appfolio Property Manager

Market Watch 2016

U.S. Apartment Forecast

An AppFolio and Axiometrics Trends Report

“Growth” is the primary keyword for the national apartment market for more than two years. Rents have grown, occupancy has risen, the economy is finally adding a significant number of jobs, and construction of new apartment properties has boomed since 2014.

Most of all, demand for apartments has grown—not just because of job gains, but also because more people are choosing to rent instead of own. From millennials choosing to delay marriage and families, to empty-nest baby boomers seeking a maintenance-free, urban-center lifestyle, “renting by choice” is a hot phrase in the real-estate industry.

Today, rent is increasing at a slower pace than it did from Spring 2014–Summer 2015. Property owners, managers, and investors will be happy to know that annual effective rent growth (asking rent minus concessions)—which has averaged 4.1% so far in 2016, according to Axiometrics' market intelligence—is still well above the seven-year long-term average of 2.6%.

With an average of more than 200,000 jobs added each month, and the headline unemployment rate down to about 5%, demand for apartments is still strong (Axiometrics has found an 86% correlation between job growth and apartment demand). However, the sheer number of units being built means that supply is beginning to outpace demand. Axiometrics has identified 347,467 new apartments entering the market in 2016.

That amount of new supply, compared to forecast moderating job growth in the second half of the year, has Axiometrics predicting rents to rise by 3.2% for the year—still nicely above the long-term average.

Axiometrics and AppFolio studied 20 core markets and found that the strongest rent growth is in the West and South regions of the U.S. And it's no surprise that job growth in these hot markets is above the national average as well.

These top markets include:

SACRAMENTO, CA

California's capital has recorded the nation's highest average annual effective rent growth so far this year at 11%. That high rate is unsustainable in the long run, but even with moderation, this metro is expected a see a 6.9% increase in rent in 2016. Job growth is predicted to increase, and just 255 new units are expected this year.

PORTLAND, OR

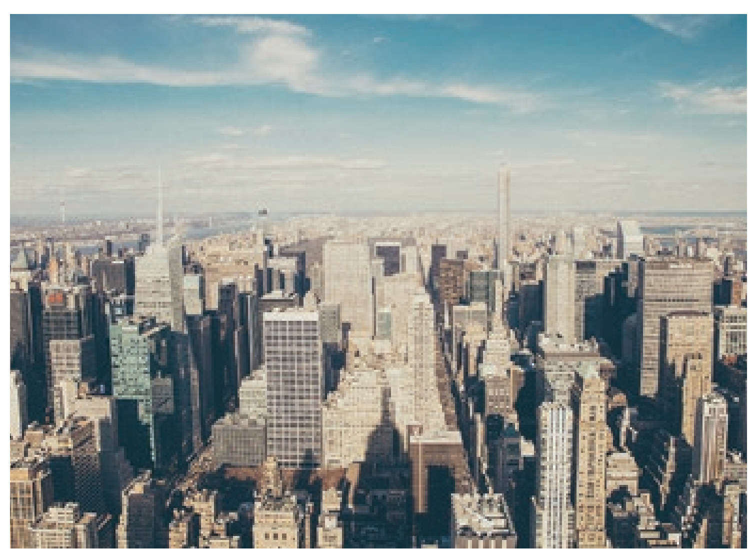
The only other metro area averaging double-digit rent growth for the first four months of 2016 (10.2%), Portland will have high apartment demand with forecasted job growth of 2.8% in 2016. Though rent growth is moderating—5.9% growth is predicted for the year—the 4,839 new units expected this year should be absorbed relatively quickly.

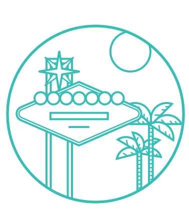
COLORADO SPRINGS, CO

Unlike nearby Denver, the Colorado Springs apartment market is strengthening in 2016. Effective rent growth has averaged to 8.6% so far this year. Though moderation to 5.9% is predicted by the end of the year, the forecasted 2.5% job growth will certainly create demand for the 758 new apartments identified to deliver in 2016.

