

Multifamily Market Commentary – November 2014

Third Quarter 2014 Multifamily Trends: Rents Still Climbing

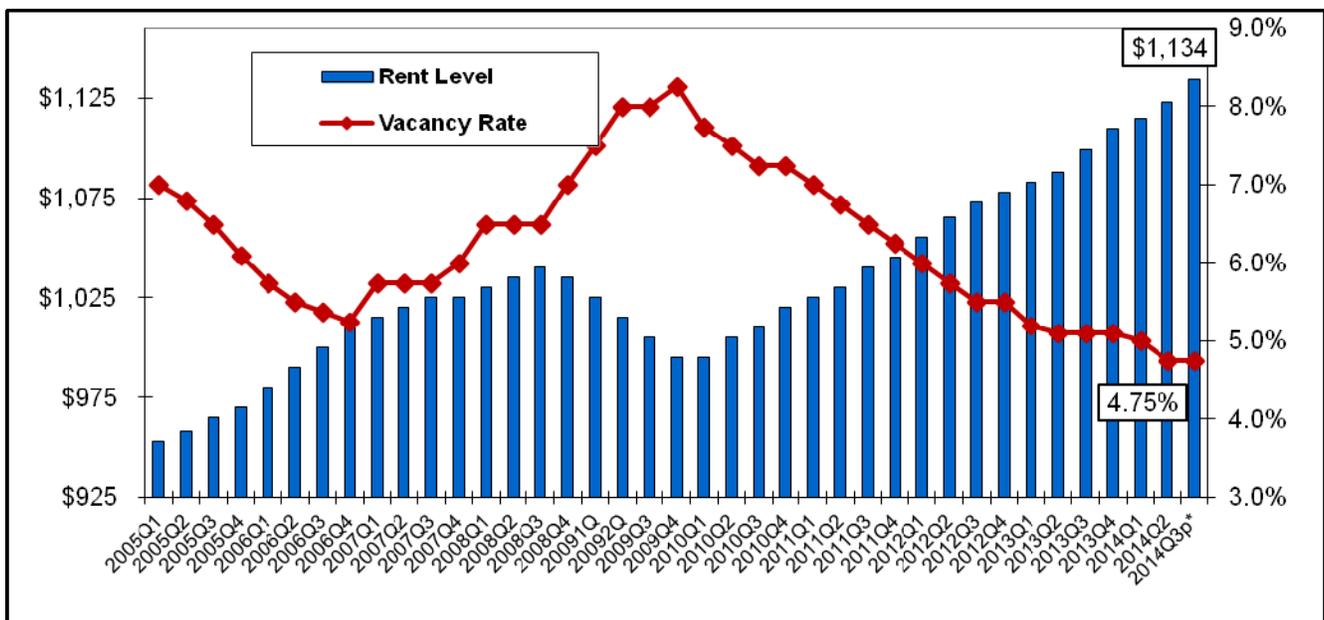
National multifamily fundamentals reflected solid demand during the third quarter of 2014, despite estimated vacancy levels remaining stable. Estimated effective rents increased again, resulting in 18 consecutive quarters of increases, as illustrated in the chart below. Despite new apartment construction starting to come online in a number of submarkets across the country, demand has continued to remain robust with underlying fundamentals still quite healthy, as they have been for more than four years.

Rental Demand Remaining Robust

Preliminary third-party data for the third quarter of 2014 suggest that the vacancy rate for institutional investment-type apartment properties remained steady at an estimated 4.75 percent, the same level as in the second quarter of 2014.

Estimated rents rose again in the third quarter, but this time by an impressive 1.0 percent, compared to the still-healthy 0.75 percent in the second quarter and significantly better than the 0.5 percent in the first quarter. As of the third quarter of 2014, it appears that estimated rents remain on track to reach 3.0 percent and perhaps even 3.25 percent annualized this year.

