3Q21 United States Multifamily Capital Markets Report

NEWMARK

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Key Takeaways

Sales Volume

Sales volume in 3Q21 totaled $78.7 billion, signifying the largest quarterly sales volume figure on record as investor appetite for multifamily continues to surge. Trailing-twelve-month volume totaled $241.9 billion, also an all-time high.

Rent Growth

3Q21 effective rent growth rose 5.9%, the largest quarterly increase on record increased to 3.1% on an annualized basis. Increased demand for apartments is projected to support strong levels of rent growth through the end 2022.

Dry Powder

Dry powder rose to another record high, totaling $237 billion. Closed-end funds have earmarked $78.0 billion specifically for residential investment, with 75.7% of that set aside for opportunistic and value-add strategies.

Supply and Demand

In 3Q21, 268,331 units were absorbed, marking the highest quarterly absorption figure in history. As more workers return to the office and the cost to own single-family homes continues to rise to historic levels, rental housing is anticipated to see strong demand.

Total Returns

Multifamily total returns rose to 12.3% through the first three quarters of the year and 13.4% on an annualized basis. Markets throughout the Southeast and Southwest are among the strongest performers over the past 12 months, led by Phoenix, Las Vegas, and Raleigh.

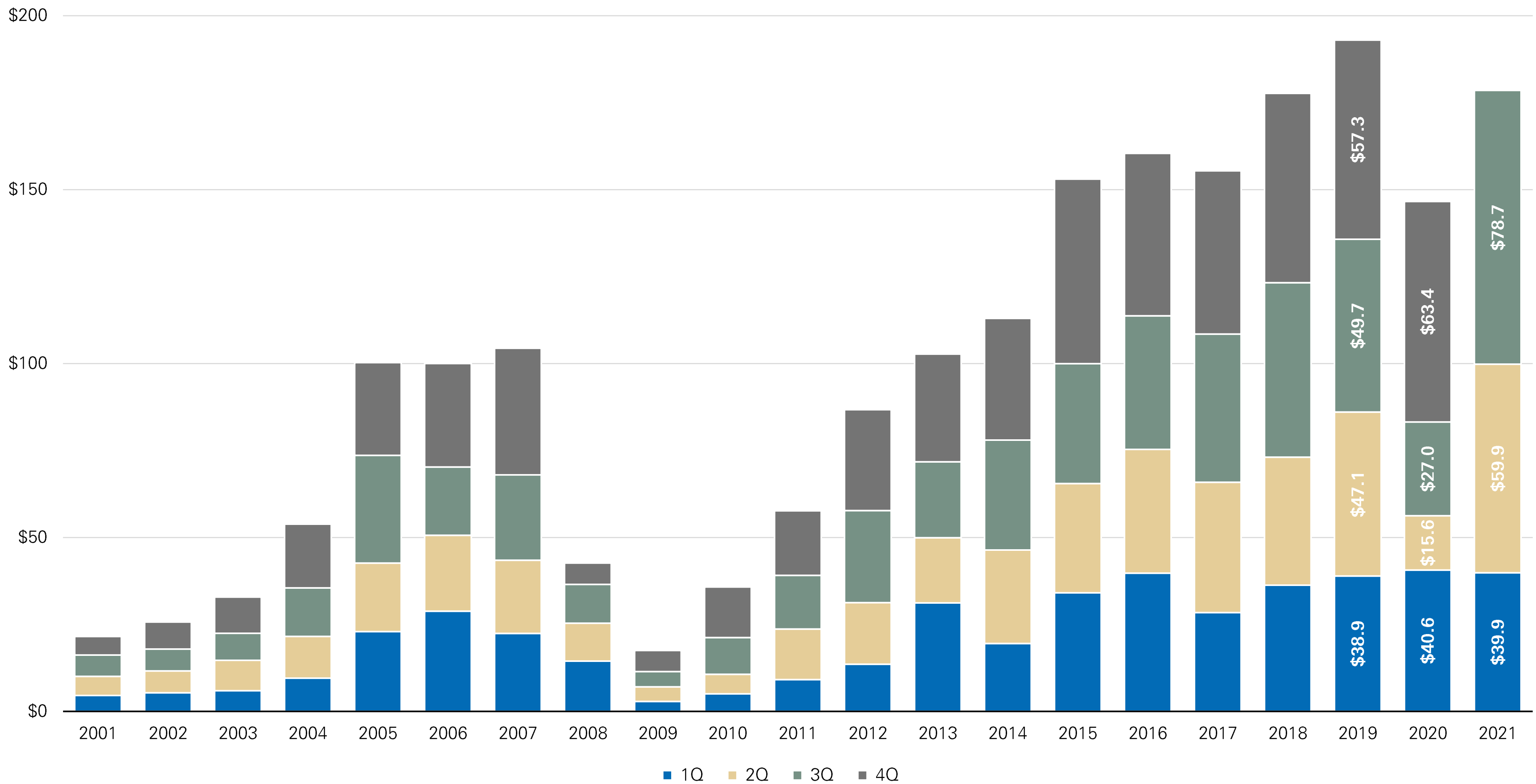
Debt Markets

Multifamily mortgage debt outstanding rose to $1.74 trillion, a 1.4% increase quarter-over-quarter. With $776 billion in multifamily mortgage maturities estimated from 2021 through 2025, both the multifamily investments sales and financing markets are likely to remain robust over the next several years.

Sales Volume

UNITED STATES; DOLLARS IN BILLIONS

Sales volume in 3Q21 totaled $78.7 billion, signifying the largest quarterly sales volume figure on record as investor appetite for multifamily continues to surge. Third quarter volume represented a 31.4% increase from the previous quarter, and a 192.1% year-over-year increase. Trailing-twelve-month volume totaled $241.9 billion, also an all-time high.

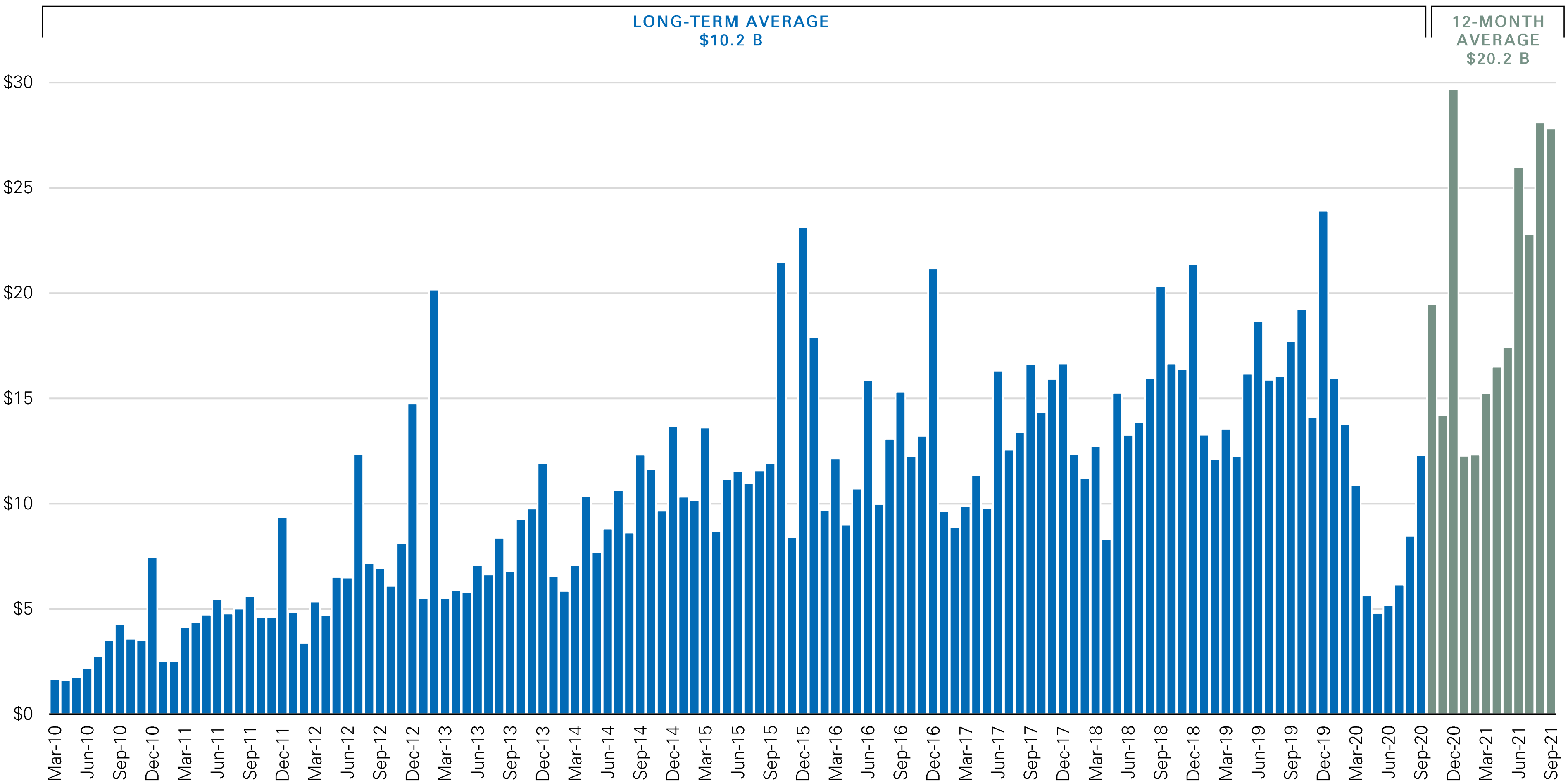


Source: Newmark Research, Real Capital Analytics

Monthly Sales Volume

UNITED STATES; DOLLARS IN BILLIONS

August and September represented two of the three highest monthly volumes on record at $28.1 and $27.8 billion, respectively – trailing only December 2020 as the largest month for investment sales of all-time. Multifamily monthly volume for the last 12 months is nearly double the pre-Covid, long-term average of $10.2 billion.

