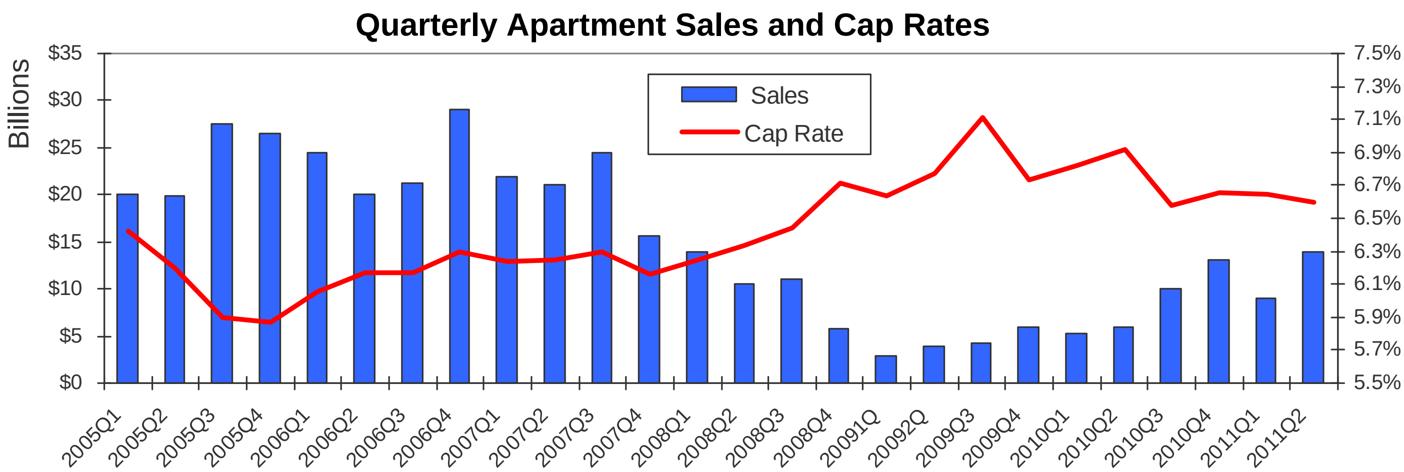
Multifamily Market Commentary – August 2011

Second-Quarter 2011 Multifamily Property Sales Rebound

According to the *July 2011 Mid-Year Review* report from Real Capital Analytics, apartment building sales during second quarter 2011 saw a significant rebound, reaching $13.9 billion, more than 50 percent higher than first quarter 2011's $9.0 billion. This is a year-over-year increase of 132 percent. Real Capital Analytics also reported that overall cap rates fell slightly to 6.60 percent compared to first quarter's 6.65 percent, but remain fairly steady since late last year, as seen in the chart below.



