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Rental Market Showing Improvement

By Aglaia Pikounis

THE HIGHER VACANCY RATES AND DECLINING RENTS that have hovered over the Greater Boston rental market in the last three years are gradually starting to disperse, with some property owners reporting signs of improvement.

At least one industry executive said he has already started to see a noticeable shift in the market.

"The rental market has tightened significantly over the past six months," said Curtis Kemeny, president and chief executive of Boston Residential Group, a firm that owns and manages 1,100 rental units in Boston, Cambridge, Wellesley and Lexington.

Kemeny said vacancy rates at the firm's rental properties have dropped to about 1 percent from a high of 6 percent to 7 percent. According to Kemeny, the incentives that owners were offering to fill empty units – such as paying the broker's commission or providing rent-free months – are disappearing and rents are beginning to creep up.

Rents are going up 2 percent to 3 percent, estimated Kemeny, compared to the last few years when 1 percent increases were the norm.

"From our perspective, we're looking at a healthy, good tightening of the market," he said.

Unlike Kemeny's rosy outlook, some industry sources have a more cautious view of the market.

Bob Imperato, owner of Boston Realty Assoc. and incoming president of the Greater Boston Association of Realtors, said there continues to be "slightly more supply than there is demand."

Rents have remained stable, according to Imperato, and property owners are still offering breaks to renters.

"[The market] is not worse than it was last year. It might be slightly better," he said.

Owners have struggled through a sluggish market for the last two to three years, as the pool of renters shrunk and an influx of newly constructed rental units forced them to offer concessions to attract and retain tenants.

Local brokers say the market suffered as many renters took advantage of low mortgage-interest rates and first-time homebuyer programs and purchased homes, and job cuts in the financial services and high-tech industries forced many young professionals to move out of the region.



CURTIS KEMENY
Market 'tightened'

At the same time that demand for apartments was falling, the supply of rental units was going up with the construction and permitting of new apartments in Boston and surrounding communities. Students, who traditionally rent a significant number of apartments in Boston and Cambridge, also had more options as local colleges and universities built state-of-the-art dormitories.

Unexpected Benefits

According to The Greater Boston Housing Report Card 2004 issued by Northeastern University's Center for Urban and Regional Policy in September, more than 4,000 rental units were completed in Greater Boston last year, and 5,562 multifamily units were permitted last year, the highest level in more than 15 years. Anywhere from 60 percent to 65 percent of those permitted units are expected to be rental, with much of the housing concentrated in cities like Boston, Quincy and Waltham.

The housing report card points to a rental market that's stable, if not in a recovery mode. The rental vacancy rate was 6 percent at the end of 2004, which was only slightly higher from the year before, according to the report.

The report also showed that rental rates in Greater Boston started to stabilize in 2004, after

slipping from their peak levels in 2001. Rents for Class A apartments, for example, climbed to about \$1,748 a month from \$1,736 in May 2004, but were still lower than October 2002 when rents were \$1,841, according to the report.

Meanwhile, rents in Class B and C apartments declined by only a few dollars from May 2004 to February 2005. In Boston, advertised rents were either flat or dropped in most of the city's neighborhoods, but by the end of last year, there were signs that the rental market had begun to recover with rents in some Greater Boston communities rising modestly and fewer property owners offering generous concessions, the report showed.

Al Norton, rental manager for Prudential Unlimited Realty in Brookline, said most of the larger property owners are still offering to pay the entire broker's fee, but he hasn't seen many of the other incentives, like rent-free months, that were talked about before.

According to Norton, the brisk sales market may be providing some unexpected benefits to the rental market.

Norton said he has noticed that investors, seeking to make a profit before the housing market significantly cools, are selling condominium units that they've rented to tenants and thus reducing the availability of "condo-quality" apartments in Brookline. Still, others – including empty nesters – are selling their homes and temporarily renting apartments with the expectation that home prices will eventually fall.

Some believe that surging home prices may be precisely what's pushing many people to continue renting.

"They're confident that sales prices are going to drop," Norton said.

Kemeny, of Boston Residential Group – which recently implemented a \$3.3 million renovation of Linden Square, a 64-townhome rental community in Wellesley – said he thinks that recent hurricane disasters, climbing interest rates and escalating energy costs will dampen consumer confidence and affect people's willingness to purchase a home.

"They're [consumers] feeling that maybe we should go with the apartment option for a bit longer," he said. ■

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