

# Multifamily Market Outlook

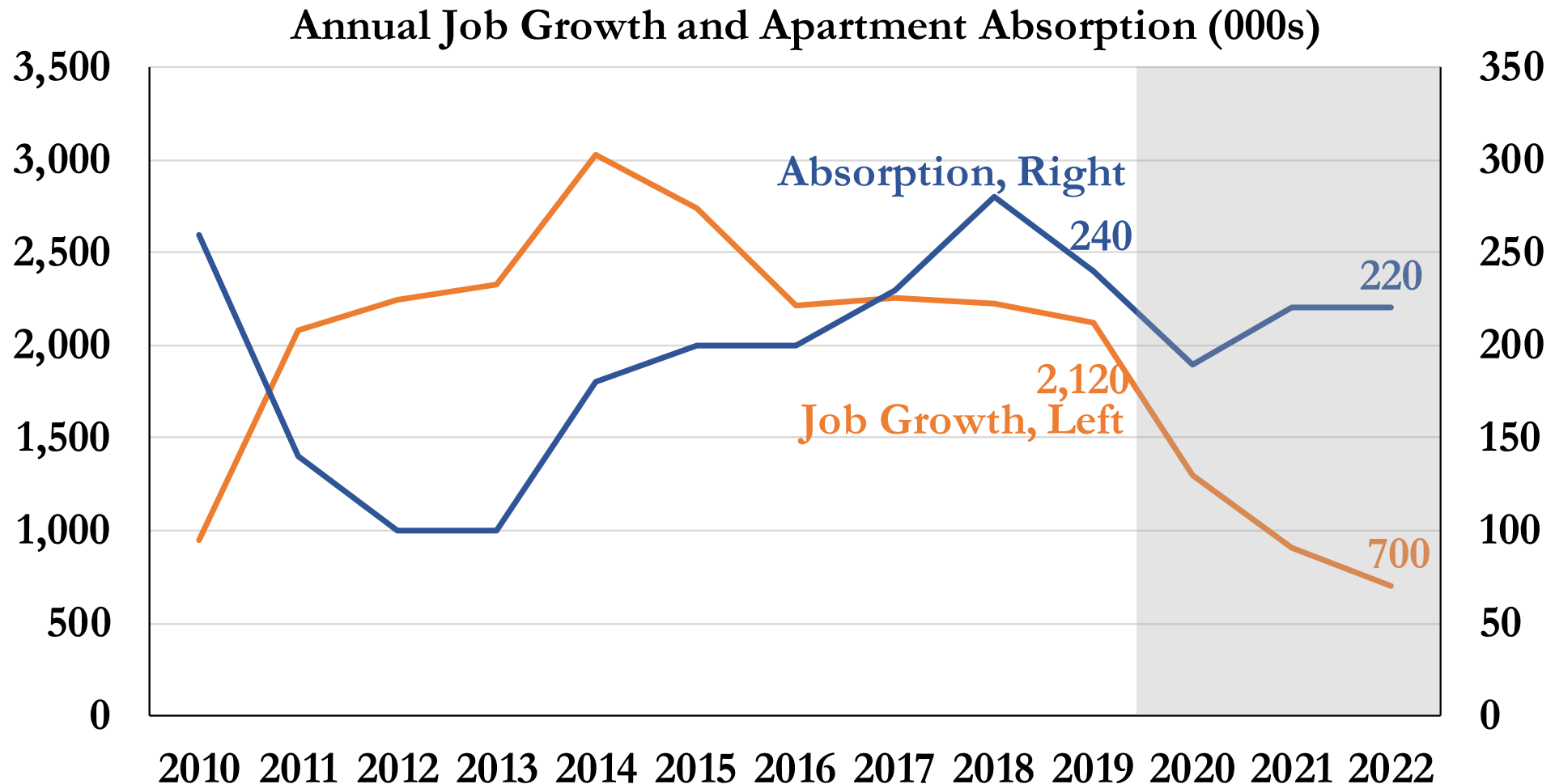
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Witten Advisors



# Despite slower economy, demand remains solid



Source: Witten Advisors; BLS; Consensus Forecast



# Demographic Jetstream driving secular shift to apartments

## ✓ Age

- Growing young adult population
- Historically favor apartment lifestyle (and affordability)

## ✓ Lifestyles (household type)

- Non-couple household types dominate growth
- Higher propensity to rent multifamily than married couples

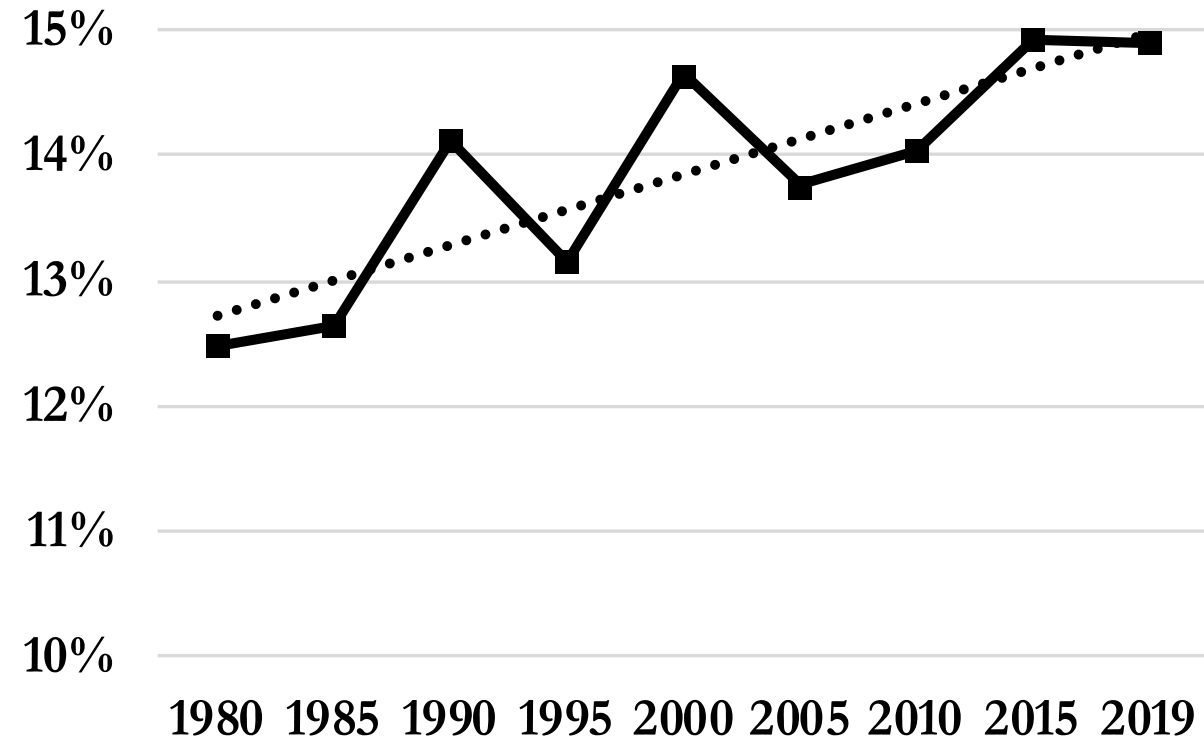
## ✓ Ethnicity

- Segments that were, historically, minorities dominate growth
- More likely to rent apartments than non-Hispanic whites

