

Strong Rental Markets in a Weak Economy

Foreclosures are up, and home prices are down nationwide, but in many metro areas the rental market has improved since 2007

by Prashant Gopal

Michael Rodriguez planted a "For Rent" sign one Sunday morning in the yard of a three-bedroom, two-bath house he owns in Salinas, Calif., a farming community 10 miles inland from the Monterey Bay beaches and about an hour from Silicon Valley.

That day, Rodriguez received 34 calls from prospective tenants. "The next day, I was talking to somebody, and I looked over and the sign was gone," said Rodriguez, the broker/owner of Platinum Capital Mortgage & Estate in Salinas. "Somebody was trying to eliminate the competition."

Salinas, like much of California, is facing a housing slump and a surge in foreclosures. But the rental market is humming along thanks to its relatively affordable housing costs and proximity to Silicon Valley, where high-paying tech jobs are plentiful. Salinas metro area apartment rents increased 5.6% in the third quarter, compared with the same period last year, and the vacancy rate has fallen to 2.4%, one of the nation's lowest.

WHERE THE JOBS ARE

BusinessWeek.com asked Dallas apartment information company AXIOMetrics to rank the metropolitan areas with the best and worst effective rent (the asking rent minus any landlord lease concessions) and found that, of the 88 U.S. metro areas tracked by the company, Salinas was the sixth-strongest. In Tacoma, Wash., where there is an overflow of military personnel from nearby bases looking for apartments, rents increased 7.8%—the biggest increase in the nation. Salt Lake City, Tulsa, Oklahoma City, and Long Island, N.Y.—areas with robust job markets—also made the top 10.

"The top rental markets were less impacted by the housing bubble bursting," said Ronald G. Johnsey, president of AXIOMetrics. "The job growth in these markets is probably still good, though the rate of job growth is declining."

Florida and Arizona dominated the list of metro areas with the biggest rent drops. Housing prices in those states are crashing, and so many people who could not sell their homes have instead put them on the market as rentals. Those single-family home rentals are competing for tenants with apartment complexes. Effective rents have fallen as much as 9% in the worst Florida markets—Naples and Cape Coral—where vacancies have jumped to about 17%. Apartment landlords are offering two or more months of free rent in some cases to fill vacancies.

The single-family home rentals are "affecting the apartment rental market," said Jack McCabe of McCabe Research & Consulting in Deerfield Beach, Fla. "That's going to continue to happen until you see a decline in the for-sale inventory. Once that happens, people renting out these units will end up putting them up for sale and that will lessen the rental inventory."

SITTING ON THE SIDELINES

Keith Oden, president and trust manager of Houston's Camden Property Trust ([CPT](#)), one of the nation's largest real estate investment trusts concentrating on multifamily housing, says the weakness is concentrated in places such as Arizona, Florida, and Nevada, where the job market is weak.

But in much of the country, rents are strong. People are happy to sit on the sidelines and rent until the for-sale market returns, he said.

"Fewer people are moving out of our apartments to buy homes," Oden said. "Last year in our portfolio, about 20% of tenants moved out to purchase a home. In the first six months of this year, it was 14%."

In Tacoma, which continues to experience job growth, many people are renting because—with increasingly restricting lending standards—it's tough to qualify to buy, said Dick Beeson, broker/owner of Windermere/Commencement Associates. Tacoma is attractive to renters because it is an affordable alternative for people who work in Seattle, just over 30 miles away. Beeson said he expects rents to begin stabilizing next year as more investors lease out homes they couldn't sell.

MORTGAGE AVOIDANCE

In uncertain times, people rent, said Walter David Smith, manager of Belhaven Residential, which owns 315 apartments near downtown Jackson, Miss., the third-best apartment market on our list. The demand for apartments was boosted in Jackson after Hurricane Katrina flooded the coastal areas and forced refugees inland.

The weak housing market is keeping people in leases, Smith said.

