Apartment First Glance 2010 Quarter 3

Pre-Release Analysis of Third Quarter 2010 Reis Findings in the Apartment Sector

Victor Calanog PhD
Director of Research

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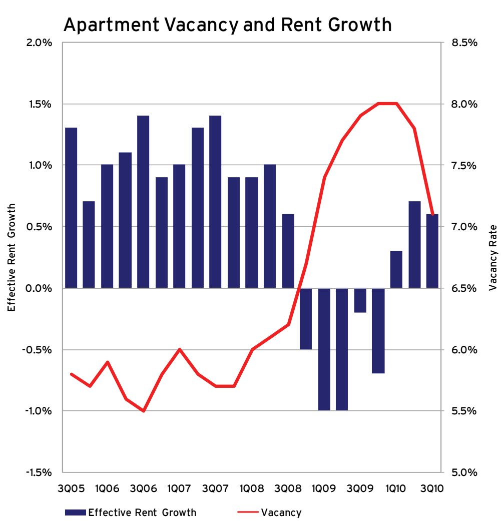
A Strong Showing for the Third Quarter

Third quarter data shows that recovery in the apartment rental sector appears to be firmly rooted. National vacancies fell by 70 basis points, from 7.8 to 7.1 percent, as net absorption surged by close to 94,000 units. Expressed in terms of historical quarterly data, this is one of the sharpest drops in vacancy on record. The only other comparable period was in the third quarter of 2005, when vacancies fell by 60 basis points, but that was partly driven by tens of thousands of apartment rental units being leeched away from inventory, to be converted for sale into condominiums.

Net absorption figures of about 94,000 units is the largest quarterly addition to occupied stock on record since Reis began publishing quarterly data in 1999. Approximately 90% of this addition to occupied stock came from existing buildings leasing up empty units. Year to date absorption for the first three quarters of 2010 sum to over 167,000 units. This stands in stark contrast with the first three quarters of 2009, when close to 21,000 units were vacated by wary renters reeling from a recession in full swing.



Asking and effective rents grew at about the same pace relative to the second quarter, rising by 0.5% and 0.6% respectively. Like the second quarter, the faster pace of effective rent increases versus asking rents imply that concession packages are no longer increasing and may in fact be tightening.

What is Driving These Results, if Job Growth isn't Strong?

Given lackluster economic growth and negative job growth over the last few months, what is driving the strength of the apartment sector's recovery? First, the second and third quarters typically are stronger periods, as most households make decisions to move and lease new apartments during this time. However, note that these seasonal patterns have not been operative since 2008, when the so-called Great Recession compelled households to suspend decisions to move and lease new space given the tumultuous financial and labor markets. Despite lackluster economic growth and continuing uncertainty in the labor markets, households appear to be returning in droves to the rental market and signing leases. This reflects some optimism about an improving job market: it may take individuals anywhere from six to nine months to find a job, but that is far better than the situation in early to mid-2009, when the nation was shedding hundreds of thousands of jobs a month.

In other words, pent-up demand from renters tired of living with their families or roommates may be driving these results. Another factor seems to be flat or declining trends in house prices and mortgage rates: there is an incentive to sign twelve-month leases for an apartment rental, versus committing to a home and a 30-year mortgage, particularly if home prices and mortgage rates are expected to stay low. Since the job market is also wobbly, potential buyers may prefer to rent units for now until they are secure in their new or existing jobs.

All this means that the nascent recovery of the apartment sector is predicated on an expectation that labor markets will strengthen; if the rate of job creation remains disappointing throughout 2011, it is likely that strong numbers from apartment rentals may moderate.

Not every data point for the third quarter was positive. Newly completed properties came online more than half-empty: close to 22,000 units of new apartment buildings opened their doors in the third quarter at an average vacancy rate of 60%.

Still, we now have three quarters' worth of data showing that the apartment sector bottomed in the fourth quarter of 2009, with a strong recovery underway. This is consistent with our prediction, issued in the fourth quarter of 2008, that rental apartments will recover first (versus office, retail and other commercial sectors), as the economy and labor markets emerge from the recession.

The occupancy rate rose in 79 out of Reis's primary 82 markets. Effective rents increased in 72 out of 82 markets, reflecting a rapid pullback in concessions offered by landlords.

Third Quarter 2010 Market Performance
Improving Fundamentals / Flat or Declining Fundamentals

	Absorption	Occupancy	Effective Rent
Q3 2010	81 + / 1	79 ↑ / 3	72 ↑ / 10
Q2 2010	72 + / 10	68 ↑ / 14	69 ↑ / 13
Q1 2010	62 + / 20	53 ↑ / 29	65 ↑ / 17
Q4 2009	51 + / 31	27 ↑ / 55	21 ↑ / 61
Q3 2009	55 + / 27	36 ↑ / 46	41 ↑ / 41

Figures are based on 82 metro markets.

