Rental Markets: A Sign of Strength

Rental market activity has been a bright spot for the housing market. Over the year ending March 2012, an additional 1.5 million households moved into rental housing. That's a 4 percent increase in renter-occupied dwellings in a single year. Economic trends in the apartment market reflect this rise in demand for rental housing. Overall the National Multi Housing Council's (NMHC) membership survey has found that apartment market conditions have been tightening for the past two years, with fewer vacancies and higher rent increases.

The NMHC survey results are consistent with broader market data on rent and vacancy trends. For example, the Census Bureau has reported that rental vacancy rates in buildings with at least five apartments have dropped by more than two percentage points over the past two years. Likewise, surveys that target more upscale or professionally managed properties tend to show lower vacancy rates but roughly a similar vacancy decline over the past two years: Reis has found vacancy rates in properties it tracks declining from 8.0 percent to 4.9 percent during the two years through the first quarter of 2012. Likewise, Axiometrics reported apartment occupancy rates up 1.5 percentage points to 93.7 percent over the same period; further, the highest occupancy rates were recorded for "class A" properties at 94.8 percent.

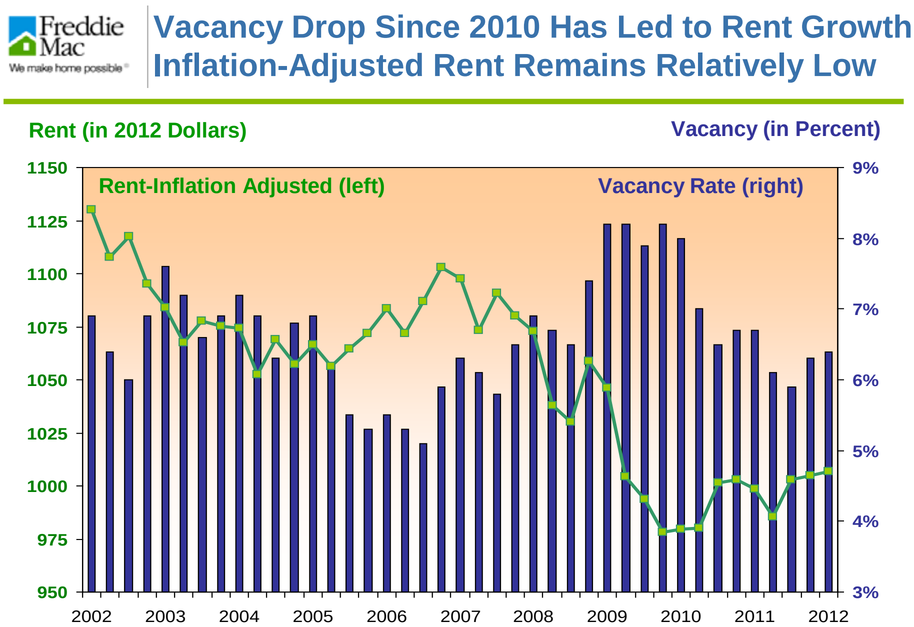
Rents have begun to rise in a number of metropolitan areas as rental markets have tightened. A broad market measure prepared by the Bureau of Labor Statistics as part of the Consumer Price Index (CPI) has rents up 2.5 percent during the first quarter compared with a year ago. From the first quarter of 2011 through the first quarter of 2012, Reis found a 2.8 percent gain in markets it covers, while Axiometrics reported a 4.0 percent rise in nominal rents. These increases were similar to the increase in the CPI-less-shelter, which rose 3.2 percent from the first quarter of 2011 through the first quarter of 2012. While nominal rents rose during this period, average rent on an inflation-adjusted basis remained below where it had been for much of the decade prior to the Great Recession, as shown in the accompanying exhibit.

The increase in apartment demand has helped to enhance property values, on average up about 25 percent during the past two years from their trough during the first quarter of 2010, according to the National Council of Real Estate Investment Fiduciaries index, but still about 14 percent below their peak prior to the Great Recession. The value gains and improved rent prospects have prompted a supply response on the part of developers. Starts of buildings with at least five apartments have jumped 48 percent in the first five months of this year when compared to the same period a year ago. The National Association of Home Builders also reported that its Multifamily Production Index was up to its highest reading since 2005, and its index for market-rate rental construction reached its highest level since the series' inception eight years ago. Construction of rental apartments in buildings containing at least five dwellings will likely add nearly 200,000 units this year, the most in one year since 2008.

