1Q21 United States Multifamily Capital Markets Report

NEWMARK

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Key Takeaways

Sales Volume
First quarter sales volume totaled $35.5 billion, declining 12.0% year-over-year. Investor appetite rose for properties throughout the Southeast and Southwest regions, which accounted for 54.7% of total volume.

Rent Growth
Trailing twelve month rent growth declined -0.9% in the first quarter of 2021, however rents are projected to rebound sharply over the next two years, reaching 3.3% annual effective rent growth by the end of 2023.

Rent Collections
Rent collections averaged 94.2% nationwide for the first quarter of 2021 – a slight improvement from 94.0% in the fourth quarter of 2020. The majority of markets are now recording their highest collection rates in over a year.

Supply and Demand
New multifamily supply remained robust, with 353,453 units delivered over the past 12 months. The prospects for rental housing remain strong due to lack of available inventory and rapidly rising prices in the single-family market.

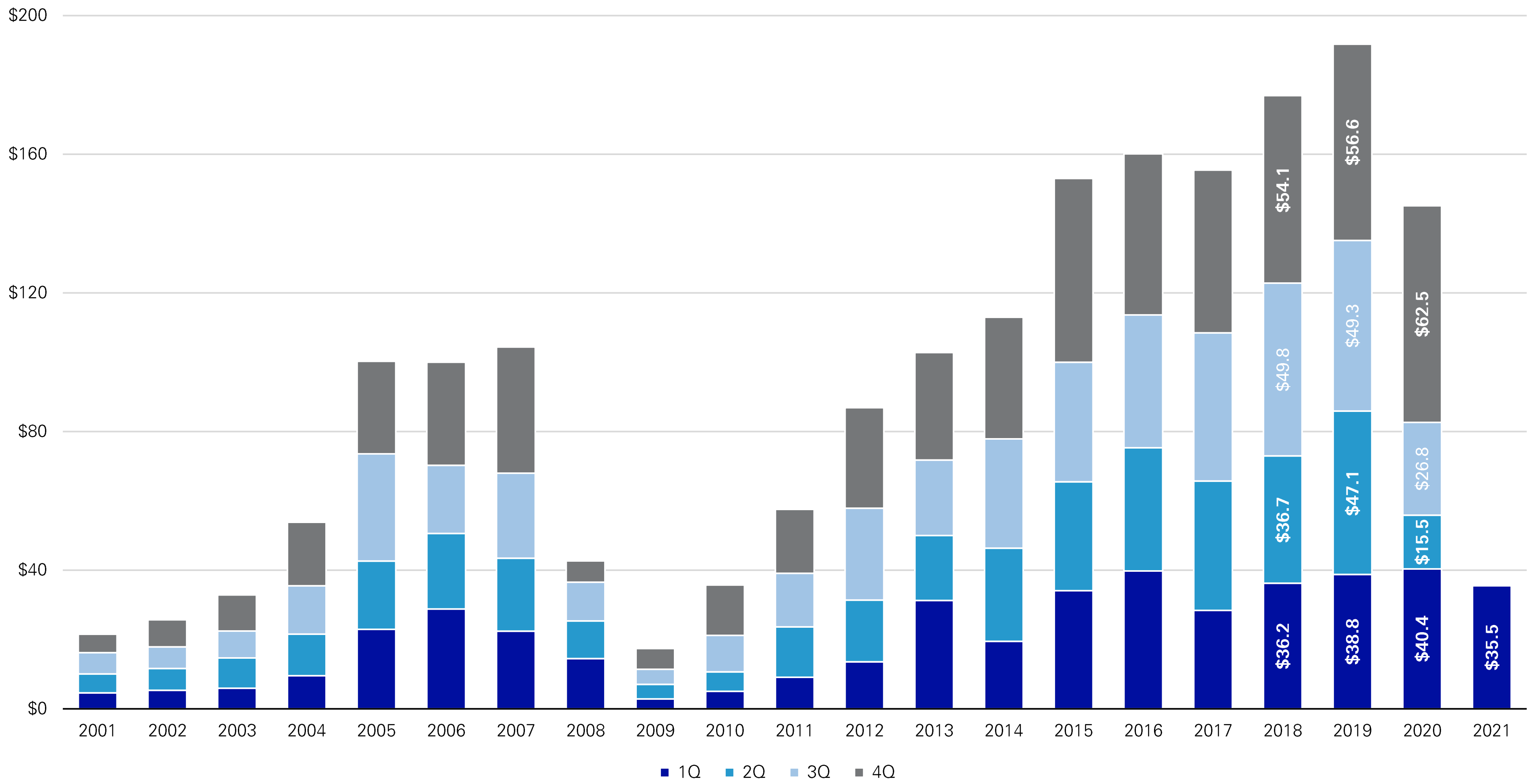
Total Returns
Despite operational challenges posed by COVID-19, multifamily annualized total returns as of the first quarter of 2021 were 1.7%. Historically, multifamily has outperformed following recessions.

Debt Markets
Multifamily mortgage debt outstanding rose to $1.7 trillion, up 8.2% year-over-year. GSE debt outstanding, which accounted for the largest share of debt outstanding at 49.7%, saw a 12.6% increase year-over-year.

Sales Volume

UNITED STATES; $ IN BILLIONS

First quarter sales volume totaled $35.5 billion, decelerating from an all-time quarterly record of $62.5 billion in the fourth quarter of 2020. Compared with the first quarter of 2020, volume declined 12.0% year-over-year. Sales activity is expected to pick up in the second half of 2021 given the substantial demand by global capital sources for multifamily properties, as well as the growing share of domestic investment allocation towards the property type.

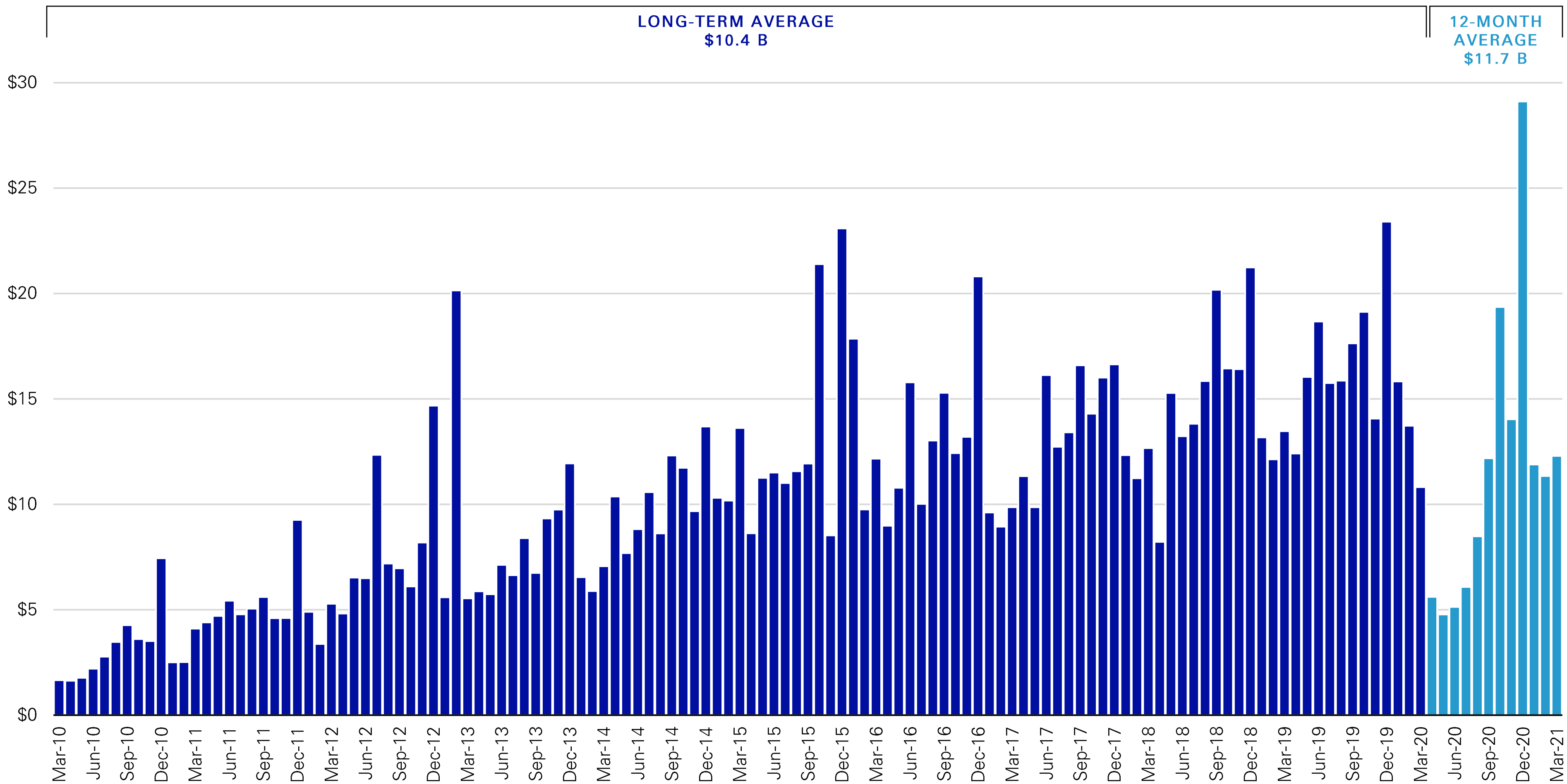


Source: Newmark Research, Real Capital Analytics

Monthly Sales Volume

UNITED STATES; $ IN BILLIONS

While quarterly sales volume decreased compared with the first quarter of 2020, monthly investment sales volume in March 2021 totaled $12.3 billion, representing a 13.7% increase over 2020, the period during which the pandemic first had a material impact on capital markets activity. Despite COVID-19 disruption, the average monthly volume over the last 12 months remains elevated at $11.7 billion, 12.5% greater than the long-term monthly average of $10.4 billion.

