# RealPage Chief Economist: Multifamily Completions 'Likely To Modestly Surpass Product Absorption In 2018'

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The U.S. apartment market's performance stumbled during Q1, with occupancy sliding to 94.5% in March, down from 95% a year earlier, according to data by real estate tech and analytics firm RealPage.

Rent growth cooled as well, coming in at a 2.3% increase year over year, the company said. That is the slowest pace of increase since the market started its long run of prosperity in 2010.

"While economic and demographic influences [regarding] demand capacity point to a strong appetite for apartments during this year's prime leasing season, completions appear likely to modestly surpass product absorption in 2018," RealPage Chief Economist Greg Willett said.

While some loss of apartment market performance momentum is normal when cold weather in much of the country discourages household mobility, the occupancy downturn in early 2018 is pronounced. Supply is finally catching up to demand, it seems, especially in the upper reaches of the rental spectrum.

"Look for a competitive leasing environment in the luxury product niche, especially in urban core settings," Willett said.

RealPage does not anticipate an apartment market crash or even much more of a contraction. Rather, the market seems to be returning to more "normal" conditions.

That is because a national occupancy rate slightly below 95% is historically more common than one above it. Occupancy averaged 95%

during the six-year run from 2012 to 2017, peaking at 95.6% in mid-2016, according to RealPage calculations. Compared with previous decades, occupancy that high is the mark of an unusually tight market.

Naturally, some markets are currently tighter than others. Among the country's larger metros, Minneapolis-St. Paul tops them all in terms of occupancy, coming in at 96.5% as of March. Occupancy also reached 96% or better in the New York, Newark-Jersey City, Orlando and Sacramento metros.

Metros posting the strongest apartment occupancy tend to be areas where construction activity is muted, according to RealPage. These markets do not suffer from the effect of large blocks of new supply moving through initial lease-up. Among markets ranking highest for occupancy, only Orlando added new supply during the past year at a pace above the national average.

As for rental growth, the current annual pace of 2.3% is a slight drop from increases that had hovered between 2.6% and 2.9% throughout 2017. The market is now more than two-and-a-half years past this economic cycle's peak rent growth, RealPage reports, which was a 5.3% annual price increase achieved in Q3 2015.

With pricing up a little more than 6% annually, Las Vegas and Orlando are the best rent growth performers among the country's major metros. Sacramento, which had been in the No. 1 spot since the middle of 2016, now takes the third position, registering 5.5% growth.

Austin, with rents down 0.7% year over year, is the only major market to experience rent declines. Price increases are very shallow, at no more than 1% in many other places, including Chicago, Milwaukee, Nashville, Newark-Jersey City, Pittsburgh, Portland, Seattle, St. Louis and Washington, D.C.

Such sluggish rental growth also means that concessions are back, though not for most properties.

"Concessions should be common among new property deliveries moving through initial lease-up, but not in the existing apartment stock," Willet said.

RealPage generates its data by including market-rate, attached dwellings with five or more units leased through a central management company or agent.

Other types of multifamily dwellings, such as student, senior and affordable housing, as well as privately owned condos, are not considered conventional apartment properties for the purposes of RealPage's report. The company collects data through direct relationships with owner and management companies and via other surveying methods, according to RealPage.

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