

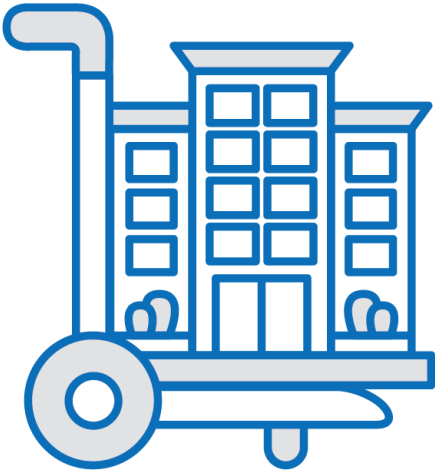
COMMERCIAL REAL ESTATE

U.S. MARKET | Multifamily

Q4 2023



THE VIEW  FROM HERE



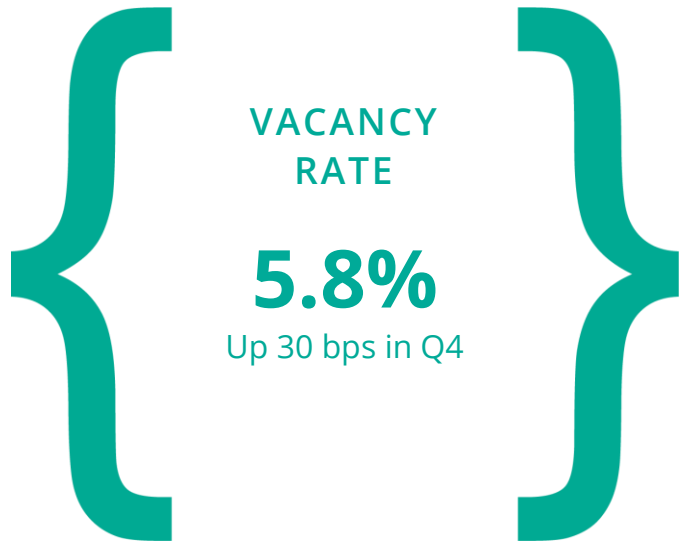
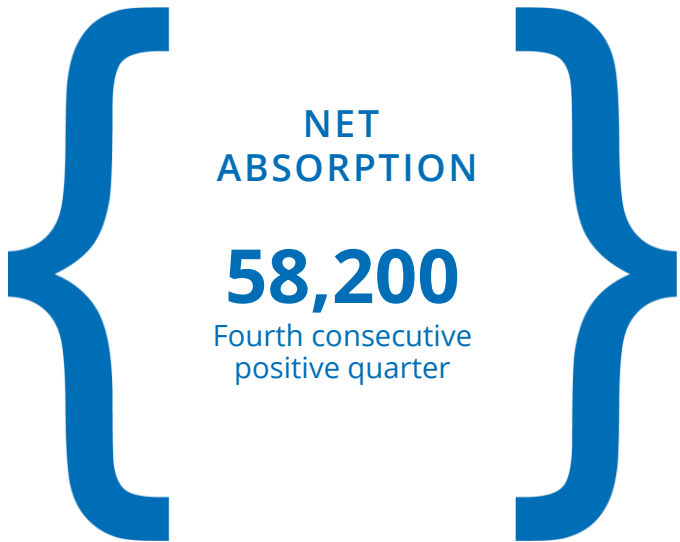
In the near term, record deliveries are certain, but demand is less so, putting pressure on occupancy and rent growth.



Higher mortgage rates and home prices have households renting longer.



Elevated levels of debt maturing into a higher rate environment have investors watching for distress opportunities.

