Apartment Building Projects Slow

BY MICAH MAIDENBERG

Rising construction costs and a tight labor market are slowing a nearly decade-long apartment boom, likely easing a burgeoning glut at the top end of the market that has been forming across the U.S.

Multifamily building permits have fallen each month since March, according to federal data. That type of slowdown suggests there should be less new apartment construction over the next two years, the typical time it takes to build an apartment property of any scale.

Analysts say absorption of new units remains strong right now, despite the fallout in permitting. While landlords may be frustrated that their projects are taking longer to complete, the slowdown in new building should help reduce oversupply concerns and could enable owners to raise rents at a faster pace next year.

If supply is pinched, rent negotiations "would definitely favor landlords more than tenants going forward," said Barbara Byrne Derham, senior economist at Reis, a property consultancy.

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"It appears we're beginning to see some early signs of relief in supply, as both permits and starts have been declining in our markets for most of the year," said Timothy Naughton, chief executive of apartment developer AvalonBay Communities Inc., told analysts on a conference call last month. AvalonBay may start benefiting from less development by as soon as late 2018, he said.

Developers raced to put up new multifamily buildings after the recession in 2009, a scramble generated by the dearth of investment during the downturn and the growing demand for rental properties after the housing bust.

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"The demand is there," said Paula Mengis, the National Apartment Association's director of industry research and analysis, referring to tenants. "But labor's a big deal. It varies by position, but in general that's what we're hearing from our members. The actual completions are being more and more delayed for that reason."

Rents steadily rose on stronger demand from young people getting their first places and consumers who couldn't obtain financing to buy homes. But that growth has slowed over the past couple of years.

In 2011, developers completed 129,900 units in buildings with at least five units, according to the Census Bureau. Completed properties with at least five units have risen each year since then, and developers added almost 347,000 units in 2017. As supply has grown, rent growth has weakened, hitting 2.9% nationally in the third quarter compared with more than 5% three years earlier, according to real-estate analytics firm CoStar.

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Apartment developers on the West Coast are particularly struggling to finish off their projects. Equity Residential, the nation's largest apartment owner, found that a dearth of construction workers in the Los Angeles area means 2,000 rental units the company expected to be delivered this year will now arrive in 2019 instead, Chief Operating Officer Michael Manes said in October.

Essen Properties on Wednesday filed with the Federal Housing Administration to build 300 units in new properties with at least five units in an annualized basis, down 9% from a year earlier, according to the latest data available from the Census Bureau. In March, that figure was 486,000. Ms. Menges said demand for apartments remains robust. Luxury rentals in large coastal markets have faced the most pressure after years of building, she added.

Construction firms in California are paying more to ensure they have staff on hand.