

Multifamily Market Commentary – October 2013

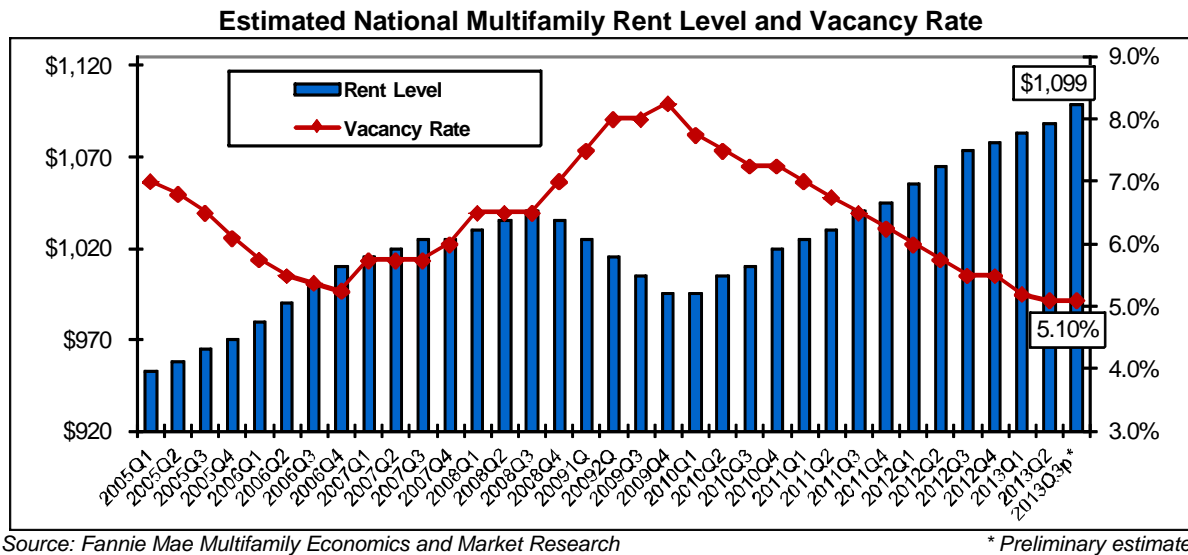
Third Quarter 2013 Preliminary Trends Show Demand for Multifamily Still Positive

National multifamily fundamentals appear to have remained positive once again during the third quarter of 2013 with robust rent growth despite stabilizing vacancy levels. Preliminary data indicate that vacancy levels remained flat during the quarter, which is not surprising considering multifamily vacancies are at historic lows.

Rent growth was healthy, as were net absorption rates, reflecting ongoing demand for multifamily rental units. The ongoing concern remains the amount of new construction supply looming in a number of submarkets across the country. Much of that new supply is expected to come online later this year and early next year. Therefore, the outlook for multifamily remains steady at a national level, but certain submarkets are expected to see a slowdown in net absorption rates and effective rent growth in early 2014.

Continued Demand in the Third Quarter of 2013

Preliminary third-party data for the third quarter of 2013 suggest that the vacancy rate for institutional investment-type apartment properties remained the same as in the second quarter of 2013, at an estimated 5.10 percent. On the other hand, they suggest rents rose again by a robust 1.0 percent.



Vacancy Levels Remain at Historic Trough

The current estimated vacancy rate of 5.10 percent has stayed at its trough for two consecutive quarters, and remains below its previous lowest point of 5.25 percent in the fourth quarter of 2006. Estimated rents spiked during the third quarter, growing by 1.0 percent quarter over quarter, and are now on track to reach an annualized rate of 3.0 percent.

Positive Net Absorption Soared in the Third Quarter of 2013

Reis, Inc. reported that net absorption – the net change in occupied rental units – was more than 40,000 units during the third quarter of 2013, up significantly from 34,000 units in the second quarter and 36,000 units in the first quarter. The increase in positive net absorption appears to reflect ongoing demand for multifamily housing due to continued job growth, demographics, and ongoing household formations.

Data Vendors Close on Estimates

Data vendors seem to be nearly in agreement regarding the directional change in the multifamily vacancy rate during the third quarter of 2013. Three of the vendors used by Fannie Mae are showing slight decreases in vacancy levels, with just one estimating no change from the previous quarter.

Multifamily real estate research firm Axiometrics provides monthly estimates and is showing that vacancy barely dipped, with a 10-basis-point decrease during the third quarter of 2013 to 5.2 percent, down from 5.3 percent at the end of June 2013.

Reis, Inc. also estimates that multifamily vacancy levels declined by 10 basis points during the third quarter of 2013 from 4.3 percent to 4.2 percent.

Property & Portfolio Research estimates that multifamily vacancies declined by 20 basis points during the third quarter of 2013, bringing its estimated vacancy rate to 4.1 percent.

Commercial real estate research firm CBRE Econometric Advisors – the only vendor showing that vacancy rates remained flat – estimated that the multifamily vacancy rate is at 4.6 percent as of the third quarter of 2013, after having fallen 20 basis points during the second quarter of 2013.

Most Vendors Reporting Solid Rent Growth

Three out of the four data vendors reported an estimated increase in effective rent growth during the third quarter of 2013. Property & Portfolio Research estimates an actual decline in rent growth of 0.5 percent for the third quarter, resulting in a year-over-year rent growth estimate of 1.7 percent.

Axiometrics estimates the largest increase in effective rents with 1.2 percent rent growth in the third quarter alone. Reis shows a similar estimate of 1.0 percent effective rent growth. CBRE Econometric Advisors is close behind, with an annualized rent growth estimate of 3.0 percent, or 0.75 percent on a quarterly basis.

New Supply Still a Concern in Some Submarkets

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 fewer than 200,000 new multifamily units completed this year alone, according to data from McGraw Hill Construction, with another 227,000 expected next year.

The bulk of this new supply is concentrated in approximately 10 metropolitan areas. As a result, multifamily fundamentals could be impacted in certain localized areas, producing a temporary slowdown in net absorption rates, occupancy levels, and effective rents during the first half of 2014.

Kim Betancourt
Director of Economics
Multifamily Economics and Market Research

October 2013

Opinions, analyses, estimates, forecasts and other views of Fannie Mae's Multifamily Economics and Market Research Group (MRG) included in these materials should not be construed as indicating Fannie Mae's business prospects or expected results, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the MRG bases its opinions, analyses, estimates, forecasts and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts and other views published by the MRG represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.