

Apartment Rates Rise, Though Developers Face Challenges



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Over the past few years, a lot of focus on the Valley's housing market has centered on the growth of home prices since the Great Recession. Over that time, rental rates on apartments, duplexes and single-family homes also have steadily risen. But figuring out how much those rents have gone up depends on whom you ask.

While the price to buy a home in Fresno County has averaged increases of about 9 percent over each of the last seven years — with a slight slowdown this year — rental website Apartment.com puts the increase in rental prices at 4.2 percent for all sizes of apartments in Fresno County this year compared to last year, and at 21 percent over the past five years. The website also puts the five-year increase in rental rates for Tulare, Madera and Kings counties' apartments at between 14 and 19 percent, based on prices asked for by apartment owners and property managers, though non-apartment rentals aren't included in the estimates.

Meanwhile, another website focused on rentals, Zillow.com, factors all residences — apartments, single family, etc. — and calculates what their

rental prices would be and estimates the average rental price increase in all four counties from October 2010 to October of this year at just over 4.5 percent, with Fresno County alone averaging more than a 12.5-percent increase. Then there's ApartmentList.com, which looking only at listed apartment rental prices, reports that in Fresno rental prices from November of last year to November of this year saw rents increase 17 percent in just that one year, on average, exceeding the state average of 14 percent over the same period and the national average of 13 percent. Whatever the percentage, the rise in rental rates is "robust" in Fresno, Kings, Madera and Tulare counties, said Doug Ressler, director of business intelligence for Yardi Matrix Café, which, among other things, provides market research on trends for apartment buildings and complexes with 50 or more units. In the counties combined, he said, average rents have increased 3.1 percent from the first quarter of 2017 to last month. "Some larger metropolitan areas are not averaging that [rate]. We're starting to see a dampening in some areas, but 3.1 percent is very aggressive and very strong," he said. Not that there's much chance of the Valley rental rates exceeding those of most large California cities any time soon. Of the 10 largest California cities, the average monthly apartment rent in Fresno is \$1,030 a month, the second-lowest rate after Bakersfield, at \$940 a month, according to ApartmentList.com, which lists San Francisco and San Jose as having the highest average apartment rental rates, \$3,100 and \$2,650 a month, respectively. Those high rental rates, as well as those in other part of the Bay Area, coastal areas and Southern California, are part of what's driving up rental prices here, the experts say.

Here in the Valley, job growth has been dramatic since the recession. "We've been on a tear, and over the last two years, job growth has been tremendous," said Robin Kane, a senior vice president overseeing the Fresno and Bakersfield offices of the Mogharebi Group, a commercial real estate firm specializing in brokering sales of large apartment buildings and complexes. He said the supply of rental units and jobs are the two primary factors affecting demand for rental units, and on the supply side, construction of new rental housing has been "meager" compared to demand here, which has helped rental rates grow.

As for jobs, the higher employment rates here are pushing up rental demand, as is the growing number of people leaving Southern California and the Bay Area for the Valley — along with parts of Nevada, Arizona and Idaho — where it's cheaper to live, elevating demand for apartments and homes to purchase, Kane said. "This [area] would be the last refuge of Californians," who want to stay in the state, he added. With all of this going on, it's a good time to own or build residential rental properties, if you know what you're doing. But if you're not building subsidized housing or units on the luxury end, building privately-funded apartments in that middle range — mostly for blue-collar families, the type most needed here in the Valley — can be tough, Ressler noted. "Right now, in terms of the rental market for apartments 50 units and up, in order to make it pencil out, you have to build the type As," higher-end or luxury apartments for tenants who can afford much higher rents, he explained. When building for working-class tenants who can't afford those rents, "You need stipends or subsidies in order to turn profits," Ressler said. "And there's not a wealth of programs to do that," for market-rate rental developments, as opposed to affordable housing that have a systems for funding and tax breaks to promote such developments, he said. "So what you see right now is the demand is coming in the workforce housing, and there is no one centralized effort to be able to provide that," he said. "Usually it occurs at the city or the state level."

Some developers, mostly in the Bay Area, Southern California and Boston, are working around that by including "micro units" in their new apartment buildings to qualify for some affordable housing assistance. Unlike standard apartments, micro units are bedrooms rented by individual tenants or couples who share common living rooms and kitchen areas with the other renters, Ressler said.

While residential rents in the Valley likely haven't gone up as much as home purchase prices, renters generally are feeling the effects more than homeowners, as renters tend to have less discretionary income. That could become a problem for apartment owners, said Kane, explaining that "You get to the point in time where you're raising the rents above the ability of the market to increase salaries, to increase household income, so you start thinning out the numbers, so demand is diminished, not because they don't want it," but because people can't afford to relocate or improve their living conditions, he said. "The impact is not so much on the top end of the market but on the lower end of the market. Because those are the people able to least handle rent increases," and those tenants already are experiencing the most dramatic increases in the Valley, Kane said. And while the local rental market hasn't quite reached that turning point, he said, "It's getting there."