

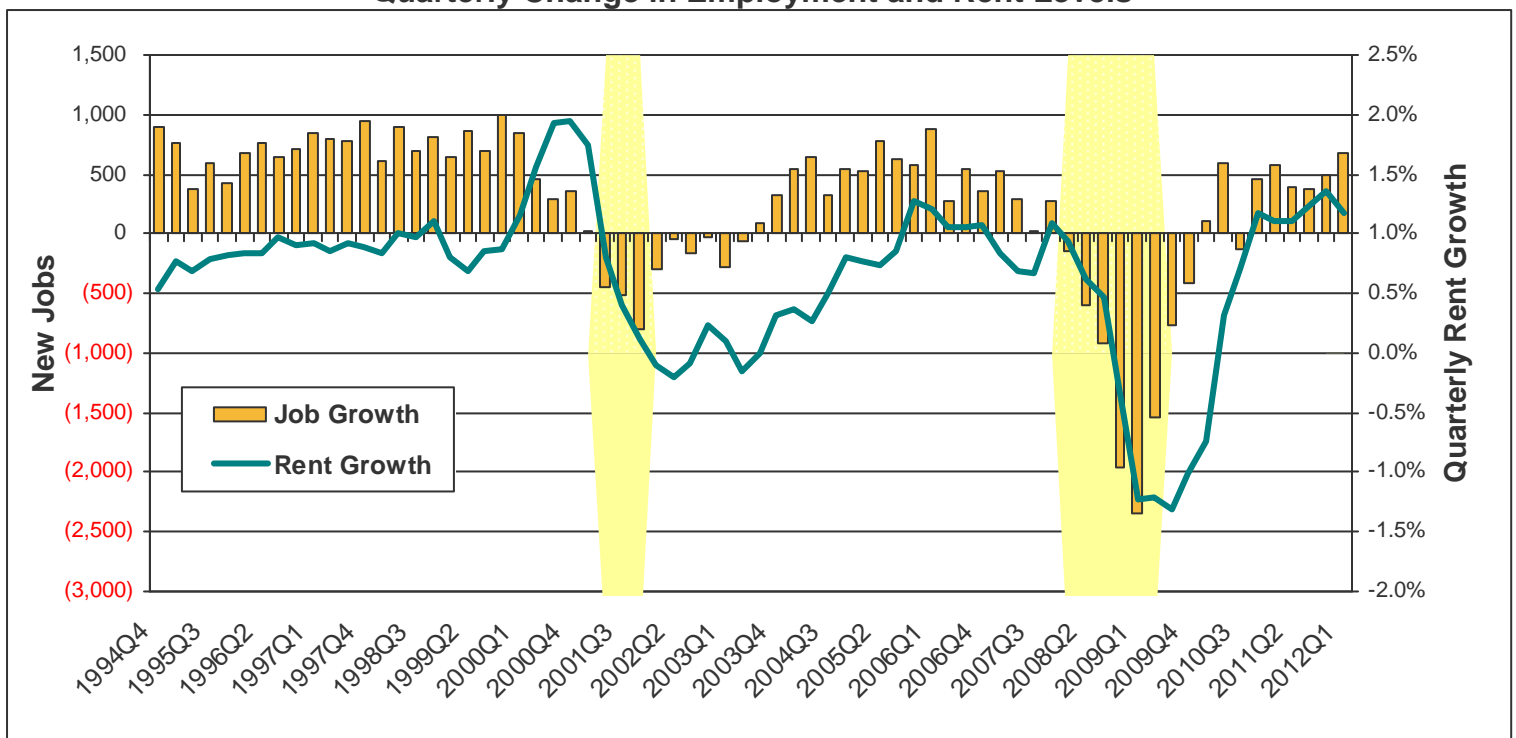
Multifamily Market Commentary – June 2012

Renters, Jobs, and Rent Growth

National non-farm payroll employment numbers for May were a disappointment. While consensus was expecting 150,000 new jobs created during the month, the number came in at just 69,000. But revisions to prior months made the results even more disappointing. Initial reports indicated that 115,000 jobs were created in April, but May's revision brought that total down to 77,000. Nevertheless, there has been positive job growth for six straight quarters.

What does this mean for the nation's apartment sector? Few economic conditions have a more direct impact on apartment rents than job growth. As seen in the chart below, when the economy is adding jobs, rents can be increased. And when the job market is weak or losing jobs, not only can rents become stagnant, they can decline.

Quarterly Change in Employment and Rent Levels



Sources: CBRE-Econometric Advisors and Bureau of Labor Statistics

Although housing supply plays a significant role in determining rent levels in local markets, it usually still takes a person with a job to rent an apartment. Overbuilding can drive rents down as property owners are forced to compete with each other for residents. In many metro areas across the country, the new apartment construction pipeline is at historically low levels, helping boost both rent and resident retention levels at existing multifamily properties. Nevertheless, a healthy local job market is one of the most important long-term drivers of rental markets.

Local Markets: Not as Straightforward

As seen in the table below, both San Jose and San Francisco have recently seen the strongest rent growth among the largest metro areas in the country, and had double digit rent increases in the year ending March 31, 2012. While this is partially attributable to the historically tight rental housing conditions that have been persistent for decades in the Bay Area, it also is certainly driven by its above average job growth: both metro areas had job growth at more than twice the national average for the period.

Rent Growth and Job Growth in the Major Metropolitan Areas

Metro	April 2011 - April 2012 Job Increase		1Q2011 – 1Q2012 Rent Increase	
	Number (000s)	Percent Change	Axiometrics (Effective Rent)	CBRE-EA (Asking Rent)
Houston	81.2	3.1%	5.1%	4.4%
New York	70.7	1.4%	3.8%	6.2%
Phoenix	36.5	2.1%	1.4%	1.7%
Chicago	36.1	1.0%	5.4%	6.4%
Dallas	35.7	1.7%	5.9%	4.7%
Seattle	31.0	2.2%	5.9%	4.8%
Washington DC	30.1	1.2%	3.3%	4.2%
San Jose	28.7	3.3%	10.6%	12.7%
Los Angeles	27.1	0.7%	4.8%	3.6%
San Francisco	25.8	2.7%	14.7%	11.4%
National	1,727.0	1.3%	4.0%	5.3%

Sources: CBRE-Econometric Advisors, Axiometrics, and Bureau of Labor Statistics

But even when a job market is strong, local apartment markets can have different short-term results. Even though Houston had the largest absolute number of jobs gained of any metro area in the year ending April 2012, it only saw near-average rent growth in the year ending first quarter 2012. Phoenix, which continues to work its way through a widespread housing crisis, had above average job growth but had the weakest rent growth among these major metro areas. While it is impossible to pinpoint a single cause for the weaker rent growth, both Houston and Phoenix share at least one common condition that impacts the competitiveness of the apartment rental market: nearby inexpensive single-family housing.

Renters Staying Employed and In-Place Allows Rent Increases

Continued positive job growth is expected through the end of 2012, albeit at a more moderate pace. More importantly, since job losses nationally are not expected, and most renters are expected to remain renting, property owners are expected to be able to increase rents this year. So, despite the national job market's recent softness, we believe rent growth will be positive, but will vary by metro area, depending upon local economic conditions.

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