APARTMENT ADVISORY

MAY 2021

As the U.S. economy continues along the road to recovery, apartment rents have rebounded and are once again beginning to see growth in a meaningful way. Nationwide, effective asking rents for new leases jumped 1.3% in April, the largest single-month increase in more than 10 years. That jump in rents was enough to put average rates 1.7% above their year-earlier mark. Much of the surge in April was driven by exceptional performance in the battered Class A space.

Luxury Class A product really outperformed, posting an unprecedented 2.0% increase at the national level. This was not only the strongest month-to-month Class A rent increase recorded in more than a decade, it was also the largest monthly rent increase recorded for any product class over that time. Middle-market Class B product followed closely behind with a 1.3% rent gain month-to-month, it's strongest gain over the past ten years as well. Class C units posted a more moderate gain of 0.3%, but since Class C rents saw less severe declines over the past year, rent in that product category had less ground to make up.

Class A Still Lags Behind

	Average Annual Rent Change	Average Occupancy Rate
Class A	-1.7%	94.5%
Class B	-0.5%	95.7%
Class C	0.0%	96.2%

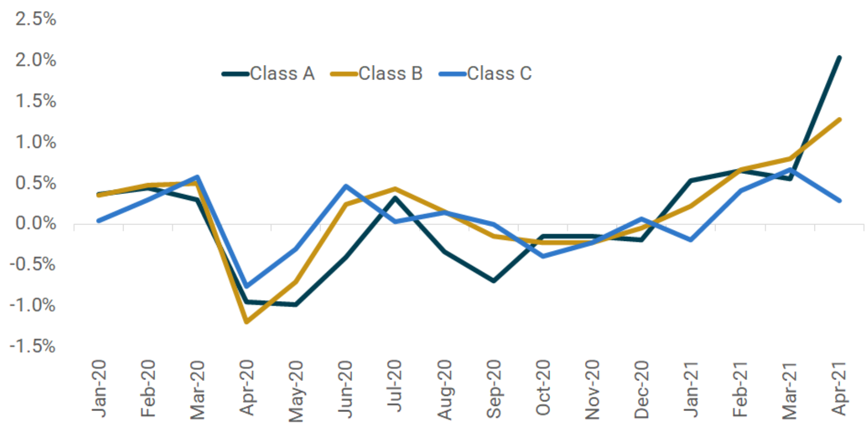
Source: RealPage, Inc.

However, looking at Class A occupancy at the monthly level in the past year, occupancy has consistently tightened since January, landing at 95% in April. This was a 23 bps improvement year-over-year, and a 105 bps improvement over its lowest point in June.

Stronger occupancy in Class A product likely points to increased consumer confidence as the economic recovery gains momentum and the population becomes increasingly vaccinated against COVID-19. The Class A category is likely capturing pent-up demand from residents that sought to save money by renting cheaper units over the past year, including higher-income renters who may have sought more affordable Class B product amid economic uncertainty.

Every one of the top 50 national markets saw improvement in the Class A space in April. Unsurprisingly, markets with solid overall performance – Riverside, Sacramento, Las Vegas and Phoenix to the west, Virginia Beach, Memphis and Tampa to the east – also maintained the strongest Class A rent change. Riverside, in particular, saw a 2.5% rent increase in Class A stock month-over-month. As the adage goes, a rising tide lifts all boats and the robust demand in these metros is keeping Class A fundamentals strong.

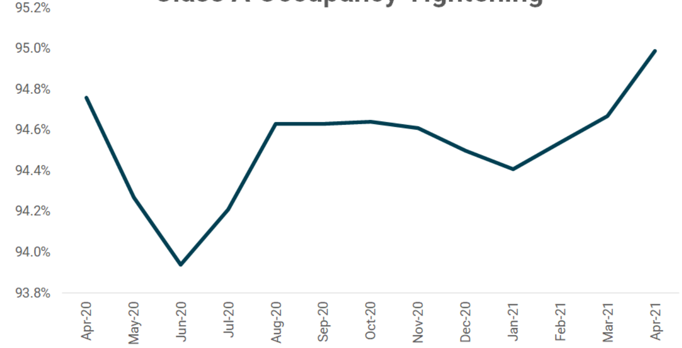
Class A Rent Change Shot Up in April



Source: RealPage, Inc.

The improvement in Class A rent change is especially encouraging, as that product class has taken the biggest pricing hit since the onset of the COVID-19 pandemic last March. Between April 2020 and April 2021, Class A assets averaged the steepest rent cuts among product types, dropping by more than 3% year-over-year at the low point September. Class A product still maintains a 28% rent premium over Class B product, however. Additionally, the average occupancy rate among Class A assets (94.5%) over the past year has run about 110 basis points (bps) lower than the showings in Class B units and a hefty 170 bps lower than the Class C performance.

