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Multifamily Rent Forecast Update

Average asking rents increased by 41 basis points in May on a month-over-month basis, a slight decrease from the 44-basis-point MoM increase recorded during the previous month. This deceleration in asking rents was largely driven by actual decreases in asking rents in markets that mostly fall into two categories: Florida markets that saw unbelievable growth during the pandemic and are now facing major affordability problems and California markets that are still struggling to find their post-pandemic footing. Five of the 10 worst-performing markets were in Florida (Southwest Florida Coast, Miami, Orlando, Jacksonville and West Palm Beach), and of the remaining markets that saw month-over-month declines, six were in California (Metro Los Angeles, Sacramento, Eastern Los Angeles County, the Bay Area–East Bay, Orange County and the Inland Empire).

We continue to see strong growth in many Midwestern and Northeastern markets: Portland, Maine, and Scranton–Wilkes-Barre both grew more than a full percentage point month-over-month, while White Plains, Detroit, Urban and Suburban Chicago, Manhattan, Milwaukee, Rochester, Central New Jersey and Syracuse all saw asking rents grow more than 90 basis points from the previous month. Southern markets (including Texas) were more of a mixed bag, with smaller markets performing better than larger markets on average. Midland–Odessa, Lexington and Macon all saw asking rents grow more than a percentage point, while Urban Atlanta, Charlotte and East Houston saw their rents fall.

While there will always be month-to-month fluctuations and outlier markets, rents so far this year are behaving essentially as expected: Midsize markets, especially in the Midwest and Northeast, are seeing very strong growth in asking rents, while Western, Southwestern and many pandemic boomtown markets are struggling to regain (or gain) traction after the seasonal slowdown last winter. As of May, asking rents had already risen over 4% this year in Portland, Maine, Worcester–Springfield, Midland–Odessa, Madison and Mobile. During the same time period, rents have fallen more than 1% in Orange County, North Dallas, Salt Lake City, Phoenix and Urban Atlanta.

There is still plenty of time for markets that are struggling to turn around and eke out positive growth by the end of the year, but there are a few countervailing forces to watch out for. On the positive side, the jobs market is still strong despite slowing down; wage growth, especially at the bottom end of the spectrum, remains very strong; core inflation has continued to fall; a tight single-family market will keep bolstering demand for multifamily; and perhaps most important, higher-than-expected GDP growth has increased the chance of the Federal Reserve taming inflation without causing a recession. On the negative side, however, consumer sentiment is down despite surprisingly positive economic reports; excess consumer savings accumulated during the pandemic are almost completely exhausted, which will likely put a drag on the leisure and hospitality sectors; and the restart of student loan payments towards the end of the year, combined with the Supreme Court's rejection of student loan forgiveness, will leave a significant number of renters in a worse financial situation than they were expecting, reducing both their willingness and ability to pay higher rents.

Our forecast update this month has lowered our expectations for many larger markets in the West and Southwest. The stalled-out return-to-office movement is putting a significant drag on Western markets with large numbers of knowledge-based workers, and economic uncertainty—especially in tech—will continue to limit demand in those markets that have largely been driven by high-paying tech jobs. Conversely, we have raised our expectations for many midsize markets throughout the Midwest, Northeast and parts of the South. As affordability continues to be a concern across the country and economic uncertainty prevails, these smaller markets will continue to be more attractive, as they can provide many of the same benefits and amenities their larger siblings do at significantly lower price points. Furthermore, federal investments in manufacturing and infrastructure will bring many of these areas good jobs and better economic prospects moving forward.

—Andrew Semmes, Senior Research Analyst