# APARTMENT ADVISORY

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Renter demand for U.S. apartments rocketed to an unprecedented level in second quarter 2021. The number of occupied apartments in the nation's 150 largest markets climbed by roughly 219,910 units, the biggest quarterly increase on record. That was nearly twice as big as typical second quarter demand, which averaged at about 113,000 units over the last 20 years.

Solid quarterly absorption pushed annual demand to nearly 500,000 units in the year-ending second quarter 2021, which was also an all-time high.

The nation's sizable quarterly absorption tally was propelled by several major apartment markets that in second quarter 2021 doubled or tripled their historical average demand volumes.

Nearly half of the nation's 50 largest apartment markets boasted second quarter demand that outpaced the norm by an even wider margin than the U.S. did, ranking up to four times the long-term average in some markets. Even considering that many of these markets with chronic undersupply issues and recent population growth are working through a pent-up demand hangover from the COVID-19 pandemic, these absorption rates are unparalleled.

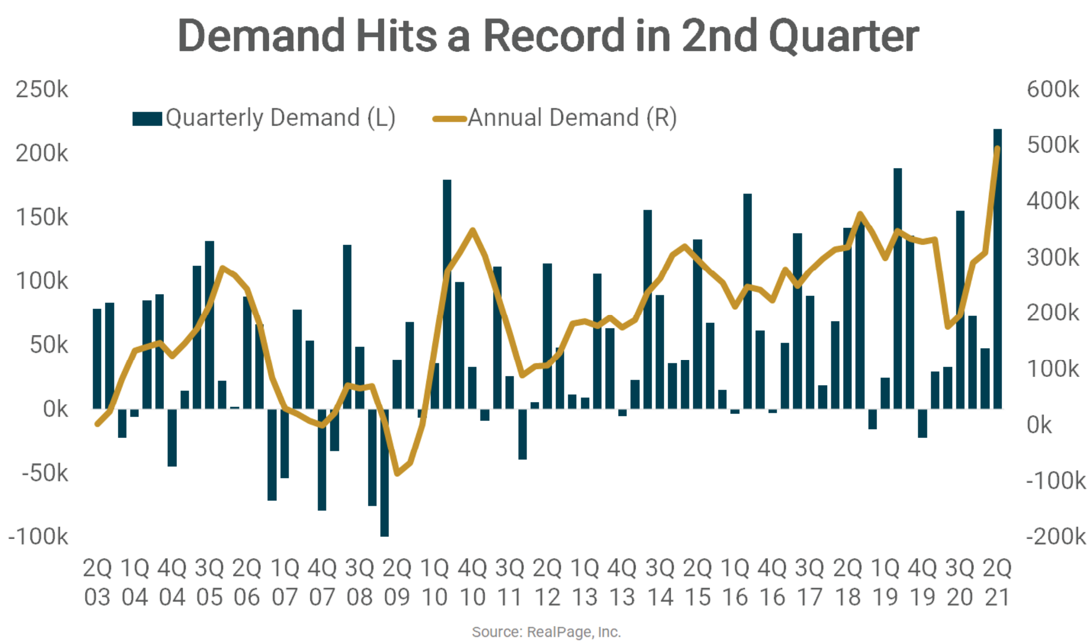
Most of the markets that best exemplify this trend are in two states: California and Florida. These states were uniquely impacted by the COVID-19 outbreak. California lawmakers implemented some of the strictest lockdown measures in the country, causing business activity and mobility among the renter base to slow to a crawl. As conditions there have improved in recent months, apartment demand has rebounded.

Meanwhile, the tourism-dependent economies of Florida metros also slowed as travel halted last year. As domestic and international returned, economic activity picked up, benefitting apartment demand.

In South Florida, West Palm Beach claimed a rate nearly four times higher than the norm, absorbing over 1,500 units in second quarter 2021. Though demand came on strong in West Palm from April through June, that percentage increase might be somewhat exaggerated due to inverse seasonality in the market. As most markets see peak demand in summer months, West Palm Beach sees leasing activity increase in the winter as people relocate from colder climates. In fact, average demand in second quarter for the last 20 years (minus the outlier year of 2020) accounts for net move-outs from more than 500 units – the worst average among the nation's 50 largest apartment markets. But West Palm Beach's second quarter demand this year topped the historical average for any quarter, again reflecting the strength of leasing activity. The same is true but to a lesser degree in South Florida's other two markets, Miami and Fort Lauderdale, which also saw second quarter demand over three times higher than their 20-year averages.

