Orlando's Economic Boom

Multifamily Spring Report 2016

Rents Hit New Highs, Far Outpacing Nation

Rising Population Fuels Development Growth

Sales Break Record, Though Per-Unit Low

YARDI® Matrix

Orlando Rides Tourism, Population Gains

Buoyed by record tourism numbers and strong job growth, Orlando's economy is booming. Along with significant population gains, those are ingredients for a healthy multifamily market, which is seeing strong rent growth, increasing development and record transaction activity.

Tourism and business conferences remain pillars of Orlando's economy, but the economic landscape is increasingly diversifying, with an up-and-coming technology sector, improvements in trade and transportation, as well as growing health systems. Orlando is undergoing $15 billion worth of infrastructure projects that will boost construction and trade. Projects include the I-4 Ultimate project, which will eventually connect the Gulf of Mexico to the Atlantic Ocean, the SunRail express train that will connect Orlando to Miami, and the region's commuter rail system, which will serve tourists and commuters alike.

With transaction activity at a new record high, the outlook for multifamily fundamentals is favorable. Strong demand for units will help fill the 5,400 units likely to come online in 2016. However, the accelerated economy points toward affordability issues for low-wage hospitality workers, since low- and mid-quality units saw rent gains of a whopping 8.7% in 2015. We expect another year of robust rent growth in 2016, at 6.3%.

Recent Orlando Transactions

The Village at Baldwin Park

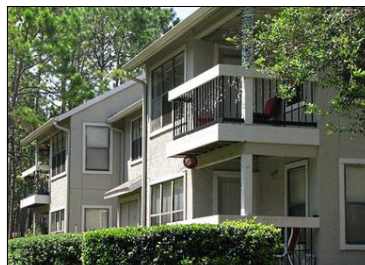City: Orlando
Buyer: Preferred Apt. Communities
Purchase Price: $111 MM
Price per Unit: $209,849

ARIUM Hunters Creek

City: Orlando
Buyer: Carroll Organization
Purchase Price: $82 MM
Price per Unit: $153,290

Barrington at Mirror Lake

City: Apopka, Fla.
Buyer: Cortland Partners
Purchase Price: $75 MM
Price per Unit: $100,878

The Retreat at Orlando

City: Orlando
Buyer: Inland Real Estate Group
Purchase Price: $73 MM
Price per Unit: $328,054

Rent Trends

- Rents in Orlando grew 8.1% year-over-year to an average of $1,040 per month as of March, well over the 5.9% increase nationally, according to the Yardi Matrix survey. Rents reached new highs in the current cycle, and there are no signs of a slowdown.

- Growth has been higher in the working-class Renter-by-Necessity segment, which rose 8.6% year-over-year to an average of $928. The higher-end Lifestyle segment rose by 7.5%, to $1,172 per month. Stronger growth in the Renter-by-Necessity segment underpins the need for affordable housing among lower-paid workers, especially those in the hospitality industry.

- Orlando's urban core is leading rent gains. The top submarkets are Lake Monroe (10%), Oak Ridge West (9.6%), Edgewood Park (8.2%), Elder Springs (6.9%) and Belle Isle (6.7%).

- We expect that Orlando will continue to attract residents, given the metro's balmy climate, relatively low cost of housing and growth in employment in segments such as tourism, business services and warehousing. As a result, demand for apartments will remain steady, and 2016 should be another good year for rents. Our forecast for 2016 is average rent growth of 6.3%.

