Multifamily Economic and Market Commentary

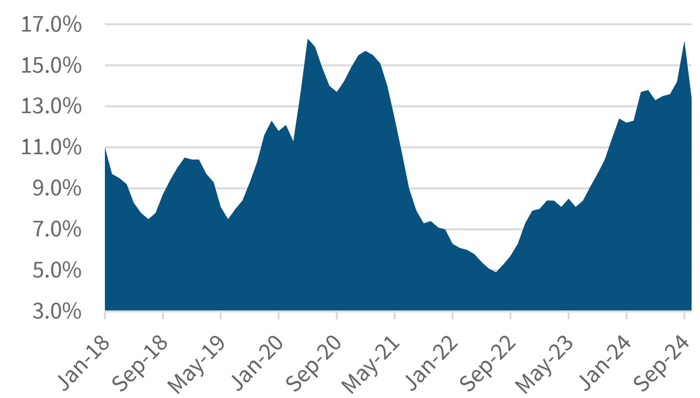
DECEMBER 2024

Rising Number of Multifamily Properties Offering Concessions

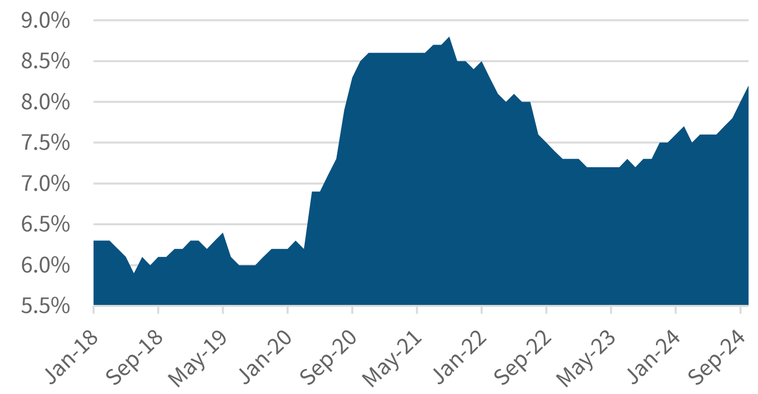
Multifamily market fundamentals in 2024 have remained soft but stable compared with last year because of consistent economic trends, including slowing but still-positive job growth, elevated single-family housing prices keeping many renters in place, and continued favorable demographics. Rent growth was exceptional in 2021 and 2022, but those levels have since slowed. Thus, the sector has seen lagged rent growth rates in 2024 similar to the prior year. A robust pipeline of new apartment rental projects are underway, particularly in the nation's largest metros, and, as a result, there has been a rise in the number of rental units across the country offering concessions.

In the multifamily apartment rental market, concessions are incentives with an economic value for renters, such as periods of free rent, free utilities, or other amenities. In a competitive market where property owners need to fill vacant units, concessions are one of the ways they attract tenants. As seen in the charts below, recent concessions data from RealPage shows that the multifamily market has seen softening trends over the past year. There is a notably higher percentage of units offering concessions this year than last year —13.4% of all units offered them in October 2024, up from 10.4% in October 2023. The value of the concession being offered has also slightly increased, from 7.3% of asking rent in October 2023 to 8.2% in October 2024, which is about the same as one month's free rent (8.3%). The overall level of concessions continues to be well above the low levels observed pre-pandemic, and in September 2024 the level of concessions almost reached the highest point seen during the pandemic.

National % of Multifamily Units Offering Concessions



Multifamily Concession Rate



Source: RealPage, Inc.

Supply of New Units Remains High

According to Dodge Data & Analytics Supply Track construction pipeline data, the number of apartment units completed across the country this year may exceed last year's totals. According to Dodge, as of fall 2024, 657,000 units underway are slated for completion in 2024, though actual inventory additions are likely to be significantly lower. We expect completions will be in the 550,000-575,000-unit range this year. For comparison, full-year completion totals were 566,000 units in 2023 and 479,000 units in 2022. Looking forward, another 565,000 units are underway for 2025 completion.

Concessions Up in Most Major Markets

As has been the case for several years, new apartment supply is concentrated in the nation's large and rapidly growing metropolitan areas. **New York City** continues to be the most active metro in the country, with nearly 91,000 units underway. **Dallas** and **Washington, DC**, are next at 37,000 units each, and **Phoenix** reports 29,000 units underway.

The robust supply in many of these markets, along with consumer debt concerns, appear to have impacted demand. As seen below, with the exceptions of **New York City** and **Chicago**, all these major metro markets have seen a rising share of units offering concessions between October 2024 and the prior year. **Miami**, **Dallas**, and **Phoenix** each have increases of more than 5 percentage points. It is noteworthy, too, that nine of the 12 markets shown below have seen concession values increase from the prior year. But increases have been relatively small, with the largest being a 2.6 percentage point change in Phoenix. On a national level, rental demand is not reaching supply levels. Property owners, in turn, are raising concession values up from last year to incentivize new leases in every major market except **San Francisco**, **New York**, and **Boston**. These metros all have historically high asking rents, however, which helps push concession values down as a percentage of asking rent.

