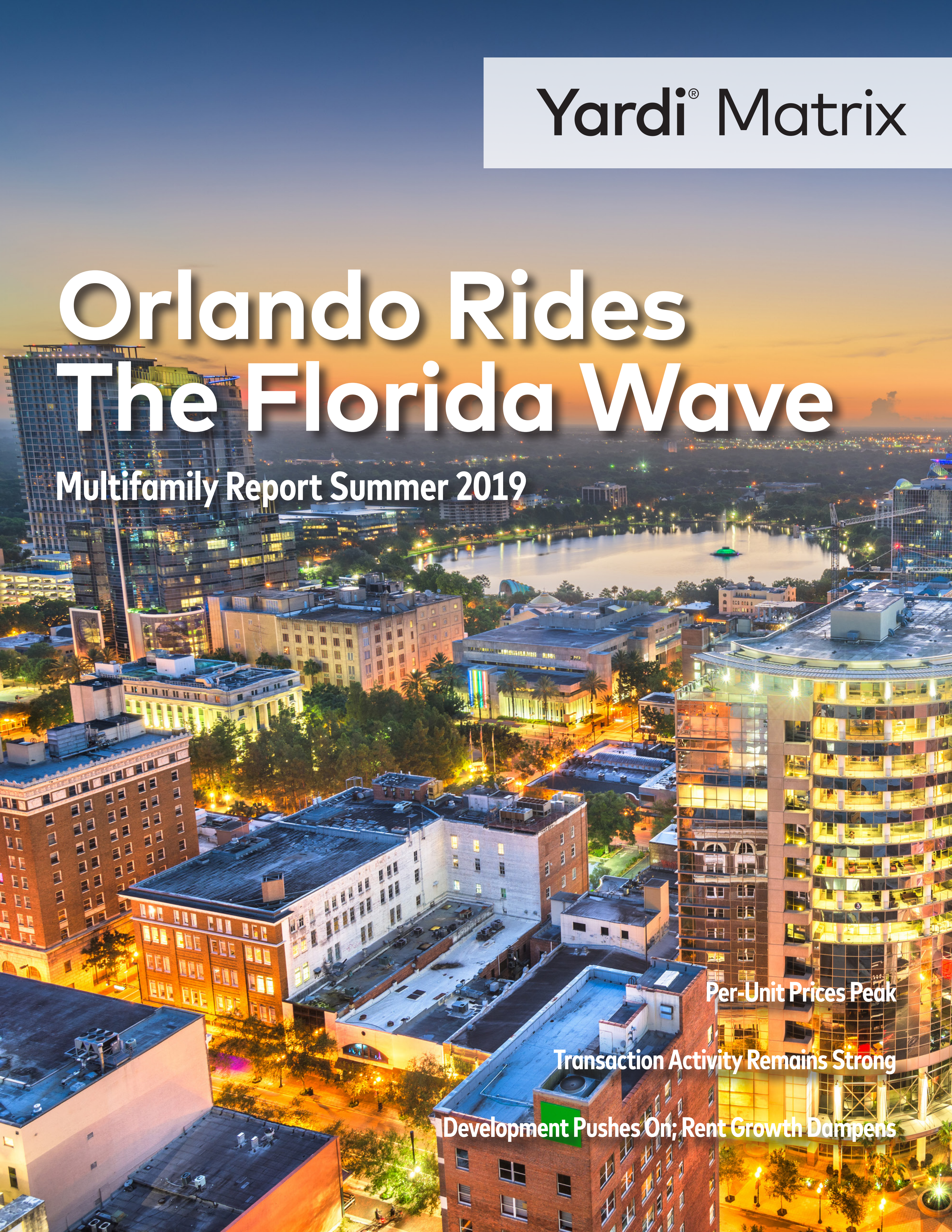
Yardi® Matrix

Orlando Rides The Florida Wave

Multifamily Report Summer 2019



Per-Unit Prices Peak

Transaction Activity Remains Strong

Development Pushes On; Rent Growth Dampens

Market Analysis
Summer 2019

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Fast-Paced Job Gains Boost Demand

Underpinned by exceptional population growth and robust employment gains, Orlando's multifamily market remains one of the most stable in the U.S. And despite a consistently strong pipeline, demand continued to outpace supply, even in the context of recently dampening rent growth.

