

Projected Apartment Demand

Projected Apartment Demand, State of Florida

	Historical Performance					YTD	Projected	
	2005	2010	2014	2015	2016	2017	2018	2019
Apartment Units	1,049,294	1,072,866	1,110,230	1,135,695	1,160,396	1,187,105	1,208,137	1,229,606
Demand for Units Added Annually ^{1/}	25,998	4,714	37,364	25,465	24,701	26,709	21,032	21,469
Population	17,876,663	18,820,278	19,548,031	19,816,176	20,148,654	20,471,166	20,798,839	21,131,758
Population Added Annually ^{1/}	357,673	188,723	727,753	268,145	332,478	322,512	327,674	332,919
Employment	7,805,400	7,172,300	7,580,100	7,791,400	7,970,800	8,121,700	8,254,300	8,387,194
Employment Added Annually ^{1/}	147,200	(126,620)	407,800	211,300	179,400	150,900	132,600	132,894
Population Per Unit	17.04	17.54	17.61	17.45	17.36	17.24	17.22	17.19
Employed Per Unit	7.44	6.69	6.83	6.86	6.87	6.84	6.83	6.82

^{1/} For the periods 2000-2005, 2006-2010, and 2014-2019

Source: UCF Center for Economic Competitiveness; UF Bureau of Economic and Business

Market Fundamentals

Vacancy rates in the Florida markets tracked by CoStar Analytics shifted from 2016 to 2017, with the state average raising slightly from 5.64% to 5.70%. The most recent survey by CoStar Analytics showed mixed absorption throughout the state with four of the nine markets tracked increasing in vacancy since the first quarter and five decreasing in vacancy. The market with the largest increase in vacancy is Tallahassee, with an increase of 290 basis points (BPS). This large increase can be attributed to 534 units being delivered through the first three quarters of 2017. Despite the high vacancy in the Tallahassee market the Florida average remains at 5.70% and all of the markets are under a 10% vacancy rate.

All of the Florida markets analyzed increased year over year with respect to asking and effective rents between 2016 and 2017. The average effective rent for Florida is up 10.7% over 2016. The market with the most level effective rents year over year was Palm Beach with a growth rate of only 2.2%.

According to MPF Research, apartment lease renewals are down from last this time last year but remain at 50.6%. A trend that is consistent with the states current market occupancy.

Development Costs Examined

As we have elaborated on in the past, there is a large demand for more affordable Class B apartment units in the Florida market. However, with increased construction costs and increasing land prices, more affordable housing is largely economically unfeasible. So how much have construction and land costs risen exactly?

Florida Vacancy Rates

Vacancy Rates	2011	2012	2013	2014	2015	2016	YTD 2017	%Δ 2015-2016	%Δ 2016-2017	Annual %Δ 2011-2016
Tampa	8.50%	7.20%	6.40%	7.66%	7.60%	6.30%	5.90%	-17.1%	-6.3%	-5.1%
Orlando	8.40%	6.80%	6.00%	6.98%	6.90%	5.40%	5.10%	-21.7%	-5.6%	-7.6%
Jacksonville	11.80%	10.00%	8.70%	8.21%	8.00%	7.80%	6.90%	-2.5%	-11.5%	-7.1%
Gainesville	7.80%	8.10%	5.40%	4.65%	4.60%	4.60%	5.90%	0.0%	28.3%	-9.2%
Fort Myers	6.80%	5.70%	5.90%	4.75%	4.80%	6.10%	5.90%	27.1%	-3.3%	-1.8%
Palm Beach	6.80%	5.90%	5.40%	4.90%	4.90%	7.70%	8.20%	57.1%	6.5%	2.1%
Tallahassee	9.00%	7.70%	6.50%	6.93%	6.90%	6.40%	9.30%	-7.2%	45.3%	-5.8%
Pensacola	10.60%	8.80%	7.80%	6.50%	5.50%	7.30%	6.90%	32.7%	-5.5%	-6.4%
Melbourne	10.50%	7.00%	5.70%	4.09%	4.00%	4.80%	3.70%	20.0%	-22.9%	-13.9%
Average	8.90%	7.41%	6.26%	5.98%	5.92%	5.64%	5.70%	-4.7%	1.0%	-7.0%

