

Apartment Demand, Rental Rates Hold Steady Against Unprecedented Supply in Healthy-But-Slowing Apartment Market

As Multifamily Cycle Matures, Analysts Will Carefully Monitor Homeownership, Single-Family Construction Trends For Potential Impact on Apartment Demand

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The U.S. multifamily market continued its historic run in the third quarter as demand for apartment units remained strong, matching a surge in new supply as developers continue to add new units at a record pace.

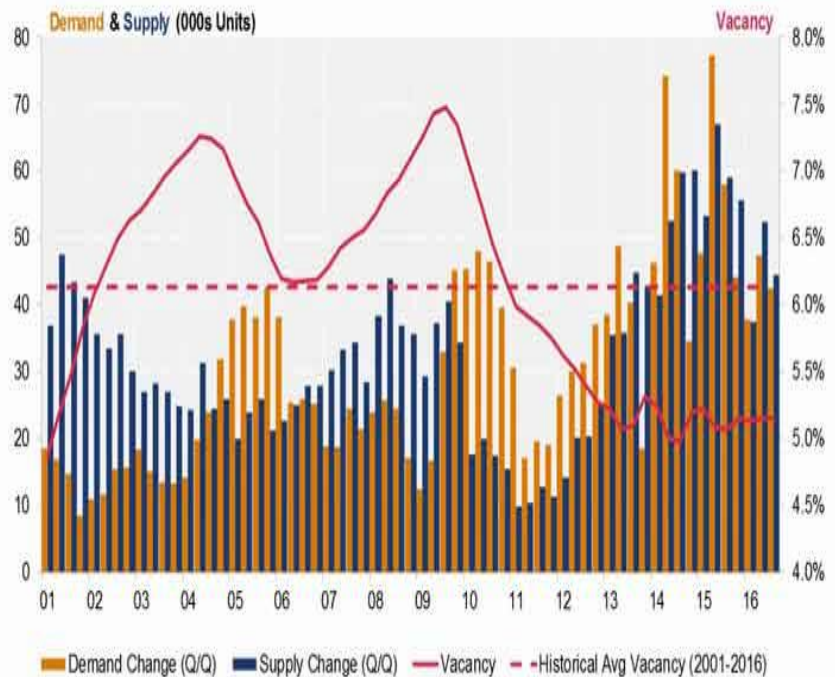
Total net absorption of apartment units for the third quarter held steady at almost 45,000 units. On a four-quarter basis, renters leased a robust 172,000 units, although lower than the prior 12-month period.

"Despite the record levels of new supply we're seeing in downtown areas, apartment fundamentals remain mostly in check across the U.S. on an annual basis," said Michael Cohen, CoStar director of advisory services, during CoStar's recent Third-Quarter 2016 U.S. Apartment Market Review and Forecast, presented with senior real estate economist John Affleck and senior economist Ethan Vaisman.

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CoStar is forecasting continued strong construction levels with total deliveries of 201,000 units expected in 2016. Although modestly below the total number of units added in 2014 and 2015 levels, construction levels remain well above the 15-year average of about 140,000 units, with another 244,000 units slated for delivery in 2017.

The National Market Is Still Quite Healthy



The apartment market remains in the midst of the heaviest supply of the real estate cycle, with 190,000 units delivered over the past 12 months across the 54 largest U.S. metros. Encompassing the 'bull' apartment market between 2013 and 2017, a total of more than 1 million apartment units is expected to be added in the U.S. market.

Helping keep apartment fundamentals in check is the fact that relatively little new single-family housing has been built over the last five years. Total new households have outpaced combined construction of single-family and multifamily units by 3.2 million, Affleck noted.

Apartment analysts are carefully watching how the U.S. homeownership rate affects the formation of new renter households in coming quarters. A full 55% of renters live in single-family rentals, condo and other alternatives to multi-unit apartments, and apartment developers will increasingly compete with single-family for the most affluent renters, Affleck said.

"The trajectory of homeownership will have an outsized impact on future renter household formation and certainly bears close monitoring," Cohen added.

Apt. Rent Growth Holding Steady

The third-quarter 2016 multifamily report included the debut of CoStar's new same-store rent and vacancy data series, incorporating in excess of 400 million data points to help analysts

discern and interpret submarket, metro and national trends.

