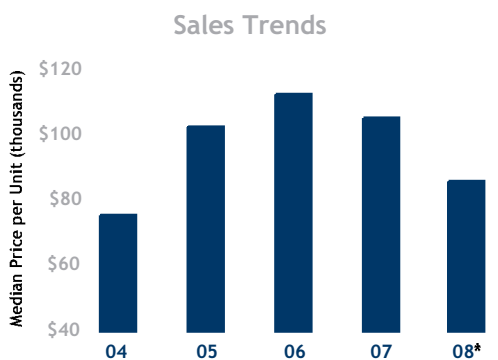
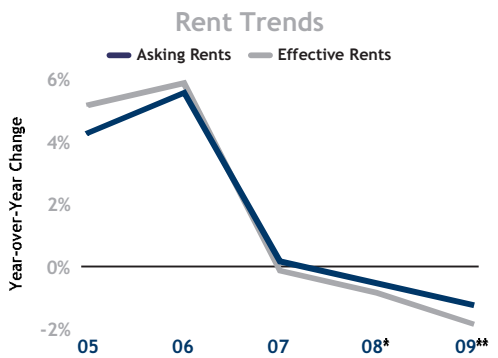
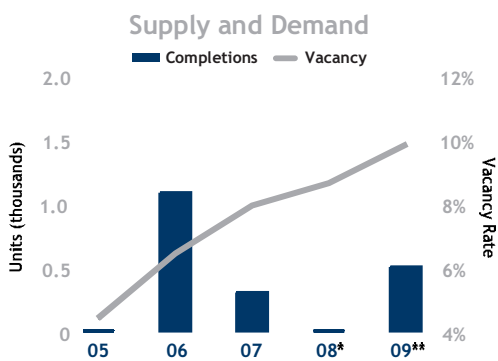
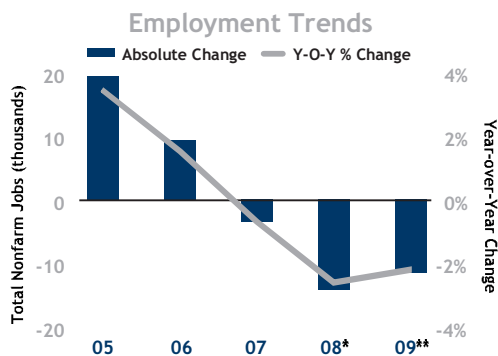


## Construction in Check, but Condo Reversions and Job Losses Will Weigh on Apartments

Apartment development in Palm Beach County will be limited in 2009, but a slump in rental demand related to weak employment will lead to higher vacancy and force many owners to trim rents. The financial activities sector merits watching in the months ahead as a gauge of how projected staff reductions may influence housing demand. Within the segment, about 2,000 jobs are expected to be eliminated this year, following a loss of 1,500 positions in 2008. The decrease in financial services employment will have the greatest impact on renter demand in and around Boca Raton, which houses the local operations for several national firms, including A.G. Edwards, Citigroup, Merrill Lynch, Morgan Stanley and Wachovia. Additionally, Wachovia has more than 30 retail locations in the county, and some could be closed as a result of the firm's merger with Wells Fargo. Despite the possible effects of job losses in the metro's large financial services companies on apartments, growth in local government employment and some in-migration will help to support demand for rental housing.

In the transaction arena, cap rates are settling from 7.0 percent to 7.9 percent for mature, stabilized properties in established communities such as Boca Raton and West Palm Beach. Prospective investors continue to look for bargains, especially in fractured condo conversions that can be redeployed as rentals, and some deals are being closed at a significant discount from the original purchase price. Meanwhile, tenant mixes at rental complexes with exposure to financial services employers will likely bear closer inspection in the coming months, forcing investors to realign rent growth assumptions. Indeed, the pace of rent decreases is forecast to accelerate this year, and gains are not expected to resume until the local employment market improves.



\* Estimate \*\* Forecast \*\*\* No completions in 2008

### 2009 Market Outlook

- ◆ **2009 NAI Rank: 39, Down 15 Places.** Job losses and elevated vacancy drove West Palm Beach down 15 spots in the NAI.
- ◆ **Employment Forecast:** Total employment in Palm Beach County is expected to contract 2.1 percent, or by 11,400 workers, in 2009. Last year, 14,000 jobs were eliminated.
- ◆ **Construction Forecast:** Approximately 500 units are slated for delivery this year, compared with no completions in 2008; 900 units are planned.
- ◆ **Vacancy Forecast:** Sluggish demand will support a 120 basis point increase in the vacancy rate to 9.9 percent, following a 70 basis point rise in 2008.
- ◆ **Rent Forecast:** In 2009, a 1.2 percent decline in asking rents to \$1,094 per month is projected. Effective rents are expected to drop 1.8 percent to \$1,021 per month. Last year, asking rents fell 0.5 percent, and effective rents slipped 0.8 percent.
- ◆ **Investment Forecast:** The arrival of the first buildings of The Scripps Research Institute will provide a near-term boost to apartment fundamentals in the northern part of the county. Over the longer term, the frequent turnover of rentals used as temporary housing for relocating or contract workers could lift property incomes.

**Market Forecast**    Employment: 2.1% ▼    Construction: N/A\*\*\*    Vacancy: 120 bps ▲    Asking Rents: 1.2% ▼