

Jacksonville Takes A Step Back

Summer 2020



Pipeline Loses Steam

Economy Slowly Reopens

Investment Activity Endures

JACKSONVILLE MULTIFAMILY



COVID-19 Woes Temper Rent Growth, Deliveries

Following a strong 2019 for both investment volume and completions—the latter of which saw a new cycle peak—Jacksonville’s multifamily market hit the brakes as the health crisis began to hold sway over the metro’s economy. Rent growth contracted by 0.3% on a trailing three-month basis through May, with the upscale Lifestyle segment—a class susceptible to reduced demand in challenging times—recording a 0.5% drop.

Leisure and hospitality was the first sector impacted by the coronavirus-induced nationwide lockdown, but others followed suit. A Northeast Florida Regional Council study found that, even with the most positive outcome, more than 41,000 jobs, or 4.2% of the workforce, will be lost in the Jacksonville area. The same analysis showed that it will take more than two years for the metro’s economy to fully recover. In an effort to protect the city’s labor pool, authorities partnered with a local credit union and approved a \$28 million relief package for small businesses.

In the first five months of the year, \$354 million in multifamily assets traded in Jacksonville and only one 301-unit property came online. Despite multifamily historically remaining a favored asset class due to its lower volatility, we expect investor appetite to further soften moving forward, only to rebound next year when the aftermath of the coronavirus crisis will likely be more apparent.

Market Analysis | Summer 2020

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Recent Jacksonville Transactions

The Elysian



City: St. Johns, Fla.
Buyer: Electra America
Purchase Price: \$80 MM
Price per Unit: \$228,448

The Reserve at Nocatee



City: Ponte Vedra, Fla.
Buyer: PASSCO Real Estate
Purchase Price: \$56 MM
Price per Unit: \$231,188

Victoria at Orange Park



City: Orange Park, Fla.
Buyer: Broadshore Capital Partners
Purchase Price: \$37 MM
Price per Unit: \$132,500

Park at Blanding

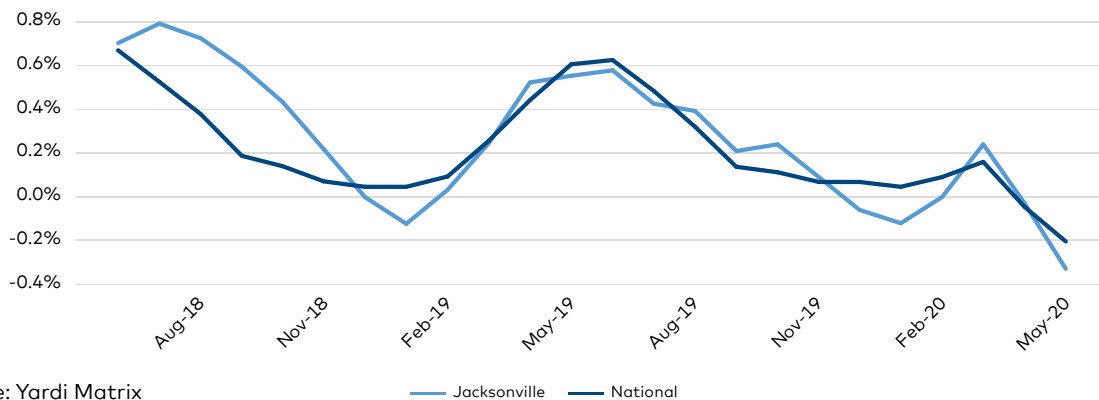


City: Orange Park, Fla.
Buyer: ORIX Capital Markets
Purchase Price: \$10 MM
Price per Unit: \$88,034

