

Jacksonville's Multifamily Renaissance

Multifamily Winter Report 2017

Incomes Outpace Rents

New Hires Skyrocket

Supply Shortage Looms

Market Analysis

Winter 2017

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Job Growth, Affordability Attract Prospects

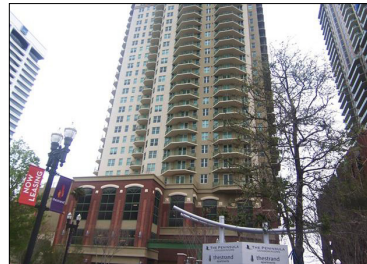
The multifamily market in Jacksonville is improving, sustained by the metro's hiring boom and increasing population. Although Jacksonville is a secondary tourist location in Florida, its share of the market is growing. The leisure and hospitality industry is leading the way, as visitors are coming to the state in record numbers. Employment gains have also been significant for the local medical community, the office-using sectors, construction and transportation.

Jacksonville currently ranks as one of the most affordable metros in Florida for apartment renters. And even though rent gains have persisted over the last three years, incomes have grown even faster, helping to maintain the city's relative affordability as a key draw for incoming residents.

Multifamily fundamentals have been healthy, and we expect that to continue. Transaction volume exceeded \$700 million, and investors reached a cycle-high price per unit last year. Construction activity, however, posted modest numbers, as only about 1,200 units came online in 2016, although we expect an increase to 1,800 units in 2017. The pipeline includes developments targeting areas near St. Johns Town Center, downtown and the Jacksonville International Airport. We expect absorption to remain robust, despite rents growing a modest 3.7% in 2017, down from 5.1% in 2016.

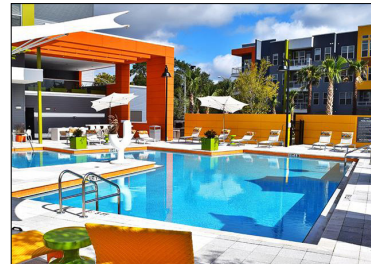
Recent Jacksonville Transactions

The Strand



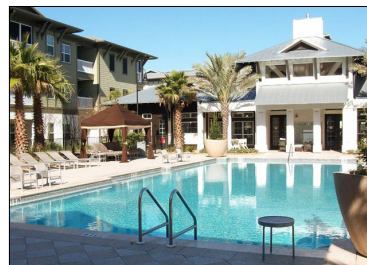
City: Jacksonville, Fla.
Buyer: John Rumpel
Purchase Price: \$65 MM
Price per Unit: \$218,983

The Brooklyn Riverside



City: Jacksonville, Fla.
Buyer: Bluerock Real Estate
Purchase Price: \$58 MM
Price per Unit: \$187,000

Broadstone Beach House



City: Jacksonville Beach, Fla.
Buyer: Bluerock Real Estate
Purchase Price: \$47 MM
Price per Unit: \$204,000

