U.S. apartment vacancies near historic high: report

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By Ilaina Jonas

NEW YORK (Reuters) - The vacancy rate for U.S. apartments reached its highest level in more than 20 years in the second quarter and could soon exceed record highs if the recession persists, real estate research firm Reis Inc said.

The national vacancy rate rose to 7.5 percent, the highest since 1987 and an increase of 1.4 percentage points from last year, according to a report Reis released on Wednesday. The record high was 7.8 percent in 1986.

"We are reaching that historic high very quickly," said Victor Calanog, Reis director of research.

The second-quarter vacancy rate was 0.20 percentage point higher than the prior quarter and up from the cyclical low 5.5 percent reached in 2006, Reis said.

The U.S. recession has taken a toll on the U.S. apartment market, which largely relies on employment growth to fuel demand. Its largest tenant group, 18- to 24-year-olds, has been hardest hit by rising unemployment. Meanwhile, the apartment buildings sector has led all commercial real estate categories

on loan defaults.

Second-quarter asking rent fell 0.7 percent from a year earlier to $1,040 a month, and 0.6 percent from the prior quarter, the largest single quarterly decline since Reis began tracking quarterly data in 1999.

When free months of rent and other incentives landlords are using to lure tenants are factored in, effective rent was down 1.9 percent from the prior year and 0.9 percent from the first quarter to $975, Reis said.

"If you're a landlord right now at least you're recognizing that things are tough," Calanog said.

To maintain occupancy, many landlords, including Equity Residential, Apartment Investment and Management Co, AvalonBay Communities Inc and Mid-America Apartment Communities Inc, have sacrificed rental income and boosted concessions.

For example, in New York, the largest U.S. apartment market, vacancies fell 0.5 percentage points to 2.9 percent, despite a 1.7 percent decrease in rent to $2,679 compared with just the prior quarter and a 4 percent fall compared with last year.

"It's very clear there's some leasing going on, but it's coming at the cost of a whole lot of concessions offered," he said.

In other areas, such as Las Vegas, San Francisco and San Jose, California, effective rents dropped more than 2 percent from the prior quarter.

Nationally, the picture may grow worse as the year progresses as Reis expects more than 100,000 units from new construction to come onto the market by the end of the year. Some 47,000 units have already come on line this year.

"With general expectations of an economic recovery pushed back to early 2010 at the earliest, it seems likely that apartments will have to endure a few more quarters of distress, lower rents and higher vacancies," Calanog said.

http://www.reuters.com/article/GCA-Economy/idUSTRE5670KD20090708