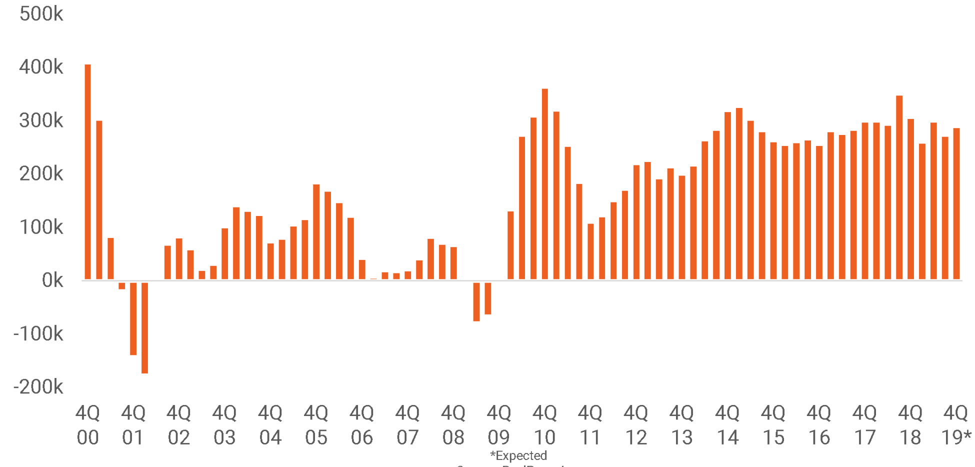
APARTMENT ADVISORY

NOVEMBER 2019

Multifamily construction activity in this real estate cycle has far exceeded the total construction seen in the previous decade. Expected completions in the final month of 2019 will push the total number of completions since 2010 to 2.3 million units. That's roughly 500,000 units more than the nation's top 150 markets saw deliver between 2000 and 2009. Perhaps even more remarkable is that apartment demand has been even stronger.

Since 2010, there have been about 2.6 million units absorbed – about 300,000 more units than have been delivered.

U.S. Annual Demand



*Expected

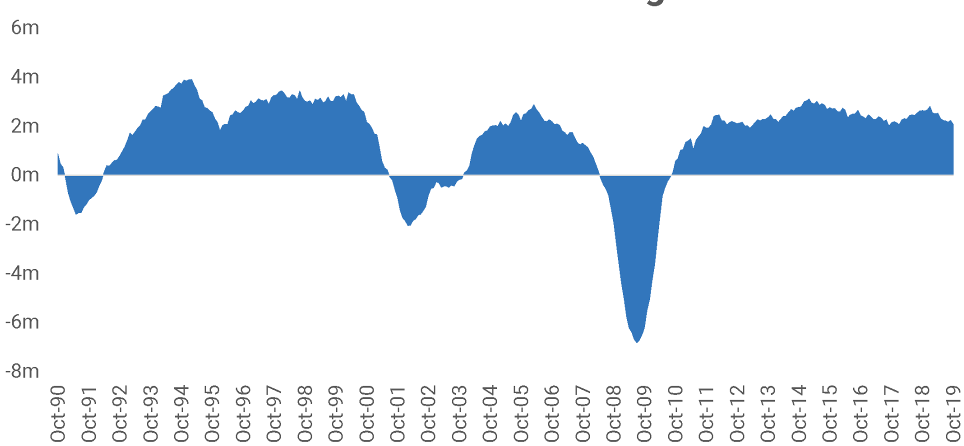
Source: RealPage, Inc.

There are many factors driving stronger apartment demand. There has a been population swell among young adults, and homeownership rates remain below historic norms. Those factors contribute to the number of people who want to rent an apartment. But job growth contributes to the number of people who are able to rent an apartment, and this expansionary economic cycle has yielded about 21 million new jobs. As of October, U.S. employers have been adding jobs for 109 consecutive months.

The confluence of strong employment growth and various lifestyle choices that make renting preferred has driven overall strong demand in many local markets as well. Unsurprisingly, the top 10 markets for demand this cycle are also among the nation's biggest employment growth markets.

Four markets have absorbed more than 100,000 units apiece. Dallas-Fort Worth stands in the No. 1 spot by a big margin, with demand exceeding 180,000 units. Houston's total is about 134,000 apartments, while New York, and Washington, D.C., each absorbed around 109,000 units. Another three markets have absorbed between 70,000 and 100,000 units: Atlanta, Los Angeles, and Seattle. Additional key centers of demand for the cycle are Chicago, Phoenix, and Austin, each absorbing more than 65,000 units.

U.S. Annual Job Change



Source: Bureau of Labor Statistics

Each of these markets are also the nation's job production leaders, with New York adding the most at 1.1 million. Dallas-Fort Worth ranks second with nearly 890,000 jobs, followed by Houston at 616,000 jobs. Six markets – Washington, D.C., Los Angeles, Atlanta, Chicago, Phoenix, and Seattle – each added between 400,000 and 600,000 jobs. Austin has added the fewest among this group, though job gains have been robust at 317,000 this cycle.