## ✓ Outcome

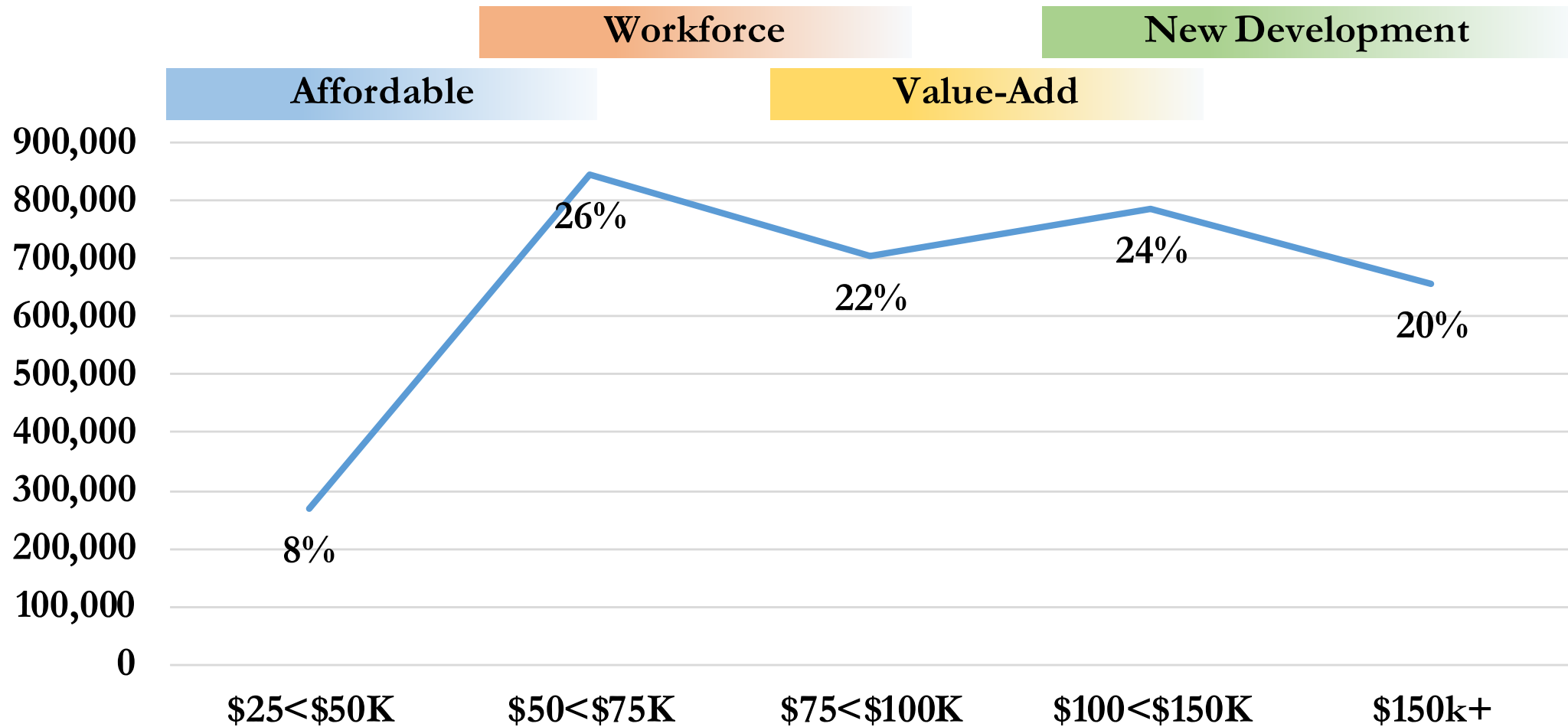
- Apartment demand disproportionately strong vs. underlying economy

