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RENTAL HOUSING JOURNAL
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National Avg. Rent Falls $1 in December

Yardi Matrix

There was a weak end to a solid year for multifamily, with national average rents falling by $1 in December, according to the latest report from Yardi Matrix.

The report says 2019 will go down as a year without much drama in the multifamily sector as U.S. rent growth finished at a solid 3 percent.

The average U.S. rent fell $1 in December to $1,474, with the growth rate falling 10 basis points from November. That said, U.S. multifamily rents finished a remarkably consistent 2019 up 3.0%. Year-over-year growth remained between 3.0% and 3.3% the entire year.

Rents were essentially flat for the fourth quarter, which is a normal seasonal trend. The last time rents grew significantly during the end of the year was 2014 and 2015.

Rent growth continues to be strong in all regions, led by secondary markets in the West and Southeast. Phoenix, Las Vegas, Sacramento and Nashville were among the top-performing metros all year. However, growth decelerated

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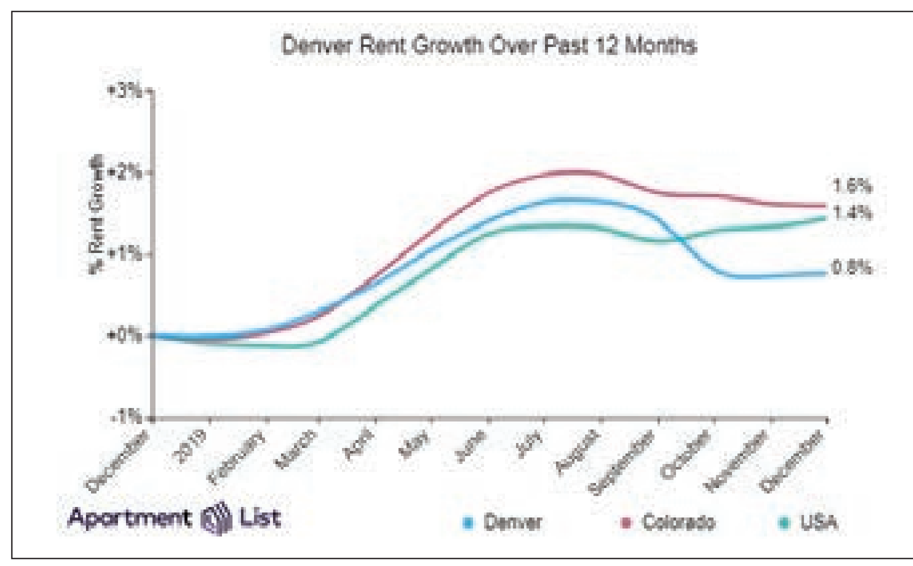
Denver Rents Remain Flat

Apartment list

Denver rents were flat in December and up only 0.8 percent year-over-year, according to the January report from Apartment List.

Median rents in Denver are $1,069 for a one-bedroom apartment and $1,353 for a two-bedroom.

Denver's year-over-year rent growth lags the state average of 1.6 percent, as well as the national average of 1.4 percent.



However, rents are rising across the Denver metro

Throughout the past year, rent increases have been growing across the Denver metro.

Of the largest 10 cities that Apartment List has data for in the Denver metro, nine have seen prices rise.

Here's a look at how rents compare across some of the largest cities in the metro.

• Thornton has the most expensive rents in the Denver metro, with a two-bedroom median of $1,944; the city has also seen rent growth of 3.1 percent over the past year, the fastest in the metro.

• Over the past year, Brighton is the only city in the metro that has seen rents fall, with a decline of 6.0 percent. Median two-bedrooms there cost $1,690, while one-bedrooms go for $1,333.

• Denver proper has the least expensive rents in the Denver metro.

See 'Denver' on Page 6

How to Detect Faulty Wiring on Property

Rental Housing Journal

Every year, electrical fires leave a trail of costly damages on rental properties across the United States. This is considered to be one of the most expensive fixes that property managers have to face, according to maintenance company Keepe.

