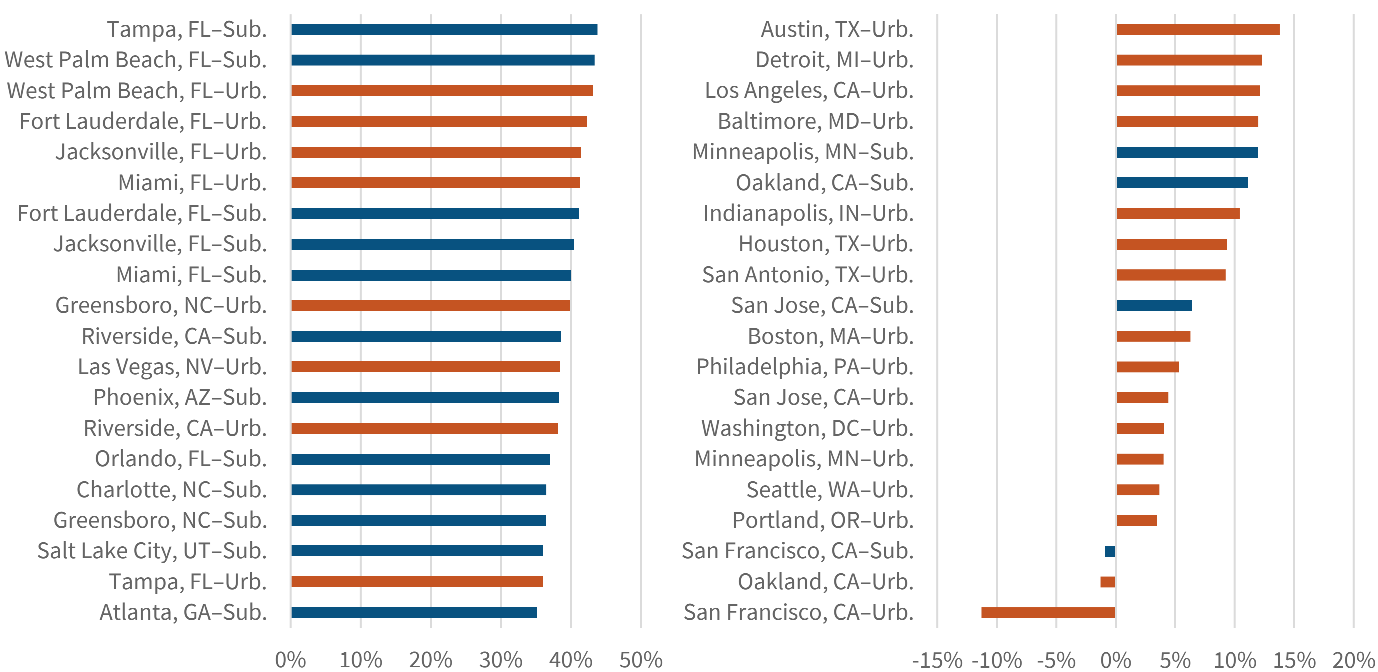
Source: RealPage, Inc.

Increased Demand in Sunbelt Metros

Although rent growth increased more in suburban submarkets, in many cases the top suburban submarkets in rent growth have now been joined by their corresponding urban submarkets. The greatest rent growth occurred in Sunbelt metros, as seen in the chart below, with only one non-Sunbelt metro – Salt Lake City – making the cut. Interestingly, of the Sunbelt metros, 11 of the 18 are located in Florida. Tampa's suburban submarket rent levels, for example, increased a remarkable 43.8% over the past three years.

Rent levels in many Sunbelt metros have grown at an unprecedented rate, as many people moved to the region's relatively more affordable metros. With increased demand in these metros, rent increases followed.

Increase in Average Rent by Submarket Type – 4Q2019 – 4Q2022 – Select Metros



Source: RealPage, inc.

Major Urban Submarkets Seeing Lagging Demand…

Urban submarkets made up most of the metros with the least amount of rent growth during the period. While some markets' surplus supply kept the rent increases at bay, others are seeing a fall-off in demand. Notably, San Francisco's costly urban and suburban submarkets have not exceeded their pre-pandemic highs, with its urban submarkets falling behind with a rent growth of negative 11% from Q4 2019 to Q4 2022.

