



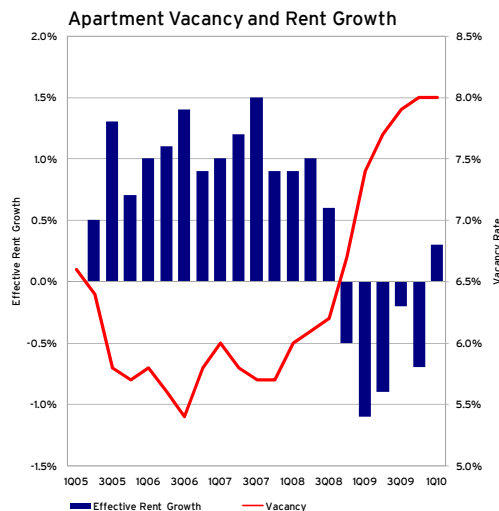
**Victor Calanog PhD**  
Director of Research

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## Net Absorption Surges, Rents Grow in the First Quarter

In a surprising show of resiliency, apartment vacancies stayed flat in the first quarter, deviating from the seasonal weakness in demand that apartment rentals have traditionally shown during the colder months of the year. At 8.0%, the national vacancy rate is still at historic highs (the closest comparable high was 7.8% back in 1986). Vacancies have risen by 60 basis points year-over-year relative to the first quarter of 2009, and have risen by 250 basis points since the sector achieved its cyclical low of 5.5% in the third quarter of 2006.

However, other performance data taken in the context of stabilizing labor markets support an optimistic outlook that the apartment sector may have indeed hit the bottom of the current business cycle and may be on the path towards recovery.



Net absorption surged by over 21,000 units in the first quarter, the largest net positive addition to occupied stock in the first quarter on record in ten years. The first and fourth quarters usually mark seasonal

weakness in demand for rental properties, given that most households make decisions to move and lease new apartments during the second and third quarters. Reis speculates that the ferocity of the last recession may have wreaked havoc on traditional seasonal patterns: households appear to have rented new space as labor markets stabilized and people began to find jobs in the first quarter. As we discuss in our near-term outlook at the end of this report, this may portend either good or bad news for the sector for the next couple of quarters.

Asking and effective rents posted mild increases in the first quarter, rising by 0.1% and 0.3% respectively. The faster pace of effective rent increases versus asking rents imply that concession packages are no longer increasing and may in fact be tightening. It appears that it was not a coincidence that these reversals came quickly after the massive declines in 2009, when asking rents fell by 2.3% and effective rents fell by 2.9% (both record annual declines in Reis history) - when asking rents fell by 0.7% in the fourth quarter of 2009

(the largest single-quarter drop since Reis began publishing quarterly performance data in 1999), it appears to have signaled landlords' willingness to deal with beleaguered tenants; combined with stabilizing labor markets, rents that fell "far enough" heralded the turnaround we now observe.

We remain of the belief that this is going to be a slow recovery. Although first quarter results were uncommonly robust, it does not mean every single measure of performance was positive. Consider the plight of newly completed properties. Over 22,000 new apartment units opened their doors in the first quarter at an average vacancy rate of 52.8%. There is merit to the outlook that there may be a shortage of apartment rentals in the near-term, leading most REITs to project sharp rent growth next year, but it doesn't look like that shortage in supply is going to occur in 2010. Because of projects that were delayed from the previous year, Reis now expects over 90,000 units to come online this year, a number comparable to some of the strongest years in the past decade, when demand for rental apartments was more favorable.

Vacancy levels rose in 30 out of 79 markets, even if national vacancies remained flat. Still, this quarter's results taken as a whole are consistent with our expectation that the apartment sector will be the first to recover as the overall economy emerges from the recession.

First Quarter 2010 Market Performance						
Improving Fundamentals / Flat or Declining Fundamentals						
	Absorption		Occupancy		Effective Rent	
Q4 2009	59 +	20	49 †	30	60 †	19
Q4 2009	47 +	32	28 †	51	18 †	61
Q3 2009	53 +	26	34 †	45	39 †	40
Q2 2009	39 +	40	25 †	54	11 †	68
Q1 2009	8 +	71	2 †	77	8 †	71

Figures are based on 79 metro markets.

## Market Highlights

New York City first quarter results mirrored the patterns of recovery observed at the national level, with vacancies declining by 10 basis points from 2.9% in end-2009 to 2.8%, and effective rents posting a healthy +0.9% growth. Year-over-year effective rents fell by 2.3%, still a large drop but just half of the 5.6% decline recorded in calendar year 2009, indicating that rent deterioration has not only slowed down but has reversed. 60 out of 79 metros posted gains in effective rents, led by a +1.6% increase in Miami. Miami has not posted a single quarter of rent gains since the first quarter of 2008; as the poster child of the South Florida market's housing woes, its rental market entered this recession earlier than other metro markets. Positive growth this quarter may lend

credence to the theory that markets that entered a downturn earlier may also emerge from it sooner than others.