As a property manager, keep an eye out for poorly installed, outdated and damaged electrical wiring. Often, the warning signs of faulty wiring are relatively easy to detect – as long as you stay proactive and alert in spotting these issues. Here are some warning signs of faulty electrical wiring:

Frequent circuit-breaker trips

A circuit breaker is designed to trip whenever a power overload occurs in the system. However, if this happens too often (frequent circuit breaker trips in a span of a few days or weeks), it is a clear sign that there is a deeper underlying problem in the building's electrical wiring system. Make sure to have it checked out.

Constant dimming, buzzing or flickering of lights

If lights in the building constantly buzz when turned on, or worse, flicker or dim when multiple appliances are in use at the same time, it is an indication that there is a problem with the building's electrical wiring, which would potentially require an urgent professional upgrade.

Chewed or frayed wiring

Damaged wiring – left behind by inexperienced handymen, pets, and rodents – can cause an electrical fire in a rental property. It is essential for property managers to look out for chewed or frayed wiring. If you spot these types of wiring, contact an electrical contractor immediately.

Discolored, scorched or smoked outlet points

When a rental property's wiring system is damaged, it often causes discoloration and scorch marks on the outlet points. This is a tell-tale sign that the wiring system is damaged. If left unchecked, it has the potential to cause a fire or shock.

As a property manager, do routine walkthroughs and inspections to detect an electrical fire before it occurs. Remember not to tinker with the electrical system in a building, especially if you see or hear any of the above warning signs.

Sponsored Content

What Are the Best Properties for a 1031 Exchange?

By Dwight Kay and the Kay Properties Team

You are about to sell your property, and your CPA tells you that there is a large tax consequence lurking around the corner. In order to avoid paying capital gains and depreciation recapture tax, you consider a 1031 exchange whereby your taxes are deferred from the sale into a new property or group of properties. The legal and financial particulars of executing a 1031 exchange can be confusing, but many potential exchangers find it more difficult to find the next property in which to invest.

How do you choose your next investment property? There are many ways to go about looking for property to exchange into, but something that I recommend to my clients is thinking about the end goal. What are you looking to get out of your next property? For example, many of those who are looking to make a 1031 exchange now likely began with an investment in real estate that they hoped would appreciate in value. Many of these types of properties can potentially be riskier but can appreciate more quickly. If this strategy is something that still seems interesting to you, then I would recommend looking into multi-family buildings. Depending on your risk profile, the geography, year built, and other factors would go into determining which properties would be a fit. Multi-family requires a lot of hands on management and could require out of pocket expenses. However, If you are looking to retire and take a less hands-on approach, then I would recommend other types of properties.

Many clients of ours that look for less management intensive investments may veer towards NNN properties. With a NNN lease, the tenant will pay for some or all costs associated with the overhead of a building. The leases are sometimes guaranteed by larger companies that have multiple stores across the United States. Although these properties tend to be more passive investments, management is still in the hands of the owners. If anything should happen to the building itself, it could be a liability to the management.

Between these types of real estate, there are a whole array of different strategies to implement. Another strategy is using Delaware Statutory Trusts to blend your real estate portfolio into a risk profile and return of your preference. With DSTs, you can purchase fractional interests of properties without having to make your whole investment count towards one property since minimums for 1031 exchange are typically $100,000 and investors have the opportunity to diversify by location, property type and asset manager by investing in multiple DSTs. You can strategize on how you would like your 1031 exchange to count depending on what your end goal is. With DSTs you can employ a passive investment strategy while having the ability to invest fractionally in properties with appreciation potential. There are risks however associated with DSTs. Like with all real estate securities, there are not guaranteed returns. Each DST will be associated with their own sets of risks tied to geography, management, and asset type. We still believe that you can employ an effective strategy depending on what your end goal is through DSTs.

KAY PROPERTIES & INVESTMENTS LLC

Kay Properties and Investments, LLC is a national Delaware Statutory Trust (DST) investment firm with offices in Los Angeles, San Diego, San Francisco, Seattle, New York City and Washington DC. Kay Properties team members collectively have over 114 years of real estate experience, are licensed in all 50 states, and have participated in over $9 Billion of DST real estate. Our clients have the ability to participate in private, exclusively available, DST properties as well as those presented to the wider DST marketplace; with the exception of those that fail our due-diligence process.

