1Q22 United States Multifamily Capital Markets Report

NEWMARK

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Key Takeaways

Sales Volume

Following a record 2021, investor demand for multifamily remained robust in 1Q22 with $63.0 billion in sales volume. In addition to 1Q22 volume signifying the largest first quarter on record, year-over-year volume accelerated 65.4%. Trailing twelve-month volume increased to $374.3 billion.

Rent Growth

On a year-over-year basis, effective rent growth in 129 out of the top 150 markets outpaced inflation and no market experienced rental decline over that time. As migration picked up during the pandemic, rent growth throughout Florida outperformed the national average, as the state registered the top 5 markets in the country during 1Q22.

Dry Powder

Dry powder earmarked for investment into North American commercial real estate rose to a record of $250.0 billion in 1Q22. This level of dry powder equates to over $714 billion in purchasing power at a 65% LTV. Opportunistic and value-add strategies continue to be the focus for funds targeting multifamily investment, accounting for 88.0% of all fund targets.

Supply and Demand

High levels of new supply were met by even stronger demand in 1Q22 as 95,000 units were absorbed – outpacing new supply by over 16,000 units. New supply totaled 78,000 in 1Q22, with an additional 336,000 units projected to be delivered through the end of 2022, which is expected to be a record level of deliveries with over 414,000 new units added.

Total Returns

While appreciation has been the primary driver of total returns recently, investors may shift their attention to markets with higher income returns should growth slow. A reversion to the mean is also possible with appreciation returns accounting for 19.8% over the trailing twelve months, well above the 10-year annualized average of 4.6%.

Debt Markets

Multifamily mortgage debt outstanding increased to $1.8 trillion, a 2.4% increase quarter-over-quarter. In nominal dollars, banks saw the largest increase quarter-over-quarter at 3.3% growth or $16.5 billion.

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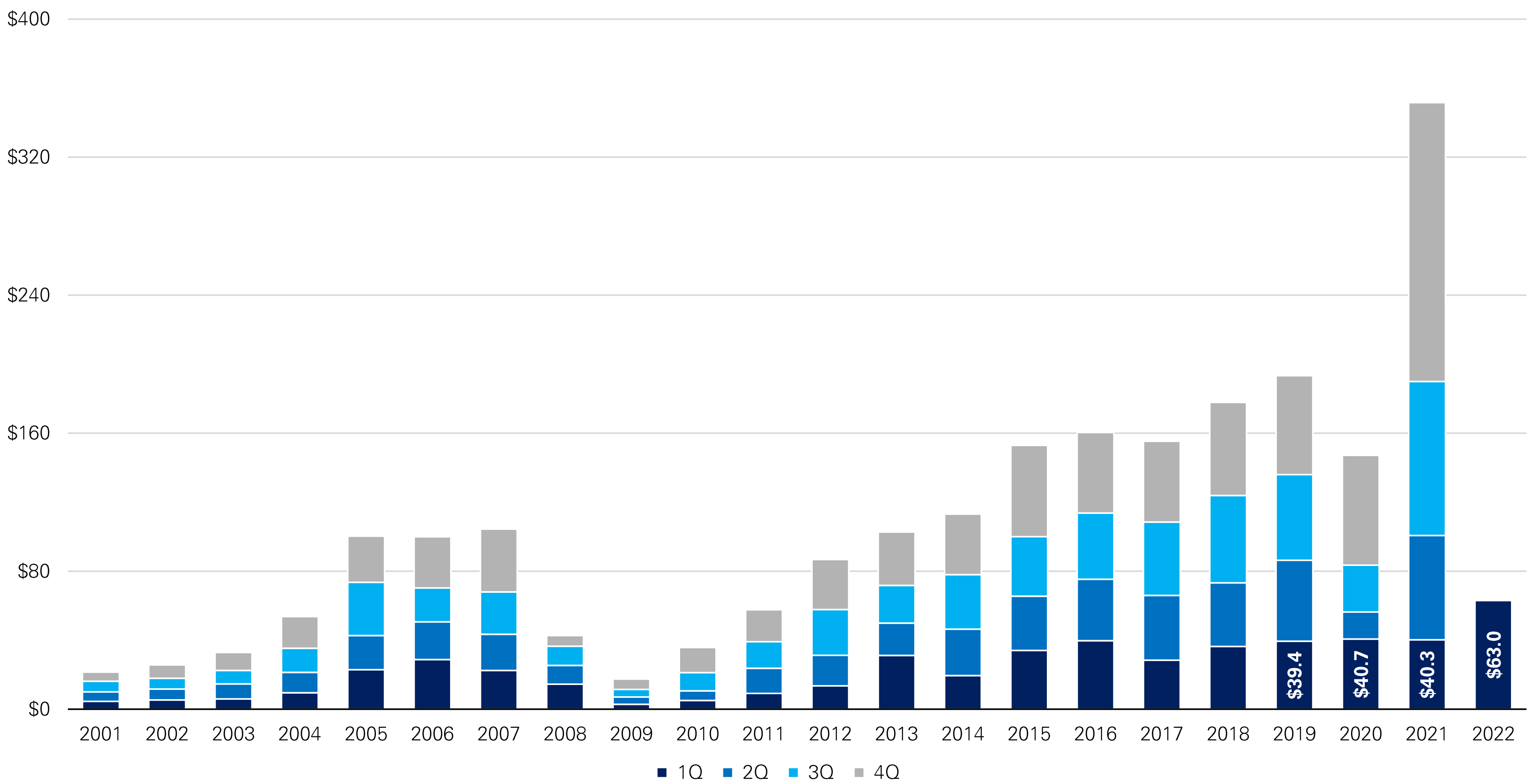
Sales Volume

United States; Dollars in Billions

Following a record 2021, investor demand for multifamily remained robust in 1Q22 with $63.0 billion in sales volume. In addition to 1Q22 volume signifying the largest first quarter on record, year-over-year volume accelerated 65.4%. Trailing twelve-month volume increased to $374.3 billion.



Source: Newmark Research, Real Capital Analytics

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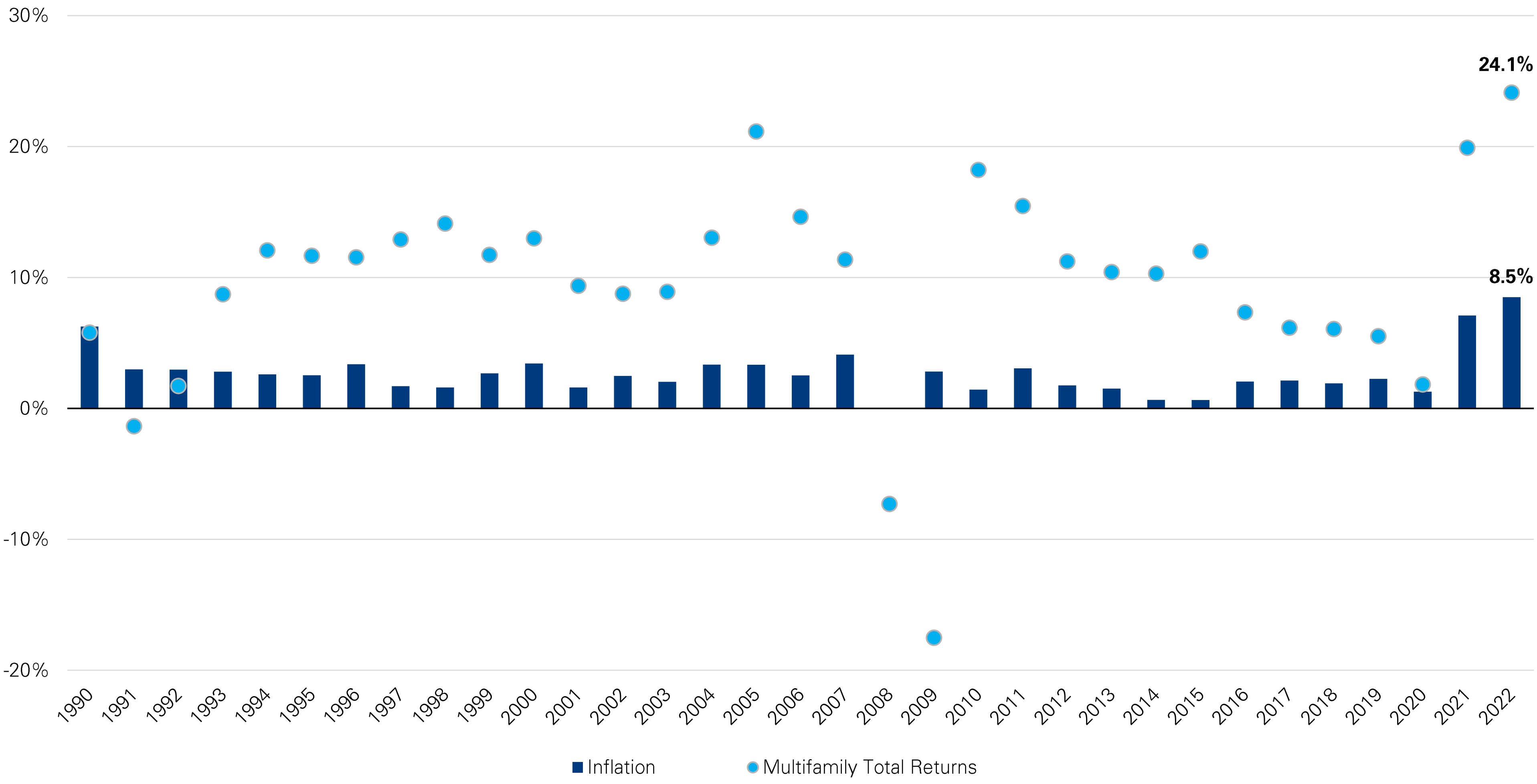
Total Returns Relative to Inflation

United States; Calendar Year

Despite brief time periods where inflation outpaced total returns, over the long-term, multifamily has outperformed inflation by 6.8% annually on average. Even with recent historically high levels of inflation over the trailing twelve months, multifamily total returns averaged 24.1% - exceeding inflation by 1,560 basis points.



