



## September 2014 U.S. Economic & Housing Market Outlook

### Multifamily on the Move

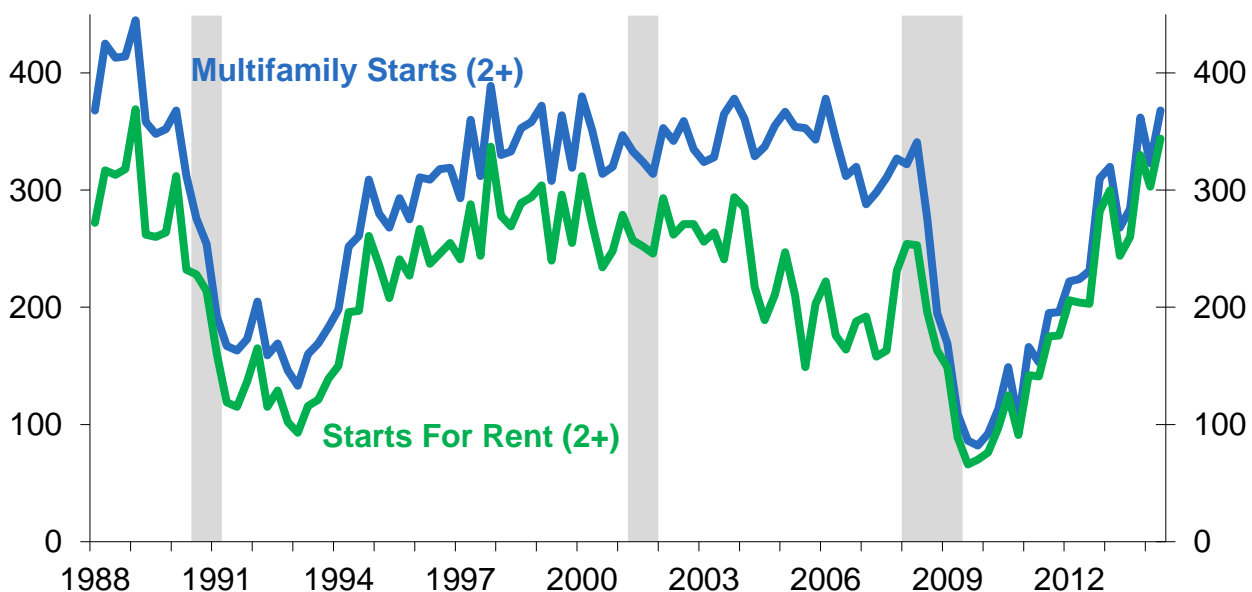
The home building industry has gradually rebuilt itself after hitting depression-level lows during the Great Recession. The recovery has been extraordinarily slow, but has picked up over the past couple of years. In July, housing starts rose to a seasonally adjusted, annual rate of 1.09 million, and on an unadjusted basis attained the highest monthly start rate in more than six years. The multifamily sector has led this recovery, especially the development of rental apartments. Construction of buildings with at least five apartments hit the highest monthly construction pace since the beginning of 2006. However, a big difference in the development mix today compared with 2006 is the scant construction of condominium complexes.

Strong demand for apartments, especially by younger households, has created ripe conditions for rental apartment development. While multifamily starts are up, construction of rental apartments in 2014 has been running at the highest level in a quarter century. The National Multifamily Housing Council reported in its latest apartment market conditions survey that apartment markets had tightened further over the prior three months as of mid-July.

