

THE WALL STREET JOURNAL.

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REAL ESTATE

Aiming at Wealthy Renters, Developers Build More Luxury Apartments Than They Have in Decades

New rental completion hits three-decade high, as for-sale home prices continue to climb



In some of the largest metropolitan areas, including Los Angeles, the number of new rentals in 2020 will more than double last year's figures for new supply. PHOTO: FREDERIC J. BROWN/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Will Parker

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Builders are on track to finish more new apartments in 2020 than in any year since the 1980s, a new study shows, with developers across the U.S. chasing after the more affluent tenants.

An additional 371,000 new rental units are expected to hit the U.S. market this year, which is a 50% percent increase over the number of new units completed in 2019, according to an analysis from real-estate analytics firm RealPage.

In some of the largest metropolitan areas, like Houston and Los Angeles, the number of new rentals in 2020 will more than double last year's figures for new supply.

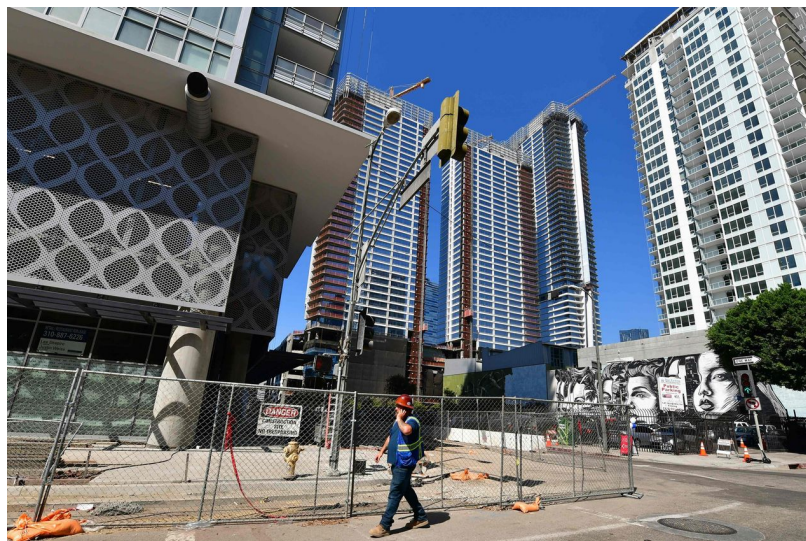
The crush of new apartments comes as state and local governments grapple with how to create more rentals to combat the rising cost of housing for middle- and lower-income families. But as much as 80% of new supply this year will come from luxury developments, or what the real-estate industry calls “Class A” properties, said RealPage chief economist Greg Willett.

“A lot of these properties are competing for a small group of renters,” Mr. Willett said. “A typical renter can’t afford this brand new product.”

Property developers say that the costs associated with land acquisition and construction have become so steep that catering to affluent renters presents the best opportunity to make a profit.

“Land prices are expensive” said Cyrus Bahrami, a managing director of Houston developer Alliance Residential, which has built several luxury rental buildings there in recent years. “It’s very difficult financially to make sense of building a cheaper product.”

Some housing analysts think this much new supply can have a broader impact. They say that even when it is heavily skewed toward wealthier consumers, it can have a positive effect. An increase in luxury housing, for example, may encourage more economically mobile renters to “move up” to better apartments, freeing up more affordable homes for less wealthy apartment hunters.



The price gap between a luxury rental property and one rung lower in Los Angeles is an extra \$880 a month, according to RealPage. PHOTO: FREDERIC J. BROWN/AGENCE FRANCE-PRESSE/GETTY IMAGES

Even though it is more difficult and less profitable, some developers spread their bets by building some lower rent apartments. Mr. Bahrami said his company has started construction on simpler properties with fewer amenities that will rent at a roughly 25% discount to one of its latest Houston buildings, where two-bedrooms are now on the market between about \$2,200 and \$2,500.

The gap between a luxury rental property and one rung lower is widening, according to RealPage. High-end building rents are now on average \$500 a month higher than the next class down, up from roughly \$300 a decade ago. That spread is even greater in Los Angeles, where a luxury apartment is an extra \$880 a month.

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RealPage's Mr. Willett said that the potential oversupply in high-end developments is likely to lead to some price concessions for the most expensive apartments, with developers offering incentives such as a month free to fill up their new buildings.

This year's surge signals that projects planned around the 2015 peak of the rental market are reaching completion.

Large new rental buildings now opening in the Los Angeles area include the 329-unit Weddington in North Hollywood, where 600-square-foot one-bedroom apartments start at \$2,300. In downtown Houston at the 21-story Camden Downtown, a two-bedroom, 1,900-square-foot unit goes for \$6,500 a month.

The lack of single-family houses available for sale, and the rising price to buy them, has been one major boost to the luxury rental market, Mr. Bahrami said.

And although rental supply this year is the highest in more than 30 years, the construction of single-family homes for sale is well below historic norms, sending more people in search of apartments, said Calvin Schnure, chief economist for the National Association of Real Estate Investment Trusts, a trade group.

"These are people who would have been homeowners in just about any other market environment," Mr. Schnure said.

Later this month, the Harvard Joint Center for Housing Studies plans to release a report detailing that the number of cost-burdened renters in America, or those spending more than 30% of their income on rent, is rising.

Write to Will Parker at will.parker@wsj.com

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