Waterford at Mandarin

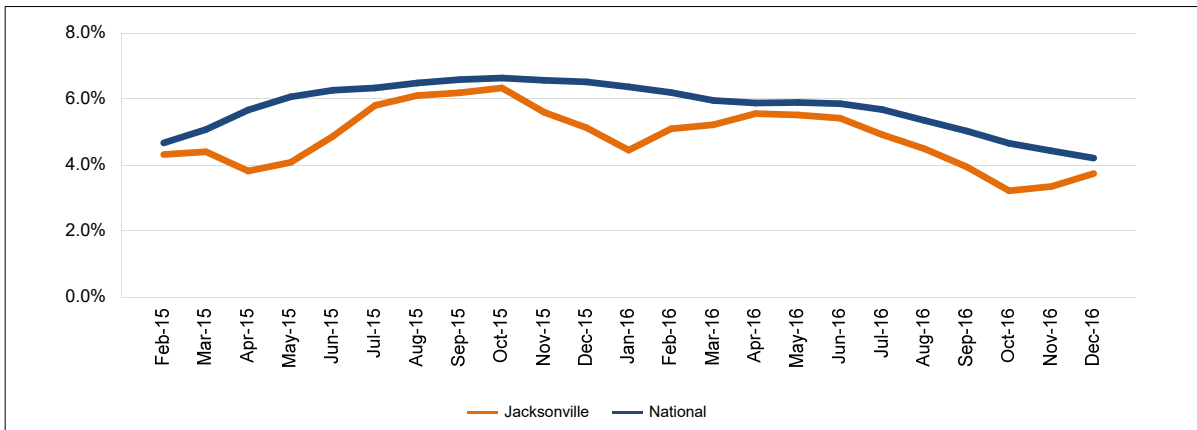


City: Jacksonville, Fla.
Buyer: Cherishome Living
Purchase Price: \$46 MM
Price per Unit: \$106,146

Rent Trends

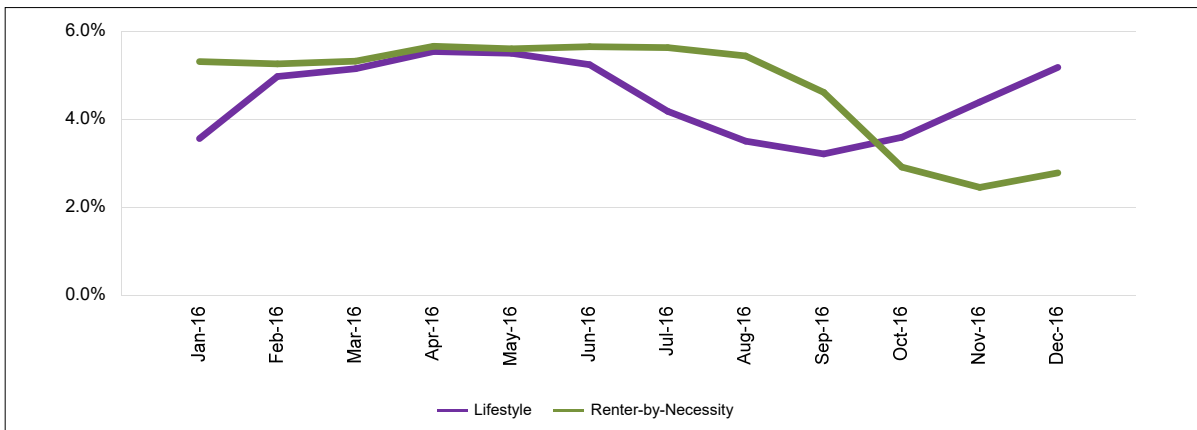
- Rents in Jacksonville rose 3.3% year-over-year through November, trailing the nation's 4.3% growth rate. Monthly rents stood at \$896, well below the \$1,214 national average. Rent increases have decelerated since topping 6% in 2015, in line with national trends.
- Opposing the national trend, rent growth was higher in the upscale Lifestyle segment, which saw a 4.2% increase to \$1,058, than in the Renter-by-Necessity segment, where rents rose by 2.5% to \$787. Rents at upscale properties were relatively affordable compared to most U.S. cities.
- Rents have climbed steadily over the last three years, though incomes have outpaced rents over the same period, lending to Jacksonville's recent population growth and current ranking as one of the most affordable places in Florida.
- The largest rent increases occurred in the Newcastle, Neptune Beach, Deerwood Club–East, Meadowbrook and Hilliard submarkets. Occupancy measured 95.1% as of October and may continue to slide as new units come online, especially in areas near St. Johns Town Center, downtown and the Jacksonville International Airport.

Jacksonville vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Jacksonville Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