#### Outlook for the Apartment Sector

Last quarter, we wrote that it may take another quarter or two before vacancies decline and leasing activity perks up, assuming labor markets continue to stabilize and improve. Vacancies ended up flat this quarter, but surprising signs of a rebound in absorption and rents may lead one to believe that the near-term outlook for apartment rentals is filled with nothing but positive things. We disagree.

One quarter's results should not be extrapolated into a trend, but since the following quarters usually represent stronger leasing periods for rentals, it appears that several apartment markets may have bottomed and may be on track to recovery. This is consistent with Reis's view that the apartment sector will be the first to recover, relative to office, retail and other commercial sectors. All of this assumes continued stabilization and recovery in labor markets, as the overall economy lurches back into an expansionary phase.

However, given that traditional rules of seasonality may need to be suspended, we may encounter bumps in the road over the next few quarters. Will hiring patterns be robust enough to sustain rent increases in the second and third quarters, or did the first quarter's positive growth exhaust the market's fragile demand situation? With a veritable avalanche of new buildings still scheduled to come online, can market demand keep up and actually force vacancies to decline? The next few quarters might not show a linear trend upwards, but it does appear that we have turned a corner in the apartment sector; it is unlikely that the specter of continued massive declines in rents and occupancy will manifest.

# Apartment Market Trends for 2010Q1

Apartment Market	Curr Qtr Vacancy Rate	Curr Qtr Vac Point Change Q4 to Q1	Prev Qtr Vac Point Change Q3 to Q4	Prev Year Vac Point Change 09Q1 to 10Q1	Curr Qtr Rent	Curr Qtr Rent Change Q4 to Q1	Prev Qtr Rent Change Q3 to Q4	Prev Year Rent Change 09Q1 to 10Q1
Albuquerque	6.4%	-50	-10	-40	\$705	-0.1%	-0.3%	-0.6%
Atlanta	11.5%	-10	40	90	\$845	0.1%	-0.5%	-0.8%
Austin	10.1%	0	-80	50	\$875	0.5%	0.6%	0.3%
Baltimore	6.4%	40	-30	40	\$983	0.2%	-0.4%	0.3%
Buffalo	5.0%	-40	-20	0	\$729	0.3%	0.6%	0.3%
Birmingham	10.4%	40	10	40	\$708	0.4%	-0.7%	0.1%
Boston	6.5%	10	10	10	\$1,697	0.0%	-0.8%	-2.1%
Chattanooga	6.1%	-30	-90	-270	\$620	0.3%	-0.2%	1.0%
Chicago	6.6%	-10	10	60	\$1,053	0.2%	-0.7%	-0.9%
Cincinnati	8.2%	20	30	70	\$703	-0.4%	-0.3%	-1.0%
Central New Jersey	4.1%	20	10	20	\$1,146	0.0%	-0.1%	-0.3%
Cleveland	7.0%	20	0	40	\$726	0.3%	-1.0%	-0.7%
Columbia	12.0%	-60	-40	-220	\$711	0.4%	0.4%	0.1%
Charleston	11.6%	-70	20	-20	\$756	0.4%	-0.3%	-0.9%
Columbus	9.5%	30	70	120	\$682	0.1%	-0.1%	0.0%
Charlotte	10.6%	-70	70	170	\$789	0.3%	0.1%	-0.8%
Colorado Springs	7.7%	-30	0	-170	\$708	0.7%	0.0%	1.3%
Dallas	10.4%	-30	110	180	\$814	0.0%	-0.5%	-0.1%
District of Columbia	6.1%	0	20	70	\$1,417	0.4%	0.9%	2.2%
Denver	8.3%	-60	-40	-30	\$879	0.2%	0.1%	-0.7%
Dayton	8.6%	20	20	10	\$632	0.6%	0.5%	1.8%
