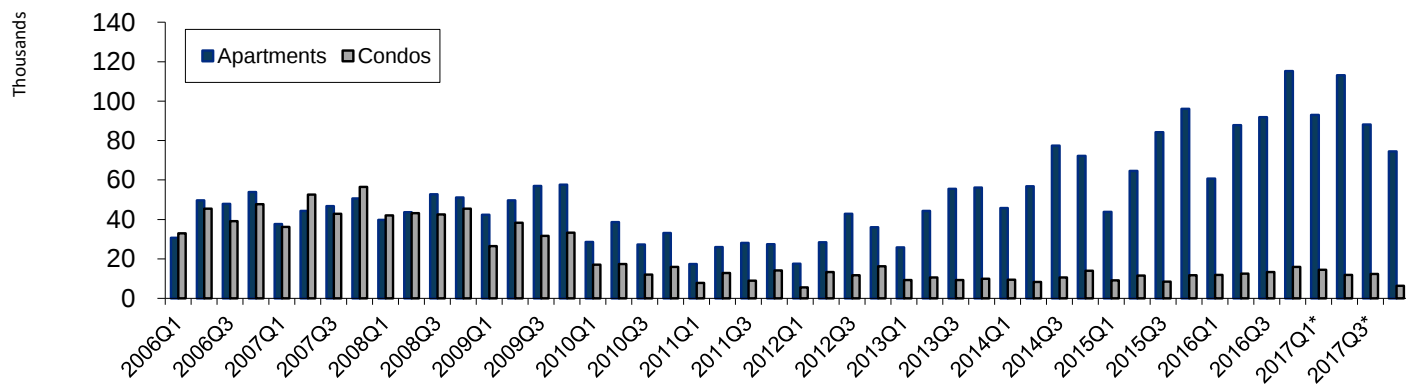




Multifamily Market Commentary – December 2016 Concessions Remain Low Despite Surge of New Supply – For Now

The nation's multifamily markets are continuing to see an exceptional surge in the supply of new apartments. In 2016, the industry expects to complete more than 350,000 new apartment units, according to Dodge Data & Analytics. It added nearly 290,000 units in 2015. See the chart below.

Multifamily Construction Pipeline – Condos and Apartments Completed and Underway



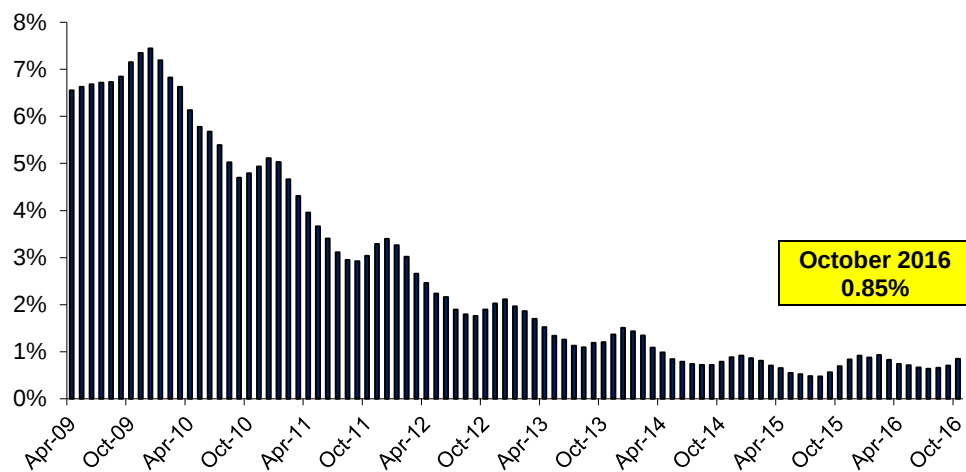
Source: Dodge Data & Analytics – October 2016

* Anticipated completions

Over the past two years, we have seen remarkably resilient apartment market fundamentals – with solid rent growth, strong net absorptions, and low vacancy rates. Ordinarily, the significant volume of new supply would suggest that property owners might be under pressure to lower rents – or risk having empty units. But ongoing demand from new rental household formations has kept that from happening in 2016 – at least on a nationwide basis.

Offering concessions is one way property owners can attract tenants in a competitive market. Concessions are enticements with economic value for renters – such as periods of free rent, utilities, or other amenities. Data from Dallas-based commercial real estate researcher Axiometrics tracking the value of these concessions suggest that, by and large, property owners have not had to use them. As seen in the chart below, concessions remain historically low. Their value has remained below 1 percent of annual asking rents for over two years. That's down from more than 7 percent in 2009 – the equivalent of three to four weeks of annual rent.

