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MULTIFAMILY MARKET INTELLIGENCE

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Multifamily Construction Moves Past Peak

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Historically High Development Cycle Entering its Latter Stage

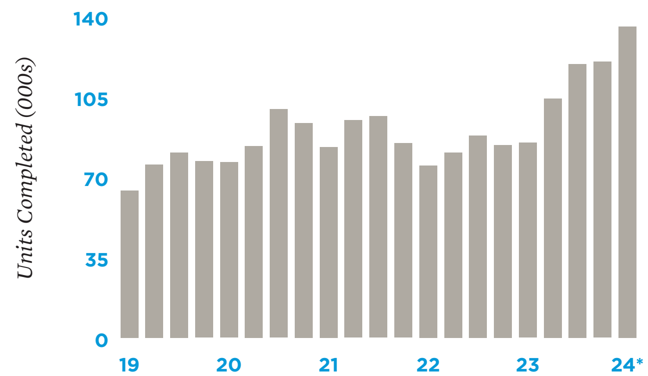
Elevated new supply pressure widely apparent but set to taper. A large wave of apartment deliveries has weakened property performance fundamentals in select markets across the U.S. Nearly 480,000 units were completed across the country over the past four quarters, outpacing robust absorption to lift national vacancy 70 basis points in that span to 5.9 percent in March, while rent growth moderated to 1.2 percent. However, the size of incoming stock is now shrinking, down about 15 percent in March 2024 from a year earlier. Looking forward to late 2025 and on to 2026, the stage is set for retreating vacancies and rebounding rent growth, assuming the state of the economy retains enough health to allow household formation and housing demand to remain substantial.

Ongoing development cools. Going into 2024's second quarter, 946,000 apartments were under construction across the country, with about half of that activity concentrated in 15 metropolitan areas. Ongoing construction has been gradually pulling back since peaking in early 2023 at 1.112 million units. The downshift is being influenced by an acceleration in recent deliveries, paired with a slowdown from initiations of additional properties.

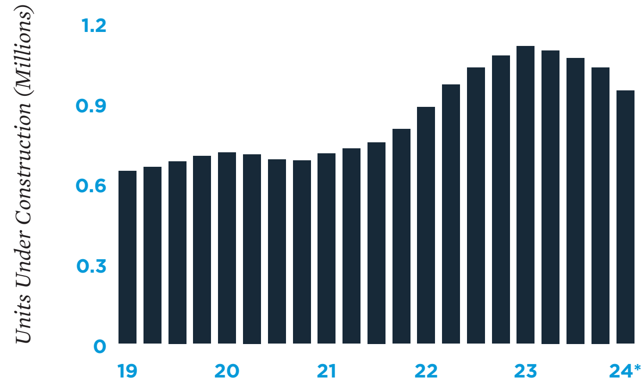
Quarterly deliveries surge. Apartments completed in 2024's first quarter totaled 135,000 units, the largest number of units delivered during a three-month period over the past several decades. That block of arrivals was 26 percent over 2023's quarterly average and a whopping 61 percent over the fairly steady quarterly pace of product additions recorded from 2019 through the end of 2022.

Permit volumes decline. Building permits were issued for 83,000 apartments in the U.S. during the first quarter of 2024. That total compares to peak quarterly permits for 141,000 units in mid-2022 and an average quarterly volume of roughly 88,000 units from 2015-2020. Furthermore, at this point in the cycle, the most recent permit levels will certainly top physical starts. Permits are being approved for some projects where financing is not in place and will likely not be available during the short term, as most lenders are still hesitant to provide funding in many instances.

