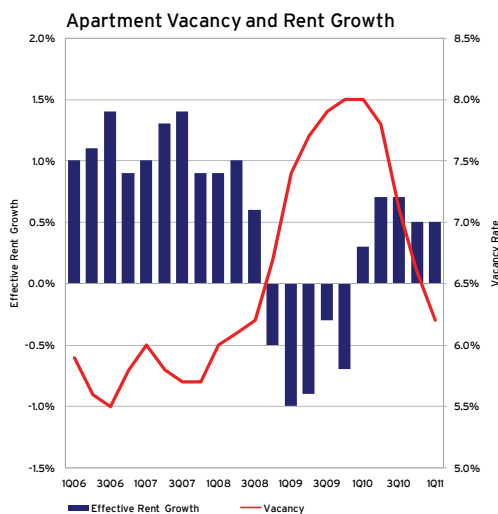




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The Multifamily Gravy Train Keeps Rolling

First quarter data shows that the relentless pace of recovery in the apartment rental sector was not stymied by typical seasonal weakness, nor by an unusually snow-heavy winter that might have prompted less households to move. National vacancies fell by 40 basis points, from 6.6 to 6.2 percent, as the sector posted positive net absorption of over 44,000 units. This is the largest increase in occupied stock in a first quarter period since 2000.



What is significant about these strong absorption numbers is the fact that it is occurring in the midst of a dearth in new completions. Usually strong absorption numbers are accompanied by a surge in new supply. Arithmetically, new projects contribute some positive

amount to absorption unless they come online completely vacant. However, there were few projects with start dates in 2009, when firms and households were hunkering down in the midst of the deepest recession in decades. As a consequence, only a little over 6,000 units opened their doors in the first quarter of 2011. This is the lowest quarterly figure on record since Reis began publishing quarterly data in 1999. All this implies that existing properties are driving the extremely strong lease-up figures.

These strong results reflect the sharp convergence of positive factors for apartment rentals. First, as labor markets continue to improve and hiring picks up, demand for housing is increasing, particularly in the 20 to 34 year segment of the labor market. However, with the single family home sales market still on the ropes, and with deflationary expectations for home prices for at least the coming year, few of these newly hired young workers have the appetite to commit to buying a home, particularly since they may also want to wait until they've had some tenure with their current employer before cutting a check for the down payment. Furthermore, mortgage rates may be low, but credit conditions remain relatively tight, with most lenders requiring a 20% down payment on any new home purchases. While these conservative standards help prevent the resurgence of poorly underwrit-

ten residential home loan mortgages, it also means there is less of a subsidy for homeownership, particularly since any tax credits for first time homebuyers have expired.

Finally, with a shortage in new supply for 2011, we expect vacancies to continue to plummet throughout the year as households favor the rental market. The expected inventory growth figure of 0.5% in 2011 is about one-third of the long-term average of 1.46%, and any boost from new construction will not materialize till late 2012. Note, however, that reports from lender clients in late 2010 and early 2011 already indicate a surge in applications for the financing of construction and development of new multifamily buildings.

Pricing Power Returns to Landlords

Occupancy improvements are well under way, but what about the ability of landlords to raise rents? Increases in asking and effective rents of 0.4 and 0.5 percent, respectively, indicate that the strength of the recovery is making its way into greater pricing power on the part of landlords. Typically you'll see a recovery in space markets first as vacancies begin to tighten, with landlords hesitant to raise rents too quickly. However, rents increased in every single quarter of 2010 as landlords rapidly took away concession packages in anticipation of an improving labor market and a recovering economy. Over the course of the year we observed concession packages that included three to four months off 12-15 month leases get whittled down to only one month or half a month's worth of free rent.

Global conditions are still beset by uncertainty. Ongoing political upheaval in Arab countries, continuing challenges in debt markets for EU countries, and uncertainty about the real effect of the earthquake in Japan on world economic growth all imply that the road ahead is not risk-free. However, unless shocks to the global economy truly dampens US economic recovery and job creation, expect vacancies to continue declining, and rents rising through the rest of 2011 at an even faster pace.

77 out of 82 major markets posted increases in occupied stock, up from 63 in the first quarter of 2010. Effective rents increased in 79 out of 82 markets.

First Quarter 2011 Market Performance						
Improving Fundamentals / Flat or Declining Fundamentals						
	Absorption		Occupancy		Effective Rent	
Q1 2011	77 +	5	79 1	3	79 1	3
Q4 2010	80 +	2	79 1	3	76 1	6
Q3 2010	81 +	1	78 1	4	72 1	10
Q2 2010	72 +	10	68 1	14	69 1	13
Q1 2010	63 +	19	53 1	29	65 1	17

Figures are based on 82 metro markets.

