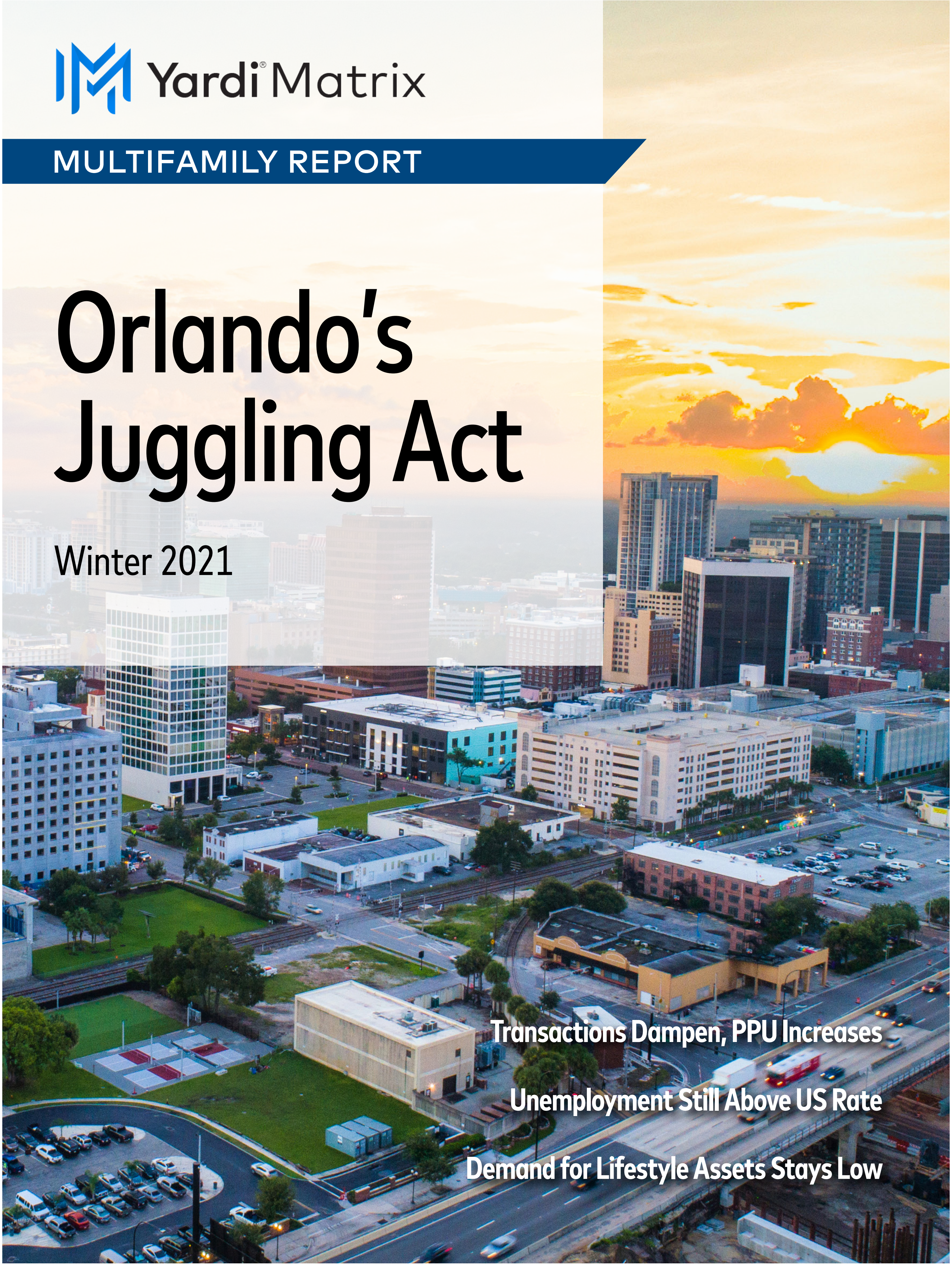
Yardi Matrix

MULTIFAMILY REPORT

Orlando's Juggling Act

Winter 2021



Transactions Dampen, PPU Increases

Unemployment Still Above US Rate

Demand for Lifestyle Assets Stays Low

ORLANDO MULTIFAMILY

Yardi Matrix

Central Florida's Rent Woes Continue

The road to full recovery in the Orlando multifamily market is set to be long and fraught with challenges. Rent growth started to decelerate at the end of 2019, which, combined with a job market affected by the health crisis, could continue to curb rates. In the three months ending in January, rents dropped 0.2% to an average of $1,336.

