

# A HEAVY BURDEN

An oversupply of condos and a frozen credit environment continue to impact apartments statewide

By Crystal Proenza



**T**he capital freeze, concern over the economy and a disconnect between buyers and sellers are driving down transaction volume in major markets within the multifamily sector in Florida. At the same time, the ongoing condo and housing crisis has led to the creation of a damaging shadow market statewide.

"The market goes as the money flows," quips Michael Cannon, executive director of Integra Realty Resources in Miami. "As impudent money was lent and spent," the market followed suit. He says his valuation and counseling firm has utilized a formula to

determine the top and bottom of a market, and claims that we are now at bottom.

"We predicted that the market topped off in terms of housing sales in the second quarter of 2004, and condo sales account for a percentage of those," says Cannon. "It has continued to worsen since then to where we are today." However, the executive says there is still denial about where the market currently stands.

Take, for instance, the bid-ask gap that many multifamily sales brokers have been dealing with these days. Investors are looking

Renters are returning to professionally managed communities, such as One Broadway in Downtown Miami, after losing their homes or experiencing problems with renting condos.

for deep discounts on apartment communities, while many knowledgeable professionals in the field are claiming those discounts will never materialize. Owners are unwilling to take a price cut if they're not in distress. Bridging the expectations between buyers and sellers will be a determining factor for what happens in the market, says Alan Kaye, managing director of Sperry Van Ness Kaye Commercial Investment Group in Boca Raton.

What can be done to close the gap? Brokers say sellers need to realize they're not going to get the prices they were quoted at the height of the market three or four years ago, and buyers need to realize they're not going to get deals for pennies on the dollar. "It's the investors looking to buy based on fundamentals that are doing deals today," says Kaye.

That doesn't deter some investors from trying to scoop up distressed assets, says Erik Bjornson, sales director with Walchle Lear Multifamily Advisors in Jacksonville Beach. "In some instances [those deals are] near impossible to complete because financing is only available for stabilized assets," he explains. "The ones getting done are typically with cash players."

All-cash buys are prevalent, but most investors make a purchase with the idea of obtaining financing through Fannie Mae or Freddie Mac after closing, says Shelton Granade, first vice president of investment properties with CB Richard Ellis in Orlando. But even the GSEs will only loan up to 65% of value in Florida, adds Bjornson. Still, experts note that in today's market there are more multifamily trades occurring than other types of commercial property because Fannie and Freddie continue to provide debt for apartments.

"The real challenges they faced have been primarily with single-family and sub-prime loans," says Granade of the mortgage giants, which were recently moved into US Treasury conservatorship. "Multifamily was actually one of the most profitable components of their business."

Fannie and Freddie aside, the general lack of available financing, coupled with the gap between buyers' and sellers' expectations, has resulted in a major drop in transaction volume throughout Florida this year. Add to that the general concern by equity players about the overall economy, the direction of employment and rent growth, says Gerard Yetming, first vice president with CB Richard Ellis in Miami.

The effects are being felt most drastically in South Florida, where sales volume has dropped 70% this year when compared to 2007, says William Hemingway, co-managing director with Integra. Walchle Lear's Bjornson says transactions in the Jacksonville market are "severely down," citing 34 total communities traded in 2007 and only 11 sales closed so far this year. "Overall in Orlando, apartment sales volume is down about 40% from where it was last year," says CBRE's Granade.

According to Marcus & Millichap Real Estate Investment Services Inc.'s latest apartment research report, Tampa's transaction velocity is down 38% year over year. However, John Burpee, chair-

man of NAI Tampa Bay, says the market isn't suffering as badly as others in terms of transactions, citing the help of local lenders who are stepping up in the absence of institutional financing. "It is really a back-to-basics cash flow market," he says.

"We have now started talking to more investors in 2008 than we ever did in 2007, and a much more diverse pool of investors as well," Burpee adds. Buyers are exiting the office and retail sectors, which are just now starting to feel the sluggishness that the apartment market has been suffering over the past 18 months, he notes.

Though the buyer profile has changed, says Calum Weaver, investment properties associate with CBRE in Miami, the good news is "there is no shortage of people looking to buy right now. The market is still open."

Meanwhile, the shadow market is putting pressure on traditional units, as speculative condo buyers would rather rent out their units until prices rise than sell at a loss. According to a survey by Integra, rental rates on those units can differ by as much as 250% on the same type of apartment because there is no single landlord setting rates. Those units, along with a number of single-family homes that have been dumped into the rental pool and reversions of failed condo projects, have fed a growing shadow inventory, the size of which brokers in local markets say cannot be accurately measured.

The additional competition is bringing about higher vacancy, yet multifamily experts agree that people would be surprised to know how healthy the market actually is. In South Florida, widely publicized as being the region most affected by the condo crisis, overall vacancy in mid-2008 was only 6.1%, says Cannon, Marcus & Millichap forecasts Miami-Dade County apartment vacancy ending the year at 5%, but points out that vacancy rose only 20 basis points

in 2007 as opposed to 100 basis points this year. Availabilities are high in other parts of the state, but local professionals claim they will bounce back before South Florida does because those markets didn't see as much of an influx of new condos and conversions. In Orlando, for instance, vacancy is projected to rise more than two percentage points to 7.3% by the end of 2008, according to the latest CBRE report. Marcus & Millichap research shows Tampa vacancy rates are expected to end the year at 8.7%, up 180 basis points year over year. Jacksonville occupancy is down 6% from last year because of the shadow market, says Bjornson.

