

Yardi® Matrix

MULTIFAMILY REPORT

Orlando Shifts Down A Gear

Spring 2020

Deliveries Pump the Brakes

Transaction Activity Endures

Travel Restrictions Prompt Steep Job Cuts



ORLANDO MULTIFAMILY

Yardi® Matrix

Rent Growth Plummetts Amid COVID-19 Crisis

With a consistently strong pipeline and unemployment claims concentrated in the leisure and hospitality sector—the backbone of the metro's economy—Orlando's multifamily market is facing a double threat. Rents contracted 0.4% year-over-year through April to an average of \$1,347, the steepest decline among major U.S. metros.

Tourism and entertainment were severely impacted by social distancing and shelter-in-place measures. Theme parks, resort hotels and conference centers have been shuttered since mid-March, which resulted in tens of thousands of furloughs, layoffs and pay-check reductions. However, the news is not all bad. HCA Healthcare Inc. and the University of Central Florida moved forward with their \$175 million teaching hospital in Lake Nona's burgeoning 650-acre Medical City life sciences hub, and aircraft company Aeron Supersonic revealed its plan to invest \$300 million in a new campus in Melbourne. In the meantime, as of May 17, some 900,000 Florida unemployment claims, out of a total of nearly 1.6 million submitted, were paid.

A little over 1,200 units came online, and \$994 million in multifamily assets traded in Orlando in the first four months of 2020. Amid elevated supply volumes and an economy facing dwindling jobs, rent growth is bound to deteriorate further in the near term.

Market Analysis | Spring 2020

Contacts

Jeff Adler

Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 303-615-3676

Jack Kern

Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.

Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Author**Laura Calugar**

Senior Associate Editor

On the cover: Photo by quinntheislander/iStockphoto.com

Recent Orlando Transactions

The Parkway at Hunter's Creek



City: Orlando, Fla.
Buyer: Priderock Capital Partners
Purchase Price: \$105 MM
Price per Unit: \$210,685

Indigo West



City: Orlando, Fla.
Buyer: LivCor
Purchase Price: \$91 MM
Price per Unit: \$198,465

Integra Sunrise Parc



City: Kissimmee, Fla.
Buyer: Bluerock Real Estate
Purchase Price: \$67 MM
Price per Unit: \$223,333

Enders Place at Baldwin Park

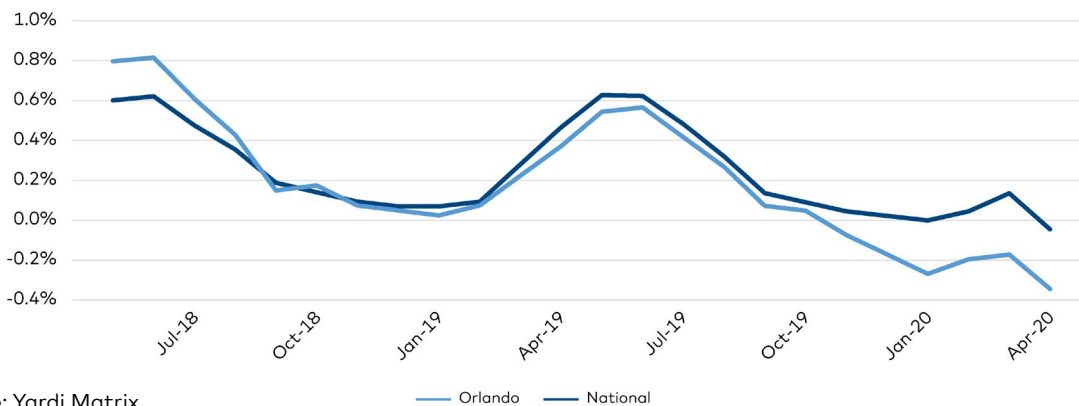


City: Orlando, Fla.
Buyer: TA Realty
Purchase Price: \$53 MM
Price per Unit: \$241,591

