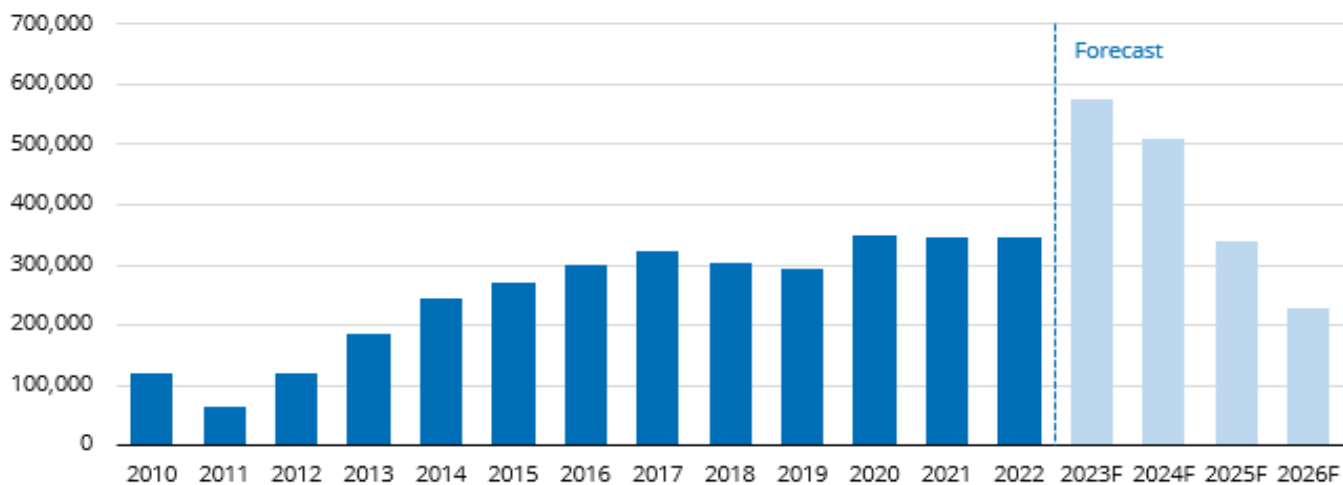


Multifamily Supply Boom to Slow Rent Growth

Over the next two years, a record level of new apartments will inundate markets across the nation, slowing rent growth from the blistering pace set during 2021-2022. Nearly 1.1 million units are expected to be delivered in 2023 and 2024 – a 57% increase from the 2021-2022 period in which development was already near all-time highs.

While this benefits renters who may be able to find more affordable housing options, it presents a near-term challenge for landlords who will need to compete more aggressively for tenants with lower rents, better amenities and more flexible lease terms. **The downward pressure on rent growth, however, will be short-lived given the magnitude of the current housing shortage.**

Figure 1: Multifamily Completions, 2010 to 2026



Source: Transwestern, RealPage.

