Booming Jacksonville

Multifamily Report Summer 2019

Rent Growth Outpaces U.S. Average

New Development Reaches Cycle Peak

Sales Decelerate as Prices Hit a High Point

Market Analysis
Summer 2019

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New Development Targets Urban Core

Jacksonville's multifamily market is expanding, sustained by consistent rent growth, steady employment gains and ongoing net in-migration of young people, working families and retirees.

Job growth in the 12 months ending in June was led by leisure and hospitality (4,700 positions). This trend is set to continue, boosted by new attractions underway, especially in the downtown area, which is seeing robust population gains. Elements Development of Jacksonville LLC is building a 200-key AC Hotel by Marriott as part of The District, a $600 million mixed-use venue on the south side of the St. Johns River. Meanwhile, a public partnership of the city, along with Jaguars owner Shad Khan and the Cordish Cos., is investing $450 million to develop Lot J at TIAA Bank Field into a mixed-use destination, including a hotel. Professional and business services added 4,400 jobs, while education and health services gained 4,200 jobs.

As market conditions improve, the pace of new multifamily development is accelerating. Last year, 2,664 units came online, a new cycle peak that will likely be surpassed in 2019. On the sales front, buyers competed for assets with a value-add component, pushing the average price per unit to a new high. As the metro's positive demographic and employment trends are slated to continue, we expect a 4.1% rent growth by the end of 2019.

Recent Jacksonville Transactions

Steele Creek

City: Jacksonville, Fla.
Buyer: Hercules Real Estate Services
Purchase Price: $63 MM
Price per Unit: $211,333

St. John's Forest

City: Jacksonville, Fla.
Buyer: Priderock Capital Partners
Purchase Price: $56 MM
Price per Unit: $126,364

Mezza

City: Jacksonville, Fla.
Buyer: Electra America
Purchase Price: $55 MM
Price per Unit: $125,000

Mission Springs

City: Jacksonville, Fla.
Buyer: Topaz Capital Group
Purchase Price: $35 MM
Price per Unit: $79,167

Rent Trends

- Rents in Jacksonville rose 3.5% year-over-year through July, outpacing the 3.4% national rate. The metro's average rent stood at $1,115, below the $1,469 U.S. figure. Following the delivery of a cycle peak of 2,664 units in 2018, occupancy in stabilized properties saw a 30 basis-point slide year-over-year, standing at 95.0% as of June, below the 95.1% U.S. average.

- Rents in the working-class Renter-by-Necessity segment rose 4.4% to $931, while Lifestyle rates increased 3.0%, to $1,289. Household creation, employment opportunities and an ongoing influx of both young people and retirees moving to Jacksonville are maintaining strong demand for apartments across asset classes. As these trends are expected to continue, Yardi Matrix forecasts a 4.1% average rent growth for the metro by year's end.

- Submarkets that saw the highest rent gains included Ortega Hills (up 7.9% to $1,082), followed by Mayport (up 6.9% to $1,122), Southridge (up 5.7% to $1,255), Newcastle (up 5.6% to $919), Greenland (up 5.4% to $1,073), Bellair (up 5.3% to $1,034) and Neptune Beach (up 4.7% to $1,372). Deerwood Club–East commanded the metro's highest rents, up 2.4% year-over-year to $1,438 as of July, followed by Bayard (up 1.8% to $1,365) and College Park/Springfield (up 1.8% to $1,337), which also topped the list of submarkets with the highest number of new units underway.

