Multifamily Market Commentary – July 2011

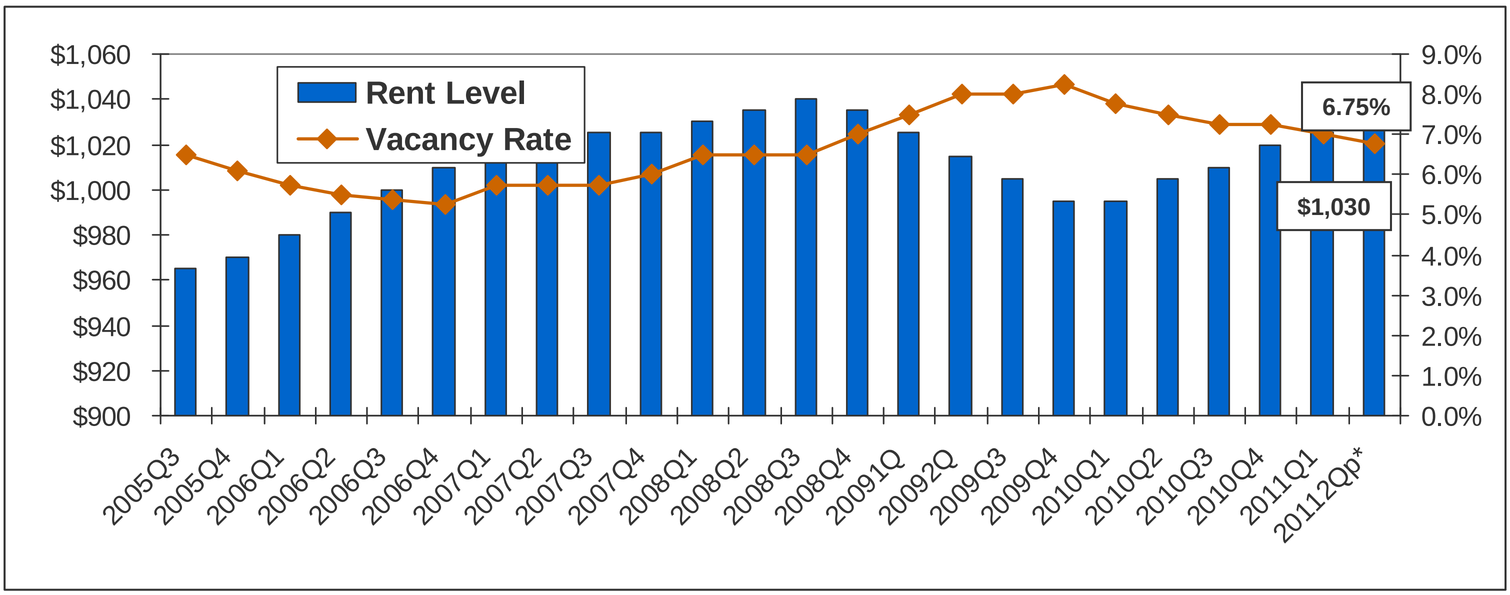
Second-Quarter 2011 Preliminary Multifamily Trends Still Positive

Despite the recent slow down in national job growth, the multifamily sector is displaying healthy fundamentals and continues to be the housing market's bright spot. Although the pace of improvement in multifamily asking rents and vacancy levels appears to be slowing down, they likely will remain positive again during second quarter 2011.

Preliminary third-party data for second quarter of 2011 suggest that the vacancy rate for institutional investment-type apartment properties fell again and asking rents likely rose again for the fifth straight quarter.

Vacancy levels are essentially back to historical norms at an estimated 6.75 percent for the second quarter of 2011. As seen in the chart below, asking rents also appear to have risen again in the second quarter, most likely by nearly 50 basis points quarter-over-quarter. It appears that the full year 2011 national average asking rent growth remains healthy and is on track to reach 3.0 percent this year, with effective rents expected to reach 4.0 percent annualized growth.

Estimated National Rent Level and Vacancy Rate



Source: Fannie Mae Multifamily Economics and Market Research

Apartment Demand Stable

New York City-based REIS, Inc., one of the first of the commercial real estate data vendors to report quarter-end data, is reporting that the second quarter 2011 multifamily vacancy rate is estimated to have fallen by 20 basis points to 6.0 percent from 6.2 percent in first quarter of this year.