**Propensity to Rent Apartments,  
1980-2019**

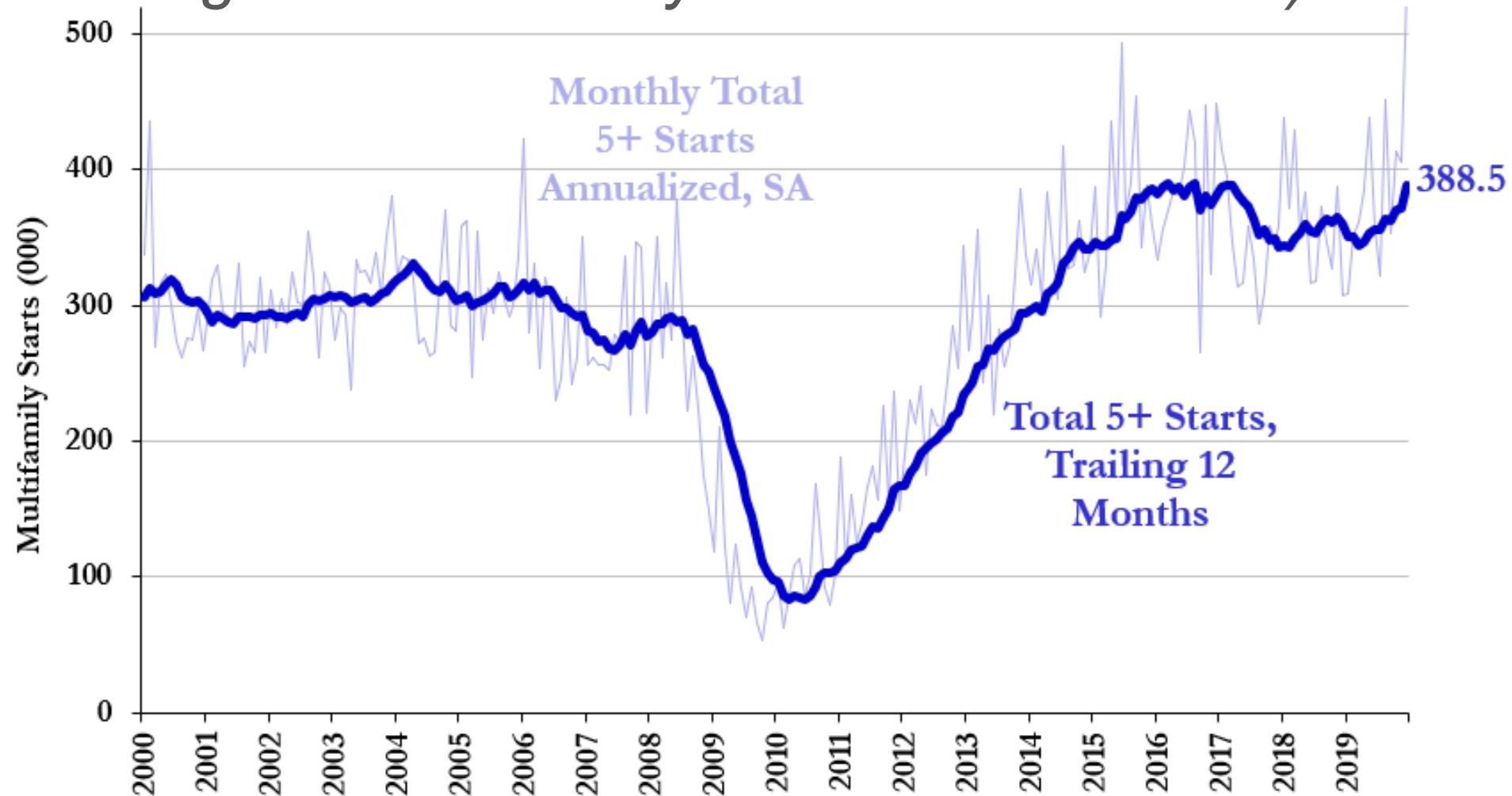


# This cycle's new apartment renters span the income spectrum

Growth in Apartment Households by Income, 2010-2018



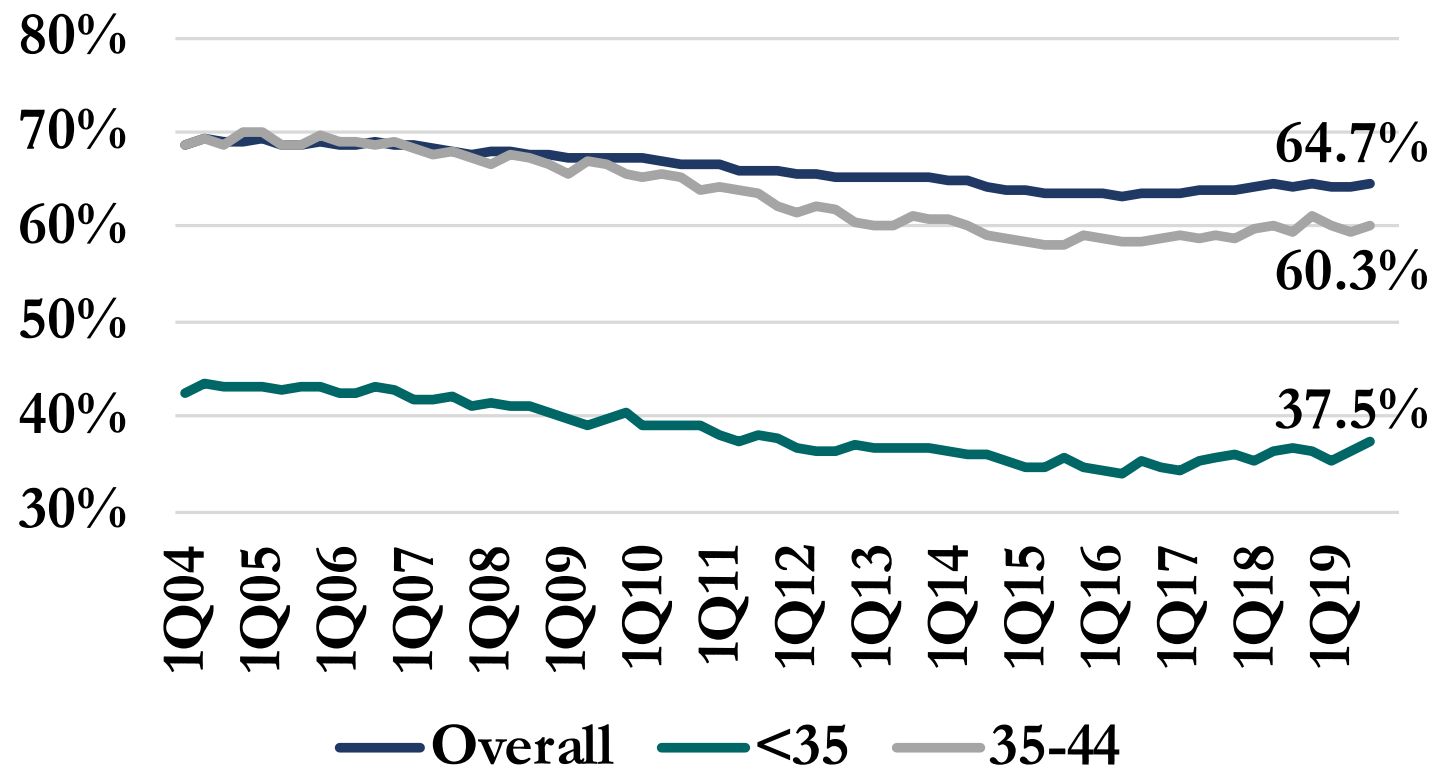
# Despite continued cost escalation, total 5+ starts rising (2019: highest calendar-year total since 1987)



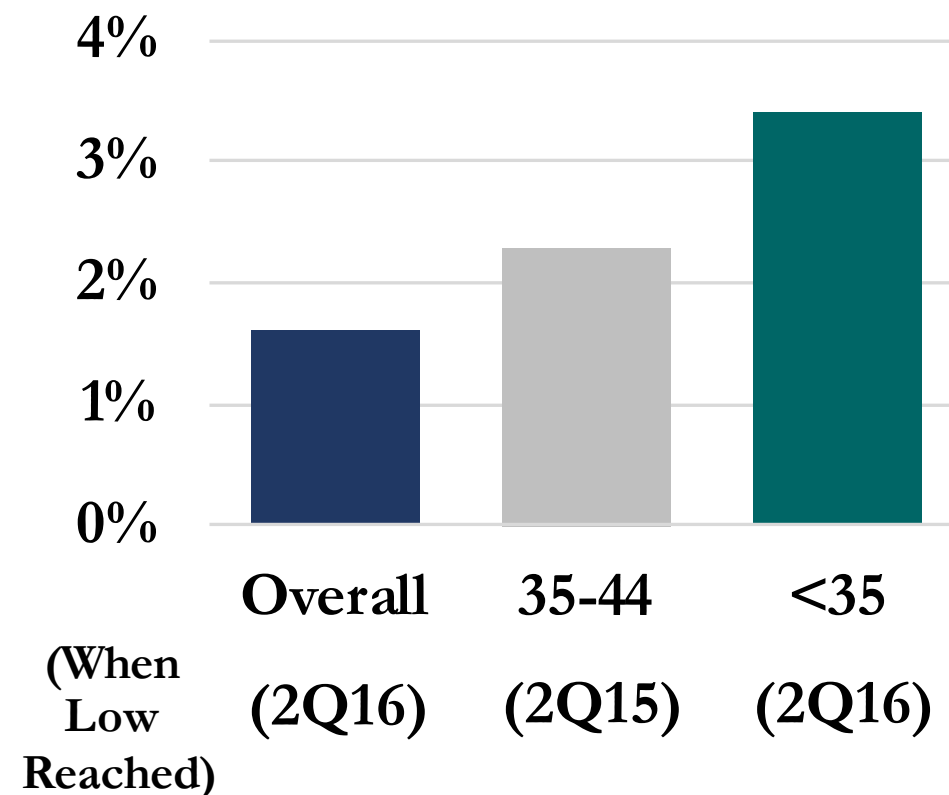
Source: Witten Advisors; U.S. Department of Commerce

