Apartment rents rise as homeownership sinks

By Jamie Smith Hopkins, The Baltimore Sun

Jan. 04--Apartment complexes in the Baltimore region are raising rents as a muted economic recovery and a foreclosure crisis have discouraged homeownership -- and added to the ranks of renters.

Rental costs rose more than 6 percent to about $1,120 in the Baltimore metro area last year, according to preliminary numbers from MPF Research, a Texas-based company that tracks the industry. Those effective rents, or the monthly tab minus waived application fees and other concessions, rose even more in the upscale part of the market, Alexandria, Va.-based real estate research firm Delta Associates found.

The gains are a turnaround from 2009, when the economy hit bottom and rents were on the decline locally and nationally. The 7 percent increase in rents for top-notch apartments categorized as "Class A" was the largest jump in a decade and adds more than $90 per month to push the average rent to $1,440, according to Delta Associates.

Improved job growth has allowed more people to strike out on their own as renters. At the same time, the tentative feeling of the economic recovery has helped keep apartment turnover low, industry experts say. More importantly, apartment owners say, local home sales have fallen far below levels seen even a decade ago -- when the population was lower.

"Some of the glamour of buying, of homeownership ... has been diluted," said John Cohan, director of marketing for Southern Management Corp., which owns and manages apartments throughout the Baltimore- Washington area.

After several years of declining home values, buying doesn't strike renters as the financial boon it appeared to be when prices were rising fast in the mid-2000s, Cohan said. More restrictive lending standards and high numbers of foreclosures are also working in landlords' favor.

How much of that shift is permanent remains to be seen.

"There's still a pretty strong sense that people prefer owning, all else equal, but right now all else is not equal," said Chris Herbert, director of research at Harvard University's Joint Center for Housing Studies.

After ratcheting up to 75 percent at the beginning of 2006, the homeownership rate in the Baltimore metro area has plummeted, according to Census Bureau estimates. It fell below 66 percent in the spring and summer of last year, the most recent figures. That's a much larger drop than in the nation as a whole, though the margin of error could diminish that gap.

On top of economic turmoil, apartment complexes have demographics helping them out, Herbert added. Baby boomers' children -- the so-called "echo boom" -- are hitting their prime renting years.

The newfound strength in the apartment market has hit home for Shireen Gonzaga, who rents in Baltimore County's Rodgers Forge neighborhood. Her rent just jumped $125 a month. A year ago, she was able to negotiate down a large increase by showing her apartment managers that the change would be out of sync with the local market. This time, no luck: The trends were no longer going her way.

"They wouldn't budge," said Gonzaga, 46, a data analyst. "So my rent's up from $1,125 to $1,250."

Apartment rents nationwide also rebounded in 2010, though not as strongly as in the Baltimore area. MPF Research said U.S. effective rents rose an average of 2.5 percent last year, following a decline in 2009 that was worse than the local drop.

"Baltimore really dodged the freefall that we saw in rents, pushing 10 to 15 percent in places like New York, San Jose, San Francisco," said Hessam Nadji, managing director of research and advisory services for Marcus & Millichap, a provider of multifamily real estate investment services.

MPF Research, part of multifamily-industry services provider RealPage, projects that the Baltimore region will be the 10th best U.S. market for apartment owners in 2011. An above-average job market and constrained supply -- low numbers of new apartments under construction -- are giving the metro area a boost.

"It was one of the top performers over the past year and will continue to be in the coming year," said Greg Willett, vice president of research at MPF, which measures apartment vacancies in the region at just under 5 percent, compared with almost 6 percent at the end of 2009.

"Rent growth is quite strong," said Grant Montgomery of Delta Associates.

Almost half the local increase in effective rents comes from apartment owners' pulling back on concessions, according to Delta Associates. Those deals, from waived fees for parking to a month's free rent, have waned dramatically in the past year.

Cohan, with Southern Management, said some competitors were offering as much as three to four months of free rent to get people in the door in 2008 and 2009. Not anymore. Southern Management, for its part, says it never offered concessions, which explains why its effective rent rose more modestly in the past year -- just over 2 percent in the Baltimore region.

Its vacancy rate, meanwhile, is a low 1.6 percent. Even its high-end Palisades of Towson, an apartment tower that opened last August with rents ranging from $1,200 a month for studios to $2,390 for the priciest two-bedroom units, is leasing at a brisk 25 apartments a month, Cohan said. The complex comes with an automated garage that parks residents' cars with the swipe of a card, as well as a heated rooftop swimming pool.

"For the highest price point in the market ... we're very encouraged by that rate of absorption," Cohan said.

Continental Realty Corp., a Baltimore company that owns and manages apartment communities with an average rent of about $900 a month, said it also is seeing signs of improvement. Demand is on the rise, so the company can be more selective about tenants, requiring higher credit scores and overall financial wherewithal.

"We've increased our standards," said Cynthia DeFrancesco, Continental's executive vice president. "We've also increased the thresholds for our security deposits."

The swath of the rental market that's harder to measure is the thousands of Baltimore-area houses, rowhomes, townhomes and condominiums that either have tenants or are on the market to get some. Improved trends for apartments aren't necessarily helping these smaller landlords because the rough housing market cuts both ways here. Many owners who can't sell have opted to rent, increasing supply.

Vikki Taylor, a property manager in Long & Foster's Columbia office, said rents are on the rise compared with late 2009. But Lois Foster, a Baltimore real estate agent who helps people find homes to rent and manages properties for owners-turned-landlords, said she's seeing rents of $200 to $500 less a month than owners could have gotten two or three years ago. There's just a lot of competition, she said.

Business, though, is booming.

"I've always had a steady flow, but this year has been better than all the rest," said Foster, who has run Property Management Service Associates for 12 years.

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