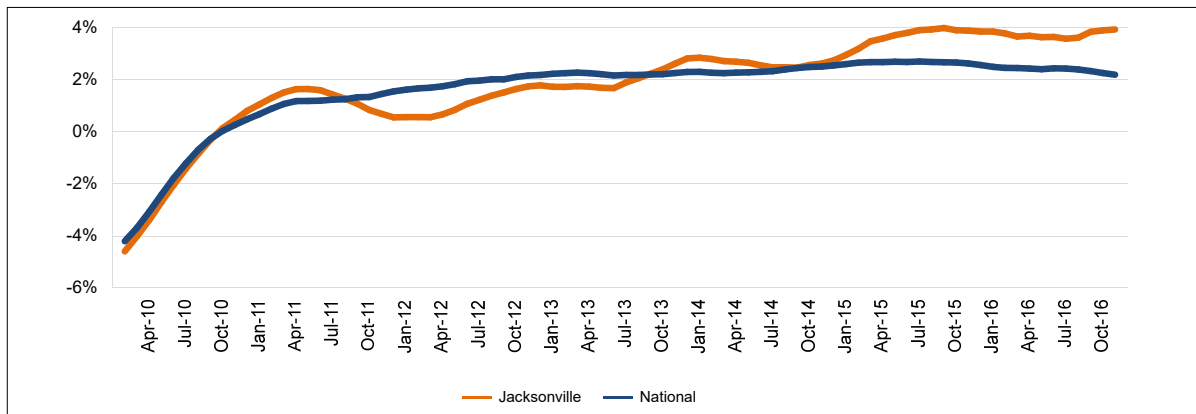


Source: YardiMatrix

Economic Snapshot

- Jacksonville added 30,200 jobs year-over-year through September, representing a 3.8% increase—well above the 2.3% national average. At 4.7% in August, the metro’s unemployment rate lagged the 5% national average.
- Leading in new hires, the leisure and hospitality industry added 6,100 positions. Reflected statewide, Jacksonville reported an uptick in tourism activity, especially in Duval County, where hotel occupancy was up 4.3% year-over-year for the first 10 months of 2016, according to Visit Jacksonville. Hospitality revenue for the county was up more than 11%. A record 85 million tourists visited the Sunshine State during the first nine months. Jacksonville is not a top destination, but its piece of the Florida tourist pie is growing.
- The local medical community continues to expand. St. Vincent’s HealthCare is planning to open three new health centers across the metro within a year, while Dolphin Pointe Landing, a partnership between the Jacksonville University and Nelson Holdings, is building a skilled nursing and rehabilitation facility to benefit health-care students and the Arlington community.
- The office-using employment sectors, including financial services and professional and business services, also expanded hiring. This in turn has led to robust rent growth in the office market, where asking lease rates exceeded \$18.70 per square foot in the third quarter, up 4% year-over-year, according to CBRE. Expansions this summer included new leases by State Street Bank, Humana, Bernard, U.S. Bank and International Décor Outlet.

Jacksonville vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Jacksonville Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
70	Leisure and Hospitality	87	12.8%	6,100	7.6%
65	Education and Health Services	103	15.1%	5,100	5.2%
15	Mining, Logging and Construction	41	6.0%	4,600	12.8%
55	Financial Activities	66	9.7%	4,200	6.8%
60	Professional and Business Services	105	15.4%	4,200	4.2%
40	Trade, Transportation and Utilities	140	20.6%	3,400	2.5%
90	Government	77	11.3%	1,500	2.0%
30	Manufacturing	31	4.6%	1,000	3.4%
80	Other Services	23	3.4%	500	2.2%
50	Information	9	1.3%	-400	-4.3%

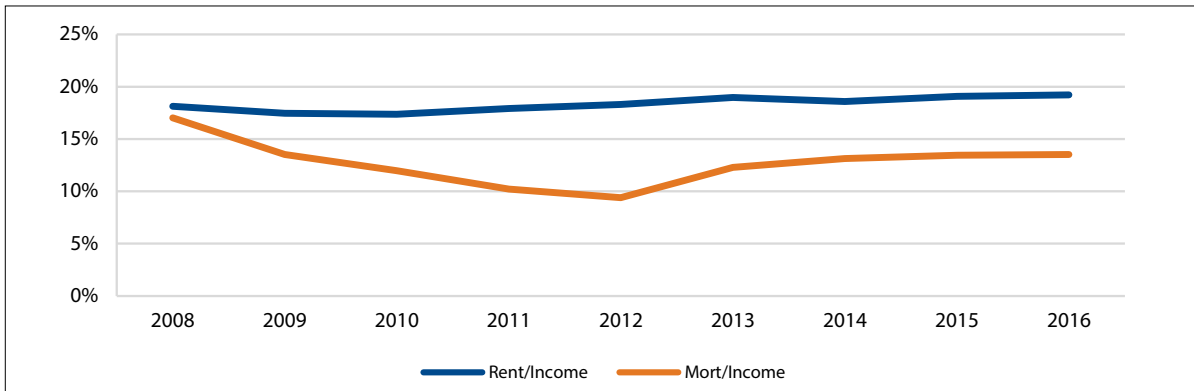
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