#### Multifamily Housing Starts

(1000s, SAAR)

■ Indicates Recession



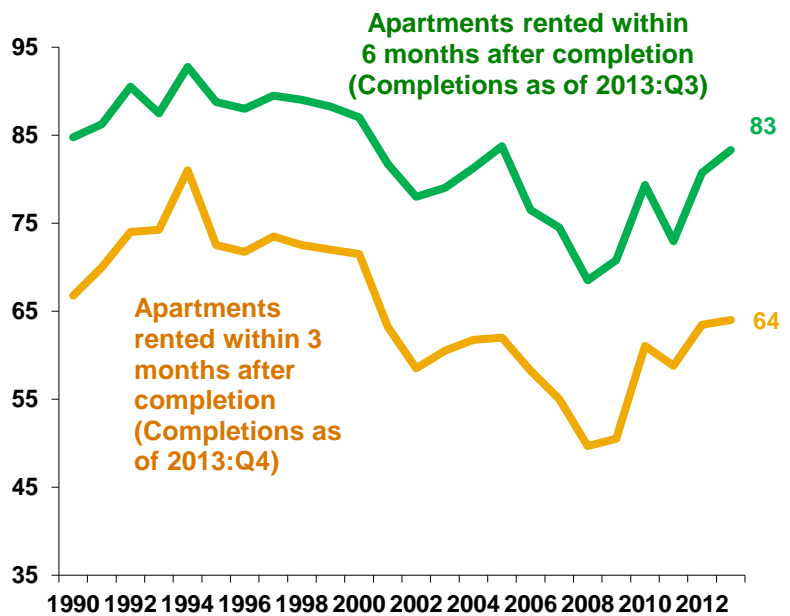
Source: Census Bureau

Reflecting the relatively tighter market conditions of the past year, newly built apartments have been rented at a quicker pace than a few years ago. The latest absorption rates for unsubsidized, unfurnished newly built apartments have been at the fastest pace in a decade: The Census Bureau reported that the latest 3-month and 6-month absorption rates had risen to 64 percent and 83 percent, respectively. Thus, demand is there to absorb the new supply.

Much of this increased rental demand reflects the decline in the overall U.S. homeownership rate to 64.7 percent for the second quarter of 2014, the lowest since 1995. In particular, over the past four quarters all the growth in net household formations has been among renters. The decline in homeownership rates has been primarily concentrated among younger households. For example, the homeownership rate for households 35 years and younger has fallen from 43.6 percent to 35.9 percent between the second quarters of 2004 and 2014.

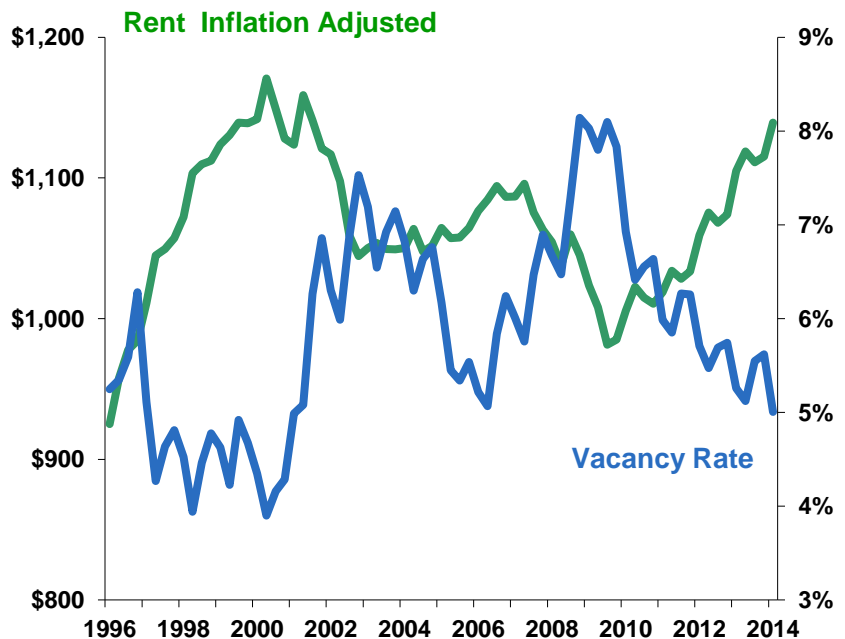
The increased number of tenant households has pushed vacancy rates down to the lowest level since 2000, and placed upward pressure on inflation-adjusted rents. On average, for the U.S., inflation-adjusted rents have returned to their prior peak levels of 14 years ago, and low vacancy rates point toward rent growth outpacing operating costs in the coming year as well.