To learn more about Kay Properties please visit: www.kpi1031.com

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5 Multifamily Investing Predictions for 2020

By Vinney Chopra and Jon Roosen

The market for multifamily properties is continuously changing. In the light of major political, social, and economic developments, investors will have to look at the bigger picture. Adaptation is the key to success amid an uncertain landscape. Whether to resist or go with the flow will depend on what investors want to achieve in the foreseeable future.

It's because of these fundamental reasons that investors will have to keep themselves abreast of significant disruptions in the multifamily field. For that, they will have to be aware of these disruptions and how they are going to affect the profitability and sustainability of their investment portfolios.

You don't have to look for a fortuneteller to get a good glimpse of the future of the multifamily market. You only need to view the trends that will shape the investment market. As we close another year and welcome the new one, let us focus on what to expect from the multifamily market and look at the trends that really matter in the long run.

Fear of a market correction

Market correction or no market correction?

It is very difficult to say when the next recession will be, but it has been a big buzzword lately among the media and investors. Recent interest rate cuts might have stopped a recession, or a slowdown due to fear, from hitting in 2020. This has been the longest bull market in U.S. history. Many on Wall Street are wondering if this long run is on its last leg or mustering a second wind. However, there are still expectations that the U.S. economy and GDP growth could slow next year. Investors are starting to hedge against this increased risk. And there are other various notable issues ahead in 2020 that also will create higher levels of uncertainty, such as the upcoming presidential elections, and trade conflicts. As most investors are treading with caution as they move into the New Year, many are still seeing strong opportunity when using sound fundamentals when purchasing apartments. In our case we are closing on our deals with a lower loan-to-value ratio (LTV) to hedge against a correction, and also having strong value-play built into the business plan. With a looming market correction, it's important to not overleverage, and to have plenty of cash on hand if one does hit.

Rent control in 2020

The slowing economy and the fear of a recession are not the only fears of investors in 2020.

The issue of rent control has quickly become a top concern. Rent regulations have been instituted in a few major markets recently, and many more markets are considering this control to try and combat rising rental housing costs. States like New York, California, and Oregon are all implementing this control. Illinois and Washington State are on the list next for possible legislation. On January 1, 2020, California law began allowing only for a five percent increase, plus the local rate of inflation, per year. This law will expire in 2030 unless lawmakers vote to extend it. In New York's metro area there has been a 9.2 percent decrease in multifamily investment, which is partly believed to be caused by the implementation of the new rent-control regulations.

Many housing economists agree that rent control is not the solution, that building more housing is a better answer to the problem.

> ***Millennials today are searching for more affordability and portability, and they want accessibility to such things as entertainment and local experiences.***

Catering to a millennial and baby boomer market

As we move further into 2020, the millennial and baby boomer markets for multifamily will continue to expand.

Millennials today are searching for more affordability and portability, and they want accessibility to such things as entertainment and local experiences. Urban housing prices are skyrocketing in many popular cities, causing this shift for more affordable housing. Many millennials are coming out of college with record-high student loans; adding a mortgage to that could easily surpass 50 percent of one's income. So they avoid homebuying, which is helping to lead this shift. Home ownership of millennials is very low compared to other generations; they view buying a home as a long-term goal, and see their priority now as lifestyle. Along with affordability and portability, millennials are favoring

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amenities in their communities such as smart home features (Nest thermostats and USB outlets), white-glove services such as valet trash, lavish swimming pools and outside eating areas, and hip cyber cafes.

Another trend to look for in 2020 is the downsizing of the baby-boomer generation into multifamily homes.

By 2024, immigration is expected to surpass internal population growth for the first time, according to Hoyt Advisory Services Research.