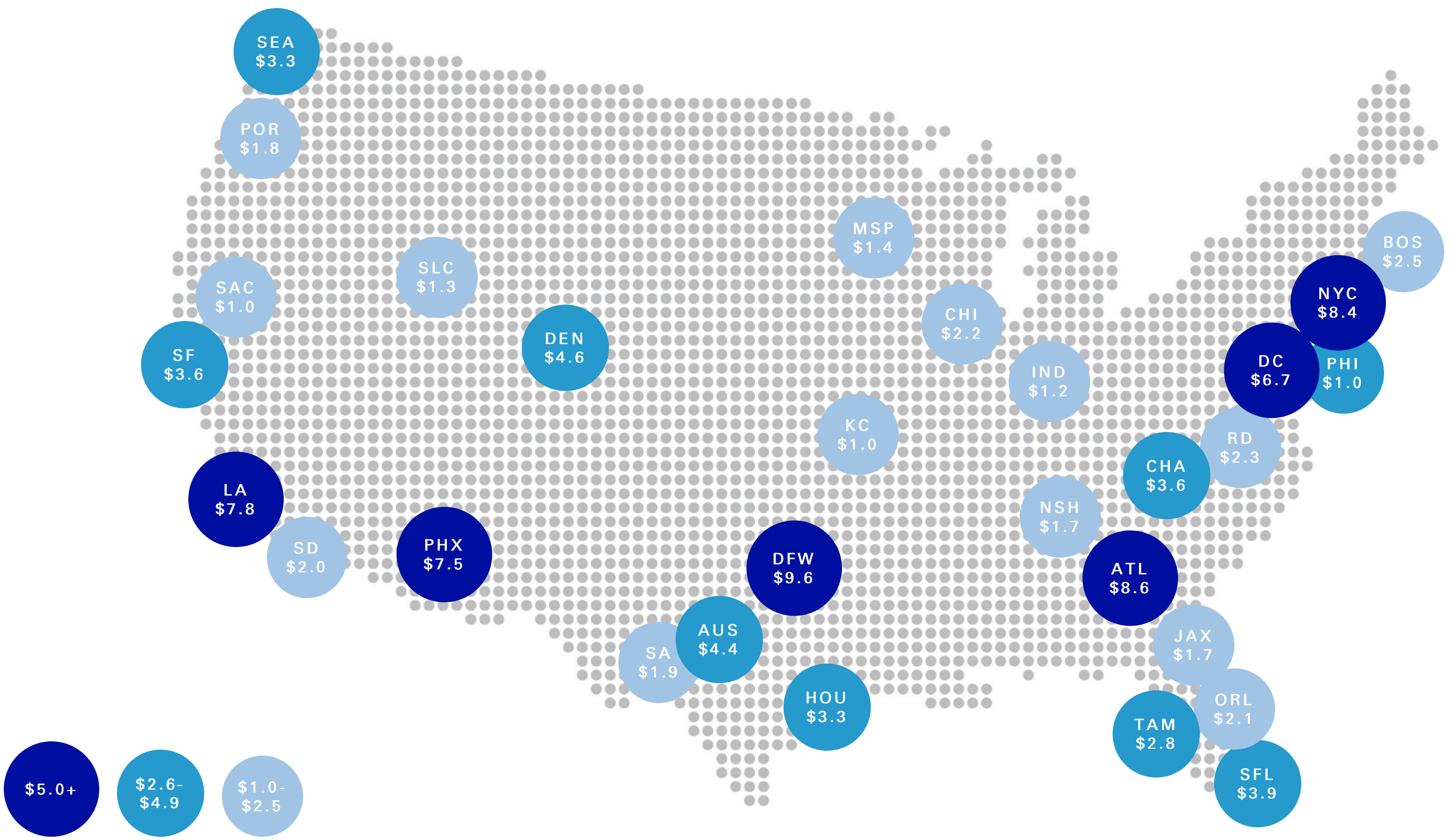


Source: Newmark Research, Real Capital Analytics

Sales Volume by Market

12-MONTH TOTALS; $ IN BILLIONS

Over the past 12 months, investor appetite has intensified for multifamily properties throughout the Southeast and Southwest regions. Volume in these regions accounted for 54.7% of overall multifamily investment, compared with 49.5% over the previous 12 months. In particular, Jacksonville and Charlotte garnered strong year-over-year volume increases of 16.8% and 12.5%, respectively.



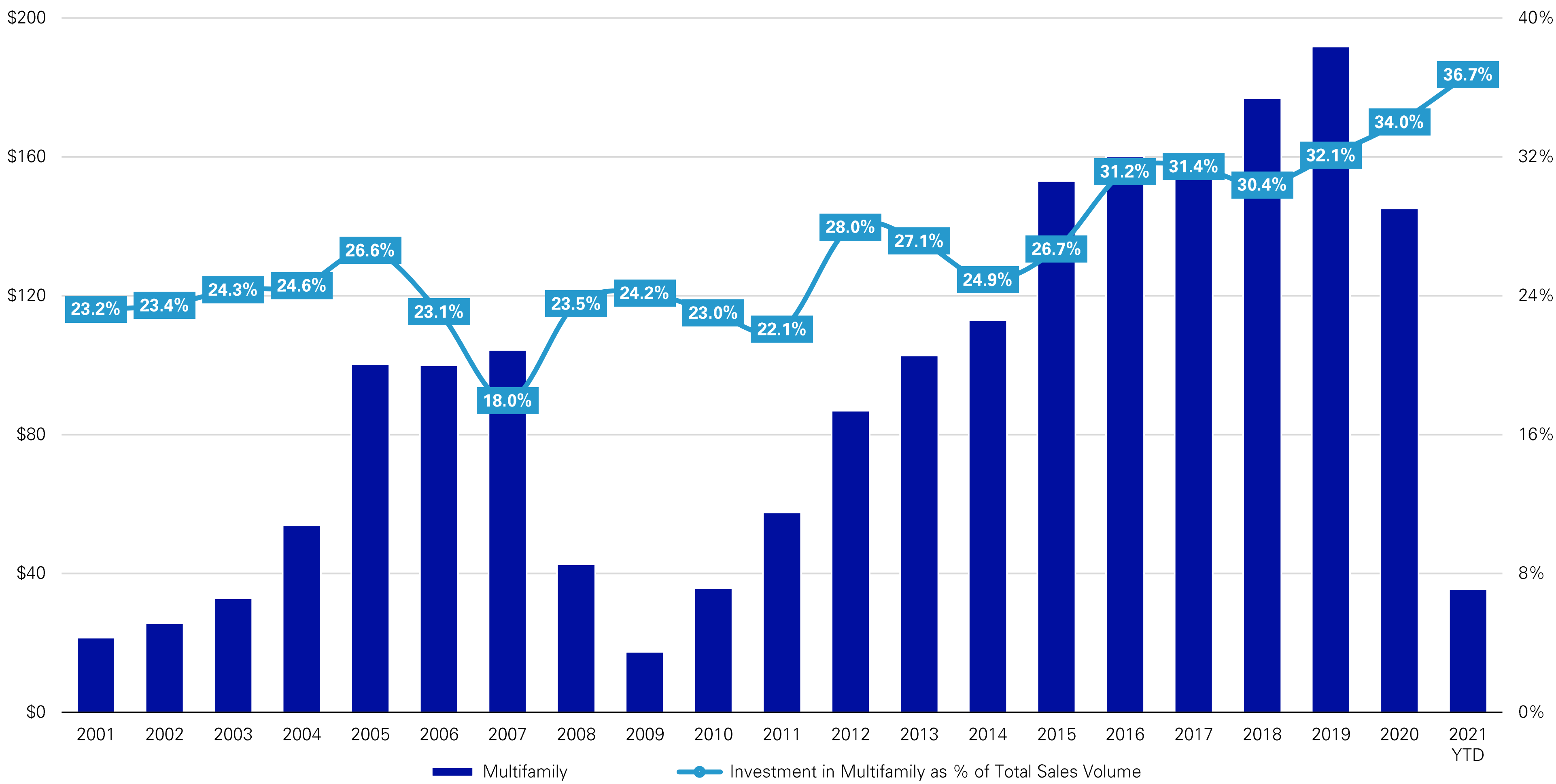
Source: Newmark Research, Real Capital Analytics

* 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

Year-to-date, multifamily has accounted for 36.7% of total US commercial real estate sales volume. This not only represents the largest allocation among the major property types, but also signifies a record level of allocation for multifamily. While investor preference for resilient and liquid property types has been favoring multifamily, the pandemic accelerated this trend.

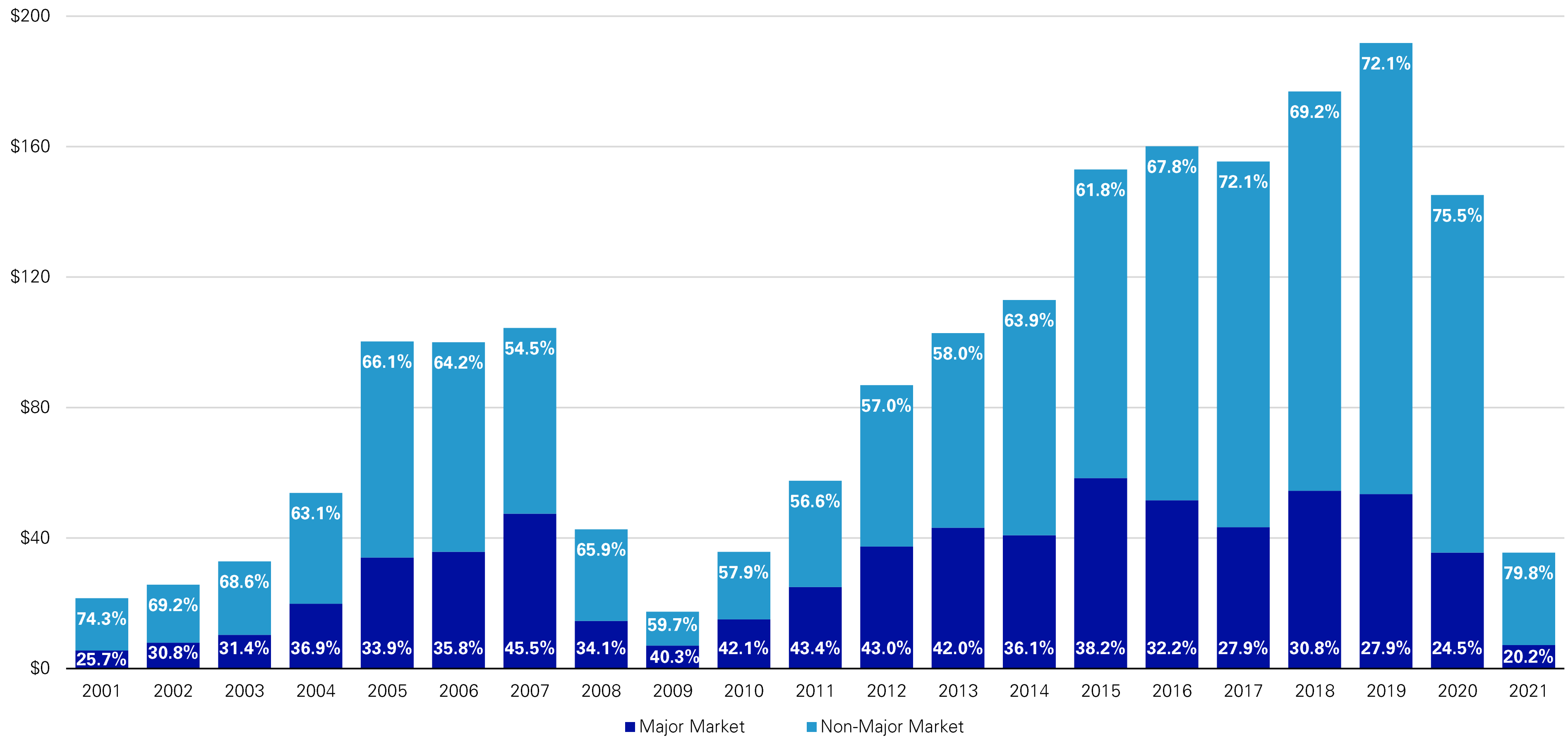


Source: Newmark Research, Real Capital Analytics

Capital Flow Analysis

UNITED STATES; $ IN BILLIONS

Capital sources overwhelmingly invested in non-major markets with 79.8% of total capital allocation occurring outside the six largest markets in the first quarter. For over a decade, investors seeking growth have increasingly favored non-major markets, however the positive momentum and appeal for lower-cost markets accelerated during the COVID-19 pandemic.



Source: Newmark Research, Real Capital Analytics

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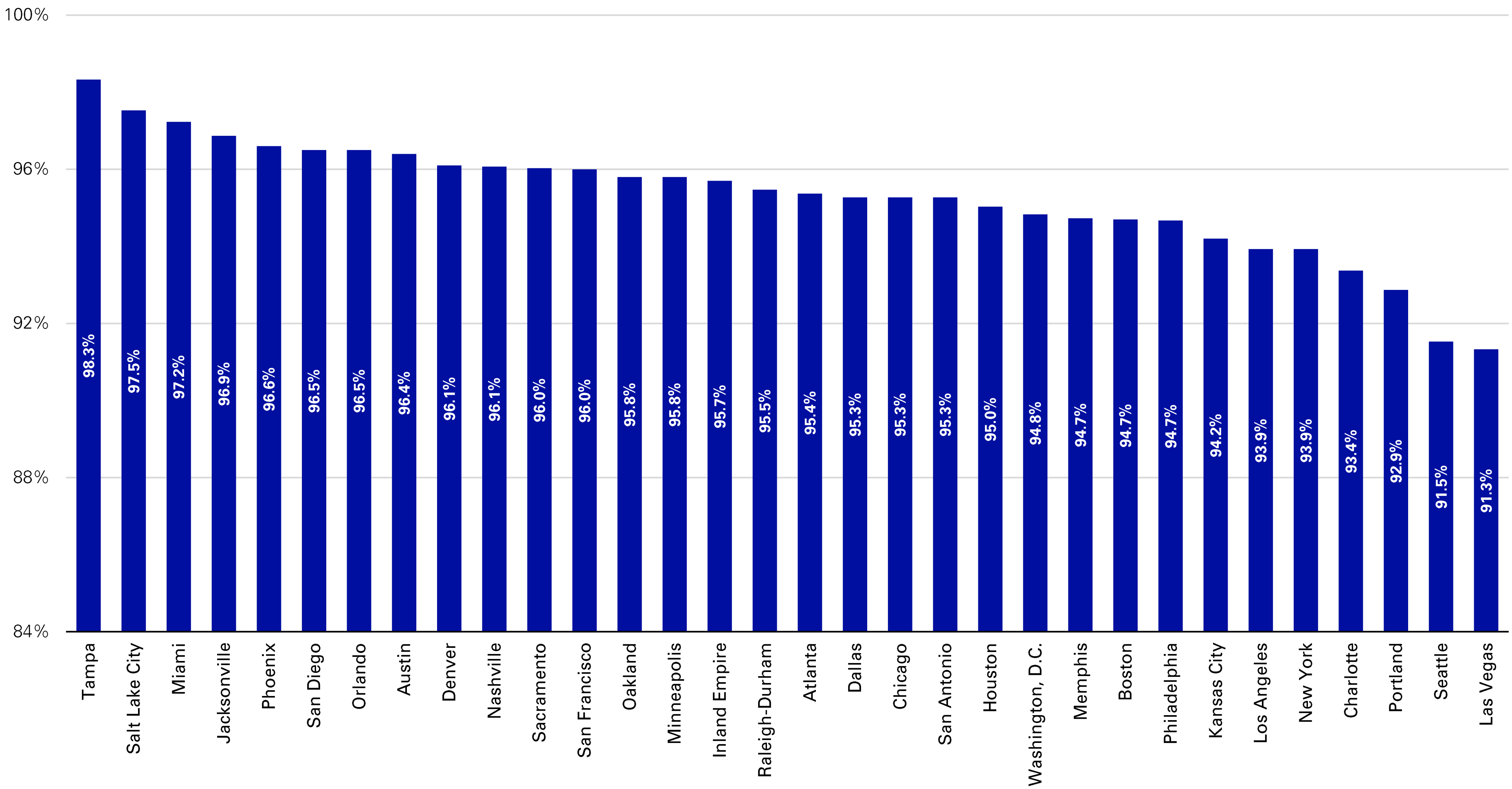
Rent Collections by Market

