



U.S. Multifamily Outlook

Winter 2023

Economy's Fate Tied to Rate Hikes

Rent Growth to Slow in 2023

Cost of Capital Roils Deal Flow



Market Analysis

Winter 2023

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Multifamily Outlook Hopeful Amid Volatile Economy

- After two exceptional years of performance, multifamily rent growth began moderating in the fall, a trend that will carry into 2023 as housing demand and economic growth weaken. The U.S. economy enters the year in good shape in respect to many measures, but all eyes are on interest rates and how quickly inflation recedes. Economic growth will likely wane in the second half as the impact of rapid rate hikes takes effect.
- Multifamily rent growth will be closer to its historical average in 2023. Nationally rents increased by 6.4% in 2022 after year-over-year growth peaked near 16% earlier in the year, per Yardi Matrix. This year we foresee rent growth dropping in half to 3.1% as demand lessens and deliveries remain high. Factors that drive demand include less migration, fewer new households and declining affordability.
- The robust pipeline of projects under construction will ensure a sizeable number of deliveries. Our forecast calls for 440,000 new deliveries this year, an increase in stock of 2.9%. Deliveries will be concentrated in fast-growing markets, including Dallas, Austin, Miami, Houston and Phoenix. However, starts will ebb due to rising construction costs, the shortage of construction workers and delays in the entitlement process.
- Transactions and pricing will significantly subside due to the increase in mortgage rates and projections of slower rent growth. Pricing uncertainty amid the rising cost of capital has created a gap between buyers and sellers, with investors cautious although multifamily remains in demand relative to many other property types and products. We expect property sales will be slow at the beginning of the year. When and how much sales recover will depend on the economy and mortgage rates.
- Debt availability will be constrained in 2023, with lenders acting with a significant amount of restraint. Lenders will focus on lower leverage, with an emphasis on debt service coverage. Fannie Mae and Freddie Mac remain active, in line with their mandate to provide liquidity to the market, but they have had their allocations reduced. Banks, life companies, securitization programs and private equity funds all have constraints that will limit activity relative to recent years.