Freddie Mac MULTIFAMILY

2022 Multifamily Outlook

Multifamily Research Center

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Throughout 2021, strong economic conditions and changing migration patterns have pushed multifamily market fundamentals to record-breaking levels. The economic and multifamily recovery is expected to continue through 2022, although COVID-19 is still with us, which could cause fresh waves of economic uncertainty that will likely persist throughout this year.

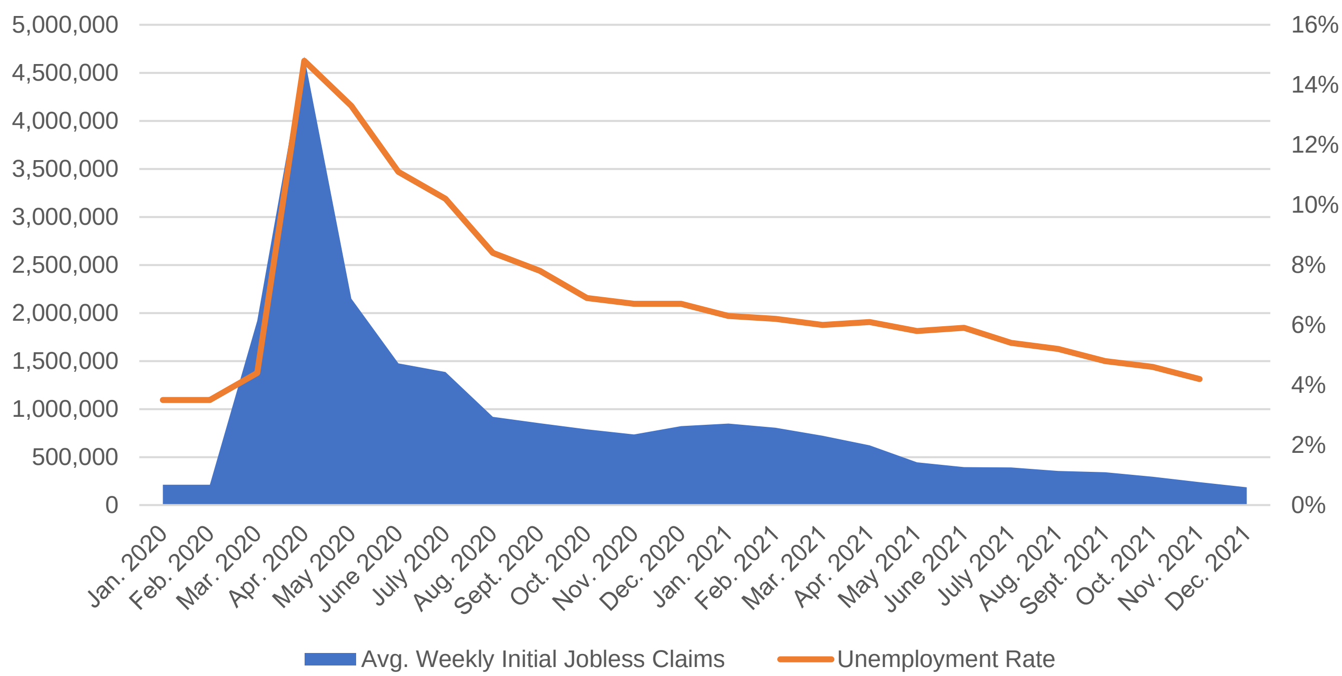
- During 2021, the economy bounced back meaningfully, with improvements seen in the unemployment rate, weekly unemployment claims and gross domestic product (GDP). Inflation, however, has emerged as a concern going forward.
- Demand for multifamily housing during the second and third quarters of 2021 was at the highest levels RealPage has ever reported. Reis reports rent growth is expected to have increased by 10% for the year and vacancy rates to decline to 4.8%.
- Multifamily investment activity again spiked in Q3 2021 to a quarterly record of almost $79 billion in property sales. Through the first three quarters of 2021, investment volume totaled $179 billion — more than any other full year on record except for 2019.
- Coming off a record-breaking year in 2021, we expect multifamily markets to continue their growth, albeit at a more moderate pace. Demand is expected to remain strong and, given recent elevated levels of permits and starts, completions should also remain elevated.
- For 2022, we forecast gross income growth of 3.6% and the vacancy rate to remain flat at 4.8%.
- We expect universally positive rent growth in 2022, with each market we cover projected to experience rent gains. The Sun Belt markets are generally expected to outperform the nation, while the smaller markets in the Northeast and Midwest are generally expected to be among the comparatively weaker performers.
- Multifamily originations for 2020 came in higher than expected at $360 billion. Considering the robust performance and strength of the apartment market, we expect originations in 2021 to grow to $450 billion, and to see further growth to $475 billion-$500 billion in 2022.

Economic Conditions in 2022: The Economy Looks Strong, but is Inflation a Threat?

The U.S. economy saw a very strong recovery in 2021 following the devastation of COVID-19 in 2020. Nominal GDP declined -3.4% in 2020 but is expected to end 2021 with growth between 4% and 5%. GDP growth in 2021, as the economy recovered from the steep decline in the prior year, is well above pre-pandemic levels from 2010-2019, which averaged 2.3%. 2021 will likely see the highest GDP growth in the last 20 years. The unemployment rate started to decline in May of 2020 and, as of November 2021, is down to 4.2%, compared with 6.7% a year earlier.

The job market continues to recover, although realities and expectations are not always aligned. Over the 12 months ending in November 2021, the economy added 5.7 million jobs and more than 18 million total jobs since the spring of 2020. Nevertheless, we are well below pre-pandemic labor force participation and employment levels and do not expect a return to normal for at least another year. Weekly jobless claims have been trending down throughout 2021 and have fallen below 300,000 since mid-October, and more recently below 200,000 – even less than the 2019 weekly average of 218,000. For much of the summer, the 10-year U.S. Treasury yield was near 1.25%, but recently increased since then to around 1.5%. Despite the increase, interest rates are still very low historically, and the continued low interest rate environment is providing substantial lift to the economy.

Exhibit 1: Average Weekly Initial Jobless Claims and Unemployment Rates



Sources: Federal Reserve Bank of St. Louis, Moody's, Freddie Mac

During the height of the pandemic, the federal government provided many financial benefits to American families to help them during those unprecedented times. Some of the programs included direct payments of stimulus, expanded unemployment benefits, forbearance of student loan and mortgage debt, and the advanced Child Tax Credit payments. These programs put thousands of dollars into many families' hands during the most severe, yet shortest, recession our nation has ever seen. A report updated in September 2021 by the JPMorgan Chase Institute shows that the stimulus administered by the federal government helped provide a financial cushion to families, and in particular to lower-income families, however that the tailwind is now subsiding. As reported by NMHC's rent payment tracker[1], collection rates have slowly declined throughout the summer of 2021. During 2020, collections were relatively consistent, averaging 94.7%, off just -1.5 percentage points on average compared with the corresponding pre-pandemic month. Collections have been more varied in 2021; for the three months August through October, collections have been, on average, 3 percentage points below 2019 levels. The strength seen in collections from April 2020 through summer of 2021 is at least partially attributable to the large government support available to the unemployed, however these unemployment benefits have since expired and collections may lag more than in 2020 until employment and wage growth correct to pre-pandemic levels.

While the economy is growing, inflation has become a growing concern, averaging more than 5% year over year (YoY) each month since late spring 2021. In the month of November 2021, inflation grew a staggering 6.8%, which is the highest inflation rate seen in nearly 40 years. If we exclude the historically volatile categories of food and energy, the index increased 4.9%, which is the highest since 1981. Energy is up 33% over the past year and food has increased 6.1% in the past 12 months, putting further pressure on household budgets. Some of the key drivers of increased inflation include shelter (which includes rent), increased 0.9% in just the past two months, as well as new and used vehicles, which are up 9.8% and 26.4%, respectively, YoY. The main concern of long-term high inflation is that incomes will not keep pace and consumer purchasing power will erode, leading to a decreased standard of living for wage earners. This could ultimately hurt the economy. To combat the elevated inflation level, the Federal Open Market Committee announced changes to monetary policy including: reducing the pace of net asset purchases, increasing the pace of tapering, and the possibility of three 25 bps increases for the federal funds rate in 2022.

