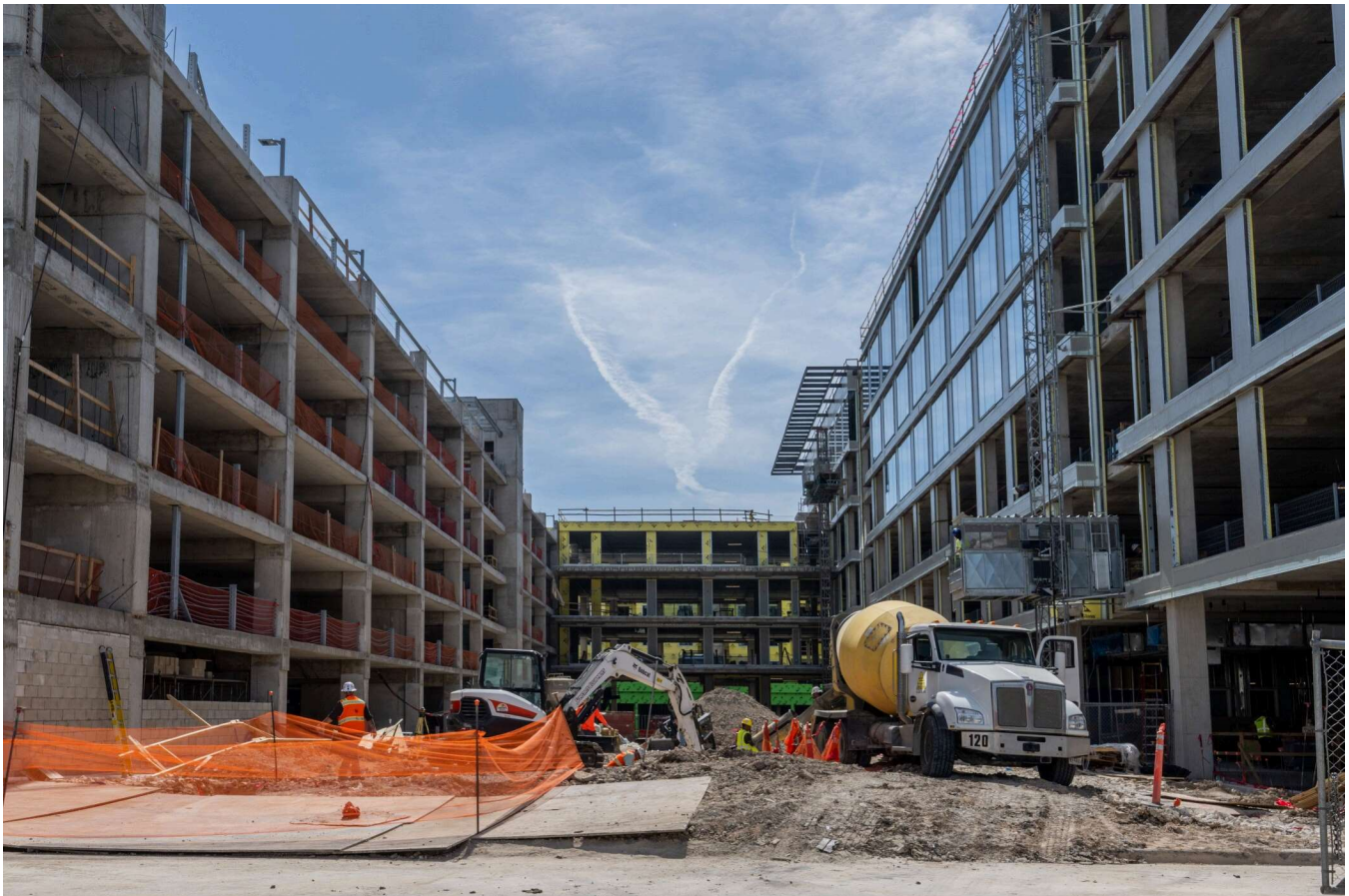


COSTAR INSIGHT

Multifamily Construction Starts Hit Lowest Level Since 2011

Slowing Pipeline Sets Stage for Supply Pullback in New Apartments Over the Next Two Years



The number of apartments starting construction this year is plunging, a move expected to result in fewer units being available two and three years from now. (Getty Images)

By **Jay Lybik**
CoStar Analytics

August 13, 2024 | 5:37 P.M.

While the multifamily market digests the record-high completions of 2023 and 2024, a dramatic slowdown in the construction of new units has major implications for apartments projected to become available in the next two years.

To see how we got here, we need to go back more than two years. At the end of 2021 and the beginning of 2022, apartment rents soared to record levels and developers scrambled to break ground on new multifamily projects. As a result, construction starts for new apartments leaped to 209,000 units during the first quarter of 2022, more than double the average of 94,000 units per quarter that started construction over the two years before the pandemic.

