

Multifamily Housing

Michael Carliner

There are substantial variations among local markets, but multifamily rental housing has generally continued to experience rising vacancies, slow absorptions, and downward pressure on rents (although the rent component of the CPI is still rising faster than overall inflation). On the other hand, the market for condo apartments has been quite strong.

Although multifamily production has yet to fully reflect demand (or the absence of demand), there has been a slowdown in new starts of multifamily rental units and a pickup in condo starts. In 2003, multifamily rental starts fell to 262,000 from 275,000 in 2002, while the number of multifamily units started for sale increased from 71,000 to 86,000.

Completions of both condo and rental multifamily units declined in 2003 and were lower than starts, producing an increase in the number of units in the construction pipeline. The total number of multifamily units under construction at the end of January 2004 was 373,200 (not seasonally adjusted), compared to 333,000 a year earlier. Part of the increase in the number under construction is due to an increased share of production involving larger structures that take longer to complete. In any case, with more than a full year's output currently under construction, and little evidence of a slowdown in additional starts, prospects are for markets with excess supplies to become even more glutted.

Overall rental vacancy rates for the nation averaged 9.8 percent in 2003, with the rate for structures with five or more units at 11.4 percent. The vacancy problem worsened over the course of the year, with the over-

all rate reaching a record 10.2 percent, and the rate for larger structures at 11.9 percent, in the fourth quarter.

The median price of existing multifamily condo units sold in 2003 was \$163,800, 15.2 percent higher than in 2002, according to the National Association of Realtors. Indeed, the median condo resale price in the fourth quarter of 2003, \$174,700, was above the median reported for re-sales of single-family homes.

For newly-built condos in structures of 5 or more units completed in the third quarter of 2003, the median asking price was \$198,600. This was lower than the median for condos completed a year earlier, although comparisons over time may not be terribly meaningful as measures of prices for comparable units, because of changes in the mix of products and locations. That problem with the median price is also present, but less severe, for existing condos and for single-family homes.

Local Markets

Not every market is overbuilt and facing weak demand. Table 1 shows a variety of measures for major multifamily markets. Especially in the Northeast and in southern California, vacancies are modest, rents are rising, and absorption rates are high. In much of the South and Midwest, however, there are serious problems. In most cases where vacancy rates are high, there were declines in multifamily construction initiated in 2003, but the large volumes under construction will not easily be absorbed, and further cutbacks in starts are likely and desirable.

In metropolitan areas such as Houston, where there was a large increase in permits despite excess supply, the situation could become

much worse. Some areas with high vacancy rates, however, such as Atlanta, Orlando, and perhaps San Antonio, have already seen growth in employment and population to suggest that the excess supply could be absorbed more quickly than in less-dynamic areas.

The data on vacancy rates and absorptions at the metropolitan area level are based on relatively small samples and are less reliable than the national and regional measures, but in combination with other information, such as employment, population, and construction statistics, they show where markets are strong or weak. Both the level and the direction of vacancies and absorptions should be considered in market assessments.

The CPI rent index, for the metropolitan areas where it is available, is generally consistent with the demand measures. The rent indexes were stagnant or declining in Atlanta, Dallas, Denver and Seattle, as well as in the San Francisco-Oakland-San Jose consolidated area, where times are tough despite still-low vacancies. The CPI does not fully account, however, for the rent concessions that are common in weak markets.

To construct the CPI, tenants are interviewed every 6 months. If tenants report that they are getting temporary free rent, the average rent projected over the next six months is recorded (even though the tenant may not be required to stay for another 5 months). If the tenant is interviewed more than a month after the concession period expires, the current rent is recorded, without adjusting for previous concessions.

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Table 1. Metropolitan Area Multifamily Measures

