THE TREND REPORT

FALL 2024

COLDWELL BANKER COMMERCIAL

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IT'S A TRUISM that has taken on new meaning in recent years – all people need someplace to live. And in the early years of the 2020s, home buyers were encouraged by exceptionally low mortgage rates to purchase rather than rent a home.

Demographics played a role, as well – the largest generation in history, the millennials, were in their prime household formation years and now comprise 38% of the home-buying market, up from 28% in 2023, reports the National Association of REALTORS®[1]. In addition, buyers have not been waiting until marriage or partnership to buy a home. Nearly half (42%) of millennials have purchased a home alone, compared with 22% of Gen-Xers and 22% of Baby Boomers, according to BankRate[2].

The result: higher prices in for-sale housing that have lingered, deterring purchases and boosting the rental market, creating a supply issue in multifamily. Trade organizations report that a shortage of affordable multifamily housing remains, resulting in rising rents. But national figures are deceptive, as you'll see in the following pages. Supply, demand, rents and even desired amenities and services for rental homes vary widely by region. These hidden figures are the real story behind the real estate story.

Because, as you'll see, people want more than just housing – they want a home. The challenge going forward for builders and operators will be to create these communities, often with more home-like amenities, in a way that serves their users and investors.

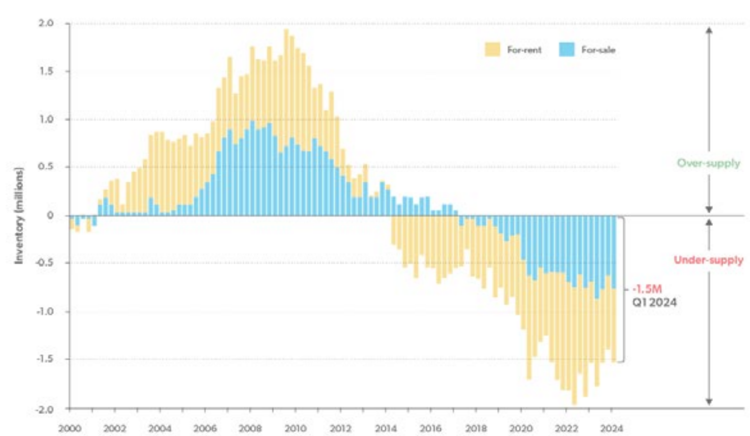
DANIEL SPIEGEL
Senior Vice President &
Managing Director

Supply, Demand and and **RENTS**

IN SOME RESPECTS, THE MULTIFAMILY CRISIS was a result of simple supply and demand – there just aren't enough rental units to meet a growing population, especially as homeownership became less affordable.

Mortgage interest rates that were in the low single digits just three years ago created a huge demand for single-family homes, especially by millennials who sought stability and space during the pandemic. As COVID-19 waned and inflation took hold, the Federal Reserve Board began raising rates to achieve equilibrium. In addition, single-family housing inventory continues to be limited as existing owners cling to their low-interest mortgages, supply chain disruptions increase the cost of construction and the labor market remains tight. Potential home buyers pulled back, and as of the second quarter of this year, the homeownership rate was at 65.6%, its lowest point in more than two years, reports the U.S. Census Bureau.

Total for-sale and for-rent vacant housing is 1.5 million units below a balanced market



