

## AFTER THREE QUARTERS, VACANCY PUSHES HIGHER IN COUNTY

Additional job losses and rising unemployment will erode apartment fundamentals over the remainder of the year in Palm Beach County. After defying the recession by posting three consecutive quarters of modest declines, the countywide vacancy rate rose slightly in the second quarter of this year, accompanied by a drop in rents. In the months ahead, supply-side pressures will remain minimal, as the project pipeline is thin and permitting activity has tapered. Apartment demand will remain soft, though, as most employment sectors continue to reduce payrolls; thus far in 2009, only the government sector has added jobs. Also, population growth in the county has been adversely affected by the inability of residents in other areas to sell homes and relocate. Estimated net migration during the 12 months ending in the second quarter fell 10 percent to 3,500 individuals, compared to the average arrival of more than 20,000 new residents in each quarter during the middle of this decade. Single-family home foreclosures, meanwhile, remain prevalent and have forced a number of county residents into rental housing. Many foreclosed homeowners have left the region, however, mitigating the benefit to the apartment sector.

At the halfway point of 2009, investment activity in the county remains subdued. Only a few deals have been transpired so far this year, as concerns over the economy and stringent financing requirements have relegated many prospective buyers to the sidelines. Nonetheless, in recent deals, prices appear to have come down sufficiently to generate some buyer interest. Cap rates for newly listed product generally start at about 8 percent and can range as high as 10 percent, depending on asset quality and location. Key areas of interest for prospective buyers include Boca Raton, where fundamentals have held up fairly well during the downturn, as well as West Palm Beach and Boynton Beach. Very few sales of distressed properties have yet to occur, but some properties bought at the peak of the market in 2005 and 2006 could encounter difficulties in the quarters ahead as softening fundamentals reduce property income.

### 2009 ANNUAL APARTMENT FORECAST



**Employment:** In 2009, employers in Palm Beach County are projected to eliminate 22,000 jobs, a 4.1 percent reduction. Last year, 23,400 jobs were shed.



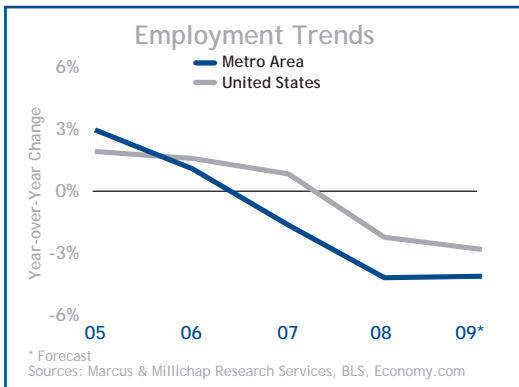
**Construction:** This year, 494 units are slated for delivery in the county. In 2008, 207 units were added to stock.



**Vacancy:** The lingering recession will take a toll on apartment demand as the year progresses. In 2009, the countywide vacancy rate is expected to rise 150 basis points to 9.4 percent, after a 10 basis point decline last year.



**Rents:** Asking rents are forecast to decrease 3.8 percent this year to \$1,067 per month, following a 0.4 percent drop in 2008. Effective rents are expected to decline 4.8 percent to \$991 per month, one year after sliding 0.7 percent.

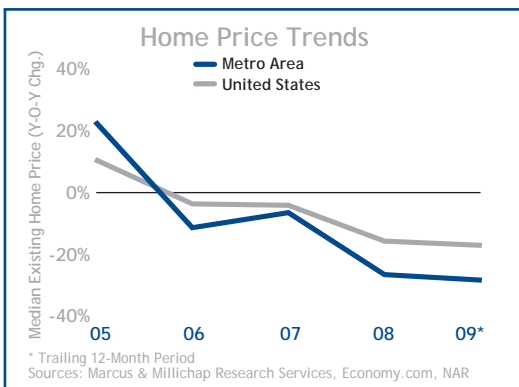


## ECONOMY

- ◆ In the 12 months ending in the second quarter, employers in the county trimmed 24,100 workers from payrolls, including 14,900 jobs so far this year. More than 38,000 residents have lost their jobs during this recession, a 6.9 percent decline in total employment.
- ◆ Thus far in 2009, construction employment has contracted 10 percent, or by 3,300 positions. Professional and business services employers have cut 4,600 jobs, a 5 percent reduction.
- ◆ Job losses pushed the countywide unemployment rate to 10.6 percent in the second quarter, up from 6.3 percent one year earlier. The rate is projected to climb to nearly 11 percent this year. Rising unemployment is discouraging household formation.
- ◆ **Outlook:** In 2009, employers in Palm Beach County are projected to eliminate 22,000 jobs, a 4.1 percent reduction. Last year, 23,400 jobs were shed.

