

Yardi® Matrix

Jacksonville's Rising Tide

Multifamily Report Winter 2018

**Rent Growth
Outpaces Nation**

**Unemployment Drops to
10-Year Low**

**Property Values Reach
Cycle Peak**

Market Analysis

Winter 2018

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

Adriana Pop

Senior Associate Editor

First Coast Powers Through

Demand continues to outweigh supply in Jacksonville. A relatively limited amount of new construction in Northeast Florida has kept the occupancy rate above its historical average—at 95.3% as of September 2017 and up 200 basis points since 2013—leaving room for above-trend rent hikes.

Despite the metro losing jobs in Septmeber due to Hurricane Irma, Jacksonville continues to outpace the U.S.' average employment growth. Job creation by logistics and health-related companies reduced the area's unemployment rate to a 10-year low. Advancement in the local medical community, as well as other high-paying professional industries, contributed to a rapid absorption of newly developed apartments. This trend is likely to continue, as more projects are coming online, such as a new heart and vascular pavilion at St. Vincent's Medical Center Riverside and the upcoming urgent-care facility within the Wildlight master-planned community in Nassau County, which is set to include 1,000 homes across 260 acres in its initial phase.

Continued market strength has generated increased investment demand, pushing property values to a post-recession high. Sales, which reached nearly \$1.4 billion in 2017, also reached a cycle peak. As a wave of new deliveries is scheduled to come online over the next few months, we expect demand to remain strong, sustained by employment growth, favorable demographics and lifestyle preferences.

Recent Jacksonville Transactions

Paradise Island



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

Bentley Green



City: Jacksonville, Fla.
Buyer: Starwood Capital Group
Purchase Price: \$98 MM
Price per Unit: \$120,000

ARIUM Deerwood



City: Jacksonville, Fla.
Buyer: Carroll Organization
Purchase Price: \$75 MM
Price per Unit: \$120,942

The Views at Harbortown



City: Jacksonville, Fla.
Buyer: Praedium Group
Purchase Price: \$57 MM
Price per Unit: \$190,833

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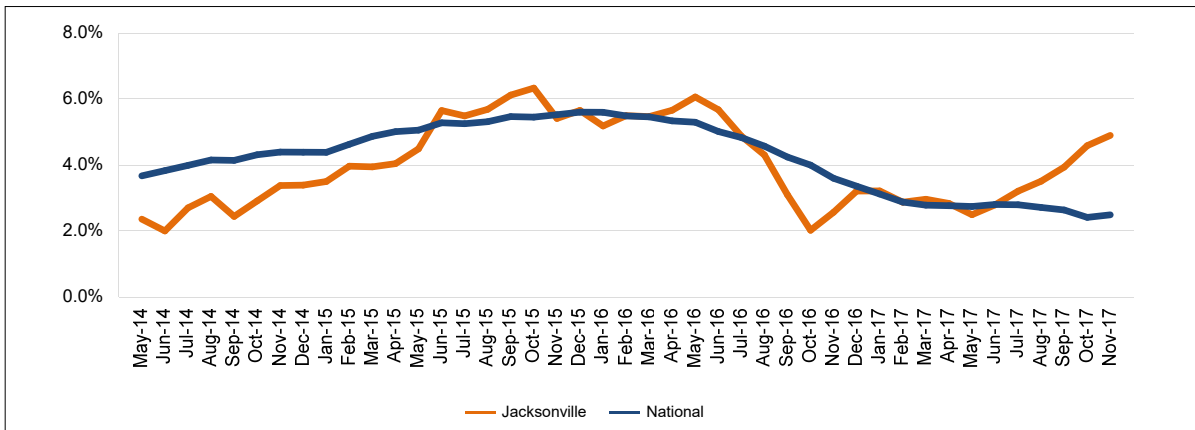
Hollie Zepke

