MARKET REPORT

Marcus & Millichap

MULTIFAMILY
Jacksonville Metro Area

Q4/19

Healthy Job and Population Growth Generate Optimal Climate for Multifamily Development

Broad range of employment options promote rental demand. Jacksonville's large naval presence, growing medical sector, higher-education institutions, and financial hub contribute to an expanding employment base. The economy is further boosted by JAXPORT, the nation's second largest vehicle-handling facility, which set a record in cargo volume this year. Cruise ships leaving from the port contribute to the growing hospitality sector. The added jobs throughout the metro are luring more residents to the market. During 2019, the net migration of 16,200 people into the metro will result in roughly 12,200 households being established, boosting rental demand. Many of these will seek apartments as rising home prices in the most desired neighborhoods make renting a more cost-effective option for many.

Renter interest in Class A apartments supports tight vacancy, new construction. So far this year, absorption has kept pace with elevated deliveries, holding vacancy steady in apartments completed since 2010. Strong renter demand for these highly amenitized new units has helped maintain a metrowide vacancy rate within 30 basis points of its cyclical low, even as construction activity rose. Developers are active across the metro with completions slated into 2021. The Upper Southside of Jacksonville and the Baymeadows submarkets will receive the largest portion of new rentals into 2020 and then arrivals will shift to Southeast Jacksonville. The increase in Class A inventory has helped to boost rent 30 percent over the past five years.

Multifamily 2019 Outlook

3,200 UNITS
will be completed

CONSTRUCTION:

After the completion of 2,960 rentals last year, developers are on track to finalize 3,200 apartments in 2019. This is the greatest number of deliveries since 2007.

10 BASIS POINT
decrease in vacancy

VACANCY:

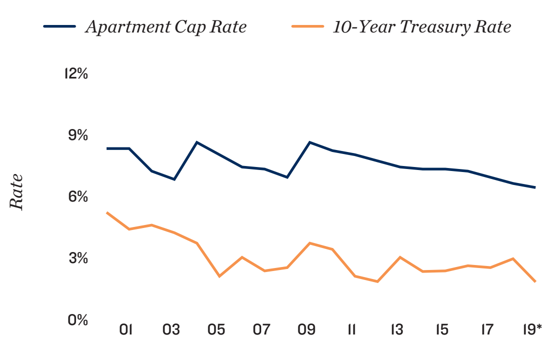
Even with the rise in inventory vacancy will decline to 4.6 percent at year end. During 2018, the rate compressed 40 basis points.

4.1% INCREASE
in effective rent

RENT:

In 2019, the average effective rent will climb to $1,084 per month, down from a 5.7 percent increase registered in the prior year.

Local Apartment Yield Trends



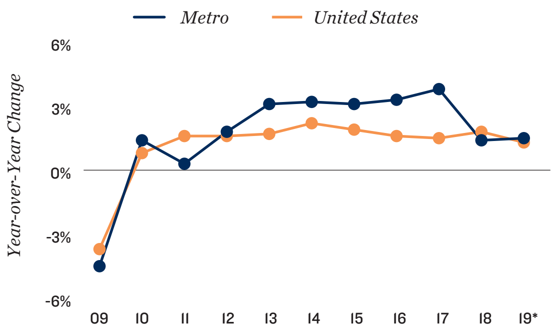
** Cap rate trailing 12-month average through 3Q; Treasury rate as of Sept. 30*

Sources: CoStar Group, Inc.; Real Capital Analytics

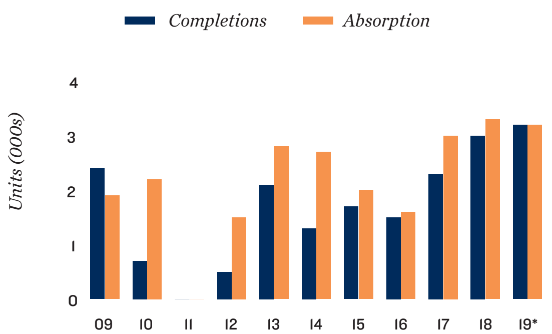
Investment Trends

- Favorable economic and demographic trends accompanied by more affordable entry costs and the potential for higher yields compared with other larger Florida markets are attracting new investors to Jacksonville. Over the past four quarters, the average cap rate in the metro was 90 basis points above those in nearby Orlando, while the average sale price at $92,000 per unit was 40 percent lower.
- The need for workforce housing has kept Class C vacancy below the replacement level of 5 percent for two consecutive years, boosting rent gains. These factors are drawing investor attention to assets in this class. Year over year in September, these buildings traded at an average of $83,000 per door, up 32 percent year over year.
- St. Augustine has drawn increased investment activity over the past 12 months as buyers move out farther from the metro core in search of returns above the metro average. Nearly 800 new rentals in the construction pipeline, however, will generate competition for existing properties in the quarters ahead.

