YARDI® Matrix

Jacksonville: Boomtown, USA

Multifamily Summer Report 2016

Hiring Spree Attracts New Residents

Absorption Outperforms Expectations

Investors Hunger for Deals

Market Analysis

Summer 2016

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Population Surge Boosts Demand

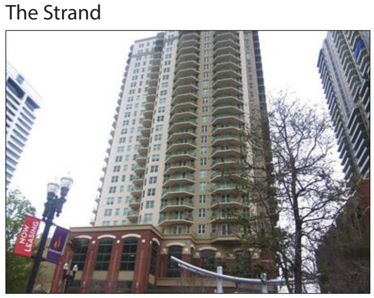
Jacksonville has enjoyed substantial population growth in recent years, benefiting from above-trend job gains and affordable housing. The growth is generating demand that is boosting prospects for the metro's multifamily market.

Economic growth comes from an array of segments. Record tourism has led to gains in hospitality employment. Health care facilities are expanding, as is the distribution industry. With the growth of the U.S. economy, more goods are coming through the city's major port. The sector also benefits from the recent opening of the Panama Canal and the completion of an intermodal container transfer facility at the Dames Point terminal. The metro's hiring boom in recent years has extended to its small-but-rapidly-growing tech sector, which has nearly doubled since 2001.

The hiring spurt coupled with a thin amount of inventory and restrained development, have encouraged rent growth. The metro's pace of new deliveries in 2015 trailed the nation for the fifth consecutive year. Absorption remained strong, pushing occupancy up to 95.3% as of May 2016. On the sales front, investors have been aggressively competing for value-add assets that offer decent yields, setting a new benchmark for the highest price per unit in the current cycle. While the development pipeline is significant., we expect demand to keep up, leading to an overall rent increase of 4.0% this year.

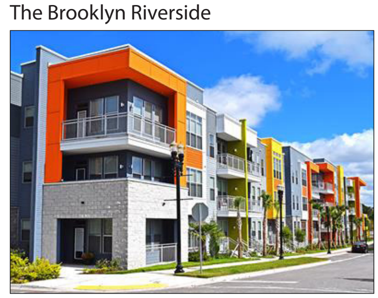
Recent Jacksonville Transactions

The Strand



City: Jacksonville
Buyer: John Rumpel
Purchase Price: $65 MM
Price per Unit: $218,983

The Brooklyn Riverside



City: Jacksonville
Buyer: Bluerock Real Estate
Purchase Price: $58 MM
Price per Unit: $187,000

Broadstone Beach House

City: Jacksonville Beach
Buyer: Bluerock Real Estate
Purchase Price: $47 MM
Price per Unit: $204,000

Wimberly at Deerwood

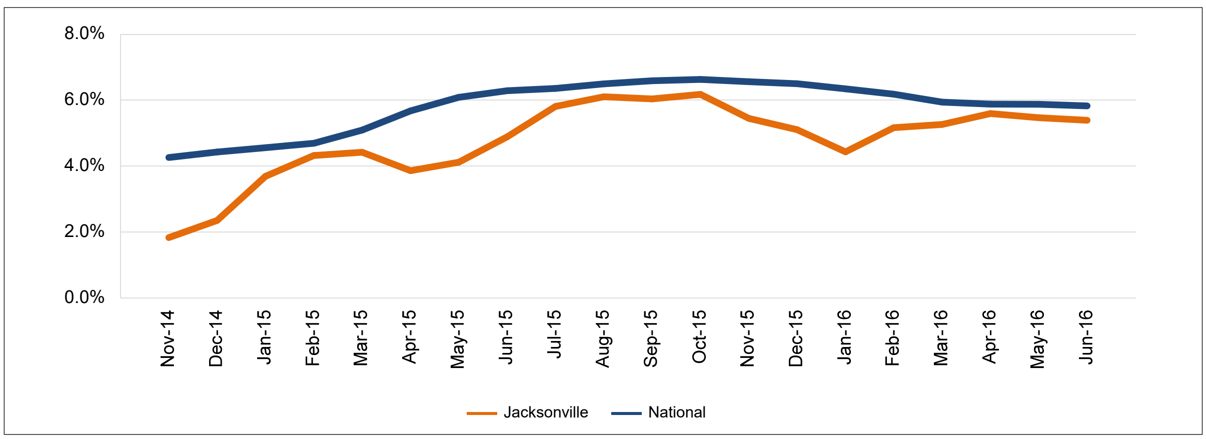
City: Jacksonville
Buyer: Olympus Property
Purchase Price: $44 MM
Price per Unit: $135,093