Gradual efforts to reopen the metro's tourism-dependent economy brought the unemployment rate to 7.7% in November, down from an all-time high of 21.1% in May, but still 100 basis points above the national rate. The leisure and hospitality sector lost a third of its workforce in the 12 months ending in November. However, Orlando's reputation as one of the world's most popular tourist and theme-park destinations has encouraged some developers to go on with their development plans. Dart Interests is set to break ground on Evermore Orlando Resort, a $1.5 billion project near Disney World, and BTI Partners intends to move ahead with its plans to expand the Grove Resort & Water Park.

The ongoing economic volatility has softened investment activity, with only $63 million in assets changing hands in the first month of 2021. As of January, developers had 18,593 units under construction, most of them across high-end projects. Yardi Matrix expects rents to rise 1.5% by year-end.

Market Analysis | Winter 2021

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Recent Orlando Transactions

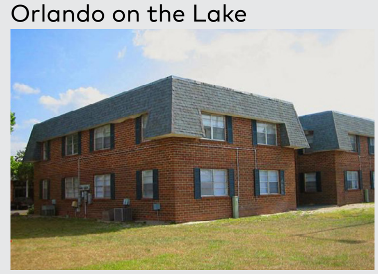
Lakeside Villas

City: Orlando, Fla.
Buyer: LivCor
Purchase Price: $63 MM
Price per Unit: $182,081

Lake Vue

City: Orlando, Fla.
Buyer: Nuveen Real Estate
Purchase Price: $45 MM
Price per Unit: $227,847

Orlando on the Lake



City: Orlando, Fla.
Buyer: Dasmen Residential
Purchase Price: $18 MM
Price per Unit: $95,238

The Overlook at Monroe

City: Sanford, Fla.
Buyer: Equity Management Partners
Purchase Price: $14 MM
Price per Unit: $74,185

RENT TRENDS

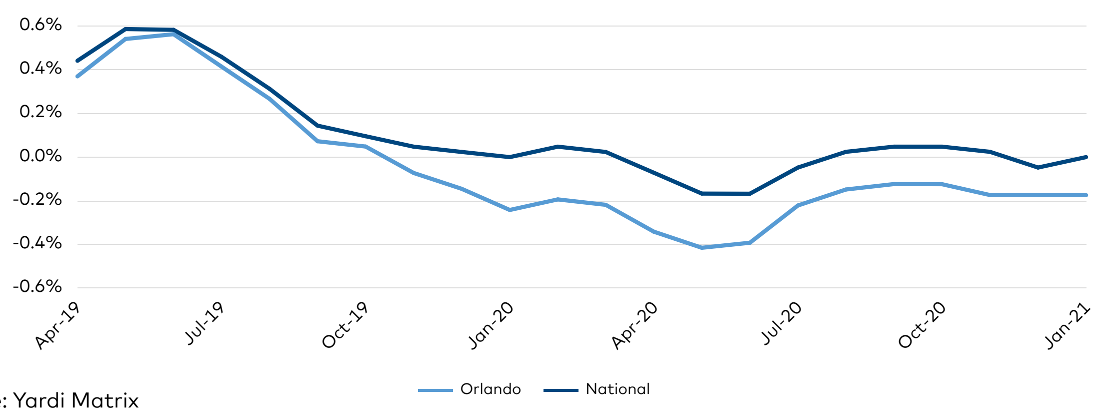
- Rents in Orlando were down 0.2% on a trailing three-month basis through January, while the U.S. rate stayed flat for the seventh consecutive month. The average rent in Central Florida was $1,336, only $56 below the national figure. The working-class Renter-by-Necessity segment showed improvement, with rents rising 0.1% to $1,157. Meanwhile, rent gains in Lifestyle assets contracted 0.3% to an average of $1,453.

