Yardi® Matrix

Orlando Heats Up

Multifamily Report Summer 2018

Hospitality Leads Job Gains

Affordability Issues Mount

Strong Demographics Maintain Healthy Demand

Market Analysis

Summer 2018

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Central Florida Leads US Rent Growth

With tourism and hospitality as its main economic drivers and backed by unprecedented population and employment growth, Orlando's multifamily market is thriving.

The metro added almost 47,000 jobs in the 12 months ending in May, keeping Orlando well above the U.S. average. With a record-breaking number of visitors last year, employment gains were highest in leisure and hospitality, the sector gaining 10,600 jobs. Orlando's year-round temperate weather, coupled with no state income taxes, continues to entice both domestic and foreign investors. A $2.1 billion airport expansion is underway, with more than 500 workers on site daily. The new terminal is scheduled for completion in 2021 and will increase the capacity of the state's busiest airport to more than 50 million yearly passengers.

As job growth is concentrated in lower-paying employment sectors, an increasing number of households are seeking more affordable housing options. And with developers focused on upscale projects, renters are bound to feel the pressure. As of July, almost 90% of the 12,300 units underway in the metro fall within the Lifestyle segment. Moreover, with a 6.9% year-over-year increase in rates, Orlando is leading the nation in rent growth. We expect the average rent to increase 5.1% in 2018.

Recent Orlando Transactions

ARIUM Hunters Creek

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

Linden Audubon Park

City: Orlando
Buyer: Harbor Group International
Purchase Price: $97 MM
Price per Unit: $216,036

ARIUM Metrowest

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

The Retreat at Orlando

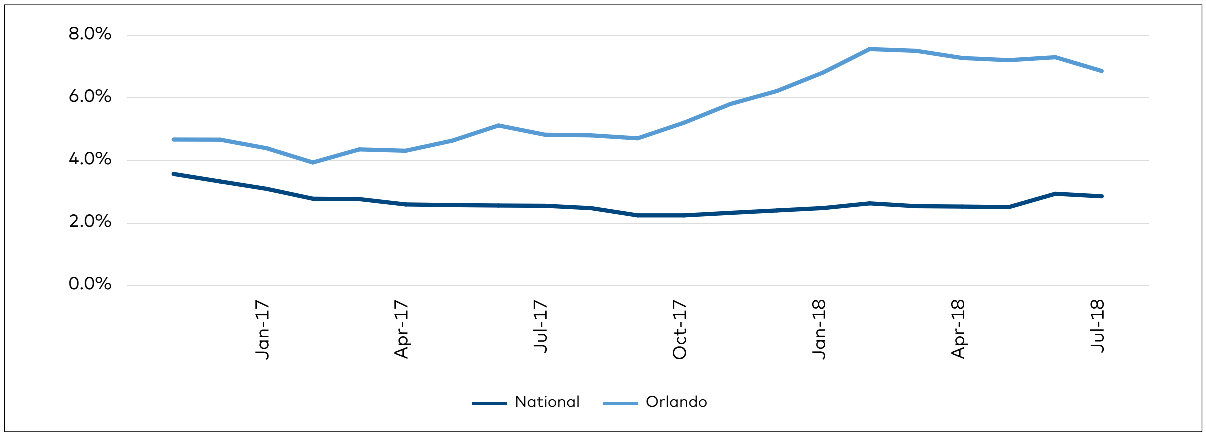
City: Orlando
Buyer: Preferred Apartment Communities
Purchase Price: $82 MM
Price per Unit: $369,779

