

Rochester, New York

Multifamily Housing Update

November 2010

EXECUTIVE SUMMARY

Headline Rochester job trends were mixed in recent months. The pace of year-over-year payroll job attrition decelerated from -8,400 (-1.7%) in 1Q10 to only -1,500 (-0.3%) in 2Q10. But conditions deteriorated in 3Q10 as -3,400 jobs were lost y-o-y. Third quarter losses were partially attributable to job cuts among local government agencies. Local governments cut -2,700 jobs y-o-y in 3Q10, after adding 500 jobs y-o-y rate in 2Q10.

Private sector job trends largely improved, particularly in the skilled service sectors. For example, business service firms added 700 workers y-o-y in 3Q10, up from a 200-job gain the previous period. Additionally, education and health service firms created a combined 1,800 jobs y-o-y in 3Q10.

On a seasonally-adjusted basis, Rochester employers added 1,400 positions to payrolls during the third quarter, marking the first quarterly gain since 4Q09 (+1,300 jobs). The Manpower Employment Outlook Survey suggests that employers will add workers at a slightly slower pace in the fourth quarter. In September, 19% of area firms expressed plans to hire workers in the fourth quarter. By contrast, only 11% of companies planned to trim staffs.

RED CAPITAL Research (RCR) forecast a modest -3,200 (-0.6%) job loss this year to be followed by strong growth of 6,200 (1.2%) and 9,000 (1.8%) net new jobs in 2011 and 2012, respectively. Economy.com also predict that growth will resume next year. Specifically, the source expects employers to add 1,510 workers in 2011 and 10,900 workers in 2012.

Home prices were stable, but home sales velocity plunged in the third quarter. According to the National

Association of Realtors, the median price of a single family MSA home increased 0.2% y-o-y from \$121,500 in 3Q09 to \$121,700 in 3Q10. But data from the Greater Rochester Association of Realtors show that only 2,664 homes were sold during the third quarter, down -27% from the same period last year.

The metro apartment occupancy rate was unchanged sequentially as apartment demand (82 units) kept pace with supply (77 units). On the other hand, the 95.3% occupancy rate was down 30 basis points y-o-y due to sluggish demand in 4Q09 (-100 units) and 1Q10 (-163 units). Class-A rentals posted a 96.3% occupancy rate in the third quarter, up 10 basis points sequentially and 30 basis points y-o-y. Class B/C properties, by comparison, were 94.9% occupied in the third quarter.

Property managers pushed effective rent 0.9% from \$720 in 2Q10 to \$727 in 3Q10. As a result, the third quarter figure was up 2.3% from \$710 in 3Q09. Managers of Class B/C properties registered a 0.9% sequential asking rent gain and a 2.3% y-o-y increase in the third quarter. Class-A asking rent rose at a moderately slower 1.9% annual rate to \$901.

Reis predict that occupancy will remain unchanged through year-end and improve 10 basis points to 95.4% in 2011. The service also expects that the pace of annual effective rent growth will accelerate to 3.1% in 4Q10 and remain relatively stable (3.0%) in 2011.

Based on an assumed 7.0% going-in yield, **RCR** expect a 9.4% total rate of return, comparing favorably to the 8.2% **RED** 50 average. Moreover, low levels of historic NOI growth volatility produces a strong 6.59 measure of risk-adjusted return.

SNAP SHOT

	Y-o-y change	Projected 2010
Vacancy (4.7% - 3Q10)	↑ 30bps	↔ Unchg
Effective Rents (\$727 - 3Q10)	↑ 2.3%	↑ 3.1%
Cap Rate (N/A - 3Q10)	↔	↔
Employment (496.2m - 3Q10)	↓ 3.4m	↓ 3.2m

KEY POINTS

- The metro vacancy rate was unchanged sequentially at 4.7% in 3Q10. On the other hand, vacancy increased 30 basis points year-over-year as supply (119 units) outpaced demand (23 units) in the year-ended in September.
- Asking rent increased 0.9% sequentially and 2.2% year-over-year to \$769 in 3Q10. Additionally, the size of the average concession package fell slightly from 5.6% of asking rent in 3Q09 to 5.5% in 3Q10. As a result, effective rent advanced at a 2.3% annual rate.
- According to the National Association of Realtors, the median price of a single-family MSA home increased 0.2% year-over-year to \$121,700 in 3Q10. By comparison, The Greater Rochester Association of Realtors report that the median price rose from \$120,840 in 3Q09 to \$122,500 in 3Q10.
- Loopnet.com were aware of two transactions involving properties priced at or above \$1 million in the first eleven months of 2010. Sales volume totaled \$3.8 million and the average price per unit was \$34,363.



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