SALT LAKE CITY, UT

The sleeper among apartment markets this year, Utah's largest metro has had one of the most meteoric rent-growth rises over the past year. Rents are forecasted to increase 5% in 2016 after averaging 6.7% from January–April. Job growth of 2.7% is predicted, enhancing demand.





LAS VEGAS, NV

As the economy has strengthened, this tourist mecca is drawing increased attention. Job growth of 2.7% is forecasted, which should mean good news for the developers hoping to fill the 2,355 new apartments identified to come to market this year. Effective rent growth—which averaged 6.5% so far in 2016—is expected to be 4.6% for the year.

LOS ANGELES, CA

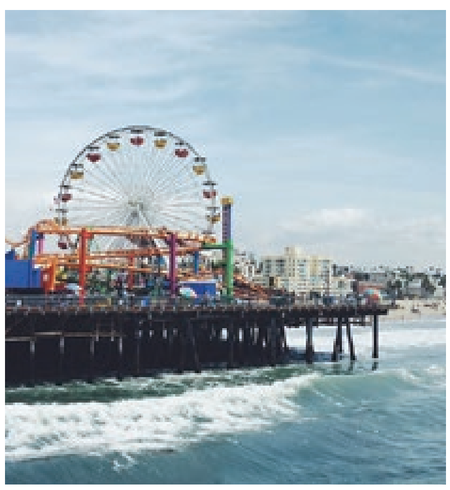
The good news is that landlords will be able to raise rents by an average of 4.6%, after averaging 6.0% from January–April. Job growth, however, is expected to moderate from the 2.5% in April to 2% for the year. However, that's still 87,000 jobs, and given the metro's size, it will generate strong apartment demand.

TUCSON, AZ

With only 631 apartments identified for 2016 delivery (along with 311 off-campus student housing beds) and job growth at 3.1% in April, the supply and demand numbers work in landlords' favors. That's why rent growth has averaged 5.4% so far this year and is forecasted to end 2016 at 4.6%. Job growth is predicted to moderate to 2.1%.

ATLANTA, GA

This market has been like its basketball team. As the Hawks have emerged as an NBA contender, the apartment market was late to emerge from the recession but exploded the past 2½ years. Rent growth has averaged 6.7% from January–April, while job growth has been around 3%. Moderation to 4.5% rent growth is expected, with 11,753 units coming to market in 2016.



SAN DIEGO, CA

The belle of Southern California apartment markets in late 2015, San Diego is still going strong. The 6.4% average rent growth so far in 2016 is forecasted to moderate to 4.5%, but the predicted year-end job growth of 2.3% should be able to absorb the 3,475 units identified for 2016 delivery.

AUSTIN, TX

The Texas capital had one of the nation's highest job-growth rates in April at 4.0%, which is expected to moderate to a still robust 3.2% by year-end. Annual effective rent growth averaged 5.4% from January–April and is forecasted to moderate to 3.8% for the year. One reason is that 9,535 new units are expected to come to market, the most in this cycle.

While San Francisco and Boston are not among the strongest markets in the nation, those who see the glass as half full understand they are still very profitable.

SAN FRANCISCO, CA

A year ago, Bay Area metros had three of the top five rent-growth rates in the nation. But the double-digit figures were unsustainable. Still, the 4% average rent growth in San Francisco so far this year and the 3.7% forecasted for 2016 as a whole is strong. With 2016 job growth forecast at 3.3%, demand should pick up.

BOSTON, MA

Boston remains the jewel of the Northeast, with average January–April rent growth of 4% and a 2016 forecast of 3.3%. The forecasted 1.7% job growth may be just below the national average, but the addition of 5,407 units in 2016 is just enough for a market as large as Boston.

The rent-growth and job-growth forecasts for the remaining eight metros are mostly below the national prediction—though forecast job growth in Baltimore and New York is higher than the nation's. The good news is that new construction is relatively light in these markets, except for New York and Chicago.

NEW YORK, NY

With 22,848 new apartment units identified for 2016 delivery, a large percentage of them in Brooklyn, New York needs its forecasted 2% job growth (137,122 jobs) to absorb them. But the second half of the year looks strong, as rent growth is expected to increase from the 1.2% January–April average to 2% for the year.