Orlando vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)
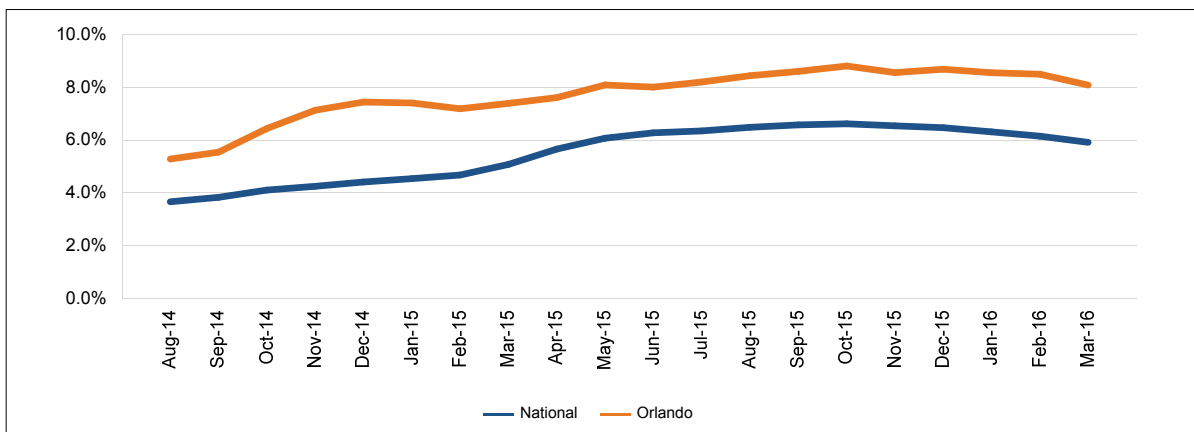
Source: YardiMatrix

**Orlando Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)**
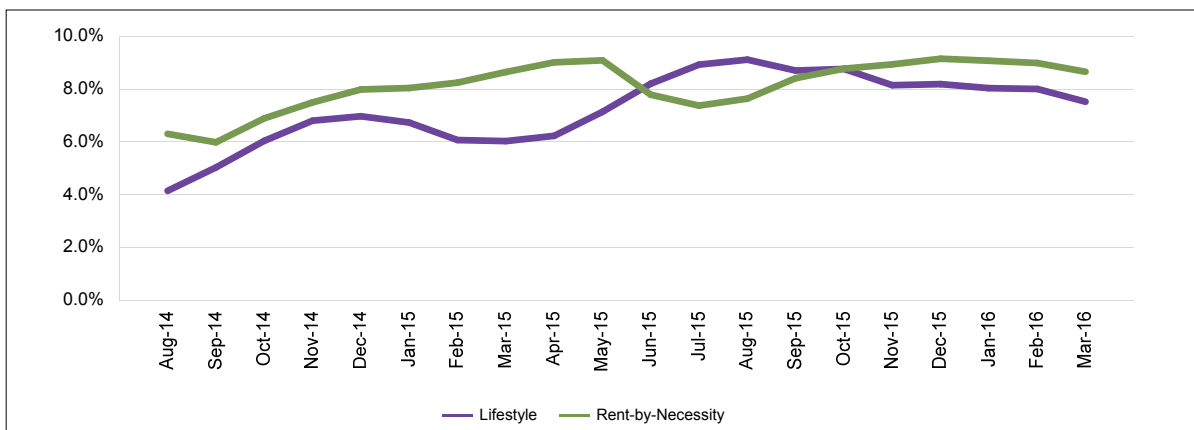
Source: YardiMatrix

Economic Snapshot

- Orlando added 42,000 jobs in 2015, on a percentage basis among the highest in the nation and a sign of a healthy post-recession recovery. Employment in the metro was up 3.1% year-over-year, well above the 2.3% national rate.

- Orlando's economy is driven by the tourism industry; therefore, it is no surprise that employment gains were led by the leisure and hospitality sector, which added 13,400 jobs. A record 62 million annual visitors made their way to Orlando in 2015. There is concern that the strong dollar could discourage international tourists from visiting in 2016. The increase in relatively low-paid hospitality workers adds to the urgency to develop affordable housing options.

- Professional and business services was second to hospitality with 8,800 new jobs, followed by trade, transportation and utilities. Major infrastructure projects underway include the $2.3 billion I-4 Ultimate, $2.2 billion Brightline by All Aboard Florida, $1.8 billion expansion at Orlando International Airport, $1.6 billion creation of the Wekiva Parkway and $650 million expansion at Port Canaveral.

- The $22 billion technology sector is small, but efforts are underway to increase the total number of tech jobs and attract international capital and skilled labor.

