



MULTIFAMILY REPORT

# Miami: One Step At A Time

Summer 2020

**Transactions Endure Slowdown**

**Delays Disrupt Deliveries**

**Rents Rebound Slightly**



# MIAMI MULTIFAMILY



## Underlying Fundamentals Hold The Key

Miami ended 2019 on a high note; In a study by financial advice website SmartAsset, the metro ranked fourth out of 500 U.S. cities ranked for economic growth. Miami joined the nation's top "boom-towns" thanks to its gross domestic product and business growth, job creation and population change. However, rents started to moderate in late 2019 and early 2020. As COVID-19's impact unfolded, the market felt the weight of the economic dislocation. Rates in metro Miami were down 0.3% on a trailing three-month basis as of July, to \$1,670, but were still above the \$1,460 U.S. average.

In line with the national trend, employment growth started to gradually dip in late 2019, taking a negative turn in April once the effects of the pandemic became evident. The contraction exacerbated in May (-3.6%), when the rate fell below the U.S. average by 30 basis points. As of June, unemployment stood at 11.3% in metro Miami. While major job losses occurred across the board, development was allowed to forge ahead amid lockdowns. As a result, construction recorded growth, adding 1,700 jobs over 12 months as of May.

Year-to-date through July, 3,976 units were delivered in the metro and more than 33,000 apartments were underway. Following years of robust activity, with transactions peaking at \$3.4 billion in 2016, sales volume dipped to \$955 million year-to-date through July, marking a 43% drop compared to the same interval last year.

## Market Analysis | Summer 2020

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### Recent Miami Transactions

#### The Flats at CityPlace



City: Doral, Fla.  
Buyer: Harbor Group International  
Purchase Price: \$100 MM  
Price per Unit: \$330,033

#### The Harbor



City: Coral Springs, Fla.  
Buyer: CaraCo Group  
Purchase Price: \$75 MM  
Price per Unit: \$241,861

#### Delray Station



City: Delray Beach, Fla.  
Buyer: Cortland  
Purchase Price: \$74 MM  
Price per Unit: \$258,392

#### Shirley H. Gould House

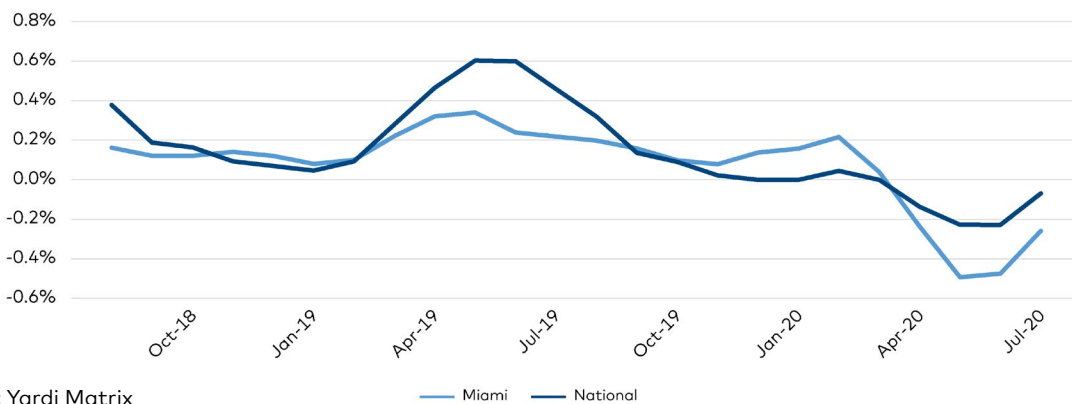


City: Boca Raton, Fla.  
Buyer: Fairstead  
Purchase Price: \$34 MM  
Price per Unit: \$334,158

