Hemlane Horizon

The 2024 Housing Trends Report

Hemlane

Foreword

Dana Dunford
CEO

As we reflect on the past year, it's clear that the real estate and property management sectors continue to navigate the long-term impacts of the pandemic. The landscape of property management, much like the broader real estate industry, has experienced significant shifts.

At Hemlane, we've observed these changes closely. "In the last three years, we've seen a remarkable transformation in how property management services are consumed and delivered," notes our lead market analyst. "While the rental market has seen substantial growth, this has also presented challenges and opportunities for both property managers and renters."

The cooling of rent growth in most major markets has been a notable trend. By the end of the third quarter of 2023, we saw a deceleration in year-over-year growth, aligning with the broader market trends. This slowdown reflects a market adjustment following the unusually rapid rent increases of the previous years.

Additionally, the surge in new construction, particularly in multifamily properties, has introduced a new dynamic to the market. This influx of new inventory, initiated during a period of historically low mortgage rates, is now making its way into the rental market.

"Our mission at Hemlane remains steadfastly centered on innovation, with our end goal being the continual modernization of the property management sector in practical and impactful ways," states Dana Dunford, CEO. "We've not only adapted to market changes but have proactively innovated our platform to align with the evolving needs of property owners and renters. This approach is rooted in our deep understanding of shifting work patterns, urban density preferences, and the financial realities shaping the current market. Our commitment is to drive practical, yet cutting-edge solutions that redefine and elevate the standards of property management."Despite these market fluctuations, renting remains a more viable option than buying in many major metros. As a result, renters and property managers alike are adapting to this 'new normal'. Our insights, drawn from extensive market research and direct feedback from our user base, have been instrumental in guiding our strategy and service enhancements.

In our first rendition of the Hemlane Horizon, a Housing Trends Report, we delve deeper into the priorities and preferences of renters in this changing landscape. We're excited to share these insights with you, alongside our reflections on a year of growth, challenges, and learning at Hemlane.

Our Year In Review

$371,173,031
in rental payments processed
(at no cost to the owner!)

10K+
repair requests coordinated
through our service pro network

$1.34M
in rent recovered
through mediation

90%
average satisfaction
in repairs

60K+
in calls eliminated

READY TO SEE WHAT YOU COULD ACCOPLISH IN 2024?

Our Year In Review

Key Findings

Retro vibes are in.

High inflation and interest rates combined with a housing affordability crisis (low inventory and high mortgage rates) are **reminiscent of the 1980s,** although the chances of hitting an interest rate of 19% remain low.

Dreaming a new dream.

The American dream of buying a home has been slowly moving out of reach for many people, and 2024 may be the year it evolves for the foreseeable future. - Goldman Sachs predicts a **price growth of about jut 1%.**

No more buy vs. rent debates.

Renting will lose its stigma as it becomes more and more obvious that it's cheaper to rent. In 47 of the 50 largest U.S. metros, **the average monthly cost of buying a home in August was $2,959 - 64% higher than the cost of renting.**

The potential for a renters market.

The race to build multifamily buildings and single-family homes is resulting in a surplus of inventory: **Over 600K new rentals will debut in 2024, on top of the 1 million in 2023.**

Investors dive in.

Consumers may be cautious about spending but investors are enthusiastically jumping into the market, seeing nothing but upside in single-family home rentals: **Bezos' startup, Arrived Homes, already surpassed $65 million in funded property value.**

Our Year In Review

Key Findings

Landlords may be in for a workout.

A surplus of rental inventory will collide potentially with limited demand, keeping property managers on high alert to ensure their rents are competitive, vacancies are limited, and concessions are minimal. **It's not going to be easy: The annual rent growth in many markets is expected to hover in the 1% to 2% range.**

Looks who's coming to dinner.

Gen Z is adulting and, as the generation that grew up alongside the iPhone, their expectations as a tenant could be considered by some as "extra."
Fun fact: 83% of Gen Z adults rent and anticipate being a renter for the long term.

AI for more than just words.

