



YARDI[®] Matrix

Miami's Rising Tide

Multifamily Winter Report 2017

Employment Stays Solid

Affordability Issues Deepen

Transaction Volume Tops \$3B

Market Analysis

Winter 2017

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International Attraction Sustains Growth

Miami continues to benefit from the rising tide of foreign investment as players from South America and other parts of the world hedge currency volatility while seeking a safe haven for capital. The result has been skyrocketing construction and rapid growth in rents. Miami remains as trendy as ever, but there are questions as to whether the development is too much too fast and whether the incoming foreign capital is permanent.

In the meantime, employment and population growth continue. Miami's traditional job segments were paced in 2016 by professional and business services, which added more than a quarter of the metro's 49,500 new positions. Affordability, however, remains a big issue, as the metro has the most cost-burdened renters in the country. Despite the surge in home prices, homeownership continues to be the more affordable option, but Miamians stick to renting. The preference to rent rather than own is driven by Millennials—for reasons such as mobility, location and access to capital—but also by Baby Boomers, who are looking to downsize their homes.

Demand is strong, as roughly 100,000 units are in some stage of development, and transaction activity has grown considerably, crossing the \$3 billion mark in 2016. With demand still rising, we expect new inventory to be absorbed and rents to grow by a solid 5.5% in 2017.

Recent Miami Transactions

Red Road Commons



City: Miami
Buyer: Starwood Capital Group
Purchase Price: \$152 MM
Price per Unit: \$376,007

Sheridan Ocean Club



City: Dania Beach, Fla.
Buyer: Starwood Capital Group
Purchase Price: \$127 MM
Price per Unit: \$196,740

Solero at Plantation



City: Plantation, Fla.
Buyer: Grand Peaks Properties
Purchase Price: \$123 MM
Price per Unit: \$255,093

Aliro



City: North Miami, Fla.
Buyer: LivCor
Purchase Price: \$117 MM
Price per Unit: \$134,948

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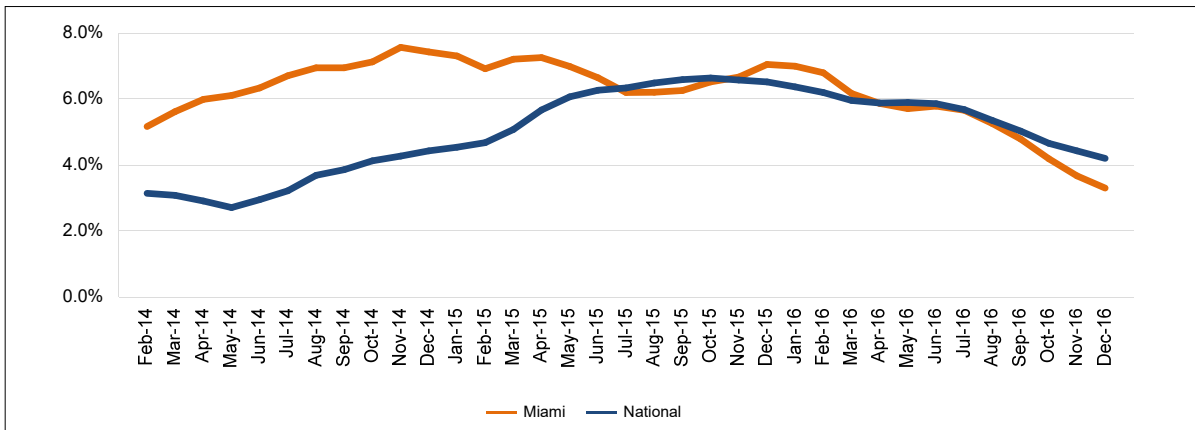
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Rent Trends

