New Multifamily Supply Exceeds Strong Demand

▲ 5.4%
Vacancy Rate

▲ 140,900
Completions (units)

► 84,800
Net Absorption (units)

▼ +0.4%
Y-o-Y Rent Growth Rate

▼ $25.7 B
Investment Volume

Note: Arrows indicate change from previous quarter.

Executive Summary

– The overall multifamily vacancy rate increased by 20 basis points (bps) quarter-over-quarter to 5.4%. As the market absorbs a wave of new supply throughout 2024, the vacancy rate should increase slightly over the next few quarters before returning to its long-term average of 5.0%.

– Construction completions of 140,900 units in Q4 brought the annual total to 416,500—the highest amount since CBRE began tracking the market in 1996. Fewer construction starts in recent quarters will lower deliveries in 2025 and beyond.

– Net absorption was essentially unchanged quarter-over-quarter at 84,800 units, which was more than four times the pre-pandemic Q4 average.

– Average monthly rent fell by 1.2% quarter-over-quarter in Q4 and was only 0.4% higher than a year ago at $2,166. Average rent growth likely will remain relatively flat over the short term before increasing slightly by mid-2024.

– Q4 multifamily investment volume of $25.7 billion in Q4 brought the annual total to $117.5 billion, down by 60% from 2022. Nevertheless, the sector maintained the largest share of total commercial real estate investment volume at 32%.

Figure 1
New construction exceeds demand

- Net absorption was essentially unchanged quarter-over-quarter at 84,800 units—the second highest Q4 total on record and more than four times the pre-pandemic Q4 average.
- Annual absorption of 252,000 units was a big improvement from the 4,800 units of negative net absorption in 2022. Nevertheless, demand didn't keep pace with record new supply for the year.
- Construction completions of 140,800 units in Q4 boosted the annual total by 20% year-over-year to a record 416,500 units. Fewer construction starts in recent quarters will lower the number of new deliveries in 2025 and beyond.