# Drop in mortgage rates helps lift home ownership to a five-year high...

Homeownership Rate, Overall, <35, and 35-44

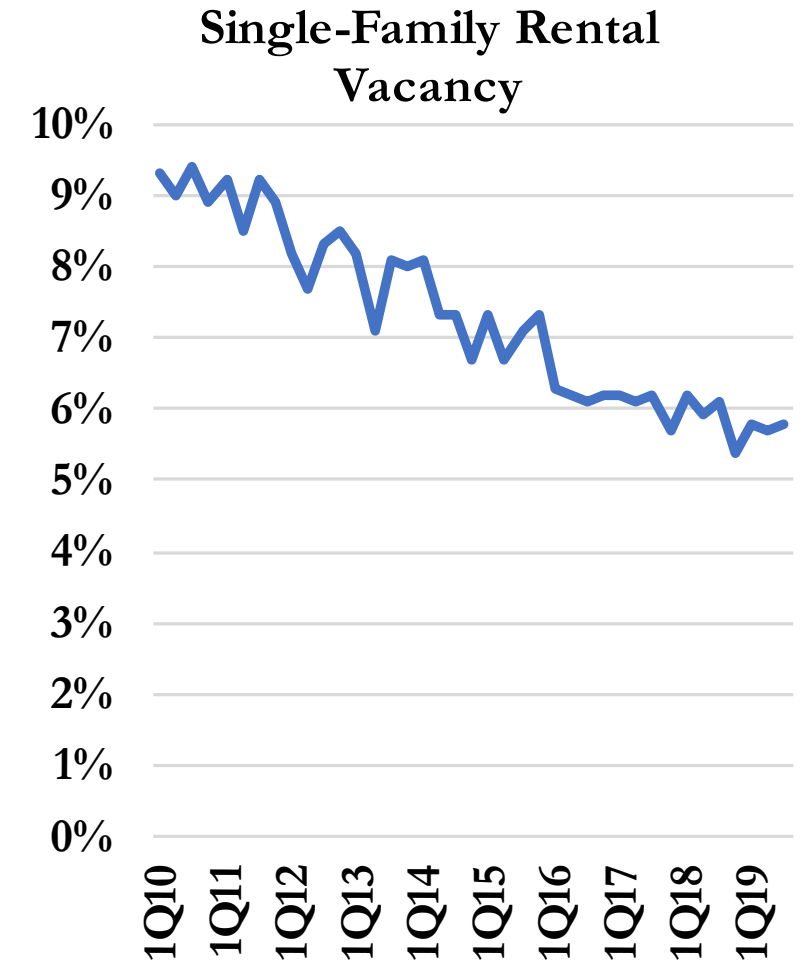
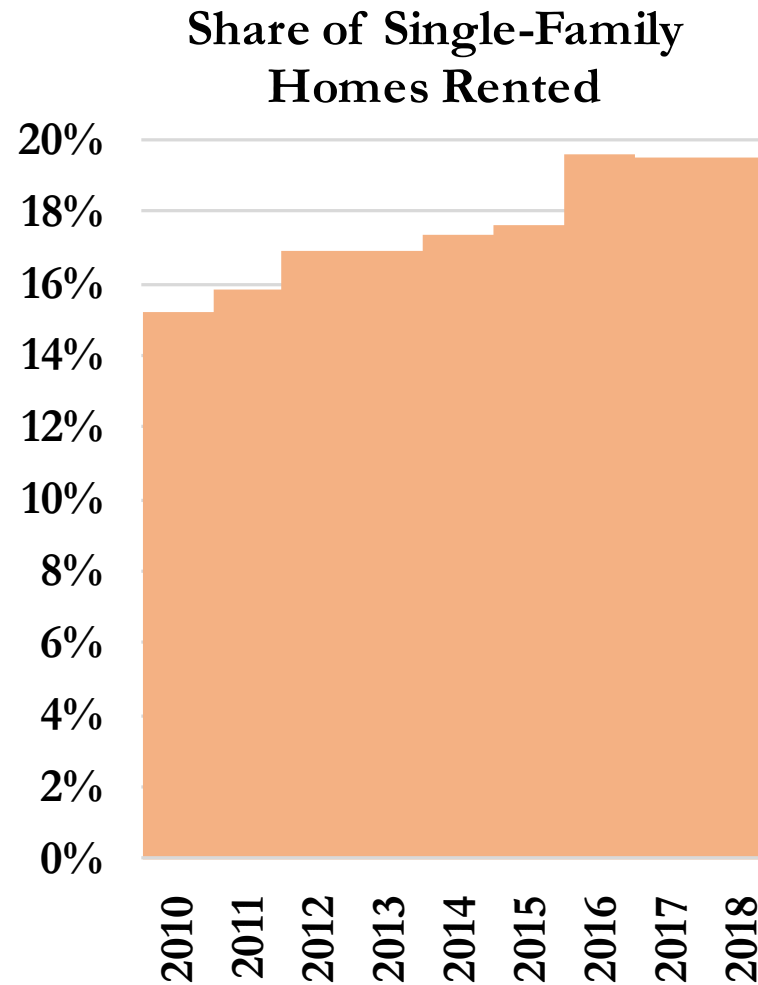
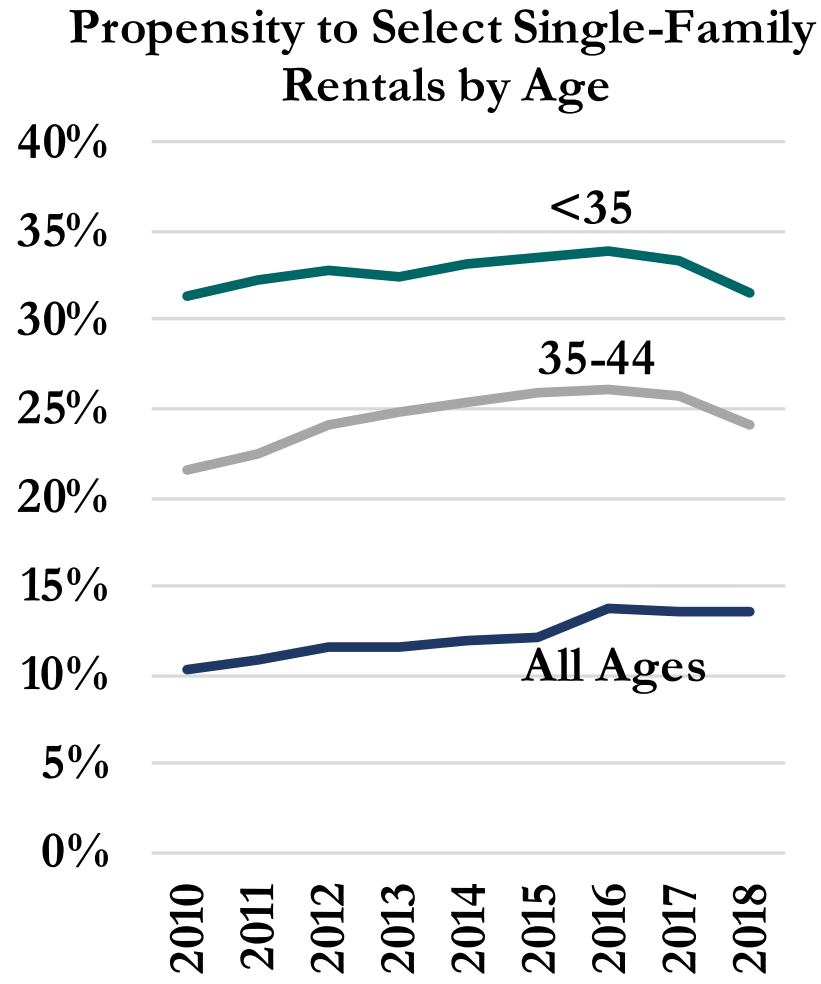


