2Q21 United States Multifamily Capital Markets Report

NEWMARK

Table of Contents

Key Takeaways

Sales Volume

Multifamily investment sales volume in 2Q21 accelerated to $52.7 billion, representing a 238.1% surge year-over-year. With $92.1 billion in deal activity through the first half of 2021, volume is 7.2% ahead of 2019's pace, a record year for sales volume. Year-to-date, 81.1% of investment sales volume has been directed towards non-major markets, representing the highest allocation on record.

Rent Growth

Multifamily rents have recovered to pre-pandemic levels or higher in almost all markets throughout the US. Of the top 150 largest multifamily markets, 109 markets experienced year-over-year rent growth exceeding 5%. While smaller markets make up the bulk of the 10%+ category, large metros such as Atlanta and Phoenix are exhibiting above-average growth.

Dry Powder

Dry powder rose to a record high of $234 billion earmarked for investment into commercial real estate. Year-to-date, $74.3 billion has been set aside for investment into residential properties with 71.1% of capital raised concentrated on value-add and opportunistic strategies.

Supply and Demand

Through the first half of 2021, demand has significantly outpaced new supply by 93,000 units with 268,000 units absorbed compared to 175,000 new units delivered. Over the past 12 months, demand has outpaced new supply considerably in Dallas/Fort-Worth, South Florida and Phoenix.

Total Returns

Total returns have accelerated to 5.4% through the first half of 2021 and 7.0% over the trailing twelve months. Multifamily total returns remain resilient at 160 basis points above the consumer price index and have consistently outpaced inflation despite a sharp uptick year-to-date. The majority of the above-average total returns are being achieved in the Sunbelt region.

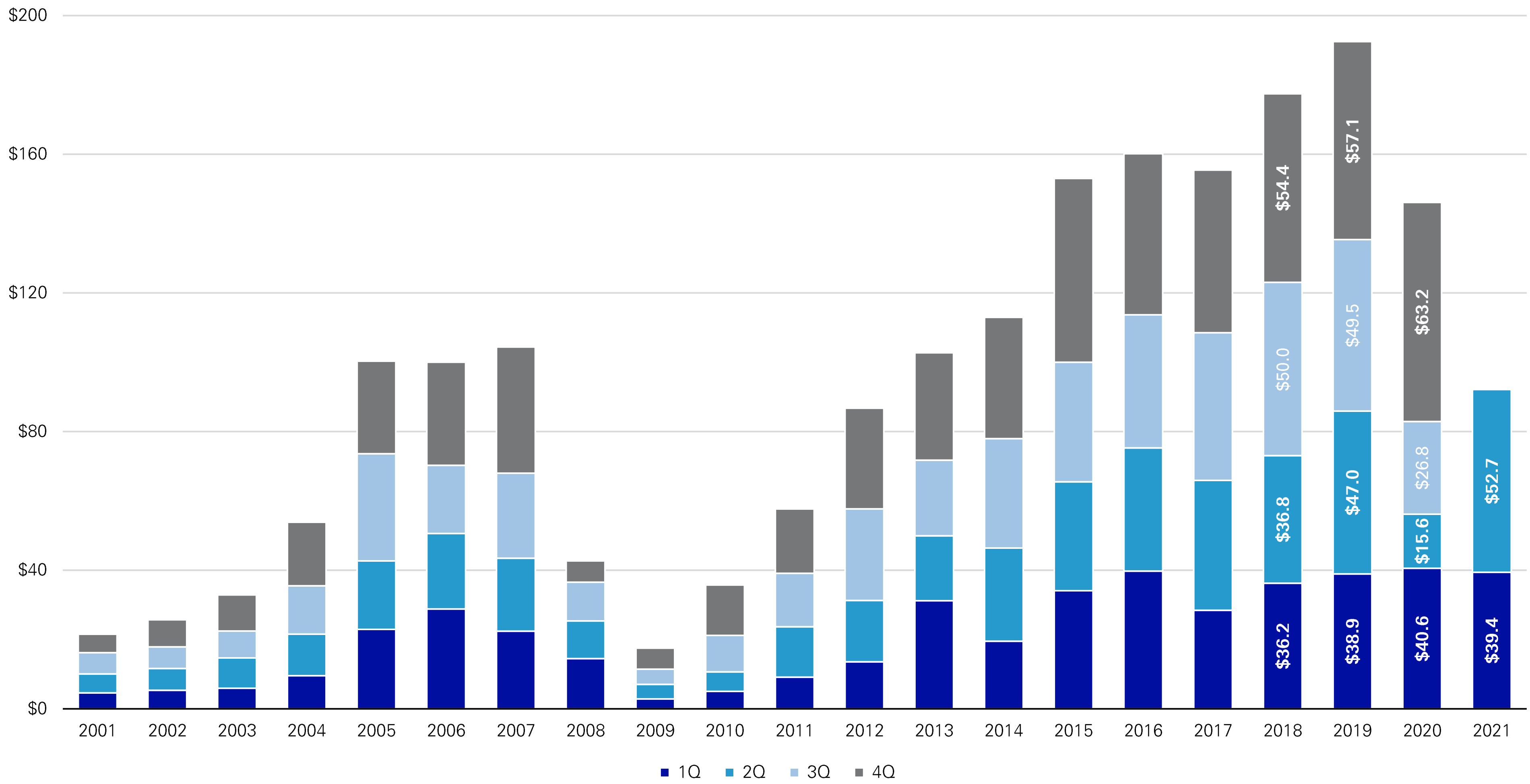
Debt Markets

Mortgage debt outstanding for multifamily rose 8.9% year-over-year to $1.7 trillion. Despite reduced lending from Fannie Mae and Freddie Mac in the first half of the year, GSEs grew their debt outstanding by 14.5%. Only, REITS increased their debt outstanding more with a 24.5% year-over-year increase.

Sales Volume

UNITED STATES; DOLLARS IN BILLIONS

Driven by robust investor appetite, multifamily investment sales volume in 2Q21 accelerated to $52.7 billion, representing a 238.1% surge year-over-year compared with 2Q20 – the largest sequential increase on record. With $92.1 billion in deal activity through the first half of 2021, volume is 7.2% ahead of 2019's pace, a year in which investment sales achieved record annual volume of $192.5 billion.

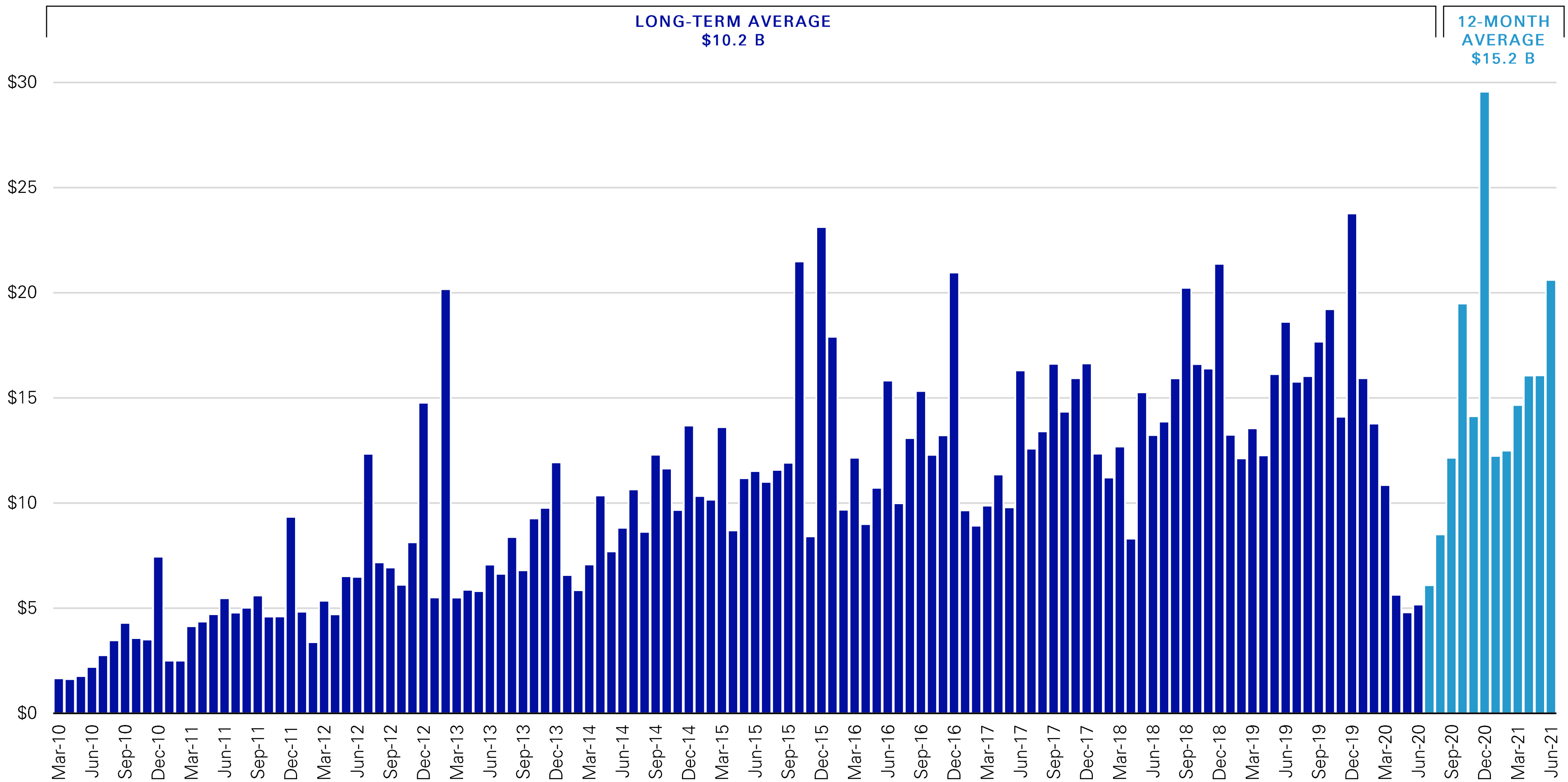


Source: Newmark Research, Real Capital Analytics

Monthly Sales Volume

UNITED STATES; DOLLARS IN BILLIONS

Monthly sales volume over the trailing twelve months has averaged $15.2 billion per month, 49.0% greater than the long-term average and 11.9% above the previous 12-month period. The pickup in activity is likely to continue in the coming months, with over $6 billion in large-scale portfolios currently being marketed.

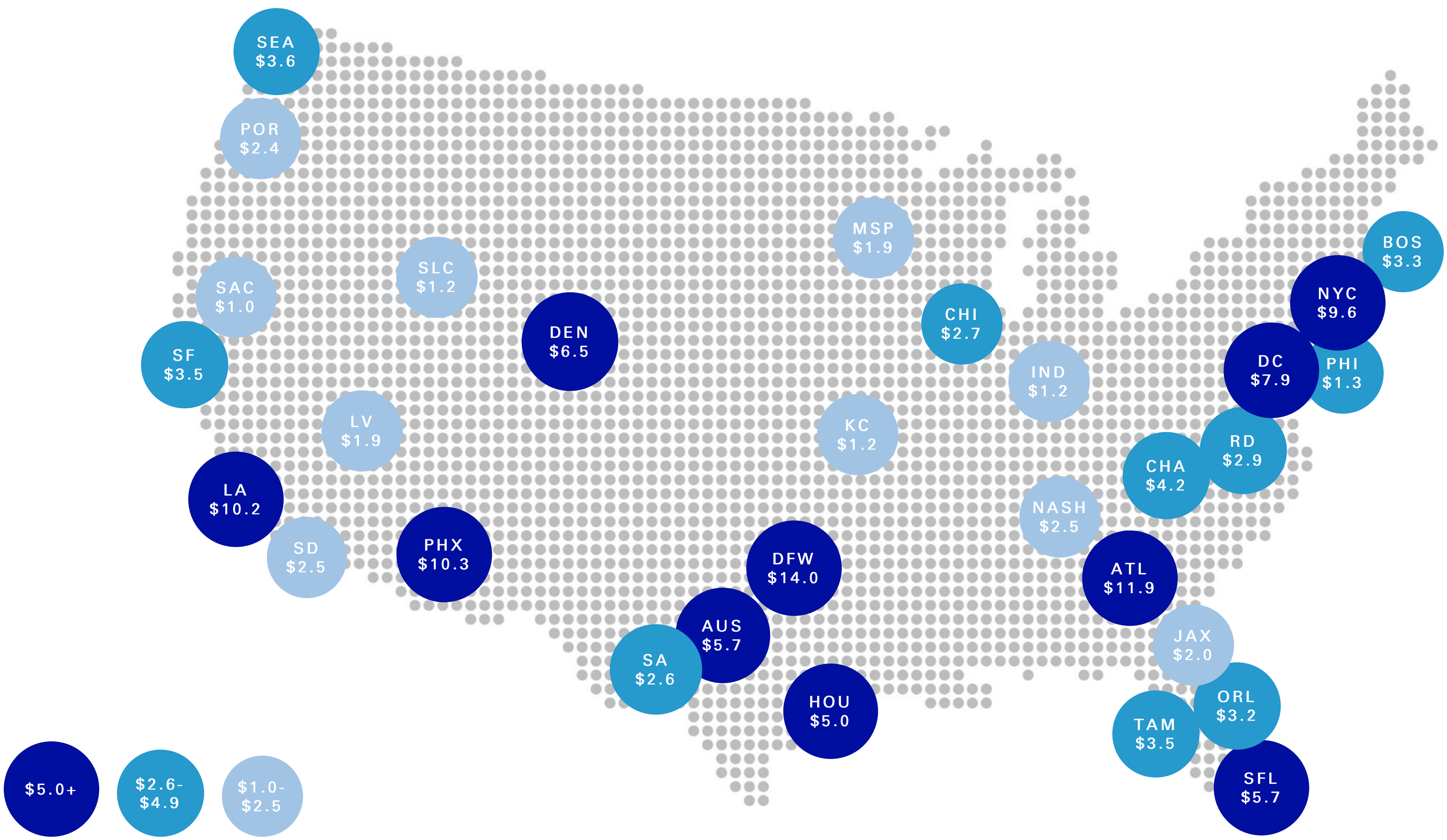


Source: Newmark Research, Real Capital Analytics

Sales Volume by Market

12-MONTH TOTALS; DOLLARS IN BILLIONS

Over the past 12 months, several markets experienced an influx in year-over-year sales volume. Most notably, Atlanta, Austin, Indianapolis, Jacksonville, Phoenix and South Florida all exceeded 45% annualized growth. While sales volume declined in five of the six major markets year-over-year, Washington, D.C. metro activity increased 14.5%, primarily driven by investment into Northern Virginia and Suburban Maryland.



