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CONTACT: Stephanie Pagan
202-266-8254
spagan@nahb.org
www.nahb.org

Multifamily Developer Confidence Weak in Third Quarter on Financing Concerns

WASHINGTON, Nov. 16 – Confidence in the market for new multifamily housing was in negative territory for the third 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 38—well below the break-even point of 50—for the third quarter while the Multifamily Occupancy Index (MOI) reading was 82.

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 the built-for-sale (or condominium) market. In the third 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 45, the component measuring mid/high-rise units had a reading of 28, the component measuring subsidized units had a reading of 39 and the component measuring built-for-sale units had a reading of 32.

Although the re-designed MPI is too new to compare quarter-to-quarter changes, a separate question on the survey indicates that the multifamily market has deteriorated noticeably since the second quarter. In answering that question, 33% of multifamily developers said overall market conditions for multifamily were worse in the third quarter, compared to only 5% who said it was better.

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 third 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 84, the component measuring mid/high-rise units had a reading of 74 and the component measuring subsidized units had a reading of 89.

“High operating costs are creating problems for existing properties, especially affordable properties, and the cost and reduced availability of credit is making it difficult to finance new projects,” said Lance Swank, president and CEO of Sterling Group, Inc. in Mishawaka, Ind., and chairman of NAHB’s Multifamily Council. “It should also be noted that the garden/low-rise market is doing much better than the mid/high-rise market, both in terms of construction and occupancy rates.”

This is consistent with NAHB's tracking of the geography of apartment construction, which finds more construction in lower density markets that are more likely to be garden/low-rise buildings. The NAHB Home Building Geography Index finds that over the last three and half years, the share of apartments built in core counties of large metros has fallen from 41.7% to 37.4%. In contrast, the share of apartments built in small metros, exurbs and rural markets has increased from 31.3% to 35.6%.

"The relatively weak MPI is consistent with the declining production levels seen in the second half of 2023 and NAHB's projection that they will be lower still in 2024," said NAHB Chief Economist Robert Dietz. "Surveys by both NAHB and the Fed indicate that cost and availability of credit for builders and developers has become a major headwind for new construction."

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

Third 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 third quarter 2023 Multifamily Market Survey was sent to 1,333 multifamily developers. Responses were received from 77 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 - Q3 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

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

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

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

Q3 2023 results based on 77 responses.

National Association of Home Builders

Multifamily Market Survey

Third 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.
