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Apartment analysts discuss project delays, rents and renewals amid COVID-19

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In the midst of COVID-19, apartment analysts say they expect some projects to be delayed, leasing to slow on new luxury units and record high renewals in 2020.

Just a week into April, the local apartment market already is feeling some disruption.

Firms that track apartment market statistics on a month-to-month basis are seeing dips in rent and absorption, an unusual trend for this time of year. Analysts say other impacts are less obvious right now, but could include project delays, slow leasing for new luxury units and record high renewals.

As with projects in other real estate sectors, analysts expect apartment projects to be delayed as a result of supply chain and construction crew staffing issues.

Adam Couch, market analyst at RealPage Inc. (Nasdaq: RP), says it's typical to see about a quarter of all new units in the supply chain delayed about two to three months, but says numbers could spike due to the fluidity of the ongoing situation with the COVID-19 pandemic. For projects that have not yet broken ground, experts say delays could be even more significant.

"If they haven't broken ground, I'd expect a much longer delay. It just depends on where they're at. If they've been permitted and financed, those will go forward. For developers, once you get so far, you can't go back. You have to ride it out, but it's really on a property-by-property basis," said Bruce McClenny, president of ApartmentData.com.

For new projects expected to deliver soon or are in the first cycle of lease up, a rough road may be ahead in the short term.

New RealPage data says Dallas-Fort Worth leads the country with the most new apartments looking to be leased up at nearly 20,000 units across 65 projects. That is more than double the second- and third-place cities, Washington, D.C., and Austin, which sit at less than 9,000 units each.

"Those units do face the biggest challenge," said Couch. "Those that are about to complete or have just completed, these are typically the Class A, higher-end products. They face hurdles because there are so many of them, but also, you as a renter can always say, 'I don't like where the economy is going. I want to save a little bit of money and move into a middle-tier product type.' On the other end, it's more difficult to bump these renters from that Class B, middle stock to the higher end."

With Class A units likely to see slow absorption in the near term and volatility on the lower end of the apartment scale, Couch says the most opportunity exists for owners of Class B product right now.

"We've always liked Class B, and this is a great time to show you why. You can easily pull residents from Class A into Class B, but on the flip side, these renters don't face the additional affordability challenges that a Class C renter would typically face. Those Class C renters typically live paycheck to paycheck. They might be at a higher risk of being laid off. That's the challenge with Class C. We like Class B because it seems to be the most well-insulated," said Couch.

Additional obstacles may exist for owners of Class C space as evictions have been halted until at least April 30 in Texas. With mortgages likely still being owed on time to lenders, the situation is a bit of a wildcard in terms of how it will play out, says Couch.

Due to the numerous concerns that renters might have in the next few months, Couch and his team are predicting that lease renewals will hit a new high in 2020, eclipsing the all-time high seen in 2019 at 52.3 percent. Couch says renewals have been trending upward over the past 10 years due to an overarching strategy seen across the country. Instead of pushing for the highest rents they can get, apartment owners today are more likely to try and keep a renter at their current rate rather than lose them completely.

While the complete impacts on apartment demand and rents related to the coronavirus outbreak are not yet known, preliminary numbers are down. ApartmentData.com reports that total absorption at the end of March was 2,240 units, up by about 400 units from February, but down from 2,762 units in March 2019. Of the 35 percent of North Texas multifamily properties polled so far in April, average rents appear to be down 30 basis points, said McClenny. From February to March of this year, average rents rose by $6 across North Texas. If rents do fall in April, it will be the first time that has happened in North Texas since November. Future market updates by RealPage have also been halted for the time being as the firm works to revise its 2020 outlook.

Despite the uncertainty and volatility in the market right now, experts say there are things to be positive about.

"There are folks in the real estate industry that need to be applauded for taking the stance they have to help residents. We're interested in what they're doing. There's lots of talk about folks who may not be able to pay rent and property owners working with them. We're seeing all sorts of good deeds and considerations. That's heartening," McClenny said.

Others are keeping clients positive by reminding them of the healthy market fundamentals that existed prior to this slowdown.

"The DFW apartment market remains well balanced. We're getting a lot of questions about markets that are concerns right now, and those would be like an Orlando or Las Vegas – markets with lots of leisure and hospitality jobs. But Dallas has a very well-diversified economy," Couch said.

"We have over 20 Fortune 500 companies here who really act as anchors for the apartment market. We've created more jobs than any other market in the entire nation over the past decade. These are typically high-paying jobs in the professional and business service industries. We've also added 1.2 million people in the last decade. These jobs are bringing people here, and this growth is offsetting some concern that people might have. We might see some short-term headwinds here, just like any other market, but it won't be as severe as some other markets across the country," he said.

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