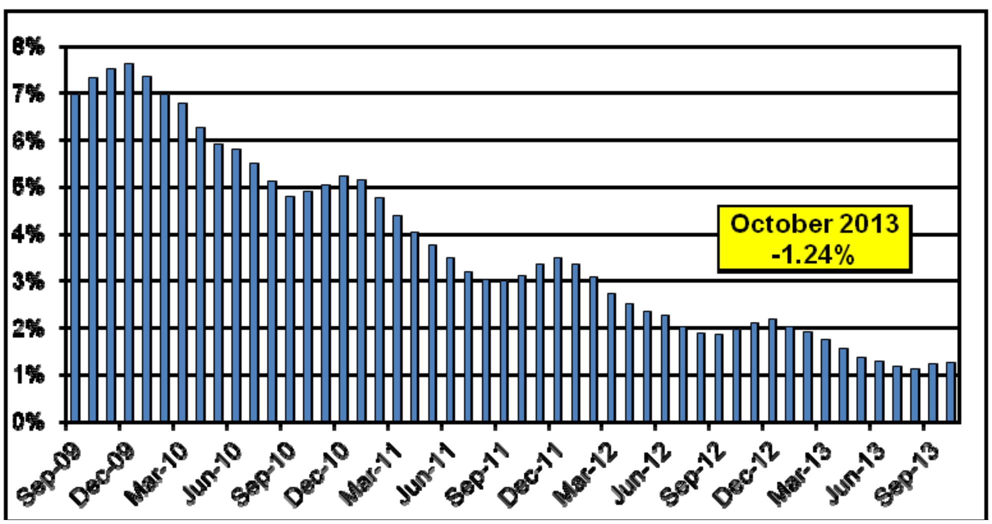
Multifamily Market Commentary – December 2013
Multifamily Concessions Remain Extremely Low

According to a new study released by Harvard's Joint Center for Housing, *"America's Rental Market: Evolving Markets and Needs,"* one in four households spends more than 50 percent of income on rent, leaving less money for food and other necessities. The fact that concessions, which represent a discount on rent given to attract renters, are extremely low is one more symptom of the lack of affordability in the rental market. Despite new multifamily supply coming online in 2013 and 2014, concessions remain at extremely low levels, according to data from multifamily research firm, Axiometrics, Inc. As seen in the chart below, the national multifamily concession rate has been falling fairly steadily since January 2010 and has declined to about 1.2 percent as of October 2013, down approximately 70 basis points from October 2012's already low concession rate of 1.9 percent.

A concession rate is the rent discount amount expressed as a percentage of the current asking rent calculated on an annual basis. As seen in the table below, a concession rate of 8.33 percent is equal to one month of free rent on a 12-month lease. Therefore, October 2013's 1.2 percent rate represents less than one week's free rent.

National Multifamily Concession Rate



Source: Axiometrics *Note: Chart represents magnitude of concession*

Concession Magnitude	Weeks
8.33%	4 weeks
6.23%	3 weeks
4.17%	2 weeks
2.08%	1 week
1.04%	½ week
0.9%	3 days
0.6%	2 days
0.3%	1 day

Apartment Demand Remains Healthy

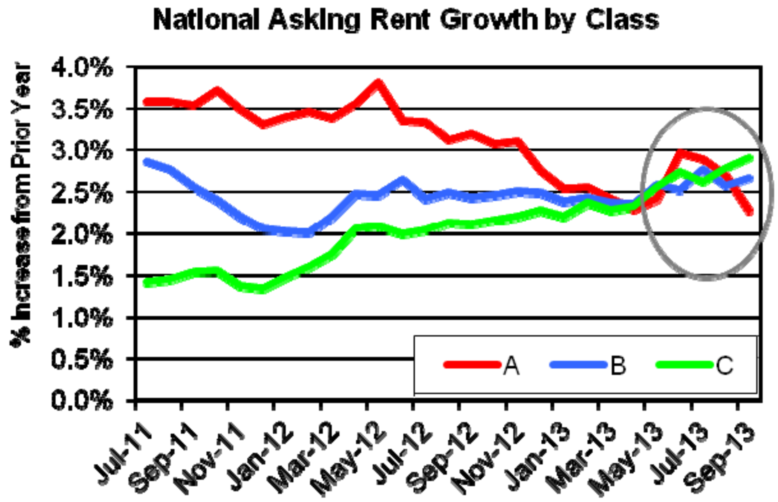
The national concession rate fell below one week in January 2013 and has remained below the one week level since. Longer term, the historic descent of the national concession value can be attributed to the simple fact that, even with some new supply coming online, apartment market fundamentals remain tighter than they have been in previous years, with a combination of low vacancy levels and continuing rent growth.