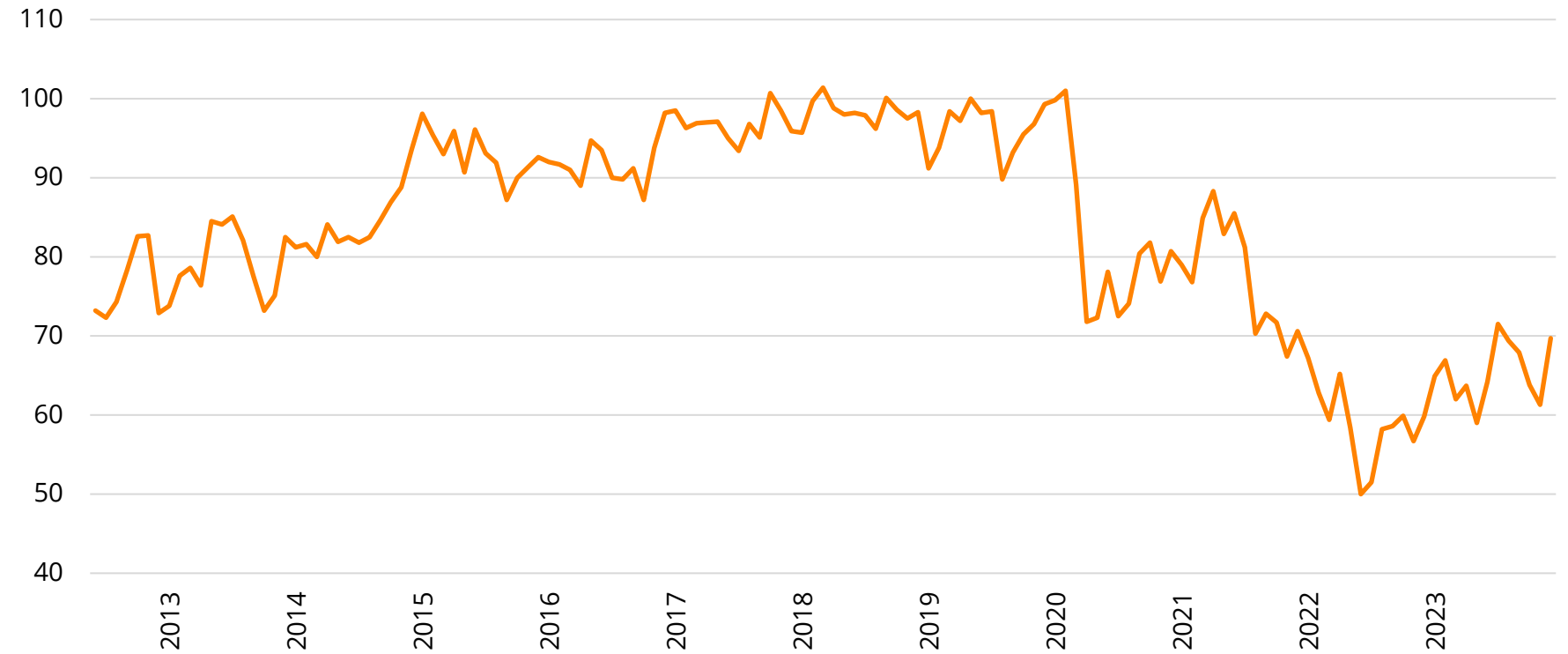


ECONOMIC HIGHLIGHTS

- The U.S. unemployment rate was stable at 3.7% in December, hovering near record lows and capping a year of exceptional gains, despite a cooling in the labor market. Job growth, the biggest driver of multifamily demand, expanded at an annual rate of 2.3% and over 3 million jobs were added to the workforce during the year.
- The University of Michigan’s consumer sentiment survey measured 69.7 in December, up from a reading of 67.9 in September as solid economic growth persists and inflation fades. Still, the index measured 101 in February 2020 and currently sits below the 10-year average of 84.4.
- Improving consumer confidence, which soared in January 2024 to the highest level in two years, will support new household formation in 2024.
- The average rate on a 30-year fixed rate mortgage was 6.6% at the end of the quarter, down by more than a full percentage point from a peak of 7.8% just two months prior. Though mortgage rates fell, they are still relatively high and the supply of homes for sale remains constrained, two tailwinds for multifamily demand.
- Entering 2024, recession fears remain in the rear-view mirror, but economists are predicting slower growth over the next 12 months. The WSJ survey of economists forecasts the economy to grow just 1% in 2024 – half its historical average.

