Market Moves: Is the Outlook Still Sunny for Sun Belt Multifamily?

Over the past few years, the two words guaranteed to gain the attention of commercial real estate (CRE) investors were: Sun Belt.

While other cities struggled to regain economic productivity, many Sun Belt metros went from strength to strength, with businesses shifting their operations to Sun Belt states, boosting industrial, retail and multifamily markets in the process.

Many workers have followed suit, with some leveraging remote work possibilities to move to metros that afford better work-life balance, driving rents and sale prices up even further.

As we head into the final stretch of a challenging year, however, those narratives may be shifting, particularly as large quantities of new multifamily supply start to hit Sun Belt markets.

Supply and Demand

A recent Bisnow article, titled "Sun Sets on Sun Belt," highlights a growing shift in attitude among investors towards coastal multifamily markets, and away from Sun Belt areas.

The news outlet cites a growing expectation from coastal-based companies that their workers should return to office, as well as inflated Sun Belt apartment supply, as key challenges fueling the trend.

Back in June, "The Real Deal" noted that a large chunk of the apartments scheduled to come online across the US in the next 18 months are currently under construction in Sun Belt metros.

The Real Deal adds: "Rent growth is already slowing or declining in many Sun Belt cities, where bidding wars were the norm only a year ago. Tenants are hitting their limits on how much rent they're willing to pay, though, and some are making decisions based on their dire outlook for the economy."

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Long-Term Viability

Despite these trends, Sun Belt developers and investors interviewed by Bisnow remain positive about the region's prospects. As SVP of Operations for Real Estate Investment Trust UDR, Mike Lacy, states: "[W]e expect pricing power across our various Sun Belt markets to remain constrained in the near term, though we continue to believe in the long-term growth prospects."

Speaking to multifamily performance overall, UDR's President and CFO, Joe Fisher adds: "We really aren't seeing distress within the multifamily space… it is a preferred asset class, as we've seen good performance going through Covid and coming back out the other side."

Class A Still a Class Act

A multifamily asset class that recently seems to have proven that sentiment correct is Class A apartments. In a report spanning the year ending April 2023, RealPage's Julia Bunch wrote that Class A properties in several Sun Belt metros outperformed other assets, particularly in Florida.

Bunch noted that Class A rents in Florida's West Palm Beach far outstripped the market, as they "swelled 5.4%, marking a 340-bps delta above the market average."

Other areas in Florida, including Jacksonville and Tampa, also saw stellar gains, while Raleigh/Durham, Charlotte, and Greensboro all showed rent growth "well above their respective market averages."

Down, but Not Out

Taken together, these data show a sector that has managed to retain investor confidence, even as the broader market struggles with the economic shifts that have characterized 2023.

And for investors and CRE professionals alike, that means there are still many opportunities on offer when it comes to sunny Sun Belt markets. As always, the key to making the most of those opportunities will be a firm focus on fundamentals and seeking out advice from local brokers.