

AUGUST 2023

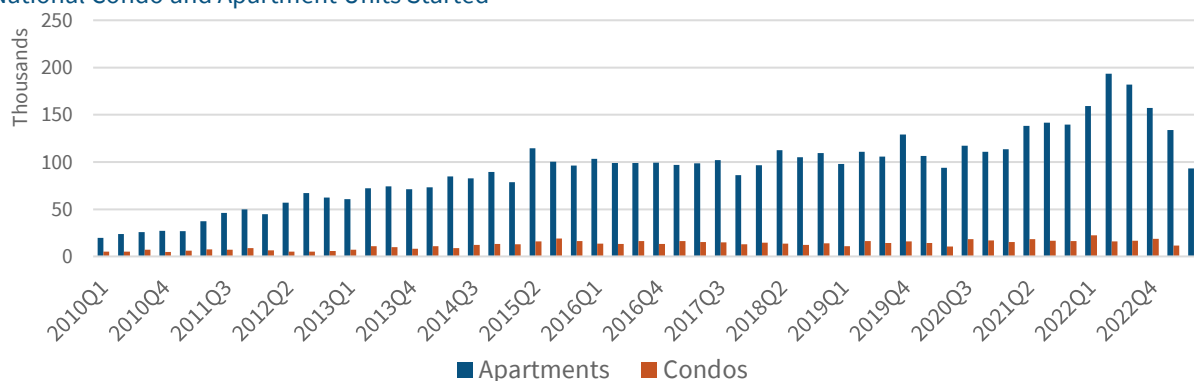
Mid-2023 Multifamily Construction Update

Starts for new multifamily rental and condominium construction have dropped precipitously in 2023 from historically high levels in 2022, according to the Dodge Data & Analytics Supply Track construction pipeline. As shown in the chart below, since second quarter 2022, starts have declined at a relatively consistent rate. It is worth noting, however, that the number of starts in the second quarter of 2023 alone was around 100,000 units, according to Dodge Data & Analytics, which was a return to pre-pandemic historical levels.

We believe the decline is due to a combination of short-term supply-side market saturation, the broader increase in interest rates making financing new construction significantly more expensive compared to recent years, and a reported pull-back in construction lending by many banks.

As seen below, apartment rental units continue to be the predominant form of multifamily construction in 2023, which has been the case since 2008. Only 16,338 condo units were started during the first half of 2023, making up only 6.7% of starts, according to Dodge Data & Analytics. Furthermore, condominium starts are declining at a much faster pace: Apartment starts declined 36% year over year, as of second quarter 2023, while condo starts declined 58% during the same time period.

National Condo and Apartment Units Started



Source: Dodge Data & Analytics, July 2023

Note: Q2 2023 project starts are preliminary estimates and subject to significant revision

Census Bureau Starts Data Estimates a Greater Number of Units

The U.S. Census Bureau estimated that multifamily starts averaged 552,000 units annualized in the first quarter of 2023, but this data includes condo properties and is extrapolated using an estimated timeline based on permits data. Nevertheless, we expect that Census Bureau multifamily starts will taper off in the second half of 2023 and end the year down 6.4% compared to 2022.

While the level of supply remains above the levels seen during the depths of the Great Recession, overall starts remain well below the extraordinary levels achieved in the 1970s. For instance, in 1973, more than one million units were started.

Multifamily Economic and Market Commentary

2023 May Be a Record Year for Completions of Apartment Units

According to the Dodge Data & Analytics Supply Track construction pipeline data, the number of apartment units completed across the country may reach a record in 2023. As illustrated in the chart below, nearly 730,000 units are underway with completion dates expected in 2023, though only 164,000 were completed year to date through April. That’s compared to full-year totals of 479,000 units in 2022 and 395,000 units in 2021. The overall pipeline underway is slightly lower than it was a year ago: As of July 2023, 1,116,000 units were underway, compared to 1,141,000 in July 2022. With supply chains operating more efficiently in 2023 than in 2022, we expect more units will complete this year than in 2022.

National Condo and Apartment Completions and Expected Completions



* Projected completions.

Source: Dodge Data & Analytics, July 2023

Class A Supply Comes Online and Pressures Rent Growth, Particularly in Large Metros

Multifamily rental development continues to be concentrated in some of the largest metros in the country, as seen in the table on the next page. **New York City** continues to be the most active metro in the country, with nearly 150,000 units either recently completed or underway. Dallas and Austin have both overtaken Washington, DC, with **Dallas** at 74,000 units, **Austin** with 66,000 units, and **Washington, DC** with 60,000 units either recently completed or underway. **Houston** and **Atlanta** are also expecting at least 50,000 units each will be completed this year. **Seattle**, **Los Angeles**, **Phoenix**, and **Miami** are expected to round out the top 10.

