

Q2 2024

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Multifamily Supply Forecast Notes

For the Q2 2024 update, the Yardi Matrix Multifamily Supply Forecast has been slightly increased in the near term and is relatively unchanged over the longer term compared to the Q1 2024 update.

Multifamily New Supply Forecast Q2 2024 vs. Q1 2024

| Year | 2Q 2024 | 1Q 2024 | % Chg |
|------|---------|---------|-------|
| 2024 | 553,613 | 539,696 | 2.6% |
| 2025 | 468,958 | 458,687 | 2.2% |
| 2026 | 385,225 | 376,923 | 2.2% |
| 2027 | 396,037 | 395,035 | 0.3% |
| 2028 | 406,376 | 401,690 | 1.2% |
| 2029 | 426,283 | 426,641 | -0.1% |

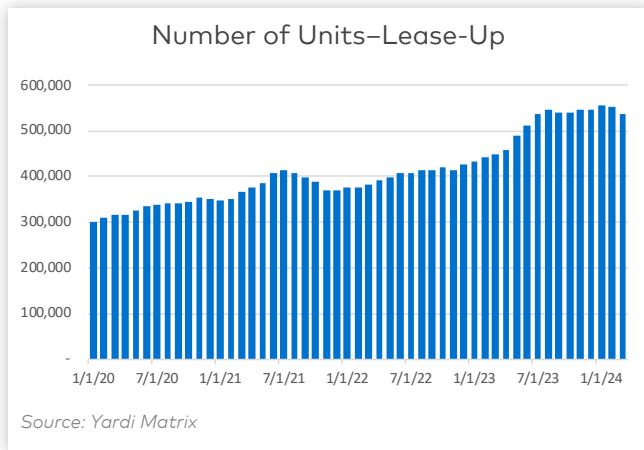
Source: Yardi Matrix

Near Term Forecast: 2024 Through 2026

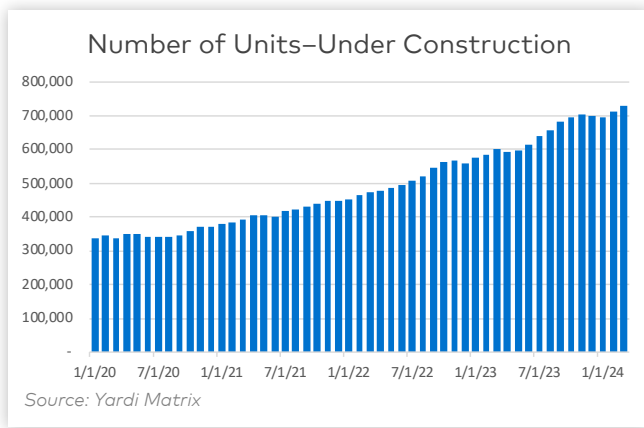
Q1 2024 Yardi Matrix development pipeline data continues to point to an overall deceleration in new multifamily development activity. A slightly larger under-development pipeline combined with elevated completion times has driven slight increases in the near-term forecast. New-construction activity continues to decline, suggesting new supply will bottom in 2026.

Under-Construction Pipeline

For multifamily markets tracked by Yardi Matrix on or before January 2020, there are currently 1.3 million units in the under-construction pipeline. Of these, 536,325 are currently in lease-up, a modest 1.6% decrease quarter-over-quarter and below the trailing six-month average of 545,905 units. These units should be completed in 2024.



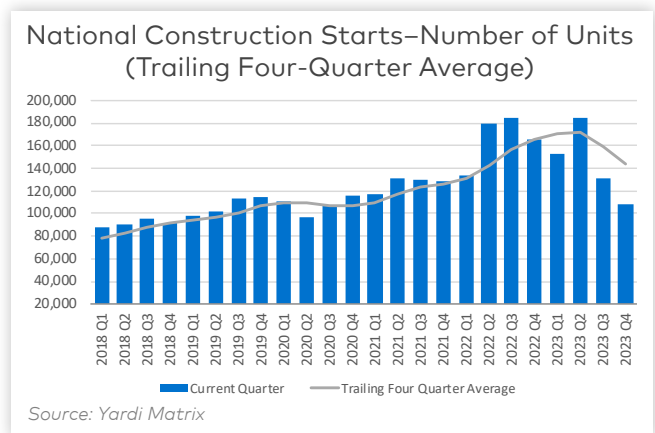
The number of units under construction but not in lease-up currently stands at 728,357, a 4.3% increase quarter-over-quarter and 21.2% year-over-year. A substantial proportion of these units should be completed in 2025. However, elevated construction completion times will push some completions into 2026.