Orlando vs. National Employment Growth (Year-Over-Year)
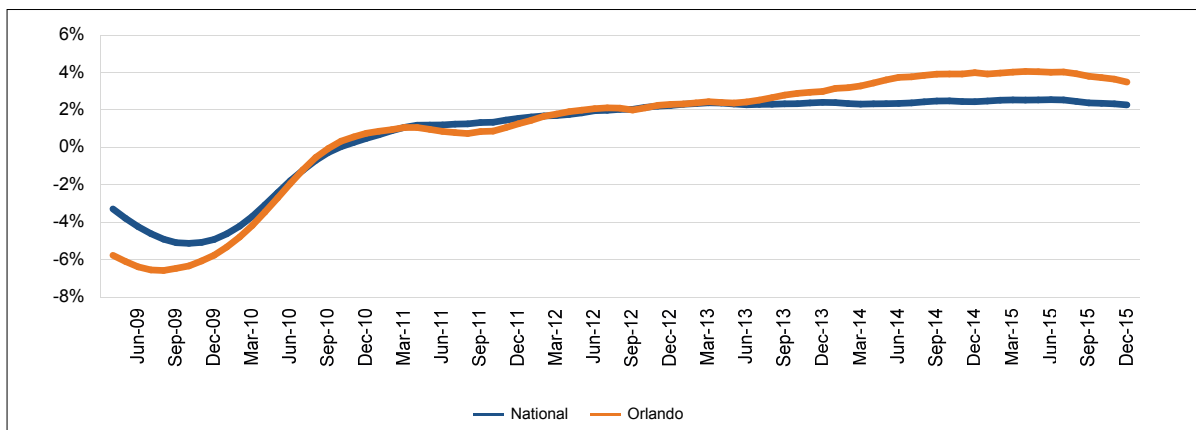
Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

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

| Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
70	Leisure and Hospitality	277	20.0%	13,400	5.1%
60	Professional and Business Services	227	16.3%	8,800	4.0%
40	Trade, Transportation and Utilities	269	19.4%	7,900	3.0%
65	Education and Health Services	176	12.7%	3,800	2.2%
15	Mining, Logging and Construction	71	5.1%	2,300	3.3%
55	Financial Activities	82	5.9%	2,200	2.7%
90	Government	151	10.9%	2,100	1.4%
30	Manufacturing	62	4.4%	1,200	2.0%
80	Other Services	47	3.4%	1,200	2.4%
50	Information	26	1.9%	-400	-1.5%

Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

- Median home prices in the metro rose to $172,000 in 2015, reaching a peak for the current cycle. Compared to most major metros, Orlando is relatively affordable, but it becomes less so as housing prices rise and wages stagger.

- Owning remains more affordable than renting in Orlando, as the average mortgage payment is 15% of the metro's median income of $50,300, whereas renting comprises as much as 24%. Rents are about one-third higher in the city's core submarkets of Colonial Town and Downtown Orlando.

Orlando Rent vs. Own Affordability as a Percentage of Income
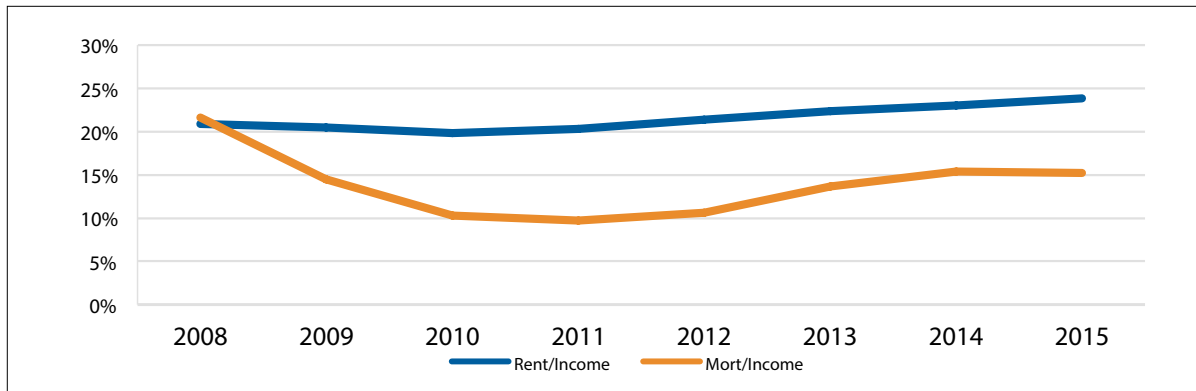
Sources: YardiMatrix, Moody's Analytics

