



APARTMENT

News

Volume 56, Number 1

2016 AWARDS OF EXCELLENCE

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• AWARDS • BANQUET

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Outgoing Speech from President Michael Kraft

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CONSTRUCTION COSTS ARE KILLING US

Digested from *Aptly Spoken*

By Paula Munger

It's conference season! And I did my part by attending three of them within a span of 10 days. At each one, I heard this same sentiment from apartment industry developers, owners and operators, large and small, hailing from the Northeast to Southern California.

Outside of land, the key components of construction costs are labor and materials. First, the materials. The recently-released Producer Price Index (PPI) reported a 0.8% year-over-year increase in September in all inputs to construction, slightly larger than the total PPI increase for all goods and services of 0.7%. In terms of processed goods essential for construction, of which there are too many to list, concrete, gypsum, cement and lumber have all increased significantly in one year's time. Price declines for items such as copper and asphalt have partially offset those increases.

So let's get local, and take a closer look at labor costs, specifically median hourly wages for construction workers in some major metropolitan areas as of 2015 (the most recent data available). Seventy percent of the top 10 apartment markets, based on number of units, exhibited wage premiums in construction compared to other industries. In Chicago, a construction worker can earn almost double the overall average earning rate, with New York and Los Angeles about a third more.

Expanding the field to the top 20 apartment markets, seven stood out with construction industry wage growth significantly outpacing all other occupations: Boston, Dallas, Philadelphia, Houston, Austin, Phoenix and Washington, D.C. With the exception of Austin, the supply of construction workers in these markets still fell short of pre-recession levels.

Fast forward to September of 2016,



and average monthly employment is showing some improvement with Dallas and Boston finally recovering all construction jobs lost during the recession. Phoenix and Washington, on the other hand, are still missing more than 100,000 jobs combined. Like many other industries in this tight labor market, there is a mismatch between available positions and available workers.

According to a recent survey of nearly 1,500 contractors by the Associated General Contractors of America, 69% reported difficulty filling hourly craft positions, particularly carpenters, electricians, roofers and plumbers. Not surprisingly, 48% of survey respondents reported increasing base pay in order to attract these skilled workers. Over half of the contractors do not expect any relief over the next 12 months, so if classic supply and demand fundamentals play out as they should, expect labor costs in the construction industry to continue to rise. Of course, that all depends on which market you're in. ▲

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Holiday Luncheon

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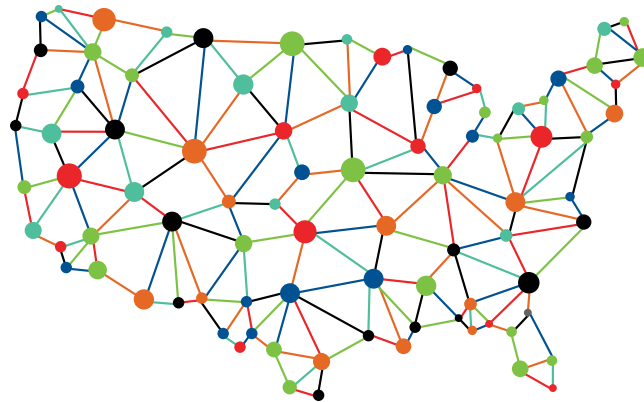
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A NEW WAY TO GAUGE EFFECTIVE RENTS: *Predictive Analysis*

Digested from *Property Management Insider*

By *Tim Blackwell*

Who knew that sabermetrics, a statistical analysis of data used in baseball, could someday apply to pricing apartments.

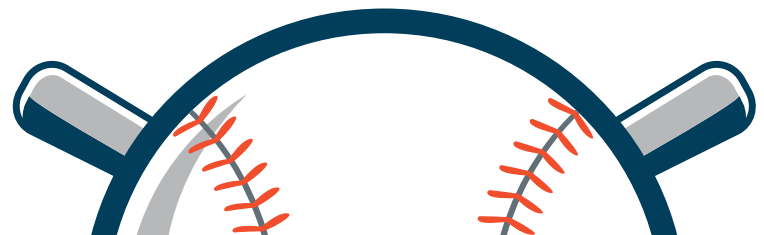
After losing several of his best players, Oakland A's general manager Billy Beane in 2002 took a gamble when he enlisted replacements that were relatively unknown but statistically had a strong chance of hitting it out of the ballpark, so to speak. Beane's hunch about his new players proved true when the A's managed to stay competitive and financially healthy with this new lineup.

Predictive analysis works in a similar fashion. It analyzes trends and data related to the behavior of apartment shoppers to recommend pricing on apartment properties. A number of factors such as rent and occupancy rates go into this formula. "It's probably the frontier for revenue

management going forward," according to Rich Hughes, head of data science with RealPage Inc., which conducts this type of analysis.

