

# BULLS AND BEARS BATTLE OVER MULTIFAMILY OUTLOOK

## RESEARCH ARTICLE

OCTOBER 2014



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The multifamily market experienced its first quarterly occupancy rate decline in nearly five years. According to REIS, the rate fell 10 basis points to 95.8% in the 3rd quarter. Despite leading the real estate recovery since the recession, some investors have begun to debate the sector's performance outlook. As with most investment perspectives, two competing groups have emerged – the pessimistic Bears and the optimistic Bulls.

The Bears would argue that multifamily assets are overdue for a pullback. The sector's multiyear outperformance marks the longest period in recent history without a decline in occupancy levels. Economists at REIS seem to agree that a deceleration is inevitable, "We have passed peak occupancy...and occupancy is likely to decline going forward." This ominous perspective is a result of aggressive construction of new apartments. As of the 3rd quarter, new units were on pace to reach the highest level since 1999. Concurrently, interest rates favor home purchases. In October, the 30-year treasury reached its lowest level since 2012 (2.92%), which will likely push mortgage rates lower and spur some would-be renters to elect homeownership.

On the other hand, the Bulls would contend that their critics are overreacting. The occupancy rate only dropped 10 basis points. During the apartment sector's multiyear boom, occupancy levels remained flat for several quarters before rising higher – this recent pull back may be temporary. In addition, each city has idiosyncrasies that are not always reflective in national statistics. In particular, REIS surveyed 82 markets and 41% of them had an increase in occupancy, a further indication that significant demand remains across the property type. Moreover, rent rates continue to rise, which is counter to the behavior expected in an oversupplied market. The sector has accomplished positive rent growth every quarter for nearly five years, and the most recent quarter matched the second highest percentage increase over that period.

Indeed, each argument has compelling points. We would acknowledge that, in aggregate, multifamily assets have reached an inflection point. It is difficult to ignore the recent occupancy decline and the acceleration in constructed units; however, we are confident that demand remains strong in certain markets. Therefore, investors should be judicious in their pursuit of multifamily prospects, as some markets seem overbuilt, but several areas continue to offer compelling investment opportunities.



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