"This time last year, we probably had 10% vacancy," Smith said. "Right now, we're at full occupancy."

Eric Thomsen, a 32-year-old computer network analyst who rents a one-bedroom apartment in Jackson for \$509 a month, is not eager to commit to anything more than a one-year lease.

"When the economy is unsure, you're unsure," Thomsen said. "It's easier to work your way out of a lease than a mortgage."

2008 Apartment Rent Breakdown

See which metro areas have seen rents rise, fall, or flatten during the past year

The trend is easy to spot in this list of 88 large metro areas. Metros in -- or near -- strong job markets, such as Tacoma, San Francisco, Oklahoma City, and Seattle, are seeing apartment rents rise sharply. Rents are plummeting in some parts of Florida, Arizona, Nevada, New Jersey, Michigan and California where the economy is weakening and apartment vacancies are growing.

Nationally, rents rose 0.9% in the third quarter compared to the same period last year. The market overall is weakening, largely because of the toxic Florida and California markets. Rents were up 5.3% in the third quarter of 2006, as the housing boom was winding down. And the markets with the biggest rent drops (including Naples, Orlando, Sarasota and West Palm Beach in Florida and Phoenix in Arizona) had annual rent increases of more than 10% back in the third quarter of 2005.

The annual rent increases and drops reflect the change in effective rents in the third quarter of 2008 compared with the third quarter last year. The rents are calculated using a weighted average of all sizes of apartments and do not include single-family home rentals. The "effective rent" factors in any concessions offered by landlords.

Source: [AXIOMetrics](#)

MSA Name by State	State	Effective Annual Growth Rate (annual chg.)					Vacancy Rate				
		3Q05	3Q06	3Q07	3Q08*	Rank	3Q05	3Q06	3Q07	3Q08*	Rank
		3Q08	3Q08	3Q08	3Q08	3Q08	3Q08	3Q08	3Q08	3Q08	3Q08
Tacoma	WA	7.8%	-1.4%	13.1%	7.5%	1	4.8%	10.7%	2.6%	4.1%	1
Tulsa	OK	3.1%	3.7%	3.2%	6.8%	2	7.1%	5.6%	5.1%	3.9%	2
Jackson	MS	3.9%	2.3%	1.7%	6.3%	3	2.6%	4.7%	5.2%	8.3%	34
Oklahoma City	OK	4.3%	5.3%	0.9%	6.2%	4	5.9%	5.7%	5.6%	7.7%	18

