

APARTMENT ADVISORY

MAY 2020

The prevailing thought among many in the multifamily industry was that apartment operators would raise rent concessions to stir up demand as new lease activity slowed amid the COVID-19 outbreak. While concessions offerings did increase in April, it was far from the market-wide fire sale that some had initially feared.

In April, about 13% of apartment properties offered some form of rent discount to encourage lease signings. That rate was up from only about 9% in April 2019.

Markets With the Highest Share of Concessions

| Rank | Market Name | % Units Offering Concessions |
|------|-------------------------|------------------------------|
| 1 | Fargo, ND | 37.0% |
| 2 | Des Moines, IA | 31.0% |
| 3 | Naples, FL | 29.3% |
| 4 | Houston, TX | 27.8% |
| 5 | Fort Collins, CO | 27.2% |
| 6 | College Station, TX | 26.8% |
| 7 | Provo, UT | 26.6% |
| 8 | Corpus Christi, TX | 23.9% |
| 9 | San Antonio, TX | 23.7% |
| 10 | McAllen/Brownsville, TX | 23.6% |
| 11 | Youngstown, OH | 23.6% |
| 12 | Urban Honolulu, HI | 23.3% |
| 13 | Mobile/Daphne, AL | 22.1% |
| 14 | Las Vegas, NV | 21.4% |
| 15 | Tallahassee, FL | 21.1% |

*Rank based on percentage of units offering concessions in April 2020.
Source: RealPage, Inc.

Perhaps more telling is that concession values haven't increased much either. In April 2019, operators who offered a concession gave a 6.3% discount – which amounts to a total discount of about \$63 over the life of a 12-month lease with a monthly rent of \$1,000. In April 2020, that concession value increased to 6.8% – just \$5 more over the same hypothetical lease.

Not all local markets behave the same as the national market, however, and there are a handful of metros where concessions have certainly seen a big uptick in the past year.

Markets that have seen concessions become more prevalent also have seen demand slow in recent months, for various reasons. The first is that there are a number of markets that are dependent on tourism – such as South Florida, Honolulu, HI, and Las Vegas. As tourism has been effectively halted with government stay-home orders across the country, these local economies have

had difficulty generating new apartment demand.

Another apparent trend is that markets with already weak conditions heading into 2020 are continuing to struggle. These include mostly smaller markets, such as Fargo, ND, Des Moines, IA, College Station, TX, and Youngstown, PA.

Lastly, the impact of the COVID-19-induced recession is pronounced in many of the energy-dependent markets. Markets such as Houston, Corpus Christi, TX, and Mobile/Daphne, AL, have taken a big hit as oil prices have plummeted alongside airline and automobile travel.

Filtering the list to only primary markets shows only three markets where more than one in five vacant units are offering a concession.

Three notable markets include Las Vegas, Denver, and San Jose, as all three of these markets have seen the share of units offering a concession rise considerably in the past year. Las Vegas' April 2019 percentage was just 9.4%. This year, it's 21.4%. Meanwhile, San Jose and Denver sat at 6.0% and 8.3% this same time last year – well below the roughly 18% in each market now.

Switching now to the actual value of concessions in these markets shows that operators aren't giving away the sort of deep discounts that some initially feared.

The number of markets offering one month concession has remained steady over the past year. In April 2019, 16

Major Markets Seeing Highest Concessions Usage

| Rank | Market Name | % Units Offering Concessions |
|------|-----------------|------------------------------|
| 1 | Houston, TX | 27.8% |
| 2 | San Antonio, TX | 23.7% |
| 3 | Las Vegas, NV | 21.4% |
| 4 | New York, NY | 18.9% |
| 5 | Fort Worth, TX | 18.7% |
| 6 | Denver, CO | 18.3% |
| 7 | Dallas, TX | 18.2% |
| 8 | San Jose, CA | 17.9% |
| 9 | Austin, TX | 17.8% |
| 10 | Atlanta, GA | 16.4% |

*Rank based on percentage of units offering concessions in April 2020.
Source: RealPage, Inc.

markets were offering an average concession value of one month free or greater. In April 2020, that number was 15 markets. Only four of those markets – Fargo, ND, Worcester, MA, New York City, and Trenton, NJ – were on both the April 2019 and April 2020 list.

