MPF: 78,000 Units Delivered in 3Q; Demand Still Outpaces Supply

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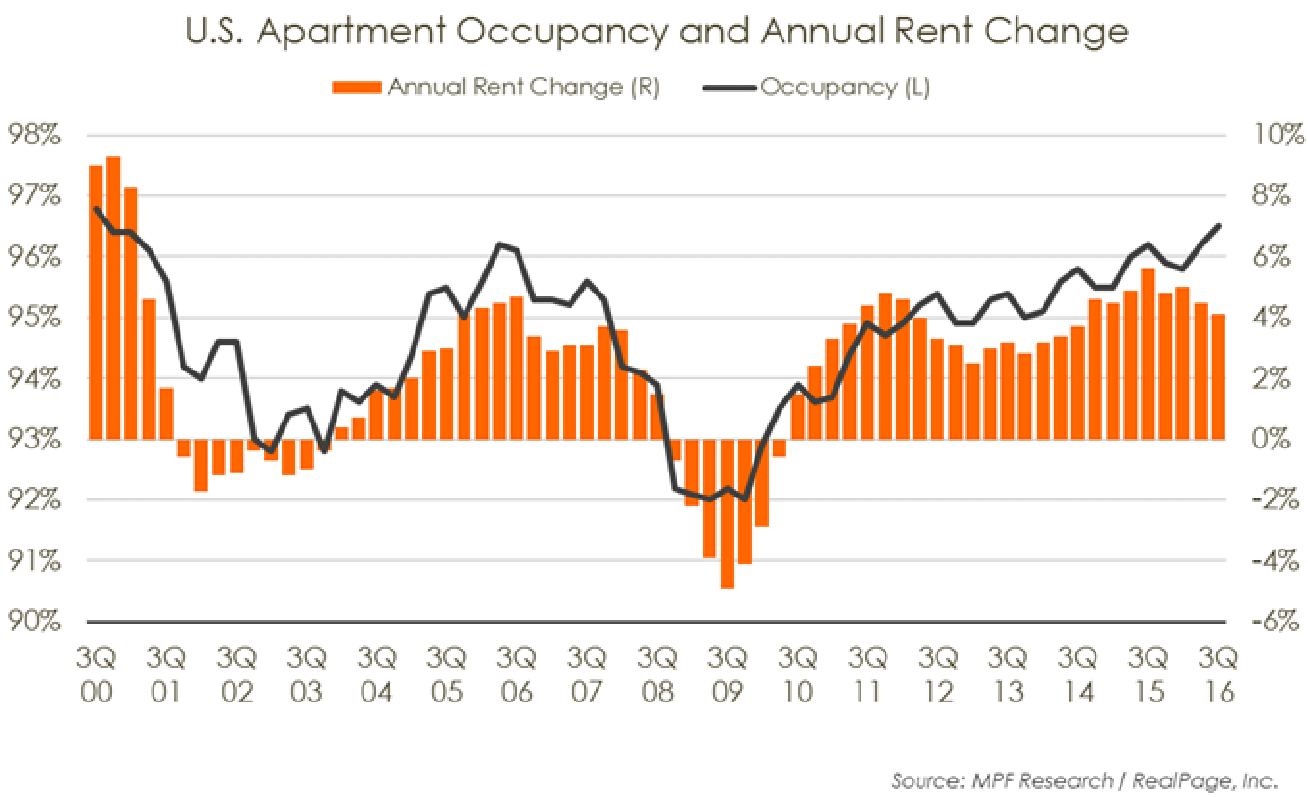

Nearly 78,000 units came on line in the third quarter, the biggest block of quarterly new supply delivered this cycle, according to the latest report from RealPage's MPF Research. But a seemingly insatiable appetite persists among renters, who demanded 109,600 units in Q3.

The same is true for the past year, with YOY demand at 276,485 units, which exceeds the 261,345 units built in the same time frame.

"Retention of current renters remains a big factor in the favorable balance between demand and supply in the apartment sector," said Greg Willett, RealPage chief economist, in the report. "With loss of renters to home purchase holding below the historical norm, the limited churn of residents is helping keep the occupied-apartment count high."

Occupancy is nearing its all-time peak of 96.8%, which occurred in 2000. In the third quarter of 2016, occupancy reached 96.5%, according to MPF Research, up from 96.2% a year ago.

"Many properties, especially communities at the middle-tier price point, are completely full," according Willett. "While an upturn in high-end deliveries is yielding more product availability in select spots, most new projects are moving quickly through the initial lease-up process."

Recently, there's been a slowdown in the number of multifamily housing units authorized by building permits, which suggests apartment construction volume should soon cool slightly. “For now, however, ongoing building remains in line with the very high levels posted over the past year or two,” MPF states in the report. “Properties totaling 555,121 units are under construction across the country’s 100 largest metros. The annual pace of completions now looks like it will peak around the middle of 2017.”

Among individual large metros, Nashville, Tenn., registers the most aggressive building pace relative to its existing product inventory. Ongoing construction of 15,627 units will grow Nashville’s stock by 11.9%. At the next tier of activity, inventory growth in the range of 7% to 8% is on the way in Dallas and Austin, Texas, and Charlotte, N.C.

Rents Keep Climbing

Monthly rents for new-resident leases now average a record $1,292, as typical rents for new residents rose another 1.5% in the third quarter. Over the past year, rents have increased 4.1%.

Average annual rent growth has slowed from this cycle’s peak growth of 5.6% in the third quarter of 2015. The long-term historical norm, though, is under 3%, so this quarter’s annual rent growth pace is still very strong.

The Class B sector’s middle-tier–quality units are playing the biggest role in driving overall rent growth, as pricing in that product sector is up 4.9% year over year. “With such big pricing differences seen between most new projects and typical existing units, additional construction isn’t impacting middle-market rent growth to the degree seen in past cycles,” Willett said.

Sacramento, Calif., ranks as the country’s rent-growth leader among individual large apartment metros for the second consecutive quarter. This time, pricing in the California capital for new-resident leases climbed 11.6% during the past year, easily ahead of Riverside–San Bernardino, Calif., which was at 9.6%.

Leaders in Annual Rent Growth for New Residents
Year-Ending 3rd Quarter 2016

Rank	Metro	Rent Growth
1	Sacramento, CA	11.6%
2	Riverside-San Bernardino, CA	9.6%
3	Seattle-Tacoma, WA	8.5%
4	Portland, OR	8.3%
5	Fort Worth, TX	7.7%
6	Nashville, TN	7.3%
7	Phoenix, AZ	7.2%
8 (t)	Dallas, TX	6.7%
8 (t)	Los Angeles, CA	6.7%
10	Orange County, CA	6.6%
11 (t)	Atlanta, GA	6.5%
11 (t)	Las Vegas, NV	6.5%
11 (t)	Salt Lake City, UT	6.5%
14	Tampa-St. Petersburg, FL	6.1%

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Overall, the outlook remains positive, said Willett. “Most metros, with lots of new apartments now under construction, have very tight occupancy rates and are recording very strong rent growth,” he said. “There’s room for performances to slow a little from current levels and still stay very healthy in the big picture.”

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