Source: ALN Apartment Data Inc., CoStar Market Analytics, Beshears & Associates Market Research

Florida Effective Rent

Effective Rent	2011	2012	2013	2014	2015	2016	YTD 2017	%Δ 2015-2016	%Δ 2016-2017	Annual %Δ 2011-2016
Tampa	\$786	\$859	\$881	\$883	\$959	\$997	\$1,033	4.0%	3.6%	3.9%
Orlando	\$806	\$876	\$909	\$919	\$988	\$1,032	\$1,097	4.5%	6.3%	4.0%
Jacksonville	\$734	\$792	\$794	\$813	\$849	\$883	\$924	4.0%	4.6%	3.0%
Gainesville	\$869	\$774	\$782	\$790	\$811	\$815	\$851	0.5%	4.4%	-1.1%
Fort Myers	\$764	\$832	\$876	\$906	\$1,035	\$985	\$1,021	-4.8%	3.7%	4.1%
Palm Beach	\$1,064	\$1,158	\$1,185	\$1,205	\$1,334	\$1,382	\$1,413	3.6%	2.2%	4.3%
Tallahassee	\$830	\$811	\$787	\$819	\$830	\$741	\$777	-10.7%	4.9%	-1.9%
Pensacola	\$718	\$731	\$749	\$763	\$792	\$795	\$833	0.4%	4.8%	1.7%
Melbourne	\$671	\$718	\$764	\$759	\$820	\$875	\$922	6.7%	5.4%	4.3%
Average	\$807	\$845	\$867	\$880	\$946	\$1,008	\$1,116	6.6%	10.7%	3.6%

Source: ALN Apartment Data Inc., CoStar Market Analytics, Beshears & Associates Market Research

Referencing CoStar data from 2007 to year-to-date, we evaluated the price per land square foot of proposed multi-family projects in the state of Florida. The average cost of land has increased by approximately 107.14% since 2007. This is compounded with the increase of construction costs. The price per buildable square foot of apartments has increased an average of roughly 39.58% since 2007. Average Class A, B, and C apartment build outs have increased 40.91%, 40.00%, and 37.31% respectively.

While development costs have risen, rental rates have risen faster. In 2012, average development costs were \$120 per square foot, while rent was \$0.95 per square foot monthly or \$11.40 annually this results in a cost to rent multiple of 10.54. In 2017, although construction costs have risen to \$140 per square foot the multiple has dropped to 9.95.

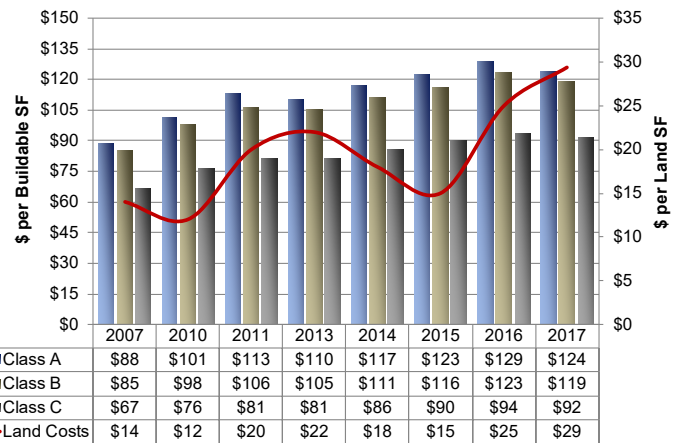
Are The Rents Sustainable?

Referencing CoStar Analytics, on a per square foot basis the effective rent in Florida has grown 24.21% since 2012, increasing from \$0.95 per month to \$1.18 per month. In that same time, vacancy rates have compressed in the state by 320 BPS, decreasing from 8.90% to 5.70%. Despite increased development costs driving rent growth, the market has largely absorbed the available product. Reflecting back on our projections for apartment demand, supply has still not met demand. Demand is being fueled by the increase in employment and record high population growth in the state.

