2021 Radix National Multifamily Analysis

RADIX
the Truth in Data

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KEY TAKEAWAYS

- 2021 witnessed the largest and longest growth cycle in the national multifamily industry in recent history, as rental rates grew nine months straight from January through September. The national market recovered all losses from the pandemic by June and continued to experience record-breaking growth through Q3.
- While the rate of growth has tapered off significantly, Q4 still recorded gains in net effective rent. 2021 did not see any period of major or sustained contraction to rental rates.
- Occupancy and leased percentages reached historic highs in Q3. While both rates fell during Q4, they remain well above average historical levels.
- Studio floorplans saw the most growth in NER in 2021 but have still grown much slower relative to other floorplans over the last two years. 3-bedroom floorplans are up the most over the last two years and drove most of Q4's NER growth, signaling that Americans' desire for more space has not yet waned.
- 2020's fast growing markets continued to perform strongly in 2021, while 2020's worst performing markets largely continued to lag national trends in 2021. The pandemic era seems to have created a durable change in geographic living preferences for many renters, and current trends show little sign of reversal.
- The migration of Americans from higher to lower cost-of-living markets over the last two years has induced a substantial leveling of the national rental playing field. The spread of rental rates between markets has dramatically dropped as many markets' average NER trended towards the national average NER.
- Surging occupancy and NER rates in 2021 drove concessions down to historically low levels in all but a few of Radix's Top 25 markets. However, as the leases signed during last spring's surge come up for renewal, we expect concession levels to rise.

2021 NATIONAL KPIs

NER + 21.0%

Occupancy +1.8%

Leased + 1.6%

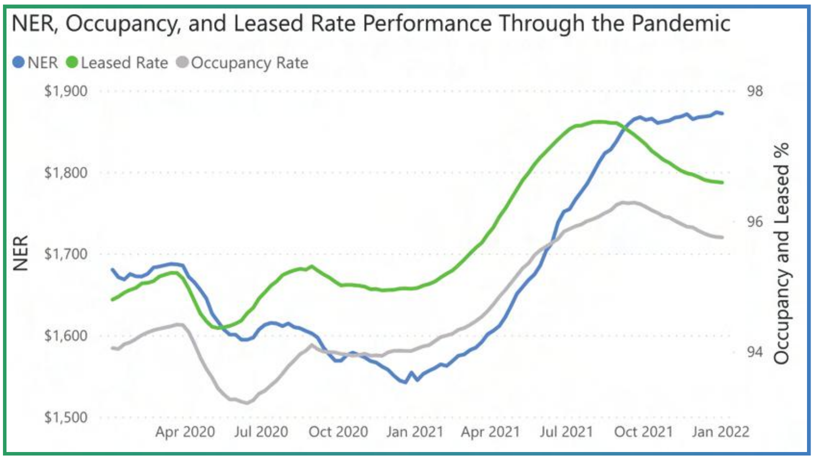
Traffic: 8.9 Visitors per Week Avg.

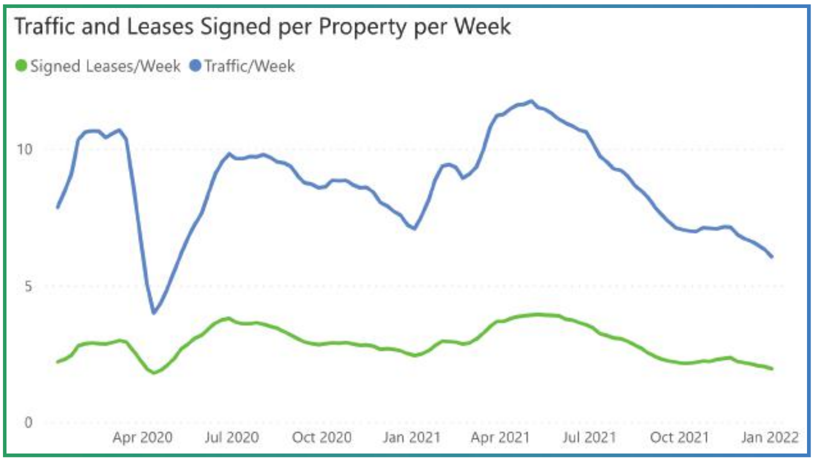
Leases: 2.9 Signed Leases per Week Avg.

