



**YARDI**<sup>®</sup> Matrix

# Tourism Sparks Orlando's Boom

Multifamily Report Spring 2017



**Diversified Economy  
Fuels Demand**

**Construction  
Activity Soars**

**Suburbs Lead  
Rent Surge**

## Market Analysis

Spring 2017

### Contacts

#### Paul Fiorilla

Associate Director of Research  
Paul.Fiorilla@Yardi.com  
(800) 866-1124 x5764

#### Jack Kern

Director of Research and Publications  
Jack.Kern@Yardi.com  
(800) 866-1124 x2444

### Author

#### Robert Demeter

Associate Editor

## Record Growth Drives Construction

Orlando's multifamily market is expanding rapidly as a result of its strengthening economic fundamentals. Its increasing population and employment make it one of the country's fastest-growing cities. The rental market benefits from an inflow of young professionals, which are drawn to affordable housing, a growing job base and a high quality of life.

The city added 54,000 jobs in 2016, up 4% year-over-year—a figure nearly twice the national average. Tourism remains Orlando's economic pillar: The leisure and hospitality segment created the most new jobs. However, other employment segments are seeing robust expansion, thanks to increasing economic diversification. For example, the education and health care and the construction sectors each added more than 10,000 jobs in 2016.

Rapid economic expansion sparked a flurry of activity in the multifamily market. Construction is booming, with more than 7,000 multifamily units coming online in 2016 and 10,000 under construction. Supply was concentrated in the suburbs to the north and south of the city center. Investor demand is robust, with more than \$2 billion in properties changing hands during each of the past two years. We expect strong demand for housing to persist, with rents rising 5.8% in 2017, though the amount of supply will temper growth to some extent.

## Recent Orlando Transactions

525 Avalon Park



City: Orlando  
Buyer: Preferred Apartment Communities  
Purchase Price: \$93 MM  
Price per Unit: \$189,938

Allora at Lake Lotus



City: Altamonte Springs, Fla.  
Buyer: Cortland Partners  
Purchase Price: \$79 MM  
Price per Unit: \$136,505

The Parkway at Hunter's Creek



City: Orlando  
Buyer: Milestone Group  
Purchase Price: \$78 MM  
Price per Unit: \$157,661

ARIUM Windermere

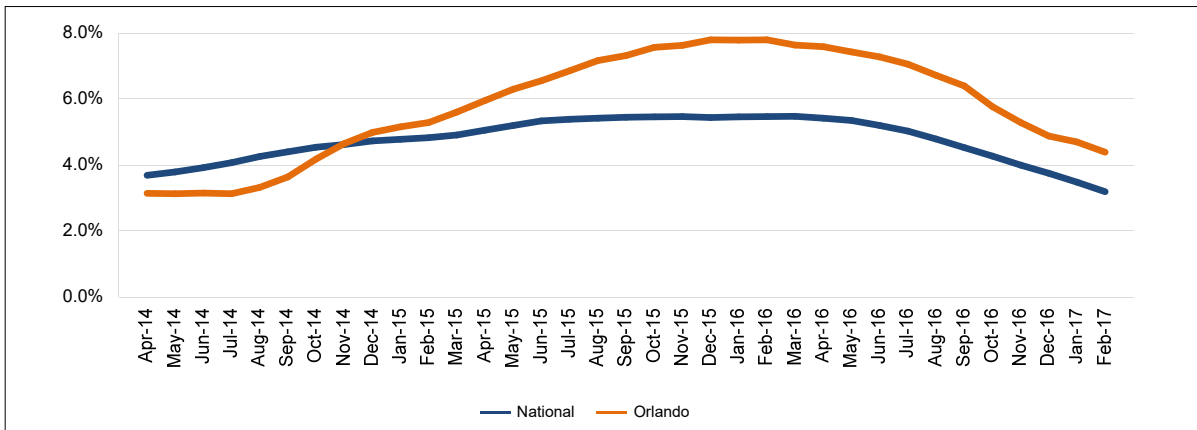


City: Ocoee, Fla.  
Buyer: Carroll Organization  
Purchase Price: \$71 MM  
Price per Unit: \$157,718

