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As the U.S. apartment market moves through the ninth year of the current cycle, many in the industry question whether the cycle still has legs. Rent growth has moderated from the peak levels seen in 2015. Occupancy topped out in 2016, with rates dropping to the minimum threshold for the market to be considered full. By those measures, the best of times may be behind us. Gone are the days of a rising tide boosting all segments of the apartment market.

As overall performance is flattening, segmentation has become the keyword going forward. This concept is captured in three key performance takeaways for 2018, presented by RealPage at the last month's NMHC Apartment Strategies Outlook Conference.

COMPRESSION IN THE RANGE OF PERFORMANCE ACROSS METROS

Two years ago, at the peak of the apartment cycle, there were clear winners and losers at the metro level. Annual rent growth for the U.S. overall ventured into 5% territory, driven by double-digit increases in local markets like Oakland and Portland. On the flipside, some markets – like Pittsburgh and Memphis – saw comparatively modest increases of less than 1.5%. In all, the performance spread among major markets hit 13 percentage points. Even among the top 10 rent performers, the range was nearly six points.

2015 Rent Growth Leaderboard

Rank	Metro	Annual Rent Growth
1	Oakland, CA	13.0%
2	Portland, OR	12.9%
3	San Jose, CA	9.8%
4	San Francisco, CA	9.7%
5	Denver, CO	9.6%
6	Sacramento, CA	9.5%
7	Seattle, WA	7.8%
8	San Diego, CA	7.6%
9	Orlando, FL	7.2%
10	Phoenix, AZ	7.1%
	U.S. Average	**5.0%**

Source: RealPage, Inc.

Fast forward to 2017, spreads are much tighter. The difference between the top and bottom performing metros in 2017 is only seven points. In the top 10

2017 Rent Growth Leaderboard

Rank	Metro	Annual Rent Growth
1	Sacramento, CA	6.5%
2	Las Vegas, NV	5.7%
3	Jacksonville, FL	5.4%
4	Orlando, FL	5.3%
5	Richmond, VA	5.1%
6	Riverside-San Bernardino, CA	4.7%
7	Phoenix, AZ	4.3%
8	Minneapolis-St. Paul, MN	4.0%
9 (t)	Fort Worth, TX	3.9%
9 (t)	Salt Lake City, UT	3.9%
	U.S. Average	**2.5%**

Source: RealPage, Inc.

performers, rent growth is clustered in the 4% to 6% range – a spread of about two points. The compression in performances has caused rent growth at the national level to moderate to 2.6% in 2017, where it's likely to remain throughout 2018 as market forces continue to balance out.

What does that mean for participants in the market? As premiums for the right local market selection erode, individual property stories become increasingly important when making investment and development decisions. And on the operations side, expertise becomes more important to achieve total return.

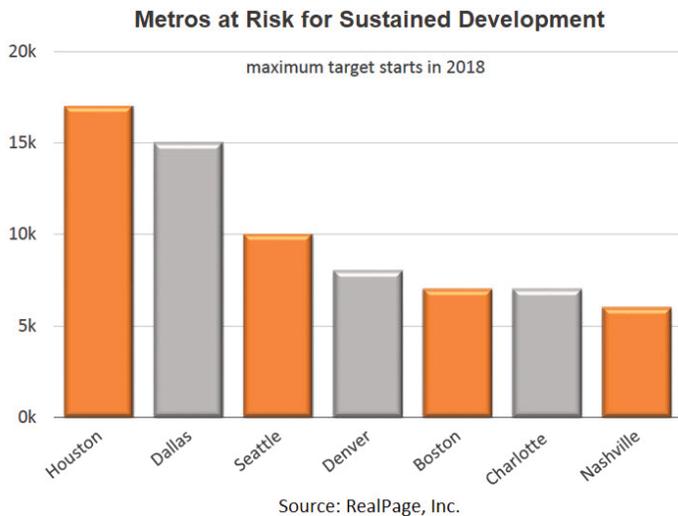## SOME METROS APPEAR AT RISK TO SUSTAIN DEVELOPMENT LEVELS

U.S. new apartment supply hit a 30-year high in 2017, when developers delivered nearly 365,000 units to the 150 largest metro areas. That appears to be a cyclical peak, as construction volumes and starts have come down – except in metros where they haven't.