SELECT MARKETS; 1Q21 AVERAGE

According to the National Multifamily Housing Council (NMHC), rent collection averaged 94.2% nationwide for the first quarter of 2021 – a slight improvement from 94.0% in the fourth quarter of 2020. While collections have varied by market, the majority of markets are now recording their highest collection rates in over a year. Markets hit hardest at the onset of COVID-19, such as New York and Orlando, saw significant improvements compared to the prior trailing twelve months.



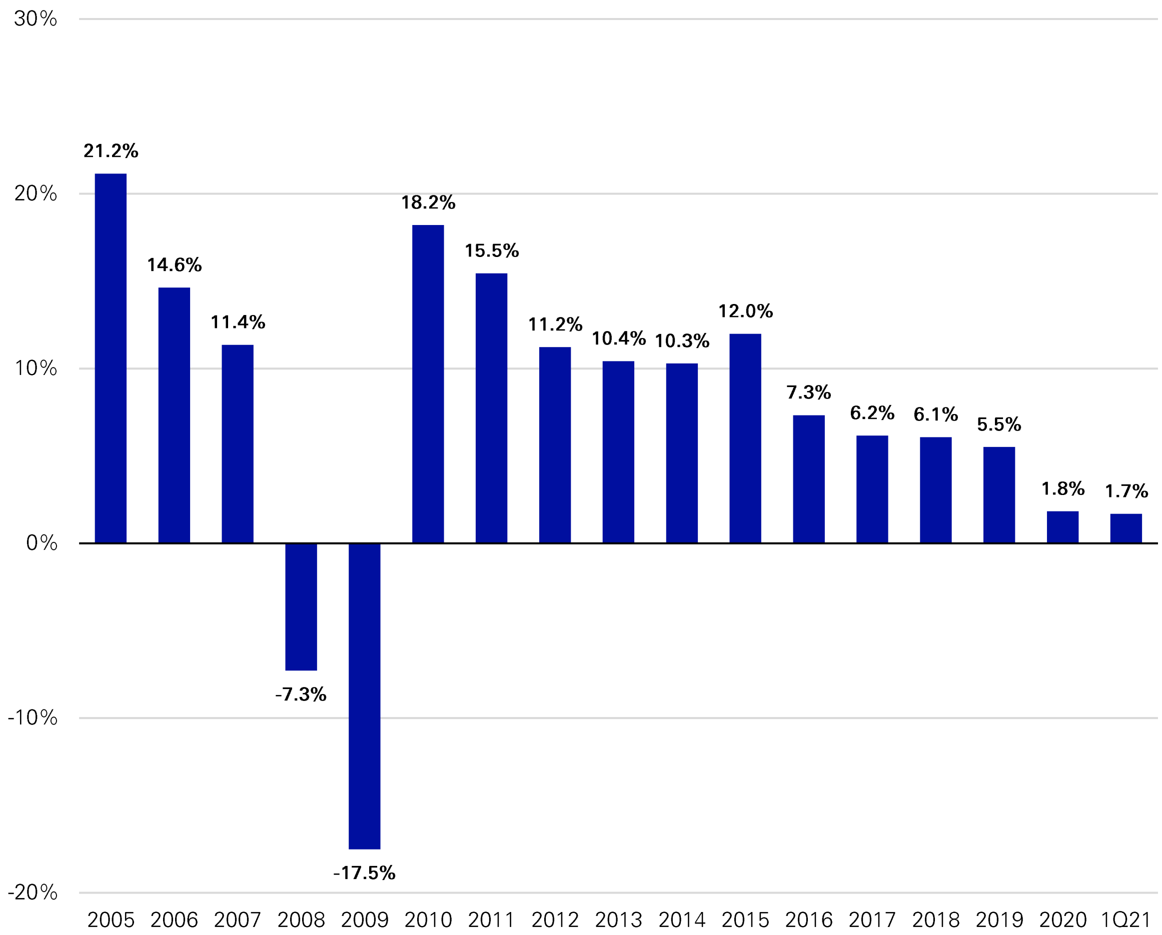
Source: Newmark Research, NMHC, RealPage

Total Returns

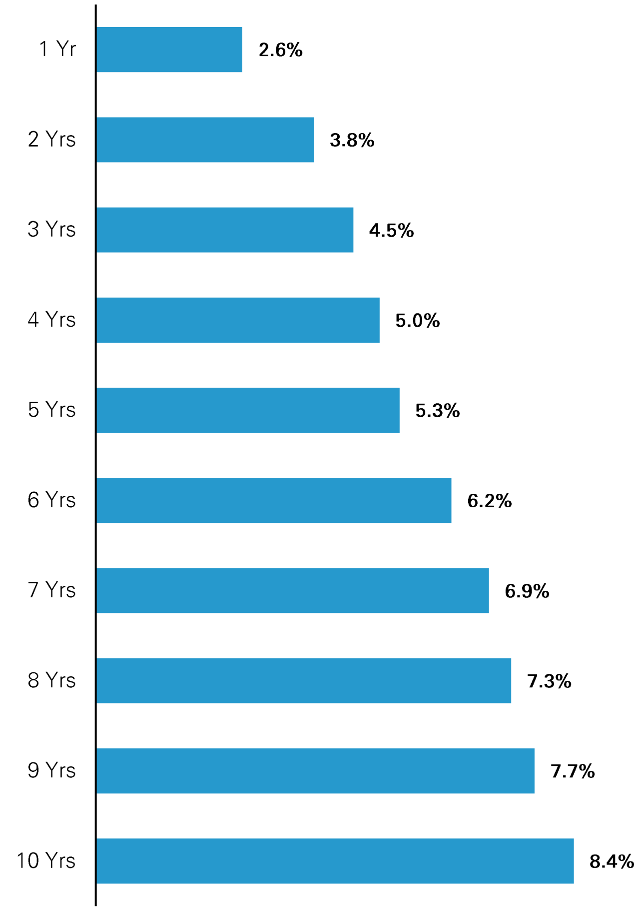
CALENDAR YEAR AND ANNUALIZED RETURNS

Despite operational challenges posed by COVID-19, multifamily annualized total returns as of the first quarter of 2021 were 1.7%. Demand for multifamily remains strong, particularly from defensive investors who have sought out the property type's high risk-adjusted returns and superior performance following recession years. The ten-year annualized total return of 8.4% for multifamily compares favorably to office at 7.6%, retail at 7.1% and hotels at 3.5%.

CALENDAR YEAR RETURNS



ANNUALIZED RETURNS

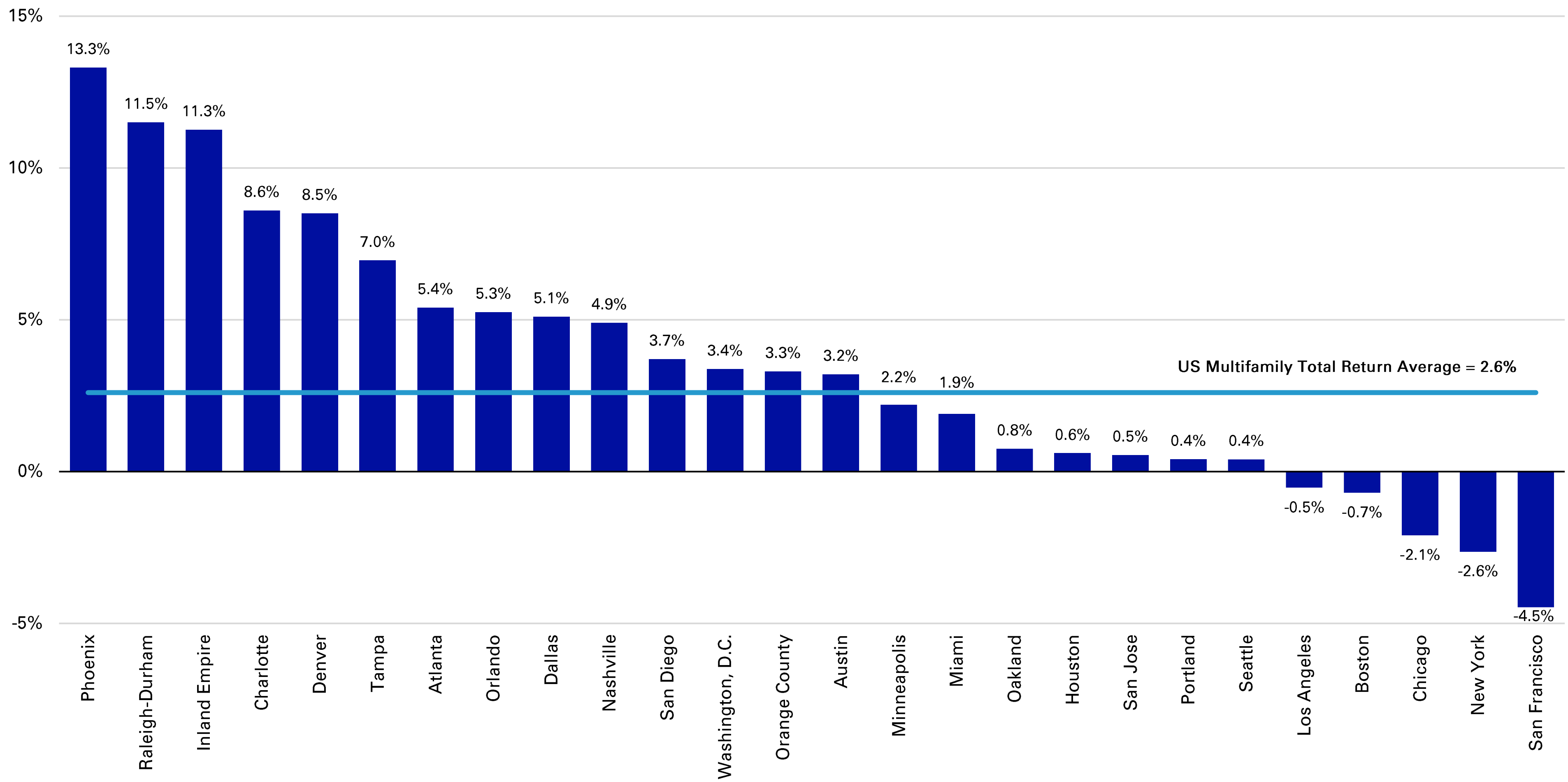


Source: Newmark Research, NCREIF

Total Returns by Market

ANNUALIZED TOTALS

Phoenix remained the top market by total return at 13.3% over the past 12 months. Sunbelt markets generally continue to outperform with Raleigh-Durham, Charlotte and Tampa all realizing annualized total returns of 7.0% or greater. The Denver metropolitan statistical area remains a long-term standout, outpacing the broader NCREIF multifamily total return index each calendar year since 2006.



