

COMMERCIAL REAL ESTATE

Bouncing back: Lower vacancy rates and new developments have apartments gaining ground in the Triad

By **TRAVIS FAIN**

CONTRIBUTING WRITER

Apartment vacancy rates have dipped below 10 percent in the Triad for the first time since fall 2007, rental prices have increased slightly and new construction is gearing up, according to a recent report from Real Data Apartment Market Research.

The figures back a rising sense of optimism for developers, particularly in Alamance County, where the new Tanger Outlet Center opened this month and other growth seems to be following.

Unemployment has fallen to 9.6 percent this fall for the Triad, down from about 10.5 percent a year ago, as employers slowly add jobs. The outlets, for example, added an estimated 800 jobs, and the Triad has in recent months landed several significant developments that bolster confidence among apartment developers. A new Caterpillar plant planned in Winston-Salem will bring as many as 500 new jobs, and American Express' new data center east of Greensboro, with a projected investment of \$600 million, is expected to employ up to 150 people.

Jobs drive just about everything in the economy, and new ones are particularly potent for apartment complexes, developers say. But the recent bounce in rentals has been higher than what should be justified by the jobs added, according to Charles Dalton, president of Charlotte-based apartment research firm Real Data.

Uncertainly about ownership

Some of that new demand comes from people deciding to rent instead of own, likely because of a continuing loss of faith in old real estate assumptions.

Namely, it's painfully clear that home values don't always go up.

"I think it's certainly become more apparent that there are advantages to renting," Dalton says. "In the past (people) say, 'If I owned a home I would be rich now, because it's doubled in value.'"

This new paradigm seems to be holding despite the fact that interest rates remain low and average monthly mortgage costs in the Triad have fallen to about \$650, within \$25 dollars of average monthly rental prices. Real Data projects that — on the average — it will be cheaper to pay a mortgage than to rent an apartment in the Triad in the coming year.

Those average rental prices went up about \$17 in the Triad from March to September, Real Data reports. That's a difference of about 2 pennies per square foot, but given the drubbing real estate has taken in the last few years, it's notable.

New apartment construction hasn't approached pre-recession levels, but it is increasing. And vacancy rates, which hit a high of 13.9 percent in September of last year, are back to a more normal 9.8 percent, Real Data's October report shows. Dalton apartment owners typically aim for vacancy rates of between 5 percent and 7 percent.

"Typically you don't see them going below 4. ..." Dalton says. "There has to be some amount of vacancy rate just for people to move around."

Basically, the Triad area's apartment market is trending up from one of the worst lows on record, says Seth Coker, president



JULIE KNIGHT/THE BUSINESS JOURNAL

From left, Chester Brown III, president of Brown Investment Properties in Greensboro, looks over blueprints of Carden Place apartments in Mebane with Peter Placentino, senior vice president, and John Kavanagh, of KMW Builders.

Good signs for apartment market

The Triad apartment market is improving on several fronts after facing significant struggles during the recession. Vacancy has dipped below 10 percent, average rent has improved and developers have quickened the pace of building new units.

Period	Vacancy	Avg. rent	Units absorbed	# under construction
Sept. '07	8.0%	\$641	1,387	2,383
March '08	10.3%	\$645	-140	2,348
Sept. '08	11.6%	\$643	204	2,404
March '09	13.1%	\$634	199	1,531
Sept. '09	13.9%	\$629	528	665
March '10	12.6%	\$624	1,076	431
Sept. '10	9.8%	\$641	1,800	1,426

SOURCE: Real Data/www.apindex.com

of Greensboro-based Signature Property Group.

Signature owns 2,600 apartment units in Greensboro and it plans an 80-unit addition at CityView apartments, south of downtown, in the next few months, Coker says. The group hopes to jump "back in the full-scale development business" in 2011, he says.

But big-time development takes more cash upfront than it used to, Coker says. And, though more banks are warming up to financing deals, Signature and other groups are likely to move slower than they have in the past, he says.

That means maybe one large project at a time instead of two, which will limit new construction and help keep the vacancy rate from ballooning, Coker says, thus relieving some worries that new construction will over-saturate the apartment market.

Dalton says his numbers confirm that, and he's not seeing "near the amount of development activity that we've had in the past." As a result, Real Data predicts demand for apartments will easily outstrip supply for the

coming year by hundreds of units, generating excess demand into the fall of 2012.

Surge in Alamance

In Alamance County, the apartment market is fairly booming by post-recession standards. The area has more than 200 proposed apartment units, more than other submarkets. It has more than 300 units already under construction, almost as much as the more populous northern area of Guilford County, which leads the Triad in current apartment construction, according to Real Data.

Brown Investment Properties is building 240 units at Carden Place, across the street from the new Tanger outlets. The Landmark Group plans to start construction on 75 units on Washington Street, where it will renovate an old mill, turning it into loft apartments.

That project is likely to get underway this winter, though it has been held up by the process of getting the mill placed on the historic register, according to Landmark's Tracey Levine.

The leasing campaign for Carden kicked off in mid-November, and Vice President of Property Management Peter Placentino says he expects the complex to fill quickly.

"We are so high on that site," Placentino says. "It's probably one of the best apartment sites I've been involved with, and I've been doing this for 30 years."

The outlets figure heavily into Carden Place's marketing plan, but it's not just Tanger that's driving growth in Alamance, Placentino says. Mebane, Burlington and the surrounding areas are well positioned between larger cities in both the Triad and the Triangle.

"It's got a smaller base of apartments, so when they build a 300-unit community in Alamance County it has a much bigger impact on the market," Dalton says.

Future apartment market improvements will depend on job growth. Coker says he thinks small businesses — particularly in Greensboro — are emerging from the recession. They're not hiring just yet, but many who survived have bounced back, he says.

"They're starting to make money," he says. "They're hoping that they're going to have a chance ... to maybe take off a little bit and start hiring people."

Though Placentino's group remains optimistic about Alamance, there are reasons to remain cautious. Across the Triad, apartment complex values are still down 20 percent or so from two years ago, he says. A lot of loans are coming due in the next two years. Some complexes are still losing money, he says.

"But it will get better," Placentino says. "It always does."

TRAVIS FAIN is a freelance contributor.