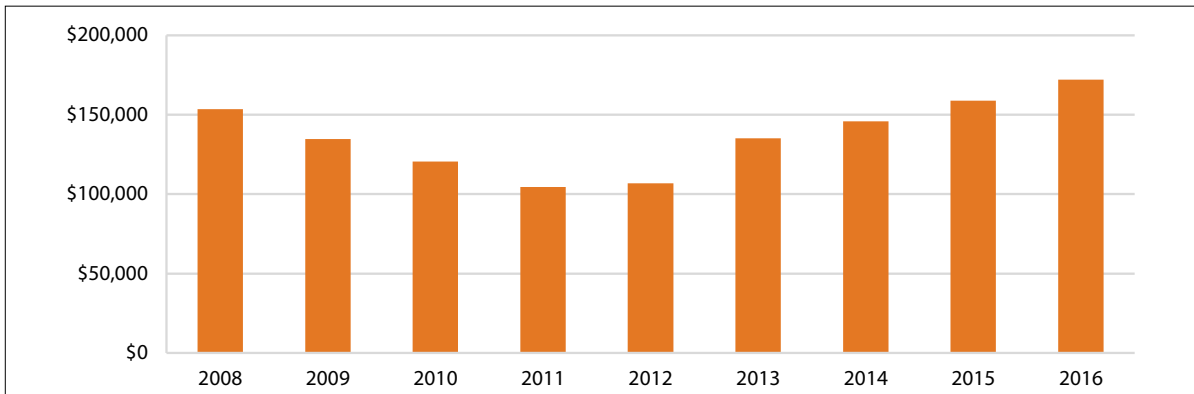
- The median home price in Jacksonville reached \$172,065 in 2016, marking another post-recession high. While the average mortgage accounted for 14% of area median income, renting continued to be less affordable than owning across the metro. Averaging \$896, rent accounted for 19% of area median income.
- The percentage of income Jacksonville renters are paying has decreased over the last three years, according to a study by Smartasset.com, which ranked the city fourth in the nation among areas where rising incomes were outpacing rental prices.

Jacksonville Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Jacksonville Median Home Price



Source: Moody's Analytics

Population

- Jacksonville's population rose by 2.0% in 2015, far outpacing the 0.8% national average.
- Growth has been consistent, totaling more than 87,440 new residents since 2011.

Jacksonville vs. National Population

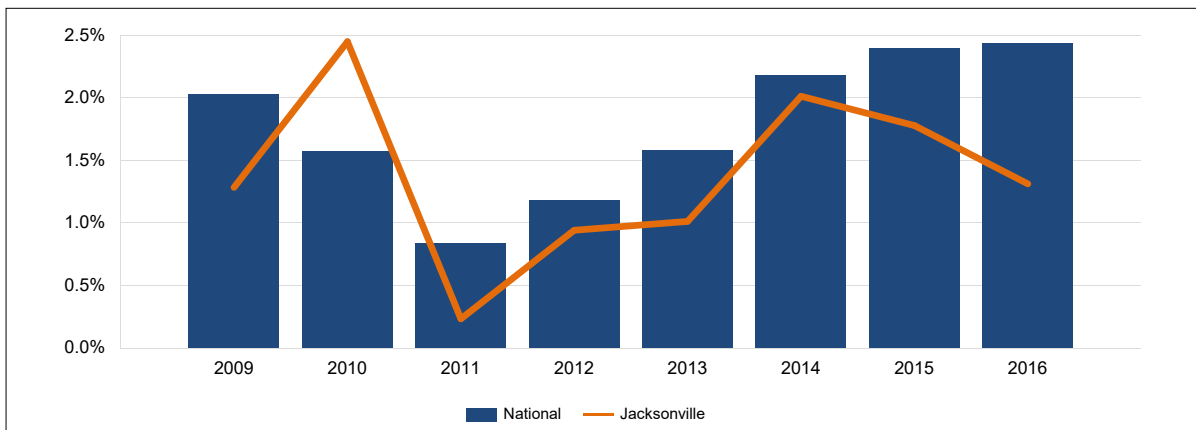
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Jacksonville, Fla., Metro	1,362,032	1,379,209	1,396,267	1,421,004	1,449,481

