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Apartments Stage a Comeback as Renters Return in Surprising Numbers

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After two years of rising vacancies and slumping rents, apartment owners have reason to be cheerier these days.

According to the latest survey of 169 markets across the U.S. by researcher Reis, the national apartment vacancy rate peaked at a record 8% in the fourth quarter of 2009 and remained unchanged in the first quarter of 2010. Asking rents increased by a scant 0.1% in the first quarter, but that was the first gain since the third quarter of 2008.

Some 20,000 apartment units were absorbed in the first quarter of 2010, which is the strongest first-quarter showing in the past 10 years, according to Victor Calanog, director of research at Reis. The multifamily market appears to be on the cusp of recovery. If so, pricing and transaction activity will rise and the window of opportunity for landing good deals may close soon, says Calanog.

Rental demand drove the occupancy rate for downtown Chicago apartments higher in the first quarter, to 93.6% from 91.4% in the fourth quarter of 2009, according to consulting firm Appraisal Research Counselors.

The latest results surprised long-time industry watchers, including Robert Bach, senior vice president and chief economist at Grubb & Ellis. However, Bach is concerned about the abundant supply of empty condos and single-family homes that are entering the rental market in hard-hit areas like South Florida and Phoenix. He believes they are casting a shadow over traditional apartment communities, and siphoning off potential renters.

Im surprised the apartment fundamentals have bottomed out this quickly, but as long as there are these shadow units out there, then its going to be interesting to see if the apartment market can recover independent of that, says Bach.

The rest of 2010 will be a telling barometer, notes Calanog. The next two quarters will offer critical perspective as to whether positive rent growth is sustainable. Calanog does expect the vacancy rate to improve over the next five years, dropping to 6.6% in 2014.

Unemployment stings young Americans

Certainly one of the most closely watched keys to the short-term apartment market turnaround is the jobs picture. According to the U.S. Bureau of Labor Statistics, the U.S. economy added 290,000 jobs in April, the largest gain since March 2006. That followed a revised 230,000 increase in March. Still, the overall unemployment rate rose from 9.7% in March to 9.9% in April, a sign that more Americans are starting to look for jobs.

According to some observers, danger lurks at the deep end of the renter pool. The primary renter market base, people aged 20-30, comprises 70% of the total U.S. apartment market, and that segment is recovering more slowly than others.

As an example, the unemployment rate among Americans aged 20-24 was 15.8% in March, but jumped to 17.2% in April. □The unemployment rate for young people has climbed faster than it has for the labor market in general,□ says Sam Chandan, global chief economist and executive vice present at researcher Real Capital Analytics.

According to Chandan, the rental pool is not being supported by new entrants of young people graduating with jobs. □We need job growth among the younger age groups to drive apartment demand. There□s got to be some replacement there.□

Compounding the situation, one of the biggest challenges to recovery in this market is older, more skilled workers who are willing to take lower paying jobs just to find work. Typically this segment is more inclined to own rather than rent. □This is an issue that□s going to weigh on the performance of the apartment market,□ says Chandan.

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