Yardi® Matrix

Miami's Building Craze

Multifamily Report Fall 2017

New Deliveries Soften Rent Growth

Population Surge Pushes Up Demand

Investors Zero In on Secondary Areas

Market Analysis
Fall 2017

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Job Growth Keeps Market Steady

Miami's multifamily market is fully packed. Although enjoying solid fundamentals, one of the market's biggest challenges is the substantial amount of new supply. This has put a damper on rent growth, which started decelerating in late 2014, going from a 6.1% increase to 2.0% as of August 2017. Population and job gains even out the situation, producing a healthy demand and ensuring that new units are slowly but steadily absorbed. However, the availability of low-cost housing is still an issue. Complicating things is a new South Miami ordinance that requires solar panels on all new residential projects, which will increase construction costs and make it more difficult for developers to pencil out low-cost units.

The metro's economic profile is diverse, but education and health services; leisure and hospitality; and trade, transportation and utilities continue to drive job growth. Construction activity and industrial expansions are also strong, with Amazon's new 855,000-square-foot fulfillment center a telling example. The list also includes major infrastructure projects like the Ft. Lauderdale Airport revamp and the upcoming Brightline Express train that will connect Miami to Orlando.

Even though the area dodged the worst predictions, the true cost of Hurricane Irma is still unclear. Florida International University estimated the statewide damage at more than $19 billion, of which $6 billion will be paid by insurance companies, while two-thirds of the losses will be shouldered by homeowners.

Recent Miami Transactions

City Center on 7th

City: Pembroke Pines, Fla.
Buyer: Harbor Group International
Purchase Price: $159 MM
Price per Unit: $226,429

Amaray Las Olas by Windsor

City: Fort Lauderdale, Fla.
Buyer: GID
Purchase Price: $134 MM
Price per Unit: $525,787

The Quaye at Palm Beach Gardens

City: Palm Beach Gardens, Fla.
Buyer: PGIM Real Estate
Purchase Price: $118 MM
Price per Unit: $347,067

One Boynton

City: Boynton Beach, Fla.
Buyer: Pollack Shores
Purchase Price: $109 MM
Price per Unit: $221,356

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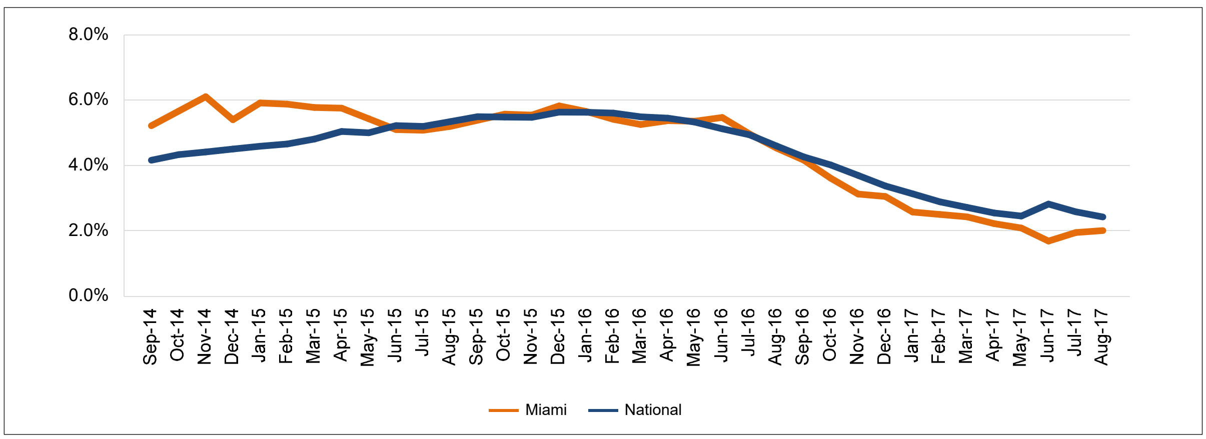
Rent Trends

