



Multifamily Construction Update (September 2020)

As developers look to the future, multifamily construction has made a notable shift to lower-density markets. The overall market continues to recover, albeit slowly, with permits down, starts leveling off, and completions down. But this time is different: people are looking at their living situations as a refuge during a crisis, and it is driving developer decision making.

Below are key takeaways from the following reports:

Multifamily Construction Gains for Lower-Density Markets – *National Association of Home Builders* – [Link](#)

Multifamily Housing Construction Slows in August – *YieldPro* – [Link](#)

How Construction Contractions Differ Now Versus During the Great Recession – *Builder* – [Link](#)

Multifamily Construction Gains for Lower-Density Markets

National Association of Home Builders

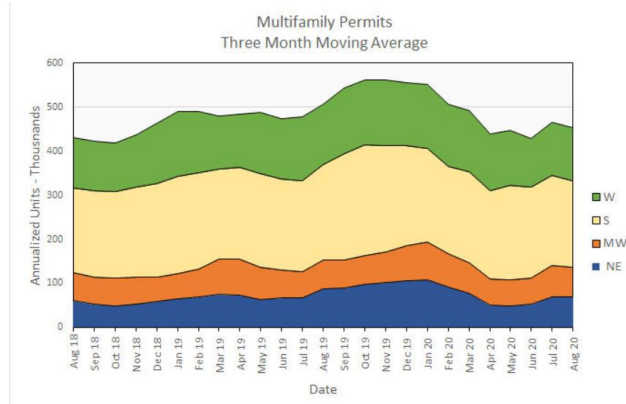
- The Q2 2020 NAHB Home Building Geography Index (HBGI) reveals a notable multifamily construction shift to the suburbs/exurbs
 - During the first quarter of 2020, over two-thirds of all multifamily permits were concentrated in such higher-density markets
 - During the second quarter the balance changed, and, like single-family construction but in greater proportion, multifamily residential construction shifted somewhat to lower-density markets, including exurbs of large metros and smaller metropolitan areas
 - As a result of these changes, the market share for multifamily construction in the broad set of low-density areas (exurban areas of large metro markets, small metro core and suburbs, small towns and rural markets) increased from 32.9 percent a year ago to 34 percent
 - These market shares are slow to change, thus making a one-percentage increase significant and noteworthy

Multifamily Housing Construction Slows in August

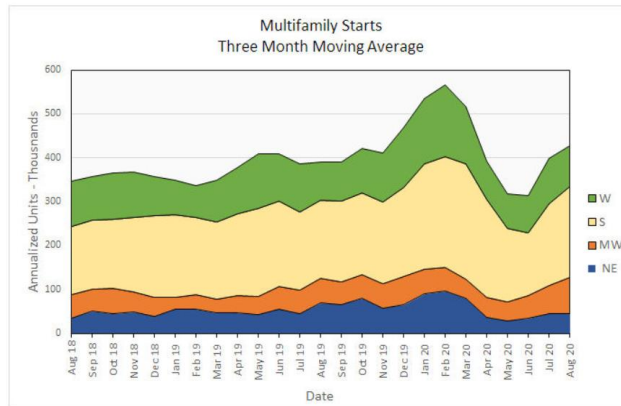
YieldPro

- The Census Bureau released its monthly new residential construction report for August 2020. It shows a slowdown in all phases of multifamily housing construction.

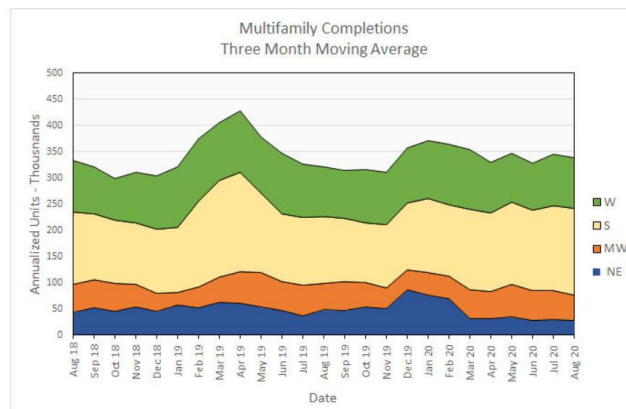
- **Permits Fall:**



- **Multifamily Housing Construction Starts to Level Off:**



- **Completions Also Fall:**



How Construction Contractions Differ Now Versus During the Great Recession

Builder

- The COVID-19 recession is centered in those parts of the economy that require density (a concentration of people grouped close together) that social distancing and shutdowns have limited
 - In particular, properties that require using an elevator or have tight common spaces are seeing rising vacancy rates and softening rents and property values
- For this downturn, multifamily construction will be more strongly affected, both in terms of volume and location of development
- According to the NAHB long-term forecast, while the dollar volume of residential construction spending will surpass its prior peak (from the start of 2020) within two years, it will take at least four or maybe five years for nonresidential construction to reach the pace it achieved at the start of 2020