

Multifamily Housing Outlook

Economic and Multifamily Real Estate Market Update

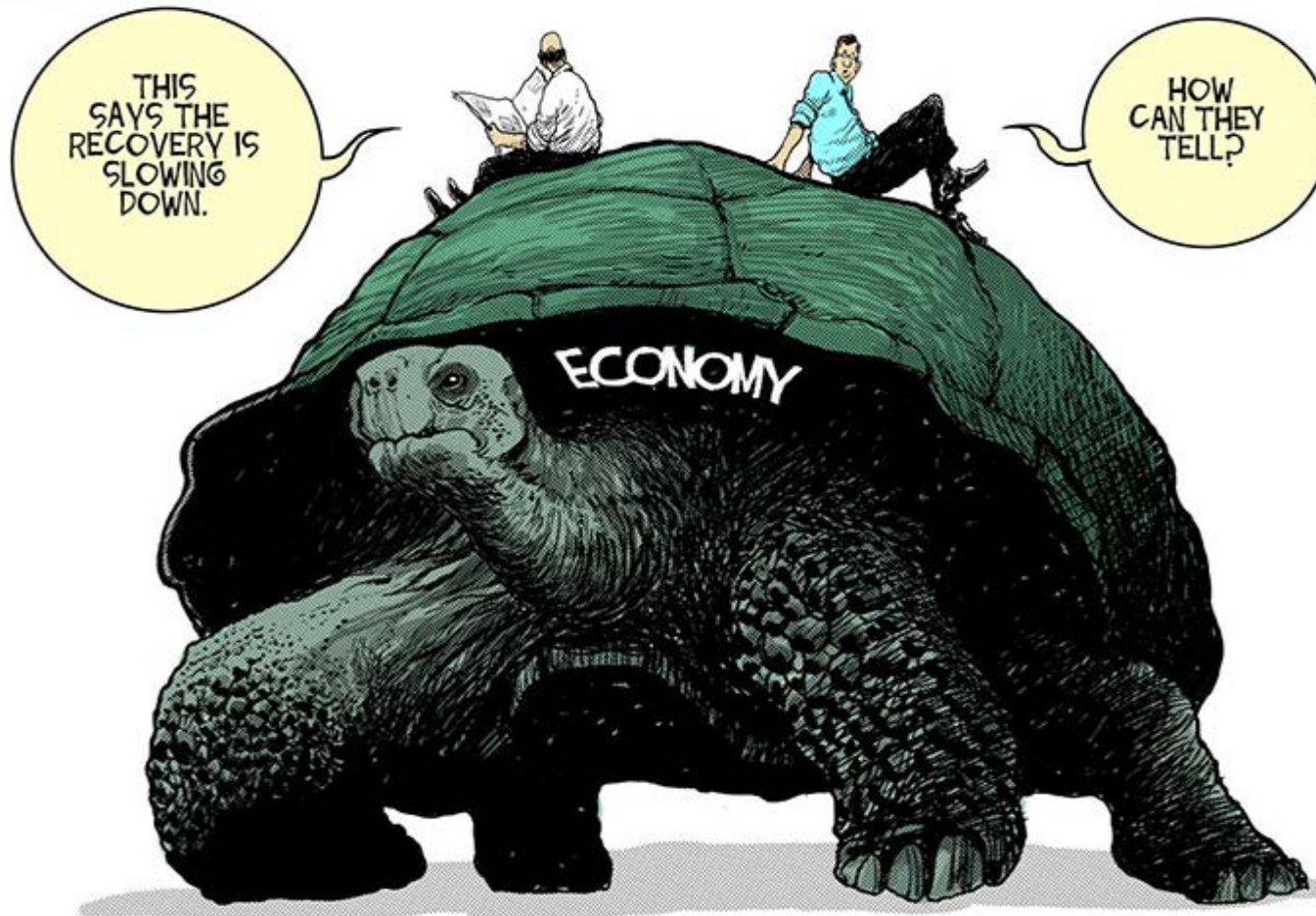
Tanya Zahalak

Economist

Multifamily Economics and Market Research

Fannie Mae Multifamily Mortgage Business

June 17, 2014

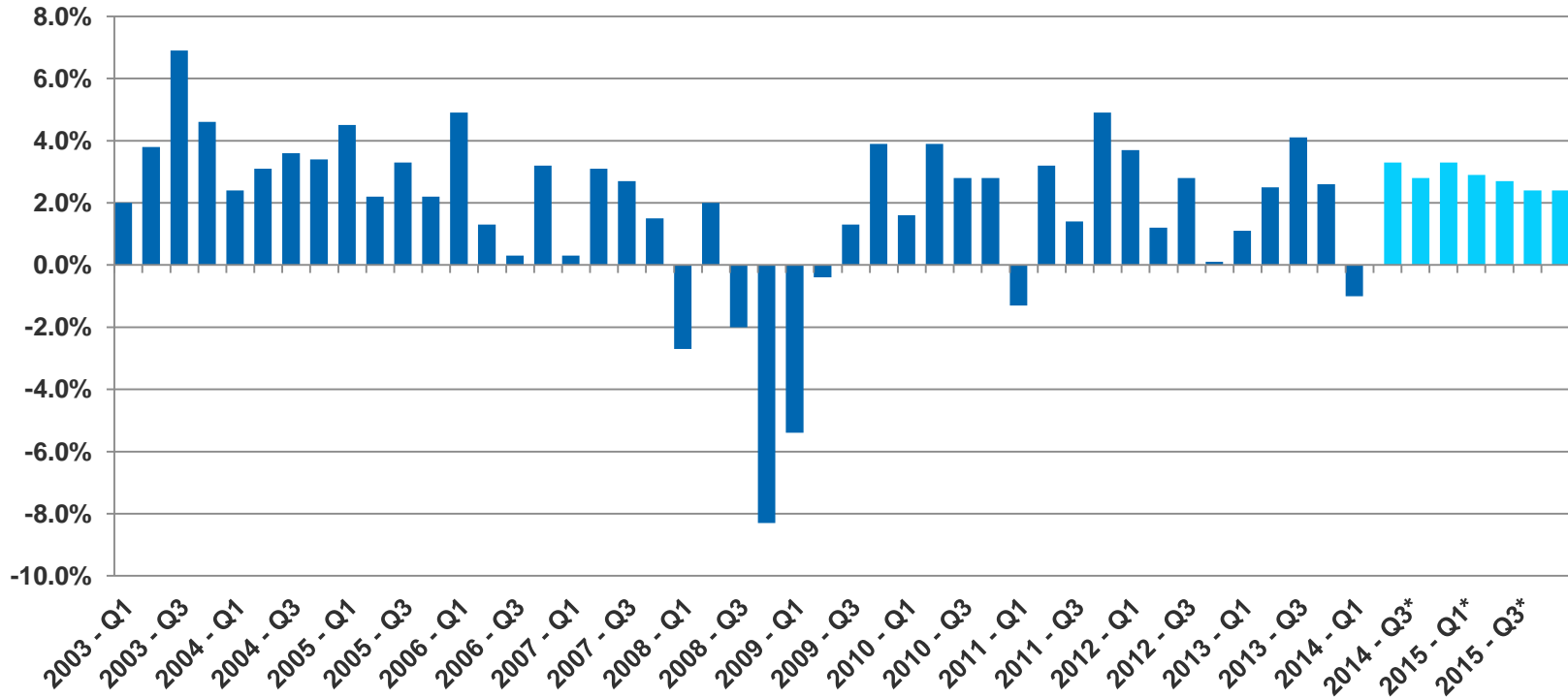


Source: Tribune Media Services

Macroeconomic Trends: Steady Improvement

While GDP decreased by 1.0% in Q1, it is expected to accelerate for the rest of 2014.

Average Quarterly Change in GDP (SAAR)



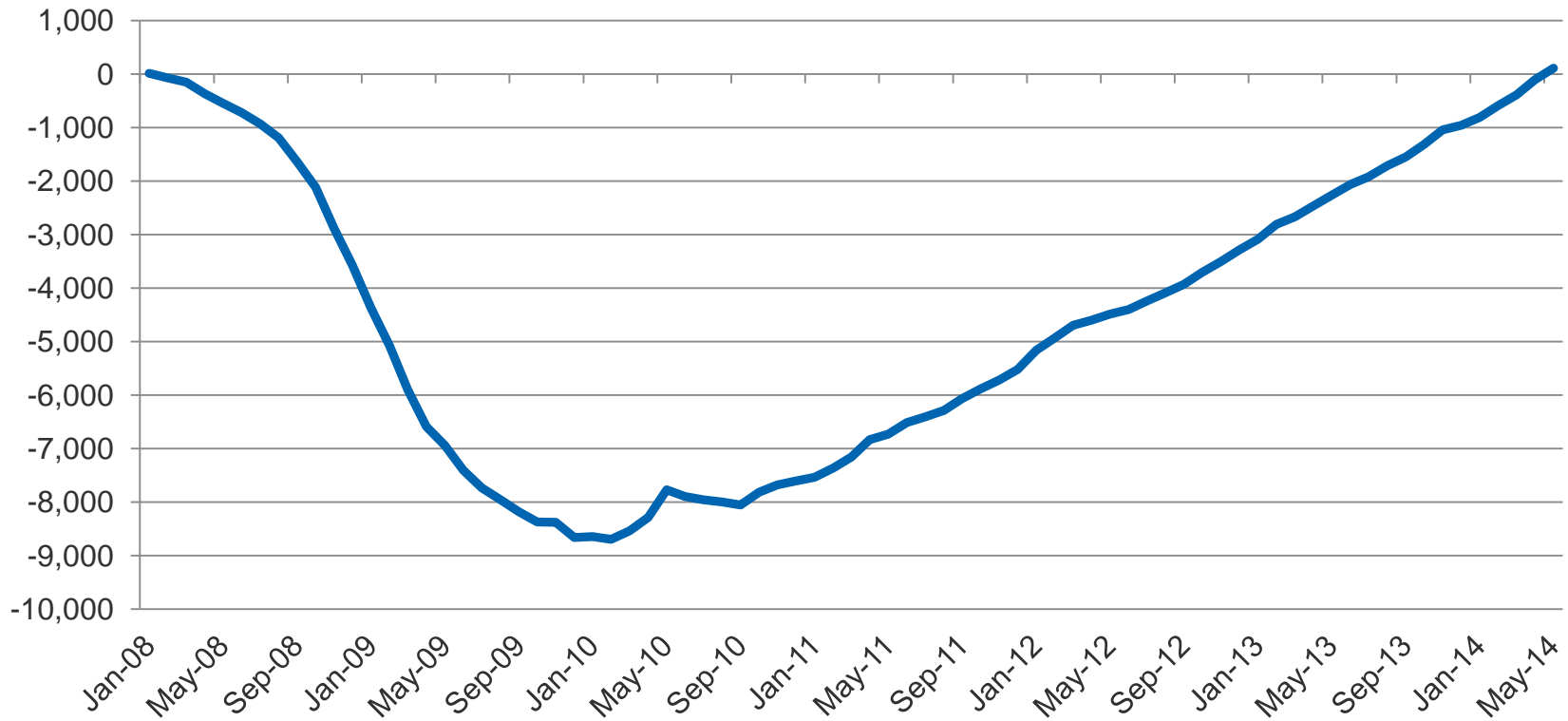
Source: Department of Commerce, Bureau of Economic Analysis, per Haver Analytics DLX

* Fannie Mae estimates

Macroeconomic Trends: Steady Improvement

The economy has finally recovered all of the jobs lost during the Great Recession...

Change in Total Nonfarm Payrolls Since December 2007

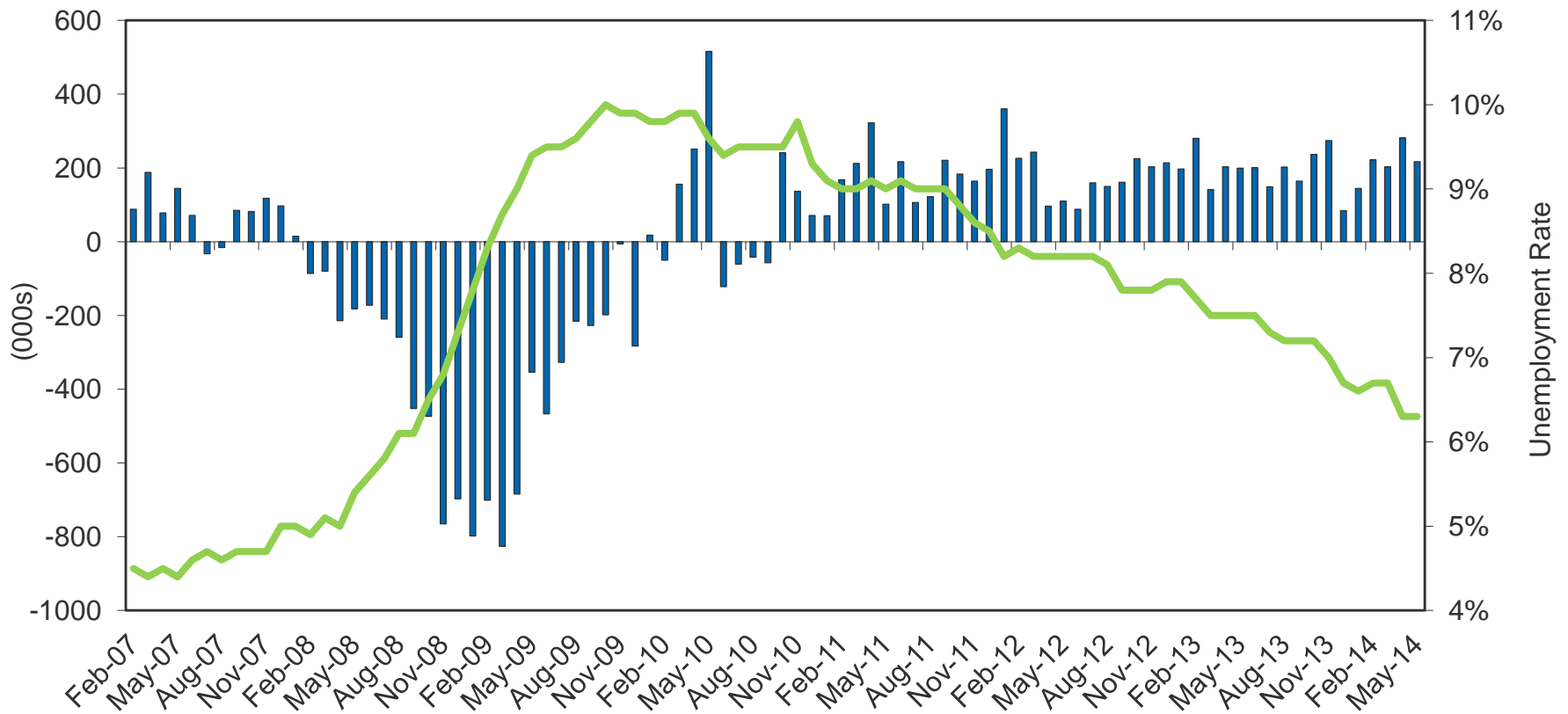


Source: BLS

Macroeconomic Trends: Steady Improvement

... with the unemployment rate steadily falling...

