



## **Inflation/Housing**

### **Apartment Brokers: Rent Increases Leveling Off Amid More Supply, Shift to Buying**

- *Staggering Rent Increases Through Last Summer Followed By a September Drop*
- *Young People Still Lean Toward Renting for Job Mobility, Lifestyle Choice*
- *Manhattan Rents Coming Down: Just Cooler to Live In Brooklyn or Even Philly!*

**By Gary Rosenberger**

NEW YORK (EconoPlay) Oct. 11 – Two years of staggering rent increases came to an end this fall as new apartment high rises entered the market at a time when it's becoming fashionable to buy again, say industry officials.

Rents are flat or down, depending on the market, exacerbated by seasonality (people stop looking in the fall, so landlords have to lower their expectations on rents anyway).

The issue is supply. Those high rises now being delivered were started two years ago when the buyer/condo market seemed doomed – so the competition for tenants is stiffening, forcing landlords to recalibrate their ambitious price points.

The demand is still there: The youth market remains very tied to renting. No twenty-something expects to stay in the same city, much less in the same job, for 30 years – so they're sticking to renting for the dual purpose of job mobility and a downtown lifestyle.

Also, one relocation specialist has seen a resurging tide of job transfers that began in May, both domestically and especially from abroad, presaging good things ahead for the rental market (most transferees start as renters).

Higher mortgage rates, home valuations, and frustrating bidding wars have turned some potential buyers back to renting – but they seem to be few and far between.

"We are booming," said Kevin Miller, president of Westside Rentals with seven offices from Santa Barbara to San Diego. "As they say, you pay for paradise."

In the last six months, he saw LA rents rising by another 8% to 10% – even more by the beach than inland – "demand is through the roof to live by the water," he said.

Most of those rent increases came last summer, the big move-in season – in fact, "it was our busiest summer ever," Miller said.

The driver is new jobs and the annual inflow of college students. On the jobs front, LA is seeing a new boom from that peculiar melding of technology and entertainment. "Is Sony a technology or an entertainment company? I don't know if they know," he said.

"Disney will come in and buy 50 memberships at time for our service," he added. "That's how I know they're hiring. They're not buying memberships to waste money."

It was a very good summer to be a landlord. "If you are a landlord, you love it because you have high demand for your product and prices shoot up. The flip side is that four months later, you have to lower prices in the fall," Miller noted.

Those lower fall rents is why some clever renters insist on a November-to-November rent cycle. "The downside is that there's less inventory to choose from," he said.

Youthful in-migrants and students offer virtual support to the rental market, even as buyers have been pouncing on low interest rates and low home valuations all year. "There's always an influx, and they need a place to live," Miller notes.

Rents and mortgage payments in LA are now roughly at parity. "But the advantage goes to renters because not everyone can put down the \$200,000 down payment. Even if they could, they might want to put that money into starting a new business instead," he said.

"Young people want to stay liquid and stay mobile. They don't want to be locked in for 30 years. The old American dream of a white picket fence isn't their dream. They want that downtown, urban lifestyle, and to take transit or their bikes to work," he said, adding that developers got hip to that attitude and complied with a slew of downtown rehabs with "big amenities and high rents."

### **An Apartment Glut?**

In Atlanta the tables are turning toward a tenant's market, said Sean McKenzie, researcher for the Dale Henson Associates' *Atlanta Apartment Market Tracker Report*.

"New products are coming into the market at a rate I haven't seen in a lot of years, and that can't bode well for rents," he said.

These new high rises are chock full of amenities but at asking prices of \$2 to \$2.15 a square foot, he thinks landlords are "pushing it a bit" in light of the competition.

His latest survey showed garden properties with effective rent increases of 4% in June over the prior June and urban properties up 3.5%. But will the increases hold? "We've had over 4,300 apartment starts through June, which is almost double the year before," he said. "And deliveries in that period *tripled* from year before."

In addition, a number of real-estate trusts bought “a lot of single-family homes with the intention of reselling at a profit or renting,” which further gluts the market.

The good news is that absorption grew by almost as much as supply, suggesting a fairly balanced market.

And here, too, there will always be renters. “Atlanta is a transitional city,” McKenzie observes. “It has a reputation of people stopping by on their way to something else. They rent because they don’t expect to live here for more than a few years. It’s just a stopover to another city.”

### **A Jobs Resurgence?**

Jeff Rowe, vice president at CORT Destination Services in Cincinnati, a national relocation service provider, has seen a strong rebound in relocations that began in May and that shows no sign of ebbing, even with the government shutdown.

This follows a slow period from the third quarter of 2012 through most of the second quarter, when relocations tailed off over a variety of economic and political concerns (same concerns as today, they were just a bit scarier back then).

“Employee relocation is not screaming back to the levels we saw a few years ago. But our trends reversed. Where we were running behind prior years, we’ve started to run ahead of prior years – and every indication we have is that 4Q is going to be strong and continue to move in a positive direction,” Rowe said.

“It’s been a slow, steady climb. But there hasn’t been a month where we slipped in the last five months. We had a record all-time month for inbound transfers from abroad in September and, knowing what we have in October, it’s going to be a real positive month as well,” he said.

The year began with foreign and domestic companies unsure of what to make of the sequester and Congressional infighting. “But then the pipelines just burst loose in May,” Rowe said. “What it tells me is that we are on pace for a tremendous year. Things feel like they’re breaking loose. We’ve waited for this for a long time. If the government can just manage to stay out of our way, it feels pretty good.”

