

INVESTORS HAMPERED BY LOW VELOCITY IN PALM BEACH COUNTY

Apartment property fundamentals will remain weak in Palm Beach County as a soft economy reduces housing demand. Some positive economic trends have emerged, however, including an increase in sales of existing single-family homes and an easing in job reductions. Nonetheless, even a possible stabilization of the economy in the fourth quarter may not spark an immediate recovery in rental housing. This year, apartment vacancy has risen to more than 8 percent as a result of slumping demand related to a weak job market. The unemployment rate in the county climbed to about 11 percent by the end of the third quarter, up from the low-7 percent range one year earlier. Not only has the number of unemployed residents swelled 50 percent to more than 69,000 over the past 12 months, but the labor force has contracted by approximately 2,800 workers, the only year-over-year decline this decade. Only a resumption in hiring will bring workers back to the market and stimulate new demand for rental housing. In the meantime, vacancy will creep up to nearly 9 percent this year, while rent concessions will rise.

Low deal flow in the first three quarters of the year has not provided prospective investors much transparency on values or cap rates, although it is estimated that cap rates start at about 8 percent for stabilized, cash-flowing assets. During periods of heavier activity three and four years ago, the median price was more than \$100,000 per unit, as buyers were purchasing either for conversion value or under the assumption that substantial rent growth would ensue. As the conversion market has dried up and rents have started to recede, property prices have declined and may not reach bottom for a few more months. Marketwide, the average revenue has declined about 4 percent year to date and is projected to fall 6.7 percent this year based on current vacancy and rent forecasts. Small, well-maintained, stabilized assets with long-tenured residents may be able to withstand the further erosion of fundamentals better than other properties.

2009 ANNUAL APARTMENT FORECAST



Employment: Job losses are expected to moderate over the remainder of the year. In 2009, employers are forecast to cut 16,000 positions for a 3 percent reduction in total employment. Last year, 23,400 workers were let go.



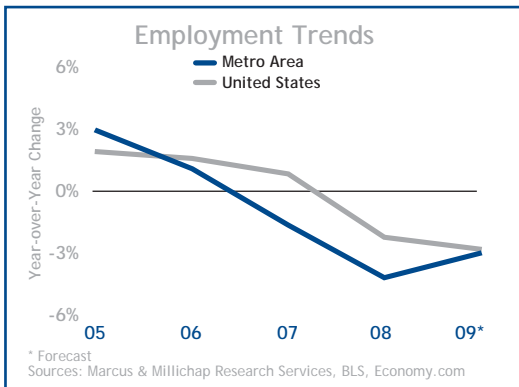
Construction: After delivering 207 units in 2008, developers will not complete a single property this year. The planning pipeline contains 1,200 units, or 2.2 percent of existing rental stock.



Vacancy: The most significant factor affecting vacancy this year will be a reduction in demand related to the weak economy. The vacancy rate is forecast to rise 100 basis points in 2009 to 8.9 percent.



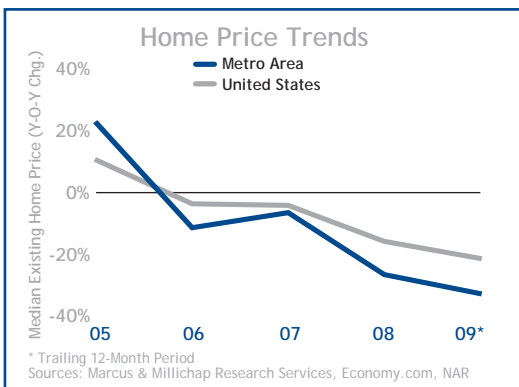
Rents: Slackened demand will hinder owners' ability to raise rents. As a result, asking rents are expected to fall 4 percent this year to \$1,065 per month, while effective rents are projected to slide 5.7 percent to \$982 per month. Asking rents declined 0.4 percent in 2008, and effective rents receded 0.7 percent.



ECONOMY

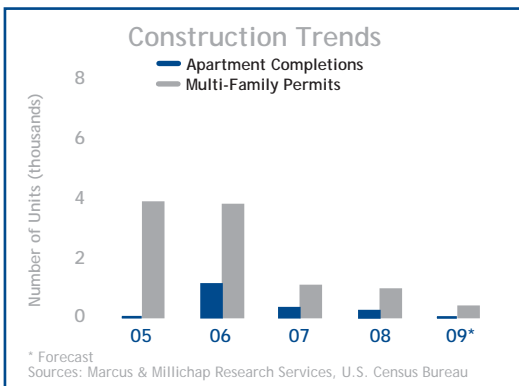
- ◆ Total employment was on track to decline 3.7 percent, or by 19,800 workers, in the 12-month span ending in the third quarter. So far this year, 14,000 positions have been cut in the county.
- ◆ With 37,400 jobs lost to date, the recession has been severe. Some sectors, however, added workers in the third quarter, signaling that the worst phase of job reductions is easing. The professional and business services and leisure and hospitality sectors hired about 3,500 workers in the first two months of the quarter, helping to offset losses in other sectors.
- ◆ The unemployment rate in the county approached 11 percent in the third quarter, compared with 7.2 percent one year earlier.
- ◆ **Outlook:** Job losses are expected to moderate over the remainder of the year. In 2009, employers are forecast to cut 16,000 positions for a 3 percent reduction in total employment. Last year, 23,400 workers were let go.

