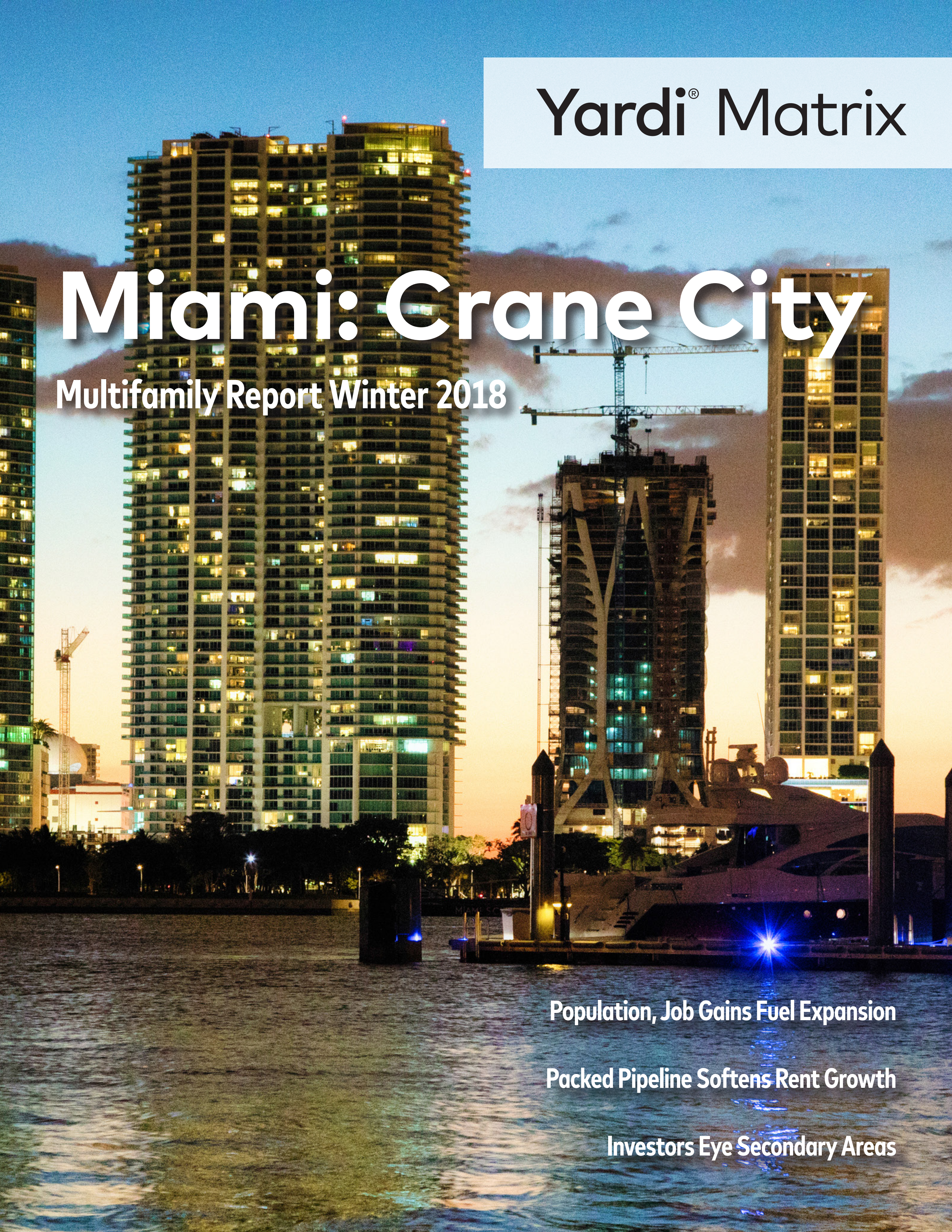
Yardi® Matrix

Miami: Crane City

Multifamily Report Winter 2018



Population, Job Gains Fuel Expansion

Packed Pipeline Softens Rent Growth

Investors Eye Secondary Areas

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
Robert Demeter
Senior Associate Editor

Demand, Supply Still Sky High

Miami's multifamily market is heading into a healthy 2018. It displays solid fundamentals and a diverse economic profile, although it remains challenged by a substantial amount of new supply. While rent growth started decelerating in mid-2016, population and job gains have been cushioning the drop, producing healthy demand and ensuring that new units are slowly but steadily absorbed. The metro's average rent climbed to $1,593 as of January, up 1.8% in 12 months.

