Analysis

Multifamily Market Logs Encouraging H1 Performance

New York City led rent growth, while negative rent growth returned to Sun Belt metros.

By **Kristen Smithberg** | July 10, 2024 at 05:20 AM

Advertised rents in the multifamily market increased 1.5% across the country during the first half of 2024, a moderately positive result that should be considered a win given the market environment, according to the Yardi Matrix National Multifamily Report.

Year-over-year rent growth was highest in the Northeast and Midwest, led by New York City (4.8%), Kansas City (3.4%), Columbus (3.2%) and New Jersey (3.1%). Washington, D.C., rounded out the top 5 at 3% growth. Meanwhile, negative rent growth is intensifying in several Sun Belt metros, led by Austin (-6.5%), Atlanta (-3.6%) and Raleigh (-3.3%).

The national occupancy rate was 94.5% in May, unchanged from April but down 0.5% year over year. Las Vegas was the only metro with a year-over-year increase, while occupancy rates fell in Indianapolis and Kansas City despite solid rent growth. This could signal cooling rent growth in these markets, Yardi Matrix said.

Although demand has slowed from more than 600,000 units absorbed in 2021, the market is on track to absorb more than 300,000 units this year. Demand for multimarket assets is boosted by a strong labor market, the U.S. housing shortage, foreign immigration and a low number of home sales, said the report.

However, the market continues to face headwinds, including elevated interest rates that slow transactions and make it difficult for owners to refinance maturing debt. In addition, expenses have continued to skyrocket at a time when rent growth is slowing, Yardi Matrix said.

Expenses per multifamily unit nationally rose by 8% year over year to $8,890 in 2023, after increasing by 8.2% in 2022, according to an examination of more than 20,000 properties that use Yardi operating software. Property insurance rose 29%, marketing expenses increased 12.7%, administrative costs jumped 10.8%, and repair and maintenance expenses grew 9.8%.

Affordable multifamily owners are also impacted by increasing costs, compounded by the thin margins on which they operate. Rent increases set by public agencies are not enough to cover the rapid growth in insurance and other expenses, the report noted. In addition, these owners are facing an uptick in nonpayments due to fraud and the struggles of low-income tenants with depleted finances. If expense growth does not moderate, it could exacerbate loan defaults and curtail needed development, said Yardi Matrix.

In the single-family arena, the average national advertised rent fell slightly in June for the first time since late 2023. However, rents are only $3 from their all-time high and the sector is outperforming multifamily, with rents up 1.1% year-over-year, according to the report.
