

A low-angle, upward-looking photograph of several tall palm trees against a bright blue sky with scattered white clouds. In the upper right corner, a portion of a modern, multi-story building with a grid of windows is visible. The overall scene is bright and sunny, suggesting a tropical or subtropical environment.

Yardi® Matrix

# Miami's Healthy Climate

Multifamily Report Spring 2017

**Rents High Despite New Supply**

**Job Growth Outpaces Nationwide Trend**

**New Deliveries Favor Luxury Segment**

## Market Analysis

Spring 2017

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## Rent Growth Cools Off

With substantial job gains and above-average population growth, Miami continues to foster positive fundamentals for multifamily. However, as with much of the country, rent growth has decelerated to long-term averages, as the overwhelming amount of new supply begins to take its toll.

Employment gains continue to drive demand for housing, with 50,500 jobs added in the year ending in February. The \$295 million Terminal 1 modernization at Fort Lauderdale-Hollywood International Airport and Mana Group's 10 million-square-foot center that would facilitate commerce with Asia and Latin America point to further expansion, fueling construction and trade. Additionally, infrastructure improvements, such as the upcoming \$3.1 billion Brightline Express train that will connect Miami to Orlando, will also help drive growth.

Despite moderating, multifamily fundamentals remain strong. Transactions crossed the \$3 billion mark in 2016, and more than \$600 million were completed in the first quarter of 2017. Multifamily development is robust, with roughly 5,600 units expected to come online by the end of the year. Concerns about oversupply may push some projects to later development cycles. As new units compete with existing stock, rent growth is bound to decelerate. However, with demand still strong, we expect rents to grow by 5.3% in 2017, a solid gain but below last year's frothy levels.

### Recent Miami Transactions

City Center on 7th



City: Pembroke Pines, Fla.  
Buyer: Harbor Group International  
Purchase Price: \$159 MM  
Price per Unit: \$226,428

Aliro



City: North Miami, Fla.  
Buyer: LivCor  
Purchase Price: \$117 MM  
Price per Unit: \$134,948

Las Ventanas



City: Boynton Beach, Fla.  
Buyer: Pollack Shores  
Purchase Price: \$109 MM  
Price per Unit: \$221,356

San Merano at Mirasol



City: Palm Beach Gardens, Fla.  
Buyer: LivCor  
Purchase Price: \$104 MM  
Price per Unit: \$217,647

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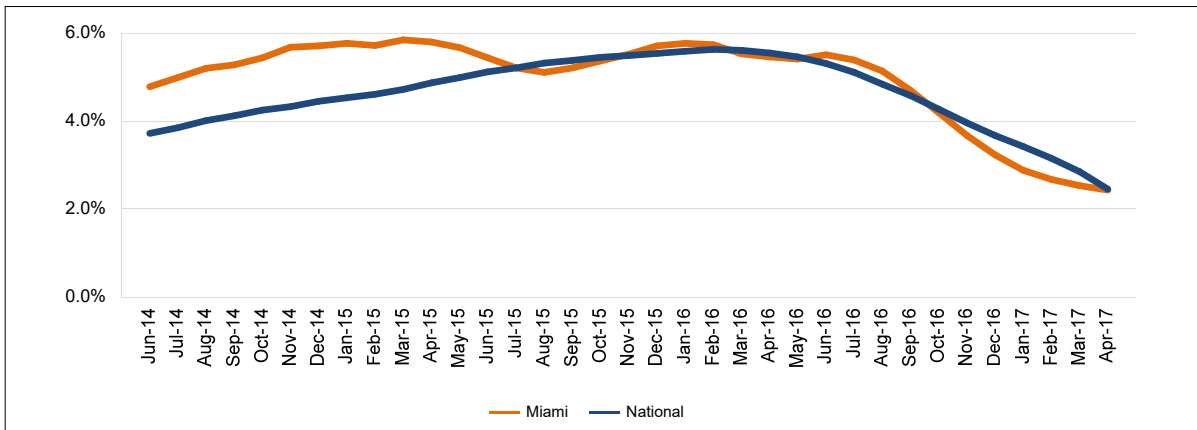
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## Rent Trends

