

## Apartments | 1Q 2015

### Projected Apartment Demand

Are too many apartment units being built is the biggest question regarding Florida multifamily. The number of apartment units previously peaked in 2005 at 1,049,294, according to the UF Bureau of Economics and Business Research. The apartment inventory began to shrink as apartment projects were converted to condominiums. Further, new construction was limited as developers shifted their focus to more lucrative condominiums and townhouse developments. Then the real estate depression effectively stopped all forms of new development. Apartment inventory hit bottom in 2008 at 955,326 units, fewer units than in 2001. Since then, less than 75,000 units have been added. This year, the total apartment inventory will finally surpass the inventory ten years ago, despite Florida gaining 2,313,000 people. As Florida's population and employment recover, there will be strong demand for new apartments. Clouding forecast models are the major structural changes in our economy such as home ownership rates dropping from 72.2% in 2005 to 64.9% currently, the unmeasurable shadow rental market of houses and condos, and the increasing surge of baby boomers. Projecting demand based on employment seems more reliable. Currently there is a ratio of roughly 7.57 persons employed for every apartment unit. Using this ratio and applying it to employment projections from the UCF Center for Economic Competitiveness indicates an average demand of 24,000 units annually over the next three years.

### New Development

According to CoStar, there are 168 apartment properties (greater than 20 units) currently under construction across the state, totaling 38,863 units. Eight of those are rent restricted or rent subsidized. The majority of the new projects are going up in Miami (11,141 units under construction), Orlando (4,453 units) and Tampa (2,351 units). The average unit size for apartments under construction is 1,256 square feet. The National Association of Home Builders' Multifamily Production Index (MPI), which measures multifamily market conditions, held steady for year end 2014. This marked the third straight year of survey respondents reporting that multifamily market conditions are improving.

### Projected Apartment Demand, State of Florida

	Historical Performance				Projected		
	2005	2010	2013	2014	2015	2016	2017
<b>Apartment Units</b>	1,049,294	980,739	1,004,911	1,029,774	1,062,773	1,082,893	1,100,573
<b>Demand for Units Added Annually</b> <sup>1/</sup>	25,998	(13,711)	8,057	24,863	32,999	20,120	17,680
<b>Population</b>	17,771,200	18,879,700	19,581,900	19,817,700	20,085,000	20,379,100	20,694,000
<b>Population Added Annually</b> <sup>1/</sup>	336,580	221,700	234,067	235,800	267,300	294,100	314,900
<b>Employment</b>	7,805,400	7,172,300	7,580,100	7,791,400	7,970,800	8,121,700	8,254,300
<b>Employment Added Annually</b> <sup>1/</sup>	147,200	(126,620)	135,933	211,300	179,400	150,900	132,600
<b>Population Per Unit</b>	16.94	19.25	19.49	19.24	18.90	18.82	18.80
<b>Employed Per Unit</b>	7.44	7.31	7.54	7.57	7.50	7.50	7.50

<sup>1/</sup> For the periods 2000-2005, 2006-2010, and 2011-2013

Source: UCF Center for Economic Competitiveness; UF Bureau of Economic and Business Research, Beshears & Associates Market Research

### Market Fundamentals

Vacancy rates in all of the Florida markets we track dropped significantly from 2010 to 2014, with the state average dropping from 10.61% to 5.98%. The most recent survey by ALN Apartment Data showed a leveling off with all of the markets at 8.00% vacancy rate or lower, and the state average dropping to 5.92%.

All markets are also experiencing increasing asking and effective rents. The average effective rent for Florida is up 7.1% over 2014, and markets like Fort Myers and Palm Beach are up over 10% from 2014. The markets with the most level effective rent year over year were Gainesville and Tallahassee at only a 2.6% and 4.0% increase respectively. Those are markets dominated by student housing.

According to MPF Research, U.S. apartment renters are increasingly choosing to stay put rather than move up to new apartments, move down to cheaper apartments or move out to buy homes. Apartment lease renewal conversion was at a long-term high of 54.5% in February 2015.

