

SEARCH RESULTS

Southeast Rebound

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By Erika Schnitzer, Associate Editor

The Southeast multifamily market has mixed news. On the one hand, the oversupply of multifamily housing has had tremendously negative effects on occupancy and rents in the market. Despite this, and the fact that Miami, Atlanta and Charlotte saw deteriorating fundamentals throughout 2008, with a particular acceleration of the declines in the fourth quarter, Victor Calanog, director of research at Reis Inc., predicts that the multifamily market will begin to turn around within the next 12 months and that the Southeast market could potentially turn faster, particularly in Charlotte and Atlanta.

In the Southeast, "there's a lot of developable land, and you can build a lot of commercial real estate and housing in these markets," excluding South Florida, says Elizabeth Olds, real estate economist for Property & Portfolio Research (PPR). This will provide ample opportunities for when the market bounces back.

While the unemployment rate is the highest for young professionals ages 25-34, Calanog notes that this is also the group that is likely to be rehired first. And because this group tends to rent, he predicts that the apartment market will benefit tremendously. Furthermore, "When you talk about Southeast markets, it's generally classified by population growth that is stronger than the rest of the country," says Pete Compton, real estate economist at PPR.

And with increasing immigration and young professionals looking for jobs, as well as with retirees flocking to Florida, population growth will continue to drive apartment demand in the Southeast. In Atlanta, for example, PPR predicts that over the next five years, the metro will see an above-average formation of apartment-renting households—13.9 percent, or triple the national average.

A shift in the supply/demand balance

An enormous amount of oversupply exists in these markets. A huge supply wave in the Queen City is being met by a massive wave of layoffs, particularly in the financial sector—Bank of America and Wachovia are headquartered in Charlotte—and the result is that there is not enough apartment demand to support all the units coming online. According to Calanog, data from the first quarter of 2009 shows that 3,200 units are slated for delivery this year, with vacancy expected to rise 110 basis points. And according to PPR, vacancies will hit 14 percent before the city even begins to see a recovery.

While supply in Atlanta is relatively restrained, 2,000 units are slated for delivery each year for the next three years. And unlike Charlotte's market, the demand here is low. While the market has generally shown a capacity to absorb most of its new units, the current economic conditions may prove to have dire consequences on the metro's vacancy rate. PPR figures show that the Atlanta metro market currently has an 11 percent vacancy rate, 400 basis points above the national average.

Though the shadow market in Atlanta is not prevalent throughout the entire MSA, Olds notes that it does affect higher-priced rentals in Buckhead—where properties are forced to offer more concessions, averaging \$73 per unit—and Midtown—where vacancies have doubled over the past year. However, because Atlanta—and, for that matter, Georgia as a whole—does have a high foreclosure rate, single-family homes are impacting the market considerably, though not nearly as much as the shadow market has affected Miami, which Olds describes as "the poster child for an overbuilt market and shadow supply."

Recent Southeast Multi-Housing Transactions

Property Name/Market	Submarket	Price (\$)	Units	Price/Unit (\$)
Atlanta				
Laurel Hills Preserve	Cobb	40,000,000	720	55,555.56
Post Canyon	Fulton	35,250,000	494	71,356.28
Ashley Forest	Fulton	16,200,000	220	73,636.36
The Heights At Northlake	DeKalb	42,000,000	357	117,647.06
Miami				
1817 James Ave	Miami Beach	9,500,000	103	92,233.01
Sunny Isle	Hialeah	6,237,500	60	103,958.33
Harbour House	Miami Beach	27,000,000	101	267,326.73
Marina Blue	Miami - CBD	13,000,000	60	216,666.67
Charlotte				
East Lake	East/Northeast	10,625,000	214	49,649.53
Walkers Ridge	Other	9,612,500	144	66,753.47
Quail Woods	Other	6,600,000	188	35,106.38
Birchcroft	East/Northeast	5,500,000	155	35,483.87

Data courtesy of Real Capital Analytics

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While the problem in Miami isn't the new supply, the shadow market has significantly impacted occupancy in the metro, and the CBD and Brickell areas of downtown Miami are suffering the most. While rents are higher in this submarket than the metrowide average, vacancy is expected to climb at a faster pace, and the only transactions that have occurred within the last 12 months were bulk deals that investors will rent out until the market turns. "As you might expect, Miami suffered alongside the residential housing market when it burst in '06, so it's less of a [new] supply concern" now, says Calanog, adding that the metro currently delivers only 300 new units each year. PPR predicts that supply to the market will be shut off in 2010, helping to kick-start a recovery in 2011.