A study conducted by Fannie Mae estimated that more than 14 million baby boomers will end their home ownership by 2036, a 42 percent increase from the previous decade. One study estimated that thousands of this demographic are coming into retirement daily, and are looking to downsize. They will have challenges; the Insured Retirement Institute estimates that 45 percent of baby boomers have no retirement savings. Leaving work for them will mean a drastic lifestyle adjustment and a need for more affordable housing. According to the NMHC (National Multifamily Housing Council) tabulations of U.S. Census Data, 73 million baby boomers in the United States accounted for 58.6 percent of the increase in renter households between 2006 and 2016. With the expanding bubble of aging Americans, this number is expected to increase even further. The demand for senior living is increasing with the increase of baby boomers downsizing. We believe this trend will continue for the next 10 years, giving us a strong market in the senior-living multifamily units.

Immigration

By 2024, immigration is expected to surpass internal population growth for the first time, according to Hoyt Advisory Services Research.

Why is this important? It's because immigrant families are more likely to rent than a native-born American. As you can see in the graph at right, immigration is at an all-time high; this is great news for multifamily investors.

Demand for new apartments will soften

Post-recession in 2009, multifamily has become a larger piece of the overall new housing market with multifamily construction peaking in 2015 and 2016. While 2018 and 2019 paced well – even with a potential market correction on many minds – we believe we will see a slowdown on new construction in 2020. As shown in the chart, there was a considerable drop in multifamily permits as the recession hit.

Summary

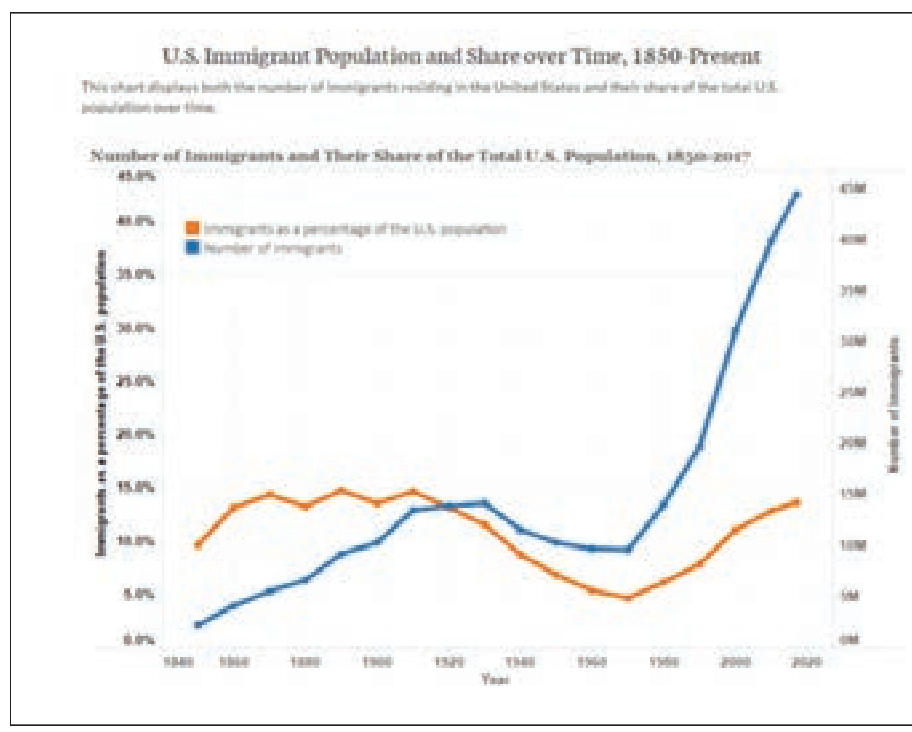
As we enter 2020, even with these factors, we believe multifamily housing will remain strong and will still be a strong investment for investors who use sound fundamentals.

