Inflation

Apartment Brokers: Rents Continue to Rise, Riding on Wave of Jobs Recovery

- *Rents Up 2 to 20 Pct Over Yr Ago with Biggest Increases in Urban Areas*
- *In Renting vs. Buying Decision, No Big Move to Ownership Despite Affordability*
- *A 'Staggering' Turnaround in Relocation Market; Vacation Rentals Also on Mend*

By Gary Rosenberger

NEW YORK (EconoPlay) April 11 – Demand for apartments has switched into high gear as it moves from being a refuge for the foreclosure crowd to a lifestyle of choice for the newly employed in this ongoing jobs recovery, brokers and landlords say.

Rents are rising fast – especially in urban centers. But the most heated market of all appears to be the once-overlooked state of North Dakota, where there's no availability at any price because of oil "fever."

The increases cover a wide gamut – from 2% in blander bedroom communities to between 8% and 20% in those urban areas now in vogue. More importantly, the days of landlord concessions and discounts to tenants are long gone.

It's not clear how long the good times will last, considering the lion's share of new residential construction these days is multifamily. But with so little construction during the recession now entering the marketplace, the party is certain to linger for a while.

It's also a little odd that the rental market would be so heated when housing affordability is bouncing along at record highs. But renting is now considered hip and wise, less risky, and less painful than buying.

These rent increases are probably more price recovery than an inflationary bubble – with rents in most hot markets still below pre-recession highs.

Still, this piece of the housing recovery is really a story of a jobs recovery.

"It's a good time to be an owner or manager in the multifamily housing industry. All markets are faring well," said Jeff Rowe, vice president of sales at CORT Destination Services in Cincinnati, Ohio.

"The volume of transferees continues to grow at a staggering pace," he added. "Two years ago, the trick was to find transferees, now the trick is to find them a place to live."

It's the complete opposite of two years ago, when relocation activity came to a halt and "anyone who wanted a place got anything they wanted with concessions – a month, two months, three months' free rent," Rowe said.

"Today we tell our clients, we'll find you a place to live. But if you find something you like you better lock it in immediately and put down the deposit because that unit won't be available next time you come back," he said.

There's no more need for landlords to grant concessions, and if they're able squeeze more rent for their units it's because the burden is on transferees to find a place to live.

"People who looked a year ago were spoiled," Rowe said. "They signed a 12-month lease, and got the 13th month free. So when it comes time to re-sign, effective rents are up 20 percent because there are no concessions. It's completely flipped to the benefit of the owner."

Many of Rowe's transferees are connected to consulting services or oil and gas. "In North Dakota it's like a gold rush with the Bakken formation," he said. "We're sending our own employees there to drive around and find anything that's available."

"Rockin' the Bakken" has become a catchphrase on t-shirts and on Facebook. "People there drive for hours to get to work. Some companies are flying them in and out of Fargo because there is no place for them to live," he said.

Up from the Ashes

For a landlord, one advantage of operating in an economically depressed state is that people who can't afford a home still need to live in one, so they rent. So such places never really did fall off a cliff during the recession.

But such places are also now taking it to the next level with the improved job market, said Joy Anzalone, chief operating officer at Burton Carol Management in Cleveland with properties in Ohio, Michigan, and Florida.

"In Michigan, in my mind, the apartment business didn't fall off," she said. "In a depressed market, people still have to live somewhere. But apartment demand today in Michigan has improved and is as strong as ever. In the suburbs of Detroit, where we are, the dynamics for renting are great."

In Northeast Ohio (Akron and Cleveland) the market is strong as well, she said.

But her West Coast Florida properties are lagging those other markets. "They're better than they were a year ago, but still not what I call recovered," Anzalone said.

That market was inundated with condos that had gone bust, and that oversupply bled into the traditional rental market. “All the homes and condos that speculators bought are now rentals, which affects those of us that truly are in this business by design, not by default,” she said.

Rents in all three markets are stable to modestly higher – albeit not necessarily outpacing expenses. “We continue to put money back into our properties since we are in this for the long run,” she said.

“The fundamentals in the rental market are strong for the first time in a while,” she added. “But is three percent a good increase? I’ll leave it to you to answer that. But it’s better than offering concessions and rolling back rents to keep vacancies filled.”

The prospects for the rental market are also strong, in her view, because of an attitude change toward ownership. Renting is kind of hip again. Those who chose not to put a lifetime of equity into a house during the bubble days now appear wiser for it.

The Big Turnaround

“My sense is that the market turned last October-ish, and now demand is through the roof,” said Kevin Miller, president of Westside Rentals, with seven offices between Santa Barbara and San Diego.

The rental market got its first sugar rush from foreclosures. “People got booted out of their homes and had to live somewhere.” But the bigger driver today is an influx of young people into LA – for jobs.

If it’s not movie jobs, it’s coming from any number of Fortune 500 companies that are hiring again. “In the last six months we’ve seen a lot of hiring from Facebook and Google. Silicon Valley is moving south because LA’s talent pool is bigger,” Miller said.

And rents are rising, on the order of 10% from a year ago, as demand rises and supply diminishes. “There aren’t many places left to build in LA – and they’re not building as fast as people are moving in,” Miller said.