Source: Newmark Research, NCREIF (2022 YTD Annualized)

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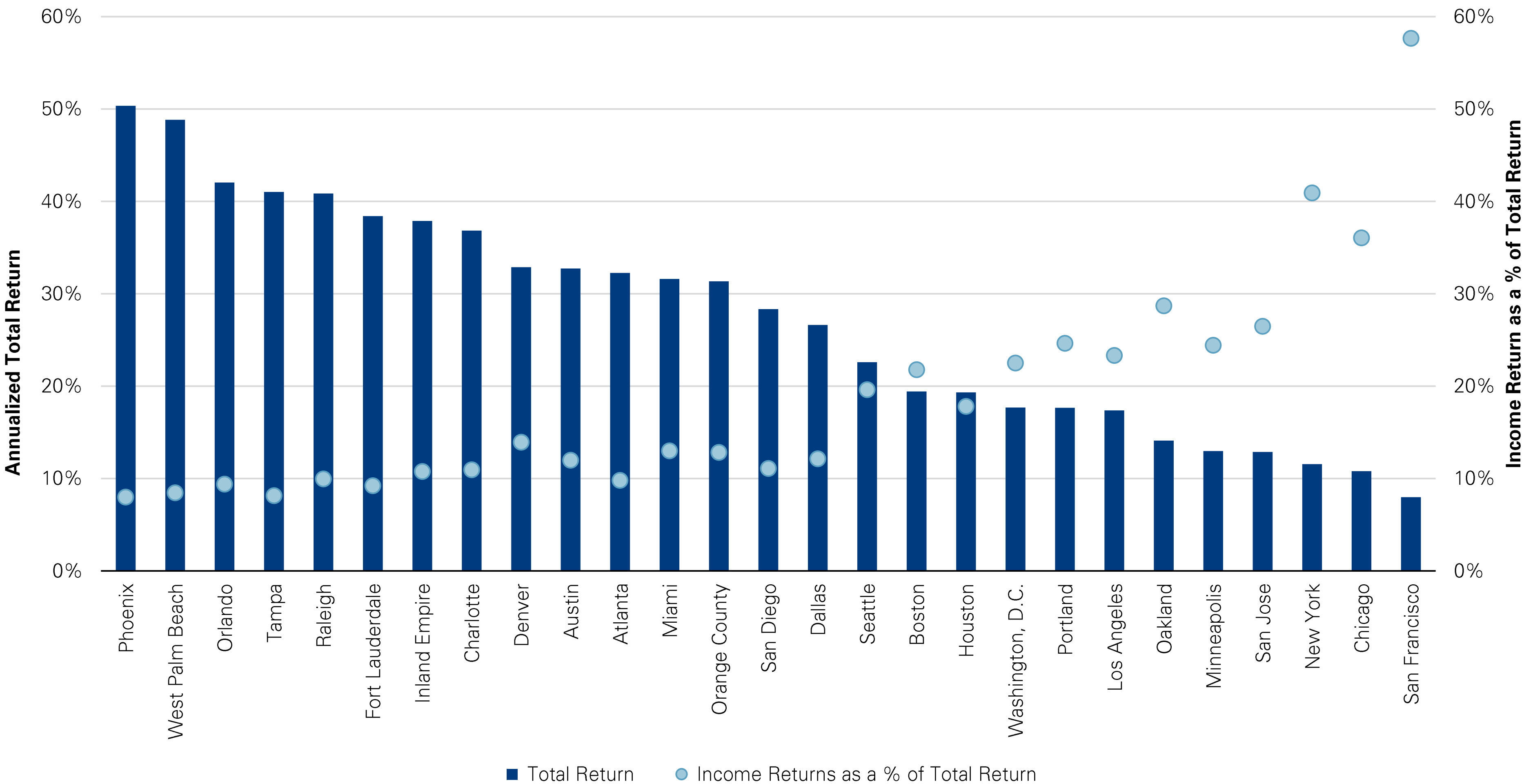
Income Returns As A Percentage of Total Returns

Select Markets; Annualized Total Returns

While appreciation has been the primary driver of total returns recently, investors may shift their attention to markets with higher income returns should growth slow. A reversion to the mean is also possible with appreciation returns accounting for 19.8% over the trailing twelve months, well above the 10-year annualized average of 4.6%.



Source: Newmark Research, NCREIF

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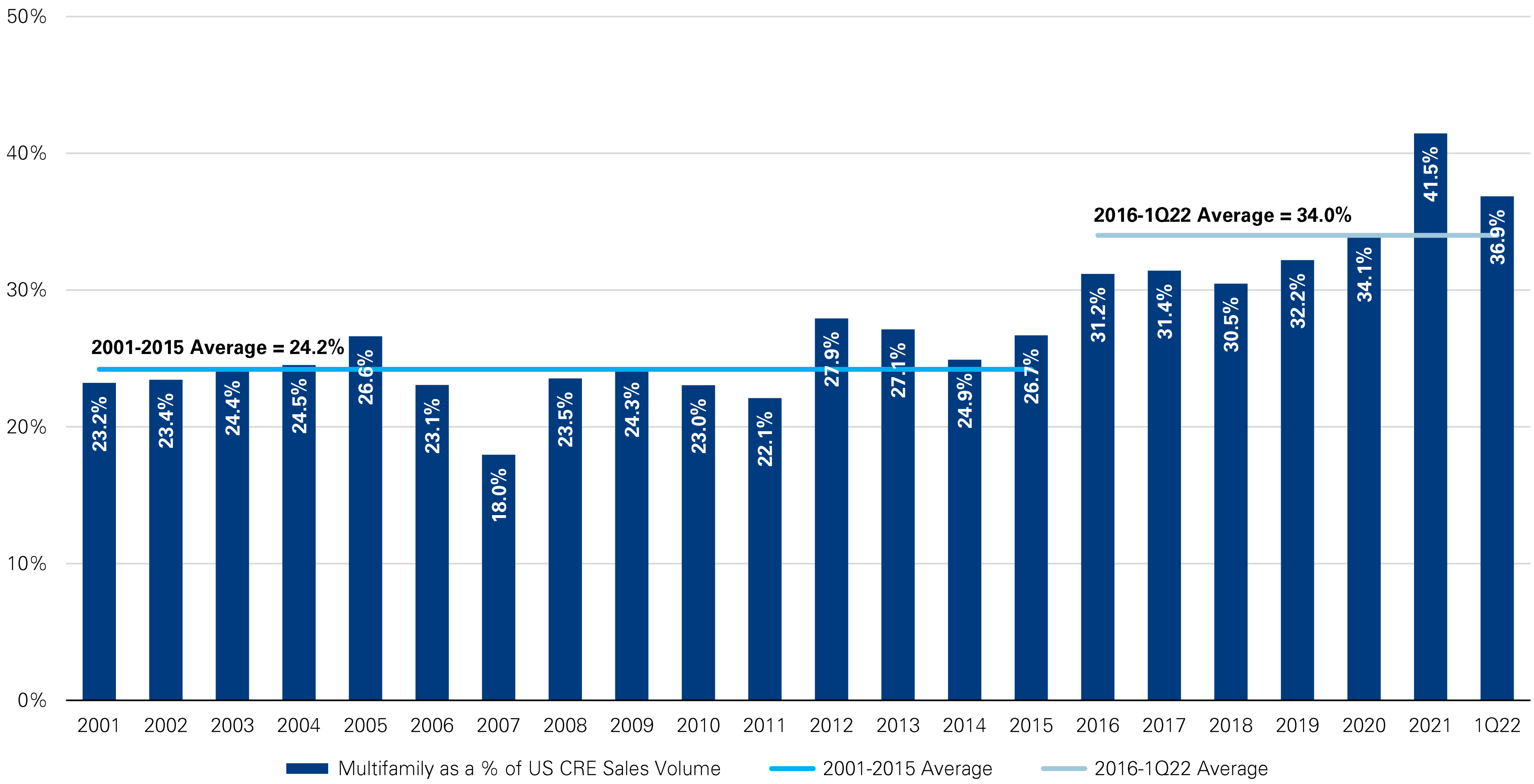
Allocation to Multifamily

United States; Dollars in Billions

Multifamily volume as a percentage of total US commercial real estate totaled 36.9% in 1Q22, after reaching an all-time of 41.5% in 2021. From 2001-2015, allocation to multifamily as a percentage of the overall market averaged 24.2%, but has since grown to 34.0% from 2016-1Q22 given secular shifts.



Source: Newmark Research, Real Capital Analytics

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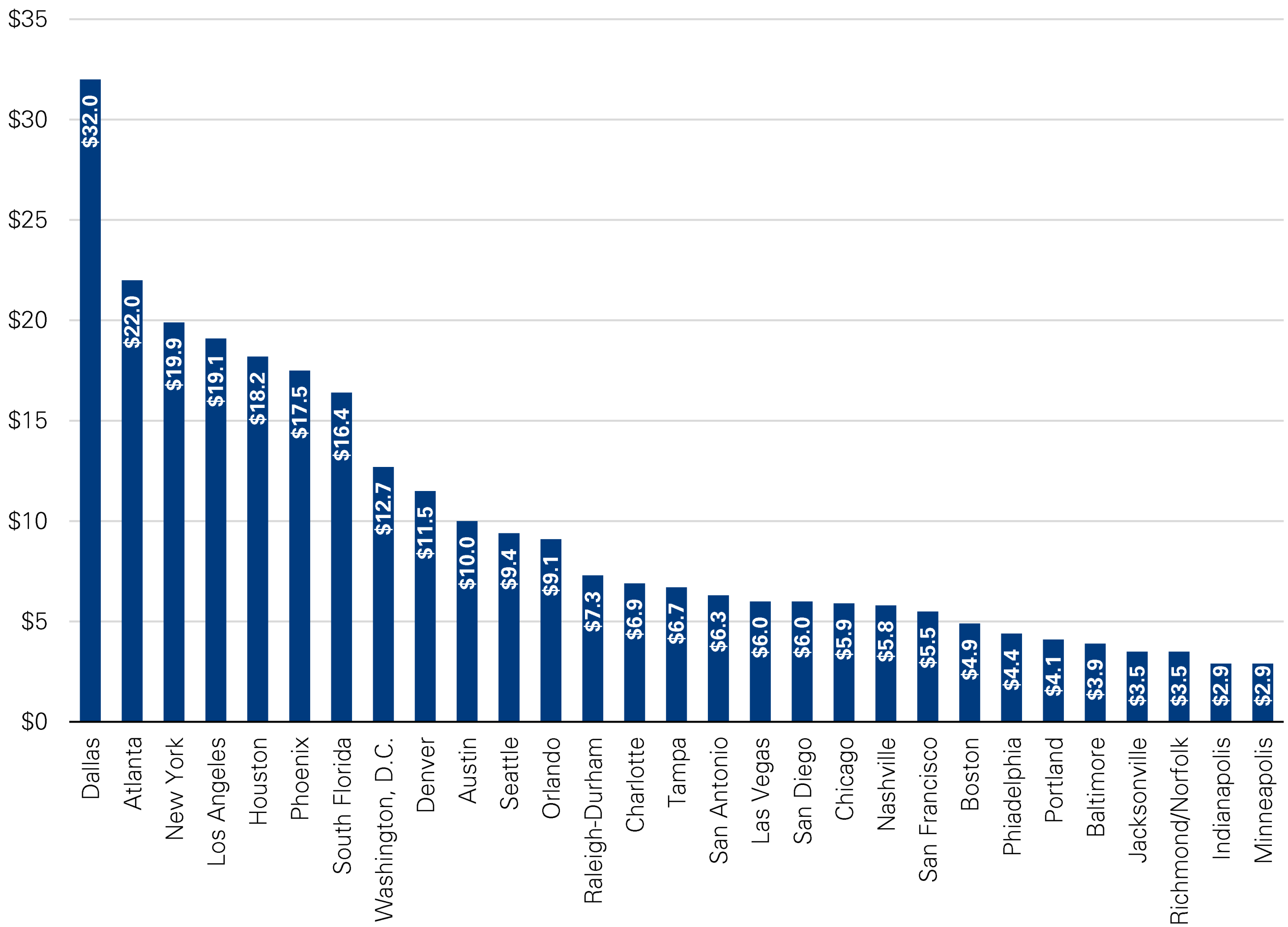
Sales Volume by Market

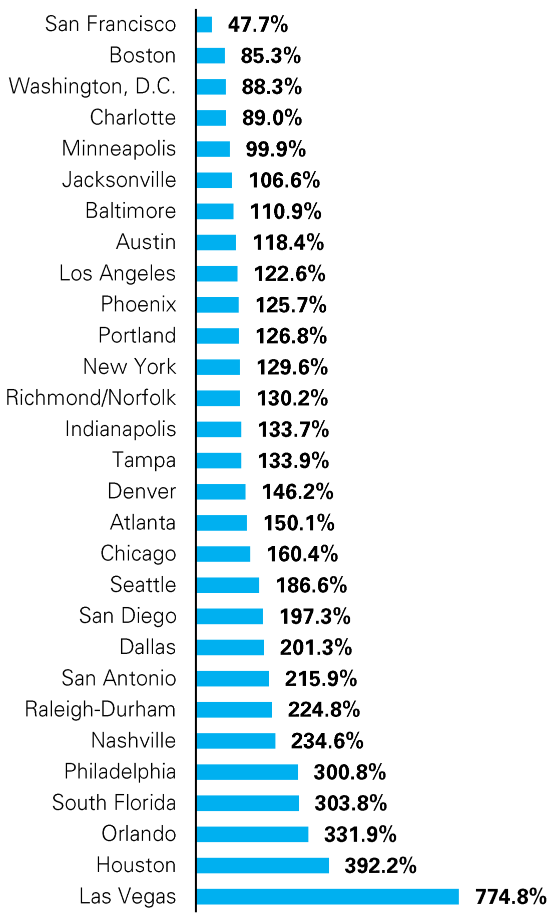
Select Markets; Dollars in Billions

Dallas continues to be top recipient of capital with $22.0 billion in sales volume over the trailing twelve months, attracting 8.5% of all volume over that time period. Remarkably, major markets in Florida and Texas accounted for 27.3% of total volume over the past 12 months.