Source: Freddie Mac calculations using U.S. Census Bureau data

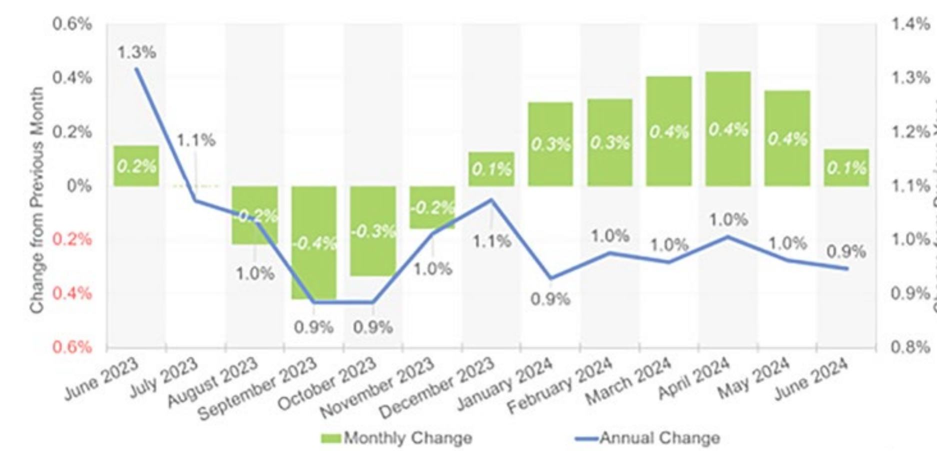
To bring the vacancy rate for rental homes, and availability rate for purchase homes, back in line with historical averages, the U.S. would need to add an additional 1.5 million vacant for-sale and for-rent homes, according to Freddie Mac[3].

"Without such units, the pressure on housing markets will persist. Additionally, the vacant housing undersupply metric is almost certainly a dramatic underestimate of the total housing shortage for the U.S. This is because this metric does not account for latent housing demand and vacant housing that is not for sale or for rent," the report states.

The U.S. needs to build 4.3 million more apartments by 2035 to meet the demand for rental housing, according to the National Multifamily Housing Council. This includes 600,000 units (total) to fill the shortage from underbuilding after the 2008 financial crisis. With construction constrained, affordability also is a problem – the market has seen a decline of 4.7 million affordable (defined by the NMHC as monthly rents less than $1,000) from 2015 to 2020[4].

Those who had hoped to buy returned once again to renting. The result is rising prices in both for-sale and for-rent housing. Nationally, the asking rent is now 20% above its pre-pandemic levels[5].

U.S. Apartment Rent Growth

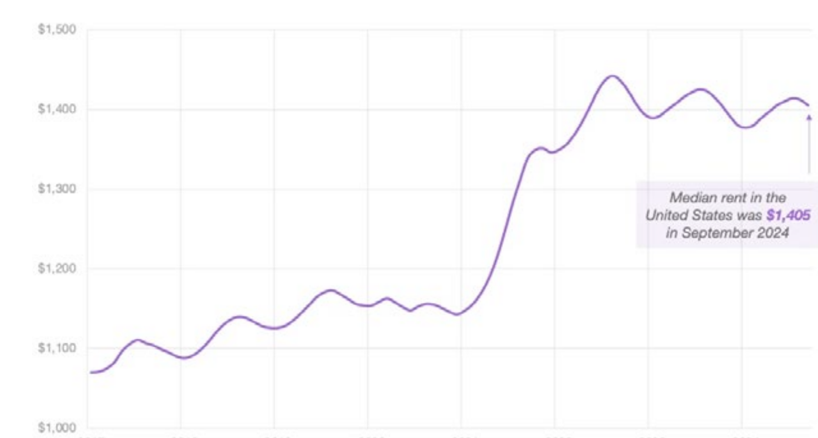


Source: CoStar Apartment Monthly Rent Report, June 2024

The term "pre-pandemic" is key. Over the last year, the rental market has begun to stabilize, reported Apartment List in October 2024.

"Year-over-year rent growth nationally has been in negative territory since June 2023, and currently stands at -0.7%. In other words, the national median rent today is $10 per month cheaper than it was one year ago. But even though rent prices have been trending down for some time, the national median rent is just a few percentage points below its August 2022 peak, but still more than 20% higher than it was at the start of 2021," it wrote[6].