On the cover: Photo by Pgiam/iStockphoto.com

Rent Trends

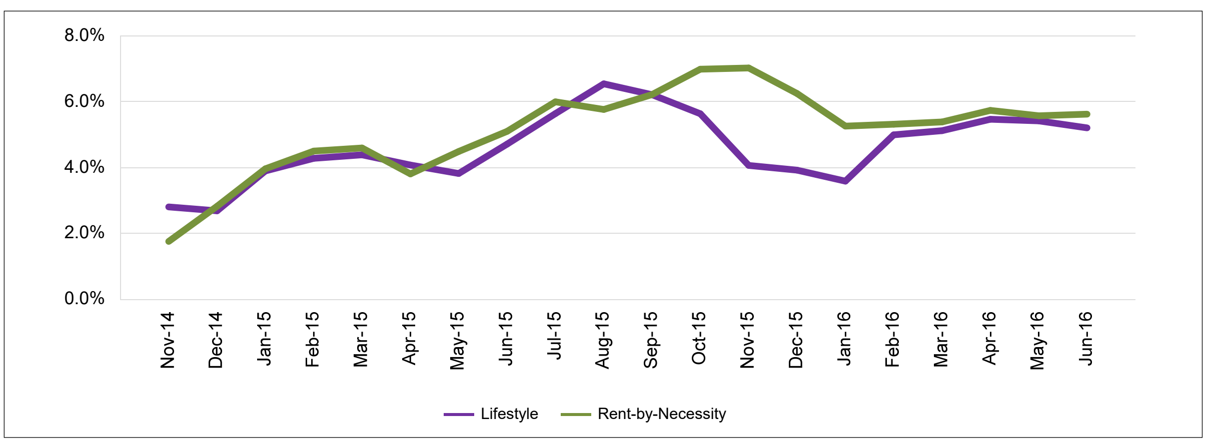
- Rents in Jacksonville rose by 5.4% year-over-year through June, slightly trailing the nation's 5.6% growth rate. Average rents reached $900, which is significantly below the $1,213 national average. Jacksonville's relative affordability remains one of the key drivers of population growth.
- Absorption has outperformed expectations during the current cycle, especially in submarkets located near the city's core or along the coast. Consequently, there have been minimal or no concessions in the market, and rents continue to rise. The highest growth over the past year was recorded in Neptune Beach (8.9%), Deerwood Club – East (7.8%), Meadowbrook (7.5%), Hilliard (6.2%) and Ortega Hills (5.5%).
- Rent growth was higher in the working-class Renter-by-Necessity segment, which advanced 5.6% to $791, while higher-end Lifestyle rates reached $1,063, marking a 5.2% increase.
- Jacksonville's hiring surge in the context of an improving local economy will continue to fuel demand for more apartments, keeping vacancies low. In May 2016, the metro's occupancy reached 95.3%. With developers expected to ramp up the pace of new deliveries, we expect a slower overall rent increase of 4% this year.

