

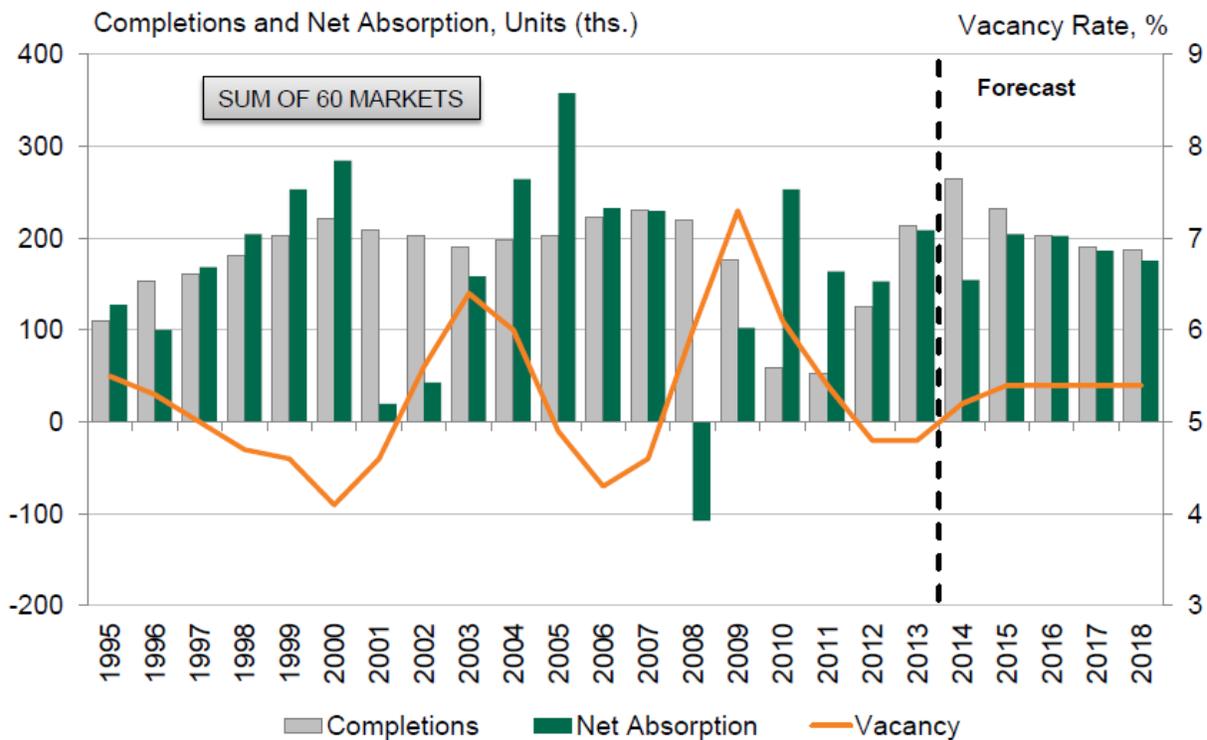
Multifamily Market Commentary – February 2014

Multifamily Outlook for 2014: Continued Demand

The multifamily sector remained quite healthy in 2013, and based on current data, the forecast for 2014 is an expectation of more of the same. We expect continued demand for multifamily housing in 2014 – from both tenants and property owners – based on a number of key factors: improving job growth, an increasing number of renter household formations, new apartment supply, and rising for-sale home prices.

The ongoing demand for multifamily housing also was evident during the last quarter of 2013, which normally slows down due to cyclical seasonality. Instead, rent growth appears to have been positive, with vacancy levels remaining steady, despite new additions to existing supply coming online late in the year. Indeed, net absorption rebounded in 2013 by about 200,000 units, according to CBRE Econometric Advisors. As illustrated in the chart below, net absorption is expected to decrease in 2014 come back into balance with new completions in 2015.

Forecasted National Multifamily Trends



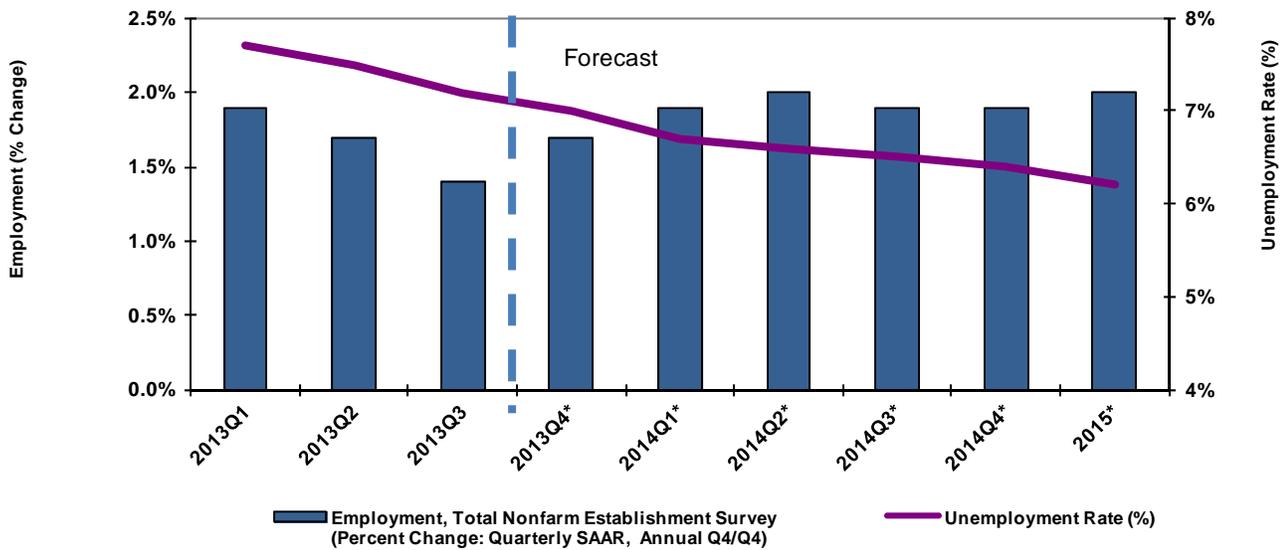
Source: CBRE Econometric Advisors, 4Q2013

Job Growth Spurs Household Formations

According to the Census Bureau's Housing Vacancy Survey, there was an increase of 359,000 rental households as of third quarter 2013. And an improving job market should assist in creating more households.

