Multifamily Market Commentary – October 2011

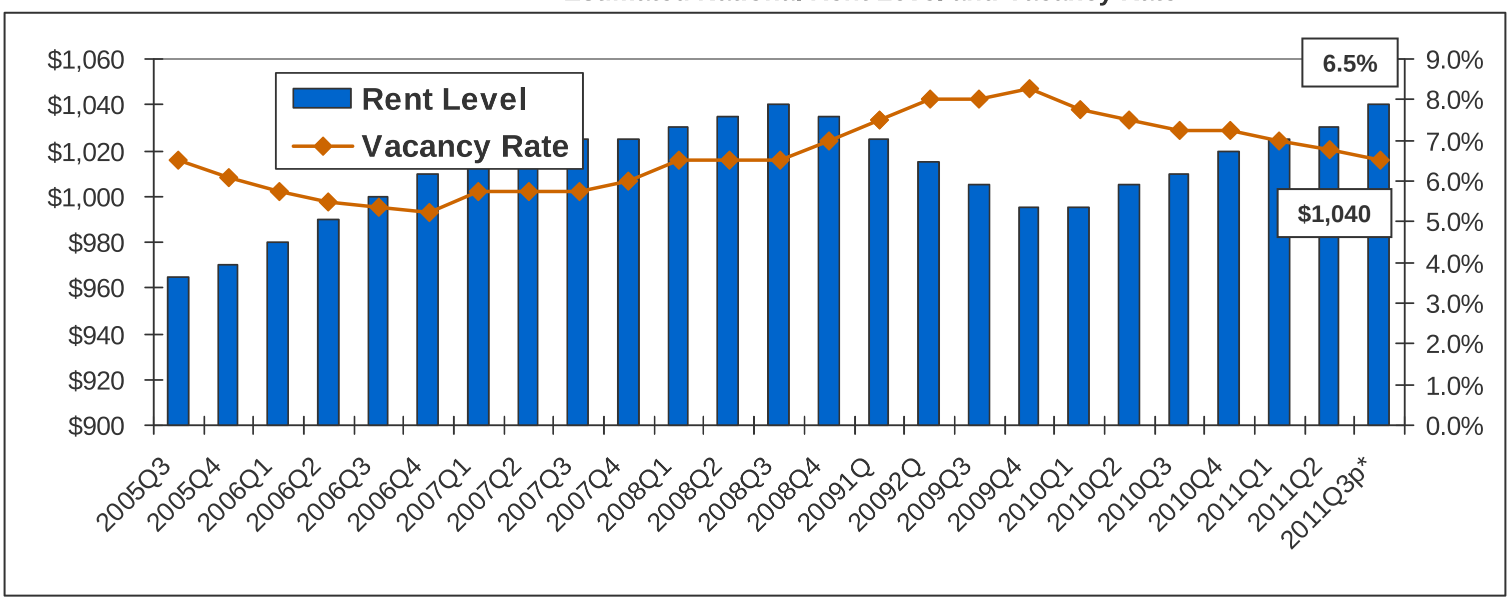
Multifamily Sector Benefiting from Rental Demand

Despite the recent slowdown in the national economy, the multifamily sector continues to forge ahead, benefiting from strong demand. Indeed, the solid increase in multifamily asking rents during the third quarter of 2011, coupled with yet another decrease in vacancy levels, belies stubbornly high unemployment levels and overall concerns about a "double-dip" recession.

Preliminary third-party data for the third quarter of 2011 suggest that the vacancy rate for institutional investment-type apartment properties fell once again and asking rents have now likely risen for six consecutive quarters.

Vacancy levels are firmly back to historical norms at an estimated 6.5 percent for the third quarter of 2011. As seen in the chart below, asking rents also likely rose again in the third quarter of 2011 by 1.0 percent quarter-over-quarter. It appears that full-year 2011 national average asking rent growth remains robust and on track to reach 4.0 percent, with effective rents perhaps reaching 5.0 percent, or even 6.0 percent annualized growth.

Estimated National Rent Level and Vacancy Rate



Source: Fannie Mae

Apartment Demand Stable

REIS, Inc., a commercial real estate research firm, reported that the third quarter 2011 vacancy rate is estimated to have fallen by 30 basis points to 5.6 percent from 5.9 percent in the second quarter of 2011.

