

# Miami, Florida

Multifamily Housing Update

April 2008

## EXECUTIVE SUMMARY

Florida lost 78,900 (-1.0%) jobs year-over-year in March and South Florida was responsible for more than its fair share of the pain. The Miami-Ft. Lauderdale MSA accounted for 20,800 (26% ) of the attrition although the 2-county region represents only 23% of the state's 18.3 million population.

Miami-Dade payrolls declined by -3,300 (0.3%) jobs over-the-year, the first negative annual comparison registered since November 2003. The imploding real estate market was principally responsible: construction headcounts tumbled comprehensively, falling 8,300 (-14.8%) workers, the largest drop in this series since 1991. Sharp losses also were realized in business service payrolls, which declined by 4,400 (-2.9%), as well as in manufacturing (-2,100) and air transportation (-400). Losses were partially offset by rapid expansion in the health care and leisure and tourism sectors, however, which added 6,700 and 1,600 jobs, respectively.

Home prices and sales velocity continued to decline in early 2008. The Florida Assoc. of Realtors reported that Miami-Dade sales velocity plummeted 56% y-o-y in March, while the median price of a home dropped -12% to \$337,900. By way of comparison, the median price of American homes tumbled -7.7% in the same period.

**RED CAPITAL Research** expect the metro economy to encounter turbulence in 2008 before finding smoother air next year. The group's econometric payroll model yields a forecast range of 0 to 7,000 jobs for 2008, with point estimate of 4,000 (0.4%). The Institute for Economic Competitiveness and Economy.com foresee 1,900 and 10,300 job advances, respectively. In 2009, our payroll model produces a 7,000 to 17,000-job confidence interval with 12,000-job, 1.1%

point estimate.

To date, the upheaval in the for-sale housing sector has not contributed to increased demand for apartments. Owners experienced negative net absorption in both the third and fourth quarters of 2007, with Q4's loss of 294 net tenants producing a 30 basis point increase to 4.0% in the average vacancy rate. Preliminary data suggest leasing conditions remained soft in 1Q08 as average vacancy rose another 30 bps to 4.3%. Reis expect further deterioration by year-end with average occupancy falling to 95.2%.

Rent trends were commensurately weak. Asking rents advanced \$5 (0.4%) sequentially to \$1,117 while concession levels ballooned an average of \$4, giving rise to paltry \$1 (0.1%) sequential and \$21 (2.0%) y-o-y effective rent hikes. These data ranked Miami 45th in the RED 50 in each category. Reis report that asking rents trends decelerated in 1Q08, rising only \$3 (0.3%). The service expects rent to rise \$20 in FY08, producing effective rent growth of 1.9%.

Property sales volume declined significantly in 4Q07 and 1Q08. According to Real Capital Analytics, only 6 apartment properties closed during the six-month period for total proceeds of \$95mm. This compares to proceeds of \$1.4bn in 2006 and \$444mm in FY2007. The average cap rate was only 5.2%, however, more than 100bps lower than the published RCA FY2007 average.

NCREIF applied a 4.6% cap rate to Miami assets in 4Q07, up 20 bps from the previous period. Using the 3Q07 metric to determine value, **RCR** calculate generic unlevered total returns of 3.5% and poor risk-adjusted returns (RAI=1.75), leading to a conclusion that assets are over-bought. We rate Miami a **Hold / Underweight** market.

## SNAP SHOT

	Y-o-y change	Projected 2008
Vacancy (4.0% - 4Q07)	↑ 10 bps	↑ 80 bps
Effective Rents (\$1,063 - 4Q07)	↑ 2.0%	↑ 1.9%
Cap Rate (5.0% - 4Q07)	↓ 50 bps	↑ 100 bps
Employment (1,071.7m - 4Q07)	↑ 7.5m	↑ 4m

## KEY POINTS

- Heavy supply of new condominium product and a dearth of buyers put downward pressure on Miami real estate values. The median price of a metro home fell 12% year-over-year in March to \$337,900, according to the Florida Association of Realtors.
- Construction activity fell sharply, leading to widespread layoffs by contractors. Construction headcounts fell 8,300 y-o-y in March, contributing to an overall loss of 3,300 Miami-Dade County payroll jobs.
- **RCR** expect 2008 to be a challenging year for the Miami economy. The payroll model forecasts a net 4,000 jobs in 2008, recovering to 12,000 in 2009.
- Owners were unable to capitalize on weakness in for-sale segment. Negative net absorption contributed to a 30 bps increase in vacancy in 4Q to 4.0%. Reis report that occupancy fell another 30 bps in 1Q08.
- Rents were nearly flat in 4Q07 as increased concessions offset nearly all face rent gains. Effective rent rose \$1 (0.1%) sequentially and \$20 (2.0%) y-o-y, ranking 45th in the RED 50 in both categories. The service report a \$3 face rent advance in 1Q08.



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