Yardi® Matrix

Orlando Continues To Shine

Multifamily Report Winter 2018

Rent Increases Persist

Job Growth Outpaces Nation

Transactions Hit Cycle Peak

Market Analysis
Winter 2018

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Central Florida Closes the Year in Style

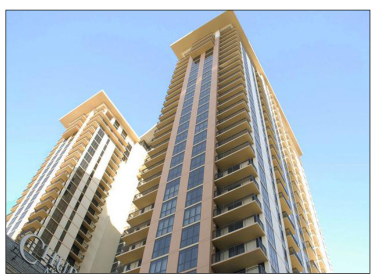
Solid population and job gains are keeping Orlando's economy on track, along with generating rental demand and balancing out the city's rapidly growing multifamily pipeline. Investors didn't shy away from the metro in 2017. Rather, they pushed transaction volume to a cycle peak almost an entire quarter before year-end, signaling once more that the city's rental market is thriving.

Orlando added 26,200 jobs in the 12 months ending in September 2017, marking a 3.3% increase, well above the 1.9% national average. Employment gains were highest in the leisure-and-hospitality sector, followed by construction and transportation. Financial activities saw an uptick, too, adding 3,700 jobs year-over-year, mainly due to Deloitte's and ADP's recent expansions in the city. In addition to an overhaul of Interstate 4, there is a $1.3 billion construction of a train station underway, along with a $1.8 billion airport renovation, a handful of mixed-use developments and more than 8,300 multifamily units.

Some 5,200 units came online in 2017 through November, less than 500 of them in fully affordable properties, as developers continue to focus on upscale projects. This trend continues to put pressure on low- and middle-income residents, with working-class rents growing at a faster rate than those for higher-end communities. And as population growth further bolsters demand, Orlando rents are prone to above-trend growth for the foreseeable future.

Recent Orlando Transactions

55 West



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

ARIUM Hunters Creek

City: Orlando
Buyer: Bluerock Real Estate
Purchase Price: $98 MM
Price per Unit: $183,271

ARIUM Metrowest

City: Orlando
Buyer: Bluerock Real Estate
Purchase Price: $86 MM
Price per Unit: $168,627

The District

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

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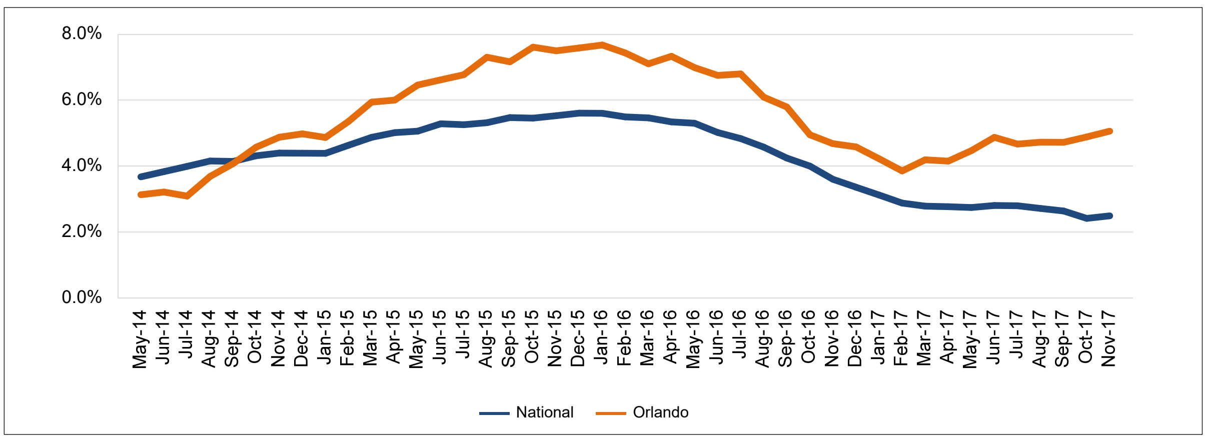
Rent Trends