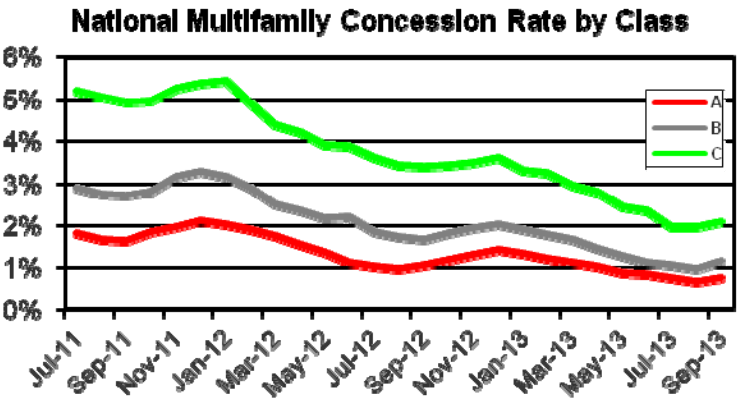
More importantly, the current concession rate remains below normalized levels, indicating a there is still room for additional multifamily supply. A normalized, healthy rental sector is one with a 2.0 percent to 3.0 percent national concession rate. National concessions reached a historic trough of 1.1 percent in August, roughly just half of one week. Even with the modest increase from August to October, the current concession level of 1.2 percent remains at historic lows.

Concessions Methodology Based on Rent Levels, Not Age

Axiometrics' classes are defined by three categories: Class A, B, and C. The methodology employed is not based on age, as is often done in the industry, but rather on a bucketing of effective rent levels, both on a metro and submarket level. Axiometrics believes its methodology provides a clearer picture of the property type class, since some older properties in certain metro areas, such as Manhattan, are considered Class A properties rather than Class C properties if the categorization was based solely on age of the property.

As shown in the middle chart to the right, Axiometrics' data shows a significant difference in concession rates by class. On a national level, while concessions on Class A multifamily properties ticked up just slightly to 0.8 percent in September, they are still well below the 1.1 percent recorded just a year ago. Class B is very close behind with a current concession rate of just 1.1 percent. Class C, while improved since last year, is unsurprisingly, still the highest at 2.1 percent as of September 2013.

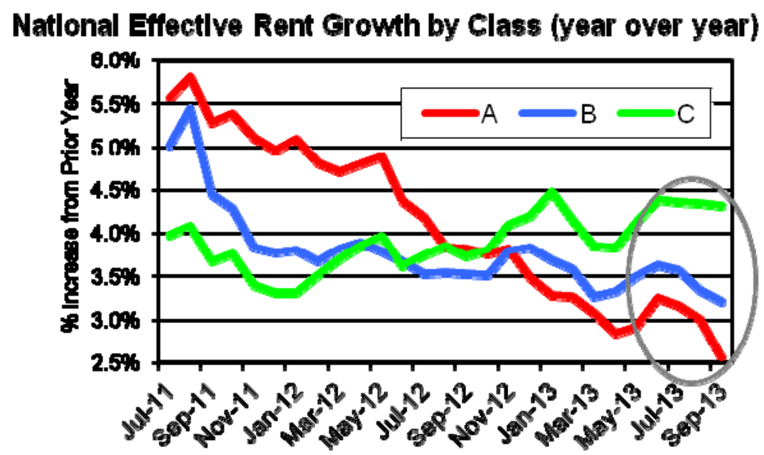




% of Current Asking Rents: Class A: -0.8% Class B: -1.1% Class C: -2.1%

Effective Rent Growth is Slowing for All Classes

As shown in the bottom chart, while effective rent growth remains positive, it has started to slow since June 2013. The slowdown in growth is most evident for Class A properties. Year-over-year rent growth for Class A properties, which remained above 3.0 percent for most of the year, declined to 2.6 percent as of September 2013.



