**Multifamily Leadership Board**

Comments from Member Virtual Meeting/Call

Tuesday, June 9, 2020

***NOTE: NAHB is providing this information for general information only. This information does not constitute the provision of legal advice, tax advice, accounting services, investment advice, or professional consulting of any kind nor should it be construed as such.***

**Economic and Multifamily Market Outlook**

NAHB Chief Economist Rob Dietz presented an economic update. The slide deck for his presentation will be provided separately.

**Multifamily Construction Pricing: Trends and Outlook**

“In the last 30 days we have seen an increase in costs, due to the need for more personal protection practices and loss of some productivity as a result.”

“We are seeing great pricing on new deals that are ready to start. Pipelines are slowing. Costs should be going down.”

“Contractors are discussing price reductions with developers, but there has not been any breaking of the ice so far. Subs are still overloaded with work and not seeing a need to cut prices.”

“We have not seen much movement on construction costs, but it is still early in the process. We are pushing and asking for cuts and anticipating some reductions by the end of the year. The bigger problem is on the revenue and rent side, and the imbalance between revenues and costs.”

“Product supply chains have not really been impacted in our experience. A few shutdowns and interruptions have occurred, but generally product supplies have been flowing. We have not seen price changes due to COVID. Downward price pressures will likely increase later in the year. Relationships will matter more then.”

“City permitting and entitlement issues and shutdowns have been a problem. Will there be more fees that drive up construction costs? Many jurisdictions have been slow to innovate. We may see an increase in real estate taxes and attacks on commercial real estate. We will need to watch impact fees closely.”

“Loss of tax revenues on the west coast will be a problem. It is too early to tell, but in 6-9 months we could see pressure for more revenues to cover budget shortfalls.”

“Rent underwriting is another issue. We are underwriting 1-2% growth for 2020 and 2021, with flattening inflation for construction. In 2022, we see rent growth of 4-4.5%, then 3-3.5% after that.”

“We see negative rent growth in 2020, more decline or flat in 2021, then back to 2020 levels by 2022, then bullish thereafter. Generally, decline, flat, aggressive.”

“Rent collections continue to be pleasantly surprising so far. We expected a lot lower collection. We are struggling a bit on the rent side, however.”

“We are seeing 94% collection in Class A properties, with affordable product a bit lower, but not that different. The big test will be in August.”

“Workforce properties present the biggest challenges for collection.”

“In our portfolio, corporate tenant are the worst actors in terms of paying rent.”