

Multifamily Developers Have Issues, but the Large Number of Units Under Construction Isn't One of Them

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For multifamily developers this year, the big challenge won't be finding tenants for all the new units expected to be completed — it's sourcing the materials and labor to finish them.

The total number of apartments under construction remains elevated at more than 700,000 units. However, the impact on the market will be spread out over the next three years, minimizing any short-term supply relief to loosen the tight vacancy conditions in most markets unless developers are able to launch even more projects soon.

Of the more than 700,000 units under construction, CoStar's national multifamily forecast calls for an expected 414,000 new units to be completed in 2022, but lingering supply chain issues and construction labor shortages could prevent some projects from completing this calendar year.

New multifamily deliveries hit their highest level since the mid-1980s in 2020 at 441,000 units. The 2022 forecast sits 6% below the 2020 peak.

Units under construction have been sitting near 40-year highs since the beginning of 2019, as developers have looked to take advantage of robust demand and record multifamily valuations. However, in the National Multifamily Housing Council's most recent construction survey, 83% of respondents stated they were experiencing delays in permitting and breaking ground on new projects.

Rising labor costs and large price swings in lumber and other building materials have caused some projects to be put on hold as underwriting target yields can't be reached. Furthermore, the fear of not having materials delivered in time to job sites has some builders delaying breaking ground until all supplies are warehoused near the development site.

The development timeline is also complicated by the fact that developers primarily focus on mid- and high-rise apartment properties, with 80% of units under construction falling into those categories. This has been a major shift over the past three decades when garden style properties previously accounted for the majority of new multifamily construction.

Garden-style projects can be built in as little as 12 months compared to mid- or high-rise projects, which typically take between two and three years to complete. And while 700,000 units under construction is a significant amount, longer construction times and outright delays will spread this supply out over a more manageable time horizon.

With housing shortages being felt across the nation, new multifamily properties coming online this year should experience strong lease-up demand. However, the challenge for many developers will be getting their properties completed.