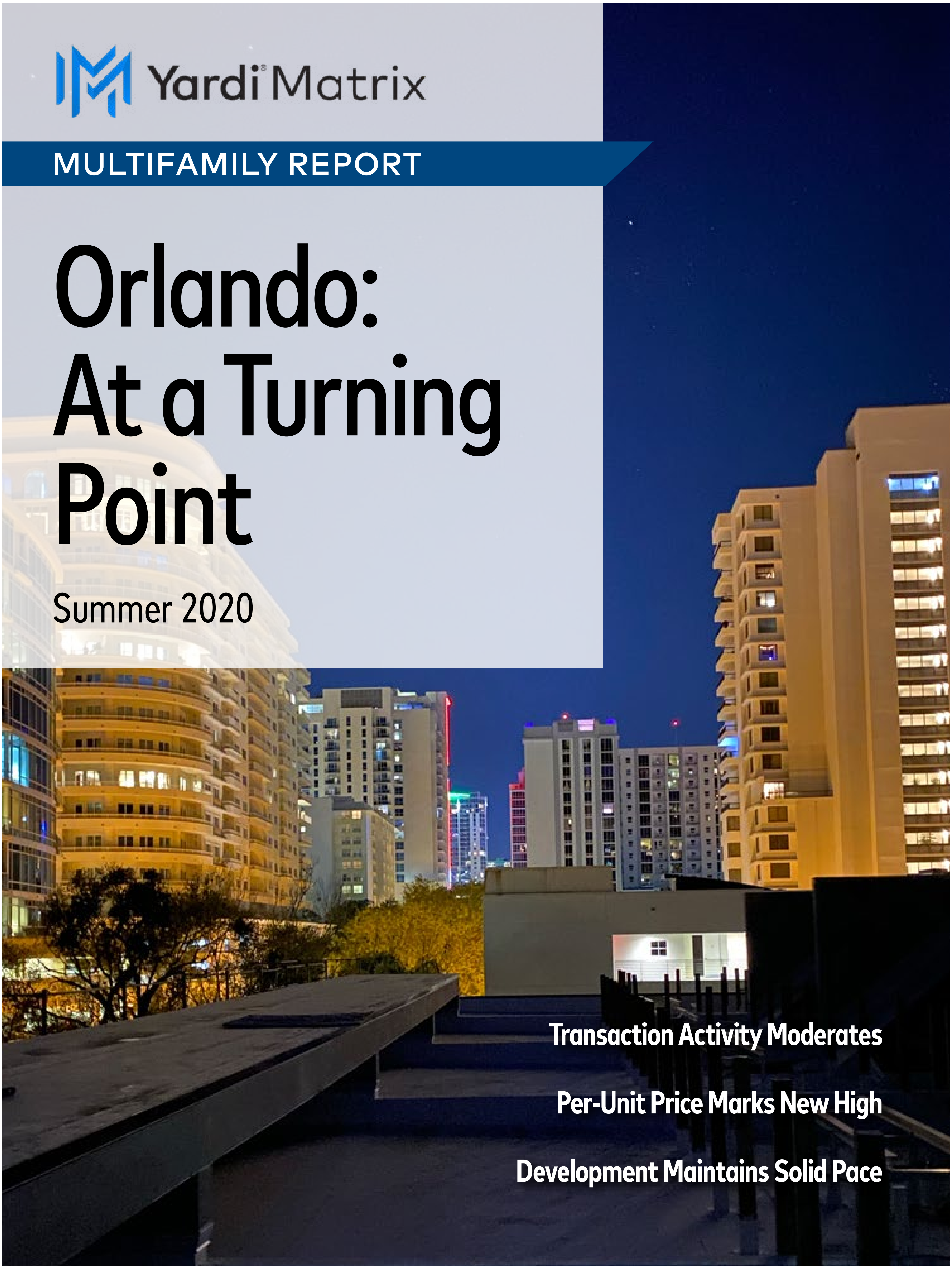
Yardi Matrix

MULTIFAMILY REPORT

Orlando: At a Turning Point

Summer 2020



Transaction Activity Moderates

Per-Unit Price Marks New High

Development Maintains Solid Pace

ORLANDO MULTIFAMILY

Yardi Matrix

Rent Growth Rebounds, Unemployment Still High

Orlando's multifamily sector is at a crossroads. Following four years of strong supply, totaling almost 29,000 units—the bulk of these at the higher end of the quality spectrum—the coronavirus-induced crisis has put an end to the metro's ongoing expansion. The pandemic triggered massive job losses, pushing some renters to seek more affordable housing. With the average rate at $1,346, rent growth was flat on a trailing three-month basis through August, after more than six months of steady contractions.

