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It's the Occupancy: Why Multifamily Rents Are Decelerating

U.S. multifamily rents have decelerated sharply over the last 18-24 months, across all metros and regions. Year-over-year rent growth rose as high as 5.5 percent in January 2016, before steadily and gradually dropping to 2.3 percent in December 2017. The downward trend has multiple causes—including diminishing affordability, increasing supply and slightly weaker job growth—that are present to one degree or another in each metro. However, the main driver of the deceleration appears to be the extent to which supply growth has put downward pressure on occupancy rates in individual metros.

To understand the decline in rent growth by metro between year-end 2016 and 2017, we analyzed multiple factors, including changes in employment and the overall increase in supply. By far the metric that tracked most closely with the change in rents was the occupancy rate. There is a connection between the amount of new stock coming online and changes in occupancy, but metros with high demand are better able to absorb new units.

The link is strongest over the short term. We also examined three- and five-year periods, but the correlations grow weaker past one year. That demonstrates that supply growth is a bigger issue for rents in the short term, while over the long term, total demand is a more important factor. Developers