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



Source: YardiMatrix

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

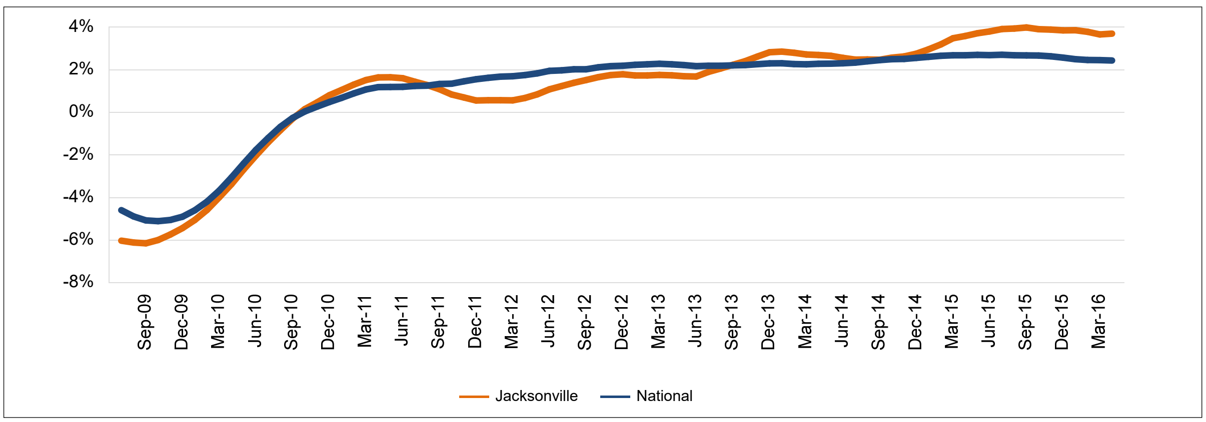


Source: YardiMatrix

Economic Snapshot

- Jacksonville added 22,800 jobs in the year ending in April, an approximately 3.7% year-over-year increase and above the 2.4% national average. The metro's unemployment dropped to 4.1% in May, compared to 4.7% for the nation.
- Growth was led by the leisure and hospitality industry, which expanded by 5,900 positions. In line with the broader state trend, the area's tourist destinations—especially Duval, St. Johns and Nassau counties—reported record visitation last year. Tourism in Florida increased by 6.6% in 2015, marking the fifth consecutive year of record growth.
- Trade, transportation and utilities—the metro's largest employment sector—added 3,600 jobs. This trend is likely to continue, especially with the completion of an intermodal container transfer facility at the Dames Point terminal and the opening of the Panama Canal expansion, which is generating a higher demand for ports to handle cargo coming from larger ships. Moreover, JAX Chamber and the U.S. Department of Commerce's International Trade Administration are planning to double the region's export activity over the next five years.
- The local medical community is also growing. Examples include the $33.1 million expansion of St. Vincent's Medical Center in Middleburg in Clay County, and expansions at the Baptist Clay Medical Campus on Fleming Island and the Orange Park Medical Center in Orange Park. The Brooks Rehabilitation Hospital recently opened a flagship facility in Orange Park, and assisted living facilities are cropping up throughout the region.

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



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

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

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
70	Leisure and Hospitality	86	12.9%	5,900	7.4%
65	Education and Health Services	102	15.3%	4,900	5.1%
40	Trade, Transportation and Utilities	138	20.7%	3,600	2.7%
15	Mining, Logging and Construction	37	5.5%	2,300	6.6%
55	Financial Activities	63	9.4%	2,200	3.6%
90	Government	78	11.7%	1,200	1.6%
60	Professional and Business Services	103	15.4%	1,100	1.1%
80	Other Services	23	3.4%	1,100	4.9%
30	Manufacturing	30	4.5%	600	2.0%
50	Information	9	1.3%	-100	-1.1%

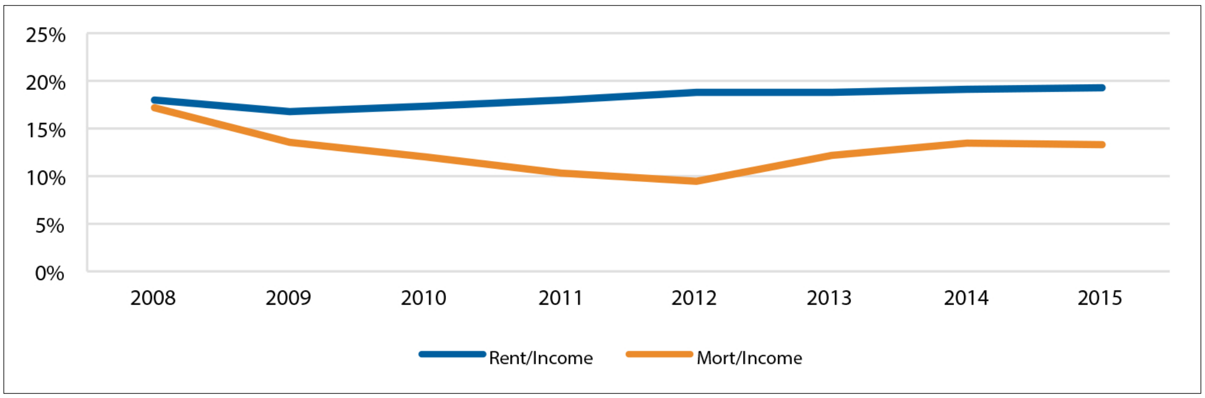
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

