

Rental Concessions Reach Highest Level in Over Two Years



According to Zillow, the surge in new construction is prompting property managers to provide more perks.

Despite strong demand, rental concessions, such as free months of rent or parking, are at their highest level in over two years, according to new data from Zillow.

In October, about 30% of Zillow's rental listings advertised concessions. According to Zillow, concessions reached a peak in February 2021, a time when renter demand was lower during the pandemic, with 36.7% of rentals offering them. Rental concessions then dropped as far as 19.4% in July 2022.

"The pandemic era's increase in concessions was a direct response to decreased renter demand. Currently, we're witnessing a different scenario where the demand for rental housing is high, but there's been a notable rise in supply," said Anushna Prakash, an economic research data scientist at Zillow. "To differentiate themselves from newer, potentially more amenity-rich apartment buildings, property managers are stepping up their game, offering more incentives to attract potential renters with a broader range of choice."

Zillow data has found that 43 of the nation's 50 largest metros have seen a rise in concessions compared with 2022. Salt Lake City and San Jose, California, topped the list for incentives, with more than half the rentals listed on Zillow in October advertising concessions. According to Zillow, the trend also is more pronounced in metros with construction booms, such as Washington, D.C.; Austin, Texas; and Dallas.



However, it's a varied landscape nationwide, with property managers exploring different strategies as they navigate the effectiveness of concessions before adjusting rents. On the opposite end of the spectrum, New Orleans is at the bottom of the list with only 9% of rentals listed on Zillow in October advertising concessions, followed by Providence, Rhode Island, and Miami at 14%, and New York at 15%.

Evergreen Capital Insights:

While strong renter demand persists, rising new construction presents a nuanced picture for Evergreen Capital. Consider these investment strategies:

- **Embrace market diversification:** Prioritize Sunbelt and high-growth markets with limited new supply to avoid competition driven by concessions, while cautiously navigating saturated markets where incentives might be prevalent.
- **Seek operational excellence:** Optimize existing assets to offer competitive amenities and services without resorting to significant rent concessions, enhancing attractiveness to renters without sacrificing profitability.
- **Monitor market dynamics closely:** Track concession trends across targeted markets and competitor offerings to adjust strategies quickly if necessary, potentially adopting targeted incentives where strategically beneficial.
- **Maintain financial flexibility:** Be prepared to adjust pricing strategies if new supply significantly impacts occupancy rates in specific markets, while ensuring adequate reserves to navigate potential market fluctuations.
- **Capitalize on value-added opportunities:** Identify underperforming assets in markets with potential rent growth, considering repositioning or renovation strategies to enhance competitiveness and potentially reduce reliance on concessions.

By focusing on market selection, operational efficiency, and data-driven adaptation, Evergreen Capital can navigate the evolving rental landscape and secure long-term value, even amidst rising new construction and potential concessionary competition. Remember, agility and a close eye on market dynamics will be key to staying ahead of the curve and optimizing returns in this shifting environment.



Institutional Investors Warm Up to Resilient Retail Real Estate



Key Takeaways:

- Big investment firms are snapping up grocery stores, pharmacies, and other recession-proof retail properties.
- Strong performance, declining mall values, and high prices in other sectors are driving renewed interest.
- Private equity and smaller firms are currently leading the charge, with larger institutions expected to follow in 2024.

The Story:

After years of shunning retail real estate, institutional investors are returning to the fold, attracted by the sector's resilience and attractive yields. This shift is evident in the increasing activity of private equity firms like Pacific Retail Capital Partners and Temerity Strategic Partners, both of which have recently committed significant capital to retail acquisitions.

Several factors are fueling this renewed interest:

- **Resilient Tenants:** Grocery stores, pharmacies, and other essential retailers have proven resistant to both online competition and economic downturns, attracting steady foot traffic and consistent revenue.
- **Attractive Yields:** Compared to booming sectors like multifamily and industrial, retail properties offer higher immediate returns on investment, especially open-air centers with minimal vacancy rates.
- **Limited Supply:** A decade of muted new construction has kept retail supply tight, pushing up rents and making existing assets even more valuable.



While still cautious, larger institutional investors like Blue Owl Capital and REITs like Kimco Realty are starting to dip their toes back into the water, focusing on safe assets and avoiding struggling enclosed malls.

However, some uncertainty remains. Rising interest rates and a potential economic slowdown could dampen consumer spending in 2024. Nevertheless, the current trend suggests that for resilient retail properties, the future looks bright.

Evergreen Capital Conclusion

The once-beleaguered retail real estate sector is experiencing a resurgence, driven by a confluence of factors. Investors are recognizing the inherent value of recession-proof tenants, attractive yields, and limited supply, marking a potential turning point for the industry. While some caution remains, the increasing involvement of major players paints a promising picture for the future of well-positioned retail assets.



Florida's Workforce Housing Surge: Boon for Investors, Mixed Bag for Locals

Key Takeaways:

- Florida's Live Local Act spurs a rush of workforce housing projects, attracting developers with tax breaks and relaxed zoning.
- Luxury developers see an opportunity in "attainable luxury" workforce units, offering high-end amenities at lower rents.
- Concerns arise about gentrification, project compatibility with existing neighborhoods, and the potential burden on local infrastructure.



Investor Insights:

- The Live Local Act presents a lucrative opportunity for developers, offering tax incentives and bypassing zoning restrictions. Projects previously unprofitable can now become feasible with workforce housing designation.
- "Attainable luxury" could be a new niche with strong demand, especially in high-cost areas like Miami. These units cater to middle-income professionals often priced out of existing luxury options.
- Careful project planning and community engagement are key to mitigating potential pushback and disruption to existing neighborhoods. Integrating workforce housing seamlessly into existing communities will be crucial for long-term success.

Evergreen Capital Weighs In:

While the Live Local Act's potential to address Florida's affordable housing crisis is promising, we urge developers to proceed with caution and community-first principles. Integrating workforce housing into existing environments requires thoughtful planning to avoid gentrification and infrastructure strain. Open communication with residents and authorities is essential to ensure these projects benefit both investors and the communities they serve.



Conclusion:

Florida's Live Local Act marks a significant step towards providing much-needed workforce housing. However, navigating the potential pitfalls of rapid development and ensuring equitable outcomes for all stakeholders will be crucial to its long-term success. Investors must recognize the responsibility that comes with shaping communities, not just building projects. By prioritizing thoughtful planning, community engagement, and responsible development, the Live Local Act can truly live up to its potential.