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2023 Multifamily Outlook: A New Generation Fueling Demand

Multifamily housing experienced healthy demand over the last decade, positioning the sector as a hedge against inflation with the power to potentially absorb the impacts of an economic recession.

Prior to the pandemic, single-family housing was under-supplied, leading to increased demand and adding additional pressure on the already low single-family housing supply. This lack of supply has fueled significant home price increases. In the third quarter of 2019, the median home price was $318,000. By the third quarter of 2022, median home prices grew to $454,900; a three-year increase of nearly 43 percent.[1]

CBRE forecasts that the multifamily sector will continue to experience strong demand in 2023, with occupancy rates remaining above 95 percent and near 4 percent rental growth.[2] The gap between home prices and rent growth suggests renting may be a better option for many, especially for the aging Baby-Boomer generation who are looking to downsize into lower-maintenance lifestyles, and Generation Z (born between 1997 and 2012), who are currently entering the job market. In 2020, the Millennial renter cohort represented only 37 percent, compared to 48 percent in 2015.[3] As Millennials increasingly transitioned to homeownership, Generation Z rapidly grew to 18 percent of renters. By 2025, Millennials and Generation Z will represent the same percentage of renters and by 2030, Generation Z is expected to lead as the top renter generation.[3]

2022 Sector Highlights

- **44 Million** American Households Rent[8]
- **95.8%** Occupancy in 2022[7]
- **5.8%** U.S. Vacancy Rate, Lowest since Mid-1980s[6]

Resilient in Times of Uncertainty

With rising interest rates, high inflation, and recession concerns entering the new year, there are several potential advantages within the multifamily sector, most significantly the supply/demand imbalance. In 2022, there were 22 million apartment units across the United States. To keep pace with demand, 4.3 million more multifamily units will be needed by 2035.[4] Until interest rates moderate and the gap between renting and the cost of homeownership narrows, the decision to opt-out of buying new homes will likely endure, which should continue to support multifamily rental rate growth.

> "The multifamily sector has averaged **an annual total return of 9.3%** throughout the past decade, and benefits from Fannie Mae and Freddie Mac—debt sources that are not available to other sectors."[4]

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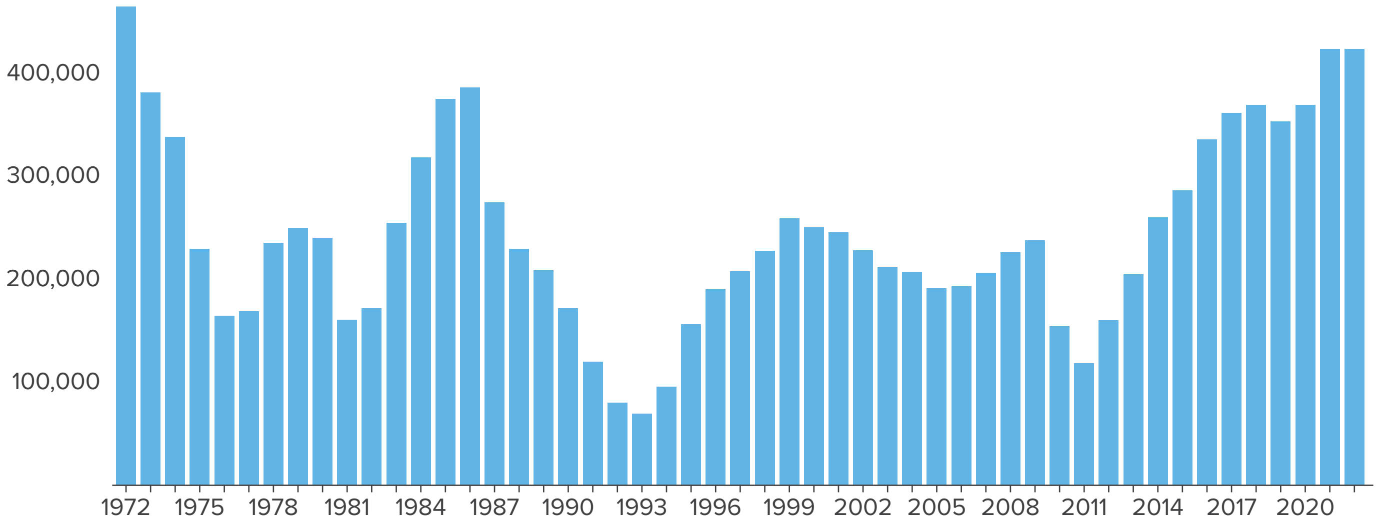
Multifamily Construction on the Rise

The construction industry has slowed due to labor shortages, material costs, and supply issues, however markets are seeing multifamily construction surge nationwide. The Multifamily construction industry approached a 50-year high in 2022, according to RentCafe.[5] CBRE expects 450,000 units to be delivered through year-end 2023, adding 2.6 percent to the total multifamily housing inventory.[3]

U.S. New Apartment Deliveries by Year[5]



2022 data is an estimate and subject to change
Source: RentCafe.com

As the overall economic market stabilizes, the strong underlying fundamentals of multifamily, including high occupancy, low vacancy, and opportunity for rental increases indicate a potentially healthy 2023 for the sector.

[1]FRED Economic Data | St. Louis Fed. Median Sales Prices of Houses Sold for the United States. Accessed December 2022.
[2]CBRE. Multifamily. U.S Real Estate Market Outlook 2023. December 2023.
[3]https://www.cushmanwakefield.com/en/insights/the-edge/how-generation-z-is-fueling-demand-for-multifamily
[4]National Multifamily Housing Council. Rising Rents? Blame the Supply Shortage. November 2022.
[5]RentCafe. The Best of Times for Apartment Construction in Half a Century: New York Takes the Lead in 2022. September 2022.
[6]Joint Center for Housing Studies of Harvard University. America's Rental Housing 2022.
[7]Yardi Matrix. National Multifamily Report. December 2022.
[8]The White House. FACT SHEET: Biden-Harris Administration Announces New Actions to Protect Renters and Promote Rental Affordability. January 2023.

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- changes in national, regional and local economic conditions, such as inflation and interest rate fluctuations;
- local property supply and demand conditions;
- ability to collect rent from tenants;
- vacancies or ability to lease on favorable terms;
- increases in operating costs, including insurance premiums, utilities and real estate taxes;
- federal, state or local laws and regulations;
- changing market demographics;
- changes in availability and costs of financing;
- acts of nature, such as hurricanes, earthquakes, tornadoes or floods
- economic risks associated with a fluctuating U.S. and world economy, including those resulting from the novel coronavirus and resulting pandemic.

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