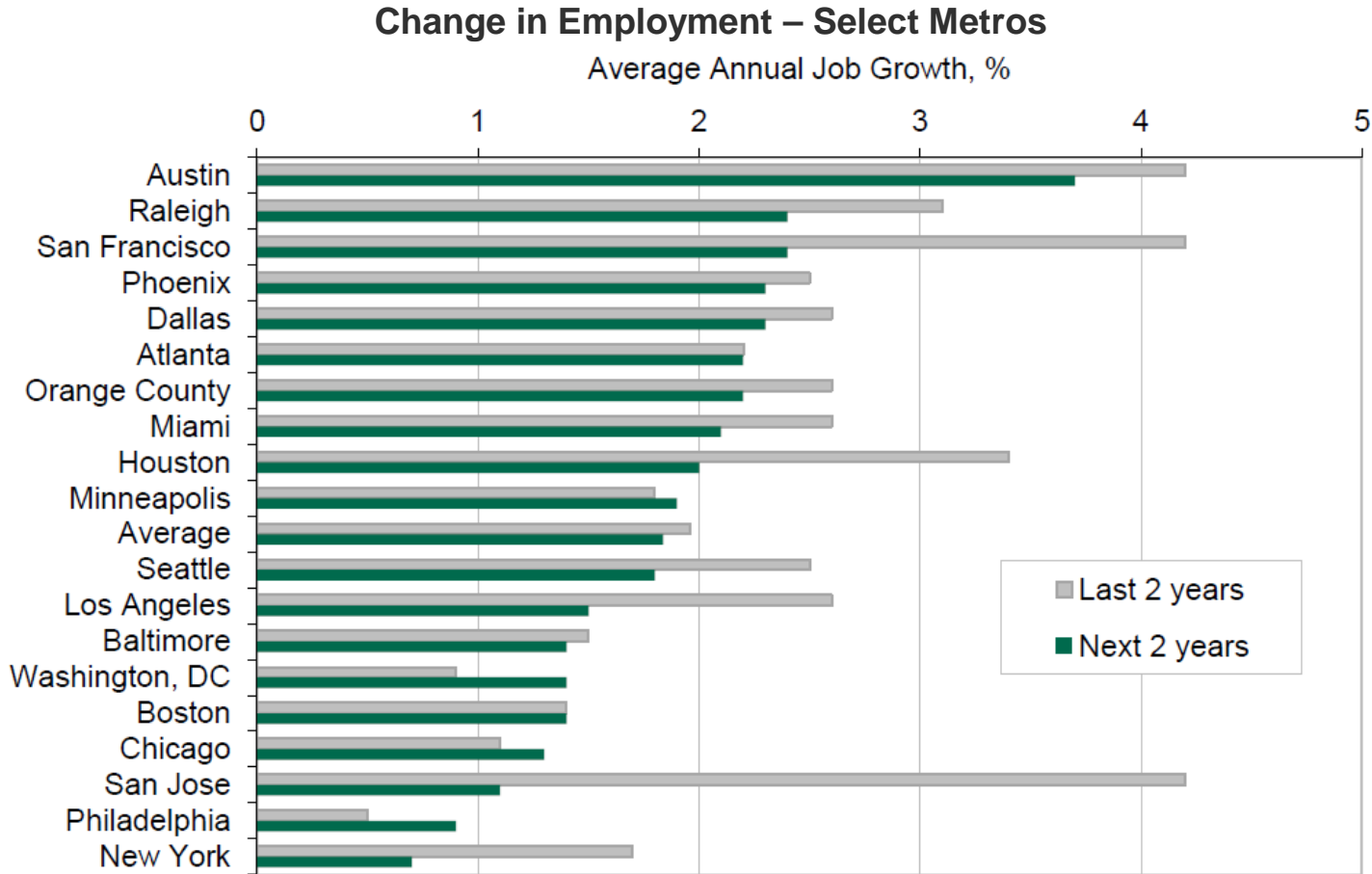
Monthly Change in Nonfarm Employment and the Unemployment Rate



Source: U.S. Department of Labor, Bureau of Labor Statistics

Macroeconomic Trends: Steady Improvement

...and many metros will keep seeing job growth, although some at a slower pace over the next two years.



Source: CBRE-EA, Q1 2014



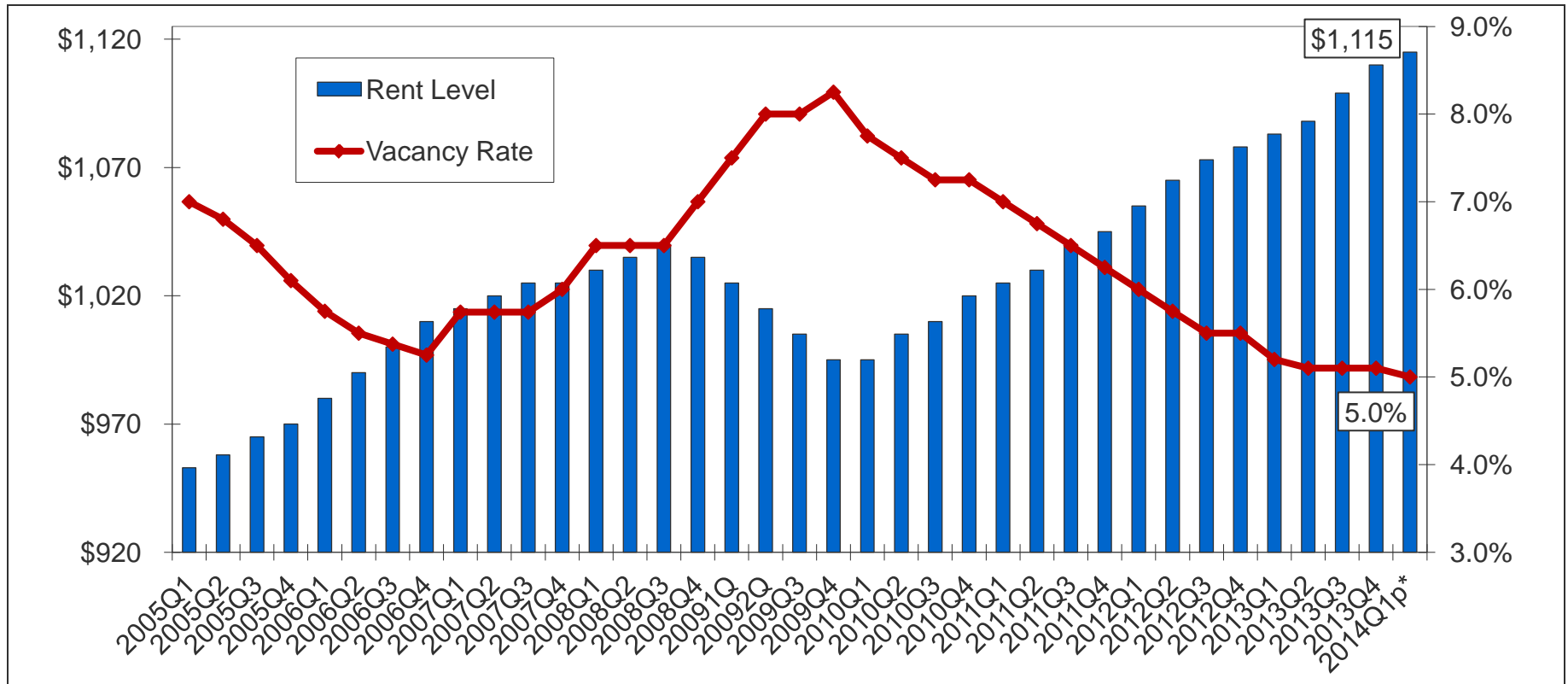
*“Something went terribly wrong
between design and development.”*

Source: Cartoon Stock

Real Estate Fundamentals: Rental Demand Stable

National estimated multifamily vacancy rates are at their trough...

Estimated National Rent Level and Vacancy Rate



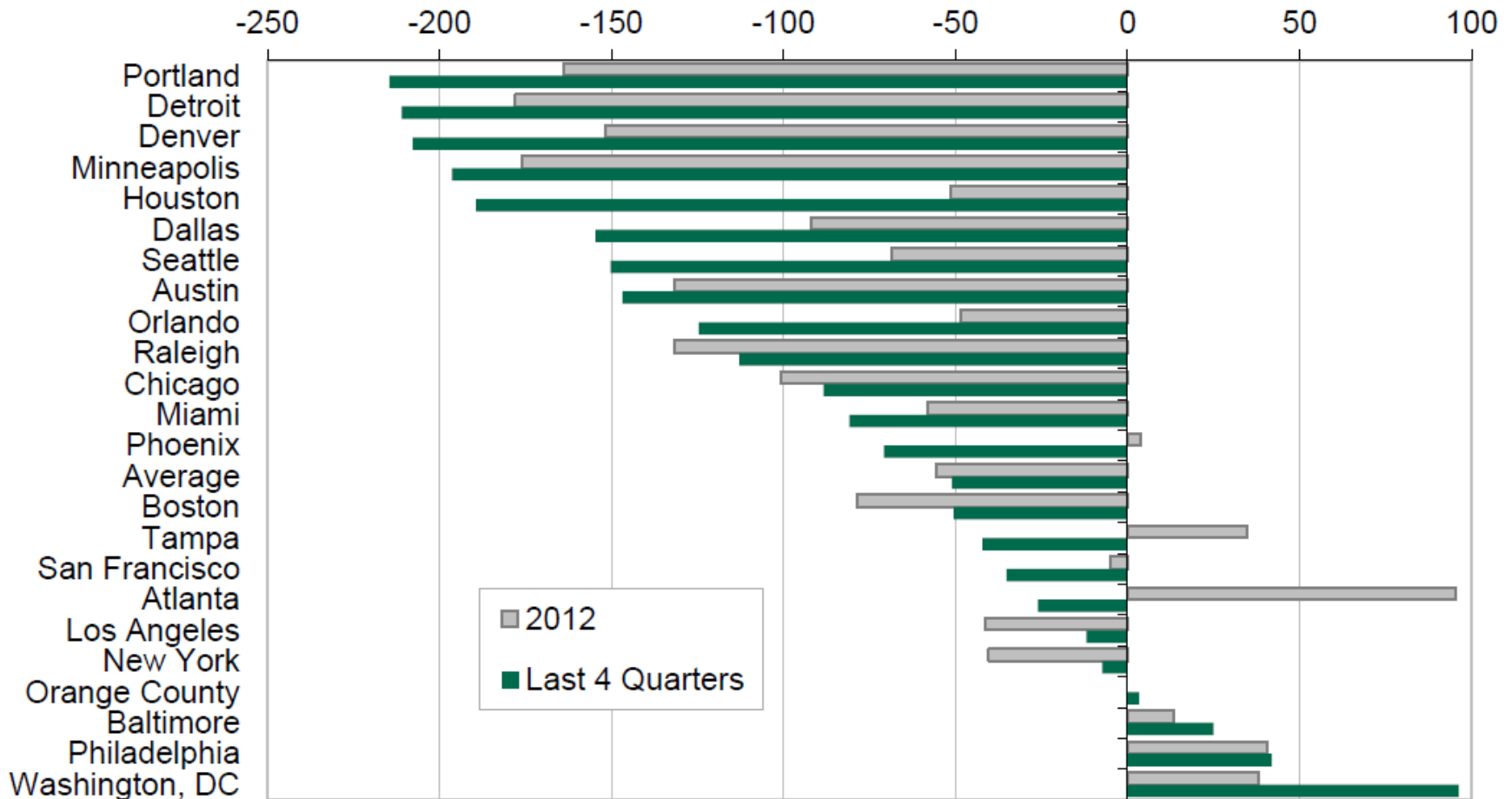
Source: Fannie Mae Multifamily Economics and Market Research Estimates

* Preliminary

Real Estate Fundamentals: Rental Demand Stable

... with vacancies down to below historic averages in many metros...