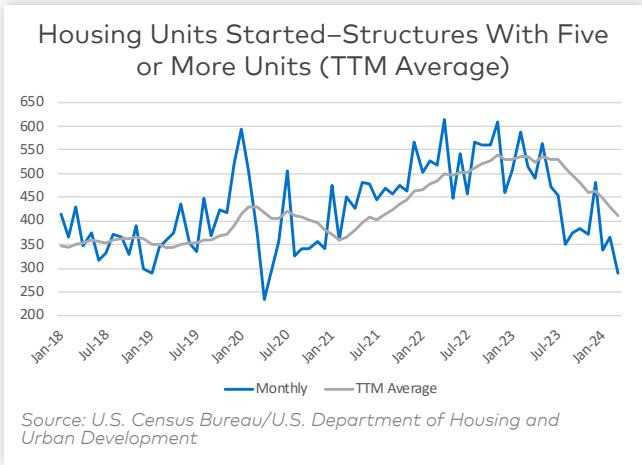
Construction Starts

After a record 2022 and a strong first half of 2023, construction starts declined in the second half of 2023. Yardi Matrix has so far identified 107,746 units that started construction in Q4 2023. Our construction start data is collected with a lag, so this number will increase. However, current Q4 2023 results represent a 34.8 percent decline compared to Q4 2022.

Despite the second-half decline, full-year 2023 construction starts currently stand at 577,207 units. Only 2022 has recorded more construction starts.



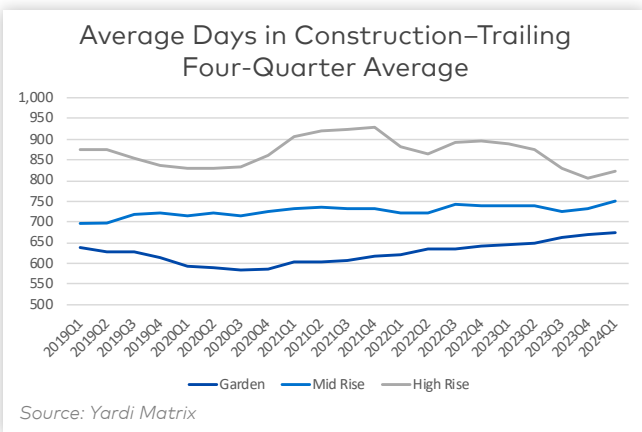
The U.S. Census Bureau's Residential Construction Report is a more current measure of multifamily construction starts. While it does not closely track our data in levels, it does a reasonable job of tracking the change. U.S. Census Bureau data also started declining in the second half of 2023. Seasonally adjusted, annualized starts for March 2024 fell sharply to 290,000 units, with both February and January results revised downward. This suggests starts tracked by Yardi Matrix will continue to decline in Q1 2024. Month-to-month, this is a volatile index; over the past six months, starts have averaged 372,000 annualized units, a 29.8 percent decline from full-year 2022's average.



Days in Construction

Days in construction remains elevated, with both garden and mid-rise build types at series highs.

In Q1 2024, the national average for garden-level properties stood at 689 days, above the trailing four-quarter average of 674 days. Mid-rise properties completed in Q1 2024 averaged 784 days (2.2 years) in construction, also above the trailing four-quarter average of 738 days. High-rise properties averaged 878 days (2.4 years) in construction, an increase over completion times recorded in the last two quarters but still below the levels reached in 2021 and 2022.



Despite a slowdown in new-construction starts, the under-construction pipeline modestly expanded in Q1 2024. Elevated completion times for garden and mid-rise properties are likely driving the current elevated level of under-construction inventory.

Long-Term Forecast: 2027 Through 2029

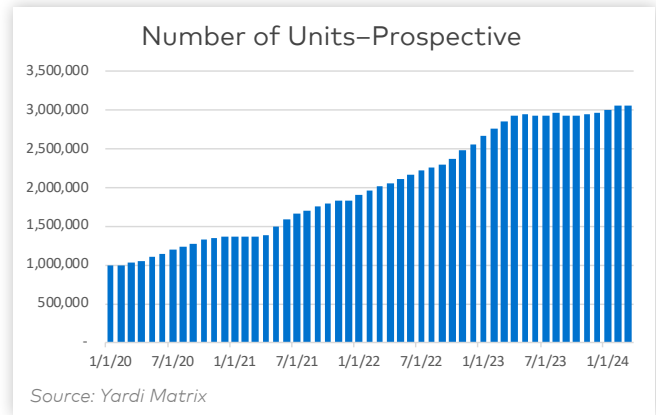
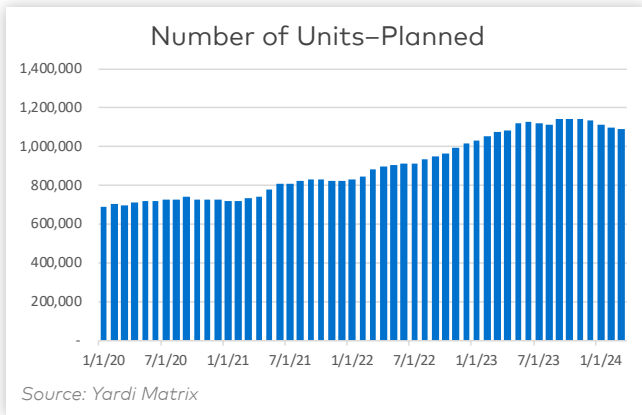
For the years 2027 through 2029, our baseline forecast is substantially unchanged.

