Multifamily Market Commentary – May 2011

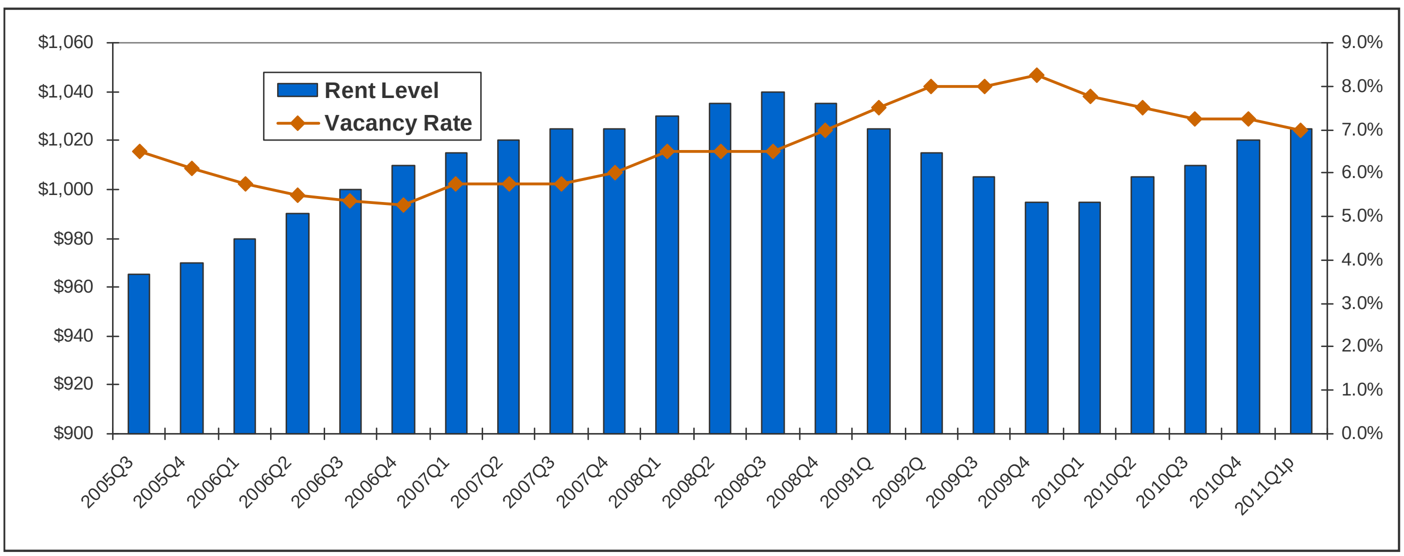
First-Quarter 2011 Multifamily Sector Fundamentals Improved as Expected

Third-party data for first quarter 2011 shows that the national vacancy rate for institutional investment-type apartment properties likely decreased to an estimated 7.0 percent. In addition, as seen in the chart below, asking rents are estimated to have risen slightly during the quarter to an estimated $1,025 average.

First-quarter 2011 estimated vacancy rates and rental performance look to be on track with our forecast. We expect that national rent growth will likely return to more normal averages this year and rise between 2 percent and 3 percent. Based on first-quarter 2011 third-party market data, the annualized rent growth rate indicates an estimated increase of 2.0 percent this year, which is right within the forecast range.

The national estimated vacancy rate is expected to be in the 6.5 percent to 7.0 percent range, and could end up at the lower end of the range if recent solid job growth trends continue during the coming months. And, if job growth should start to pick up substantially, rent growth could climb higher than projected, especially in metros with minimal shadow inventory.

