

## **Rising Rents, Growing Demand Add to Builder Optimism**

(March 7, 2006) -- Rental apartments are beginning to outshine condos, at least in the eyes of some developers. Builder confidence in the multifamily rental market surged in the fourth quarter of 2005, according the National Association of Home Builders' most recent Multifamily Housing Market Index.

Based on a quarterly, nationwide survey of multifamily builders and property owners, the index measures current market conditions as well as expectations for the next six months.

Demand for all classes of builder apartments was up in the fourth quarter of 2005 compared with the prior year. The largest increase was for top-tier Class A apartments, which rose 17 points from a year ago to 62.3. Demand also was higher for both mid- and lower-range rentals. (The index is based on a scale of a 100 with a number over 50 indicating a positive response.)

“Our survey of builders indicates such trends should continue over the next six months,” says NAHB Chief Economist Dave Seiders. “For the first time since the beginning of 2005, builder expectations posted an above-60 reading for every class of apartment.”

“This trend partly reflects the reversal of fortunes in the housing market,” says Ron Witten, a Dallas multifamily market analyst who consults with developers and lenders. “The winds have shifted to favor rental demand because of tremendous increases in home prices and the end of declining mortgage rates.”

"Markets are very adaptive," says Dolores Conway, Ph.D., director of the Casden Real Estate Economics Forecast with the USC Lusk Center. "When one door closes, another opens, and it takes on a different character." Nationally, over the last 12 months, rents are up 3.5 percent, Witten says.

Like Sieders, Witten anticipates the demand for rental apartments to remain strong as vacancy rates, which fell 10.5 points in the fourth quarter of 2005 on the index, continue their downward trend, a result of higher interest rates and growing demand from Echo boomers and immigrants as they enter the job market.

“The nation's demographic composition is tilted more favorably toward renting now and for the next several years," he says citing the entry of Echo boomers into the job and housing markets and to projections for continued growth in the number of immigrants.”

Still, 20 percent of builders, a figure that's up 7 percentage points from 13 percent in 2003 and in 2004, reported they were building with a view toward converting rental units to for-sale units in the next three to five years. Also, compared to the two previous years, twice as many, 15 percent, said they had converted rental units to condominiums in 2005. The NATIONAL ASSOCIATION OF REALTORS® found that for all of 2005, existing-condominium sales jumped 9.3 percent to 896,000 units, the 10th consecutive annual record.