

SPRING  
2024

# SURGE

In Apartment Deliveries Tests  
Investors' Devotion to the Sunbelt



Multifamily properties in the Sunbelt have attracted an increasing amount of capital in recent years, but with rent growth faltering and a large number of deliveries in the pipeline, is the region losing some of its luster with investors?



**Paul Fiorilla**  
Yardi Matrix

Rent growth turned flat or negative in many Sunbelt markets through early 2024 as new deliveries surged. Multifamily rent growth averaged 1.1% year over year through March 2024, with the Southwest (–1.2%) and Southeast (0.2%) the worst-performing regions, according to Yardi Matrix. Rents were up 3.8% in the Northeast and 3.2% in the Midwest during that time (Exhibit 1).

The biggest factor in the regional underperformance was supply growth. In the three years between 2021 and 2023, more than 1.2 million units were delivered nationally, an increase in total stock of 7.8%. Growth was led by metros in the Southeast (9.5% of stock, 427,000 units) and Southwest (8.2% of stock, 246,000 units). Consequently, the occupancy rate of stabilized properties fell the most in those regions. The Southwest occupancy rate fell 0.8% year over year through March 2024 to 92.8% overall, and the Southeast dropped 0.6% to 93.9%. Occupancy fell in other regions—the Northeast (–0.3%, 96.8%), West (–0.4%, 95.1%), and Midwest (–0.5%, 94.9%)—but not as much.

Just how much of a problem the Sunbelt has is a subject of debate in an industry in which investors are perpetually targeting future growth. Although fundamental metrics in the region such as rent growth and vacancy rates are feeling the impact from the wave of supply, absorption remains robust, a sign that weakness in rent growth is likely temporary. And whatever the Sunbelt’s issues, other regions have their own headwinds that could stem any flow of capital away from the region.

### Growing Share of Investor Dollars

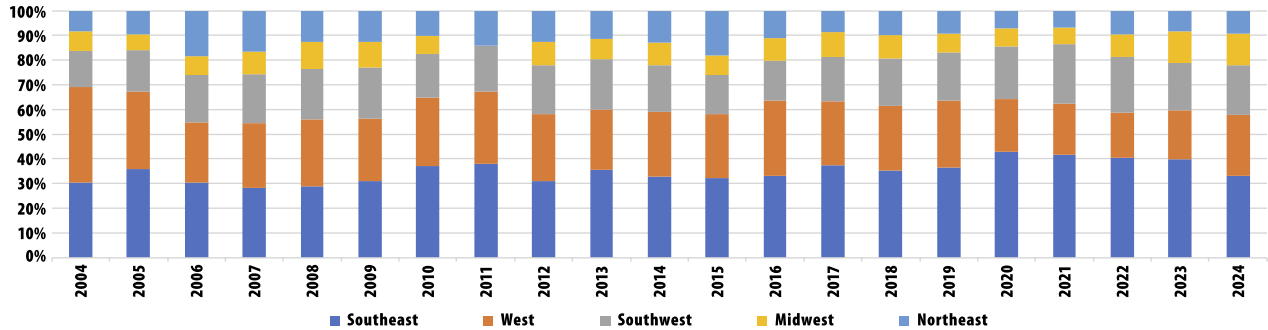
The Sunbelt has delivered on growth for years, fueled by strong demand resulting from rapid population and employment gains. Rent increases and inventory growth in the region have routinely topped national averages, and property values have risen rapidly. As a result, an increasing share of investment capital has favored metros in the Southeast and Southwest at the expense of more established and “primary” markets in the Northeast and West.

**Exhibit 1: Multifamily Rent Growth by Region**

Region	YOY Rent Growth	YOY Absorption	Absorption % Stock	Completions	Absorbed % Completions	Occupancy	Occupancy Change	Units Under Construction	Units Under Construction % Stock
Northeast	3.8%	39,739	1.6%	38,540	103.1%	96.8%	–0.3%	170,878	7.0%
Midwest	3.2%	48,216	1.9%	52,922	91.1%	94.9%	–0.5%	124,052	5.0%
National	1.1%	306,556	2.0%	405,262	75.6%	94.5%	–0.6%	1,187,183	7.6%
West	0.3%	62,418	1.9%	84,664	73.7%	95.1%	–0.4%	249,209	7.8%
Southeast	0.2%	103,375	2.3%	149,197	69.3%	93.9%	–0.6%	406,742	9.0%
Southwest	–1.2%	52,808	1.8%	79,939	66.1%	92.8%	–0.8%	236,302	7.9%