Jacksonville vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)
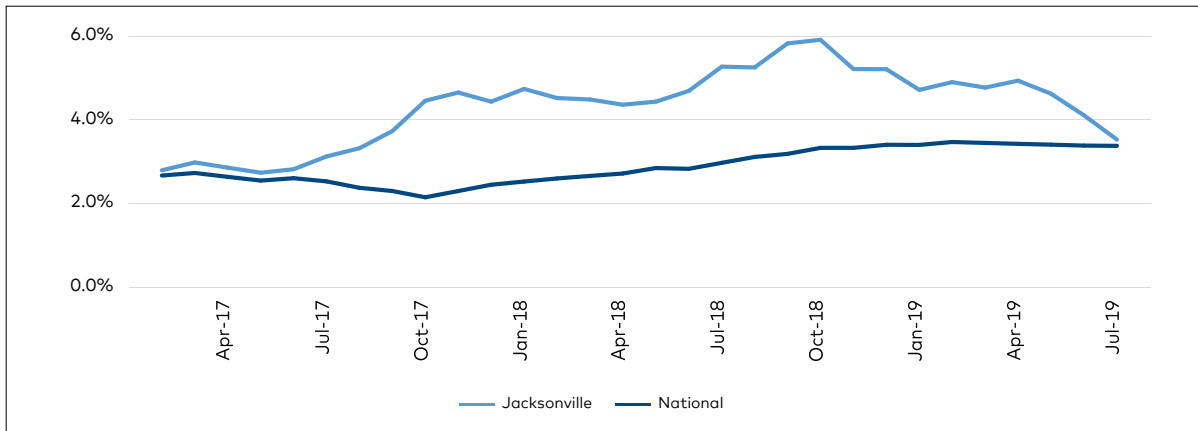
Source: YardiMatrix

Jacksonville Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)
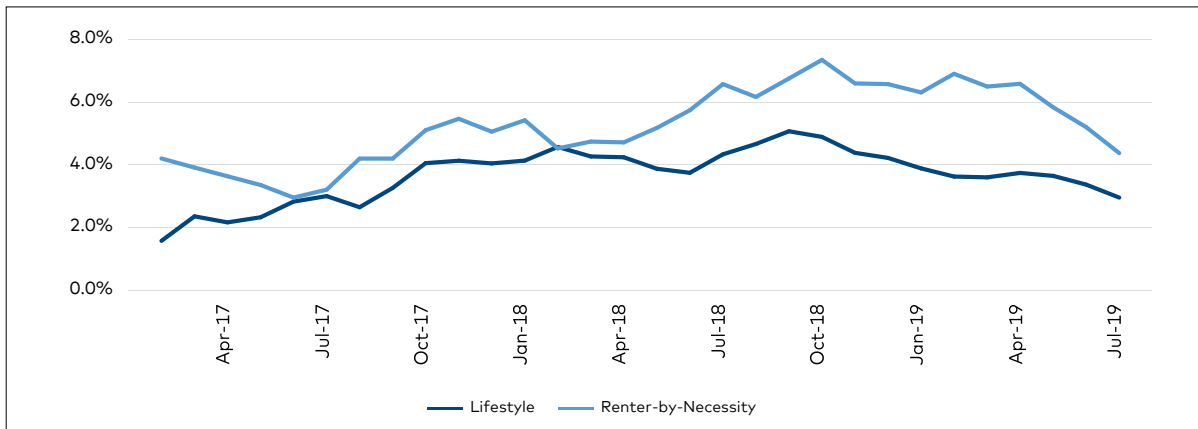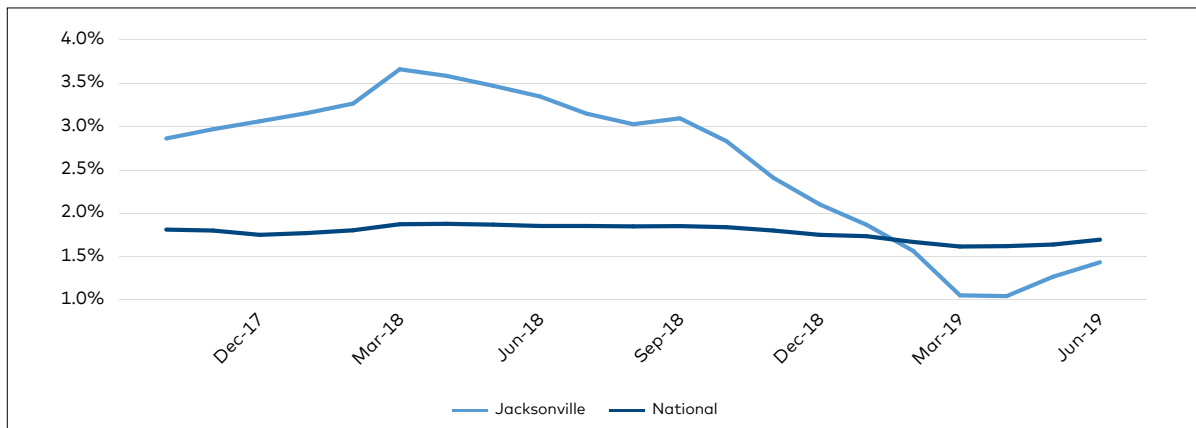

