

Multifamily Market Commentary – May 2012

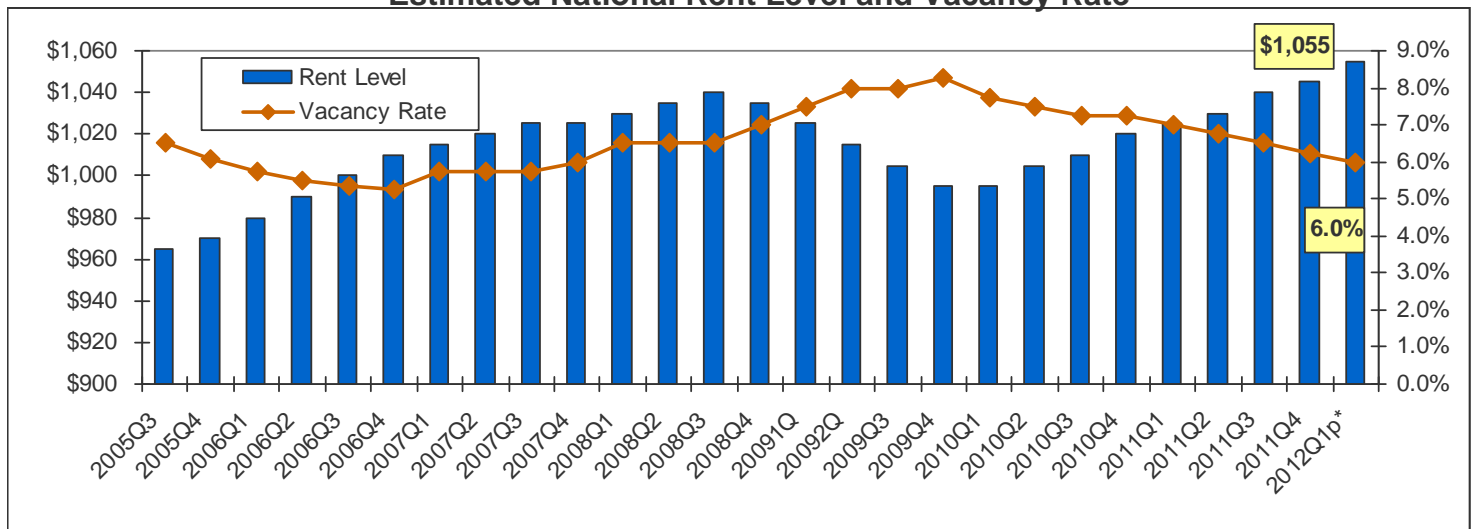
First-Quarter 2012: Multifamily Trends Kept Strengthening

Preliminary third-party data for the first quarter of 2012 suggests that the national vacancy rate for institutional investment-type apartment properties likely decreased by 25 basis points to end the quarter at 6.0 percent. 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 risen quite robustly quarter-over-quarter, climbing by an estimated 1.0 percent to an estimated average of \$1,055.

First-quarter 2012 preliminary vacancy and rental performance appear to be slightly ahead of our forecast. Multifamily Economics and Market Research is expecting that national rent growth will likely be higher this year than it was in 2011 – between 2.5 percent and 3.5 percent – mostly due to the lack of new multifamily supply coming online. Based on the preliminary data, the annualized rent growth rate is indicating an increase of about 4.0 percent this year, slightly higher than the forecast range.

The national estimated vacancy rate has now declined to about 6.0 percent, but may not move much lower this year, despite improving fundamentals, since property owners may instead pursue rent increases rather than increased occupancy levels.

Estimated National Rent Level and Vacancy Rate



Source: Fannie Mae

* Preliminary

Apartment Demand Keeps Strengthening

Reis, Inc., which tracks 9.8 million units in about 200 metro areas, has the most coverage in terms of number of units and metro areas, and is one of the first of the commercial real estate data vendors to report quarter-end data. Its first-quarter 2012 vacancy rate fell by 30 basis points to 4.9 percent from 5.2 percent in the fourth quarter of 2011.

Among the data vendors, Reis has the lowest estimated vacancy rate level. Reis also is reporting that net absorption – the net change in occupied rental units – continued its steady uptrend from last year, rising by more than 36,000 units during the first quarter of 2012.

CBRE Econometric Advisors (CBRE-EA) also is reporting improvement in the multifamily sector during the first three months of the year. CBRE-EA estimates that national vacancies fell year-over-year by 90 basis points to 5.1 percent as of the first quarter of 2012.

Multifamily real estate research firm Axiometrics also provides monthly and quarterly updates. Similar to the other data vendors, Axiometrics is reporting that its apartment vacancy rates also decreased during the first quarter of 2012, to 6.1 percent at the end of March 2012, down from 6.5 percent at the end of December 2011.

Increasing National Rent Growth in First Quarter 2012

All of the third-party data vendors reported a strong growth trend in rents during the first three months of the year. Reis and CBRE-EA are both showing similar effective rent increases of about 1.0 percent during the first quarter of 2012. Axiometrics' estimated asking rents during the first quarter of 2012 also increased by about 1.0 percent.

Expect Continued Rent Improvement in 2012

While rental rates will vary by metro area, the overall multifamily sector should see a steady stream of declining vacancy levels and increasing rent growth this year. Job growth is improving, albeit modestly, but nevertheless steadily. Household formations are expected to keep increasing, and, most importantly, new multifamily rental supply remains muted.

As a result, rental demand is expected to keep improving this year, pushing rental rates up, but in some cases, keeping overall vacancy levels stable. Class A properties in particular should continue to see very low vacancy levels according to Axiometrics. Indeed, Axiometrics is reporting that a majority of its top 88 metro areas are enjoying vacancy levels of 6.0 percent or lower. With vacancies already at such low levels, it seems reasonable to expect property owners to pursue rent increases rather than trying to push vacancy levels any lower.

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