

MULTIFAMILY

West Palm Beach Metro Area

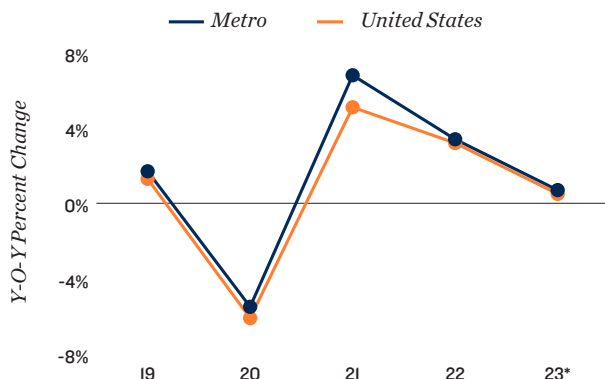
2Q/23

Business Development Initiatives and Migration Trends Provide a Backstop for Rental Demand

Vacancy aligned with historical norms. The average rent in West Palm Beach jumped by more than 40 percent since the end of 2020 as the market experienced robust population and economic growth over the past two years. However, this jump coincided with wide-spread inflation and rising interest rates, contributing to slowing household formation in recent quarters. As a result, vacancy elevated by 300 basis points during the past 12 months ending in March to 5.2 percent. This measurement remains 40 basis points below the metro's long-term average, suggesting apartment fundamentals are still healthy by historical standards. Nevertheless, many projects that broke ground in 2021 in response to record-low vacancy will come online this year, pushing annual deliveries to a two-decade high. The influx of new supply will continue to inch up vacancy and moderate rent growth in the near-term.

Metro poised for additional growth. Although the metro faces near-term headwinds, market conditions are expected to tighten once economic conditions normalize. Corporate relocations and expansions jolted West Palm Beach's economy, pushing headcounts 28,000 positions above the previous peak entering April. Incentives from the Business Development Board are expected to continue driving growth in the labor market and stoke population gains. The metro is projected to gain 110,000 new residents in the next five years, outpacing both Miami and Broward County. This expanding renter pool bodes well for local apartment demand in the long-run.

Employment Trends



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

Multifamily 2023 Outlook



5,000

JOBS

will be created

EMPLOYMENT:

Job growth slows from last year's pace as local firms expand headcounts by 0.7 percent in 2023. This moderate improvement may stem from a historically low unemployment rate, which was 330 basis points below the long-term average as of March.



4,000

UNITS

will be completed

CONSTRUCTION:

Development activity reaches unprecedented levels as local apartment stock increases by 3.2 percent in 2023. This year's pipeline is headlined by Icon Marina Village, a 399-unit project delivering in the CBD during the second quarter.



60

BASIS POINT

increase in vacancy

VACANCY:

A historic supply wave, coupled with slowing household formation, will lift annual vacancy in Palm Beach County for the second consecutive year. At 5.7 percent, local availability aligns with the national benchmark.



3.4%

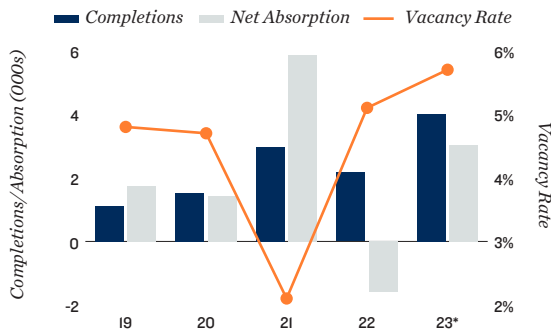
INCREASE

in effective rent

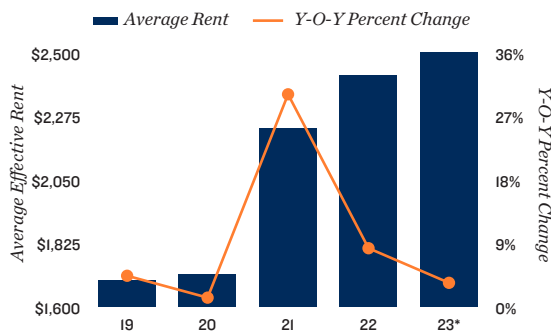
RENT:

The average effective rate in West Palm Beach will rise to \$2,500 per month in 2023. Although this is a slowdown from gains recorded in 2021 and 2022, this year's growth rate is on par with the metro's historical average prior to the health crisis.

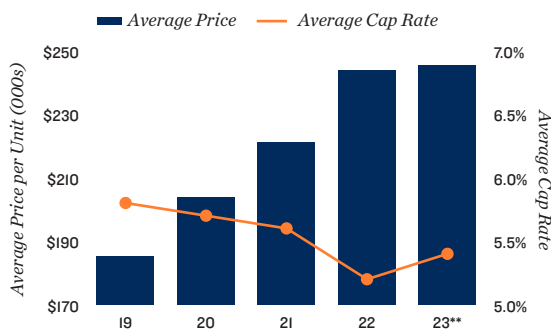
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

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

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IQ 2023 - 12-Month Period

CONSTRUCTION

2,009 units completed

- Builders elevated local apartment stock by 1.6 percent during the past 12 months ending in March. The bulk of these deliveries were concentrated in Boca Raton and Lake Worth-Greenacres-Wellington.
- The current pipeline suggests supply additions will eclipse the 4,000-unit mark for the second consecutive year in 2024.

VACANCY

300 basis point increase in vacancy Y-O-Y

- Availability climbed to 5.2 percent during the trailing 12-month period ending in March, marking the highest quarterly rate since mid-2020.
- Vacancy in Lake Worth-Greenacres-Wellington, the metro's lowest rent submarket, was 110 basis points below the market mean entering April, as the area benefited from renters utilizing cost-cutting measures.

RENT

4.6% increase in the average effective rent Y-O-Y

- Annual rent growth over the past four quarters slowed significantly from the 31 percent gain recorded during the previous 12-month span, as the average effective rent rose to \$2,432 per month in March.
- Class C apartments lead all property tiers in rent growth, recording gains of 15 percent during the past year ending in March.

Investment Highlights

- Although 2022 was still the second-most active year on record for sales activity, transaction velocity began to slow considerably during the second half and continuing into this year. Uncertainty in the financial markets, due to elevated interest rates and recent bank failures, created hurdles in the deal-making process, widening the gap between buyer and seller expectations. While these challenges are expected to remain in the near-term, Palm Beach County's future growth prospects should help drive deal flow once economic conditions begin to normalize.
- Proximity to major employers, such as Goldman Sachs and NewDay USA, is stimulating both renter and investor demand in West Palm Beach proper. Buyers have shown a willingness to pay a premium for assets in this submarket, with local entry costs frequently rising above the metro average of \$245,000 per unit. This area also has a sizable number of projects in the pipeline, which may create opportunities for institutional market participants to acquire newer properties in the coming years.
- Boca Raton and North Palm Beach County each have less than 600 units in the pipeline as of March. Limited competition from new supply could aid existing property performance and stoke buyer demand in these locales.