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***Inflation/Housing***

**Apartment Brokers: Landlords Still Maximizing Rent Increases for New Tenants**

- *Tenants Already In Place Get Incremental Increases on Lease Renewals*
- *New Projects Stuffed With Amenities Skewing Rents to the Upside*
- *Rents Are High, Yet No Mass Exodus Into Home Ownership Yet*

**By Gary Rosenberger**

NEW YORK (EconoPlay) Oct. 9 – The trajectory of rent increases is showing no sign of abating as new luxury properties enter the market jam-packed with amenities to lure young tenants willing to pay top dollar, industry officials say.

While a glut of new apartments would in theory put downward pressure on rents that doesn't seem to be happening. Austere, older buildings that would have trouble competing also continue to see increases – or, if not, are converted into condos.

These hefty increases on vacancies (up 14% in Portland) suggest that renting has become an end in itself, no longer a gateway to home ownership, especially among millennials living in trendy downtown areas where the cost of owning is prohibitive.

For tenants already in place, the increases are modest because landlords already got what they wanted and are eager to retain problem-free tenants that pay on time. Besides, why risk a churn that could potentially glut the rental market?

Landlords have been thinking for years that this is too good to be true and it's bound to level off soon – and yet it hasn't. If rents are deemed unaffordable, one can always get a roommate and, these days, people in their 40s are shacking up together.

So, how much longer can these increases go on? Right now there's no indication of consumer pullback. None of the recent economic shocks that compelled the Fed to delay an interest rate hike seems to be having the slightest impact on the rental market.

"I would say there's extreme growth in the apartment market," said Sean McKenzie, MFC South, a multifamily consultancy, based in Atlanta.

"Even non-high-rises are asking for two dollars a square foot and above, which is shocking for Atlanta. Whether that continues, I don't know. But they are pushing the envelope with rents in the in-town markets," he said.

"You can call it chutzpah, I prefer the word cojones – either way it's scary," McKenzie added. "I think personally we are headed for another downturn in the next few years – but for the time being they are riding a rollercoaster. Good luck to them."

In Atlanta, they have "continuously tried to push a near double digit increase over the past several years, which in the early stage of the recovery was fine. But now that the recovery has officially taken place, it's scary to go after 8 percent increases," he said.

These galloping increases are led by new developments in trendy downtown neighborhoods – but older properties are also trying to keep pace. And yet he detects no exodus to home ownership.

"Right now it looks like they're filling up. Maybe it's the amenities or the location. Maybe people want carefree living and have a management company take care of their needs," McKenzie said. "But I don't know where people are getting the money to pay those kinds of rents."

**Rent Trajectory Positive**

Rents are still moving in a positive direction but have moderated after "an aggressive few years that were needed for rents to climb back after years of concessions," said Joy Anzalone, chief operating officer at Burton Carol Management in Cleveland with properties in Ohio, Michigan, and Florida.

"But you must keep an eye on longer-term residents and not motivate them to move. You don't want to churn apartments," she added.

In her markets, tenants may expect 2% to 4% increases in most cases, which are "needed to keep up with other costs that are also accelerating," she said.

In some of her higher rent locations, she has seen some people leaning toward ownership to get ahead of increases in interest rate and housing prices.

"Those paying top dollar on rent are looking," she said. "However, there is a whole new crop of renters that were created post-2008 that appreciate the true benefits of renting and will never go back. Generally, in my three markets of northeast Ohio, the Detroit suburbs, and the west coast of Florida, demand for quality management and properties continues to be strong."

California is on fire, but in a good way when it comes to being a landlord.

"At some point you would think people would rebel. Are they yet? No. But we are getting closer," said Kevin Miller, president of Westside Rentals with seven offices covering Santa Barbara to San Diego.

“It’s two worlds out there. Rents are still going up 3 to 4 percent in most areas of LA. But in the coveted beach cities like Santa Monica and Venice, the increases remain around 10 percent year over year with no sign of flattening,” he said.

Ridiculous as rents might be, home ownership is even more out of reach for people right now, so the rental market remains strong.

“Even with interest rates at near all time lows the purchase prices are astronomical, which means down payments are large and mortgages are large,” Miller said. “People’s incomes are not keeping up with prices, so it’s still very challenging for people to buy.”

On current tenants, where local rent-control laws are a factor, the increases on lease renewals are only as high as regulators allow. But incremental increases are fine for “ma and pa” landlords that would not want to risk an exodus anyway, he said.

The big REIT property management companies do gripe about rent control because they want to maximize returns at every point. “They have an attitude of deal with it or move out,” Miller said.

The biggest jumps come from new construction with attractive amenities that warrant top dollar. “The flipside is that there are options for people. There are many different places for people to live on all kinds of budgets. You can be just fine living a mile from the beach and pay $200 less rent,” he said.

**LA as a Safe Haven**

Oddly enough, China’s slow economic train wreck appears to be an overall positive for LA real estate.

“We’re seeing a big influx of Chinese buyers, especially in the downtown area,” Miller said. “They know that California real estate is a good investment play so they are parking their money here – and there are quite a few massive projects going up.”

Some 10,000 to 15,000 new units should hit downtown LA in the next two years. “You would think that will cause some downward pressure on rents, but tech companies keep moving downtown and people want to move close to their jobs,” he said.

