

Multifamily Forecast Report



April 4, 2006

Highlights

- National multifamily housing starts have remained in a narrow range since the late 1990s, but major shifts in types of units and geographic locations have been underway.
- Condo construction and conversions exploded, beginning in 2003, and a cutback in activity is inevitable, especially in the hottest condo markets.
- Accelerated rates of household formations (stimulated by job growth), higher mortgage rates, and reduced construction of multifamily rentals are raising occupancy rates and setting the stage for a rebound in rental construction.
- Multifamily construction has become more concentrated in highly-urbanized central cities, but with population moving away from such areas and suburban multifamily demand set to grow, that trend will be reversed.
- Multifamily buildings have become bigger, and are taking longer to complete, but a shift to less-urbanized areas and a shift from condos back to rentals will mean more low-rise, smaller-scale structures.
- Subsidized rental apartments, most of which benefit from low income housing tax credits, have become an increased share of overall multifamily rental production.
- New construction to replace housing destroyed by last year's hurricanes has been delayed and will not begin in earnest until 2007. An injection of government support will contribute to a surge in multifamily construction in Gulf Coast states.
- Despite improved prospect for multifamily rental construction, the impending correction in condo building will cause a modest downturn in total multifamily starts in both 2006 and 2007.

Overview

Overall production of multifamily housing has been unusually stable during the past decade, due to offsetting, fairly dramatic changes. The number of multifamily housing units started in 2005 totaled 352,500, up by 2.1 percent from 2004. The annual number of starts since 1996 hasn't fallen below 329,000 (Figure 1). The number of multifamily units started in 2005 was the highest since 1989.

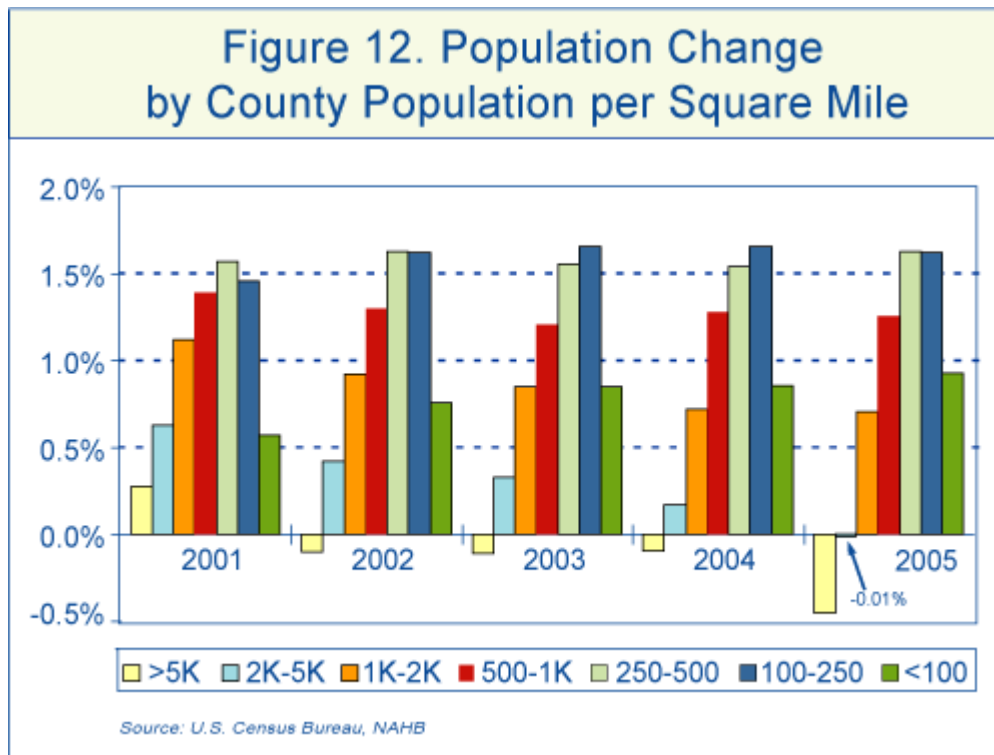
Table of Contents	
Overview	
The Condo Boom	
Production Value	
Market Rentals	
Building in Crowded Places	
Tax Credit/Subsidized Units	
Footnotes	
All Tables . Excel Tables 1 and 2	
Print the Full Report (PDF)	
Related links:	
Local Benefits of Home Building (November 10, 2005)	
Home Building's Direct Impact on the U.S. Economy (August 08, 2005)	