While much of the current development underway is concentrated in the largest metros, in most metros it is further concentrated in only a few submarkets, particularly in more dense and urban-focused submarkets. Additionally, most units being developed are more expensive, Class A-type apartment units. We believe this potential oversupply of Class A units may depress rent growth relative to Class B, particularly through 2024. For example, CoStar, Inc., is forecasting that Class B year-over-year rent growth will be 3.3% for the year ending Q2 2024, compared to the projection for Class A of 2.6% for the same period.



Multifamily Economic and Market Commentary

New Supply Is Elevated in Terms of Inventory in Many Metros – But Not For Long

According to the Dodge Data & Analytics Supply Track pipeline, the number of units underway is elevated in terms of existing inventory levels, as seen in the chart below. Metros such as **Austin, Dallas, Jacksonville, Miami, Nashville, Raleigh,** and **Salt Lake City** all currently have pipelines at or above 10% of inventory.

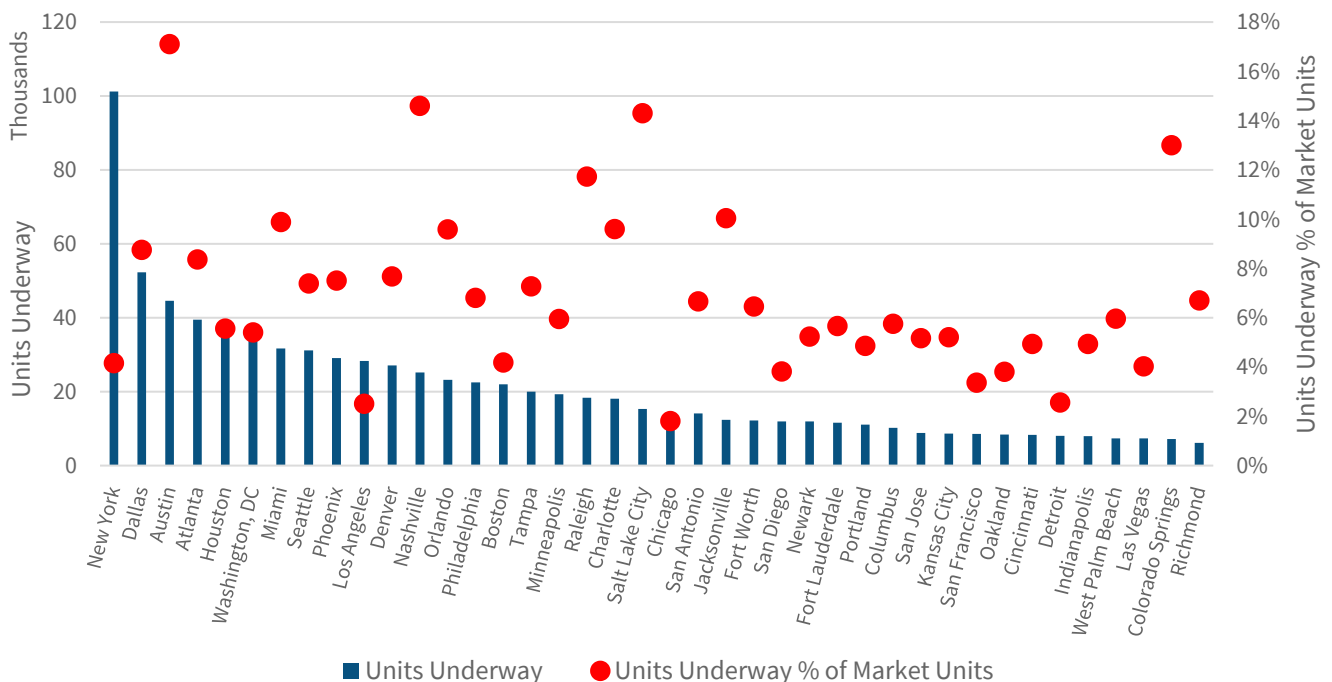
However, we believe that supply and demand will rebalance fairly quickly due to expected demographic trends, job growth, and household formation increases.