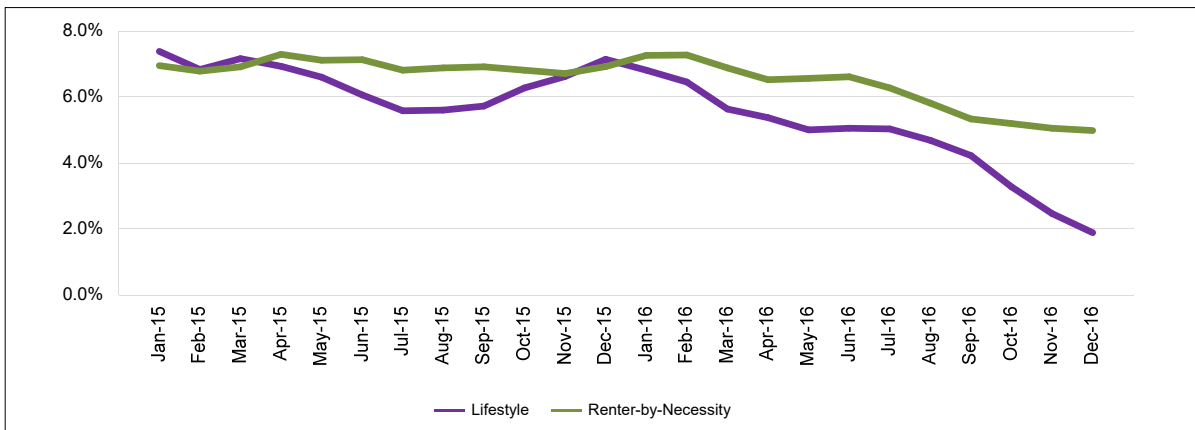
- Similar to the deceleration trend seen across the country, rent growth is steadily slowing down in Miami. Rents increased by 3.3% year-over-year through December, far below the 4.0% national average. The average rent in the metro hit \$1,478, significantly higher than the national average of \$1,210.
- The working-class Renter-by-Necessity segment led rent growth (5.0%), and significantly exceeded Lifestyle rent gains (1.9%). The difference highlights the issue of affordability, as people need more inexpensive rent options as opposed to high-end Lifestyle units.
- Demand is fueled by rapid job growth, as well as Miami’s appeal to both Millennials and Baby Boomers as a lifestyle destination. With absorption keeping pace with construction, occupancy for stabilized properties was 95% as of November. With demand remaining high, we expect rents to grow by a robust 5.5% in 2017.
- Growth was widespread last year, with 44 out of 72 markets increasing 5% or more over the 12 months through December. Norland (17.3%), North Miami Beach (14.3%), Liberty City-Brownsville (12.3%), Riviera Beach (11.6%), Allapattah (10.6%) and North Beach (10.5%) registered double-digit rent increases.

