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Special Report: Multifamily Rent Forecast Update

Average month-over-month asking rents accelerated slightly in May, increasing by 1.1% compared to the 1.0% month-over-month increase in April. However, year-over-year asking rents decelerated, from 16.0% in April to 14.0% in May. So while we are seeing the usual seasonal increase leading into the summer months, 2022 does not look like a repeat of 2021 even though rent growth remains elevated.

Asking rents fell in six markets that Yardi Matrix tracks, and as a set they are a diverse group: the gateway markets of Queens and Brooklyn; the small Southern markets Macon, Ga., and Jackson, Miss.; and Honolulu and the Southwest Florida Coast. Eighty-four markets experienced a greater-than-1% month-over-month increase, and seven markets saw month-over-month growth that topped 2%—Charleston, Knoxville, the Bay Area-South Bay, Miami, the Urban Twin Cities, Wilmington, N.C., and Portland, Maine.

Our forecast update for this month sees most markets receiving an increase to their end-of-year projections, and some markets have been revised upward substantially. The biggest increases were concentrated in secondary and tertiary markets that continue to outperform expectations, with Scranton-Wilkes-Barre, Wilmington, South Bend and Spokane all seeing a greater-than-5% increase for our end-of-2022 forecast.

Inflation continues to rage, and both food and energy prices appear likely to remain elevated for the short and medium term. However, job growth is still strong, with nonfarm payrolls increasing by 390,000 in May, above the Dow Jones estimate of 328,000. Wage growth continues to be robust, which might be attracting more workers back into the workforce, as the labor force participation rate edged slightly higher to 62.3% while the unemployment rate remained unchanged at a historically very low 3.6%. With inflation at a 40-year high and unemployment at nearly the lowest level it has been in 50 years, the Fed will likely ramp up its pace of rate hikes and quantitative tightening, increasing the chance of recession for this year and next.

Despite the increased risk of recession, our view for this year remains positive, and we believe that there is still less than a 50% chance of recession in 2022. However, there are some significant obstacles and possible ad-

verse events that will cause some 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 in reining in inflation. Analysts generally expect the Fed to raise the federal funds rate at every remaining FOMC meeting this year, with multiple rate hikes of 50 basis points or higher. 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 should provide some cushion for their landing. If the Fed manages to reduce inflation without triggering a deep, protracted recession, then multifamily should remain in a good position—demand will stay strong as rising mortgage rates limit the pool of prospective single-family buyers, and supply will remain constrained, as developers cannot 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 on global markets, and prices for both will remain elevated, as together Ukraine and Russia are significant exporters of energy, grains and fertilizer. Higher prices for these necessities will have an outsize 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 job market is still hot. The rate of increase in asking rents might be beginning to slow down, 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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