

Average Apartment Sizes Increase



The average size of new apartments in the U.S. increased in 2023, a significant change from the shrinking sizes observed in 2022. This shift reflects developers' response to the growing demand for more spacious living arrangements, particularly in two- and three-bedroom units. Understanding these trends is crucial for real estate investors as they adapt to the evolving market dynamics.

Key Insights from the RentCafe Report:

1. Trend Reversal in Apartment Sizes:

- Average Increase: The average apartment size grew by 27 square feet in 2023, reaching 916 square feet, up from 887 square feet in 2022.
- Two- and Three-Bedroom Units: The increase is largely attributed to a higher number of two- and three-bedroom units being developed to meet renters' need for more space.

2. Historical Context and Causes:

- Pandemic Response: During the pandemic years of 2020 and 2021, apartment sizes increased to accommodate home offices. The trend reversed in 2022 due to rising construction costs and a surge in smaller units.
- Construction Costs: High costs for building materials and labor shortages led developers to reduce unit sizes in 2022. However, the persistent demand for larger spaces has driven the recent increase.

3. Homeownership vs. Renting:

- Cost of Homeownership: The financial burden of buying a home has increased significantly, with the spread between homeownership and renting reaching \$824 per month, an 18.4% year-over-year increase in Q1 2024.
- Mortgage Applications: Applications for home purchases are at a nearly 14-year low, pushing more people towards renting larger apartments.



4. City-Specific Trends:

- Top Cities for Apartment Size Growth: The cities with the largest increases in apartment sizes include Tucson, AZ (33.1%), Corpus Christi, TX (20.1%), and Gainesville, FL (19.7%), among others.

Implications for Real Estate Investors:

Adapting to Market Demand:

- Focus on Larger Units: Investors should consider focusing on properties with two- and three-bedroom units to cater to the increasing demand for more spacious apartments.
- Investment in Growth Areas: Targeting cities with significant growth in apartment sizes can offer lucrative opportunities.

Construction and Development:

- Balancing Costs and Demand: Developers must navigate the high costs of construction while meeting the demand for larger units. Efficient use of space and strategic planning are key.
- Shared Amenities: Incorporating attractive shared amenities can add value to properties without significantly increasing construction costs.

Rental Market Dynamics:

- Competitive Advantage: Properties offering larger units can attract renters who are priced out of the homeownership market.
- Long-Term Planning: Understanding demographic trends and economic conditions will help investors make informed decisions about property development and acquisitions.

Evergreen Capital's Perspective:

At Evergreen Capital, we recognize the importance of staying attuned to market shifts and adapting our strategies accordingly. The increase in average apartment sizes reflects a broader trend towards accommodating renters' needs for more space, especially as homeownership becomes more challenging.

We are committed to investing in properties that align with these trends, ensuring sustainable growth and value for our investors. By focusing on strategic locations and property types, we aim to meet the evolving demands of the rental market while navigating the complexities of construction and development costs.

Here's Where Multifamily Rent Growth is Happening



After a period of fluctuating rent growth, new data indicates a resurgence in specific market sectors. This trend presents a mixed outlook for owners and operators, with short-term gains potentially offset by long-term sustainability concerns. Understanding these dynamics is crucial for real estate investors looking to navigate the evolving landscape.

Key Insights from Recent Analyses:

1. Rent Growth Trends:

- Overall Increase: CoStar data reveals that monthly asking rents increased by 18% from \$1,435 at the end of 2019 to \$1,691 in Q1 2024.
- Three-Star Apartments: Residents of three-star apartments experienced the highest rent growth, with a 21% increase over the past 17 quarters.
- Affordable Properties: One- and two-star properties saw a 17% average rent increase, indicating significant pressure on lower-income renters.

2. Regional Variations:

- Sun Belt Dynamics: The Sun Belt region experienced a dramatic demand-to-inventory ratio drop from 5.7% in 2021 to 0.5%, coupled with a 14.8% annual rent increase by the end of 2021. New construction has since applied downward pressure on rents.
- Downtown-Adjacent Demand: CBRE data shows high demand in downtown-adjacent inner rings, with a 3% rent CAGR, outpacing lower-density suburbs and office-dominated downtowns.

3. Affordability and Rent Burden:

- Rent-Burdened Households: The Joint Centers for Housing Studies of Harvard University reports that 22.4 million households were rent-burdened in 2022, up from 20.4 million in 2019.
- Severely Cost-Burdened: The number of households spending more than half their income on rent hit an all-time high of 12.1 million in 2022.



Implications for Real Estate Investors:

1. Understanding Market Segmentation:

- Focus on Three-Star Properties: Investors should be aware of the significant rent growth in three-star properties and consider the potential for continued demand in this segment.
- Balancing Portfolio: Diversifying investments across different property ratings can mitigate risks associated with market fluctuations.

2. Regional Investment Strategies:

- Sun Belt Opportunities: The ongoing construction and demand dynamics in the Sun Belt region present both opportunities and challenges. Investors should monitor new developments and adjust strategies accordingly.
- Urban vs. Suburban: High demand in downtown-adjacent areas suggests a potential for strong returns. Balancing investments between urban and suburban properties can optimize portfolio performance.

3. Addressing Affordability Concerns:

- Sustainable Rent Growth: Investors must consider the long-term sustainability of rent increases, especially given the rising number of rent-burdened households.
- Policy and Advocacy: Engaging in policy discussions and supporting affordable housing initiatives can contribute to market stability and positive community impact.