### Absorption Rate (Percent)



Source: Census Bureau

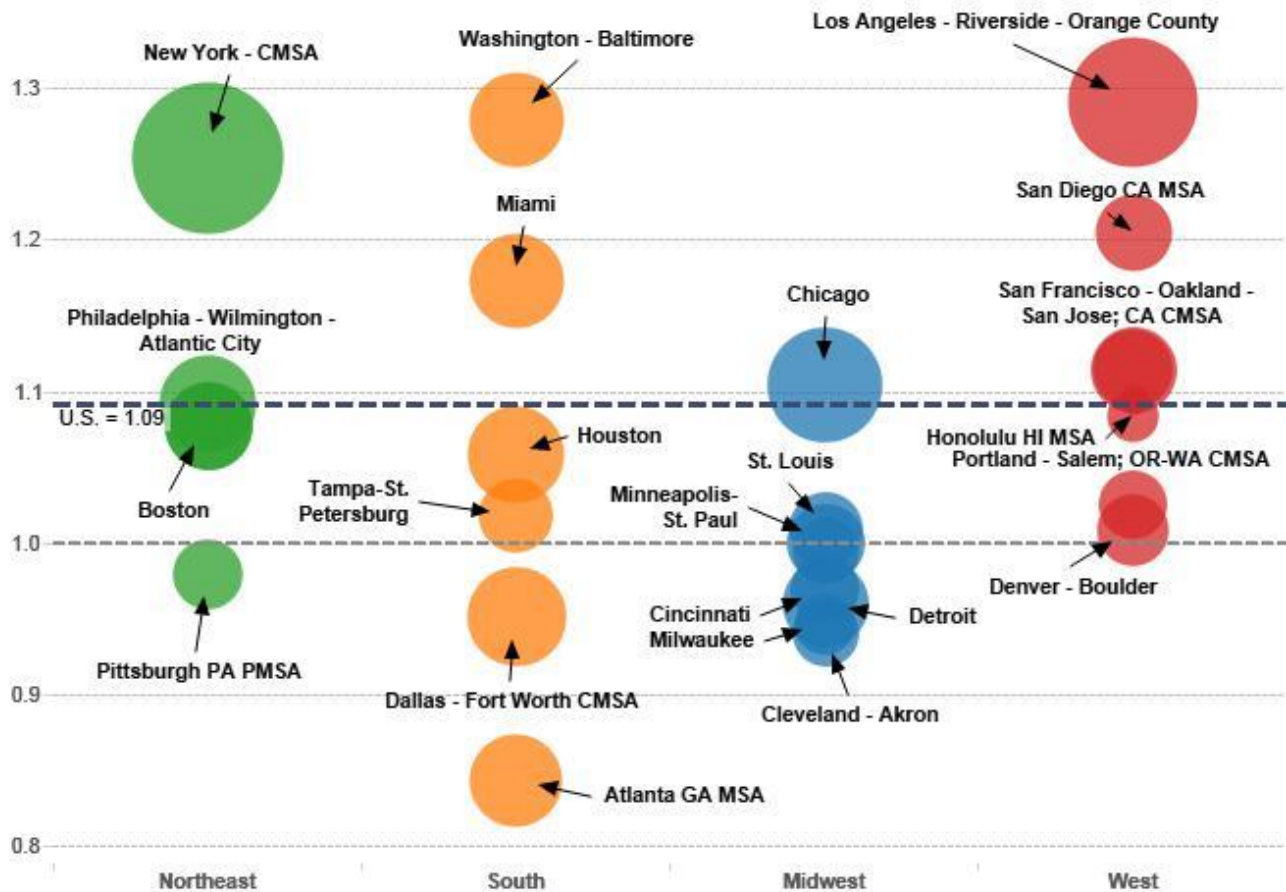
### Vacancy Drop Since 2010 Has Led to Rent Growth; Inflation-Adjusted Rent Is Climbing



