Multifamily Market Fundamentals Strengthen in Q1

▼ 2.3%	▲ 292,500	▲ 695,100	▲ 15.5%	▲ $63 B
Vacancy Rate	Completions* (units)	Net Absorption* (units)	Y-o-Y Rent Change	Investment Volume*

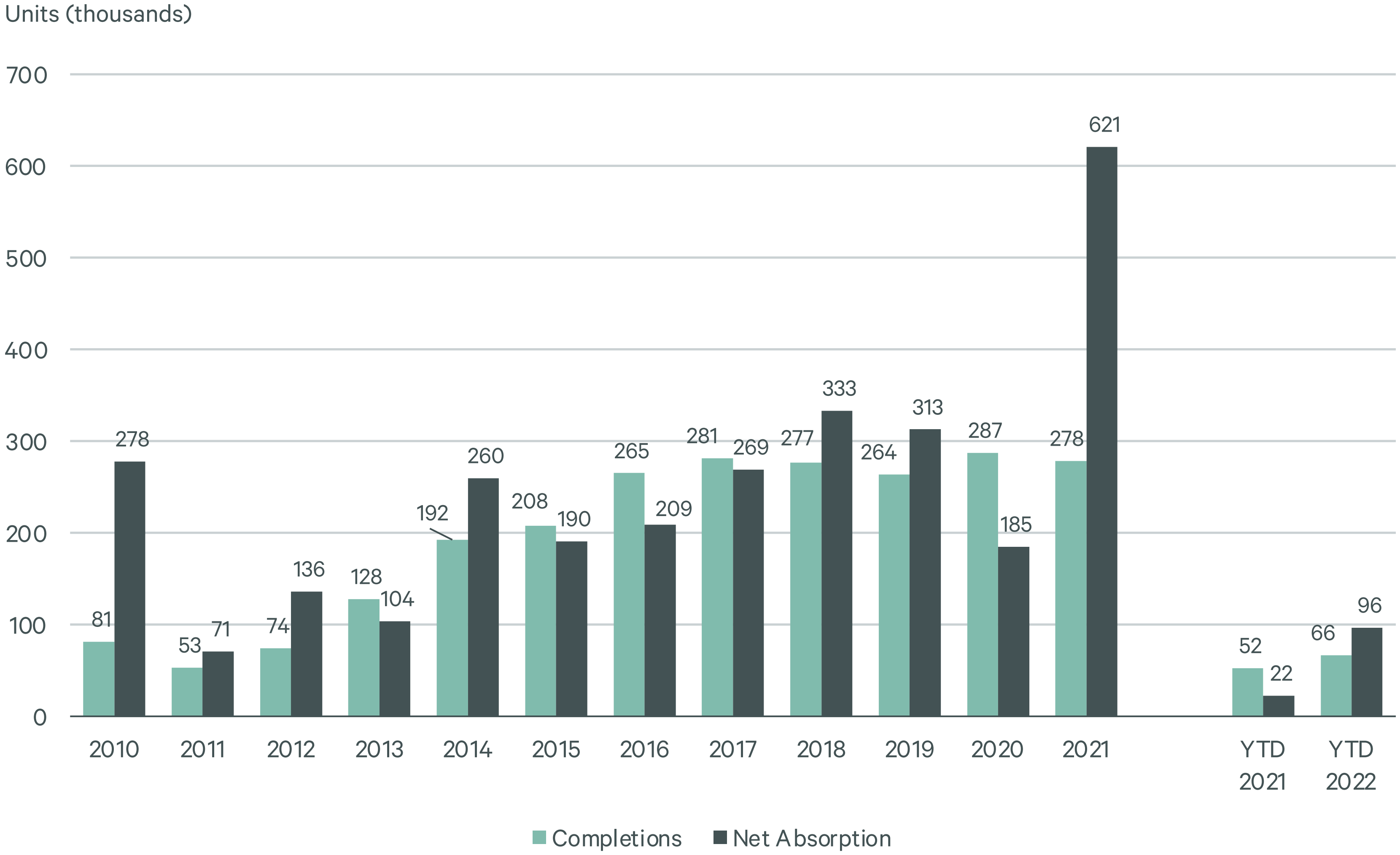
Arrows indicate change in growth rate from same quarter in previous year. *Total past four quarters.

Executive Summary

- The multifamily market set a record four-quarter absorption total of 695,100 units in Q1 2022. For the quarter, absorption totaled 96,500 units—the highest Q1 total since 2000.
- The overall vacancy rate fell by 20 basis points (bps) quarter-over-quarter and 2.5 percentage points year-over-year to a record-low 2.3%.
- Average net effective rent increased by 15.5% year-over-year to $2,007 per month. Average rents now exceed their pre-pandemic levels in all but two of the 69 markets tracked by CBRE (San Francisco and San Jose).
- New construction deliveries of 66,400 units in Q1 brought the four-quarter total to 292,500—the highest amount since 1987. With more than 400,000 units currently under construction, 2022 deliveries are expected to eclipse 2021.
- Multifamily investment volume in Q1 increased by 56% year-over-year to $63 billion—the strongest first quarter on record.

