Multifamily Market Commentary — December 2019

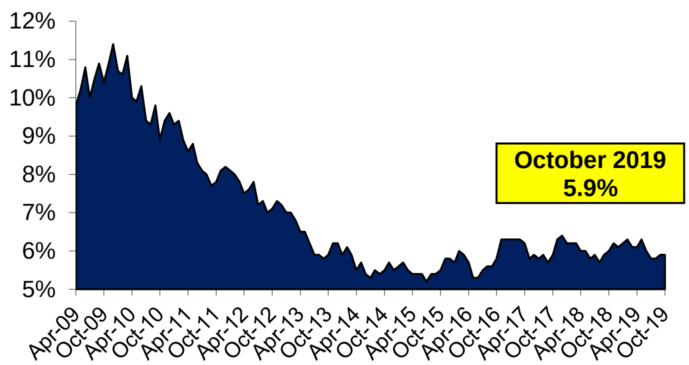
Concessions continue to be low amid surge of new supply

Multifamily market fundamentals have remained positive over the past five years, with continued rent growth, strong absorption of new inventory, and generally low vacancy rates. Over this period, the market has seen a significant volume of new supply come online. But ongoing demand from new rental household formations, fueled by growth in the job market, has supported the multifamily sector's solid fundamentals.

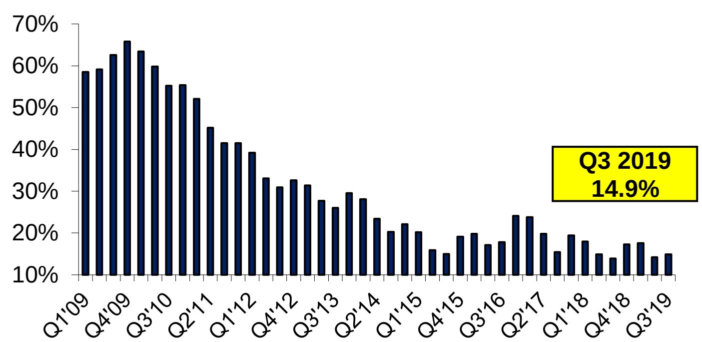
Concessions are one of the ways property owners attract tenants in a competitive market. Concessions are enticements with economic value for renters, such as periods of free rent, free utilities, or other amenities. Concessions data from RealPage continues to show that, on a national basis and in most markets around the country, property owners have not increased the value of the concessions they offer to keep units occupied. Instead, concessions have remained near historically low levels over the last five years, though there is occasional volatility.

Overall, the value of concessions (for properties that offer concessions) has remained around 6% of annual asking rents for more than six years. Over the past year, concessions have remained generally stable, with the October 2019 level of 5.9% virtually unchanged from the 6% level in October 2018. That's down significantly from the peak of more than 11% back in late 2009. And as of the end of the third quarter of 2019, just 14.9% of the properties surveyed by RealPage were offering concessions, down from nearly 66% at the end of 2009, as seen in the chart below.

