

Housing Market Analysis

Key Observations:

- Community-wide rental vacancy has historically been low and stable, putting pressure on price
- Eugene rental housing costs are unaffordable for a very high percentage of tenants
- Demand by large numbers of off-campus students impacts rents and neighborhoods
- Large projects on transit corridors give students more opportunities to move and live in housing close to campus, while preserving neighborhood livability
- Rentals in the campus area submarket have had nearly zero percent vacancy for many years, which pressures rents to rise; as supply and vacancy rates increase, rent prices may flatten
- Student housing supply is still catching up to university enrollment increases of recent years

Impact on Overall Vacancy Rates

For the past decade, Eugene's vacancy rate has ranged between 3%-5%. Local sources estimate the current vacancy rate at 4%. A good rule of thumb for what is considered a "natural vacancy rate," or the level representing the market's equilibrium, is traditionally placed at 5%. A low vacancy rate is indicative of upward pressure on prices. However, housing markets with younger populations, or college age populations, may be assumed to have more mobility, greater turnover, and, therefore, higher vacancy rates. Rental properties will typically try to absorb higher vacancy rates and greater turnover volume without lowering their prices. Therefore, metro areas with more mobile populations, like an above-average concentration of students, can be expected to function normally with higher vacancy rates. The low vacancy in Eugene is an indication of market tightness for apartment rentals — especially within the close-to-campus student submarket area where vacancy is known to be lower. Construction of additional bedrooms will likely improve the vacancy rate balance in the student submarket and could contribute to the flattening of rental rates community-wide.

Impact on Housing Cost Burden

"Housing cost burden" is defined as households paying more than 30% of household income for housing and utilities. In the cities of Eugene and Springfield nearly half (47%) of all renters have a housing cost burden (2010 Consolidated Plan). Average rents for a Eugene one-bedroom unit are currently around \$630, and for a two-bedroom unit around \$860.ⁱ While the Core Campus project's additions of 197 units is unlikely to have a significant impact on overall vacancy, in combination with other student housing construction there could be a short-term impact on student housing vacancy and present a medium-term, general leveling influence for rental housing rates.

The Eugene area housing market, like most other urban housing markets, is comprised of numerous submarkets for products of varying quality, locations, and different levels of demand. Rent levels in the campus area range from \$650 to \$725 per bedroom, with the highest rents (\$750 to \$800+ per bedroom) in the newest complexes completed for the 2012-13 school year.

Generally, rents for units closest to campus are the highest in the metropolitan area on either per-square-foot or per-bedroom basis. The Core Campus project is targeting segments of the campus area submarket, while designing products they believe will compete against other comparable rentals on the basis of their project's superior amenities.

Given the City's concern about the overall affordability of housing and the total number of units within the urban growth boundary, it must be noted that a change to the supply of housing within a submarket also affects the aggregate market because there are overlapping population groups. Large increases to student housing unit supply would broadly impact renters and landlords in the City through a flattening effect on rents and an increase in turnover as renters seek to upgrade their housing. Landlords and property management companies are most likely to respond to the increased competition by offering additional incentives or amenity packages.

Vacancy Rates within Student Housing; Projects in Pipeline

The large amount of student housing under construction this year and next is still catching up to the large 23% enrollment increases of the past five years. The sizeable and un-forecasted increase has changed the nature of demand in the student housing market: by both bedroom totals and product unit types. Full-time enrollment increased approximately 4,051 since the 2007-08 school years to a total of 21,917 students. There are an additional 2,674 part-time students. According to local sources, there are an approximate 2,000 bedrooms targeted at students currently in the construction pipeline. However, a developer's analysis of student enrollment need not be precise; like any market analysis, the purpose is to help developers' measure risk, not build to accommodate projected enrollment increases to an exact count. Historically, the campus area experiences virtual zero vacancy — a situation that benefits property owners via higher lease rates. Yet, according to local real estate market experts, this past Fall season a few properties are only just now experiencing higher vacancies for their least desirable unit types and older buildings.

If Core Campus and proposed-permitted projects are built, the increased student housing supply at the higher end of amenities will likely result in some turnover and migration into the campus area as leases expire for existing students and new students enter the community. Therefore, the Core Campus project and proposed-permitted projects could alleviate neighborhood livability impacts by further concentrating students on appropriate sites closer to campus. Many students rent in areas far removed from campus (likely due to more affordable prices). They, along with some non-students, will be motivated to rent closer to campus. This migration could have the effect of decreasing housing demand in some of the area's most affordable locations. Therefore, if there were an oversupply of units in the close-to-campus submarket and at the higher end of the product mix, the most likely impacts on the metropolitan housing market would be to somewhat flatten rates generally, to increase rental competition in submarkets of student housing, and potentially to spur landlords to upgrade or invest in their properties to become more competitive. More significant impacts to rental rates are unlikely because projected general population growth is likely to absorb the difference.

ⁱ <http://www.rentjungle.com/average-rent-in-eugene-rent-trends/>