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ECONOMY

## Apartment Sector Saw Slight Uptick In Third Quarter

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The nation's apartment sector, battered during the past three years by a weak job market and low mortgage rates luring potential renters to buy homes instead, showed moderate signs of improvement in the third quarter.

But the signs were hardly enough to prompt landlords to stop offering concessions, such as one to two months' rent free of charge and other inducements.

The average vacancy rate for apartments in the top-50 U.S. metropolitan markets fell to 6.6% in the third quarter, from 6.7% in the second period, but was still significantly higher than the year-earlier rate of 5.9%, according to Reis Inc., a New York real-estate research firm. It was the second quarter in a row that the vacancy rate declined.

The average effective rent, which is the rent that landlords actually collect as opposed to what they request, rose to \$856 a month from \$854 in the second quarter. Still, the latest figure was lower than a year earlier, when the average rent was \$859 a month.

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Apartment owners and analysts are viewing the slight uptick with caution, mainly because economic and employment conditions are still uncertain and because single-family home sales remain strong. What's more, the second and third quarters are traditionally stronger leasing periods in many parts of the country. Both quarters saw

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positive absorption, or new rentals, while the first quarter saw negative absorption, since new units built and added to the market exceeded new rentals. Reis expects new units to exceed new rentals in the fourth quarter, pushing the vacancy rate up to 6.9%, which would be the highest it has been in more than a decade.

"It still looks choppy to us," said Frank C. McDowell, chief executive of BRE Properties Inc., a San Francisco apartment real-estate investment trust that owns 21,943 apartments in California, Arizona, Washington, Utah and Colorado.

The nation lost 190,000 jobs in June, July and August, according to Rajeev Dhawan, director of the economic-forecasting center at the Robinson College of Business at Georgia State University in Atlanta. "Job creation is critical to the apartment industry," he says.

The unemployment rate held steady in September as businesses expanded payrolls for the first time in eight months, but apartment owners, for the most part, didn't report big pickups in leasing activity that month.

Richard J. Campo, chief executive of Camden Property Trust, a Houston-based apartment REIT that owns 51,344 apartment homes in the Sunbelt and Midwestern markets, from Florida to California, said the company saw a rise in demand for apartments "as measured by people coming in the door" inquiring about apartments. He said concessions helped the portfolio reach its highest occupancy level -- about 94.5% -- in two years. Still, the company, like other owners, isn't ready to pull back on concessions yet.

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