Audience Development Specialist
Hollie.Zepke@Yardi.com
(800) 866-1124 x5389

Rent Trends

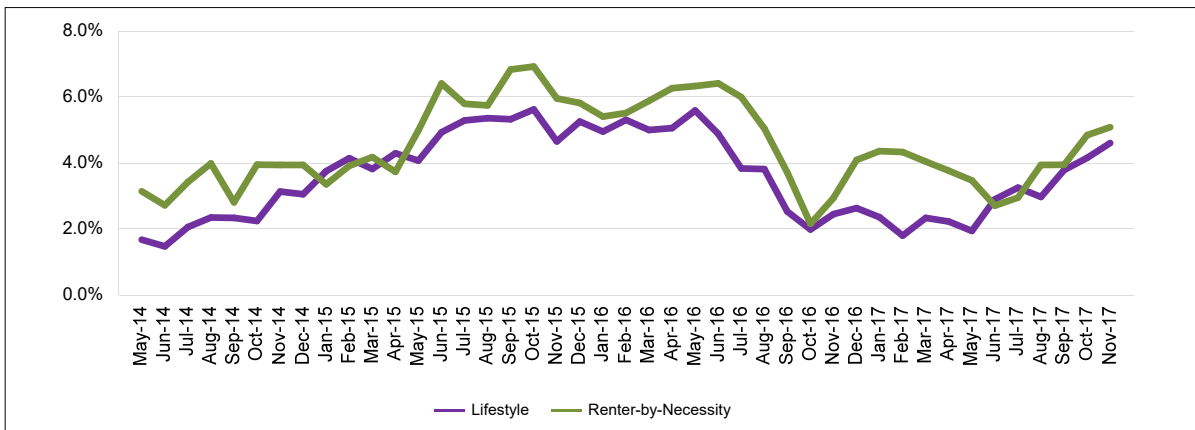
- Rents in Jacksonville rose 4.9% year-over-year through November, outpacing the 2.5% national average. The metro's average rent stood at \$1,006, below the \$1,358 national figure. Occupancy in stabilized properties reached 95.2% as of October, marking a slight decline following a steady increase over the prior seven months. Nevertheless, the metro's occupancy rate remains above its historical average, indicating a rapid absorption of new product. This, in turn, should allow rents to keep rising.
- Rents in the working-class Renter-by-Necessity segment rose 5.1%, to \$846, while Lifestyle rents increased by 4.6%, to \$1,180. The area's local medical community and other high-paying professional industries have sustained demand, along with favorable demographics and household formation. Improving economic conditions continue to generate net in-migration, a trend which began to accelerate in 2010. Duval County, where Naval Air Station Jacksonville and Naval Station Mayport are located, and Clay County, home to Camp Blanding Joint Training Center, also benefit from the presence of military personnel and their families.
- Submarkets with the fastest rent growth rates included Dinsmore, the metro's most affordable submarket, where the monthly rate rose 12.9% year-over-year, from \$597 to \$674, followed by Sunbeam (8.9%) and Beacon Hills (6.3%), one of the metro's most popular neighborhoods.

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)

