<u>Inflation</u>

Apartment Brokers: Rental Markets Rev Up in Sept/Oct on Slipstream of Housing Bust

- *After Years of No New Construction, Supply is Tight; Significant Rent Hikes Taking Place*
- *Relocations Seen Soaring in 4Q – Suggests a Surge In Corporate Activity*
- *As Developers Jump on Apartment Bandwagon, Future Rent Increases Threatened*

By Gary Rosenberger

NEW YORK (EconoPlay) Oct. 13 – The rental market is on a strong recovery track, riding on the horns of the housing bust that created armies of ex-homeowners and left everyone else cool to the idea of ownership, apartment brokers say.

But it's not only foreclosed families moving across the street to a rental property who are driving the market. There's also been an unexpected surge of job relocations of late that suggests an economy that's on the move again.

It is an especially intriguing surge considering that the relocation season normally hits a peak in the middle of summer and ends before the start of the school year. But October relocations are said to be outpacing the best months of this summer.

There are also lifestyle issues favoring rentals despite record affordability and record low mortgage rates that, theoretically, should give a sheen to homebuying. (Why buy a house with a yard when you can rent a place for less and get a pool, a tennis court, and a gym?)

As renters gobble up apartments (supply was low in the first place because of a dearth of new construction), rents are rising fast. Increases of 3% to 8% are being spotted on renewals and are even higher for new tenants – unheard of just two years ago.

For new move-ins, landlord concessions (one or two months free rent, appliance upgrades) are virtually gone, with occupancy impossibly tight in some surprising areas, most notably Detroit!

However, rents on single-family properties are flat, still vulnerable to the glut of unsold or distressed homes with "for rent" signs on the lawn.

The only other threat is developers, many them small homebuilders with an eye to a revived rental market. It won't take a whole lot of new construction for bargaining power to quickly revert to tenants.

"Over the last few years, capital hasn't been readily available so we didn't have much development in multifamily housing. Consequently existing inventory is getting eaten up, which is what's raising rents," said Jeff Rowe, vice president of sales for Cort Destination Services in Cincinnati, Ohio, a national firm specializing in corporate relocations.

Who is eating up all that inventory? “We continue to explode with corporate transferees,” Rowe said. “Our business of handling corporate clients is up 60 percent this year.”

Just a couple of years ago 70% of his relocation clients were buying homes. “Today it’s completely flipped – 70 percent are renters,” he said. “A lot of these folks are stuck with a house on the front end, which makes it very difficult to buy at your new location.”

Those single-family homes being left behind unsold have engendered a glut of shadow inventory that allow for “extremely reasonable” rents, Rowe said.

Not so for multifamily housing, where some 70% of his clients gravitate. That part of the rental market “clearly is in tremendous shape,” he noted. “There we’re seeing strong rent increases and occupancy also is extremely strong.”

He just came off a strong third quarter for corporate transfers, but the expected fourth quarter slowdown never materialized. “The third quarter is the heavy season because school is out and you want to get your family settled in a new location before the next school year,” Rowe said. “But as we look at the fourth quarter, our business is looking extremely strong. It’s the strongest I can remember in recent history.”

Rowe sees relocation as a reliable indicator of corporate activity. “Transferring is not a cheap process. When a company is not performing, the last thing they will do is transfer people across the country,” he said. “But there’s an enormous amount of activity, and when we see volumes picking up, we view that as a good sign for the economy.”

October is “outperforming the better months of the third quarter,” Rowe continued. “This is not typical. We’re seeing a lot of traffic at a time when we typically don’t see it.”

‘Phenomenal’

The rental market “has been phenomenal for almost a year,” said Joy Anzalone, chief operating officer at Burton Carol Management in Cleveland with properties in Ohio, Michigan, and Florida.

“The home purchase dream didn’t go away for people who have the 20 percent down payment saved up, have a job, and can afford to buy a house,” she said.

For just about everyone, though, apartment living “is a better way to go,” she said.

Just how good is the rental market? “We are 100 percent occupied in Michigan and only 3.5 percent vacant in Northeast Ohio,” she said. “We are seven percent vacant in Florida. But that’s definitely a lot better than a year ago, when vacancy rates were in the low double digits.”

Detroit's super-tight rental market is "an absolute comeback story," Anzalone added. "It's a story that the national media has been slow to understand."

And with occupancy so tight, rents are rising. "A couple years ago there was no such thing as a rent increase," she said. "Now we get 3 to 4 percent increases on a renewal. And for new move-ins there are very few specials."

The goal now is to close the gap between below-market rents that long-time tenants enjoy and the market rates that new tenants pay. The trick is to do it in a "fair way so as to not get the long-time person to move," Anzalone said.