National Multifamily Concession Rate



Source: Axiometrics

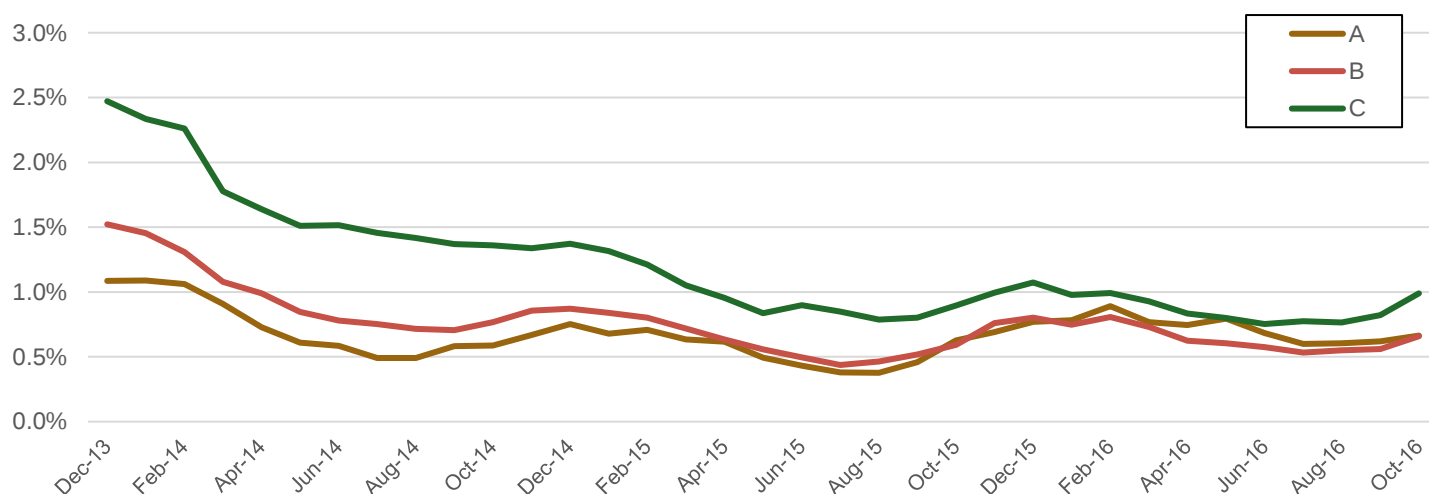
Concession Magnitude	Weeks
8.33%	4 weeks
6.23%	3 weeks
4.17%	2 weeks
2.08%	1 week
1.04%	1/2 week
0.9%	3 days
0.6%	2 days
0.3%	1 day



All Property Types Seeing Very Low Concession Rates

The recent surge of new apartments has generally occurred among higher-quality buildings, which offer more amenities and higher-end finishes and appliances. Under increased competition among these Class A properties, owners ordinarily might have to offer higher concession rates to fill units. However, with demand for apartments remaining robust, the owners of most Class A properties appear to have navigated the supply surge without having to significantly increase their concessions. See the chart below.

National Multifamily Concession Rate by Property Class



Source: Axiometrics

As with the overall market, concessions for Class A properties have declined over the past three years – with minor upticks in the interim. Concessions fell from approximately 1.1 percent in December 2013 to 0.7 percent in October 2016. This is remarkable, considering that the 600,000 or so apartment units added to the nation's housing stock during this period consisted primarily of Class A properties.

Over the past several years, concessions for Class B and C properties have shown similar improvement, which is also noteworthy considering the impact of new supply. Since December 2013, Class C concessions have fallen to about 1.0 percent from 2.5 percent. Theoretically, the surge in new supply should have forced owners of Class B and C properties to offer increased concessions to retain their tenants. The overall strength of fundamental demand for all classes of apartments appears to have prevented that from happening.

