These Regions Will See the Highest Multifamily Rent Growth in 2025

The article highlights multifamily rent growth predictions for 2025, with the Southwest region leading the charge at 3.4%. Other top regions include the Northeast (3.3%) and the Midwest (3.0%), while the West is expected to experience more modest growth at 2.2%.

Key Takeaways:

- The Southwest is forecasted to see the highest rent growth, driven by continued economic and population growth in cities like Phoenix and Dallas.
- The Northeast and Midwest will also experience steady growth, though at slightly lower rates.
- The national average rent growth for 2025 is projected at 3.1%, signaling moderate rent increases overall.

Evergreen Capital Insight:

- Evergreen Capital should focus on the Southwest and Northeast regions for investment, where higher rent growth is expected, aligning with demographic trends and economic fundamentals.
- Given the expected national stabilization, exploring value-add opportunities in the Midwest and South Atlantic could offer strong returns, particularly in areas experiencing population growth without an oversupply of multifamily units.
- With the forecasted slowdown in new construction, Evergreen should monitor supply pipelines and consider strategic acquisitions in high-growth markets before the competition intensifies.

Conclusion:

Evergreen Capital should capitalize on regions with robust economic growth and high demand, while remaining cautious of potential oversupply risks in slower-growing markets. Strategic market selection, combined with value-driven investments, will position Evergreen for success as multifamily rent growth continues into 2025.

U.S. Multifamily Market Sees First Vacancy Decline in Two+ Years

Key Takeaways:

1. Vacancy Rate Declines: The U.S. multifamily vacancy rate dropped by 0.2% quarter-over-quarter to 5.3% in Q3 2024. This marks the first decline in vacancy rates in over two years, signaling a positive shift in the multifamily market as demand outpaced new supply deliveries.
2. Strong Renter Demand: Positive net absorption, which tracks the change in the number of occupied units, reached 153,300 units in Q3 2024, one of the strongest third quarters since 1985. This continued demand exceeded the number of new completions for the second consecutive quarter, further closing the gap between supply and demand.
3. Rent Growth: Average monthly rents increased by 0.3% compared to Q3 2023, reaching $2,203. With construction completions slowing and sustained net absorption, rent growth is expected to accelerate moving forward.
4. Construction Trends: A total of 473,300 new multifamily units were delivered in the past year, setting a record for new supply. However, construction starts have slowed, easing the pressure of supply on the market. The slowdown in supply growth is expected to benefit the sector in the upcoming years.
5. Regional Performance: The Midwest, Northeast, and Pacific regions saw year-over-year rent growth, with the Midwest leading at 2.7%. On the other hand, rents fell in the Southeast, South Central, and Mountain regions.
6. Market Absorption: The majority of the markets tracked by CBRE recorded positive net absorption in Q3 2024, with markets like New York, Washington, D.C., and Houston leading the way. Additionally, 50 markets saw net absorption exceed new supply, further signaling a shift toward more balanced market conditions.

Evergreen Capital Insights:

- Opportunities for Strategic Investment: With vacancy rates declining and demand outpacing supply, there is renewed investor confidence in the multifamily market. As supply pressure eases due to slowed construction, Evergreen Capital may find favorable opportunities for acquisitions, particularly in high-demand markets where absorption is strong.
- Focus on Stabilized Markets: Markets in the Midwest, Northeast, and Pacific regions, which are experiencing consistent rent growth, could offer stable investment opportunities. The shift toward stabilization in these areas makes them prime candidates for portfolio growth, particularly as rent growth is expected to accelerate.
- Cautious Approach to New Developments: Given the slowdown in construction and the ongoing challenges in markets like the Southeast and South Central regions, Evergreen Capital should approach investments in new developments with caution. Focusing on stabilized properties and strategically repositioning assets in high-growth areas will mitigate risks while capitalizing on the recovering market.

Conclusion:

The U.S. multifamily market is experiencing a pivotal recovery with declining vacancy rates and a surge in demand, signaling a positive outlook for 2025. With the easing of supply pressures and expected acceleration in rent growth, strategic investors like Evergreen Capital can leverage these market shifts to maximize returns while mitigating risks. By focusing on high-demand regions, adapting to regional dynamics, and monitoring construction trends, Evergreen Capital can position itself for long-term success in the evolving multifamily landscape.

Sunbelt Multifamily Market Sees Renewed Demand as New Construction Slows

The Sunbelt region has seen a significant rebound in apartment demand this year, largely driven by favorable economic conditions, such as job growth and lower cost of living. However, the surge in demand follows a period of increased vacancies caused by a supply-demand mismatch. In 2024, a sharp decline in new construction starts has set the stage for continued growth in the region's rental market.

Key Takeaways:

- Renewed Demand: The Sunbelt remains a key multifamily market, attracting residents and businesses due to its climate, economic opportunities, and lower living costs.
- Construction Slowdown: New construction starts have slowed significantly, tightening supply and leading to higher demand for rental properties.
- Market Leaders: Texas, Florida, and North Carolina are central to this resurgence, particularly in cities like Dallas, Austin, Orlando, and Raleigh.