Looking forward, we believe some areas of the economy are going to continue to see upward pressure on prices while others will likely see lessening upward inflation. Given the robust demand for housing this year, we believe that upward price pressure for both rental and for-sale housing will continue in the short term as we continue to experience an overall housing shortage across all housing types. Additionally, the methodology used to calculate the shelter component of the inflation measurement (Consumer Price Index or CPI), is lagged, meaning the substantial rise in rents seen this year are not yet captured in inflation. We believe the sharp increase in housing costs captured by the CPI over the past two months is likely just the beginning. On a positive note, consumers still believe that inflation will return to lower levels over the next five years, however consumer inflation expectations have increased over the past year by 50 bps to 3.0%. If expected long-term inflation remains or accelerates into 2022, it will make easing inflation all the more difficult.

[1] The NMHC releases bi-monthly data on rent collections, utilizing property management software to report the percentage of renters paying part or all of their rent.

The Housing Market in 2021: Demand, Demand and More Demand

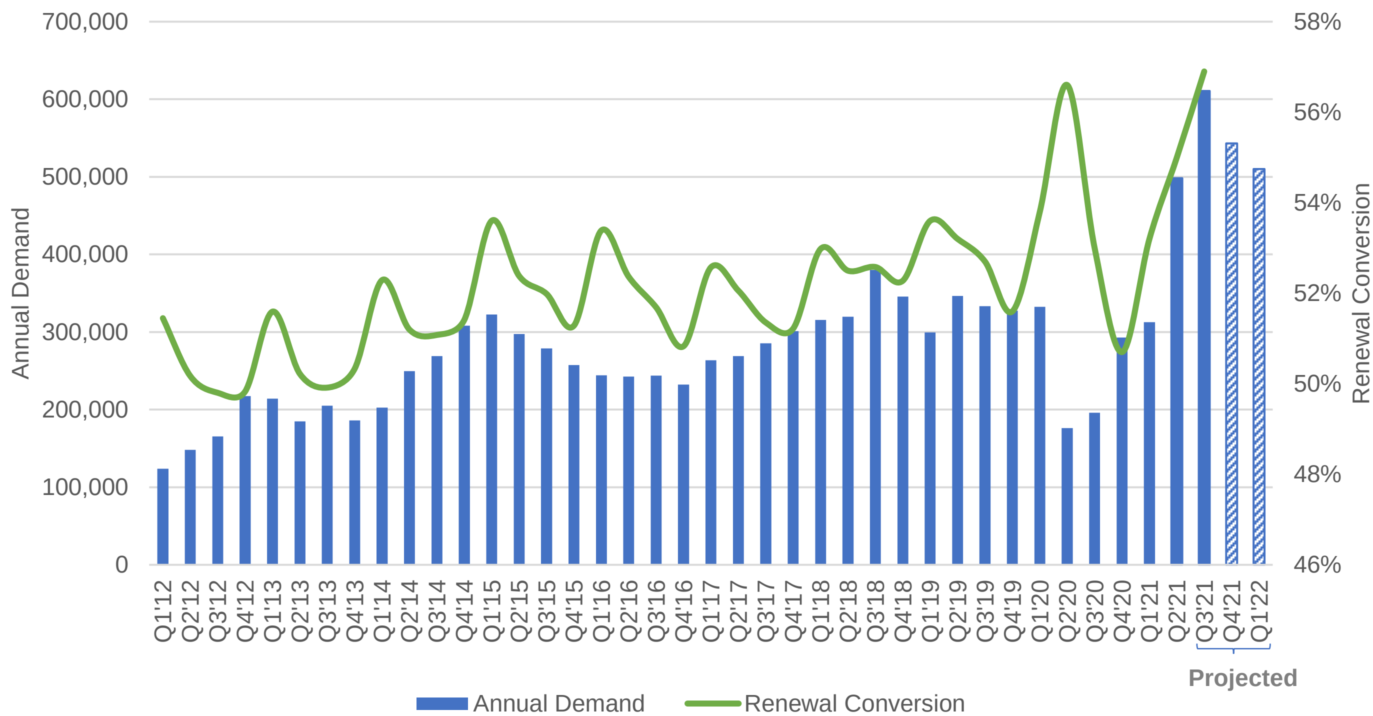
The apartment market experienced robust growth in 2021 driven by the accelerating economic conditions. Even during the worst of the pandemic, the multifamily market generally performed relatively well, and throughout 2021 has seen record-breaking growth, although performance varied across metro areas. As demand increased, occupancy has followed suit: Occupancy reached its pandemic low during June of 2020 at 95.2% but has since increased 210 bps to 97.3% as of October of 2021, according to RealPage. As demand increased rapidly, so have rents. According to RealPage, during just the third quarter of 2021, rents were up 6.1%. For the 12 months ending in October 2021, rents increased 14.9%, with nearly all of that rent growth occurring since March of 2021.

There are many factors that are contributing to the record level of demand, including:

- Renters who would have moved last year who did not due to the pandemic
- Two years' worth of college graduates who are leaving home for the first time
- Professionally managed units (which this data is derived from) were more able to adapt to changing conditions brought on by the pandemic than smaller operators and therefore more likely to capture the demand than smaller operators
- A reallocation of budget toward housing from government stimulus or cutting other expenses during the pandemic
- Former roommates choosing to live on their own

As the pandemic has played out, housing choices and migration patterns have impacted multifamily demand and, in particular, renewal rates. As seen in Exhibit 2, demand was off meaningfully in the second and third quarters of 2020 as the pandemic slowed leasing while renewal rates skyrocketed to above 56%. In late 2020 and early 2021, demand rebounded while renewal rates briefly fell below pre-pandemic norms. Since then, demand has been record-breaking. During the third quarter of 2021, annualized demand was at over 600,000 units – more than 50% above the pre-pandemic high of roughly 400,000 units seen during the height of the tech boom more than 20 years ago. During that time, renewal rates have again jumped. As of Q3 2021, they've reached nearly 57% and are currently higher than the pandemic level seen during the height of lockdowns. With the economy humming along, a low unemployment rate, generally strong job growth, and many office workers being location agnostic, we expect demand to be robust in the near future, as evidenced by RealPage's demand projection for the remainder of 2021 and into early 2022.