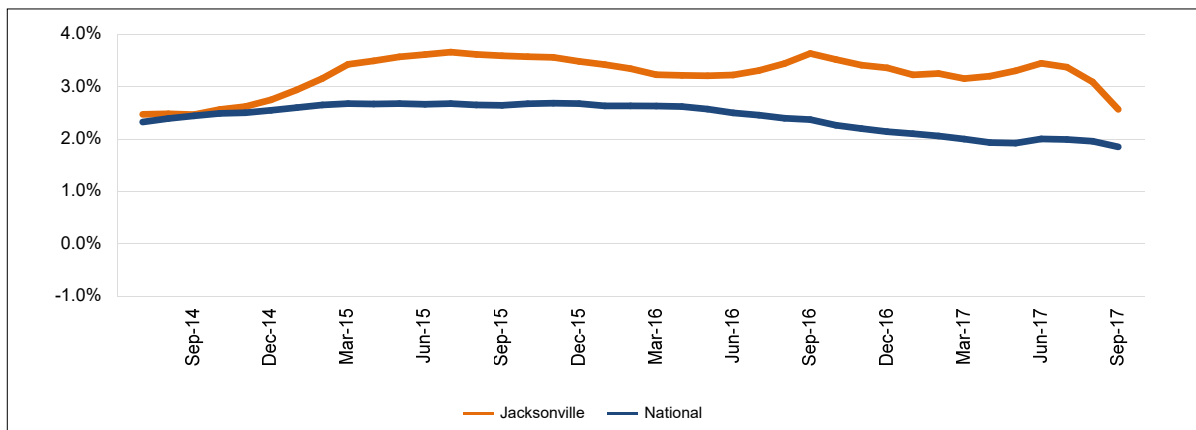


Source: YardiMatrix

Economic Snapshot

- Impacted by Hurricane Irma, Jacksonville added only 2,900 jobs through September, a 2.6% increase but outpacing the 1.9% national average. The metro’s unemployment rate as of September, after seasonal adjustments, dropped to 3.5% from 4.1% in August, marking a 10-year low, while Florida’s was 3.8%.
- Trade, transportation and utilities led growth with the addition of 3,800 jobs year over year, while leisure and hospitality lost the same number of positions. As Jacksonville continues to recover from Irma, many positions have been created in the food-and-beverage retail industry and in administrative and waste services. Education and health employment also grew. St. Vincent’s HealthCare, which launched a 24-hour virtual clinic for local patients, is also investing \$55 million into a new heart and vascular pavilion at St. Vincent’s Medical Center Riverside. Moreover, Raydient Places + Properties has partnered with University of Florida to build an urgent-care facility as part of Wildlight, an upcoming master-planned development in Nassau County, which is set to include 1,000 homes across 260 acres in its initial phase.
- Demand for office space in Jacksonville is strong along the I-95/9A corridor, where Gate Parkway is growing. Significant new projects also target downtown and include The Shipyards, Shad Khan’s \$500 million plan for 70 acres of riverfront property, as well as the redevelopment of the Barnett Bank Building at 112 W Adams St.

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	%
40	Trade, Transportation and Utilities	142	21.0%	3,800	2.7%
65	Education and Health Services	105	15.5%	1,200	1.2%
80	Other Services	27	4.0%	1,200	4.7%
30	Manufacturing	30	4.4%	600	2.0%
60	Professional and Business Services	103	15.2%	300	0.3%
50	Information	10	1.5%	200	2.1%
55	Financial Activities	65	9.6%	100	0.2%
90	Government	76	11.2%	-200	-0.3%
15	Mining, Logging and Construction	40	5.9%	-500	-1.2%
70	Leisure and Hospitality	79	11.7%	-3,800	-4.6%

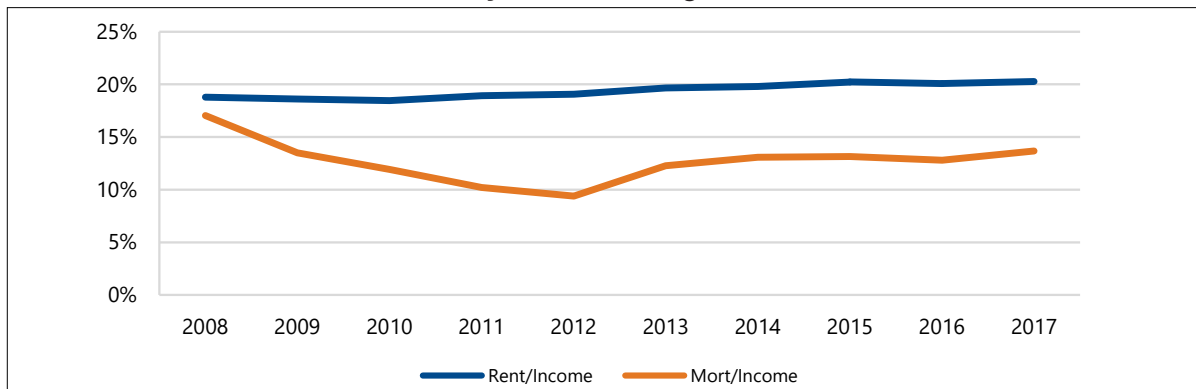
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

