Yardi Matrix

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Multifamily Rent Forecast Update

Average asking rents in August rose 12 basis points month-over-month, in line with expectations and continuing the deceleration that began in July. Fifty-one of 136 markets saw MoM declines in August, compared to 41 in July and 14 in June, so while a significant majority of markets are still experiencing monthly increases in asking rents, more are cresting with each successive month. Furthermore, rent decreases that were primarily concentrated in Western and Sun Belt markets with exceptionally strong pandemic growth have now spread more broadly throughout the South and into the Ohio River Valley and the Rust Belt.

As of August, 16 markets have asking rents that are lower than they were at the beginning of the year, and of those 16, only nine—Austin, Boise, Orlando, Phoenix, Portland, San Antonio, the Southwest Florida Coast, and both Urban and Suburban Atlanta—had MoM declines in August. Of the remaining seven markets that currently have negative year-to-date rent growth, three of them—the East Bay Area, Metro Los Angeles and Wilmington—experienced MoM increases of greater than 50 basis points in August, with Metro Los Angeles and Wilmington both increasing roughly a full percentage point from the previous month.

Although we are seeing slowing growth on a nationwide basis and monthly increases in the number of markets that experience month-over-month declines in asking rents, there is still no indication of a broad contagion of falling rents or any impending nosedive of significance. The majority of markets that have negative year-to-date rent growth are experiencing a glut of new supply that will take some time to get absorbed, but that is not an indication of weakness—those markets are merely catching up in their efforts to meet the unexpected surge in demand brought during the pandemic, and operators are competing with each other to fill new units by trying to offer comparatively more attractive prices.

Our economic view has not materially changed. We still expect a minor recession early next year as the brunt of the Federal Reserve's rate increases begin to be felt more acutely by the average consumer. The resumption of student loan payments will financially stress some consumers and negatively affect overall consumer spending, which has been surprisingly resilient throughout the Fed's campaign of rate increases but cannot continue indefinitely. Depleted consumer savings, increased childcare costs and higher borrowing costs will also weigh on consumer spending, which will in turn reduce demand for goods and services across the board and depress hiring, ending in a recession. Notably, recent payroll data from ADP shows that hiring in September was significantly lower than expectations, providing evidence to counter the narrative of a Goldilocks scenario where the Fed manages to successfully cool inflation without triggering a recession.

Our forecast has been updated to reflect increasing confidence in a minor recession next year and lower growth in many Southern markets for the remainder of this year. A handful of the high-supply markets will likely end up with negative growth by year's end (e.g. Austin, Boise and the Southwest Florida Coast), but more difficult financing and a slower construction environment will likely delay future expected deliveries, limiting the severity of rent decreases, as demand is expected to stay strong across all the markets experiencing a large influx of supply. Our national forecast for the end of this year has fallen to 2.9% from 3.2%, and for next year to 2.8% from 3.5%. We expect relatively strong growth resuming on the other side of the recession, with average increases in asking rents between 3.5% and 4% for a few years beginning in 2025.

—Andrew Semmes, Senior Research Analyst