- Steep job losses and restricted mobility have dampened multifamily demand, prompting operators to offer temporary concessions or rent cuts to avoid vacancies, particularly in Lifestyle properties near theme parks. However, inbound migration from high-tax and high cost of living areas, has contributed to the market's stability during the pandemic.

- Rents in the top three most expensive Orlando submarkets contracted in the 12 months ending in January: University Park (-4.3% to an average of $1,901), Oviedo (-0.9% to $1,740) and Orlando-Downtown (-1.5% to $1,694). These markets all have a heavy supply of Lifestyle assets, which were the first to struggle.

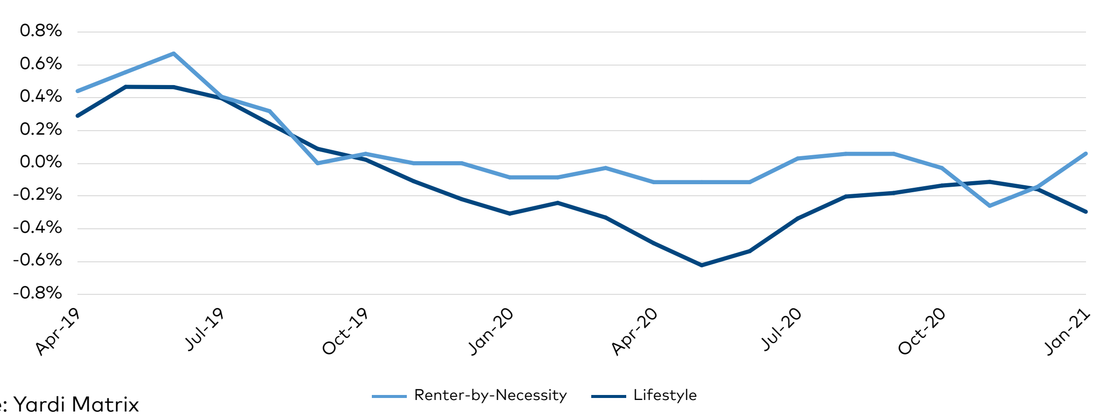
- Orlando's rental market is poised for a potentially difficult period going forward, considering the generous influx of upscale product in the past few years. However, Yardi Matrix expects rents to improve 1.5% this year as the tourism industry slowly resumes operations and COVID-19 vaccinations speed up.

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

- Orlando's jobless rate dropped from an all-time high of 21.1% in May to 7.7% in November, according to preliminary data from the Bureau of Labor Statistics. Employment contracted 8.9% year-over-year as of November, with the metro faring worse than the nation since June.

- While the tourism industry in Central Florida is still reeling from the impacts of the health crisis, the metro's major industrial and high-tech centers are drawing heavy investor interest. Industrial properties—particularly those along the Interstate 4 corridor between Tampa and Orlando—are playing a key role in the metro's recovery. Developers are moving forward with projects totaling 2.6 million square feet, more than 80 percent of which are speculative.

- Another sign that the local economy is emerging from health crisis-induced pain is the increasing number of companies relocating to Central Florida, which is seen as more business- and tax-friendly. Even The Walt Disney Co. is allegedly in talks to move part of its office divisions from its California headquarters to Lake Nona, a master-planned community where KPMG relocated in 2020. The location is the company's largest capital investment ever: a $450 million, 780,000-square-foot facility that will resume operations in the coming months.

Orlando Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
30	Manufacturing	78	5.4%
55	Financial Activities	87	6.0%
50	Information	27	1.9%
15	Mining, Logging and Construction	102	7.0%
80	Other Services	50	3.4%
40	Trade, Transportation and Utilities	280	19.3%
60	Professional and Business Services	265	18.3%
90	Government	150	10.3%
65	Education and Health Services	193	13.3%
70	Leisure and Hospitality	219	15.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Orlando added 35,185 residents in 2019, a 1.4% increase and 110 basis points above the national rate.

- The Central Florida region is expected to add 1,500 residents per week and reach a population of 5.2 million by 2030, according to an Orlando Economic Partnership outlook.