Source: YardiMatrix

Economic Snapshot

- Jacksonville gained 15,900 jobs in the 12 months ending in June, a 1.4% year-over-year increase that trailed the 1.7% national average. The unemployment rate was 3.0% as of May, one of Jacksonville's lowest levels in recent years and well below the 3.6% U.S. average.

- Leisure and hospitality led growth with 4,700 jobs. Demand for hotel guestrooms is strong, especially in the market's core, where new development could add more guestrooms to the existing 2,360 keys of the eight hotels operating on both banks of the St. Johns River. Approved projects on the south side include a 200-key AC Hotel by Marriott planned by Elements Development of Jacksonville LLC. The project is part of The District, an estimated $600 million mixed-use venue set to also include residential, office and retail space and a 125-slip marina. On the north side, SouthEast Development Group and The Molasky Group of Cos. are planning a 145-key Courtyard by Marriott as part of a $95 million mixed-use project. Meanwhile, a public partnership of the city, Jaguars owner Shad Khan and the Cordish Cos. are investing $450 million to develop Lot J at TIAA Bank Field into a mixed-use destination that will include a hotel.

- Professional and business services expanded by 4,400 jobs, while education and health services gained 4,200 jobs, boosted by a growing senior population. U.S. Census Bureau's American Community Survey data showed that the metro ranked fifth in the U.S. for senior net migration between 2012 and 2017.

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	%
70	Leisure and Hospitality	91	12.6%	4,700	5.5%
60	Professional and Business Services	113	15.7%	4,400	4.1%
65	Education and Health Services	111	15.4%	4,200	3.9%
90	Government	75	10.4%	1,500	2.0%
80	Other Services	28	3.9%	1,200	4.5%
15	Mining, Logging and Construction	47	6.5%	700	1.5%
30	Manufacturing	32	4.4%	400	1.3%
50	Information	9	1.2%	-200	-2.1%
40	Trade, Transportation and Utilities	149	20.7%	-400	-0.3%
55	Financial Activities	67	9.3%	-600	-0.9%

Sources: YardiMatrix, Bureau of Labor Statistics

Demographics
Affordability

- The median home price in Jacksonville rose to $184,510 in 2018, up 8% since 2017 and 77% above the 2011 level. The average mortgage payment accounted for 14% of the area median income, while the average rent equated to 20%.

- The metro's good weather, solid employment opportunities and relatively low cost of living continue to attract residents. In recent years, about one-third of newcomers arrived from other parts of Florida, mostly from Miami, Orlando and Palm Bay, many of whom are middle-class, working families.

Jacksonville Rent vs. Own Affordability as a Percentage of Income
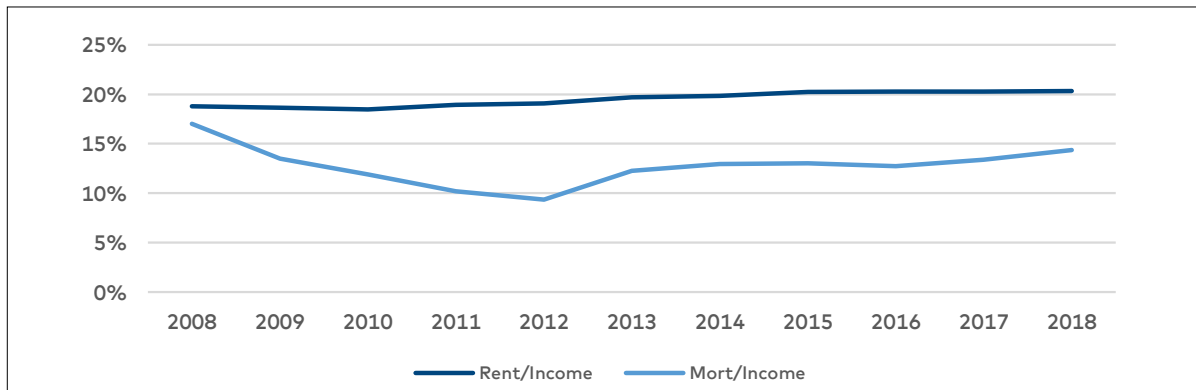
Sources: YardiMatrix, Moody's Analytics

