

COMMERCIAL REAL ESTATE

U.S. MARKET | Multifamily

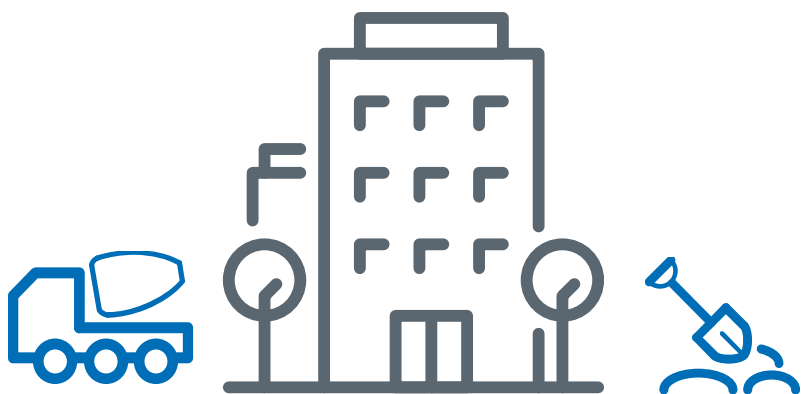
Q4 2022



THE VIEW FROM HERE



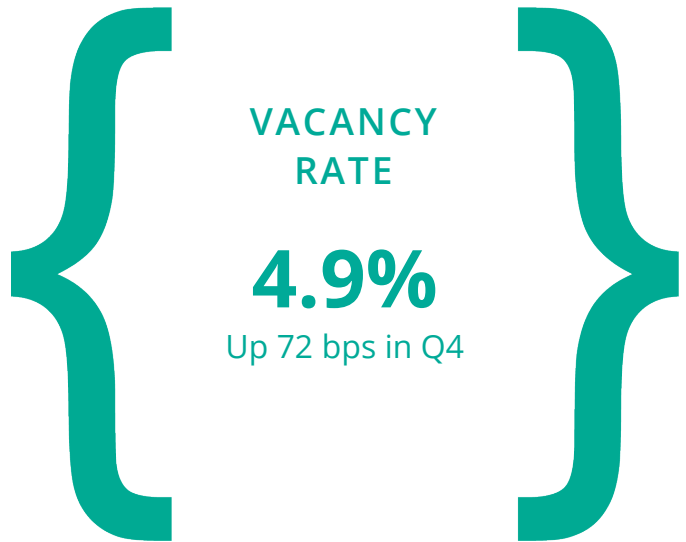
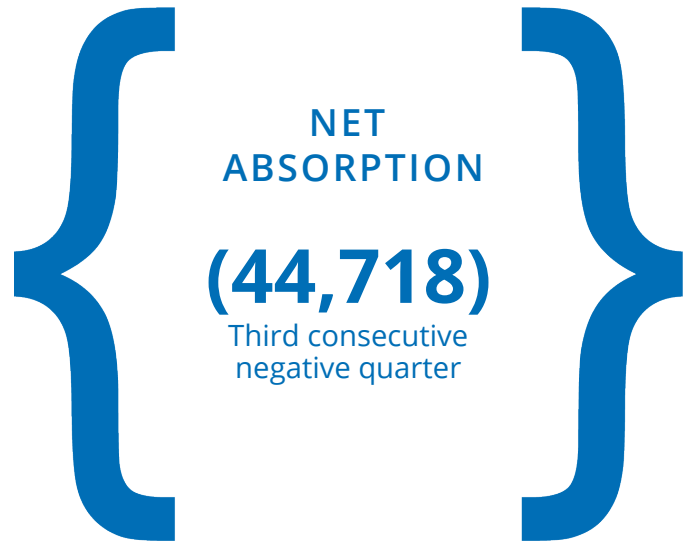

Significant drop in absorption due to demand “pulled forward” during pandemic and weakened consumer confidence



Surge in deliveries over next 24 months will present challenges, especially for properties in lease-up



Fewer transactions and normalization of fundamentals in 2023 should not call into question this sector’s resilience