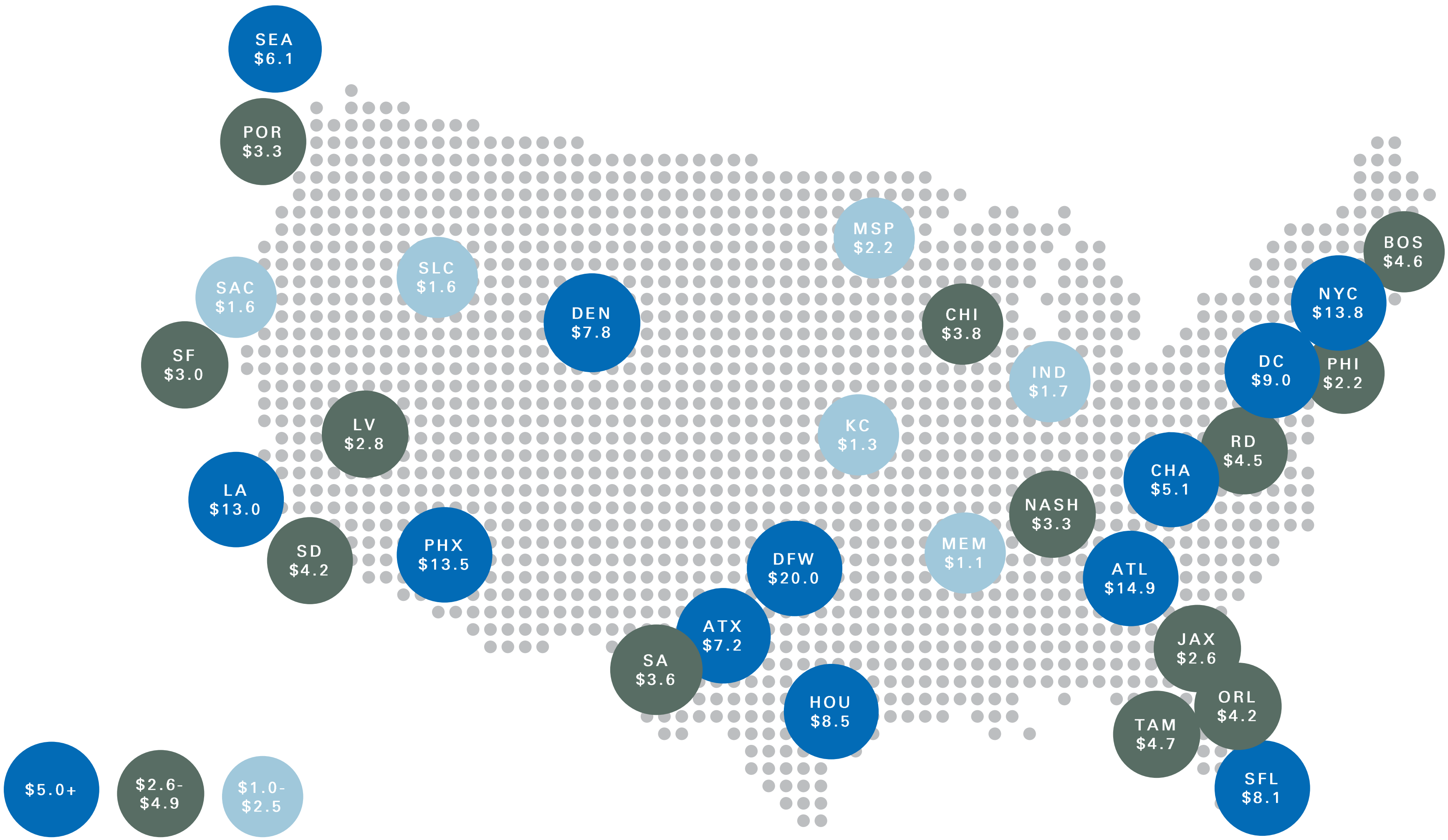


Source: Newmark Research, Real Capital Analytics

Sales Volume by Market

12-MONTH TOTALS; DOLLARS IN BILLIONS

Trailing-twelve-month sales volume increased by 50% or more year-over-year in 21 of the top 25 markets, led by South Florida which experienced 187.2% growth, followed by Phoenix at 167.0%, and Jacksonville at 162.9%. While major markets have lagged following the initial onset of the pandemic, momentum in these markets is encouraging.



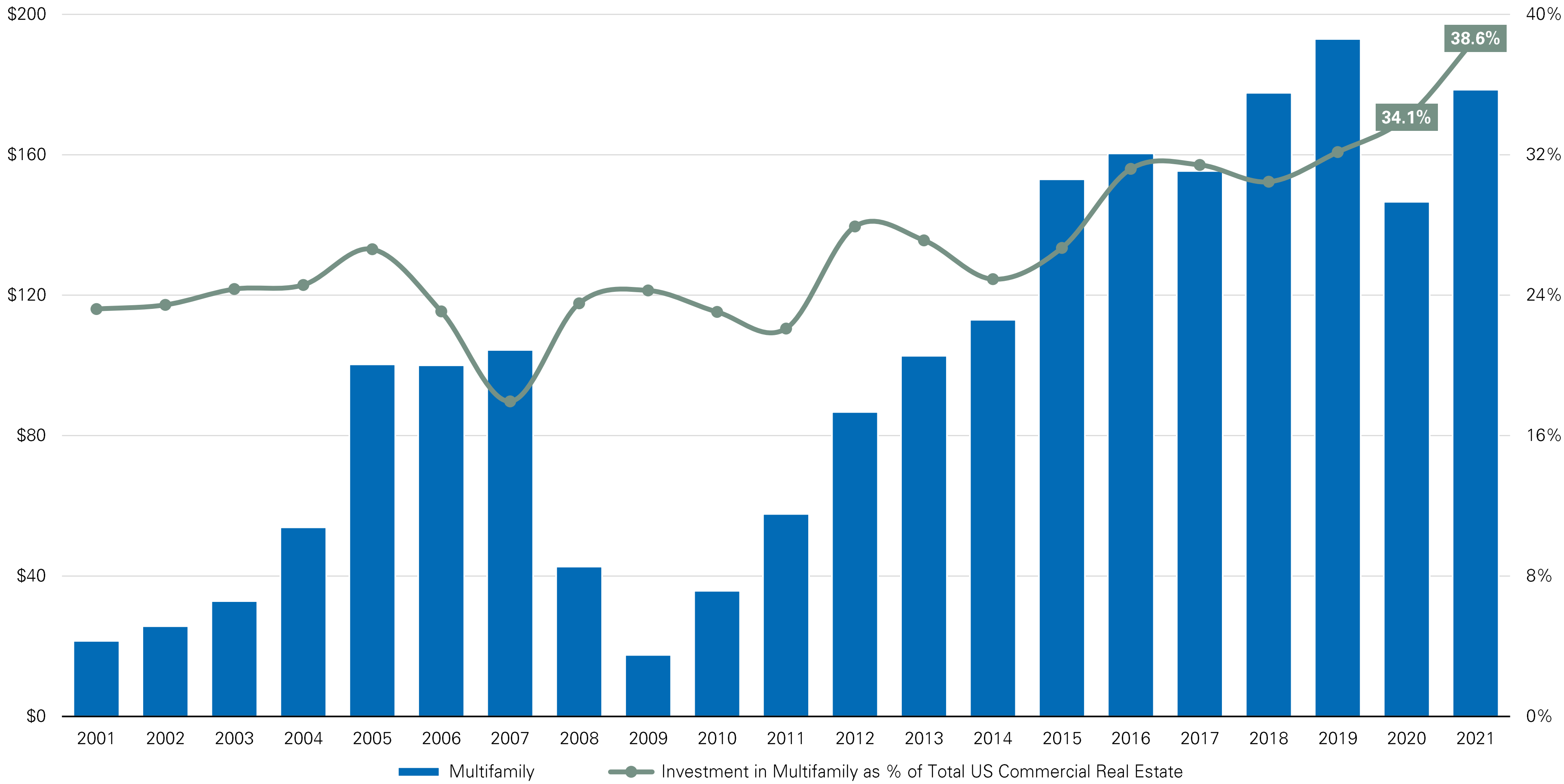
Source: Newmark Research, Real Capital Analytics

* Major markets: Boston, Chicago, Los Angeles metro, New York metro, San Francisco metro, Washington, D.C. metro. Non-major markets: all other markets.

Investment Allocation to Multifamily

UNITED STATES

Allocation to multifamily rose to 38.6% year-to-date, an all-time record, as well as accounting for 40.8% of total US commercial real estate investment sales volume in 3Q21. Increased allocation to multifamily is a result of a robust transaction market, reflecting pent up investor demand from traditional multifamily investors, foreign capital and groups that are seeking to diversify their core holdings away from more vulnerable property types, such as office and retail.

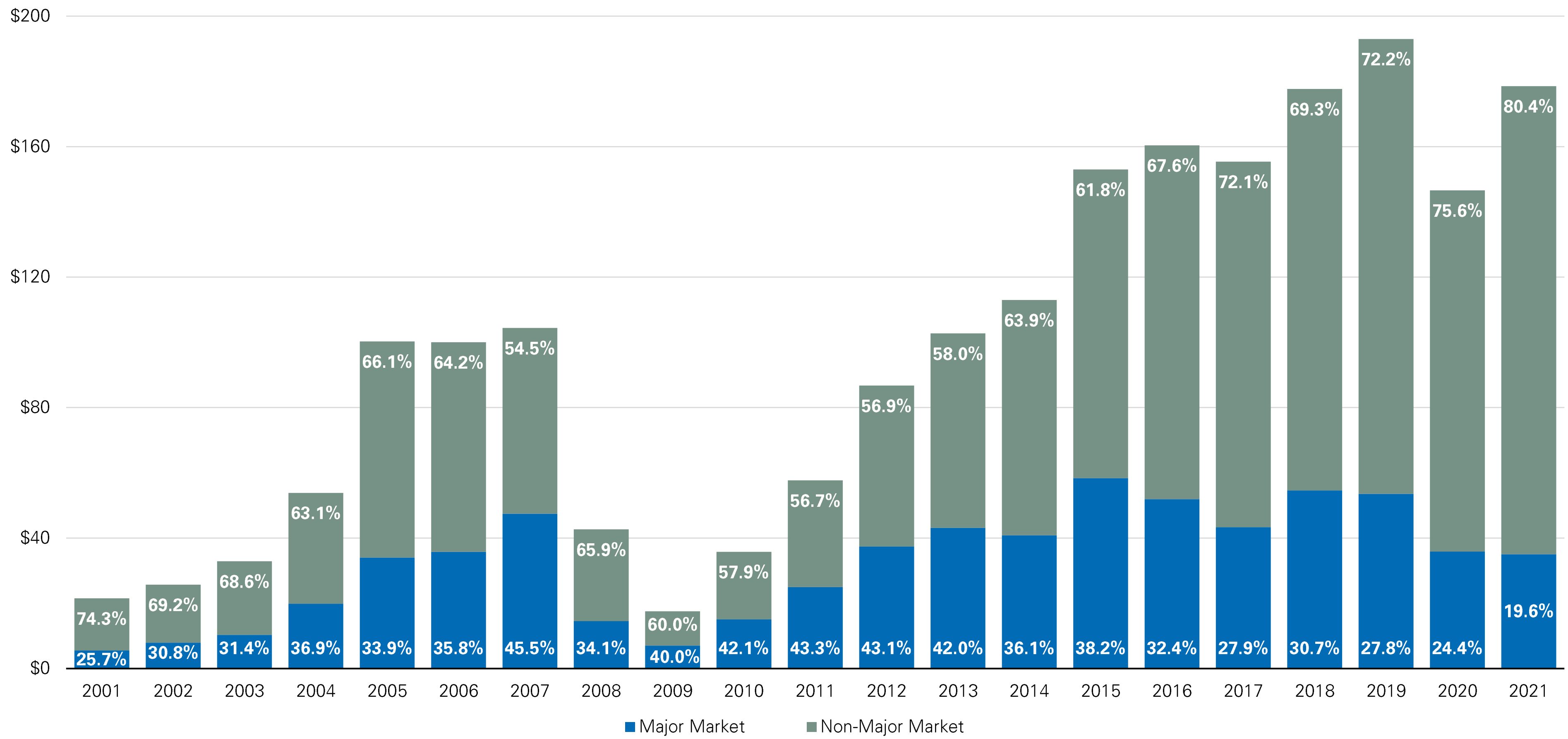


Source: Newmark Research, Real Capital Analytics

Capital Flow Analysis

UNITED STATES; DOLLARS IN BILLIONS

Investor preference for assets located in non-major markets continued to grow, totaling 80.4% of investment through the first three quarters of 2021. Investors had largely targeted suburban multifamily markets prior to the pandemic given higher total returns and strong population growth, however this trend continues to accelerate.



