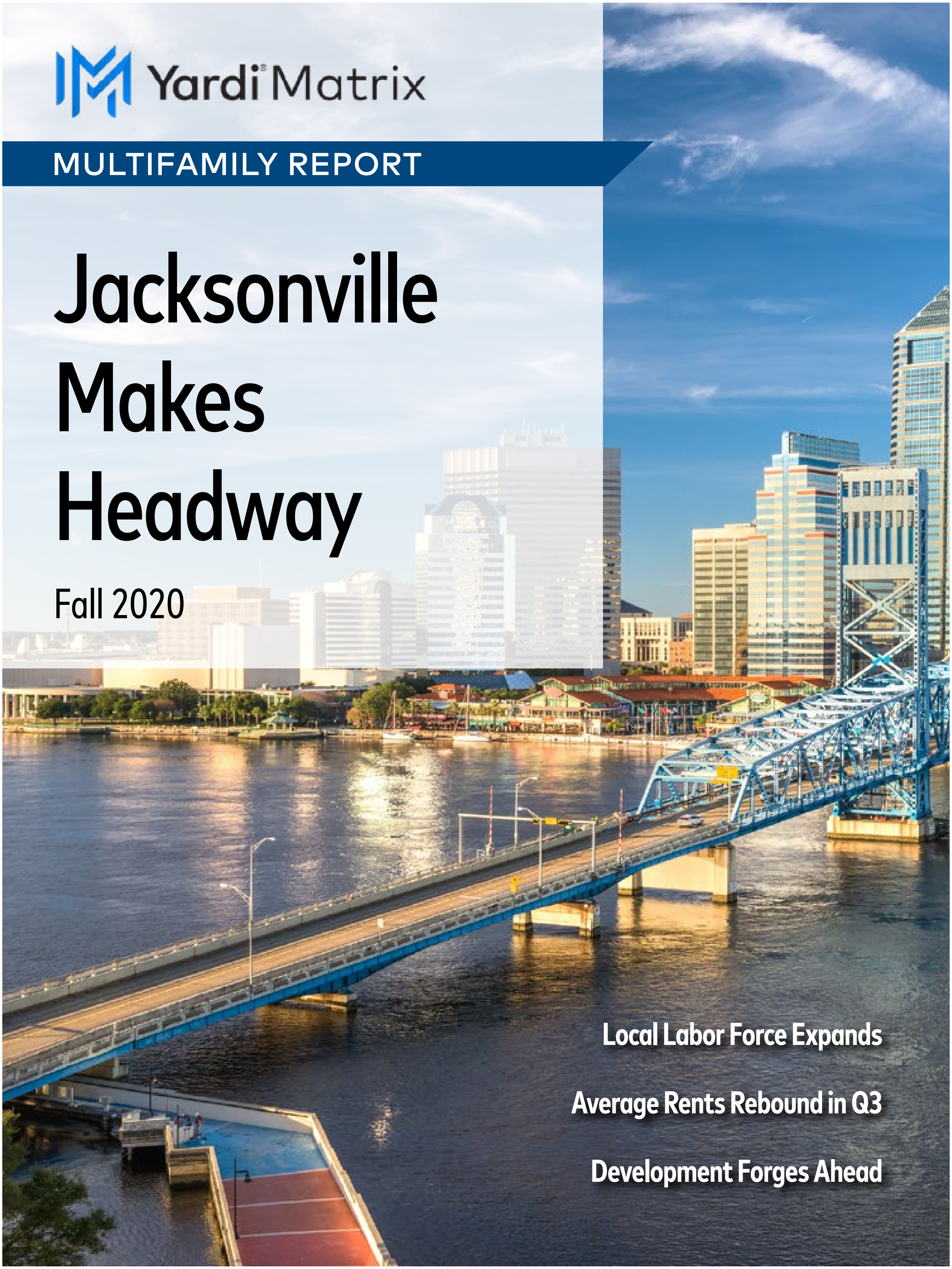
Yardi Matrix

MULTIFAMILY REPORT

Jacksonville Makes Headway

Fall 2020



Local Labor Force Expands

Average Rents Rebound in Q3

Development Forges Ahead

JACKSONVILLE MULTIFAMILY

Yardi Matrix

Rent Gains Boost Jacksonville's Recovery

Months into economic volatility, Jacksonville's multifamily sector showcased resilience in the face of ongoing challenges. Rents felt the initial shock of the pandemic, but July and August proved strong for the metro's rental market, as rates began to improve. As of September, the average price was up 0.8% to $1,140 on a trailing three-month basis, bucking nationwide trends. Meanwhile, the average U.S. rate was up only 0.1% to $1,463.

