

MARKET REPORT

Multifamily
Reno Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

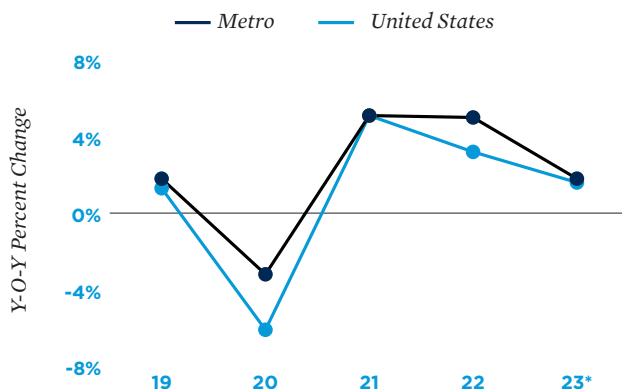
3Q/23

Record Supply Wave Precedes Industry-Specific Expansions, Lifting Near-Term Vacancy

Home prices and Class B rents a boon for luxury demand. Amid a span of elevated apartment construction, Reno's Class A sector is outperforming its Class B and C counterparts from a demand standpoint. During the first half of 2023, luxury vacancy fell 70 basis points to 5.2 percent, while mid- and lower-tier rates rose by 80 and 110 basis points, respectively. The gap between the average Class A and B rent — less than \$200 per month — is playing a role, as the relatively narrow margin makes a move-up in apartment quality financially feasible for more households. The mean Class A rent is also nearly \$1,900 per month below the typical mortgage payment on a median-priced single-family home, placing some prospective homebuyers in the rental pool while interest rates remain high and for-sale listings are limited. These dynamics should aid the 1,900 units slated for second half delivery; however, concessions usage should be frequent.

Industrial growth supports inflow of new residents. Overall vacancy in Reno is expected to reach a decade-plus high in 2023; yet, its growth prospects suggest a portion of available units will be absorbed over the next two years. An emerging hub for lithium battery manufacturing and recycling, the metro is also becoming a top destination for data centers, in part due to land availability. The development of these large buildings will generate construction and supplier-related jobs, with labor market tightness requiring firms to hire from outside the metro when staffing a facility. Together, this will drive a steady rate of in-migration over the next five years.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook



**4,700
JOBS**

will be created

EMPLOYMENT:

Metro employers added 3,100 jobs in the first seven months of 2023, driven by professional and business services additions. The pace of hiring, however, is expected to moderate, translating to a 1.8 percent annual growth rate.



**2,800
UNITS**

will be completed

CONSTRUCTION:

Rental stock grows by 5.7 percent in 2023, the largest annual gain on record. Delivered projects average roughly 200 units, suggesting concessions usage will rise as developers try to stabilize properties within a year.



**160
BASIS POINT**

increase in vacancy

VACANCY:

An influx of supply during the second half will contribute to an elevated pace of vacancy increase, placing the year-end rate at 6.8 percent. During the first six months of 2023, unit availability rose by just 50 basis points.



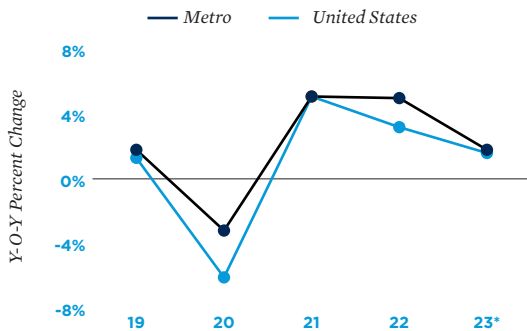
**0.3%
INCREASE**

in effective rent

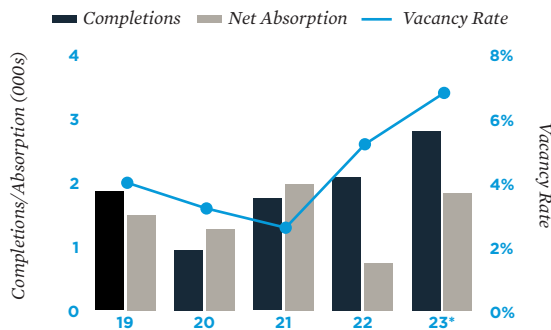
RENT:

Apartments delivered this year will command rents well above the metro average. Still, increases in overall vacancy and concessions usage will limit the pace of growth, with the year-end metric reaching \$1,570 per month.

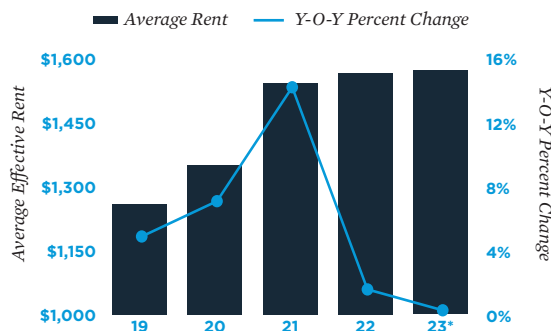
Employment Trends



Supply and Demand



Rent Trends



* Forecast ** Through 2Q

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

IPA Multifamily
John Sebree

Senior Vice President, Director
Tel: (312) 327-5400 | jsebree@ipausa.com

IPA Multifamily Research

Greg Willett
First Vice President
Tel: (972) 755-5200 | gwillett@ipausa.com

Price: \$250

2Q 2023 - 12-Month Period

CONSTRUCTION 2,175 units completed

- At least 575 units were completed during three of the past four quarters, expanding the metro's rental stock by 4.6 percent. Prior to this, just two quarters on record had registered a delivery total exceeding this threshold.
- Reno's active pipeline consisted of roughly 2,830 units as of August, highlighted by five projects that each comprise 300 or more rentals.

VACANCY 240 basis point increase in vacancy Y-O-Y

- Despite positive net absorption, supply more than doubled demand over the yearlong stretch ending in June, placing vacancy at 5.7 percent.
- Unit availability rose by at least 230 basis points across each of the metro's five submarkets. Entering the second half, vacancy ranged from a low of 5.1 percent in South Reno to a high of 6.6 percent in Central Reno.

RENT 1.5% decrease in the average effective rent Y-O-Y

- After reaching a record mark in September 2022, the average effective rent fell 2 percent over the next three quarters to \$1,564 per month in June.
- Rent fluctuation varied among submarkets. South Reno and Sparks — the metro's highest cost areas — each noted declines, while moderate increases were noted in the market's more affordable north, east and central zones.

Investment Highlights

- Deal flow slowed by 40 percent year-over-year during the 12-month interval ending in June, with the most pronounced pullback noted during the first half of 2023. Average pricing more than doubling over the past five years, however, may support an increase in near-term listings as owners look to capture proceeds.
- Contrasting overall sales velocity, trading in the \$20 million-plus tranche was unchanged over the recent yearlong span, signaling institutional confidence in the metro's long-term demand drivers. Large garden-style properties accounted for the bulk of recent closings, with 1990s-built Class C assets in suburbs and outlying areas selling just below the metro's average price point of \$214,900 per rental. Newer-built Class A and B complexes also traded in these zones, with pricing reaching nearly \$400,000 per unit.
- The delivery of more than 7,800 apartments over the past five years, and the completion of another 2,800 rentals in 2023, is poised to generate additional opportunities for institutional buyers focused on emerging tertiary markets. Specifically, California-based investment groups should remain active as they seek newly-built properties at a discount to their home markets.

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.

© Marcus & Millichap 2023 | www.MarcusMillichap.com