

BUYERS TARGETING INFILL LOCATIONS AS FUNDAMENTALS WEAKEN

Apartment fundamentals in Boise are expected to soften this year as a result of weaker leasing activity and competition from the for-sale market. During the past 12 months, employers have eliminated 18,600 positions, contracting payrolls by 6.9 percent, with the largest cuts occurring in the manufacturing and professional and business services sectors. Earlier this year, Micron Technology, formerly the state's largest private employer, announced plans to eliminate approximately 2,500 jobs at its Boise plant. The local housing market also has been affected by the recession; the median price for an existing single-family home in the metro area has decreased by more than 15 percent in the past year to \$159,000. With home prices back at 2005 levels, some would-be renters are making the transition into homeownership, while number of investors are turning single-family homes into income-producing rental properties, expanding the market's shadow stock. Demand for single-family homes will likely start to ease in 2010, however, as the first-time homebuyer tax credit is scheduled to end in December of this year.

Transaction activity in Boise declined in the first half, falling nearly 45 percent compared to the corresponding period in 2008. Due to concerns over the near-term economic environment and its impact on apartment fundamentals, buyers are targeting stable locations like those around Boise State University, where renter demand from the student population is consistently high. While the expectations gap between buyers and sellers has narrowed in recent months, all of the deals closed in 2009 have been for under \$1 million, as financing remains a hurdle. The average cap rate for apartment transactions made year to date has increased approximately 40 basis points from the same period last year to 6.6 percent, as buyers are focusing on properties in quality locations. Initial yields will continue to edge higher as investors underwrite for lower NOIs due to increasing vacancy rates and lower rents.

2009 ANNUAL APARTMENT FORECAST



Employment: Total employment is forecast to contract by 5.1 percent, or 13,000 positions, this year, with nearly half of the losses occurring in the professional and business services and manufacturing sectors.



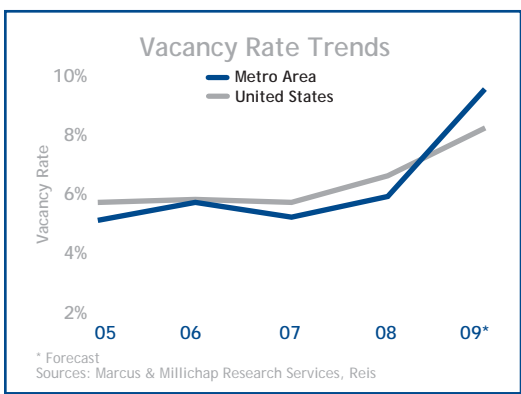
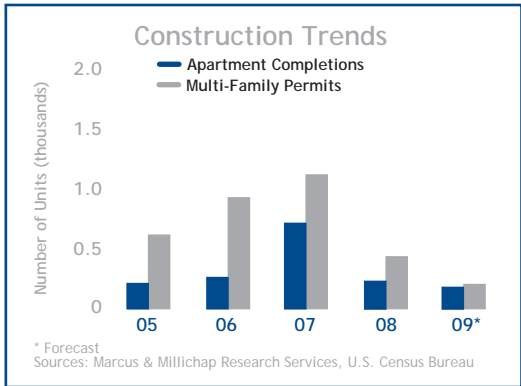
Construction: Approximately 170 units will be added to inventory in 2009, after 220 units were delivered last year. With permitting activity on a sharp decline, construction in Boise is likely to remain limited going forward.



Vacancy: Persistent job cuts are expected to cause vacancy to rise 360 basis points by year end to 9.5 percent. In 2008, the average vacancy rate increased 70 basis points.



Asking Rents: The softening economy and rising vacancy will prompt operators to lower rents in an effort to retain renters. By year end, asking rents are forecast to fall 2.3 percent to \$691 per month. Last year, asking rents increased 2.6 percent.



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CONSTRUCTION

- ◆ Developers completed roughly 170 units in the third quarter. With no apartment projects under way in Boise, construction activity should remain modest through the near term.
- ◆ The planning pipeline contains just 50 apartment units; however, more than 2,000 for-sale units are proposed. The largest planned project is Oakcreek, a residential development in Meridian consisting of 1,500 condominium and single family units.
- ◆ The number of multi-family residential permits issued in Boise has declined by nearly 60 percent over the past year, while single-family permits have decreased by about 40 percent.
- ◆ **Outlook:** Approximately 170 units will come online this year, after 220 units were delivered in 2008. With permitting activity receding, the pace of construction in Boise is likely to remain slow going forward.

VACANCY AND RENTS

- ◆ Year over year in the third quarter, vacancy rose 400 basis points to 9.4 percent, as demand in the metro fell due to a 7 percent decline in local employment. Vacancy increases are expected to moderate going forward, however, as employment losses have begun to slow.
- ◆ Asking rents in the third quarter were an estimated \$692 per month, down 2.4 percent over the past 12 months. The pace of rent cuts has accelerated in recent quarters as owners attempt to fill vacant units by increasing concession offerings.
- ◆ With faltering fundamentals expected through the rest of the year, short-term revenue gains will remain minimal; however, limited supply additions will help to expedite a recovery once employment growth resumes.
- ◆ **Outlook:** The apartment vacancy rate in Boise is forecast to rise 360 basis points this year to 9.5 percent, while asking rents are projected to fall 2.3 percent to \$691 per month.

SALES TRENDS

- ◆ As a result of tight credit conditions and fundamental weakening, transaction velocity in Boise has decreased by approximately 60 percent over the past 12 months.
- ◆ The median price for apartment properties sold in the metro during the last year was \$61,200 per unit, with an average asset size of 35 units.
- ◆ Cap rates have increased over the past year and are currently averaging in the mid- to high-6 percent range. Yields are expected to push higher through the remainder of 2009 as buyers underwrite for lower NOIs.
- ◆ **Outlook:** Investors will continue to target properties priced under \$1 million in central and downtown Boise. Although near-term fundamentals will remain weak, the areas' proximity to employment centers and Boise State University will help to sustain renter demand in the long run.