We analyzed the average monthly wage and average monthly entry level wage along with their growth from 2011 to 2016. Since 2011, the average monthly wage in Florida has risen 9.3% from \$3,526 to \$3,922. The average monthly entry level wage has risen 4.7% from \$1,572 to \$1,646. Effective rents raised 24.91% from 2011 to 2016, from \$807 to \$1,008 per unit. This increase completely eliminates the raise in wages for entry level workers. The result, is that those workers are unable to save more money to afford a down payment on a home. In 2016, roughly 63% of Floridians owned their home and 37% rent.

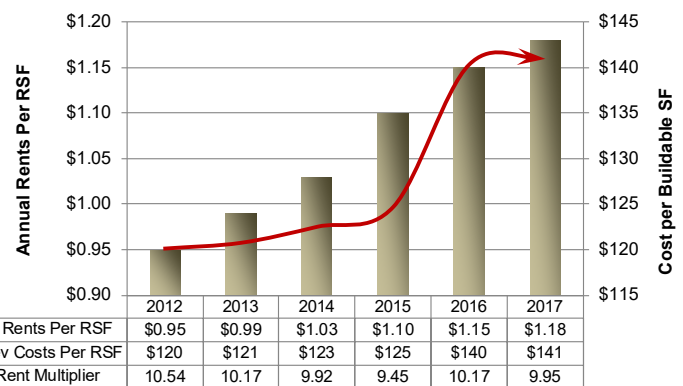
Comparing effective rents and mortgage payments in the state of Florida, renting is \$159 per month cheaper than owning a home. As rents continue to rise, vacancy in apartments continue to contract. This pattern is explained by the low wages of new entry level jobs in the state and their subsequent slow wage growth which, combined with rising rents, has stifled the ability of Floridians to save to afford a single family home. This effect is further amplified by the increase in home values. Without substantial wage increases or a significant depression in home values, Floridians will continue the cycle of renting. A healthy residential housing market combined with low wages is positively correlated with the stability of the apartment market in Florida.

Florida Historical Apartment Construction Costs



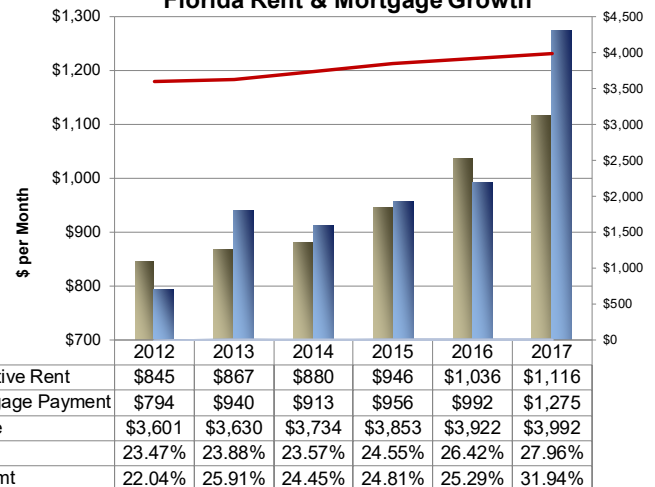
Source: CoStar, Marshall Swift, Beshears & Associates Market Research

