Multifamily Economic and Market Commentary

Fannie Mae

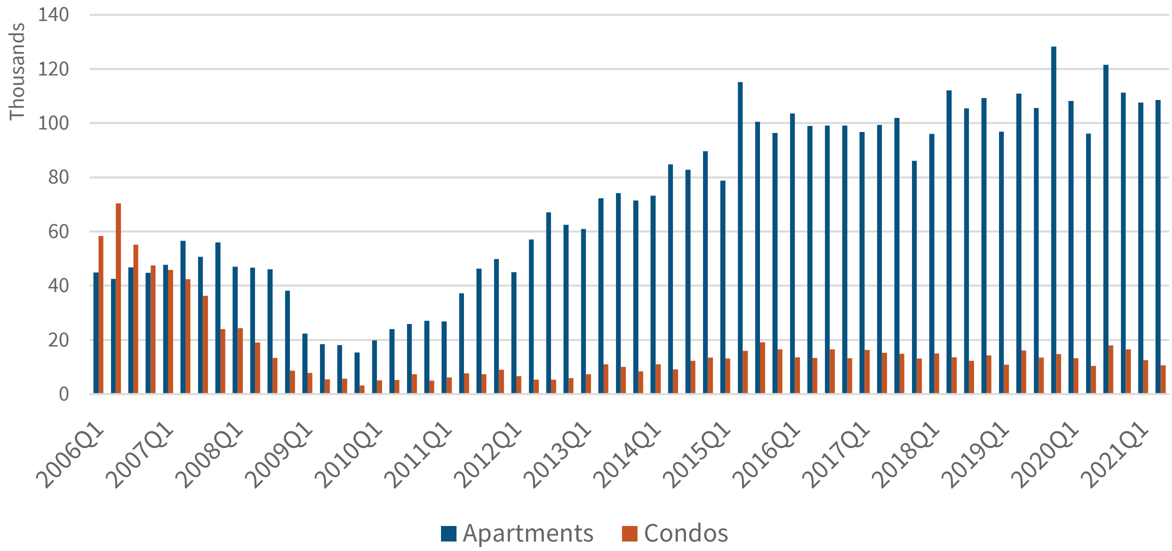
AUGUST 2021

Mid-2021 Multifamily Construction Update

Starts for new multifamily rental and condominium construction have remained robust in 2021, in the wake of the COVID-19 pandemic, according to the Dodge Data & Analytics Supply Track construction pipeline. As shown in the chart below, the total number of new apartment rental units started in the first half of 2021 increased 5.8% from the same period of 2020 to approximately 216,000 units, and it is also up from approximately 208,000 units that were started in the first half of 2019. Revised data for the full year of 2020 show apartments units started declined just 1.0% in 2020 from the prior year, to 437,000 units.

As has been case for more than 12 years, the vast majority of multifamily units started consisted of apartment rental units. Just 23,200 condo units were started during the first half of 2021, down slightly from 23,600 units in the first half of 2020, according to Dodge Data & Analytics.

National Condo and Apartment Units Started



Source: Dodge Data & Analytics
Note: Q2 2021 project starts are preliminary and subject to significant revision