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

Trends in real rent growth have varied across metro areas. The Bureau of Labor Statistics provides price indices for 26 large metropolitan areas back through the late 1990s.<sup>1</sup> We can compare the estimates of rents on a primary residence to consumer prices for all items excluding shelter to construct estimates of real (inflation-adjusted) rents. The U.S. average real rent growth from December 1999 to June 2014 was 9 percent. Comparing metro areas, generally real rent growth has been highest in large metros, and metros in the West or Northeast Regions of the United States. In the South Region, only Miami and Washington D.C.–Baltimore have real rents that have exceeded the U.S. average. In the Midwest, only the Chicago metro area has outstripped the U.S. average.

**Real Rents by Metro in June 2014 (Dec 1999 = 1)**



Source: Rent and Price data from BLS; Real Rent constructed as ratio of Rent on Primary Residence and Consumer Price Index for All Items Less Shelter

With single-family housing markets stuck in low gear, the multifamily sector has been the bright spot for housing. As the labor market continues to recover, demand for rental properties will continue to run strong. Declining vacancy rates have driven rising real rents across the country, especially in the largest metropolitan areas. Despite the relatively weak jobs report for August—just 142,000 net payroll jobs were added in the month—we expect to see the labor market pick up steam in the coming months. Improving labor market conditions will drive household formation, and translate into increased demand for apartments and other rental units.

<sup>1</sup> Data for a 27th metropolitan area, Phoenix, begins in 2002 and was excluded from our analysis.

Find out more about the multifamily market by reading the Freddie Mac Multifamily Mid-Year [Outlook](#).

Frank E. Nothaft  
Chief Economist

Leonard Kiefer  
Deputy Chief Economist

September 15, 2014

[www.freddiemac.com/news/finance](http://www.freddiemac.com/news/finance)

[chief\\_economist@freddiemac.com](mailto:chief_economist@freddiemac.com)

*Opinions, estimates, forecasts and other views contained in this document are those of Freddie Mac's Office of the Chief Economist, do not necessarily represent the views of Freddie Mac or its management, should not be construed as indicating Freddie Mac's business prospects or expected results, and are subject to change without notice. Although the Office of the Chief Economist attempts to provide reliable, useful information, it does not guarantee that the information is accurate, current or suitable for any particular purpose. The information is therefore provided on an "as is" basis, with no warranties of any kind whatsoever. Information from this document may be used with proper attribution. Alteration of this document is strictly prohibited. © 2014 by Freddie Mac*

September 2014 Economic and Housing Market Outlook

*Revised 9/11/2014*

Indicator	2013		2014				2015				Annual Totals						
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010	2011	2012	2013	2014	2015
Real GDP (%)	4.5	3.5	-2.1	4.2	3.0	3.2	3.3	3.3	3.3	3.3	-0.2	2.7	1.7	1.6	3.1	2.1	3.3
Consumer Prices (%) a.	2.2	1.1	1.9	3.0	2.0	2.0	2.0	2.0	2.0	2.0	1.5	1.2	3.3	1.9	1.2	2.2	2.0
Unemployment Rate (%) b.	7.2	7.0	6.7	6.2	6.2	6.0	6.0	5.9	5.8	5.7	9.3	9.6	8.9	8.1	7.4	6.3	5.9
30-Year Fixed Mtg. Rate (%) b.	4.4	4.3	4.4	4.2	4.1	4.3	4.4	4.6	4.8	5.0	5.0	4.7	4.5	3.7	4.0	4.3	4.7
5/1 Hybrid Treas. Indexed ARM Rate (%) b.	3.2	3.0	3.1	3.0	3.2	3.3	3.5	3.8	4.0	4.2	4.8	3.8	3.3	2.8	2.9	3.2	3.9
1-Year Treas. Indexed ARM Rate (%) b.	2.7	2.6	2.5	2.4	2.4	2.5	2.5	2.6	2.6	2.7	4.7	3.8	3.0	2.7	2.6	2.5	2.6
10-Year Const. Mat. Treas. Rate (%) b.	2.7	2.7	2.8	2.6	2.5	2.6	2.7	2.9	3.1	3.3	3.3	3.2	2.8	1.8	2.4	2.6	3.0
1-Year Const. Mat. Treas. Rate (%) b.	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.4	0.5	0.3	0.2	0.2	0.1	0.1	0.3