Market Highlights

New York City's first quarter results are fairly strong, considering several days of snow over the holidays that would have dampened economic activity overall. Vacancies fell by 30 basis points, making it the tightest market in the country. Effective rent growth did slow to an increase of only 0.4% relative to the fourth quarter's 0.8%, so this is where some seasonal weakness may have shown up. Only three markets posted declines in effective rents, implying that the recovery for multifamily properties is broad based.

Little Rock and Lexington are among the three markets that posted rent declines this quarter, but both are coming off several strong quarters in 2010; it is not unsurprising to encounter a few seasonal bumps in the road, and the declines appear relatively marginal. Las Vegas, on the other hand, has never posted any rent increases since the third quarter of 2008. It has just been a continuous slide since then, although the pace of decline is moderating somewhat.

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Apartment Market Trends for 2011Q1

	Curr Qtr Vacancy	Curr Qtr Vac Point Change Q4 to Q1	Prev Qtr Vac Point Change Q3 to Q4	Prev Year Vac Point Change 10Q1 to 11Q1	Curr Qtr Rent	Curr Qtr Rent Change Q4 to Q1	Prev Qtr Rent Change Q3 to Q4	Prev Year Rent Change 10Q1 to 11Q1
Apartment Market	Rate				Rent			
Albuquerque	4.7%	-30	-60	-170	\$721	0.5%	0.2%	0.5%
Atlanta	9.1%	-60	-90	-240	\$849	0.3%	0.1%	0.5%
Austin	6.3%	-70	-110	-380	\$891	0.7%	0.5%	1.7%
Baltimore	4.7%	-30	-30	-170	\$1,009	0.6%	0.9%	2.6%
Buffalo	4.2%	-20	-60	-80	\$738	0.1%	0.6%	1.1%
Birmingham	8.3%	0	-50	-210	\$716	0.8%	-0.1%	1.1%
Boston	4.6%	-50	-30	-190	\$1,742	0.2%	0.5%	2.7%
Chattanooga	5.2%	-40	10	-90	\$634	0.7%	0.4%	2.2%
Chicago	5.4%	-20	-30	-130	\$1,073	0.4%	0.4%	1.6%
Cincinnati	6.4%	-30	-20	-180	\$718	0.3%	0.3%	2.1%
Central New Jersey	3.7%	-20	-20	-40	\$1,162	0.2%	0.2%	1.4%
Cleveland	5.2%	-40	-50	-180	\$735	0.5%	0.2%	1.1%
Columbia	9.5%	40	-50	-250	\$722	0.0%	-0.2%	1.5%
Charleston	7.5%	-70	-90	-410	\$771	0.4%	0.4%	2.0%
Columbus	8.6%	-30	-10	-90	\$690	0.5%	0.2%	1.2%
Charlotte	7.5%	-90	-40	-310	\$806	0.5%	0.6%	1.2%
Colorado Springs	5.3%	-70	-20	-240	\$713	0.4%	0.1%	0.8%
Dallas	7.6%	-50	-100	-280	\$829	0.5%	0.5%	1.8%
District of Columbia	5.3%	-20	-20	-80	\$1,447	0.3%	1.6%	2.0%
Denver	5.8%	-60	-70	-260	\$910	0.4%	0.7%	3.1%
Dayton	6.5%	-40	-90	-210	\$633	0.6%	0.1%	0.2%
Detroit	6.6%	-30	-20	-150	\$830	0.5%	0.5%	1.0%
Fairfield County	5.3%	-70	80	0	\$1,792	0.8%	0.7%	2.5%
Fort Lauderdale	6.3%	-30	-20	-220	\$1,118	0.4%	0.9%	1.0%
Fort Worth	8.5%	-30	-80	-260	\$724	0.3%	0.3%	1.7%
Greenville	7.3%	-40	-70	-360	\$649	0.7%	0.1%	3.7%
Greensboro/Winston-Salem	9.4%	-80	-80	-340	\$667	0.8%	0.6%	1.7%
Houston	10.2%	-50	-80	-270	\$792	0.6%	0.7%	2.1%
Hartford	4.3%	-40	-30	-140	\$983	0.4%	0.5%	1.6%
