Multifamily Shows Strongest Growth Amongst CRE Sectors In Q1 2019

Despite a growing number of millennials remaining in their childhood homes, market data from Ten-X Commercial shows a strong rental market, alongside an uptick in single family home activity

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IRVINE, Calif. and SILICON VALLEY, Calif., Aug. 12, 2019 /PRNewswire/ -- Ten-X Commercial, the nation's leading transaction platform powering 90% of all online commercial real estate sales, today released its latest Multifamily Market Outlook, which shows strong sector growth and outlines the top five 'Buy' and 'Sell' markets for multifamily properties throughout the country. The research also uncovered that despite the number of millennials failing to "leave the nest," the multifamily sector showed the most robust growth amongst all CRE sectors – multifamily, office, industrial, retail and hotel – in the first quarter of 2019.

Multifamily sector growth is largely attributed to a strong rental market. The first quarter of 2019 was the first time in five years there was a decline in the number of new rental properties coming to market. This decrease helped the multifamily market vacancy rate hold steady in the upper-4% range, the level it's been since Q3 2018. Yet these figures are relative as the actual number of vacant apartment units remains at its highest since mid-2012. As the number of new apartments begins to decline, those on the market will be rented faster.

A plateauing homeownership rate is another reason for the overall growth of the multifamily sector, as the rate had no year-over-year change and remained at 64.3%. With mortgage rates and home prices still elevated, homeownership remains unattainable for many Americans. This allows for the rental market to remain largely unthreatened and strong, despite the slight uptick in homeownership.

Other factors contributing to a strong rental market include low unemployment, strong wage growth, and millennial attitudes towards homeownership and renting. Burdened with student debt, many millennials are choosing to live in their childhood homes in the years after they graduate college, with roughly 32% of 18-34 year-olds remaining at home, compared to the 27% in previous cycles. When millennials are in a financial position to move out, they are renting apartments rather than buying homes. The choice to rent is also fueled by the rising age of marriage.

"Millennials are a large reason why the current rental market is thriving," said Ten-X Chief Economist Peter Muoio. "Though we expect homeownership in this important age group to increase over the long term, so far they remain focused on renting. At the same time, there continue to be new rental properties hitting the market. However, construction is expected to scale down next year, causing vacancies to rise to a predicted 5.7% before quickly being absorbed due to the continuing increase of household formations."

Despite the steady increase in rental prices, renters are able to remain in their units due to a strong economy and steady wage growth. Q1 2019 saw a strong year-over-year increase in rent prices in excess of 4%, a slight drop-off from their 2018 pace, but ahead of price increases seen throughout 2018. Over time, rent prices will continue to improve, with effective rents predicted to reach $1,476 per unit by 2022.

The first quarter of 2019 also saw a decrease in deal volume of multifamily properties. According to RCA data, deal volume fell to just under $36.5 billion. While this is a decline of 30.5% from Q4 2018, it's still a 1.4% year-over-year increase. Apartment pricing also shows a quarterly decline against a year-over-year increase. After reaching an all-time high in Q4 2018, apartment pricing in Q1 2019 slowed by 3.4%, despite being up 10.2% year-over-year.

The July Ten-X Commercial Apartment Nowcast, which gauges real-time property pricing dynamics using live bidding and market activity data on the Ten-X Commercial platform, shows a more stagnant market, with rental prices up just 2.1% year-over-year.

"Pricing growth in the overall multifamily market has flat lined," said Muoio. "While rents have increased since 2018, growth has recently slowed."

The Ten-X July Nowcast also found that the multifamily sector is the only CRE sector showing annual pricing growth over 1%, measuring a 1.9% increase as of July. This more recent data highlights the continued strength of the multifamily sector, and particularly the rental market, as absorption rates remain solid against less apartment construction.

"It is unsurprising that the multifamily sector is continuing to thrive through the first half of 2019," Muoio continued. "With the economy continuing to grow and the labor market very healthy, the ingredients remain in place for steady household formations and apartment demand. We continue to expect that millennials will migrate out of their family homes to rent apartments and eventually single family homes of their own."

The Ten-X Commercial Multifamily Valuation Index, which also includes data from beyond Q1 2019, shows a decline of more than 14% in valuations in 2019. This decline is expected to go into 2020, before a predicted 2021 recovery.

Further insights from the Ten-X Commercial platform shows that the Live Bid trade rate for multifamily also remains strong throughout the first half of 2019, with 44% of multifamily properties brought to auction trading during the auction. This indicates strong investor sentiment and interest in multifamily. Ten-X predicts trade rates to continue to be strong throughout the remainder of the year.