Of the 55,600 jobs gained in the 12 months ending in June, more than half were in the professional and business services and leisure and hospitality sectors. Companies such as WeWork, Regus, KPMG and Deloitte are active in office-using sectors, while tourism—the metro's main economic driver—is booming. According to the area's marketing agency, a record 75 million people visited Orlando in 2018, a 4.2% year-over-year increase. To support the entertainment mecca, local authorities have $10 billion in infrastructure projects underway, including the $2.3 billion overhaul of the Interstate 4 corridor and a $2.1 billion airport expansion project.

Roughly 16,500 units were under construction in the metro as of July, more than 2,300 of them expected to come online by year-end, in addition to the 2,777 apartments that were delivered in the first seven months. Central Florida's burgeoning economy, coupled with solid demographic growth, is bound to keep housing demand strong in the foreseeable future. We expect the average Orlando rent to advance 4.0% this year.

Recent Orlando Transactions

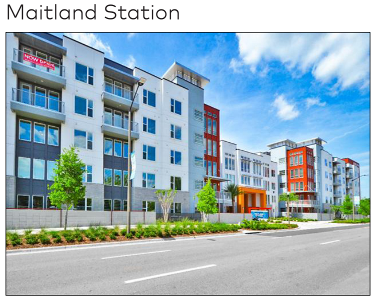
Broadstone Winter Park

City: Winter Park, Fla.
Buyer: Black Creek Group
Purchase Price: $84 MM
Price per Unit: $315,112

Lantower Grande Flats

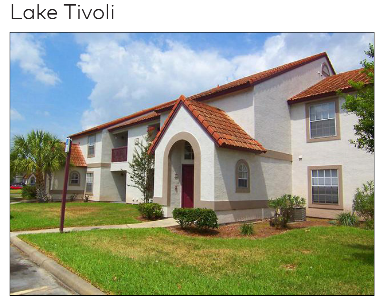
City: Orlando, Fla.
Buyer: Lantower Residential
Purchase Price: $75 MM
Price per Unit: $238,000

Maitland Station



City: Maitland, Fla.
Buyer: Nicol Investment Co.
Purchase Price: $73 MM
Price per Unit: $249,147

Lake Tivoli



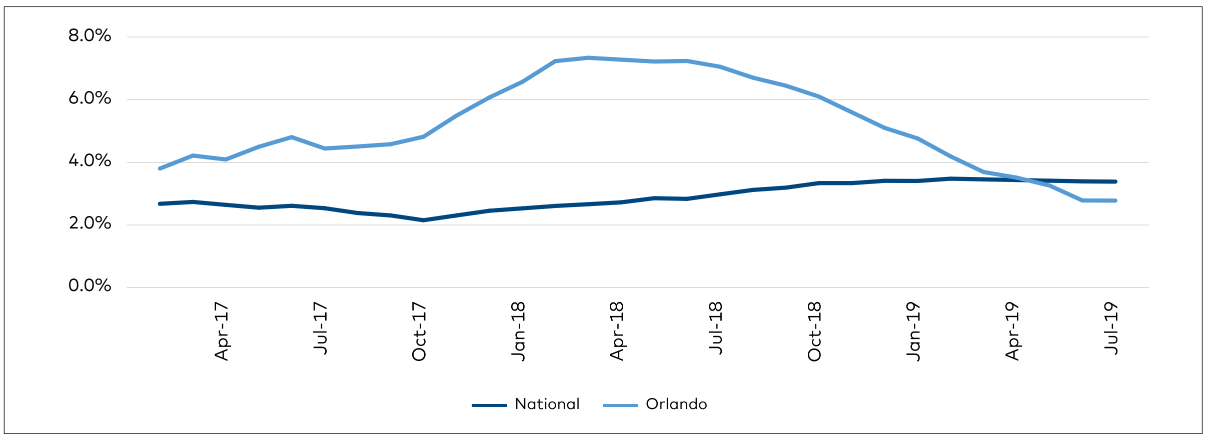
City: Kissimmee, Fla.
Buyer: Bridge Investment Group
Purchase Price: $67 MM
Price per Unit: $174,479

