

FUNDAMENTALS SOFTER, BUT POCKETS OF STRENGTH EXIST

Segments of the Miami-Dade County apartment market are performing fairly well, despite a recession that has reduced total employment by more than 57,000 workers. Vacancy is less than 6 percent at Class B/C properties, although rents have declined so far this year as owners attempt to retain tenants. While Class B/C rental demand has softened, traditionally strong submarkets such as Hialeah and North Miami/Bayshore still have vacancy rates of 4 percent or less at lower-tier properties. Elsewhere, many condominiums in downtown Miami are being employed as rentals. Recent trends suggest that the North Miami Beach/Bal Harbour and South Beach/Miami Bayshore submarkets have been most affected by shadow rentals. Thus far in 2009, Class A vacancy in the submarkets has climbed 450 basis points to 8.7 percent due to a sizable 4.7 percent drop in demand, while Class B/C vacancy also has risen. Owners of properties in the submarket have hiked concessions to 8.2 percent of asking rents, considerably more than the marketwide rate. As condo prices continue to fall, additional nonresident buyers are likely to rent units to generate cash.

Transaction velocity declined only slightly over a recent 12-month stretch, providing another sign that the market continues to revert to a normal and sustainable pace of activity. Transactions involving small properties especially are occurring at a robust pace. In the past 12 months, more than 90 percent of all deals have involved properties selling for \$5 million or less, reflecting not only a predominant product type in the county but also lender preferences. Small assets in established core neighborhoods with solid demand drivers will likely continue to draw strong investor interest, as financing for this type of product is available. Purchases of larger properties are expected to require greater equity commitments on the behalf of prospective buyers. Distressed or forced sales have yet to occur to a significant degree. Assets purchased in 2005 and 2006 and underwritten on aggressive rent growth assumptions, though, may be especially susceptible to financial distress as vacancy and concessions rise.

2009 ANNUAL APARTMENT FORECAST



Employment: Reductions in employment started to moderate in the third quarter and will continue to ease over the remainder of 2009. For the year, 27,000 positions are expected to be cut in the county, a decline of 2.6 percent but an improvement from last year, when 36,400 workers were let go.



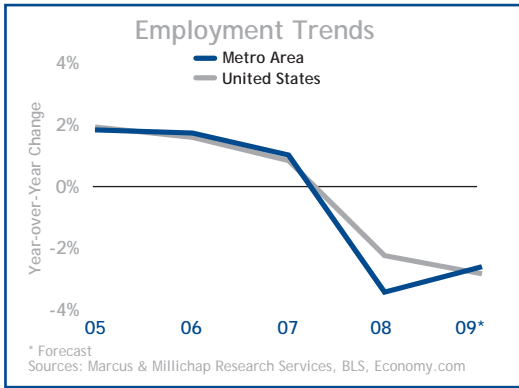
Construction: This year, developers will complete 340 units, compared with 507 units in 2008. A large number of condos employed as rentals, however, remains the most significant factor affecting near-term supply-side fundamentals.



Vacancy: Shadow stock will continue to place upward pressure on vacancy at high-end rental properties, while demand for Class B/C units will remain soft. As a result, marketwide vacancy is expected to climb 170 basis points to 6.7 percent in 2009. Last year, vacancy rose 100 basis points.

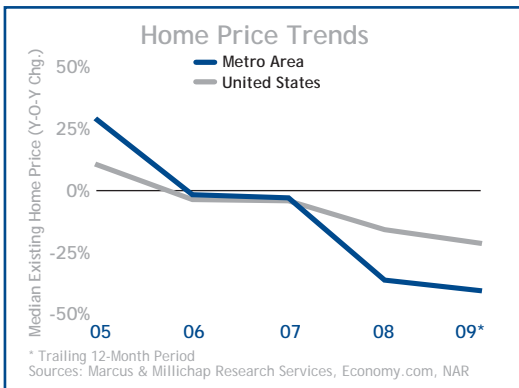


Rents: Asking rents are projected to fall 3.4 percent this year to \$1,066 per month, a level last recorded in 2006. Effective rents are forecast to dip 4.7 percent to \$992 per month, the lowest level in four years.



