

ApartmentResearch

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

Marcus & Millichap

Broward County

Fourth Quarter 2009

RECESSION PERSISTS, BUT END MAY BE NEAR

While the recession has significantly affected the Broward County apartment market, a potential stabilization of the economy in the near term will create a less volatile environment for property owners. So far in 2009, the vacancy rate has climbed to the low-8 percent range, compared with 5.5 percent when the recession began, and concessions have risen. Supply growth is minimal, although shadow rental stock is diverting a thinned pool of renters. Class A properties in particular have been affected by the presence of competitive for-sale units. While top-tier vacancy has declined in half of the submarkets in the county so far this year, the improvement has been accompanied by an increase in concessions. In Miramar/Pembroke Pines, for example, where Class A stock was depleted by condo conversions, concessions have risen to more than 8 percent of asking rents year to date. The Class B/C segment, meanwhile, has not been affected as greatly in the economic downturn. Still, lower-tier properties in all but two submarkets have recorded declines in occupied units this year, as demand has softened. The Class B/C vacancy rate in Lauderdale/Lauderdale Lakes, for instance, has risen more than 400 basis points since the end of 2008 to approximately 15 percent as a result of the weak economy.

Activity in the investment market has picked up, with several sales of lender-owned properties occurring so far this year. Deals involving financially distressed assets will continue to comprise a considerable portion of sales activity in the months ahead as vacancy rises and concessions increase. Properties bought at the height of the market in 2005 and 2006 and underwritten assuming substantial rent growth have started to come to market and are typically sold at discounts to the original purchase price. A small lender-owned asset in Hollywood, for example, recently sold at a 16 percent discount to its purchase price, and a larger property in Wilton Manors changed hands earlier this year at a price that was 30 percent less than was paid in 2006. Stabilized rental assets countywide, meanwhile, are garnering greater scrutiny from investors, who are underwriting for lower rents and higher vacancy.

2009 ANNUAL APARTMENT FORECAST



Employment: The worst phase of job cuts appears to be ending. This year, employers are expected to trim 18,000 jobs from payrolls, a decrease of 2.4 percent. Employment contracted 4.5 percent in 2008 with the elimination of 35,100 positions.



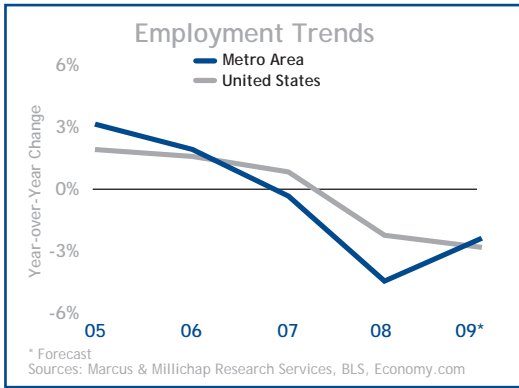
Construction: Projects containing 432 units are scheduled to be completed this year. In 2008, builders delivered 522 units. Multi-family permit issuance is expected to decline about 36 percent in 2009 to 800 units.



Vacancy: Despite the prospect that the labor market will stabilize later this year, rental housing demand will wane. As a result, vacancy is forecast to rise to 8.5 percent, 160 basis points more than the rate in 2008.

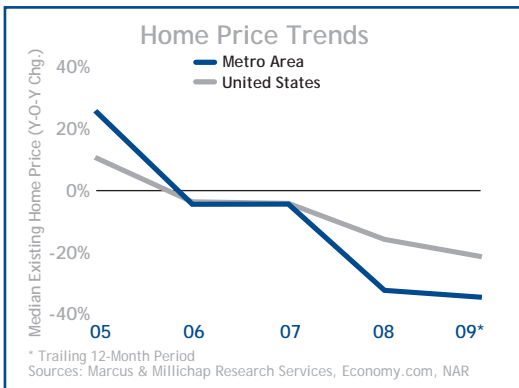


Rents: In 2009, asking rents are projected to fall 4.3 percent to \$1,067 per month. Concessions will climb to 6.9 percent of asking rents as effective rents slide 5.4 percent to \$993 per month. Rents, however, are expected to stabilize in the next six months to 12 months.



