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Multifamily Developer Confidence in Negative Territory in Fourth Quarter

WASHINGTON, Feb. 22 – Confidence in the market for new multifamily housing was in negative territory in the fourth quarter of 2023, 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) had a reading of 41—below the break-even point of 50—while the Multifamily Occupancy Index (MOI) reading was 77.

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 its components are scaled so that a number below 50 indicates that more respondents report conditions are poor than report conditions are good.

The MPI is a weighted average of four key market segments: three in the built-for-rent market (garden/low-rise, mid/high-rise and subsidized) and one in the built-for-sale (or condominium) market. In the fourth quarter, sentiment about production of mid/high-rise apartments was weaker than the other market segments. The component measuring garden/low-rise units had a reading of 51, the component measuring mid/high-rise units had a reading of 26, the component measuring subsidized units had a reading of 41 and the component measuring built-for-sale units had a reading of 43.

The MOI measures the multifamily housing industry's perception of occupancies in existing apartments on a scale of 0 to 100. The index and all its components are scaled so that a number above 50 indicates more respondents report that occupancy is good than report it is poor.

The MOI is a weighted average of three built-for-rent market segments (garden/low-rise, mid/high-rise and subsidized). In the fourth quarter, sentiment about occupancy in mid/high-rise apartments was weaker than the other market segments. The component measuring garden/low-rise units had a reading of 80, the component measuring mid/high-rise units had a reading of 64 and the component measuring subsidized units had a reading of 88.

“Tight lending standards and the high cost of development loans continue to impede the financing of new multifamily projects,” said Lance Swank, president and CEO of Sterling Group, Inc. in Mishawaka, Ind., and chairman of NAHB’s Multifamily Council. “Developers in many parts of the country have also become cautious as they see a substantial number of new apartments being delivered and more that are ready to come online.”

“An MPI below 50 at the end of 2023 is consistent with the weakness in multifamily starts the Census Bureau reported in January,” said NAHB Chief Economist Robert Dietz “NAHB projects that multifamily production will be down in 2024, as the number of apartments currently under construction is near its highest level since 1973.”

Because the previous version of the MMS series can no longer be used to compare with this quarter's results, the redesigned tool asked builders and developers to compare current market conditions in their areas to three months earlier, using a "better," "about the same" or "worse" scale. Fourteen percent of respondents said that the market is "better" than it was three months earlier, while 63% said it is "about the same" and 23% said it is "worse."

For additional information on the MMS, 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

Fourth Quarter 2023

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 fourth quarter 2023 Multifamily Market Survey was sent to 1,251 multifamily developers. Responses were received from 68 of them.

To generate data for the MPI, the survey asks multifamily builders to rate the current conditions for multifamily starts in markets where they are active for four key market segments; three in the built-for-rent space (garden/low-rise, mid/high-rise, subsidized) and the built for sale; as “good”, “fair”, or “poor”. A component index is calculated from the percentage responses for each market segment using the formula $(\text{Good} - \text{Poor} + 100) / 2$. 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 4 components $(0.50 \times \text{Garden/Low-Rise} + 0.33 \times \text{Mid/High-Rise} + 0.12 \times \text{Subsidized} + 0.05 \times \text{Built-for-Sale})$.

To generate data for the MOI, the survey asks multifamily builders to rate the current conditions for occupancy of existing rental apartments in markets where they are active for three built-for-rent space market segments (garden/low-rise, mid/high-rise, subsidized) as “good”, “fair”, or “poor”.. A component index is calculated from the percentage responses for each apartment class using the formula $(\text{Good} - \text{Poor} + 100) / 2$. 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 $(0.60 \times \text{Garden/Low-Rise} + 0.25 \times \text{Mid/High-Rise} + 0.15 \times \text{Subsidized})$.