With tourism at a standstill for several months, the metro's unemployment rate skyrocketed. In May, the rate hit 21.1% before slowly improving to 15.3% as of July, according to preliminary data. Without a doubt, the leisure and hospitality sector was the most severely impacted, losing 43.5% of its workforce in the 12 months ending in June. And with Orlando's economy heavily relying on tourism, the effects of the coronavirus crisis will most likely linger. Construction was the only segment to add jobs over 12 months (3,400 positions), which offset a fraction of overall losses.

On the heels of last year's 7,888-unit cycle high, developers added another 3,749 units in 2020 through August. Deal velocity slowed down, with only $1.3 billion in assets trading, down from $1.9 billion in the same period in 2019. Considering fundamentals and the economic climate, we expect Orlando rents to drop 4.7% this year.

Market Analysis | Summer 2020

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Recent Orlando Transactions

The Braxton

City: Palm Bay, Fla.
Buyer: Electra America
Purchase Price: $49 MM
Price per Unit: $151,563

The Residences at Veranda Park

City: Orlando, Fla.
Buyer: Westside Capital Group
Purchase Price: $45 MM
Price per Unit: $300,000

Stratford Point

City: Sanford, Fla.
Buyer: Lincoln Avenue Capital
Purchase Price: $38 MM
Price per Unit: $98,979

Hatteras Sound

City: Sanford, Fla.
Buyer: Starwood Capital Group
Purchase Price: $33 MM
Price per Unit: $180,902

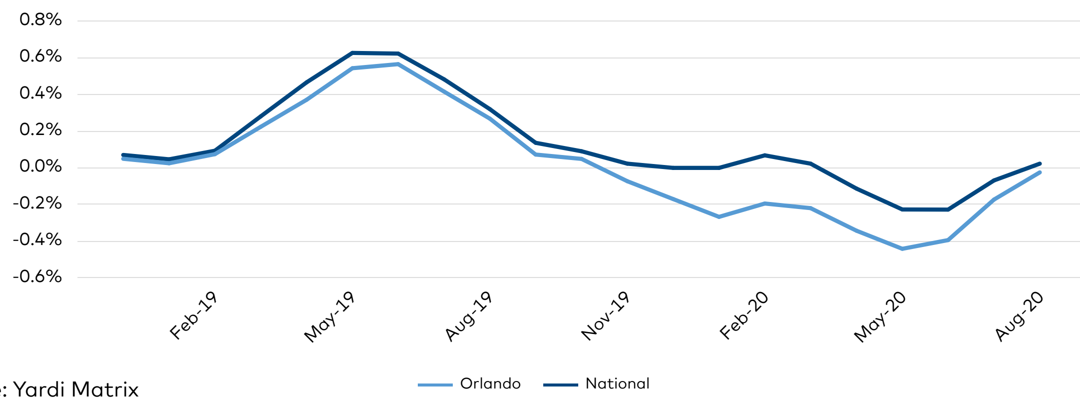
RENT TRENDS

- Orlando rents started softening in October 2019, long before the pandemic hit. On a trailing three-month basis through August, rates stagnated to an overall average of $1,346, slightly below the $1,463 national figure. The working-class Renter-by Necessity segment showed improvement, with numbers inching up 0.1% to $1,160, while Lifestyle rents contracted 0.1%, clocking in at $1,473.

- The Orlando City Council voted to use $1.5 million in CARES Act funds to provide rental assistance to families affected by the health crisis. In partnership with United Way, the city will provide grants of up to $10,000 per household to cover outstanding rent payments between March and October. Additionally, many local governments across Florida are helping residents pay rent, mortgages or utilities. The city of Kissimmee has received more than $500,000 from the Florida Housing Finance Corp. to assist residents financially impacted by the pandemic. However, these measures will most likely be insufficient—Disney alone has furloughed 43,000 employees since the onset of the pandemic and Orlando's economy heavily relies on the tourism and service industries, which were among the hardest hit by stay-at-home orders.

