

Raleigh-Durham, NC

Multifamily Housing Update

March 2011

EXECUTIVE SUMMARY

Triangle payroll headcounts advanced in the fourth quarter. On a year-over-year basis, employers added 4,700 (0.6%) workers, comparing favorably to the 1,400 (0.2%) job y-o-y gain in the previous quarter. Hiring among business service and leisure service employers contributed to the fourth quarter gain. Combined, the sectors added 7,600 workers y-o-y in 4Q10.

Data from the BLS's household survey were comparatively strong. Total employment rose 17,499 (2.3%) in the twelve-month period ended in December, resulting in a sharp decrease in the area unemployment rate. The Triangle unemployment rate fell from 8.8% in December 2009 to 7.7% in the same month of 2010.

The March Manpower Employment Outlook Survey suggests that job counts will remain stable in the second quarter. The share of companies that expressed plans to add workers fell from 21% in December (regarding 1Q11 hiring plans) to 11% in March. On the other hand, the percentage of employers that expected to cut staffs was unchanged at 11%.

Still, **RED CAPITAL Research (RCR)** expect payroll growth to rebound this year. Our econometric model predicts that employers will add 14,600 (1.9%) jobs in 2011 and 24,300 (3.1%) in the following year. Economy.com are similarly optimistic, projecting annual gains of 16,840 and 23,730 jobs in 2011 and 2012, respectively.

Home price trends were up slightly in the fourth quarter. According to the National Association of Realtors, the median price of a Raleigh-Cary home increased 0.5% y-o-y and the median Durham home price advanced 1.0% y-o-y. Sales were down, however. The North Carolina Association of

Realtors count 4,113 Triangle home sales, -26.4% off the 4Q09 sales pace.

Owing to strong apartment demand, the metro occupancy rate rose 50 basis points sequentially and 200 basis points y-o-y to 93.3% in the fourth quarter. Positive net absorption totaled 719 units in 4Q10 and 4,545 units in 2010. Supply also was stout last year as developers completed 2,708 apartment units, representing a 2.7% increase in the area's rental stock.

Sequential quarter effective rent growth was somewhat subdued in the fourth quarter. The average effective rent advanced 0.5%, down from the 1.2% increase observed in the previous quarter. Still, the pace of annual effective rent growth accelerated from 1.9% in the third quarter to 2.2%. Managers of Class B/C assets pushed asking rent up 2.5% y-o-y in 4Q10, comparing favorably to the 1.4% increase observed among Class-A properties.

Reis are optimistic about near-term fundamentals. The service predicts that the metro occupancy rate will increase to 93.7% by December 2012. Additionally, the average effective rent is forecast to advance 5.0% in 2011 and 4.7% in 2012.

Real Capital Analytics were aware of 24 investor-grade transactions in 2010, totaling \$526.8 million in sales proceeds. By comparison, sales volume totaled only \$312 million in 2009. Additionally, the average price per unit rose 26.4% y-o-y to \$82,772.

Based on an assumed 5.75% cap rate, **RCR** calculate an 10.8% unlevered expected rate of total return, comparing favorably to the 9.0% **RED** 50 mean. But above average historic rent trend volatility produces a less favorable (32nd highest) measure of risk-adjusted return.

SNAP SHOT

	Y-o-y change	Projected 2011
Vacancy (6.7% - 4Q10)	↓ 200bps	↓ 30bps
Effective Rents (\$736 - 4Q10)	↑ 2.2%	↑ 5.0%
Cap Rate (6.2% - 4Q10)	↓ 120bps	↓
Employment (783.7m - 4Q10)	↑ 4.7m	↑ 14.6m

KEY POINTS

- The metro vacancy rate decreased 50 basis points sequentially and 200 basis points year-over-year to 6.7% in 4Q10. Strong apartment demand contributed to the improvement. Positive net absorption totaled 719 units during the fourth quarter and 4,545 units during 2010.
- Managers of Class-A properties net leased 3,109 units in 2010, producing a 230 basis point decrease in vacancy to 6.7%.
- The average effective rent increased 2.2% year-over-year in 4Q10, the fastest rate of effective rent growth recorded since 4Q08 (+2.4%).
- Metro home prices rose slightly in the year-ended in December. The National Association of Realtors report that the median single-family home price rose 0.5% year-over-year in Raleigh-Cary and 1.0% year-over-year in Durham.
- Real Capital Analytics identify 24 trades involving properties priced at or above \$5 million in 2010. Sales volume totaled \$526.8 million, up 68.8% from 2009. The average price per unit was \$82,772.



To register for free access to RED's full research reports, please [click here](#).