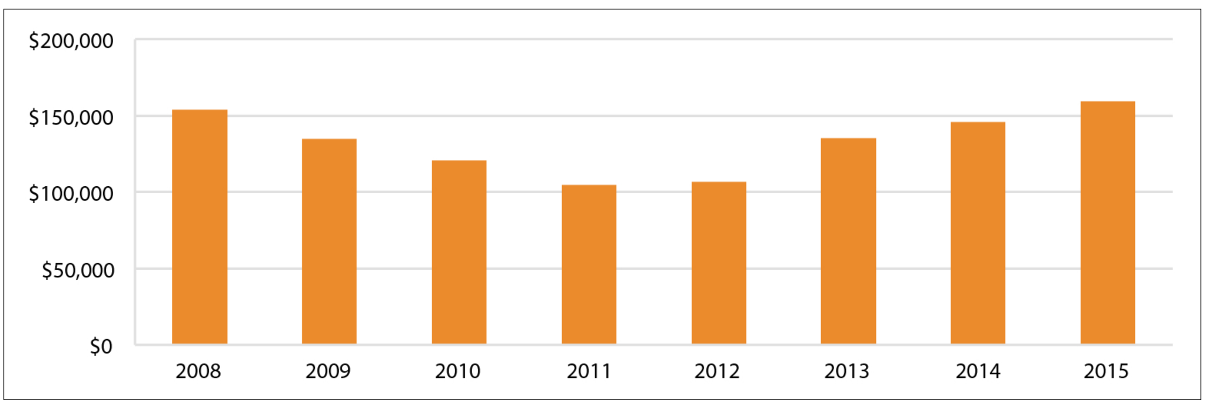
- Despite the fact that median home values in Jacksonville rose to $159,229 in 2015, marking a peak in the current cycle, the average mortgage accounts for only 13% of the area's median income of approximately $53,190. Consequently, homeownership remains a more affordable housing option in the metro, where rents account for 19% of the area's median income, on average.
- With the average rent only $900, the inexpensive cost of living remains one of the key motivators that lure residents to the area, along with the strong job market and warm weather.

Jacksonville Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Jacksonville Median Home Price



Source: Moody's Analytics

Population

- Jacksonville's population rose by 2.0% in 2015, far outpacing the 0.8% national average.
- The growth has been consistent, totaling more than 100,000 new residents since 2010.

Jacksonville vs. National Population

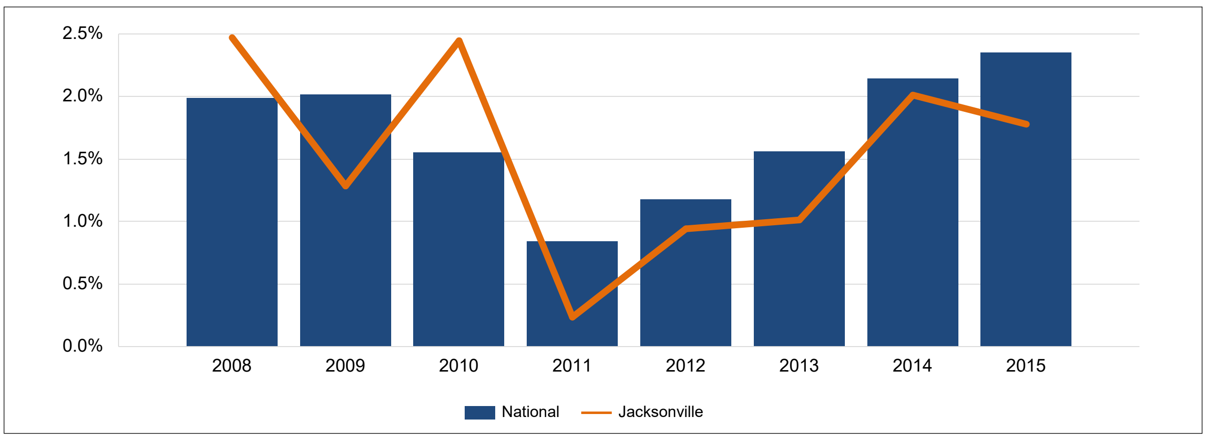
	2010	2011	2012	2013	2014	2015
National	309,346,863	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Jacksonville, Fla., Metro	1,349,083	1,362,032	1,379,209	1,396,267	1,421,004	1,449,481

