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Contact: Stephanie Pagan

202-266-8254

spagan@nahb.org

<http://www.nahb.org>

Multifamily Construction Sentiment Declines in Second Quarter

WASHINGTON, Aug. 19 - Confidence in the market for new multifamily housing decreased in the second quarter, according to results from the Multifamily Market Survey (MMS) released today by the National Association of Home Builders (NAHB). The MMS produces two separate indices. The Multifamily Production Index (MPI) dropped three points to 48 compared to the previous quarter. Meanwhile, the Multifamily Occupancy Index (MOI) increased six points to 70.

The MPI measures builder and developer sentiment about current conditions in the apartment and condo market on a scale of 0 to 100. The index and all of its components are scaled so that a number below 50 indicates that more respondents report conditions are getting worse than report conditions are improving.

The MPI is a weighted average of three key elements of the multifamily housing market: construction of low-rent units—apartments that are supported by low-income tax credits or other government subsidy programs; market-rate rental units—apartments that are built to be rented at the price the market will hold; and for-sale units—condominiums. The component measuring low-rent units rose three points to 49, the component measuring market rate rental units fell three points to 51 and the component measuring for-sale units dropped seven points to 45.

The MOI measures the multifamily housing industry's perception of occupancies in existing apartments. It is a weighted average of current occupancy indexes for class A, B, and C multifamily units, and can vary from 0 to 100, with a break-even point at 50, where higher numbers indicate increased occupancy. With the MOI at 70, this is the highest reading since the inception of the series.

“Demand for rental housing remains strong, but headwinds that have emerged in some parts of the country are slowing production of new apartments,” said Justin MacDonald, president and CEO of The MacDonald Companies in Kerrville, Texas, and chairman of NAHB's Multifamily Council. “The moratorium on evictions is making it difficult to obtain financing in places where rental assistance is inadequate to offset the moratorium. In other places, local governments imposing new regulations and switching to virtual meetings are making it take longer to obtain approvals.”

“The MPI softened slightly in the second quarter while multifamily production continued to increase, but it is typical for the MPI to turn one to three quarters before starts,” said NAHB Economist Robert Dietz. “Nevertheless, the MPI remains as strong as it was at any point in 2020 and NAHB expects more apartments to be started in 2021 than in 2019 or 2020.”

For data tables on the MPI and MOI, visit <http://www.nahb.org/mms>.

For more information on the NAHB Multifamily program, please visit NAHB Multifamily: <https://www.nahb.org/NAHB-Community/Community-Home/Multifamily>.

EDITOR'S NOTE: There was a revision to the previous three quarters of the MOI due to an issue with the seasonal adjustment process. The MPI was not affected.

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ABOUT NAHB: The National Association of Home Builders is a Washington-based trade association representing more than 140,000 members involved in home building, remodeling, multifamily construction, property management, subcontracting, design, housing finance, building product manufacturing and other aspects of residential and light commercial construction. NAHB is affiliated with 700 state and local home builders associations around the country. NAHB's builder members will construct about 80 percent of the new housing units projected for this year.



Multifamily Market Survey

Second Quarter 2021

Economics & Housing Policy Group

Introduction:

The National Association of Home Builders (NAHB) conducts a quarterly survey of its multifamily builder members that is used to generate the NAHB Multifamily Production Index (MPI) and the Multifamily Occupancy Index (MOI). The first quarter 2021 Multifamily Market Survey was sent to 1,414 multifamily builders. Responses were received from 75 multifamily builders.

To generate data for the MPI, the survey asks multifamily builders to rate the production of new apartments for three key market segments (low-rent, market rent, and for-sale) as “stronger”, “about the same”, or “weaker”, compared to the previous quarter. A component index is calculated from the percentage responses for each market segment using the formula $(\text{Stronger} - \text{Weaker} + 100) / 2$. Each component index and lies on a scale ranging from 0 to 100 with readings above 50 indicating that more respondents report conditions are improving than report conditions are getting worse. The overall MPI is a weighted average of the 3 components $(.3533 \times \text{Low Rent} + .2806 \times \text{Market Rent} + .3661 \times \text{For Sale})$.