NATIONAL NER GROWS AT HISTORIC RATES

Following the heavy losses incurred in 2020, the national multifamily market spent the majority of 2021 in an unprecedented period of record-breaking growth. National average NER hit its pandemic era trough in December of 2020 and subsequently spent the first nine-months of 2021 growing.

Data for the last 24 months shows how Radix's leading indicators forecast changes in NER. Occupancy and NER move in tandem; changes in the occupancy rate are almost immediately reflected in changes to NER growth rates in most markets. Both lag changes to the leased rate by approximately four weeks, the average amount of time between a lease being signed and the lease start date. Changes to the lease rate are in turn forecast by weekly rates of traffic and leases signed.





The leased rate responds immediately as the rate of weekly leases increases, but in the opposite direction, lease rates drop about a month after the year-over-year rate of leases per week turns negative.

As the nation crested the peak of last winter's coronavirus surge, weekly rates of traffic and leases signed began recovering rapidly. The leased rate followed suit, followed shortly thereafter by occupancy and NER. The velocity of traffic and leases through the spring and early summer drove what was the fastest increase in demand for multifamily rental units across the country in recent history. Between January 2021 and the market's late summer peak, the national occupancy rate rose 2.3 percentage points, peaking at 96.3%, while the national leased rate increased 2.5 percentage points, peaking at 97.5%. To emphasize the scale of these increases, it is important to note that most of the initial pandemic losses to national occupancy and leased rates were recovered during 2020 and last year's increases quickly pushed occupancy and leased rates above March 2020 levels.

The rate of weekly leases turned negative on a year-over-year basis in July, and throughout August rates were down 10% YoY. This drop foreshadowed the leased rate reaching its peak in early September. The occupancy rate peaked one month afterwards as NER growth decelerated.

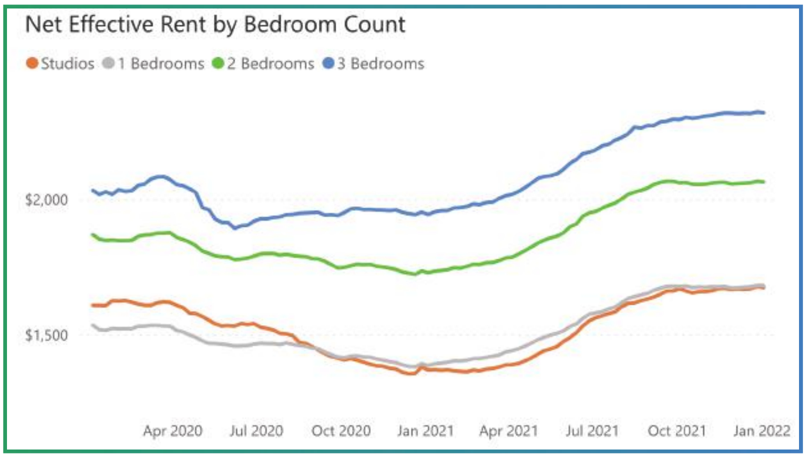
NER rose 21.1% over the course of 2021. The market had fully recovered all pandemic losses by June, then rose an additional 13.4% above March 2020 levels. Notably, NER rose an additional 1% during Q4, even as occupancy and leased rates dropped and NER rates have not experienced any significant contraction since the end of 2020.

While occupancy, leased rates and NER maintained their strength through the end of 2021, Q4 traffic and weekly leases signed fell below their January 2021 levels. The slowdown in traffic and new leases indicates more of a yellow flag than a glaring red flag at this time but bears monitoring. New multifamily supply reached a cycle high in 2021 and most apartment prognosticators estimate even more new apartments will be completed in 2022. Increased supply in conjunction with less traffic and a potential slowdown in domestic migration will lead to a softer year for multifamily fundamentals in 2022.

With that said, however, the overall development of new housing stock will likely not keep pace with household formation, as single-family development remains low and younger millennials continue to form new households. The continuous pent-up demand for housing will create overall tailwinds for steady and strong growth by historical standards.

STUDIOS ARE RECOVERING, BUT AMERICANS STILL CRAVE MORE SPACE

Covid lockdowns and the widespread adoption of work-from-home policies in 2020 drove Americans to seek more space. During the first year of the pandemic, studio floorplans experienced the biggest drop in demand, marked by a 14.9% NER drop. 3-bedroom floorplans fell a comparatively modest 4.4% as NER dropped 11.3% across the board.



