



Economics Group

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Apartment Rents Continue to Feel the Impacts from COVID

More households are able to make monthly rent payments on-time. Landlords, however, continue to reduce rents or offer concessions. Rents are falling fastest in downtown areas and holding up better in the suburbs.

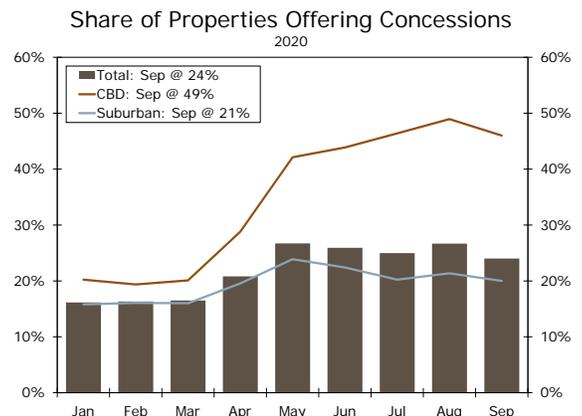
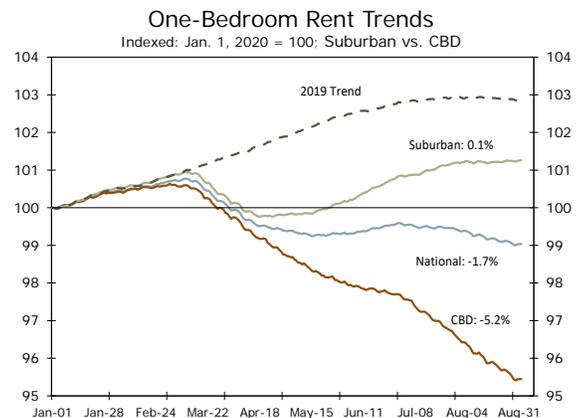
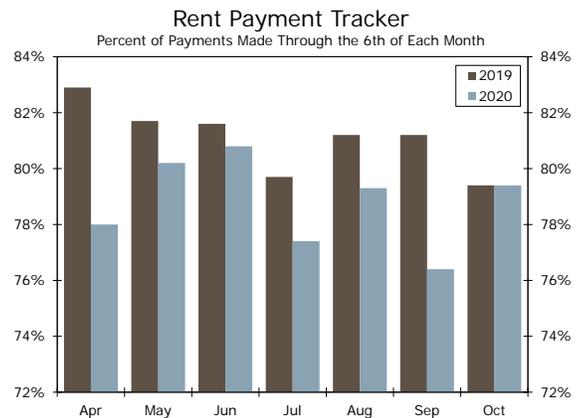
Payments Back on Track, but Rents Continue to Fall

Households appear to be doing a reasonably good job of making timely rent payments. According to the National Multifamily Housing Council (NMHC)'s Rent Payment Tracker, 79.4% of apartment renters made a full or partial rent payment by the end of the week of October 6. This is a significant improvement compared to recent months and is on par with survey results collected during the same period last year. The Census Household Pulse Survey recently provided a similar assessment. According to surveys administered from mid-August to the end of September, fewer adults have reported that they are not current on rent or mortgage payments, and more are becoming confident in their ability to pay on-time. Both of these better outcomes during October should help allay fears that renters' inability to pay rent could potentially ripple through the entire apartment market and leave tenants, landlords, investors and lenders all worse for the wear.

While conditions do appear to be broadly improving, landlords have clearly had to reduce rents or offer concessions in order to attract or retain tenants. According to CoStar, overall rents for one-bedroom apartments are down about 1.7% through early September. Digging deeper, rents in central business districts (CBD) are falling the fastest. Compared to the peak hit in March, CBD rents are down over 5%. By contrast, suburban property rents are now sitting just above their early spring levels. These divergent trends can be explained by the ongoing shift away from dense and expensive downtown areas towards the more affordable and spacious suburbs.

Along these same lines, the share of property owners offering concessions or lease adjustments has risen since the early spring and remains elevated relative to prior years. While suburban properties appear to have slightly stepped up the number of concessions in recent months, CBD property concessions have sharply risen. During September, roughly 49% of all CBD property-owners offered some form of concession or lease adjustment, a substantial increase compared to approximately 20% at the start of the year. Considering that many office workers continue to work remotely and the suburbs were enjoying a bit of a renaissance prior to the pandemic, we expect this suburban shift to be long-lasting.

Challenging times for apartment owners will likely persist. The bulk of multifamily investment over the past decade has occurred in urban centers, many of which are now seeing an accelerated outflow of residents. Even though new multifamily development is slowing, a deluge of new CBD units are set to be delivered next year. Demand for these units will likely be soft. Many large service-sector employers have announced plans to reduce their headcount. Record low mortgage rates will also continue to pull some renters towards homeownership. The softer job market for college graduates is another potential headwind. We expect rents to weaken further, especially in the hard-hit city-centers, but also in the suburbs.



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