Facilitating this activity, equity and financing have become more available as well. The Federal Reserve's Senior Loan Officer Opinion Survey revealed modest easing of credit standards and increased demand for commercial real estate loans. The NMHC has found that its members have generally experienced better availability of both mortgage and equity financing over the past two years, and the Mortgage Bankers Association found a 45 percent increase in multifamily loan originations by mortgage companies during the first quarter of 2012 compared with the first quarter of last year.

Multifamily loan performance continues to vary substantially by investor. Freddie Mac, Fannie Mae and life insurance portfolios continue to have relatively low 60-day delinquency rates as of March 31, below 0.4 percent for each. Multifamily loans held by commercial banks and savings institutions are experiencing a noncurrent rate (90-days or more delinquent or in nonaccrual status) of 2.4 percent as of March 31, according to the Federal Deposit Insurance Corporation. Trepp has reported that multifamily loans in commercial mortgage-backed securities continue to have 60-day delinquency or in-foreclosure rates exceeding 10 percent.

Further increases in rental demand are likely in the coming year as newly formed households postpone homeownership decisions until the economy strengthens and they have accumulated sufficient savings. Overall apartment market trends may show further vacancy declines and rent gains, with property values improving as well.



Sources: Axiometrics (U.S. Derived "same store" Effective Rent, Vacancy = 100% Less Current Period Occupancy Rate), Bureau of Labor and Statistics (CPI-Less shelter–quarter average, NSA)

Office of the Chief Economist

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June 2012 Economic and Housing Market Outlook

Office of the Chief Economist

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Major Economic Indicators

Indicator	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2007	2008	2009	2010	2011	2012	2013
Real GDP (%)	0.4	1.3	1.8	3.0	1.9	**2.3**	**2.5**	**2.7**	**2.8**	**2.8**	**3.2**	**3.2**	2.2	-3.3	-0.5	3.1	1.6	**2.4**	**3.0**
Consumer Prices (%) a.	4.5	4.4	3.1	1.3	2.5	**1.7**	**1.9**	**1.9**	**2.0**	**2.0**	**2.0**	**2.0**	4.0	1.6	1.5	1.2	3.3	**2.0**	**2.0**
Unemployment Rate (%) b.	9.0	9.0	9.1	8.7	8.3	**8.1**	**8.1**	**8.0**	**8.0**	**7.8**	**7.6**	**7.4**	4.6	5.8	9.3	9.6	9.0	**8.1**	**7.7**
30-Year Fixed Mtg. Rate (%) b.	4.9	4.7	4.3	4.0	3.9	**3.8**	**3.8**	**4.0**	**4.1**	**4.3**	**4.4**	**4.6**	6.3	6.0	5.0	4.7	4.5	**3.9**	**4.4**
1-Year Treas. Indexed ARM Rate (%) b.	3.3	3.1	2.9	2.9	2.8	**2.8**	**2.9**	**3.0**	**3.0**	**3.1**	**3.2**	**3.3**	5.6	5.2	4.7	3.8	3.0	**2.9**	**3.2**
10-Year Const. Mat. Treas. Rate (%) b.	3.5	3.2	2.4	2.1	2.0	**1.9**	**1.8**	**1.9**	**2.1**	**2.1**	**2.1**	**2.2**	4.6	3.7	3.3	3.2	2.8	**1.9**	**2.1**
1-Year Const. Mat. Treas. Rate (%) b.	0.3	0.2	0.1	0.1	0.2	**0.2**	**0.2**	**0.3**	**0.4**	**0.4**	**0.5**	**0.6**	4.5	1.8	0.5	0.3	0.2	**0.2**	**0.5**

