

# Multifamily Market Commentary – June 2013

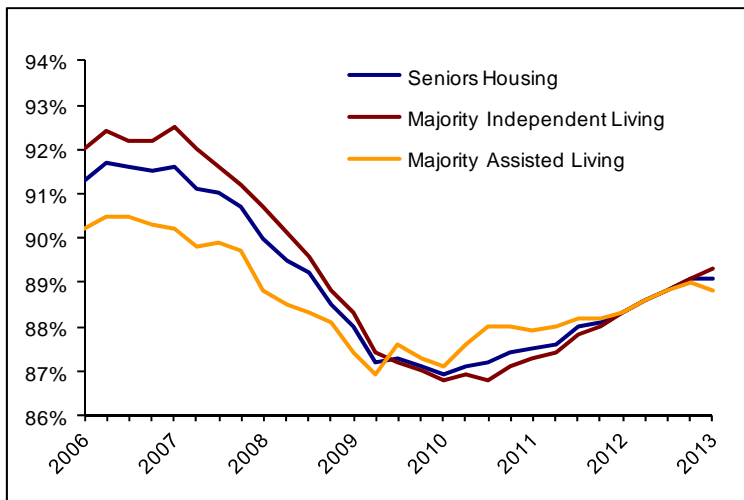
## Seniors Rental Housing Fundamentals Appear to be Holding Steady

The seniors rental housing sector's underlying fundamentals seem to be holding steady as of the first quarter of 2013, after experiencing steady improvement throughout all of 2012, based on an analysis of data from the National Investment Center for the Seniors Housing & Care Industry (NIC), a leading industry provider of seniors housing data. Although the seniors rental housing sector – defined here as rental units located in independent living and assisted living communities – is primarily a niche investment property type, it remains a viable housing and lifestyle choice for many seniors.

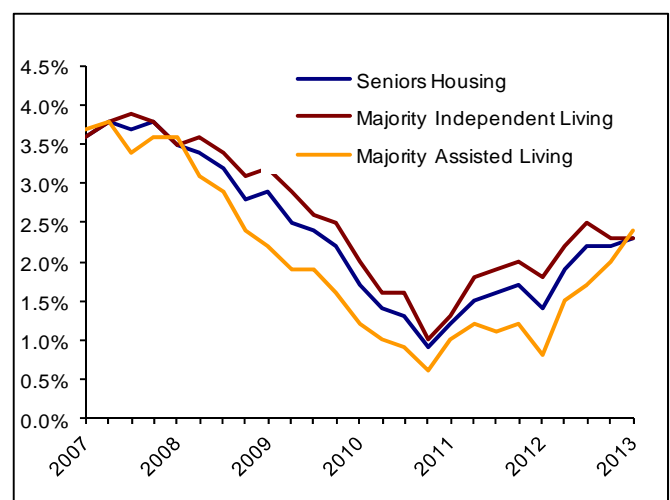
### Seniors Rental Housing Still Benefiting from Improved Single-Family Sector

Seniors rental housing is affected by the single-family housing sector as many seniors tend to sell their homes in order to transition into renting seniors housing. As a result, seniors rental housing fundamentals have improved during the past two years, as seen in the charts below. Also, although single-family housing prices have been increasing -- growing by 10.2 percent nationally in the first quarter of 2013 over the first quarter of 2012, according to March 2013 S&P/Case-Shiller data -- some metro areas saw much smaller increases. New York, for instance, experienced a 2.6 percent increase. This variation in geographic home price appreciation is likely one of the reasons why the seniors rental housing sector remained steady in first quarter 2013.

**Occupancy Levels by Property Type**



**Year-over-Year Rent Growth by Property Type**



Source: NIC MAP 31 Data & Analysis Services, data as of 1Q2013. (Includes entrance fee properties.)

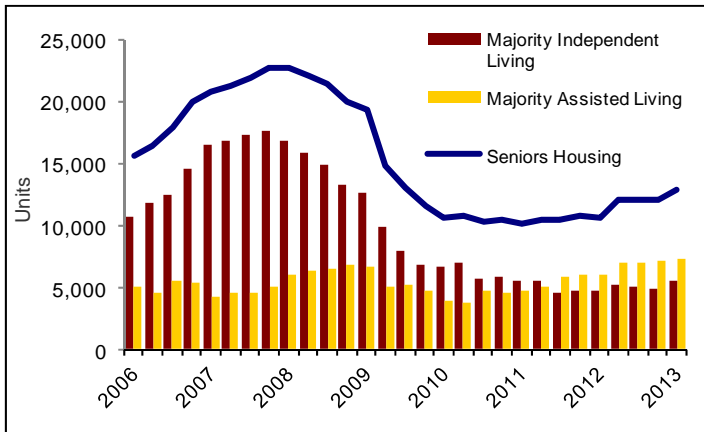
### Seniors Housing Sector Seemingly in Good Shape

Occupancies were unchanged for seniors housing in first quarter 2013, remaining at 89.1 percent, as seen in the chart above. Majority assisted living saw a decline of 0.2 percent in occupancy to 88.8 percent and majority independent living saw an increase of 0.2 percent in occupancy to 89.3 percent. Overall, seniors housing occupancy hit a cyclical low of 86.9 percent in the first quarter of 2010 and has been improving generally each quarter since.