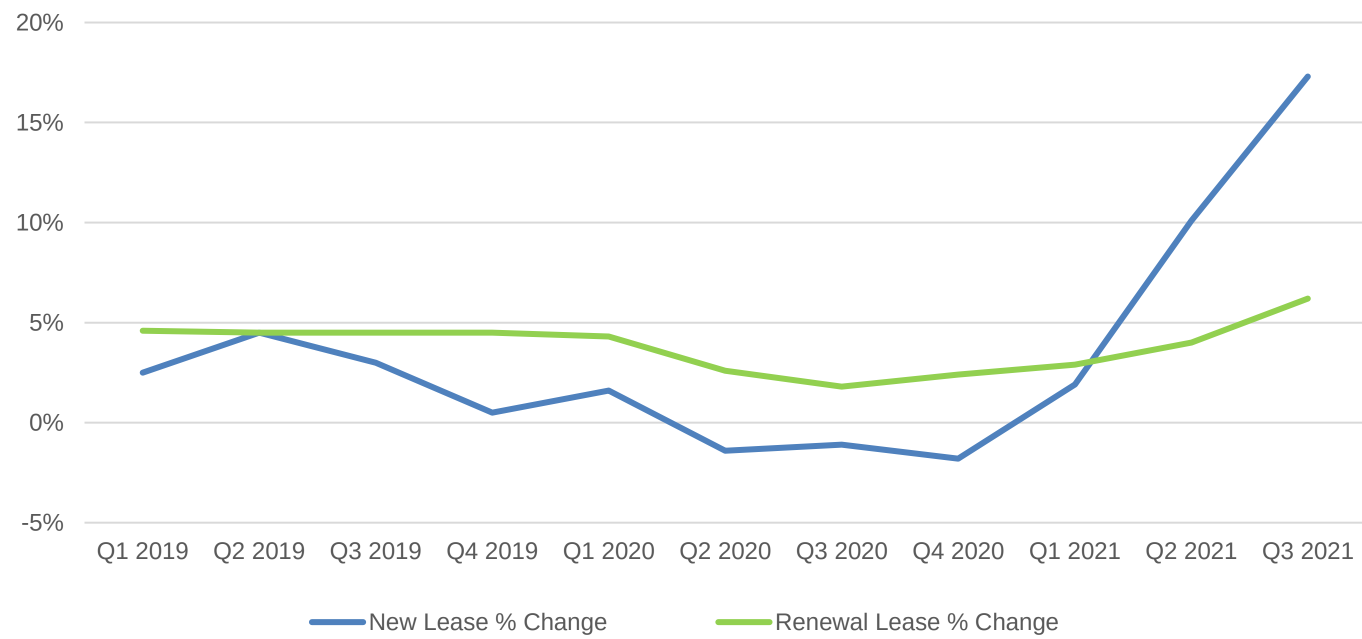
Exhibit 2: Annual Multifamily Absorptions and Renewal Rate



Sources: RealPage, Freddie Mac

The recent spike in renewal rates, shown in Exhibit 2 above, can be at least partially attributed to the recent increase in new lease rent increases compared with renewal rent increases. Apartment operators typically hold lease renewal increases relatively steady, while new lease rates typically vary much more as the market fluctuates. As shown in Exhibit 3 below, for much of the past two years, renewal lease rates have outpaced new lease signings, meaning rent was less expensive for a new tenant moving to a building than a current tenant renewing their lease. That shifted during the second quarter of 2021 when new lease increases jumped more than 8 percentage points from about 2% to over 10%, then increased another 7 percentage points to over 17% in the third quarter. Renewal rates during that time increased as well, but by a smaller magnitude. During the second quarter of 2021, renewal lease rates increased from about 3% to 4% and then to 6.2% during the third quarter.

Exhibit 3: New Lease vs. Renewals Rate Growth Change



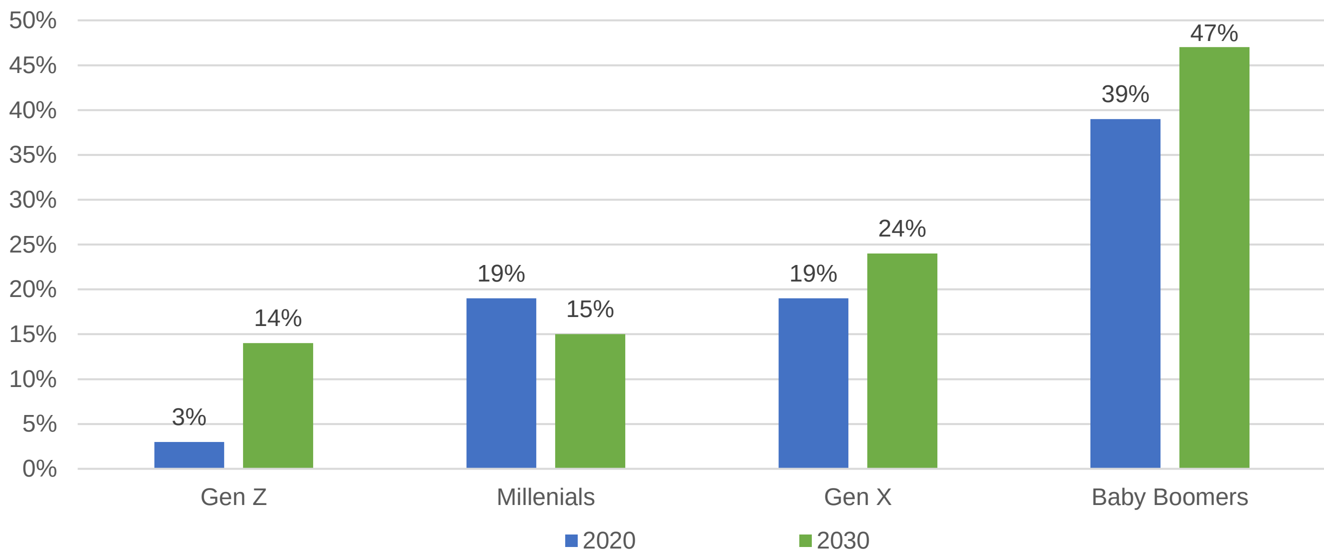
Sources: RealPage, Freddie Mac

As demand increased rapidly, so have rents. According to RealPage, during just the third quarter of 2021, both renewal and new lease rents were up 6.1%. For the 12 months ending in October 2021, rents increased 14.9% nationally, with nearly all of that rent growth occurring since March of 2021.

The millennial cohort continues to drive a lot of multifamily demand because much of that generation is still in the age group most likely to rent, but it's not the sole cohort impacting the multifamily market. Sole-person households are expected to increase from 36.1 million to 41.2 million by 2030.[2] The sole-person households tend to live in smaller, less expensive homes compared with multiple-person households, and 60% report living in a home with two or fewer bedrooms. In the coming years, we expect to see a larger share of sole-person households shift to baby boomers and Generation Xers. Meanwhile, millennials are expected to migrate from sole-person households to living with others as they grow older and enter prime marriage and family creation ages. The projected total increase in sole-person households will have a profound impact on both the for-sale and rental housing markets. These households will likely demand smaller, more affordable housing than those living with others, and given the current statistics, are more likely to rent their home, relative to the overall population.

[2] "The Growth of Sole-Person Households"

Exhibit 4: Composition of Sole-Person Households



Source: Freddie Mac.
Note: 2020 does not total 100% due to the exclusion of the Silent Generation.

Demand for single-family ownership was at unprecedented levels in 2021 due to a combination of demographics, more spendable income, a preference for less dense living and historically low interest rates. As seen in Exhibit 5, despite home price appreciation, sharply falling interest rates meant monthly principal and interest (P&I) costs for a median-priced home held relatively steady in 2020, near $1,250 a month, except for a dip at the height of the pandemic during the second quarter of 2020. However, in 2021 monthly P&I costs have risen sharply, up about 16% from the first quarter of 2020 to the third quarter of 2021. Mortgage rates during that time have oscillated and have dropped by about 50 bps. But the real driver of increased monthly home costs is the rapidly increasing median home price, which is up $67,219 or 23.4% from the first quarter of 2020 to the third quarter of 2021. During just the third quarter of 2021, the monthly cost of a median-priced home has increased more than $50. Even if mortgage rates maintain their historically low levels, which have remained well below 4% in recent years, many people who would like to buy a home will be challenged to do so because of the rapidly increasing costs.

Exhibit 5: Monthly Principal and Interest Costs for a Median-Priced Home

	Mortgage Rate	Median Home Price	Amount Financed	Monthly P&I	YoY Change
1Q 2020	3.50%	$287,048	$278,437	$1,250	0.9%
2Q 2020	3.13%	$275,980	$267,700	$1,147	-4.0%
3Q 2020	2.90%	$312,783	$303,399	$1,263	4.5%
4Q 2020	2.67%	$316,104	$306,621	$1,239	-1.6%
1Q 2021	3.17%	$333,620	$323,612	$1,394	11.5%
2Q 2021	3.02%	$340,190	$329,985	$1,395	21.6%
3Q 2021	3.01%	$354,264	$343,636	$1,451	14.9%
6 Quarter Change	-0.49%	+$67,216	+$65,199	+$201	+16.0%

Sources: Freddie Mac, NAR
Note: For each period, assume a median-priced home, a 30-year mortgage and a 3% down payment.