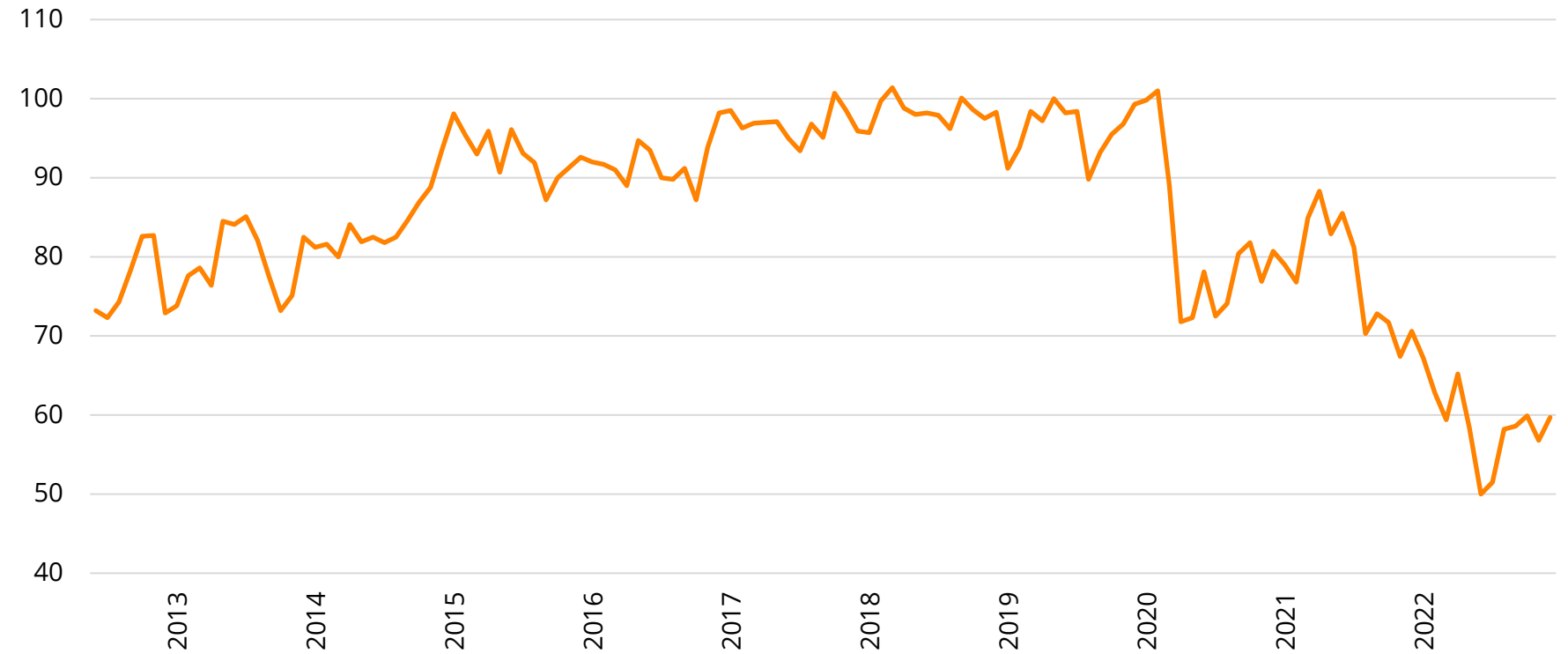


ECONOMIC HIGHLIGHTS

- The U.S. unemployment rate averaged 3.6% during the quarter, maintaining a record low for the third quarter in a row. Job growth, the biggest driver of multifamily demand, expanded at an annual rate of 3.3% - elevated but moderating.
- The University of Michigan’s consumer sentiment survey measured 59.7 in December, up from a reading of 58.6 in September. The index measured 101 in February 2020 and currently sits well below the 10-year average of 84.9. Uncertainty over inflation expectations has kept consumer confidence at historically low levels, stymying new household formation following a pandemic-related surge.
- The average rate on a 30-year fixed rate mortgage was 6.4% at the end of the quarter. That is up from 3.2% at the start of the year but down from a peak of over 7% earlier in the quarter.
- The surge in mortgage rates, coupled with high home prices, is eroding affordability and encouraging potential homebuyers to stay in the rental market.

HISTORICAL

UNIVERSITY OF MICHIGAN: CONSUMER SENTIMENT



30-YEAR FIXED RATE MORTGAGE AVERAGE

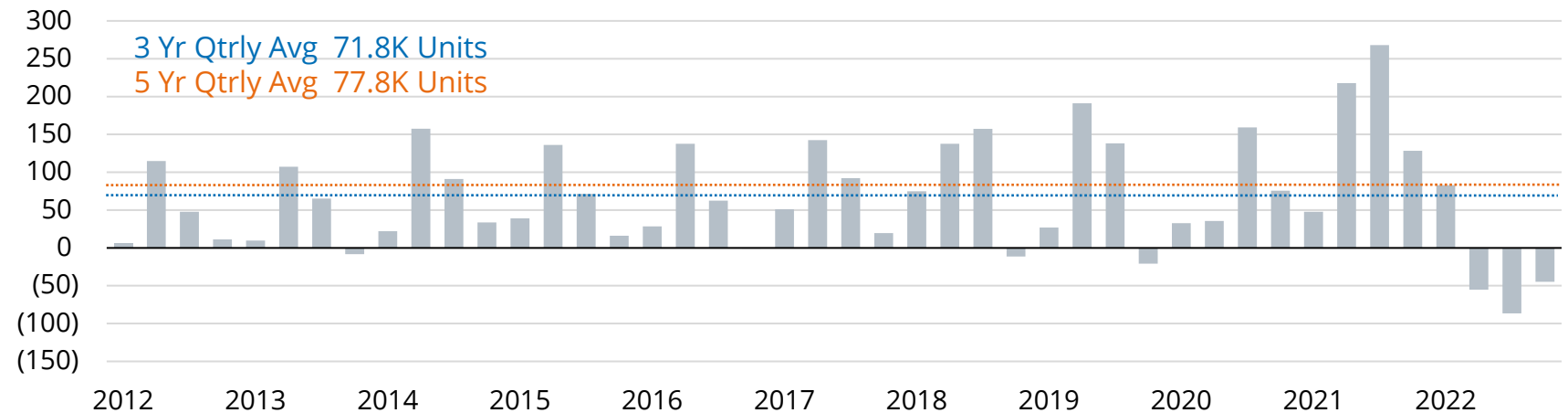


MARKET HIGHLIGHTS

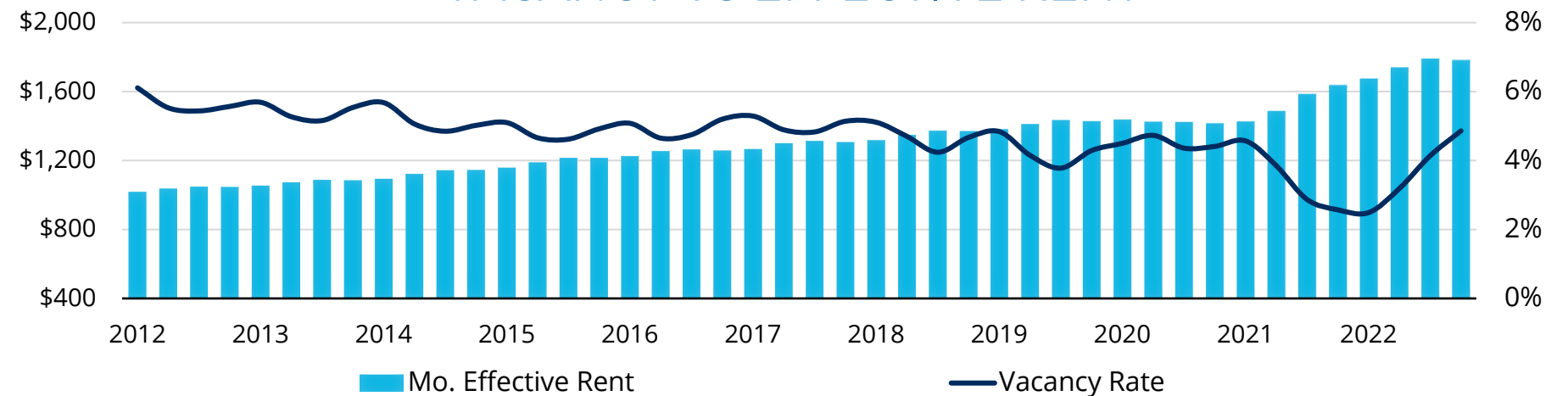
- Absorption was weak for the third consecutive quarter with negative 44,700 units in Q4, reflecting renters' unwillingness to move in the backdrop of rising interest rates and recession fears, in addition to a typically slower fourth-quarter leasing season.
- On an annual basis, rental demand was at its weakest since 2001. Despite a lackluster 2022, a housing shortage combined with a decline in affordability for single-family homes will drive demand for apartments in 2023.
- The vacancy rate rose 72 basis points to 4.9% as demand moderated and record supply hit the market. A large development pipeline is expected to ease rent growth throughout 2023.
- Monthly effective rents averaged \$1,781 per month in Q4, down by 0.6% from Q3. Rents grew 8.9% YoY, moderating from a blistering double-digit pace set earlier in the year.
- Low vacancy coupled with unprecedented rent growth has led to a record number of apartments delivered. Completions were exceptional with 98,100 units brought to the market – the strongest reading in recent history.