Market Highlights

New York City's third quarter results exemplify the uneven nature of recovery, with rents posting accelerating gains (+2.1% in 2010Q3 versus +1.2% in 2010Q2) but vacancies rising from 3.1 to 3.6%. New York remains one of the tightest markets in the country (New Haven is the tightest market at a vacancy level of only 2.3%, but this is largely driven by a surge in student population returning for the Fall semester). Year-over-year asking rents (2009Q3 to 2010Q3) increased by 2.6%, indicating that rent deterioration has been reversed (especially compared to the record 5.2% decline in calendar year 2009). 72 out of 82 metros posted gains in effective rents.

Still, not all boats are being lifted by the rising tide. Ten metros still exhibited falling effective rents, besieged by softness in local markets, disappointing economic growth and/or a recent history of overbuilding. Included in this short list are familiar MSAs in Florida (Fort Lauderdale, Miami, Jacksonville), Las Vegas and Detroit.

Apartment Market Trends for 2010Q3

Apartment Market	Curr Qtr Vacancy Rate	Curr Qtr Vac Point Change Q2 to Q3	Prev Qtr Vac Point Change Q1 to Q2	Prev Year Vac Point Change 09Q3 to 10Q3	Curr Qtr Rent	Curr Qtr Rent Change Q2 to Q3	Prev Qtr Rent Change Q1 to Q2	Prev Year Rent Change 09Q3 to 10Q3
Albuquerque	5.6%	-70	-10	-140	$716	0.9%	0.6%	1.1%
Atlanta	10.5%	-80	-20	-80	$845	0.4%	-0.5%	-0.4%
Austin	8.2%	-140	-50	-270	$881	0.6%	0.0%	1.6%
Baltimore	5.3%	-100	-10	-100	$994	1.5%	-0.4%	0.9%
Buffalo	5.0%	-70	70	-60	$733	0.7%	-0.3%	1.3%
Birmingham	8.8%	-80	-80	-110	$711	0.2%	0.2%	0.1%
Boston	5.4%	-80	-30	-90	$1,730	0.7%	1.3%	1.1%
Chattanooga	5.5%	-20	-40	-180	$627	0.5%	0.6%	1.3%
Chicago	5.9%	-70	-10	-70	$1,063	0.4%	0.4%	0.5%
Cincinnati	6.9%	-80	-50	-80	$714	0.9%	0.6%	0.8%
Central New Jersey	4.1%	0	0	30	$1,156	0.7%	0.2%	0.8%
Cleveland	6.1%	-60	-30	-70	$730	-0.3%	0.6%	-0.2%
Columbia	9.6%	-160	-80	-340	$723	1.2%	0.5%	2.5%
Charleston	9.1%	-150	-100	-300	$765	0.2%	1.0%	1.4%
Columbus	8.9%	-80	20	40	$685	-0.1%	0.5%	0.4%
Charlotte	8.9%	-160	-10	-170	$797	0.3%	-0.2%	0.6%
Colorado Springs	6.2%	-100	-50	-180	$710	0.2%	0.2%	1.0%
Dallas	9.1%	-90	-40	-50	$821	0.1%	0.7%	0.3%
District of Columbia	5.7%	-70	30	-20	$1,420	0.1%	0.1%	1.5%
Denver	7.2%	-90	-30	-210	$897	1.4%	0.6%	2.4%
Dayton	7.8%	-130	50	-40	$628	0.3%	-0.8%	0.5%
Detroit	7.1%	-80	-20	-70	$821	-0.3%	0.2%	-1.2%
Fairfield County	5.2%	30	-40	-10	$1,766	1.1%	0.0%	0.0%
Fort Lauderdale	6.8%	-80	-90	-150	$1,103	-0.3%	-0.1%	0.6%
Fort Worth	9.5%	-120	-40	-180	$719	0.7%	0.4%	0.7%
Greenville	8.4%	-140	-110	-300	$644	1.7%	1.2%	2.6%
Greensboro/Winston-Salem	11.0%	-100	-80	-170	$657	0.2%	0.1%	-0.2%
Houston	11.5%	-90	-50	-40	$782	-0.2%	1.1%	1.6%