On the cover: Photo by bobbyuzda/iStockphoto.com

Rent Trends

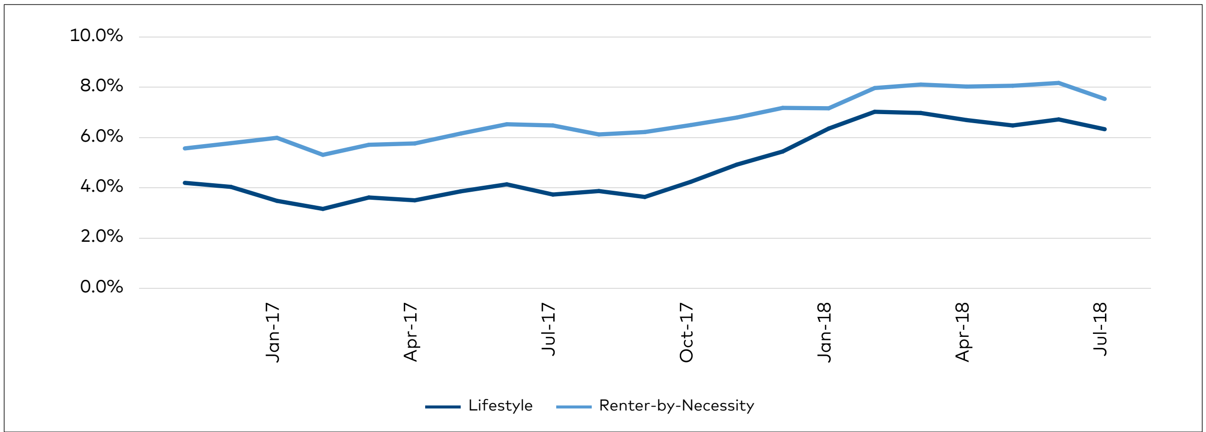
- Orlando remains the nation's top major market for rent growth, with rates up 6.9% year-over-year through July, massively outperforming the 2.8% U.S. figure. Posting one of the highest job growth rates in the country and boosted by strong in-migration and rapid household formation, the metro is likely to continue to lead the pack. At $1,325 as of July, the average Orlando rent was $84 below the national rate.
- Rents in the working-class Renter-by-Necessity segment were up 7.5% as of July, reaching $1,113. The rent growth spread between segments is contracting, with Lifestyle rents increasing 6.3%, to $1,478. Almost all units that came online during the past few years are geared toward high-income renters, which led to a slight softening of the luxury market. Even so, demand remains high and upscale rents are still advancing, albeit at a slower rate than in the case of workforce communities.
- Urban core and southern areas drove growth, with rents advancing fastest in submarkets such as Conway (13.9%) and Pine Hills (12.7%). However, eastern submarkets such as University Park ($1,833) and Oviedo ($1,730) remained the most expensive as of July, closely followed by Colonial Town ($1,701), Downtown Orlando ($1,657) and other core submarkets. Boosted by above-trend job growth and the metro's burgeoning tourism industry, we expect Orlando rents to grow 5.1% in 2018.

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)