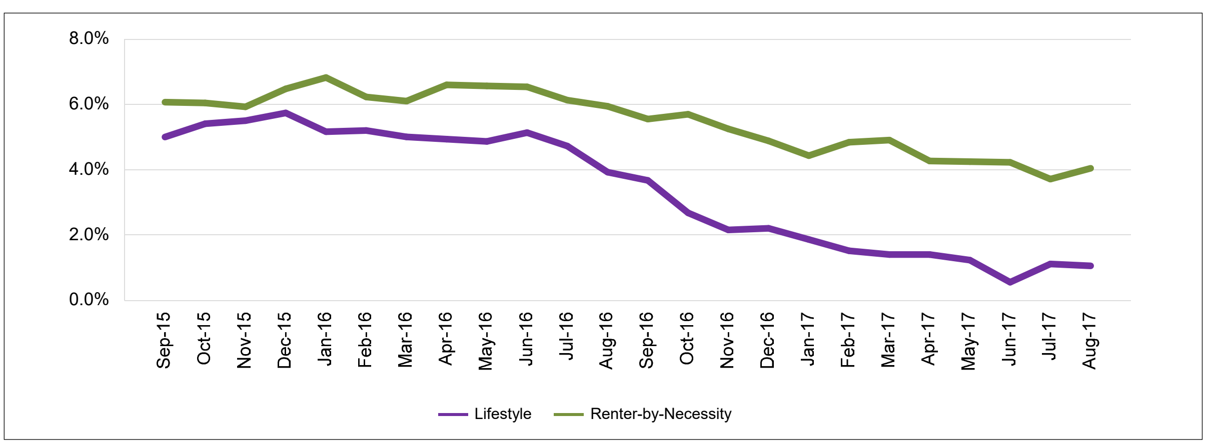
- Rents in Miami were up 2.0% in the 12 months ending in August, 40 basis points below the national average. Mirroring the nationwide trend, rent growth has gradually decelerated since peaking at 6.1% in late 2014. The average rent was $1,576 as of August, above the $1,352 U.S. rate.
- The working-class Renter-by-Necessity segment led gains, rising 4.0% to an average of $1,261. The Lifestyle segment grew by only 1.1%, to $1,819, as the large amount of new luxury supply continues to limit rent growth in upscale properties. As demand for workforce housing increases and developers are mainly focusing on high-end projects, RBN rents will most likely continue to outperform Lifestyle rates.
- Fringe submarkets drove rent increases, with Belle Glade (8.5%) leading gains, followed by Florida City (7.7%) and Parkland (7.5%). The steepest rent drops occurred in South Beach (-7.3%) and Little Haiti (-5.3%). Despite the contraction, South Beach remains the second most expensive submarket in Miami (at a $2,286 average rent), right after Brickell ($2,310).
- Even with a packed development pipeline, jobs and population gains are bound to keep Miami rents on the upward path. Yardi Matrix expects a 2.9% increase in rents in 2017.

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)