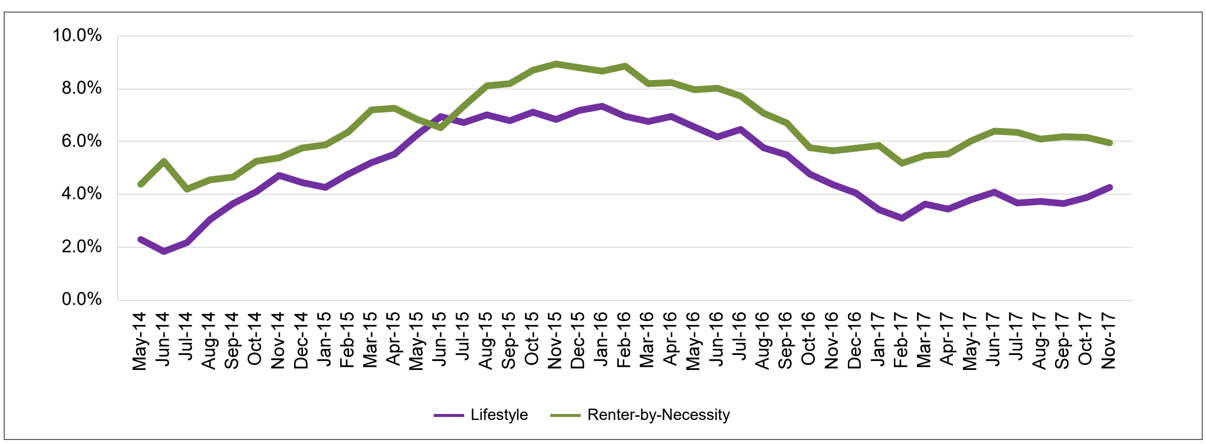
- Orlando rents rose 5.1% year-over-year through November, more than double the 2.5% national rate. However, the metro's $1,246 average rent remained below the $1,358 U.S. figure.
- The working-class Renter-by-Necessity segment led gains with a 5.9% year-over-year increase to an average of $1,051. Rents in the upscale Lifestyle sector grew by 4.3%, to $1,395. Stronger growth in the RBN segment underscores high demand for affordable housing among lower-paid workers, especially those in the hospitality and construction industries. Higher-paid renters continue to seek urban living opportunities, generating demand for luxury stock. Both asset classes saw healthy demand in 2017.
- Submarkets driving the rent surge included Rosemont (11.9% increase), Oak Ridge–East (10.0%), Palm Bay (8.3%) and East Kissimmee (7.5%). Downtown Orlando remains the most expensive area, its rents averaging $1,651. Meanwhile, Belle Isle is the most affordable submarket, with average rent of $851.
- The large number of luxury apartments set to come online in 2018 is likely to result in a drop in occupancy, putting pressure on Class A rents. However, the rising population and robust job growth should lead to a gradual absorption of oncoming supply in the foreseeable future.