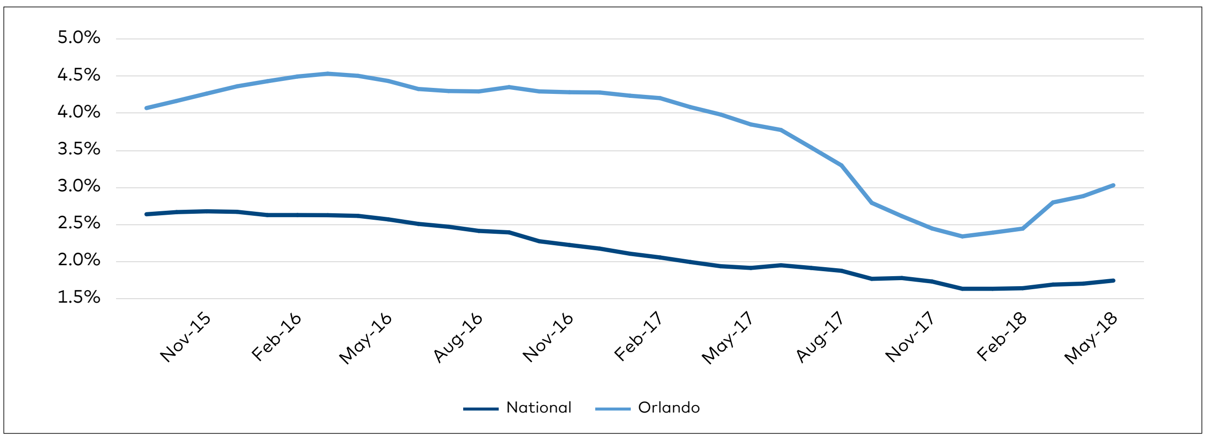


Source: YardiMatrix

Economic Snapshot

- Orlando added 46,900 jobs in the 12 months ending in May for a 3.0% expansion, well above the 1.7% national rate. The metro's unemployment rate has been decreasing since 2010, reaching 3.0% in May, 80 basis points below the national average.
- Tourism remains the area's economic backbone, with the leisure and hospitality sector having added 10,600 jobs in the 12 months ending in May. A record 72 million tourists visited Orlando in 2017: Despite last year's Hurricane Irma, the numbers are still on the rise. Universal Studios is planning a new entertainment facility in the southern part of the metro, as well as new hotels near its theme parks. Furthermore, Walt Disney World Resort partnered with Origis Energy USA and the Reedy Creek Improvement District to develop a solar project that will power two of its theme parks in Central Florida. The construction sector has already added more than 7,000 jobs, while professional and business services and education and health services gained almost 18,000 new positions.
- Nearly 1.7 million square feet of office space was under construction in the metro as of August. One of the largest projects underway is KPMG's global training facility. The company is nearing completion on the exterior construction of its $450 million learning, development and innovation center, which is set to add 800,000 square feet of office space in Lake Nona by late 2019.

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	296	19.6%	10,600	3.7%
60	Professional and Business Services	260	17.2%	10,000	4.0%
65	Education and Health Services	196	13.0%	7,900	4.2%
15	Mining, Logging and Construction	94	6.2%	7,100	8.2%
30	Manufacturing	72	4.8%	4,600	6.8%
55	Financial Activities	86	5.7%	4,000	4.9%
40	Trade, Transportation and Utilities	271	18.0%	1,900	0.7%
80	Other Services	53	3.5%	800	1.5%
90	Government	154	10.2%	100	0.1%
50	Information	27	1.8%	-100	-0.4%

Sources: YardiMatrix, Bureau of Labor Statistics

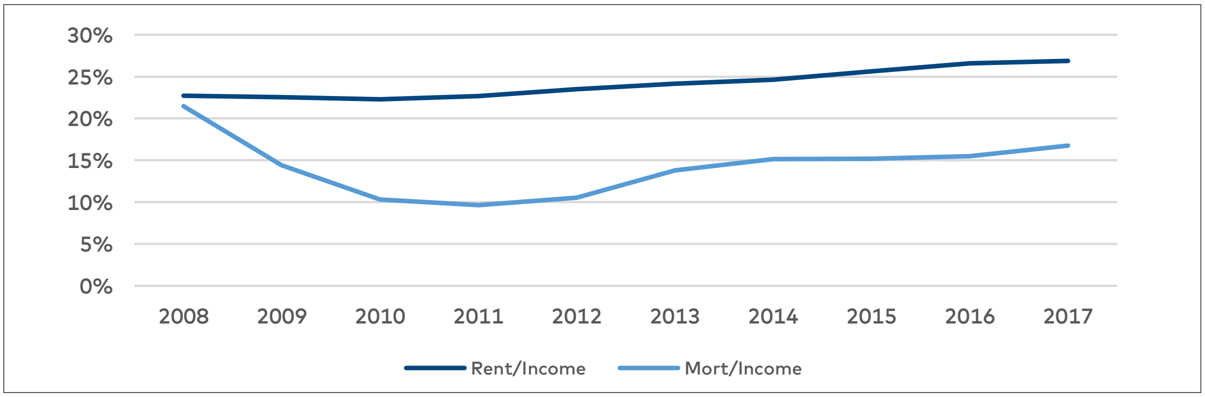
Demographics

Affordability

- Orlando's median home price rose roughly 8% last year, reaching a $198,866 cycle high. The average rent accounted for 27% of the area median income, while the average mortgage payment comprised 17%. Despite the large gap, the rising barrier to entry for first-time homebuyers is making it increasingly harder for workforce households to qualify for a mortgage or save up for a down payment.