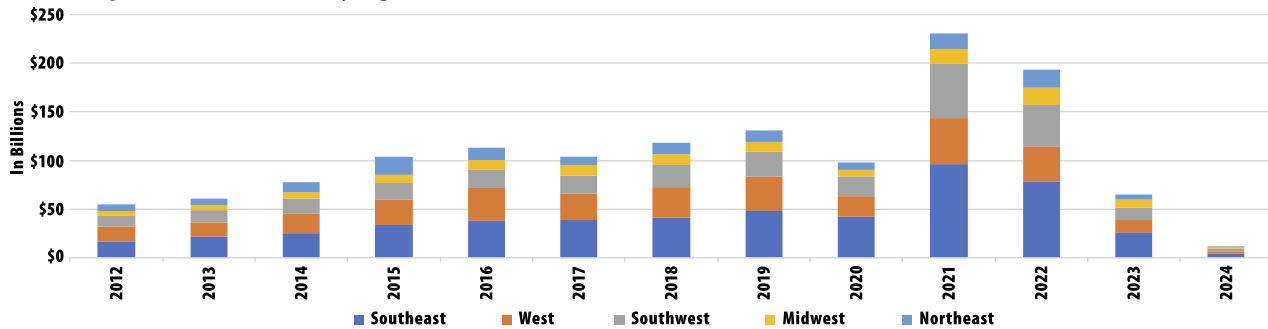
Source: Yardi Matrix; as of 1Q2024

**Exhibit 2: Regional Share of Apartment Sales, 2004–2024**



Source: Yardi Matrix; as of April 2024

**Exhibit 3: Apartment Sales Volume by Region, 2012–2024**



Source: Yardi Matrix; as of April 2024

This can be illustrated by looking at the market share of multifamily transactions during the past two market peaks (Exhibit 2). Between 2020 and 2023, when property sales surged before rising interest rates snuffed out activity, the Southeast (41.2%) and Southwest (22.4%) encompassed 63.6% of multifamily sales, according to Yardi Matrix data. That’s a sharp increase from the last market peak between 2005 and 2007, when transaction volume surged before the global financial crisis. The Sunbelt represented just under 50% of total volume between 2005 and 2007, with the Southeast capturing 31.4% of market volume and the Southwest, 18.5%.

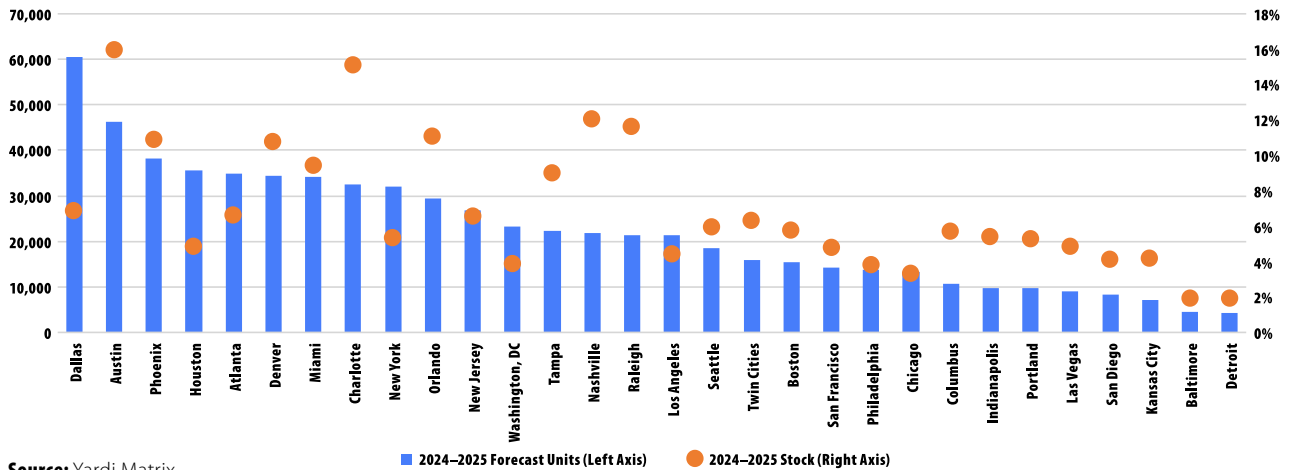
The Sunbelt’s growth came from taking market share from large coastal markets in the West and Northeast that formerly were seen as the most stable and attractive markets for large institutions such as pension funds and international investors. The combined share of the West and Northeast fell to 28.0% in the 2020–2023 period from 42.3% in 2005–2007. The Midwest increased its

share of sales slightly to 8.4% in the 2020–2023 period from 7.8% in the 2005–2007 period.

