Yardi® Matrix

Tourism's Power A Draw in Orlando

Multifamily Report Summer 2017

Suburbs Lead Rent Surge

Leisure, Hospitality Drive Job Growth

Investors Eye Luxury Assets

Market Analysis

Summer 2017

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Demand Creeps Ahead of Supply

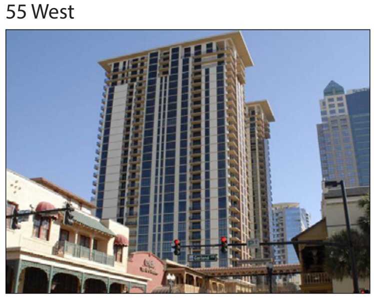
Orlando's multifamily market is thriving due to healthy tourism, above-trend population gains and a rapidly growing economy. An expanding young workforce—drawn by the area's high quality of life and live-work-play options—is fueling demand. As of June, the average rent was $1,222, trailing the U.S. average.

The metro is one of the fastest-growing employment markets in the country, adding 54,500 jobs year-over-year through May. Hospitality remains the city's main economic pillar, with professional and business services and trade and transportation also adding a significant number of jobs. The three sectors generated almost 50% of the metro's job growth. Construction is also booming, as a high number of infrastructure projects are underway, including the $2.3 billion overhaul of Interstate 4 and a new $1.3 billion train station.

New supply is growing fast to meet demand. More than 5,000 apartment units are slated for delivery by year-end, and 37,000 units are in the pipeline. However, with limited completions in the first half of the year, demand remains ahead of supply. There is also a shortage of affordable units, a growing concern for lower-paid workers, which represent the bulk of the workforce. As overall growth will continue to foster demand for the rest of 2017, Yardi Matrix expects a rent increase of 4.2% by year-end.

Recent Orlando Transactions

55 West



City: Orlando
Buyer: LivCor
Purchase Price: $105 MM
Price per Unit: $227,766

Allora at Lake Lotus

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

The District

City: Orlando
Buyer: Venterra Realty
Purchase Price: $79 MM
Price per Unit: $184,706

The Parkway at Hunter's Creek

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

To Subscribe

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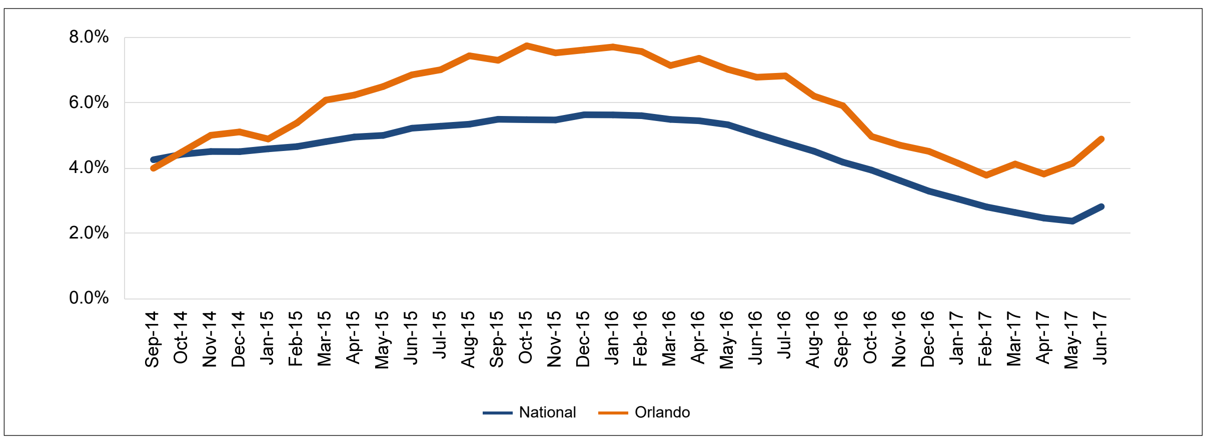
Rent Trends