PAST 12 MONTHS



YEAR-OVER-YEAR CHANGE



Source: Newmark Research, Real Capital Analytics

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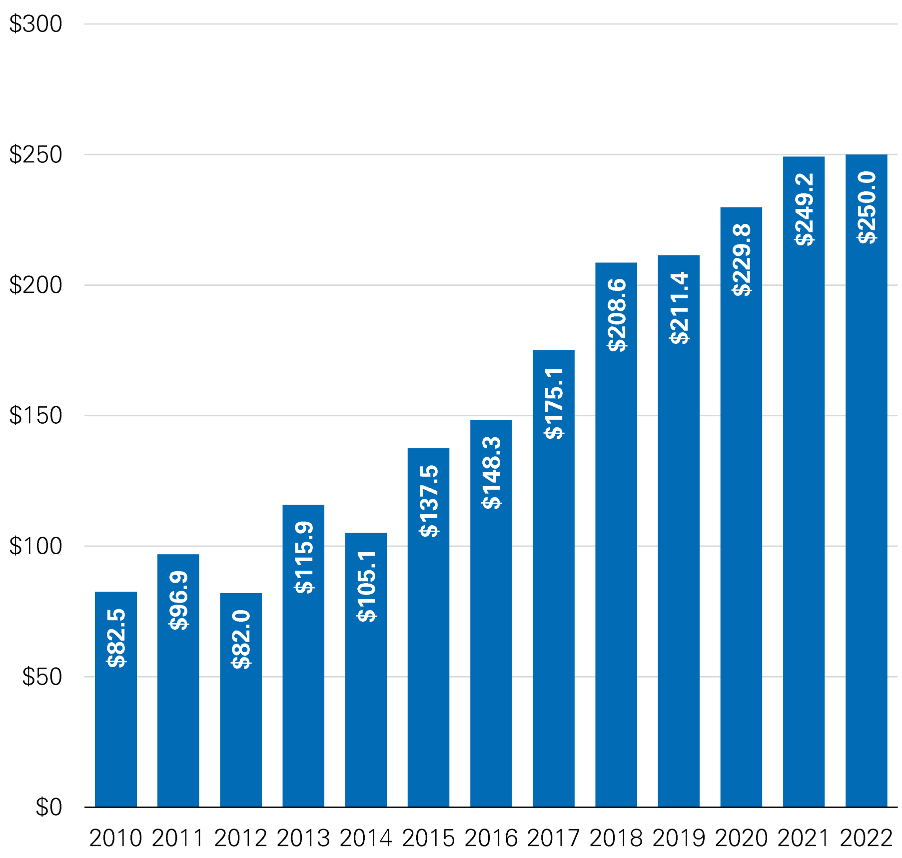
Dry Powder

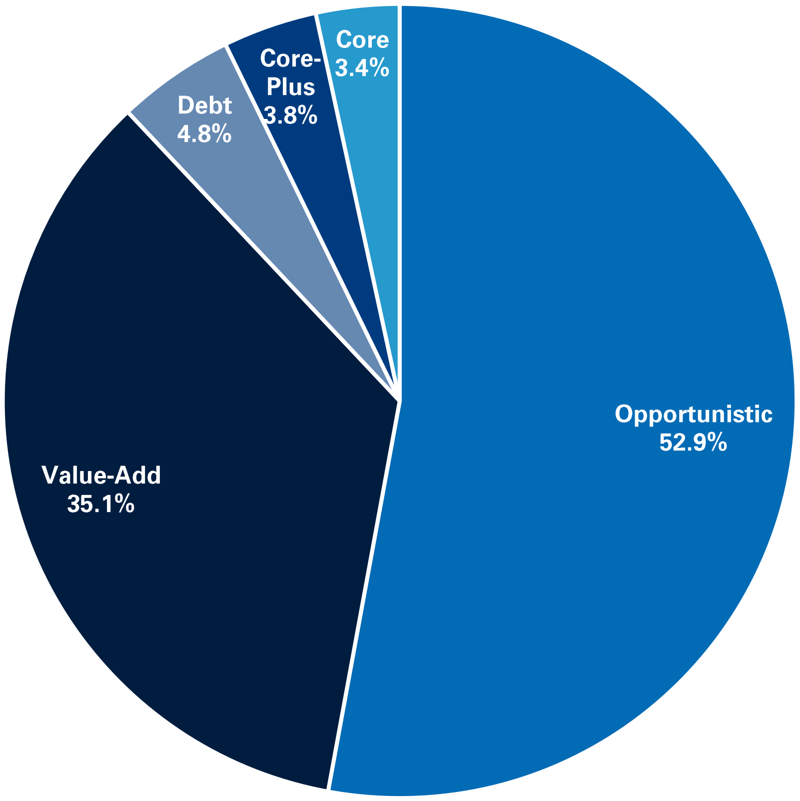
North America; Dollars in Billions

Dry powder earmarked for investment into North American commercial real estate rose to a record of $250.0 billion in 1Q22. This level of dry powder equates to over $714 billion in purchasing power at a 65% LTV. Opportunistic and value-add strategies continue to be the focus for funds targeting multifamily investment, accounting for 88.0% of all fund targets.

DRY POWDER (ALL PROPERTY TYPES)



2022 VINTAGE RESIDENTIAL FUND TARGETS BY STRATEGY



Source: Newmark Research, Preqin

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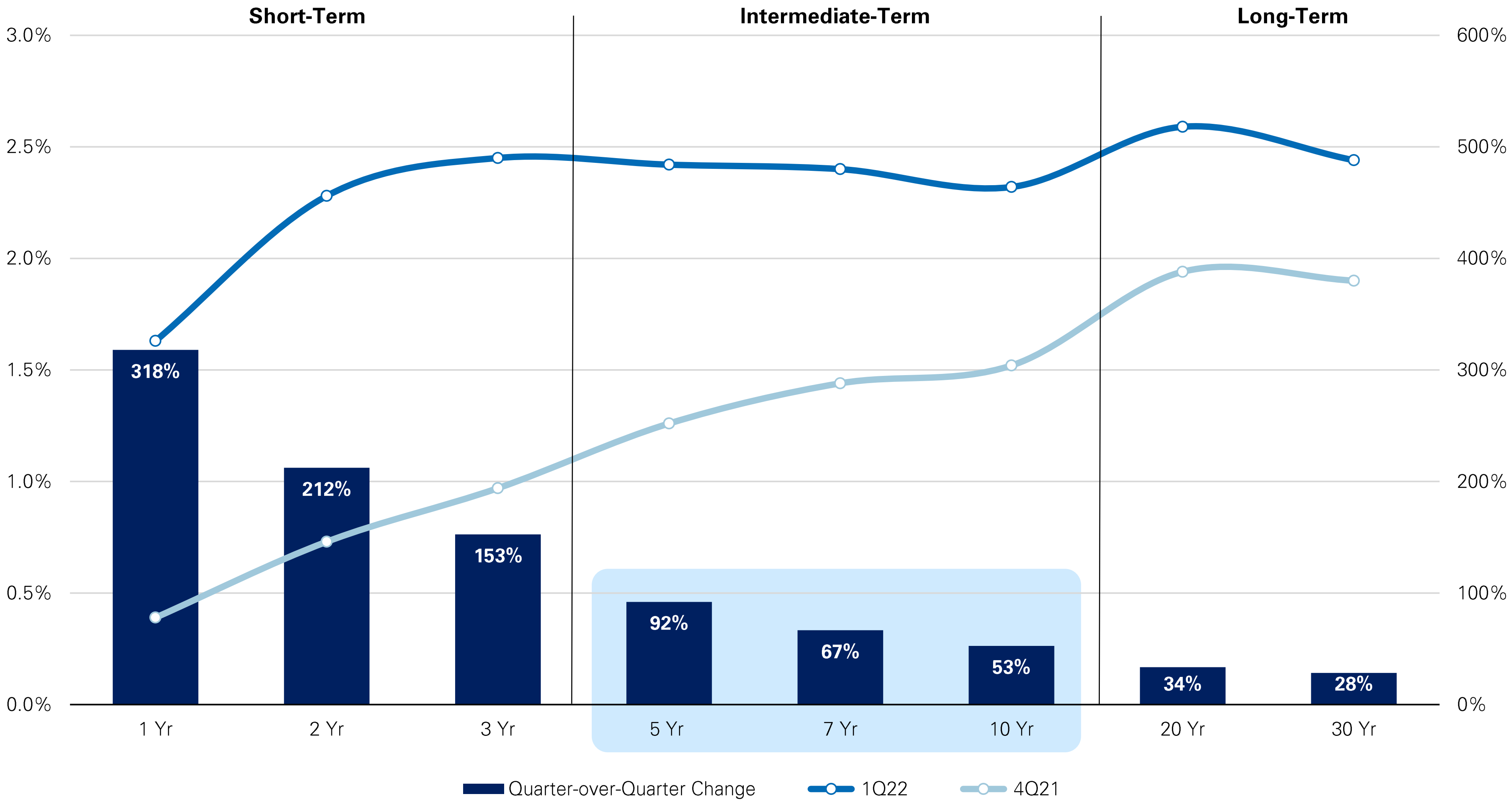
Increasing Cost of Debt

United States; Treasury Yields

While volatility in the treasury market has impacted lending capacity across the board, short-term yields have been impacted more drastically than intermediate-term yields. One-, two- and three-year treasury rates have increased by triple digits over the past 90 days. Debt costs have risen in the intermediate-term tranches most relevant to commercial real estate, however they have risen far less drastically than the short end of the curve.