Jacksonville Median Home Price
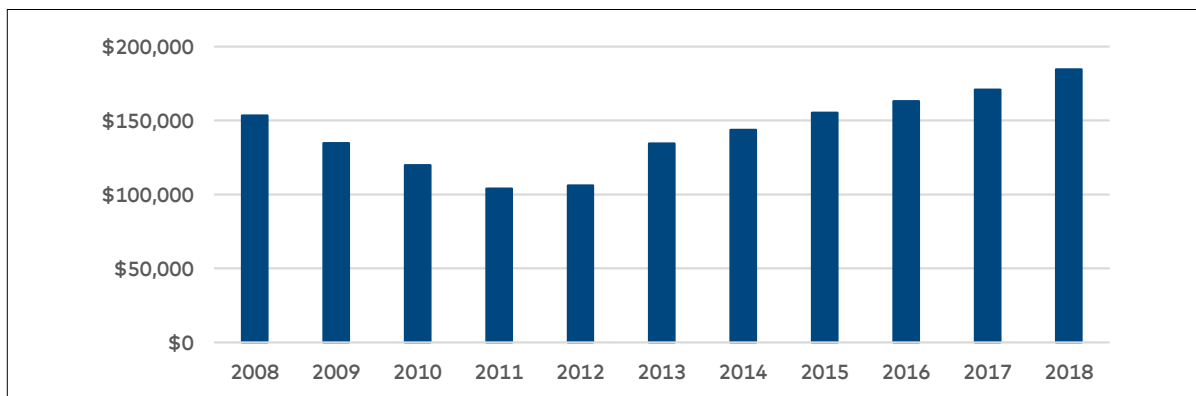
Source: Moody's Analytics

Population

- Jacksonville gained 28,477 residents in 2017, a 1.9% increase, well above the 0.7% U.S. growth rate.

- The metro gained an estimated 30,694 last year, according to preliminary U.S. Census data.

Jacksonville vs. National Population

|	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Jacksonville Metro	1,394,206	1,417,740	1,445,986	1,476,503	1,504,980

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

Supply

- Some 5,795 units were under construction in Jacksonville as of July, mostly targeting the Lifestyle segment. In 2019 through July, seven properties totaling 1,553 units came online, 1.6% of total stock. In 2018, developers completed 2,664 units, or 2.7% of stock, the cycle peak.

- The metro's multifamily pipeline as of July also consisted of 17,764 units in the planning and permitting stages. New development has crossed the 2,000-unit-per-year mark beginning with 2017, as demand and growth have picked up. Affordable land for multifamily projects enabled developers to build garden-style communities, as opposed to mid- or high-rise structures, which are more common in South Florida. By the end of 2019, we anticipate total deliveries to exceed last year's. Absorption is expected to keep up, as positive demographic and employment trends are slated to continue.

- Developers are especially targeting areas in and around the metro's thriving downtown, which has crossed the 5,000-resident mark, according to Downtown Vision's latest report. Submarkets with the highest number of new apartments underway as of July included College Park/Springfield (1,103 units), Bayard (812 units), Pineland Gardens (728 units) and Deerwood Club–East (578 units).