Indianapolis	7.5%	-50	-30	-260	\$687	0.8%	0.6%	2.6%
Jacksonville	10.2%	-80	-110	-360	\$800	0.4%	0.2%	-0.3%
Kansas City	7.5%	-50	-70	-280	\$714	0.2%	0.8%	1.9%
Knoxville	5.8%	-10	-80	-180	\$596	0.2%	1.1%	1.2%
Los Angeles	4.5%	-40	0	-100	\$1,398	0.2%	0.3%	0.2%
Long Island	3.7%	-10	-10	-10	\$1,561	0.5%	0.0%	3.1%
Louisville	5.3%	0	-50	-190	\$655	0.5%	-0.1%	1.6%
Little Rock	6.9%	-40	-50	-170	\$656	-0.2%	0.2%	1.4%
Las Vegas	8.6%	-50	-80	-320	\$803	-0.1%	-1.6%	-2.6%
Lexington	7.7%	20	-50	-180	\$648	-0.6%	0.2%	0.7%
Memphis	11.2%	-30	-40	-200	\$682	0.5%	0.3%	1.4%
Miami	5.6%	-10	-20	-70	\$1,088	-0.2%	1.7%	1.1%
Minneapolis	3.2%	-60	-50	-210	\$965	0.5%	0.7%	1.5%
Milwaukee	4.2%	-30	-30	-100	\$837	0.0%	0.5%	1.0%
Nashville	6.7%	-10	-70	-280	\$757	0.3%	0.5%	1.9%
Norfolk/Hampton Roads	5.0%	-40	-30	-110	\$877	0.5%	0.0%	1.5%
Northern New Jersey	4.7%	-20	0	-60	\$1,517	0.5%	0.6%	2.3%
New Haven	2.9%	0	-10	-50	\$1,114	0.4%	0.3%	2.3%
New Orleans	8.8%	-50	-20	-170	\$869	0.4%	1.1%	2.5%
New York	2.8%	-30	-50	0	\$2,874	0.3%	0.7%	4.4%
Oakland-East Bay	4.3%	-20	-40	-120	\$1,350	0.4%	0.4%	1.6%
Orange County	4.9%	-50	-50	-150	\$1,521	0.4%	0.3%	1.0%
Oklahoma City	7.5%	-50	-120	-260	\$557	0.3%	0.8%	2.3%
Omaha	4.4%	-20	-30	-180	\$703	0.0%	1.2%	1.6%
Orlando	7.9%	-70	-120	-360	\$871	0.4%	0.1%	0.2%
Philadelphia	5.0%	-50	-20	-130	\$1,044	0.5%	0.5%	2.6%
Palm Beach	7.2%	-30	-60	-160	\$1,117	0.2%	0.0%	1.1%
Pittsburgh	4.2%	10	-90	-140	\$843	0.2%	0.5%	1.0%
Portland	3.9%	-60	-40	-250	\$843	0.5%	1.0%	3.5%
Providence	5.5%	-50	-40	-240	\$1,211	0.6%	-0.5%	0.3%
Phoenix	8.9%	-80	-60	-320	\$755	0.6%	0.1%	0.8%
Raleigh-Durham	6.3%	-40	-50	-190	\$817	0.2%	0.5%	2.3%
Richmond	6.5%	-40	-80	-220	\$793	0.2%	0.3%	0.8%
Rochester	3.8%	-40	-40	-120	\$779	0.6%	0.7%	3.2%
San Antonio	8.0%	-40	-80	-270	\$721	0.3%	0.5%	2.5%
San Bernardino/Riverside	6.0%	-50	-60	-200	\$1,040	0.7%	0.1%	1.0%
Salt Lake City	6.0%	-60	10	-100	\$752	0.6%	0.2%	0.3%
San Diego	3.9%	-30	-30	-100	\$1,345	0.3%	0.6%	1.7%
Seattle	5.3%	-50	-50	-200	\$1,040	0.5%	0.6%	2.8%
San Francisco	4.0%	-40	-40	-100	\$1,866	0.4%	1.1%	3.1%
San Jose	3.4%	-40	-10	-130	\$1,543	0.8%	1.0%	4.6%
St. Louis	7.3%	-30	-40	-170	\$731	0.1%	0.2%	1.1%
Suburban Maryland	4.8%	-10	-50	-150	\$1,309	0.5%	0.5%	3.0%
Sacramento	5.7%	-50	-40	-140	\$928	0.2%	1.3%	1.6%
Suburban Virginia	4.8%	-20	-30	-90	\$1,494	0.4%	0.8%	4.2%
Syracuse	3.7%	-30	-60	-70	\$702	0.3%	1.4%	2.5%
Tampa-St. Petersburg	7.2%	-60	-90	-290	\$844	0.4%	0.8%	1.5%
Tucson	7.9%	-60	-60	-210	\$655	0.0%	0.6%	1.0%
Tacoma	5.5%	-50	-80	-240	\$764	-0.1%	0.4%	2.5%
Tulsa	8.3%	-50	-10	-110	\$584	0.2%	1.3%	0.7%
Ventura County	4.5%	-40	0	-80	\$1,409	0.4%	-0.1%	1.0%
Wichita	6.1%	-30	-120	-210	\$519	0.4%	0.4%	0.1%
Westchester	3.5%	-20	-70	-130	\$1,855	-0.1%	0.7%	0.6%
US	6.2%	-40	-50	-180	\$1,047	0.4%	0.6%	1.9%

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