Class-A Multifamily Rents Might Not Stabilize Until 2025, Analysis Finds

Rents at the priciest apartments across the country are likely to decline through next year before growing again in 2025, according to a new forecast from private real estate investor Origin Investments.

Apartment rents have flattened out nationally in recent months as a historic wave of new construction has hit the market. Origin, which uses a machine learning tool to predict future rents, expects rents to shrink year-over-year through July, according to its Multilytics rent forecast.

Some reports say rent growth has already turned negative year-over-year, and more supply is on the way. While interest rate increases have slowed new development nationally, approximately 400,000 new multifamily units are expected to be delivered by the end of 2023, with another million in the construction pipeline, according to Origin.

Origin's model predicted a year ago that Class-A multifamily rent growth would start to turn negative because of that supply.

Even with those deliveries, the U.S. will likely still be undersupplied when it comes to housing units. Developers will need to build 4.3 million units by 2035 to keep up with demand, according to the National Multifamily Housing Council.

That continued pressure will lead rent growth to return to between 2% and 3% nationally in January 2025, Origin Investments' model predicts. That change will see rents arriving back at a normalized growth rate, in contrast to the pandemic-triggered rent growth roller coaster.

But to do so, multifamily owners must first contend with “unquantifiable” risks from economic conditions in 2024, the company warned. Macroeconomic conditions including unemployment increases, lower wage growth trends and new supply coming online threaten rent growth and could spur more foreclosures, Origin Investments warned.

“The return to normalization has been expected because the rent growth levels of 2021 and 2022 were unsustainable,” Origin Investments co-CEO David Scherer said in a statement. “We are now paying for the distortions of the past.”

Affordability could also undercut demand and growth. Nationally, renters in the U.S. spent almost 32% of their monthly income on rent — a full 5 percentage points higher than in 2010 and the highest level on record since the 1970s.

Still, rent growth is likely to continue in some of the most popular multifamily investment markets during 2024. Phoenix and Nashville will see growth of up to 5.9%, while Denver will hit 5%, Origin predicted, with Tampa reaching 4.5% and Atlanta seeing a 2.6% increase in rent growth during the year.

“The fact that many markets are returning to positive year-over-year growth is somewhat misleading,” Origin Investments data scientist Ryan Brown said. “While a given market may achieve 3% to 4% growth, you also have to consider the negative growth in 2023. As a result, the return of positive growth may only get you back to the peaks achieved in 2021 and 2022. It will take longer to move beyond that peak.”

The Class-A multifamily market presents a complex landscape for Evergreen Capital, demanding a strategic and flexible approach:

- Embrace regional diversification: Prioritize Sunbelt and high-growth markets like Phoenix, Nashville, Denver, and Tampa while cautiously navigating potential oversupply in saturated areas.

- Focus on operational efficiency: Optimize existing assets in both Class-A and other segments to navigate potential rent declines in 2024 and maximize returns.

- Be opportunistic, but cautious: Consider value-add investments in underperforming assets with repositioning potential, particularly in markets facing temporary supply pressure.

- Maintain financial flexibility: Prepare for potential economic headwinds in 2024 and adjust strategies swiftly if affordability challenges or foreclosures impact market dynamics.

- Monitor market trends closely: Track rent growth, construction forecasts, and macroeconomic indicators to proactively adapt investment strategies and capitalize on future opportunities.

By navigating the near-term uncertainty with data-driven decisions, regional diversification, and operational efficiency, Evergreen Capital can position itself for a return to growth in 2025 and beyond while mitigating risks in the current volatile market. Remember, agility and a keen eye on market shifts will be key to unlocking long-term value in this evolving landscape.

Multilytics Forecasts Positive Rebound in Annual Class A Rent Growth by January 2025

Optimism is tempered by current economic conditions and uncertainties.

A new report from Multilytics, Origin Investments’ proprietary suite of machine learning models, forecasts that year-over-year national Class A apartment rent growth will return to positive territory by January 2025, ranging from 2% to 3% in keeping with historical averages.

The “Multilytics Rent Growth Forecast Report” also predicts that year-over-year rent growth will return slowly to normal by the start of 2025 in many of Origin’s target investment markets, with all of its markets returning to positive territory—from 1.78% in Jacksonville, Florida, to 5.9% in Phoenix.

However, Origin cautions that unquantifiable risks will remain in the market for the coming year, which could have broad implications for multifamily properties. Rent growth in 2024 faces potential threats because of the uncertain economic environment. One potential scenario—an increase in unemployment and lower wage growth trends with the continued level of new supply being delivered—would have a negative impact on rent growth. As vacancy rates increase with lower demand, price adjustments and concessions follow, noted Origin.

“The return to normalization has been expected because the rent growth levels of 2021 and 2022 were unsustainable. We are now paying for the distortions of the past,” said co-CEO David Scherer. “It leads us to tempered optimism in the near term given the number of other unquantifiable risks that loom over the marketplace.”