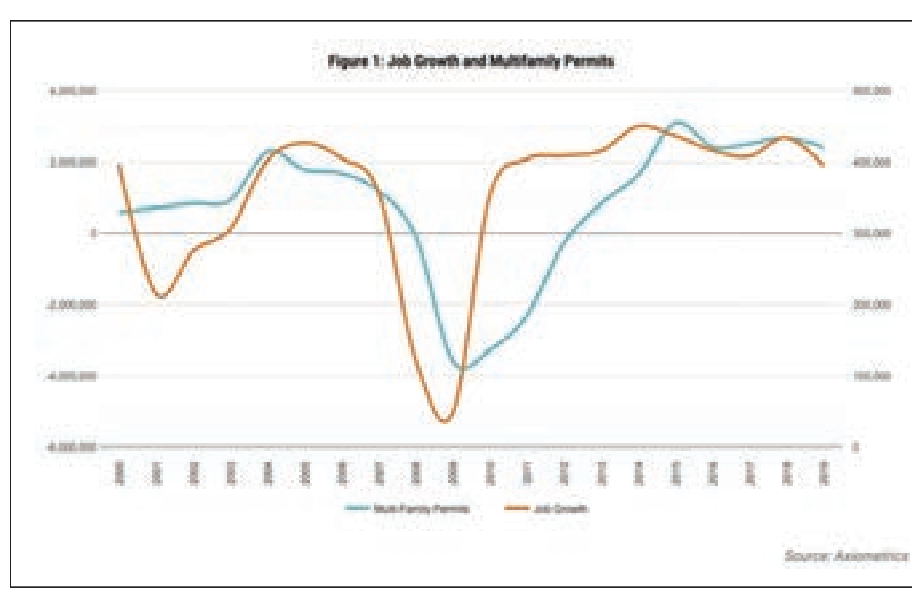
According to the Harvard Joint Center for Housing, State of the Nation's Housing, 2019, approximately 75 percent of renters would like to become homeowners at some point.

This being said, homeownership rates have been stagnant and are not likely to return to levels seen during the previous housing boom. Millennials are entering the housing market in a time where student debt is a major problem, housing affordability is low, and lending criteria is more stringent.

When you pair this with their lifestyle factors of delaying marriage and choosing experiences over saving, it is very likely more millennials will remain renters for longer than previous generations. If and when a market correction comes, this will cause an increase in the need for affordable housing, and many will look to multifamily.

Another factor that will help multifamily investments are the aging of baby boomers, many becoming empty nesters, which is also contributing to the increase of older renters.





Denver Rents Remain Flat as New Year Begins

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Arvada rents increase sharply over the past month

Arvada rents have increased 0.8 percent over the past month, and are up moderately by 2.1 percent in comparison to the same time last year.

This is the third straight month Arvada has had rent increases since a decline in September.

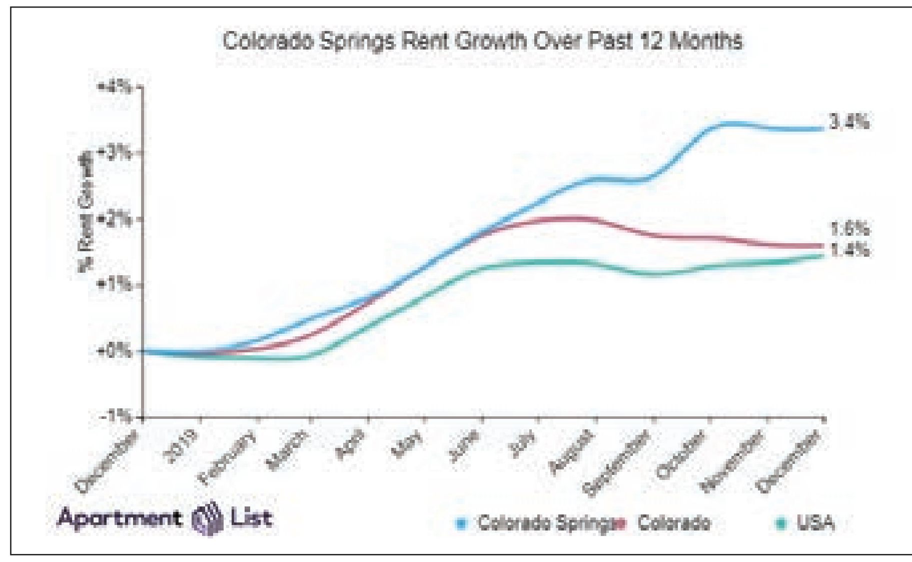
Median rents in Arvada stand at $1,246 for a one-bedroom apartment and $1,578 for a two-bedroom.

