

Is Rent Growth as Part of Inflation Hitting the Brakes or Speeding up?

The answer depends on which metro you measure.

By Erik Sherman

Apartment rent and the homeowner's rent equivalent are always a major source of influence on inflation. Such shelter costs make up about a third of the Consumer Price Index — the price changes in the basket of goods that the Bureau of Labor Statistics (BLS) measures in many places across the country. In January, shelter was nationally up 8.6%.

A recent Trepp blog post noted that “shelter prices ... accounted for nearly half of the monthly all items increase” in the CPI in January. That is a heavy burden and ironic, given how high inflation drives the Federal Reserve to raise the benchmark federal funds rate, pushing up short-term financing everywhere, rebounding on CRE.

However, with the growth of inflation and then the watch over its decline, rent has become a big economic and political topic because of public impact. Moody's Analytics noted in January that the US national average rent-to-income has reached 30% for the first time in more than 20 years the firm has tracked it. That's the definition of being rent-burdened. (Those who are old enough might remember when it was 25%, not 30%, that people were told was the number to budget for rent.)

Average numbers don't provide a full picture, especially where rents are concerned, as the BLS collects those prices on a separate schedule from other goods and services because of yearly leases. In periods of change, it takes time for shelter to get more or less in step with other aspects of inflation.

Trepp did some comparisons of rent increases among metros, looking at both year-over-year growth and then annualized three-month changes for 21 metros the BLS includes in its housing surveys. In 14 of them, the three-month annualized figures were higher than the year-over-year, ranging 0.6 percentage points in Chicago-Naperville-Elgin, IL-IN-WI to the high of 7.4 percentage points in Houston-The Woodlands-Sugar Land, TX.

In the remaining seven metros, changes in reduced shelter costs spanned the 0.1 percentage points in Atlanta-Sandy Springs-Roswell, GA to a drop of 6.7 percentage points in Phoenix-Mesa-Scottsdale, AZ.

On the side of three-month reduction, there is a pattern. “The MSAs that have lagged in terms of rent growth over the past six months, are the same MSAs that have annualized rent growth that is higher than the year-over-year growth rate,” Trepp wrote. “In a recent Trepp report highlighting October 2022 CPI data, Trepp's findings showed that the Sun Belt MSAs such as Phoenix, Miami, and Tampa saw the highest rent CPI numbers, but these MSAs saw decelerating inflation in the most recent CPI data. Similarly, the more northern MSAs, such as St. Louis and New York, that saw

lower growth in Trepp's previous CPI report exhibited accelerated inflation in recent months."

There may be various factors involved in the patterns, the firm noted.