MARKET REPORT

Marcus & Millichap

MULTIFAMILY
Orlando Metro Area

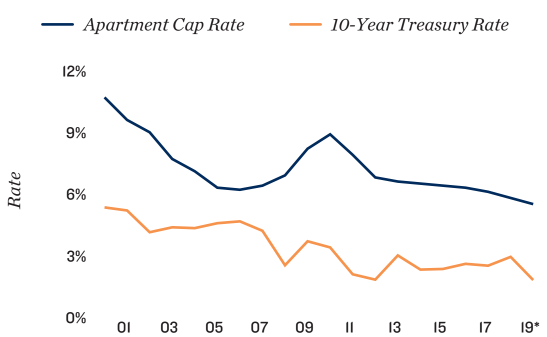
Q4/19

Orlando One of Nation's Top Markets for Job and Household Growth, Bolstering Apartment Sector

Rental demand fueled by robust employment and household gains. During the past four quarters the metro registered the second highest rate of job growth in the nation. The largest expansion was in the higher-paying professional and business services sector, which boosted household income to nearly twice the U.S. rate of change. It is also an indication of the local economy diversifying beyond its root in hospitality. Employment opportunities are helping to entice more than 1,000 new residents to the region each week, creating the need for additional housing. Orlando also led the nation in household formation during the same 12-month period, and many are choosing to rent as rising residential prices prevent more people from owning a home. The cost to own in favored neighborhoods or with desired amenities is even higher, making apartment living a more viable option in some areas.

Strong demand drivers hold vacancy tight and push rent up. Vacancy rested just 20 basis points above last year's cyclical low in the third quarter, with the rate below 5 percent in all of the metro's submarkets. Apartment demand was especially strong in the Winter Park/Maitland area with vacancy at 2.4 percent in September even though more than 2,100 rentals have been added to inventory during the past two years. The lack of available units metrowide is keeping developers active with projects underway in the majority of submarkets. The pipeline, however, has 1,000 fewer units than at this time last year, an indication that vacancy will likely remain low, producing sizable rent gains into next 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

Multifamily 2019 Outlook

6,300 UNITS
will be completed

CONSTRUCTION:

During 2019, approximately 6,300 rentals are due for completion, down from 6,350 units last year. Construction is widespread with nearly all submarkets receiving new inventory in 2019.

50 BASIS POINT
decrease in vacancy

VACANCY:

Fewer deliveries and robust demand drivers will tighten vacancy to 3.4 percent at the end of 2019. Last year a 20-basis-point rise was posted.

6.1% INCREASE
in effective rents

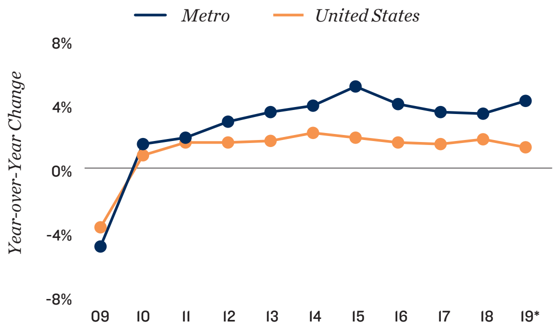
RENT:

Following a 5.7 percent jump in rent last year, the average effective rent soars above $1,300 for the first time, settling in at $1,309 per month at year end.

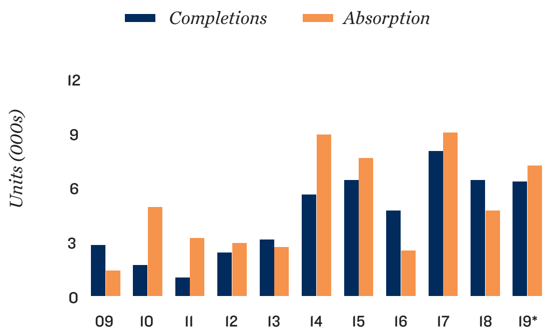
Investment Trends

- With tight vacancy and steady cash flows many owners throughout the Orlando metro are opting to refinance and hold for the long term. This is limiting the supply of for-sale listings, resulting in a competitive bidding environment and pushing prices higher.
- The average price rising above $150,000 per unit for the first time has moved more local investors to the sidelines as they are outbid by outside investors with deeper pockets. Newer Class A properties can trade above $250,000 per door with cap rates in the 4 percent span.
- Although value-add opportunities are heavily desired, these assets are becoming harder to find as many owners have already upgraded units and refinanced for a long-term hold strategy. So far in 2019, Class C assets traded at an average of $102,400 per unit.
- The lack of available buildings in desired locations has some buyers searching beyond the metro core and in some instances looking to the space coast to expand portfolios.

