Multifamily Market Update: 'Down but Not Out' after Q1

Early 2022 was a bumper season for multifamily real estate. Toward the second half of the year, however, we started seeing some slowdown and the first indications that early 2023 would be a trickier time for the sector.

As the first figures from 2023 flow in, we're starting to get a sense of exactly what that downturn might look like. The good news is that, while the situation's still set to be challenging, there's room for recovery later in the year.

Market Recap

In a previous article, NAI Realvest reported on data from the Federal Home Loan Mortgage Corporation ("Freddie Mac"), showing that some of the top-performing multifamily markets had taken a sharp dive in rent growth in 2022.

Freddie Mac also noted at the time that they expected multifamily fundamentals to "decelerate through the first few months of 2023," but also that they anticipated an uptick later in 2023.

Q1 Results

According to a recently released Apartments.com report for Q1, it seems the first part of that prediction was right on the money.

Jay Lybik, National Director of Multifamily Analytics at CoStar Group (Apartments.com's parent company) notes: "While we kicked off 2023 with positive monthly rent growth in January and February, we've still witnessed signs of weakness across the multifamily sector." Lybik adds, however, that the "deterioration of multifamily fundamentals appears to be slowing."

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Signs of resilience in the market over Q1 include the fact that there was positive absorption over the quarter (43,000 units) and the vacancy rate saw the "smallest increase since the second quarter of 2022."

Growth Constraints

That said, most markets did experience subdued rent growth with only two - Baltimore and Boston - showing no decline for the quarter.

Adding to potential headwinds is the fact that new inventory is about to hit the market in a big way. Apartments.com points out that around 1 million units are currently under construction, a fact that's sure to place "upward pressure on vacancy rates and downward pressure on rents."

Next 90 Days "Critical"

A key conclusion from the report is that the next 90 days—the critical spring leasing period—will set the tone for multifamily for the rest of the year.

As GlobeSt notes in its coverage of the report: "The hope is that absorption can match deliveries by the end of the second quarter to help stabilize this sector. Yet, there's no guarantee since risks are prevalent, including a potential weakening in the labor market and tighter financial conditions."

If conditions do stabilize, however, the market may be poised to fulfil the second part of Freddie Mac's prediction, with a stronger performance in the later portion of the year.

For now, CRE professionals should keep a sharp eye on the trends as they unfold through Q2.