

MULTIFAMILY DEVELOPMENT IS RAMPING UP TO FILL HOUSING SHORTAGE

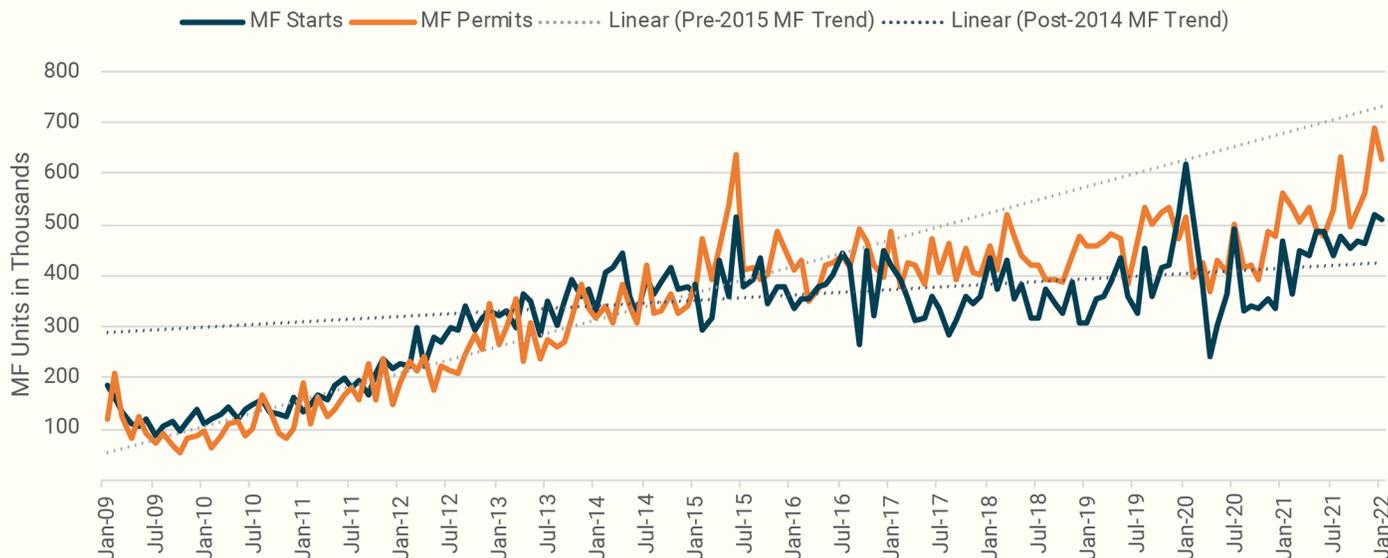
Despite continuing headwinds for multifamily development such as increased labor and material costs, construction delays, and other COVID-19-related difficulties, the pace of multifamily building permitting and starts has accelerated since the beginning of 2021, according to seasonally adjusted annual rates (SAAR). The SAAR is the number of permits or starts expected over the next 12 months based on the monthly seasonally adjusted rate.

Multifamily housing units authorized by building permits were at a SAAR of 690,000 at the end of 2021, marking an increase of 45% from the previous year, according to the U.S. Census Bureau. That was the highest annual rate of permits since the multifamily boom of the mid-1980s. The annual rate of multifamily permitting slipped almost 9% in January 2022 from December but was still a very strong 629,000 units.

Meanwhile, multifamily units started were at an annual rate of 521,000 units during 2021, up 55% from the December 2020 annual rate, but down slightly in January 2022 to 510,000 units. Multifamily starts have been hampered somewhat by the aforementioned headwinds with the December peak eclipsed by higher levels as recently as pre-pandemic January 2020. The prior peak was in the mid-1980s.

Because of the severe dampening effect on the single-family market of the housing bubble bust and financial recession from 2009 to 2014, multifamily filled a lot of the void in housing demand, especially as renting became more of a lifestyle choice. The SAARs for both multifamily permits and starts have been trending upward since the end of the Great Recession but that trend has been less pronounced since about 2015 as single-family development has regained some footing.

Annual Multifamily (5+) Permits and Starts



Source: U.S. Census Bureau

While there was a dramatic shift in the growth trends for both multifamily permits and starts since 2015, there was also a rapid rise in trends since the end of pandemic shutdowns and subsequent economic recovery. The key factor that may be affecting these trajectories for multifamily development is the competing single-family market.

Housing is still in strong demand and single-family developers are also facing shortages and increasing costs. Ongoing supply chain issues in manufacturing, scheduling and delivery of the goods needed to build new homes has slowed the pace of recovery in the single-family market. Additionally, there is a chronic shortage of both skilled and unskilled labor to build homes. To be sure, multifamily developers face these same issues but the scale of their impact on the housing industry is lower.

These, coupled with higher costs for land, lumber, appliances, metals, municipal fees and all the other multiple items that home builders need make it impossible for developers to build homes in the lower price ranges that many first-time buyers seek. The National Association of Home Builders estimated that the recent jump in lumber prices added more than \$18,000 to the price of a newly built home and nearly \$7,300 per unit to the cost of multifamily development.

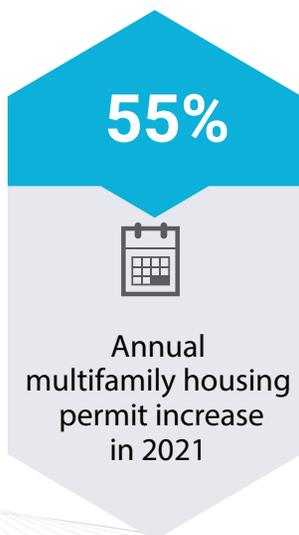
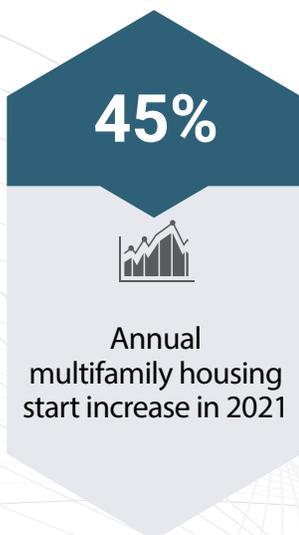
Another factor pushing people into (or keeping them living in) apartments is the lack of existing homes to choose from.

Resale inventory is at its lowest level in decades and people just aren't moving out as readily as they used to. According to The National Association of Realtors, the inventory of unsold existing homes fell to a new all-time low of 860,000 homes in December 2021, equivalent to 1.6 months of the monthly sales pace.

A recent study by Realtor.com estimated that the U.S. is short about half a million homes when comparing household formation nationally to new single-family development. This phenomenon of household formation outpacing new supply has been going on well before the pandemic. The gap between single-family home constructions and household formations grew from 3.8 million homes at the beginning of 2019 to 5.8 million homes as of the end of 2021.

Most experts think that housing demand will remain strong into 2022 unless rising inflation continues to outpace wage and salary growth. Rising interest and mortgage rates may slow price growth but could also push nervous potential buyers off the fence, increasing short-term demand.

With household formation increasing even faster coming out of the pandemic, multifamily developers are stepping in again (as they did post-housing bubble) to fill the void for a population that just needs a place to live.



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