Orlando Median Home Price
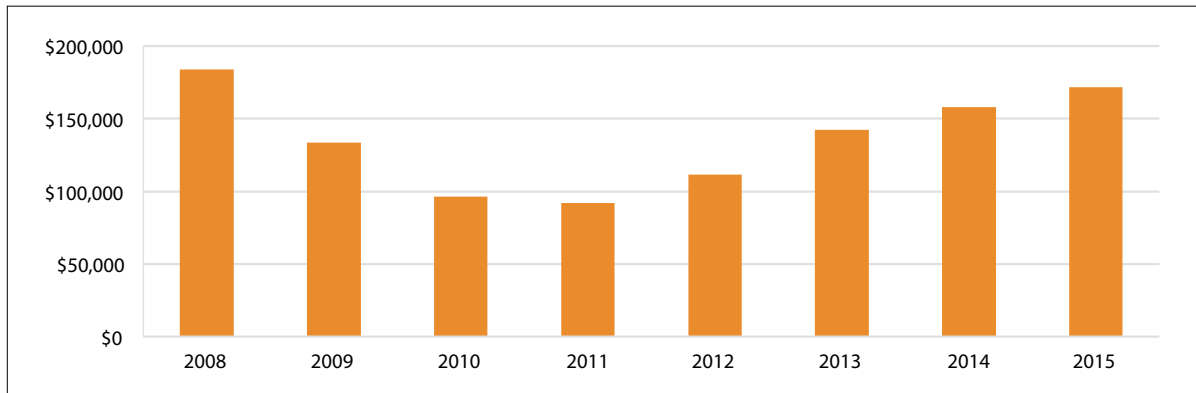
Source: Moody's Analytics

Population

- Orlando is among the fastest-growing metros in the U.S., adding 50,000 residents in 2014, up 2.2%, nearly triple the 0.8% national average.

- Since 2010, Orlando has added 181,000 residents, an 8.5% increase in population.

Orlando vs. National Population

	2010	2011	2012	2013	2014
National	309,347,057	311,721,632	314,112,078	316,497,531	318,857,056
Orlando	2,139,686	2,176,088	2,225,901	2,271,083	2,321,418

Source: U.S. Census

Supply

- Although completions dropped by one-third in 2015 to 4,000, multifamily development is fairly strong in Orlando. Nearly 5,500 units are slated to come online this year, the most in the current cycle and a significant increase over most recent years. The new supply will add 2.2% to the total stock, which is in line with the 2.3% forecast for the nation.

- Development growth has been fueled by rising population, the strengthening employment sector and international buyers' interest in well-performing secondary markets.

- More than 28,000 units are in various stages of development, including more than 9,100 units currently under construction. With 13,900 units already in the planning and permitting phase, construction will remain strong for several years.

- The Lake Dona submarket leads supply with 1,200 units. Other submarkets with a large pipeline include Downtown Orlando (1,100 units) and Colonial Town (900 units). The 483-unit luxury community Baldwin Harbor in Colonial Town is the largest project set for completion this year.