National multifamily concession rate



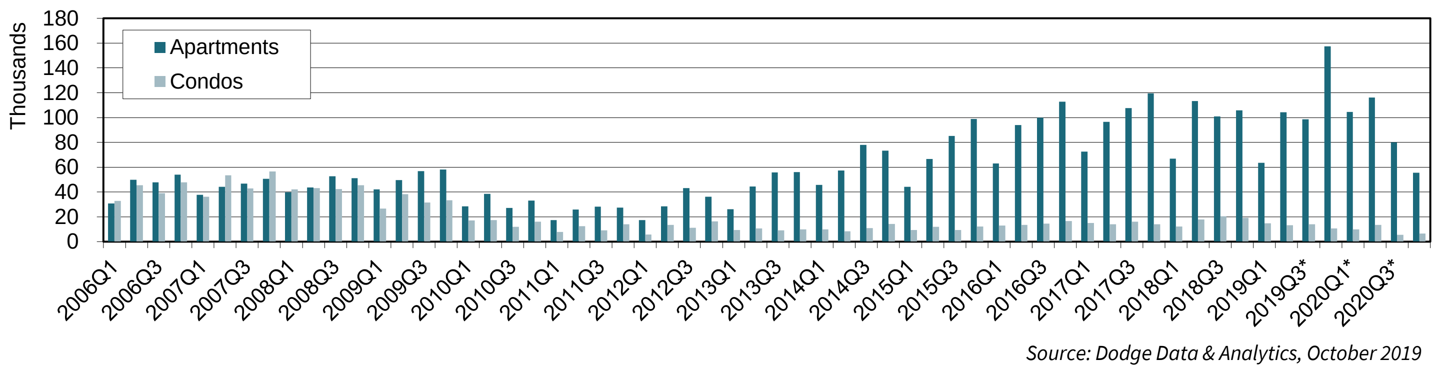
Percent of properties offering concessions



Source: RealPage and RealPage Investment Analytics, October 2019

The nation's multifamily markets continue to see a surge in the supply of new apartments. In 2019, the industry expects to complete nearly 416,000 new apartment units, according to Dodge Data & Analytics. That's after it added nearly 387,000 units in 2018, as seen in the chart below.

National condo and apartment completions and units underway



Source: Dodge Data & Analytics, October 2019

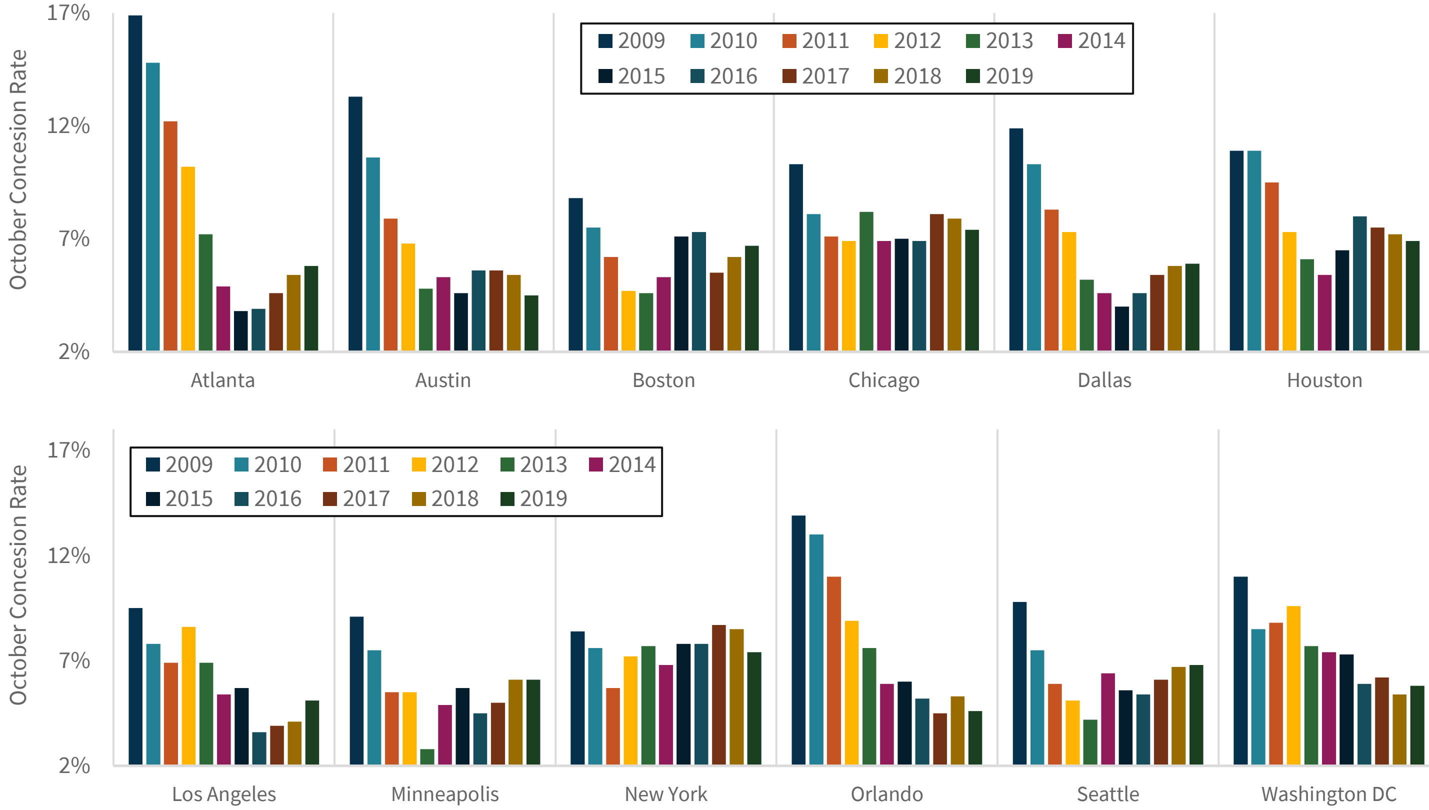
NOTE: Pipeline data is not an actual forecast of activity — it is a monitor of activity reported to date. As more projects are planned and tracked, figures in future periods might go up.