Units Recently Completed and Underway

Metro	2022	2023	2024	Beyond	Total
New York	39,154	63,136	34,118	12,493	148,901
Dallas	16,252	26,934	27,131	3,823	74,140
Austin	17,080	28,489	18,161	2,193	65,923
Washington, DC	20,428	20,242	15,946	3,745	60,361
Houston	15,058	21,366	18,288	1,809	56,521
Atlanta	9,768	25,509	14,573	2,851	52,701
Seattle	15,100	22,205	11,007	1,350	49,662
Los Angeles	11,626	20,913	10,919	4,088	47,546
Phoenix	15,016	17,127	12,672	2,099	46,914
Miami	9,459	15,670	12,649	5,851	43,629
Orlando	10,809	21,299	9,394	345	41,847
Denver	10,185	16,929	13,315	1,067	41,496
Nashville	9,803	16,723	10,525	1,414	38,465
Minneapolis	12,934	15,238	7,192	929	36,293
Philadelphia	9,069	19,097	7,126	845	36,137
Boston	11,304	13,827	7,944	2,922	35,997
Tampa	8,930	10,925	11,513		31,368
Charlotte	8,550	12,293	7,059	1,819	29,721
Raleigh	3,776	9,624	10,605	826	24,831
Chicago	6,277	9,981	6,297	1,199	23,754
San Antonio	6,794	9,222	6,642	378	23,036
Salt Lake City	5,023	11,549	4,775	915	22,262
Fort Worth	6,840	9,308	4,596	584	21,328
Newark	5,674	9,424	3,753	1,195	20,046
Jacksonville	5,371	9,317	4,949	396	20,033

Source: Dodge Data & Analytics, July 2023

Multifamily Units Underway and Percent of Market Units – Select Metros



Source: Dodge Data & Analytics, July 2023

Note: Q2 2023 project starts are preliminary and subject to significant revision



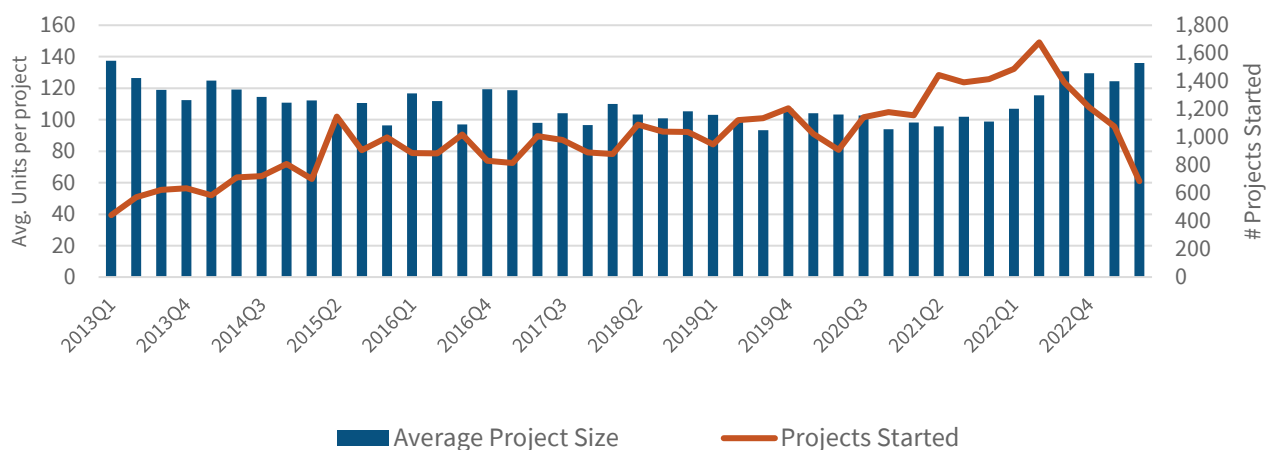
Multifamily Economic and Market Commentary

Projects Started Declining in 2023

According to the Dodge Data & Analytics Supply Track pipeline, the decline in starts discussed above reflects that, while the number of units per project has increased slightly, the actual number of projects themselves has declined substantially in the first half of 2023, declining to 1,761 projects, down from 3,166 in the first half of 2022, as seen in the chart below.

The average number of units per project increased year-over-year to approximately 129 for the first half of 2023, which is above the average of 111 units per project for the same period in 2022.

Average Number of Units per Apartment Project Started



Source: Dodge Data & Analytics, July 2023

Note: Q2 2023 project starts are preliminary estimates and subject to significant revision

Multifamily Supply May be Peaking

The financing costs of new developments have increased substantially since interest rates began increasing in early 2022, another reason why we expect a slowdown in starts activity. Additionally, we believe the more expensive Class A segment may see a disproportionate uptick in vacancy rates, as well as modest rent growth, as the upcoming surge of completions is almost entirely comprised of these types of units.

Since the onset of the pandemic, demand among renters for units with more space and amenities has increased; as a result, we believe it's possible that future demand may be able to keep pace with this new supply. Despite the potential oversupply in the short term, there is still an ongoing shortage of housing, particularly affordable, in many places across the country. We expect demographic trends to increase demand for housing of all types in the long term.

Multifamily Economic and Market Commentary

Joseph Sleeper

Intern – Finance

Tim Komosa

Economist – Senior Manager

Multifamily Economics and Research

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