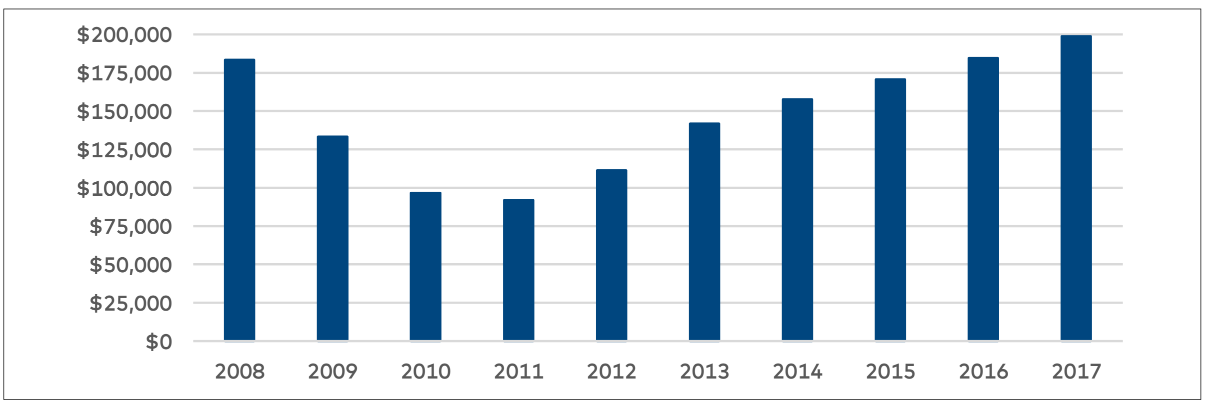
- According to a National Low-Income Housing Coalition report, Orlando ranks third nationally for its shortage of affordable rentals. And developers continue to focus on upscale projects.

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 gained roughly 56,500 residents last year, a 2.3% boost, more than triple the 0.7% national rate.
- The metro's population increased rapidly during this cycle, having added almost 238,000 residents since 2013.

Orlando vs. National Population

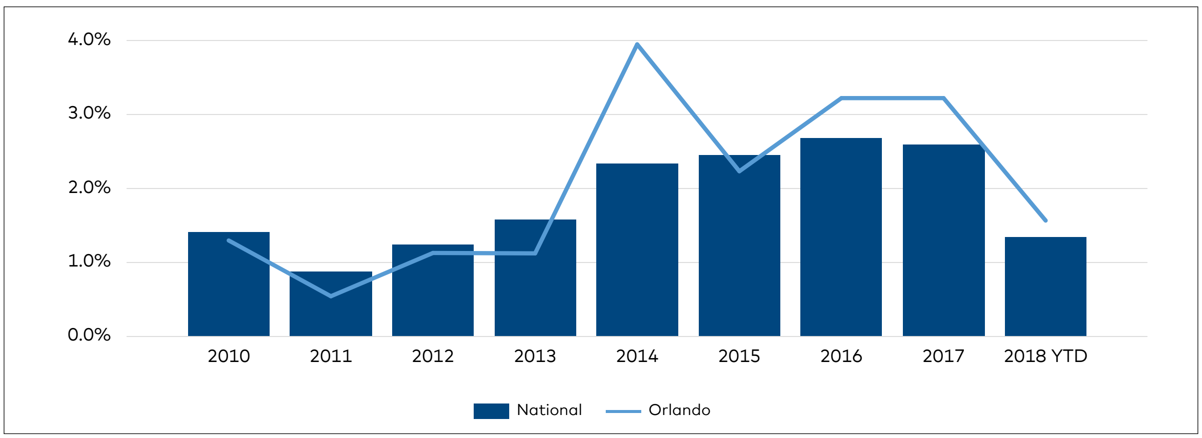
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Orlando Metro	2,272,175	2,327,929	2,391,028	2,453,333	2,509,831