In addition to San Francisco, other major urban submarkets featuring below-average rent growth included Oakland, Portland, Seattle, San Jose, and Los Angeles – all of which are expensive metros on the West Coast. We believe that while these metros can boast being home to highly skilled tech and professional services workers, the effect of telework on some of these metros has lasted far longer than many expected. Additionally, the higher cost of living in these metros has likely contributed to some residents moving to more affordable (yet still reasonably close-by) suburban submarket neighborhoods.

... With More New Supply Expected

We believe that the amount of new supply delivered over the past few years has also impacted certain submarkets. According to construction data from Dodge & Data Analytics, over 1 million multifamily rental units are underway in the supply pipeline nationally as of early 2023, representing an increase of 75% from 2019. With new units being delivered into these submarkets, coupled with softening demand across the multifamily sector beginning in the latter part of 2022, oversupply is of concern in certain submarkets.

The locations with the highest percentage of inventory added tend to belong to urban submarkets that on average have increased their inventories by 8.9%. And while suburban submarkets had the most rent growth, they correspondingly had fewer units added on average, with an average increase of 5.3% since 2020.

While metros such as San Francisco had few deliveries along with rent decreases, rent has also increased for those metros with few deliveries. The urban locations of Greensboro, Riverside, Jacksonville, and Miami have experienced less than 5.5% inventory growth, and all have had rent growth of over 35%.

Softening demand and possibly a near-term surplus of supply, have caused vacancies to increase in several submarkets. While some urban submarkets listed below have not seen vacancies shift as a result, the urban submarkets of both Sacramento and Phoenix experienced vacancy increases as inventories increased. Inventories in the Sacramento urban submarket increased by 14.7% while its vacancy rate increased by 365 basis points to 8.5%. Inventories in the Phoenix urban submarket increased by 37.8%, while its vacancy rate increased by 250 basis points to 7.5%.

Change in Multifamily Inventory 4Q2019 – 4Q2022 – Select Metros

Market Group	Inventory Added	Increase in Inventory (by Units)	Market Group	Inventory Added	Increase in Inventory (by Units)
Phoenix, AZ–Urb.	3653	37.8%	San Jose, CA–Urb.	2723	10.6%
Nashville, TN–Urb.	5775	26.1%	Minneapolis, MN–Urb.	3765	9.8%
Orlando, FL–Urb.	2865	22.7%	Orlando, FL–Sub.	20876	9.4%
Cleveland, OH–Urb.	2524	20.6%	Seattle, WA–Urb.	7751	8.7%
Tampa, FL–Urb.	3988	19.3%	Phoenix, AZ–Sub.	30135	8.7%
Sacramento, CA–Urb.	2417	14.7%	Houston, TX–Urb.	6422	8.0%
Austin, TX–Sub.	33528	14.6%	Oakland, CA–Urb.	6521	7.5%
Kansas City, OK–Urb.	3542	14.2%	Indianapolis, IN–Urb.	890	7.2%
Fort Worth, TX–Urb.	2721	13.9%	Miami, FL–Sub.	16479	7.1%
Columbus, OH–Urb.	3210	13.8%	Chicago, IL–Urb.	8923	6.9%
Salt Lake City, OH–Urb.	2556	13.4%	Boston, MA–Urb.	7547	6.5%
Fort Lauderdale, FL–Urb.	5140	12.9%	Tampa, FL–Sub.	13031	5.5%
Charlotte, NC–Urb.	2359	12.5%	San Jose, CA–Sub.	7849	5.3%
Charlotte, NC–Sub.	21227	12.3%	Miami, FL–Urb.	3528	5.3%
Jacksonville, FL–Sub.	13636	12.3%	Jacksonville, FL–Urb.	381	5.2%
Denver, CO–Urb.	7233	11.9%	Las Vegas, NV–Urb.	1021	5.1%
Nashville, TN–Sub.	14946	11.4%	San Francisco, CA–Urb.	5025	4.0%
Washington, DC–Urb.	21875	11.3%	Oakland, CA–Sub.	4479	3.7%
San Antonio, TX–Urb.	1719	11.3%	Riverside, CA–Urb.	908	2.5%
Philadelphia, PA–Urb.	4386	11.1%	Greensboro, NC–Urb.	349	2.0%
Portland, OR–Urb.	3070	11.0%	San Francisco, CA–Sub.	1379	1.2%
Austin, TX–Urb.	2239	10.9%	Cleveland, OH–Sub.	828	0.5%