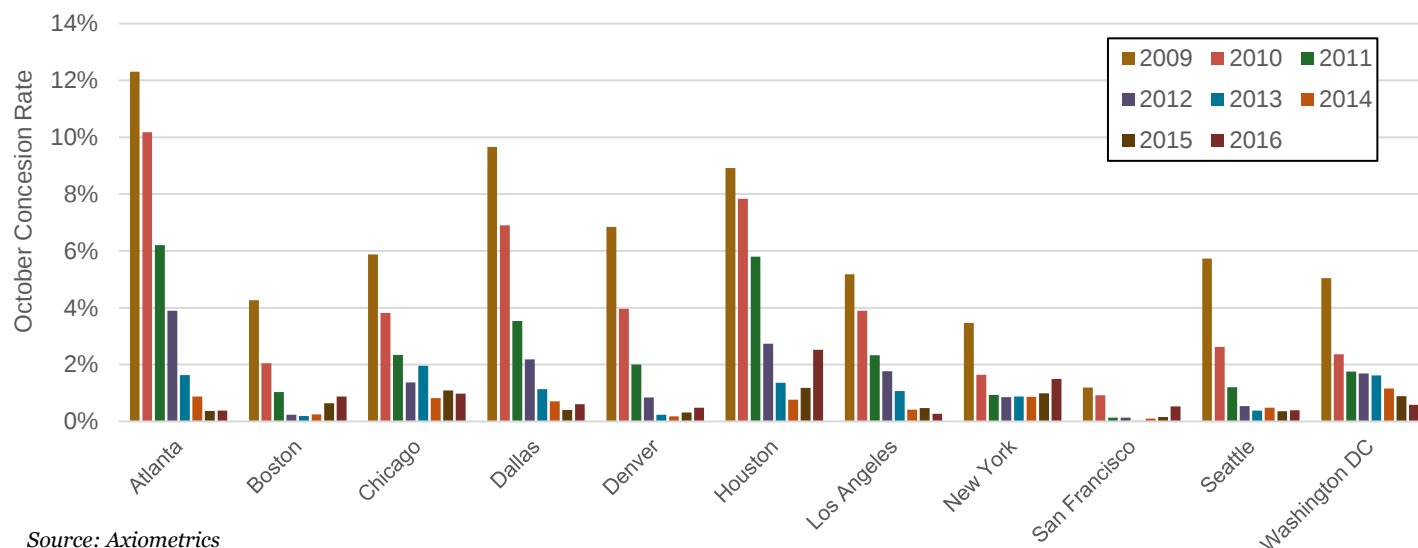
Concessions Remain Low Across the Country

We expect more than 350,000 new apartment unit completions in 2016. But these units are not evenly distributed on a national basis. In fact, the majority of the new apartment supply is concentrated in approximately 10 metropolitan areas – and primarily in an even smaller set of submarkets within those metros. The most active metros in the country for apartment development continue to be New York, Dallas, Washington, and Los Angeles. New York has more than 70,000 units underway, while the other three exceed 20,000 each. Boston, Houston, and Denver follow with slightly fewer units. Seattle, Chicago, and Atlanta round out the top 10.



These major metros have also seen remarkable levels of new supply over the past few years, but pent-up demand has helped absorb this wave without property owners having to greatly increase concessions, as seen in the chart below.

Multifamily Concession Rate by Market – Select Metros



Source: Axiometrics

The Houston market is a notable exception. Its overall level of concessions reached a low of 1.4 percent in October 2013. Since then, its concessions have increased – rising to 2.5 percent as of October 2016. Houston’s apartment market is going through a volatile period right now and dealing with the fall in oil prices and related weakness in job growth. At the same time, it is experiencing a significant surge in apartment-unit deliveries. Developers had projected those units would come online in an expanding job market, not a particularly weak one.

Among other metros experiencing a surge in supply, Boston, Dallas, and Denver have also seen a slight rise in concession rates compared to the prior two years. But in all three cases, the overall concession rates remain well below 1 percent, and they are well below peak concession levels in 2009 through 2010, as seen in the chart above.

Multifamily Demand Solid, Though Rising Concessions Are Likely

Overall, national fundamentals have remained positive for the multifamily sector through all of 2016, but a slowdown in the pace of rent increases and a rise in vacancy levels appear likely over the next 12 to 24 months. Considering the remarkable strength that the nation’s multifamily markets have demonstrated over an extended period, this easing off should come as no surprise. Nor is it expected to be long-term. Easing multifamily fundamentals lasting several quarters – or even a year or two – would be expected in the typical business cycle.

Should property owners see vacancy rates begin to increase, it’s likely that they would offer concessions first before deciding to decrease rents. Considering that concessions have declined steadily for nearly seven straight years, and that their current level is now below 1 percent, it is probably only a question of “when” and not “if” they will begin to rise again. In fact, the industry considers concession levels of 2 percent as reflecting aligned and in-balance apartment supply and demand.

Indeed, rising concessions have already begun to appear for some properties in certain submarkets in more expensive metros – such as New York and San Francisco. Property owners and investors should expect an increase in concessions over the next few quarters. Higher-end, Class A properties are the bigger concern. If owners were forced to offer much higher concessions on those properties over a longer period of time, that could stress anticipated cash flows on them.



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