

**YARDI**® Matrix

# Jacksonville's Rapid Growth

Multifamily Report  
Spring 2017

**Renters Flock to Beachside Amenities**

**Record-Breaking Tourism Propels Sector Job Gains**

**Sales Volume Hits Post-Bubble Peak**

## Market Analysis

Spring 2017

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## Where Florida Begins, Expansion Prevails

A healthy employment climate, an inexpensive cost of living and mild weather are attracting jobs and new residents to Jacksonville, creating demand for apartments and bolstering rent growth.

Tourism made the most new hires and grew more here than in all other Florida cities. The latest entertainment project, a Topgolf venue near the St. Johns Town Center, brought more than 500 jobs to the area. Another strong sector is health care, which attracted employers such as Formativ Health. Founded as a partnership of Northwell Health, New York's largest healthcare provider, and Pamplona Capital Management, the company is set to bring another 500 jobs to the area. On the retail front, Amazon, which has been one of Florida's best job creators over the past few years, is opening its first fulfillment center in Jacksonville by the end of the year and employing 1,500 people. A second facility is expected to create an additional 1,000 jobs. By the end of the year, IKEA, the Swedish home furnishing giant, will open a new store projected to hire 250 people.

With vacancy under 5%, a relatively small amount of inventory underpins the need for more apartments. Development is set to ramp up, though, with more than 4,500 units under construction as of March. Investment activity peaked at \$916 million in 2016. We expect absorption to keep up with the new supply coming online in 2017, leading to continued rent growth this year.

## Recent Jacksonville Transactions

Paradise Island



City: Jacksonville, Fla.  
Buyer: DRA Advisors  
Purchase Price: \$120 MM  
Price per Unit: \$107,914

The Strand



City: Jacksonville, Fla.  
Buyer: John Rumpel  
Purchase Price: \$65 MM  
Price per Unit: \$218,283

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

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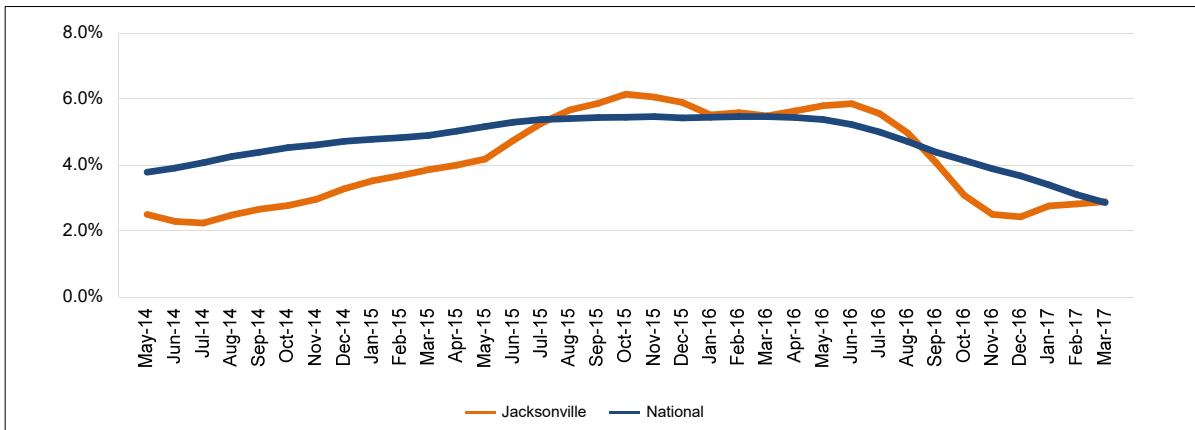
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## Rent Trends

