Apartment Market Overview

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NMHC
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Apartment market starting to loosen

Source: NMHC Quarterly Survey of Apartment Market Conditions.
Rent growth moderating after historic surge

U.S. Apartment Rent Growth, Annual Rate

Was post-COVID rent growth really that historic?

Was post-COVID rent growth really that historic?


Annual, Inflation-Adjusted Rent Growth for Studio Apartments

- Boston
- San Francisco
- Seattle
- Washington DC
- Los Angeles
Was post-COVID rent growth really that historic?


Annual, Inflation-Adjusted Rent Growth for 1-bdrm Apartments

- Boston
- San Francisco
- Seattle
- Washington DC
- Los Angeles

Vacancy rates tick up

U.S. Rental Apartment Vacancy Rate (5+ units)

Source: RealPage; U.S. Census Bureau.
Increasing cost of debt and equity

Source: NMHC Quarterly Survey of Apartment Market Conditions.
Transactions have ground to a halt

Source: NMHC Quarterly Survey of Apartment Market Conditions.
Transaction volume pulls back sharply

Apartment Transaction Volume ($ billions)

Source: Real Capital Analytics.
Prices decline, cap rates rise

Source: Real Capital Analytics.
Apartment returns turn negative

Annual Apartment Returns

Source: NCREIF; NAREIT.
Elevated supply could exacerbate softness in some markets

Source: U.S. Census Bureau.
Elevated supply could exacerbate softness in some markets

**Multifamily (5+) Permits**

- **Phoenix**
- **Austin**
- **Denver**

Source: U.S. Census Bureau.
Elevated supply could exacerbate softness in some markets

Source: U.S. Census Bureau.

Multifamily (5+) Permits

- Nashville
- Raleigh
- Jacksonville, FL

Source: U.S. Census Bureau.
Elevated supply could exacerbate softness in some markets

Multifamily (5+) Permits

Source: U.S. Census Bureau.
Elevated supply could exacerbate softness in some markets

Source: U.S. Census Bureau.

Multifamily (5+) Permits

- San Jose, CA
- San Francisco, CA
- Portland, OR

Source: U.S. Census Bureau.
Rising cost of insurance

22 consecutive quarters of property insurance rate increases

Four Driving Factors:

- **Inflation**
  - Rising inflation’s impact on replacement cost methodology

- **Data Quality**
  - Data quality, underwriting, and their impact on premiums

- **Lack of Capacity**
  - Insurance market capacity constraints and policy limitation

- **Risk Management**
  - Risk Management, claims mitigation, and loss prevention

U.S. Housing Shortage

- 3.8 million homes (Freddie Mac, as of 2020)
- 600,000 apartment homes (NMHC & NAA, as of 2021)

Source: NMHC/NAA; Hoyt Advisory Services; Freddie Mac.
Housing cost burdens increasing over time

Share of cost-burdened households

 Owners
 Renters

Source: NMHC tabulations of American Housing Survey microdata.
Buy-to-rent premium nearing all-time highs

Role of material prices in delays

% Firms reporting lack of materials
% Firms reporting price increases

Source: NMHC COVID Construction Survey.
Material prices continue to increase (Price increases over past three months)

<table>
<thead>
<tr>
<th>Materials</th>
<th>March 2022</th>
<th>June 2022</th>
<th>September 2022</th>
<th>December 2022</th>
<th>March 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exterior Finishes &amp; Roofing</td>
<td>+14%</td>
<td>+11%</td>
<td>+8%</td>
<td>+9%</td>
<td>+4%</td>
</tr>
<tr>
<td>Electrical Components</td>
<td>+15%</td>
<td>+12%</td>
<td>+12%</td>
<td>+13%</td>
<td>+9%</td>
</tr>
<tr>
<td>Appliances</td>
<td>+5%</td>
<td>+5%</td>
<td>+6%</td>
<td>+9%</td>
<td>+7%</td>
</tr>
<tr>
<td>Insulation</td>
<td>+12%</td>
<td>+10%</td>
<td>+6%</td>
<td>+9%</td>
<td>+3%</td>
</tr>
<tr>
<td>Lumber</td>
<td>+45%</td>
<td>-5%</td>
<td>-2%</td>
<td>-5%</td>
<td>-5%</td>
</tr>
</tbody>
</table>

Source: NMHC Construction Quarterly Survey.
Labor became less available during COVID

Source: NMHC COVID Construction Survey.
Construction labor market showing signs of moderation

Share of respondents who saw labor as more/less available
(over the past three months)

More available  Less available

March  63%  0%
June  40%  7%
September  32%  11%
December  21%  10%
March  19%  10%

Source: NMHC Construction Quarterly Survey.
Construction labor market showing signs of moderation

Causes of delayed starts

<table>
<thead>
<tr>
<th></th>
<th>January 2022</th>
<th>February 2022</th>
<th>March 2022</th>
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</thead>
<tbody>
<tr>
<td>Staffing shortages</td>
<td>43%</td>
<td>27%</td>
<td>31%</td>
</tr>
<tr>
<td>Permitting, entitlement, professional services</td>
<td>75%</td>
<td>85%</td>
<td>69%</td>
</tr>
</tbody>
</table>

Source: NMHC Construction Quarterly Survey.
Growing economic uncertainty

Causes of delayed starts – economic uncertainty
(share of respondents)

March 2022: 18%
June 2022: 19%
September 2022: 41%
December 2022: 39%
March 2023: 42%

Source: NMHC Construction Quarterly Survey.
Supply obstacles - regulation

Regulation imposed by all levels of government accounts for an average of 40.6% of multifamily development costs.

- **Inclusionary zoning**
  - Nearly half (47.9%) of developers said they avoid building in a jurisdiction with inclusionary zoning requirements.
  - Those developers subject to IZ must charge 7.6% higher rents, on average.

- **Rent control**: 87.5% of developers avoid working in jurisdictions with rent control.

Source: NMHC-NAHB Cost of Regulations Report (2022)
Three quarters (74.5%) of respondents said they encountered NIMBY opposition to proposed development.

- Confronting that opposition adds an average of 5.6% to total development costs.
- Delays the completions of those properties by an average of 7.4 months.

Source: NMHC-NAHB Cost of Regulations Report (2022)
Questions?

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