Economic trends for 2010 in Cumberland County.
By

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1. How this recession is similar to the one that affected our real estate market in 1974-82. It took us 8 years to fully recover from the last one and most economist I talk to say 3 to 4 years more for recovery. I would agree since the market has not absorbed the excess inventory of all types of space in this market. I expect it to take 4 more years to return to the pre-2007 conditions.

2. How recession has affected local real estate market.

    a. Absorption rate in SFR developments has slowed to 15% of the pre-2008 rates except in “hot spots” around entrances to base. Absorption rates now 1 to 3 per quarter now versus 10 per quarter prior to June of 2007.

    b. Prices of residential units has declined about 6 to 10% since 2008 after initial decline of about 10% in fall of 2007.

    c. Lot prices have remained steady with no noticeable decline. New development standards in Harnett Co now require concrete curb and gutters and concrete sidewalks. Many land developments are not feasible at the current prices of $35,000. Prices will need to go to $40,000 to $45,000 to be feasible at the current absorption rates.

    d. Lenders are now requiring use of Discounted Cash Flow analysis when over 5 units are valued as a package for a loan. A & D loans are all valued on a DCF basis as required by the lenders to meet federal banking regulation requirements. Some down payment is required now.

    e. Absorption rates not in “hot spots” has continued to decline and if the last major recession of 1974 is any indication, it will be another 3 to 4 years before all of the excess space is absorbed and we accumulate some “pent up” demand for new space.

    f. The absorption rate of Condo projects is so slow that they are no longer feasible and are being converted to rental apartment units-particularly those that never sold any unit.

g. Cumberland County has historically been a strong apartment market due to the short term <5 years stay for the soldiers. Investors like this military apartment market insolated from the national economy since it gives them diversity of risk compared to an all-civilian market which may be affected by the a manufacturing and retail economy. In 1974 vacancy rates reached about 15% on average. We saw a 60% vacancy rate for about 6 months during desert storm in 1991. Many projects are feasible at a 15% vacancy rate as long as initial construction costs and operating expenses are controlled. Ad valorem taxes are a concern for all types of investments and we are seeing property taxes amount to as much as 25 % of the gross income. Typically 5 to 8% is reasonable without affecting marketability of the project.

h. Based on our studies over the last 40 years, this market can historically absorb about 600 apartment units per year and if it's true that 1500 units are planned for 2011 we may experience an increased vacancy rate of 7% based on the number of units in the market. Lenders we do work for are very concerned about the future of apartments in this market and want to structure their loans to minimize their potential losses. Lenders are faced with developers wanting to convert their condo projects to rental units and how this conversion affects value. When vacancy rates increase, rents may flatten or decline slightly.

i. Some bright spots appear to be in the industrial market for warehouse and manufacturing space. Rents are improving as smaller manufacturers are gearing up to meet consumer demand. There is still a lot of vacant space out there. Small manufacturers requiring less than 50,000 sf are making specialty or filling small orders are doing quite well in NC according to what we see. Large manufacturers formerly utilizing over 150,000 sf have gone to other countries where labor is cheaper.

j. This is a very price-sensitive market for SFR units and houses over $250,000 are more difficult to sell and require much longer marketing time. We have seen a decline in cost per SF of Million dollar homes are just not selling now and prices have been reduced as much as 50% from the 2007 price.

k. We have seen much new office space constructed at the end of 2006 and 2007 when we had good economic expansion. Many of these buildings contained over 50,000 sf and we had not seen this much construction of large office buildings since the 1970's. Based on our studies, this market can absorb about 15,000 SF of retail or office space per year on average during a good economy. Some of these newer office building contain 50,000 sf or more and will require 3 to 5 years to lease up. Usually the holding cost during a lease up in this market makes the project not feasible unless front end cost can be kept low or constructed as a shell. Due to the lower absorption rate of office space in this market, many developers would develop about 15,000 sf per year and lease up that space and then build another 15,000 sf until the project was completely sold out.

l. We have not appraised many new shopping centers in the last 3 years and it may some time before other new space is constructed. We have been fairly active in free standing retail space valuations. Shopping by internet may affect large box space requirements. We are seeing more remodeling of older buildings than before. This is still a strong restaurant market and they are paying the highest prices for sites.

m. Mini-Storage units are a mixed bag. We see many of the older projects in trouble while newer units with temperature and humidity controls are being constructed.

In summary, we will have to be more selective in our developments and watch for the best locations to develop and watch the trends carefully. It's not the end of the world and we can survive by keeping construction cost and operating cost to a minimum.