Multifamily Industry Braces for Deluge of New Supply in 2023
New Units Nears Highest Level Since Mid-1980s

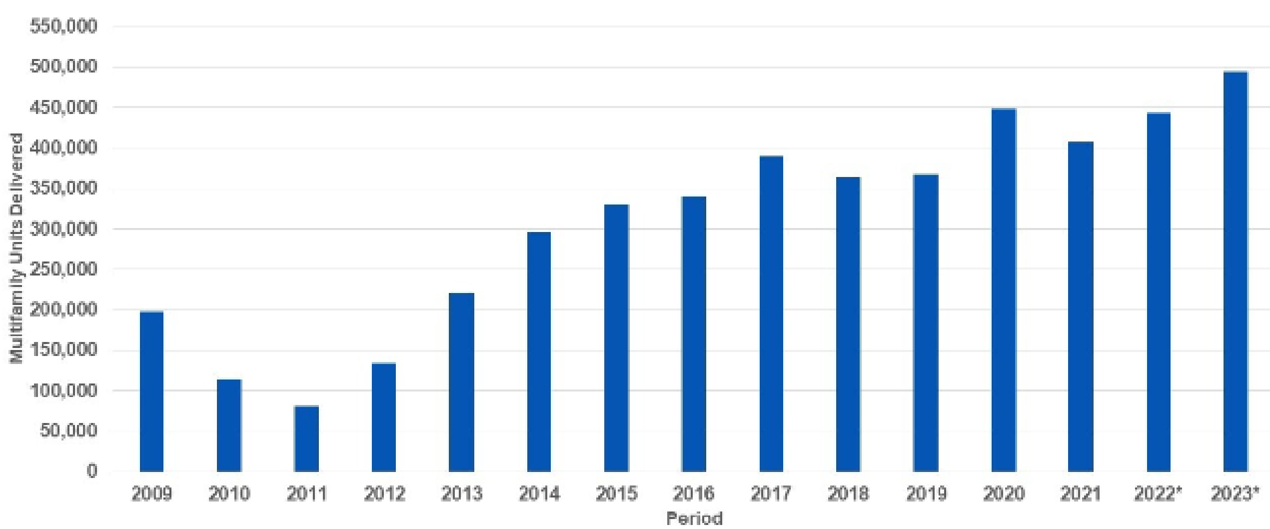
By Jay Lybik

Developers added more than 400,000 new apartment units nationally in 2022 — the third year in a row the country has seen that level of elevated supply. The additional units are being added at a particularly challenging time, as demand accounted for only half the number of newly delivered units over the past 12 months.

The impact on multifamily vacancy and rents from the added supply outpacing demand was swift and substantial. National apartment vacancy rocketed upward by 110 basis points to 6% and year-over-year rent growth retreated from an average of 11.3% in the first quarter to just 3.8%.

For owners, developers and property managers hoping for a reprieve in supply for the coming year, it won't be in 2023. Projected new units for the new year are tipping the scale at 494,000 units, which would be the highest national total since 1986.

