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RealPage® Reports a Rebound in U.S. Apartment Leasing in the Third Quarter

Momentum has returned in much of the country, despite struggles in gateway cities

RICHARDSON, Texas--(BUSINESS WIRE)-- Bouncing back from the limited demand results seen earlier in the year, U.S. rental apartment leasing proved strong in the third quarter, according to real estate technology and analytics firm RealPage, Inc. (NASDAQ: RP). The occupied apartment count climbed by 146,517 units on net in the July through September time frame.

That product absorption pace is more than four times the minimal demand for about 34,000 apartments recorded in the second quarter, which normally is the seasonal peak in leasing activity. Furthermore, demand in the third quarter topped the net leasing volume from the same period a year ago by 8 percent.

“While the U.S. economy has a long way to go before it’s fully healed, there’s enough job production to allow new household formation to return in some areas, so apartment demand is back,” RealPage chief economist Greg Willett said. “Leasing activity is still spotty by metro and by individual neighborhood, but the overall story is a good one.”

RealPage calculations show especially big demand for apartments in three Sun Belt metros – Dallas/Fort Worth, Atlanta and Houston. Those three areas absorbed some 7,700 to 9,000 apartments apiece and combined to account for 17% of the nation’s apartment absorption in the third quarter. Leasing activity also was solid during the quarter in Phoenix, Denver and Charlotte.

In contrast, apartment demand remained weak during the third quarter in some of the country’s most expensive areas, especially those in the Northeast and along the West Coast. New York suffered net move-outs from another 11,705 units during the quarter, and the occupied apartment count dropped by 3,637 units in San Francisco. Essentially no demand for apartments registered during the quarter across Seattle, Chicago and Washington, DC, while the increase in occupied apartments was mild in Los Angeles and Boston.

Occupancy Remains Healthy, But Rent Cuts Are Common

The country’s apartment occupancy rate stands at 95.6 percent as of the third quarter, inching up from 95.3 percent in the second quarter. Occupancy is a little below the year-ago level of 96.3 percent, which was close to an all-time high.

So far, apartment occupancy is holding well above the performance seen in the last recession. Looking back to a little more than a decade ago, U.S. apartment occupancy got down to a low of 92.0 percent in late 2009.

RealPage analysts see minimal impact on occupancy from units that are full despite residents not paying rent. The firm's rent collections information for professionally-managed properties shows that payments have barely slipped from normal levels, so very few renters in these communities owe notable back rent that will make them vulnerable to eviction over the next few months.

"Apartment owners are pushing to get occupancy as high as possible before leasing activity suffers the seasonal slowdown that occurs during the cold weather months," Willett said. "In some cases, they are cutting rents in an attempt to capture bigger shares of total demand."

U.S. effective asking rents as of the third quarter are off 1.2 percent from the rates seen a year earlier. The country's average monthly rent is $1,419.

Rents are continuing to rise in what are traditionally the country's slow-and-steady performers, places where pricing rarely soars in periods when the economy is strong but also doesn't falter much when conditions are comparatively weak.

The current rent growth leader is Riverside/San Bernardino, where pricing is up 4.4 percent on an annual basis. Other locations with rent increases include Sacramento, Virginia Beach, Greensboro/Winston-Salem and Memphis, plus quite a few areas located in the Midwest.

In contrast, effective asking rents are down 11.0 percent year-over-year in San Francisco and almost that much in neighboring San Jose. Annual price cuts register at 8.5 percent in New York, 5.1 percent in Boston and 4.7 percent in Los Angeles.

Leaders and Laggard for Annual Change in Effective Asking Rents

Annual Rent Change Leaders	Change	Annual Rent Change Laggards	Change
Riverside/San Bernardino, CA	4.4%	San Francisco, CA	-11.0%
Sacramento, CA	3.7%	San Jose, CA	-10.3%
Virginia Beach, VA	3.5%	New York, NY	-8.5%
Greensboro/Winston-Salem, NC	3.1%	Boston, MA	-5.1%
Memphis, TN	3.1%	Los Angeles, CA	-4.7%
Phoenix, AZ	3.0%	Oakland, CA	-4.4%
Cincinnati, OH	2.4%	Chicago, IL	-4.1%
Columbus, OH	2.4%	Austin, TX	-4.0%
Detroit, MI	2.4%	Orlando, FL	-3.2%
Indianapolis, IN	2.4%	Washington, DC	-2.8%

Source: RealPage, Inc.

More Product Is On the Way

With relatively few construction starts occurring in the past few months, apartment building activity is off a bit from recent highs. Still, there is a sizable block of new supply scheduled to deliver in the near term, putting some downward pressure on occupancy and rent positioning in the short-term future.

Ongoing construction at the end of the third quarter comes in at 583,393 units, with targeted completions dates for those additions spread over the next 18 or so months. Metros with especially large blocks of future supply on the way include Dallas/Fort Worth (40,349 units), Washington, DC (30,302 units) and Los Angeles (30,116 units). Ongoing building comes in at 21,000 to 27,000 units across Newark/Jersey City, Houston, Phoenix and New York.

About RealPage

RealPage provides a technology platform that enables real estate owners and managers to change how people experience and use rental space. Clients use the platform to gain transparency in asset performance, leverage data insights and monetize space to create incremental yields. Founded in 1998 and headquartered in Richardson, Texas, RealPage currently serves approximately 19 million units worldwide from offices in North America, Europe and Asia. For more information about RealPage, please visit http://www.realpage.com.

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