

Vacancy and Rent Gains Most Pronounced Outside Miami Where Supply Wave Approaches

Miami leads construction boom in Southeast Florida. An estimated 7,500 apartments will open in the Miami-Dade metro by the end of 2019, the most active year for construction since at least 2003. Much of the new development is focused in the Downtown Miami-South Beach area, as developers open high-rise towers with numerous amenities, ocean views and short walks to entertainment. The record level of supply additions will lift the vacancy rate close to the 5 percent threshold, yet availability remains tight in certain parts of the metro amid robust demand for workforce housing. The elevated level of completions will temper rent growth this year as monthly rates are anticipated to advance at a pace more in line with the national average.

Vacancy improves for most of Southeast Florida as rents align across the region. Construction activity is accelerating year over year in Fort Lauderdale. The bulk of the construction pipeline is in the city itself as suburban development slows from 2018. The added deliveries will not deter vacancy compression this year, as greater hiring helps raise rental demand. Vacancy is also falling in West Palm Beach due to fewer arrivals. Most of the units opening in the market belong to a single completion, the Town Southern in Royal Palm Beach. Declining availability in West Palm Beach and Fort Lauderdale is adding upward momentum to rents, which are appreciating at higher rates than in Miami. The differing paces of growth will bring the average effective rent for each of the three metros into the same \$1,630 to \$1,670 per month range.

Multifamily 2019 Forecast

Metro	Vacancy	Y-O-Y Basis Point Change	Effective Rent	Y-O-Y Change
Fort Lauderdale	4.8%	-30	\$1,631	3.8%
Miami	4.5%	40	\$1,673	3.5%
West Palm Beach	4.4%	-80	\$1,665	5.1%

Investment Trends

Southeast Florida's rapid demographic and economic growth since the last recession has opened the region up to a broader range of investors and fueled new levels of trading activity. While gains in dollar volume and sales price are likely to temper going forward, the underlying factors that contributed to this change, including in-migration and corporate expansions, will continue to benefit investment.

Fort Lauderdale

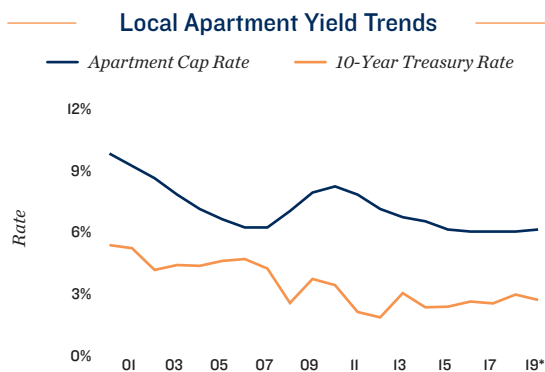
Transaction volume is rising in Hollywood as many buyers pursue assets with fewer than 20 units in neighborhoods such as Royal Poinciana that have price points under \$2 million. Such buildings provide renters with lower cost housing options not far from the beach.

Miami

Miami remains the primary market for sales volume in Southeast Florida as more investors look downtown and in Miami Gardens. Cap rates here can exceed the market average by up to 150 basis points.

West Palm Beach

Institutional investors are active in the market, focusing on acquiring post-2000-built Class B product in areas such as Royal Palm Beach. These assets can trade at sale prices up to \$200,000 per unit above the metro average, with initial returns in the mid-4 percent zone.



* Cap rate trailing 12-month average through 1Q; Treasury rate as of March 29
Includes sales \$1 million and greater for Fort Lauderdale, Miami, and West Palm Beach.
Sources: CoStar Group, Inc.; Real Capital Analytics

IQ19 - 12-Month Period

EMPLOYMENT

1.5% increase in total employment Y-O-Y

- The pace of job creation slightly improved year over year in March as employers hired 12,900 personnel. A sub-4 percent unemployment rate has not overly hindered recruiting as some people move to the metro for work.
- Job growth was strongest in professional and business services as well as in education and health services, which collectively added 8,800 individuals to payrolls.

CONSTRUCTION

2,900 units completed Y-O-Y

- The apartment stock increased by 2,900 units over the past four quarters, falling short of the previous year's deliveries by about 300 units. In Hollywood, Pembroke Pines-Miramar and Pompano Beach, the number of unit openings rose. Elsewhere in the market the number of arrivals declined.
- The Atlantic Cypress Creek in Fort Lauderdale with 420 rentals and the 394-unit Elan Maison in Davie represent the largest deliveries.