According to the report, which includes forecasts from January 2024 to January 2025, year-over-year growth in the 2% to 3% range means Class A multifamily rents will regain the lost ground from this year.

“The fact that many markets are turning to positive year-over-year growth is somewhat misleading,” added Ryan Brown, Origin Investments’ data scientist. “While a given market may achieve 3% to 4% growth, you also have to consider the negative growth in 2023. As a result, the return of positive growth may only get you back to the peaks achieved in 2021 and 2022. It will take longer to move beyond that peak.”

The report predicts that regional year-over-year rent growth for Class A will be the highest in the West at 2.9% and lowest in the Southeast at 0.1%, with the Midwest, at 2.6%; Southwest, at 2.2%; and Northeast, at 1.28%, falling in between. For gateway markets, year-over-year rent growth is forecast to increase by 2.5%.

In the 15 markets where Origin's real estate funds own and are developing multifamily communities, it projects above-average rent growth for Phoenix, 5.9%; Denver, 5.09%; and Colorado Springs, Colorado, 5.1%. While the Southeast is expected to only achieve nominal increases, several of Origin's markets are predicted to see more significant growth, including Nashville, Tennessee, 5.88%; Tampa, Florida, 4.5%; Orlando, Florida, 3.71%; Charlotte, North Carolina, 2.69%; and Atlanta, 2.6%.

Evergreen Capital Insights

While Multilytics predicts a Class A rent rebound by 2025, Evergreen Capital should approach this outlook with cautious optimism. Highlighted uncertainties in the economic landscape raise potential headwinds for rent growth in 2024. Consider these strategies:

- Prioritize resilient markets: Focus on Sunbelt and high-growth markets like Phoenix and Nashville, where economic fundamentals and job growth suggest a higher likelihood of achieving projected rent increases.

- Maintain operational excellence: Optimize existing assets to maximize profitability and weather potential rent fluctuations in uncertain economic times.

- Be opportunistic, but selective: Consider value-add investments in underperforming assets with repositioning potential in markets facing temporary supply pressure.

- Build financial buffers: Prepare for potential economic turbulence by maintaining reserves and flexible financing options to navigate through any unexpected downturn.

- Monitor macroeconomic indicators closely: Track unemployment, wage growth, and construction activity to adjust strategies promptly and mitigate risks if the economic environment deteriorates significantly.

By prioritizing financial prudence, geographical selectivity, and operational strength, Evergreen Capital can capitalize on the potential Class A rebound while navigating the near-term uncertainties with resilience and adaptability. Remember, a data-driven approach and close monitoring of economic indicators will be key to unlocking long-term value in this evolving market.

Apartments.com Celebrates Charitable Work in the Multifamily Industry

As part of its fourth annual ThanksGifting campaign, the company is donating to four nonprofits in the U.S. and Canada.

Apartments.com is giving back to the multifamily housing industry through its annual ThanksGifting campaign. Now in its fourth year, the annual campaign has expanded to Canada and is providing $10,000 in donations to four nonprofits that are battling homelessness, alleviating food insecurity, and delivering relief to victims of natural disasters.

The nonprofits include:

Entryway, formerly known as Shelters to Shutters: This organization, based in Vienna, Virginia, helps to combat homelessness by offering at-risk individuals and households a path to economic self-sufficiency through multifamily housing and careers. The nonprofit provides career training, full-time employment, and housing opportunities in partnership with the real estate industry. In March, the program reached over 500 individuals who moved out of homelessness through employment and housing opportunities;

Move For Hunger: This nonprofit, based in Neptune, New Jersey, provides apartment residents with the opportunity to donate their unopened food products when they move. A team picks up and delivers items to local food pantries, having delivered 37 million pounds of food across North America since the organization's launch in 2009. According to the organization, 2022 was its most impactful year yet, with over 2,000 participating multifamily communities, over 1,150 moving companies making food recovery part of their operations, over 1.8 million pounds of food stored and transported to food banks, and over 4.5 million meals provided to those in need;

Hatching Hope: Co-founded in 2016 by Keli Lynch-Wright and her son, Ashton, after experiencing the loss of their family home to a fire in 2010, this Alabaster, Alabama-based nonprofit provides immediate and long-term recovery essentials to victims of disasters. Since its launch, it has provided aid to over 500,000 families across the southern United States. According to Apartments.com, Hatching Hope is putting the $10,000 donation toward a new disaster response vehicle to deliver essential supplies.

Food Banks Canada: The national charitable organization is focused on relieving and preventing hunger, supporting an extensive network across every province and territory in Canada. According to Food Banks Canada, there were over 1.9 million visits to food banks in Canada in March 2023, far surpassing last year's usage, which was a record at the time.

"These organizations are vital to the multifamily industry," says Marcia Bollinger, senior vice president of multifamily for Apartments.com. "We're proud to play a role in helping them support our clients' current and future residents and employees."

Check out the Apartments.com blog to learn more about the recipients of this year's ThanksGifting campaign.