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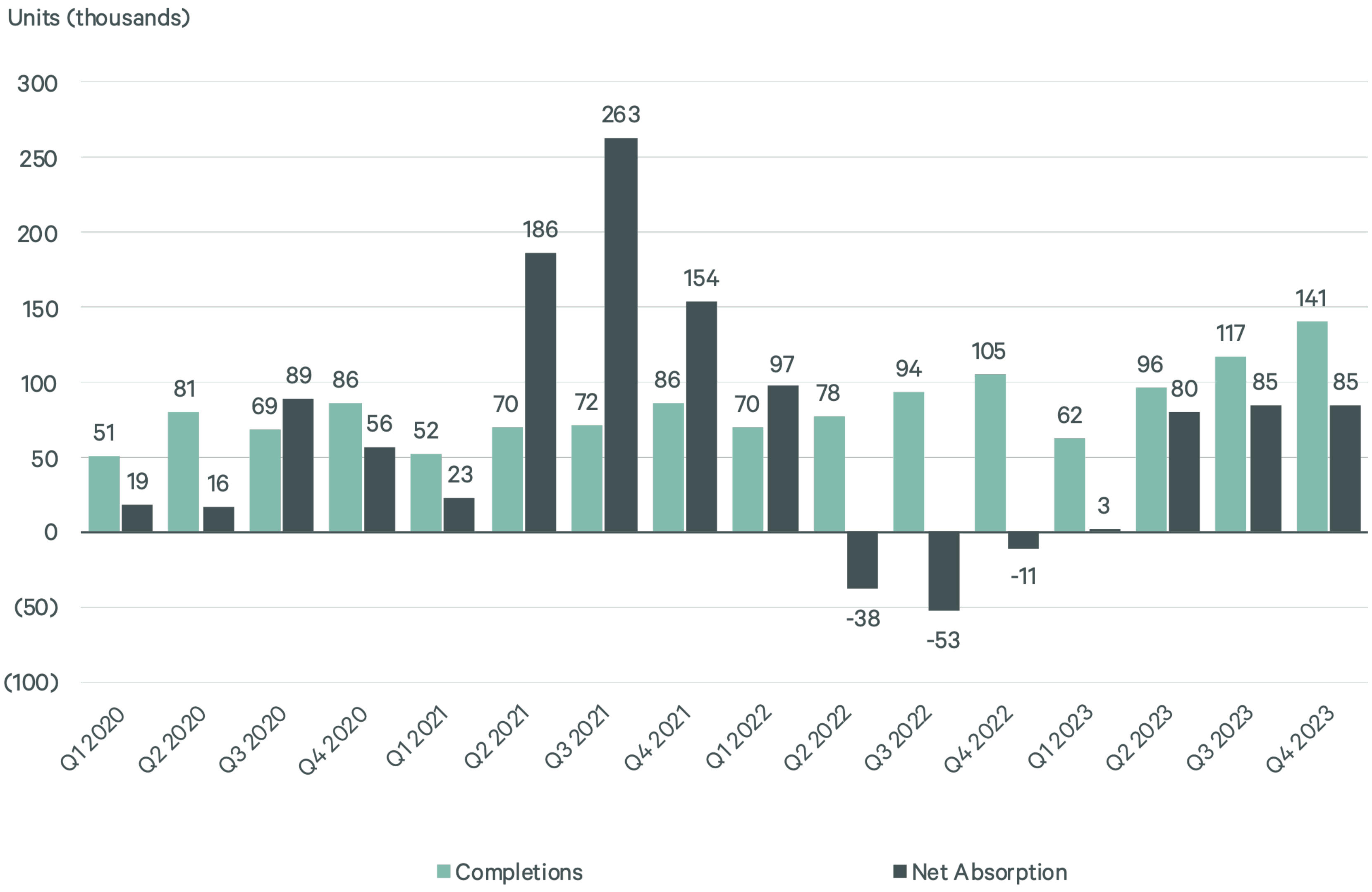
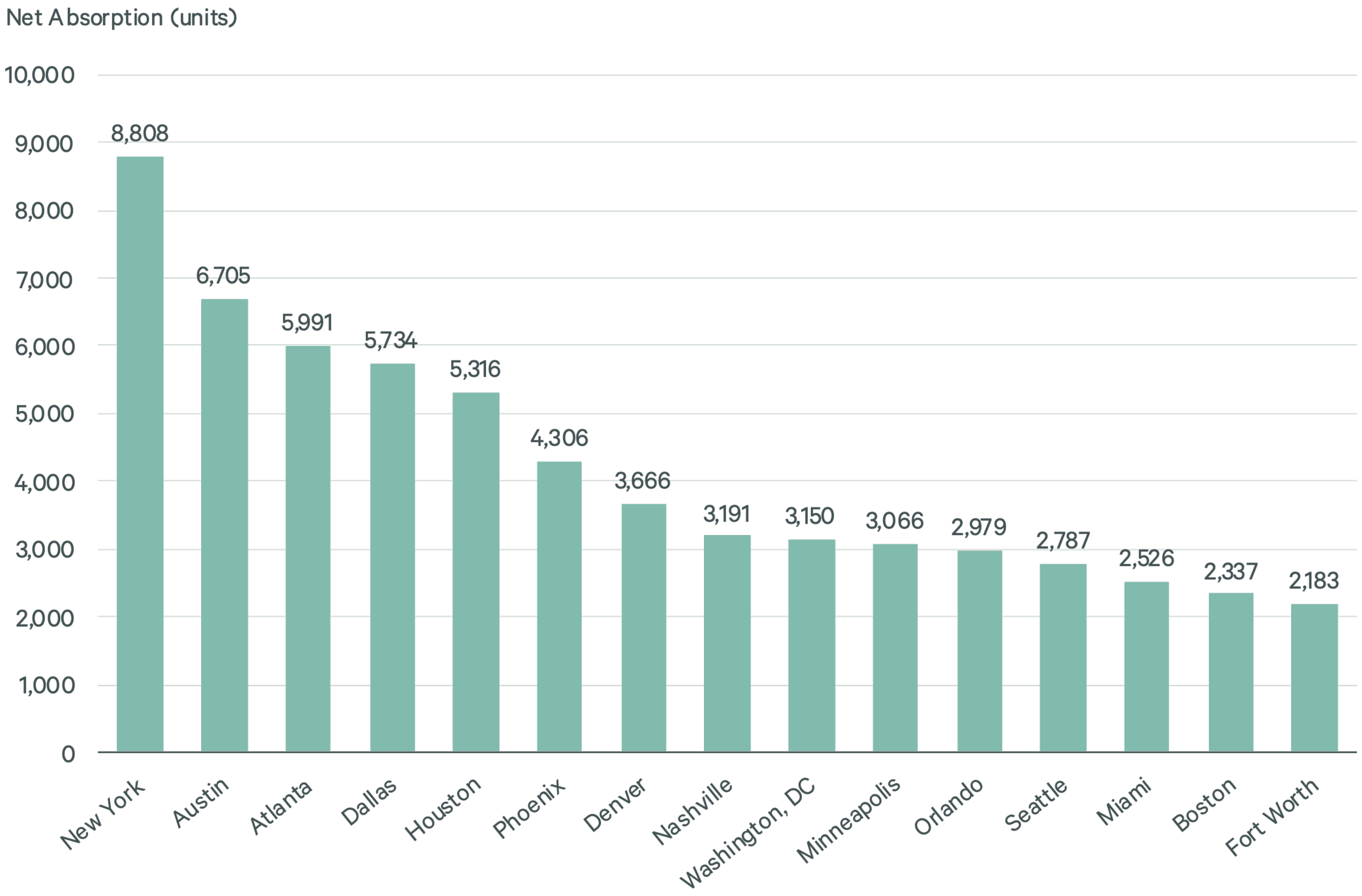


Source: CBRE Research, CBRE Econometric Advisors, Q4 2023. Based on the 63 markets that comprise CBRE EA's Sum of Markets.

