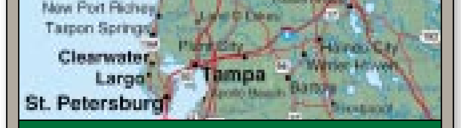

regional outlook

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Tale of Two Tampas

Despite Rising Vacancies, Investors Fight to Get In

[By Marnie Connor]

An examination of the Tampa, Fla. market shows that concessions have nearly doubled in the past 12 months. Rents during the same period have dropped by about 5 percent. Yet investors are willing to pay top dollar to enter the multifamily market in Hillsborough County, a region of 1,072 miles that includes Tampa and the adjacent communities of Ybor City, Harbour Island, Plant City, and Temple Terrace.

What gives?

The simple answer is a shortage of for-sale inventory that has kept demand and values high. When a rare listing does appear, it sells for some of the highest average prices in recent history. Many Tampa owners fear to sell, though, because they have held onto their assets in excess of a decade at very low bases. They worry that they won't be able to find an affordable 1031 exchange opportunity to protect them from the capital gain taxes.

Every multifamily property in Tampa sells for top dollar. The market's apartment inventory is about half vintage product built in the 1960s and 1970s and one-quarter 1980s construction. The balance is new affordable housing apartments and high-end condos.

Harbour Island, which is separated from the south end of downtown Tampa by the Garrison Channel, offers the best example of demand-driven prices. In 2002, the last parcel on Harbour Island zoned for multifamily development was sold for a whopping $6 million.

The developer, Tampa-based CKT Development, plans to build about 336 units on the three-plus acre site, a staggering figure considering that the current total apartment inventory on Harbour Island is only around 600 units with an economic occupancy of 94 percent. Assuming interest rates remain near their current lows, this property is a prime candidate for condominiums. Should the developer decide to build apartments, the units would likely trade in the 7 percent cap rate range and demand in excess of $100,000 per unit.

Let Them Have Credit

Due east of downtown Tampa sits Ybor City, a community with a much different demographic mix than its neighbor, Harbour Island. But Ybor City is equally competitive when it comes to inventory and development opportunity. In the late 1800s to early 1900s, Ybor City was the world's hub for cigar manufacturing, at the time outproducing even Havana. Today, Ybor City's core Hispanic business area hosts an array of culturally rich shopping, dining, and entertainment.

On the housing front, low-cost U.S. Department of Housing and Urban Development (HUD) and Section 8 housing have traditionally dominated Ybor City, but that is changing. In the past few years, the city has experienced an intense revitalization effort that includes affordable apartments built through tax-credit financing.

Tax-credit development changed the face of Tampa's multifamily investment market. Under the plan, developers must hold their projects for 15 years before selling so renters receive the full benefit of the pass-down savings. This greatly reduces the amount of apartments available for trade in Hillsborough County, where the tax-credit housing inventory is about 10 percent, and the demand for it is still climbing.

While each state has its own rules and regulations for tax-credit construction, developers who build in Florida must reserve a portion of their units for rent to households with a combined annual income of approximately $32,300 for a family of four. The number of reserved units depends on the financing deals. The balance of the units can be rented to the general public at market rate. Tax-credit properties must currently be located within one mile of a bus route or public transportation system, a medical facility, a food store, and a school.

Developed by Camden, Camden Ybor City is short walk from the city's Historic District, where residents will find restaurants, boutiques, museums, and parks, as well as the weekly Fresh Market held every Saturday.

Right photo: Tampa Bay Convention & Visitors Bureau and Jeff Greenberg; Left photo: Compliments of *For Rent Magazine*

Multifamily properties in Tampa are selling for top dollar. The market's inventory is about half vintage product build in the 1960s and 1970s and one-quarter 1980s construction. The balance is new affordable housing and high-end condos.

Competition for tax credits in Florida is fierce and specific. An estimated 1,000 developers apply at the state or county level each year. Of those, about 180 make the final cut.

Through tax-credit financing, developers have introduced around 400 affordable housing units to the Ybor City market in the past few years. Though most of this development is tax-credit construction, which does little to help the shortage of for-sale inventory, it's a sensible growth rate that has kept the city free from overbuilding and even helped push economic occupancy to the high 80 percent. Average Ybor City market-rate rents remain in the range of 85 cents per square foot.

Building Frenzy Gone Bad

The Plant City/Brandon market, which also has been dominated in recent years by tax-credit affordable housing construction, has not fared as well when it comes to overbuilding. This commuter city, east of Tampa, is home to approximately 30,000 residents.

In the late 1990s, the area contained only 8,803 units—mostly 1980s construction. Over the past five years, 4,105 units have been constructed; 2,696 of which were completed between 2000 and 2001 via tax-credit bond financed transactions.