In 2021, as demand for multifamily rentals returned, studio floorplans were the biggest beneficiaries, experiencing year-over-year rent growth of 21.9%. However, demand growth for studio floorplans hit comparatively late in the national multifamily market's growth cycle in 2021; studios did not experience significant growth in NER until mid-April, well after NER for larger floorplans had started surging. Studio floorplans have had the smallest NER growth during the last two years as a whole and are up only 3.7% compared to average NER growth of 11.3%.

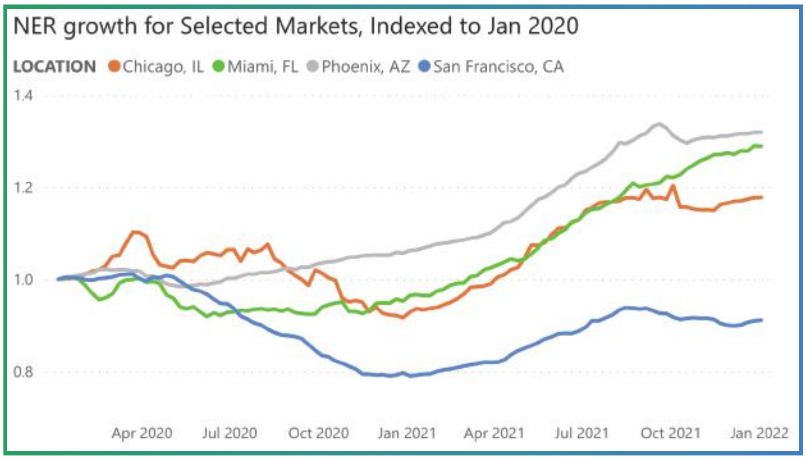
Current indications suggest that the shift in demand towards larger floorplans is persistent; NER growth in Q4 was almost entirely driven by 3-bedroom floorplans.

FLOORPLAN	YOY NER CHANGE	2 YEAR NER CHANGE
STUDIOS	21.9%	3.7%
1 BEDROOMS	21.1%	9.4%
2 BEDROOMS	19.3%	10.5%
3 BEDROOMS	19.3%	14.1%
AVERAGE	21.0%	11.3%

2020's HOT MARKETS REMAIN HOT

While the national multifamily rental market boomed in 2021, the benefits of growth were not split equally among the nation's markets. By and large, the best performing markets in 2020 continued to outperform national trends while 2020's worst performing markets are still struggling to keep up.

2020's top-performing markets were generally, cheaper, warmer, and offered more space to Americans spending more time at home as they endured waves of the coronavirus. This trend continued in 2021, and the list of top ten fastest growing markets by NER was dominated by sunbelt markets that had fared among the best in 2020. 2021's worst performing markets were, conversely, the same tech dominated markets that suffered the greatest losses in 2020.



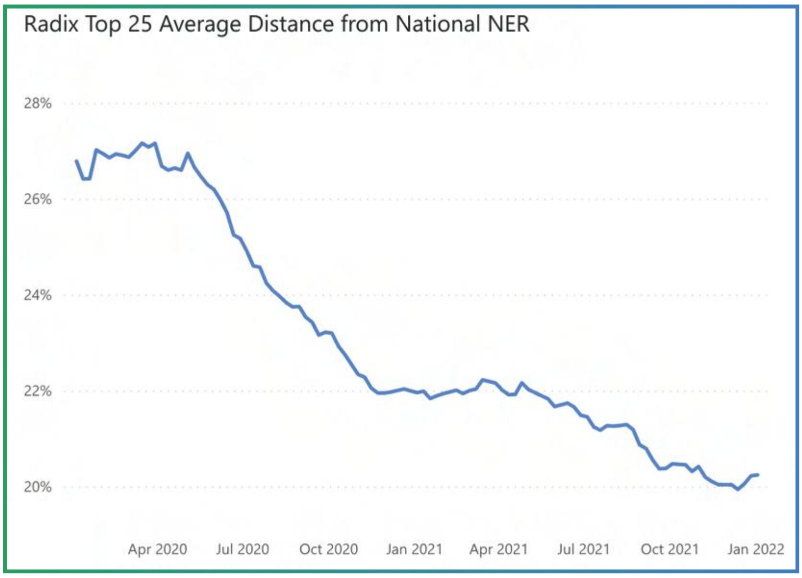
While San Francisco remains the most expensive of Radix's Top 25 markets, it has performed the worst over the past two years and is still down nearly 9% from its January 2020 NER. San Jose, Seattle, and Washington, DC, which were all within the top 7 of Radix's Top 25 markets by NER before the pandemic, have yet to return to January 2020 NER levels. On the contrary, Charleston, Las Vegas, Phoenix, San Antonio, and Tampa, the cheapest of Radix's Top 25 markets prior to the pandemic, have all seen total NER gains above 30% over the last two years. Tampa claimed the largest gain in rental rates last year at 35.1%. Phoenix's 24.4% gain in rental rates was the most of any market in the southwest last year.

