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Multifamily Supply Forecast Notes

For the Q3 2023 update, the Yardi Matrix Multifamily supply forecast has been increased for 2023, 2024 and 2025, while forecast completions for the later years have been reduced marginally.

Multifamily New Supply Forecast Q3 vs. Q2

Year	3Q 2023	2Q 2023	% Change
2023	484,943	453,730	6.9%
2024	506,574	475,703	6.5%
2025	424,899	412,047	3.1%
2026	401,065	422,340	-5.0%
2027	417,378	426,252	-2.1%
2028	426,722	436,225	-2.2%

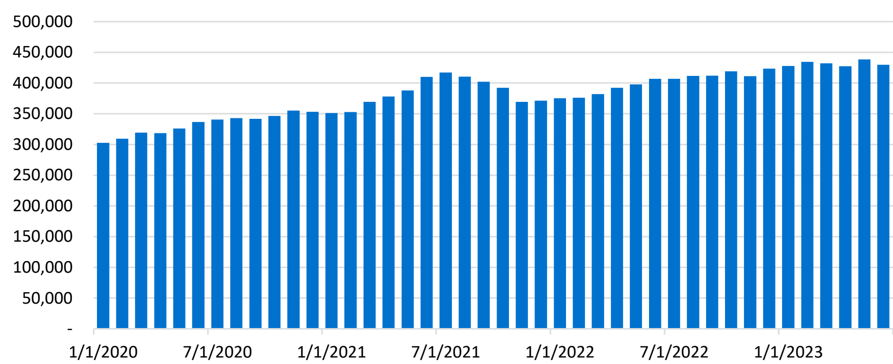
Source: Yardi Matrix

Near-Term Forecast: 2023 and 2024

The Q3 2023 supply forecast update has increased forecast completions 6.9% for 2023 and 6.5% for 2024. The near-term forecast was increased as the under-construction pipeline continues to expand, and 2023 construction starts to date have not exhibited any material signs of a slowdown.

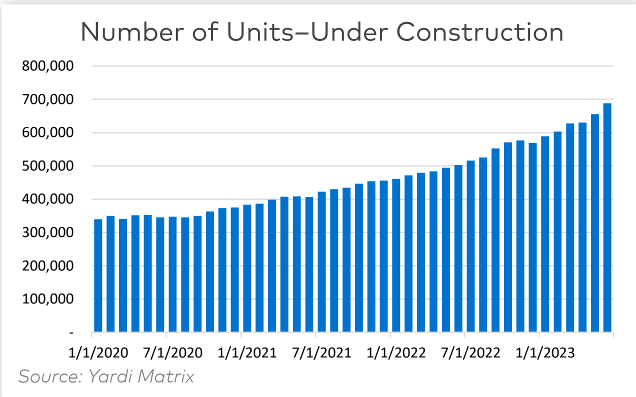
For multifamily markets tracked by Yardi Matrix on or before January 2020, there are currently 1,118,046 units in the under-construction pipeline. Of these units, 429,626 are currently in lease-up, roughly in line with the trailing 12-month average of 421,000 units. Most of these units will complete in 2023 or the first half of 2024.

Number of Units–Lease-Up



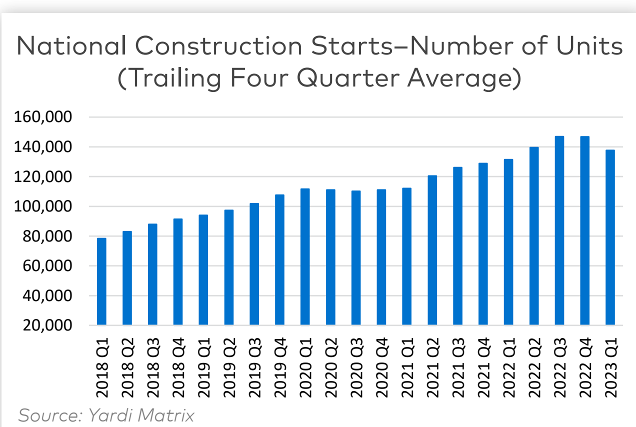
Source: Yardi Matrix

Currently, Yardi Matrix is tracking 688,420 under-construction units that are not in lease-up. This represents a 36.9% year-over-year increase and a 96.7% increase over pre-pandemic levels.



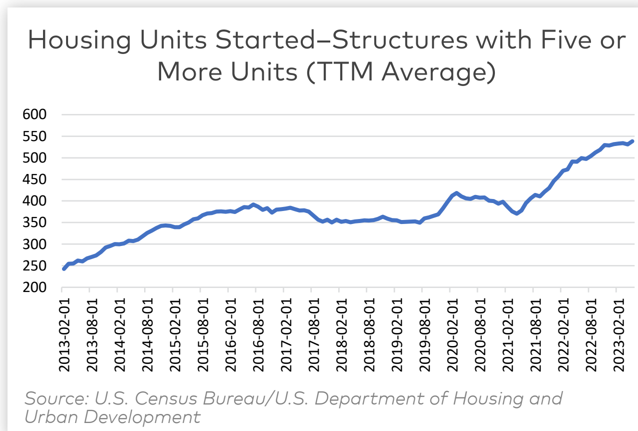
Despite tightening financial conditions, multifamily construction starts exhibited little sign of a slowdown in the first half of 2023. Yardi Matrix has so far identified 92,603 units that started construction in Q1 2023. Our data is collected with a lag, so this number will most likely increase. Based on historical patterns, Q1 2023 starts should come in around 130,000 units, close to or exceeding the 129,000 units that started in Q1 2022.

