



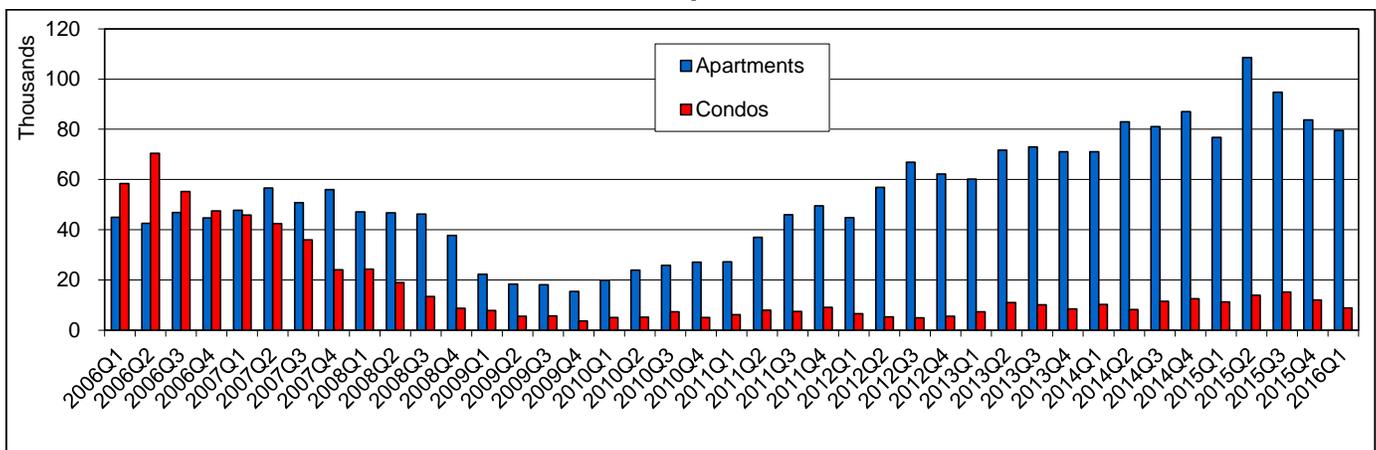
Multifamily Market Commentary – July 2016

Multifamily New Construction Pipeline Update

Starts for new multifamily rental and condominium construction remained elevated in the early months of 2016, as seen in the chart below, according to updated data from the Dodge Data & Analytics Construction Pipeline.

The vast majority of the estimated 88,375 multifamily starts during the first quarter of 2016 remained in the multifamily rental category. Starts of new apartment rental units totaled nearly 80,000, down from the most recent quarterly peak of nearly 109,000 units in the second quarter of 2015. By comparison, there were just 8,812 condo starts in this year's first quarter.

National Condo and Apartment Units Started



Source: Dodge Data & Analytics, June 2016

Census Bureau Starts Up but Expected to Slow

The Census Bureau's estimated multifamily starts – which include condominiums – were up 10 percent year-over-year as of May 2016, compared to 1.3 percent in April. Starts in May were at an annualized rate of 396,000 units.