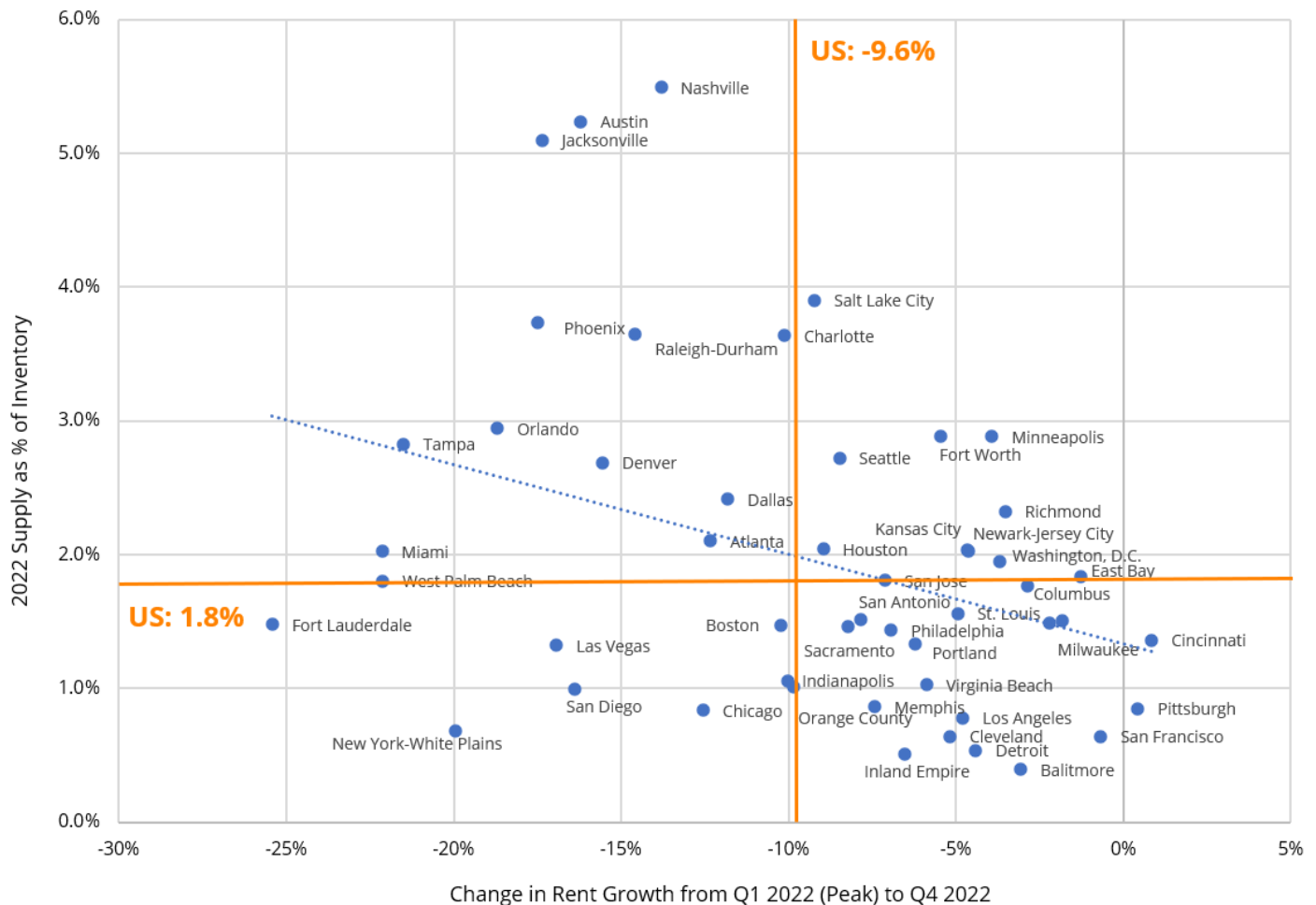
Development swelled during the pandemic

At the start of the pandemic, there was some uncertainty about how construction and development projects would be affected by lockdowns and supply chain disruptions. While some projects were delayed or temporarily put on hold, construction activities largely continued. In fact, over 349,000 new units were brought to market in 2020, the largest volume since RealPage's data collection began in 2000. Supply continued to expand at a strong pace, with over 345,000 units churned out in both 2021 and 2022.

Markets with more new supply showed larger declines in rent growth

At the same time, pent-up demand for rental housing from the pandemic lockdowns unleashed a wave of leases that drove year-over-year rent growth to a peak national average of 17.4% in the first quarter of 2022. Of the largest 50 metropolitan areas analyzed, 17 metros had rent growth of at least 20%. Most of these high-growth metros also had the highest percentages added to their inventories in 2022, and experienced deeper declines in rent growth throughout 2022. The scatterplot shows that in 2022, the more saturated a market became with supply (as a percentage of inventory), the more rent growth fell, though in some regions there were other factors at play, most notably unsustainable record growth.

Figure 2: New Supply and Rent Change by Market



Source: Transwestern, RealPage.

Wave of supply to normalize rent growth

From 2023 to 2024, the delivery of roughly 1.1 million units will put further downward pressure on rent growth. According to RealPage data, rent growth is projected to decelerate from 8.9% in the fourth quarter of 2022 to 5.1% at year-end 2023, bringing it near the pre-pandemic 5-year average of 4.6%. The pace of growth will moderate further in 2024, to a projected rate of 3.2% in the fourth quarter, and then stabilize due to the long-term undersupply of housing.

Local supply and demand fundamentals will influence how this plays out in different regions, but slowing momentum will generally be more pronounced in higher rent-growth Sun Belt markets – those that already had significant additions to inventory. Over the next two years, Phoenix will bring the largest amount of supply to the market with over 55,000 new units. Dallas and Austin trail closely behind with roughly 51,000 and 49,500, respectively.

For supply added as a percentage of local inventory in 2023-2024, the leading markets are Austin (17.3%), Charlotte (16.6%) and Salt Lake City (16.6%). Other markets adding double-digit percentages to their inventory include Raleigh-Durham, Nashville, Phoenix, Jacksonville and Denver.