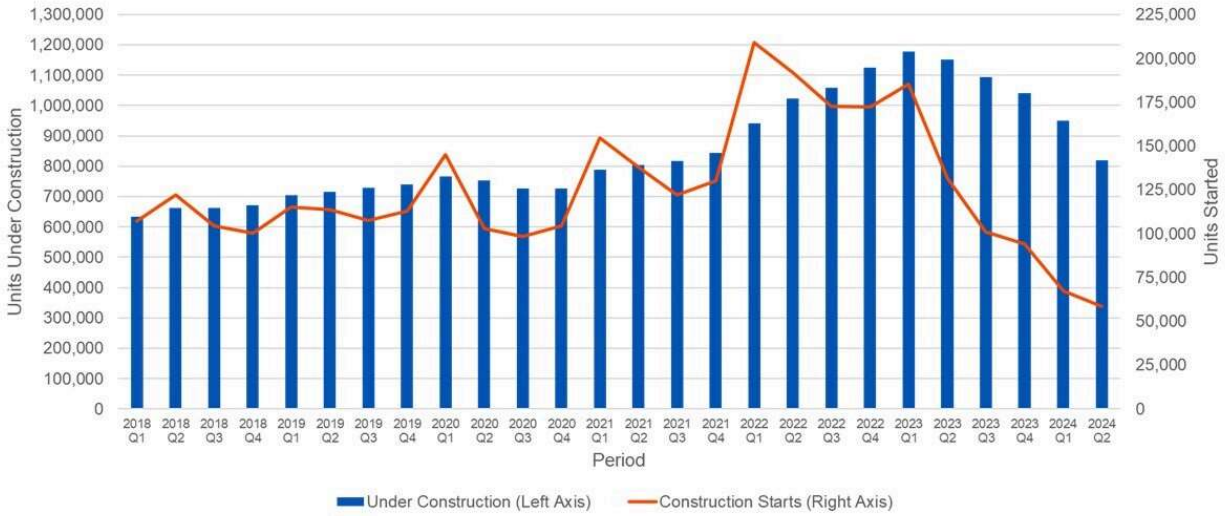
Despite rising interest rates on construction loans and higher material costs, apartment construction starts remained elevated throughout 2022, averaging 186,000 units per quarter. This led to the highest number of multifamily units under construction in the U.S. since the early 1970s, with a total of 1.17 million units underway in the first quarter of 2023. Fortunately, demand for apartments has held steady across most U.S. markets.

RELATED CONTENT

[Apartment Vacancy Rates Hold Steady As Multifamily Demand Nearly Matches Supply >>](#)

Moving into 2023, however, developers have finally begun to curtail construction activity after banks pulled back commercial real estate lending. Construction starts fell from 185,000 units during the first quarter of 2023 to 94,000 units at the end of the fourth, despite strong interest from the development community to continue building.

Pullback In Multifamily Starts Pushing Down Construction Pipeline



Source: CoStar, August 2024

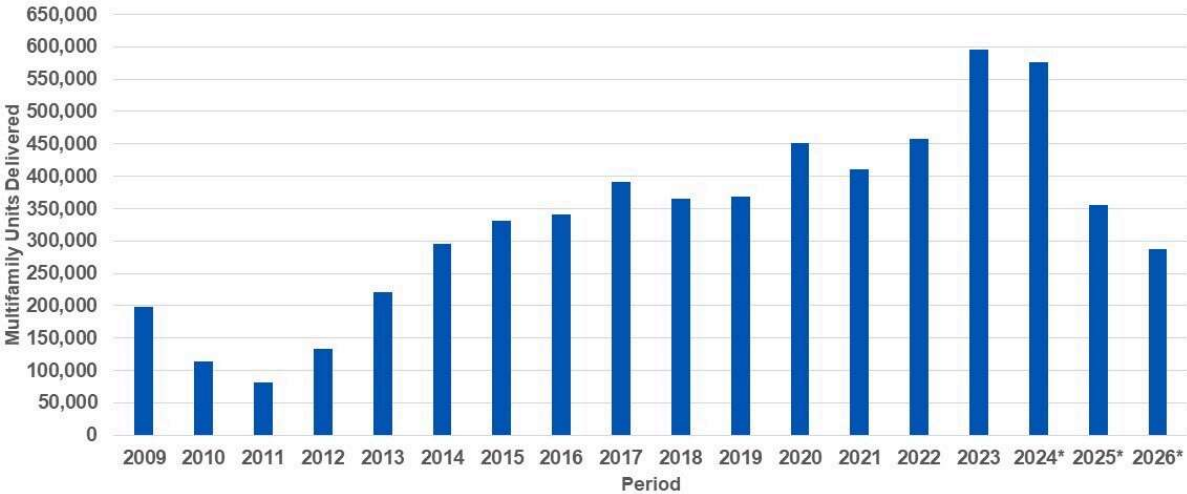


The pullback has begun to chip away at the construction pipeline. Units under construction dropped from their 50-year high of 1.17 million at the start of 2023 to 950,000 units 12 months later, a 20% decrease.

However, a new issue for multifamily developers is bringing construction starts even lower. According to market participants, many equity capital sources for new development are remaining on the sideline over concerns that the investment returns between existing apartment project purchases and new ground-up development aren't wide enough to justify the development risk. This has resulted in a further decline in the construction of new apartments this year. In the first quarter of 2024, starts declined 63% over the past 12 months to 67,000 and fell even further in the second quarter to 58,000 units, the lowest quarterly total since 2011.

According to a recent analysis of multifamily construction projects nationwide, it takes an average of 22 months for a new apartment project to go from groundbreaking to the first resident moving in. That means that for every unit that doesn't break ground this year, one less unit will be available in the market two years from now. Therefore, 2025's projected apartment completions of 356,000 units are a decline of 38% compared to 2024's total, and a further 19% decline in 2026 to 287,000 units is expected.

Deep Drop Projected In 2025 and 2026 Completions



Source: CoStar, August 2024
*Forecast



To put the 2025 and 2026 apartment delivery forecasts in perspective, the five-year pre-pandemic annual average of completions was 365,000 units. Those five years were seen as relatively balanced in terms of multifamily supply and demand, which created an average vacancy rate of 6.4%, or 140 basis points lower than the 7.9% registered in the second quarter of 2024.

If the current level of multifamily demand can be maintained over the next two years, combined with the lower delivery forecasts, the market will be well-positioned to soak up the excess units and begin bringing the multifamily vacancy and rent growth back to pre-pandemic levels.

Follow us on Social Media

Have feedback or questions? Email us at news@costar.com

RELATED RESULTS