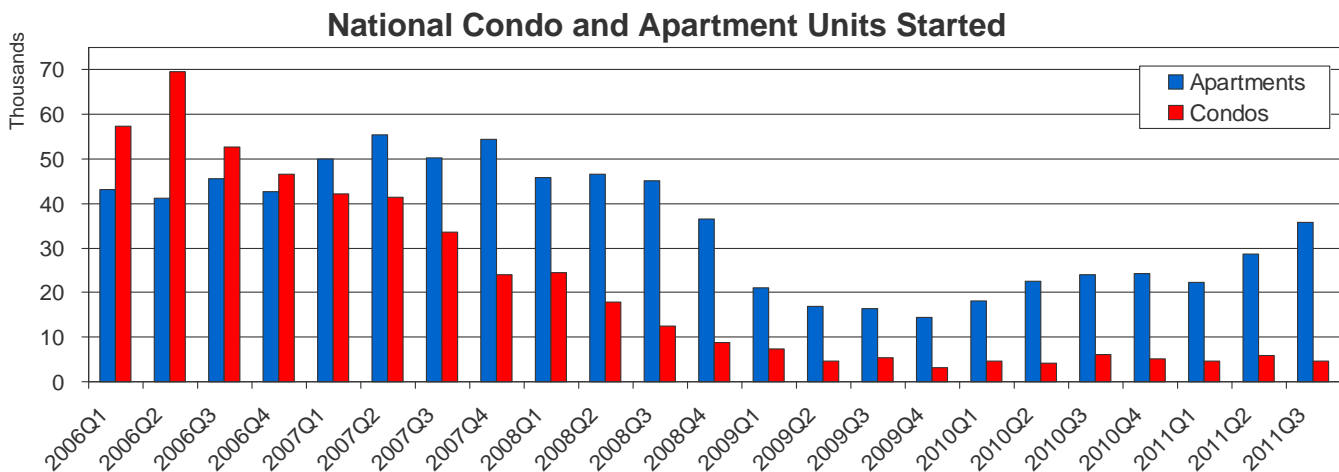


Multifamily Market Commentary – November 2011

Multifamily Construction Activity Picking Up

With improving vacancies and growing rents, the apartment market has been doing well in 2011. Developers have been paying attention and have started ramping up construction activity. According to the McGraw Hill Construction Dodge Pipeline, apartment starts in the third quarter of 2011 were at their highest level since in the fourth quarter of 2008, with nearly 36,000 units under way, as seen in the chart below:



Source: CBRE-EA/Dodge Pipeline, November 2, 2011

More Apartments, Fewer Condos

According to the Dodge Pipeline, which distinguishes between apartment and condo multifamily units, a total of 92,000 apartment units have been or will be completed in 2011. Another 99,000 units are currently under way and expected to be completed in 2012.

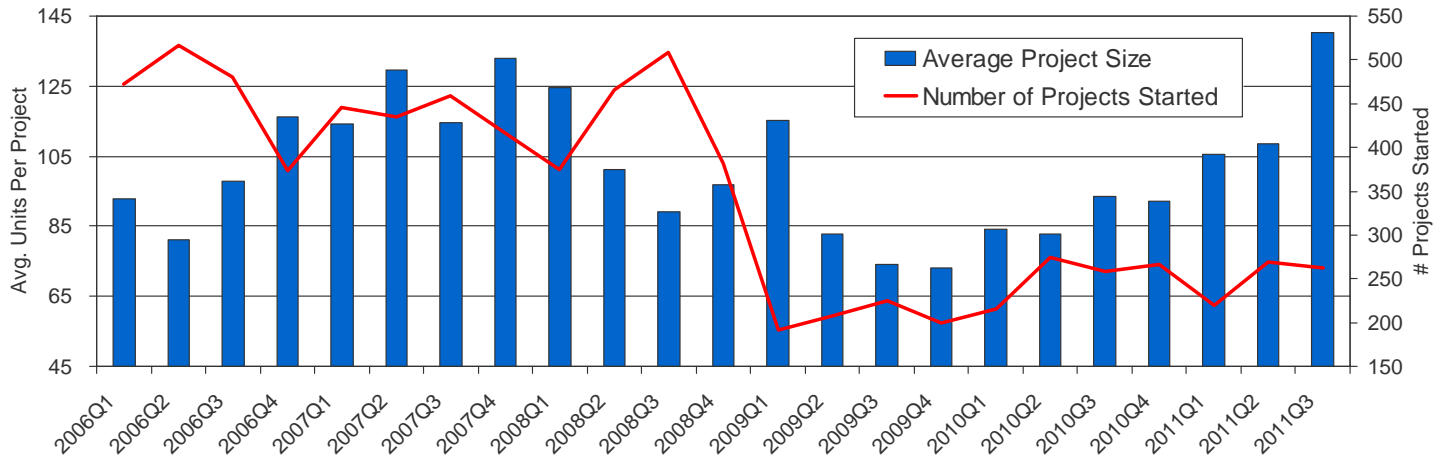
Condo activity, however, remains muted: 46,000 units are expected for 2011 and 41,000 in 2012. The Dodge data is more revealing than Census Bureau construction data because the start statistics provided by the Census Bureau do not classify the intended use of a multifamily unit, but instead classify by the total number of units in the structure.