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



Source: YardiMatrix

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

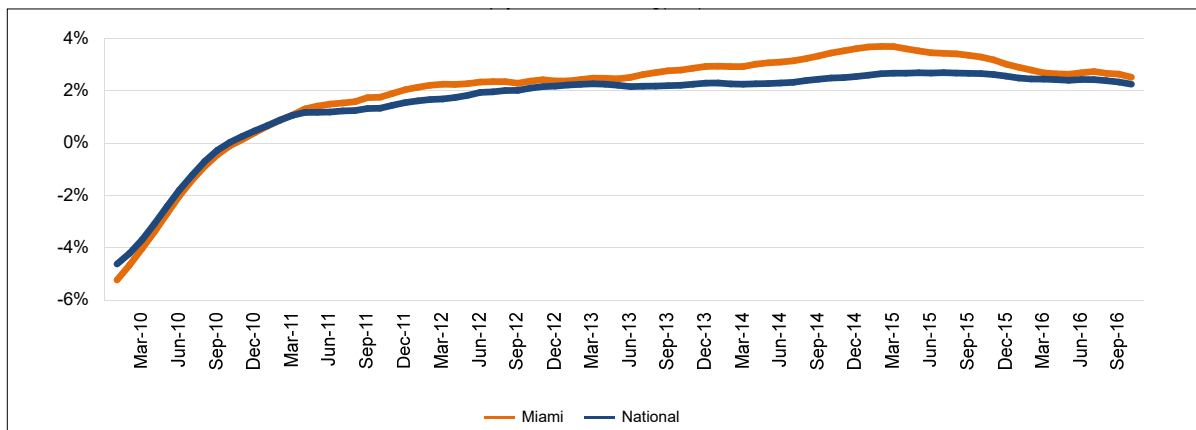


Source: YardiMatrix

Economic Snapshot

- In the 12 months ending in December, Miami added 49,500 jobs, resulting in an employment growth of 2.5%, slightly above the national rate of 2.3%.
- Growth was led by professional and business services, which added 15,000 positions, representing more than one-quarter of the newly created jobs. The segment was boosted by the metro's large finance and insurance sector and a high concentration of international banks. We expect growth to continue in this sector, as the Navy Federal Credit Union has announced the intention to add 10,000 jobs by 2019. To a large extent, Miami's appeal to foreign capital sources is also driving job growth.
- Nearly half of the local workforce is employed in Miami's traditional segments: trade, transportation and utilities, as well as leisure and hospitality. These sectors benefited from increased port traffic that paved the way for infrastructure improvements such as the upcoming \$150 million expansion of PortMiami, to be developed by Royal Caribbean Cruises Ltd. The new cruise terminal is expected to handle 1.8 million passengers annually.
- Nearly 1 million square feet of office space is scheduled to be delivered in 2017. Due to the strong multi-sector development pipeline, the Miami construction segment added 3,800 new jobs in 2016.

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



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

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

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	426	17.0%	15,000	3.7%
40	Trade, Transportation and Utilities	596	23.8%	10,100	1.7%
70	Leisure and Hospitality	313	12.5%	8,600	2.8%
65	Education and Health Services	380	15.2%	6,400	1.7%
55	Financial Activities	182	7.3%	4,600	2.6%
15	Mining, Logging and Construction	46	1.8%	3,800	8.9%
90	Government	309	12.3%	1,100	0.4%
80	Other Services	123	4.9%	600	0.5%
30	Manufacturing	84	3.4%	-100	-0.1%
50	Information	48	1.9%	-600	-1.2%

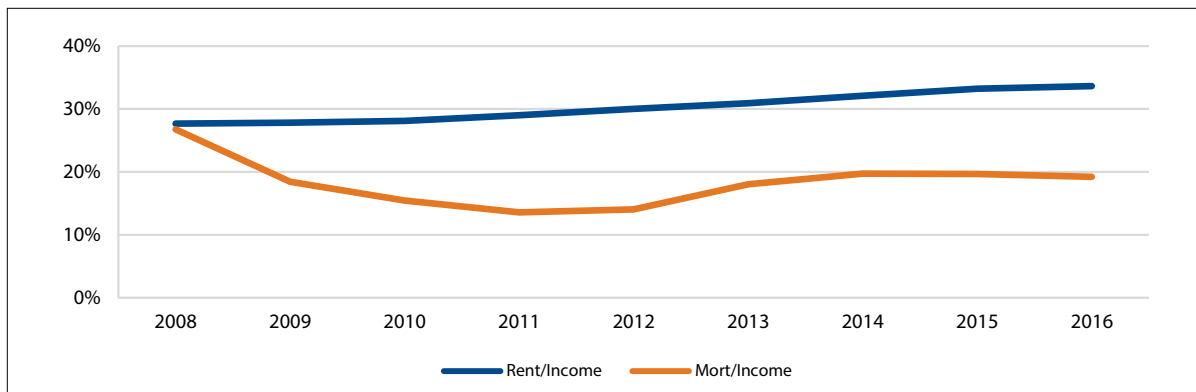
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