As seen in the chart below, Fannie Mae's Economic & Strategic Research Group is forecasting a continued decline in the unemployment rate during 2014, ending the year at an expected 6.4 percent. Nonfarm payroll growth is forecasted to increase by 1.9 percent in 2014 and again by 2.0 percent in 2015. These positive job trends should help boost household formations, which in turn also should increase demand for rental units.

U.S. Non-Farm Payrolls and Unemployment Rate



Source: Fannie Mae Economic & Strategic Research Group

*Forecast

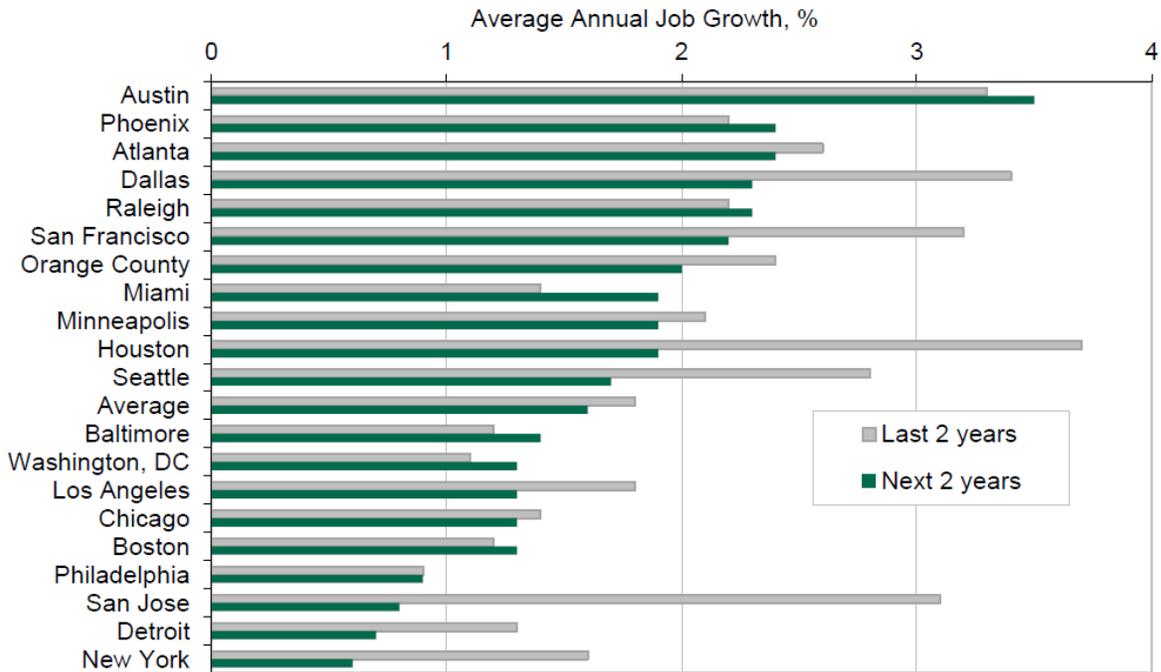
Not All Metros Created Equal

Not all metros are expected experience the same level of employment growth. Although the national employment growth rate is forecasted at nearly 2.0 percent this year, there are a number of metros that are not expected to come close the national level. Although all of the nation's major metros are expected to see positive job growth this year, metro areas such as Cleveland, St. Louis, Detroit, Philadelphia, and even Boston and Washington, D.C., will likely fall below the national average.

While this should not be a significant problem for the multifamily sector in some of these metros, others such as Boston and especially Washington, DC, have quite a bit of new supply expected to come online this year. That is expected to dampen rent growth in certain submarkets in these metros over the next 12 to 24 months.

Other metros are expected to fare better. The major Texas metros of Austin, Houston, and Dallas should continue to be the jobs juggernauts they've been over the past few years, But other less-likely metros, such as Orlando, Louisville, Palm Beach, and Portland, should all enjoy above-average job growth this year, helping to keep rent growth and vacancy levels healthy.

Average Annual Job Growth Percentage – Select Metros



Source: CBRE Econometric Advisors, 4Q2013

2014 Outlook: More of the Same

The outlook for the multifamily sector in 2014 is more of the same, with some metros seeing stronger growth, and others settling down. There is some concern about the amount of new construction that will come online in 2014 and into 2015, but most of it is concentrated in about 10-12 metros and should mostly result in a slight rise in vacancy rates in those metros or even just certain submarkets in those metros.

Overall, we expect the nation's multifamily sector will see another year of positive rent growth. Steady demand combined with the higher rent levels of the large number of new units due to come online in 2014 should allow average asking rent to climb between 2.5 percent and 3.0 percent for the year. The new supply also should push vacancy rates up modestly, rising to 5.25 percent and perhaps as high as 5.5 percent by year end.

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