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Apartment landlords regaining pricing power

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BY DONNA ROLANDO

What a difference five years make.



STAFF PHOTOS BY AMY NEWMAN

Jack Linefsky is director of property management operations for Value Cos., which owns and manages 3,600 residential units in five states, including the Saddle Brook Apartments.

In 2005, the housing bubble's inflated prices were chasing people from home ownership and driving them toward the more affordable rental. When the bubble burst and the recession hit, the apartment community suffered but not nearly as badly as the housing or office market. Today, with the recession abating, some say landlords are regaining rent power.

"Over the past few years, we have seen the effects of spiking unemployment and the collapse of the housing industry permeate through the rental market," said Peggy Abkemeier, president of the Internet listing site Rent.com.

"While high unemployment lowered demand for rentals and caused vacancy rates to skyrocket, the glut of unsold homes and foreclosures entering the rental market created excess supply," she said.

Property managers responded with rent reductions and concessions, and those concessions, such as one or two months' free rent, are still common.

Apartment rents

The combined average of rents of all types of apartments in North Jersey.

| | Asking Rent | Pct. change |
|--|-------------|-------------|
|--|-------------|-------------|

| | | |
|-------------|---------|-------|
| 2005 | \$1,365 | + 3.3 |
| 2006 | \$1,418 | + 3.9 |
| 2007 | \$1,485 | + 4.7 |
| 2008 | \$1,519 | + 2.3 |
| 2009 | \$1,482 | - 2.4 |

Source: Reis Inc.

A look back over the past five years shows tenants paid even lower rents in 2005, but this was soon to change as the housing boom took hold, said Ryan Severino, economist with the Manhattan office of Reis Inc.

"If you think back to 2005, the economy had started to gain momentum after the recession," he said. As the economy grew and home prices escalated beyond the reach of many, it brought new demand for apartments and fueled several years of rent increases.

"Rents were on an upward trend," recalled Ray Cirz, managing director of Integra Realty Resources-Northern New Jersey office and the firm's chief executive officer. "Once we hit 2008, the downward trend [for rents] started ... basically related to the recession," Cirz said. "As vacancies ticked up, rental rates came down."

Yet rental decreases were not dramatic. "This has been a modest recession for the apartment market," Cirz said.

Jon Moore, vice president of Clifton-based Value Cos., which manages 3,600 residential units in five states including New Jersey, recalled that 2005, 2006 and 2007 "were extraordinarily good years for the rental housing market as far as rent growth."

But landlords had "little pricing power" from 2008 to 2009 because of the weak economy, faltering job climate and an infusion of foreclosure and hard-to-sell homes on the rental market.

Moore considers the concessions that followed to combat vacancies a first for New Jersey.

Today, as they look ahead at the rental market of the future, some industry experts are more optimistic than others.

"We're cautious through 2010," said Moore. "We're not looking at any significant rent increases but believe occupancies will remain at a near all-time high," due to an uptick in the economy and "rebound in pricing power."

"I would not expect rents to change much this year," added Severino. Abkemeier said first there has to be a turnaround in unemployment, which in New Jersey was 9.8 percent in April.

"As jobs return and Americans go back to work, they will come back to the rental market and new household formation will begin again," she said.

What's needed to "push the needle on rent rates," she said, is more rental demand. "Until then we expect to see a stabilization in prices but not a significant increase."

Foreclosures also have a hand in molding tomorrow's rental market, she said. In recent weeks, the National Apartment Association released a study showing that 76 percent of consumers believe renting is a better option than homeownership — a 5 percent increase from 2008.

"This is an interesting attitude shift," said Abkemeier. "If the ratio of homeowners to renters were to change significantly at some point, that would certainly impact the rental markets and rental rates."

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