The story isn't all bad for Florida multifamily, however. Experts are even reporting increased demand for units because many owners who lost their homes or decided to rent condos over the past few years will gravitate back toward professionally managed communities.

The risk of foreclosure by the owner of a condo before a lease is up is one major factor driving people back into the rental pool, says Alan Ojeda, president and CEO of Rilea Group in Miami, who has seen renters return to his One Broadway community Downtown.

**MULTIFAMILY** *Continued on page 43*



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**ALAN KAYE**  
Sperry Van Ness Kaye Commercial

## MULTIFAMILY

Continued from page 36

Maintenance is also an issue in a rented condo if the owner is not present, he says. Some buildings are having trouble collecting HOA fees, he adds, forcing condos to cut amenities such as concierge services and security.

In order to remain competitive, apartment communities are offering concessions, which vary based on location and product type, says Sperry Van Ness' Kaye. Others are getting creative by providing options such as customization, like Satori, a new 279-unit community in Fort Lauderdale scheduled to open in March. Altman Development is giving renters who sign leases early the option to pick out certain design elements for their units, such as countertops, flooring and paint colors. "It gives someone an incentive to lease a unit six months in advance, which is unusual for renters," says Cathy Cabell, senior vice president of operations for Altman Management Co.

The negative impact of the credit crisis and the growing presence of a shadow market are weighing heavily on owners and investors in the multifamily sector, though experts maintain that the downturn is part of the cyclical nature of real estate. "The market's not going to go back up immediately," says Kaye. "People need a comfort level that the worst has passed." —REFLA

## JACKSONVILLE

Continued from page 39

local Global Trade & Transportation Symposium on Oct. 16.

Vacancy within Jacksonville's 85-million-sf local industrial inventory measured 7.2% through the third quarter, according to Colliers Dickinson. At least two million sf of additional space is under construction, with more to come as developers devise long-range plans to capitalize on JaxPort's expansion and the city's new marketing strategy as "America's Logistics Center."

Colliers' Joost anticipates that Jacksonville will become a hub for movement of consumer goods by sea, road and rail once the new JaxPort terminals open. He notes that demand for industrial sites has tripled over the past four years, to \$150 an acre, in anticipation of that growth. "Leasing is slow now, but should pick up once Mitsui starts," he says.

Like the office and industrial sectors, Jacksonville's retail market remains below the national average in vacancy at 6.7% through the third quarter, and dipping as low as 3% in the Baymeadows and Intracoastal West submarkets, according to CBRE research. Area-wide asking rents average nearly \$15 per sf, with rents ranging widely between \$5 and \$35 in Duval County, where most of the 32-million-

sf retail inventory is located.

Yet the market hasn't escaped the troubles of the national retail sector, with large chains either scaling back expansion plans or filing bankruptcy. While year-to-date net absorption has exceeded 900,000 sf, it includes a loss of 13,000 sf in the third quarter alone, CBRE statistics show.

However, there are some success stories, such as St. Johns Town Center, a 1.5-million-sf upscale retail center that opened in phases over the past three years along Butler Boulevard between Interstates 95 and 295. Retail brokers say the center's affluent service area, with an average household income of \$84,000, is a big reason for its popularity in attracting some of the region's most upscale stores.

Meanwhile, other retail centers throughout the market are working to keep ailing tenants in place, with landlords either reducing rents or deferring monthly payments to the end of lease terms. "We're finding some creativity in helping tenants get through the tough times," says Gary Montour, senior vice president with Colliers Dickinson.

Economists say one reason Jacksonville isn't in worse shape is that it didn't get overbuilt during the statewide housing boom. While the state's other metros were partying over rising home values, Jacksonville was the "designated driver," notes Sean Snaith, director of the Institute for Economic Competitiveness at the University of Central Florida.

With nearly 900,000 sf of retail space now under construction, half of which is being built in Duval County, Montour says developers and tenants alike are now seeking existing population density, rather than attempting to speculate where new residences will go next. "They can't really count rooftops that aren't there," he says.

With an emphasis on port expansion rather than homebuilding, observers expect Jacksonville to become one of the nation's great emerging markets. They say the economic trickle-down effect of JaxPort's growth is expected to benefit all aspects of commercial real estate for years to come. —REFLA

## AdIndex

CB Richard Ellis, Cover II

Coldwell Banker Comm., 6

CREW Tampa Bay, 1

EOLA Capital, 31

FGCAR, 10

Flagler Development, 30

Hudson Realty Capital, 11

Jacksonville EDC, 39

Kennedy Funding, Cover IV

Marcus & Millichap, 22-23

Rockefeller Group, 29

Verizon SmartPark, 3

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