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Confidence in Multifamily Housing Weakens in First Quarter of 2022

WASHINGTON, May 19 - Confidence in the market for new multifamily housing turned downward in the first quarter of 2022, 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) decreased six points to 48 compared to the previous quarter, dipping below the break-even mark of 50 for the first time in three quarters. The Multifamily Occupancy Index (MOI) inched down one point to 68.

The MPI measures builder and developer sentiment about current production 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 above 50 indicates that more respondents report conditions are improving than report conditions are getting worse.

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. Two of the three components decreased from the fourth to the first quarter: The component measuring low-rent units increased one point to 49, the component measuring market rate rental units dropped 12 points to 49 and the component measuring for-sale units fell nine points to 44.

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. The MOI inched down one point to 68, which is still well above 50 and is consistent with the recent high rates of occupancy reported by the Census Bureau.

“Strong demand is still keeping multifamily developers fairly optimistic in many parts of the country, but high construction costs and their impact on affordability are making some developers increasingly cautious,” said Sean Kelly, executive vice president of LNWA in Wilmington, Del., and chairman of NAHB’s Multifamily Council.

“The decline in the MPI indicates incipient caution on the part of multifamily developers,” said NAHB Chief Economist Robert Dietz. “This caution has not shown up yet in the multifamily starts rate, which remains quite strong, but the MPI typically leads changes in starts by one to three quarters.”

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>.

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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% of the new housing units projected for this year.



Multifamily Market Survey

First Quarter 2022

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 2022 Multifamily Market Survey was sent to 592 multifamily developers. Responses were received from 48 of them.

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 $(.3533 \times \text{Low Rent} + .2806 \times \text{Market Rent} + .3661 \times \text{For Sale})$.

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: $.3632 \times \text{Class A} + .4630 \times \text{Class B} + .1738 \times \text{Class C}$.

To create a relevant measure for comparison, NAHB converts the Census 5+ Vacancy Rate to a 5+ Occupancy Rate (100 percent minus the Vacancy Rate).

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 MOI functions as a leading indicator of the Census 5+ Occupancy Rate.



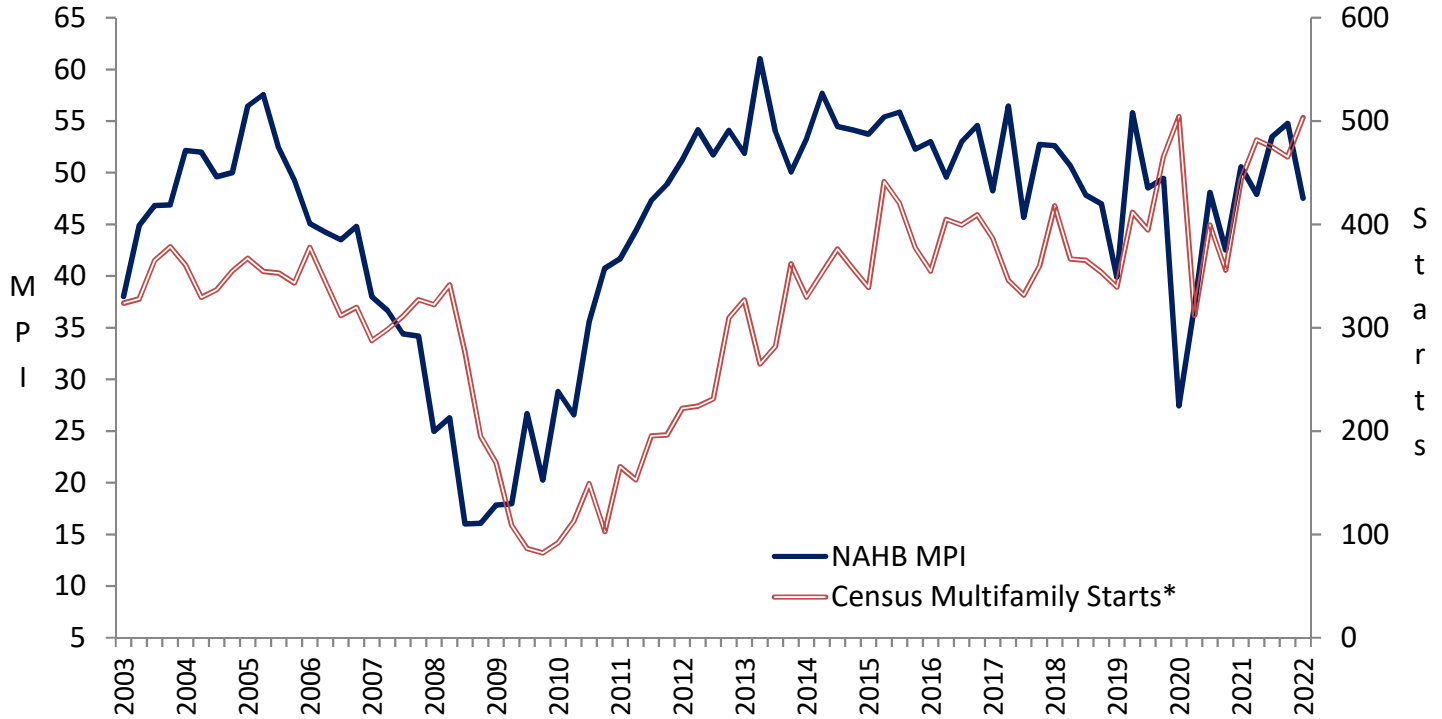
Multifamily Production Index - Q1 2022 (Seasonally Adjusted)