RENT TRENDS

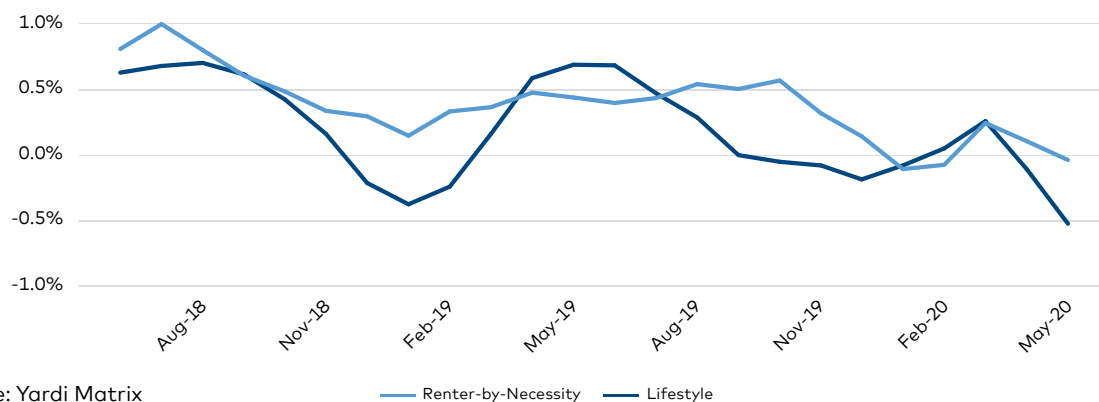
- ▶ Jacksonville rents were down 0.3% on a trailing three-month (T3) basis through May, 10 basis points below the U.S. rate. The metro's overall average stood at \$1,102, significantly lower than the \$1,460 national figure. Due to strong supply and the aftershock of the coronavirus crisis, we expect rents to slide further.
- ▶ With high-end properties among the most exposed assets during crises, Lifestyle rents contracted 0.5% on a T3 basis to an average of \$1,260. Meanwhile, with increasing unemployment figures and residents downsizing to cut costs, rent growth in the working-class Renter-by-Necessity segment remained flat, at \$939.
- ▶ To offset some of the pandemic's impact on the local economy, city officials approved \$1,000 in relief for roughly 40,000 Duval County residents who earn less than \$75,000 annually and have lost at least a quarter of their income due to the COVID-19 outbreak. The money can be used to pay mortgages, rents and utilities. Additionally, a statewide executive order that protects renters from evictions and foreclosures was extended through July 1.
- ▶ In the 12 months ending in May, suburban submarkets such as Oceanway (9.4%), Bowden (8.6) and Mayport (6.2%) were among the best-performing areas for rent growth. With an average rent of \$1,388, waterfront Neptune Beach remained the most expensive submarket.

Jacksonville vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Jacksonville Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- ▶ Following several years of strong employment growth, the first signs of distress caused by the health crisis emerged in Jacksonville at the end of the first quarter. The leisure and hospitality sector began bleeding jobs, not unlike most tourist-oriented economies around the country.
- ▶ From 4.3% in March, the unemployment rate in the metro spiked to 11.2% in April, according to preliminary Bureau of Labor Statistics data. A study from the Northeast Florida Regional Council shows the pandemic's impact on the region will be about 15% more severe than the national average. The analysis identifies the construction, finance, insurance, real estate, health care, hotel and food service industries as the hardest hit. To reduce costs, TIAA-owned EverBank Financial Corp. announced it would offer voluntary separation packages to 75% of its total U.S. workforce, which includes more than 1,000 Northeast Florida employees.
- ▶ To cushion the blow for small businesses, the City of Jacksonville created its own loan program, in partnership with locally based VyStar Credit Union. A \$28 million relief package was approved, and eligible small businesses can apply for up to \$100,000 in loans, on one condition—they must retain all the employees they had before the crisis.

Jacksonville Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	115	15.7%
65	Education and Health Services	112	15.3%
40	Trade, Transportation and Utilities	157	21.4%
55	Financial Activities	68	9.3%
30	Manufacturing	33	4.5%
15	Government	79	10.8%
90	Mining, Logging, and Construction	46	6.3%
80	Other Services	27	3.7%
50	Information	9	1.2%
30	Leisure and Hospitality	86	11.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Jacksonville gained 24,813 residents last year, up 1.6% and significantly above the 0.3% U.S. growth rate.
- ▶ Among major Florida metros, only Tampa (1.7%) surpassed Jacksonville's increase. Meanwhile, Miami saw a contraction of 0.5%.

