Looking for Rent Growth

MPF Research reports San Jose, Denver top the list of Q4 2013 market rankings.

BY JAY PARSONS

The U.S. apartment sector's performance remained healthy at the end of 2013, though the late-in-the-year seasonal slowdown that is routine for the market did occur once again. Year-end occupancy came in at 95 percent, off slightly from 95.4 percent as of third quarter. Late 2013's annual rent growth pace of 2.9 percent was down mildly from the 3.2 percent figure posted one quarter earlier. Those findings reflect the performances seen across more than 7.5 million apartment units tracked by MPF Research, an industry-leading market intelligence division of RealPage, Inc.

MPF Research analysts highlight the nation's latest apartment occupancy and rent growth statistics, as well as other key performance indicators for rental housing, in a discussion found at www.realpage.com/MPFQ4-2013-Report.

"Late 2013 performance results were encouraging viewed in light of the fact that completions ramped up during the time period that there's a seasonal lull in demand," say MPF Research Vice President Greg Willett. "This definitely was a point of vulnerability for the apartment sector because of the timing of new supply reaching the finish line, and we got past this period without significant damage."

The number of units in communities that were finished during the final three months of the year jumped to 55,205 across the nation's largest 100 metros, up from quarterly completions that had averaged roughly 36,000 units during the initial three quarters of the year. Calendar 2013 new supply totaled 162,896 units. While apartment demand fell short of deliveries specifically during the fourth quarter, calendar year absorption of 161,450 units proved about in line with the total additions.

"With an increase in the number of units moving through initial lease-up, overall product availability has grown of late," according to Willett. "However, new supply hasn't resulted in net move-outs at existing properties, where the occupied unit count actually is up a little on an annual basis."

New Supply

The impact of new supply coming on stream is more apparent in rent-growth statistics than in occupancy rates, MPF Research analysis shows. Annual rent growth in the newer, top tier of existing product cooled to 1.9 percent at the end of 2013, compared to increases of 3.0 percent in 1990s-era projects and 3.8 percent in the stock built in the 1980s and 1970s.

"Middle-market properties are in the sweet spot for overall performance right now," according to Willett. "Only a handful of units are available in that product niche across most metros, and the residents living in that stock generally can't afford to buy housing or to rent the high-end new apartment supply that's being delivered."

2013 Annual Rent Growth Leaders

Rank	Metro	Annual Rent Growth
1	Denver-Boulder	7.0%
	San Jose (tie)	7.0%
3	Oakland	6.6%
4	Portland	6.2%
5	San Francisco	6.0%
6	Seattle-Tacoma	5.5%
7	Miami	5.2%
8	West Palm Beach	4.9%
9	Austin	4.8%
10	Houston	4.4%

Freakish Denver Market Somehow Goes Up, Not Down

This is what typically happens: When apartment construction goes way, way up, rent growth levels come down. It's not a given, but close to it. This pattern holds up even in hot markets with strong demand. But not in Denver.

Denver is one of the nation's most active development markets with more than 11,000 units under way (a decade high), on top of nearly 5,000 units that just completed in 2013. That's a lot. And yet, rents are still going up: Way up. Same-store rents for new leases surged 7 percent in 2013, tying with San Jose for best in the country. And at the same time, occupancy went up 50 basis-points in 2013 to 96.2 percent. This is quite strong, thanks to a lot of job growth and near-ideal demographics.

So, the big (and obvious) question is: What happens in 2014? Our forecast models show some slowing, but not much. Denver should still rank among the nation's best with rent growth forecasted at 4.2 percent.

How? Apartment operators aren't overreacting to supply (unlike what we've seen elsewhere), particularly in middle-and lower-tier product. And with strong demand tailwinds, that behavior should continue through 2014. —*J.P.*

Riverstone Residentials' Block 32 at RiNo, Denver.

Alliance Residential's Broadstone Gardens at Cherry Creek, Denver

Photos courtesy of the Apartment Association of Metro Denver and respective management companies.

Rent-Growth Leaders

Among large individual metros, Denver-Boulder and San Jose, Calif., tied for the No. 1 position on the list of the country's annual rent-growth leaders during 2013. Pricing for new leases grew 7 percent in both locales. Pricing increases were nearly as big in Oakland, Calif., and Portland, Ore., both posting 6.6 percent jumps, and San Francisco, where rents rose 6 percent.

Additional large markets on the annual rent growth leaderboard were Seattle-Tacoma (5.5 percent), Miami (5.2 percent), West Palm Beach, Fla. (4.9 percent); Austin, Texas (4.8 percent) and Houston (4.4 percent).

Metros that just missed the cut-off point for the best-performers list included Atlanta; Fort Worth, Texas; Nashville, Tenn.; Orange County, Calif; San Diego and Dallas.

With the run-up in apartment construction starts seen in late 2012 and early 2013, scheduled deliveries in the nation's 100-largest metros climb to 234,544 units in 2014. Demand is anticipated to rise, too, thanks to an improving outlook for the economy generally, and for job production specifically. Apartment absorption probably won't quite keep pace with product additions in 2014, according to MPF Research analysts, who think occupancy will cool mildly to 94.6 percent by the end of the year. The firm forecasts rent growth of 2.6 percent over the coming year, with middle-market product continuing to achieve price increases well above the upturns in the newer, luxury communities segment.