VACANCY

10 basis point increase in vacancy Y-O-Y

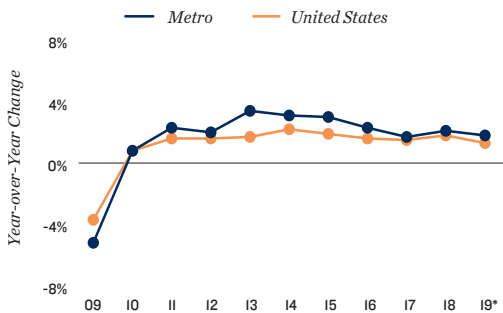
- The overall vacancy rate remained mostly stable over the past 12 months, inching up 10 basis points to 4.6 percent as of March. Availability continues to decline in beachfront submarkets, including Pompano Beach, Fort Lauderdale and Hollywood.
- Vacancy contracted the most in the Pompano Beach-Deerfield Beach submarket, falling to 2.8 percent in March. Class C availability here dropped 360 basis points to 0.7 percent.

RENTS

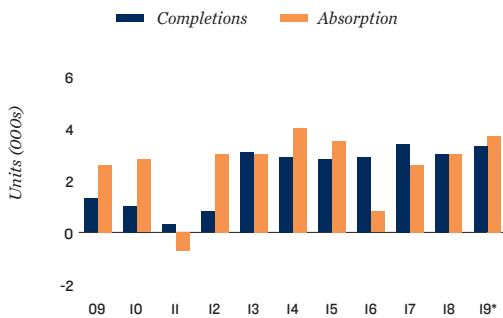
5.4% increase in the average effective rent Y-O-Y

- The average effective rent climbed to \$1,587 per month in the first quarter after posting a 2.5 percent increase a year ago. The number of communities offering concessions fell sharply in the cities of Fort Lauderdale and Hollywood.
- Rent growth was higher for Class A and C units compared with Class B rentals, with Class C monthly rates advancing the most at 5.4 percent.

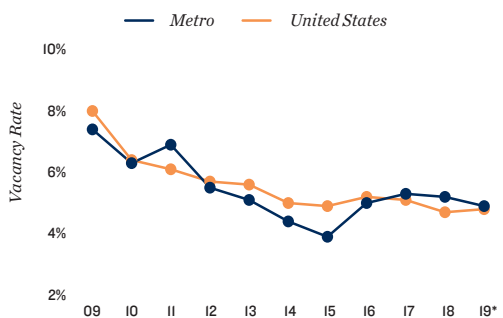
Employment Trends



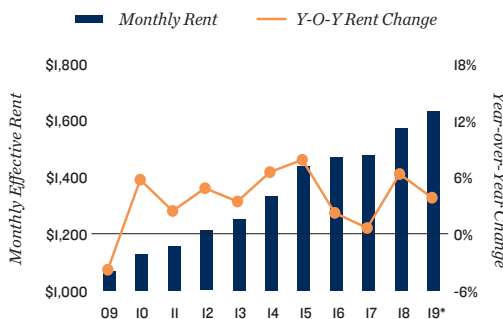
Completions and Absorption



Vacancy Rate Trends



Rent Trends



* Forecast

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.

Demographic Highlights



Five-Year Population Growth*
122,600



Five-Year Household Growth*
69,500



IQ19 Population Age 20-34
(Percent of total population)
Metro **19%**
U.S. **21%**



Population of Age 25+
Percent with Bachelor's Degree+**
Metro **29%**
U.S. Average **30%**



