Economist Predicts a Mild Recession is in Store

A brief pause to rein in the annual delivery pace from current levels around 300,000 market-rate units wouldn't be a bad thing for areas where construction is most aggressive, Greg Willett says in this **EXCLUSIVE**.

By Lisa Brown | October 16, 2019

(https://images.globest.com/contrib/content/uploads/sites/312/2019/10/dal-greg-willett.jpg) Willett says most economists are calling for a general slowing of economic growth or mild recession.

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RICHARDSON, TX—The potential of a recession is on many people's minds and has been for at least a year. Many experts say we are overdue for at least some sort of correction. The question is whether this will be a minor dip or a full-blown recession?

In this **exclusive**, Greg Willett, chief economist at RealPage, recently provided his insights on how a potential recession would impact the real estate market including its impact on construction/permits, occupancy and rental rates across all major markets. Real estate professionals will be relieved to know that most economists are calling for a general slowing of economic growth or mild recession, rather than the sort of huge economic correction suffered during the Great Recession.

"In turn, negative impact on the housing market generally and the apartment sector specifically shouldn't be especially severe," Willett tells GlobeSt.com. "Given concerns about possible cooling, apartment owners and operators have been striving to fill their properties when the renter demand has been there in recent months, even if that has meant leaving a little money on the table in rent achievement. Thus, occupancy at the end of the third quarter has climbed to over 96%, around 150 basis points over the long-term norm."

Even if demand for apartments falters and occupancy backtracks moderately, most properties still will be in good shape, he says.

"With occupancy holding at reasonably healthy levels, some rent growth probably will continue," he tells GlobeSt.com. "The growth pace isn't likely to hold at the levels of 3% or so annually seen in the past few years, but it's significant that meaningful rent cuts probably can be avoided for the market as a whole."

He cautions that the biggest challenge that would come with recession will be getting new deliveries through initial leasing.

“More than a half million apartments are under construction, so there could be some deep price discounts if they come on stream at a time when overall demand is weak,” Willett tells GlobeSt.com. “In past economic downturns, top-tier properties have used rent concessions to pull some renters out of the middle-market stock. That probably won’t work in the next recession, however, as the pricing difference between class-A and class-B properties is nearly $500 per month.”

Willett points out that new development capital will be harder to access during an economic stumble, so multifamily construction starts will begin to falter.

“A brief pause when we eventually rein in that annual delivery pace from current levels around 300,000 market-rate units wouldn’t be a bad thing for the spots where we’re building most aggressively,” he tells GlobeSt.com. “Also, an interruption in demand for luxury conventional product could spur developers to explore niche product options like properties serving the affordable, seniors or student housing audiences.”