Miami added 44,300 jobs year over year through November 2017, as education and health services (10,700) and trade, transportation and utilities (9,200) spearheaded growth. Tourism remained as solid as ever, with the number of overnight visitors reaching a record 15.9 million in the 12 months ending in August 2017, the Greater Miami Convention and Visitors Bureau reports. The Brightline Express rail line, which is set to connect Miami and Orlando, is also nearing completion. A portion of the project was launched in January, and the rail line is already attracting developers near its mixed-use train stations.

Roughly 10,900 units were delivered last year, and 2018 promises another 13,000 units by year-end. Due to the spate of new deliveries, occupancy in stabilized properties dropped 90 basis points in 2017, to 95.0%. With population growth set to continue, we expect rents to rise 2.3% in 2018.

Recent Miami Transactions

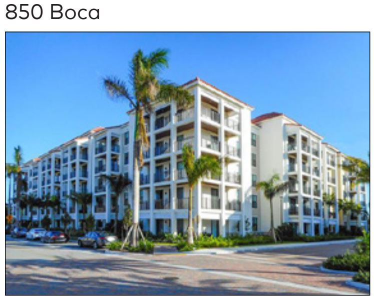
City Center on 7th

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

Signature at Kendall

City: Miami
Buyer: LivCor
Purchase Price: $139 MM
Price per Unit: $254,451

850 Boca



City: Boca Raton, Fla.
Buyer: AvalonBay Communities
Purchase Price: $138 MM
Price per Unit: $372,973

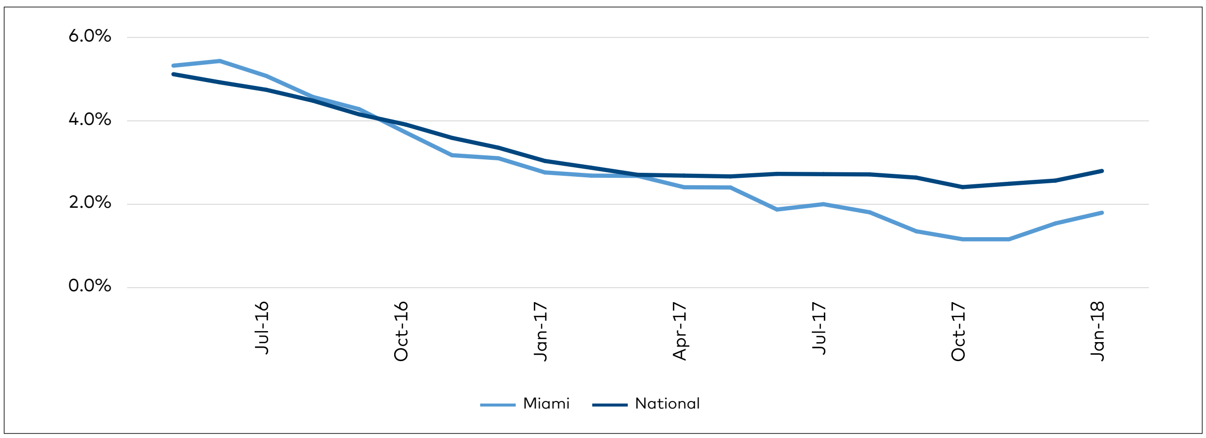
The Manor CityPlace Doral

City: Doral, Fla.
Buyer: TA Associates Realty
Purchase Price: $135 MM
Price per Unit: $337,500