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

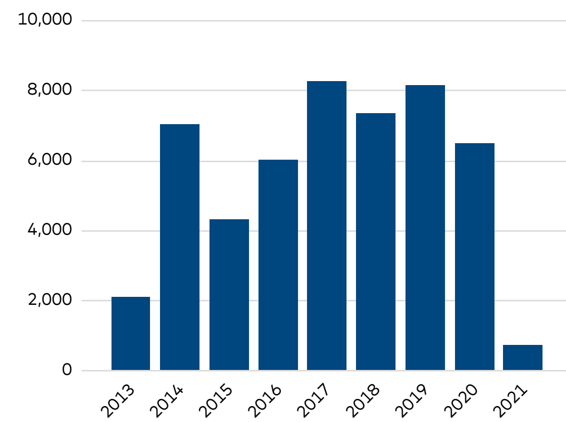
- Developers had 18,593 units under construction as of January, with 88% of those slated to come online this year. However, considering the lingering economic uncertainty, some of these deliveries might be pushed to 2022. Of the 73 properties underway, 65 cater to the upscale segment, where rent movement has been in negative territory since November 2019.

- In January, developers added 737 units in two luxury properties. With the market hot off a strong streak over the past four years, another 6,478 units were added to the metro's stock in 2020. Although the coronavirus' impact across employment sectors put a dent in demand for Lifestyle apartments, the bulk of deliveries targeted high-income residents. Additionally, almost 30,000 units came online across the metro between 2016 and 2019, with the majority also catering to high-end renters.

- Recent challenges have inhibited new development. While construction on 1,689 units started in January 2020, there were no groundbreakings during the first month of 2021.

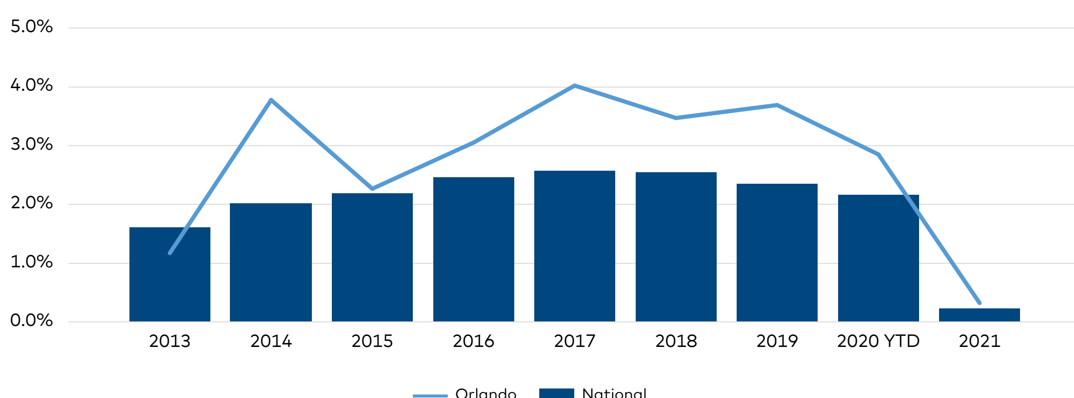
- With Florida markets benefiting from strong migration from higher-cost states like California and New York, experts expect housing demand to endure, driven by historically low interest rates, an increase in working from home, and people's preference for suburban living options. More than half of the properties underway are located in suburban submarkets.

Orlando Completions (as of January 2021)



Source: Yardi Matrix

Orlando vs. National Completions as a Percentage of Total Stock (as of January 2021)