Figure 1
Strongest Q1 absorption in more than two decades

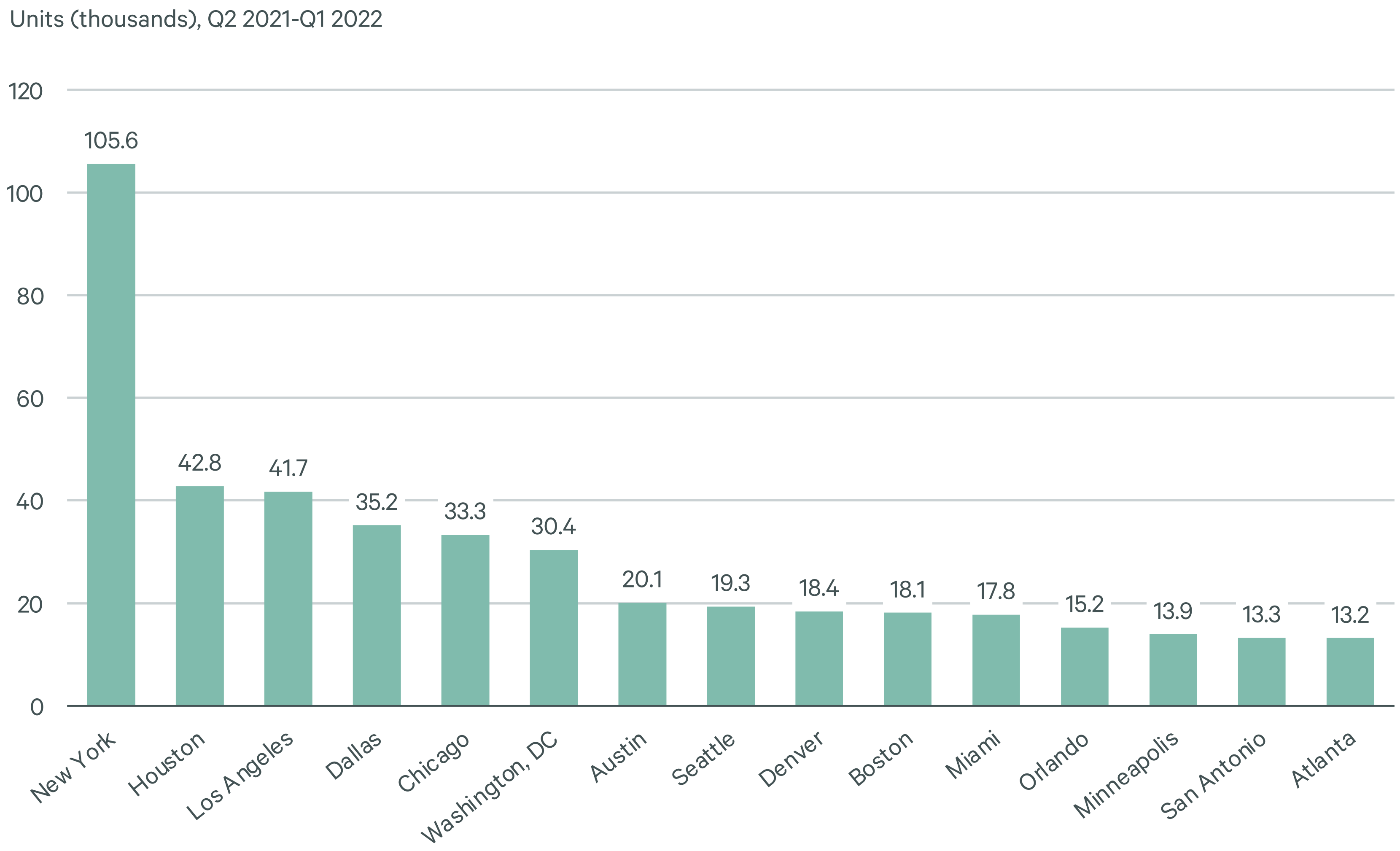
- Net absorption of 96,500 units was the highest Q1 total since 2000. Typical first-quarter seasonality was overcome by strong housing demand, which bodes well for the rest of 2022.
- Four-quarter net absorption of 695,100 units in Q1 was up 12% from Q4 and was 77% higher than the previous annual record of 393,000 units in 2000.
- The rise in demand has been fueled by household formation, job and wage growth, and sharply rising home prices.
- Completions totaled 66,400 units in Q1, the highest amount of new supply in a first quarter since 1999. Four-quarter completions of 292,500 units in Q1 surpassed 2020's previous cycle high of 287,100 units and were the most since 1987.



