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Special Report: Multifamily Rent Forecast Update

- Rents continue to climb at an unprecedented pace, with increases largely driven by higher-end buildings.
- A strengthening jobs market plus upward pressure on lower-end wages should support longer-term broad growth.
- Expect volatility in the short run as markets try to reach equilibrium.

The rapid growth in multifamily rents continues unabated, with increases from May to June averaging 1.56%, nearly doubling the record average month-over-month increase of 0.88% recorded from April to June 2021¹. With the exception of Queens, every market tracked by Yardi Matrix saw an increase in rents during this period. The largest gains were concentrated in the non-coastal West and South, with Boise, Colorado Springs, the Tri-Cities, and Wilmington all seeing greater than 3.5% increases for the month. And many of our top 30 markets also had exceptionally large month-over-month rent increases: Phoenix, Tampa, Raleigh, Orlando, Atlanta, Denver, and Austin all realized gains of over 2%.

Rent increases have broadly accelerated more quickly than anticipated, and as such our forecasts have largely been adjusted upwards during the short term. Record breaking rent increases will be the norm across metros by the end of the year, but our longer-term outlook remains largely unchanged. In short, market fundamentals are good, and the strengthening jobs market should support continued longer term rent growth.

The primary drivers of the extreme rent increases we are seeing right now are Discretionary and Upper Mid-Range buildings. For the May–June period, both Discretionary and Upper Mid-Range units increased by an average of 1.9%—more than double the increase seen in Workforce housing (0.8 – 0.9%). Since the beginning of the year those upper-tiered buildings have seen an average rent increase of over 7%, while the lower tiers have seen an increase of just over 3%.

Rapid growth at the top also comes with the cost of higher volatility. In general, class A/B+ buildings took the biggest hit in rents during the pandemic when many of their occupants who had the ability to leave left

¹ Average of market-level survey data, unweighted

for housing that better fit their immediate needs—whether that was more space, less interaction with neighbors, or further distance from an office they no longer had to frequent. Now that the demand is returning for those units, it will take time to reach an equilibrium as building operators aggressively push rents and potential tenants shop around to find a unit that fits their needs at a price they are comfortable with.

While buildings at the top should experience volatile but strong rent growth in the short term, workforce housing is expected to continue to perform

well with less noise. Upward pressure on lower-end wages should provide strong support for continued rent increases for workforce housing in general across markets.

Finally, the Delta variant unfortunately has the potential to upend individual markets, but with full FDA approval of vaccines expected as early as next month, we should see higher vaccination rates and lower risk of another large negative shock.

—Andrew Semmes, Senior Research Analyst

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