HISTORICAL

UNIVERSITY OF MICHIGAN: CONSUMER SENTIMENT



30-YEAR FIXED RATE MORTGAGE AVERAGE

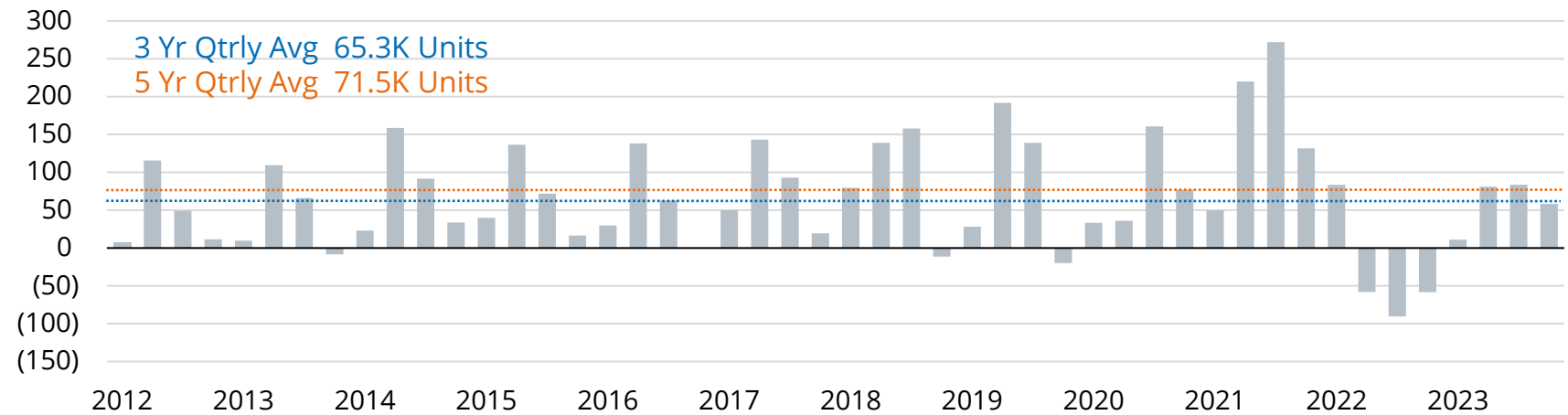


MARKET HIGHLIGHTS

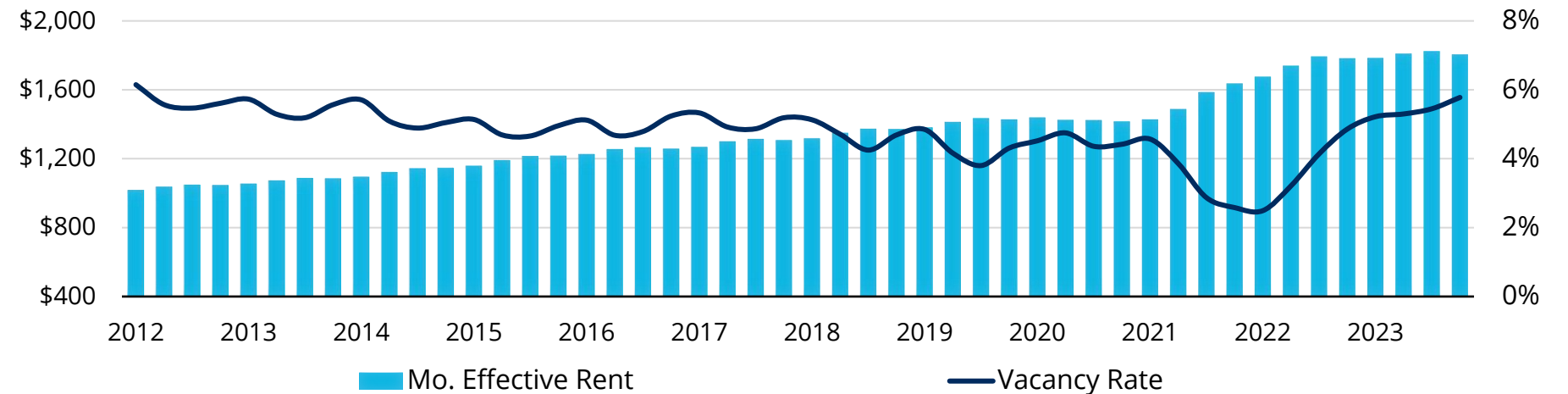
- Apartment demand was seasonably strong in Q4 with 58,200 units absorbed, reflecting stronger consumer confidence as inflation cooled from its peak.
- On an annual basis, rental demand improved meaningfully with 233,740 units in 2023, up from negative 123,290 units in 2022, the second largest calendar-year rebound on record.
- Economic drivers such as job growth, wage growth and demographics will support solid demand in 2024. Additionally, a housing shortage combined with a decline in affordability for single-family homes will help drive demand for apartments.
- The vacancy rate rose 30 basis points to 5.8% as record supply outpaced an already solid demand. The rate of vacancy increases has been slowing, which signals near-term stabilization in 2024.
- Monthly effective rents averaged \$1,805 per month in Q4, down by 1.0% from Q3. Rents grew 1.2% YoY, moderating from a blistering double-digit pace set in in 2021 and 2022.
- Completions reached its highest level since the mid-1980s with 439,400 units delivered in 2023. The development pipeline will bring another 672,285 units online in 2024, temporarily putting downward pressure on rent growth.

HISTORICAL

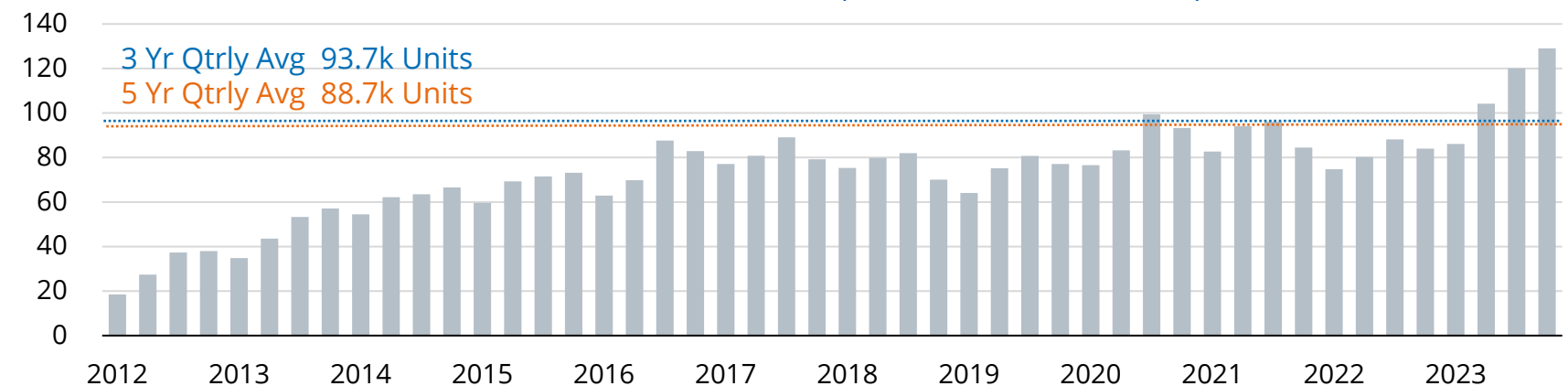
NET ABSORPTION (UNITS, THOUSANDS)



VACANCY VS EFFECTIVE RENT

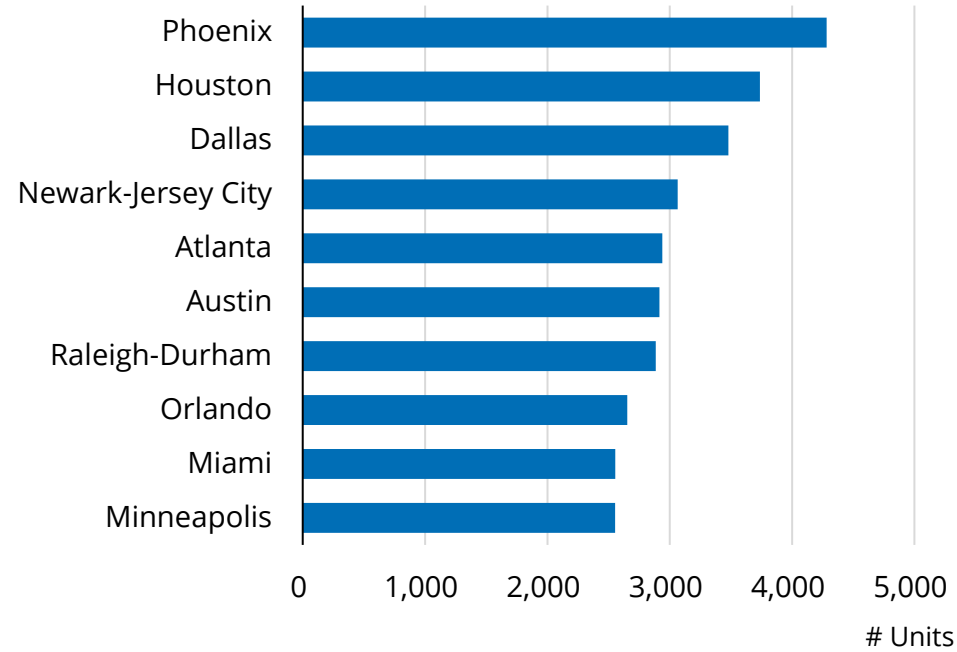


COMPLETIONS (UNITS, THOUSANDS)



