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Fayetteville sees market paradox for apartments

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The rising number of "For Rent" signs on empty Fayetteville apartments has some asking why new rental communities are opening and expanding in the Washington County college town.

Two local real estate survey reports, the Skyline Report and Streetsmart Real Estate Report, have been charting rising vacancy rates in Northwest Arkansas' multifamily commercial real estate market over the past year.

Fayetteville is Northwest Arkansas' premier rental city because of the University of Arkansas' student population, said Tom Reed, partner in Streetsmart Data Services.

The vacancy rate for multifamily properties in Fayetteville was up to just below 14 percent for one- and two-bedroom units in the second quarter, Reed said, the national vacancy rate is between 6 percent and 8 percent.

Since the first of the year, Fayetteville has approved 1,369 additional multifamily units in 75 buildings worth more than $117.76 million, city records show. Another 77 rental units have been approved in multiuse buildings, or construction projects that include a mix of residential and commercial uses.

The Skyline Report commissioned by Arvest Bank Group and conducted by the Sam M. Walton College of Business' Center for Business and Economic Research, also showed stress in the Fayetteville multifamily market in its second-quarter report.

Fayetteville has 44.45 percent of the total 25,737 apartments in

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Benton and Washington counties, the Skyline Report stated.

The city also has more than 25,000 houses with 55 percent, or 13,698, occupied by renters, according to city-data.com.

Nationally, the United States Census Bureau estimated that 33.8 percent of the 127.90 million housing units were occupied by renters in 2007.

Jeremy Pate, director of planning for Fayetteville, said the city's planning commission cannot turn down new apartment developments if the project fits the property's zoning and meets all city ordinances.

Pate said there have been some public comments about limiting the number of new apartment complexes.

"Its like the people who want us to stop approving more fast-food chicken restaurants on Martin Luther King Jr. Boulevard. We can say that a restaurant can go there or it can't. We cannot regulate how many go in," Pate said.

Of Fayetteville's 11,440 rental units in 270 complexes, 14.5 percent were vacant during the first quarter, the Skyline Report said. A year ago Fayetteville reported a rental vacancy rate of 10.6 percent. That increased to 12.2 percent by the end of October, the Skyline Report said.

Fayetteville's vacancy rate was 15.8 percent for the fourth quarter of 2008, up from 10.9 percent in the previous quarter, according to Skyline. The vacancy rate for the fourth quarter of 2007 was 9 percent.

"The market drives whether property owners can make a profit on their property. The university is the No. 1 driver of the multifamily market," Pate said.

More than 20,000 students attend the university each semester, a little less than a third of Fayetteville's estimated 70,000 population, Pate said.

Kathy Deck, director of the Center for Business and Economic Research, said every college town is going to have a broad mix of rental housing that separates those towns from other, more normal, U.S. cities.

"I don't know that there is a normal for college towns," she said.

Scott Rogerson, chief financial officer for Fayetteville-based Lindsey Management, said in an e-mail that university enrollment, marketing costs, property tax rates and the current occupancy rate of the market all play a part in deciding where to build new apartment communities.

Lindsey Management is leasing The Links at Fayetteville, a community that added 604 units to Fayetteville's available apartment total this year.

Rogerson wrote that the large number of new rental units offer great amenities that older properties may not be able to provide. He also said the new properties could be increasing the stress already evident in the market.

"... After these units come on line, there will be fewer new properties built in the coming years ...," Rogerson wrote.

He also stressed that some older properties may be able to offer other amenities that can sway potential renters.

"Some of the older properties may have a better location than a newer property," Rogerson wrote.

Michael Myers, co-owner of six Myers Apartment locations in Fayetteville, said rentals have been going very well despite the new communities on the market.

"I'm a lot less empty than I was earlier in the summer. Still, I'd like to rent a few more," Myers said Friday.

One of the locations, Myers Apartments on Wedington, is the closest of his properties to the university campus. "I still have a couple of spaces open there," Myers said.

Deck said that each developer or apartment management company will have its own strategy for dealing with a local real estate market.

"It might be securing premium pieces of property or expanding their market share within the community. That's business," Deck said.

Figuring in possible market setbacks or potential room for more apartments to come into a town is something that good businesses will consider in their business plan, Deck said.

"The worst that could happen would be investors anticipating the best return scenario and ending up with lesser success," Deck said.

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