

Minneapolis, MN

Multifamily Housing Update

February 2011

EXECUTIVE SUMMARY

Conditions in the Twin Cities economy continued to improve in the fourth quarter as net year-over-year hiring accelerated from 7,100 (0.4%) jobs in 3Q10 to 19,800 (1.2%) jobs in 4Q10. The improvement was partially due to increased domestic and international demand for manufactured goods, resulting in a 5,000-job y-o-y increase in manufacturing employment in the fourth quarter. Similarly, firms specializing in transportation and warehousing services trimmed workers at a slower rate during the period.

For the second consecutive quarter, employment in the leisure and hospitality service sector skyrocketed. After adding a modest 3,300 workers y-o-y in 2Q10, employers added 11,200 and 10,800 jobs in 3Q10 and 4Q10, respectively.

Stronger retail sales during the holiday season, also contributed to fourth quarter growth. Retail employment headcounts in 4Q10 were up 2,400 from the 4Q09 comparison. By contrast, owing to weak sales in the prior year's holiday season resulted in a steep -12,500-job decline.

The December Manpower Employment Outlook Survey suggests that job trends will remain positive in 1Q11. Specifically, 10% of surveyed firms planned to add workers, comparing favorably to the 6% that expected to reduce staffs.

RED CAPITAL Research (RCR) expect solid job growth over the next two years. Our econometric payroll model produces point estimates of 21,300 (1.3%) new jobs in 2011 and a 40,300 (2.4%) job gain in 2012. Economy.com also are optimistic, projecting gains of 27,790 (1.6%) and 48,060 (2.8%) in 2011 and 2012, respectively.

Despite strong economic conditions,

the metro housing market remained weak. The National Association of Realtors report a -1.3% y-o-y decrease in the median single-family home price in 4Q10. Likewise, the Case-Shiller home price index revealed a -4.4% drop in the twelve-month period ended in November. Data from the Minneapolis Area Association of Realtors show that the median price plunged -10.8% y-o-y in January.

The metro apartment occupancy rate surged 50 basis points sequentially to 96.2% in 4Q10, owing to robust apartment demand. Property managers net leased 800 units and no units were completed during the quarter. Class B/C properties were 96.6% occupied in the fourth quarter as positive net absorption totaled 1,267 units in 2010. By comparison, occupancy among Class-A rentals increased 200 basis points y-o-y to 95.8%.

Effective rent trends also improved in the fourth quarter, rising 0.8% sequentially to \$904. Additionally, the pace of annual effective rent growth accelerated from 0.7% in 3Q10 to 1.5%. Falling concessions contributed to effective rent growth. The size of the average concession package fell from 6.3% of asking rent in 4Q09 to 5.8%. On a y-o-y basis, Class B/C asking rent growth (1.4%) outpaced the advance recorded among Class-A rentals (0.6%) in the fourth quarter.

Real Capital Analytics were aware of 13 transactions involving properties priced at or above \$5 million in 2010. Sales volume totaled \$205.4 million and the average price per unit was \$93,761. By comparison, only \$120 million in sales volume was recorded in 2009, even though the average price per unit was higher (\$107,701). CB Richard Ellis expect sales activity will continue to accelerate this year.

SNAP SHOT

	Y-o-y change	Projected 2011
Vacancy (3.8% - 4Q10)	↓160bps	↔Unchg
Effective Rents (\$904 - 4Q10)	↑1.5%	↑2.9%
Cap Rate (5.8% - 4Q10)	↓850bps	↓
Employment (1,713m - 4Q10)	↓19.8m	↑21.3m

KEY POINTS

- The metro vacancy rate decreased 50 basis points sequentially and 160 basis points year-over-year to 3.8% in 4Q10. Strong apartment demand and limited supply were responsible. Property managers net leased 2,895 units and developers delivered only 333 units during the year.
- Property managers increased face rents 0.9% in 2010 and reduced concessions, as well. The size of the average concession package was 5.8% of asking rent in 4Q10, down from 6.3% in the same period of 2008. Consequently, the average effective rent rose at a 1.5% year-over-year pace in 4Q10.
- According to the National Association of Realtors, the median price of a single-family MSA home decreased -1.3% year-over-year to \$165,300 in 4Q10. Similarly, Minneapolis registered a -4.4% decrease in the November Case-Shiller home price index.
- Real Capital Analytics identify 13 investor-grade transactions, totaling \$205.4 million in sales proceeds last year.
- At an assumed 5.5% cap rate, RCR calculate an above average 9.1% expected rate of total return.



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