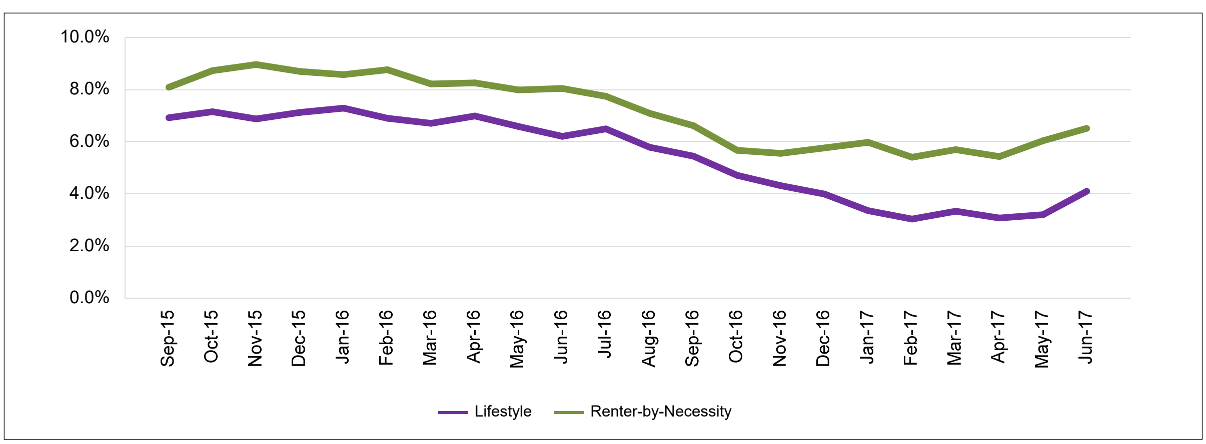
- Orlando rents rose 4.9% year-over-year through June, outpacing the 2.7% national rate. The average rent reached $1,222, more than $100 behind the U.S. average.
- The working-class Renter-by-Necessity segment led growth with a 6.5% year-over-year increase to an average of $1,031. Rents in the upscale Lifestyle sector grew by 4.1%, to $1,373. Stronger growth in the Renter-by-Necessity segment underscores a high demand for affordable housing among lower-paid workers, especially those in the fast-growing hospitality and construction industries. As these sectors are poised for further growth, the need for affordable rentals is also bound to increase, fueling rent hikes.
- Secondary submarkets are driving the rent surge as renters are drawn to less expensive suburban and coastal areas. The list of submarkets with rent growth above the 9.0% mark includes Hunter's Creek, Lake Mary, Rosemont, Apopka/Piedmont, Oak Ridge–East and Forest City. As of June 2017, Titusville ($756) was the most affordable submarket, while University Park ($1,719) was the most expensive.
- The metro's sizeable tourism industry, expanding population and above-trend job growth will continue to foster demand for rentals. Yardi Matrix forecasts a 4.2% increase in rents for the whole of 2017.