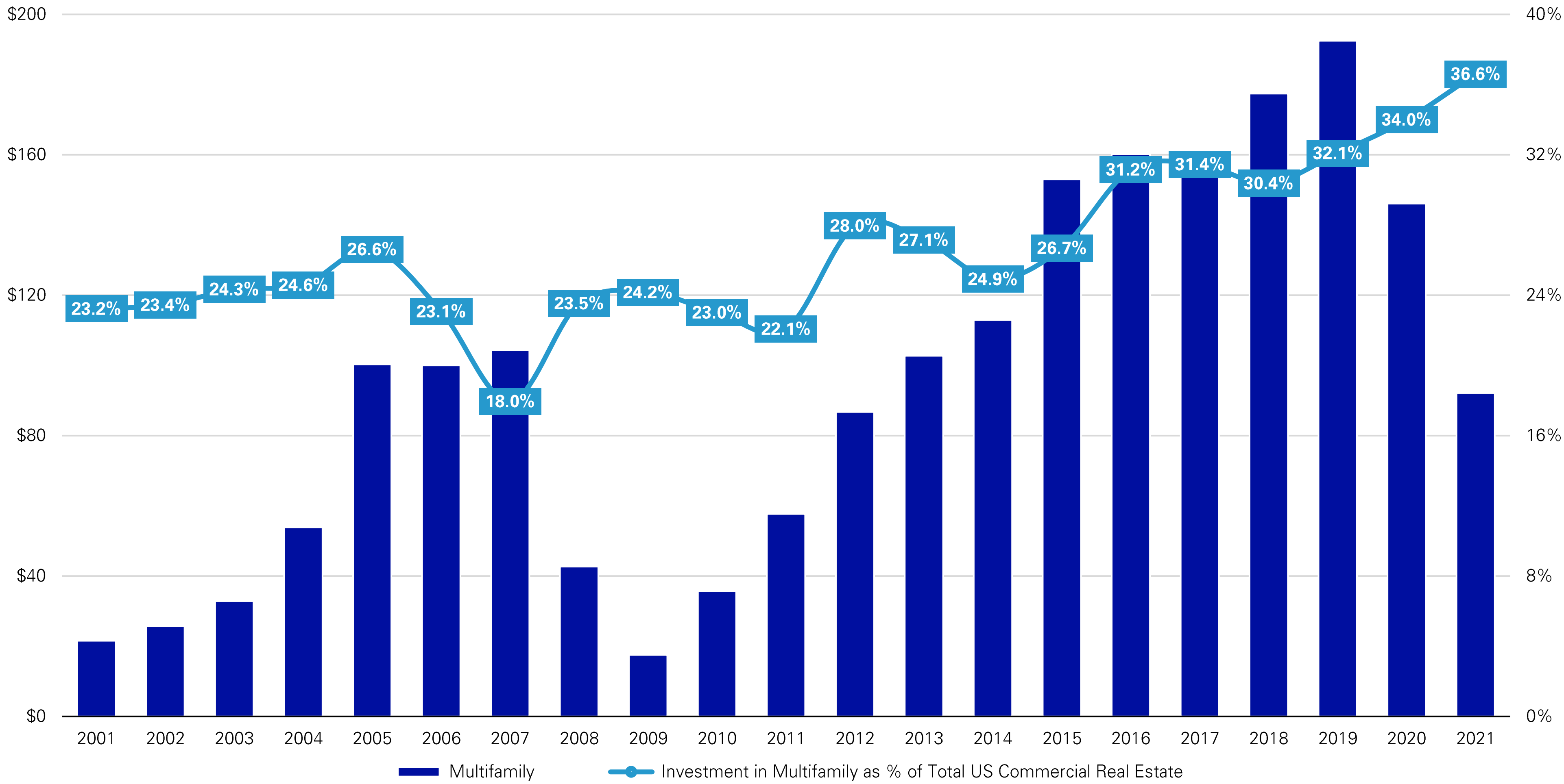
Source: Newmark Research, Real Capital Analytics

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

Investment Allocation to Multifamily

UNITED STATES

Investment allocation to multifamily compared with the overall US commercial real estate market rose to an all-time high of 36.6% in the first half of 2021. Since 2014, allocation to multifamily from commercial real estate investors has risen each year with the exception of 2018.

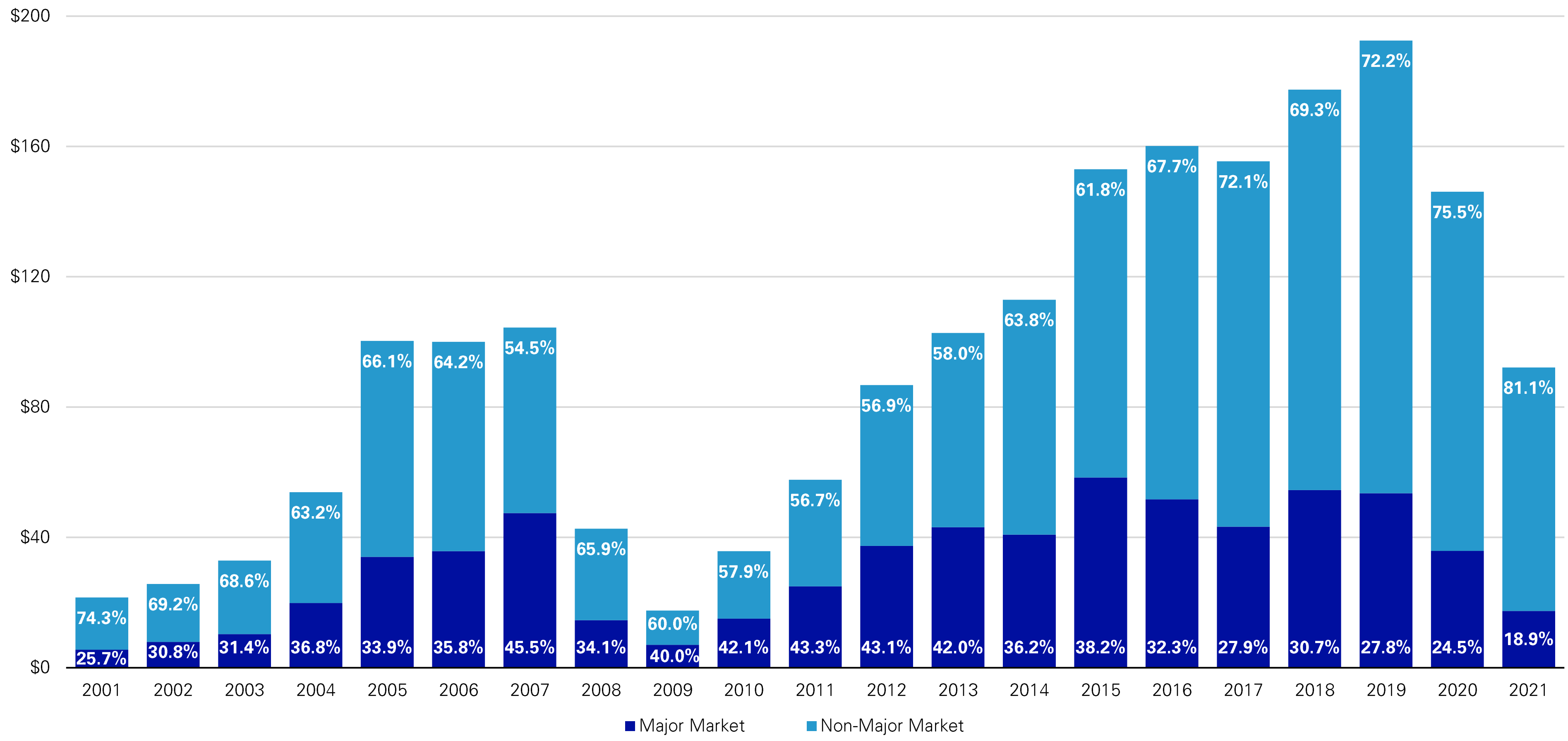


Source: Newmark Research, Real Capital Analytics

Capital Flow Analysis

UNITED STATES; DOLLARS IN BILLIONS

Year-to-date, 81.1% of investment sales volume has been directed towards non-major markets, representing the highest allocation on record. While this trend was in place prior to COVID-19, this has accelerated further as investors overwhelmingly seeking out faster growing markets outside of major markets.



Source: Newmark Research, Real Capital Analytics

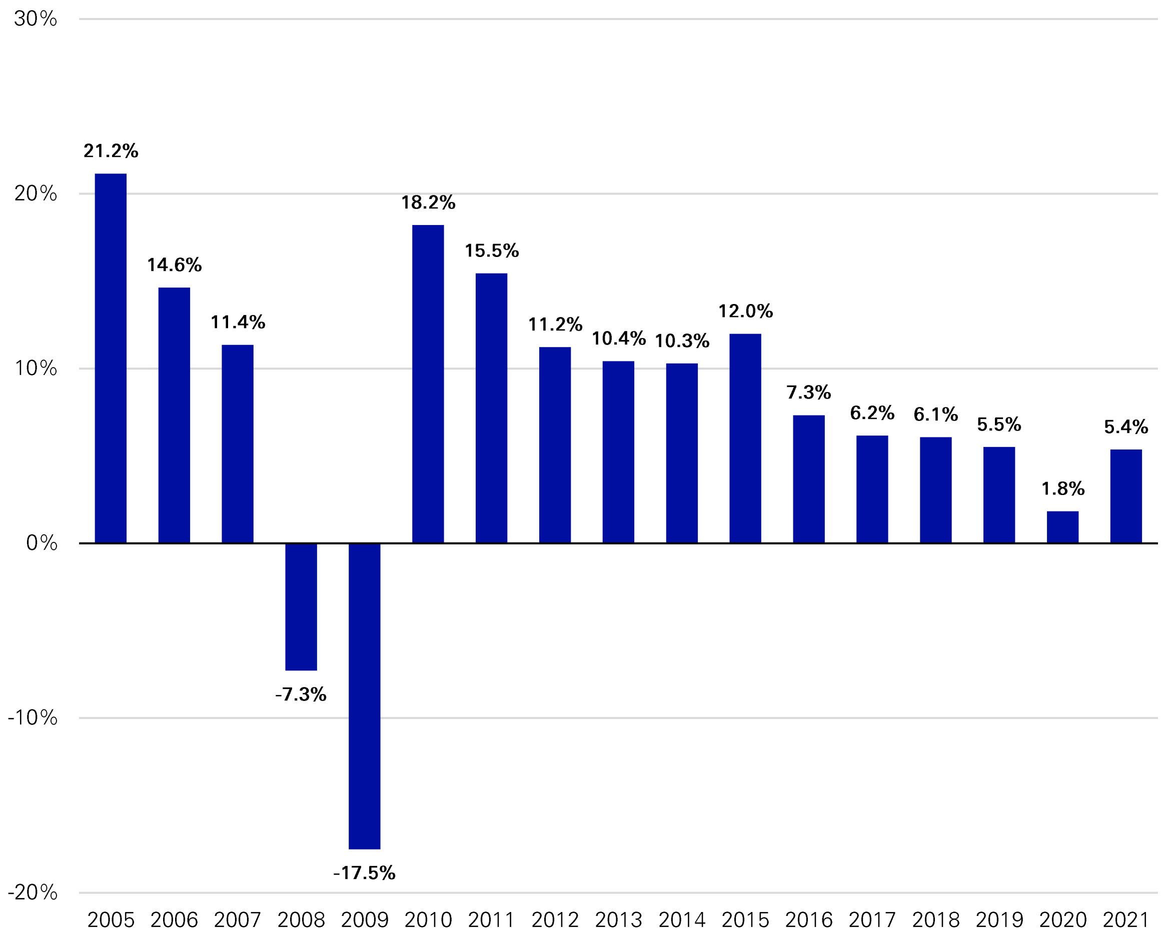
* Major markets: Boston, Chicago, Los Angeles metro, New York metro, San Francisco metro, Washington, D.C. metro. Non-major markets: all other markets.