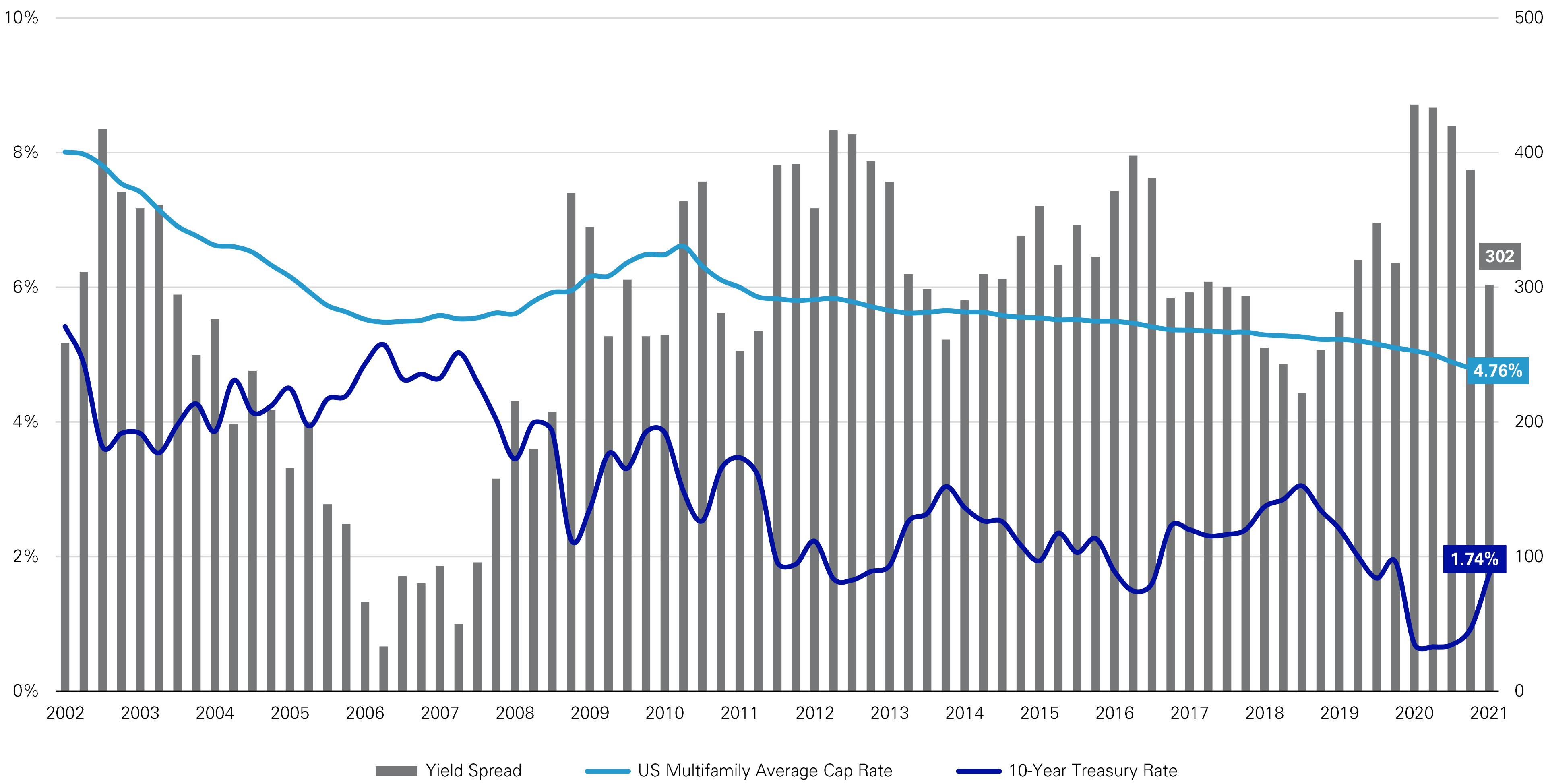
Source: Newmark Research, NCREIF

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

Yield Spread

UNITED STATES; 12 MONTH AVERAGE

While the 10-year treasury rate has risen 108 basis points to 1.74% from the historic low of 0.66%, the Federal Reserve continues to hold its benchmark interest rate near zero. The rise in the 10-year treasury and continued compression of cap rates have tightened the spread between multifamily yields and treasuries to 302 basis points.

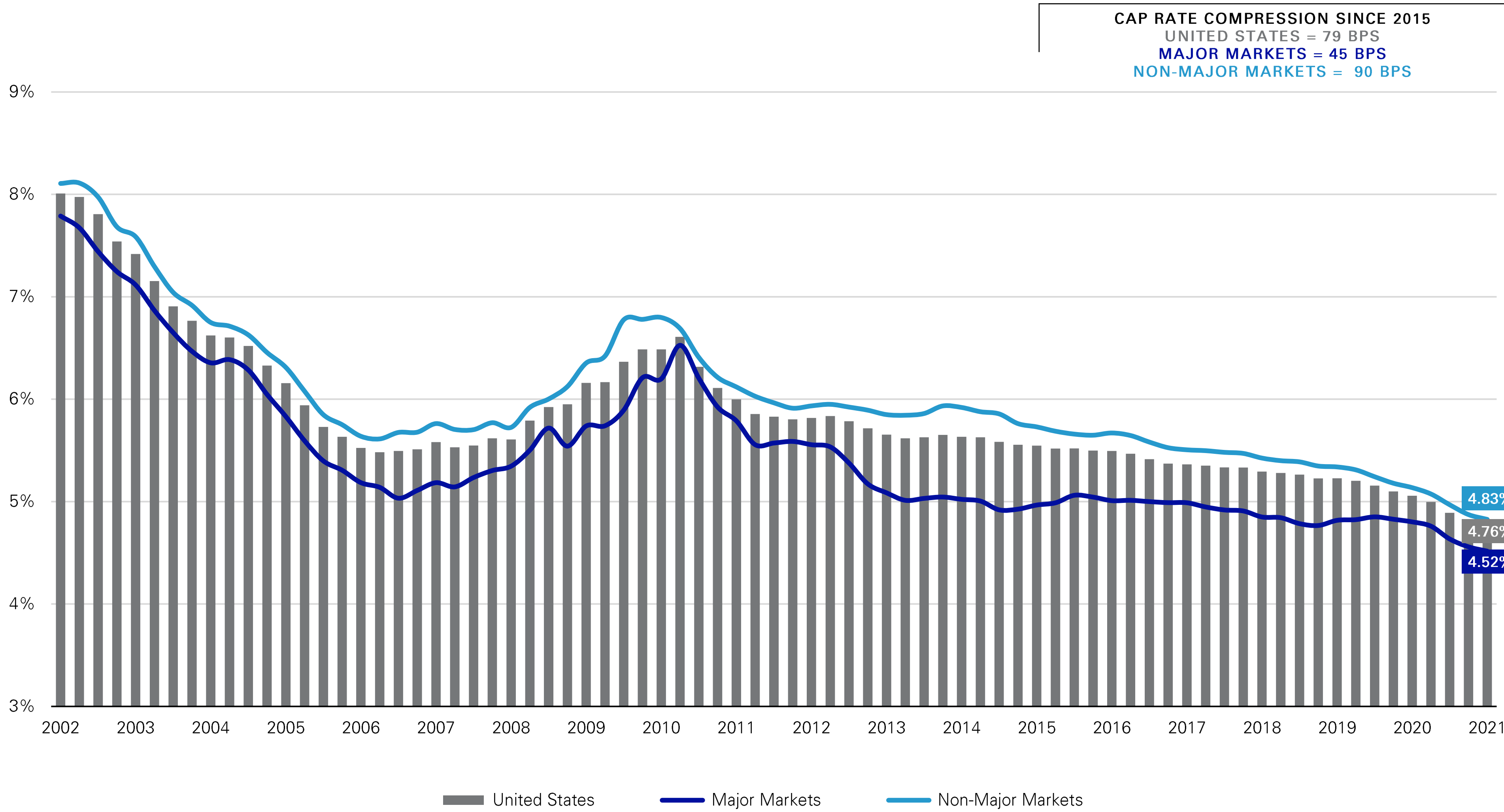


Source: Newmark Research, Federal Reserve Bank of St. Louis, Real Capital Analytics (Transactions $25M+)

Cap Rates

UNITED STATES; 12 MONTH AVERAGE

The spread between major market and non-major market cap rates fell to just 31 basis points in the first quarter, marking the tightest spread since 2010. Cap rate compression has occurred for both major and non major metros since 2015, decreasing 45 and 90 basis points, respectively.



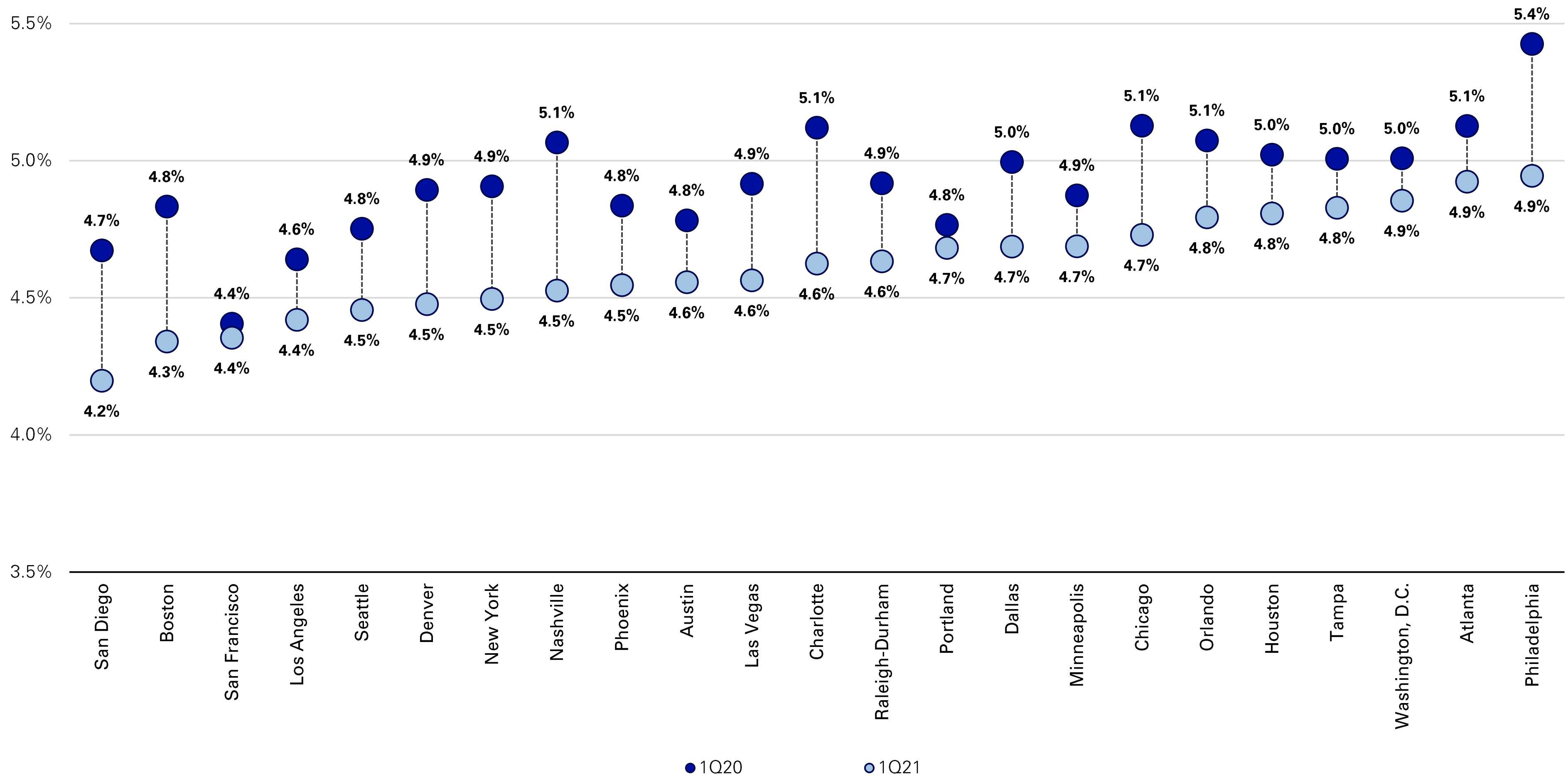
Source: Newmark Research, Real Capital Analytics (Transactions $25M+)

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

Cap Rate Compression by Market

SELECT MARKETS

Year-over-year, yields have substantially compressed throughout the country. San Diego cap rates have compressed 48 basis points year-over-year, Nashville fell 54 basis points, and Charlotte 50 basis points. Other non-Sunbelt, but highly sought-after multifamily markets like Denver and Boston saw yields compress over 40 basis points year-over-year.

