Yardi Matrix

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Special Report: Multifamily Rent Forecast Update

We finish up 2021 by reflecting on the most turbulent year for multifamily since national multifamily data was first professionally collected, analyzed and disseminated. In the first week of January, both new cases of and deaths from COVID-19 were at new record highs, the unemployment rate was still above 6%, and broad swaths of the economy were artificially propped up by historically accommodative monetary and fiscal policies. The rapid pace of recovery achieved only a few months prior had slowed substantially, and consumer price inflation remained below the Federal Reserve's target rate of 2%, despite aggressive maneuvering by the Fed, which in the January Federal Open Market Committee meeting kept the target for the federal funds rate between 0% and 0.25% while also committing to purchasing a combined minimum of $120 billion a month in Treasury securities and agency mortgage-backed securities. In the meantime, Congress had passed a series of bills designed to bolster the economy, which included providing extended unemployment benefits to individuals, financial assistance to businesses, and direct cash payments to consumers.

With restaurants, bars, theaters and other discretionary entertainment outlets either closed or unable to offer the same experiences that were available before the pandemic, and many mortgage and student loan payments suspended in forbearance programs, a large number of consumers were able to use the stimulus payments and reduction in personal spending to pay down other debts and increase their bank balances. Total credit card debt in the U.S. fell from a high of $927 billion in the fourth quarter of 2019 to $770 billion in the first quarter of 2021,[1] and median checking account balances for each income quartile were up between 60% and 100% in January 2021 over their end-of-2019 levels.[2] At that point the economic engine of the U.S. was well oiled by monetary and fiscal stimulus, and it had a full tank of gas provided by increased consumer liquidity. All it needed was a spark—and it found one in the rapid rollout of vaccines that were given emergency-use authorization by the FDA.

For the March 2020 to February 2021 period, national average multifamily asking rents in the U.S. rose by only 1%, but March 2021 marked the beginning of an unprecedented surge. From February to November 2021, average multifamily asking rents increased by 13%, with discretionary and upper mid-range units in the Sun Belt and Mountain West experiencing the largest increases—although very few metro areas in the country did not see above-average rent increases.[3]

Multifamily rents were not alone in seeing large increases during 2021. The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index was up 15.66% for 2021 through September. The CPI-U for all items was up 6.8% year-over-year in November, and 4.9% year-over-year minus the volatile food and energy categories—more than double the Fed's target rate. Inflation has proven to be a much larger problem than the Fed and most economists predicted earlier this year, which is now forcing the Fed to act sooner than anticipated on its rollback of quantitative easing programs begun in March 2020 and has caused a majority of Fed members to predict at least three rate hikes during 2022, compared to September's dot plots, where half of Fed members were still predicting zero rate hikes in 2022.[4]

How well the Fed can guide a borderline overheating economy to a soft landing is an open question. Supply-chain disruptions persist, certain employment sectors are still unable to fill open positions, and now another concerning variant of SARS-CoV-2 has emerged, with early data suggesting that Omicron is far more transmissible than earlier variants and more successful at evading immunization, although there is hope that it might cause less severe disease than other variants. However, we do not expect Omicron to derail the economy in the same way as last winter's surge, as we now have effective means for most individuals to manage their own risk exposure through vaccination.

And finally, at 0.34%, November marked the first month since February where we saw less than a 1% increase in average asking rents on a month-over-month basis. While this is a dramatic swing closer to more familiar territory, it is still twice as high as the second-highest month-over-month increase we've ever recorded in November. So while uncertainty remains for the short and medium term in multifamily markets, at this point we believe the most likely scenario is a dramatic reduction in rent increases compared to 2021 but still higher than historical norms, as new housing supply issues persist, demand remains strong due to tight labor markets, and cities continue to regain some of their vibrancy that was lost during the pandemic due to closing businesses and reorganized social norms.

—Andrew Semmes, Senior Research Analyst

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1 Federal Reserve Bank of New York: Quarterly Report on Household Debt and Credit
2 Fiona Greig, Erica Deadman, and Tanya Sonthalia. 2021. "Household Cash Balance Pulse: Family Edition." JPMorgan Chase Institute. https://www.jpmorganchase.com/institute/research/household-income-spending/household-cash-balance-pulse-families
3 Yardi Matrix Survey Data
4 https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20211215.pdf