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Here Are the Markets Where Multifamily Investors Are Buying

And, the markets that multifamily investors should avoid, according to a Moody Analytics REIS report.

By **Kelsi Maree Borland** | September 03, 2020 at 06:47 AM

Multifamily investment continues to be attractive, even through the pandemic. However, with mass job loss across the country and severe economic dislocation, multifamily market fundamentals have shifted, and along with them, the best and worst apartment markets have changed as well. A new report from **Moody's Analytics REIS** ranks the top five markets for multifamily investment and the bottom five markets.

The top five markets on the list include Lexington, Knoxville, Phoenix, Nashville and Minneapolis. All five of these metro areas, ranked in order of best performing markets, are continuing to see rent growth through the pandemic. Lexington has 5.9% rent growth in the last year, while Knoxville and Phoenix have seen 4.9% and 4.6% rent growth respectively. Nashville rents have increased 4%, and Minneapolis rents are up 3.7%.

These markets stand in stark opposition to national rent trends. Nationally, both asking and effective rents fell .4% in the second quarter of the year. In some markets, rents declined substantially. San Francisco effective rents fell 3.3% in the second quarter, the largest quarterly decline since the September 11 attacks, according to the report. Unsurprisingly, San Francisco is also at the top of the list for the worst performing rental markets in the country with an overall rent decline of 2.7%.

Rounding out the worst performing apartment markets in the country, Westchester, Fairfield Country, Palm Beach and Miami. While San Francisco has seen the most substantial decrease in rents, the remaining markets are closer to the national trend. Westchester and Fairfield County rents have decreased .8%, Palm Beach Rents have declined .7% and Miami rents are down 4%.

This is only the beginning of decreasing rental rents. According to a report from **CBRE**, both occupancy rates and rental rates will likely continue to decline through the end of the year. The report shows that multifamily will bottom out in the fourth quarter with an 8.1% decrease in rental rates and a 3.1% increase in vacancy rates by the end of 2021. These predictions assume that the virus will be contained by the end of the year. If the outbreak carries into 2021, the market could see more hardship.

Despite these trends, multifamily remains one of the most attractive asset classes for investment. The same CBRE report also shows that multifamily will make a full recovery within two years, bottoming out in the fourth quarter and beginning to recover in 2021. This would make the asset class among the fastest to recover.

While multifamily will likely recover once the public health crisis is resolved, investors are continuing to wait cautiously. In addition to uncertainty around rents and leasing, the election will also play a crucial role in apartment investment decisions. **Berkadia's 2020 Mid-Year Powerhouse Poll** predicts that multifamily investment activity will not return to normal until 2021 because the impacts of the pandemic have not yet been realized. Investors are also hopeful for more government relief, making the election even more important than in previous years.