

Tampa, Florida

Multifamily Housing Update

February 2007

EXECUTIVE SUMMARY

The rate of job formation slowed in 2006 but remained above the national trend. Payroll growth totaled 32,400 on the year, down from 51,900 in 2005 and 53,000 in 2004. Reduced hiring in durable goods manufacturing lead to slower growth in wholesale trade. Retail hiring also declined, adding only 900 positions, compared to 2,300 in 2005. Moreover, the pace of hiring in the professional business sector moderated to 5.0% from 7.5% in 2005, as companies scaled back use of leased administrative staff.

The weaker housing market was also responsible for slower regional economic growth. Hiring in construction fell to 2,400 in 2006 from 8,200 in 2005. In the fourth quarter construction payrolls actually fell 2,000 y-o-y. Fewer home sales and refinances also lead to slower hiring in finance. Single family permitting trends were down 34% in 2006 and multifamily permit issuance fell 34% as well.

RED expect the slowdown to persist in 2007. Our econometric model predicts job growth between 11,000 (0.8%) and 24,000 (1.8%) with a point estimate of 18,000 (1.4%). In 2008, RED anticipate job creation of approximately 21,000 (1.6%) positions with a confidence interval of 13,000 (1.0%) and 29,000 (2.2%).

At 94.6%, the 4Q06 occupancy rate ranked 23rd highest among the 50 metro areas tracked by RED CAPITAL (RED 50). The occupancy rate fell 70 basis points sequentially in 4Q06, attributable to negative net absorption of 982 units. The occupancy rate was 30 basis points below the comparable period of 2005, despite a conversion driven 7,843-unit decrease of the apartment inventory.

Reis project moderate demand im-

provements in 2007 and 2008. The service forecast positive net absorption of 1,106 units in 2007 and 1,287 in 2008 to bring occupancy to 94.7% in 2007 and 94.8% in 2008.

Effective rents increased 7.0% year-over-year, ranking 7th highest among the RED 50. On a sequential quarter basis, effective rents increased \$3 or 0.4%, ranking 35th in the peer group. The value of the average concession package fell to \$42 per month or 5.1% of asking rent. The metric was down \$3 from the comparable period of 2005. Reis anticipate rent growth deceleration through 2011. The service predict y-o-y effective rent growth of 5.1% in 2007 and 4.3% in 2008 with a compound average growth rate of 3.2% thereafter.

At 6.2%, the fourth quarter Reis cap rate index is rich to the South Atlantic regional average but near the national metric. Trade velocity and volume fell dramatically in 2H06. Sales proceeds totaled \$692.7 million, down from \$1,125 million in 1H06. The NCREIF average cap rate fell to 5.7% in 3Q06, down from 6.0% in 2Q06 and 6.3% in 1Q06.

The total return profile for metro assets ranks among the best in the RED 50. Returns in a downside scenario are well above average as are risk adjusted returns. The upside potential compares less favorably to the peer group owing to low historic revenue volatility. RED assign a rating of "Accumulate" to metro assets, indicating that the current pricing environment is favorable toward acquisition. Caution is warranted, however, given that previously converted condo units pose a potential risk to market fundamentals if they re-enter the rental pool.

SNAP SHOT

	Y-o-y change	Projected 2007
Vacancy (5.4% - 4Q06)	↑ 30bps	↓ 10bps
Effective Rents (\$777 - 4Q06)	↑ 7.0%	↑ 5.1%
Cap Rate (6.2% - 4Q06)	↓ 10bps	↔ unch
Employment (1,337.1k - 4Q06)	↑ 26.0k	↑ 18k

KEY POINTS

- Vacancy increased 70 basis points sequentially and 30 basis points year-over-year to 5.4%.
- Asking and effective rents increased 6.2% and 7.0% year-over-year, respectively.
- The fourth quarter median condo price was down 8.3% year-over-year from \$185,400 to \$170,000. The median price of a single family home increased 3.0% to \$229,700.
- The Reis average cap rate index rose 10 basis points to 6.2% in 4Q06. The metric remains 10 basis points below the comparable period of 2005.
- RED forecast payroll job growth of 18,000 (1.4%) in 2007 and 21,000 (1.6%) in 2008.



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