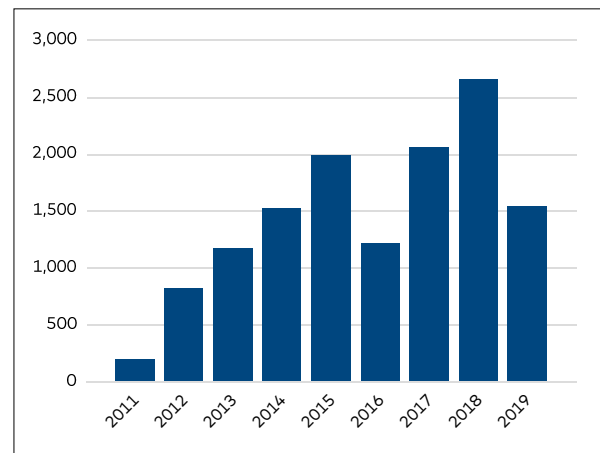**Jacksonville vs. National Completions as a Percentage of Total Stock** (as of July 2019)
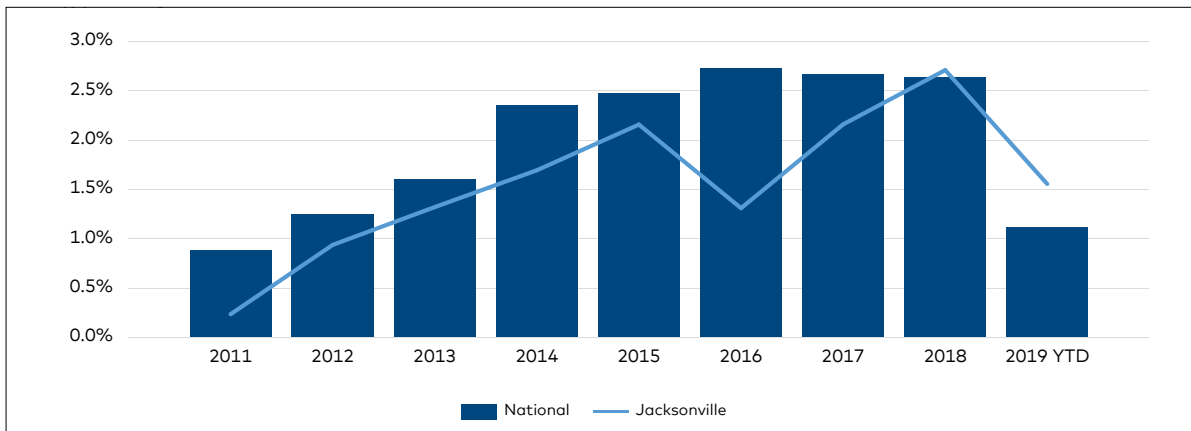
Source: YardiMatrix

Development Pipeline (as of July 2019)
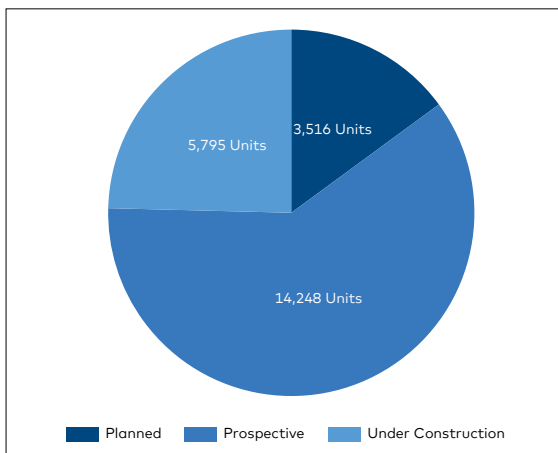
Source: YardiMatrix

**Jacksonville Completions** (as of July 2019)

Source: YardiMatrix

Transactions

- Some $550 million in multifamily assets traded in Jacksonville in 2019 through July, at an average price per unit of $103,462, which marked a new cycle peak but remained below the $157,576 national average. In 2018, more than $1.2 billion in properties traded at an average per-unit price of $100,852.

- Drawn in by the prospect of continued rent gains, investors focused on communities that offer value-add opportunities. Only five of the 29 properties that traded in 2019 through July were Class A assets. Acquisition yields ranged between 5.5% and 6.3% for Class A assets in infill locations and went as high as 7.0% for Class B and 7.5% for Class C communities.

- Hercules Real Estate Services' acquisition of Steele Creek Apartments in Deerwood Club–West ranked as the largest deal of the year. AC Packer West sold the property for $63.4 million, or $211,333 per unit.