### Florida Effective Rent

Effective Rent	2010	2011	2012	2013	2014	Feb 2015	%Δ 2014-2015	Annual %Δ 2010-2014
Tampa	\$765	\$786	\$859	\$881	\$883	\$959	8.6%	6.3%
Orlando	\$782	\$806	\$876	\$909	\$919	\$988	7.5%	6.6%
Jacksonville	\$716	\$734	\$792	\$794	\$813	\$849	4.4%	4.6%
Gainesville	\$850	\$869	\$774	\$782	\$790	\$811	2.6%	-1.1%
Fort Myers	\$785	\$764	\$832	\$876	\$906	\$1,035	14.3%	8.0%
Palm Beach	\$1,043	\$1,064	\$1,158	\$1,185	\$1,205	\$1,334	10.7%	7.0%
Tallahassee	\$797	\$830	\$811	\$787	\$819	\$852	4.0%	1.7%
Pensacola	\$714	\$738	\$785	\$823	\$827	\$862	4.2%	5.2%
Melbourne	\$655	\$671	\$718	\$764	\$759	\$820	8.0%	6.3%
<b>Average</b>	<b>\$790</b>	<b>\$807</b>	<b>\$845</b>	<b>\$867</b>	<b>\$880</b>	<b>\$946</b>	<b>7.1%</b>	<b>4.9%</b>

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

### Florida Vacancy Rates

Vacancy Rates	2010	2011	2012	2013	2014	Feb 2015	%Δ 2014-2015	Annual %Δ 2010-2014
Tampa	9.20%	8.50%	7.20%	6.40%	7.66%	7.60%	-0.8%	-4.3%
Orlando	10.00%	8.40%	6.80%	6.00%	6.98%	6.90%	-1.1%	-7.8%
Jacksonville	14.10%	11.80%	10.00%	8.70%	8.21%	8.00%	-2.5%	-10.8%
Gainesville	11.30%	7.80%	8.10%	5.40%	4.65%	4.60%	-1.0%	-14.8%
Fort Myers	10.50%	6.80%	5.70%	5.90%	4.75%	4.80%	1.0%	-13.6%
Palm Beach	7.80%	6.80%	5.90%	5.40%	4.90%	4.90%	0.1%	-9.3%
Tallahassee	9.80%	9.00%	7.70%	6.50%	6.93%	6.90%	-0.4%	-7.4%
Pensacola	11.40%	10.50%	8.30%	6.30%	5.68%	5.60%	-1.4%	-12.7%
Melbourne	11.40%	10.50%	7.00%	5.70%	4.09%	4.00%	-2.3%	-16.2%
<b>Average</b>	<b>10.61%</b>	<b>8.90%</b>	<b>7.41%</b>	<b>6.26%</b>	<b>5.98%</b>	<b>5.92%</b>	<b>-1.0%</b>	<b>-11.0%</b>

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

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### Pricing/Transactions

Determining asset class is subjective and can vary greatly from market to market. For our purposes in this analysis 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 reached a peak in 2006 at \$158,186 per unit and then dropped 62% to \$59,677 per unit in 2009. Class A units have since averaged an increase of 11% annually and had a median of \$106,804 per unit in 2014.