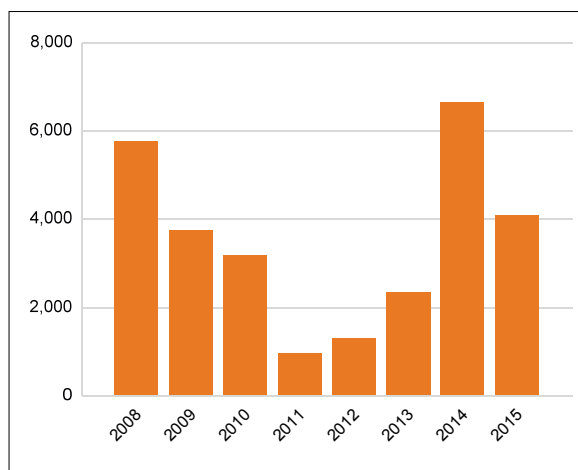**Orlando vs. National Completions as a Percentage of Total Stock (as of March 2016)**
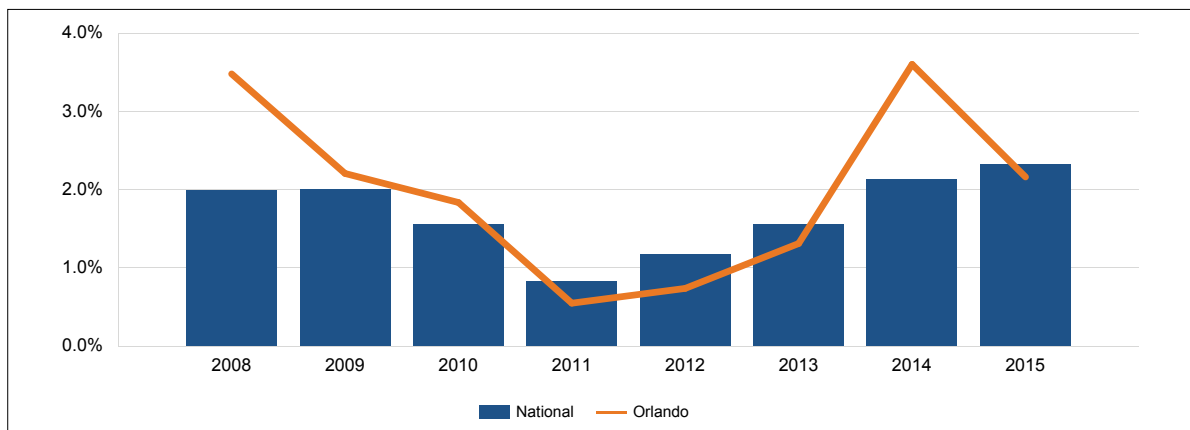
Source: YardiMatrix

Development Pipeline (as of March 2016)
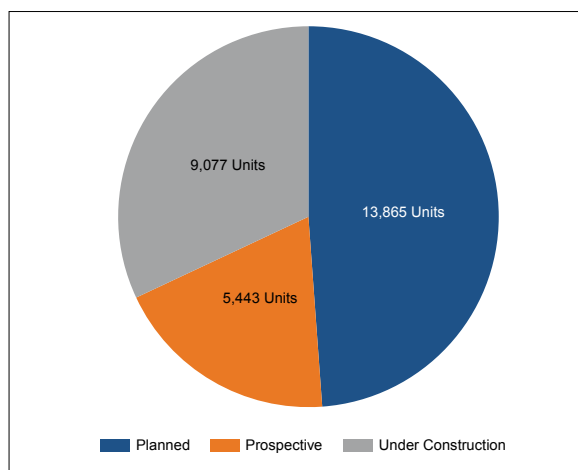
Source: YardiMatrix

**Orlando Completions (as of March 2016)**

Source: YardiMatrix

Transactions

- 2015 was a record-breaking year for Orlando's transaction volume, as $2.5 billion worth of properties changed hands. The volume of assets sold last year is more than all that was sold between 2008 and 2012 combined.

- Although rising steadily for more than five years, the average price per unit remains below the national average of $117,000. The healthy increase in volume and property values demonstrates investor demand for higher-yielding properties in secondary markets.

- During the past 12 months, investor appetite was highest in Stoneybrook, Kirkman and University Park. At $111 million, the 528-unit Village at Baldwin Park was the most expensive property traded over the past year. Preferred Apartment Communities was the buyer.