On the cover: Photo by Sean Pavone/iStockphoto.com

Rent Trends

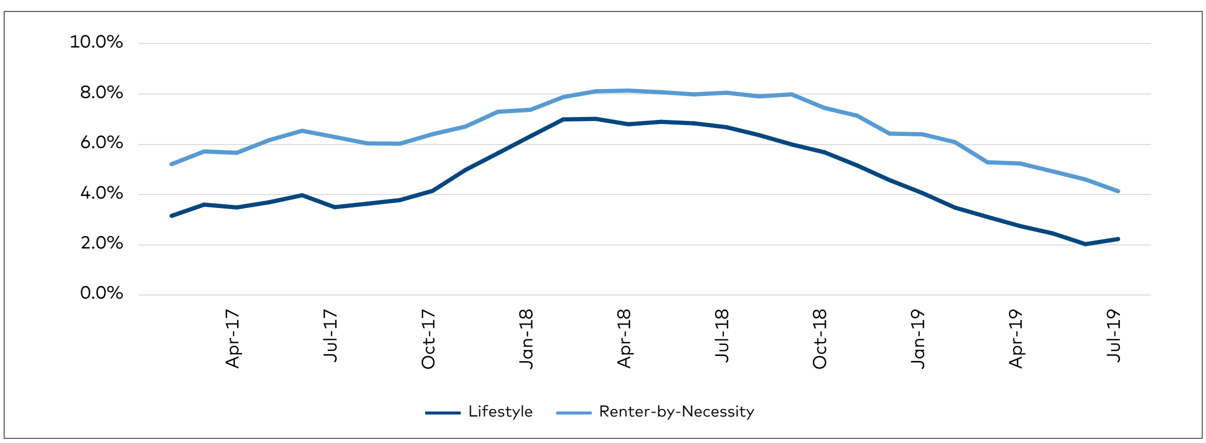
- Orlando rents rose 2.8% year-over-year through July, trailing the 3.4% U.S. figure and dropping well below the 7.1% increase recorded one year prior, when Orlando was leading all other major U.S. metros for rent growth. At $1,373 as of July, the average rent was $96 below the U.S. figure.
- Rent growth was primarily driven by the working-class Renter-by-Necessity segment, with the average up 4.1%, to $1,160. Meanwhile, Lifestyle rents rose 2.2%, to $1,519. Substantial gains in office-using employment sectors continued to boost demand for high-end rentals, keeping rent growth in the Lifestyle segment positive, despite the surge in upscale completions.
- Northern submarkets such as Mt. Dora (11.6%) and Sanford (8.6%) led rent growth, with both mainly comprising Renter-by-Necessity assets. Eastern and core areas rents remained the highest: University Park (up 4.4% to $1,898), Oviedo (up 2.6% to $1,737) and Downtown Orlando (up 0.2% to $1,724).
- Despite a consistent pipeline, the metro is poised for further growth, due to a rapid economic and population expansion. Although rent gains are a far cry from last year's figures, fundamentals are bound to remain healthy in the foreseeable future. Yardi Matrix expects the average rent in Orlando to increase 4.0% in 2019.

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)

