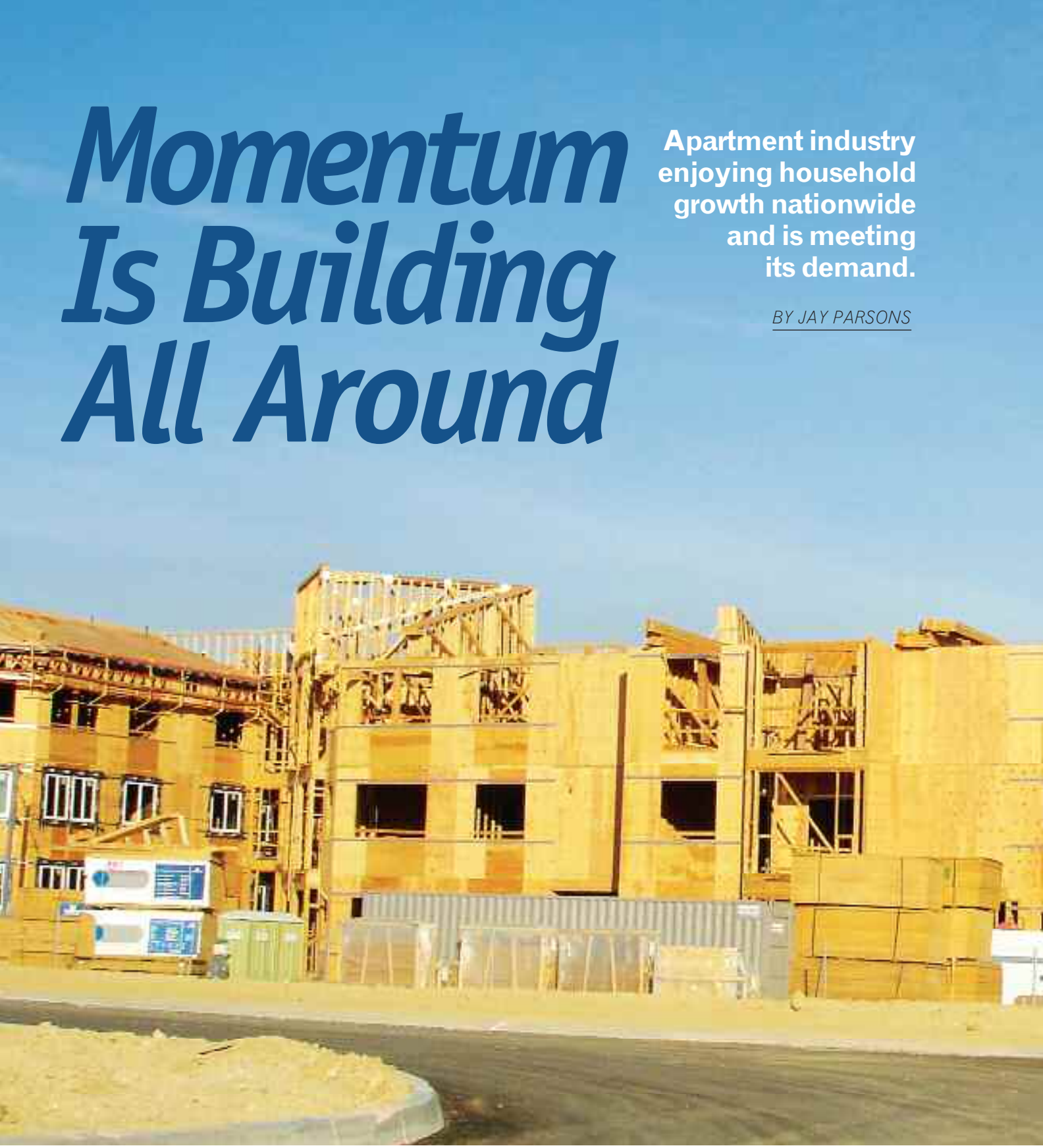
Momentum Is Building All Around

Apartment industry enjoying household growth nationwide and is meeting its demand.

BY JAY PARSONS



Big demand, tight occupancy and accelerating rent growth: data from MPF Research's Q2 2013 apartment market performance report includes positive news and trend lines for the multifamily housing industry.

Demand for 88,524 apartments registered across the country's 100 biggest markets in second quarter. That absorption tally, up 69 percent from the Q2 2012 volume, well surpassed the 33,291 apartments in communities finished during the April-June time frame.

"Some pent-up apartment demand from young adults who have been living at home with mom and dad or in other combined-household situations is being unleashed," according to MPF Research Vice President Greg Willett.