Mirroring national currents, COVID-19 has taken a toll on the metro's hospitality sector, which was down 11,900 jobs in the 12 months ending in July. However, reopening efforts boosted the local labor force as well as hotel occupancy levels, which were close to 55% as of October, according to the CEO of Visit Jacksonville. Meanwhile, Amazon plans to add 500 jobs through its $106 million Imeson Park fulfillment center—slated to open in 2021—further underpinning the metro's path to recovery.

As of September, 5,027 units were under construction in the metro. While development was deemed essential during safer-at-home orders, developers added only 1,950 units to inventory in the first three quarters of 2020. Transaction activity was down, as well, with only $533 million in multifamily assets trading in 2020 through September—a 43% decline compared to the same interval last year.

Market Analysis | Fall 2020

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On the cover: Photo by Sean Pavone/iStockphoto.com

Recent Jacksonville Transactions

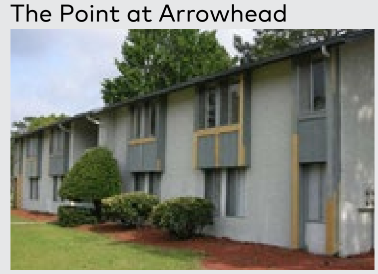
Madelyn Oaks

City: Jacksonville, Fla.
Buyer: Starwood Capital Group
Purchase Price: $38 MM
Price per Unit: $106,856

Courtney Manor

City: Jacksonville, Fla.
Buyer: Starwood Capital Group
Purchase Price: $35 MM
Price per Unit: $98,547

The Point at Arrowhead



City: Jacksonville, Fla.
Buyer: Maryland Management
Purchase Price: $23 MM
Price per Unit: $114,000

Planters Walk

City: Jacksonville, Fla.
Buyer: Topaz Capital Group
Purchase Price: $19 MM
Price per Unit: $86,806

RENT TREND S

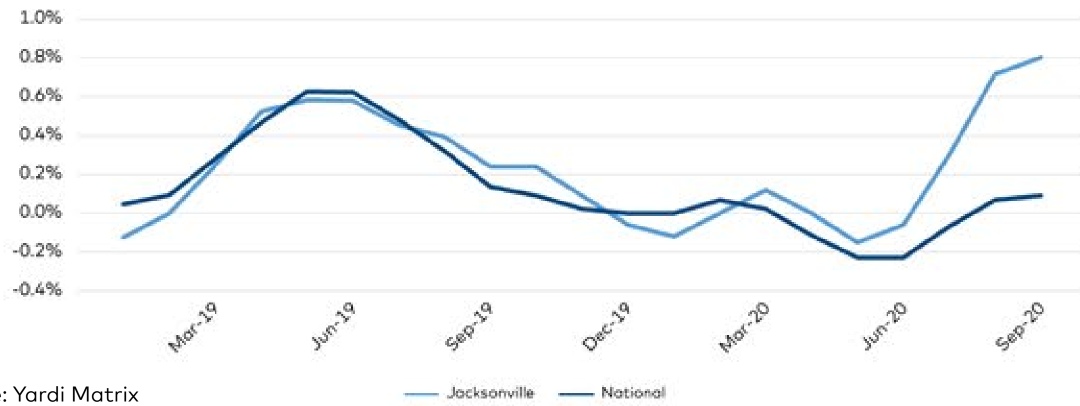
- Metro Jacksonville rents were up 0.8% on a trailing three-month (T3) basis as of September, while the U.S. figure improved only 0.1%. The metro's average rate stood at $1,140, below the $1,463 U.S. average. Rent expansion was either virtually flat or slightly negative between February and June, but July and August proved strong, with month-over-month growth rebounding to 0.9% in both cases.