In most of these top demand markets, apartment absorption has tended to exceed building volumes, even though the construction figures have been big. The only spots where demand has come up a bit short are Washington, D.C., and Seattle. In D.C., the difference is large enough to perhaps make an argument that the market has been overbuilt – at least in the short term. In Seattle, however, there's simply a slight disconnect in the timing of supply and demand. That market specifically has achieved healthy occupancy throughout recent years, and its rent growth pace well exceeds the U.S. norm for the cycle.

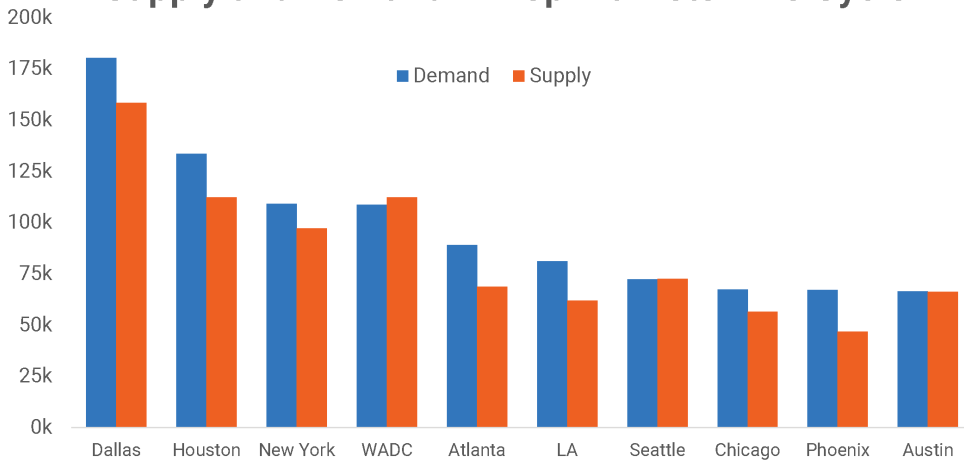
The health of apartment demand has been unquestionable through this cycle. But the market and economic landscapes are different today than they were back when the cycle began. So, what's in store for apartment demand going forward?

RealPage's expectation is that future demand for apartments should be very solid. But, not all the absorption influences are likely to come together quite as favorably as they have in recent years. Economists are increasingly in agreement that the U.S. economy is likely to slow sometime over the next two years. While overall job loss will likely be avoided, employment growth should also slow, lessening support for new household production.

Meanwhile, Millennials, which have bolstered apartment demand in recent years, are starting to reach the age at which homeownership becomes more appealing. However, they will continue to be a key source of demand a while longer. Although the oldest Millennials are in their late 30s, births in this group didn't peak until the early 1990s. So, the biggest block of Millennials consists of those in their middle- to late-20s.

On the plus side in that general environment, rentals – both apartments and rental single-family homes – should be well positioned to capture a sizable share of overall housing demand, with a large renter-by-choice demographic and high prices in the single-family for-sale market limiting competition.

Supply and Demand in Top Markets This Cycle



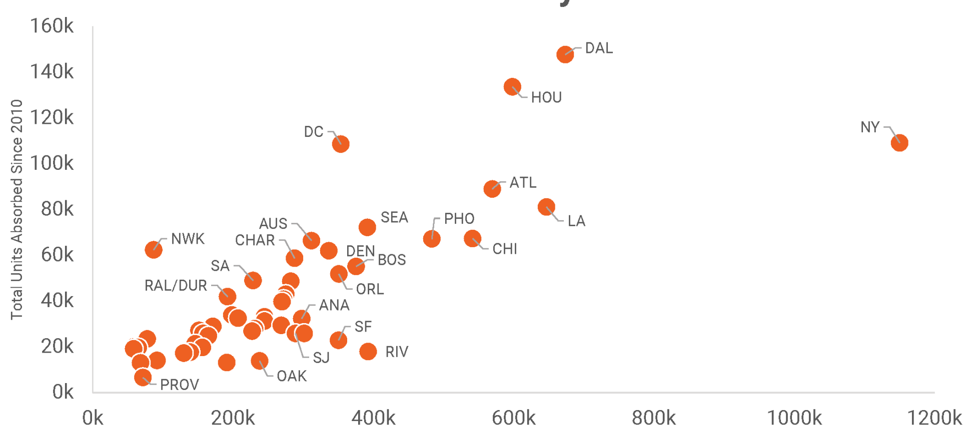
Source: RealPage, Inc.

Top Markets for Demand Since 2010

Market	Demand Since 2010	Jobs Gained Since 2010
Dallas-Fort Worth	180,231	880,776
Houston	133,610	598,300
New York	109,112	1,150,300
Washington, DC	108,558	353,634
Atlanta	88,965	569,500
Los Angeles	81,096	646,733
Seattle	72,213	391,667
Chicago	67,318	541,500
Phoenix	67,160	483,500
Austin	66,416	311,833

Source: RealPage, Inc.

Demand and Jobs Added by Market Since 2010



Source: RealPage, Inc.; Bureau of Labor Statistics