## RENT TRENDS

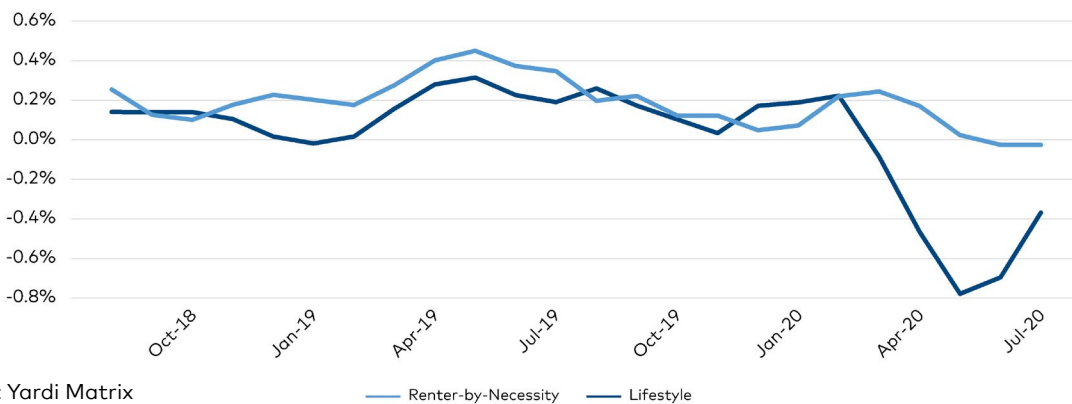
- ▶ Miami rents were down 0.3% on a trailing three-month basis through July, while the national average slid 0.1%. The metro's average rate stood at \$1,670, above the \$1,460 U.S. figure. While rent growth began to temper in late 2019, the health crisis pushed figures into negative territory, starting with April (-0.2%). This change was in line with the national decelerating pattern.
- ▶ Rent evolution was uneven across the quality spectrum, with Lifestyle rates starting to taper off in April on a T3 basis (-0.1%) and contractions peaking in May (-0.8%), before a slight rebound in July (-0.4% at \$1,890). Meanwhile, rents in the working-class Renter-by-Necessity segment improved by 0.2% as of April, remaining flat in the ensuing months (at \$1,364 as of July).
- ▶ Submarkets with extensive affordable and workforce inventory—including Lauderdale Lakes (10.1% to \$1,522) and Belle Glade (9.9% to \$885)—led rent gains in the 12 months ending in July. Miami-Wynwood (\$2,404) was the priciest submarket as of July, followed by Coral Gables (\$2,401).
- ▶ Florida received \$250 million in CARES Act funding aimed at rental and mortgage assistance. The Florida Housing Finance Corp. approved \$75 million for the first disbursement from a \$120 million pool for the state's local governments. Broward and Miami-Dade counties received \$7.5 million each—the most funding allocated to a single county in the state. Separately, Miami-Dade also approved a \$10 million COVID-19 rent relief fund.

### Miami vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

### Miami Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

## ECONOMIC SNAPSHOT

- ▶ Unemployment stood at 10.4% in Florida and at 11.3% in metro Miami as of June, just 20 basis points above the U.S. figure, according to preliminary data. While the pandemic hit coastal gateway metros and tourism-heavy cities first and hardest, Miami's jobless rate was well below those of other major leisure-oriented markets, including Atlantic City (34.3%), Los Angeles (18.1%), Las Vegas (18.0%) and Orlando (16.5%).
- ▶ In line with the national pattern, Miami's employment growth started to gradually temper in December 2019 and turned negative in April, once the full effects of COVID-19-mandated lockdown measures became evident. Miami's labor contraction exacerbated in May, reaching 3.6% and surpassing the U.S. average by 30 basis points.
- ▶ Miami jobs were down by 290,800 jobs over 12 months. All but one employment sector felt the weight of the health crisis. With development exempt from stringent lockdown measures, construction added 1,700 jobs for a 3.2% increase.
- ▶ As of Aug. 16, initial unemployment claims in the tri-county area were down by 68% after peaking at 71,639 in the week ending on March 18. Since the pandemic hit, the state has received more than 3.6 million claims and paid in excess of \$13.8 billion in benefits.

### Miami Employment Share by Sector

| Code | Employment Sector                   | Current Employment |         |
|------|-------------------------------------|--------------------|---------|
|      |                                     | (000)              | % Share |
| 15   | Mining, Logging and Construction    | 55                 | 2.3%    |
| 55   | Financial Activities                | 187                | 8.0%    |
| 50   | Information                         | 48                 | 2.0%    |
| 30   | Manufacturing                       | 83                 | 3.5%    |
| 90   | Government                          | 311                | 13.3%   |
| 80   | Other Services                      | 104                | 4.4%    |
| 65   | Education and Health Services       | 378                | 16.1%   |
| 60   | Professional and Business Services  | 409                | 17.5%   |
| 40   | Trade, Transportation and Utilities | 558                | 23.8%   |
| 70   | Leisure and Hospitality             | 208                | 8.9%    |

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- ▶ Miami gained 583,000 residents over the past decade, for a 10.4% uptick, well above the 6.1% national rate. Population growth was mostly buoyed by immigration.
- ▶ In 2019, Miami's population contracted by 32,294 residents, marking a 0.5% drop.

