

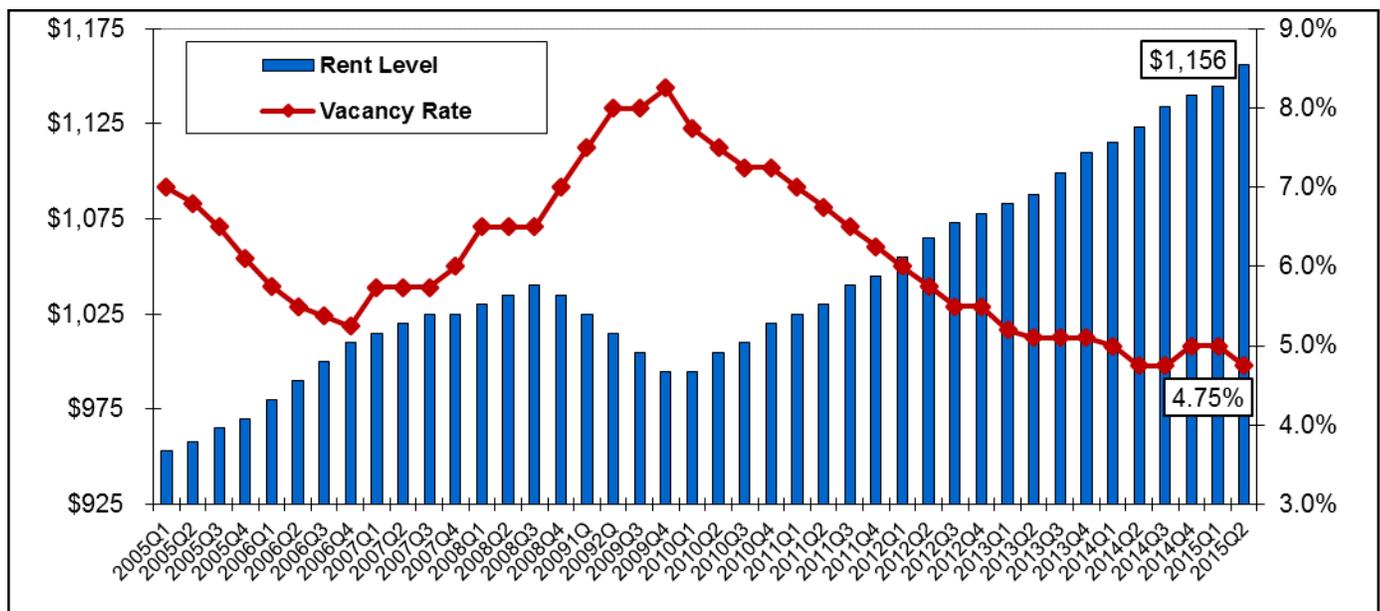
Multifamily Market Commentary – August 2015

Multifamily Fundamentals Reflected Continued Rental Demand During the First Half of 2015

National multifamily fundamentals reflected continued ongoing demand during the first six months of 2015. The estimated national vacancy level appears to have declined to an estimated 4.75 percent as of June 30, 2015, compared with an estimated 5.0 percent at the end of 2014.

Estimated effective rents increased again, at 1.5 percent since the fourth quarter of 2014, marking 21 consecutive quarterly increases, as illustrated in the chart below. Despite the increase in new apartment construction starting to come online in a number of submarkets across the country, demand persists and underlying fundamentals remain healthy.

Estimated National Rent Level and Vacancy Rate



Source: Fannie Mae Multifamily Economics and Market Research

Demand Remaining Steady

Preliminary third-party data for the second quarter of 2015 suggest that the vacancy rate for institutional investment-type apartment properties declined to an estimated 4.75 percent, compared with an estimated 5.0 percent in the first quarter of 2015, and is now at the same level as a year ago. Estimated rents likely rose 1.0 percent in the second quarter of 2015, compared with just 0.5 percent during the first quarter of 2015. As a result of this trend, it is estimated that multifamily rent growth for 2015 will be between 2.5 percent and 3.0 percent.

Most Vendors' Vacancy Estimates Show a Similar Trend

Most of our data vendors' estimates regarding vacancy directional trends showed a decline, although there was a difference of opinion regarding the amount of the decline. Only one vendor showed the vacancy rate remaining at the same level at the end of the second quarter of 2015 as that of the previous quarter.

Axiometrics is one of the vendors showing a quarter-over-quarter decrease in the vacancy rate, and it was fairly significant, tumbling 50 basis points to 4.7 percent in the second quarter of 2015 from 5.2 percent in the first quarter, and down from 5.3 percent in the fourth quarter of 2014. CoStar (formerly Property & Portfolio Research) also is estimating that the multifamily vacancy rate decreased during the second quarter of 2015, but by slightly less, from 40 basis points to 3.7 percent, compared with 4.1 percent in the first quarter of 2015. CBRE Econometric Advisors estimates that vacancy levels also decreased but only by 20 basis points to 4.3 percent, compared with 4.5 percent in the first quarter of 2015.

In comparison, Reis, Inc. is once again bucking the trend, estimating that the vacancy rate stayed the same as in the first quarter of 2015 at 4.2 percent, which also is the lowest level of all the data vendors. Interestingly, Reis' estimated multifamily vacancy rate has been stuck between 4.2 percent and 4.3 percent since early 2013.

Positive Net Absorption Up

Reis is reporting that net absorption – the net change in occupied rental units – was estimated to be quite healthy during the first half of the year, rising by more than 77,000 units. Despite the increase in new construction and supply coming online, the pace of net absorption has held firm, reflecting ongoing demand for multifamily on a nationwide basis. While the number of completions has been slowing down over the past few months, an anticipated 332,000 new units are expected to come online this year alone, a rate well above an anticipated absorption rate of 155,000 units, based on year-to-date estimates.

Rent Growth Stronger in the Second Quarter of 2015

All of the vendors are showing an increase in rental rates during the first six months of the year – the only difference is in how much. For example, Reis is showing an improved rental growth rate of 1.7 percent during the first half of 2015. On the other hand, Axiometrics is estimating a much more optimistic 2.7 percent increase.

Vacancy Rates Still Declining in Some Metros, but Rising in Others

Clearly, demand for rental housing of all types remained healthy in the second quarter of 2015, but there was an increase in the number of metros with rising vacancy rates, according to preliminary data from CBRE Econometric Advisors. The real estate research firm estimates that the vacancy rate fell in 43 out of 62 metros during the second quarter, compared to 51 out of 61 metros during the first quarter of 2015. Also, vacancy rates rose in 15 metros in the second quarter of 2015, compared with only seven in the first quarter. Some of the metros with the biggest declines in vacancy rates included Salt Lake City, Memphis, Richmond, Jacksonville, Las Vegas, Phoenix, Fort Worth, Orlando, and Indianapolis. The metros with the most significant increases in vacancy rates were Pittsburgh, Oklahoma City, Albuquerque, and St. Louis – all saw year-over-year increases of 50 basis points or more.

Multifamily Demand Expected to Remain Stable in 2015

Although the first half of 2015 has reflected strong fundamentals for the multifamily sector, some slowing ahead is expected, at least in certain submarkets where there is an abundance of supply coming online in a short period of time. Fortunately, this scenario is not anticipated to last very long. On a national level, projected employment growth coupled with solid demographic trends and low homeownership rates are expected to keep rental household formations quite healthy over the next 12-18 months. This, in turn, is expected to help the multifamily rental sector remain stable, with annualized rent growth remaining positive, likely in the 2.5 percent to 3.0 percent range for 2015.



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