

Wichita, Kansas

Multifamily Housing Update

August 2008

EXECUTIVE SUMMARY

Employment growth propelled forward in 2007, marking the fourth consecutive year of metropolitan job gains. The 8,500 (2.9%) workers added in the year represented the strongest advance since 1998. The increase was fueled by robust growth in aerospace manufacturing, steady business service hiring and a surge in retail employment levels.

Unfortunately, the momentum gained in 2007 was lost in the early months of this year. Aerospace producers continued to expand but at a slower rate. Business service hiring decelerated sharply and even turned negative in June due to weak demand for staffing services. Retailers scaled back hiring plans, adding 200 workers year-over-year through June, down from 1,600 in the same period of 2007.

Sluggish job trends threaten to generate annual job losses in 2008 but **RED CAPITAL Research** believe that the metro will produce positive results. Our econometric model generates point estimates of 1,000 (0.3%) new jobs this year and 3,000 (1.0%) additional positions in 2009.

Home price trends in Wichita remained positive at mid-year. According to regional MLS data, the median price of an existing single-family home increased 6.0% y-o-y to \$120,825 in June. In addition, prices on new homes rose 19.4% to \$201,450 over the period. But sales velocity on new and existing homes continued to tumble. A total of 2,886 homes sold in 2Q08, down 18.5% from the same period of 2007.

Metro apartment owners achieved robust occupancy gains in 2Q08. The metro occupancy rate improved 60 basis points sequentially to 92.8%. The increase was attributable to posi-

tive net absorption of 162 units and no supply. The occupancy rate rose 210 bps y-o-y due to robust tenant demand.

Strong unit demand allowed owners to raise rents aggressively. Effective rents rose 1.9% sequentially and 6.2% year-over-year to \$483 in 2Q08. The increase was partially attributable to falling concessions. The size of the typical concession package fell from 5.8% of asking rent in 2Q07 to 4.9% in 2Q08.

Despite the market's momentum, Reis expect conditions to deteriorate over the next several quarters. The service forecasts a 70 bps decrease in occupancy by year-end, owing to increased supply and weaker demand. Despite a relatively tame supply outlook for 2009, Reis project a 90 basis point drop in occupancy as a net of 135 units are vacated. Consistent with falling occupancy rates, Reis anticipate effective rent growth to decelerate. The service forecasts effective rent growth of 4.5% in 4Q08 and 3.5% in 4Q09.

The South Wichita submarket posted the largest y-o-y occupancy gain in 2Q08. Positive net absorption of 132 units contributed to the 330 basis point increase. Still, the submarket possessed the lowest occupancy rate (88.1%) among the five metro submarkets.

No trade activity was recorded in Wichita in 1H08 but the strong rent and occupancy fundamentals may usher-in prospective buyers. Given the Reis outlook for rent and occupancy trends, investors should seek assets that are "opportunisticly" priced; with initial cap rates in the low to mid 7% range. Buyers may justify slightly lower going-in yields based on the belief that the Reis forecasts are overly pessimistic.

SNAP SHOT

	Y-o-y change	Projected 2008
Vacancy (7.2% - 2Q08)	↓ 210bps	↑ 70bps
Effective Rents (\$483 - 2Q08)	↑ 6.2%	↑ 4.5%
Cap Rate (N/A - 2Q08)	↔ N/A	↔ N/A
Employment (304.5k - 2Q08)	↑ 1.1k	↑ 1.0k

KEY POINTS

- The metro vacancy rate fell 60 basis points sequentially and 210 basis points year-over-year to 7.2% in 2Q08. The rate was the metro's lowest since 2Q02.
- Asking and effective rents increased 5.2% and 6.2% year-over-year, respectively in 2Q08. The average effective rent rose \$16 to \$483 in the first six months of the year. Reis expect the average rent to advance only \$5 in the second half.
- Home price trends were positive in Wichita year-to-date. The Center for Real Estate at Wichita State University report a 6.0% year-over-year increase in the metro median home price in June. Trade activity was below trend however, owing to tighter credit conditions. Nearly 5,100 new and existing homes were sold in the first half of 2008, down 15.3% from the same period of 2007.
- The metro economy created 8,500 (2.9%) payroll jobs in 2007. The surge was attributable to increased hiring among manufacturing, retail, business service, education and health care firms. But less robust conditions this year will translate into only 1,000 (0.3%) net new jobs. Growth is forecast to accelerate to 3,000 (1.0%) in '09.



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