The balance of the market's multifamily units are largely tax-credit projects that have been constructed in the past year. As a result, Plant City/Brandon has become one of the few soft corridors in the Tampa marketplace. The flood of market-rate units with a stressed local economy that is trying to rebound along with the rest of the country pushed vacancies during the first quarter of 2003 to 20.7 percent. As a comparison, vacancy rates in downtown Tampa and Harbour Island were 4 percent; in New Tampa, 4 percent; in Ybor City, 7 percent; and in Temple Terrace, 8.5 percent.

The economy here is not terminal, however. Tampa proper is Florida's third most populous city with 313,000 residents, and Hillsborough is Florida's fourth most populous county with one million-plus residents.

The region is home to McDill Air Force Base, nearly half of Florida's medical technology companies, and around 30 percent of the state's high tech employees. Three *Fortune* 500 and seven *Fortune* 1000 companies are based in Tampa Bay, as is the Port of Tampa, the largest port in the southeast U.S., which provides 108,000 jobs and $13 billion per year to the local economy and pulls in a good portion of the annual $2.4 billion in visitor spending.

Unfortunately, Tampa, like the rest of the country, still faces challenges in economic and employment growth, which is evident in the overbuilt Plant City/Brandon market. To add insult to injury, buyers looking to take advantage of these conditions are out of luck because most apartments in Plant City/Brandon are barred from sale under tax-credit regulations and will not be available to list for at least another decade. The complexes here that are available are in short supply. One such property—Walden Lakewood—recently sold in Plant City for $5.2 million, which at 160 units totals $32,500 per door.

Positive Side of Growth

One rare successful growth corridor can be found in New Tampa, located in the northeastern portion of the county. During the last decade, New Tampa has experienced a development boom thanks to the completion of Interstate 75 and the fast growing student population of the University of Southern Florida (USF). To manage the needs of nearly 40,000 students, USF has looked to

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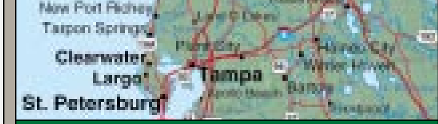

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Harbour Island, which is separated from the south end of downtown Tampa by the Garrison Channel, offers the best example of demand driven prices in the market.

private investors to build student housing. These projects are popular and fill quickly at top rents, to the great profit of their developers.

The Jaymor Group, an Ontario, Canada–based developer, along with Orlando, Fla.–based Reed Contractors LLC, is currently developing a project on six-and-one-half acres near USF. The complex totals 92 units that include a core area for kitchen and living room and either three or four private rooms with private bathrooms—356 bedroom/bathroom rental components. All-inclusive monthly rents range between $460 and $525 per person or $1,575 to $1,840 per unit. This equates to a 12 percent cash-on-cash return for the investor—profit expectations that well exceed traditional multifamily projects in the Tampa marketplace. Development costs are in-line with traditional multifamily construction. Operating expenses are slightly higher due to costs associated to a high annual turnover of units.

Traditional apartments in New Tampa also are faring very well, thanks to local university life and the lure of fresh, new development. About 75 percent of the submarket inventory is 1970s and 1980s construction, renting at an average $628 per month with just a 1 percent vacancy rate. The additional 19 percent of inventory has been constructed since 1990, renting at an average $800 per month with a 7 percent vacancy rate. Property listed here is going for top dollar, an average $58,600 per unit in first quarter 2003.

Not a Bad Deal

All said, there is still really no area of greater Tampa that buyers should avoid if the opportunity presents itself. This is especially true as interest rates are projected to remain low and the rental market is slowly firming along with the economy. Investors will find mostly 1960s and 1970s vintage product or 1980s construction for sale. One thing to watch for: Apartments with a large number of two- and three-bedroom apartment units, which many residents have vacated in lieu of purchasing a new condo or townhouse at low interest rates. Otherwise, communities in fair condition will trade at the top of the market and under a 10 percent cap rate.

For those wanting to sell, Tampa definitely continues to be a seller's market with values still climbing. However, sellers should be very mindful of the tight inventory situation and, to avoid a large tax bill, have a solid reinvestment property in hand prior to selling their current site. This is especially true if sheltering income is part of their planning.

Whether buyer or seller, it is this tight inventory that should be at the crux of an investor's strategy. If this single factor is taken into appropriate account, both buyers and sellers can reap profit. M

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Developed by Post Properties, Post Harbour Place is located on Harbour Island in Tampa, Fla. The 784-unit community features courtyards, five pools, trolley stops, fitness centers, and boat slips. Additionally, restaurants and shops are on site.

Top photo: Tampa Bay Convention & Visitors Bureau; Bottom photo: Courtesy JACKSON | SPALDING