[Click here for a SLIDESHOW of the Infinity at Brickell, DYL Group's latest condominium project in Miami.](#)

Compounding this, all three MSAs are expected to see a drop off in effective rents, declining more than the national average of 1.7 percent. Reis' Calanog predicts a 1.9 percent fall in Atlanta, a 2 percent decline in Charlotte and a 1.8 percent decline in Miami. "We are seeing an incredible willingness on the part of [property managers] to lower asking and effective rents to shore up occupancy levels," Calanog notes. "With that said, we don't expect vacancies to rise by a significant amount in the next three years. If they lower rents quickly enough, despite the slowdown in household formation, hopefully vacancy won't rise." In the last downturn, he adds, only 5 percent of properties lowered rents at the beginning, while at its worst, 25 percent of properties saw lowered asking rents. In this recession, however, 50 percent of properties saw lowered rents in the beginning.

The good news for Charlotte, notes Compton, is that its economy is slowly becoming more diversified and its population is expected to grow at a rate of 2.4 percent annually over the next few years, allowing for some absorption of the current stock, as well as a decrease in vacancy. PPR predicts that the metro's vacancy will drop off to 9.6 percent by 2013.

According to Calanog, Charlotte experienced a 2 percent fall off in rents, following a 2 percent increase in 2008. PPR's data shows that rents are highest in the Uptown/South Park submarket, where they are currently sitting at \$950 and are expected to increase to \$1,050 by 2013—a good \$450 more than Charlotte's second-highest priced submarket—the Southeast. Cabarrus Country currently has the lowest vacancy rate, sitting at 7.4 percent.

A different kind of investor

The value of investments in the Queen City is expected to decrease approximately 30 percent cumulatively through 2011, says Compton. The main problem with investment opportunities here is—like everywhere else nationwide—the lack of capital. However, "The investors that do want to take a bit of a risk and do have capital will find they can buy a property at solid discount," notes Compton. And, according to PPR's forecast, the long-term outlook for the metro remains strong.

Furthermore, the new south-corridor transit line has seen a 35 percent higher-than-projected ridership, which may spur development to the north, where a proposed transit line could create a similar development pattern as in the South End.

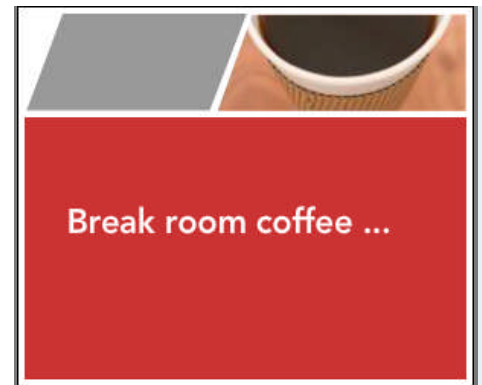
In Atlanta, the bright spot, according to Olds, is its diverse economy, which should allow the metro to bounce back faster than many other markets, and the young population—from the city's many universities—increases apartment demand in the city. Brad Horner, president of Coldwell Banker NRT Development Advisors, agrees. "We do see a very promising future for multifamily in the Atlanta market. It's definitely a market that is a magnet for young professionals," he says, adding that there are "some incredible rental products under construction." Perhaps the South Fulton submarket is one of the brightest demand outlooks in the metro area, as rents are expected to increase—and vacancies, decrease—at a faster pace than the metrowide average.

Additionally, "there are definitely opportunities for developers to be purchasing distressed properties, which they can hold as rentals. We have seen several buildings planned and designed as condos that have taken a rental strategy," Horner notes. A huge number of troubled assets are hitting the market, including the 300-unit Steeple Chase in Norcross and the 264-unit Somerset in Tucker. "Atlanta goes through phases. For a while, we had a lot of conversions and all properties that could be converted [from condos into rentals] were," says Horner. "When we come out of this cycle and there are no new projects, the properties that went to a rental strategy are ideal to be converted [back] to condos," he predicts.

In terms of Atlanta's condo market, Horner says that the MSA has "a nice inventory of product geared to the first-time homebuyer," which is also particularly advantageous, as they do not have another home to sell and can take advantage of price reductions and historically low rates.

As far as Miami goes, Olds admits there is not much to be positive about in the near-term—by early 2011, peak-to-trough vacancies will have climbed 660 basis points, topping out at over 9 percent, and the metro's recovery is anticipated to be meager at best—but its ties to Latin America can help with the demand, as visitors and foreign businesses may become a bright spot for the city. Furthermore, she notes, "investors are buying a bulk number of units in some of these struggling condo towers to rent out," which, she says, is a long-term plan for investors who have the ability to wait and sell when the market eventually turns around. She adds that this currently makes up the bulk of transaction volume—and increases the shadow market supply—which she predicts will continue for the next 18 months.

PPR estimates that yields will rise by 150 basis points from 2008 to 2011, which, coupled with a strong rent and NOI rebound, will produce some attractive returns. But investors should avoid the condo-heavy submarkets. "Prices are declining and values are declining, and during the condo conversion boom, cap rates compressed significantly and price-per-unit went up significantly," notes Olds. "We saw a huge run-up in values, which priced buyers out of the market. Now that is correcting and buyers will be looking for discounted assets."



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