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## Hope Emerges From Dismal January Apartment Numbers But it remains to be seen whether or not demand has truly accelerated.

While January had the smallest increase in rent since May 2021 according to various analysts, in a new report CoStar points out some upbeat news for the month: it was the first time since September that month over month rent data showed positive growth, with Midwestern markets Indianapolis and Cincinnati emerging as top leaders.

“While snapping the five-month negative rent growth streak is a positive start to the new year, it remains to be seen whether or not demand has truly accelerated,” Jay Lybik, National Director of Multifamily Analytics at CoStar Group, says in prepared remarks.

“If the positive rent growth trend persists, year over year data may finally change its course, signaling supply and demand are closer to regaining equilibrium,” he adds.

Markerr noted that it finds most markets are experiencing decelerating, but still positive rent growth in January 2023. The January trend remains in line with its quantitative rent forecast for 2023 of 4.2% Y/Y growth.

Other experts give their reasons for a brighter apartment outlook than current numbers suggest.

### **Recent Rent Growth Hasn't 'Flowed to the Bottom Line'**

Michele Hrivnak, Investors Management Group's managing director of asset management, tells GlobeSt.com that the fundamentals such as income and job growth are solid enough in the markets where her company owns to withstand market fluctuations.

“Discussions about higher or lower rents are only half of the story because expenses are the other variable that determines net income,” she said.

“Consider that the double-digit rent growth over the past couple of years hasn't flowed to the bottom line due to escalating insurance costs, higher property taxes, and increased expenses for salaries and materials. An asset manager's role is to keep income growing faster than expenses, whether we're in a high-rent-growth or no-rent-growth operating environment.”

### **The Market Has 'Overreacted'**

Neil Geary, CFO at The Procopio Companies, tells GlobeSt.com that the market has “overreacted” to rising interest rates and the fears of a recession.

“Now that it appears likely that we’ll have a soft landing, it makes sense that rents would adjust due to the continuing lack of supply of housing in our area,” he said.

“We expect that rent growth will continue at some level until supply catches up with demand. Our portfolio experienced only a minimal slow-down in Q4, and now we are seeing increased rental activity across the board. Procopio’s new projects are moving ahead as planned because more housing is needed.”

### **Fundamentals ‘Overall Extremely Strong’**

Dominic Martinez, a Northmarq senior vice president, tells GlobeSt.com, that despite the recent slowdown, the fundamentals within multifamily remain relatively the same and “overall extremely strong.”

He said that Midwest rent growth is partially being fueled by a more conservative approach to adding supply.

“While there have been significant increases in the multifamily supply in more primary markets such as Phoenix, Dallas, etc., secondary markets, such as St. Louis, Omaha, etc., have been far more restrained in their development pipelines,” according to Martinez.

Northmarq said there are multiple factors that benefit the multifamily market. For instance, there is still a national housing shortage and with rising mortgage rates, buying a home is even more challenging than before, which in theory, will create a larger renter class. Also, on a macroeconomic level, unemployment is the lowest nationally since 1969, pointing to a strong economy. And finally, pairing the strong labor market with recent inflation, wages are expected to increase.

Overall, the benefitting factors outweigh the current headwinds in the multifamily market, Martinez said.

### **Not Many Vacancies in Manhattan**

Scott Harris, an agent with Brown Harris Stevens, tells GlobeSt.com that he believes this recent data is seasonal.

“December is the slowest rental month of the year- few people are interested in moving at year-end,” Harris said. “It is more extreme than usual, though.”

He said he spoke last week with one Manhattan landlord who has 350 units. He told me that for the second time in four months, he had zero units come vacant in his entire portfolio.

“He doesn’t recall seeing turnover that low,” Harris said. “That would be another reason to see any nominal increases in rent levels.”

### **An Increase in High-Income Renters**

Catherine M. Azevedo, Esq., senior associate at Romer Debbas, tells GlobeSt.com that there continues to be a shortage in the housing supply and rising interest rates driving the demand for rentals.

“The number of high-income renters also appears to increase because renting affords convenience, security, and flexibility,” Azevedo said.

“However, affordable housing and access to affordable housing remain at the forefront of this dialogue. Federal and local governments and government-sponsored enterprises (GSEs) are combatting the lack of affordable housing through various initiatives which can present an opportunity for multifamily owners and lenders across the country.”

### **Spring Could Bring ‘True Demand’ for Apartments**

Quentin Green, partner and director of development at Chicago-based Downtown Apartment Company, tells GlobeSt.com, “Now that we’re getting into the start of the spring market, we’re beginning to see the true demand for rentals.

“Given current interest rates and housing supply constraints, I’m not surprised there’s a solid demand to rent as buyers continue to sit on the sidelines in the for-sale market.

“Many potential homebuyers who thought they were going to be able to purchase a home this spring are instead finding themselves renting again. We’ve seen home prices decrease, but not enough to offset interest rates.

“This is the first early spring market in some time with such elevated interest rates. Although we’re only just coming out of January, it’s likely that rent growth will continue here in Chicago and in other major US markets.”

<https://www.globest.com/2023/02/13/hope-emerges-from-dismal-january-apartment-numbers/>