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Landlords See a Jump in Vacancy

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NEW YORK, NY - The nation's apartment market deteriorated in the first quarter as rising unemployment dashed landlords' hopes that the housing downturn would create a soft landing by bringing former homeowners back as renters. The vacancy rate for the top 79 U.S. markets jumped to an average 7.2%, a full percentage point increase over the past two quarters and the highest level since the first quarter of 2004, according to statistics from Reis Inc., a New York real-estate-research firm.

The jump in vacancies came even as landlords reduced rents. Asking rents, which exclude concessions and are often the starting point for rent negotiations, fell 0.6%, the largest fall since Reis began its count in 1999. Effective rents, or the rents that landlords actually collect, fell 1.1% in the first quarter to $984.

"For landlords to actually lower both really shows how bad it is," said Victor Calanog, director of research for Reis. "They're willing to offer you lower rents before they even start negotiating and offering incentives." Reis is forecasting rent declines of as much as 2% for the year and a vacancy rate that tops out at about 8%, the highest level since the late 1980s.

Rising vacancies appear to be pushing more apartment owners into delinquency. Among commercial mortgage-backed securities, the multifamily sector posted the highest delinquency rate in February, reaching 3.3% from 3% in January, according to Standard & Poor's. Some $3.2 billion in multifamily debt was delinquent in February, up from about $1.5 billion in the third quarter of 2008. The delinquency rate on multifamily loans held or insured by Fannie Mae rose 88% in the fourth quarter to 0.3%.

Apartment vacancies have edged up gradually since the third quarter of 2006, first as failed condo projects converted to rental units and a supply of foreclosed homes in some housing markets competed for renters. The national apartment vacancy rate rose to an average 6.6% in 2008 from 5.8% in 2006. But a deteriorating job market has accelerated the apartment sector's losses.

Rents fell sharpest in markets that saw heavy job losses in the financial-services sector, posting declines of more than 2% in New York, Long Island, N.Y., San Francisco and San Jose, Calif.

But the brunt of the pain "is still concentrated on those markets that had a serious housing problem to begin with," said Hessam Nadji, a managing director at commercial real-estate brokerage Marcus & Millichap. Rents fell at least 1.5% across all Southern California markets, and 1.3% in Fort Lauderdale, Fla. Most Southern and Midwestern markets also fared poorly.

Still, there were some signs of stabilizing in two markets that were among the first to enter the downturn.

Rents increased in Miami and St. Petersburg, Fla., by 0.7% and 0.4%, respectively.

Markets that experienced the greatest increases in vacancy rates last quarter included Austin, Texas, to 9.2% from 7.5%; Fairfield County, Conn., to 6% from 4.3%; and Knoxville, Tenn., to 7% from 5.3%. New York jumped to 3.4% from 2.3% but still has the nation's lowest vacancy rate.

Source: WSJ.com

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