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Special Report: Multifamily Rent Forecast Update

Multifamily asking rents saw marginally positive growth of 0.07% in January, breaking a five-month streak of sequential average declines. As expected, Renter-by-Necessity properties performed better than Lifestyle properties, with RBN units averaging 0.08% in month-over-month increases while Lifestyle units averaged 0.04% growth. Among the 61 markets that saw declines in January, the average drop was -0.37% and the median was -0.31%. Of the 71 markets that saw increases in January, the average was 0.49% and the median was 0.38%. Ten markets were flat, with no change in average asking rents.

Geographical patterns that we have been following and anticipating have mostly continued, with the largest increases generally happening in midsize cities in the Northeast and South. Of the seven markets that experienced a greater than 1% increase in asking rents in January, five—White Plains, Buffalo, Birmingham, Worcester-Springfield and Columbus, Ga.—are midsize cities in the Northeast or South. The largest decreases in asking rents continue to be mostly concentrated in Western markets and Florida, with San Diego, Orange County, North Central Florida and Jacksonville all among the five worst-performing markets in January.

We begin to see some bifurcation in those geographical distributions if we break it down further and look at Lifestyle and Renter-by-Necessity units separately. The best performance in Lifestyle asking rents was concentrated in midsize cities in the South and Midwest, with midsize Northeastern cities conspicuously absent from the group. Of the 14 markets that saw a greater than 1% increase in MoM asking rents among Lifestyle properties, 10 of them—El Paso, Birmingham, Corpus Christi, Cleveland-Akron, Columbus in Georgia, Columbus in Ohio, Madison, Dayton, Pittsburgh and Lubbock—are midsize cities in the South or Midwest. The remaining four cities that had more than 1% growth in Lifestyle rents were Honolulu, the Inland Empire, Miami and the Central Coast—geographically some of the farthest markets from the Northeast.

However, when we concentrate solely on Renter-by-Necessity units, the geography flips back, with the strongest performers concentrated in midsize cities in the South and Northeast, and no Midwestern markets realizing a greater-than-1% increase in asking rents. Of the 11 markets that saw MoM growth of over 1%, seven—Worcester-Springfield, White Plains, Macon, Buffalo, Memphis, Louisville and Columbus, Ga.—are midsize cities in the South or Northeast, and the remaining four—Honolulu, Las Vegas, Spokane and the Central Coast—are all in the West.

Some of this bifurcation is likely just a reaction to how different property classes in these areas have performed in recent history. Over the past 12 months, RBN rents in the Midwest grew at roughly three times the rate of Lifestyle rents, and in the Northeast RBN rents grew at roughly twice the rate of Lifestyle rents. It would stand to reason that Lifestyle rents are simply a better value in Midwestern markets, purely because they haven't risen as much over the past year compared to RBN, or it could be the relative strength of the job markets in the Midwest, though it could just be statistical noise driving the split, but we'll need a few more months of data to determine whether it's a trend that holds.

Regardless, overall performance in asking rents in January was remarkably strong for a month that is generally very weak and often negative, and we expect the trend of RBN rents performing better than Lifestyle rents to continue throughout the year. We still expect a mild recession in the near term, although impressive jobs reports and improving consumer confidence have pushed that expectation out slightly, and we're now expecting to see an economic slowdown at the end of this year or the beginning of next year rather than beginning in either Q2 or Q3 of this year. Overall, our national forecast for 2024 has increased from 0.8% to 1.8%, but we still expect a large influx of supply to dampen rent growth in many of the larger Sun Belt markets.

—Andrew Semmes, Senior Research Analyst