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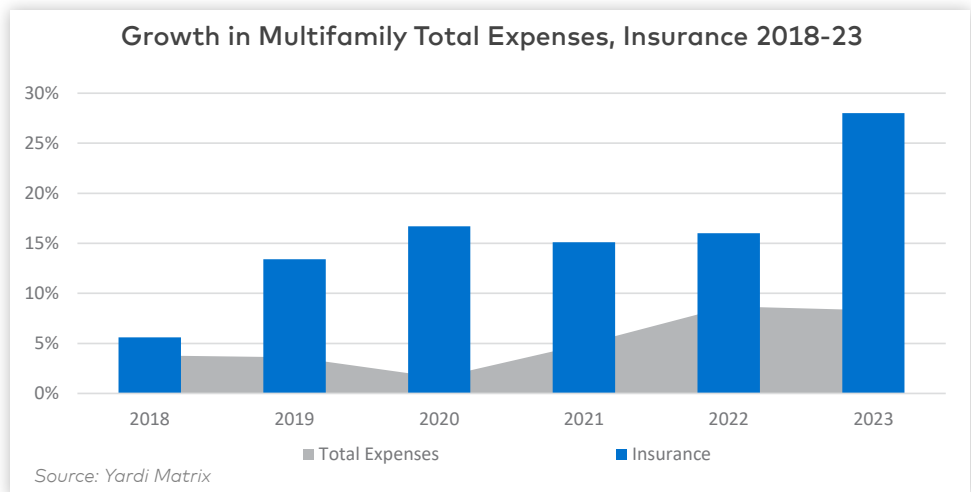
# Expense Growth Bedevils Multifamily Properties

Growth in total expenses for multifamily properties abated somewhat in the second half of 2023 but remains high, while the increase in property insurance premiums continued to accelerate throughout the year.

Overall expenses per multifamily unit nationally rose by 7.1% year-over-year to \$8,950 as of January 2024, according to an examination of more than 20,000 properties that use Yardi operating software. Expense growth was led by property insurance, which rose 27.7% year-over-year; marketing (12.3%); administrative (9.6%); and repairs and maintenance (8.8%). (All expense data cited in the report is derived from properties that use Yardi property management software.)

Driven by inflationary pressures, total expenses at multifamily properties have increased rapidly in the past two years, peaking at 8.7% in 2022. Before that, the average annual expense growth rates were 4.9% in 2021, 1.6% in 2020, 3.6% in 2019 and 3.8% in 2018.

While expense growth remains high but is starting to decelerate, insurance costs climbed in 2023. Property insurance costs per unit rose an average of 27.7% in the year ending January 2024, and have risen 129% nationally since 2018 to an average of \$636 per unit. Property insurance premium growth rates were 16.0% in 2022, 15.1% in 2021, 16.7% in 2020, 13.4% in 2019 and 5.6% in 2018.



Insurance costs rose rapidly in most parts of the country, but they particularly escalated in the Southeast and other areas that are experiencing the impact of a growing number of weather-related damages. Although property insurance is only 7% of total expenses, its share of overall costs is growing. Plus, it is becoming more difficult to obtain in areas with severe hurricanes, floods and fires.

Not all the news is bad. Despite the growth in expenses, the Matrix study found that profitability at multifamily properties in the period studied was up in the 12 months ending January 2024 because gross income rose more than expenses. Nationally, the average annual gross income per unit increased \$1,056, while expenses rose by \$593, translating into a \$463 increase in net operating income (NOI).

#### Growth in Costs by Expense Category\*

Expense Category	YOY % Change
Insurance	27.7%
Marketing	12.3%
Administrative	9.6%
Repairs/Maintenance	8.8%
<b>Total Operating Expense</b>	<b>7.1%</b>
Payroll	6.1%
Utilities	3.7%
Taxes	3.5%
Management	3.2%
<b>Total NOI</b>	<b>4.2%</b>

Source:Yardi Matrix; \*12 months ending January 2024

Though property owners came out ahead over the past year, that might not be the case going forward if operators do not find ways to control the growth in expenses, in large part because income growth is likely to be weak in the next 12-

24 months. Year-over-year growth in multifamily asking rents on vacant units slid to 0.6% nationally as of February. Much of the growth in income in 2023 came from higher rents on tenants renewing their leases, which lagged the growth in asking rents on new leases in recent years. However, renewal lease rates have almost caught up with asking rents, so that avenue of growth is close to being tapped out. Average national renewal rent growth fell to 4.6% in January 2024 after starting the previous year near 10%.