In-migrants are funneling to Brentwood, Santa Monica, and West Hollywood – where a one-bedroom apartment now goes for around $1,550, where a year ago it would have been around $1,400.

And he sees rents going even higher as LA (and other university cities like New York and Boston) enter the peak season in May, when hundreds of thousands of students swarm into these towns in search of lodgings.

Any real student of the LA economy can feel the recovery just by driving its freeways. “I live three miles from where I work. A year ago, I could zip here in 20 minutes. Now it takes me over an hour. The highways are like a parking lot again,” Miller said.

And job growth is happening within his own company. “We increased staff by 20 percent because there was need,” he said.

Yet he has no fear of a rental bubble. “There is no new construction in LA. They’re not putting up 300-unit high rises like they did in 2005. That’s why rents are going up,” he said.

A Price Correction

“Apartments are doing quite well compared to last year,” said Sean McKenzie, researcher for the Dale Henson Associates’ *Atlanta Apartment Market Tracker Report.*

For suburban properties, effective rents are up a modest 2.2%, but urban properties are up a whopping 8.2%, both over last year, he said.

Occupancy is up 50 basis points in urban areas and up 70 basis points in the more suburban properties, which would represent a normal recovery. “In Atlanta there’s been a dearth of new product because of the slowdown in construction,” he said.

At the same time, people who lost their homes or found new jobs are flooding into the apartment market. But these rent increases, while sometimes substantial, represent a correction to a formerly depressed market. “Rents are returning to normal levels from the dive they took during the recession,” McKenzie said.

There’s also a continuing reluctance by people to commit to a purchase, despite home prices being “ridiculously low” in Atlanta. “It’s easier to commit to a two-year rental than to a 30-year mortgage,” he said.

Jobs are returning to Atlanta, but too slowly for his taste. “It’s good growth, according to all the reports, but in my mind, it’s marginal,” he said.

Meanwhile, in lower Westchester, rental prices seem to be holding their own – with high demand for rentals because of the proximity to New York City. But pricing entirely depends on what you’re selling.

“Condition plays an important part in demand,” said a local broker. “Owner-occupied houses that come on the market for rent usually rent quickly and for top dollar.”

But houses that were rentals for many years "get harder and harder" to rent because they've become stale. "Tenants want the granite countertops, stainless-steel appliances, new bathroom – all they want is new," she said.

Another factor in pricing is timing. "March to June is the best time to list so people can get settled by the time school starts in September," the broker said.

"It does feel like the economy is on the upswing," she added. "There is demand for high-end rentals, $8,000 a month and up. There are also renters for the lower range, below $4,000 a month."

But there's resistance for anything in between. "At that level, if it's not a corporate rental, people start to calculate that it would make more sense to purchase rather than rent. With fixed rates at around 4 percent, you can buy a lot of house," she said.

It was also a mild winter, which "really helped boost every segment of the market."

If there is any soft spot right now, it comes from the scores of ex-pats working for European companies. Their jobs feel less secure, and many expect to be transferred back to Europe, she said.

NYC Rents 'Stable'

New York City rents are stable at best, said Ralph Barocas, owner of RDNY.com (Rent Direct New York), the internet-based rental locator, and acmelistings.com (a brokerage listing service).

"As far as pricing goes, it hasn't changed much on the apartments that rent out on a day to day basis," he said.

New York is kind of a funny market. It has hundreds of thousands of rent-stabilized apartments, where a committee decides on annual rent increases – and these units generally go to people who read the obituary pages.

As for the more costly market rentals, "they might inch up a little bit," he said. "But landlords are still not confident enough to raise prices. They just want to rent out to qualified tenants. They don't want to reach for more profitability and risk that the apartment stays vacant."

The New York City rental market is not back to where it was prior to 2008, and might never be. However, the hits he gets from the brokerage community, including some who would exclusively do sales, suggests to him that the rental market is coming back faster than the resale market.

Weather did have a positive impact. “When you get a blizzard, everyone hibernates. When the weather is nice, people go out and move around,” Barocas said. “We even see the impact of sunlight when the clock changes to daylight savings time. We do a lot of our work after 5 pm so that extra hour of sun makes a big difference to us.”

With hints of summer in the air since January, the vacation home rental market is also on an upswing, said Ann Floyd, owner of Sandcastle Realty in Martha’s Vineyard.

She had been looking at comparisons – not to last summer but to 2008, which was her best year ever – and this year is right up there (almost).

“We were up until February. Then in February and March, we dropped behind a little bit,” she said. “But we are definitely better than we were in 2009 and 2010. I don’t have percentages, but it’s better than 2010 and much, much better than 2009.”

Since booking patterns have changed since her record year (people are booking later), she still has hope that by June she could be ahead of 2008 again.

Vacation rental prices on the Vineyard have not budged since 2008 because owners of vacation rentals don’t want to risk vacancies. “Last year and in 2009, I saw a lot of discounting going on to fill those vacant weeks,” Floyd said. “Last year, I saw some discounting for June, but very little for July. So I’m advising my clients to wait before they reduce prices.”

The U.S. Labor Department is scheduled to release PPI data for March on Thursday and CPI on Friday, both at 8:30 a.m. ET.

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