Source: Axiometrics

While concessions remain historically low for Class A properties, they have started to trend up again modestly. However, as shown in the top chart, the primary reason that effective rents for Class A properties are slowing is that asking rent growth also is slowing, which in turn is most likely due to existing Class A properties competing with new construction projects that are being completed and starting to come online, most of which tend to be Class A properties.

While effective rent growth for Class C properties is slowing slightly, it remains robust. Year-over-year rent growth for Class C properties, which reached 4.4 percent in June 2013, declined only slightly to 4.3 percent as of September 2013. In fact, for the most part, rent growth for Class C properties has been above 4.0 percent since November 2012, contributing to lower affordability in the rental market.

Class A Rent Growth Remains Healthy in Many Primary Multifamily Metros

Effective rent growth remains healthy for Class A properties in many major multifamily metros. As seen as in the top table to the right, some of the major metro areas with the strongest effective rent growth include high barrier-to-entry metros such as San Francisco, with an astounding estimated year-over-year rent growth of 8.7 percent, and Los Angeles with effective rent growth of 6.3 percent. However, even some metros with a significant number of new units starting to come online, such as Seattle and Portland, continued to see healthy effective rent growth this year due to strong demographic and job growth.

Class A effective rent growth year-over-year has fallen in just a few major metros. Washington, DC has shown falling rent growth with effective rents in the DC submarket falling 3.2 percent and rents in Bethesda falling 1.7 percent. Class A effective rent growth also fell in San Antonio, most likely reflecting the fact that per capita income in the metro is 21 percent below the national average, which means that demand is most likely centered on affordable product.

Class B Effective Rent Growth Fares Even Better

National Class B effective rent growth was stronger year-over-year than class A, growing 3.2 percent compared to 2.6 percent for Class A. Oakland and San Francisco again led among major metropolitan areas growing 8.9 percent and 8.4 percent year over year, respectively. The metros where effective rents declined the most year-over-year were Birmingham, at 1.8 percent, and Washington, DC at 1.5 percent, although effective rent stayed flat in the Bethesda submarket.

Class C Still Sees Double Digit Effective Rent Growth

As shown on the adjacent bottom chart, at 4.3 percent, national Class C effective rent growth year over year was stronger than Class A or B. In fact, among major metros, at 12.6 percent and 10.8 percent, respectively, Oakland and Seattle experienced double digit rent growth in Class C properties. Furthermore, no major multifamily metros experienced decreases in Class C effective rent at all.

With New Supply, Concessions Should Tick Upward

According to the Dodge Pipeline, which distinguishes between apartment and condo multifamily units, there are about 194,000 apartment units expected this year alone – but another 227,000 are currently underway with 2014 delivery dates.

With new competing supply coming online, vacancy levels are likely to increase a bit in certain metros and submarkets in Washington, DC (and indeed, that has already been the case), as well as in Raleigh and Austin. As a result, concessions should increase modestly in 2014. However, given the fact that the current concession rate is a low 1.2 percent, concessions still have to room to grow without breaching the 2.0 percent to 3.0 percent national concession rate typical for a normalized, healthy rental sector.

Top Primary Metros by Annual Effective Rent Growth

September 2013 vs. September 2012

Class A

Market	Change
Portland, OR	9.5%
San Francisco	8.7%
Oakland, CA	6.9%
Seattle	6.4%
Los Angeles	6.3%
National	2.6%
Philadelphia	-0.1%
San Antonio, TX	-1.7%
Cincinnati,OH	-1.7%
Washington, DC	-3.2%

Class B

Market	Change
Oakland, CA	8.9%
San Francisco	8.4%
Denver, CO	7.8%
Portland, OR	7.3%
Seattle	6.8%
National	3.2%
New York	0.0%
Detroit, MI	0.0%
Washington, DC	-1.5%
Birmingham, AL	-1.8%

Class C

Market	Change
Oakland, CA	12.6%
Seattle	10.8%
Denver, CO	9.9%
Portland, OR	9.7%
Austin	8.1%
National	4.3%
Jacksonville, FL	1.7%
Washington, DC	1.5%
Sacramento, CA	1.4%
Philadelphia, PA	1.1%
Las Vegas, NV	0.0%

Source: Axiometrics

Tanya Zahalak, Economist
Multifamily Economics and Market Research
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