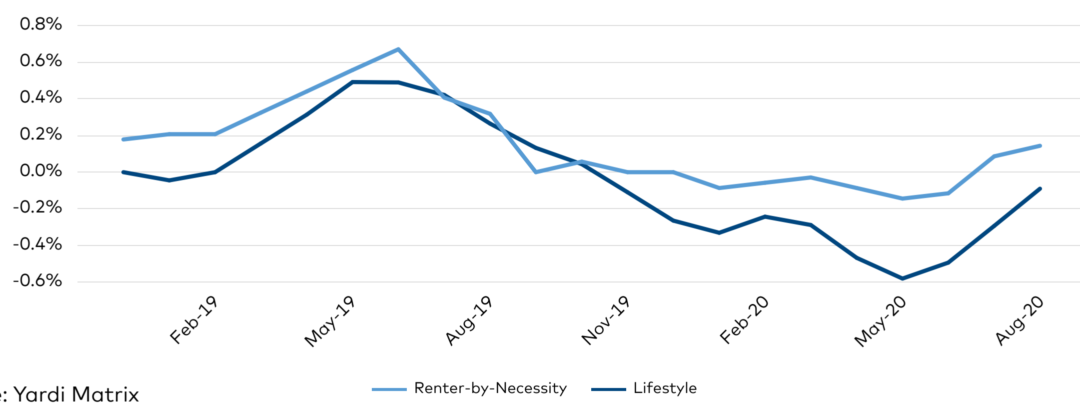
- Thirty-three of Orlando's 53 submarkets recorded rent contractions in the 12 months ending in August. Orlando-Southeast, an area mainly encompassing upscale communities, recorded the steepest decline of 5.4%.

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

- The pandemic hit tourism-centric and gateway cities first and hardest. At 2.9% as of February, Orlando's unemployment rate was among the lowest in the U.S. The figure surged to 21.1% in May, two months into the health crisis. According to preliminary data by the U.S. Bureau of Labor Statistics, the rate decreased to 15.3% in July. Florida registered nearly 3.8 million initial unemployment claims between mid-March and Mid-September.

- Before the COVID-19 crisis, Orlando had one of the country's fastest-growing economies and strongest multifamily markets. Despite diversifying its labor force over the past few years, Central Florida remained a tourism-heavy economy, with theme parks, resorts and leisure services as pillars of the metro's ecosystem. In the 12 months ending in June, leisure and hospitality lost 43.5% of its workforce. Travel anxiety is likely to further weaken the area's prospects despite the fact that most entertainment venues slowly reopened—with limited capacity—during the summer.

- Construction was the only sector that saw expansion in the 12 months ending in June. What's more, development is expected to fare well going forward, as Amazon alone has five projects underway totaling 3.6 million square feet across Central Florida.

Orlando Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
15	Mining, Logging and Construction	105	7.7%
30	Manufacturing	77	5.6%
50	Information	27	2.0%
55	Financial Activities	85	6.2%
80	Other Services	51	3.7%
90	Government	142	10.4%
40	Trade, Transportation and Utilities	270	19.7%
65	Education and Health Services	188	13.7%
60	Professional and Business Services	252	18.4%
70	Leisure and Hospitality	172	12.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Central Florida added 35,185 residents last year, a 1.4% uptick and almost five times the 0.3% national rate. However, Jacksonville (1.6%) and Tampa (1.7%) surpassed Orlando in demographic growth, while Miami's population contracted by 0.5%.

Orlando vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Orlando Metro	2,452,986	2,512,917	2,572,962	2,608,147

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

SUPPLY

- Developers had 19,158 units underway in Central Florida as of August, with roughly 43% of these initially slated to come online by year-end. Another 86,363 apartments were in the planning and permitting stages. However, delayed starts and cancellations are to be expected, considering the current economic environment.

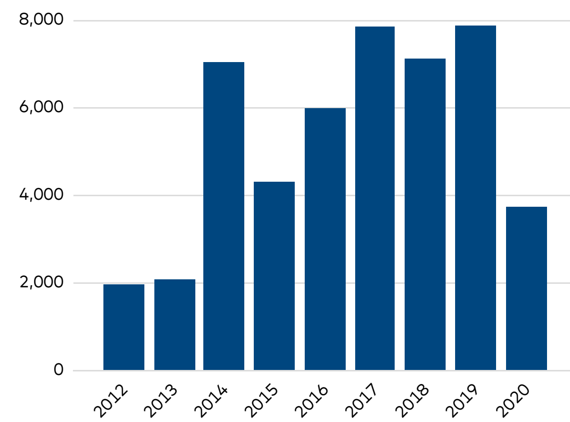
- Following a 2019 cycle peak, when 7,888 units came online, Orlando deliveries moderated slightly. In 2020 through August, the inventory expanded by 3,749 units, or 1.7% of total stock, 40 basis points above the U.S. rate. Overall, we expect 7,672 units to come online in 2020, just shy of the 2019 peak, with the competition putting additional pressure on assets in the leasing-up phase.