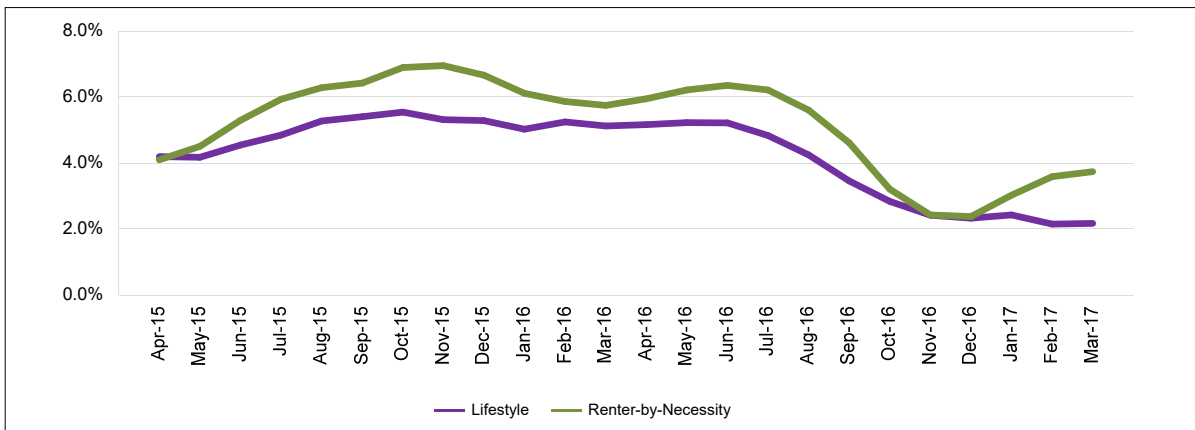
- Rents in Jacksonville rose by 2.9% year-over-year through March, faster than the 2.7% U.S. growth rate. The average rent reached \$969, which is significantly below the \$1,312 national average. With an increasing number of families, professionals and retirees moving to the area, apartment demand remains strong, and occupancy of stabilized properties was 94.7% through February.
- Rents in the working-class Renter-by-Necessity segment rose 3.7% to \$819, while Lifestyle rents rose 2.2% to \$1,137. Demand comes from Millennials and Baby Boomers, who are looking for amenities, including proximity to shopping and entertainment venues around the beach or city core.
- Central and coastal areas experienced the highest rent hikes, including Hilliard, Goodbye, Dinsmore, Ponte Vedra Beach, Sunbeam, San Jose, Bayard and Bellair. In College Park/Springfield—one of the metro’s most expensive apartment submarkets—a large number of units came online last year. Despite a spike in supply, rents in that submarket declined by 3.1%, the strongest year-over-year decrease as of March.
- We expect absorption to keep up with the number of new units coming online this year. Demand will continue to outpace supply, and we forecast rents to increase by 3.1% in 2017.

### 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)

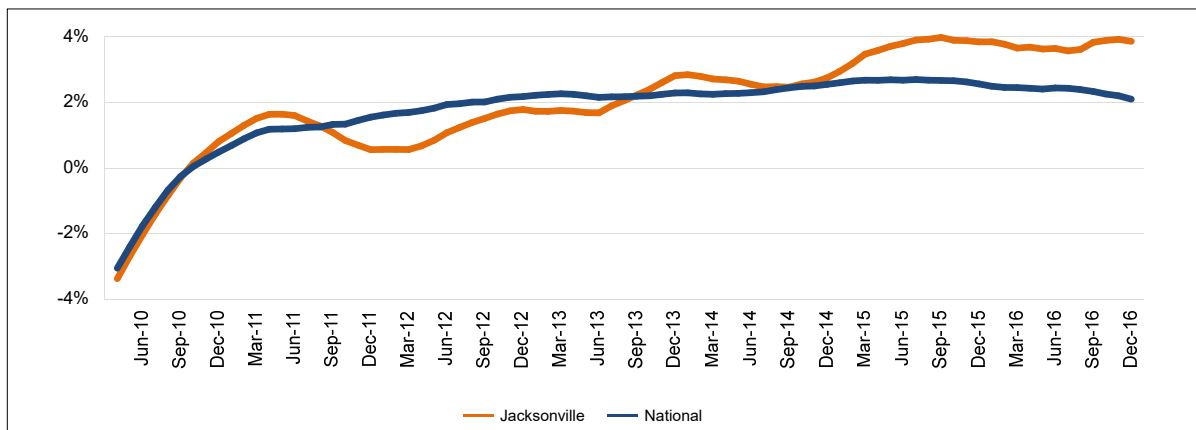


Source: YardiMatrix

## Economic Snapshot

- Jacksonville added 22,100 jobs through December, a 3.9% increase, well above the 2.1% national average. Due to an improving job market, the metro's unemployment rate dropped to 4.5% in February, down 70 basis points from January, according to the Florida Department of Economic Opportunity. At 3.6% percent, St. Johns County had the second-lowest unemployment rate in the state.
- The leisure and hospitality industry led in employment gains, adding 6,800 jobs. According to the February Smith Travel Research Report, which tracks global hotel and tourism data worldwide, Jacksonville's tourism industry grew more than any other Florida cities', setting a new record. Occupancy this year was even higher than in February 2005, when the city hosted the Super Bowl and made \$35 million in revenue, setting a record for February for local hotels.
- Jacksonville's office market has had very little new supply since the last recession. Strong absorption at the end of 2016 left vacancies at a minimum. Development is starting to percolate; VanTrust Realty proposed 750,000 square feet, including a 160,000-square-foot Class A building on Gate Parkway that is under construction. Beach Break Academy's lease of 100,000 square feet at 6400 Atlantic Blvd. in Southside was the largest deal in the fourth quarter of 2016.

