2Q22 United States Multifamily Capital Markets Report

NEWMARK

Key Takeaways

Market Fundamentals

Following a year in which absorption rose to over 660,000 units nationally, new supply has outpaced absorption in 1H22. Rising construction costs and labor shortages have caused a nearly 15% drop in expected deliveries for the year. Inventory growth is projected to rise meaningfully in 2023, reaching 2.8%. Vacancy will increase but remain at historically tight levels supporting continued rent growth.

Sales Volume

Investor appetite surged in 2Q22 with $86.3 billion in sales volume, representing a 42.4% year-over-year increase, as well as the third largest quarterly sum in history. Volume in 1H22 accelerated 53.1% compared with 1H21 – an uptick inactivity was in part due to buyers and sellers deliberately transacting ahead of impending FOMC rate hikes and the mid-term elections later in the year.

Effective Rent Growth

Effective rent growth accelerated to 13.5% over the trailing twelve months, the highest rate on record. On a quarterly basis, rents grew by 3.1% on average in 2Q22. Rent growth is projected to increase into 3Q22 but will begin to taper off through 2023 as high levels of new supply are expected to put pressure on fundamentals.

Total Returns

Total returns through 2Q22 averaged 24.4% on an annualized basis, a 450-basis point increase from 2021. While inflation reached 9.1%, a level not seen in over 30 years, real returns for multifamily rose to 15.3% – significantly outpacing inflation, as has been the case over the past 40+ years with the exceptions of the early 1990's recession and the Great Recession.

Single Family Tightness

As the state of the current single family home market continues to price out would-be homeowners, the multifamily market reaps the benefits. Rising construction costs have led to a 41.4% decrease in single family home completions from 2007 to 2021. Home prices have also increased 50.5% since 2017, while the 30-year fixed rate mortgage average jumped 88.7% year-over-year in 2Q22.

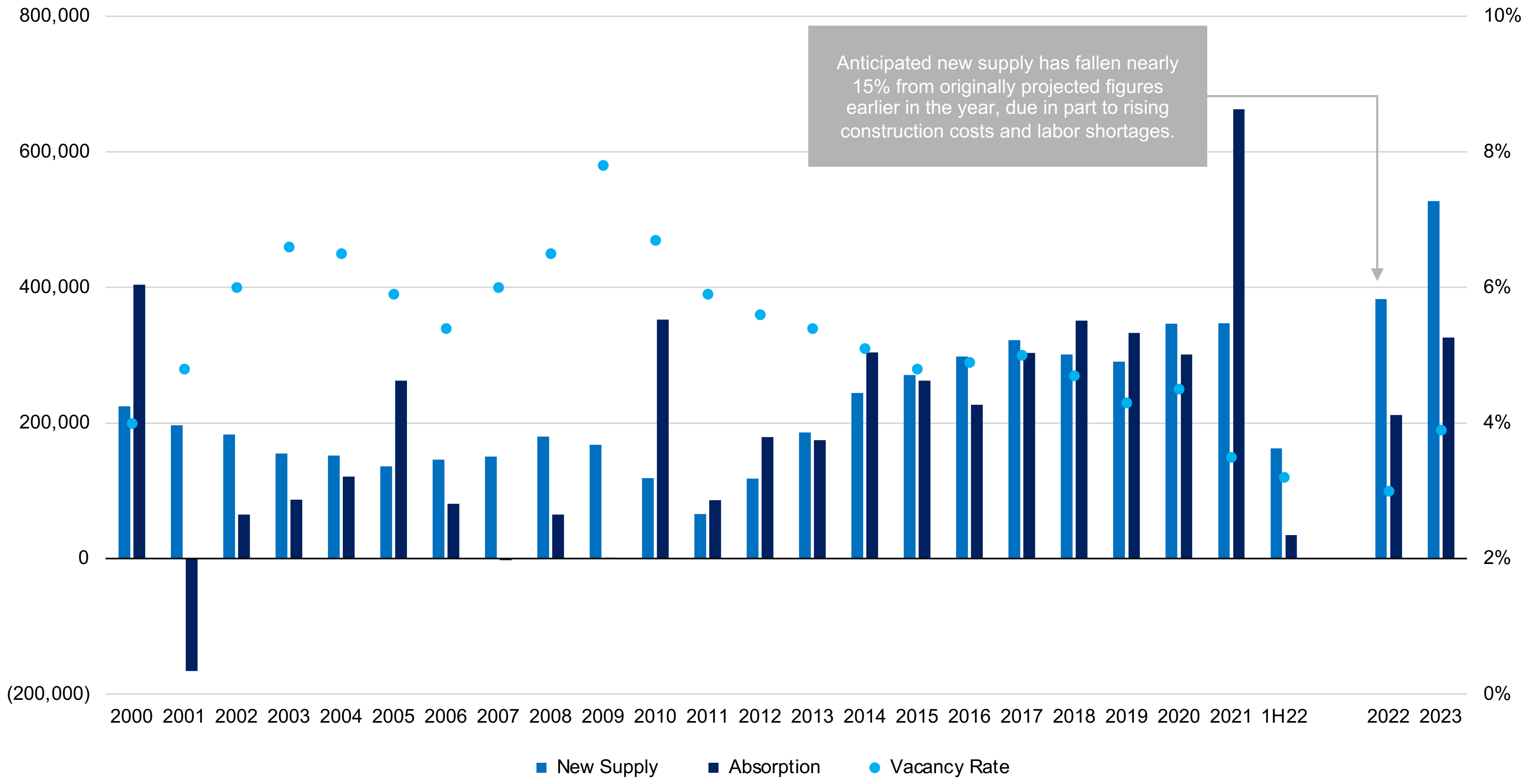
Debt Markets

The cost of debt across instruments has risen dramatically. Should these higher debt costs be sustained – and all signs point to this being likely – then we expect to see more headline movement in yields in the coming quarters.

Market Fundamentals

United States; Units in Thousands

Following a year in which absorption rose to over 660,000 units nationally, new supply has outpaced absorption in 1H22. Rising construction costs and labor shortages have caused a nearly 15% drop in expected deliveries for the year. Inventory growth is projected to rise meaningfully in 2023, reaching 2.8%. Vacancy will increase but remain at historically tight levels supporting continued rent growth.



Source: Newmark Research, RealPage

Effective Rent Growth

United States

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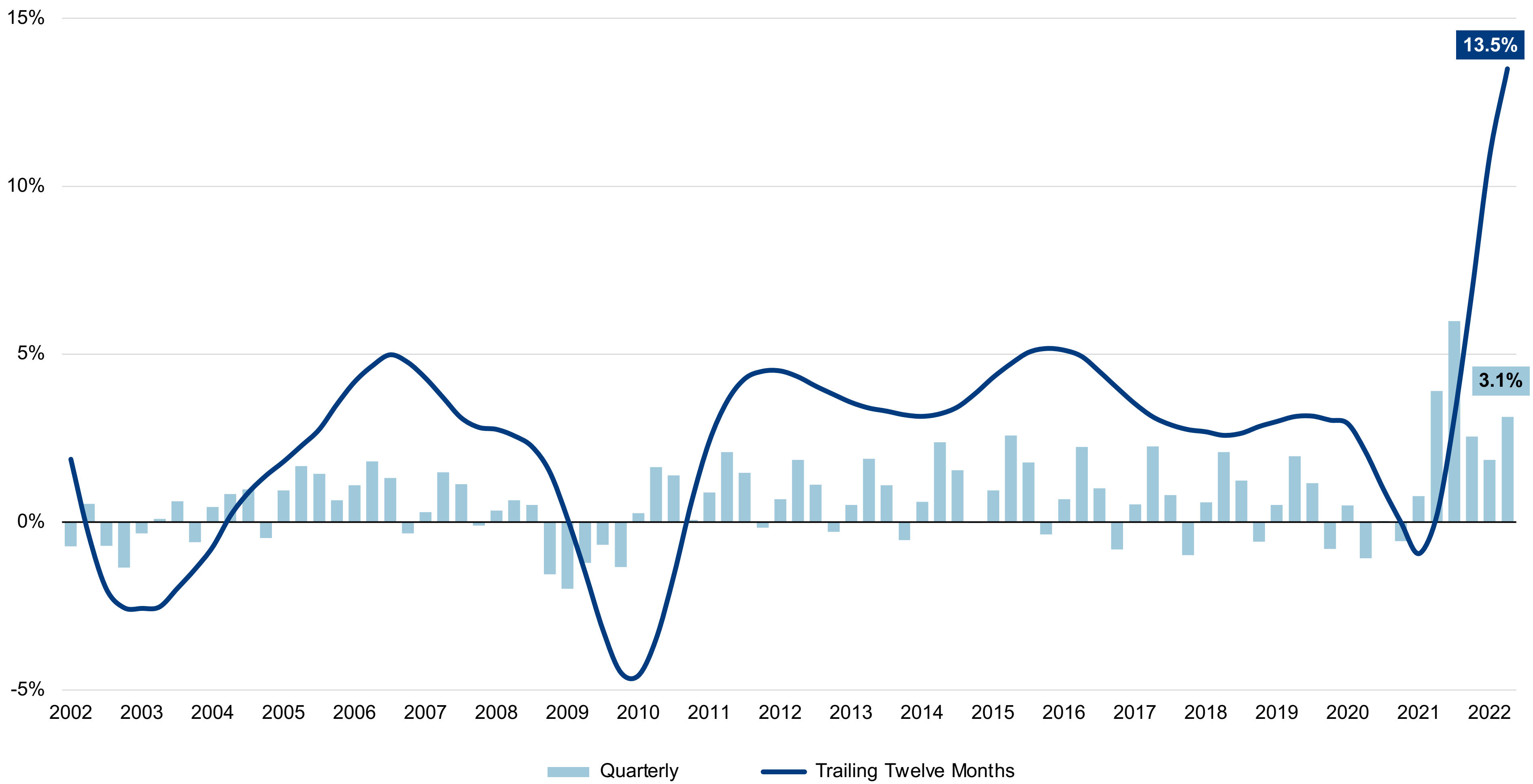


Source: Newmark Research, RealPage

Effective Rent Growth by Market

Annualized

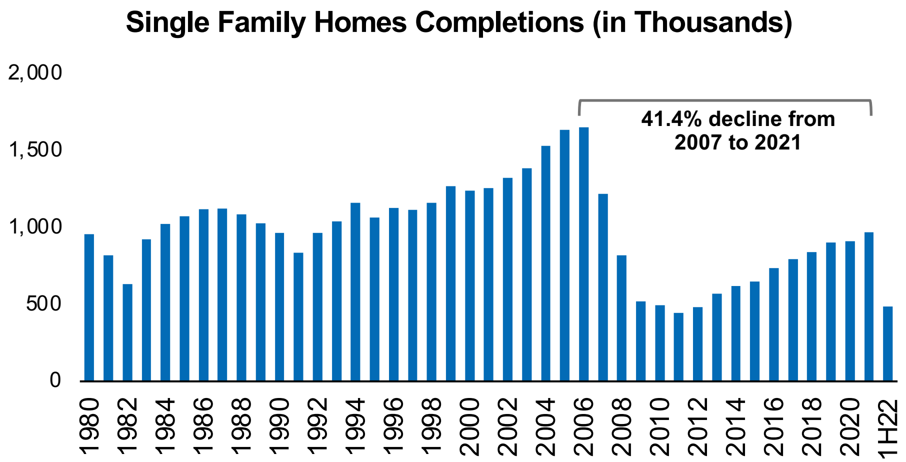
While effective rental growth remains elevated above the long-term average, rental growth is projected to decline 120 basis points over the next twelve months nationally. Top performing rental markets since the beginning of the pandemic such as Austin, Las Vegas and Phoenix are expected to see rental growth decelerate while laggards such as San Francisco, San Jose, San Diego and Los Angeles are projected to see rental growth accelerate.