U.S. economic growth remains strong but is slowing. A deeply inverted yield curve suggests recession is still a possibility. We expect a mild recession in early 2025. The combination of a weakening economic backdrop, persistently tight financial conditions and record levels of new supply will materially depress new-construction activity in 2024. This results in new supply bottoming in 2026, with a modest recovery taking hold in 2027. The back end of the multifamily supply forecast models new supply at around 2.25% of stock—in other words, 406,000 units in 2028 and 426,000 units in 2029.

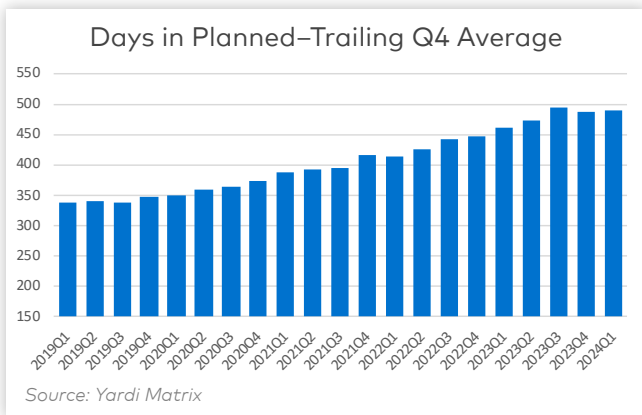
Planned and Prospective Pipeline

Changes in the planned and prospective development pipeline during Q1 2024 offered further evidence that overall development interest is declining. The planned pipeline declined modestly, while the prospective pipeline increased marginally. Both pipelines have been essentially flat since early 2023.

Currently, there are 1.09 million units in the planned pipeline, a 3.75% decrease quarter-over-quarter and a 1.9% increase year-over-year. Despite a slowdown in construction starts, the planned pipeline contracted in Q1 2024. That suggests fewer projects moved from prospective into planned than moved from planned to under construction, one sign that, overall, development enthusiasm is waning.



Days in planned has plateaued over the last three quarters, but at a level well above pre-pandemic. For Q1 2024, average days in planned for projects starting construction stood at 495 (1.4 years), slightly above the trailing four-quarter average of 490 days. Continued elevated days in planned is another sign that sponsors are facing difficulty moving their projects forward.



After expanding rapidly post-pandemic, the prospective development pipeline has been relatively flat for close to a year. Currently, there are 3.06 million units in the prospective development pipeline, a 3.2% increase quarter-over-quarter and a 7.0% increase year-over-year.

Alternative Downside Forecast

Our alternative downside forecast, summarized below, is unchanged for 2026 and later years.

| Year | Baseline Forecast | Alternative Downside Forecast |
|------|-------------------|-------------------------------|
| 2024 | 553,613 | 553,613 |
| 2025 | 468,958 | 468,958 |
| 2026 | 385,225 | 335,000 |
| 2027 | 396,037 | 350,000 |
| 2028 | 406,376 | 375,000 |
| 2029 | 426,283 | 400,000 |

Source: Yardi Matrix

The current baseline forecast assumes a relatively mild recession starting in early 2025 and the Federal Reserve cutting policy rates 25 basis points in November or December 2024. In this scenario, multifamily fundamentals remain relatively solid while debt and equity finance are reduced but not completely unavailable. The reduction in new-construction starts that began in Q3 2023 extends through all of 2024. This produces an approximately 30% decline peak-to-trough in new supply, with new supply bottoming in 2026 and a modest recovery taking hold in 2027.

The alternative downside forecast models a deeper falloff in new-construction starts in 2024 that extends into 2025. As a result, new supply declines 39% peak to trough. New supply begins to increase in 2027 and 2028, but at levels well below current cycle highs.

In previous quarters, this scenario's rationale was driven by a deeper and longer recession, where multifamily fundamentals materially weaken and debt and equity finance become far less available. The persistent strength of the U.S. economy has seemingly reduced the likelihood of a deeper recession but has also kept inflationary pressures uncomfortably high.

As a result, the Federal Reserve has pivoted to a higher-for-longer policy stance. If the economy continues to run hot through 2024, a higher-for-longer rate regime could be enough on its own to further constrain new development financing and suppress construction starts in 2024 and into 2025.

Bottom Line

In Q3 2023, Yardi Matrix data first indicated a slowdown in multifamily development activity was taking root. In Q1 2024, this trend has continued:

- We observed a continued deceleration in new construction in Q4 2023.
- The U.S. Census Bureau's New Residential Construction Report suggests starts tracked by Yardi Matrix should continue to decline in 2024.
- Despite a slowdown in new construction, the planned pipeline also contracted. This suggests sponsors in the prospective phase of the development process are becoming less aggressive about moving their projects forward.

These trends are consistent with previous forecast expectations. As a result, the Q2 2024 forecast update is relatively unchanged compared to the previous quarter. Our baseline forecast envisions new supply bottoming in 2026 at around 386,000 units. Should new-development fundamentals materially weaken in 2024, our alternative downside forecast models new supply bottoming in 2026 at 335,000 units.

—Ben Bruckner, Senior Research Analyst

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