Multifamily Performance by Asset Class and Unit Type in 2021

The strength in the multifamily market throughout 2021 was evident across different property classes and unit types. Demand trends have shifted throughout 2021 with a strong rebound across Class A and B property types and among smaller units. Occupancy for Class A units saw the greatest increase from pandemic lows to October 2021, up 3.0%, with Class B and C up 2.1% and 1.8%, respectively. Similarly, occupancy at studio units is up 300 bps from the pandemic low to October 2021, higher than the 200 to 230 bps increase seen in 1-bedroom and larger units.

Exhibit 6a: Occupancy Pandemic Low and October 2021 by Class and Unit Type

	Property Class			Unit Type			
Period	A	B	C	Studio	1BR	2BR	3BR
Pandemic Low	93.9%	95.3%	96.0%	93.4%	95.2%	95.4%	94.8%
Oct. 2021	96.9%	97.4%	97.8%	96.4%	97.2%	97.4%	97.1%

Source: RealPage

As seen in Exhibit 6b, Class A properties were the only class with negative YoY effective rent growth (net of concessions) during any 12-month period during the pandemic, but during the 12 months ending October 2021, effective rent growth totaled 16.8%. While Class B and C properties experienced little to no rent growth during their YoY pandemic lows, for the year ending in October, rent growth rose 18.1% and 10.4% respectively. Smaller units, such as studio and 1-bedroom units, also saw significant YoY rent contractions of -8.3% and -2.2%, while YoY rent change for the larger 2- and 3-bedroom units was essentially flat during the worst of the pandemic. Since then, all unit types have seen significant rent growth, ranging from 12.2% to 15.0% from October 2020 through October 2021.

Exhibit 6b: YoY Rent Growth Pandemic Low and October 2021 by Class and Unit Type

Period	Property Class			Unit Type			
	A	B	C	Studio	1BR	2BR	3BR
Pandemic Low	-5.1%	0.0%	1.1%	-8.3%	-2.2%	-0.1%	0.9%
Oct. 2020 to Oct. 2021	16.8%	18.1%	10.4%	12.2%	14.8%	15.0%	13.9%

Source: RealPage

Similarly, the peak percentage of units offering concessions during the pandemic was much higher among Class A buildings, at nearly 20%, while Class B and C properties offered concessions on 15% to 16% of their units during the worst of the pandemic. Nearly 24% of studio units were offering concessions during their peak month, while the other unit types were between 14% to 18% as you go from 1-bedroom to 3-bedroom. The decline in the percentage of units offering concessions has been uniform, with all classes and unit types currently about 9% to 10% lower than their pandemic highs.

Exhibit 6c: Percentage of Units Offering Concessions during Pandemic High and October 2021 by Class and Unit Type

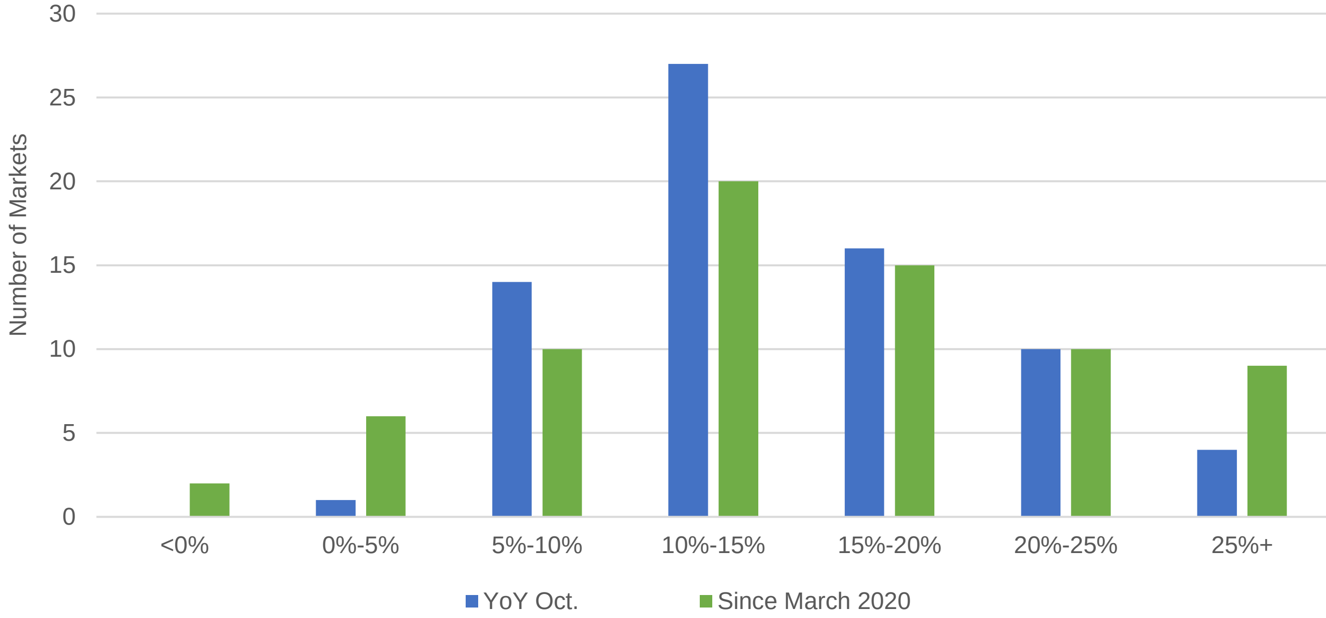
Period	Property Class			Unit Type			
	A	B	C	Studio	1BR	2BR	3BR
Pandemic High	19.1%	16.1%	15.1%	23.6%	17.6%	15.7%	13.6%
Oct. 2021	10.1%	6.7%	5.7%	14.6%	8.4%	6.1%	4.8%

Source: RealPage

The distribution of rent growth in 2021 across metro areas was evenly distributed. As seen in Exhibit 7, every market saw annual rent growth as of October 2021, and almost every major metro area saw robust rent growth of 5% or more. Going back further, the results since March of 2020 are more varied. A few markets have not yet fully recovered, but at the same time a higher portion have seen very strong growth of over 25%.

Among the top 10 markets, the pandemic emphasized trends that were already emerging prior to 2020, namely that the strongest rent growth occurred in less expensive, Sun Belt and tech hub markets. The growth in these markets during the pandemic has been explosive, with YoY rent growth of 21% or more. Over the 12 months ending in October 2021, the weakest rent growth has been seen in large markets, such as San Francisco and San Jose, mid-sized markets like Minneapolis and Hartford, and smaller Rust Belt markets like Syracuse, Buffalo and Detroit. Even so, among the bottom 10 markets, YoY rent growth has been strong, with the weakest market reporting rent growth in excess of 3%, and all others seeing rent growth of 5% or more.