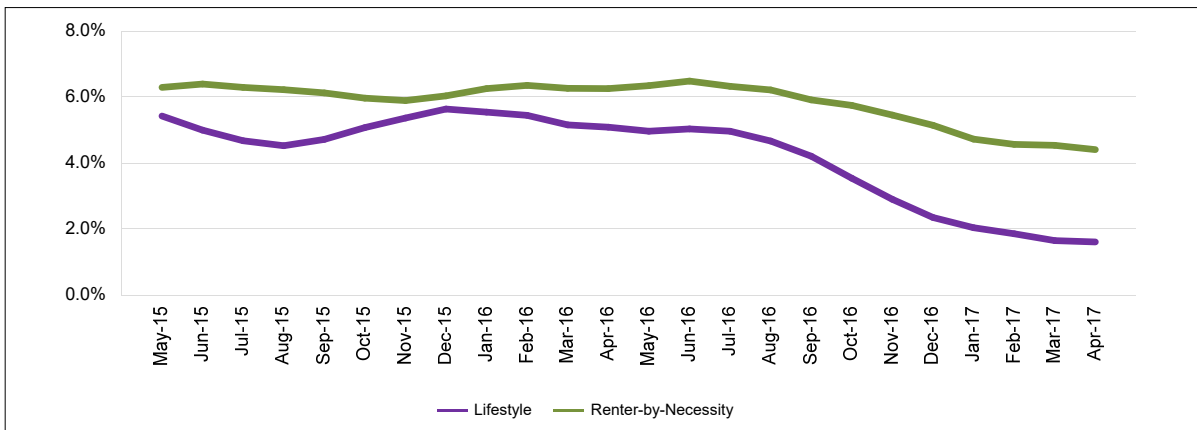
- Miami rents grew by 2.4% year-over-year through April, slightly above the 2.0% national rate. In line with the nationwide trend, rent increases in the metro have decelerated in recent months closer to the long-term pattern. The average rent peaked at \$1,549, almost 18% higher than the national figure of \$1,314. Occupancy rates of stabilized properties have trended down slightly to 94.8%, due to supply growth.
- The working-class Renter-by-Necessity (RBN) segment is leading gains, rising by 4.4% to an average of \$1,245. The higher-end Lifestyle segment grew by 1.6% to \$1,796. Although most new supply is of the luxury variety, RBN properties outperformed due to outsize demand for workforce housing, which should continue to drive rent growth of RBN assets.
- Submarkets with the highest rent growth are North Miami Beach (12.3%), Coconut Grove (8.9%), Florida City (8.2%) and Sandalfoot Cove (8.1%). Rents in four upscale submarkets—Brickell (\$2,357), Coconut Grove (\$2,217), South Beach (\$2,207) and Edgewater–Wynwood (\$2,106)—average more than \$2,000. Among high-end markets, growth has slowed in all but Coconut Grove. Although employment gains have boosted demand, supply growth should limit rent increases to 5.3% for the year.