Figure 2
Demand maintains momentum in Q4

- Fifty-six of the 69 markets tracked by CBRE recorded positive net absorption in Q4, led by New York (8,800 units), Austin (6,700) and Atlanta (6,000). Of the 13 markets with negative absorption in Q4, seven were net positive for the year.
- Net absorption increased in 32 markets quarter-over-quarter. Typically, the fourth quarter has the weakest level of seasonal demand throughout the year, while Q2 and Q3 have the strongest.
- Sixty-two markets recorded positive net absorption for the year, led by New York (19,000 units), Austin (14,600) and Houston (14,400). New York and Austin led the nation in net absorption in 2022 as well, with Austin nearly doubling its total in 2023.



Source: CBRE Research, CBRE Econometric Advisors, Q4 2023.

Figure 3
Top markets for new supply drive national absorption in 2023

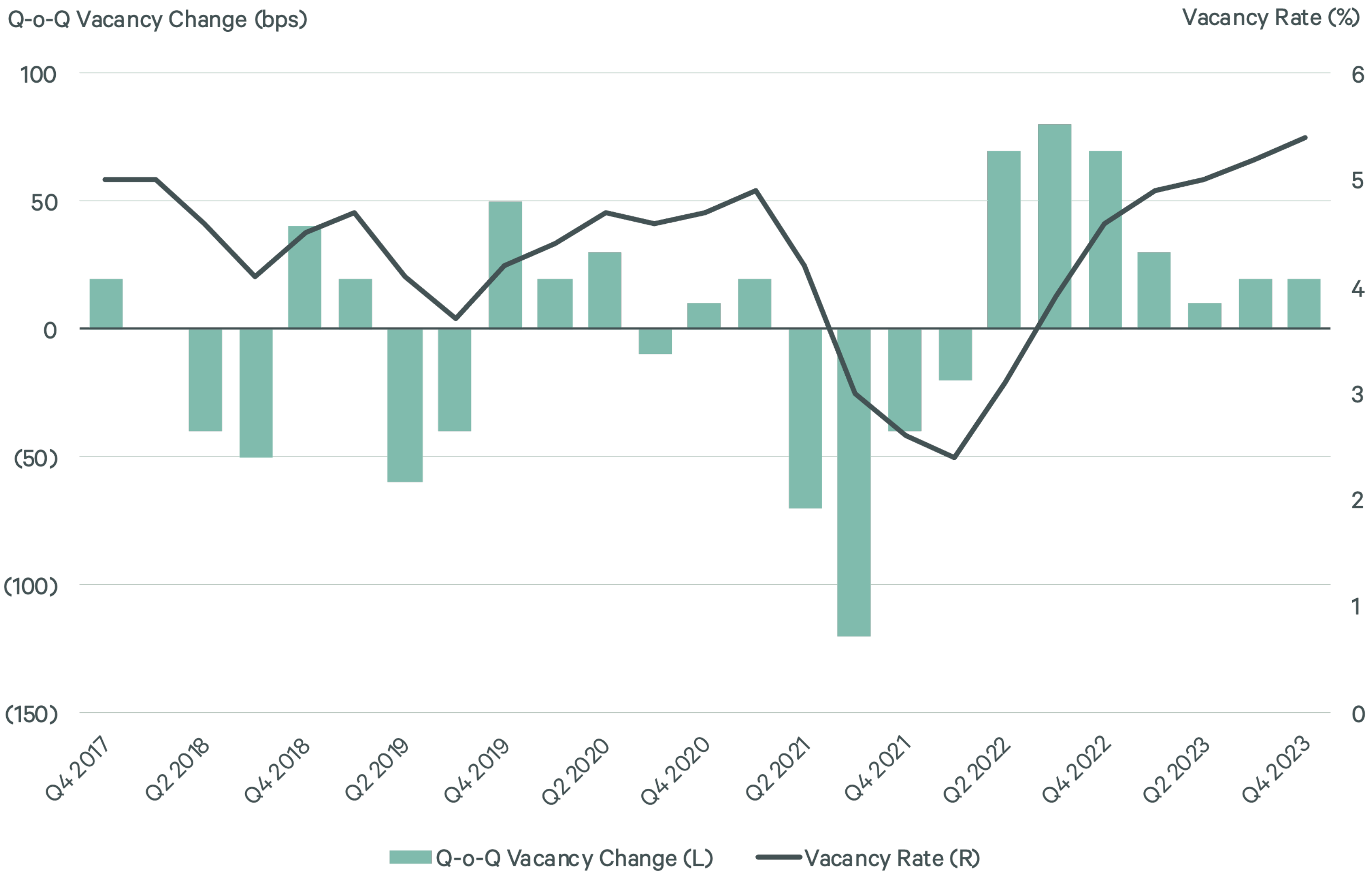
- Of the 20 leading markets for new supply in 2023, 11 (Dallas, Austin, Atlanta, Orlando, Phoenix, Denver, Minneapolis, Nashville, Charlotte, Fort Worth and San Antonio) had a completions-to-inventory ratio of more than 3.5%.
- All of the top 20 markets for new supply had positive net absorption in Q4 and for the year. These top markets accounted for 69% of national completions and 73% of net absorption, thus keeping the overall vacancy rate in check.
- The top five markets for construction completions in 2023 (New York, Dallas, Austin, Houston and Atlanta) accounted for 27% of the national total. New York delivered 32,100 units or 8% of the national total.
- As of Q4, nearly 750,000 units were under construction, representing 4.3% of total existing inventory for the markets tracked by CBRE. New York had the most units under construction (72,700), followed by Dallas (43,700) and Austin (36,300).