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

Supply

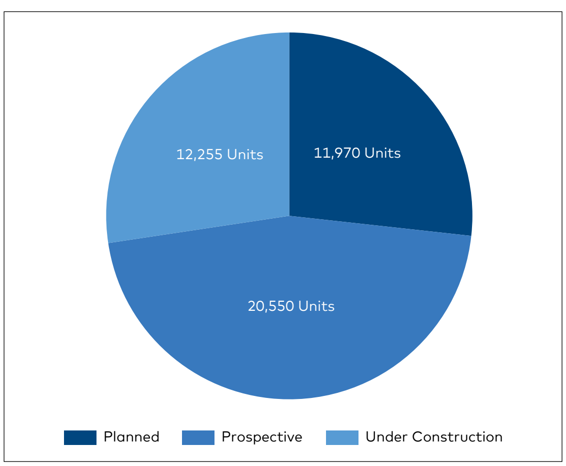
- More than 2,200 units came online in Orlando during the first seven months of 2018, with almost all completions catering to the Lifestyle segment. This is putting increasing pressure on rent-burdened residents. Although 6,534 units were delivered in 2017, only 17% were in working-class communities.
- Roughly 12,300 units were under construction in the metro as of July, while 32,520 more were in the planning and permitting stages. Fueled by in-migration and job creation, demand is expected to keep up. Although occupancy in stabilized properties slid 50 basis points year-over-year to 95.8% as of June, it remains above the 95.0% national figure.
- Development is mainly concentrated in core and southern submarkets such as Winter Park/Maitland (1,741 units under construction), West Kissimmee (1,238 units) and Downtown Orlando (1,089 units). The Yard at Ivanhoe—the largest project underway as of July—is also located in a core submarket. Real Estate Inverlad is building the 630-unit community in Colonial Town, a historic arts-centered neighborhood. Jack Jennings & Sons Inc. serves as general contractor of the $150 million mixed-use project.

Orlando vs. National Completions as a Percentage of Total Stock (as of July 2018)



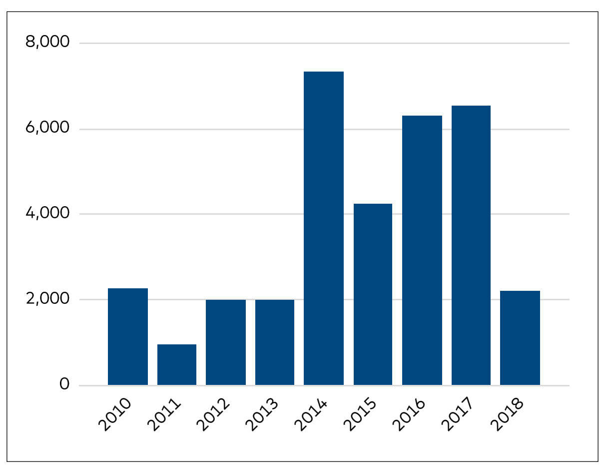
Source: YardiMatrix

Development Pipeline (as of July 2018)



Source: YardiMatrix

Orlando Completions (as of July 2018)