- Rent evolution was even across the quality range. Rates were up 0.8% on a T3 basis in both categories, reaching $1,303 in the Lifestyle segment and $970 in the working-class Renter-by-Necessity segment. Jacksonville is among lower-cost U.S. metros that continue to outperform larger and more expensive markets, where existing rent declines have been accelerated by the health crisis.

- An emergency COVID-19 relief bill—approved by the city council in late September—is set to provide $2.6 million to eligible households struggling due to the pandemic. The Florida Housing Finance Corp. is providing the funds, which will be allocated as mortgage and rent assistance payments. The amount is separate from the $167 million the city has received through the coronavirus rescue package.

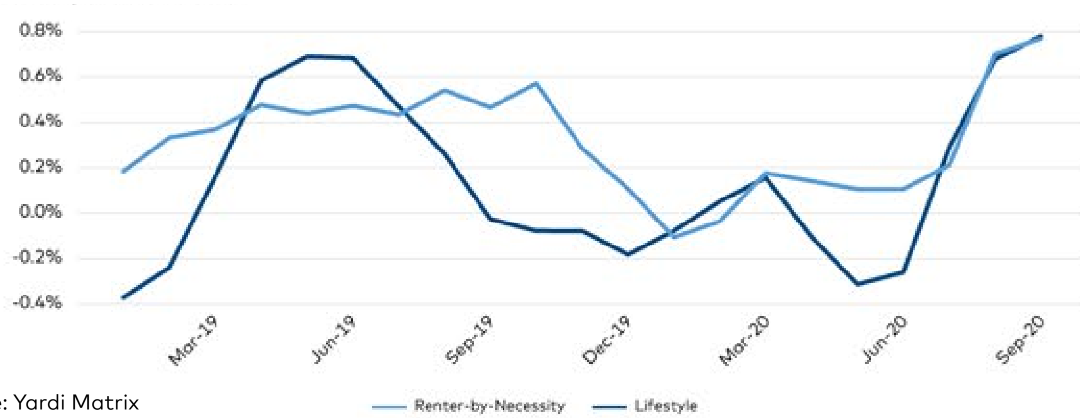
- Oceanway (10.1% to $1,341) and College Park-Springfield (8.2% to $727) were the submarkets that led rent growth in the 12 months ending in September. Meanwhile, rents slid across several of the metro's most expensive submarkets, including Neptune Beach (-2.7% to $1,393), Fernandina Beach (-1.9% to $1,276) and San Jose (-1.5% to $1,252).

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

- As of August, the unemployment rate was 7.1% in Florida and 5.8% in metro Jacksonville, with the latter lagging 260 basis points below the U.S. figure. While the rate peaked at 11.2% in April, ongoing efforts to kickstart the economy boosted the local labor force, which grew by 11,000 people in August to 774,774, according to the Florida Department of Economic Opportunity.

- According to preliminary data, Jacksonville's August jobless rate was below the numbers recorded in Tampa (6.8%), Miami (8.5%) and Orlando (11.0%). In the 12 months ending in July, a combined 28,000 jobs were lost in the metro. Mirroring national trends, leisure and hospitality was the hardest-hit sector (-13.7%), down 11,900 positions. Education and health services was the only sector to record gains—2,500 jobs were added, for a 2.3% uptick.

- Initial unemployment claims peaked in the metro at 12,263 in the week ending March 28. The number decreased to 1,248 in the week ending Oct. 3. Between March 15 and Oct. 11, the Florida Department of Economic Opportunity processed more than 4 million jobless claims and paid some $17.3 billion in state and federal unemployment assistance. Claims are expected to rise, following further planned layoffs in the leisure and hospitality industry.

Jacksonville Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	111	16.0%
55	Financial Activities	67	9.7%
30	Manufacturing	32	4.6%
90	Government	73	10.5%
50	Information	8	1.2%
80	Other Services	26	3.8%
15	Mining, Logging and Construction	46	6.6%
60	Professional and Business Services	108	15.6%
40	Trade, Transportation and Utilities	147	21.2%
70	Leisure and Hospitality	75	10.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Jacksonville gained 210,625 residents over the past decade, for a 15.6% uptick, well above the 6.1% U.S. rate.