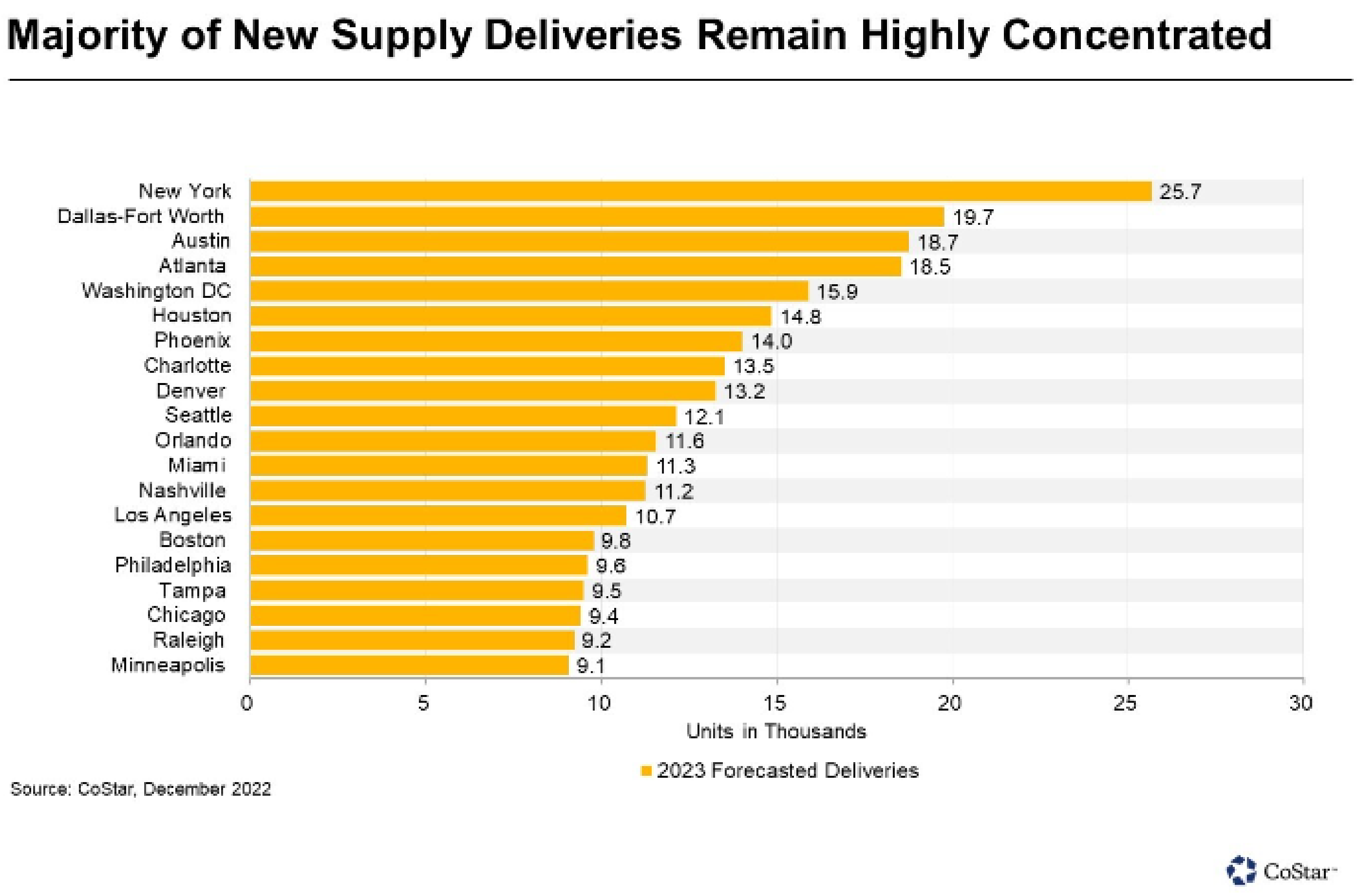
2023 National Deliveries Forecast Highest Since 1980s



