No let-up seen in rent hikes this year

 Paul Davidson, USA TODAY *6:14 p.m. EST January 4, 2016*

(Photo: for USA TODAY)

Apartment dwellers had to shell out sharply higher rents in 2015 and are likely to get socked again this year as a labor shortage prevents construction of new complexes from keeping pace with demand, a report out Monday says.

Rents for new residents of apartment complexes in the 100 largest metro areas rose 4.8% last year, the sixth straight year of hikes that exceeded a typical 2.7%, according to MPF Research, a unit of property management software provider RealPage. Over the six-year period, monthly rents have climbed 22.5% to an average $1,244, the largest jump in that timeframe in the 25 years that MPF has tracked the data.

Several forces are stoking demand. Millennials are finally moving out of their parents' basements, largely as a result of strong job growth. But banks' stricter, post-recession lending standards are keeping many from qualifying for mortgages.

Price increases for existing apartment residents generally track those of new tenants but can vary. Rents for existing residents rose 5% last year. The research group expects average rents to increase 4.1% this year as occupancy moderates slightly to 95.4%, and it forecasts above-average rent inflation through 2018. Although rents dipped slightly in the fourth quarter because of seasonal factors, apartment occupancy in the period was 95.8%, up from 95.5% a year ago and modestly below the record 96.8% reached in 2000, MPF says.

Sharply increasing rent makes it tougher for tenants to save up for a down payment to buy a house, says Chris Herbert, managing director of Harvard's Joint Center for Housing Studies.

Many young adults are also putting off getting married and having kids, keeping them in apartments longer, says Greg Willett, RealPage's chief economist. Many, he adds, are gravitating to apartment-rich urban areas to be closer to amenities.

At the same time, many Americans lost homes in the mid-2000s real estate crash and foreclosure crisis, a large portion of whom prefer to rent or are still struggling to snag mortgages.

Thirty-seven percent of U.S. households were renters in 2015, the highest share since the mid-1960s, according to the Harvard center.

Builders are racing to keep up. They completed 232,168 units in the 100 top markets last year, the second highest total in the past 30 years and behind only the 252,348 added in 2014. But the fresh supply was well under the 300,000 apartments planned because of the labor shortage, keeping upward pressure on prices, Willett says.

Some 443,240 units are now under construction, with 311,511 slated to be completed in 2015. Yet that would temper rent increases only slightly, to 4.1%, MPF says.

"It speaks to how strongly demand is at this point," Willett says.

Further delays due to the labor shortage likely would mean even sharper rent hikes, he says.Nearly three-quarters of multifamily builders are having a hard time finding qualified workers, according to a recent survey by Associated General Contractors.

Another constraint is that the vast majority of the newly- built units are more expensive luxury apartments, Willett says.

Nearly half of all renters spend more than 30% of their income on housing, which means they're "cost burdened," according to the Harvard center.

"People are spending more on housing and substantially less on food, healthcare… and the essential needs of life,"Harvard's Herbert says.

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