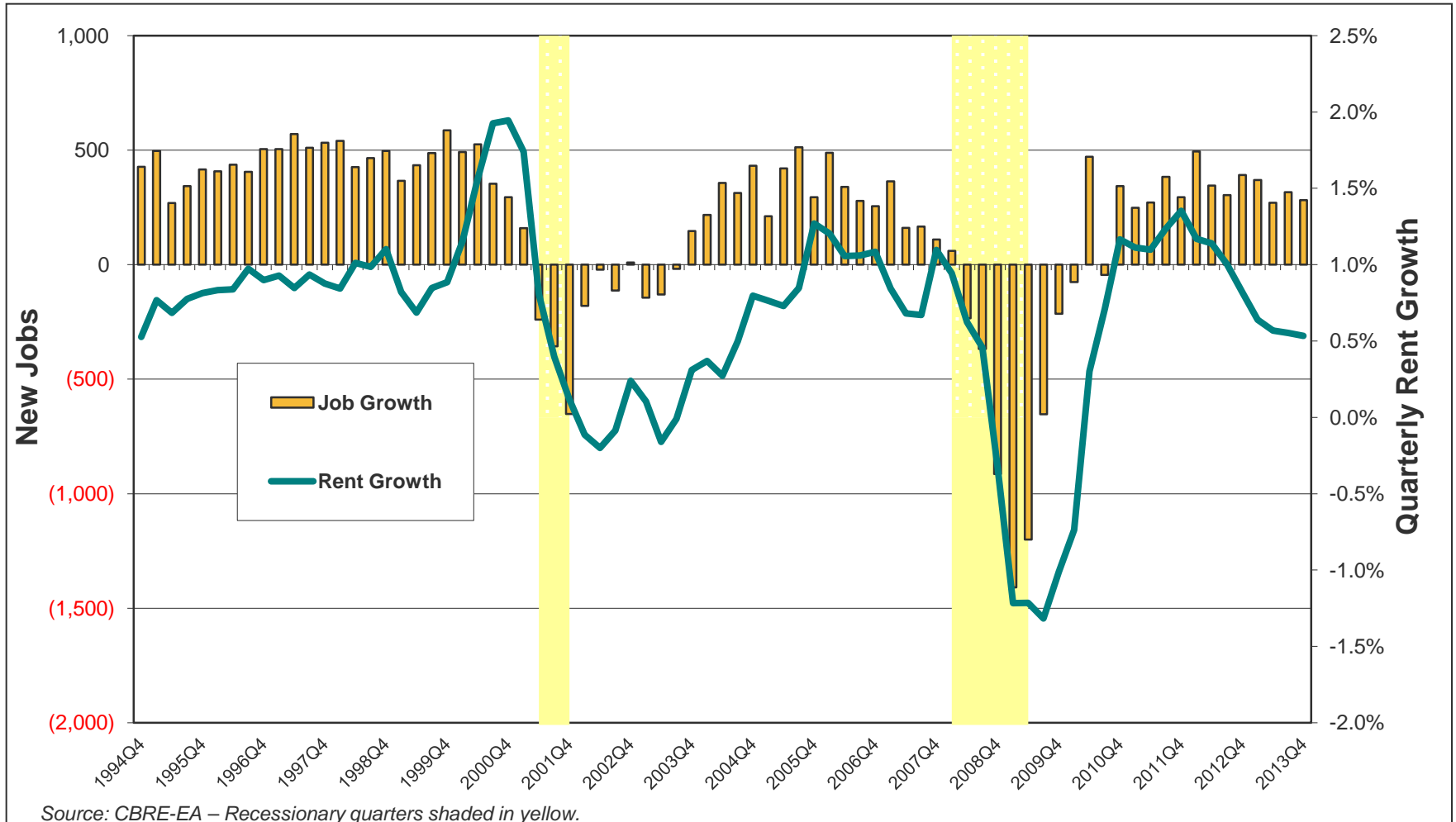
Vacancy Rate Relative to 15 Year Average – Select Metros (bps)



Source: CBRE-EA, Q1 2014

Real Estate Fundamentals: Rental Demand Stable

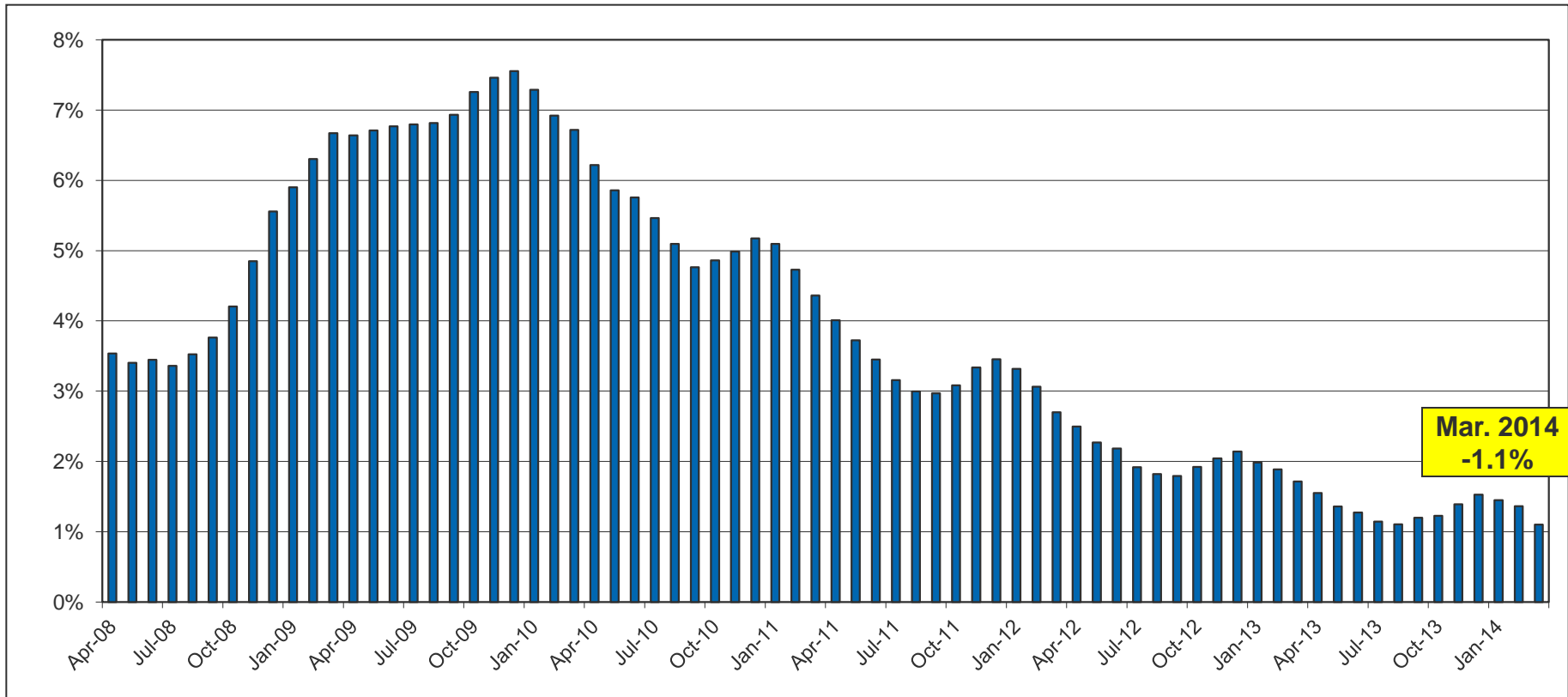
... keeping rent growth positive for nearly *four years* now...



Real Estate Fundamentals: Rental Demand Stable

...bringing concession rates to their all-time lows.

National Concession Rate



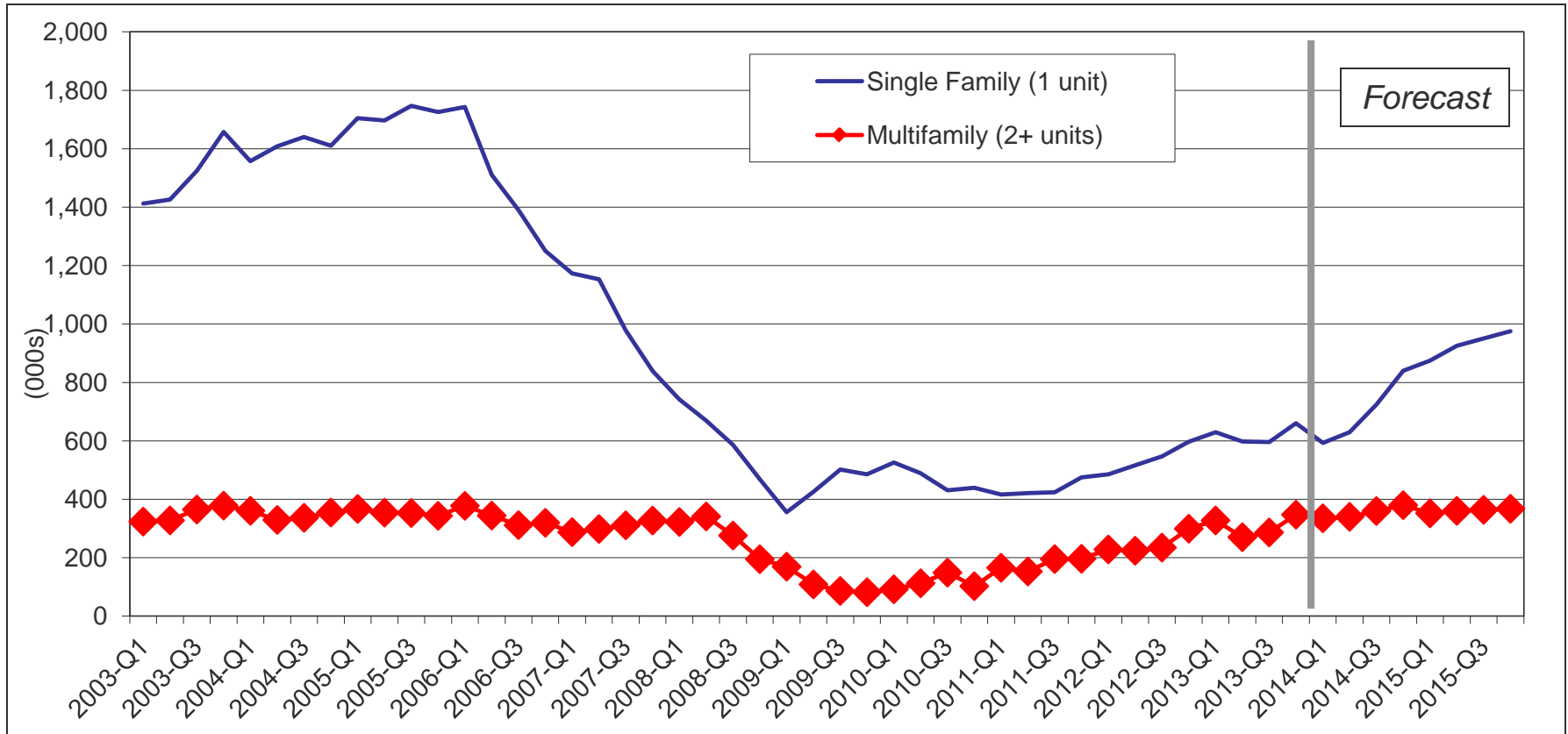
Source: Axiometrics

**Mar. 2014
-1.1%**

Real Estate Fundamentals: Rental Supply

All housing starts are on the rise...

Housing Starts: Single Family and 2+ Unit Structures

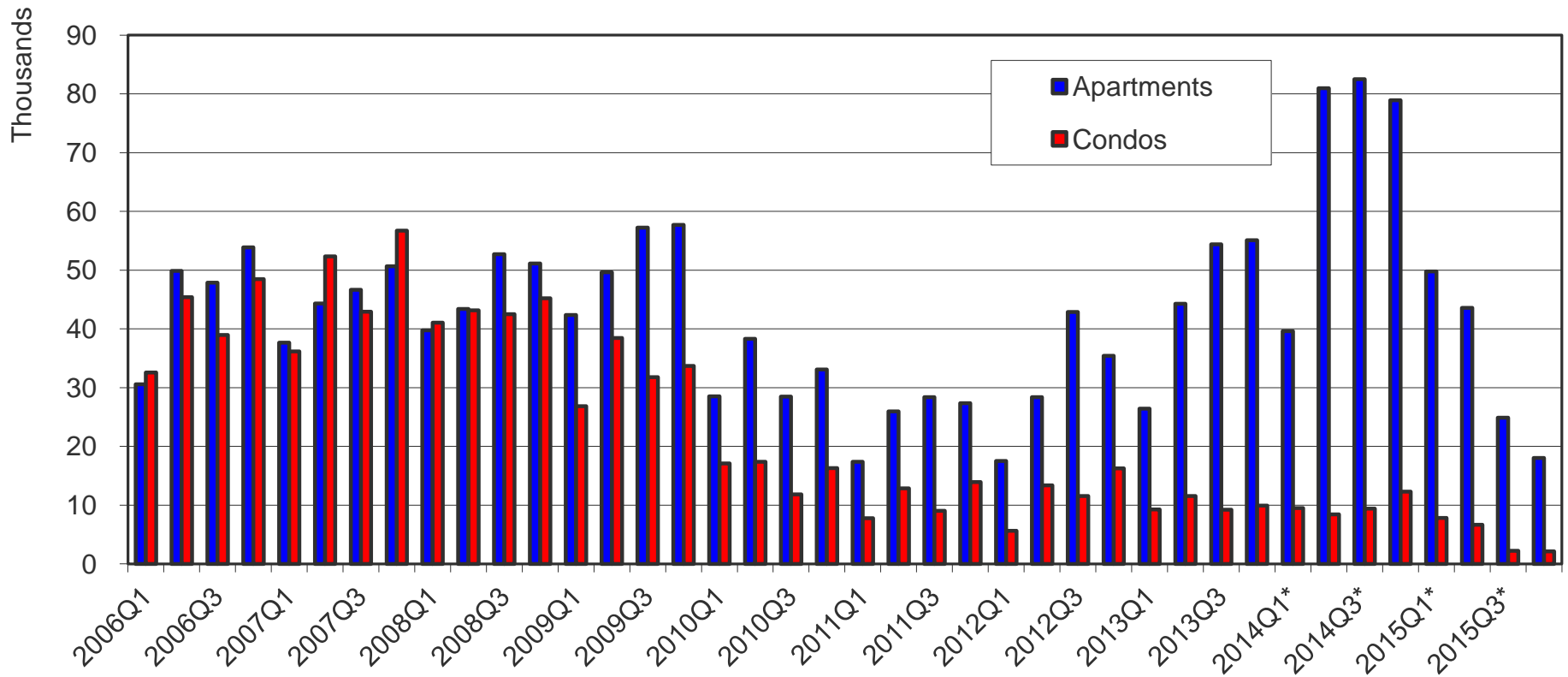


Source: Fannie Mae

Real Estate Fundamentals: Rental Supply

... and multifamily projects underway are rising quickly...