Source: Real Capital Analytics

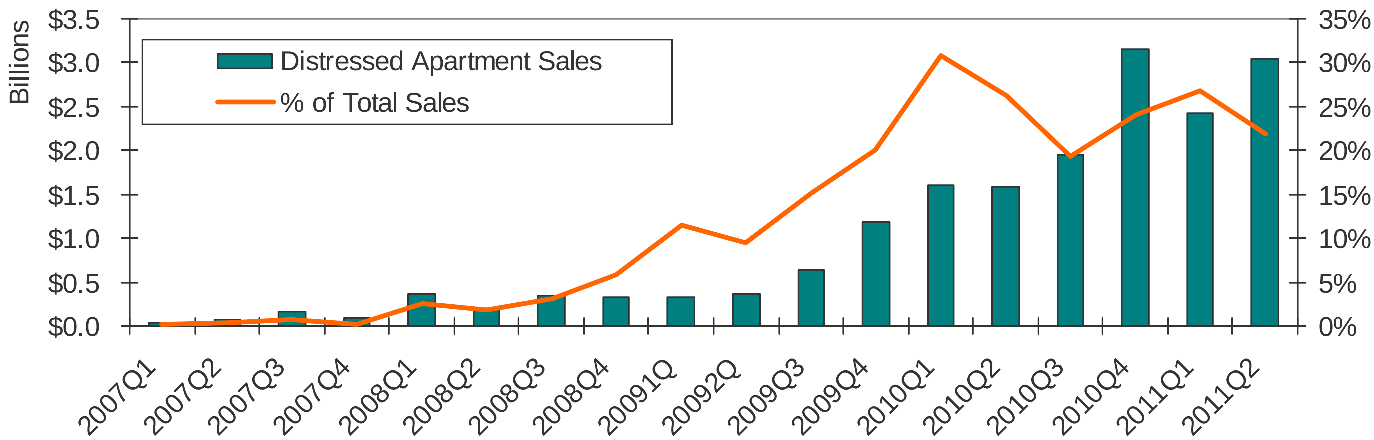
Garden-Style Still in Favor

The overall market volume increase was once again driven by garden-style properties, which Real Capital Analytics defines as multifamily apartment buildings that are three floors or less. Sales volume for mid/high-rises totaled $4.9 billion in second quarter 2011 compared to $3.9 billion in first quarter 2011. Garden-style apartment sales were much higher, totaling $9.0 billion during second quarter 2011, up from first quarter 2011's $5.2 billion. Cap rates for mid/high-rise buildings fell quite a bit to 5.8 percent compared to 6.2 percent in first quarter 2011. In the garden-style category, cap rates have held steady during the first half of the year at 6.8 percent, according to Real Capital Analytics.

Distressed Sales Down, but Greater Share of Transactions

Of the $13.9 billion in apartment transactions Real Capital Analytics was able to classify in second quarter 2011, $3.0 billion was related to distressed properties, which represented 22 percent of all apartment sales, compared to 27 percent in first quarter 2011. Distressed apartment sales have accounted for at least 20 percent of all apartment transactions since fourth quarter 2009, with the peak of 31 percent occurring in first quarter 2010, as seen in the chart on the following page.

Distressed Apartment Sales Volume



Source: Real Capital Analytics

The Usual Suspects Make up the Top Three Metros

Not surprisingly, the top three metros in terms of first half 2011 dollar volume in sales were Manhattan, Los Angeles, and the Washington, DC/Northern Virginia metros, as seen in the table on the following page. All three of these metros saw more than $1 billion in apartment sales during the first half of the year.

Interestingly, Atlanta came in a fairly close fourth with $978 million in apartment sales. Clearly, investors are focusing on Atlanta's long-term growth potential rather than current market conditions. That's likely because despite the metro's job market weakness and excess condo supply, over the forecast horizon Atlanta is expected to see exceptional population growth, especially among prime renting-age residents.

New Entrants in the Top 10

San Francisco, Chicago, Boston, and even Phoenix made it into the top 10 sales metros in terms of first half 2011 dollar volume. Within the top 40 metros, Florida was well represented, with Tampa, Orlando, Jacksonville, and Tallahassee all seeing significant year-over-year increases of 94 percent and higher.

Tertiary Metros Draw Buyers

According to Real Capital Analytics' *July 2011 Mid-Year Review*, a number of tertiary metros saw increased interest, "an indication that capital is starting to chase the high yields in these smaller cities." Indeed, Real Capital Analytics reports that the tertiary Southeast region had the greatest interest from buyers during the first half of the year, with 133 properties sold totaling $1.6 billion.

Expect More of the Same

New apartment offerings totaled nearly $25 billion in first half 2011 alone – the highest level in three years – and distressed property sales remain at nearly one-fourth of the market. Pricing, in terms of cap rates, has remained steady and interest rates are staying relatively low, at least for now. With the ongoing for-sale housing slump, investors should remain interested in the multifamily sector for the foreseeable future.

First-Half 2011 Apartment Sales Activity

Top 40 Metros

Rankings		
1H2011	Market	1H2011($M)
1	Manhattan	$ 2,010
2	Los Angeles	$ 1,868
3	DC VA burbs	$ 1,279
4	Atlanta	$ 978
5	Dallas	$ 885
6	San Francisco	$ 839
7	Phoenix	$ 798
8	Chicago	$ 788
9	East Bay	$ 669
10	Boston	$ 649
11	NYC Boroughs	$ 621
12	No NJ	$ 596
13	Seattle	$ 589
14	Denver	$ 589
15	DC MD burbs	$ 584
16	Inland Empire	$ 532
17	Tampa	$ 496
18	Houston	$ 365
19	Orlando	$ 314
20	Norfolk	$ 304
21	San Diego	$ 297
22	Philadelphia	$ 294
23	Raleigh/Durham	$ 293
24	Portland	$ 291
25	SW Florida	$ 277
26	Charlotte	$ 262
27	San Antonio	$ 229
28	DC	$ 223
29	Orange Co	$ 210
30	Broward	$ 202
31	Las Vegas	$ 192
32	Jacksonville	$ 186
33	Tallahassee	$ 181
34	San Jose	$ 168
35	Nashville	$ 138
36	Palm Beach	$ 137
37	Austin	$ 133
38	Minneapolis	$ 130
39	Sacramento	$ 129
40	North Bay	$ 119

Source: Real Capital Analytics

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