

DIVERSE LABOR MARKET HELPS APARTMENT DEMAND IN MADISON

Apartment fundamentals have softened in Madison, although job losses in the area have been far more modest than throughout the rest of the country. Year to date, local payrolls have contracted by 0.4 percent, or 1,400 positions. Strength in the government sector, the metro's largest employment segment, has buoyed the economy, with 1,500 government jobs created thus far in 2009, a 1.8 percent expansion. Additionally, government loans and the presence of the University of Wisconsin-Madison continue to attract startup companies such as Flex Biomedical Inc. and EXACT Sciences Corp., both of which relocated to the area within the past few months. The local housing market also has shown signs of improvement; the median price for an existing single-family home has decreased only 3 percent over the past year and has inched up in the last few months to approximately \$220,000. Despite near-term improvements, demand for single-family homes will likely ease in the coming quarters, as the first-time homebuyer tax credit is scheduled to end in December.

Transaction velocity in Madison has increased over the past year but began to slow in recent quarters, as apartment sales are down approximately 50 percent this year compared to the second half of 2008. With lenders requiring larger contributions from borrowers, investors are targeting lower-priced properties; the year-to-date median price for an apartment building in Madison has declined 26 percent from the same period last year to \$1.1 million. As fundamentals continue to soften in the near term, buyers will likely focus on assets close to the University of Wisconsin-Madison, where employee- and student-driven demand for rental properties is consistently high.

2009 ANNUAL APARTMENT FORECAST



Employment: Local employers are projected to trim payrolls by a modest 0.6 percent this year, eliminating 2,100 positions. In 2008, employment in Madison contracted by 1.6 percent.



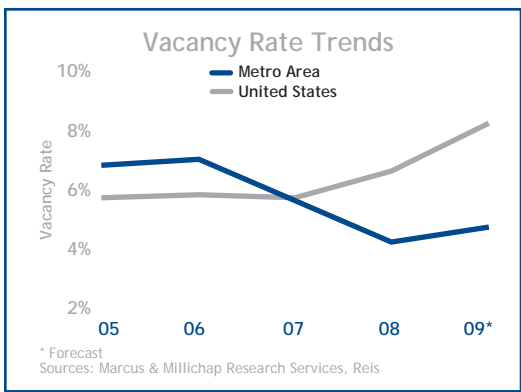
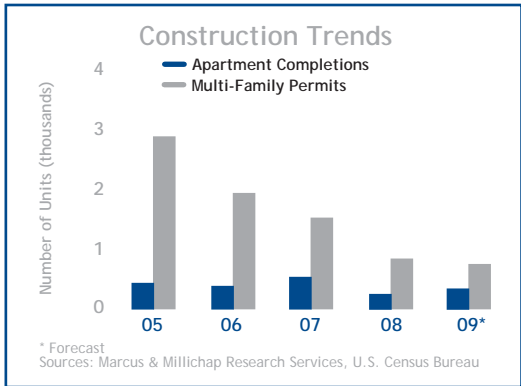
Construction: Approximately 310 units will be added to local inventory in 2009. With permitting activity declining, however, the pace of construction in Madison is likely to remain slow going forward.



Vacancy: Supported by a relatively strong employment market and steady rental demand stemming from the metro's large student population, the vacancy rate in Madison is forecast to rise only 50 basis points this year to 4.7 percent.



Asking Rents: Asking rents are projected to increase 0.6 percent this year to \$805 per month. As apartment occupancy rates remain tight, concessions will likely stay minimal through the coming months.



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CONSTRUCTION

- ◆ Development in Madison will pick up this year, as the 220 units delivered thus far in 2009 are in line with completions in all of 2008, and additional units are slated to come online by year end.
- ◆ There are currently 280 units under way in the metro, with roughly 91 units scheduled for addition in the fourth quarter. Also, there are more than 900 rental units and nearly 500 for-sale units in the planning pipeline.
- ◆ The largest apartment project to be completed this year was the 120-unit Brownridge Terrace Apartments in Middleton, which was brought online in the first quarter.
- ◆ **Outlook:** Approximately 310 units will be added to local inventory in 2009. With permitting activity declining, however, the pace of construction in Madison is likely to remain slow going forward.

VACANCY AND RENTS

- ◆ Due primarily to minimal supply additions and demand from the area's large student population, vacancy increased only 10 basis points year over year in the third quarter to 4.6 percent.
- ◆ Asking rents in Madison were an estimated \$805 per month in the third quarter, 0.3 percent higher than one year earlier. Thus far in 2009, asking rents have pushed up 0.6 percent.
- ◆ With a relatively healthy apartment market expected to persist, concessions should remain minimal through the rest of the year, allowing for revenue gains.
- ◆ **Outlook:** The vacancy rate in Madison is forecast to rise 50 basis points this year to 4.7 percent, while asking rents are expected to increase 0.6 percent to \$805 per month.

SALES TRENDS

- ◆ Sales velocity has accelerated by approximately 37 percent over the past 12 months, as investors are increasingly attracted to the metro area's fairly stable fundamentals.
- ◆ The median price for apartment properties sold during the last year was \$62,100 per unit, down approximately 10 percent from the previous 12-month period.
- ◆ Average cap rates have risen roughly 20 basis points year over year to the low- to mid-7 percent range. Initial yields may inch higher in the coming months as investors underwrite for softer near-term fundamentals.
- ◆ **Outlook:** Although the strict lending environment has caused some slowing in deal flow recently, healthy operating conditions will sustain investor interest in Madison apartment assets. Buyers will likely target lower-priced properties near the University of Wisconsin-Madison and arterial routes, as the credit markets remain tight and the school provides stable renter demand.