ChatGPT will be very 2023; this year the tech that fueled the AI race will be embedded in proptech platforms and tools, making it even more efficient for property managers in meeting their tenants' needs, increase their operational efficiencies - even with a labor shortage - and keep costs down.

Tis the season.

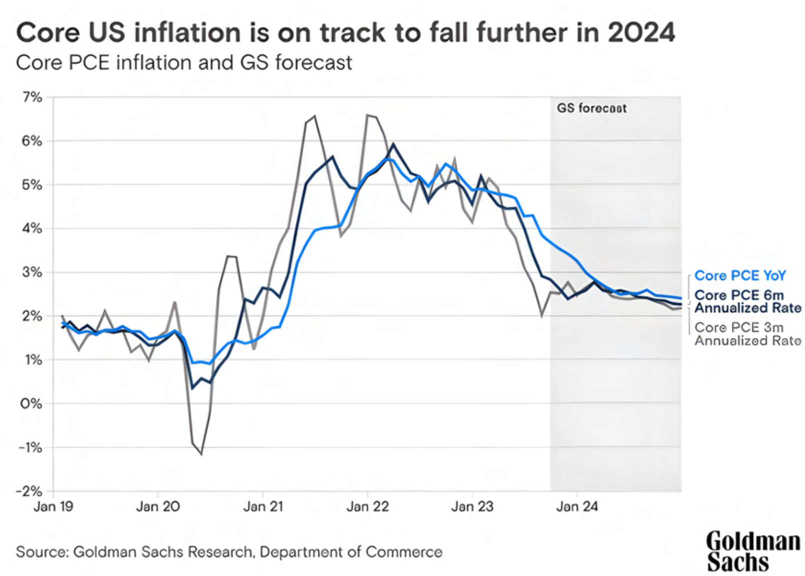
The housing market's woes will become a **hot election issue**, with intense scrutiny on evictions, rent pricing, inventory, and realtor fees.

The Big Picture

The Economic Outlook for 2024 Looks Bright

Investors are optimistic about 2024 even as mortgage rates and home prices remain elevated.

Moderating inflation, a cooling jobs market, and a deteriorating outlook for consumer spending mean the Fed may need to cut interest rates more, which is giving investors all the good feels.



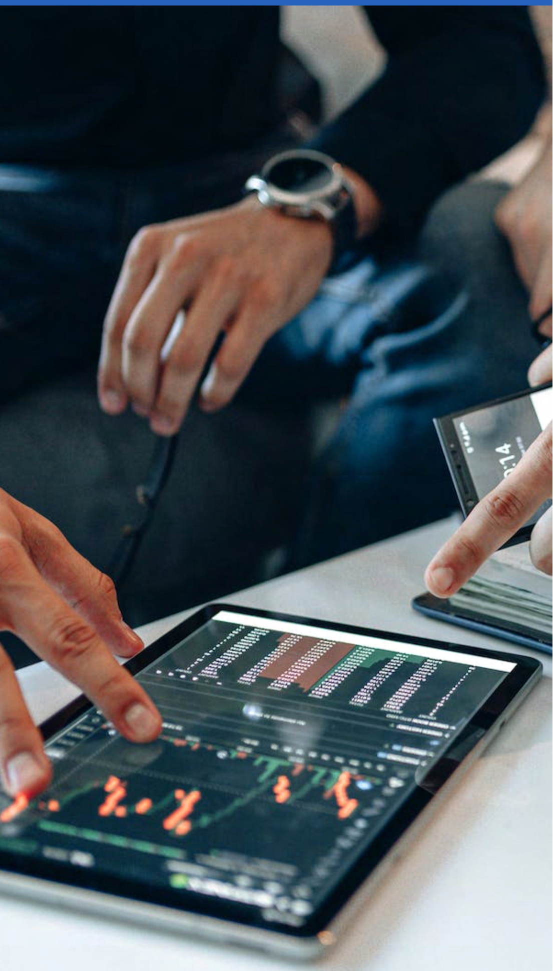
Goldman Sachs - the same bank that predicted a recession in 2023 - is now confirming that the economy will be experiencing a soft landing.