### Miami vs. National Population

|             | 2016        | 2017        | 2018        | 2019        |
|-------------|-------------|-------------|-------------|-------------|
| National    | 323,071,342 | 325,147,121 | 327,167,434 | 328,239,523 |
| Miami Metro | 6,086,935   | 6,149,687   | 6,198,782   | 6,166,488   |

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

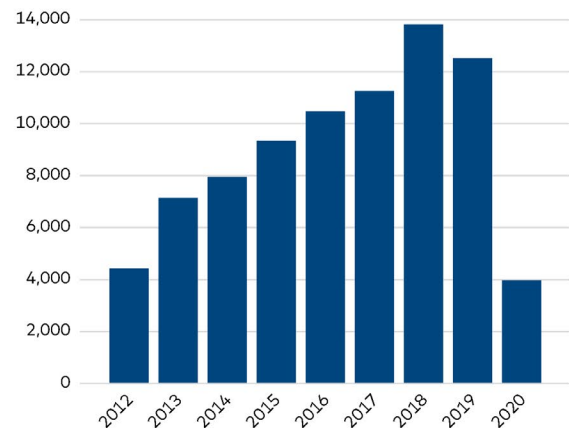
## SUPPLY

- ▶ The Miami metro area had 33,345 multifamily units under construction as of July, more than 85% of which were in Lifestyle projects. Developers have consistently surpassed the 10,000-unit threshold over the past four years, with completions peaking at 13,822 in 2018. Year-to-date through July, 3,976 units came online, accounting for 1.9% of stock, and reaching 60 basis points above the U.S. figure.
- ▶ Officials deemed construction an essential service in Florida once pandemic-mandated restrictions went into effect. Although developers were allowed to forge ahead, challenges including supply chain disruptions, rising material costs and labor shortages caused setbacks, with delays likely to occur. As a result, Yardi Matrix reduced its Miami delivery forecast to 6,027 units for the whole year.
- ▶ As of July 2020, more than half of the construction pipeline was clustered in the Miami area (18,214 units), while 8,226 apartments were underway in Fort Lauderdale and 6,173 in West Palm Beach- Boca Raton. Downtown led development with 3,010 apartments under construction, all of which were in up-

scale developments. Fort Lauderdale-West (2,944 units) and Boynton Beach (2,172 units) rounded out the top three.

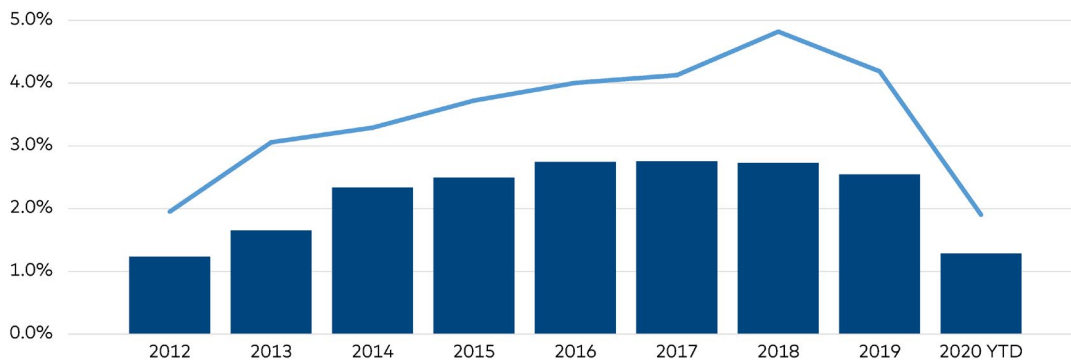
- ▶ The 1,042-unit Downtown 5th was the area's largest community underway as of July. Melo Group broke ground on the project late last year, with completion slated for 2023.