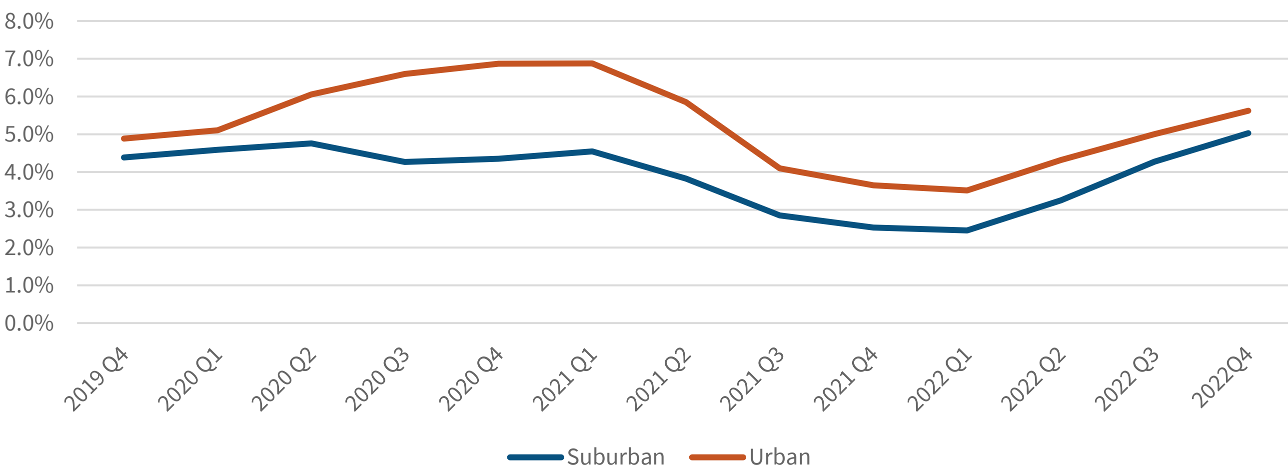
Source: RealPage, inc.

Vacancy Rates Across Submarket Types Diverged in 2020

Vacancy rates for urban submarkets were elevated compared to suburban submarkets before the pandemic, and, over the course of 2020, they spiked as high as 6.9% nationally, as seen in the chart below. However, like rent growth rates a couple of quarters later, urban vacancy rates started trending in the same direction as their suburban counterparts by Q3 2021. Although urban submarkets' rent growth was lower than in suburban submarkets, as seen in the chart below, in Q3 2021 vacancy rates returned to below pre-pandemic levels, reflecting the increase in rental demand despite the bulk of deliveries occurring there.

Suburban submarkets' vacancy levels did not rise as much as in urban submarkets, as seen in the chart below. Indeed, suburban submarket vacancies remained fairly stable during 2020. While urban submarkets had a rebound in 2021, suburban submarkets were already showing signs of increased demand. While vacancies dropped to 3.7% in urban markets in Q4 2021, vacancies in suburban markets dipped to a low of 2.5% in that same period.

Vacancy Trends – Q4 2019-Q4 2022 by Submarket



Source: RealPage, Inc.

Performance Likely to Further Align in 2023

Urban and suburban submarkets experienced significant shifts in fundamental demand and performance in the wake of the pandemic in 2020, with the effects lasting longer in some metros and submarkets than in others. Urban submarkets needed significantly more time to see a rebound, while suburban submarkets experienced unprecedented demand. Additionally, while the divergence of the trending in vacancy rates and asking rents ended during 2021, shifts to suburban submarkets have caused rents in suburban markets to expand tremendously. Although we expect the multifamily market in 2023 to see softer demand than in the past several years, we believe that the lagged urban submarket rebound will continue, especially as many employers are encouraging their workers to come into the office a few days a week and many renters appear to prefer living in more urban locations. We expect that the amenities and new supply that are being developed in the nation's urban submarkets should continue to draw new renters (and keep existing ones), at least in the short-term, due to still-elevated interest rates and home prices keeping the option of homeownership a little further afield for many renters-by-choice.

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April 2023