In 2021, when multifamily transaction volume peaked at \$231 billion, volume was led by the Southeast (\$96.0 billion, or 41.6%) and Southwest (\$55.5 billion, 24.0%), followed by the West (\$47.8 billion, 20.7%), the Northeast (\$16.1 billion, 7.0%), and the Midwest (\$15.5 billion, 6.7%), per Matrix (Exhibit 3). In the most recent quarter (1Q2024), Matrix recorded only \$11.9 billion of transactions, with \$4.0 billion (33%) in the Southwest, \$2.9 billion (25%) in the West, \$2.4 billion (20%) in the Southwest, \$1.5 billion (13%) in the Midwest, and \$1.1 billion (9%) in the Northeast.

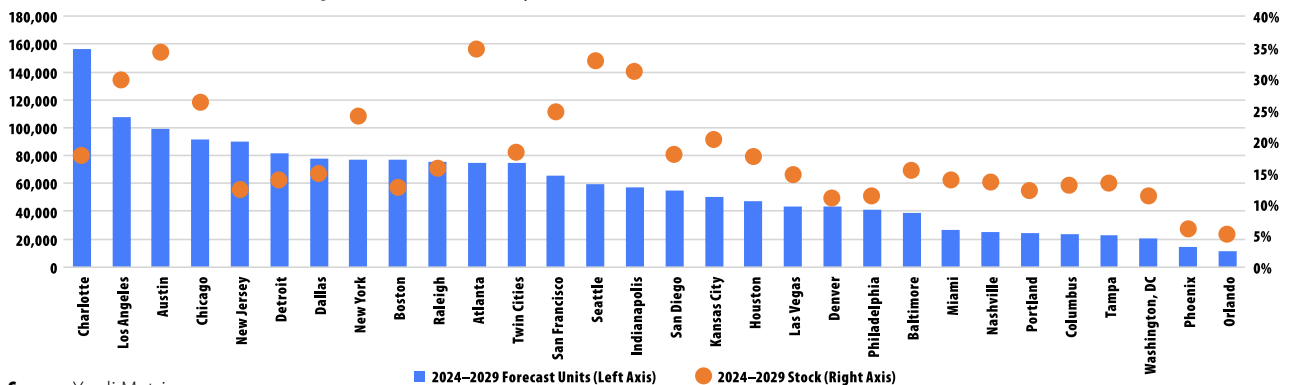
Recent transaction volume has been stunted by lack of pricing clarity and the difficulties borrowers have had in refinancing low-leverage loans in a high interest rate environment. Although it is not entirely clear how much of a role regional liquidity is playing in 2024 deal flow, some investors are saying they plan to avoid or reduce

**Exhibit 4: 2024–2025 Forecast of Apartment Deliveries by Metro**



Source: Yardi Matrix

**Exhibit 5: 2024–2029 Forecast of Apartment Deliveries by Metro**



Source: Yardi Matrix

exposure to the Sunbelt. Whether they stick to that or not, investors clearly no longer favor the region the way they did during the last cycle.

### Rapid Supply Growth

The recent reticence of investors about the Southeast and Southwest is largely a result of concerns about the impact supply growth is having on multifamily rents, which increased at a phenomenal rate in 2021 and 2022 after a surge of demand in the wake of the COVID-19 pandemic. Metros in the Sunbelt (and mountain west) drew many households from high-cost urban markets for reasons that included wanting more space for children and pets and remote work, which enabled some to relocate to markets other than where they were employed.

