# Multifamily Delivered Yet Another Eye-Popping Quarter

**Meanwhile, office continues its bumpy ride.**

By Lynn Pollack

Preliminary trends for the apartment sector in the second quarter showed the asset class climbing to new heights, while office continued its COVID-initiated "bumpy ride."

That's according to Moody's analyst Lu Chen, who notes in a new analysis that despite increasing geopolitical tension and hawkish policies from the Federal Reserve, the sector delivered another quarter of record growth in Q2.

Vacancy was down another 20 basis points from Q1 to hit a five-year low at 4.5%, dropping by 90 basis points year over year. And though construction remains slow, demand is strong: net absorption for the quarter clocked in above 30,000 units.

"Even though affordability has eroded due to the rapid increase of average rent and only modest growth in median household income across the United States, multifamily demand was supported by strong Gen Z household formation," Chen writes, adding that many buyers have priced out of the entry level housing market because average single-family homes are currently about 21% overvalued. "This steady multifamily demand and tight supply translated into 2.7% and 2.8% increase in asking and effective rent on a quarter-over-quarter basis, which puts the year-to-date asking/effective rent growth to 5.2% and 5.4% respectively."

Asking and effective rents have grown by 16.7% and 17.5% over the past 12 months, respectively, a new year-over-year high in the more than two decades Moody's has been tracking national trends.

Office, however, continues to be a mixed bag. The third quarter of 2021 was a high point for the sector, but net absorption then swung negative and ended Q2 2022 at -8.4 million square feet. However, Moody's notes that month-over-month trends show that the negatives were mostly accrued in April, with demand "rebounding since."

"Total net absorption has actually turned positive in June and nearly 50 out of our 79 tier-1 metros have more move-ins than move-outs from the latest monthly reading," Chen says. "The subtle demand upshift was consistent with changes in the return-to-office sentiment. Even though this does not mean all employees will be working from the office 40 hours a week, a consensus is growing that some office presence is valued, especially for workers without much experience."

Physical office usage has hovered in the 40% range since April, according to Kastle Systems, compared to around 65% pre-pandemic.

"Looking forward, an economic slowdown will place some negative pressures on the sector, but longer-term sentiment for the office-using, knowledge-based US economy is still strong," Chen says. "All things considered, we will likely experience some turbulence in the office market performance, and the metro level differences will be interesting to watch.  In particular, geographic locations with growing tech sector employment have been faring better than the rest of the nation since the pandemic and they may help provide some level of long-term stability and resilience for the overall sector performance."