These 10 US Markets Posted the Smallest Declines in Multifamily Investment Activity Last Year

Year-Over-Year US Apartment Investment Fell 63%

Chicago’s 492-unit tower at 727 W. Madison St. sold for nearly $232 million, or about $470,000 per unit, in August 2023. It posted a 5.1% year-over-year rent growth rate at the time of sale. (CoStar)

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Investment levels in U.S. multifamily assets plunged over the past 12 months. Sales of multifamily properties across the nearly 400 U.S. markets tracked by CoStar dropped by 61%, multifamily sales in the top 50 markets tanked by 63%. However, as is always the case, some markets weathered the storm better than others.

The most common traits among the 10 markets that fared the best in terms of multifamily sales volume are those with moderate rent levels and inventory and sales growth during the prior year, which is why such recent multifamily hotspots such as Atlanta, Phoenix and Houston did not make the list.

Chicago, which ranked in the middle of the top-10 pack and posted a 30% decline in its sales volume, shares something in common with virtually every one of these measured success factors.

Rent Growth Over Population Growth

Much of the national multifamily investment frenzy that occurred throughout 2021 and 2022 was focused on markets with high population growth potential. But investors refocused their strategies in 2023, and increasinly targeted areas with continued strong rent growth. Among the top 10 cities that posted year-over-year multifamily rent growth, Orange County, Cleveland, Chicago, Indianapolis and Milwaukee posted an average apartment rent growth rate almost three times the national average of 0.7%.

Steady and stable rent growth has become an increasingly important consideration when placing investment dollars into a market. These markets maintained relative rent growth year over year while others saw a drastic contraction in rent growth and even some losses.

Another key metric, stabilized occupancy, which does not include apartment units that are less than a year old and are still in their initial lease-up phase, also powered apartment sales in these markets during these 12 months. Five of the 10 metropolitan areas with the highest stabilized occupancy rates were included among the relatively strong sales-volume cohort. They include Orange County, posting a stabilized occupancy rate of 97.8%, and Chicago, which had a 94.5% stabilized occupancy. For context, the national stabilized occupancy rate is 93.8%.

Last summer, such markets as Chicago and Orange County both had a relatively low under-construction volume as a percentage of total inventory while posting the highest year-over-year rent growth among major U.S. markets. And yet, going into the second half of 2023 and beyond, it became apparent that some markets with unprecedented residential development were also recording strong rent growth.

What matters most is how quickly the units in new properties are absorbed. A case in point would be Washington, D.C., which saw its rent growth skyrocket even as a wave of new deliveries hit the market. Simultaneously, the nation's capital also saw the overall apartment vacancy rate drop below the U.S. average. These strong demand fundamentals attracted investors in droves during 2021 and 2022. So, when the capital markets tanked in 2023, so did D.C.'s sales volume.

High Median Income

Another surprise finding in the data was that population, unemployment and job growth rates did not make a difference in determining the level of multifamily sales within a market over the past 12 months. However, sheer median incomes were likely an essential consideration during this period. Five of the markets that continued to attract investors ranged from San Jose to Denver, with an average household income between $148,000 and $101,000 per year, respectively.

Although Chicago's annual family income is above the national average of $77,000, the Windy City market ranked as the 23rd highest, with a median family income of $86,000 per year.

Clearly, consistent rent growth is supported by strong median household incomes. If residents cannot afford to live in the apartments, landlords can't raise the rents year after year. A high median income allows owners to push rent growth in areas that can most afford it.