HOUSING AND DEMOGRAPHICS



- ◆ Housing supply is expanding at a slower rate. Approximately 2,100 units of single- and multi-family housing were completed in the county over the 12 months ending in the third quarter, a 41 percent drop from one year earlier. During the same period, however, the number of households in the county declined by about 1,800, creating a supply/demand imbalance.
- ◆ Permits for 1,500 units of single- and multi-family housing have been issued in the past 12 months, down 40 percent from one year ago. Further declines in issuance are expected, which will reduce future supply growth.
- ◆ The median price of an existing single-family residence in the county decreased an estimated 38 percent year over year to \$302,100 in the third quarter. The drop has spurred a 40 percent increase in velocity. A credit for first-time homebuyers also has stimulated demand.
- ◆ **Outlook:** A decline in permit issuance will help to enable the eventual realignment of housing supply and demand in the county. Demand, however, will not recover until household creation resumes, which will not occur to a significant degree until employers start to hire again.

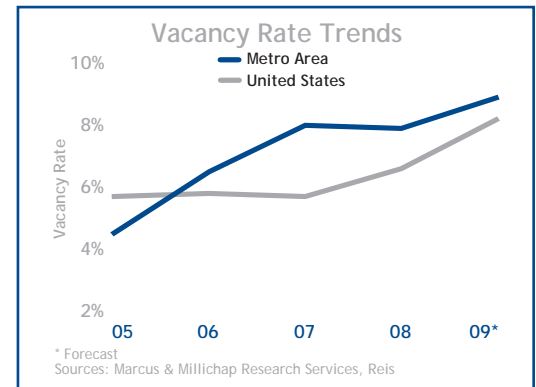
CONSTRUCTION



- ◆ Supply growth is minimal. Only 207 units have been completed in the past 12 months, none of which have come online this year.
- ◆ Economic conditions will discourage future building, while financing for projects is limited. In the 12 months ending in the third quarter, permits for 532 units of multi-family housing were issued, a decline of 42 percent from the preceding year.
- ◆ Significant rental projects under way consist of Las Ventanas in Boynton Beach, with 494 units, and 217 units at Worthing Place in Delray Beach. Both projects are slated for completion next year.
- ◆ **Outlook:** After adding 207 units in 2008, developers will not deliver a single property this year. The planning pipeline contains 1,200 units, or 2.2 percent of existing rental stock.

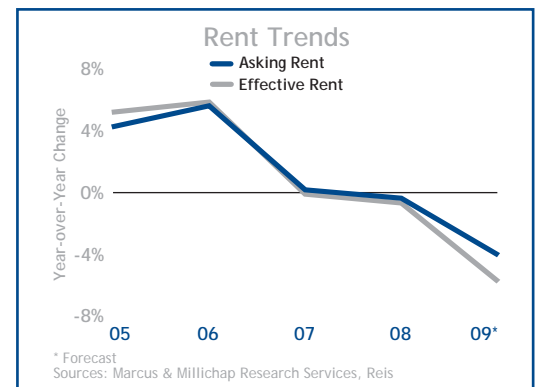
VACANCY

- ◆ The projected vacancy rate of 8.5 percent in the third quarter was the highest in five years. Vacancy climbed 30 basis points in the quarter, as demand was weak. So far this year, the vacancy rate in the county has increased 60 basis points.
- ◆ Class A vacancy rose an estimated 30 basis points during the third quarter to 8.2 percent as tenant demand slackened. This year, vacancy in high-end complexes has jumped 90 basis points on a 1 percent drop in occupied units, or demand.
- ◆ Vacancy in the Class B/C segment was projected to hit 8.8 percent in the third quarter, an increase of 30 basis points from the preceding quarter. Year to date, lower-tier vacancy has inched up 40 basis points.
- ◆ **Outlook:** The most significant factor affecting vacancy this year will be a reduction in demand related to the weak economy. The vacancy rate is forecast to rise 100 basis points in 2009 to 8.9 percent.



