ApartmentResearch

MARKET UPDATE

Marcus & Millichap

Broward County *Third Quarter 2009*

Distressed-Asset Sales at Discounts Boost Activity

The recession struck apartment fundamentals in Broward County during the first half of 2009, and weakness in the sector will persist over the remainder of the year. Year to date, a drop in renter demand has contributed to a 110 basis point rise in the vacancy rate while pushing down asking and effective rents 1.8 percent and 2.1 percent, respectively. The increase in vacancy in nine out of the metro's 12 submarkets is primarily attributable to a decline in occupancy in Class B/C units, and additional job cuts and rising unemployment will put further strain on the county's lower-tier properties. Meanwhile, vacancy will rise in the Class A sector due to the scheduled delivery of 500 units this year and the slower pace of household creation related to the anemic job market. Although difficult to quantify, the migration of some foreclosed homeowners into high-end rentals has probably mitigated the increase in top-tier vacancy so far in 2009. This trend may be overstated, however, as many residents who have lost homes have either left the area or the state.

As for investment trends, transaction velocity rebounded in the past few months, as several lender-owned properties were sold. Many of these assets were purchased at the height of buying activity a few years ago. In most of these resales, properties were sold at discounts ranging from 5 percent to more than 60 percent off the original purchase price. Defaults and foreclosures are expected to rise in the quarters ahead, and more of these deals will surface. Owners of assets that were not affected by difficulties related to the aggressive buying in recent years are reluctant to sell in the current market and are likely to hold onto properties for a while longer. Current cap rate trends are difficult to discern, as many of the properties sold recently have greatly diminished incomes. Generally, it is estimated that cap rates for stabilized assets start at about 9 percent.

2009 Annual Apartment Forecast

3.3% decrease in total employment

Employment: Countywide, total employment will contract 3.3 percent, or by 25,000 positions, this year. The unemployment rate will continue to rise to the high-9 percent range. In 2008, employers shed 35,100 jobs.

500 units will be completed

Construction: Developers are scheduled to complete 500 units in 2009, a 0.7 percent increase to rental inventory but a modest reduction from last year, when 522 units came online. Unoccupied condos employed as rentals continue to be the most significant supply-side factor.

190 basis point increase in vacancy

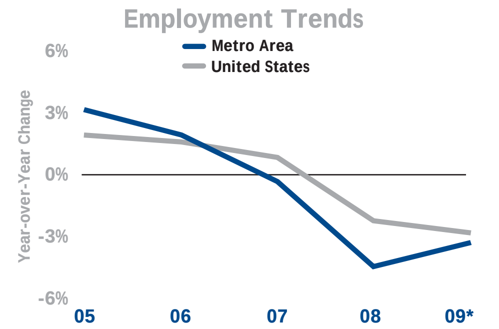
Vacancy: Stock growth and diminished demand stemming from rising unemployment will push up vacancy 190 basis points this year to 8.5 percent. The vacancy rate rose 140 basis points in 2008.

4.3% decrease in asking rents

Rents: Asking rents are projected to fall 4.3 percent in 2009 to $1,067 per month. Effective rents are forecast to end the year at $993 per month, a 5.4 percent drop. In 2008, asking rents inched up 0.3 percent, and effective rents slipped 0.6 percent.

Economy

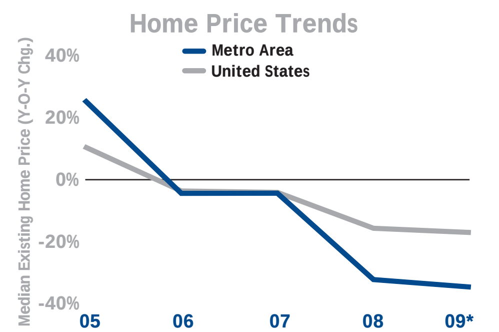
- Approximately 13,900 positions were eliminated in the first six months of this year, compared with a decline of 21,000 jobs in the preceding six months. The loss of 34,900 positions in the past year drops total employment to its lowest level in five years.
- With the exception of government employment, which has added a small number of workers thus far in 2009, all sectors lost jobs in the first half. Nearly 6,900 construction positions have been shed, along with 4,000 jobs in education and health services.
- Roughly 1,700 positions in the trade, transportation and utilities sector have been cut this year. The decline is entirely attributable to the elimination of 1,900 retail workers, which occurred due to a decrease in consumer spending and store closures.
- **Outlook:** Countywide, total employment will contract 3.3 percent, or by 25,000 positions, this year. In 2008, employers shed 35,100 jobs.



