



Memphis, Tennessee

Multifamily Housing Update 2Q11 August 2011

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Payroll Job Summary

Total Payrolls:	586.7m
Annual Change:	- 8.0m
2011 Forecast	- 2.9m
2012 Forecast	+ 6.9m
2013 Forecast	+ 7.1 m
Unemployment:	10.9% (June)

2Q11 Payroll Trends and Forecast

Memphis payroll trends weakened during the second quarter as job losses accelerated from the 6,000-job, -1.0% annual pace recorded during 1Q11 to an 8,000-job, -1.3% rate. Trend deterioration was widespread among super-sectors: 7 of 12 posted weaker quarter-to-quarter results. The government sector was largely responsible, however, accounting for a -3,500 job y-o-y loss, down from a -900 job setback during the prior quarter.

Preliminary July results were more encouraging.

Memphis payrolls increased at a 3,500 job y-o-y rate, the first positive metric since January 2008. The advance was attributable in part to significant improvement in construction and business service trends. Expressed on a seasonally-adjusted basis, metro establishment created 2,900 jobs during the month, the strongest July report since 2005.

RCR project further payroll job losses in 2011, but firmer trends developing next year. Gains averaging 7,000 jobs are expected in 2011 and 2012.

Vacancy Rate Summary

Vacancy Rate (Reis)	11.0%
RED 50 Rank	N/A
Annual Chg (Reis)	-2.0%
Reis YE11 Forecast	9.9%
Reis YE12 Forecast	9.4%

2Q11 Absorption and Vacancy Rate Trends

Tenants absorbed 313 apartment units during 2Q11, according to Reis, up from 148 and 178 units during the prior quarter and the year-earlier periods, respectively. Against no supply, metro occupancy increased 40 basis points sequentially to 89.0%, a three-year high. Over the trailing 12 months, owners tenanted 1,587 units, raising occupancy 200 bps after accounting for only 92 units of new supply.

Class-A properties attracted the lion's share of interest in the first half as tenants net leased 342

units January to June compared to 148 class B&C units. Occupancy among the metro's 30,384 class-A units (93.9%) is substantially higher than the lower tier, where the average rate has held below 86% since the summer of 2008.

Occupancy was stable or higher in every submarket with the exception of Downtown/Midtown, where 43 net move-outs resulted in a 210 bps decline to 89.9%. Adjacent Riverside gained 110 bps, however, to 94.3%, near highest in the Memphis metro area.

Effective Rent Summary

Mean Rent (Reis)	\$635
Annual Change	2.6%
RED 50 Rank	N/A
Reis 2011 Forecast	3.5%
Reis 2012 Forecast	2.9%

2Q11 Rent Trends

Asking and effective rents increased \$5 sequentially, reaching \$687 and \$639, respectively. The 0.7% and 0.8% quarter-to-quarter gains were the largest recorded in Memphis in three years. Expressed on a year-on-year basis, face and net rents advanced at 2.2% and 2.6% rates, also representing the fastest growth since 2008.

Rent trends were robust in the Riverside and Shelby County submarkets, where effective rents surged \$11 (1.2%) and \$9 (1.5%), respectively. From December 2010 to June, Riverside rents

increased \$22 (2.4%) to an average of \$924, approaching the \$927 record high and a return to the 2008 high water mark and a robust recovery from the \$892 recessionary trough set in 1Q10.

Reis expect average metro effective rents to rise \$13 (2.0%) to \$652 by YE11, which would be the strongest June-to-December increase since in at least 12 year. The service projects slower growth in 2012, however, when rents are expected to advance \$19 (2.9%) over the year to \$671. Compound growth of 3.0% from 2012-15 is forecast.

Trade & Return Summary

\$2mm+ Sales (1H11)	10
Approx. Proceeds	\$118mm
Median Cap Rate	7.3%
Avg. Price/Unit	\$52,920
Expected Total Return	NA
RED 50 Rank	NA
Risk-adjusted Index	NA

2Q11 Property Markets and Total Returns

Real Capital Analytics report that nine garden and one mid-rise property exchanged hands during the first six months of 2011, accounting for total sales proceeds of \$117.5mm. This compares favorably to the comparable period of 2010 when only five apartments exchanged hands for total proceeds of \$29.5mm. Although sales activity accelerated, cap rates were range-bound, gravitating to the low- to mid-7% area in both periods. Initial property yields in the Memphis area traditionally trade above the national average, but the rate appears to have

widened in recent months. As illustrated in the graph on page 2, the spread between the trailing 12-month average national FNM and FRD cap rate and the metro average rate widened from 80 basis points in 1Q10 to 180 bps in 2Q11.

The heavy weighting of older class-B&C properties among Memphis area sales biases the average cap rate higher. This point is illustrated by two recent class-A suburban garden project trades (see page 2). Cap rates for the 2008 and 2002 assets were 5.7% and 5.8%, respectively.