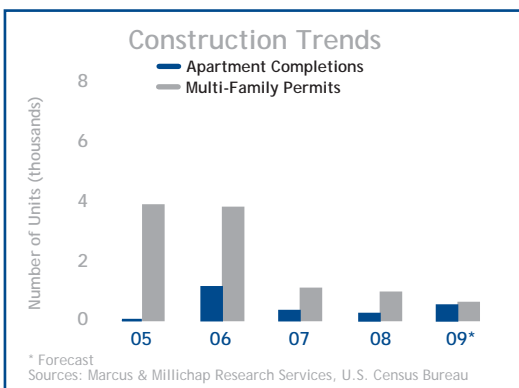
## HOUSING AND DEMOGRAPHICS

- ◆ Permitting continues to recede from the high levels recorded earlier this decade. In the 12 months ending in the second quarter, permits for 1,650 units of housing were issued, a decline of 42 percent from one year earlier. Annual permit issuance reached 16,100 units five years ago.
- ◆ Sales of foreclosed homes helped to drive down the median price of an existing single-family residence 34 percent during the 12 months ending in the second quarter to \$212,200. The median price reached a high of \$419,000 at the end of 2005.
- ◆ Job cuts have reduced the median household income 7 percent over the past year to \$51,460 annually. Still, a substantial adjustment in home prices has improved affordability. The current median household income in the county covers 143 percent of the monthly mortgage payments on the median-priced home, compared with 88 percent one year ago.
- ◆ **Outlook:** Weak job prospects and greater aversion to taking on debt will continue to deter renters from taking the steps toward homeownership.



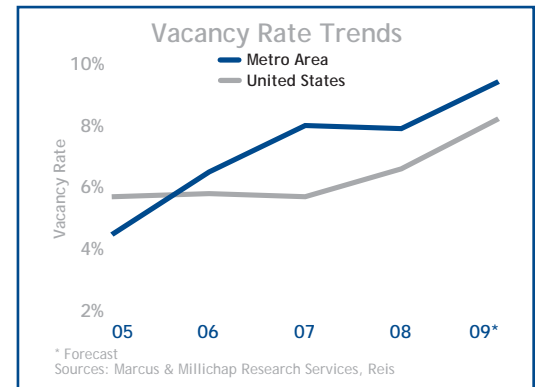
## CONSTRUCTION

- ◆ No properties were completed in the second quarter. In the past 12 months, only one 207-unit project was delivered in the county.
- ◆ Currently, 711 units in two developments are under construction. The 494-unit Las Ventanas in Boynton Beach is slated for delivery this year. The other project, the 217-unit Worthing Place in Delray Beach, is scheduled for completion in the second quarter of 2010.
- ◆ In the 12 months ending in the second quarter, permits for approximately 800 units of multi-family housing were issued in the county, a decline of 24 percent from one year earlier. Multi-family starts fell 29 percent year over year to 644 units in the second quarter.
- ◆ **Outlook:** This year, 494 units are slated for delivery in the county. In 2008, 207 units were placed into service.



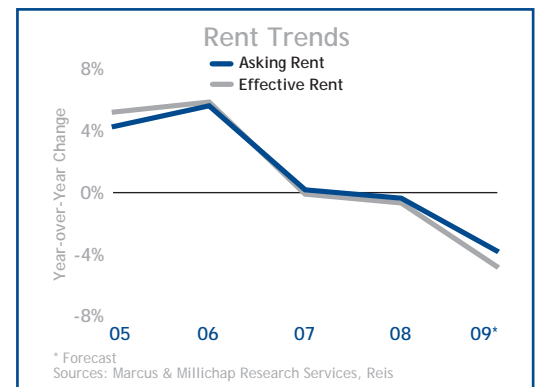
## VACANCY

- ◆ A rise in the unemployment rate related to the loss of 6,500 jobs in the second quarter underpinned a 40 basis point increase in vacancy to 8.2 percent during that period. In the past 12 months, however, vacancy has been flat.
- ◆ Foreclosures and demand for housing from residents unable to afford single-family homes have affected the Class A sector. Upper-tier vacancy of 7.3 percent in the second quarter was 100 basis points less than one year earlier; however, the rate rose 40 basis points in the last three months.
- ◆ Class B/C vacancy was 8.5 percent in the second quarter, an increase of 40 basis points from the first quarter this year and from the corresponding period in 2008. Higher unemployment is forcing some renters to vacate units and consolidate households with others.
- ◆ **Outlook:** The lingering recession will take a toll on apartment demand as the year progresses. In 2009, the countywide vacancy rate is expected to rise 150 basis points to 9.4 percent, after a 10 basis point decline last year.



