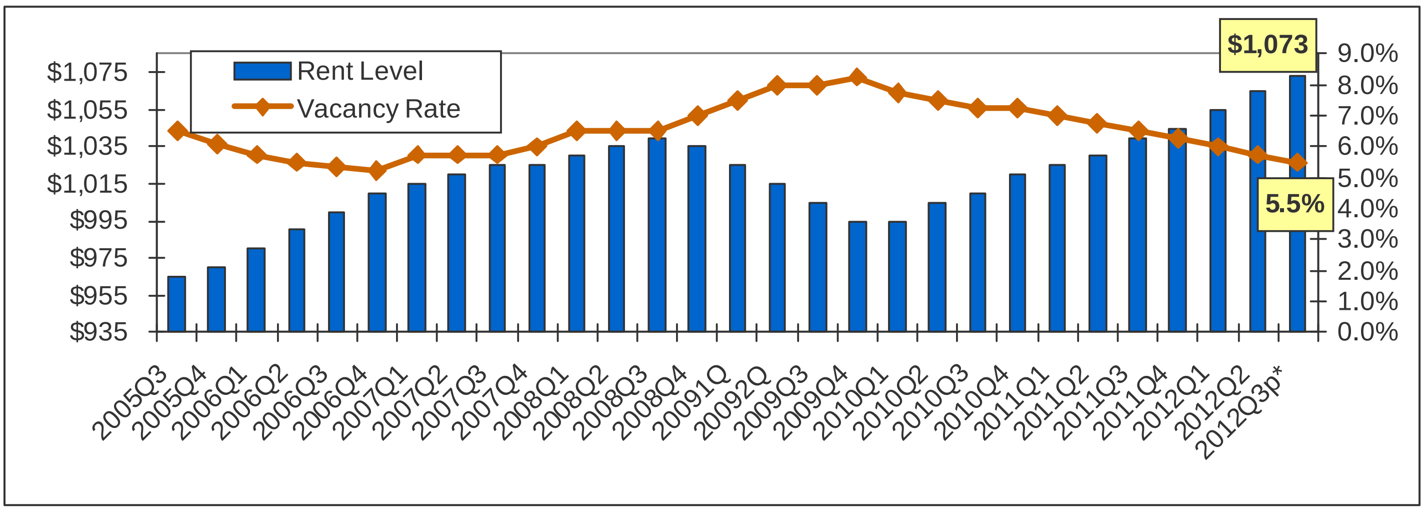
Multifamily Market Commentary – November 2012
Multifamily Trends Slowed During Third Quarter 2012

During the third quarter of 2012, the multifamily sector continued to experience growth in rental demand, but at a slightly slower rate. Preliminary third-party data suggest that the national vacancy rate for professionally managed, institutional investment-type apartment properties declined to an estimated 5.5 percent as of September 30, 2012, compared with an estimated 5.75 percent as of June 30, 2012 and an estimated 6.5 percent as of September 30, 2011. That is a year-over-year decline of 100 basis points.

In addition, as seen in the chart below, national asking rents appear to have once again risen during the quarter, albeit more modestly, climbing by an estimated 0.75 percent to an estimated $1,073 average.

Estimated National Rent Level and Vacancy Rate



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

As indicated by data from multifamily research firm Axiometrics, Inc., multifamily concession rates—the rental discount rate as a percentage of asking rents—continued its declining trend during the third quarter of 2012, declining to less than 2.0 percent, compared with 2.3 percent as of June 30, 2012 and 3.0 percent as of September 30, 2011.

Estimated positive net absorption, or the net change in the number of occupied rental units after deducting new supply added, remained positive during the third quarter of 2012. However, it slowed to about 23,000 units according to preliminary data from Reis, Inc., compared with more than 31,000 units during the second quarter of 2012 and more than 36,000 units during the first quarter of 2012.

Although positive, the third quarter 2012 preliminary vacancy and rental performance appear to be slightly behind the earlier forecast, which was somewhat more robust. Fannie Mae Multifamily Economics and Market Research is now expecting that national rent growth will likely be closer to between 2.5 percent and 3.0 percent, due mostly to the slow increase in nonfarm payrolls, limited national wage growth, and elevated multifamily occupancy levels. The national estimated vacancy rate of 5.5 percent is expected to remain stable through the remainder of the year, as property owners continue to pursue incremental rent increases rather than tighten vacancies any further.

