Yardi Matrix

January 2023

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Special Report: Multifamily Rent Forecast Update

Last year proved to be another strong year of multifamily asking rent growth, as national rents grew 6.4% on average. December month-over-month asking rents fell for the second month in a row, although on average the decrease was very slight at only about seven basis points. Of the 134 markets that Yardi Matrix forecasts, 77 fell slightly month-over-month, six had no change, and 51 had rent growth from November to December. On a yearly basis, 133 markets in our forecast group saw rent growth, with only Lafayette–Lake Charles in Louisiana not experiencing growth, although that market still managed to hold steady, with average asking rents not changing on a year-over-year basis.

However, the winds have shifted and will continue to shift throughout the year, and we do not expect to see asking rent growth in 2023 anywhere near as strong as it had been in both 2021 and 2022. We do not anticipate significant rent declines, either, but rather a return to growth that is much more in line with what was "normal" before the pandemic, although likely on the lower side of normal. Economic signals still seem to agree with our overall view of the economy, and so we are still expecting overall GDP growth to continue to slow during the first half of the year before tipping slightly negative in either Q3-Q4 or Q4-Q1 as we experience a short and shallow recession.

The full effect of the Federal Reserve's policy changes in 2022 has not yet been felt, and pressure will continue to build on the Fed to stop rate hikes as layoffs mount in the tech sector and begin to spread more broadly into other sectors, and as inflation continues to show real signs of cooling. It looks likely that the Fed will raise rates again in February and then perhaps again in March, but in Q2 of this year we expect that the Fed will elect to stop hiking rates and take several months to assess the damage done to the jobs market and both the trajectory and level of inflation. The next measure of the PCE Price Index will be released on Jan. 27, and that number will be hugely important in anticipating how the Fed will likely act in the next few months.

Economic uncertainty and turmoil are almost always felt the most at the higher end of the market, so we expect lots of volatility in Class A buildings. That volatility will be exacerbated in markets with large amounts of supply being delivered, as new market-rate housing al-

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most always comes in at the top of the market. However, while we expect to see turbulence for Class A properties, we do not expect to see the bottom fall out. In general, new supply is being built in places that need it, and multifamily rents will continue to be supported by the lack of single-family inventory and less favorable mortgage rates. That said, there are a number of markets to keep an eye on, as they are expected to receive a large amount of supply as a percentage of their current total stock: Austin (forecasted 3.0% asking rent growth for 2023), Salt Lake City (3.1%), Miami (2.7%), Charlotte (3.4%), Nashville (3.4%), Raleigh-Durham (2.8%), Phoenix (1.3%) and Orlando (2.5%).

Our overall outlook for multifamily asking rents has not changed much, although we have reduced our expectation for average asking rent growth for 2023 to 2.6% from 3.1%. The magnitude of that change is largely driven by the lowering of our forecasts in some large markets that have an outsize effect on the average: Eastern Los Angeles County, Miami, the Bay Area—South Bay, Tampa and Manhattan were all reduced by a full percentage point. Each of these markets saw significant month-over-month fluctuations in Class A properties over the past two months, volatility that occurred slightly earlier than expected. The median forecast change was only four basis points lower.

—Andrew Semmes, Senior Research Analyst

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