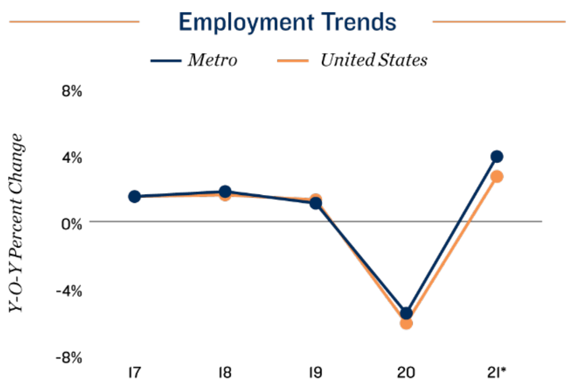
MIAMI-DADE METRO AREA

New Supply Downtown a Near-Term Hurdle; Demand Will Improve as the Economy Recalibrates

Recovery of service jobs will enhance demand. The need for multifamily space will increase as the vaccine rollout allows more stores and entertainment venues to reopen and replenish staff. The leisure and hospitality sector was hit hard by the pandemic, cutting almost 24,000 positions in Miami-Dade last year. Some of those who lost jobs coupled up with roommates or family to reduce expenses, and returning to work supports moving back out. The Follow the Sun campaign may also lure new firms to the metro and underpin demand. Renting will be the practical option for many, especially after the metro's median home price expanded by nearly 14 percent in 2020 to $456,000. Suburban units, particularly in the Coral Gables-South Miami and West Miami-Doral submarkets, have been garnering greater interest.

Influx of new apartments could stunt momentum. Greater demand for rentals will be overwhelmed by the bulky pipeline of projects that are slated to finalize. Annual completions are set to grow for the fourth consecutive year and the majority of supply will be added to just a few corridors of the metro. Downtown Miami-South Beach has almost 3,600 units in the 2021 pipeline, highlighted by the 1,000 unit-plus Downtown 5th project that will begin lease-up. New arrivals could lengthen the recovery of fundamentals in the urban core after vacant stock rose by more than 60 percent last year. The Coral Gables-South Miami area will also add 3,320 rentals, though absorption was strong here in 2020.



** Forecast*

Sources: BLS; RealPage, Inc.; CoStar Group, Inc.

Multifamily 2021 Outlook

45,000
JOBS
will be created

EMPLOYMENT:
It will likely take beyond this year to recover all of the 67,400 positions lost in 2020 and longer to return to the below-2 percent unemployment rate recorded pre-pandemic. However, the metro's job count is expected to grow by a healthy 3.9 percent in 2021.

9,500
UNITS
will be completed

CONSTRUCTION:
The pace of completions will accelerate with projects in the 2021 pipeline set to grow market inventory by more than 3 percent. Annual delivery volume will reach a new high this year after at least 4,900 rentals were finalized in each of the last five years.

80
BASIS POINT
increase in vacancy

VACANCY:
A slew of apartments scheduled to finalize after vacant stock grew by 3,360 units in 2020 pose some challenges. The vacancy rate will rise into the mid-5 percent area, a level not experienced in Miami-Dade since the great financial crisis in 2009.

0.2%
DECREASE
in effective rent

RENTS:
Higher vacancy will burden rent in 2021, though the downward pressure will be partially offset by newly built luxury apartments charging premium rates. The market's average effective rent is expected to decline marginally to $1,665 per month.

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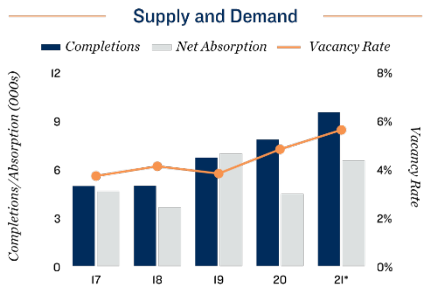

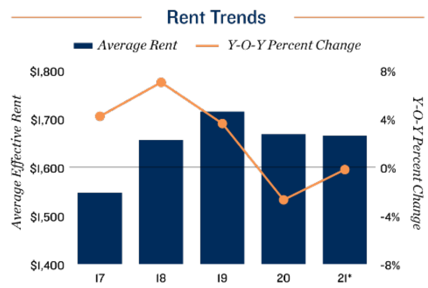

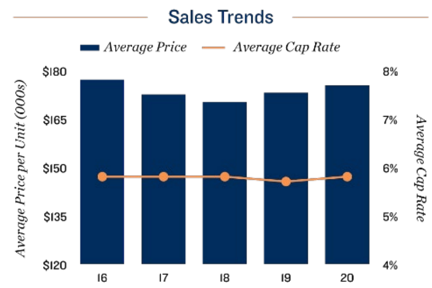

** Forecast*
Sources: RealPage, Inc.; CoStar Group, Inc.; Real Capital Analytics

2020

Construction

7,806 *units completed*

- Last year's 2.6 percent inventory expansion was the largest in over 15 years, with developers particularly active outside of the urban core. Roughly 6,240 units finalized in the suburbs.
- The Coral Gables-South Miami submarket added 2,430 rentals in 2020, which was more than the previous three years combined.

Vacancy

100 *basis point increase in vacancy Y-O-Y*

- Driven by a 230-basis-point jump downtown, the metrowide vacancy rate increased to a decade high of 4.8 percent last year.
- Class A vacancy soared 250 basis points in 2020 while the Class B rate ticked up 50 basis points. The Class C tier was exceptionally resilient in Miami-Dade, maintaining a vacancy rate below 2 percent.

Rents

2.7% *decrease in the average effective rent Y-O-Y*

- The average effective rent decreased to $1,668 per month as the luxury tier logged a 8.3 percent reduction. Conversely, the lower-tier segment posted a 6.5 percent annual gain.
- Contrary to the overall market trend, the submarkets of Homestead-South Dade and North Central Miami recorded solid gains.

Investment Highlights

- Transaction velocity in 2020 was two-thirds the level it had been in the previous year as many investors took a wait-and-see approach during the pandemic. Institutions have been especially cautious, with the luxury tier undergoing a greater fundamental adjustment, leading to a 50 percent annual reduction in assets priced above $20 million changing hands. More private investors have been coming off the sidelines recently, however, as total trades in the fourth quarter nearly matched the same period a year ago.
- Apartments traded for an average of $175,400 per unit in 2020, which was approximately 1 percent higher than in the previous year. The average cap rate inched up 10 basis points to 5.8 percent, reversing the contraction that had occurred in 2019.
- Solid Class C fundamentals during the pandemic and positive underlying dynamics are piquing the interest of private buyers. Local and out-of-state investors alike are frequently targeting Class C apartments with fewer than 50 units. Little Havana and North Beach are some of the most favored locations for these types of deals.