Multifamily real estate research firm Axiometrics of Dallas, TX, provides monthly estimates, and like REIS, also is showing declining vacancy rates since the beginning of the year. As of June 2011, Axiometrics reported that its estimated multifamily vacancy rate was down 50 basis points to 6.0 percent from 6.5 percent as of March 2011.

Boston, MA-based commercial real estate research firm CBRE Econometric Advisors (CBRE-EA) also is estimating a continued improvement for multifamily vacancy rates, with second quarter 2011 vacancy rates tumbling to 5.4 percent compared to 6 percent in the first quarter. CBRE-EA's vacancy estimates historically tend to track lower than REIS and Axiometrics levels, but the overall quarterly improvement trend is the same. CBRE-EA's estimated second quarter 2011 effective rent growth is slightly less robust when compared to REIS and Axiometrics estimates, but is positive nonetheless at an estimated 25 basis point increase.

REIS is reporting that net absorption – the net change in occupied rental units – was positive again in second quarter, rising by 33,000 units, in addition to the positive net absorption of 45,000 units in first quarter of the year.

Concessions Still Falling

According to Axiometrics, asking rents climbed more than 1.0 percent during second quarter. In addition, concessions have dropped quite a bit since the beginning of the year. A concession rate is the rent discount amount expressed as a percentage of the current asking rent calculated on an annual basis. For example, a concession rate of -8.33 percent is equal to one month of free rent on a 12-month lease. Concessions had declined to -4.4 percent at the end of the first quarter and had fallen to -3.5 percent as of June 2011, which is close to normalized levels.

Almost all of the nation's metros have seen some form of steady improvement in concession rates since the beginning of the year, thanks to the increase in job growth, lack of new rental supply entering the market, and an increase in rental households. As seen in the table below, even some of the Florida metros are seeing significant improvement in their concession rates, such as West Palm Beach's current overall average concession rate of -5.1 percent compared to its peak of -10.4 percent in June 2009. Orlando also has seen a big improvement in its rental sector, with its rental concession rate falling to -6.4 percent as of June 2011 from its peak of nearly -11 percent back in November 2009.

As the table below shows, many metros have below average concession rates or nearly none at all, such as San Jose, CA, with just a -0.2 percent concession rate. Charleston, Cleveland, Minneapolis, Portland, Denver, and Greenville have some of the lowest concession rates in the nation – all below -3.0 percent.

Selected Concession Rates as of June 2011

	Peak Concessions		June 2011	
Market	Month	Value	Value	Difference
Greenville, SC	Sept 2009	-11.2%	-2.1%	9.1%
Austin, TX	May 2009	-11.2%	-3.2%	8.0%
Phoenix, AZ	Dec 2009	-15.5%	-8.1%	7.4%
Birmingham, AL	Jan 2010	-13.3%	-6.2%	7.1%
Memphis, TN	Jan 2010	-11.7%	-4.8%	6.9%
Salt Lake City, UT	Nov 2009	-12.9%	-6.0%	6.9%
Charleston, SC	April 2009	-9.6%	-2.8%	6.8%
Minneapolis, MN	Dec 2009	-8.6%	-2.0%	6.6%
Portland, OR	Nov 2009	-7.7%	-1.1%	6.6%
Cleveland, OH	Dec 2009	-8.4%	-2.7%	5.7%
Denver, CO	June 2009	-8.2%	-2.7%	5.5%
Sacramento, CA	Dec 2009	-8.7%	-3.3%	5.4%
West Palm Beach, FL	June 2009	-10.4%	-5.1%	5.3%
San Jose, CA	May 2009	-4.9%	-0.2%	4.7%
Orlando, FL	Nov 2009	-10.9%	-6.4%	4.5%

Source: Axiometrics

2011 Outlook Remains Cautiously Optimistic

While the strength of improving vacancy levels and rental rates will vary by metro, the overall multifamily sector should continue to see steady improvement for the second half of the year. There is some concern that multifamily fundamentals may stagnate if job growth remains anemic, however, new rental supply will be limited, likely resulting in keeping current rent levels stable. The outlook for the second half of 2011 remains the same for the multifamily sector, with an annualized increase of 3 percent expected for average asking rents and the vacancy rate expected to stay fairly stable, declining to 6.5 percent from 6.75 percent by the end of the year.

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