

Multifamily Market Commentary – August 2014

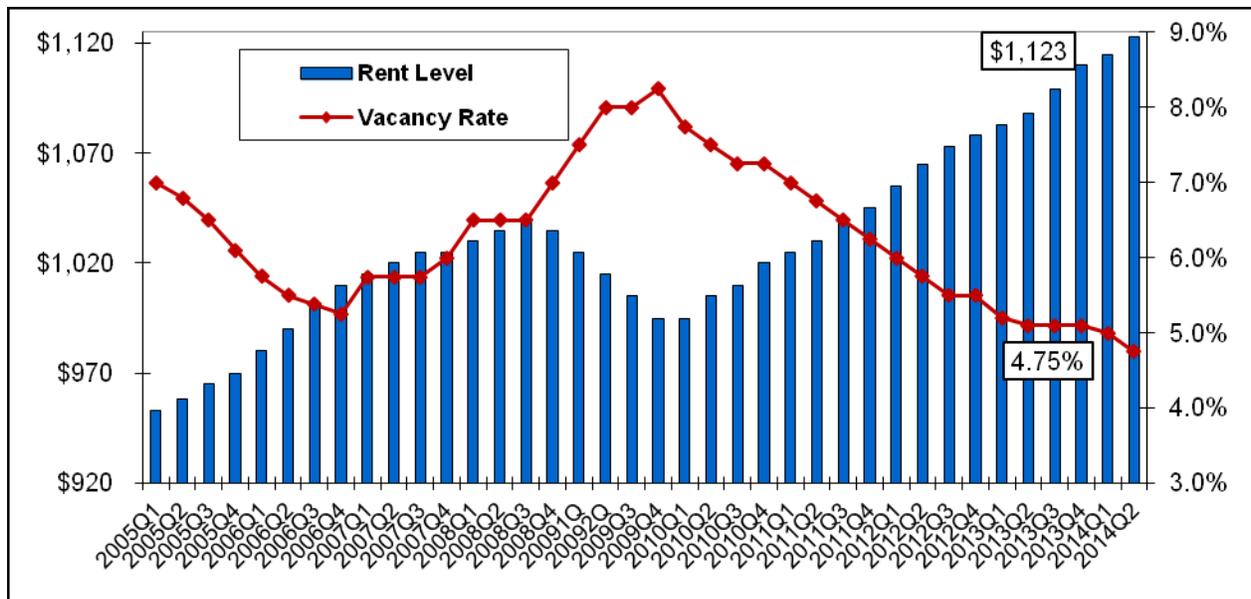
Second Quarter 2014 Multifamily Trends Reflect Ongoing Demand

National multifamily fundamentals reflected ongoing demand during the second quarter of 2014, with vacancy levels declining and rents increasing – again. In spite of new construction starting to come online in a number of submarkets across the country, demand remained robust and underlying fundamentals still are quite solid, and have been for four years now.

Demand Still Forging Ahead

Third-party data for the second quarter of 2014 suggest that the vacancy rate for institutional investment-type apartment properties likely declined to a new low of an estimated 4.75 percent.

Estimated National Rent Level and Vacancy Rate



Source: Fannie Mae Multifamily Economics and Market Research

Estimated asking rents likely rose in the second quarter of 2014 by 0.75 as compared with the first quarter of 2014 , compared to the first quarter’s 0.5 percent rise in the first quarter of 2014 as compared with the fourth quarter of 2013. As of the second quarter of 2014, it appears that the increase in estimated asking rents remains on track to reach 2.0 percent or perhaps even 3.0 percent annualized this year.

Most Vendors Seeing Decline in Vacancy

Most of the vendors are in agreement about the directional change in the multifamily vacancy rate during the second quarter of 2014, with only Reis taking a different tack.

Multifamily real estate research firm Axiometrics provides monthly estimates and shows an anticipated decrease in the second quarter of 2014 as compared with the first quarter of 2014 in its estimated vacancy rate to 5.0 percent in June, compared with 5.6 percent as of the first quarter of 2014, and down from 5.3 percent as of the second quarter of 2014.

Commercial real estate research firm CBRE Econometric Advisors is showing a view similar to that of Axiometrics, also estimating that vacancy levels declined, but by just 20 basis points to an estimated vacancy rate of 4.4 percent for the second quarter of 2014, compared with 4.9 percent for the first quarter of 2014.

