

# Annual 2007 Absorptions: Analytical Text

## INTRODUCTION

The Survey of Market Absorption (SOMA) measures how soon privately financed, nonsubsidized, unfurnished units in buildings with five or more units are rented or sold (absorbed) after completion. In addition, the survey collects data on characteristics such as number of bedrooms, asking rent, and asking price.

The estimates in this report are based on responses from a sample of the population. As with all surveys, estimates vary from actual values because of sampling variation or other factors. All comparisons made in this report have undergone statistical testing and are significant at the 90-percent confidence level.

## HIGHLIGHTS<sup>1</sup>

- During 2006, a total of 116,4000 privately financed, nonsubsidized, unfurnished, rental apartments in buildings of five units or more were completed in permit-issuing areas in the United States. This estimate does not differ from the estimated 113,000 completions of similar units in 2005, but is about 37,400 fewer than the 153,800 units estimated in 2004. In fact, there were fewer unfurnished rental units built in 2006 and 2005 than in every year since the 104,000 constructed in 1994 (Table 8).
- Fifty-eight percent of the unfurnished rental apartments built in the United States in 2006 were absorbed (rented) within the first 3 months of completion, 76 percent within 6 months, 87 percent within 9 months, and 92 percent were rented within a year of completion (Table 1). The South, with 59 percent, had a majority of these new rental completions. The West was next with 25 percent followed by the Midwest (12 percent). The Northeast had only 5 percent of new 2006 rental completions. The 3-month absorption rate for unfurnished rental units in the South was 60 percent; about 19 percentage points higher than that of the Northeast. There were no other significant differences between 3-month absorption rates among the four regions of the country (Table 1).
- Fifty-five percent of new unfurnished rental apartments built in 2006 were built in central cities of Core Based Statistical Areas (CBSAs), followed by those built outside central cities (43 percent). Only two percent were built outside CBSAs, and were 81 percent absorbed within three months. This rate was greater than both the 3-month absorption rates for similar units completed in central cities of CBSAs and outside central cities of CBSAs (the latter two rates did not differ) (Table 1).
- The median asking rent for unfurnished apartments completed in 2006 was \$1,034, which was about \$62 greater than the \$972 (in 2006 dollars; \$942 in 2005 dollars) in 2005. In 2006, about 40 percent of unfurnished apartments rented for \$1,150 or more – a greater proportion than any of the other asking-rent categories. Units renting for less than \$750 (18 percent) comprised the second highest group of new rental completions. Units in the four remaining categories: \$750 - \$849, \$850 - \$949, \$950 - \$1,049, and \$1,050 - \$1,149 did not differ significantly (Tables 2 and 3).
- The 3-month absorption rate for unfurnished apartments renting for less than \$750 was 75 percent, which was greater than the 3-month absorption rate for units in each asking rent category, except those renting for \$750 - \$849. The 3-month absorption rate for units renting for \$1,150 or more was 50 percent, which was lower by about 25 percentage points than the rate for units renting for less than \$750 and by about 17 percentage points than units in the \$750 - \$849 asking-rent range. There were no other significant differences among 3-month absorption rates by asking rent. Analysis of 12-month absorption rates by asking rent category shows that units renting for \$1,150 or more did not differ significantly from both units renting for \$950 to \$1,049 and \$1,050 to \$1,149, but were lower than that of similar units in the other three asking rent categories. The only other difference among 12-month absorption rates by asking rent range was that of units renting for less than \$750 being 98 percent absorbed, some 10 percentage points greater than units renting for \$1,050 to \$1,149. (Tables 2 and 3).
- More two-bedroom units (50 percent) were built in 2006 than any other size, followed by one-bedroom units (36 percent). Units with 3 bedrooms or more (11 percent) comprised a smaller proportion than either of the two preceding categories, but did not differ statistically from efficiencies (no bedrooms), (3 percent). The median asking rent for apartments with 1 bedroom (\$920) was lower by about \$152 than that of 2-bedroom units (\$1,072), and by about \$263 from that of units with 3 bedrooms or more (\$1,183). The median asking rent between the latter two categories did not differ. The median asking rent for efficiency (no bedroom) apartments was not subject to analysis as it exceeded the upper level of the rent range. There were no statistical differences among both 3-month and 12-month absorption rates based on the number of bedrooms (Table 3).
- Of the 116,400 newly built unfurnished rental apartments in 2006, 96 percent had air conditioning and 79 percent had a swimming pool available. The cost of electricity was included as part of the asking rent in 8 percent of newly built units (Table 4).
- About 104,600 condominium and cooperative apartments were completed in 2006, some 22,700 more than similar completions in 2005. Within 3 months, 66 percent had been sold (absorbed), and by the end of 12 months, 90 percent were sold. The 3-month absorption rates in the Northeast (48 percent) and the Midwest (41 percent) regions did not differ statistically from each other, but were each lower than the 74 percent rate in both the South and West. The 12-month absorption rate for condominiums and cooperatives built in 2006 was 94 percent in the South and West regions. This rate for the South exceeded that of both the Midwest and Northeast, however, the same rate for the West did not differ statistically from that for the Midwest, but exceeded the Northeast by 15 percentage points. The 12-month rate for the Midwest and Northeast did not differ statistically (Table 5).
- The median asking price for all condominium apartments built in 2006 was \$327,200, not statistically different from the median asking price of \$320,700 (in 2006 dollars; \$310,700 in 2005 dollars) for new condominiums built in 2005. Eighty-two percent of all new condominiums built in 2006 had two or more bedrooms. The South, with 48 percent of new condominium completions in 2006 had a greater proportion than any other region. The West (23 percent) had a greater proportion of new condominium completions than the Midwest (11 percent), but did not differ statistically from the Northeast. Condominiums built in the Midwest and the Northeast also showed no significant difference (Table 6).