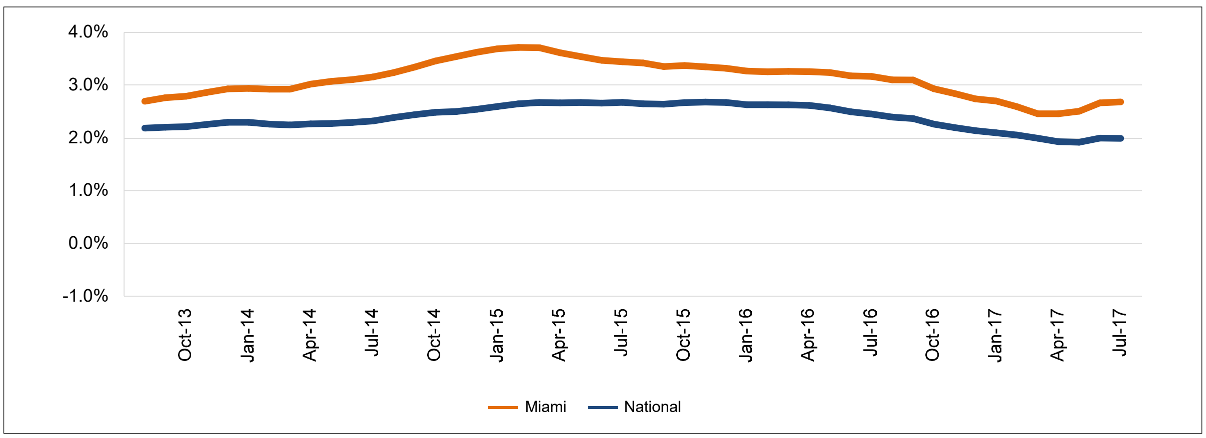


Source: YardiMatrix

Economic Snapshot

- Miami added 69,200 jobs year-over-year through July 2017, an employment growth of 2.7%, some 70 basis points above the national rate.
- Education and health services led gains, with 21,800 new positions. The sector is poised to continue expanding, as Acadia Healthcare Co. recently partnered with the University of Miami to build a new psychiatric hospital. A division of the University of Miami Health System has also secured a partnership with startup Syapse for a new precision medicine initiative to help progress cancer treatments. UM's revenue for the 2016 fiscal year was about $2.8 billion, of which $2.1 billion were secured through the university's health-care and medical research arm.
- The tourism industry is robust, as more than 15.7 million visitors spent at least one night in Miami last year, up 1.5% from 2015, according to the Greater Miami Convention and Visitors' Bureau. This resulted in a total economic impact of $25.5 billion. Even though tourism expanded in 2016, last year marked the metro's smallest uptick in visitors since the Great Recession. Year-over-year, the leisure and hospitality sector added 16,700 jobs.
- Compared to other large markets, office development is constrained in Miami due to zoning regulations. As a result, there is less construction relative to absorption and job growth. The market absorbed roughly 170,000 square feet of space in 2017's second quarter, with Coral Gables and Miami Beach leading leasing activity.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	397	15.7%	21,800	5.8%
70	Leisure and Hospitality	329	13.0%	16,700	5.3%
40	Trade, Transportation and Utilities	598	23.6%	10,500	1.8%
60	Professional and Business Services	432	17.0%	9,300	2.2%
80	Other Services	131	5.2%	7,000	5.6%
90	Government	290	11.4%	5,500	1.9%
55	Financial Activities	176	6.9%	-100	-0.1%
30	Manufacturing	87	3.4%	-200	-0.2%
50	Information	49	1.9%	-400	-0.8%
15	Mining, Logging and Construction	44	1.7%	-900	-2.0%

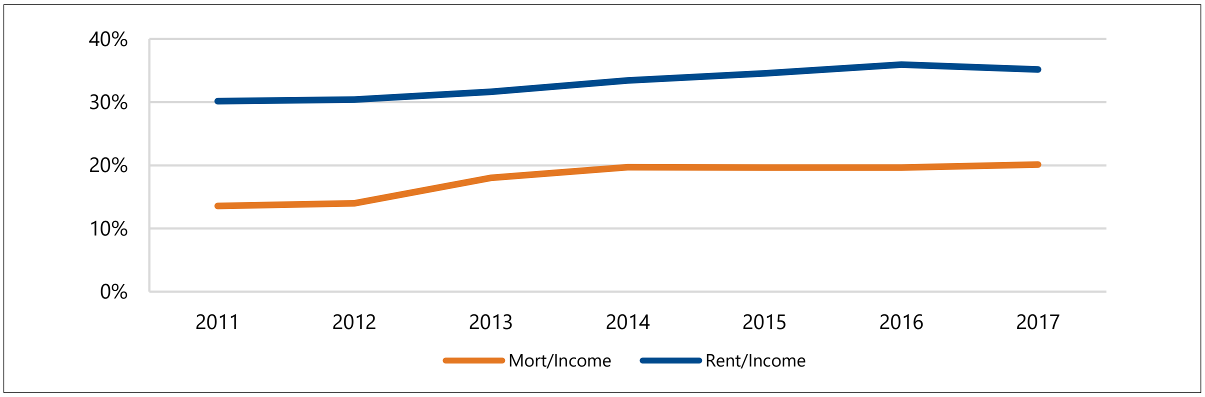
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

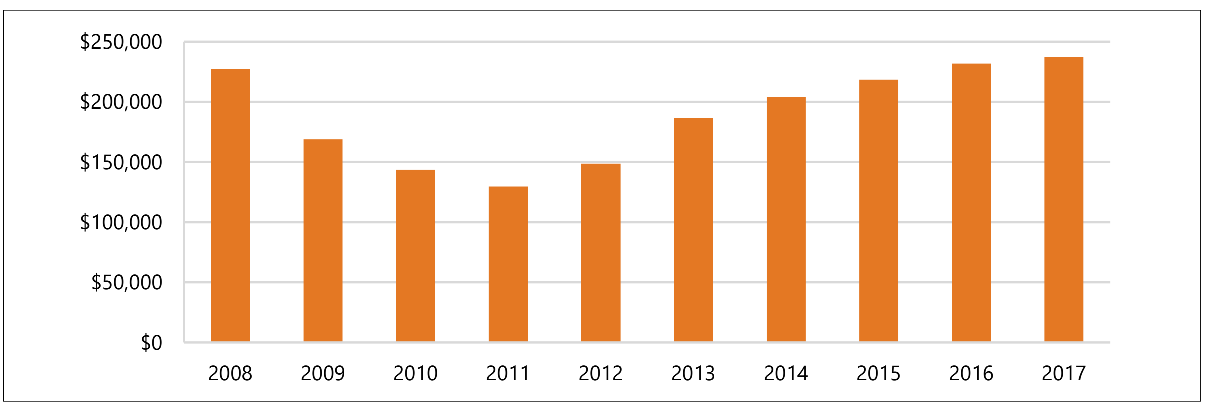
- The median home value surged to $237,446 in the first half of 2017, a new cycle high. Owning is much more affordable than renting, as the average mortgage accounted for 20% of the median income, while rent comprised 35%. Miami is one of the least-affordable U.S. housing markets, as even upper-middle class residents struggle with rising property values and rents, some as far as being priced out of their neighborhoods.
- New low-cost developments are sprouting up across Miami, including HTG's $40 million, 150-unit Princeton Park. However, the metro's target of developing around 5,500 affordable units per year is far from being achieved, as only some 1,000 to 1,500 units are being delivered annually.