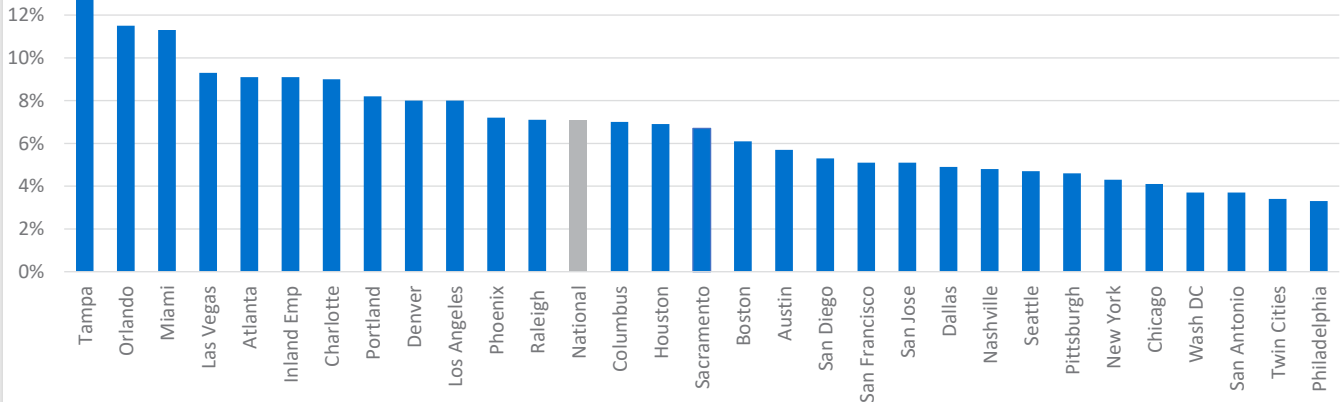
Matrix forecasts asking rents will increase by only 1.8% during 2024, and we expect renewal rent growth will continue to decelerate.

### Rising Expenses

To calculate expense growth, we tabulated financial data from nearly 22,000 properties with more than 5 million units in 129 markets nationally that use Yardi’s multifamily accounting software, and where we had a consistent data history back to 2017. We added multifamily expenses per unit during the 12 months ending in January 2024 to get a total and compared that to the year-earlier period in January 2023 to arrive at the year-over-year change.

We found that the average annual expense per apartment unit in the U.S. rose by \$593, or 7.1% year-over-year, to \$8,950. The growth varied greatly by expense type and metro. Growth in expenses was led by insurance, which increased by 27.7% per unit in the 12 months ending in January. Other categories of expenses that rose rapidly during the year were marketing and advertising (12.3%), administration (9.6%), and repairs and maintenance (8.8%). Expenses that grew the least included management fees (3.2%), real estate and other taxes (3.5%) and payroll (6.1%).

### Operating Expenses Growing the Most in Sun Belt Markets\*



Source: Yardi Matrix; \*year-over-year as of January 2024

Of the 129 markets reviewed by Matrix, 99 recorded increases in expenses of 5.0% or more and 28 had increases of 10.0% or more. Florida accounted for eight of the top 18 metros in expense growth. Overall growth in all markets was led by Spokane (18.9%); Tallahassee (18.8%); Lafayette, La. (18.1%); Portland, Maine (14.7%); Pensacola, Fla. (14.0%); Savannah–Hilton Head (13.9%); Huntsville, Ala. (13.9%); the Southwest Florida Coast (13.8%); Reno, Nev. (12.4%); and South Bend, Ind. (12.2%).