		4 Quarters Ending Q4 2023		Q4 2023		As % of Inventory	
Rank*	Market	Completions	Net Absorption	Completions	Net Absorption	Completions	Net Absorption
Sum	Sum of Markets	416,500	252,000	140,900	84,800	2.5	1.5
1	New York	32,100	19,000	11,600	8,800	1.3	0.8
2	Dallas	22,100	13,300	9,200	5,700	3.7	2.2
3	Austin	20,000	14,600	9,500	6,700	7.7	5.6
4	Houston	18,500	14,400	8,000	5,300	2.8	2.2
5	Atlanta	18,200	9,600	8,400	6,000	3.9	2.0
6	Orlando	16,000	12,000	4,300	3,000	6.7	5.1
7	Phoenix	15,400	11,000	5,300	4,300	4.0	2.8
8	Washington, DC	15,000	11,900	5,300	3,200	2.3	1.9
9	Denver	14,100	11,500	5,200	3,700	4.0	3.3
10	Los Angeles	14,000	2,900	2,900	1,500	1.2	0.3
11	Seattle	13,800	11,100	4,300	2,800	3.3	2.6
12	Minneapolis	13,400	11,900	4,500	3,100	4.2	3.7
13	Nashville	11,800	9,100	4,400	3,200	6.9	5.4
14	Miami	9,800	5,700	2,700	2,500	3.1	1.8
15	Charlotte	9,200	6,400	2,400	1,000	4.9	3.4
16	Boston	9,200	5,700	3,500	2,300	1.7	1.1
17	Chicago	8,800	6,400	3,000	800	1.1	0.8
18	Fort Worth	8,500	5,600	3,500	2,200	4.5	3.0
19	Philadelphia	8,200	5,600	2,800	2,000	2.5	1.7
20	San Antonio	7,900	3,700	2,200	800	3.8	1.8

*Rank by Annual Completions.
All ratios based on unrounded figures of four-quarter totals.
Source: CBRE Research, CBRE Econometric Advisors, Q4 2023.

