Multifamily Rent Increases Come at a Price to Landlords

Tenants expect more while turnover costs remain high.

By Erik Sherman

Multifamily, with industrial, has been one of the shining parts of commercial real estate since the pandemic turned normal upside down and shook it. The ability to keep driving rent growth has helped push prices up and justified lower cap rates.

But nothing can move one way forever. Research suggests that multifamily rents are moderating while a hot job market still leaves the average person with an income that lags inflation. And when people have to pay more, they often want something of value in return.

That's what Zego's "2022 State of Resident Experience Management Report" found. "Renters are going to see increases for the foreseeable future, albeit, not at such drastic rates," the report noted. "The National Apartment Association projects that annual rent growth will continue rising throughout 2022 but at a moderate pace of 6.3% to 7.0%."

Moderate may be a word that the industry uses, but consumers are unlikely to. The figure is even higher than it might sound because of the rule of 70, which is a shorthand calculation for the time period to double a value achieved by doubling the percentage rate of increase into 70. Someone who takes an apartment at a rent of $1,500 a month, given all other things being equal and a 7% annual increase, would be paying $3,000 in 2032.

And when people leave, like when they move to a place more affordable for them, or that they think offers a value more commensurate with what they pay, the turnover cost is at what is a likely record. Zego calculated that the combination of advertising and marketing, unit repairs, concessions, and lost rent will on average be $3,976, versus $3,850 in 2021.

If you raised rent on the $1,500 unit by $225—a 15% increase—it would take 17.6 months to recoup the turnover expenses. And, as Zego noted, a survey from Zumper suggested that 81.6% of respondents planned on moving within the next 12 months.

That creates a vicious circle. People move, turnover costs are high, owners and managers increase rents to try covering the cost within a reasonable amount of time, and then consumers expect even more with higher prices and are more likely to go if they don't get what they want. Their online reviews also affect whether others will visit a property in the future.

The top reason why renters renew a lease is "modern living features," according to Zego, and the lack is the largest reason they leave. "Renters always want the best value for their money, particularly now when rent prices are at their peak. New and modern is not only attractive, but it signals that companies prioritize updating the community." Which means investing in community façade, unit features, and building technology. The other choice is to spend money on turnovers.