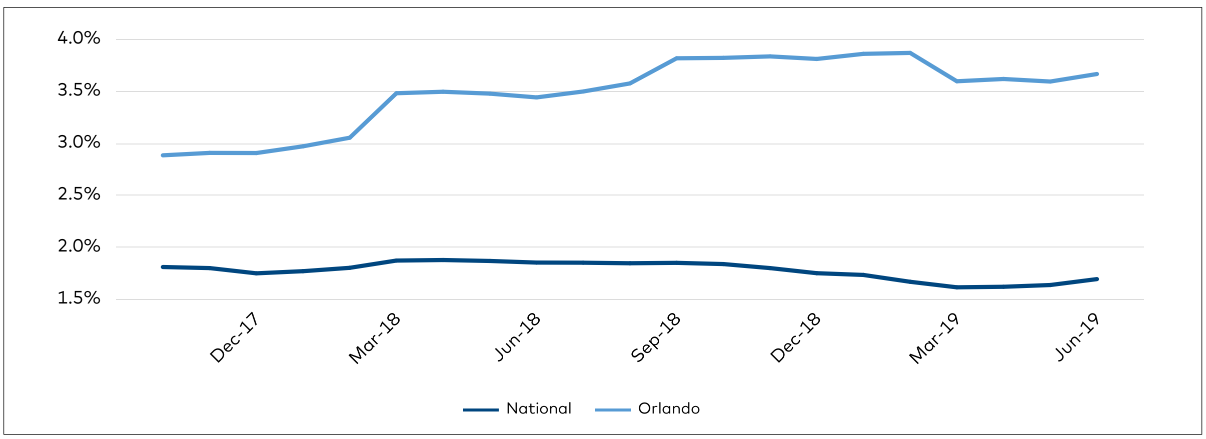


Source: YardiMatrix

Economic Snapshot

- With 55,600 jobs gained in the 12 months ending in June, growth remained consistent across sectors. The expansion rate was 3.7% as of June, more than double the U.S. average, keeping Orlando among the nation's fastest-growing economies, alongside metros such as Dallas, Phoenix and Las Vegas.
- Professional and business services led gains (17,200 jobs), strongly boosting Orlando's office sector. According to Yardi Matrix data, the metro added 1.4 million square feet of office space since the beginning of 2017, with an additional 2 million square feet underway as of August.
- With the upcoming delivery of a shared campus serving the University of Central Florida and Valencia College, the need for new staff will continue to generate education jobs. The campus is part of Creative Village, a $1 billion public-private project that will span across 68 acres west of Interstate 4 and is slated to include residential, student housing, office, retail and hotel space.
- Infrastructure projects worth roughly $10 billion are underway across the metro. The Interstate 4 corridor cutting through the city core is in the middle of a $2.3 billion overhaul, while phase III of SunRail's expansion is slated to connect residents directly to Orlando International Airport, which is itself undergoing a $2.1 billion revamp.

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	%
60	Professional and Business Services	281	18.0%	17,200	6.5%
70	Leisure and Hospitality	308	19.8%	12,800	4.3%
65	Education and Health Services	197	12.6%	6,500	3.4%
15	Mining, Logging and Construction	103	6.6%	6,200	6.4%
30	Manufacturing	77	4.9%	4,100	5.6%
40	Trade, Transportation and Utilities	278	17.8%	3,700	1.3%
90	Government	147	9.4%	2,000	1.4%
80	Other Services	54	3.5%	1,400	2.7%
55	Financial Activities	86	5.5%	1,400	1.7%
50	Information	28	1.8%	300	1.1%

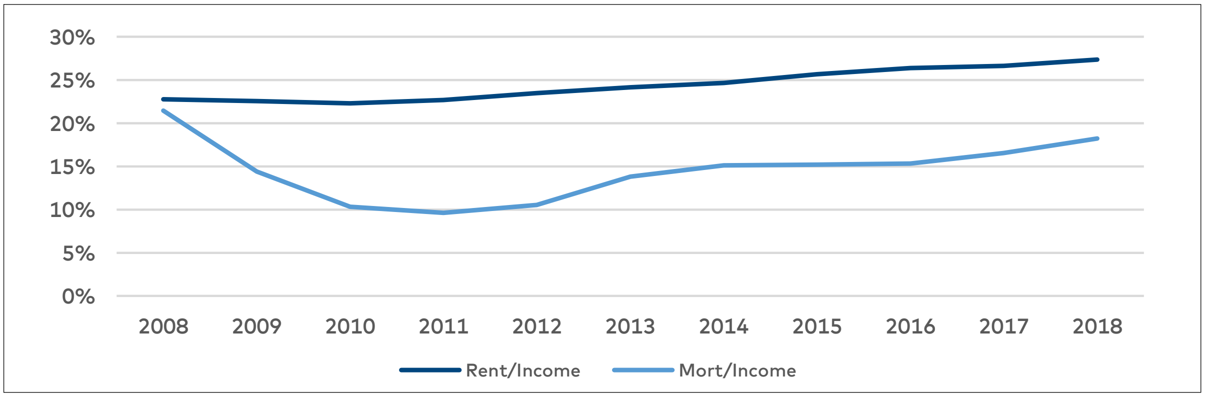
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