**Miami Completions** (as of July 2020)



Source: Yardi Matrix

**Miami vs. National Completions as a Percentage of Total Stock** (as of July 2020)



Source: Yardi Matrix

— Miami ■ National

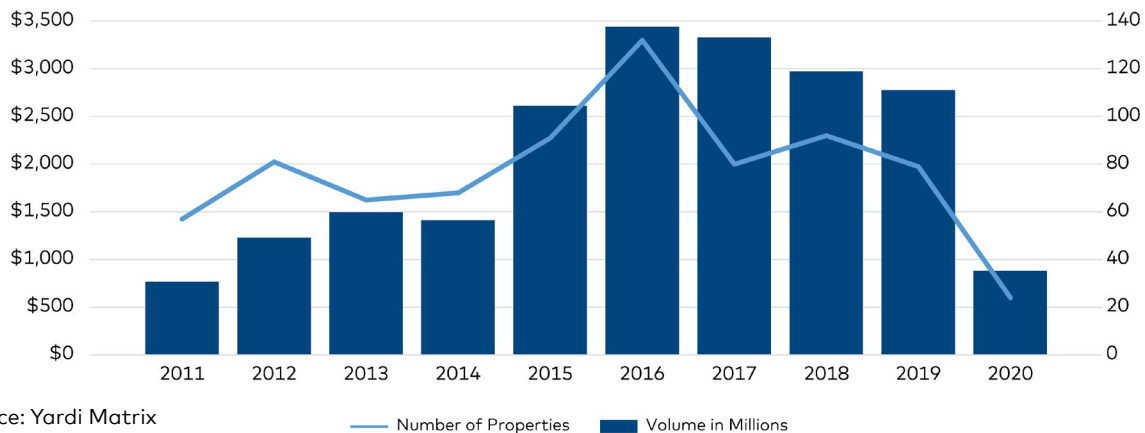
## TRANSACTIONS

- ▶ Following five years of robust activity and a \$3.4 billion peak in 2016, sales volume dipped to \$955 million year-to-date through July. That marked a 43% decrease compared to the same interval last year. Of the 26 assets trading in the first seven months of 2020, only nine were Lifestyle properties, further underpinning growing RBN demand and value-add potential.
- ▶ The average per-unit price had a five-year upward spell, peaking at \$203,310 in 2019.

Pandemic-mandated lockdowns curbed investment activity in 2020. The average price per unit dipped slightly to \$196,583 through July, but remained above the \$164,991 U.S. figure.

- ▶ Although the COVID-19-induced economic dislocation deterred investors and slowed deal flow, several buyers remained active, deploying capital in excess of \$350 million between April and July. The list includes Cortland, CaraCo Group and Prism Multifamily Group, among others.

### Miami Sales Volume and Number of Properties Sold (as of July 2020)



Source: Yardi Matrix

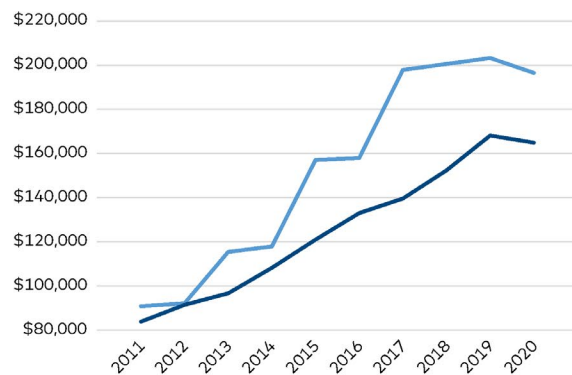
### Top Submarkets for Transaction Volume<sup>1</sup>

| Submarket             | Volume (\$MM) |
|-----------------------|---------------|
| Pembroke Pines        | 378           |
| Fort Lauderdale-West  | 215           |
| West Palm Beach       | 169           |
| Lauderdale Lakes      | 146           |
| Miami-Upper East Side | 132           |
| Doral                 | 100           |
| Lauderhill            | 98            |

Source: Yardi Matrix

<sup>1</sup> From August 2019 to July 2020

### Miami vs. National Sales Price per Unit



Source: Yardi Matrix



## Inside South Florida's Affordable and Market-Rate Development

By Laura Calugar

The COVID-19 outbreak has exacerbated the dire need for affordable and workforce housing across most parts of the country. South Florida developer Nelson Stabile, a principal with Integra Investments, expects demand for apartments in suburban markets to increase, as individuals look to relocate based on attractive pricing. He discusses the latest trends in investor sentiment and the demand for suburban product in metro Miami.