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

Supply

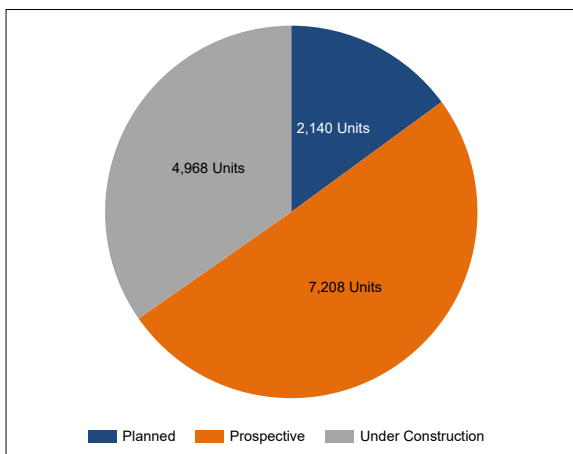
- Construction activity in Jacksonville remained modest in 2016, when 1,219 units came online, a 1% increase in stock and slight decline from the previous year, when 1,630 units were delivered. We expect 1,800 units to be delivered in 2017, a 1.5% increase in stock.
- The total pipeline comprises more than 13,230 units. Out of these, more than 4,700 apartments were under construction as of November. Absorption is expected to keep up, generating only a slight decline in occupancy, which stood at 95.1% as of October.
- Construction across the metro has lagged the national growth rate for six consecutive years, in spite of strong demand. So far in the current cycle, developers have favored other major markets in Florida—such as Tampa, Orlando and Miami—which have experienced a boom in multifamily construction, due to premiums as high as \$200 per unit. If Jacksonville’s population continues to grow, there will be a shortage of apartments, which could attract development capital.
- Developers are targeting multiple submarkets around the city core, including Bayard, College Park/Springfield, Pineland Gardens, Deerwood Club–West and San Pablo.

Jacksonville vs. National Completions as a Percentage of Total Stock (as of January 2017)



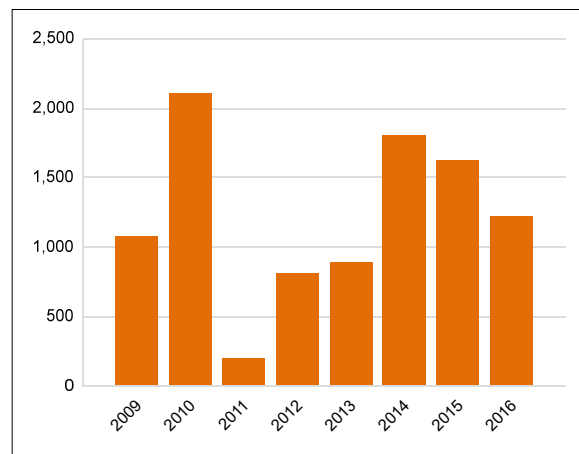
Source: YardiMatrix

Development Pipeline (as of January 2017)



Source: YardiMatrix

Jacksonville Completions (as of January 2017)