Chicago and Miami were the only two markets within the ten most expensive markets pre-pandemic that also ranked within the top ten markets by NER growth last year. Chicago has historically been one of the nation's cheaper gateway markets, and while it experienced a heavy drop of 2 percentage points in occupancy rate in 2020, it roared back in 2021, rising 3.6 percentage points. This surge in demand drove a 26.6% increase in rental rates in 2021, making Chicago one of 2021's biggest comeback stories.

Miami meanwhile may be 2021's biggest breakout market. Miami's mayor has become famous for his aggressive courting of tech startups to relocate, and his approach to make the city more desirable for the tech elite seems to have merit as judged by growth in rental rates. The market has climbed from the eighth most expensive market in Radix's Top 25 at the beginning of 2020 to now the fifth; its 35% year-over-year NER growth makes it the second-best performing market of 2021, behind only Tampa.

THE PANDEMIC HAS LEVELED THE NATIONAL RENTAL PLAYING FIELD

The shift of demand from the nation's most expensive housing markets towards more affordable housing markets has driven a rebalancing of rental rates across the country. As rents have boomed in lower cost-of-living markets and contracted in several of the most expensive, there has been a marked convergence of NER in rental markets across the nation towards the national mean NER.



Before the pandemic, the average spread from the national average NER of Radix's Top 25 markets (i.e. the average absolute percent difference between a market's NER and the national mean NER) was 26%. By January 2021, it had fallen to 22%, and it now rests just above 20%. In other words, the spread of NER across Radix's Top 25 markets has fallen by almost a quarter since 2020.

This trend exists at the regional level as well. In California, for example, the average spread of NER of Radix's California markets from the California average dropped by more than two thirds from 15% to 5%. Riverside and San Diego were two of the most expensive markets to outperform national rent growth over the pandemic period. While these markets were expensive relative to the national average, they were affordable compared to neighboring California markets and absorbed significant amounts of residents fleeing the expensive gateway markets.

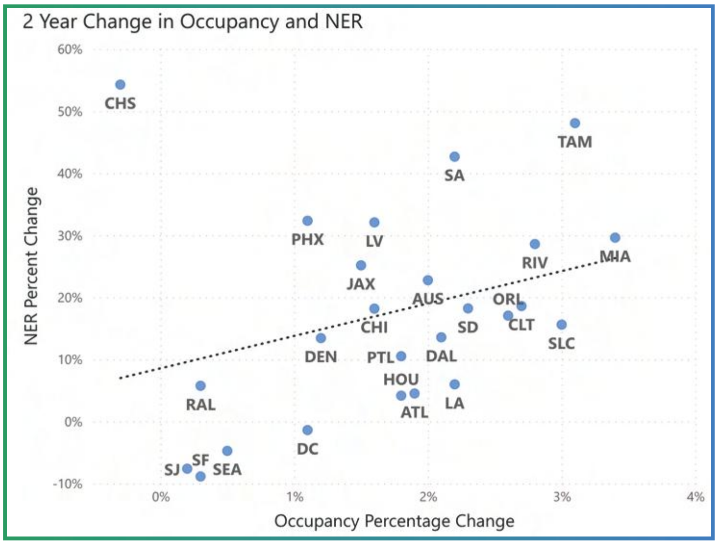
In Texas, the average spread within the state's top markets has fallen 30% over the last two years, although Austin's recovery in 2021 did drive a partial rebound. Florida experienced a much smaller drop relative to Texas and California. The average spread within Florida's markets only dropped 7%, largely because Miami out-performed Florida's state mean rent growth.