National Condo and Apartment Completions and Units Underway



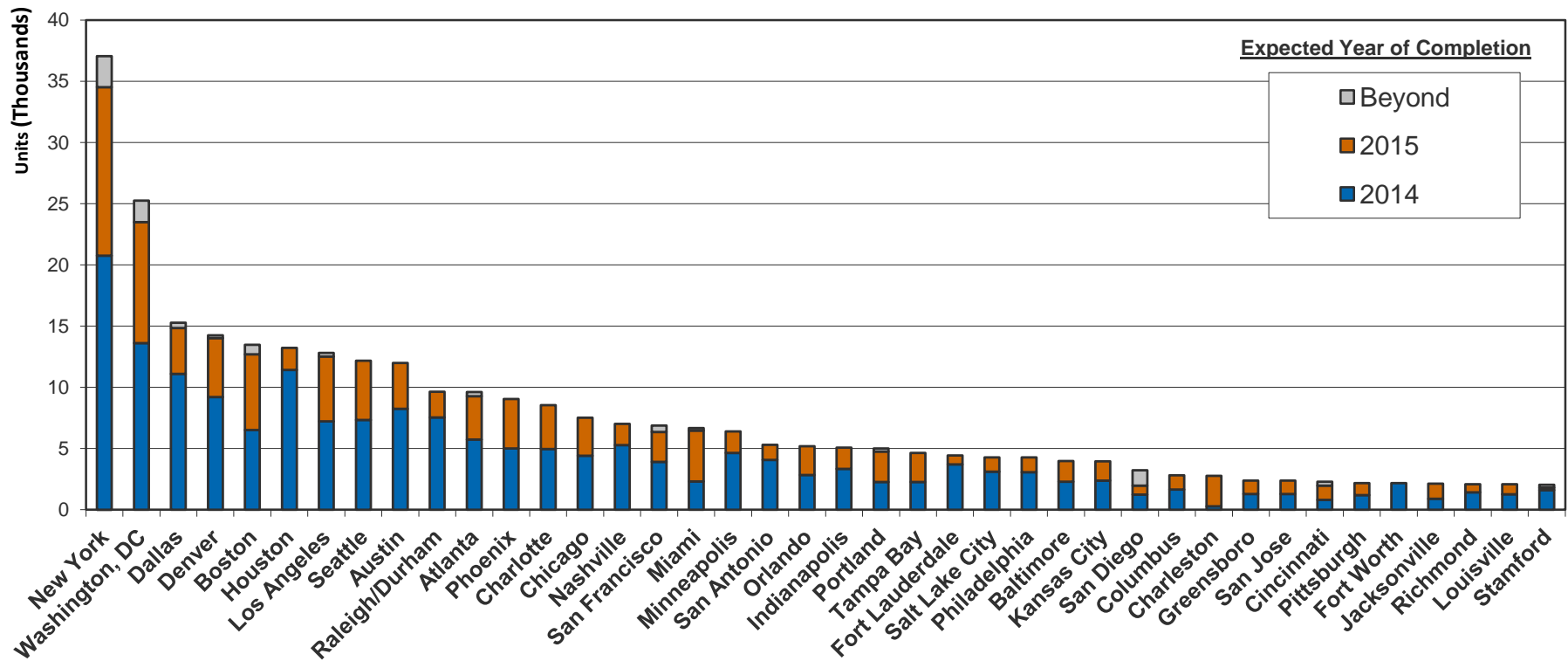
Source: CBRE-EA/Dodge Pipeline, April 2014

* Anticipated completion date

Real Estate Fundamentals: Rental Supply

... but there are really only a few metros that have a significant number of completions coming online soon...

Multifamily Apartment Units Underway – Select Metros

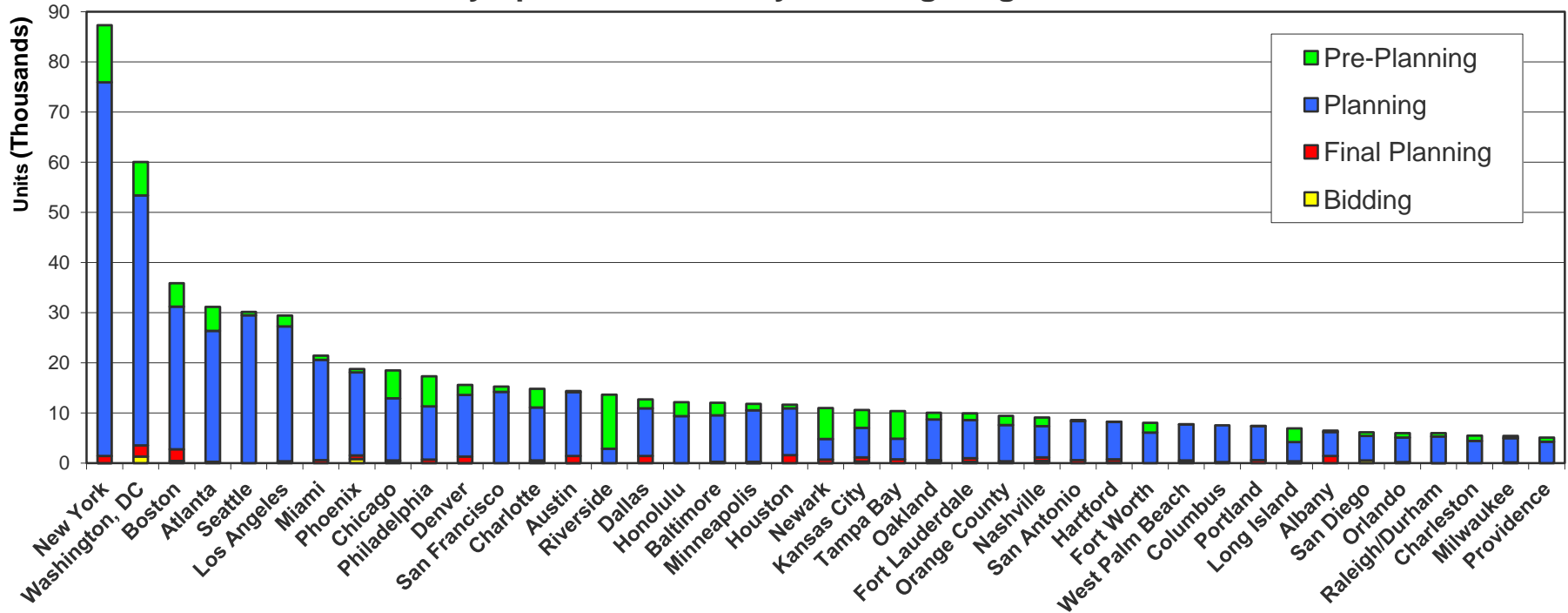


Source: CBRE-EA/Dodge Pipeline, April 2014 – Metros with 2,000 or more units underway

Real Estate Fundamentals: Rental Supply

... and it's even more concentrated for new projects in the planning stage.

Multifamily Apartment Units by Planning Stage – Select Metros



Source: CBRE-EA/Dodge Pipeline, April 2014 – Metros with 5,000 or more units in planning stages



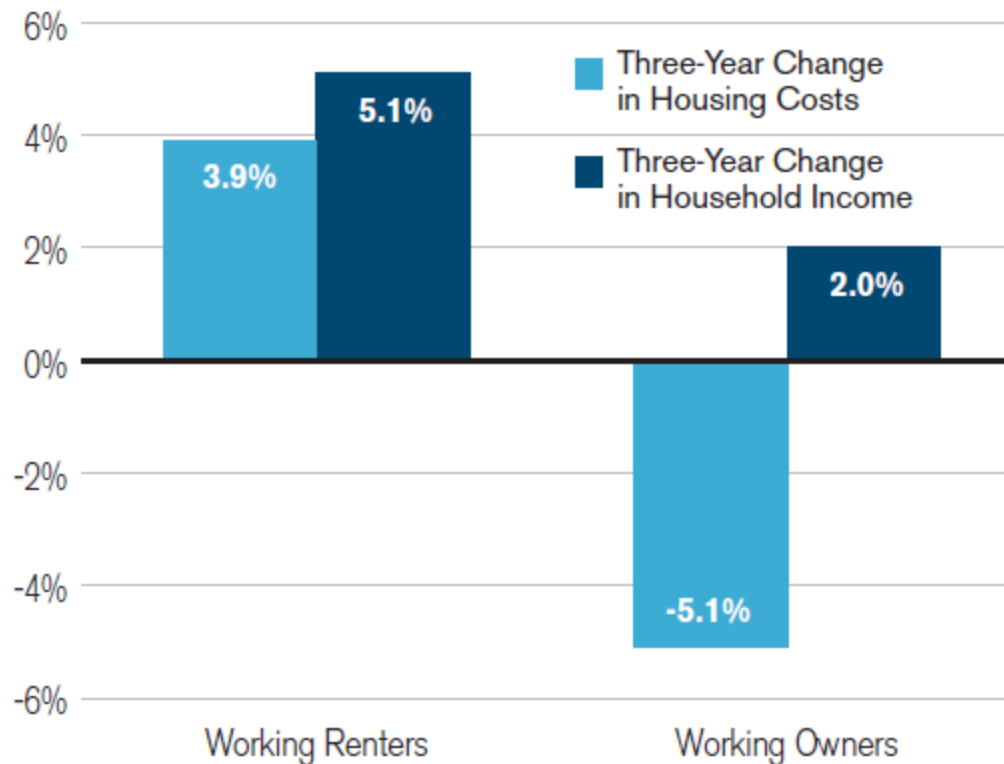
“This is how I can afford to pay the rent and still look fabulous.”

Source: Cartoon Stock

Multifamily Affordable Housing: Affordability Still a Concern

Affordability improved slightly for renters because growth in incomes modestly outpaced growth in housing costs.

Changes in Median Housing Costs and Household Income, 2009 to 2012

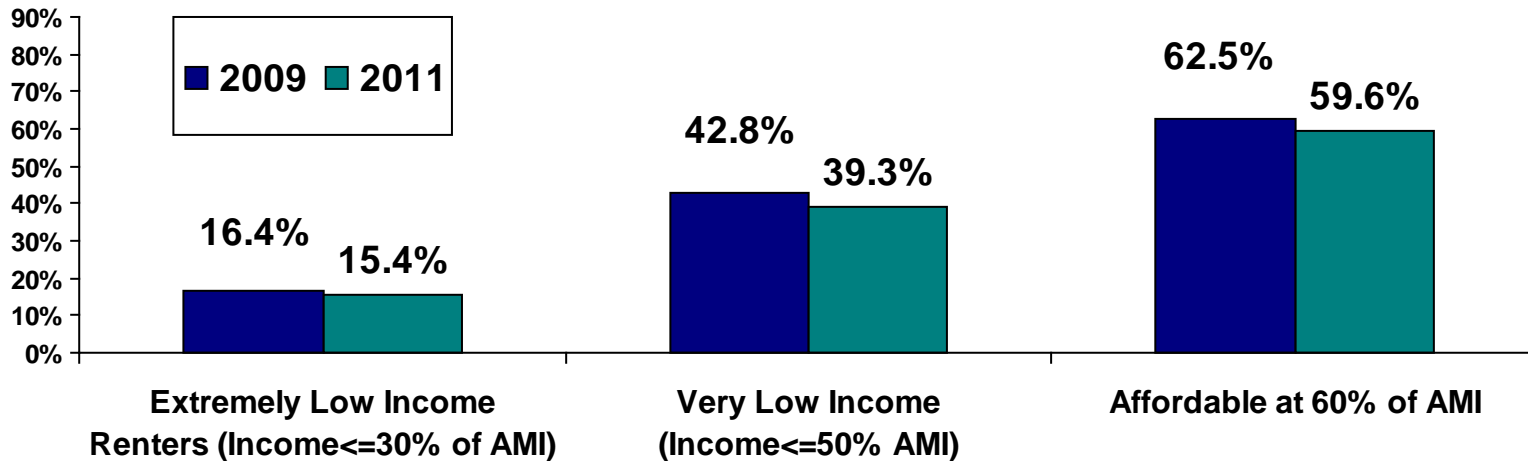


Source: *Housing Landscape 2014*, Center for Housing Policy

Multifamily Affordable Housing: Affordability Still a Concern

However, the number of units affordable to Very Low Income renters declined by 200,000 units to 6.3 million in 2011.

Relative Proportion of Affordable Multifamily Housing 2011 vs. 2009

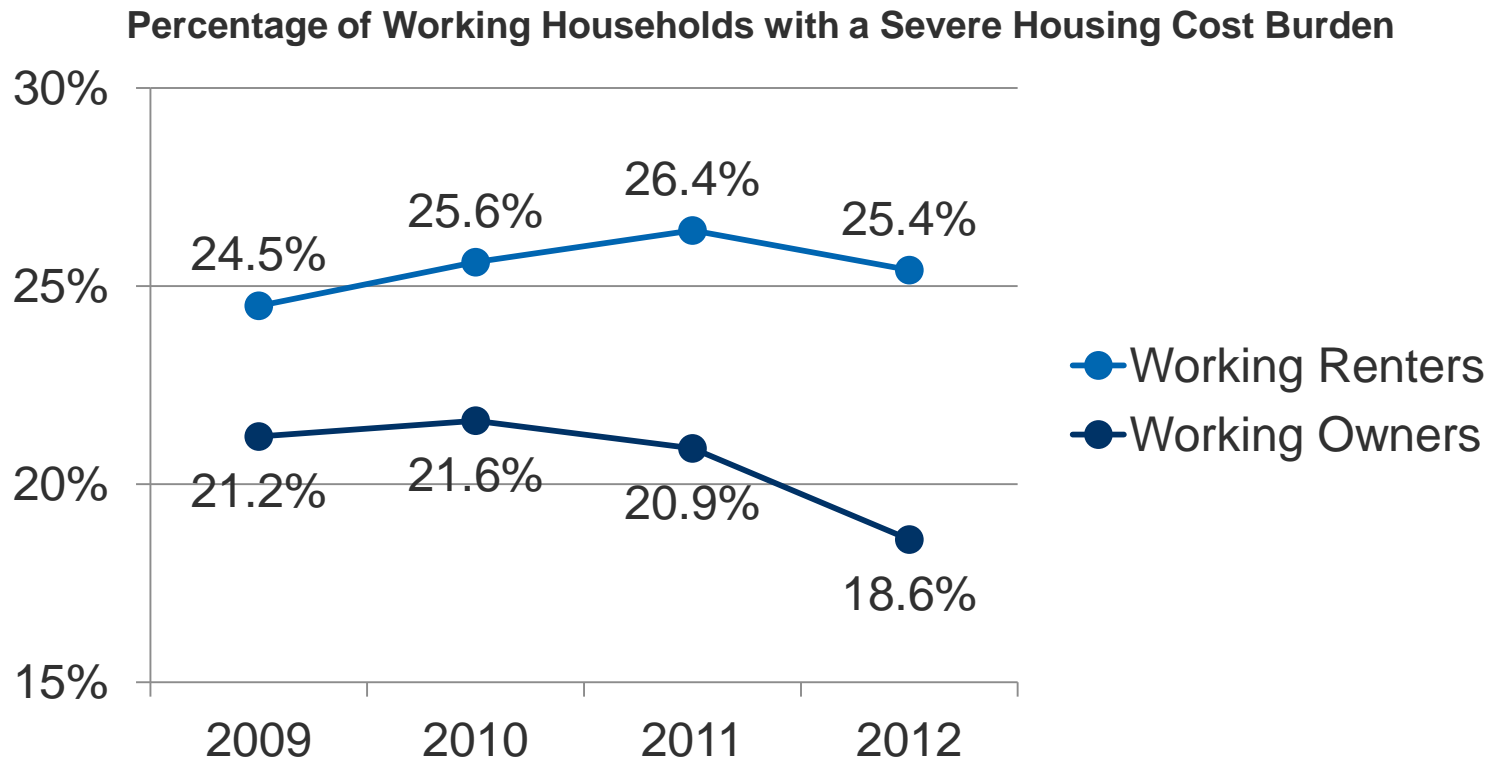


Source: Fannie Mae, 2011 American Housing Survey

Based on cumulative affordable units. For instance, if a unit is affordable at Extremely Low Income i.e. affordable to income ≤ 30% of AMI, it is also affordable at the Very Low Income (≤ 50% of AMI) category.

