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PREVIEW

Apartment Action

A Renewal in Rentals

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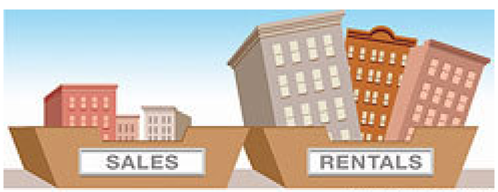
THE CARNAGE IN HOUSING HASN'T SPARED ANY SECTOR of the real-estate market. But favorable fundamentals could turn apartments into lucrative investments again.



William Waitzman

"The demographics are very supportive for apartments, with a lot of young people graduating from college," says Sam Chandan, chief economist of real-estate research firm Reis. An estimated 82 million echo-boomers (baby boomers' progeny) will be striking out on their own over the next seven years. While some surely will move back to the parents' pad, many will join the ranks of the renters. So will an influx of immigrants and displaced homeowners.

During the single-family housing boom, multifamily-market supply was very restrained: Site completions as a percentage of existing stock averaged 1% in the past five years, half the previous five-year average. "It's the best time in 30 years to be investing in apartments," says Christopher Finlay, managing principal of Mission Residential, which does private syndications of apartments in growing middle markets like Salt Lake City -- where '07 rent growth outpaced the 4.4% average increase nationwide.

Shares of apartment real-estate-investment trusts fell 25% last year, more than the total REIT universe of 16%, according to the FTSE Nareit index. But apartment REITs are only one of two sectors to be up year-to-date. Middle-market apartment REITs possibly poised for turnaround: **Mid-America Apartment** (ticker: MAA) and United Dominion (UDR), which don't have big exposures to boom-and-bust markets.