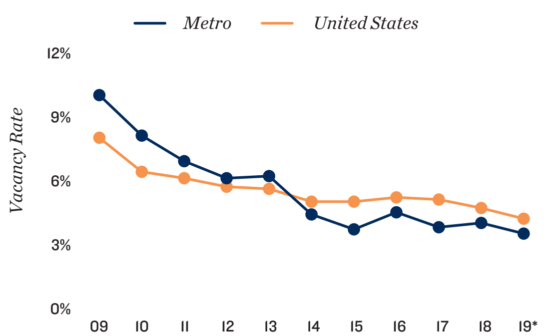
Employment Trends



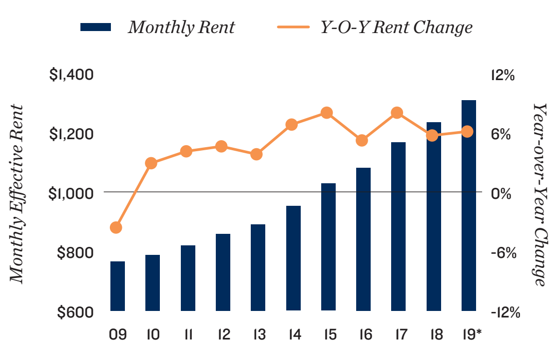
Completions and Absorption



Vacancy Rate Trends



Rent Trends



** Forecast*

Source: CoStar Group, Inc.

3Q19 – 12-Month Period

EMPLOYMENT

4.0% increase in total employment Y-O-Y

- Orlando has one of the hottest job markets in the nation. During the past four quarters, employers created more than 51,700 jobs, following 65,700 one year earlier.
- The professional and business services sector led employment growth with the addition of nearly 22,000 people to payrolls over the past 12 months ending in September. Leisure and hospitality followed with almost 12,000 workers.

CONSTRUCTION

6,600 units completed Y-O-Y

- Nearly 1,600 apartments were finalized in the third quarter of 2019, bringing the 12-month total to 6,600 rentals. This is down from the prior period's 7,500 units.
- Developers also have more than 10,100 apartments underway with deliveries scheduled into 2021. The Central Orlando submarket is expected to receive the largest portion of more than 3,000 rentals during that time.

VACANCY

20 basis point increase in vacancy Y-O-Y

- Demand did not keep pace with the supply of new rentals, moving vacancy up from last year's cyclical trough to 3.4 percent in the third quarter.
- New apartments are being well received. Vacancy in buildings completed since 2010 dipped 20 basis points to 4.8 percent since September of 2018 but these assets still maintain the highest rate among year-built tranches.

RENT

4.8% increase in the average effective rent Y-O-Y

- After a 7.3 percent gain was registered last year, the metro's average effective rent ended the third quarter at $1,295 per month. The rate has jumped 37 percent over the past five years.
- Vacancy resting at 1 percent in Class C rentals is boosting rent in this class. The average effective rent vaulted 9.0 percent year over year to $920 per month in September. During the same period, the average monthly Class A rent rose 5.3 percent to $1,560 per month.