This quarter, the report introduces a new index: the Multifamily *Occupancy* Index, or MOI. The MOI replaces the former Multifamily *Vacancy* Index, or MVI, and is based on the same underlying data. Mathematically, the MOI is simply 100 minus the MVI. The main advantage of converting to the new index is that the MOI goes up when conditions are improving, which yields a graph many viewers find easier to interpret. To create a relevant measure for comparison, NAHB similarly converts the Census 5+ Vacancy Rate to a 5+ Occupancy Rate (100 percent minus the Vacancy Rate).

To generate data for the MOI, the survey asks multifamily builders to rate the occupancy of multifamily units as “higher”, “about the same”, or “lower” for three classes of apartments (class A, class B, and class C apartments), compared to the previous quarter. A component index is calculated from the percentage responses for each apartment class using the formula $(\text{Higher} - \text{Lower} + 100) / 2$. Again, each component index lies on a scale ranging from 0 to 100 with a break-even point at 50, where higher numbers indicate increased occupancy. The overall MOI is a weighted average of the three components: $.3632 \times \text{Class A} + .4630 \times \text{Class B} + .1738 \times \text{Class C}$.

Historically, the MPI has served as an effective leading indicator of multifamily starts (as estimated by the Census Bureau with partial funding from HUD), while the new MOI functions as a leading indicator of the Census 5+ Occupancy Rate.



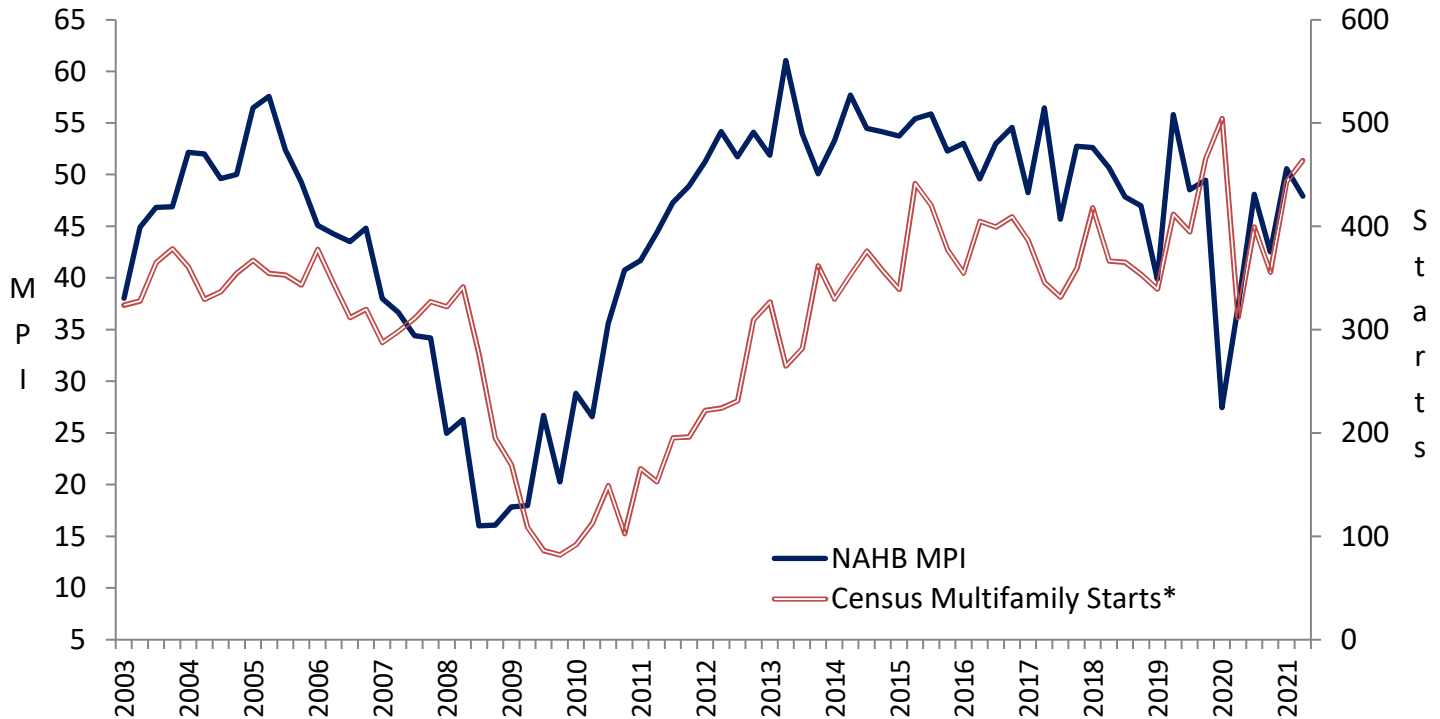
Multifamily Production Index - Q2 2021 (Seasonally Adjusted)