*What can you tell us about investor sentiment across South Florida when it comes to the affordable housing and market-rate multifamily market?*

The appetite for low-income housing tax credits—which is crucial for our affordable developments—remains strong, although indications are that LIHTC syndicators and investors are increasingly selective in the current environment. LIHTC pricing for new deals—that were not underwritten prior to the onset of COVID-19—is currently somewhat elastic, which we expect to be temporary as the world recalibrates.

On the market-rate side of things, investor sentiment remains positive. Given multifamily rent collections have shown strength relative to other asset classes, an appetite to invest in the space is still prevalent today.

*What measures can developers take to support housing stability?*

The nationwide need for affordable and workforce



housing has increased due to the pandemic's long-term economic impact. Without new product, neighborhood housing shortages are further magnified as household occupancy rates near capacity. To address the significant lack of supply, developers must continue working to bring products to markets that are not overly saturated. Working closely with the given municipalities to ensure planning ordinances are aligned with each market's demands and needs is crucial. Antiquated planning and zoning regulations affect the development process.

*How do you expect rental rates to perform going forward?*

Unemployment rates will play a significant role in how rental rates perform and react going forward. Overall, we expect positive net increases in rental rates, with moderate growth for workforce housing product, given the price point. The projected increases will be specific to each market and based on area demand.

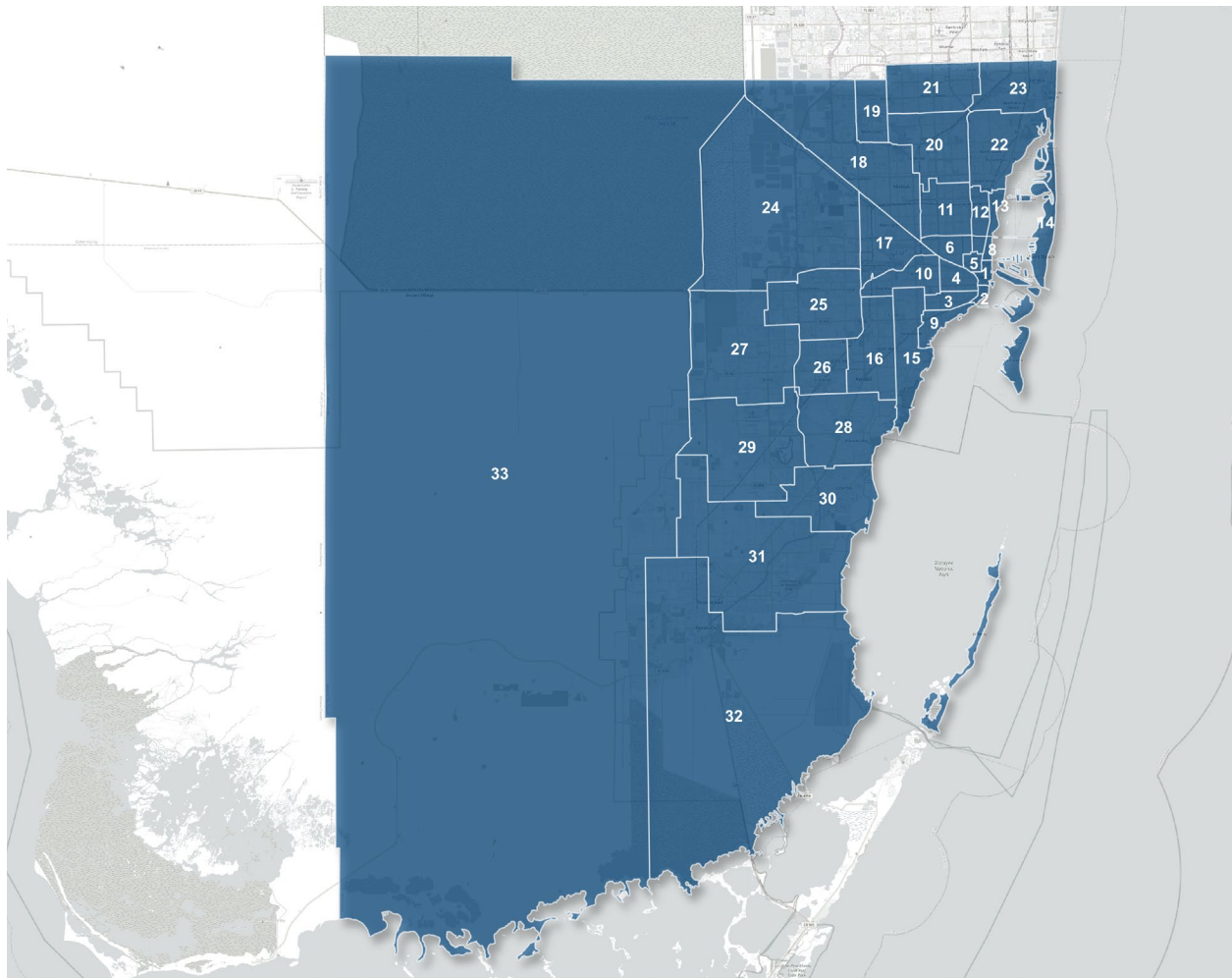
*What are your predictions for the suburban multifamily market in South Florida?*