For Q1 2023, the trailing four-quarter average for construction starts stands at 137,625 units. For full-year 2022, our database shows 587,121 units started construction, compared to the 515,387 construction starts documented in 2021.

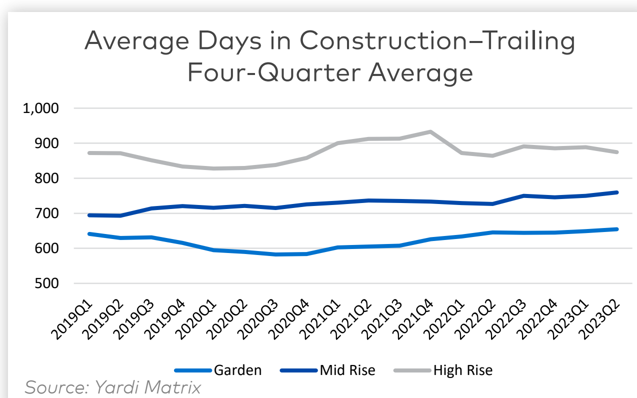


As noted above, Yardi Matrix construction start data is collected with a lag. However, broader measures of multifamily construction starts remained stable through the first half of 2023. The U.S. Census Bureau reported May 2023 seasonally adjusted, annualized construction starts in buildings with five or more units stood at 624,000, well above the trailing 12-month average of 538,000.

It is worth noting that the Census Bureau construction start data roughly tracks Yardi Matrix start data. Both series show a pickup in starts in 2019, a plateau in 2020, followed by further expansion starting in 2021.



Construction completion times remain elevated, with both garden and mid-rise days in construction at or near record levels. Elevated completion times are a contributing factor to the recent increase in under-construction inventory.



Top 15 Markets: Forecast New Supply–Number of Units

Market	2023		2024	
	Supply	% of Stock	Supply	% of Stock
Austin	24,145	8.88%	24,714	8.35%
Phoenix	18,571	5.47%	19,169	5.36%
Denver	15,677	5.08%	16,421	5.07%
Charlotte	14,275	7.05%	14,716	6.79%
Miami	13,141	8.50%	12,381	7.38%
Dallas–North	12,977	3.24%	11,179	2.71%
Houston–West	12,612	2.53%	10,659	2.09%
Raleigh–Durham	12,116	6.99%	13,804	7.45%
Orlando	11,722	4.73%	11,672	4.49%
Atlanta–Suburban	10,883	4.38%	10,100	3.90%
Tampa–St Petersburg	10,833	4.56%	11,401	4.59%
Brooklyn	9,825	6.44%	6,281	3.87%
Nashville	9,542	5.59%	10,942	6.08%
New Jersey–Northern	9,345	3.68%	12,212	4.64%
Atlanta–Urban	8,982	3.49%	9,896	3.71%

Source: Yardi Matrix

Top 15 Markets: Forecast New Supply–Percent of Stock

Market	2023		2024	
	% of Stock	Supply	% of Stock	Supply
Colorado Springs	10.71%	4,572	7.45%	3,522
Austin	8.88%	24,145	8.35%	24,714
Miami	8.50%	13,141	7.38%	12,381
Southwest Florida Coast	7.08%	5,923	6.82%	6,112
Charlotte	7.05%	14,275	6.79%	14,716
Jacksonville	7.00%	7,938	4.62%	5,603
Raleigh–Durham	6.99%	12,116	7.45%	13,804
Salt Lake City	6.73%	7,783	7.06%	8,717
Huntsville	6.47%	2,552	11.64%	4,891
Brooklyn	6.44%	9,825	3.87%	6,281
Madison	5.80%	3,083	5.55%	3,123
Nashville	5.59%	9,542	6.08%	10,942
Greenville	5.54%	3,885	4.07%	3,014
Charleston	5.50%	4,321	4.37%	3,624
Phoenix	5.47%	18,571	5.36%	19,169

Source: Yardi Matrix

Long Term: 2025 Through 2028

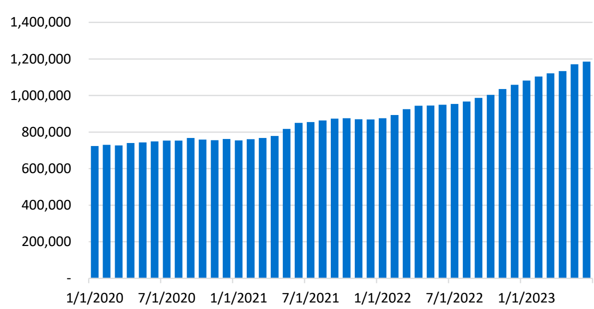
Compared to the previous quarter's forecast update, the Q3 forecast update has increased forecast completions for 2025 by 3.1% to 424,899 units. Construction starts have remained robust to start 2023, and these units will most likely complete in 2025.

