US Multifamily Update: Rent Declines but Also Signs of Resilience

Over the last few years, we've seen some interesting movements in the multifamily property sector. After a rental boom in 2021-2022, the market has faced a considerable slowdown, though there have still been pockets of stronger activity across the US.

Now, as we move into the second half of 2024, rents in the multifamily sector continue to show signs of slowing, but there are also still some silver linings according to a recent realtor.com report.

Ongoing Declines

The report showed that median rents overall had declined for eight consecutive months as of March 2024, with a 0.3% dip in asking rents year-over-year (YoY). The trend was more pronounced for studio and two-bedroom units which saw declines of 1.4% and 0.5% YoY respectively.

One-bedroom apartments only saw a 0.1% dip, reflecting higher demand for the unit type "as alternatives to both studios and two-bedroom units, given these properties are typically more spacious than a studio and are more affordable than two-bedroom units."

Situation by Region

One positive indicator from the data was the recent reversal of a 13-month long downward trend seen for properties in Western US metros. Median rents went up 0.4% YoY in the area, with the largest rent growth seen in San Diego (+2.9%) and Los Angeles (+1.6%).

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Northeastern metros also showed strong rent growth performance, with New York (+3.8%) and Boston (+3.3%) among those leading the pack. Factors contributing to higher rents in the region include a strong labor market, and the fact that Northeastern markets have so far avoided the oversupply issue plaguing areas like the Sun Belt.

For Sun Belt markets, realtor.com noted that median asking rent had declined 1.5% YoY, with Austin (-4.7%), Memphis (-4.4%), and Atlanta (-3.7%) leading the losses in the region. This continues a trend we saw the beginnings of in 2023, when demand in Sun Belt markets had already started waning.

Meanwhile, rents in Midwest markets showed no change overall from a year ago, though specific markets did see rent growth, including Chicago (+4.3%) and Kansas City (+3.4%).

Supply and Demand

In another recent report, analytics group CoStar provided further context for rent growth woes, noting that despite a “strong rebound” in multifamily demand in Q1 2024, there was still the issue of an oversupply of new units at a national level. CoStar states: “While the increase in demand was impressive, it was still overwhelmed by the 140,000 new units delivered in the last quarter. This supply-demand imbalance increased the vacancy rate from an upwardly revised 7.7% at the end of December 2023 to 7.8% in March 2024, marking the tenth consecutive quarter in which supply outpaced demand.”

CoStar’s data also provides additional context for performance across several multifamily unit types. Luxury units (defined as “4&5-Star” properties) showed negative rent growth (-0.3%) due to high supply, while mid-priced (“3-Star”) assets experienced growth of 1.3%. Meanwhile “1&2-Star” properties remain weaker than other market segments.

As that data shows, the bigger picture for the multifamily sector is still a very nuanced one, with specific sectors and segments outperforming while the market overall continues to adjust in the face of broader economic headwinds.

CoStar concludes: “Markets in the South and luxury properties remain most at risk for weakness throughout 2024 due to oversupply conditions, while Midwest and Northeast locations and mid-priced 3-star properties could outperform.”