RADIX

2024 Midyear Review & Second Half Outlook

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2024 Midyear Review & Second Half Outlook

At the halfway point in 2024, it feels like the economy and the multifamily market are in slow motion. However, the pace at which things are changing reflects a more normal cycle, rather than an indication of stagnation. It is only due to the extreme volatility of the past four years that it now feels like things are moving at a glacial pace.

Specific to the economy, the slow movement is due to the crosswinds presented by mixed employment and inflation figures. Employment has remained incredibly robust, outpacing nearly all economist forecasts from the beginning of the year. Despite the heavy concentration of new jobs in just a handful of industries, the overall strength of the job market has maintained the current economic stability. The unemployment rate has started to increase, but it remains at a healthy level by historical standards. Inflation has remained above the Fed's target, and as such, interest rates have stayed elevated throughout the first half of the year.

In January, most economists predicted multiple rate cuts by this time, and yet we have not seen any. All likelihood points toward one rate cut this year. This has been a continued challenge for the transaction side of the multifamily industry, as owners, investors and brokers anticipated that deal flow would pick up as rates fell. Transaction volume has stayed low and with each passing month, loans are coming due and interest rate caps are expiring leading to significant headaches on the borrower's side.

Multifamily operations have had a steady but slow start to 2024. Renewals have been the main focus of most operators and as such, traffic and new leasing were softer than in years previous. We had a decent rental season, as occupancy and rents rose in most markets, but the levels of growth were weaker than expected. As the calendar shifts, the industry now turns its focus to budget season and what to expect during the historically flat Q3 and Q4, when fundamentals usually decline.

But there is reason for optimism in the apartment industry. Rental demand is very strong as evidenced by the continued absorption of the generational level of new. Driven by job growth and historically high immigration in 2023, housing demand is robust. Couple strong demand with a very expensive for sale housing market, and you can clearly see the strength and resilience in the rental market.

Housing affordability will be a widely discussed issue, especially as we enter the final four months before a presidential election, yet overcoming this challenge will be a long process. Market indicators are clear, when we build more housing at all levels and types, housing becomes more affordable. As demand remains elevated, a significant supply response will be necessary to meet the needs of our nation's population.

MULTIFAMILY TRENDS

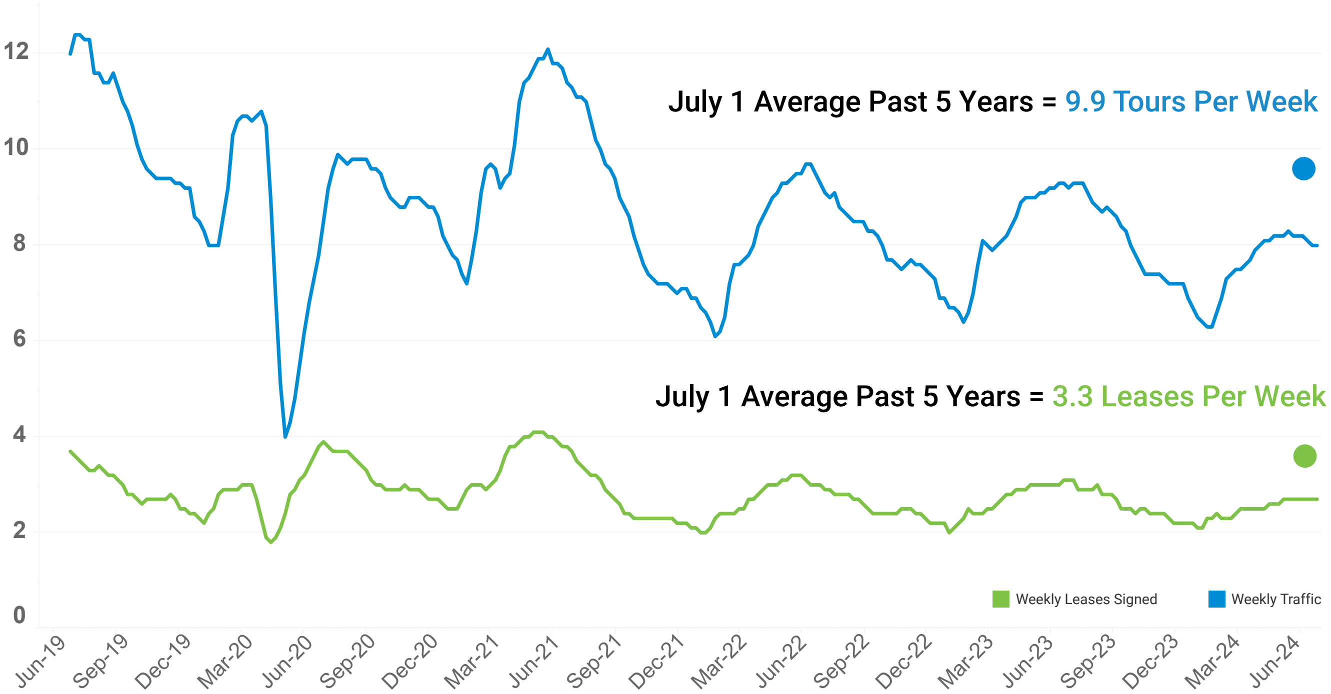
Data through the first six months of the year shows a few interesting new trends, as well as confirming some patterns from the last few years. Perhaps most surprising, some West Coast markets are beginning to show strong growth, while others that have struggled mightily in recent years appear to have found a bottom and are beginning to recover. Midwestern and mid-Atlantic markets continue their steady growth and are topping our rankings in several categories. The sunbelt markets are enduring the pressure brough on by significant new supply, and fundamentals are negative year-to-date in several markets. However, as demand stays high, these markets should recover soon.

