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# MULTIFAMILY CONTINUES STRONG PERFORMANCE

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**M**ultifamily continued its strong performance in Q4 2021 despite uncertainty in the U.S. economy and employment market. Significant rent growth and transaction activity pushed Apartment Total Returns to 6.82% for the fourth quarter, which follows Apartment Total Returns of 6.53% in the third quarter. Driven by the very strong performance in the second half of the year, Apartment Total Returns were 19.91% for 2021, which greatly exceeded the total returns of all other property types in the NPI other than Industrial.

According to RealPage, demand for apartments in 2021 far exceeded the highest levels on record in the three decades that RealPage has tracked the market. CBRE reported that the multifamily market set an annual absorption record of 617,500 units in 2021. Although nearly 360,000 new units were delivered in 2021, according to RealPage, occupancy increased 30 basis points in the fourth quarter, which pushed occupancy to 97.4% at the end of the year. In comparison, occupancy declined an average of 40 basis points in the fourth quarter of each year during the past three decades.

Multifamily rents climbed to record highs at the end of 2021, up 15.6% year-over-year according to RealPage. New lease rent growth in 2021 reached double-digits in 103 of the nation's 150 largest MSAs. This outsized rent growth represents a rebound from the flat to slightly negative rent change that occurred during 2020. However, the National Multifamily Housing Council recently concluded that the strong performance of multifamily has been uneven, with some markets and assets outperforming

the national trend and other submarkets and properties showing rent growth well below their pre-pandemic trend. While rent growth in some sunbelt markets saw increases of more than 20%, asking rents in many of the expensive, coastal markets remain below pre-pandemic levels.

Institutional capital continues to flow into multifamily as total investment activity in Q4 2021 increased by more than 114% over the prior year, according to Real Capital Analytics (RCA). Capital flows generally followed the same domestic migration trend that has seen residents move away from the density of expensive, gateway cities to the high growth, secondary markets located in the southeast and southwest regions of the country, which was a trend that was amplified during the pandemic. RCA reported that the strongest investment activity in 2021 was in markets such as Dallas, Atlanta, and Phoenix. While the number of broadly marketed investment opportunities increased throughout the year, there is a developing trend in which sellers/brokers are selectively marketing deals to a limited pool of potential buyers, likely implying that certainty of execution has taken on even more importance for sellers in this market.

Although the strength and resiliency of multifamily has been on display throughout the pandemic, potential risks worth monitoring include uncertainty related to inflation, rising interest rates, government intervention, and Federal Reserve policy. As such, it is increasingly important for investors to partner with an experienced owner/operator that can identify and mitigate those risks.

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