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Priced-Out Buyers Push Occupancy Rates and Apartment Builders' Confidence Higher

by Peter Mosca

With the price of residential properties continuing to rise in most markets across the U.S. and first time buyers now looking for rental homes as a fix until markets correct themselves, multifamily builder confidence in the rental apartment market soared to a new high in the first quarter of 2006. According to the results of the National Association of Home Builders/Fannie Mae Multifamily Housing Market Index (MMI), rising occupancies and rental rates pointed to increased consumer demand in rental homes. The NAHB has been collecting data for the MMI since the last quarter of 2002.

"With the price of homes up about 10-15 percent over the last 12 months and more than 55 percent nationwide over the last five years, many hopeful low- and middle-income buyers are increasingly turning to rental properties, both multifamily and apartments, as their primary choice for shelter" explained Stan Hanks, principal of [RealSource Commercial](#), a Salt Lake City firm that originated more than \$100 million in loans in 2005. "This is good news for builders and lenders alike, as the industry moves to meet the apartment and rental needs of these ready-to-rent consumers."

The component of the MMI that tracks current demand saw both moderately priced (Class B) and lower-rent apartments (Class C) reaching their highest levels ever in the first quarter of 2006, with moderately priced units topping the index at 71.4, up from 60.6 at the same time last year and about 30 points higher than the last quarter of 2002. Luxury rental apartments (Class A) gained 1.6 points to reach 61.6 in the first quarter of 2006, compared to 60.0 at the same time last year.

"The rental market is very good right now," noted Leonard Wood, an apartment and condo builder from Atlanta and chairman of NAHB's Multifamily Leadership Board. "Over the past three years, there have been thousands of rental units converted and sold as condos and, at the same time, few new rental apartments were being built. This leaves us with a supply-constrained market while demand is growing."

Peter Mosca
 Columnist Peter Mosca



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The MMI component that gauges supply for market-rate rental apartments dropped to 54.6 during the first quarter of 2006, down from 57.2 at the same time last year. With supply tightening and demand on the rise, the component of the MMI that tracks rents reached a record high for the series, with an index of 73.1, up from 61.7 at the same time last year and almost 20 points higher than three years ago.

Another sign of a coming rise in multifamily and apartment construction is the recent news from the National Association of REALTORS that showed vacancy rates in the fourth quarter to average 5.7 percent compared with 6.2 percent during the same period in 2005. The NAR reported that the average rent is forecast to rise 4.1 percent this year compared with 2.9 percent in 2005. Most notably, total investment in multifamily property was \$24.0 billion during the first quarter, up 30 percent from the first quarter of 2005, and multifamily net absorption is likely to be 256,500 units in 59 tracked metro areas this year, compared with 351,000 absorbed in 2005.

"Affordability isn't the only concern as we hear many more consumers anxious about sustainable job growth and job security, and international events," said Hanks, whose company specializes in multi-family lending around the country. "These issues combined are weighing on the minds of real estate consumers and most likely will keep more people looking in the rental marketplace."

With the Commerce Department recently announcing new home building projects at an annual rate of 1.88 million units in May, 2006, an eight percent drop from the prior year; it may pay for builders to add apartments and multifamily housing construction to their cadre of professional services.

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Peter is president and founder of [BAK Communications, Inc.](#) He has over seventeen years of communications consulting experience, serving a variety of nonprofit organizations.

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Peter has also received numerous national and statewide awards for his work, including the American Society of Association Executives Advance America Award, National Association of Realtors Publications Excellence Award, Four New Jersey Society of Association Executives Gold Crown Communiqué Awards, and a New Jersey Ad Club Honors Certificate.

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