- The bulk of both completions and underway projects caters to high-income residents. With rents already moderating prior to the coronavirus outbreak, the Lifestyle segment is likely to bear the brunt. Meanwhile, demand for Renter-by-Necessity product continues to rise.

- As of August, almost one-third of the construction pipeline was centered in just two submarkets: Orange Lake (3,960 units underway) and Orlando-Downtown (2,054 units).

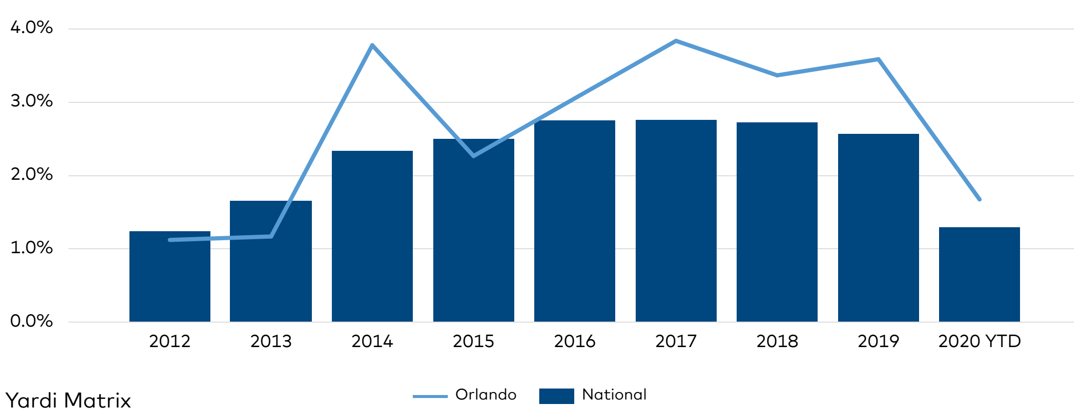
- The largest delivery in the first eight months of 2020 was Urbon Apartment Homes, a 361-unit community in Colonial Town. Cornerstone Group constructed the 10-building property using a $40.8 million loan from Bank OZK.

Orlando Completions (as of August 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

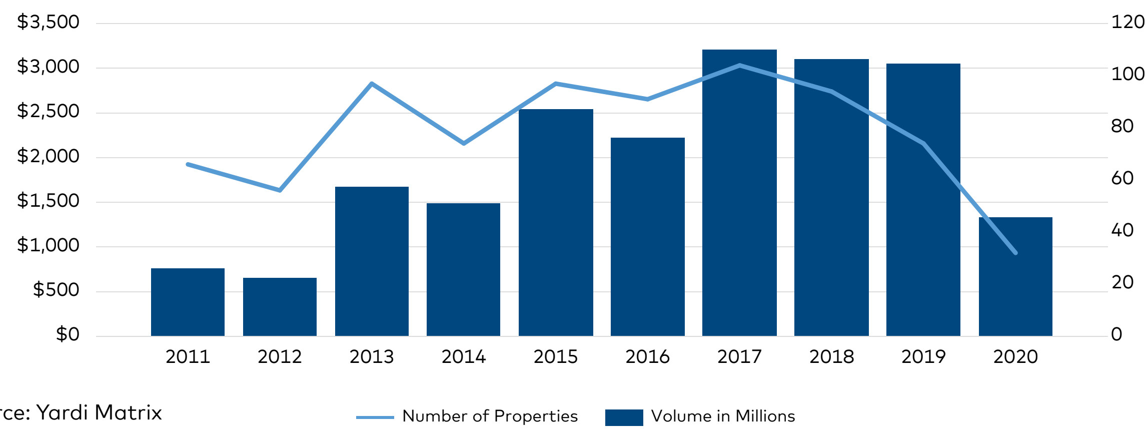
TRANSACTIONS

- Some $1.3 billion in assets traded in Orlando in the first eight months of 2020, nearly $600 million less than during the same time frame last year. Despite the ongoing pandemic, transaction activity could reach the metro's 10-year average ($1.9 billion) by year-end.

- Although 18 of the 32 assets that traded were Renter-by-Necessity, the average per-unit price reached a new peak this year—$182,539—nearly $20,000 above the U.S. figure.