* Forecast
Sources: Marcus & Millichap Research Services, BLS, Economy.com

Housing and Demographics

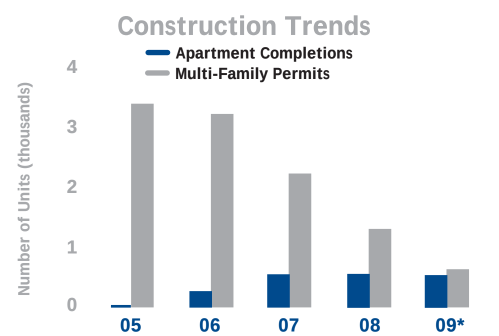
- Permits for 1,170 units of multi-family housing were issued in the 12 months ending in the second quarter, a decline of 8 percent from one year earlier. Issuance decreased 73 percent from the first quarter to the second quarter of this year. Multi-family starts, meanwhile, fell 54 percent year over year in the second quarter.
- Sales velocity for existing single-family homes was up 6 percent in the 12 months ending in the second quarter, despite a modest drop in the second quarter. The median price of $189,700 in the second quarter was 36 percent less than one year earlier and down 49 percent from a peak three years ago.
- Sales of deeply discounted existing homes account for the decline in the median price and are also responsible for improved affordability. At the current median price, the county's median household income of $49,638 annually covers 160 percent of the monthly mortgage payments, up from 95 percent in the second quarter of last year.
- **Outlook:** Multi-family permit issuance and starts will continue to fall until housing demand generators recover sufficiently to encourage builders.



* Trailing 12-Month Period
Sources: Marcus & Millichap Research Services, Economy.com, NAR

Construction

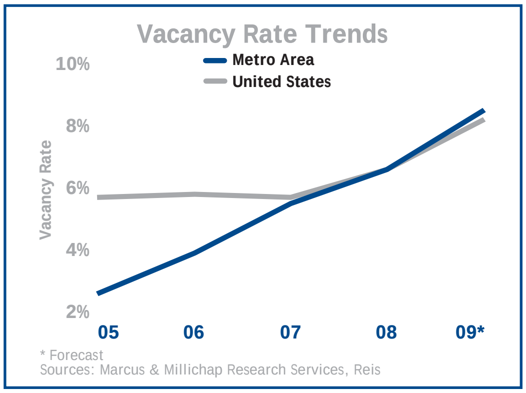
- No projects have been completed in 2009, but a 282-unit project came online during the past 12 months. The Alexan Solmar in the Fort Lauderdale submarket was delivered in late 2008.
- Projects containing 900 units are under construction. Of these, approximately 500 units will come online before the end of the year.
- The pipeline of planned projects consists of roughly 1,900 units, up from about 1,600 units earlier this year. Recent additions to the pipeline include two projects in Fort Lauderdale: the 75-unit City Rise Tower and the Las Olas Residences, with 253 units. No start dates are scheduled.
- **Outlook:** Developers are slated to complete 500 units in 2009, a 0.7 percent increase to rental inventory but a modest reduction from last year, when 522 units were placed into service.



* Forecast
Sources: Marcus & Millichap Research Services, U.S. Census Bureau

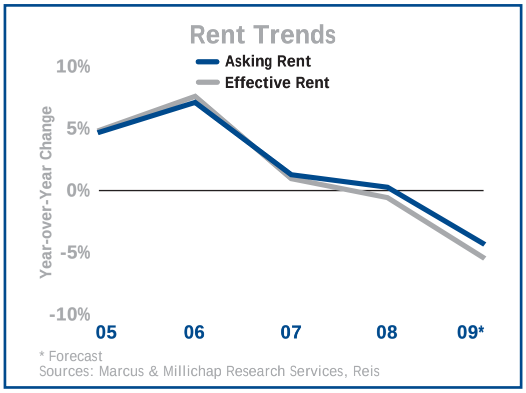
Vacancy

- Due to weakness in the Class B/C segment, the vacancy rate for all properties rose 60 basis points in the second quarter to 7.7 percent. Since the second quarter of last year, vacancy has climbed 180 basis points.
- The Class A vacancy rate increased 50 basis points in the second quarter to 6.7 percent as the number of occupied units slipped 0.5 percent. The migration of foreclosed homeowners to rental housing has not been sufficient to offset a decline in demand attributable to job losses.
- Class B/C vacancy rose 70 basis points in the quarter to 8.4 percent. The vacancy rate has also increased 260 basis points in the past 12 months, a period during which the countywide unemployment rate has risen 380 basis points to 9 percent.
- **Outlook:** Stock growth and diminished demand stemming from rising unemployment will push up vacancy 190 basis points this year to 8.5 percent. The vacancy rate rose 140 basis points in 2008.



