

Multifamily Market Commentary – June 2011

Multifamily Construction Completions at Record Low Levels

Overall housing starts are at historic lows and multifamily new construction is no exception. Looking at the Dodge Pipeline data, there are less than 230,000 multifamily and condo units under way. As a result, year to date completions through May 2011 totaled just 31,312 units, well below historic averages.

Despite the oversupply of single-family housing, demand for multifamily rentals is outpacing supply quickly in many metros. Even at the national level, apartment rental demand has been quite robust, resulting in rising rents and declining concession rates.

Declining Levels of Completions Since 2007

As seen in the chart below, total completions of both apartments and condos have been falling since the most recent peak of nearly 368,000 combined units in 2007. More condos than apartments came online that year, with more than 188,000 condo units completed, compared to 179,000 apartment units. The steep drop-off in overall completions occurred in 2010, with slightly more than 337,000 apartment and condo units completed in 2009, followed by less than 187,000 total units completed in 2010.

The drop-off in completions continues to be severe. Just 155,300 apartment and condo units are expected to come online this year. Unsurprisingly, the majority of this year's expected completions are in the apartment category, with about 96,400 units, while condos account for less than 59,000 units.

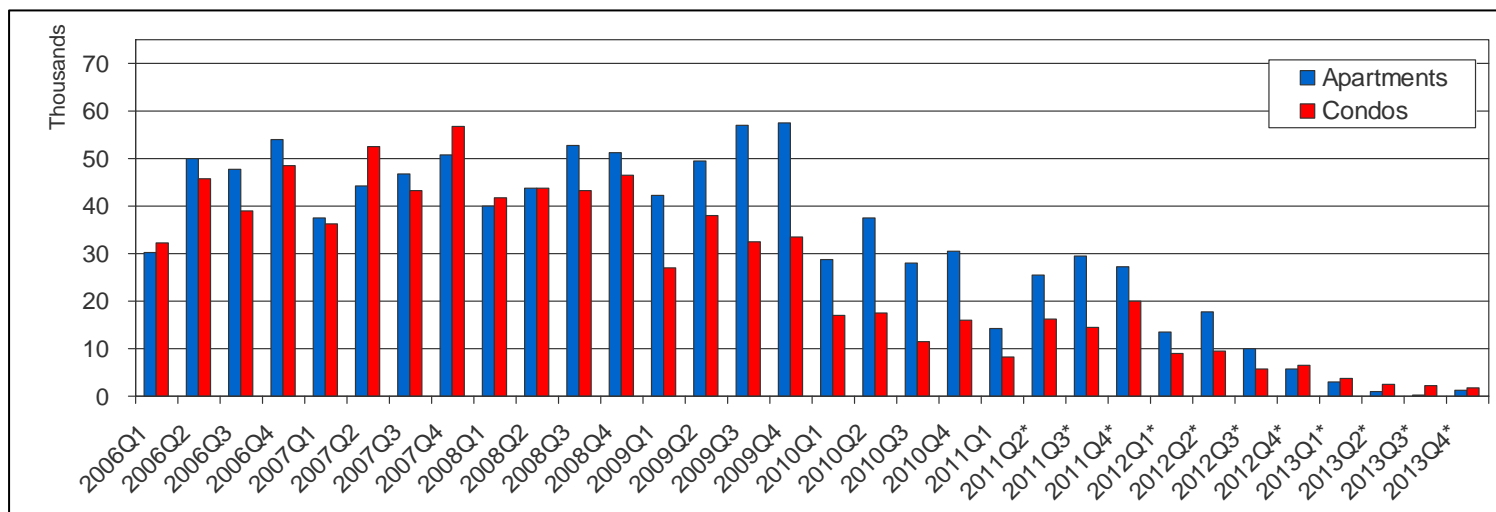
Dwindling Supply After 2012

There are an estimated 77,600 apartment and condo units expected to complete in 2012, but beyond that timeframe the number of completions plummet. According to the Dodge Pipeline data as of May 2011, only 15,800 apartment and condo units are scheduled for completion in 2013 with just another 12,000 units expected after that date. The vast majority of the units coming online in 2013 and beyond consist of condos, totaling more than 20,000 units, compared to just 7,400 apartment units.

Vacant 1-4 Unit Housing Structures

Despite the dwindling supply of new multifamily rental units, there is still a sizable quantity of vacant housing units in the U.S. According to the Census Bureau, as of Q1 2011 there were more than 14 million vacant housing units. While 7.4 million units were being held off market, about 3.5 million units were either temporarily occupied or used occasionally. The remaining 3.9 million units appeared to be truly vacant. Another 4 million were available for rent, but of these, 35 percent consisted of single-unit housing structures, single-family, and manufactured homes. The remaining 65 percent of rentable units consisted of two or more units, which includes 1-4 unit housing structures. While these types of units tend not to compete with professionally-managed multifamily rental properties for tenants, they can be considered a viable, active shadow supply in many metros.