TRAFFIC AND LEASING

Traffic and leasing followed the typical seasonal trend throughout the first half of 2024 but underperformed compared to previous years. Traffic bottomed out in late December, with properties averaging 6.3 tours each week. Steady growth through the first and early second quarters brought national traffic back above 8 tours per property, but traffic has stalled since then. At the end of June, properties were averaging 8.0 tours per property, roughly 2 full tours below the average from the last week of June over the past 5 years. Leasing saw a similar pattern with leasing activity increasing beginning in January but peaking at more than a half lease per property below the average of the past 5 years.

The underperformance in the leading indicators points toward the growing trend of operators focusing on resident renewals. With asking rents in many markets falling over the past year, property managers have prioritized retaining tenants. They can avoid turn costs, potential vacancy loss, and in many cases, avoid having to rent the same unit at a lower rate than a previous tenant. This data has clearly manifested itself in the low traffic numbers, as renewing renters do not need to tour new apartments.

National Average Weekly Traffic and Leasing



At a market and regional level, traffic and leasing remain strongest in the sunbelt markets. The top 5 markets for overall traffic are all in the sunbelt and include major markets like Dallas, Miami, Houston, and Atlanta. Each of these markets is averaging more than 10 tours per property per week as of the end of June. The only two non-sunbelt markets in the top 10 for traffic are San Jose and Chicago, two markets that have been outperforming across metrics for the past two years.

Leasing activity is also led by sunbelt markets, but some smaller markets emerge at the top of the list. Huntsville leads all markets, averaging 3.9 new leases signed per property each week. The Alabama metro has struggled with supply pressure and rents have fallen, but the demand remains elevated so the market recovery will likely be swift. Orlando, Tampa, Raleigh, Austin and San Antonio are also in the top 10 for overall leasing activity at the halfway point in the year. While many of these markets maintain negative annual rent growth, the continued leasing activity is a strong indicator that demand remains high and once new units are absorbed these markets will return to growth quickly.

OCCUPANCY AND ATR

Despite weaker traffic and leasing activity than in years past, the national occupancy rate increased steadily throughout the first half of the year. In mid-June occupancy returned to 94% at the national level, marking a 40-basis point increase in six months. With so much supply, any occupancy growth is a testament to and reflection of the strength of housing demand. Further underscoring that demand is our ATR data. In January the average apartment nationwide had 15 units available to rent over the next 60 days. That number has fallen to just over 12 at the end of June.

