

# Little Rock, Arkansas

Multifamily Housing Update

January 2008

## EXECUTIVE SUMMARY

**A**rkansas payroll job growth ground to a near standstill last year. The Bureau of Labor Statistics estimate that state establishments produced only 3,500 (0.3%) seasonally adjusted jobs from December 2006 to November 2007, down considerably from a 21,700-job add in 2006. Manufacturing was the principal culprit, as nearly every major durable and non-durable goods category recorded material decreases in net payroll totals.

The capital city's more services-oriented economy weathered the rough patch with ease, creating 5,900 (1.7%) jobs in the 12 months ended in November. Payrolls in every major job category with the exception of non-durable goods manufacturing advanced, led by health care and business services, which produced a net of 2,800 jobs.

In contrast to sluggish national trends, the pace of hiring accelerated in the fall. Year-over-year, Little Rock added 6,800 jobs in the third quarter and 6,400 jobs in the three months ended in November. Propelled by rapid hiring in hospitality, trade and construction, November payrolls surged 400 sequentially, reaching an all-time high total of 351,500, and rising 6,600 (1.9%) jobs above the over-the-year comparison.

Although the state's sluggish economy will exert a degree of downward pressure on metro growth in the first half, the outlook for 2008 is largely positive. The **RED CAPITAL Research** econometric payroll model forecasts net job growth ranging from 5,000 to 8,000 jobs in 2008, with point estimate of 6,000 (1.7%). Stronger GDP growth in 2009 should give rise to faster expansion in the City of Roses next year.

Metro home price appreciation trends moderated in 2007 following a robust 6.7% advance in 2006. Prices fell in the six months ended in March, but rallied in the second and third quarters. According to the NAR, the median price of a home was \$131,600 in 3Q

07, up 2.1% year-over-year.

Although the median priced home was affordable to nearly 70% of metro households, retail demand for rentals is constructive. Tenants absorbed 149 units in 3Q07, according to Reis surveys, up from 14 units in the comparable period of 2006 and 65 units in 2Q07. The Little Rock inventory was unchanged for the third consecutive quarter, by Reis's count, allowing average occupancy to rise 60 basis points to 92.4%, the highest figure recorded in twelve months.

In spite of pending supply representing 2.3% of the existing inventory in 2008, Reis are sanguine regarding occupancy levels. The service forecast a 40 bps increase in 2008 and a 50 bps advance to the 93.9% level in 2009.

Owners maintained a cautious pricing posture, bearing in mind the competition posed by for-sale housing. Average effective rent inched up \$4 to \$593 in 3Q07, a 0.7% sequential hike. Over-the-year, real rent increased only \$9, representing annual growth of 1.5%. Were the "Rock" a component of the **RED 50**, it would rank 49th on this measure, bettering only Palm Beach. Asking rents also rose \$4, holding the value of the standard concession package to a low \$17 (2.3%), calculated monthly. Concessions were lower in only two **RED 50** metros.

Property trade was active 2H06 and 1H07, as investors accumulated assets in this appealingly stable market. The \$50mm sale of class-B Chenal Lakes and Brightwater to an out-of-state private buyer was the bellwether transaction. The trade was priced to yield about 5.5%. In late 2006, a public Reit sold four assets to a local TIC group for about \$49.7mm (\$67m/unit), priced to an initial yield of less than 6%. Since mid-year, activity has been light. Only one small (\$3mm) trade was recorded: a class-B- complex priced at \$30m/unit to yield approximately 8%.

## SNAP SHOT

	Y-o-y change	Projected 2008
Vacancy (7.6% - 3Q07)	↑ 120 bps	↓ 40 bps
Effective Rents (\$593 - 3Q07)	↑ 1.5%	↑ 2.2%
Cap Rate (NA - 3Q07)	↔ Unchd	↔ Unchd
Employment (348.6m - 3Q07)	↑ 6.8m	↑ 6.0m

## KEY POINTS

- This stable economy harvested 2m to 7m net jobs in ten of the past twelve years. Only the recessionary 2002 (-3,5m) and booming 2006 (+8.6m) years broke the mold.
- At 5,800 jobs, the 2007 vintage easily topped the 4,300 12-year average, and ranks as the second most bountiful harvest since 1996. Expansion in the skilled service and hospitality industries was largely responsible: business, health care and leisure services combined to produce 3,100 jobs in the first eleven months of the year and 4,400 (3.8%) year-over-year in the third quarter.
- Reis report that occupancy rallied in 2007 after a supply induced 180 bps (to 91.7%) setback in 2006. Tenants absorbed 179 units y-t-d, including 149 units in 3Q07, raising average occupancy 70 bps to 92.4%. Reis forecast further progress during 2008—09.
- Owners sought higher occupancy rather than revenue growth. Third quarter average effective rent increased only \$9 (1.5%) y-o-y and \$4 (0.7%) sequentially. The former figure would rank 49th among the **RED 50**.
- The "Rock" earns a weak "Accumulate" ranking principally in recognition of its innate stability rather than potential returns.



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