Source: Newmark Research, US Treasury

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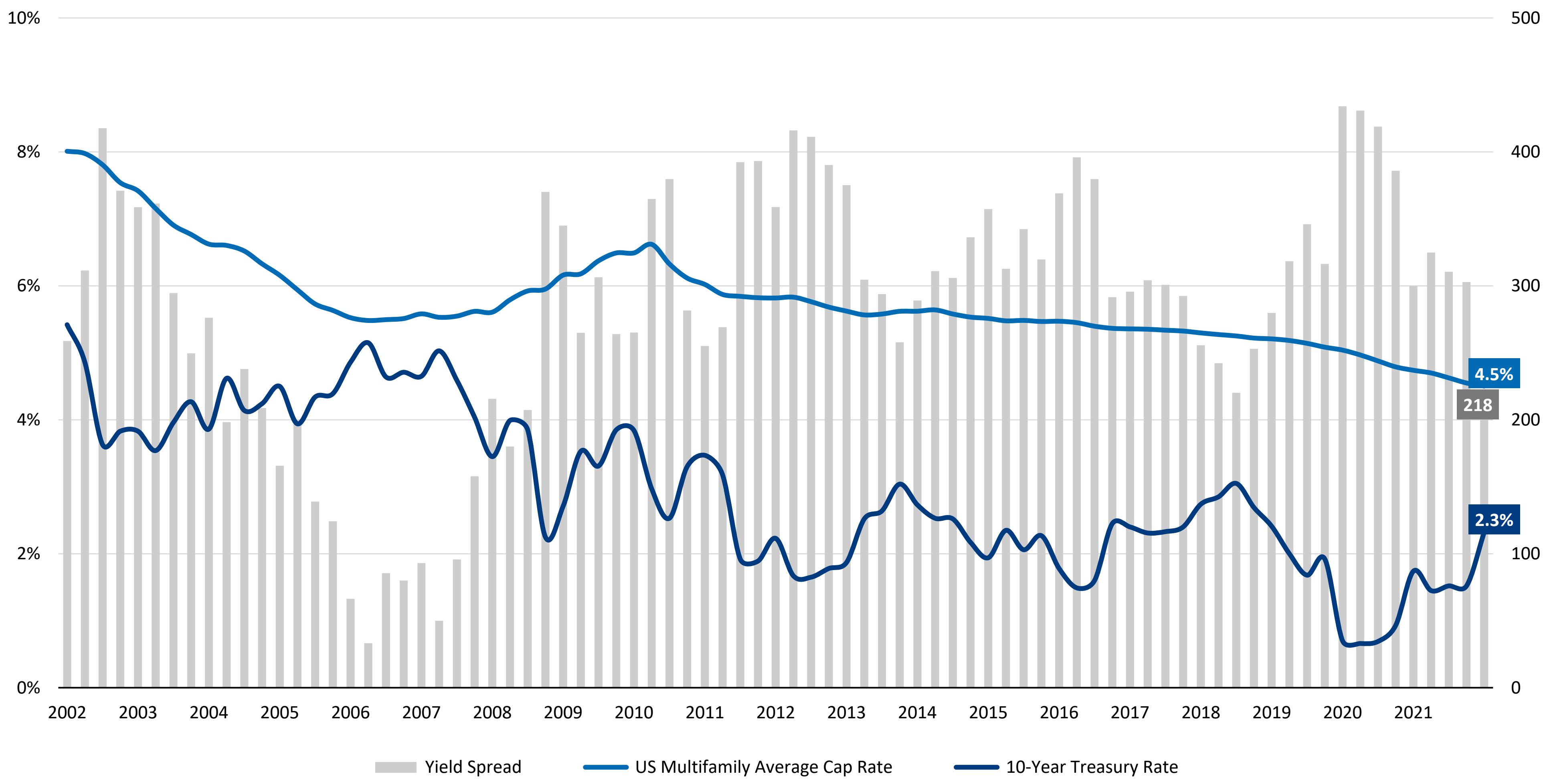
Yield Spread

United States

Multifamily cap rates continued to compress, decreasing 5 basis points quarter-over-quarter despite the run up in interest rates. The spread between the 10-year treasury note and multifamily cap rates fell to 218 basis points, the narrowest spread since 1Q08.



Source: Newmark Research, Federal Reserve Bank of St. Louis, Real Capital Analytics (Transactions $25M+)

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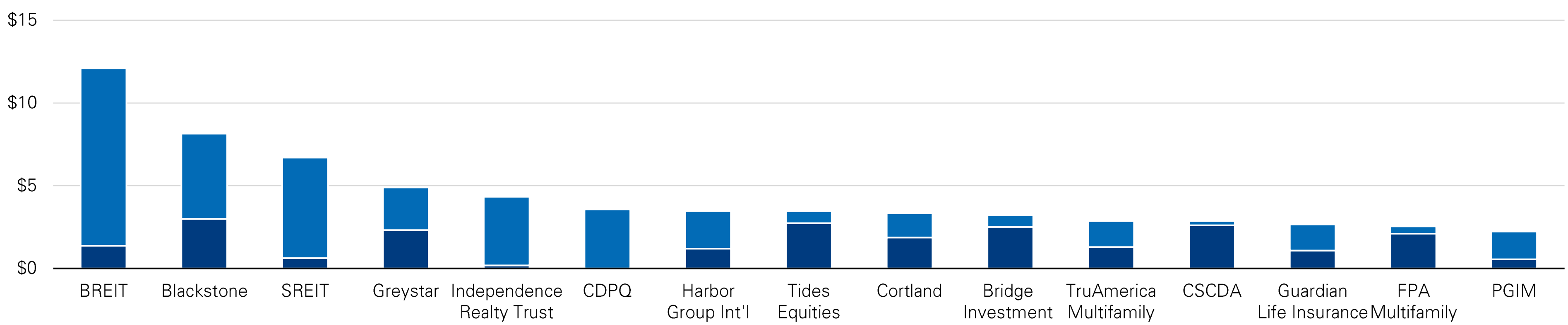
Top Buyers and Sellers

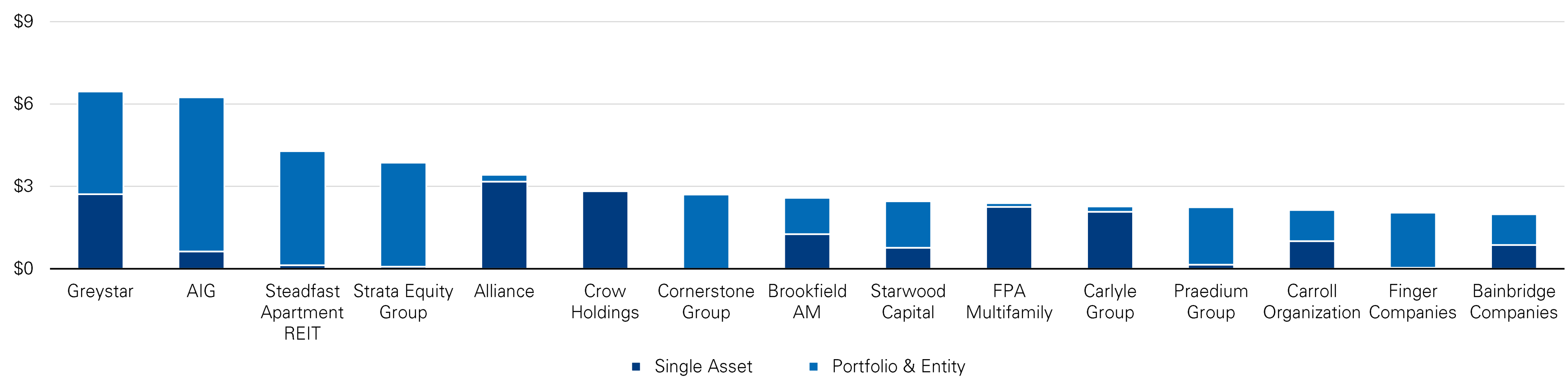
Past 12 Months; Dollars in Billions

Over the past 12 months, Blackstone and Blackstone's non-traded, BREIT accelerated multifamily acquisitions with $20.2 billion combined. Blackstone entities are also under contract to acquire over 72,000 conventional and student housing units with pending entity-level acquisitions of American Campus Communities for $12.8 billion, Preferred Apartment Communities for $5.8 billion, Resource REIT for $3.7 billion and Bluerock Residential Growth REIT for $3.6 billion.

TOP BUYERS



TOP SELLERS



Source: Newmark Research, Real Capital Analytics

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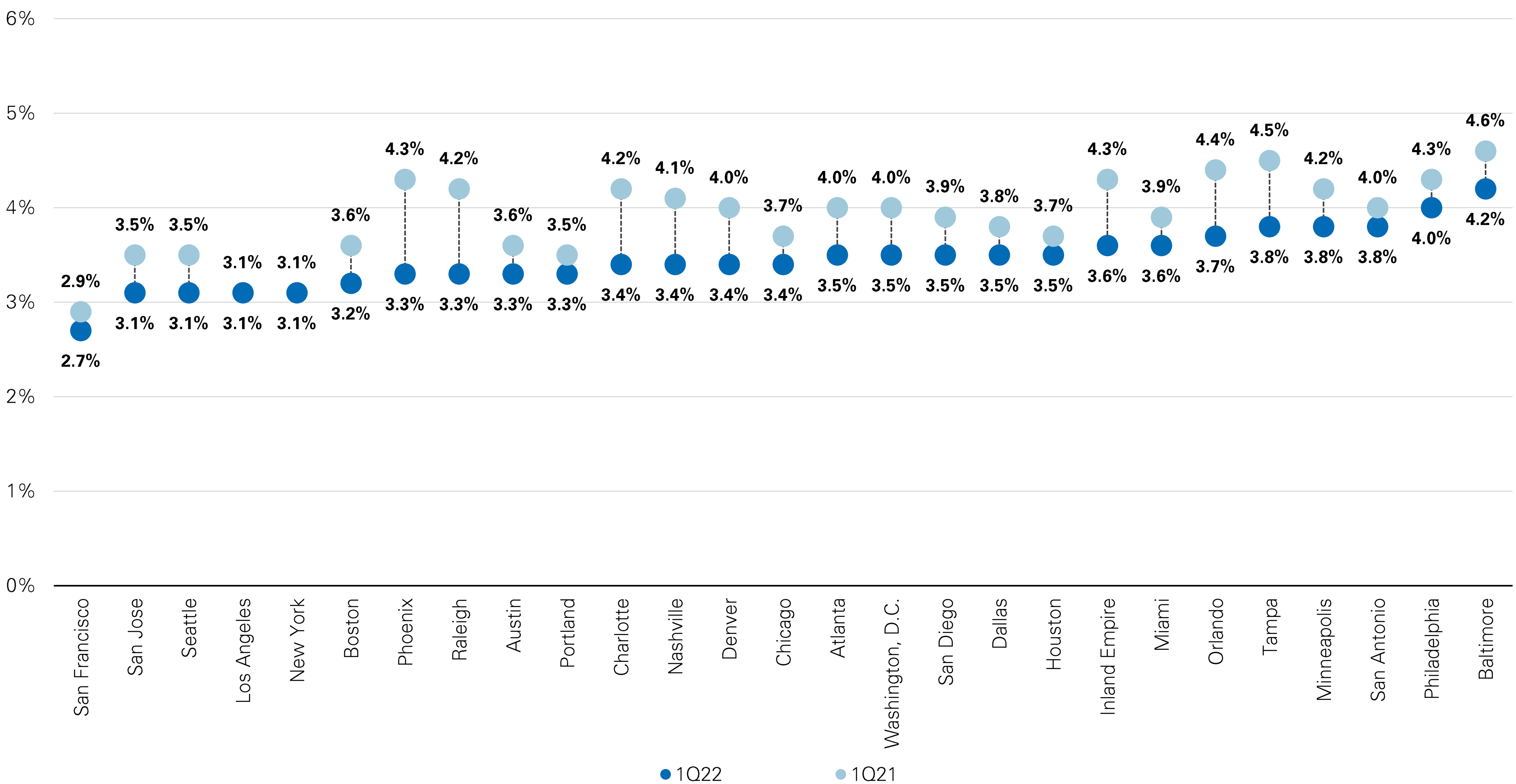
Cap Rates by Market

Select Markets

Cap rates continue to compress across the US, but the more drastic compression over the trailing twelve months has occurred in high growth markets located in the Sunbelt region. Markets like Phoenix (100 bps), Raleigh-Durham (90 bps), and Charlotte (80 bps) have seen the largest compression in yields year-over-year.



