

US Apartment Sales Outpace Last Year Despite Higher Interest Rates

Analysts Have Mixed Projections on Whether Momentum Can Carry Through Fourth Quarter



U.S. apartment sales have outpaced 2021 through the first nine months of this year. (Getty Images)

By **Richard Lawson**

CoStar News

October 5, 2022 | 7:33 P.M.

U.S. apartment sales during the past nine months have outpaced last year but some analysts say it could fall short in the fourth quarter of reaching 2021's record level.

Apartment sales volume totaled \$174.4 billion through the end of September, led by a record second quarter of nearly \$75 billion, according to CoStar data. Third-quarter sales were lower than last year but roughly on par with 2019.

Last year's sales followed a 2020 pandemic-induced lull. Rent growth boomed in the back half of 2021 to help drive investor interest in apartments.

Rising interest rates this year haven't seemed to quell the appetite of investors for apartment deals even as [rent growth is softening](#). But to match last year's record volume, fourth-quarter sales would have to hit \$87 billion, which would make it the second-highest quarter ever behind last year's fourth quarter of \$115.1 billion in deals, according to CoStar.

That's one reason industry analysts and executives have mixed predictions on how apartment sales will shape up for the rest of the year.

Transaction volume probably will slow in the fourth quarter "with the cost of debt up significantly and Treasuries rising at the fastest rate since the 1980s," Sam Tenenbaum, head of multifamily insights for Cushman & Wakefield, said in an email. But he added that "it's worth noting that through August, we saw more transactions close in 2022 than in any full year other than 2021."

Jay Lybik, CoStar's national director of multifamily analytics, said there's zero chance that fourth-quarter sales will put this year on par with last year.

Inflation

On the other hand, Brad Case, chief economist for Northern Virginia-based apartment developer Middleburg Communities, said in an email he'd be surprised if higher interest rates did much to inhibit rental housing investment.

"First of all, borrowing costs will continue to increase because — and to the extent that — inflation continues to be high and macroeconomic conditions continue to be strong," Case said.

Rental housing is one of the only avenues with inflation protection because strong macroeconomic conditions tend to mean more people decide to get their own place and

form households, increasing demand, Case said.

Demand for rental housing is expected to outstrip supply through the rest of this year while construction only increases moderately, according to Berkadia's 2022 Mid-Year Powerhouse Poll. Berkadia, one of the largest U.S. multifamily lenders, surveyed more than 120 investment advisers and mortgage bankers about what to expect for the remainder of 2022 and released the results in August.

Most of those polled said despite strong rental demand, higher interest rates and inflation are affecting local markets. According to the poll, investor interest was strongest in the Southeast and weakest in the West.

In addition, the majority of respondents believe that long-term investments will be most attractive to institutional clients in the next one to two years, according to Berkadia.
