Apartment Market Conditions Stabilizing But Not Improving
by the National Multi-Housing Council

WASHINGTON, DC – The apartment market continues to struggle, but shows early signs of possibly stabilizing, according to the National Multi Housing Council's latest Quarterly Survey of Apartment Market Conditions.

All four of the survey's market indexes covering occupancy, sales volume, equity finance and debt finance remained below 50 (indicating conditions were worse than three months ago), but three of the four increased from the last quarter, with only the debt index recording a decline.

"Apartment demand remains tethered to an economy that continues to shed jobs at a fairly rapid pace," noted NMHC Chief Economist Mark Obrinsky. "Financing is beginning to stabilize, but the market is still a long way from 'normal'."

"The survey also suggests that transaction activity is mainly being restrained by uncertainty in apartment property values—whether they have 'bottomed out'—and not financing constraints. Only when this uncertainty fades are we likely to see a significant upturn in apartment transactions."

Fears of future property value declines are behind the difficulty apartment firms are having in obtaining equity financing. In a special survey question, 67 percent of respondents said potentially falling property values best explained the lack of equity availability.

Another 13 percent pointed to deteriorating apartment market conditions resulting from the economic downturn; seven percent said lower leverage required by lenders has reduced expected returns; and three percent said lower leverage means the same equity capital supports fewer transactions. Several respondents commented that all of these conditions contribute collectively to the challenges in obtaining equity finance.

Highlights of the Survey Results

- The Market Tightness Index rose from 16 to 20. This was the eighth straight quarter in which the index has been below 50, but it also the third straight quarter in which the index measure has been rising, as greater shares of respondents are reporting that vacancies are unchanged from the previous quarter rather than even looser.

- The Sales Volume Index rose again from 30 to 44, the highest level in 14 quarters. Twelve percent of respondents said sales volume was higher—the highest share reporting that in two years. It is possible that some buyers and sellers are beginning to test the waters in this depressed transaction environment. Still this was the 15th consecutive quarter the index has been under 50 (an indication of declining sales).

- The Equity Financing Index increased from 29 to 39. Most (68 percent) thought equity financing conditions were unchanged, the highest such response in seven quarters. This was the ninth consecutive quarter with an index reading below 50.

- The Debt Financing Index declined slightly from 41 to 39, with 31 percent of respondents indicating that debt financing conditions had worsened. This was the ninth straight quarter with an index reading under 50.

Note: The July 2009 Quarterly Survey of Apartment Market Conditions was conducted July 20-29, 2009; 75 CEOs and other senior executives of apartment-related firms nationwide who serve on NMHC's Board of Directors or Advisory Committee responded. The April 2009 Quarterly Survey was conducted April 20-27, 2009; 79 responded. The July 2008 Quarterly Survey was conducted July 28-August 4, 2008; 89 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. Full survey results are posted at www.nmhc.org/goto/QuarterlySurvey09.