Rent Trends

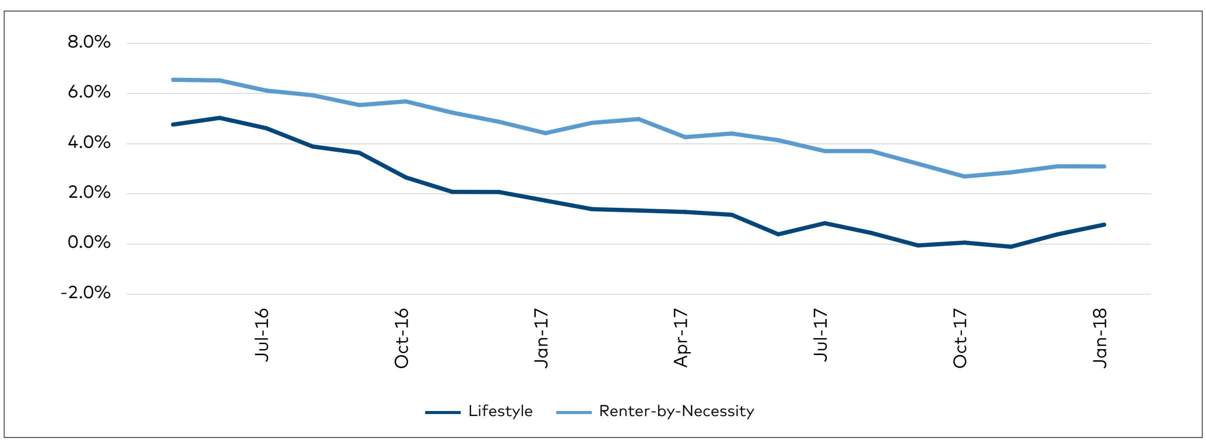
- Rents in Miami were up 1.8% in the 12 months ending in January, 100 basis points below the national average. Rental rates rose to $1,593, still above the U.S. rate of $1,362. For the past six months, rents increased moderately, with year-over-year growth between 1.2% and 2.0%.
- The working-class Renter-by-Necessity segment led gains, rising 3.1% to an average of $1,266. Lifestyle rents were up just 0.8%, to $1,839. The large amount of new luxury supply continues to limit rent growth in upscale properties. As developers are mainly focusing on high-end projects, demand for workforce housing continues to increase, widening the gap between the two segments and putting additional pressure on those seeking affordable rents.
- West Little River (9.5% year-over-year increase), Belle Glade (8.5%), Little Havana (8.7%) and Cutler Bay (7.6%) were the submarkets that led rent growth. The steepest drops were in South Miami and Little Haiti, rents in both submarkets decreasing 3.4%. The most expensive submarket in the metro is Coconut Grove ($2,394 average rent), followed closely by Brickell ($2,361).
- Rising home prices, coupled with job and population gains, are bound to keep Miami rents on their upward path. Yardi Matrix expects a 2.3% increase in 2018.

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)

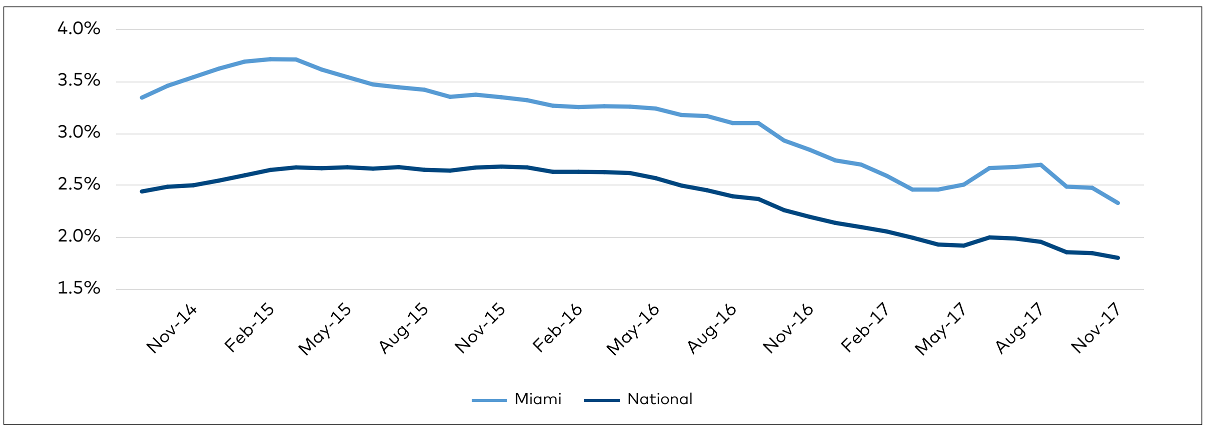


Source: YardiMatrix

Economic Snapshot

- Miami added 44,300 jobs year over year through November 2017, a 2.3% increase and above the 1.8% national growth rate.
- Education and health services led employment gains, adding 10,700 positions. The sector is poised to expand, as health care and education continue to complement one another. Acadia Healthcare Co. recently partnered with University of Miami to build a new psychiatric hospital, and a division of the University of Miami Health System has secured a partnership with startup Syapse for a new precision medicine initiative to advance cancer treatments. In addition, a new 41,000-square-foot medical simulation facility is set to open at the university.
- Last year was an important one for Miami's trade and transportation sector, with a total of 9,200 positions being added in the 12 months ending in November. Brightline, the ambitious $3 billion private rail service, gained a lot of traction, and the project was partially launched in January 2018 with the opening of two stations: West Palm Beach and Fort Lauderdale.
- The area's suburban office markets are thriving and finished 2017 strong, while downtown continues to struggle with increasing vacancy. According to Jones Lang LaSalle, Miami is slated to add 620,000 square feet of office space this year. The asking rate in the metro hovers around $36 per square foot.