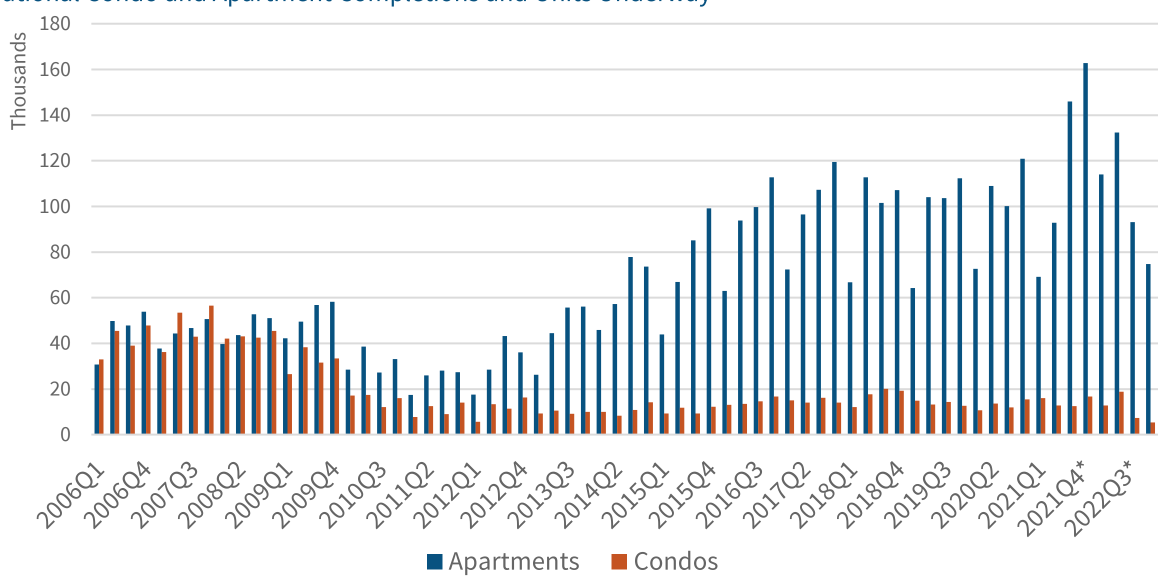
Census Bureau Starts Rise Year Over Year

The Census Bureau's estimated multifamily starts has averaged 453,500 units for the first half of 2021, which includes condominiums and two- to four-unit properties. This is quite the robust increase compared to the 408,000 units started during the first half of 2020. Fannie Mae forecasts that multifamily starts will increase by more than 14% in 2021 from the prior year, rising to 444,000 units. The ongoing elevated levels of supply continue to appear inflated compared to the lows that were reached after the Great Recession, but multifamily starts remain well below the record 1 million units started in 1973 and the more than 670,000 units in 1984.

Construction Pipeline Continues Rising

The Dodge Data & Analytics Supply Track construction pipeline data continues to show increased levels of new apartment rental units underway, as illustrated in the chart below. Nearly 778,000 units are estimated to be under construction as of July 2021, compared to 697,000 units in September 2020. Condo units have also seen a measurable increase, rising to around 78,000 units as of July 2021 compared to 72,000 units as of September 2020.

National Condo and Apartment Completions and Units Underway



Source: Dodge Data & Analytics

Continued Robust Supply in Major Metros

As seen in the table on the next page, the most active multifamily rental development metro in the country remains New York City with nearly 115,000 units either recently completed or underway. Washington, D.C., continues to be in second place with 63,000 units. Dallas and Houston have over 47,000 units underway or recently completed, and Austin also has nearly 46,000 units being added. Los Angeles, Seattle, and Boston remain close behind, while Denver and Phoenix round out the top 10.

Much of the development currently underway is concentrated in about 15 to 20 metros, as seen in the table on the next page. In many metros, it is further concentrated in only a few submarkets. In addition, many units that are being developed primarily consist of more expensive, Class A apartment units. This is concerning in light of weaker fundamental multifamily performance that is currently taking place in the more expensive coastal metro areas that have had a slower economic recovery from the pandemic relative to smaller, less expensive areas. In particular, New York City and Washington, D.C. saw markedly rising vacancy rates into the first quarter of 2021, and both are poised for robust deliveries of new units later this year and into 2022.

Texas is also noteworthy for the large volume of deliveries expected in Austin, Houston, and Dallas-Fort Worth. However, unlike New York City and Washington, D.C., these metros' vacancy rate and rent growth measures have been improving since late 2020, and all are poised to continue besting the nation's average economic growth rate over the next few months.