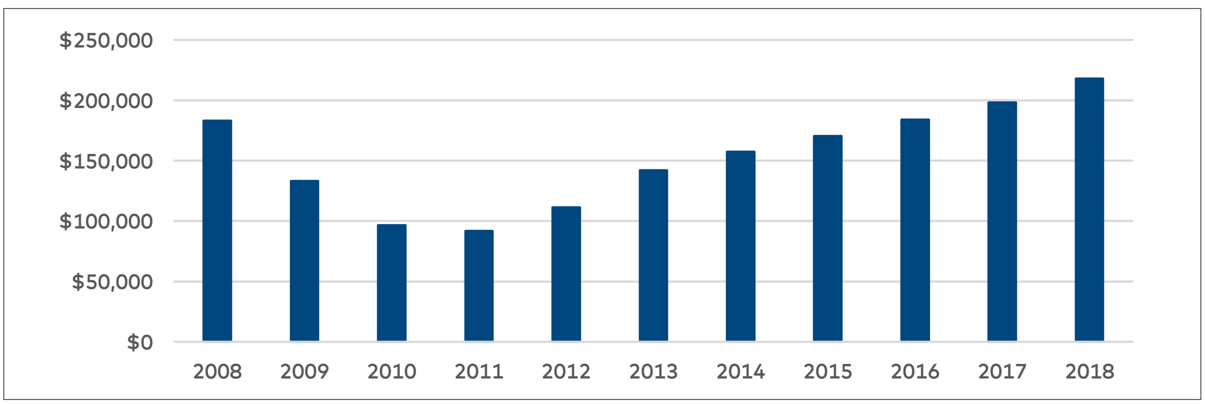
- The median home price began escalating quickly after its 2011 low, reaching $218,001 in 2018, for a 138% increase. Owning remained much less affordable than renting last year: The average mortgage payment comprised 27% of the area median income, while the average rent accounted for only 17%.
- According to a National Low-Income Housing Coalition report, the Orlando-Kissimmee-Sanford area ranks first among 50 of the largest U.S. metros for severe affordable housing shortage, ahead of cities such as Los Angeles and Boston. Only 13 units are affordable and available for every 100 extremely low-income families.

Orlando Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Orlando Median Home Price



Source: Moody's Analytics

Population

- The metro gained roughly 56,500 residents in 2017, up 2.3%. That's more than triple the 0.7% U.S. rate.
- Orlando-Kissimmee-Sanford added 370,514 people between 2010 and 2017, for a 17.3% expansion.

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

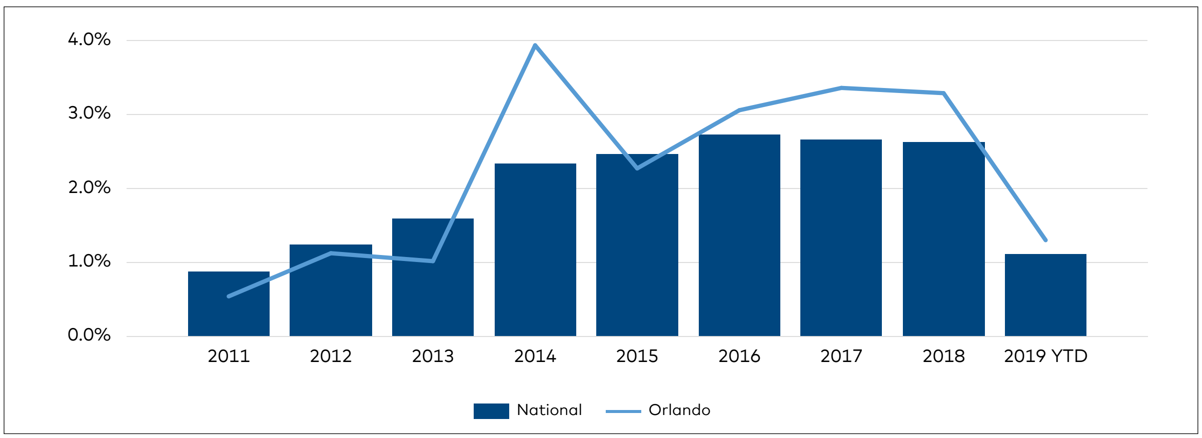
Supply

- Developers had 16,504 units underway across the metro as of July, only roughly 1,000 of which were in the Renter-by-Necessity segment. Bolstered by population, income and employment growth, rental demand remains strong, particularly in urban Central Florida submarkets. Yardi Matrix expects a total of more than 5,000 units to come online across metro Orlando in 2019.

- Roughly 2,800 units were delivered in Orlando during the first seven months of the year, all geared toward high-income residents, with the supply-demand imbalance putting additional pressure on working-class households. Following five years of accelerated supply—totaling 31,429 units—the occupancy rate in stabilized properties dropped to 95.1% as of June, on par with the national average and marking a 70-basis-point drop over 12 months.

