YARDI® Matrix

Miami's Booming Market

Multifamily Summer Report 2016

Key Sectors Sustain Strong Job Growth

Pipeline Hits Post-Recession High

Sales Volume Tops $3.5B

Market Analysis

Summer 2016

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Miami's International Flavor Stirs Growth

Miami's apartment market has fired on all cylinders for the last few years. Above-trend job growth combined with a growing population has produced favorable conditions for multifamily in South Florida.

Job growth has been the driving force behind Miami's resurgence over the past eight years. New employment has been spread across sectors, including professional and business services, trade transportation and utilities, education and health services, and hospitality and leisure, indicating diversity and room for continued growth. Improving relations with Cuba will also be something to watch, as Miami's economy stands to benefit from a new and close trading partner. Miami government and business leaders have been working to bring Chinese business and developers to North Miami to build a Chinatown neighborhood and add to the already substantial international population.

To keep up with demand, construction is on the rise. More than 10,000 units are expected to be added this year and next. While downtown Miami and its surrounding submarkets lead the way in terms of new product, the West Palm Beach and Fort Lauderdale regions are also showing strong supply increases. The metro's growth outlook also has produced a wave of investment, as transaction volume hit $3.6 billion in 2015. With demand staying high, we expect rents will have another good year in 2016, growing by 7.0%.

Recent Miami Transactions

Red Road Commons

City: Miami, Fla.
Buyer: Starwood Capital Group
Purchase Price: $152 MM
Price per Unit: $376,007

Sheridan Ocean Club

City: Dania Beach, Fla.
Buyer: Starwood Capital Group
Purchase Price: $127 MM
Price per Unit: $196,740

Portofino at Biscayne

City: North Miami, Fla.
Buyer: Blue Rock Premier Properties
Purchase Price: $117 MM
Price per Unit: $134,948

Solero at Plantation

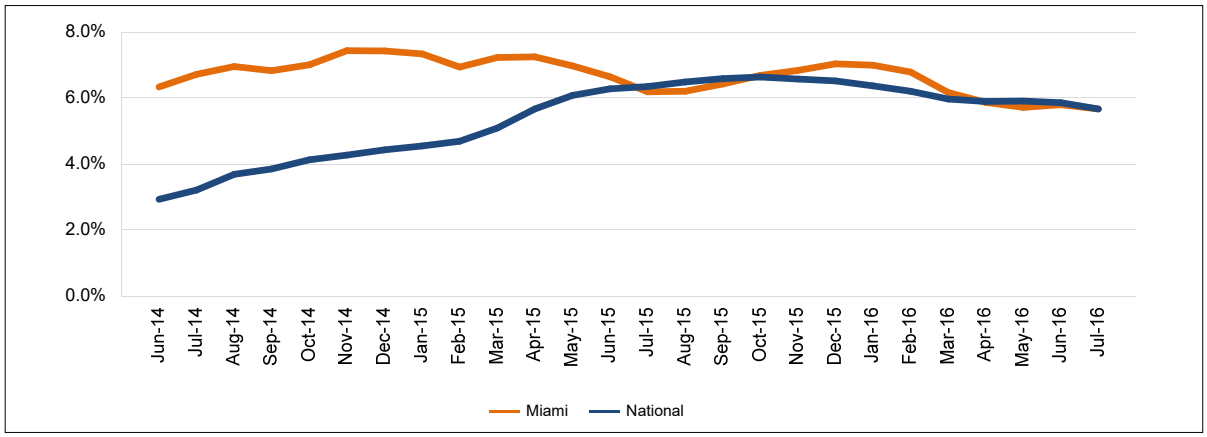
City: Plantation, Fla.
Buyer: Grand Peaks Properties
Purchase Price: $123 MM
Price per Unit: $255,094

