

## MIAMI-DADE INVESTMENT MARKET CONTINUES TO STABILIZE

In Miami-Dade County, the vacancy rate climbed to 5.8 percent in the second quarter, a level last reached five years ago, and additional job losses will stifle rental housing demand over the remainder of 2009. Reductions in employment, however, may be starting to moderate, and the labor market could start to stabilize by the end of this year. Still, operational challenges will persist for owners, who have seen concessions rise from 5.7 percent of asking rents at the end of 2008 to 6.4 percent of asking rents currently. Pressure to offer incentives to tenants will continue, even though the economy may cease worsening later this year, as rental housing demand will not recover until hiring improves, perhaps in late 2010. As for construction trends, more than 300 rental units are expected to be added this year, and an unknown number of for-sale units will be used as rentals. The for-sale market has improved recently, with transaction velocity up and prices and inventory down. It is not clear who is purchasing condos, however, but nonresident buyers will rent their units to generate cash.

The downturn in fundamentals has not discouraged investment activity, as there appears to be a general agreement on the near-term direction of the market. Transaction velocity has accelerated over the past year, unlike in other areas of the country, where substantial decreases have been recorded. The median price over a recent 12-month stretch fell to less than \$83,000 per unit, a decline of 17 percent from the peak of the market three years ago, when conversion buyers dominated activity. Pricing increasingly reflects underwriting on rental value, not potential resale, and lenders have been willing to underwrite sensibly priced transactions. Cap rates are estimated to be near 8 percent for quality, stabilized product and up to 9 percent for lesser-quality assets that have recorded considerably higher vacancy lately. To date, there has been little forced or distressed selling, although defaults and foreclosures are expected to rise for several more quarters.

### 2009 ANNUAL APARTMENT FORECAST



**Employment:** The pace of job losses will moderate over the remainder of the year as the effects of the recession wane. This year, 33,000 jobs are expected to be shed in the county, a 3.2 percent decline.



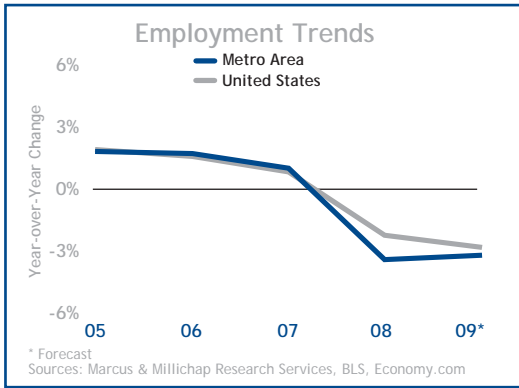
**Construction:** Developers are forecast to complete 380 units in 2009, down from 507 units last year. An untold number of condos, however, are expected to be employed as rentals for the next few quarters.



**Vacancy:** Although the rate of job losses is expected to abate over the remainder of the year, rental housing demand will remain weak. This year, vacancy is projected to rise 150 basis points to 6.5 percent, compared with a 100 basis point increase in 2008.



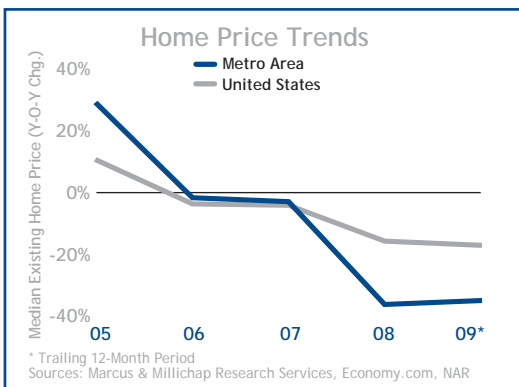
**Rents:** In 2009, monthly asking rents are forecast to fall 3.2 percent to \$1,069 per month. Effective rents are expected to decrease 4.4 percent to \$995 per month. Last year, asking rents receded 1.1 percent, while effective rents declined 2 percent.