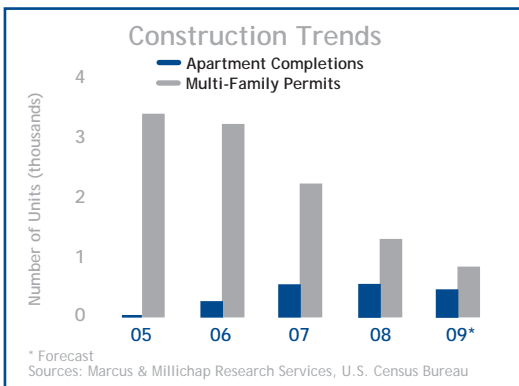
ECONOMY

- ◆ During the 12 months ending in the third quarter, employers in the county cut 26,300 jobs, a 3.4 percent drop. Employers trimmed an estimated 2,000 workers in the third quarter.
- ◆ To date, the recession has claimed 50,700 positions in the county, marking a contraction in total employment of 6.4 percent. The pace of job cuts is slowing, however, and the labor market may be stabilizing, as the reduction in the third quarter was the lowest in any three-month period since the recession began.
- ◆ Government employers have added about 900 jobs in the past year, making this the only employment sector to expand. The segment, however, will likely contract in the near term. Budget cuts are expected to result in the layoffs of approximately 100 county workers over the next few months, while several municipalities in Broward also will reduce head counts due to budget shortfalls.
- ◆ **Outlook:** The worst phase of job cuts appears to be ending. This year, employers will cut 18,000 jobs, a decrease of 2.4 percent. Employment contracted 4.5 percent in 2008 with the elimination of 35,100 positions.



HOUSING AND DEMOGRAPHICS

- ◆ Future housing construction will be subdued. Permits for approximately 1,500 units of single- and multi-family housing were issued in the 12 months ending in the third quarter, a 45 percent drop from a year earlier and the lowest total in any annual period this decade.
- ◆ Sales of single-family homes were on track to increase about 20 percent year over year in the third quarter. A credit for first-time homebuyers and an estimated 37 percent dip in the median price during that time contributed to the rise.
- ◆ At the projected median price of \$170,300 in the third quarter, single-family homes are affordable to households earning at least \$43,700 per year. Currently, the median household income in the county is \$48,900 annually.
- ◆ **Outlook:** Permit issuance will continue to fall. Also, an expected increase in foreclosures in the near term will displace residents, possibly to the benefit of apartment owners.

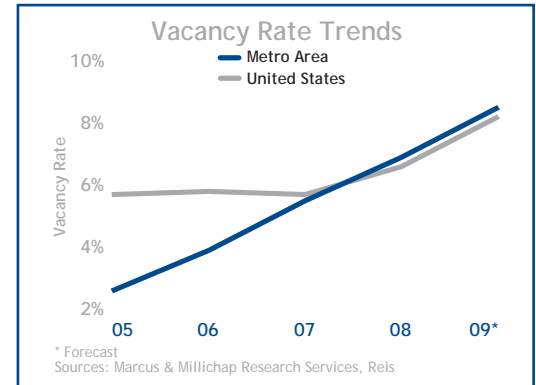


CONSTRUCTION

- ◆ There have been no projects completed in the county yet this year. Over the past 12 months, only 282 units have come online.
- ◆ Multi-family permit issuance has slipped to the lowest level this decade, which will minimize supply-side pressures in the near term. In the year ending in the third quarter, permits for just 900 multi-family units were issued, a 47 percent decline from a year ago.
- ◆ Projects under construction and slated for delivery in 2009 are the Satori in Fort Lauderdale, with 279 units; 81 apartments at the Gables Wilton Mansions; and the 72-unit Wilton Park apartments. Some of the projects may be delayed until next year, though, if pre-leasing is slow.
- ◆ **Outlook:** Projects containing 432 units are scheduled to be completed this year. In 2008, builders delivered 522 units.

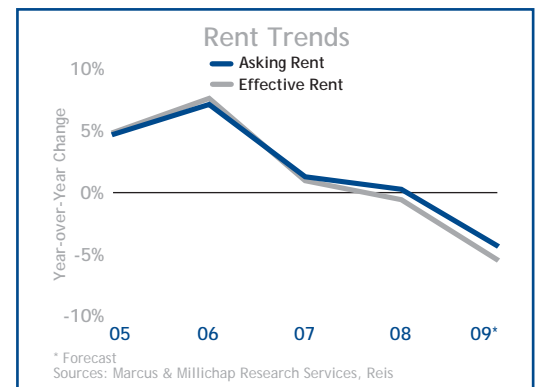
VACANCY

- ◆ Early data suggest that the vacancy rate rose 50 basis points in the third quarter to 8.2 percent due to weakened demand, especially in the Class B/C segment. Since the end of 2008, vacancy has climbed 130 basis points.
- ◆ Vacancy at Class B/C properties in the county increased 40 basis points in the third quarter to 9.2 percent. The vacancy rate at lower-tier buildings has risen in each quarter during the recession and is up 200 basis points year to date. The Deerfield Beach, Fort Lauderdale and Lauderdale Lakes submarkets each have Class B/C vacancy rates in excess of 10 percent.
- ◆ In the Class A tier, vacancy was expected to surge 50 basis points in the third quarter to 6.8 percent. The current rate is also 30 basis points more than the level recorded at year-end 2008.
- ◆ **Outlook:** Despite the prospect that the labor market will stabilize later this year, rental housing demand will wane. As a result, vacancy is forecast to rise to 8.5 percent, 160 basis points more than the rate in 2008.



