

Improving Fundamentals Indicate Positive Future for Apartment Property Investment

Improving fundamentals and demographic trends have bolstered investor interest in multifamily properties, dramatically increasing transaction activity over the past year. In the third quarter of 2010, the national apartment vacancy rate dropped to 7.1 percent from 7.8 percent the previous quarter, with a net absorption of 94,000 units, according to Reis. Meanwhile, asking rents jumped 0.5 percent, and effective rents edged up 0.6 percent. New units added to the market totaled close to 22,000, and industry experts predict a total of 99,000 new apartments will be added to the market for all of 2010. Compression in apartment capitalization rates and additional financing offered to the apartment sector have sparked new development.

As for demographics, experts say echo boomers -- born between 1982 and 1995 -- will fuel rental demand in the coming years, with the number of potential renters in this cohort totaling 70 million. Many echo boomers have been forced to live with parents or friends in recent years due to high unemployment rates, pushing down household formation in 2008 and 2009 to about 500,000 annually, but economic recovery will prompt echo boomers to return to the rental market.

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