Multifamily Market Survey - Q4 2023

Multifamily Production Index (MPI)

(Not Seasonally Adjusted)

PRODUCTION OF NEW APARTMENTS

| | Components | | | | Multifamily Production Index |
|----------------|------------------|----------------|------------|----------------|------------------------------|
| | Garden/ Low-Rise | Mid/ High-Rise | Subsidized | Built for Sale | |
| Q1 2023 | 57 | 41 | 51 | 42 | 50 |
| Q2 2023 | 64 | 47 | 55 | 45 | 56 |
| Q3 2023 | 45 | 28 | 39 | 32 | 38 |
| Q4 2023 | 51 | 26 | 41 | 43 | 41 |

MPI components are based on questions asking if current conditions for multifamily starts are good, fair, or poor.

Numbers in the table are diffusion-type indices - calculated from the percentage responses using the formula $(\text{Good} - \text{Poor} + 100) / 2$.

The overall Multifamily Production Index is a weighted average of the 4 components:

$$0.50 \times \text{Garden/Low-Rise} + 0.33 \times \text{Mid/High-Rise} + 0.12 \times \text{Subsidized} + 0.05 \times \text{Built for Sale}$$

The weights are derived from a statistical analysis of the relationship between the components and the American Housing Survey (AHS).

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

Multifamily Occupancy Index (MOI)

(Not Seasonally Adjusted)

OCCUPANCY OF EXISTING RENTAL APARTMENTS

| | Components | | | Multifamily Occupancy Index |
|----------------|------------------|----------------|------------|-----------------------------|
| | Garden/ Low-Rise | Mid/ High-Rise | Subsidized | |
| Q1 2023 | 84 | 74 | 87 | 82 |
| Q2 2023 | 91 | 83 | 91 | 89 |
| Q3 2023 | 84 | 74 | 89 | 82 |
| Q4 2023 | 80 | 64 | 88 | 77 |

MOI components are based on questions asking if current conditions for occupancy of existing rental apartments are good, fair, or poor.

Individual occupancy indices are calculated from percentage responses using the formula $(\text{Good} - \text{Poor} + 100) / 2$.

The overall Multifamily Occupancy Index is a weighted average of the 3 components:

$$0.60 \times \text{Garden/Low-Rise} + 0.25 \times \text{Mid/High-Rise} + 0.15 \times \text{Subsidized}$$

The weights are derived from a statistical analysis of the relationship between the components and the American Housing Survey (AHS).

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

Change in Overall Market Conditions

Percent of Respondents

| | Better | About the Same | Worse |
|----------------|--------|----------------|-------|
| Q1 2023 | 5 | 67 | 28 |
| Q2 2023 | 15 | 70 | 15 |
| Q3 2023 | 5 | 61 | 33 |
| Q4 2023 | 14 | 63 | 23 |

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

Q4 2023 results based on 68 responses.

National Association of Home Builders

Multifamily Market Survey

Fourth Quarter 2023

1. Please rate current conditions for multifamily starts in markets where you are active.
(OK. To leave a particular line blank if you don't have sufficient knowledge about that part of the multifamily market.)

| Multifamily Starts | Good | Fair | Poor |
|-----------------------|--------------------------|--------------------------|--------------------------|
| Built for Rent | | | |
| Garden/Low-Rise* | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Mid/High-Rise* | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Subsidized** | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Built for Sale | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

* Garden/Low Rise buildings are typically 1 to 4 stories; Mid/High-Rise buildings are typically 5 stories or higher.

** Subsidized apartments are those supported by tax credits, tax-exempt bonds, or other government subsidy programs.

2. Please rate current conditions for occupancy of existing rental apartments in markets where you are active.

(OK. To leave a particular line blank if you don't have sufficient knowledge about that part of the multifamily market.)

| Multifamily Rental Occupancy | Good | Fair | Poor |
|------------------------------------|--------------------------|--------------------------|--------------------------|
| Garden/Low-Rise Rental Apartments* | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Mid/High-Rise Rental Apartments* | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Subsidized Rental Apartments** | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

*Garden/Low Rise buildings are typically 1 to 4 stories; Mid/High-Rise buildings are typically 5 stories or higher.

** Subsidized apartments are those supported by tax credits, tax-exempt bonds, or other government subsidy programs.

3. How would you rate the overall market for multifamily housing in areas where you are active compared to three months ago?

| | | |
|--------------------------|--------------------------|--------------------------|
| Better | About the Same | Worse |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

4. Please let us know what is happening with multifamily housing in areas where you are active.