Source: Newmark Research, Real Capital Analytics

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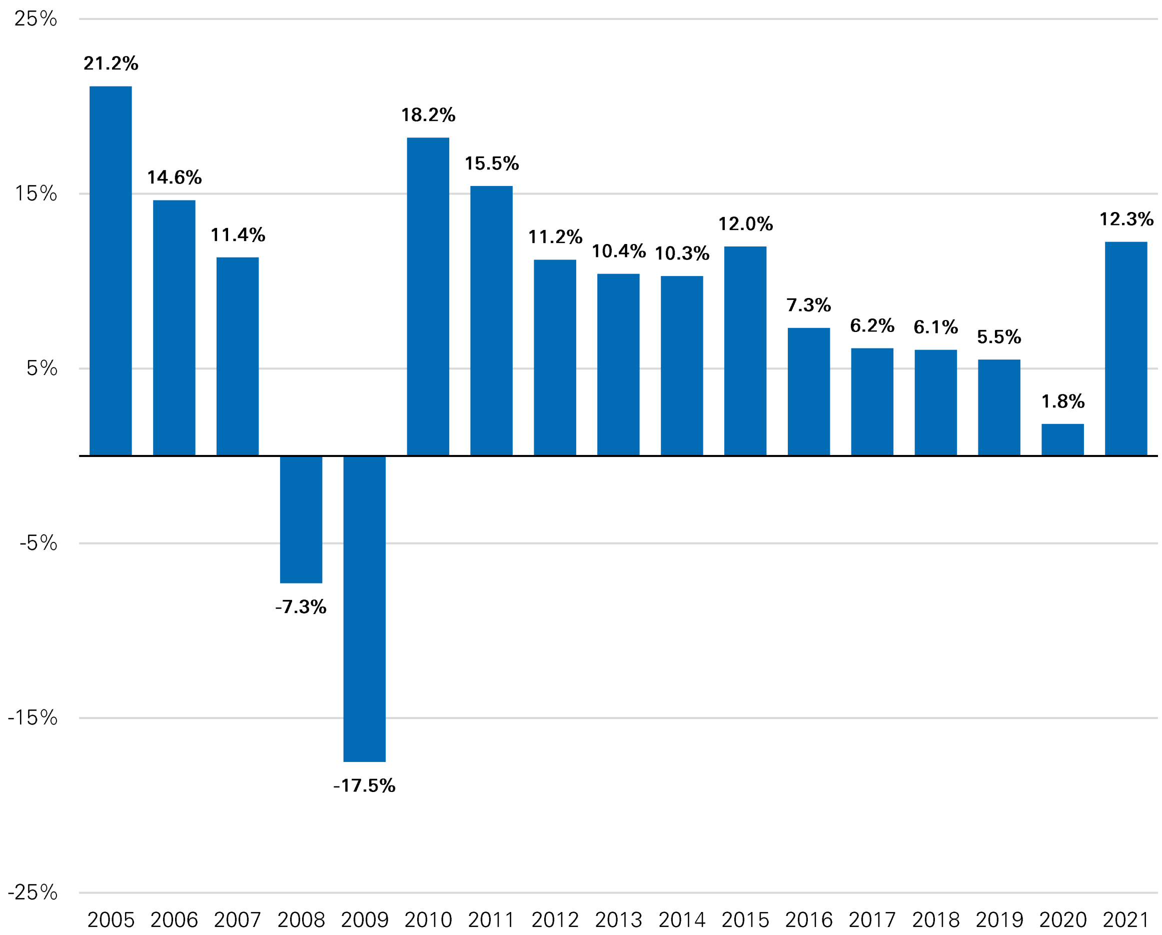
Total Returns

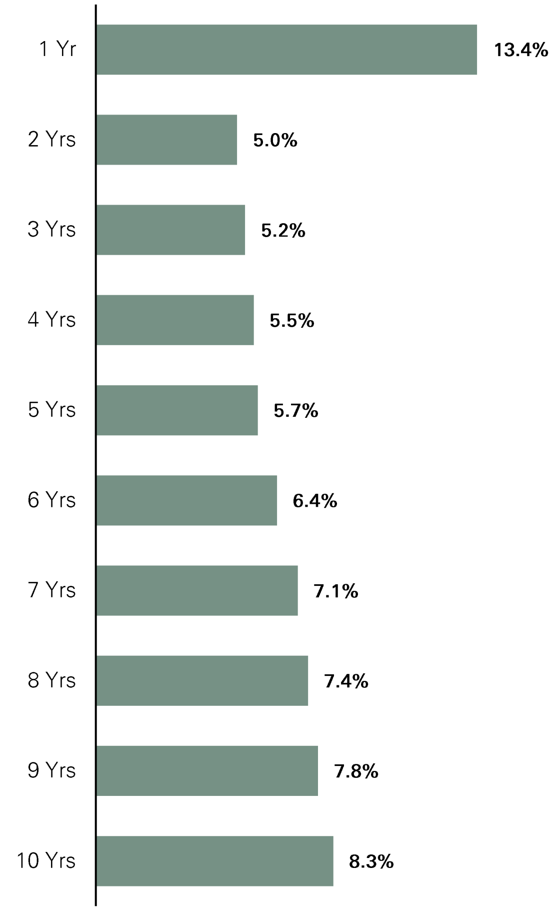
CALENDAR YEAR AND ANNUALIZED RETURNS

Boosted by the resurgence of strong appreciation (9.3% year-to-date), multifamily total returns rose to 12.3% through the first three quarters of the year. On an annualized basis, multifamily returns totaled 13.4%.

CALENDAR YEAR RETURNS



ANNUALIZED RETURNS

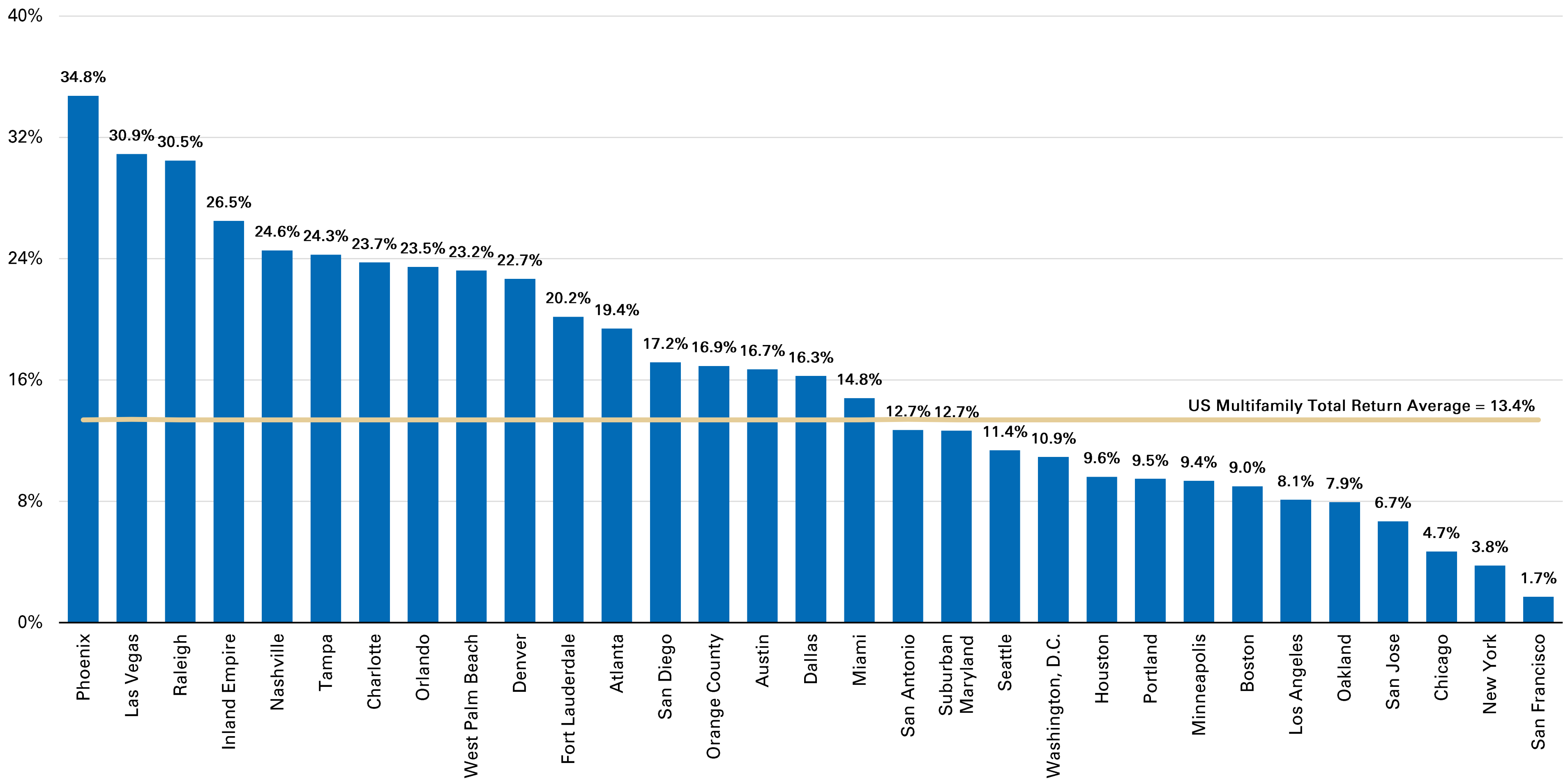


Source: Newmark Research, NCREIF

Total Returns by Market

ANNUALIZED TOTALS

Driven by strong appreciation returns, markets throughout the Southeast and Southwest are among the strongest performers over the past 12 months, led by Phoenix (34.8%), Las Vegas (30.9%) and Raleigh (30.5%).



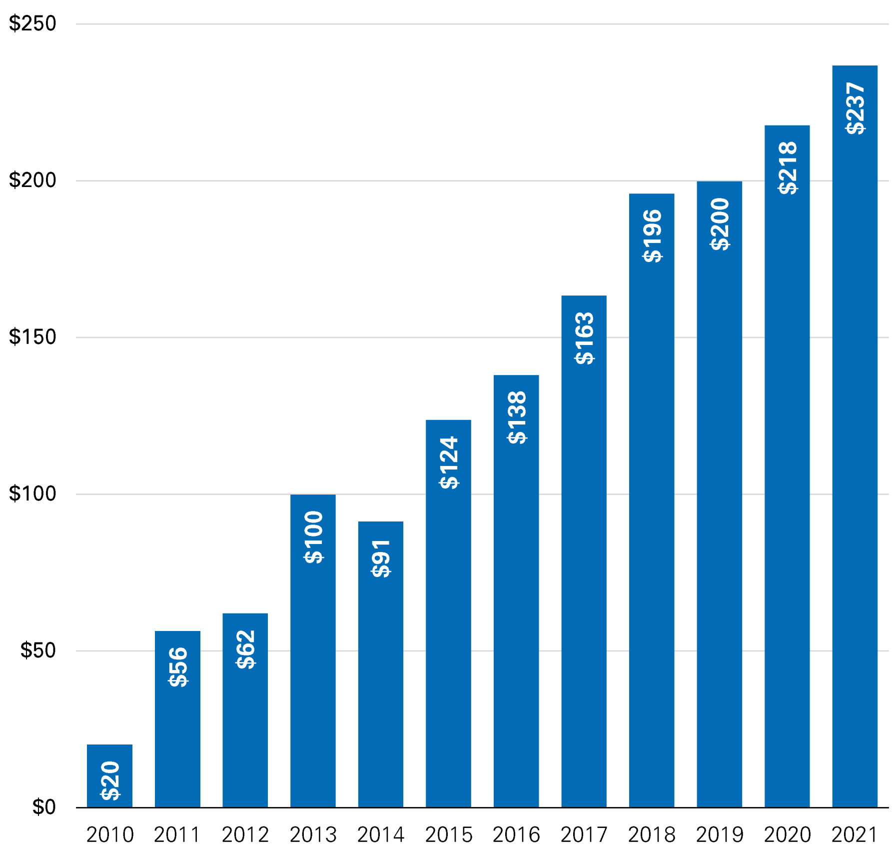
Source: Newmark Research, NCREIF

Dry Powder and Residential Fund Targets

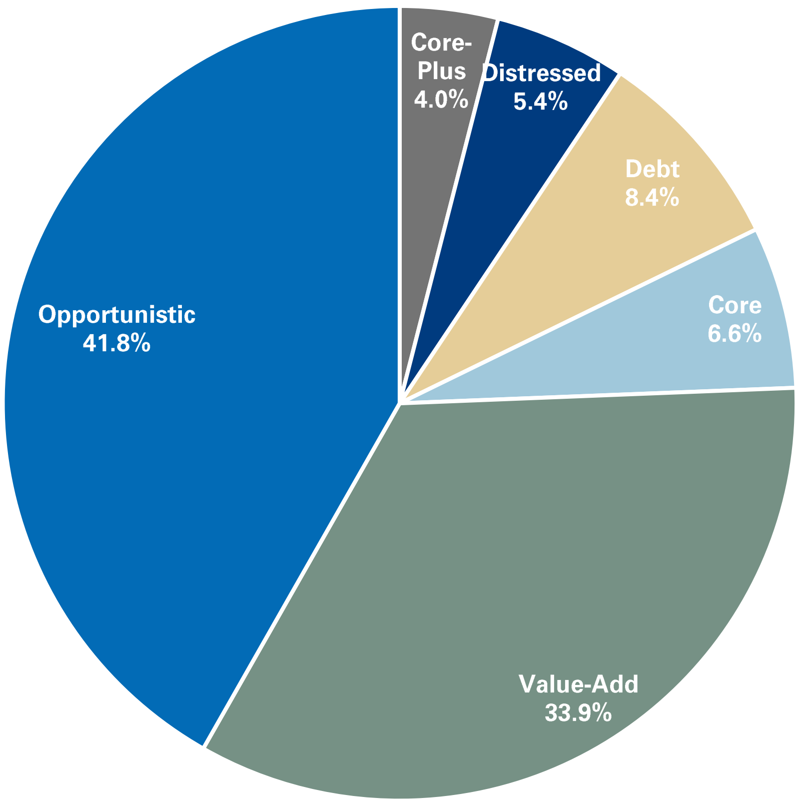
NORTH AMERICA; DOLLARS IN BILLIONS

Dry powder rose to another record high, totaling $237 billion. Closed-end funds have earmarked $78.0 billion specifically for residential investment, with 75.7% of that set aside for opportunistic and value-add strategies.