MSA	Occupancy as of July 1	YTD Occupancy % Change
New York, NY	96.2	0.1
San Jose, CA	95.8	1.2
Virginia Beach, VA	95.8	0.5
Reno, NV	95.4	0.8
Columbus, OH	95.3	0.5
Detroit, MI	95.3	0.9
Washington, DC	95.3	0.7
Sacramento, CA	95.1	0.3
Portland, OR	94.9	1.4
Seattle, WA	94.9	1.0

It is important to note, the occupancy and ATR data is for stabilized properties, and lease up properties have lower occupancy and higher ATR. The strength of the stabilized data set shows that once properties are leased, their occupancy performance is strong.

There is significant geographic dispersion in the leading occupancy markets. New York and San Jose, two markets that typically maintain high occupancy rates, lead the nation in overall occupancy, but Virginia Beach, Reno and Columbus round out the top 5. The Midwest, mid-Atlantic and West Coast are well represented among the market leaders in occupancy.

Looking at the markets with the largest year-to-date occupancy gains, you'll find a few surprising markets. Huntsville and Nashville, two markets that have struggled significantly with new supply, are among the top 10, as their occupancy rates have increased by 90 basis points and 80 basis points respectively since January.

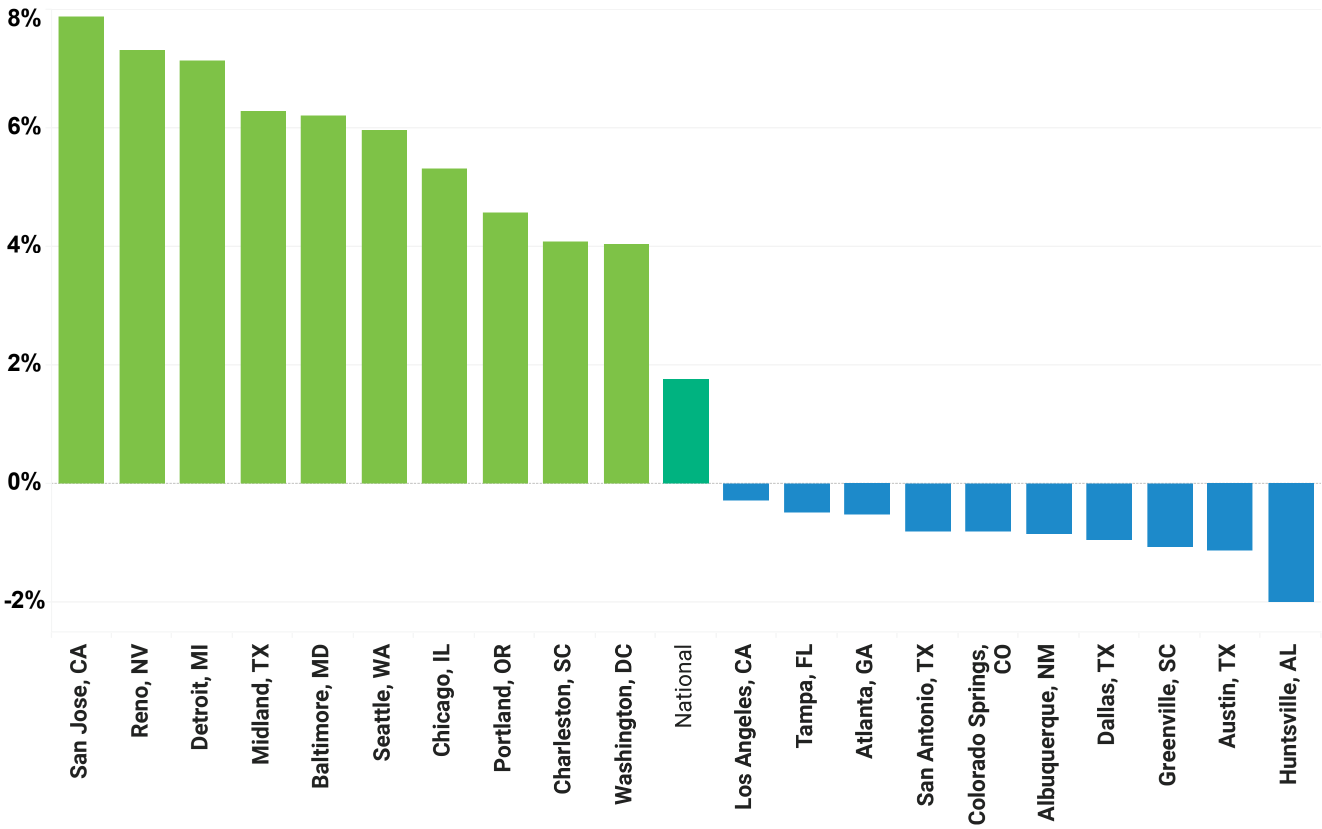
Other small sunbelt markets were among the weakest performers, however. Tucson, Memphis, and Columbia, SC have all seen occupancy drop through the first six months of the year. Even bigger markets like Atlanta, Miami and Orlando have negative year-to-date occupancy. While the declines are not huge, the fact that occupancy fell during what is typically the strongest time of year for occupancy growth is a concerning signal for these markets.