Orlando Sales Volume and Number of Properties Sold (as of March 2016)
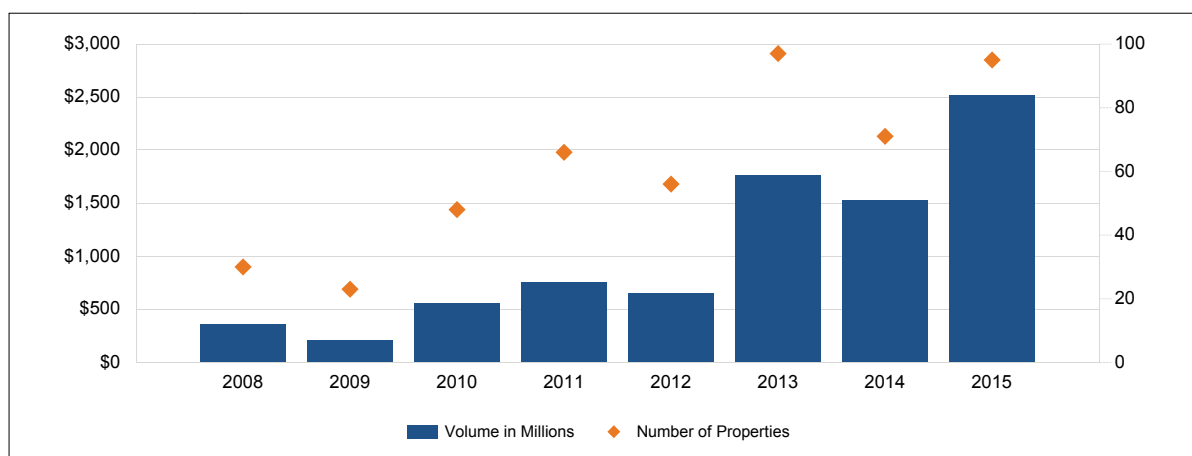
Source: YardiMatrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Stoneybrook	264
Kirkman	166
University Park	147
Gotha/Orlovista	129
Colonial Town	111
Lake Monroe	109
Lake Bryan	100
Oviedo	91

Source: YardiMatrix
[1] From April 2015 to March 2016

Orlando vs. National Sales Price per Unit
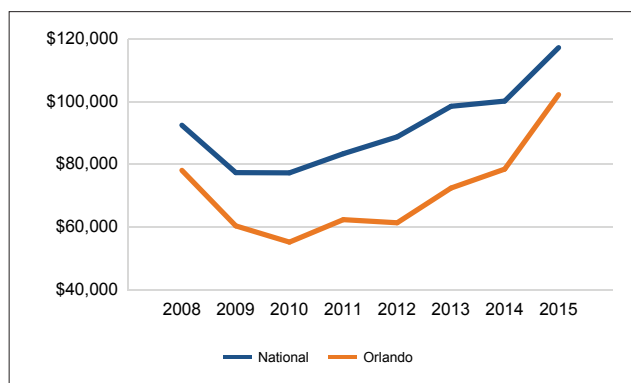
Source: YardiMatrix

Read All About It!