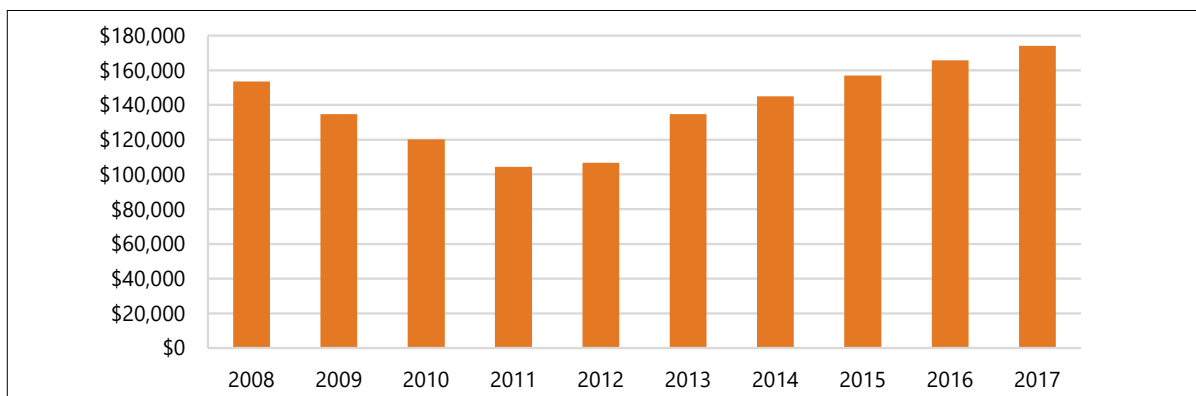
- The median home price in Jacksonville rose to \$174,017 in the first half of 2017, marking a cycle peak. Nonetheless, both the number of homes sold and the average sales price remain below the highs of the mid-2000s. The average rent accounts for 20% of the area's median income, while the average mortgage is more affordable, comprising about 14%.
- Jacksonville continues to be a relatively affordable place to live, offering residents an attractive value vs. price perspective. The metro's expanding business base, temperate climate and short commute times are bound to continue attracting residents.

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 gained roughly 30,000 residents in 2016, a 2.1% increase, well above the 0.7% national average.
- Population growth has been accelerating since 2010, with Duval County and St. Johns adding 100,000 residents.

Jacksonville vs. National Population

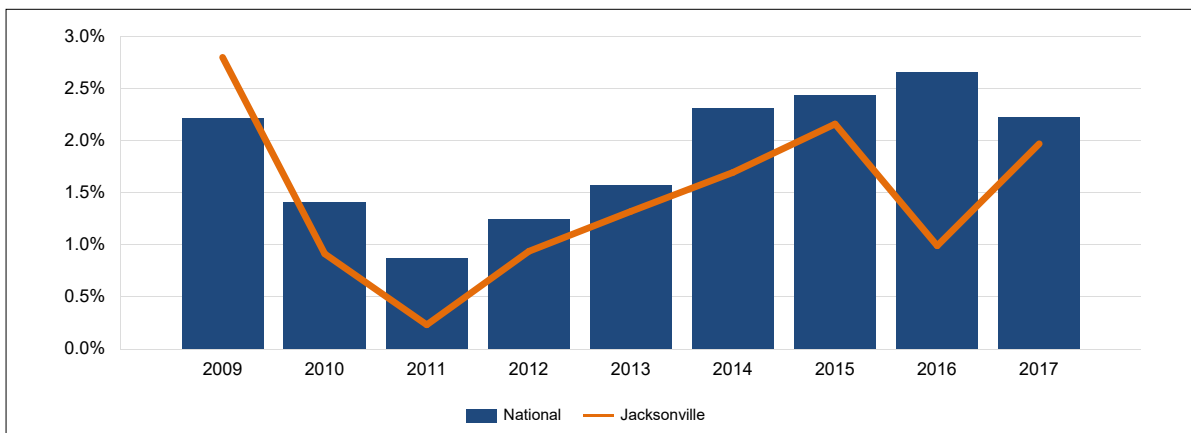
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Jacksonville Metro	1,379,131	1,395,363	1,419,765	1,448,016	1,478,212