NET EFFECTIVE RENT AND REVPAU

Rents increased 1.8% year-to-date nationwide through the first six months of 2024. While this is a slower pace than in years past, and annualized rent growth remains negative, the rent growth story across the country continues to diverge at the market level. Over supplied markets in Texas and the Southeast feel the squeeze with rents falling materially, but the rest of the country is returning to normal seasonal trends.

The West Coast resurgence really takes shape in the net effective rent and revenue per available unit data. San Jose leads all markets, as rents have increased 7.9% year-to-date in the South Bay metro. Reno, an undersupplied market that has attracted a lot of Bay Area and northern California residents is second, with rents up 7.3% from January. Even Pacific Northwest markets that had been struggling have now seen rents increase meaningfully. Seattle rents are up 6.0% year-to-date and Portland rents are up 4.6%.

Top 10 and Bottom 10 Markets - Year-to-Date Net Effective Rent Growth



Not all West Coast markets are made equally though, and Los Angeles is one of the weaker performing rent markets so far this year. Rents are down 30 basis points in the nation's second largest MSA. But even San Francisco, perhaps the market that has struggled the most since COVID, is starting to show signs of life. Rents in San Francsico are up 3.1% year-to-date and the Civic Center/Downtown submarket has seen rents growth 5.3%. The city has a long way to go to return to its pre-COVID peak, but it appears we have reached a rental market bottom in San Francisco with evidence of potential growth in the coming months emerging.

Our Revenue per Available Unit data shows a similar pattern among markets, with San Jose leading the pack. Detroit, which has had a very strong year both from a rent growth and occupancy perspective, is second, with revenue up 8.3% so far this year. Once again, the mid-Atlantic and Midwest are well represented, with the top 10 RevPAU markets mostly made up of MSAs like Seattle, Chicago, Baltimore, Portland, Wilmington, and Washington D.C. While the sunbelt has led the multifamily conversation for so long, if you were to draw an arch across the nation, opposite the so called "smile states", you would see the best performance so far this year.

The multifamily market appears to have found a bottom in 2024, and while we may see seasonal declines in the next few months, at a macro level I believe we have already started our slow recovery. Our forecasts call for modest negative rent growth on an annual basis through the end of 2024, before rent growth turns positive at the national level next year. Occupancy will likely follow a similar pattern, and in the next 18-24 months we will see occupancy bounce back and approach 95%.

A new multifamily cycle is beginning, one that will hopefully and likely resemble the slow growth cycles of the pre-GFC era. However, without continued construction in the coming years, we may see a whipsaw effect, where today's soft performance turns into rapid growth in rents and occupancy rates in 2026 and 2027. If supply slows down precipitously and rents grow rapidly, we are likely to see continued calls for higher regulation and constraints on the multifamily industry.