Beachwold Residential Acquires 482-Unit Multifamily Portfolio

Altis Sand Lake Orlando's Biggest Green Community

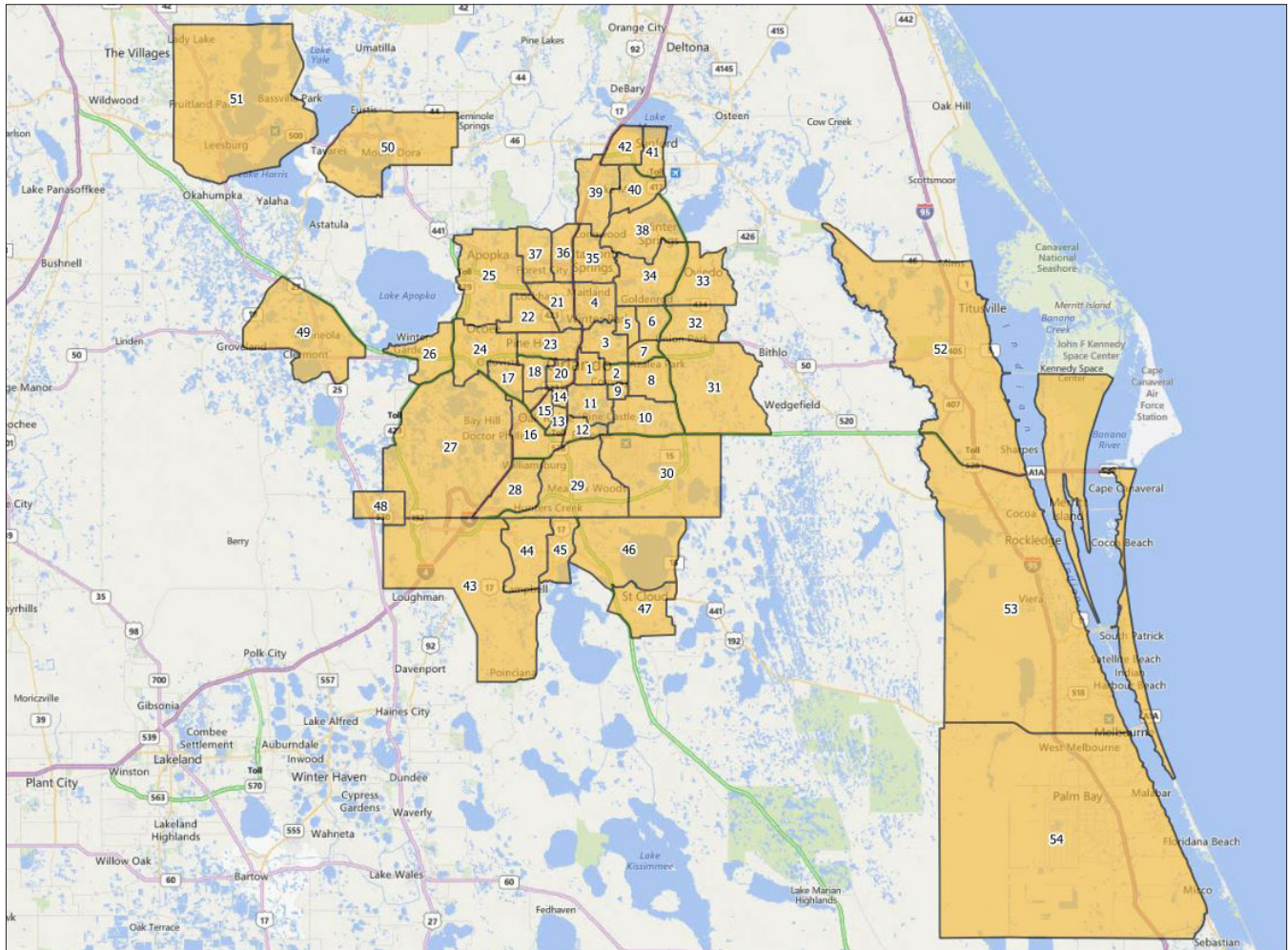**JLL Closes on Two Industrial Leases Totaling Almost 277 KSF**

Downtown Medical Office Building Sells for $10.6M

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Orlando Submarkets

Area #	Submarket	Area #	Submarket	Area #	Submarket
1	Downtown Orlando	19	Florida Center North	37	Forest City
2	Azalea Park	20	Holden Heights	38	Longwood
3	Colonial Town	21	Lockhart	39	Lake Mary
4	Winter Park/Maitland	22	Rosemont	40	Elder Springs
5	Aloma	23	Pine Hills	41	Sanford
6	Goldenrod	24	Gotha/Orlovista	42	Lake Monroe
7	Union Park	25	Apopka/Piedmont	43	Celebration
8	Edgewood Park	26	Winter Garden	44	West Kissimmee
9	Conway	27	Lake Buena Vista	45	East Kissimmee
10	Vista Park	28	Lake Bryan	46	Fish Lake
11	Edgewood	29	Hunter's Creek	47	St. Cloud
12	Belle Isle	30	Lake Nona	48	Hancock Lake
13	Oak Ridge	31	Stoneybrook	49	Clermont
14	Lake Catherine	32	University Park	50	Mt. Dora
15	Millenia	33	Oviedo	51	Leesburg
16	Florida Center	34	Red Bug Lake	52	Titusville
17	Kirkman	35	Altamonte Springs	53	Melbourne
18	Lake Richmond	36	Weathersfield	54	Palm Bay

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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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