

Multifamily Market Commentary – February 2011

Expect Continued, but Modest, Improvement for Multifamily in 2011

Despite sluggish job growth and the slowly recovering economy, the multifamily sector saw relatively healthy asking-rent growth last year, preliminarily estimated at about 3 percent. However, that doesn't mean rent will continue to grow at that pace in 2011, as some industry participants have been suggesting lately.

Rather, we expect normalized rent growth of 1 percent to 2 percent this year, with the possibility that we may reach 3 percent in 2011 if job growth accelerates during the second half of the year. Reasons for a more normalized rent environment include projected subdued job growth for 2011; concession rates that are still above normal levels; the severe overhang of "for sale" housing which competes as shadow rentals; and the continuing, albeit moderating, new supply of completing condo and apartment rental units.

Sluggish Job Growth

Although the economy is in recovery mode, it may not seem that way, especially to the nation's 13.9 million unemployed workers. Unfortunately, the unemployment rate is expected to remain in the 9 percent range all year, as demand for jobs continues to outstrip job growth.

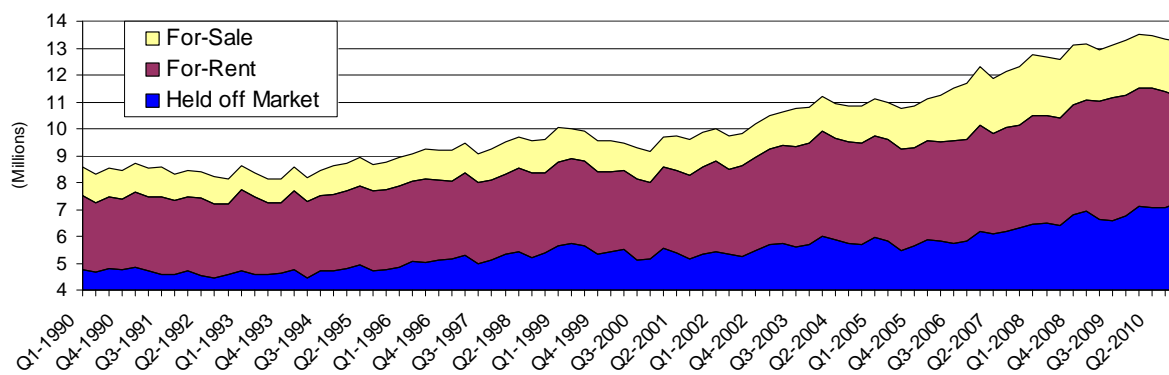
Last year saw fewer than 1 million new jobs created during 12 months, averaging well below the 250,000 new jobs needed monthly to begin returning to pre-recession employment levels over the next few years. According to Moody's Analytics, 2011 is projected to create 1.6 million new jobs, thereby keeping robust rental demand in check.

Housing Overhang Remains Substantial

According to published reports, Moody's Analytics estimates that there were 1.8 million foreclosures in 2010 and that there could be as many as 2.1 million additional foreclosures in 2011. In addition, as of fourth quarter 2010, there were more than 13 million vacant housing units in the U.S., as seen in the chart below.

The Census Bureau reports that there are 3.9 million vacant housing units available for rent, 2 million units available for sale, and 7.2 million units that are being held off the market for unreported reasons. Even excluding the "held off market" units, the Census Bureau estimate shows nearly six million vacant housing units for sale or for rent available today. That's a lot of supply for an economy creating fewer than 100,000 jobs on average per month.

U.S. Vacant Housing Units



Source: Census Bureau

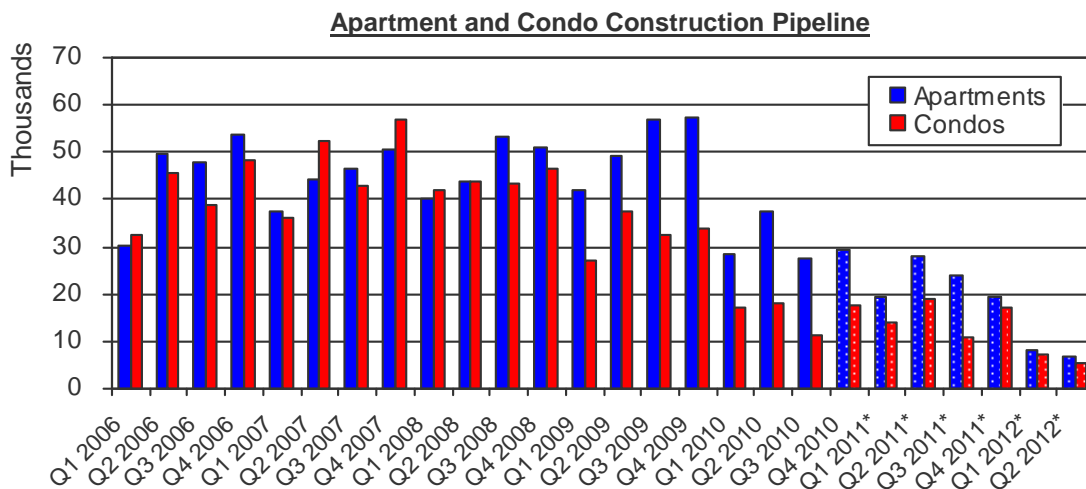
2010 Concessions Need to Burn Off

According to Axiometrics, concessions stumbled a bit during the fourth quarter of 2010, climbing back up to -5.25 percent in December 2010 from -4.81 percent as of September 2010. Although still somewhat inflated, it is important to keep in mind that 2010 started out with a concession rate of -7.4 percent. In addition, elevated concession rates will remain in place throughout 2011 since they were instituted during 2010, thereby keeping rent bumps limited until late 2011 or into early 2012.

More New Supply Coming Online in 2011

While new construction starts are at historically low levels, completions still march on. Granted, new construction completions have slowed down significantly, as seen in the chart below, but there is still more new supply coming onto the marketplace.

Despite the lackluster “for sale” housing environment, there were substantial condo deliveries in 2010. Approximately 65,000 condo units were completed in 2010, although that was down quite a bit from 131,000 in 2009. There are still another 61,000 condos currently under construction and due to deliver in 2011. Apartment deliveries totaled 123,000 units in 2010, down from 206,000 in 2009, but there are another 91,000 apartments expected to be completed in 2011.




Source: CBRE-EA/Dodge Pipeline

Positive but Normalized Rent Growth in 2011

Overall, we project more normalized rent growth in 2011. There may be certain properties in various metros that will warrant – and attain – higher rent increases, but those properties are likely to be at the higher end of the property scale, such as class A multifamily properties.

For the entire multifamily sector, including class A, B, and C properties located in all metros and including over-housed metros such as Las Vegas and Phoenix, we estimate national rent growth of 1 percent to 2 percent. A jump in job growth later in the year could spark more robust improvement in asking rents, especially as the more generous concession rates offered early last year start to burn off. For now, the first half of 2011, a normal rent growth environment is expected.



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