Larger Multifamily Projects

The increase in the number of units started is being driven by an increase in average project size. While there has been a slight increase in the number of projects started since the lows of the housing crisis, the bulk of the increase can be attributed to larger project size.

As seen in the chart below, 263 projects were started in the third quarter of 2011, with an average size of 140 units. While this is by far the highest average in recent history, projects generally start with a higher number of intended units than are actually completed. However, the number of average units per apartment project has been increasing since mid-2009.

Average Number of Units per Apartment Project Started



Source: CBRE-EA/Dodge Pipeline, November 2, 2011

Texas, New York, and Florida Lead Apartment Starts

Thanks to its above average job growth, the Lone Star State is leading the way for apartment starts in 2011. According to the Dodge Pipeline, nearly 12,300 apartment units have been started in the state this year, an increase of 19.7 percent from the same period in 2010. New York and, interestingly, Florida also have experienced faster pick-up in the overall level of starts. New York's 9,010 starts in 2011 are up 36.1 percent over 2010 activity and Florida's nearly 5,700 starts are up 49.1 percent.

Also noteworthy are the increases in Colorado, Georgia, New Jersey, and Washington, DC, all of which have seen start activity more than double from 2010 levels. Among the top 15 states ranked by new starts activity, only North Carolina and Ohio have seen start activity stay generally even with the prior year's levels.

Among the remaining states that have major metropolitan areas, Arizona and Pennsylvania stand out as having modest start activity. Arizona has seen only 1,250 units started in 2011, though this is more than four times 2010 activity, and Pennsylvania has seen just 980 units started, a decrease of 20 percent from 2010.

	Starts YTD 2011		Unit Change from 2010
	Units	Projects	
Texas	12,288	68	19.7%
New York	9,010	101	36.1%
Florida	5,669	30	49.1%
California	5,418	50	16.9%
Washington	4,314	40	79.4%
North Carolina	3,182	21	0.3%
Maryland	3,167	15	68.6%
Massachusetts	3,101	27	69.4%
Colorado	2,804	25	120.8%
Georgia	2,736	16	159.8%
New Jersey	2,405	14	169.9%
DC	2,297	10	120.7%
Virginia	2,248	12	80.3%
South Carolina	2,221	19	305.3%
Ohio	2,087	23	-3.3%

Source: CBRE-EA/Dodge Pipeline, November 2, 2011

Project Completions Coming Sooner Rather than Later

The bulk of the recent starts, and the units that were already under way prior to the recent increase in starts, are due to be coming online in 2012, as seen in the chart below. Slightly fewer than 99,000 apartment units are currently under way with an expected completion date of 2012. According to the Pipeline, just 23,000 apartment units are due in 2013. While this number will surely increase as new projects are started and others are delayed from 2012 into the next year, the steep decline is noteworthy.

When combining the expected apartment completions with expected condo completions, the total level of multifamily development looks much more digestible. For comparison, in 2006, 339,000 apartment and condo units were completed. In 2012, that total number will likely be under 140,000. Given the weakness in the job market vis-à-vis the strength of the apartment market, this level of development appears reasonable. As noted above, developers are taking note of the strength in the apartment market and have ramped up accordingly. The level of multifamily development is still far below normal historical levels, as seen below, and we expect it to continue to be below historical levels for the foreseeable future.



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