### 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)

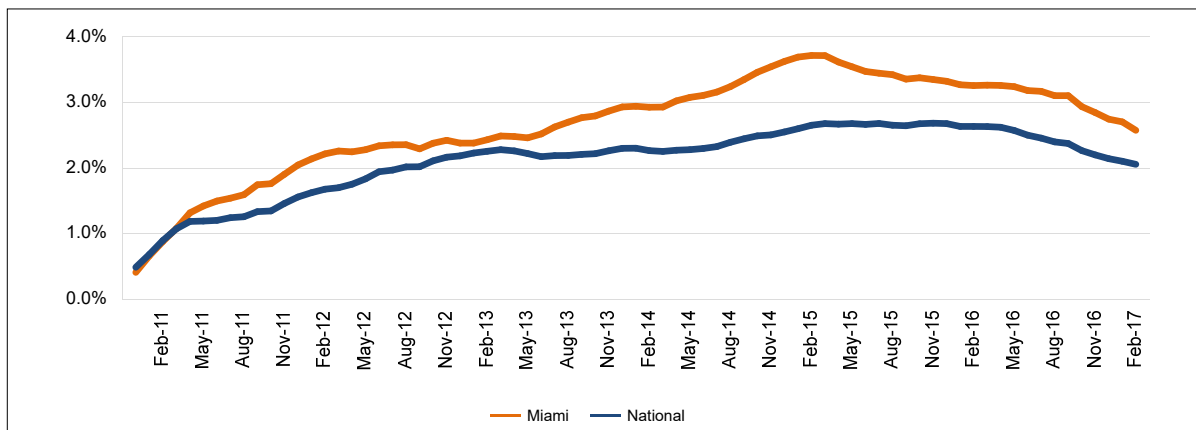


Source: YardiMatrix

## Economic Snapshot

- Miami added 50,500 jobs in the year ending in February, with the growth rate dropping to 2.6%, 110 basis points less than a year ago. However, employment is still well above the 2.0% national average.
- Education and health services led employment growth with 15,200 new hires, up 4.0%. Trade, transportation and utilities added 8,200 jobs. The \$295 million Terminal 1 modernization at Fort Lauderdale-Hollywood International Airport and Mana Group's 10 million-square-foot business hub are also fueling broad-based employment growth. However, the Miami Beach City Commission's preliminary nod to banning casinos may affect the city's traditionally largest sector: leisure and hospitality.
- While foreign investors continue to pour money into Miami, domestic capital providers are seeking out the city, drawn by its status as a growing international business center with low taxes—15.8% below the U.S. baseline of 100, according to a recent KPMG report.
- Miami's office market has benefited from growth in the professional and business services sector, with more than 1.3 million square feet of properties under construction. The 570,000-square-foot One Brickell City Centre building is among the largest Class A office projects underway.

### 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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	392	15.5%	15,200	4.0%
60	Professional and Business Services	429	17.0%	9,900	2.4%
40	Trade, Transportation and Utilities	596	23.6%	8,200	1.4%
70	Leisure and Hospitality	331	13.1%	6,800	2.1%
90	Government	314	12.4%	5,900	1.9%
80	Other Services	129	5.1%	4,600	3.7%
30	Manufacturing	88	3.5%	800	0.9%
15	Mining, Logging and Construction	44	1.7%	500	1.2%
50	Information	30	1.2%	(200)	-0.7%
55	Financial Activities	174	6.9%	(1,200)	-0.7%

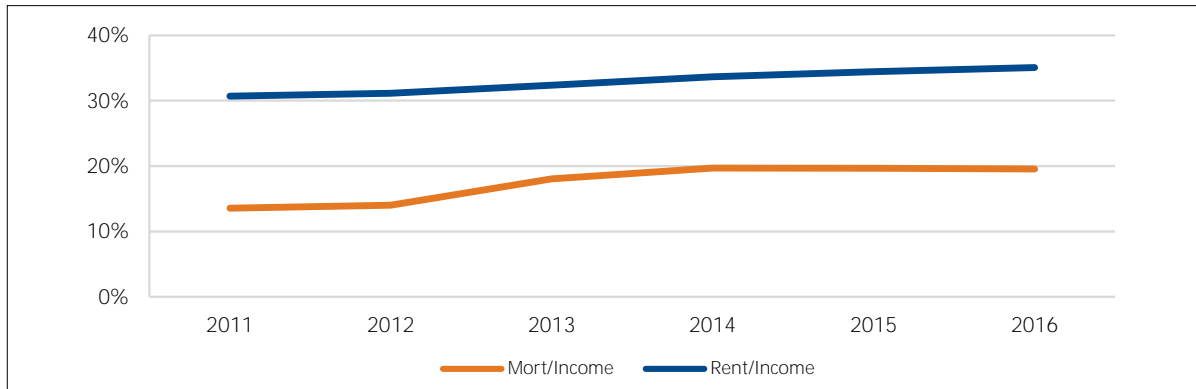
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

