

## Q4 2023

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# Multifamily Supply Forecast Notes

For the Q4 2024 update, the Yardi Matrix Multifamily supply forecast has been increased for 2024 and 2025. Forecast completions for the later years have been reduced by roughly 5%.

### Multifamily New Supply Forecast Q4 vs. Q3

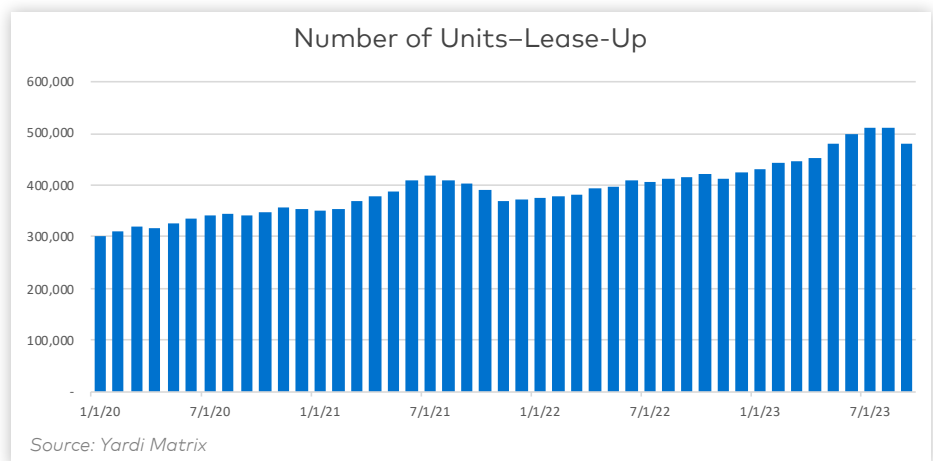
Year	4Q 2023	3Q 2023	% Change
2023	487,512	484,943	0.5%
2024	536,145	506,574	5.8%
2025	451,430	424,899	6.2%
2026	377,622	401,065	-5.8%
2027	397,650	417,378	-4.7%
2028	403,683	426,722	-5.4%

Source: Yardi Matrix

### Near-Term Forecast: 2023 to 2025

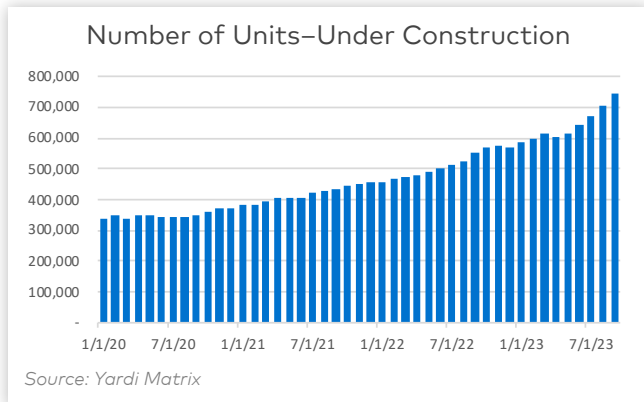
Construction starts remained relatively robust in the first half of 2023, and the under-construction pipeline increased 7.6% in the third quarter. Therefore, the Q4 2023 supply forecast update has increased forecast completions 5.8% for 2024 and 6.2% for 2025.

For multifamily markets tracked by Yardi Matrix on or before January 2020, there are currently 1,223,601 units in the under-construction pipeline. Of these units, 479,634 are currently in lease-up, roughly in line with the trailing six-month average of 483,000 units but some 15.9% above year-ago levels. Most of these units will be completed this year or in the first half of 2024.