Total Returns

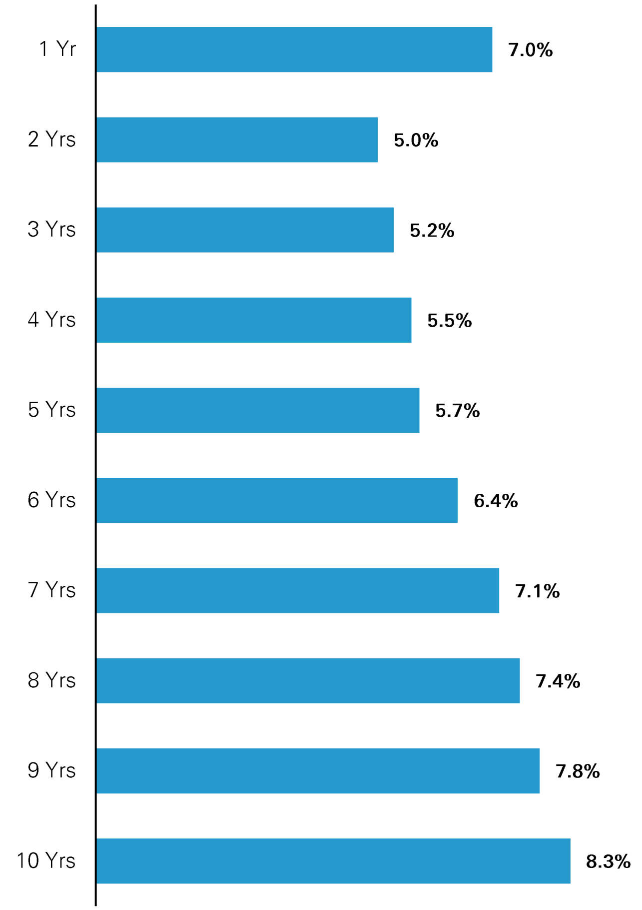
CALENDAR YEAR AND ANNUALIZED RETURNS

Following a challenging 2020 due the pandemic, total returns have accelerated to 5.4% through the first half of 2021 and 7.0% over the trailing twelve months. In 2Q21, appreciation gains boosted the overall rise in total returns, with quarterly appreciation increasing to 2.7% from 0.8% the previous quarter.

CALENDAR YEAR RETURNS



ANNUALIZED RETURNS



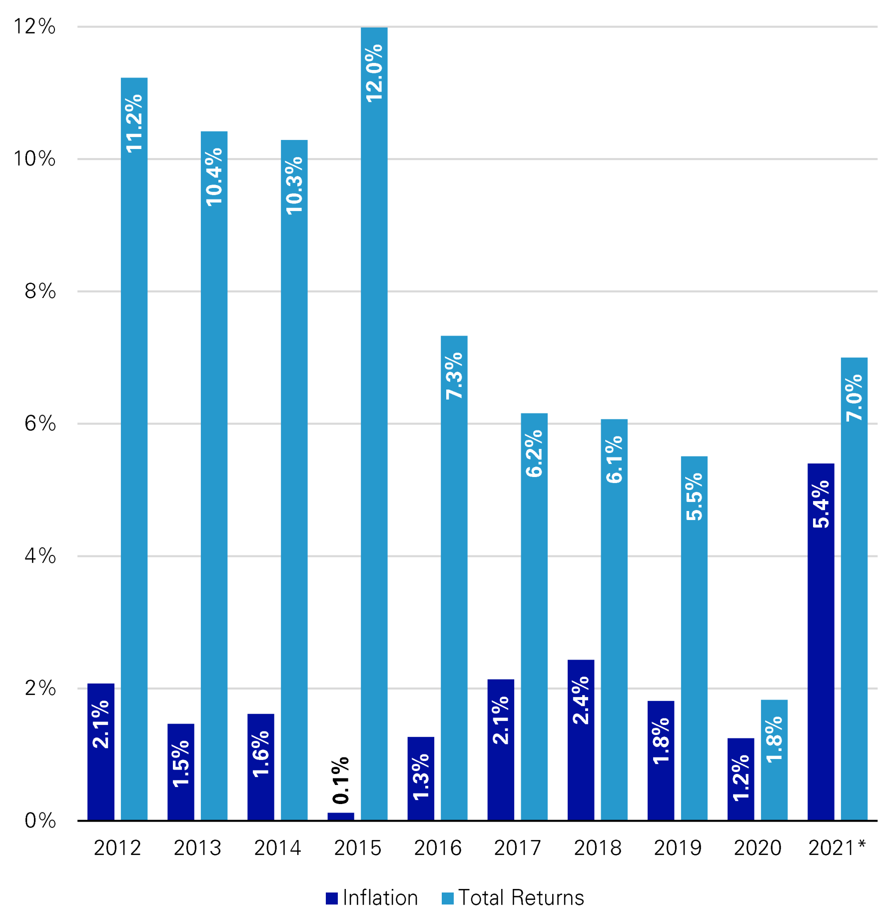
Source: Newmark Research, NCREIF

Total Returns Relative to Inflation

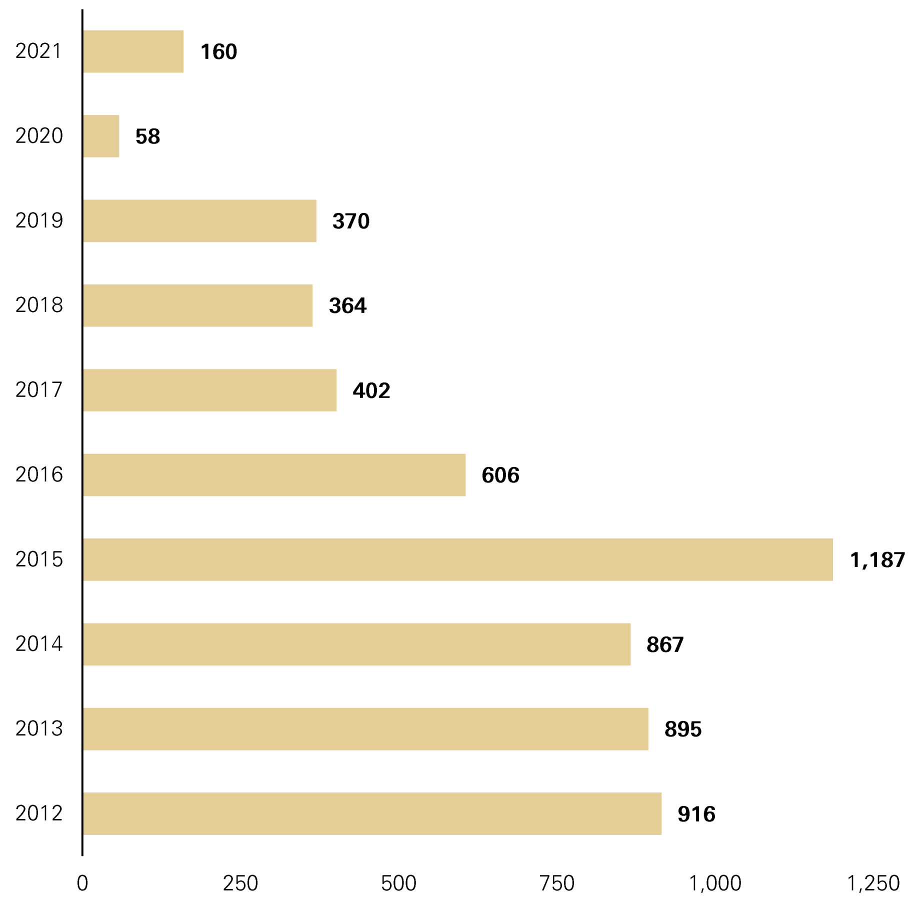
CONSUMER PRICE INDEX

Multifamily total returns remain resilient at 160 basis points above the consumer price index and have consistently outpaced inflation despite a sharp uptick year-to-date. Since 2012, multifamily total returns have averaged a premium of 583 basis points compared in excess of inflation.

INFLATION (CPI) VS. TOTAL RETURNS



TOTAL RETURNS IN EXCESS OF INFLATION (BPS)



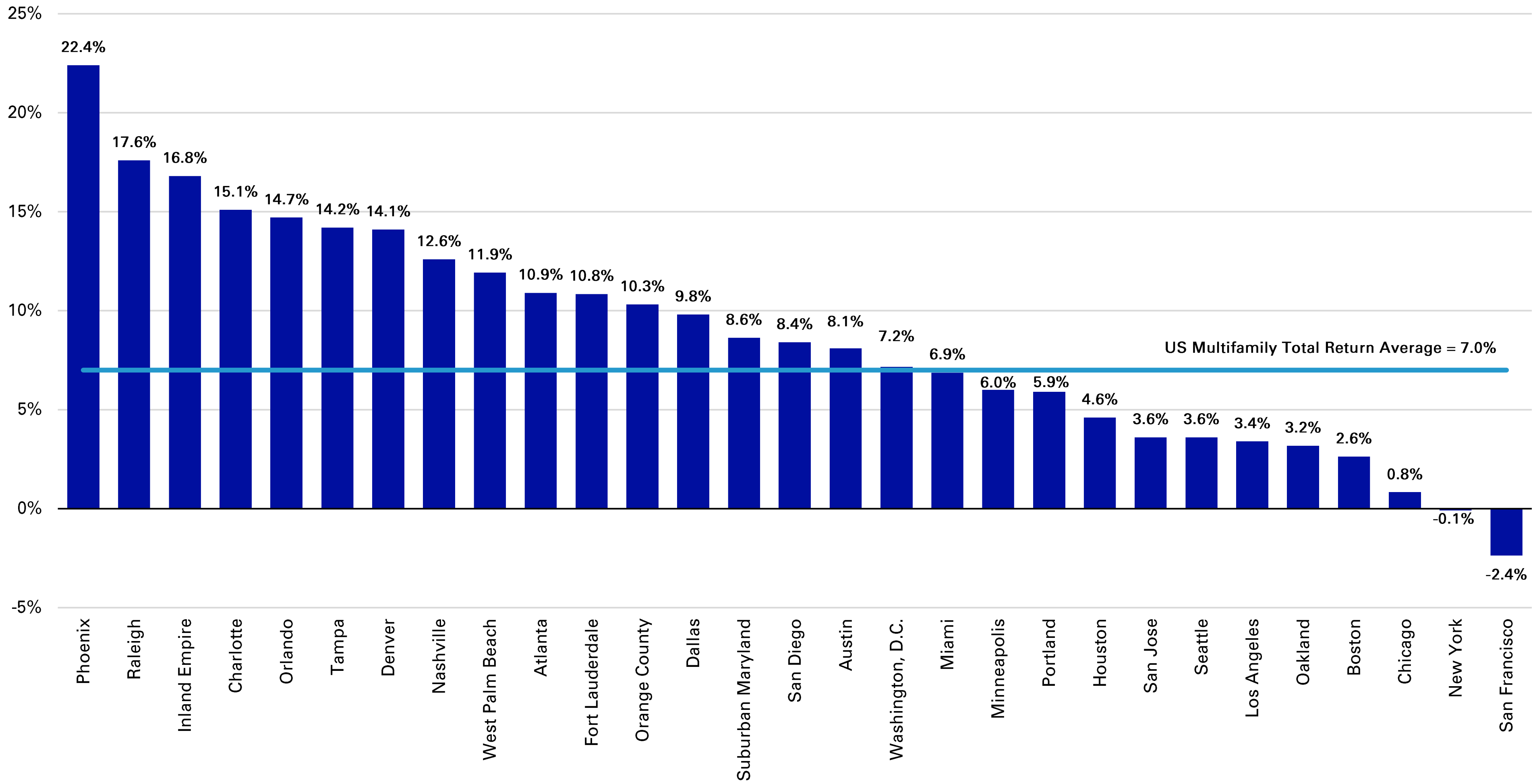
Source: Newmark Research, RealPage, Federal Reserve Bank of St. Louis

* Annualized.