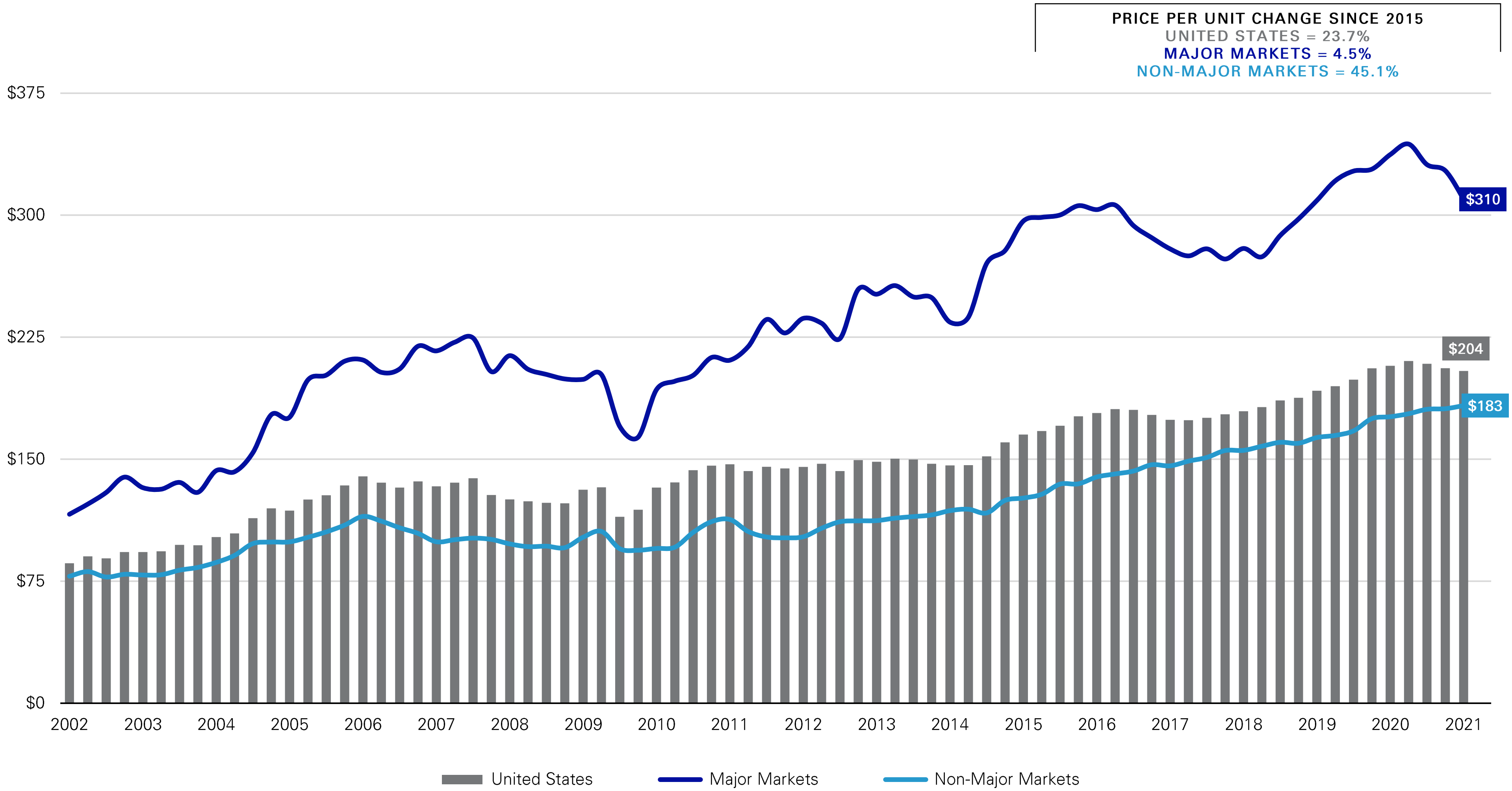


Source: Newmark Research, Real Capital Analytics (Transactions $25M+, Top Quartile Yields)

Price Per Unit

UNITED STATES; 12-MONTH AVERAGE

The overall average price per unit decreased 1.5% year-over-year in the first quarter, largely due to limited trading activity in major markets, where pricing declined 8.1% year-over-year. Alternatively, strong demand for suburban product in non-major markets pushed pricing up 3.9% year-over-year, reaching $183 thousand per unit.



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

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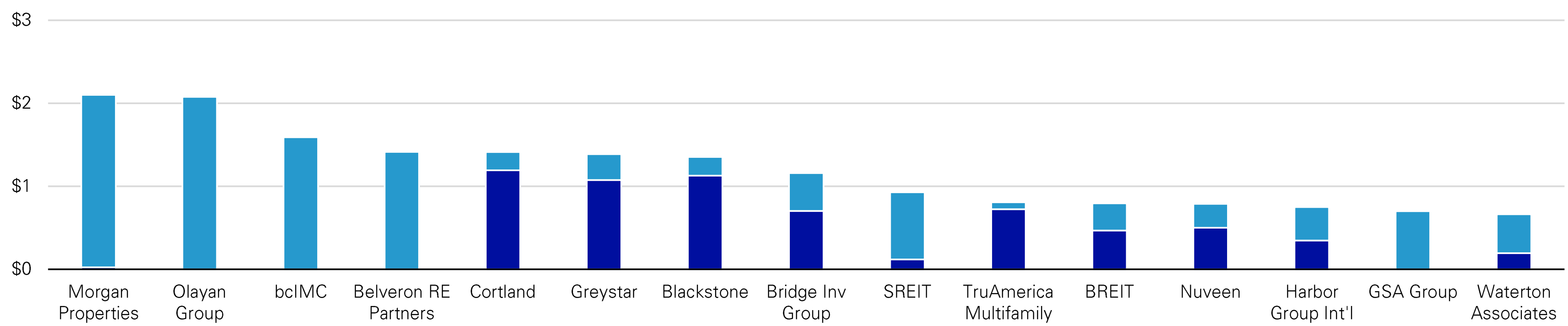
Top Buyers and Sellers

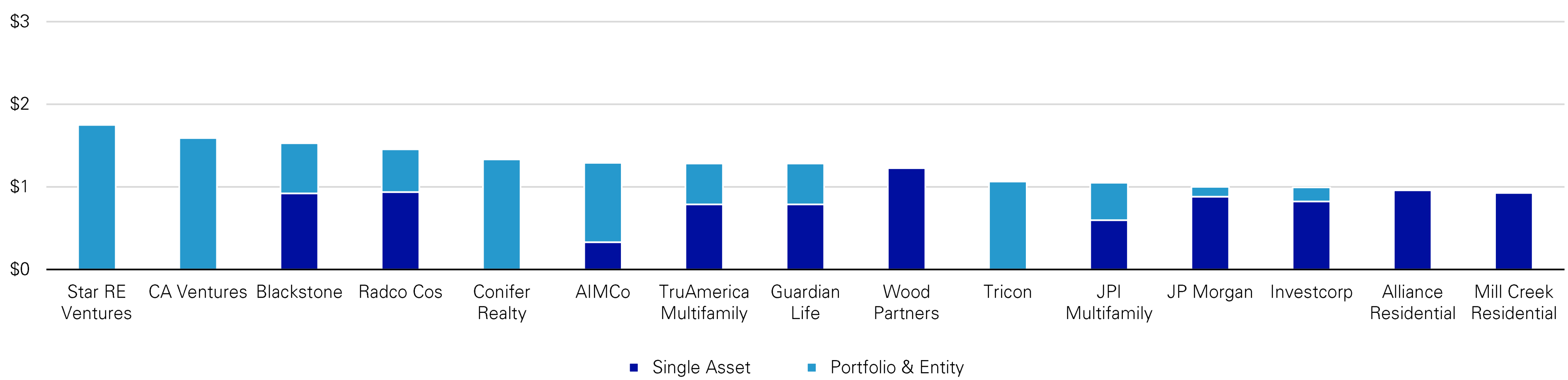
UNITED STATES; 12-MONTH TOTALS

Single asset transactions represent 77.9% of all sales volume over the past 12 months. Private capital continues to be nimble scale multifamily holdings with large portfolio transactions such as Star Real Estate Venture's $1.8 billion sale of a 48 property multifamily portfolio across 11 states to Morgan Properties.

TOP BUYERS ($ IN BILLIONS)



TOP SELLERS ($ IN BILLIONS)

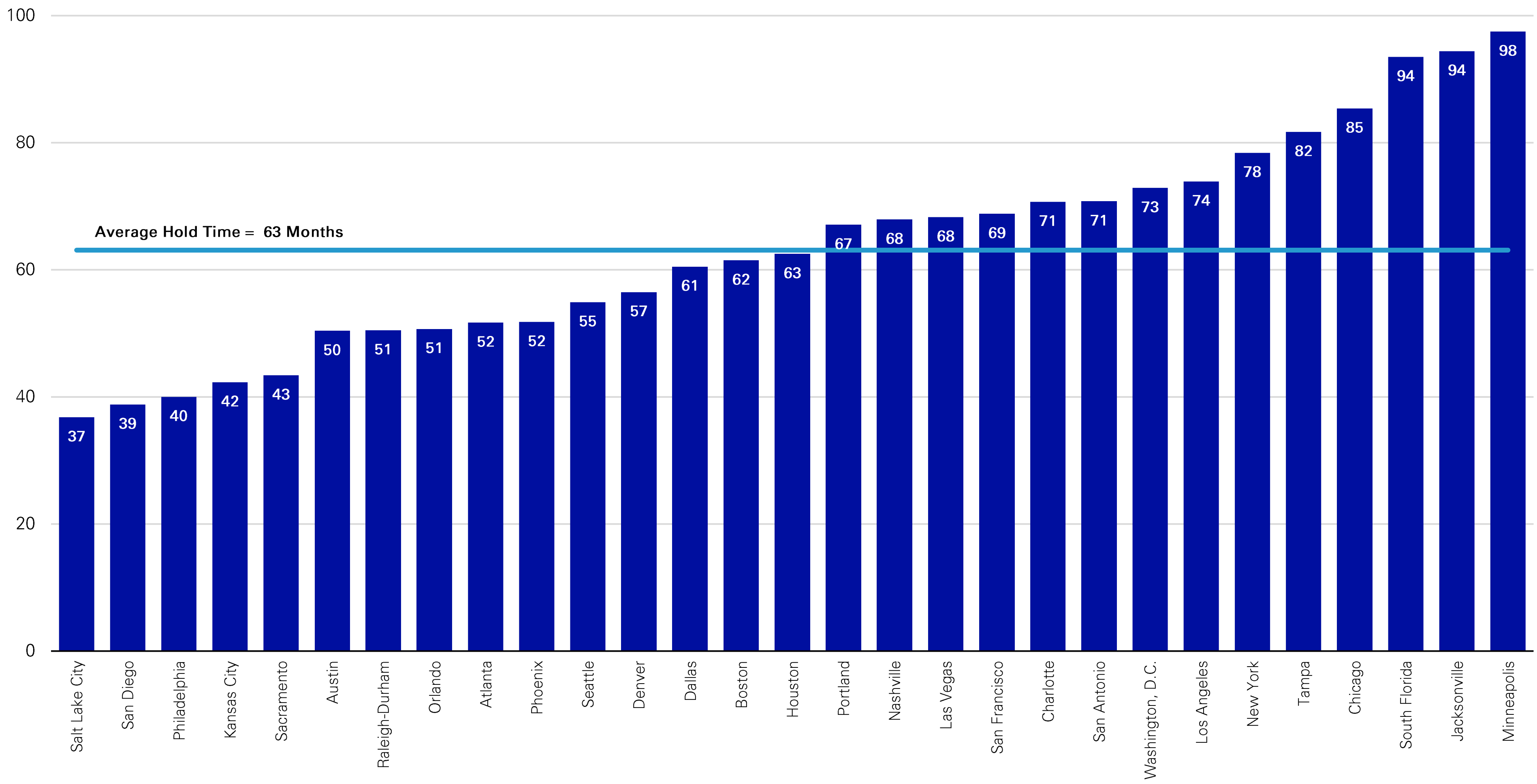


Source: Newmark Research, Real Capital Analytics

Average Hold Time by Market

AVERAGE NUMBER OF MONTHS SINCE PRIOR SALE

While the average hold time across the US for multifamily assets was 63 months as of the first quarter, markets like Salt Lake City, San Diego, Philadelphia, and Phoenix experienced much shorter hold times, as investments in value-add product with shorter timelines for re-sale were prevalent in these markets.

