

# ApartmentResearch

M A R K E T U P D A T E

Marcus & Millichap

Broward County

Third Quarter 2010

## BROWARD COUNTY HIT TURNING POINT IN FIRST HALF

A reduction in vacancy in the first half of the year effectively ended the worst phase of the downturn in the Broward County apartment market. Significant additional vacancy declines and a resumption of robust rent growth, however, will not take place immediately. Indeed, the market will proceed gradually on its path to a full and sustainable recovery, with periodic setbacks likely along the way. Recent improvements in renter demand were stimulated in part by a release of pent-up demand related to the “debundling” of households that merged during the recession. Further demand strengthening will only occur as a result of job growth, which has been tepid at best thus far in the recovery. Rent growth, meanwhile, will remain elusive for many large-property owners, while the temptation to offer concessions to prospective renters will remain for many other operators in the near term.

Investment activity will continue to normalize in the months ahead as prices remain well below pre-recession levels, returning to the market those apartment operators who were forced aside during the frenzy of conversion-oriented buying. Increasingly, property values make sense for rental operations, with stable Class B/C assets pricing at cap rates from 7.0 percent to 8.5 percent, depending on quality and location. True, stabilized Class A product, meanwhile, may sell at cap rates in the 6 percent range. A considerable number of distressed assets will continue to change hands, although a projected stabilization in vacancy and rents may provide time for some owners of troubled properties to avert further difficulty. In addition to the performing and distressed rentals that continue to sell, bulk condo purchases remain an attractive option for many cash-heavy buyers, especially foreign sources of capital. In most instances, greatly reduced prices provide an affordable entry point, while the successful operation of condos as rentals in the near term will enable buyers to obtain financing at a later date. The availability of financing improved recently with the re-entry of Fannie Mae and Freddie Mac in the market.

## 2010 ANNUAL APARTMENT FORECAST



**Employment:** The role of the government sector as an employment engine will diminish in the second half as census work ends. The private sector, however, will begin to restore staffing levels as the economy recovers, resulting in the creation of 1,100 jobs in 2010, a 0.2 percent gain.



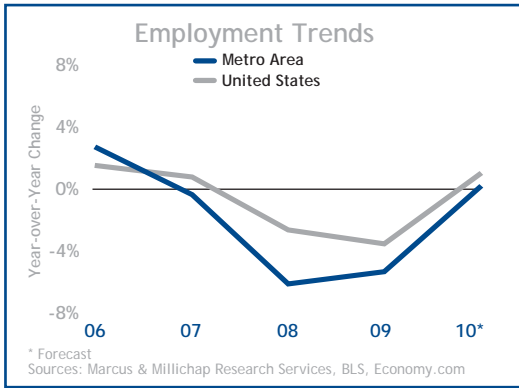
**Construction:** Developers will complete 549 units in two large properties this year, compared with 862 units in 2009. All of the projects slated for completion in 2010 came online in the first half.



**Vacancy:** This year, large-property vacancy will decline 50 basis points to 8.1 percent, the lowest rate since early 2009. Last year, vacancy spiked 170 basis points.

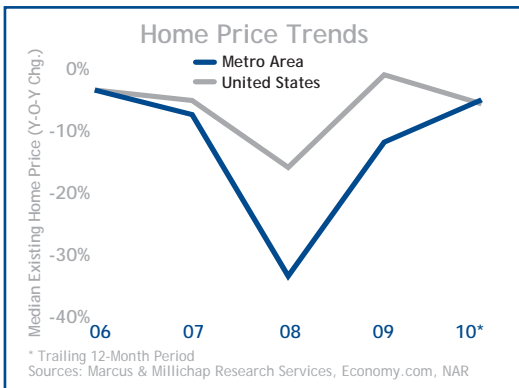


**Rents:** Rents will improve slightly in 2010, as large-property asking rents will advance 0.4 percent to \$1,058 per month as effective rents rise 1.3 percent to \$993 per month. Last year, asking and effective rents receded 5.5 percent and 6.7 percent, respectively.



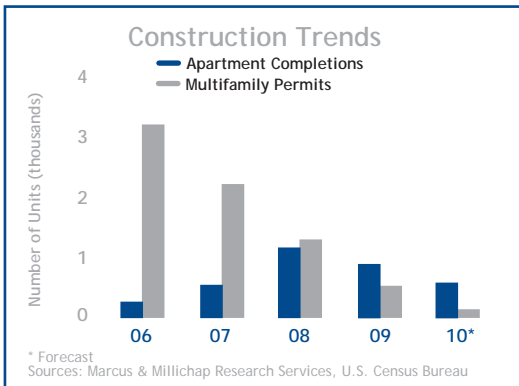
## ECONOMY

- ◆ Only 400 jobs were created in the county during the first half of the year. Still, the results marked a substantial improvement from the corresponding period in 2009, when 28,800 positions were eliminated.
- ◆ The expansion of the government sector contributed heavily to job creation in the first half of 2010, as 1,600 positions were added. By contrast, private-sector employers cut jobs in four of the first six months of 2010, resulting in a net loss of 1,200 workers.
- ◆ Growth in six private employment sectors during the first half was offset by significant job cuts in other sectors, particularly construction. The trade, transportation and utilities and professional and business services sectors, for example, added a combined 4,100 workers in that time, while 5,500 construction jobs were slashed.
- ◆ **Outlook:** The role of the government sector as an employment engine will diminish in the second half as census work ends. The private sector, however, will begin to restore staffing levels as the economy recovers, resulting in the creation of 1,100 jobs this year, a 0.2 percent gain.



