

## VIEWPOINTS



### MULTIFAMILY

## Is the Multifamily Asset Class Immune to Economic Shifts?

*Current demand trends and healthy underwriting standards indicate there shouldn't be significant issues any time soon.*

Pat Jackson | Feb 24, 2020

Most agree the real estate recovery post-recession has been lengthy and that multifamily has performed well across all stages of our current, mature cycle. At various points in time over the last decade, the other commercial real estate classes haven't all fared as well as apartments, however.

This begs the question. Are apartments counter-cyclical and immune to economic shifts that negatively impact other types of real estate? Will multifamily maintain its position as the darling of the industry?

When examining this past decade, it does appear that demand for rental housing is impervious to economic downturns and other key real estate variables. The fact is that workers always need housing.

Additionally, current trends support constant demand for multifamily units . While older millennials are entering the for-sale marketplace, younger millennials are entering rentals. And on the opposite generational spectrum, many boomers are downsizing their abodes . While some are, in fact, opting to purchase smaller homes, many are exiting homes altogether and re-entering rental units.

Underwriting for this asset class has also, very noticeably, held up . Pre-recession due diligence proved adequate enough for multifamily loans to perform well during the downturn despite the monumental distress that occurred with debt supported by other commercial real estate classes. Underwriting today is also increasingly sound and no significant issues are expected any time in the near future.

Consider also the government agencies' role and commitment to multifamily. Both Freddie Mac and Fannie Mae are mission-driven when it comes to housing. However, their vision is not myopic. They solve their housing goals by deploying numerous strategies, whether long duration, fixed-rate or other debt types. Unsurprisingly, rental housing remains a critical component of their strategy.

While some feel the agencies will, or should, spin off their multifamily business as the current conservatorship issue plays out, it's important to note that multifamily is actually a small portion of the agencies' business. Arguably, FHFA and congressional oversight should focus on the agencies' core mortgage business rather than on working out how to spin off their apartments business. Of course, the agencies' possible exit of conservatorship remains a hot topic, and what ultimately happens with their multifamily focus is something to watch. Regardless of what occurs,

however, national demand for rental housing is unlikely to wane because demand is simply here to stay.

Pat Jackson serves as CEO of Sabal Capital Partners, LLC., a single-source lender specializing in the small transaction space. Sabal is a partner to both Fannie Mae and Freddie Mac in the agencies' respective loan programs, in addition to offering non-agency small balance loans for numerous property types.

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