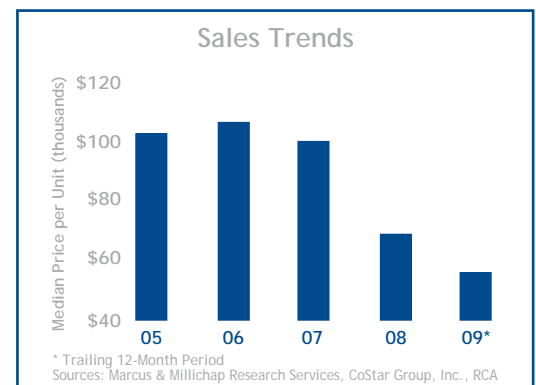
RENTS

- ◆ Countywide asking rents slipped 1.4 percent in the third quarter to \$1,083 per month and are down 2.3 percent year to date. Effective rents decreased 1.9 percent in the third quarter to \$1,004 per month, following a 1.7 percent dip in the preceding quarter. Year to date, effective rents have dropped 3.6 percent.
- ◆ Activity at Class A properties in the county primarily accounts for the decline in asking rents in the third quarter and thus far in 2009. Class A asking rents fell 1.5 percent in the third quarter to \$1,271 per month and have edged down 3.4 percent this year. In the Class B/C segment, asking rents of \$937 per month were 1.3 percent lower in the third quarter and for the year.
- ◆ Concessions rose 50 basis points in the third quarter to 7.3 percent of asking rents as a result of the drop in effective rents. Revenue also fell 2.2 percent in the third quarter and has decreased 4.5 percent year over year.
- ◆ **Outlook:** Slackened demand will hinder owners' ability to raise rents. As a result, asking rents are forecast to fall 4 percent this year to \$1,065 per month, while effective rents are projected to slide 5.7 percent to \$982 per month.



SALES TRENDS**

- ◆ Transaction velocity decelerated by more than 50 percent over the most recent 12-month span, based on a limited number of deals. Activity was especially slow through the first three quarters of this year.
- ◆ The median price in deals completed during the past 12 months was \$55,900 per unit.
- ◆ Though cap rate trends are difficult to discern due to a lack of activity, initial yields are estimated to average from about 8 percent for top-quality assets to approximately 10 percent.
- ◆ **Outlook:** Investors will continue to move cautiously due to the recession, but additional signs of economic stabilization may encourage buyers to identify potential acquisitions before the recovery starts.



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

Marcus & Millichap

NATIONAL MULTI HOUSING GROUP

Visit www.NationalMultiHousingGroup.com or call:

Linwood C. Thompson

Senior Vice President, Managing Director

National Multi Housing Group

Tel: (678) 808-2700

lthompson@marcusmillichap.com

Marcus & Millichap

Real Estate Investment Services

Prepared and edited by

Art Gering

Senior Market Analyst

Research Services

For information on national
apartment trends, contact

John Chang

National Research Manager

Tel: (602) 687-6700 ext. 6803

john.chang@marcusmillichap.com

Fort Lauderdale Office:

Gregory Matus

Regional Manager

gmatus@marcusmillichap.com

5900 N. Andrews Avenue

Suite 100

Fort Lauderdale, Florida 33309

Tel: (954) 245-3400

Fax: (954) 245-3410

Price: \$150

© Marcus & Millichap 2009

www.MarcusMillichap.com

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

- ◆ The Green Acres/Palm Springs/Lake Worth submarket is typically one of the best performing in the county, although vacancy has climbed 50 basis points during the recession. The submarket has a large proportion of one-bedroom units, which will likely realize an increase in demand as the economy improves.
- ◆ In a recent transaction, the 94-unit Haverhill Gardens in West Palm Beach changed hands for \$45,400 per unit. Vacancy in the West Palm Beach/Palm Beach submarket rose 50 basis points in the third quarter.
- ◆ With a 2.7 percent decline in effective rents year to date in the Century Village submarket, concessions have climbed from 9.8 percent of asking rents to 11.5 percent of asking rents. The vacancy rate has also spiked 70 basis points this year.

SUBMARKET VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Green Acres/Palm Springs	7.3%	40	\$963	-0.4%
2	Boca Raton East	8.0%	190	\$1,176	-4.7%
3	Boynton Beach/Delray Beach	8.1%	20	\$1,033	-4.0%
4	Boca Raton West	8.4%	150	\$1,132	-2.0%
5	Century Village	9.5%	90	\$834	-6.3%
6	North Palm Beach	9.8%	-180	\$915	-4.5%
7	West Palm Beach/Palm Beach	10.0%	220	\$985	-7.7%