

# APARTMENT ADVISORY

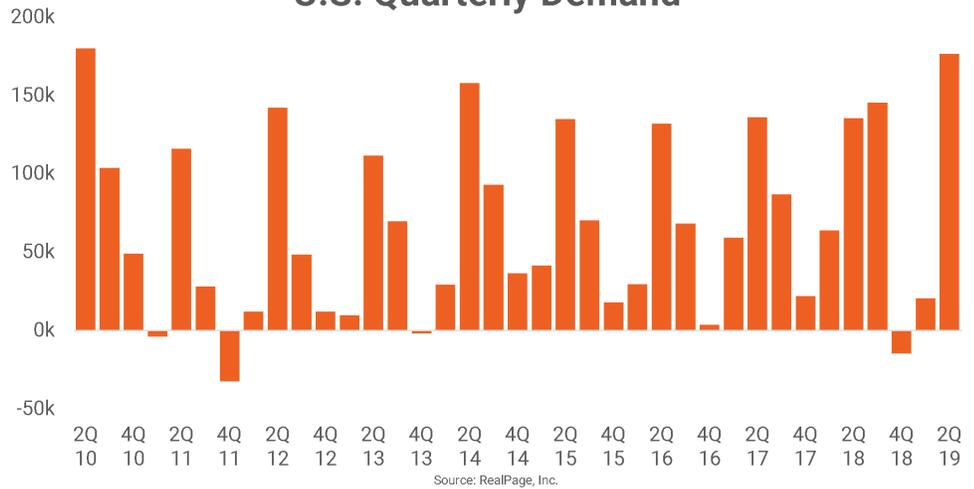
SEPTEMBER 2019

Whether analyzing single-family or multifamily housing demand, it's easy to see that the market exhibits a strong pattern of seasonality. As the summer months give way to fall and fall gives way to winter, fewer households search for new residences before firing up those searches again once the weather warms.

Home sales generally pick up in the summer, when families are free to move without disrupting a child's school year. Higher temperatures also help, as cold weather makes moving more difficult. Households are also usually too busy during the holiday season to hunt for homes, make a purchase and plan a move.

The seasons also influence apartment demand, as leasing activity tends to pick up in the spring and summer. When looking at this trend on a calendar year basis, this means that the second quarter and the third quarter of the year are the two quarters with the strongest demand - peak leasing season, in other words. Though demand is strong in both quarters, the second quarter has been the peak of the year more often than not. That's been the case in 18 of the past 25 years.

## U.S. Quarterly Demand



The strength of the second and third quarters over the past 25 years is even more apparent when looking at those two periods relative to the first and fourth quarters. Since 1994, the U.S. apartment market has actually averaged negative demand in both the first and fourth quarters, though move-outs are more prevalent at the end of each year.

Demand in the first quarter tends to stay static, with net move-outs totaling about 1,000 units on average. In addition to the inconvenience

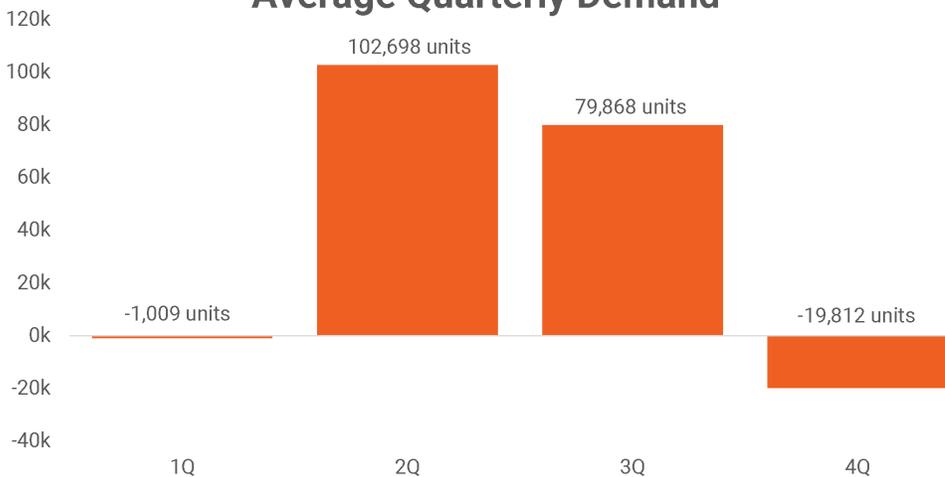
of having a child transfer schools mid-year, families are also paying down credit cards and recovering financially from the holidays, which makes taking on expenses related to moving difficult. In addition, the challenge of physically relocating in some colder weather climates leads to fewer individuals moving out of their apartment units. This trend is especially apparent in northern markets such as Chicago and Minneapolis.

