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Special Report: Multifamily Rent Forecast Update

Average asking rents fell month-over-month in November for the first time since May 2020, when pandemic-related lockdowns were in full swing and the unemployment rate had spiked to a staggering 14.7%. In the two-and-a-half years since then, asking rents have climbed an average of 21.7%—the fastest growth on record—fueled primarily by demand for more space to accommodate working from home and an accelerated rate of household formation beginning towards the end of 2020. We now find ourselves at a juncture where more companies are pushing for at least a partial return to office, layoffs are broadly hitting the tech sector, interest rates have been hiked dramatically, the single-family housing market is paralyzed, and yet the job market continues to beat consensus expectations almost every month. Household formation is intrinsically tied to job creation, so a robust job market fuels demand for housing, and conversely, a weaker job market depresses housing demand.

Monetary policy is a blunt instrument and tends to work with a 12- to 18-month lag. While the Fed has been extremely aggressive (and late) in raising the federal funds rate to combat inflation, we still have not felt the brunt of policy changes. Rising interest rates will, eventually, take their toll on the job market, and rather than adding more jobs than economists expected every month, there will almost certainly be job destruction and the requisite pothole in household formation, leading to a nonseasonal decrease in average asking rents. However, we are not quite at the point where we expect to see nonseasonal broad-based rent declines. Rents did fall month-over-month in November, and likely will again in December, but that is not unusual; month-over-month asking rents also fell in November 2011, 2016 and 2019, and the magnitude of the decrease this year (two-tenths of a percent) is also not out of the ordinary.

Our view is that we are likely to start seeing job destruction and experience a recession beginning in the third or fourth quarter of next year, but that it will not be particularly deep or lengthy. At that point we will likely start to see broad declines or stagnation in average asking rents, but not enough to offset the gains that we expect in the first half of 2023. Similarly, we expect to see some continued declines or stagnation into the beginning of 2024, but the economy will rebound fairly quick-