THE MULTIFAMILY
Spotlight

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Apartment Vacancy at Lowest Level Since 2001; Demand Outpaces Elevated Supply Additions

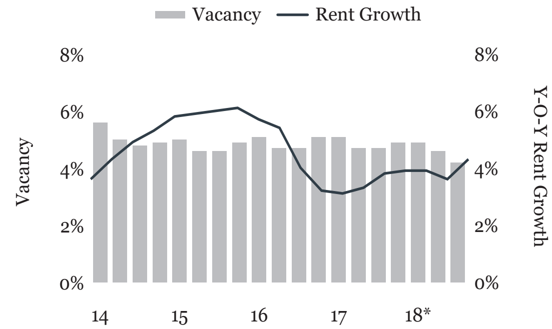
Tight vacancies found across the nation. Robust multifamily demand in the third quarter has pushed the national vacancy rate down 30 basis points to 4.2 percent. The national vacancy rate now stands at the lowest level in the expansion and it hasn't been this low since 2001. A number of major metros, such as Minneapolis, Orlando and Riverside, have third quarter vacancy rates in the high-2 to low-3 percent range, reflecting the significant tightness of the multifamily markets nationwide.

Low vacancy rate rooted in mounting demand. Expanding demand for multifamily rentals can be traced to the releasing of pent-up millennial household formations, but also structural demographics changes that are raising the propensity to rent for many households. After peaking in 2016, the number of young adults living with parents declined last year. Given strong economic growth, that trend appears to have continued in 2018. As these millennials move away from home to form new households, they tend to favor multifamily renting. In addition, single-person households have experienced the most growth of any household type since 1980 and account for 27 percent of all households nationally. Singles have a high propensity to rent and account for almost 50 percent of occupied apartments today. The rise in single-person households has been a boon for apartment demand by creating a large stable occupancy base and the continued growth of these households will continue fueling future demand.

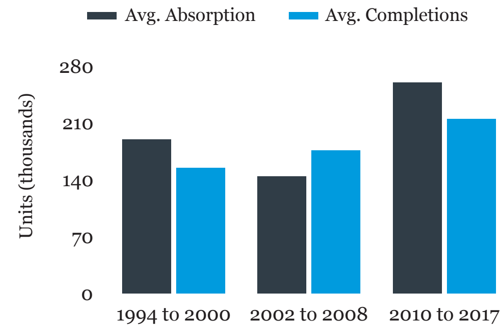
Accelerating multifamily absorption standing out. Released pent-up household formations combined with rising single-person households created 107,000 units of absorption in the third quarter. This total ranks as the most units ever absorbed in the third quarter. Year-to-date absorption stands at 290,000 units. Since 2010, average yearly absorption has outpaced the previous two expansions, reflecting the positive upward shift for rental apartments. In the '90s and 2000s growth cycles, annual average absorption totaled 189,000 and 144,000 units, respectively. In the current expansion, however, that average has jumped to 260,000 units, reflecting the move toward a higher propensity to rent by many households.

Upturned rent growth reverses trend. The record third quarter absorption combined with the lowest vacancy in the expansion reversed the moderation in rent growth seen in the second quarter. Average effective rent growth year over year rebounded from 3.6 percent to 4.3 percent in the third quarter. In the second quarter, it appeared that owners and property managers were concerned about new supply additions and focused on increasing occupancy over rent growth. But with high absorption recorded in the second quarter and demand remaining sturdy throughout the third quarter, rental rate increases followed. While supply apprehensions remain for many in the industry, changing lifestyle choices and the releasing of pent-up household formations set the stage for continued compelling apartment demand. The solid national apartment demand outlook will allow the sector to maintain low vacancy and overall rent growth above the historical average.

National Vacancy and Rent Growth



Supply and Demand by Growth Cycle



Top 10 Tightest Vacancy Markets

	3Q Vacancy	3Q Y-O-Y Rent Growth
New York City	1.9%	2.9%
Minneapolis-St. Paul	2.7%	5.1%
Detroit	3.1%	3.1%
Orlando	3.2%	7.2%
San Diego	3.2%	4.9%
Riverside-San Bernardino	3.3%	4.9%
Los Angeles	3.4%	4.3%
Boston	3.5%	3.8%
Columbus	3.5%	4.2%
San Jose	3.5%	5.5%
United States	**4.2%**	**4.3%**

** Through 3Q*
Sources: IPA Research Services; RealPage, Inc.

Prepared and edited by

Jay Lybik
Vice President | IPA Research Services

For information on national apartment trends, contact:

John Chang
Senior Vice President, National Director | Research Services
Tel: (602) 707-9700
john.chang@ipausa.com