Class A Occupancy Tightening



Source: RealPage, Inc.

On the opposite side of the chart are metros that have been generally hit hard by the downturn. That's

Class A Annual Rent Change by Market (April 2021)

Rent Change >10%	Rent Change 5% to 10%	Rent Change 0% to 5%	Rent Change -5% to 0%	Rent Change <-5%
Riverside	Jacksonville	***U.S. Average***	Pittsburgh	Newark
Las Vegas	Greensboro/W-S	Baltimore	Portland	Chicago
Sacramento	Salt Lake City	Orlando	Denver	New York
Phoenix	Detroit	Raleigh/Durham	Philadelphia	Washington
Memphis	West Palm Beach	Columbus	Houston	Seattle
Virginia Beach	Providence-Warwick	Kansas City	Minneapolis	Boston
Tampa	Fort Worth	Charlotte	Oakland	San Jose
	Fort Lauderdale	Dallas	Los Angeles	San Francisco
	Indianapolis	Austin	Nashville	
	San Diego-Carlsbad	Cincinnati		
	Anaheim	Miami		
	Atlanta	St. Louis		
	San Antonio	Cleveland		
		Milwaukee		

Source: RealPage, Inc.

especially true in Boston (Class A rents down nearly 11% annually) and the Bay Area, where regional Class A rent cuts range from about 5% to 15%. Encouragingly, however, some of the largest month-over-month rent increases in Class A occurred in these metros. Luxury product in LA, for example, rose 3.3% in April. Class rents grew roughly 2% to 2.5% month-over-month in Miami, Chicago, San Jose, San Francisco and Washington, D.C.

Helping to drive Class A improvement has been increased demand nationwide. The country's occupied apartment count climbed by roughly 53,000 units during the initial three months of 2021. That's a very good result for what's normally a slow leasing period due to cold weather. In fact, that demand total about doubles average 1st quarter absorption recorded over the course of the past decade.

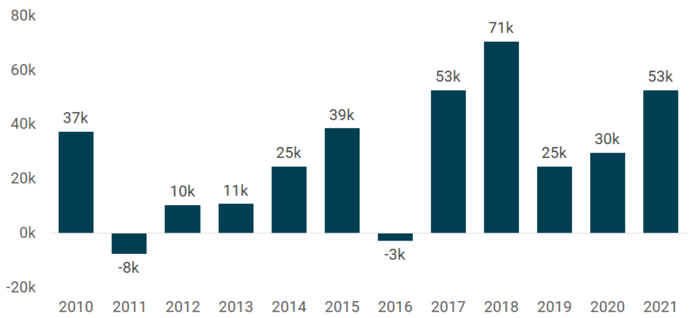
Dallas-Fort Worth usually ranks as the country's metro-level demand leader, and that was the case again in 1st quarter. DFW posted absorption of about 3,600 units. Other quarterly demand leaders are mostly Sun Belt locations, with very solid absorption seen in Miami, Austin, Orlando, Phoenix, Atlanta, and Charlotte. While that's not an unusual pattern, note that these also are the spots where state and local governments are moving most quickly to re-open the economies and job gain is typically accelerating most notably.

Seattle registered demand for about 2,300 apartments in 1Q 2021, posting the strongest absorption seen in a coastal gateway metro since the pandemic began. Boston did well, too. Meanwhile, quarterly demand was mild – but encouragingly positive – in most other gateway settings, including the three Bay Area metros, Northern New Jersey, Washington, DC, Chicago, and Los Angeles. In New York, however, renter losses remained sizable in 1st quarter. The New York properties tracked by RealPage are experiencing a big jump in leasing velocity, but that activity stems from existing renters moving around to take advantage of discounted rents.

Demand in 1st quarter took the country's annual absorption pace to 316,000 units. That's largely a business-as-usual result, as annual demand for apartments has averaged around the 300,000 unit mark since 2015. Annual demand leaders as of 1st quarter again are those Sun Belt markets, headed by Dallas-Fort Worth, Atlanta, Houston and Phoenix.

Looking ahead, demand is likely to remain robust as the economy continues to recover. Yet, while the demand outlook is promising, lots of new supply is on the way. Anticipated deliveries in 2021-2022 actually top 2020's total (about 341,000 units).

U.S. Apartment Demand in 1Q21 was Double the Previous Decade Norm



Source: RealPage, Inc.

Occupancy should basically hold steady over the near term, running a little below recent highs but above the long-term norm. Rents should improve from current levels, but expected price growth probably won't get back to the highs of the past economic cycle. Longer term, with increasing supply volumes competing for Class A renters, Class B and C projects will likely post occupancy and rent growth well above their Class A counterparts.