from 0.3 percent to 1.8 percent.

Counties with moderately-high population densities of 2,000 to 5,000 per square mile generally showed no clear trend in multifamily permits over the past five years, and most reported a reduction in multifamily permits from 2004 to 2005. Central cities with moderately-high population densities, such as Phoenix, Houston, Dallas, and Atlanta, saw an increase in the single-family share of permits, with the number of multifamily permits declining or growing slightly.

The increased share of multifamily construction occurring in the most densely populated areas thus helps to explain the increase in the share of new multifamily construction that consists of structures with more than three stories, or more than 50 units per building.

With population stagnant or falling in most of the counties with high population densities, there might not seem to be a basis for accelerating multifamily construction (Figure 12). There are several reasons why new housing is built even where population is falling. First, in most of the high density places where population declined, the number of households has continued to increase. The number of households with only one or two people has grown, even as the number of larger households declined. Second, with few greenfield building sites available in high-density areas, building a new multifamily structure often involves demolishing older structures, reducing the net increase in the number of housing units. The majority of existing apartments in these areas are more than 50 years old, and demolitions occur for a variety of reasons, so demolitions to accommodate new multifamily structures are only one of the factors creating replacement demand.



These factors explain why there is some construction in high-density locales, but not why it increased so much during the past decade. Residential construction in counties and cities with the highest population density is still not large, relative to population, but nearly all of the new housing built in these locations is multifamily.

Over the next couple of years, multifamily construction is unlikely to be so heavily concentrated in high-density areas, unless there is a movement of population into those areas. Population data for 2005 indicate, on the contrary, that net outmigration from high-density counties actually accelerated. The share of multifamily construction in suburbs and moderate-density cities should increase, as vacancy rates fall and higher prices and mortgage rates dampen competition from single-family houses. The entry of the baby boom echo into the housing market should help to sustain some demand and production in big cities, however, since twenty-somethings are typically more attracted to big cities than to suburbs.

Table 2: Characteristics of Low-Income Housing Tax Credit Projects Placed in Service in 2003

	LIHTC	Other Benefit						Targeted Population					
		Tax-Exempt Bonds	RHS 515	HOME	CDBG	FHA Loan	HOPE VI	Targeted	Family	Elderly	Disabled	Homeless	Other
All Units:													
New	76,867	35,058	900	12,225	2,043	1,266	2,455	58,173	39,128	17,387	5,693	1,623	4,896
Rehab													
Both													
NA													
Total													
Low Income Restricted Units:													
New													
Rehab													
Both													
NA													
Total													
Projects													
New													
Rehab													
Both													
NA													
Total													

Free Sample

	LIHTC	DDA/QCT Increased Basis	Credit Type			Allocation Year				Sponsorship		
			70%	30%	Credit Type NA	2001	2002	2003	Other	For-Profit	Non-Profit	NA
All Units:												
New	76,867	24,881	37,258	33,476	6,133	41,149	24,583	3,813	7,322	63,759	10,270	2,838
Rehab												
Both												
NA												
Total												
Low Income Restricted Units:												
New												
Rehab												
Both												
NA												
Total												
Projects												
New												
Rehab												
Both												
NA												
Total												

Source: NAHB Tabulations of HUD LIHTC Database

Note: Some projects have multiple benefits and/or multiple targeted populations

Information about other benefits and targeted population was not available for all projects

For more information go to www.HousingEconomics.com