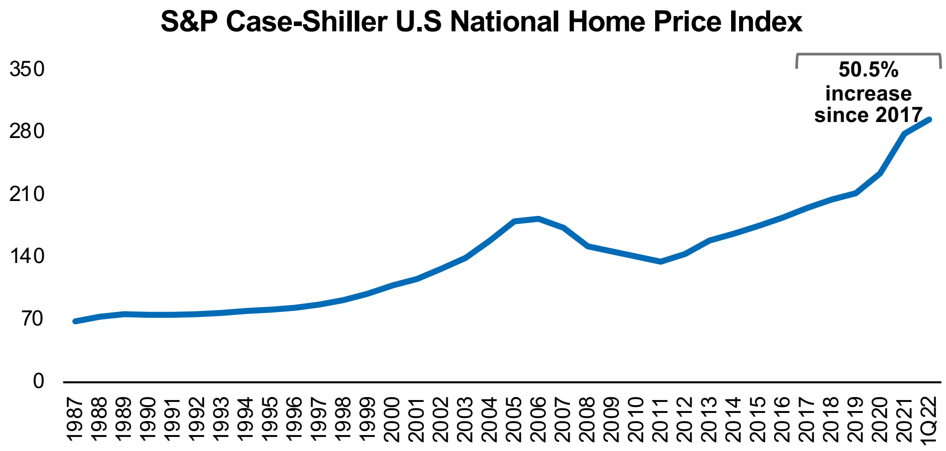
Source: Newmark Research, RealPage

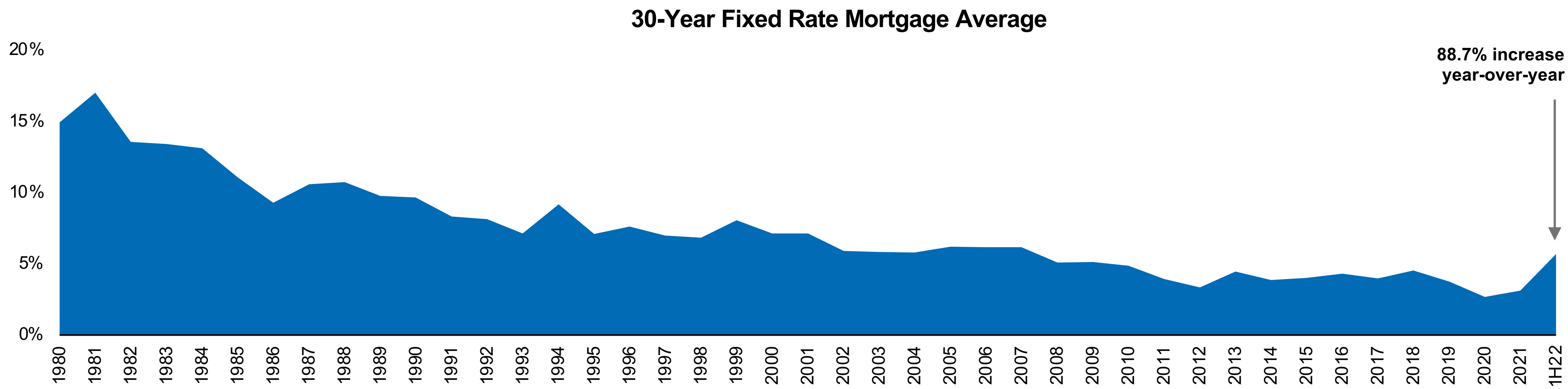
Single Family Tightness Benefits Multifamily

United States

As the state of the current single family home market continues to price out would-be homeowners, the multifamily market reaps the benefits. Rising construction costs have led to a 41.4% decrease in single family home completions from 2007 to 2021. Home prices have also increased 50.5% since 2017, while the 30-year fixed rate mortgage average jumped 88.7% year-over-year in 2Q22.





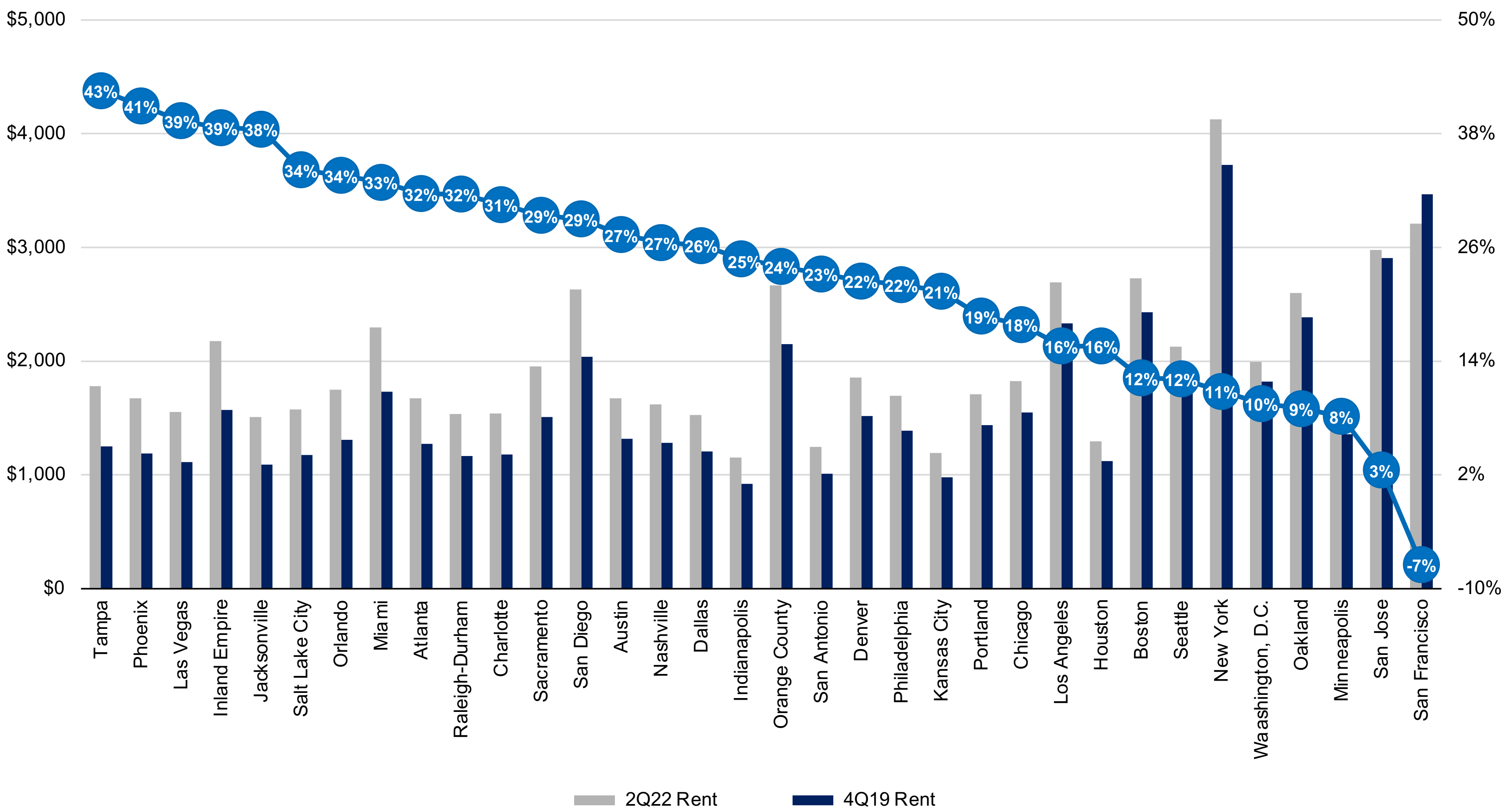


Source: Newmark Research, United States Census Bureau, Federal Reserve Bank of. St. Louis

Rents Significantly Exceed Pre-Pandemic Levels

Select Markets

Rents in nearly every market exceeded their pre-pandemic levels in 2Q22. Coastal markets with a higher cost of living have lagged in the recovery. Sunbelt markets benefiting from net migration and strong demographic tailwinds such as Tampa and Phoenix have seen rents accelerate more than 40%.