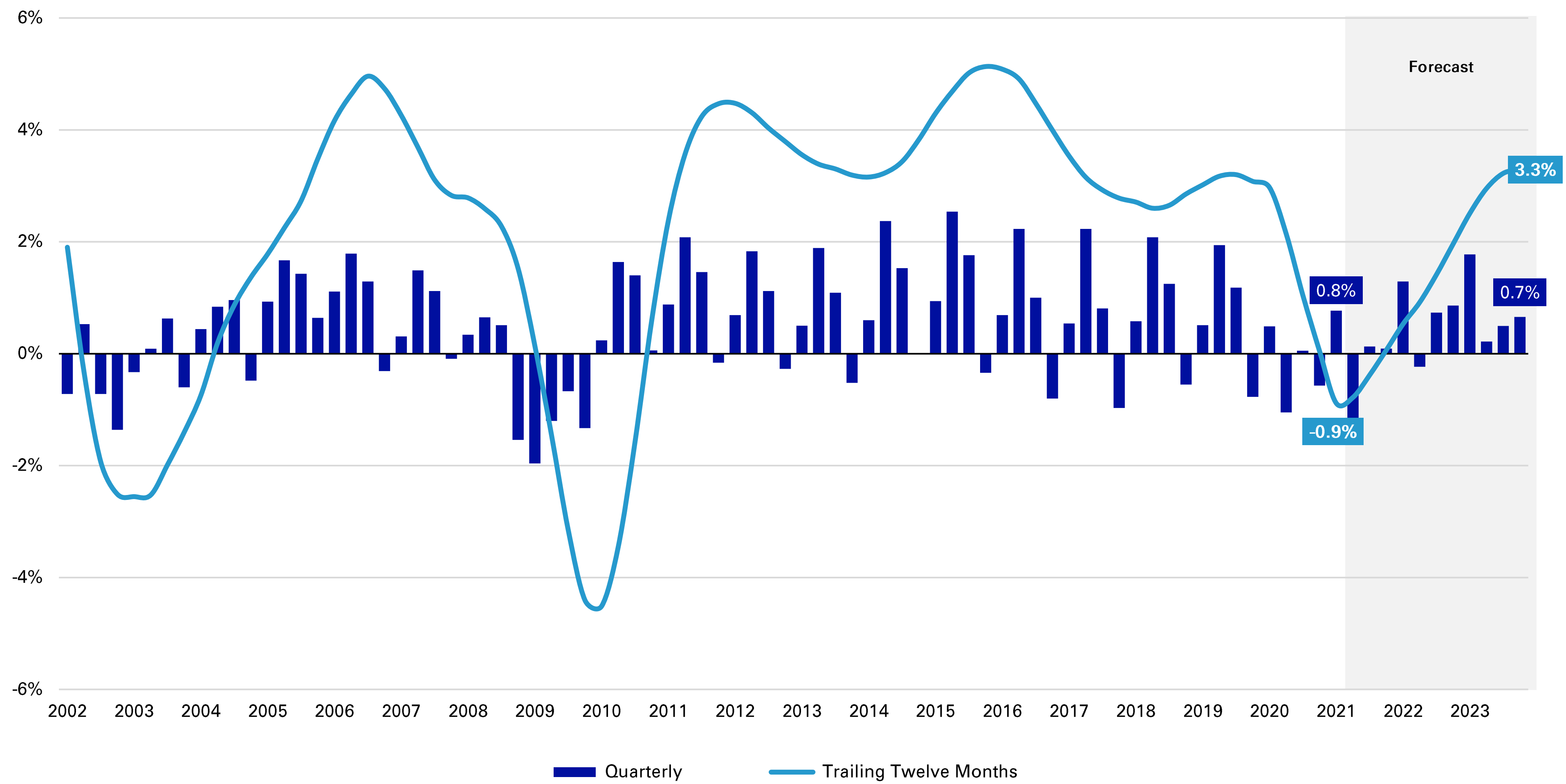


Source: Newmark Research, Real Capital Analytics

Effective Rent Growth

UNITED STATES

Effective rent growth for the first quarter rose 0.8%, whereas trailing twelve month rent growth declined to -0.9%. Multifamily rents project to rebound sharply over the next two years, reaching 3.3% effective rent growth by the end of 2023.

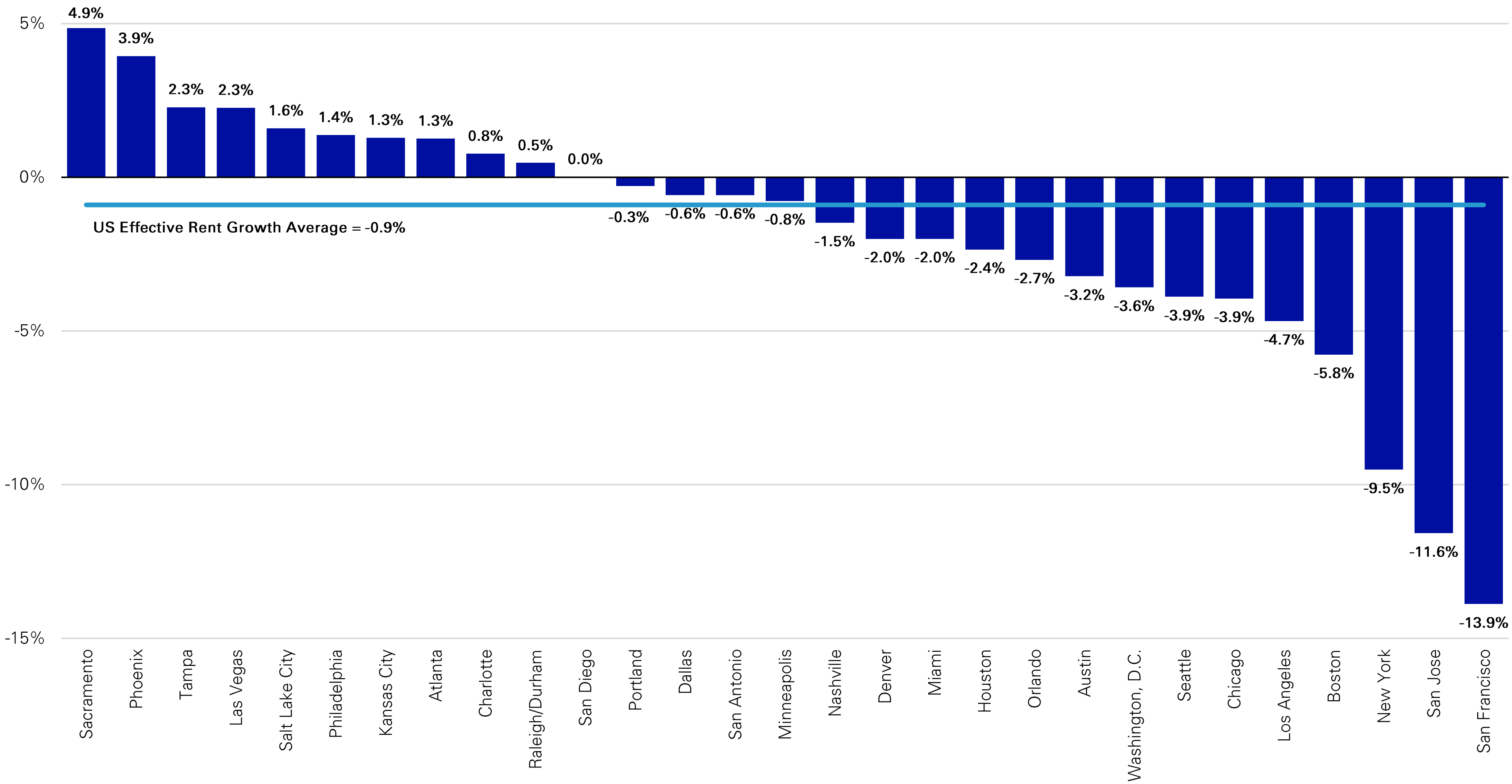


Source: Newmark Research, RealPage

Effective Rent Growth by Market

ANNUALIZED

Sunbelt markets continued to outperform over the last 12 months, despite average rent growth nationwide falling -0.9%. Seven of the top ten markets were located in the region. Strong net migration propelled Sacramento, Phoenix and Tampa to the highest effective rent growth throughout the country.

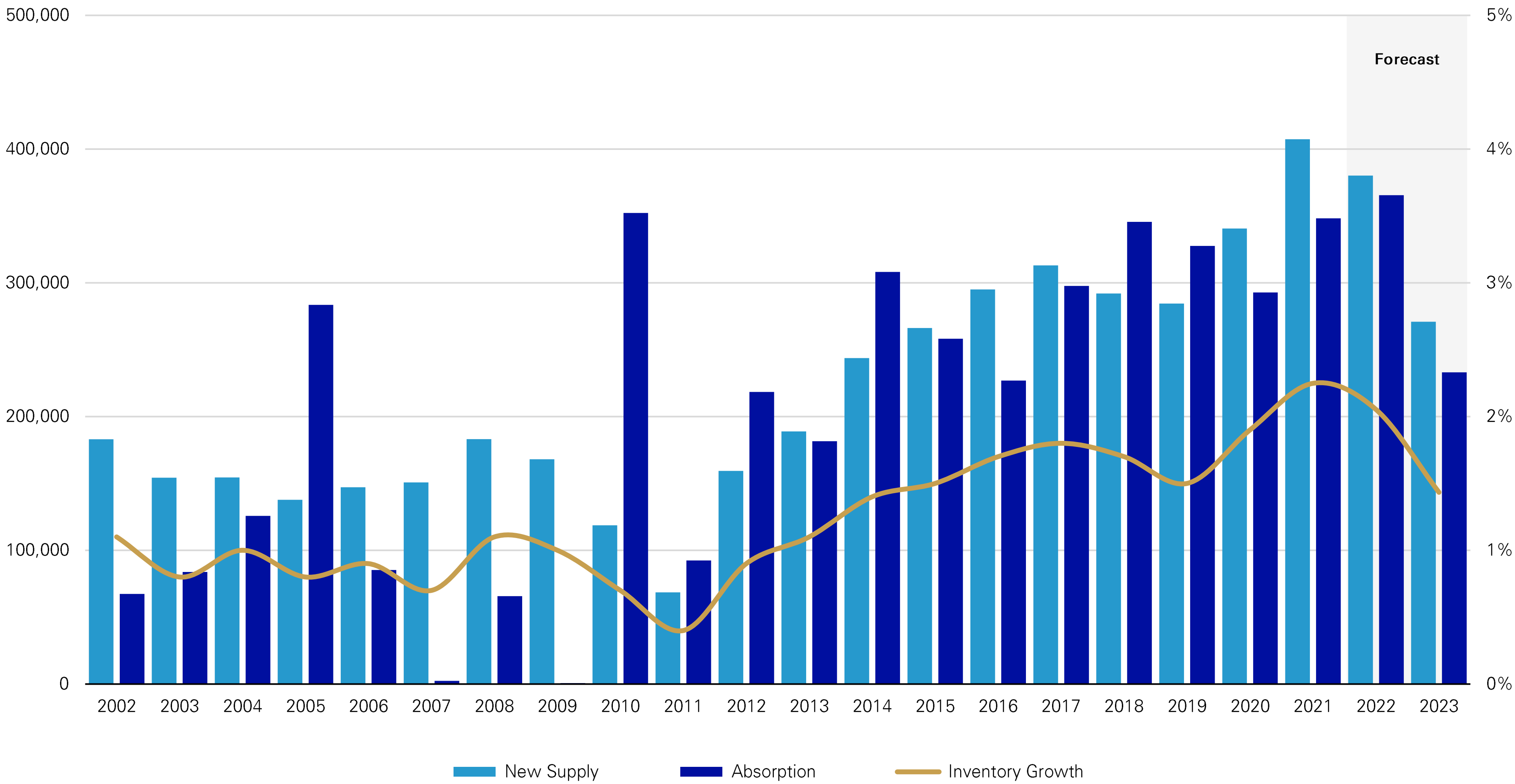


Source: Newmark Research, RealPage

Supply and Demand

UNITED STATES

Although new construction largely paused during the initial phase of the pandemic, new multifamily deliveries remained robust, totaling 353,453 units over the past 12 months, 11.9% higher than the previous 12-month period. The highest level of inventory growth in over a decade is projected to occur in 2021 as 407,427 units, or 2.2% of total inventory, are expected to be delivered.

