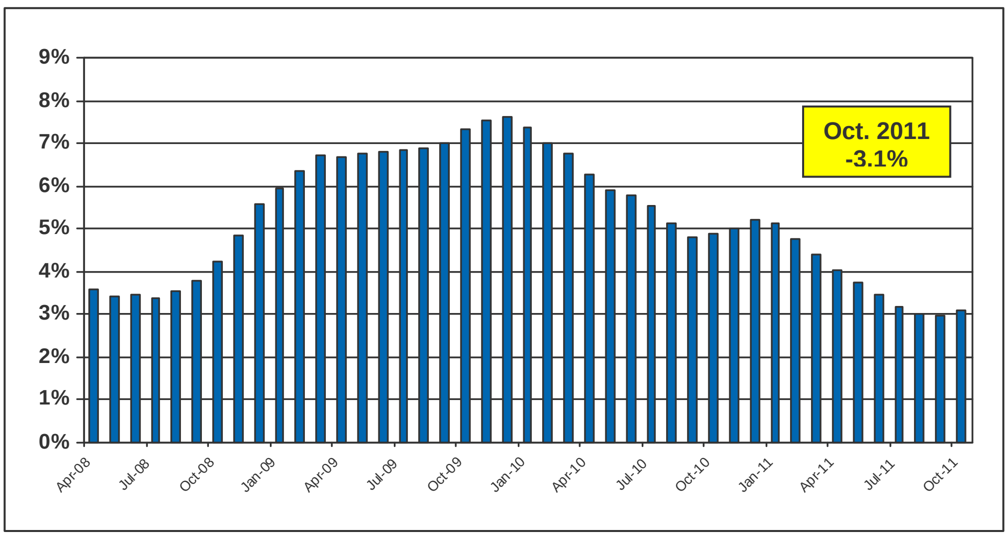
Multifamily Market Commentary – December 2011

Multifamily Concessions Back to Normal Levels

According to data from Dallas-based Axiometrics, Inc., most U.S. metro areas have been experiencing strong improvement in multifamily fundamentals all year, with increasing rents, declining vacancies, and concession rates returning to normal levels (when vacancy and rent levels are close to their historical norms) as of October 2011. As seen in the chart below, the national multifamily concession rate had been falling steadily for most of the year and is currently at about -3.1 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 -8.3 percent is equal to one month of free rent on a 12-month lease.

National Multifamily Concession Rate



Source: Axiometrics

Apartment Demand Healthy

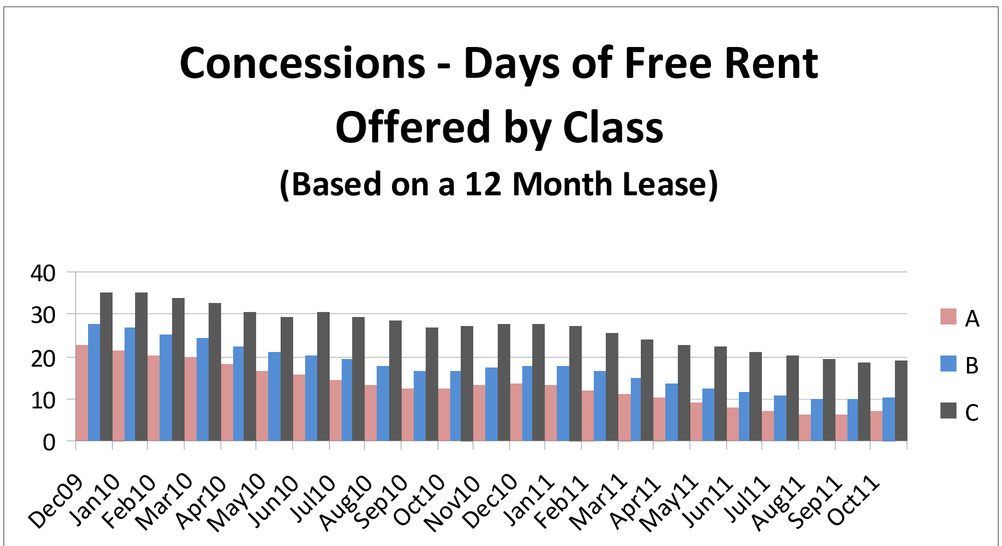
After having fallen all year, the national concession value inched up just a bit in October, to -3.1 percent from -3.0 percent in September, equal to eleven days of free rent. The cause is likely due to seasonality, since the fourth and first quarters tend to be the slowest times of the year for the multifamily sector in terms of net absorption. Many tenant households remain in place during these times of the year, with the reasons usually attributed to the holiday season and the colder weather in many parts of the country.