Jacksonville vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Jacksonville Metro	1,476,120	1,504,841	1,534,701	1,559,514

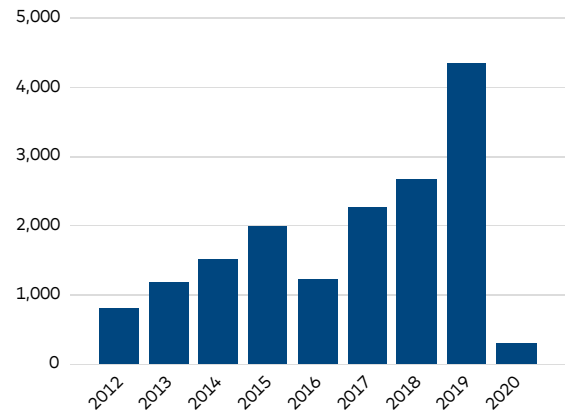
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ Jacksonville had 5,951 units under construction as of May, with almost a third of them in Deerwood Club, a submarket that provides easy access to one of the metro's largest suburban employment hubs.
- ▶ Only one multifamily property with more than 50 units came online this year through May—Waypoint Residential completed Volaris West Kernan, a 301-unit community in Southridge. Jacksonville had been hot off its strongest year for deliveries this cycle. In 2019, the market added 4,346 new units, accounting for 4.2% of the total stock. Mirroring the national trend, most properties completed last year catered to the Lifestyle segment, which is more vulnerable to economic turmoil.
- ▶ Despite Florida entering Phase 2 of reopening in June, following several weeks of lockdown, the cost of development is likely to increase due to schedule extensions. Going forward, landlords may need to offer concessions and discounts to lease-up recently delivered units.
- ▶ Developers focused on both urban and suburban areas for new rental stock, with Deerwood Club leading the way with 1,894 apartments un-

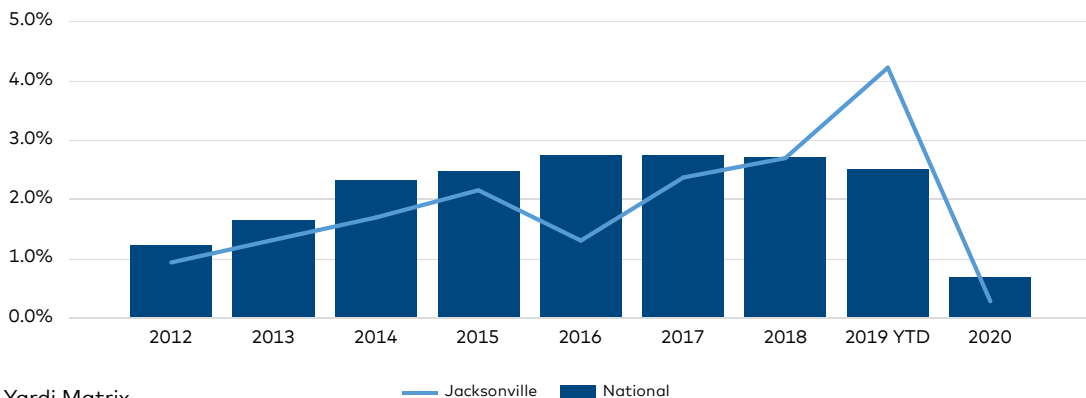
der construction, followed by South Jacksonville (574 units) and St. Augustine (571 units). Fort Family Investments' 384-unit Fusion is among the largest multifamily projects underway in the metro. The company owns three other communities—totaling more than 1,000 units—in the immediate vicinity of the development. Fusion is slated for completion early next year.

Jacksonville Completions (as of May 2020)



Source: Yardi Matrix

Jacksonville vs. National Completions as a Percentage of Total Stock (as of May 2020)