Increase in Homeownership Rate from Relative Low

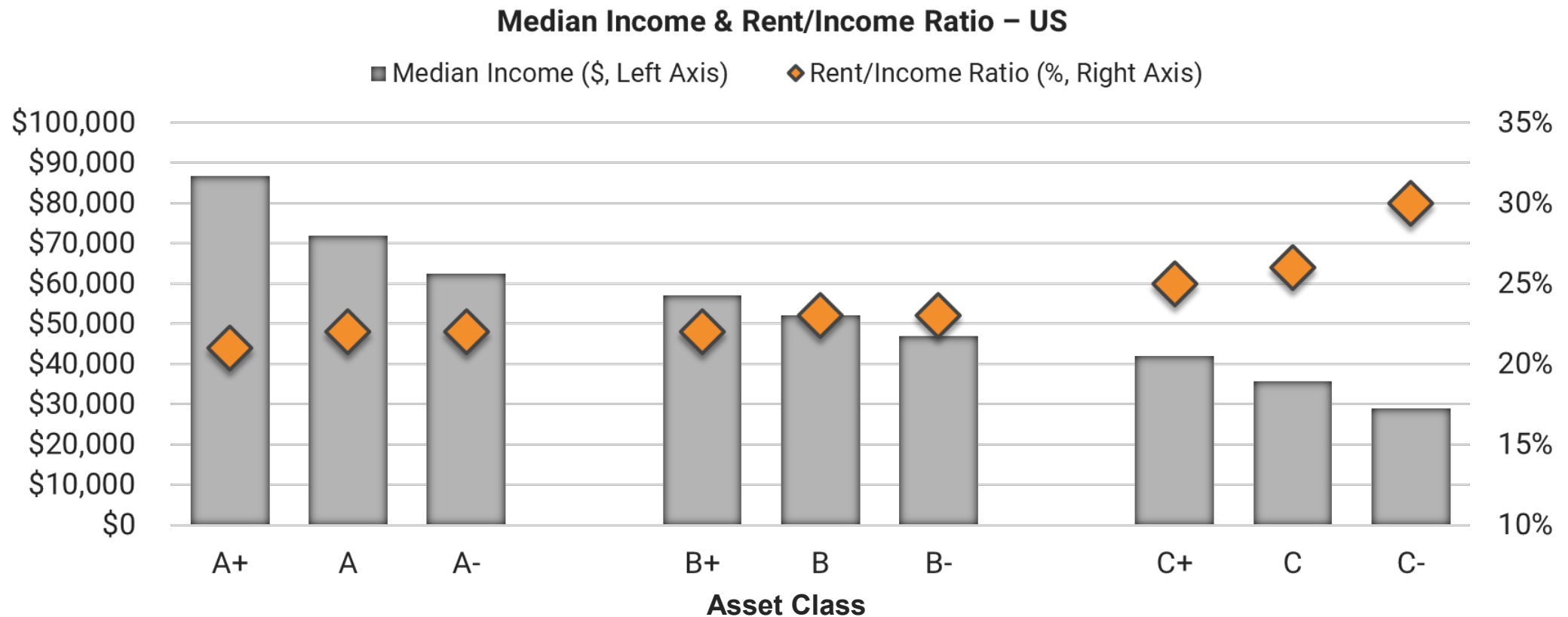


# ...so how is apartment demand strong?

## Fewer Millennials choosing SFRs *(some rentals revert to owner market)*



# Affordability is more of a headwind in the lower-priced product tier

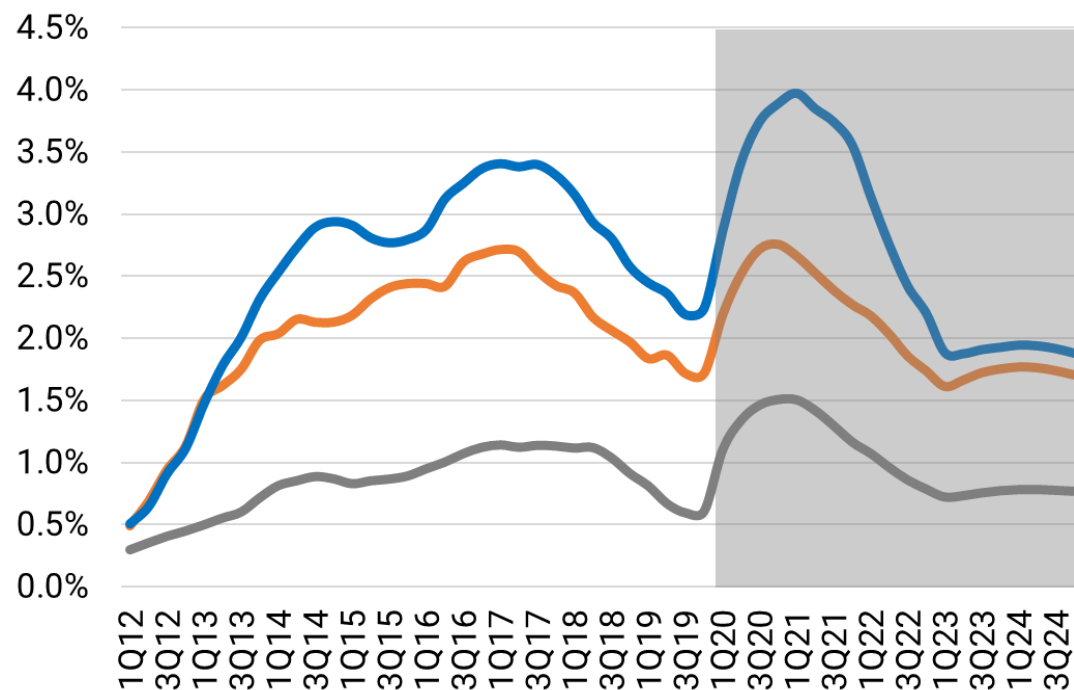




