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Housing Woes Fuel Apartment Surge

By **DAWN WOTAPKA**

Falling home prices and lethargic sales have been bad news for homeowners, but a boost for one group of real-estate investors: apartment-building landlords.

With millions of families switching from being homeowners to renters, apartment-building values have soared. Investor demand is so intense, prices of some properties are approaching values last seen in mid-2007.

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Stephen Voss for The Wall Street Journal

Cameron Hardesty met a frenzied rental market in Washington, D.C.

That isn't good for renters, who enjoyed falling rents, landlord concessions and even offers of incentives such as flat-screen televisions to sign leases after the recession hit the housing market. Now rents are rising and vacancies are falling in many markets, making it harder to find a place.

Lindsey Neiling, a 23-year-old Chicago resident, is facing a rent increase to \$765 from \$720 on her studio apartment when her lease is up in April. "They know they can get more for my unit," she said.

Benefits from rising apartment-building values are rippling beyond their owners. It's a boon for banks and other lenders holding billions of dollars of debt on apartment buildings and other commercial real estate that had been under financial stress.

Values of apartment buildings rose 16% in 2010, according to brokerage firm Marcus & Millichap, after falling 27% between 2006 and 2009. Values of apartment buildings owned by real-estate investment trusts are now within 10% of their 2007 peak, according to Green Street Advisors, a research firm that follows REITs.

Resurgent apartment values were first seen in late 2009 in markets such as New York City and Washington, D.C., where the economy has held up better and recoveries have been quicker. But the price surge has now spread to other markets including Los Angeles, Seattle, Boston, Baltimore and Austin, Texas.

Some say things are even hot in Las Vegas, a hard-hit market with plenty of foreclosed homes available for rent. Last month, the Croix Townhomes complex in the city's Henderson suburb sold for nearly \$20 million, or \$143,000 per unit, well above the national average.

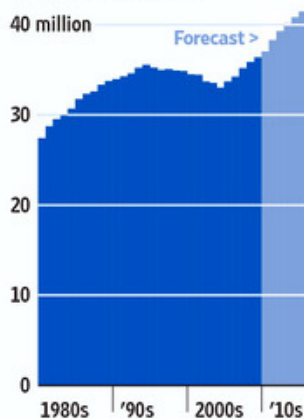
Investors in some markets have begun to quickly resell or "flip" properties, a practice not seen since the boom years. Last month, TIAA-CREF paid \$62 million for the 261-unit Newbury Commons in Stamford, Conn. The purchase price was 65% above what Seaboard Properties paid in February 2009, according to Real Capital Analytics.

Apartment-building values are being propelled partly by low interest rates that have made borrowing less expensive and competing investments like the bond market less attractive. Values of office buildings, stores, warehouses and other types of commercial real estate are also rising in some markets for the same reason.

But the apartment market is the healthiest, partly because financing is cheaper. Mortgage giants Fannie Mae and Freddie Mac buy apartment-building loans originated by others as part of their mission to support the housing market, but they don't buy loans for other commercial property.

New Lease

Estimated number of renter-occupied households



Source: U.S. Census Bureau; Green Street Advisors (forecast)

Apartment values also are getting boosted by powerful supply-and-demand forces. Renter households now top a record 37 million after increasing more than 3.5 million in the past five years, partly due to the foreclosure crisis. Green Street Advisors expects an additional 4.4 million rental households to be added by 2015.

Statistics released this past week show that the slump in housing sales is far from over. The Case-Shiller Home Price Index released Tuesday posted a 0.5% drop in November on a seasonally adjusted basis. The Commerce Department on Wednesday announced that only 321,000 homes were sold in all of 2010, the lowest tally in records dating back to 1963.

The nation's home-ownership rate is also falling, to 67% of U.S. households in 2010, after topping 69% in 2004, according to the Census Bureau, with further declines expected. Each 1% decline represents one million households moving to rentals, housing experts say.

Job growth may also be boosting demand for apartments, particularly among 25-to-34-year-olds, a group known as big renters.

The group has garnered the lion's share of new jobs, emboldening people who had been sharing units or living with parents to get their own apartments, Green Street said.

Meantime, new supply of apartment buildings is at its lowest level in two decades because the financing spigot turned off when the recession hit.

Apartment completions will total 53,000 this year, half of what was delivered in 2010, according to Marcus & Millichap, and down from 120,000 in the peak year of 2009.

Cameron Hardesty, a 25-year-old public-relations account executive, said that when she relocated to Washington, D.C., from her parents' home in Dallas, she encountered a frenzied apartment-rental market.

"It was like, if you didn't follow up on an ad on Craigslist within a half hour you were out of luck," she said.

To be sure, not all apartment markets are booming. Houston, Jacksonville, Fla., and Memphis, Tenn., had fourth-quarter vacancy rates topping 10%.

But in other markets, some see a risk of overheating. Since low interest rates are partly propelling the rise in value, rate increases could take some steam out of the market. And landlords won't be able to keep raising rents at current rates if job growth doesn't pick up.

For now, however, market forces are expected to keep pushing rents higher. Green Street expects every major metro market to see rent growth between 3% and 10% this year, with the biggest gains in San Jose, Calif., San Francisco and New York City.