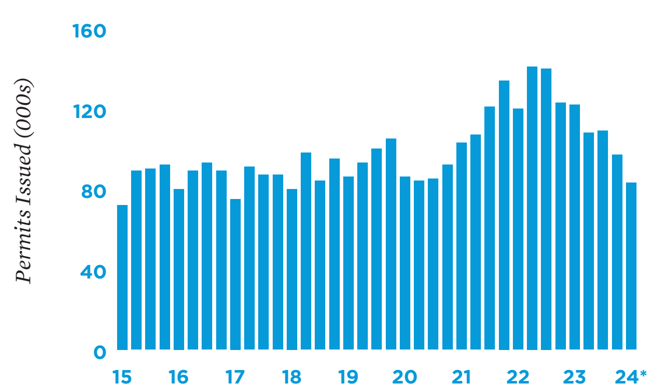
Quarterly Apartment Completions



Units Under Construction Falling



Multifamily Permits on the Decline



* Through 1Q

Sources: IPA Research Services; RealPage, Inc.

Building Cools Almost Everywhere

National trend gives way to more nuanced local picture. How much construction activity is beginning to wane obviously varies from one metro to another. Market-by-market analysis is required to fully understand the shifts in momentum, as there are not pronounced patterns by region or type of market.

Development hotspots starting to cool, but at different paces. Among the country's largest metros, 16 markets still ranked as very aggressive construction centers as of March 2024. Ongoing development will expand the existing inventory in each of these locations by more than 5 percent. Although current building activity is down at least a little in every one of them, the decline is slight in some cases. Within this group of markets, Jacksonville and Salt Lake City are experiencing the most notable cutbacks in building. March's under-construction pipeline was less than 70 percent of last year's tally in each metro. Ongoing development is running at 75 to 80 percent of 2023's volume across Orlando, Nashville and San Antonio, while the amount on the way is 80 to 85 percent of the recent peak in Atlanta, Seattle-Tacoma, Raleigh, Denver, Austin and Tampa-St. Petersburg.

Five markets register more modest pullbacks in building activity. Dallas-Fort Worth's ongoing construction is still 88 percent of the earlier volume, even though that decline in the large market constitutes more than 9,000 units. March's building remained more than 90 percent of the prior year's total in Southeast Florida — inclusive of Miami, Fort Lauderdale and West Palm Beach — as well as in Charlotte and Phoenix. The slowest-to-cool construction center is one that many might not even think of as especially active: Columbus. Ongoing building here stood at 12,100 units in March, off by only a handful of apartments from last year's total of 12,400 rentals.

Handful of slower growth metros have noteworthy slides. Houston's decline of 11,500 units from last year's total is the largest absolute drop across the country, bringing the metro's near-term inventory growth pace down to 4 percent. Minneapolis-St. Paul's ongoing construction total dips by 7,000 units to 9,700 apartments underway, representing just a 2.9 percent inventory expansion. Meaningful declines in building activity were also registered in Los Angeles, Washington, D.C., Philadelphia and Chicago during the first quarter, while construction was down a bit from already modest volumes in Boston, the San Francisco Bay Area and New York City. The only sizable metro with a noteworthy increase in ongoing construction over the past year is Orange County. Even with the addition of about 1,200 units to the active pipeline, however, the underway total of 7,900 apartments still only represents near-term inventory growth of 2.9 percent.

Construction Trends in Various Markets

Market	Units Under Construction	Under Construction as % of Last Year's Level	Under Construction as % of Inventory
Columbus	12,100	97.7%	5.9%
Phoenix	50,600	94.8%	12.3%
Charlotte	34,200	93.5%	14.8%
Southeast Florida	38,600	91.9%	5.8%
Dallas-Fort Worth	68,400	88.3%	7.3%
Tampa	17,000	85.7%	6.0%
Austin	43,100	84.8%	14.0%
Denver	26,500	83.5%	7.9%
Raleigh-Durham	23,600	83.2%	12.2%
Seattle-Tacoma	26,100	82.8%	5.9%
Atlanta	37,000	82.0%	6.5%
San Antonio	14,900	78.4%	6.5%
Nashville	22,600	77.9%	12.0%
Orlando	18,900	74.6%	6.9%
Salt Lake City	12,200	69.9%	9.2%
Jacksonville	11,000	68.7%	7.8%
United States	**946,300**	**85.1%**	**4.9%**

Metros with over 5 percent of inventory under construction as of March 2024
Sources: IPA Research Services; RealPage, Inc.

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