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The Pandemic's Impact on Multifamily Rent Growth: What Does It Portend for the Future?

Traditional drivers of multifamily rent growth—economic measures such as employment and population growth, and property fundamentals such as supply and changes in occupancy—were upended during the pandemic. COVID-19's public health crisis created challenges not seen before in the modern era.

Drivers of rent growth have changed not only once, but twice, in the two years post-pandemic. Each time was distinctly different. The period from April 2020 through March 2021 was marked by massive job loss, sheltering from home and migration from gateway markets to the Sun Belt. The April 2021 to March 2022 period was characterized by a booming pent-up demand and massive recovery across the entire country.

During the first year post-pandemic, the metro-level rent change was correlated with cost and the extent to which the market was open for economic activity. Rents plunged in high-cost urban gateway markets and gained in more affordable areas that employed less strict health measures.

The second quarter of 2021 ushered in an unparalleled surge in rents different not only from the previous year but also from the past. Pent-up demand, strong consumer balance sheets, migration to the Sun Belt and recovery in urban centers lifted rents to uncharted highs in most every metro, regardless of the underlying fundamentals. Nationally, rents increased by 15% year-over-year through April 2022. Growth was extraordinary in virtually every metro, regardless of occupancy rates, supply growth or cost. The closest correlation to metro-level rents was employment change, an indicator of the rebound (or growth) in economic activity.

A question facing the industry is what this means going forward. The pandemic created circumstances that are unlikely to be repeated, especially since the 15% year-over-year growth in asking rents nationally (and upwards of 25% in some metros) cannot be sustained for very long.

In this bulletin, we look at a few economic and demographic metrics to examine correlations with rent growth over the last two years. The analysis is broken into two periods: the four quarters following the start of the pandemic (2Q20 to 1Q21) and the four quarters of the recovery and rent surge (2Q21 to 1Q22).

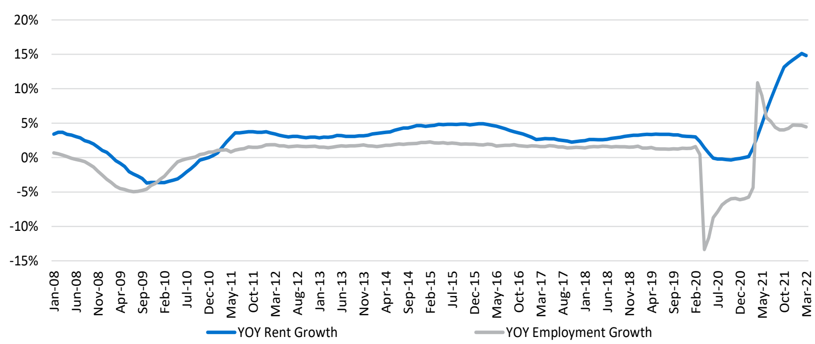
Employment Growth vs. Rent Growth

Jobs are an important element of household formation and multifamily demand. The economy shed 22 million jobs in 2020 during COVID-19 lockdowns, and all but 822,000 were regained as of May 2022. The correlation between employment changes and rent growth by metro was relatively steady in each of the two studied periods.

Between April 2020 and March 2021, no major metro gained jobs, but those that lost relatively few—such as Tampa, Phoenix and the Inland Empire, where rents rose 7-10%—performed much better than the urban gateway markets and tech centers, where offices largely were closed. Rents dropped by 5-15% year-over-year in New York City, San Francisco, Seattle and San Jose. A big outlier was Las Vegas, which suffered the largest losses as a percentage of total jobs while rents increased by 7.5%. Las Vegas benefited from heavy in-migration from California residents looking for inexpensive housing.

