Multifamily Sales Market Slows Amid Interest Rate Hikes

By Holly Dutton

One of real estate's highest-performing sectors over the last couple of years is showing signs of a slowdown. Sales volume of multifamily properties has declined, according to a report from the National Multifamily Housing Council (NMHC). The survey found that 83 percent of respondents said sales volume has fallen over the past three months. Debt and equity financing have also become more costly and investment in the multifamily market has dropped as a result of interest rate hikes and worsening market conditions, according to the survey. "While these higher rates have cut into investor proceeds, many sellers are reluctant to lower prices, causing a sharp drop in sales volume," said NMHC Chief Economist Mark Obrinsky.

The news comes on the heels of a record-breaking start to the year for the multifamily market. In the first quarter of 2022, investment in the sector jumped 54 percent from the prior year, hitting $63 billion, the best quarter on record for the sector. Investors have taken notice and are increasingly pivoting from other asset classes to multifamily. "Pre-COVID, our book was about 65 percent multifamily, 20 percent office, and 15 percent everything else," said TA Realty's Michael Haggerty. "Now, our pipeline's 95 percent multifamily and 5 percent everything else."

Multifamily has often been looked at as a safe bet during times of financial uncertainty, and it's certainly been a hot spot for investors over the last three years. The ongoing lack of affordable housing in the U.S. coupled with high inflation and a hot single-family housing market has led many Americans to rent instead of buy, sending multifamily prices and demand soaring across the country. But it seemed almost inevitable that continued interest rate hikes would eventually have an impact on the multifamily sector. How much of an impact and how long remains to be seen.