IQ19 Median Household Income
Metro **\$61,619**
U.S. Median **\$64,259**

IQ19 Total Households



Rent **38%**



Own **62%**

* Forecast ** 2018-2023

SUBMARKET TRENDS

Lowest Vacancy Rates IQ19

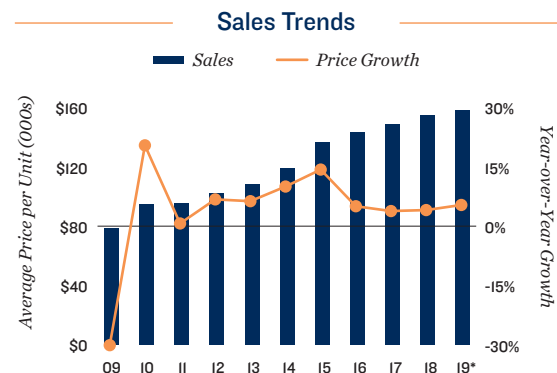
Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Effective Rent	Y-O-Y % Change
Pompano Beach/Deerfield Beach	2.8%	-210	\$1,395	5.2%
Hollywood	3.3%	-120	\$1,491	8.0%
Fort Lauderdale	4.3%	-60	\$1,782	8.1%
Sunrise/Lauderhill	4.7%	30	\$1,383	6.8%
Coral Springs	5.0%	50	\$1,623	2.9%
Plantation/Davie/Weston	5.0%	80	\$1,726	4.9%
Pembroke Pines/Miramar	5.1%	110	\$1,721	4.3%
Margate/Coconut Creek/North Lauderdale	5.2%	30	\$1,515	2.1%
Overall Metro	4.6%	10	\$1,587	5.4%

SALES TRENDS

More Investors Considering Fort Lauderdale, Raising Transaction Velocity and Sales Prices

- Improved investment demand lifted transaction velocity to a three-year high year over year in March, supporting a 5.4 percent increase in the average sale price to \$158,300 per unit.
- The average cap rate remained unchanged in the low-6 percent band over the past 12 months, similar to West Palm Beach.

Outlook: Favorable demographic trends and sales prices that are slightly below those of Miami and West Palm Beach on average are likely to extend the investment boom underway in Fort Lauderdale.



* Trailing 12 months through 1Q19

Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

IQ19 – 12-Month Period

EMPLOYMENT

2.2% increase in total employment Y-O-Y

- Employers expanded staffs by 26,100 personnel over the past 12 months, more than in the preceding annual period. The professional and business services sector led hiring, with the addition of 8,600 new staff members.
- The education and health services sector is also growing at an accelerated pace, creating about 4,500 jobs over the past four quarters, even as the unemployment rate fell to 3.5 percent.



CONSTRUCTION

5,300 units completed Y-O-Y

- Approximately 300 more apartments opened in the market over the past four quarters as during the previous 12-month period. The greatest concentration of arrivals was in Downtown Miami-South Beach at 2,600 rentals, more than double the total from last year.
- Total completions contracted in other submarkets, including in West Miami-Doral and Westchester-Kendall. No units have been delivered in the latter submarket since before March 2018.



VACANCY

30 basis point increase in vacancy Y-O-Y

- After bottoming out at 2.8 percent in 2015, vacancy in Miami has widened to 4.0 percent in March as the construction pipeline has expanded to meet the housing needs of more residents.
- An above-national pace of population growth contributes to acute apartment demand, maintaining minimal rental availability in several submarkets including Downtown and North Central Miami despite the increase in deliveries over the past few years.



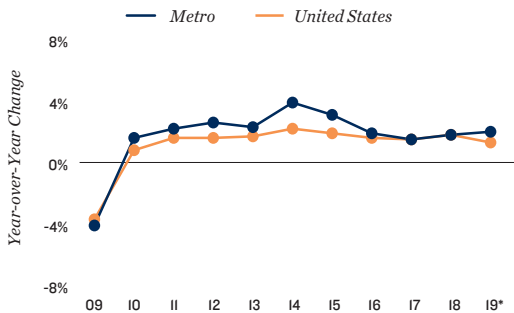
RENTS

6.5% increase in the average effective rent Y-O-Y

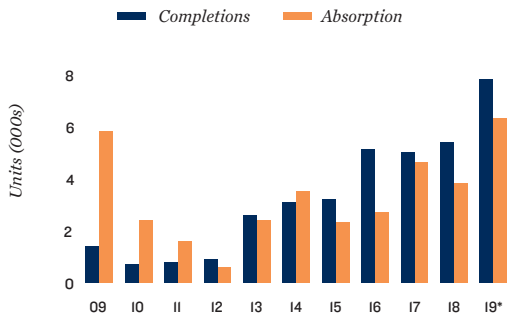
- Declining concession use in Downtown Miami and South Dade County led to greater rent growth year over year in March. The average effective rate rose to \$1,628 per unit following a 3.7 percent increase last year.
- North Central Miami's 1.0 percent vacancy rate bolstered the appreciation of monthly rents here, especially for Class C units.