A handful of local markets appear at risk to sustain elevated levels of new development, making them vulnerable to Washington, DC-like performance outlooks. Like DC, these metros have strong demand capacity, which has prompted inventory growth that is a little too aggressive for the market to sustain much rent growth momentum. The metros – Houston, Dallas, Seattle, Denver, Boston, Charlotte and Nashville – have been leaders for demand and supply in the current cycle.

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Deep pools of rental housing demand in these metros propelled lease-up of new supply and bolstered rent growth in these markets earlier in the cycle. However, as the supply wave has continued and completion volumes have increased, rent growth has suffered. And the effect is not isolated to top-end product and high-supply submarkets.

Metros at Risk for Sustained Development

maximum target starts in 2018

Source: RealPage, Inc.

Market segments typically considered to be more insulated from competitive pressures from new supply are also seeing performance decline. That's been a hallmark of Washington, DC, where the supply-induced slowdown that started at the top end of the market carried into the middle and lower market segments early in the now 5-year-old supply wave. This has snuffed rent growth in the nation's capital metro, where an enviable structural profile suggests the market would be performing much better otherwise.

BLUE-COLLAR NEIGHBORHOODS ARE POSITIONED TO OUTPERFORM

Urban core submarkets have garnered much of the attention from industry analysts during the current cycle. The luxury, expensive buildings in the downtowns of major cities, which have undergone a sort of revitalization in recent years, give the perception of stronger upside potential – a perception that caused urban core new supply to swell.

Likewise, developers have flocked to upscale suburban locations to tap into the potential there. Now, elevated completion volumes in these areas have hurt rent performance.

In turn, the largely untouched blue-collar neighborhoods are positioned to outperform in 2018. These neighborhoods did not see the run-up in rents earlier in the cycle that lured developers to the upscale suburbs and urban areas. So these blue-collar areas have more runway in terms of rent growth.

In Atlanta, for example, performances in 2017 were all over the map in spots favored by developers. Rent growth in urban submarkets ranged from 1.2% in Midtown to -2.1% in Buckhead. In the upscale suburbs, performances ranged from 6.8% in Dunwoody to -3.8% in Sandy Springs. In most blue-collar areas, however, rent growth has been clustered around 4% to 5%.

Atlanta Submarket Performance

Neighborhood Type	Metro Atlanta Neighborhood	Current Monthly Rent	Current Annual Rent Growth
Urban Core	Midtown	$1,746	1.2%
	Buckhead	$1,587	-2.1%
Upscale Suburb	Dunwoody	$1,393	1.7%
	Vinings	$1,313	6.8%
	Alpharetta	$1,309	-0.4%
	Sandy Springs	$1,251	-3.8%
Workforce / Blue-Collar Area	Doraville	$975	4.5%
	Douglasville	$941	4.9%
	West Marietta	$908	2.9%
	Stone Mountain	$846	4.2%

Source: RealPage, Inc.

Similar examples can be found in Dallas and other metros where there are clearly distinct surburb groupings.

Dallas Submarket Performance

Neighborhood Type	Metro Dallas Neighborhood	Current Monthly Rent	Current Annual Rent Growth
Urban Core	Intown Dallas	$1,678	-0.1%
	Oak Lawn	$1,528	-1.6%
Upscale Suburb	Frisco	$1,275	0.9%
	Las Colinas	$1,270	1.6%
	Richardson	$1,256	-1.8%
	Allen/McKinney	$1,171	-0.2%
Workforce / Blue-Collar Area	Mesquite	$940	2.7%
	Northeast Dallas	$924	5.8%
	South Irving	$921	4.5%
	Northwest Dallas	$885	4.5%

Source: RealPage, Inc.