The trio of markets that make up the Bay Area – San Francisco, San Jose and Oakland – also experienced higher-than-average second quarter demand in 2021, with all three markets claiming more than three times the average absorption in the April to June time frame. These areas are seeing renewed momentum as the lifestyle attractions of these Bay Area markets look more appealing in recent months, especially as renters who faced financial uncertainty during the pandemic are more confident to commit to higher-priced housing.

Phoenix, which has claimed all-star status



Source: RealPage, Inc.

## Demand Soars in Some Key Markets During 2nd Quarter

| Market | Average 2Q Demand 2000-2019 | 2Q21 Demand | 2Q21 Demand Compared to Average | 2Q21 Occupancy | Inventory Growth YE 2Q21 |
|---|---|---|---|---|---|
| West Palm Beach | -531 | 1,562 | 394.4% | 96.8% | 2.1% |
| Miami | 1,019 | 4,512 | 342.8% | 96.3% | 2.8% |
| Phoenix | 1,156 | 4,597 | 297.6% | 96.8% | 2.8% |
| San Francisco | 522 | 1,965 | 276.2% | 93.7% | 0.6% |
| Oakland | 682 | 2,451 | 259.6% | 95.8% | 2.6% |
| Fort Lauderdale | 646 | 2,243 | 247.5% | 96.6% | 2.8% |
| San Diego | 1,089 | 3,644 | 234.5% | 97.4% | 1.1% |
| Tampa | 1,299 | 4,166 | 220.7% | 96.9% | 2.2% |
| San Jose | 777 | 2,430 | 212.7% | 94.8% | 2.6% |
| Austin | 1,562 | 4,639 | 105.8% | 94.9% | 4.1% |
| U.S. | 113,571 | 219,909 | 93.6% | 96.2% | 2.0% |

Source: RealPage, Inc.

by every metric from rent growth to occupancy in recent years, boasts second quarter 2021 demand 300% higher than its 20-year average. Another Sun Belt market, Austin, isn't far behind with second quarter 2021 absorption ranking 200% higher than its long-term average. Both Austin and Phoenix have successfully worked through large waves of new supply over the last several years, and demand is coming on strong with good job growth and household formation in these attractive Sun Belt markets.

Only a handful of the nation's largest apartment markets saw lower absorption rates in second quarter 2021 compared to the 20-year average. These are mostly Midwest markets that tend to be slow-and-steady performers that fared decently throughout the pandemic and thus are less likely to be working through a backlog of demand. Also included in this list are Sacramento, Riverside, and Baltimore, which benefitted from softening in bigger adjacent markets: the Bay Area, Southern California, and Washington, D.C.

Detroit demonstrates the most severe example of this. On average, Detroit absorbed about 2,400 units in the April-June time frame. In 2021, however, that rate fell by about half to roughly 1,250 units. This is a result of very few vacancies in the market, due to both high occupancy and very little new supply. Many of the demand underperformers share those characteristics of high occupancy and limited new supply. In other words, lagging demand in second quarter 2021 reflects few units available to rent rather than any weakness underlying the market.

Contributing to the realization of pent-up demand, the U.S. Bureau of Labor Statistics continues to report strong job growth, including about 850,000 jobs added in June, the last month of second quarter. Young adults are forming households again as they move out of pandemic housing, and drastic increases in single-family home prices are causing some to remain in rental units.

## Few Vacancies Hold Back Demand in Some Midwest, Low-Supply Markets

| Market | Average 2Q Demand 2000-2019 | 2Q21 Demand | 2Q21 Demand Compared to Average | 2Q21 Occupancy | Inventory Growth YE 2Q21 |
|---|---|---|---|---|---|
| Detroit | 2,443 | 1,255 | -48.6% | 97.5% | 0.6% |
| Cincinnati | 1,556 | 809 | -48.0% | 96.5% | 0.7% |
| Memphis | 904 | 506 | -44.0% | 96.5% | 0.6% |
| Sacramento | 1,201 | 742 | -38.2% | 97.7% | 0.6% |
| Providence | 619 | 413 | -33.3% | 98.2% | 0.3% |
| Cleveland | 1,157 | 796 | -31.2% | 96.7% | 0.9% |
| Indianapolis | 1,715 | 1,283 | -25.2% | 95.8% | 1.1% |
| Baltimore | 1,606 | 1,399 | -12.9% | 96.4% | 1.2% |
| Riverside | 1,040 | 932 | -10.4% | 98.4% | 0.7% |
| Virginia Beach | 1,053 | 988 | -6.1% | 98.0% | 1.2% |
| Milwaukee | 1,588 | 1,582 | -0.4% | 96.8% | 1.2% |
| U.S. | 113,571 | 219,909 | 93.6% | 96.2% | 2.0% |

Source: RealPage, Inc.