# Development is concentrated in the urban core & high rent suburbs

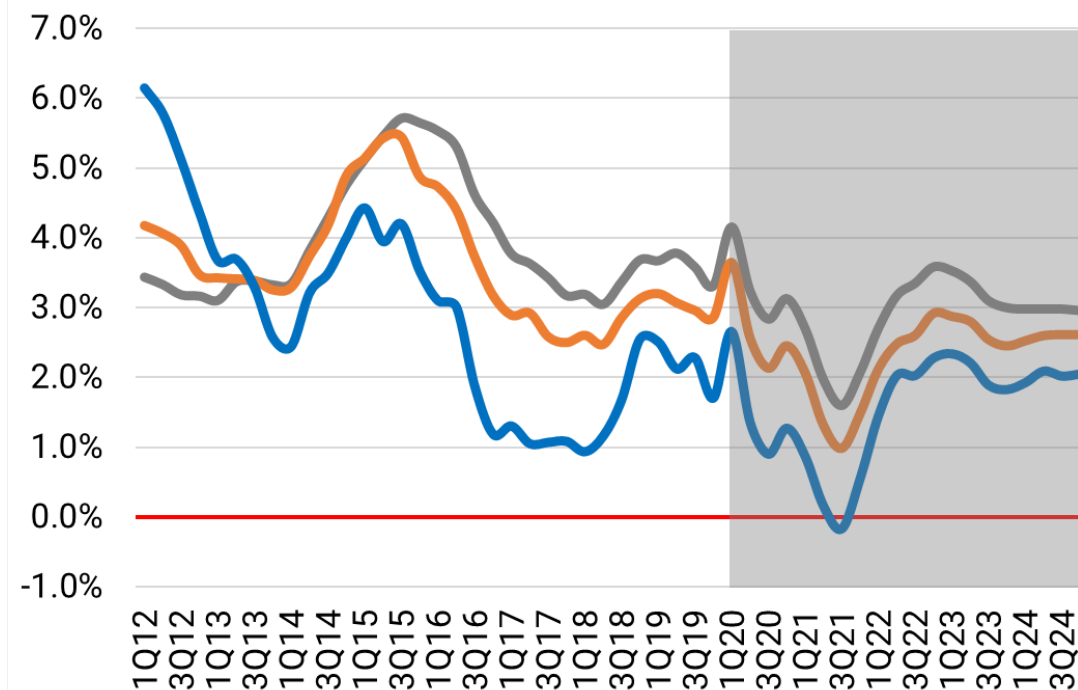
**Annual Inventory Growth: Urban vs. Suburban**

— Low Rent Suburb — High Rent Suburb — Urban



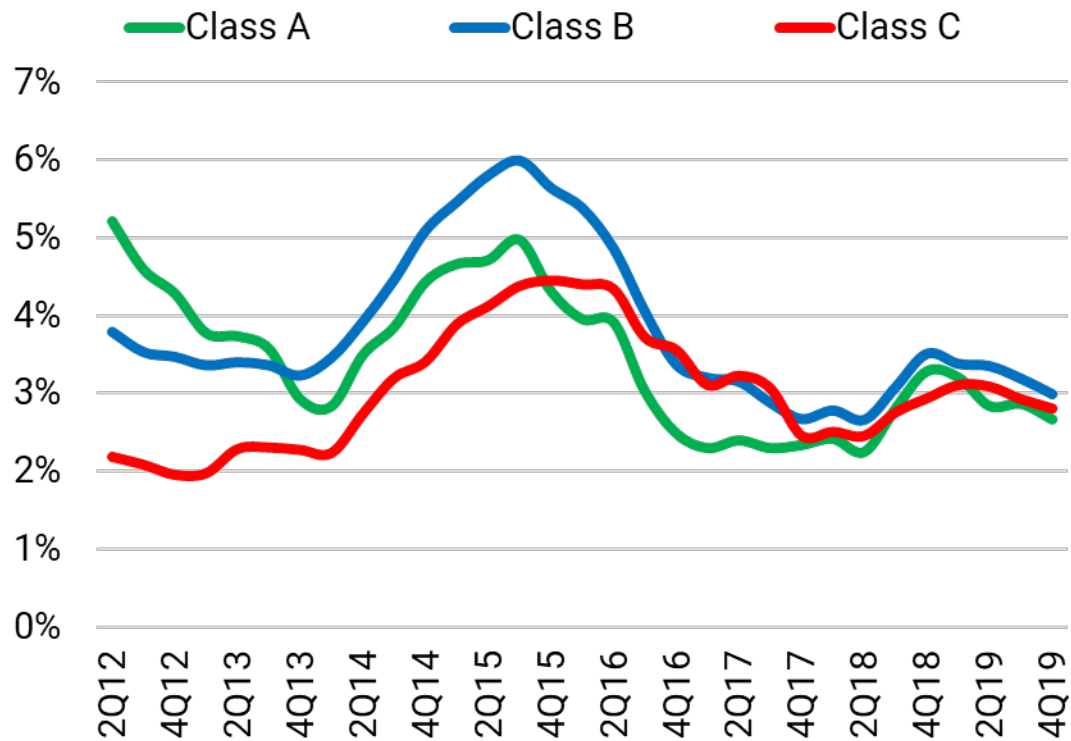
**Annual Rent Growth: Urban vs. Suburban**