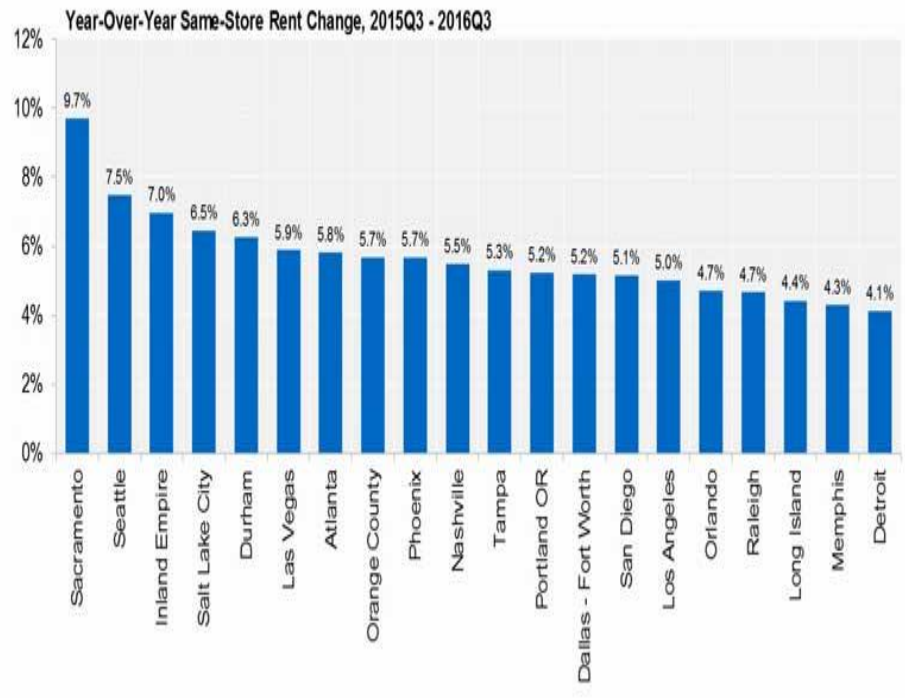
Based on the new data sets, which encompass 1 million daily rent observations gleaned from a variety of gathering methods by CoStar's research teams, including daily rent feeds pulled from the Apartments.com web site, the U.S. apartment market posted year-over-year same-store rent growth of 3.2% in the third quarter.

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Top 20 Rent Growth Markets

Multifamily Sales May Match (Or Surpass) Last Year

Multifamily remains the product of choice for investors. With \$114 billion in sales volume so far this year, the highest among all property types and up more than 5% over first three quarters of 2015, total sales of apartment properties for 2016 could match or even surpasses last year's record-setting volume, Vaisman said.



Source: CoStar

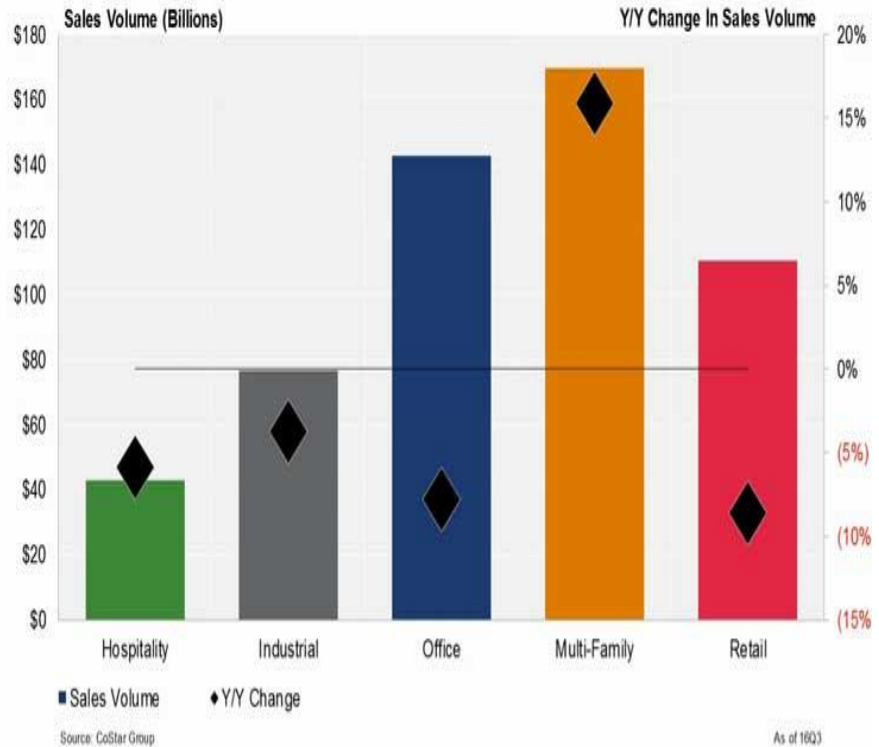
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Sales Volume Last Four Quarters Remains Strong

That will require another record-setting fourth quarter in a market where transaction volume shows signs of leveling off.

"It's way too soon to know if it's a sustained trend, but we're keeping an eye on it as a leading indicator, especially as we're seeing sales volume trend lower for other property types," Vaisman added.



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