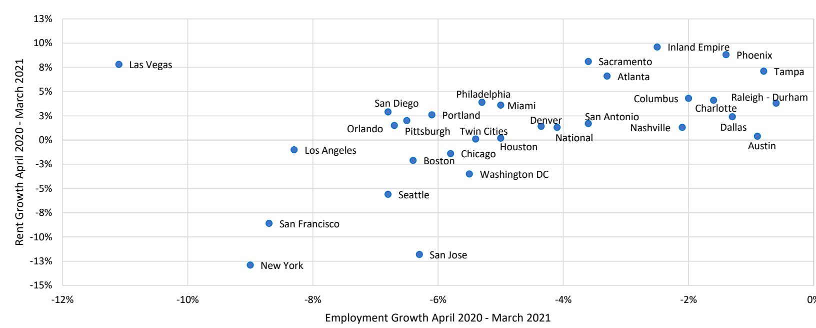
Employment growth and rent growth were positive in every major metro between April 2021 and March 2022. Las Vegas had the largest job recovery, while rents increased by 23%. Metros such as Orlando and Austin were among the highest gainers in employment, while rents increased by 20% or more year-over-year. Employment rebounded as well in the gateway metros and major centers of tech employment, helping to push double-digit rent gains in New York, Seattle, San Jose and Los Angeles. Metros with the "weakest" performance included the Twin Cities, Pittsburgh and Columbus, where total employment increased 3% or less and rent growth was below 10%.

U.S. Rent Growth vs. Employment Growth



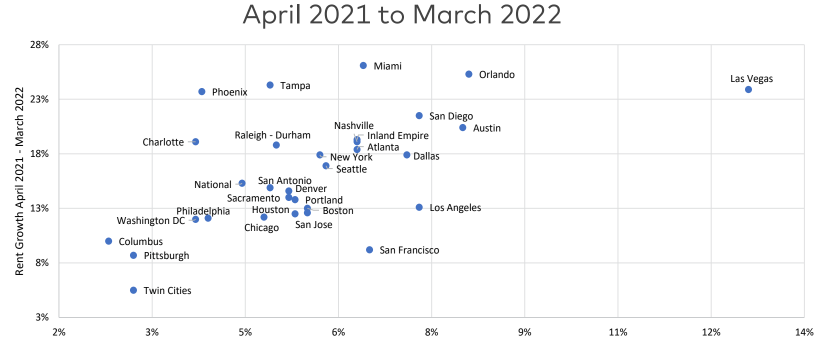
Sources: Yardi Matrix, Bureau of Labor Statistics, Moody's Analytics