Exhibit 7: Distribution of YoY Rent Growth as of October 2021

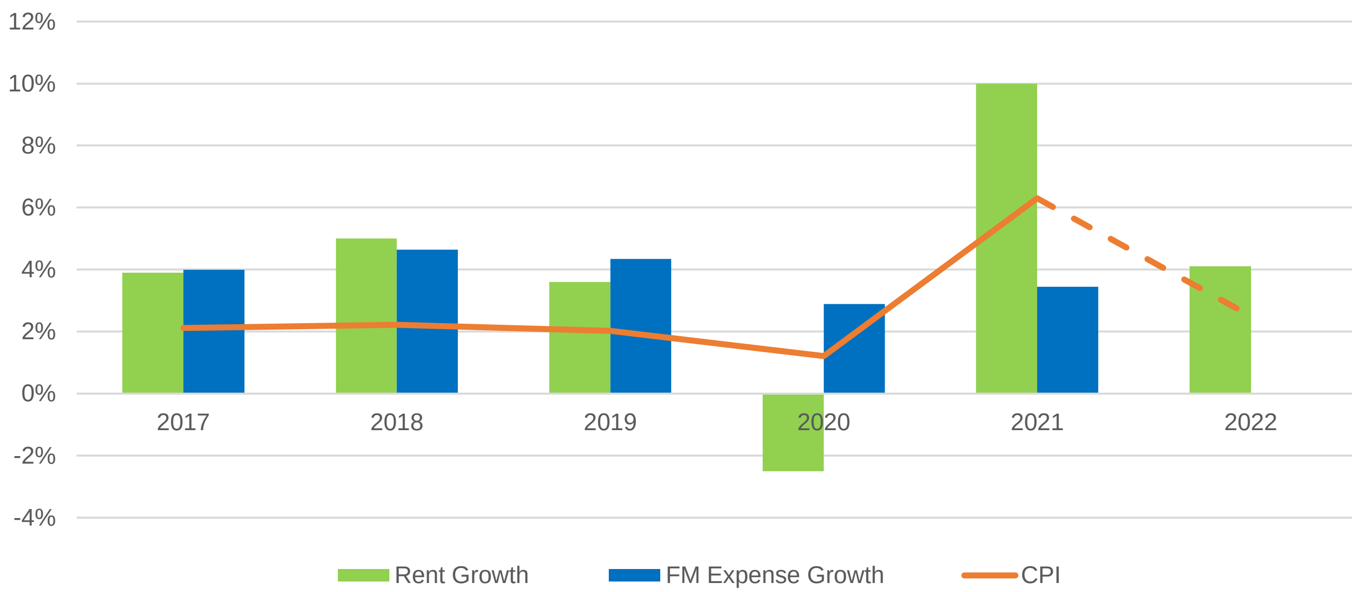


Sources: RealPage, Freddie Mac

Despite the high inflation seen throughout 2021, rent growth was more than sufficient to eclipse the high inflation rate and higher expenses.[3] Rent growth, as reported by RealPage, outpaced inflation in the years leading up to the pandemic. In 2020, as rents declined, inflation dipped to 1.2%. When layering on expense growth during that time, we see that rents and expenses grew in tandem leading up to 2020. As is typical in a recession, expense growth dipped but outpaced rent growth. During 2021, rent growth rebounded while expense growth increased, but was just 60 bps higher than in 2020. Looking forward to 2022, both inflation and rent growth are expected to moderate, but rent growth is expected to increase and outpace inflation for most metros. Overall, the tremendous rent growth seen in 2021 would provide a cushion if expenses rise significantly in 2022.

[3] Data from Freddie Mac Multifamily securitized loans with data going back to 2017. To reduce noise from outliers, top and bottom fifth percentile of observations are removed. The rent growth data shown is sourced from RealPage and is not representative of Freddie Mac portfolio performance.

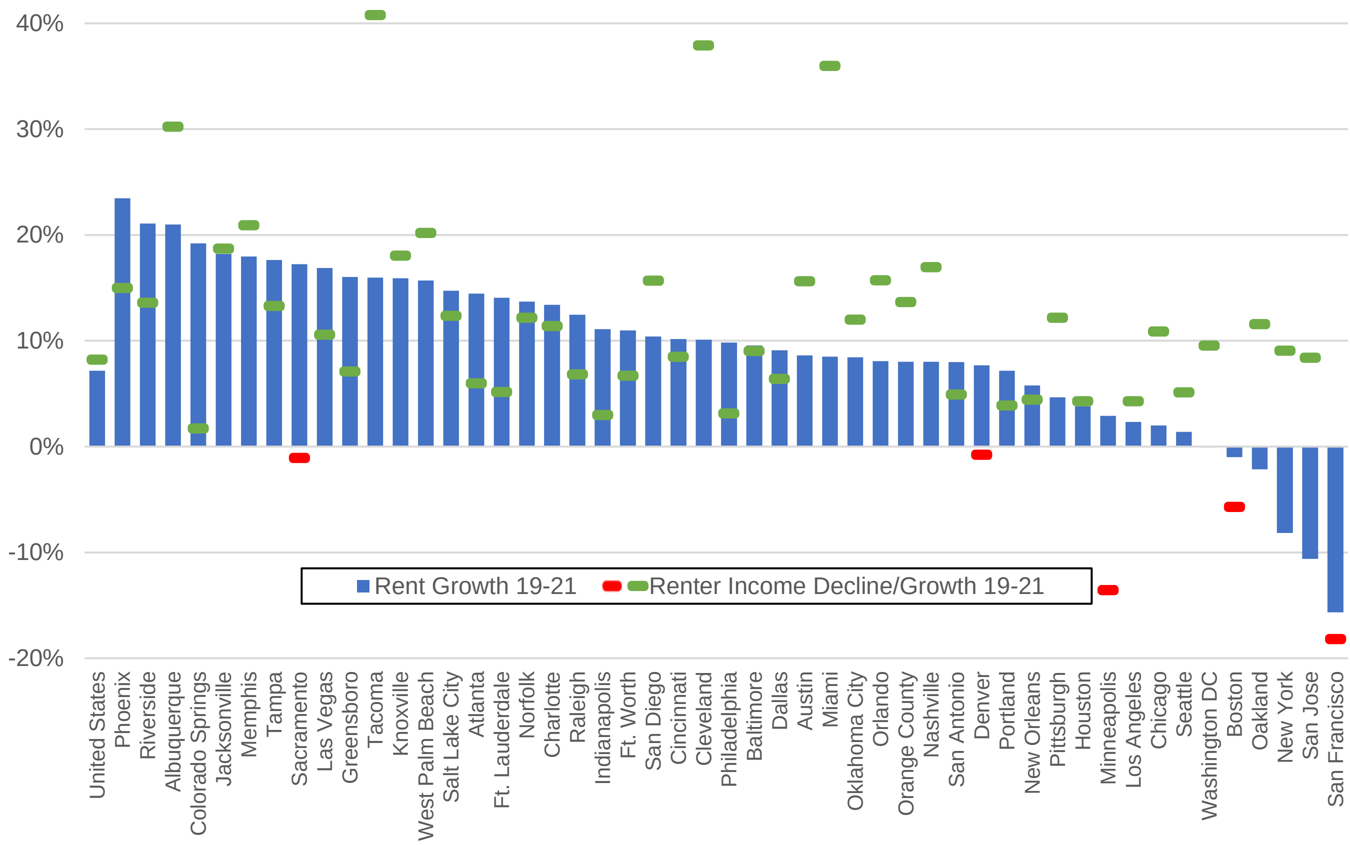
Exhibit 8: Rent Growth Compared with Inflation and Freddie Mac Portfolio Expense Growth



Sources: RealPage, Moody's Analytics, Freddie Mac

While the impact of inflation on wage growth may be more apparent in 2022, on a national level, renter income growth has been 1% higher than rent growth from 2019 through October of 2021. Just under half of the metro areas shown in Exhibit 9 saw renter incomes increase faster than rent. Many of the fast-growing Sun Belt markets have seen rent growth far exceed renter income growth, making these areas significantly less affordable. Many of the gateway markets saw steady renter income growth but flat or declining rents, making these typically unaffordable markets slightly less expensive compared with incomes. Renter income declined in five markets overall and fell meaningfully in San Francisco, Minneapolis and Boston. High income-earning renters in those markets likely either purchased homes or moved to more affordable rental markets, which helps explain some of the strong renter income growth seen in other markets.