HISTORICAL

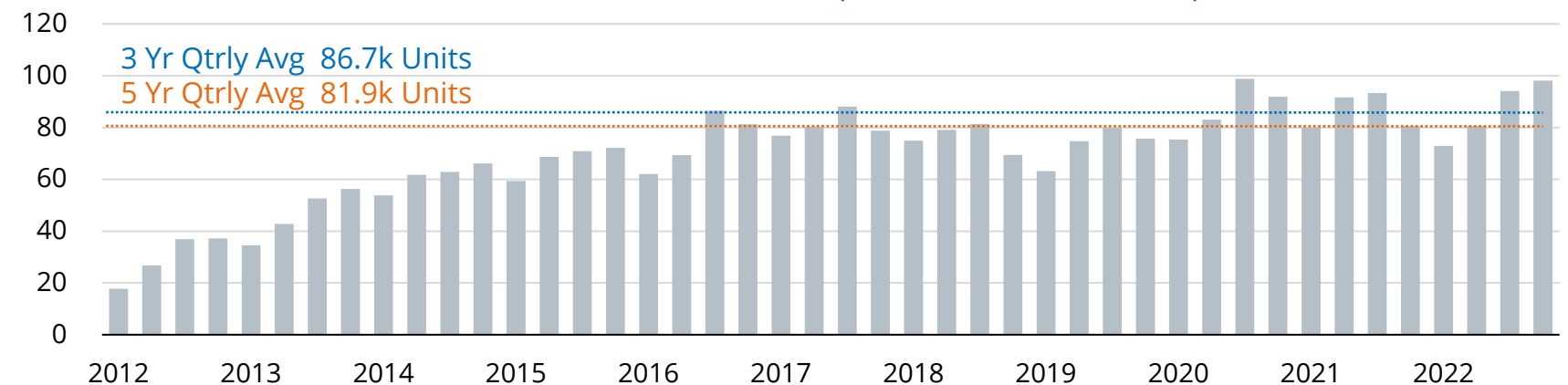
NET ABSORPTION (UNITS, THOUSANDS)



VACANCY VS EFFECTIVE RENT

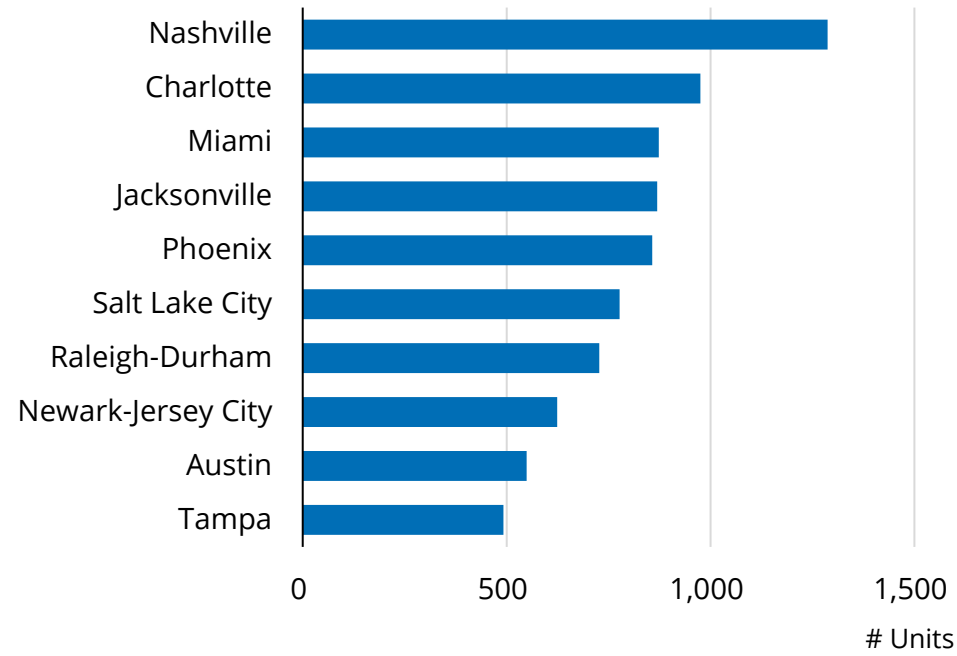


COMPLETIONS (UNITS, THOUSANDS)



