

Dayton, Ohio

Multifamily Housing Update

November 2007

EXECUTIVE SUMMARY

Payroll employment fell -700 (-0.1%) year-over-year in 3Q07 and -2,800 (-0.7%) in October. The 3Q07 metric compares favorably to the monthly average of 1,800 lost jobs in 2006. A turnaround in the transportation equipment manufacturing sector was partially responsible. Production payrolls fell 600 year-over-year in 3Q07 compared to 1,800 jobs lost in 1Q07. Retail and transportation / warehousing firms combined to lose 2,100 jobs in 2Q07 and 1,300 in 3Q07.

RED expect job losses to total 2,200 (-0.5%) in 2007. In 2008, we anticipate smaller job losses, but losses nevertheless. Our econometric model generates a point estimate of 1,000 (-0.2%) fewer jobs with a confidence band of 3,000 (-0.7%) job losses to a 1,000 (0.2%) job gain. By way of comparison, Economy.com forecast job losses of 2,900 (-0.6%) in 2007 and 570 (-0.1%) in 2008.

The MSA population fell 0.3% to just below 840,000 in 2006. Negative net domestic migration was largely to blame. Home prices were stable. According to OFHEO, prices rose 0.6% year-over-year in 2Q07. The National Association of Realtors report a 0.8% year-over-year decline in the median home price in 3Q07.

The 3Q07 occupancy rate was 92.2%, up 50 basis points sequentially. The increase was attributable to positive net absorption of 138 units and no new supply. On a year-over-year basis the occupancy rate rose 60 bps, due to robust demand and limited supply.

Reis anticipate sluggish demand and moderate supply in 4Q07, leading to a 50 bps decrease in occupancy. In 2008, the service expects a 20 basis point improvement as occupancy in-

creases to 91.9%.

Effective rents increased 1.8% y-o-y in 3Q07, from \$561 to \$571. Asking rents grew at a moderately faster 2.0% rate to \$602. The value of the average concession package was \$31 per month or 5.1% of asking rent. Reis forecast year-over-year effective rent growth of 2.5% in 2007 and 1.9% in 2008.

Average occupancy in the Clark County submarket increased 100 bps y-o-y to 94.5%, the highest among the metro's six submarkets. Effective rents rose only 0.6% y-o-y to \$487 and the typical concession was approximately 0.7 months free-rent on a twelve-month lease.

According to Reis, six apartment properties traded in the twelve months ended in September, totaling \$59 million in proceeds. The average price per unit was \$24,000 and the average cap rate was 8.4%.

RED recommend that investors bid "**Opportunistically**" for metro assets. High going-in yields are attractive but Reis expect little improvement in fundamentals over the next five years. Effective rents are forecast to grow at an average annual rate of 1.8% from 2008 to 2011, basically at the rate of inflation. Moreover, Reis do not foresee significant occupancy gains. Consequently, expected investment returns are not sufficient to support an active buying program. Suburban submarkets, on the other hand, may attract investors due to a superior rent growth outlook. For example, Reis forecast average annual rent growth of 2.7% from 2008 to 2011 in the Clark County and Miami County submarkets. Effective rents in the Northwest submarket are forecast to grow at an annual rate of 2.5%.

SNAP SHOT

	Y-o-y change	Projected 2008
Vacancy (7.8% - 3Q07)	60bps ↓	30bps ↑
Effective Rents (\$571 - 3Q07)	1.8% ↑	1.9% ↑
Cap Rate (8.0% - 3Q07)	20bps ↑	unch ↔
Employment (405.3k - 3Q07)	0.7k ↓	1.0k ↓

KEY POINTS

- The vacancy rate in Dayton fell 50 basis points sequentially to 7.8% in 3Q07. On a year-over-year basis the vacancy rate fell 60 basis points due to robust demand and limited supply.
- Effective rents increased 1.1% sequentially and 1.8% year-over-year to \$571 in 3Q07. Asking rents rose 2.0% year-over-year to \$602.
- The median price of a single-family MSA home fell 0.8% year-over-year to \$121,400 in 3Q07. The homeownership rate fell from 66.1% in 2005 to 64.6% in 2006.
- According to Loopnet three investor grade properties traded in the first nine of 2007, totaling \$35.5 million in proceeds. The average per unit price was \$20,040. The median cap rate was 8.9%.
- **RED** assign an "Opportunist" ranking for metro investments. Investors should be selective. Reis do not expect significant fundamental improvement and the market suffers from low liquidity. By the same token, high going-in yields are attractive for yield-oriented investors.



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