Multifamily Affordable Housing: Affordability Still a Concern

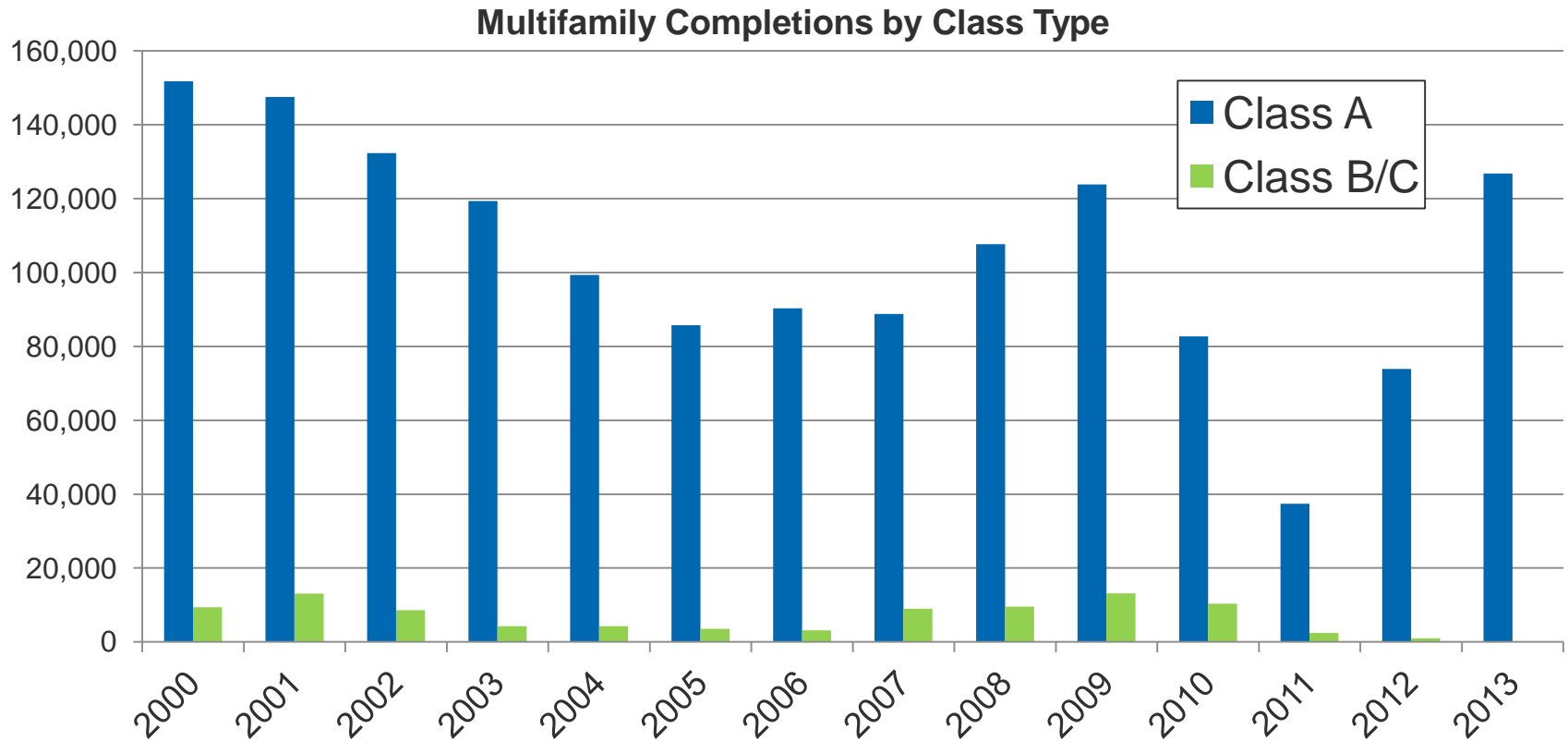
As a result, working renter households are more likely to be severely cost-burdened compared to homeowners.



Source: *Housing Landscape 2014*, Center for Housing Policy

Multifamily Affordable Housing: Little New Affordable Stock

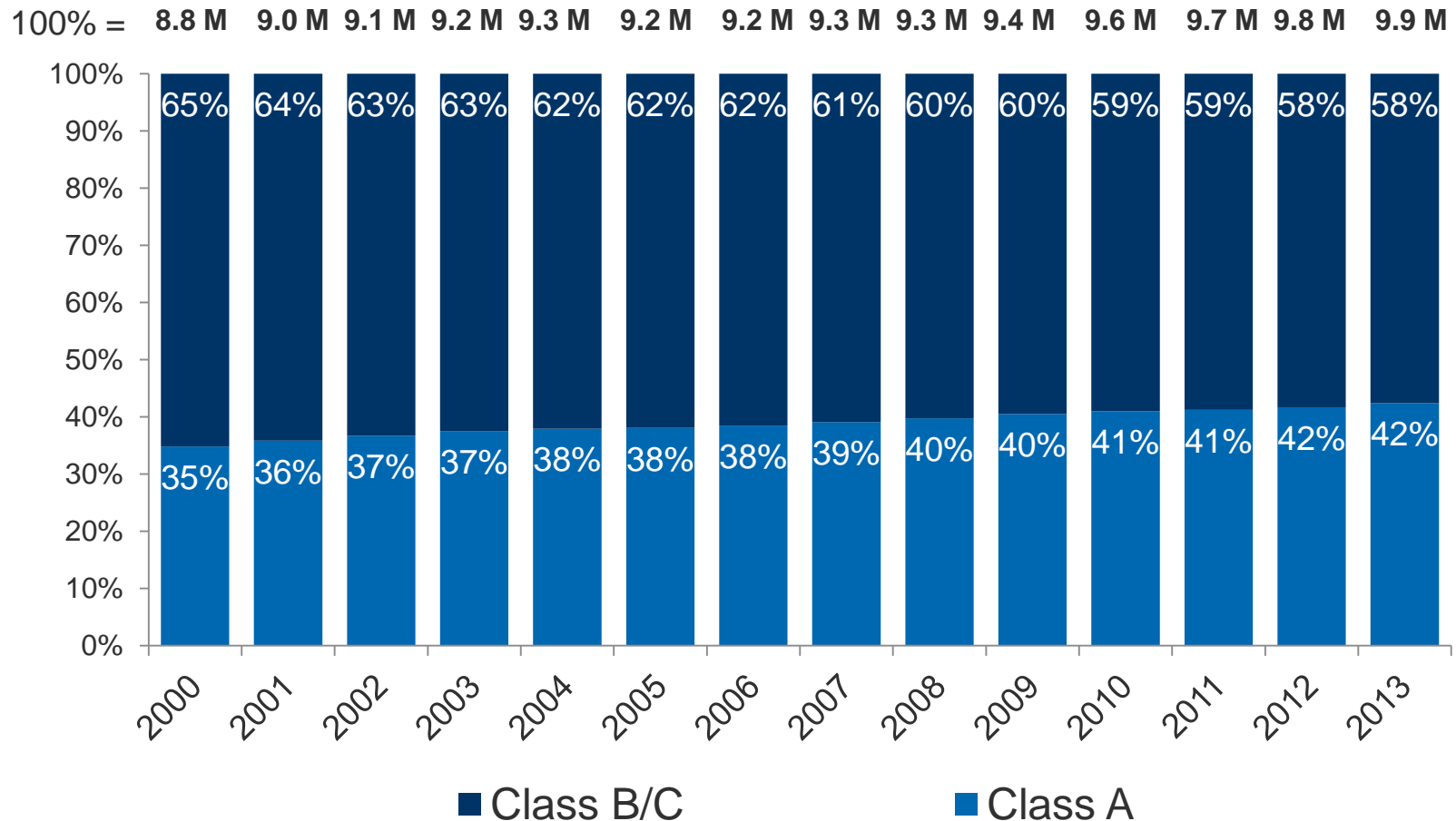
There has been hardly any class B/C multifamily new construction over the past decade...



Source: Reis

Multifamily Affordable Housing: Little New Affordable Stock ...and the share of Class B/C units shrinking steadily.

Multifamily Inventory Share by Class Type

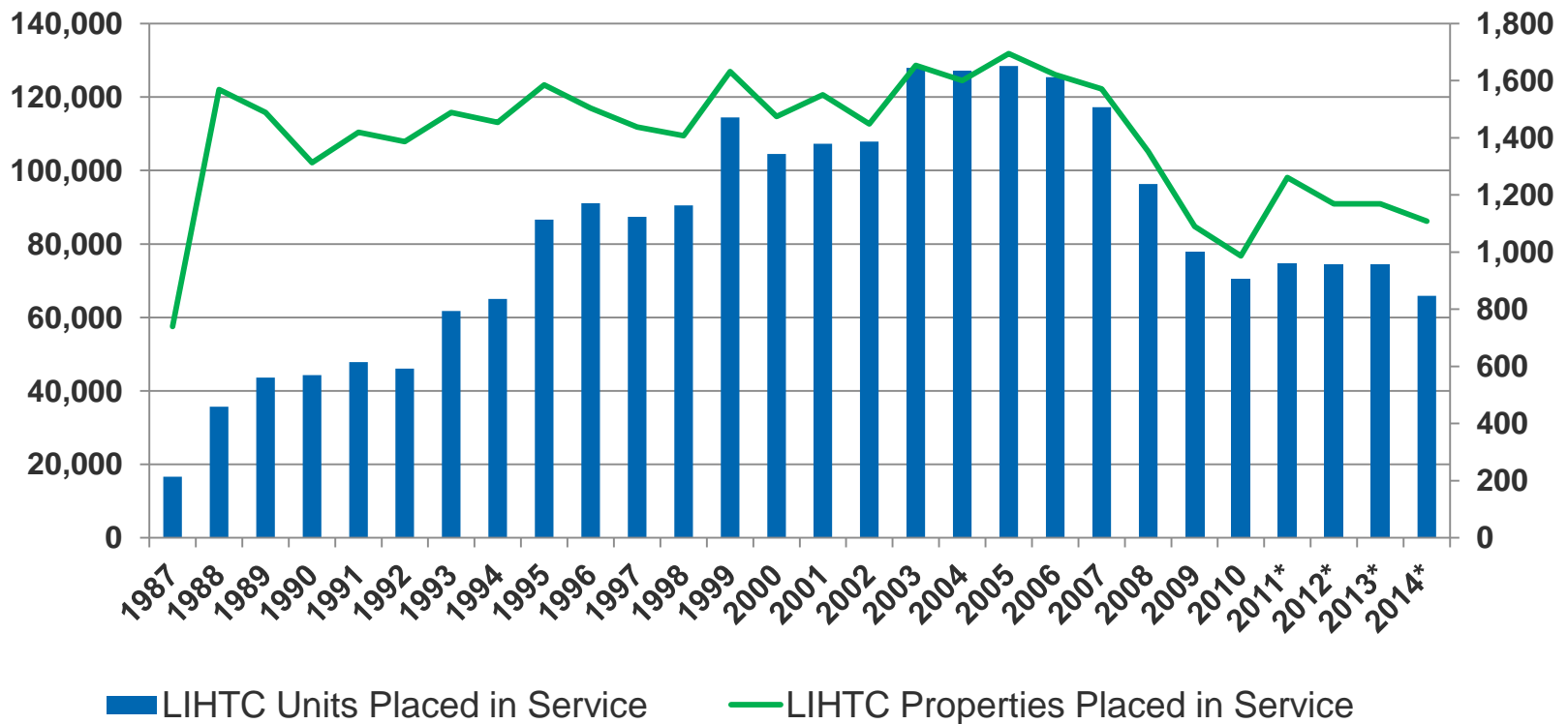


Source: Reis, based on multifamily sample tracked

Multifamily Affordable Housing: Little New Affordable Stock

Also, the number of LIHTC units placed in service has declined since 2005...