Source: Newmark Research, NCREIF

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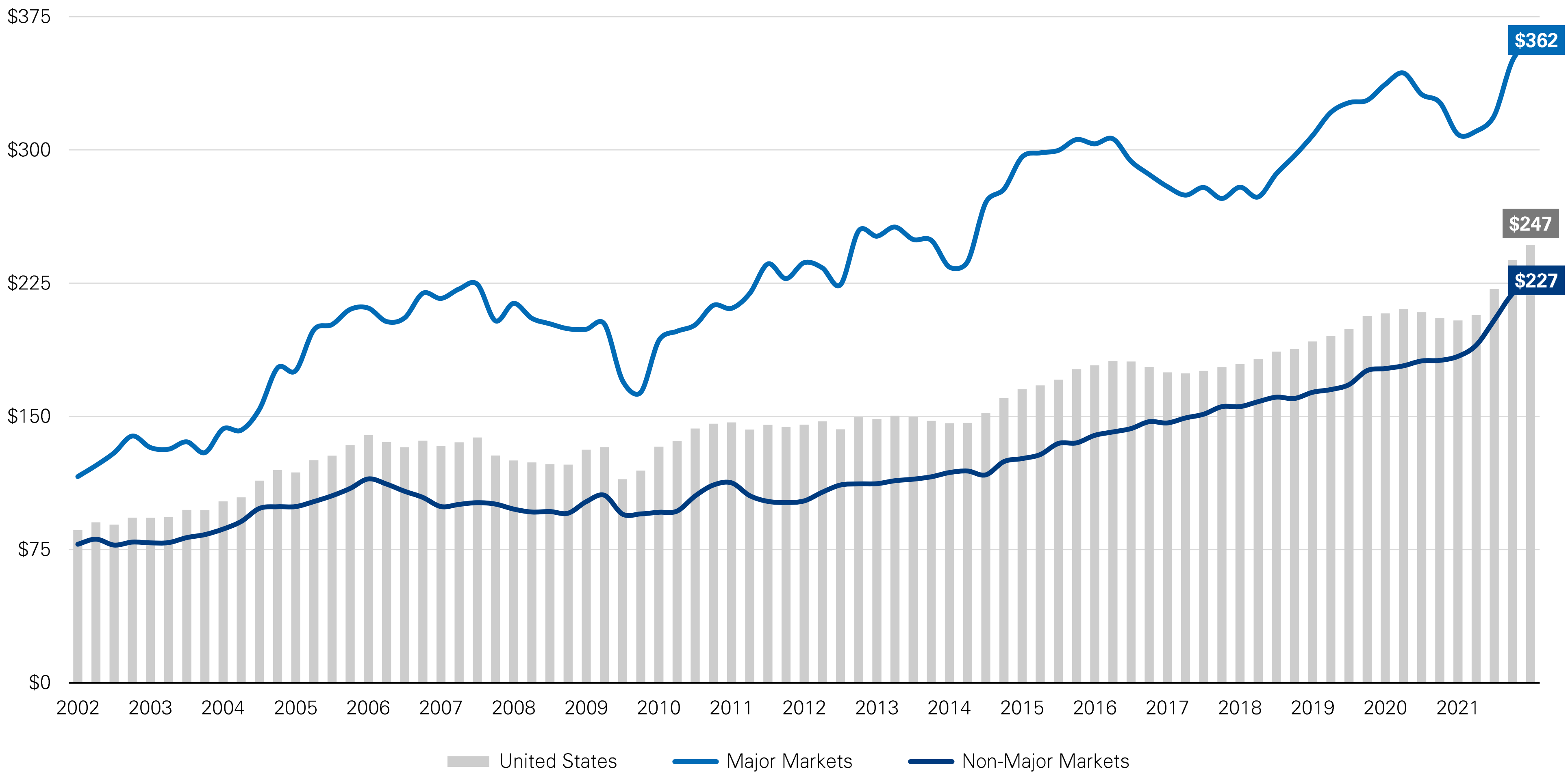
Price Per Unit

United States; 12-Month Average

The average price per unit rose 20.7% year-over-year to $246,546 nationally, led by a 23.2% increase in non-major market pricing. Major markets which experienced a strong decline during the pandemic, have recovered, reaching an all-time high of $361,941 per unit and are up 17.1% year-over-year.



Source: Newmark Research, Real Capital Analytics (Transactions $25M+)

* Major markets: Boston, Chicago, Los Angeles metro, New York metro, San Francisco metro, Washington, D.C. metro. Non-major markets: all other markets.

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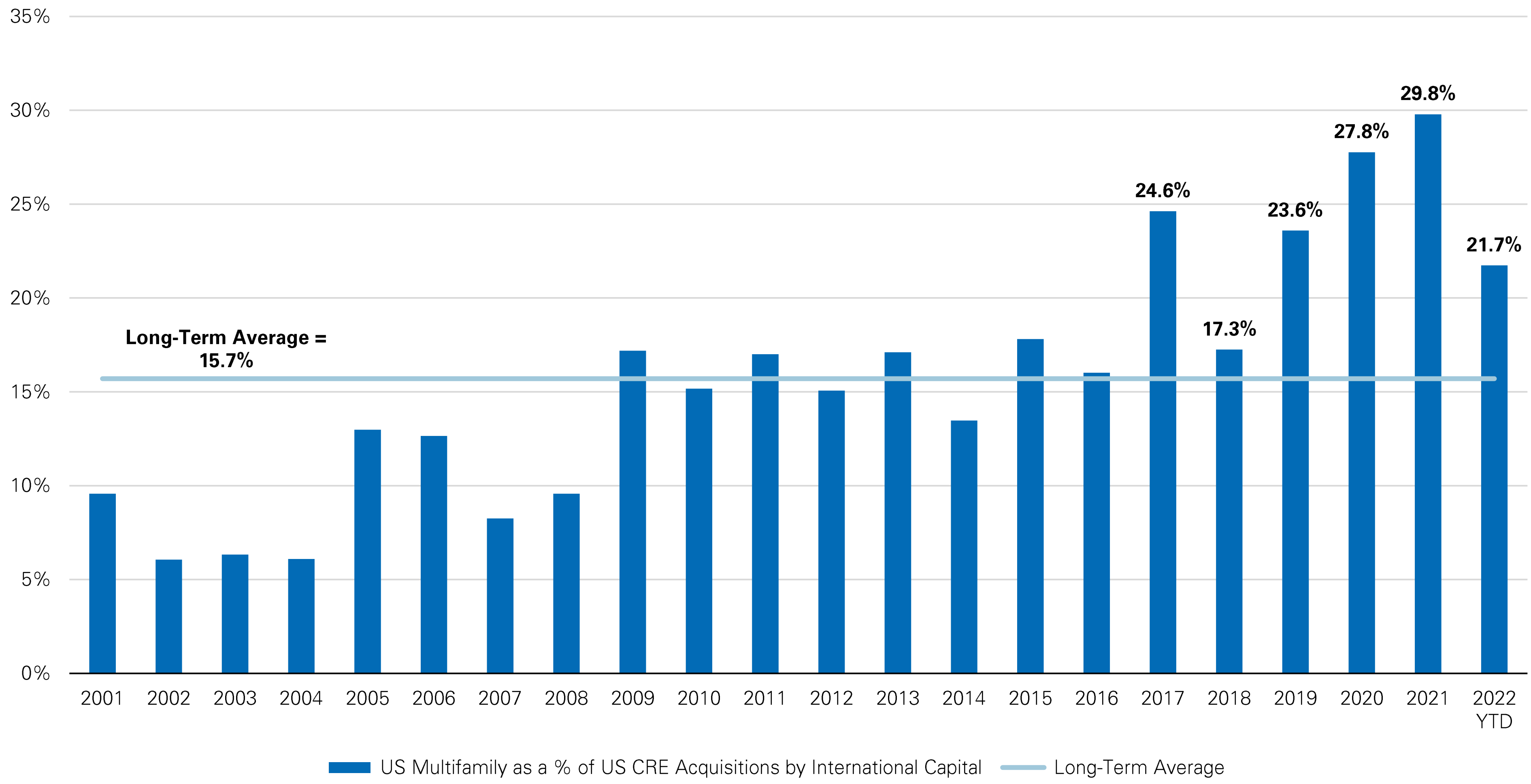
International Capital Sources Growing Appetite for Multifamily

United States

Following the global financial crisis, multifamily's strong risk-adjusted returns began to attract higher levels of direct investment from international capital sources, but since 2017 international capital have increased their allocation to multifamily to nearly a quarter of all investment. With inflation on the rise and one-year leases offering a hedge, international capital placed 29.8% of investment into the US last year in multifamily.



Source: Newmark Research, Real Capital Analytics

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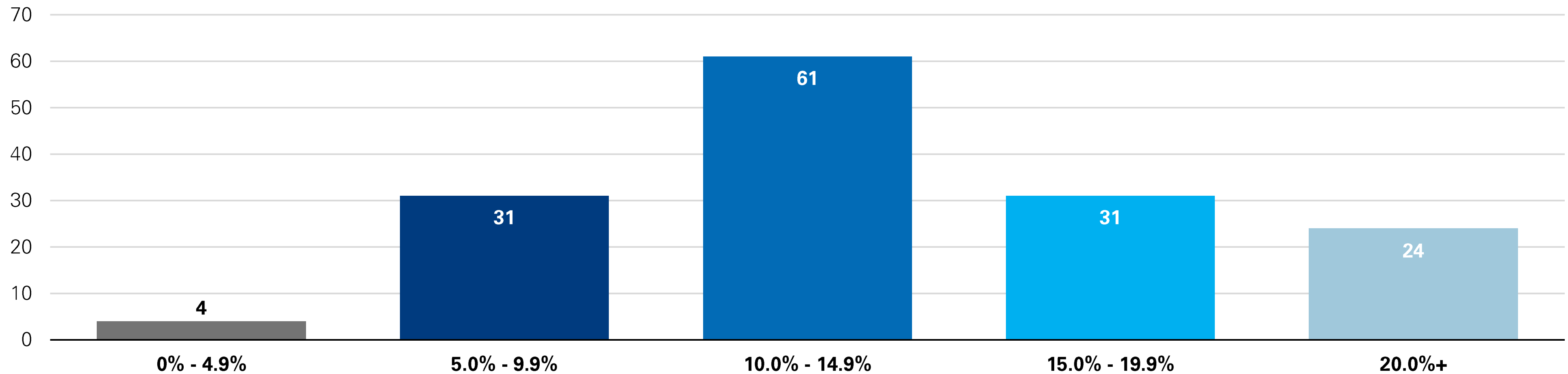
Year-Over-Year Rent Growth Distribution

Top 150 Markets; 1Q22 vs. 1Q21

On a year-over-year basis, effective rent growth in 129 out of the top 150 markets outpaced inflation and no market experienced rental decline over that time. As migration picked up during the pandemic, rent growth throughout Florida outperformed the national average, as the state registered the top 5 markets in the country during 1Q22.