- Fewer (5 percent) new condominium units built were built outside CBSAs than in central cities (49 percent) or outside central cities (47 percent); completions in the latter two areas did not differ statistically. The 3-month absorption rate for condominiums built outside central cities of CBSAs was 59 percent, lower by 12 percentage points than the same rate for units built in central cities, and by 24 percentage points than condominium units built outside CBSAs. There was no significant difference between the 3-month absorption rate for condominiums built in central cities of CBSAs and outside of CBSAs (Table 6).
- The 283,500 apartments of all types constructed in buildings of five or more units in 2006 exceeded by about 25,500 the number of completions in 2005. However, 2006 total completions did not differ statistically from 2004 multi-unit completions, nor from any year dating back to 1998, except 2003 that had about 22,100 fewer units. Forty-one percent of 2006 completions were nonsubsidized, unfurnished rental apartments; 1 percent were furnished rental units; 37 percent were condominiums and cooperatives; 18 percent were subsidized and tax credit; and the remaining 3 percent were not in the scope of the survey (Table 8).

#### **CHARACTERISTICS OF THE DATA**

All statistics from the SOMA refer to apartments in newly constructed buildings with five units or more. Absorption rates reflect the first time an apartment is rented after completion or the first time a condominium or cooperative apartment is sold after completion. If apartments initially intended to be sold as condominium or cooperative units are, instead, offered by the builder or building owner for rent, they are counted as rental apartments. Units categorized as subsidized and tax credit are those built under two Department of Housing and Urban Development programs (Section 8, Low Income Housing Assistance and Section 202, Senior Citizens Housing Direct Loans) and all units in buildings containing apartments in the Federal Housing Administration (FHA) rent supplement program. The data on privately financed units include privately owned housing subsidized by state and local governments. Time-share units, continuing-care retirement units, and turnkey units (privately built for and sold to local public housing authorities after completion) are outside the scope of the survey.

Tables 1 through 4 are restricted to privately financed, nonsubsidized, unfurnished rental apartments. Table 5 is restricted to privately financed, nonsubsidized condominium and cooperative apartments, while Table 6 is limited to privately financed, nonsubsidized condominium apartments. Table 7 covers privately financed, nonsubsidized, furnished rental apartments and Table 8 is a historical summary of the totals for all types of newly constructed apartments in buildings with five units or more.

<sup>1</sup>Details may not sum to totals because of rounding.