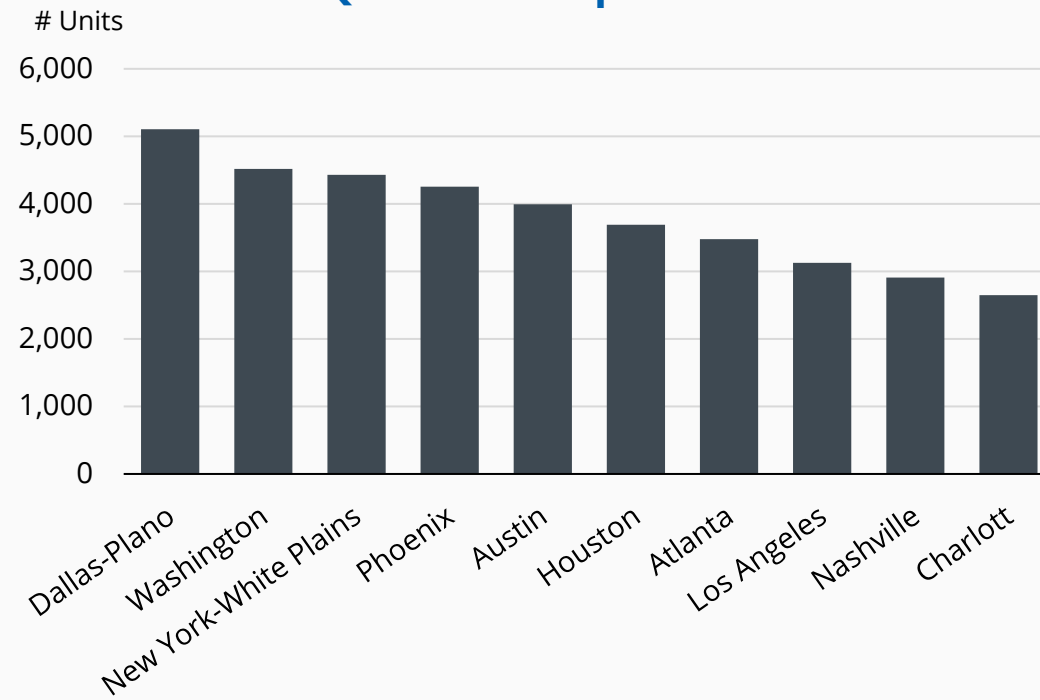
NET ABSORPTION

Q4 2022 Net Absorption



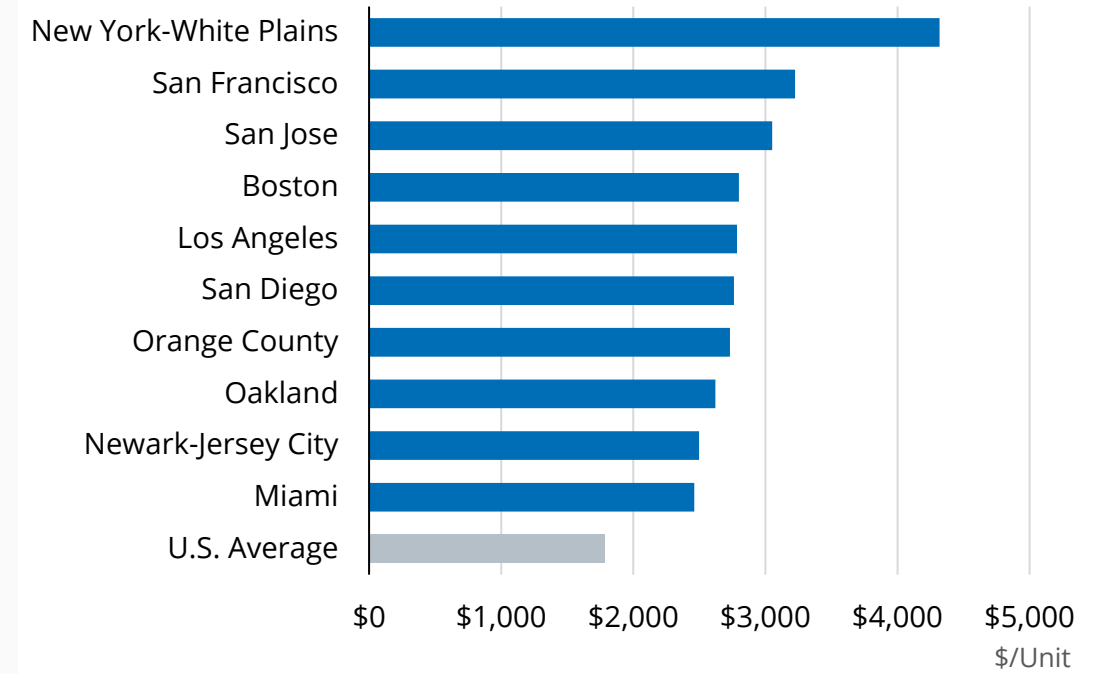
COMPLETIONS

Q4 2022 Completions

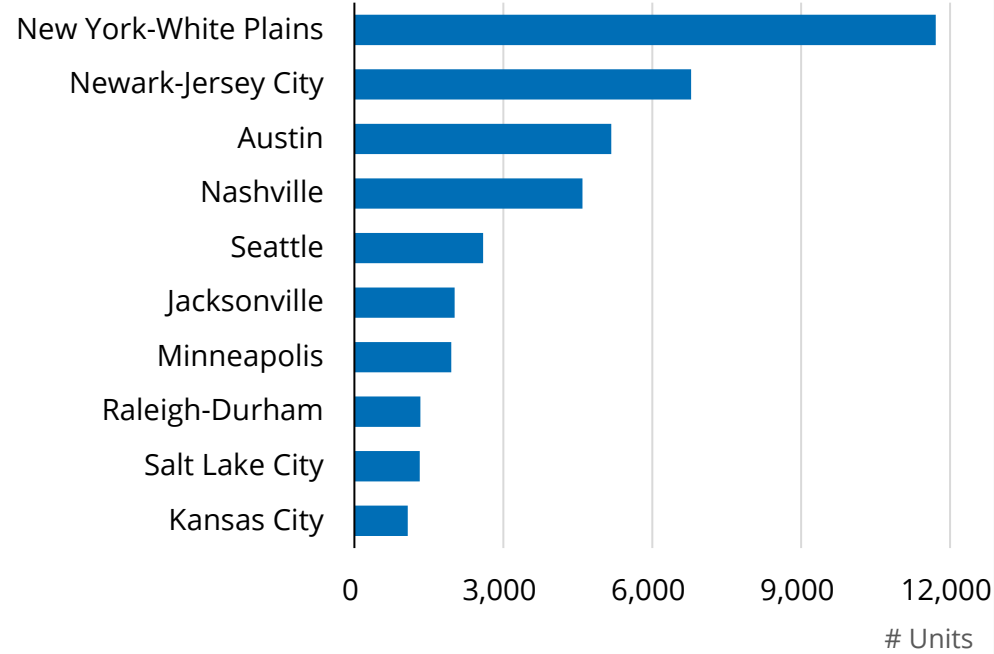


EFFECTIVE RENTS

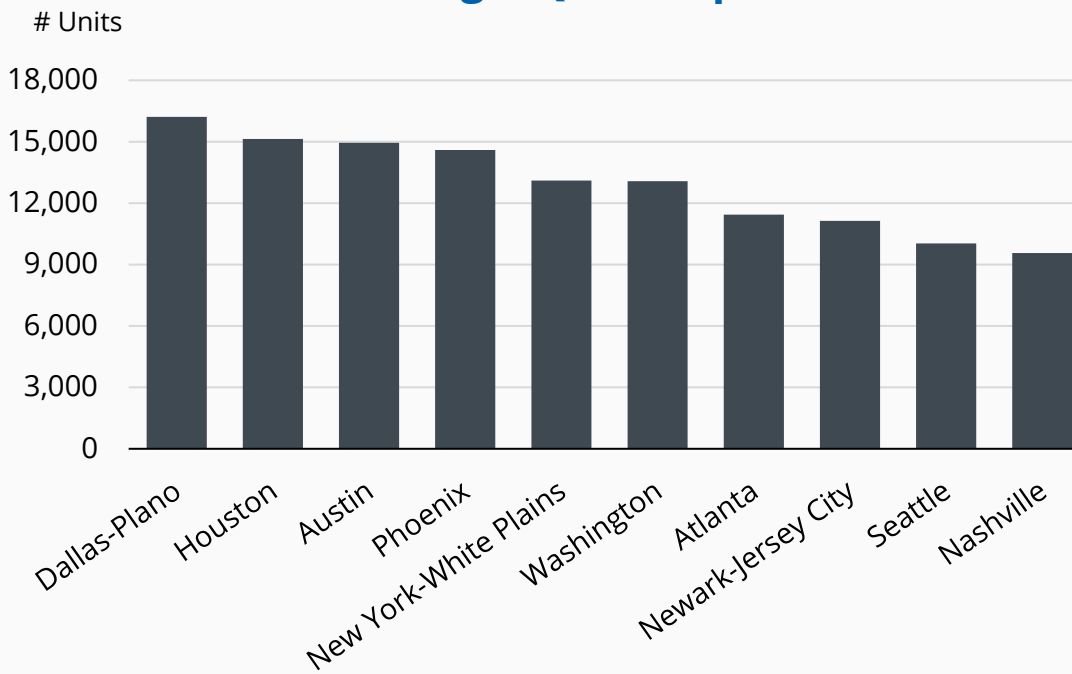
Q4 2022 Mo. Effective Rents



