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Special Report: Multifamily Rent Forecast Update

A few months of hot jobs reports combined with falling GDP growth and a stall in inflation reduction has led to fears that we could be headed towards a period of stagflation not unlike the 1970s. However, the April BLS jobs report came in significantly lower than expected, helping to allay some of those fears. While we still need to be humble about the overall economic trajectory and the path the Federal Reserve takes, we believe we are probably still on track for a rate reduction by the end of the year. There is now less reason to believe that Powell might hike rates again before lowering them, but he clearly has no intention of lowering rates until inflation is back in the 2-3% target range.

Outside of the booming healthcare sector, skilled and unskilled manual labor are the bright spots in the economy, with plenty of jobs available and rising wages. Conversely, knowledge-based workers are having a harder time finding jobs and getting pay raises—a reversal from the trend over the pandemic, when there was talk of a “K-shaped” recovery. Some of this is likely the economy naturally reordering or rightsizing itself, and some of it is likely from targeted economic stimulus via the CHIPS and Inflation Reduction acts. However, we have no reason to expect this trend not to continue for the short and medium term.

Just like the split observed in the overall economy, multifamily is also a tale of two cities (or of the 134 cities that we forecast). Markets that saw explosive growth over the pandemic and that are now experiencing a large influx of supply are generally seeing stagnant or falling rents. Nine of 20 markets that have had rents fall since the beginning of the year are in Florida or Texas, and other pandemic high-growth markets like Atlanta, Raleigh–Durham, Austin and Salt Lake City also have average asking rents that are lower today than they were at the beginning of the year.

On the other hand, many secondary markets in the Midwest, Northeast and South are still seeing strong growth in asking rents. Albany; Milwaukee; Worcester–Springfield; Louisville; Cincinnati; Des Moines; Richmond; Madison; Portland, Maine; Lafayette, Ohio; Youngstown; Providence; Northern Virginia; and Scranton–Wilkes–Barre have all had over 2% growth so far this year. The only market with such growth that is not a secondary market in the Midwest, Northeast or South is Honolulu—which is a serious positive outlier at 5.7% growth YTD.

Our overall outlook for the year is little changed. We still expect markets with lots of supply to continue to struggle to realize gains this year, but that is only a supply issue, and once those new units get absorbed all of those markets will be back in good shape. As we now expect the Fed to keep rates higher for a bit longer, we also anticipate that a minor downturn/recession in the economy will occur a little later and perhaps last a little longer, as Powell has made clear that he wants to be sure they have successfully killed inflation. That downturn is coming, though, as cracks in the economy continue to widen—higher credit card balances, higher credit card and auto delinquencies, and more wide-

spread use of short-term financing paint a picture of a struggling cohort of consumers, and more expensive debt servicing costs will continue to make things difficult for those that are already feeling financially squeezed. Rental growth next year will be stronger than this year, and growth in 2026 will likely be a bit stronger still, as it will take some time both for the Fed's eventual rate cuts to meaningfully impact consumer demand and for the current influx of supply to be fully absorbed.

—Andrew Semmes, Senior Research Analyst

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