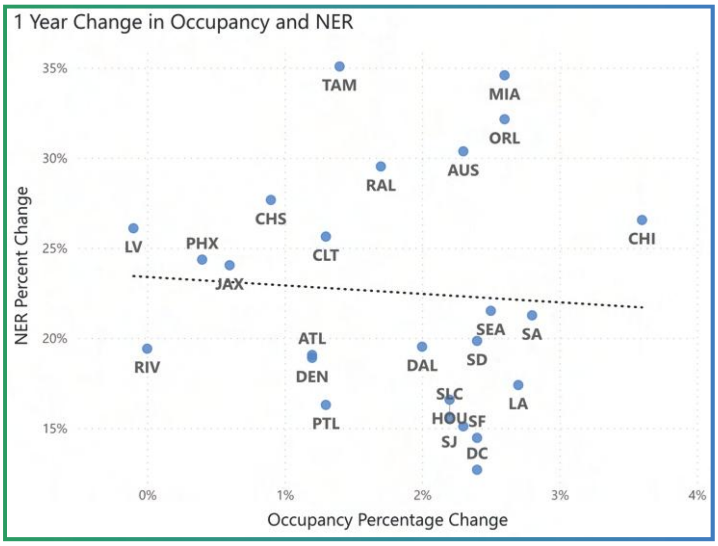
Current signs indicate that this trend will be durable; the average distance from the national average NER has continued trending downwards through Q4 2021, albeit at a slower rate. The persistence of work from home policies within many of the nation's largest white-collar employers means that high-income employees will continue to be able to live where they choose. The longer these workers are able to establish their lives elsewhere, the less likely they will be to return to higher cost-of-living markets. On the other hand, sustained growth in the sunbelt's more expensive boom markets could reverse this trend should adoption of permanent work-from-home policies become prevalent enough to allow Americans to place a premium on the lifestyles offered by these markets.

MARKETS WITH MOST OCCUPANCY GROWTH DID NOT SEE 2021's LARGEST NER GAINS

Over the past two years, the change in market occupancy rate has been a strong predictor of NER growth. A 1% increase in occupancy over the last 2 years predicted a nearly 5% additional increase in NER over the same period.

However, this relationship breaks down when looking strictly at year-over-year figures from 2021; greater increases in occupancy were correlated with a slight underperformance in NER growth over the last year. While this may at first seem counter-intuitive, the explanation is quite simple: many of 2021's best performing markets by occupancy growth were the markets that experienced the greatest resident flight in 2020. With the most room to recover, these markets experienced significant gains in occupancy while not experiencing commensurate recovery in NER rates. Likewise, many of the markets that were the biggest beneficiaries from tenant relocation in 2020 started 2021 with high occupancy rates; with less room for occupancy to grow, smaller increases drove much larger NER gains.



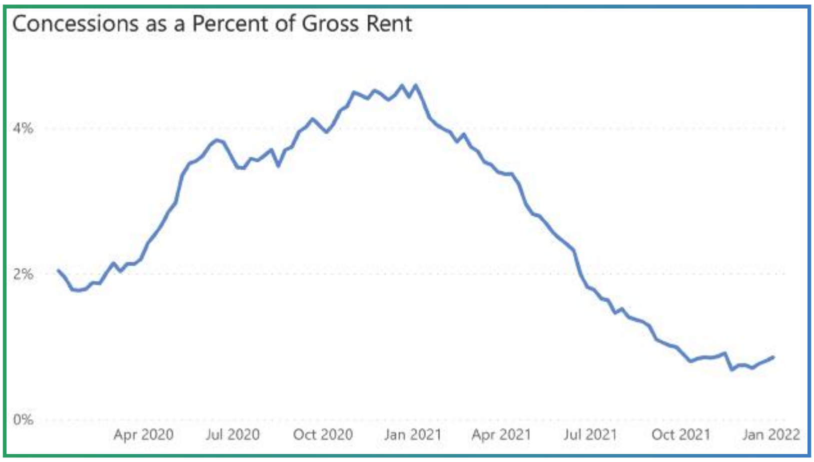


San Francisco, San Jose, Seattle, and Washington DC saw some of 2021's biggest occupancy gains. However, while all four markets are reporting occupancy figures above January 2020 rates, occupancy growth for these markets was markedly lower than the national average over the last two years as a whole and these are the only markets in Radix's Top 25 where NER is still below January 2020 rates. Tampa and Miami on the other hand were the two markets with the largest occupancy growth over the last two years. Tampa's occupancy gains were mostly accrued in 2020, while Miami's growth was primarily in 2021, yet Tampa just barely ranked first in NER growth for 2021, recording year-over-year growth of 35.1% to Miami's 34.6% gain. Both markets are among the tightest in the country now, with occupancy rates of 96.4% and 96.8% respectively.