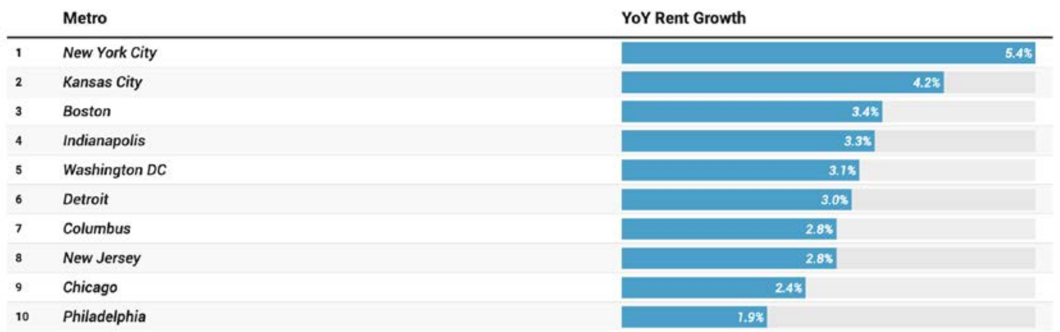
United States Median Rent (2017 - Present)



Source: Apartment List Rent Estimates

Market by MARKET

Top 10 Markets for YoY Rent Growth



Data as of September 2024

Source: Yardi Matrix | Created with Datawrapper

BUT NATIONAL FIGURES DON'T TELL THE WHOLE STORY. All real estate is local, and former "boom towns" are struggling, seeing rent declines.

"Rental demand differed depending upon the metro: Those with a lot of new supply, such as Austin, Phoenix and Jacksonville, have seen negative rent growth over the past six to 12 months. In contrast, metros that are supply constrained, such as Kansas City, Cincinnati and St. Louis, have seen above-average rent growth, according to data from RealPage," Fannie Mae noted in January 2024[7]. Supply coming online also varies widely depending on the metro.

Asking rents are now dropping in The Sunbelt, where many fled during the pandemic in search of space and warmth. Rents fell by 5.7% year-over-year in Austin. Tucson, Raleigh, Jacksonville and Atlanta were just a little behind, with rent losses ranging from 3.1% to 2.2% over the past 12 months, reported CoStar Group's Apartments.com division[8]. Eight of the bottom 10 performing markets are in the South, where supply-demand imbalances remain challenging.

Units Recently Completed and Underway

Metro	2023	2024	2025	Beyond	Total
New York	37,421	55,984	39,459	10,519	143,383
Dallas	22,415	33,427	15,715	2,908	74,465
Austin	21,000	28,320	17,363	867	67,550
Atlanta	20,463	22,436	14,172	201	57,272
Houston	18,624	23,407	12,617	719	55,367
Washington, DC	15,576	19,783	16,621	3,171	55,151
Phoenix	15,493	18,252	13,934	3,039	50,718
Los Angeles	16,901	18,697	9,745	2,411	47,754
Denver	16,607	21,108	7,346	1,351	46,412
Seattle	14,871	20,463	7,492	2,160	44,986
Orlando	18,254	17,722	7,635	862	44,473
Miami	9,664	19,236	10,366	2,553	41,819
Boston	11,463	13,702	9,209	1,404	35,778
Charlotte	10,184	12,801	9,965	1,441	34,391
Philadelphia	10,705	15,061	7,066	363	33,195
Nashville	11,982	13,984	6,328	203	32,497
Raleigh	8,234	13,852	7,802	789	30,677
Tampa	7,320	15,191	7,059	967	30,537
Minneapolis	13,332	11,236	5,112	-	29,680
Salt Lake City	9,166	9,595	4,432	617	23,810
San Antonio	7,939	10,206	3,825	300	22,270
Chicago	9,041	9,198	2,227	1,024	21,490
San Diego	6,499	7,033	6,121	1,794	21,447
Newark	6,488	8,308	4,942	1,071	20,809
Jacksonville	7,663	8,585	4,523	-	20,771

Source: Dodge Construction Network - Real Estate Analyzer, June 2024

Meanwhile, according to the same report, markets in the Midwest and Northeast markets, which did not see the same influx, have avoided oversupply conditions and seen rent growth of 2.4% over the past four quarters. At 4.9%, Louisville ended the second quarter with the strongest annual asking rent growth of the top 50 markets nationwide, with Cleveland and Washington, D.C. close behind.

