

# Tallahassee, Florida



Multifamily Housing Update

May 2011

## EXECUTIVE SUMMARY

**G**overnment contributed \$4bn to Tallahassee gross metropolitan product in 2008, accounting for 32% of the region's output of goods and services, according to data published by the Bureau of Economic Analysis last year. When Florida enjoyed some of the most rapid demographic and job growth in the country government expenditures rose accordingly, benefiting no area more than this one, the seat of the state government and the home of two state-sponsored universities: Florida State and Florida A&M.

But the Great Recession was the temporary undoing of Florida's enviable population and economic growth trends, with negative consequences for the Capital City. Metro payrolls fell 2,200 jobs last year, a -1.3% rate of decline that represented a significant underperformance relative to the national average (-0.8%), a rare event. Moreover, the 2010 unemployment rate averaged 8.5% (it was never higher than 5% from 1990 to August 2008) and exceeded 9% in two months since November 2010.

Attrition in the construction and financial and business service industries was primarily responsible for last year's weak results. Together, the foregoing sectors reduced headcount by 1,300 (-3.9%) workers. Tourism activity also was sluggish, contributing to a 400-job, -2.3% decrease in hospitality service employment and a nearly -2% decline in retail payrolls.

Early 2011 payroll job trends were marginally stronger. Year-over-year comparisons were positive in January, February and March, generating an average gain of 300 (0.2%) jobs for the quarter, the first such quarterly advance posted in three years. Seasonally-adjusted data were somewhat contradictory, however, recording a net 200-job loss in the first quarter

despite a 2,100-job January surge.

**RED Research** expect the Tallahassee labor market to grow in 2011 and 2012, but under-perform the national average to some degree. Job creation should return to the black this year, as metro establishments add about 1,500 net employees. Should the U.S. economy continue to gain momentum, job creation may accelerate to near the 2,800-job, 1.6% level in 2012.

Improving job prospects and record enrollment at local universities helped drive apartment occupancy sharply higher. After falling as low as 89.8% last June, metro occupancy surged with the onset of the new school year, reaching 92.2% in December. Space demand continued to improve over the winter, pushing metro occupancy another 60 basis points higher to 92.8% in March. Over-the-year, occupancy improved 260 bps, which compares favorably to the 180 bps average advance reported by Reis for the top 80 U.S. markets.

Revenue gains were less spectacular. Metro units rented for an average of \$812, representing a \$3 (0.4%) sequential quarter advance and a \$20, 2.4% y-o-y gain. These statistics compare to 0.4% and 1.9% average asking rent increases recorded for the top 80 U.S. metro markets.

Investors stepped up student housing acquisition programs over the past six months and Tallahassee was squarely in their sites. Of note, a 96-unit, 384-bed student-specific apartment was acquired in November for a \$7.3mm price, nearly twice the amount paid by the seller in 2009. We estimate a 6.5% current yield for the 90% occupied asset. A similar cap rate applies to the March acquisition of a 300-unit luxury garden complex on the southeast side by a public REIT. The 2004-vintage property traded for nearly \$25mm or \$82,733 per unit.

## SNAP SHOT

	Y-o-y change	Projected 2011
Vacancy (7.2% - 1Q11)	↓ 2.6%	↓
Asking Rents (\$812 - 1Q11)	↑ 2.5%	↑
Cap Rate (6.5% - 1Q11)	↔ NA	↔ NA
Employment (170.4 - 14Q11)	↑ 0.3m	↑ 1.5m

## KEY POINTS

- After a protracted downturn, the Tallahassee economy stabilized late in 2010 and showed signs of recovery over the winter. Year-over-year comparisons were positive in 1Q11 (+300 jobs / 0.2%), representing the first quarterly advance in three years, and the unemployment rate fell from a near record 9.1% in January to 7.8% in March.
- Improving job prospects, college enrollment growth and further unsettling declines in home prices combined to propel apartment demand sharply higher. Average apartment occupancy surged to 92.8% in March after falling to as low as 89.8% in June 2010.
- Rents increased at a moderate pace as property owners emphasized occupancy enhancement over revenue maximization. The average metro unit rented for \$812 in 1Q11, \$20 (2.4%) above the level observed in the year-earlier period and \$3 (0.4%) higher than the December metric.
- At least four properties valued at \$3mm or more exchanged hands in the six-month period ended in March. Total property valuation approached \$40mm. The results compare to two sales valued at a total of \$20mm over the prior six-month period.

