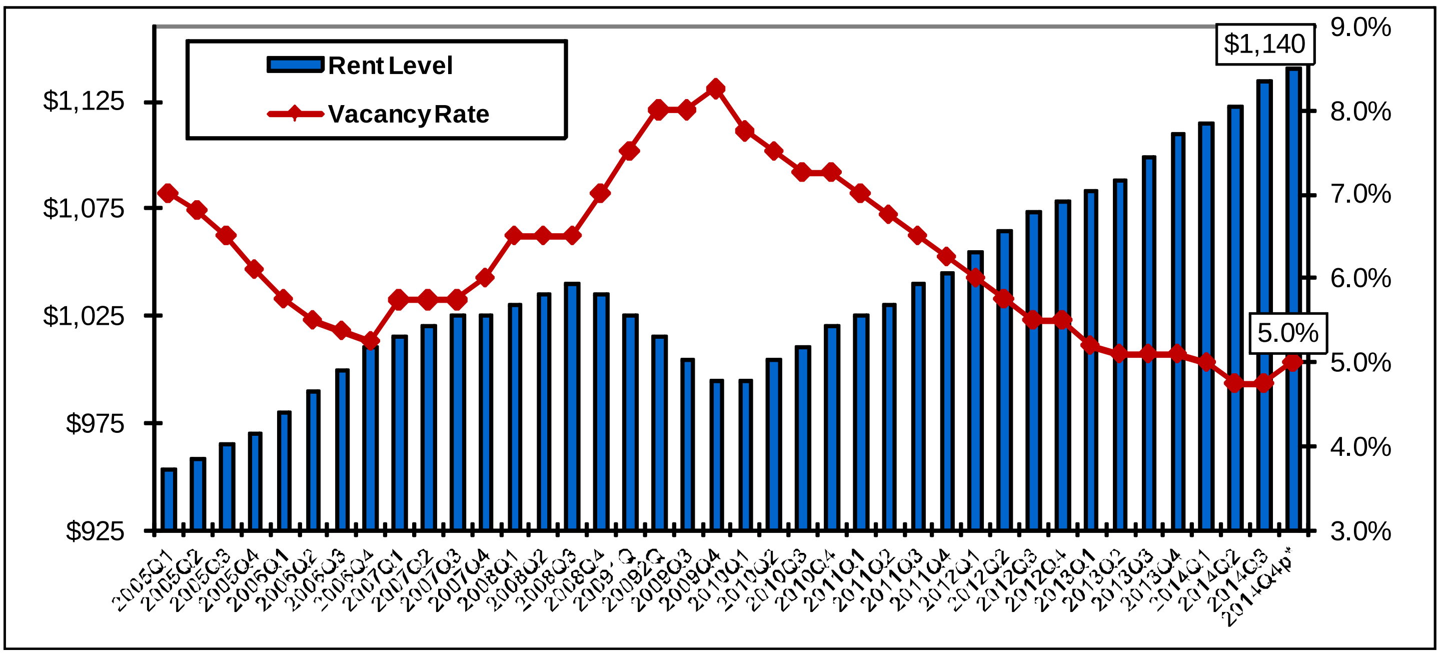
Multifamily Market Commentary – January 2015
Preliminary Multifamily Trends Show Stabilization at End of 2014

National multifamily fundamentals reflected continued but stable demand during the fourth quarter of 2014. Despite the estimated national vacancy level increasing slightly, it remains near its historic low level. Estimated effective rents appear to have increased again, albeit it at a slightly slower pace, making for 19 consecutive quarters of increases as illustrated in the chart below.

Despite new apartment construction starting to come online in a number of submarkets across the country, demand persists, with underlying fundamentals remaining healthy.

Estimated National Rent Level and Vacancy Rate



Source: Fannie Mae Multifamily Economics and Market Research ** Preliminary estimate*

Demand Slowing but Still Positive

Based on an analysis of preliminary third-party data for the fourth quarter of 2014, indications suggest that the vacancy rate for institutional investment-type apartment properties increased slightly to an estimated 5.0 percent, the same level as in the first quarter of 2014. Estimated rents likely rose again in the fourth quarter of 2014, but at a slower pace of 0.5 percent, compared to the impressive 1.0 percent in the third quarter and still-healthy 0.75 percent in the second quarter, and at the same level as the first quarter at 0.5 percent.

