Why Quality Research Is Critical

With real estate now a sophisticated asset class, the bar has been raised on the need to know.

By Jamie Woodwell

The commercial real estate/multifamily finance industry enjoyed a record year in 2005 on several fronts. It was a record-setting year for property sales volume, mortgage origination, CMBS issuance, and mortgage debt outstanding (see information box). Even the delinquency rate of 1.01% through mid-year was at an all-time low.

And here’s another first. According to the Census Bureau, the growing accessibility of homeownership has pushed multifamily development to the point where 52% of the units started during the third quarter of 2005 were under construction to be sold; 48% were planned as rentals. Those figures are based on buildings with two or more units.

For investors and developers whose portfolios are affected by changes in the supply of multifamily units, the number of new rental apartments started has actually decreased in recent years. This is one reason research from the U.S. Census Bureau shows that multifamily rental vacancy rates have fallen from 12% in the second quarter of 2004 to 10.8% at the end of the third quarter of 2005. The supply of new apartments coming on the market will directly affect us, and how, those vacancy rates continue to fall.

Knowledge is power

Industry professionals understand the state of the market better than ever because of the large amount of dependable industry research that is available today. Key metrics help mortgage bankers and other lenders know if their firm is keeping up with the competition. Research is also the means by which industry pros can best determine whether the property values they’re seeing are aberrations, or if the rents that are being underwritten are in line with those of the marketplace.

There has been a lot said about the commercial real estate/multifamily finance industry’s increased acceptance as an asset class, and much of that acceptance has to do with the industry’s accomplishments in capturing and using statistical information. The level of sophistication in the market continues to grow, and our access to — and use of — reliable information is growing with it.

Every day, the commercial/multifamily real estate market takes another step forward in linking information about an asset to information about its market, and every day that information plays a larger role in purchasing and trading decisions. Just 10 years ago, much of the information provided in the accompanying graphic was not available.

Our sources of industry research range from the news and insight provided by this magazine, and others like it, to the hard numbers stemming from industry surveys and reporting, to analysis and interpretation provided by professional analysts and industry observers. Each source gives us new, different and often better ways of looking at the myriad of data points that describe our industry. And each serves to bring us together around a collective understanding of what the current state of the industry is, trends within it and how far it has come.

Arming the front lines

MBA is a key provider of some of this “hard” research — through our surveys and analysis, and particularly through the Commercial Real Estate/Multifamily Finance Quarterly Data Book, a quarterly compendium of the latest MBA research. These products provide direct measures — based on industry data — of what is happening in the marketplace on a day-to-day basis.

MBA also has outlets that communicate opinions and insights from industry experts — including Mortgage Banking magazine, as well as Commercial/Multifamily NewsLink and the recently launched Commercial/Multifamily DataLink, a quarterly research supplement to MBA’s weekly NewsLink electronic newsletter. Collectively, these products cover the economy, property markets, origination and servicing volumes, and a lot more. This is vital information that helps professionals run their businesses effectively.

As the level of information continues to grow, so too does the demand. MBA members have told us they want more enhanced information about how we function as an industry — such as benchmarking operational performance and the use of technology. Last year, MBA conducted a first-of-its-kind study on the use of technology to transfer data between commercial/multifamily finance partners.

This type of benchmarking is sure to be the next wave of industry information that will not only help us better understand our environment, but also how well we are adapting to it.

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