

MULTIFAMILY

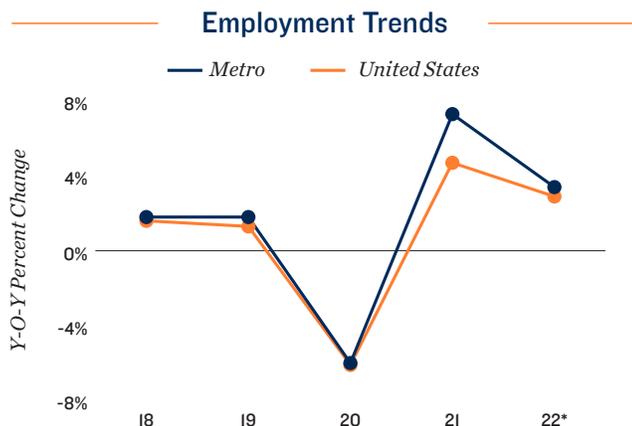
West Palm Beach Metro Area

3Q/22

Corporate Relocations Drive Net In-Migration to West Palm Beach, Spurring a Development Uptick

Inflation slows record demand surge. Tax exemptions and expedited permit reviews have helped attract notable companies to West Palm Beach, such as Goldman Sachs, Elliott Management and NewDay USA, in recent quarters. The strength of the labor market has spurred rapid population growth, with the metro adding nearly 44,000 new residents since 2020. The resulting expansion of the renter pool enabled vacancy to fall to 2 percent this year, a record low. However, fundamentals softened during the second quarter, as renters returned nearly 1,700 units back to the market from April to June. The average rent, which has risen nearly 40 percent since the end of 2019, prompted some residents to find roommates or relocate to more affordable areas amid widespread inflation. Nevertheless, renter demand is expected to improve over the second half, and vacancy will remain 190 basis points below the long-term average.

Notable deliveries on the horizon. Projections for a continued rise of in-migration over the next 10 years indicate the need for new supply in the metro. Entering the second half, there were nearly 8,000 units underway, equating to 6.5 percent of existing inventory. Deliveries in 2022 will slow relative to last year's pace, however, supply additions are expected to accelerate moving forward. As of July, nearly 5,000 units were slated for 2023 completion, which would rank as the largest annual total in over two decades. The bulk of active projects are concentrated in West Palm Beach proper, Lake Worth-Greenacres-Wellington and Boynton Beach-Delray Beach.



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

Multifamily 2022 Outlook



22,000

JOBS

will be created

EMPLOYMENT:

Employers added 13,100 new workers through the first six months, fully recovering all jobs lost in the leisure and hospitality sector during the health crisis. By year-end, total employment will surpass the pre-pandemic peak by 26,000 positions.



2,700

UNITS

will be completed

CONSTRUCTION:

At least 2,000 units are delivered for the fifth time in the past seven years, as developers increase the metro's rental inventory by 2.2 percent. Local supply additions will reach a two-decade high in Lake Worth-Greenacres-Wellington.



170

BASIS POINT

increase in vacancy

VACANCY:

Metrowide vacancy increases on an annual basis for the first time since 2017, as inflationary pressure slows the rate of household formation. Still, at 3.7 percent, availability remains 120 basis points below the 2019 rate.



13.4%

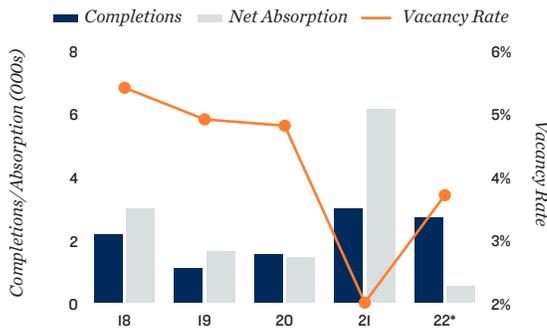
INCREASE

in effective rent

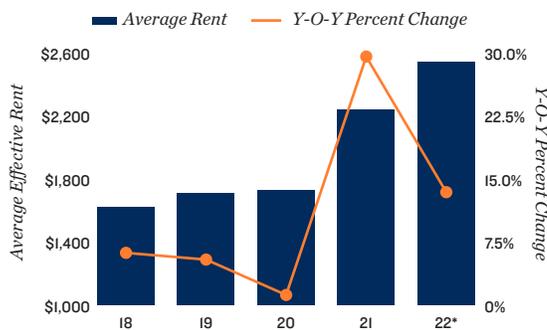
RENT:

West Palm Beach records a double-digit annual gain for the fourth time on record. The metro's growth rate ranks eighth among major markets nationally, as the average effective rent rises to \$2,540 per month.

Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

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

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2Q 2022 - 12-Month Period

CONSTRUCTION

2,672 units completed

- Rental stock in West Palm Beach increased by 2.1 percent year-over-year ending in June. Completions were widespread, with four of the metro's five submarkets adding more than 500 units.
- Existing apartments in North Palm Beach County will face minimal competition from new supply, with only 400 units underway here as of August.

VACANCY

70 basis point increase in vacancy Y-O-Y

- Deliveries outpaced net absorption by more than 1,000 units over the past year ending in June, lifting availability to 4 percent. However, renter demand is expected to improve, lowering the rate over the second half.
- Lake Worth-Greenacres-Wellington, the submarket with the lowest effective rent on average, posted the metro's tightest vacancy rate at 3 percent.

RENT

27.1% increase in the average effective rent Y-O-Y

- The average effective rent in West Palm Beach rose to \$2,368 per month in the trailing 12-month period ending in June. The annual growth rate during this span ranked second among all major U.S. markets.
- All five submarkets in West Palm Beach posted year-over-year rent gains exceeding 25 percent during this time frame.

Investment Highlights

- West Palm Beach's evolving economy and growing renter base have investors bullish on the metro's long-term apartment demand. Recent transaction velocity reflects this, as deal flow more than doubled over the past year. Heightened competition for available listings led to a 19 percent rise in the average sale price to \$253,000 per unit. Apartment assets in West Palm Beach garner significant attention from out-of-state investors, due to the value-add potential in the market. Mean first-year returns here are roughly 50 basis points higher than any other major Florida market.
- Unprecedented rent growth has spearheaded renter demand for lower-tier housing, placing Class C availability roughly 160 basis points below Class A and Class B averages. These tight conditions have caught the attention of investors. Class C apartments under 50 units are changing hands most often in the cities of West Palm Beach and Boynton Beach. Pricing for these assets generally fall in line with the metro mean, with yields that average in the low-6 percent span.
- A notable number of Class B transactions involving apartments with over 100 units are also occurring in these submarkets, with cap rates that can fall to the low-2 percent range.