Concessions low, though rising modestly in some major markets

Although more than 400,000 new apartment units are expected to be completed in 2019, these units are not evenly distributed on a national basis. In fact, the majority of the new apartment supply is concentrated in approximately 12 metropolitan areas, and primarily in an even smaller set of submarkets within those metros. The most active metros in the country for apartment development continue to be New York, Washington, D.C., Dallas, and Los Angeles. New York has more than 59,200 units under way, while the other three exceed 22,000 each. Boston, Seattle, and Austin follow with slightly fewer units, and Atlanta, Minneapolis, Orlando, Houston, and Chicago round out the top 12.

These 12 major metros have seen an increase in the level of new supply over the past few years. Pent-up demand has helped absorb this wave without property owners having to greatly increase concessions, though there have been some steady but modest increases in several of these metros, as seen in the chart below.

Multifamily Concession Rate by Market – Select Metros



Source: RealPage, October 2019

For context, a month of free rent is a concession rate of 8.3%. So, although Atlanta has experienced the largest increase in concessions since 2016 among the markets listed above, its concession rate remains a low 5.8%, though that is up from 3.9% in October 2016. Atlanta's multifamily market remains stable, with a strong underlying economy, vacancy rates moving in the right direction, and asking rent growth positive. But high levels of supply, especially within the Buckhead, Central I-75 West, North Gwinnet, and Midtown submarkets, is likely pushing some landlords to increase concessions. The Dallas and Seattle markets also currently have strong underlying economies and robust new development and have seen a bit of a rise in concessions since 2016, but all remain under one month's free rent.

Orlando and Houston are also in the midst of an economic expansion, coupled with a surge in new apartment deliveries, but these multifamily markets have not seen a rise in concessions. Orlando has seen its concessions rate decline to 4.6% in October 2019 from 5.2% in October 2016. It added around 24,300 units to its market during this period. Houston has had over 33,800 units come online during this same period, and it has seen its concession rate decline to 6.9% from 8.0% over that same time period.