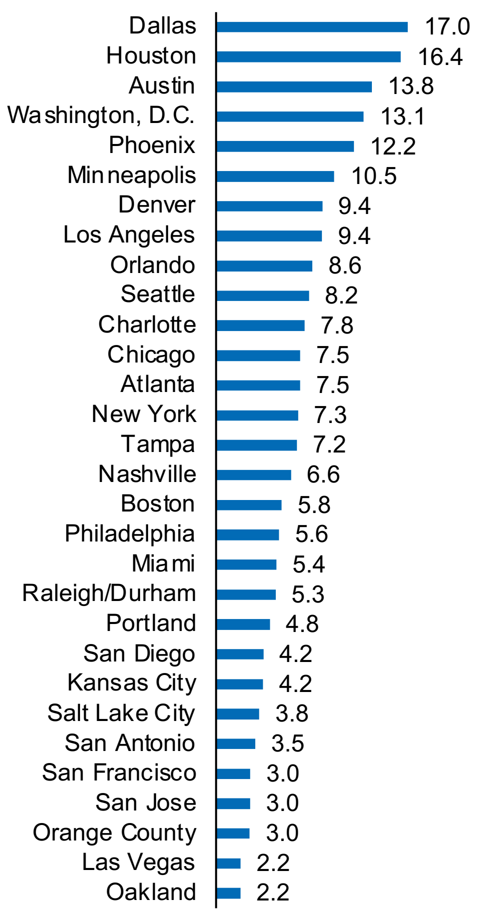
Source: Newmark Research, RealPage

Supply and Demand by Market

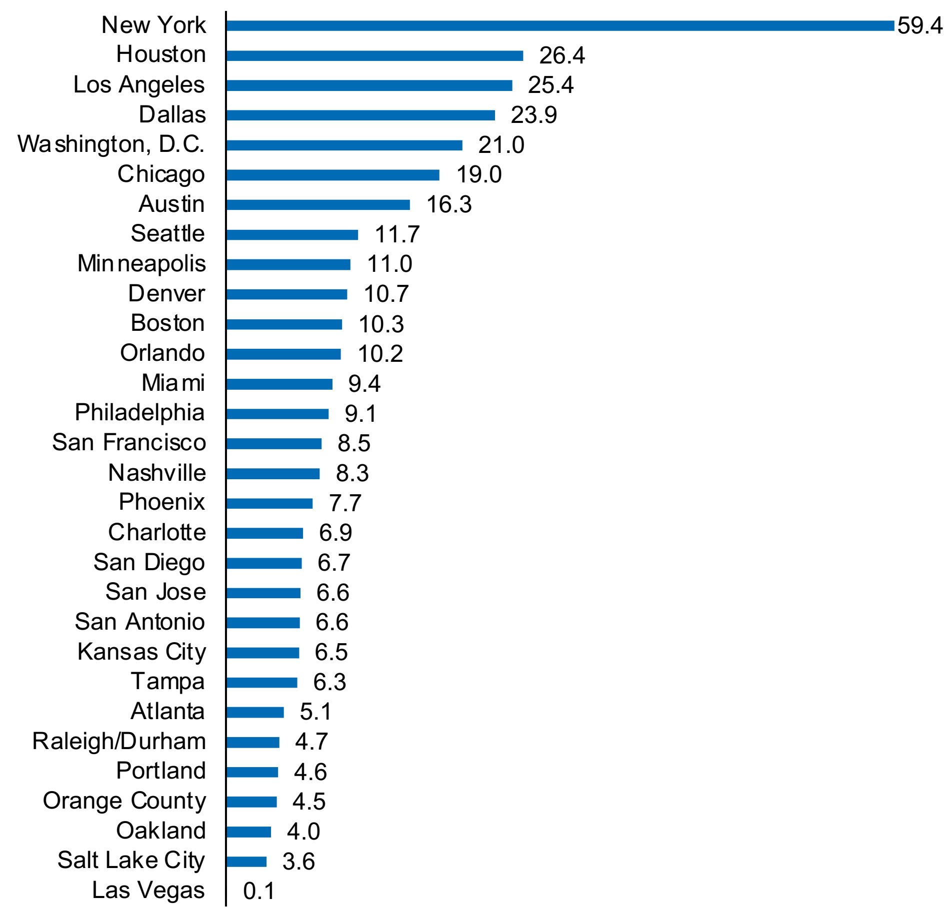
Units in Thousands

As renters returned to larger cities, absorption dramatically outpaced new supply in several markets. Houston, Los Angeles, Chicago, and New York saw demand outpace new supply by 10,000 units or greater. Absorption on a nominal basis was strongest in New York over the past twelve months with demand outpacing new supply by more than 52,000 units.

NEW SUPPLY (PAST 12 MONTHS)



DEMAND (PAST 12 MONTHS)



Source: Newmark Research, RealPage

Sales Volume

United States; Dollars in Billions

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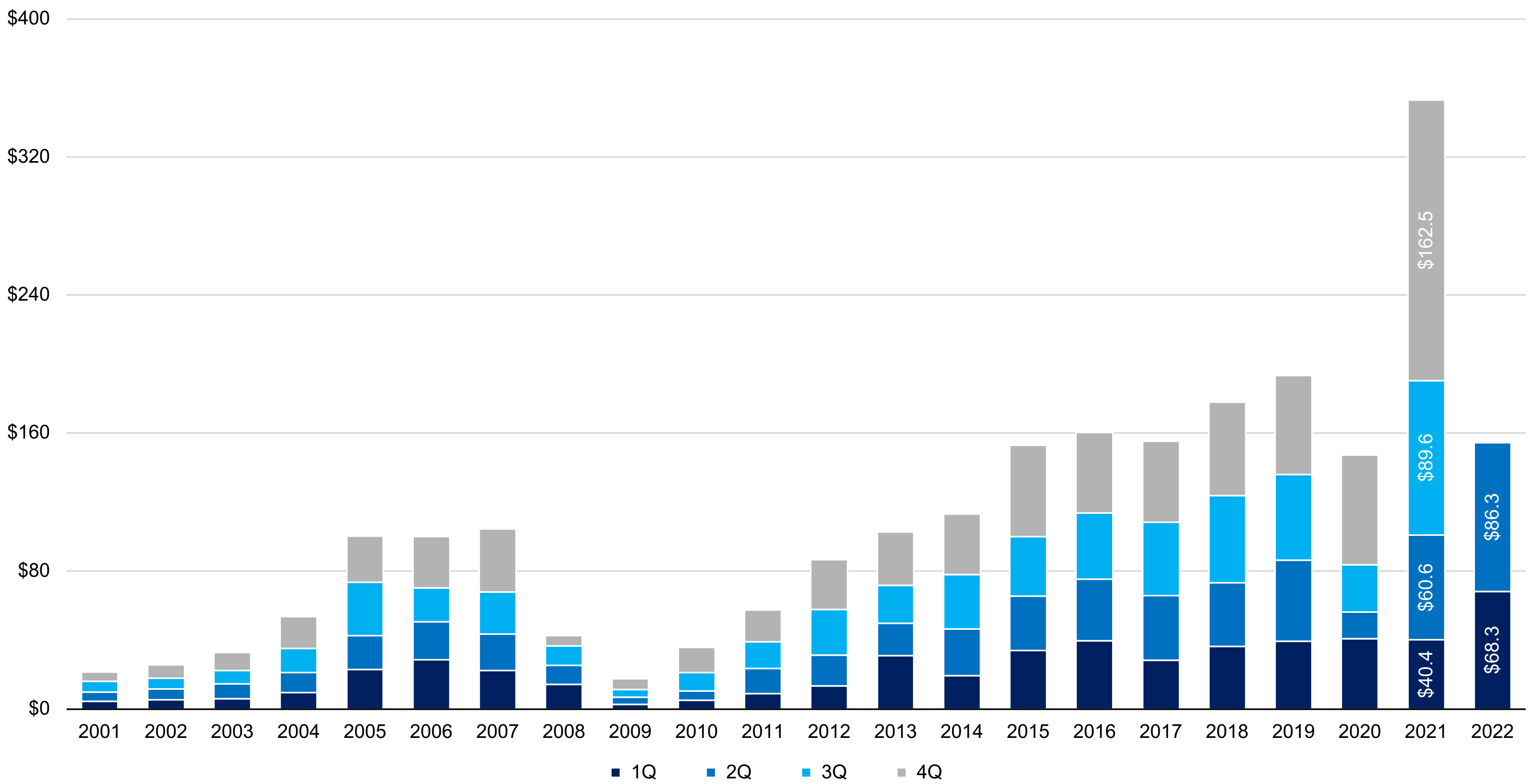
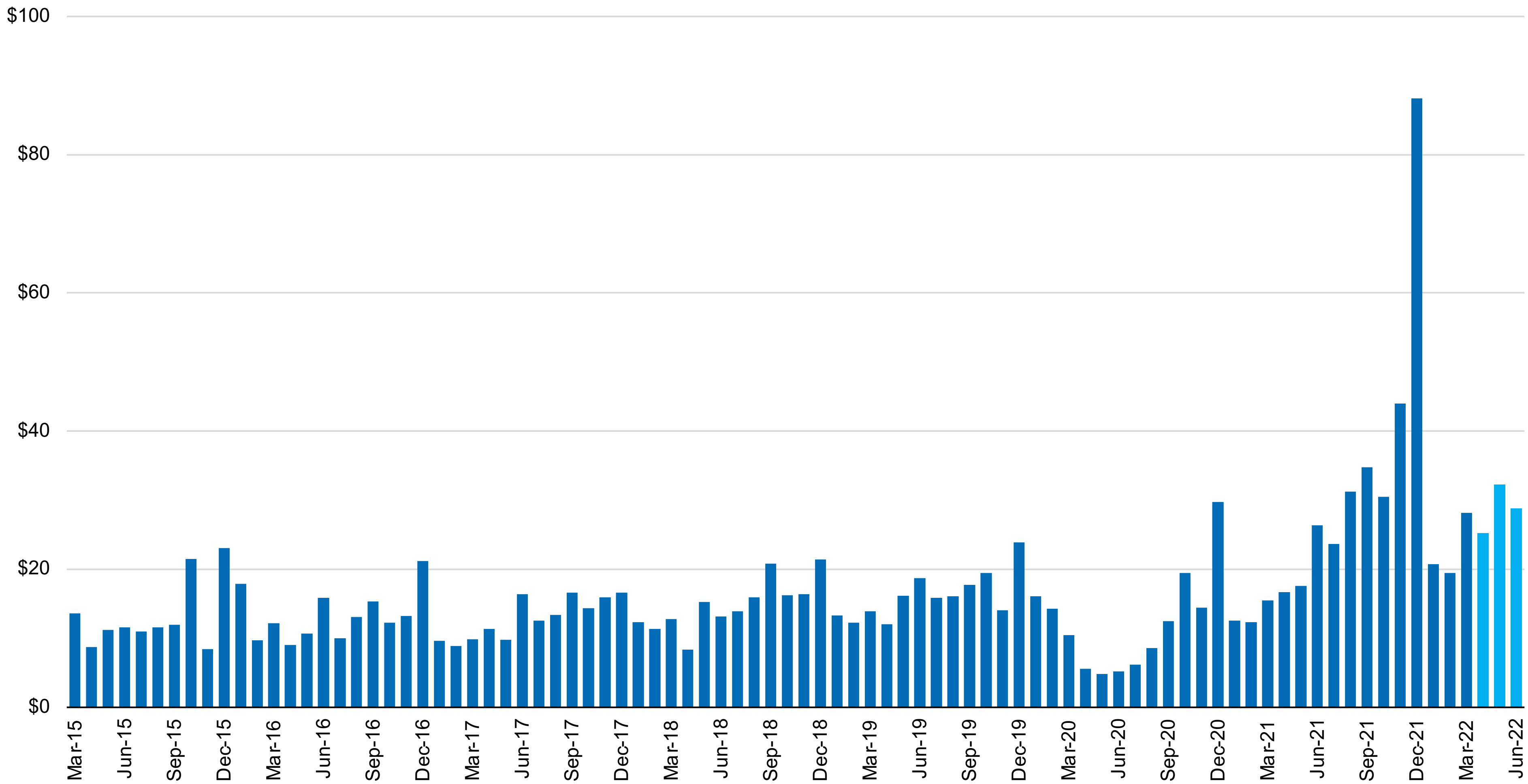


Source: Newmark Research, Real Capital Analytics

Monthly Sales Volume

United States; Dollars in Billions

Monthly sales volume averaged $28.8 billion in 2Q22, up 26.3% quarter-over-quarter and 73.1% greater than the long-term average of $16.6 billion. Monthly volume does not yet reflect the expected slowdown in activity, as most deals in 2Q22 were under contract 60-90 days prior to quarter-end.

