

Apartment Sector Stability Falters, Vacancy Hits 3-Year High

By Tonie Auer, Southwest Correspondent

Commercial Property News — April 8, 2009

A pair of new reports outline divergent futures for the apartment sector. While a report from Reis Inc. paints a dire outlook for apartment occupancy as job creation dwindles, another--by Marcus & Millichap Real Estate Investment Services--indicates the return of millions of households to the rental market after temporary homeownership along with the emergence of echo-boomer renters and a significant drop in new supply pipelines, all of which may ultimately lead to several years of strong rent growth.

Reuters cited Reis in reporting that the vacancy rate for U.S. apartments hit a three-year high in the first quarter and asking rents dropped the most in at least 10 years as the number of excess apartments on the market ballooned.

And the figures are forecast to get even worse as more apartment buildings are expected to open this year, increasing supply, and as the U.S. employment picture gets uglier.

Apartment fundamentals have been the most stable of any property sector throughout the downturn, according to the Marcus & Millichap's *2009 National Apartment Report*. The exceptions are metro areas with large supply imbalances. Excess housing supply, in tandem with another year of job losses, will further exacerbate rising vacancies and falling rents in these markets.

Meanwhile, supply-constrained markets with solid economic drivers during the past few years entered the downturn with low vacancy and are well positioned to weather the economic storm, according to the report. With that said, the housing market should reach bottom this year, setting the foundation for the start of an economic recovery in 2010, it added.

Despite some weakness, apartments will register the healthiest fundamentals among major commercial property sectors. The national apartment vacancy rate is forecast to increase 100 basis points in 2009 to 7.7 percent due to job losses and competition from shadow rentals, Marcus & Millichap's report stated. Average effective rents nationally will be flat in 2009, while asking rent growth is expected to reach 1.7 percent. Rent trends will vary greatly at the metro level, with owners in the hardest-hit housing markets reducing rents and offering significant concessions to attract and retain renters, according to the report.

According to Reis, since reaching a cyclical low of 5.5 percent in the third quarter of 2008, the U.S. apartment vacancy rate has surged 1.7 percentage points. Behind the rising vacancy rate is a build-up of available apartments. The number of vacant apartments added was 31,878 units in the first quarter. This was the largest amount of excess apartments the sector has seen since the first quarter of 2002.