The small multifamily property sector is defined as those properties with between 5-50 units. It is a sector that has long been a focus for affordable housing because it is generally regarded as having more affordable units. For example, according to CoStar, as of fourth quarter 2021, the average asking rent for a unit in an existing small multifamily property was $1,250, somewhat less expensive than the average $1,550 for a unit in a large, 50+-unit multifamily property. Therefore, it is useful to ascertain how much of this stock exists now and how much new supply is underway to determine the future of this important affordable segment of multifamily rental housing.

**Small Multifamily Even More Affordable in Certain Metros**

While CoStar shows that the difference in the nationwide average monthly asking rent for small versus large multifamily apartments is about $300, the difference can be even larger in certain major metro areas. According to Moody’s Analytics CRE, San Diego appears to have one of the largest differences with an average monthly asking rent as of fourth quarter 2021 just over $2,500 in a large multifamily property, compared to just over $1,900 per month in a small multifamily property. As shown in the table below, the difference between asking rents in small and large multifamily properties in seven major multifamily markets can range anywhere between $500 and $600 a month.

<table>
<thead>
<tr>
<th>Small Multifamily: (5–50-unit properties)</th>
<th>Large Multifamily: (50+-unit properties)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro</td>
<td>Vacancy</td>
</tr>
<tr>
<td>------</td>
<td>--------</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>4.0%</td>
</tr>
<tr>
<td>San Francisco</td>
<td>6.9%</td>
</tr>
<tr>
<td>Seattle</td>
<td>4.7%</td>
</tr>
<tr>
<td>San Diego</td>
<td>2.8%</td>
</tr>
<tr>
<td>Chicago</td>
<td>4.2%</td>
</tr>
<tr>
<td>Oakland</td>
<td>5.2%</td>
</tr>
<tr>
<td>Boston</td>
<td>6.2%</td>
</tr>
</tbody>
</table>

Source: Moody’s Analytics CRE
Small Multifamily Estimates Vary Greatly

Clearly, these units are more affordable. Yet, identifying the number of units in small 5-50-unit multifamily properties is not a straightforward exercise. As shown in the table below, estimates of units in properties with 5-50 units vary greatly depending on the source of data. The American Community Survey (ACS) reports the highest total with 13.7 million units, representing 69 percent of occupied rentals. The Rental Housing Finance Survey (RHFS) reports almost half that number, 7.5 million units, representing about 30 percent of units. And lastly, CoStar, Inc. (CoStar) reports the lowest total at 4.8 million small multifamily units, representing less than a quarter of all multifamily rentals.

Why the discrepancy? The answer is simple: different approaches to the estimates.

<table>
<thead>
<tr>
<th></th>
<th>CoStar</th>
<th>American Community Survey (ACS)</th>
<th>Rental Housing Finance Survey (RHFS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Multifamily (5-50 units)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Units</td>
<td>4.8 M</td>
<td>13.7 M</td>
<td>7.5 M</td>
</tr>
<tr>
<td>Large Multifamily (50+ units)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Units</td>
<td>16.1M</td>
<td>6.1 M</td>
<td>17.4 M</td>
</tr>
<tr>
<td>Total</td>
<td>20.9 M</td>
<td>19.8 M</td>
<td>24.9 M</td>
</tr>
</tbody>
</table>

Source: CoStar Group, American Community Survey (2020), Rental Housing Finance Survey (2021)
Note: Excludes Seniors, Student, Manufactured and Military Housing. ACS figures based on occupied units.
Multifamily Economic and Market Commentary

**ACS Estimate Overstates Amount of Small Multifamily Units**

The ACS is an annual survey of households that includes questions about the units in which the renter survey respondents live. As shown in the adjacent excerpt from the ACS 2020 survey questionnaire, the household is asked to choose the number of units in the building in which they reside, not the total property. This leads to an overstatement of the number of units in small multifamily properties under the ACS.

That’s because many multifamily properties outside of core urban areas are garden-style multifamily properties that have a set number of units located throughout several buildings on the property. For instance, a multifamily garden-style property that has 10 buildings, each with six units has a total of 60 units and is a large multifamily property. However, the survey response to the ACS questionnaire would show only six units per building, thereby adding each of the 10 buildings separately into its 5-50-unit multifamily category.

