



## Multifamily Sector Thrives Amidst Strong Demand and Tight Supply



### *Favorable Demand Conditions Boost Public REIT Performance*

*The multifamily sector continues to exhibit strong performance, driven by favorable demand conditions and limited supply of competitive housing options. Public real estate investment trusts (REITs) in particular have benefited from these trends, reporting robust results in the third quarter of 2023.*

### Key Highlights

- AvalonBay reported a 6.4% increase in core funds from operations (FFO) per share compared with the third quarter of 2022.
- Same-store residential revenue at Equity Residential increased 4.1% year-over-year, but the REIT noted weaker-than-expected performance in San Francisco and Seattle.
- Camden Property Trust's core FFO per share improved to \$1.73 in the third quarter, driven by 4.1% year-over-year growth in same-property revenues.
- UDR's FFO per share grew 7% to \$0.61 per share in the third quarter, attributed to revenue growth from same-store communities and past accretive external growth investments.
- Essex Property Trust reported a 2.4% year-over-year increase in core FFO per share, with same-property revenue growth of 3.2% compared with the third quarter of 2022.



## Driving Factors

The strong performance of the multifamily sector can be attributed to several factors, including:

**Continued demand for rental housing:** The buy-to-rent premium, which is the difference between the cost of buying a home and the cost of renting a home, is at a 30-year high. This is making rental housing more attractive to many individuals and families.

**Limited supply of single-family homes:** The inventory of available single-family homes is low, making it difficult for many people to purchase a home. This is further driving demand for rental housing.

**Job growth:** The U.S. economy is expected to continue to grow in 2024, which will support demand for rental housing.

### Industry Outlook

Despite some concerns about the impact of new apartment supply on rental rate growth, the outlook for the multifamily sector remains positive. REIT executives expressed confidence in their companies' ability to capitalize on opportunities that may arise from market dislocations.

***Overall, the multifamily sector is well-positioned for continued growth in the coming years. Favorable demand conditions, limited supply, and a strong economy are all contributing to the sector's success.***



## **CBRE: Multifamily Deliveries Slow Rent Growth**

*The average monthly net effective rent increased 0.7% year over year in the third quarter. Healthy demand continued for the multifamily market in the third quarter, according to the latest research from CBRE.*

*Despite record new supply, the vacancy rate held steady, inching up by 10 basis points (bps) quarter over quarter to 5.1%. This was slower than the 30-bp increase in the first quarter and the same as the second quarter.*

*New construction deliveries saw a high of 114,600 units in the third quarter, bringing the four-quarter total to 376,500 units, which is the highest amount since CBRE began tracking the market in 1996. The top five markets for new deliveries over the past four quarters were New York; Washington, D.C.; Dallas; Austin, Texas; and Los Angeles, making up 25% of the national total. CBRE noted that moderate construction starts will mean fewer deliveries beginning in 2025.*

*According to CBRE, net absorption increased to 82,100 units in the third quarter, which indicates a return to more seasonal demand that the pandemic had disrupted in 2021 and 2022.*

*“Renter demand remained healthy through the third quarter, largely offsetting record new construction,” said Kelli Carhart, leader of multifamily capital markets for CBRE. “We anticipate investment activity to pick up mid-2024, driven by an end to the Fed’s rate hiking cycle and improved capital market conditions, as well as loan maturities that will create transaction opportunities.”*

*While the average net effective rent increased 0.7% year over year in the third quarter, this was below the pre-pandemic five-year average of 2.7% and well below the year-over-year peak of 15.2% in 2022’s first quarter. CBRE noted that markets with the most constructions deliveries saw the biggest declines in rent growth.*

*The Midwest and Northeast/Mid-Atlantic regions led for year-over-year rent growth in the third quarter. Both down from 4.3% in the second quarter, the Midwest saw 3% growth, followed by the Northeast at 2.9%. According to CBRE, the Southeast, South Central, Mountain, and Pacific regions also saw negative average rent growth.*

*While multifamily investment volume was down for the third quarter—\$29 billion compared with \$75.8 billion a year ago—it did maintain the largest share of commercial real estate investment volume with 34% for the quarter.*



## South Florida's Multifamily Sector Exhibits Signs of Cooling Down

*The South Florida multifamily sector, once characterized by skyrocketing rent prices and fierce competition among buyers, is finally showing signs of cooling off. In the third quarter of 2023, average monthly asking rents in the region dipped by \$5 to \$2,121, marking the first decline since the early days of the pandemic. This shift comes as new supply enters the market, outpacing demand and easing upward pressure on rental rates.*

### Key Trends

*Easing Rent Growth: After a prolonged period of rent increases, the third quarter witnessed a slight decline in average asking rents, signaling a moderation in the market's pace.*

*Accelerated Supply: The delivery of new apartment units has outpaced demand, with 13,388 units added year-to-date, surpassing the total number of units delivered in all of 2022.*

*Rising Vacancy Rates: The vacancy rate has increased to 5.4%, up from 4.6% a year ago, reflecting the growing supply of available units.*

*Moderated Investment Sales: Investment sales in Miami have normalized to pre-pandemic levels, following two years of intense investor activity in multifamily properties.*

### Market Analysis

The slowdown in rent growth and rising vacancy rates indicate that the South Florida multifamily sector is transitioning from a seller's market to a more balanced market. New supply is catching up with demand, putting downward pressure on rents and easing the intense competition that has characterized the market in recent years.

While the market is cooling off, it's important to note that rents remain relatively high compared to pre-pandemic levels. Moreover, Miami still ranks among the most expensive cities to rent in the United States. This suggests that demand for rental housing remains strong, but the pace of growth is moderating.



## Outlook

The outlook for the South Florida multifamily sector in the short term is uncertain. The continued delivery of new units could further pressure rents and vacancy rates. However, if demand remains strong, the market could stabilize and rent growth could resume.

In the longer term, the sector's performance will depend on various factors, including economic conditions, population growth, and the overall supply-demand balance. If the economy weakens, demand for rental housing could soften, further impacting rent growth. However, if population growth continues, demand could remain strong, supporting the sector's resilience.

Overall, the South Florida multifamily sector is entering a new phase characterized by slower rent growth, rising vacancy rates, and a more balanced market. Investors and developers will need to adapt to these changing dynamics to navigate the market successfully.