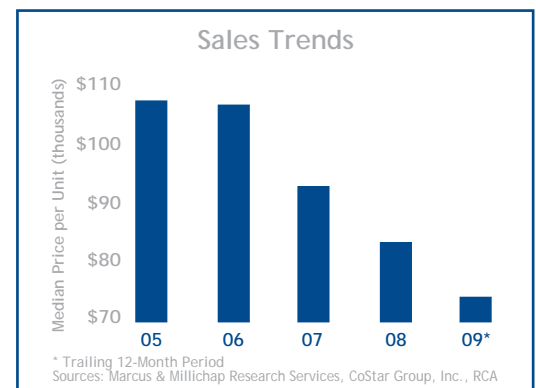
RENTS

- ◆ In the third quarter, asking rents fell an estimated 0.9 percent to \$1,085 per month, while effective rents tumbled 1.3 percent to \$1,015 per month. Asking and effective rents are down 2.7 percent and 3.3 percent, respectively, this year due to slackened demand.
- ◆ Asking rents were led lower in the third quarter by a 1.1 percent drop in the Class A segment to \$1,275 per month. In the Class B/C tier, asking rents slipped 0.7 percent in that period to \$942 per month.
- ◆ Owners employed greater concessions in the third quarter to combat rising vacancy and attract a diminished pool of prospective renters. Concessions of 6.5 percent in the quarter were 40 basis points more than in the second quarter.
- ◆ **Outlook:** Asking rents are projected to fall 4.3 percent this year to \$1,067 per month. Concessions will climb to 6.9 percent of asking rents as effective rents slide 5.4 percent to \$993 per month.



SALES TRENDS**

- ◆ Transaction velocity was unchanged over the most recent 12-month period. Sales of several lender-owned properties boosted activity.
- ◆ Prices continue to fall from the high levels established a few years ago, a period of more liberal lending standards and higher loan-to-value ratios. In the past 12 months, the median price has decreased 11 percent to \$74,100 per unit. Prices range from \$50,000 per unit to \$75,000 per unit, depending upon property location.
- ◆ A greater number of lender-owners' assets are trading in Broward County, making it difficult to accurately estimate where cap rates are on stabilized properties. Cap rates also will vary depending upon asset quality and location.
- ◆ **Outlook:** Rising vacancy and the expected greater use of concessions will continue to weigh on values in the months ahead. Activity was picking up as the third quarter progressed and long-term investors will increasingly be able to acquire assets in advance of the market's eventual recovery.



** 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

- ◆ Compared to other core property sectors, apartments have fared best due to the availability of financing through government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac. Recent modifications to GSE guidelines will impact lender decisions, however, as borrower requirements include more substantial apartment ownership experience.
- ◆ Loan-to-value requirements range from 55 percent to 75 percent. Portfolio lenders are issuing loans at all-in rates of 6.00 percent to 6.75 percent for a five-year term and 6.9 percent to 8.0 percent for a 10-year term. Rates among agency lenders are roughly 100 basis points to 150 basis points lower. The government's creation of a conservatorship for Fannie Mae and Freddie Mac has most likely boosted confidence in the two GSEs, putting downward pressure on rates, but it also creates several near-term uncertainties, as the conservatorship is due to expire at the end of the year.
- ◆ Delinquencies will rise further as a wave of maturities approaches; however, at-risk borrowers may find lenders amenable to loan extensions/modifications. Furthermore, Freddie Mac is under way on its second securitization of multi-family debt this year, and the government's TALF program is expected to at least provide a much-needed spark to the traditional CMBS market.

SUBMARKET OVERVIEW

- ◆ Softness in the rental market has forced the postponement of at least one project. The 218-unit 4 Forty Flagler Village in Fort Lauderdale was initially slated for delivery in the third quarter of this year, but the development's completion has been pushed back to 2010.
- ◆ Vacancy in the Fort Lauderdale submarket has increased 240 basis points so far this year, led by a 390 basis point rise in Class B/C vacancy to 13.1 percent. Property owners have hiked concessions during this time from 6.2 percent of asking rents to 8.4 percent of asking rents due to an estimated 3.3 percent decrease in effective rents.
- ◆ The 140-unit Oakland Park Village in the Oakland Park submarket recently sold for \$37,000 per unit. The property was more than 20 percent vacant at the time of closing.

SUBMARKET VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Plantation	4.7%	10	\$1,126	-3.3%
2	West Hollywood	5.4%	140	\$944	-2.1%
3	Davie	6.3%	80	\$1,114	-5.0%
4	Coral Springs/Margate	7.0%	170	\$1,066	-4.9%
5	Miramar/Pembroke Pines	7.7%	-90	\$1,120	-5.2%
6	Deerfield Beach	8.0%	40	\$936	-3.5%
7	East Hollywood/Hallandale	8.6%	30	\$1,039	-4.4%
8	Oakland Park	10.4%	20	\$924	-4.0%
9	Fort Lauderdale	12.8%	900	\$1,022	-5.5%
10	Lauderhill/Lauderdale Lakes	14.3%	520	\$855	-3.0%