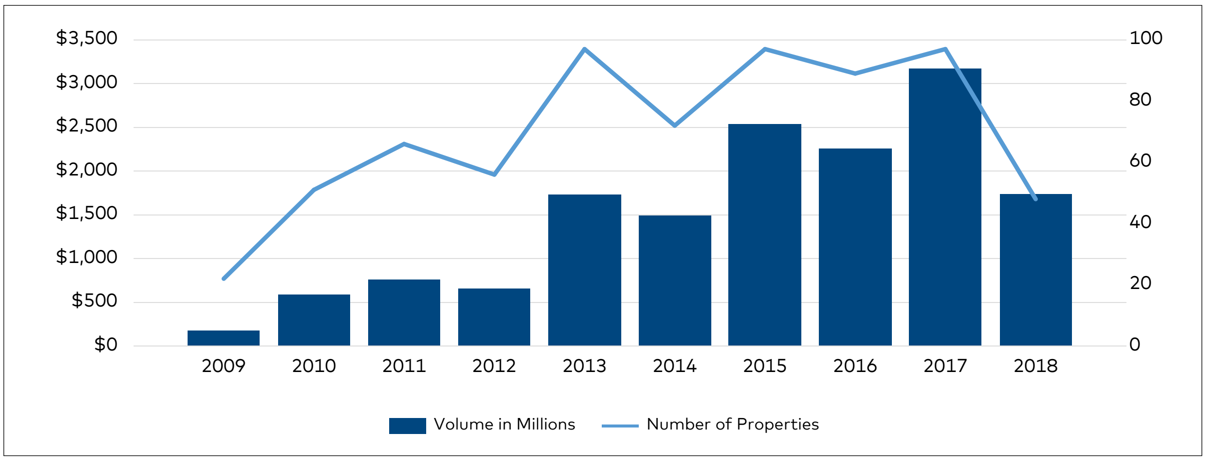


Source: YardiMatrix

Transactions

- Multifamily investor appetite continued to be strong in Orlando, with transaction volume exceeding $3.1 billion in the 12 months ending in June. More than $1.7 billion in multifamily assets changed hands in the first seven months of 2018 alone, pointing toward another potential cycle high. The average Orlando price per unit was $145,805 this year through July, roughly on par with the $148,902 national figure.
- The two most active Orlando submarkets in the 12 months ending in June had a combined sales volume of approximately $500 million: Lake Bryan ($301 million) and University Park ($203 million). The latter was the scene of one of the largest transactions of the year—The Retreat at Orlando—which changed hands for $81.7 million. Preferred Apartments Communities purchased the 894-bed student housing asset near the University of Central Florida campus from Inland Real Estate Group.

Orlando Sales Volume and Number of Properties Sold (as of July 2018)



Source: YardiMatrix

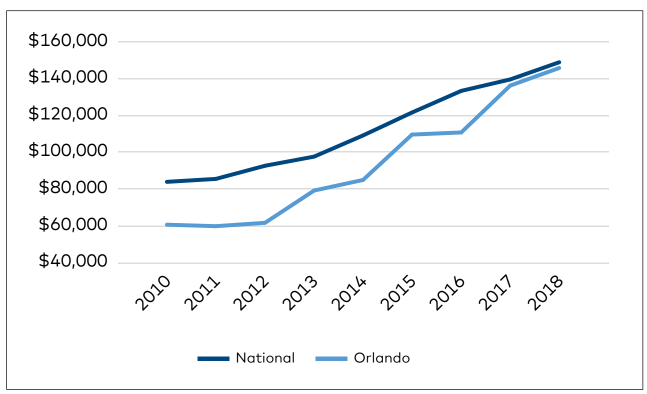
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Lake Bryan	301
University Park	203
Stoneybrook	166
East Kissimmee	149
Hunter's Creek	148
Clermont	140
Colonial Town	138
Hancock Lake	137

Source: YardiMatrix

[1] From July 2017 to June 2018

Orlando vs. National Sales Price per Unit



Source: YardiMatrix

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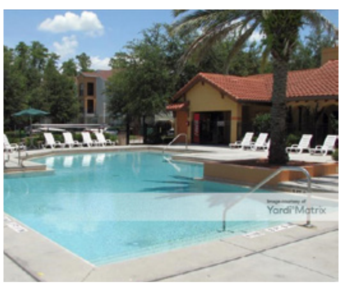
CBRE Arranges Largest Sale in Orlando History

A joint venture between GoldOller Real Estate Investments and The Family Office sold two assets totaling 876 units in the city's Altamonte Springs submarket.