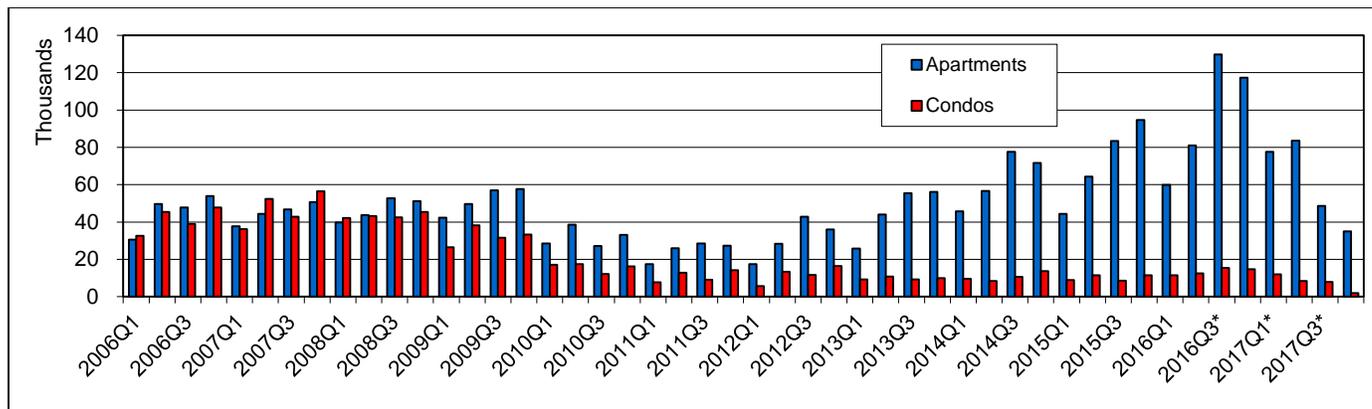
Moody's forecasts that multifamily starts (2+ units) will increase in 2017 to about 549,000 units and dip slightly in 2018 to about 521,000 units. The overall level of multifamily construction starts continues to be well above the 1989-2008 historical average annual rate of 260,000 units, but it remains well below the record 1 million multifamily starts in 1973 and more than 700,000 starts in 1985.

Dodge Data & Analytics Construction Pipeline Staying Elevated

As was the case a year ago, the Dodge Data & Analytics Construction Pipeline is showing an exceptional level of new apartment rental units currently underway. More than 556,000 units were under construction as of June 2016 – up from 512,000 in January 2016. And after declining steadily over the past several years, the number of condo units underway has begun to increase relative to the prior year – rising to 72,000 units in June, up from 69,000 six months earlier.



National Condo and Apartment Completions and Units Underway



Source: Dodge Data & Analytics, June 2016

* Anticipated completions

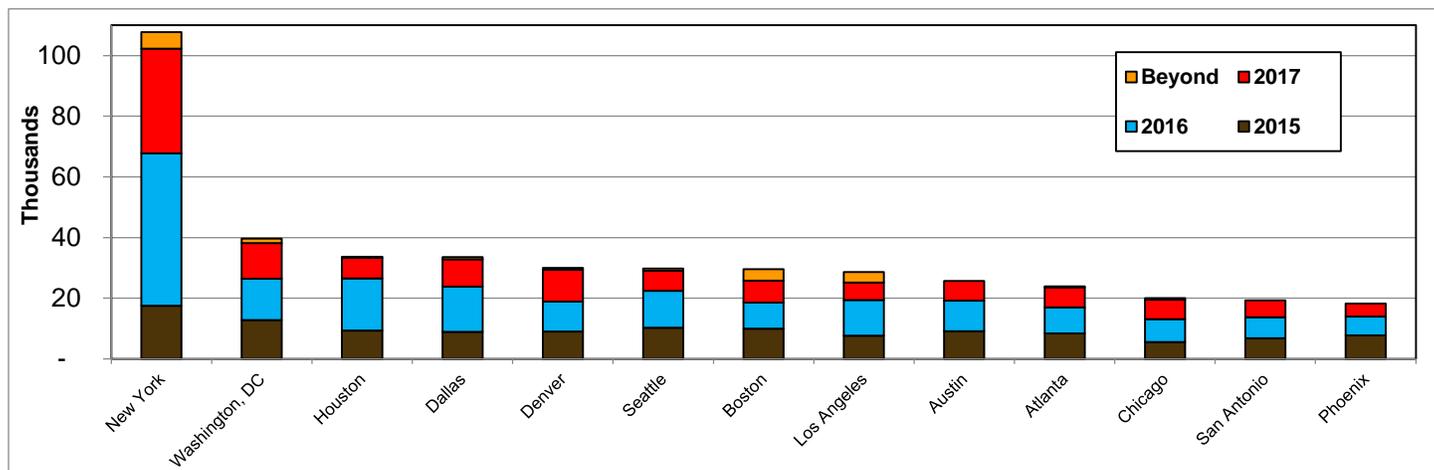
Supply Concentrated in Major Markets

The most active metros in the country for apartment development continue to be New York, Washington, Houston, and Dallas. New York has more than 100,000 units underway, while the other three exceed 30,000. Denver, Seattle, and Boston follow with slightly fewer units underway. Rounding out the top 10 are Los Angeles, Austin, and Atlanta.

