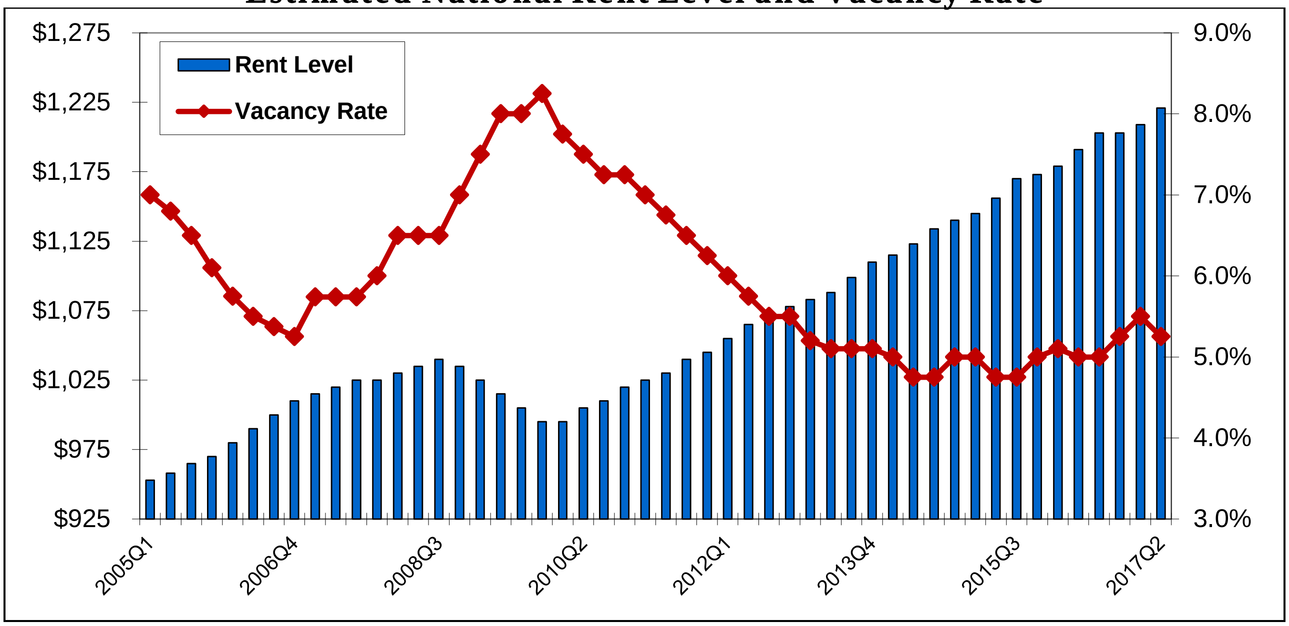
Multifamily Market Commentary – August 2017

Second Half of 2017 Multifamily Outlook: Moderating but Positive Demand

During the first half of 2017, the multifamily sector started out slow but gained some momentum in the second quarter, bringing the estimated national vacancy level back down to year-end 2016 levels and increasing asking rents. The estimated national vacancy level fell to 5.25 percent as of the second quarter of 2017, down from 5.5 percent in the first quarter and back to where it was as of the fourth quarter of 2016, as illustrated in the chart below.

Estimated effective rents appear to have increased by 1.5 percent during the first six months of the year after stagnating during the fourth quarter of 2016. Still, more new apartment units are coming online in a number of submarkets across the country, which is impacting national demand levels and resulting in positive yet moderating fundamentals.

Estimated National Rent Level and Vacancy Rate



Source: Fannie Mae Multifamily Economics and Market Research

Rent Growth Outpacing Wage Growth

National estimated multifamily rents appear to have increased during the second quarter of 2017 by 1.0 percent to an estimated asking rent level of $1,221, as shown in the chart above. This is on top of the more modest 0.5 percent increase during the first quarter, bringing the national asking rent increase in the first half of 2017 to an estimated 1.5 percent, the same as in the first half of 2016.

The estimated annualized pace of a 3.0 percent multifamily asking rent increase is slightly higher than originally anticipated but could slow in the fourth quarter of 2017. If rent growth continues at this pace, national rent growth would end the year above both the rate of inflation and wage growth, which as of June 2017 were at 1.6 percent and 2.5 percent, respectively.

Net Absorption Positive but Down

Net absorption estimates – the net change in occupied rental units – were positive for the first half of 2017 but down year-over-year. Reis, Inc. estimates nearly 65,000 units of net absorption for this time period, down significantly from the first half of 2016's estimated 108,000 units.

In fact, multifamily rental demand has been slowing since the second half of 2016, and there are still about 422,000 new units expected to come online this year, according to Dodge Data & Analytics construction pipeline data. This will likely exceed the expected level of demand in many metros.

Vacancy Rates Still Declining in Some Metros but Rising in Others

While multifamily demand improved during the latter part of the first half of 2017, it was still down year-over-year in many metros. According to preliminary data from CBRE Econometric Advisors, a data and research vendor, 46 out of 66 metros saw their year-over-year vacancy levels rise, but another 16 experienced a decline. CBRE Econometric Advisors estimated that only four metros had no change in their vacancy levels: New York, San Francisco, Omaha, and Oxnard, California.

Twenty-eight metros had vacancy rates below CBRE Econometric Advisors' national average of 4.6 percent, including Boston, Charlotte, Cleveland, Columbus, Los Angeles, Louisville, New York, Oakland, Omaha, Philadelphia, Salt Lake City, Seattle, and Washington, DC. Metros CBRE Econometric Advisors estimated had the biggest declines in year-over-year second quarter vacancy rates included Albuquerque, Colorado Springs, El Paso, and Honolulu.

The metros that CBRE Econometric Advisors believes had the most significant increases in vacancy this past quarter include some of the nation's energy metros, including Houston, Oklahoma City, and Tulsa, as well as Nashville and Fort Lauderdale, all of which had year-over-year vacancy increases of 100 basis points or higher.

Multifamily Demand Should Remain Positive in the Second Half of 2017

The national multifamily vacancy rate is expected to stay in the 5.25-5.75 percent range for the remainder of 2017, primarily due to the onslaught of new supply expected to become available over the next 12 to 24 months. Since most of this new supply is concentrated in a limited number of submarkets contained within 12 metros, supply could outpace demand, enticing property owners to increase concessions to keep the national vacancy rate from spiking. Keep in mind that despite this mild fluctuation in anticipated vacancy levels, the national vacancy rate is still expected to be below its 12-year average rate of about 6.0 percent. The ongoing question is whether there will be enough demand – and concessions – to keep rent growth positive in many of the newer Class A buildings that are expected to come online later this year.

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