

Orlando, Florida

Multifamily Housing Update

April 2010

EXECUTIVE SUMMARY

Orlando metro employers continued to shed jobs in 4Q09, albeit at a moderately slower rate. Firms cut -55,600 (-5.3%) workers year-over-year in 4Q09, comparing favorably to the -71,500 (-6.7%) job decrease in the previous period. Moreover, only -36,300 (-3.5%) jobs were lost y-o-y in 1Q10, the slowest decrease since 2Q08, when -22,000 (-2.0%) jobs were lost.

The turnaround was relatively broad. For example, construction firms cut -18,900 jobs y-o-y in 3Q09 and only -11,900 in the twelve-month period ended in March. Likewise, the pace of annual job attrition decelerated among construction, manufacturing, wholesale, retail, transportation / utility, finance and business service firms. Leisure travel service providers also experienced fewer losses in March, partially owing to rising hotel occupancy.

On a seasonally-adjusted basis, metro headcounts fell -1,800 in 4Q09, as compared to a quarterly average decline of -16,100 jobs in the first three quarters of the year. Additionally, preliminary data reveal that employers added a net of 700 jobs from January to March.

Business sentiment also improved. According to the March Manpower Employment Outlook Survey, 17% of area firms planned to add workers in 2Q10, significantly higher than the 8% share that expected to reduce staffs. By comparison, respondents to the December survey (regarding 1Q10 hiring plans) were pessimistic. More businesses (12%) anticipated cut-backs than foresaw expansion (10%).

The **RED CAPITAL Research (RCR)** econometric payroll model predicts that annual job growth will remain negative this year, but rebound in 2011. Specifically, the model pro-

duces point estimates of -7,200 (-0.7%) jobs lost in 2010 and a 24,300 (2.4%) job advance next year. Economy.com expect a stronger recovery next year, forecasting a 46,030 (4.6%) job gain, following a net decline of -4,290 (-0.4%) jobs in 2010.

The recovery was less obvious in the metro housing market. According to the National Association of Realtors, the median price of a single-family MSA home decreased -20.3% y-o-y from \$175,200 in 4Q08 to \$139,600 in 4Q09. Results from the Federal Housing Finance Agency were similar as the home price index dropped -15.9% y-o-y. On the other hand, lower prices helped spur buying activity. The Orlando Regional Realtor Association count 30,377 home sales in 2009, up 67.5% from 2008.

The apartment occupancy rate decreased 50 basis points from 89.3% in 3Q09 to 88.8% in 4Q09. Weak tenant demand was partially to blame. Negative net absorption totaled 154 units and developers completed 425 units from October to December. Likewise, preliminary Reis data reveal that the metro occupancy declined 30 basis points in 1Q10.

The average effective rent was unchanged sequentially, but was down -2.3% y-o-y to \$806 in 4Q09. By comparison, asking rent decreased -0.8% sequentially and -2.4% y-o-y. Property owners cut concessions from 8.0% of asking rent in 3Q09 to 7.2% in 4Q09.

At an assumed 7.0% purchase cap rate, **RCR** calculate a 6.0% expected rate of total return. The figure ranked 41st highest among the **RED 50**, owing to weak rent growth projections by Reis. On the other hand, low levels of historic NOI growth volatility give rise to a more favorable measure (ranked 33rd) of risk-adjusted return in the group.

SNAP SHOT

	Y-o-y change	Projected 2010
Vacancy (11.2% - 4Q09)	↑120bps	↑70bps
Effective Rents (\$806 - 4Q09)	↓2.3%	↓0.5%
Cap Rate (N/A - 4Q09)	↔	↑
Employment (1,002.4m - 4Q09)	↓55.6m	↓7.2m

KEY POINTS

- The apartment vacancy rate increased 50 basis points sequentially to 11.2% in 4Q09, partially owing to negative net absorption of 154 units. On a year-over-year basis, supply (2,176 units) outpaced demand (620 units), resulting in a 120 basis point increase in vacancy. According to the Reis *First Glance* report, the Orlando vacancy rate increased 30 basis points to 11.5% in 1Q10.
- At \$806 in 4Q, effective rent was unchanged sequentially and down -2.3% year-over-year. Conversely, the average asking rent declined -0.8% from \$876 in 3Q09 to \$869, resulting in a decrease in concessions from 8.0% of asking rent to 7.2%.
- Home sales activity rose last year. The Orlando Regional Realtor Association were aware of 30,377 metro home sales in 2009, up 67.5% from 2008. But the National Association of Realtors calculate that the median price of a single-family MSA home decreased -20.3% year-over-year to \$139,600.
- Multifamily asset sales volume totaled \$329.9 million in 2009. The average price per unit was \$63,223.



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