Estimated National Multifamily Rent Level and Vacancy Rate



Source: Fannie Mae Multifamily Economics and Market Research

National Rent Growth Back to Normalized Levels

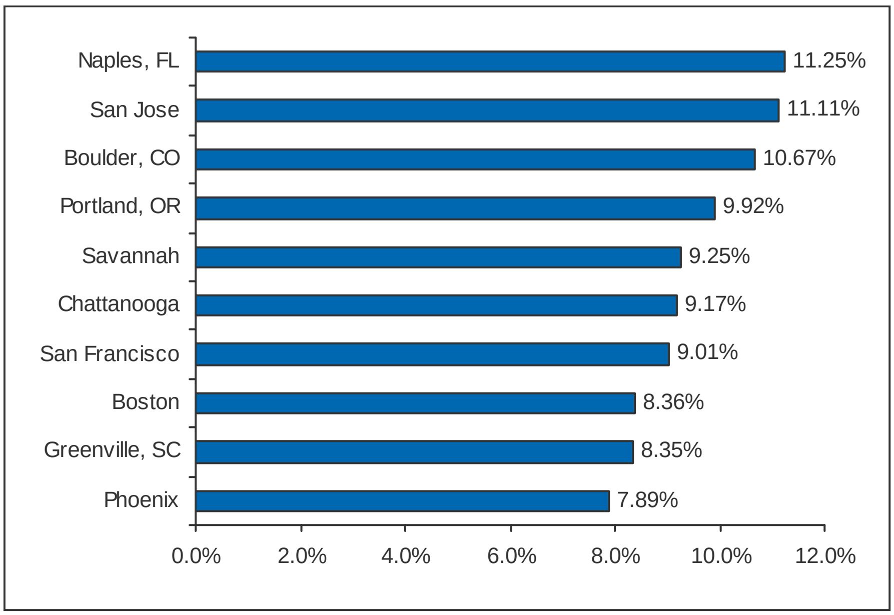
Although national effective rent data from the third-party data vendors all showed an increase, they all reflect a varying range of below 2.0 percent quarter over quarter. REIS estimates effective rent growth of 0.5 percent during the first quarter of 2011, with CBRE-EA at 0.75 percent. Axiometrics is much more optimistic, with its effective rent growth estimate at 1.77 percent. Our estimate is in line with REIS' at 0.5 percent for first quarter 2011.

Some Metros Saw Tremendous Rent Growth

According to Axiometrics, a number of metros saw double digit, year-over-year effective rent growth during the first quarter of 2011, with its estimated national concession rate falling back down to -4.26 percent.

As seen in the chart below, Axiometrics is reporting that metros such as San Jose, CA, and Boulder, CO, saw more than 10 percent effective rent growth year-over-year as of March 2011. Even smaller metros, such as Savannah, GA, and Chattanooga, TN, had more than 9.0 percent effective rent growth thanks to the lack of new supply and shadow inventory, coupled with a steady economic recovery.

Top Markets with Increasing Effective Rental Rates
March 2011 vs. March 2010



Source: Axiometrics

Almost All Metros Saw Some Rent Growth

Some metros saw phenomenal year-over-year effective rent growth, according to data from Axiometrics. Naples, FL saw year-over-year effective rent growth of 11.25 percent, with San Jose, CA, close behind at 11.11 percent. Even Phoenix, AZ, experienced annualized effective rent growth of nearly 8.0 percent.

According to Axiometrics, as of March 2011, almost all of the nation's metros saw at least some annualized effective rent growth during the past 12 months. For example, Detroit, MI, saw 2.78 percent effective rent growth year-over-year, as did Fort Myers, FL, with 2.29 percent. Only the Nevada metros saw a decline in effective rents, with Las Vegas, NV, down by 2.57 percent and Reno, NV, down by 2.15 percent year-over-year.

Expect Steady Improvement in 2011

While recovery rates will vary by metro, the overall multifamily sector should see a steady stream of improving vacancy levels and modest rent growth for the remainder of the year.

Job growth is improving steadily and, in turn, rental demand should continue strengthening. Unfortunately, not all metros will experience the same level of improvement, with some seeing much higher occupancy levels and rental growth rates than others. Nevertheless, on a national scale, we believe the multifamily market is headed for solid improvement in 2011.

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