Forecasting into 2022, occupancy remains extraordinarily tight in Southern California's and Florida's markets; San Diego, Riverside, Los Angeles, Miami, Orlando, and Tampa all report occupancy rates of above 96% and experienced among the lowest drops in occupancy last quarter. If demand for these markets remain strong heading into the spring as the weather warms up in more northerly markets, rents will likely keep outperforming national growth.

CONCESSIONS HAVE FALLEN TO RECORD LOWS

The use of concessions to entice customers to sign leases on multi-family rentals has plummeted nationally to an average of $15.98 per unit per month, only 0.8% of national gross rent. Average monthly concessions peaked at $74.23 per unit, or 4.6% of gross rent, last January. Concessions steadily fell over the course of the year in conjunction with rising occupancy rates. Use of concessions is now almost negligible in most of Radix's Top 25 markets, with notable exceptions being the Bay Area markets San Francisco and San Jose, where concessions are respectively 5.8% and 6.1% of recurring rent.



However, as all of Radix's Top 25 markets have reported decreases in occupancy over the last quarter, it is likely that concessions will start trending upwards in early 2022. With all the new supply being added, concessions will return first in markets and submarkets with significant apartment deliveries. Even with strong demographic tailwinds, it is likely that lease up concessions will return to pre-pandemic levels in high supply markets such as Austin, DFW, Washington DC, Atlanta, and Phoenix among others. The growth in concessions does not necessarily indicate weakness in a market, more so it represents the return to normal industry tendencies as property managers handle the competition for residents in new apartment communities.

CONCLUSION

The national multifamily rental market is heading into 2022 on strong footing. While leading indicators are softening, national traffic and leased rates over the last three months have just barely lagged rates during the same period in 2020, immediately before their new year rebound triggered 2021's rental boom. Though occupancy and leased rates have fallen through Q4, they remain well above historic average operating levels, and their recent trajectory suggests a stabilization.

The ongoing surge of the Omicron variant may pose a threat to rental markets, and the longer the wave persists, the more likely it is to stifle a rebound in traffic and leasing rates in Q1 2022. Rental markets will depend on leasing rates rising in the coming months to stave off further losses to occupancy rates as leases signed during last year's surge come up for renewal.

Rental markets will also have to contend with how much more Americans are able to tolerate rising housing costs. The Bureau of Labor Statistics reports that the US experienced a recent record 7% inflation rate last year and NER growth for the multifamily industry far outpaced that figure, even accounting for the losses sustained in 2020. Tenants who signed leases in Q1 and Q2 of last year, before NER reached peak growth rates, may find that lease renewal rates are higher than they can afford and turn towards cheaper housing options.

The continued adoption of work-from-home policies will be another factor to watch. The increasingly unlikely scenario that major tech employers coerce their workforces back into the office will impact the pace of recovery in West Coast markets. It is likely that Americans, whether for cost or lifestyle, will continue to migrate to sunbelt markets.

