YARDI® Matrix

U.S. Multifamily Outlook

Spring 2017

Peaking Market?

Rent Growth Drops To Half Previous Year's Rate

New Units Top Decade, But Permits to Slow in 2018

Investors Favor Sector, Debate Prices with Sellers

Market Analysis

Spring 2017

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A Return to More Normal Growth

After several fat years, changes are starting to come into focus in the multifamily market. Although it would be too strong to say that the market is worried about a downturn, there is growing consensus that we are close to a peak. Rent growth has slowed from spectacular to moderate, acquisition yields have nowhere to go but up and high-end supply is saturating some markets.

That isn't to say that what comes next is necessarily bad. Supply-demand fundamentals continue to be solid, occupancies are high and new supply remains manageable in most markets. Yet market players are beginning to realize that they can't count on the above-trend growth we have had over the past few years. That means underwriting income gains and price appreciation in line with historical averages. In other words, a market that is more normal than frothy.

Economy Strong While DC Fiddles: As political wars and policy fights are sucking the air out of Washington and intense factionalism prevents much of anything from getting accomplished, the economy is humming along. Job growth continues at a 2 million-per-year rate and GDP is growing by about 2 percent. The market is coming to grips with the fact that President Trump's ambitious agenda may be scaled back, and a moderate-growth economy supports a strong real estate market.

Rent Growth Continues to Moderate: Nationally, average rents grew 2.7% year-over-year through the end of the first quarter. That's half the rate of growth through the same period a year earlier, and rents have only increased by 0.5% since last July. The slowdown is entirely in keeping with our forecast for a return to growth consistent with long-term averages, and is nothing to worry about as long as fundamentals for the multifamily industry remain strong.

Supply Peaking: Our model foresees 360,000 units coming online nationally in 2017, the highest number in more than a decade. The total volume will be led by Dallas and Houston, while Nashville, Salt Lake City and Miami lead as a percentage of stock. We expect that deliveries will peak in 2017, as new permits are starting to slow and banks have become more conservative with construction financing due to tighter regulatory policy and concerns about oversupply.

Capital Markets Uncertainty: The amount of equity and debt capital available for multifamily remains extremely strong. Investors are bullish about the sector, prices are high and there is no shortage of lenders, led by Fannie Mae and Freddie Mac. There is uncertainty on many fronts, however. Buyers and sellers have differences about pricing, which cuts into transaction volume; there is a lack of clarity about bank regulations; and tax policy could have a major impact on the industry—not only what will be proposed but what has a possibility of passing through Congress.

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