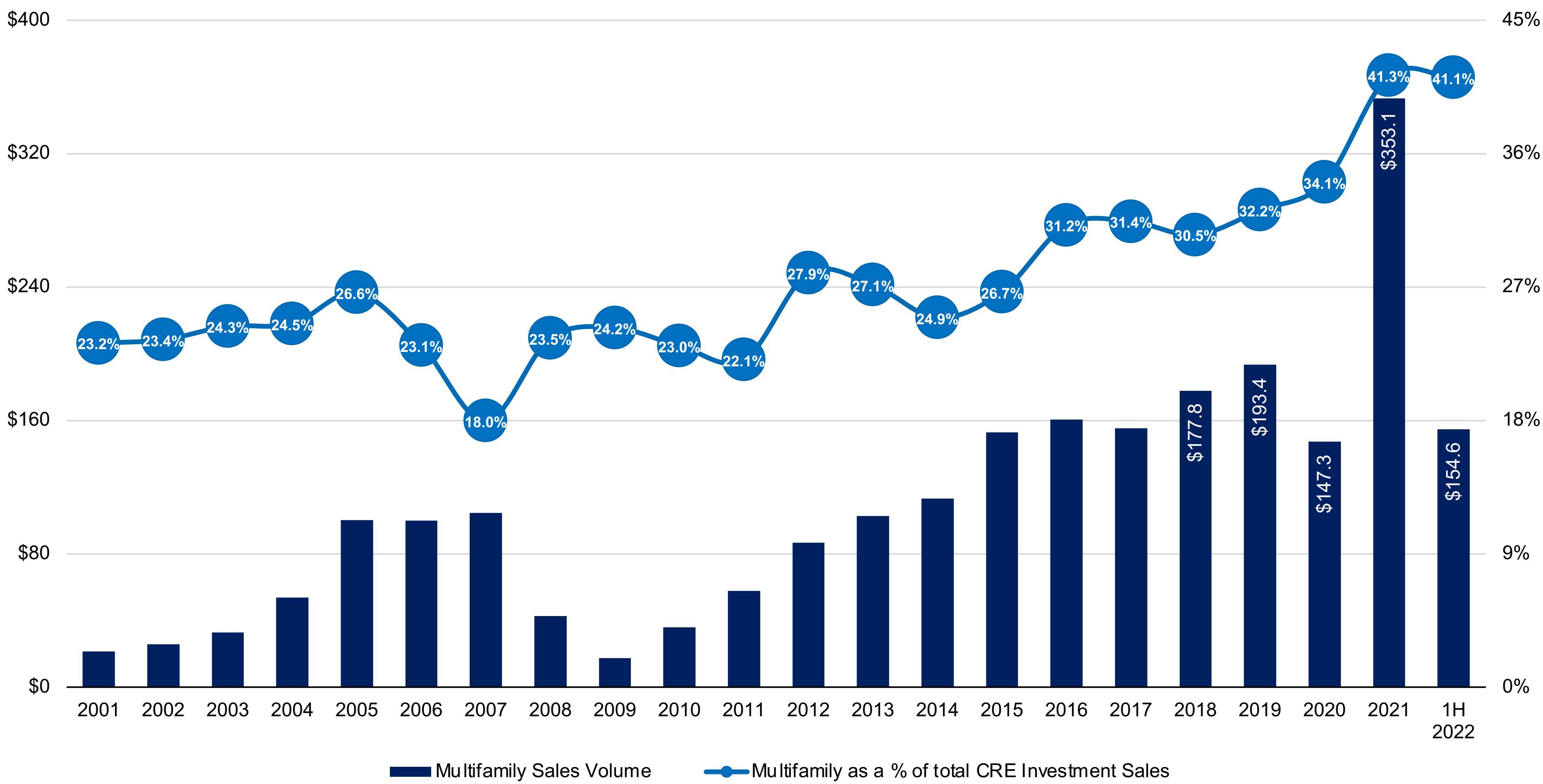


Source: Newmark Research, Real Capital Analytics

Allocation to Multifamily

United States; Dollars in Billions

Due to secular shifts and durability through both up and down markets, investor preferences towards multifamily increased drastically over the last two decades. Through 1H22, 41.1% of all US commercial real estate investment was deployed in the multifamily sector. Additionally, multifamily volume in 2Q22 exceeded office, industrial and retail combined.

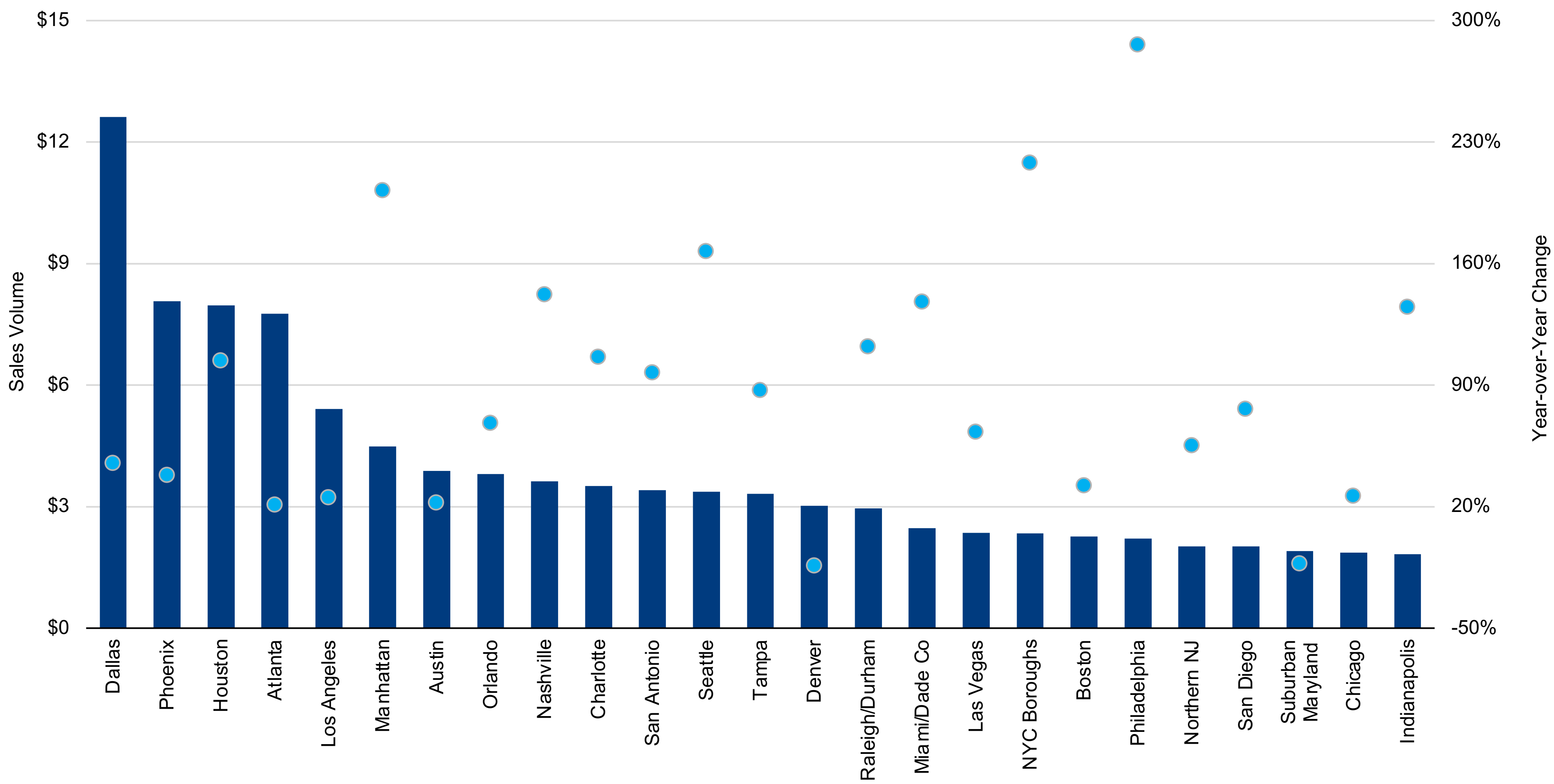


Source: Newmark Research, Real Capital Analytics

First Half Sales Volume by Market

Select Markets; Dollars in Billions

Investments have increasingly been placed into Sunbelt markets. In 1H22, sales volume in Dallas, Phoenix, Houston and Atlanta accounted for 23.5% of all sales volume. On a year-over-year basis, Philadelphia saw the largest percentage increase in sales volume at 286.0% followed by NYC Boroughs and Manhattan.



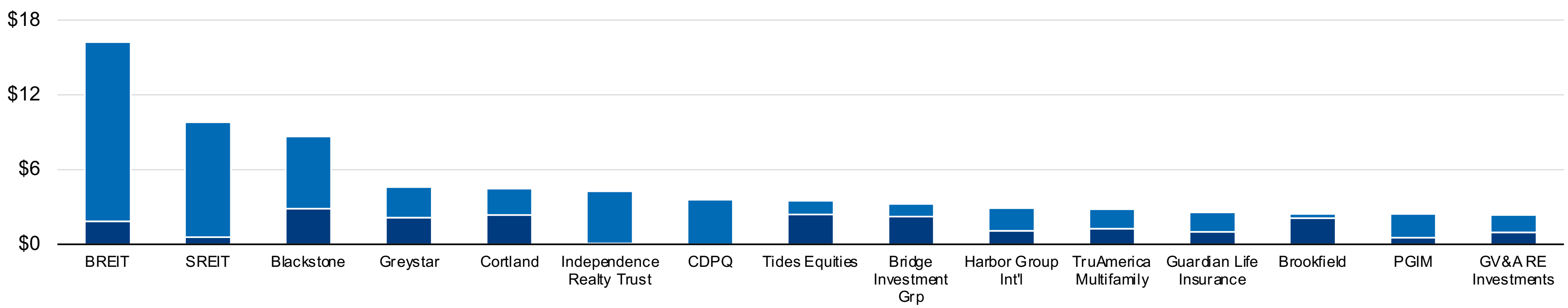
Source: Newmark Research, Real Capital Analytics

Top Buyers and Sellers

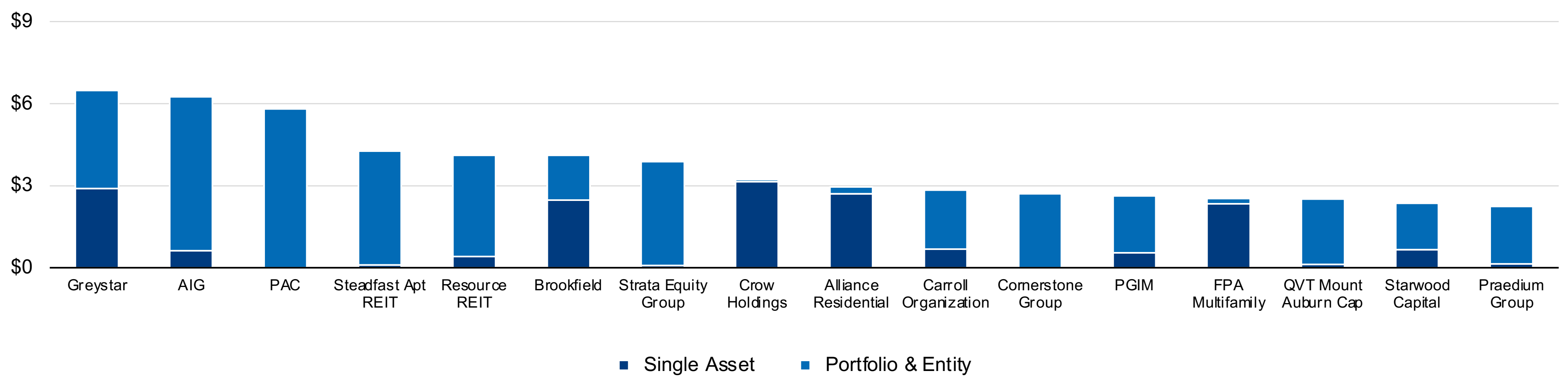
Past 12 Months; Dollars in Billions

Large-scale acquisitions particularly by non-traded REITs played a significant role in 1H22. In 2Q22, BREIT acquired Resource REIT for $3.7 billion and Preferred Apartment Communities for $5.8 billion. Additionally, Blackstone is under contract to acquire Bluerock Residential Growth REIT for $3.6 billion and BREIT and Blackstone are expected to close on the $12.8 billion acquisition of American Campus Communities in 3Q22. In total, BREIT and Blackstone have acquired and/or under contract to acquire over 70,000 multifamily units year-to-date.

