Multifamily's Rent Growth Slowdown Shows Signs of Leveling Off

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By Barbara Ballinger

Rent growth declined to below 1% last month, only the second time since the 2010 Great Recession. And it could head down further in the next few months, according to a post by RealPage Chief Economist Jay Parsons. But he expects the rent growth slowdown to level off relatively soon. He explains:

On a month-over-month basis, asking rents have actually risen in every month this year so far, Parsons writes, noting that the year-over-year rent change is cooling quickly because 2023's increases are so far below 2022's. "So we're replacing big numbers with smaller numbers in the more closely watched year-over-year calculation." For example, year-over-year rent growth hit 0.78%, the lowest figure since July 2010. A year ago in July 2022, the rent growth had been a much higher 12.25%.

"That math starts to change going forward, as rents dropped much more than seasonal norms between September 2022 to December 2022, Parsons writes. "That suggests, in turn, the year-over-year change numbers should drop off again in August and maybe September before leveling off (to some degree)."

Meanwhile, occupancy rates have held stable in 2023 so far, after plunging from record highs to more normal rates in 2022, Parsons writes. Demand keeps improving this year as consumer confidence rebounds from 2022 lows. As of July, national market rate apartment occupancy averaged 94.6%.

Also, the pace of occupancy loss has slowed. Occupancy rates remain above long-term norms across much of the Midwest and Northeast. Across much of the West and South, occupancy has dropped below long-term norms. As one example, it has fallen about 1.5 percentage points or more below local long-term averages in Salt Lake City, Portland, Oakland and Austin and in Minneapolis/St. Paul.

None of this is to say that rental markets are posting the type of growth that has kept the apartment market buoyant for the past few years – growth that many multifamily developers factored into their pro forma calculations.

YoY rent growth moved above 2% in only 15 of the country's 50 largest markets, Parsons reports. All but three were in the Midwest and Northeast with those three exceptions in Virginia Beach, Va., San Diego and Miami. But they, too, are cooling, especially Miami.

In fact, the West Coast is cooling faster than the Sun Belt, and almost two-thirds of its markets or

63% saw YoY cuts last month, versus 32% of markets experiencing that in the South, 3% in the Midwest and 0% in the Northeast. Where Western markets are now negative as of July include Los Angeles, Seattle and San Jose. Sun Belt markets that also turned negative and had the highest supply included Austin, Charlotte and Nashville. And several markets cut rents a significant number such as Phoenix at -5%, Las Vegas at -4.5%, Austin at -3.9% and Jacksonville at -3.3%. These all showed demand, but it was short of supply.