DATA POINTS FROM SOUTHEAST MULTIFAMILY FORUM

March 25, 2019

By: Jeffrey R. Margolis

The Southeast Multifamily Forum provided the latest market data, analytics and analysis on the Southeast Multifamily Market. Highlights of the data points presented include the following:

- Fed by record job growth, a robust economy and a large increase in population, the Southeast multifamily market has seen a boom in real estate development and is outperforming comparable metros around the country. For example, Fort Lauderdale has experienced 2% job growth and West Palm Beach has experienced 2.7% job growth, both above the national average.
- 315,000 new units are expected in 2019, compared to 275,000 in 2018. Multifamily units are making up three times the new units compared to the previous cycle. Growth is concentrated in urban areas, however Class B properties are outperforming Class A and Class C properties. The supply of new units coming to the market in 2019 will put pressure on rents in what is already a highly competitive marketplace.
- The Southeast is a major target for investors as a result of good job growth and population growth. As a result of the new tax structure, people from the Northeast are gravitating to the Southeast. Over the past year, few places in the country have seen more deal activity than the Southeastern U.S with record pricing on marketed deals. However, transaction volume has dropped from its 2017 peak.
- The housing market has shown more resilience than other asset classes (i.e. retail, hospitality).
- Although investors who got into the market over the last 3 years are not seeing the 8-10% returns that they expected, those returns will likely materialize especially if interest rates remain at current levels.
- The top issues facing investors are finding deals that work, uncertainty with respect to interest rates, and rent growth leveling off. The fear of rising interest rates has a negative effect on valuation, however the "fear" of rising interest rates is somewhat unfounded because interest rates are they lowest they have been for several years. Coupled with rent growth leveling off, expenses are increasing, however we have never seen rent rates and occupancy rates at the levels we have now at the end of a cycle.
- The mantra "build it and they will come" does not apply anymore. Instead, multifamily projects need to attract people with features other than physical amenities which have reached their limit. Projects need to differentiate themselves with hospitality features, hotel and concierge services, smart technology and connectivity, customer service, convenience elements, and sustainability programs. Residents are looking for a dynamic living experience.

The multifamily market is changing fast. Interest rates are rising, real estate equity fund formation has dropped, and every deal gets scrutinized closely and carefully structured. However, debt funds are booming and Opportunity Zones have burst onto the scene. Competition for deals is at "cutthroat levels" and, therefore, dealmakers need to think outside the box in terms of property type and location in order to stay active in the market. Going forward, improving cash flow and net operating income may become increasingly difficult without smart choices in technology, innovation and management.

For more information, please contact the author Jeffrey Margolis on our Business, Finance & Tax Team.

Related Practices

Real Estate

Related Practice Teams

Business, Finance & Tax

Related Team Member(s)

Jeffrey R. Margolis

Topics

Real Estate