January 3, 2013

RealPage® MPF Research Apartment Market Reports Show Slowing in Rent Growth for the U.S. in 2012

While down from 2011's result, 2012's 3.0 percent increase topped the long-term norm; completions will jump notably in 2013-2014

CARROLLTON, Texas--(BUSINESS WIRE)-- Effective rents for new leases in the U.S. apartment sector climbed 3.0 percent during 2012, according to MPF Research, an industry-leading market intelligence division of RealPage, Inc. (NASDAQ: RP). The annual rent growth pace slowed throughout the year, after the rate of increase reached 4.8 percent in 2011. MPF Research analysts highlight the nation's latest apartment rent growth statistics as well as other key performance indicators that include a big jump in the number of units that will be delivered over the course of the near term in a discussion found at www.realpage.com/MPFQ4-2012-Report.

Rent growth over the past year remained a bit above the long-term norm of 2.5 percent recorded during the past two decades. An increase of 3.0 percent is similar to the average results posted during past periods when occupancy was sustained at strong and generally stable levels, according to MPF Research. Comparable annual price increases registered most recently from 2005 through the middle of 2008, and before that in the middle to late 1990s.

While U.S. apartment rents declined on average by a little more than 4 percent during the recession, they now have been moving upward for three full years. Late 2012 pricing topped the rates recorded in late 2009 by 10.5 percent.

"Property owners and operators generally aren't pushing rents quite as hard as they were a year or so ago," said Greg Willett, MPF Research vice president. "Many on the operations side of the apartment industry have focused on sustaining their very tight occupancy levels during a period when job growth and new household formation have been fairly sluggish at the same time that renter movement has begun to inch up from the unusually low levels experienced in the previous few years."

More renter movement in the apartment sector mainly reflects households opting for one apartment over another, according to the MPF Research analysis. Loss of renters to purchase in the now-improving for-sale housing market is having only a very small impact on apartment sector fundamentals, the firm's research shows. "While the number of apartment renters opting to buy is rising a little, it remains far below the levels apartment operators were accustomed to prior to the recession," Willett said. "Families that have been renting single-family homes, rather than apartments, comprise a big portion of the first wave of homebuyers seen in the cycle. By far the biggest component of the apartment resident base, particularly within large urban areas, consists of young singles living alone or young-couple households. Single-family homes just aren't the right housing option for many of them, regardless of shifts in the pricing relationship."

Locations experiencing the biggest jumps in the loss of apartment renters to purchase, in fact, tend to be places where the apartment sector's overall performance is running above the national norm. The MPF Research analysts cite Texas, the Carolinas, Nashville and Denver as key examples. "The most pronounced comebacks in the for-sale housing market are seen in spots where the overall economy is doing the best," according to Willett. "That means job additions and new household creation volumes are strong enough to quickly replace any apartment renters lost to purchase. The locations where people are buying homes are the same locations where recent college graduates are getting jobs and young adults who have been at home with their parents are now able to move out and live on their own."

Average occupancy of 94.9 percent registered in U.S. apartments at the end of 2012, up a tiny bit from the reading of 94.7 percent recorded at the end of 2011. End-of-year occupancy backtracked from the third quarter level of 95.4 percent, reflecting normal seasonality in the performance. When the nation's apartment occupancy rate bottomed during the recession, the late 2009 figure was 92 percent.

Demand for 112,900 apartments was posted across the country's 100 largest metros in 2012, according to the MPF Research data. That product absorption figure mildly surpassed completions totaling 91,500 units but was a little less than half of 2011's demand total and just a bit more than a third of 2010's unusually strong absorption result.

"It's not a coincidence that demand eased to levels near the delivery numbers in 2012 for the nation as a whole and across most individual metros," Willett said. "With the existing stock basically full almost everywhere, the only net absorption of units that could occur in many areas was limited to the demand that came from getting still-limited new supply through the initial lease-up process."

Among large individual metros, the three Bay Area markets of San Francisco, San Jose and Oakland ranked as the country's rent growth leaders in 2012. Effective prices for new leases jumped an even 8.0 percent in San Francisco, while upturns proved nearly as strong at 7.7 percent in San Jose and 7.1 percent in Oakland.

With pricing up 5.9 percent, the Denver-Boulder area was the nation's next-best performer, followed by Nashville and New York which each saw rents jump 5.1 percent. Rents climbed 4.8 percent in Houston, 4.6 percent in Charlotte, 4.4 percent in Portland, and 4.3 percent in Seattle-Tacoma.

Rent Growth Leaders in 2012

Rank	**Metro**	**Annual Rent Growth**
1	San Francisco	8.0%
2	San Jose	7.7%
3	Oakland	7.1%
4	Denver-Boulder	5.9%
5 (tie)	Nashville	5.1%
5 (tie)	New York	5.1%
7	Houston	4.8%
8	Charlotte	4.6%
9	Portland	4.4%
10	Seattle-Tacoma	4.3%

Markets just missing the cut-off point to rank as top 10 rent growth performers were Detroit, West Palm Beach, Austin and Orange County. Pricing rose 3.7 to 4.1 percent in each of those locales.