- Priderock Capital Partners' $104.5 million acquisition of the 496-unit Parkway at Hunter's Creek from The Milestone Group marked the metro's largest transaction year-to-date through August. However, the largest per-unit price of the year came from Westside Capital Group's acquisition of The Residences at Veranda Park, a 150-unit asset in the Metro West submarket that was completed in 2008. Westside Capital paid Armco Communities $300,000 per unit for the community.

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



Source: Yardi Matrix

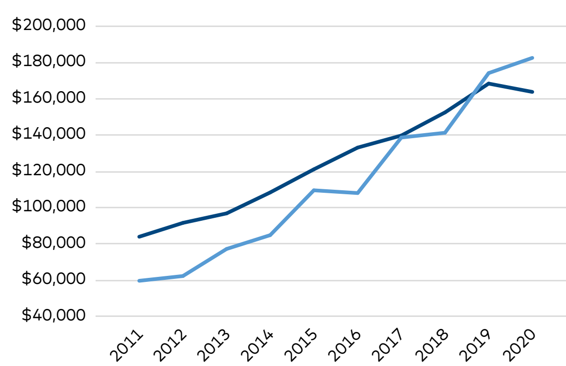
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Lake Buena Vista	257
Palm Bay	194
Sanford	155
West Kissimmee	154
Oak Ridge	146
Metro West	136
Stoneybrook	122

Source: Yardi Matrix

[1] From September 2019 to August 2020

Orlando vs. National Sales Price per Unit



Source: Yardi Matrix

What Trends Should Florida Investors Keep Tabs On?

By Laura Calugar

Multifamily will continue to be a prevailing asset class in the Sunshine State due to residents' growing desire to relocate and live here, according to Victor Ballestas, principal of Integra Investments. Here's what he's seeing in the state's real estate market six months into the crisis and why he expects a quick rebound across several markets.

How is the Florida multifamily market navigating the pandemic?

Despite the uncertainty brought on by the pandemic, Florida's real estate industry may be primed to recover with a sharp rebound. The multifamily market is weathering the pandemic better than most. Vacancies remain low and collections were only a challenge for a few months. Low interest rates and the net migration to Florida contribute to the stability of the product.

The pandemic's circumstances have created homebuyers and strengthened the suburban market, as residents look for outdoor space, especially as more people spend time working and learning from home. Thus, dense urban markets are being affected as individuals relocate away from the urban core. However, I expect a wave back to urban markets will happen again, but it will likely take a few years.

Compared to the last cycle, how is the current environment different in terms of relocation trends?

Current trends show that individuals now prefer a less dense environment, potentially leading to deurbanization caused by the pandemic and resulting in a boom in rural and suburban areas. Understanding the market needs, municipalities must work with developers to deliver high-quality products that adjust to the changing environment.

What trends in the multifamily industry should Florida real estate players keep an eye on?

From now on, developers and users will place increased value on live-work-play environments, with added emphasis on suburban housing products with high walkability scores to parks and outdoor amenities. Additionally, we predict an uptick in untapped products that merge single-family home features with Class A multifamily amenities.

