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A 4.0 for 3Q

Apartment Market Up In Quarter

October 8, 2014

The nation's apartment market continued to gain strength in the third quarter of 2014, according to early release figures from [Axiometrics]. Annual rent growth reached 4.0% for the first time in almost two years, while quarterly effective rent growth increased significantly over the third quarter of 2013.

Occupancy also increased, to 95.1%, breaking the record of 95.0% set last quarter, which had been the highest since the first quarter of 2001.

Effective rent growth increased by 1.6% over the second quarter of 2014 on a quarter-by-quarter basis (reflecting the growth from July 1 to now), an improvement on the 1.2% quarterly growth of the July-September period last year. Each quarter this year has seen improved rent growth from the same quarter last year.

The quarterly numbers this year show a stronger apartment market than Axiometrics anticipated at the start of the year.

QUARTERLY EFFECTIVE RENT GROWTH

Quarter	2013	2014
First	0.4%	0.5%
Second	2.1%	2.7%
Third	1.2%	1.6%
Fourth	-0.9%	

Source: Axiometrics Inc.

While effective rent growth for the third quarter was lower than the 2.7% rate seen in Q2, the decrease between the second (2.7%) and third quarters (1.6%) is typical for the seasons. Axiometrics' historical data show that the second quarter is usually the best of the year and rent growth moderates after June.

The 4.0% annual effective rent growth was the strongest since the 4.2% of the second quarter of 2012 and was 70 basis points (bps) higher than the 3.3% in 2014's second quarter. The 4.0% mark for the quarter matched what was seen in the monthly trends, when annual growth reached a 27-month high of 4.1% in August.

Apartments Are Full

Rent is still increasing because the market is filled to capacity. Axiometrics considers a property or market to be full at 95% occupancy, and national occupancy has been at or above that point for the past two quarters. So, new supply is needed to meet the demand. Currently, demand exceeds supply.

Demand is strong because more people want to rent. Job growth has been high for most of 2014, millennials are delaying marriage and children, and a lot of people don't want to move out of apartments to purchase homes for reasons including mobility, proximity to work and play, and more restrictive mortgage requirements.

Urban Versus Suburban

One major change seen in the past year is decreasing rent growth in urban cores and increasing rent growth in suburban submarkets.

A higher concentration of deliveries is taking place in downtown/uptown/center-city areas, so existing properties are moderating rent to stay competitive and retain residents. While more total supply is being delivered to suburban markets, those units are more spread out, and the competition is not quite as keen.

In Boston, for example, annualized effective rent growth was 6.0% in the West/Northwest Suburban submarket in the third quarter, but -1.1% in the Central City/Back Bay/Beacon Hill submarket. In the Denver area, the Aurora-Central-Southwest submarket experienced 13.5% annualized growth this quarter, compared with 3.3% in the Denver-Downtown submarket.

More supply is coming to both the urban core and the suburbs in the fourth quarter of 2014 and in 2015, but most metropolitan areas will be able to handle the deliveries.