Las Vegas was the country's sole large market that completely missed out on rent growth in 2012, as prices were cut 1.7 percent. Sizable spots with rent change barely in positive territory were Virginia Beach-Norfolk, New Orleans, Riverside-San Bernardino and Atlanta.

While apartment deliveries in 2012 remained fairly limited by past standards, construction starts did accelerate rapidly throughout the course of the year. The number of apartments under construction at the end of 2012 climbed to 224,000 units across the nation's 100 largest metros. Some 149,800 of those units are in properties where building is scheduled to wrap up in 2013. The number of units under construction now nearly matches the historical norm maintained from the mid-1990s to 2008. However, the distribution of the future supply is far different from the typical pattern, according to the MPF Research analysis.

- Markets across Florida plus Atlanta, Phoenix, Las Vegas and Riverside-San Bernardino haven't fully recovered from the downturns experienced during the recession. Thus, building remains appropriately restrained and well below historical norms in those locales. Those markets, which accounted for just over a fourth of all apartment construction that occurred in the nation's top 100 metros prior to the recession, now represent just 13 percent of ongoing building.
- It's largely business-as-usual in the nation's comparatively fast-growing economies where barriers to construction traditionally have been moderate to minimal. Building activity is very similar to pre-recession norms across most spots in Texas, the Carolinas, Tennessee and Denver.
- Very early in the cycle, developers pounced on quite a few places traditionally thought of as the nation's most difficult building environments, so near-term completions now are scheduled to come in at levels well above the historical norms in places such as New York, the Washington, D.C. area, San Francisco, San Jose, Orange County and the urban cores of Seattle, Chicago and Boston.

Looking beyond what's under construction now, the backlog of projects in the planning stages is very large, according to the MPF Research analysis. "It wouldn't be surprising to see starts come in at 250,000 or more units in the country's biggest metros during 2013," Willett said. "By the end of this year then, ongoing construction, inclusive of the 74,000 or so units now underway that won't finish until 2014, probably will be getting close to the high-water mark posted during the past couple of decades." That earlier cyclical peak was 357,000 units under construction across the nation's 100 largest markets as of late 1999.

Although MPF Research has some concerns about a brief supply-related bump in the road for the apartment market's performance during 2014 and perhaps 2015, look for 2013's performance to prove similar to the 2012 results. "Most places are starved for new product right now, so properties that will complete over the coming year appear likely to do incredibly well, generally without hurting the results for the existing stock," Willett said. Just having product moving through initial lease-up will translate to a tiny slide in overall occupancy, but the market should remain essentially full.

The firm expects rent growth to again register at about 3 percent, with the potential there that the number could prove a bit higher. "Operator attitudes will influence the final number," Willett said. "Increasing deliveries will stimulate more leasing activity, and an upturn in the number of people coming through the front door can trigger more confidence on the part of property managers, even if overall occupancy rate isn't moving in a meaningful way. Also, even the moderately stronger job growth volumes that most leading economists are anticipating during the second half of the year could help alleviate the uncertainty about future demand prospects that some apartment operators exhibited when setting prices over the past year."

About RealPage

Located in Carrollton, Texas, a suburb of Dallas, RealPage provides on-demand (also referred to as "Software-as-a-Service" or "SaaS") products and services to apartment communities and single family rentals across the United States. Its on-demand product lines include OneSite® property management systems that automate the leasing, renting, management and accounting of conventional, affordable, tax credit, student living, senior living and military housing properties; LeaseStar™ multichannel managed marketing that enables owners to originate, syndicate, manage and capture leads more effectively and at less overall cost; YieldStar® asset optimization systems that enable owners and managers to optimize rents to achieve the overall highest yield, or combination of rent and occupancy, at each property; Velocity™ billing and utility management services that increase collections and reduce delinquencies; LeasingDesk® risk mitigation systems that are designed to reduce a community's exposure to risk and liability; OpsTechnology® spend management systems that help owners manage and control operating expenses; and Compliance Depot™ vendor management and qualification services to assist a community in managing its compliance vendor program. Supporting this family of SaaS products is a suite of shared cloud services including electronic payments, document management, decision support and learning. RealPage's MyNewPlace® subsidiary is one of the largest lead generation apartment and home rental websites, offering apartment owners and managers qualified, prospective residents through subscription, pay-per-lead and LeaseMatch™ pay-per-lease programs. Through its Propertyware subsidiary, RealPage also provides software and services to single-family rentals and low density, centrally-managed multifamily housing. For more information, call 1-87-REALPAGE or visit www.realpage.com.

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Source: RealPage