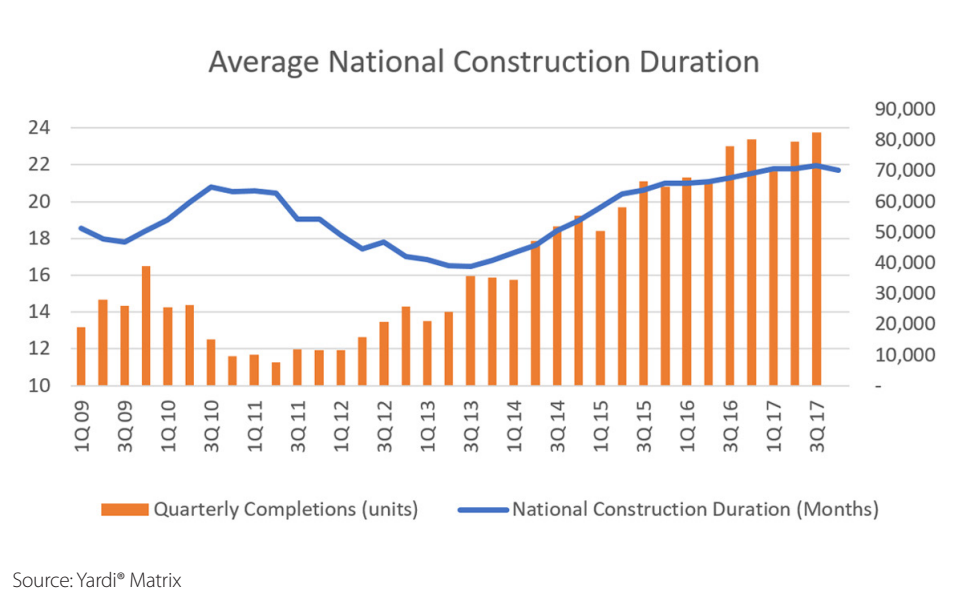
November 2017

Multifamily Deliveries Slow as Worker Scarcity Increases Construction Times

With nearly 600,000 units under construction, U.S. multifamily apartment deliveries were expected to reach a cycle peak of 360,000 in 2017. However, through three quarters new supply is running only slightly ahead of last year's 281,000 deliveries, and construction times from start to finish are taking much longer than historical norms.

Although the reason for longer construction periods is hard to pin down with precision, the evidence points to the lack of available labor as the main culprit. Some analysts posit other reasons—for example, construction materials and structures are more complex today and therefore take longer to complete, or that local government approvals are taking longer than past years—but the labor shortage is almost certainly the primary driver. Multiple surveys done by trade groups associated with the construction industry have been beating the drums about the lack of skilled labor for a few years.

Longer construction periods for multifamily properties could have a substantial impact on the market. We now expect the cycle peak for deliveries to come in 2018 rather than 2017. Reduced deliveries could slow down the decline in occupancy rates as supply overshoots demand, and serve to either prevent overall rents from declining, or slow the rate of deceleration. Nationally, year-over-year rent growth has slowed to 2.5 percent through November 2017, but the rate of decline has stopped.



Source: Yardi® Matrix

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