Demographic Highlights

3Q19 Median Household Income

Metro **$61,514**

U.S. Median **$65,205**

3Q19 Affordability Gap

Renting is **$424** Per Month Lower

*Average Effective Rent vs. Mortgage Payment**

Multifamily (5+ Units) Permits❖

5,619 *1H 2019*

29.5% *Compared with 1H 2016-2018*

3Q19 Median Home Price

Metro **$274,491**

U.S. Median **$272,227**

Five-Year Household Growth**

152,600 or **3.1%** *Annual Growth*

U.S. **1.0%** *Annual Growth*

Single-Family Permits❖

14,296 *1H 2019*

2.1% *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

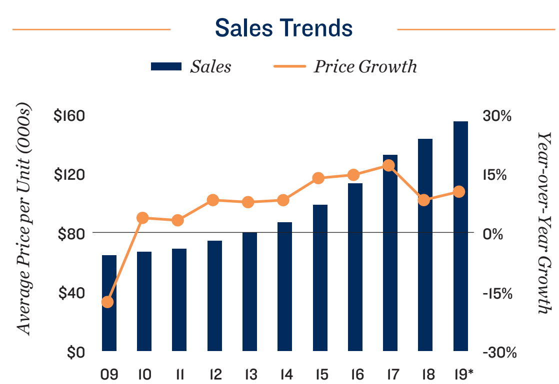
Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Effective Rent	Y-O-Y % Change
North Lake County	1.0%	-40	$952	2.0%
Winter Park/Maitland	2.4%	-50	$1,271	4.9%
Northwest Orlando	2.7%	10	$1,048	6.2%
Kissimmee/Osceola County	3.0%	30	$1,218	7.8%
East Orlando	3.1%	40	$1,171	1.4%
Ocoee/Winter Garden/ Clermont	3.1%	0	$1,377	4.6%
University	3.1%	-60	$1,303	4.3%
Southwest Orlando	3.5%	80	$1,203	10.8%
West Orlando	3.5%	60	$1,289	3.3%
East Orange County	3.7%	0	$1,414	3.2%
Overall Metro	**3.4%**	**20**	**$1,295**	**4.8%**

SALES TRENDS

Competition for Limited Supply of Orlando Apartments Keeps Pushing Prices Higher

- Following two years of robust transaction activity, velocity decreased 24 percent during the past four quarters due in part to the lack of for-sale properties.
- Competition for available assets contributed to the average price jumping 10 percent since the third quarter of last year to $154,800 per unit. Cap rates continue to compress, declining 40 basis points to an average of 5.4 percent in September.

Outlook: Robust household growth and lower entry costs than are available in some South Florida metros will keep investors active in the Orlando apartment market.



** Trailing 12 months through 3Q19*

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

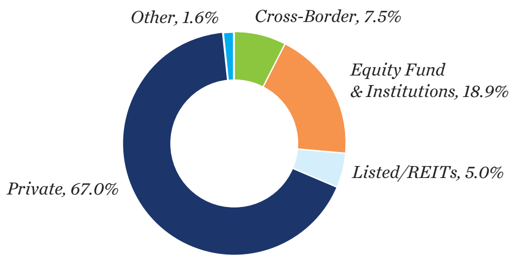
CAPITAL MARKETS

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

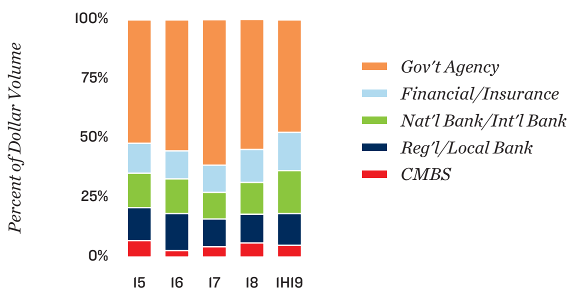
- **Fed cuts rate again, while balancing assortment of factors.** The Federal Reserve cut the overnight rate by 25 basis points at the end of October, the third reduction in less than 100 days in an attempt to lengthen the economic runway. Muted inflationary pressure and continued trade negotiations 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 Chin 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 futur 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, th economy's solid foundation has softened it in recent months, signaling continue 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 nationa 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 remain near cycle lows. Given the downward pressure on interest rates, lender caution has risen, particularly for construction loans. Though lending is still available fo 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. Fc stabilized existing assets in most major markets, financing remains plentiful.

1H19 Apartment Acquisitions By Buyer Type



Apartment Mortgage Originations By Lender



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

National Multi Housing Group

John Sebree
First Vice President, National Director | National Multi Housing Group
Tel: (312) 327-5417 | john.sebree@marcusmillichap.com

Prepared and edited by
Nancy Olmsted
Senior Market Analyst | Research Services

For information on national apartment trends, contact:
John Chang
Senior Vice President, National Director | Research Services
Tel: (602) 707-9700 | john.chang@marcusmillichap.com

Orlando Office:

Justin West *Vice President/Regional Manager*
300 South Orange Avenue, Suite 700
Orlando, FL 32801
(407) 557-3800 | justin.west@marcusmillichap.com

Price: $250

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