ApartmentResearch
MARKET UPDATE
Marcus & Millichap

Jacksonville Metro Area *Third Quarter 2009*

Completions Remain Elevated in Jacksonville

Primary measures of property performance in Jacksonville will continue to be affected by the completion of new rentals and a decline in demand associated with job losses. As 25,100 positions were trimmed in the past 12 months, apartment vacancy in the market rose 240 basis points. While the pace of employment cuts has started to ease and is likely to slow further over the remainder of 2009, owners of rental properties will not see a recovery in demand until employers begin to add jobs. Supply growth, meanwhile, remains a factor. Nearly 1,600 units have been delivered in the last year, representing an expansion of rental stock of 1.8 percent. Additional inventory is scheduled to be put into service by year end, although some property openings could be postponed if pre-leasing is slow. Supply-side pressures, though, may be lessening. Despite projects that are under way and slated for delivery in 2010, both multi-family permit issuance and construction starts have fallen 38 percent over the past year. A respite in construction activity will provide an opportunity for owners to improve property performance before the next wave of building.

In the investment arena, activity has been slow over the past 12 months. Buyers continue to wait for distressed or deeply discounted assets to come to market, and, thus far, few of these opportunities have emerged. Property financing also remains challenging, even though credit markets continue to loosen gradually. With small deals preferred by lenders, such transactions have dominated sales activity recently. During the last year, the average deal size was $6.4 million, compared with more than $20 million in the preceding 12 months. Higher equity requirements, plus lenders' aversion to single-asset exposure, will likely limit the number of large deals that will be done in the near term. Properties will be underwritten for greater vacancy in the quarters ahead, with burn-off of concessions not expected until the early stages of an economic recovery, perhaps in mid- or late 2010.

2009 Annual Apartment Forecast

2.9% decrease in total employment

Employment: Total employment in the metro area fell 4 percent in the 12 months ending in the second quarter, but the pace of job cuts has started to ease. For the year, employment is projected to contract 2.9 percent, or by 17,800 workers. In 2008, 23,800 positions were shed.

1,700 units will be completed

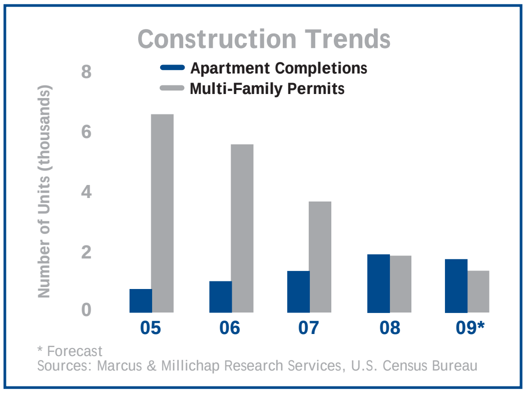
Construction: Builders will complete 1,700 rentals in 2009, down from 1,900 units last year. Supply will continue to expand, as 1,400 units are slated for delivery next year, and an additional 5,200 units are planned.

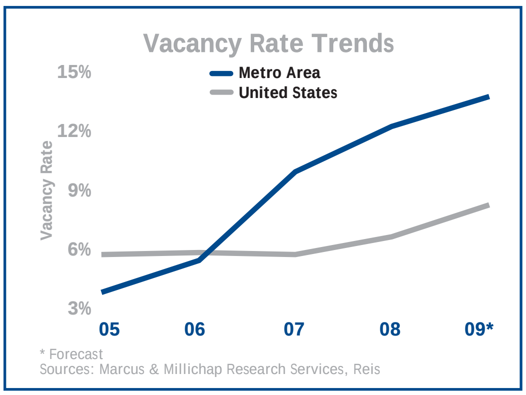
150 basis point increase in vacancy

Vacancy: Supply growth will offset weak demand, resulting in a 150 basis point jump in the vacancy rate this year to 13.7 percent. In 2008, the vacancy rate rose 230 basis points.

1.5% decrease in asking rents

Rents: In 2009, asking rents are forecast to decline 1.5 percent to $788 per month, while effective rents are expected to drop 3.2 percent to $733 per month. Asking rents ticked up 0.5 percent last year, accompanied by a 0.1 percent increase in effective rents.





Construction

- New rentals continue to be placed into service. Builders delivered approximately 1,600 apartments in the 12 months ending in the second quarter, compared with 1,900 units in the preceding one-year span.
- So far this year, 655 units have come online. Significant projects completed include the 312-unit Westridge in the Lake Shore submarket and 279 units at the Tattersall at Tapestry Park in the Tinseltown area.
- Construction activity remains elevated, as 2,900 rentals are under way in the market. The total consists of 1,048 units scheduled for delivery yet this year and spread across several submarkets.
- **Outlook:** Builders will complete 1,700 rentals in 2009, down from 1,900 units last year. Supply will continue to expand in the near term, as 1,400 units are slated for addition next year.

Vacancy and Rents

- Although a seasonal fluctuation in demand reduced the marketwide vacancy rate 30 basis points in the second quarter to 13.1 percent, vacancy has risen 90 basis points thus far in 2009. Year to date, an increase in stock has offset a reduction in occupied units resulting primarily from job losses.
- The vacancy rate has ticked up in nine of 13 submarkets so far this year. In the Southside/Bay Meadows submarket, vacancy has climbed 130 basis points year to date to 8.5 percent due to a decline in demand for Class B/C apartments. Among the submarkets where vacancy has improved, vacancy has fallen 420 basis points since year-end 2008 in the Southside/University Boulevard submarket but remains elevated at 20.1 percent.
- So far in 2009, asking rents have risen 0.2 percent to $802 per month due to a 0.3 percent increase in Class B/C asking rents; Class A asking rents have slid 0.4 percent year to date. Effective rents of $754 per month are down 0.4 percent since the start of the year, raising concessions to 6 percent of asking rents, compared with 5.4 percent of asking rents at year-end 2008.
- **Outlook:** Supply growth will offset weak demand, resulting in a 150 basis point jump in the vacancy rate this year to 13.7 percent. Asking rents are forecast to decline 1.5 percent to $788 per month, while effective rents are expected to drop 3.2 percent to $733 per month.

Sales Trends

- In the past 12 months, transaction velocity has decreased 45 percent, based upon a small number of deals.
- The median price in deals closed during the last year was $34,700 per unit. Comparisons to the year-earlier period are misleading due to low velocity. The median price in 2007, the last year in which a significant number of transactions occurred, was $49,400 per unit.
- Generally, cap rates on new listings range from 8 percent to 9 percent.
- **Outlook:** In the quarters ahead, prices will continue to come under pressure as rising vacancy and concessions reduce property income. Investors will underwrite conservatively, taking into account the competition from new units.

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