- **While investors are optimistic, consumers are anything but, likely due to the continued high prices thanks to inflation: their expectations for long inflation increased to 3%.**
- **On the flip side, a less forceful war on inflation will, in turn, keep mortgage rates steady, and then eventually drop - NAR expects mortgage rates to drop closer to 6%.**

Key takeaway

If 2023 was a story of turmoil, 2024 could be a roller-coaster, particularly since it's also an election year.

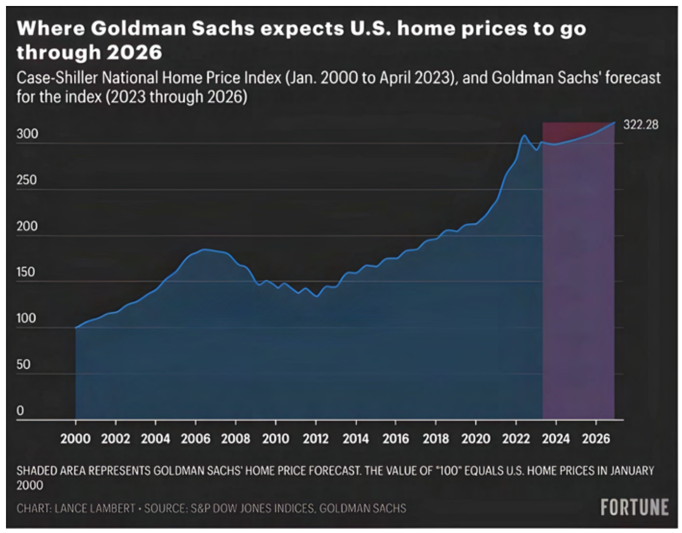
Sources | Goldman Sachs, Axios, NAR



Dreams AND Nightmares

The housing market has evolved for the foreseeable future

The trends seen in 2023 - high mortgage rates, limited, higher home prices, and limited housing inventory - will continue to roil the market as those dreaming of buying a home experience are confronted with reality.



Nearly one in five millennials who responded to a Redfin 2023 housing survey said they'll never own a home. Compare that to Gen Z: one in every ten Gen Z respondents held the same view.

Why so glum?

- **Existing home sales are expected to be very weak next year as mortgage rates remain high. Realtor.com expects housing inventory to fall 14% next year, as homeowners stay put.**
- **Goldman Sachs expects residential investment is predicted to end the year roughly flat. Low affordability but very tight sales supply should generate modest home price growth of about 1%.**

Bottom line

The housing market in 2023 is marked by challenging conditions, including high mortgage rates, elevated home prices, and scarce inventory. Expectations for 2023 include weak existing home sales and a slight increase in home prices, driven by low affordability and tight supply

Sources | Goldman Sachs, Redfin

Ain't Nothin' Goin' On but the Rent

At least in 2024

There's girl math, boy math, and now, rent math.

The changing rent vs. buy math means that even those who can afford to buy could find that renting now actually makes more financial sense.

Table 4. Top 10 Metros that Favor Renting over Buying in August. 2023

Metro	Median Rent	Monthly Buy Cost	$ Difference (Buy-Rent)	% Difference (Buy-Rent)	Rent YY	Buy Cost YY
Austin-Round Rock-Georgetown, TX	$1,670	$3,946	$2,276	136.3%	-8.0%	9.2%
San Francisco-Oakland-Berkeley, CA	$2,906	$5,859	$2,953	101.6%	-4.9%	12.7%
Columbus, OH	$1,222	$2,458	$1,236	101.1%	2.7%	35.1%
Sacramento-Roseville-Folsom, CA	$1,898	$3,779	$1,881	99.1%	-3.9%	29.9%
Los Angeles-Long Beach-Anaheim, CA	$2,892	$5,672	$2,780	96.1%	-2.3%	23.3%
San Jose-Sunnyvale-Santa Clara, CA	$3,367	$6,581	$3,214	95.5%	-0.2%	23.3%
Portland-Vancouver-Hillsboro, OR-WA	$1,709	$3,314	$1,605	93.9%	-5.2%	13.8%
Boston-Cambridge-Newton, MA-NH	$2,851	$5,526	$2,675	93.8%	3.2%	24.4%
Seattle-Tacoma-Bellevue, WA	$2,168	$4,156	$1,988	91.7%	-3.7%	21.0%
Phoenix-Mesa-Chandler, AZ	$1,595	$3,015	$1,420	89.0%	-4.5%	17.7%