National Condo and Apartment Completions and Units Under Way



Source: CBRE-EA/Dodge Pipeline, May 15, 2011

* Expected completion date

Completing Condos Concentrated in Certain Metros

Of the nearly 59,000 condo units under construction and due to deliver in 2011, a majority of them are located in a handful of metros, as seen in the chart below. Many of these housing units can and do compete with apartments in their ability to attract tenants.

Chicago continues to have a sizable amount of condo projects under way, with nearly 3,800 units completing this year alone and another 2,500 due in 2012 or beyond. There are about 1,300 apartment units under way, and it is likely that many of the condos will become rentals. Fortunately, Chicago's economy is in recovery. Indeed, the U.S. Bureau of Labor Statistics recently revised the metro's year-over-year job growth statistics to show a positive gain of 41,000 jobs as of January 2011. Nevertheless, there is still an oversupply of condos in the Chicago metro, which is not expected to see much net absorption over the coming year.

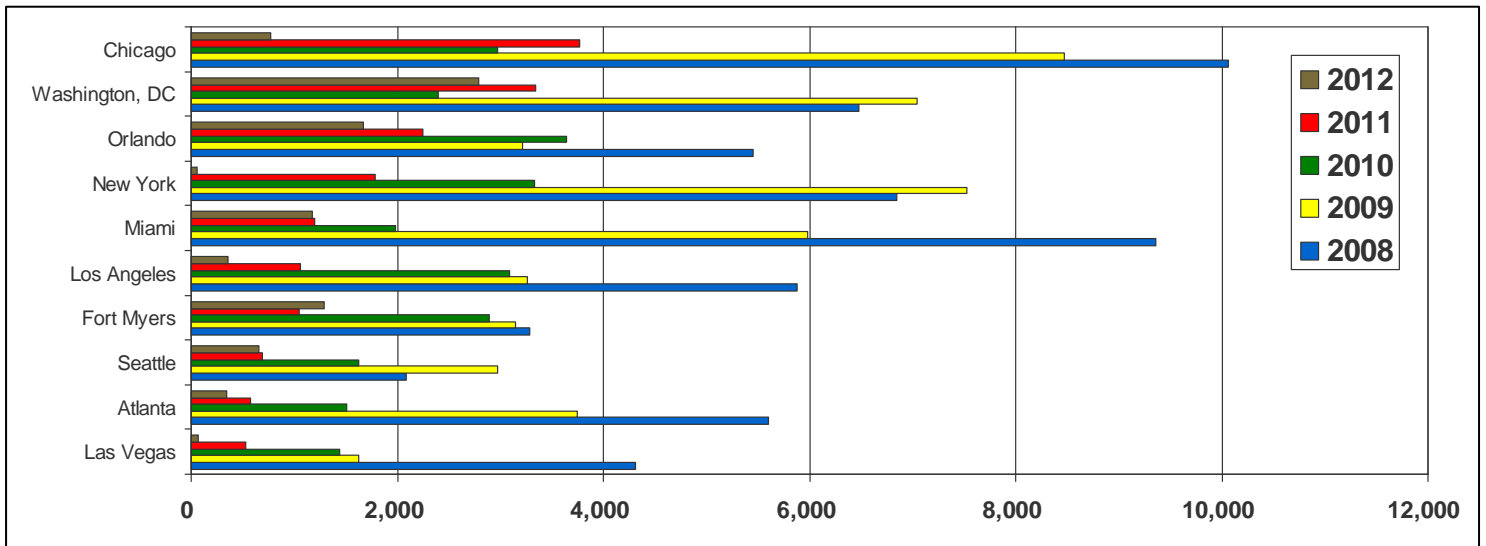
Washington, DC, also has a large number of condos completing this year, totaling nearly 3,400. The good news is that the DC metro recovered from the Great Recession last year — job growth has been solid — and continues to be one of the best performing multifamily metros in the country, with multifamily vacancy rates and asking rents now back to pre-recession levels. A lingering concern here is that the supply of condos that could be turned into apartments represents an impediment to stronger growth in certain submarkets. On the bright side, the metro will need all of today's development, and more, to satisfy expected growth, but possibly not until 2012 or later.

Not All Rental Markets Are Created Equal

According to the Census Bureau, national new construction of buildings with five or more units fell by 28.3 percent month-over-month in April 2011, but is still up by nearly 6.0 percent year-over-year. With overall multifamily completions abating, developers have taken notice.

In certain metros, such as Washington, DC, with nearly 11,000 apartment units under way, and New York, NY, with 16,000 units under way, there will likely still not be enough supply to meet demand. In contrast, other metros will not be so fortunate. Those with below average job growth coupled with active condo pipelines — such as Fort Myers, FL, with another 2,500 units, and Fort Lauderdale, FL, with 2,700 units set to deliver over the next 18 months — are expected to continue to lag the overall multifamily sector's robust growth trends.

Condos: Units Completed and Units Under Way*



Source: CBRE-EA/Dodge Pipeline

* Expected completion date

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