

# ApartmentResearch

M A R K E T U P D A T E

Marcus & Millichap

Omaha Metro Area

Fourth Quarter 2009

## EMERGING TRENDS POINT TO LONG-TERM STRENGTH IN OMAHA

Persistent job losses and accelerating completions have been the primary drivers behind softened conditions in the Omaha apartment market this year. Some positive trends are emerging, however, that should help operations rebound in the coming years. While developers are on pace to add the largest number of units to the market in five years and completions will likely be elevated again in 2010, future construction activity should be relatively modest; the planning pipeline consists of just 480 units, and multi-family permit issuance has decreased 76 percent during the last 12 months to only 450 units. Additionally, several key job sectors have started to expand again, with employers in the metro's trade, transportation and utilities segment, for instance, creating 1,300 jobs over the past six months. Resumed employment growth in some industries, coupled with a projected drop-off in construction activity after next year, will eventually help fundamentals in Omaha gain traction ahead of those in other metros in the region.

Apartment transaction velocity in Omaha has remained relatively stable through the downturn, as a decrease in deals involving out-of-state investors has been offset by activity from local buyers, who are targeting distressed assets. Most recent sales have involved smaller, lower-tier properties; over the last year, the average size of properties traded has declined 65 percent, contributing to a nearly 75 percent drop in the average sales price to \$2.4 million. In addition, cap rates have climbed approximately 125 basis points during the past 12 months to the 9 percent range. Rising initial yields and older properties have been pronounced in the South Omaha submarket, attracting local buyers, in particular, to the area. Further, an uptick in vacancy of just 10 basis points year over year in the submarket has supported revenues, and prices are below the metro average; future supply issues, however, may present operational challenges.

## 2009 ANNUAL APARTMENT FORECAST



**Employment:** Led by heavy losses in office-using sectors, employers in Omaha are expected to eliminate 9,800 positions this year, a 2.1 percent decline. The professional and business services segment is on pace to decrease 7.3 percent with the loss of 4,750 jobs.



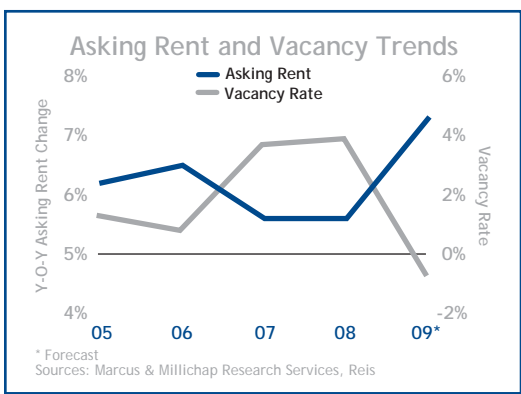
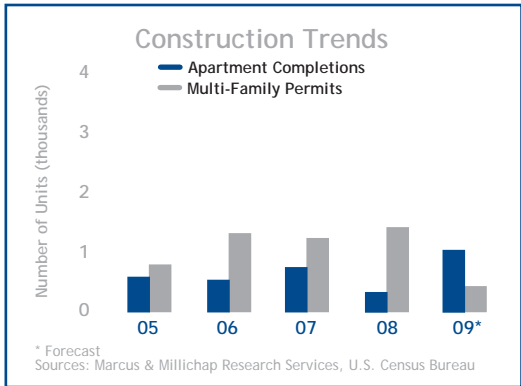
**Construction:** Following the delivery of 300 units last year, completions are projected to total 1,000 units in 2009. This year's additions will increase rental inventory in Omaha by 2.8 percent, the largest boost in a decade.



**Vacancy:** Accelerated deliveries and waning demand due to the weak labor market are forecast to drive up metrowide vacancy 170 basis points this year to 7.3 percent.



**Rents:** In 2009, owners will lower rents and increase concessions to retain and attract tenants. Asking rents are projected to decline 0.7 percent to \$691 per month this year, and effective rents are expected to drop 1.9 percent to \$656 per month.



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## CONSTRUCTION

- ◆ Nearly 1,000 apartment units have come online in Omaha during the past year, all of which were completed in the second and third quarters of 2009. In the previous 12-month period, just 300 units were added to metro stock.
- ◆ Deliveries are expected to remain elevated through 2010. Roughly 1,410 units are under way throughout Omaha, including 880 units in the South Omaha submarket.
- ◆ Several projects have been delayed, largely due to financing issues. The 122-unit second phase of the Tuscany Place complex in Sarpy County, for instance, was originally slated to open in the third quarter of this year but is now on pace to debut in the spring of 2010.
- ◆ **Outlook:** Following the delivery of 300 units last year, completions are projected to total 1,000 units in 2009. This year's additions will increase rental inventory in Omaha by 2.8 percent, the largest boost in a decade.

## VACANCY AND RENTS

- ◆ According to early figures, metrowide vacancy reached 7.2 percent in the third quarter, 210 basis points higher than one year earlier. Renter demand has receded due to job losses, as vacancy has spiked 110 basis points over the last three months.
- ◆ Asking rents reached an estimated \$692 per month during the third quarter, a year-over-year uptick of 0.1 percent but a decline of 0.6 percent year to date. Effective rents are \$660 per month, 1.1 percent less than one year ago.
- ◆ The largest 12-month drop in effective rents this decade has resulted in a 3.3 percent revenue contraction. During the previous year, revenues advanced 4.9 percent.
- ◆ **Outlook:** The soft labor market and a spike in construction will further weaken fundamentals this year. Vacancy is forecast to rise 170 basis points to end 2009 at 7.3 percent. Asking and effective rents are projected to reach \$691 per month and \$656 per month, annual declines of 0.7 percent and 1.9 percent, respectively.

## SALES TRENDS

- ◆ With more opportunistic investors targeting the metro's growing volume of distressed listings, transaction velocity in the local market has remained relatively stable over the last 24 months.
- ◆ The increased number of deals involving poor-performing assets has caused the median price to drop 8 percent in the past year to \$34,300 per unit. During the last six months, however, the median price has fallen 19 percent when compared to the previous six-month span.
- ◆ Cap rates have climbed steadily so far this year and are currently in the mid-9 percent range, with some recent deals involving troubled assets closing in the mid-10 percent range.
- ◆ **Outlook:** Deal flow will likely continue to be buoyed by local buyers seeking distressed listings in strong areas such as the Southwest Suburban submarket, where renter demand remains relatively healthy and cap rates are slightly higher than the metro average.