Total Returns by Market

ANNUALIZED TOTALS

Total returns continue to outperform in markets like Phoenix (22.4%), Raleigh (17.6%), Charlotte (15.1%), Orlando (14.7%), and Tampa (14.4%), as the majority of the above-average total returns are being achieved in the Sunbelt region.



Source: Newmark Research, NCREIF

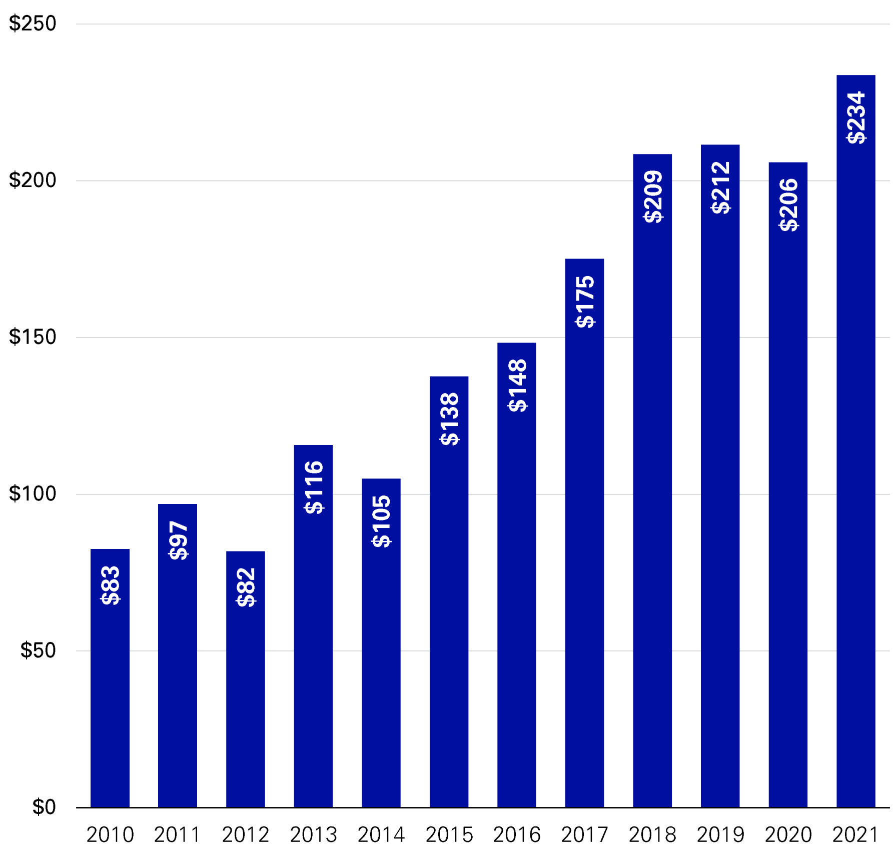
* Major markets: Boston, Chicago, Los Angeles metro, New York metro, San Francisco metro, Washington, D.C. metro. Non-major markets: all other markets.

Dry Powder and Residential Fund Targets

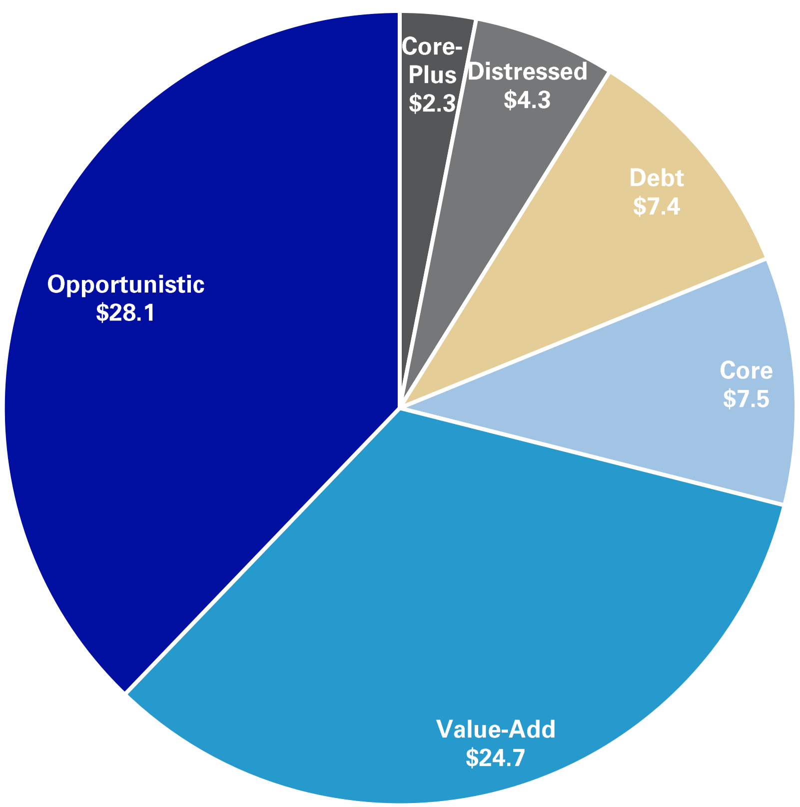
NORTH AMERICA; DOLLARS IN BILLIONS

Dry powder rose to a record high of $234 billion earmarked for investment into commercial real estate. Year-to-date, $74.3 billion has been set aside for investment into residential properties with 71.1% of capital raised concentrated on value-add and opportunistic strategies.

DRY POWDER (ALL PROPERTY TYPES)



2021 VINTAGE RESIDENTIAL FUND TARGETS BY STRATEGY

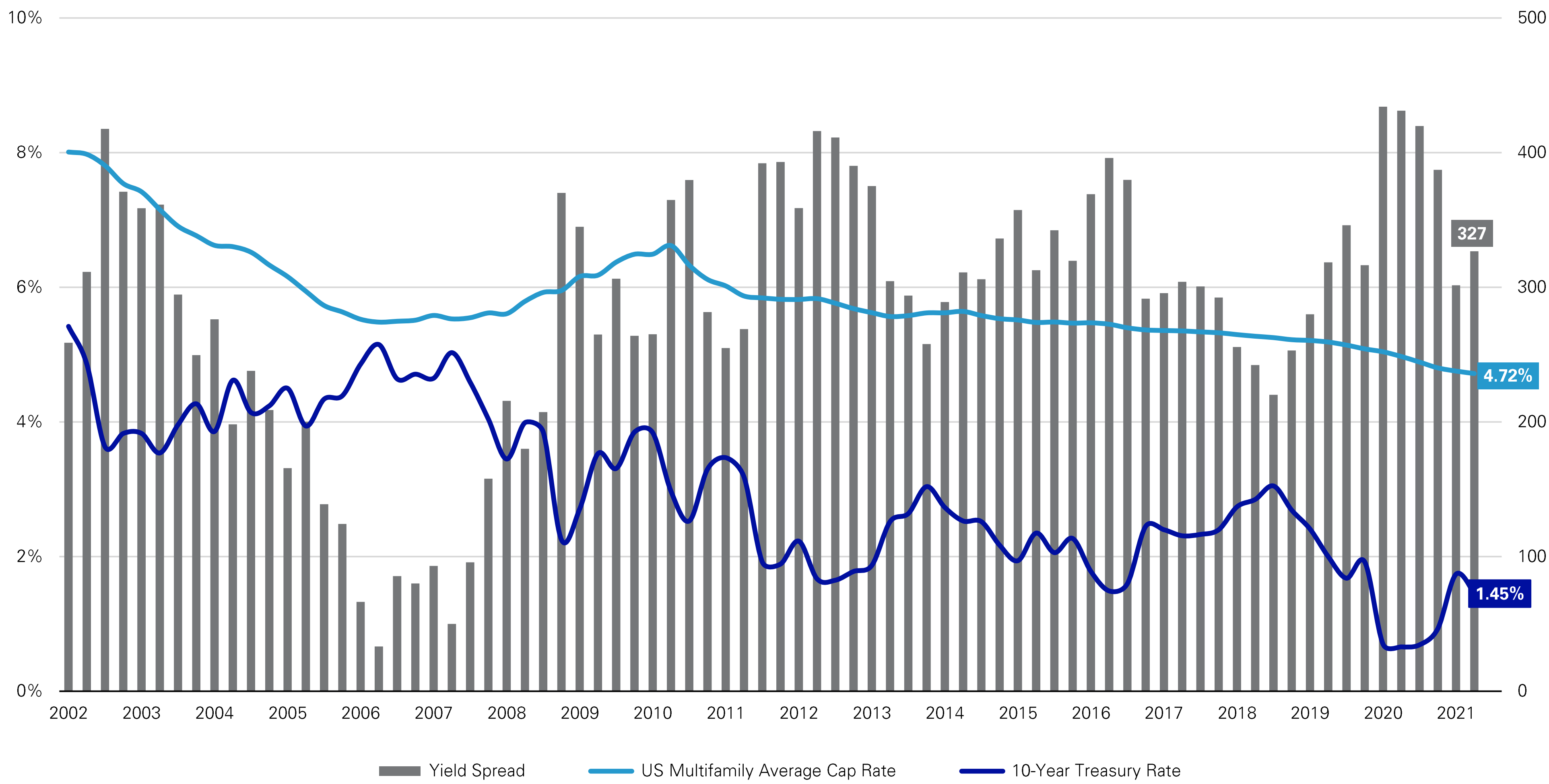


Source: Newmark Research, Preqin

Yield Spread

UNITED STATES; 12 MONTH AVERAGE

The spread between the 10-year treasury note and multifamily cap rates reached 327 basis points as of 2Q21, 43 basis points over the long-term average spread of 284 basis points.

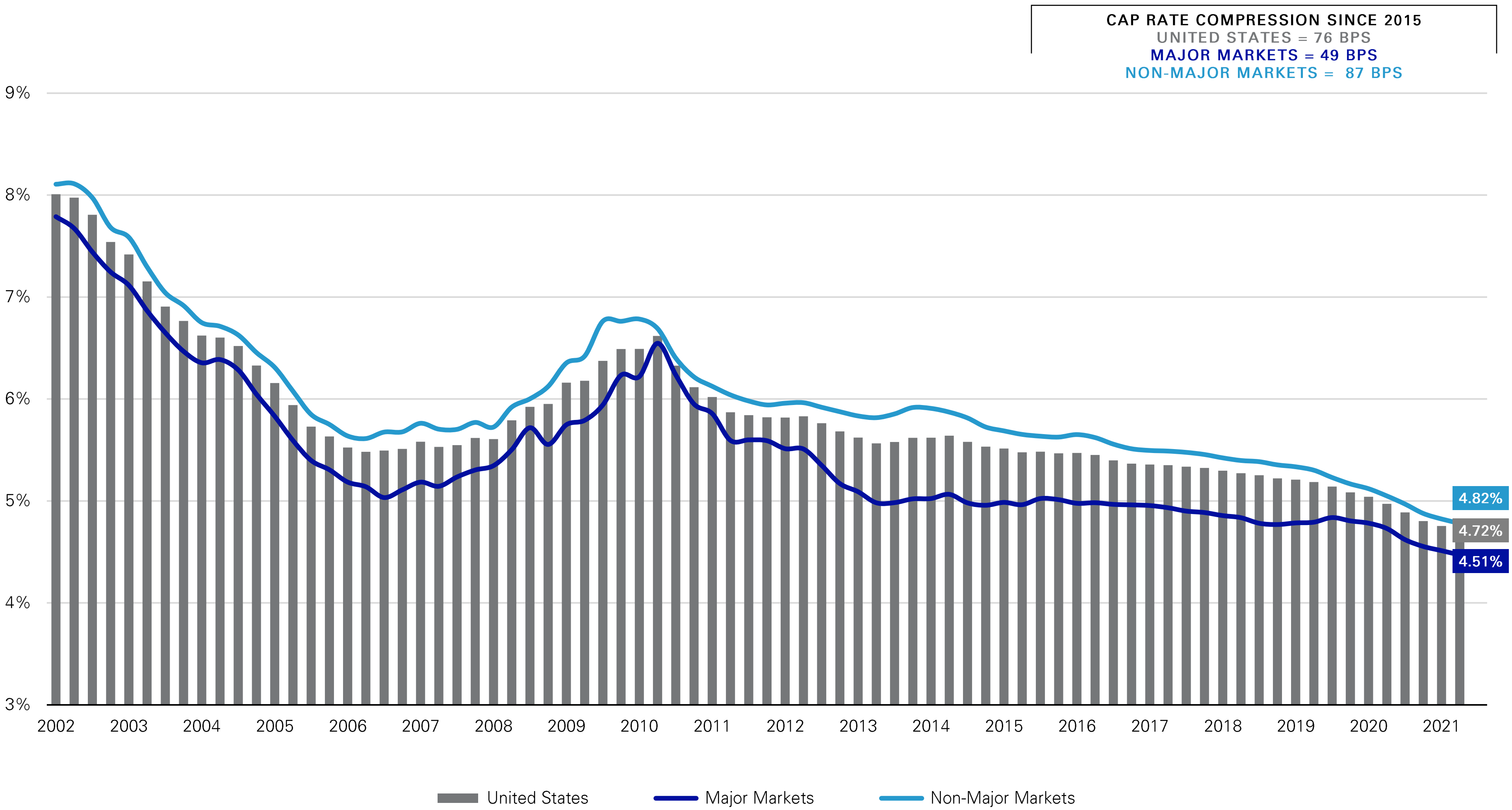


Source: Newmark Research, Federal Reserve Bank of St. Louis, Real Capital Analytics (Transactions $25M+)

Cap Rates

UNITED STATES; 12 MONTH AVERAGE

Cap rates continue to compress, falling to 4.72% overall, 4.82% for non-major markets, and 4.51% for major-markets for the trailing twelve months. Yields in non-major markets have decreased 87 basis points since 2015, due to increasing investor demand for multifamily product in these opportunistic growth markets, compared with major markets where they have compressed 49 basis points.



