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Multifamily Developer Confidence in Positive Territory for Second Quarter

WASHINGTON, Aug. 17 – Confidence in the market for new multifamily housing was in positive territory for 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) had a reading of 56 for the second quarter while the Multifamily Occupancy Index (MOI) reading was 89.

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 above 50 indicates that more respondents report conditions are good than report conditions are poor.

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 the built-for-sale (or condominium) market. The survey asks multifamily builders to rate the current conditions as “good,” “fair,” or “poor” for multifamily starts in markets where they are active. For the second quarter, the component measuring garden/low-rise units had a reading of 64, the component measuring mid/high-rise units had a reading of 47, the component measuring subsidized units had a reading of 55 and the component measuring built-for-sale units had a reading of 45.

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). The survey asks multifamily builders to rate the current conditions for occupancy of existing rental apartments in markets where they are active as “good,” “fair” or “poor.” For the second quarter, the component measuring garden/low-rise units had a reading of 91, the component measuring mid/high-rise units had a reading of 83 and the component measuring subsidized units had a reading of 91.

NAHB redesigned the MMS in the first quarter of 2023 to make it easier to interpret and more similar to the NAHB/Wells Fargo Housing Market Index for single-family housing. 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. Seventy percent of respondents said the market is “about the same” as it was three months earlier.

“Multifamily housing demand remains solid, however, there are headwinds limiting new development in many parts of the country,” said Lance Swank, president and CEO of Sterling Group, Inc. in Mishawaka,

Ind., and chairman of NAHB's Multifamily Council. "Reduced availability of credit for new construction, problems getting projects approved and significant increases in operating expenses are hampering new multifamily development. Property, casualty and liability insurance has emerged as a major issue facing the multifamily industry, further constraining new supply."

"Demand for multifamily housing is being supported by the low availability and high cost of single-family homes on the market, although multifamily development faces many of the same supply-side challenges as single-family," said NAHB Chief Economist Robert Dietz. "On balance, we forecast that multifamily starts will decline during the second half of 2023 due to tight financing conditions and local concerns over supply."

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

Second 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 second quarter 2023 Multifamily Market Survey was sent to 1,417 multifamily developers. Responses were received from 93 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 - Q2 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 |

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 |

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 |

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

Q2 2023 results based on 93 responses.

National Association of Home Builders

Multifamily Market Survey

Second 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.
