

Multifamily Market Commentary – January 2013

Multifamily Fundamentals Expected to Stay the Course in 2013

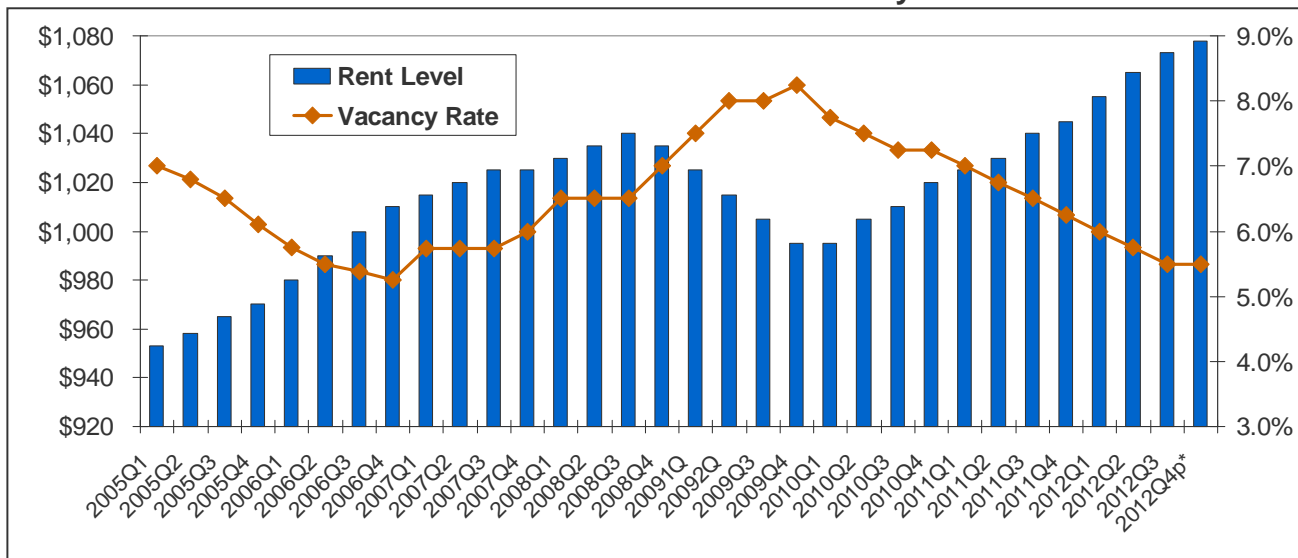
National multifamily fundamentals remained positive during 2012 despite signs of slowing to a more normalized pace during the fourth quarter. The trend of positive rent growth and low vacancy levels seen last year is expected to continue throughout 2013.

Steady Results in the Fourth Quarter of 2012

Preliminary third-party data for the fourth quarter of 2012 suggests that the vacancy rate for institutional investment-type apartment properties likely remained at the same estimated level as during the third quarter. However, asking rents likely rose again, as they have for nearly three years.

The fourth quarter 2012 estimated vacancy rate of 5.5 percent is at the low end of historical norms as seen in the chart below. Estimated asking rents likely rose quarter over quarter by 0.5 percent in the fourth quarter. As a result, the full year 2012 national average asking rent growth slightly exceeded our initial expectation of approximately 3.0 percent, coming in at 3.25 percent, with effective rents likely having seen similar annualized growth.

Estimated National Rent Level and Vacancy Rate




Source: Fannie Mae Multifamily Economics and Market Research

* Preliminary estimate

Disagreement in Vacancy Trends

Data vendors did not all agree on the directional changes in multifamily fundamentals during the fourth quarter of 2012. For example, Dallas-based multifamily real estate research firm Axiometrics, which provides monthly estimates, shows incremental increases in its vacancy levels during the fourth quarter. Axiometrics reports that its estimated multifamily vacancy rate increased to 5.62 percent in the fourth quarter compared to 5.50 percent in the third quarter. This is not unusual as there tends to be a seasonal upward movement in multifamily vacancy levels during the fourth quarter each year—a time when many tenants choose not to change residences.



Boston-based commercial real estate research firm CBRE Econometric Advisors also indicates an increase, estimating that vacancy levels climbed to 5.0 percent in the fourth quarter compared to 4.6 percent as of the third quarter.

However, Reis, Inc. in New York City is reporting a different trend. According to their data, the multifamily vacancy rate decreased again during the fourth quarter of 2012, declining by 20 basis points compared to the third quarter, to end the year at 4.5 percent. Reis states that while the vacancy rate increased slightly in October 2012, it saw a significant improvement in demand in November and December.

Solid Effective Rent Growth in 2012

These three data vendors reported solid effective rent growth throughout 2012. CBRE Econometric Advisors notes that effective rent growth slowed substantially, ending the fourth quarter at an annualized rate of about 3.5 percent, compared to a 4.0 percent annualized rate just three months earlier. Axiometrics has the highest estimated annualized effective rent growth at 3.85 percent for the full year of 2012. Reis states that rent growth ticked up by 0.6 percent during the fourth quarter, bringing its estimated annualized effective rent growth to approximately 3.0 percent in 2012.

In addition, Reis also reports that net absorption—the net change in occupied rental units—was robust in the fourth quarter of 2012, rising by more than 45,000 units, which brings its estimated full year absorption to approximately 138,000 units. While the 2012 estimate is down from the 2011 net absorption of 170,000 units, it still represents healthy rental demand.

Expect Stabilizing Trends in 2013

The multifamily sector's ongoing improvement during the past few years, coupled with the latter half of 2012's subsequent steadying aspect of its fundamentals, has helped boost property values in most metropolitan areas and, as a result, new construction development in a number of places. There remains a potential for over-supply occurring during the next 24 months in a limited number of localized areas.

Nevertheless, the overall national rental market supply and demand level is expected to remain in balance over the long term. Based on our current economic outlook, we expect average asking rents to increase on an annualized basis by approximately 2.0 percent to 2.5 percent this coming year, and the vacancy rate to increase to a more normalized (but still low) rate from 5.75 percent to 6.0 percent in the first half of 2013. This trend is primarily expected due to anticipated construction completions on a national level, annualized obsolescence, continuing job growth, and positive household formation trends.

Kim Betancourt, Director of Economics
Multifamily Economics and Market Research
January 2013

Opinions, analyses, estimates, forecasts and other views of Fannie Mae's Multifamily Economics and Market Research Group (MRG) included in these materials should not be construed as indicating Fannie Mae's business prospects or expected results, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the MRG bases its opinions, analyses, estimates, forecasts and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts and other views published by the MRG represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.