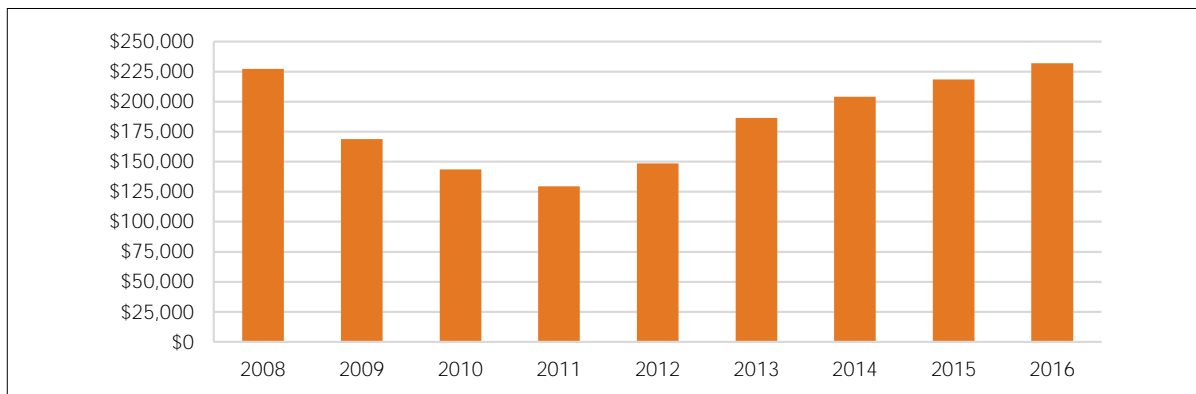
- Home prices in Miami have exceeded pre-recession values, peaking at slightly over \$232,000 in 2016. However, with the average mortgage accounting for 20% of the area's median income and the average rent reaching \$1,549—or 35% of the area's median income—owning is still the less costly option.
- As most development in recent years has catered to the luxury end of the spectrum, affordability has become a growing concern for many Miami renters. Policy responses include an effort by the Miami-Dade Public Housing Agency to redevelop the 700 existing units at the Liberty Square public housing project into a 1,500-unit community, funded by more than \$300 million in tax-exempt bonds.

### Miami Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

### Miami Median Home Price



Source: Moody's Analytics

### Population

- Miami added 286,869 residents in the past five years.
- The metro's population grew by 64,670 in 2016. This 1.0% increase is above the 0.7% national average.

### Miami vs. National Population

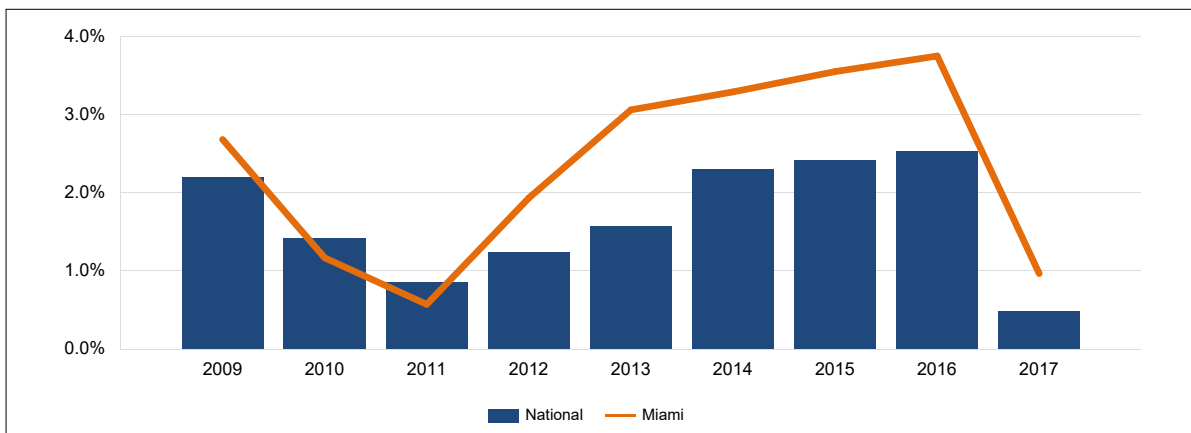
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Miami Metro	5,779,518	5,856,943	5,930,210	6,001,717	6,066,387