### 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	89	12.9%	6,800	8.2%
55	Financial Activities	66	9.6%	3,500	5.6%
65	Education and Health Services	104	15.1%	3,500	3.5%
40	Trade, Transportation and Utilities	143	20.8%	2,700	1.9%
15	Mining, Logging and Construction	39	5.7%	2,400	6.5%
60	Professional and Business Services	106	15.4%	2,100	2.0%
30	Manufacturing	31	4.5%	1,200	4.0%
80	Other Services	24	3.5%	800	3.5%
50	Information	9	1.3%	-200	-2.2%
90	Government	77	11.2%	-700	-0.9%

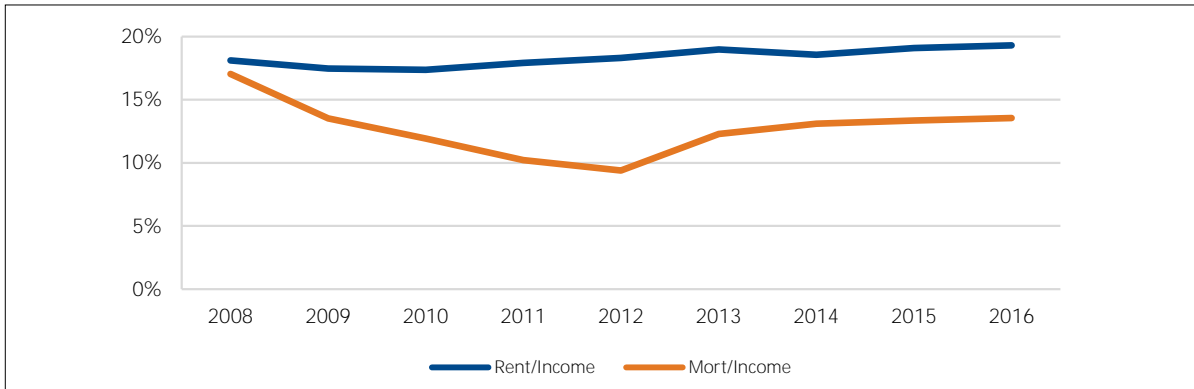
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

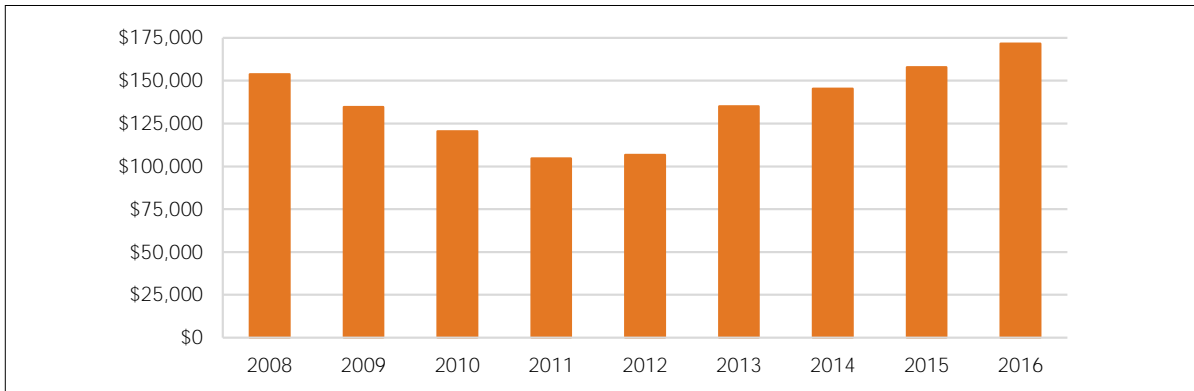
- The median home price in Jacksonville rose above \$171,725 in 2016, a high for the current cycle. The average mortgage accounted for 14% of the area median income, while the average rent of \$969 accounted for 19%.
- Builders are optimistic about the new home market as Jacksonville's inexpensive cost of living, good weather and strong job growth draw residents to the area. According to the Northeast Florida Association of Realtors, home sales in Northeast Florida in 2016 were the highest they've been since 2006.