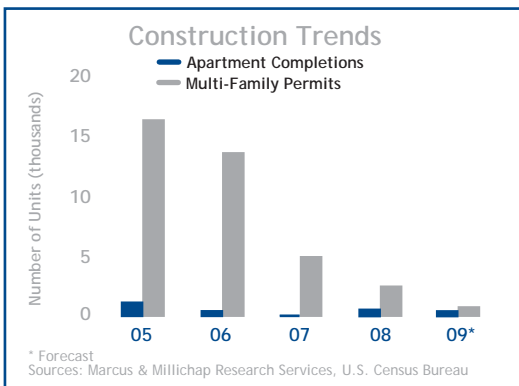
## ECONOMY

- ◆ Employers eliminated 17,400 jobs in the first two quarters of this year and have cut 37,100 positions in the past 12 months. Since the start of the recession, employment in the county has contracted 5 percent due to the loss of 53,800 jobs.
- ◆ Nearly all sectors have shed workers thus far in 2009. Approximately 5,000 construction jobs have been lost this year, as all building activity continues to slow. In addition, 1,800 leisure and hospitality positions and 2,900 trade, transportation and utilities positions have been trimmed.
- ◆ Cuts in employment have raised the unemployment rate, discouraging housing demand. The second quarter unemployment rate of 10.2 percent in the county was 450 basis points more than one year earlier.
- ◆ **Outlook:** The pace of job losses will moderate over the remainder of the year as the effects of the recession wane. This year, 33,000 jobs are expected to be shed, a 3.2 percent decline. In 2008, 36,400 positions were cut.

## HOUSING AND DEMOGRAPHICS



- ◆ While a weak job market and higher unemployment have reduced housing demand, declines in prices for condos and single-family homes have brought buyers back to the market. Sales of existing single-family homes rose 8 percent in the second quarter, following an increase of 5 percent in the first quarter.
- ◆ Discounts continue to drive down the median single-family home price. In the second quarter, the median price of \$183,600 was 39 percent less than one year earlier. At the current level, the median price is down 52 percent from a peak attained two years ago.
- ◆ The decline in the median price has improved affordability in the county. The median household income of \$40,091 per year in Miami-Dade covers 129 percent of the monthly mortgage obligations on the median-priced home, compared with only 73 percent a year ago.
- ◆ **Outlook:** With housing demand weakened by job losses, it remains unclear who is benefiting from lower prices. For many households, multi-family rentals continue to provide the most affordable housing option.

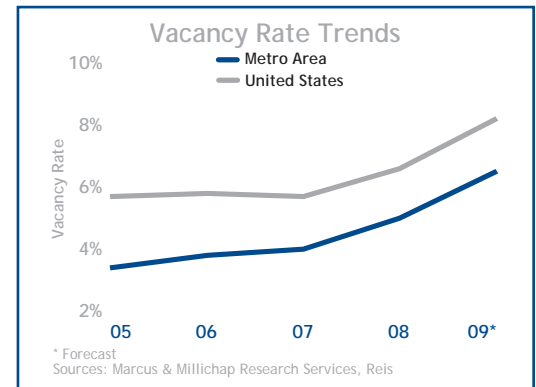


## CONSTRUCTION

- ◆ Permits for 1,455 units of multi-family housing were issued in the 12 months ending in the second quarter, a decline of 52 percent from the preceding annual period. Only 35 percent of the permits issued in the past year were issued during the first half of 2009.
- ◆ No rental projects were completed in the second quarter, but 172 units have been brought online in the past 12 months. Despite the completions, the stock of units in large apartment complexes is 20 percent less than at the market's peak earlier this decade.
- ◆ The pipeline of planned projects consists of 4,700 units, up from 4,000 units earlier this year.
- ◆ **Outlook:** Developers are forecast to complete 380 units in 2009, down from 507 units last year.

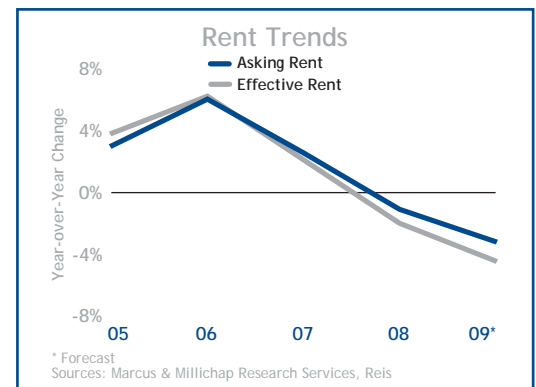
## VACANCY

- ◆ The marketwide vacancy rate ended the second quarter at 5.8 percent, an increase of 10 basis points from the preceding quarter and up 100 basis points from one year ago. The vacancy rate has climbed 170 basis points during the recession, as 1,600 fewer units are occupied.
- ◆ In the Class A segment, second quarter vacancy was 6.5 percent, marking a rise of 10 basis points from the first quarter. The rate is also 100 basis points more than a year ago.
- ◆ Demand for Class B/C units waned in the second quarter, as a weak labor market caused many renters to vacate units and discouraged the formation of new households. During the period, vacancy rose 30 basis points to 5.7 percent, which is 120 basis points more than in the second quarter of 2008.
- ◆ **Outlook:** Although the rate of job losses is expected to abate over the remainder of the year, rental housing demand will remain weak. This year, vacancy is projected to rise 150 basis points to 6.5 percent, compared with a 100 basis point increase in 2008.