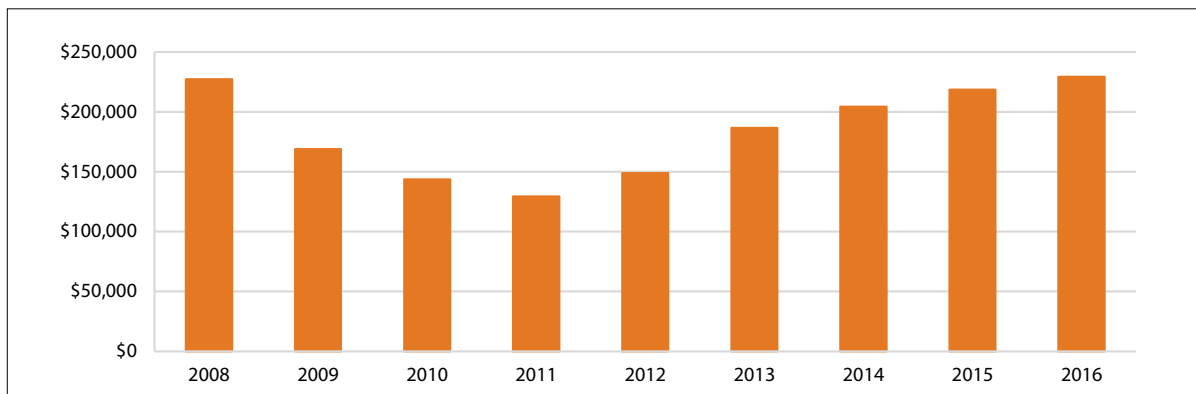
- As a result of the above-trend job growth and the considerable increase in population, home prices in Miami have continued to grow, ending the year with a median home value of \$229,143. Despite the increase in home prices, homeownership is still more affordable, as the average rent accounts for 34% of the median income, while the average mortgage accounts for 19%. The metro has the most cost-burdened renters in the country.
- With the homeownership rate hitting a new low, investor interest in multifamily remains encouraging. However, Florida continues to be one of the least affordable states in the nation as developers avoid building affordable housing due to high construction costs.

Miami Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Miami Median Home Price



Source: Moody's Analytics

Population

- Metro Miami added 75,000 residents in 2015, 15 basis points above the 0.8% national rate.
- The pool of renters in Miami remained strong, despite a lack of affordable options.

Miami vs. National Population

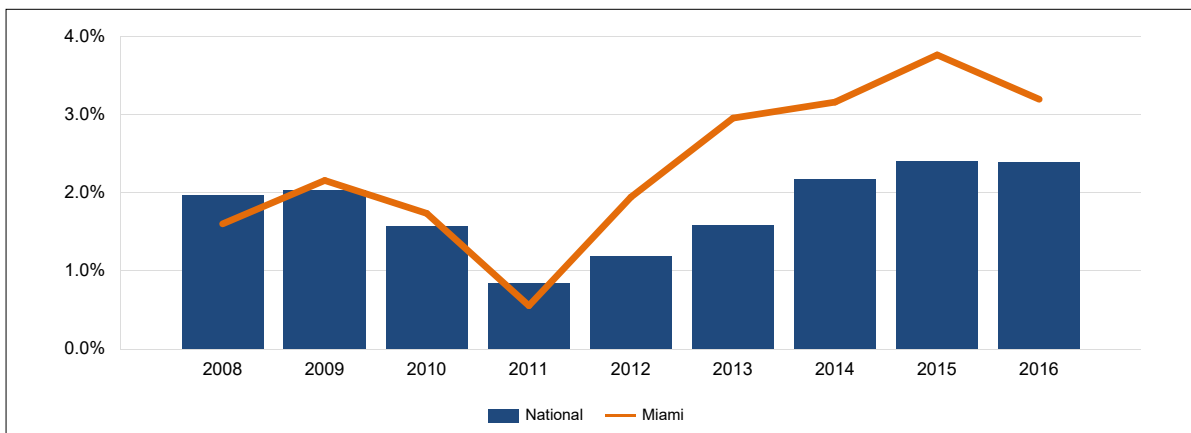
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Miami Metro-politan Statistical Area	5,706,159	5,788,070	5,861,337	5,937,100	6,012,331

