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National Multifamily Report

March 2023



Multifamily Rents Advance as Economic Doubts Swirl

- With demand remaining firm, multifamily rents rose slightly in March. The average U.S. asking rent rose \$3 in March to \$1,706. Year-over-year growth fell to 4.0% nationally, 90 basis points less than February and the lowest level since rents started an unprecedented climb in April 2021.
- Although financial markets remain volatile due to the collapse of several banks, multifamily property fundamentals are stable. Rents and the national occupancy rate were unchanged during the first quarter of 2023, and 21 of the top 30 Matrix metros recorded rent gains in March.
- Single-family rental rates increased in March by \$5 to \$2,079, while the year-over-year increase fell by 80 basis points to 2.8%. Occupancy rates decreased in February by 10 basis points, but remain strong at 95.5%.

The first quarter produced no gains for multifamily rents for the first time in a decade, but the results come as somewhat of a relief. Multifamily demand held up well despite the attention given to the Federal Reserve-induced economic slowdown, bank failures and the deceleration from the outsize rent gains of the last two years. Rents and occupancy are stable as the market heads into the growth season.

With affordability a growing concern and consumers constrained by high inflation, it is likely that rent growth in 2023 will be modest. Yet a multifamily hard landing is not yet in the cards, since household formation is still boosted by the tight job market, high single-family home prices and mortgage rates are keeping homeownership out of reach for some renters, and consumer balance sheets remain strong (for now). The big question continues to be how the economy will react to sharp interest rate increases.

The Federal Reserve has three choices, according to Mohamed El-Erian, chief economic advisor at Allianz and former chief executive at PIMCO: to slam the brakes on the economy and cause a sharp recession, to change the inflation target to a number above 2% (which he noted is an arbitrary target), or to ease up on rate increases and promise inflation will return to 2% while waiting to see if the economy stabilizes at 3-4% inflation.

El-Erian, speaking at the recent Pension Real Estate Association spring conference, urged policymakers to pass intelligent infrastructure spending, pro-growth reform of the Tax Code, policies such as funding childcare to increase the workforce, and more public-private partnerships. Despite challenges, he said that the strength of the U.S. economy and labor market is significant, and he predicted getting through the current crisis with minimal damage. "It will be a bumpy ride, but we will end up in a better place," he said.

National Average Rents