## Rent Trends

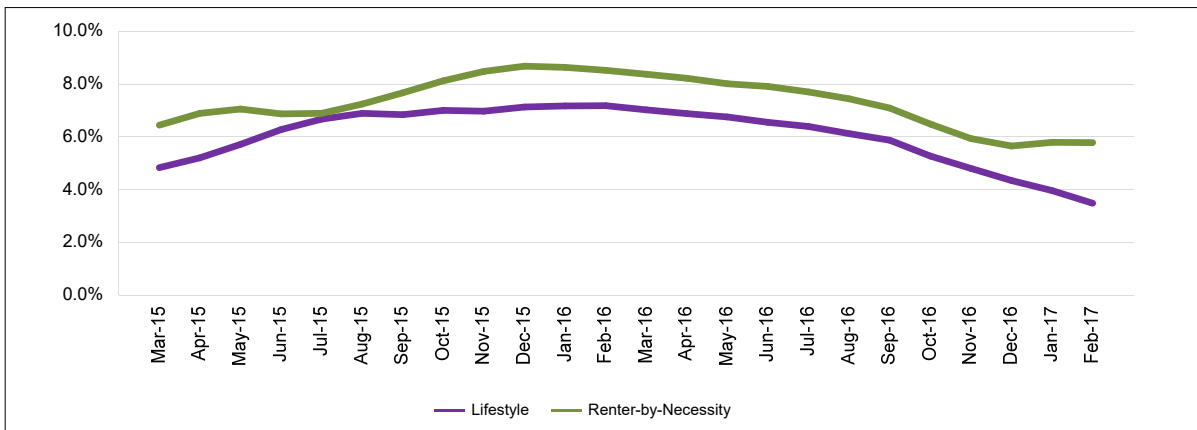
- Orlando rents rose 4.4% year-over-year through February, exceeding the national rate of 2.8%. Average rents are \$1,172 per month, lagging the \$1,306 national average. After topping out at 8% one year ago, rent growth decelerated, in part due to heavy supply growth over the past three years.
- The working-class Renter-by-Necessity segment led gains with a 5.8% year-over-year increase to an average of \$1,002. Rents in the upscale Lifestyle sector grew 3.5% to \$1,314. Stronger growth in the RBN segment underscored demand for affordable housing among lower-paid workers, especially those in the fast-growing hospitality and construction industries.
- Core submarkets are no longer leading the rent surge, as renters are drawn to more affordable suburban and coastal areas. Submarkets with the highest rent increases were Red Bug Lake (11.3%), Palm Bay (9.6%), Winter Garden (9%) and Pine Hills (8.8%).
- Population growth and solid employment gains will continue to fuel demand for apartments. We expect healthy rent growth of 5.8% this year, because the abundance of new supply will offset healthy demand.