Figure 4
Record new supply pushes vacancy rate to 5.4%

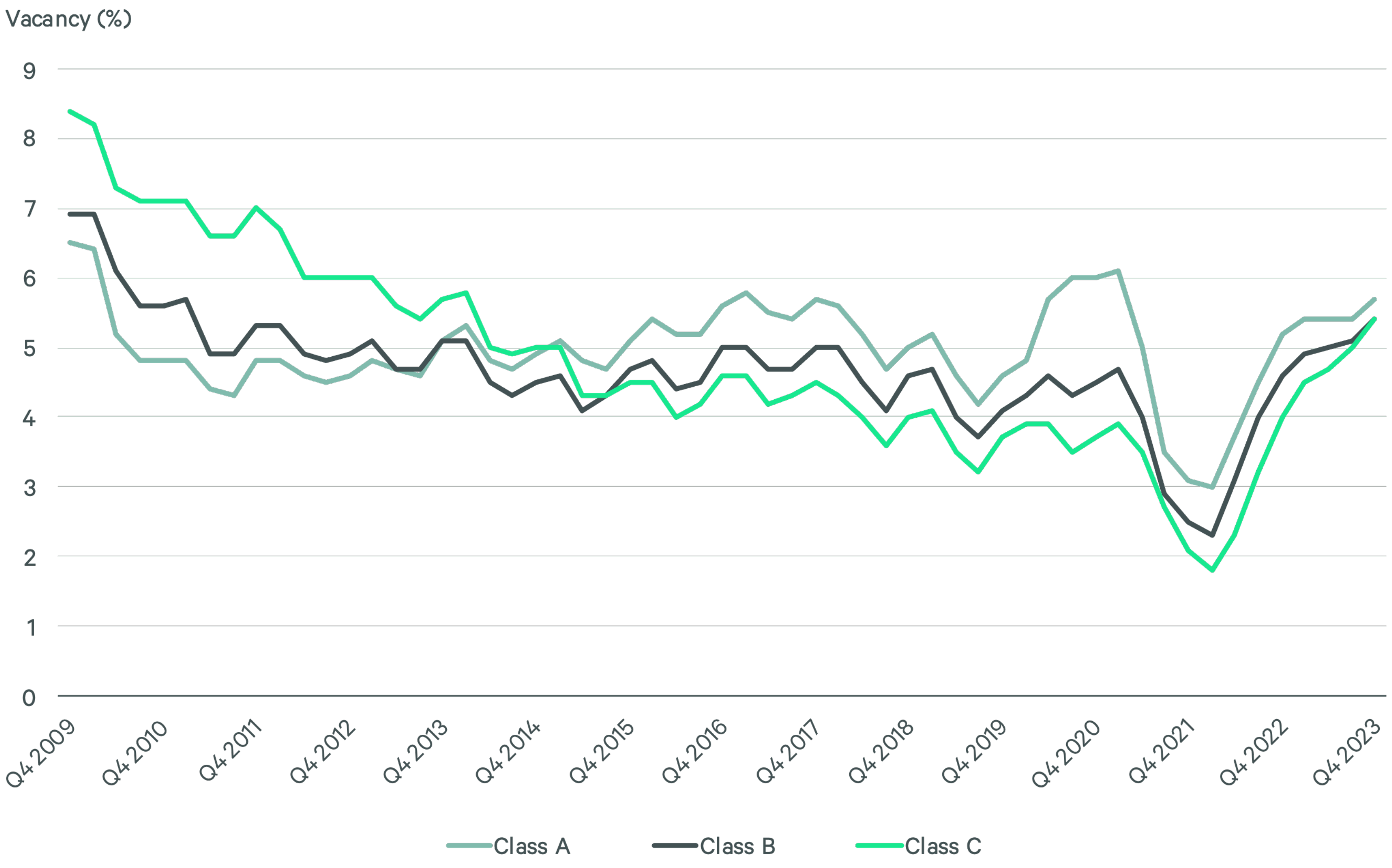
- The overall multifamily vacancy rate increased by 20 bps quarter-over-quarter to 5.4%. As the market absorbs a wave of new supply throughout 2024, the vacancy rate should increase slightly over the next few quarters before returning to its long-term average of 5.0%.
- Most markets' vacancy rates now exceed their long-term averages due to significant construction completions over the past several quarters. This has caused a deceleration in rent growth.
- At 2.8%, Madison, WI had the lowest Q4 vacancy rate of all markets tracked by CBRE. Among larger markets, New York had the lowest vacancy rate of 3.1%.
- Only five of the 69 markets tracked by CBRE had vacancy rates of between 3% and 4% (down from eight in Q3), while 15 had vacancy rates of between 4% and 5% (the same as Q3). Forty-nine markets had vacancy rates of 5% or more, up from three markets in Q3.



Based on the 63 markets that comprise CBRE EA's Sum of Markets.
Source: CBRE Research, CBRE Econometric Advisors, Q4 2023.