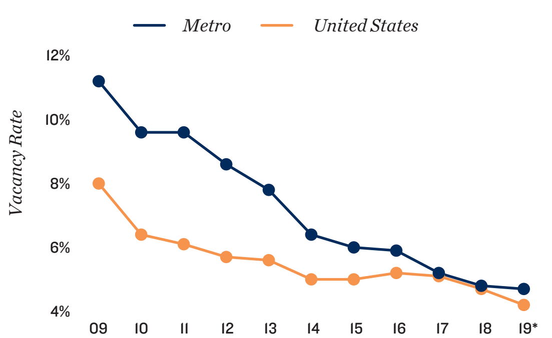
Employment Trends



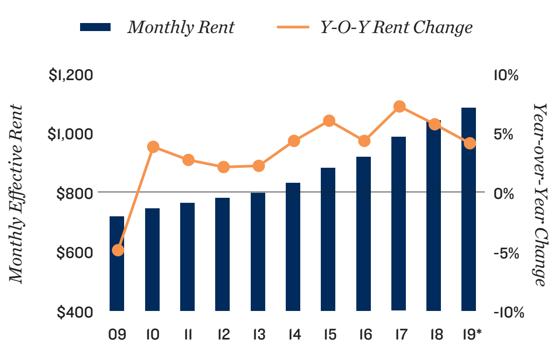
Completions and Absorption



Vacancy Rate Trends



Rent Trends



** Forecast*

Source: CoStar Group, Inc.

3Q19 – 12-Month Period

EMPLOYMENT

1.7% increase in total employment Y-O-Y

- The unemployment rate has rested below 4 percent for more than two years, slowing employment growth. During the past four quarters, employers have added roughly 11,900 people to staffs, less than half of the prior period's 27,700.
- Job growth was led by the relatively higher-paying professional and business services and education and health services sectors, each adding approximately 3,000 workers to payrolls.

CONSTRUCTION

2,900 units completed Y-O-Y

- Roughly 900 apartments were finalized in the third quarter of 2019, the highest quarterly total since 2009. These completions raised the 12-month sum to 2,900 rentals, matching the prior period's pace.
- Developers also have nearly 6,400 apartments underway with delivery dates extending into 2021, which will keep the pace of inventory additions elevated over the coming 15 to 20 months. All but one submarket will receive new rentals during this time.

VACANCY

30 basis point increase in vacancy Y-O-Y

- Deliveries outpaced leasing activity during the past four quarters, pushing vacancy up to 4.3 percent in September. One year earlier, the rate compressed 70 basis points.
- New inventory is in demand, shown by vacancy in Class A properties declining 40 basis points year over year to 4.3 percent in the third quarter. In comparison, the rate in Class C buildings jumped 100 basis points to 4.8 percent during the same period.

RENT

2.9% increase in the average effective rent Y-O-Y

- The rise in vacancy has slowed rent growth. The average effective rent rose to $1,074 per month in the third quarter, well below the 6.9 percent surge posted in the previous annual period.
- The largest advance was in Class C buildings with rent climbing 5.3 percent year over year in September to $815 per month. Class B average monthly rate rose 1.4 percent to $1,032 and Class A nudged up 0.8 percent to $1,312 per month.

Demographic Highlights

3Q19 Median Household Income

Metro $66,541

U.S. Median $65,205

3Q19 Affordability Gap

Renting is $499 *Per Month Lower*

*Average Effective Rent vs. Mortgage Payment**

Multifamily (5+ Units) Permits*

3,745 *1H 2019*

40% *Compared with 1H 2016-2018*

3Q19 Median Home Price

Metro $249,759

U.S. Median $272,227

Five-Year Household Growth**

56,700 *or* 1.9% *Annual Growth*

U.S. 1.0% *Annual Growth*

Single-Family Permits*

11,125 *1H 2019*

15% *Compared with 1H 2016-2018*

**Mortgage payments based on quarterly median home price with a 30-year fixed-rate conventional mortgage, 90% LTV, taxes, insurance and PMI.* ***2019-2024* * *Annualized Rate*