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



Source: YardiMatrix

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

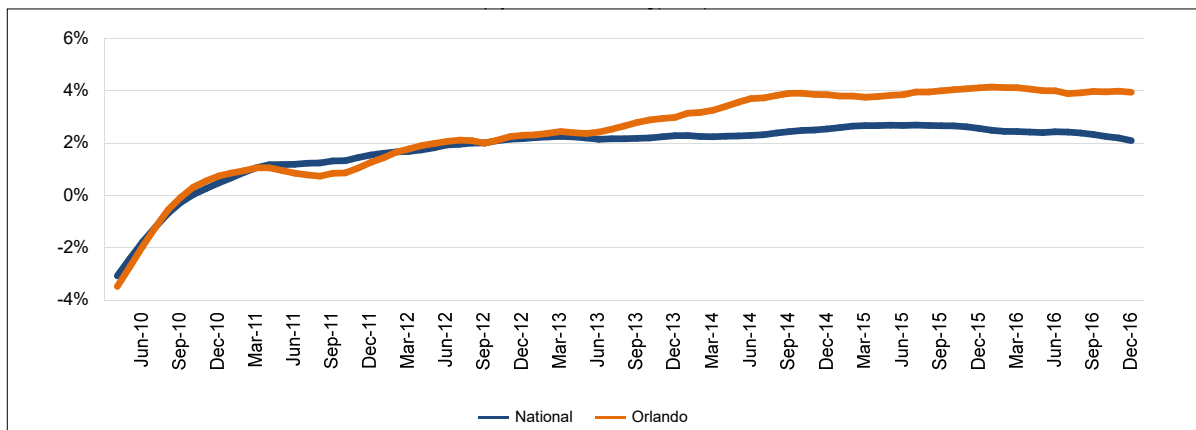


Source: YardiMatrix

## Economic Snapshot

- Orlando added 54,200 jobs during 2016, an increase of 4.0% year-over-year, nearly double the 2.1% national average and among the highest in the nation. Leisure and hospitality added the most jobs (16,800). Tourism remains the major economic driver in the region.
- The education and health care sector made 11,100 new hires year-over-year. Orlando has more than 30 colleges and universities that continue to supply the region with a young, educated workforce. The 1,025-acre Central Florida Research Park, the nation's seventh-largest office complex, is home to nearly 5,000 healthcare and life science companies. Solid expansion in this sector helps produce demand for apartments.
- Construction employment skyrocketed in 2016 with the addition of 10,000 jobs, representing a 13.3% increase. Major projects that are underway include the \$2.3 billion overhaul of Interstate 4 (I-4 Ultimate) and the \$1.8 billion expansion of Orlando International Airport.
- Growth in the health care, financial services and professional business services sectors has generated strong demand for office space. As a result, the vacancy rate in Orlando's office market dropped to about 12% at the end of 2016, the lowest since the recession.

### Orlando vs. National Employment Growth (Year-Over-Year)



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

### Orlando Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
70	Leisure and Hospitality	287	19.8%	16,800	6.2%
65	Education and Health Services	191	13.2%	11,100	6.2%
15	Mining, Logging and Construction	85	5.9%	10,000	13.3%
40	Trade, Transportation and Utilities	275	19.0%	6,800	2.5%
55	Financial Activities	82	5.7%	2,900	3.7%
60	Professional and Business Services	234	16.1%	2,000	0.9%
90	Government	153	10.6%	2,000	1.3%
30	Manufacturing	66	4.6%	1,400	2.2%
80	Other Services	52	3.6%	1,400	2.8%
50	Information	26	1.8%	-200	-0.8%

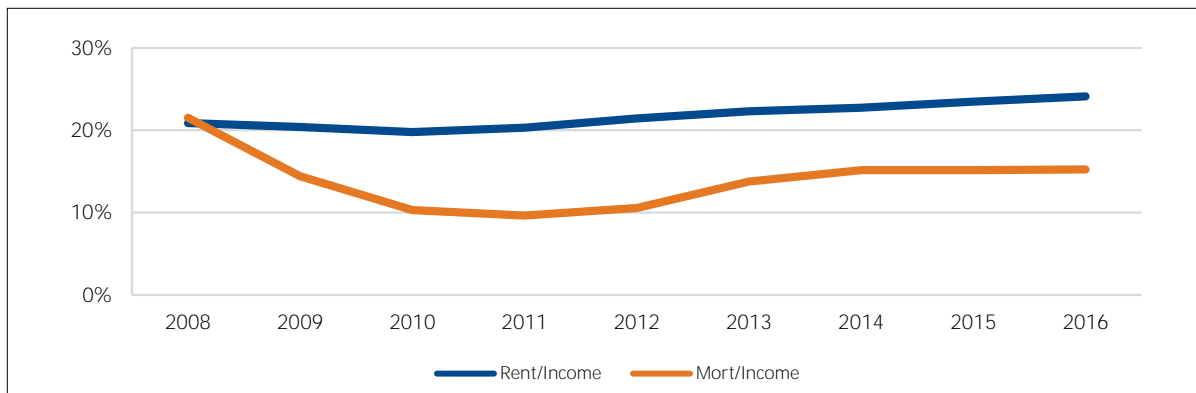
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