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	399	15.3%	10,700	2.8%
40	Trade, Transportation and Utilities	617	23.7%	9,200	1.5%
80	Other Services	134	5.1%	6,100	4.8%
90	Government	320	12.3%	5,800	1.8%
60	Professional and Business Services	441	16.9%	4,000	0.9%
70	Leisure and Hospitality	332	12.7%	3,300	1.0%
30	Manufacturing	91	3.5%	2,700	3.0%
55	Financial Activities	177	6.8%	1,800	1.0%
50	Information	50	1.9%	400	0.8%
15	Mining, Logging and Construction	45	1.7%	300	0.7%

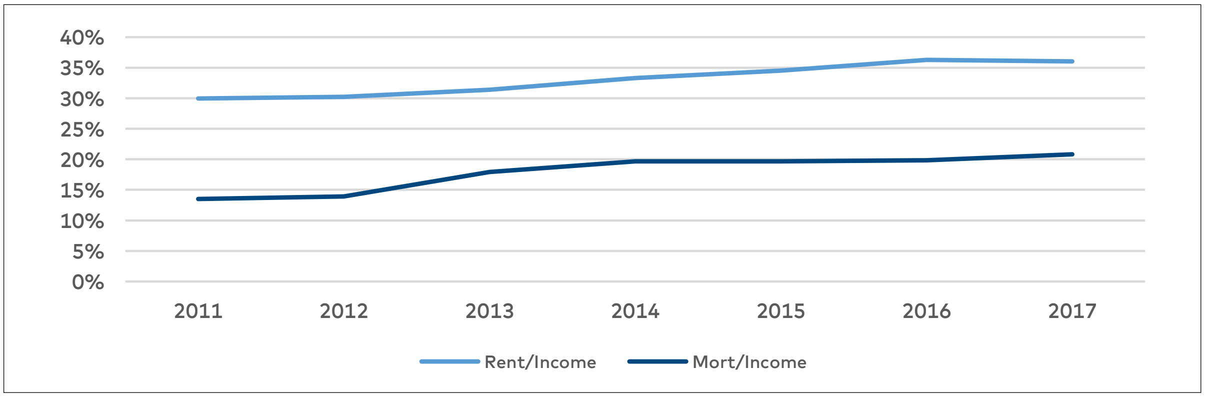
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

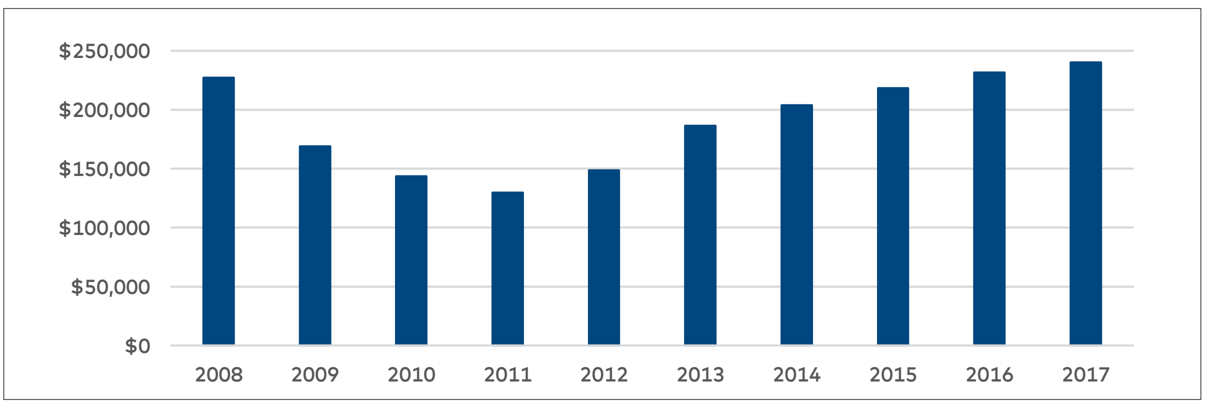
- The median home price in Miami surged to $240,000 in 2017, reaching a new cycle high. Owning remains more affordable than renting, as the average mortgage payment accounts for 21% of the area's median income. Meanwhile, the average rent comprises as much as 36%.
- Miami is one of the least affordable U.S. metros, with even upper-middle class residents struggling with rising property values and rents. The housing shortage is worsening across the metro, with public measures only partially efficient. Last year, a passed Miami ballot endorsed a bond which would imply, among others, the spending of roughly $100 million on affordable housing.