Rent Growth vs. Employment Growth by Metro
April 2020 to March 2021



Source: Yardi Matrix, Bureau of Labor Statistics, Moody's Analytics

Rent Growth vs. Employment Growth by Metro
April 2021 to March 2022

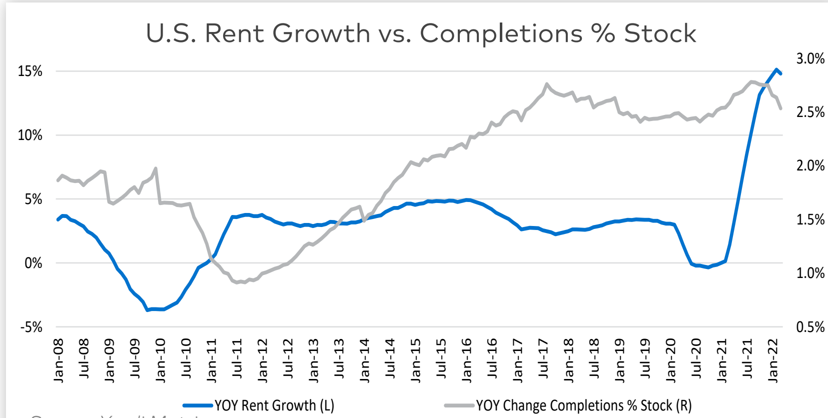


Sources: Yardi Matrix, Bureau of Labor Statistics, Moody's Analytics

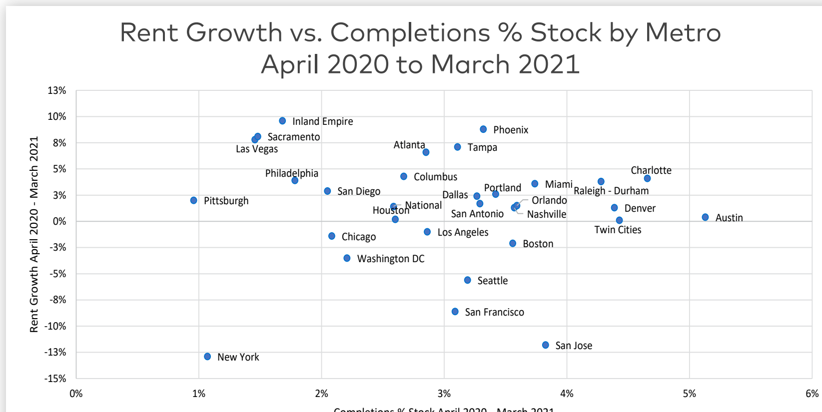
New Supply vs. Rent Growth

Supply growth and rent growth were somewhat correlated in most metros in the April 2020 to March 2021 period. Some metros with relatively weak supply pipelines—including the Inland Empire, Sacramento and Las Vegas—were among the major metro leaders in rent growth. But rent growth was above the national average in many metros where new deliveries were more than 3% of total stock, including Phoenix, Tampa, Charlotte and Miami. Most of the gateway/tech center metros with the largest declines in rents—such as Seattle, San Francisco and San Jose—had robust delivery pipelines during that year. However, those metros are undersupplied long term, so the delivery pipeline was not the driving factor in the rent declines. And New York City posted sharp drops in rent while deliveries were miniscule, at just above 1% of total stock.

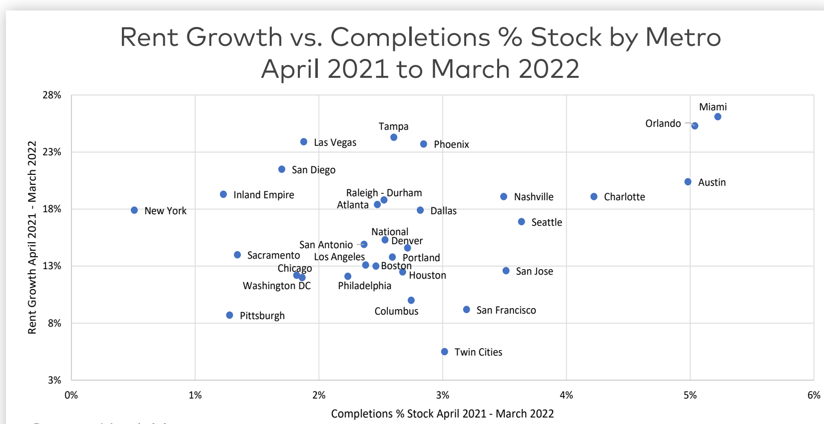
Correlations between supply growth and rent growth weakened further in the period between April 2021 and March 2022. Migration and demand were so strong most everywhere last year that rents rose with little correlation to supply. Metros such as Miami, Orlando, Austin and Charlotte recorded rent growth of 18% or more year-over-year despite adding to stock at a rate at least double the 2.3% national average. Despite Austin being one of the fastest-growing metros in the nation for decades, rent growth there sometimes stalls during periods when demand catches up to the heavy supply pipeline. Last year was not one of those periods.