### 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.
- The metro's population growth has quickened since 2014, with Duval County adding more people in 2016 than did 29 states.

### Jacksonville vs. National Population

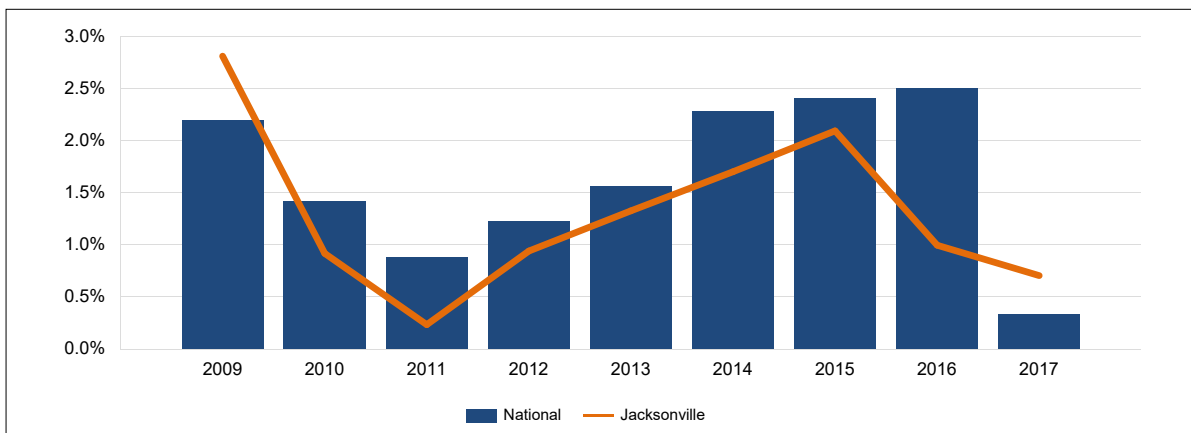
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Jacksonville, Fla., Metro	1,362,032	1,379,209	1,396,267	1,421,004	1,449,481

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

## Supply

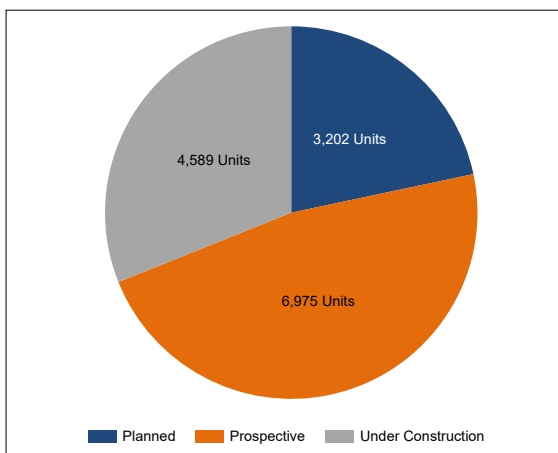
- Some 925 units were completed in 2016, representing a mere 1% year-over-year increase, well below the 2.5% national average, which Jacksonville has trailed for the past six years. This trend is due mostly to developers targeting other Florida markets.
- That said, development is on the rise; more than 4,500 units were under construction as of March, pushing the pipeline to exceed 14,000 units. The construction boom is needed, given strong demand for apartments. The city's population has been increasing in recent years, sustained by domestic and international newcomers. St. Johns County is among the fastest-growing counties in the U.S.; its population has expanded by about 20% since 2010, due in part to rapidly growing employment.
- The highest number of units under construction as of March were concentrated in submarkets near the city core and the beach, including Pineland Gardens (1,115 units), College Park/Springfield (945 units), Deerwood Club–West (560 units) and Bayard (416 units). The 552-unit The District Jacksonville is the largest development in the metro. It is part of a planned development—formerly the site of the Southside Generator Station—on the banks of the St. Johns River, slated for completion this year.

