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UPDATE: For Apartment Operators, Boomeranging Kids More Bad News

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(Adds quote from Rent.com, updates stock prices.)

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NEW YORK (Dow Jones)--With many Americans boomeranging back to Mom and Dad's or sharing digs with roommates, the nation's apartment operators, particularly the public players, continue to bite their nails as they await recovery.

The Pew Research Center reports that 1 in 10 adults ages 18 to 35, prime renting years, say the weak economy has forced them to return to the nest. Reasons range from job loss to pursuing an education.

The news, which quantifies longstanding concerns, weighed on the multifamily real estate investment trust sector Tuesday. Apartment Investment & Management Co. (AIV) recently traded down 5.1% at \$12.91, while Colonial Properties Trust (CLP) declined 2.6% to \$11.01. Upscale operator Post Properties Inc. (PPS) was off 4% at \$18.04. Sector titan Equity Residential (EQR) dipped 1.5% to \$31.59.

For apartment operators, it doesn't matter why older children are returning home. It just matters that they are. That means more empty apartments--the vacancy rate is at its highest level in 23 years--with price cuts needed to fill them. Frantic landlords are offering incentives ranging from rent reductions to flat-screen televisions to attract tenants. New tenants might not even have to pay security or pet deposits. More landlords are overlooking foreclosures on credit reports, once a possible dealbreaker.

Census data, meanwhile, show that 7.3% of adults ages 18 to 29 were living alone in 2009, down from 7.9% in 2007. With so many seeking roomies to shave bills, one-bedroom units in some areas are plentiful.

"It's going to drive up vacancy if you have two people taking one apartment, instead of two taking two apartments," said Peggy Abkemeier, president of Rent.com, a rental Web site. "If you look at the breakdown of vacancy rates by type of apartment, one-bedrooms are disproportionately higher."

Another problem? Household formation: Growing families are essential to filling units. Pew reports that 15% of adults younger than 35 said they postponed getting married because of the downturn, while 14% said they have delayed adding to their families by having a baby.

When the mom-and-pops shave rents, few notice. But recent trends have Wall Street particularly worried. Rent reductions, giveaways and empty units hurt the bottom line, trickling down to shareholders. Few expect imminent relief.

"Absent household formation, landlords will likely be unable to raise rents in a meaningful way anytime soon," writes Michael Levy, an analyst with Macquarie Securities. "For this reason, we are skeptical that the apartment REIT sector will be able to generate robustly positive same-store revenue and NOI [net operating income] before 2012. Weak job creation could limit REITs ability to raise rents during the 2010 leasing season, crimping growth in 2011."

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