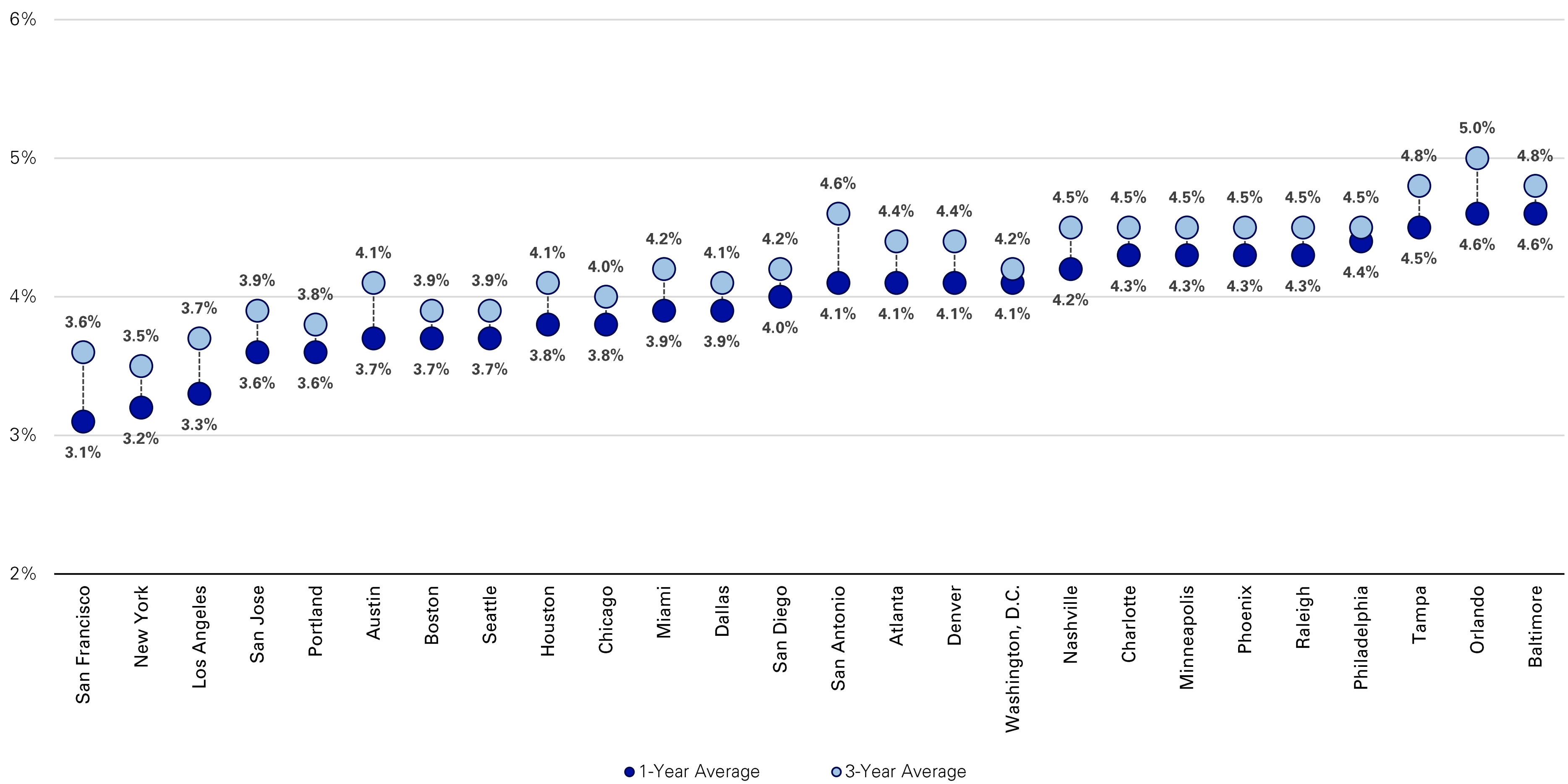
Source: Newmark Research, Real Capital Analytics (Transactions $25M+)

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

Cap Rates by Market

SELECT MARKETS

While yields have compressed nationally, high growth markets located in tax-friendly states such as Florida and Texas have seen the most dramatic transformation. Cap rates have compressed 50 basis points in San Antonio, and 40 basis points in Austin and Orlando over the past three years.

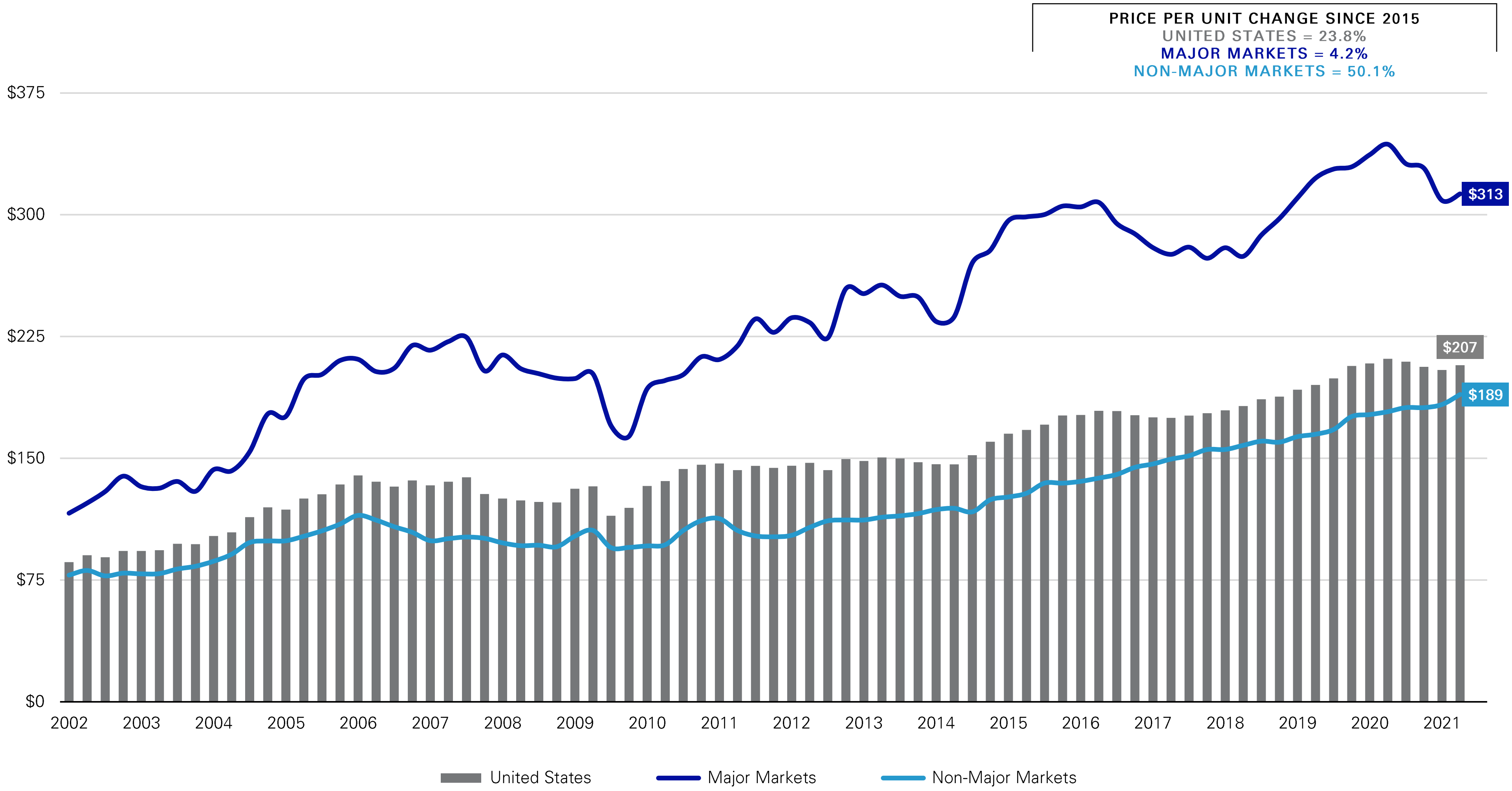


Source: Newmark Research, NCREIF

Price Per Unit

UNITED STATES; 12-MONTH AVERAGE

After a 3.3% decline in pricing from 2Q20 to 1Q21, the average price per unit jumped to $207,347, a 1.4% quarter-over-quarter increase nationally. This growth was led by a 3.4% quarter-over-quarter increase in non-major markets, which were largely unscathed by the pandemic in terms of pricing.



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

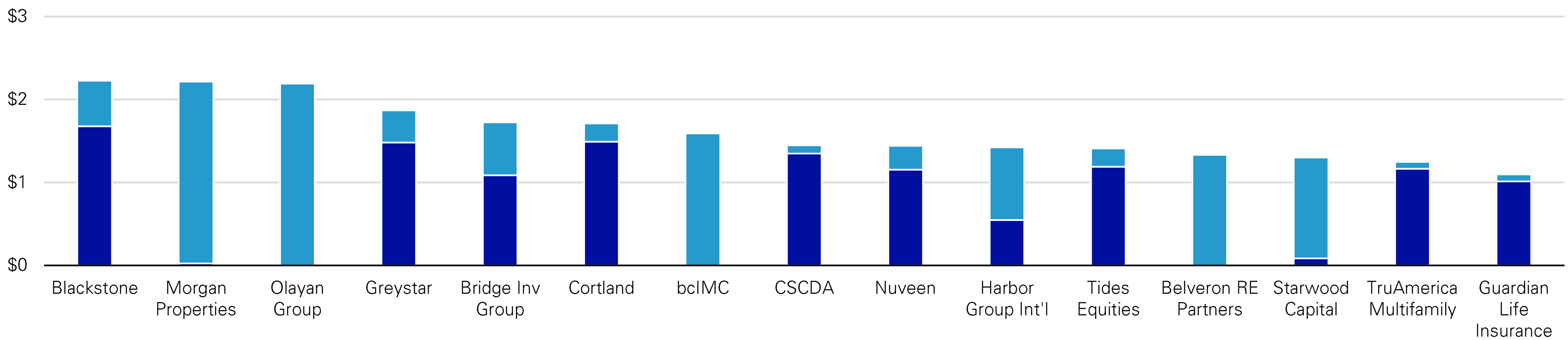
* Major markets: Boston, Chicago, Los Angeles metro, New York metro, San Francisco metro, Washington, D.C. metro. Non-major markets: all other markets.

Top Buyers and Sellers

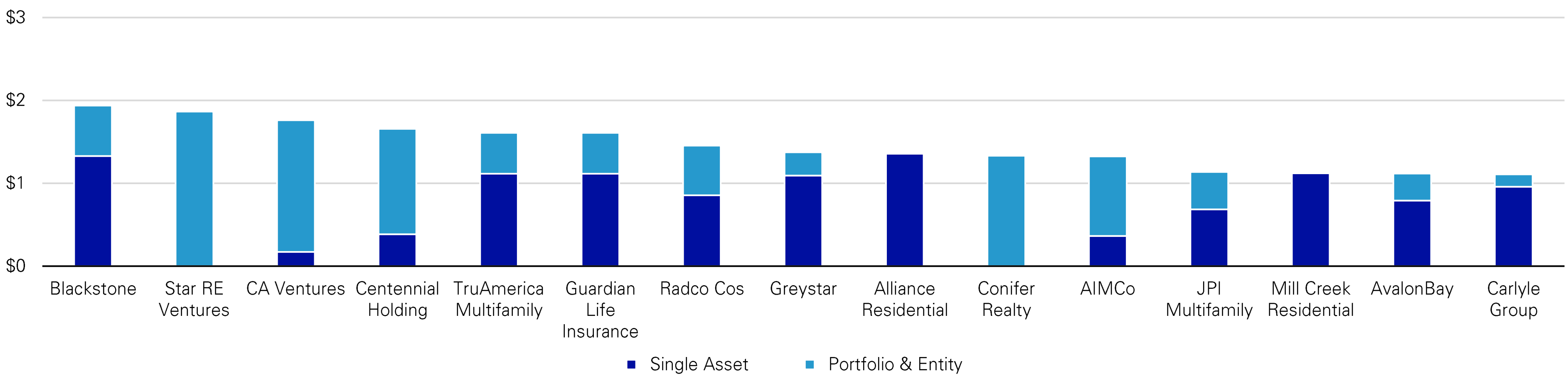
UNITED STATES; 12-MONTH TOTALS

While a few large portfolios are reflected in the top players below, such as Starwood's $1.2B acquisition of 5,291 units from Centennial Holding in June, the majority of multifamily investment sales activity came from single-asset deals with Blackstone leading as both the top buyer and seller over the trailing twelve month period. While single asset trades dominated the last 12 months, several large portfolios currently being marketed will likely close in the second half of 2021.