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



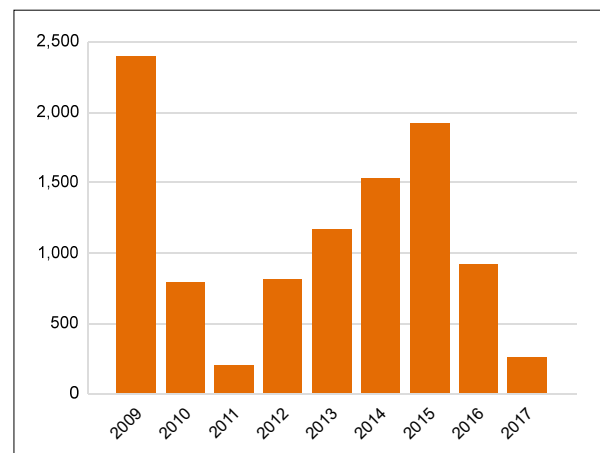
Source: YardiMatrix

### Development Pipeline (as of March 2017)



Source: YardiMatrix

### Jacksonville Completions (as of March 2017)

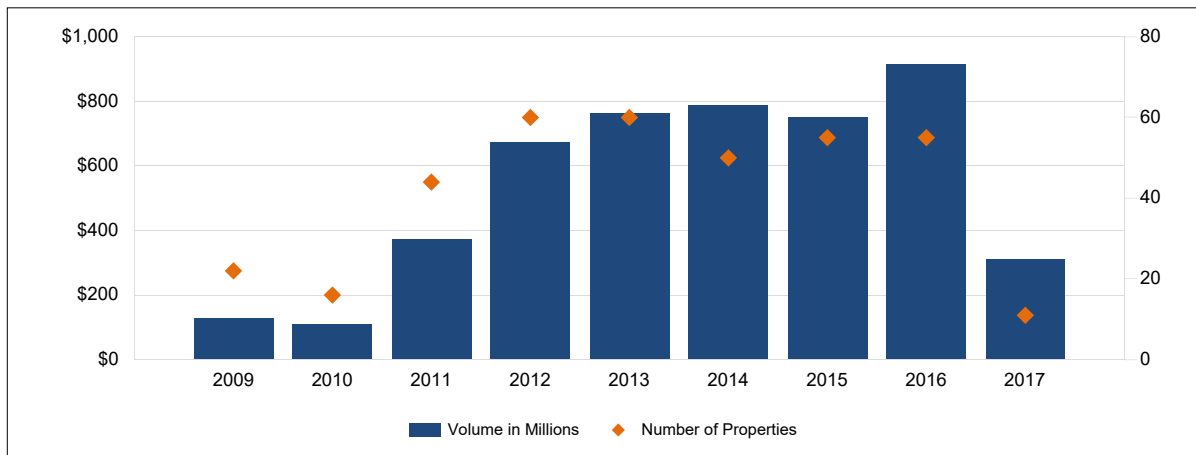


Source: YardiMatrix

## Transactions

- Sales volume in Jacksonville surpassed \$916 million in 2016, marking a cycle peak. Investors are increasingly interested in the market, given the rapid growth and higher yields, as compared to other Florida markets.
- Though it lagged the national average of \$133,070, the average price per unit hit \$84,741, also a cycle high. Considering the market's improving fundamentals, this trend is set to continue in 2017. As demand grows, acquisition yields are coming down, settling in the 4% range for stabilized Class A properties and the 5%-6% range for Class B/C properties.
- Investors particularly targeted Deerwood Club–West, College Park/Springfield and Newcastle. DRA Advisors' acquisition of 1,112-unit Paradise Island ranked as the largest multifamily transaction in Jacksonville as of March. The Class A property traded for \$107,914 per unit, significantly higher than the metro's average.

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



Source: YardiMatrix

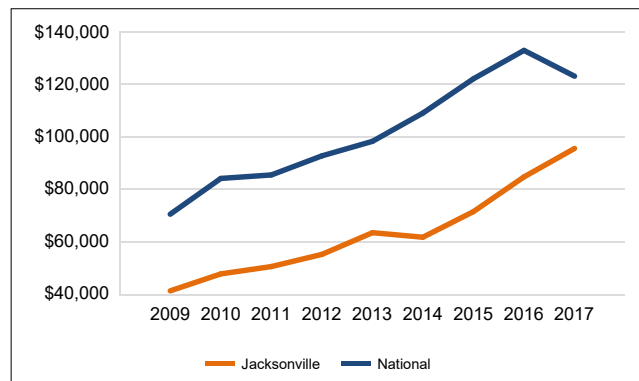
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Deerwood Club–West	\$176
College Park/Springfield	\$123
Newcastle	\$103
Bayard	\$79
Cedar Hills	\$74
San Pablo	\$71
Greenland	\$63
Goodbye	\$52