Exhibit 9: Rent vs. Renter Income Growth from 2019 to October 2021

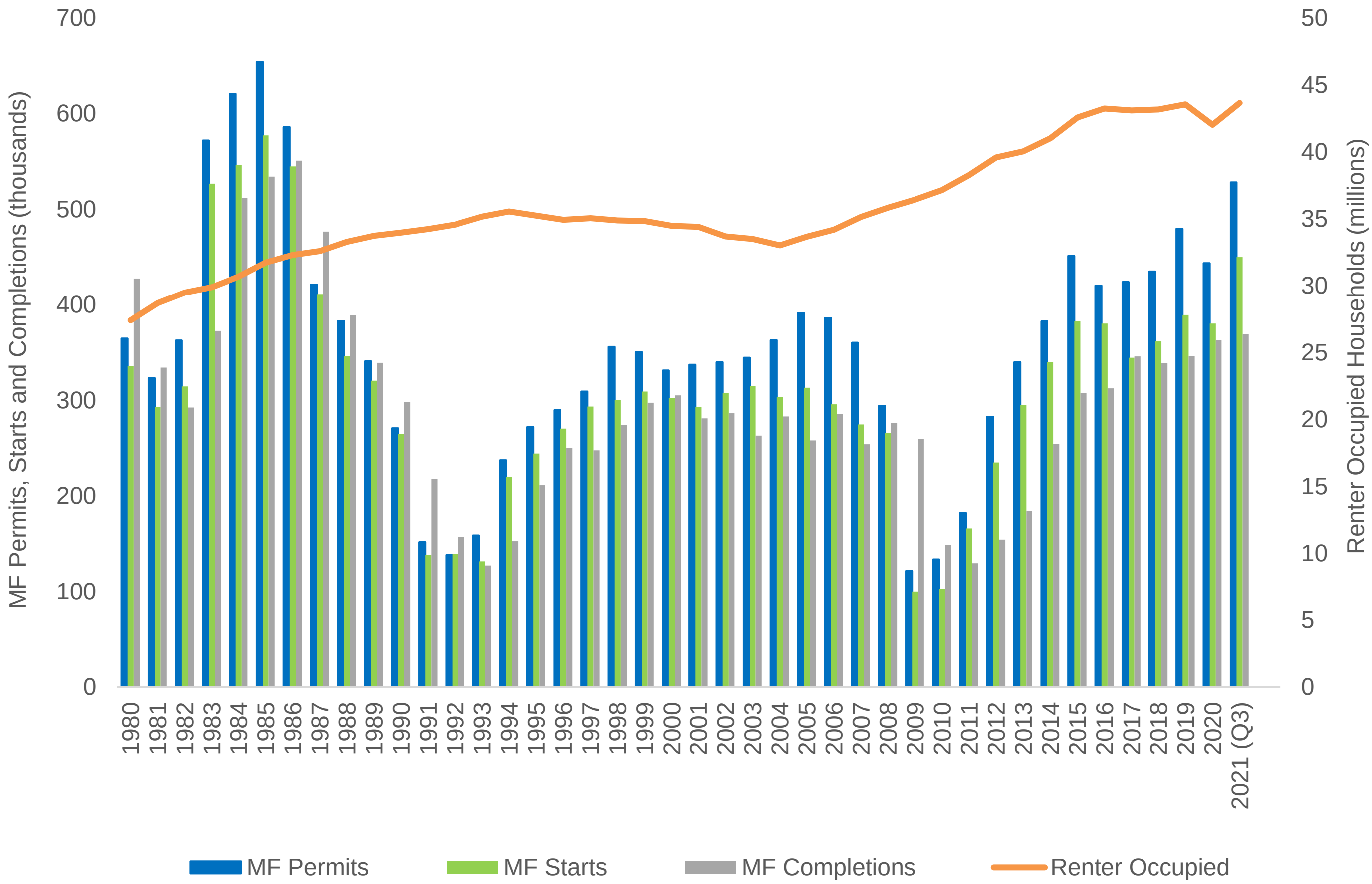


Sources: RealPage, Freddie Mac

According to data from the Census Bureau shown in Exhibit 10, completions totaled 370,000 units in the first three quarters of 2021 – up about 1.6% compared with 2020. This means that the phenomenal rental market performance seen during 2021 is likely not attributable to a lack of new multifamily supply entering the market during the pandemic. In fact, despite higher multifamily completions, the overall housing market remains undersupplied when considering all types of housing. This undersupply of housing continues to drive up rental and housing prices, given the strong demand.

The strong performance of the rental market spurred an increase in multifamily permits and starts, which are up 19.1% and 18.2%, respectively, from 2020. However, given the ongoing supply chain issues, general inflation trends and the increase in construction costs, permitting, starts and completions may moderate in the future. The number of total renter households dipped by more than 1.5 million during the height of the pandemic in 2020 to just over 42 million. We saw a strong rebound in the first three quarters of 2021 with total renter households having increased by more than 1.6 million, which is above the pre-pandemic level.

Exhibit 10: Multifamily Permits, Starts and Completions (5+ Units, thousands)

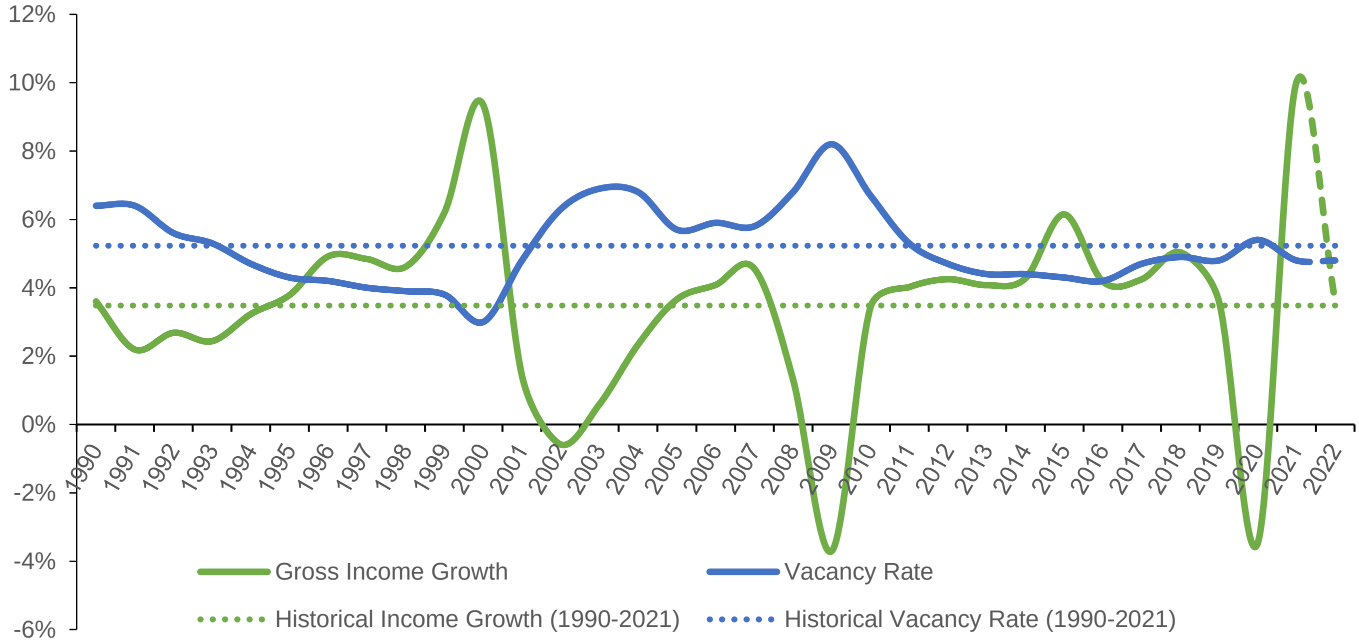


Sources: Freddie Mac, Census Bureau, Moody's Analytics

Projected Multifamily Market Conditions

The strength in the apartment market seen in 2021 is expected to moderate some into 2022 but remain above historical averages. As reported by Reis, rent growth for 2021 is projected to total near a record-breaking 10%, while the vacancy rate is expected to fall 50-60 bps during the year to 4.8%. In 2022, we expect the vacancy rate to remain flat at 4.8% and total income growth of 3.6%. There are some risks associated with this forecast: the new Omicron variant (as well as any future emerging variants) of the coronavirus may slow economic growth, and there are some fears that significant inflation may derail the strong economic growth expected. Nevertheless, the overall expectations are positive for both the economy and the multifamily apartment market in 2022.