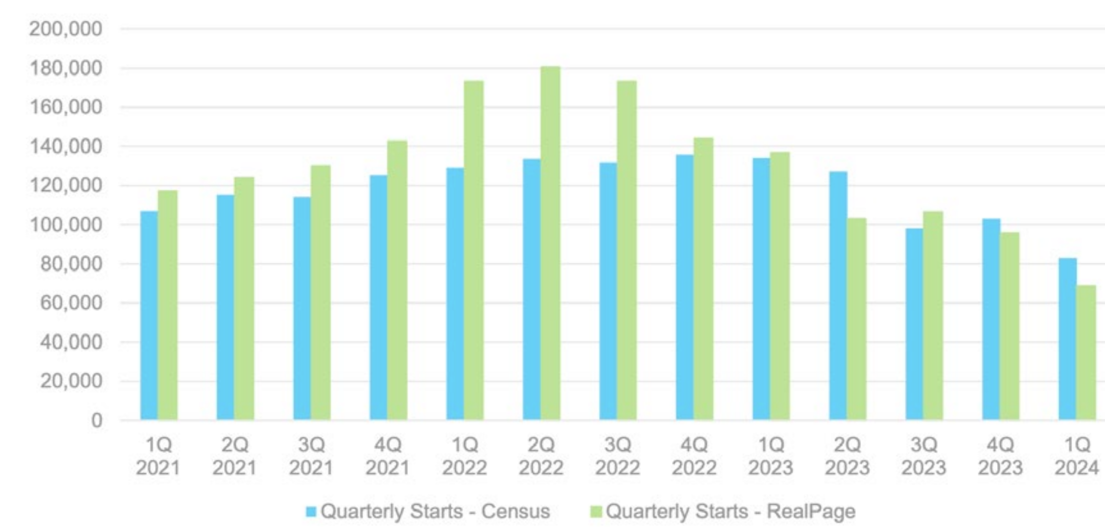
Additionally, the report indicates that Western markets experienced rent growth of just 0.5% due to weak demand and elevated completions.

Top metro areas from New York City to Seattle are now seeing rental increases, reports Yardi Matrix[9].

Also contributing to stabilizing or declining rent rates (depending on the market) is a surge in building over the last two years that appears to peak in 2024, reports Freddie Mac.

In New York City's Manhattan, for example, development has slowed, as some companies are completing large projects that began a few years ago. No properties of more than 50 units came online in the first half of the year, while construction starts amounted to 2,617 units – on par with last year, reports Yardi Matrix[10].

Multifamily Starts and Units Under Construction



Source: Freddie Mac, RealPage, Census Bureau, Moody's Analytics

Concessions and STABILIZATION

IN MARKETS WITH PLENTIFUL NEW SUPPLY, these new units should be stabilized, and quickly. As a result, multifamily operators are now offering something unthinkable just a few years ago – rent concessions. Fannie Mae reports that as more supply entered the market in many larger metropolitan areas, nearly 21% of all multifamily units were offering concessions of 5.0% on average as of the second quarter of 2024.

"An estimated nearly 20% of Class A units were offering concessions, about the same as in first quarter 2024 but up from 13.5% a year ago. Class B units offering concessions increased to 20.6% from 20.3% in second quarter 2024, and up significantly from 13.1% a year ago. The number of Class C units offering concessions is slightly higher than both Class A and B, increasing to 21.9% of all units, compared to an estimated 21.4% as of first quarter and up from just 12.7% in second quarter 2023[11]."

COST Control

WITH RENT GROWTH STABILIZING or even declining, managers will look to squeeze every dime of ROI they can, and increasingly relying on technology to do so. In addition, operations savings increasingly are being propelled by local jurisdictions, which are mandating efficiencies in the name of environmentalism.

In New York City, for example, Local Law 97 requires most buildings over 25,000 square feet to meet new energy efficiency and greenhouse gas emissions limits as of 2024, with stricter limits coming into effect in 2030.

"Similar laws have been implemented by other U.S. cities, including Boston, Seattle and Washington, D.C. If these efforts deliver a noticeable reduction in GHG and are deemed an efficient use of societal capital, they could serve as a road map for similar regulations in more cities," said the University of Florida's Warrington College of Business.