PRODUCTION OF NEW APARTMENTS IN CURRENT VS. PRIOR QUARTER

	2018			2019				2020				2021	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Multifamily Production Index	51	48	47	40	56	49	49	27	37	48	43	51	48
MPI Components:													
Low Rent Starts	57	59	48	47	56	51	53	32	42	46	42	46	49
Market Rent Starts	50	46	49	42	64	44	50	29	34	53	48	54	51
For Sale Starts	46	39	44	31	50	50	46	22	35	46	39	52	45

MPI components are based on questions asking if production is stronger, about the same, or weaker in the current vs. prior quarter. Numbers in the table are diffusion-type indices - calculated from the percentage responses using the formula $(\text{Stronger} - \text{Weaker} + 100) / 2$. The overall Multifamily Production Index is a weighted average of the 3 components: $.3533 \times \text{Low Rent} + .2806 \times \text{Market Rent} + .3661 \times \text{For Sale}$. The weights are derived from a statistical analysis of the relationship between the components and the Census series on multifamily starts. Source: Multifamily Market Survey, NAHB Economics and Housing Policy Group.

NAHB Multifamily Production Index (MPI) and Multifamily Starts (in thousands)



*Multifamily Starts: U.S. Census Bureau, New Residential Construction (<http://www.census.gov/construction/nrc/index.html>). The quarterly Multifamily Starts is the average of the three months of seasonally adjusted multifamily housing starts from that quarter.



Multifamily Occupancy Index - Q2 2021 (Seasonally Adjusted)

RENTAL OCCUPANCY IN CURRENT VS. PRIOR QUARTER

	2018			2019				2020				2021	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3 ^r	Q4 ^r	Q1 ^r	Q2
Multifamily Occupancy Index	55	53	55	52	60	60	60	41	38	54	55	64	70
MOI Components:													
Class A apartments	52	47	46	51	57	55	50	40	31	48	54	59	69
Class B apartments	57	54	60	52	63	63	68	41	42	58	55	68	71
Class C apartments	59	62	62	56	56	62	62	41	42	54	54	61	73

r = revised

MOI components are based on questions asking if occupancy is higher, about the same, or lower in the current vs. prior quarter.

