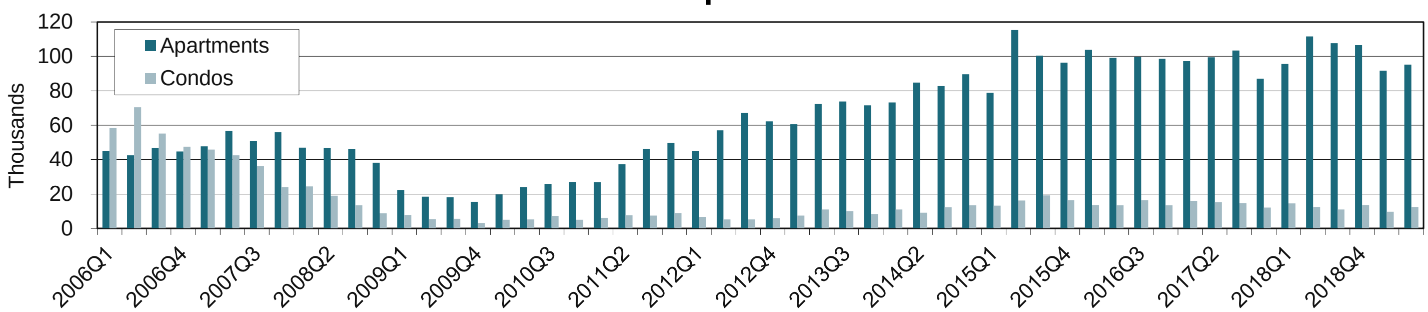
Fannie Mae

Multifamily Market Commentary — October 2019

Multifamily construction pipeline update

Starts for new multifamily rental and condominium construction have remained robust since the end of 2014, with a minimum of 78,000 units started in each quarter, according to updated data from Dodge Data & Analytics. The number of new apartment rental units started during second quarter 2019 totaled approximately 95,100; this figure is up from 91,600 in the prior quarter, though down from the average of 105,300 units started in each of the last three quarters of 2018. An estimated 421,500 units were started during 2018; the vast majority remain in the multifamily rental category, while just 52,000 were condos. This trend continues to be true in 2019.

National condo and apartment units started



Source: Dodge Data & Analytics, October 2019

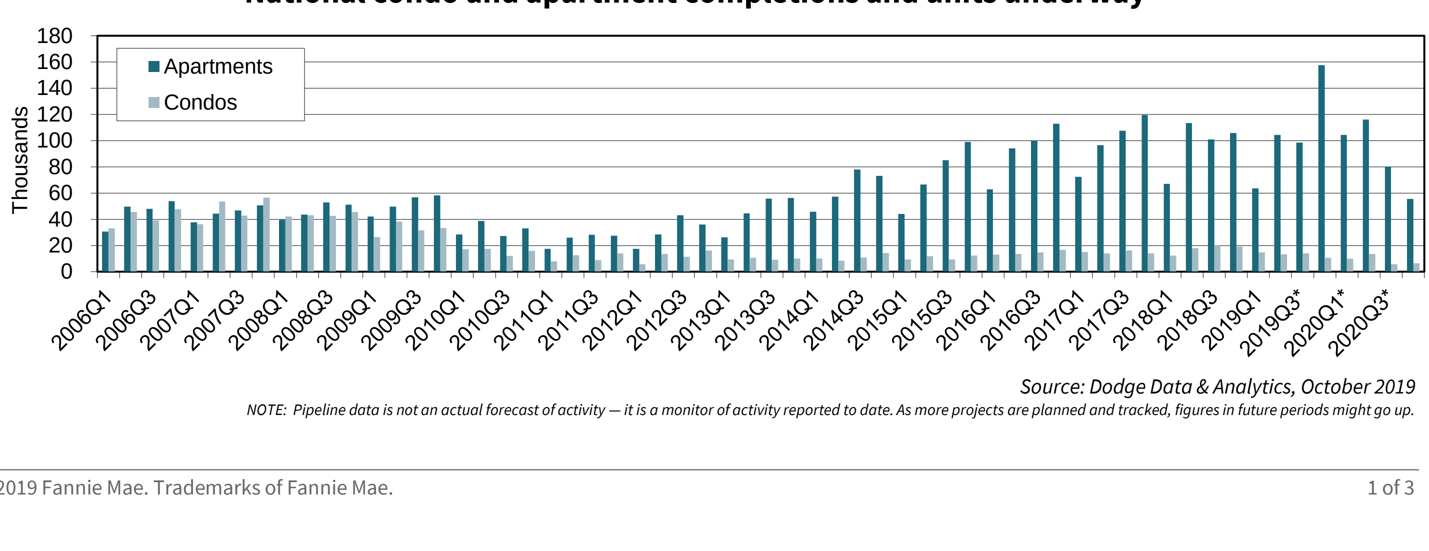
Census Bureau starts remain up

The Census Bureau's estimated multifamily starts, which include condominiums, were up 12.6% year over year as of second quarter 2019, at an annualized rate of 411,000 units. Our Economic and Strategic Research Group forecasts that multifamily starts (2+ units) will remain steady in 2019 at about 373,000 units — down a slight 0.3% from 374,000 units in 2018 — but will then decline in 2020 to approximately 347,000 units. The overall level of multifamily construction starts continues to be well above the 1989-2008 historical average annual rate of 260,000 units started but remains well below the record 1 million units started in 1973 and 700,000-plus started in 1985.

