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High hopes for apartment leasing, occupancy didn't pan out perfectly

Memphis Business Journal - by [Sarah Christine Bolton](#)

The traditional American Dream of having a steady job, shiny new car, and a house and mortgage has turned into the American Nightmare for many homeowners.

There were more 2.8 million foreclosures in 2009 alone, according to **RealtyTrac, Inc.**, leaving many Americans with no home and bad credit. The multifamily rental market, although a seemingly natural haven for financially struggling Americans, has not seen a huge increase.

"It's been a tough go for apartment rental companies to help these residents work financially," says Jimmy Ringel, chief operating officer at **Makowsky, Ringel & Greenberg LLC**.

Oftentimes, rental applications from these residents show a history of debt that usually extends beyond the foreclosure, and apartment managers are hesitant to take a chance on someone who might not be able to pay rent.

He says that while the market three years ago looked good for multifamily, things didn't quite pan out the way everyone thought they would.

"We have seen a lot of people who were foreclosed on moving into 'shadow' properties — foreclosed homes that are turned into rental properties," Ringel says. "People who previously owned a home are used to that lifestyle, and would rather rent a house than move into an apartment."

But compared with other real estate markets, apartment rentals have remained somewhat steady.

"The apartment market is holding up better than other real estate sectors due to the fact that our risk is spread among a greater number of leases than an office or retail development," says Mark Fogelman, president and chief operating officer of **Fogelman Management Group**. "With this said, it has still been a very, very challenging year in the apartment industry."

Pierce Ledbetter, president and chief operating officer at **LEDIC Management Group**, describes the multifamily market in 2009 like the opening lines of Charles Dickens' classic *A Tale of Two Cities*. It was both the best of times, for well-maintained properties, and the worst of times, for properties that had been struggling before the recession.

Multifamily occupancy in Memphis is 89.3%, according to **CB Richard Ellis Memphis'** fourth quarter MarketView Report. That's a slight drop from the market's 89.5% occupancy in fourth quarter 2008.

But oftentimes, higher occupancy means lowered rent. In 2009, the average rent in Memphis dropped to \$709, down 0.3% from 2008. Those average figures do not include any special discounts that individual properties might offer.

Ledbetter says his company looks at economic occupancy, or what percentage of a property's potential rent is actually being collected.

The \$8,000 first-time homebuyer tax credit that was part of the economic stimulus package did affect the multifamily market, but the greater concern is REO (real estate owned) properties.

"A bigger issue is the thousands of homes that have been converted to 'rental homes,' which are either bank owned or investor owned and now compete directly with traditional rental communities in many local submarkets," Fogelman says.

Property managers are cautiously optimistic for 2010, primarily because success in the multifamily market depends on a lot of other factors.

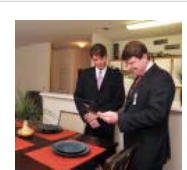
One major factor is job creation. According to the Bureau of Labor Statistics, metro Memphis' unemployment rate ballooned to 10.3 percent in December 2009 compared to 7.5 percent in December 2008.

While no one can accurately predict when the economy will bounce back, some property managers say they've seen this cycle before.

"If the 2010 Memphis apartment market were a movie, it would be called "Groundhog Day of 1993," because construction is at the lowest point of the cycle, just like 1993, and newer properties are about to do great, just like they did during the late 1990s," Ledbetter says.

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