APARTMENT ADVISORY

MAY 2019

The most recent Census Bureau population data release confirms the widely held belief that the nation's Sun Belt metros have been people magnets for years. These areas have been leaders for in-migration from 2010 through 2018, the latest year for which data is available. In-migration is the key component of population growth – births being the other component of population growth – that has an immediate impact on housing demand. And unsurprisingly, many of these Sun Belt metros have also been leaders for apartment demand.

While the link between in-migration and housing demand is interesting, patterns within the data provides additional insight. Comparing the latest Census data and RealPage demand figures provides three key takeaways.

Ten Markets Received More Than 250,000 People

Looking at net migration figures since 2010, there are 10 apartment markets that have seen net in-migration of more than 250,000 people. Those 10 markets – Dallas/Fort Worth, Houston, Miami, Phoenix, Atlanta, Tampa, Orlando, Seattle, Austin and Charlotte – have also attracted a lot of renters. Together, they have absorbed about 746,000 apartment units since 2010, or about 31% of the 2.4 million units absorbed across the RealPage top 150 markets.

But apartment demand is influenced by available supply. After all, a market can't absorb product that isn't there, no matter how many people want to live in it. And these 10 markets account for only about 22% of the nation's total apartments today. So, to gauge demand against capacity, occupancy is a key measure.

When 2010 kicked off, the U.S. average occupancy rate was 92.1%. By the end of 2018, that rate had climbed to 95.4%, a 330-basis-point (bps) improvement that is a testament to how strong demand underpinning the market has been.

Among these 10 markets with net migration greater than 250,000, only Miami, Seattle and Austin have seen their increase in occupancy lag that of the national average. It should, however, be noted that these three markets also had occupancy rates greater than the national average at the beginning of this cycle. In short, these markets generally run with tighter occupancies, meaning there was less ability to push an already-high occupancy rate than some of their counterparts.

In the case of many of these other markets, occupancy has improved anywhere from 410 bps to 740 bps from its early 2010 mark. This signals how in-migration to these markets has helped drive overall demand for multifamily product in these pockets of the country.

New York, Chicago and Los Angeles Lost Residents, Not Renters

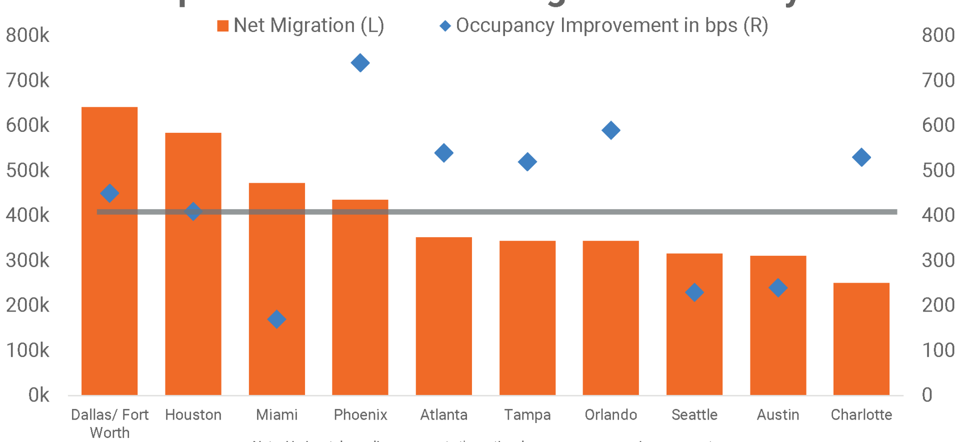
While in-migration clearly bolstered apartment demand in the 10 high-growth areas, out-migration didn't necessarily hurt the nation's three largest apartment markets.

Since 2010, no other market has experienced more out-migration than New York, as about 448,000 people have moved from that market. However, New York's population actually increased this cycle by a little over 410,000, as births far outnumbered deaths. With a growing population, this chronically undersupplied market absorbed about 142,000 multifamily units since 2010. This indicates a large pool of pent-up demand that's present regardless of migration patterns.

Los Angeles and Chicago are two other markets that posted notable net migration losses in the past nine years. Los Angeles experienced a net migration loss of almost 366,000 people, while Chicago's net migration loss totaled about 227,000. Still, like New York, apartment demand has been pretty strong across Los Angeles and Chicago, despite that negative net migration this cycle. In turn, all three markets have maintained an average occupancy rate above that of the U.S. norm throughout most of this cycle.