Source: Yardi Matrix

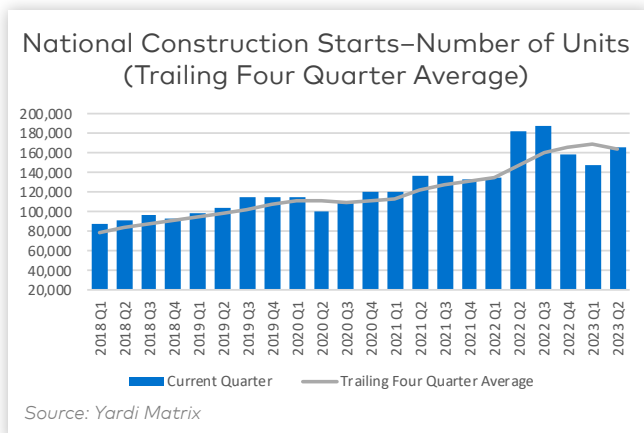
Multifamily construction starts held at a relatively high level through the first half of 2023. As a result, the number of under-construction units not in lease-up continues to increase. Currently there are 743,967 units, a 16.2% quarterly increase and a 35.3% increase over year-ago levels.



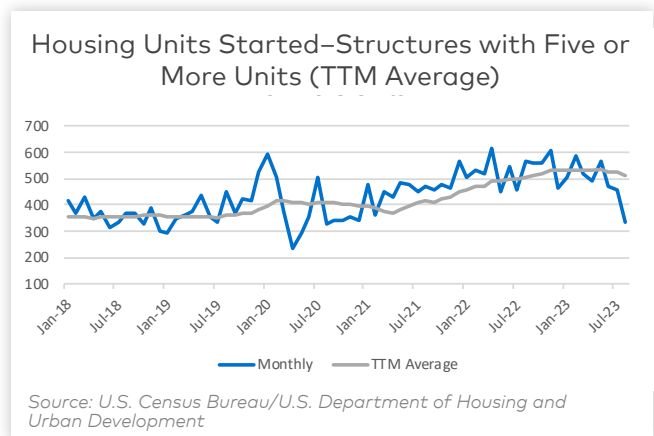
These units will most likely be completed in 2024 or 2025.

On a year-over-year basis, multifamily construction starts most likely peaked late in the second quarter of 2023, and construction activity in the first half was robust. Yardi Matrix has so far identified 312,950 units started in the first half of 2023, not far off the 317,428 units started in the first half of 2022 and well above levels recorded for the first half of 2021 or 2022.

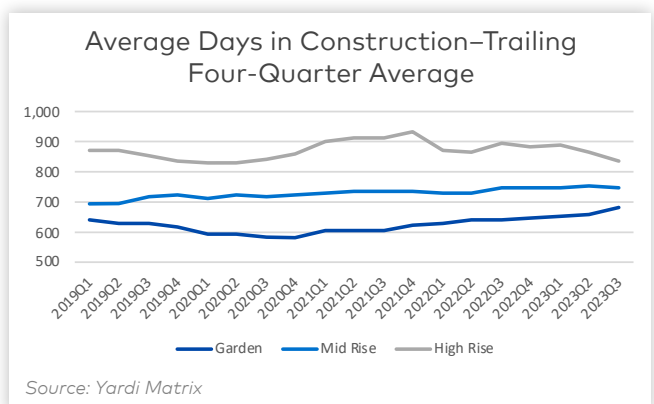
The trailing four-quarter average for construction starts peaked in Q1 2023, and for Q2 2023 stands at 164,373 units.



Our construction start data is collected with a lag; therefore, more current data is unavailable. The U.S. Census Bureau's residential construction report for buildings with five or more units is a more current data point. While it does not closely track the level of Yardi Matrix data, it does generally track directional changes. The trailing 12-month average for this data series peaked around May 2023, and both July and August results have shown a decline. This suggests new multifamily construction activity tracked by Yardi Matrix should continue to deteriorate in the final quarter of 2023.



Construction completion times remain elevated for both garden and mid-rise buildings. In Q3 2023, the national average completion time for garden apartments was 722 days, well above the trailing four-quarter average of 682 days. Likewise, the Q3 national average completion time for mid-rise apartments was 760 days, above the trailing four-quarter average of 748 days.