"In today's market, the decision between renting and buying is more complex than ever. We're seeing a significant shift in how people view homeownership, particularly among younger generations. This is not just about the high cost of buying, but also about seeking flexibility and smarter investment opportunities. At Hemlane, we recognize these evolving needs and are focused on providing solutions that align with this new reality."

- **Dana Dunford**, CEO

In analyzing the current real estate trends, Hemlane's data reveals a significant paradigm shift among young millennials and Gen Zers when it comes to housing decisions. Unlike the baby boomers and Gen Xers, for whom buying a home was a cornerstone of financial growth, our insights show a divergent path for the younger generations. With housing prices reaching unprecedented highs, a considerable portion of this demographic is opting for rental options. Our data indicates that, compared to previous generations at the same age, there's an increasing tendency towards renting over buying—a trend driven by both economic factors and lifestyle choices.

Specifically, our analysis shows that the upfront costs of purchasing a home—agent fees, loan interest, property taxes, insurance, and maintenance—now account for a significantly larger percentage of a young individual's income compared to 20 years ago. In contrast, renting offers a more financially viable option, with lower initial costs and the flexibility to invest in other financial avenues. Furthermore, our data highlights a growing preference among these younger demographics for investment diversification, which includes stocks, bonds, and other non-real estate assets, as opposed to the more traditional route of property investment.

Key takeaway

If 2023 was a story of turmoil, 2024 could be a roller-coaster, particularly since it's also an election year.

Source | USA Today, Redfin, Vice

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Under Pressure
Rental supply and demand

Key takeaway

Traditional property managers will need to rely on real-time market insights, tenant sentiment, and efficient property management more than ever before.

Over 1M new multifamily units debuted in 2023; with additional units in the pipeline, 2024 will likely be the strongest year for new multifamily supply since the 1980s.

While that's great for renters in certain markets (looking at you Brooklyn), consumers don't feel as confident.

Some of their concerns: affordability and the possibility of a recession, both of which are driving cautious spending behavior. Redfin noted that "even in the most bullish scenario, it's unlikely that demand will be strong enough to fully absorb all of the new supply that we know is coming".

Nonetheless, investors are piling in as single-family homes are shaping up to be the superstar of rentals.

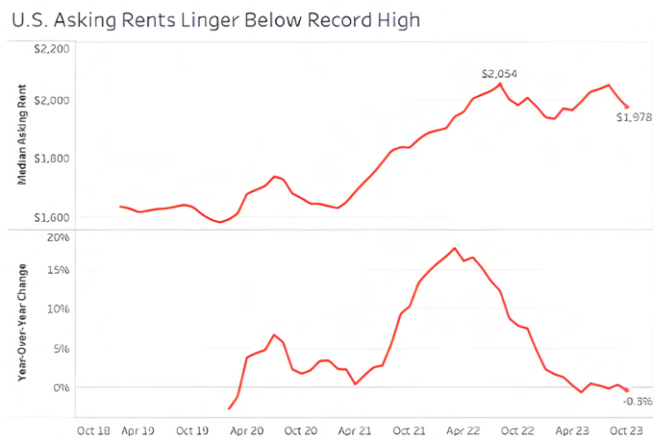
- **Billionaire Jeff Bezos is funding Arrived, a startup that offers fractional ownership, creating a consortium of mini-landlords**
- **Cushman and Wakefield appointed a new head of its build-to rent residential division.**
- **Berkshire Hathaway picked up shares of D.R. Horton, one of the largest homebuilders of single-family rentals.**