- Steady population growth was boosted mainly by domestic net migration, with residents drawn to the metro's lower cost of living and business-friendly economic climate.

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

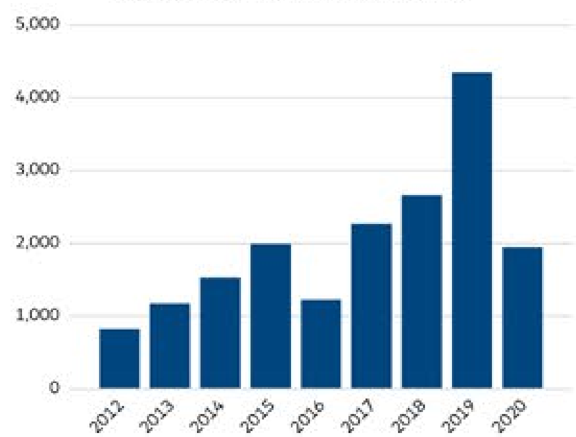
- Jacksonville had 5,027 units under construction as of September, more than 90% of which are aimed at high-income renters. The bulk of underway units (61%) is scheduled to come online next year, with only some 1,600 units slated for completion in the last quarter of 2020. Overall economic volatility and labor and material shortages are slated to alter delivery timelines for units in the planning and permitting stages, with many projects expected to record delays or even cancellations. Metro Jacksonville had 26,500 units underway in planned and prospective developments as of September.

- Developers completed 1,950 units in the metro during the first three quarters of 2020, equal to 1.9% of total stock, 30 basis points above the U.S. figure. The vast majority (95%) of new deliveries was in the Lifestyle segment. Since 2012, developers have added an average of 2,000 apartments per year to Jacksonville's inventory, with deliveries peaking at 4,347 units in 2019.

- With construction deemed essential during Florida's shelter-in-place order, developers were able to press on. However, following consecutive years of strong deliveries and facing economic uncertainty, construction starts lost steam in 2020, with only 1,700 units completing groundbreaking through September. That marked a 64% drop-off compared to 2019 construction starts, when developers broke ground on more than 4,900 units during the same interval.

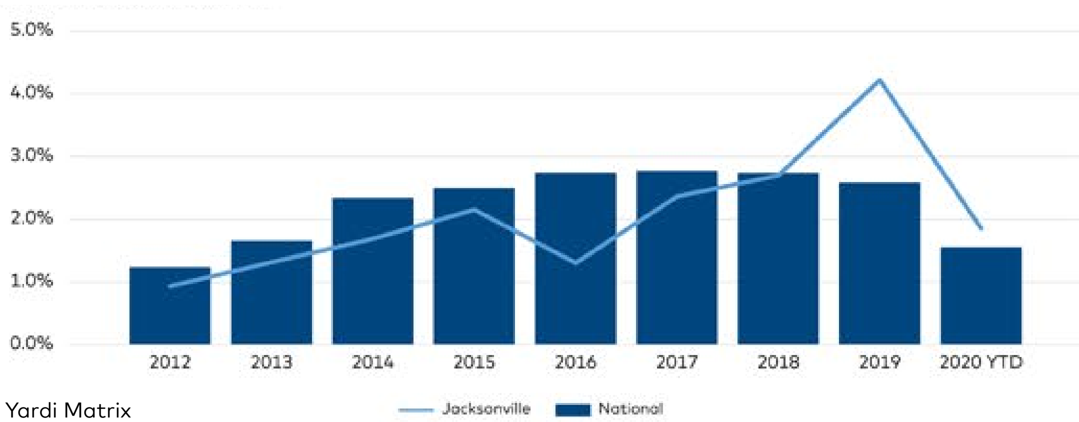
- Deerwood Club led development as of September, with 1,562 units underway, equal to a third of the total pipeline. San Jose (626 units) and St. Augustine (571 units) rounded out the top three.