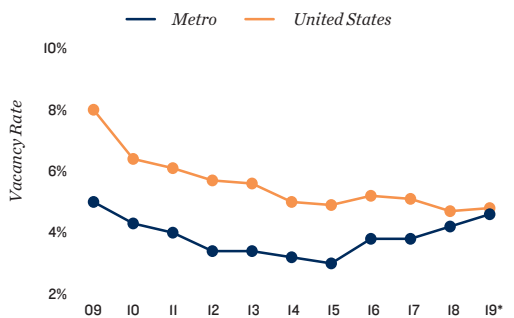
Employment Trends



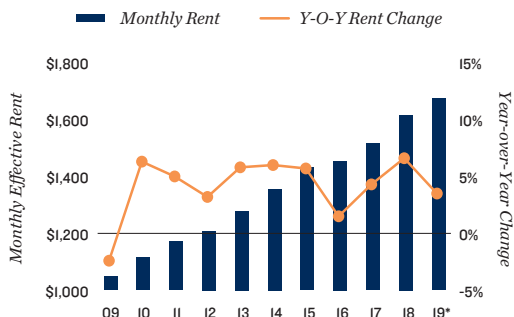
Completions and Absorption



Vacancy Rate Trends



Rent Trends



* Forecast

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.

Demographic Highlights



Five-Year Population Growth*
135,800



Five-Year Household Growth*
70,600



IQ19 Population Age 20-34
(Percent of total population)
Metro **20%**
U.S. 21%



Population of Age 25+
Percent with Bachelor's Degree+**
Metro **31%**
U.S. Average 30%



IQ19 Median Household Income
Metro **\$54,864**
U.S. Median \$64,259

IQ19 Total Households

Rent **38%**
Own **62%**

* Forecast ** 2018-2023

SUBMARKET TRENDS

Lowest Vacancy Rates IQ19

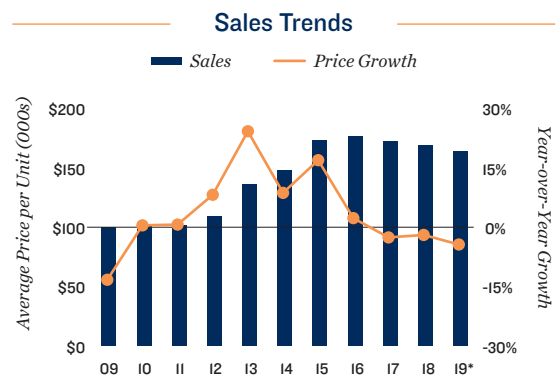
Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Effective Rent	Y-O-Y % Change
North Central Miami	1.0%	-40	\$1,041	4.7%
Homestead/South Dade County	2.3%	-60	\$1,147	5.9%
Hialeah/Miami Lakes	3.0%	90	\$1,432	4.7%
Downtown Miami/South Beach	3.6%	-40	\$2,067	5.2%
Westchester/Kendall	4.0%	-30	\$1,545	1.8%
Coral Gables/South Miami	4.8%	-20	\$1,920	4.5%
Miami Gardens	4.8%	120	\$1,275	11.0%
Northeast Miami	5.1%	110	\$1,649	1.2%
West Miami/Doral	5.6%	130	\$1,886	3.9%
Overall Metro	4.0%	30	\$1,628	6.5%

SALES TRENDS

Investment Activity for Class C Apartments Continues Amid Extremely Tight Vacancy Rates

- The average sale price dipped for in March to \$164,100 per unit. Fewer trades of higher-priced assets in areas such as Coral Gables and South Beach contributed to the price drop.
- Miami's average cap rate stayed in the high-5 percent band, 30 basis points below Fort Lauderdale and West Palm Beach.

Outlook: The market's gateway status continues to draw foreign institutional investment for stabilized assets. Private buyers are also finding opportunities with Class C properties, which are subject to aggressive rental demand as vacancy remains under 2 percent.



* Trailing 12 months through 1Q19

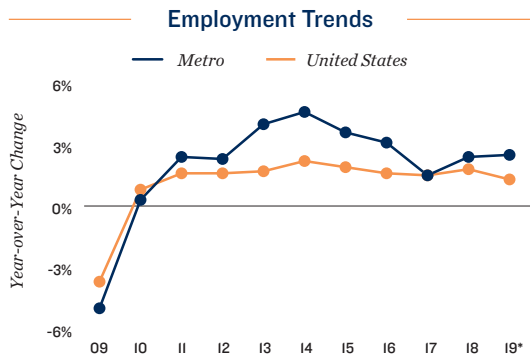
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

