

Apartments | 1Q 2016

Projected Apartment Demand

Whether or not too many apartments are being built is one of the biggest questions regarding Florida's apartment or multi-family market. 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. 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 64.8% currently, the immeasurable 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 7.5 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 18,506 units annually over the next three years.

As supply continues to grow, some markets are getting overbuilt with apartments. Notably, they are being overbuilt with Class A luxury apartments in order to enable them to prepare budgeted pro formas (with rent justified by current comps benefiting from lower supply) that cover the cost of land, bricks and mortar. Developers are not building what would be equivalent to Class B product, which is in high demand in a large amount of markets because rents don't justify the cost of construction. Another point of concern is the large portion of newly added jobs adding by corporations are paying low wages, making it more of a challenge to achieve the targeted rents for Class A product in the market. If new Class A product cannot both achieve and sustain the high rents upon completion and stabilization, lenders will be in troubled waters again.

Projected Apartment Demand, State of Florida

	Historical Performance					Projected		
	2005	2010	2013	2014	2015	2016	2017	2018
Apartment Units	1,049,294	980,739	1,004,911	1,029,774	1,062,773	1,082,893	1,100,573	1,118,293
Demand for Units Added Annually ^{1/}	25,998	(13,711)	8,057	24,863	32,999	20,120	17,680	17,719
Population	17,876,663	18,820,278	19,318,859	19,548,031	19,816,176	20,099,988	20,382,645	20,662,032
Population Added Annually ^{1/}	357,673	188,723	166,194	229,172	268,145	283,812	282,657	279,387
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)	135,933	211,300	179,400	150,900	132,600	132,894
Population Per Unit	17.04	19.19	19.22	18.98	18.65	18.56	18.52	18.48
Employed Per Unit	7.44	7.31	7.54	7.57	7.50	7.50	7.50	7.50

^{1/} 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

New Development

According to CoStar, there are 177 apartment properties (greater than 20 units) currently under construction across the state, totaling 41,327 units. Six of those are rent restricted or rent subsidized. The majority of the new projects are going up in Miami (8,184 units under construction), Orlando (4,159 units) and Tampa (3,546 units). The average unit size for apartments under construction is 1,009 square feet. The National Association of Home Builders' Multifamily Production Index (MPI), which measures multifamily market conditions, held steady for year end 2015. This marked the fourth straight year of survey respondents reporting that multifamily market conditions are improving.

Market Fundamentals

Vacancy rates in the Florida markets tracked by ALN dropped from 2011 to 2015, with the state average dropping from 8.90% to 5.92%. The most recent survey by ALN Apartment Data showed continual absorption with all of the markets at 7.10% vacancy rate or lower, and the state average dropping to 5.64%.

Each of the Florida markets analyzed increased year over year with respect to asking and effective rents between 2014

Florida Effective Rent

Effective Rent	2011	2012	2013	2014	2015	Feb 2016	%Δ 2015-2016	Annual %Δ 2011-2015
Tampa	\$786	\$859	\$881	\$883	\$959	\$1,028	7.2%	4.9%
Orlando	\$806	\$876	\$909	\$919	\$988	\$1,072	8.5%	5.0%
Jacksonville	\$734	\$792	\$794	\$813	\$849	\$905	6.6%	3.6%
Gainesville	\$869	\$774	\$782	\$790	\$811	\$870	7.3%	-1.7%
Fort Myers	\$764	\$832	\$876	\$906	\$1,035	\$1,155	11.6%	7.3%
Palm Beach	\$1,064	\$1,158	\$1,185	\$1,205	\$1,334	\$1,439	7.9%	5.5%
Tallahassee	\$830	\$811	\$787	\$819	\$830	\$840	1.2%	0.0%
Pensacola	\$738	\$785	\$823	\$827	\$862	\$893	3.6%	3.8%
Melbourne	\$671	\$718	\$764	\$759	\$820	\$869	6.0%	4.9%
Average	\$807	\$845	\$867	\$880	\$946	\$1,008	6.6%	3.9%

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

Florida Vacancy Rates

Vacancy Rates	2011	2012	2013	2014	2015	Feb 2016	%Δ 2015-2016	Annual %Δ 2011-2015
Tampa	8.50%	7.20%	6.40%	7.66%	7.60%	6.00%	-21.1%	-2.8%
Orlando	8.40%	6.80%	6.00%	6.98%	6.90%	6.60%	-4.3%	-5.0%
Jacksonville	11.80%	10.00%	8.70%	8.21%	8.00%	6.70%	-16.3%	-10.2%
Gainesville	7.80%	8.10%	5.40%	4.65%	4.60%	3.40%	-26.1%	-14.1%
Fort Myers	6.80%	5.70%	5.90%	4.75%	4.80%	4.80%	0.0%	-9.1%
Palm Beach	6.80%	5.90%	5.40%	4.90%	4.90%	7.10%	44.9%	-8.5%
Tallahassee	9.00%	7.70%	6.50%	6.93%	6.90%	6.20%	-10.1%	-6.9%
Pensacola	10.50%	8.30%	6.30%	5.68%	5.60%	5.60%	0.0%	-17.0%
Melbourne	10.50%	7.00%	5.70%	4.09%	4.00%	4.40%	10.0%	-27.3%
Average	8.90%	7.41%	6.26%	5.98%	5.92%	5.64%	-4.7%	-10.7%

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

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and 2015. The average effective rent for Florida is up 6.6% over 2015, and the Fort Myers market is notably up over 10% from 2015, showing back-to-back double digit growth. The markets with the most level effective rents year over year were Tallahassee and Pensacola at only a 1.2% and 3.6% increase respectively.