Miami Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Miami Median Home Price



Source: Moody's Analytics

Population

- Miami added almost 65,000 residents in 2016, a 1.1% increase and above the national growth rate of 0.7%.
- The metro's population rose by 5.0% between 2012 and 2016.

Miami vs. National Population

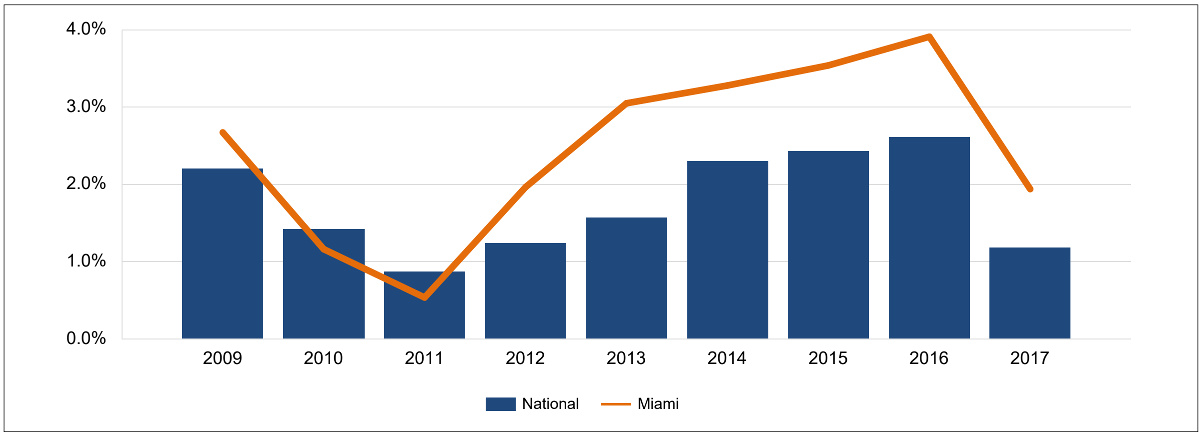
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Miami Metro	5,779,518	5,856,943	5,930,210	6,001,717	6,066,387

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

Supply

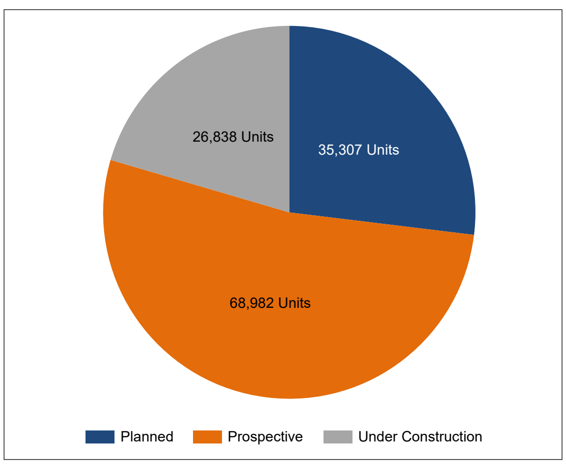
- Construction activity in Miami is showing no signs of slowing down, even though completions have outpaced the absorption rate over the past two years. Roughly 4,300 units were delivered in 2017 as of August, with more than 10,000 units coming online last year, a new cycle high.
- The development pipeline as of August consisted of 131,127 units, some 27,000 of which were under construction, while an additional 35,000 units were in the planning stages. Approximately 90% of units under construction are slated for delivery by the end of 2018.
- Construction activity is focused on core areas and the coastline. There were more than 2,600 units underway in downtown Miami alone. Seven submarkets had more than 1,000 units under construction, including Ft. Lauderdale–West (1,605 units), Edgewater–Wynwood (1,539) and Doral (1,302).
- Developers are still betting on the metro's coastal submarkets, with new luxury high-rise buildings stretching along the metro's shoreline, catering to the high-end demand. Panorama Tower, the largest project underway, will include 821 apartments and a hotel. The residential portion was 20% pre-leased as of July. The skyscraper is slated to become the tallest building in Miami.