DRY POWDER (ALL PROPERTY TYPES)



2021 VINTAGE RESIDENTIAL FUND TARGETS BY STRATEGY

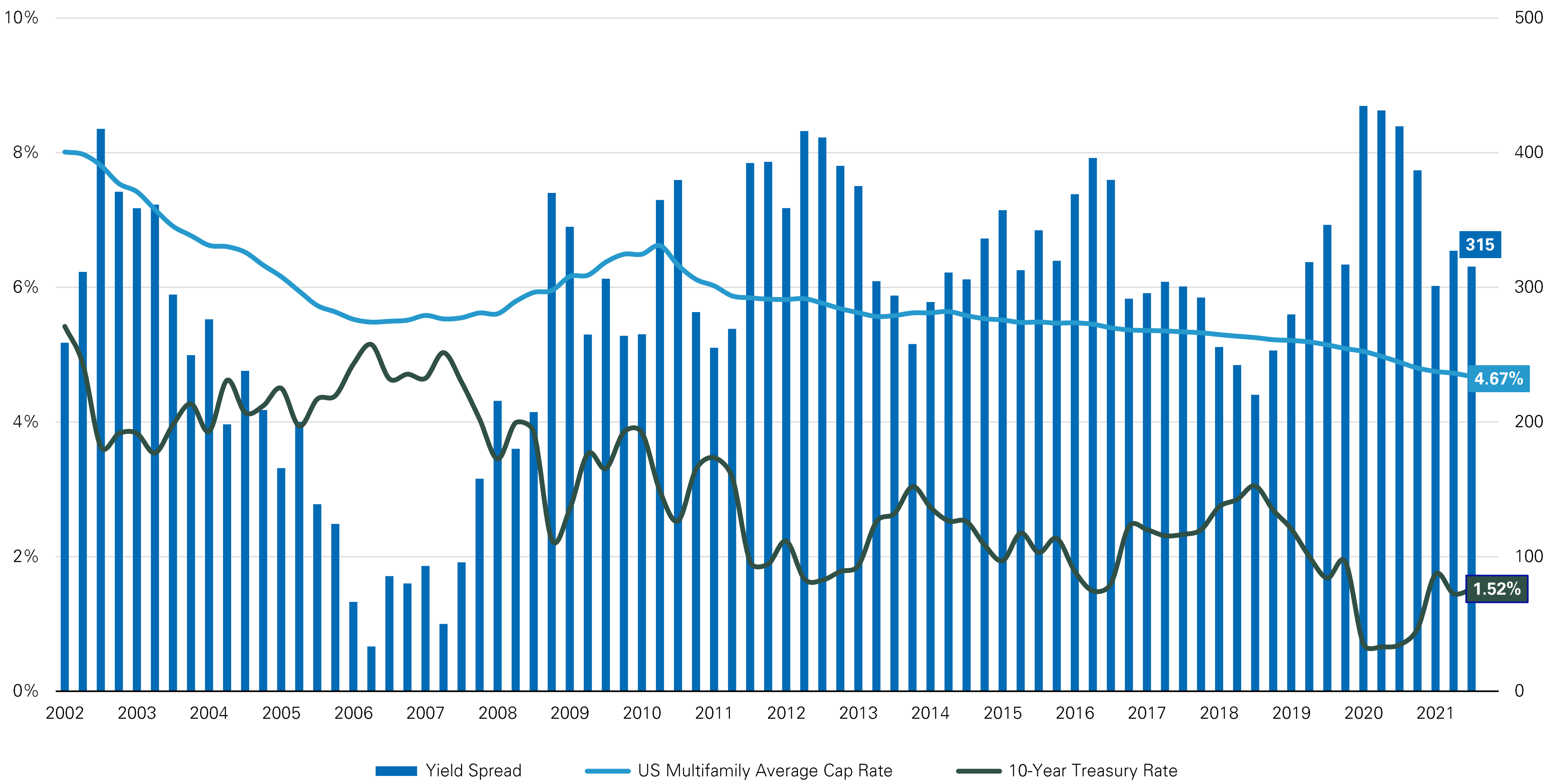


Source: Newmark Research, Preqin

Yield Spread

UNITED STATES; 12 MONTH AVERAGE

While the 10-year treasury rose slightly to 1.52% in 3Q21, multifamily cap rates continued to compress, falling 21 basis points year-over-year to an average of 4.67% nationally. The spread between the 10-year treasury note and multifamily cap rates compressed to 315 basis points, however remaining above the long-term average of 284 basis points.

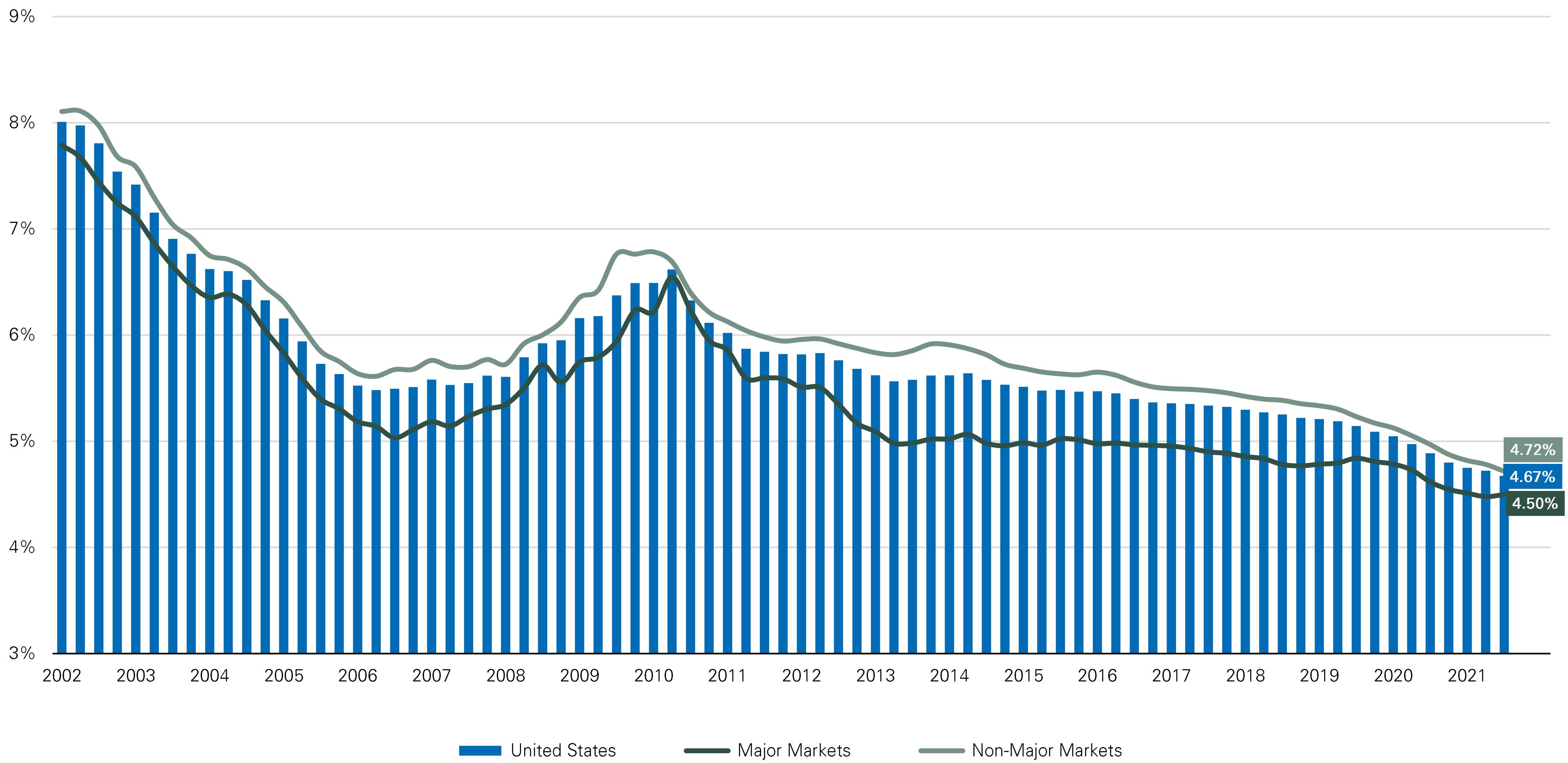


Source: Newmark Research, Federal Reserve Bank of St. Louis, Real Capital Analytics (Transactions $25M+)

Cap Rates

UNITED STATES; 12 MONTH AVERAGE

Unparalleled demand for multifamily product has caused cap rates for both the broad multifamily market and non-major markets to compress further in 3Q21. Since 2018, cap rates have compressed 62 basis points overall, 36 basis points for major markets, and 71 basis points in non-major markets.



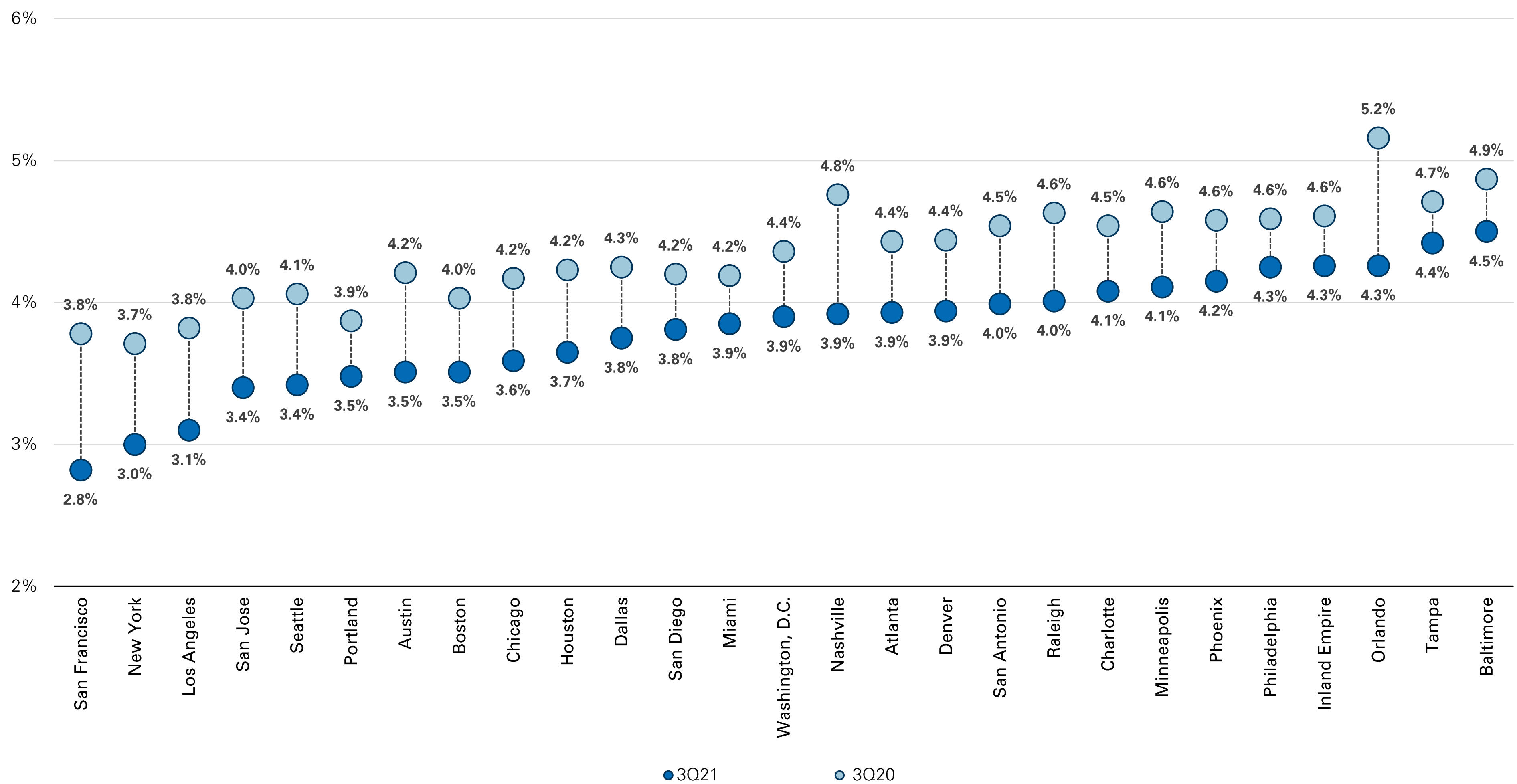
Source: Newmark Research, Real Capital Analytics (Transactions $25M+)

* Major markets: Boston, Chicago, Los Angeles metro, New York metro, San Francisco metro, Washington, D.C. metro. Non-major markets: all other markets.