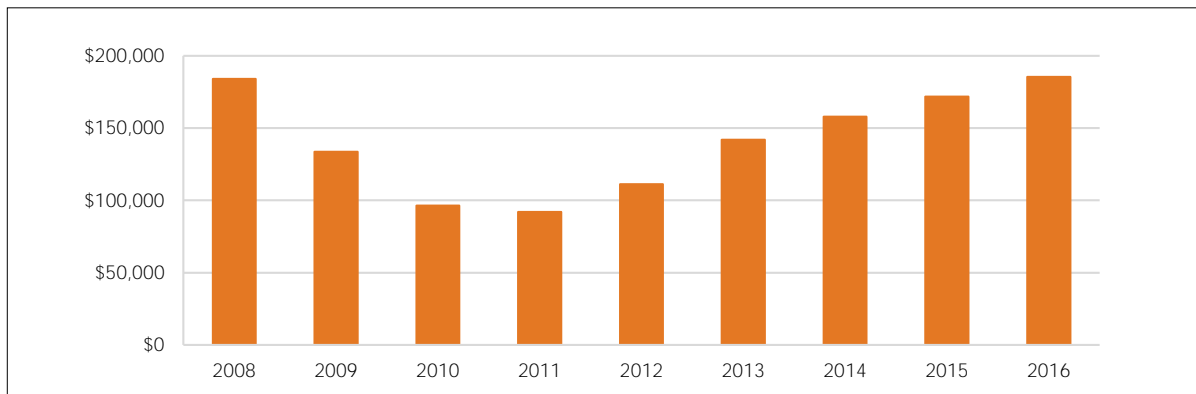
- Orlando has one of the most severe affordable housing problems in the U.S., according to a report by the National Low Income Housing Coalition. To combat the issue, the city of Orlando implemented the Affordable Housing Assistance Program, which provides incentives to developers to build units for low-income residents.
- Although the median price of a single-family home rose to \$185,500 in 2016, owning remains much more affordable than renting. The average mortgage payment represented 15% of the median household income in Orlando, compared to 24% for the average rent.

### Orlando Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

### Orlando Median Home Price



Source: Moody's Analytics

### Population

- Among the fastest-growing cities in the U.S., Orlando's population has increased 9.7% since 2011, tripling the 3.1% national average.
- The thriving tourism industry and diversified economy continue to drive growth.

### Orlando vs. National Population

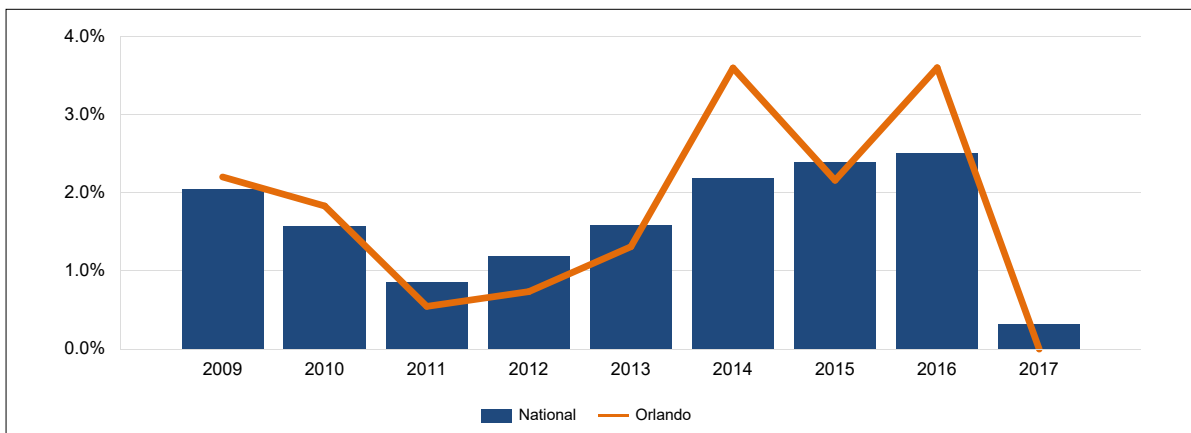
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Orlando-Kissimmee-Sanford, Fla., Metropolitan Statistical Area	2,176,212	2,226,601	2,272,395	2,326,729	2,387,138