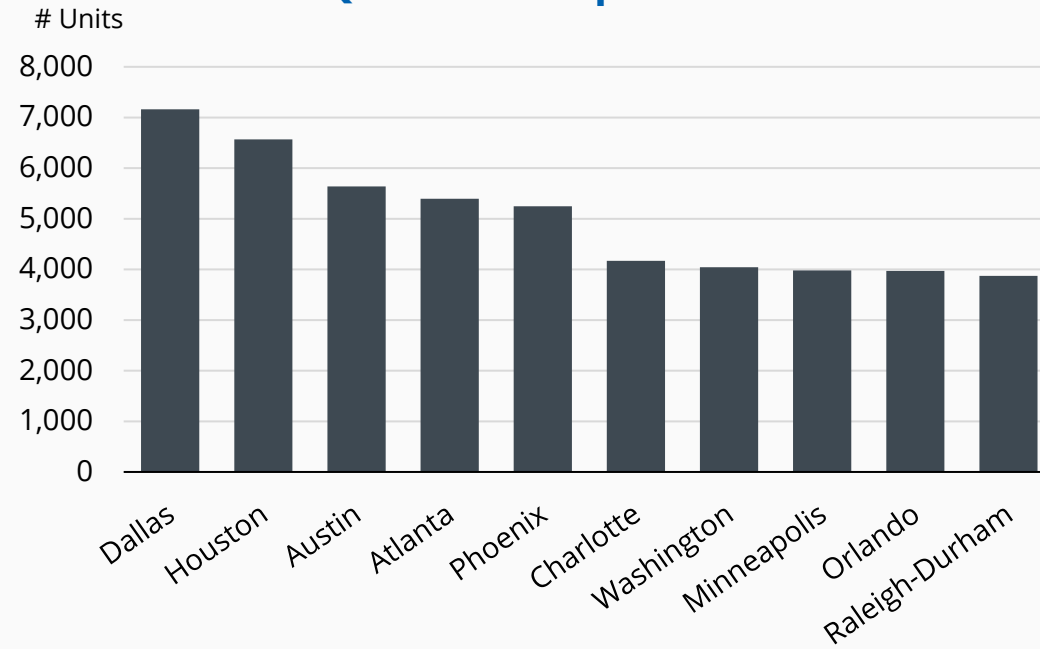
NET ABSORPTION

Q4 2023 Net Absorption



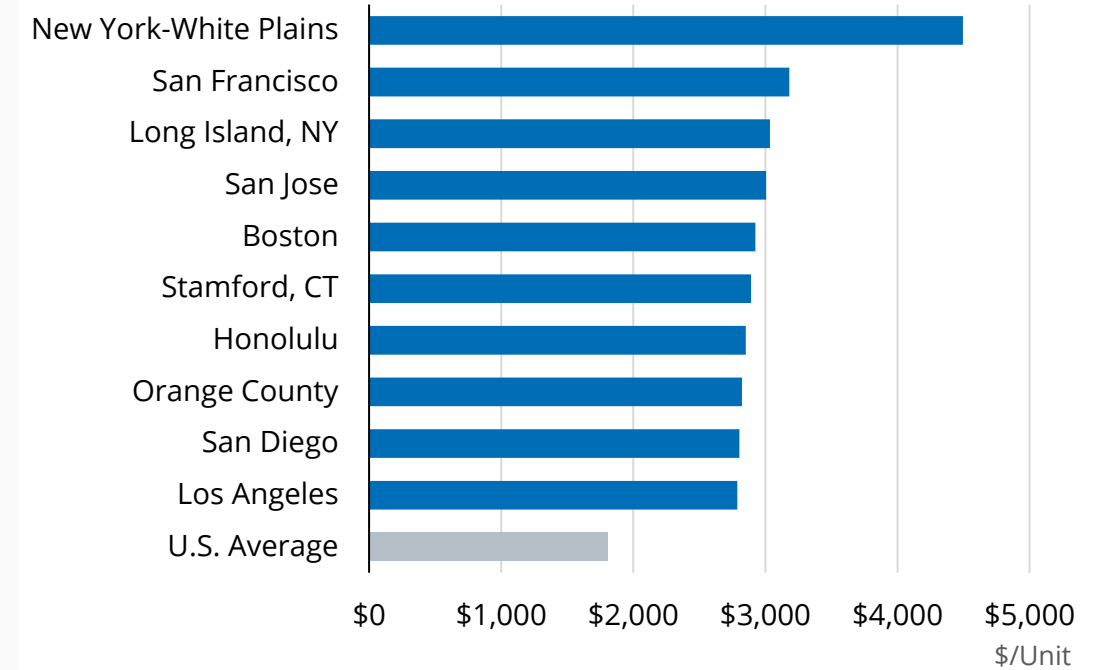
COMPLETIONS

Q4 2023 Completions

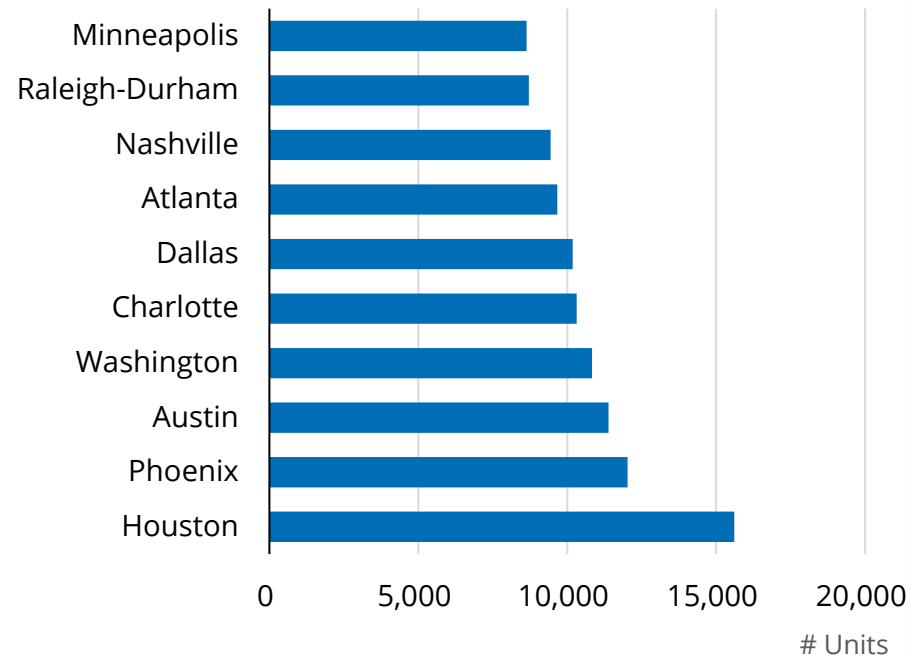


EFFECTIVE RENTS

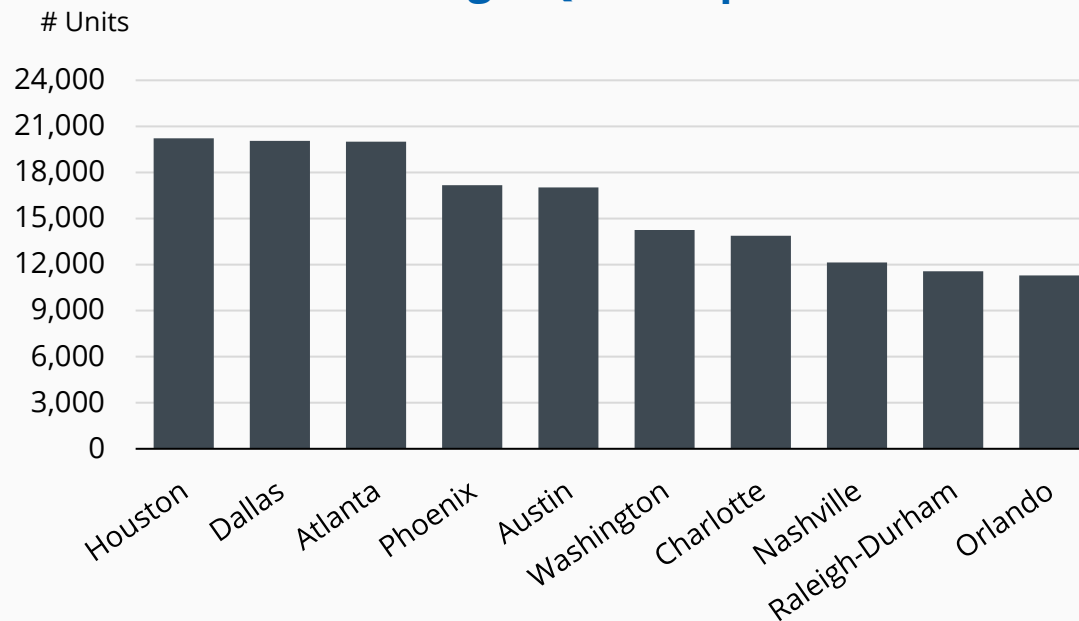
Q4 2023 Mo. Effective Rents



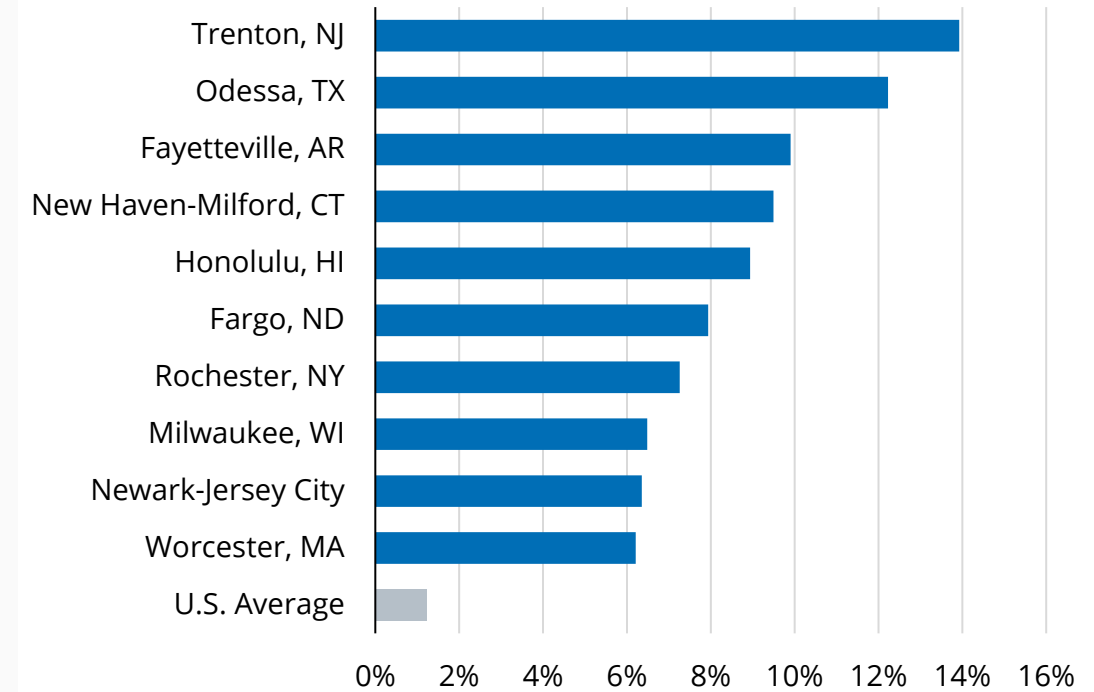
