INSTITUTIONAL INSIGHTS

MULTIFAMILY MARKET INTELLIGENCE

Authored by Greg Willett

Pullback in Multifamily Construction Starts

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Apartment Construction Starts Plummet Across the United States

Entering 2023, the country's most active apartment developers were generally anticipating that they would start construction on only about half as many units as they were able to get underway in 2021 or 2022. This anticipated sharp slowdown in early stage building activity was registered during 2023's second quarter, as starts in key markets fell to slightly below half the earlier norm.

Less access to development capital has been the leading factor triggering the slowdown in construction. The largest banks were generally targeting less substantial capital allocations for real estate early in 2023; likewise, many smaller banks made strategy adjustments when a handful of regional lenders failed during the spring. All development capital sources also faced more challenging financials on new projects when the pace of rent growth cooled from earlier records and when operational expenses — particularly insurance costs — soared above past norms.

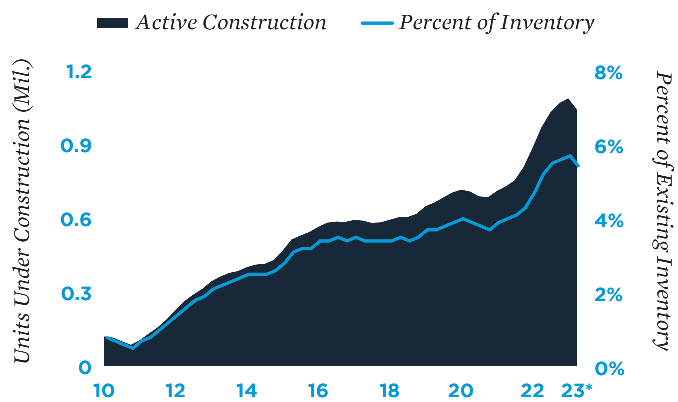
Cooling Future Deliveries Set the Stage for a Rent Growth Comeback

Just over one million apartment units are now under construction across the U.S. However, building is not booming everywhere. About half the total construction pipeline is in 15 markets, where a slowdown in local starts will impact overall statistics. Most of the primary building centers are in the Sun Belt, but there's also notable activity in Washington, D.C., Los Angeles, Seattle and Philadelphia.

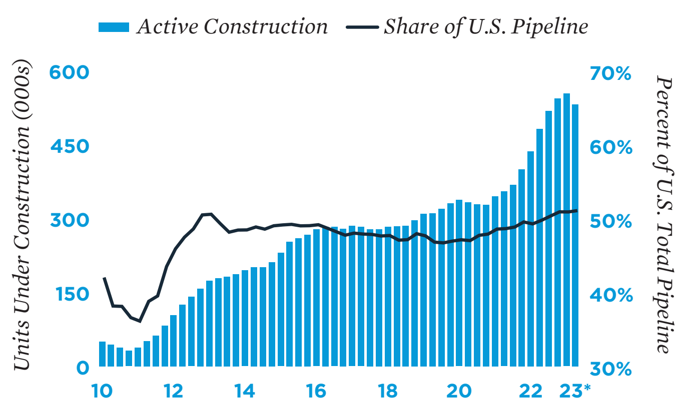
Apartment construction starts in the 15-market core building locations skidded to 30,800 units in the second quarter of 2023. That start volume is off 52 percent from the quarterly norm of 64,200 that was sustained for nine quarters from early 2021 through early 2023. Absolute peak quarterly starts totaled 81,500 units from April through June 2022.

Given that the typical apartment community takes 18 to 24 months to complete, delivery volumes should begin to wane in early 2025 and then drop notably during the last half of the year. Rent growth seems likely to regain momentum as early as spring 2024, when the normal seasonal upturn in leasing velocity should coincide with obvious signs that today's new supply excess is temporary. Price increases should then prove robust during 2025.

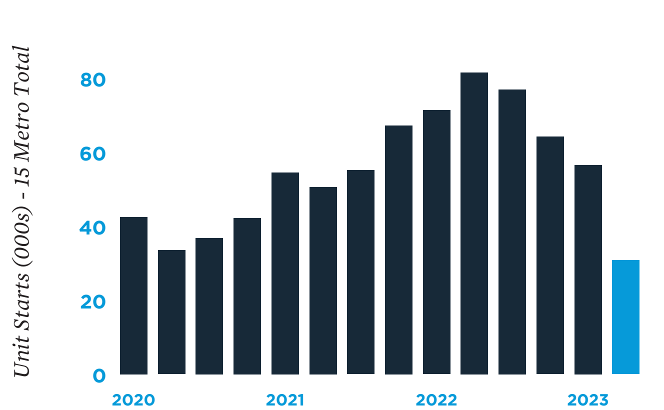
U.S. Ongoing Apartment Construction



15 Major Metros - Share of U.S. Construction



Construction Starts Receding



* As of 2Q

Sources: IPA Research Services; RealPage, Inc.