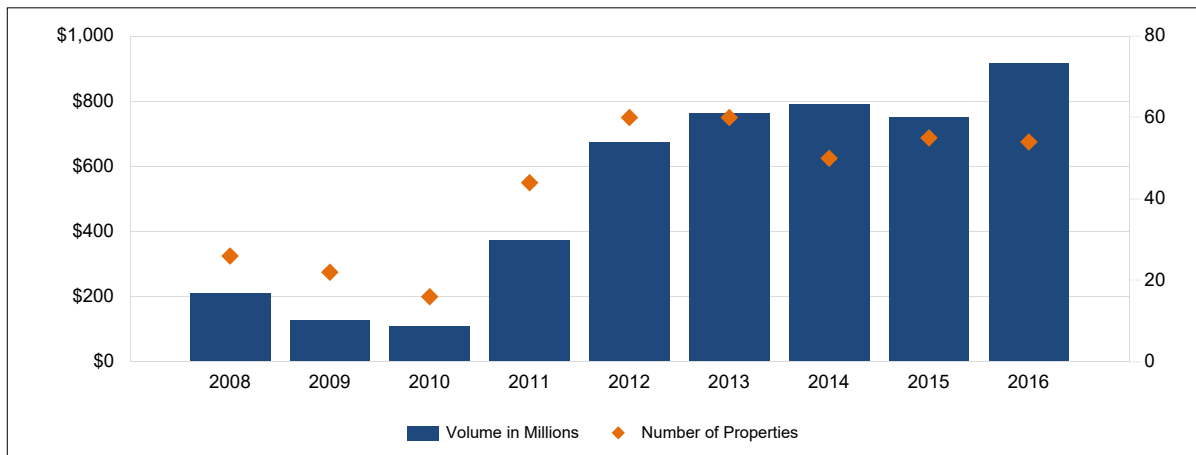


Source: YardiMatrix

Transactions

- Transaction activity decelerated after reaching a peak in 2014. Approximately \$736 million worth of properties changed hands across the metro year-to-date through November, a slight decline from the previous year. Regional and value-add investors dominated in Jacksonville, which remains a bit small and not liquid enough to attract institutional players.
- As property values continued to rise in Jacksonville, the price per unit reached a cycle-high \$92,708 this year, still well below the \$134,575 national average. Property yields were higher than in primary markets such as Miami, though stable Class A assets could trade for yields as low as 4.25%.
- Activity was strongest in College Park/Springfield, San Pablo and Greenland. The largest deal was for the Strand, a 295-unit waterfront high-rise, which sold for \$65 million, or nearly \$219,000 per unit.

Jacksonville Sales Volume and Number of Properties Sold (as of January 2017)



Source: YardiMatrix

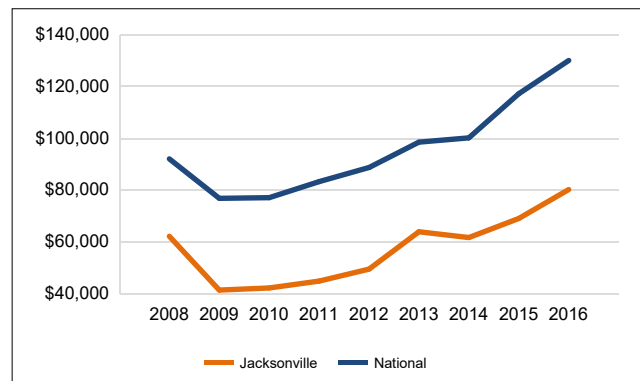
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
College Park/Springfield	123
San Pablo	73
Greenland	63
Deerwood Club–West	55
Neptune Beach	47
Beacon Hills	45
Newcastle	40
Deerwood Club–East	39

Source: YardiMatrix

¹ From December 2015 to November 2016

Jacksonville vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Robbins/Electra Adds Fourth Property To Jacksonville Portfolio