RENT TRENDS

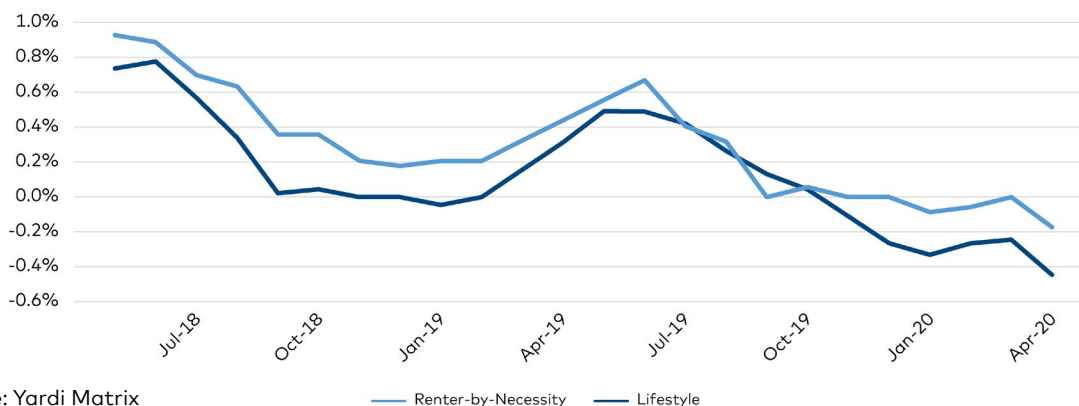
- ▶ Orlando rents were down 0.3% on a trailing three-month (T-3) basis through April, while the national rate remained flat. Over the past few years, Orlando has enjoyed some of the country's strongest rent growth periods, a circumstance that is now reverting, with rates contracting 0.4% year-over-year through April—the steepest decline among major U.S. metros.
- ▶ Rents in the Lifestyle segment dropped 0.4% on a T-3 basis in April, to \$1,482. With 95% of new inventory delivered since 2016 at the upper end of the quality spectrum, decelerating new absorption due to the COVID-19 lockdown and increasing unemployment figures, the upscale segment faces a likely struggle. In the meantime, rents in the working-class Renter-by-Necessity segment also contracted by 0.2%, on a T-3 basis, to \$1,153 as of April.
- ▶ The best-performing submarket in the 12 months ending in April was Oviedo, where rents rose 8.6% to \$1,745. Along with University Park (average rent at \$1,920), the two submarkets continued to be the most expensive, followed by urban core areas such as Colonialtown (\$1,657) and Downtown Orlando (\$1,651).
- ▶ Most residents paid May rents, but collections in the next two quarters will prove challenging, as the Sunshine State has a significant backlog of unpaid unemployment claims. Yardi Matrix expects Orlando rents to contract 0.9% in 2020.

Orlando vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Orlando Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- ▶ Travel restrictions and stay-at-home orders have put a lot of pressure on the metro's economy. Walt Disney World furloughed 43,000 workers in April, while Universal Orlando laid off employees and reduced paychecks. Looking to emerge from its heavy dependence on tourism, the metro's economy has been gradually diversifying over the past few years. In April, Aerion Supersonic announced it will relocate its headquarters from Nevada to Melbourne, through a \$300 million investment slated to break ground this year. In addition, Lockheed Martin won \$4.7 billion in F-35 contracts, with part of the work to be completed at its Orlando location.
- ▶ The metro's unemployment rate hit 4.2% in March, according to preliminary Bureau of Labor Statistics data, up 130 basis points in one month. Shuttered since mid-March, the metro's economy is in the midst of a phased reopening.
- ▶ Central Florida gained 22,500 jobs year-over-year through March, for a 2.1% uptick. Although surpassing the national rate by 30 basis points, employment growth in Orlando has been slowly decelerating since late 2018. Las Vegas (49%), the SW Florida Coast (44%) and Orlando (41%) topped Yardi Matrix's list of the 50 metros with the highest concentrations of at-risk employment sectors due to the COVID-19 outbreak.

Orlando Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	206	13.1%
15	Mining, Logging and Construction	108	6.8%
55	Financial Activities	89	5.6%
30	Manufacturing	78	4.9%
40	Trade, Transportation and Utilities	281	17.8%
90	Government	159	10.1%
80	Other Services	55	3.5%
50	Information	28	1.8%
70	Leisure and Hospitality	307	19.5%
60	Professional and Business Services	266	16.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Central Florida gained 60,045 residents in 2018, a 2.4% uptick and 180 basis points above the national rate. International migration continued to be the main demographic driver.
- ▶ Orlando remained the fastest-growing metro in Florida, followed by Jacksonville (2.0%).