Low Income Housing Tax Credit Units (LIHTC) Projects placed in Service since 1987



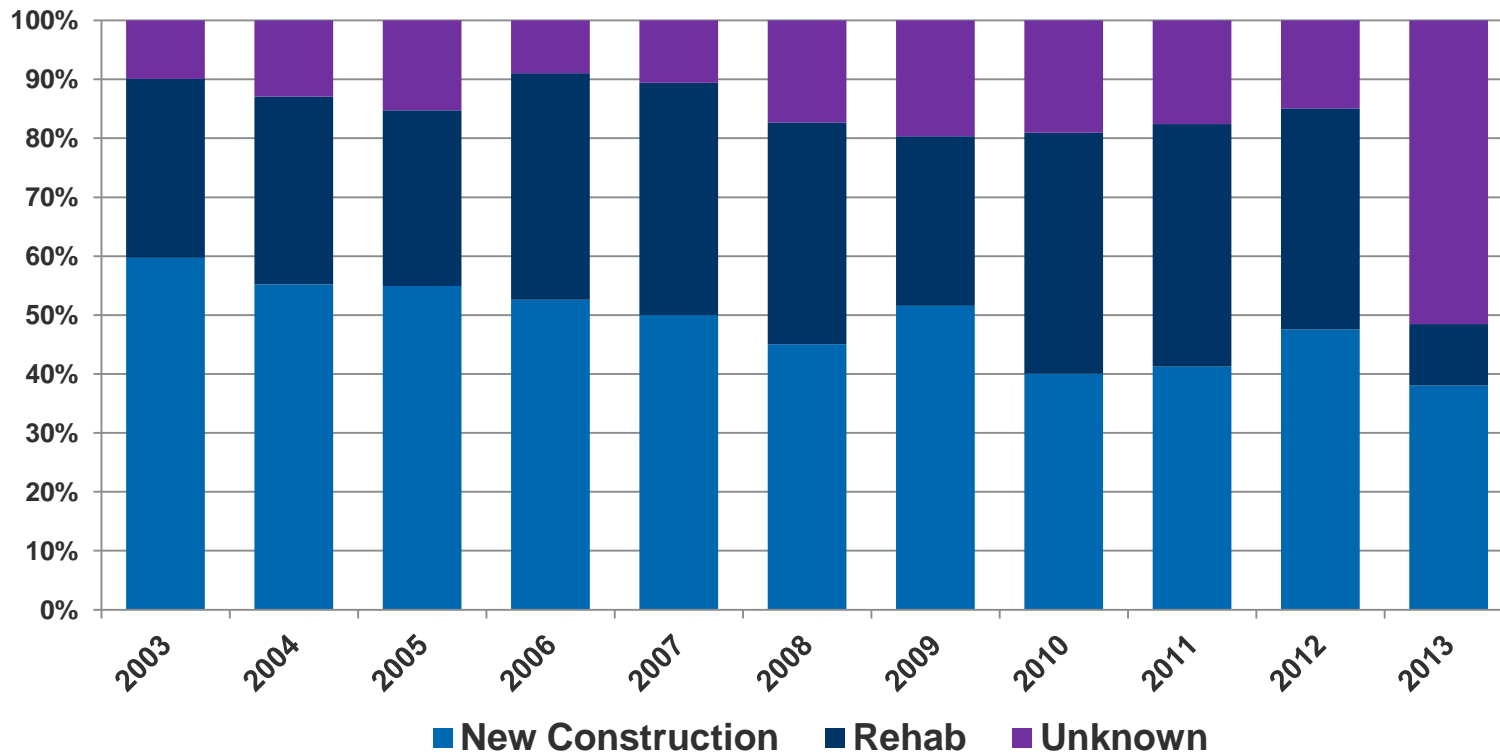
Source: HUD Low Income Tax Credit Database as of October 1987-2008; Integratec estimates based on HFA allocations 2011-2014

* Integratec assumed 15% of the current year allocations, 60% of the prior year allocations and 25% of two years prior allocations would be placed in service. For example, 2014 reflects 15% of the 2014 allocations, 60% of the 2013 allocations, and 25% of the 2012 allocations.

Multifamily Affordable Housing: Little New Affordable Stock

...and the proportion of new units built with tax credits appears to have decreased over the past decade from approximately 60% to 40%.

Units Placed in Service Broken Down by New Construction vs. Substantial Rehab

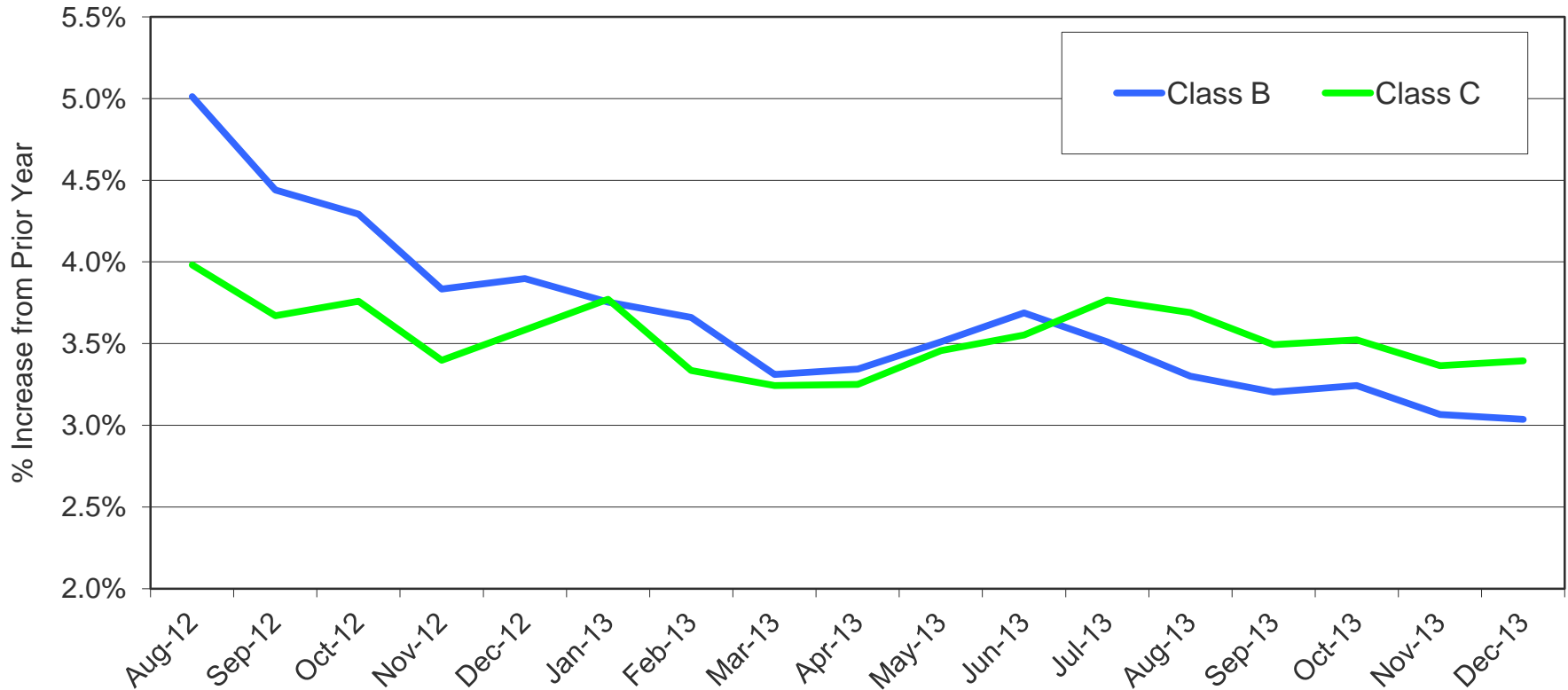


Source: HUD Low Income Housing Tax Credit Database as of May 2014. Note that 2013 data is based on data reported for 24 projects only.

Multifamily Affordable Housing: Rent Growth

Coupled with steady rent growth in Class B and C properties...

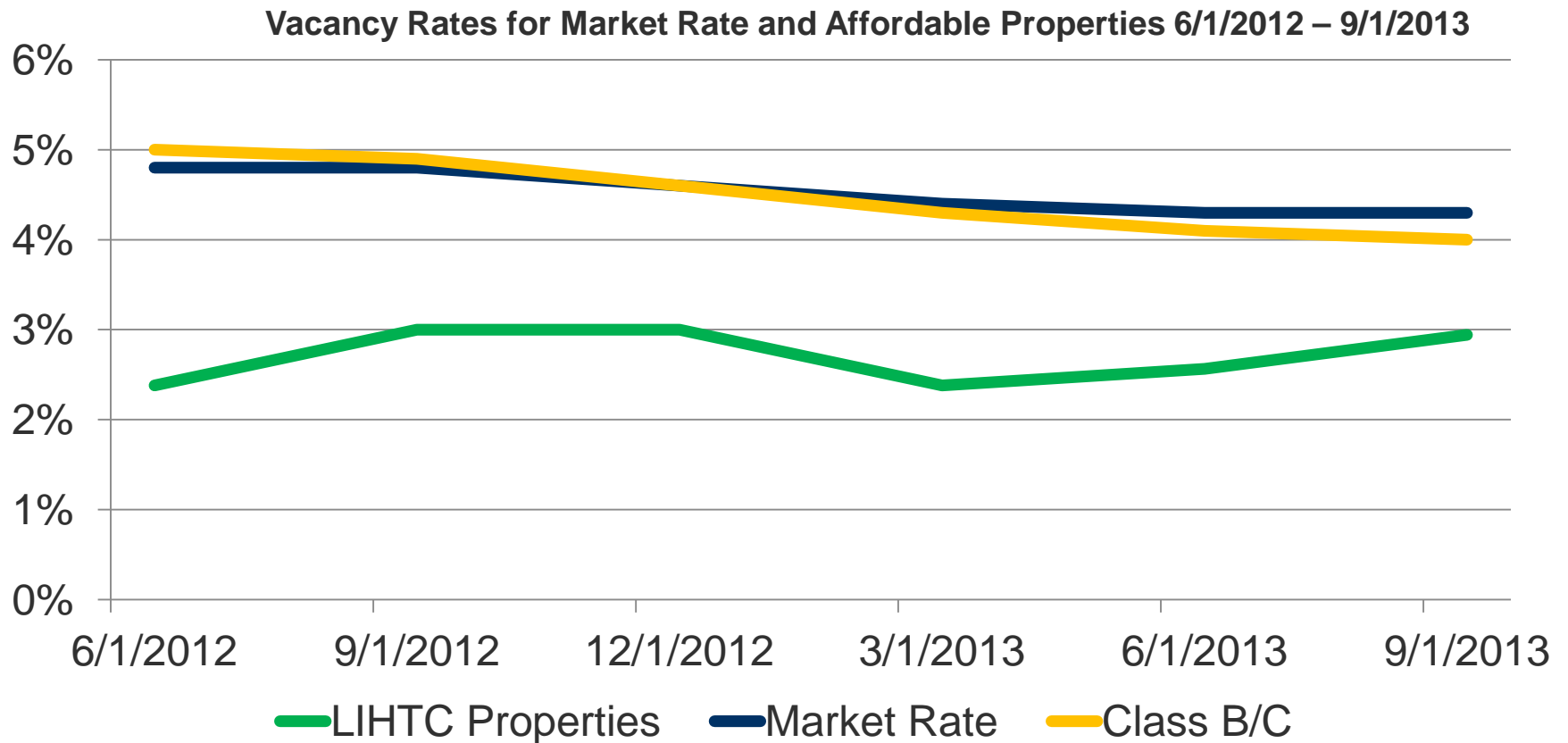
National Effective Rent Growth by Class



Source: Axiometrics

Low Income Housing Tax Credit Properties: Favorable Fundamentals

...vacancies for affordable housing have been consistently lower than market rate housing recently...

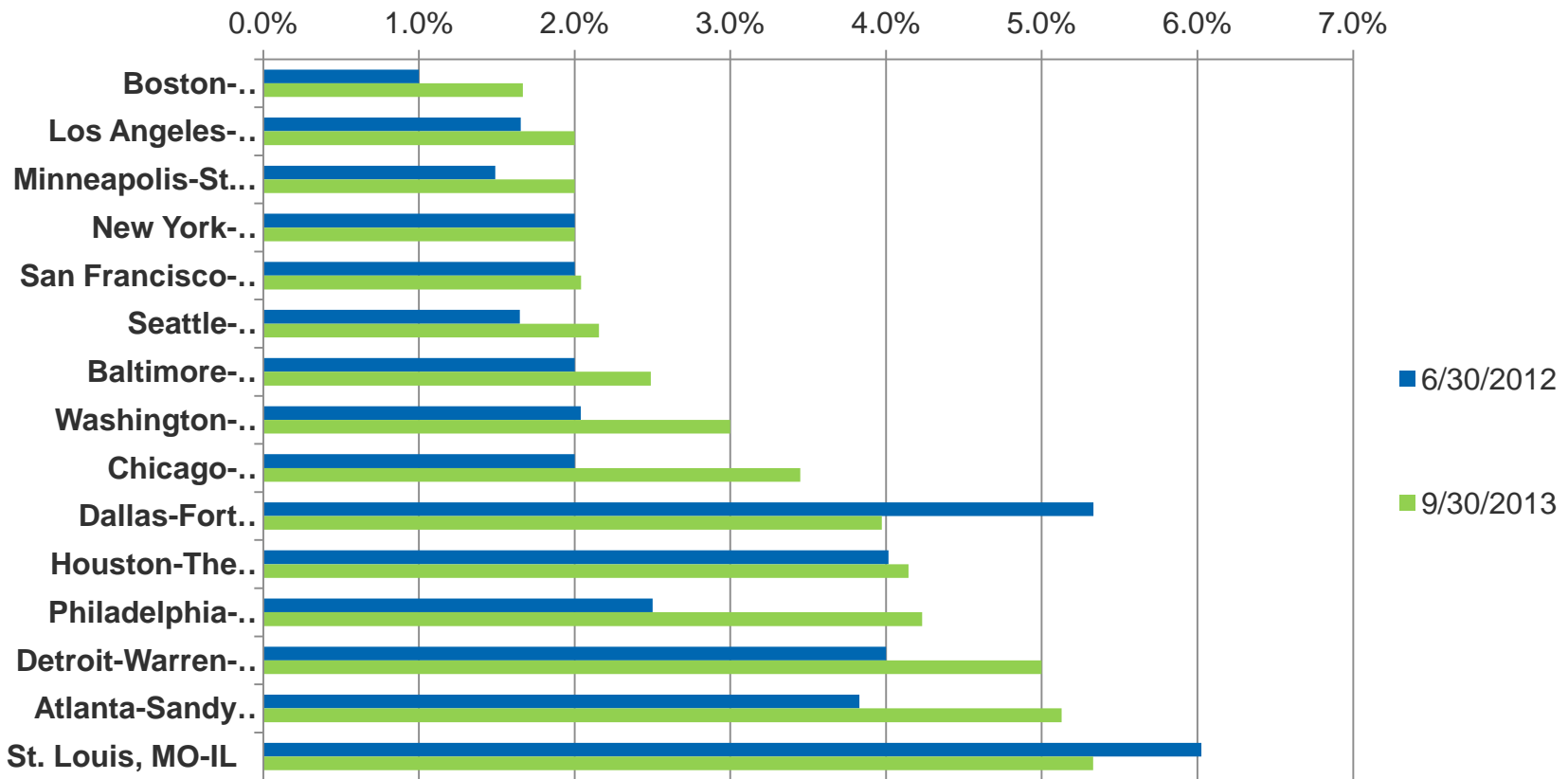


Source: Integratec Tax Credit Central, REIS

Low Income Housing Tax Credit Properties: Favorable Fundamentals

... and vacancies at LIHTC properties continue to be low...

