

# Fort Lauderdale, FL

Multifamily Housing Update

September 2006

## EXECUTIVE SUMMARY

**F**ort Lauderdale produced another strong economic performance in the second quarter, but the pace of growth was not as robust as prior trends. Year-over-year growth averaged 4.1% in 2Q06, down 40 basis points from 1Q06 and 120 bps from last year's annual rate. Payrolls totaled 795,900 in June, an increase of 29,900 (3.9%) y-o-y.

Hiring by business service firms slowed through the first seven months of 2006, creating 7,100 jobs (5.7%) y-o-y, down from an average of 9,700 (8.3%) last year. The financial activities sector exhibited a similar trend, adding 2,400 jobs year-to-date, down from a 4,000-job pace in 2005.

The unemployment rate decreased 80 bps to 3.8% between June 2005 and 2006. By way of comparison, the state metric was 3.3%.

**RED** forecast average monthly payroll job creation of 32,000 (4.1%) in 2006 and 30,000 (3.7%) in 2007. Slower domestic economic growth and stable regional conditions contribute to the lower forecast.

Average apartment occupancy fell 20 bps in 2Q06 to 97.1%. Despite the slight decline, FTL maintained the highest occupancy rate among the 50 metro areas tracked by **RED** CAPITAL (**RED** 50). On a y-o-y basis, occupancy was up 60 bps from 96.5%. The dip in Q2 occupancy was attributable to fewer condo conversions, which declined from an average of 4,049 units in the previous four quarters to 614, and negative net absorption of 111 units.

Reis anticipate positive net absorption of 384 in 2H06, a rebound from negative absorption of 274 in 1H06.

**RED**'s rental demand forecast is consistent, predicting 1.4% and 1.6% advances in 2006 and 2007, respectively. Reis project an occupancy rate of 97.2% at year end, falling to 96.7% in 2007.

Effective rents leapt 8.7% over the 12 months ended in June, ranking number one among the **RED** 50. Concession decreased 60 bps to 5.0% of asking rent, comparing favorably to the national average of 5.6%. Asking rents increased 8.0% to an average of \$1,077. **RED** forecast effective rent growth of 3.3% in 2006 and 2.4% in 2007.

In spite of slower tenant demand, the FTL market will remain tight so long as supply is constrained. The current supply outlook is constructive, as only 915 units are slated for delivery over the next six quarters, the equivalent of only 1.3% inventory growth.

The condo market remains a potent risk. Sales volume slipped 32.8% in 2Q06, and weakness persisted in the summer, increasing the risk that for-sale units will find their way into the rental pool. The bulging pipeline of condos under construction (presently over 6,500) raises the risk of unanticipated rental supply. Should a supply shock materialize, rent growth could be considerably below forecast.

At a Reis estimated average of 5.6% FTL cap rates are below the regional average. Recent trade data suggest that the cap rate trend may stabilize, but a material increase is unlikely. Given the current property pricing environment and FTL's top-ranked fundamentals, **RED** assigns a rating of "Develop."

## SNAP SHOT

	Y-o-y change	Projected 2007
Vacancy (2.9% - 2Q06)	↓ 60bps	↑ 40bps
Effective Rents (\$1,023 - 2Q06)	↑ 8.7%	↑ 2.4%
Cap Rate (5.6% - 2Q06)	↓ 110bps	unch
Employment (795.9k - 2Q06)	↑ 29.9k	↑ 30.0k

## KEY POINTS

- Vacancy decreased 60 basis points between 2Q05 and 2Q06, to 2.9%, the lowest vacancy of the 50 metro areas tracked by **RED**.
- Effective rent growth outpaced growth in asking rents, increasing 8.7% year-over-year. Asking rents increased 8.0% to \$1,077.
- Cap rates continued the downward trend in 2Q06, falling 20 basis points quarter-over-quarter and 110 basis points year-over-year.
- Property prices were 19.6% lower, on a per unit basis in 2Q06, compared to the average price over the past four quarters.
- Year-to-date payroll job growth averaged 4.3% through July, a deceleration compared to the 5.3% average growth in 2005.
- **RED** forecast the creation of 32,000 jobs (4.1%) in 2006 and 30,000 jobs (3.7%) in 2007.



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