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

Supply

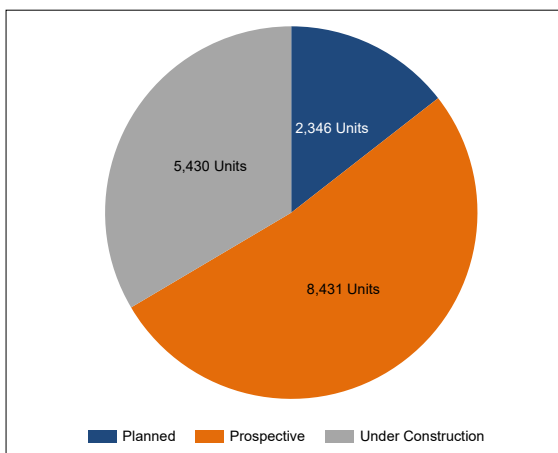
- Nearly 1,479 apartments came online in Jacksonville in 2017 through November, while another 1,400 units are scheduled for delivery in the coming months.
- Jacksonville's total pipeline continues to grow, with 5,430 units under construction as of November and more than 10,700 units in the planning stages. Developers mostly target young professionals and empty-nesters looking for amenity-rich settings.
- New construction is concentrated in rather expensive neighborhoods. College Park/Springfield, where the average rent climbed to \$1,267 as of November, had 1,197 units underway. The submarket was followed by Pineland Gardens (992 units), where the average rent stood at \$1,111; Deerwood Club–West (910 units), where rates exceed \$1,000; and Bayard (771 units), where rents increased to \$1,225.
- The District, rising in College Park/Springfield on the site of a former JEA generating plant, ranks as the metro's largest project. Plans call for more than 1.8 million square feet of development, including 1,170 residential units, 200 hotel rooms, 288,500 square feet for retail and commercial use, 200,000 square feet of office space, a 125-slip marina and a four-acre public park connecting to an expanded Riverwalk.

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



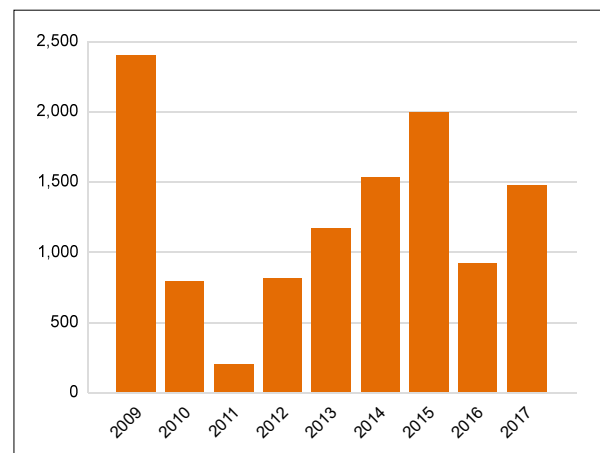
Source: YardiMatrix

Development Pipeline (as of November 2017)



Source: YardiMatrix

Jacksonville Completions (as of November 2017)