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

Rent Trends

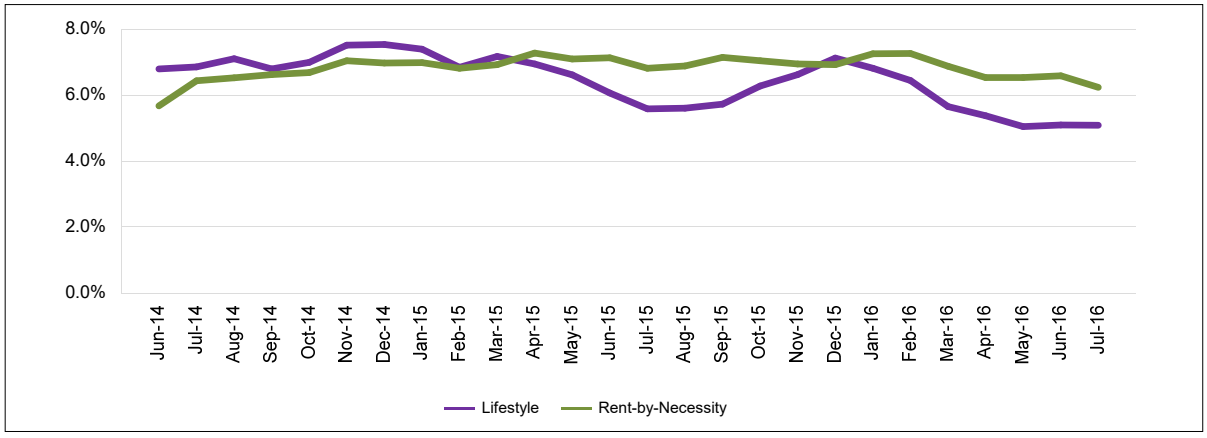
- Rent growth in Miami was 4.6% year-over-year through August, slightly below the 5.0% national average. The average rent was $1,397, 15% higher than the national average of $1,220. Growth was led by the working class Renter-by-Necessity segment, which increased 5.4%, while the luxury lifestyle segment grew by 3.8%.
- Demand for housing remains robust as job growth has outpaced the national average for most of the last five years, while Millennials and others are attracted to the social scene and climate. Miami ranks as one of the country's most international cities, with large Latin American and Caribbean populations, and plans to build a "Chinatown" neighborhood in North Miami to attract Asians.
- More than half of all submarkets had rent increases of 5% or more over the last 12 months. Three -- Norland (13.3%), North Miami Beach (10.8%) and Riviera Beach (10.0%) -- saw double-digit increases. Of the 71 submarkets in the metro, only three had rents fall in the last year.
- Occupancy of stabilized properties in Miami has receded slightly from its high of 96.1% in March to 95.7% in July; however, current occupancy remains well above the trailing four-year average of 95.0%. Based on continued strong demand, which will match the oncoming supply, we expect rents to grow 7.0% in 2016.

Miami vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Miami Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

