



US Apartment Sales on Pace for the Slowest Quarter in More Than a Decade

Multifamily Deals Trail Office and Industrial Property Trades



U.S. apartment sales are trending to close the first quarter with its lowest volume of deals in more than a decade. (Getty Images)

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U.S. apartment sales may end this year's first quarter at the lowest level in more than a decade as higher interest rates slowed demand.

Apartment sales topped \$10.6 billion through March 17 from the start of 2023, according to CoStar data. Roughly \$2.8 billion in sales would need to be completed in the next two and a half weeks to match the lowest sales quarter in the past decade, which was the second quarter of 2020.

That was right after the pandemic hit three years ago, sending the U.S. economy into a tailspin when cities and states across the country shut down most aspects of public life to help control the spread of the coronavirus. Apartment sales fell to \$13.4 billion in 2020's second quarter, following a quarter of sales about on par with comparable quarters in previous years, according to CoStar.

Apartment sales began slowing last year as the Federal Reserve pushed interest rates up to tame inflation. Some potential buyers haven't been able to make the numbers work with interest rates that roughly doubled.

Rent growth that had soared in 2021 and into 2022 slowed as well last year, clouding apartment pricing between buyers and sellers. And economic uncertainty remains, even though job growth continues to show strength.

“Over the past six months, the value of multifamily assets across the United States has started to decline, and we expect valuations to fall further,” said Alex Horn, managing partner and founder of alternative lender BridgeInvest, in an email to CoStar News.

Though down, the multifamily industry's sales volume still is outperforming other types of commercial real estate, like the office and industrial sectors, which also are heading toward the slowest quarters in a decade.

Still 'Preferred' Investment

Multifamily is "still the preferred sector to invest in," said Jay Lybik, CoStar's national director of multifamily analytics.

Office sales totaled \$5.6 billion as of March 17, CoStar data shows, far beneath the previous quarterly low for the past decade, the second quarter of 2020, which saw \$8.9 billion in sales. Industrial real estate had \$8.6 billion in sales as of March 17, on pace to be lower than 2020's second quarter of \$10 billion but already exceeding 2013's first quarter low for the past decade of \$5.1 billion.

Ric Campo, CEO of Camden Property Trust, an apartment real estate investment trust, told investors on the company's earnings call last month that the difference between what buyers want to pay and what sellers are seeking is as "wide as I can ever recall."

The standoff won't be "resolved until buyers and sellers adjust their views on valuation and meet somewhere in the middle," Campo said.

BridgeInvest's Horn said there's still opportunity in the apartment market, despite the decline in valuations. With the National Multifamily Housing Council finding that 4.3 million new apartments are needed by 2035 to meet demand, that "means affordable housing alternatives must be part of new development to meet current and future demand," he said.

Beyond the divergence in valuations, there are many more willing buyers than willing sellers. Sam Tenenbaum, head of multifamily insights for Cushman & Wakefield, said that many potential sellers are holding off while they wait for a better time to sell. "We don't have a lot of people bringing product to the market," Tenenbaum said.

Apartment industry leaders aren't expecting sales to pick up to historically normal levels until later this year. Volatility in interest rates and the current upheaval in the banking industry has exacerbated uncertainty in the market.

"Uncertainty breeds inaction," Tenenbaum said.

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