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

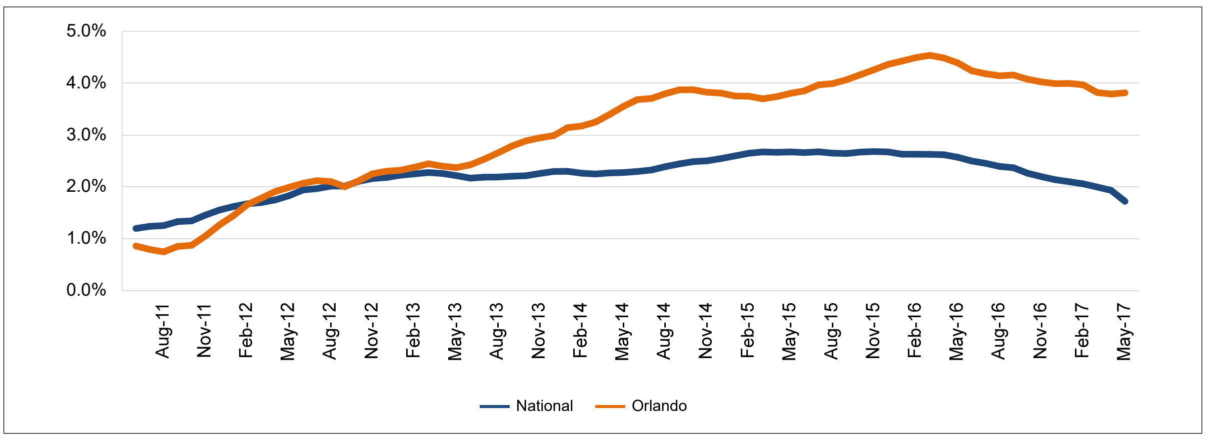
- Orlando added 54,500 jobs in the 12 months ending in May, a 3.8% increase, more than double the 1.9% national average and one of the highest growth rates in the nation.

- Leisure and hospitality added the most jobs (15,600). Tourism continues to remain the region's backbone, with Disney World and Universal Orlando maintaining the bulk of hospitality hiring. Despite lower hotel occupancy rates, last year Orlando saw a record of 68 million visitors, or more than 60% of the total 112.8 million people visiting Florida.

- Professional and business services added 11,200 jobs. The rising appeal of Orlando's office market is in part due to relatively affordable rates—asking rates are about $22—as businesses relocate from other markets. Such examples include the International Association of Amusement Parks & Attractions, AirCargo and Holiday Retirement. In the second quarter, 1.9 million square feet of office space traded for roughly $245 million, the largest deal being Brookdale Group's acquisition of the 662,320-square-foot Colonial Center.

- Trade and transportation, as well as construction, are likely to continue adding jobs in the coming years as a high number of airport, highway and rail projects are underway. The largest such development is the $1.8 billion South Terminal Complex at the Orlando International Airport.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
70	Leisure and Hospitality	293	20.0%	15,600	5.6%
60	Professional and Business Services	244	16.6%	11,200	4.8%
40	Trade, Transportation and Utilities	272	18.5%	10,000	3.8%
15	Mining, Logging and Construction	86	5.9%	6,600	8.3%
55	Financial Activities	86	5.9%	4,700	5.8%
30	Manufacturing	67	4.6%	2,400	3.7%
65	Education and Health Services	186	12.7%	2,200	1.2%
80	Other Services	55	3.7%	1,800	3.4%
90	Government	153	10.4%	500	0.3%
50	Information	26	1.8%	-500	-1.9%

