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Apartment Market Dynamics Look Strong for Next Two Years

Although Moderating from Previous Blistering Pace, Leasing and Sales of Multifamily Leads All Other CRE Property Types

Apartment markets continued to improve across all areas of the country for the seventh quarter in a row, though the pace of improvement moderated, according to the National Multi Housing Council's (NMHC) Quarterly Survey of Apartment Market Conditions. Still, the NMHC said the outlook is for continued strength in the multifamily sector for the next two years.

NMHC's survey measures market tightness, sales volume, equity financing and debt financing, all of which measured at 50 or higher, indicating growth from the second quarter.

For more detailed analysis on the U.S. Multifamily market, including leasing and sales trends in specific markets, CoStar subscribers may register for the upcoming "State of the U.S. Multifamily Market." This one-hour presentation will be held Wednesday, November 14, 2012 at 12:00 Noon ET (9:00AM PT). Click here to log-in and register for the CoStar Webinar Series.

"Even after nearly three years of recovery, apartment markets around the country remain strong as more report tightening conditions than not," said NMHC chief economist Mark Obrinsky. "The dynamic that began in 2010 remains in place: the increase in prospective apartment residents continues to outpace the pickup in new apartments completed. While development activity has picked up considerably since the trough, financing for both acquisition and construction remains constrained, flowing mainly to the best properties in the top markets."

As residents continue to lease more apartments at higher rents, investors are pursuing multifamily acquisitions in increasing numbers. According to CoStar Group, multifamily sales are the only property type to report year-over-year gains in sales volume. The total dollar value sold in the first nine months of 2012 is up 20% over 2011 at $53.41 billion vs. $44.62 billion.

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Financing is still available but only for the top markets, NMHC reported. Only one in five reported acquisition capital being similarly available for all geographic markets and properties.

Construction financing was even more restricted. Just 8% of respondents indicated construction financing for new apartments was available in all markets for all property types. The vast majority reported construction financing as only available for either the top properties in the top markets (37%) or for all property types in the top markets (36%).

Two More Years. Two More Years.
Forecasts for the multifamily market and demand for rental housing remain solid for the next couple of years, according to the Freddie Mac Multifamily Research Group. The group is forecasting a base case that entails slow economic growth with an additional 1.7 million new multifamily renter households between now and 2015.

The multifamily market is continuing to benefit from recent declines in homeownership related to economic stress and high foreclosures in the single-family housing market. In fact, Freddie Mac is forecasting that the homeownership rate will drop another 1 to 2 percentage points if the current slow recovery continues.

Meanwhile, the single-family rental market, a growing and distinct market from multifamily, has expanded 16% (about 3 million units) since 2007.

"The research supports the optimism that currently pervades the multifamily market," said David Brickman, senior vice president of Freddie Mac Multifamily. It confirms that multifamily is a bright spot in in the real estate market and the economy more broadly, and it will likely continue to shine for quite some time."

"The economic data indicates that current rental markets are very strong with low vacancy rates, rising rents and solid demographic trends. What this research demonstrates is that these conditions are likely to remain in place for several years to come," Brickman said.

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Residential Vacancies Falling
The national vacancy rates in the third quarter were 8.6% for rental housing and 1.9% for homeowner housing, the Department of Commerce's Census Bureau reported.

The rental vacancy rate of 8.6% was 1.2 percentage points lower than the rate recorded in the third quarter 2011 and the same as the rate last quarter.

The homeowner vacancy rate of 1.9% was 0.5 percentage points lower than the third quarter 2011 rate and 0.2 percentage points lower than the rate last quarter (2.1%).

The homeownership rate of 65.5% was 0.8 percentage points lower than the third quarter 2011 rate (66.3%) and approximately the same as the rate last quarter.

In the third quarter 2012, the median asking sales price for vacant for sale units was $137,000.

Among regions, the rental vacancy rate was highest in the South (10.5%) and lowest in the Northeast (7.1%) and West (6.5%).

For the third quarter 2012, the homeowner vacancy rate was higher in the South (2.1%) than in the West (1.7%).

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