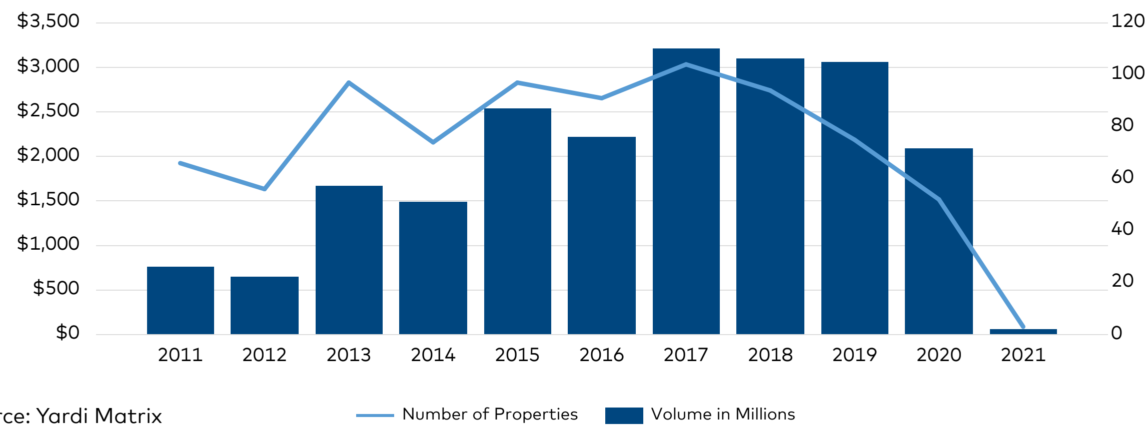


Source: Yardi Matrix

TRANSACTIONS

- Some $63 million in multifamily assets changed hands in January in Orlando, a significant drop from last year's $176 million total through the same interval. Following three years in which investment equaled or surpassed the $3 billion mark, deal volume dropped to $2.1 billion in 2020. Although 30 of the 52 properties that changed hands last year were Renter-by-Necessity assets, the price per unit rose 3.9% to a cycle peak of $180,520, well above the $157,900 national average.
- In the 12 months ending in January, two submarkets—Lake Buena Vista ($270 million) and Metro West ($270 million)—accounted for more than a quarter of the $2 billion total investment volume. LivCor was among the most active buyers, with the company expanding its footprint in Central Florida to more than 5,200 units.
- The health crisis-induced slowdown softened Orlando's apartment market, but experts anticipate a recovery for the second half of 2021.

Orlando Sales Volume and Number of Properties Sold (as of January 2021)



Source: Yardi Matrix

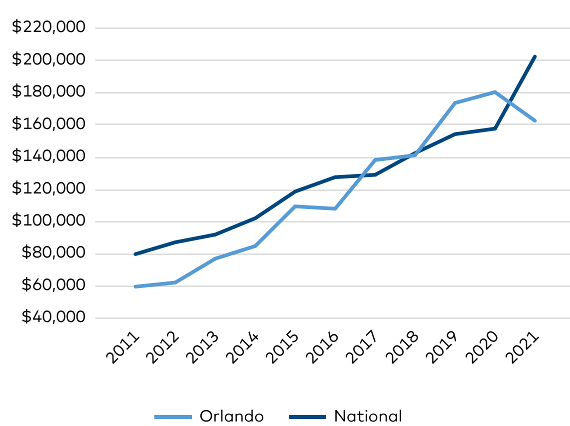
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Lake Buena Vista	270
Metro West	270
Sanford	169
Winter Park-East	145
Palm Bay	127
Stoneybrook	114
Hunter's Creek	105

Source: Yardi Matrix

[1] From February 2020 to January 2021

Orlando vs. National Sales Price per Unit



Source: Yardi Matrix

How Central Florida Investors Are Recalibrating Their Strategies

By Evelyn Jozsa

Thanks to a favorable tax environment and a relatively low cost of living, Orlando's economy has been steadily advancing in the past few years. The COVID-19 crisis, however, has shaken market fundamentals and put the region's growth on hold. Lloyd Jones CEO & Chairman Chris Finlay and Starwood Capital Group Managing Director James Kane discuss market dynamics and share strategies that might help investors stay afloat under current economic conditions.

How has the health crisis impacted Orlando compared to other Florida markets?

Finlay: Central Florida, specifically Orlando, has been impacted slightly more than the typical Southeastern market, primarily due to its large hospitality and entertainment industries.

Kane: In our market-rate apartment portfolio we have collected a higher percentage of billed rents in Central Florida compared to our South Florida portfolio. Central Florida collections are above our national average.

How has your business strategy changed since the onset of the pandemic?

Finlay: We are still looking for high-quality value-add and core-plus multifamily assets. However, our strategy has slightly changed. We are now delaying the implementation of all major property upgrades until the anticipated economic recovery, which we feel will be 12 to 18 months from now.