Source: CBRE Research, CBRE Econometric Advisors, Q1 2022. Based on the 63 markets that comprise CBRE EA's Sum of Markets.

Figure 2
Top 15 markets for annual net absorption

- Fifteen metros accounted for 63% (438,400 units) of total net absorption over the past four quarters. New York alone accounted for 15%.
- The top markets for net absorption in Q1 were New York (17,200), Houston (6,700), Chicago (5,900), Dallas (4,600) and Washington, D.C. (4,000).
- All 69 markets tracked by CBRE recorded positive four-quarter net absorption.



Source: CBRE Research, CBRE Econometric Advisors, Q1 2022.

Figure 3
Gateway & Texas markets lead for new supply

- The top five markets for new deliveries over the past four quarters (New York, Houston, Dallas, Austin and Washington, D.C.) accounted for 28.7% of the national annual total and 29.8% in Q1.
- Texas markets were among the most active, with a collective 59,700 units delivered and 122,300 units absorbed in Houston, Dallas/Ft. Worth, Austin and San Antonio over the past four quarters.
- Three gateway markets (New York, Washington, D.C. and Los Angeles) accounted for 16.4% of all completions over the past four quarters.
- Of the 24 leading markets for new supply, only five (Austin, Richmond, Nashville, Orlando and Ft. Worth) had total inventory growth of more than 3.5%. No markets appeared at risk of overbuilding.