New York-Based Firm Goes Shopping in Jacksonville



New IKEA Store to Open In Jacksonville

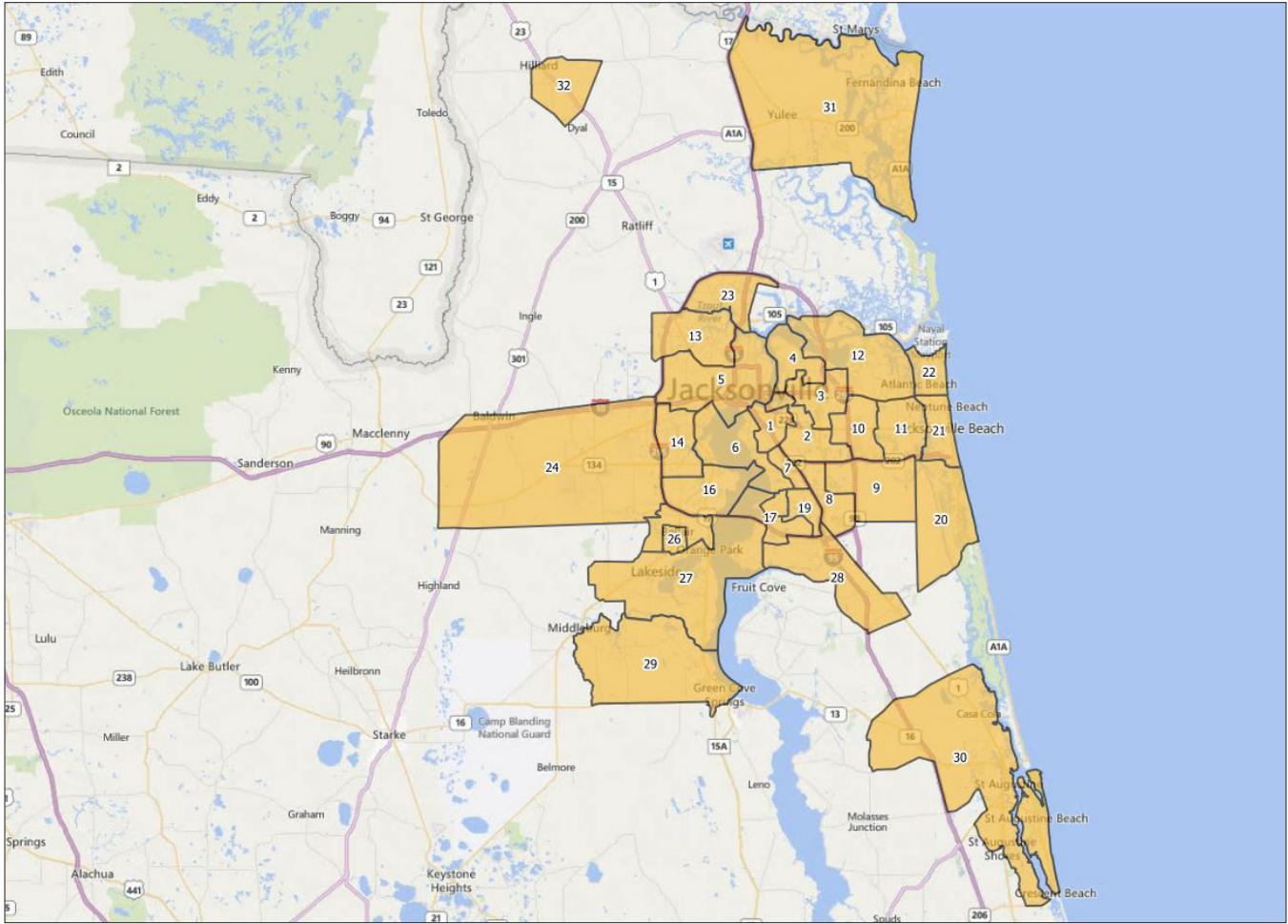


Downtown Jacksonville Tower Trades for \$53M

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Jacksonville Submarket Map



Area #	Submarket
2	Pineland Gardens
3	Oakwood Villa
4	Newcastle
5	College Park/Springfield
6	San Jose
7	Bowden
8	Deerwood Club–West
9	Deerwood Club–East
10	Southridge
11	San Pablo
12	Beacon Hills
13	Dinsmore
14	Cedar Hills
16	Ortega Hills
17	Greenland

Area #	Submarket
18	Goodbye
19	Sunbeam
20	Ponte Vedra Beach
21	Neptune Beach
22	Mayport
23	Highlands
24	Jacksonville Heights
25	Meadowbrook
26	Bellair
27	Orange Park
28	Bayard
29	Green Cove Springs
30	St. Augustine
31	Fernandina Beach
32	Hilliard

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.

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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