Q4 2019
Apartment First Glance

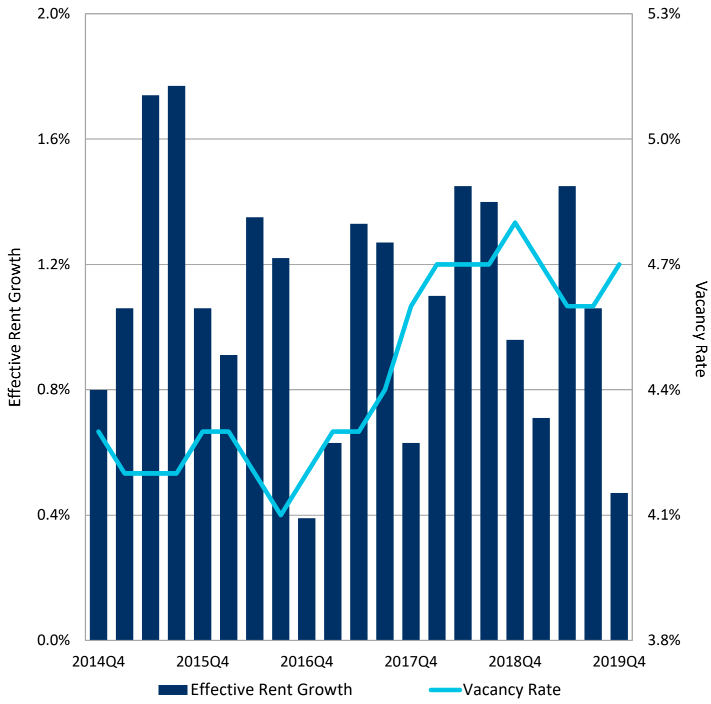
Pre-Release Analysis of Forth Quarter 2019 Moody's Analtyics REIS Findings in the Apartment Sector

THE UPWARD TREND CONTINUED, DESPITE CONSTRUCTION DELAYS

The national vacancy rate for multifamily properties rose 10 basis points in the fourth quarter of 2019, to 4.7%. The rate stood at 4.6% for two consecutive quarters after falling from 4.7% in the first quarter. The vacancy rate was 4.8% a year ago. In general, vacancy trends were flat for 2019.

Supply growth continued to be slow in the fourth quarter, with 35,000 units coming online, despite the larger aggregate figure that was expected to open their doors for all of 2019, relative to 2018. This total represents not just projects that had broken ground in 2017 or so, but also projects that were delayed from their expected 2018 openings. As per standard late year behavior from developers, delays were rampant and several thousand units were postponed till the following year. The total for new completions in 2019 was 184,000 new units, falling short of last year's record breaking number of new completions, 265,000 units – the highest figure for new completions on record in at least two decades.

APARTMENT VACANCY AND RENT GROWTH



RENT GROWTH HAS SLOWED – BUT THIS WAS NOT UNEXPECTED

Both asking and effective rent growth registered at 0.5% for the fourth quarter, the lowest quarterly growth observed in three years. Rent growth for the year as a whole weakened relative to last year, with both asking and effective rent growth coming in at 3.7%. A slowdown in rent growth is not unexpected, given the general slowdown in multifamily fundamentals since around 2015. Those were, in retrospect, halcyon days when annual asking and effective rent growths hit their cyclical peaks of 5.8% and 5.7%. Asking and effective rents came in at 5.2% and 5.0%, respectively, in 2018.

In general, these are still relatively healthy numbers, suggesting that although performance metrics have climbed down from 2015 highs, this is a very manageable – and indeed ideal – 'soft landing' for apartment fundamentals. Compared to other sectors like office and retail that have struggled to improve rent growth and vacancy declines, multifamily still benefits from near-record vacancy lows in many markets. While it is true that subdued supply growth through 2019 helped keep vacancy rates from rising further, it is also true that underlying demand therefore remains very strong. While some submarkets which bear the brunt of new construction have seen vacancies rise significantly, national vacancies did objectively register a 10 basis point decline throughout 2019 – from 4.8% when we ended 2018 to 4.7% today.

Occupancies improved in 27 out of REIS' top 82 apartment markets, a larger proportion than what we observed last quarter. Meanwhile, effective rents increased in 76 metros.

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MARKET HIGHLIGHTS

More metros saw a vacancy rate increase in the quarter: 38, up from 35 last quarter. Those with the highest vacancy rate increase include Charlotte, Fairfield county, Greensboro/Winston-Salem, Dallas and Greenville. Metros that saw the biggest decline in vacancy include Providence, Fort Lauderdale, Oakland, Suburban Maryland and St. Louis.

Rent growth was mixed: 16 metros saw an increase in effective rent of 1.0% or more, led by Charleston, Chattanooga, Tucson, Lexington and Pittsburgh– all of which had rent growth of 1.5% to 1.9% in the fourth quarter. However, four metros posted an effective rent decline in the quarter including Fairfield County, New Haven, Richmond and Northern New Jersey.

At 3.9%, New York City saw no change in vacancy; New York's average effective rent grew 0.4% to $3,581 per unit in the fourth quarter, up 3.2% over 2018. At $3,153 per unit, San Francisco's average effective rent is approaching New York City's. San Francisco's effective rent growth for the quarter was 0.5% and for the year was 4.4%.

Metros that posted the highest effective rent growth for the year include Knoxville (+6.8%), Phoenix (+6.6%), Raleigh-Durham (+6.2%), Chicago (+5.4%) and Charlotte (+5.4%). Markets with the weakest growth include New Haven (-0.1%), Little Rock (+0.8%), Wichita (+1.5%), Northern New Jersey (+1.6%) and Long Island (+1.6%).

Apartment performance statistics were consistent with employment growth for the year as Orlando, Dallas, San Francisco, Phoenix and Seattle led job growth with rates of 2.9% to 3.6%. Metros with the lowest growth include Minneapolis (-0.1%), Suburban Maryland, Tulsa, Dayton and Hartford that had growth rates of 0.1% to 0.3%.

APARTMENT OUTLOOK

REIS expected supply growth to peak this year, and ease significantly in 2020 and 2021. Now, with many projects delayed and completion dates pushed off into the new year, 2020 will likely see higher numbers of new completions. Still, supply growth is expected to slow, leading to less pressure on apartment rents and vacancies. As long as demand remains strong (and demographic patterns suggest that rental demand will likely remain robust for another five to ten years), apartment vacancy increases should taper off in the next year or two. We may even experience a rise in rent growth in specific markets.

Despite a somewhat tumultuous start to 2020, global growth expectations are actually better for the coming year, with several struggling economies expected to bottom and rebound. The risk of a recession, although ever present, has declined for the following 12 months. Uncertainties remain, whether in the form of a potential war with Iran as well as the results of the 2020 Presidential Election. But relative to other property types, multifamily may well weather the year better – as it has, in relative terms, over the last decade.

Fourth Quarter 2019 Market Performance

Improving Fundamentals / Flat or Declining Fundamentals

	Absorption	Occupancy	Effective Rent
Q4 2019	71 + / 11	27 ↑ / 55	76 ↑ / 6
Q3 2019	80 + / 2	26 ↑ / 56	80 ↑ / 2
Q2 2019	79 + / 3	46 ↑ / 36	82 ↑ / 0
Q1 2019	76 + / 6	55 ↑ / 27	72 ↑ / 10
Q4 2018	77 + / 5	29 ↑ / 53	80 ↑ / 2

Figures are based on 82 metro markets

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