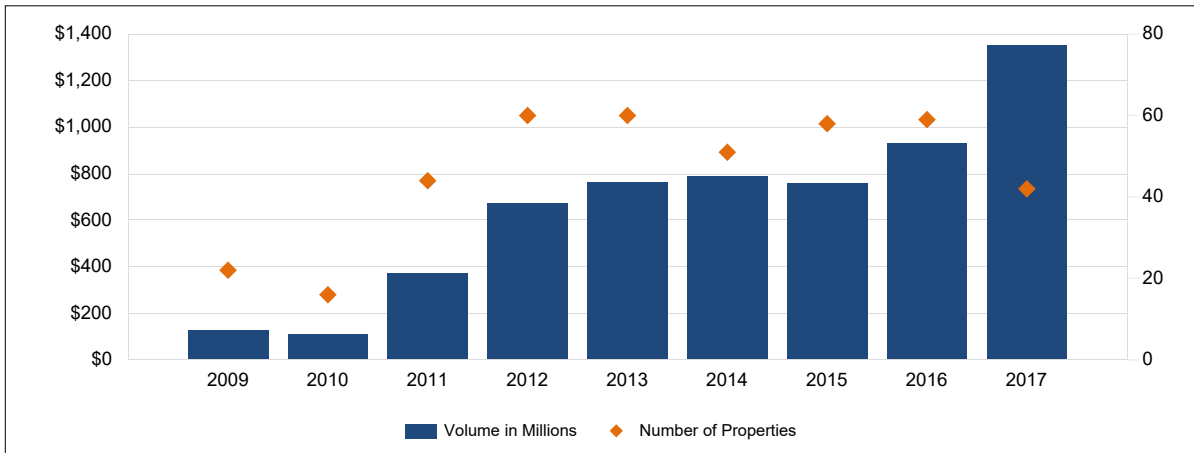


Source: YardiMatrix

Transactions

- Nearly \$1.4 billion in multifamily assets changed hands in Jacksonville in 2017 through November, at an average per-unit price of \$93,724. This marks a post-recession high, although prices remain well below the \$136,099 national average. Most properties trading in Jacksonville last year were in the Renter-by-Necessity category.
- As property values spiked, acquisition yields began to compress marketwide, steering investors toward well-located, value-add assets, with expected returns on cost that can go as high as 6.0% for Class A, 6.5% for Class B and 7.0% for Class C. Out-of-state buyers particularly focused on recently built communities.
- Deerwood Club–West led the market in the 12 months ending in October, with \$412 million in assets trading. The submarket is relatively expensive (\$1,052 average rent) and has more than 900 units under construction.

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



Source: YardiMatrix

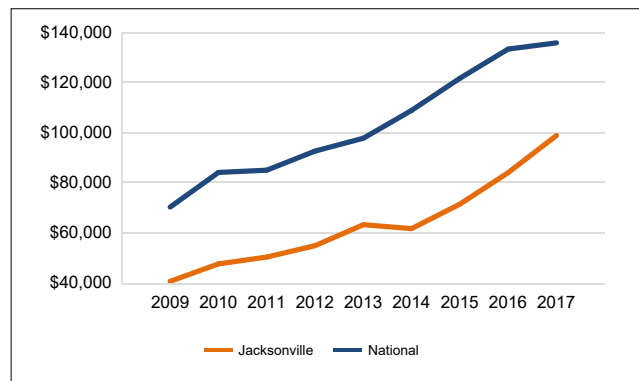
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Deerwood Club–West	412
Cedar Hills	129
Oakwood Villa	119
Newcastle	106
Pineland Gardens	85
San Pablo	57
Bayard	46
Ortega Hills	44

Source: YardiMatrix

¹ From November 2016 to October 2017

Jacksonville vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Rich Properties
Nabs FL Development