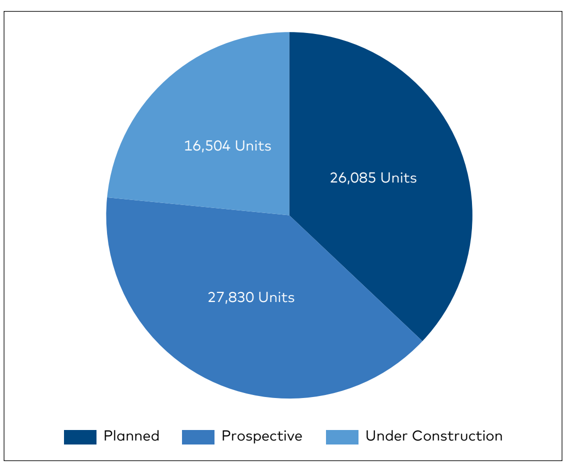
- Construction is mainly concentrated in core and southwestern submarkets, with Lake Buena Vista (4,260 units) leading the way. More than half of the submarket's pipeline is part of Flamingo Crossings, a large project built by The Walt Disney Co. west of the Walt Disney World theme parks. Plans call for an 89-acre project with 5 acres of commercial development.

Orlando vs. National Completions as a Percentage of Total Stock (as of July 2019)



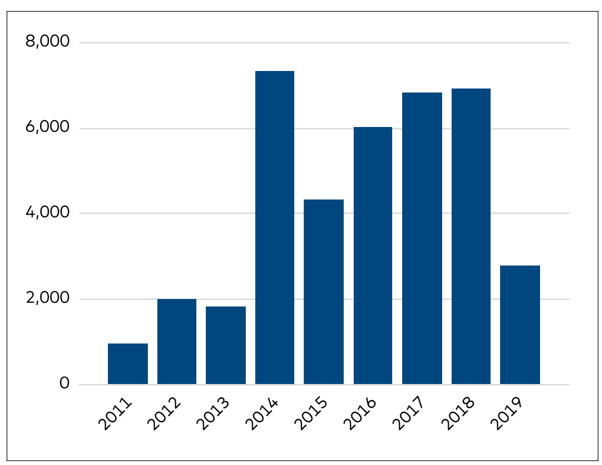
Source: YardiMatrix

Development Pipeline (as of July 2019)



Source: YardiMatrix

Orlando Completions (as of July 2019)



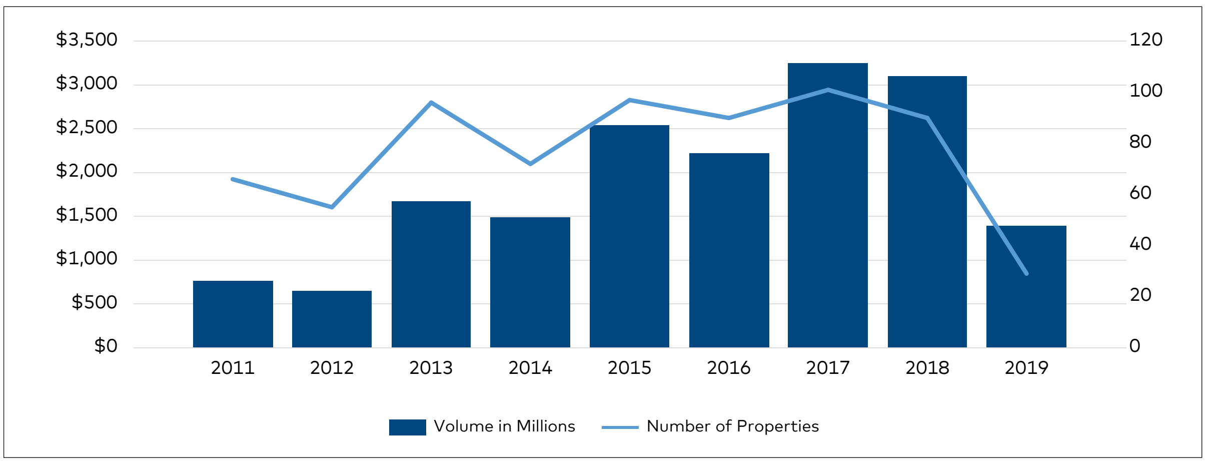
Source: YardiMatrix

Transactions

- A total of 29 multifamily assets traded in Orlando in the first half of the year for a combined $1.4 billion, pointing toward another solid year for transactions. Since roughly half of all properties that traded were in the Lifestyle segment, per-unit prices surpassed the national average for the first time this cycle, reaching $171,579 for the year's first two quarters. This had built up on the momentum of the previous two years, when almost $6.4 billion in multifamily assets traded across the metro.

- Submarkets within or close to the city core, such as Winter Park/Maitland ($217 million) and Downtown Orlando ($181 million), drew the most capital in the 12 months ending in July. While Related Cos.' $91 million purchase of the 716-unit Timberlake in Altamonte Springs from GoldOller Real Estate Investments ranked as the largest transaction during that time, LivCor ($221 million), S2 Residential ($202 million) and TruAmerica Multifamily ($197 million) were the metro's top buyers.

