



U.S. Multifamily Outlook

Summer 2023

Multifamily Rent Growth Positive, Slowing
Economy Headed for a Fall?
Higher Rates Vex Capital Markets

Market Analysis

Summer 2023

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Multifamily Performance Strong Amid Flashing Yellow Lights

- Multifamily fundamentals remained healthy through the first half of the year, but doubts abound about the impact of interest rates on the economy and capital markets. Demand is holding up, fueled by ongoing robust job growth and strong consumer balance sheets. Yet the capital side of the industry is facing significant headwinds from higher mortgage rates.
- The economy continues to pump out jobs, despite the best efforts of the Federal Reserve, but for how long? Job growth is consistently ahead of consensus forecasts. Inflation is moderating but not fast enough to motivate rate cuts. Tightening bank credit signaled by the badly inverted yield curve will inevitably serve to cool growth in the second half of 2023.
- Rents resumed their upward climb in the spring as demand remains positive. We expect moderate 2.5% rent growth in 2023, with gains concentrated in Renter-by-Necessity units since affordability is a growing problem and new deliveries are focused on high-end Lifestyle units. Rapid growth in expenses is putting pressure on net operating income.
- New deliveries will be high through at least the end of 2024, as the 1 million units under construction come online. Deliveries should total 430,000 units in 2023 and more than 450,000 in 2024, with new supply concentrated in fast-growing Sun Belt metros. Starts are gradually declining because debt is more expensive and fewer banks are financing construction.
- Property values are down 15-20% from their peak and are still declining as the cost of capital has become significantly more expensive. Property sales halfway into 2023 are 70% below 2022 levels and will remain weak due to the uncertainty surrounding pricing, and the unwillingness of sellers to transact at new lower prices.
- The debt market is likewise struggling to cope with higher interest rates. Volume is down significantly, even among the government-sponsored agencies. Borrowers are resisting higher rates unless they have no choice. Defaults will rise over the next 24 months as owners attempt to refinance low-coupon loans at new higher rates.