

## Multifamily Rent Growth Derailing Fed's Plans To Drop Interest Rates

By Maddy McCarty

Continued apartment rent growth is helping deter the Federal Reserve from cutting interest rates, driving up inflation at a time when the Fed is seeking signs of a cooldown.

Shelter inflation, the government's measure of home and apartment rents, rose 5.7% in March from a year prior, The Wall Street Journal reported. This is notably higher than the average shelter inflation rate of about 3.3% from 2015 to 2019 and was a large driver of March consumer price index results that will likely delay an interest rate cut.

The consumer price index rose to 3.5% in March as apartment demand jumped significantly in the first three months of 2024. Absorption more than doubled from the last quarter of 2023 to the first quarter of 2024, RealPage Market Analytics found.

While it is typical for absorption to jump from Q4 to Q1, the difference this year was starker than usual. Just over 49,000 units were absorbed in Q4 2023 while more than 103,800 units were absorbed in Q1, the report states.

Rent growth has dropped from the double-digit growth seen after pandemic-fueled pent-up demand was unleashed on the market. But it has not fallen to levels that will please the Fed, according to the WSJ.

"Housing inflation typically runs higher than general inflation," Thomas LaSalvia, economist at Moody's Analytics, told the outlet. "But it has to come down further than where it is right now."

Rent increases for renewals are rising more than rent increases for new leases, according to the WSJ. Renewal rates in January rose 4.6% compared to the same month a year prior, Yardi Matrix data shows. Meanwhile, asking rent increases are close to zero for the year, per the WSJ.

Increasing supply from numerous new apartments rising in the U.S. has curbed asking rent growth and could cool renewal increases.

As apartment absorption has increased, so have completion volumes, according to RealPage Market Analytics. Quarterly deliveries were above 100,000 for the first time in Q2 2023, and completion volumes have risen steadily since.

The first quarter of 2024 brought about 135,600 new units, the biggest quarterly volume in U.S. history.

Absorption fundamentals remain promising for the multifamily market, though. The first quarter has historically captured only an estimated 4% of the year's total demand volume, according to

RealPage.

“Given that demand in the early months of 2024 was well ahead of the decade average, we might be in for a banner year for absorption,” the RealPage report states.

Many economists believe shelter inflation's pace will decline through the end of the year, according to the WSJ. High vacancy rates and new supply will peak around spring or summer, the same time a large number of renters face a renewal decision. That could reduce landlords' power to increase rent prices, the outlet reported.