

# Baltimore, Maryland

Multifamily Housing Update

April 2010

## EXECUTIVE SUMMARY

**B**altimore employers continued to trim staffs, albeit at a slower pace in the fourth quarter. Indeed, the pace of year-over-year payroll job attrition decelerated from -47,200 (-3.6%) in 3Q09 to -42,400 (-3.3%) in 4Q09. The improvement was fueled by better conditions among wholesale, retail and business service firms. Combined, the sectors were responsible for -21,900 lost job y-o-y in 3Q09. By comparison, sector headcounts fell only -14,900 y-o-y in 4Q09.

Conditions were even better in 1Q10. On a non-seasonally adjusted y-o-y basis, headline payrolls fell -30,400 (-2.4%), the metro's smallest loss since 4Q08. Moreover, seasonally-adjusted payroll data reveal that Baltimore establishments added a net of 9,100 workers in 1Q10, following a -7,500-job decrease in 4Q09.

The Manpower Employment Outlook Survey suggests that the metro's economic recovery remains tenuous. The percentage of firms that plan to add workers fell from 12% in December (regarding 1Q10 hiring plans) to 10% in March. Fortunately, fewer firms also expressed plans to reduce staffs (8%) in March as compared to December (9%).

**RED CAPITAL Research (RCR)** also predict a modest recovery. Our econometric model projects a net decrease of -8,200 (-0.6%) jobs in 2010. Growth will resume next year, however, as employers hire a net of 9,900 (0.8%) workers. Economy.com, on the other hand, foresee a rapid recovery as headcounts advance 4,900 (0.4%) this year and 22,400 (1.7%) in 2011.

Home prices continued to fall, although at a moderately slower pace in the fourth quarter. The National Association of Realtors report a -6.2% y-o-y decrease in the median single-

family home price in 4Q09, slightly better than the -6.5% decrease observed in 3Q09. Similarly, annual home price depreciation slowed from -5.8% in 3Q09 to -4.6%, according to the Federal Housing Finance Agency (FHFA) purchase-only price index.

Stout tenant demand contributed to a 30 basis point increase in occupancy from 93.7% in 3Q09 to 94.0% in 4Q09. Property managers net leased 405 units and no units were completed from October to December. But supply and demand trends were unfavorable during the first nine months of 2009. Consequently, the 4Q metro occupancy rate was down 30 basis points y-o-y.

The metro average effective rent decreased -0.3% sequentially to \$945 in 4Q09, marking the first quarterly decline since 1Q02. As a result, the pace of annual effective rent growth decelerated from 0.4% in 3Q09 to 0.1%. Likewise, the average asking rent fell -0.4% sequentially in 4Q09. But preliminary Reis data show that asking rent rebounded in 1Q10, rising 0.2% to \$983.

Reis remain relatively optimistic regarding market fundamentals. The service expects occupancy to fall to 93.4% by year-end, but increase to 94.9% by December 2010. Reis predict a modest 0.3% increase in effective rent this year, followed by average annual growth of 2.6% from 2011 to 2014.

Real Capital Analytics identified eight transactions involving properties priced at or above \$1 million last year. Sales volume totaled \$161.6 million, down -54% from the previous year. On the other hand, the average price per unit rose 27.7% from \$87,968 in 2008 to \$112,347 in 2009. According to Marcus & Millichap a 7.4% cap rate was applicable to Class-A properties last year.

## SNAP SHOT

	Y-o-y change	Projected 2010
Vacancy (6.0% - 4Q09)	↑ 30bps	↑ 60bps
Effective Rents (\$945 - 4Q09)	↑ 0.1%	↑ 0.3%
Cap Rate (6.7% - 4Q09)	↓ 10bps	↑
Employment (1,270.7m - 4Q09)	↓ 42.4m	↓ 8.2m

## KEY POINTS

- Positive net absorption of 405 units produced a 30 basis point decrease in vacancy from 6.3% in 3Q09 to 6.0% in 4Q09. Unfortunately, preliminary 1Q10 data show that vacancy rose 40 basis points to 6.4%, largely due to weak tenant demand (-480 units). Supply totaled only 104 units in the first three months of 2010.
- Effective rent decreased -0.3% sequentially in the fourth quarter, breaking the streak of 30 consecutive quarters with steady or rising rents. Asking rent also suffered an uncharacteristic drop, falling -0.4% from \$985 in 3Q09 to \$981. But preliminary Reis data reveal that asking rent advanced 0.2% in 1Q10.
- Metro home prices continued to decline, partially due to foreclosure activity. According to RealtyTrac.com Baltimore posted a 1.36% foreclosure rate last year, ranking 108<sup>th</sup> highest among the 203 markets tracked by the source.
- The **RCR** total return metrics are favorable to Baltimore. The metro boasts the 16<sup>th</sup> highest measure of expected total return (7.3%) and the top measure of risk-adjusted return (4.61) among the **RED 50**.



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