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Unemployment Won't Affect Multifamily Market

By Kelsi Maree Borland

Daneshrad: "This is the slowest job recovery we have seen following a recession for decades."

LOS ANGELES—Although many economists are talking about slow job recovery, the commercial real estatespace is experiencing one of the hottest multifamilymarkets ever. To find out about this dichotomy and look at the correlation between unemployment and the multifamily market a little better, we sat down with StarPoint Properties CEO Paul Daneshrad. In this interview, Daneshrad explains how fluctuations in unemployment have a direct impact on the market, and how the current unemployment rates and job recovery is impacting the multifamily market today and in the future.

GlobeSt.com: How do fluctuations in the unemployment rates affect the multifamily market?

Paul Daneshrad: The employment rate and "quality of employment" has a direct impact on the multifamily market because the renter needs income before they can afford to pay for an apartment. There is no general rule when it comes to the correlation of the employment rate and the multifamily market, but our internal statistics show that every 1% increase or decrease (100 basis points) in the unemployment rate correlates to a loss or gain of 800,000 renters. The quality of employment also matters. Our current unemployment figures include part-time employment, which does not allow an individual enough income to support the average rent in the US.

GlobeSt.com: The multifamily market is strongest sector is commercial real estate, but many economists are still talking about poor job creation. Can you explain why the sector is booming when we are still seeing slow job growth?

Daneshrad: Job creation has been poor. This is the slowest job recovery we have seen following a recession for decades. However, the multifamily market continues to perform well, despite the "job-less recovery," due to the following factors: First, home ownership has dropped as a result of the Great Recession, because historically high housing foreclosures means that former home-owners are now renters. Second, there are strong demographics with a high percentage of the populace entering the US renter pool. Lastly, there were low levels of new construction from 2008-2012, although this is now changing fast.

GlobeSt.com: A lot of new multifamily development is aimed at Gen Y, but this is a demographic with a high unemployment rate, part-time work or parent subsidies. Why are developers trying to attract this group?

Daneshrad: The expectation is that they will eventually be fully employed. They are also a portion of the demographic that will be renters for the longest period of time.

GlobeSt.com: How do you expect unemployment to change in the second half of the year, and how will that affect the multifamily market?

Daneshrad: We expect unemployment to continue to drop very gradually, by about a half a percent per year, and we anticipate that it will have little to no impact on the multifamily market. There is a historically high new supply coming online in most markets, which puts pressure on rental rates and the general multifamily market. We don’t expect anything drastic, but whatever benefit the market receives from the reduction in the unemployment rate should be offset by new supply.