Source: CoStar, December 2022

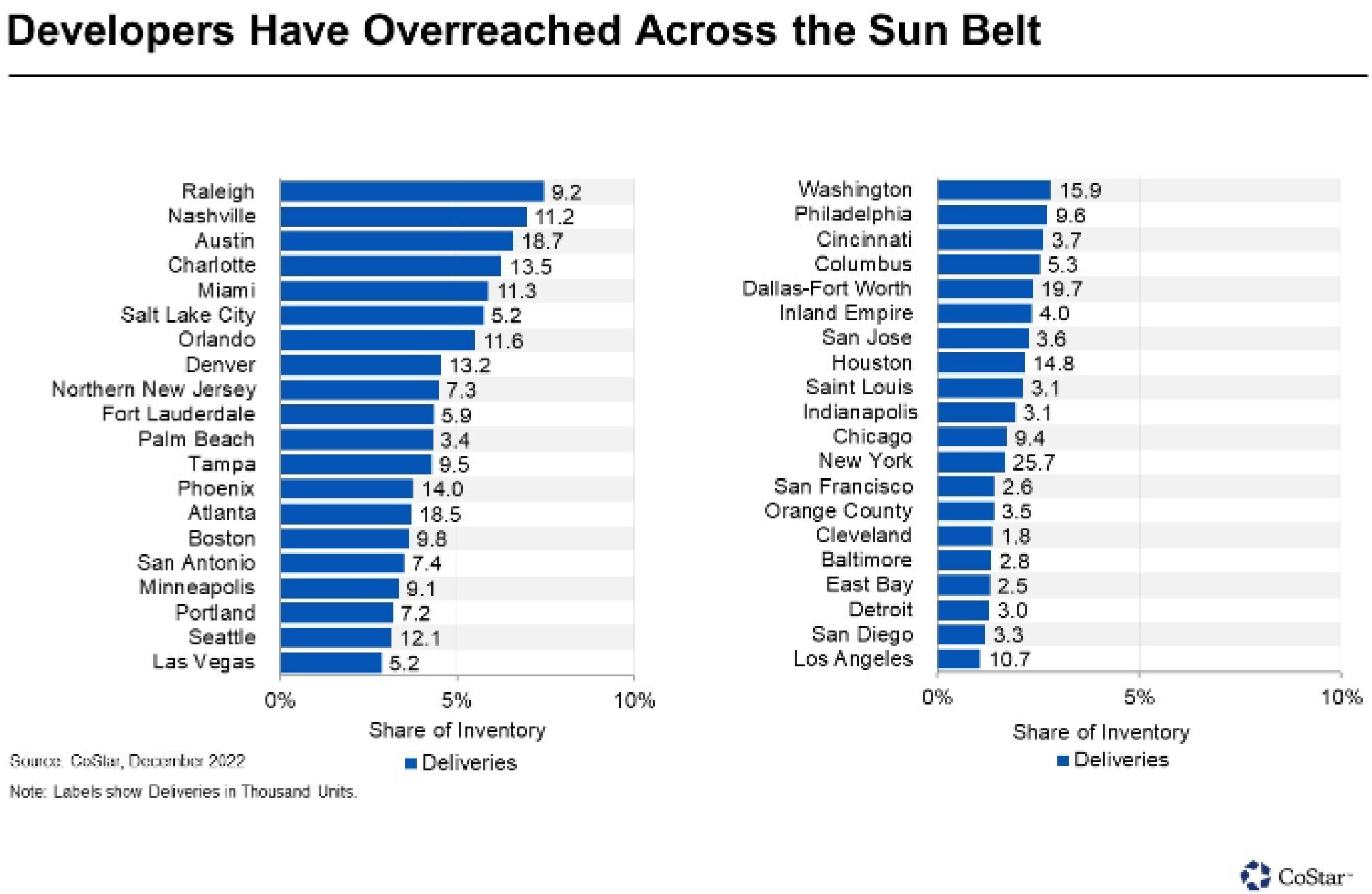
*Forecast

At the market level, New York, once again, is expected to lead the nation in adding new apartment units in 2023, at 25,000 new units, with the Dallas-Fort Worth market closely behind at 19,700 units. The next two markets on the list, the Texas capital of Austin and Georgia capital of Atlanta, are both adding a substantial number of units but have significant differences. Austin's 18,700 projected new units outpace the Atlanta market even though the Atlanta market has a population almost three times that of Austin. While Austin absorbed more than 20,000 apartment units in 2021, developers incorrectly assumed that future demand for rental units would continue at this record level and broke ground on significantly more units than the market could bear. The number of apartment units under construction in Austin leaped from 20,000 in the fourth quarter of 2020 to 30,000 at the end of 2021 and has steadily increased to 35,000 currently. This even though the five-year pre-pandemic average for Austin absorption was just 8,500 units per year.