## VACANCY TRENDS

- After hovering near the 90% level for about 15 months, metro occupancy rates broke to the high side in the summer 2010 and built steadily through the fall and winter. Reis report average metro occupancy of 92.8% in March, representing a 300 basis point increase from the June 2010 low and a 60 bps advance from December.
- Only 24 units of multifamily residential construction were permitted during 2010, the smallest annual total recorded since 1985. Permit issue during 1Q11 was comparably slow, consequently supply is likely to remain at historically low levels through the end of 2012.
- A publicly-traded student housing REIT operates three properties encompassing 1,891 total beds in the Tallahassee area. Weighted average occupancy was 95.5% for the 2010 / 2011 school year, up from 86.0% in the prior-year period.

## RENT TRENDS

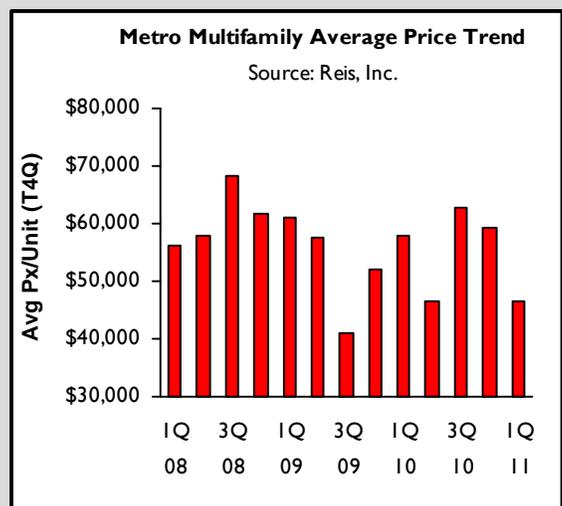
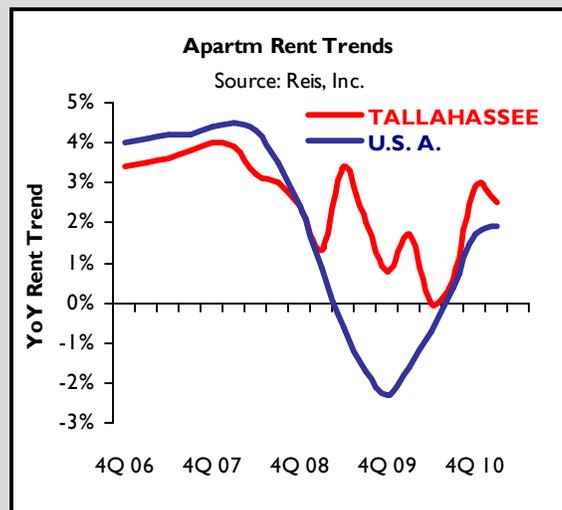
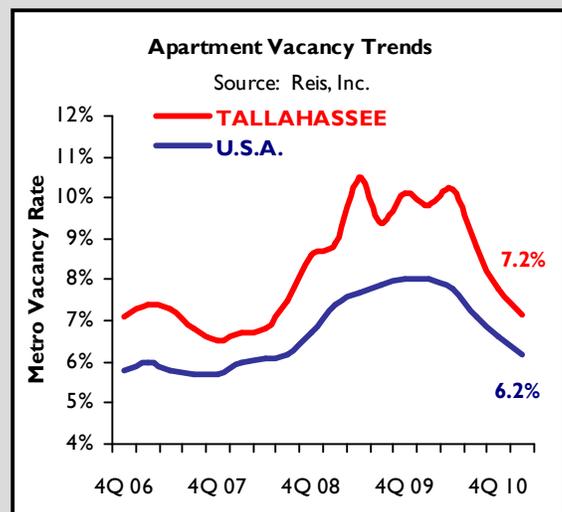
- The pace of asking rent growth decelerated moderately in the first quarter. After rising at a 2.9% year-over-year rate in 4Q10, rent trends slowed to a 2.5% pace in March.
- Rents averaged \$812 in March, up from \$809 in December and \$792 in March 2010. The \$3, 0.4% advance recorded from December to March follows a robust \$7 (0.9%) hike recorded in the fourth quarter 2010.
- A publicly-traded student housing REIT with 1,891 Tallahassee beds in portfolio raised rents 3.3% last year and expects to implement a 4.0% increase in 2011, based on lease rates achieved in early April.
- Rents at professionally-managed properties in the Tallahassee area averaged \$571, \$630, \$806 and \$1,061 for studio, 1-, 2- and 3-bedroom units during 1Q11. The comparable price per square foot data were \$1.48; \$0.96; \$0.81 and \$0.81, respectively.