Figure 3: New Supply and Rent Change by Market

Rank	Market	2023-2024 Completions (Units)	Inventory (Units)	2023-2024 Completions as % of Inventory	YoY Rent Growth	
					Q4 2022 (%)	Q1 2022 (Peak %)
1	Austin	49,493	285,484	17.3%	5.6%	24.9%
2	Charlotte	35,616	214,370	16.6%	10.1%	20.9%
3	Salt Lake City	20,021	120,508	16.6%	7.7%	22.9%
4	Raleigh-Durham	29,021	179,988	16.1%	7.5%	23.6%
5	Nashville	27,288	174,125	15.7%	9.1%	23.5%
6	Phoenix	55,153	390,955	14.1%	2.2%	27.8%
7	Jacksonville	15,671	131,983	11.9%	6.1%	25.5%
8	Denver	36,384	322,840	11.3%	5.8%	17.7%
9	Orlando	25,029	258,477	9.7%	12.4%	29.2%
10	Richmond	9,222	110,533	8.3%	8.0%	14.3%
11	Fort Worth	18,403	225,642	8.2%	9.7%	18.4%
12	Atlanta	43,283	544,583	7.9%	5.7%	22.5%
13	Seattle	28,141	368,844	7.6%	7.6%	14.6%
14	Dallas	51,082	672,036	7.6%	10.8%	20.6%
15	San Antonio	16,239	220,605	7.4%	7.8%	18.2%
16	Fort Lauderdale	14,363	199,202	7.2%	11.4%	31.3%
17	West Palm Beach	8,850	124,003	7.1%	8.2%	31.2%
18	Miami	20,440	318,592	6.4%	18.2%	27.3%
19	Columbus	12,614	197,172	6.4%	10.5%	12.3%
20	Philadelphia	24,936	403,155	6.2%	8.7%	14.8%
United States		1,085,272	18,869,096	5.8%	8.9%	17.4%

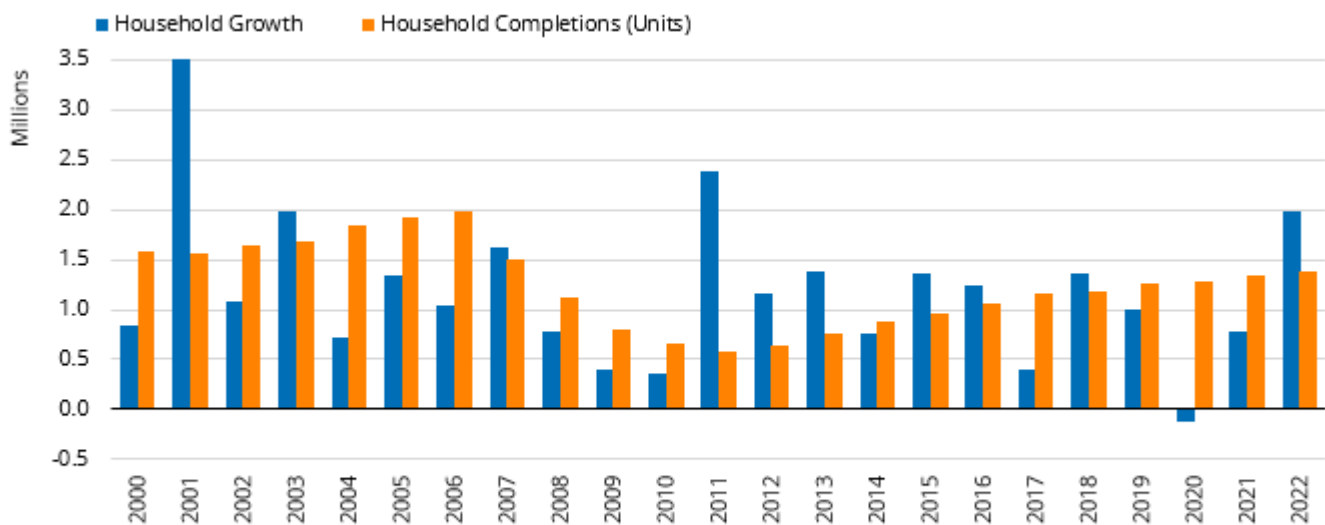
Source: Transwestern, RealPage.

Chronic undersupply to support long-term rent growth

During the 2010s, U.S. housing construction did not keep pace with household formation, creating an undersupply of housing that became a major contributor to rising single-family home sales prices and multifamily rents. Total U.S. households rose by 1.14 million annually, while housing production (single-family and multifamily combined) averaged 920,000 units. This resulted in an undersupply of 224,320 units per year. The undersupply is even greater if obsolescence is factored into the equation.

In the 2000s, housing construction (especially single-family) far outstripped household growth, so the undersupply of the 2010s was partly a reaction to – and balancing of – the prior decade's oversupply. However, this also fueled a rapid rise in housing costs which, given the depth of undersupply, will continue over the long term, albeit at a more sustainable pace.

Figure 4: Household Formation and Household Production, 2000-2022



Source: Transwestern, FRED, Census.

Figure 5: Average Annual Household Growth and Housing Production

	Household Growth		Housing Completions (Millions of Units)**	Difference
	Percent	Number (Millions)		
1970s	2.2	1.5	1.7	193,120
1980s	1.8	1.6	1.5	(60,360)
1990s	1.1	1.1	1.3	225,700
2000s	1.2	1.3	1.6	233,420
2010s	0.9	1.14	0.92	(224,320)
2020-22	0.7	0.9	1.3	465,367
Average*	1.4	1.3	1.4	95,692

Source: Transwestern, FRED, Census.

*Average for entire 1970-2022 period.

** New privately owned housing units completed.

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