	Multifamily Permits		Rental Vacancy		CPI-Rent Chg		Absorption		Chg. Employ.	Unemploy
	Number of Units						Percent			
	2002	2003	2002	2003	2002	2003	2002	2003	2003	2003
Atlanta GA	16,400	11,345	15.0	16.8	3.0	-0.8	50	41	1.5	4.7
Austin-San Marcos TX	6,160	2,245	12.0	14.8			53	45	0.8	5.5
Baltimore MD	1,640	2,610	8.5	8.8			74	51	0.5	4.9
Boston MA-NH	4,874	7,829	4.3	5.9	7.4	4.9		95	0.0	5.5
Charlotte-Gastonia-Rock Hill NC-SC	3,371	3,077	11.6	14.5			49	42	-0.4	6.5
Chicago IL *	14,209	13,370	11.4	13.7	3.4	3.5	84	88	-0.6	6.7
Cincinnati OH-KY-IN *	1,892	1,880	10.1	10.6	2.3	2.6		37	0.2	4.9
Cleveland-Lorain-Elyria OH *	635	448	15.5	15.8	3.1	2.3			-0.8	6.5
Dallas TX *	9,552	8,960	11.6	12.4	4.0	0.2	63	63	-0.9	7.0
Dayton-Springfield OH	729	1,189	7.4	11.1					-1.7	6.0
Denver CO *	8,412	3,220	8.7	12.9	3.8	-1.1	62	54	0.8	5.9
Detroit MI *	3,531	3,864	12.1	11.8	3.5	3.8	54	55	-1.2	7.1
Fort Lauderdale FL	6,323	4,432	6.0	8.1			79	69	1.6	5.7
Fort Worth-Arlington TX	3,765	3,321	11.2	14.0			65		-0.3	6.2
Grand Rapids - Muskegon - Holland MI	1,516	1,137	8.8	9.9					-1.0	7.4
Greensboro--Winston-Salem--Hi Pt NC	2,294	1,260	12.1	12.4			73	84	-0.9	6.1
Hartford CT	713	1,058	4.5	9.8					0.0	5.3
Houston TX *	12,006	16,015	12.9	15.8	4.4	3.1	60	43	-0.4	6.6
Indianapolis IN	3,500	2,966	11.1	12.4			69	62	-2.1	4.7
Jacksonville FL	3,370	3,027	7.3	9.7			66	79	1.0	5.3
Kansas City MO-KS	3,068	2,959	11.3	11.0	3.7	2.4	71	39	-1.4	5.6
Las Vegas NV-AZ	7,249	9,603	10.9	11.4			59	62	2.7	5.2
Los Angeles-Long Beach CA	8,174	10,527	3.9	3.2	5.7	5.3	46	45	-0.7	6.8
Louisville KY-IN	1,266	1,263	7.2	8.5			70	59	0.2	5.0
Memphis TN-AR-MS	1,596	998	12.2	12.2			39	58	-0.3	5.6
Miami FL *	8,232	7,350	7.9	8.8	4.8	3.7	74	74	0.7	7.2
Middlesex-Somerset-Hunterdon NJ	1,046	1,092	6.1	9.6					-0.1	4.7
Milwaukee-Waukesha WI *	2,480	2,417	7.6	11.8	3.4	2.8		87	-1.2	6.0
Minneapolis-St. Paul MN-WI	8,172	7,334	6.1	8.1	5.0	1.3		54	-0.7	4.3
Nashville TN	1,065	1,463	7.1	7.8					0.2	3.9
New Orleans LA	1,057	770	8.1	7.6			49		0.4	5.5
New York NY *	18,617	20,704	4.6	4.4	4.5	4.4	61	76	-1.1	7.6
Newark NJ	2,480	3,631	6.0	7.7				41	0.5	5.9
Norfolk-VA Bch-Newp News VA-NC	2,527	2,488	3.5	10.3			68	35	0.2	4.2
Oakland CA	1,747	4,065	6.0	6.8			55	64	-0.1	6.1
Oklahoma City OK	413	1,112	11.9	13.2					0.3	4.7
Orange County CA	5,002	3,167	5.1	5.9			89	71	0.0	3.8
Orlando FL	8,902	5,972	9.7	14.6			75	77	1.8	5.0
Philadelphia PA-NJ *	2,413	4,975	8.6	10.9	3.3	3.8		71	0.2	5.6
Phoenix-Mesa AZ	7,897	7,576	13.2	12.0		1.1	70	64	1.1	5.0
Pittsburgh PA	1,709	1,154	9.1	10.5	3.6	2.1			-1.1	5.5
Portland - Vancouver OR-WA *	3,909	5,465	9.3	10.8	1.1	2.3	59	48	-1.6	8.1
Raleigh-Durham-Chapel Hill NC	2,247	3,411	13.2	18.1					0.0	4.5
Riverside-San Bernardino CA	2,436	6,147	5.2	5.7			66	77	1.4	5.9
Sacramento CA	4,283	4,043	6.6	7.2			85	77	0.0	5.4
Salt Lake City-Ogden UT	1,984	2,321	7.4	9.4			59		-0.4	5.3
San Antonio TX	2,721	2,243	14.7	13.9			58	56	1.3	5.3
San Diego CA	4,804	8,176	7.8	6.0	8.3	6.6			0.2	4.3
San Francisco CA *	2,140	1,951	5.4	7.8	3.8	0.1	55	64	-1.9	5.6
San Jose CA	2,380	4,512	6.6	9.5			68	53	-4.7	8.0
Seattle-Bellevue-Everett WA *	5,877	4,921	8.9	12.7	2.7	-0.4	60	69	-0.7	6.7
St. Louis MO-IL	3,035	2,437	6.2	8.4	3.4	2.7			-0.7	5.6
Tampa-St. Petersburg-Clearwater FL	5,996	9,110	11.1	9.9	5.4	1.9	52	44	1.1	4.4
Washington DC-MD-VA-WV *	10,723	7,941	8.3	9.6	6.2	5.2	62	64	1.1	3.4
West Palm Beach-Boca Raton FL	3,523	4,999	7.7	11.0			47	49	3.0	5.5

Absorption rates are share completed during period rented within 3 months. Rate for 2003 based on 12 months ending September 2003.

* CPI for these areas based on consolidated metropolitan area. All other data are for MSA and PMSA areas.

Sources: Census Bureau permits, vacancy, and survey of market absorption; CPI, employment, and unemployment rate from Bureau of Labor Statistics.