Select Markets

0% - 4.9%	
Madison	4.9%
Youngstown	2.4%
Champaign	1.1%

5.0% - 9.9%	
Pittsburgh	8.9%
New Orleans	8.7%
Milwaukee	8.5%
Cleveland	8.4%
Omaha	8.3%
Rochester	7.0%
Albany	6.6%
Buffalo	6.4%
Minneapolis	5.1%

10.0% - 14.9%	
Boston	14.9%
Seattle	14.1%
San Jose	14.1%
Chicago	13.9%
Los Angeles	13.8%
Sacramento	13.6%
Houston	13.4%
Portland	13.3%
Indianapolis	13.0%
San Francisco	12.9%
Philadelphia	12.1%
Washington, D.C.	11.2%
Kansas City	10.2%
Oakland	10.0%

15.0% - 19.9%	
Charlotte	19.3%
Dallas	18.7%
San Diego	18.5%
Orange County	18.1%
Boise	18.1%
Inland Empire	16.9%
Denver	16.4%
Fort Worth	16.4%
San Antonio	16.0%
Boulder	15.4%
Greenville	15.1%
Fayetteville	15.0%

20.0%+	
Naples	42.2%
West Palm Beach	30.2%
Tampa	27.6%
Ft Lauderdale	27.2%
Orlando	26.9%
Phoenix	25.6%
Las Vegas	24.0%
Austin	23.8%
Jacksonville	23.7%
Miami	22.9%
Raleigh/Durham	21.8%
Nashville	21.1%
Salt Lake City	20.9%

Source: Newmark Research, RealPage

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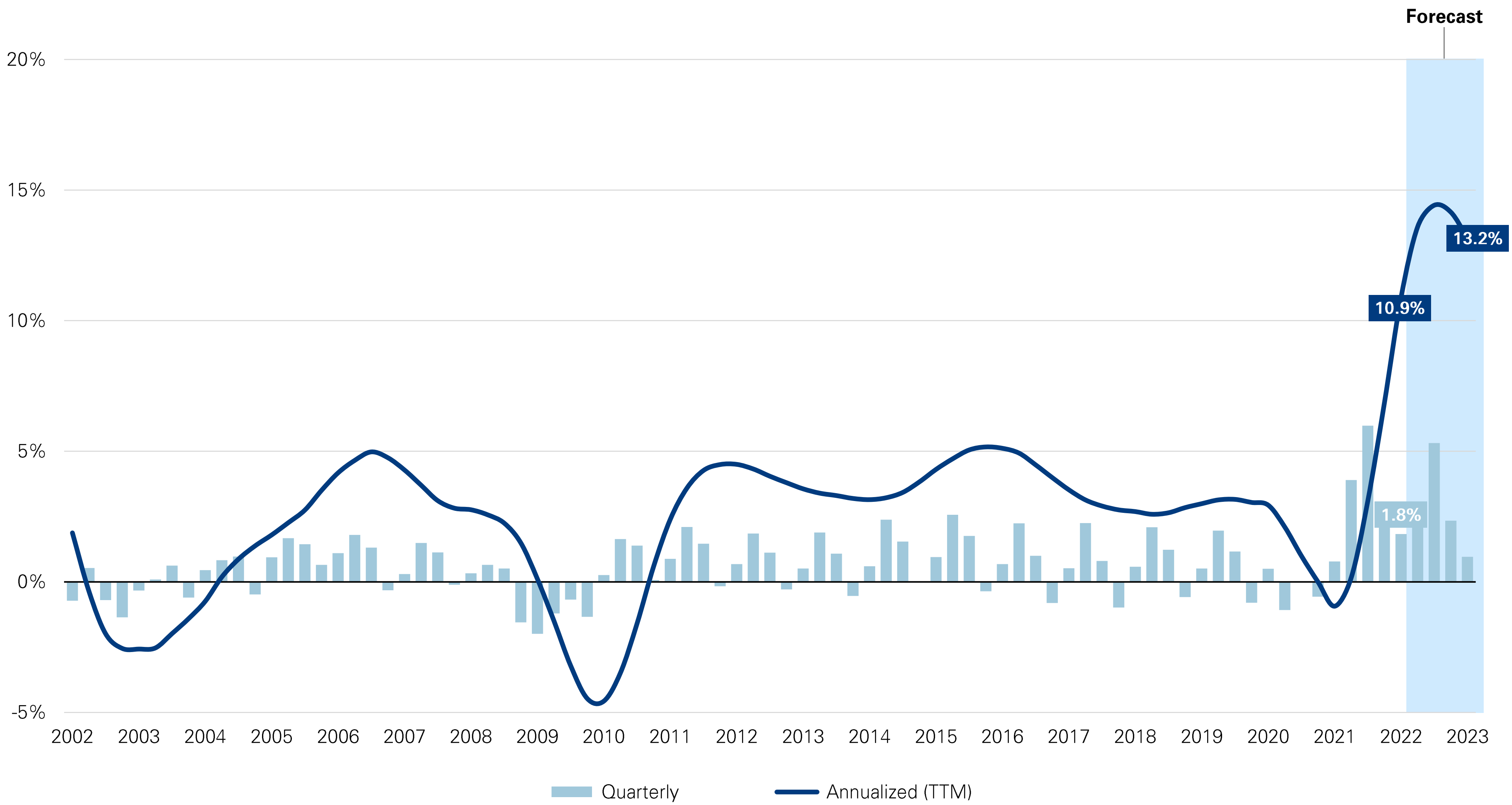
Effective Rent Growth

Annual Effective Rent Growth

Effective rent growth totaled 1.8% in 1Q22, while trailing twelve-month effective rent increased to 10.9% nationally. Annualized effective rent growth is projected to remain robust throughout the remainder of the year, expecting to exceed 13.0%.



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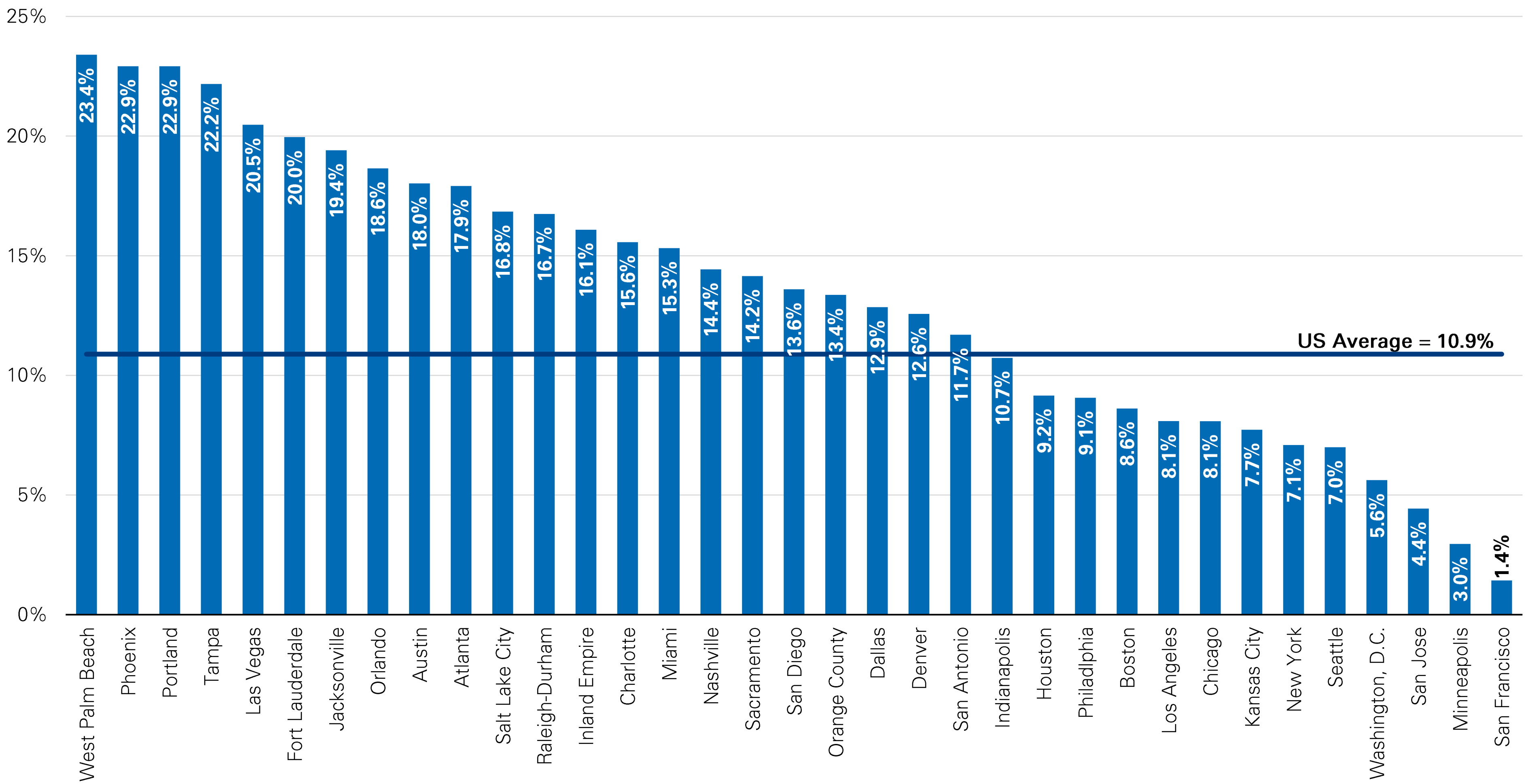
Effective Rent Growth by Market

Annualized

Rapidly growing markets in the Sunbelt region continued to outperform the broader market in terms of annualized effective rent growth, with 19 of the top 25 top performing markets located there. West Palm Beach (23.5%), Phoenix (22.9%), and Portland (22.9%) led the country in annual effective rent growth.



Source: Newmark Research, RealPage

* Major markets: Boston, Chicago, Los Angeles metro, New York metro, San Francisco metro, Washington, D.C. metro. Non-major markets: all other markets.

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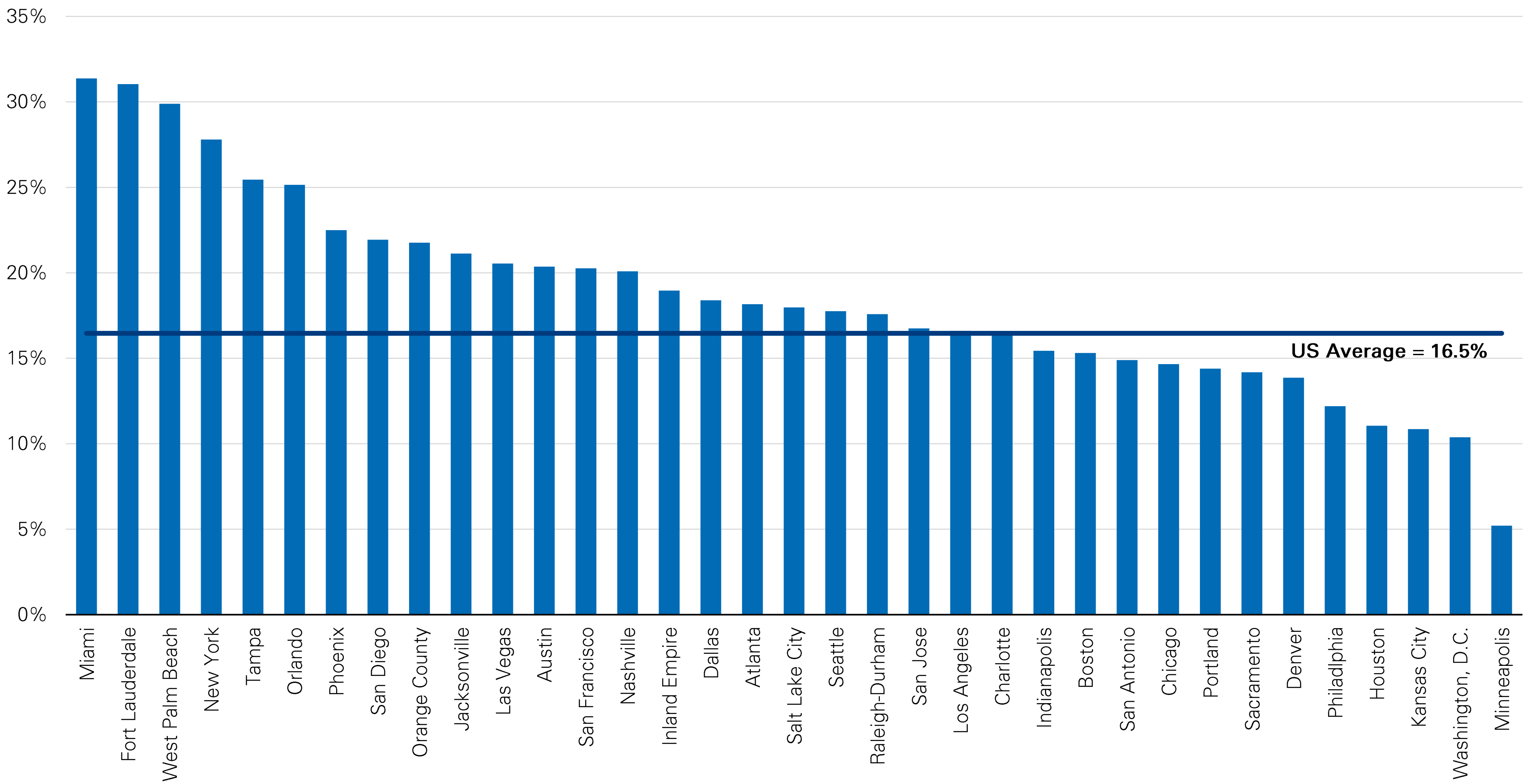
New Lease Trade-Outs

Select Markets

New lease trade outs remained high in 1Q21, reaching an average of 16.5% nationally. Markets with rapidly increasing rents are also experiencing high new lease trade-out rates, as occupants moving in are paying significantly more than previous tenants.