## HOUSING AND DEMOGRAPHICS

- ◆ Builders pulled permits for 920 single-family homes in the 12 months ending in the second quarter, a 48 percent increase from a year earlier but one of the lowest 12-month totals on record. Permitting will decline further in the months ahead due to the expiration of the first-time homebuyer tax credit.
- ◆ Multifamily permit issuance remains depressed, as fewer than 100 units were permitted in the past 12 months. In contrast, an average of 4,200 units were issued annually in the five years preceding the onset of the recession.
- ◆ Approximately 16,500 existing single-family homes sold in the county during the one-year period ending in the second quarter, marking an increase of 43 percent from one year earlier. The median price rose 8 percent in the last 12 months to \$208,000.
- ◆ **Outlook:** The virtual stoppage of permitting for multifamily construction will greatly minimize additions to apartment stock in the quarters ahead, clearing the way for strengthening demand to stimulate improvement in operating fundamentals.

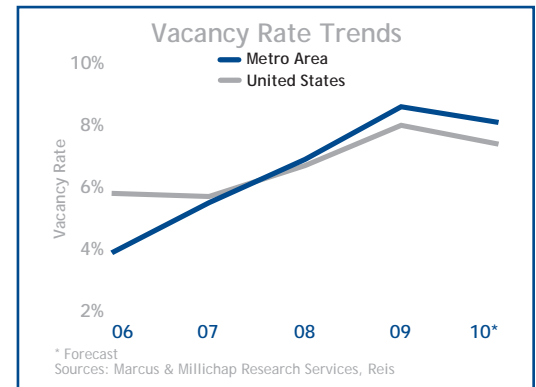


## CONSTRUCTION

- ◆ Multifamily developers completed nearly 1,400 units in the 12 months ending in the second quarter, a 1.9 percent addition to the inventory of large properties. In the preceding one-year stretch, 1,022 apartments came online.
- ◆ The 481-unit Alexan Solero in the Plantation submarket was the only property completed in the metro during the second quarter.
- ◆ Only an 86-unit complex, the Villas by the Sea in the Oakland Park submarket, is under construction; the property will come online in 2011. Approximately 1,800 units are planned in the county, about the same number as early this year.
- ◆ **Outlook:** In 2010, developers will complete 549 units in two large properties, compared with the delivery of 862 units last year.

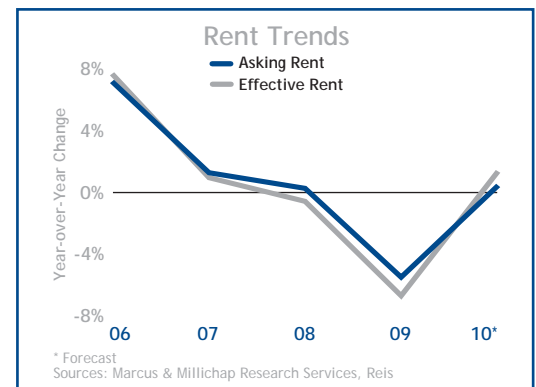
## VACANCY

- ◆ The release of pent-up demand and the migration of former homeowners to rental housing contributed to a 90 basis point drop in the large-property vacancy rate to 7.6 percent in the first quarter. Year to date, nearly 1,300 units were absorbed in the county, lowering the vacancy rate 100 basis points.
- ◆ The use of aggressive leasing incentives in high-vacancy submarkets such as Fort Lauderdale helped reduce the countywide Class A vacancy rate by 20 basis points in the second quarter to 6.6 percent. In the first half of the year, Class A vacancy fell 80 basis points on net absorption of more than 900 units.
- ◆ Following a 20 basis point uptick in this year's opening quarter, Class B/C vacancy decreased 150 basis points in the second quarter to 8.3 percent. More than 600 units were absorbed in the quarter, although projected soft job growth will not generate as much new demand in the second half of this year.
- ◆ **Outlook:** In 2010, vacancy will decline 50 basis points to 8.1 percent, the lowest rate since early 2009. Last year, vacancy spiked 170 basis points.