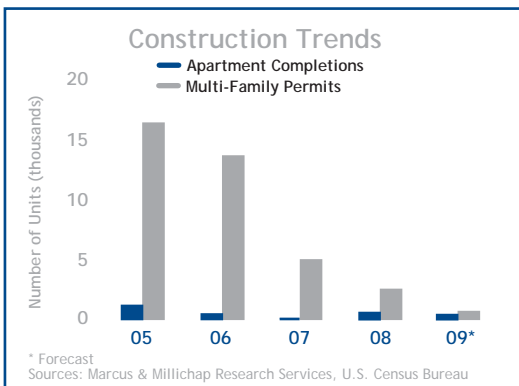
ECONOMY

- ◆ Employers in Miami-Dade County cut an estimated 2,300 jobs in the third quarter. Year over year, total employment in the county has contracted 3 percent, as 30,800 jobs have been eliminated.
- ◆ Store closures and a drop in port-related activity contributed to the loss of 6,500 positions in the trade, transportation and utilities sector during the most recent 12-month period, a decline of 2.5 percent. Construction employment decreased by 13.2 percent, or 6,000 workers, as residential projects were completed.
- ◆ The unemployment rate was expected to reach 10.9 percent in the third quarter, up from 6.1 percent one year earlier and a 6.4 percent rise from the start of 2009. Rental housing demand has faltered as a result of increased joblessness in the county.
- ◆ **Outlook:** Reductions in employment started to moderate in the third quarter and will continue to ease over the remainder of 2009. For the year, 27,000 positions will be cut in the county, a decline of 2.6 percent but an improvement from last year, when 36,400 workers were let go.



HOUSING AND DEMOGRAPHICS

- ◆ Multi-family permitting continues to fall as developers work off an overhang of units built during the recent housing boom. In the past 12 months, permits for 900 units of multi-family housing have been issued, down 63 percent from one year earlier. Multi-family completions have dropped more than 50 percent to 3,000 units during the same period.
- ◆ The for-sale housing bubble continues to deflate. The median price of an existing single-family home in the county decreased 45 percent in the 12 months ending in the third quarter to an estimated \$155,200.
- ◆ At the current median price, single-family homes are affordable to households earning more than \$40,100 per year, a level encompassing less than half of the households in Miami-Dade County. The median household income in the county is currently about \$39,400 per year.
- ◆ **Outlook:** Lower prices and a large supply of unsold housing will likely cause some Class A renters to migrate to for-sale housing, especially as the employment market and sentiment improve. For many other residents, Class B/C rentals remain the most cost-efficient housing option.

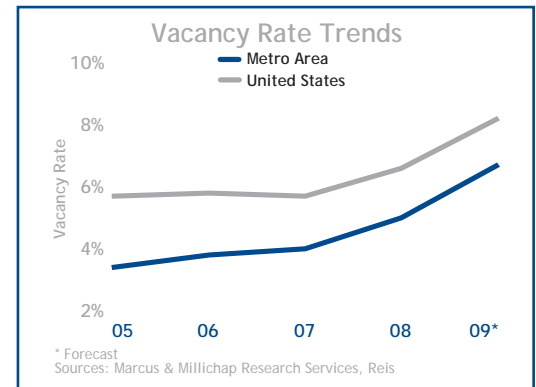


CONSTRUCTION

- ◆ Rental stock has expanded 0.2 percent over the past year. Only a single 172-unit complex in the Miami submarket has been completed in that time.
- ◆ No rental projects have been delivered thus far in 2009. For all multi-family properties, only 843 units have been started in the last 12 months, a decline of 67 percent from one year ago. An excess of unsold multi-family units will continue to discourage builders.
- ◆ More than 1,400 units are under construction in the county. The total includes about 340 units that are slated for delivery yet this year.
- ◆ **Outlook:** In 2009, developers will complete 340 units, compared with 507 units last year. A large number of condos employed as rentals remains the most significant factor affecting near-term supply-side fundamentals.

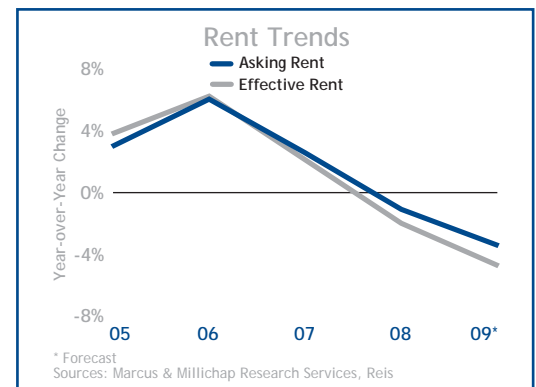
VACANCY

- ◆ Preliminary figures suggest that vacancy rose 40 basis points in the third quarter to 6.2 percent, as renter demand remains soft. In the past year, the vacancy rate has climbed 100 basis points.
- ◆ Class A vacancy was 7.5 percent in the third quarter, 40 basis points more than in the preceding quarter. Competition for renters from shadow stock and reduced demand related to job losses have pushed up the vacancy rate 210 basis points so far this year.
- ◆ In the Class B/C segment, third quarter vacancy is much tighter at 5.7 percent. Still, vacancy ticked up 40 basis points in the period as job losses accumulated and the unemployment rate increased. Since the start of the year, Class B/C vacancy has risen 90 basis points, marking a 0.9 percent decline in occupied units, or demand.
- ◆ **Outlook:** Shadow stock will continue to place upward pressure on vacancy at high-end rental properties, while demand for Class B/C units will remain soft. As a result, marketwide vacancy is expected to climb 170 basis points this year to 6.7 percent.