TOP BUYERS



TOP SELLERS

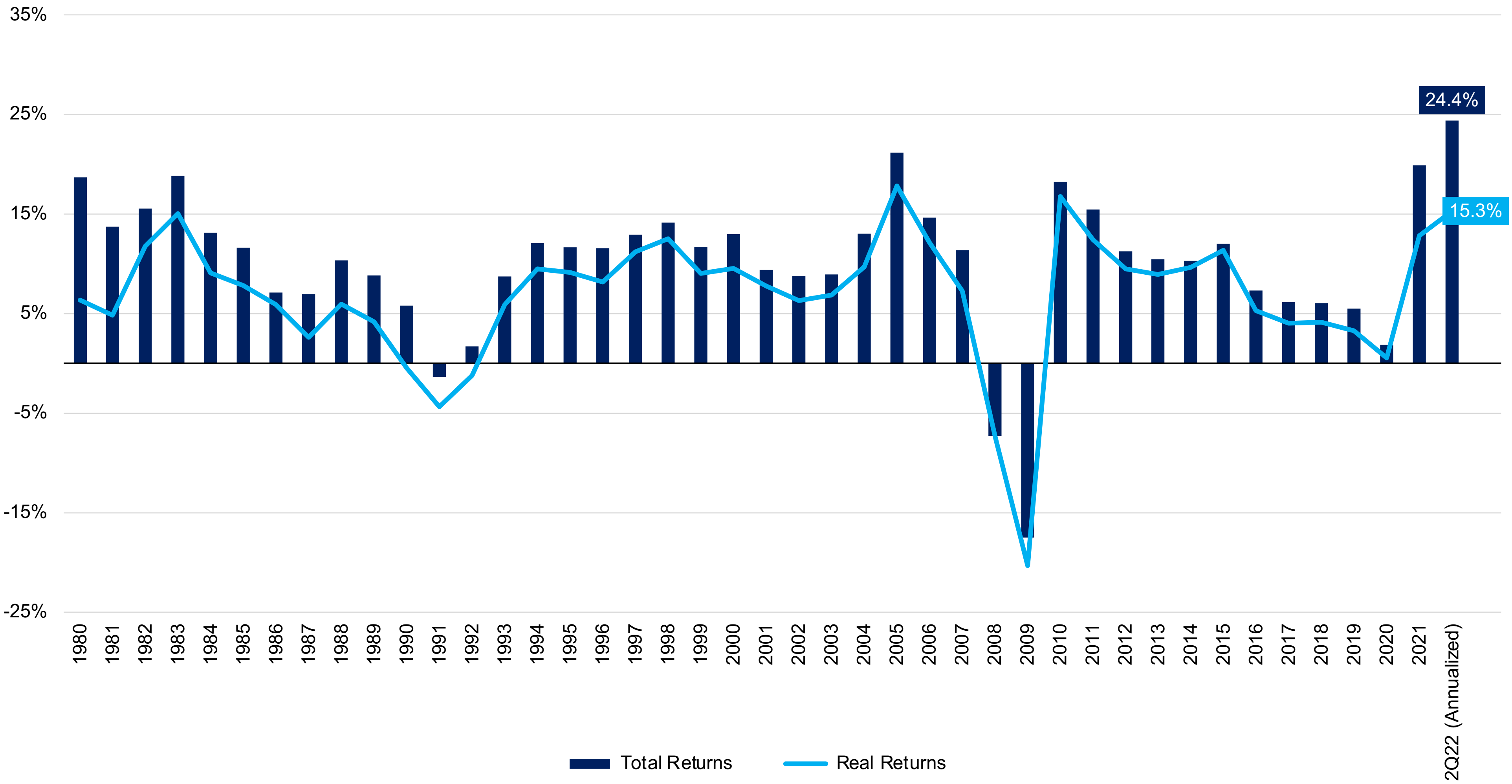


Source: Newmark Research, Real Capital Analytics

Multifamily Regularly Outpaces Inflation

United States; Calendar Year

Total returns through 2Q22 averaged 24.4% on an annualized basis, a 450-basis point increase from 2021. While inflation reached 9.1%, a level not seen in over 30 years, real returns for multifamily rose to 15.3% – significantly outpacing inflation, as has been the case over the past 40+ years with the exceptions of the early 1990's recession and the Great Recession.

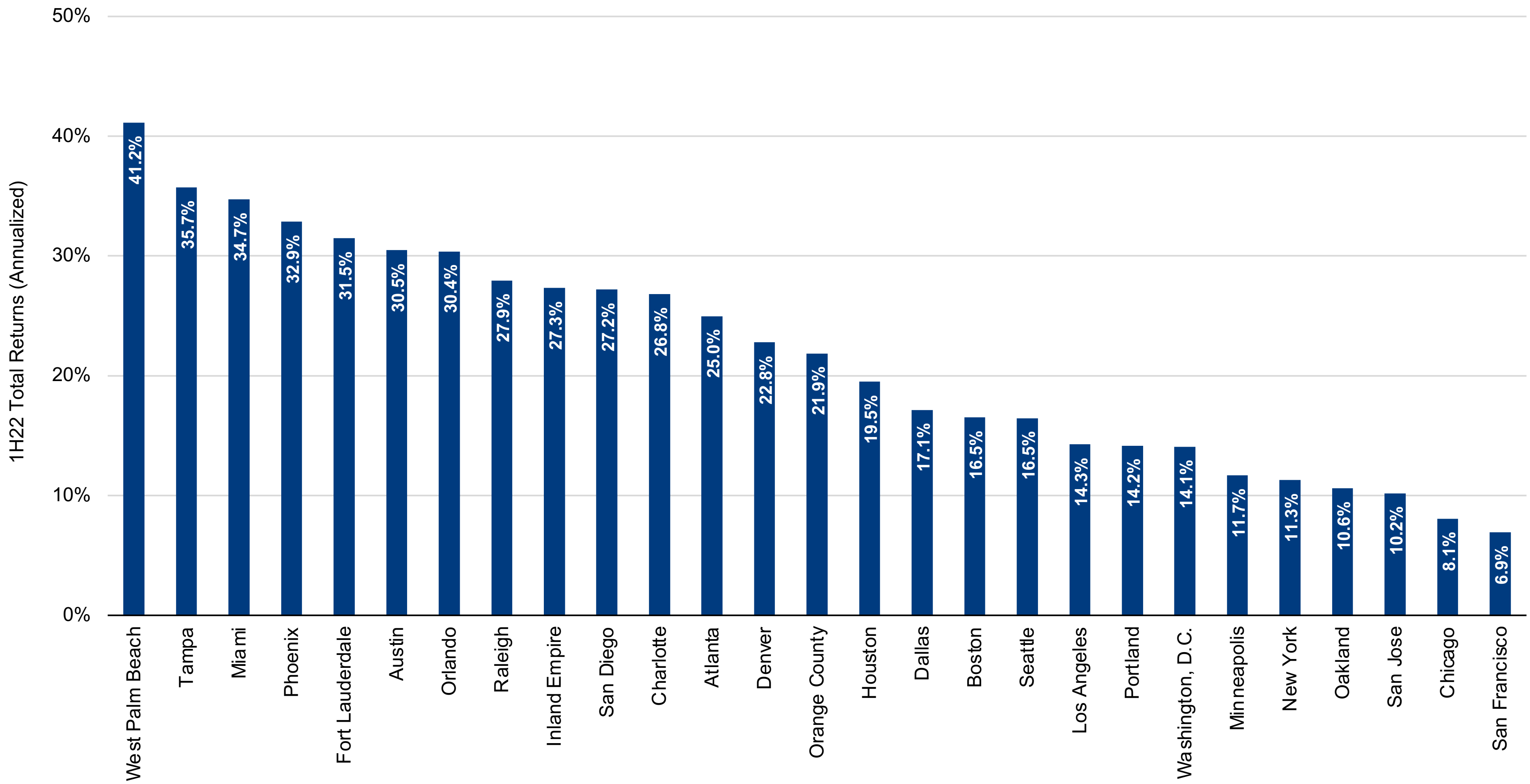


Source: Newmark Research, NCREIF

Total Returns by Market

Select Markets

Eight of the top ten markets for total returns were located in the Sunbelt. West Palm Beach, Tampa, Miami and Phoenix – markets that have strong migration trends and new-lease trade outs, all experienced returns in excess of 35% over the trailing twelve-month period. While the large coastal markets still lag the national average, returns have accelerated in recent quarters.

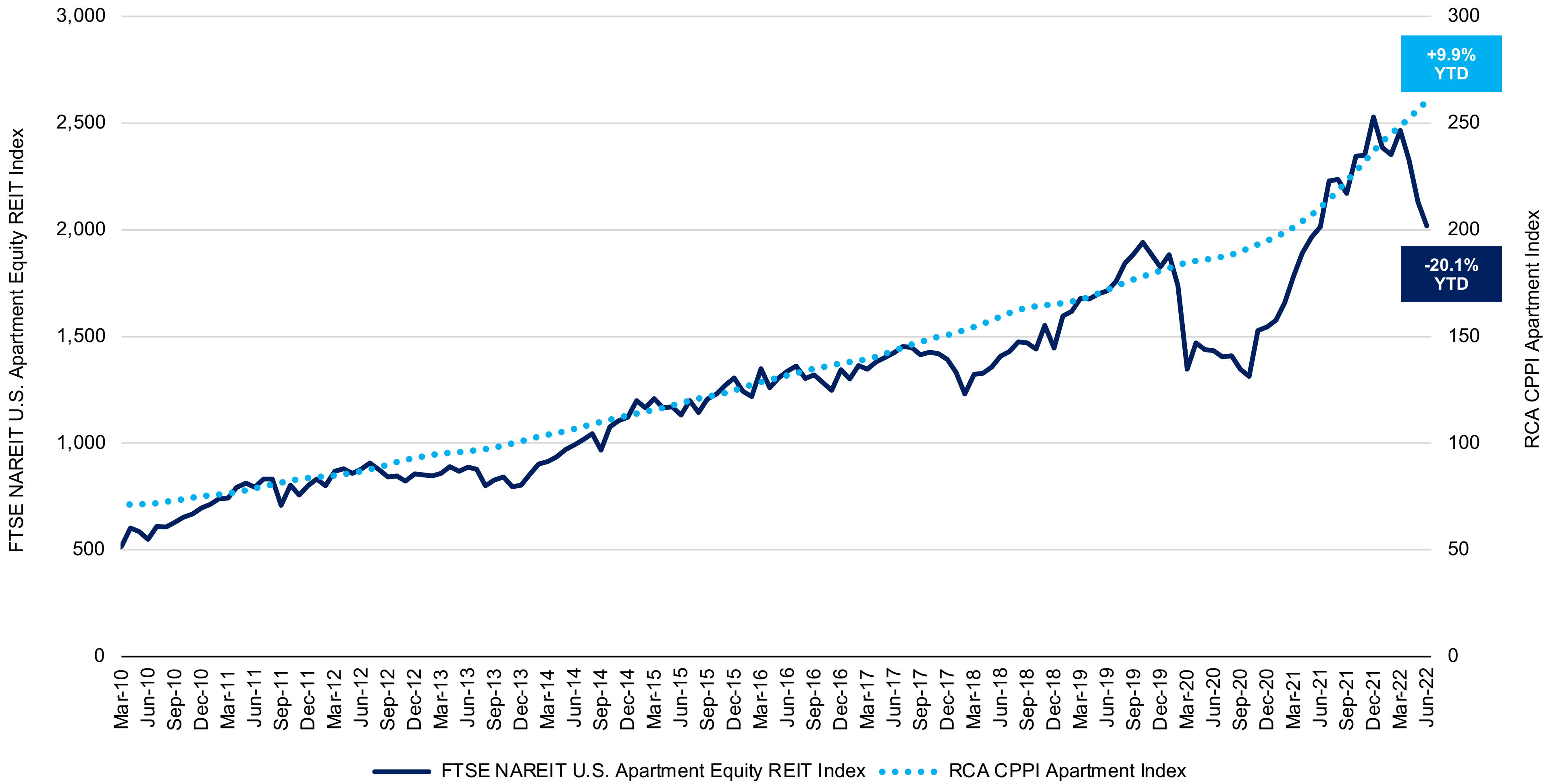


Source: Newmark Research, NCREIF

Divergence in Private and Public Markets

United States

For the first time since 2020, public and private market apartment performance experienced a significant deviation from one another. While the RCA CPPI Apartment Index rose 9.9% year-to-date, the FTSE NAREIT U.S. Apartment Equity REIT Index fell -20.1%, a net divergence of 30.0% between the two.