There is, however, a small bump in demand provided by college students who graduate in the fall semester rather than the spring semester. All considered though, the first quarter of the year is characterized by marginal change.

The second quarter of the year is when the market really begins to take off. As April, May and June arrive, families begin their search for new residences as they are more apt to move once the school year has finished.

There is also some lift provided from the larger share of college graduates who receive their diplomas at the conclusion of the spring semester. In a similar vein, those still working towards their degree who

## Average Quarterly Demand



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choose to accept an internship are most likely to move into an apartment in either May or June.

Lastly, a large percentage of leases expire during the second quarter for many of the reasons listed above. That's a common revenue management strategy

Demand in the fourth quarter features net move-outs totaling nearly 23,000 units on average. Rather than one or two key driving factors, this is reflective of a confluence of many small factors. Whenever move-outs occur in October through December, there's essentially no backfilling of those vacant

can we expect for the rest of 2019?

In 2019's second quarter, absorption was remarkably strong. The 176,000-plus units absorbed marked the highest total since 2010, when a mere 4,000 more units were absorbed. Further, that 176,000 unit mark was the second highest tally on record dating back to 1993. This strong second quarter followed up first quarter demand which totaled just 20,000 units.

The result of those demand figures this year has kept market performance healthy. Rent growth remains in the low 3% range. Occupancy has improved to record levels, breaching 96% of late. In fact, 12 of the nation's 50 largest markets recorded decade-high occupancy rates in 2019's second quarter, while an additional three markets were within a mere 10 basis points of their peak.

Although September data is still being collected, July and August data suggests that demand in 2019's third quarter will be strong as well. Considering the strength of the second quarter demand figure in addition to the indication that third quarter is shaping up nicely as well, it is plausible that 2019's demand will approach cycle highs.

## Average Quarterly Occupancy and Rent Change



among apartment operators, who time their lease expirations around when demand in the market is highest.

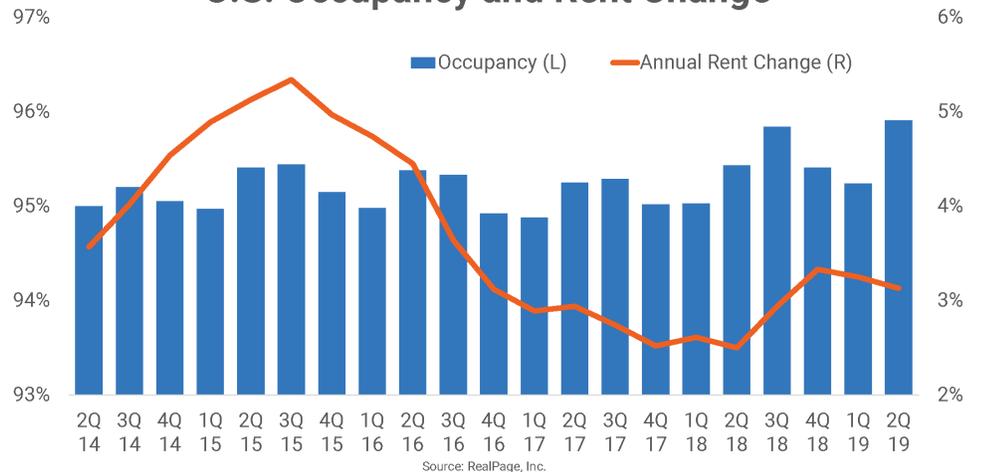
Third quarter demand tends to remain strong, though typically not as strong as in second quarter of most years. The months of July, August and September might not be the most comfortable to move one's belongings in the hotter weather markets. But families want to be sure they've settled in for the school year, so those leases tend to get locked in before children return to school.

In the case of college students, the academic year begins in either August or September. So for those students who elect to rent conventional, market-rate properties, they will be moving in before their school year starts as well, bolstering third quarter demand.

units. As demand drives performance, occupancy and rent growth also tend to follow these seasonal patterns.

Given these seasonal trends, what

## U.S. Occupancy and Rent Change



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