TOP BUYERS ($ IN BILLIONS)



TOP SELLERS ($ IN BILLIONS)

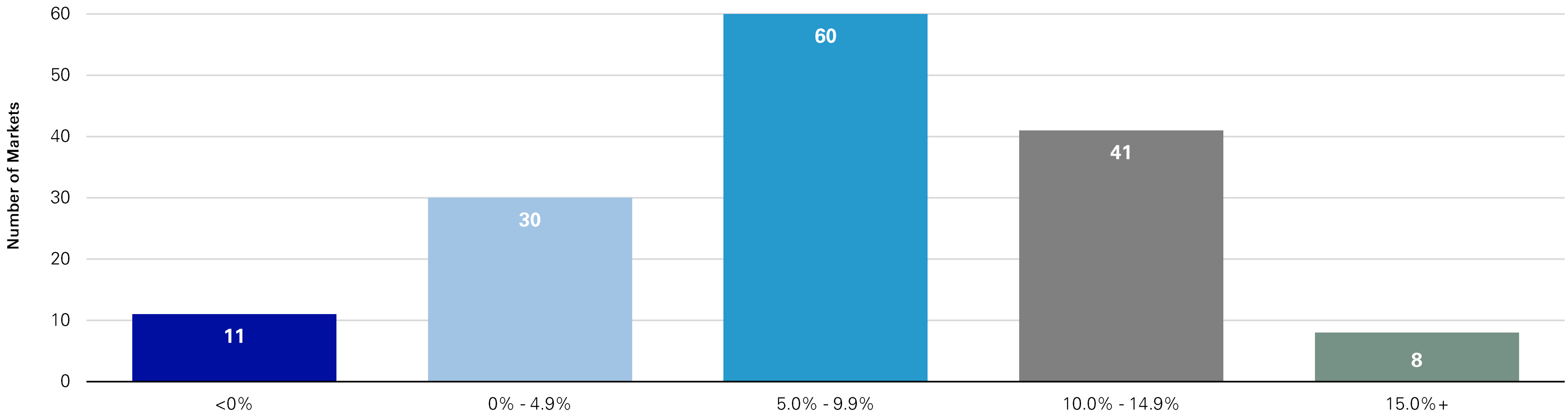


Source: Newmark Research, Real Capital Analytics

Rent Growth Distribution

YEAR-OVER-YEAR EFFECTIVE RENTAL GROWTH AS OF 2Q21

Multifamily rents have recovered to pre-pandemic levels or higher in almost all markets throughout the US. Of the top 150 largest multifamily markets, 109 markets experienced year-over-year rent growth exceeding 5%, and only 11 markets saw negative or no rent growth, primarily in large, more dense markets that have lagged in recovery. While smaller markets make up the bulk of the 10%+ category, large metros such as Atlanta and Phoenix are exhibiting above-average growth.



Select Markets

<0%	
Chicago	-0.2%
Minneapolis	-0.4%
Newark-Jersey City	-0.8%
Boston	-1.3%
Oakland	-2.1%
Washington, D.C.	-2.4%
Seattle	-3.1%
San Jose	-10.9%
New York	-13.3%
San Francisco	-15.3%

0% - 4.9%	
Dallas	4.9%
Kansas City	4.6%
Cincinnati	4.5%
Nashville	4.5%
St. Louis	4.4%
Buffalo	4.0%
Omaha	3.3%
Milwaukee	3.2%
Houston	2.9%
Des Moines	2.8%

5.0% - 9.9%	
Huntsville	9.9%
Charlotte	9.8%
Raleigh/Durham	9.0%
San Diego	8.3%
Baltimore	8.2%
Birmingham	7.9%
Orange County	7.9%
Orlando	7.9%
Indianapolis	7.8%
Tulsa	7.5%

10.0% - 14.9%	
Albuquerque	14.5%
West Palm Beach	13.8%
Sacramento	13.8%
Atlanta	13.3%
Jacksonville	13.0%
Chattanooga	11.9%
Salt Lake City	11.8%
Memphis	11.4%
Charleston	10.7%
Fort Lauderdale	10.2%

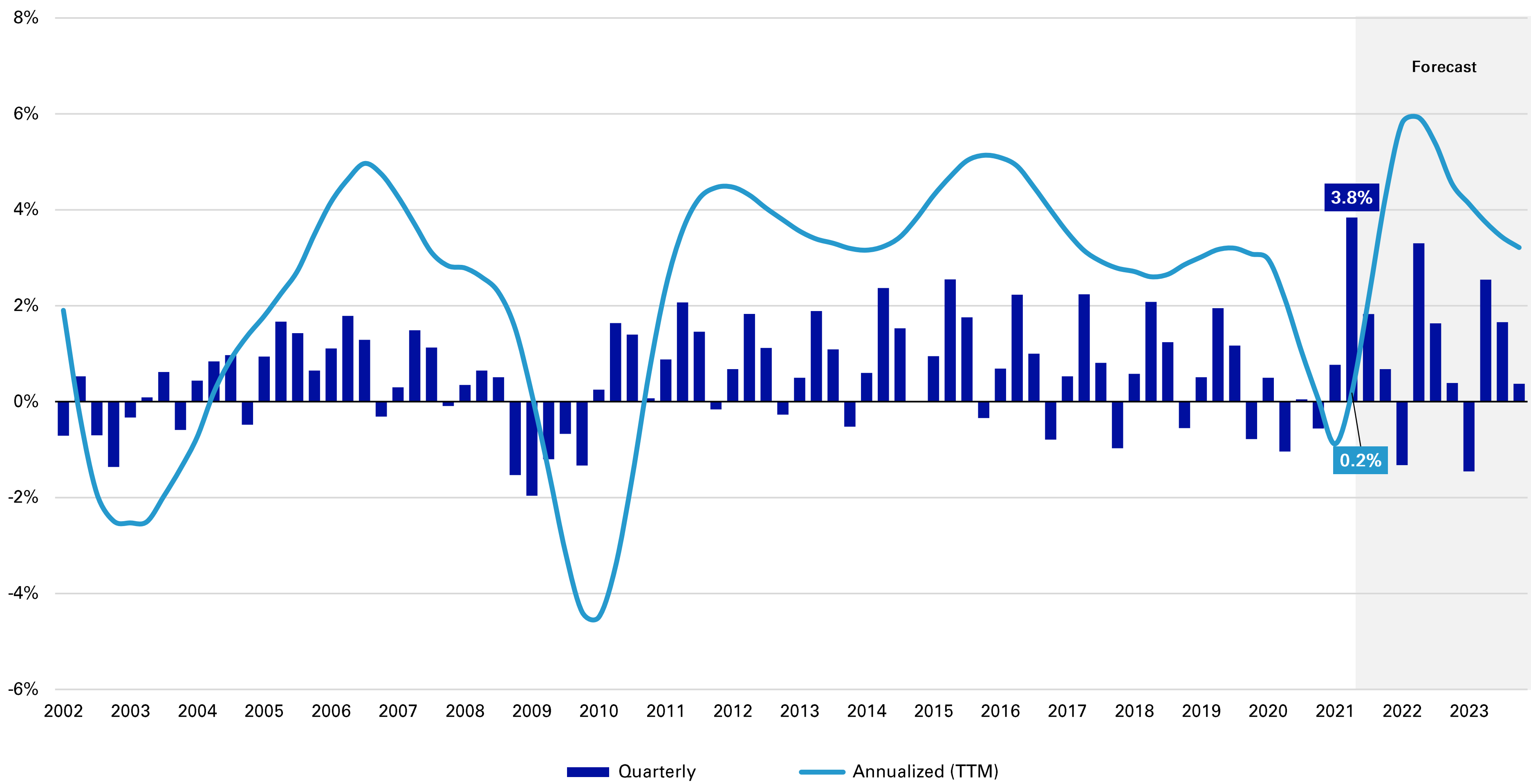
15.0%+	
Boise	18.6%
Myrtle Beach	17.5%
Naples	16.7%
Inland Empire	16.7%
Phoenix	16.7%
Tucson	15.6%
Mobile	15.2%
Las Vegas	15.1%

Source: Newmark Research, RealPage

Effective Rent Growth

UNITED STATES

On a quarter-over-quarter basis, effective rent rose by 3.8% in 2Q21 - the highest single quarter growth rate on record. While annualized rent growth was relatively flat, annual effective rental growth is projected to rise sharply throughout 2022, peaking at 5.9% in 2Q22.

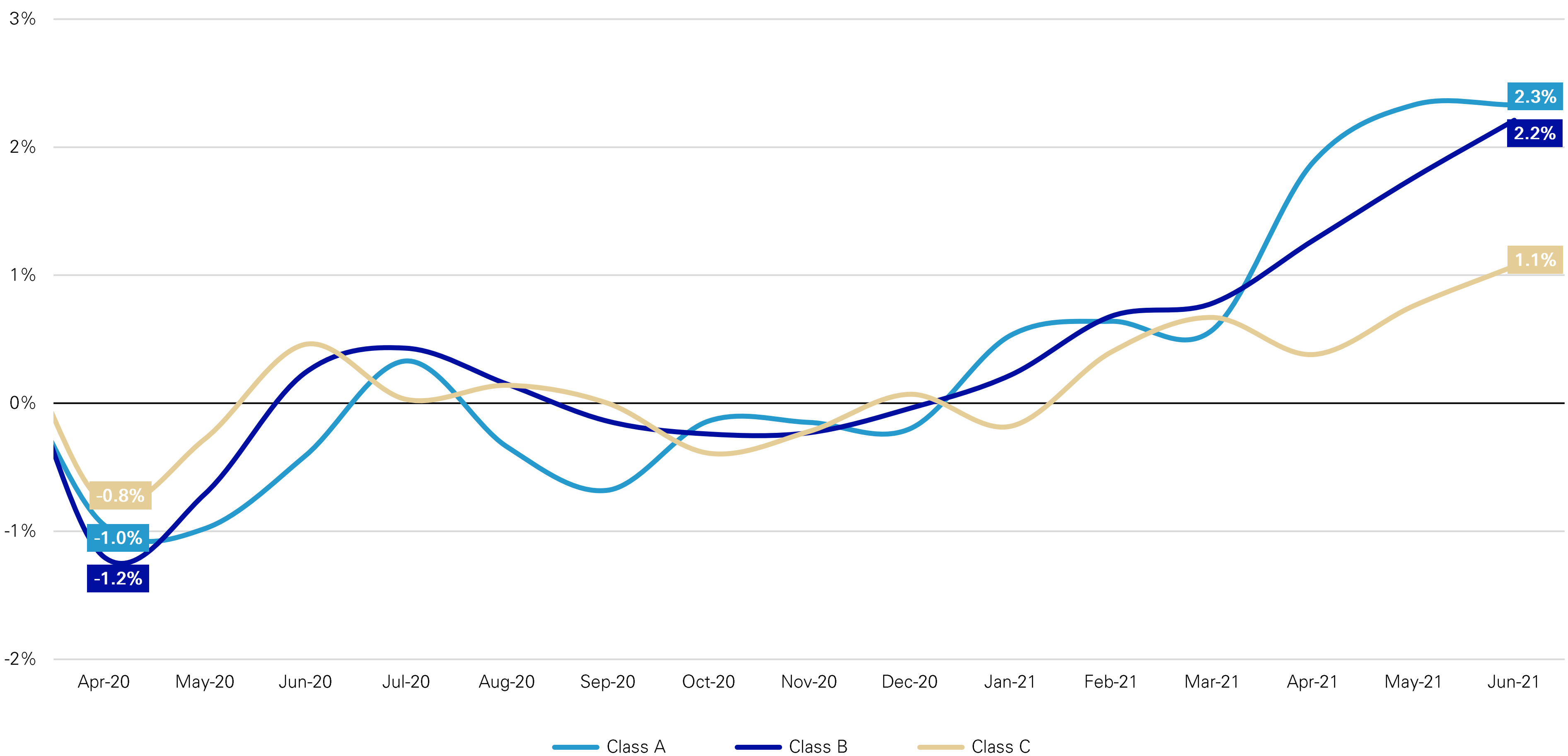


Source: Newmark Research, RealPage

Rent Growth by Class

UNITED STATES; MONTHLY

Multifamily rent growth recovery has varied widely between asset classes. While Class A and B product were more significantly impacted by the onset of COVID-19 (falling 1.0% and 1.2% respectively in April 2020), higher quality assets have recovered rent growth much quicker than Class C product. In June 2021, Class A & B rent growth rose 2.3% and 2.2% respectively in, while Class C rent growth increased just 1.1%.