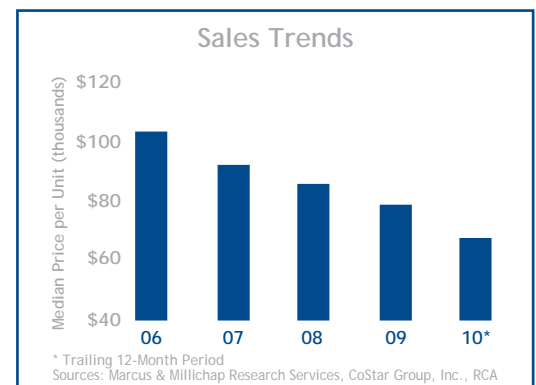
## RENTS

- ◆ Average asking rents at large properties in the county fell 0.2 percent in the second quarter to \$1,061 per month but rose 0.7 percent year to date, the best six-month period in two years. Effective rents increased 0.8 percent in the second quarter to \$995 per month, after a 0.7 percent advance in the previous quarter.
- ◆ Class B/C asking rents of \$903 per month are unchanged year to date, following a 0.6 percent downturn in the second quarter. Class A asking rents slipped 0.1 percent in the second quarter to \$1,257 per month but have increased 0.9 percent since the end of last year as owners take advantage of recent declines in vacancy.
- ◆ Recent increases in concessions started to reverse in the second quarter. During the period, concessions equaled 6.2 percent of asking rents, down 90 basis points year to date and about the same level as a year ago.
- ◆ **Outlook:** Asking rents will advance 0.4 percent this year to \$1,058 per month, and effective rents will inch up 1.3 percent to \$993 per month.



## SALES TRENDS\*\*

- ◆ Transaction velocity has increased considerably in thus far in 2010, More buyers have re-entered the market, sustaining a steady flow of deals and intensifying bidding.
- ◆ Despite the uptick in deal flow, prices continue to decline. Prices in deals executed this year generally range from \$45,000 per unit to \$55,000 per unit, down from more than \$60,000 per unit one year ago.
- ◆ Cap rates for stabilized Class B/C properties in solid locations start at 7 percent and range as high as 8.5 percent for assets in secondary areas.
- ◆ **Outlook:** Price declines offer additional evidence that solid investment opportunities continue to emerge, as rents support valuations. At current prices and rents, buyers are able to garner steady cash flows, making it possible to realize long-term potential upsides.



\*\* Data reflect a full 12-month period, calculated on a trailing 12-month basis by quarter.

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## CAPITAL MARKETS

By WILLIAM E. HUGHES, SENIOR VICE PRESIDENT, MARCUS & MILLICHAP CAPITAL CORPORATION

- ◆ Mixed economic indicators, stock market volatility and concerns surrounding the European debt crisis continue to drive investors to safety. As a result, the yield on the 10-year U.S. Treasury has declined since peaking at 4 percent in April; as of late July, the yield had fallen to 3 percent.
- ◆ Capital markets loosened over the past year, with life insurance companies ramping up lending and CMBS showing renewed signs of life. Nonetheless, the agencies remain the dominant sources of multifamily lending. This trend will continue through 2010 as the GSEs' multifamily portfolios outperform their residential mortgage operations, reducing the likelihood of drastic government-mandated changes to their apartment lending arms.
- ◆ Multifamily loan originations increased 37 percent in the second quarter but remained below levels reported during the same period last year. Fannie Mae and Freddie Mac's origination volume followed a similar pattern, rising in the second quarter but falling short of year-earlier levels.
- ◆ Loan-to-values range from 60 percent to 75 percent for portfolio lenders and push up to around 80 percent for best-of-class, agency-financed deals. All-in rates for five-year agency loans fall into the low-4 percent range, while 10-year loans price between 4.75 percent and 5.15 percent. While life companies will compete at these levels for best-of-class deals, most portfolio lenders are 100 basis points to 225 basis points higher.

## SUBMARKET OVERVIEW

- ◆ Planned projects represent only 2.4 percent of the existing inventory of large rental properties. The biggest planned property is the 650-unit Deerfield Station in the Deerfield Beach submarket. No start date is set.
- ◆ Recent changes in the state's gambling laws will make it easier for racinos and casinos to expand, including the two Seminole-owned facilities in Hollywood. The changes are expected to yield a revenue windfall for Broward County while creating an untold number of jobs.
- ◆ In the East Hollywood/Hallandale submarket, the decline in large-property vacancy over the past year featured a 70 basis point drop in the average Class B/C rate to 8 percent. Owners of lower-tier assets also were able to raise asking rents roughly 3 percent in that time to \$1,048 per month.

## SUBMARKET VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Davie	4.8%	-150	\$1,098	-1.8%
2	East Hollywood/Hallandale	5.8%	-270	\$1,037	-1.8%
3	Coral Springs/Margate	5.9%	-30	\$1,052	-0.9%
4	Miramar/Pembroke Pines	6.0%	-140	\$1,109	-1.6%
5	Oakland Park	7.5%	-230	\$916	0.1%
6	Sunrise/Tamarac	8.4%	190	\$950	0.9%
7	Pompano Beach	8.5%	-70	\$902	0.4%
8	Plantation	9.6%	530	\$1,138	-2.2%
9	Lauderhill/Lauderdale	10.1%	-390	\$828	1.2%
10	Fort Lauderdale	12.1%	-690	\$1,100	-8.7%