Exhibit 11: Vacancy Rate and Gross Income Growth, History and Forecast



Sources: Reis for historic data and projections for year-end 2021 as of 3Q 2021, Freddie Mac projections for 2022 represented by the dashed lines

Multifamily Markets Analysis

The migration changes initially brought about by the pandemic appear to be continuing. New trends, however, are also emerging. During the early days of the pandemic, many residents fled expensive, densely populated, coastal urban city centers for less expensive and less dense suburban locations. The demand for lower-cost living continues to reshape the demand seen in markets across the nation. In 2021, many of these large coastal markets have rebounded, but according to data from Yardi, these urban cores are being populated by renters who are 10 years younger on average than those who left. Many young professionals now have the flexibility to work remotely, which doesn't necessarily mean wide, green pastures, but provides the ability to live in a different city than where their job is anchored.

For 2022, we expect the vacancy rate to improve in more than 40% of the markets we cover, while it is projected to remain unchanged or increase in a little under 60% of the markets. Generally speaking, in 2022, gateway and some Rust Belt markets are expected to see improving vacancy rates. The largest projected drops in vacancy are concentrated in the Northeast and Mid-Atlantic, such as Washington, D.C. (core) and Boston, where vacancy rates are expected to decline 160 and 130 bps, respectively.

We expect rent growth to be positive in all 74 markets we cover. Markets with the highest projected rent growth for 2022 include Phoenix at 8.2%, Tampa at 7.7%, Las Vegas at 7.4% and Tucson at 7.1%. On the flip side, the weakest rent growth is expected in the suburbs of New York City and in Milwaukee. Even then, these metro areas are still expecting to see a modest growth rate of 2%-2.5%.

Over the past year, several metro areas have seen extremely high rent growth – upward of 20%. To better understand this, we look at three markets – Las Vegas, Phoenix and Riverside, California – where rent growth has been exceptionally strong, ranging from 18% to 26%, which is well above the national average. For each market from first through third quarter of 2021, we examined the following criteria:

- The supply in relation to demand compared with the national average
- Occupancy levels compared with each market's historic level
- Rent growth compared with the national average
- Employment growth since February 2020 compared with the U.S.
- Rent collections compared with pre-pandemic levels, as well as the national average

All three markets have very tight occupancy levels – above 97% – which is above the national level and their respective historic averages.

Employment growth varies across these metros; Phoenix is about 1.5% above the pre-pandemic level – one of the strongest performances among large metro areas. Meanwhile, Riverside is still 2.8% below its pre-pandemic employment level, but that is better than the national average decline of -3.2%. Las Vegas is another story altogether. The tourism-dependent economy has not rebounded nearly as well as these other markets or in comparison with the national average. Total employment is down 7.4% from February 2020, and since May of 2021, only about 10,000 jobs have been added.

By comparison, rent collections in Phoenix have held up very well during the pandemic, and during the third quarter of 2021, were only one percentage point below the 2019 level. Collections in Riverside and Las Vegas were down more than 4% percentage points compared with pre-pandemic levels. This is well above the national average of 2.2 percentage points.

Overall, the story is not the same for all three markets. Underlying drivers in Phoenix and Riverside are supportive of strong rental market conditions. In Las Vegas, job growth has not been the driver of strong performance, but there continues to be strong demand and limited new supply to support the rapidly growing metro area.

In 2022, the 10 markets projected to outperform are generally secondary and tertiary Sun Belt markets that are concentrated in the West and Florida. In a change from 2021, the bottom 10 markets by projected gross income are no longer urban gateway markets. The bottom 10 markets are now located in the Midwest and the Northeast sections of the country.

Exhibit 12: Top and Bottom 10 Metros by Gross Income Growth for 2022

Metropolitan Area Top 10	2022 Annualized Growth in Gross Income	2022 Vacancy Rate	Metropolitan Area Bottom 10	2022 Annualized Growth in Gross Income	2022 Vacancy Rate
Phoenix	7.6%	4.6%	Omaha	1.7%	5.3%
Las Vegas	7.0%	3.4%	Buffalo	2.2%	2.7%
Tampa	6.9%	4.3%	New York Outer*	2.2%	4.6%
Tucson	6.5%	4.0%	Nashville	2.2%	5.8%
Albuquerque	6.2%	3.3%	Central New Jersey	2.3%	2.6%
Atlanta	5.9%	5.0%	Louisville	2.3%	5.8%
Sacramento	5.8%	3.1%	Little Rock	2.4%	5.5%
Riverside	5.7%	3.0%	Milwaukee	2.4%	3.9%
West Palm Beach	5.5%	4.8%	Syracuse	2.7%	3.0%
Fort Lauderdale	5.2%	4.9%	Long Island	2.7%	3.5%
United States	3.6%	4.8%			

Sources: Reis, RealPage, Freddie Mac
Note: New York Outer is comprised mostly of northern New Jersey and New York City Metro Area counties that are not part of the five boroughs or Long Island.

The top 10 metro areas are made up primarily of the high-growth Sun Belt markets and lower-priced alternatives to gateway markets. Only three of the markets in the top 10 are expected to have a decrease in vacancy rates in 2021. All of these are expected to see vacancy at 5% or less in 2022 and most of these markets are operating at extremely low vacancy rates, which are well below their historic norms. In fact, even with some increase in vacancy rates, the tight levels will allow for increased rent growth. Growth among the top 10 markets is quite strong, with each market expected to see gross income growth in excess of 5% in 2022, and three markets expected to approach or exceed 7% income growth. Given the tight conditions in these markets, we believe they will see further rent growth.

A common theme for most of the bottom 10 metro areas is the elevated levels of new deliveries without sufficient demand to meet new supply. Many of these markets are found in the Northeast and Midwest of the country, both of which are facing an aging population and experiencing outmigration. Three of the bottom 10 markets are located near New York City, which is intuitive because the pandemic impact there has been meaningful since the onset of COVID-19.