I predict an increased demand for suburban housing product with high walkability scores. As social distancing measures remain, a good portion of our population will forgo the urban core for less dense communities, with ample green spaces. Developers and users will place increased value on live-work-play, open-air environments within walking distance of parks, golf courses and bike routes.

*(Read the complete interview on [multihousingnews.com](http://multihousingnews.com).)*



## MIAMI SUBMARKETS



| Area No. | Submarket             |
|----------|-----------------------|
| 1        | Miami-Downtown        |
| 2        | Miami-Brickell        |
| 3        | Miami-Coral Way       |
| 4        | Miami-Little Havana   |
| 5        | Miami-Overtown        |
| 6        | Miami-Allapattah      |
| 7        | Miami-Wynwood         |
| 8        | Miami-Edgewater       |
| 9        | Miami-Coconut Grove   |
| 10       | Miami-Flagami         |
| 11       | Miami-Liberty City    |
| 12       | Miami-Little Haiti    |
| 13       | Miami-Upper East Side |
| 14       | Miami Beach           |
| 15       | Coral Gables          |
| 16       | South Miami           |
| 17       | Airport               |

| Area No. | Submarket                     |
|----------|-------------------------------|
| 18       | Hialeah                       |
| 19       | Miami Lakes                   |
| 20       | Opa-locka                     |
| 21       | Miami Gardens                 |
| 22       | North Miami                   |
| 23       | North Miami Beach             |
| 24       | Doral                         |
| 25       | Fontainebleau-University Park |
| 26       | Sunset                        |
| 27       | Kendall West                  |
| 28       | Kendall                       |
| 29       | Three Lakes                   |
| 30       | Goulds                        |
| 31       | Homestead                     |
| 32       | Florida City                  |
| 33       | Outlying Miami-Dade County    |



## 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 July 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 July 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, July 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.

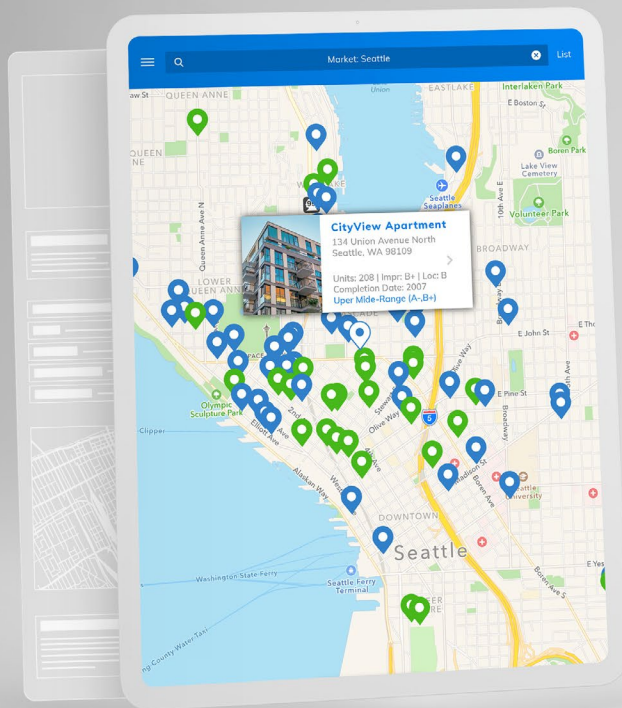
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit [www.yardimatrix.com](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.



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