Chris Finlay *(left)* and James Kane *(right)*

Kane: Early in the pandemic, we halted all value-add capital and focused on tenant retention and occupancy. We have since restarted value-add programs across Central Florida as we expect strong residential tenant demand in the latter half of 2021.

What types of properties would you consider risky investments in upcoming quarters?

Finlay: Class C and workforce housing would be the riskiest at this time. These assets are currently struggling with occupancy rates and delinquencies since the tenant base in these types of properties has been more severely impacted by unemployment.

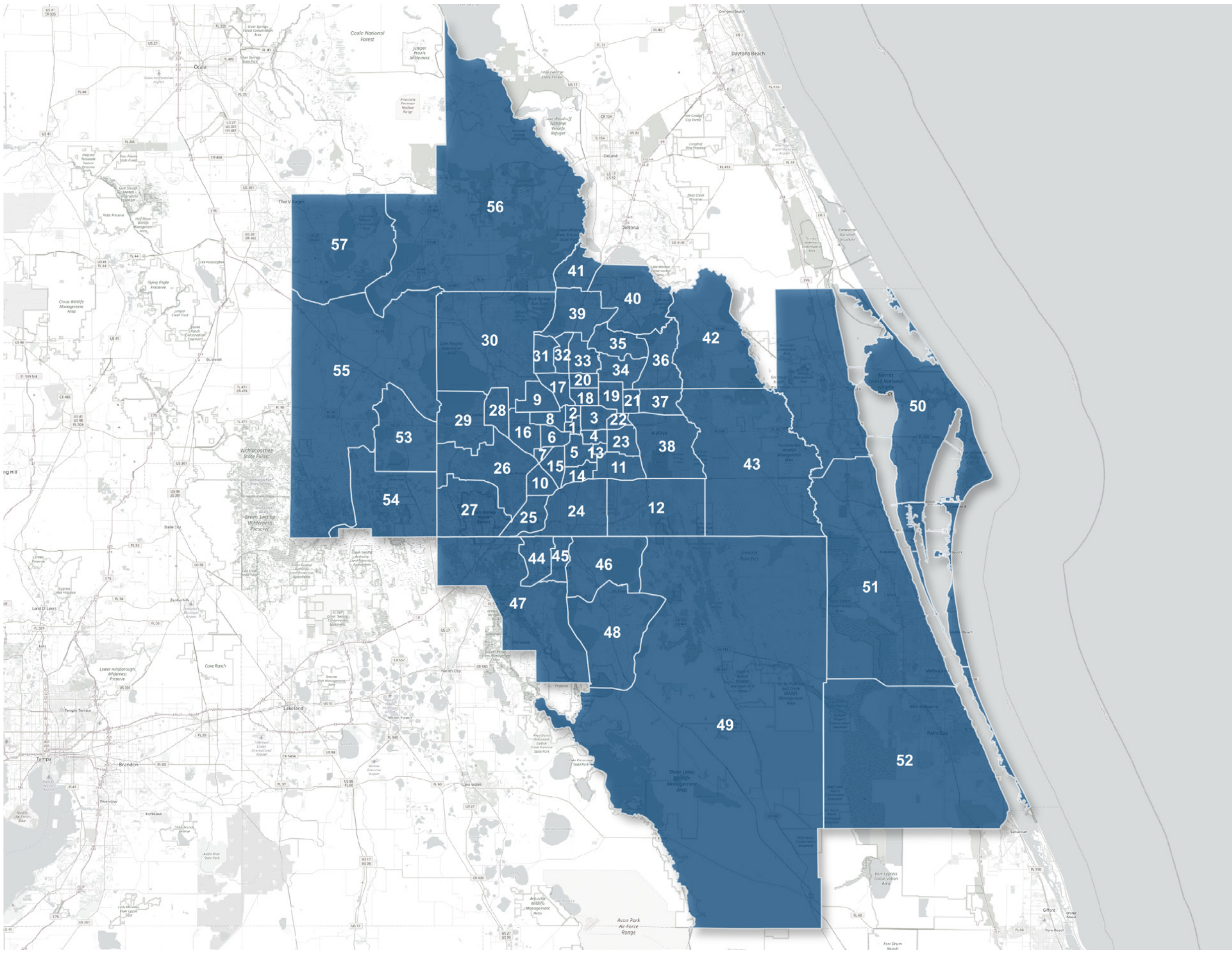
What are your predictions for the Central Florida multifamily market in 2021?