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

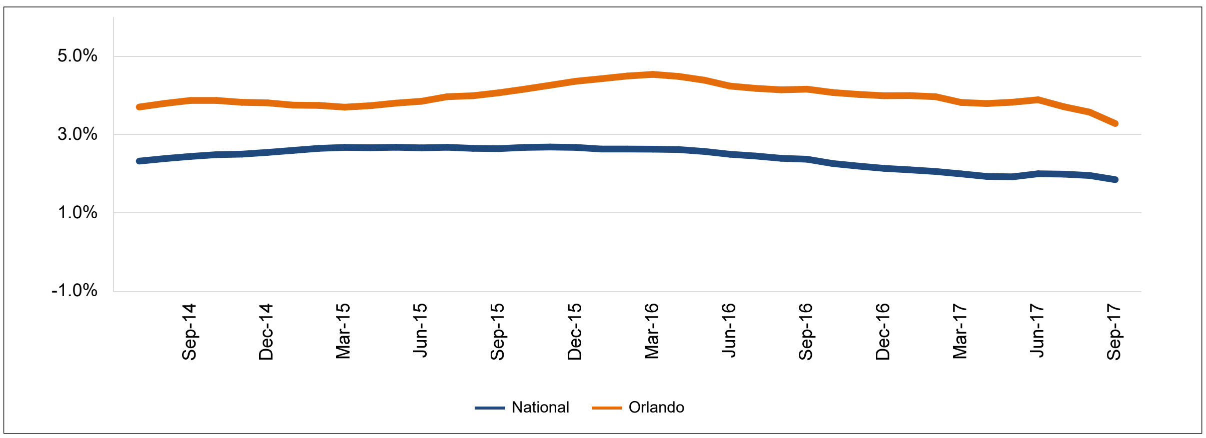
- Orlando added 26,200 jobs in the 12 months ending in September 2017, a 3.3% increase that is well above the 1.9% U.S. rate. The leisure-and-hospitality sector was the top employer, adding 6,300 jobs year-over-year, followed by construction (4,900) and trade, transportation and utilities (4,200).

- Tourism continues to be the region's economic pillar, thanks to Disney World and Universal Studios. In 2016, Orlando alone saw a record 68 million visitors. In the first half of 2017, about 60.7 million tourists spent at least one night in Florida. An uptick in hospitality hiring is expected, as always, once the off-season ends.

- The $2.3 billion overhaul of Interstate 4 is spurring large-scale projects along the thoroughfare, including the 28-story Church Street Plaza. The mixed-use development has been in planning stages for three years, with construction finally kicking off in 2017. The tower will include office space, a hotel and its own SunRail Station. The project was previously known as Tremont Tower and Tremont Plaza.

- Church Street Plaza is the first new office asset to break ground in Downtown Orlando since 2011. Additionally, TPA Realty Services has started developing Edison at Primera, a 108,000-square-foot office project in Lake Mary. According to Jones Lang LaSalle, the average asking price for office space in Orlando is around $21.60 per square foot, while vacancy was at 10.8% as of 2017's third quarter, down 350 basis points since 2015.

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	282	19.4%	6,300	2.3%
15	Mining, Logging and Construction	88	6.1%	4,900	5.9%
40	Trade, Transportation and Utilities	268	18.4%	4,200	1.6%
55	Financial Activities	86	5.9%	3,700	4.5%
30	Manufacturing	69	4.7%	3,500	5.3%
60	Professional and Business Services	240	16.5%	2,000	0.8%
65	Education and Health Services	187	12.9%	1,700	0.9%
80	Other Services	54	3.7%	800	1.5%
50	Information	26	1.8%	-200	-0.8%
90	Government	153	10.5%	-700	-0.5%

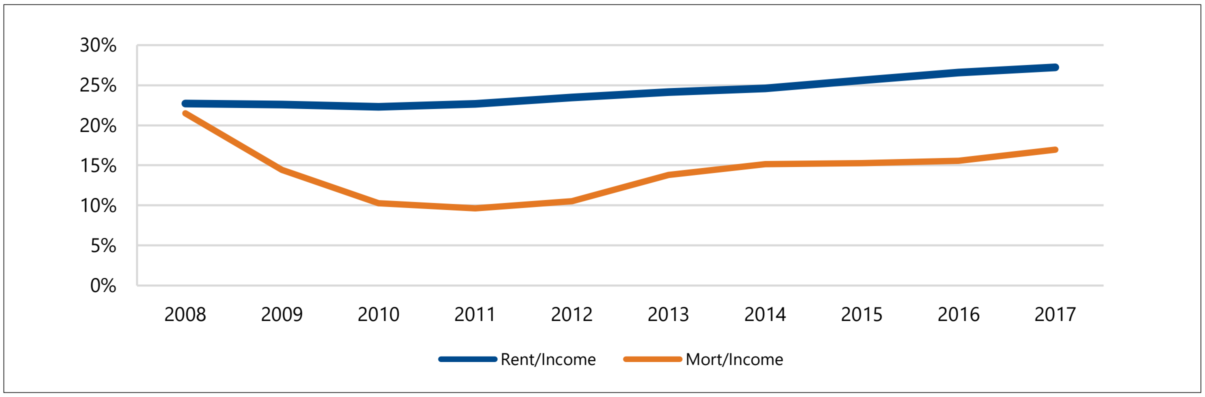
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