Salt Lake City	UT	3.8%	7.5%	9.7%	5.9%	5	4.6%	2.9%	2.6%	3.7%	1
Salinas	CA	2.4%	3.8%	3.2%	5.6%	6	4.4%	4.3%	2.8%	2.4%	1
Nassau-Suffolk	NY	0.6%	4.3%	-2.5%	5.2%	7	3.0%	2.1%	3.7%	3.1%	1
Corpus Christi	TX	1.8%	3.5%	1.2%	4.5%	8	6.0%	2.7%	6.7%	7.5%	9
Seattle-Bellevue-Everett	WA	6.7%	11.0%	7.9%	4.3%	9	4.7%	3.0%	3.6%	4.6%	2
Albuquerque	NM	2.9%	2.6%	3.2%	4.0%	10	4.3%	3.2%	4.0%	4.3%	6
Hartford-West Hartford-East Hartford	CT	5.0%	6.1%	-1.8%	3.9%	11	3.3%	2.2%	2.9%	3.9%	5
San Diego-Carlsbad-San Marcos	CA	5.1%	3.9%	2.8%	3.7%	12	3.1%	3.4%	3.6%	4.0%	11
Durham	NC	3.0%	2.2%	2.2%	3.4%	13	8.1%	8.8%	8.2%	8.1%	32
Boulder	CO	0.3%	3.1%	6.1%	3.4%	14	6.1%	2.6%	5.2%	3.8%	5
Denver-Aurora	CO	0.8%	2.9%	6.2%	3.2%	15	5.9%	6.1%	5.4%	5.7%	25
Bethesda-Frederick-Gaithersburg	MD	6.3%	5.7%	1.7%	3.2%	16	3.7%	3.9%	4.8%	3.9%	5
San Jose-Sunnyvale-Santa Clara	CA	7.0%	11.0%	9.2%	3.0%	17	3.1%	2.3%	3.2%	3.6%	3
Oakland-Fremont-Hayward	CA	3.7%	9.4%	4.3%	3.0%	18	3.4%	3.4%	3.3%	4.1%	15
San Francisco-San Mateo-Redwood City	CA	7.0%	10.2%	7.3%	2.9%	19	2.7%	3.4%	2.5%	2.8%	1
San Antonio	TX	0.1%	1.5%	2.1%	2.9%	20	6.2%	6.7%	7.1%	8.0%	7
Indianapolis	IN	0.7%	1.3%	2.9%	2.6%	21	7.4%	7.3%	7.5%	7.3%	36
Colorado Springs	CO	-0.4%	-1.7%	1.4%	2.4%	22	7.8%	9.0%	6.0%	7.2%	45
Cincinnati-Middletown	OH-KY-IN	0.7%	2.7%	2.0%	2.4%	23	7.0%	6.0%	5.0%	5.0%	9
Little Rock-North Little Rock	AR	1.1%	3.0%	2.1%	2.4%	24	4.9%	4.6%	6.0%	6.3%	47
Savannah	GA	-1.5%	9.8%	-3.6%	2.3%	25	6.7%	2.8%	6.7%	4.3%	10
Washington-Arlington-Alexandria	DC-VA-MD-WV	3.7%	5.6%	0.0%	2.2%	26	3.1%	3.5%	4.9%	4.5%	13
Portland-Vancouver-Beaverton	OR-WA	2.4%	10.4%	6.0%	2.2%	27	4.2%	3.3%	4.1%	5.0%	6
Spartanburg	SC	5.6%	3.7%	2.4%	2.2%	28	12.1%	10.0%	10.4%	9.3%	16
Boston-Cambridge-Quincy	MA-NH	0.9%	2.0%	0.6%	2.1%	29	3.4%	3.9%	4.7%	3.8%	4
Augusta-Richmond County	GA-SC	4.3%	2.7%	3.5%	2.0%	30	6.1%	8.2%	7.5%	5.8%	24
Houston-Baytown-Sugar Land	TX	0.7%	5.8%	3.7%	1.9%	31	8.9%	7.2%	7.1%	8.6%	8
Minneapolis-Saint Paul-Bloomington	MN-WI	1.5%	2.8%	1.4%	1.9%	32	5.4%	3.9%	4.7%	4.0%	5
New York-Wayne-White Plains	NY-NJ	4.3%	6.3%	3.0%	1.9%	33	1.7%	2.5%	2.7%	4.3%	5
Fort Worth-Arlington	TX	0.6%	4.3%	3.3%	1.8%	34	7.7%	6.8%	6.9%	7.4%	7
Dallas-Plano-Irving	TX	1.2%	5.3%	2.7%	1.7%	35	7.2%	6.2%	6.7%	6.7%	7
Saint Louis	MO-IL	0.6%	5.0%	1.1%	1.7%	36	7.5%	6.6%	6.6%	5.8%	16
Mobile	AL	8.3%	8.7%	4.4%	1.6%	37	3.8%	1.1%	2.3%	3.3%	4
Columbus	OH	1.3%	3.1%	3.0%	1.6%	38	7.5%	7.1%	6.0%	6.5%	14
Providence-New Bedford-Fall River	RI-MA	3.5%	0.5%	-2.9%	1.5%	39	4.0%	5.5%	4.9%	5.3%	6
Richmond	VA	4.3%	4.2%	4.9%	1.4%	40	5.1%	4.4%	3.7%	5.0%	4
Nashville-Davidson--Murfreeseboro	TN	2.6%	3.8%	4.6%	1.3%	41	5.1%	4.6%	4.2%	5.8%	6
Lexington-Fayette	KY	2.3%	0.0%	3.1%	1.3%	42	7.5%	7.0%	5.3%	7.5%	37
Cleveland-Elyria-Mentor	OH	2.6%	2.3%	1.5%	1.3%	43	6.6%	6.1%	6.1%	6.4%	13
Montgomery	AL	2.3%	2.9%	-0.3%	1.3%	44	4.1%	6.1%	7.5%	10.6%	80
Greenville	SC	4.0%	3.9%	5.0%	1.2%	45	7.5%	4.9%	5.1%	6.0%	7
Louisville	KY-IN	0.6%	4.1%	3.3%	1.2%	46	7.0%	5.2%	6.0%	7.2%	34
Baltimore-Towson	MD	4.1%	4.6%	2.7%	1.1%	47	4.1%	3.4%	4.3%	4.9%	13
Philadelphia	PA	3.0%	2.5%	3.5%	1.0%	48	4.7%	3.5%	4.1%	4.7%	5
Birmingham-Hoover	AL	2.9%	3.9%	0.3%	0.9%	49	4.0%	5.5%	6.2%	6.3%	47