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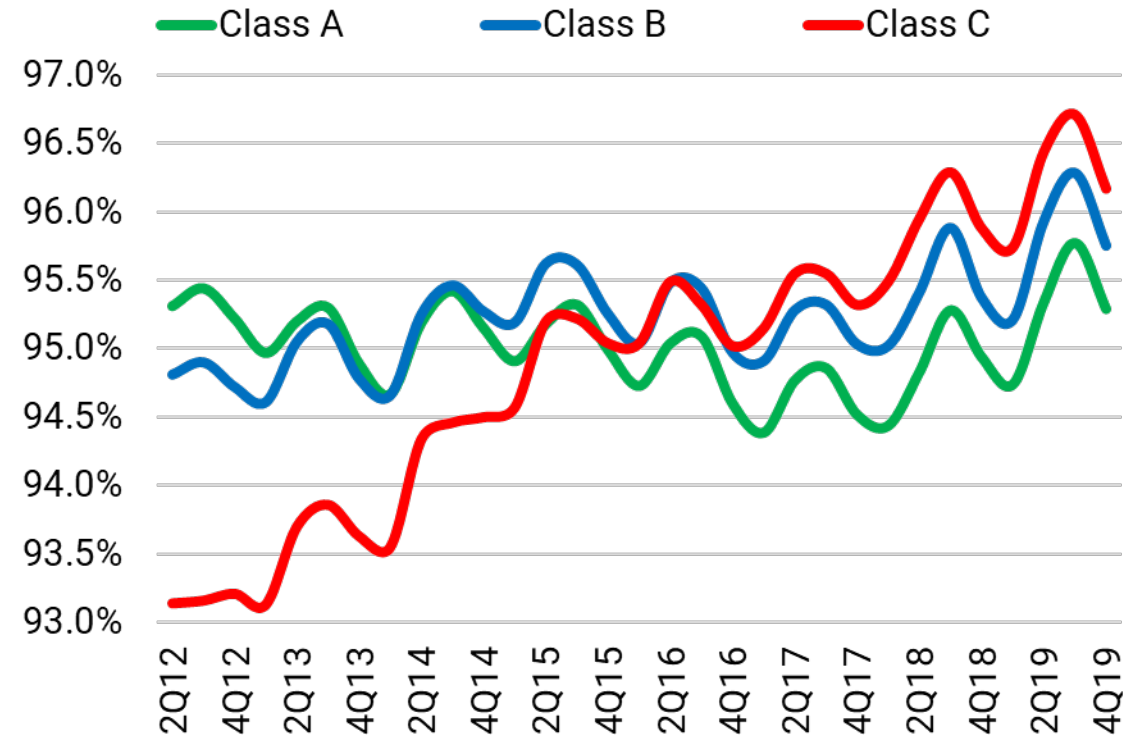