Figure 5
Class C vacancy rate increases most

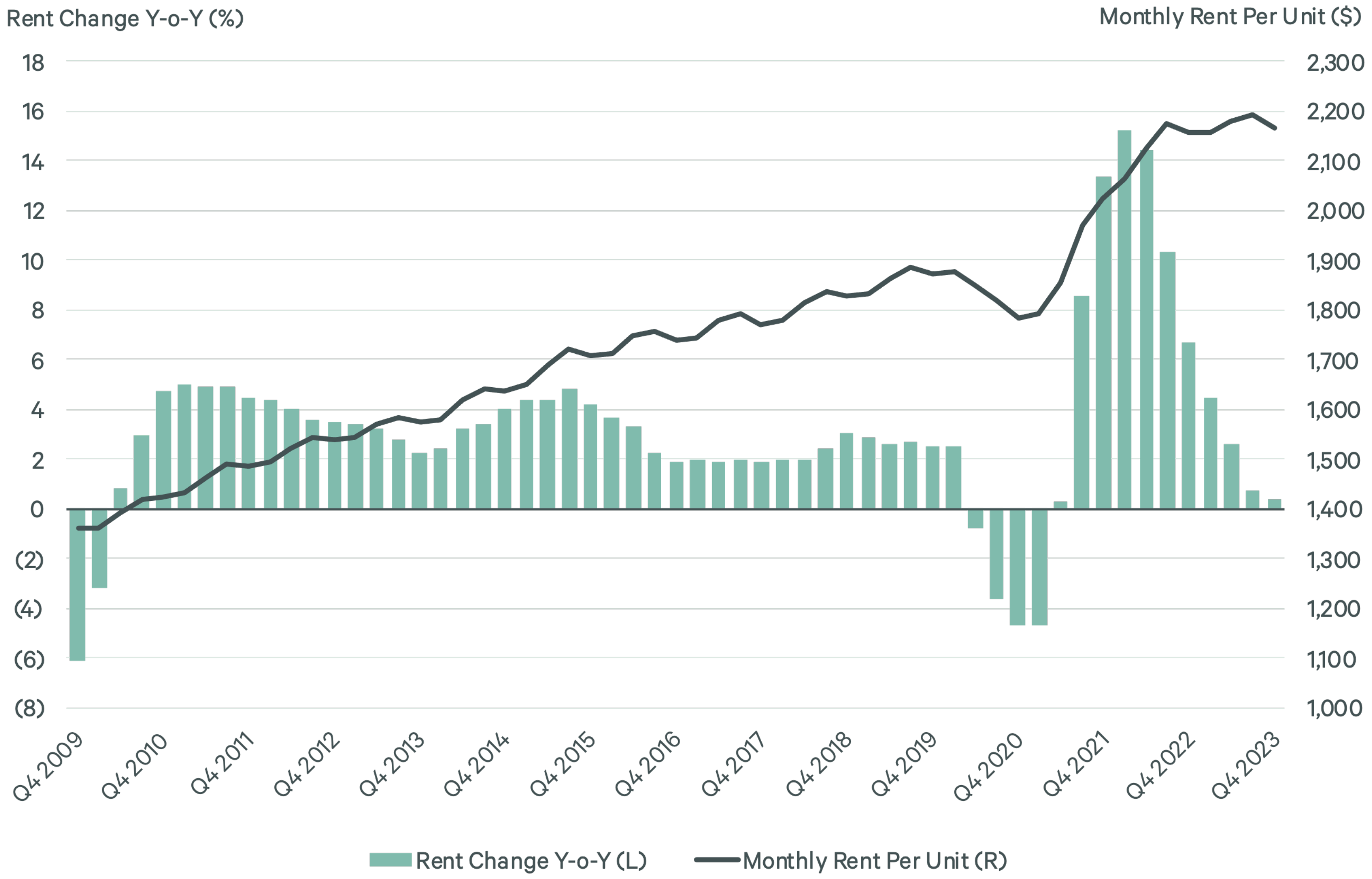
- The Class C vacancy rate increased by 40 bps in Q4 to 5.4%, while the Class B rate rose by 30 bps to 5.4% and the Class A rate by 30 bps to 5.7%.
- With Class C rent growth currently outpacing both that of Class A and B assets, more renters are upgrading from Class C units. This has resulted in the lowest vacancy spread between the three classes since 2003 even though there have been record Class A construction deliveries.
- Vacancy rates for all three classes were 90 to 150 bps above their Q1 2020 levels. Class A and B vacancy rates were 75 and 70 bps above their 2011-to-2019 average, respectively, while the Class C vacancy rate was 40 bps higher.



Source: CBRE Research, CBRE Econometric Advisors, Q4 2023.

Figure 6
Rent growth decline slows

- Average monthly rent fell by 1.2% quarter-over-quarter in Q4 and was only 0.4% higher than a year ago at $2,166. Average rent growth likely will remain relatively flat over the short term before increasing slightly by mid-2024.
- The 1.2% quarter-over-quarter decline in rent is on par with typical seasonality. The pre-pandemic Q4 quarter-over-quarter rent decline averaged 0.9%.
- Many markets recorded negative rent growth in Q4, which is expected to continue in the short term until the overall market absorbs excess new supply.



Source: CBRE Research, CBRE Econometric Advisors, Q4 2023. Based on the 63 markets that comprise CBRE EA's Sum of Markets.

Figure 7
All Northeast & Midwest markets had positive rent growth

- The Northeast and Midwest were the only two regions with all markets having positive year-over-year rent growth in Q4. The Midwest led with 2.7% (down from 2.9% in Q3), followed by the Northeast with 2.4% (down from 2.9%). The Southeast, South Central, Mountain and Pacific regions all had negative average rent growth in Q4.
- While the South Central and Southeast regions saw bigger year-over-year declines in rent vs. Q3, the Pacific and Mountain regions had lower negative growth.
- Twenty-nine of the 69 markets tracked by CBRE had negative year-over-year rent growth in Q4, up slightly from 25 in Q3. Ten of those 29 markets had negative but improving rent growth in Q4, while all but one of the other 19 markets saw greater but slowing rent growth declines.
- Madison, WI had the biggest decline of 320 bps in its rent growth rate in Q4 to 5.5%. Honolulu had the greatest increase of 170 bps, followed by Orange County (+140 bps) and San Francisco (+130 bps).
- Austin, Jacksonville and Atlanta had the most negative rent growth in Q4, albeit at a lesser rate of decline than in Q3.