Detroit	8.1%	0	30	50	\$821	-0.1%	-1.2%	-1.3%
Fairfield County	5.3%	-20	20	-70	\$1,748	0.5%	-1.5%	-3.0%
Fort Lauderdale	8.5%	-10	40	110	\$1,107	0.8%	0.2%	0.4%
Fort Worth	11.1%	-70	50	30	\$712	0.0%	-0.4%	-1.0%
Greenville	10.9%	-60	10	-20	\$626	0.6%	-0.8%	-0.8%
Greensboro/Winston-Salem	12.8%	10	0	110	\$656	0.2%	-0.6%	-0.2%
Houston	12.9%	60	40	240	\$775	0.9%	-0.3%	0.4%
Hartford	5.7%	-50	40	40	\$968	0.5%	0.1%	0.0%
Indianapolis	10.0%	-10	80	160	\$670	0.0%	0.1%	-0.7%
Jacksonville	13.8%	-60	70	40	\$802	-0.4%	0.2%	0.3%
Kansas City	10.3%	120	50	170	\$700	-0.1%	0.1%	-0.3%
Knoxville	7.6%	-10	40	-20	\$589	0.3%	-0.3%	-0.2%
Los Angeles	5.5%	20	-10	20	\$1,394	-0.2%	-1.1%	-3.8%
Long Island	3.8%	20	-20	20	\$1,515	-0.1%	-0.8%	-0.1%
Louisville	7.2%	20	0	10	\$645	0.0%	-0.5%	0.3%
Little Rock	8.6%	20	10	110	\$647	0.8%	0.0%	1.4%
Las Vegas	11.5%	80	30	270	\$820	-0.6%	-2.7%	-5.4%
Lexington	9.5%	20	10	200	\$644	-0.2%	0.9%	0.0%
Memphis	13.2%	30	0	50	\$672	0.6%	-1.2%	-0.9%
Miami	6.3%	20	-10	50	\$1,077	1.3%	-0.9%	-1.6%
Minneapolis	5.3%	-10	30	50	\$950	-0.1%	0.2%	-0.3%
Milwaukee	5.2%	20	0	90	\$829	0.4%	0.4%	-0.2%
Nashville	9.5%	-10	30	80	\$744	0.3%	-0.5%	-1.1%
Norfolk/Hampton Roads	6.1%	30	10	20	\$864	0.5%	-0.2%	1.1%
Northern New Jersey	5.3%	10	20	70	\$1,481	-0.1%	-1.3%	-1.9%
New Haven	3.4%	40	30	-70	\$1,089	0.1%	0.0%	-0.6%
New York	2.8%	-10	0	-60	\$2,754	0.6%	-1.3%	-2.7%
Oakland-East Bay	5.5%	-30	0	-20	\$1,329	-0.2%	-1.6%	-3.5%
Orange County	6.4%	0	0	40	\$1,506	0.1%	-0.6%	-3.5%
Oklahoma City	10.1%	10	40	120	\$545	0.4%	-0.4%	0.0%
Omaha	6.2%	-60	-60	20	\$692	0.4%	-0.7%	0.0%
Orlando	11.5%	30	50	120	\$869	0.0%	-0.8%	-2.4%
Philadelphia	6.3%	-20	10	0	\$1,018	-0.2%	-0.4%	-0.4%
Palm Beach	8.8%	-40	80	100	\$1,105	0.7%	-0.5%	-0.5%
Pittsburgh	5.6%	-20	30	50	\$835	0.2%	-0.1%	0.6%
Portland	6.4%	-50	0	50	\$815	-0.9%	-0.6%	-1.5%
Phoenix	12.1%	-20	10	60	\$748	-0.4%	-1.4%	-3.6%
Raleigh-Durham	8.2%	-60	20	20	\$799	0.0%	-0.6%	-1.2%
Richmond	8.7%	40	10	180	\$787	0.4%	-0.8%	-1.4%
Rochester	5.1%	40	30	60	\$755	0.1%	0.3%	0.7%
San Antonio	10.7%	50	-20	70	\$704	0.7%	-0.4%	0.7%
San Bernardino/Riverside	8.0%	0	-40	40	\$1,028	-0.5%	-0.6%	-1.6%
Salt Lake City	7.0%	-20	20	160	\$749	0.0%	-0.9%	-0.8%
San Diego	4.8%	-10	-10	10	\$1,320	-0.5%	-0.3%	-1.1%
Seattle	7.3%	-10	0	60	\$1,012	0.7%	-2.9%	-3.9%
San Francisco	5.0%	20	10	70	\$1,810	-0.1%	-0.5%	-4.4%
San Jose	4.7%	-40	10	-60	\$1,475	-0.4%	-0.3%	-5.2%
St. Louis	9.0%	-20	20	80	\$723	-0.1%	-0.5%	-0.7%
Suburban Maryland	6.3%	-50	-10	0	\$1,273	0.6%	-0.9%	0.7%
Sacramento	7.1%	-20	10	60	\$913	0.0%	-0.5%	-2.5%
Suburban Virginia	5.7%	-30	20	-50	\$1,433	0.1%	0.4%	-0.1%
Syracuse	4.4%	0	60	60	\$685	-0.1%	0.3%	0.4%
Tampa-St. Petersburg	10.1%	-60	70	40	\$831	0.5%	0.2%	-1.8%
Tucson	10.0%	-50	-20	160	\$648	0.6%	-0.8%	-0.3%
Tacoma	7.9%	-20	90	160	\$745	0.3%	-1.5%	-2.6%
Tulsa	9.4%	20	20	120	\$580	0.5%	-0.7%	0.2%
Ventura County	5.3%	0	-20	30	\$1,395	1.1%	-1.8%	-2.2%
Wichita	8.2%	-20	70	130	\$518	0.4%	-0.2%	1.2%
US	8.0%	0	10	60	\$1,027	0.1%	-0.7%	-1.6%

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