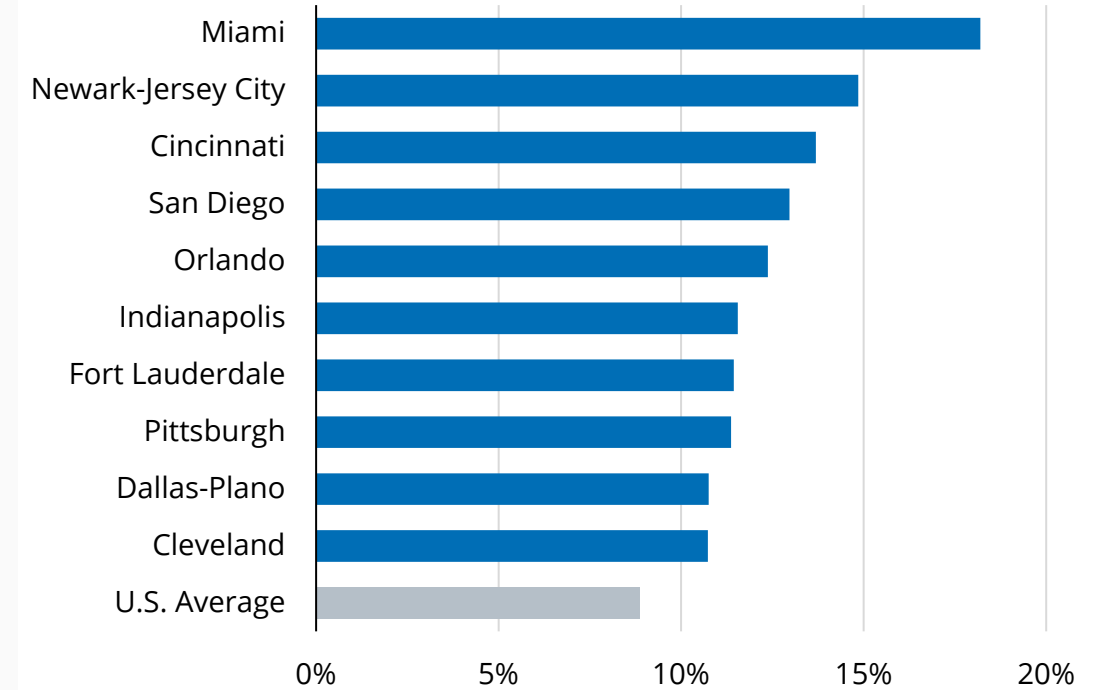
Trailing 4-Qtr Net Absorption



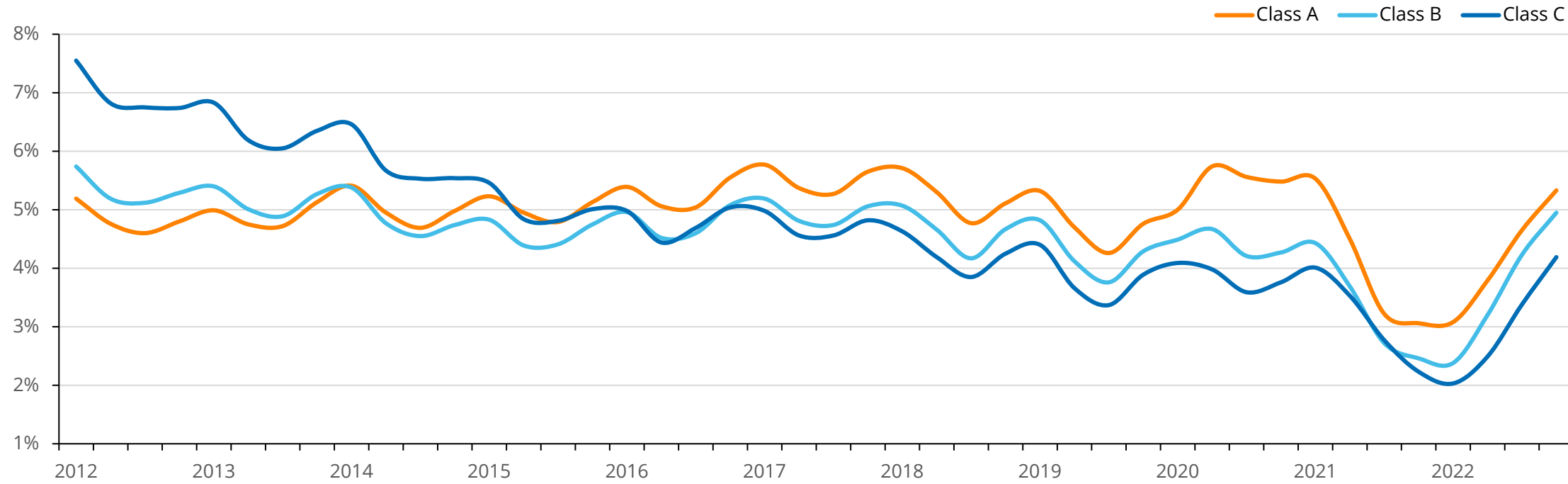
Trailing 4-Qtr Completions



Year-Over-Year Rent Change

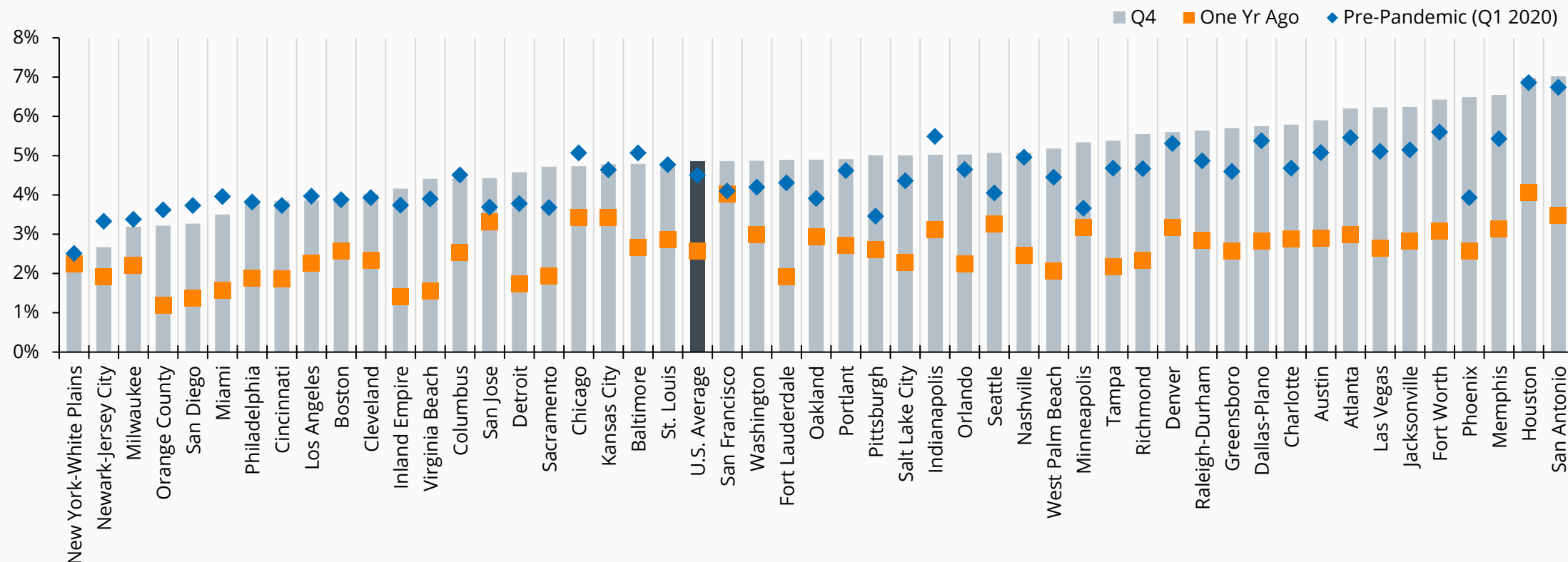


VACANCY RATE BY CLASS SEGMENT



- Record supply levels coupled with sluggish demand placed upward pressure on vacancy rates.
- The overall vacancy rate rose 72 bps to 4.9%, the third consecutive quarterly increase.
- By class segment, the largest increase was across Class C properties at 81 bps, followed by Class B at 72 bps and Class A at 68 bps.

