

Phoenix, Arizona

Multifamily Housing Update

April 2011

EXECUTIVE SUMMARY

Employment growth in the Valley of the Sun turned positive in the first quarter, following 11 consecutive periods of decline. Metro headcounts advanced 9,200 (0.6%) year-over-year in 1Q11, comparing favorably to the -3,400 job y-o-y decrease observed in the fourth quarter. The improvement was partially attributable to faster hiring among the wholesale trade, health care and leisure service sectors. Combined, the sectors created 9,200 jobs y-o-y in 4Q10 and 16,600 jobs y-o-y in 1Q11. Additionally, retail and financial service employers added 400 workers y-o-y in the first quarter after -3,000 jobs were eliminated in the previous quarter.

Conditions in the business service sector deteriorated, however. Professional, scientific and technical service providers shed -1,500 jobs y-o-y in the first quarter after headcounts were unchanged in the fourth quarter. Furthermore, administrative support service firms added 100 jobs y-o-y in 4Q10 but eliminated -3,900 jobs annually in 1Q11.

The Manpower Employment Outlook Survey shows that job growth will remain positive next quarter. Only 4% of survey respondents reported plans to reduce staffs in 2Q11, down from 6% in the previous quarter. On the other hand, the share of companies that plan to add workers edged slightly lower from 18% to 17%.

The **RED CAPITAL Research (RCR)** econometric payroll model predicts stronger job market conditions in 2011 and 2012. Specifically, the model produces point estimates of 25,100 (1.5%) net new jobs in 2011 and 60,800 (3.5%) new jobs in 2012.

Home price trends remained weak in recent months. The National Association of Realtors report that the median

single-family home price decreased -8.1% y-o-y from \$143,900 in 4Q09 to \$132,300 in 4Q10. Similarly, Phoenix registered an -8.4% drop in the Case-Shiller home price index in the twelve-month period ended in February, the lowest figure recorded among the 20 markets tracked by the source.

Apartment occupancy improved for the fourth consecutive quarter, rising 60 basis points to 90.3% in 4Q10. Stable apartment demand contributed to the improvement. Positive net absorption totaled 1,926 units during the quarter, comparing favorably to the 505 leases signed in 4Q09. Furthermore, supply slowed as developers completed 2,475 units in the first nine months of the year and only 200 units in 4Q10.

The average effective rent increased at a 0.9% y-o-y rate in 4Q10, comparing favorably to the -1.7% y-o-y decline observed in 3Q10. Falling concessions contributed to the improvement as the size of the average concession package fell from 10.1% of asking rent in 4Q09 to only 9.2% of asking rent in 4Q10.

Real Capital Analytics identify 88 trades involving properties priced at or above \$5 million in the year-ended in January. Sales volume totaled \$1,220.9 million and the average price per unit was \$56,941. CB Richard Ellis estimate that cap rates for stabilized Class-A assets ranged from 4.5% to 5.25% in February.

Based on an assumed 5.5% going-in yield, **RCR** calculate an 8.8% expected rate of total return, lower than the 9.0% **RED 50** mean. Moreover, Phoenix registered the 41st highest measure of risk-adjusted return in the group, owing to elevated levels of historic NOI growth volatility.

SNAP SHOT

	Y-o-y change	Projected 2011
Vacancy (9.7% - 4Q10)	↓ 260bps	↓ 100bps
Effective Rents (\$681 - 4Q10)	↑ 0.9%	↑ 2.6%
Cap Rate (7.5% - 4Q10)	↓ 30bps	↓
Employment (1,706.5m - 4Q10)	↓ 3.4m	↓ 25.1m

KEY POINTS

- The metro vacancy rate decreased 60 basis points sequentially and 260 basis points year-over-year to 9.7% in the fourth quarter. Robust apartment demand was responsible. Positive net absorption totaled 1,926 units during 4Q10 and 9,164 in 2010.
- Effective rent increased at a 0.9% year-over-year pace in the fourth quarter, the largest over-the-year gain observed since 2Q08 (+1.4%). Falling concessions contributed to the increase. The size of the average concession package fell from 10.1% of asking rent in 4Q09 to 9.2% in 4Q10.
- Preliminary Reis data show that vacancy fell to 8.9% and the average asking rent rose 0.6% sequentially to \$755 in the first quarter.
- According to the National Association of Realtors, the median price of a single-family MSA home decreased -8.1% year-over-year to \$132,300.
- Real Capital Analytics count 88 investor-grade transactions in the year-ended in January, totaling \$1,220.9 million in sales proceeds. The average price per unit fell -29% to \$56,941.



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