Chicago-Naperville-Joliet	IL	1.8%	5.7%	4.1%	0.9%	50	5.7%	3.5%	4.4%	5.5%	19
Columbia	SC	3.4%	3.9%	1.7%	0.8%	51	6.0%	5.6%	7.5%	10.4%	18
Austin-Round Rock	TX	2.5%	6.9%	5.6%	0.8%	52	6.1%	4.9%	5.0%	6.3%	6
Kansas City	MO-KS	0.3%	3.7%	3.2%	0.8%	53	6.5%	5.3%	6.0%	6.1%	20
Sacramento--Arden-Arcade--Roseville	CA	2.4%	4.7%	0.1%	0.6%	54	5.5%	4.0%	5.3%	5.5%	28
Virginia Beach-Norfolk-Newport News	VA-NC	5.4%	3.5%	3.6%	0.5%	55	2.4%	3.9%	4.4%	4.2%	2
Lansing-East Lansing	MI	-0.3%	0.4%	0.7%	0.5%	56	6.4%	8.3%	4.4%	7.2%	31
Charleston-North Charleston	SC	3.2%	5.0%	2.3%	0.4%	57	4.9%	3.4%	5.0%	7.5%	12
Santa Ana-Anaheim-Irvine	CA	7.7%	5.3%	3.3%	0.4%	58	3.7%	3.6%	4.3%	4.6%	16
Wilmington	DE-MD-NJ	4.1%	5.6%	2.1%	0.2%	59	5.6%	3.9%	5.2%	6.8%	39
Reno-Sparks	NV	5.6%	3.4%	0.7%	0.0%	60	4.3%	3.5%	4.3%	5.7%	13
Chattanooga	TN-GA	4.0%	3.5%	5.7%	-	61	3.9%	3.5%	3.1%	8.0%	12
					0.1%						
Memphis	TN-MS-AR	2.0%	3.8%	2.8%	-	62	6.8%	8.3%	7.9%	9.1%	14
					0.1%						
Los Angeles-Long Beach-Glendale	CA	7.3%	5.0%	3.2%	-	63	2.8%	3.7%	4.8%	4.9%	25
					0.1%						
Raleigh-Cary	NC	0.7%	6.0%	4.4%	-	64	6.3%	5.4%	4.7%	6.1%	19
					0.2%						
Edison	NJ	0.4%	5.4%	2.3%	-	65	6.0%	2.8%	4.0%	3.4%	2
					0.2%						
Warren-Farmington Hills-Troy	MI	2.0%	0.5%	-1.0%	-	66	6.5%	7.4%	5.7%	6.1%	22
					0.3%						
Charlotte-Gastonia-Concord	NC-SC	2.8%	5.2%	4.5%	-	67	5.7%	5.3%	5.4%	6.8%	25
					0.4%						
Detroit-Livonia-Dearborn	MI	-1.0%	-0.8%	0.9%	-	68	7.7%	7.2%	7.2%	8.5%	40
					0.4%						
Winston-Salem	NC	2.2%	3.3%	4.1%	-	69	6.5%	6.7%	5.8%	10.7%	35
					0.6%						
Lake County-Kenosha County	IL-WI	1.3%	3.0%	4.2%	-	70	6.4%	3.4%	3.8%	5.7%	20
					0.7%						
Las Vegas-Paradise	NV	10.0%	4.7%	-0.5%	-	71	3.9%	4.3%	6.6%	7.0%	21
					0.8%						
Atlanta-Sandy Springs-Marietta	GA	3.3%	5.4%	1.6%	-	72	6.5%	6.0%	6.6%	8.2%	49
					0.8%						
Camden	NJ	3.7%	4.7%	2.6%	-	73	3.2%	3.6%	4.2%	5.8%	16
					1.5%						
Miami-Miami Beach-Kendall	FL	9.5%	4.2%	-0.9%	-	74	1.6%	3.0%	4.1%	5.5%	21
					1.5%						
Greensboro-High Point	NC	-1.3%	3.2%	1.5%	-	75	7.5%	6.8%	7.1%	10.8%	37
					1.6%						
Oxnard-Thousand Oaks-Ventura	CA	2.8%	8.5%	-1.1%	-	76	3.0%	3.3%	6.0%	5.2%	27
					1.8%						
Tampa-Saint Petersburg-Clearwater	FL	10.7%	8.7%	-3.5%	-	77	3.8%	3.8%	7.2%	7.7%	46
					1.9%						
Riverside-San Bernardino-Ontario	CA	5.1%	3.1%	0.6%	-	78	4.5%	5.7%	6.2%	7.3%	55
					2.1%						