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, representing a 1.1% increase, above the 0.7% national growth rate.
- The metro's population rose 5.0% between 2012 and 2016.

Miami vs. National Population

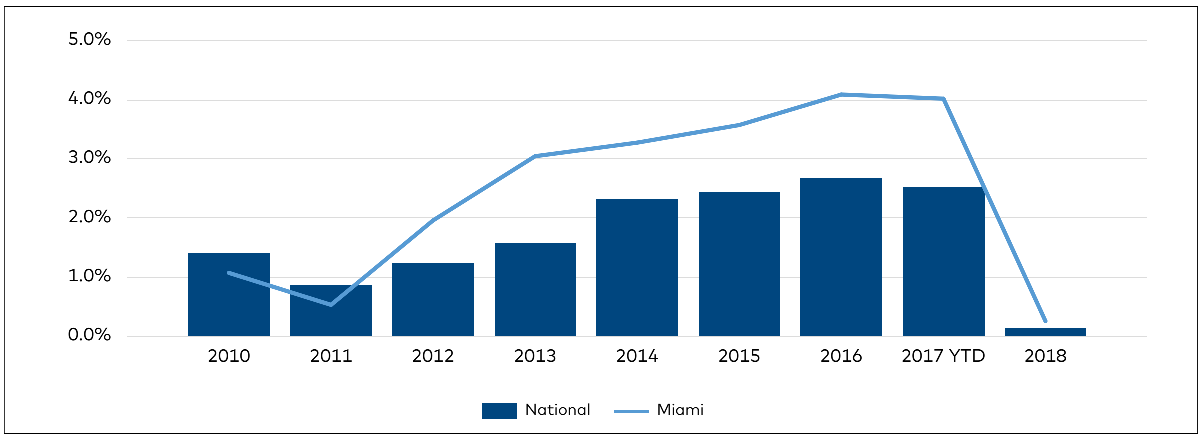
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Miami Metro	5,779,518	5,856,943	5,930,210	6,001,717	6,066,387

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

Supply

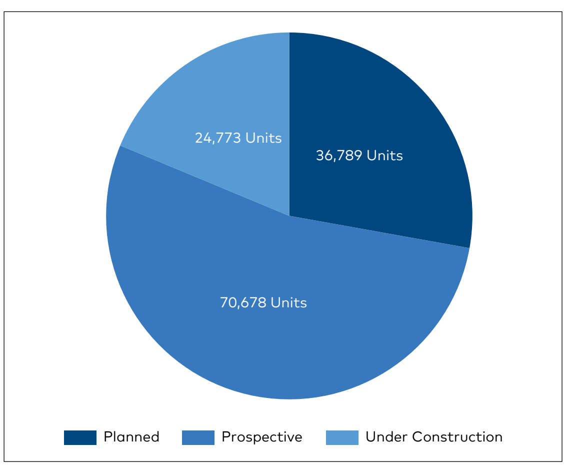
- Roughly 10,900 multifamily units were delivered in 2017, marking a new cycle high, 300 units above the 2016 total. New units account for 4.0% of the total stock, well above the 2.5% national average.
- Although Miami's occupancy rate dropped 90 basis points in 2017, reaching 95.0% as of December, construction activity is showing no signs of slowing. We expect more than 13,000 multifamily units to come online this year, which would mark a new cycle high.
- As of January 2018, the total development pipeline consisted of more than 132,000 units, of which about 24,700 were under construction and 36,700 were in the planning phases. Development sites are sprouting mainly along the coastline and core areas, with secondary submarkets seeing less activity.
- Edgewater–Wynwood (2,759 units under construction) and Downtown Miami (2,647 units) are the most active submarkets. The largest project underway is Florida East Coast Realty's Panorama Tower on Brickell, which is slated to become Miami's tallest building. The 85-story skyscraper is set to include 821 upscale units and a 208-key hotel, as well as office and retail space. The tower is scheduled for completion this year.