Sources: YardiMatrix, Bureau of Labor Statistics

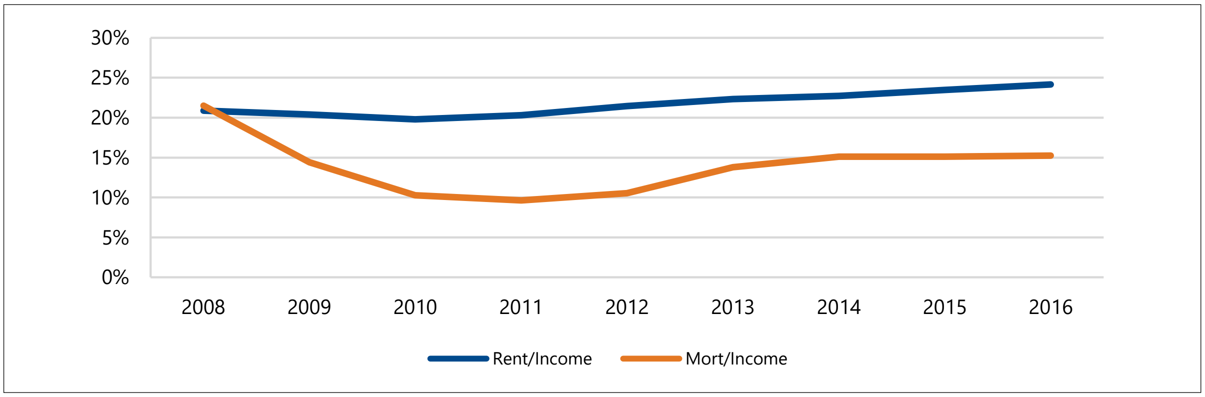
Demographics

Affordability

- The median home price rose to $185,200 in 2016, marking a cycle peak. Nonetheless, owning remains much more affordable than renting, as the average mortgage payment equates to 15% of the median household income in Orlando, compared to 24% for the average rent.

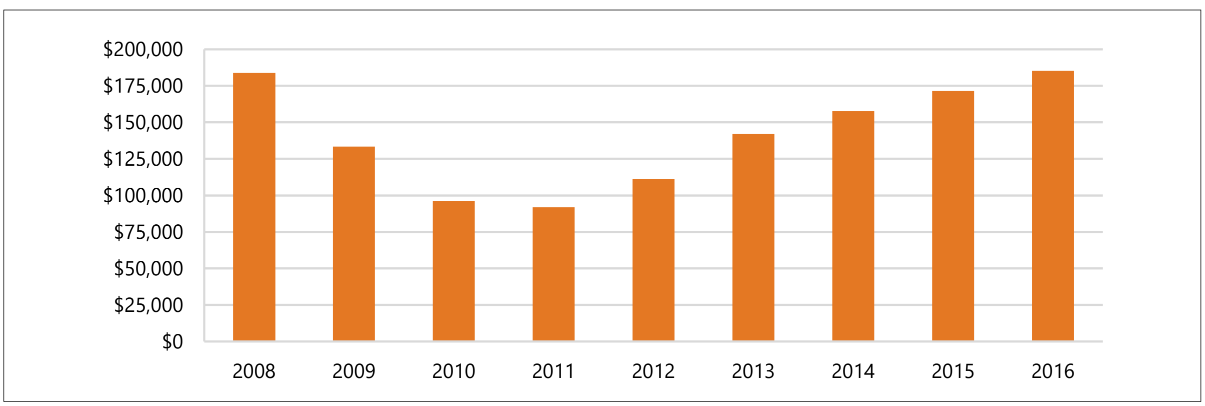
- Orlando is facing one of the nation's most significant shortages of affordable housing. Low-wage job growth is boosting demand for workforce housing as developers focus on luxury projects, while population gains and falling homeownership rates add to the rent surge. To combat the issue, the city implemented the Affordable Housing Assistance Program, which provides incentives to developers of low-income units.

Orlando Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Orlando Median Home Price



Source: Moody's Analytics

Population

- The metro's population rose by 2.4% in 2016, way above the national average growth of 0.7%.

- Orlando added almost 60,000 residents in the past year, which makes it one of the fastest-growing U.S. metros.

Orlando vs. National Population

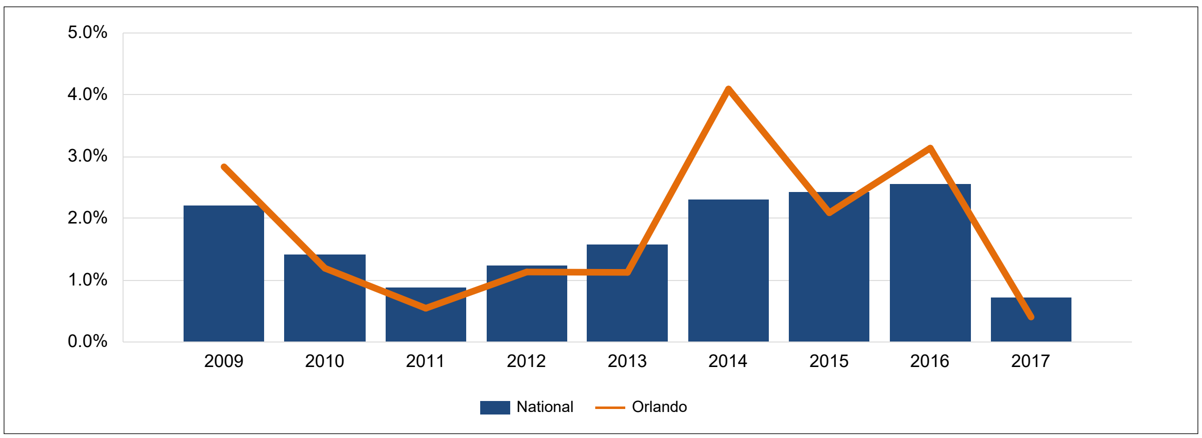
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Orlando Metro	2,226,473	2,269,622	2,323,059	2,382,132	2,441,257