This method of analyzing tenant behavior to determine pricing may be especially useful in assessing certain risks associated with short-term leases.

"If you have a building with 300 units and one or two residents are on a month-to-month lease, that doesn't really influence your pricing that much," said David Danish, director of advisory services for YieldStar, RealPage's revenue management division. "But if 10, 15 or more are on a month-to-month lease, you need to acknowledge that they could provide notice at any given moment. That rent needs to be accounted for." ▲



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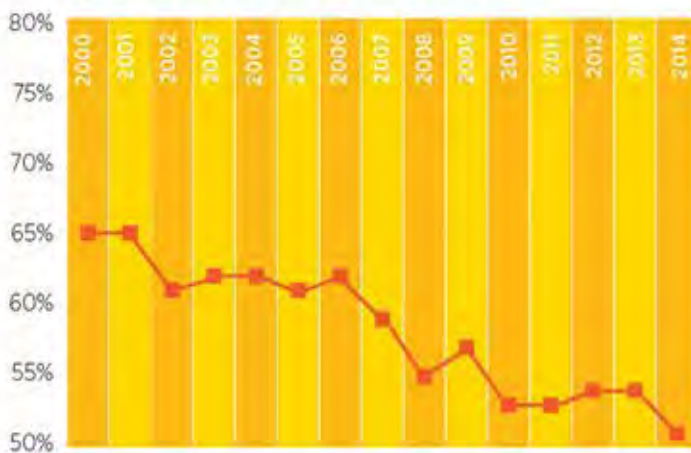


Digested from *Aptly Spoken*

By Paula Munger

Anyone who regularly consumes Census data knows that mobility rates in this country have been declining for decades. So why do we keep hearing about roving Millennials, and the freedom to move as a main reason they don't commit to homeownership? It's true that rates of mobility among young people (ages 20-29) have historically been the highest of any age group, but the fact is that as a whole, Americans are moving around far less than in the past.

Apartment Turnover Rate



As homeowners have begun to regain equity over the past several years, their mobility has picked up slightly and leveled off in the 5 percent range. Renters, on the other hand, continue to sit tight with rents for new leases rising while renewals often increase at a lower rate, making them more financially attractive. Keeping in line with Census data, the NAA Income & Expenses Survey shows apartment turnover rates trending downward since 2000. However, thanks to high rates of new construction and an ultra-competitive environment, apartment owners who retain residents can still augment their rent revenues at a fairly healthy rate.

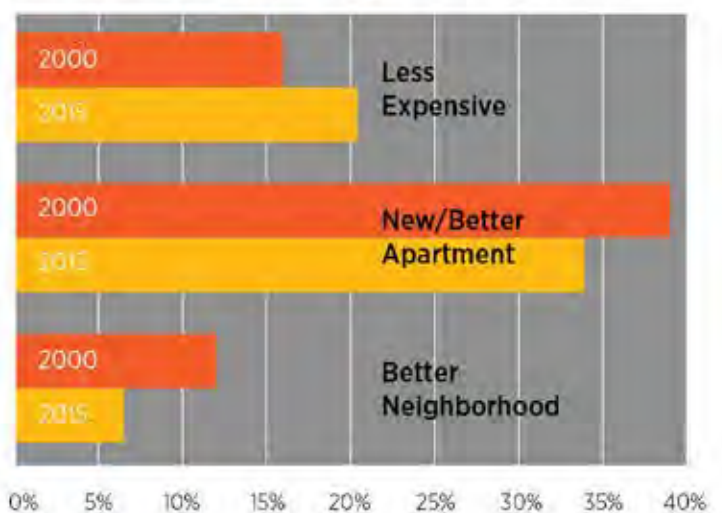
So now that we've established that we generally have fewer moves in the U.S., the fact is that a large proportion of renters (24 percent) changed residences between 2014 and 2015. Why? Changing housing, such as buying a home or "right-sizing" an apartment, remains the number one reason

for moving, averaging about 45 percent for the past 15 years, compared to 20 percent of renters who moved for jobs during the same time period. Clearly, job-related reasons increase during periods of economic expansion, as shown in the chart below. Family-related motives are the second largest reason for moving, covering change in marital status, establishment of a new household, and the nebulous "other" which unfortunately makes up the largest proportion of family reasons without offering much insight.

