

Cincinnati, Ohio

Multifamily Housing Update

February 2011

EXECUTIVE SUMMARY

Year-over-year payroll data were inconsistent in the fourth quarter. Payroll headcounts rose 4,800 (0.5%) in the year-ended in October, the first increase since May 2008 (+1,700 jobs). But the -9,100 (-0.9%) jobs eliminated from payrolls in the twelve-month period ended in December represented the largest decrease since May 2010 (-10,700 jobs). Similarly, seasonally-adjusted payroll data reveal that -7,100 jobs were lost during the fourth quarter as compared to a 4,500 job gain in the previous six months.

December's weakness was partially attributable to the fickle construction sector. In the first 11 months of the year, sector headcounts declined at a -1,900-job y-o-y rate. But payrolls declined -4,500 y-o-y in December.

Additionally, the business service super-sector created 1,600 jobs y-o-y in October but cut -900 jobs y-o-y in December. Y-o-y hiring among high-wage professional, scientific and technical service firms slowed from 2,600 in October to only 800 jobs in December. Payroll trends among relatively low wage paying administrative support service firms were little changed as -1,000 jobs were lost in the year-ended in December.

On a positive note, the metro unemployment fell from 9.9% in December 2009 to 9.0% in the same month last year. The improvement was fueled by a 9,480 (0.9%) job increase in the BLS's household survey in the twelve-month period ended in December.

The **RED CAPITAL Research (RCR)** econometric payroll model predicts stronger job market conditions in 2011 and 2012. Specifically, the model produces point estimates of 6,300 (0.6%) net new jobs in 2011 and 22,300 (2.2%) new jobs in 2012.

Home prices rose in 4Q10 but sales activity was weak. According to the National Association of Realtors, the median price of a single-family MSA home increased 1.8% y-o-y from \$125,000 in 4Q09 to \$127,200 in 4Q10. Furthermore, data from the Ohio Association of Realtors show that home sales activity declined -10.2% y-o-y as 16,902 sales were recorded in 2010.

Apartment occupancy improved for the third consecutive quarter, rising 20 basis points to 93.3% in 4Q10. Stable apartment demand contributed to the improvement. Positive net absorption totaled 287 units during the quarter, comparing favorably to the 329 move-outs recorded in 4Q09. Furthermore, supply slowed as developers completed 316 units in the first nine months of the year and only 32 units in 4Q10.

Property managers reduced concessions and increased asking rent in the fourth quarter. The average asking rent increased 0.3% sequentially and 1.4% y-o-y to \$716 in 4Q10. Additionally, the size of the average concession package fell from 6.1% of asking rent in 4Q09 to 5.4%. As a result, effective rent rose at a faster 2.1% y-o-y rate to \$677.

Apartment sales activity accelerated last year. According to Real Capital Analytics, property sales volume totaled \$95.4 million in 2010, up 42% from the previous year. The source also notes that the average price per unit was \$62,085.

Based on an assumed 6.75% going-in yield, **RCR** calculate a strong 9.6% expected rate of total return, above the 9.0% **RED 50** mean. Moreover, Cincinnati registered the third highest measure of risk-adjusted return in the group, owing to low levels of historic NOI growth volatility.

SNAP SHOT

	Y-o-y change	Projected 2011
Vacancy (6.7% - 4Q10)	↓ 130bps	↓ 20bps
Effective Rents (\$677 - 4Q10)	↑ 2.1%	↑ 3.6%
Cap Rate (N/A - 4Q10)	↓	↓
Employment (991.1m - 4Q10)	↓ 1.6m	↑ 6.3m

KEY POINTS

- The metro vacancy rate decreased 20 basis points sequentially and 130 basis points year-over-year to 6.7% in 4Q10. Solid tenant demand was responsible. Property managers net leased 287 units from October to December and 1,747 units in 2010. The metrics compare favorably to negative net absorption of 329 units in 4Q09 and 714 units in 2009.
- Rent trends also were strong. The average effective rent advanced 2.1% year-over-year in 4Q10, the fastest over-the-year increase since 4Q08. Reduced concessions contributed to the improvement. The size of the average concession package fell from 6.1% of asking rent in 4Q09 to 5.4%.
- Developers completed only 348 units in 2010. But supply will accelerate this year as Reis were aware of 658 units under construction in January. The service predicts that all of the units will begin leasing by year-end.
- Real Capital Analytics were aware of seven trades involving properties priced at or above \$5 million in 2010. Sales volume totaled \$94.5 million and the average price per unit was \$62,085.



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