Source: YardiMatrix

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

### Jacksonville vs. National Sales Price per Unit



Source: YardiMatrix

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Trimark Breaks Ground  
On \$14M Luxury Community



Regency Centers Stockholders  
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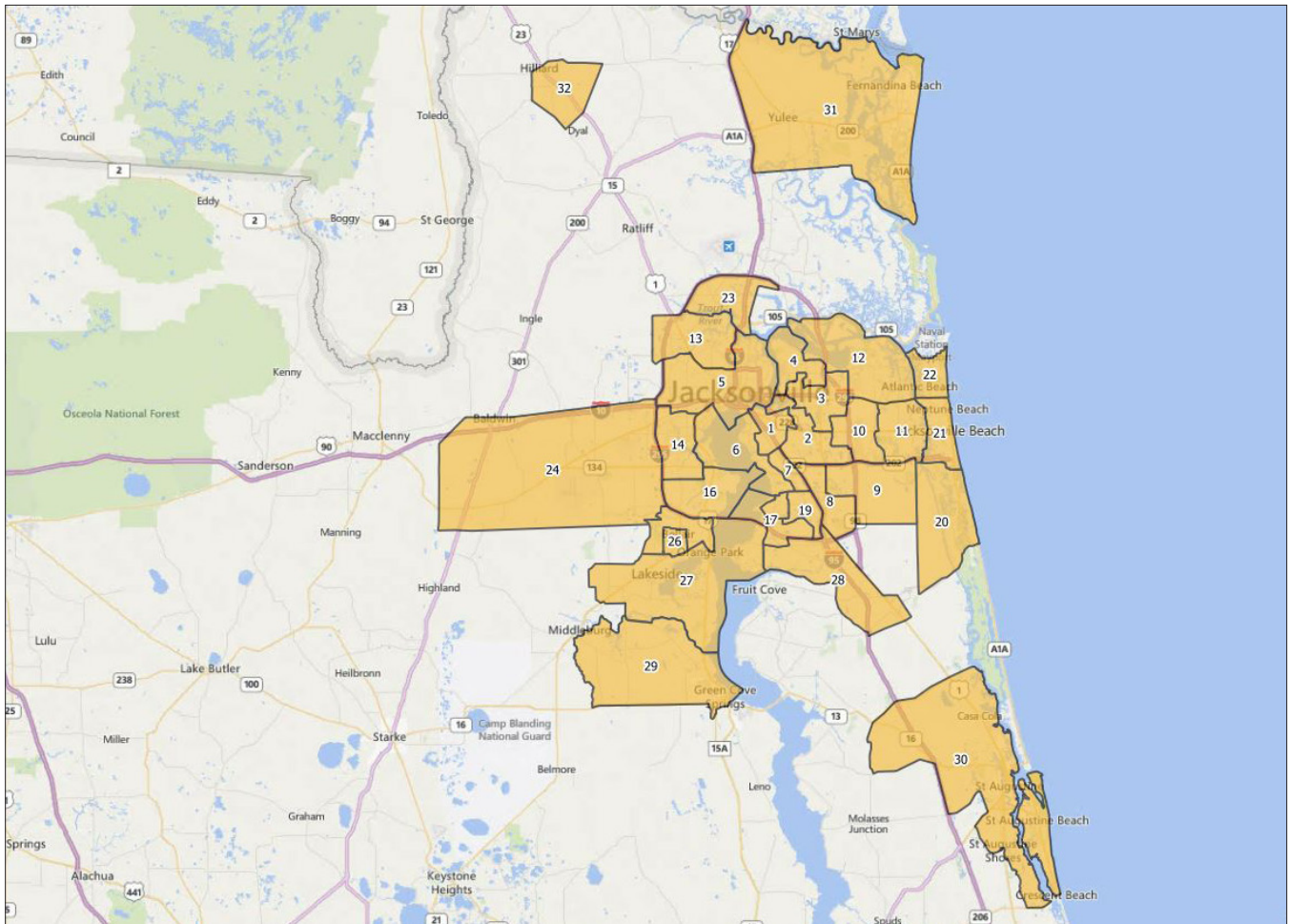
The Boulder Group Closes  
Walgreens Sale for \$5M

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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

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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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