PRODUCTION OF NEW APARTMENTS IN CURRENT VS. PRIOR QUARTER

	2019				2020				2021				'22
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Multifamily Production Index	40	56	49	49	27	37	48	43	51	48	53	54	48
MPI Components:													
Low Rent Starts	47	56	51	53	32	42	46	42	46	49	55	48	49
Market Rent Starts	42	64	44	50	29	34	53	48	54	51	60	61	49
For Sale Starts	31	50	50	46	22	35	46	39	52	45	47	53	44

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.



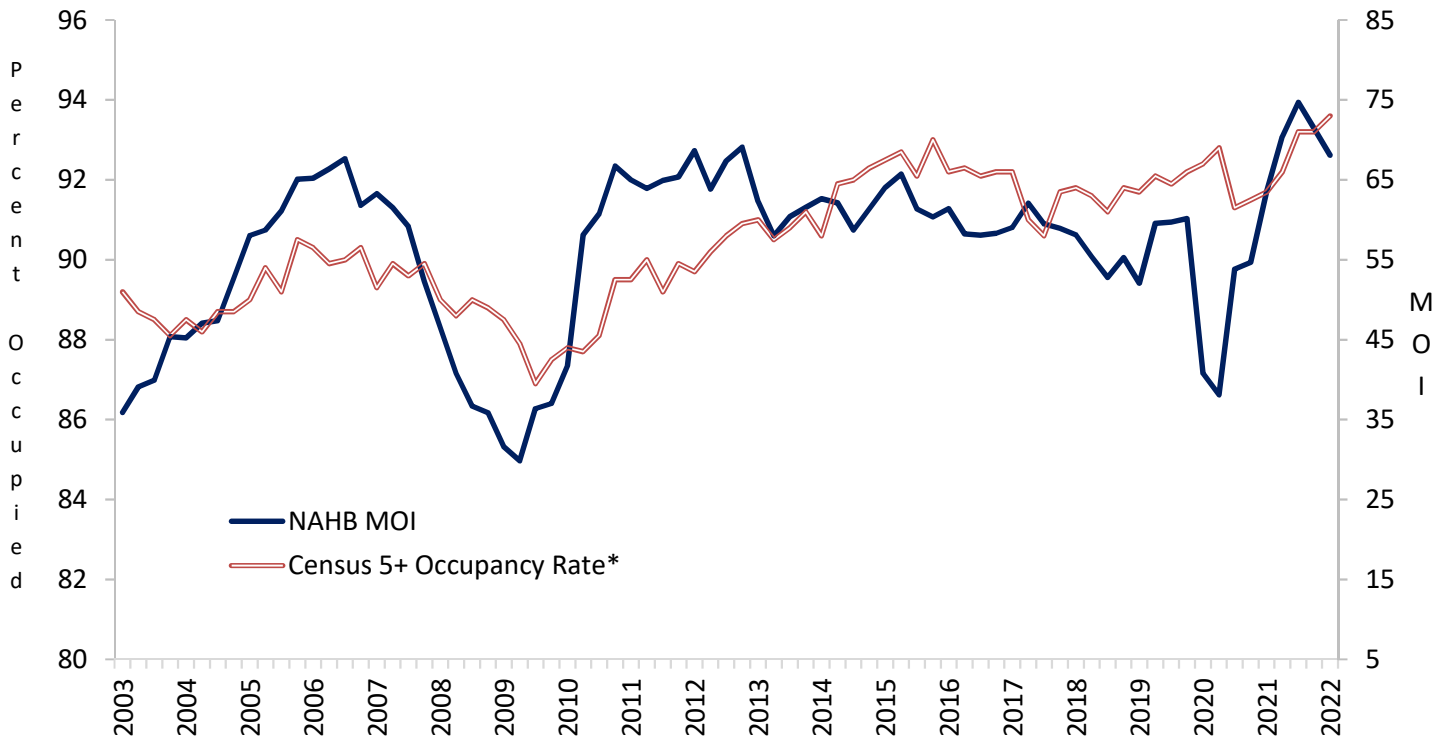
Multifamily Occupancy Index - Q1 2022 (Seasonally Adjusted)