Jacksonville Sales Volume and Number of Properties Sold (as of July 2019)
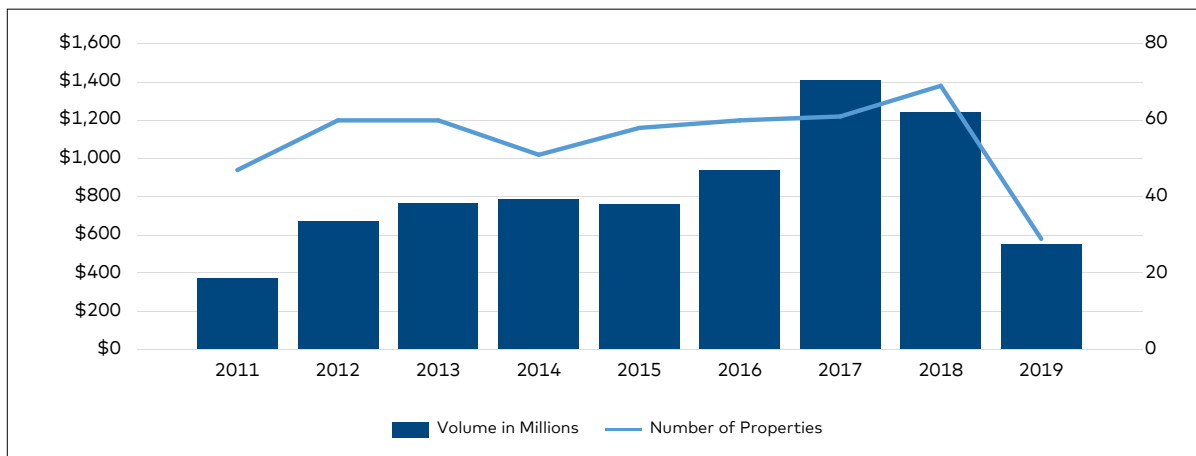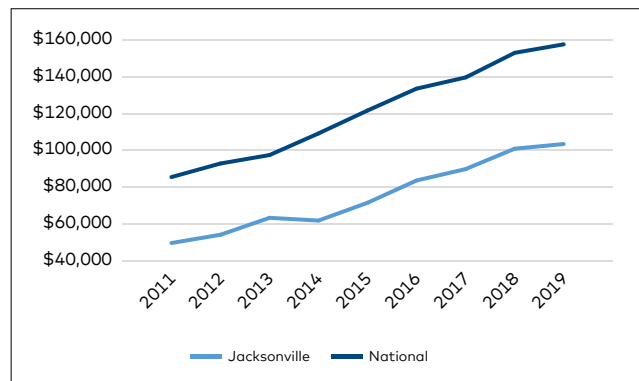

Source: YardiMatrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Deerwood Club–West	176
Cedar Hills	126
Highlands	124
Pineland Gardens	82
Newcastle	81
Neptune Beach	80
Mayport	59
Deerwood Club–East	47

Source: YardiMatrix
[1] From August 2018 to July 2019

Jacksonville vs. National Sales Price per Unit

Source: YardiMatrix

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American Landmark Sells Jacksonville Apartments

The firm purchased the 300-unit Landings at Lake Gray for $31 million back in 2017. CBRE brokered the deal.

Community Changes Hands For $22M

KCB Management sold the 256-unit property for more than double the price it traded for in 2013. Berkadia originated more than $17 million in acquisition financing.

EJF Capital's $86M Opportunity Zone Project

The alternative asset manager has joined forces with Chance Partners on the 486-unit community in the city's San Marco neighborhood, adding to a string of deals in tax-friendly areas.

Value-Add Community Sells for $35M

The new ownership will invest more than $5 million to upgrade and reposition the 444-unit property as Topaz Villas JAX.

Jacksonville Property Commands Record Per-Unit Price

RST Development purchased the luxury community for $63.4 million, or $211,333 per unit, the highest price per unit ever paid for a Northeast Florida suburban asset.

FL Student Housing Assets Secure $39M in Financing

Serving the University of Florida, the two student housing communities recently underwent major renovations to include new amenities. HFF worked on behalf of the borrower.

