

West Palm Beach, FL

Multifamily Housing Update

April 2009

EXECUTIVE SUMMARY

Palm Beach County employers continued to reduce headcounts in 4Q08. On a year-over-year basis, a net of -22,700 (-4.0%) positions were eliminated from payrolls. Job losses accelerated to -26,500 (-4.7%) in the twelve-month period ended in March. Likewise, data from the BLS's household survey reveal a -41,491 (-6.8%) total employment drop y-o-y in February, sending the county's unemployment rate to 9.7%.

The construction, retail and business service sectors accounted for most of the 4Q08 job losses. Combined, sector establishments eliminated -17,800 positions y-o-y in 4Q08. Conversely, education and health care service providers continued to expand at a healthy pace, hiring a net of 2,200 employees y-o-y in 4Q08.

The **RED CAPITAL Research (RCR)** econometric payroll model produces a point estimate of -15,200 (-2.7%) jobs lost this year, materially better than the observed performance in 1Q09. In addition, the model forecasts that employers will add 11,400 (2.1%) jobs next year.

An economic turnaround would be a welcome development for the area's struggling housing market. According to the Florida Association of Realtors, the median price of a single-family home in Palm Beach County fell -33.8% y-o-y in February to \$228,100. The county registered a comparably dismal -21.2% y-o-y decline the 4Q08 OFHEO home price index.

Despite continued job losses and falling home prices, apartment owners were able to increase occupancy 10 basis points to 92.1% in 4Q08. Positive net absorption of 202 units was responsible. On an annual basis, occupancy rose 10 basis points due to limited supply. The rental inventory

actually declined as condo conversion activity removed 442 units from the rental stock and only 207 units were completed.

Owners struggled to maintain rent levels, however. The average asking rent declined on an annual basis (-0.4%) for the first time in the Reis 19-year data history. The annual decline in asking rent and a small uptick in concessions produced a -0.7% y-o-y decrease in effective rent, falling from \$1,048 to \$1,041.

Reis predict that occupancy and rent trends will continue to deteriorate through 2010. The service expects occupancy to fall 130 basis points to 90.8% in 2009 and another 30 basis points to 90.5% next year. Similarly the average effective rent is forecast to fall -1.8% this year and -0.3% in 2010.

According to Real Capital Analytics, two multifamily assets priced at or above \$5 million traded between October 2008 and February 2009. Both transactions were bulk sales of unsold condos units. One of the assets sold for \$24 million or \$170,213 per unit, far below the remaining mortgage balance of \$43.9 million. Real Capital Analytics report a quoted cap rate of 4.0%, but based on an average rent of \$1,665 and 90% occupancy, **RCR** calculate an applicable stabilized yield of 7.7%.

At an assumed cap rate of 7.0%, we estimate a generic metro asset five-year holding period total return of 5.7%, below the 6.6% **RED 50** average. Moreover, although West Palm assets are projected to produce an above average risk-adjusted return, the Reis rent and occupancy forecasts do not support an active buying program. **RCR** recommend that buyers pursue "opportunisticly" priced assets.

SNAP SHOT

	Y-o-y change	Projected 2009
Vacancy (7.9% - 4Q08)	↓ 10bps	↑ 160bps
Effective Rents (\$1,041 - 4Q08)	↓ 0.7%	↓ 1.8%
Cap Rate (N/A - 4Q08)	↔ N/A	↔ N/A
Employment (539.7k - 4Q08)	↓ 22.7k	↓ 15.2k

KEY POINTS

- The average vacancy rate decreased 10 basis points sequentially to 7.9% in 4Q08. The improvement was attributable to steady tenant demand and limited supply. Positive net absorption totaled 202 units, nearly matching the -295 units vacated during the previous quarter. On an annual basis, the vacancy rate fell 10 basis points as condo conversion activity outpaced apartment development. Builders completed one asset totaling 207 units and 442 units were removed from the rental stock by way of conversion.
- The average effective rent fell -0.4% sequentially and -0.7% year-over-year to \$1,041 in 4Q08. The latter marked the fifth consecutive quarter of negative annual effective rent growth.
- The National Association of Realtors report a -32.3% year-over-year decrease in the median single-family MSA (Miami-Fort Lauderdale-Miami Beach) home price in 4Q08. Likewise, the Florida Association of Realtors estimate that the median single-family home price fell -33.8% year-over-year to \$228,100 in February 2009.



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