Labor costs also are being monitored, with increasing centralization, automation of repetitive tasks, leases, renewals and tenant communications through apps that can allow payments and work orders, and even AI and machine learning to help predictive maintenance all being implemented.

"By centralizing operations, multifamily real estate operators can create a strong, cohesive operating model, essential for defining and streamlining tasks. Centralization can also help operators allocate resources more efficiently, which may reduce costs, improve service delivery and set the stage for effective technology implementation," reports JPMorganChase[12].

AMENITIES and COMMUNITIES

THE REAL CHALLENGE will be maintaining the human touch, in terms of management communicating with tenants and encouraging tenants to communicate with each other and building a community through the right amenities.

Earlier in the decade, Class A multifamily buildings touted luxury amenities including screening rooms, cutting-edge gyms, co-working spaces and more, and they continue to do so.

But managers for all but those ultra-luxury facilities now are looking for the right amenities that are easy to manage, avoid unnecessary expense yet still build community. These can be community gardens, pool decks or rooftop barbecues. Much like a small town, buildings are becoming self-contained neighborhoods, encouraging more long-term renters.

One amenity all seek, regardless of price point: connectivity. High-speed internet and reliable cell reception have consistently ranked as top apartment features and community amenities for renters, according to the NMHC and Grace Hill Renter Preferences Survey Report. In 2024, 90% of respondents were either interested in or wouldn't rent without high-speed internet, making that the third-highest-ranking apartment feature this year after air conditioning and in-unit washer/dryer. Similarly, 86% were either interested in or wouldn't rent without reliable cell reception, putting it in the top spot for community amenities[13].

Much of this, of course, appeals to residents who at least some of the time work from home. Additional amenities that can appeal to this contingent include coffee machines, co-working spaces and complimentary snacks and beverages.

In addition, the number of seniors who are leaving single-family suburban homes for the convenience and community of multifamily living is on the rise. More than 1 in 5 older households – 7 million – rent instead of owning their homes according to a 2023 report from the Joint Center for Housing Studies at Harvard University. They can and likely will require a different set of programs and amenities, perhaps including laundry services, specialized fitness classes, communal dining and events.

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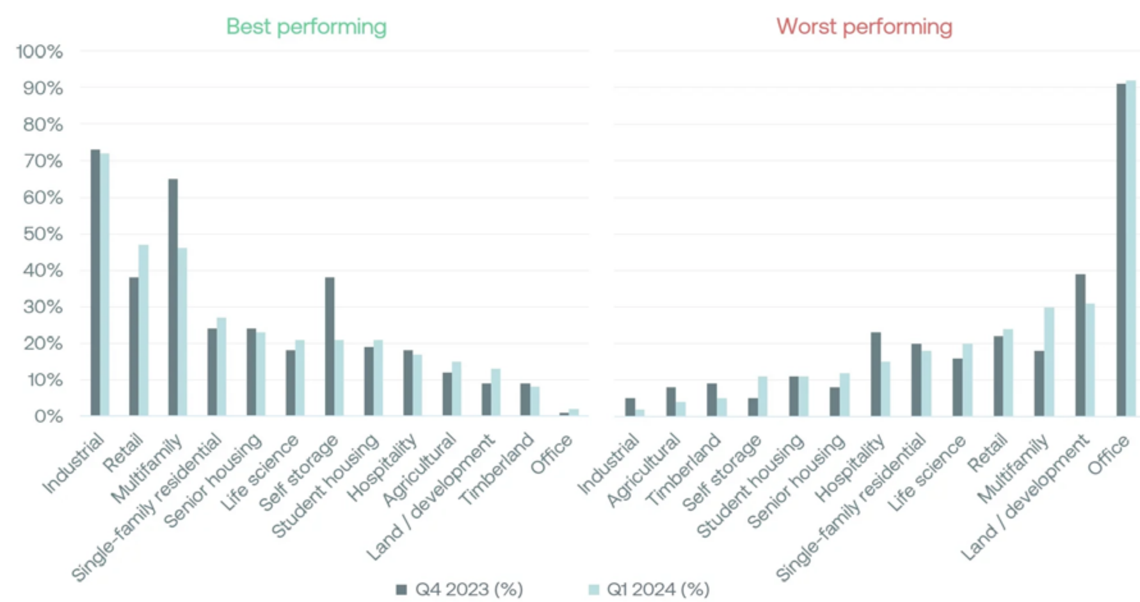
TRANSACTIONS and REFIS