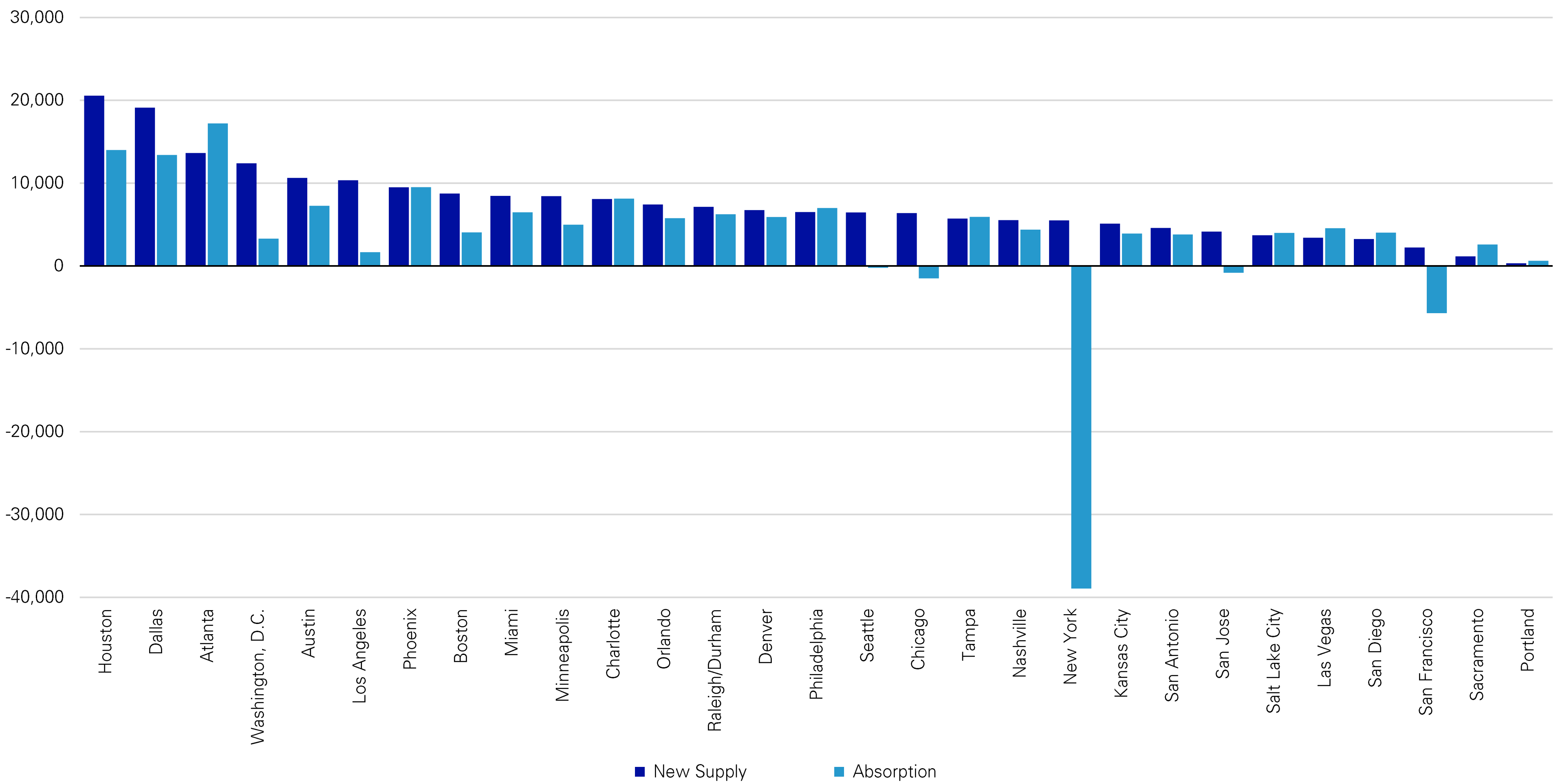


Source: Newmark Research, RealPage

Supply and Demand by Market

12-MONTH TOTALS

Demand has been strongest in Atlanta, Houston, and Dallas during the trailing twelve months, while other Sunbelt markets like Phoenix, Charlotte, Tampa, San Diego, and Sacramento all experienced demand which outpaced new supply due to strong net in-migration. As employees working remotely begin to return to the office, the imbalance between supply and demand for urban markets such as New York and San Francisco is expected to normalize in the near-term.

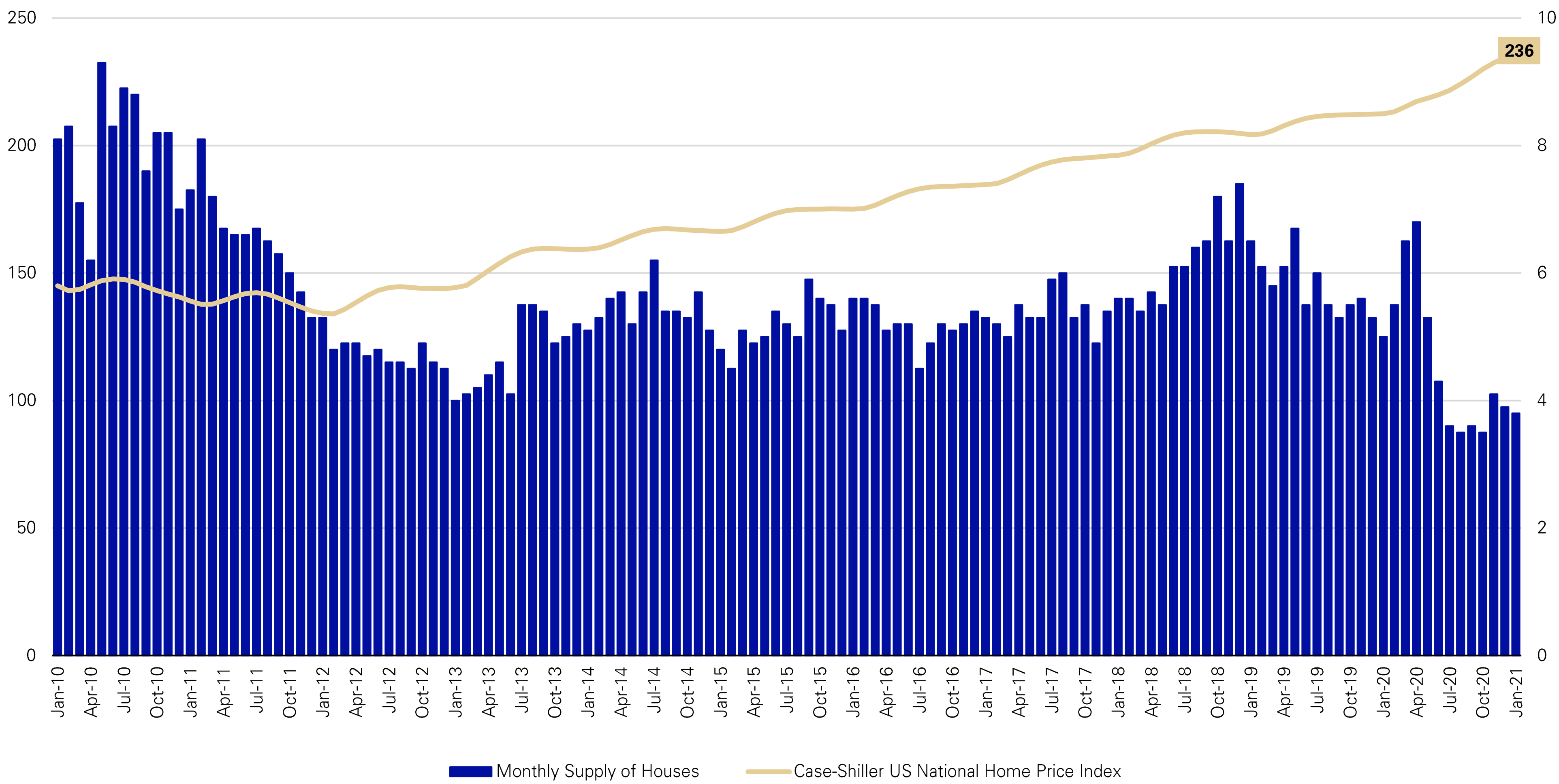


Source: Newmark Research, RealPage

Lack of Housing Supply

UNITED STATES

The combination of the lack of available inventory for sale, the immense demand for single-family homes, and the high cost to build new homes has caused home prices to skyrocket. The migration to suburban living brought on by the pandemic only boosted this trend. With housing supply falling over four million homes short of demand, the prospects for rental housing (both multifamily and single-family rentals) stand to benefit greatly, as many would-be buyers in many markets have no feasible options other than to rent.