Most recently, New York and Los

Top 10 Metros For In-Migration This Cycle

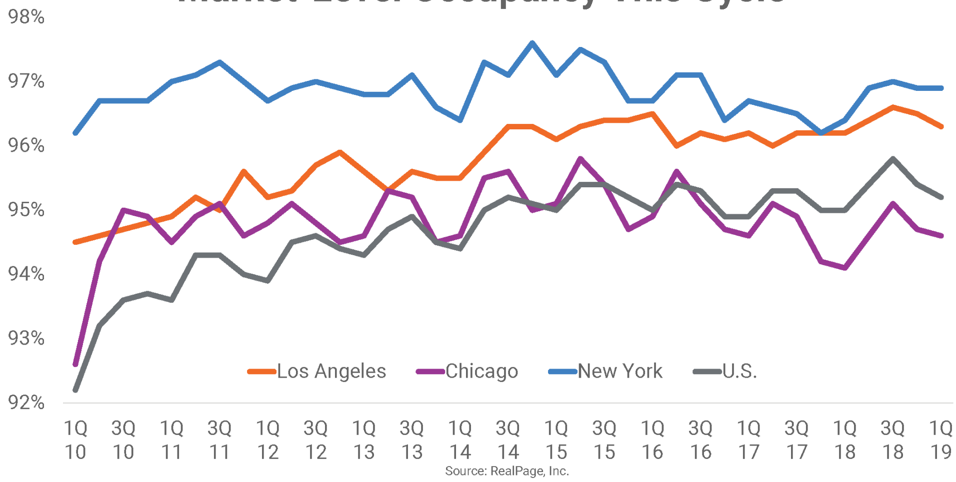


Note: Horizontal gray line represents the national average occupancy improvement

Source: U.S. Census Bureau; RealPage, Inc.

Angeles have been able to maintain more resilient occupancy rates than Chicago has, as the Windy City's downtown apartment stock

Market-Level Occupancy This Cycle



has gained 24,600 units, a 41% increase, since 2010. The ongoing supply wave has brought new units to market faster than renters can fill them. These levels of new supply compound the issue of net out-migration, causing Chicago's fundamentals to soften much more than those in New York and Los Angeles.

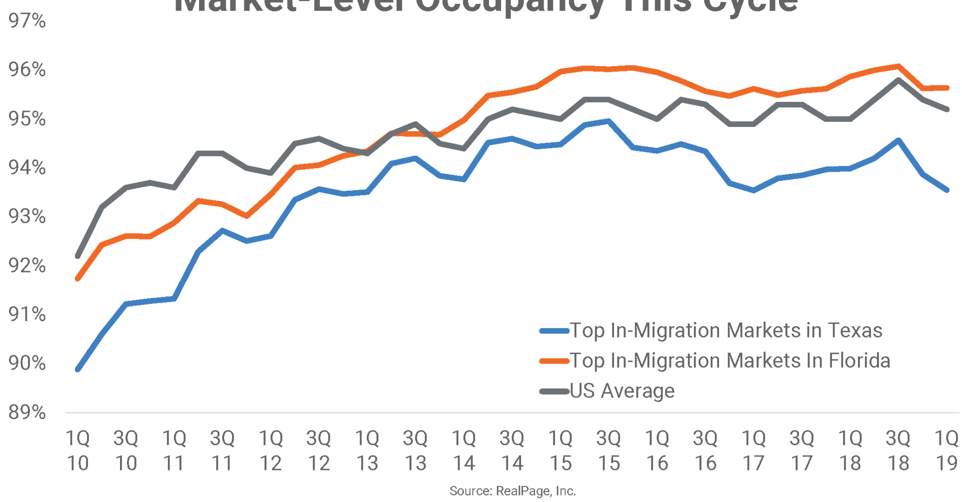
Additionally, greater challenges in terms of single-family affordability in New York and Los Angeles – some of the nation's most expensive single-family markets – has kept apartment occupancy higher than it has in Chicago, where the average single-family home isn't as expensive comparatively speaking.

Florida, Texas Got the Most In-Migration, But in Different Ways

Since 2010, no other state has experienced more in-migration than Florida, with more than 2.2 million people moving to the Sunshine State. Texas follows close on its heels with about 1.8 million people moving to the Lone Star State. Both these states have far more than third place North Carolina, which saw net in-migration of about 560,000 people.

But when comparing where those people are moving within Florida and Texas, there are two vastly different stories. Simply put, migration to the Florida markets has

Market-Level Occupancy This Cycle



been dispersed among many markets, while Texas has had a lot of growth in a few markets.

Florida has 13 of the nation's top 50 markets for net migration – far more than any other state. Compare that to the state of Texas – another state with a massive amount of in-migration – where there are only four markets in the top 50.

In Texas, the top four markets – Dallas/Fort Worth, Houston, Austin and San Antonio – account for 97% of the state's total net migration. Compare that to Florida, where the top four – Miami, Tampa, Orlando and Sarasota-Bradenton – account for just 58% of the state's total net migration.

Combining those 17 Florida and Texas markets yields an average occupancy rate below the U.S. average at the onset of this cycle. Texas markets averaged about 89.9% occupancy, while the Florida markets combined for roughly 91.2% occupancy. Both are below the U.S. average of 92.1% at the beginning of 2010.

Since then, however, the four Texas markets have seen their combined occupancy improve by 367 bps. The 13 Florida markets have seen occupancy increase 390 bps, while the U.S. has seen occupancy increase 300 bps.

All considered then, strong net migration has helped improve occupancy in these two pockets of the country at a faster rate than the U.S. norm.

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