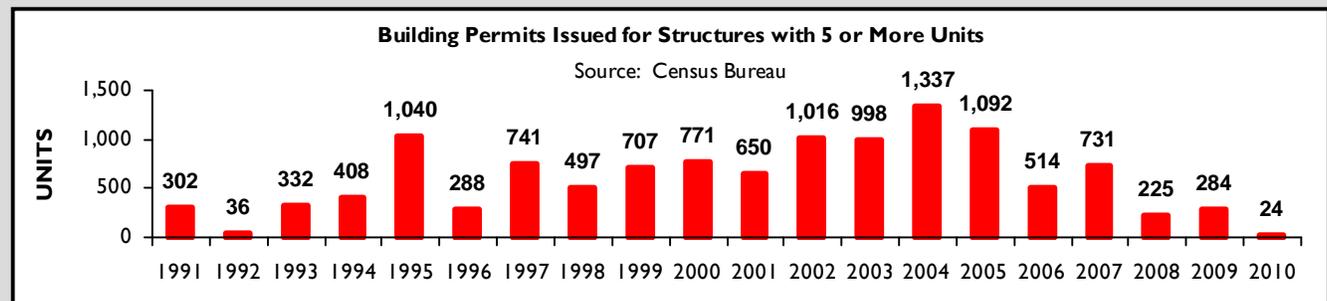
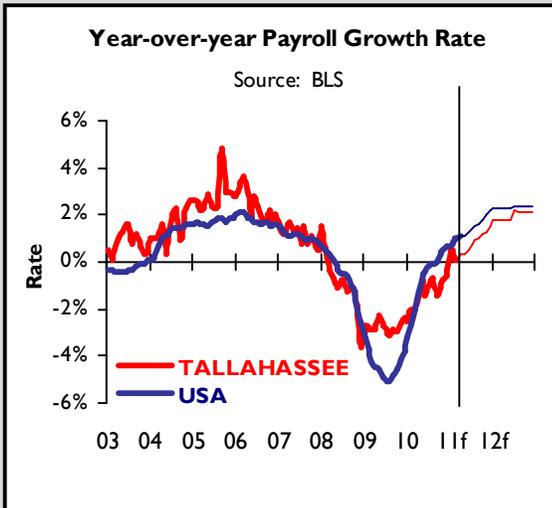
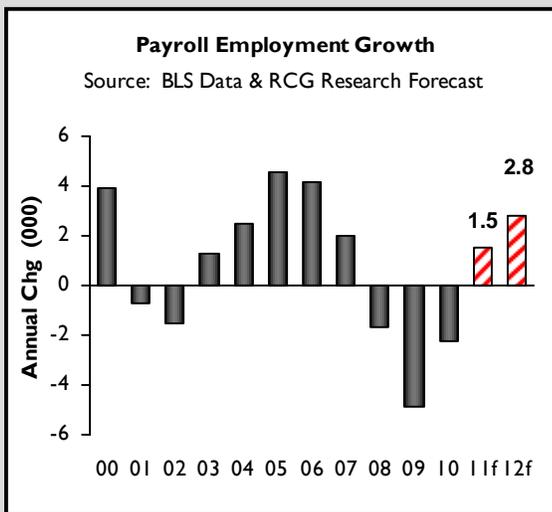
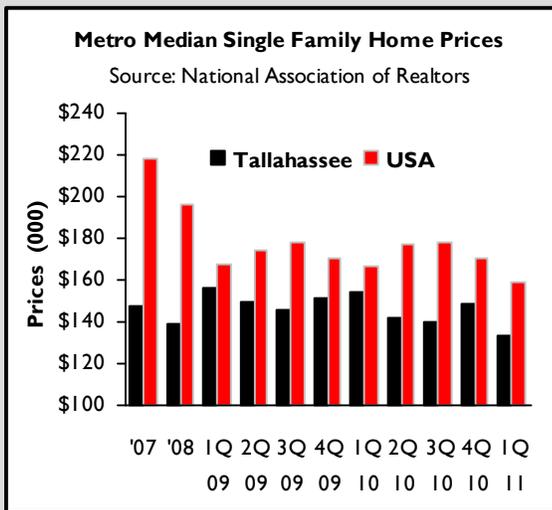
## PROPERTY MARKET & CAP RATE TRENDS