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APPENDIX

MARKET	NER	YOY NER CHANGE	2 YEAR NER CHANGE	OCCUPANCY	YOY OCC CHANGE	2 YEAR OCC CHANGE	% OF RECURRING RENT	YOY CONC. CHANGE	2 YEAR CONC. CHANGE
Charleston, SC	$1619	27.7%	54.3%	94.9%	0.9%	-0.3%	1.0%	-82.9%	9.9%
Tampa, FL	$1,893	35.1%	48.1%	96.4%	1.4%	3.1%	0.4%	-81.2%	-82.3%
San Antonio, TX	$1,252	21.3%	42.7%	95.6%	2.8%	2.2%	0.9%	-80.4%	-49.3%
Phoenix, AZ	$1,706	24.3%	32.3%	95.9%	0.4%	1.1%	0.2%	-73.8%	-69.6%
Las Vegas, NV	$1,693	26.1%	32.1%	95.9%	-0.1%	1.6%	0.1%	-80.7%	-87.6%
Miami, FL	$2,557	34.6%	29.6%	96.8%	2.6%	3.4%	0.2%	-96.8%	-93.3%
Riverside, CA	$2,447	19.4%	28.6%	96.9%	0.0%	2.8%	0.0%	-99.9%	-99.9%
Jacksonville, CA	$1,650	24.0%	25.2%	95.5%	0.6%	1.5%	0.3%	-91.9%	-89.1%
Austin, TX	$1,624	30.4%	22.8%	96.0%	2.3%	2.0%	0.1%	-98.2%	-94.4%
Charlotte, NC	$1,664	25.6%	18.6%	95.7%	1.3%	2.7%	0.3%	-95.2%	-92.6%
San Diego, CA	$2,853	19.8%	18.2%	97.3%	2.4%	2.3%	1.3%	-68.0%	-66.1%
Chicago, IL	$2,040	26.5%	18.2%	95.1%	3.6%	1.6%	2.3%	-76.5%	-49.1%
Orlando, FL	$1,906	32.1%	17.1%	96.2%	2.6%	2.6%	-0.1%	-102.1%	-136.5%
Salt Lake City, UT	$1,603	15.6%	15.6%	96.8%	2.2%	3.0%	0.1%	-94.3%	-86.2%
Dallas, TX	$1,602	19.5%	13.6%	95.8%	2.0%	2.1%	0.9%	-80.0%	-74.5%
Denver, CO	$1,870	18.9%	13.4%	95.0%	1.2%	1.2%	0.7%	-84.4%	-38.5%
Portland, OR	$1,665	16.3%	10.5%	95.4%	1.3%	1.8%	1.7%	-67.1%	15.9%
Los Angeles, CA	$2,910	17.4%	6.0%	96.2%	2.7%	2.2%	1.4%	-76.5%	-57.2%
Raleigh, NC	$1,595	29.5%	5.8%	95.7%	1.7%	0.3%	1.1%	-67.5%	-7.2%
Atlanta, GA	$1,790	19.1%	4.5%	95.5%	1.2%	1.9%	0.7%	-87.1%	-78.5%
Houston, TX	$1,471	16.6%	4.2%	94.7%	2.2%	1.8%	1.9%	-70.4%	-36.4%
Washington, DC	$2,124	12.7%	-1.4%	95.2%	2.4%	1.1%	2.4%	-68.1%	147.8%
Seattle, WA	$2,126	21.5%	-4.7%	94.9%	2.5%	0.5%	1.3%	-84.8%	-2.1%
San Jose, CA	$2,833	15.1%	-7.6%	95.2%	2.3%	0.2%	6.1%	-45.4%	299.3%
San Francisco, CA	$2,953	14.5%	-8.9%	95.1%	2.4%	0.3%	5.8%	-47.8%	230.8%
National	$1,866	21.0%	11.3%	95.8%	1.8%	1.7%	0.8%	-82.5%	-58.3%

Chart is sorted by 2 Year Change in NER, descending

Occupancy changes are calculated as the percentage difference

What is Radix Research?

Radix Research is an aggregated multifamily data tool used by industry professionals to benchmark their asset performance, identify new and emerging areas for investment, and optimize portfolio positioning.

Unique leading indicators include:

- ✓ Net Effective Rent
- ✓ Traffic
- ✓ Leasing
- ✓ Concessions
- ✓ Occupancy

- In today's investment world, speed is key. Radix is the only multifamily data provider with real time, weekly updates to all its key operating metrics.
- Radix data comes straight from the source by integrating with industry leading property management systems as well as connecting directly with property managers and leasing agents.
- Aggregate data from the national level, down to the state, MSA and submarket levels to fine tune your investment strategy and portfolio benchmarking. Combine Radix Research with our award-winning Radix Benchmark product to have a complete macro to micro view of the your properties, comps and the local market!
- Radix Research also combines multifamily operating metrics with employment, income, development and construction data to provide insight on the larger context of the apartment industry.
- Using a real-time dashboard and comprehensive reports, users can quickly and seamlessly navigate time horizons, geographies, and unit mixes at the aggregate level to create customized benchmarking tools for their markets and submarkets to quickly and easily inform investment decisions.