

# Apartment rent hikes are slowing — finally

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By [Amy Hoak](#), MarketWatch



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Increased construction of apartments is one reason rent hikes are slowing in some markets.

Good news for apartment renters: Rent hikes are finally starting to slow, a huge relief for those who have put up with annual increases over recent years.

A big reason for the slowdown is the increased supply of new apartment units on the market, said Hans Nordby, managing director of CoStar Group, a provider of information and analytic services for the commercial real-estate industry. “The first quarter of this year, 54,000 new apartment homes were delivered to the market [nationally] and demand was about 27,000 apartments,” Nordby said. “That causes vacancies to pick up a bit.”

Increased vacancies mean that landlords can't be as aggressive in raising rents, if they want to keep their units filled.



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It's important to remember that all markets are different. In some areas with short supply, rents could continue to rise sharply.

In other markets, the supply and demand imbalance could actually lead to rent drops this year. One such place: Washington, D.C., where Nordby said there is a "torrent of new supply," yet job growth momentum has been sluggish. Other submarkets, including Seattle's Lake Union area, the Uptown neighborhood in Charlotte, N.C., and Chicago's downtown also have a lot of new apartments coming on the market, he said.

There's another factor playing into landlord decisions too. "Some rents have gotten so egregiously expensive, it puts an artificial ceiling on rent growth," said Ryan Severino, senior economist and associate director of research for Reis, Inc., also a provider of commercial real-estate information.

When rents are rising faster than incomes, at a certain point, tenants can't stomach meaningful rent increases, Severino said. And when enough of them push back to their landlords, apartment companies may begin scaling back their rent hikes, he added.

Make no mistake, most landlords are still hiking rents, Severino said. They just may not be able to increase them quite as steeply as they were able to previously, he added.

And for some renters, even that slowdown is a relief.

"People are definitely reaching like they've never reached before," said John Kobs, chief executive officer and co-founder of Apartment List, an apartment-listing website.

## **By the numbers**

CoStar's analysis found that asking rents for apartments rose 2.5% in the first quarter, compared with the first quarter of 2013. The vacancy rate was 5.6% in the first quarter, and is predicted to increase throughout the year.

But rents have been rising for years now, after bottoming out in the first quarter of 2010, according to CoStar data. And asking rents are now up 15% between then and the first quarter of 2014. Annual rent growth peaked at 4% in the third quarter of 2012, CoStar figures show.

Even back in 2010, [half of renters paid more than 30% of their income](#) (the traditional measure of affordability) on housing, according to Harvard University's Joint Center for Housing Studies.

For an idea of what a two-bedroom apartment is going for around the country: Average rent in Manhattan is \$5,300, average rent in the San Francisco metro area is more than \$2,800, average rent in Washington, D.C. is \$2,150, and average rent in the Chicago metro area is \$1,257 (within Chicago's Loop submarket, rent is \$2,900), according to CoStar.

One reason vacancies are being kept low while rents are on the rise: More people who were formerly homeowners are now renters. A survey from Apartments.com released earlier this year found that 44.1% of all renters previously owned a home, up from 35.1% in 2013 and 33.6% in 2012.

And while there has been a modest recovery in the for-sale housing market, there has been a [lack of young buyers](#), as they either struggle to qualify for mortgages or are simply choosing to remain renters for the time being.

## Effects of climbing rent prices

Skyrocketing rents have squeezed some would-be renters out of the market entirely. Various research reports indicate [more millennials are living with older relatives for longer](#). And those who are able to get a place of their own often need a roommate to share the rent, Kobs said.

Moreover, rising rents are also causing people to make different choices about the neighborhoods in which they're willing to live. Instead of searching for a home exclusively in the city, young people are much more likely to consider rentals in suburban areas, Kobs said.

"People are going to be more willing to commute than before to save money," he said.

Already, some suburban markets getting hotter. Rents were up 9% in Fremont, Calif., in the fourth quarter, likely as more people try to find affordable rentals in the San Francisco Bay Area; rents were up 8% in Aurora, Colo., outside of Denver, Kobs said.

People are also more likely to stay put in their current apartments, if it means saving money. "We're also seeing a lot of folks extend their lease, if it's more affordable to stay in place," Kobs said.

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