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



Source: YardiMatrix

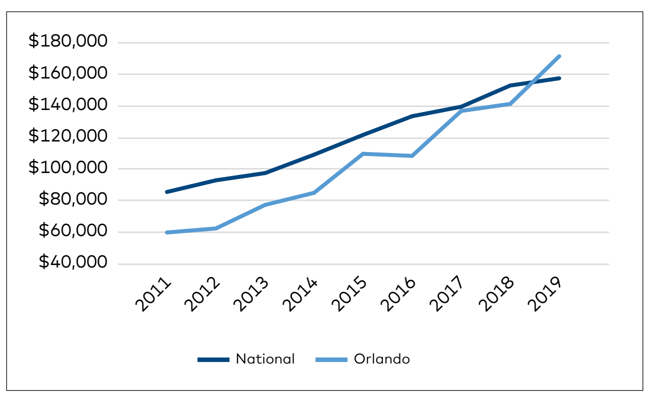
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Winter Park/Maitland	217
Downtown Orlando	181
Lake Richmond	141
Lake Bryan	135
Red Bug Lake	132
University Park	128
Lake Catherine	128
Hunter's Creek	122

Source: YardiMatrix

[1] From August 2018 to July 2019

Orlando vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Orlando-Area Apartments Trade

JLL Capital Markets represented the seller, Epoch Residential, in its disposition of Maitland Station, a 293-unit community in Maitland. The one-year-old property was purchased free and clear of existing debt.

Student Housing Community Set to Open in FL

Caliber Living's Bellamy Daytona Student Apartments in Daytona Beach is 100 percent leased. The 96-unit property marks Mallory & Evans Development's first project in Florida.

Black Creek Group Expands Footprint With $178M Buy

The company purchased a 333-unit property in Rockville, Md., and a 268-unit building in Winter Park, Fla. The Central Florida asset, Broadstone Winter Park, was 85 percent leased at closing.

Class A Property Near Disney World Breaks Ground

PCCP LLC partnered with Fore Property Co. to develop the 352-unit Orlando-area property located just outside the main western entrance of the House of Mouse.

Garden-Style Asset Sells for $63M

Priderock Capital Partners purchased the 356-unit property, expanding its South Atlantic portfolio. Newmark Knight Frank represented the seller and originated acquisition financing for the buyer.

Lantower Pays $75M For Luxury Orlando Apartments

Wood Partners sold the 314-unit Alta Grande to Lantower Residential of Dallas in a deal negotiated by Cushman & Wakefield's Florida multifamily team.

Executive Insight

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Orlando's Multifamily Investment Draw

By Adina Marcut

Since 1996, Investcorp has acquired more than 600 properties, with a combined value exceeding $16 billion. In its most recent deal, the company bought a collection of 11 communities for a total of $370 million, marking its largest U.S. portfolio acquisition in the past decade.

Yardi Matrix data shows that Investcorp owns 914 units in the Orlando market, more than half of them acquired this year. Herb Myers, managing director of real estate investment for Investcorp, discusses what the market has to offer and why the company invests there.

Investcorp recently paid $370 million for 11 properties in five states: Florida, Georgia, Missouri, North Carolina and Pennsylvania. Tell us the story behind this deal. Why these markets?

The Florida markets (Orlando and Tampa in this portfolio), Georgia (Atlanta) and North Carolina (Raleigh in this portfolio) have all exhibited strong population, job and gross metropolitan product (GMP) increase. All these markets are projected to see continued growth over the next five years, ranking toward the top of each category among all major U.S. markets, per Moody's. These markets are also expected to see continued growth due to the 2017 federal tax legislation, which reduced some of the tax benefits of homeownership and has led to a population migration to tax-favorable areas.

How do you see the Orlando multifamily market?

Per Moody's, the Orlando market ranks over the next five years as the major U.S. market, with the fifth-

highest projected population growth rate, the second-largest projected employment growth rate, the highest projected multifamily rental rate growth and the fifth-largest growth rate in GMP.

Furthermore, multifamily supply in Orlando is expected to remain relatively constrained.

Tell us about your expansion strategy for Orlando. What opportunities does this market offer?