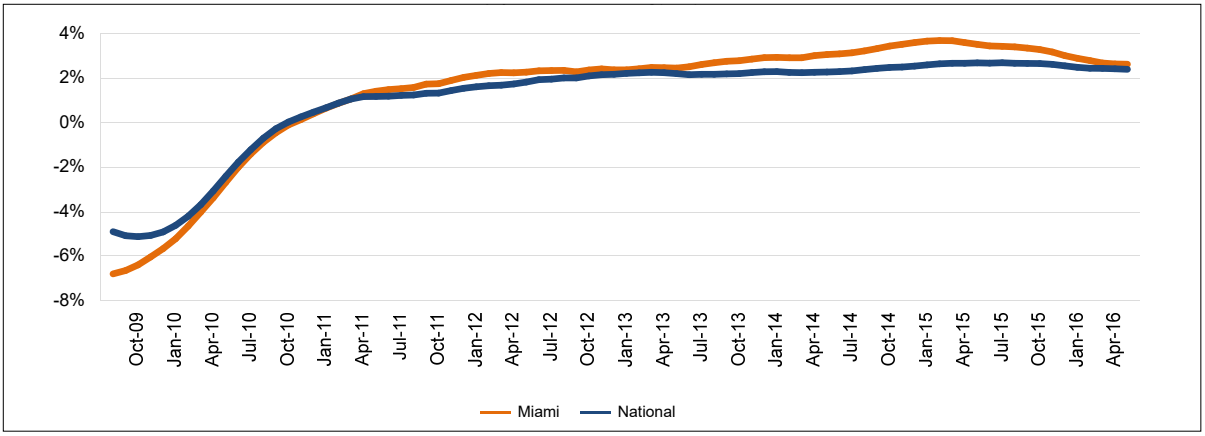


Source: YardiMatrix

Economic Snapshot

- The job market remains strong as the South Florida metro added 63,600 jobs in the year ending in July. Employment rose 3.1%, well above the 2.4% national average.
- Job gains were led by professional and business services, which added 15,500 positions and is now the second largest employment sector in the metro. Miami's traditionally largest sectors -- leisure and hosptiality (12,100) and trade, transportation and utilities (11,500), also have added a substantial amount of jobs over the last year as tourism and trade are going full bore.
- The metro is seeing strong investment in start-up companies and tech firms. Example: Miami is the home of the first Microsoft Innovation Center, which hosts events and training sessions for students and entrepreneurs to promote local business development.
- With economic uncertainties and currency volatility plaguing many countries, Miami may benefit from an influx of international business and real estate investment. Commodity prices such as oil and copper have declined significantly in recent years, and investors in commodity driven markets such as Brazil and Chile may look to the United States to diversify their investments. The ever-improving relations between the United States and Cuba should also boost Miami's economy as it will become a key port of trade and migration.

Miami vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Miami Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
60	Professional and Business Services	416	16.9%	15,500	3.9%
70	Leisure and Hospitality	316	12.8%	12,100	4.0%
40	Trade, Transportation, and Utilities	594	24.1%	11,500	2.0%
55	Financial Activities	183	7.4%	8,100	4.6%
65	Education and Health Services	374	15.2%	8,100	2.2%
15	Mining, Logging, and Construction	46	1.9%	5,300	13.1%
90	Government	283	11.5%	1,900	0.7%
80	Other Services	123	5.0%	1,600	1.3%
50	Information	48	1.9%	-100	-0.2%
30	Manufacturing	84	3.4%	-400	-0.5%

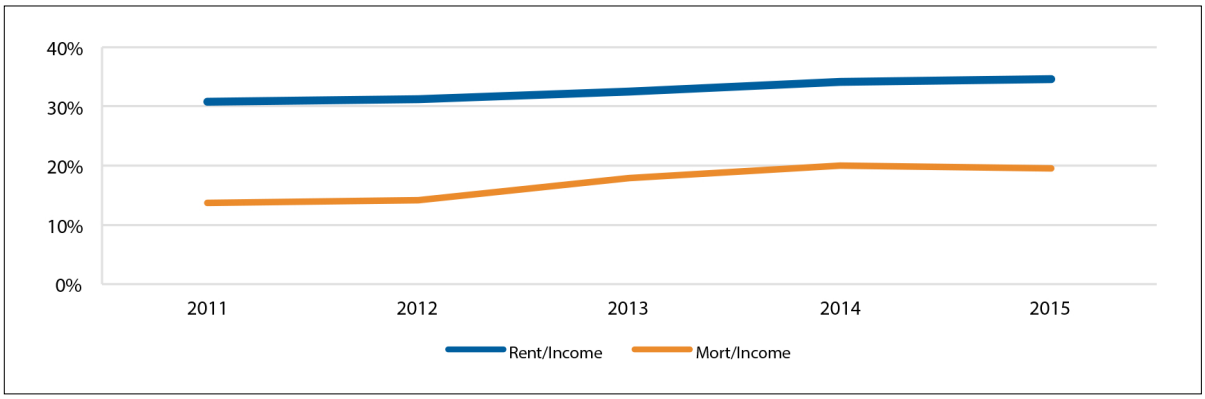
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