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

Supply

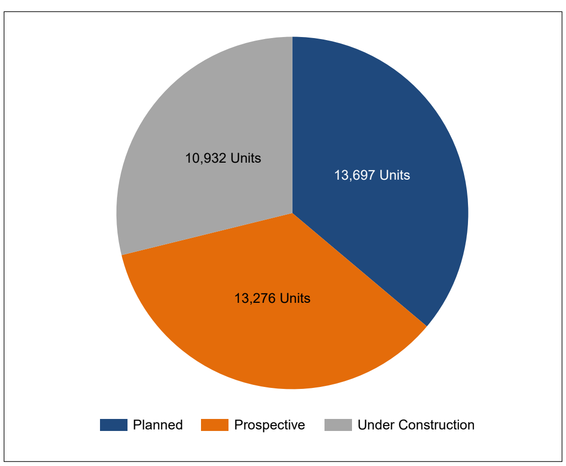
- Orlando got off to a slower construction start this year, as only about 500 multifamily units were delivered in the first six months of 2017.
- Apartment deliveries are bound to pick up soon, as roughly 11,000 units were under construction as of June, about half of which are scheduled for delivery by year-end. In total, the development pipeline consists of more than 37,000 units in different stages of development.
- Even though the rising population is creating a robust demand for units, the increasing number of deliveries (6,100 units in 2016) has kept occupancy rates in check. As of June 2017, the occupancy rate for stabilized properties in Orlando stood at 96.2%. The rate has increased slightly in recent months due to the low number of completed units.
- The submarkets with the highest numbers of units under construction were Lake Buena Vista (978 units), Downtown Orlando (958) and Colonial Town (932). The largest project slated to come online this year is ZOM's 483-unit Baldwin Harbor, located in the Colonial Town submarket.

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



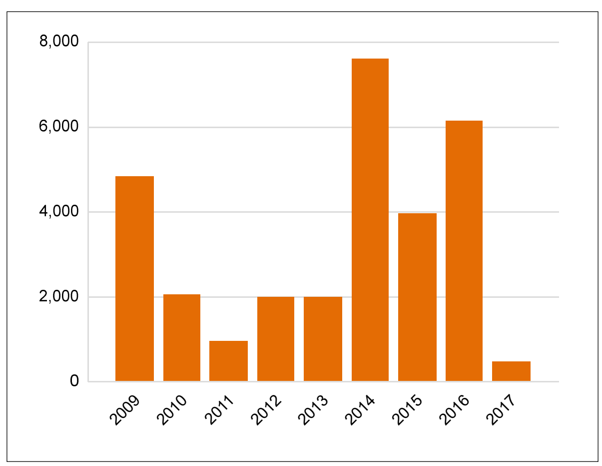
Source: YardiMatrix

Development Pipeline (as of June 2017)



Source: YardiMatrix

Orlando Completions (as of June 2017)