Indicator	2013		2014				2015				Annual Totals						
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010	2011	2012	2013	2014	2015
Housing Starts c.	0.88	1.03	0.93	1.00	1.05	1.10	1.15	1.25	1.25	1.35	0.55	0.59	0.61	0.78	0.92	1.02	1.30
Total Home Sales d.	5.71	5.39	5.03	5.30	5.40	5.50	5.55	5.55	5.60	5.70	4.72	4.51	4.57	5.03	5.51	5.31	5.60
FMHPI House Price Appreciation (%) e.	1.6	-0.7	1.6	3.60	0.8	-1.0	0.0	2.0	1.0	0.0	-3.1	-4.9	-3.3	6.1	9.3	5.0	3.0
S&P/Case-Shiller® Home Price Index (%) f.	2.1	-0.2	1.2	3.1	1.1	-0.5	0.0	2.0	1.0	0.0	-3.9	-4.1	-3.9	6.5	10.8	5.0	3.0
1-4 Family Mortgage Originations g.																	
Conventional	\$363	\$291	\$198	\$255	\$256	\$208	\$212	\$272	\$208	\$148	\$1,549	\$1,300	\$1,206	\$1,752	\$1,570	\$917	\$840
FHA & VA	\$87	\$59	\$52	\$65	\$64	\$52	\$53	\$68	\$52	\$37	\$451	\$367	\$286	\$370	\$355	\$233	\$210
Total	\$450	\$350	\$250	\$320	\$320	\$260	\$265	\$340	\$260	\$185	\$2,000	\$1,667	\$1,492	\$2,122	\$1,925	\$1,150	\$1,050
ARM Share (%) h.	9	10	11	11	12	13	14	15	15	15	3	5	11	10	9	12	15
Refinancing Share - Applications (%) i.	54	59	52	45	48	40	32	22	18	17	68	73	71	77	63	46	23
Refinancing Share - Originations (%) j.	52	51	48	41	45	35	35	30	18	18	68	67	64	70	61	42	26
Residential Mortgage Debt (%) k.	0.8	-0.7	-1.0	0.0	1.0	2.0	2.5	3.0	3.0	3.5	-1.7	-4.2	-2.1	-1.7	-0.5	0.5	3.0

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.

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 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; Dec.to-Dec. for yearly data.

f. National composite index (quarterly growth rate); not seasonally-adjusted; Q4-to-Q4 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. MBA Applications Survey; activity by dollars, total market refi share percent for United States (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 9/11/2014 (GTW); Send comments and questions to chief\_economist@freddiemac.com.

Opinions, estimates, forecasts and other views contained in this document are those of Freddie Mac's Office of the Chief Economist, do not necessarily represent the views of Freddie Mac or its management, should not be construed as indicating Freddie Mac's business prospects or expected results, and are subject to change without notice. Although the Office of the Chief Economist attempts to provide reliable, useful information, it does not guarantee that the information is accurate, current or suitable for any particular purpose. The information is therefore provided on an "as is" basis, with no warranties of any kind whatsoever.

Information from this document may be used with proper attribution. Alteration of this document is strictly prohibited. © 2014 by Freddie Mac.