#### Top 10, Bottom 10 Metros Expense Growth\*

Metro	YOY Change Total Expenses	Metro	YOY Change Total Expenses
Spokane	18.9%	Wichita	3.4%
Tallahassee	18.8%	Cleveland	3.4%
Lafayette	18.1%	Twin Cities	3.4%
Portland ME	14.7%	Northern NJ	3.4%
Pensacola	14.0%	Philadelphia	3.3%
Huntsville	13.9%	Honolulu	2.4%
Savannah–Hilton Head	13.9%	Albany	2.0%
SW Florida Coast	13.8%	Long Island	1.0%
Tampa	12.8%	Worcester–Springfield	0.2%
Reno	12.4%	Corpus Christi	-0.9%

Source: Yardi Matrix; \*as of January 2024

Most, but not all, of the metros with the highest overall expense growth recorded extraordinary increases in insurance premiums (Portland, Maine, is one exception). High expense-growth metros typically had multiple cost drivers. For example, Spokane, Lafayette, Portland (Maine) and Reno saw huge increases in maintenance and repair expenses related to spiking material and labor costs.

Spokane also saw huge leaps in administrative and payroll costs. Huntsville, Ala., recorded large increases in marketing and advertising, as a huge wave of development in the area is forcing real estate owners to differentiate their properties to lure tenants.

#### Operating Expense % Change by Region

Region	YOY Change Operating Expense
Southeast	8.8%
West	7.3%
National	7.1%
Midwest	6.4%
Southwest	6.0%
Northeast	4.7%

Source: Yardi Matrix

Expense growth varied widely by metro, as well, increasing the most in Florida and other markets where overall economic growth and inflation are high. Among Matrix's top 30 metros by size, the top three markets for expense growth were Tampa (12.8%), Orlando (11.5%) and Miami (11.3%), Florida metros that were hit with extraordinarily high increases in property insurance. Other top-30 metros with the highest expense growth included Las Vegas (9.3%), Atlanta (9.1%), the Inland Empire (9.1%), Charlotte (9.0%), Portland, Ore. (8.2%) and Los Angeles and Denver (8.0%).

By region, the Southeast, at 8.8%, recorded the largest increase in costs. This reflects both rapid growth in insurance and general inflation. Expenses rose 7.3% in the West, 6.4% in the Midwest, 6.0% in the Southwest and 4.7% in the Northeast. By market size, tertiary markets saw the largest increase in costs, up 7.9% year-over-year, while secondary markets increased by 7.1% and gateway markets rose only 5.4%.

It should be pointed out that regions and individual markets with the highest recent increases in expenses tend to have lower costs, and smaller increases are being recorded in higher-cost metros. Of the top 15 markets with the highest absolute costs, six are in the New York–New Jersey metropolitan area and three are California metros San Francisco, Los Angeles and San Jose. Manhattan, which has the highest annual expense per unit at \$20,170, saw costs rise by only 4.6%. In San Francisco, second highest in expenses at \$14,646 per unit, costs rose 4.2%, and Northern New Jersey, with the third-highest expenses at \$13,874 per unit, rose only 3.4%.

### Insurance Costs Mushroom

Insurance is a growing problem for property owners, as 95 of the 129 markets studied recorded at least 20% year-over-year growth in

premiums. Another 43 recorded growth of 30% or more, 19 increased 40% or more and nine rose by 50% or more. Insurance growth is highest in the Southeast, where per-unit costs rose 35.7% year-over-year through January 2024.

The average insurance premium per unit rose 29.0% in the Southwest, 24.4% in the Midwest, 23.6% in the West and 21.1% in the Northeast. The sharp rise in premiums in the Southeast reflects both the number of weather-related events that result in large damage payouts as well as some problems specific to Florida, where liability laws make it easier to sue insurers and collect lawsuit damages than in other parts of the country. By market size, insurance premiums increased the most in secondary markets (29.5%), followed by tertiary markets (27.4%) and gateway markets (23.5%).

#### Growth in Insurance Costs by Region\*

Region	YOY Insurance Per Unit
Southeast	35.7%
Southwest	29.0%
National	27.7%
Midwest	24.4%
West	23.6%
Northeast	21.1%

Source: Yardi Matrix; \*through January 2024

Among all 129 markets, the highest increases in insurance premiums in the year ending in January 2024 were in Tallahassee (131.9%); Mobile, Ala. (80.6%); Pensacola (73.5%); the Southwest Florida Coast (69.0%); North Central Florida (66.5%); Richmond (57.5%); Baton Rouge, La. (57.3%); and Jacksonville (56.9%). Insurance costs changed little in Oklahoma City; Anchorage; Little Rock; White Plains, N.Y.; and Fort Wayne, Ind.

