Yardi® Matrix

U.S. Multifamily Outlook

Summer 2017

Steam to Spare

Strong Job Market Supports Demand

Rent Growth Drops to “Normal” Levels

Worker Shortage Slows Supply Boom

Market Analysis

Summer 2017

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Apartment Momentum Chugs Forward

During this extreme hurricane season, the old post office motto comes to mind when describing the multifamily market: Neither snow nor rain nor heat nor gloom of night can do much to dent the sector's consistent performance. Although fundamentals have been downgraded from great to merely consistently good, the apartment market's strong run likely has some steam left in it, fueled by the slow-moving demographic tide and healthy performance of the economy.

And there's nothing wrong with a little bit of luck. The main negative aspect in the market—concerns that development is getting overheated in some trendy markets—now appears to be diminishing as an immediate problem, as deliveries have begun to slip below expectations. The main cause of the slowdown—the construction industry labor shortage—will only be exacerbated by the post-Harvey and Irma reconstruction efforts. A significant number of workers will likely migrate to Texas and Florida, which means a slower delivery schedule for apartments.

Economy: Although the unemployment rate has dipped to 4.3% and the available pool of workers should seemingly be nearly depleted, the economy has continued to produce 150,000 to 200,000 jobs per month in 2017. Economists debate why wage growth remains in the mid-2% range and whether there are enough job seekers to continue at that growth level, but that hasn't stopped the hiring. And the dysfunction in Washington doesn't seem to affect growth, although it's not entirely clear whether the inability to pass legislation is a net positive or negative for the economy.

Rents: Rent growth has been steadily decelerating for a year-and-a-half, although rents have been rising modestly all year. Through August, average national rents were up 2.4% year-over-year. Given that gains through 2016 were unsustainably high, the moderation is not unexpected. The slowdown in deliveries should help rents continue to increase at moderate levels.

Supply: We have revised our forecast for deliveries nationally to 300,000, down from the 360,000 we expected in the spring. There's no shortage of projects—the 480,000 units under construction are plenty. But our database shows that after averaging 17,700 per month in 2016, deliveries fell to 14,500 in the first quarter of 2017, 12,700 in the second quarter and fewer than 10,000 in July and August.

Capital Markets: Multifamily market capital trends remain healthy, despite less robust fundamentals and prospects for slower growth. Transaction volume dropped in the first half of the year and price appreciation leveled off, but the sector remains popular with investors for its steady income stream. Led by Fannie Mae and Freddie Mac, which are lending at record levels, debt availability continues to be strong.