Between the first quarter of 2020 and the first quarter of 2024, rents grew by 24% nationally but more than 30% in Sunbelt markets with migration-fueled demand. Markets with outsize rent growth over that period include Knoxville, TN (56%); Miami (45%); Jacksonville, FL (35%); Orlando, FL (34%); Phoenix (33%); and Charlotte, NC (31%), per Matrix. However, rent growth turned negative in 2023 in many Sunbelt markets as supply growth became a drag. In the year ending March 2024, rent growth was negative in about one-third of markets nationally, concentrated in Sunbelt markets including Austin, TX (–5.9%); Jacksonville, FL (–3.6%); Atlanta (–2.8%); Phoenix (–2.6%), Nashville, TN (–2.4%); Orlando (–2.0%); Charlotte, NC (–0.8%); and Tampa, FL (–0.6%).

**Exhibit 6: Under Construction in Select Atlanta Submarkets**

Submarket	Units Under Construction	% of Stock
Cartersville	1,784	45.5%
Bankhead	1,457	39.0%
Midtown	1,317	31.7%
LaGrange	1,073	31.0%
Covington	1,075	30.6%
Lakewood	2,300	26.1%
Lawrenceville	2,870	24.2%
Buford	2,327	23.5%
Midtown West	2,300	15.6%
Midtown South	1,308	14.4%
North Buckhead	630	9.3%
Kennesaw	1,385	8.9%
North Vinings	604	5.5%
Roswell-Alpharetta	859	4.5%
South Buckhead	160	4.3%
College Park	360	4.3%
Marietta SE	623	4.3%
Sandy Springs	598	3.2%
Buckhead	210	1.5%
Norcross	360	1.5%
Duluth	350	1.4%
Marietta	153	1.2%

Source: Yardi Matrix; as of April 2024

With Matrix forecasting multifamily stock to grow by more than 10% over the next two years, including in ten of the largest 40 metros, investors worry that rent growth in rapidly growing Sunbelt metros will lag for some time. As shown in Exhibit 4, inventory growth as a percentage of stock is led by Austin, TX, which is slated to increase its multifamily count by 15.1% (37,435 units) by the end of 2025. Other Sunbelt metros with large short-term pipelines include Charlotte, NC (14.9%, 27,335 units); Nashville, TN (11.9%, 18,494 units); Raleigh-Durham, NC (11.3%, 19,450 units); Miami (11.3%, 14,872 units); Orlando, FL (11.0%, 25,850 units); and Phoenix (10.5%, 27,069 units).

Deliveries are slated to ease in 2026 because starts this year are being curtailed as a result of high mortgage rates and tight construction financing. However, even counting

that pullback, multifamily supply growth is expected to remain strong in high-growth markets for several years. Matrix forecasts a dozen metros will add 75,000 or more new units through the end of 2029 (Exhibit 5), led by Charlotte (156,344 units); Los Angeles (107,375 units); Austin, TX (98,842 units); Chicago (91,852 units); and northern New Jersey (89,909 units). Half a dozen Sunbelt metros are projected to increase stock by at least 4.0% annually through 2029: Charlotte, NC (5.1%); Austin, TX (5.0%); Nashville, TN (4.9%); Raleigh-Durham, NC (4.6%); Miami (4.4%); and Phoenix (4.0%).

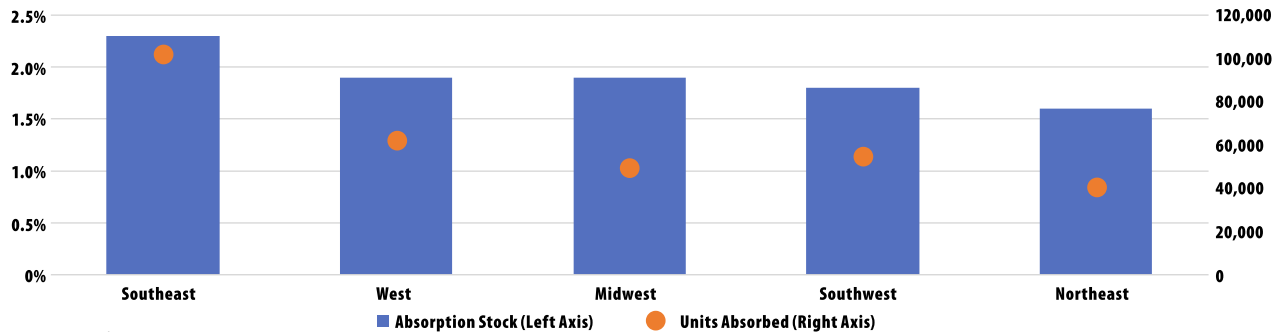
The bustling delivery pipeline is not limited to the largest Sunbelt markets, nor even the region. Smaller Sunbelt markets with large numbers of units under construction include Huntsville, AL (11,160 units, 25.2% of stock); southwest Florida coast (16,900 units, 18.9% of stock); Jacksonville, FL (14,805, 14.3% of stock); and Charleston, SC (9,689 units, 11.6% of stock). Metros in other regions with large under-construction pipelines include Boise, ID (6,144 units, 22.7% of stock); Colorado Springs, CO (9,592 units, 20.9% of stock); Salt Lake City, UT (17,869 units, 14.6% of stock); and northern New Jersey (30,269 units, 11.5% of stock).