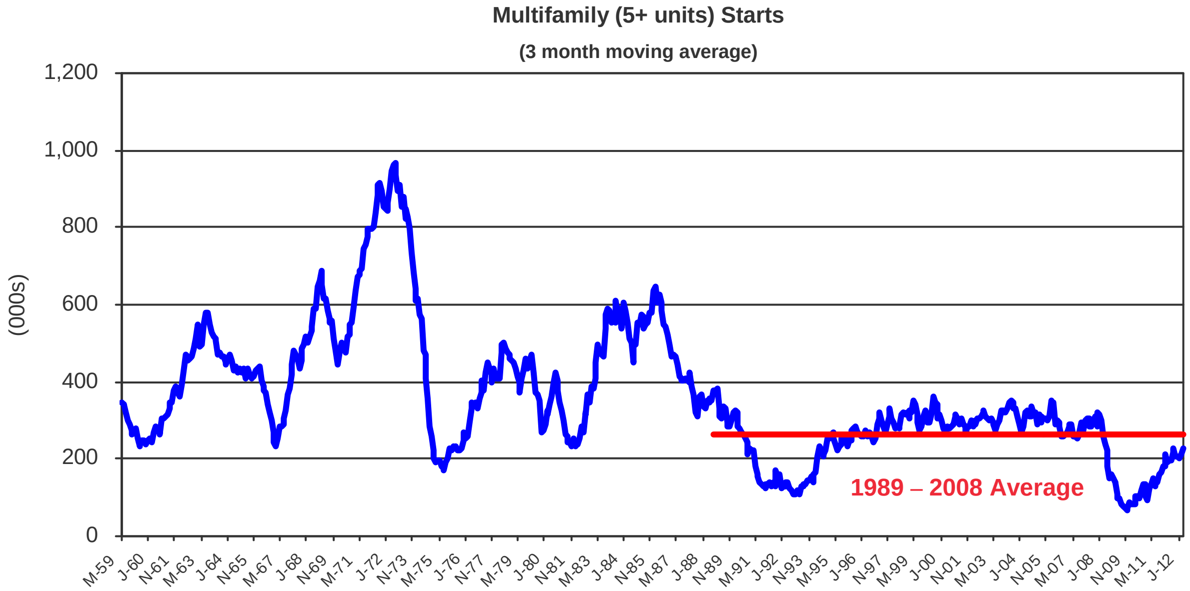
Multifamily Sector Trends Positive but Slowing

Commercial real estate data vendors Reis, Inc. and CBRE Econometric Advisors (CBRE-EA) both report slow but steady improvement in the multifamily sector. Data from Reis, Inc., which has the most coverage in terms of number of units and metro areas, shows that the third quarter 2012 vacancy rate fell by just 10 basis points to 4.6 percent. Based on a nationwide same-store sample of 5.2 million units, CBRE-EA reports multifamily vacancies fell by 40 basis points year-over-year to 4.6 percent at the end of third quarter 2012.

Axiometrics provides both monthly and quarterly updates on slightly more than 4 million multifamily units. It is a little more optimistic than its competitors with a vacancy rate decline of 30 basis points to 5.4 percent from 5.7 percent in second quarter, but its level is more in line with the Fannie Mae Multifamily Economics and Market Research's estimate of 5.5 percent.

Multifamily Starts Picking Up

As seen in the chart below, multifamily construction starts rose to an annualized rate of 260,000 units as of September 30, 2012, compared with 219,000 units as of September 30, 2011, based on data from the Census Bureau.



Source: U.S. Department of Commerce, Bureau of the Census, per Haver Analytics DLX

We expect the overall national multifamily rental market's supply will likely remain fairly stable over the longer term, based on expected construction completions, annualized obsolescence, and anticipated household formation trends; however, there is a potential for over-supply in a limited number of local areas during the next 24 months.

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