

Multifamily Market Commentary – July 2013

Preliminary Second Quarter 2013 Multifamily Sector Trends Remain Positive

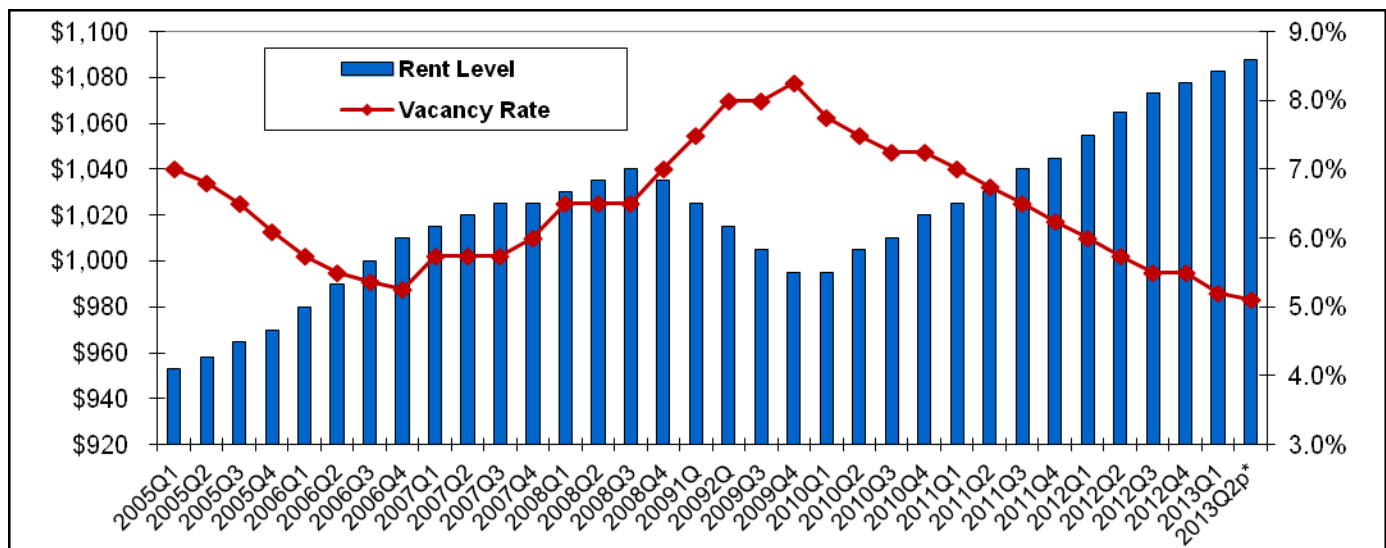
National multifamily fundamentals appeared positive during the second quarter of 2013, albeit at a slightly slower pace compared to the past 12 months. Vacancy levels declined slightly during the quarter, based on preliminary data, continuing the downward trend in vacancies to historic lows.

Rent growth was solid, as were net absorption rates. The amount of new construction supply looming in a number of submarkets across the country remains an ongoing concern. Much of that new supply is expected to come online later this year and into early next year. As a result, the outlook for the multifamily sector remains steady at a national level, but certain submarkets are expected to see a slowdown in net absorption rates and effective rent growth starting later in the year.

Continued Demand in the Second Quarter of 2013

Preliminary third-party data for the second quarter of 2013 suggests that the vacancy rate for institutional investment-type apartment properties likely declined, albeit slightly, by 15 basis points to an estimated 5.10 percent. In addition, preliminary data on asking rents show another increase of 0.5 percent, as seen in the chart below.

Estimated National Multifamily Rent Level and Vacancy Rate



Source: Fannie Mae Multifamily Economics and Market Research

* Preliminary estimate

Vacancy at Historic Low

The estimated vacancy rate of 5.10 percent in the second quarter of 2013 is now at a historic low, below the previous low in the fourth quarter of 2006, as seen in the chart above. Estimated asking rents likely rose again in the second quarter of 2013 by 0.5 percent quarter-over-quarter. As of the second quarter of 2013, it appears that estimated asking rents are on track to reach 2.0 percent growth in 2013, which is in line with Fannie Mae expectations.

Positive Net Absorption in 2Q2013

Reis, Inc. is reporting that net absorption – the net change in occupied rental units – was nearly 32,000 units during the second quarter of 2013, which is down from 39,000 in the first quarter of 2013. Although net absorption has been slowing since the estimated 47,000 units in the fourth quarter of 2012, it remains positive, indicating steady rental demand.

Different Trends Observed in Vendor Data

Not all data vendors agree on the directional change in the multifamily vacancy rate during the second quarter of 2013. Four vendors are reporting preliminary data with three different vacancy rate trends. For example, multifamily real estate research firm Axiometrics, Inc. provides monthly estimates and is showing a decrease in the vacancy rate during the second quarter to 5.2 percent at the end of June 2013, down from 5.6 percent at the end of March 2013.

Commercial real estate research firm CBRE Econometric Advisors also is showing a decline in vacancy rates, estimating that vacancy levels fell by about 20 basis points in the second quarter to 4.6 percent as of June 30, 2013.

Reis has taken a different view from both Axiometrics and CBRE-EA, estimating that multifamily vacancy levels remained flat during the second quarter. Reis states that the multifamily vacancy rate remained unchanged at 4.3 percent in the second quarter of 2013.

Lastly, Property and Portfolio Research is reflecting a different trend, stating that multifamily vacancies likely increased during the second quarter, climbing a significant 30 basis points to an estimated 6.2 percent.

New Supply Still a Concern in Some Areas

Due to the continued demand for multifamily rental units during the past few years, there has been an increase in the amount of new multifamily construction development in many places across the U.S. It is expected that there will be more than 200,000 new multifamily units completed in 2013, according to data from McGraw Hill Construction.

The bulk of this new supply is concentrated in approximately 10 metropolitan areas. As a result, multifamily fundamentals could be affected in certain localized areas, producing a temporary slowdown in net absorption rates, occupancy levels, and effective rents later this year.

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