# Performance by product type is remarkably tight

## New Lease Rent Growth – US

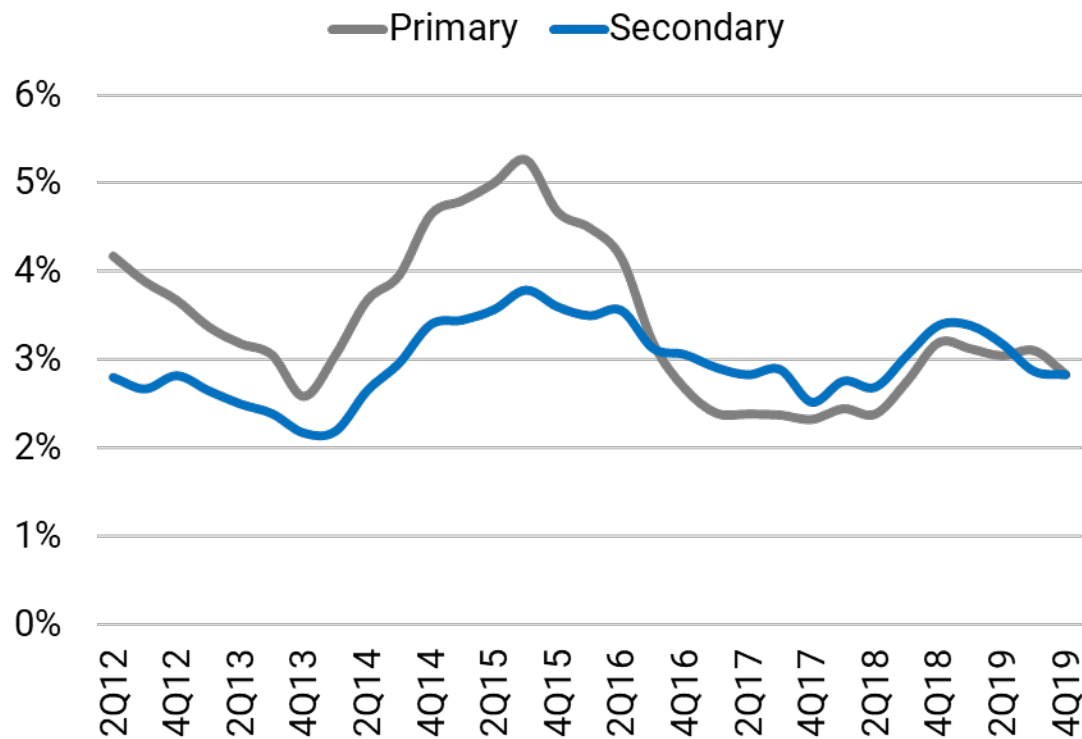


## Occupancy Rate – US

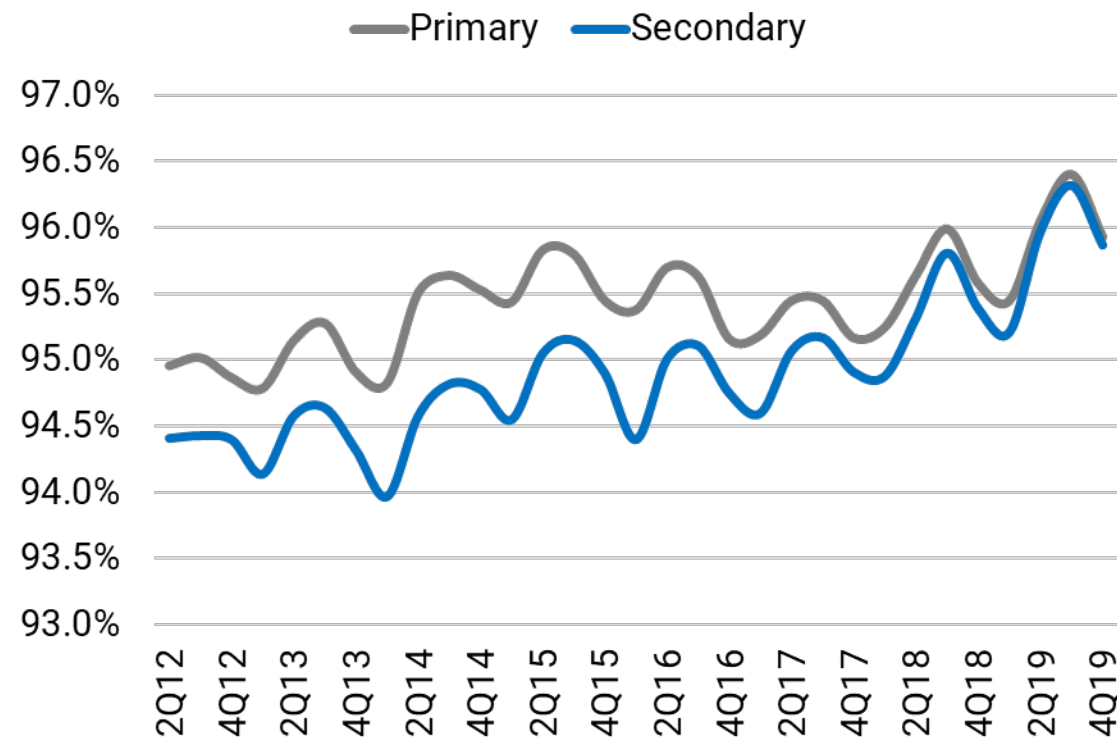


# Secondary markets have mirrored primary markets the past few years

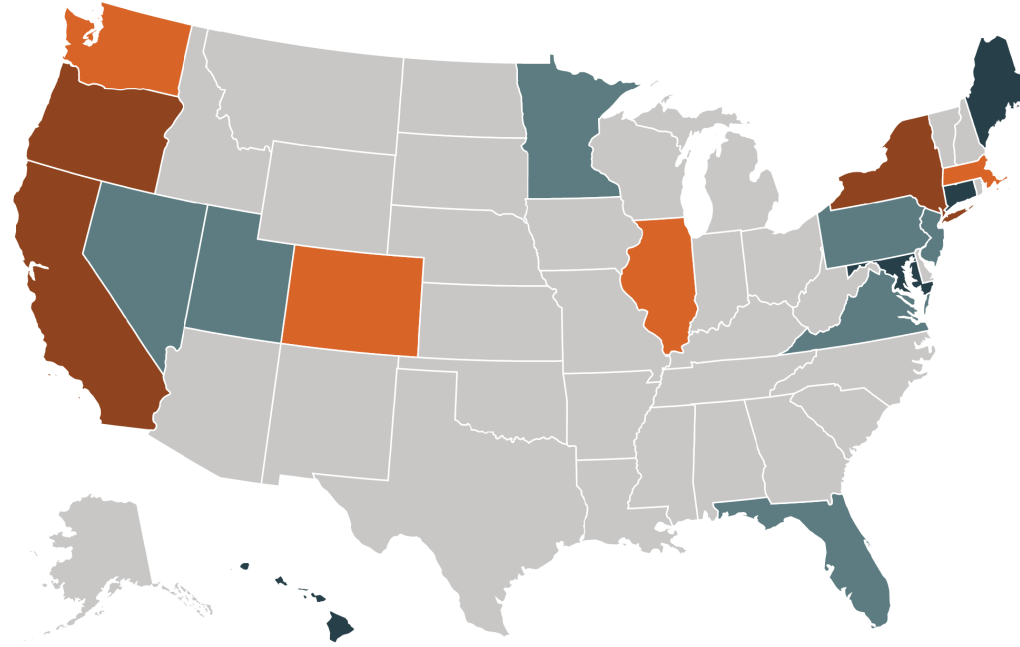
**Annual Rent Growth: Primary vs. Secondary**



**Occupancy Rate: Primary vs. Secondary**



# 2020 Rent Control Threats



## TIER ONE - HIGH

Colorado  
Illinois  
Massachusetts  
Washington

## TIER TWO - ELEVATED

Florida  
Minnesota  
Nevada  
New Jersey  
Pennsylvania  
Utah  
Virginia

## TIER THREE - MONITOR

Connecticut  
Hawaii  
Maine  
Maryland

## CONTINUED THREATS

California<sup>[1]</sup>  
New York<sup>[2]</sup>  
Oregon<sup>[3]</sup>

[1] Potential ballot initiative  
[2] Legal activity/municipal threats  
[3] Consequences from 2019 law

# Most CA Apartment Operators Already Comply with Rent Control Parameters

Market Name	Market Type	Lease Renewal Rent Growth (as of 4Q19)
Bakersfield	Secondary	7.6%
Fresno	Secondary	6.2%
Stockton	Secondary	5.2%
Santa Maria	Secondary	5.1%
Vallejo	Secondary	5.0%
Sacramento	Primary	4.9%
San Jose	Primary	4.6%
San Francisco	Primary	4.5%
Los Angeles	Primary	4.4%
San Diego	Primary	4.4%
Oakland	Primary	4.3%
Anaheim	Primary	4.3%
Riverside	Primary	4.2%
Salinas	Secondary	4.0%
Oxnard	Secondary	3.6%
<b>US Avg.</b>	<b>US</b>	<b>4.6%</b>



# Rent Growth Outlook

**Consistent and Strong**

**Consistent but Meager**

**Leaders in 2020**

**Leaders in 2022**

**Hot, then not**

## RealPage

Atlanta	Baltimore	Atlanta	Atlanta	Memphis
Charlotte	Northern NJ (Newark)	Nashville	Bay Area (exc. OAK)	Phoenix
Nashville	San Antonio	North Carolina	Nashville	Riverside
Sacramento	Washington, D.C.	Seattle	North Carolina (exc. GRN)	
San Diego		Southwest (LV/PHX/RIV)	Seattle	

## Witten Advisors

Riverside	New York City	Inner West (LV/Phx/Den)	SoCal	Austin
Atlanta	Wash D.C.	Nashville	Miami	Boston
W. Palm Beach	Baltimore	Sacramento	Chicago	Charlotte
	Houston	Tampa	Dallas	Raleigh
	Bay Area	Philadelphia	Sac, Jax	
		(+Riv/Atl/WPB)	(+Riv/Atl/WPB)	

# Some additional perspective on secondary markets...

	"Little Brother" Markets	Next Gen Economies
<b>Some Favorites...</b>	Tacoma, WA Oxnard, CA Napa Valley	Boise, ID Greenville, SC Colorado Springs, CO
	College Towns	Population Niche
<b>Have Potential, but Risky...</b>	Provo, UT Fayetteville, AR Tucson, AZ	Coastal Florida Myrtle Beach
	Rust Belt	Slow Growth Economies
<b>Marginal Opportunity...</b>	Ohio, Michigan	Pennsylvania, Upstate NY