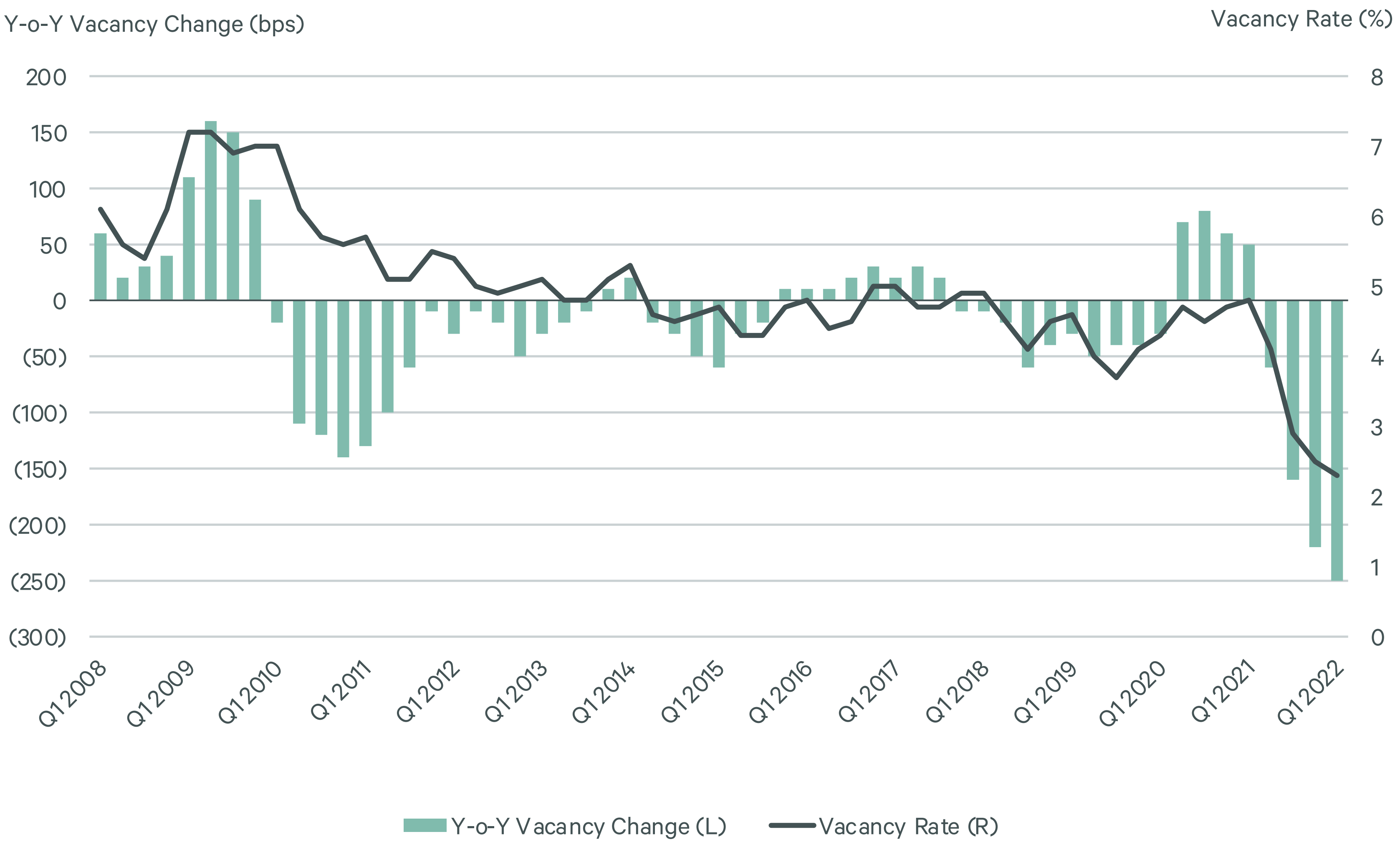
		Q1 2022		4 Quarters Ending Q1 2022			
Rank*	Market	Completions	Net Absorption	Completions	Net Absorption	Completions**	Net Absorption**
	Sum of Markets	**66,400**	**96,500**	**292,500**	**695,100**	**1.8**	**4.2**
1	New York	5,300	17,200	24,800	105,600	1.0	4.4
2	Houston	4,900	6,700	18,500	42,800	2.9	6.7
3	Dallas	3,600	4,600	15,700	35,200	2.8	6.2
4	Austin	3,800	3,900	12,700	20,100	5.4	8.6
5	Washington, DC	2,200	4,000	12,300	30,400	2.0	4.9
6	Los Angeles	1,000	3,200	11,000	41,700	1.0	3.8
7	Denver	2,600	3,200	10,700	18,400	3.2	5.5
8	Minneapolis	1,100	500	10,100	13,900	3.3	4.6
9	Seattle	2,600	3,300	10,000	19,300	2.5	4.8
10	Phoenix	1,500	1,100	9,000	12,800	2.5	3.5
11	Orlando	2,400	2,600	8,800	15,200	4.0	6.9
12	Miami	1,900	1,900	8,500	17,800	2.8	5.8
13	Nashville	1,200	1,200	7,800	12,400	5.0	8.0
14	Chicago	1,200	5,900	7,100	33,300	0.9	4.3
15	Boston	1,400	1,900	7,100	18,100	1.4	3.6
16	Atlanta	1,200	700	6,600	13,200	1.5	2.9
17	San Antonio	2,300	2,600	6,500	13,300	3.3	6.7
18	Fort Worth	1,800	2,100	6,300	10,900	3.6	6.2
19	Tampa	1,600	1,300	6,300	11,100	2.4	4.2
20	Charlotte	800	600	5,100	7,700	2.9	4.4
21	Columbus	1,200	1,500	4,600	8,400	2.7	5.0
22	Philadelphia	1,800	2,400	4,500	10,800	1.4	3.4
23	Richmond	1,400	1,700	4,400	5,700	5.3	6.8
24	Portland	1,000	900	4,200	8,200	1.9	3.8