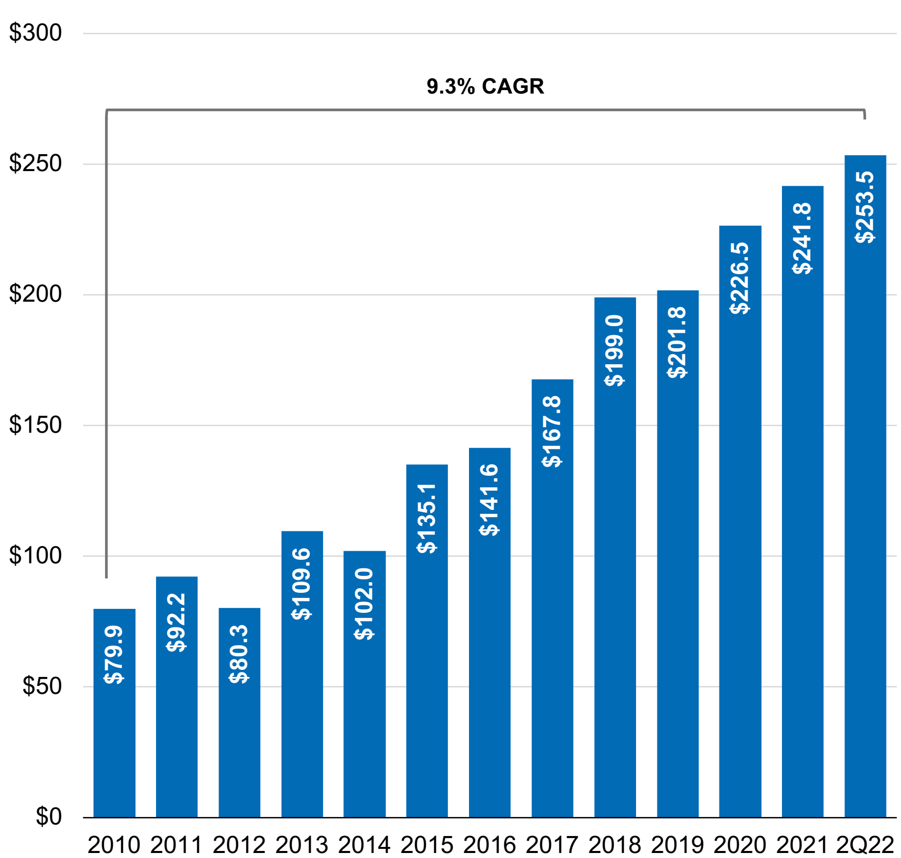
Source: Newmark Research, NAREIT, Real Capital Analytics

Dry Powder

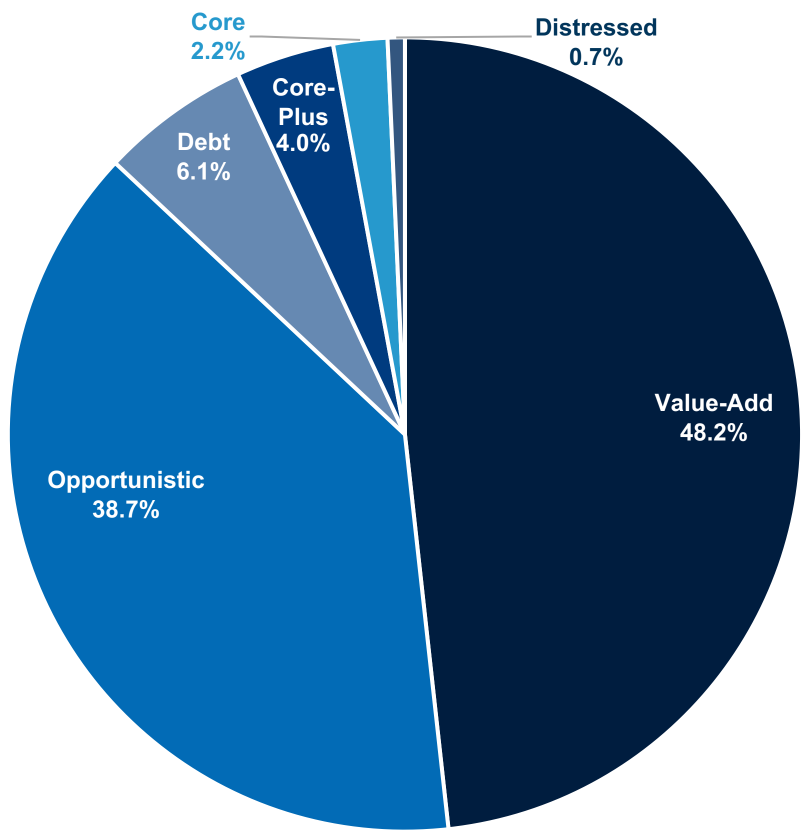
North America; Dollars in Billions

Dry powder for all North America-focused commercial real estate increased to $253.5 billion as of 2Q22. Since the Global Financial Crisis, dry powder has increased 217.3%. Of the total earmarked specifically for residential investments, value-add and opportunistic strategies accounted for 86.9% of capital raised.

DRY POWDER (ALL PROPERTY TYPES)



2022 VINTAGE RESIDENTIAL FUND TARGETS BY STRATEGY

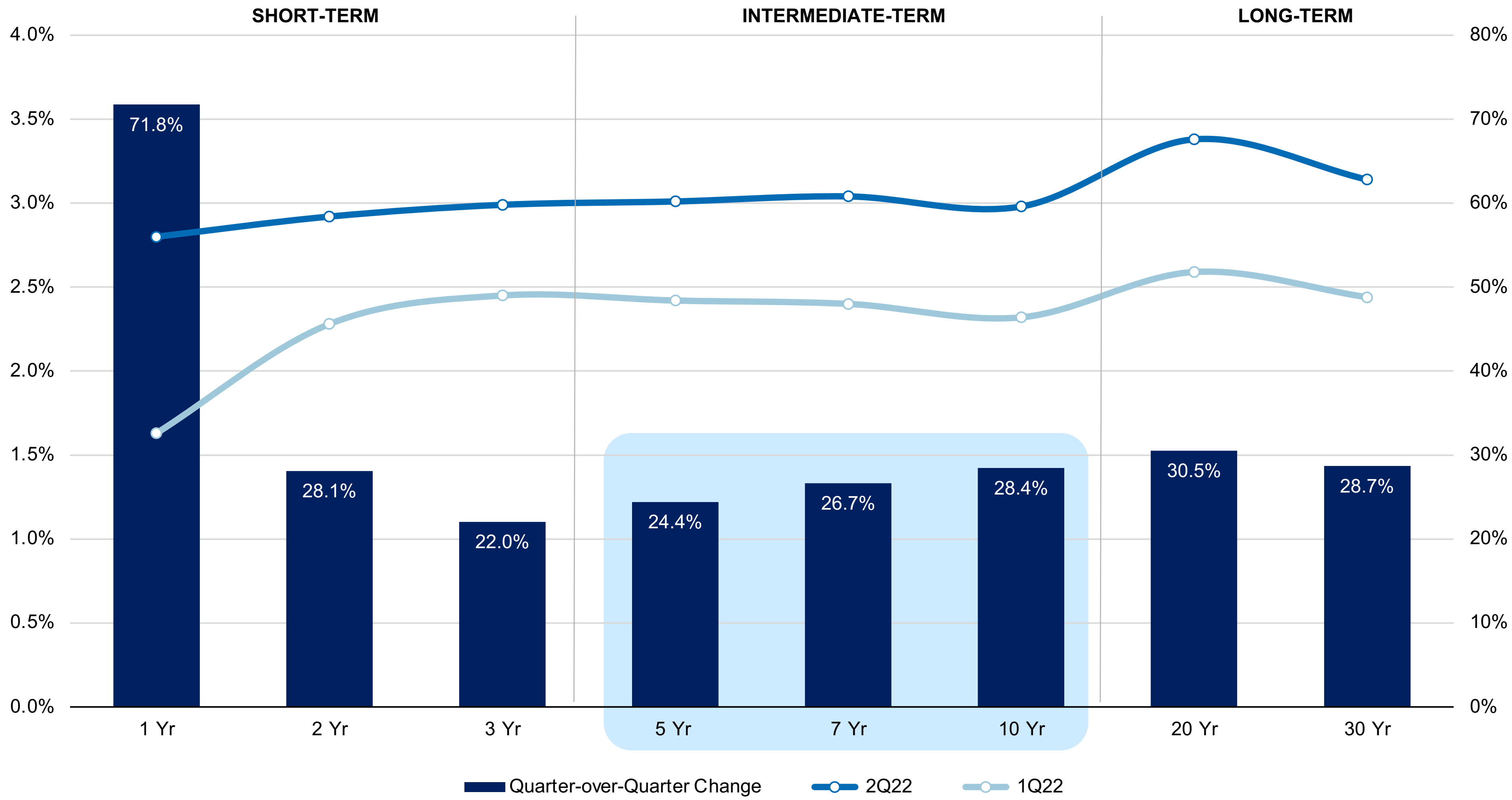


Source: Newmark Research, Preqin

Yield Curve

United States; Treasury Yields

While volatility in the treasury market continues to impact lending, the most impacted segment of the market is in the one-year securities – multifamily mortgages are typically intermediate-term duration. While the 10-year treasury yield has fallen recently on rising recession expectations, lending rates have been far less responsive. This in turn has already placed upward pressure on cap rates, particularly in negative leverage sectors like multifamily.