Annual rent growth for overall seniors housing improved to 2.3 percent in first quarter 2013, up slightly from 2.2 percent for fourth quarter 2012 and the fastest growth since the rate of 2.5 percent in the fourth quarter of 2009, as seen in the chart above.

The improvement in the first quarter of 2013 marks the ninth consecutive quarter of increasing rent growth rates. For the first time since the first quarter of 2008, majority assisted living's rent growth was stronger than majority independent living properties. During the first quarter of 2013, majority assisted living's rents increased 2.4 percent while majority independent living's increased 2.3 percent.

### Units Under Construction by Property Type



Source: NIC MAP 31 Data & Analysis Services, data as of 1Q2013. (Includes entrance fee properties.)

1Q13 NIC MAP 31 (Top 31 metros)	Seniors Housing		
	Aggregate	Majority IL	Majority AL
<b>Overall Occupancy</b>	89.1%	89.3%	88.8%
<b>YoY Rent Growth</b>	2.3%	2.3%	2.4%
<b>Quarterly Absorption</b>	1,444	923	521
<b>Quarterly Inventory Growth</b>	1,406	358	1,048
<b>Inventory</b>	518,329	326,023	192,306

### Net Absorption Slowing Down

During the first quarter of 2013, net absorption slowed to its lowest level since the first quarter of 2010, though it outpaced inventory growth slightly. Total net absorption for seniors housing was a total of 1,444 units during the first quarter of 2013, down from 2,850 units in the fourth quarter of 2012. Majority independent living's absorption was 923 units in the first quarter of 2013, down 34 percent from the prior quarter. Majority assisted living properties saw a significant decrease in net absorption, declining to 521 units in the first quarter of 2013, a 64 percent decrease from the prior quarter.

### New Construction on the Rise

Construction activity picked up moderately in the first quarter of 2013, as seen in the chart above. The total number of seniors housing units under construction was nearly 12,800 units as of the end of the quarter, up 6.3 percent from the fourth quarter of 2012. Construction activity peaked in the first quarter of 2008 when 22,783 units were under construction. As of the first quarter of 2013, 5,565 majority independent living units were under construction, which is an increase of 14 percent from the fourth quarter of 2012. In comparison, there were 7,233 majority assisted living units under way, which is an increase of just 0.9 percent from fourth quarter 2012.

### Transaction Activity Up Year-over-Year

Total seniors housing property sales volume totaled \$3.1 billion on 165 properties during the first quarter of 2013, down 19 percent from the previous quarter, but up a significant 237 percent from the first quarter of 2012. Despite the quarterly decline in overall sales volume, the total volume for the first quarter of 2013 is the fourth-highest volume quarter since the first quarter of 2008.

### Cap Rates Drifted Upwards

Cap rates continued fluctuating in the first quarter of 2013, with the average for the quarter increasing to 7.87 percent, up from 7.14 percent in the fourth quarter of 2012, and year-over-year, from the rate of 7.43 percent in the first quarter of 2012. Quarterly changes have been volatile in the past few years with no perceptible long term trend. Indeed, the average has ranged from a low of 6.55 percent in the third quarter of 2008 to a high of 9.85 percent in the first quarter of 2009.

## Seniors Rental Housing Outlook Remains Stable

Seniors housing appears to remain in good shape, but we expect to see conditions moderate slightly in the near term. It is riding the continuing wave of baby boomers reaching age 65 combined with a stabilizing single-family housing sector. But new development is starting to pick up and new units will likely outpace absorption later this year for the first time since the first quarter of 2010. Rent increases are expected to be positive, and overall occupancy should improve slightly by early next year to approximately 89.5 percent.

Longer term, although development activity has picked up in the past few months it remains well below the levels reached at the height of the housing boom. The demographic changes of the next several years should allow seniors housing to prosper. However, unexpected shocks to the national economy or to the for-sale housing sector could present surprise hurdles.

*Note: For more information on NIC MAP® Data and Analysis Services, please visit [www.nicmap.org](http://www.nicmap.org) or call (410) 267-0504.*

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