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

## Supply

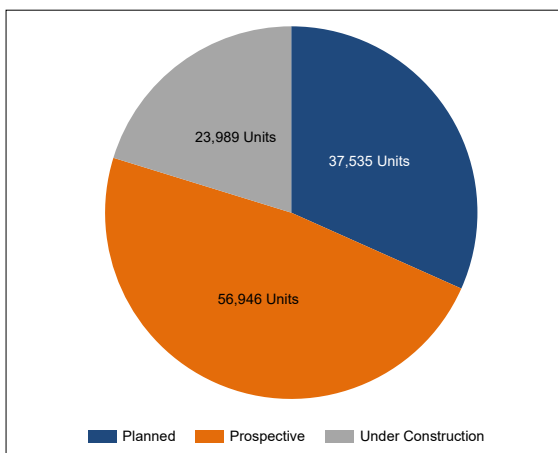
- Almost 9,700 units came online in 2016, expanding total stock by 3.8%, well above the 2.5% national growth rate. High demand for Miami real estate is attracting investors' attention and fueling increases in the number of development projects. We expect roughly 5,600 units to come online this year, with total stock increasing by 5.0%.
- With 1,680 units already completed in the first quarter of 2017, Miami's pipeline remains full, as 118,470 units are currently in different stages of development. Planned and prospective projects (94,481 units), which account for more than three quarters of the overall pipeline, may have to wait until later development cycles due to tighter regulatory policies and concerns about oversupply. Amid strong growth in new supply, occupancy rates of stabilized properties dropped to 94.8%.
- Most new developments are rising close to Miami's core, which continues to have a strong labor market. Downtown is leading growth, with more than 2,400 units underway, followed by Brickell, with 1,259 units in progress. Panorama Tower represents the majority of square footage under development in Brickell. The high-rise ranks as Miami's largest project and will add 821 units by the end of 2017.