Evergreen Capital's Perspective:

At Evergreen Capital, we recognize the complexities of the current multifamily rental market. The significant rent growth in three-star properties and regional variations highlight the need for strategic investment decisions. While short-term gains are promising, we are mindful of the long-term sustainability of these trends.

A Potent Sign that CRE Capital Markets Are Weakening



The latest data from the Mortgage Bankers Association (MBA) highlights a worrying trend in CRE capital markets. The first quarter of 2024 saw a substantial increase in commercial and multifamily mortgage debt, even as mortgage originations remained sluggish. This development indicates growing financial strain within the sector.

Key Insights from the MBA Report:

1. Increase in Mortgage Debt:

- Overall Growth: Commercial and multifamily mortgage debt increased by \$40.1 billion (0.9%) in Q1 2024, reaching a total of \$4.7 trillion.
- Multifamily Debt: Multifamily mortgage debt rose by 1.1%, or \$23.7 billion, totaling \$2.10 trillion from Q4 2023.

2. Lack of New Originations:

- Accruing Debt: The increase in debt is largely due to borrowers refinancing or paying off fewer maturing mortgages, rather than new originations. This suggests that many borrowers are unable or unwilling to secure new financing.
- Market Conditions: Borrowers who previously benefited from ultra-low interest rates and high property valuations are now facing tougher refinancing terms, contributing to the slow originations.

3. Impact on Lenders:

- Extend-and-Pretend: Many lenders are resorting to extend-and-pretend strategies, keeping problematic loans on their books to avoid recognizing losses.
- Holdings by Lender Type:
 - Commercial Banks: Hold the largest share of CRE mortgages at \$1.8 trillion (38%).
 - Agency and GSE Portfolios and MBS: Hold \$1.01 trillion (22%).
 - Life Insurance Companies: Hold \$720 billion (15%).
 - CMBS, CDO, and Other ABS: Hold \$604 billion (13%).



Implications for Real Estate Investors:

1. Navigating Financial Strain:

- Strategic Refinancing: Investors should be cautious and strategic about refinancing existing debts, given the challenging lending environment.
- Cash Flow Management: Maintaining strong cash flow is crucial as obtaining new financing becomes more difficult.

2. Market Opportunities:

- Distressed Assets: The current market conditions may present opportunities to acquire distressed assets at lower valuations.
- Alternative Financing: Exploring alternative financing options, such as private equity or joint ventures, can provide necessary capital without traditional lending constraints.

3. Lender Relations:

- Proactive Communication: Maintaining open communication with lenders can help manage expectations and negotiate favorable terms.
- Loan Restructuring: Engaging in loan restructuring discussions can be beneficial to avoid defaults and manage financial obligations effectively.

Evergreen Capital's Perspective:

We recognize the challenges posed by the current CRE capital market conditions. The significant increase in mortgage debt amidst slow originations underscores the need for strategic financial management and proactive decision-making.

Our approach focuses on identifying opportunities in distressed assets, exploring alternative financing solutions, and maintaining strong lender relationships. By staying adaptable and informed, we aim to navigate these complexities effectively, ensuring sustainable growth and value for our investors.



Checking in on Our Favorite Markets in 2024

Market Profiles to Watch in 2024				
Early Favorites to Lead	Surprising Upside?	Potential Demand Challenges	Strong Demand but Supply Caps Rent Growth	Wild Card Markets
Boston	Houston	Las Vegas	Austin	Atlanta
Chicago	San Diego	Los Angeles	Charlotte	Miami
Cincinnati	San Jose	Portland	DFW	Newark-Jersey City
Cleveland	Washington, DC	San Francisco/East Bay	Nashville	Seattle
Columbus			Orlando	Tampa
New York			Phoenix	
			Salt Lake City	

Source: RealPage Market Analytics 

In 2024, the multifamily housing market shows varied performance across U.S. regions. Cities like Cleveland, Chicago, and Washington, D.C. exhibit strong rent growth due to limited supply and job growth, while Portland and Los Angeles face challenges from high job losses and lease turnover.

Implications for Real Estate Investors

Focus Areas

- **High-Growth Markets:**
 - Washington, D.C.: Benefiting from returning migration and AI-driven job growth.
 - Newark/Jersey City: Attractive due to lower rents compared to Manhattan and waterfront developments.
- **Stable Supply Markets:**
 - Cleveland, Cincinnati, Columbus, Chicago: Strong demand and limited supply driving rent growth.

Caution Areas

- **Oversupplied Markets:**
 - Austin and Dallas-Fort Worth: High absorption rates, but significant supply limits rent growth.
 - Phoenix: Continues to face rent reductions due to oversupply.
- **Struggling Markets:**
 - Portland: High job losses impacting rental growth.
 - Los Angeles: High lease turnover rates affecting market stability.
 - Atlanta and Tampa: Underperforming due to weak rent collections and high supply volumes.



Conclusion from Evergreen Capital Perspective

Evergreen Capital advises a strategic approach to investing, focusing on:

- Regions with Robust Economic Fundamentals: Prioritize markets like Washington, D.C. and Newark/Jersey City, which show strong demand and manageable supply risks.
- Long-Term Stability: Invest in areas with stable demand and economic growth potential while avoiding overbuilt markets that may face short-term underperformance.
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Strategic Recommendations

- Invest in High-Demand Markets: Target cities with limited supply and high job growth potential.
- Monitor Supply Levels: Avoid markets with excessive new developments that could dampen rent growth.
- Stay Informed on Economic Trends: Regularly review economic and job growth data to identify emerging opportunities and risks.