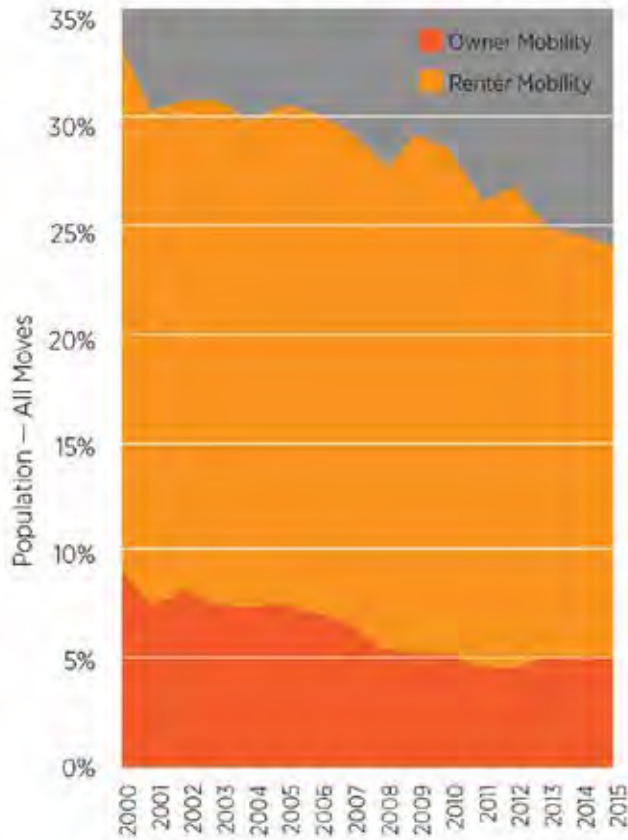
Finally, drilling down to specific housing-based moves for renters, a new or better apartment remains the number one reason for moving, but has slipped since 2000, along with leaving for a better neighborhood. Financial considerations have become increasingly important, with more than a fifth of renters moving for less expensive space last year.

With most analysts in consensus that this apartment housing cycle is past its prime, as evidenced by potential oversupply and peak pricing in some market segments, we may very well see renter mobility rates pick up somewhat in the coming years. Regardless of the fact that renters are actually moving less, the peace of mind that comes from knowing you can pick up and go for any opportunity life throws your way no doubt remains a compelling incentive for renting over buying. ▲

Reasons for Housing-based Moves



U.S. Migration Patterns



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Are Developers Meeting Market Demand With New Communities?

Digested from "How to Profit From Rising Rents: Build Apartments" Nasdaq

By Laura Kusisto

Given the impressive apartment industry rent growth, developers continue to invest in new supply, with 1 million apartment homes schedule to come online in the next three years. But are they the types of apartment homes residents really want?

Investors have seen luxury apartments as the greatest opportunity for profit, given how high rents have reached in certain metros: Class A apartments command more than \$5,000 on average in New York. But the focus on these high-end, urban apartment communities could prove troublesome down the road if demand doesn't support them.

Indicators of strained affordability include increased vacancy rates in urban areas and less aggressive leasing for new projects in 2015 compared to 2013. Other obstacles could include an early recession. ▲



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CALENDAR OF EVENTS

January

Fair Housing for Maintenance

Thursday, January 12

Morning Class 10-12 Afternoon Class 2-4

Location: Country Inn & Suites

Cost: \$25.00 per person (members)

\$55.00 per person (nonmembers)

Management Seminar – Handling Crises

@ Your Community with the Media

Thursday, January 26

1 - 4 pm

Location: Cort Furniture Training Room

Instructor: National Speaker Lori Trainer

Cost: \$50.00 per person (members)

\$75.00 per person (non-members)

February

Management Workshop

Thursday, February 9

10 am - 12 pm

Instructor: Rentpath

February Luncheon

Thursday, February 16

March

Fair Housing for Management

Thursday, March 16

1 - 4 pm

Location: TBA

Instructor: National Speaker Attorney Nadeen Green

Sponsored By: For Rent Media Solutions

Cost: \$50.00 per person (members)

\$75.00 per person (nonmembers)

Associate Seafood Extravaganza

Wednesday, March 29

Location: Best Western Landmark Hotel

Cost: \$37.00 per person

Stay tuned for events in
2017 and Beyond!

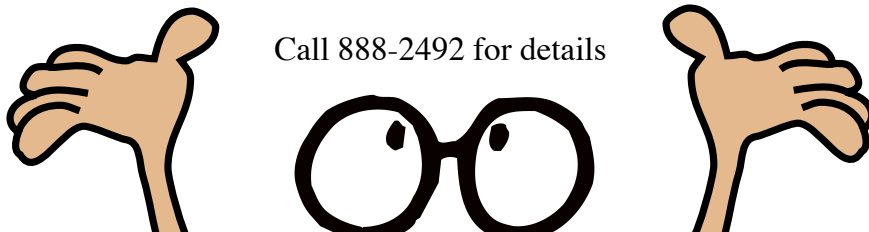
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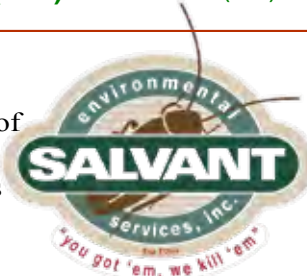


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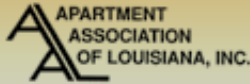
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