Source: Newmark Research, RealPage

* New lease trade-out refers to the difference in rent a new occupant of a unit is paying, compared to the rent the unit's previous occupant was paying.

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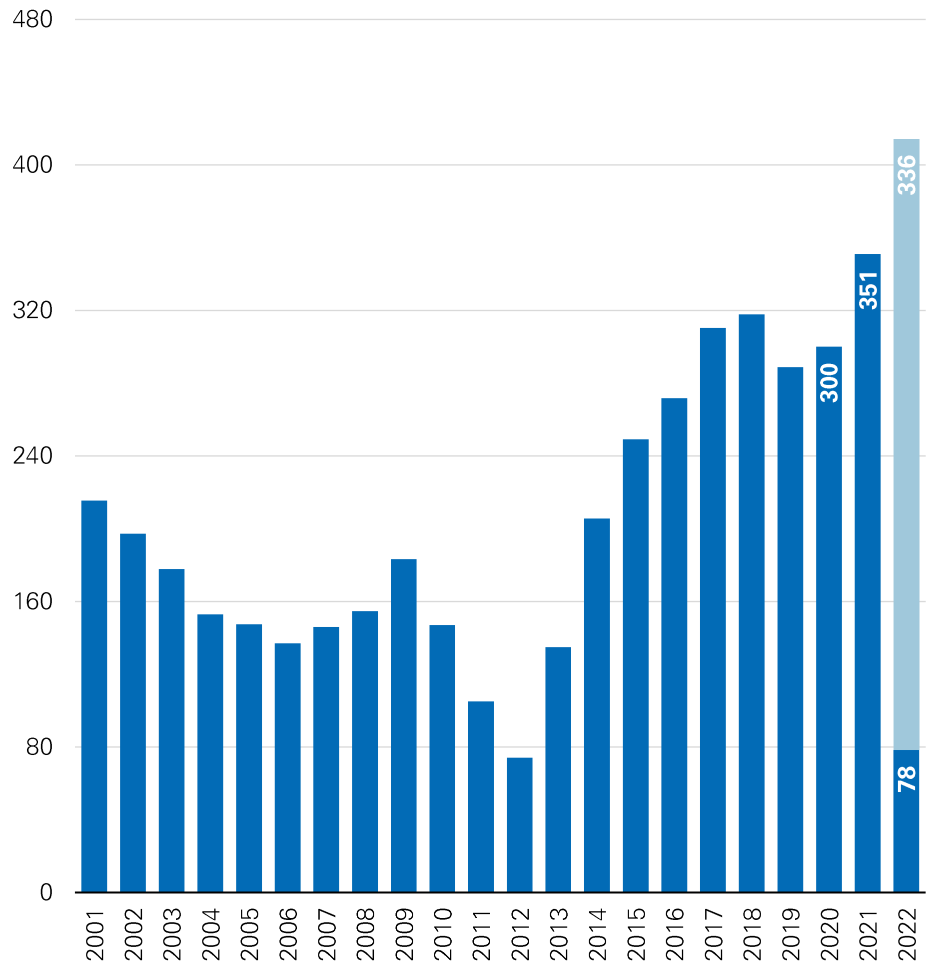
New Supply

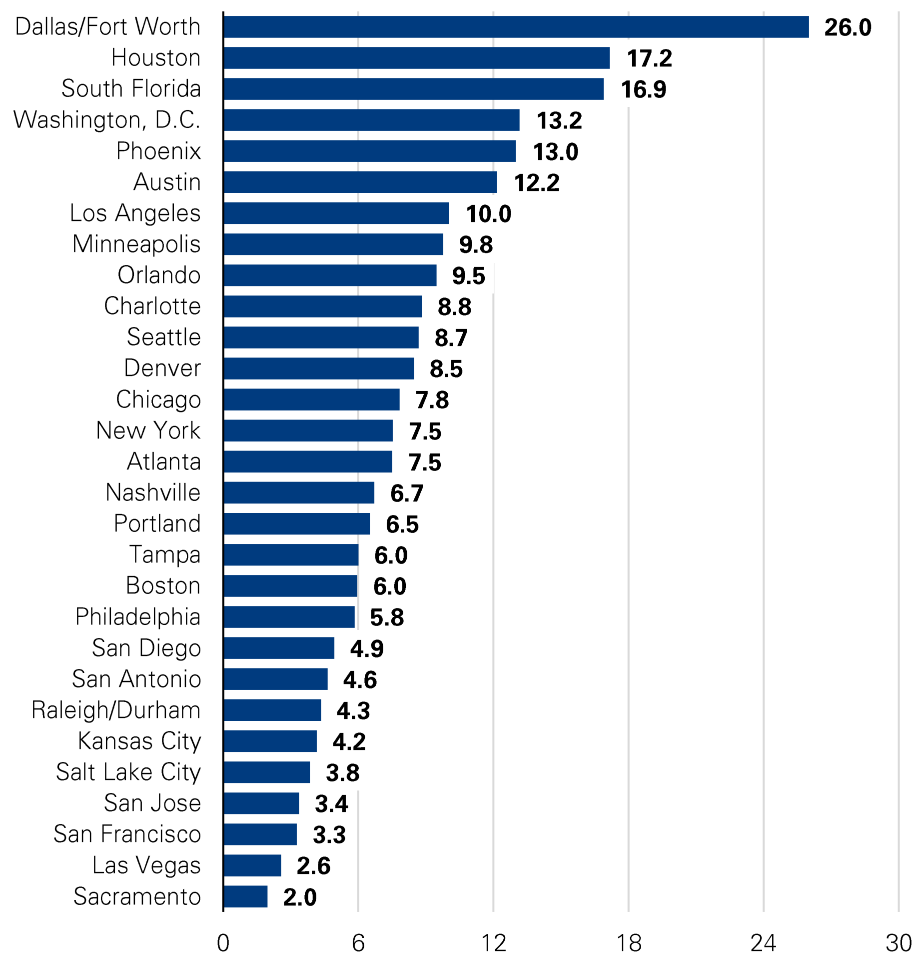
Units in Thousands

New supply totaled 78,000 in 1Q22, with an additional 336,000 units projected to be delivered through the end of 2022, which is expected to be a record level of deliveries with over 414,000 new units added. New deliveries have been particularly strong in the Southeast and Southwest, led by Dallas, Houston and South Florida which combined saw over 60,000 units added.

UNITED STATES



BY MARKET (PAST 12 MONTHS)



Source: Newmark Research, RealPage

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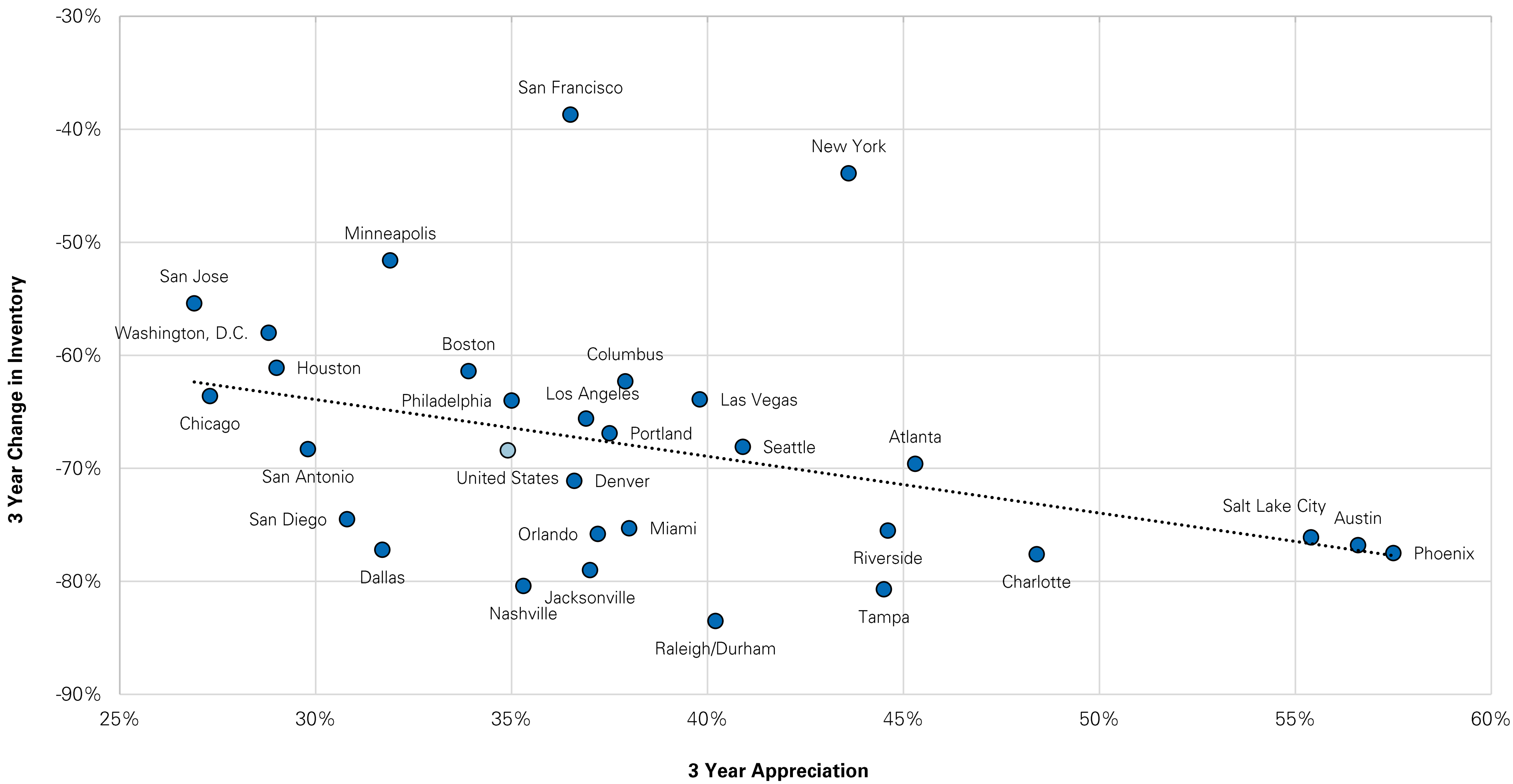
Demand to Remain Robust For Rental Housing

Select Markets; For Sale Single-Family Housing

For sale inventory nationally has plunged 68.4% over the past three years, while prices have increased 34.9%. Limited inventory for sale, escalating prices and rapidly rising mortgage rates are anticipated to benefit demand for rental housing.



