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Chief Economist

Apartment Demand is Normalizing, But Soaring Supply Flattens Rents

Apartment demand continues to rebound in 2023, even as rent growth flattens. In other words: It's rent disinflation without demand destruction. Why? Supply, supply, supply. Apartment completions in 3rd quarter soared to the highest level since the 1980s.

It's a good reminder that the challenges facing the apartment sector today have nothing to do with demand fundamentals, and everything to do with a 50-year high in apartment construction combined with expense pressures and the rapid spike in interest rates upending the financing market.

Don't give high mortgage rates all the credit, either, as the correlation has been weak. Apartment demand was strongest in 2021 when mortgage rates were lower and more homes were selling. Apartment demand then evaporated in 2022 when rates initially jumped and sales slowed. Rather, it appears slowing inflation and a still-strong job market are boosting consumer confidence and, in turn, spurring household formation among young adults most likely to rent apartments.

One contributing factor: The influx of new supply has rapidly shifted the balance of power in the rental market back to renters. New apartment completions jumped to the highest level in decades during the year-ending 3rd quarter, with more than 405,000 units coming online nationally.



Carl Whitaker
Director of Research
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All Things Considered, Apartment Fundamentals Appear Impressive

Though the oft-emphasized metric of annual rent change would seemingly suggest otherwise, underlying multifamily demand appears to be in decent shape. Demand in 2023's 3rd quarter marked the third consecutive quarter of positive absorption, buoying annual demand to roughly 127,000 units. Additionally, the nearly 91,000 units absorbed in 3rd quarter 2023 mirrored the market's long-term average for that period remarkably well – yet another indicator that the market is working back toward normal performance. Further, the nation's occupancy registered at 94.6% in 3rd quarter – quite impressive considering completions totaled 405,367 units in the last year. This immense supply volume – in addition to some 656,000 units scheduled to complete in the coming year – has put downward pressure on rents, with year-over-year change remaining barely positive in 3rd quarter.

Regional summaries highlight this supply impact remarkably well. The lowest supply regions (the Midwest and Northeast) are still maintaining rent growth in line with historic norms. Newark, Cincinnati and Chicago lead the nation's 50 largest markets for year-over-year rent change. Conversely, the South and West regions are seeing rents backtrack, due largely to supply. The deepest rent cuts were predominately recorded in high supply markets, such as Austin and Phoenix, with both recording annual rent cuts of 4.8% and inventory growth 5.6% and 4.1%, respectively, in the year-ending 3rd quarter.

3Q23 REPORT EARLY EDITION

SUPPLY



Total units under construction fell just below 1M units for the first time since 2Q22

128,128

Quarterly Supply (units)

405,367

Annual Supply (units)

2.1%

Annual Inventory Change

DEMAND

Highest quarterly reading since 4Q21 >>

90,827

Quarterly Demand (units)

127,130

Annual Demand (units)

OCCUPANCY

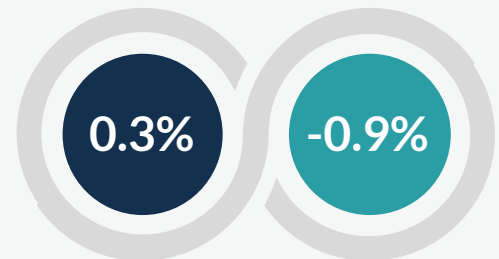


Current Rate

Quarterly Change

Annual Change

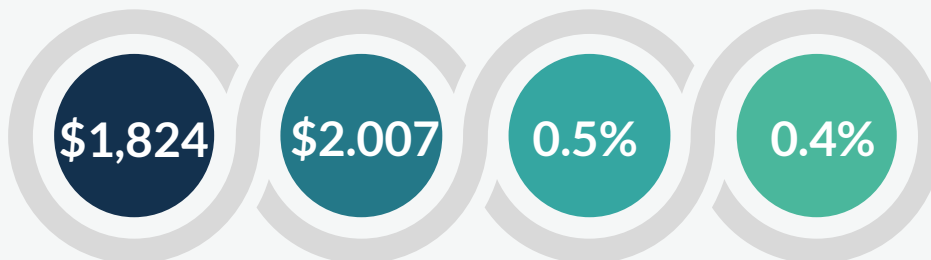
REVENUE CHANGE



Quarterly Change

Annual Change

RENT



Monthly Rent

Rent Per Square Foot

Quarterly Change

Annual Change



If looking at monthly readings, September's annual rent change slumped to just 0.1%

Existing Units

19,198,862

Sampled Units

9,319,630

Percent Sampled

48.5%

Top 5 Markets for Annual Rent Growth

1. Newark	4.9%
2. Cincinnati	4.5%
3. Chicago	3.5%
4. Milwaukee	3.4%
5. Kansas City	3.3%



Unsurprisingly, all low or modest supply markets

Occupancy in these markets generally runs high, indicating a continued return to normalcy >>>



