

Saint Louis, Missouri

Multifamily Housing Update

March 2010

EXECUTIVE SUMMARY

Gateway City employment trends reached a nadir in the second and third quarters and were moderately better in the fourth. Indeed, payroll headcounts declined -47,800 (-3.6%) year-over-year in 4Q09, as compared to the -62,500 and -62,200 job loss totals recorded in the second and third quarters, respectively. Moreover, on a seasonally-adjusted basis, area employers cut -3,800 jobs from October to December as compared to the -13,800-job average loss observed in the first three quarters of 2009.

Better conditions among business service and construction firms contributed materially to the improvement. Combined, super sector establishments accounted for a net loss of -32,400 jobs in 3Q09 and only -24,500 jobs in the fourth quarter. Even better, the sectors continued to improve as only -17,400 jobs were eliminated in the twelve-month period ended in January.

According to the Manpower Employment Outlook Survey, employment levels will remain relatively unchanged in the first half of 2010. Specifically, 11% of surveyed businesses expected to expand in 1Q10 and 15% planned to add workers in 2Q10. By comparison, the share of firms that anticipated layoffs rose from 7% in 1Q10 to 11% in 2Q10.

Re-benchmarked payroll data reveal that -54,800 (-4.0%) jobs were lost last year, as compared to the previously estimated -40,100 (-3.0%) job decline. As a result, **RED CAPITAL Research (RCR)** predict that metro employers will cut -9,200 (-0.7%) jobs in 2010 and add 11,600 (0.9%) net new jobs next year.

Home prices increased in the fourth quarter. The National Association of Realtors estimate that the median price of a single-family MSA home

increased 11.5% y-o-y to \$126,800 in 4Q09. Additionally, the Federal Housing Finance Agency's (FHFA) purchase-only home price index for St. Louis was up 1.2% y-o-y in 4Q09.

Apartment demand remained weak in 4Q09, resulting in a 20 basis point decrease in occupancy from 91.0% in 3Q09 to 90.8%. Tenants vacated 284 units in 4Q09, marking the sixth consecutive quarter of negative net absorption. Not surprisingly, the metro occupancy rate was down 140 basis points y-o-y, particularly owing to weak demand among Class B/C properties. Negative net absorption totaled -1,105 units among lower-tiered assets in 2009, as compared to -379 units among Class-A product.

Property managers trimmed concessions from 6.5% of asking rent in 3Q09 to 6.1%, giving rise to only a -0.1% sequential decrease in effective rent during the fourth quarter. Asking rent trends were comparatively weak. The average Class-A asking rent decreased -0.7% sequentially and -1.0% y-o-y to \$904. By comparison, Class B/C properties posted a moderately better -0.5% sequential asking rent decline in 4Q09.

Reis expect market fundamentals to deteriorate this year. The source predicts that occupied stock will fall 69 units and supply will total 174 units by year-end. As a result, occupancy will fall 10 basis points to 90.6%. Moreover, Reis believe that effective rent will decline -0.1% to \$679.

Real Capital Analytics were aware of only two trades involving properties priced at or above \$5 million in 2009. Sales volume totaled \$64 million and the average price per unit was \$64,386. One trade (\$16 million) occurred in the fourth quarter. Based on Reis rent, occupancy and expense data, **RCR** calculate a 10.0% going-in yield.

SNAP SHOT

	Y-o-y change	Projected 2010
Vacancy (9.2% - 4Q09)	↑140bps	↑20bps
Effective Rents (\$680 - 4Q09)	↓0.9%	↓0.1%
Cap Rate (N/A - 4Q09)	↔N/A	↑
Employment (1,298.9m - 4Q09)	↓47.8m	↓9.2m

KEY POINTS

- The apartment vacancy rate increased 20 basis points sequentially and 140 basis points year-over-year to 9.2% in 4Q09. Tenants vacated 284 units during the fourth quarter, marking the sixth consecutive quarterly drop.
- Effective rent declined -0.1% sequentially, following a 0.4% increase in the previous quarter. On the other hand, the pace of effective rent growth rebounded from -1.3% year-over-year in 3Q09 to -0.9% year-over-year in 4Q09, owing to a weak over-the-year comparison.
- Housing prices rebounded in 4Q09. The National Association of Realtors calculate a \$126,800 median single-family home price in 4Q09, up 11.5% from the 4Q08 price. Similarly, St. Louis registered a 1.2% annual increase in the FHFA purchase-only home index in 4Q09.
- Real Capital Analytics were aware of only two investor-grade property trades in 2009, totaling \$64 million in sales proceeds. The source calculates an average price per unit of \$64,386. One transaction was consummated in the fourth quarter. The buyer paid \$16 million or \$53,333 per unit.



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