IQ19 - 12-Month Period

EMPLOYMENT

2.6% increase in total employment Y-O-Y

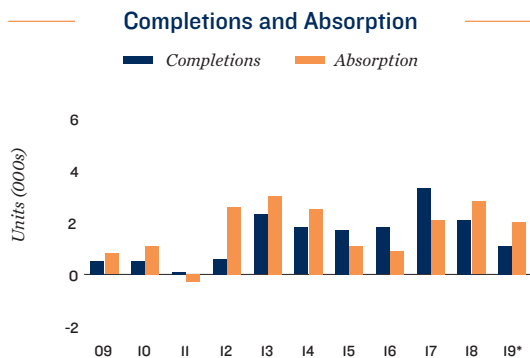
- A sub-4 percent unemployment rate did not hinder recruiting efforts over the 12-month period ending in March. In that span, 16,100 jobs were created, compared with 8,300 positions last year.
- The trade, transportation and utilities industries remain major sources of employment in the metro, but over the past year payrolls expanded the most in the professional and business services sector as over 6,400 personnel were added to staffs.



CONSTRUCTION

1,700 units completed Y-O-Y

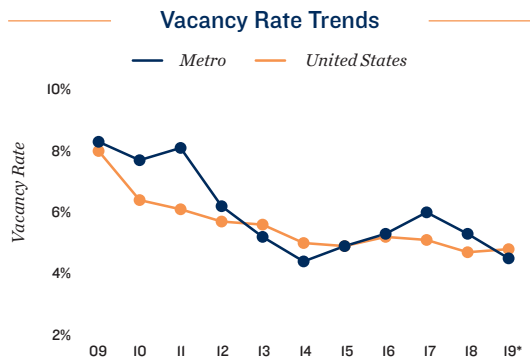
- Construction volume contracted by more than 1,000 rentals year over year in March as fewer arrivals came to Boca Raton, Boynton Beach and Delray Beach in that span.
- Completions rose in other parts of the market, including within West Palm Beach proper and in North Palm Beach County. The metro's largest opening, the 350-rental Atlantico at Alton, is in the latter submarket.



VACANCY

100 basis point decrease in vacancy Y-O-Y

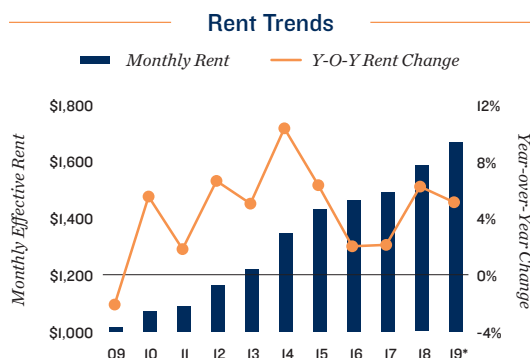
- Net absorption achieved a three-year high of 2,700 units over the past 12 months, reducing the marketwide vacancy rate to 4.6 percent. Availability was last this low in early 2016.
- Robust rental demand contributed to triple-digit declines in vacancy for North Palm Beach County and West Palm Beach city despite an uptick in completions. Vacancy is lowest in the Lake Worth-Greenacres-Wellington area at 3.6 percent.



RENTS

7.0% increase in the average effective rent Y-O-Y

- Following a 2.3 percent gain year over year in March 2018, average effective rent reached \$1,627 per unit during the first quarter of 2019. Contracting vacancy facilitated above-market rent growth in the West Palm Beach city and Boca Raton.
- Rent appreciation was led by Class A and B units, up 10.0 and 5.1 percent respectively to monthly rates of \$2,144 and \$1,597.



* Forecast

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.

Demographic Highlights



Five-Year Population Growth*
146,000



Five-Year Household Growth*
81,400



IQ19 Population Age 20-34
(Percent of total population)
Metro **17%**
U.S. 21%



Population of Age 25+
Percent with Bachelor's Degree+**
Metro **39%**
U.S. Average 30%



