



Rodney's Take

June 14, 2021

Rising Rents, Bigger Tips, and Poor Service

My youngest child finished college last month and got a job in Boston. Her current vehicle, a Ford F-150 SuperCrew 4x4, is not Boston-friendly, so my wife and I met her in Boston to help her get settled, and right now we're in the process of driving the truck back to Texas. In the process of getting her set up in an apartment (I use that term loosely), we witnessed the grand reopening of a large metropolitan area firsthand.

Our first order of business was to find living space, which we worked on long before she started her drive from Colorado. It was harder than it sounds. In the age of Internet, texting, FaceTime, and now Zoom, you'd think that finding almost anything would be simply an exercise in reviewing pictures, descriptions, and prices, and then contacting people to narrow the choices before selecting one. Not so. Most online listings, particularly those aimed at young adults, are come-ons or fakes, and to find the actual inventory requires dealing with SSRBs (soul-sucking rat-bastards), otherwise known as apartment brokers. Joking aside, we found several really good ones. But when we'd call about an actual listing, the first question was, "What's your maximum budget?"

If you stick with the price of the listing, they never call back. Ever. That listing is never available, and there's never anything in that price range.

This is not what a buyer's market looks like. That ship sailed last fall and this spring. The rental market in Boston bottomed in March of this year, with vacancies jumping from 1% to 5% in areas near colleges and from 5%

to 25% around downtown. As colleges make plans to reopen and the biggest moving day of the year, September 1, approaches, inventory is falling. Today, the rental market near the low end, for living spaces generously called apartments but more closely resembling unairconditioned closets with a locking door and questionable plumbing, is almost back to where it was pre-pandemic. Being a numbers guy, as we searched for places, I also investigated previous rents on the same units.

We secured a location for less than 5% off of the pre-pandemic price and paid half of the broker's fee, which equated to another 1% off. According to several rental sites, rents in Cambridge dropped just over 10% before rebounding, so we're catching this on the rise. I expect rents at the low end, for college kids and young professionals, to be back to 2019 levels by the end of the year. Leasing the higher-end space that caters to those making a good living will take longer, because so many people left such cities for good, but it will happen and the prices will climb, which will boost inflation.

With housing prices on fire, eventually the sale prices will flow through to the rental markets, even in cities hit hard by the pandemic. Higher rents will drive up the cost of shelter in the Consumer Price Index, which will push the official inflation figures higher. Shelter counts for about 30% of the index. It's hard to keep official inflation down when the largest component is on the rise.

In addition to the rental reflation trade, we've also witnessed firsthand the lack of front-line employees. It shows up as bad service in restaurants and coffee shops as new, unmotivated servers learn their trade. We found most such people pleasant if not efficient and certainly not concerned with improving the process. But none of this mattered, because so many patrons are desperate to get back to some semblance of normal when it comes to getting back out in the world. We want to be around other people, and we're not just willing to endure slow-paced, poor service, but we reward it with outsized tips.

During the pandemic, we heard pleas from servers, restaurant owners, and community leaders to tip generously to keep wait staff going through lean

times. That ship has sailed. Restaurants are packed. In Boston, many small cafes are still closed to diners, but they have set up takeaway counters at their front doors and prominently display tip jars on the table. I'm not sure what extra service or job-well-done we're rewarding when we tip for carrying out our own food. Shouldn't we be tipping ourselves, which would mean a discount on the food, because the restaurant pays less overhead for servers? Clearly it doesn't work that way, and don't expect the trend to reverse. Once we increase what we will pay, and tip, for food and service, we'll never go back.

It's just one more form of inflation in our daily lives, although one we seem to have accepted gladly as some form of shared economic responsibility during the pandemic. We've noticed the same thing in hotels, which dramatically cut back the days they service rooms and yet encourage guests to generously tip housekeeping staff. Once again, we're paying more and getting less. I wonder if we will feel as generous as a nation when the sugar high from the relief funds runs out.

Rodney

Got a question or comment? You can contact us at info@hsdent.com.