West Palm Beach-Boca Raton-Boynton Beach	FL	14.7%	3.6%	-8.1%	-	79	3.0%	6.8%	9.1%	9.5%	55
					2.3%						
Tucson	AZ	2.9%	8.5%	1.7%	-	80	5.3%	4.3%	5.3%	7.7%	63
					2.4%						
Fort Lauderdale-Pompano Beach-Deerfield Beach	FL	11.0%	8.5%	-2.2%	-	81	2.1%	4.1%	4.9%	5.6%	22
					3.1%						
Jacksonville	FL	9.4%	3.9%	-2.4%	-	82	4.5%	6.2%	7.1%	8.9%	56
					3.3%						
Phoenix-Mesa-Scottsdale	AZ	10.3%	10.1%	-2.7%	-	83	4.6%	5.0%	8.2%	9.9%	78
					3.6%						
Orlando	FL	11.2%	8.3%	-4.0%	-	84	3.0%	4.8%	7.3%	8.5%	53
					4.0%						
Sarasota-Bradenton-Venice	FL	11.4%	4.0%	-5.8%	-	85	1.8%	5.8%	10.2%	12.3%	60
					5.9%						
Palm Bay-Melbourne-Titusville	FL	10.1%	5.2%	-7.5%	-	86	1.5%	4.4%	11.2%	13.5%	61
					7.1%						
Cape Coral-Fort Myers	FL	11.0%	6.1%	-	-	87	2.1%	6.5%	16.5%	17.7%	67
					12.1%						
					9.1%						
Naples-Marco Island	FL	10.9%	7.4%	-	-	88	1.9%	5.6%	15.4%	16.7%	63
					11.4%						
					9.4%						
National		4.2%	5.3%	2.1%	0.9%		5.4%	5.1%	5.8%	6.4%	

[Click here](#) to see the twenty metro areas around the U.S. that seen the greatest increase and reduction in rents over the past year.

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