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

Supply

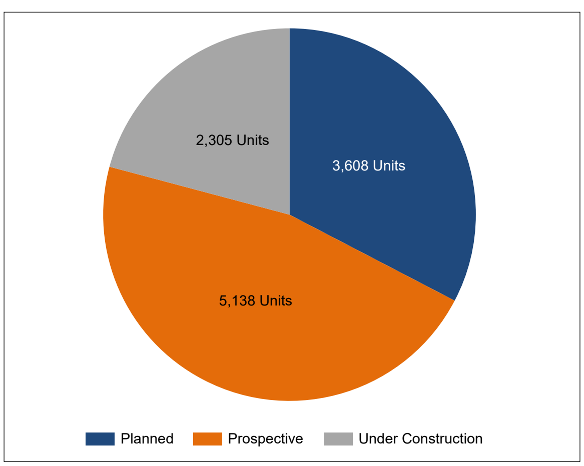
- Jacksonville added 1,630 multifamily units in 2015, a 1.8% expansion of stock, although a slight decline from the previous year, when more than 1,800 units came online.
- Despite strong demand from the increasing population, the metro has lagged the national growth rate for new inventory for five consecutive years. Absorption was robust for most of the new construction in the previous development cycle, constricting vacancy and pushing up rents.
- The development pipeline is significant, consisting of more than 11,000 units in various stages, approximately 2,300 of them currently under construction.
- Development activity will especially target submarkets situated around the city's core or near the beach, such as Bayard, San Pablo, Pineland Gardens, Deerwood Club – West and Beacon Hills. Some of the largest projects include the 395-unit Carlton at Bartram Park in Bayard, the 380-unit Tamaya in San Pablo, the 330-unit Sola in Pineland Gardens and The Loree, a 300-unit community in Deerwood Club - West.

Jacksonville vs. National Completions as a Percentage of Total Stock (as of June 2016)



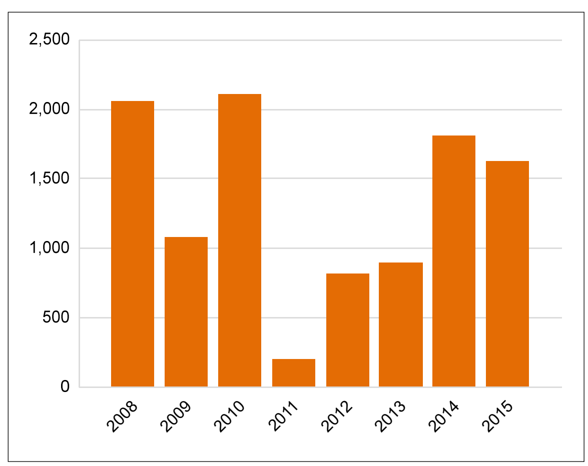
Source: YardiMatrix

Development Pipeline (as of June 2016)



Source: YardiMatrix

Jacksonville Completions (as of June 2016)