*By Annual Completions **As % of Inventory

Source: CBRE Research, CBRE Econometric Advisors, Q1 2022. All ratios based on unrounded figures of four-quarter totals. Markets are MSAs or Metropolitan Divisions, whichever is smaller.

Figure 4
Vacancy rate falls to record-low 2.3%

- The overall vacancy rate fell by 20 bps quarter-over-quarter and 2.5 percentage points year-over-year to a record-low 2.3% in Q1.
- Seventeen markets had vacancy rates below 2.0%, led by Newark (1.0%), Madison, WI (1.1%) and Providence (1.2%).
- Only 11 markets (down from 20 in Q4 2021) had vacancy rates above 3.0%. Those that dropped below 3% in Q1 were Seattle (2.9%), San Jose (2.9%) and Chicago (2.8%).



Source: CBRE Research, CBRE Econometric Advisors, Q1 2022. Based on the 63 markets that comprise CBRE EA's Sum of Markets.

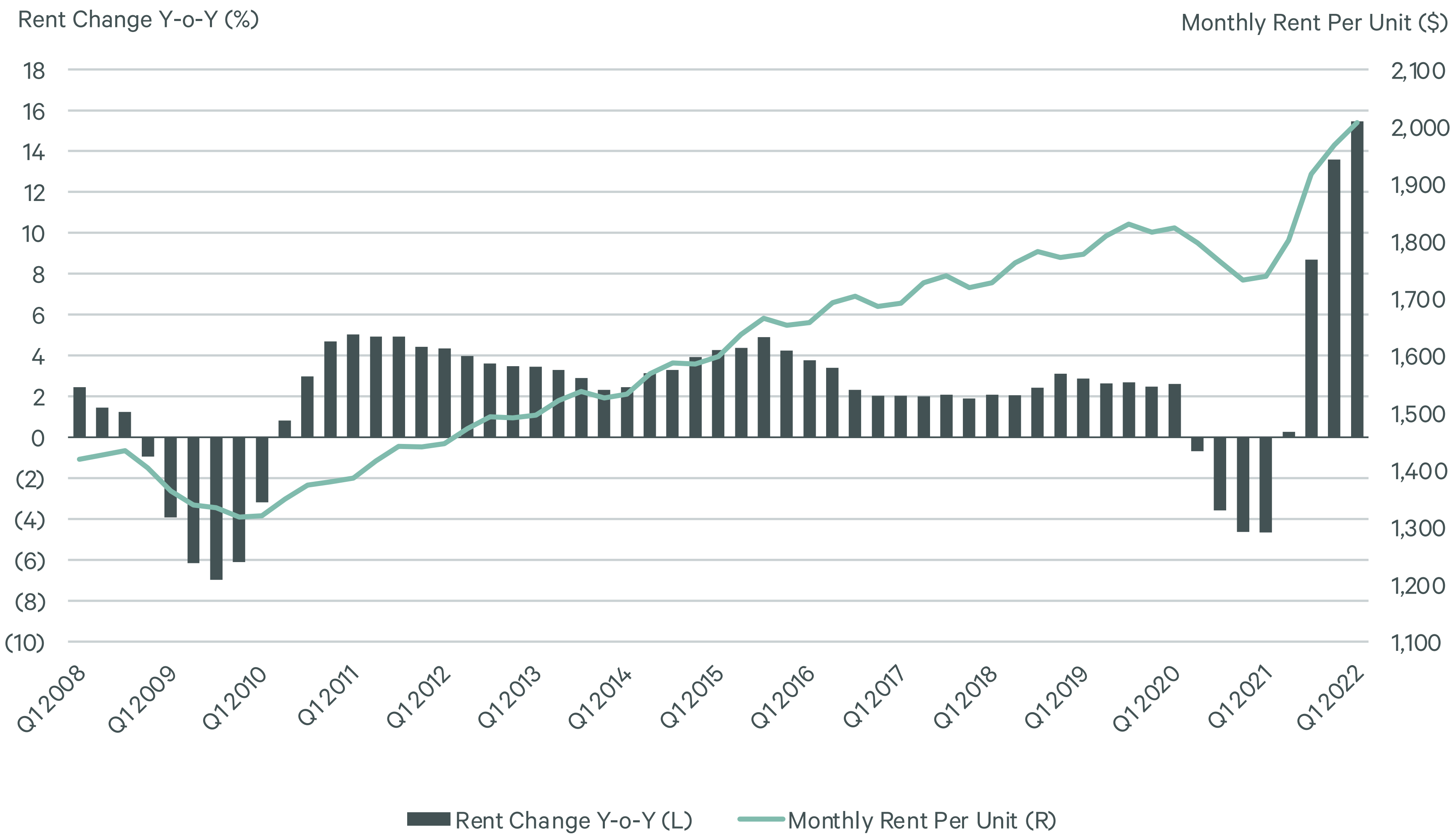
Figure 5
Vacancy rate below 3% for all asset classes

- Strong Q1 demand lowered the vacancy rates of all multifamily asset classes by 20 bps in Q1. Class C fell to 1.8%, Class B to 2.3% and Class A to 2.9%. This was the first time on record that all three classes had vacancy rates below 3.0%.
- Class A has fallen the most (3.2 percentage points) since the vacancy rates of all three asset classes during the pandemic peaked in Q1 2021.
- The spread between Class A, B and C vacancy rates has returned to its pre-pandemic level, with all three now at historic lows.

Source: CBRE Research, CBRE Econometric Advisors, Q1 2022..

Figure 6
Rent growth accelerates to 15.5% in Q1

- The average “same-store” effective rent rose by 2.0% quarter-over-quarter and 15.5% year-over-year in Q1 to a record $2,007 per month—the fifth consecutive quarterly increase.
- Q1 2022 average rent exceeded the pre-COVID high of $1,830 in Q3 2019 by 9.7%.
- Q1 rents were above pre-COVID highs in nearly all markets. Just two were lower: San Jose (-6.2%) and San Francisco (-10.2%).



Source: CBRE Research, CBRE Econometric Advisors, Q1 2022. Effective "same-store" rents based on the 63 markets that comprise CBRE EA's Sum of Markets.

Figure 7
Southeast & Mountain West rent growth exceeds 20%

- All 69 markets tracked by CBRE posted year-over-year rent growth in Q1, with 56 of them posting double-digit gains (up from 49 in Q4 2021).
- The Southeast region recorded year-over year rent growth of 22% in Q1. All Southeast markets but Louisville posted year-over-year rent growth of more than 10%. Florida markets all had gains of more than 20%.
- All seven Mountain West metros posted year-over-year rent growth above 15%, led by Phoenix with 25.6%.
- All Pacific markets had double-digit year-over-year rent growth.
- The Northeast, Mid-Atlantic and Midwest regions, which had previously lagged in rent growth, gained momentum in Q1. More than half of the markets in these regions had year-over-year rent growth of more than 10% for the first time since the pandemic.