Source: Yardi Matrix

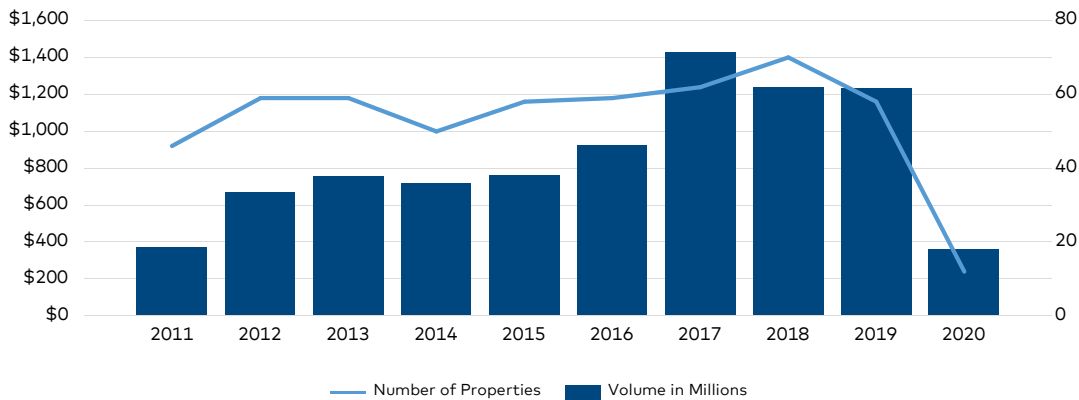
TRANSACTIONS

- ▶ In the first five months of the year, \$354 million in multifamily properties traded in Jacksonville, a slight increase from last year's \$314 million over the same period. Transaction volume has surpassed the \$1.2 billion mark each year since 2017, but considering some investors have postponed, repriced or even canceled deals due to COVID-19 concerns, investment activity in 2020 is likely to soften moving forward.
- ▶ This year through May, investors primarily targeted RBN assets in suburban areas. De-

spite this, the average price per unit peaked at \$140,372, some 17% below the national figure.

- ▶ Deerwood Club and Pineland Gardens accounted for almost a quarter of the \$1.3 billion total transaction volume in the 12 months ending in May. Electra America was among the most active players in the market, having purchased two suburban properties, totaling 788 units, for a combined \$135 million.

Jacksonville Sales Volume and Number of Properties Sold (as of May 2020)



Source: Yardi Matrix

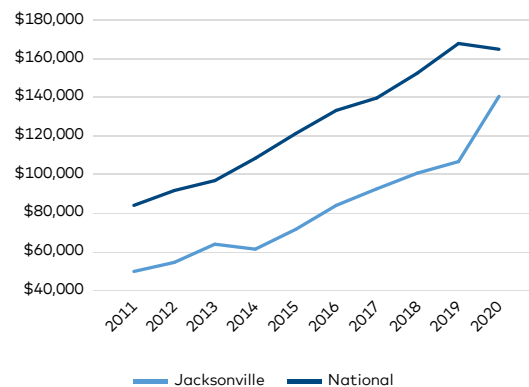
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Deerwood Club	162
Pineland Gardens	155
Cedar Hills	154
San Pablo	92
Newcastle	89
Highlands	87
St. Johns	80

Source: Yardi Matrix

¹ From June 2019 to May 2020

Jacksonville vs. National Sales Price per Unit



Source: Yardi Matrix

TOP 5 FLORIDA MARKETS FOR TRANSACTION ACTIVITY



data by



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.

