

Louisville, Kentucky

Multifamily Housing Update

April 2010

EXECUTIVE SUMMARY

Payroll headcounts continued to decline in Louisville during 4Q09, albeit at a slower pace. Metro employers trimmed 20,800 (-3.3%) positions from payrolls year-over-year in 4Q09, comparing favorably to the -26,700 (-4.3%) y-o-y loss observed in 3Q09.

A turnaround among business service firms was partially responsible. The super sector eliminated a monthly y-o-y average of 4,400 jobs in the first nine months of 2009 and only -1,000 y-o-y in 4Q09. Moreover, sector business added 1,400 workers in the twelve-month period ended in February. Similarly, financial service providers cut -1,200 workers y-o-y in 4Q09 and only -300 y-o-y in February.

Seasonally-adjusted payroll trends show that employers created 1,100 net new jobs in 4Q09, but eliminated -8,000 positions from payrolls in the first two months of 2010. Still, the Manpower Outlook Employment Survey suggests that the recovery will resume in the second quarter. Indeed, the 18% of surveyed firms plan to add workers in 2Q, up from only 4% than expected to expand in 1Q. Likewise, the share of firms that plan to trim staffs fell from 10% to 7%.

Still, **RED CAPITAL Research (RCR)** remain cautious. Our econometric model predicts a modest -3,400 (-0.6%) job decrease this year, followed by a respectable gain of 7,500 (1.3%) workers in 2011. Economy.com, on the other hand, are more optimistic, forecasting gains of 4,970 (0.8%) jobs in 2010 and 17,420 (2.9%) jobs next year.

Housing market indicators showed mixed signals in 4Q09. According to the National Association of Realtors, the median price of a single-family MSA home increased 4.9% y-o-y from \$124,000 in 4Q08 to \$130,100

in 4Q09. Conversely the metro registered a -1.1% y-o-y decrease in the Federal Housing Finance Agency (FHFA) home price index.

Apartment demand was weak in the fourth quarter as tenants vacated four units. By the same token, supply also was tame. As a result, the metro occupancy rate was unchanged sequentially at 93.0%. Occupancy also remained unchanged on an annual basis as tenant demand (511 units) kept pace with supply (584 units). Demand was particularly strong for Class-A properties, posting positive net absorption of 608 units during 2009, whereas Class B/C assets lost a net of 93 tenants during the period.

Asking and effective rents both trended lower. Following a 0.7% increase in 3Q09, the average effective rent fell -0.6% to \$612 in 4Q09. Likewise, asking rent declined -0.5%, after gaining 0.3% in the previous period. Partially owing to stronger demand, rent trends favored Class-A units. The average Class-A asking rent advanced 0.3% y-o-y to \$802 in 4Q09, as compared to the -1.1% annual decrease observed among Class B/C rentals.

Reis expect occupancy to fall, but effective rent to rise this year. The source projects a 92.2% occupancy rate in 4Q10, down 80 basis points from 4Q09. But the average effective is forecast to advance 0.2% to \$613.

Real Capital Analytics estimate that apartment sales volume totaled \$24.6 million in 2008 to \$56.8 million in 2009. The average price per unit was \$49,267, up 33.4% from 2008. Based on an assumed 7.8% cap rate, **RCR** calculate a slightly below average 6.3% expected rate of total return. But low average historic NOI growth volatility produces the 2nd highest measure of risk-adjusted return in the **RED 50**.

SNAP SHOT

	Y-o-y change	Projected 2010
Vacancy (7.0% - 4Q09)	unchg	80bps
Effective Rents (\$612 - 4Q09)	-1.1%	0.2%
Cap Rate (N/A - 4Q09)		
Employment (597.7m - 4Q09)	-20.8m	-3.4m

KEY POINTS

- Vacancy was unchanged sequentially at 7.0% in 4Q09, owing to limited supply and sluggish demand. On an annual basis, vacancy also was unchanged as developers competed 584 units and property managers net leased 511 units in 2009.
- Effective rent decreased -0.6% sequentially and -1.1% year-over-year to \$612 in 4Q09. Increased concessions were partially to blame. The size of the average concession package rose from 4.2% of asking rent in 3Q09 to 5.1% in 4Q09.
- Apartment development will diminish over the next couple of years. Reis were aware of only two properties totaling 87 units under construction in March.
- The National Association of Realtors report that the median price of a single-family MSA home increased 4.9% year-over-year to \$130,100 in 4Q09.
- At an assumed 7.8% going-in yield, **RCR** estimate a 6.3% expected rate of total return, below the 6.7% **RED 50** mean. Conversely, Louisville ranked 2nd highest with regard to risk adjusted returns, owing to low historic NOI growth volatility.



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