Source: Yardi Matrix



Source: Yardi Matrix



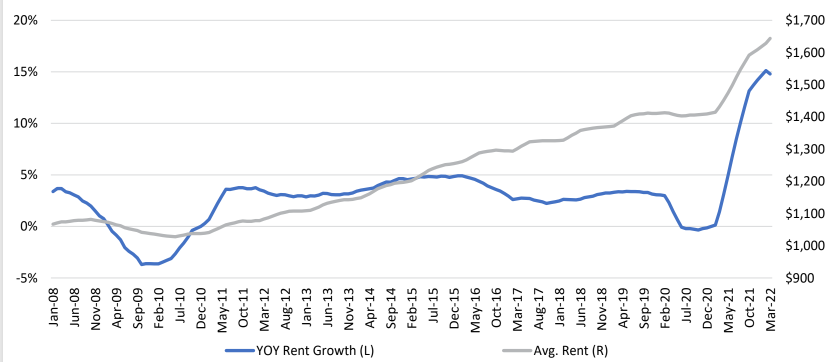
Source: Yardi Matrix

Average Rents vs. Rent Growth

No metric was more correlated with rent growth in the first year post-pandemic than affordability. Almost all of the highest-cost markets recorded rent declines and almost all of the metros with rents below the national average saw strong increases. Coastal gateway markets with the highest average rents that are centers of technology and finance—New York, San Jose, San Francisco—suffered the most severe rent declines. Other high-cost urban markets such as Boston, Los Angeles, Seattle and Washington, D.C., also posted negative rent growth. Meanwhile, in most of the markets where rents were least expensive—including Phoenix, Las Vegas and Tampa—rent growth was robust. This trend was driven both by urban workers who lost jobs and went looking for cheaper housing and office workers who moved to remote locations.

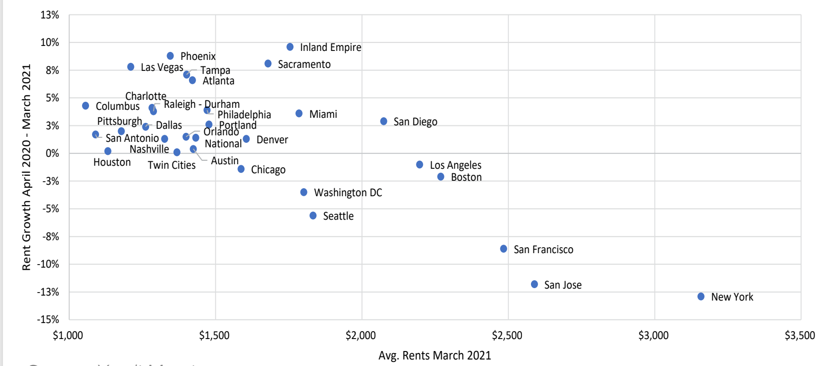
Rent growth became much less correlated with affordability in the April 2021 to March 2022 period. Some of the lowest-cost markets—including Las Vegas, Charlotte, Raleigh-Durham and Dallas—once again recorded strong rent increases. But other markets with the lowest average rents—the Twin Cities, Pittsburgh and Columbus—saw relatively weak rent increases. Rents rose a solid 17% in New York, by far the most expensive metro, and grew by double digits year-over-year in all but one of the top nine most expensive markets. Much of the growth in high-cost metros represented a bounce-back from rent declines the prior year, but even so the strong correlation between rent growth and affordability that was exhibited during the first year of the pandemic was no longer in effect.