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

Supply

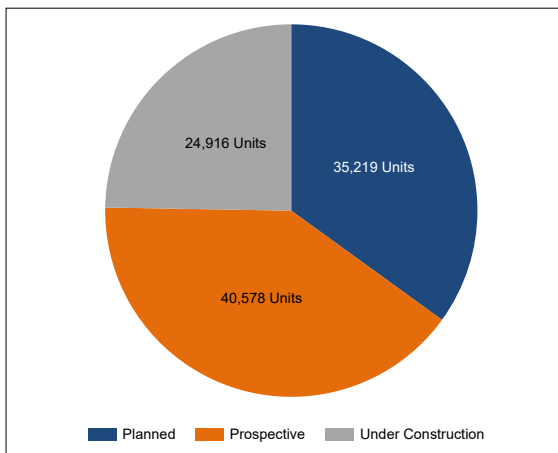
- Cranes are omnipresent in Miami. Some 8,182 units were completed in 2016, increasing the total stock by 3.2%, which was well above the national rate of 2.4%. Due to a rapid population growth and a surge in home prices, new apartment construction is in demand and the oncoming supply will be quickly absorbed.
- Development has accelerated in the metro, where 100,000 units were in the pipeline as of December. Out of these, 24,000 units were under construction, while more than half of the planned units were prospective, meaning they could be delayed if the current level proves to be too much to absorb.
- Downtown Miami led development growth in the metro, with nearly 2,900 units underway. Other submarkets with more than 1,000 units were Boynton Beach (1,289), Brickell (1,269) and Glenvar Heights (1,128). Panorama Tower represents the majority of square footage under development in Brickell. Located at 1101 Brickell Ave., the high-rise ranks as Miami's largest project and will add 821 units by the end of 2017.
- Miami will continue to attract international residents—unless, of course, an economic slowdown occurs overseas. Many foreign investors own condominiums and put them up for rent, which competes with multifamily offerings.

Miami vs. National Completions as a Percentage of Total Stock (as of December 2016)



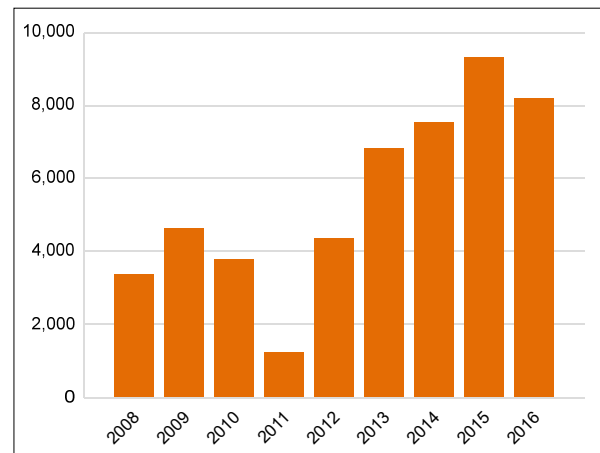
Source: YardiMatrix

Development Pipeline (as of December 2016)



Source: YardiMatrix

Miami Completions (as of Dec. 2016)