Hartford	5.0%	-70	0	-80	$976	0.6%	0.2%	1.4%
Indianapolis	8.3%	-130	-50	-100	$678	0.5%	0.7%	1.4%
Jacksonville	12.1%	-110	-60	-160	$795	-0.5%	-0.5%	-1.1%
Kansas City	8.7%	-70	-90	10	$707	0.4%	0.5%	0.9%
Knoxville	6.7%	-110	20	-60	$588	-0.3%	0.1%	-0.3%
Los Angeles	4.9%	-60	0	-50	$1,392	0.0%	-0.2%	-1.4%
Long Island	3.9%	10	0	10	$1,553	0.7%	1.9%	1.7%
Louisville	5.8%	-90	-50	-120	$652	1.1%	0.1%	0.6%
Little Rock	7.8%	-50	-30	-50	$656	0.6%	0.9%	2.2%
Las Vegas	9.9%	-120	-70	-50	$817	-0.4%	-0.4%	-3.6%
Lexington	8.0%	-100	-50	-120	$651	0.8%	0.3%	1.8%
Memphis	12.0%	-100	-20	-90	$676	0.6%	0.0%	-0.1%
Miami	5.9%	-30	-10	-30	$1,072	-0.4%	-0.1%	-0.2%
Minneapolis	4.3%	-80	-20	-80	$954	0.4%	-0.1%	0.4%
Milwaukee	4.8%	-20	-20	-20	$833	0.6%	0.0%	1.2%
Nashville	7.5%	-130	-70	-180	$751	0.4%	0.7%	0.7%
Norfolk/Hampton Roads	5.7%	-60	20	0	$871	0.9%	-0.1%	1.1%
Northern New Jersey	4.9%	-30	-10	-10	$1,500	0.6%	0.6%	-0.1%
New Haven	2.3%	-60	-50	-40	$1,107	0.6%	1.0%	1.7%
New Orleans	9.5%	-60	-40	-90	$856	0.4%	0.6%	0.6%
New York	3.6%	50	30	70	$2,842	2.1%	1.2%	2.6%
Oakland-East Bay	4.9%	-60	0	-90	$1,339	0.4%	0.4%	-0.9%
Orange County	5.9%	-50	0	-50	$1,511	0.3%	0.0%	-0.1%
Oklahoma City	9.3%	-90	10	-30	$552	1.1%	0.2%	1.2%
Omaha	4.9%	-100	-30	-250	$694	0.1%	0.3%	0.0%
Orlando	9.8%	-120	-50	-90	$866	0.3%	-0.6%	-1.2%
Philadelphia	5.7%	-60	0	-70	$1,035	0.9%	0.7%	1.0%
Palm Beach	8.1%	-50	-20	-30	$1,114	0.3%	0.6%	1.0%
Pittsburgh	5.0%	-60	0	-50	$837	0.6%	-0.3%	0.3%
Portland	4.8%	-90	-70	-210	$830	0.7%	1.2%	0.3%
Providence	6.4%	-110	-40	-280	$1,211	0.4%	-0.1%	0.0%
Phoenix	10.3%	-120	-60	-190	$749	-0.1%	0.2%	-1.7%
Raleigh-Durham	7.1%	-90	-20	-150	$812	1.1%	0.5%	0.9%
Richmond	7.7%	-80	-20	-50	$790	-0.5%	0.9%	0.0%
Rochester	4.6%	-10	-30	20	$769	0.9%	0.9%	2.2%
San Antonio	9.2%	-100	-50	-120	$716	1.0%	0.7%	2.0%
San Bernardino/Riverside	7.1%	-70	-20	-130	$1,031	-0.1%	0.3%	-0.9%
Salt Lake City	6.5%	-40	-10	-50	$746	-0.1%	-0.4%	-1.3%
San Diego	4.5%	-40	10	-50	$1,332	0.1%	0.7%	0.1%
Seattle	6.2%	-70	-40	-110	$1,029	0.6%	1.1%	-0.7%
San Francisco	4.8%	-20	0	10	$1,838	1.0%	0.5%	0.9%
San Jose	3.9%	-30	-50	-110	$1,516	1.1%	1.6%	2.0%
St. Louis	8.0%	-80	-20	-100	$729	0.4%	0.4%	0.1%
Suburban Maryland	5.4%	-120	30	-150	$1,297	1.1%	0.9%	1.7%
Sacramento	6.6%	-50	0	-60	$914	0.4%	-0.3%	-0.4%
Suburban Virginia	5.3%	-60	20	-50	$1,477	1.9%	1.1%	3.6%
Syracuse	4.6%	-120	140	80	$691	0.3%	0.6%	1.0%
Tampa-St. Petersburg	8.6%	-120	-30	-140	$832	0.3%	0.0%	0.9%
Tucson	9.1%	-100	10	-160	$651	0.3%	0.1%	0.3%
Tacoma	6.8%	-100	-10	-40	$761	1.2%	1.0%	1.0%
Tulsa	8.9%	-90	40	-10	$576	-0.7%	0.0%	-0.9%
Ventura County	4.9%	-40	0	-60	$1,404	0.2%	0.4%	-0.1%
Wichita	7.6%	-20	-40	-10	$515	0.4%	-1.0%	-0.5%
Westchester	4.5%	0	-30	-30	$1,844	0.4%	-0.4%	-0.9%
US	7.1%	-70	-20	-80	$1,037	0.5%	0.5%	0.0%