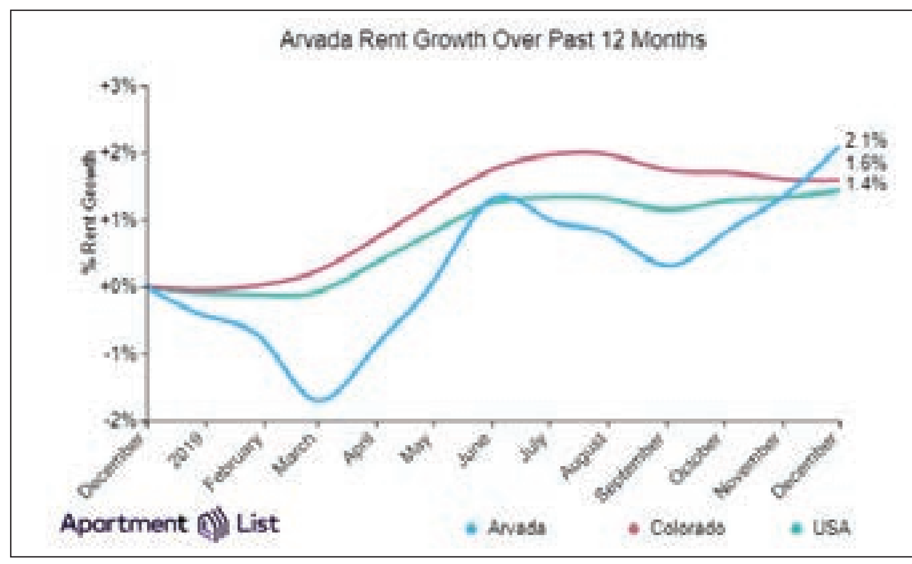
Colorado Springs rents up 3.4 percent year-over-year

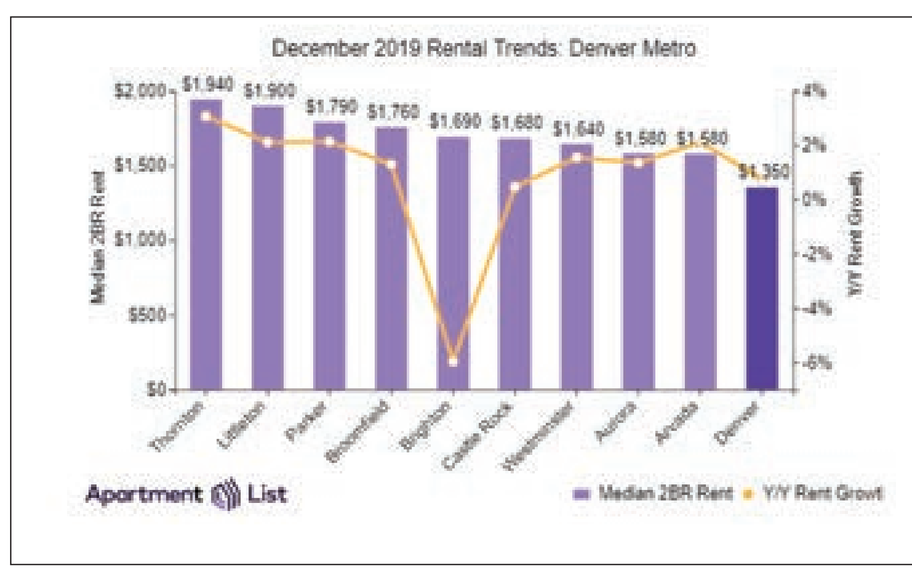
While Colorado Springs rents have remained flat over the past month, they are up moderately by 3.4 percent year-over-year, according to the report.