### Top 10, Bottom 10 Metros in Insurance Costs\*

Top 10	YoY Insurance	Bottom 10	YoY Insurance
Tallahassee	131.9%	Worcester-Springfield	6.7%
Mobile	80.6%	Grand Rapids	6.7%
Pensacola	73.5%	Portland ME	4.7%
Southwest Florida Coast	69.0%	Madison	3.2%
NC Florida	66.5%	Tri-Cities	3.0%
Richmond-Tidewater	57.5%	Oklahoma City	0.8%
Baton Rouge	57.3%	Anchorage	0.3%
Jacksonville	56.9%	Little Rock	-1.4%
Tampa-St Petersburg	54.7%	White Plains	-1.4%
Orlando	49.8%	Fort Wayne	-2.5%

Source: Yardi Matrix; \*as of January 2024

Among the top 30 metros, insurance cost increases were led by Tampa (54.7%), Orlando (49.8%), Miami (47.3%), Houston (40.4%), Atlanta (35.4%), Austin (34.0%) and Pittsburgh (33.6%). Top-30 metros with the smallest increase in insurance costs were New York (9.5%), Sacramento (10.6%), San Diego (13.9%) and Washington, D.C. (17.7%).

The average annual cost of insurance per unit rose to \$636 nationally in January 2024, but the

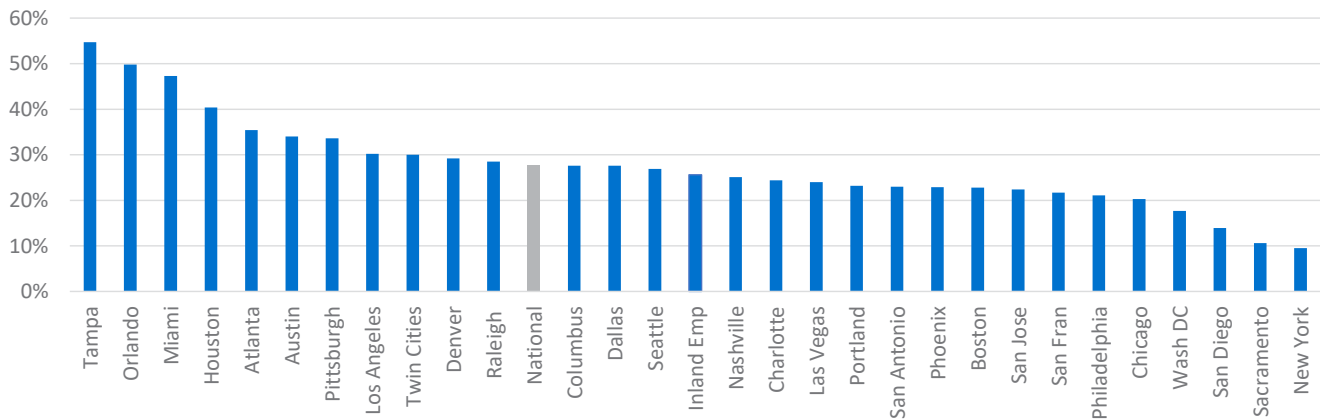
cost varies widely. For example, the average cost per unit is \$1,405 in Miami, \$1,137 in Tampa and \$1,115 in Houston. Despite costs rising more than 20% over the past year, insurance costs are below the national average in Phoenix (\$361 per unit), Las Vegas (\$382), Raleigh (\$451) and Charlotte (\$470).

Property insurance premiums have increased by double-digit percentages for five straight years, but according to Lockton Partners, property insurance premiums are starting to moderate in 2024 to single-digit levels. Insurers turned a profit in 2023 after raising rates sharply, increasing deductibles and limiting payouts. Meanwhile, there were fewer large-scale weather events that required \$1 billion or more in damages in 2023 than in recent years. That said, the insurance market remains very volatile. Insurers could raise rates rapidly again if there is an uptick in damage from incidents that include hurricanes, floods and wildfires. And liability awards could push insurance rates higher.