Waypoint Acquires
288-Unit Student Housing



FL Multifamily Property
Lands \$50M Loan

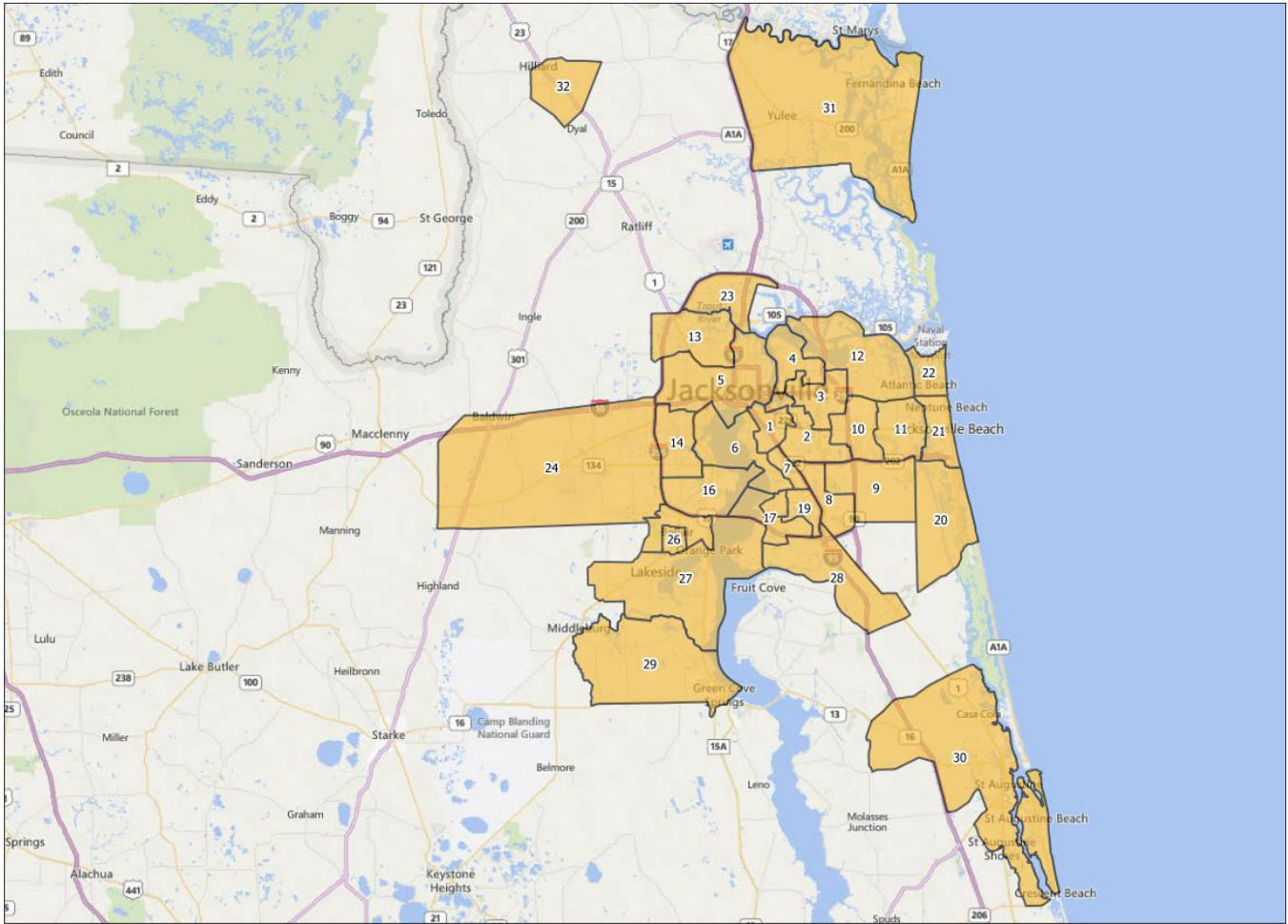


Jernigan Capital Announces
Self-Storage Project,
Completes 3 Facilities

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Jacksonville Submarkets



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
18	Goodbye

Area #	Submarket
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

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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