C&W Brokers $49M Florida Sale

Senior Directors Jay Ballard and Ken Delvillar of the company's multifamily team in Orlando facilitated the transaction on behalf of seller Waypoint Residential.



Orlando-Area Community Lands $38M Acquisition Loan

The 320-unit property was nearing full occupancy at the time of the transaction. Berkadia worked on behalf of buyer Insula Cos.

Berkadia Secures $48M Acquisition Loan for FL Asset

The recently completed property had an 82 percent occupancy rate at the time of the negotiations. Berkadia represented buyer Advenir.

Cortland Partners Snags $66M Orlando Property

ARA Newmark Vice Chairman Patrick Dufour, Director Scott Ramey and Executive Managing Director Kevin Judd worked on behalf of the seller, LeCesse Development.

894-Bed Student Housing Asset Trades In Orlando

Inland Private Capital Corp. sold The Retreat at Orlando on behalf of one of its 1031 investment programs. The community primarily serves University of Central Florida students.

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Keys to a Successful Development Strategy

Ten years after the financial crash, the smartest players in the industry are still reaping the benefits of their thorough planning and prudent ventures throughout the tough times. BTI Partners is one of the companies that used the effects of the Great Recession as part of its long-term investment strategy.

As Managing Partner Noah Breakstone revealed to Senior Writer Alexandra Pacurar, BTI acquired assets at low prices and sold them to developers once the market started to recover. His company also found creative ways to finance its projects. Breakstone discussed why he is optimistic about the industry and which markets will lead the next wave of development.

BTI Partners' strategy involves community development district bonds. What can you tell us about this type of financing for residential construction?

Community development districts (CDD) are once again gaining popularity among developers, years after the Great Recession. The advantage of these districts is that they can issue bonds to help pay for the infrastructure of a development, including roads, water and sewer lines, lighting, and much more. The bonds save Florida developers the cost of building the infrastructure and they pass that saving to the homebuyer. At the height of the last real estate cycle, Florida had close to 600 CDDs, which had issued more than $6 billion in municipal bonds to finance their infrastructure.

When the economy collapsed, a large number of those districts defaulted on the bonds and bondholders foreclosed on them. Our company actually developed a strategy to step in the shoes of the bondholders to eventually get title to nearly 8,000

acres of ready-to-build land. Once the real estate market came back, we sold a lot of that land to national homebuilders.