### Operators Must Control Costs

Expenses are an increasing conundrum for multi-family owner/operators, especially because growth is connected to larger economic forces such as the labor pool, supply chains and higher mortgage rates that pushed debt-service payments higher. The consumer price index receded to 3.2% in Febru-

### Southeast and Texas Metros Lead in Insurance Premium Growth\*



Source: Yardi Matrix; \*as of January 2024

ary from its June 2022 peak of 9.1%, but the index is stubbornly refusing to move the last percentage point to the Federal Reserve's 2.0% target. Interest rates are likely to remain high through 2024, as the Fed wants to tamp down inflation over the long haul and not risk it flaring up again.

Individual inflation components remain on the edge. Service inflation is still high, a sign that the labor market continues to be tight, which feeds into high administrative and payroll costs for apartments. Likewise, supply chains have repaired to a great degree from the height of the pandemic, but repair and maintenance costs are stubbornly high due to increasing costs of labor and materials that are impacted by forces including energy and delays in global shipping lanes.

While all this is happening, rental income growth is slowing. Multifamily rents rose only 0.6% in the

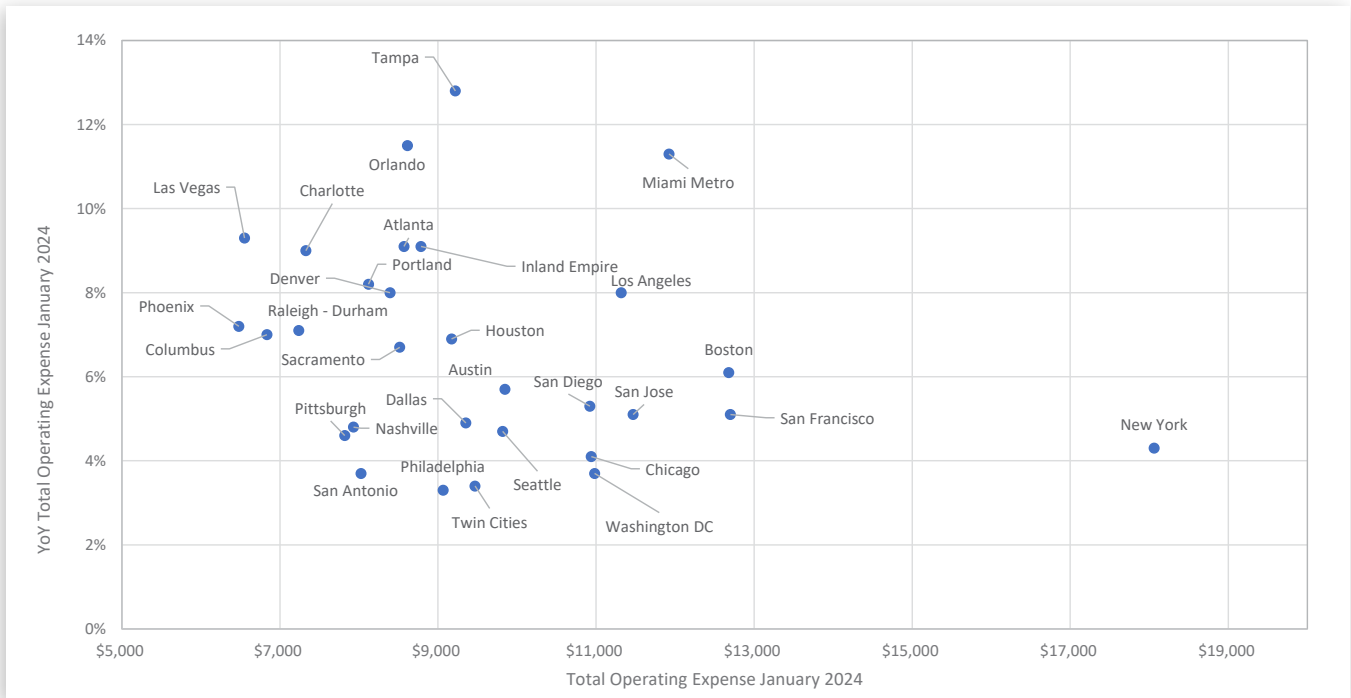
year through February. Matrix forecasts weak rent growth in 2024 as the economy slows and a wave of new supply comes online, especially in Sun Belt markets including Austin, Nashville, Orlando, Phoenix and Charlotte.