Multifamily Concession Rates and Values in Major Metros

Source: RealPage , Inc.

Higher Class A Concessions Continue, While Class C Concessions Jump

As tends to be the case, multifamily builders have primarily been constructing more expensive, amenity-offering apartments, usually referred to as class A units. As seen in the charts below, with increased competition among this class, many property owners — as well as more units — have had to offer generally higher level of concessions. Class A concession values increased significantly at the beginning of the pandemic and remain well above concession values of class B and C units during this period. Over the past year, as demand has been relatively softer, the value of concessions for class A units increased slightly, up to 9.1% in October 2024 from 8.6% in October 2023. The share of class A units offering concessions has also risen, albeit slightly, to 11.7% as of October 2024, up from 11.2% a year ago.

The continued softer demand for apartments seen over the past year is even more evident in the skyrocketing percentage of units offering concessions in class B and especially class C units. These concession metrics increased considerably over the past year and are close to levels seen during the pandemic for class B and C units. As of October 2024, 12.4% of class B units were offering concessions, up from 9.9% in October 2023, and a remarkable 16.4% of class C units were offering concessions, up from 10.6% a year ago.

Percentage of Units Offering Concessions by Class

National Monthly Concession Rates by Class

Source: RealPage, Inc.

The value of the concession being offered has also changed meaningfully among class B and C units over the past year. Class B units have increased the value of the concessions to 8.1% in October 2024, up from 6.8% a year ago. The value of class C concessions has risen a bit less, climbing to 7.8% in October 2024, up from 6.7% a year ago.

These consistent signals across all three property classes demonstrate that overall demand has softened, and many property owners have lowered rents or increased the value of concessions they are offering in order to attract new tenants amid a competitive national rental market.

New Supply Expected to Lead to More Concessions but Slightly Higher Rent Growth

After exceptional rent growth rates in 2021 and 2022, it was generally expected that 2023 and 2024 would see easing rent growth and softening multifamily fundamentals, including vacancy rates — and that has generally been the case. Slowing demand in 2023 and during the first three quarters of 2024 resulted in below-average year-over-year rent growth of just 0.8% for the U.S. and a modest rise in vacancies. Some metros had slightly weaker results and experienced modest rent contractions, including **Austin**, **Salt Lake City**, and **Charlotte**.

Because of the elevated level of new supply expected to complete and deliver over the next 12 to 18 months, the number of units offering concessions may rise over the short term. It is noteworthy that the value of concessions offered by property owners has increased alongside the total rate of concessions market-wide, which points to subdued absorption in many locations.

With a robust pipeline of supply expected through 2025 and beyond, we believe there will continue to be pressure on owners to offer more generous concessions. However, rent growth is expected to increase slightly due to ongoing job growth and housing demand. Rent renewals are still seeing higher rent increases than new leases, allowing property owners to offset new concessions.

As of October 2024, a total of 16.4% of all class C units are likely to offer a concession. Usually, class A units offer the highest concession levels, as new units tend to need incentives to attract tenants, and existing class A units compete directly with new supply. This recent phenomenon for class C units might be attributed to tenant behavior in the marketplace. With continued new supply entering the market leading to more generous concessions across the board, we believe that some tenants have likely taken advantage of concessions at the class B level and “moved up” within class units. These were most likely tenants who could afford the rent price difference between a class C and class B unit with a generous concession, leaving class C units with a smaller group of lower-income renters who can afford a class C unit.

Slower job growth in most major metros, combined with the robust supply of new apartment units underway, may add stress the multifamily sector over the next six to 12 months. But we continue to believe that demand for multifamily rental housing will remain stable over the longer term due to home affordability constraints and elevated interest rates keeping many tenants from moving to homeownership. According to the 2024 Profile of Home Buyers and Sellers from the National Association of Realtors, which has been tracking data since 1981, the median age for the first-time homebuyer in 2024 was at an all-time high of 38 years old.

As a result, we believe that many renters-by-choice will stay renters for slightly longer, especially if they are willing to move to another unit to take advantage of lower rent levels and more generous concessions.

John Collier

Associate

Tim Komosa

Senior Manager

Multifamily Economics and Strategic Research

December 2024

Opinions, analyses, estimates, forecasts, beliefs, and other views of Fannie Mae's Economic and Strategic Research (ESR) Group included in these materials should not be construed as indicating Fannie Mae's business prospects or expected results, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the ESR Group bases its opinions, analyses, estimates, forecasts, and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current, or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts, beliefs, and other views published by the ESR Group represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.