U.S. Rent Growth vs. Avg. Rents



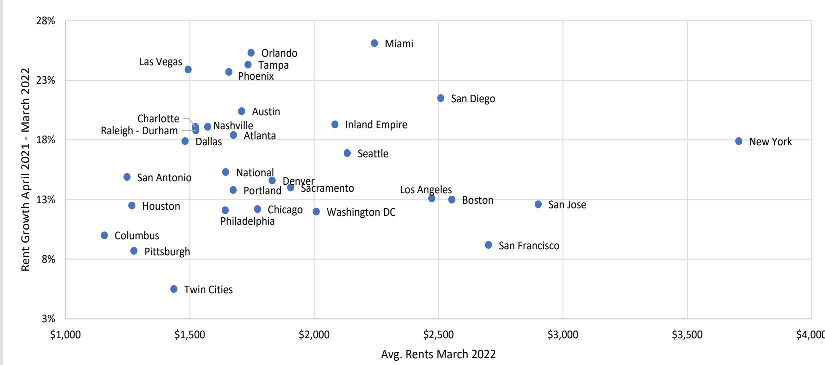
Source: Yardi Matrix

Rent Growth April 2020 to March 2021 vs. Avg. Rents by Metro



Source: Yardi Matrix

Rent Growth April 2021 to March 2022 vs. Avg. Rents by Metro



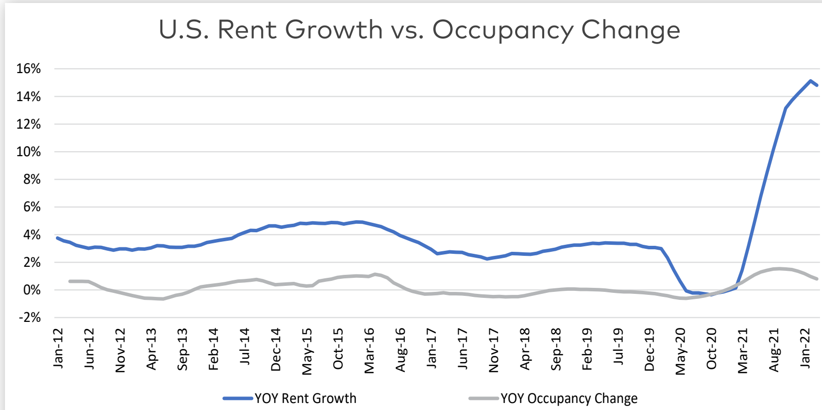
Source: Yardi Matrix

Occupancy Rate Change

Multifamily occupancy rates have reflected the industry's success in recent years. The national occupancy rate of stabilized apartment buildings has been at or above 95% since the middle of 2015, in large part because supply growth was stunted in the years following the Great Recession as banks cut back on construction lending and builders became more cautious. While the slowdown is still being felt in the current supply-demand imbalance, the effects on rent growth started years ago. U.S. multifamily rent growth averaged 3.6% annually between 2015 and 1Q20, above the 2.8% long-term average.

The correlation between occupancy rate growth and rents was on full display during the first pandemic year as people left gateway cities with strict lockdowns and moved either to smaller cities in the orbit of gateway metros or to secondary or tertiary metros. During the lockdown period between April 2020 and March 2021, the Inland Empire registered nearly 10% growth in rents while occupancy rates rose 240 basis points. Phoenix, Sacramento, Las Vegas, Tampa, Atlanta and Charlotte were also among the leaders in occupancy rate change and rent growth. Meanwhile, New York's occupancy rate fell by 320 basis points, mostly in Manhattan, while rents dropped 13%. San Jose and San Francisco also performed poorly in both categories.

However, the normal correlation between occupancy and rent growth broke down in the April 2021 to March 2022 period, when rents skyrocketed without regard for occupancy rate changes. Only four of the top 30 metros—Las Vegas, Phoenix, the Inland Empire and Sacramento—registered occupancy rate declines during that year, and rents increased between 13% and 23% in each. The growth in occupancy rates during the year was led by gateway metros/technology centers New York, San Jose, Chicago and San Francisco. While each produced strong rent increases, only New York topped the national average. The wave of demand pushed rents higher throughout the country no matter the underlying occupancy changes.



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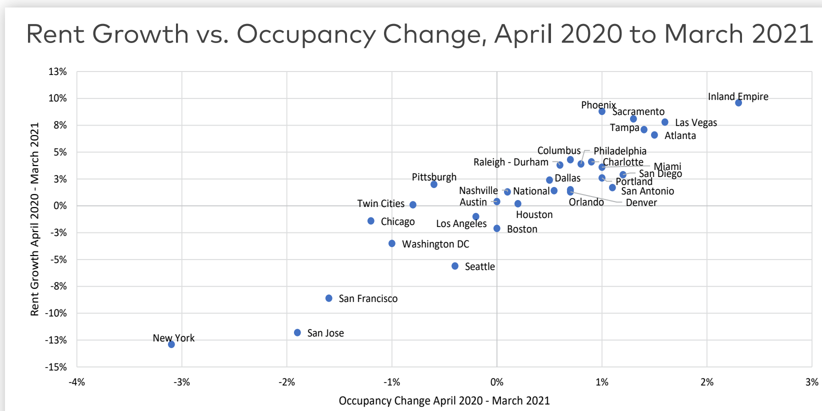

