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When Rental Demand is on the Rise, Home Purchases Will Follow

Much has been written recently regarding the increased demand for apartments and other rental properties, and the resulting push for new building construction. In one example, Reis, Inc, a provider of real estate performance information and analysis, reported apartment vacancy rates had fallen to 6.2 percent in the first quarter of 2011, a drop of 1.8 percent in the last year. At Westwood, we see evidence of the vacancy decline driving our current projects too. The tables have turned in the apartment market. Vacancy rates are dropping, causing rental owners to demand higher lease rates and prospective renters to more thoroughly scrutinize before signing on.

The National Multi Housing Council has reported in their Quarterly Survey of Apartment Market Conditions a Market Tightness Index of 90 for the first quarter, an all-time high for the index. Any reading above 50 indicates improving market conditions in measuring vacancies and rents. Rental property operators in high-demand locations have switched from offering incentives such as free rent and flat-screen televisions to considering bids from prospective tenants that include up-front rent payments and increased security deposits. In the short term, developers will continue to see an increase in demand for new rental units as the existing stock is occupied. But, as the demand for rental units rises, consumers will look to buy homes as lease costs approach and exceed mortgage payments.

Current rental demand is high, but it is fueled by a flood of home foreclosures and the tentative nature of potential homebuyers entering the market for the first time. We may be seeing an unsustainable build-up in rental demand.

As rents increase, home purchase opportunities will look more attractive to consumers. While the trend toward home ownership increases and conditions stabilize, we may be moving toward a balance between renting and home purchases.

A site's location and physical conditions for rental and owner-occupied projects remains vitally important in determining the success of these developments. Including a review of vacancy rates, rental terms, and recent sales data for near-by existing projects in addition to an analysis of your site's constraints can further help you understand the viability of a new development. Understanding the potential of a project's location is critical, whether riding the current wave of rental property development, or pursuing the continued resurgence of single-family development.

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