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 10-year high of 55.1% in February 2016.

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 13.1% annually and had a median of \$138,243 per unit in 2015.

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 10% annually and were at \$69,721 per unit in 2015.

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 14.7% average annual gains and was at \$56,597 per unit in 2015.

According to CoStar, as of 3/31/2016, in 2016 there has been a total of 157 apartment transactions in Florida (apartment buildings greater than 20 units), a faster pace than January through March 2015 when 96 properties were sold. Institutional investment in apartments has gone

down from last year. 62% of apartment buyers have been institutional YTD (65 percent in 2015). Some notable large sales YTD include Solero at Plantation in Plantation selling for \$122.7 million (\$255,094 per unit), Village at Baldwin Park selling for \$110.75 million (\$209,754 per unit), Barrington at Mirror Lake in Apopka selling for \$74.65 million (\$100,878 per unit), and University Park in Boca Raton selling for \$70 million (\$437,500 per unit).

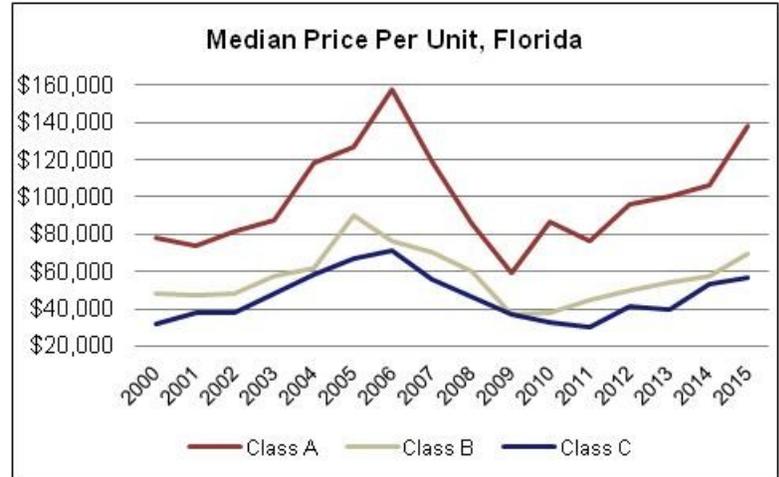
Pricing per unit in Miami-Dade and Broward counties are approximately double that of apartment properties in most other markets. This is largely due to a limited remaining supply of strategic vacant sites. Furthermore, highest and best use conclusions are changing as a result of the demand for more product.

Conclusion

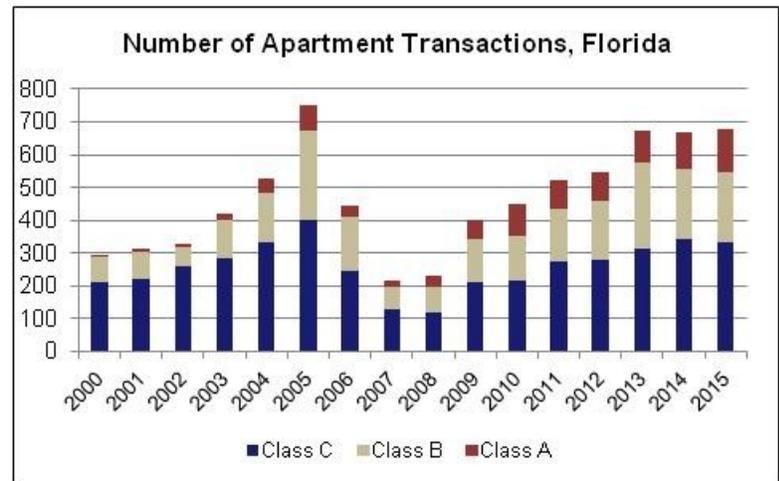
The Florida apartment market is very healthy, if not robust in some markets (i.e. South Florida) of Florida. Rental rates have increased 3.9% compounded annually since 2011, and 6.6% over the past year. Vacancy rates continue to fall and average under 6% for the state. With 177 projects totaling 41,327 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 13.1% average annual increases for Class A units, 10% average annual increases for Class B units and 14.7% for Class C units since the bottom of the crash. We expect 2016 to continue to be a strong year for the Florida apartment market.

ABOUT OUR FIRM | Beshears and Associates is a commercial appraisal firm located in Tampa, Florida. In addition to covering apartments, office, industrial, land, and retail, we have specialty practices in gas stations, self-storage, hotels and mobile home parks. Our staff of 12 appraisers complete over 650 appraisals annually in Florida and Georgia.

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.



Source: CoStar, Beshears & Associates Market Research



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