

## Tampa Multifamily Market

Like a handful of markets across the country, Tampa has seen heightened activity in their multifamily sector since 2003. And, again, like other markets across the country, uncertainty in the short-term market has caused many developers to delay groundbreaking on new projects, if not cancel them all together. Most would agree that the medium- to long-term strength of Tampa and surrounding submarkets looks very promising. However, developers looking to meet short-term yield requirements by delivering new product in a period of softened fundamental conditions have a right to be nervous. This uncertainty has presented challenges for developers, equity partners and banks to get comfortable with construction projects other than those that are well located and low-risk.

While to a lesser degree than other markets in Florida, Tampa's shadow market does exist and is impacting short-term asset performance. The shadow market has grown significantly statewide due to an oversupply in investor-purchased units in both new construction condominiums and single-family home developments. The imbalances of fundamentals associated with speculative investors renting units well below the cost of debt service, taxes and fees will resolve itself in the short to medium term resulting in eventual market stabilization.

Condominium conversions removed much of the already-limited apartment stock in South Tampa. Land cost in this core market can be prohibitive, however, there may be opportunities arising from developers caught in outside projects needing cash. The major need in Tampa is for affordable workforce rental units within or close to central business districts. This remains a common theme in the state as county and municipal employees currently commute long distances to work. The barriers to entry are the high cost of land and construction.

There are approximately 3,500 rental units planned to be delivered in the next 24 months in the Tampa market, which coupled with the market's desirable strength and strong demographics, should prove to have fairly minimal impact overall on vacancy upon delivery. The majority of development taking place consists of smaller, less than 100-unit infill projects in core markets, as well as larger typical Class A garden-style assets in suburban locations. It is always difficult to assemble density in core markets, such as South Tampa and St. Petersburg, at a price that justifies for-rent product. Smaller infill projects are typically more successful in these markets, particularly when they are geared to the renters seeking an ultra-luxury, location driven lifestyle.

Rental rates range from \$0.80 per square foot to \$1.40 per square foot, depending on asset class and location. Occupancy ranges widely depending on submarket and asset class. Core assets are experiencing minimal vacancy, while some submarkets are showing 10 percent-plus vacancy rates in addition to significant concessions. A submarket to keep watching is the Brandon-Riverview market, as the completion of the Crosstown Expressway's reversible lanes makes this one of the most easily accessible suburbs for commuting downtown workers.

— *David Diaz is chief operating officer with JBMRA – Sperry Van Ness Institutional in Tampa. Alan Kaye is managing director with Sperry Van Ness | Kaye Commercial Investment Group in Boca Raton, Florida.*