

**Weakening Economic Conditions Create
Challenging Conditions for Apartment Sector**
by the National Multi Housing Council

WASHINGTON, DC – While the apartment industry has fared better than other real estate sectors since the onset of the global financial crisis, the weakening economy is beginning to affect the sector, according to the National Multi Housing Council's (NMHC) latest Quarterly Survey of Apartment Market Conditions.

"Nine straight months of job losses have begun to cut into the demand for apartment residences," said Mark Obrinsky, NMHC's Vice President of Research and Chief Economist. "While favorable demographics and a lower homeownership rate will benefit the apartment industry over time, owners and managers will first have to work their way through the current economic downturn before the benefits of that increased demand are likely to show up. Until then, economic worry will cause some people to "double up" by moving in with a friend or returning to their parents' house."

The Market Tightness Index, which measures changes in occupancy rates and/or rents, dropped from 40 last quarter to 24. This was the fifth straight quarter in which the index has been below 50. (For all of the survey indexes, a reading above 50 indicates that, on balance, conditions are improving; a reading below 50 indicates that conditions are worsening; and a reading of 50 indicates that conditions are unchanged.) In the previous four quarters, however, roughly half of respondents viewed market conditions as unchanged; this quarter less than one-third reported unchanged conditions, suggesting that the current situation is less stable.

"Unlike other commercial real estate sectors, such as offices and hotels, the apartment sector has benefited from continued debt capital availability through Fannie Mae and Freddie Mac," noted Obrinsky. "That capital source is not sufficient to protect apartments from the current credit crisis, however. Our indexes for equity and debt financing set record low levels, as other sources of capital have left the market. This has contributed to a record-low reading for property sales as well."

The Sales Volume Index declined to 5, the lowest on record. No respondents said sales volume was higher than three months ago, while 90 percent said sales volume was lower. This is the 12th consecutive quarter the index has been under 50.

The Equity Financing Index declined to 4, also the lowest on record and the sixth consecutive quarter with an under-50 reading. No respondents said equity financing was more available than three months ago, while 93 percent of respondents said it was less available.

The Debt Financing Index declined by a third from the previous quarter to a record low of 4.

Here, too, 93 percent of respondents noted financing conditions worsening compared with three months earlier, while six percent viewed conditions as unchanged. This is the sixth consecutive quarter where the index reading was under 50.

In a special fifth question to NMHC's Quarterly Survey about whether the credit crisis has affected current and/or planned activities, only one-sixth of respondents said that the crisis hadn't affected their current activities yet—but even those respondents indicated that the crisis is affecting their future activities.

Full survey results are posted at www.nmhc.org/goto/QuarterlySurvey08. Note: The October 2008 Quarterly Survey was conducted October 14-23, 2008; 70 CEOs and other senior executives of apartment-related firms nationwide who serve on NMHC's Board of Directors or Advisory Committee responded. The July 2008 Quarterly Survey was conducted July 28-August 4, 2008; 89 responded. The October 2007 Quarterly Survey was conducted October 15-22, 2007; 90 responded.

Based in Washington, DC, NMHC is a national association representing the interests of the larger and most prominent apartment firms in the U.S. NMHC's members are the principal officers of firms engaged in all aspects of the apartment industry, including owners, developers, managers and financiers. Nearly one-third of Americans rent their housing, and over 14 percent live in a rental apartment. For more information, contact NMHC at 202/974-2300, e-mail the Council at info@nmhc.org, or visit NMHC's web site at www.nmhc.org.