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TD Bank regional multifamily housing outlook

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TD Bank released their Regional Multifamily Housing Outlook, examining the outlook for multifamily housing investment in 10 major metropolitan areas along the eastern seaboard from Boston to Miami.

Report Highlights

* The price index for apartment buildings has rebounded 64% from its trough and is just 0.3% from its previous peak. Condo prices arrived later to the party, but they have still risen 25%, outpacing the growth in single-family dwellings.

* Currently in Boston, the number of vacant apartments available for rent sits at 13,500 units, which is a touch below its historical average of 13,900. With developers ramping up construction in early 2012, we expect a wave of new apartments totaling 11,400 units to make their way onto the market by the end of 2015. However, demand will continue to outstrip supply through to the end of 2014, keeping downward pressure on the vacancy rate.

* Over the past three years, demand for apartments has surged in the Big Apple, averaging 10,900 units - well above the historical annual average of 6,300. Because most renters do not have the down payment necessary to purchase a home - let alone afford the monthly payments in an expensive market like New York - this ensures that a viable renters market will remain intact. For 2014 and 2015, we anticipate construction of new apartment unit to total 10,000 and 10,500, respectively.

* In the metro Philadelphia area, we forecast that population growth will average an annual rate of 0.5%, which is 0.3 percentage points lower than the national average. So, it's unlikely that the favorable near-term supply shortage dynamics in the renters market will be sustained.

* The recovery in Miami's rental market has been underway for several years; however, it has remained tempered by uneven growth in the labor market. As the labor market recovery continues to broaden out, demand for rentals will accelerate. We forecast that the renters demographic will grow by an average of 3,500 individuals per year over the forecast horizon. This will absorb not only the 6,300 units set to come online between 2013 and 2015, but also help to whittle down the estimated 13,500 vacant apartments.

New York Outlook

Over the past three years, demand for apartments has surged in the Big Apple, averaging 10,900 units - well above the historical annual average of 6,300. The ramp up in absorptions has been driven largely by a labor market that has been growing at an above trend pace. Historically speaking, total employment in New York's metro has grown at an average rate of 0.4%, about a fourth of the national average. However, since 2010, employment has grown by an average annual rate of 1.1%, with strong gains coming from professional, financial and business services, technology, and retail. This momentum is likely to carry through over the coming years, with job growth in 2014 and 2015 expected to come in at 1.3% and 1.2%, respectively.

In addition to above trend job growth, long term demand for rentals will remain solid. New York has traditionally been one of the most expensive metros in the U.S. to a purchase a home, with the median home price in Manhattan costing well above $1 million. Condo prices aren't much cheaper, with their median sales price currently sitting at $875,000. Because most renters do not have the down payment necessary to purchase a home - let alone afford the monthly payments - this ensures that a viable renters market will remain intact.

On the supply side, an estimated 7,000 new apartment units will make their way onto the market by the end of this year, as projects that began in late-2010 - spurred by the acceleration of absorptions - have started opening their doors to new tenants. Beyond 2013, growth in adult household formation will continue to accelerate, which will prove supportive of future construction projects. For 2014 and 2015, we anticipate construction of new apartment units to total 10,000 and 10,500, respectively.

While fears of overbuilding in the multifamily sector have plagued other metros across the U.S., there is little risk of this happening in New York. For starters, developable land in the Big Apple remains a scarce commodity. And, because the land that is available is subject to strict zoning codes and is astronomically expensive, it deters even the most interested developers. As a result, builders have started looking beyond the city's vast skyline and are ramping up construction in nearby New Jersey along the Hudson waterfront. By the end of 2015, it is estimated that 2,000 new apartment units will have made their way onto the local market. And, with another 4,000 units currently in the planning stages, development along the Hudson should continue to help ease supply constraints in the New York metro.