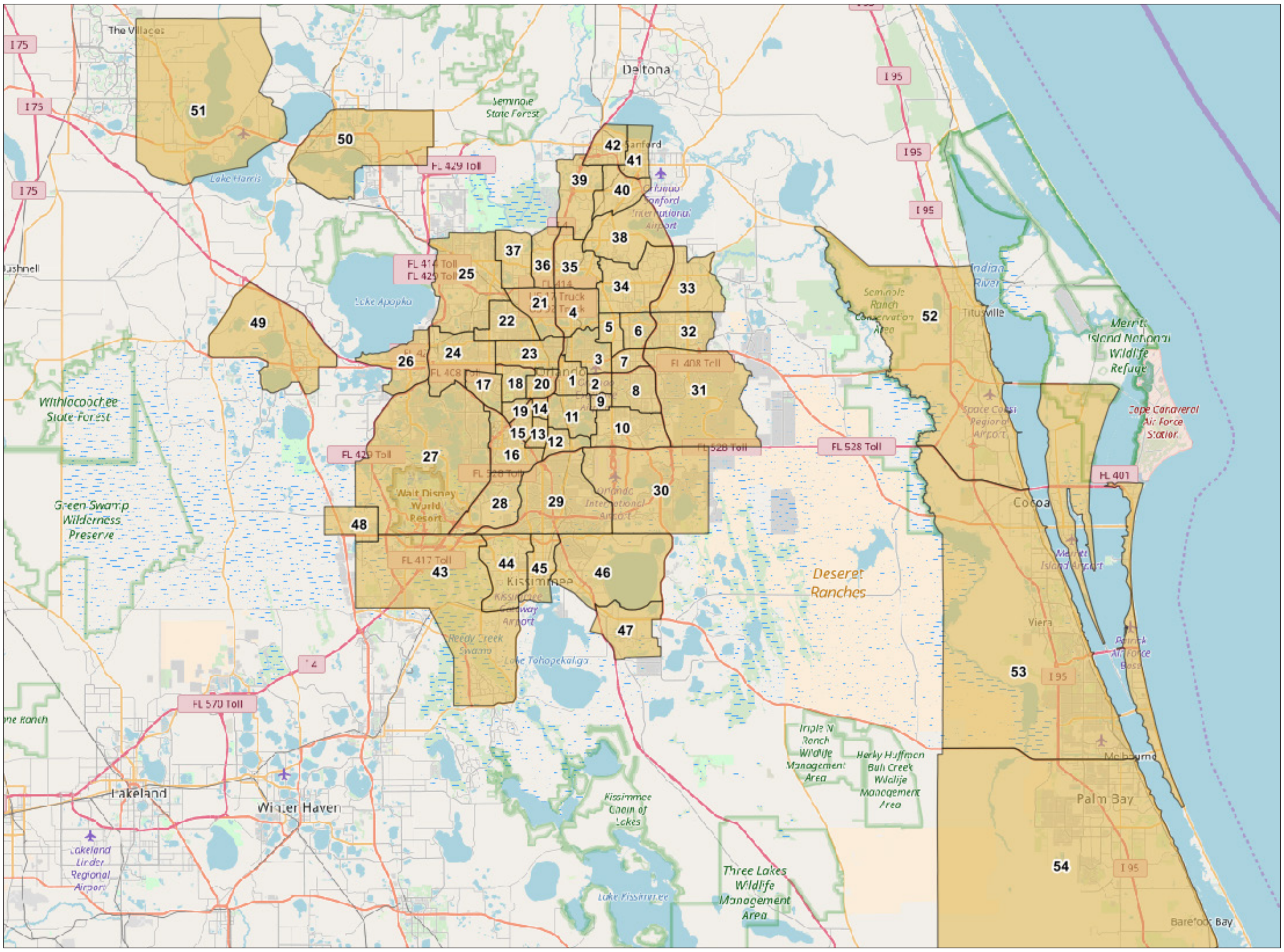
Investcorp will seek opportunities to continue to invest in the Orlando market due to the recent and projected future growth metrics and continued constrained new supply. The moderate level of new supply in the market tends to be Class A, higher-end infill product, due to land and construction costs not permitting new construction of suburban garden-style product.

What are your predictions for multifamily investment trends going forward?

Investcorp is bullish on the multifamily investment space, due to secular trends and recent performance, specifically in the Class B multifamily market. Overall, homeownership continues to remain below peak levels and affordable homeownership becomes harder to find. Changing lifestyle dynamics including delayed marriage, changes in family planning and increased divorce rates have led to increased renter demand in recent years.

(Read the complete interview on multihousingnews.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

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.