Source | Apartmentlist, PWC, Redfin

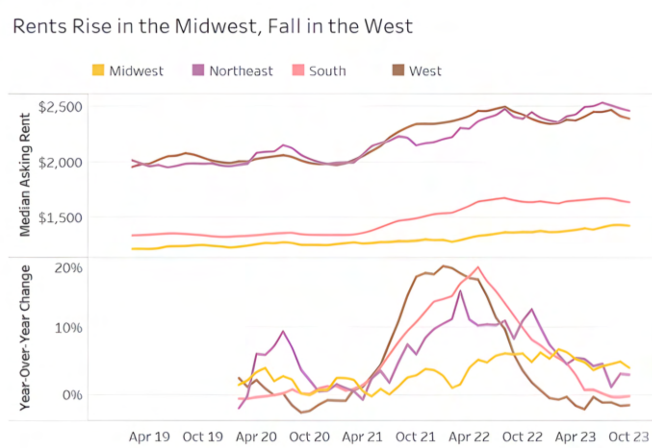
It's All About the Benjamins
U.S. Asking Rents Dips

What goes up inevitably comes down.

2023 saw a rental market that flattened out after the rollercoaster ride that was the pandemic combined with historic low mortgage rates.



As consumers can easily move from rental to rental, some areas are experiencing an influx of renters looking for a cost of living - driven by their rents - that will afford them the lifestyle they desire.



Source | Redfin

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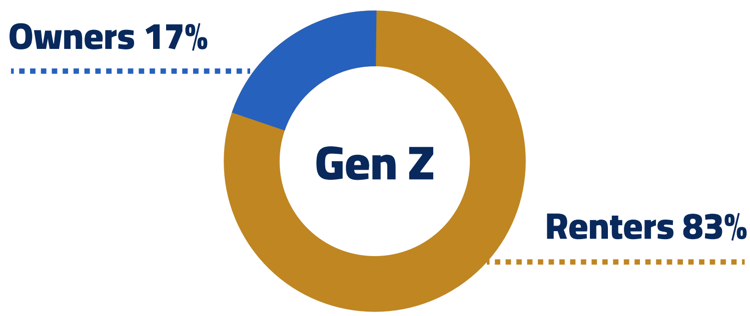
The Times, They are Changing
The 2024 Tenant

Younger Millennials and Gen Z are game to rent. They're also the most savvy, and likely, pickiest.

Among their top needs:

- **Rents that afford them a better lifestyle and cost of living.**
- **Amenities: Gyms and shared community spaces were among the top renters'**

Source | Zillow



Share of Gen Z Renters & Owners Who Live on Their Own

Source | RentCafe

Big picture

Tech-savvy property managers will have a distinct advantage with the digital-first attitude of this and other generations.

Operational efficiencies

- **Affordability** — The cost of rent was ranked higher than the neighborhood.
- **Technology** — High-speed internet is considered critical.
- **Convenience** — Package rooms, paying rent online, and digital maintenance requests were considered key.
- **Lifestyle** — Washer and dryers, gyms, co-working spaces, and shared community spaces.

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Yeah, I'm the Taxman
Navigating Increased Government Scrutiny

If 2023 was the year they came for AirBNB, 2024 seems to be shaping up the year they come for agents and landlords.

- **In the first of two class-action lawsuits, a Federal jury in Missouri concluded that NAR and Keller-Williams conspired to artificially inflate commissions, awarding over $5.3 billion in damages to the sellers of over 260,000 homes in Missouri, Illinois, and Kansas, sparking additional lawsuits.**
- **California was the first state in the U.S. that signed a whopping 60 housing bills into law, which may spur other states to follow suit.**
- **The current administration is debating a federal rent control bill although it's unlikely to pass, however, states are feeling pressure from their residents to revisit eviction procedures and laws due to the housing affordability crisis.**

Source | Business Insider, CAA, USA Today

Key takeaway

Property managers will need to stay informed on changing eviction laws and tenants' satisfaction to minimize disruptions.

The Look of 2024
The Trends We're Following

Big picture

If the past few years have taught us anything it's that life - unlike the Feds' decisions - is unpredictable, and staying informed will continue to be key.