Rank	Market	Rent Change Y-o-Y (%)
	All Market	
	Sum of Markets	15.5
	Pacific	
	Region	14.4
1	San Diego	18.4
2	Orange County	17.7
3	Inland Empire	16.8
4	Ventura	15.5
5	Honolulu	14.1
6	San Jose	14.1
7	Los Angeles	13.9
8	Seattle	13.9
9	Sacramento	13.5
10	San Francisco	13.3
11	Portland	13.2
12	Oakland	10.3
	Mountain West	
	Region	21.1
1	Phoenix	25.6
2	Las Vegas	23.7
3	Tucson	21.7
4	Salt Lake City	20.9
5	Albuquerque	18.3
6	Denver	16.5
7	Colorado Springs	15.0

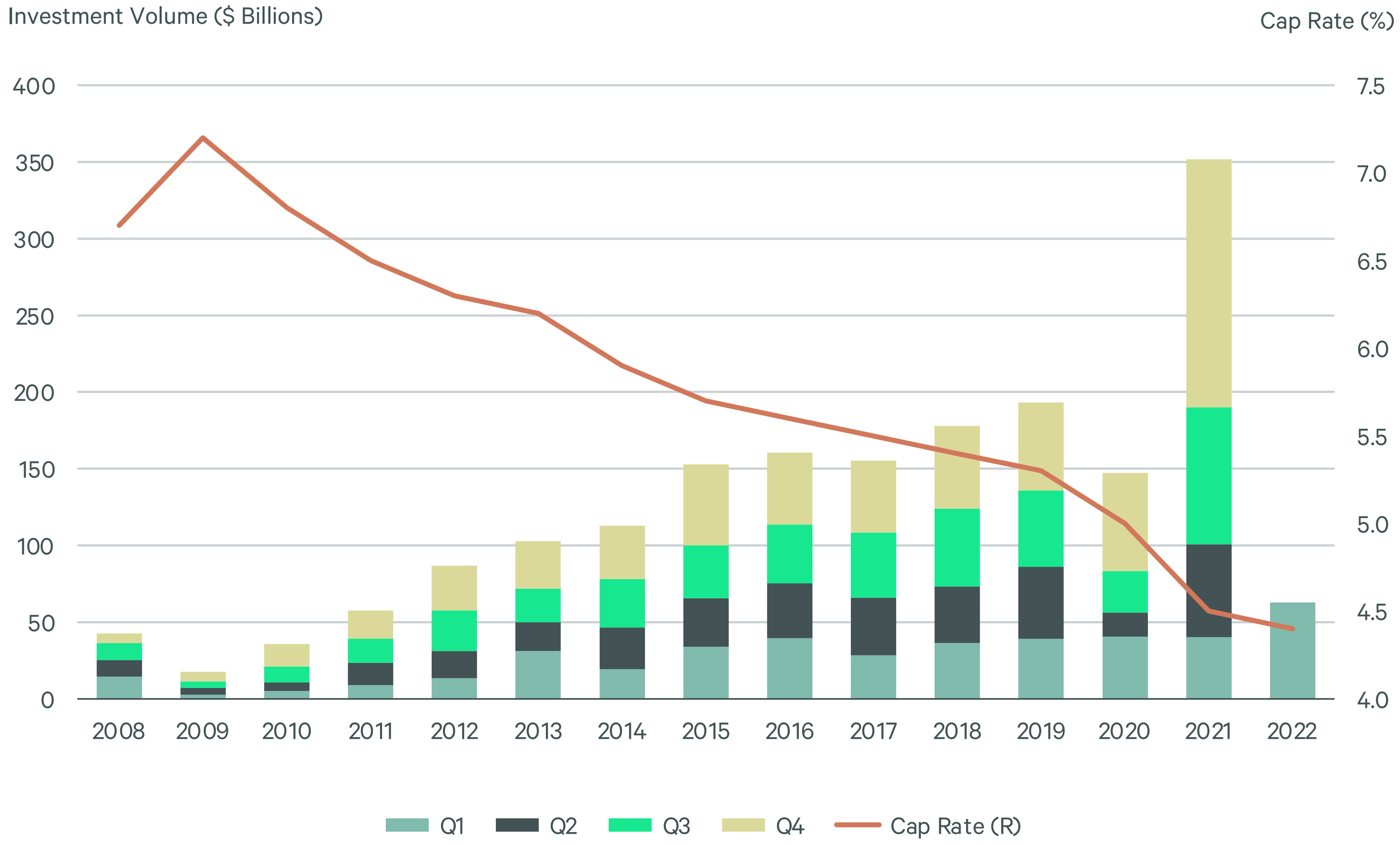
Rank	Market	Rent Change Y-o-Y (%)
	South Central	
	Region	16.9
1	Austin	23.9
2	Dallas	18.5
3	Ft. Worth	16.1
4	San Antonio	15.9
5	El Paso	15.0
6	Tulsa	13.8
7	Houston	13.5
8	Oklahoma City	11.6
9	Corpus Christi	7.3
	Southeast	
	Region	22.0
1	West Palm Beach	30.4
2	Tampa	27.6
3	Orlando	27.1
4	Ft. Lauderdale	27.1
5	Jacksonville	23.4
6	Miami	23.0
7	Raleigh	22.1
8	Nashville	21.0
9	Atlanta	20.4
10	Charlotte	19.3
11	Greensboro	18.4
12	Greenville	15.5
13	Lexington	14.1
14	Richmond	12.8
15	Memphis	12.7
16	Norfolk	12.6
17	Birmingham	12.2
18	Louisville	9.9