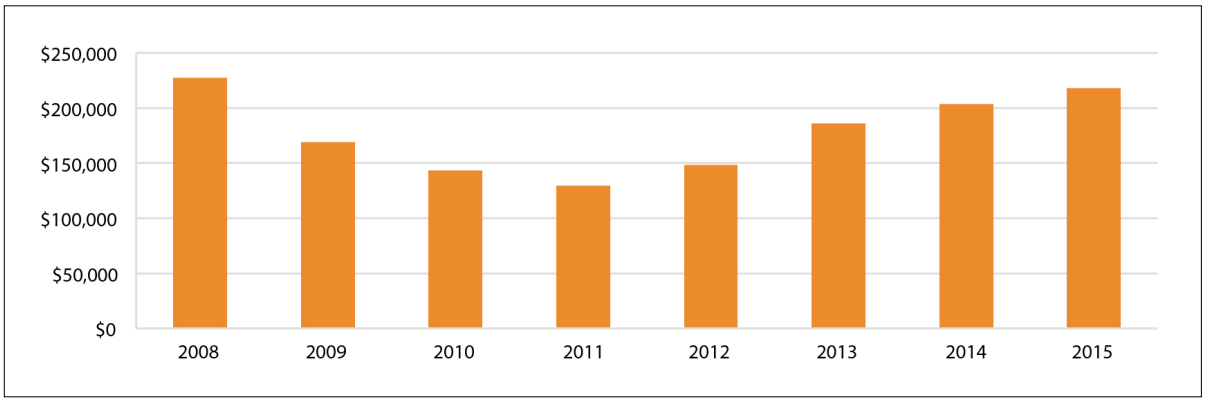
- Despite the recovery in home prices since the Great Recession, home ownership remains significantly more affordable than renting in Miami. With a 2015 median income of $49,892, rent accounts for an average of 35% of income in the metro, while the average mortgage payment is 19% of income.
- Miami has a diverse population with a disparity between low-wage workers and the affluent. Much of the development in recent years has catered to the luxury end of the spectrum, and affordability has become an issue for many Miami renters.

Miami Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Miami Median Home Price



Source: Moody's Analytics

Population

- The metro added 75,000 residents in 2015, up 1.3%, above the 0.8% national average rate.
- The metro's population eclipsed 6 million for the first time in 2015.

Miami vs. National Population

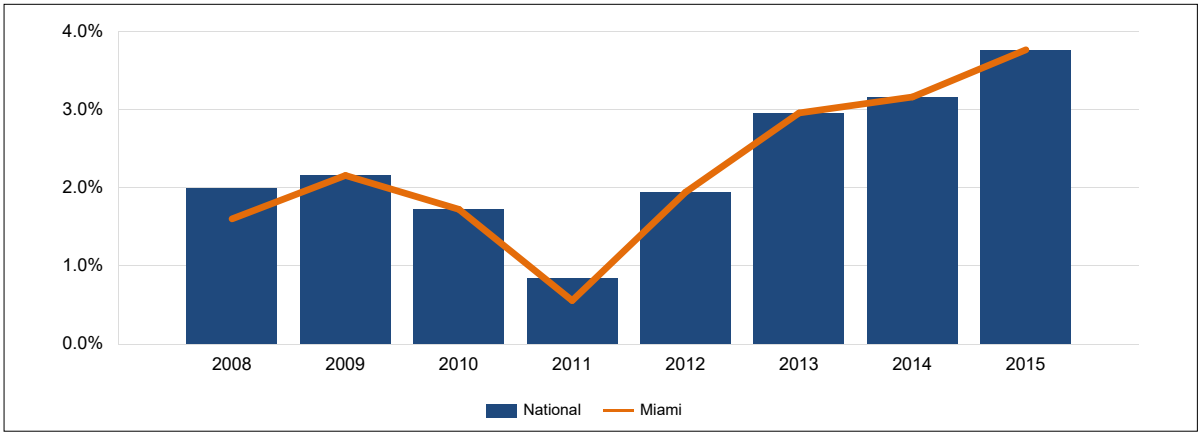
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Miami-Fort Lauderdale-West Palm Beach, FL Metro	5,706,159	5,788,070	5,861,337	5,937,100	6,012,331