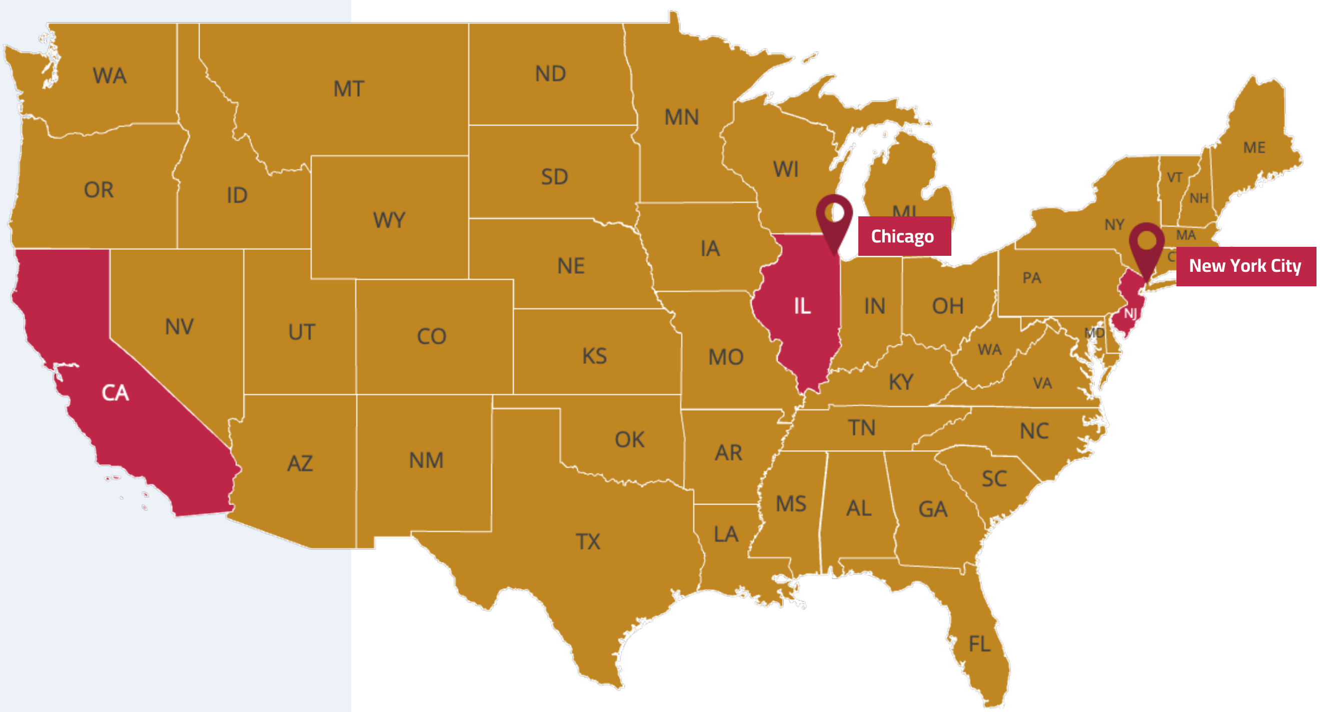
If you've been a subscriber of 'The Property Management Pulse' newsletter then you won't be surprised to know the trends we're closely following that are promising to bubble up in 2024, namely:

- **Low single-digit rent growth in some areas as a result of uneven supply and demand.**
- **High insurance rates will continue to affect homeowners, and in turn, affect their ability to maintain home ownership.**
- **Increased foreclosures and evictions, particularly in areas that are seeing a high concentration of home affordability challenges, job loss, and underwater mortgages.**

Most at-risk markets:

California | New Jersey | Illinois | New York City | Chicago

...as well as central California to a lesser degree.



- **Counties least at risk are concentrated in the South, Midwest, and New England**

Source | Attom, YieldPro, Apartmentlist

Trends We're Watching

Virtual Tours will decrease the time, effort, and energy in aquiring a new tenant.

Increased use of AI to inform tenants' rental searches and provide personalized inquiries and maintantence requests.

Better data analytics that will track occupancy rates and dentify areas of inefficiency before they become problematic.

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