Rank	Market	Rent Change Y-o-Y (%)
	Midwest	
	Region	10.8
1	Chicago	14.3
2	Indianapolis	13.0
3	Cincinnati	10.6
4	Kansas City	10.5
5	St. Louis	10.4
6	Detroit	10.4
7	Columbus	10.0
8	Dayton	9.7
9	Milwaukee	8.3
10	Cleveland	8.2
11	Omaha	8.0
12	Minneapolis	5.0
13	Madison, WI	4.9
	Northeast/Mid-Atlantic	
	Region	14.4
1	New York	16.1
2	Boston	14.9
3	Philadelphia	12.4
4	Washington, D.C.	11.1
5	Baltimore	11.0
6	Providence	9.9
7	Newark	9.5
8	Hartford	9.2
9	Pittsburgh	8.9
10	Long Island	8.1

Source: CBRE Research, CBRE Econometric Advisors, Q1 2022.
Based on effective "same-store" rents.

Figure 8
Q1 multifamily investment volume sets record

- Multifamily investment volume increased by 56.4% year-over-year to $63.0 billion in Q1—the highest Q1 total on record.
- Strong investor appetite compressed the average multifamily cap rate to an all-time low—a trend that most benefited the red-hot Sun Belt markets.
- Multifamily accounted for 37% of total commercial real estate investment volume in Q1, followed by office at 21% and industrial at 20%.



Note: 2022 cap rate represents Q1 2022.
Source: CBRE Research, Real Capital Analytics, Q1 2022.

