Multifamily Market Commentary – April 2014

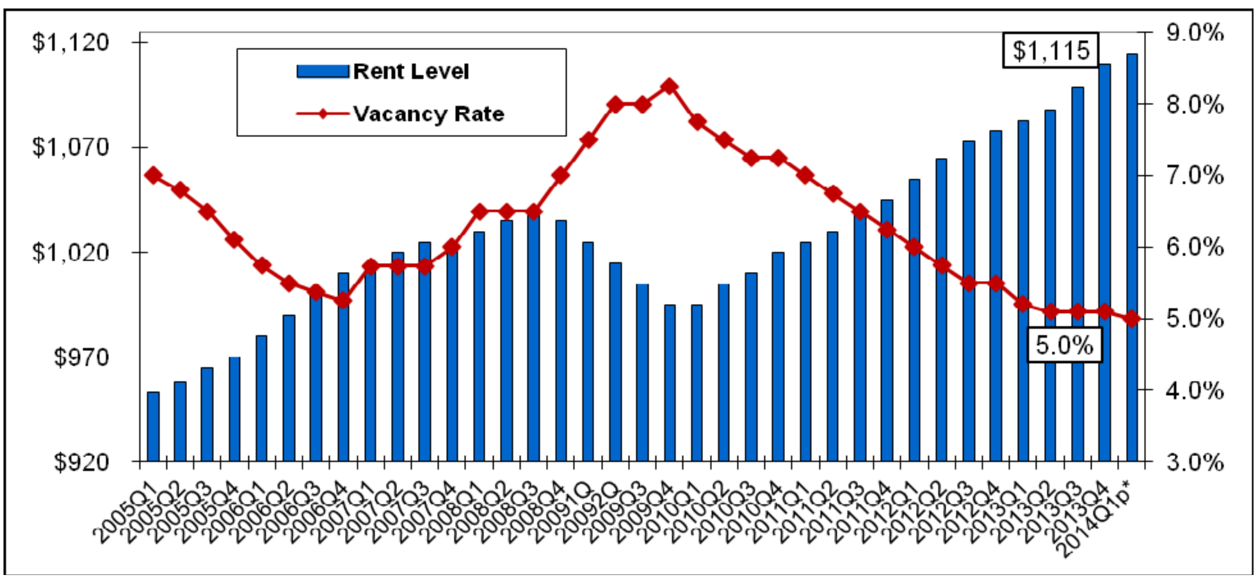
First Quarter 2014 Multifamily Trends Still Showing Improvement

National multifamily fundamentals appeared to show continued improvement during the first quarter of 2014, keeping up the same strong trend from the second half of 2013. Despite new construction supply looming in a number of submarkets across the country, the good news is that demand remains healthy and underlying fundamentals are still solid, with vacancy levels at historically low levels and rent growth increasing yet again during first quarter.

Increased Demand – Again – in the First Quarter of 2014

Preliminary third-party data for the first quarter 2014 suggests that the vacancy rate for institutional investment-type apartment properties likely declined after having remained at the same estimated level during most of 2013. In addition, asking rents likely rose again and, more importantly, have now entered a fourth straight year of increases.

Estimated National Rent Level and Vacancy Rate



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

The first quarter of 2014 estimated vacancy rate of 5.0 percent is now at its lowest point since the fourth quarter of 2006, as seen in the chart above. Estimated asking rents likely rose again in the first quarter of 2014 by about 0.5 percent as compared to the fourth quarter of 2013. As of the first quarter of 2014, it appears estimated asking rents are on track to rise 2.5 percent to 3.0 percent annualized this year.

Vendors Indicate Low Vacancy Persists

While data vendors are split on the directional change in the multifamily vacancy rate during the first quarter of 2014, all reflect ongoing low vacancy rates, reflecting a similar trend of ongoing demand.

Reis, Inc. estimates a decline in the national multifamily vacancy rate. Reis is estimating that its first quarter 2014 multifamily vacancy rate fell to 4.0 percent, down 20 basis points from its fourth quarter 2013 estimated vacancy rate of 4.2 percent.

Commercial real estate research firm CBRE Econometric Advisors shows a similar view as Reis, and estimates that vacancy levels also declined as compared to the fourth quarter of 2013, albeit its 10-basis-point decline is slightly less than the other firms, bringing its estimated vacancy rate to 4.9 percent as of the first quarter of 2014.

Multifamily real estate research firm Axiometrics provides monthly estimates and shows a slight increase in its vacancy rate of 8 basis points during the first quarter of 2014 to 5.7 percent.

Property and Portfolio Research also shows an increase, estimating that the national multifamily vacancy rate inched up in the first quarter of 2014 to 5.9 percent from 5.7 percent as of year-end 2013.

Positive Net Absorption in First Quarter 2014

Reis is reporting that net absorption – the net change in occupied rental units – was robust during the first quarter of 2014, rising by an estimated 41,570 units. While this is less than its fourth quarter 2013 estimate of 49,000 units, it is far above the estimated rate of 36,000 units in the first quarter of 2013. Property and Portfolio Research also estimates positive net absorption of nearly 22,000 units during the first quarter of 2014, and although this is at a lower level than Reis' estimate, it still supports the trend of ongoing, steady rental demand during the first three months of the year.

A Continuation of Positive Rent Growth

All four of the data vendors also reported an increase in rent growth during the first quarter of 2014. CBRE Econometric Advisors estimates approximately 0.75 percent for the quarter, based on an annualized rate of 3.0 percent. Reis and Property and Portfolio Research both are more conservative and are estimating that rent growth grew by 0.5 percent and 0.27 percent, respectively. Axiometrics is reporting an increase on par with Reis, with an estimated increase of 0.5 percent in rents as compared to the fourth quarter of 2013.

Despite the increase in new multifamily construction – an estimated 388,000 units underway as of April 2014, according to data from McGraw Hill Construction's Dodge Pipeline – fundamentals for most metro areas remain stable. There will be – and indeed already are – submarkets that are seeing a slowing in rent growth along with an increase in vacancy levels.

But based on projected employment growth, demographic trends, and expected household formations, the current construction pipeline should be absorbed during the next three to five years. There are some metro areas with positive fundamentals that are suffering from a dearth of new supply, meaning that demand, and therefore rent levels, are likely to continue climbing in many parts of the U.S. over the next few quarters.

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