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Is Multifamily Supply Overtaking Demand? A New Twist to the Debate Emerges

By Erika Murphy | National

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SNL's headquarters in Charlottesville

WASHINGTON, DC—The apartment industry has been worried about a bubble forming, and then bursting, in this asset class since the recession. A case can be--and will be in a moment--made that building in this sector is reaching a saturation point in some markets. On the other end of the spectrum a new argument has emerged: not only is a supply bubble not forming--but current development pipeline is not sufficient to meet the real demand for apartments.

Certainly the pieces are all in place for a bubble burst in apartments: after the flood of foreclosures from the recession, apartments were in high demand and short supply. Apartment REITs reliably posted high returns, attracting investment and developers, with an eye on the growing valuations and ever-strengthening fundamentals in this space, set out to build, build, build.

So far, though, demand for apartment space has been insatiable and able to blunt the growing supply. The reasons are well known: more stringent mortgage underwriting has made home ownership more difficult; young adults are not inclined to own homes anyway; there is a trend to urban living.

NAREIT has posited that shadow demand will continue to fuel this sector for years to come. As the job sector steadily improves, according to this theory, young adults will continue to emerge from their parents' basements, seeking to form their own households.

Still, the question lingers. Is supply finally catching up to demand for multifamily assets?

One new report now says the answer is yes. According to new **statistics** from **Axiometrics** that were reported by **SNL Financial** in a [note](#), new development activity poses risks for these markets.

Reis senior economist **Ryan Severino** recently told SNL that, even though demand will remain high, new apartment supply will likely overwhelm it if current trends persist. Rent growth is already moderating in some markets, he said, with such markets as the San Francisco Bay Area and Seattle on track to see the effects of oversupply on rents in the nearer term.

"The markets that started to recover the soonest, at least enough of them, are the ones where we're seeing a lot of the construction activity taking place right now," he said. "We're not seeing a lot of the construction activity in some of the secondary markets, where they're kind of the laggards right now. So they probably have some time for rents to accelerate there, whereas in a lot of the major markets with supply booms, you'll probably see some deceleration in rent growth."

The debate is hardly settled though. Just as SNL and Axiometrics have their new statistics so do proponents of the belief that multifamily will reign as an asset class for years to come.

Freddie Mac Multifamily EVP David Brickman just published a [blog post](#) in which he not only makes this argument but goes on to say that the current development pipeline is not sufficient.

"Given current trends in renting and multifamily rental-housing inventory, apartment demand should exceed supply for years to come," he writes. "New construction by itself won't fill the gap."

He calls for addition investment to be made in existing units to keep them in active inventory. "As part of this, there is a growing need to direct "flexible" capital into renovating, preserving, and, in some cases, transforming the nation's aging rental-housing stock," he says in his post.

Now Brickman is referring specifically to affordable housing and even apartments for middle class individuals that cannot afford the rents that many of the new apartment buildings require. Even buildings that are not stamped "luxury" but rather designed for younger adults tend to be high rent since they are located in urban areas and designed to promote a certain lifestyle.

"Adequate, affordable rental housing could become more challenging to access in the years ahead without additional efforts to increase supply and slow the rate of removals," Brickman writes.

So perhaps the argument that has bedeviled the apartment sector for years should be refined: is there a bubble forming in new apartment buildings

that call for higher rents? Because the answer for older stock appears to be very obvious.

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Washington, DC reporter Erika Morphy goes deep inside the DC power scene to explore the link between Capitol Hill and your assets. Erika Morphy has been a financial journalist for 20 years. She's been covering the capital markets for ALM since 2004. [Contact Erika Morphy](#).

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