

COSTAR INSIGHT

For the First Time Ever, Midwest Multifamily Rent Growth Takes the Crown

Region Could Outperform the Nation This Year Too



Demand for apartments remained steady throughout the Midwest in 2022. Minneapolis, Minnesota, for example, absorbed 7,500 units—more than any U.S. Sun Belt market.

(Getty Images)

By [Jay Lybik](#)

CoStar Analytics

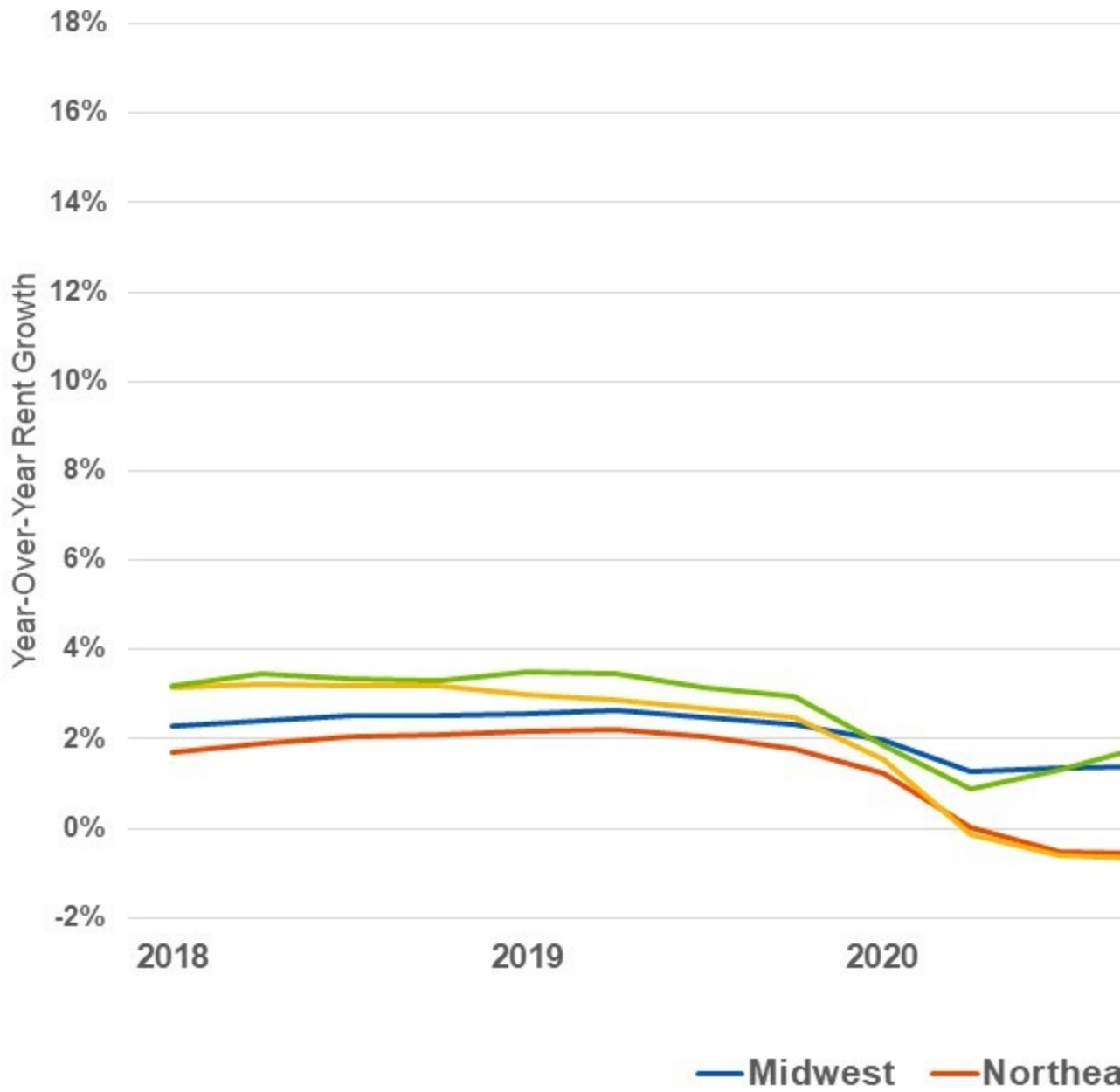
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Multifamily rent growth in the Midwest was especially weak in 2021. At a time when other U.S. regions were experiencing double-digit rent growth, the American heartland was once again the multifamily laggard or stated another way, the most-affordable housing area. The region has turned out year after year of slower rent growth than other regions and started 2022 dead last.

But by the end of the year, average multifamily rent growth finished at 4.8% in 2022 and the Midwest snagged the crown for best-performing region for the first time. The rest of the nation averaged a 3.7% increase in rent. The Midwest came out on top for multiple reasons: limited new development; unexpected demand from new renters; and a better population balance in the region.

A closer look at the Midwest market reveals that the limited amount of construction played a key role in the region's outperformance. Only 1.9% of new supply was added to the overall inventory compared to an average of 2.3% at the national level. Thus, more Midwest markets saw near-equilibrium between supply and demand than did other markets across the nation. Moreover, while national apartment rent growth pulled back 730 basis points to 3.7%, the Midwest saw rent deceleration of only 260 basis points to 4.8%.

Midwest Rent Lagged in 2021, but Took



Source: CoStar, February 2023

*Forecast

This advantage on the part of the Midwest was largely due to major developers targeting other regions of the country. By the end of 2022, this resulted in numerous Sun Belt locations becoming overbuilt. Consequently, year-over-year asking rent growth in Sun Belt states dropped 82% from an average of 16.4% to just 3.1% between the fourth quarter of 2021 and the fourth quarter of 2022. Only moderate new supply was added in the heartland during that same period, allowing it to avoid such a drastic drop.

Furthermore, apartment demand throughout the Midwest remained steady in 2022. Minneapolis, for example, absorbed 7,500 units—more than any Sun Belt market. Also, despite its smaller size, total demand across the Midwest equaled that of other much larger regions.

Finally, after seeing steady population declines before the pandemic, population declines halted throughout most of the Midwest due to its attractive affordability and favorable employment conditions, which made it easier for pent-up household formations to finally occur after years of decline.

Last year was a disappointing year for multifamily owners as rent growth slowed across the board in the whole multifamily sector, a trend that may continue in 2023, leaving the door open for the Midwest region to once more reign as the top multifamily region.