### Miami vs. National Completions as a Percentage of Total Stock (as of April 2017)



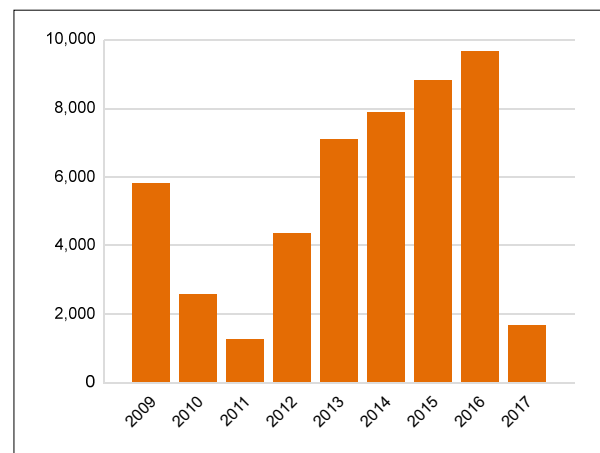
Source: YardiMatrix

### Development Pipeline (as of April 2017)



Source: YardiMatrix

### Miami Completions (as of April 2017)

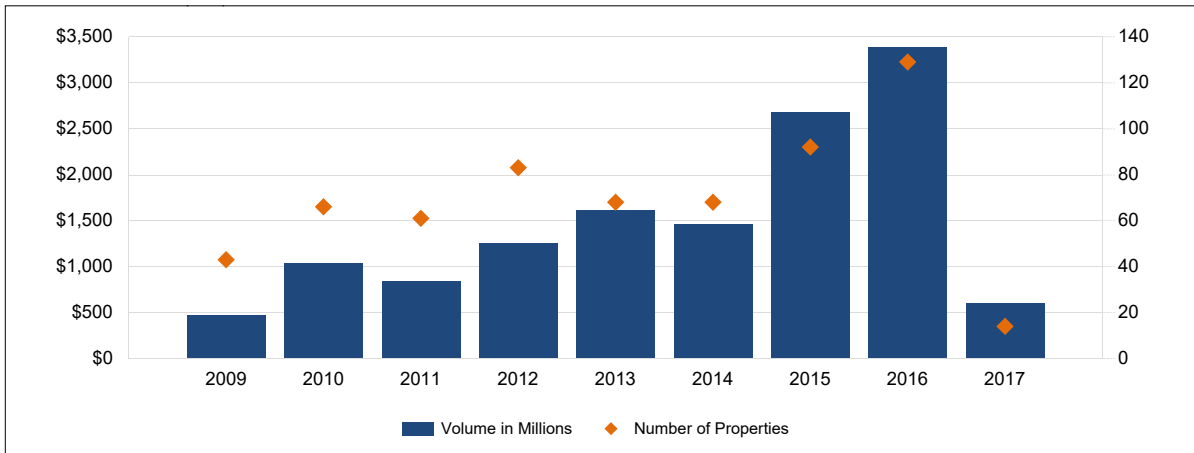


Source: YardiMatrix

## Transactions

- Demand for Miami properties continued to be strong in 2016, when the transaction volume crossed the \$3 billion mark for the first time in the current cycle. The market continues to fire on all cylinders, with \$600 million worth of transactions completed in 2017's first quarter. Strong investor appetite is mirrored by the surge in per-unit prices, which ended the first quarter of 2017 at \$170,227, setting a new record for this cycle.
- During the past 12 months, the most active submarkets were Pembroke Pines (\$303 million), Jupiter (\$191 million) and West Palm Beach (\$152 million). City Center on 7th was the most expensive property to change hands in the past 12 months. Harbor Group International acquired the property from AVR Realty in April for \$159 million, the same value it had in 2014. With acquisition yields for Class A stabilized properties in the 4% to 4.5% range, Miami is attracting investors with promising returns.

### Miami Sales Volume and Number of Properties Sold (as of April 2017)



Source: YardiMatrix

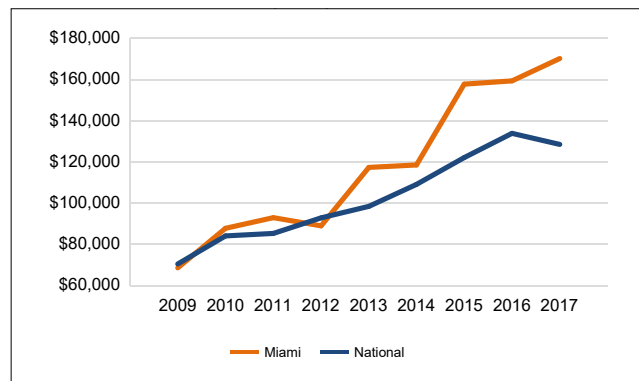
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Pembroke Pines	303
Jupiter	191
West Palm Beach	152
North Miami	149
Sandalfoot Cove	148
Coral Springs-South	116
Palm Springs	116
Miami Shores	114