CHICAGO, IL

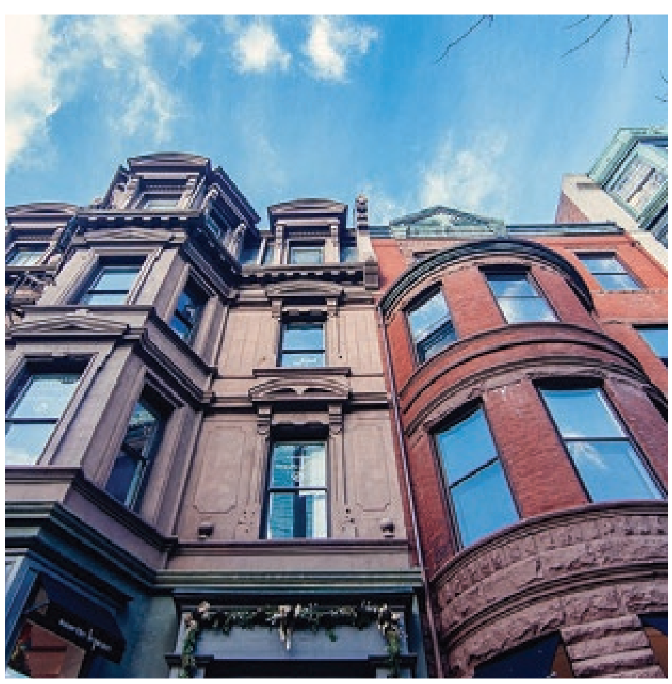
The 2016 job-growth forecast is 1.4%. With 7,598 new units scheduled to enter the market this year, it will be hard to raise rents too much. The forecast is for rents to increase 2.2% in 2016, after the annual rate averaged 2.4% in the first four months of the year.

MILWAUKEE, WI

Both the January–April average and forecasted 2016 rent growth are 2.6%, off the predicted 2016 job growth of 0.8%. Some 2,417 new units have been identified for delivery this year.

MINNEAPOLIS–ST. PAUL, MN

The Twin Cities market is forecasted to strengthen in 2016, as rent growth rises from its 2% average so far this year to 2.6% at year-end. The construction boom has peaked, with 2,905 units identified to enter the market in 2016 and job growth forecasted to end up at 1.5%



BALTIMORE, MD

With 2.1% job growth predicted and only 3,210 new apartments expected to deliver in 2016, Baltimore's rents are expected to increase 2.3% this year after rising by an average annual rate of 2.2% from January–April.

PHILADELPHIA, PA

Decreasing job growth has caused rent growth to fall from Summer 2015 peaks in this market. Rents are forecasted to rise only 0.9% in 2016, after the annual rate averaged 1.2% over the first four months of the year. Some 3,060 units have been identified for 2016 delivery.

OKLAHOMA CITY, OK

Low job growth and limited demand for apartments resulted in an average of -0.5% rent growth from January–April. The rate inched into positive territory in March and April, and is expected to end the year at 0.3%. Only 1,804 new units are expected in the market in 2016, which is probably good since 0.6% job growth is forecasted.

And, finally, we come to Houston. One of the strongest apartment markets in the early part of the post-recession cycle, the combination of huge amounts of new supply and the collapse of oil prices from July 2014–January 2016 has had a negative effect. A nation-leading 27,649 new units are expected to be delivered this year, but 0.8% job growth is forecasted. Annual effective rent growth, which averaged 0.4% from January–April, is expected to end the year in negative territory, at -0.3%.

Apartment-market growth continues to be strong nationwide and in most markets, despite some moderation from the unsustainable heights of the past two years. The West and South continue to dominate, with some pockets of robustness in other regions.

With jobs continuing to be added in most sectors and regions, demand for apartments will continue to grow. The amount of new supply could be a moderating factor, but rent growth is forecasted to continue to remain above the long-term average for the foreseeable future.

Let the growth continue.

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