Bulletin

YARDI® Matrix

Market Analysis
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Is Slowing Volume a Sign of Price Decline?

Property owners cheered another strong year in 2016, but beneath the headlines of growing property profits there is notable slowing in acquisition volume. Real estate owners profit both from current rental income as well as presumed price appreciation over the course of the ownership period.

Currently, rental income is growing at a strong pace and commercial property price indexes continue to move higher, in line with broad real estate price indexes such as the Case-Shiller Home Price Index. However, transaction volume and price appreciation have slowed over the past six months, and acquisition yields have risen in some segments of the market.

Could falling transaction volumes be predicting a decline in prices? It is instructive to review what happened to the single-family residential market before the Great Recession. While home prices peaked in 2006, transaction volume actually peaked a full year earlier, in 2005. After the peak in transactions in 2005, late arrivals to the price boom were still willing to pay marginally higher prices, but the more sophisticated owners were already reducing their overall demand for property.

In 2017, owners are enjoying strong rental income growth, but are currently digesting new developments in the political climate, regulatory framework and financing markets. Since real estate underpins the majority of the U.S. banking system, central bankers are unlikely to do anything that lowers property prices. However, the Federal Reserve is trying to unwind

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