Orlando vs. National Population

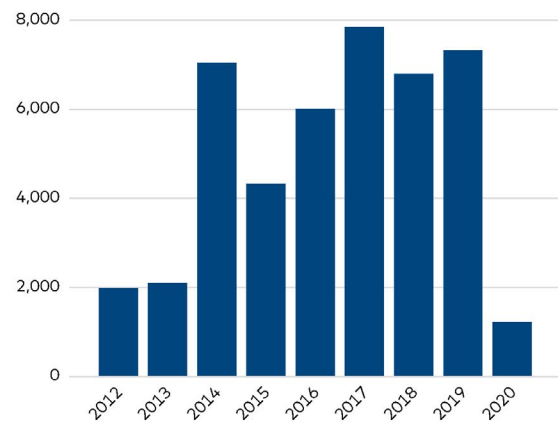
	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Orlando Metro	2,387,554	2,452,986	2,512,917	2,572,962

Sources: U.S. Census, Moody's Analytics

SUPPLY

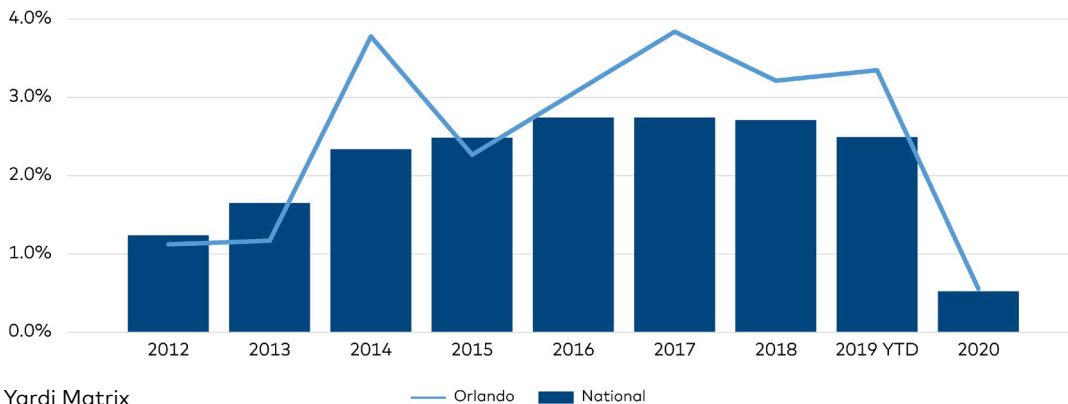
- ▶ Orlando had 17,801 units under construction as of April, 93% of which were geared toward high-income residents. With Lifestyle rents already moderating even prior to the health crisis, the segment is likely to feel the most impact from the outbreak.
- ▶ Construction was deemed essential during the COVID-19 lockdown in Florida and developers were able to move forward, alongside the gradual reopening of businesses that began in May. However, the disruption to the local economy was deep and swift, and could have lasting effects on Orlando's pipeline.
- ▶ Hot off its second-best year for deliveries this decade—posting 7,328 units in 2019—the Orlando multifamily market began to slow down. Only 1,229 units came online over the first four months of 2020, with deliveries nearly double in the same period of 2019. Considering all properties completed this year catered to the upscale segment, working-class households are likely to be the most pressured, as Orlando's economy remains highly dependent on tourism, one of the sectors that has struggled most with an increasing unemployment rate induced by the coronavirus.
- ▶ As of April, Lake Buena Vista accounted for roughly a quarter of all units underway across the metro. American Campus Communities plans to bring 1,323 student housing units—which will serve Walt Disney's internships and college programs—and 1,291 Class A apartments to the submarket by mid-2023. The company broke ground on the first phase of the project in late 2018.

Orlando Completions (as of April 2020)



Source: Yardi Matrix

Orlando vs. National Completions as a Percentage of Total Stock (as of April 2020)