If any place would feel a tremble from the Dow’s fall and weak global economies, it would be New York, and yet …

… “I continue to be astounded that prices have moved up year over year,” said Larry Rosenberg, president of RDNY (Rent Direct New York), a web-based rental locator covering New York’s five boroughs and beyond.

He's noticing things he never saw before in the market. "I see things on social media about people sharing apartments into their 30s and 40s – something that would never have been done in prior generations," he said. "But today it's considered a perfectly reasonable thing to be doing."

The press is also touting micro apartments as a hip, a low-carbon-impact way to live. "Somehow if you have a tiny apartment you're a good guy now. You have to wonder what's behind this. Don't worry if you can't afford your own place. It's part of the normal process. Either downsize or share," he said.

"It astounds me that people are still coming to New York and paying these prices. I'm in the business of helping people to rent. But how they scrape up the money for this I don't know," Rosenberg said.

But in October and November, once the school rush is over, rents do start to come down. "Landlords press hard to get their increases in the summer, but when the influx slows, the rents come down," he said.

**New Supply, Higher Rents**

In New York, too, new supply is driving rents higher. "Normally, new supply would drive down rents. But these buildings have rock climbing walls, pool tables, and pinball machines. These developers are re-creating the college-dorm experience," he said.

His sense is that New York rents have increased of 7% or 8% this year. (Apparently, there aren't too many people who'd rather pay $200 less and not have a rock-climbing wall.)

"But as you go up the price range, rents become more negotiable," Rosenberg said. "When there are so many buildings with $3,500 studios, chances are you can get it down to $3,200 or $3,100, particularly if you are willing to commit to an extended period of time."

Classical economics would dictate that when you have so many new luxury buildings opening up, that it forces lower-tier building prices down – but there are ways around classic economics.

"The 70's white brick and no amenities building can't compete with the new buildings with the roof pool," he said.

So a lot of those older buildings are being converted into co-ops and condos. "The supply of rental units actually decreases even in the face of all this new construction," he said.

Rosenberg sees no evidence of Wall Street jitters, or for that matter the China question, hurting the rental market. “People have spoken about that effect definitely in the sales market,” he said.

“A lot of people in the last couple of years wanted assets outside of their home country. And buying in New York City is one of the better and safer ways to do it, and it’s a way to get an entry visa into the country,” he said.

“The rate at which new Chinese millionaires are being minted is pretty astounding. And in the next couple of years, I expect Indian buyers in much larger numbers. But they won’t be headed to Queens,” he predicts.

All those foreign buyers are bidding up New York real estate, the effect of which is to only strengthen the rental market because renters are being priced out of owning – thus facing a choice of remain a renter or move out of the city.

At some point, the pipeline of luxury apartment buildings will grow too big. “In 2007 and 2008 there was almost no new construction going on. Then the first batch had astronomical prices but incredible amenities and they rented. The batch coming late to the party will have to negotiate more,” Rosenberg said.

As he sees it, New York is overpriced and the cultural and other benefits of living in the city no longer outweigh the inconveniences and the expense. “I think New York has to be careful about that,” he said. “It’s easier for young, ambitious, creative people to choose another city to start their businesses and careers.”

**National Rents Accelerating**

Meanwhile, national rent growth continues to accelerate, according to Doug Culkin, president and CEO of the National Apartment Association.

“In Q3 our industry saw a 5.9 percent annual growth in effective rents for new residents—which includes a 2.2 percent increase from July through September,” he said, citing MPF Research.

Western regions experienced the highest rent growth at 8.4% on new tenants versus 5.4% a year ago, which is heavily skewing the national average.

Portland topped the national list with a 14% increase on vacancies – and Oakland, San Francisco, and Denver/Boulder all saw increases in excess of 10%.

In comparison, rent increases on vacated units rose 4.7% in the South, 4.5% in the Northeast, and 3.6% in the Midwest, Culkin said.

"Demand is always a driver. Millennials, in particular, work where they play, and are seeking transit-oriented urban communities in the center of it all," he said.

In addition, baby boomers are downsizing and trading in their suburban homes for apartments with impressive amenities, within walking distance to restaurants, retail, and cultural activities, he added.

Thus national occupancy rates are sitting at 96.1% in the third quarter, an improvement over 95.8% in the same quarter last year.

There is no particular exodus to ownership, if retention rates are any indication. They hit a decade high at 54.5% in February, the culmination of a five-year upswing. (Retention is high in February because nobody likes to move in a blizzard or during the Super Bowl.)

"Although affordability is certainly a concern, renewal rates suggest the majority of renters are happy where they are," Culkin said.

Growth in new leases and renewals also indicate a pretty healthy industry untouched by the latest economic crises. "Coupled with an improving job market, we anticipate even more new renter households—particularly as millennials move out of their parents' homes," Culkin said.

"A limited number of renters are currently transitioning to home ownership. In general, I think the memory of the housing crash is still fresh. People are less likely to make that leap to a home before they're truly ready," he said. "Others are forgoing homeownership altogether in favor of the freedom and flexibility that renting offers."

*The U.S. Labor Department releases September PPI on Wednesday, Oct. 14 and CPI on Thursday, Oct. 15, both at 8:30 a.m. ET.*

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