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Multifamily Expenses Rise As Insurance, Other Costs Soar

Multifamily fundamentals have been stellar for nearly a decade, but rising expense costs are creating an ill-timed headwind just as rent growth is decelerating. Expenses for multifamily properties nationally grew by 9.3% on average in the trailing 12-month period ending in June 2023, which is 63% higher than the 5.7% increase during the previous 12-month period, according to Yardi Matrix expert data.

Expenses rose in most every category, but the biggest increase was in insurance, which was up 18.8% on average in the 12 months ending in June 2023, per Matrix. Other expense categories with large jumps over the last year include repairs and maintenance (14.2%), administrative (11.8%), and utilities and payroll (both 7.8%). Perhaps surprisingly, taxes increased by only 5.9%. The increase in expenses in the period ending in June 2023 represents \$740 in additional costs per unit at the average U.S. multifamily property, with the average property operating expense rising to \$8,694 per year per unit, according to Matrix.

Rapid expense growth comes at an inopportune time for the industry. After a long bull market, asking rent growth has decelerated and is likely to remain weak in many metros as deliveries hit levels last seen in the 1980s. Also, the big jump in mortgage rates from the 3-5% range to the 6-9% range has produced a large increase in debt-service costs for properties that need new mortgages.

T-12 Month Increase in Insurance Costs by Category

Expense Category	T-12 Month YOY % Change
Insurance	18.8%
Repairs/Maintenance	14.2%
Administrative	11.8%
Payroll	7.8%
Utilities	7.8%
Management	7.2%
Taxes	5.9%
Marketing	4.9%
Total Operating Expense	9.3%
Total NOI	8.0%

Source: Yardi Matrix, as of 6/23