Rent Growth Diverging Across Office and Multifamily

Analysts call the aberration a “great divergence.”

By Lynn Pollack

Rent growth across the office and multifamily sectors is no longer in lockstep, disrupting a lengthy period in which the sectors typically followed the same trend, according to a new analysis from Moody’s Analytics.

Last year marked the only time that rents for office and multifamily actually went in opposite directions, analysts say, calling the aberration a “great divergence.”

“Companies haven’t fully reopened offices, but households come back to cities anyway,” they say. “Further, in a rebuff of the historic link – it wasn’t just suburban apartment markets feeling the positive demand shock, dense urban areas bounced back, with many having apartment rent levels that have now fully rebounded.”

Office market performance in cities like New York, Tampa, Orange County, Charleston, and Greenville also trended below the US average, with asking rents ticking up 0.8% from 2021 to 2022, but multifamily rents in the same markets “skyrocketed.” And in Minneapolis, St. Louis, and Columbus, all of which experienced office markets that were above average last year, the apartment market is performing far below the national average.

“If people choose where to live based on their office locations, this divergence should not be as evident,” the analysts say. Lifestyle must play a very critical role in this divergence, though the single-family market, zoning regulation, industry types and other factors affect it as well.”

San Francisco, Jersey City, Manhattan, Philadelphia and Boston saw the sharpest spikes in lease applications from Gen Z renters in the past year, with increases of up to 101%, according to a recent RentCafe survey. Zoomers also account for more than one quarter of active renters in the past year in San Diego, Los Angeles, Manhattan and Philadelphia.

But Moody’s also said it would be “premature” to say that remote work has no negative impact on urban apartment markets.
“It is likely that as households age into child rearing, the typical pull of suburban/exurban life could become stronger in an era of hybrid and fully remote office work,” they say. “But it is also true that a particular lifestyle only exists in dense urban areas.”

Ultimately, whether this shift is temporary or permanent remains to be seen: If the prevailing trend of modern life had been households following work, we may now be entering an era where work is following households,” the analysis states.

“At a minimum, the link between office and multifamily performance has dramatically weakened over the past year," they write. "The US economy is based heavily in the production of knowledge, and the main resource in the process is skilled labor. If firms still believe there is value in the office, even in a hybrid capacity, they will look to locate within striking distance of those workers. The link may not be permanently broken after all, but instead, economic strength may be diversifying and shifting towards where people want to be. Time will tell how this dynamic between office and apartment property types plays out."