

# Tallahassee, Florida

Multifamily Housing Update

May 2011

## EXECUTIVE SUMMARY

**G**overnment contributed \$4bn to Tallahassee gross metropolitan product in 2008, accounting for 32% of the region's output of goods and services, according to data published by the Bureau of Economic Analysis last year. When Florida enjoyed some of the most rapid demographic and job growth in the country government expenditures rose accordingly, benefiting no area more than this one, the seat of the state government and the home of two state-sponsored universities: Florida State and Florida A&M.

But the Great Recession was the temporary undoing of Florida's enviable population and economic growth trends, with negative consequences for the Capital City. Metro payrolls fell 2,200 jobs last year, a -1.3% rate of decline that represented a significant underperformance relative to the national average (-0.8%), a rare event. Moreover, the 2010 unemployment rate averaged 8.5% (it was never higher than 5% from 1990 to August 2008) and exceeded 9% in two months since November 2010.

Attrition in the construction and financial and business service industries was primarily responsible for last year's weak results. Together, the foregoing sectors reduced headcount by 1,300 (-3.9%) workers. Tourism activity also was sluggish, contributing to a 400-job, -2.3% decrease in hospitality service employment and a nearly -2% decline in retail payrolls.

Early 2011 payroll job trends were marginally stronger. Year-over-year comparisons were positive in January, February and March, generating an average gain of 300 (0.2%) jobs for the quarter, the first such quarterly advance posted in three years. Seasonally-adjusted data were somewhat contradictory, however, recording a net 200-job loss in the first quarter

despite a 2,100-job January surge.

**RED Research** expect the Tallahassee labor market to grow in 2011 and 2012, but under-perform the national average to some degree. Job creation should return to the black this year, as metro establishments add about 1,500 net employees. Should the U.S. economy continue to gain momentum, job creation may accelerate to near the 2,800-job, 1.6% level in 2012.

Improving job prospects and record enrollment at local universities helped drive apartment occupancy sharply higher. After falling as low as 89.8% last June, metro occupancy surged with the onset of the new school year, reaching 92.2% in December. Space demand continued to improve over the winter, pushing metro occupancy another 60 basis points higher to 92.8% in March. Over-the-year, occupancy improved 260 bps, which compares favorably to the 180 bps average advance reported by Reis for the top 80 U.S. markets.

Revenue gains were less spectacular. Metro units rented for an average of \$812, representing a \$3 (0.4%) sequential quarter advance and a \$20, 2.4% y-o-y gain. These statistics compare to 0.4% and 1.9% average asking rent increases recorded for the top 80 U.S. metro markets.

Investors stepped up student housing acquisition programs over the past six months and Tallahassee was squarely in their sites. Of note, a 96-unit, 384-bed student-specific apartment was acquired in November for a \$7.3mm price, nearly twice the amount paid by the seller in 2009. We estimate a 6.5% current yield for the 90% occupied asset. A similar cap rate applies to the March acquisition of a 300-unit luxury garden complex on the southeast side by a public REIT. The 2004-vintage property traded for nearly \$25mm or \$82,733 per unit.

## SNAP SHOT

	Y-o-y change	Projected 2011
Vacancy (7.2% - 1Q11)	↓ 2.6%	↓
Asking Rents (\$812 - 1Q11)	↑ 2.5%	↑
Cap Rate (6.5% - 1Q11)	↔ NA	↔ NA
Employment (170.4 - 14Q11)	↑ 0.3m	↑ 1.5m

## KEY POINTS

- After a protracted downturn, the Tallahassee economy stabilized late in 2010 and showed signs of recovery over the winter. Year-over-year comparisons were positive in 1Q11 (+300 jobs / 0.2%), representing the first quarterly advance in three years, and the unemployment rate fell from a near record 9.1% in January to 7.8% in March.
- Improving job prospects, college enrollment growth and further unsettling declines in home prices combined to propel apartment demand sharply higher. Average apartment occupancy surged to 92.8% in March after falling to as low as 89.8% in June 2010.
- Rents increased at a moderate pace as property owners emphasized occupancy enhancement over revenue maximization. The average metro unit rented for \$812 in 1Q11, \$20 (2.4%) above the level observed in the year-earlier period and \$3 (0.4%) higher than the December metric.
- At least four properties valued at \$3mm or more exchanged hands in the six-month period ended in March. Total property valuation approached \$40mm. The results compare to two sales valued at a total of \$20mm over the prior six-month period.



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