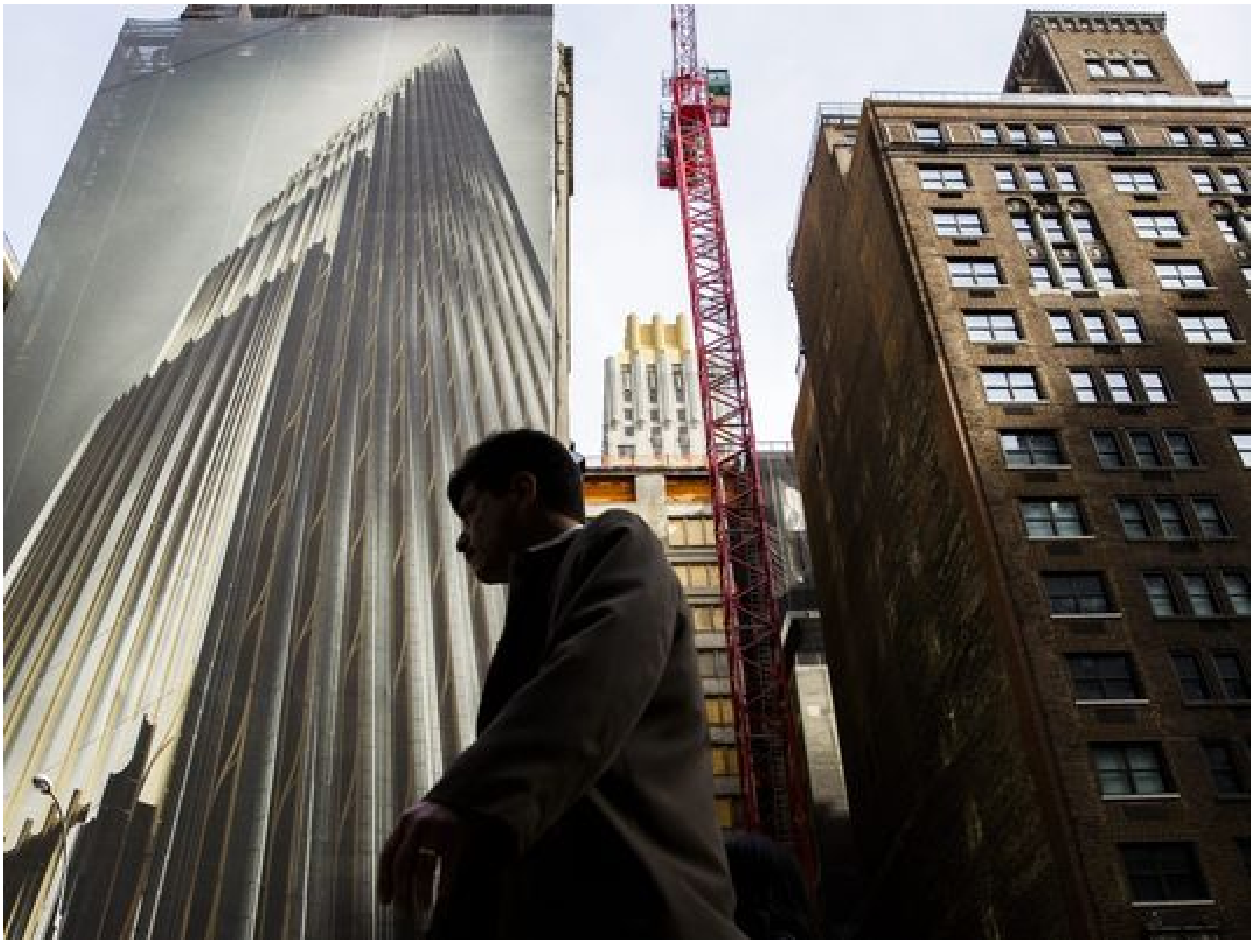
Many downtown luxury apartments sit empty

By Paul Davidson - August 16, 2016

The more people want to live in a place, the more expensive it gets. It's no surprise that the cities with the most opportunities and best climates are some of the least affordable places to live in the US.



(Photo: JUSTIN LANE, EPA)

Apartment building owners are struggling to rent many of the luxury units that have flooded downtowns across the country in recent years even as a relative shortage of multifamily homes in the suburbs has driven up rents.

Since 2012, the nation’s supply of apartments has swelled 16.6% in central business districts and 13.5% in “secondary core” areas surrounding the downtowns, but just 5.5% for mid-priced suburban units, according to real estate research firm CoStar.

Many downtown luxury apartments sit empty

By Paul Davidson - August 16, 2016

The downtown building frenzy has been well-publicized as developers cater to Millennials, among other age groups, who have streamed into revitalized cities to be closer to amenities, nightlife and a car-free lifestyle. The CoStar data, however, shows that builders may be putting up too many apartments — most of which are at the high end of the market — in the urban hubs and not enough in outlying areas.

Over the past four years, the vacancy rate in downtowns and adjacent districts has climbed from 3.4% to about 5.5%, CoStar figures show.

Although new apartment complexes typically take some time to lease up, many units have been sitting empty longer than normal. Nationally, new apartments had an average 52% vacancy rate when they opened in the first quarter of 2013, and the rate for those dwellings fell to about 11% within 18 months.

By contrast, new units opening in the first quarter of 2015 had a 72% vacancy rate that declined to 18% over a similar period. The higher vacancies were driven by luxury buildings in central business districts, says CoStar Chief Economist Hans Nordby.

“These new flashy, splashy downtown buildings — they have a vacancy problem,” Nordby says. “They are too expensive to rent” and there are too many of them. At the same time, he says, “There’s not much supply of new apartments in the suburbs.”

As a result, since 2012, average rents have risen 12.3% in downtowns and 18% for mid-level suburban apartments, CoStar says.

The city-suburb split is playing out in metro areas across the country but it’s particularly acute in large cities such as Los Angeles, Washington and Chicago. In Los Angeles, about 5,500 apartments have opened downtown the past 3 ½ years, with typical rents of about $6,500 a month, and the district’s overall vacancy rate has climbed from 4.5% to 9.9%, according to CoStar data.

Niko Deleon, owner of Niko LA Leasing in Los Angeles, says most high-end downtown buildings have been forced to offer amenities such as free rent for up to six weeks.

In the suburbs, just 1,900 mid-tier units have been added since 2012 and vacancy has fallen to 2.8% from 3.7%. In suburbs such as Santa Monica, many landlords are requiring minimum credit scores of 700 and are willing to hold apartments with a security deposit for just several days, compared to a typical few weeks, says Jessica Sanders, client relations specialist for Pacific Listings, a website for apartment hunters.

USA TODAY

Many downtown luxury apartments sit empty

By Paul Davidson - August 16, 2016

A shift may be underway. In recent years, more apartment complexes have gone up in the suburbs of cities such as Philadelphia, Washington and Charlotte as investors make more financing available and local officials become more willing to build infrastructure, says Stockton Williams, head of the Urban Land Institute's Terwilliger Center for Housing.

"Things are starting to change," he says.