Slowdown in Starts Varies Across the Most Active Construction Markets

The key building centers registering the most pronounced cooling in apartment construction starts are located in Texas. Compared to typical starts in early 2021 to early 2023, the number of units breaking ground in 2023's second quarter fell 79 percent in Houston, 74 percent in Austin and 67 percent in Dallas-Fort Worth. It's perhaps surprising to see that level of deceleration in the Texas markets, as the Lone Star State's key metros are still leaders for job production and apartment demand. In particular, Dallas-Fort Worth is the nation's top spot for job additions by a sizable margin. The next-most prolific metro for career opportunities, New York City, will welcome about half as many new positions as in the Metroplex this year.

The Texas markets, then, seem especially well-positioned to experience a rebound in apartment rent growth. In Dallas-Fort Worth and Houston, near-term apartment absorption capacity should be helped by a broader-than-typical distribution of new supply across neighborhoods. Current building is not as concentrated as it usually is in just a few submarkets.

Other metros within the 15-market block posting construction reductions beyond the norm of 52 percent are Philadelphia at 66 percent, Denver at 62 percent and Washington, D.C. at 57 percent.

Pullbacks in starts that mirror the average for the 15 markets under study are found in Los Angeles at 52 percent, Seattle at 51 percent and Atlanta at 50 percent.

The second quarter slowdown in construction starts is moderately less pronounced than the norm in Nashville, down by 44 percent, or Phoenix, which is down by 43 percent. The same is true of Miami and Orlando, with drops of 37 and 29 percent, respectively, along with Charlotte at 27 percent. That grouping is an interesting array of markets, as it includes the Sun Belt region's best-performing metro for rent growth in Miami, as well as the location suffering the largest rent cuts in Phoenix. Despite the slowdown, metro Phoenix still ranked alongside Raleigh-Durham, Charlotte and Dallas-Fort Worth at the top of the list for starts during the second quarter. All four locations had development begin on projects spanning 3,200 to 3,500 units.

With that sizable block of product initiated in Raleigh-Durham during the second quarter, the market is the one spot that displays no slowing in new construction so far. The starts total for April through June 2023 surpassed the early 2021 to early 2023 quarterly average by roughly 150 units, although there was a downturn from the absolute peak of 5,700 units begun in the second quarter of 2022.

Drop in Construction Starts Blatant Across Most Heavily Active Apartment Development Markets

Market	2Q 2023 Starts	Average Quarterly Starts 1Q'21-1Q'23	2Q 2023 Starts as Share of Average
Houston	1,100	5,280	20.8%
Austin	1,400	5,470	25.6%
Dallas-Fort Worth	3,240	9,890	32.8%
Philadelphia	940	2,730	34.4%
Denver	1,410	3,690	38.2%
Washington, D.C.	1,560	3,650	42.7%
Los Angeles	1,130	2,330	48.5%
Seattle	1,390	2,810	49.5%
Atlanta	2,470	4,980	49.6%
Nashville	1,990	3,600	55.3%
Phoenix	3,480	6,120	56.9%
Miami	1,790	2,840	63.0%
Orlando	2,170	3,050	71.1%
Charlotte	3,230	4,410	73.2%
Raleigh-Durham	3,490	3,330	104.8%

Includes markets with more than 20,000 units actively under construction
Sources: IPA Research Services; RealPage, Inc.

IPA Multifamily
John Sebree
Senior Vice President, Director
Tel: (312) 327-5400 | j.sebree@ipausa.com

Authored By:
Greg Willett
First Vice President, National Director IPA Research
Tel: (972) 755-5200 | g.willett@ipausa.com

For information on national multifamily trends, contact:
John Chang
Senior Vice President, Director | Research & Advisory Services
Tel: (602) 707-9700 | jchang@ipausa.com

Price: $500

Sources: IPA Research Services; Bureau of Labor Statistics; Moody's Analytics; Real Capital Analytics; RealPage, Inc.; U.S. Census Bureau