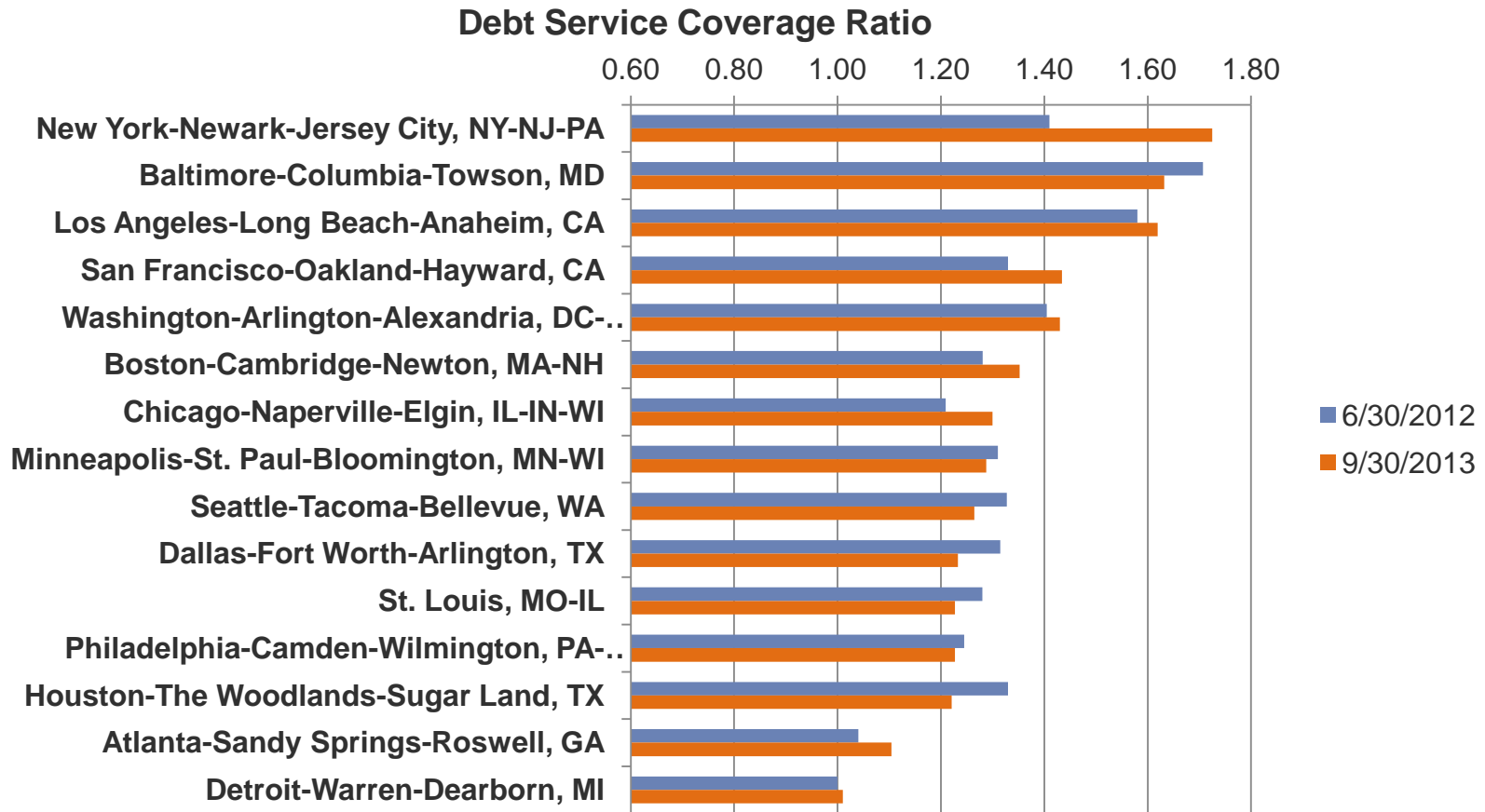
Median Vacancy Rate Trends for LIHTC Properties – Select Metros Vacancy Rates (%)



Source: Integratec, Tax Credit Central

Low Income Housing Tax Credit Properties: Favorable Fundamentals

...with debt service coverage ratios solid in most major metros...

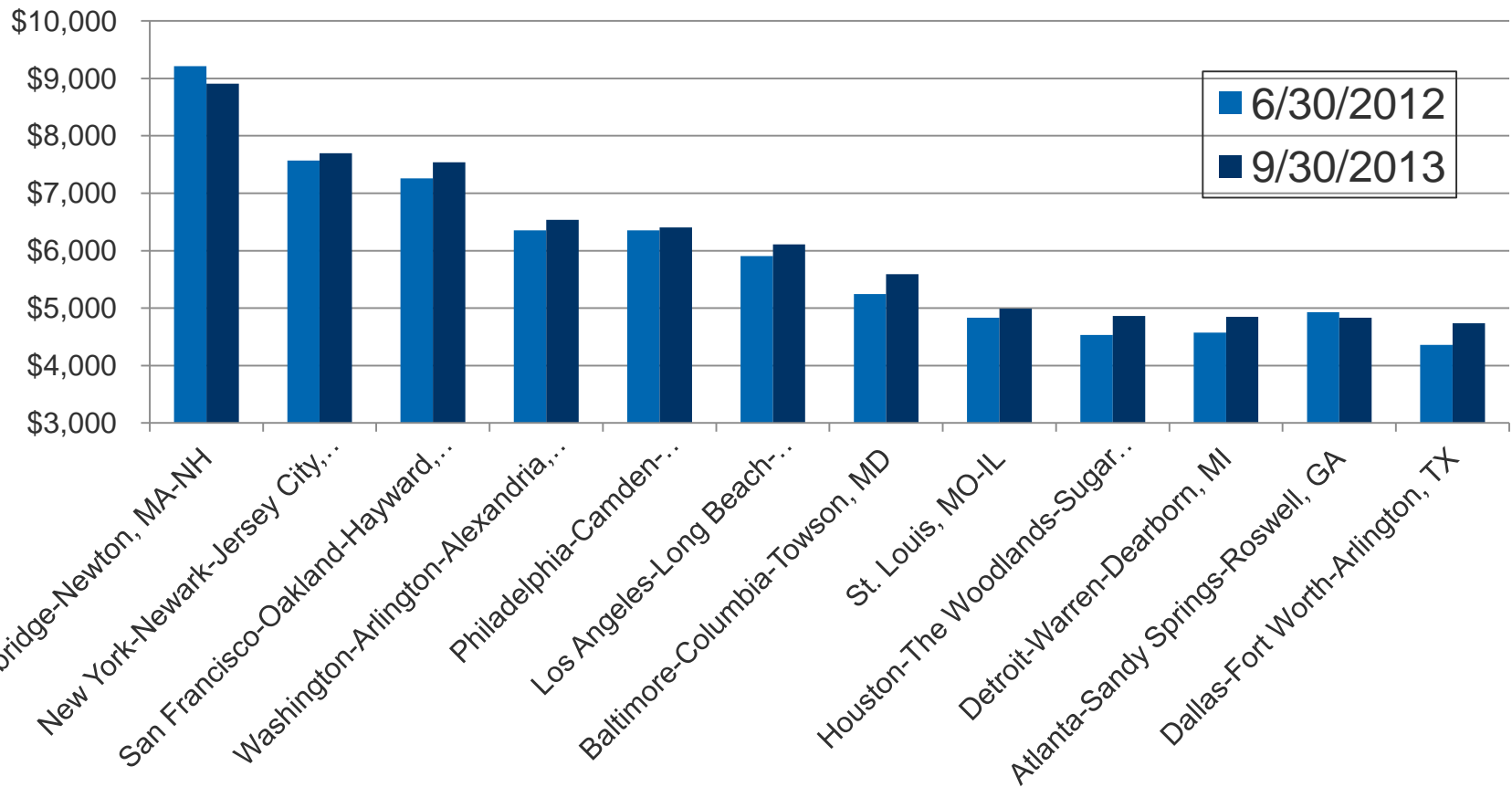


Source: Integratec, Tax Credit Central

Low Income Housing Tax Credit Properties: Favorable Fundamentals

...and operating expenses rising modestly...

Median Expense Per Unit (\$) for Major Metropolitan Statistical Areas

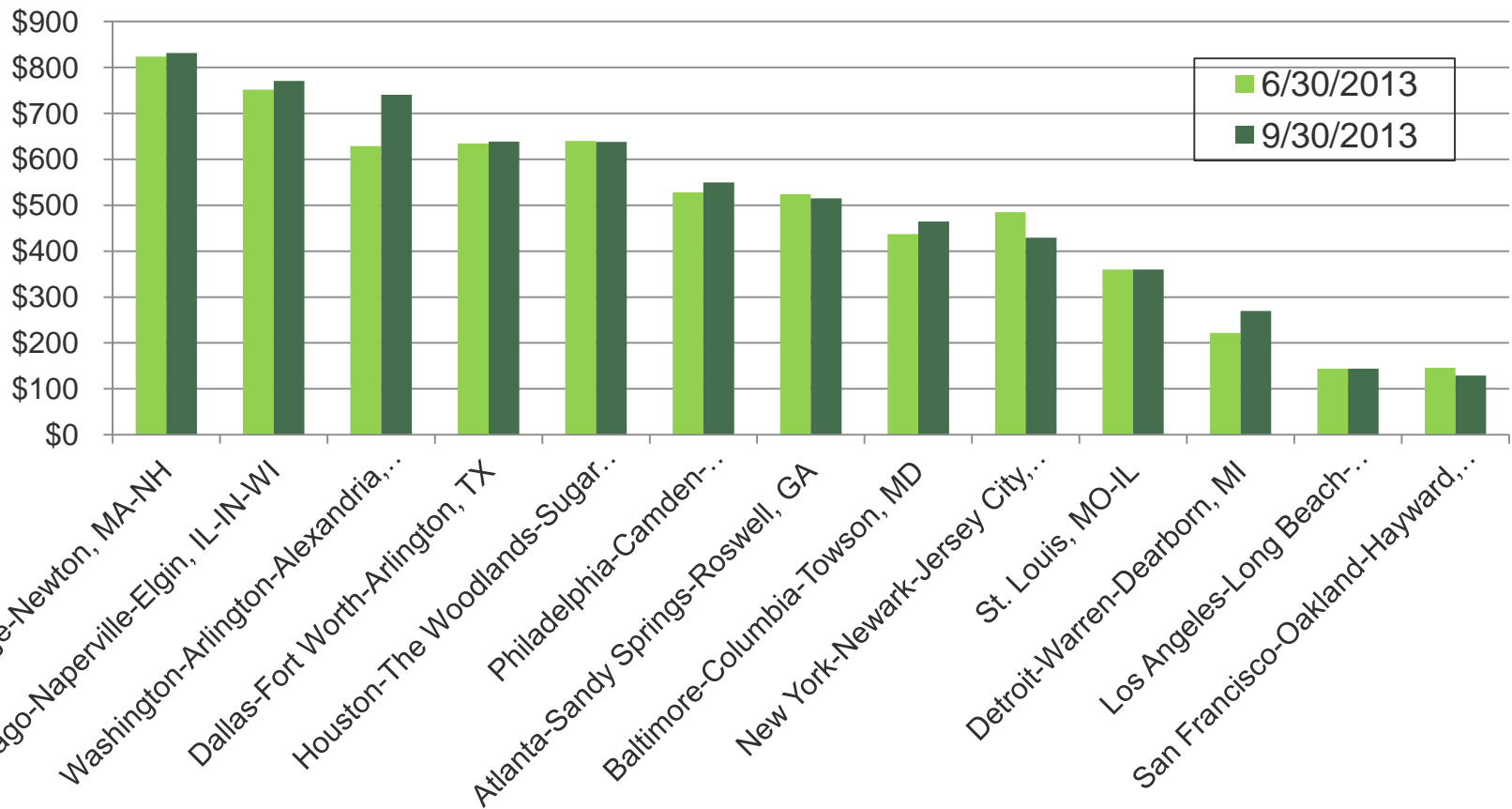


Source: Integratec, Tax Credit Central

Low Income Housing Tax Credit Properties: Favorable Fundamentals

...but real estate taxes staying flat in most major metros.