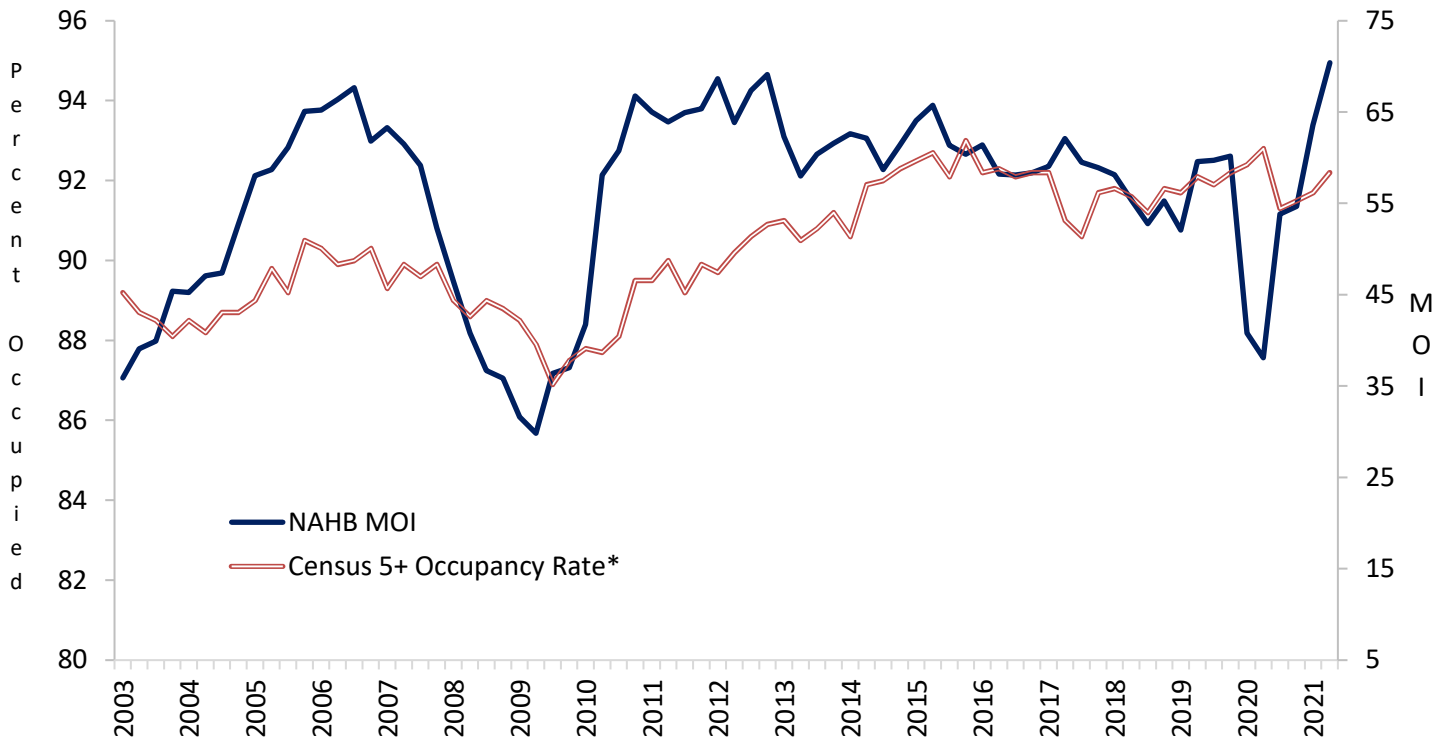
Individual occupancy indices are calculated from percentage responses using the formula (Higher Occupancy - Lower Occupancy + 100) / 2.

The overall Multifamily Occupancy Index is a weighted average of the three components: .3632×Class A + .4630×Class B + .1738×Class C.

The weights are derived from a statistical analysis of the historical relationship between the components and Census rental vacancy rates.

Source: Multifamily Market Survey, NAHB Economics and Housing Policy Group.

NAHB Multifamily Occupancy Index (MOI) and 5+ Census Occupancy Rate



**Source: NAHB calculations and the U.S. Census Bureau's Housing Vacancy survey (<http://www.census.gov/hhes/www/housing/hvs/hvs.html>)*

The 5+ Census Occupancy Rate is the percentage of occupied 5+ rental units (100 - Census Bureau's 5+ Rental Vacancy Rate, which consists of rental units occupied plus the number of rental units rented but not yet occupied).



Chart 1
Components of the Multifamily Production Index (MPI)
(production in current vs. prior quarter)

