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REALPAGE

RealPage® Reports Further Slowing in U.S. Apartment Rent Growth

Solid demand allows occupancy to remain healthy in most metros, despite continuing big deliveries

RICHARDSON, Texas--(BUSINESS WIRE)-- U.S. apartment rents are climbing at an annual pace of 2.3 percent as of mid-year 2018, according to real estate technology and analytics firm RealPage, Inc. (NASDAQ: RP). While the run of annual rent growth has reached a record 32 quarters, today's rate of increase is the slowest posted during that eight-year period.

Some of the country's biggest markets register largely flat rents, with prices up less than 1 percent from a year ago. Seattle and Dallas are among the metros where rent growth has slowed most dramatically during 2018. Compared to the prices recorded in the second quarter of 2017, rents are up only 0.5 percent in Seattle and just 0.8 percent in Dallas. Annual rent growth earlier faltered to sluggish levels in the last half of 2017 across a list of large markets that includes Austin, Chicago, Nashville, Portland and Washington, DC.

Annual Rent Change Leaders and Laggards

Second Quarter 2018

Metro Leaders	Annual Rent Change	Metro Laggards	Annual Rent Change
Orlando, FL	6.6%	Austin, TX	0.0%
Las Vegas, NV	5.8%	Chicago, IL	0.1%
Jacksonville, FL	4.9%	Portland, OR	0.5%
Phoenix, AZ	4.7%	Seattle, WA	0.5%
Houston, TX	4.2%	Dallas, TX	0.8%
Tampa, FL	4.1%	Washington, DC	0.8%
Riverside-San Bernardino, CA	3.9%	Baltimore, MD	1.0%
Sacramento, CA	3.6%	Milwaukee, WI	1.0%
Columbus, OH	3.5%	Nashville, TN	1.0%
Salt Lake City, UT	3.5%	St. Louis, MO	1.0%

Source: RealPage, Inc.

A few big metros are continuing to register robust apartment rent growth. Most notably, the annual pace of rent increase reaches 6.6 percent in Orlando and 5.8 percent in Las Vegas. Prices are up roughly 4 percent to 5 percent in Jacksonville, Phoenix, Houston and Tampa.

The pricing power achieved during the second quarter is especially important to annual performance results for the nation's apartment owners and operators. The year's strongest rent push generally kicks in during the second quarter, reflecting that demand accelerates after the period of seasonally slow leasing activity that is normal in cold weather months.

"If you miss the window to drive rents during the second quarter, it's tough to counter that shortfall later in the year," according to RealPage chief economist Greg Willett. "Even though demand generally holds up through late summer, by August or September there's a tendency to position rents more conservatively in order to fill as many units as possible before the seasonal slowdown in leasing begins."

Following the typical seasonal pattern, most of the past year's rent growth occurred in the months of April, May and June. Pricing increased 1.8 percent during that three-month period. However, the rent growth generated during the second quarter of this year proved a little light relative to increases achieved during the same period over the previous few years. Second-quarter rent growth in 2014-2017 averaged 2.3 percent.

Slowing rent growth reflects the battle to attract affluent renters, as new supply – almost all of it luxury product – is

being delivered at levels last seen three decades ago when Baby Boomers were just entering the housing market. Rent concessions, often about a month of free rent, now are common in neighborhoods adding the most new product. While new properties are too expensive for a majority of renters to afford them, rent growth also is slowing to a lesser degree in existing projects of more moderate quality. Efforts to maintain an appropriate gap in pricing between the various classes of product are shaping that cooling of rent growth in properties that do not compete directly with high-end additions.

Developers completed 75,227 market-rate apartments across the country's 150 largest metros during the second quarter. The annual pace of completions now has slightly exceeded 300,000 units for four consecutive quarters, with the number of additions brought to market in the 12-month period ending at mid-year 2018 totaling 305,641 units.

"We're at best only halfway through the period of peak deliveries," according to Willett. "Ongoing construction of market-rate product totals just a hair under 400,000 market-rate units in the RealPage count, with annual deliveries set to stay right around 300,000 units through the middle of 2019."

With total demand spread among so many new properties, the leasing competition experienced by those individual projects can mask the fact that apartment leasing in aggregate remains very strong. Thus, occupancy in the U.S. apartment sector is healthy. The mid-2018 occupancy rate is 95.0 percent, with most of the available units found in those new completions building an initial resident base. Even with so many deliveries, occupancy is barely under the 95.3 percent level recorded a year ago.

About RealPage

RealPage is a leading global provider of software and data analytics to the real estate industry. Clients use its platform to improve operating performance and increase capital returns. Founded in 1998 and headquartered in Richardson, Texas, RealPage currently serves more than 12,400 clients worldwide from offices in North America, Europe and Asia. For more information about the company, visit http://www.realpage.com.

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