Annual Q2 Rent Growth Leaders

Rank	Metro	Percent
1	San Francisco	7.8%
2	Oakland	6.9%
3	Denver-Boulder	6.1%
4	Seattle-Tacoma	6.0%
5	San Jose	5.0%
6	Portland	4.4%
7	Houston	4.3%
8	Austin	4.1%
9	West Palm Beach	4.0%
10	Fort Worth	3.6%

Source: MPF Research, a division of RealPage Inc.

"The number of new apartment renters entering the market exceeds those exiting to make home purchases."

With demand running ahead of deliveries in the second quarter, the national apartment occupancy rate rose to 95.3 percent, up from 94.9 percent in Q1 2013 and 95.2 percent as of Q2 2012.

"While a slight uptick in occupancy during the second quarter is good news, the shifts recorded over the course of the past couple of years in large part reflect normal seasonality," Willett says. "The big-picture story is that the apartment market has been essentially full since the middle of 2011, and that it's continuing to remain full even as we add a significant number of new rental properties and cycle out some previous apartment residents to home purchase. We're adding enough new households for all types of housing to experience momentum at the same time."

Effective Rents Up for New Leases

Effective rents for new leases climbed 1.6 percent during second quarter, taking the annual pace of increase since mid-2012 to 3.1 percent. Annual rent growth now is accelerating again, after it had cooled a bit throughout 2012 and early 2013. The annual increase of 2.6 percent that was seen during Q1 2013 ranked as the weakest growth registered since late 2010. Typical monthly rent across the nation's 100 largest metros now is at $1,110.

"Rent growth strengthened right in line with the upturn in leasing activity, despite the fact that many owners and operators had been somewhat cautious in pushing prices substantially in late 2012 and the first few months of 2013," Willett says.

"The timing of that rent move, without the delay that sometimes has been seen in past market cycles, illustrates that more owners are making well-informed decisions when executing their strategies. From our perspective, increasing use of technologies that give owners and operators real-time insights into what's happening across their portfolios is starting to impact the timing of movement in apartment market fundamentals."

NYC Rent Growth Stalls a Bit

Among large individual metros, San Francisco ranks as the country's rent growth leader by a fairly large margin. Pricing there rose 7.8 percent during the past year, taking average monthly rent to $2,498. Annual rent growth came in at 6 percent to 6.9 percent in Oakland, Denver-Boulder and Seattle-Tacoma, and prices climbed 5 percent in San Jose.

Markets registering annual apartment rent growth of 4 percent or a little more were Portland, Houston, Austin and West Palm Beach. Fort Worth completed the top 10 list of the nation's biggest metros with the fastest rent growth: rates there jumped 3.6 percent.

Metros that just missed the cut-off point for the best-performers list included Chicago, Raleigh-Durham, Columbus and Miami.

New York, a market that tends to be a regular on the list of annual rent growth leaders on the metro level, was notably missing from the top-performing group as of the second quarter. New York, in fact, registered slight rent cuts during the year-ending second quarter, with pricing down 0.6 percent. Still, New York's average monthly rents are by far the highest in the country at $3,269, and its occupancy rate of 97.7 percent is the tightest anywhere.

"There doesn't appear to be any real underlying weakness in the New York apartment market," Willett says. "We're just getting a brief, minor correction in rent levels, after owners and operators got perhaps a little too aggressive when pushing prices throughout 2011 and the first half of 2012."

Construction Pace Relative to Demand

Properties totaling 296,669 units were under construction in the nation's 100 largest metros at the end of second quarter. Ongoing building now has slightly surpassed the norm of about 275,000 units that was seen from the late 1990s through 2008, before recession brought the volume to a post-World War II low by the end of 2010.

"Construction activity still looks reasonable relative to the demand levels anticipated over the next couple of years for the country as a whole," Willett says. "There could be some brief overbuilding on a spot basis, but that's true anytime the apartment market is hitting its stride in the expansion phase of the cycle."

Four Things to Know About Q2

1. Enough new households are being added for all types of housing to experience momentum at the same time.
2. Typical monthly rent across the nation's 100 largest metros now is at $1,110.
3. San Francisco ranks as the country's rent growth leader by a fairly large margin.
4. NYC registered slight rent cuts during the year-ending Q2, but still has the highest average monthly rent at $3,269 and tightest occupancy rate at 97.7 percent. —*MPF Research*

U.S. Forecast for Q3 and Q4

The U.S. apartment market faced a point of vulnerability in Q2 2013 and it passed with flying colors. The immediate outlook is that the market will sustain the momentum it gained in Q2 through Q3 and then register only a mild backslide during the fourth quarter of 2013.

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