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REAL INSIGHT

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Multihousing Market Supply and Demand Fundamentals

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The National Trend: Millennial Preferences and Financial Considerations are Shaping Multihousing Market Fundamentals

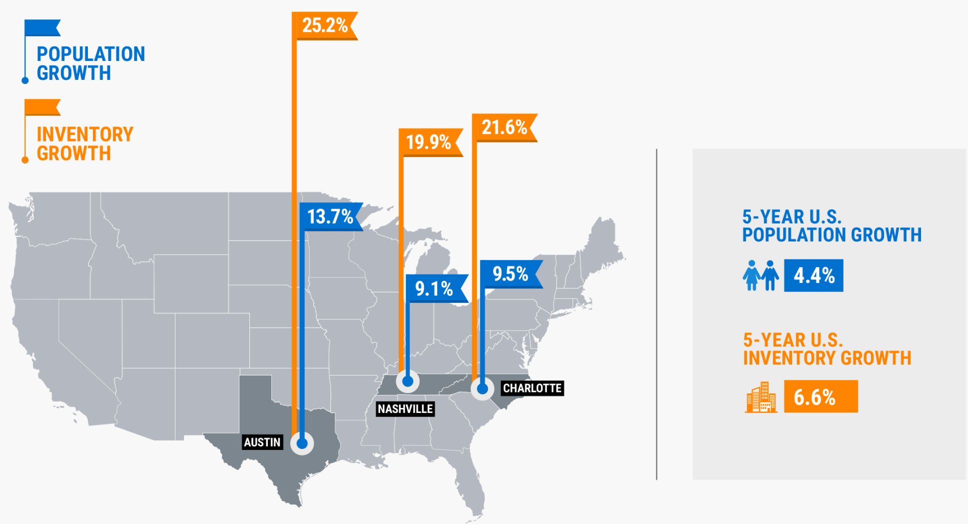
Despite high levels of new supply, the U.S. multihousing sector continues to showcase resilient fundamentals based on strong long-term demand, with considerable strength nationally and particularly sturdy conditions in a handful of select, up-and-coming markets. Austin, Charlotte, and Nashville exemplify many of the key characteristics of the new wave of multihousing demand that is driving the current market expansion. Employment and population growth in those markets, combined with a low cost of living, are supporting apartment demand. More broadly, homeownership is currently out of reach for many millennials who are burdened by student and credit card debt, which make saving for a down payment challenging. For these reasons, the fundamentals of the U.S. multihousing market should remain strong for the next several years.

While the previous cycle was dominated by Class B, suburban, garden-style properties, the composition of new supply during this cycle has been weighted toward urban infill, Class A, luxury properties – properties that meet the growing demand for downtown living. Of the new supply, approximately 40% of U.S. deliveries in the past 12 months have been in the ten largest metro areas. What is different about this cycle compared with the previous one? Renters are increasingly choosing a location before securing a job; housing continues to shift from shelter toward a value proposition. Millennials are willing to move to take advantage of economic opportunities, and consequently they are seeking transitional housing options instead of homeownership.

Featured Markets: Austin, Charlotte, and Nashville are Expanding

Austin has been one of the hottest apartment markets in the country, attracting young, well-educated professionals, especially in the information technology sector. Startups as well as established technology brands such as Apple, Dell, Facebook, and IBM are among the top employers that continue to grow their presence locally, with an additional 10,000 jobs expected to come with Oracle's most recent expansion plans. Sustainable, high-wage jobs enable the workforce to live in the thriving urban core of Austin, where investors are seeking development sites and other opportunities to put capital to work. To support this growing workforce and robust population growth of 13.7% over the past five years (as shown on the adjacent graphic), the Austin area has added 48,436 new multihousing units of which more than 90% have been absorbed. Most of the new residents are millennials, who tend to prefer the convenience of rental housing.

FEATURED MULTIHOUSING MARKET FIVE-YEAR GROWTH RATES VS. U.S. GROWTH RATES



Source: REIS, Axiometrics, NKF Research; August 2018

The rental market in Charlotte is one of the top markets in the nation, with 7,841 units absorbed in the past 12 months, all while inventory increased by 4.7% and the occupancy rate held firm at 94.9%. The strong combination of low cost of living, a skilled workforce, and a flourishing local economy has contributed to the 21.6% growth in multihousing inventory over the past five years. Of that growth, net new supply over the past five years only outpaced demand by 832 units despite some local concerns about overbuilding. Charlotte's economic strength lies in its concentration of financial services firms, with Bank of America, TIAA and Wells Fargo employing nearly 50,000 people in the metro area; the city has become the financial capital of the South. Additionally, Amazon recently announced that 1,500 new jobs are expected at its automated warehouse facility, which is now under construction. In the coming years, 25,183 new multihousing units are likely to deliver – projects that will be served by infrastructure and transportation projects that are already underway.

Nashville has been one of the most sought after markets for apartment developers during this cycle due to a favorable business climate, improvement of the Downtown/West End submarket as a work-live-play hub and a limited supply of single-family homes. While population growth has increased 9.1% during the past five years, inventory has risen by 19.9% to accommodate the strong demand for new, urban infill product. With 25,293 new units delivered since the third quarter of 2013 and another 14,161 likely to be delivered by the end of 2022, Nashville is undergoing a transformation into a regional hub. A main driver of this growth has been healthcare companies, but new legislation to attract financial services firms was recently passed, and the market subsequently scored Manhattan asset manager AllianceBernstein, which will relocate most of its operations to Nashville.

What Are the Implications for Our Clients?

National multihousing supply-demand fundamentals reflect a systemic shift in the value of renting. For younger Americans, many of whom move to cities without the intention of spending a lifetime in one metro area, renting provides the flexibility required for a transient lifestyle. Select metros outside of the traditional gateway markets, such as Austin, Charlotte, and Nashville, are fundamentally well suited to capitalize on this shift in value – they are low-cost, have large populations of skilled workers, and have the infrastructure and appeal to accommodate substantial population growth in their urban cores, which is where the majority of multifamily product is being built. Therefore, despite high levels of new supply nationally, investors likely will continue to find opportunities in the multihousing sector, particularly in our featured markets – ones in which absorption is expected to keep pace with new supply and positive demographic trends will continue to create value.

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