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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

In March, for the first time in a year, the percentage increase in month-over-month asking rents was smaller than it was for the same month one year prior. Equivalently, the rate of increase in year-over-year asking rents has finally decelerated, from 13.9% in February to 13.5% in March.

Asking rents fell in nine markets that Yardi Matrix tracks, all of them except Baltimore being smaller markets in the Sun Belt and Rust Belt. However, there were still 30 markets that experienced a greater-than-1% month-over-month increase, and those are not easily and neatly grouped into baskets. Among those that posted a more-than-1% increase were large metros like urban Chicago, Seattle, San Diego and North Dallas; strong performers from last year continuing their surge like Boise, Spokane, the Southwest Florida Coast and Fort Lauderdale; and smaller metros sprinkled throughout the country like Scranton-Wilkes-Barre; Rochester, N.Y.; Chattanooga; and Colorado Springs.

Our forecast update for this month does not contain any major moves, nor are there any significant discernable patterns: West Coast and Southern markets were more likely to see a slight increase in their end-of-year forecasts (for instance, Portland, Eugene, Sacramento and Columbia), but a handful were revised slightly downward (Central Coast and Metro Los Angeles). Contrarily, Midwestern and Texas markets were more likely to be adjusted slightly downward (Cincinnati, Grand Rapids, Youngstown, Central East Texas and Amarillo), but a few were given upward revisions (Dayton, East Houston and San Antonio).

It is difficult to tell at this point whether this deceleration in asking rent growth is the beginning of a larger slowdown or just a temporary aberration in the historic growth seen over the past year. While the 0.73% increase from February to March of this year is lower than the 1.05% from March of last year, it is still higher than every other February-to-March increase that Yardi Matrix has ever recorded.

Our view looking forward remains positive, although there are some significant obstacles and possible adverse events that will cause turbulence and could disrupt growth trajectories. First, the Federal Reserve acted too late with quantitative tightening and hiking the federal funds rate and has now found itself in the unfortunate position of needing to play

catch-up to rein in inflation. Analysts generally expect the Fed to raise the rate at every remaining FOMC meeting this year, with one or two rate hikes of potentially 50 basis points instead of 25. And while the Fed doesn't have a very good track record of bringing down high inflation without triggering a recession, an extremely tight labor market does provide some cushion for the landing. If the Fed manages to lower inflation without triggering a deep recession, then multifamily should remain in a good position: Demand will remain strong as rising mortgage rates limit the pool of prospective single-family buyers, and supply will still be constrained, as developers can't build fast enough to keep up with rising demand in an already underbuilt environment.

The second significant source of turbulence and potential disruption is the war in Ukraine. Energy and food are traded in global markets, and prices for both will remain elevated, as Ukraine and Russia are significant exporters of energy, grains and

fertilizer. Higher prices for these necessities will have an outside impact on lower-income households, which will compound affordability concerns for housing, increasing the risk of government-imposed price regulations. The war is also exacerbating some issues in already-strained supply chains, and those stresses could have unforeseen knock-on effects across the globe.

While it will be prudent to keep an eye on these risks, we still believe that we will most likely make it through 2022 without a recession or major shock to multifamily markets. The fundamentals of supply and demand remain strong, and the jobs market is red-hot. We might be seeing the beginning of a slowdown in asking rent growth, but growth remains significantly elevated by historical standards. The industry will have to navigate some headwinds, but it is well positioned to do so.

—Andrew Semmes, Senior Research Analyst

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