Project Size Increases Slightly

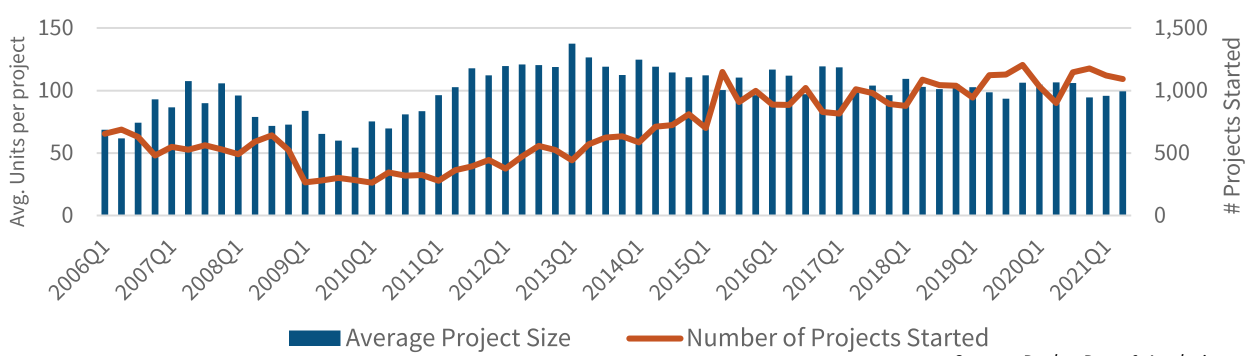
According to the Supply Track pipeline, the number of projects started in the first half of 2021 increased markedly, rising to 2,214 projects for the first six months of the year, up from 1,933 in the first half of 2020, as seen in the chart below. The average number of units per project declined slightly year over year to approximately 98 units per project for the first half of 2021, slightly below the average of 106 units for the same period of 2020.

Units Recently Completed and Underway

Metro	2020	2021	2022	Beyond	Total
New York	30,111	44,403	35,982	4,272	114,768
Washington, DC	16,266	18,417	23,935	4,208	62,826
Dallas	14,922	16,812	12,421	3,894	48,049
Houston	17,878	17,475	10,523	1,415	47,291
Austin	9,499	16,293	18,343	1,877	46,012
Los Angeles	9,000	18,263	12,270	2,806	42,339
Seattle	9,912	13,465	17,363	1,062	41,802
Boston	13,763	10,232	9,293	886	34,174
Denver	8,997	11,421	11,283	1,561	33,262
Phoenix	6,345	12,538	13,492		32,375
Minneapolis	10,777	11,600	9,849		32,226
Atlanta	9,382	11,393	8,820	669	30,264
Orlando	6,563	10,181	13,194		29,938
Miami	9,425	10,071	6,889	688	27,073
Nashville	4,403	8,154	13,092	680	26,329
Philadelphia	6,168	6,757	10,074	1,094	24,093
Chicago	8,898	7,666	4,981	649	22,194
San Antonio	6,718	8,355	5,624	798	21,495
Charlotte	6,993	7,456	7,042		21,491
Fort Worth	4,583	6,800	5,372	1,385	18,140
Tampa	3,874	6,591	6,698		17,163
Portland	6,216	6,983	3,262	147	16,608
Newark	4,110	4,805	5,410	1,860	16,185
Oakland	6,448	3,843	3,698	1,136	15,125
San Diego	2,669	5,331	4,947	2,073	15,020

Source: Dodge Data & Analytics

Average Number of Units per Apartment Project Started



Source: Dodge Data & Analytics

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2021 Multifamily Supply Will Likely Remain High

The multifamily industry has been contending with robust levels of new construction for more than five years, and it looks like 2021 will be no different. Fortunately, the industry is experiencing a period of solid demand, due to the multi-year ongoing housing shortage, and the near-term rebound of pent-up, post-pandemic demand. While we expect overall rent and vacancy fundamental measures to remain healthy, given the ongoing deliveries of new units, it should also be expected that some metro areas will see modest increases in their vacancy rates in late 2021 and into 2022. In addition, higher-end properties in the Class A segment may see notably rising vacancy rates, as this surge of construction is almost entirely comprised of these types of units. Overall, on a national scale, this newly delivered housing stock should eventually be absorbed by renters as the economy continues to recover.

Tim Komosa
Senior Manager

Fannie Mae Multifamily Economics and Strategic Research

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