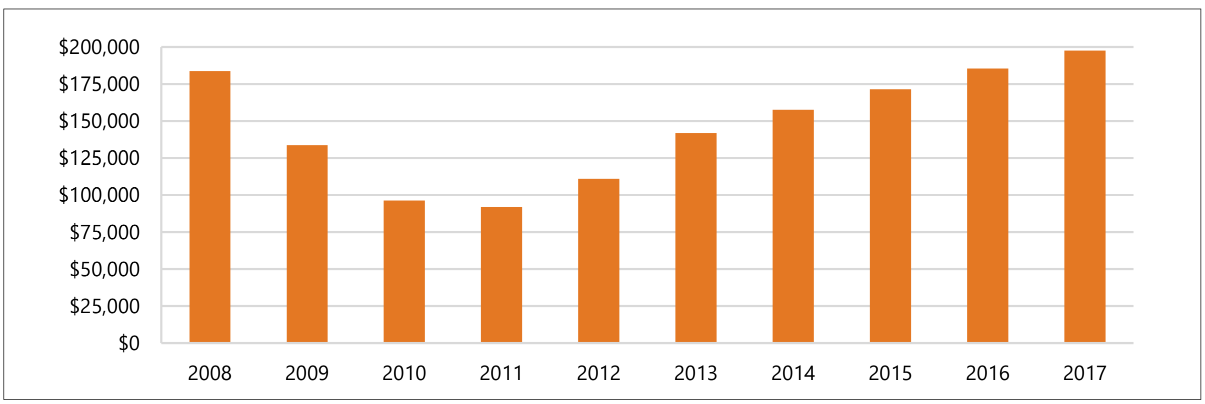
- The median home price climbed in 2017 to $197,500, marking an $8,000 uptick from the previous year. Owning remains much more affordable than renting in Orlando, with the average mortgage payment comprising 17% of the median household income, compared to 27% for the average rent.
- Orlando and the larger Central Florida region are some of the most challenging U.S. areas for medium- and low-income residents. Home prices more than doubled in Orlando since 2011, a fact that has pushed many people toward renting. This, in turn, has pushed up demand for workforce apartments, leading to above-trend rent growth throughout the better part of this cycle.

Orlando Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Orlando Median Home Price



Source: Moody's Analytics

Population

- Orlando is among the fastest-growing U.S. metros. Its population grew by 2.5% in 2016, well above the 0.7% national average.
- The metro gained 215,000 residents between 2012 and 2016, a 9.6% expansion.

Orlando vs. National Population

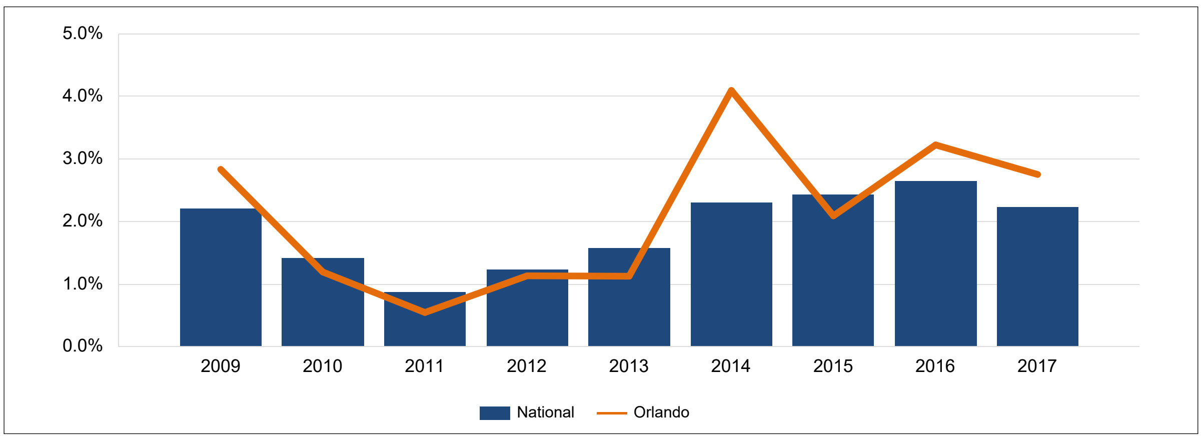
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Orlando Metro	2,226,473	2,269,622	2,323,059	2,382,132	2,441,257