The upshot is that property owners can't expect robust income growth to continue to outstrip rapid growth in expenses. Profitability will be at risk if expense increases do not moderate during a period when rent growth is forecast to remain weak. Improving operating efficiency by streamlining processes and implementing new technologies produced by companies such as Yardi will be an important component of multifamily property owners' strategy in coming years, or NOI growth will be in danger of flattening or turning negative.

—Paul Fiorilla, Director of Research, Yardi Matrix

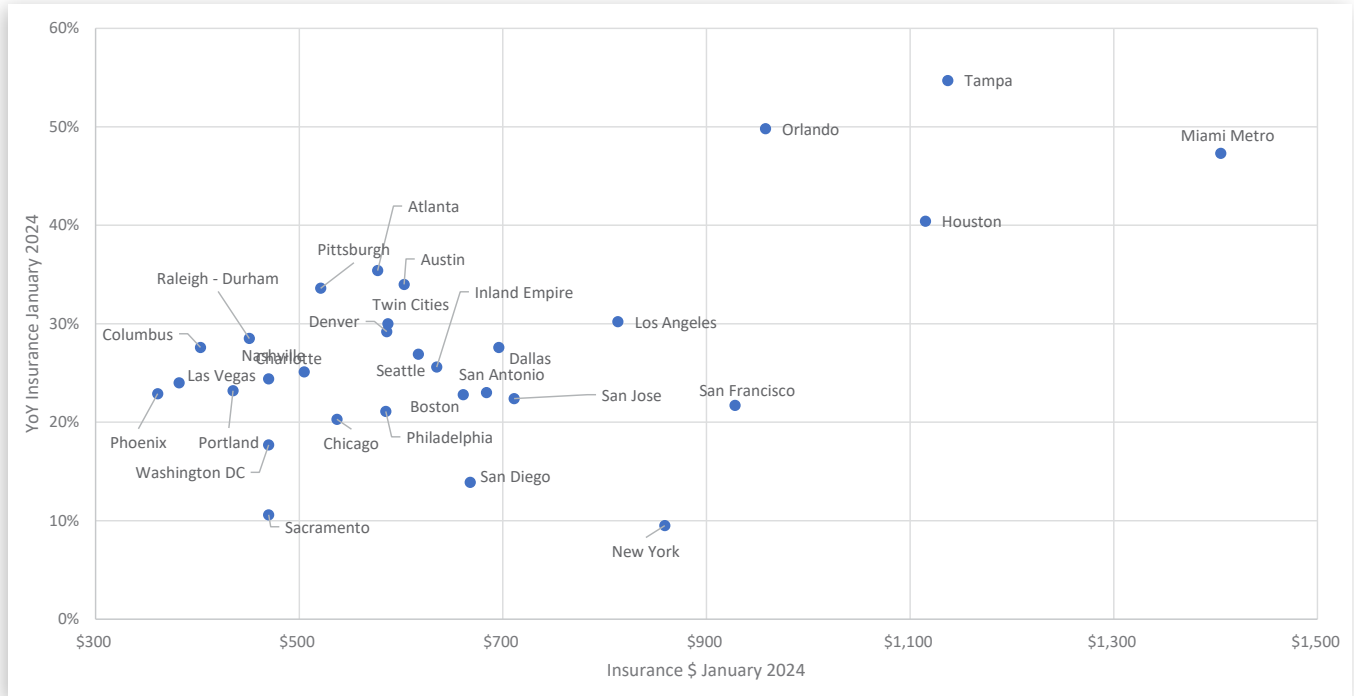
## Appendix:

### Average operating expenses vs. YOY expense growth, top 30 metros



Source: Yardi Matrix, as of January 2024

## Insurance average \$ per units vs. YOY Growth, top 30 metros



Source: Yardi Matrix

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