



The historic multifamily construction boom is already fading

Mortgage rates are keeping prospective buyers in rentals, but those same conditions are slowing apartment building construction

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David Meyer is thankful that his business is still plugging along during the wildest housing market in decades. With mortgage rates hovering around 7% and home prices still at record highs, buyers across America are calling off the house hunt and finding multifamily apartments.

“Buyers got a bit spoiled with the interest rates over the last five years and especially the last two, so the interest rate hikes have really spooked everyone,” said Meyer, a **RE/MAX** agent based in the Twin Cities metro area of Minnesota.

These high interest rates have cost Meyer several transactions in the past few weeks. Some of his would-be buyers are renting apartments until mortgage rates markedly improve. It could be a while.

The number of renters who can even afford to buy a home at the national median list price of \$425,000 compared to a year ago is down 15%, according to the **National Association of Realtors**.

“The monthly mortgage payment is about \$1,000 higher than a year ago,” said Nadia Evangelou, an economist at NAR. “Current buyers need to earn about \$40,000 more in order to buy the median priced home compared to buyers who purchased their home a year ago.”

With more and more potential buyers remaining renters due to high borrowing costs, and younger Millennials and Gen Zers starting to venture out of their childhood homes, a logjam of renters has emerged.

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PETER DICORPO, THE CO-FOUNDER AND COO OF BROOK FARM GROUP

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Despite this uptick in construction, multifamily builders likely won't be making much of a dent in the overall housing shortage over the next year or two. Those same interest rates pushing would-be homebuyers to the sidelines are also hurting developers. So although the number of multifamily permits pulled has continued to rise and rents are elevated, the number of multifamily units authorized but not yet started has also increased, jumping 33.3% year over year to a seasonally adjusted annual rate of 144,000. Industry professionals expect that this trend will only worsen, which is not good news for the estimated 4.3 million more multifamily units needed by 2035, according to data from the NMHC and NAA.

“Construction lending has sort of slowed to a crawl,” Peter DiCorpo, the co-founder and COO of **Brook Farm Group**, said. “The whole market has seized up, plus institutional investors are really taking a pause right now on new opportunities. I would anticipate multifamily housing starts are probably going to be down 40% year over year in 2023 and I think that is going to be the same for single family home building, if not higher.”