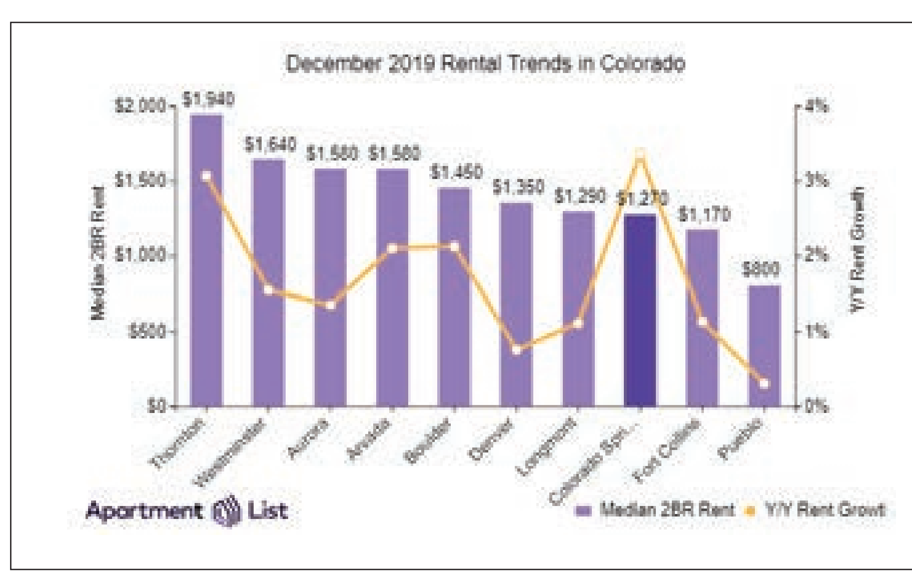
Colorado Springs leads the state average in rent increases. Median rents in Colorado Springs are $986 for a one-bedroom apartment and $1,272 for a two-bedroom.

CITY	MEDIAN 1BR PRICE	MEDIAN 2BR PRICE	M/M PRICE CHANGE	Y/Y PRICE CHANGE
Denver	$1,070	$1,350	0	0.8%
Aurora	$1,250	$1,580	0	1.4%
Thornton	$1,540	$1,940	0.1%	3.1%
Arvada	$1,250	$1,580	0.8%	2.1%
Westminster	$1,300	$1,640	0.2%	1.5%
Broomfield	$1,400	$1,760	0	1.3%
Castle Rock	$1,330	$1,680	-0.2%	0.5%
Parker	$1,410	$1,790	-0.4%	2.1%
Littleton	$1,500	$1,900	-0.3%	2.1%
Brighton	$1,330	$1,690	-0.5%	-6%
Englewood	$1,240	$1,560	0.8%	1.7%
Wheat Ridge	$1,010	$1,280	0.2%	1.8%
Lafayette	$1,560	$1,900		7.8%
Golden	$1,290	$1,630	0.2%	4.1%
Lone Tree	$1,580	$2,010	-0.3%	0.7%









4 Difficult Hurdles in the Life of a Landlord

By Mildred Delgado

From an outside perspective, being a landlord seems like the sort of job that you could do with your eyes closed.

All you have to do is make sure that the apartment building doesn't burn down and the money comes flooding in, right? In reality, the opposite is true.

There's so much more to being a landlord than it seems. Sometimes it can be an immensely stressful job, made harder by the fact that people underestimate the difficulties.

But, if you're thinking about being a landlord, or you already are one, or you're just curious about what the life of a landlord is like, then here are four of the biggest challenges they face in their daily lives.

1. Gaps in your tenancies

In life, nothing lines up quite right. This is certainly true when it comes to being a landlord, and is a particular problem when you are trying to ensure that you can keep making a profit on a building. One of the biggest problems for a landlord are those awkward periods between tenants, where an apartment is sitting unrented but draining money. This can occur even if you have a good flow of customers.