Construction pipeline remains elevated

Dodge Data & Analytics' pipeline data continues to show a robust level of new apartment rental units currently underway: More than 612,000 units are under construction as of October 2019 — up from 597,000 in January 2019 — as illustrated in the chart below. The number of condo units underway has remained generally steady, with approximately 60,000 units as of October 2019 — down slightly from approximately 61,000 in January 2019.

National condo and apartment completions and units underway



Source: Dodge Data & Analytics, October 2019

NOTE: Pipeline data is not an actual forecast of activity — it is a monitor of activity reported to date. As more projects are planned and tracked, figures in future periods might go up.

Major markets see major supply; national supply shortage continues

The metropolitan areas with the most active apartment development in the country continue to be New York, Washington, D.C., Dallas, Los Angeles, and Seattle — each with more than 40,000 units underway. Boston, Atlanta, and Denver follow with slightly fewer units underway. Rounding out the top 10 are Chicago and Austin.

While the short-term surge in supply in some of these metros might be ill-timed from a market-in-balance perspective, we expect nearly all of the multifamily rental housing being built today and over the next several years to be absorbed fairly quickly due to the demand created by these metros' respective economic and demographic growth forecasts.

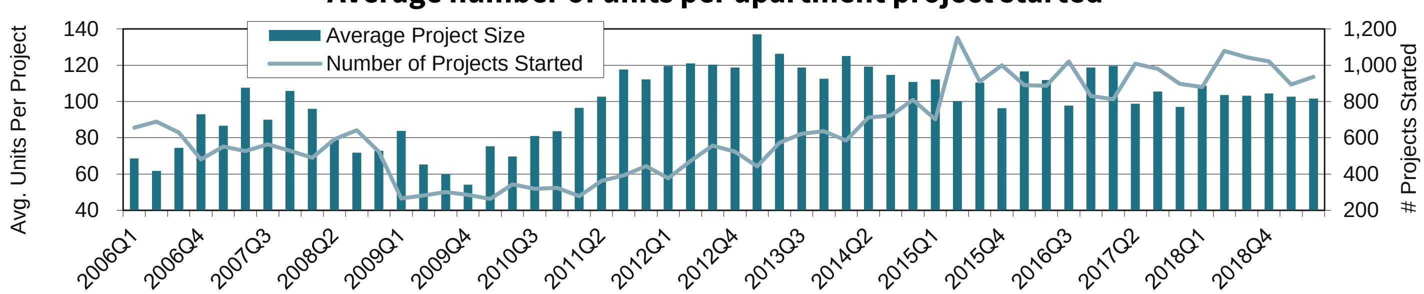
While we expect some of the markets in the table on the right will see some short-term deterioration as the robust supply is out-matched by somewhat moderated demand, on a national level, there continues to be a housing shortage for both multifamily and single-family properties. The level of housing construction since the end of the Great Recession, including the recent delivery surge of 2017 through 2019, has not been significant enough to satisfy the needs of a growing population and expanding economy.

Units recently completed and underway

Metro	2018	2019	2020	Beyond	Total
New York	31,594	30,363	32,278	13,717	107,952
Washington, D.C.	15,469	17,609	16,770	9,421	59,269
Dallas	16,551	16,205	16,371	1,892	51,019
Los Angeles	17,341	15,269	11,275	3,844	47,729
Seattle	14,958	12,645	10,548	3,468	41,619
Boston	11,534	12,231	11,757	2,086	37,608
Atlanta	9,281	12,756	8,778	948	31,763
Denver	12,128	11,262	7,632	-	31,022
Chicago	9,202	11,710	6,427	2,611	29,950
Austin	7,880	11,540	7,693	1,767	28,880
Miami	6,800	11,017	7,431	421	25,669
Orlando	7,988	8,151	9,188	288	25,615
Minneapolis	7,407	7,598	9,342	840	25,187
Charlotte	8,261	6,037	6,201	1,598	22,097
Houston	5,169	6,537	8,116	1,878	21,700
Philadelphia	5,846	7,390	5,776	509	19,521
San Antonio	6,893	5,568	5,820	600	18,881
Phoenix	7,289	6,592	4,458	253	18,592
Oakland	3,432	7,282	5,863	575	17,152
Nashville	5,753	5,544	4,422	678	16,397
Portland	5,282	7,210	3,703	179	16,374
Tampa Bay	6,307	5,132	2,105	740	14,284
Raleigh/Durham	4,120	4,029	4,708	263	13,120
San Francisco	2,432	4,754	5,243	456	12,885
Columbus	3,628	5,015	3,663	360	12,666

Source: Dodge Data & Analytics, October 2019

Average number of units per apartment project started



Source: Dodge Data & Analytics, October 2019

According to Dodge Data & Analytics, the number of projects started across the country peaked in the second quarter of 2015 and has remained high since then, with only moderate volatility. A total of 936 projects were started during second quarter 2019 — up from 893 in the first quarter — as seen in the chart above. The average number of units also continues to be generally steady, with about 102 units per project.

Highly supplied metros likely to see easing

As has been the case since 2014, new supply coming online through and beyond 2020 is concentrated in several metros, some of which we believe are likely to experience softness in occupancies. Steady demand continues to be expected, but the vast majority of new development will likely be in the more luxurious segment of these markets, and competing properties might see amplified softness. Rising vacancy levels and reduced or negative rent growth could affect the overall metro trend in oversupplied metros. However, this slowdown is expected to be modest and brief. Once the supply surge subsides, we expect the strength of multifamily's underlying fundamentals to continue— including stable job growth and strong demographic trends — resulting in increased demand and a stable apartment market.

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