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

## Supply

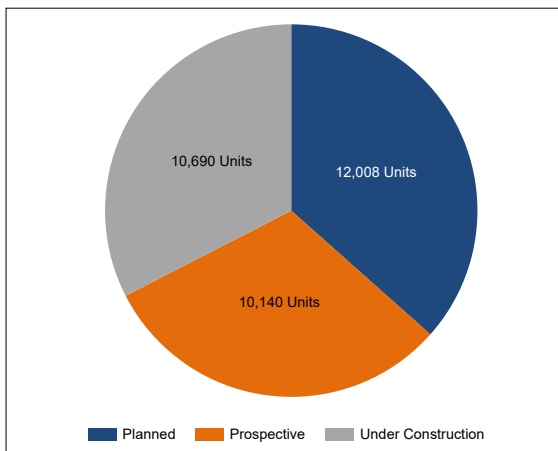
- Orlando's multifamily development pipeline is robust, with more than 7,000 units coming online in 2016. Inventory grew by 3.6%, 110 basis points above the national average and on par with 2014's cyclical high. A rising population and strengthening employment fueled consistent growth.
- While the amount of construction may create concerns about overbuilding, housing demand is expected to remain robust, and absorption should continue to be strong. The average occupancy rate for stabilized properties was 95.6% in January.
- Supply is likely to remain elevated for the next few years, with roughly 11,000 units under construction and more than 30,000 in various stages of development. The bulk of the pipeline is concentrated in the rapidly growing suburban areas to the north and south of the city's core.
- Colonial Town (932 units), Lake Bryan (883), Weathersfield (678), Lake Buena Vista (662) and Altamonte Springs (641) are the submarkets with the highest gains in supply. The largest project scheduled for completion this year is Charleston-based Greystar's 449-unit Elan Audubon Park in Colonial Town.