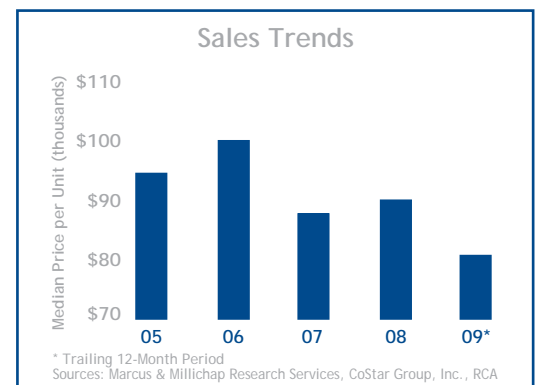
RENTS

- ◆ The lower vacancy rate in the Class B/C segment has been maintained at the expense of rents. A 3.5 percent year-over-year drop in Class B/C asking rents to \$966 per month has driven a 3 percent decrease in overall asking rents to \$1,085 per month. Year to date, Class B/C asking rents are down 2.2 percent, compared with a 1.7 percent decline in asking rents at all properties.
- ◆ Class A asking rents have tumbled 2.1 percent since the third quarter of last year to \$1,431 per month and also have declined 0.5 percent so far in 2009. Class A asking rents will continue to be affected by the deployment of unsold condos as rentals.
- ◆ Marketwide effective rents dropped 4.4 percent to \$1,013 per month in the 12 months ending in the third quarter. As a result, concessions have risen from 5.3 percent of asking rents one year ago to 6.6 percent of asking rents.
- ◆ **Outlook:** Asking rents are projected to fall 3.4 percent this year to \$1,066 per month, a level last recorded in 2006. Effective rents are forecast to dip 4.7 percent to \$992 per month, the lowest level in four years.



SALES TRENDS**

- ◆ The investment market is reverting to a normal level of activity. Transaction velocity declined only 10 percent during a recent 12-month period.
- ◆ The median price in transactions closed over the past year was \$80,700 per unit, a decrease of 10 percent from the preceding 12-month stretch.
- ◆ Cap rates are estimated to range from about 8 percent for properties with stable operations and in sound physical condition to more than 9 percent for lesser-quality assets.
- ◆ **Outlook:** Prices will continue to adjust to softer operating conditions and investors' higher cap rate requirements. Small, older complexes in good shape and with proven operating histories will garner considerable attention when brought to market.



** 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

- ◆ Compared to other core property sectors, apartments have fared best due to the availability of financing through government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac. Recent modifications to GSE guidelines will impact lender decisions, however, as borrower requirements include more substantial apartment ownership experience.
- ◆ Loan-to-value requirements range from 55 percent to 75 percent. Portfolio lenders are issuing loans at all-in rates of 6.00 percent to 6.75 percent for a five-year term and 6.9 percent to 8.0 percent for a 10-year term. Rates among agency lenders are roughly 100 basis points to 150 basis points lower. The government's creation of a conservatorship for Fannie Mae and Freddie Mac has most likely boosted confidence in the two GSEs, putting downward pressure on rates, but it also creates several near-term uncertainties, as the conservatorship is due to expire at the end of the year.
- ◆ Delinquencies will rise further as a wave of maturities approaches; however, at-risk borrowers may find lenders amenable to loan extensions/modifications. Furthermore, Freddie Mac is under way on its second securitization of multi-family debt this year, and the government's TALF program is expected to at least provide a much-needed spark to the traditional CMBS market.

SUBMARKET OVERVIEW

- ◆ Despite the recent overbuilding in multi-family housing, the pipeline of planned rental projects contains 2,300 units, or about 2 percent of existing rental stock. Much of the planned stock is in the Miami submarket, while there are no planned projects in high-demand areas such as Coral Gables and Hialeah.
- ◆ Tenant demand remains strong in the Hialeah submarket, with vacancy of 3 percent. Concessions in the area are only 2.5 percent of asking rents, down from 2.9 percent of asking rents at the end of 2008.
- ◆ Year to date, concessions in the Miami submarket have climbed 190 basis points to 9.5 percent of asking rents. Greater use of concessions has contributed to a 30 basis point drop in vacancy this year, including a 50 basis point fall in the Class A rate to 4.1 percent.

SUBMARKET VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Hialeah	3.0%	0	\$829	-0.1%
2	South Dade/Homestead	4.0%	100	\$653	-4.0%
3	North Dade	4.1%	50	\$863	-6.9%
4	North Miami/Bayshore	4.3%	-70	\$799	-2.9%
5	Kendall Lakes/Coral Gables	4.5%	180	\$1,103	1.7%
6	Miami Lakes	4.5%	-210	\$978	-3.0%
7	Miami	4.7%	-20	\$892	-6.1%
8	South Beach/Miami Bayshore	6.1%	50	\$1,432	-5.4%
9	North Miami Beach/Bal Harbour	9.4%	330	\$1,278	1.1%
10	Opa-Locka/Brownsville	12.2%	300	\$583	-10.3%