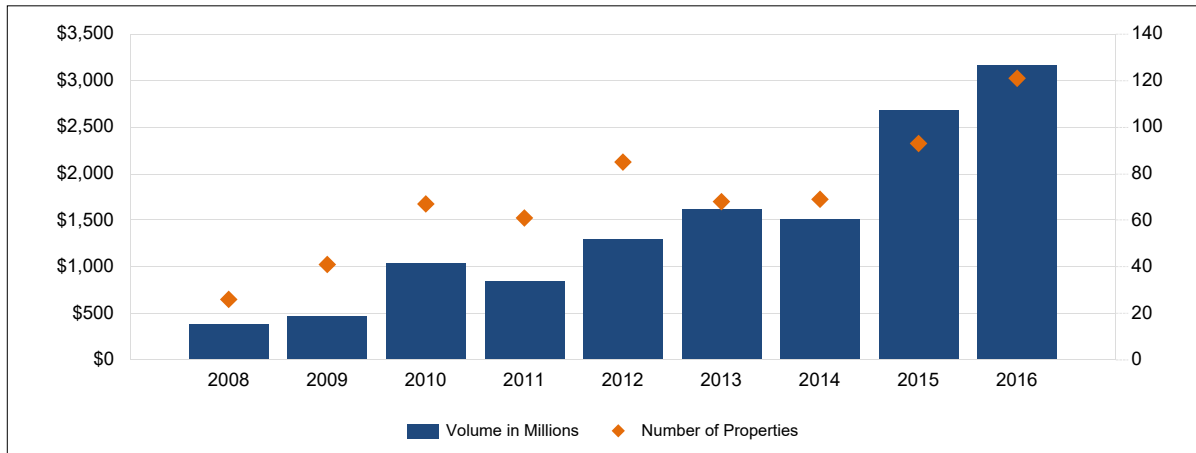


Source: YardiMatrix

Transactions

- Investment grew considerably in the Miami metro year-to-date through December, crossing the annual \$3 billion mark for the first time in the current cycle. Miami remains a popular option for foreign investors with a long-term strategy, as investment in American multifamily assets may protect them from currency fluctuations. Foreign activity has led to a steady price-per-unit growth that brought it to just below the \$160,000 mark at the end of the year.
- The busiest submarkets over the past 12 months were Boca Raton and West Palm Beach, with a combined total of more than \$340 million in investment volume. Other transaction-heavy submarkets included South Miami (\$152 million), Palm Springs (\$151 million) and Sandalfoot Cove (\$148 million). The most active buyer was Starwood Capital Group, with \$546 million worth of properties purchased in the past year.

Miami Sales Volume and Number of Properties Sold (as of December 2016)



Source: YardiMatrix

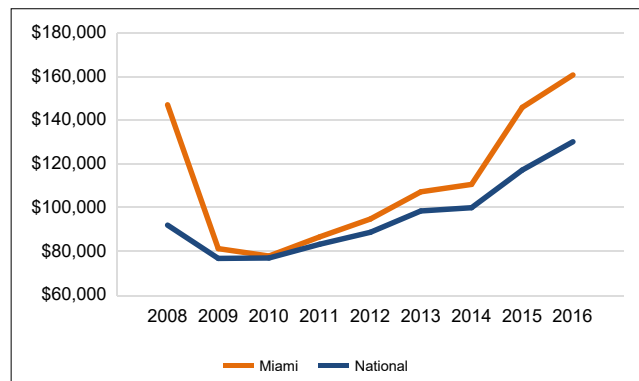
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Boca Raton–East	170
West Palm Beach	170
South Miami	152
Palm Springs	151
Sandalfoot Cove	148
North Miami	143
Hollywood	143
Delray Beach	141

Source: YardiMatrix

¹ From January to December 2016

Miami vs. National Sales Price per Unit



Source: YardiMatrix

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Work Begins on Miami's
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CBRE in Miami



