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HOUSING MATTERS

The COVID Apartment Market Offers Few Silver Linings for Renters

Landlords' Concessions Won't Lower Rents Post-Pandemic

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SPECIAL TO BANKER & TRADESMAN

There continues to be a housing affordability crisis in the city of Boston as the overall supply of housing is severely constrained. Yes, there has been a significant addition of new high-priced luxury housing, but the demand for affordable and workforce housing has never been greater and will only accelerate based on the effects of the pandemic.

But the pandemic and the economic disruption have particularly impacted certain sectors of the housing market in new ways – with sudden, location-specific vacancy levels. Most immediately, the demand for rental housing has experienced unprecedented declines, especially housing located in urban neighborhoods near employment centers like Mission Hill and the Fenway.

Based on CoStar data, there has been a steep dip in demand for housing in these downtown locations. During the previous three Julys, 1,100 people were looking for apartments, compared to only about 100 in July of the pandemic.

"Several large populations that usually fuel the success of the market – students, faculty, and technology workers – were abruptly pulled from the renter pool at the onset of the pandemic," The Collaborative Cos. said in its Urban Core Rental Market Update for the third quarter of 2020.

The report cites remote learning, working from home, stay-away empty nesters and other factors.

"The closure of local business, among other factors, has detracted from the draw of the urban lifestyle," the report said.

It is clear that this phenomenon is focused on Boston and cities like it with high housing costs relative to their region. Boston in general has fared worse than Providence, Worcester and Springfield.

Is it possible this situation might at least temporarily create housing opportunities that would be accessible to moderate or middle-income families, who could now afford to save money on housing? Unfortunately, except in limited circumstances this is not the case, for a number of reasons.

First, there is a huge gap between luxury market price levels and workforce rents. According to research from CoStar, asking rents for one-bedroom units in downtown Boston are down 14.2 percent from the March peak and down 15.2 percent in the Seaport. But even a 10 percent rent reduction on a $3,800 per month rent still represents a cost that is well beyond the ability of most middle and workforce renters.

Second, there are many people in the workforce housing market who have suffered from the economic disruption of the pandemic, making these households less able to sustain high housing costs. A skyrocketing unemployment rate clearly reflects financial pain for a large swath of the city's workforce, particularly service workers. The demand for moderately priced housing as well as low-cost housing is still growing.

For most there is no "silver lining" in the current vacancy rate. Many were already squeezed out of limited housing options long before the coronavirus hit.

Finally, as it turns out, actual price reductions are largely being implemented through lease concessions rather than a reduction in rental rates. Landlords, anticipating a recovery and not wanting extended lower rents, are using concessions temporarily to attract and retain renters. CoStar reported that 86 percent of downtown landlords were offering concessions.

As an example, a landlord in Mission Hill facing a 30 percent vacancy opted to offer free rent for three months, according to a consultant. That's equivalent to a 25 percent rent reduction for the year. This strategy succeeded in reducing the building's vacancy to under 10 percent.

"People who are taking advantage of this are young professionals, mobile [and] OK with moving," said Joanne Shelton, director and principal at real estate advisors Bonz and Co. Inc.. "Three months' free rent is a pretty hefty concession."

There are no hard numbers on how many renters have been able to take advantage of immediate market conditions. There are indications that some have been able to take advantage of lower prices. That's good news for some, but it's certainly not a solution for more broadly accessible relief.

As with so many things laid bare as a result of the pandemic, there is an inequitable distribution of the burdens and the benefits caused by the current economic disruption. But for most there is no "silver lining" in the current vacancy rate. Many were already squeezed out of limited housing options long before the coronavirus hit.

And that is what deserves our focus – namely, staying the course on expanding the moderate-priced housing stock that we so desperately need. The pandemic will subside, but in the meantime we cannot afford to lose any of our neighbors, including our most vulnerable, to ensure that they too will flourish when the recovery comes. ◀

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