Property and Portfolio Research, another research firm, also is keeping with the majority and estimates that the multifamily vacancy rate fell during the second quarter of 2014 to 5.4 percent from 5.9 percent in the first quarter of 2014.

Reis, Inc., however, estimates that there was no change in the national multifamily vacancy rate, keeping its second quarter 2014 estimate at 4.1 percent, the same as for the first quarter of 2014.

Positive Net Absorption in the Second Quarter of 2014

Reis is reporting that net absorption – the net change in occupied rental units – was robust during the second quarter of 2014, rising by an estimated 35,102 units. That marks a slight slowdown from 40,853 units in the first quarter of 2014.

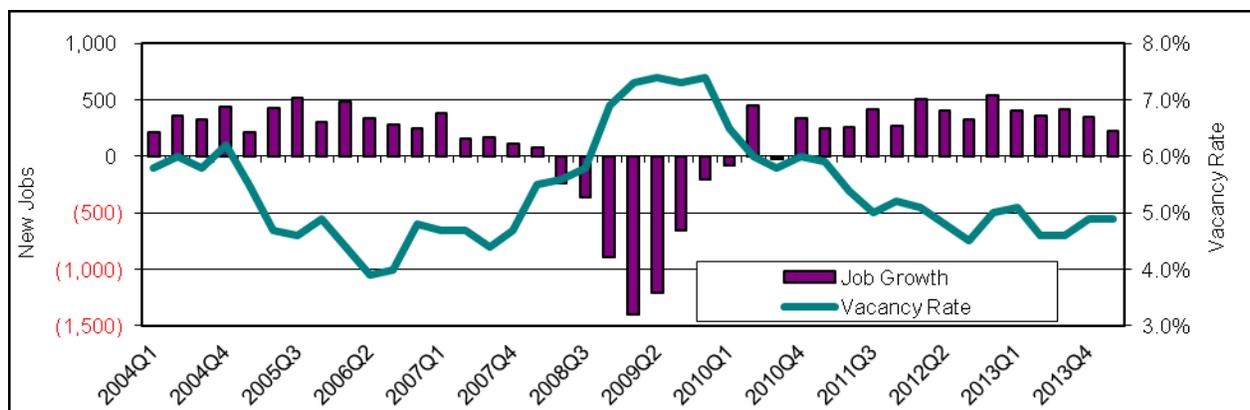
Property and Portfolio Research also estimates positive net absorption occurred during the second quarter of 2014, but its estimate is a far more robust 46,515 units, compared with just 22,000 units during the first quarter of 2014. Both research firms' estimates reflect ongoing, steady multifamily rental demand.

Second Quarter Seasonality Spurs Rent Increase

All four of the data vendors also reported an increase in rent growth during the second quarter of 2014. CBRE Econometric Advisors estimates approximately 0.75 percent rent growth, based on an annualized rate of 3.0 percent. Reis estimates 0.8 percent rent growth during second quarter.

The other two vendors are much more optimistic. Property and Portfolio Research estimates rents increased by 1.68 percent during the second quarter of 2014 and Axiometrics is even more generous, stating that effective rents grew by an estimated 2.7 percent in the second quarter of 2014 as compared with the first quarter of 2014. In comparison, the Multifamily Economics and Market Research team's rent growth estimate is 0.75 percent, which is on par with both Reis and CBRE Econometric Advisors' estimates for the second quarter of 2014.

Job Growth and Vacancy Rate



Source: CBRE Econometric Advisors



Job Growth Helps Drive Demand

With the increase in new multifamily construction in the second quarter of 2014 as compared to the second quarter of 2013, approximately 386,000 units underway as of July 2014, fundamentals for most metro areas appear to remain stable thanks in large part to continued job growth, as seen in the chart on the previous page. We expect there will be, and indeed already are, submarkets that are seeing a slowdown in rent growth and an increase in vacancy levels.

Based on projected employment growth, demographic trends, and expected household formations, we expect the current pipeline to be absorbed over the next three to five years. There still are many metro areas with positive fundamentals that are suffering from a dearth of supply, meaning that rents will likely continue to climb in many parts of the U.S. over the next few quarters.

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