Cap Rates by Market

SELECT MARKETS

Cap rates have compressed in nearly all US multifamily markets when compared to a year ago. Strong demand for value-add assets throughout the Southeast contributed to yields compressing 90 basis points in Orlando, and 84 basis points in Nashville year-over-year.

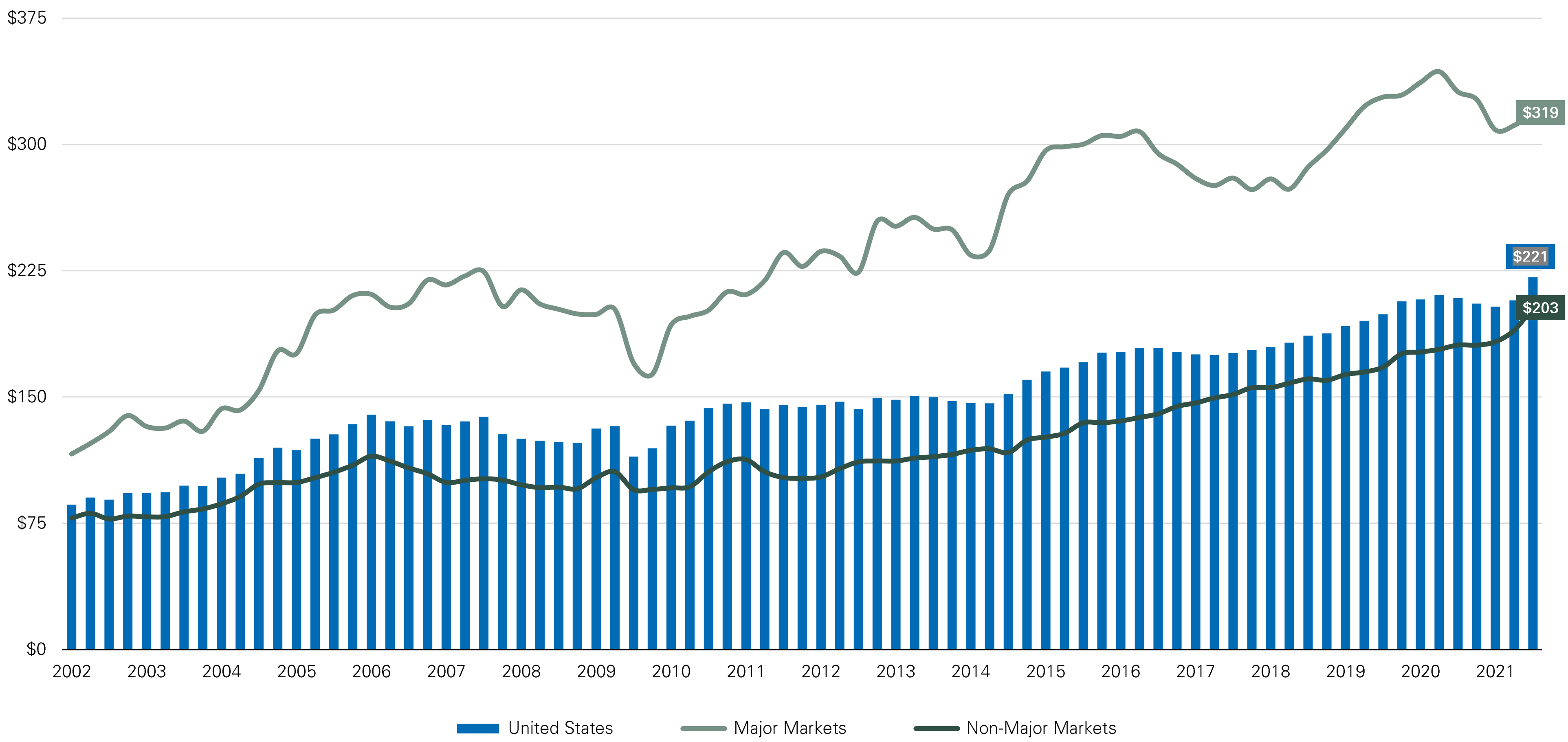


Source: Newmark Research, NCREIF

Price Per Unit

UNITED STATES; 12-MONTH AVERAGE

The average price per unit for the national multifamily market rose to an all-time high of $221,081 per unit on average. Pricing in non-major markets has risen significantly to keep pace with increasing investor demand. Since 2018, pricing increased 23.0% for the national multifamily market. Major market pricing has increased 14.1%, albeit lagging non-major market pricing growth of 30.6%.



Source: Newmark Research, Real Capital Analytics (Transactions $25M+)

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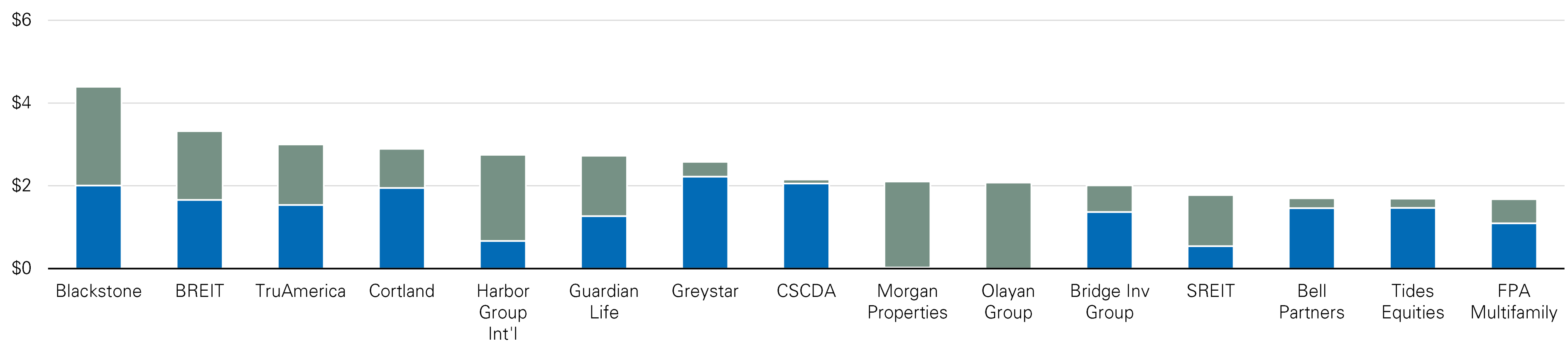
Top Buyers and Sellers

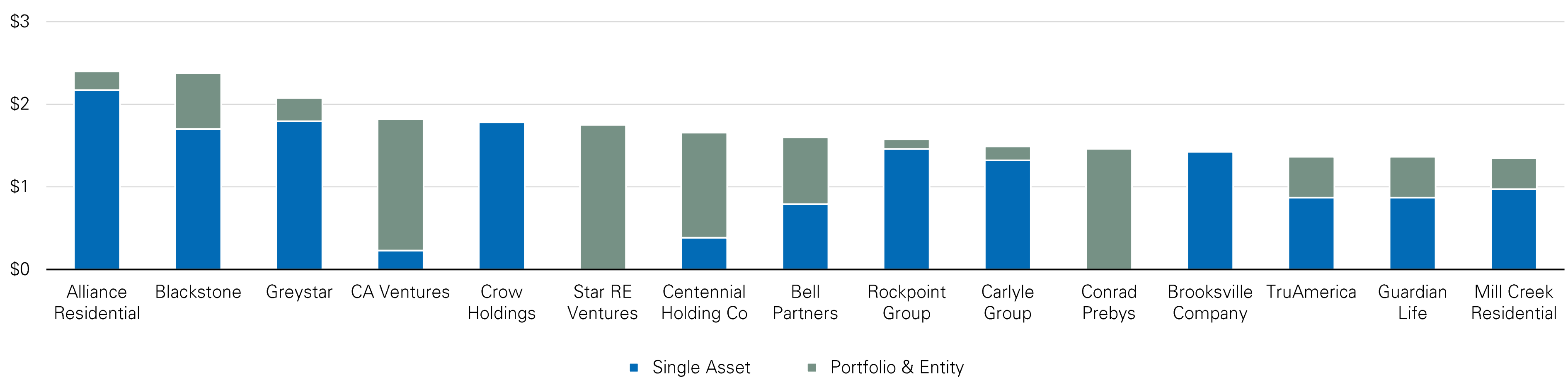
UNITED STATES; 12-MONTH TOTALS

Single-asset transactions accounted for 80.3% of transaction volume in 3Q21, however portfolio volume transactions remain a crucial segment of the market. In 3Q21, Blackstone and joint venture partners TruAmerica and Guardian Life acquired a 5,800-unit portfolio in San Diego for $1.5 billion, and BREIT acquired 3,037 units primarily in the Sunbelt from Bell Partners for $809.2 million. Over the trailing-twelve-months, Blackstone entities have acquired $7.7 billion in US multifamily properties.

TOP BUYERS ($ IN BILLIONS)



TOP SELLERS ($ IN BILLIONS)