### Orlando vs. National Completions as a Percentage of Total Stock (as of February 2017)



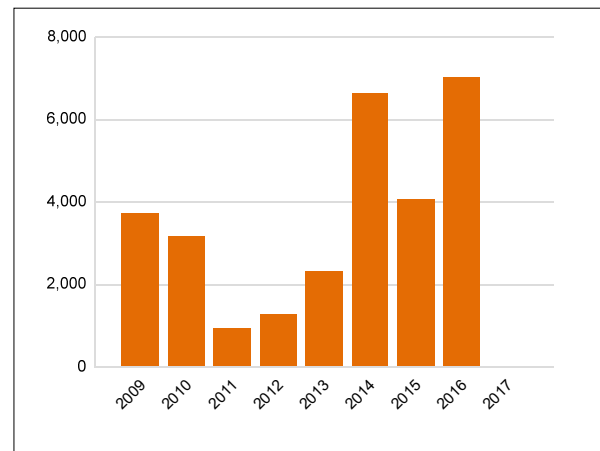
Source: YardiMatrix

### Development Pipeline (as of February 2017)



Source: YardiMatrix

### Orlando Completions (as of February 2017)

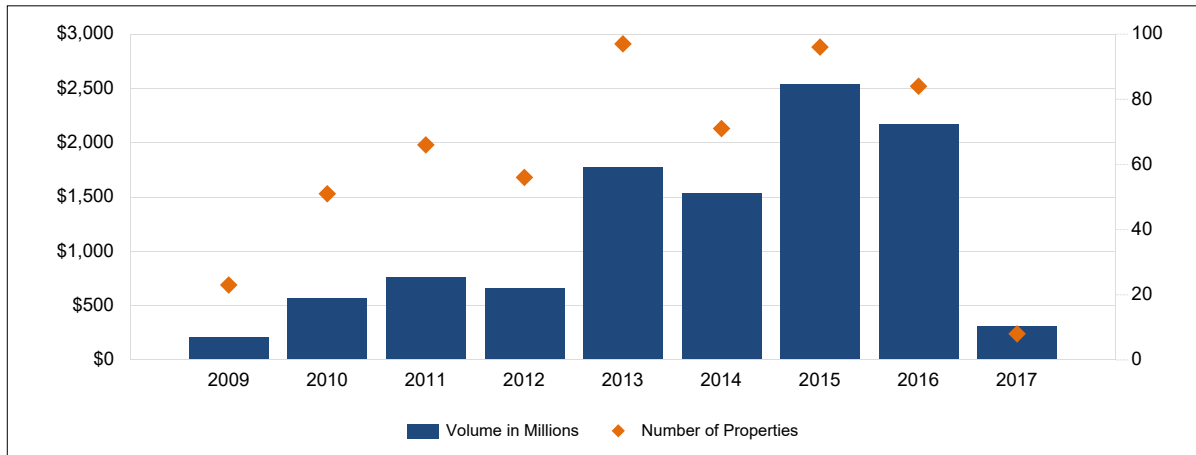


Source: YardiMatrix

## Transactions

- Some \$2.2 billion in multifamily assets traded in 2016. Although volume declined from the \$2.5 billion cyclical high reached in 2015, demand has remained healthy. In just the first two months of the year, \$311 million in properties had changed hands. With investor demand remaining consistent, the average price per unit continued to rise as of February, hitting \$114,612, which is below the national average.
- Acquisition yields are in the 5% range for high-end properties and the 6% to 7% range for Class B and C assets. Buyers are concentrating on value-add investments, primarily Renter-by-Necessity assets in key locations, which generate higher yields than properties in larger regional markets such as Miami or Atlanta.
- The Melbourne and Gotha/Orlovista submarkets led in sales volume in the year ended in February. At \$93 million, or \$189,938 per unit, the 487-unit 525 Avalon Park was the largest transaction.

### Orlando Sales Volume and Number of Properties Sold (as of February 2017)



Source: YardiMatrix

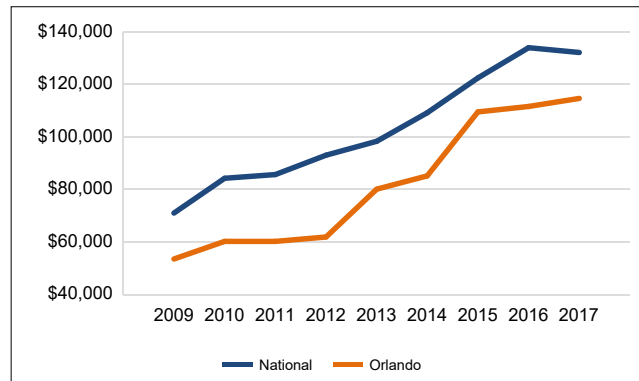
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Melbourne	177
Gotha/Orlovista	171
Stoneybrook	137
Goldenrod	134
Forest City	122
University Park	102
Oak Ridge–West	92
Red Bug Lake	89