An onslaught of new supply in Houston is somewhat troubling, at least over the short term. A combination of low oil prices and a weaker than expected local economy are decreasing demand for rentals at the same time as deliveries of new units are surging. This suggests that the metro is in for a period of rising vacancies, declining rent growth, and even possible rent contractions. The longer-term outlook should brighten, however, once these conditions subside and Houston's multifamily market returns to a healthy growth mode.

Austin is also concerning. The vast majority of its new stock is for Millennial high-tech workers who want to live downtown. But some of the new jobs the local economy generates in the next few years may not be in the high-tech sector and may not pay enough to support Austin's escalating asking rent levels. As a result, its apartment market is expected to see some volatility, and a decline in occupancy levels and rents – especially if there is a slowdown or disruption in the high-tech sector.

Estimated Multifamily Units Completed and Underway – Select Metros

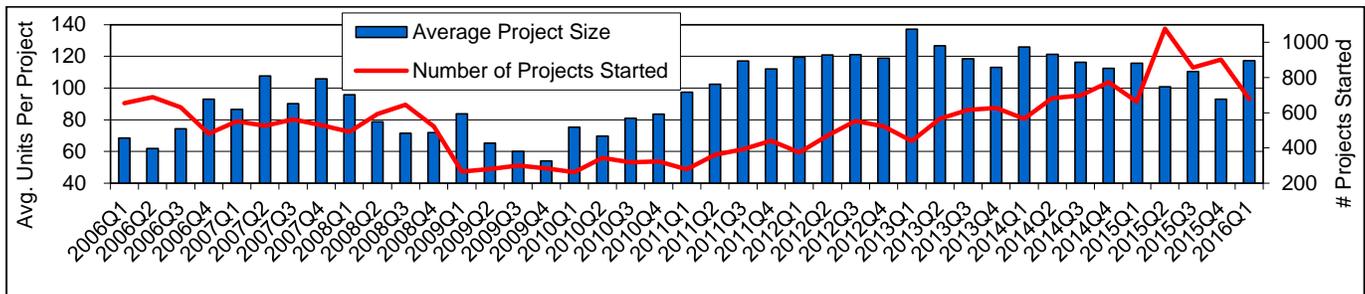


Source: Dodge Data & Analytics, June 2016



The Dodge Data & Analytics Construction Pipeline shows that the number of projects being started has been declining since reaching a peak in the second quarter of 2015 – to 678 project starts during the first quarter of 2016 – as seen in the chart below. The average number of units rose, however, to about 117 per apartment project in this year’s first quarter. An upward trend in the number of units is not surprising, given the high construction costs in most metros.

Average Number of Units per Apartment Project Started



Source: Dodge Data & Analytics, June 2016

Slower Rent Growth and a (Slightly) Rising Vacancy Rate

At a national level, the total amount of new multifamily development underway appears to be sound. Moody’s Analytics expects 1.8 percent job growth this year – or the addition of 2.6 million new jobs. This could create demand for as many as 520,000 additional apartments.

Unfortunately, new multifamily development is just too concentrated. Ten metros – and largely a handful of submarkets – account for a disproportionate amount of new supply, compared to a more even distribution in job growth. This imbalance is why supply is expected to outpace demand in several submarkets over the next few years. However, with Millennials continuing to drive strong demand nationally, we expect less than a 1.0 percent increase in the nationwide vacancy rate this year, despite the supply surge.

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