



APARTMENT ADVISORY

APRIL 2022

The rise in renter income levels throughout the pandemic has been a key trend for the apartment industry. A lot can be said about why renter incomes have risen at their ongoing pace in recent years. A tight labor market and extraneous inflationary pressures likely serve as the most succinct summary for those rising incomes.

For example, today's labor force participation rate according to the U.S. Bureau of Labor Statistics (BLS) shows that March 2022's participation rate clocks in at 62.4%. While that figure has steadily risen since the April 2020 low (60.2%), it remains far below the pre-pandemic rate of 63.4%.

A tight labor market is driving much of today's wage growth



Source: Bureau of Labor Statistics

While a few percentage points difference doesn't seem like much, it's hefty when applied to the massive base of available labor in the U.S. is certainly significant. And as labor constraints have increased, employers are combatting a tight labor market (one that is further constrained by higher-than-typical employee turnover) with competitive wage increases.

There are a multitude of other reasons why income levels have increased. But those explanatory factors can be glossed over for the purpose of this write-up, better left explored for another time. Instead, it's probably more important for the goal of this newsletter to focus on the "what does rising income mean for the apartment industry going forward?"

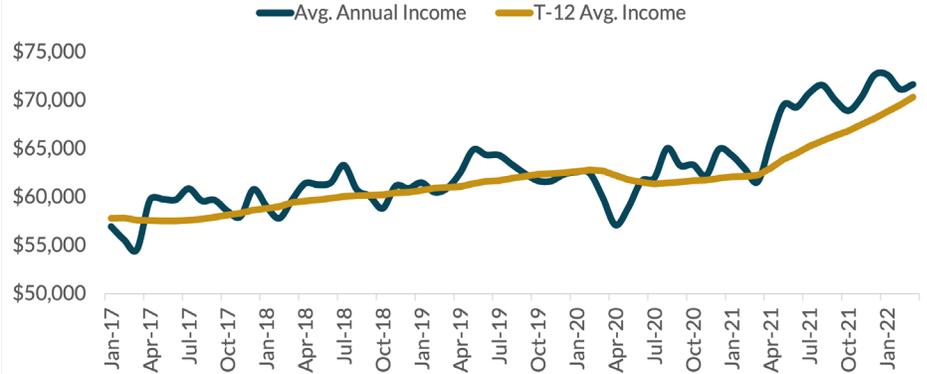
First and foremost is the data. RealPage's renter income tracking is a propriety measure of reported resident incomes on executed new leases. Comparing reported income levels on leases signed today versus those in a previous period (generally best compared on a year-over-year basis) serves as an excellent proxy for the overall growth in renter incomes.

Today's average new lease signee reports an annual income of approximately \$72,000. This same time last year, renter incomes were reported as just slightly more than \$62,250. Smoothing out some data noise with a trailing 12-month average (T-12) shows an increase of about 13% year-over-year (landing right around \$70,000 on a nominal level).

This reported rise in renter incomes at a U.S. level generally corroborates other industry groups as well. The most recent REIT earnings calls were largely in alignment, stating that today's record-setting rent growth was effectively being matched by income growth.

Renter incomes have risen sharply in the past 12 to 18 months

Data sourced from RealPage new lease signee reported incomes

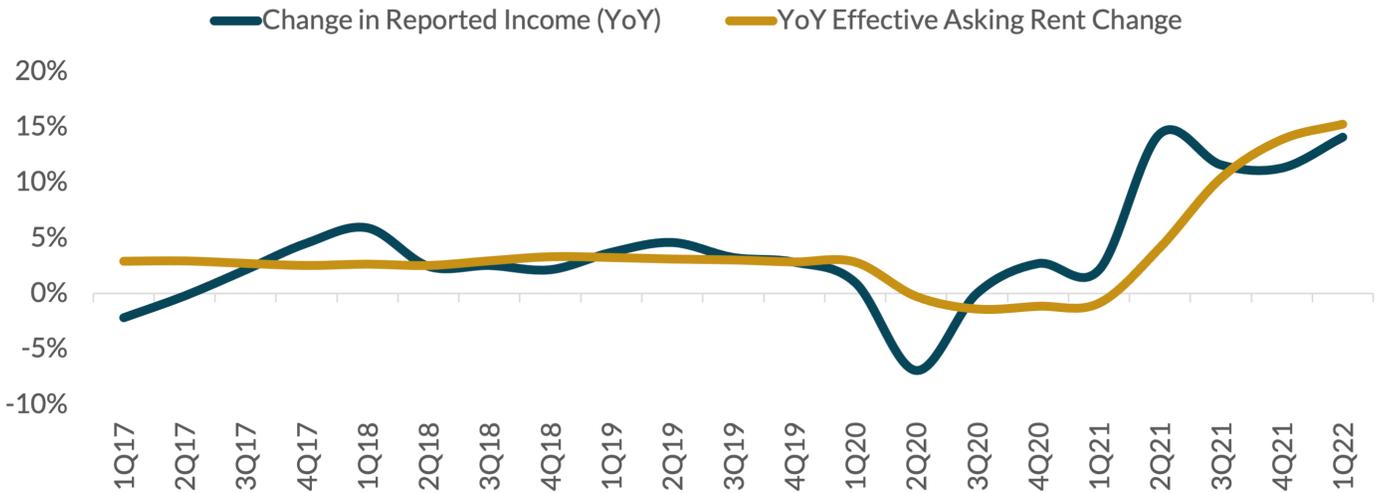


Source: RealPage, Inc. (Lease Transaction Data)

The relationship between rising renter incomes and rent growth is one that shouldn't be dismissed. Over the past five years, both rent growth and growth of renter incomes have marched in tandem with each other (save for the initial shock of the pandemic which saw a brief dip in average reported incomes). This is important as it helps dispel a common myth that rent growth is widely outpacing wage growth, therefore creating a rent-to-income ratio imbalance.