Miami vs. National Completions as a Percentage of Total Stock (as of January 2018)



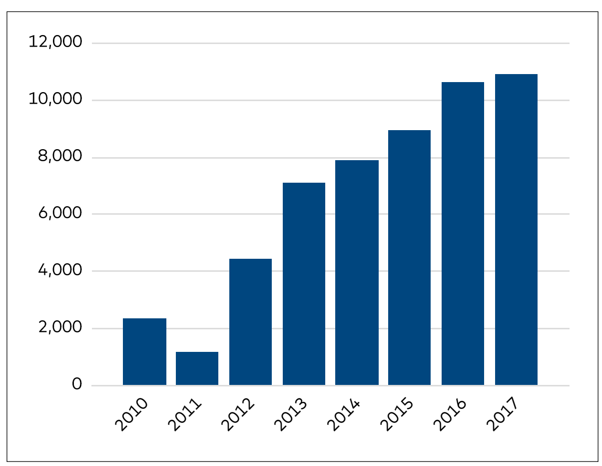
Source: YardiMatrix

Development Pipeline (as of January 2018)



Source: YardiMatrix

Miami Completions (as of January 2018)

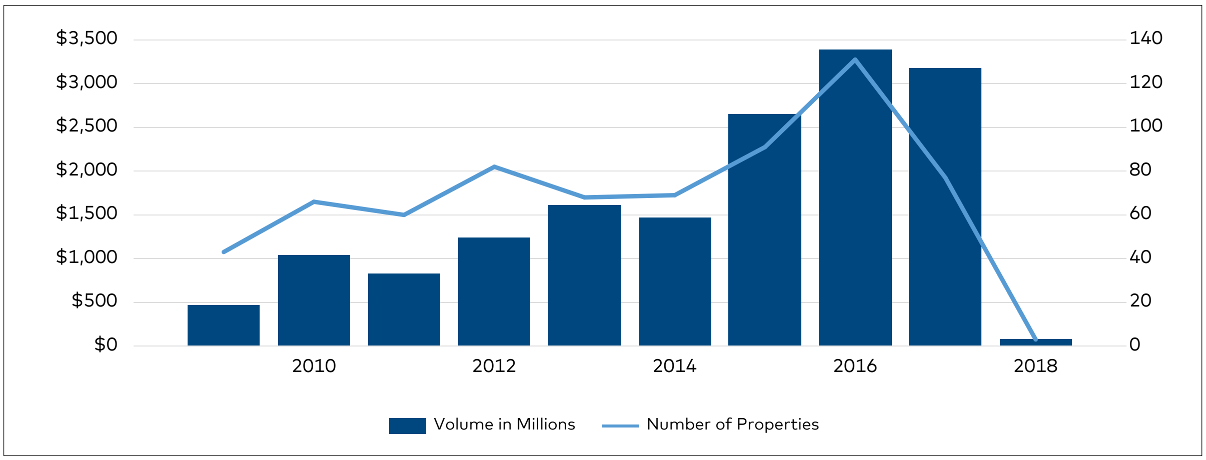


Source: YardiMatrix

Transactions

- Transaction activity in Miami remained robust in 2017, as more than $3.1 billion in multifamily assets changed hands. Per-unit prices reached a cycle high of $198,658 in 2017, almost $40,000 above Miami's 2016 figure and consistently above the $138,167 national average.
- Acquisition yields for stabilized properties were in the 4.0% range for Class A assets, and between 4.5% and 5.5% for Class B and C properties in infill locations. Investment demand will likely remain strong throughout 2018, with buyers targeting high-performing inland submarkets—where rents are more affordable—including Pembroke Pines, which led sales activity in 2017 ($447 million).
- Built in two phases, the 700-unit City Center on 7th marked the largest transaction of the past year. Harbor Group bought the LEED Silver-certified asset in April from AVR Realty for $159 million, or $226,429 per unit. The community was 96% occupied as of January.

