May 2022

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Paul Fiorilla
Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Anca Gagiuc
Senior Associate Editor
Anca.Gagiuc@Yardi.com

Investors Search for Value-Add, Secondary Markets: Is the Era Over?

Investor demand for multifamily assets has been insatiable in recent years, culminating in record-high property sales and prices in 2021. Yardi Matrix tracked $215 billion of U.S. multifamily property sales in 2021, trading for an average of $192,100 per unit, both all-time highs. In past cycles, frenzied transaction activity has portended bubbles that were burst by downturns. Which leads to a question: Are we headed for another crash?

The past never repeats itself exactly. Unlike some previous cycles, pricing growth in recent years has been accompanied by record-high rent increases. To determine whether today's high prices are justified by income growth, we analyzed repeat sales over the last decade in Matrix's database of 83,000 properties. We found 4,500 multifamily properties in the U.S.—about 5.3%—sold at least three times over the last decade. The compound annual growth rate (CAGR) for the repeat-sale properties averaged 17.7% nationally. The study showed:

- Rents rose rapidly during the cycle, but not as much as price appreciation. Multifamily rent growth in 2021 was unprecedented—up 14% for the year, per Yardi Matrix—but rent growth has been above the long-term average for at least a half-decade (other than 2020 during COVID-19 lockdowns).

- Investors will pay a premium for strategically located value-add properties. Investors were laser-focused on secondary markets and areas with strong in-migration—particularly Texas, the Southeast and Southwest—where demand and rent growth are increasing faster than the rest of the nation. Relatively few properties in gateway markets made the list of repeat sales, in part because acquisition yields in those markets are already high and provide less room for upside.

- Investors' sweet spot appeared to be smaller assets geared toward working-class residents that have the potential for high rent growth because those properties have relatively low rents and are in markets with above-trend rent growth.

To be sure, the study does not purport to reflect the entire multifamily market. Properties held for the short term and sold repeatedly are skewed to B/C-quality assets since high-quality assets with stable cash flows are more likely to be bought by investors to hold for the long term. Nonetheless, there is value in understanding investor demand and pricing trends.