SUBMARKET TRENDS

Lowest Vacancy Rates 3Q19

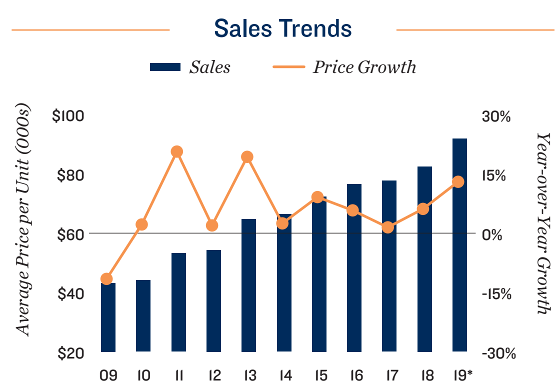
Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Effective Rent	Y-O-Y % Change
St. Augustine	1.0%	-50	$1,154	14.5%
Jacksonville Beaches	3.5%	-150	$1,302	3.5%
Mandarin	3.8%	30	$1,101	2.8%
Baymeadows	4.0%	0	$1,153	1.3%
Upper Southside	4.0%	0	$1,249	3.8%
Northside	4.1%	-30	$988	4.7%
Orange Park/Clay County	4.1%	50	$1,065	4.1%
Central Jacksonville	4.3%	90	$1,178	1.9%
Arlington	4.6%	10	$986	2.5%
Southeast Jacksonville	4.8%	40	$950	-0.9%
Westside	5.3%	150	$914	1.8%
Overall Metro	**4.3%**	**30**	**$1,074**	**2.9%**

SALES TRENDS

Neighborhoods Southeast of Jacksonville Draw Buyers; Prices Climb as Competition Rises

- Transaction volume rose 24 percent over the past four quarters as out-of-state buyers stepped up purchasing. Investors were most active in neighborhoods to the southeast of downtown Jacksonville.
- Added competition assisted in pushing the average price up 13 percent to $91,800 per unit over the past 12 months ending in September. This was the largest year-over-year leap since 2013. Cap rates declined 30 basis points since this time last year to 6.3 percent on average.

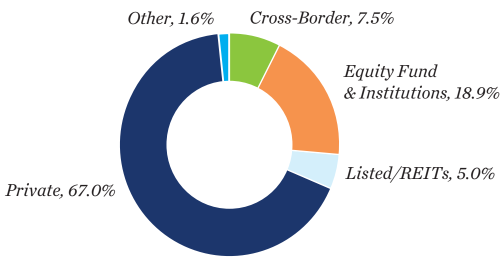
Outlook: Elevated construction levels south of downtown Jacksonville will keep institutional investors active in this section of the metro. Newer assets can trade above $175,000 per unit.



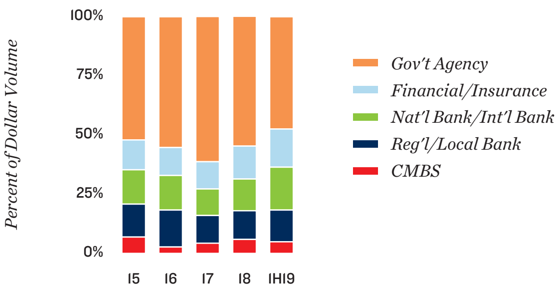
** Trailing 12 months through 3Q19*

Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

IH19 Apartment Acquisitions By Buyer Type



Apartment Mortgage Originations By Lender



Includes sales $2.5 million and greater
Sources: CoStar Group, Inc.; Real Capital Analytics

CAPITAL MARKETS

By DAVID G. SHILLINGTON, President, Marcus & Millichap Capital Corporation

- **Fed cuts rate again, while balancing assortment of factors.** The Federal Reserve cut the overnight rate by 25 basis points at the end of October, the third reduction in less than 100 days in an attempt to lengthen the economic runway. Muted inflationary pressure and continued trade negotiations have boosted the probability for an additional rate cut in December as it is anticipated by some domestic and foreign markets. However, at the end of October, the U.S. and China were in talks for finalizing the first phase of a trade deal, potentially erasing the need for another rate reduction if the preliminary agreement quickly comes to fruition. This, along with positive economic indicators like strong wage growth, sustained job creation and a rising 10-year Treasury, will continue to make future decisions difficult for Fed members as they balance the array of forces tugging at both ends of possible outcomes. Global developments including slowing European economies as well as the progression of Brexit and its potential aftermath will also help determine future Fed decisions. Though recession risks remain, the economy's solid foundation has softened it in recent months, signaling continued domestic growth in the near future.
- **Abundant liquidity balances conservative underwriting.** Debt financing for apartment assets remains strong, supported by a variety of lenders. Fannie Mae and Freddie Mac, two mainstay apartment capital sources, were recently given increased lending caps, allowing the two Government Sponsored Enterprises to purchase $100 billion in loans during a yearlong period that started at the beginning of the fourth quarter 2019. A wide range of local, regional and national banks; pension funds; insurance companies and CMBS sources will also remain active. All have responded to the falling interest rate climate by reducing mortgage rates, but lender spreads have widened as the 10-year Treasury rate remains near cycle lows. Given the downward pressure on interest rates, lender caution has risen, particularly for construction loans. Though lending is still available for these types of projects, investors may need to blend mezzanine debt with other capital sources until they prove out their concepts and substantially fill units. For stabilized existing assets in most major markets, financing remains plentiful.

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; National Association of Realtors; Moody's Analytics; Real Capital Analytics; RealPage, Inc.; TWR/Dodge Pipeline; U.S. Census Bureau