Correlation Between Rent & Construction Costs



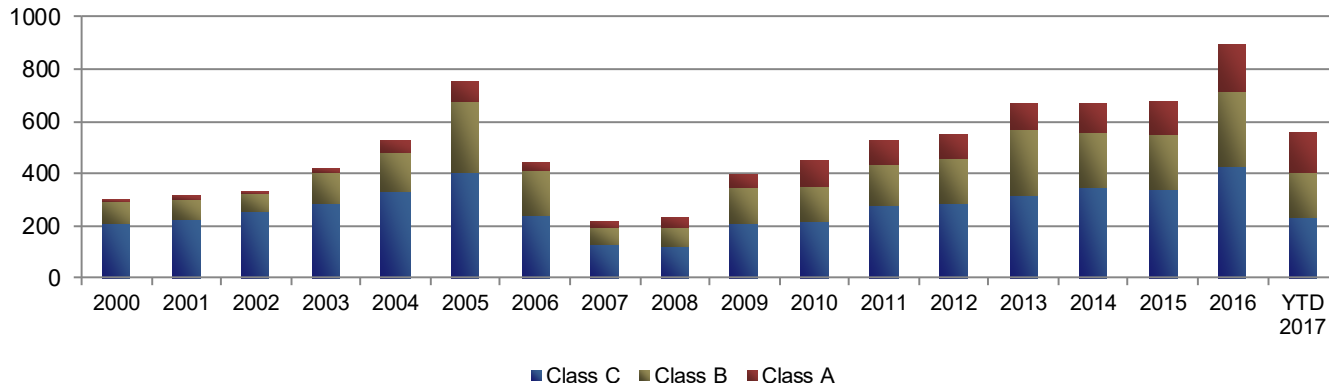
Source: CoStar, Marshall Swift, ALN, Beshears & Associates Market

Florida Rent & Mortgage Growth



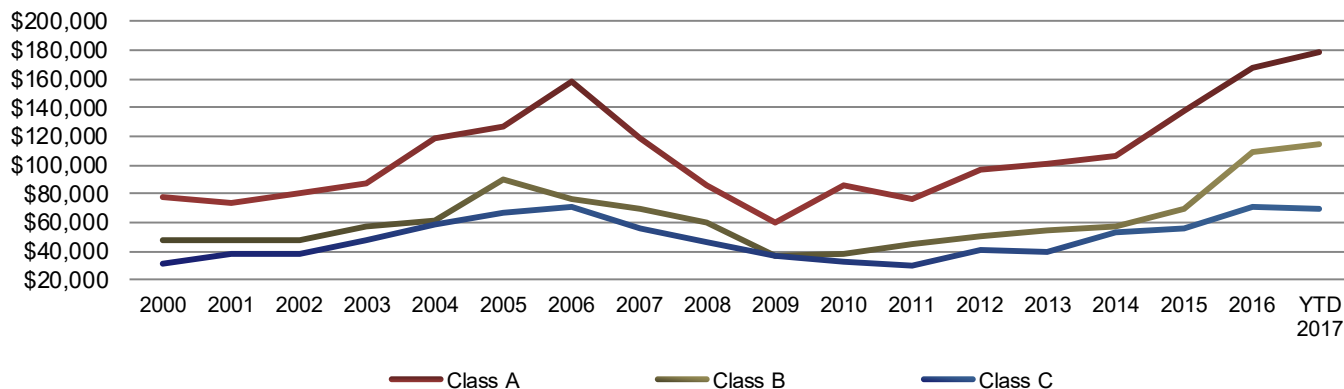
Source: Source: ALN, Florida DEO OES & QCEW Data, NAR Historical Home Sale Price Data, HSH 30 Yr Rate Data, Realty Trac Down Payment Data, Beshears & Associates Market Research
Note: 2017 Average Wage is a projection

Number of Apartment Transactions, Florida



Source: CoStar, Beshears & Associates Market Research

Median Price Per Unit, Florida



Source: CoStar, Beshears & Associates Market Research

Pricing/Transactions

Determining asset class is subjective and can vary greatly from market to market. We have defined Class A assets as those built from the year 2000 to present, Class B built from 1980-1999, and Class C built in 1979 or prior. The median price for Class A apartment units has surpassed pre-recession levels and is now at \$178,426. Class A units hit a low in 2009 and were being traded at an average of \$59,667 per unit. Class B units have also passed the pre-recession high of \$90,000 per unit in 2005 and are currently being traded at \$114,688. Finally, Class C Units peaked at \$70,921 per unit in 2006, but didn't reach bottom until 2011 at \$30,000 per unit, a 58% drop from peak. Despite being the last to bottom out, Class C has regained value the most aggressively posting 16.4% average annual gains and have a median price of \$69,308 per unit year-to-date in 2017.

