

Vogt Forecasts Endless Opportunity at First General Meeting of 2022

On Thursday, March 17 over 70 CAA members met for the first General Meeting of 2022 and the annual Industry Forecast presented by Rob Vogt of Vogt Strategic Insights. Dressed in green members were not only eager to hear what Vogt projected for 2022 and into the future coming out of the COVID-19 Pandemic but also anxiously awaiting the tip of the NCAA Men's College Basketball Tournament.

CAA Executive Director Laura Swanson welcomed everyone to the meeting and thanked members for their support of the industry and recognized the Hall of Fame members and Past Presidents in the room. Following introductory announcements, the winners of the CAA Bowling for Charity Luncheon were announced and presented their awards. Scott Lloyd Chair of the CAA Events Workgroup and Noelle Smith Chair of the CAA Bus Tour each made announcements regarding the upcoming CAA Expo and Bus Tour respectively. Finally, as the last piece of housekeeping business before turning it over to Vogt, CAA President Steve Papineau acknowledged each of the new members present.

Vogt began his presentation titled "Endless Opportunity" stating that the multifamily industry in Central Ohio really seems like it does have endless opportunity.

"It seems like these conditions are going to exist for some time and with the amount of things that are happening in Central Ohio it's going to be an exciting, probably, 10 years before I see some things that might slow us down," Vogt started. "But even then, it's hard to imagine what that might look like."

Beginning with a review of 2021 and how renters responded to COVID and what it means for the future, Vogt stated that renters responded well with the industry still seeing high occupancy rates, positive rent growth and no lasting impacts from COVID, noting that turnover rates have declined in recent years.

Citing the cost of new housing and single-family housing overall as a reason that renters are staying in place along with the rising interest rates and the lack of selection in single family homes as the reason the pandemic did not lead to a move out of rental housing into single family housing.

Taking a look at the year in review Vogt outlined the 2021 highlights for the industry. Average rent growth accelerated over 2020 up over 3% year over year. However, Central Ohio rent growth did lag behind the national average. Overall, the vacancy rates declined by 1% year over year, being described by Vogt as a healthy decline.

"When you take a look at all the factors, everything is positive right now when you look at rental housing," Vogt said. "Although we're seeing good rent growth, we're still not keeping up with the rest of the country. It's good for the landlords to know that there's a lot of room to move rents in a positive direction."

Central Ohio added over 3200 units to apartment stock in 2021 with the average rent being over \$1,040 in Central Ohio, marking the first-time average rent is over \$1,000. Rent increased at the highest level in studio units.

Vogt noted that there is a forecasted rent growth of 3% in Central Ohio for 2022 compared to 4.8% in the U.S. He also mentioned that all of the statistics were forecast prior to the recent Intel announcement which will have a significant impact of the future of housing in Central Ohio.

Taking a deep dive into some statistics Vogt analyzed the vacancy rates and rent increase rates among class A, B and C properties before moving into a geographic analysis breaking down the vacancy rates and rental rates for each area.

“The one thing that I was surprised by was that the Upper Arlington, North Columbus submarket had a vacancy rate of 6.2%. I was scratching my head on why we have seen an uptick of vacancies in that submarket,” Vogt observed. “But all in all, I don’t think we see much surprise about where the vacancy rates are in each area.”

Downtown leads the way with proposed units followed by Grove City, Westerville and Delaware North. There’s a lot of product currently planned in Central Ohio. At the end of 2021 there were 27,700 units in the planning process, compared to 23,800 in 2020.

Siting building permits as a leading indicator of what will come online Vogt noted that there were almost the same number of building permits requested in 2021 as in 2020. Siting a builders industry statistic, it is estimated that Central Ohio needs to be building approximately 14,000 units each year. The area continues to experience deficit construction, seeing shift in building toward more single-family houses than multifamily which indicates that there will continue to be a decline in the overall vacancy rate.

“It’s important to keep an eye on what’s driving industry trends and over time how these trends change and what the effect is on the overall housing market. In 2020 the Millennials peaked at age 29 and most of them were renters. I think they’re going to stay renters for a long time given the cost of single-family housing and the availability of housing,” Vogt said. “We’re seeing an increase in the number of older renters coming into the market as Baby Boomers age they are making this transition into rental housing units and we’re seeing that as an increasing share of the overall market. The renter rates for younger and middle-aged households is rising rapidly. That goes hand in hand with the Millennials and the lack of choices.”

The income rates are growing among renter households, thus allowing for the demand and the ability to afford higher rent housing choices. There seems to be no shortage for high rent units. The other point about trends driving rental growth is that people of color drove 91% of the housing growth between 2009 and 2019, 85% of those were renters.

Overall, there are fewer households move out of their housing units over time. Even though experts sited the pandemic as a reason for decreased turnover, it was a trend that started prior to COVID-19. While saving cost in turnover, this is likely to have a negative impact on an increase in rents.

“One of the emerging trends that is going to be fascinating to watch in the coming years, and I think this is going to be a bigger and bigger share of overall rental housing is build to rent single family rentals,” Vogt said. “The important point is the dramatic increase in the number of build to rent, single family homes, last year it is projected that almost 14,000 new single-family home within single family for rent subdivisions which is a dramatic increase over 2021. I’m not aware of any of these subdivisions, yet. I think it is a trend that is going to be worth watching. This is going to be a trend worth watching and one that impacts Central Ohio even further as we move forward.”

Touching on the impact of the recent Intel announcement, Vogt noted that with the assumption that one new job yields one new household, the potential exists for the area to need 6,000-8,000 more multifamily rental units above and beyond what is projected to be built. Speculation on where these

properties could go, areas like Delaware, Sunbury and other areas need to welcome more multifamily, high-density housing. The announcement could also impact downtown housing favorably.

Moving to the future Vogt provided a Reis forecast vacancy rate of 4.3% for 2022 while he projects that the vacancy rate may be a tad bit higher based on the number of units scheduled to come online, however, the market in Central Ohio remains healthy. Moving to rental increase, Reis predicts a rent growth of 3% while Vogt feels it could be higher.

Things that may have an impact on the future of housing, first and foremost, construction costs. There's such a demand for rental housing right now is that there just is so little housing stock available, it remains to be seen what impact the construction costs have on the projects in the pipeline.

"The trend is there where people want to experience things like the Short North. Where you have the different mixed use and different uses. It think developers will try to identify opportunities where mixed use developments can be supported," Vogt said. "I think absolutely we'll see more for rent single family subdivisions. It'll be interesting to see where they go, what their price point is, how robust the market becomes for that. Lastly, redevelopment of big box sites. Do these represent opportunities where we think new development is going to occur. I think the fact that you have some of these locations that are in proximity to population densities, high growth corridors, we most definitely will see unique reuses to these kinds of building when we try to address the housing situation in Central Ohio. "

Concluding his comments, Vogt opened the floor to questions. Including a question about what the deficit in housing is and how many units we need to catch up. Central Ohio is not facing a situation where people are unhoused, however, there do need to be enough options for people to move into. Which is also important to economic development in Central Ohio to have enough choices for people to live. Right now, we could easily absorb 4,000 – 5,000 new units, mostly on the for-sale side. However, not a lot of households can afford the average cost of building a new house which is leading to generations of rents. Vogt predicts they'll stay renters for quite some time.

After a few more questions, Swanson returned to thank everyone again for attending and encouraged everyone to attend and reiterated he's looking forward to seeing everyone at CAA events in the future.