The gaps occur when you can't line up your move-in, move-out dates perfectly, which, unless you're leasing something in a city as packed as New York City, is a simple reality of rentals. The way to avoid this problem is to have a really strong understanding of the organization and a complete understanding of how to keep your property an attractive prospect at all times, pricewise and otherwise.

2. Damage to your property

It doesn't matter who you are, or how hard you try to avoid it, at some stage or another, your property will get damaged in a major, noticeable way. There's always a bit of a feeling of panic with damage to property; even though it's a building, you start to see how vulnerable things are for the place that generates your income.

A quick tip is that all noticeable physical damage to the property must be dealt with as soon as possible. Problems have a nasty way of propagating themselves in physical structures, so even if it looks fairly minor to you and your tenant(s) doesn't care, action has to be taken to protect the long-term viability of a property.

3. Handling tenants who stop paying rent

This is a classic issue. Even with a credit check and all the rest of the hoops a prospective tenant needs to jump through, people do just fall into rough patches financially. The problem is that there's a fine balance to strike in dealing with it, and you need to assess a few things in order to know how to handle this tricky issue.

How likely is it that it's just a rough month or so?

How important is it to you to keep this particular tenant in your property?

What's their personal credit with you like?

These are the sorts of questions you need to ask yourself when handling someone who isn't paying rent when they should be. You don't want to lose money, but eradicating a tenant or taking too little action will end up with losses on your end.

4. Compliance to regulations now part of the life of a landlord

This is, unfortunately, a problem that will never go away. There are more and more rules and it's increasingly important for you to pay the utmost attention to them as a landlord. Compliance is like a cloud hanging over your head as you try to conduct business. It's a hassle, it's as simple as that. You need to make sure that you have the proper channels in place to be certain that you hear about all of the changes in policy on landlord responsibilities and rental agreements.

Conclusion

It's a tough job being a landlord; a client-facing job that has lots of back-room responsibilities as well – and many different areas you need to be skilled in, from handyman to tax lawyer. Hopefully, this list offers you a little peace of mind that you're not alone!

Mildred Delgado is a marketing strategist at AcademicBrits. She works with a company's marketing team in order to create a fully-functional site that accurately portrays the company. She is also a landlord based in Portland, who prides herself on safe, decent, habitable housing.

National Avg. Rent Down $1

Continued from Page 1

significantly during the year in some metros, notably San Jose, Orlando and Denver.

Rent gains softened, but the market is steady

The report says "the market is sound, with no red flags on the immediate horizon.

"Despite deliveries of roughly 300,000 units for the year, the occupancy rate for stabilized properties was 94.9 percent as of November, down only 10 basis points over the last year," it says.

A healthy job market and low unemployment also helped handle the new deliveries of apartments during 2019.

Rent growth softened, yet again, to 3.0 percent on a year-over-year basis in December, down 10 basis points from November. Year-over-year rent growth is at its lowest level since May 2018, when it reached 2.9 percent.

Phoenix (7.7 percent) and Las Vegas (5.4 percent) have topped the rankings together for 16 months and counting. The last time these two markets did not top the charts was in September 2018, when Orlando claimed the first-place position, with Las Vegas and Phoenix following closely behind.

Three California markets—Sacramento (5.1 percent), the Inland Empire (4.1 percent) and Orange County (3.9 percent)—ranked in the top 10. Despite California's affordability issues and the recent passage of statewide rent control, these three markets continue to find a way to increase rents.

Bay Area is weakening

"The Bay Area is weakening due to concern over growth in startup technology firms, the feeble IPO market and the lack of affordable housing, which is prompting large employers to seek cheaper markets," the report says.

• San Jose started the year at 4.7 percent and ended up -0.3 percent.

• San Francisco started at 4.5 percent and ended at 1.6 percent.

• Even Denver started at 3.4 percent and ended at 1.5 percent.

"All of these metros have a strong economic base, so it would seem likely that growth will rebound. Despite pockets of concern, 2020 should be a healthy year," Yardi Matrix says in the report.

Also the report said multifamily continues to benefit from abundant debt capital sources. Total apartment lending in 2019 was on track to reach 2018's record $338 billion.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