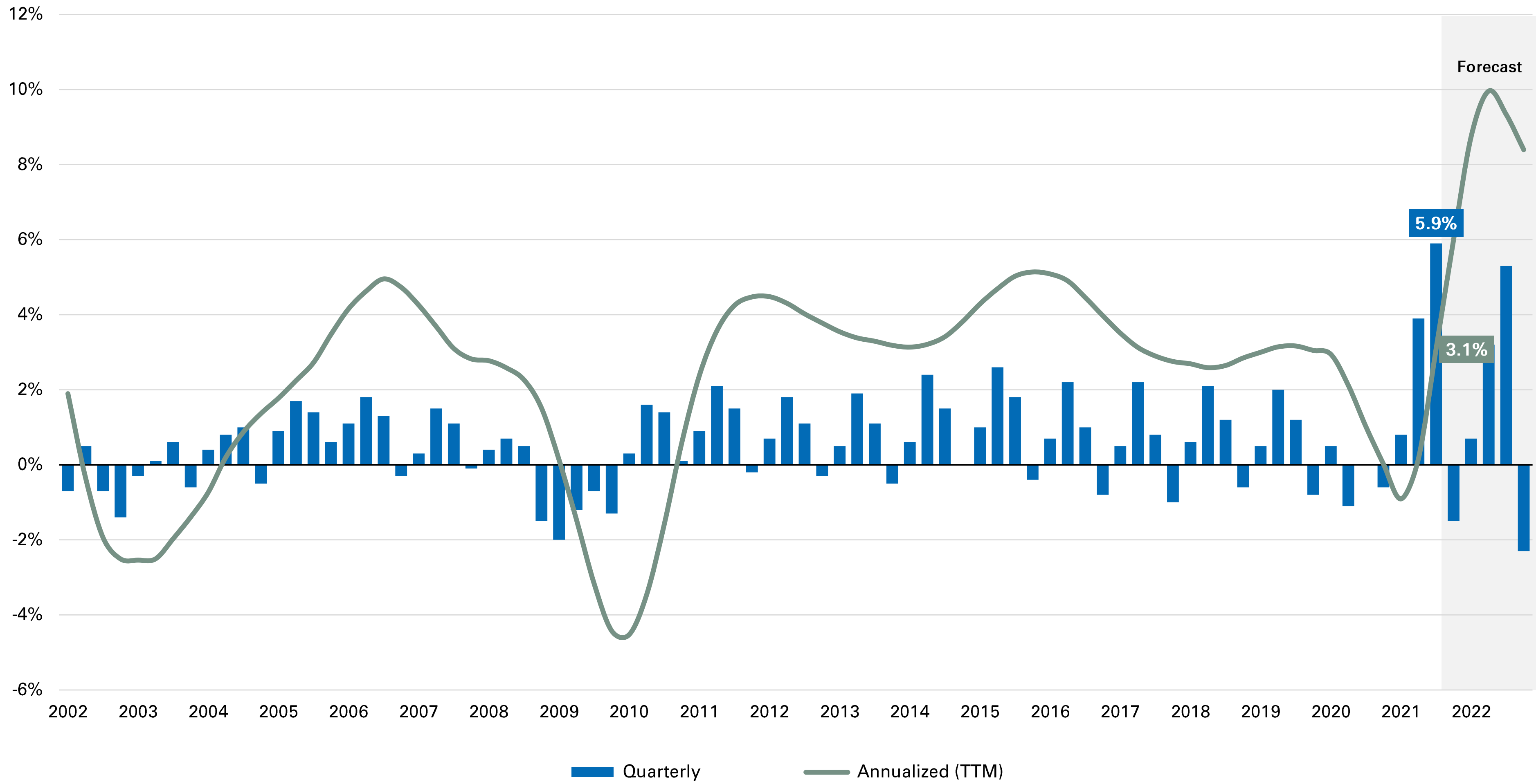


Source: Newmark Research, Real Capital Analytics

Effective Rent Growth

UNITED STATES: AVERAGE ANNUAL RENT GROWTH

As demand for rental units returned largely across the US, effective rent growth for 3Q21 rose 5.9%, the largest quarterly increase on record. On an annualized basis, effective rent growth grew 3.1%, recovering from pandemic lows. Increased demand for apartments is projected to support strong levels of rent growth through the end 2022.

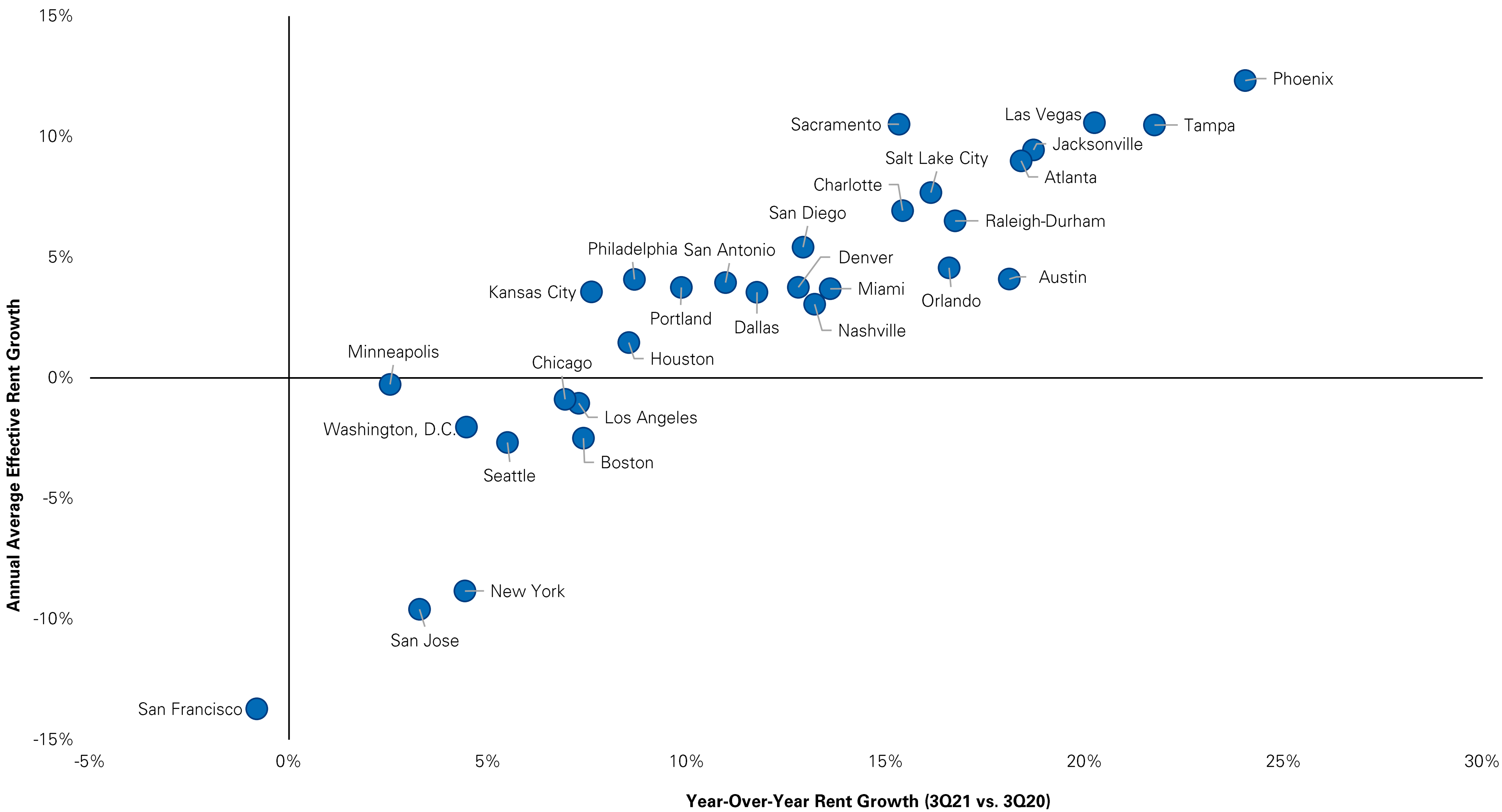


Source: Newmark Research, RealPage

Effective Rent Growth by Market

SELECT MARKETS; ANNUALIZED VS YEAR-OVER-YEAR

Phoenix, Tampa, and Las Vegas experienced the highest rent growth on both a year-over-year and annual average basis, as the sunbelt markets continue to outpace the broader market. While annual average effective rent growth for many large markets remains negative, year-over-year rent growth has increased for all the major markets with the exception of San Francisco.



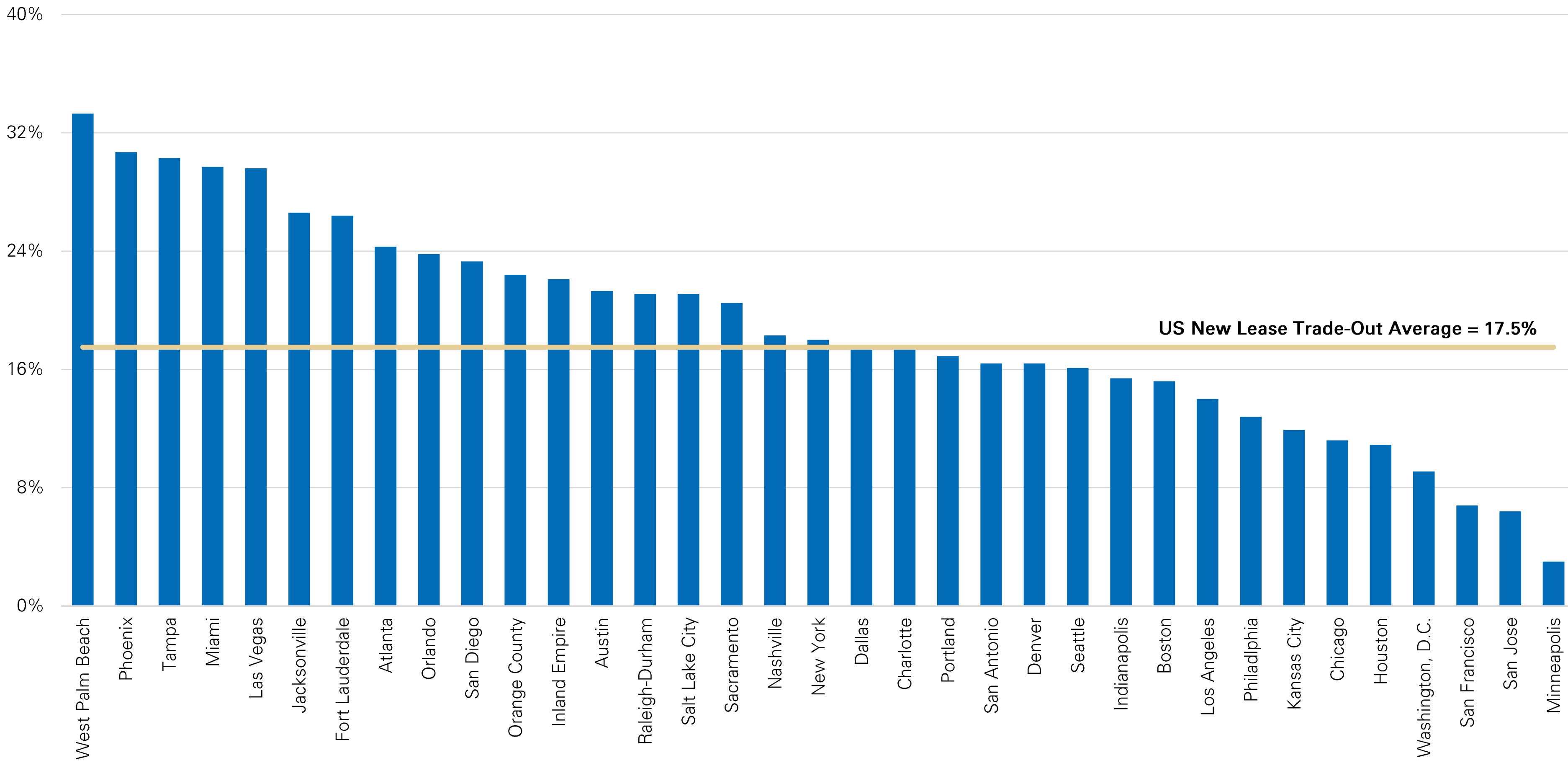
Source: Newmark Research, RealPage

* Annual average effective rent growth refers to the four-quarter average of the percentage change in effective rent per unit from the same quarter in the previous year.

New Lease Trade-Outs by Market

SELECT MARKETS

New lease trade outs surged to 17.5% nationally in 3Q21, the highest rate on record after averaging 2.2% from 2009-2019. Mobility has returned to the rental market and new lease trade-outs remain a significant catalyst for landlords' ability to increase rents at a rapid pace.