IQ19 Median Household Income
Metro **\$65,327**
U.S. Median \$64,259

IQ19 Total Households



Rent **38%**



Own **62%**

* Forecast ** 2018-2023

SUBMARKET TRENDS

Lowest Vacancy Rates IQ19

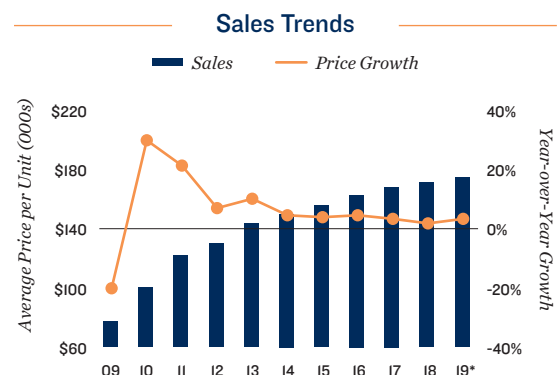
Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Effective Rent	Y-O-Y % Change
Lake Worth/Greenacres/Wellington	3.6%	-40	\$1,341	5.3%
West Palm Beach	4.2%	-240	\$1,455	9.3%
Boca Raton	4.8%	-20	\$1,975	10.0%
North Palm Beach County	4.9%	-140	\$1,706	6.6%
Boynton Beach/Delray Beach	5.4%	-90	\$1,644	2.6%
Overall Metro	4.6%	-100	\$1,627	7.0%

SALES TRENDS

Rapid Population Growth and High Yields Bring New Investment From Other U.S. Markets

- Competition among investors has helped lift the average sale price 3.3 percent over the past 12 months to \$174,400 per unit as value appreciation motivates some owners to keep hold onto their properties.
- The average cap rate rose into the low-6 percent band in March, its highest level in more than five years.

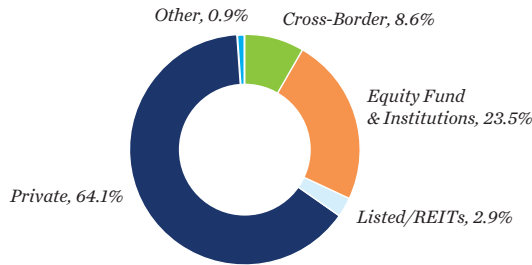
Outlook: The fastest rate of population growth in Southeast Florida paired with a contracting supply pipeline bode well for apartment rent growth and vacancy. This will continue to draw out-of-market buyers, including those from lower-yield metros on the West Coast and Northeast.



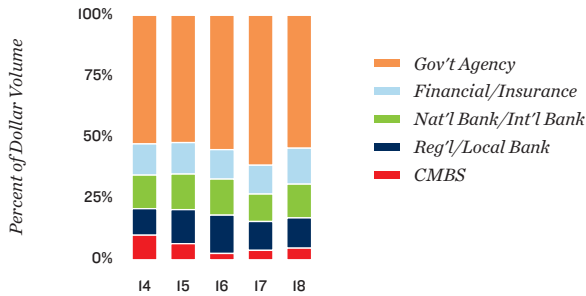
* Trailing 12 months through 1Q19

Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

IQ19* Apartment Acquisitions By Buyer Type



Apartment Mortgage Originations By Lender



* Trailing 12 months through 1Q19
Includes sales \$2.5 million and greater
Sources: CoStar Group, Inc.; Real Capital Analytics

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; National Association of Realtors; Moody's Analytics; Real Capital Analytics; RealPage, Inc.; TWR/Dodge Pipeline; U.S. Census Bureau

CAPITAL MARKETS

By DAVID G. SHILLINGTON, President,
Marcus & Millichap Capital Corporation

- International pressures weigh on domestic outlook; Fed remains patient.** Amid ongoing trade disputes between the U.S. and China and slowing growth throughout the European economy, the global economic outlook has become more cautious. Market volatility, combined with muted sentiment, has sponsored a flight to the safety of Treasuries, pushing the 10-year yield below 2.6 percent. While domestic growth has moderated recently, the waning impact of the tax cut stimulus will likely trim forward estimates further. As a result, the Fed has decided to cease reducing its balance sheet reduction through quantitative tightening by September and removed the potential for rate increases through the remainder of the year. The bond market has begun to price in a much more dovish Fed, with flattening interest rates reflecting more caution. Fed officials will likely focus on the intersection of a global growth slowdown and continued labor market strength to refine their plans moving forward, keeping interest rates stable for the foreseeable future.
- Abundant liquidity sources balance conservative approach to underwriting.** The availability of debt for apartment assets remains elevated, spurred by the recent pivot by the Federal Reserve. Sourcing will be led by Fannie Mae and Freddie Mac, in addition to a wide array of local, regional and national banks, and insurance companies. Loan-to-value (LTV) ratios are trending between 65 and 75 percent on stabilized properties. The decline in interest rates has widened the spread between cap rates and Treasuries, reducing lender concerns about the risks related to repayment and valuation at maturity. Development and value-add projects have seen more conservative lending due to concerns surrounding overdevelopment and the length of the business cycle, leading to a greater use of alternative financing structures such as mezzanine loans and preferred equity to cover the additional capital requirements.

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