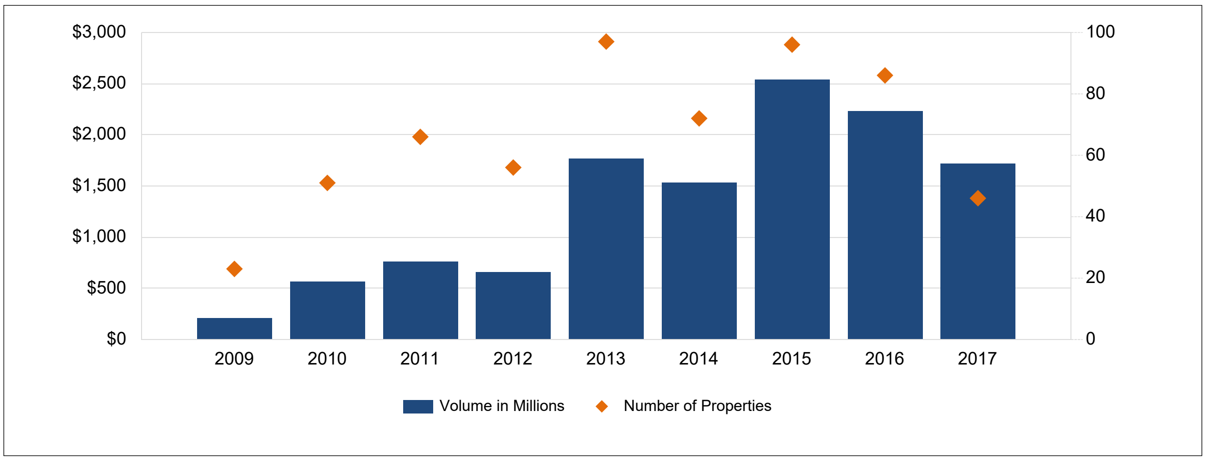


Source: YardiMatrix

Transactions

- Transaction activity remains high in Orlando, with $1.7 billion in multifamily assets trading by mid-year. As a result, this year's sales volume is well on track to surpass last year's $2.2 billion, as well as 2015's cycle high of $2.5 billion. The city's healthy economy and relatively high yields support investor confidence.
- Acquisition yields are in the 4.5% range for stabilized high-end properties, while yields for Class B and C assets range between 5 and 5.5%. The average price per unit as of June was $133,700, above the national average of $132,500. Per-unit prices have been steadily rising as luxury assets remain the main point of interest.
- The most sought-after submarkets were Oak Ridge–West, Gotha/Orlovista and Melbourne. The largest property to change hands in the 12 months ending in June was the 461-unit 55 West, located in downtown Orlando. TA Associates Realty sold the asset to LivCor for $105 million, or $227,766 per unit.

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



Source: YardiMatrix

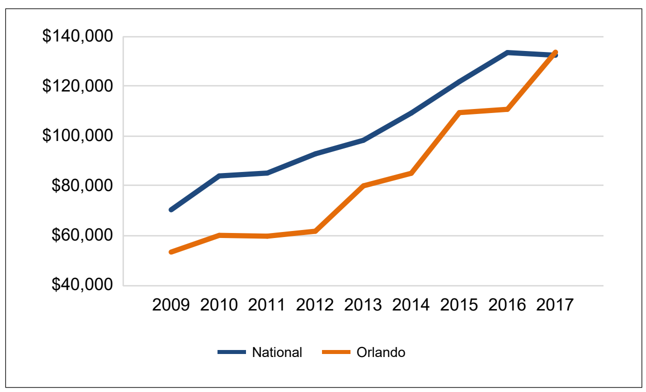
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Oak Ridge–West	185
Gotha/Orlovista	177
Melbourne	165
Downtown Orlando	163
Kirkman	154
Palm Bay	139
Hunter's Creek	129
Florida Center	128

