



U.S. Multifamily Outlook

Summer 2022

Growth Threatened by Inflation

Rent Increases Moderating, Slowly

Rate Hikes Shock CRE Liquidity

Market Analysis

Summer 2022

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Multifamily Outlook Hopeful Amid Volatile Economy

- Midway through 2022, the multifamily market is at an inflection point. Property fundamentals continue to be exceptional, with rents still growing at extraordinary levels and demand still robust. Growth will decelerate in the second half, but the question is by how much, as persistently high inflation threatens to roil the economy.
- The economy is likewise running hot, but not without storm clouds on the horizon. Two years of robust job growth have put the employment market within spitting distance of its pre-pandemic level, and consumers continue to spend record amounts. But the Federal Reserve's bid to reduce demand through rising rates and quantitative easing will cut growth, with the odds of a recession in 2023 or 2024 increasing rapidly in recent weeks.
- Multifamily rents are decelerating from 2021's record highs but remained at double-digit percentage growth levels through mid-year. Pent-up demand from the pandemic has mostly receded, but it continues to be driven by robust household formation, job growth, migration to suburbs and secondary markets, and the worsening affordability of single-family homes that is keeping potential first-time homebuyers in rentals. We expect average asking rents to increase by 7.9% by year-end.
- The sector's strong performance and the nationwide housing shortage are helping boost multifamily supply, with more than 900,000 units under construction nationally. Unfortunately, prolonged supply-chain problems, rising commodity costs and reduced immigration have created material and labor shortages. Meanwhile, NIMBYism is increasing development costs and slowing the entitlement process, prolonging the time between project starts and deliveries. Consequently, about 420,000 units should be delivered this year.
- Capital conditions, a big part of the market's success over the last decade, turned bearish in the second quarter due to rising rates and investors' fears of a recession. With mortgage rates up 150 to 200 basis points, acquisition yields are rising. Lenders are becoming more conservative, focused on cash flow rather than income growth. Many investors and lenders are taking a step back to digest where the market is headed before they resume activity.