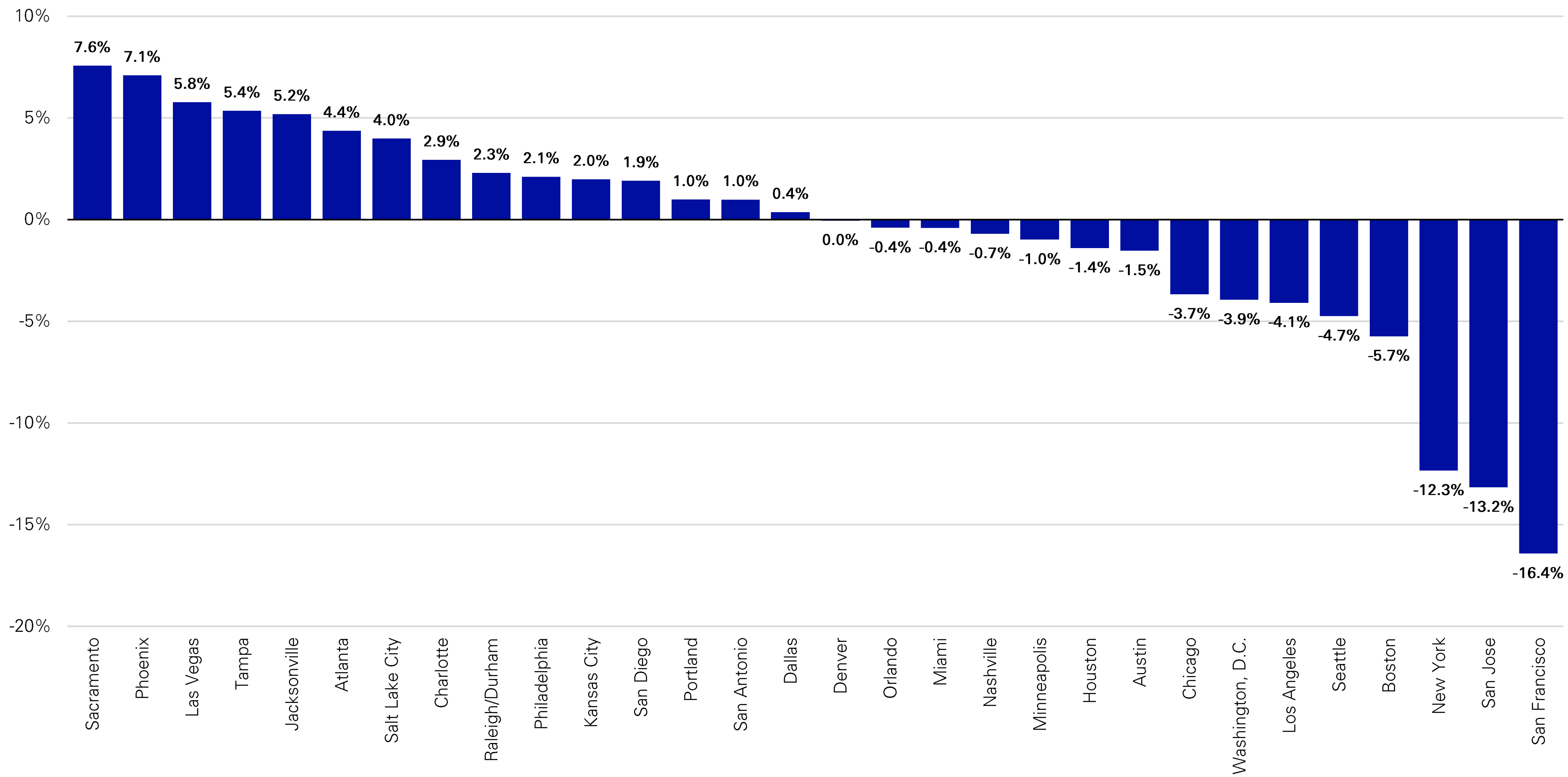


Source: Newmark Research, RealPage

Effective Rent Growth by Market

SELECT MARKETS; ANNUALIZED

With the largest markets hit hardest by the pandemic, nearby markets were the primary benefactor of rental growth. For instance, Sacramento saw an influx in migration from the San Francisco and San Jose MSA's, propelling rental growth to 7.6% during the past 12 months. Lower cost, Sunbelt markets such as Phoenix, Las Vegas, Tampa and Jacksonville all saw rental growth in excess of 5.0%.



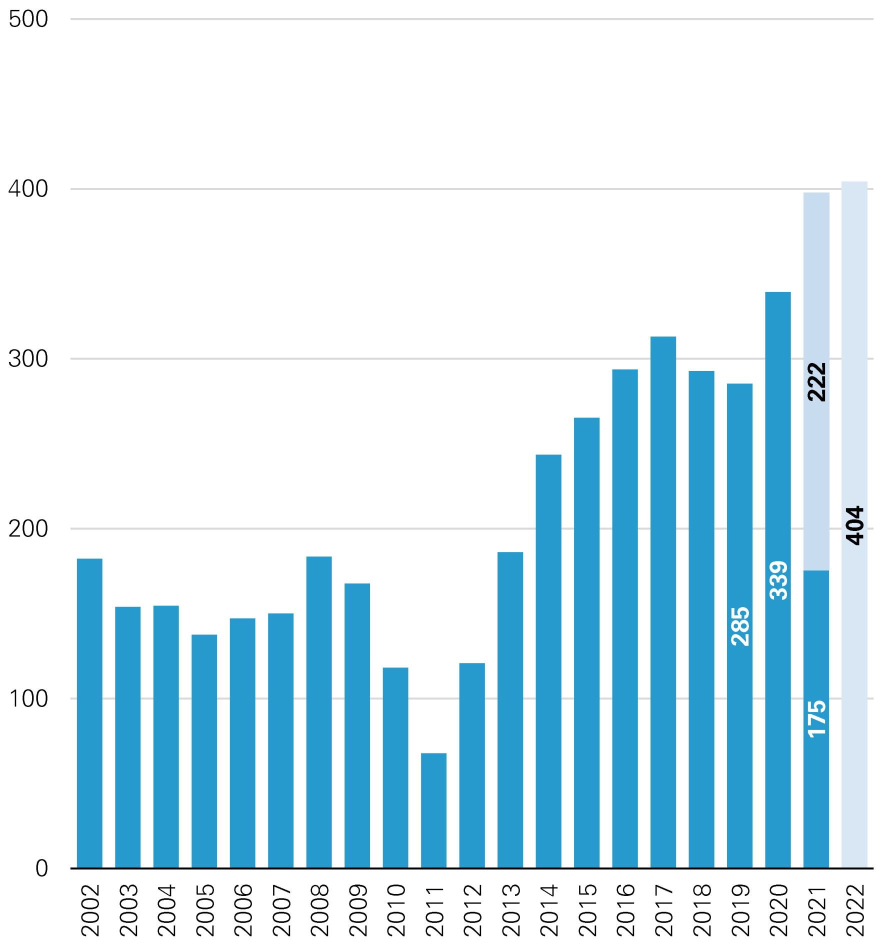
Source: Newmark Research, RealPage

Supply and Demand

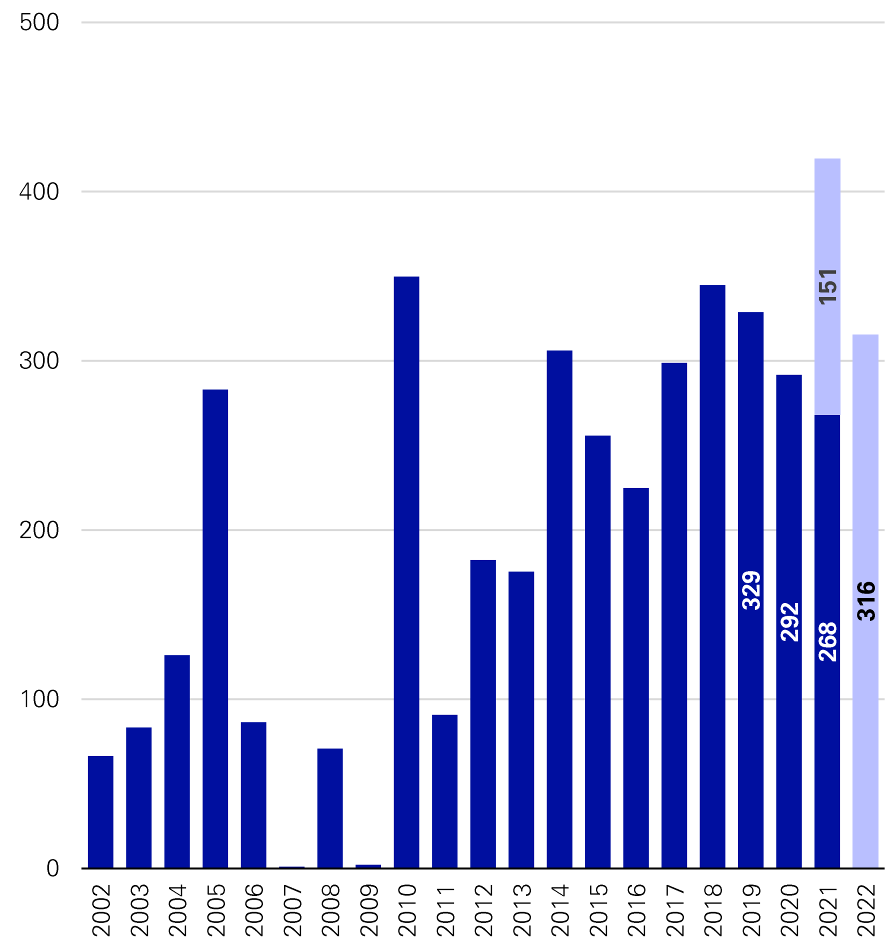
UNITED STATES; UNITS IN THOUSANDS

Through the first half of 2021, demand has significantly outpaced new supply by 93,000 units with 268,000 units absorbed compared to 175,000 new units delivered. Demand is anticipated to continue to outpace new supply in the second of 2021, as well as for full-year 2022.