Jacksonville Submarkets
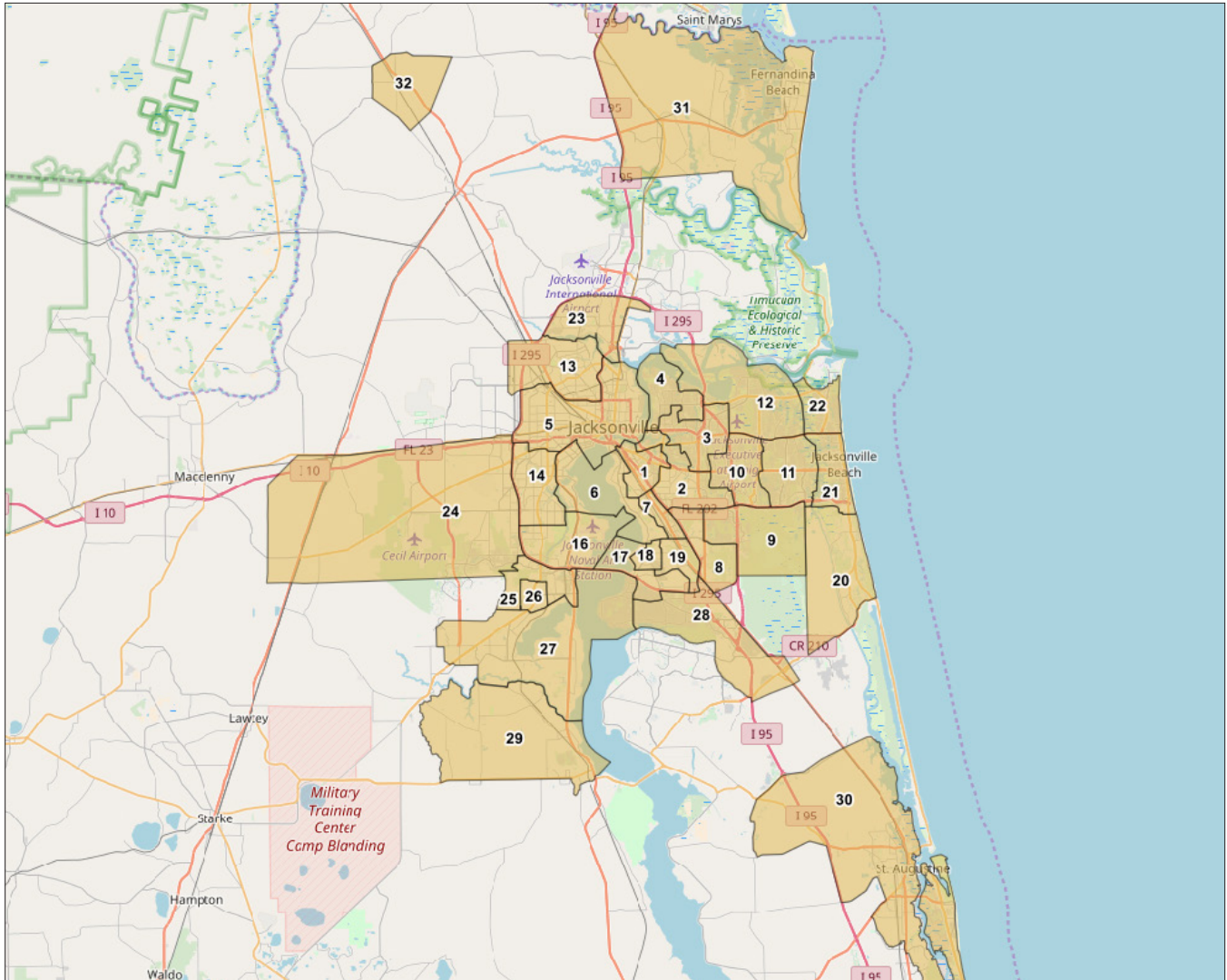
Area #	Submarket
1	South Jacksonville
2	Pineland Gardens
3	Oakwood Villa
4	Newcastle
5	College Park/Springfield
6	San Jose
7	Bowden
8	Deerwood Club–West
9	Deerwood Club–East
10	Southridge
11	San Pablo
12	Beacon Hills
13	Dinsmore
14	Cedar Hills
16	Ortega Hills
17	Greenland

Area #	Submarket
18	Goodbye
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.

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