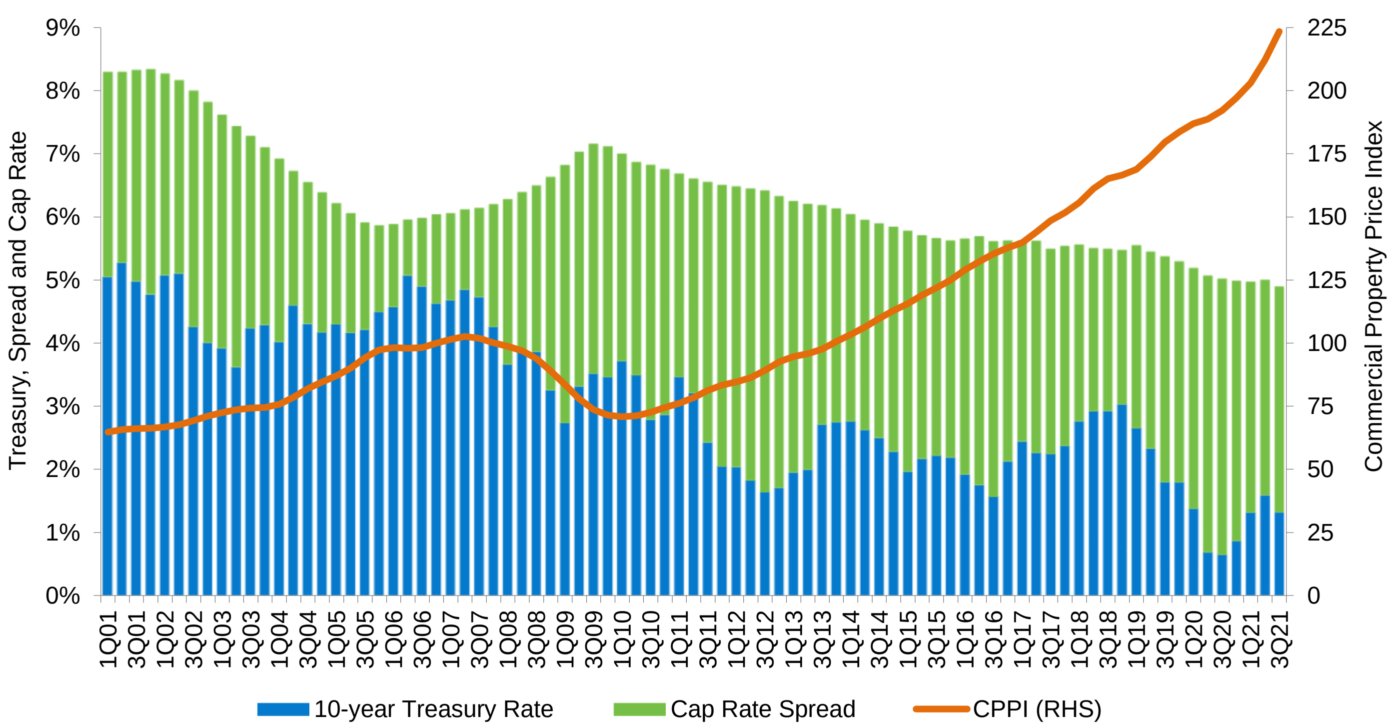
Multifamily Sales and Mortgage Origination Market

Multifamily investment sales volume has been record-breaking during 2021. During the third quarter, investment volume reached an all-time quarterly high of nearly $79 billion – nearly triple the third quarter 2020 level and 60% above third quarter 2019's level, according to Real Capital Analytics (RCA). In just the first three quarters of 2021, investment sales volume totaled $179 billion. Prior to that, the highest annual investment sales volume occurred in 2019, which was $193 billion for the entire year, indicating that Q4 2021 will push this year to a record high.

Toward the end of December, the 10-Year Treasury yield has generally hovered between 1.4% and 1.5%. RCA reported cap rates at 4.7%, which is down 40 bps from third quarter 2020 and the lowest level on record, as shown in Exhibit 13. The 4.7% cap rate indicates a cap rate spread of about 360 bps, higher than the average of 320 bps going back to 2001. In 2022, we expect to see interest rates increase and cap rates to remain steady or increase slightly, which may offset some of the recent strong multifamily market performance.

Over the past year, the multifamily Commercial Property Price Index (CPPI) as reported by RCA, has seen exceptional growth nationally, up 16.3% YoY and 5.3% during Q3 2021. We anticipate price appreciation to continue into 2022. The long-term fundamentals and stability of the multifamily market, as well as the demographics that feed it, will continue to create strong demand from investors for multifamily assets.

Exhibit 13: Multifamily Price Index, Cap Rate Spread and Treasury Rate

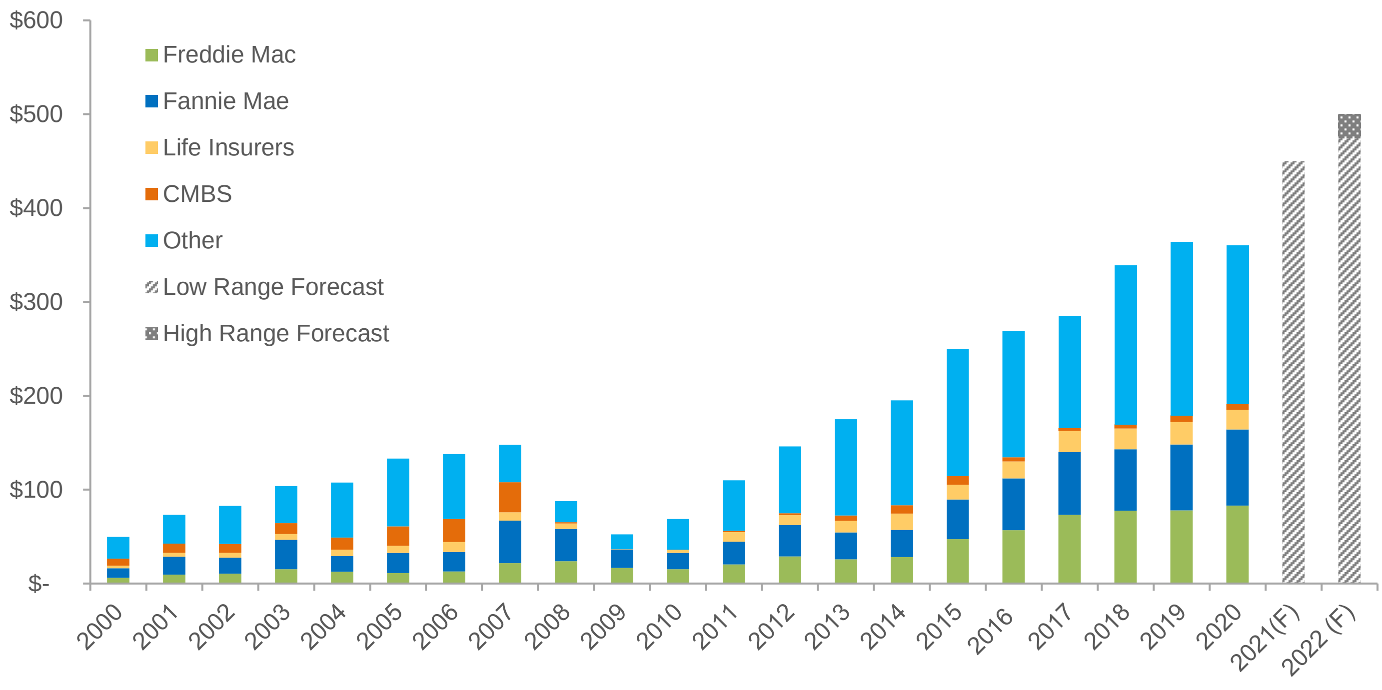


Sources: Freddie Mac, Real Capital Analytics CPPI, Federal Reserve Board, Moody's Analytics

Origination Market Forecast

Total origination volume for 2020 came in higher than anticipated, bolstered by the strength in the multifamily market and strong demand for multifamily assets. Volume in 2020 was $360 billion according to the Mortgage Bankers Association. The robust growth seen in multifamily fundamentals and property price growth will fuel the originations market upward of 25% to $450 billion in 2021. Looking forward to 2022, we expect growth to continue but at a slower rate – up 5%-10% to $475 billion-$500 billion. Despite more modest growth, these forecasts indicate a very strong year for originations and record-setting volume in 2021 and 2022.

Exhibit 14: Multifamily New Purchase and Guarantee Volume ($ Billions)



Sources: Mortgage Bankers Association, Freddie Mac projections
Note: 2021 and 2022 projections of $450 billion and $475 billion to $500 billion, respectively, are by Freddie Mac as of December 2021.

Conclusion

The strong economic conditions, along with unprecedented levels of demand for multifamily housing have combined to create robust apartment market conditions in 2021. While there are still uncertainties in the market, such as increasing inflation or more transmissible variants of the COVID-19 virus that could slow economic conditions, the multifamily apartment market is expected to be on solid ground in the short term.

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