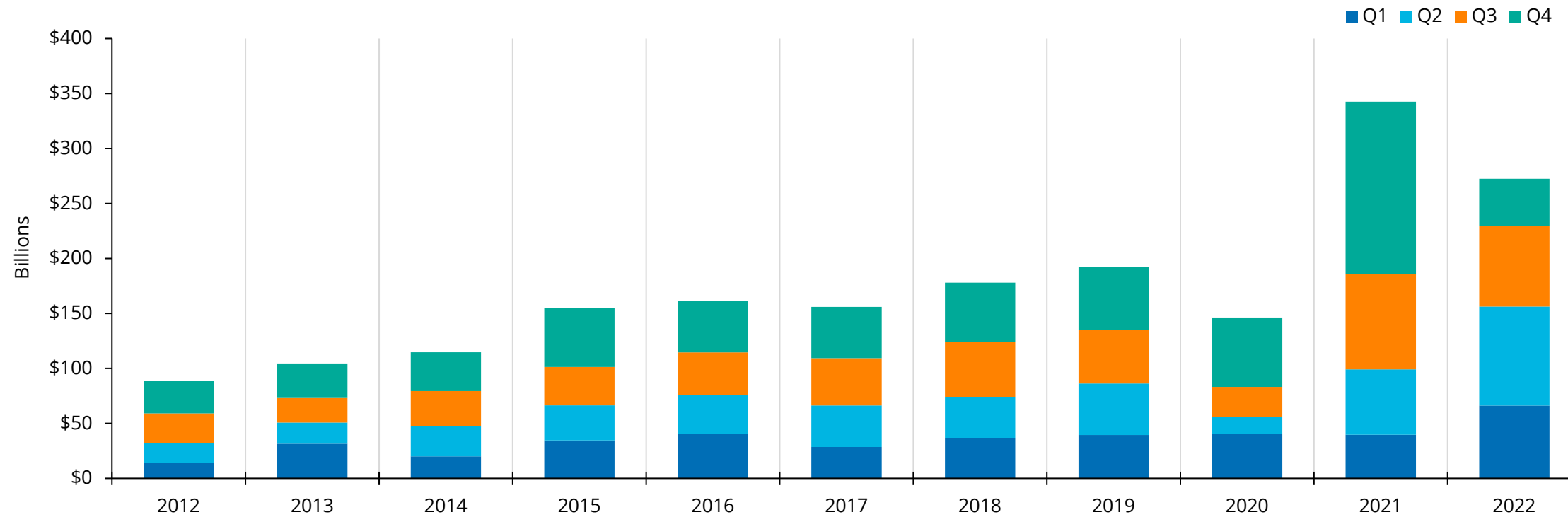
VACANCY RATE BY MARKET



- The tightest Q4 vacancy rates were in New York-White Plains, Newark-Jersey City and Milwaukee.
- All markets tracked experienced a quarterly rise in vacancy rates.
- The biggest YoY increases were in Phoenix (390 bps), Las Vegas (360 bps) and San Antonio (350 bps) – markets that had some of the strongest rent growth throughout the pandemic.

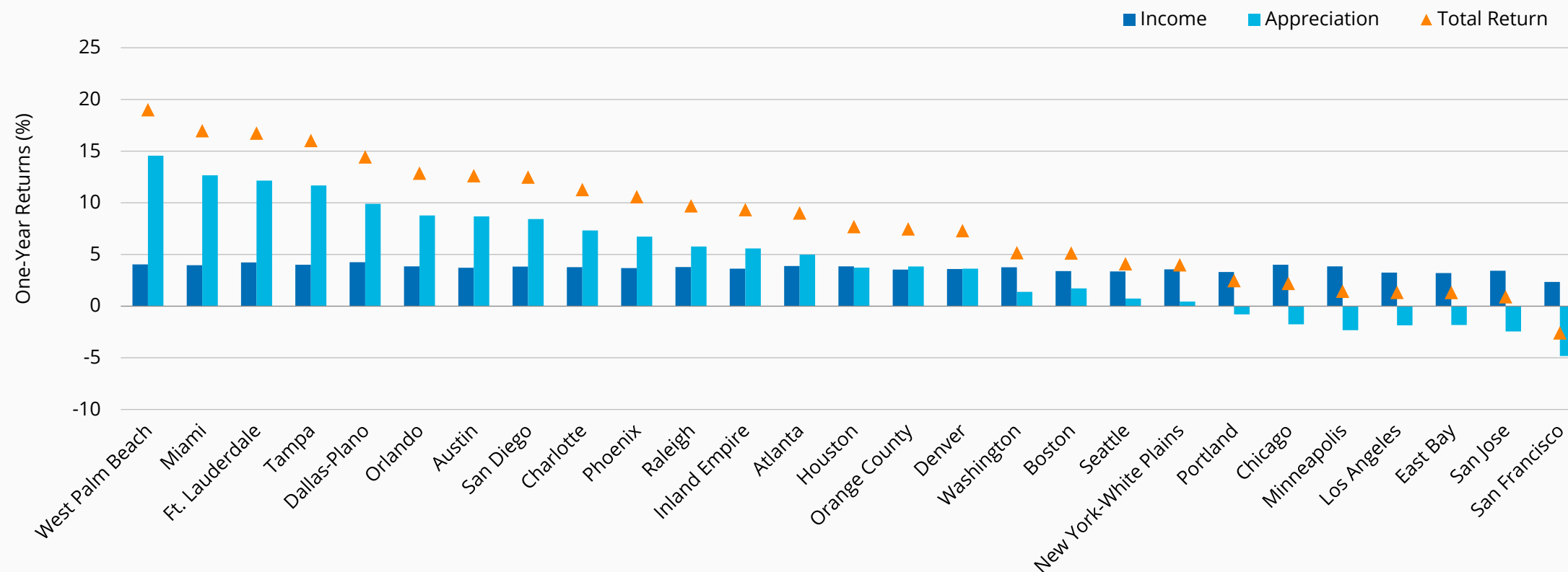
Source: Transwestern Research, RealPage.

HISTORICAL INVESTMENT VOLUME



- Investment volume slowed to \$43.2 billion for the quarter, a YoY decrease of 72.5%, the weakest fourth quarter since 2014. The increase in the cost of debt and decrease in availability of it will likely lead to diminished Q1 volume.
- Although full-year volume in 2022 decreased 20.4% YoY, it was the second strongest year on a record.
- In 2022, private buyers accounted for the largest share of multifamily investment at 66.5% followed by institutional buyers at 26.8%.

NCREIF ONE-YEAR RETURNS



- NCREIF's NPI one-year unlevered multifamily return declined to 7.1% from 18.2% last quarter but was still above the 2.6% recorded at the start of the pandemic. Property values are expected to fall during periods of high economic uncertainty.
- The strongest returns were in W. Palm Beach, Miami and Fort Lauderdale. The pandemic encouraged young, working-age professionals to turn away from the dense and expensive coastal markets in search of lower-cost, suburban-style apartment communities across the Sun Belt.