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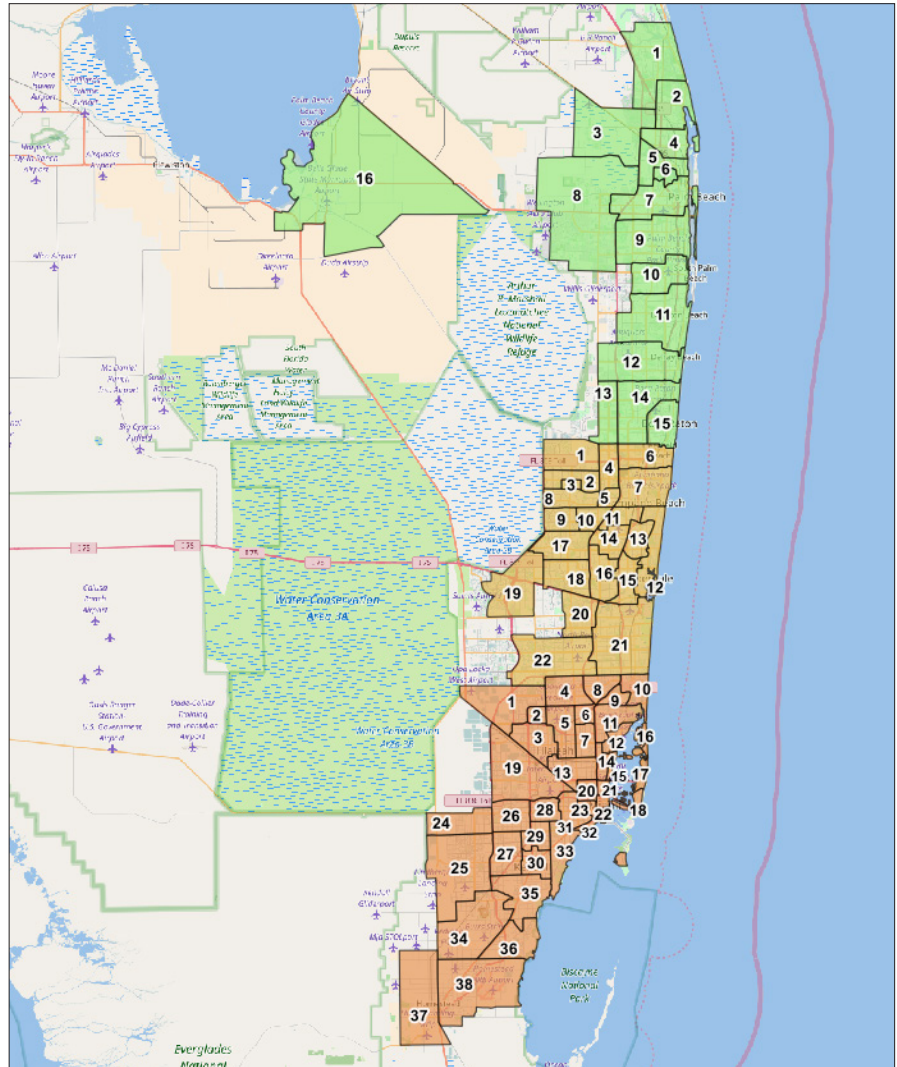
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Miami Submarket Map

Area #	West Palm Beach Submarket
1	Jupiter
2	North Palm Beach
3	Palm Beach Gardens
4	Riviera Beach
5	Palm Beach Shores
6	Mangonia Park
7	West Palm Beach
8	Royal Palm Beach
9	Palm Springs
10	Atlantis
11	Boynton Beach
12	Delray Beach
13	Sandfoot Cove
14	Boca Raton–West
15	Boca Raton–East
16	Belle Glade

Area #	Ft. Lauderdale Submarket
1	Parkland
2	Coral Springs–North
3	Coral Springs–Central
4	Coconut Creek–North
5	Coconut Creek–South
6	Deerfield Beach
7	Pampano Beach/Lighthouse Point
8	Coral Springs–South
9	Tamarac
10	North Lauderdale
11	Palm Aire
12	Fort Lauderdale–East
13	Oakland Park
14	Lauderdale Lakes
15	Fort Lauderdale–West
16	Lauderhill
17	Sunrise
18	Plantation
19	Weston
20	Davie
21	Hollywood
22	Pombrake Pines



Area #	Miami Submarket
1	Country Club
2	Miami Lakes
3	Hialeah
4	Miami Gardens
5	Opa–Locka
6	Bunche Park
7	West Little River
8	Norland
9	North Miami Beach
10	Golden Beach
11	North Miami
12	Miami Shores
13	Liberty City–Brownsville

Area #	Miami Submarket
14	Little Haiti
16	North Beach
17	Mid Beach
18	South Beach
19	Doral
20	Allapattah
21	Edgewater–Wynwood
22	Downtown Miami
23	Little Havana
24	Tamiami
25	Kendale Lakes
26	Fountainbleau
27	Sunset

Area #	Miami Submarket
28	West Miami
29	South Miami
30	Glensvar Heights
31	Coral Way–Flagler
32	Brickell
33	Coconut Grove
34	South Miami Heights
35	Kendall
36	Cutler Bay
37	Florida City
38	Homestead

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.

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