Jacksonville Completions (as of September 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

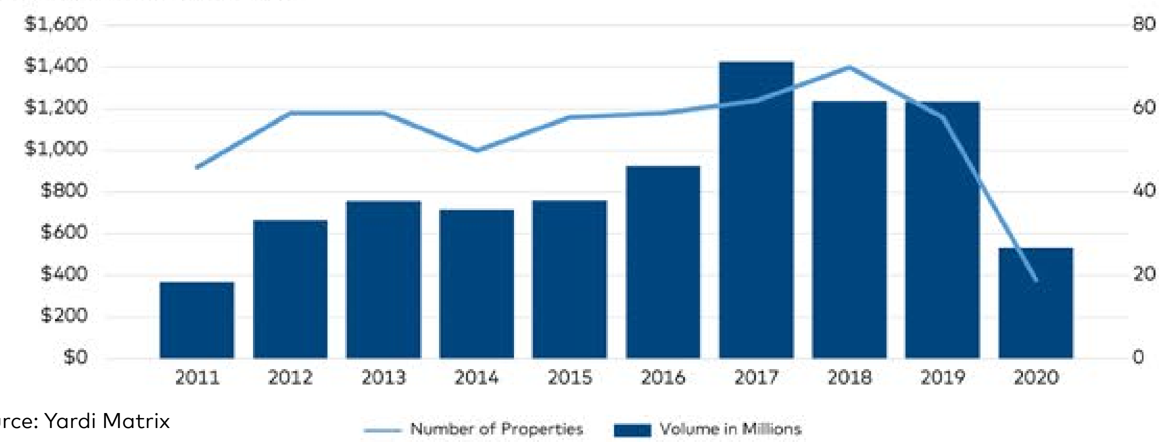
TRANSACTIONS

- A total of $533 million in assets traded in 2020 through September, for a 43% decline from last year. Despite the sharp drop, the volume was still consistently above the cycle's 2010 low point, when sales totaled $109 million for the year.

- A total of 4,394 units sold at an average per-unit price of $135,916, below the $163,150 U.S. figure, but well above last year's average ($106,659). The current price marks a cycle peak, with prices steadily improving over the last decade. Of the 19 properties sold year-to-date, 13 were RBN assets. Partially due to pandemic-induced headwinds, investor interest shifted, compared to 2019 when buyers targeted the two quality segments almost equally.

- Starwood Capital Group's $38.5 million acquisition of the 360-unit Madelyn Oaks in Cedar Hills marked Jacksonville's largest deal of the third quarter. Starwood bought the fully affordable asset from Lakeside Capital Advisors.

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



Source: Yardi Matrix

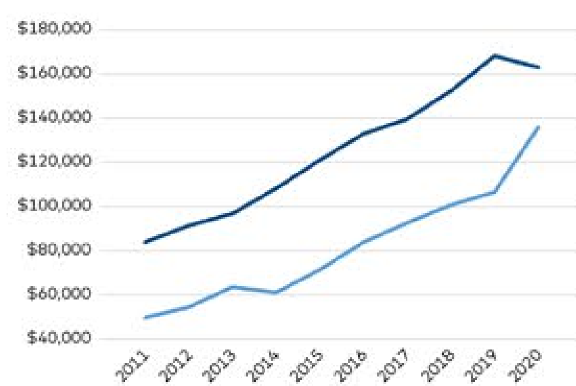
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Jacksonville–Cedar Hills	108
Jacksonville–San Pablo	92
Jacksonville–Pineland Gardens	85
St. Johns	80
Bellair–Orange Park	74
Jacksonville–Newcastle	60
Ponte Vedra Beach	56

Source: Yardi Matrix

[1] From October 2019 to September 2020

Jacksonville vs. National Sales Price per Unit



Source: Yardi Matrix

EXECUTIVE INSIGHTS

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MHN MULTI-HOUSING NEWS

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 industry more than seven months into the crisis and why he expects a quick rebound across several markets, despite short-term uncertainties brought on by the coronavirus outbreak.

How is the Florida multifamily market navigating the pandemic?

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.

New York and New Jersey have seen residents moving to Florida, Texas and other Sun Belt states since the onset of the pandemic. What can you tell us about this pattern?

