COMMERCIAL PROPERTY EXECUTIVE™
CPExecutive.com
JUNE 2013

Market View: Investment

The Multi-Family Market: Will it Hold Strong?

By Paul Daneshrad

As we head down the path of 2013, there is an obvious and ongoing market preference for multi-family properties. Investment flowing into this type of real estate continues to be very strong, and we can undoubtedly expect to see this trend continue for quite some time.

Several factors feed into this market dynamic. The economic downturn was the first hurdle, followed by the surprisingly slow economic recovery. A bad credit history, underemployment and other financial struggles are leading many individuals and families to choose rental over homeownership.

In addition, the federal government continues to suppress interest rates in hopes of spurring the economy. These low interest rates make investments in multi-family property a better option than traditional banking investments, which are yielding results of nearly zero.

When all of these factors are put in the blender, multi-family investment makes perfect sense. However, the boom is not without some reason for anxiety. Several factors may raise alarm:

- **Supply.** With low interest rates, downward pressure on cap rates will make multi-family properties more valuable and less available. With increasing demand, we are likely to see supply increase—in some markets, dramatically. Not all markets will be able to absorb the aggressive new supply, with a resultant impact on rental rates.
- **Lack of job formation.** The high unemployment rate must see a decrease before the multi-family market will be further strengthened. The average household income has not increased for the past 10 years, and rental rate patterns really need to match patterns in household income over the long term. The rental market cannot continue to sustain 3 to 5 percent increases while the average consumer's income stays stagnant. This combination is what ultimately led to the housing crisis in 2008.
- **The debt ceiling debate.** The ongoing debate over the debt ceiling continues to be a drag on the economy and the confidence of small businesses. The National Federation of Independent Business—a lobbying group focused on small-business practices—recently reported that small to medium businesses have very low confidence and great degree about the state of the economy. Because these businesses provide as many as 70 percent of jobs, this low confidence could have a negative impact on the multi-family market due to higher unemployment and reduced investment.

What does the rest of 2013 look like? Despite a few concerns, multi-family maintains its status as the darling of real estate, and its outlook for 2013 is bright. We will continue to see strong stability and high occupancy, as most of the fundamentals in the multi-family market will remain healthy. Additionally, while the Fed continues its policy of interest-rate suppression, investors will look to other vehicles for a return on their investment.

All things considered, multi-family will continue to thrive in the foreseeable future. CPE

—Paul Daneshrad is president & CEO of Beverly Hills-based StarPoint Properties L.L.C. ***(www.starpointproperties.com).***