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As of April 2020, the deepest concessions are found in Honolulu, which was some of the nation’s highest unemployment rates due to COVID-19. By some estimates, unemployment rates in some Hawaii metros are in the 40% range, undoubtedly causing operators to resort to huge concessions. In Honolulu, vacant units offering a concession are giving away nearly two months free, on average.

Markets Seeing the Deepest Rent Discounts

| Rank | Market Name | Concession Value as of April 2020 (Represented by % Off Asking Rents) |
|------|---------------------|---|
| 1 | Urban Honolulu, HI | 15.1% |
| 2 | Trenton, NJ | 10.9% |
| 3 | Worcester, MA | 10.8% |
| 4 | Pittsburgh, PA | 9.9% |
| 5 | Fargo, ND | 9.8% |
| 6 | Providence, RI | 9.4% |
| 7 | Eugene, OR | 9.3% |
| 8 | Fayetteville, AR | 9.1% |
| 9 | Fort Lauderdale, FL | 8.8% |
| 10 | Naples, FL | 8.7% |
| 11 | New York, NY | 8.7% |
| 12 | Syracuse, NY | 8.7% |
| 13 | Omaha, NE | 8.6% |
| 14 | San Francisco, CA | 8.6% |
| 15 | Oxnard, CA | 8.4% |

*Rank based on average concessions value in April 2020. Source: RealPage, Inc.

Only two other markets - Worcester and Trenton, both at the epicenter of the U.S. COVID-19 outbreak - are offering concessions of around 10% or more. That translates to roughly five weeks rent free.

All is to say that for stabilized assets, the concession offerings haven’t varied all that much over the past year in most areas.

Lease-up concession values haven’t changed all that drastically either - even in neighborhoods with lots of product working through its initial lease-up phase.

No other submarket in the U.S. has more units working though lease-up than Downtown Los Angeles. As of April 2020, 11 properties totaling some 4,800 units were in lease-up. Most of those properties are offering roughly five weeks free. Still, considering the sheer volume of units in lease-up, coupled with the numerous impacts of COVID-19, those concession values remain relatively modest.

Two neighborhoods seeing concession values among lease-up assets creeping into the six weeks free range are Buckhead in Atlanta and Downtown/Montrose in Houston.

In Buckhead, seven assets totaling 2,200 units are moving through the lease-up phase. While that’s far more manageable than Downtown Los Angeles, Buckhead’s construction pipeline has been elevated for much of the past decade. In fact, Buckhead’s existing apartment stock grew nearly 60% since 2010. As a result, operators are offering lease-up concessions slightly above the standard one month free threshold.

As for Downtown/Montrose in Houston, there’s been similarly aggressive inventory growth over the past decade. But Houston has been one of the nation’s softest markets for some time now following a fallout in the energy market in 2015 and a Hurricane Harvey in 2017. As a result, operators have resorted to some of the nation’s most aggressive concession offerings for many years.

Overall, the relatively modest level of concessions being offered despite an unprecedented economic slowdown resulting in more than 30 million jobless claims indicates the current resilience of the apartment industry. While absorption rates and leasing traffic have slowed due to COVID-19, apartment market performance has remained strong enough to keep concession offerings mild.

Submarkets With the Most Units in Lease-Up

| Rank | Submarket | Market | Lease-up Units |
|------|---------------------------------|-----------------|----------------|
| 1 | Downtown Los Angeles | Los Angeles | 4,786 |
| 2 | The Loop | Chicago | 3,978 |
| 3 | Downtown Miami/South Beach | Miami | 3,028 |
| 4 | Intown Dallas | Dallas | 2,807 |
| 5 | Oakland/Berkeley | Oakland | 2,798 |
| 6 | Intown Fort Worth/University | Fort Worth | 2,585 |
| 7 | Frisco | Dallas | 2,487 |
| 8 | Downtown San Diego/Coronado | San Diego | 2,230 |
| 9 | Buckhead | Atlanta | 2,201 |
| 10 | South Lee County | Cape Coral | 2,164 |
| 11 | Navy Yard/Capitol South | Washington, DC | 2,106 |
| 12 | Downtown/Highlands/Lincoln Park | Downtown Denver | 2,013 |
| 13 | Katy | Houston | 1,993 |

Source: RealPage, Inc.