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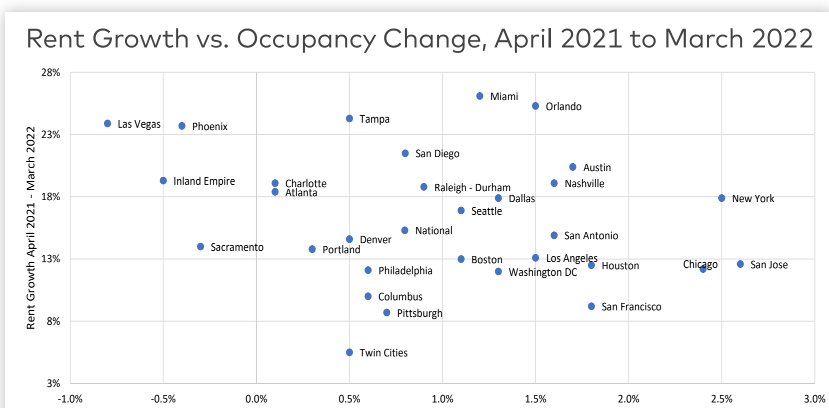

Source: Yardi Matrix

How Will Rent Drivers Evolve?

Examining the correlations of traditional multifamily rent growth drivers in the post-pandemic period, we found a huge shift between the first year (April 2020 to March 2021) and second year (April 2021 to March 2022). Some of the difference can be attributed to the short-term dynamics of the pandemic—i.e. large gateway metros were locked down more tightly than metros in the Sun Belt, and economic activity suffered.

Some of the changes of the last two years, however, may have started out as pandemic-related but are likely to remain as part of the landscape for years or even decades into the future. Migration is an example. The Sun Belt has been growing more rapidly than the Northeast or Midwest for decades, but the flow of households from coastal/urban downtowns to suburbs and smaller warm-weather markets was exacerbated by COVID-19 and the growing work-from-home paradigm.

Although there is much talk about movement to the Sun Belt, migration is not a one-way flow, as is demonstrated by the 2021 rebound in gateway market demand. Millennials aging into their late 30s and 40s and starting families are finding the benefits of space and quality education in suburbs and elsewhere, but at the same time gateway downtowns remain attractive to downsizing Baby Boomers and the latest generation of 20-somethings.

How all this affects regional demand and rent growth will depend on many factors, including:

- Will office workers continue to have the flexibility to work from home? In the current tight labor market, many employees can get as much flexibility as they want, but employers might demand more time in the office when the labor market normalizes.

- What does it mean for employers to locate where employees want to be? In the 1980s that led to the burgeoning suburban office market, while in the 2010s the trend shifted to urban downtowns. Rapidly growing tech companies are not abandoning coastal centers but are expanding into secondary and tertiary markets.

- Will wage growth support rising rents? Beyond migration, surging rent growth is driven by healthy consumer balance sheets and rising wages. If the Federal Reserve pushes the economy into a recession to curtail rapid inflation, wages and savings could suffer. That could put a crimp in the robust demand for luxury units.

- Can municipalities fight NIMBYism to increase supply growth? In this case, stymieing new supply serves to stimulate rent growth, but it is not a healthy state for markets such as those in California. Development remains an intensely local issue. Rent growth could diminish in metros with easier entitlement processes that boost supply.

- How many metros will fight back against record-high rent growth by implementing counterproductive rent control or other regulatory measures? Rent control slows rent growth in the short run but over the longer term contributes to deterioration of existing stock and supply shortages.

Currently rents are growing about 10 percentage points faster than wages, which means that rent growth is all but certain to moderate. When and how much the moderation occurs, and how that plays out among metros, will be determined by the performance of the economy, migration and regulation.

—Paul Fiorilla, Director of Research, Yardi Matrix, and Casey Cobb, Senior Analyst