Sources: U.S. Census, Moody's Analytics

Supply

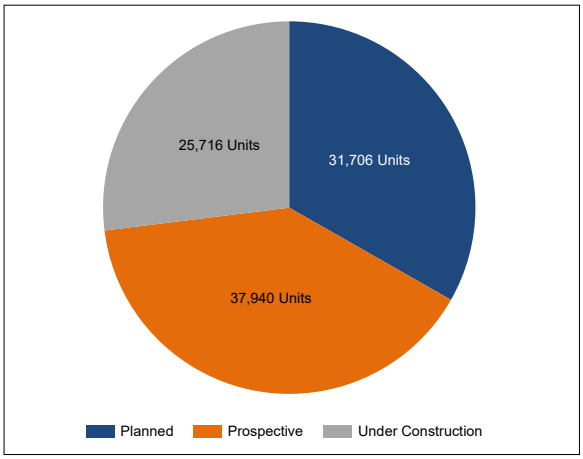
- Roughly 9,300 units were completed in 2015, marking a 3.9% change as a percentage of total stock. Completions in the metro were well above the 2.4% national growth rate.
- Miami's pipeline remains full, as nearly 25,000 units are currently under construction. Roughly 10,000 units are expected to be completed before year-end and another 12,000 will be completed in 2017.
- Downtown Miami is the leading submarket for new construction, with 2,812 units in the works. Other leading submarkets include Boynton Beach (1,289), Glenvar Heights (1,265) and Brickell (1,259). All four leading submarkets, with the exception of Glenvar Heights, which is south of downtown, are located either on the coast and/or near the central business district.
- Most new development is focused in close proximity to Miami, although the traditionally retirement-based locations of Fort Lauderdale and West Palm Beach also have significant construction activity.
- The largest current project is the MiLa located on 20941 San Simeon Way in the Norland submarket, which will add 1,100 units upon completion in September, 2017.

Miami vs. National Completions as a Percentage of Total Stock (as of July 2016)



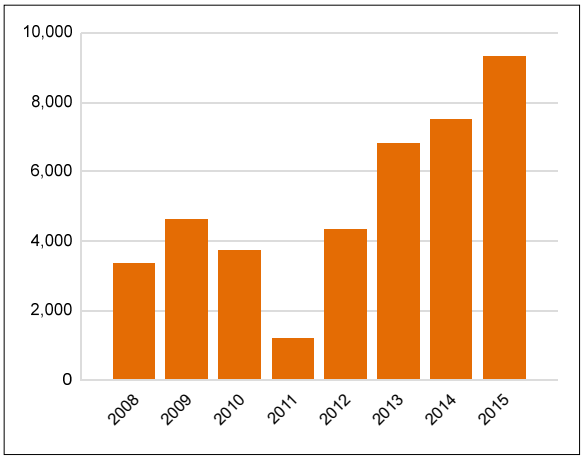
Source: YardiMatrix

Development Pipeline (as of July 2016)



Source: YardiMatrix

Miami Completions (as of July 2016)

