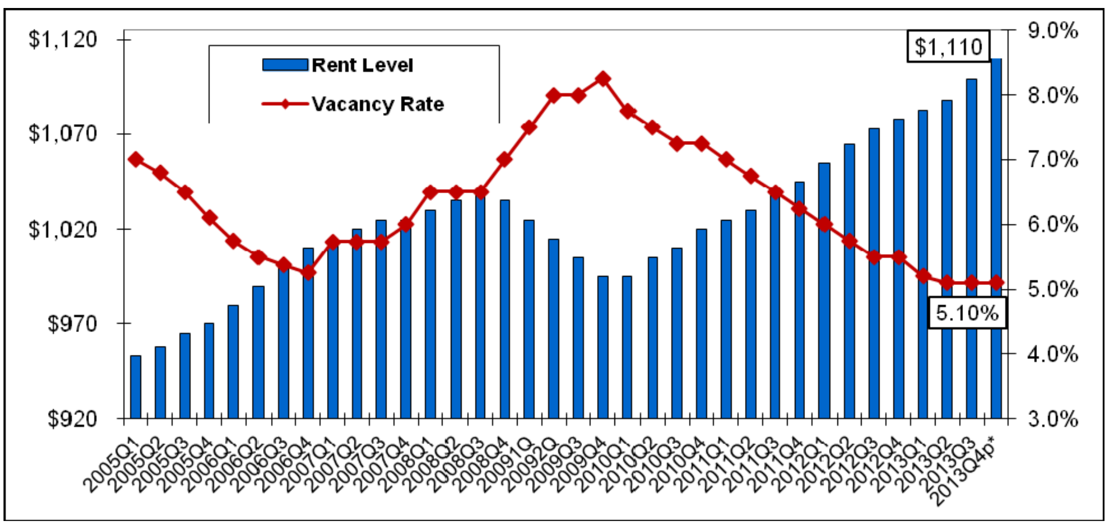
Multifamily Market Commentary – January 2014
Multifamily Expected to Stay the Course in 2014

National multifamily fundamentals held up quite well during 2013, despite an influx of new, higher-end supply in some submarkets. Continued demand for rental apartments remains a positive force across most of the country and, more importantly, is expected to continue into 2014.

As illustrated in the chart below, estimated rent levels have increased steadily for 15 straight quarters. Fourth quarter 2013 bucked the seasonality trend of an uptick in vacancy levels and instead this time remained stable at an estimated 5.1 percent for institutional investment-type apartment properties. Vacancy has been estimated at this level for three quarters in a row now, but is down from 5.5 percent at the end of 2012. Estimated asking rents increased around 1.0 percent during the quarter, to $1,110, a nearly 3.0 percent increase for the year, which had been expected.

Estimated National Rent Level and Vacancy Rate



Source: Fannie Mae Multifamily Economics and Market Research ** Preliminary estimate*

No Slow-Down at Year End

Preliminary data on national multifamily fundamentals indicates that the market's moderate strength continued into the fourth quarter of 2013. Instead of experiencing the effects of the seasonality slow-down that typically occurs during the last three months of the year, rent growth appears to have been nicely positive, especially when compared to the prior year.

Nevertheless, some early-winter pricing softness was reported. There also are some indications that the rising level of average asking rents has been helped by a large volume of higher quality new apartments coming online, rather than strong, underlying fundamental demand. And, despite a large volume of new apartments completed, it appears that overall vacancy levels were virtually unchanged during the quarter.

The steady absorption of newly constructed units in the fourth quarter of 2013 indicates that demand for rental apartments remained steady, though not strong enough to bring already historically low vacancy rates any lower. Preliminary data indicates that net absorption rates were remarkably strong. Given the ongoing concerns about too much supply in various submarkets across the country, this is a positive outcome.

Net Absorption Strong Again in Fourth Quarter 2013

Reis, Inc. is reporting that estimated net absorption – the net change in occupied rental units – was at its highest level since the end of 2010 at more than 50,700 units for the fourth quarter of 2013 alone, up significantly from 41,300 units in the third quarter and 33,600 units in the second quarter. Given that the fourth quarter often sees a seasonal easing of net absorption levels, this end-of-year performance is impressive. Total net absorption of 165,000 units for all of 2013 marks an improvement over 138,000 units in 2012, but remains below the levels reached in 2010 and 2011, when 229,000 and 173,000 units were absorbed, respectively.

Data Vendors Show Only Slight Differences

Preliminary fourth quarter results have the data vendors generally within a reasonable consensus range, with only minor differences in the primary indicators. Reis and CBRE Econometric Advisors both report that demand was strong in the fourth quarter, with vacancy levels virtually unchanged. On the other hand, Property & Portfolio Research and Axiometrics reported some softness in vacancy rates.

Reis estimates that multifamily vacancy levels declined by 10 basis points during the fourth quarter of 2013 to 4.1 percent, the lowest estimated vacancy rate among the four data vendors. Vacancy rates started the year at 4.6 percent according to Reis, with the bulk of last year's tightening coming in the first quarter when vacancy improved 0.3 percent.

Commercial real estate research firm CBRE Econometric Advisors estimates that vacancy rates remained flat at 5 percent in the fourth quarter of 2013, unchanged from the prior quarter and at the same level as one year ago. The company noted that the typical end-of-year seasonal increase in vacancy rates was lower than expected, which is an indicator of the generally strong demand seen market-wide.

Property & Portfolio Research has the highest estimated vacancy rate of the vendors. Theresearch firm is estimating that, during the fourth quarter of 2013, the multifamily vacancy level increased, but only by 10 basis points to 5.7 percent for the top 54 metro areas in the country.

Results from multifamily real estate research firm Axiometrics is similar in that it also shows that vacancy ticked up slightly during the quarter, increasing to 5.5 percent, up from 5.2 percent as of the third quarter of 2013. From an annual perspective, Axiometrics is estimating that vacancy rates improved 0.2 percent from 5.7 percent.

Rent Growth Has Mostly Positive Indicators

Each of the data vendors estimates that rent growth was solidly positive in 2013. CBRE Econometric Advisors estimates that effective rent growth was in the 2.5 percent to 3.0 percent range for the year. Reis estimates that asking and effective rent growth was 0.8 percent in the fourth quarter of 2013, which it noted was down from the prior year, but an increase over early 2013. Axiometrics showed softness late in the year, with effective rents down 0.9 percent during the fourth quarter of 2013, but on annualized basis rent growth was a healthy 2.8 percent. Property & Portfolio Research estimates annualized rent growth of 2.7 percent for 2013.

Supply a Concern but Demand Kept Pace

Despite a surge in supply in 2013, apartment demand was steady and most preliminary indicators show that 2013 was a good year for property owners. Reis estimates that 127,000 units were added to inventory (in primary and secondary markets), but absorption and vacancy numbers show that the new supply was not disruptive on a national basis.

There are various measures for the supply of apartments currently underway, and all of them are in agreement that 2014 will see an enormous volume of units added. Reis estimates that there will be 160,000 units completed. Much of this new supply is concentrated in about 10 metropolitan areas, so there may be softening in some larger markets in 2014. Nationally, it's likely that vacancy will be on the increase this year, but with tailwinds remaining in place for continued rent growth.

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