Rank	Market	Percentage Rent Change Y-o-Y
	ALL MARKET	
	Sum of Markets	**0.4**
	PACIFIC	
	Region	**-0.6**
1	Orange County	2.6
2	Ventura	2.5
3	Honolulu	1.7
4	San Diego	0.8
5	Sacramento	-0.7
6	San Francisco	-0.8
7	Seattle	-0.9
8	Inland Empire	-0.9
9	Los Angeles	-0.9
10	San Jose	-1.6
11	Oakland	-1.8
12	Portland	-3.1
	MOUNTAIN WEST	
	Region	**-1.8**
1	Tucson	0.8
2	Denver	0.8
3	Albuquerque	0.4
4	Colorado Springs	-2.4
5	Las Vegas	-3.1
6	Salt Lake City	-3.4
7	Phoenix	-4.4

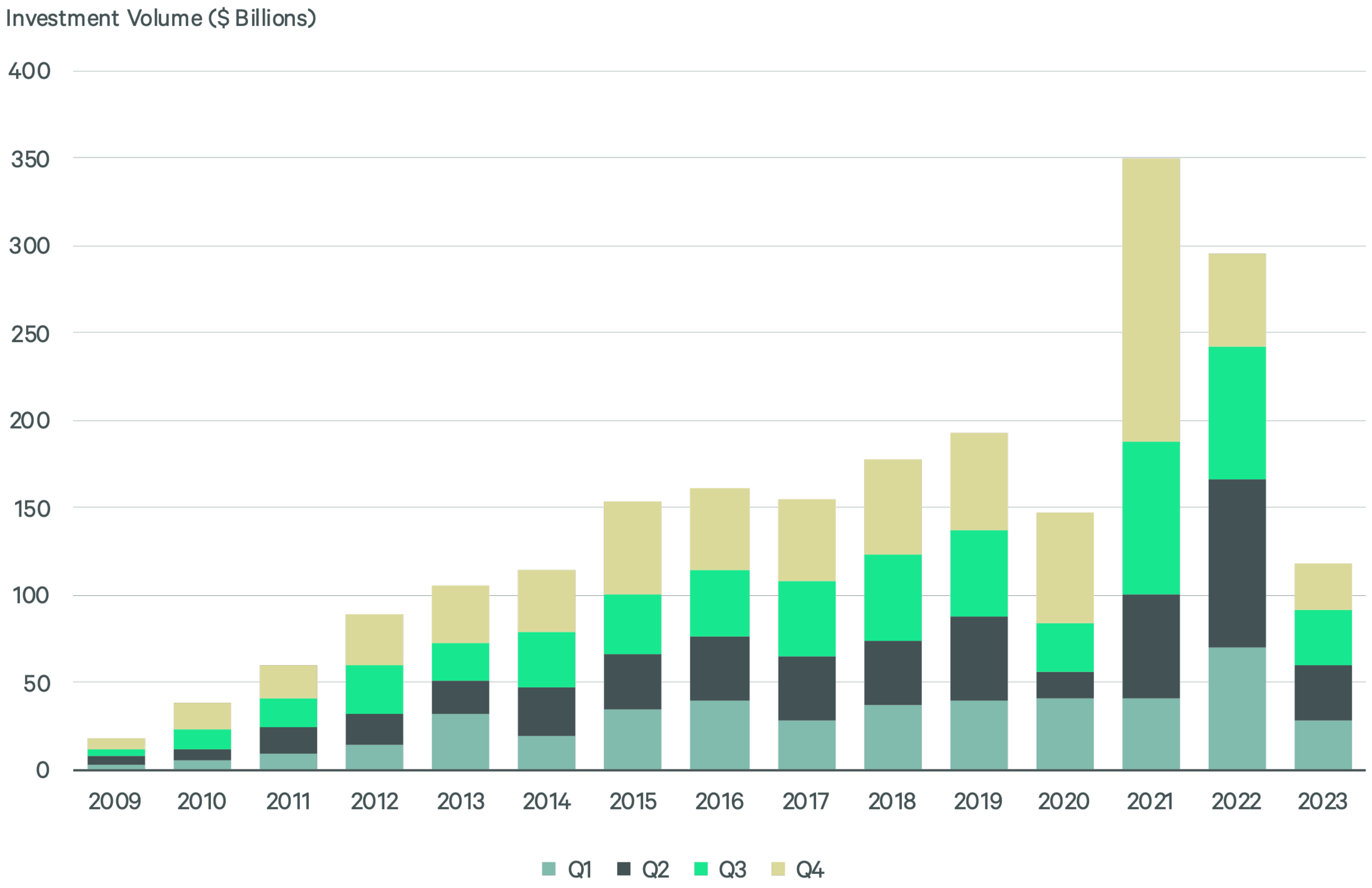
Rank	Market	Percentage Rent Change Y-o-Y
	SOUTH CENTRAL	
	Region	**-1.4**
1	Tulsa	3.4
2	Oklahoma City	1.9
3	El Paso	1.4
4	Houston	0.1
5	Corpus Christi	-0.8
6	Dallas	-1.5
7	Ft. Worth	-1.7
8	San Antonio	-2.8
9	Austin	-5.8
	SOUTHEAST	
	Region	**-1.5**
1	Lexington	4.9
2	Louisville	3.6
3	Norfolk	1.9
4	Miami	0.7
5	Greenville	0.4
6	Memphis	0.4
7	Greensboro	0.0
8	Richmond	-0.1
9	Ft. Lauderdale	-0.3
10	Birmingham	-0.6
11	West Palm Beach	-0.6
12	Tampa	-1.6
13	Charlotte	-2.3
14	Nashville	-2.3
15	Raleigh	-3.0
16	Orlando	-4.0
17	Atlanta	-4.5
18	Jacksonville	-5.1