Evergreen Capital Insight:

- Investment Opportunities: The slowdown in new construction presents an opportunity for strategic investment in multifamily properties in the Sunbelt. These markets offer favorable conditions for long-term growth, with rising rents and a growing population.
- Risk Mitigation: As construction slows, Evergreen Capital should consider regional diversification, focusing on markets with strong economic fundamentals and moderate supply pressure.

Conclusion:

The Sunbelt’s multifamily market is poised for sustained growth, particularly in high-demand areas such as Texas and Florida. Evergreen Capital should continue to leverage its market knowledge and consider targeted investments in these regions to capitalize on increasing rental demand and limited new supply.

Apartment Rents Continue to Fall as Record Supply Dampens Market Growth

The U.S. apartment rental market continues its downward trend with rents falling for the 15th consecutive month, driven by a significant increase in supply. According to Realtor.com's October 2024 report, the median asking rent for 0-2 bedroom units in the 50 largest metros has dropped by 0.8% year-over-year to $1,720, marking a $14 decline from October 2023 and a $40 decrease from the August 2022 peak. Despite the decline, rents remain 19% higher than pre-pandemic levels, mirroring the 22.7% rise in consumer prices during the same period.

New supply has hit unprecedented levels, contributing to market adjustments. Developers are focusing on high-growth areas, particularly in the South, where rental stock is expected to grow by 1.5% by fall 2025. However, even as construction continues, affordability challenges persist in regions with slower supply growth.

Key Takeaways:

1. Steady Rent Declines: U.S. apartment rents have fallen for 15 consecutive months, marking a significant decline from the August 2022 peak.
2. Supply Surge: The market faces historically high levels of new supply, putting downward pressure on rents, especially in the South and other high-growth regions.
3. Affordability Crisis: Rents remain well above pre-pandemic levels, contributing to ongoing affordability issues, despite the slower pace of rent growth.
4. Regional Variability: Different regions will experience varying rent changes, with some markets like the Sun Belt continuing to absorb new supply, while others may see steadier or rising rents due to constrained supply

Evergreen Capital Insight:

For Evergreen Capital, these market trends highlight several potential opportunities and risks. The increased supply in high-growth areas, particularly in the Sun Belt, presents a window to capitalize on new multifamily acquisitions. However, the continued affordability crisis requires caution, as markets with oversupply could experience longer absorption periods or rental concessions.

Conclusion:

The apartment rental market's decline in rent growth presents a unique opportunity for investors, but the challenges of affordability and supply imbalances suggest that strategic, data-driven decisions will be critical in navigating these trends. Evergreen Capital should remain agile in responding to regional variances and focus on maximizing returns in high-demand areas while being mindful of areas where supply pressure could slow down demand.

1031 Exchange Opportunities Emerge as CRE Market Stabilizes

Key Takeaways:

Market Stabilization and 1031 Exchange Viability
The U.S. commercial real estate (CRE) market is beginning to stabilize, presenting significant opportunities for investors. This stabilization follows the Federal Reserve's recent interest rate cuts, offering clearer market conditions. Julie Baird, President of First American Exchange Company, highlighted that with greater clarity regarding borrowing costs, many CRE investors are now looking towards 1031 exchanges as a strategic tool to defer capital gains taxes while reinvesting in like-kind properties.

1031 Exchange as a Strategic Investment Tool
1031 exchanges, which allow property owners to defer taxes on capital gains when they sell one property and reinvest the proceeds into another, are becoming increasingly attractive. This strategy provides an avenue for investors to optimize their portfolios, especially for those with substantial cash reserves and lower debt levels. With the market entering a phase of stabilization, investors can acquire assets at favorable prices and potentially refinance as interest rates decrease in the future.

Opportunities in Distressed Assets and Market Timing
Baird predicts that as the market continues to stabilize, the opportunity for acquiring distressed assets will increase in 2025. However, she stresses that these opportunities will not be confined solely to distressed assets. Investors who are willing to invest now, when prices are relatively favorable, could benefit from the appreciation of these assets in the future.

Sector-Specific Dynamics

While multifamily markets are experiencing challenges due to rising supply, Baird notes that the office sector continues to recover from the pandemic's impact, creating more potential for distressed debt. The decline in new construction in the multifamily sector suggests that once these newly built units are absorbed, the sector could see growth in property values.

Evergreen Capital Insight:

Evergreen Capital should consider leveraging the current stabilization of the CRE market, focusing on 1031 exchange opportunities, which allow for portfolio optimization and tax deferral. Given the potential for distressed assets in the office sector and growth prospects in multifamily as new construction slows, it's a critical time to reassess asset allocations. Furthermore, the flexibility provided by 1031 exchanges can allow Evergreen Capital to strategically navigate the evolving market conditions, taking advantage of favorable pricing opportunities in the office sector while securing future growth in multifamily.

Conclusion:

The U.S. commercial real estate market, as it stabilizes, is offering promising opportunities for savvy investors. 1031 exchanges provide a crucial mechanism for deferring capital gains taxes while optimizing portfolios for long-term growth. Evergreen Capital, with its data-driven strategy, can capitalize on these opportunities, especially as the market presents both challenges and potential upsides in distressed assets and shifting sector dynamics. By staying informed and flexible, Evergreen Capital can unlock significant value in the evolving CRE landscape.