Source: Transwestern Research, Real Capital Analytics, NCREIF.

Market	Inventory	Absorption	Absorption 12-Month	Completions	Completions 12-Month	Vacancy Rate	Mo. Effective Rent	YOY Rent Change
Atlanta	544,583	(1,089)	(6,595)	3,478	11,438	6.2%	\$1,693	5.7%
Austin	285,484	549	5,174	3,995	14,949	5.9%	\$1,667	5.6%
Baltimore	236,408	(802)	(4,327)	464	933	4.8%	\$1,648	5.2%
Boston	417,119	336	256	2,355	6,136	3.9%	\$2,800	9.5%
Charlotte	214,370	975	922	2,648	7,796	5.8%	\$1,591	10.1%
Chicago	748,619	(2,811)	(3,709)	1,176	6,256	4.7%	\$1,872	9.7%
Cincinnati	165,426	(764)	(1,253)	457	2,249	3.9%	\$1,304	13.7%
Cleveland	170,316	(543)	(1,802)	319	1,091	4.0%	\$1,197	10.7%
Columbus	197,172	(305)	(339)	805	3,480	4.4%	\$1,268	10.5%
Dallas	672,036	(1,171)	(4,614)	5,107	16,214	5.8%	\$1,576	10.8%
Denver	322,840	(349)	575	2,485	8,673	5.6%	\$1,868	5.8%
Detroit	277,949	(2,685)	(6,415)	294	1,490	4.6%	\$1,257	8.1%
East Bay	219,812	(477)	(415)	1,232	4,032	4.9%	\$2,622	6.1%
Fort Lauderdale	199,202	(327)	(3,046)	610	2,941	4.9%	\$2,386	11.4%
Fort Worth	225,642	(617)	(1,382)	1,784	6,515	6.4%	\$1,403	9.7%
Greensboro	110,428	(75)	(1,834)	804	1,660	5.7%	\$1,199	8.6%
Houston	741,365	(2,561)	(8,216)	3,691	15,140	7.0%	\$1,328	7.1%
Indianapolis	169,746	(1,295)	(1,689)	453	1,711	5.0%	\$1,207	11.6%
Inland Empire	194,107	(1,683)	(4,548)	117	983	4.2%	\$2,195	7.9%
Jacksonville	131,983	869	2,020	2,127	6,729	6.2%	\$1,520	6.1%
Kansas City	181,318	(310)	1,076	1,261	3,668	4.8%	\$1,237	10.2%
Las Vegas	225,949	(699)	(5,218)	899	2,981	6.2%	\$1,486	3.0%
Los Angeles	1,137,056	(2,675)	(9,572)	3,127	8,835	3.9%	\$2,785	8.7%
Memphis	108,819	(994)	(2,800)	319	937	6.6%	\$1,195	9.0%
Miami	318,592	873	194	2,288	6,452	3.5%	\$2,462	18.2%

Market	Inventory	Absorption	Absorption 12-Month	Completions	Completions 12-Month	Vacancy Rate	Mo. Effective Rent	YOY Rent Change
Milwaukee	159,304	(209)	738	679	2,369	3.2%	\$1,454	10.0%
Minneapolis	316,691	(1,141)	1,952	1,581	9,123	5.3%	\$1,505	6.1%
Nashville	174,125	1,287	4,596	2,909	9,562	5.1%	\$1,637	9.1%
New York-White Plains	1,917,326	(3,258)	11,710	4,431	13,106	2.3%	\$4,319	10.2%
Newark-Jersey City	546,317	624	6,782	2,536	11,138	2.7%	\$2,498	14.9%
Orange County	268,332	(1,386)	(2,907)	632	2,837	3.2%	\$2,732	8.5%
Orlando	258,477	(38)	251	2,236	7,606	5.0%	\$1,798	12.4%
Philadelphia	403,155	(735)	(2,184)	2,105	5,774	3.8%	\$1,754	8.7%
Phoenix	390,955	857	(1,150)	4,254	14,596	6.5%	\$1,637	2.2%
Pittsburgh	146,972	(1,215)	(2,305)	191	1,248	5.0%	\$1,440	11.4%
Portland	231,073	(1,543)	(2,277)	476	3,084	4.9%	\$1,755	7.8%
Raleigh-Durham	179,988	727	1,331	2,003	6,562	5.6%	\$1,553	7.5%
Richmond	110,533	(1,087)	(1,047)	308	2,569	5.6%	\$1,459	8.0%
Sacramento	155,375	(496)	(2,081)	473	2,348	4.7%	\$1,940	3.4%
Salt Lake City	120,508	777	1,319	1,579	4,699	5.0%	\$1,594	7.7%
San Antonio	220,605	(1,641)	(4,936)	1,303	3,222	7.0%	\$1,269	7.8%
San Diego	319,848	(1,820)	(2,975)	716	3,176	3.3%	\$2,762	13.0%
San Francisco	250,591	(866)	(563)	555	1,605	4.9%	\$3,225	5.4%
San Jose	183,385	(969)	940	700	3,311	4.4%	\$3,051	10.3%
Seattle	368,844	(1,086)	2,594	2,284	10,033	5.1%	\$2,176	7.6%
St. Louis	167,596	(531)	(1,100)	827	2,617	4.8%	\$1,216	7.5%
Tampa	273,600	492	(1,230)	1,981	7,730	5.4%	\$1,819	9.4%
Virginia Beach	143,237	(783)	(3,318)	489	1,470	4.4%	\$1,448	7.6%
Washington	672,004	(592)	(3)	4,518	13,075	4.9%	\$2,033	6.1%
West Palm Beach	124,003	428	(1,670)	416	2,238	5.2%	\$2,414	8.2%
United States	18,869,096	(44,718)	(103,485)	98,082	345,685	4.9%	\$1,781	8.9%

Source: Transwestern Research, RealPage.



FOR MORE INFORMATION

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RESEARCH METHODOLOGY

The information in this report is a compilation of multifamily properties located in select U.S. metropolitan areas.