## Top 15 Markets: Forecast New Supply–Number of Units

Market	2023		2024	
	Supply	% of Stock	Supply	% of Stock
Phoenix	20,541	6.05%	17,788	4.94%
Austin	20,293	7.45%	26,948	9.20%
Denver	16,664	5.39%	16,583	5.09%
Houston–West	14,480	2.91%	16,866	3.29%
Charlotte	14,183	7.00%	15,178	7.00%
Orlando	13,351	5.38%	11,223	4.29%
Raleigh–Durham	13,051	7.50%	14,611	7.81%
Atlanta–Suburban	11,569	4.65%	10,470	4.03%
New Jersey–Northern	10,223	4.03%	11,068	4.19%
Tampa–St Petersburg–Clearwater	10,060	4.23%	9,910	4.00%
Miami	9,159	5.92%	13,125	8.01%
Dallas–North	9,097	2.23%	16,474	3.94%
Nashville	9,056	5.27%	9,902	5.48%
Seattle	9,004	3.17%	12,717	4.33%
Washington DC–Suburban Maryland	8,412	2.50%	7,657	2.22%

Source: Yardi Matrix

## Top 15 Markets: Forecast New Supply–Percent of Stock

Market	2023		2024	
	% of Stock	Supply	% of Stock	Supply
Huntsville	12.75%	5,073	6.17%	2,768
Southwest Florida Coast	9.39%	7,865	7.51%	6,882
Colorado Springs	8.44%	3,616	10.13%	4,703
Charleston	7.91%	6,234	4.00%	3,406
Raleigh–Durham	7.50%	13,051	7.81%	14,611
Austin	7.45%	20,293	9.20%	26,948
Charlotte	7.00%	14,183	7.00%	15,178
Salt Lake City	6.94%	8,048	6.28%	7,792
Phoenix	6.05%	20,541	4.94%	17,788
Madison	6.00%	3,197	5.15%	2,909
Miami	5.92%	9,159	8.01%	13,125
Pensacola	5.83%	2,394	4.93%	2,142
Denver	5.39%	16,664	5.09%	16,583
Orlando	5.38%	13,351	4.29%	11,223
Nashville	5.27%	9,056	5.48%	9,902

Source: Yardi Matrix

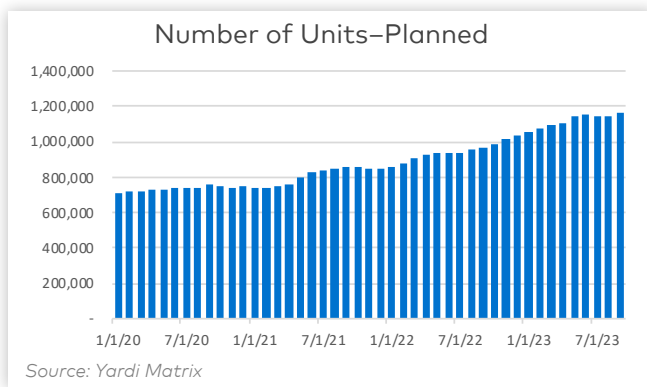
## Long-Term Forecast: 2026 to 2028

Compared to the previous quarter's forecast update, the Q4 forecast update has decreased forecast completions for 2026, 2027 and 2028.

We continue to expect a mild recession will start in late 2023 or early 2024. The combination of a weakening economic environment, tight financing conditions and record levels of new supply coming online will materially depress new construction activity in the latter part of 2023 and all of 2024.

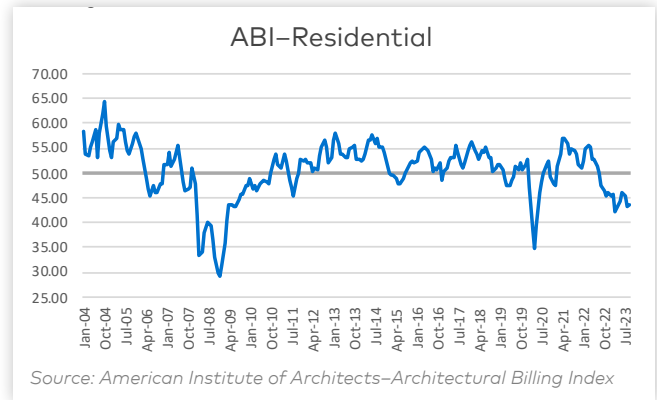
Our baseline forecast for 2026 has therefore been reduced by 5.8% to 377,622 units, while the baseline forecast for 2027 and 2028 completions has been reduced by a similar percentage, to 397,650 and 403,683 units, respectively.