### Drilling Into Submarkets

Multifamily investment is hyperlocal, which means regional and even metro-level data might not tell an accurate story about future performance of a particular asset. Supply is inherently local and dependent on a variety of factors that include developable land, access to transportation, location of employers, opportunities for urban infill, and more. Supply in one part of a metro may have little to no effect on other parts of the same market. To illustrate, Exhibit 6 breaks out the number of units under construction in select Atlanta submarkets and shows that development patterns vary widely.

Counting only submarkets with at least 3,000 units, six currently have at least 25% of existing stock under construction: Cartersville (1,784 units under construction, or 45.5% of stock), Bankhead (1,457 units, 39.0% of stock), Midtown (1,317 units, 31.7% of stock), LaGrange (1,073 units, 31.0% of stock), Covington (1,075 units, 30.6% of stock), and Lakewood (2,300 units, 26.1% of stock).

**Exhibit 7: Apartment Absorption, % of Stock by Region\***



Source: Yardi Matrix  
 \*12 months ending March 2024

On the other hand, the under-construction pipeline is relatively benign in several large Atlanta submarkets, including Marietta (153 units under construction, or 1.2% of stock), Duluth (350 units, 1.4% of stock), Norcross (360 units, 1.5% of stock), and Buckhead (210 units, 1.5% of stock). And a handful of large submarkets, including North Decatur/Clarkston/Scottdale (with 14,000 existing units), Stone Mountain (12,000), and Jonesboro (9,000), had no units under construction in April 2024.

The nation has a shortage of housing that came about from NIMBYism and underbuilding in the wake of the global financial crisis.

The patterns are the same in other high-supply markets. In Austin, TX, for example, the San Marcos submarket, at 3,900 under-construction units, or 16.8% of existing stock, has the most units forecast to be completed over the next two years. Some Austin submarkets have much higher supplies slated to be completed during that time, including Daffan (46.0%, 2,500 units), Downtown North (44.5%, 3,100 units), Capital Plaza (36.7%, 1,600 units), and Dessau (30.2%, 3,500 units).

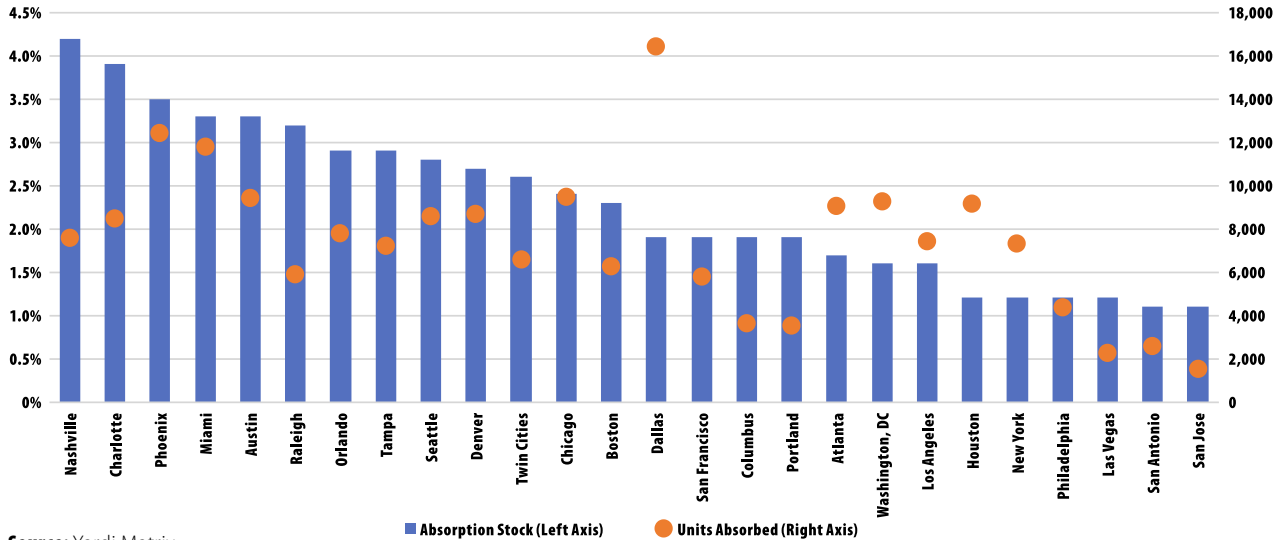
Investors should not base decisions entirely on the amount of stock under construction in a submarket, but they should underwrite submarket inventory growth in the context of a variety of other factors, including population growth and demand; proximity to amenities such as transportation, recreation and shopping; and the presence of economic drivers, including universities and employment opportunities.