All those transferees primarily benefit the apartment side of the business, with “somewhere north” of 65% of transferees choosing renting over buying.

But there’s also plenty of new product to fill the demand. “The pricing is strong for landlords, and it’s obvious the apartment industry is having a terrific year,” Rowe said.

Still, all the new supply also means that rent increases “have cooled off a little,” he said, citing newly released data from the National Apartment Association showing rents cooling to around 3%, where they were running as high as 5%.

Long run, demographic trends should continue to support the rental market. “What’s changed is the mindset of the younger employee,” he said. “They want to be mobile and move through an organization quickly. If they can’t move quickly they jump to the next opportunity. So they’re renters because it makes it easy for them to make moves.”

And transferees interested in buying “remain a little gun shy when they take a new job, so they’re cautious and rent for a year,” Rowe said.

### **A Slowing Trajectory**

Rents are still rising but at a slower pace, said Joy Anzalone, chief operating officer at Burton Carol Management in Cleveland with properties in Ohio, Michigan, and Florida.

“After a few years of finally watching occupancy improve and rents increasing, increases are slowing down a little to keep residents from wanting to move,” she said.

She is also feeling a little heat from the home resale market. “Unlike major markets, we are mindful that we need to remain competitive and make sure we pace rents appropriately,” Anzalone said. “Home buying spiked up a bit with what appears to have been the bottom when it comes to interest rates, so occupancy softened a small bit.”

But New York, a super-major market, is running slower as well. “Not only have rent increases leveled off, but we are seeing new rent reductions every day,” said Larry Rosenberg, president of RDNY (Rent Direct New York), a web-based rental locator covering the five boroughs and beyond.

“The rental market is in a bit of an air pocket. Rents are not dropping dramatically, but demand is generally weak,” he said. “We believe that the current economic climate is pushing everyone towards caution. Renters are not trading up and the number of out-of-state apartment searchers looking to relocate to New York City is definitely weak.”

What’s happening is in part seasonal. Every year, after the end of the rental season on Sept. 15, rent reductions “begin to cross our desk, with the pace of reductions increasing in October and November,” Rosenberg said.

“If one could pick the best month for rental hunting, I would say it is in mid-December. Prices are at their lowest and inventory is at its highest,” he said. “The entire month of February rivals mid-December for the combination of high available inventory and low rent prices. This month, October, we are seeing less activity from corporate relocations than usual. The market is growing cautious.”

Another thing that's occurring is that the sales segment has captured most of the attention. "Rents are down because people moving to Manhattan tend to be wealthy buyers – not young kids starting out in life," he said.

Young kids now regard Manhattan as a kind of gated community for the wealthy and have gravitated to cooler (now high-rent) neighborhoods in Williamsburg or Greenpoint – or else settle on gentrifying neighborhoods in Bushwick or Bed-Stuy, where rents are still affordable but rising fast from low benchmarks.

And if "Man-has-been" (a Brooklyn term for Manhattan) is losing favor, cities like Philadelphia and Baltimore have incubated a coolness factor with thriving art scenes, Rosenberg said.

However, New Yorkers living in rent-stabilized apartments will feel a pinch next year. The New York City Rent Guidelines Board is raising 2014 rents 4.0% on a one-year lease and 7.75% on a two-year lease, the biggest such increase since the recession.

### **The Ownership Society is Back**

In Westchester County, no one is being pushed into renting because of rising home prices and interest rates. "I think it's just the opposite. Buyers realize that now is the time to buy. Prices are on the rise, but they are still low compared to the height of the market," said a local broker.

"And buyers can lock in a low rate and buy more house now than when rates were higher," she added.

"There are some people that will always be renters, but it seems like more people are buying now than renting. I don't see that rental prices have increased significantly. The rental pricing goes hand-in-hand with the condition of the house," the broker said.

In Texas, it's the same story only more so.

"The rental market is still very, very tight. It's as tight as the sale market, and rents have been going up quite a bit. I'd say probably 10, 15, 20 percent in the last year," said Howard Kanelakos at Coldwell Banker United Realtors-Greenway in Houston.

"The only shift I see, and it's been that way for six months, is that buyers that are going into housing are not willing to get into bidding wars and so they're renting," he added.

“I don’t agree with what they’re doing because housing prices continue to go higher and eventually they will pay. But I lost a \$750,000 buyer and a \$450,000 buyer. Both decided to rent to avoid bidding wars,” he said.

In the last week he sold two resales – one was on the market three days, the other six days. Another one he sold two weeks ago was on the market for six days. A fourth one that listed last Wednesday got a signed contract yesterday after four multiple offers.

“In 34 years in the business, this is the first time inventories were this low – there’s just nothing there and people are fighting over it,” Kanelakos said. “Houston is creating 100,000 jobs every 12 months and that’s a lot.”

But developers are out there building apartments to meet all that demand. “We have thousands of apartments under construction,” he said. “We have one that’s not even finished that’s three blocks long and six stories tall that has already started leasing. There’s another one next to it that’s two blocks long and five stories high. So there are some big ones coming on.”

*We have no idea when the government will release inflation, housing, or construction data. But we do look upon these times as a fascinating experiment into how businesses and consumers (and the Fed) respond to information under-load! We personally felt all along that this economic recovery has been hampered by TMI (too much information).*

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