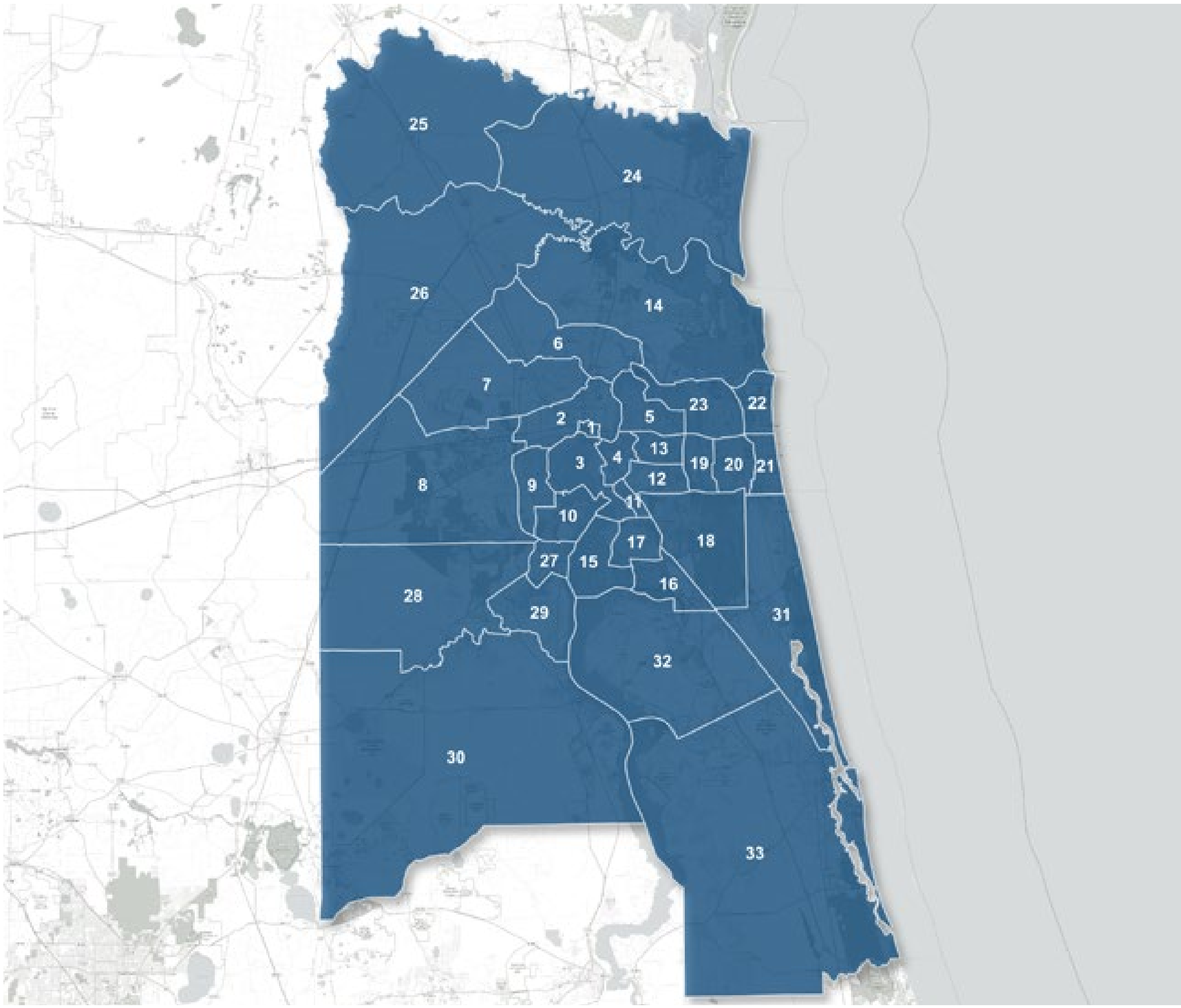
As some companies transition to permanent remote work, buyers are reevaluating their lifestyle needs, seeking home offices, larger kitchens and green spaces. Therefore, consumers' shifting product needs—combined with tax advantages—created the perfect storm, leading to an unprecedented uptick in sales, even in rentals of single-family homes. Experts forecast the supply of multifamily housing units will not outpace the underlying demand, thus requiring added product to meet ongoing needs.

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

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. 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.

(Read the complete interview on multihousingnews.com.)

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
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
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 September 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 September 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, September 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.