

Serene Apartment Market Remains Stable **by Caroline S. Latham**

In a period of turmoil for condos and single family homes, the rental apartment market is a model of stability. According to statistics released this week by RealFacts, the multifamily data specialists, rents are growing modestly, occupancy is unchanged, and the rental apartment segment appears to be immune to the problems occurring in other housing sectors.

This first look at the market in 2008 finds rents growing at a rate of 0.4% per quarter. The increase since March 2007 adds up to 3.0%, 0.6% below the year-over-year rate for 2007, which was 3.6%. Although this rate is lower than the underwriters' ideal growth rate of 5% per year, it is still likely to be the happiest news financial institutions have seen this year. The RealFacts database includes more than 3,160,000 rental units in 15 states, and the survey conducted in March indicates that the average rent for all locations was \$993. That means the average apartment resident pays almost \$12,000 a year for housing. The highest quarterly rent growth was seen in the Oklahoma City OK MSA, (2.2%), Seattle-Tacoma-Bellevue WA MSA (2.1%), Salt Lake City UT MSA (2.0%) and the San Francisco-Oakland-Fremont CA MSA (1.2%).

The Good News and Bad News

RealFacts found that occupancy rates stabilized in the first quarter of 2008. In marked contrast to the last three months of 2007, when occupancy fell a full percentage point for the entire database, there was no change in early 2008. While roughly half the Metropolitan Statistical Areas (MSAs) showed a continued decline in occupancy, the other half showed an occupancy increase. The bad news last December was that at least 31,000 apartments that were occupied in September had become vacant. The bad news from March 2008 is that all of these apartment units are still empty; the good news is that the number of empty apartments has not grown. The current average occupancy rate for all units is 92.6%, well below the ideal 95%. This factor favors renters over landlords, and thus exerts a check on rent growth, which favors landlords over renters. Thus the market remains in good balance.

Analysts of the troubled single family home market, with its sub-prime loans and increasing number of foreclosures, have asked what happens to the people who have lost their houses. Some have speculated that they would move into apartments, but the evidence from the RealFacts survey suggests that this is not happening. There has been no increase in demand for apartments, as would be the case if former home owners were turning into apartment renters. In fact, in MSAs that lead the nation in foreclosures, there has also been a decrease in demand for apartments. So where did these people go? One answer may be that they are renting houses rather than apartments, and are thus part of a shadow market that is not currently being measured. Another possible explanation is that the loss of their house was part of a larger financial collapse, and that they have become eligible for affordable housing, and have thus left the market-rate housing market. A closer look at the RealFacts survey indicates that while demand for rental apartments has slightly decreased over the past year, supply of rental housing has also slightly decreased. The database covers apartment units in complexes of 100 or more units, and in

the past two years, more than 100,000 units have been removed from the rental supply as the buildings were purchased by condo converters and moved into the For Sale market. (About the same number of units were planned to go condo but have not yet been sold.) In that same time period, only about 60,000 new units of rental housing have been built. That's a loss of about 40,000 rental units in 2006-2007, or a little more than 1% of the total. Development remains at a lower level than average, but there are plenty of developers who have the skill and the money to enter the market and are just waiting for the timing to be right.

Caroline S. Latham, is CEO of RealFacts, Inc.