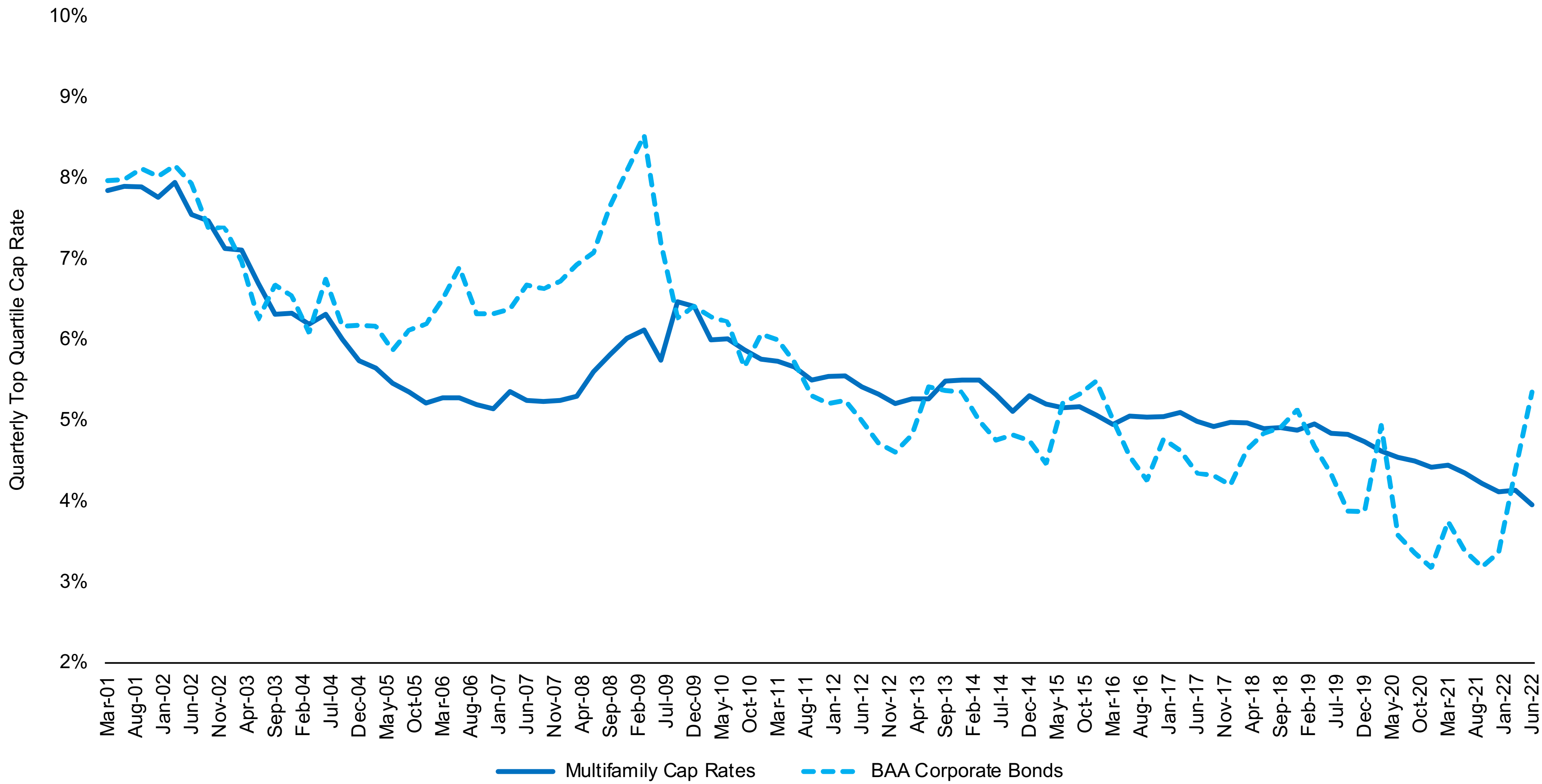


Source: Newmark Research, US Treasury

Rising Cost of Debt Placing Pressure on Cap Rates

United States

Transaction cap rates continued their recent trajectory in 2Q22 with multifamily yields compressing. The cost of debt across instruments has risen dramatically – here proxied by the BAA corporate bond rate. The resulting negative leverage is placing significant upward pressure on cap rates even if the transaction market has been slower to reflect the new dynamic. Should these higher debt costs be sustained – and all signs point to this being likely – then we expect to see more headline movement in yields in the coming quarters.

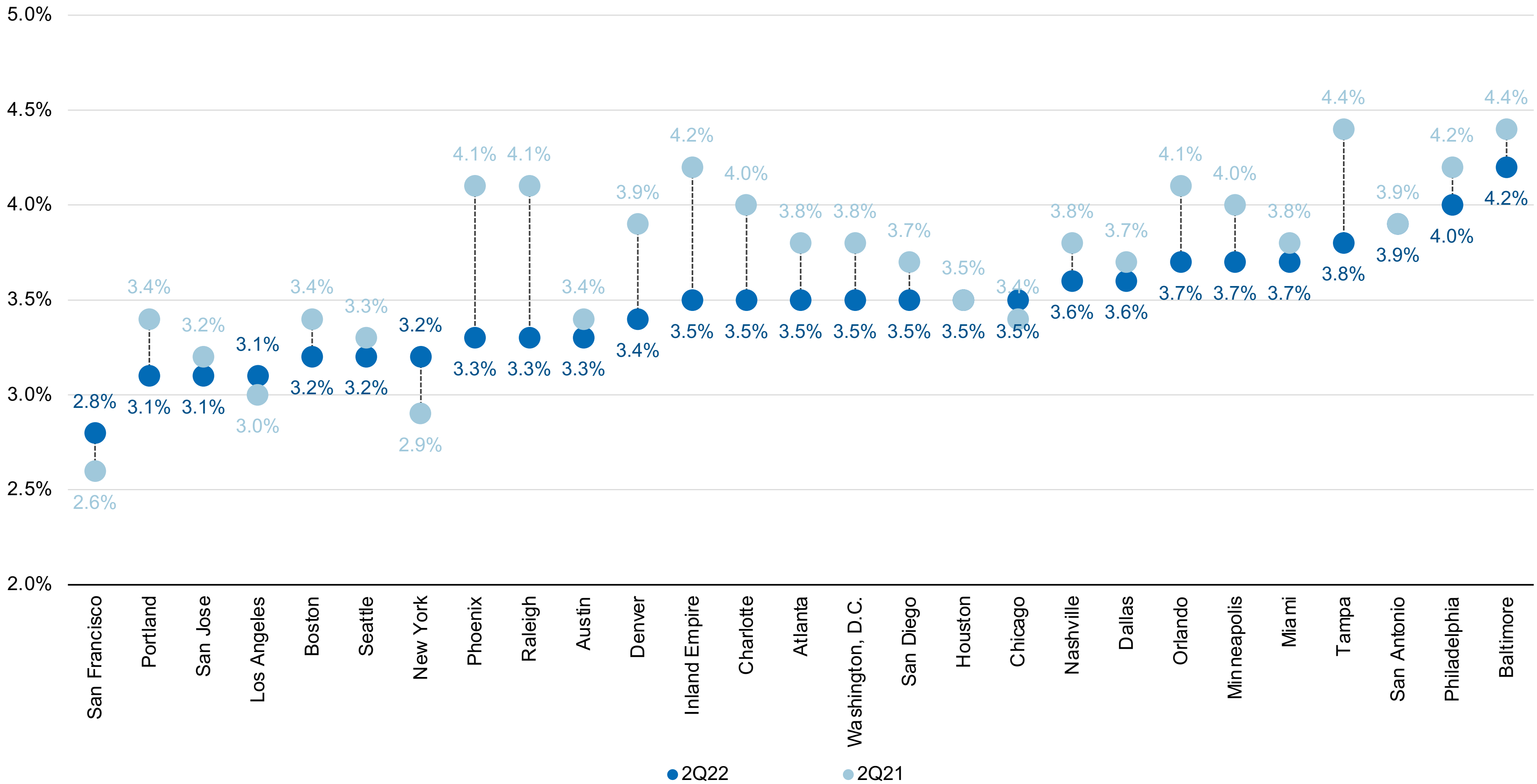


Source: Newmark Research, Federal Reserve Bank of St. Louis, Real Capital Analytics (Top Quartile)

Cap Rates by Market

Select Markets

On a year-over-year basis, cap rates fell in almost every market. However, gateway markets such as New York, San Francisco, Los Angeles and Chicago saw cap rates expand. Markets that experienced the largest compression in cap rates were Phoenix and Raleigh, which both fell 80 basis points.

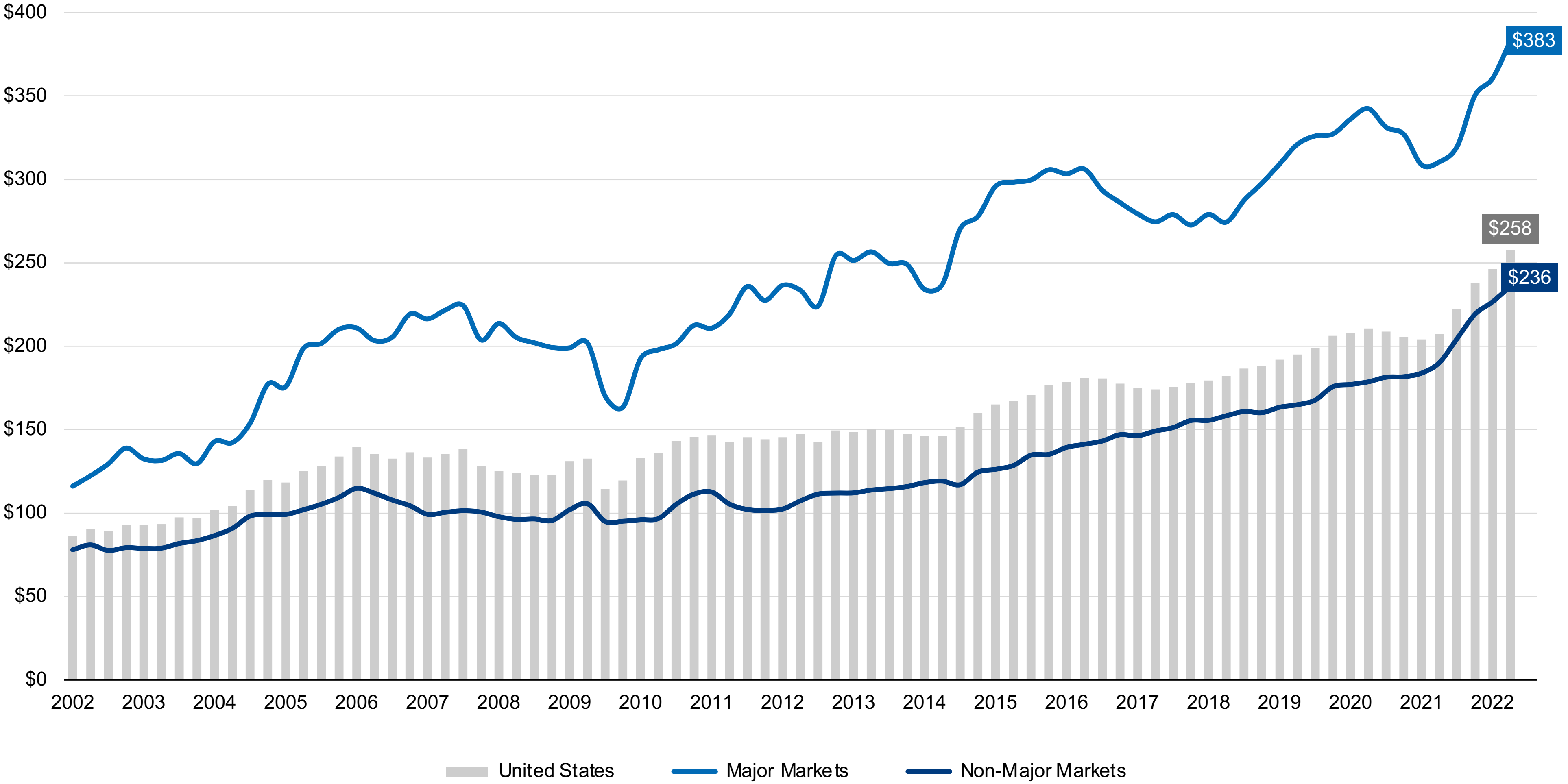


Source: Newmark Research, NCREIF

Price Per Unit

United States; 12-Month Average

The average price per unit for US multifamily rose to $ $258,000 in 2Q22, a 4.7% quarter-over-quarter increase and 24.4% increase from a year ago. While recently non-major market pricing has outpaced major market pricing growth, major markets bounced back in 2Q22 – increasing 6.3% quarter-over-quarter and 23.4% year-over-year.