Trailing 4-Qtr Net Absorption



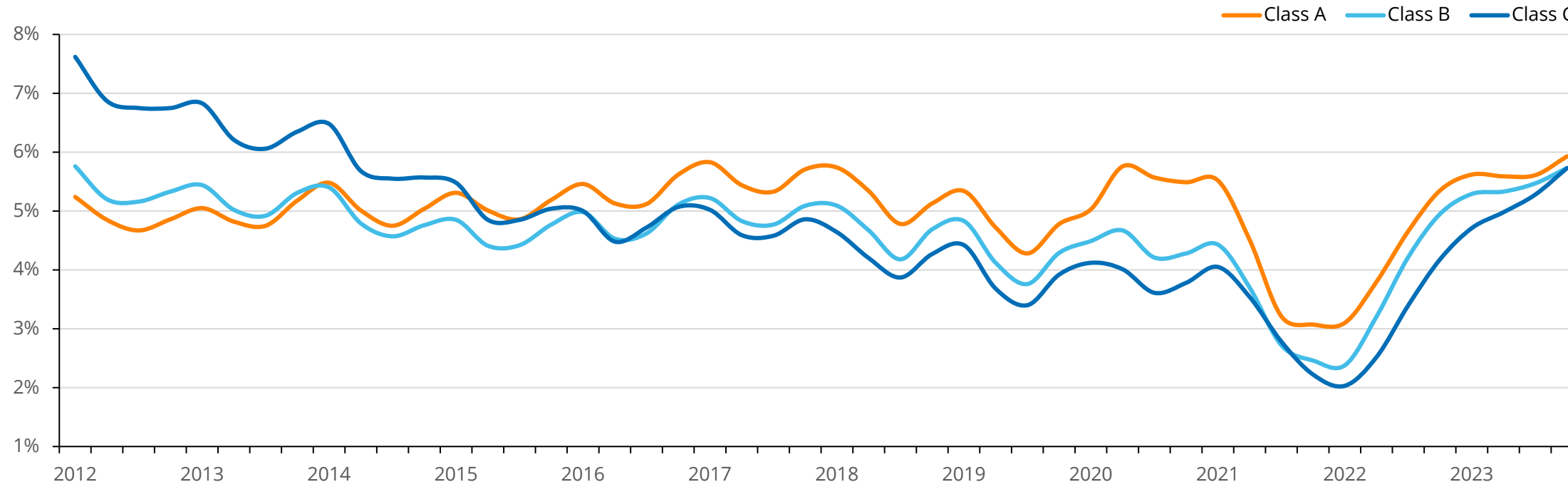
Trailing 4-Qtr Completions



Year-Over-Year Rent Change

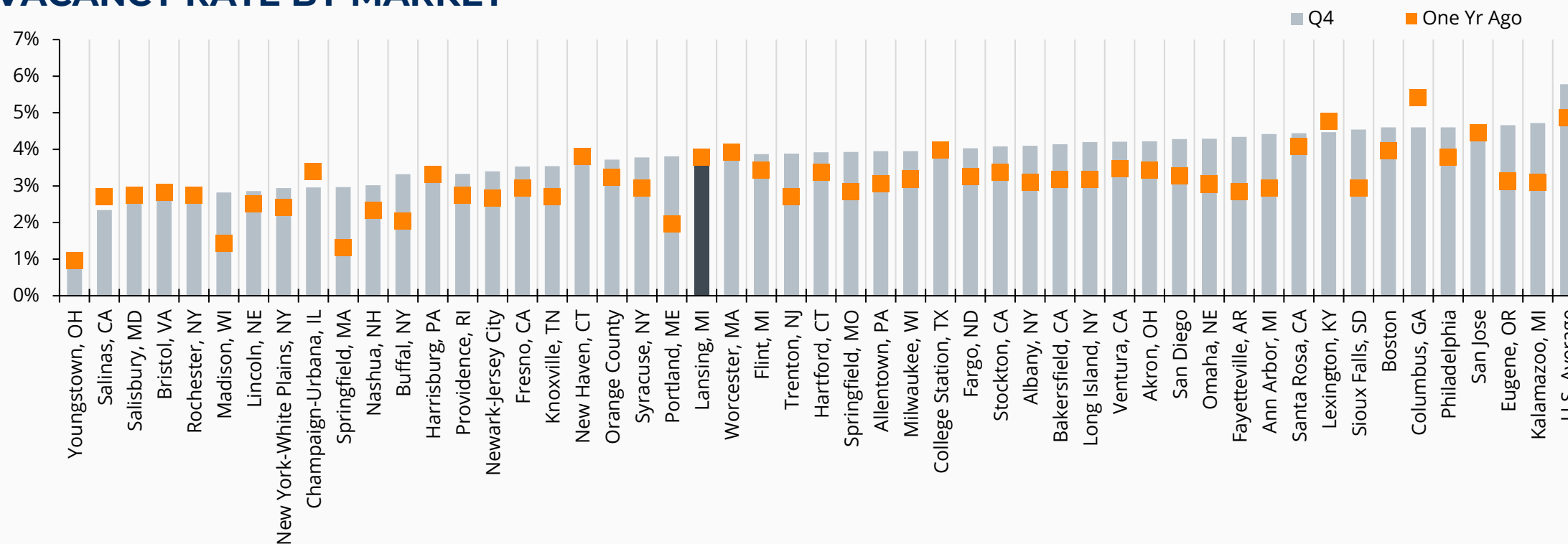


VACANCY RATE BY CLASS SEGMENT



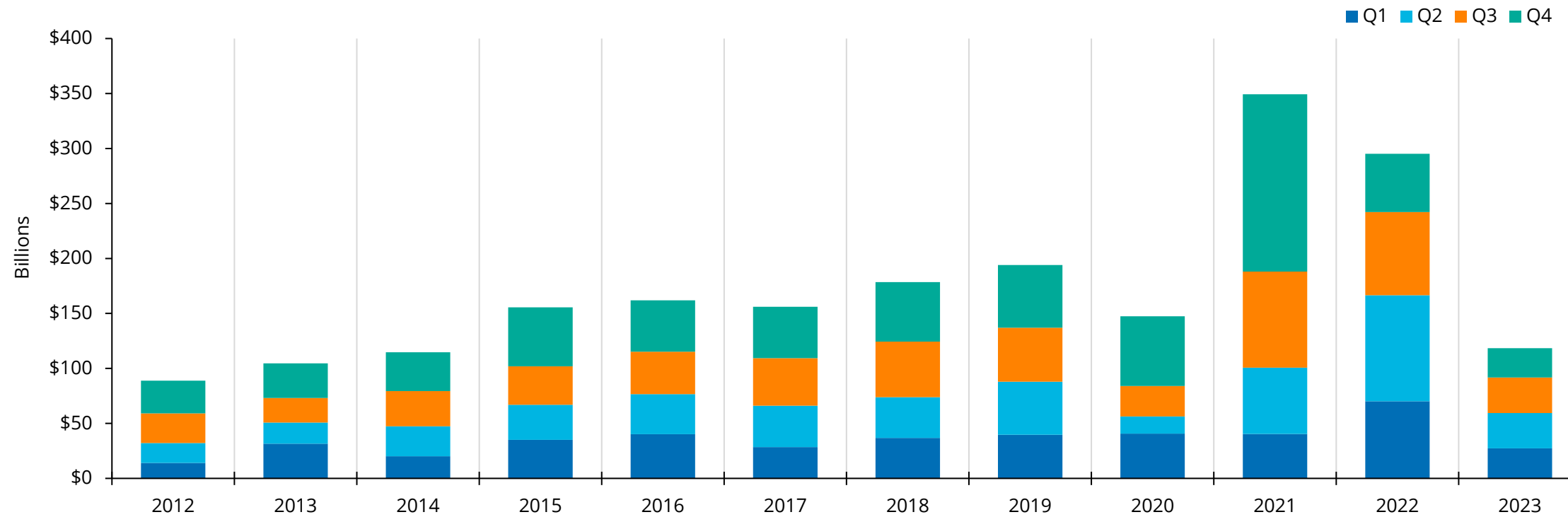
- Record supply levels placed upward pressure on vacancy rates, but the rate of increases have slowed.