The Multifamily Sector's Top Five 'Buy' & 'Sell' Markets

1Q 2019 - 2022 US MULTIFAMILY PROJECTIONS

Top 5 Buy Markets	2022 Effective Rents ($ unit)	Change in Rents Present – 2022 (%)	2022 Vacancies (%)	Change in Vacancies Present – 2022 (bps)
Houston, TX	1183	+15.9%	4.3	-150 bps
Las Vegas, NV	1197	+11.5%	3.4	-90 bps
Raleigh-Durham, NC	1184	+12.8%	5.5	-10 bps
Atlanta, GA	1289	+12.0%	4.8	0 bps
Salt Lake City, UT	1087	+10.2%	4.2	-140 bps

Top 5 Sell Markets	2022 Effective Rents ($ unit)	Change in Rents Present – 2022 (%)	2022 Vacancies (%)	Change in Vacancies Present – 2022 (bps)
San Jose, CA	2521	-1.9%	6.8	+240 bps
Oakland, CA	2134	-1.8%	5.8	+240 bps
Miami, FL	1490	-0.5%	8.7	+270 bps
San Francisco, CA	2966	-1.5%	5.1	+90 bps
Milwaukee, WI	1040	+0.9%	6.8	+210 bps

US	1478	+6.9%	5.2	+40 bps

The Multifamily Sector's Top Five 'Buy' Markets:

Houston

The Southwest continues to have the strongest 'Buy' market outlook, with Texas as the clear standout for apartment buying activity. The Houston multifamily market continues to grow at a steady pace, with rental unit rates projected to increase by 15.9% and vacancies expected to decline 150 bps by 2022. Houston has proved resilient over the years because of its resurgent energy sector that has aided the local economy and boosted apartment rents.

Las Vegas

Las Vegas is the most promising 'Buy' market in the multifamily sector. With apartment buying heavily concentrated in the Western U.S., rental unit rates are growing steadily and are projected to increase by 11.5%. Vacancies in Las Vegas are expected to drop by 90 bps by 2022.

Raleigh-Durham

According to Ten-X Commercial's market research, apartment buying is also heavily concentrated in the Southern U.S. Raleigh-Durham is one of the best rated markets compared to its Southern counterparts, including the Miami and D.C. metro regions.

Although it's one of the top five 'Buy' markets, area projections still offer mixed outlook results. By 2022, rental unit pricing is projected to increase by 12.8%, while vacancy rates are expected to decrease 10 bps.

Atlanta

Although the Southeast multifamily market has a mixed state-by-state outlook, apartment buying activity in Atlanta is high. Rental unit pricing is estimated to grow 12% between Q1 2019 and 2022. Even though unit pricing is expected to increase within the next two to three years, vacancies are predicted to remain stagnant at 4.8%.

Salt Lake City

Salt Lake City's booming transportation and utilities sector has continued to boost job growth and apartment availability. According to Ten-X Commercial's latest data, the city's average rental unit price is expected to increase 10.2% by 2022. This forecast is positive for the city, with vacancies projected to drop by 140 bps.

The Multifamily Sector's Top Five 'Sell' Markets:

San Jose

Unlike other states in the Southwest, California's multifamily market outlook is less promising. Of the three Bay Area 'Sell' markets, all have been negatively impacted by the dual factors of tech exposure and excess in new supply. San Jose's economic slowdown has continued to affect its multifamily market, with rental unit rates projected to fall 1.9% between now and 2022. Vacancies are expected to settle at 6.8% in 2022, 240 bps higher than current levels.

Oakland

Like San Jose, the combination of a booming tech industry and oversupply of single family homes and apartments continues to play a large role in the economic downturn in Oakland. Local rental unit rates are projected to drop 1.8% by 2022, while vacancies are expected to rise to 5.8% over the next three years.

San Francisco

Ten-X Commercial continues to rank San Francisco as a problematic area for the multifamily sector in the first quarter of the year. Like the other two Bay Area markets classified as 'Sell' markets, a surplus of homes alongside tech expansion has caused the city to become less resilient, with rent per unit projected to decrease by 1.5% by 2022. Vacancies in San Francisco are expected to rise 5.1% by 2022.

Miami

For the second consecutive year, Miami is classified as a top 'Sell' market for the first quarter of the year. Its muted outlook is caused by the local economy's cooling and a continued heavy construction pipeline that offers little relief. Rental unit pricing is expected to fall 0.5%, while vacancies are expected to grow by 8.7% by 2022.

Milwaukee

Over the next three years, rent per unit in Milwaukee is forecasted to grow 0.9%, with vacancies expected to rise significantly to 6.8% by 2022. Over the next few years in Milwaukee – and throughout the country – job growth and rising wages could allow more millennials to enter the rental and home buying markets, yet factors such as high student debt continue to provide constraints.