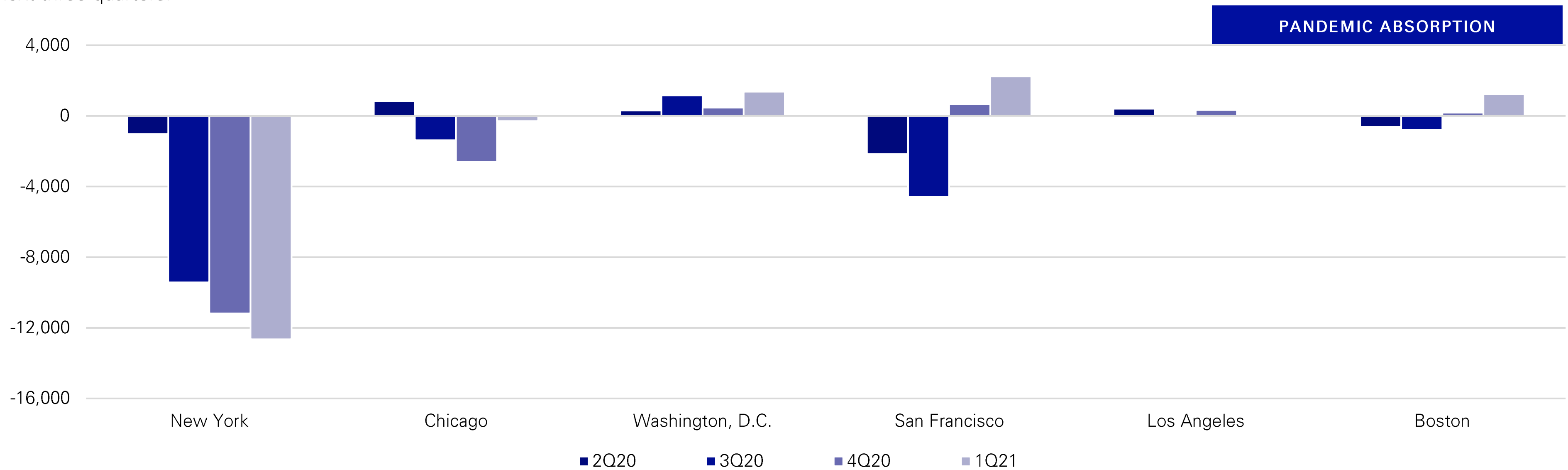


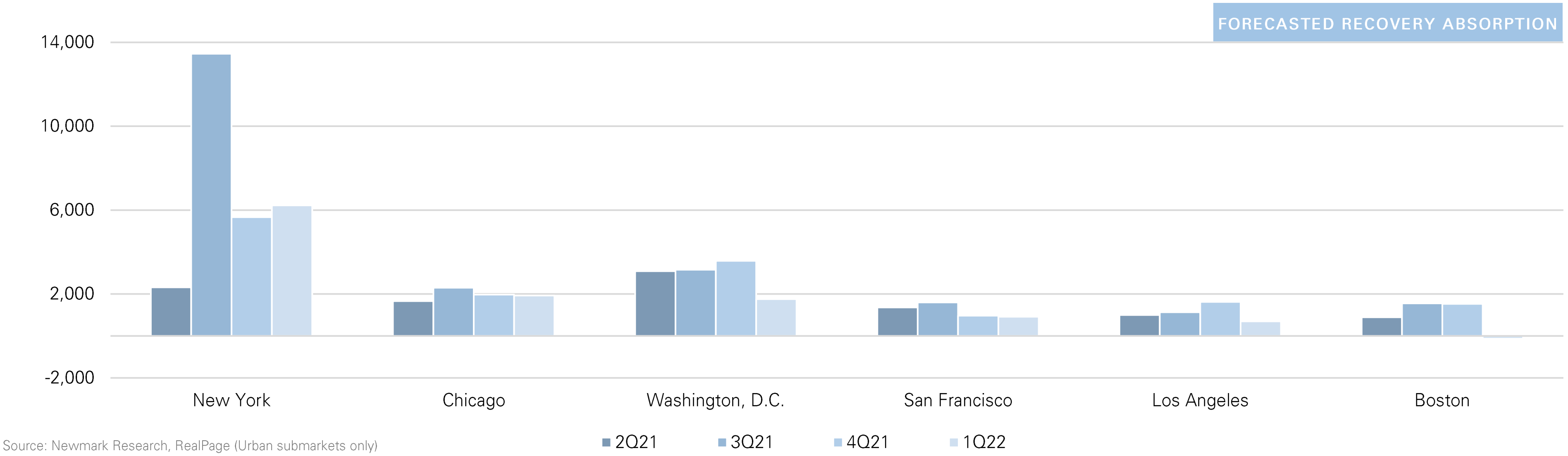
Source: Newmark Research, Federal Reserve Bank of St. Louis

Looming Recovery in Urban Core Markets

QUARTERLY ABSORPTION

As the recovery from the COVID-19 pandemic begins, major markets that suffered due to high density urban environments are projected to begin to recapture demand from renters that have temporarily left urban core areas. New York City is forecasted to see a dramatic rebound in demand for apartments with 27,673 units expected to be absorbed over the next three quarters.





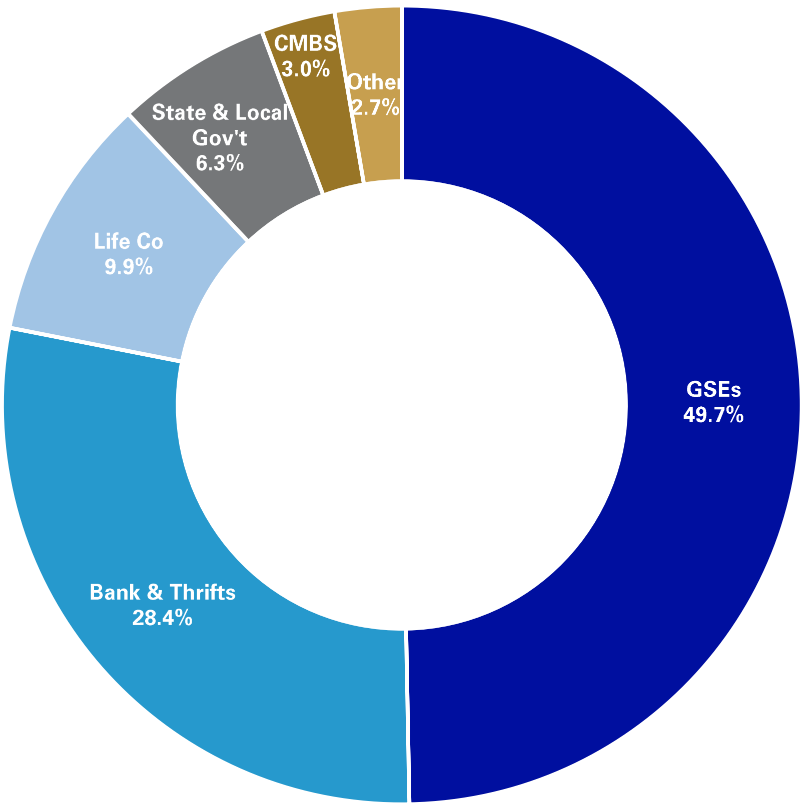
Source: Newmark Research, RealPage (Urban submarkets only)

Mortgage Debt Outstanding

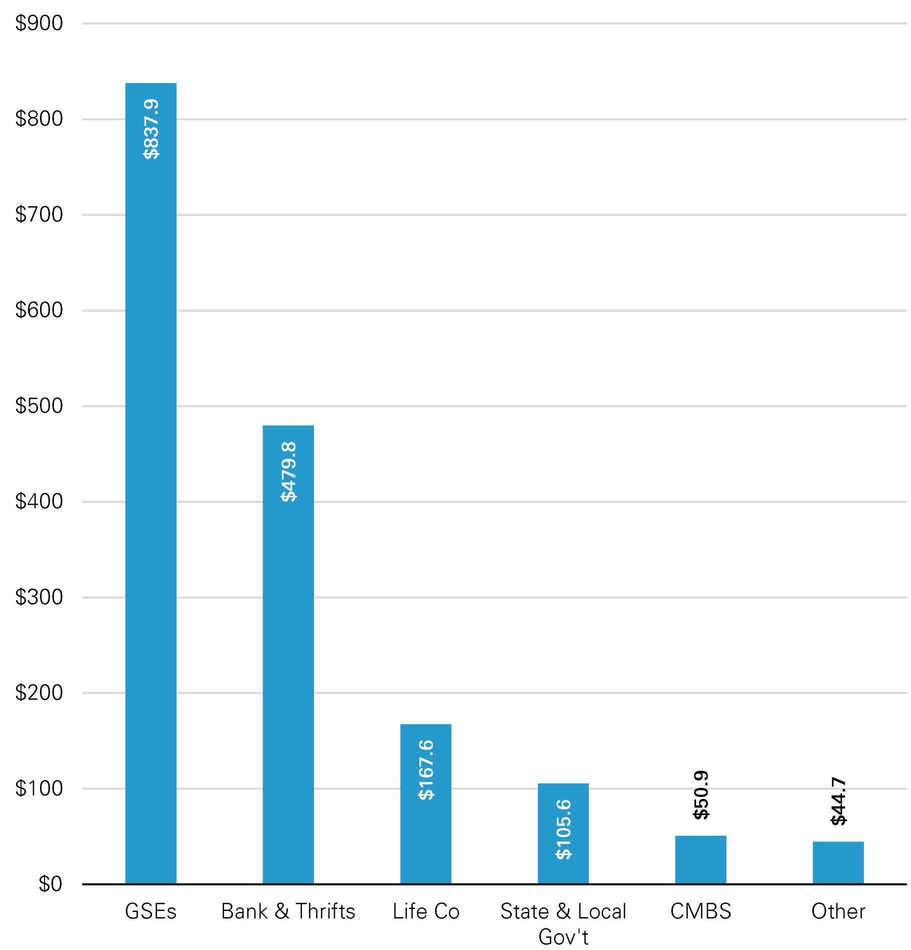
UNITED STATES

Multifamily mortgage debt outstanding rose to $1.7 trillion, up 8.2% year-over-year. GSE debt outstanding, which accounted for the largest share of debt outstanding at 49.7%, saw a 12.6% increase year-over-year.

DEBT OUTSTANDING BY GROUP AS A PERCENTAGE



DEBT OUTSTANDING BY GROUP (DOLLARS IN BILLIONS)

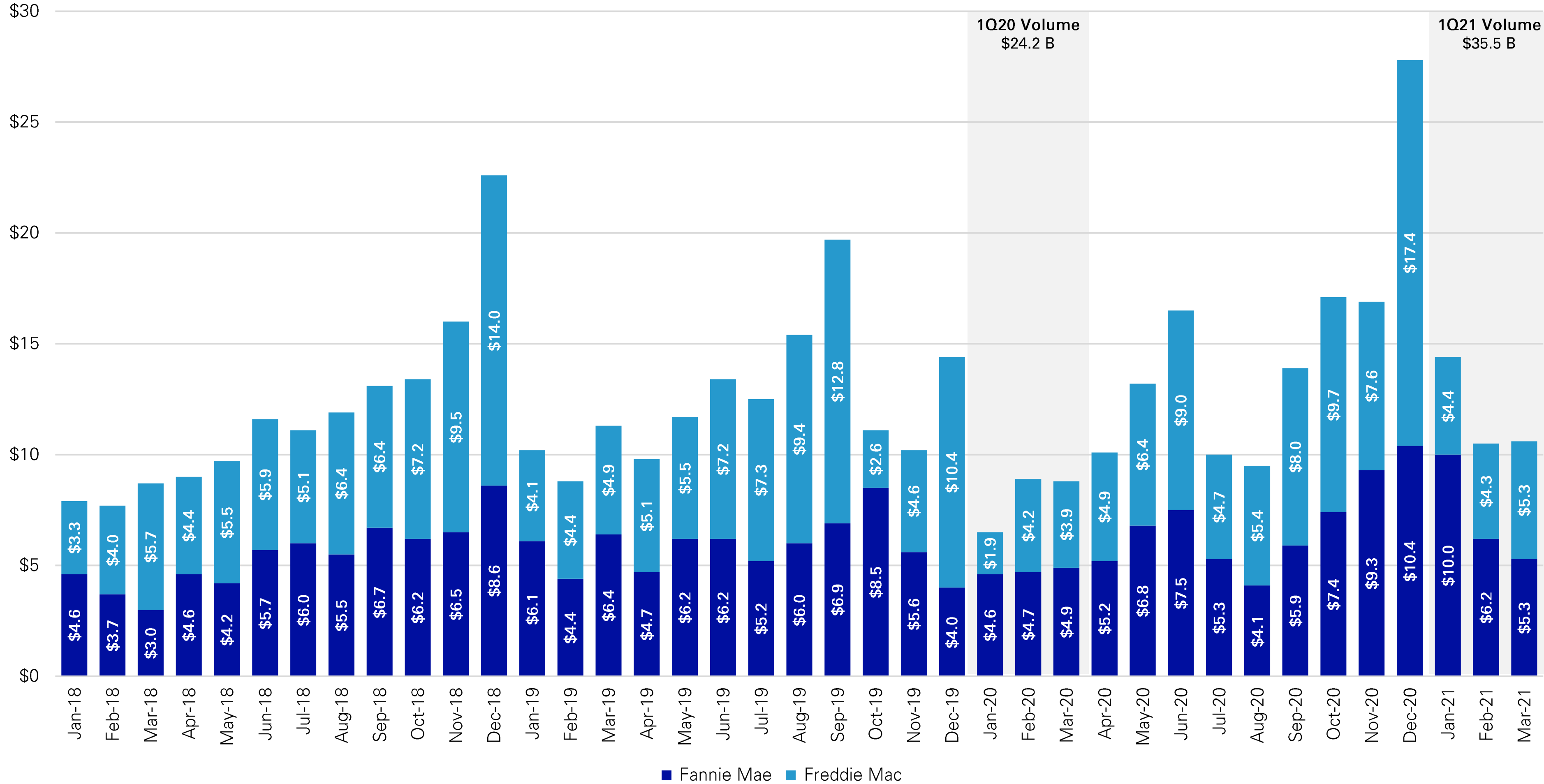


Source: Newmark Research, Mortgage Bankers Association

Monthly GSE Volume

$ IN BILLIONS

After record-breaking volume in the fourth quarter of 2021, Fannie Mae and Freddie Mac volume eased to $35.5 billion in the first quarter of 2021. Despite tapering-off on a quarter-over-quarter basis, GSE volume was 46.7% higher than the first quarter 2020.



Source: Newmark Research, Fannie Mae, Freddie Mac

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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.

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