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Outlook 2018: What's Happening in Apartment Financing

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By Mitch Paskover, Continental Partners Capital Markets

As 2018 begins and the current cycle matures, many industry players are wondering what the future holds for multifamily financing. While fears of a market correction and increasing interest rates are justified, the financial landscape for lending remains strong, particularly in the multifamily market.

Based on our experience closing over $5 billion in debt and equity finance, we've identified three major trends investors should be aware of when it comes to apartment financing in 2018. These include:

Shift Toward Long-Term Loans. A concern weighing on everyone's mind is the Fed's continued interest rate hikes. With interest rates expected to continue to rise over the next few years, many borrowers are looking to secure longer term, fixed-rate loans while rates remain relatively low. The anticipated hikes are encouraging borrowers to refinance maturing loans to lock in rates now, which will result in an influx in refinance activity this year. In response to the high demand for longer-term, fixed rate loans, many lenders will continue offering 10-to-20-year programs. The strong availability of these loans will support active loan originations in the year ahead.

Continued Capital Availability. Despite a maturing cycle, all signs point to a healthy availability of capital in 2018. With 2017 loan originations up 5% from the previous year, we anticipate volumes will remain high, continuing this trend well into the New Year. Multifamily investment activity remains strong, due to quality market fundamentals including low unemployment rates, high property values, and rising rental rates.

Rental unit demand is showing no signs of slowing, as in many areas across the country demand continues to outpace supply. There are certain regions where an influx in multifamily development may cause lenders to be somewhat more conservative in their underwriting, yet lenders will still have an appetite for deals. Even in urban core markets like San Francisco and Los Angeles that are experiencing a record number of activities and a flurry of new development, a variety of capital sources will remain available in 2018. Overall, availability of capital will continue to remain strong for multifamily product this year.

Strong Interest and Competition in Emerging Gateway Markets. We also expect to see increased lending activity and competition in emerging gateway markets. These regions exist just outside urban cores, where demand is rising and prices are lower for both investors and renters. Both lenders and borrowers realize that the increasing demand for units in these submarkets will lead to increased potential upsides. The stability of these assets is attractive to lenders, increasing the availability of capital for deals in these submarkets, and encouraging healthy competition between lenders.

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For comments, questions or concerns, please contact Connect Multifamily editor Amy Sorter

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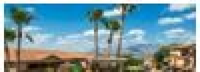

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