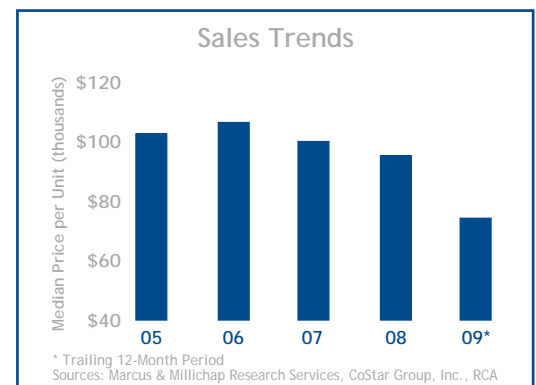
## RENTS

- ◆ Asking rents for all properties fell 1.1 percent in the second quarter to \$1,098 per month. Asking rents were flat in the first quarter, following decreases in each of the preceding three quarters. Effective rents slid 1.7 percent to \$1,023 per month in the second quarter and are down 2.1 percent over the past year.
- ◆ Class A asking rents dropped 0.9 percent to \$1,295 per month in the second quarter; rents in the top tier are also 1.5 percent less than one year ago. Class B/C asking rents declined 1.3 percent to \$945 per month in the second quarter and have fallen 1.3 percent year over year.
- ◆ Marketwide concessions were equal to 6.6 percent of asking rents in the second quarter, compared with 6.2 percent of asking rents in this year's opening period and 6.1 percent of asking rents at this time in 2008.
- ◆ **Outlook:** Asking rents are forecast to decrease 3.8 percent this year to \$1,067 per month, following a 0.4 percent drop in 2008. Effective rents are expected to decline 4.8 percent to \$991 per month, one year after sliding 0.7 percent.



## SALES TRENDS\*\*

- ◆ Very few deals took place in the first half of 2009. As a result, transaction velocity has fallen more than 50 percent in the past 12 months and is down about 90 percent from the peak of the market four years ago.
- ◆ Based on a limited number of transactions, the median price of properties sold in the last year was \$74,200 per unit, a decline of 22 percent from the preceding 12-month period.
- ◆ Cap rates on new listings start at approximately 8 percent and range up to 10 percent, depending on asset quality, location and the seller's motivation.
- ◆ **Outlook:** Buyers will continue to move cautiously due to the ongoing recession, while owners able to ride out the current downturn in fundamentals will wait for an economic recovery to list assets.



\*\* 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

- ◆ During the first quarter, multi-family mortgage originations were 61 percent below year-earlier levels and 79 percent lower than the late-2006 peak. Though considerable, the reduction in apartment originations remains less significant than declines among other core commercial property types, due largely to the availability of financing through Fannie Mae and Freddie Mac.
- ◆ Portfolio lenders are issuing apartment financing at all-in rates of 6.0 percent to 6.3 percent for three-year loans and up to 6.8 percent to 7.5 percent for a 10-year term. Loan-to-value requirements range from 55 percent to 75 percent.
- ◆ Agency lenders are offering five-year loans at all-in rates of 4.8 percent to 5.0 percent with 10-year mortgages available at rates averaging 5.35 percent and 5.7 percent, respectively. Maximum leverage among agency lenders ranges from 55 percent to 75 percent.
- ◆ Freddie Mac recently completed a \$1 billion securitization of multi-family debt, the first issuance to hit the market since last June. The securities, dubbed "K Certificates," vary from traditional CMBS in that buyers are provided a guarantee by Freddie Mac. In addition to the potential for another similar offering, government programs designed to increase credit flows into commercial real estate could be operational by late summer/early fall.

## SUBMARKET OVERVIEW

- ◆ Planned projects consisting of 1,400 units are equal to only 2.6 percent of existing stock in the county. Proposed developments are spread among the Boca Raton East, Green Acres City/Palm Springs and West Palm Beach submarkets. No start dates have been set for any of the projects.
- ◆ In Boca Raton, the vacancy rate has risen 140 basis points to 7.8 percent in the past year. In the city's Class A buildings, though, vacancy has declined 100 basis points to 5.9 percent.
- ◆ In the Boynton Beach/Delray Beach submarket, vacancy at apartment properties built from 1980 to 1989 was 5.8 percent in the second quarter, compared with 10.1 percent in properties built since 1999. Budget-conscious renters may prefer the older buildings due to rents that are 20 percent less than rents in newer properties.

## SUBMARKET VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Green Acres City/Palm Springs	7.1%	-10	\$974	-0.2%
2	Boca Raton East	7.5%	160	\$1,200	0.5%
3	Boynton Beach/Delray Beach	7.5%	-70	\$1,059	-1.4%
4	Boca Raton West	7.9%	120	\$1,149	-1.5%
5	Century Village	9.1%	30	\$852	-4.9%
6	West Palm Beach	9.5%	130	\$996	-4.3%
7	North Palm Beach	9.6%	-200	\$936	-4.4%