Source: Altus Group's Research Ream, Q1 2024 CRE Industry conditions and sentiment survey - US

WITH ALL THE VOLATILITY and the higher interest rate environment, the multifamily finance market is sluggish, reported Freddie Mac, with volume down significantly from 2021 and 2022 highs as cap rates continued to rise along with interest rates[14].

"Given the current elevated interest rate and continued volatility, transaction volume in the multifamily market could rebound modestly from the estimated 2023 level to about $320 billion if market conditions improve during the second half of the year," Freddie Mac said.

Investors have remained cautious. "In terms of net expectations sentiment across property types, the most notable shift occurred to multifamily which fell 31 percentage points to +16%, while self-storage fell 23 percentage points to +10%. Little change over the same period was observed for other sectors, though sentiment toward hospitality flipped positive from -2% to +5%," said Altus Group's Q1 2024 survey of investor sentiment.

Recent predictions, however, do imply an uptick. In late August (even before the Fed rate cut), the Mortgage Bankers Association predicted that commercial and multifamily mortgage borrowing and lending will total $539 billion in 2024, which is a 26% increase from 2023's total of $429 billion. Of that, multifamily lending will comprise $297 billion, a 21% increase year-over-year.

THE FUTURE

AFTER A ROLLER-COASTER OF UPS AND DOWNS during the early part of this decade, the multifamily sector appears to be approaching an equilibrium.

"We anticipate eventual rebalancing of supply and demand driven by projected demographic trends, stable but ongoing job growth, household formations, and single-family housing prices remaining elevated in many places over the longer term," Fannie Mae predicted in July 2024[15].

But the shortage continues as the population grows and homeownership remains tantalizingly out of reach in many markets. New multifamily projects may not be ground-up developments; repurposing of other formats into apartments is on the rise. For example, adaptive reuse projects from former hotels are at an all-time high in the U.S.: A total of 4,556 apartments were created from repurposed hotels in 2023, a 38.8% uptick since the previous year and almost double the volume of 2021, reported RentCafe[16].

"Moreover, this trend is expected to continue in the coming years, and our analysis of Yardi Matrix data shows that adaptive reuse apartments are poised for further growth: A whopping 151,000 rental apartments are currently in various stages of conversion, with 58,000 of those on track to be repurposed from former office spaces," the report said.

Another concern will come in the not-too-distant future, when new buildings, financed with short-term rent at extremely low interest rates, must refinance the loans at a higher rate. That could have an impact even on properties with high occupancy.

The September half-point rate cut by the Federal Reserve Board should lead to increased liquidity, lowering cap rates and reducing volatility, especially in larger markets such as Los Angeles, New York and San Francisco, according to JPMorganChase.

"Falling rates can be especially beneficial for investors with loans near the end of their term. By refinancing, investors can lower their monthly payments and potentially save thousands of dollars in interest. Property refinancing can also help improve cash flow and free up capital for renovations or new building purchases … Aside from expanding to new markets, multifamily investors can add new asset classes to their portfolios, such as mixed-use, retail and industrial properties," the bank wrote[17].

And affordable housing remains a challenge nationwide.

