

# MARKET REPORT

Multifamily  
Reno Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

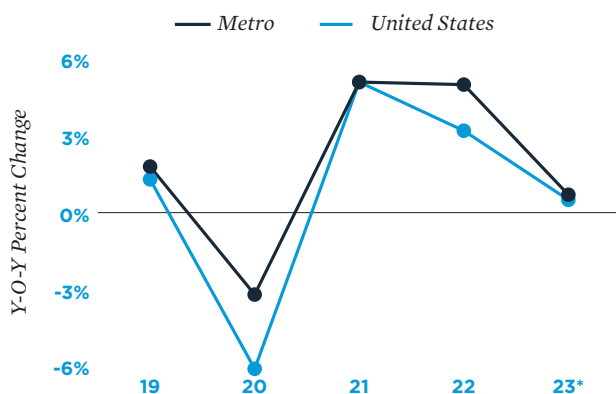
2Q/23

## Developers Get Ahead of Expansions; Supply Wave to be Absorbed Over Time

**Large-scale projects alter market conditions.** Reno's apartment sector is likely to face some near-term volatility as a historically large construction pipeline collides with the highest vacancy rate since 2010. Responding to recent population and economic growth, developers are underway on at least eight projects that each comprise more than 300 rentals — with another four featuring upward of 200 units. The influx of sizable complexes is poised to increase concession usage and vacancy, specifically in inner-ring and outer suburbs where most of these rentals are concentrated. Rising unit availability will translate to a nominal shift in rents this year, maintaining a more than \$2,000 gap between the average monthly mortgage payment on a median priced home and the metro's mean effective rate. This disparity represents a boon for the rental sector, as it will limit housing options for many residents, supporting positive absorption.

**Industrial expansions enlarge renter base.** Large-scale commitments by Tesla and Redwood Materials at the Tahoe-Reno Industrial Center are fueling a positive outlook for long-term apartment demand. By constructing or expanding facilities, these companies will increase the number of residents employed by renewable energy firms, as well as the suppliers and logistics providers that support them. This will directly impact local apartment demand as workers that hold logistics and transportation roles historically fall into the rental pool. Additionally, companies will hire from outside the metro when filling positions, translating to a steady rate of in-migration.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

## Multifamily 2023 Outlook



**2,000  
JOBS**

*will be created*

### EMPLOYMENT:

Reno entered 2023 with a record job count, a total that is expected to rise moderately this year. Retail trade, transportation and manufacturing-related positions will continue to account for roughly one-third of the metro's total workforce.



**2,500  
UNITS**

*will be completed*

### CONSTRUCTION:

For a second consecutive year, more than 2,000 units are delivered across the metro, increasing local rental stock by 5.1 percent. After expanding by less than 200 apartments last year, the city of Sparks is slated to add two, 300-unit-plus properties during 2023.



**120  
BASIS POINT**

*increase in vacancy*

### VACANCY:

For the fifth time in the past six years, renters absorb a net of more than 1,000 units. The near-term influx of supply, however, will outpace demand, lifting vacancy to 6.4 percent — 200 basis points above the long-term average.



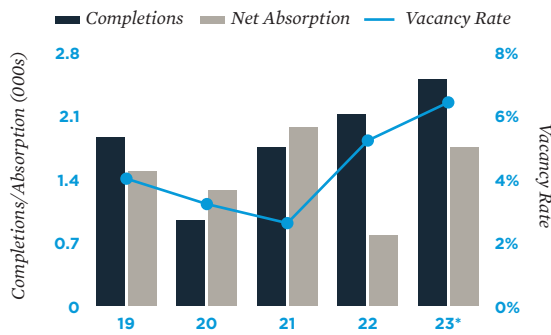
**2.5%  
DECREASE**

*in effective rent*

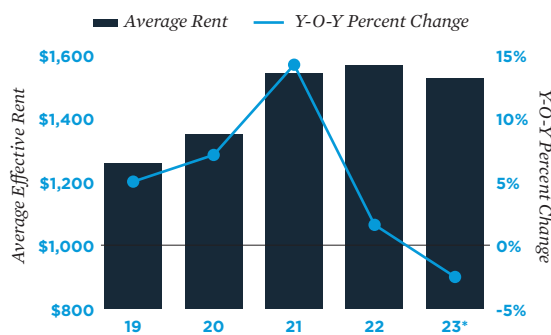
### RENT:

Rising vacancy across property classes translates to the first annual rent decline in 12 years. The average effective rate is forecast to end 2023 at \$1,526 per month, a rate still roughly \$300 below the national mean, which may attract relocating households.

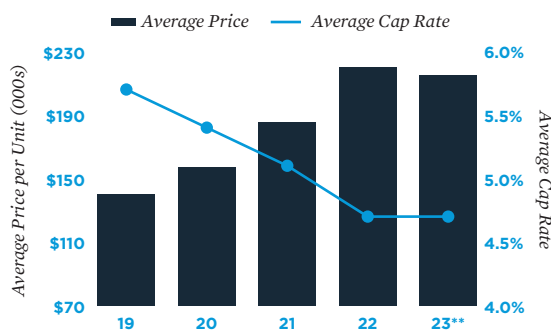
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: \$250

## 1Q 2023 - 12-Month Period



### CONSTRUCTION

**2,107** units completed

- Highlighted by the completion of 1,340 units in the second half of 2022, developers expanded local rental inventory by 4.4 percent during the four-quarter stretch ending in March.
- Projects in Reno proper account for roughly three-fourths of the metro's active pipeline, with ongoing developments in the city averaging 215 units.



### VACANCY

**290** basis point increase in vacancy Y-O-Y

- Reno noted positive net absorption over the past 12 months; however, supply additions more than tripled demand, lifting vacancy to 5.6 percent.
- Sizable increases in unit availability occurred across property classes and submarkets during the recent yearlong interval. North Reno noted the largest adjustment among submarkets, with vacancy up 430 basis points.



### RENT

**0.1%** decrease in the average effective rent Y-O-Y

- Rising vacancy weighed on rent growth during the past year. This translated to a nominal adjustment in the metro's average effective rate, which stood at \$1,548 per month in March.
- The disparity between the average Class A and B rent narrowed to \$130 per month during the first quarter, the smallest gap since 2012.

## Investment Highlights

- Sales activity slowed over the past 12 months; however, the market still represents an attractive option for investors focused on tertiary areas. While the local average price point rose by 11 percent to nearly \$215,000 per unit over the past year ending in March, entry costs remain substantially below those of coastal California markets and other major metros in the region.
- Older properties with triple-digit unit counts continue to garner interest from out-of-state institutional groups with repositioning experience and a willingness to commit upward of \$20 million per transaction. Specifically, larger Class C complexes in suburbs outside the McCarran Boulevard Loop are providing buyers with upside, following unit upgrades and improvements to property management practices. These assets typically command price tags in the \$200,000 per unit range, with similar-sized Class B assets trading above the \$300,000 per door threshold.
- A sizable pipeline and the delivery of roughly 8,000 units over the past five years may translate to a rise in newer-built property listings, specifically if recent sales price and rent growth have allowed owners to achieve their desired returns. South Reno could register some of this trading, as the local rental stock grew by nearly 40 percent during this span.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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