NEW SUPPLY



DEMAND

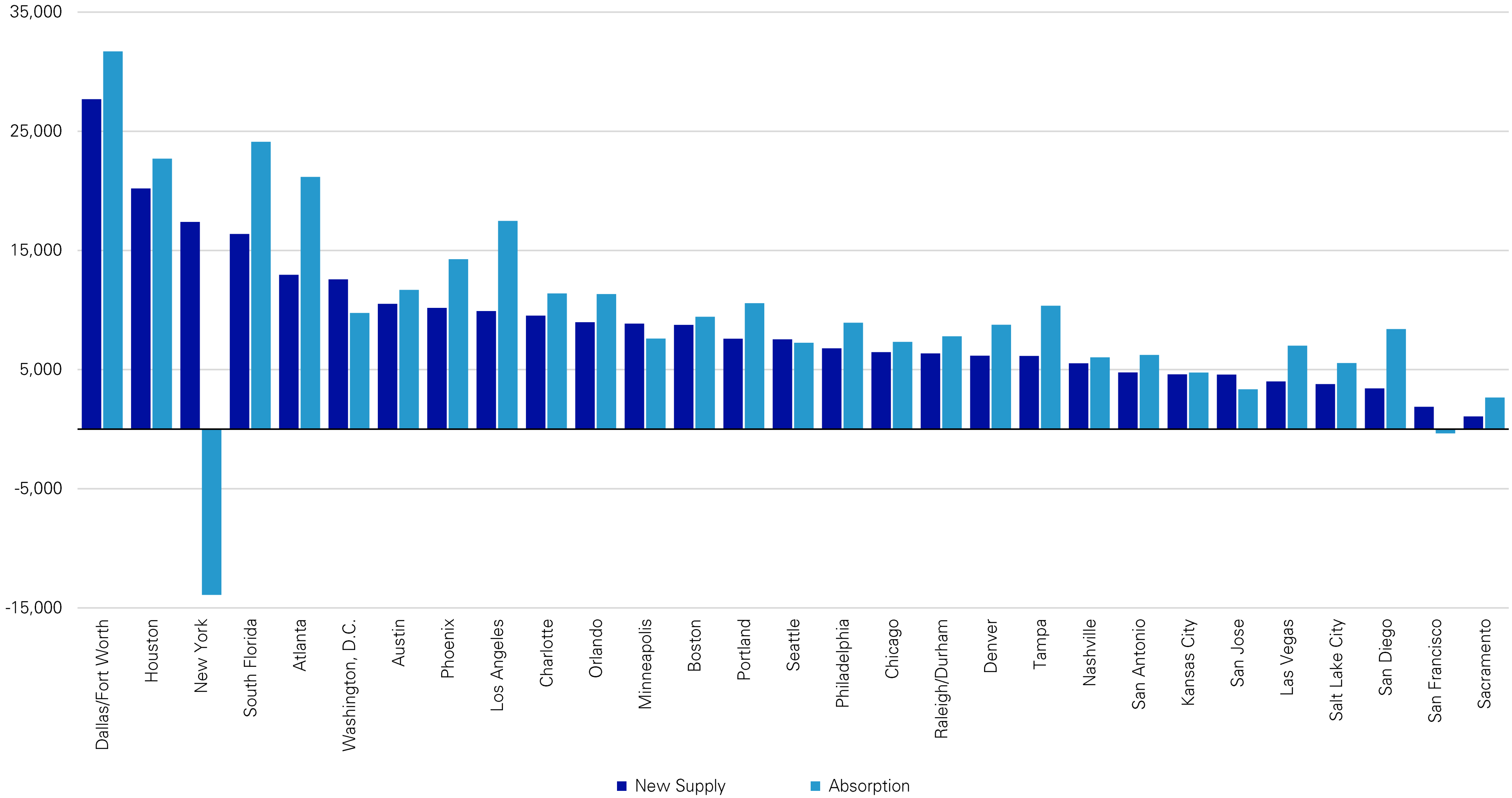


Source: Newmark Research, RealPage

Supply and Demand by Market

12-MONTH TOTALS

Demand outpaced supply considerably in Dallas/Fort-Worth, South Florida, Phoenix, Los Angeles, and Tampa. While demand over the past 12 months has been slower in major markets, demand has begun to accelerate in New York, Boston, Washington, D.C. and San Francisco, as skyrocketing single-family home prices continue to contribute to renters staying in multifamily properties.



Source: Newmark Research, RealPage

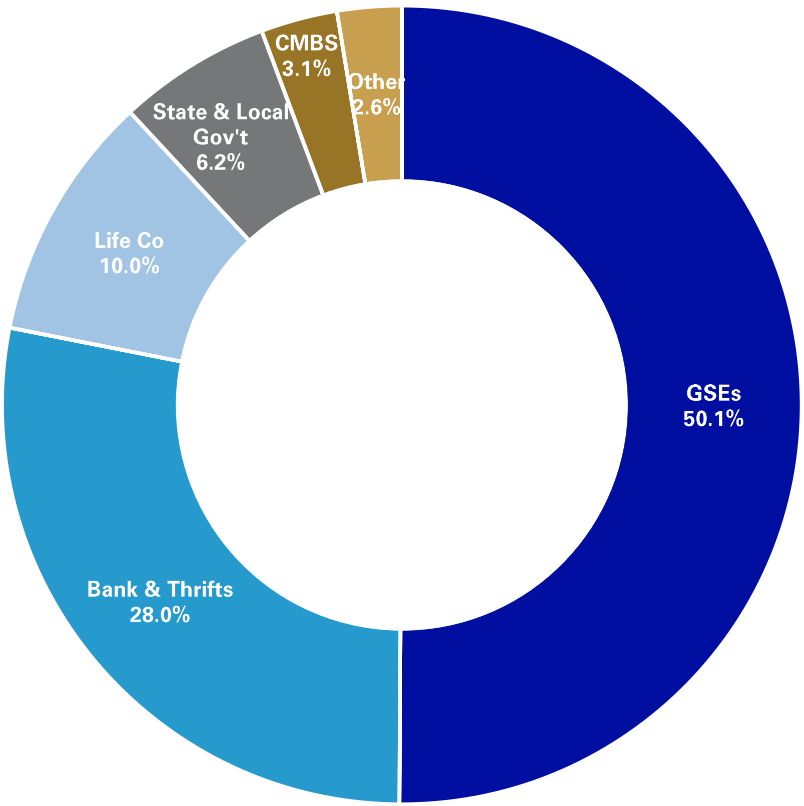
* South Florida includes Miami, Fort Lauderdale and West Palm Beach MSA's. New York include Westchester, Long Island and Northern NJ.

Mortgage Debt Outstanding

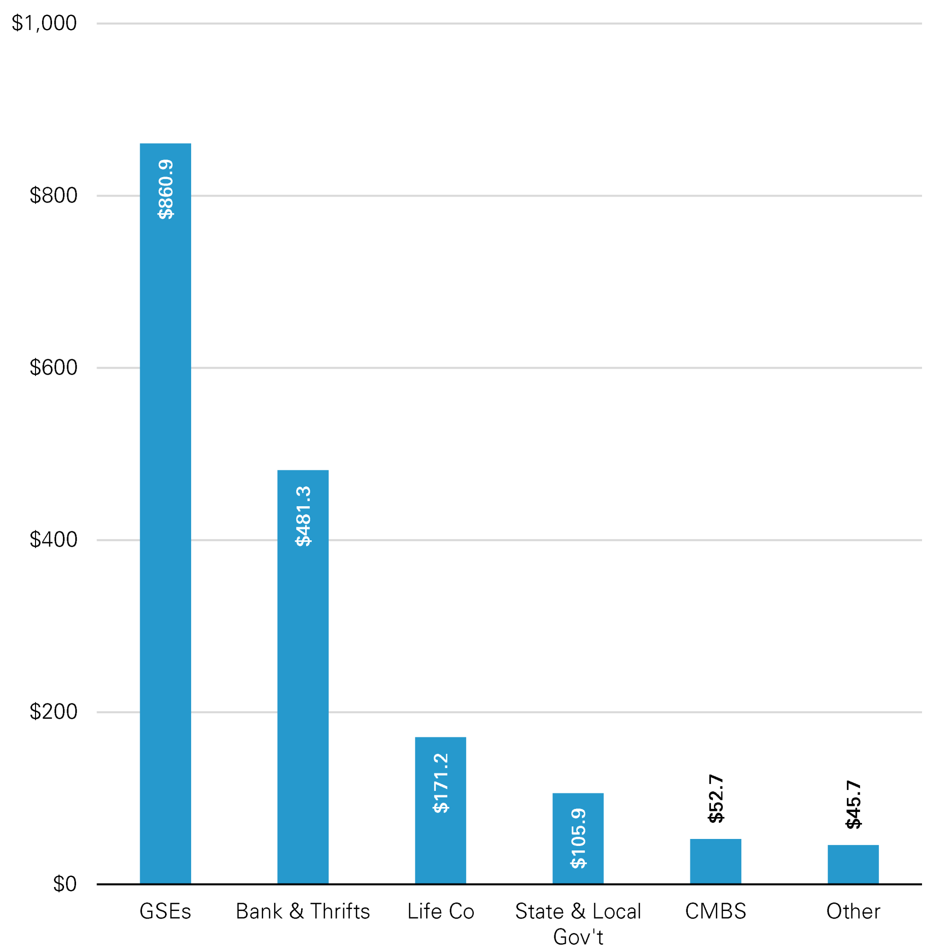
UNITED STATES

Mortgage debt outstanding for the multifamily rose 8.9% year-over-year to $1.7 trillion. Despite reduced lending from Fannie Mae and Freddie Mac in the first half of the year, GSEs grew their debt outstanding by 14.5%. Only, REITS increased their debt outstanding more with a 24.5% year-over-year increase.

DEBT OUTSTANDING BY GROUP AS A PERCENTAGE



DEBT OUTSTANDING BY GROUP (DOLLARS IN BILLIONS)

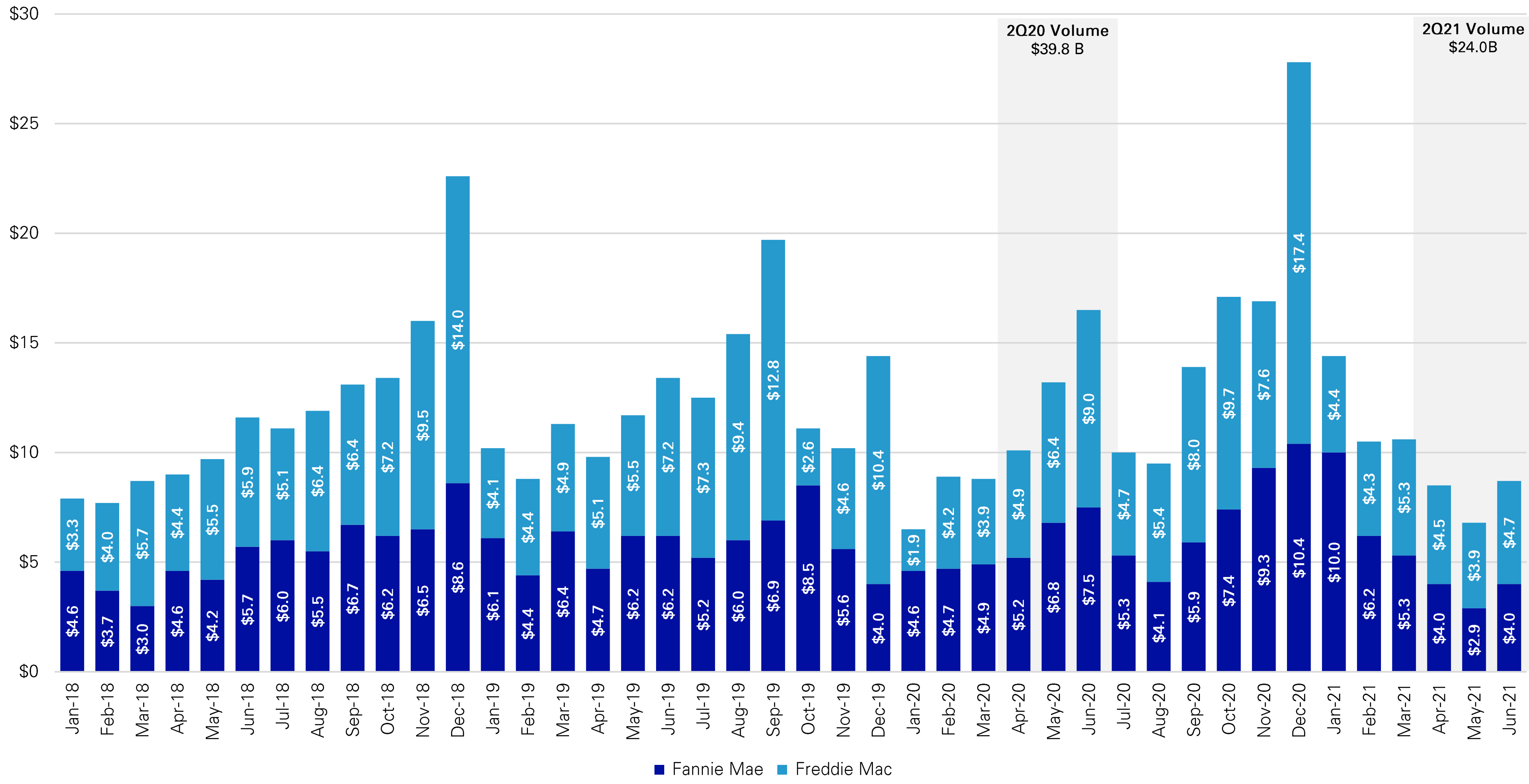


Source: Newmark Research, Mortgage Bankers Association

Monthly GSE Volume

DOLLARS IN BILLIONS

GSE lending decreased by 39.7% year-over-year in 2Q21 as increased competition from life companies, CMBS and banks have returned to the marketplace, in addition to reduced lending caps as governed by the 2021 FHFA Scorecard.



Source: Newmark Research, Fannie Mae, Freddie Mac

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

nmrk.com

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

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

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

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

NORTH AMERICA
Canada
United States

LATIN AMERICA
Argentina
Brazil
Chile
Colombia
Costa Rica
Mexico
Panama
Peru
Puerto Rico

EUROPE
Austria
Belgium
Czech Republic
France
Germany
Ireland
Italy
Netherlands
Poland
Portugal
Romania
Russia
Spain
Switzerland
United Kingdom

ASIA-PACIFIC
Australia
Cambodia
China
India
Indonesia
Japan
Malaysia
New Zealand
Philippines
Singapore
South Korea
Taiwan
Thailand

AFRICA
Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
Zambia
Zimbabwe

MIDDLE EAST
Saudi Arabia
United Arab Emirates

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at ngkf.com/research.

NEWMARK