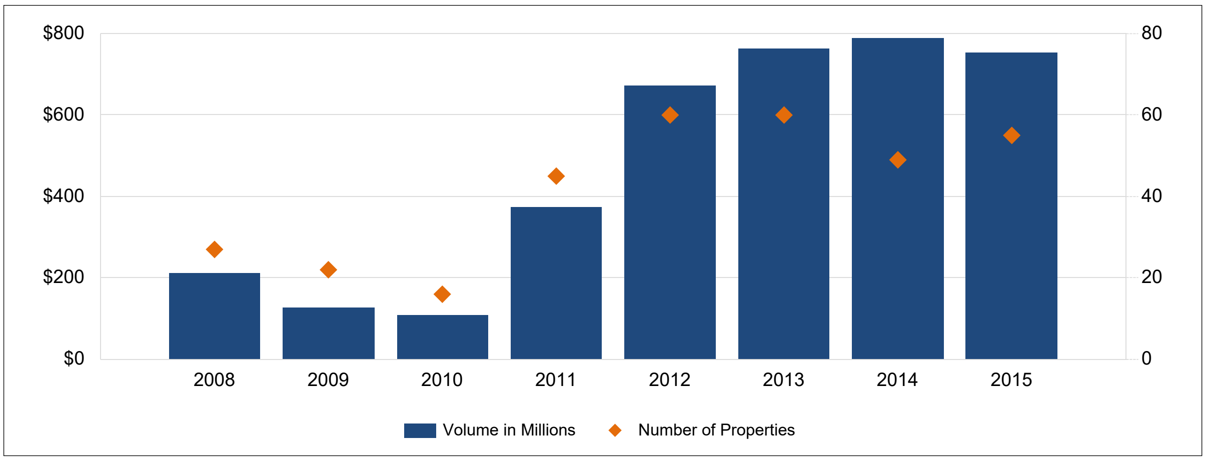


Source: YardiMatrix

Transactions

- Investor appetite remains strong in Jacksonville. Some $751 million worth of properties changed hands in 2015, a slight decline from the previous year, when the total transaction volume exceeded $786 million.
- Buyers mostly focused on value-add Renter-by-Necessity assets, which saw cap rates compress in the 6% range, setting a price-per-unit record high for the current cycle of approximately $68,974. This is still significantly below the national average of $117,165. Foreign and first-time buyers were among the most competitive investors, bringing a significant amount of equity from overseas.
- Intense activity was recorded in Oakwood Villa, Pineland Gardens and Newcastle. JMG Realty's $24.7 million acquisition of Florida Club at Deerwood ranked as one of Jacksonville's largest multifamily transactions in 2015, followed by Blue Rock Premier Properties' nearly $21 million purchase of The Park at Avellino.

Jacksonville Sales Volume and Number of Properties Sold (as of June 2016)



Source: YardiMatrix

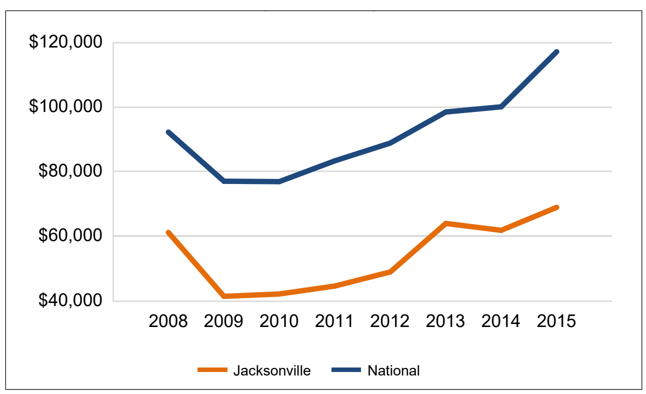
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Oakwood Villa	95
Pineland Gardens	75
Newcastle	65
Goodbye	56
Neptune Beach	46
Deerwood Club - East	39
San Pablo	36
St. Augustine	33