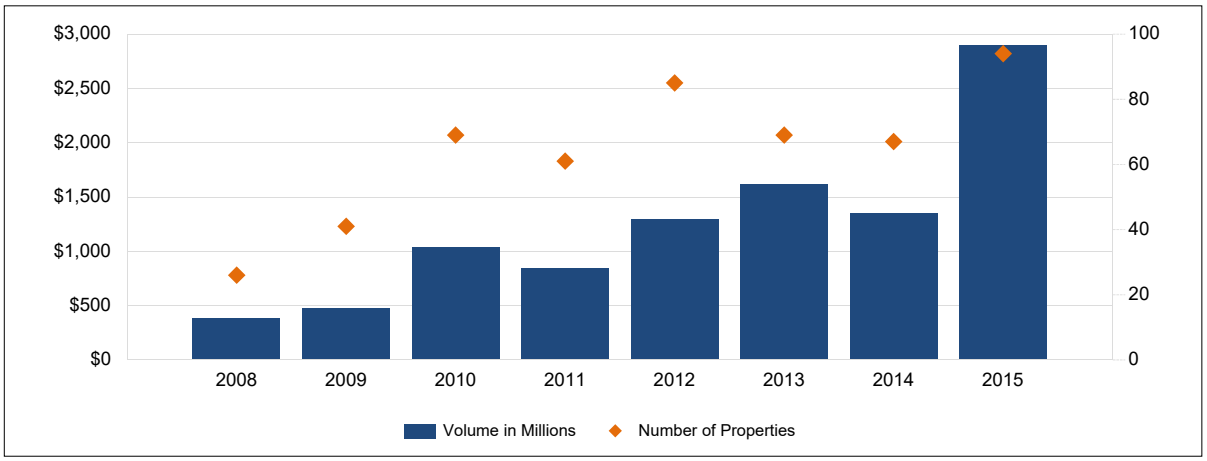


Source: YardiMatrix

Transactions

- Investment in the metro has grown dramatically, as roughly $3.6 billion worth of multifamily properties changed hands in Miami over the past 12 months. Because of the metro's high level of international activity, Miami is a sought-after location for global capital sources.
- Starwood Capital Group has been the most active buyer, purchasing one-quarter of the 128 properties that transacted in the past year. The Greenwich, Conn., based private equity firm acquired 32 apartment developments in Miami as part of a 72-property portfolio it obtained for $5.4 billion from Chicago REIT Equity Residential Properties in the first quarter.
- Prices have been rising steadily since 2010 although there seems to be a recent flattening above $150,000 per unit.

Miami Sales Volume and Number of Properties Sold (as of July 2016)



Source: YardiMatrix

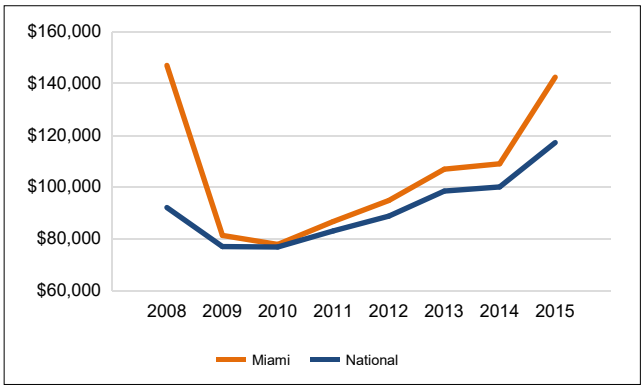
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Boca Raton - East	251
Davie	209
Jupiter	195
Pembroke Pines	177
Plantation	163
Hollywood	155
South Miami	152
Coral Way - Flagler	146