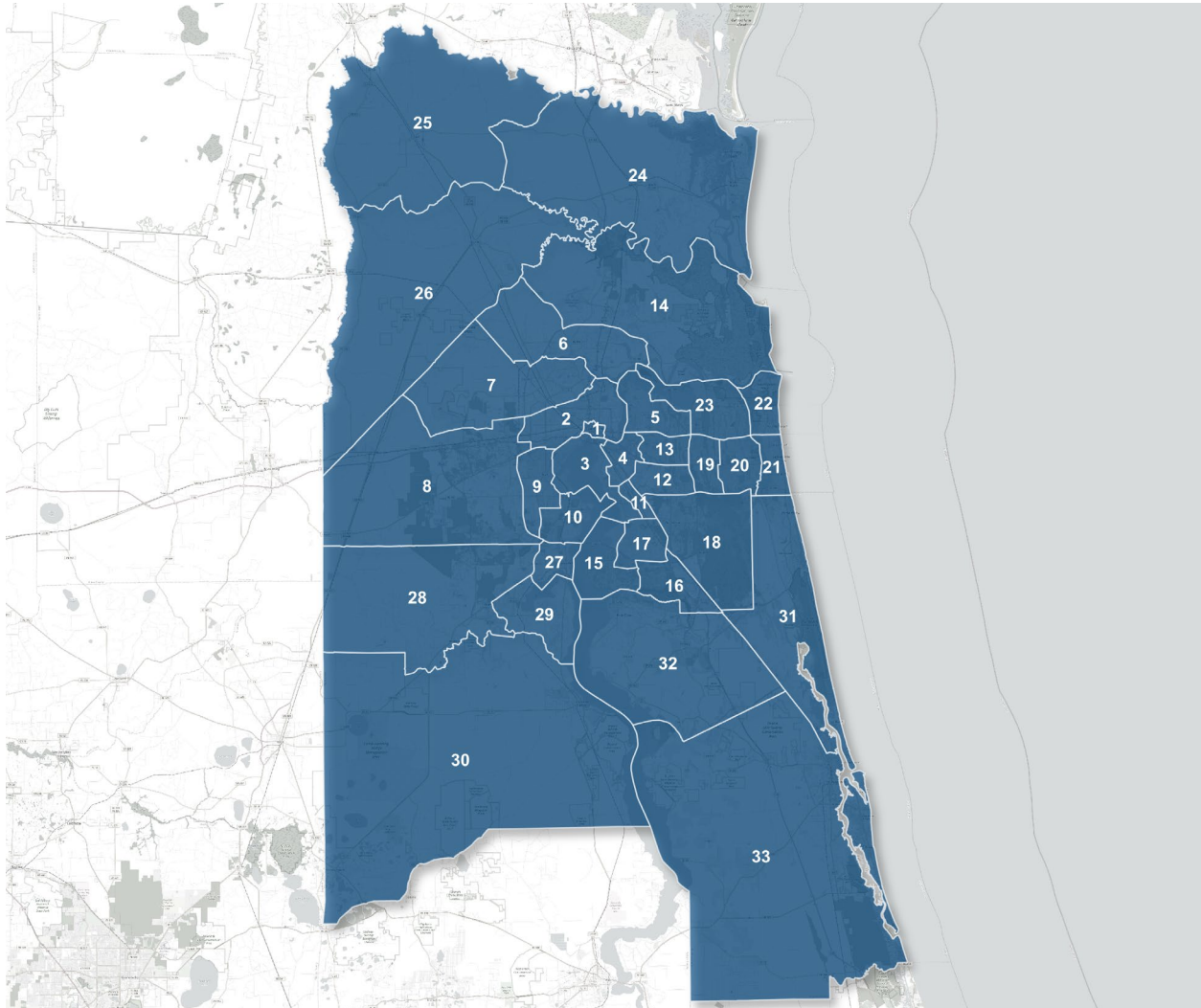
Rank	Metro	Properties Sold	Transaction Volume (MM)	Units Sold
1	Orlando	21	\$994.0	6,664
2	Tampa-St Petersburg-Clearwater	22	\$681.5	5,005
3	Jacksonville	11	\$348.5	2,443
4	Miami	7	\$297.2	1,580
5	Southwest Florida Coast	8	\$265.0	1,710

JACKSONVILLE

Prior to the pandemic hitting the U.S., employers added 24,200 jobs in Jacksonville, the bulk of which were in the professional and business services and construction sectors, which grew by a combined 12,500 positions. This shouldn't come as a surprise, since 2019 saw the highest level of deliveries in more than two decades, with 4,346 apartments coming online, up 63 percent from the previous year. In 2020, developers are projected to deliver more than 3,000 units, but that will depend on the overall impact that the crisis has on construction activity. However, Florida has maintained steady development activity.



JACKSONVILLE SUBMARKETS



Area No.	Submarket
1	Jacksonville–Downtown
2	Jacksonville–College Park-Springfield
3	Jacksonville–San Jose
4	Jacksonville–South Jacksonville
5	Jacksonville–Newcastle
6	Jacksonville–Highlands
7	Jacksonville–Dinsmore
8	Jacksonville–Jacksonville Heights
9	Jacksonville–Cedar Hills
10	Jacksonville–Ortega Hills
11	Jacksonville–Bowden

Area No.	Submarket
12	Jacksonville–Pineland Gardens
13	Jacksonville–Oakwood Villa
14	Jacksonville–Oceanway
15	Jacksonville–Plummers
16	Jacksonville–Bayard
17	Jacksonville–Sunbeam
18	Jacksonville–Deerwood Club
19	Jacksonville–Southridge
20	Jacksonville–San Pablo
21	Neptune Beach
22	Jacksonville–Mayport

Area No.	Submarket
23	Jacksonville–Beacon Hills
24	Fernandina Beach
25	Hilliard
26	Callahan
27	Bellair–Orange Park
28	Ridgewood
29	Fleming Island
30	Green Cove Springs
31	Ponte Vedra Beach
32	St. Johns
33	St. Augustine

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.

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