Miami vs. National Completions as a Percentage of Total Stock (as of August 2017)



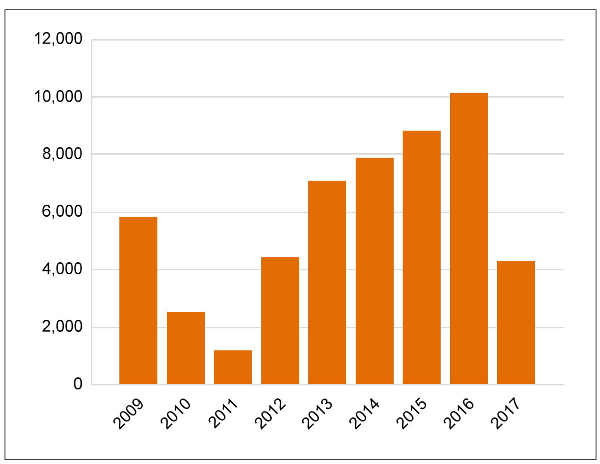
Source: YardiMatrix

Development Pipeline (as of August 2017)



Source: YardiMatrix

Miami Completions (as of August 2017)

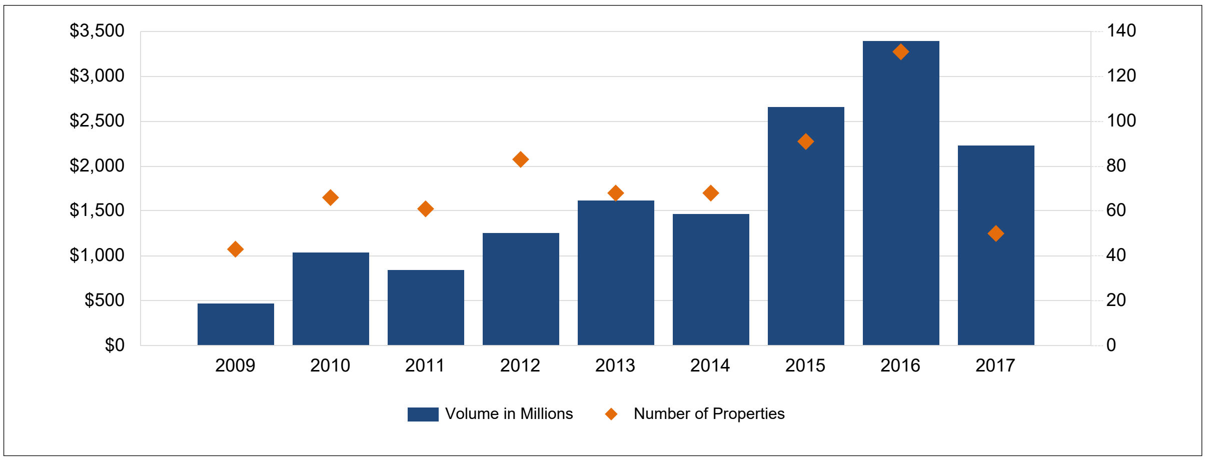


Source: YardiMatrix

Investment Transactions

- Transaction activity in Miami is robust, as more than $2.2 billion in multifamily properties traded this year through July. In the first half of 2017, acquisition yields for stabilized properties were in the 4.0% range for Class A assets, and between 4.0% and 5.0% for Class B/C properties.
- Per-unit prices reached a cycle high of $193,289 in 2017 through July. With property values continuing to surge, investor interest is shifting to inland areas, including high-performing submarkets such as Pembroke Pines ($328 million in assets traded) and Coral Way ($178 million).
- Other submarkets with robust activity in the year ending in July included Jupiter ($249 million), Boyton Beach ($158 million) and West Palm Beach ($156 million). The 700-unit City Center on 7th marked the largest transaction of the past six months. Harbor Group bought the asset in April from AVR Realty for $159 million.