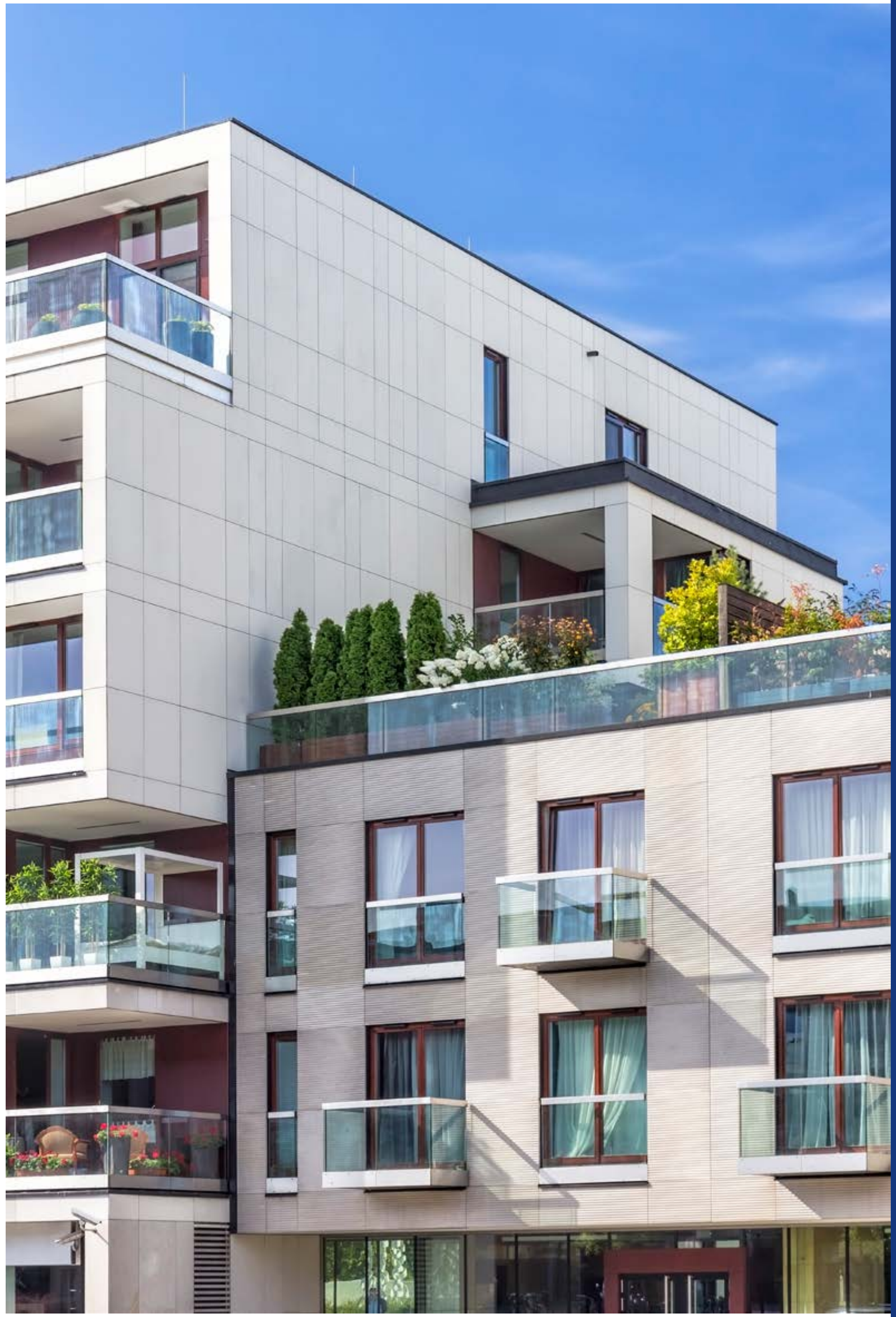
In this sector most closely tied to everyday living, it's important to look beyond national numbers.

CONCLUSION

WE ARE WELL INTO A NEW NORMAL – one where rates will never be near zero as in 2021, but lower than the last two years. With a recent half-point rate cut from the Federal Reserve, home buyers and commercial real estate investors may finally be pushed to commit to purchasing.

But in this sector most closely tied to everyday living, it's important to look beyond national numbers – the Sunbelt boom earlier in the decade now is turning to more traditional gateway cities. As always, the Baby Boomers maintain their influence as they move to easier-to-navigate multifamily buildings – with Millennials not far behind.

Investors must adjust expectations – financial and those related to managing their properties – to be profitable. But it can and likely will be done if you look at the local situation.



For more information on national, regional and local multifamily real estate trends, please find your local commercial real estate expert at **CBCWORLDWIDE.COM**

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