Finlay: In 2021, we expect to see low transaction volume as in 2020. However, in 2022 and beyond we anticipate substantial growth in demand and performance throughout the market. As a result, there will be increased transaction volume.

Kane: Starwood Capital is extremely bullish on the future of Central Florida. As the economy becomes more diversified with the development of a world-class medical facility and potential corporate relocations, we feel Central Florida will see meaningful rent gains in the medium term. The biggest issue with Central Florida is the relative ease of development which needs to be moderated for property fundamentals to improve.

(Read the complete interview on multihousingnews.com.)

ORLANDO SUBMARKETS



Area No.	Submarket	Area No.	Submarket	Area No.	Submarket
1	Orlando–Downtown	20	Maitland	39	Lake Mary
2	Orlando–North Orange	21	Goldenrod	40	Sanford
3	Orlando–Colonial Town	22	Union Park	41	Woodruff Springs
4	Orlando–Azalea Park	23	Edgewood Park	42	Outlying Seminole County
5	Orlando–Edgewood	24	Hunter's Creek	43	Eastern Orange County
6	Orlando–Holden Heights	25	Lake Bryan	44	West Kissimme
7	Orlando–Florida Center North	26	Lake Buena Vista	45	East Kissimme
8	Orlando–Pine Hills	27	Orange Lake	46	Fish Lake
9	Orlando–Rosemont	28	Ocoee	47	Celebration
10	Orlando–Florida Center	29	Winter Garden	48	St Cloud
11	Orlando–Vista Park	30	Apopka	49	Outlying Osceola County
12	Orlando–Southeast	31	Forest City	50	Titusville
13	Conway	32	Weathersfield	51	Melbourne
14	Belle Isle	33	Altamonte Springs	52	Palm Bay
15	Oak Ridge	34	Red Bug Lake	53	Clermont
16	Metro West	35	Longwood	54	Hancock Lake
17	Lockhart	36	Oviedo	55	Outlying Lake County
18	Winter Park–West	37	University Park	56	Mt Dora
19	Winter Park–East	38	Stoneybrook	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 December 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 December 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, December 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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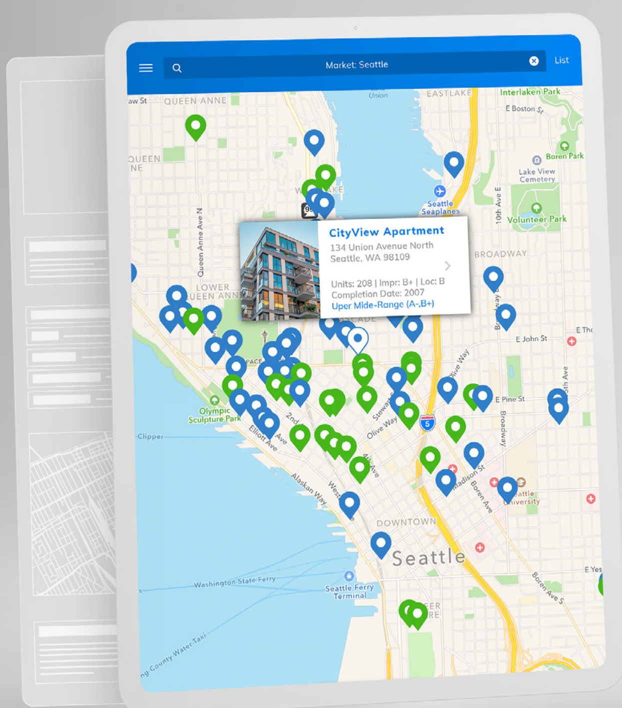

Yardi Matrix Multifamily provides accurate data on **18+ million units,** covering over **90% of the U.S. population.**

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