According to CoStar, through the first three quarters, in 2017 there has been a total of 554 apartment transactions in Florida (apartment buildings greater than 20 units). Of these transactions, 146 (26.35%) were Class A apartment complexes, 176 (31.77%) were Class B apartment complexes, and 232 (41.88%) were Class C apartment complexes.

Notable Transactions

The largest transactions in the state have occurred in the South Florida Market. In 2016 South Florida experienced the second straight year of record-setting multifamily sales totaling 278 properties with approximately \$3.6 billion in value. Transactions have slowed slightly in South Florida with 170 apartment complexes being traded through the first three quarters totaling a value of approximately \$3.5 billion. Montage at City Center apartment complex topped the sales list as the highest transaction since the start of 2016. The 700 unit property was constructed in 2014 and was sold in April 2017 for \$158,500,000 or \$226,428 per unit at a capitalization rate of 5.0%.

The largest transaction in the Tampa Bay market was Lansbrook Village located in Palm Harbor. The property traded at a price of \$82,418,597 or \$106,347 per unit. The 775 unit multi-family complex traded at a reported capitalization rate of 5.30% in April of 2017.

Florida Apartment Development

MSA	Units Delivered 3Q 2017	Units Under Construction	Units Proposed
Miami-Ft Lauderdale	6,286	31,147	14,526
Tampa-St Pete	4,869	11,705	7,662
Orlando-Daytona Beach-Melbourne	6,391	13,360	8,020
Jacksonville	1,380	3,712	3,427
Pensacola	733	474	132
North Port-Bradenton-Sarasota	360	1,550	733
Cape Coral-Ft. Myers-Naples	512	2,351	2,855
Lakeland	824	516	445
Tallahassee	534	1,850	1,832
Gainesville	426	692	345
Total	22,315	67,357	39,977

Source: CoStar, Beshears & Associates Market Research

New Development

According to CoStar, there are 67,357 apartment units currently under construction across major markets in the state. This is more than two times our projection of 26,709 annual demand for new multifamily units. Eight the new complexes under construction are rent restricted or rent subsidized. The majority of the new projects are going up in the Miami-Fort Lauderdale MSA (31,147 units under construction), Orlando-Daytona Beach-Melbourne MSA (13,360 units), Tampa-Saint Petersburg (11,705 units) and Jacksonville (3,712 units). The average unit size for apartments under construction is 1,038 square feet. The National Association of Home Builders' Multifamily Production Index (MPI), which measures multifamily market conditions, indicated a slow down in sales and an expectation of decreasing market conditions over the next six months nationally.

Conclusion

Despite some increase in vacancy as a result of new supply, the Florida apartment market is still very healthy. South Florida, continues to be one of the healthiest markets. Rental rates have increased 3.6% compounded annually since 2011, and 10.7% over the past year. Rates are not expected to decrease as construction costs remain high and the renter pool continues strong under the current economic condition in the state. Vacancy rates have had some fluctuation with an average under 5.7% for the state. With 67,357 units under construction and 39,977 units proposed, development activity is strong. However, pent-up demand and population and employment growth are providing strong absorption. Values have continued to recover, posting 15.1% average annual increases for Class A units, 15.6% average annual increases for Class B units and 16.4% for Class C units since the bottom of the crash. We expect the apartment market in Florida to finish up strong for the remainder of 2017 but the number of new units currently under construction will cause vacancies to rise next year.

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**For Questions About
Our Practice**

Managing Director
David Beshears, MAI, MRICS
 dbeshears@beshears.net
 813.254.2885x204

**For Questions About
The Newsletter**

Analyst
Jordan Menke
 jmenke@beshears.net
 813.254.2885x209

