

**YARDI<sup>®</sup>** Matrix

# U.S. Multifamily Outlook

Fall 2016

## Rents Stay Strong, But See Deceleration

Rent Growth Drops to  
More Sustainable Levels

Multifamily Construction  
Maintains High Volume

Investors Lose Zeal,  
Fearing Overheating







## Market Analysis

Fall 2016

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## Multifamily Outpaces Economy



After a couple of brief periods earlier in the year in which it seemed that the U.S. economy was teetering, pessimism was washed away by a couple of strong jobs reports during the summer. Since then—despite two quarters of weak GDP growth and concerns about growth overseas—equity markets have bounced to record highs and volatility in the capital markets has diminished. What's the midpoint between healthy employment and slow growth? Continued moderate growth, which has served the commercial real estate market well in recent years.

**Slo-Go Economy:** Growth has not been as robust as the consensus forecast at the beginning of the year, but weaker-than-expected GDP has largely been offset by strong employment gains and low inflation. Metrics such as consumer spending, wage growth and business inventories indicate that growth may bounce back. At the least, worries that the recovery is on its last legs appear to have subsided, and financial markets have posted strong results during the summer.

**Decelerating Rents:** Rent growth remains strong in the vast majority of metros, and nationally rents were up 5.0% year-over-year through August. However, that is a deceleration from the 6%-plus increases seen for most of the last year. Although we expect demand and occupancy levels to remain healthy, we foresee more moderation in rents in line with wage increases and affordability issues. Deceleration is most pronounced in tech-centric metros that have had a large run-up in rents and heavy increases in supply.

**Peaking Supply:** 2016 is set to be a peak year in terms of construction, with 360,000 units set to be delivered nationally, up 45% from the 249,000 units that came online in 2015. With continuing strong demand from the growing Millennial population and downsizing retirees, and occupancies at or near record levels in most markets, the new supply is being absorbed in most metros. However, the increase in stock is an issue in a few markets that are building too much or where job growth is weakening.

**Capital Still in Place:** Although the amount of capital drawn to the sector has cooled a little due to concerns about the market peaking or a slowing economy, multifamily real estate remains near the top of the list of safe investments for institutions both foreign and domestic. As a result, price appreciation has picked up again after flattening in the spring, and secondary markets and value-add apartments near core markets are in high demand. We do expect appreciation to flatten in the next year or so, as property yields are near bottom, with returns mostly coming from increases in income.