Multifamily Expenses Remain Elevated

Property insurance costs continue to climb, rising an average of 27.7% per unit year over year, according to Yardi Matrix data.

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MULTIFAMILY EXPENSES CONTINUE TO GROW, WITH property insurance topping the list. According to a new study from Yardi Matrix, overall expenses per multifamily unit nationwide increased 7.1% to $8,950 as of January.

Yardi Matrix analyzed more than 20,000 properties that use Yardi operating software to gain more insight into the cost increases. Property insurance costs per unit increased year over year on average by 27.7% in the 12-month period ending in January, followed by marketing expenses, 12.3%; administrative, 9.6%; and repairs and maintenance, 8.8%.

According to Yardi Matrix, total expenses have increased rapidly in the past two years driven by inflationary measures and peaking at 8.7% in 2022. Prior to that, the annual average expense growth rates were 4.9% in 2021, 1.6% in 2020, 3.6% in 2019, and 3.8% in 2018.

While total expense growth is starting to decelerate, insurance costs remain high, rising 129% since 2018 to an average of $636 per unit nationwide. In 2018, premium growth rates were at 5.6% and then hovered between 13.4% and 16.7% between 2019 and 2022. Insurance costs are having an impact across the nation; however, the costs are escalated in the Southeast and other areas impacted by weather-related damage. In some cases, it has become more difficult to obtain insurance.

Despite the growth in expenses, Yardi Matrix noted profitability at multifamily properties was up in the 12 months ending in January because gross income rose more than expenses.

With the average annual gross income per unit increasing $1,056 and expenses rising by $593, this translates into a $463 boost in net operating income (NOI).

"Though property owners come out ahead over the past year, that might not be the case going forward if operators do not find ways to control the growth in expenses, in large part because income growth is likely to be weak in the next 12 to 24 months," stated the study.

As of February, year-over-year asking rent growth on vacant units decreased to 0.6% nationwide. Much of 2023's income growth came from higher rents for residents renewing their leases. However, the renewal lease rates have almost caught up to asking rents. Yardi Matrix forecasts asking rents will increase by only 1.8% in 2024.

Yardi Matrix also broke down operating expense growth by metros and regions.

Of the 129 markets reviewed, 99 experienced increases in expenses of 5% or more, while 28 saw increases of 10% or more. Spokane, Washington, with increases in administrative and payroll costs, topped the list for expense growth at 18.9%. Florida accounted for eight of the top 18 markets in expense growth, with Tallahassee coming in at No. 2 on the list at 18.8%.

By region, the Southeast saw the largest bump in costs at 8.8%, reflecting growth in insurance prices and inflation. The West recorded 7.3% growth, followed by the Midwest, 6.4%; the Southwest, 6%; and the Northeast, 4.7%.

Yardi Matrix warned that profitability will be at risk if expense increases don't moderate at a time when rent growth is projected to remain weak.

"Improving operating efficiency by streamlining processes and implementing new technologies produced by companies such as Yardi will be an important component of multifamily property owners' strategy in coming years, or NOI growth will be in danger of flattening or turning negative," noted the study. MFE

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