Income growth and rent growth have generally aligned in recent years

Data sourced from RealPage new lease signee reported incomes



Source: RealPage, Inc. (Lease Transaction Data)

The often-reported imbalance between rent-to-income ratios (sometimes quoted as high as 30%-plus for the universe of rental housing) is unfortunately a myth tied to poor data methodology.

In short, many of those skewed comparisons show the Census' reported renter income level (a data point that includes the entire universe of renters, including single-family and "mom-and-pop" style rentals) to conventional, market-rate multifamily housing rents. But comparing market-rate rental housing to market-rate renters is a far more balanced, fair, and standardized lens through which to view the rental housing market.

In the context of this comparison (once again using RealPage lease transaction data), rent-to-income ratios in the most recent set of 2020 data was 22.6%. While there are some modest metro-level deviations (select California markets have the highest rent-to-income ratio while places like Memphis report a lower rent-to-income relationship), the results are pretty stark in that the variance is relatively small.

That relatively small variance once again points back to a key influence when comparing renter incomes and rent-to-income ratios. In short, places with a higher cost of living generally see correspondingly higher wages.

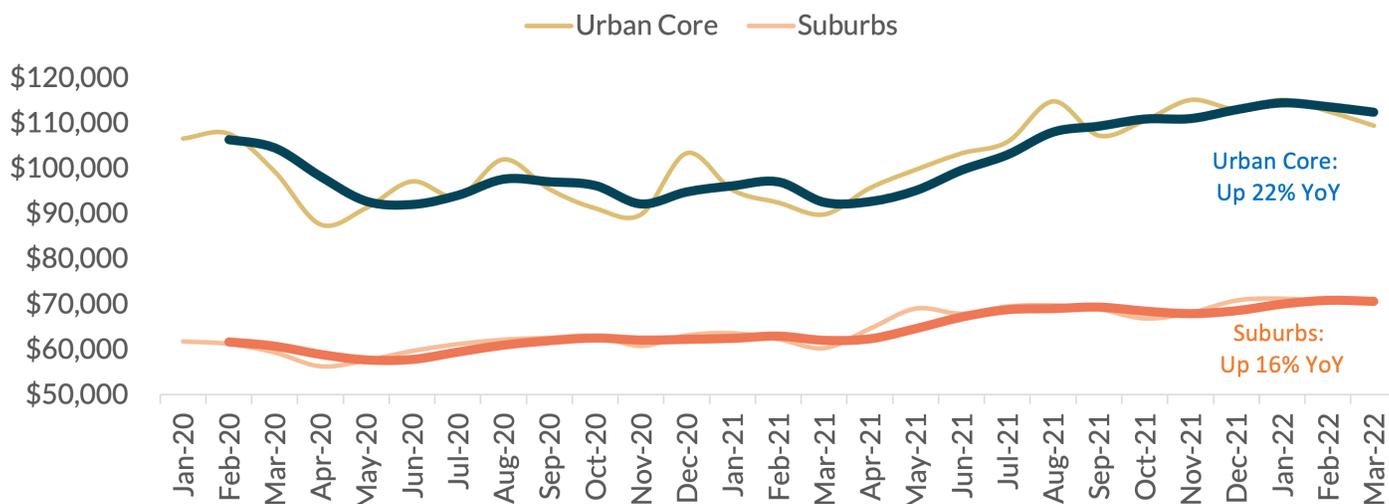
While that statement is still true on aggregate, it should be noted that the work-from-anywhere trend has caused the numbers to shift in some manner. For example, RealPage’s renter income data shows that – especially during the latter half of 2020 – many residents were fleeing more expensive metros for more affordable areas.

Anecdotal information certainly seemed to support such a trend. There was no shortage of reports of renters moving out of the higher cost-of-living states and into more affordable ones, all the while keeping their income levels from their higher starting point.

Indeed, broader migration data seems to support such a phenomenon. And even on a more micro level, there was initially a trend showing income growth among suburban renters was probably tied to out-migration from urban core areas (again, areas which tend to see higher income levels to help offset higher costs of living).

Income levels have risen in both urban and suburban areas

Data sourced from RealPage new lease signee reported incomes; showing 3 month smoothed avg.



Source: RealPage, Inc. (Lease Transaction Data)

Fast forward to today and some normalcy seems to be creeping back into the picture. Every major U.S. market saw higher reported resident income in 1st quarter 2022 than in 1st quarter 2021. In essence, that suggests that the initial outflow of residents into more affordable areas has stabilized.

But perhaps most important above all else is that today’s reported growth in resident incomes highlights the strength and depth of demand among the apartment market’s renter base. And despite record rent growth, the rapid acceleration of resident incomes suggests that rent-to-income ratios should remain at a healthy, sustainable balance for the foreseeable future.

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