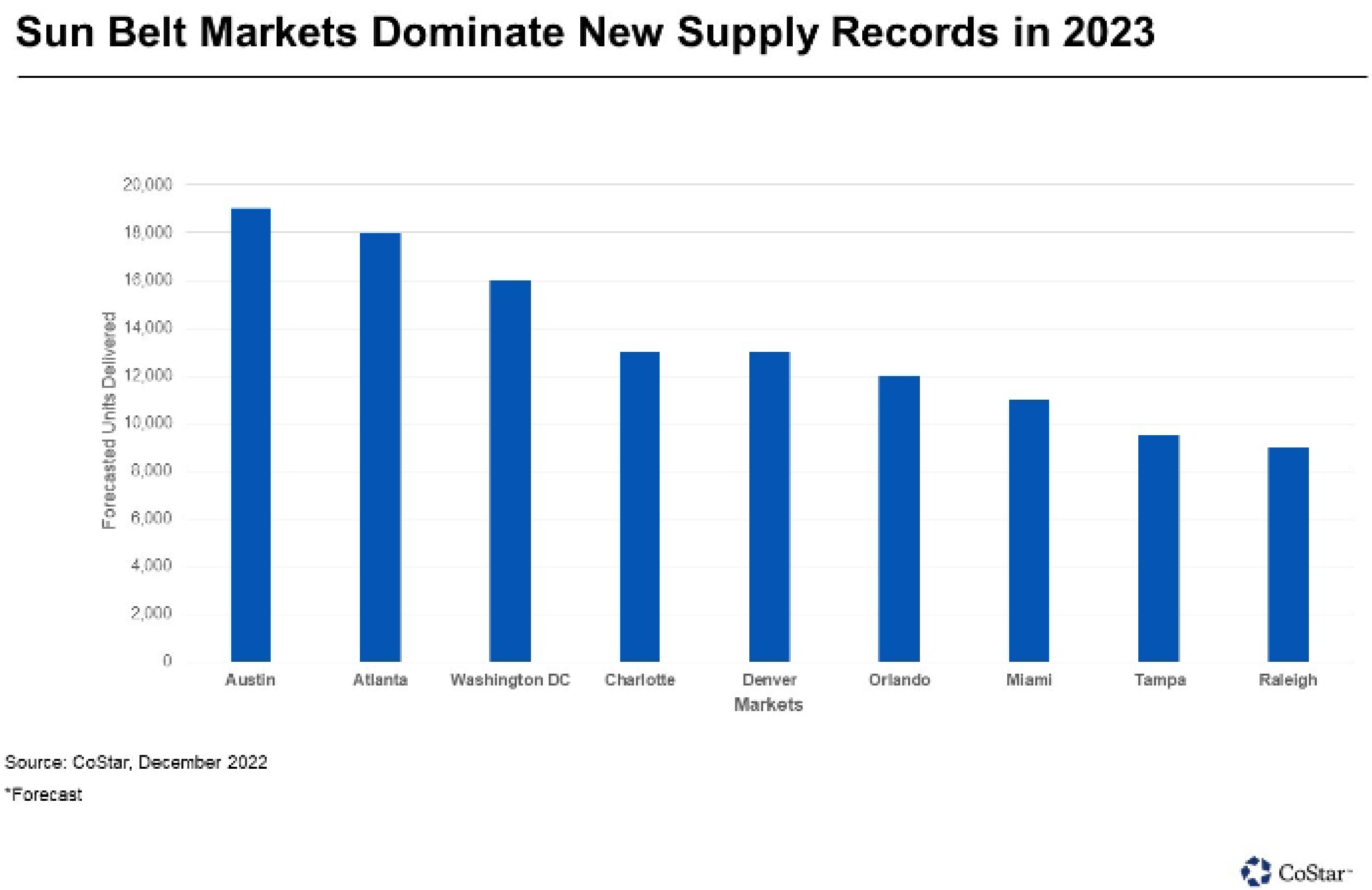
Examining the ratio of new units to the market's total existing inventory is another way to judge if a market may be in danger of oversupply. Nationally, that ratio stands at 2.6%, which is slightly elevated compared to historical totals. Of the 22 major markets with ratios above the national average, the top five have ratios ranging from 7.5 to 5.9%.

Markets that led rent growth in 2021 are most likely to see their ratios severely higher than the nation as a whole and stand to experience oversupply issues in the coming year. Multifamily markets under the national ratio tend to be concentrated in the Northeast and Midwest, which many developers have shied away from due to perceived issues of slower rent growth and lower demand. However, many of these so-called slower growth markets will likely be the top rent growth performers in 2023.



The industry is bracing for a 40-year high in new apartment construction in 2023, but the impact will be felt unevenly across the country. Of the nine markets set to hit new record supply deliveries in 2023, eight are in the Sun Belt. Washington, D.C., is the outlier of the group. Austin leads the pack with 18,700 units forecast to be added in 2023, which is expected to break last year's record of 16,100 added units.

Overall, a majority of U.S. markets will experience apartment supply pressures in 2023, especially in the highest-priced rent category because the vast majority of new units being built, more than 80%, will be four- and five-star properties.



Because these luxury units rent for an average of $600 more a month than units in three-star buildings, the old marketing concept of offering concessions to lure three-star residents to lease up new developments will likely no longer work. Given that renting a new four- or five-star apartment without concessions would cost an average of $7,200 more in annual housing expenses, that is way out of range of the three-star renter profile. Offering even three months of free rent would only lower the higher rent to $5,400 more a year in housing costs, still largely unattainable for the average renter in a three-star property.

As a result, developers and existing owners of four- and five-star properties will likely realize the hard way that demand for these units cannot be increased significantly by lowering prices, because the pool of renters they are catering to is more finite than they realized.