

Multifamily Market Commentary – April 2013

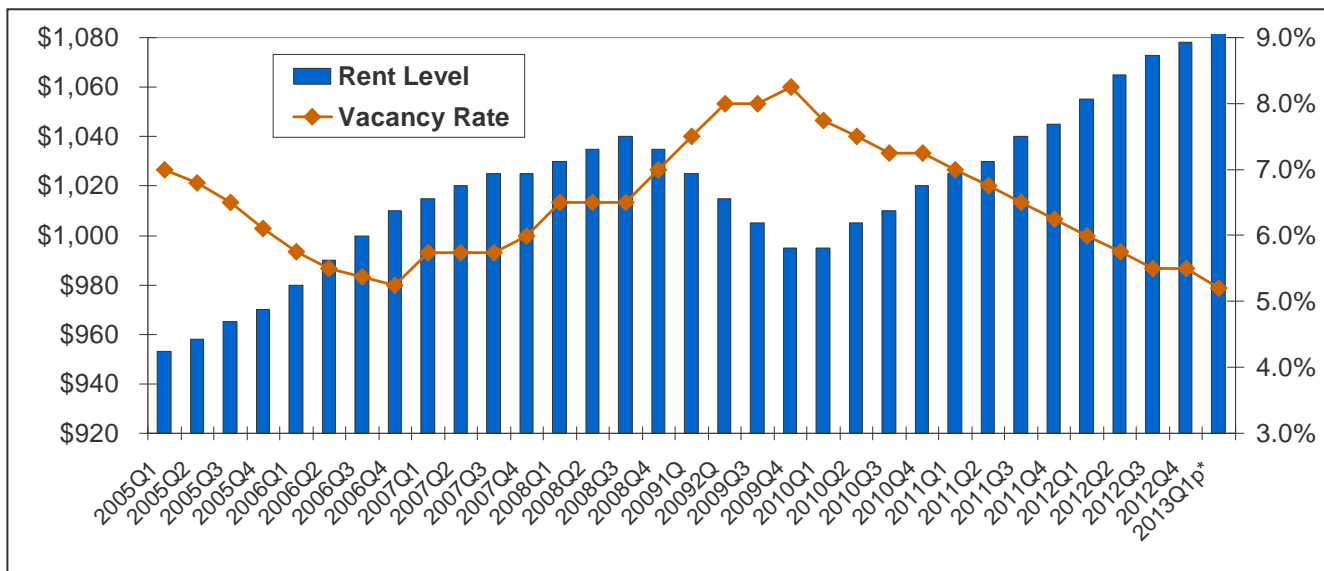
Preliminary First Quarter 2013 Multifamily Sector Trends Still Positive

National multifamily fundamentals appeared to be positive during the first quarter of 2013, despite having slowed during the second half of 2012. Momentum continued in the first quarter, and although some of the data and research vendors present different trends in their first quarter data estimates, underlying fundamentals appear stable with vacancy levels at historic lows. On the downside, new construction supply is looming in a number of submarkets across the country. Much of that new supply is expected to come online later this year, so although the outlook for multifamily for the first half of 2013 remains steady, the outlook now for the second half of the year appears less certain.

Increased Demand in First Quarter 2013

Preliminary third-party data for the first quarter of 2013 suggests that the vacancy rate for institutional investment-type apartment properties likely declined after having remained at the same estimated level during the third and fourth quarters of 2012. In addition, asking rents likely rose again and, more importantly, have been rising steadily for three years.

Estimated National Multifamily Rent Level and Vacancy Rate



Source: Fannie Mae Multifamily Economics and Market Research

The estimated vacancy rate of 5.25 percent in the first quarter of 2013 is 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 2013 by 0.5 percent quarter over quarter. As of the first quarter of 2013, it appears estimated asking rents are on track to reach 2.0 percent annualized growth, which is in line with current expectations for the year.

Positive Net Absorption in the First Quarter of 2013

Data and research vendor Reis, Inc. reports that net absorption – the net change in occupied rental units – was solid during the first quarter of 2013, rising by 36,000 units. While this is lower than the estimated 47,000 units in the fourth quarter of 2012, it is similar to the estimated rate in the first quarter of 2012, representing ongoing, steady rental demand.

Directional Differences in Vacancy Data

Not all data and research vendors agree on the directional change in the multifamily vacancy rate during the first quarter of 2013. Axiometrics, which provides monthly estimates, shows an increase in the vacancy rate, climbing by 17 basis points during the first quarter of 2013 to 5.9 percent, up from 5.7 percent in the fourth quarter of 2012. However, Reis, Inc. estimates a decline in multifamily vacancy. Reis, Inc. states that the first quarter of 2013 multifamily vacancy rate dipped to 4.3 percent after having fallen by 20 basis points for the second quarter in a row. Commercial real estate research firm CBRE Econometric Advisors shows yet another view, estimating that vacancy levels remained flat during the first quarter of 2013 at 5.1 percent, the same estimate it had for the first quarter of 2012.

A Slowing in Rent Growth

Unlike with vacancy rates, all three of these data vendors reported an increase in effective rent growth during the first quarter of 2013.

CBRE Econometric Advisors is the most bullish, with an estimate of approximately 0.725 percent, based on an annualized rate of 2.9 percent. Reis, Inc. is slightly more conservative, stating that rents grew by 0.5 percent. Axiometrics reports a 0.4 percent increase in rents quarter over quarter, the lowest increase among the three.

Some Concern Ahead

Several years of continued improvement in multifamily sector fundamentals have helped boost property values, and as a result, there has been an increase in new multifamily construction development in a number of metro areas. According to Axiometrics, more than 180,000 new multifamily units are expected to be completed and available this year, which could result in an over-supply of units in some submarkets.

With job growth appearing sluggish, coupled with potentially negative effects from sequestration on some state and local economies, it is likely that there will be a slowdown in future rent growth, along with an increase in vacancy rates, later this year and perhaps carrying over into early 2014.

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