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

Supply

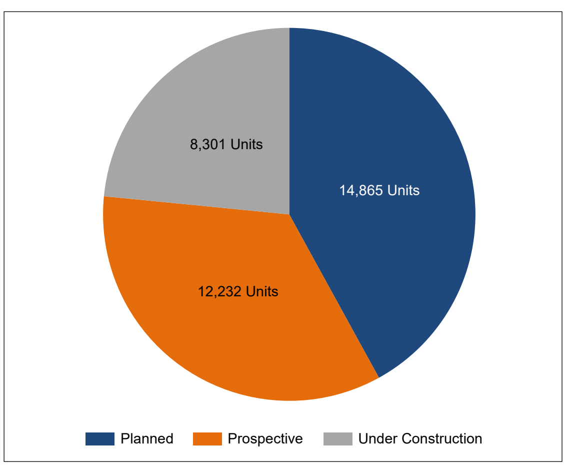
- Some 5,200 units came online in 2017 through November, reflecting a still-solid pipeline. Following an even stronger 2016, which saw 6,321 new deliveries, this expansion is still below 2014's 7,605-unit cycle high.
- There were 8,300 units under construction in Orlando as of November. Apartments are being absorbed at a fast pace, as demand for rentals is robust amid job and population increases. As of October, occupancy in stabilized properties stood at 96.1%, as it did one year prior. However, the metro has 27,000 units in the planning and permitting phases, which could eventually generate concerns of overbuilding.
- The list of submarkets with intense developer activity includes Lake Buena Vista (978 units under construction), Lake Bryan (879 units), Winter Park/Maitland (774 units) and Downtown Orlando (725 units).
- Developers are betting on Orlando's fundamentals in the long run, as several projects underway are slated for completion beyond the end of 2018. The list includes the 275-unit Novel Lucerne in Downtown Orlando, developed by Crescent Communities and Foundry Commercial, which is scheduled to come online by January 2019. Located close to Interstate 4 and Disney World, the 322-unit Bainbridge Grande Pines is expected to come online by January 2020.

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



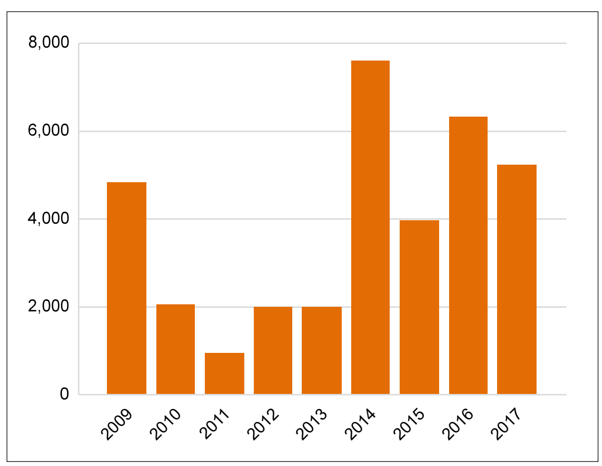
Source: YardiMatrix

Development Pipeline (as of November 2017)



Source: YardiMatrix

Orlando Completions (as of November 2017)

