Multifamily's Second Half Poised to Show Even Stronger Growth

New eviction moratorium extension hasn't scared off the money people.

By **Erik Sherman** | August 09, 2021

A new poll by Berkadia suggests that the company's mortgage bankers and investment sales advisors are bullish on the multifamily market.

The company's midyear poll of almost 180 of its investment sales advisors and mortgage bankers across 60 offices shows that 78% are optimistic that the number of multifamily transactions in 2021 will exceed those in 2020.

"On our investment sales side, we've never been so busy," Ernie Katai, executive vice president and head of production, tells GlobeSt.com. "We're setting records pretty much every quarter, and we've already passed our 2020 production volume." Meaning that the prediction already seems conservative.

But then, 2020 wasn't bad either. "We had about a 90-day cooling period [at the start of the pandemic]," Katai says. "But the last quarter of 2020 was a record quarter for us and December was our best month ever in our history of having investment sales." Even with the pandemic last year, the mortgage banking division was slightly up; the investment sales side was down a bit.

Berkadia's investment advisors expect the second half of 2021 to show stronger growth in pursuit of acquisitions, according to 61% of those polled. About 58% said that private domestic investors would drive the most activity, while 32% expect to push to be from domestic institutional investors. The mortgage bankers expected the most activity from GSEs (69%) and debt funds (18%).

One of the major issues facing multifamily markets is the lack of balance between supply and demand.

"There's not enough product for the appetite," Katai says. "There's not enough sellers. There's a lot of money out there looking to acquire. The challenge is finding people willing to sell. If you're a mom-and-pop, it's a good time to sell."

The lack of inventory is driving up prices and changing patterns of demand.

"The interest in secondary and tertiary markets is like I've never seen," says Katai. "People are willing to come into places like Fort Wayne, Indiana; Indianapolis; Memphis; and Grand Rapids, Michigan. They're somewhat looking for a yield, but it's so competitive even in the secondary markets it's impacting the yields."

Investors are taking lower risk-adjusted returns for the chance to pick up properties, even as cap rates keep decreasing. That follows changing patterns of work for consumers.

“A lot of people have to go to brick-and-mortars [for work],” Katai says. “But that’s changed for a lot of companies. And that millennial renter now is probably not going to spend their life in that [one] place. For that flexibility, renting is the perfect answer. I may want to work somewhere in Florida for the next 12 months and then I might want to go back to New York City.”

A lack of affordable housing is another significant issue; 92% of the respondents said that investors are more interested in affordable housing properties this year than last. The Berkadia professionals expect an increase in affordable housing in the West and Southeast over the next two years.

Under current conditions, institutional investors are focusing more on SFRs and build-to-rent opportunities.