**Rental Housing Finance Survey Focuses on Property Level**

The RHFS occurs once every three years and includes both single-family and multifamily rental properties with at least one housing unit intended for rent. The key aspect of the survey is that it focuses on the financing of rental housing properties, with emphasis on new mortgages, refinanced mortgages, or similar devices, such as deeds of trust or land contracts, and the characteristics of debt originations. As part of the survey, the RHFS also collects physical characteristics for the property. As a result, it is an improvement over the ACS for assessing the small multifamily sector because the survey is at the property level, meaning that the property and its total unit count are linked together.
Multifamily Economic and Market Commentary

However, as shown in the excerpt from the questionnaire, condos that are rented may be included in the response, which, in turn, may also lead to an overstatement of the number of units available at small multifamily rental properties. In addition, the instrument is still a survey reliant on a sample. As a result, variation in the weighting of responses may affect the total number of units.

Excerpt from the 2021 Residential Housing Finance Survey

CoStar Verifies Properties and Units

CoStar’s data is also collected at the property level. However, CoStar has a fleet of inspectors that physically verify the existence of the multifamily properties and their corresponding units in its database. Furthermore, its multifamily database coverage is nationwide with researchers located in several metro areas in each state.

As a result, we believe that the CoStar data on small multifamily properties has been physically verified and it is very likely that there are at least 4.8 million rental units in small multifamily properties across the country.

Based on CoStar data, the 4.8 million units in small multifamily properties represent just under a quarter of the nation’s multifamily rental housing stock. However, according to the Dodge Data & Analytics Supply Track construction pipeline, which physically verifies properties under construction, there is quite a divergence between small and large multifamily properties regarding new units being constructed.
Share of New Small 5-50-Unit Properties Limited

As shown on the upper chart to the right, data from Dodge Data & Analytics indicates that the share of small multifamily properties completed has largely kept pace with the share of large multifamily properties completed over the past nine years, averaging about 46 percent of new properties completed.

In 2021, approximately 1,800 properties, representing 49 percent of new properties completed, were small multifamily properties with 5-50 units.

However, as shown on the lower adjacent chart, the share of units completed in small multifamily properties over the past nine years is much lower and only represents about 10 percent of new units completed annually. For instance, in 2021 only about 38,000 new units were completed in small multifamily properties, resulting in an average property size of only 21 units.

In contrast, the Dodge Data & Analytics Supply Track construction pipeline data recorded an average property size of 188 units for new large multifamily properties with more than 50 units.

As a result, the number of units in large multifamily buildings is growing far more quickly than in small multifamily units.

Source: Dodge Data & Analytics Supply Track
Note: Excludes properties with missing units or fewer than 5 units and Condos/Townhomes
Fewer Units Added to Multifamily Inventory by Small Multifamily Construction

As shown below, small and large multifamily property types have not been far apart on the number of properties added to multifamily stock. Since 2013, small multifamily added about 13,000 properties cumulatively and large multifamily added just under 15,000 properties.

However, new small multifamily properties have added a limited number of units to multifamily stock over the past nine years, as shown in the bottom chart below. According to the Dodge Pipeline, just under 2.8 million units have been added in large multifamily properties compared to more than 280,000 units added in small multifamily properties since 2013. Should this trend continue, we believe the share of rental units in small multifamily properties relative to the overall multifamily market will likely decline.
Small Multifamily Properties Demolished

Small multifamily properties tend to be much older than other multifamily properties. Even as new small multifamily properties are under construction, other small multifamily properties have been demolished. From 2012 through mid-February 2022, CoStar estimates that just over 4,000 small multifamily properties have been demolished. It is possible that some of these were replaced with large multifamily buildings.

Location of Small Multifamily Properties Demolished Jan. 2012 – Feb. 15, 2022

Source: CoStar, Inc
Note excludes properties in Alaska and Hawaii.

Small Multifamily Share of Market Expected to Keep Declining

The construction of new multifamily rental properties is running well above the historic average, but the number of units being added to the nation’s rental housing stock is rising fastest in large multifamily properties with over 50 units. With the small multifamily property segment adding so few new units, we believe it’s likely that the overall share of the small multifamily segment compared to the overall multifamily rental market will continue to decline from the approximate one-quarter of apartment stock it currently represents to just 20 percent over the next decade.

This may be exacerbated by the fact that the stock of small multifamily properties is aging. According to the RHFS, the mean year the newest building was constructed in a large multifamily property was 1986. By contrast, the mean year the newest building was constructed in a property with 5-24 units was 1965. As a result, small multifamily properties are at risk of either being purchased as value-add opportunities by multifamily investors or demolished to make way for a larger multifamily property occupying the same footprint. However, it is important to note that the increase of larger garden-style properties also helps provide much-needed rental housing in many places across the country.
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April 11, 2022

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