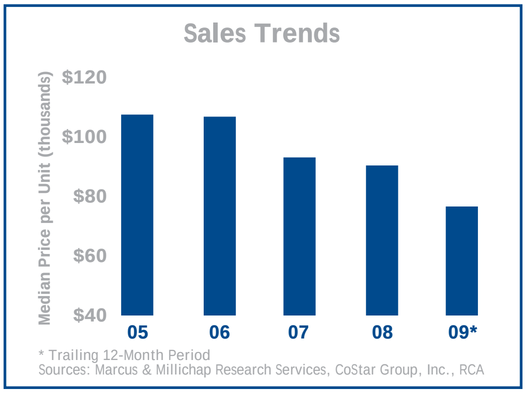
Rents

- In the second quarter, asking rents fell 0.6 percent to $1,095 per month and are down 2.1 percent since the second quarter of last year. Effective rents retreated 0.8 percent in the quarter and, at $1,028 per month, are 3.3 percent less than one year earlier.
- Class B/C asking rents slid 1.5 percent to $933 per month in the second quarter, marking the fourth consecutive quarterly drop. Asking rents at Class A properties logged a 0.8 percent decrease in the second quarter to $1,297 per month, the lowest level in three years.
- Concessions are 6.1 percent of asking rents, up from 5 percent of asking rents in the second quarter of 2008. In the Miramar/Pembroke Pines submarket, owners have increased concessions to 8.2 percent of asking rents from 7 percent one year ago due to competition from shadow stock.
- **Outlook:** Asking rents are projected to fall 4.3 percent in 2009 to $1,067 per month. Effective rents are forecast to end the year at $993 per month, a 5.4 percent drop. In 2008, asking rents inched up 0.3 percent, and effective rents slipped 0.6 percent.



Sales Trends**

- In the past 12 months, transaction velocity has risen 18 percent, as lender-owned properties have come to market. Still, deal flow is down about 80 percent from its peak in 2005, when conversion-oriented buying dominated the market.
- The median price in the last year was $76,200 per unit, a decline of 15 percent from the preceding 12-month interval. In deals executed so far in 2009, the median price has been approximately $67,000 per unit.
- Cap rates in recent transactions are difficult to determine due to some sales of distressed assets at significant discounts. Generally, cap rates start at approximately 9 percent for stabilized properties.
- **Outlook:** The rebound in velocity is a positive sign and an abrupt reversal from only six months ago. As the market settles into a sustainable pace of transactions, pricing trends will clarify and encourage additional deals.



*** Data reflect a full 12-month period, calculated on a trailing 12-month basis by quarter.*

Marcus & Millichap
NATIONAL MULTI HOUSING GROUP

Visit www.NationalMultiHousingGroup.com or call:
Linwood C. Thompson
Senior Vice President, Managing Director
National Multi Housing Group
Tel: (678) 808-2700
lthompson@marcusmillichap.com

Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- During the first quarter, multi-family mortgage originations were 61 percent below year-earlier levels and 79 percent lower than the late-2006 peak. Though considerable, the reduction in apartment originations remains less significant than declines among other core commercial property types, due largely to the availability of financing through Fannie Mae and Freddie Mac.

- Portfolio lenders are issuing apartment financing at all-in rates of 6.0 percent to 6.3 percent for three-year loans and up to 6.8 percent to 7.5 percent for a 10-year term. Loan-to-value requirements range from 55 percent to 75 percent.

- Agency lenders are offering five-year loans at all-in rates of 4.8 percent to 5.0 percent with 10-year mortgages available at rates averaging 5.35 percent and 5.7 percent, respectively. Maximum leverage among agency lenders ranges from 55 percent to 75 percent.

- Freddie Mac recently completed a $1 billion securitization of multi-family debt, the first issuance to hit the market since last June. The securities, dubbed "K Certificates," vary from traditional CMBS in that buyers are provided a guarantee by Freddie Mac. In addition to the potential for another similar offering, government programs designed to increase credit flows into commercial real estate could be operational by late summer/early fall.

Submarket Overview

- In the Lauderhill/Lauderdale submarket, the number of occupied units has declined by 7.4 percent in the past year, the most in the county. The decrease in demand occurred primarily in the Class B/C segment, which resulted in a 330 basis point rise in lower-tier vacancy to 8.8 percent.

- Projects slated for delivery this year consist of 279 units at the Satori in Fort Lauderdale and the 218-unit 4 Forty Flagler Village, also in Fort Lauderdale. An additional 153 units under way in the area are tentatively scheduled for completion by year end, though delivery may be delayed until 2010.

- Demand for stabilized assets in centralized locations remains steady. In the second quarter, one such property, the 140-unit Oakland Park Village, sold for $37,000 per unit. The price factors into an 8.5 percent cap rate, based on current property conditions.

Submarket Vacancy Ranking

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Plantation	4.3%	10	$1,152	-0.3%
2	West Hollywood	5.0%	130	$948	-3.1%
3	Coral Springs/Margate	6.2%	100	$1,080	-4.0%
4	Sunrise/Tamarac	6.5%	270	$993	-3.7%
5	Miramar/Pembroke Pines	7.4%	-100	$1,129	-3.3%
6	Pompano Beach	7.8%	110	$938	-3.7%
7	Deerfield Beach	8.0%	150	$941	-3.5%
8	Oakland Park	9.8%	200	$949	-4.3%
9	Fort Lauderdale	12.1%	700	$1,048	-5.2%
10	Lauderhill/Lauderdale	14.0%	710	$867	-1.4%

Marcus & Millichap
Real Estate Investment Services

Prepared and edited by
Art Gering
Market Analyst
Research Services

For information on national apartment trends, contact
John Chang
National Research Manager
Tel: (602) 687-6700 ext. 6803
john.chang@marcusmillichap.com

Fort Lauderdale Office:
Gregory Matus
Regional Manager
gmatus@marcusmillichap.com
5900 N. Andrews Avenue
Suite 100
Fort Lauderdale, Florida 33309

Tel: (954) 245-3400
Fax: (954) 245-3410

Price: $150