Source: YardiMatrix

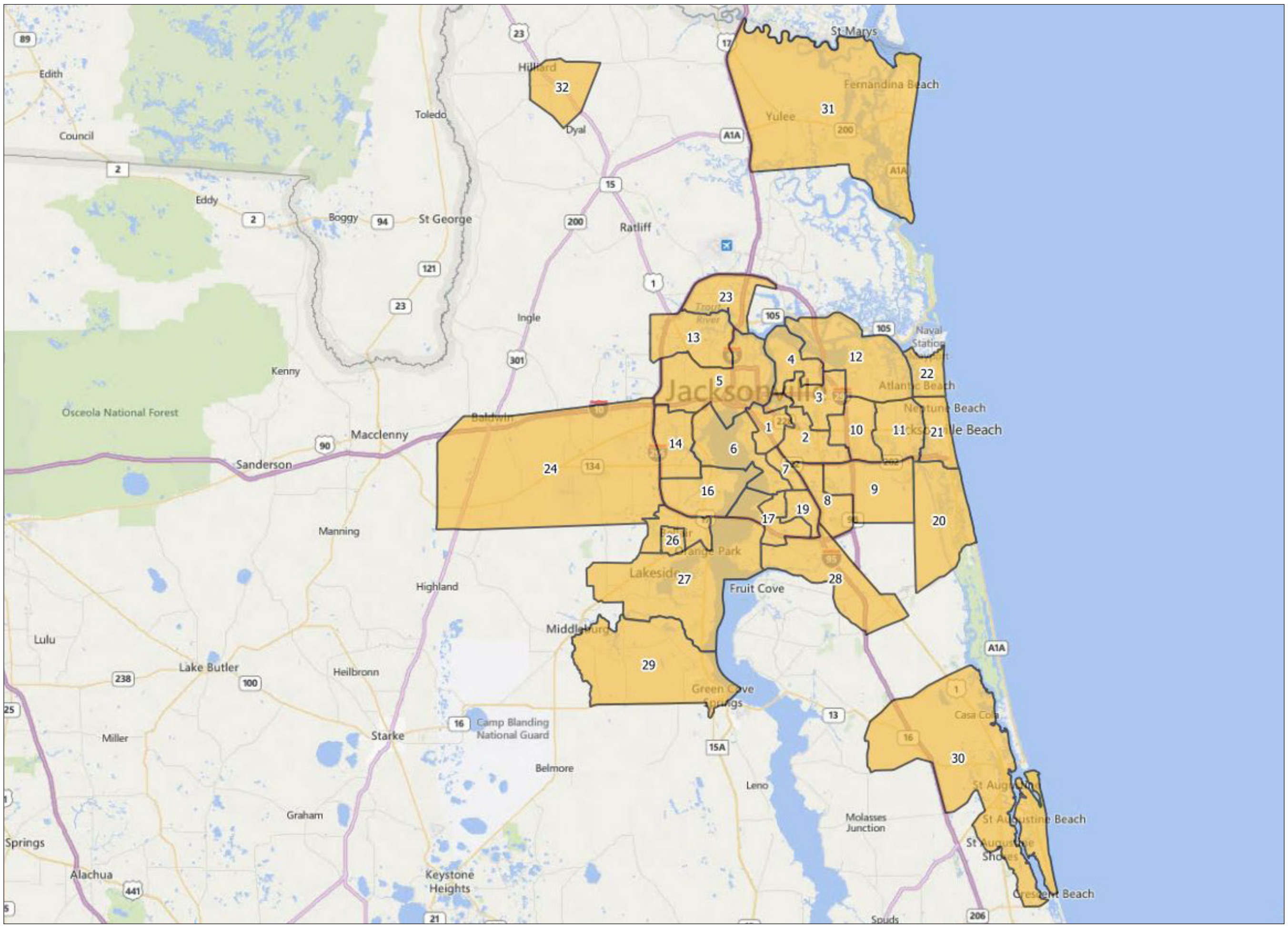
[1] From July 2015 to June 2016

Jacksonville vs. National Sales Price per Unit



Source: YardiMatrix

Jacksonville Submarket Map



Area #	Submarket
2	Pineland Gardens
3	Oakwood Villa
4	Newcastle
5	College Park/Springfield
6	San Jose
7	Bowden
8	Deerwood Club - West
9	Deerwood Club - East
10	Southridge
11	San Pablo
12	Beacon Hills
13	Dinsmore
14	Cedar Hills
16	Ortega Hills
17	Greenland

Area #	Submarket
18	Goodbye
19	Sunbeam
20	Ponte Vedra Beach
21	Neptune Beach
22	Mayport
23	Highlands
24	Jacksonville Heights
25	Meadowbrook
26	Bellair
27	Orange Park
28	Bayard
29	Green Cove Springs
30	St. Augustine
31	Fernandina Beach
32	Hilliard

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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