Miami Sales Volume and Number of Properties Sold (as of January 2018)



Source: YardiMatrix

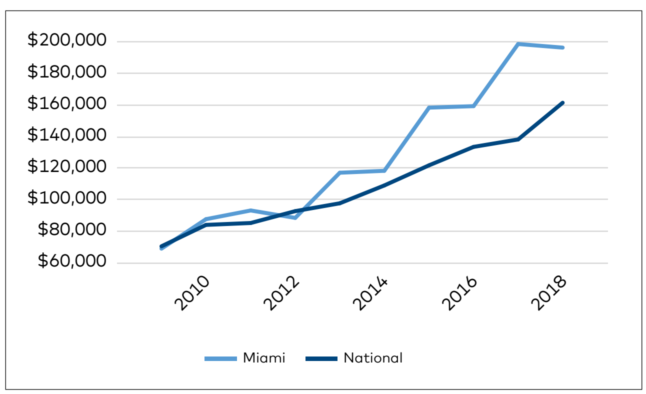
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Pembroke Pines	477
Jupiter	305
Kendale Lakes	200
Coral Way–Flagler	178
Delray Beach	157
Coral Springs–North	148
Coconut Creek–North	147
Boca Raton–West	138

Source: YardiMatrix

[1] From January 2017 to December 2017

Miami vs. National Sales Price per Unit



Source: YardiMatrix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13th Floor, Adler Group Top Off Miami Development
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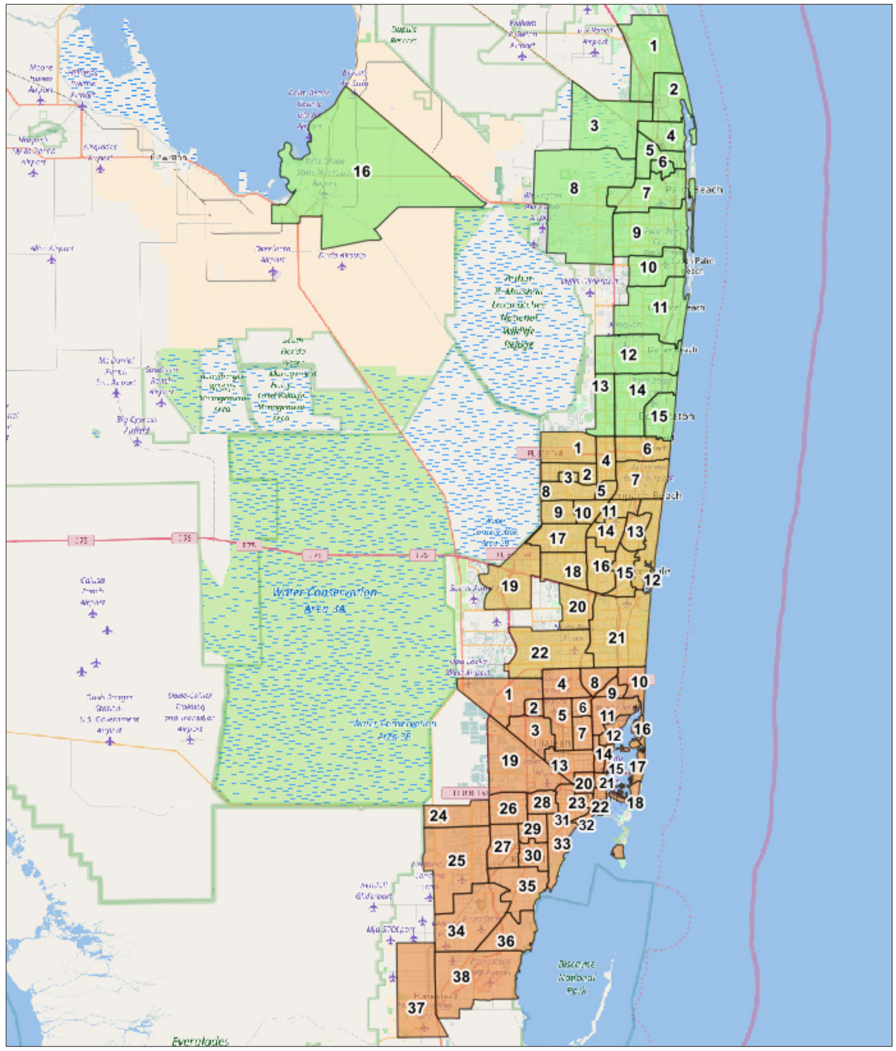
Miami Submarkets

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	Pompano 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.