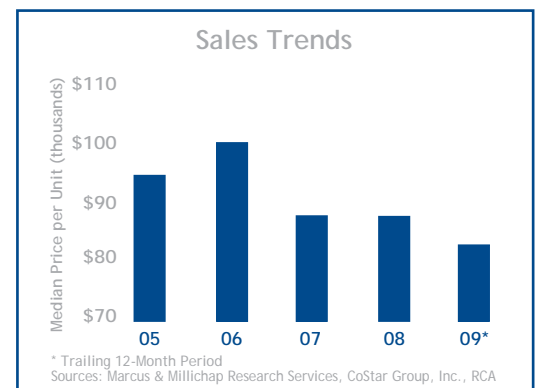
## RENTS

- ◆ Asking rents fell 1.1 percent in the second quarter to \$1,090 per month due to deteriorating demand. Also in the quarter, effective rents slipped 1.3 percent to \$1,020 per month. Measured year over year, asking rents have slid 2.7 percent, while effective rents have tumbled 3.9 percent.
- ◆ Class A asking rents of \$1,433 per month in the second quarter were 1 percent less than in the first quarter and 1.6 percent lower than one year earlier. Class B/C asking rents declined 1.2 percent in the second quarter to \$971 per month and are down 3.4 percent year over year.
- ◆ Due to the decrease in effective rents in the second quarter, concessions currently average 6.5 percent of asking rents, compared with 5.3 percent of asking rents in the second quarter of last year. Concessions will continue to rise for the next several quarters.
- ◆ **Outlook:** In 2009, monthly asking rents are forecast to fall 3.2 percent to \$1,069 per month. Effective rents are expected to decrease 4.4 percent to \$995 per month. Last year, asking rents receded 1.1 percent, while effective rents declined 2 percent.



## SALES TRENDS\*\*

- ◆ The buyer/seller expectations gap has narrowed in the past 12 months, resulting in an 8 percent increase in transaction velocity. While the rebound is a positive sign, velocity is still down 70 percent from the peak of conversion-oriented buying in 2005.
- ◆ Despite the rise in velocity, the median price continues to decline. Over the last year, the median price has dipped 11 percent to \$82,800 per unit.
- ◆ Cap rates appear to be settling around 8 percent for quality, stable properties and up to approximately 9 percent for lesser-quality assets.
- ◆ **Outlook:** With the recent surge in sales activity and greater clarity on prices, momentum is expected to gradually accelerate in the market. Some operational challenges will persist due to the weak economy, but the current level of prices represents an attractive buying signal for investors.



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

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## 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

- ◆ Within the construction pipeline, approximately 3,900 units are planned in the high-density Miami and South Beach/Miami Bayshore submarkets. The viability of several projects may be questionable due to a large stock of recently built condos, some of which could be employed as shadow rentals.
- ◆ Vacancy in the Kendall East/Coral Gables submarket has risen to 4.5 percent in the past year, representing a decline in occupied stock of 1.9 percent. Concessions are currently 3.3 percent of asking rents, one of the lowest levels in the county, but are up from 1.6 percent of asking rents one year ago.
- ◆ Along with the drop in effective rents in North Dade, monthly asking rents have receded 4.4 percent in the past year, including a 6.5 percent decline in Class A asking rents thus far in 2009. Class B/C asking rents are down about 2.9 percent this year.

## SUBMARKET VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Hiialeah	3.0%	0	\$829	-0.1%
2	South Dade/Homestead	4.0%	100	\$653	-4.0%
3	North Dade	4.1%	50	\$863	-6.9%
4	North Miami/Bayshore	4.3%	-70	\$799	-2.9%
5	Kendall East/Coral Gables	4.5%	180	\$1,103	1.7%
6	Kendall West	4.7%	-10	\$993	-2.9%
7	Miami	4.7%	-20	\$892	-6.1%
8	South Beach/Miami Bayshore	6.1%	50	\$1,432	-5.4%
9	Airport West	6.5%	270	\$1,070	-4.8%
10	Opa-Locka/Brownsville	12.2%	300	\$583	-10.3%