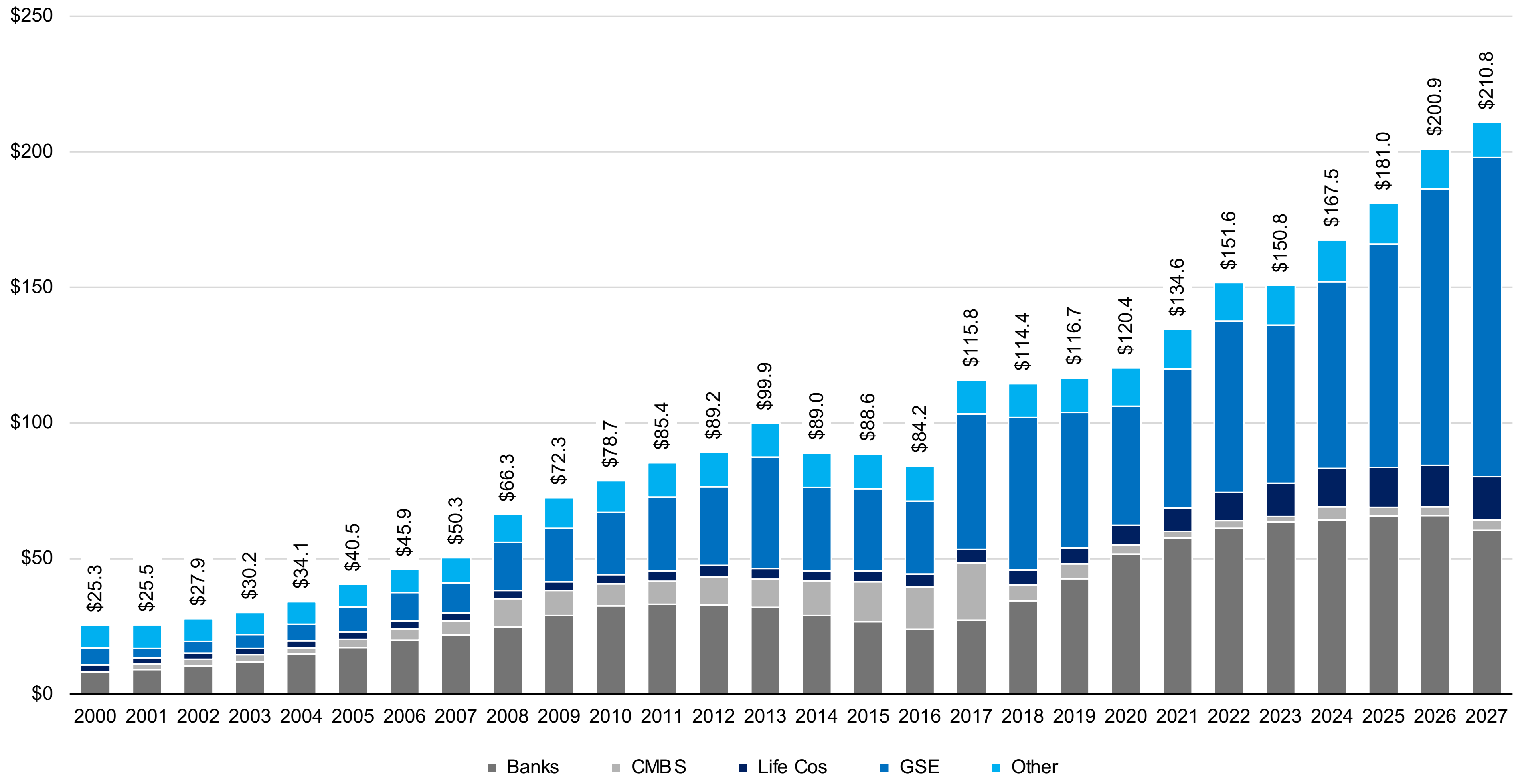
Source: Newmark Research, Real Capital Analytics (Transactions $25M+)

* Major markets: Boston, Chicago, Los Angeles metro, New York metro, San Francisco metro, Washington, D.C. metro. Non-major markets: all other markets.

Mortgage Maturities

United States; $ in Billions

Robust activity for investment sales and financing activity is expected for the foreseeable future due to $1.1 trillion in multifamily mortgages set to mature between 2022-2027. While GSE maturities accounted for 38.4% of the market in the previous decade, GSE maturities are expected to rise to over 50% in 2026-2027.



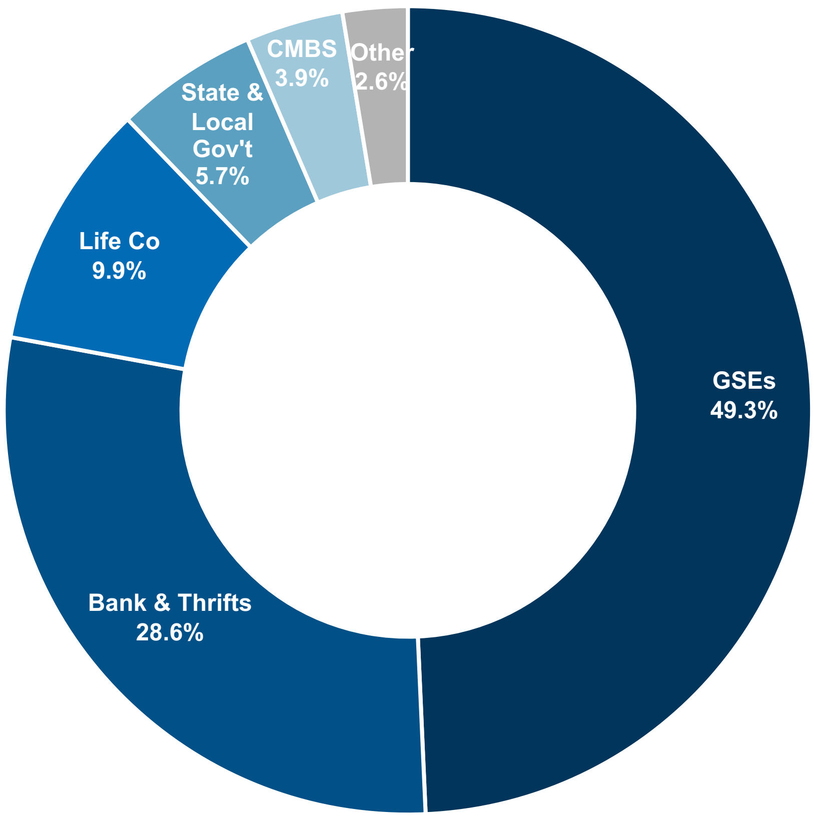
Source: Newmark Research, Trepp

Mortgage Debt Outstanding

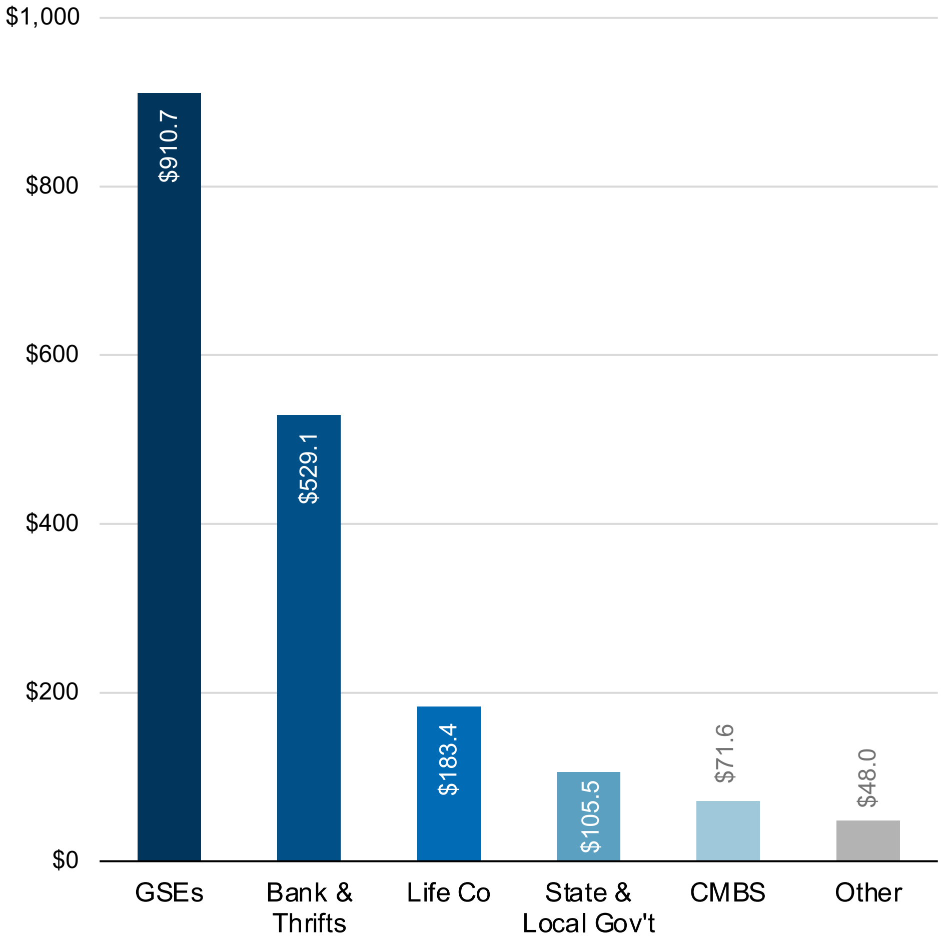
United States

Multifamily mortgage debt outstanding increased to $1.85 trillion, a 2.1% increase quarter-over-quarter. In nominal dollars, banks saw the largest increase quarter-over-quarter at 3.2% growth or $16.5 billion.

DEBT OUTSTANDING BY GROUP AS A PERCENTAGE



DEBT OUTSTANDING BY GROUP (DOLLARS IN BILLIONS)



Source: Newmark Research, Mortgage Bankers Association

New York Headquarters
125 Park Avenue
New York, NY 10017
t 212-372-2000

nmrk.com

Research Contacts

David Bitner
Executive Managing Director
Global Head of Research
david.bitner@nmrk.com

Jonathan Mazur
Executive Managing Director
National Research
jonathan.mazur@nmrk.com

Mike Wolfson
Director
Capital Markets Research
mike.wolfson@nmrk.com

Sean Marmora
Senior Analyst
Capital Markets Research
sean.marmora@nmrk.com

Multifamily Leadership

Jeff Day
Chief Strategy Officer & President,
Head of Multifamily Capital Markets
jeff.day@nmrk.com

Sharon Karaffa
Vice Chairman
Co-Head of Production
sharon.karaffa@nmrk.com

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