

Fort Lauderdale, FL

Multifamily Housing Update

April 2008

EXECUTIVE SUMMARY

Broward County employment trends deteriorated in the fourth quarter 2007, largely attributable to weaker demand for housing and mortgage credit as well as a related downturn in the business services sector. Payrolls fell 2,300 (0.3%) jobs year-over-year, representing a moderate decline from a loss of 1,500 (-0.2%) in the previous quarter.

Home sales dropped 23% in March from last year's anemic level, sending the median existing home price tumbling 16%. Slack home sales compelled builders to cut payrolls by 4,300 (-6.8%), down from a loss of 3,600 jobs in 3Q. Banks, mortgage lenders and securities firms also tightened their belts, trimming headcounts by 3,600 (-5.2%) year-over-year.

Metro economic trends deteriorated in early 2008. Broward payrolls declined at a 7,100 (-0.7%) job rate, reflecting faster attrition in construction, finance and business services. Collectively, the foregoing super-sectors suffered losses of 11,600 jobs. Joblessness increased as well, rising 26% to 39,428 persons in the twelve months ended February, sending the unemployment rate 80 bps higher to 4.0%.

RED CAP Research expect the Fort Lauderdale economic freefall to moderate by year-end and the subsequent recovery phase to be shallow. Average monthly payroll growth for 2008 is projected to range from -13,000 to -7,000, with a most probable outcome of -10,000 (-1.3%). The economy will stabilize in 2009: job trends will range from -4,000 to 9,000 jobs with point estimate of 2,000 (0.3%).

Supply pressures, job losses and competition from the informal rental sector caused occupancy to decline sharply in 2H07. After experiencing a 60 basis point drop of average occupancy to 94.5% in 3Q07, owners endured another 70 bps decline in the fourth

quarter. Net absorption of 568 units was overwhelmed by explicit apartment supply of 512 units and 590 identified condominium unit reversions. Rental options proliferated in a market that was nearly 97% occupied in mid-2006. In addition to purpose-built apartments and recently reconverted condominiums, tenants may avail themselves of more than 9,500 privately-owned properties offered for rent in Craigslist.com posts.

Rent traction was non-existent in 4Q07. Asking rents increased \$4 (0.4%) sequentially, the first discernible advance detected since March. But concession levels were counterbalancing, holding effective rents constant at an average of \$1,056. Over-the-year, effective rent increased \$10 (1.0%), the lowest rise recorded in four years.

Preliminary 1Q08 data were mixed. Occupancy dropped another 40bps to 94.3%, but owners implemented face rent hikes averaging \$7 (0.7%), more than the growth recorded from 1Q07 through 4Q07. Effective rent data weren't available at this writing.

Trade was slow in the six months ended in March. Real Capital Analytics identified five sales for a total of \$105mm. This compared to the same source's count of 12 exchanges for proceeds of \$327mm in the first eight months of 2007. In addition, RCA reported that cap rates were up substantially with the average going-in yield leaping from 6.2% in 1H07 to 7.0% from October to March.

By contrast, NCREIF maintain that the applicable 4Q07 cap rate was only 4.6%. At this level, RCR estimate expected unlevered 5-year returns of only 4.6% (**RED 50** average = 6.2%). Given unsettled fundamentals and poor return prospects, RCR recommend "*underweighting*" metro assets in portfolio and *opportunistically monetizing unrealized gains*.

SNAP SHOT

	Y-o-y change	Projected 2008
Vacancy (5.3% - 4Q07)	↑ 140 bps	↓ 40 bps
Effective Rents (\$1,056 - 4Q07)	↑ 1.0%	↑ 1.9%
Cap Rate (7.6% - 4Q07)	↑ 140 bps	↔ Unch
Employment (793.2m - 4Q07)	↓ 2.3m	↓ 10m

KEY POINTS

- The Broward economy continued to deteriorate in 4Q07. After recording net attrition of 1,500 jobs in 3Q07, metro establishments trimmed payrolls at a 2,300-job annual rate. Losses increased further in 1Q08 to a 7,100-job rate.
- **RCR** expect Fort Lauderdale to post negative job creation in 2008. The econometric payroll model generates a forecast range of -13,000 to -7,000 jobs with point estimate of -10,000 (-1.3%). The economy is expected to stabilize by 2009.
- Apartment occupancy plummeted. Although absorption was positive tenant demand couldn't keep pace with purpose built apartment and condominium reversion supply. Average vacancy increased 70 bps to 5.3% in 4Q07, and 40 bps to 5.7% in 1Q08.
- Slack markets diluted owner pricing power. A \$4 4Q07 asking rents increase was counterbalanced by an equal rise in rent concessions. Asking rents rose \$7 in 1Q08.
- A 4.6% NCREIF cap rate and unfavorable rent and occupancy outlook lead **RCR** to recommend an "*underweight*" position in FTL assets. Take profits *opportunistically*.



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