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## Apartment market shows signs of improvement

### Even with a weak job creation, apartment demand is increasing

By [Amy Hoak](#), MarketWatch

CHICAGO (MarketWatch) -- The apartment industry often doesn't improve until the job market strengthens, and workers gain the confidence to drop their roommate and get a place of their own or move out of their parents' basement.

But recent measures show that vacancy rates are falling and confidence is rising in rental markets -- specifically in apartment buildings -- despite only subtle improvements in the nation's employment picture.

#### [Houses that make energy](#)

Net-zero energy homes are gaining in popularity, but before buying a green home or an add-on product designed to generate energy, make sure you do your homework.

"We certainly see the increase in rental demand in 2010, and it's been a little more, frankly, than most apartment experts had anticipated," said Mark Obrinsky, chief economist and vice president of research for the National Multi Housing Council.

Demand for apartments has risen significantly this year, said Greg Willett, vice president of research and analysis for MPF Research, which analyzes apartment trends. "There's no way to look at these apartment numbers and not be impressed," he said.

June vacancy rates in the largest 64 markets in the country averaged 6.6%, down from 8.2% at the end of 2009, according to MPF Research. Rents are also on the rise, Willett said.

The apartment market absorbed 215,000 units in the first half of the year, and at this rate, the market will absorb a little more than 300,000 units by the end of 2010, Willett said. Absorption is the net change in the number of units physically occupied.

Absorption was just under 300,000 units in 1999, 2000 and 2004; the record since the early 1990s was 350,000 units in 2005, when absorption jumped due to the volume of Hurricane Katrina evacuees, Willett said.

As units fill up, property owners feel more confident.

The NMHC's quarterly market-tightness index, released on Friday, had a reading of 83 in August -- the highest reading since July 2006. The index measures changes in occupancy rates and rents through a member survey; a reading higher than 50 indicates improving market conditions. A year ago at this time, the reading was a meager 20. In January 2009, it hit 11.

And according to a property owners' survey conducted by Rent.com in June and July, 56% of participants said the number of vacancies in their properties had dropped or was unchanged compared with a year ago, said Peggy Abkemeier, president of Rent.com. "Some customers indicated that the vacancy rates have been extremely low," she said.

## Rise in renters

But with the job market still struggling, it isn't easy to explain the growing demand. Private-sector job growth was weaker than expected in July, and the unemployment rate held at 9.5%. [Read story on the job market and July unemployment rate.](#)

"It's one of those situations where it's hard to fully explain where the demand is coming from," Willett said. "You can't look at the stats and fully explain it."

That doesn't stop those in the industry from hypothesizing.

Obrinsky said even the slightest improvement in the economy could be motivating some renters to sign an apartment lease. But their attitudes probably have more to do with confidence in their local economy than the national indicators being reported in the media.

"In the world in which they live, they see fewer people getting laid off. Friends are finding jobs. They react to those things with more confidence in their personal situation and can take that step with finding a 12-month contract," he said. "If you have a job, you feel less likely that you're going to lose it now."

Some in the industry say more parents -- finally confident in their own jobs -- are now willing to co-sign leases for their children, Willett said. And apartment managers are doing a better job at retaining the renters they already have, he said.

Even if renters still need a roommate to be comfortable in signing a lease, they might decide to "room with just one other person, rather than three," said Dung Lam, chief financial officer of J.I. Kislak, a national investment company that primarily operates as an owner and operator of multifamily properties.

Continued skittishness about the housing market also may be boosting rentals.

The homeownership rate fell to 66.9% in the second quarter according to the Census Bureau, the lowest it has been since the fourth quarter of 1999, and Obrinsky said it's possible it will continue to decline, at least for a while, as people doubt the financial wisdom of buying a home or can't get financing to buy.

"There is still a hangover from the housing boom that is keeping people from jumping into homeownership, and has fueled people getting into the rental market," Obrinsky said. "Unlike in the past, they're not jumping out and thinking 'I'm going to buy a house.'"

## **A wider view**

The overall rental vacancy rate -- including not only apartments building units but also single-family homes -- was 10.6% in the second quarter, unchanged from the first quarter but down from 10.7% in the fourth quarter of 2009 and 11.1% in the third quarter of 2009, according to the Census Bureau.

While the rate is slightly improving, a 10.6% rate is still high, said housing economist Michael Carliner, adding that "it's still a renter's, rather than a landlord's market." Carliner is a visiting fellow at Harvard University's Joint Center for Housing Studies.

And for apartments in particular, rents might not rise very quickly due to broader market conditions, Willett said. In many areas, the monthly cost to buy a home is now equal to or less than the cost of renting, he said. "The fact that there's not a premium to buy in so many cities could put some sort of cap on rent growth potential," he said.