

Multifamily Market Commentary – January 2012

Continued Demand for Multifamily Expected in 2012

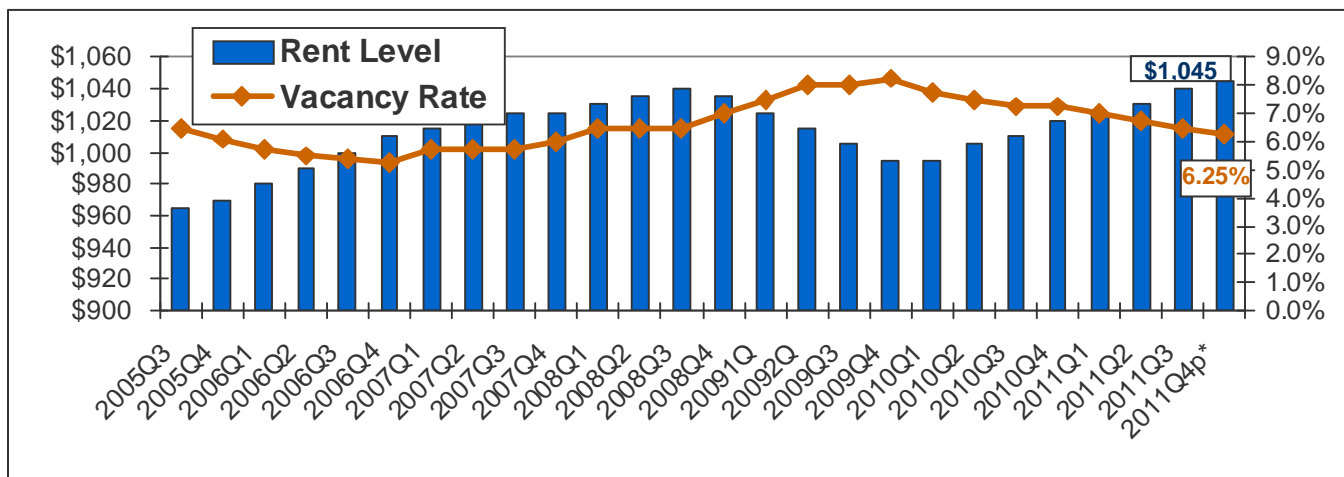
Despite the national economy's protracted recovery, the multifamily sector was rejuvenated in 2011 thanks to strong rental demand coupled with diminishing supply. The good news is that with the economic recovery progressing, apartment rental demand should remain healthy in 2012.

Preliminary third-party data for the fourth quarter of 2011 suggest that the vacancy rate for institutional investment-type apartment properties fell once again and asking rents have now likely risen steadily for nearly two years.

Vacancy levels are reflecting continued demand and are now at the low end of historical norms at an estimated 6.25 percent for the fourth quarter of 2011. As seen in the chart below, asking rents also likely rose again in the fourth quarter of 2011 by at least 0.5 percent quarter-over-quarter.

Additionally, it now appears that the growth for full year 2011 national average asking rent met our initial forecast of between 2.0 percent and 3.0 percent, coming in at 2.5 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

Despite Seasonality Impact, Apartment Demand Remained Stable

Monthly estimates from multifamily real estate research firm Axiometrics showed a slight uptick in vacancy levels during the months of October and November. It's important to note that this type of fluctuation and upward movement in vacancy levels is not unusual in the multifamily sector during the fourth quarter due to seasonality, as many tenants tend not to change residences during this time of the year. As a result, Axiometrics reported that its estimated vacancy rate stood at 6.5 percent as of December 2011, up from a third-quarter rate of 6.0 percent.

Commercial real estate research firm CBRE Econometric Advisors (CBRE-EA) also estimated that vacancy levels remained fairly stable during the fourth quarter, with its vacancy rate inching up just a bit to 5.3 percent compared to 5.1 percent in the third quarter.

REIS, Inc. is the only vendor bucking this trend, reporting that the fourth-quarter 2011 vacancy rate is estimated to have fallen by 40 basis points to 5.2 percent from 5.6 percent in the third quarter. REIS also reported that net absorption – the net change in occupied rental units – was robust in the fourth quarter of 2011, rising by slightly more than 50,000 units, which brings its estimated year-to-date absorption to about 170,000 units, signaling very healthy demand.

Solid Rent Growth All Year

All three of these analytics firms have been reporting solid effective rent growth all year. CBRE-EA is stating the highest estimate of the three and believes that effective rents grew nearly 5.0 percent last year. REIS is slightly less optimistic, and is pegging the effective growth rate at less than 4.0 percent. Axiometrics is in between, estimating effective rents at 4.09 percent for all of 2011.

Expect Continued Demand in 2012

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 demand in 2012. With job growth slowly improving, and more importantly, a lack of new apartment supply coming online during the next 12 to 18 months, it is expected that rental demand will continue to outstrip supply, thereby producing healthy vacancy levels and asking rent growth. As a result, the outlook remains positive for the multifamily sector. It is expected that average asking rents will increase between 1 percent and 2.0 percent on an annualized basis in 2012, with the vacancy rate expected to remain fairly stable, staying in the 6.25 percent range for at least the first half of the year.

Kim Betancourt, Director
Multifamily Economics and Market Research
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