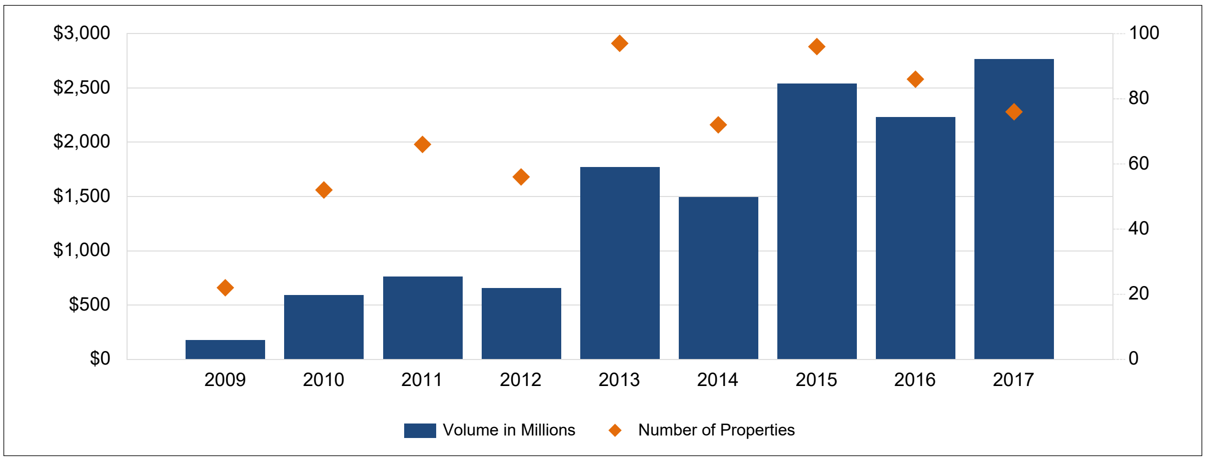


Source: YardiMatrix

Transactions

- Roughly $2.7 billion in multifamily assets traded in 2017 through October—a new yearly cycle high with two months left to spare. The average price per unit was $139,191, slightly above the national rate of $136,099.
- The city's healthy economy and relatively high yields support buyer confidence, with investment volume for multifamily product continuing to rise. Acquisition yields are in the 4.5% range for stabilized high-end properties, while yields for Class B and C assets range from 5.0% to 5.5%.
- The most active submarkets in the 12 months ending in October 2017 were Gotha/Orlovista, Kirkman, Palm Bay and Downtown Orlando. The largest transaction of 2017 was the sale of the 461-unit 55 West, located in downtown Orlando. TA Associates Realty sold the partially corporate housing community to LivCor for $105 million, or $227,766 per unit.

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



Source: YardiMatrix

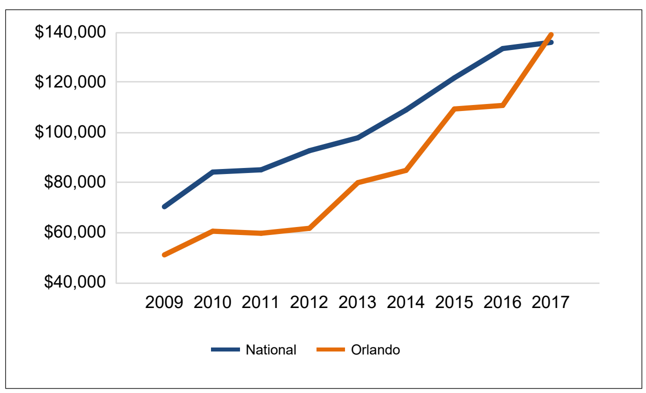
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Gotha/Orlovista	225
Kirkman	206
Palm Bay	163
Downtown Orlando	153
Stoneybrook	148
Hunter's Creek	135
Red Bug Lake	128
Florida Center	122