Source: YardiMatrix

<sup>1</sup> From May 2016 to April 2017

### Miami vs. National Sales Price per Unit



Source: YardiMatrix

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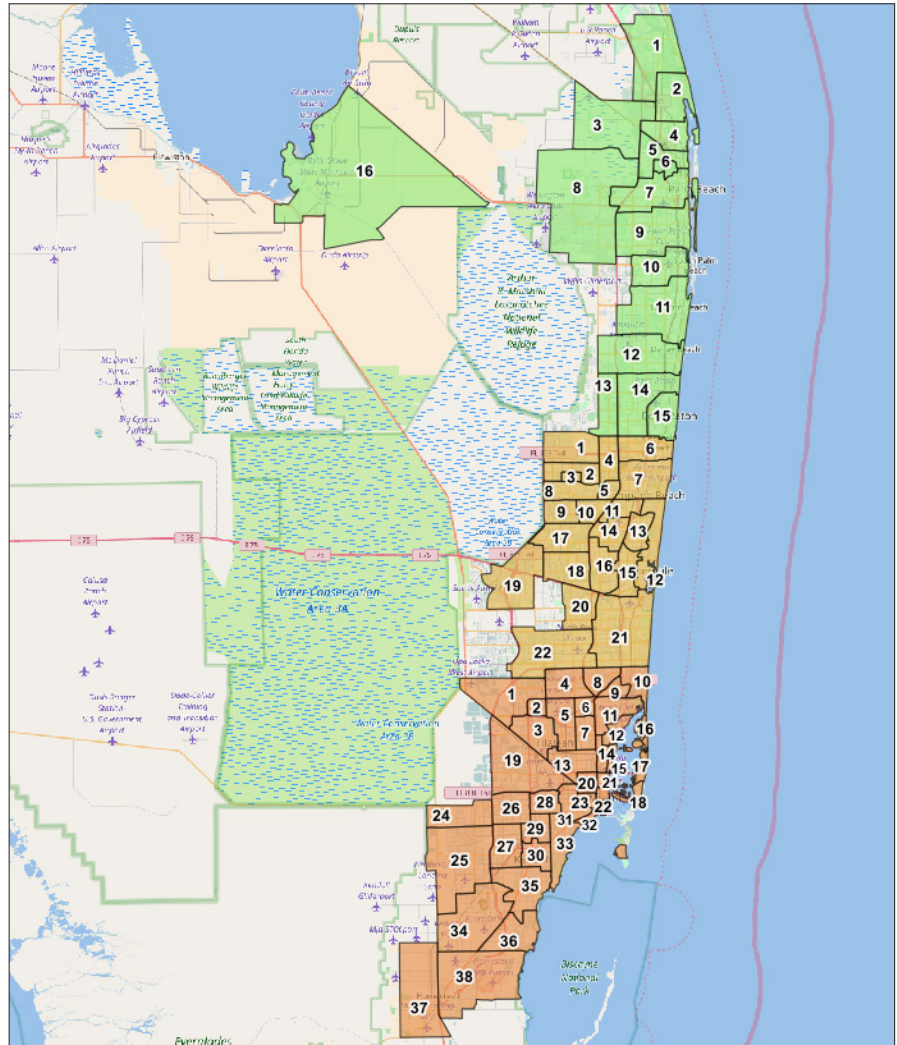
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## Miami Submarket Map

Area #	West Palm Beach Submarket
1	Jupiter
2	North Palm Beach
3	Palm Beach Gardens
4	Riviera Beach
5	Palm Beach Shores
6	Mangonia Park
7	West Palm Beach
8	Royal Palm Beach
9	Palm Springs
10	Atlantis
11	Boynton Beach
12	Delray Beach
13	Sandalfoot Cove
14	Boca Raton–West
15	Boca Raton–East
16	Belle Glade

Area #	Ft. Lauderdale Submarket
1	Parkland
2	Coral Springs–North
3	Coral Springs–Central
4	Coconut Creek–North
5	Coconut Creek–South
6	Deerfield Beach
7	Pampano Beach/Lighthouse Point
8	Coral Springs–South
9	Tamarac
10	North Lauderdale
11	Palm Aire
12	Fort Lauderdale–East
13	Oakland Park
14	Lauderdale Lakes
15	Fort Lauderdale–West
16	Lauderhill
17	Sunrise
18	Plantation
19	Weston
20	Davie
21	Hollywood
22	Pembroke Pines



Area #	Miami 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

Area #	Miami Submarket
14	Little Haiti
16	North Beach
17	Mid Beach
18	South Beach
19	Doral
20	Allapattah
21	Edgewater–Wynwood
22	Downtown Miami
23	Little Havana
24	Tamiami
25	Kendale Lakes
26	Fountainbleau
27	Sunset

Area #	Miami Submarket
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

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## 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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