RENTAL OCCUPANCY IN CURRENT VS. PRIOR QUARTER

	2019				2020				2021				'22
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Multifamily Occupancy Index	52	60	60	60	41	38	54	55	64	70	75	69	68
MOI Components:													
Class A apartments	51	57	55	50	40	31	48	54	59	69	77	72	68
Class B apartments	52	63	63	68	41	42	58	55	68	71	75	67	69
Class C apartments	56	56	62	62	41	42	54	54	61	73	70	69	65

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 $(\text{Higher Occupancy} - \text{Lower Occupancy} + 100) / 2$. The overall Multifamily Occupancy Index is a weighted average of the three components: $.3632 \times \text{Class A} + .4630 \times \text{Class B} + .1738 \times \text{Class C}$. 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 Census 5+ 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 $(100 - \text{Census Bureau's } 5+ \text{ Rental Vacancy Rate, which consists of rental units occupied plus the number of rental units rented but not yet occupied})$.



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

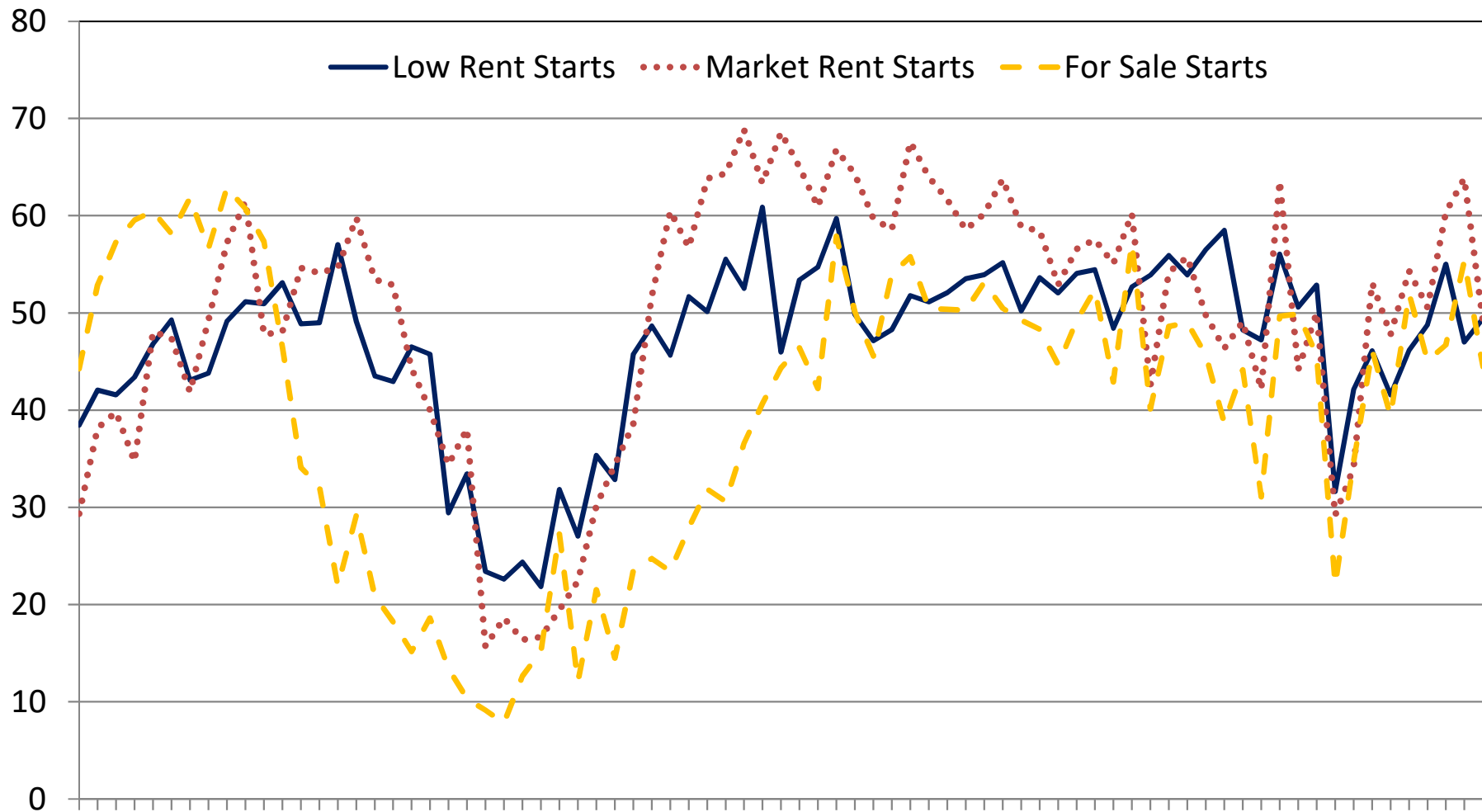
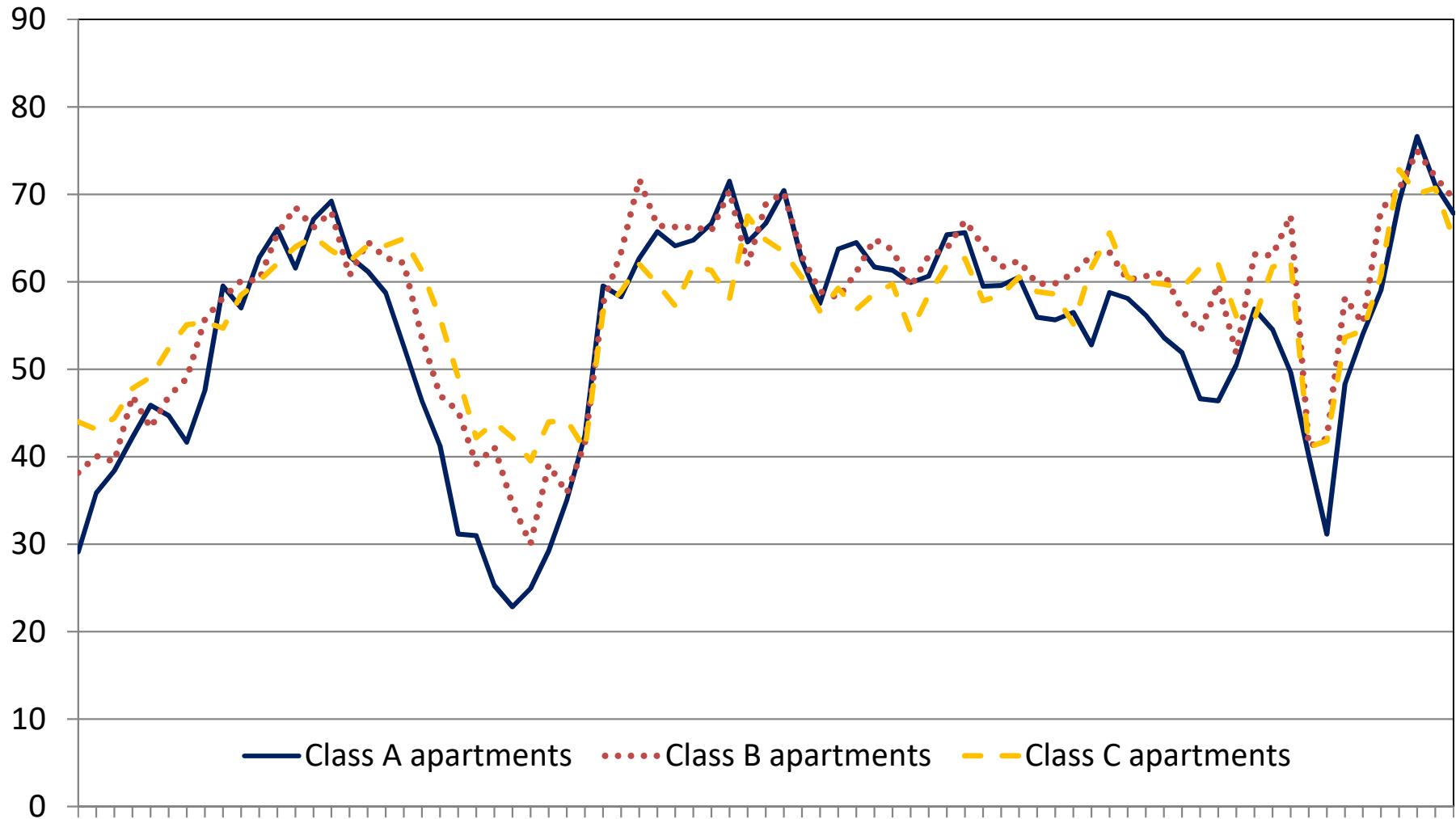




Chart 2
Components of the Multifamily Occupancy Index (MOI)
(rental occupancy in current vs. prior quarter)



National Association of Home Builders

Multifamily Market Survey

First Quarter 2022

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.

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