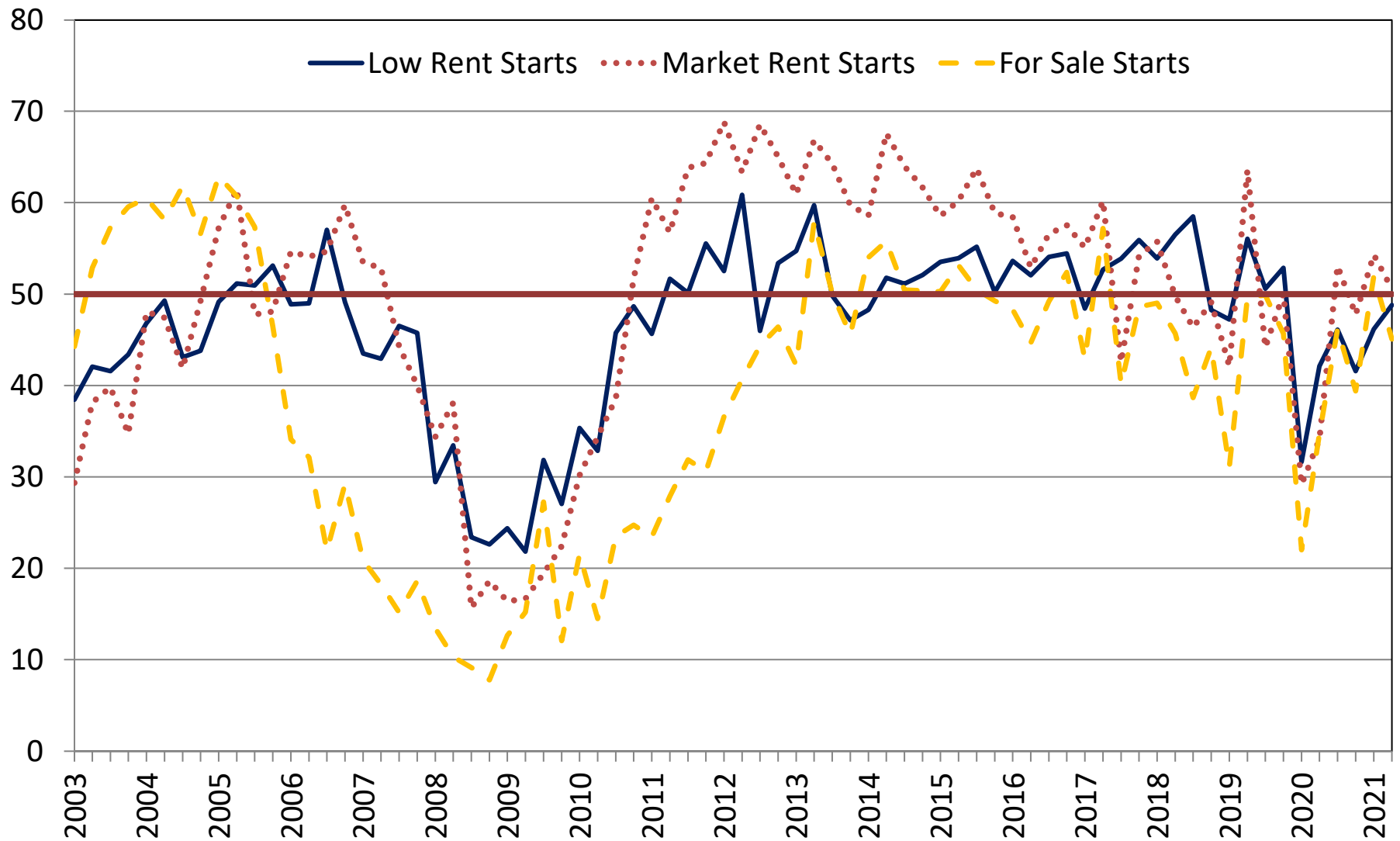
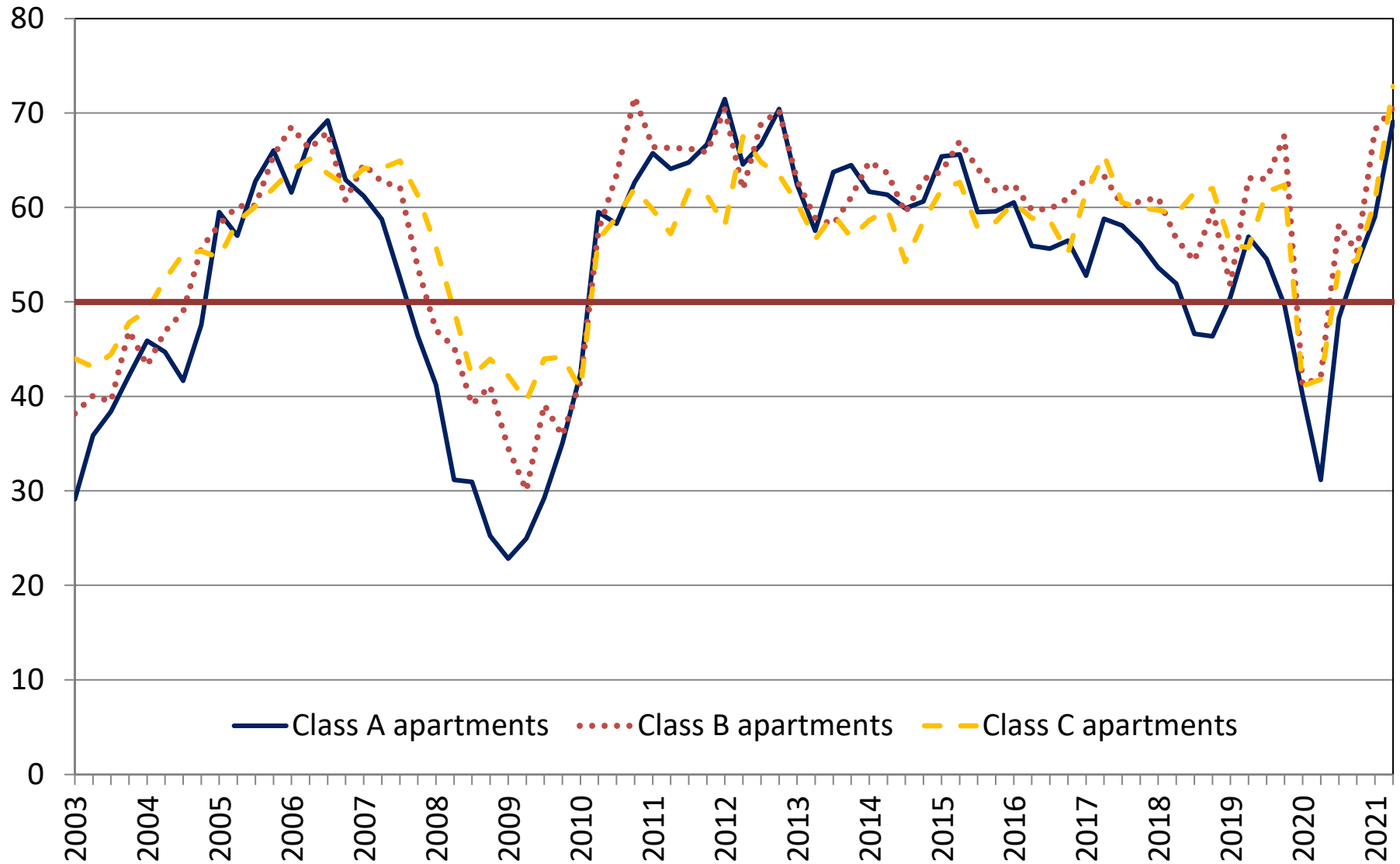




Chart 2
Components of the Multifamily Occupancy Index (MOI)
(rental occupancy in current vs. prior quarter)



National Association of Home Builders

Multifamily Market Survey

Second Quarter 2021

1. Please rate the current conditions in your market area for production of new apartments during the current quarter, compared to the previous quarter.

Multifamily starts	Current Quarter vs. Prior Quarter		
	Stronger	About the same	Weaker
a. For rent			
a1. Low Rent*	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
a2. Market Rent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. For sale	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

* Low-rent units are those supported by low-income tax credits or other government subsidy programs.

2. Please rate the current conditions in your market area for occupancy of multifamily units during the current quarter, compared to the previous quarter.

	Current Quarter vs. Prior Quarter		
	Higher	About the same	Lower
Multifamily rental occupancy			
a. Class A apartment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Class B apartment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Class C apartment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. Please let us know what is happening with multifamily housing in your area.

~~ THANK YOU ~~