Source: Newmark Research, Federal Reserve Bank of St. Louis, National Association of Realtors

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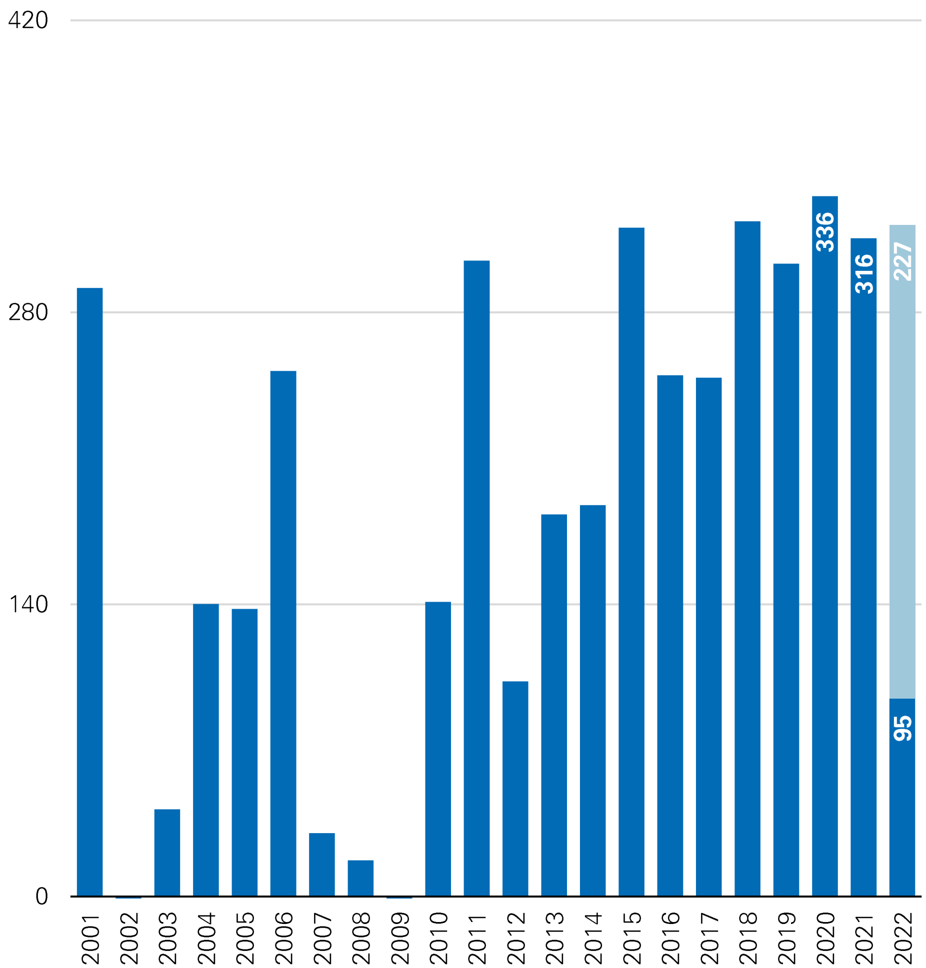
Absorption

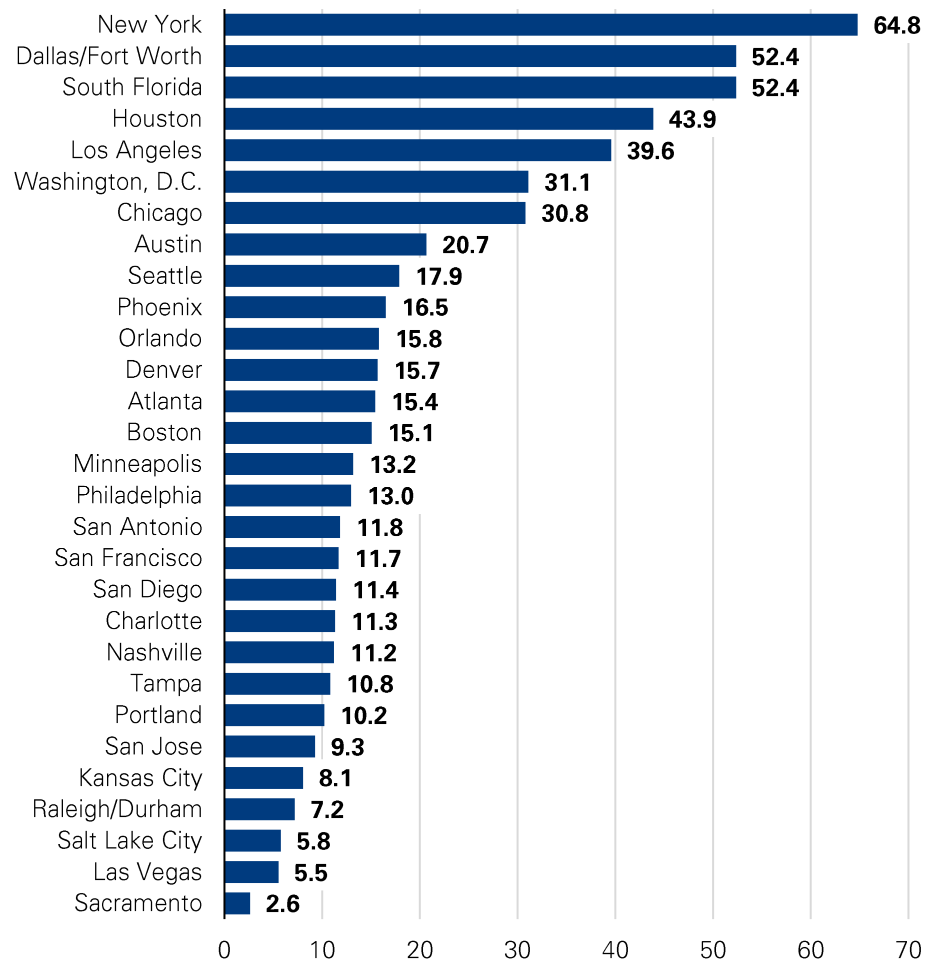
Units in Thousands

High levels of new supply were met by even stronger demand in 1Q22 as 95,000 units were absorbed – outpacing new supply by over 16,000 units. In addition to resilient apartment markets in Florida and Texas, major markets like New York, Los Angeles, and Washington, D.C. experienced significant demand as renters continue to return to densely populated cities.

UNITED STATES



BY MARKET (PAST 12 MONTHS)



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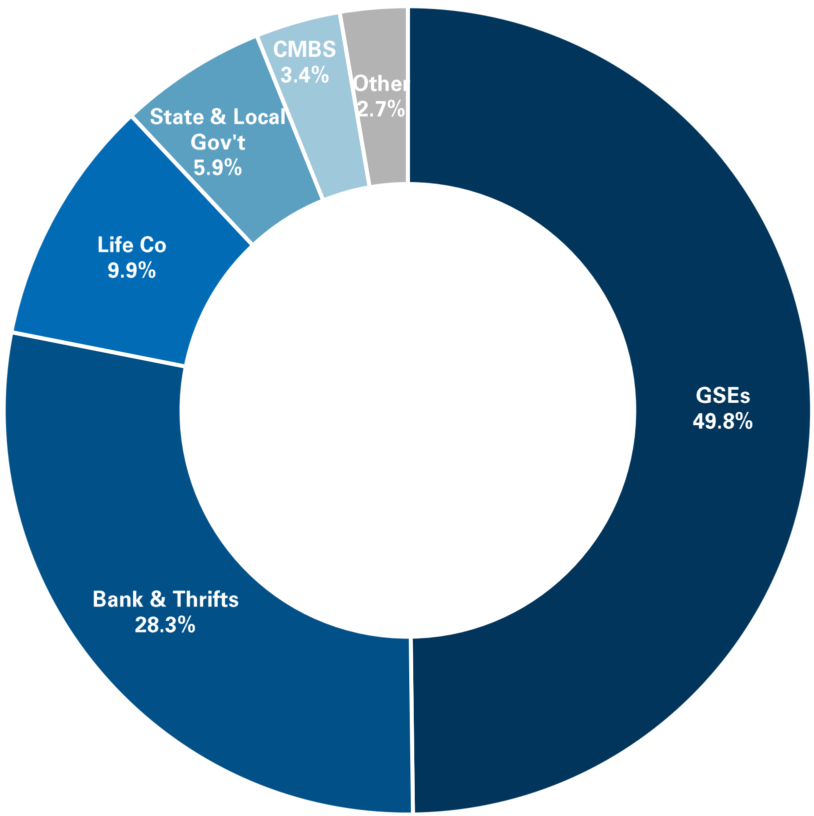
Mortgage Debt Outstanding

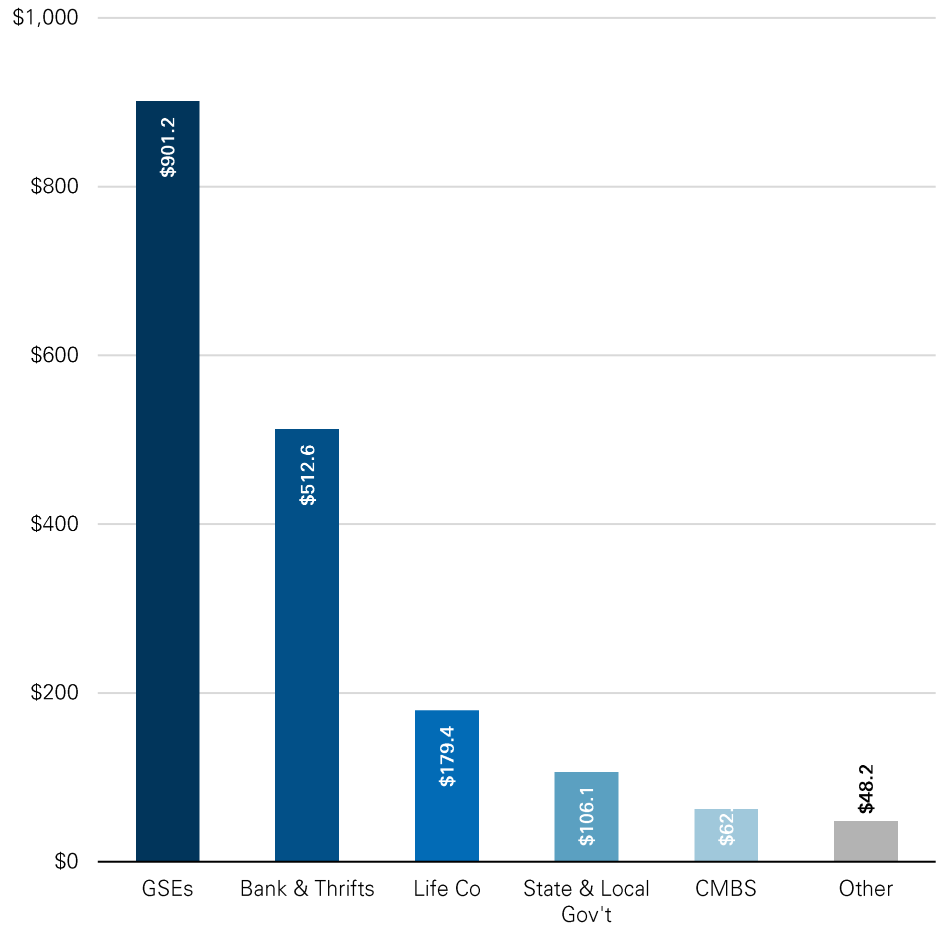
United States

Multifamily mortgage debt outstanding increased to $1.8 trillion, a 2.4% increase quarter-over-quarter. In nominal dollars, banks saw the largest increase quarter-over-quarter at 3.3% growth or $16.5 billion.

DEBT OUTSTANDING BY GROUP AS A PERCENTAGE



DEBT OUTSTANDING BY GROUP (DOLLARS IN BILLIONS)



Source: Newmark Research, Mortgage Bankers Association

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New York Headquarters
125 Park Avenue
New York, NY 10017
t 212-372-2000

nmrk.com

National Research

Mike Wolfson
Director
Capital Markets Research
mike.wolfson@nmrk.com

Sean Marmora
Senior Research Analyst
Multifamily Research
sean.marmora@nmrk.com

Jonathan Mazur
Senior Managing Director
National Research
jonathan.mazur@nmrk.com

Multifamily Leadership

Jeff Day
Chief Strategy Officer & President,
Head of Multifamily Capital Markets
jeff.day@nmrk.com

Blake Okland
Vice Chairman
Head of Multifamily Investment Sales
blake.okland@nmrk.com

Sharon Karaffa
Vice Chairman
Co-Head of Production
sharon.karaffa@nmrk.com

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