Top 5 Markets for Occupancy

1. New York	96.9%
2. Milwaukee	96.8%
3. Newark	96.6%
4. Anaheim	96.5%
5. San Diego	96.3%

Top 5 Markets for Annual Demand

1. Austin	10,018 units
2. Houston	9,167 units
3. Phoenix	8,855 units
4. Charlotte	8,808 units
5. Washington, DC	8,178 units



About half of Austin's absorption came from just two submarkets: Round Rock/Georgetown and East Austin

Expected new supply in the coming year will approximately double 3Q23's annual rate in Dallas, Austin and Phoenix >>>



Top 5 Markets for Annual Supply

1. Atlanta	18,708 units
2. Houston	17,131 units
3. Dallas	17,057 units
4. Austin	16,481 units
5. Phoenix	16,373 units

Bottom 5 Markets for Annual Rent Change

1. Austin	-4.8%
1. Phoenix	-4.8%
3. Las Vegas	-4.3%
4. Atlanta	-3.6%
4. Jacksonville	-3.6%



Except Las Vegas, these markets all have massive volumes of new supply in the pipeline

3Q24 ONE-YEAR FORECAST

ANNUAL SUPPLY (UNITS)

657,474

ANNUAL DEMAND (UNITS)

700,841

OCCUPANCY

95.0%

ANNUAL OCCUPANCY
CHANGE

0.4

ANNUAL REVENUE
CHANGE

2.6%

ANNUAL RENT
CHANGE

2.1%

ANNUAL JOB CHANGE*

441,896



METHODOLOGY OVERVIEW

Existing Units: Existing units are estimated starting with 2010 Census counts of multifamily properties featuring five or more units. Estimates are adjusted historically to reflect the number of conventional apartment units identified by RealPage Analytics, less non-conventional rental units captured by the Census. After adjustments are made to the 2010 existing unit base, RealPage Analytics adds subsequent conventional properties completed and converted, and subtracts units taken out of the rental pool for conversion or demolition.

Percent Sampled: The number of properties sampled as a percent of existing units in a geographic area.

Sampled Units: The total number of units in a geographic area sampled during the period.

SUPPLY

Supply (units): The number of new units completed in a quarter or a 12-month period. An apartment unit is counted as new supply once construction of the unit completes and the unit becomes available for physical occupancy. A property is considered complete when the last unit in the project has completed.

Annual Inventory Change: The number of new units completed as a percent of existing units during a 12-month period.

DEMAND

Demand (units): The number of units absorbed during a quarter or 12-month period. RealPage Analytics defines demand or absorption (the words are used interchangeably) as the change in physically occupied units (existing units multiplied by the occupancy rate) from one period to another. Net move-outs (a synonym for negative demand) can occur simply because the size of the existing inventory shrinks due to properties converting from conventional to an alternative multifamily dwelling type or due to demolitions.

OCCUPANCY

Current Rate: Occupancy measures the percentage of existing stock physically occupied at a point-in-time based on sampled units of stabilized properties, sourced from RealPage Analytics surveys and point-in-time extractions from rent rolls serviced by RealPage software. Preleased units and properties in lease-up are not part of the occupancy calculation. A property is considered stabilized once it becomes 85% occupied.

Quarterly Change: The change in the occupancy rate from one quarter to another. Change is expressed in percentage points.

Annual Change: The change in the occupancy rate from the period indicated over the same period in the previous year. Change is expressed in percentage points.

RENT

Monthly Rent: The average rental rate charged for an apartment unit on a monthly basis, less concessions. RealPage Analytics always reports monthly rent as the effective rate (asking rent less concessions).

Rent Per Square Foot: Average monthly rent divided by the average square footage of the apartment unit, less concessions.

Effective Rent Change (Monthly/Quarterly/Annual): The percentage change in effective rent from a previous time period, such as month, quarter, or year. Effective Rent Change is calculated from same-store sample sets.

REVENUE CHANGE

Revenue Change (Quarterly/Annual): The average revenue change per available square foot for the period indicated over the same period in the previous year (Same-Store); sourced from RealPage lease transactions.

ONE-YEAR FORECAST

Completions (often referred to as supply) are forecasted in both rate and growth terms. The one-year or four-quarter forecast is based on identified supply sourced from RealPage's project-by-project pipeline research.

Absorption (often referred to as demand) is derived from occupancy and supply forecasts and reflects the expected change in occupied units from period-to-period.

Occupancy is forecasted in both rate and growth terms. Occupancy rates are forecasted on a quarterly basis from which growth is derived.

Employment forecasts presented in RealPage Analytics analysis are calculated from recent employment trends and performance. The resulting forecasts are reconciled with external projections to ensure alignment with broader economic sentiment.



RealPage's unparalleled market intelligence platform provides 100% visibility into 425 apartment markets, enabling stakeholders to view, visualize and leverage insights, information and reports at market, submarket and property levels.

For more information on RealPage Market Analytics, contact:

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