October 2021

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Andrew Semmes
Senior Research Analyst
Andrew.Semmes@Yardi.com
(800) 866-1124 x2092

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Special Report: Multifamily Rent Forecast Update

- Above-average inflation appears to be less transitory than most economists expected.
- Supply-chain bottlenecks will be a drag on the economy for the short and medium term.
- Multifamily rent growth continues to slow, and is expected to settle into more familiar territory next year.

Supply-chain bottlenecks, increased demand for goods and services across the board, and weaker-than-expected jobs growth combined to form a perfect storm and continued to drive year-over-year inflation to 5.4% for the month of September. While the month-over-month Consumer Price Index rose 0.4% from August to September—still a significant decrease from the heart-stopping 0.9% increase realized in the May-to-June period—consumer inflation numbers remain abnormally high and appear to be much less transitory in nature than most economists were predicting only a few months ago. The largest year-over-year increases were in energy commodities, with both gasoline and fuel oils posting a slightly higher than 42% increase from September 2020 to September 2021 (it should be noted that September 2020 numbers were significantly depressed on a year-over-year basis, so some of these gains are essentially making up lost ground). However, if fuel and energy prices remain unusually elevated for an extended period, those price increases will necessarily bleed further into the prices of consumer goods, as everything from manufacturing to goods transport grows ever more expensive and those costs are passed on to the end consumer.

As a result of this turbulence, the baseline economic forecasts from Moody's Analytics that we use to underpin our rent forecasts experienced some fairly significant revisions. Projected annualized GDP growth for the third quarter of 2021 has been revised downward to 3.4% from the 5% projected in September; fourth quarter projected GDP growth was adjusted from 7.5% to 6.2%; annualized fourth quarter CPI inflation projections increased from 3.3% to 3.7%; and unemployment rate projections were adjusted slightly downward to 5.1% from 5.2%, although there is an upside risk that could emerge from an increase in the labor force participation rate.

© Yardi Systems, Inc., 2021. All rights reserved. All other trademarks are the property of their respective owners.

Nationally, asking rents for multifamily properties increased by 1.0% in September, which while historically still very high is a significant cooldown from the increases we have seen during this year.[1] And while most of our top 30 markets continued to see rent increases for the month of September, Seattle, Metro Los Angeles, the urban cores of Chicago and Philadelphia, and the suburban Twin Cities all had slight rent declines. On the other hand, Tampa, Raleigh-Durham, North Dallas, Orange County, Nashville, and suburban Philadelphia and Atlanta still posted a greater-than-2% increase in month-over-month rents for September.

The update in our forecasts for this month largely reflects the broadly decreased fourth quarter economic outlook and the slowing down of rent gains across the country. Across all the markets that Yardi Matrix covers, our end-of-2021 forecasts slipped by an average of 47 basis points, with the largest decreases occurring mostly in smaller to medium-size markets, although several of our top 30 markets still underwent significant downward revisions. Seattle, the Southern Bay Area, Boston and Urban Atlanta were all adjusted downwards by more than 3%, although all of them are still projected to attain a greater-than-10% year-over-year increase at the end of the year.

There is still much uncertainty on the horizon, as inflationary pressures might force the Fed to act sooner than expected, with quantitative easing and eventual rate hikes, but for now those assumptions remain unchanged and the broad expectation is for a slowdown in rent increases to continue into next year and then begin to stabilize into more familiar territory. COVID-19 still threatens to present some surprises as low vaccination rates in parts of the world increase the likelihood of another dangerous variant, but the recent announcement that Merck is pursuing FDA approval for the antiviral molnupiravir is welcome news and will likely provide another indispensable weapon in the fight against the pandemic.

—Andrew Semmes, Senior Research Analyst

---

[1] Average of market-level survey data, unweighted

Disclaimer

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

Copyright Notice

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (http://www.yardimatrix.com/Terms) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2021 Yardi Systems, Inc. All Rights Reserved.