Source: YardiMatrix

[1] From November 2016 to October 2017

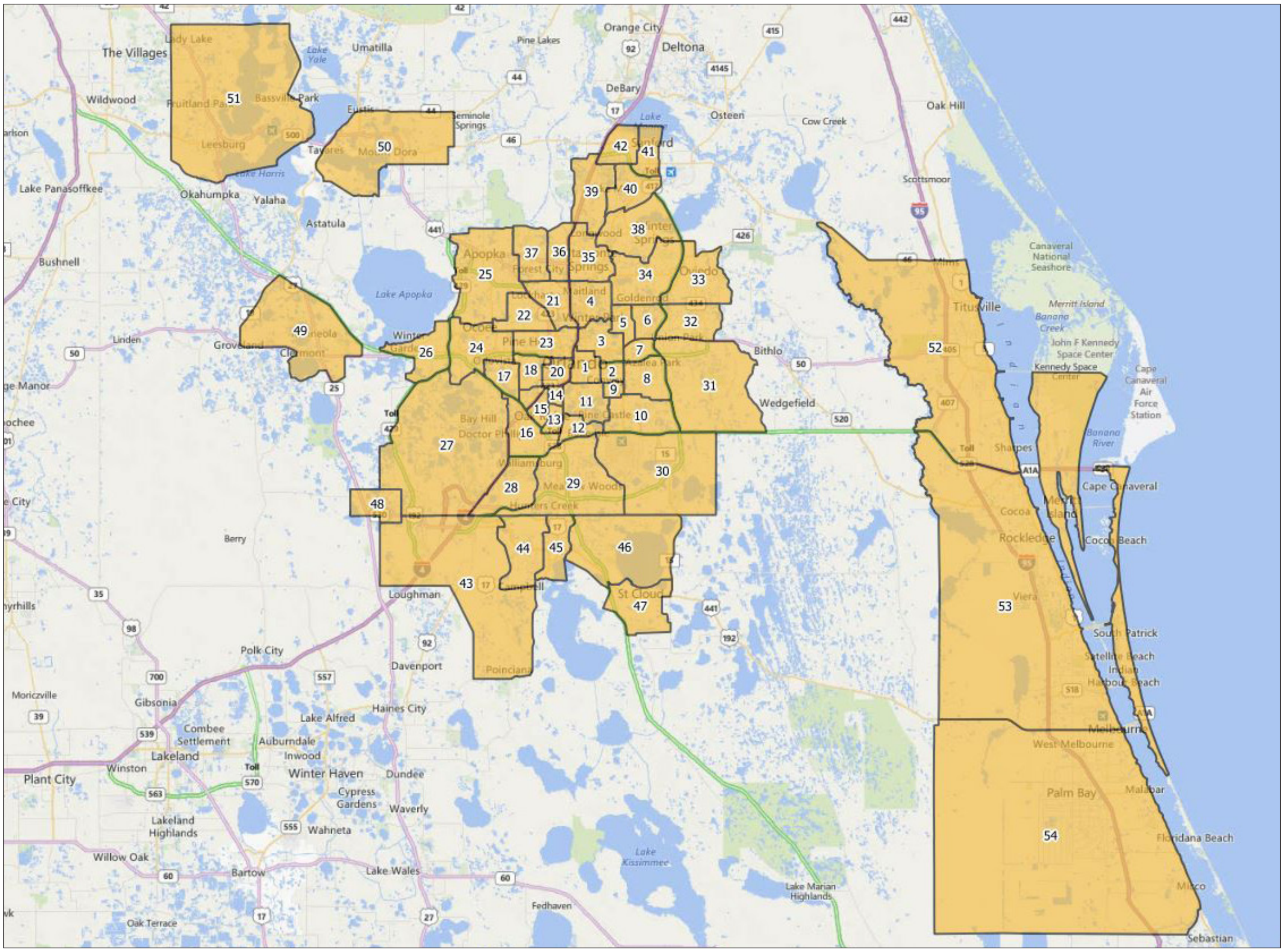
Orlando vs. National Sales Price per Unit



Source: YardiMatrix

Photo by Sean Pavone/iStockphoto.com

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
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
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.

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