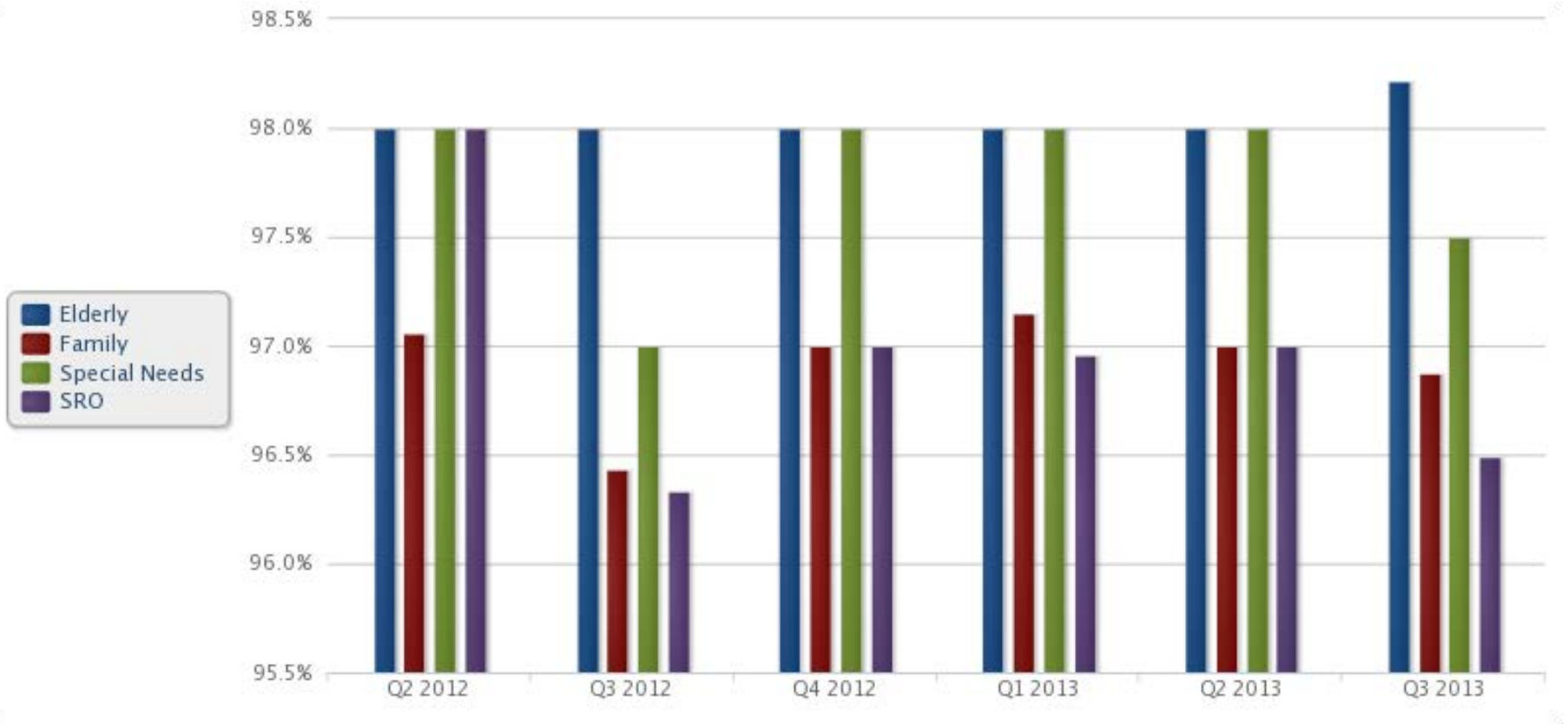
Median Real Estate Taxes Per Unit (\$) for Major Metropolitan Statistical Areas



Source: Integratec, Tax Credit Central

Low Income Housing Tax Credit Properties: Favorable Fundamentals

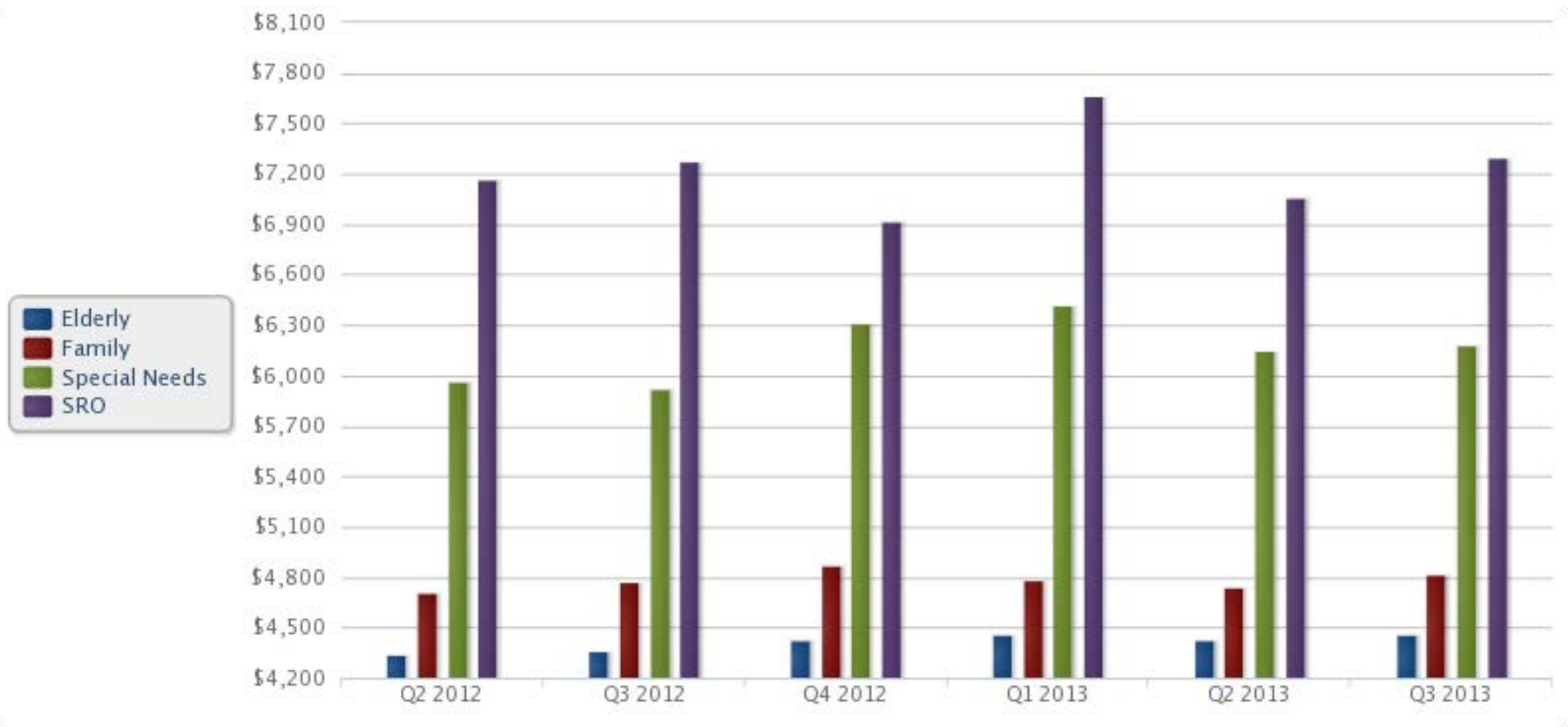
Elderly LIHTC project vacancies have been consistently tight and getting tighter...



Source: Integratec, Tax Credit Central

Low Income Housing Tax Credit Properties: Favorable Fundamentals

... while expenses per unit for Elderly LIHTC projects remain the lowest of all tenancy types.



Source: Integratec, Tax Credit Central

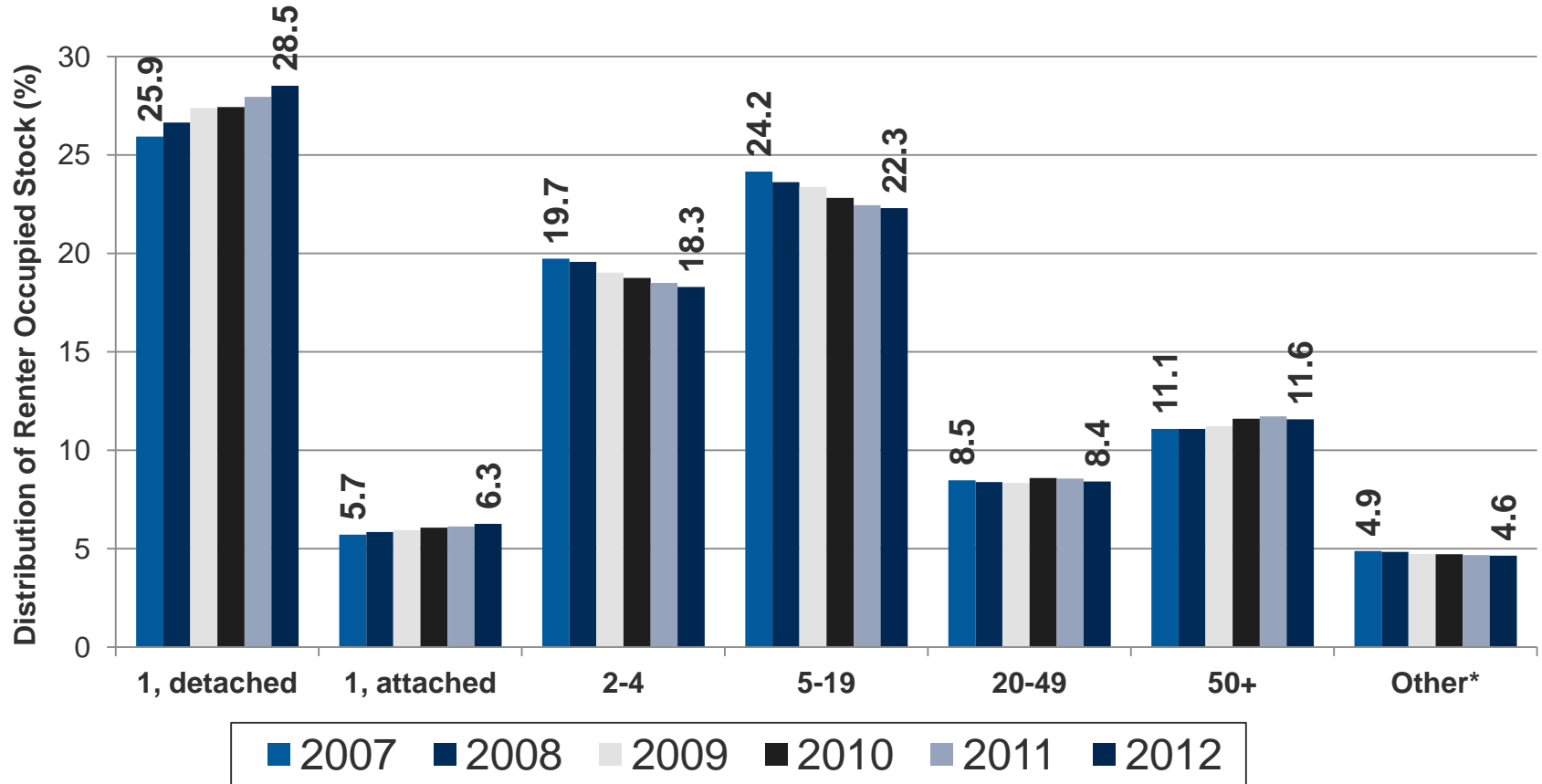
Appendix

Breakdown of Single and Multifamily Units

Real Estate Fundamentals: Demographics Favorable

The number of 1-4 unit rentals – Single Family rentals – has been rising.

U.S. Renter Occupied Stock by Structure

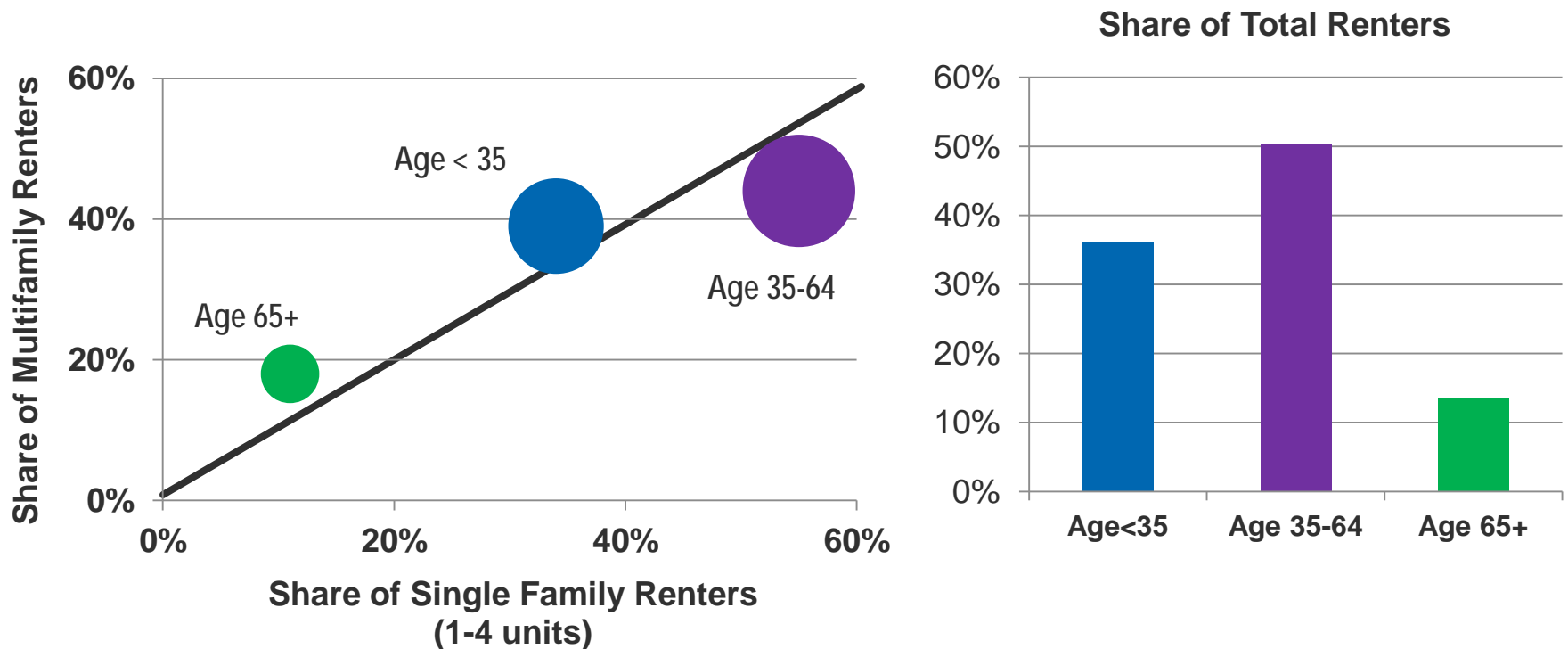


Source: Census Bureau

* Other includes manufactured/mobile homes, boats, RVs, vans etc.

Real Estate Fundamentals: Ongoing Demand

But older renters prefer single-family rentals and younger renters favor multifamily units.



*Dot width is proportionate to number of renters represented by each age group

Sources: 2012 American Community Survey