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Special Report: Multifamily Rent Forecast Update

The unweighted market-level average of asking rents for all markets that Yardi Matrix tracks increased by an annualized rate of 8.2% in July. That was a significant reduction from the 13.6% annualized rate recorded in June, and a huge decrease from the 18% annualized rate in July 2021—but still far above the average annualized July rate of approximately 3%. So while we are seeing a meaningful slowdown in rent appreciation, the rate of increase is still nearly triple what it has been historically for this time of year.

Furthermore, this slowdown in asking rent appreciation is well within historical norms. In fact, July almost always experiences a major slowdown in asking rent appreciation. If we look at the nine-year period of relative calm and normalcy for multifamily from 2011 to 2019 (in summer 2010, rents were still stabilizing from the financial crisis, and in summer 2020, multifamily markets were being rocked from the pandemic and its associated fallout), month-over-month asking rent appreciation from June to July of each year fell by at least 30% (in 2015) and at most 86% (in 2017), with a mean of 48.2% and a median of 48.3%. This year, month-over-month increases (and equivalently annualized rates) fell by 39% from June to July. So rent appreciation is slowing and the timing and direction of seasonal forces are in line with what we would expect from history, but asking rent appreciation still did not slow down as much as it normally does in July.

We can break it down a little further by comparing current trends in Lifestyle and Renter-by-Necessity properties to their historical behavior. Using the same unweighted market-level average as before, Lifestyle properties saw their annualized rate of asking rent increases fall from 13.9% in June to 7.5% in July, a 45.8% decrease. Again, this is completely normal. For the June-to-July period for the years 2011 to 2019, Lifestyle asking rent appreciation fell by at least 28% (in 2012) and at most 106% (in 2017, when Lifestyle rents fell from June to July). The mean deceleration during this period was 68.6% and the median was 74.6%.

Seasonal fluctuations in RBN properties tend to be less pronounced and with less exact regularity, and with this, too, none of this year's data is outside the ordinary. The annualized rate of increase for RBN properties fell from 13.4% in June to 9.8% in July, which is a decrease of 26.7%. For the same 2011-to-2019 period, RBN properties saw a deceleration in the rate of increase in seven of the nine years, and for the seven years that had deceleration from June to July, the mean was 35.3% and the median was 30%.

July also saw average asking rents actually fall in five of Yardi's Top 30 markets: the Urban Twin Cities, the Inland Empire, Miami, Orlando and the San Francisco Peninsula. However, those declines were driven entirely by drops in asking rents in Lifestyle properties. All five markets saw price increases in RBN properties, and the two Florida markets, Miami and Orlando, both had among the highest appreciation in asking rents for RBN for that month. This evidence suggests that these markets have not hit a major inflection point, turnaround or decrease in demand; rather, there is likely just some natural sorting occurring, where people are changing either where they choose to or where they can afford to live.

Given all of the above, our forecasts for the end of the year have increased in most of our markets, despite the slowdown in asking rent increases and the barrels of ink recently spilled prognosticating a looming recession. Even though increases in asking rents are decelerating, they are not decelerating as quickly or as much as expected, and the fundamentals of supply and demand are still very favorable for multifamily overall. The job market is still impressively strong, higher mortgage rates will continue to make homeownership more expensive relative to renting (especially for first-time buyers attempting to enter the market), and multifamily is still undersupplied across the country.

—Andrew Semmes, Senior Research Analyst