Class A concessions are higher

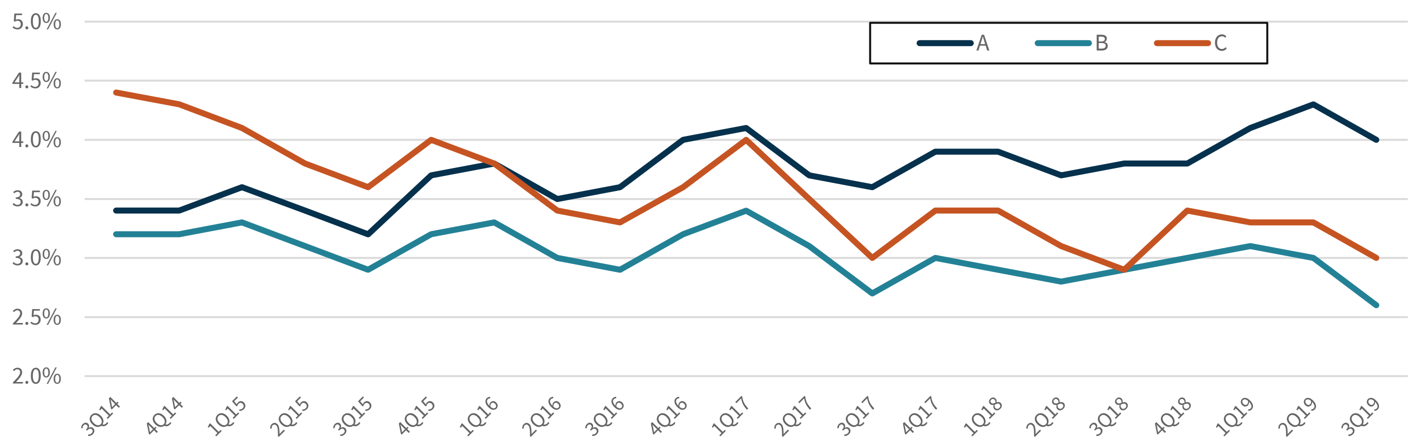
During this multi-year surge of new apartments, developers have built primarily class A units with higher-end finishes and appliances. The increased competition among class A projects has resulted in some property owners having to offer higher levels of concessions to fill these new, more expensive units.

While the increase has not been dramatic, it has been noticeable.

- At the end of 2015, the level of class A concessions was approximately midway between the levels of B and C properties, at 3.7% – above the 3.2% level for class B, but below the 4.0% level for class C.
- As of third quarter 2019, however, the level of class A concessions had risen well above the other classes, to 4.0% for class A – considerably higher than the 2.6% and 3.0% for classes B and C, respectively.

While the overall market was generally stable over the past year, concessions for Class A properties have risen modestly. Class A concessions rose to 4.0% in the third quarter of 2019 from 3.8% in the third quarter of 2018, the highest current concession rate among the classes. Considering that the 400,000 or so apartment units added to the nation's housing stock during this period consisted primarily of Class A properties, the increase is noteworthy, but not yet concerning.

National Multifamily Concession Rate by Property Class



Source: RealPage, Q3 2019

Over the past three years, concessions for Class B and C properties have generally remained below 4.0%, and both classes' respective concession levels have remained below the Class A level since the second quarter of 2016. Over the past year, the overall concession level has been stable: Class B concession level for the third quarter of 2019 came in at 2.6%, down slightly from 2.9% for the third quarter of 2018, though Class C concession levels rose slightly, to 3.0% for the third quarter of 2019, up from 2.9% for the third quarter of 2018.

Are rising concessions on the horizon?

The nation's multifamily apartment market has remained quite stable for an extended period. Recent job growth has stimulated sufficient demand to absorb the surge of new units being completed, likely due to the overall shortage of housing across the nation. And the level of concessions that are being offered has remained low by historical standards.

As some of the nation's major metro areas are continuing to see more new supply, some of these markets – like Atlanta, New York, and Seattle – have seen a rise in concessions as new units have entered the market, while others – like Orlando and Houston – have experienced a modest decline. We expect that concessions will increase slightly, but primarily for class A units, as the wave of new supply is delivered over the next 12 months. We also expect that the national concession rate will likely remain relatively stable, since the demand for class B and C units continues to be strong, keeping concessions for those classes of units fairly low.

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