Source: YardiMatrix

<sup>1</sup> From March 2016 to February 2017

### Orlando vs. National Sales Price per Unit



Source: YardiMatrix

# Read All About It!



CBRE Arranges \$36.1M  
Financing for Unicorp



Florida's Space Coast  
Lands New Addition



Robbins Electra Adds 3 New  
Assets to Southeast Portfolio



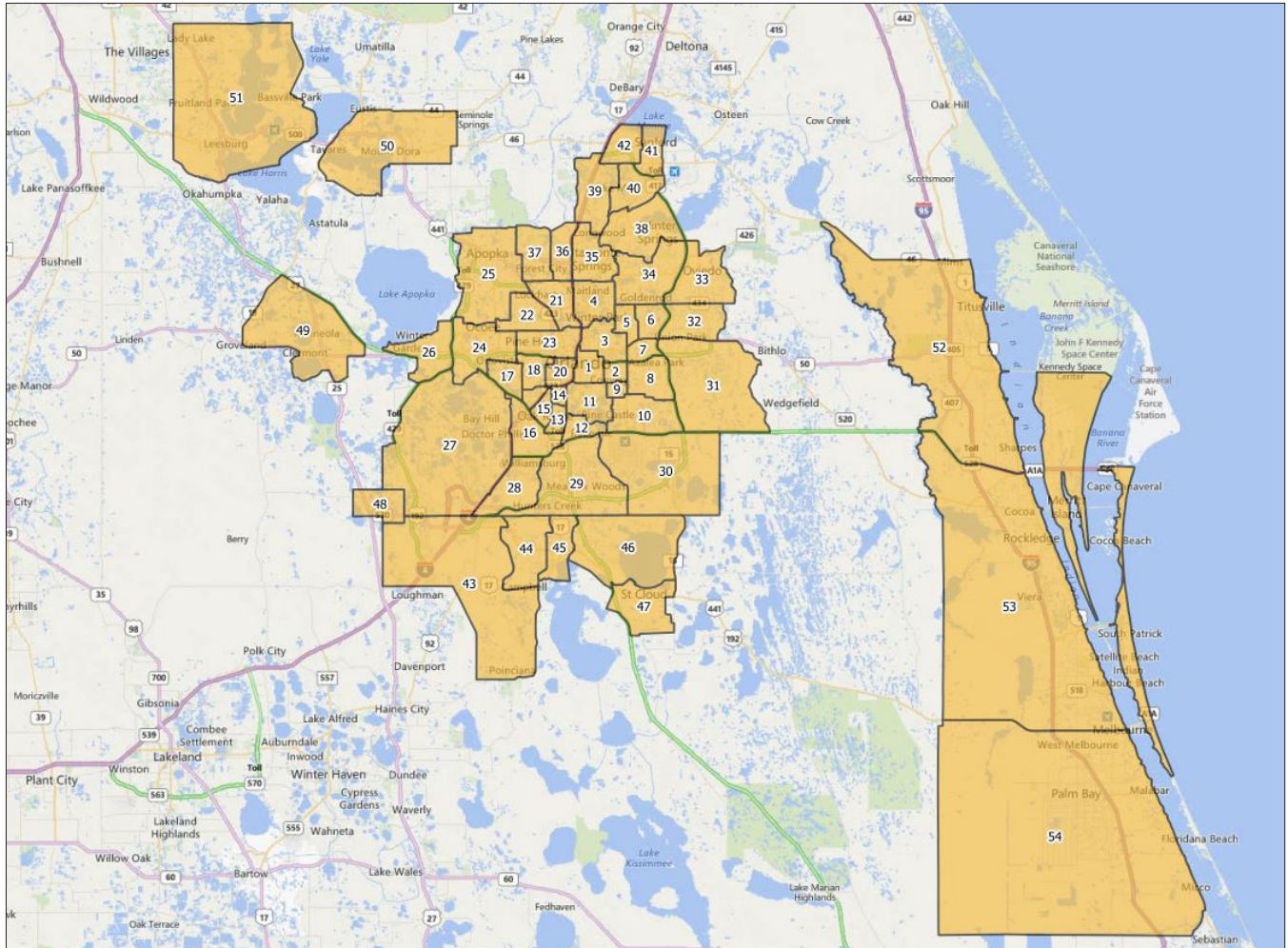
Stan Johnson Sells  
Central Florida Portfolio  
For \$28M

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## Orlando Submarkets



Area #	Submarket
1	Downtown Orlando
2	Azalea Park
3	Colonial Town
4	Winter Park/Maitland
5	Aloma
6	Goldenrod
7	Union Park
8	Edgewood Park
9	Conway
10	Vista Park
11	Edgewood
12	Belle Isle
13	Oak Ridge
14	Lake Catherine
15	Millenia
16	Florida Center
17	Kirkman
18	Lake Richmond

Area #	Submarket
19	Florida Center North
20	Holden Heights
21	Lockhart
22	Rosemont
23	Pine Hills
24	Gotha/Orlovista
25	Apopka/Piedmont
26	Winter Garden
27	Lake Buena Vista
28	Lake Bryan
29	Hunter's Creek
30	Lake Nona
31	Stoneybrook
32	University Park
33	Oviedo
34	Red Bug Lake
35	Altamonte Springs
36	Weathersfield

Area #	Submarket
37	Forest City
38	Longwood
39	Lake Mary
40	Elder Springs
41	Sanford
42	Lake Monroe
43	Celebration
44	West Kissimmee
45	East Kissimmee
46	Fish Lake
47	St. Cloud
48	Hancock Lake
49	Clermont
50	Mt. Dora
51	Leesburg
52	Titusville
53	Melbourne
54	Palm Bay

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## 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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