Source: Yardi Matrix

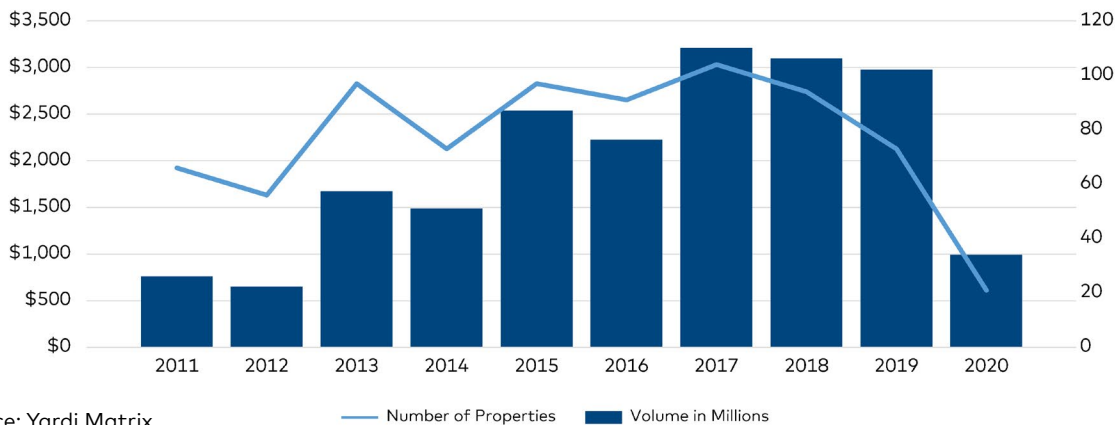
TRANSACTIONS

- ▶ Following three years in which multifamily investment equaled or surpassed the \$3 billion mark, \$994 million in assets changed hands in Orlando in the first four months of 2020. Despite the ongoing COVID-19 crisis, transaction activity in the metro actually sped up compared to the same period last year.
- ▶ Twenty-one properties traded year-to-date through April, with investor appetite split between high- and low-end product. At \$198,485,

the average per-unit price significantly surpassed the \$162,169 national average.

- ▶ In the 12 months ending in April, Winter Park/Maitland, Lake Buena Vista, Kirkman and Hunter's Creek accounted for a third of the \$3.3 billion investment volume. Blackstone Group was one of the metro's most active buyers. The private equity giant purchased three assets—totaling 972 units—in the metro, as part of a five-property multistate portfolio transaction.

Orlando Sales Volume and Number of Properties Sold (as of April 2020)



Source: Yardi Matrix

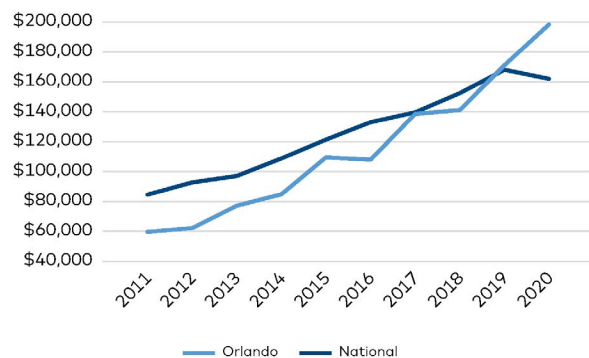
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Winter Park/Maitland	371
Lake Buena Vista	312
Kirkman	203
Hunter's Creek	179
Lockhart	170
West Kissimmee	154
Red Bug Lake	150

Source: Yardi Matrix

¹ From May 2019 to April 2020

Orlando vs. National Sales Price per Unit



Source: Yardi Matrix

TOP 5 FLORIDA MARKETS FOR TRANSACTION ACTIVITY



data by

Yardi® Matrix

By Razvan Cimpean

Florida's multifamily sector has expanded significantly over the past decade, as a result of healthy demographic trends and a business-friendly climate. Immigration played a large role in the state's growth, with some 2.5 million residents coming from Latin America. The coronavirus outbreak forced states around the country to adapt to a new reality, with nonessential businesses closed, as well as travel restrictions. The latter will heavily impact Florida, which could result in negative consequences for the multifamily market as well.

Rank	Metro	Properties Sold	Transaction Volume (MM)	Units Sold
1	Orlando	21	\$994.0	6,664
2	Tampa - St Petersburg - Clearwater	22	\$681.5	5,005
3	Jacksonville	11	\$348.5	2,443
4	Miami	7	\$297.2	1,580
5	Southwest Florida Coast	8	\$265.0	1,710

Orlando

Orlando has been the best-performing multifamily market in the state in recent quarters, thanks to its incredible demographic and employment expansions. But as the leisure and hospitality sector, the largest employment sector in Orlando, has been directly affected by the pandemic, the metro is facing critical times. However, construction activity is not expected to be severely impacted—developers were working on 56 projects totaling more than 17,000 units as of April, with some 11,000 units slated to come online by year's end. Investors closed 17 deals totaling \$711 million in the first four months of 2019.



DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;*
- *Students, who also may span a range of income capability, extending from affluent to barely getting by;*
- *Lower-middle-income ("gray-collar") households, composed of office workers, policemen, firemen, technical workers, teachers, etc.;*
- *Blue-collar households, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;*
- *Subsidized households, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;*
- *Military households, subject to frequency of relocation.*

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

How do you | find properties to buy or develop?

Invest confidently using the industry's most comprehensive market intelligence service. Only Yardi Matrix continuously updates and verifies critical data for 17 million+ units within more than 90,000 multifamily properties in 133 U.S. metros that encompass 90% of the population.



(800) 866-1144
YardiMatrix.com

DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2020 Yardi Systems, Inc. All Rights Reserved.