Estimated National Rent Level and Vacancy Rate



Source: Fannie Mae Multifamily Economics and Market Research

Vendor Vacancy Trends Not All in Agreement

The vendors' estimates regarding vacancy directional trends show differences of opinion. What was consistent was that the amount of movement was quite small, about 10 basis points either up or down during the quarter.

Multifamily real estate research firm Axiometrics is showing a quarter-over-quarter decrease in its estimated vacancy rate, down to 4.9 percent compared to 5.0 percent in the second quarter and 5.6 percent as of the first quarter of 2014.

CBRE Econometric Advisors has a similar view and estimates that vacancy levels also declined by 10 basis points, but to an estimated vacancy rate of 4.3 percent for the third quarter compared to 4.4 percent for the second quarter and 4.9 percent as of the first quarter of 2014.

Reis, Inc., is taking a different stance and estimates that there was actually an increase in the national multifamily vacancy rate, rising by 10 basis points, taking it to 4.2 percent for the third quarter compared to 4.1 percent in both the first and second quarters of 2014.

CoStar Realty Information Inc. (formerly Property & Portfolio Research) also estimates that the multifamily vacancy rate was at 4.1 percent as of the third quarter of 2014.

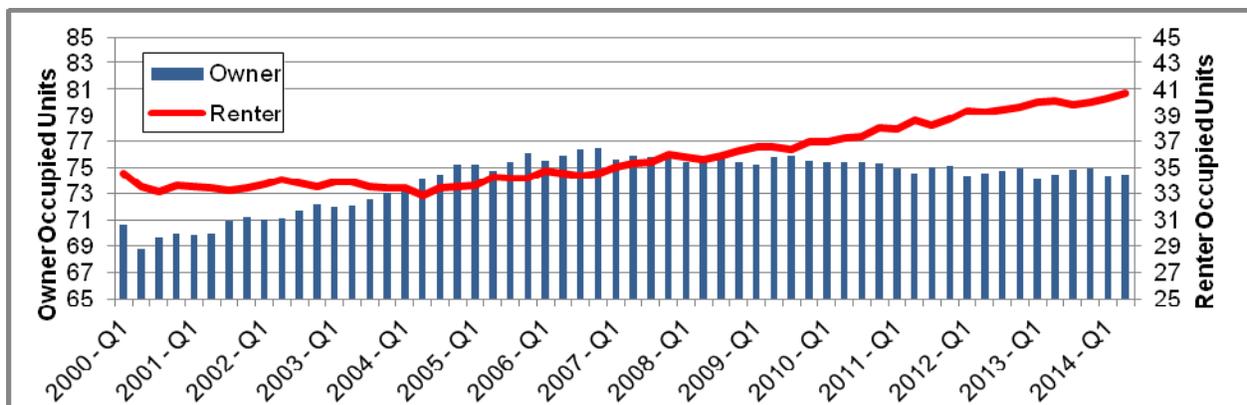
Positive Net Absorption Continues

Reis is reporting that net absorption – the net change in occupied rental units – was quite healthy again during the third quarter of 2014, rising by an estimated 37,000 units, which is up slightly from the estimated 35,102 units in the second quarter, but still below the estimated 40,853 units in the first quarter. CoStar also estimates that positive net absorption occurred during the third quarter, but its estimate is a far more robust 57,000 units.

Rental Demand Continues Unabated

Clearly, demand for rental housing of all types continues unabated as illustrated in the chart below. Despite the increase in new multifamily construction, with about 264,000 new multifamily units expected to come online this year, fundamentals for rental demand remain stable. Some submarkets are seeing a slow-down in rent growth and an increase in vacancy levels, but it is not expected to be long-lasting. Indeed, even Washington, DC saw its estimated rent growth turn positive during the first half of 2014, reversing a negative trend experienced in late 2013. We anticipate that projected employment growth coupled with solid demographic trends will keep expected rental household formations healthy during the next few years.

Total Occupied Housing Units (Millions) – Owned vs. Rented



Source: Current Population Survey/Housing Vacancy Survey, Bureau of the Census, per Haver Analytics DLX



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