Housing and Mortgage Markets

Indicator	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2007	2008	2009	2010	2011	2012	2013
Housing Starts c.	0.58	0.57	0.61	0.68	0.72	**0.70**	**0.74**	**0.78**	**0.83**	**0.88**	**0.93**	**0.98**	1.36	0.91	0.55	0.59	0.61	**0.74**	**0.91**
Total Home Sales d.	4.11	4.01	4.08	4.23	4.39	**4.40**	**4.40**	**4.40**	**4.60**	**4.75**	**4.90**	**5.05**	5.19	4.14	4.25	4.03	4.09	**4.40**	**4.83**
FMHPI House Price Appreciation (%) e.	-1.7	1.6	-1.9	-2.4	-0.3	**2.0**	**-1.0**	**-0.7**	**0.0**	**1.0**	**0.5**	**0.0**	-4.9	-11.7	-2.3	-5.8	-4.2	**0.0**	**1.5**
S&P/Case-Shiller® Home Price Index (%) f.	-4.0	4.1	0.0	-3.9	-2.0	**2.0**	**-1.0**	**0.0**	**0.0**	**1.0**	**0.5**	**0.0**	-8.4	-18.4	-2.5	-3.7	-3.9	**-1.0**	**1.5**
1-4 Family Mortgage Originations g.																			
Conventional	**$263**	**$220**	**$277**	**$348**	**$337**	**$292**	**$291**	**$230**	**$177**	**$246**	**$239**	**$162**	$2,312	$1,310	$1,549	$1,300	**$1,108**	**$1,150**	**$824**
FHA & VA	$77	$70	$73	$72	$83	**$73**	**$79**	**$65**	**$53**	**$74**	**$71**	**$48**	$120	$290	$451	$377	$292	**$300**	**$246**
Total	**$340**	**$290**	**$350**	**$420**	**$420**	**$365**	**$370**	**$295**	**$230**	**$320**	**$310**	**$210**	$2,432	$1,600	$2,000	$1,677	**$1,400**	**$1,450**	**$1,070**
ARM Share (%) h.	8	11	12	14	12	**15**	**15**	**15**	**15**	**15**	**15**	**15**	10	7	3	5	11	**14**	**15**
Refinancing Share - Applications (%) i.	69	70	78	81	81	**75**	**70**	**60**	**57**	**55**	**55**	**53**	42	48	70	76	75	**72**	**55**
Refinancing Share - Originations (%) j.	**71**	**56**	**65**	**75**	**75**	**70**	**65**	**60**	**57**	**55**	**55**	**53**	49	50	68	67	**67**	**68**	**55**
Residential Mortgage Debt (%) k.	-2.7	-2.4	-2.0	-1.8	-3.2	**-1.0**	**-1.0**	**-0.5**	**1.0**	**2.0**	**2.0**	**3.0**	7.1	-0.4	-1.6	-3.0	-2.2	**-1.4**	**2.0**

Note: Quarterly and annual forecasts (or estimates) are shown in shaded areas; totals may not add due to rounding; quarterly data expressed as annual rates.
Annual forecast data are averages of quarterly values; annual historical data are reported as Q4 over Q4.

a. Calculations based on quarterly average of monthly index levels; index levels based on the seasonally-adjusted, all-urban consumer price index.

b. Quarterly average of monthly unemployment rates (seasonally-adjusted); Quarterly average of monthly interest rates (not seasonally-adjusted).

c. Millions of housing units; quarterly averages of monthly, seasonally-adjusted levels (reported at an annual rate).

d. Millions of housing units; total sales are the sum of new and existing detached single-family homes;quarterly averages of monthly, seasonally-adjusted levels (reported at an annual rate).

e. Quarterly growth rate of Freddie Mac's House Price Index (FMHPI); not seasonally-adjusted; annual reates for yearly data.

f. National composite index (quarterly growth rate); not seasonally-adjusted; annual rates for yearly data.

g. Billions of dollars (not seasonally-adjusted).

h. Federal Housing Finance Agency (FHFA); quarterly averages of monthly shares of number of loans of conventional, home-purchase mortgage closings (not seasonally-adjusted).

i. Primary Mortgage Market Survey®; quarterly averages of monthly shares of all single-family mortgage applications (not seasonally-adjusted).

j. Home Mortgage Disclosure Act for all single-family mortgages (not seasonally-adjusted); Annual share is dollar-weighted average of quarterly shares.

k. Federal Reserve Board; growth rate of residential mortgage debt, the sum of single-family and multifamily mortgages(not seasonally-adjusted, annual rate)

Prepared by Office of the Chief Economist and reflects views as of 6/18/2012 (MAS); Send comments and questions to chief_economist@freddiemac.com.

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