The number of planned units at the end of Q3 2023 stood at 1.16 million, a 19.9% increase over year-ago levels and a 0.6% increase over quarter-ago levels. The near flat growth recorded in Q3 is a sharp departure from the growth the planned pipeline recorded post pandemic. This is another sign that development interest is slowing.

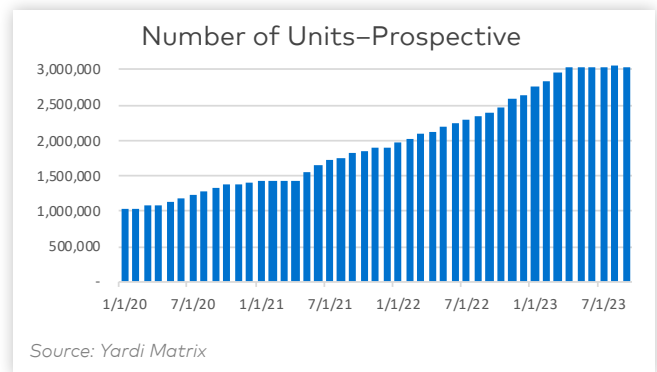


The September Architectural Billing Index (ABI) for residential-design billings came in at 43.5. This is the 14th consecutive month that the index has been below 50. (A reading below 50 denotes billing contraction; above 50 denotes billing expansion.) Historically, changes in the ABI precede changes in construction activity by 12 to 18 months. This se-

ries is another indicator that multifamily construction starts should continue to decline through the end of 2023 and into 2024.



The prospective pipeline continues to plateau, standing at 3.04 million units at the end of Q3 2023. This represents a 27.5% increase over year-ago levels and is essentially unchanged from a quarter ago. Since reaching 3.0 million units in April 2023, the prospective pipeline has more or less remained flat.



## Alternative Downside Forecast

Our alternative downside forecast, summarized below, has been increased by 9.0% to 425,000 units for 2025 and reduced for all subsequent years. Specifically, 2026 has been decreased by 5.6% to 335,000 units, 2027 decreased by 6.7% to 350,000 units, and 2028 decreased by 5.1% to 375,000 units.

Year	Baseline Forecast	Alternative Downside Forecast
2023	487,512	487,512
2024	536,145	536,145
2025	451,430	425,000
2026	377,622	335,000
2027	397,650	350,000
2028	403,683	375,000

Source: Yardi Matrix

The current baseline forecast assumes a relatively mild recession starting in late 2023 or early 2024. In this scenario, multifamily fundamentals remain relatively solid, while debt and equity financing 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 29.6% 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 financing is far less available and multifamily fundamentals materially weaken. This scenario models a deeper falloff in new construction starts beginning in the second half of 2023 that remains through 2025. As a result, new supply declines 37.5% peak to trough. New supply begins to increase in 2027 and 2028, but at levels well below current cycle highs.

## Bottom Line

Multifamily construction starts remained elevated through the first half of 2023. As a result, forecast new supply for 2024 and 2025 has been increased. However, several developments materialized in Q3 2023 that suggest new development activity is slowing:

- On a year-over-year basis, Yardi Matrix construction start data peaked in May 2023.
- The planned pipeline plateaued in Q3 2023.
- The prospective pipeline continued to plateau in Q3 2023.
- U.S. Census Bureau new residential construction statistics showed a sharp contraction in multifamily construction starts in August.
- The Architectural Billing Index has returned 14 consecutive months of readings below 50.

As a result, both the baseline and alternative downside forecasts have been reduced for the last three years of the forecast. Our baseline forecast envisions new supply bottoming in 2026 at around 377,000 units, while the alternative downside forecast models new supply bottoming in 2026 at 335,000 units.

—Ben Bruckner, Senior Research Analyst

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