As of the end of 2014, it appears that estimated annualized 2014 rent growth totaled 3.0 percent, which is in line with expectations of anticipated multifamily rent growth of between 2.5 percent and 3.0 percent.

Vendors’ Vacancy Estimates Trending Upward

With just one exception, data vendor estimates regarding vacancy directional trends showed an increase. The amount of quarterly movement ranged from no change to an increase of 50 basis points during the last quarter of the year.

Axiometrics has one of the higher-range estimates, with an anticipated quarter-over-quarter increase of 30 basis points in its estimated national multifamily vacancy rate, climbing to 5.2 percent as of the fourth quarter of 2014 compared to 4.9 percent as of the third quarter, but still down from 5.6 percent a year ago (as of the fourth quarter of 2013).

CBRE Econometric Advisors is estimating that vacancy levels also increased, but only by 10 basis points to an estimated vacancy rate of 4.4 percent in the fourth quarter, compared to 4.3 percent in the third quarter. That is still far below CBRE Econometric Advisors’ estimate of 5.0 percent in the fourth quarter of 2013.

CoStar (formerly Property & Portfolio Research) also estimates that the multifamily vacancy rate increased during the fourth quarter of 2014, but with the largest increase among the vendors at 50 basis points – bringing its estimated vacancy rate to 5.1 percent, compared to a revised 4.6 percent as of the third quarter of 2014. In addition, CoStar is one of two data vendors estimating a year-over-year increase from the fourth quarter of 2013. CoStar’s estimated vacancy rate for the fourth quarter of 2013 was 4.7 percent, resulting in a year-over year increase of 40 basis points.

In comparison, Reis, Inc. is bucking the trend, estimating that there was no quarterly change in the national multifamily vacancy rate during the fourth quarter, staying at 4.2 percent. In addition, Reis estimates a slight year-over-year increase of just 10 basis points from the estimated level of 4.1 percent in the fourth quarter of 2013.

Positive Net Absorption Surged at Year End

Reis reports that net absorption – the net change in occupied rental units – was quite healthy again during the fourth quarter of 2014, rising by about 45,027 units, which was the most units absorbed in a quarter since the fourth quarter of 2013. It brings the year’s total to an estimated 164,862 units absorbed, which is the highest total since 2011.

Rental Demand Positive but Slowing

None of the data vendors reporting rent estimates seem to agree on the directional trend of rents. Reis estimates an increase of just 0.6 percent during the fourth quarter of 2014, bringing the total for the year to 3.5 percent. CoStar is estimating no real change in rents again – the same as in the third quarter – with the 2014 total rent growth estimated at just 2.6 percent.

But it is Axiometrics that is showing an actual decrease in rent, with a negative turn of -0.3 percent during the fourth quarter of 2014, but with an annual rent growth of 4.7 percent – the highest by far among the data vendors. Lastly, CBRE Econometric Advisors estimates a fourth quarter 2014 year-over-year rent growth of 2.8 percent.

Vacancy Rates Ticking Up in Some Metro Areas

Clearly, demand for rental housing of all types was quite healthy in 2014. Despite the increase in new multifamily construction, with about 264,000 new multifamily units expected to have come online in 2014, fundamentals for rental demand remain stable – for the most part. Unsurprisingly, vacancy rates are starting to inch up in some metros that have had ever-increasing multifamily construction pipelines for the past few years.

For example, according to preliminary data from CBRE Econometric Advisors, some of the metros that have started to see an increase in their vacancy rates include Austin, with an increase of 20 basis points during just the fourth quarter of 2014 alone, although its estimated vacancy rate remains a very low 4.3 percent. New York was another example, also with an increase of 20 basis points, bringing its estimated vacancy rate to a higher-than-average 5.4 percent – but that is for the greater New York metro area, not just the five boroughs.

While some markets and submarkets are likely to experience a slowdown in rent growth and an increase in vacancy levels during 2015, it is not expected to be long-lasting. For example, Washington, DC saw its estimated rent growth turn positive in 2014, reversing a negative trend experienced in late 2013, despite a plethora of new apartment rentals coming on the market during last year.

On a national level, projected employment growth coupled with solid demographic trends and low homeownership rates is expected to keep rental household formations quite healthy over the next 12-18 months. This, in turn, is expected to help the multifamily rental sector remain stable, with annualized rent growth remaining positive, but with a projected slight increase in vacancy levels during 2015.

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