Apartment Glut Expands

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Vacancy Rate Rises to 7.8% as Unemployment Dents Demand; Monthly Rents Slip

By NICK TIMIRAOS

Apartment vacancies hit their highest point since 1986, surging in cities from Raleigh, N.C., to Tacoma, Wash., as rising unemployment continued to chip away at demand during the traditionally strong summer rental months.

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Signs advertise apartments for rent in San Francisco in July. Rents declined during the third quarter, usually a strong period for rentals.

The U.S. vacancy rate reached 7.8%, a 23-year high, according to Reis Inc., a New York real-estate research firm that tracks vacancies and rents in the top 79 U.S. markets. The rate is expected to climb further in the fall and winter, when rental demand is weaker, pushing vacancies to the highest levels since Reis began its count in 1980.

Meanwhile, the air leaving the market is driving rents down, most sharply in markets that had been chugging along until a year ago, when unemployment accelerated, including Tacoma; San Jose, Calif.; and Orange County, Calif.

In New York, Jennifer Hyman rented a one-bedroom apartment in July at a monthly rate of $1,950 -- down from $2,450 for the previous tenant -- when she returned to the city after graduating from Harvard Business School. Her first month's rent was free -- and her landlord painted the apartment, scrubbed the floors and added window coverings.

"The experience was night-and-day different from before," said Ms. Hyman, who had rented other Manhattan apartments between 2002 and 2007, each time paying a brokers' fee and feeling pressured to sign a lease the minute she found an apartment. Now, she says, "Renters are the ones with the power."

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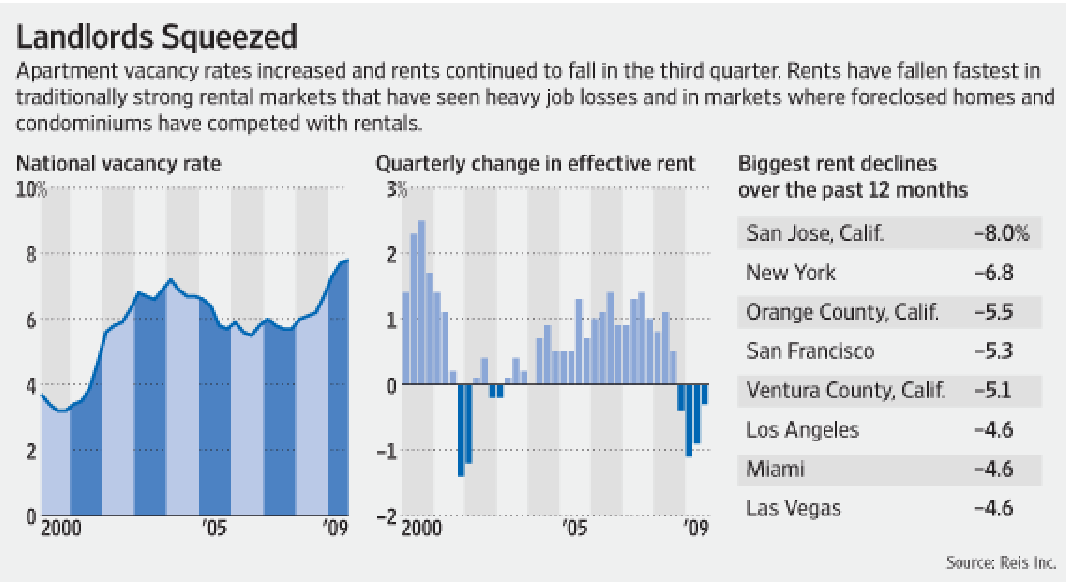
Driving the change is the troubled employment market, which is closely tied to rentals. With unemployment at 9.8% -- a 26-year high -- more would-be renters are doubling up or moving in with family and friends during periods of job loss. Landlords have been particularly battered because unemployment has been higher among workers under 35 years old, who are more likely to rent. Nationally, effective rents have fallen by 2.7% over the past year, to around $972.

"When job losses stop, rents will firm and occupancies will firm," said Richard Campo, chief executive of Camden Property Trust, a Houston-based real-estate company.

The second and third quarters typically are the strongest periods for rental landlords because they are popular times for people to move. But this year, "vacancies just continued rising," said Victor Calanog, director of research for Reis.

During the third quarter, vacancies increased in 42 markets, improved in 26 markets and remained unchanged in 11 markets. Omaha, Neb., saw the largest rise in vacancies, with the rate rising 1.1 percentage points to 7.4%. Other big rises were seen in Memphis, Tenn., Indianapolis, Raleigh and Tacoma.



The deteriorating rental market comes amid some signs of stabilization in the housing sales market. An $8,000 tax credit for first-time home buyers and investor demand helped to boost sales of low- and moderately priced homes this summer. But some analysts warn demand could fall with the expiration of the tax credit and supply could increase with more foreclosed homes hitting the market.

While a housing recovery could lead the best quality renters to move out and purchase homes, the move-out rate isn't expected to surpass levels seen during the housing boom earlier this decade. Mortgage credit standards have tightened considerably since then, which should keep more renters in place.

Apartment owners ultimately could gain from the housing bust because the U.S. home-ownership rate has fallen as foreclosures rise. But the housing bust has also flooded some of the most overbuilt housing markets with new apartment inventory as developers have converted unsold condominium developments into rentals.

Reis projects that the vacancy rate will peak at well above 8% in mid-2010.

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