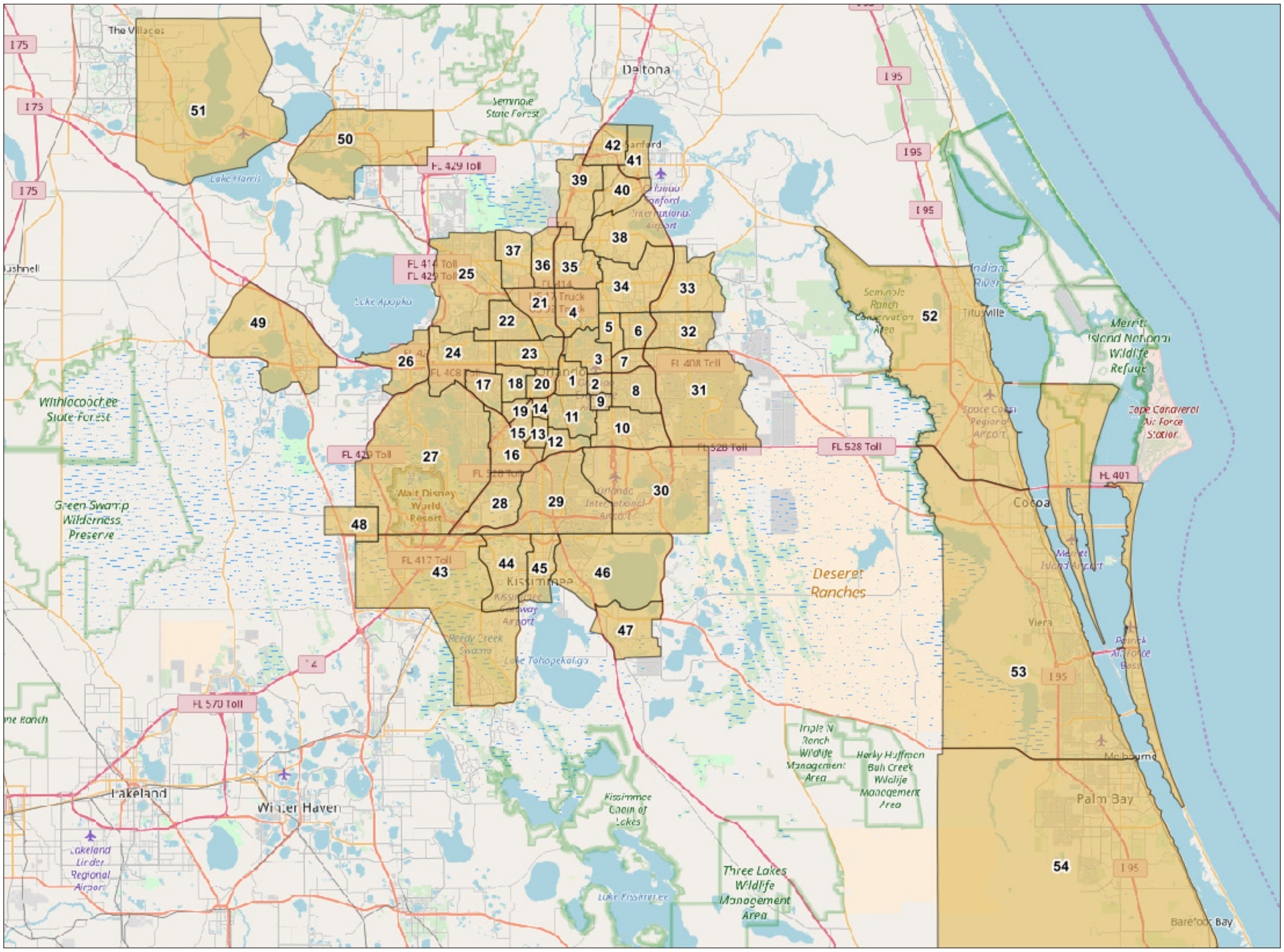
Which do you think are the hot markets for multifamily development and growth?

Tampa and Central Florida are two markets experiencing demographic and job growth. Those are two of the main fundamentals that spur demand for new apartments. BTI Partners is very bullish in those two markets and we are building multifamily products in Tampa and Orlando. In Tampa, we are the master developer of a 52-acre master-planned community that will include several luxury rentals. We are keeping a portion of the waterfront parcel to build a luxury condo tower called Marina Pointe. In Orlando, we are opening in phases a luxury condo hotel resort called the Grove Resort & Spa near Walt Disney World. We are capitalizing on the nearly 70 million visitors who travel to Orlando every year and would like to own a vacation home with resort-like amenities near the theme parks.

The supply of affordable housing is low in the country's major markets. What can you tell us about affordable housing development in South Florida?

One strategy we are applying to help solve that problem is building single-family homes on land we acquired very cheap during the Great Recession. Back then, we acquired defaulted muni bonds backed by large development sites and eventually took title to the ready-to-build parcels. As a result, we are now able to offer a product that is affordable to the middle class.

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.