YARDI® Matrix

U.S. Multifamily Outlook

Winter 2017

Can the Good Times Keep Rolling?

Rent Growth Slows, But Tops Long-Term Average

Occupancies Remain Near All-Time Highs

Investors Bullish, Despite Capital Market Uncertainties

Market Analysis

Winter 2017

Contacts

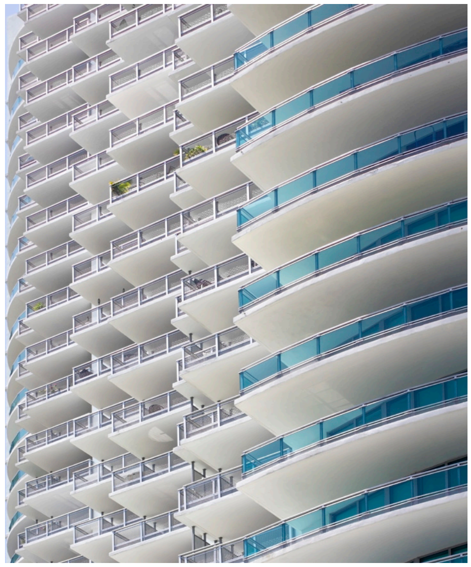
Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 866-1124 x2403

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Chris Nebenzahl
Senior Analyst
Chris.Nebenzahl@Yardi.com
(800) 866-1124 x2200

Multifamily Outpaces Economy



The multifamily market has seen phenomenal growth in rents and property values for several years. Can the good times continue to roll in 2017?

We think they can, though the rate of rent increases is going to slow down, transaction yields have likely bottomed and oversupply is going to negatively impact some locales. However, we expect that the multifamily market in most metros will continue to enjoy positive fundamentals. Demand for units will remain strong, even if the growing amount of supply pushes occupancy rates down slightly.

Economic Growth, with Caveats: The new administration and Congress are expected to inject some stimulus into the economy in the form of tax cuts, infrastructure spending and reduction of regulations on business. That brings with it prospects for an improvement upon the moderate growth the U.S. economy has produced for the last several years. However, potential headwinds include the possibility of tariffs or focus on unproductive policies such as deportation.

Rents Continue to Moderate: The slowdown in rent growth from frothy 2015 levels should persist. Deceleration will be pronounced in metros that had unsustainable double-digit increases and those where supply, affordability issues or weakening employment growth will put pressure on rent gains. Even so, we expect national rent increases to be just under 4%, which is above the historical trend of 2.3% and a signal that the market is healthy overall.

Heavy Supply in Some Metros: 2017 is expected to be another strong year for supply, with 320,000 units scheduled to come online, up 5.3% from 2016. The pipeline could begin to diminish slightly in future years, as construction financing becomes harder to find due to higher capital charges and regulator pressure on banks to be less aggressive. The impact of new supply will vary by metro.

Questions About Capital: The capital markets have been friendly to the sector for years, and that should continue in 2017, although cracks may start to appear. Multifamily is still generally viewed as a safe investment with good prospects, but some investors are beginning to hold back due to concerns about interest rate increases when acquisition yields are at historical lows. The debt markets remain stable, although GSE reform is looming in the background.

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