

# Multi Housing

The U.S. multi housing market took the lead in the commercial real estate recovery during 2011. According to Real Capital Analytics, the total sales volume climbed nearly 56 percent during the first 10 months of 2011 when compared to 2010's year-to-date numbers. Not only were effective rental rates on the rise, but occupancies also increased. Profitability growth drove the average sale price per unit to the highest level in history (\$110,212 per unit, according to Real Capital Analytics), with capitalization rates generally ranging from 6.47 to 6.63 percent. These cap rates are down from the 6.66 to 6.99 percent range seen in 2010. The increase in occupancy was attributed to: a) tougher qualifying standards for prospective home buyers; and b) a shift in demographics, particularly the growth of the 18 to 34-year age group, which tends to favor renting over buying.

Multi housing will continue to be one of the most popular and sought-after commercial real estate investments. Recent evidence shows that fewer Americans see owning a home as a part of their "American Dream"; nor do

they see it as a strategic and important investment. Polls reveal that recent college graduates, who have seen the pain of homeownership through their parents, are opting to rent. In many instances, this is a lifestyle choice that will likely prevail throughout their lives. As homeownership falls as a percentage of the population, the multi housing market will remain tight. Given this heightened demand, offers of free rent and other incentives will be taken off of the table.

Another factor greatly impacting the value of multi housing is the availability of financing for both the acquisition of stabilized income-producing projects and, more recently, for new multi housing construction. Fannie Mae and Freddie Mac reported new loan activity was at historical highs in 2011. Construction starts climbed across the country as developers and investors realized the positive dynamics of this market and recognized the availability of long-term, fixed financing options. That said, neither supply nor construction starts are at the levels needed to keep up with demand. The U.S. added approximately

38,000 units in 2011; there were 97,694 units added in 2010, 138,508 in 2009 and 119,330 in 2008. These totals are not even close to the roughly 300,000 units needed yearly to keep up with demand.

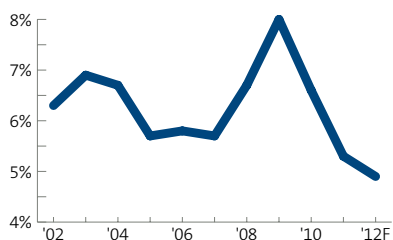
Population growth, job growth and a stable interest rate market, coupled with the fundamentals mentioned above, bode well for the multi housing investment market. While development will pick up, lenders are being cautious, which will hold construction back a bit. In many instances, high occupancies are limiting the ability for individuals to move into rental units; the creation of additional units is necessary for the market to continue its growth.

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### U.S. Apartment Vacancy Rate

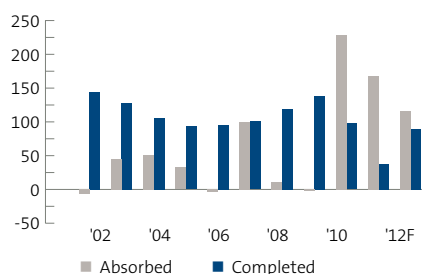
Year-End



Sources: Reis, Inc., Grubb & Ellis

### U.S. Apartment Absorption vs. Completions

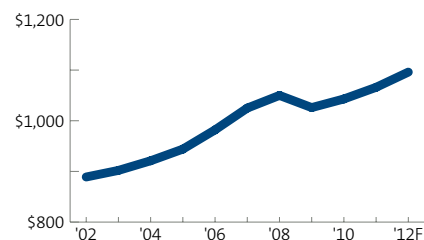
Year-End (in Thousands of Units)



Sources: Reis, Inc., Grubb & Ellis

### U.S. Apartment Asking Rental Rate

Year-End



Sources: Reis, Inc., Grubb & Ellis