Multifamily real estate research firm Axiometrics' monthly estimates as of August 2011 also showed a decline in the vacancy rate. For July and August 2011, Axiometrics reported that its estimated multifamily vacancy rate had fallen 10 basis points to 5.9 percent from 6.0 percent.

Commercial real estate research firm CBRE Econometric Advisors (CBRE-EA) also estimated that multifamily vacancy rates continued to improve, tumbling to 5.1 percent in the third quarter of 2011 from 5.4 percent in the second quarter.

REIS also reported that net absorption – the net change in occupied rental units – was positive once again in the third quarter of 2011, rising by 36,000 units, which brings the estimated year-to-date absorption to a compelling 123,000 units.

Rents Keep Rising

All three of these data vendors have reported healthy effective rent growth all year. REIS estimates that effective rents rose by 0.7 percent in the third quarter of 2011. Axiometrics is more optimistic, estimating effective rent growth of nearly 1.0 percent during the first two months of third quarter alone. CBRE-EA also is positive and projects an annualized effective rent growth rate of 4.0 percent as of the third quarter of 2011.

Concessions Falling, but Vary by Metro

According to data from Axiometrics, most metro areas have been experiencing strong improvement in multifamily fundamentals all year, with increasing rents, declining vacancy rates, and concession rates returning to normal levels as of August. The national multifamily concession rate has been falling steadily all year and is down to -3.0 percent.

A concession rate is the rent discount amount expressed as a percentage of the current asking rent calculated on an annual basis. For example, a concession rate of -8.33 percent is equal to one month of free rent on a 12-month lease.

As seen in the table below, concessions vary widely by metro area. Some of the metro areas with the lowest concession levels as of August also have seen significant improvement since their peaks. Notably, Charleston, SC, has seen a drop of roughly 8 percentage points in its concession rate from its peak, down to a current -1.5 percent level from -9.6 percent back in April 2009. Similarly, Portland and Minneapolis have both seen declines of more than 7 percentage points in their concession levels.

Still, there are metro areas, such as Salt Lake City, Atlanta, and Phoenix, where, despite significant declines, concession levels remain above the national average. Unfortunately, some of these metro areas are not seeing much improvement in their absorption rates. With job growth stalled and continued competition from shadow supply, these metro areas are likely to lag the national trend for the next 12 months.

Selected Concession Rates as of August 2011

	August 2011	Peak Concessions		
Market	Value	Month	Value	Difference
San Jose, CA	-0.2%	May 2009	-4.9%	4.7%
Portland, OR	-0.7%	Nov 2009	-7.7%	7.1%
Charleston, SC	-1.5%	Apr 2009	-9.6%	8.0%
Miami, FL	-1.6%	Apr 2009	-6.5%	4.9%
Minneapolis, MN	-1.6%	Dec 2009	-8.8%	7.1%
Philadelphia, PA	-1.9%	Nov 2009	-5.8%	3.9%
Chicago, IL	-2.0%	Dec 2009	-7.4%	5.4%
National Average	-3.0%	Dec 2009	-7.6%	4.6%
Detroit, MI	-3.9%	Nov 2009	-13.7%	9.8%
Houston, TX	-5.6%	Jan 2010	-9.5%	3.9%
Orlando, FL	-5.6%	Nov 2009	-10.8%	5.2%
Salt Lake City, UT	-5.8%	Nov 2009	-12.9%	7.1%
Atlanta, GA	-6.9%	Dec 2009	-12.9%	6.0%
Phoenix, AZ	-7.5%	Dec 2009	-15.5%	8.0%
Las Vegas, NV	-8.5%	Jan 2010	-12.2%	3.7%

Source: Axiometrics

Outlook for the Remainder of 2011

While the strength of improving vacancy levels and rental rates will vary by metro area, on a national basis the multifamily sector should continue to see steady improvement for the remainder of the year. Despite the slowdown in job growth, multifamily demand should remain solid, thanks to limited new rental supply coming online during the near-term. As a result, the outlook for the remainder or 2011 remains positive for the multifamily sector. We expect average asking rents to experience an annualized increase of 4.0 percent and the vacancy rate to stay fairly stable, perhaps declining to 6.25 percent by the end of the year.

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