Miami Sales Volume and Number of Properties Sold (as of July 2017)



Source: YardiMatrix

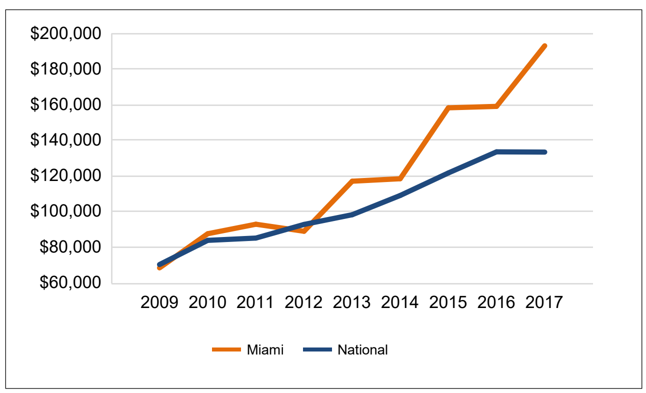
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Pembroke Pines	328
Jupiter	249
Coral Way - Flagler	178
Boynton Beach	158
West Palm Beach	156
Ft. Lauderdale - East	134
Kendale Lakes	132
West Miami	118

Source: YardiMatrix

[1] From August 2016 to July 2017

Miami vs. National Sales Price per Unit



Source: YardiMatrix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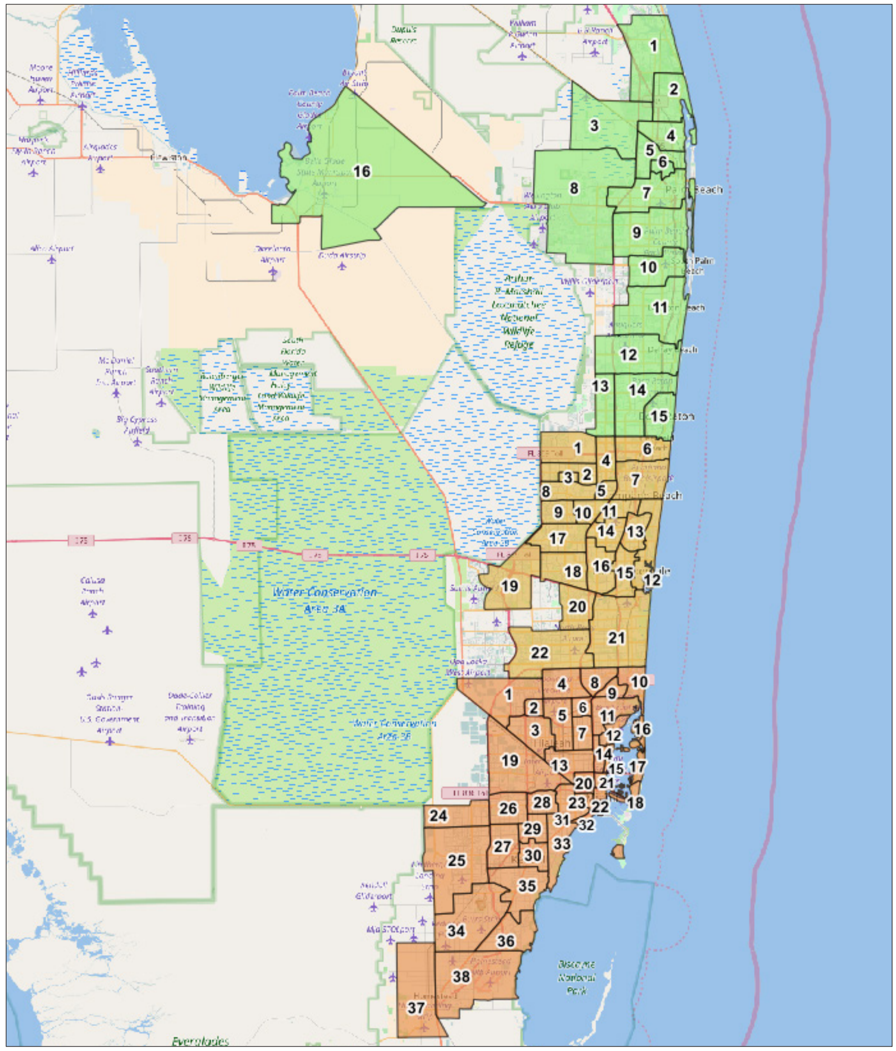
Miami Submarkets

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	Sandalfoot 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	Pembroke 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	Glenvar 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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.