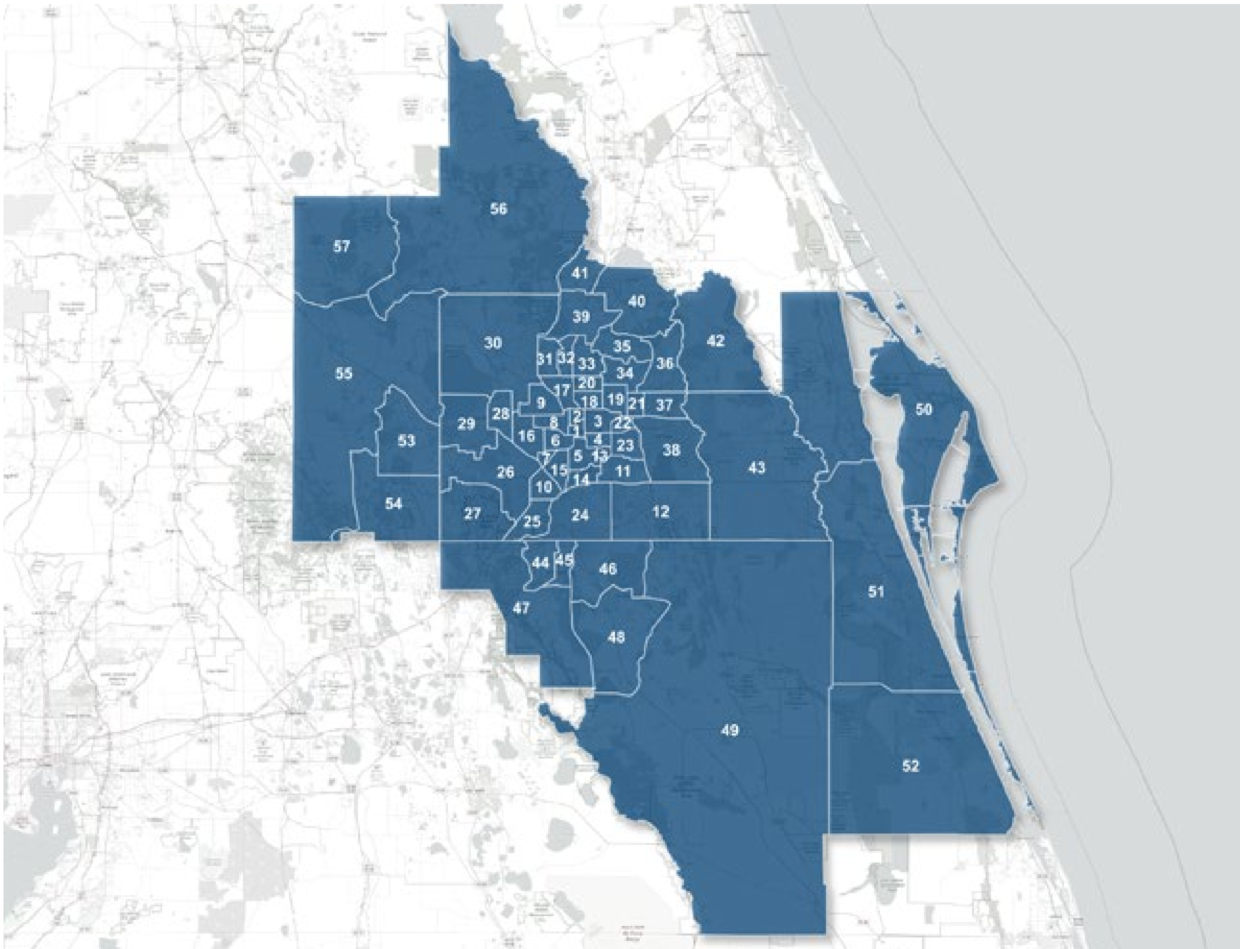
Considering the shift in remote work, internet speed and accessibility to different residential areas will become the most-valued amenities. With this in mind, our firm is incorporating dens and home offices in more units in our new multifamily developments.

What are your predictions for Florida's multifamily market?

The general outlook for 2020 at the start of the first quarter was positively supported by asset classes positioned for stability based on strong market fundamentals, steady rent growth and low interest rates. With continued positive migration and increased desire to relocate to South Florida, I predict multifamily will continue to be a predominant asset class.

(Read the complete interview on multihousingnews.com.)

ORLANDO SUBMARKETS



Area No.	Submarket
1	Orlando–Downtown
2	Orlando–North Orange
3	Orlando–Colonial Town
4	Orlando–Azalea Park
5	Orlando–Edgewood
6	Orlando–Holden Heights
7	Orlando–Florida Center North
8	Orlando–Pine Hills
9	Orlando–Rosemont
10	Orlando–Florida Center
11	Orlando–Vista Park
12	Orlando–Southeast
13	Conway
14	Belle Isle
15	Oak Ridge
16	Metro West
17	Lockhart
18	Winter Park–West
19	Winter Park–East

Area No.	Submarket
20	Maitland
21	Goldenrod
22	Union Park
23	Edgewood Park
24	Hunter's Creek
25	Lake Bryan
26	Lake Buena Vista
27	Orange Lake
28	Ocoee
29	Winter Garden
30	Apopka
31	Forest City
32	Weathersfield
33	Altamonte Springs
34	Red Bug Lake
35	Longwood
36	Oviedo
37	University Park
38	Stoneybrook

Area No.	Submarket
39	Lake Mary
40	Sanford
41	Woodruff Springs
42	Outlying Seminole County
43	Eastern Orange County
44	West Kissimme
45	East Kissimme
46	Fish Lake
47	Celebration
48	St Cloud
49	Outlying Osceola County
50	Titusville
51	Melbourne
52	Palm Bay
53	Clermont
54	Hancock Lake
55	Outlying Lake County
56	Mt Dora
57	Leesburg

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 August 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 August 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, August 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.

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