Figure 9
Sun Belt markets top investment

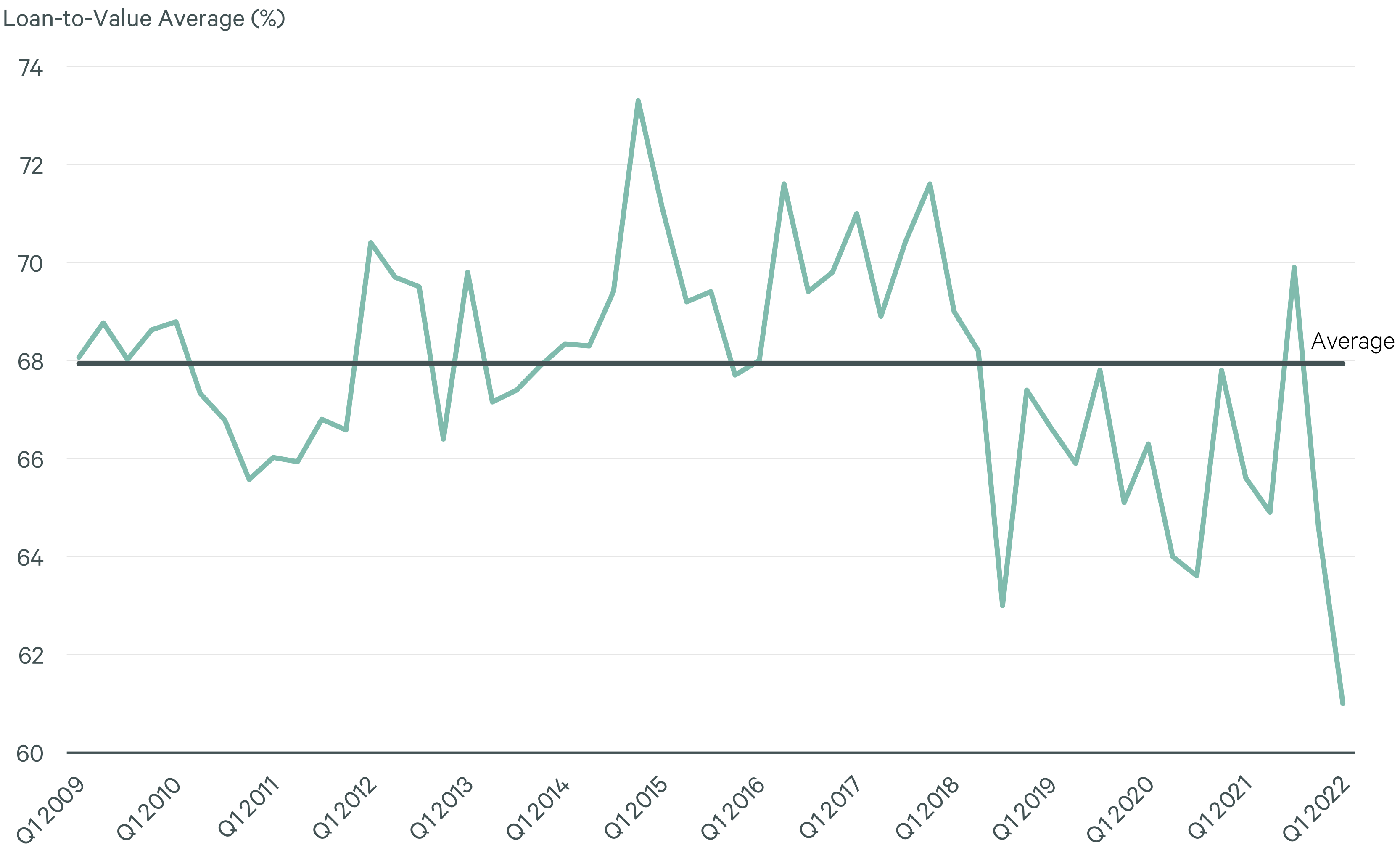
- Dallas/Ft. Worth led all metros for multifamily investment over the past four quarters with $29.2 billion in total volume, double the amount from a year ago and accounting for 7.8% of the U.S. total.
- Atlanta had the second highest total of $21.4 billion over the past four quarters, up by 150.1% from Q1 2021, followed by New York with $17.7 billion, also more than double from a year ago.
- Only two of the top 20 markets for multifamily investment over the past four quarters did not post gains of 100% or more from the prior year: Greater Washington, D.C. (88.3%) and Charlotte (89.0%). Both markets' year-over-year growth rate increased from Q4 2021.
- A strong rebound in investment volume for large coastal markets is expected this year as rent growth gains momentum. These markets are expected to lead U.S. rent growth in the second half of the year.

	Market	4 QTR Investment ($ B) as of 2022	% of Total	Cumulative % Total	YoY Change (%)
	U.S. Total	374.32			155.1
1	Dallas/Ft. Worth	29.15	7.8	7.8	201.3
2	Atlanta	21.38	5.7	13.5	150.1
3	New York Metro	17.65	4.7	18.2	129.6
4	Greater Los Angeles	18.55	5.0	23.2	122.6
5	Houston	17.14	4.6	27.7	392.2
6	Phoenix	17.60	4.7	32.4	125.7
7	Miami/So. Florida	14.87	4.0	36.4	303.8
8	Greater Washington D.C.	12.03	3.2	39.6	88.3
9	Denver	11.34	3.0	42.7	146.2
10	Austin	10.05	2.7	45.4	118.4
11	Seattle	8.41	2.2	47.6	186.6
12	Orlando	8.85	2.4	50.0	331.9
13	Raleigh/Durham	6.28	1.7	51.6	224.8
14	Charlotte	6.44	1.7	53.4	89.0
15	Tampa	6.55	1.7	55.1	133.9
16	San Antonio	5.82	1.6	56.7	215.9
17	San Diego	5.49	1.5	58.1	197.3
18	Las Vegas	4.81	1.3	59.4	774.8
19	Chicago	5.64	1.5	60.9	160.4
20	Nashville	5.27	1.4	62.3	234.6

Source: CBRE Research, Real Capital Analytics, Q1 2022.

Figure 10
Higher cost of capital leads to lower loan-to-value ratios

- Loan-to-value (LTV) ratios fell in Q1 as borrowing costs rose.
- The Federal Housing Finance Authority has set a $78 billion cap on multifamily purchase volumes for Fannie Mae and Freddie Mac in 2022—an 11.4% increase from 2021.
- Alternative lenders (e.g., debt funds and mortgage REITs) are stepping up to meet global investor demand for U.S. multifamily assets. With ongoing uncertainty in the debt capital markets, loan characteristics like LTVs will be adjusted to new and more fluid borrowing strategies.



Source: CBRE Research, Q1 2022. Based on permanent, fixed-rate deals closed by CBRE Capital Markets.

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