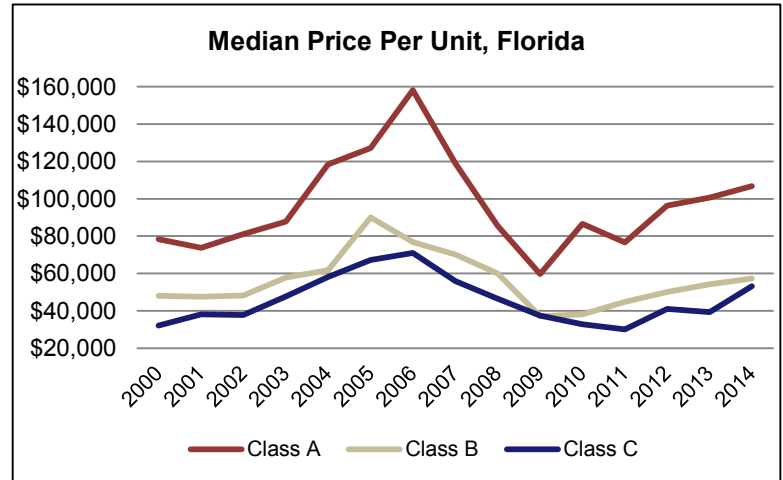
Class B units peaked in 2005 at \$90,000 per unit and then dropped 59% to \$37,016 per unit in 2009. Since that time Class B units have increased an average of 8.4% annually and were at \$57,324 per unit in 2014.

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 17% average annual gains and was at \$53,250 per unit in 2014.

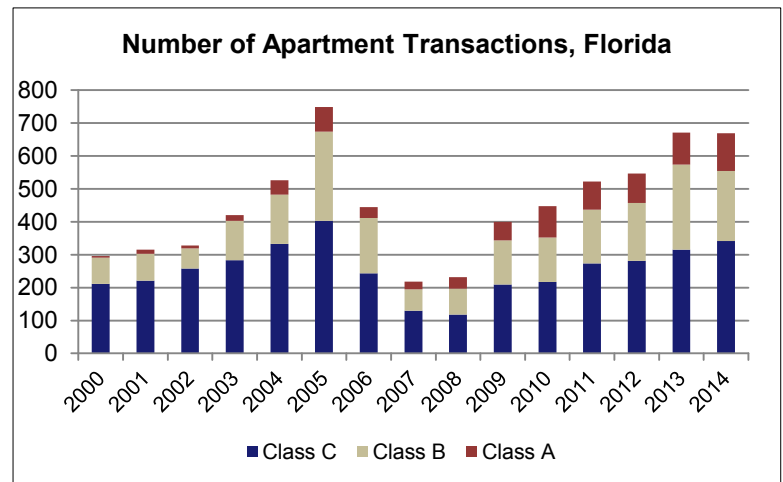
According to CoStar, year to date (YTD) in 2015 there has been a total of 96 apartment transactions in Florida (apartment buildings greater than 20 units), a slower pace than January through March 2014 when 309 properties were sold. Institutional investment in apartments has picked up from last year. 65% of apartment buyers have been institutional YTD (42% in 2014). Some notable large sales YTD include Azure apartments in St Petersburg selling for \$54 million (\$175,325 per unit), Heritage on Millenia in Orlando selling for \$40 million (\$132,013 per unit), La Costa Apartments in Boynton Beach selling for \$36.8 million (\$112,195 per unit), and Fisherman's Landing in Coconut Creek selling for \$33,200,000 (\$123,881 per unit).

### Conclusion

The Florida apartment market is very healthy. Rental rates have increased 4.9% compounded annually since 2010, and 7.1% over the past year. Vacancy rates continue to fall and average under 6% for the state. With 168 projects totaling 38,863 units under construction, development activity is strong. However, pent-up demand and population and employment growth are providing strong absorption. Values have continued to recover, posting 11% average annual increases for Class A, 8.4% average annual increases for Class B units and 17.4% for Class C units since the bottom of the crash. We expect 2015 to continue to be a strong year for the Florida apartment market.



Source: CoStar, Beshears & Associates Market Research



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If you have questions about the newsletter or our practice, please contact David Beshears, MAI at (813) 204-2885 x204 or [dbeshears@beshears.net](mailto:dbeshears@beshears.net).

*The primary sources of information for this newsletter were derived from CoStar Realty Information, ALN Apartment Data, UCF, UF, Beshears & Associates market research, and other published sources. The information contained in this newsletter was derived from sources we believe are reliable. We have not independently verified this information and we make no warranty or representation of its accuracy.*