Source: Newmark Research, RealPage

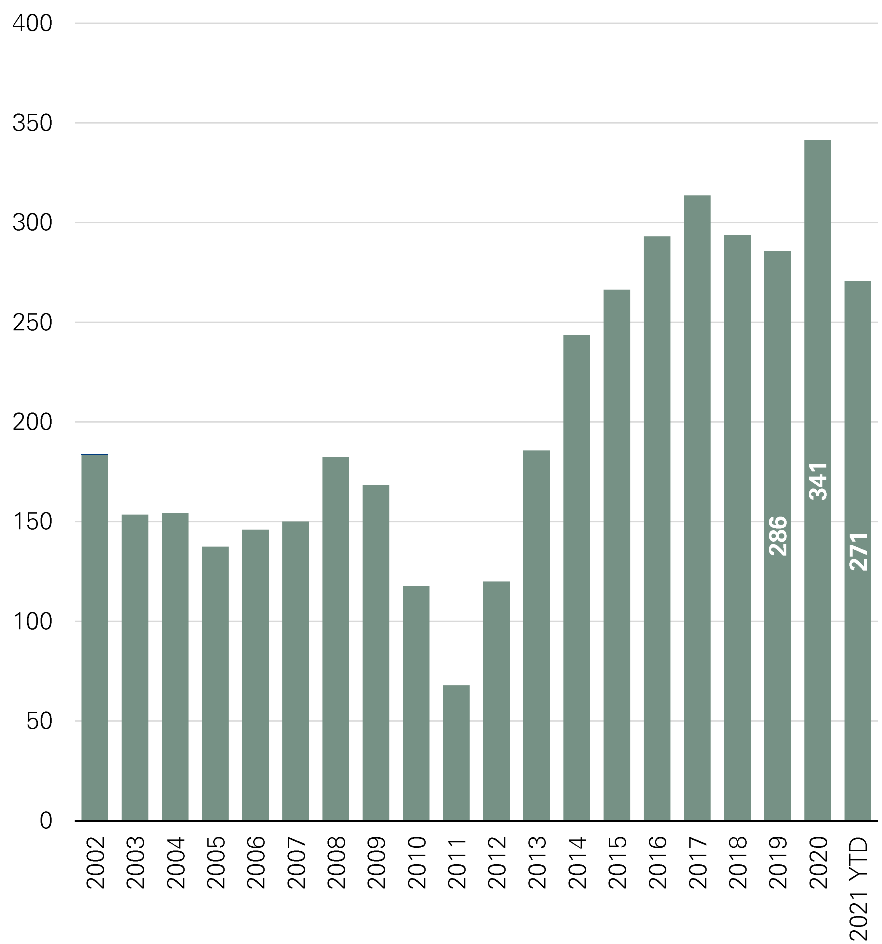
* New-lease trade-out refers to the difference in rent a new occupant of a unit is paying, compared to the rent the unit's previous occupant was paying.

Supply and Demand

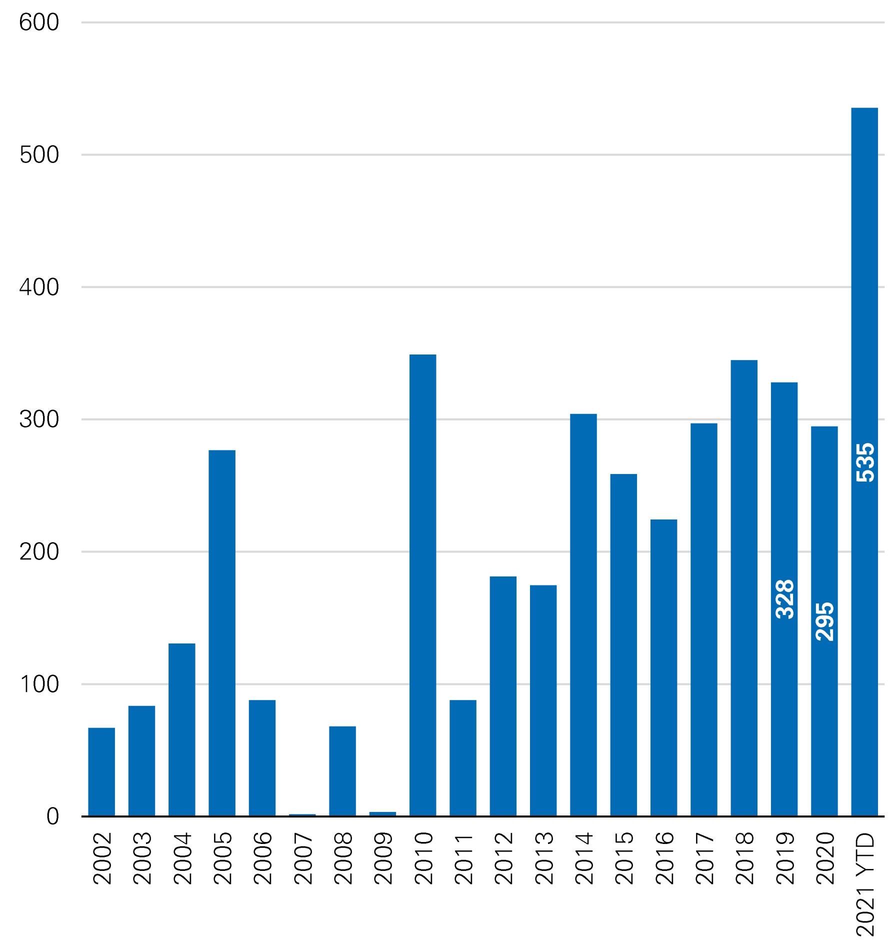
UNITED STATES; UNITS IN THOUSANDS

Year-to-date, 535,463 units have been absorbed nationally compared with just 270,770 units delivered during the same period. 268,331 units were rented in 3Q21, marking the highest quarterly absorption figure in history. As more workers return to the office and the cost to own single-family homes continues to rise to historic levels, rental housing is anticipated to see strong demand.

NEW SUPPLY



DEMAND

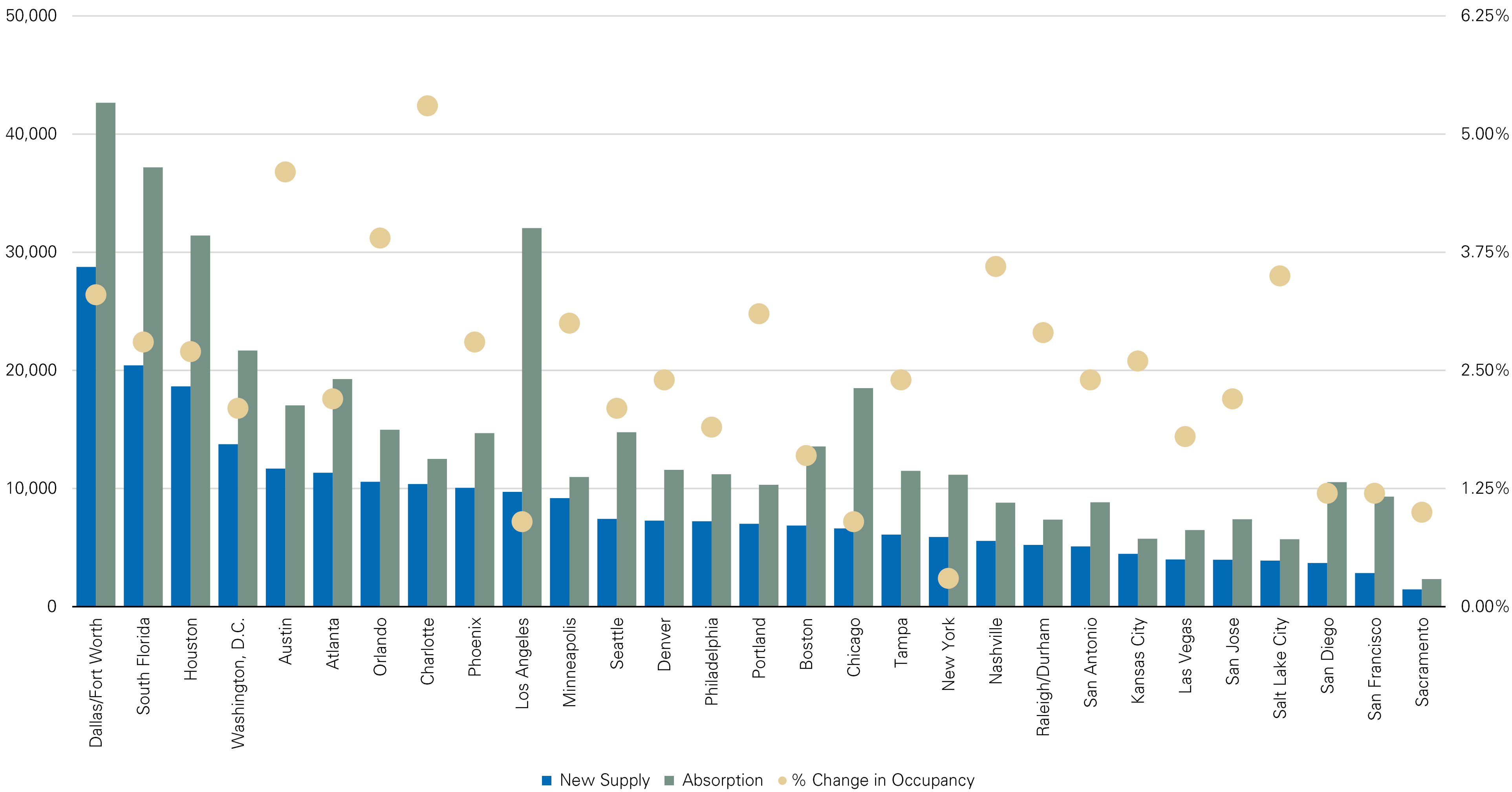


Source: Newmark Research, RealPage

Supply and Demand by Market

12-MONTH TOTALS

Absorption has been strongest in Dallas, South Florida, and Los Angeles during the trailing-twelve-months while many Sunbelt markets saw demand outpaced supply. While absorption in major markets has roared back over the past 12 months, occupancy gains have been particularly robust in Austin, Charlotte, Orlando and Nashville – all which have experienced occupancy rise at least 3.6% over the same time period.



Source: Newmark Research, RealPage

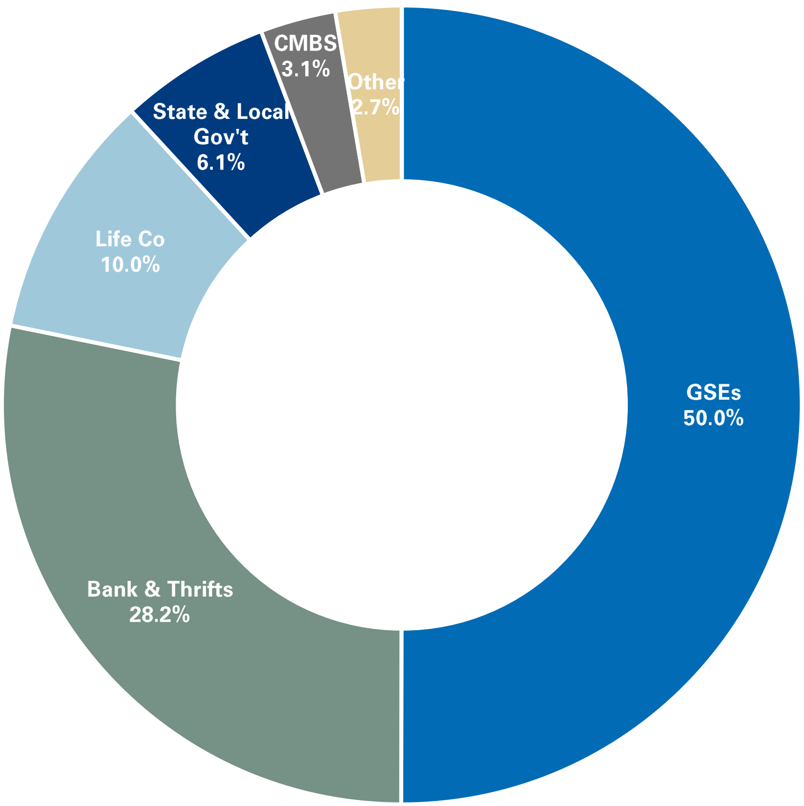
* South Florida includes Miami, Fort Lauderdale and West Palm Beach MSA's. New York include Westchester, Long Island and Northern NJ.