- The overall vacancy rate rose 30 bps to 5.8%, compared to an 80-bp rise one year ago.
- By class segment, the largest increase was across Class C properties at 45 bps, followed by Class A at 32 bps and Class B at 26 bps.

VACANCY RATE BY MARKET



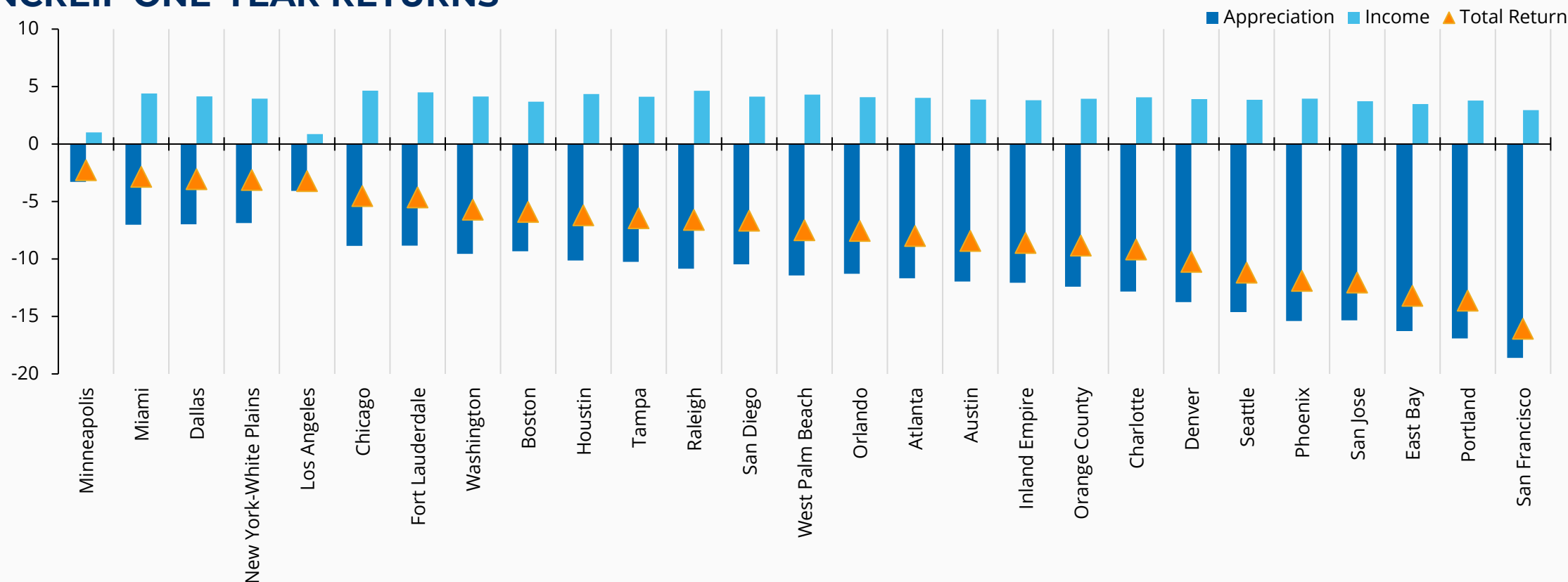
- As supply surged across major markets, the tightest Q4 vacancy rates were in small markets like Youngstown (OH), Salinas (CA), Salisbury (MD) and Bristol (VA).
- Most markets tracked experienced a quarterly rise in vacancy rates. Only 17 out of 150 markets had tightening vacancy rates.
- The biggest YoY increases were in Fort Myers, FL (310 bps), Honolulu (260 bps) and Myrtle Beach (250 bps).