- Buyers continue to show interest in student housing properties. A 2000-vintage 96-unit, 384-bed property located near Four Points serving Florida A&M and Florida State traded for \$7.25 million in November 2010. We estimate a current yield of about 6.5%. The asset last traded in March 2009 at a reported price of \$3.69 million.
- A publicly-traded REIT acquired a 300-unit, 2004-construction luxury property located in a master-planned golf community on the city's Southeast Side in March. The company paid \$24.82 million or \$82,733 per unit for the 95% occupied complex. **RED CAPITAL Research** estimate that the property also will generate a 6.5% initial yield. The company disclosed that this and two other 2011 acquisitions will generate an average first year yield "just over 6%."
- A class-A, 264-unit, 924-bed student housing property is currently offered for sale through a national brokerage. The price will be determined by the market.

## NOTABLE TRANSACTIONS

Property Name	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
University Courtyard	Student-A	17-Nov-2010	\$7.25	\$75,521	6.5%
Verandas at Blairstone	A	29-Mar-2011	\$24.82	\$82,733	6.5%





## DEMOGRAPHICS & HOUSING MARKET

- According to data published by the National Association of Realtors on May 10, the median price of metro homes sold during 1Q11 declined dramatically from the year-earlier period. The group reported that the median price was \$133,600, a -13.5% decline from the homebuyer's tax credit-aided 1Q10 results. This compares to a -4.6% decline reported nationally and a -0.6% metric for the South Region.
- The 1Q11 median price metric was the lowest recorded in eight years.
- Leon County population was 268,185 in July 2010, according to a U.S. Census Bureau estimate, representing a 2,170, 0.8% increase from July 2009. The rate of growth was slower than the 1.1% compound annual rate observed from 2000 to 2010.
- A total of 3,064 (1.9%) metro homeowners were in default or foreclosure in 2010, according to RealtyTrac, the 83rd highest rate among large U.S. metros.

## EMPLOYMENT TRENDS

### Non-Seasonally Adjusted

- Tallahassee MSA payrolls increased at a 300-job, 0.2% year-over-year rate in the quarter ended in March, representing the first quarterly advance recorded in three years. The gain represents a substantial improvement from the 1,300-job, -0.7% setback suffered in 4Q10.
- The winter turnabout was largely attributable to stronger results in the construction, retail trade and health, education and hospitality services sectors. Payroll aggregates in the foregoing industries increased at a 1,200-job annual pace, up from a 400-job decline posted in the prior quarter. By contrast, attrition in the financial and business services and government sectors continued apace. These industry super-sectors recorded a year-on-year loss of 1,000 jobs in 1Q11, down from attrition of 900 jobs registered in the prior three-month period.
- The unemployment rate fell significantly in February and March. After rising to a near record high 9.1% in January, the average rate of unemployment declined to 7.8% in March. It was the lowest metric observed since April 2010.

### Seasonally-Adjusted

- Expressed on a seasonally-adjusted basis, metro payrolls fell in the first quarter, declining 200 jobs from December to March. This compares to 4Q10's relatively robust 600-job increase, which represented the largest quarterly advance registered since 4Q07.

### Forecast

- **RED CAPITAL Research** expect Tallahassee payrolls to grow at a moderately slow rate than the national average during 2011 and 2012. To be specific, we project gains of about 1,500 jobs in 2011 and 2,800 jobs in 2012. By way of comparison, the Institute for Economic Competitiveness of the University of Central Florida forecasts creation of about 2,400 jobs in each year. This forecast is dated April 2011.

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