

Milwaukee, WI

Multifamily Housing Update

April 2010

EXECUTIVE SUMMARY

Metropolitan area firms continued to reduce staffs, albeit at a modestly slower rate in 4Q09. The pace of annual job attrition decelerated from -52,500 (-6.1%) in 3Q09 to -46,700 (-5.5%). Moreover, job losses moderated to -38,100 (-4.6%) year-over-year in January and -30,800 (-3.8%) y-o-y in February.

The turnaround was widespread. In 3Q09, losses among manufacturing, retail, business service and hospitality firms totaled -38,200 jobs. By contrast, a combined net of only -18,100 jobs were lost in the twelve-month period ended in February.

Seasonally-adjusted payroll data portray a more rapid recovery. Quarterly job losses averaged -12,300 in 2009, but employers added 5,600 jobs in the first two months of 2010. Furthermore, the Manpower Outlook Employment Survey suggests that hiring will accelerate in 2Q10. As of March, 21% of surveyed firms that planned to add workers in 2Q10 as compared to the 11% (as of December) that expected to expand in 1Q10. Additionally, the share of companies with staff reduction plans fell from 11% to 5%.

The **RED CAPITAL Research (RCR)** econometric payroll model predicts that annual job growth will remain negative this year, but rebound in 2011. Specifically, the model produces point estimates of -9,400 (-1.2%) jobs lost in 2010 and a 7,200 (0.9%) job advance next year. Economy.com expect a stronger recovery next year, forecasting a 17,680 (2.2%) job gain, following a net decline of -7,870 (-1.0%) jobs in 2010.

The recovery was less obvious in the metro housing market. According to the National Association of Realtors, the median price of a single-family MSA home decreased -3.3% y-o-y from \$194,900 in 4Q08 to \$188,400

in 4Q09. Results from the Federal Housing Finance Agency were similar as the home price index dropped -3.5% y-o-y. On the other hand, lower prices helped spur buying activity. The Wisconsin Association of Realtors count 3,645 home sales in 4Q09, up 28.8% from 4Q08.

Property managers net leased 49 units in 4Q09, enough to keep occupancy unchanged sequentially (95.0%) even though developers completed 128 units during the period. On the other hand, negative net absorption of 924 units contributed to a 130 basis point y-o-y decrease in occupancy. Demand was particularly slack among Class B/C properties as negative net absorption totaled 890 units in 2009.

The average effective rent fell -3.0% y-o-y to \$783 in 4Q09, partially owing to rising concessions. The size of the average concession package rose from 3.9% of asking rent in 4Q08 to 5.2% in 4Q09. Additionally, asking rent declined at a -1.7% annual pace in the fourth quarter.

Reis expect market conditions to continue to erode through 2010. The service predicts that occupancy will plunge 60 basis points this year to 94.4% as demand (-255 units) falls short of supply (296 units). Moreover, Reis forecast a -0.4% decrease in effective rent in 2010.

Real Capital Analytics identified 13 trades involving properties priced at or above \$1 million in 2009, totaling \$50 million in sales proceeds. The source calculates an average price per unit of \$44,688 and an average cap rate of 7.3%. **RCR** estimate a 5.7% expected rate of total return, based on an assumed 7.0% going-in yield. The figure ranked 47th highest in the **RED** 50. On the other hand, low levels of historic NOI growth volatility gave rise to the 19th highest measure of risk-adjusted return.

SNAP SHOT

	Y-o-y change	Projected 2010
Vacancy (5.0% - 4Q09)	↑130bps	↑60bps
Effective Rents (\$783 - 4Q09)	↓3.0%	↓0.4%
Cap Rate (6.0% - 4Q09)	↑	↑
Employment (805.7m - 4Q09)	↓46.7m	↓9.4m

KEY POINTS

- Apartment vacancy was unchanged sequentially but up 130 basis points year-over-year to 5.0% in 4Q09. Weak demand was largely to blame as tenants vacated 34 Class-A and 890 Class B/C units during 2009.
- Effective rent fell -3.0% year-over-year in 4Q09, moderately better than the -3.7% annual decrease observed in 3Q09. Likewise, the pace of annual asking rent decline decelerated from -2.7% in 3Q09 to -1.7%.
- Home sales activity rose and home values fell in the fourth quarter. The Wisconsin Association of Realtors were aware of 3,645 metro home sales in 4Q09, up 28.8% from the same period of 2008. But the National Association of Realtors calculate that the median price of a single-family MSA home decreased -3.3% year-over-year to \$188,400.
- Apartment asset sales volume totaled \$50 million in 2009, down -23% from \$65 million in the previous year. The average price per unit was \$44,688 and the average cap rate was 7.3%.



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