So why would people rent when home affordability is at an all-time high?

"There's still uncertainty about what's happening with the economy," Anzalone said. "When you buy a house you buy it for seven-plus years, and right now people don't know what's going to happen in 2012. That lends itself to renting."

That affordability index does not tell the whole story either. "When you add utilities, insurance, real estate taxes, and maintenance – suddenly you find that your house is not all that affordable," she said.

"Also, why buy when you can get great amenities for a reasonable rent that you can't really get with a house?" she continued. "Our properties come with swimming pools, tennis courts, exercise facilities, spas, and community centers. How much would it cost to have those things in your home?"

Too Scared to Buy

"It's been busy, and I think it's because people are scared to death of buying. They heard all the horror stories about homeownership," said Mark Verge, owner of WestsideRentals.com, an apartment locator service in West Los Angeles.

"It's so strange because money is so cheap. It's actually a great time to buy," he said.

"I just had a breakfast meeting where we discussed how it's our busiest October in seven years. The summer was also really busy," Verge said. "Supply is low right now because our listings are getting rented so quickly."

With such strong demand, Verge estimates rents to be up roughly 10% over last fall. "A hundred bucks more per month is common – with no negotiations and no landlord concessions," he said. "It's more of a landlord's market than it was. The balance has shifted."

The rental market in Southern California is benefiting from heavy in-migration. "A lot of dotcom companies are moving here. Santa Monica is now known as Silicon Beach," he said.

Other formerly depressed rental markets are also on a strong comeback track – in that same inverse relationship to a depressed home-sale market.

"Oh yeah, we got a rebound, definitely. Effective rents are increasing at a good clip," said Sean McKenzie, research associate for Dale Henson Associates, market advisors to the multifamily industry in Atlanta.

"A lot of homeowners are in foreclosure and have to move somewhere. And more people who relocate for a job are choosing to rent," he said. "There's an insecurity with buying right now."

But there is now some concern that developers that had previously built to sell are moving to build to rent. "There was almost a complete and total halt in new construction for a couple of years that led to a decrease in supply," McKenzie said. "Now they're starting to rev up the engine and talking about new product in 2012. So we're expecting rents to go down."

For now, rents in Atlanta are firmly on an upswing. Garden apartments in stable outlying markets are up from their 2009 lows – at $755 on average from the $741 bottom as occupancy rates rose 30 basis points to 89.7%.

And in the more volatile downtown areas the change is far more dramatic. Occupancy rates are up almost 300 basis points from the 2009 bottom to 94.2%, while effective rents galloped from $1,082 in 2009 today's $1,219.

Landlords are now relying on lease rent optimization (LRO) software programs, much like what airlines use to determine airfares, and the daily swings can be just as crazy. "One day, it tells them they can charge $925 and next day $955. It can be as big as that," McKenzie said.

Wall Street Sneezes

"When the sale market is down, rentals are up. So I would expect 2012 to be a healthy rental season," said Meg Salem, vice president at Saunders & Associates in Bridgehampton, Long Island.

It might just be a case of the Hamptons catching Wall Street's sniffle.

"In recent weeks, we've seen quite a few deals go to contract, with $2 million and below being the most active segment of the market," Salem said. "But I've definitely seen a pull back with many of my customers. There are still plenty of buyers looking with plans to purchase. But I think many of them are waiting for more stability before making a commitment."

Uncertainty in the New York City market might also be favoring rentals over outright purchases, according to Ralph Barocas, owner of RDNY.com (Rent Direct New York), the internet-based rental locator.

Barocas has inaugurated a new listing service (Acmelistings.com) that caters exclusively to brokers – and based on the hits from the site, he sees "a lot of sales brokers in need of rental inventory, which tells me that more people are interested in the rental market," he said.

In the bedroom community of Larchmont, some 25 miles from Wall Street, another broker sees rents largely unchanged.

"I would say prices are level with the previous year. Spring is the peak rental season so prices can be a little higher at that time," the broker said.

"Usually people want to be settled into their new home before the school year begins," she said. "But there are a fair number of rentals on the market now, in all price ranges."

Some sellers, who cannot sell their house, are listing their houses for rent instead. "If a house is in good condition, updated and clean, it will usually rent quickly," she said.

Even if there is a loss of confidence on Wall Street, "people still have to live somewhere," she said. "They seem to be renting rather than buying since it is less of a commitment. Landlords are negotiating down to get a good tenant in there."

The U.S. Labor Department is scheduled to release PPI data for September on Tuesday, Oct. 18 and CPI data on Wednesday, Oct. 19, both at 8:30 a.m. ET.

For real-time subscription information or newsroom, please contact: info@econoplay.com, 212-780-0532 or go to www.econoplay.com and click the free-trial icon.