A year-over-year comparison clearly demonstrates the strength of rental increases in 2011: Concessions stood at -4.9 percent in October 2010, compared to this year's -3.1 percent, with the peak occurring in December 2009 at a rate of -7.6 percent. Historically, a -2.0 percent to -3.0 percent national concession rate has been acceptable. Thus, the current rate indicates a return to a healthier rental sector. Indeed, the current rate of -3.1 percent is now on par with the sector's recent trough of -3.0 percent, which occurred in the third quarter of 2007, according to Axiometrics data.

Concessions Differ by Class

Axiometrics data shows a significant difference in concession rates by class. On a national level, concessions on Class A multifamily properties are at their trough, down to just -1.9 percent, or seven days of free rent, after having peaked back in December 2009 at -6.21 percent or twenty three days of free rent. Unsurprisingly, in comparison, Class B and Class C have not performed quite as well. Class B concessions are -2.9 percent and Class C are at -5.2 percent as of October.

Axiometrics defines multifamily property classes into three categories of Class A, B, and C. The methodology it employs is not based on age, as is often done in the industry, but rather is based on effective rents, both on a metro and submarket level. Axiometrics believes this methodology provides a clearer picture of the property type class, since older properties in certain metro areas, such as New York City, would still be considered Class A properties, which is reflected in the rent levels.



Concessions as a Percentage of Current Asking Rents as of October 2011:
Class A: -1.9%; Class B: -2.9%; Class C: -5.2%

Source: Axiometrics

Some Metro Areas Seeing Double-Digit Rent Growth

Falling concessions mean that rents are rising, and some metro areas have been experiencing significant year-over-year rent growth. As seen in the table below, a number of metro areas have actually had double-digit effective rent growth. High-density, west coast metro areas such as San Francisco with 14.8 percent and San Jose with 11.7 percent year-over-year effective rent growth rates are not totally unexpected. Charlotte with 7.2 percent rent growth; Miami with 5.6 percent; and even Denver with 6.6 percent effective rent increases, are less predictable examples.

Top Metro Areas by Annual Effective Rent Growth

Market	October 2011 Value
San Francisco, CA	14.8%
San Jose, CA	11.7%
Oakland, CA	9.2%
Austin, TX	8.2%
Boston, MA	7.7%
Charlotte, NC	7.2%
Dallas, TX	7.0%
Denver, CO	6.6%
Seattle, WA	6.4%
Miami, FL	5.6%
National Average	4.4%

Source: Axiometrics

Even an economically-challenged metro area such as Detroit is seeing increasing effective rents, mostly due to a lack of new rental supply and recent job growth. Detroit has seen year-over-year effective rents rise by nearly 5 percent as of October 2011, according to Axiometrics data.

A Healthy 2012 with Stabilizing Rents

While the strength of improving vacancy levels and rental rates will vary by metro, on a national basis the multifamily sector should remain on track into early next year. Although rent growth will vary greatly by metro, on a national basis it will likely come in at around 4.0 percent for 2011, as seen in the table above. Despite the slowdown in job growth, we expect multifamily demand to remain solid in 2012 as well, thanks to limited new rental supply coming online during the near-term. As a result, the outlook remains positive for the multifamily sector. Based on current observations, it appears likely that average asking rents on a national basis could experience an annualized increase of between 2.0 percent and 3.0 percent in 2012.

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December 2011