Despite current economic resilience, we continue to expect a mild recession in late 2023 or early 2024 will reduce multifamily construction starts over the next two years, depressing completions in 2025 and 2026 relative to current levels, with a rebound taking hold in 2027.

Forecast completions for 2026 have been reduced by 5.0% to 401,065, while forecast 2027 and 2028 completions have been marginally reduced to 417,378 and 426,722 units, respectively.

The number of planned units in June 2023 stood at 1.19 million, a 24.7% increase over year-ago levels and a 5.6% increase over the 1.12 million units identified in March 2023.

Number of Units–Planned



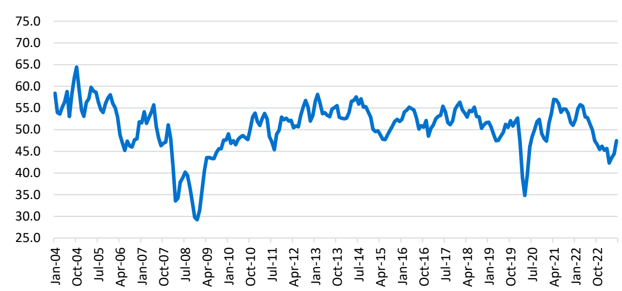
Source: Yardi Matrix

We are not yet seeing a sudden increase in the planned pipeline indicative of a material drop-off in new construction starts. This is something we anticipate happening in the second half of 2023, and we'll continue to monitor the evolution of the planned pipeline closely.

The Architectural Billing Index suggests construction starts should begin to decline in the second half of 2023. Published by the American Institute of Architects, the ABI for residential design billings dropped below 50 in August 2022. (A reading below 50 denotes billing contraction; above 50 denotes billing expansion.) It has remained below 50 for 11 months, with the preliminary June 2023 reading standing at 47.4.

Historically, changes in the ABI precede changes in construction activity by roughly 12 to 18 months. The last sustained period the ABI remained below 50 was prior to the great recession. This series suggests a slowdown in multifamily construction starts should occur sometime in the second half of 2023.

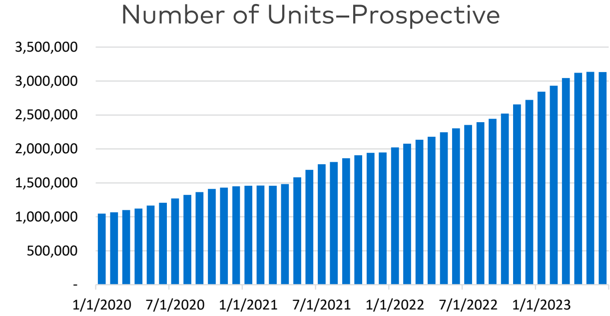
ABI–Residential



Source: American Institute of Architects–Architectural Billing Index

Growth in the prospective pipeline slowed in Q3 2023. Currently, there are 3.13 million prospective units, a 2.9% increase over the level recorded in March 2023. This is a noticeable decline from the 11.8% quarter-over-quarter growth rate recorded in the previous quarter.

Number of Units–Prospective



Source: Yardi Matrix

Alternative Downside Forecast

Our alternative downside forecast, summarized below, remains substantially unchanged:

Year	Baseline Forecast	Alternative Downside Forecast
2023	484,943	0
2024	506,574	0
2025	424,899	390,000
2026	401,065	355,000
2027	417,378	375,000
2028	426,722	395,000

Source: Yardi Matrix

The current baseline forecast assumes a relatively mild recession starting in late 2023. In this scenario, multifamily fundamentals remain relatively solid while debt and equity finance is reduced but not completely unavailable. This results in a reduction in new construction starts in the second half of 2023 and all of 2024 that produces a 20.1% decline peak to trough in new supply. Deliveries bottom in 2026, with a modest recovery in new supply taking hold in 2027.

The alternative downside forecast assumes a deeper and longer recession where debt and equity finance is far less available and multifamily fundamentals materially weaken. This scenario models a deeper fall-off in new construction starts beginning in the second half of 2023 that remains through 2025. As a result, new supply declines 29.8% peak to trough. New supply begins to increase in 2027 and 2028, but at levels well below current cycle highs.

Bottom Line

To date, multifamily new construction activity has been relatively unaffected by the Federal Reserve's rate hiking cycle. New-supply completions will remain robust in 2023 and 2024, with 484,000 units completing in 2023 and an additional 507,000 units completing in 2024.

Strong multifamily fundamentals will limit the extent of the downturn, with new-supply deliveries bottoming in 2026 at approximately 400,000 units. A gradual recovery in new supply takes hold in 2027 and continues into 2028.

The alternative downside forecast models a sharper and deeper recession. In this scenario, near-term completions are unchanged. However, new construction activity is more sharply reduced over a longer time horizon. In this scenario, new supply bottoms in 2026 at 355,000 units.

—Ben Bruckner, Senior Research Analyst