**Long-Term Horizon Is Key**

While concerns that supply might impinge on rent growth are legitimate, putting those concerns into perspective is important. The nation has a shortage of housing that came about from NIMBYism and underbuilding in the wake of the global financial crisis. For example, the National Multifamily Housing Council estimates that 4.3 million apartments should be built in the US by 2035 to meet the demand for housing, and other analysts have come up with similar estimates. The industry condemns jurisdictions that make building difficult so that apartment supply is not too high. Metros should have ample supply of housing, and having sufficient multifamily stock is a driver of economic growth, not an impediment.

Another reason concerns about supply growth can be overemphasized is that many metros with high supply pipelines have strong demand drivers. Despite having the highest percentage of stock under construction (9.0%) and declining occupancy rates, the Southeast has consistently been the leading region in units absorbed. With 104,000 multifamily units absorbed in

**Exhibit 8: Apartment Absorption, % of Stock by Metro\***



Source: Yardi Matrix

\*12 months ending March 2024

the 12 months ending in March 2024, the Southeast was responsible for slightly more than one-third of the 306,000 units absorbed nationally (Exhibit 7). Southeast absorption during that time comprised 2.3% of stock, well above the 2.0% national average and more than the West and Midwest (1.9% apiece), the Southwest (1.8%), and the Northeast (1.6%).

Among Matrix’s top 30 metros, almost all with the highest growth in stock have consistently been among the highest in absorption (Exhibit 8). In the 12 months ending March 2024, large metros with the highest absorption as a percentage of stock were Nashville, TN (4.2%); Charlotte, NC (3.9%); Phoenix (3.5%); Miami and Austin, TX (each 3.3%); and Raleigh-Durham, NC (3.2%). A similar pattern existed for smaller markets, where leaders in absorption as a percentage of stock over the past year included high-supply metros Boise, ID (7.3%); Augusta, GA (6.0%); Salt Lake City, UT, Madison, WI, and Charleston, SC (each 5.3%); and Tacoma, WA (4.8%).

To get back to the original question, it is too soon to say how much investment in the Sunbelt will be affected by the current wave of supply and weakness in rent growth. One reason is it will take some time for deal flow to approach “normal” levels. And other regions have their own headwinds, including slower economic growth and

less demand. Lower supply growth is a benefit to rent growth in the short term but can be a sign of an area with a difficult regulatory/entitlement environment that slows growth in the long term.

Over the next year or two, leasing up new properties in high-supply Sunbelt markets may take longer, and owners may have to offer concessions to attract and retain tenants—but that has happened before, and fundamentals returned to normal after a period in which new stock was digested. The upshot is that each region—indeed, each metro and submarket—carries both risks and opportunities, and multifamily is best viewed as a long-term investment. Many Sunbelt metros are likely to underperform in rent growth over the short term, but because they will continue to attract jobs, population, and renters, multifamily investments should perform well over time. ■

*Paul Fiorilla is the Director of Research at Yardi Matrix.*

This article has been prepared solely for informational purposes and is not to be construed as investment advice or an offer or a solicitation for the purchase or sale of any financial instrument, property, or investment. It is not intended to provide, and should not be relied on for, tax, legal, or accounting advice. The information contained herein reflects the views of the author(s) at the time the article was prepared and will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing or changes occurring after the date the article was prepared.