Source: YardiMatrix

[1] From August 2015 to July 2016

Miami vs. National Sales Price per Unit



Source: YardiMatrix

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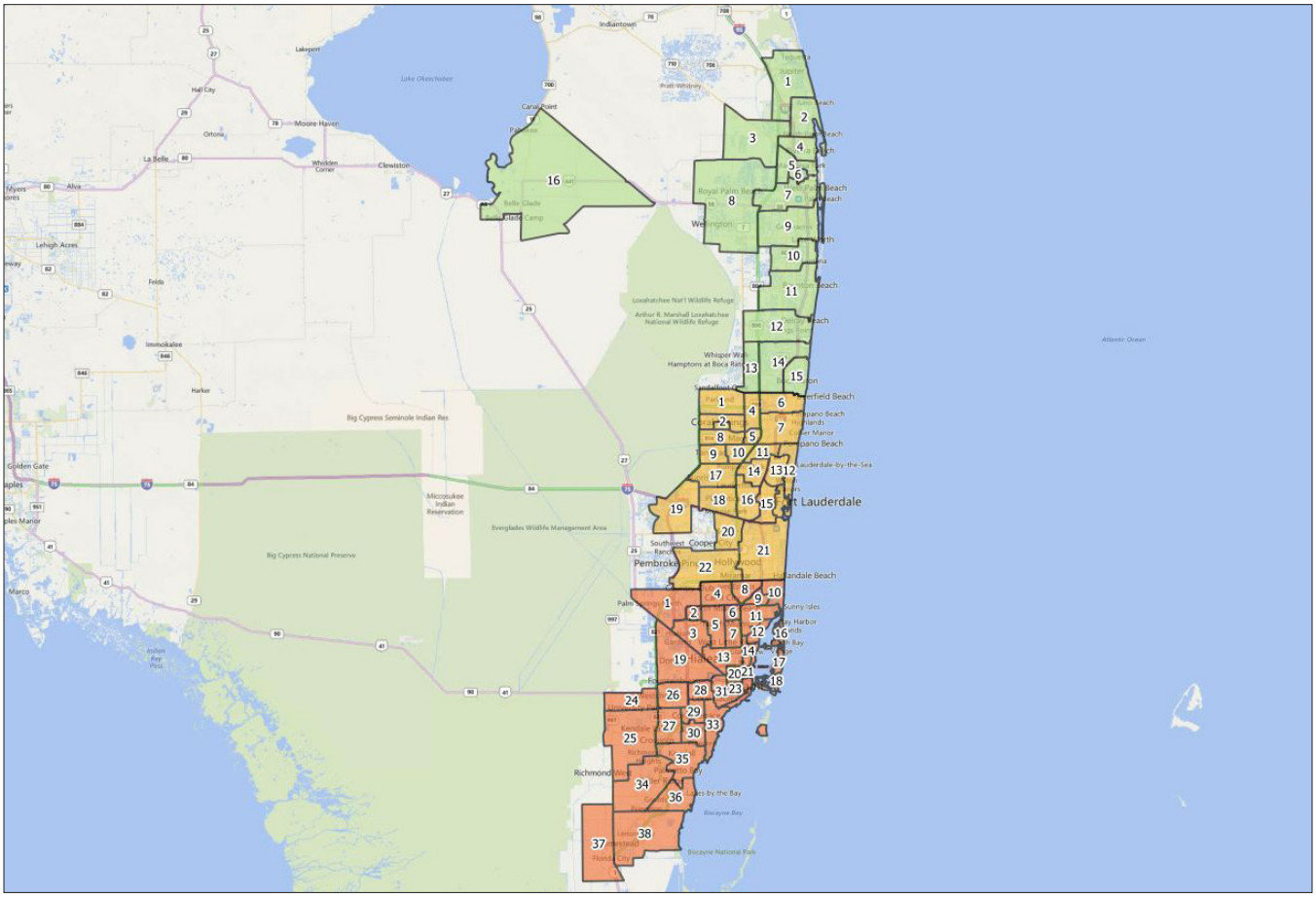
Miami photo by Lorraine Boogich/iStockphoto.com

Miami Submarket Map



Area #	Submarket
1	Country Club
2	Miami Lakes
3	Hialeah
4	Miami Gardens
5	Opa - Locka
6	Bunche Park
7	West Little River
8	Norland
9	North Miami Beach
10	Golden Beach
11	North Miami
12	Miami Shores
13	Liberty City - Brownsville
14	Little Haiti
16	North Beach
17	Mid Beach
18	South Beach
19	Doral
20	Allapattah

Area #	Submarket
21	Edgewater - Wynwood
22	Downtown Miami
23	Little Havana
24	Tamiami
25	Kendale Lakes
26	Fountainbleau
27	Sunset
28	West Miami
29	South Miami
30	Glenvar Heights
31	Coral Way - Flagler
32	Brickell
33	Coconut Grove
34	South Miami Heights
35	Kendall
36	Cutler Bay
37	Florida City
38	Homestead

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.

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