U.S. apartment vacancy rate hits 30-year high

By Ilaina Jonas

NEW YORK, Jan 7 (Reuters) - The U.S. apartment vacancy rate rose to an almost 30-year high of 8 percent in the fourth quarter, and rents dropped in the biggest one-year slump in 2009, according to real estate research company Reis Inc.

The report reflects the job market, which so far has stubbornly refused to follow positive economic indicators such as the stock market rebound and improved manufacturing demand.

Even large apartment landlords such as Equity Residential (EQR.N), AvalonBay Communities Inc (AVB.N), Essex Property Trust Inc (ESS.N), UDR Inc (UDR.N) and Post Properties Inc (PPS.N) have reduced rents and offered perks to retain and attract tenants.

Yet, the apartment market may still turn around this year if those out of work become confident enough about a job market recovery to move into a rental, Victor Calanog, Reis' director of research, said on Thursday.

In addition, the supply of newly built apartments is winding down as the last projects funded before credit dried up start to open for business.

"If we wanted to be hopeful about the situation, we might see a recovery by the middle of this year," Calanog said. "If we don't see any movement like that by the middle of the year, then it's going to be a bad year again."

In the fourth quarter, the U.S. apartment vacancy rate rose 0.10 percentage points from the prior quarter, and 1.3 percentage points for the year. At 8 percent, it was the highest national vacancy rate Reis has recorded in its 30 years of tracking the sector.

Of the 79 U.S. markets that Reis follows, Tucson, Arizona experienced the biggest vacancy rise, up 3.1 percentage points in 2009 to 10.5 percent. Meanwhile, vacancies in the small market of Chattanooga, Tennessee fell 2.2 percentage to 6.4 percent.

Jacksonville, Florida ended the year with the highest vacancy rate at 14.4 percent.

In New York City, the largest U.S. apartment market, vacancies fell 0.10 percentage points to 2.9 percent. However, factoring in months of free rent and other perks, effective rent fell 0.7 percent to $2,646 per square foot.

Higher priced rental properties in Manhattan drove the vacancy decline, while apartment buildings in more middle-class boroughs such as the Bronx, Brooklyn and Queens haven't been able to dodge the bullet.

On average, close to 60 percent of all rental buildings across the New York metropolitan area lowered their rents from the third quarter.

Year-over-year, effective rents in New York fell by 5.6 percent, making 2009 the worst year for landlords by this measure. This was even worse than the 3.8 decline in 2002, when New York reeled from the after-effects of the Sept. 11, 2001 attacks.

Nationally, 28,000 newly constructed apartments came onto the market in the fourth quarter, mostly by developers who had obtained financing before the credit crisis worsened.

"Newly completed properties represent intensifying competition for existing buildings given the difficulty of attracting new tenants and retaining existing ones, and it is reflected in the massive decline in asking rents," Calanog said.

In the fourth quarter, U.S. asking rents fell by an average of 0.7 percent to $1,026 per square foot, the largest single-quarter decline since 1999. For 2009 asking rents fell 2.3 percent, also the largest decline in 30 years.

Effective rent fell 0.7 percent in the quarter to $964 per square foot. The 3 percent drop for the year was more than three times the deterioration in 2002.

"Never before have we observed rental properties in so much distress, both on the space and pricing side," Calanog said. "Declines in asking and effective rents may be massive, but landlords may at least be retaining tenants as opposed to losing income altogether from dealing with vacant space."

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