Looking Ahead

While completions will accelerate in 2014, MPF Research anticipates that construction starts will move in the opposite direction. "We're already seeing the number of units at the starting gate hit a plateau or actually decline in most markets," Willett says. "It looks like the future new supply beginning construction in 2014 will dip at least 10 percent from 2013's total, and the decline could be as much as 20 percent."

Fewer completions in 2015 likely mean that 2014's overall revenue growth performance will mark the low point for the current cycle. "The big-picture story for the apartment market is that we're in a cycle where performances will remain solid for a long time, though they won't be at the spectacular levels that were recorded in the early part of the recovery process," says Willett. "Overall expectations for investment returns remain attractive with only limited downside risk."

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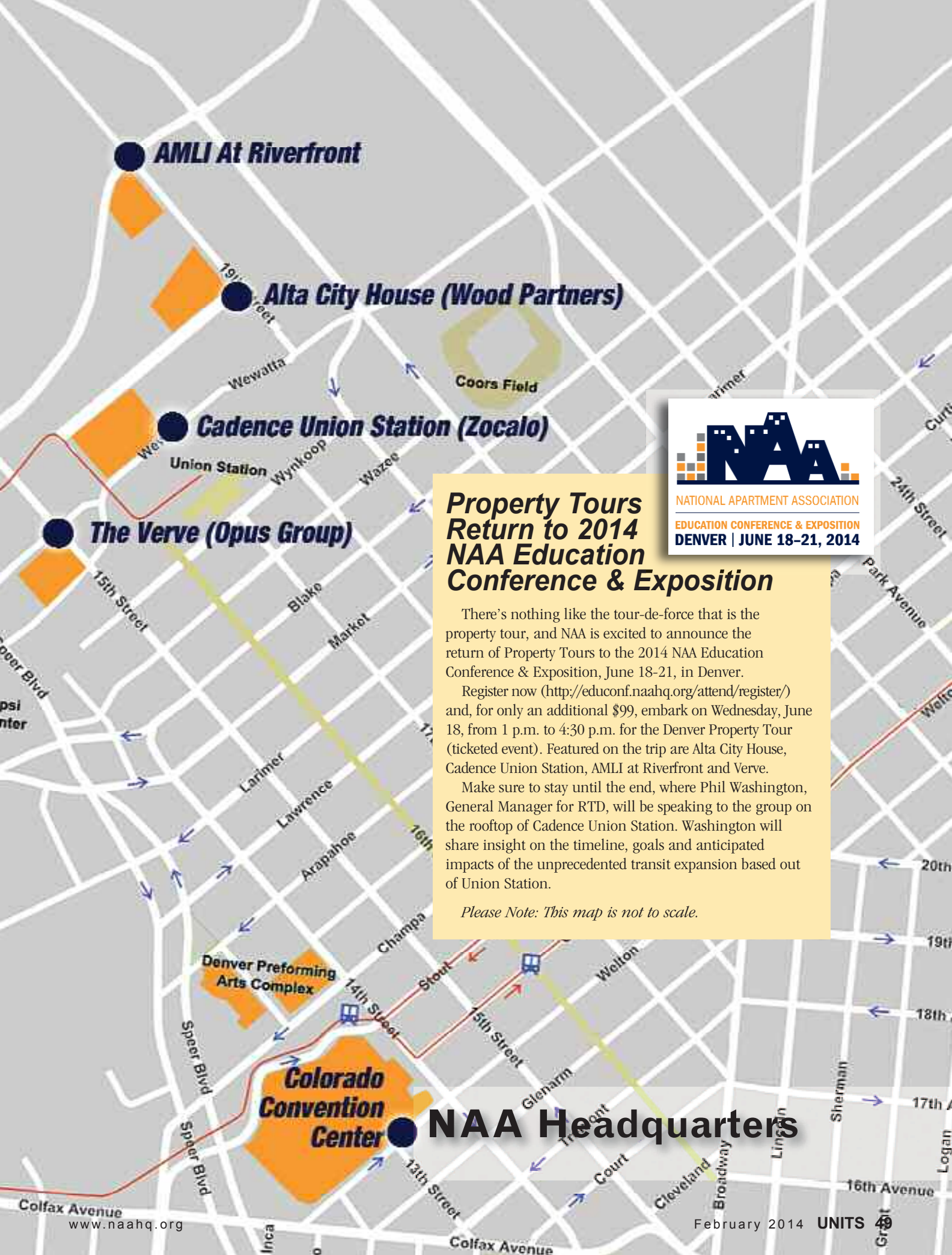

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Property Tours Return to 2014 NAA Education Conference & Exposition

There's nothing like the tour-de-force that is the property tour, and NAA is excited to announce the return of Property Tours to the 2014 NAA Education Conference & Exposition, June 18-21, in Denver.

Register now (http://educonf.naahq.org/attend/register/) and, for only an additional $99, embark on Wednesday, June 18, from 1 p.m. to 4:30 p.m. for the Denver Property Tour (ticketed event). Featured on the trip are Alta City House, Cadence Union Station, AMLI at Riverfront and Verve.

Make sure to stay until the end, where Phil Washington, General Manager for RTD, will be speaking to the group on the rooftop of Cadence Union Station. Washington will share insight on the timeline, goals and anticipated impacts of the unprecedented transit expansion based out of Union Station.

Please Note: This map is not to scale.