Mortgage Debt Outstanding

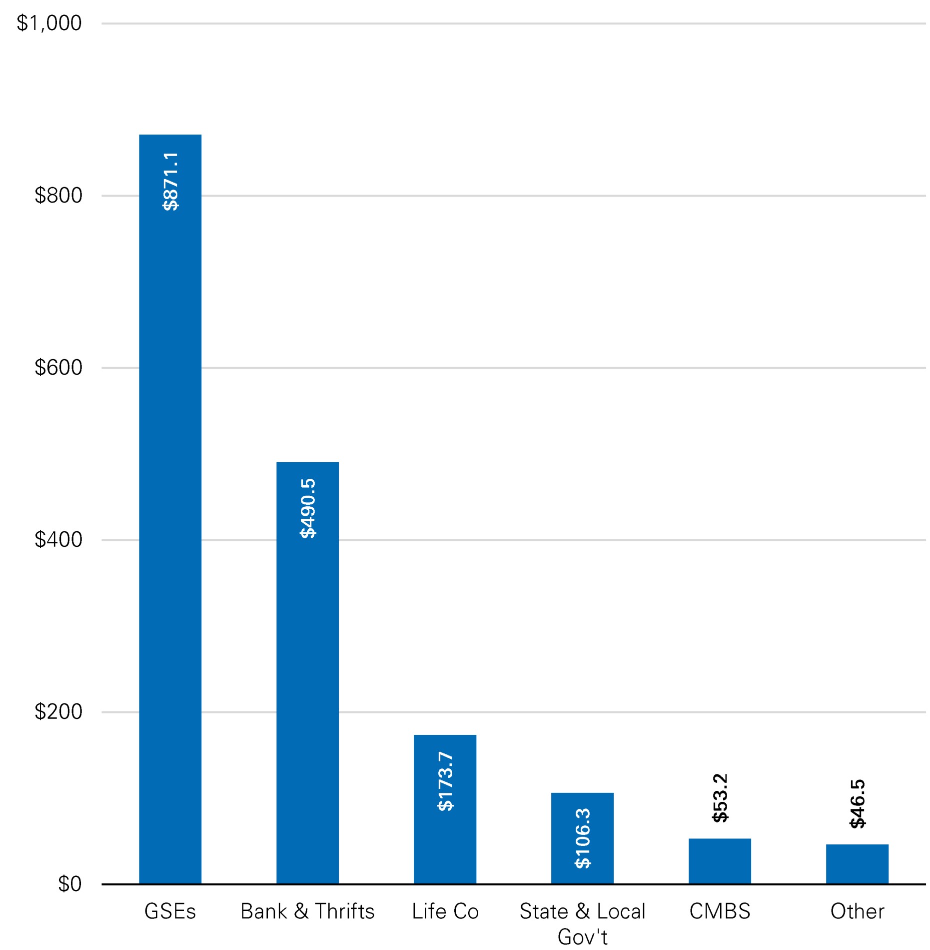
UNITED STATES

Multifamily mortgage debt outstanding rose to $1.74 trillion, a 1.4% increase quarter-over-quarter. GSE debt outstanding increased by 1.2% and currently accounts for half of total debt outstanding.

DEBT OUTSTANDING BY GROUP AS A PERCENTAGE



DEBT OUTSTANDING BY GROUP (DOLLARS IN BILLIONS)



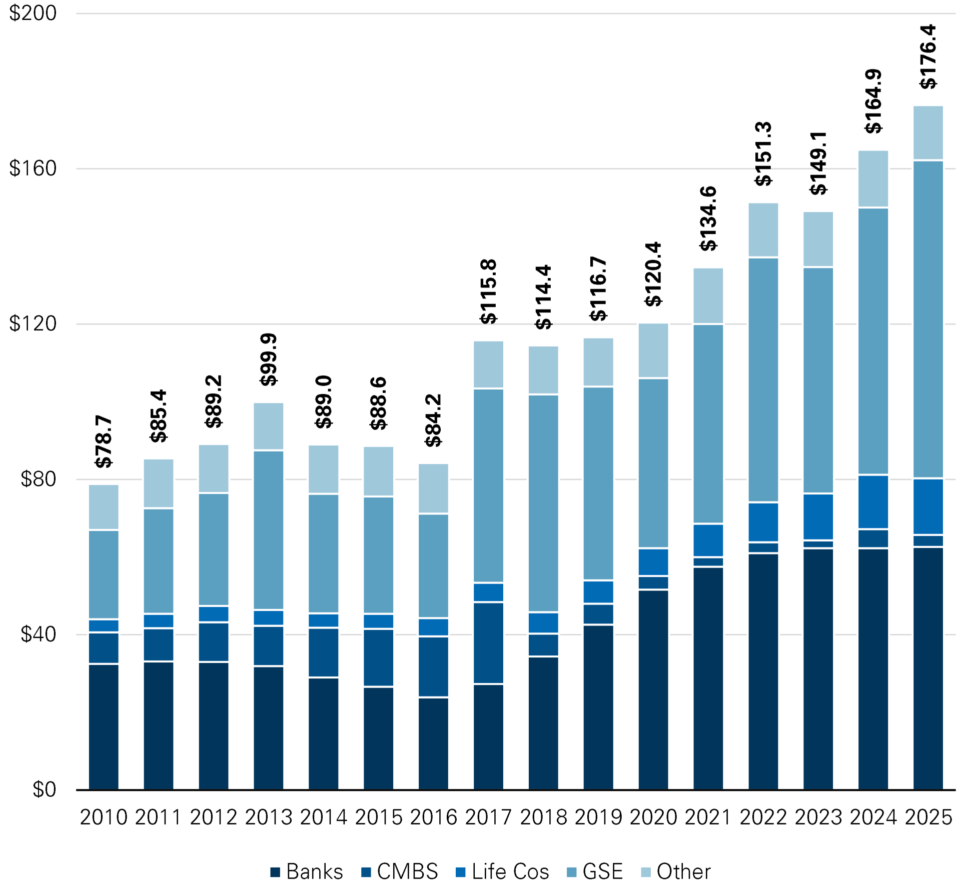
Source: Newmark Research, Mortgage Bankers Association

Multifamily Mortgage Maturities

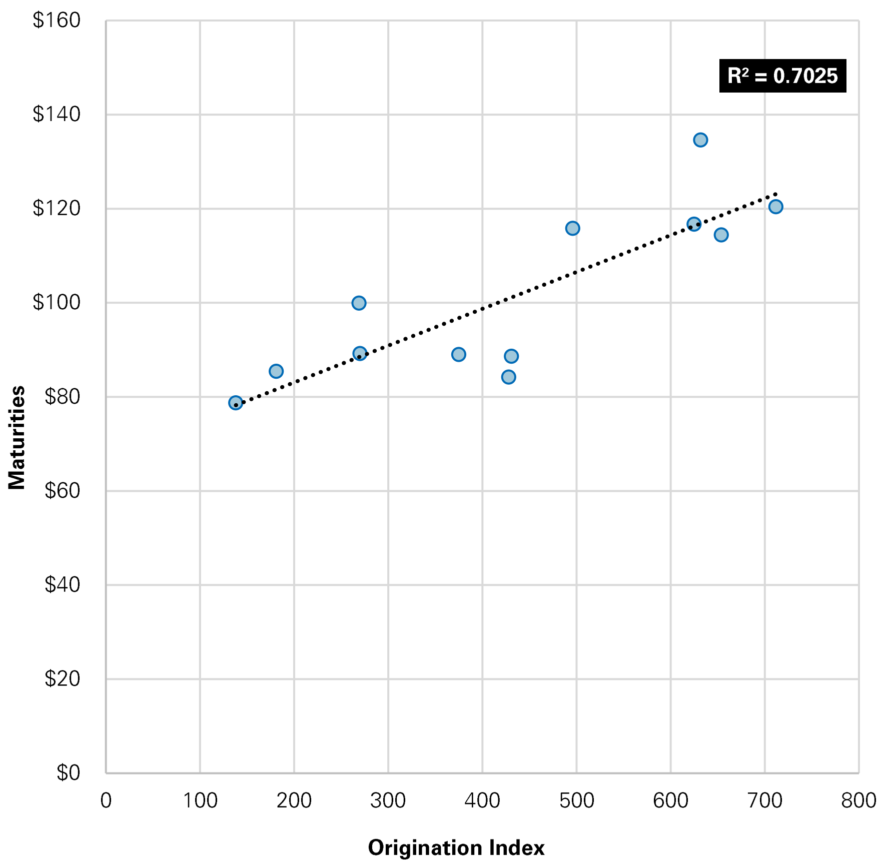
DOLLARS IN BILLIONS

With $776.3 billion in multifamily mortgage maturities estimated from 2021 through 2025, both the multifamily investments sales and financing markets are likely to remain robust over the next several years. Since 2010, maturities and originations have been positively correlated at 70.3%.

MORTGAGE MATURITIES



CORRELATION BETWEEN MATURITIES & ORIGINATIONS

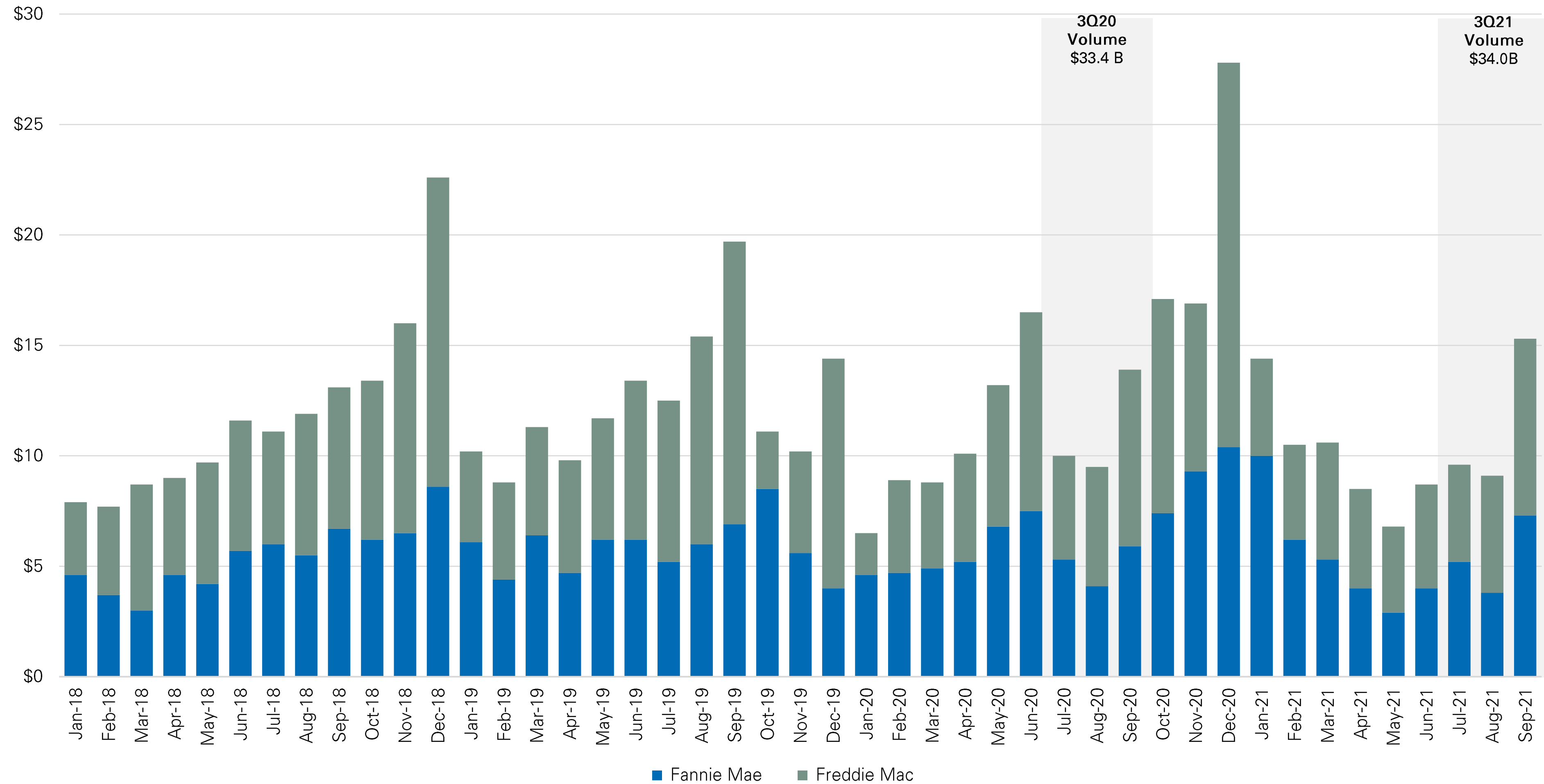


Source: Newmark Research, Trepp, Federal Reserve

Monthly GSE Volume

DOLLARS IN BILLIONS

GSE volume totaled $34.0 billion in 3Q21, up 1.8% compared to the 3Q20. 2022 lending caps for Fannie and Freddie were recently set at $78 billion for each enterprise based on the FHFA's projections of overall growth of the multifamily originations market. In order to maintain previous levels of market share (approximately 50%), agencies will have to increase caps going forward.



Source: Newmark Research, Fannie Mae, Freddie Mac

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