HISTORICAL INVESTMENT VOLUME



- Investment volume slowed to \$26.7 billion for the quarter, a YoY decrease of 49.6%, the weakest quarter since the start of the pandemic. The increase in the cost of debt and decrease in availability of it led to diminished volumes in 2023.
- Full-year volume in 2023 decreased 59.9% YoY, the weakest year since 2014.
- In 2023, private buyers accounted for the largest share of multifamily investment at 68.3% followed by institutional buyers at 21.9%.

NCREIF ONE-YEAR RETURNS



- NCREIF's NPI one-year unlevered multifamily return improved for the first time in six quarters, to -7.3% in Q4 from -7.5% last quarter. Property values continued to price in cooling inflation and a higher yield environment.
- The strongest returns were in Minneapolis, Miami and Dallas. Markets with the lowest returns include San Francisco, Portland and the East Bay.

Market	Inventory	Absorption	Absorption 12-Month	Completions	Completions 12-Month	Vacancy Rate	Mo. Effective Rent	YOY Rent Change
Atlanta	565,152	2,939	9,668	5,395	20,001	7.7%	1,628	-3.9%
Austin	302,704	2,915	11,388	5,640	17,025	7.4%	1,588	-4.7%
Baltimore	239,841	507	572	719	3,287	5.9%	1,673	1.5%
Boston	424,613	1,166	3,934	2,009	6,917	4.6%	2,924	4.4%
Charlotte	227,183	2,498	10,317	4,171	13,880	7.0%	1,556	-2.2%
Chicago	757,259	(788)	5,900	1,287	7,410	5.0%	1,966	4.6%
Cincinnati	168,549	(40)	918	1,022	3,263	5.1%	1,365	4.4%
Cleveland	172,069	(15)	(969)	470	1,495	5.4%	1,248	4.7%
Columbus	204,162	727	3,459	1,772	6,384	5.6%	1,312	3.3%
Dallas	690,065	3,479	10,181	7,162	20,062	7.0%	1,570	-0.4%
Denver	332,964	1,091	7,593	2,252	9,653	6.1%	1,895	1.4%
Detroit	280,305	1,083	(104)	799	2,268	5.4%	1,285	1.8%
East Bay	222,515	(213)	722	671	3,063	5.8%	2,589	-1.4%
Fort Lauderdale	203,755	403	2,487	1,090	4,420	5.9%	2,416	0.5%
Fort Worth	234,139	1,040	5,698	2,533	8,973	7.6%	1,393	-0.9%
Greensboro	112,180	(54)	(375)	189	1,511	7.3%	1,210	0.9%
Houston	760,520	3,737	15,606	6,567	20,222	7.3%	1,354	1.7%
Indianapolis	173,804	(423)	588	1,218	4,428	6.8%	1,259	3.7%
Inland Empire	196,813	760	(297)	1,040	2,204	5.4%	2,197	0.1%
Jacksonville	138,924	1,315	4,561	2,348	7,566	7.9%	1,468	-3.7%
Kansas City	185,523	(539)	1,870	703	4,244	5.8%	1,300	4.9%
Las Vegas	229,057	415	843	1,178	3,870	7.4%	1,447	-2.6%
Los Angeles	1,150,355	1,226	(400)	2,551	10,633	4.8%	2,788	0.1%
Memphis	110,015	(39)	(476)	143	835	7.8%	1,223	2.1%
Miami	326,763	2,554	3,286	2,776	7,453	4.7%	2,548	2.6%

Market	Inventory	Absorption	Absorption 12-Month	Completions	Completions 12-Month	Vacancy Rate	Mo. Effective Rent	YOY Rent Change
Milwaukee	162,471	(231)	1,523	934	2,854	4.0%	1,544	6.5%
Minneapolis	328,180	2,553	8,635	3,981	10,082	5.6%	1,531	1.7%
Nashville	185,124	1,924	9,444	3,074	12,134	6.2%	1,602	-2.3%
New York-White Plains	1,934,686	(688)	183	2,768	10,543	2.9%	4,495	4.1%
Newark-Jersey City	559,764	3,065	6,403	2,851	11,055	3.4%	2,661	6.4%
Orange County	270,799	17	1,369	715	2,784	3.7%	2,822	3.2%
Orlando	269,700	2,652	7,353	3,970	11,291	6.4%	1,751	-3.2%
Philadelphia	413,023	1,571	5,463	2,783	9,197	4.6%	1,802	2.9%
Phoenix	404,180	4,282	12,027	5,246	17,167	7.3%	1,570	-3.7%
Pittsburgh	148,853	(85)	194	282	1,155	5.6%	1,493	4.1%
Portland	235,244	(381)	655	680	3,915	6.2%	1,711	-2.6%
Raleigh-Durham	191,767	2,886	8,709	3,874	11,566	6.8%	1,527	-1.7%
Richmond	115,202	956	3,513	1,291	4,463	6.0%	1,484	1.4%
Sacramento	158,294	730	1,319	1,028	3,158	5.7%	1,950	0.4%
Salt Lake City	130,192	2,171	6,270	2,722	8,608	6.5%	1,554	-2.5%
San Antonio	226,648	442	2,074	1,783	6,354	8.7%	1,246	-1.8%
San Diego	323,145	(987)	90	929	3,433	4.3%	2,803	1.5%
San Francisco	252,364	143	1,623	485	1,687	4.9%	3,181	-1.6%
San Jose	185,204	(431)	1,326	282	1,787	4.6%	3,005	-1.7%
Seattle	374,610	(193)	4,058	1,451	6,138	5.6%	2,185	0.4%
St. Louis	171,229	(131)	252	1,016	2,673	6.2%	1,288	5.9%
Tampa	280,103	925	2,774	1,770	6,619	6.5%	1,817	-0.2%
Virginia Beach	144,540	246	691	372	1,270	4.8%	1,492	2.7%
Washington	684,856	1,648	10,834	4,042	14,253	5.3%	2,110	3.6%
West Palm Beach	126,762	947	2,006	722	2,826	5.6%	2,432	0.6%
United States	19,315,776	58,200	233,741	129,015	439,394	5.8%	1,805	1.2%

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.