Source: YardiMatrix

[1] From July 2016 to Jun 2017

Orlando vs. National Sales Price per Unit



Source: YardiMatrix

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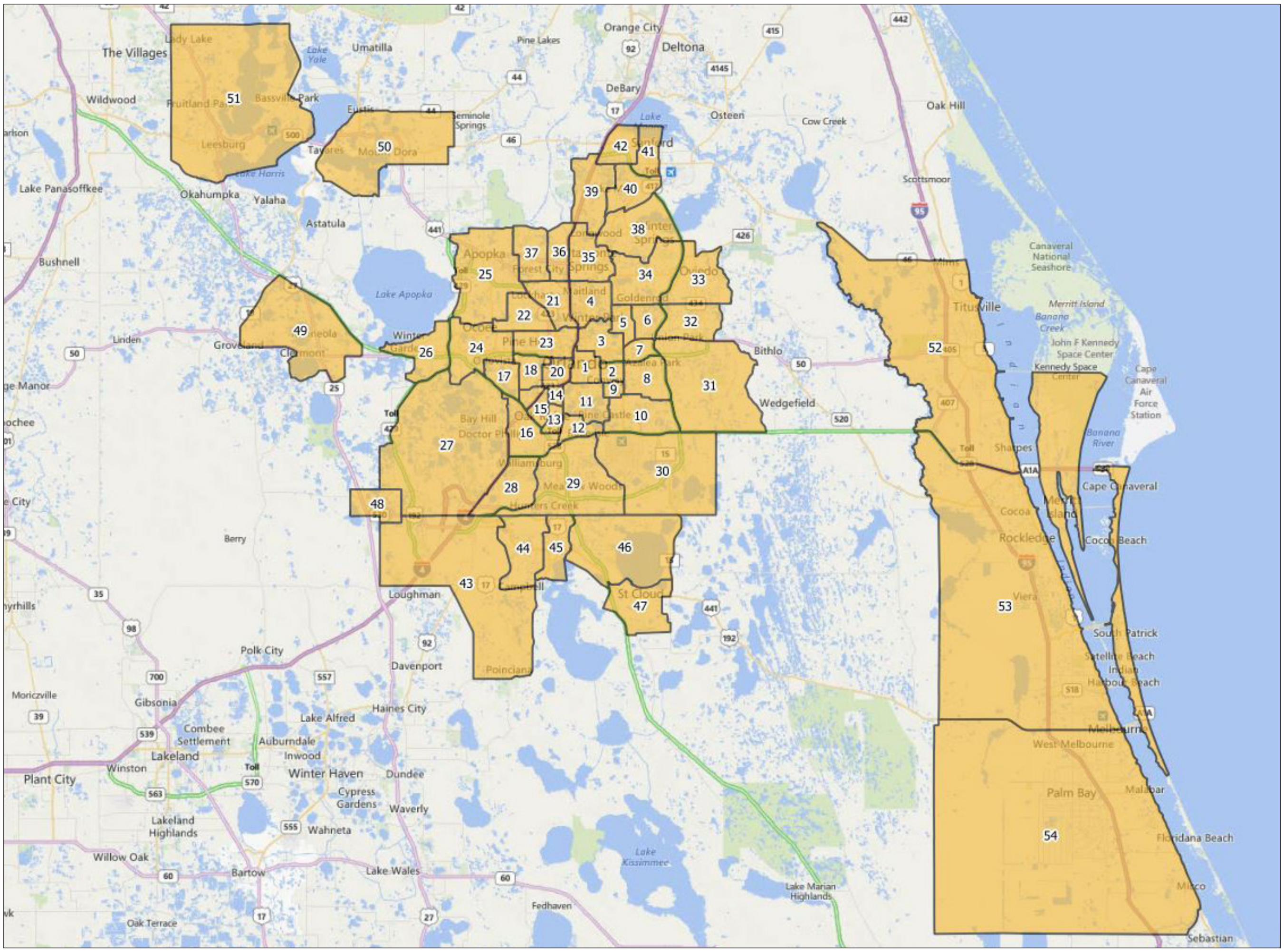
Orlando Submarkets



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

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.