Rank	Market	Percentage Rent Change Y-o-Y
	MIDWEST	
	Region	**2.7**
1	Madison, WI	5.5
2	Dayton	4.0
3	Omaha	3.9
4	Chicago	3.6
5	Cincinnati	3.5
6	Milwaukee	3.3
7	Cleveland	3.1
8	Indianapolis	2.9
9	St. Louis	2.8
10	Kansas City	2.7
11	Columbus	2.4
12	Detroit	0.8
13	Minneapolis	0.5
	NORTHEAST/MID-ATLANTIC	
	Region	**2.4**
1	Providence	4.7
2	Hartford	4.3
3	Boston	3.2
4	New York	2.5
5	Washington, D.C.	2.5
6	Newark	2.2
7	Philadelphia	1.5
8	Long Island	0.9
9	Pittsburgh	0.8
10	Baltimore	0.7

Source: CBRE Research, CBRE Econometric Advisors, Q4 2023.
Based on effective "same-store" rents.

Figure 8
Lowest annual investment volume since 2014

- 2023 annual multifamily investment volume fell by 60% from 2022 to $117.5 billion, the lowest annual total since 2014.
- Q4 investment volume fell by nearly half year-over-year to $25.7 billion. Many owners remain reluctant to sell before the Fed begins lowering interest rates, most likely by May.
- The multifamily sector accounted for the largest share of total commercial real estate investment volume in Q4 (30%), as well as for the year (32%). While this was less than the 40% share in 2021 and 2022, it was in line with the pre-pandemic levels of 2018 and 2019.



Based on the 63 markets that comprise CBRE EA's Sum of Markets.
Source: CBRE Research, CBRE Econometric Advisors, MSCI Real Assets, Q4 2023.

Figure 9
Gateways most resilient investment markets in 2023

- Investment volume for the six gateway markets of New York, Boston, Chicago, Los Angeles, San Francisco and Washington, D.C. totaled $31.2 billion and accounted for 27% of total U.S. multifamily investment volume. This share is up from 21% in 2022.
- Boston (-34%) and Chicago (-40%) had the smallest year-over-year declines in investment volume, propelling them into the top 10 for the year and replacing Houston (-73%) and Orlando (-76%).
- Among the top 20 markets for 2023 investment volume, five of the 10 with the smallest declines were gateway markets. Eight of the 10 markets with the biggest declines were in the Sun Belt. Investment volume for the six gateway markets combined fell by 50%, compared with the average 64% decline for Sun Belt markets among the top 20.
- Metro New York led all markets for investment volume in 2023 with $9.81 billion, accounting for 8.3% of the U.S. total. Dallas-Ft. Worth had the biggest year-over-year drop in annual investment volume (-$11.6 billion), followed by New York with a $9.7 billion decline.

	Market	2023 Annual Investment ($B)	YoY Change (%)	% of Total	Cumulative % Total	Q4 2023 Investment ($B)	YoY Change (%)
	U.S. Total	**117.51**	**-60.1**			**25.68**	**-51.4**
1	New York Metro	9.81	-49.7	8.3	8.3	1.47	-53.3
2	Dallas-Ft. Worth	8.78	-57.0	7.5	15.8	1.75	-46.8
3	Greater Los Angeles	6.47	-57.6	5.5	21.3	1.52	-50.9
4	Atlanta	5.30	-64.6	4.5	25.8	1.38	-58.9
5	Chicago	3.98	-39.1	3.4	29.2	1.06	-53.0
6	Greater Washington D.C.	3.93	-54.4	3.3	32.6	0.60	-69.5
7	Miami-South Florida	3.91	-58.7	3.3	35.9	0.65	-60.7
8	Phoenix	3.65	-72.1	3.1	39.0	0.64	-64.6
9	Boston	3.63	-34.3	3.1	42.1	0.67	-37.9
10	Austin	3.47	-54.4	3.0	45.0	0.66	-52.1
11	San Francisco Bay Area	3.40	-48.6	2.9	47.9	0.57	-49.7
12	Houston	3.03	-73.0	2.6	50.5	0.60	-65.1
13	Denver	2.74	-48.2	2.3	52.8	0.78	-30.8
14	Seattle	2.59	-60.7	2.2	55.0	0.68	-54.0
15	San Diego	2.19	-42.4	1.9	56.9	0.68	-45.0
16	Tampa	2.16	-54.7	1.8	58.8	0.57	52.9
17	Raleigh-Durham	2.05	-58.2	1.7	60.5	0.56	-13.1
18	Orlando	2.02	-75.5	1.7	62.2	0.57	-61.4
19	Charlotte	1.98	-71.8	1.7	63.9	0.77	-42.8
20	Nashville	1.75	-71.1	1.5	65.4	0.69	-25.1

Source: CBRE Research, CBRE Econometric Advisors, MSCI Real Assets, Q4 2023.

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