

## Construction Proliferates as Demand Grows; Out-of-State Investors Dominate Trading Activity

**Strong rental demand holds vacancy tight.** Vacancy hovered just 30 basis points above the 20-year low in the third quarter as the metro's robust economy is boosting apartment demand. Employment gains have outpaced the U.S. rate of growth for the past nine years. Many of the positions created during the past four quarters were in higher-paying segments including financial and professional services. The latter category also includes workers in the rapidly expanding tech sector. Employment opportunities are drawing job seekers to the region. During 2019, net migration will top 41,300 residents and the influx of people will result in the formation of roughly 25,500 households, nearly double the U.S. rate of change. Many of these households will opt to rent as the cost of purchasing a residence continues to climb, pricing more potential homeowners out of the market and keeping them in apartments.

**Favorable operations underpin heightened construction activity.** The limited supply of available rentals and steady rent gains are encouraging developers to move forward with new apartment projects. Deliveries in 2019 will climb to the highest level since 2000, with nearly all submarkets receiving additional inventory. The largest project underway is in the Water Street development in central Tampa. The 26-story building provides 420 apartments and a 2021 delivery is expected. As available sites dwindle and construction costs rise in the downtown cores, developers are moving into nearby suburbs including Largo and Pinellas Park, or even farther north into Pasco County.

## Multifamily 2019 Outlook



**5,600** UNITS  
*will be completed*

### CONSTRUCTION:

Completions climb by roughly 125 units above last year's 5,475 rentals. The Peninsula area of Tampa will receive the largest number as 1,200 units are placed into service here.



**10 BASIS POINT**  
*decrease in vacancy*

### VACANCY:

Following a 30-basis-point decline last year, vacancy will finish 2019 at 4.5 percent. The rate is less than half of 2009s cyclical peak.

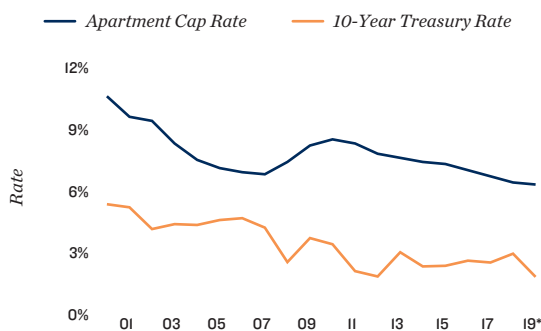


**5.3% INCREASE**  
*in effective rents*

### RENT:

In 2019, the average effective rent will set a new high of \$1,252 per month, building on last year's 7.3 percent hike. The rate is almost 13 percent below the U.S. average.

## Local Apartment Yield Trends

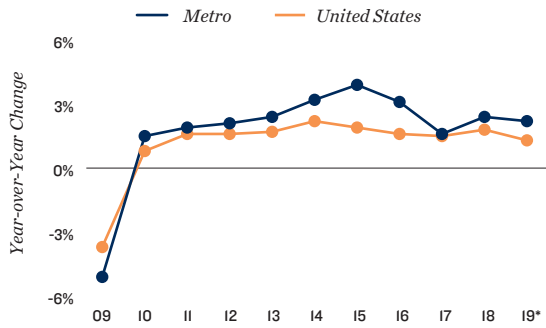


\* Cap rate trailing 12-month average through 3Q; Treasury rate as of Sept. 30  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Investment Trends

- Value-add opportunities remain the focus of many investors. Properties that can be improved through added amenities, management changes or cosmetic upgrades, and have rent adjusted to market rate are particularly desired. Over the past 12 months, trading of Class B/C rentals in the metro jumped 22 percent, with the largest increase in transactions of more than \$20 million, indicating that well-capitalized buyers are expanding portfolios to include this asset Class.
- The wave of new inventory is drawing more out-of-state investors to the region. So far this year, Class A buildings less than 10 years old and containing more than 200 units changed hands at an average of \$272,300 per door. Cap rates for these trades were in the 4 percent span.
- Rising prices and more uncertainty among investors is resulting in many buyers taking a more cautious stance. Some searching in the Tampa-St. Petersburg metro will wait longer for the right deal, while others spend more time on due diligence, which can extend the time it takes to close transactions.

### Employment Trends



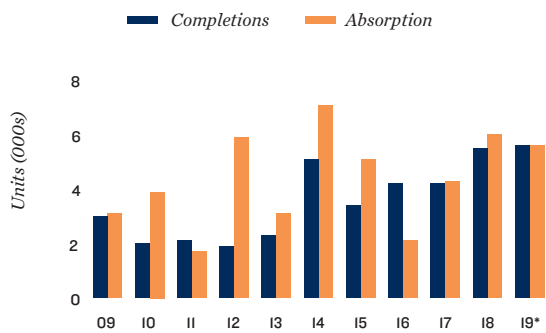
### 3Q19 – 12-Month Period

#### EMPLOYMENT

**1.8%** increase in total employment Y-O-Y

- With the unemployment rate hovering in the low-3 percent range, the lack of available workers is weighing on job growth. Over the past four quarters, employers have added roughly 24,100 workers, following 52,700 in the prior period.
- Employment gains were led by the professional and business services sector, which created roughly 7,700 positions since this time last year.

### Completions and Absorption

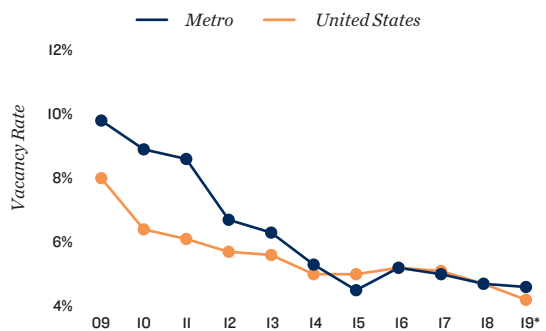


#### CONSTRUCTION

**5,000** units completed Y-O-Y

- Almost 1,150 apartments were delivered in the third quarter of 2019, raising the annual sum to 5,000 rentals. This is down from 5,300 apartments finalized one year earlier.
- Completions will likely remain elevated in the near term as builders have nearly 7,300 rentals under construction with delivery dates extending into 2021. The South St. Petersburg submarket will receive more than 1,400 of these units.

### Vacancy Rate Trends

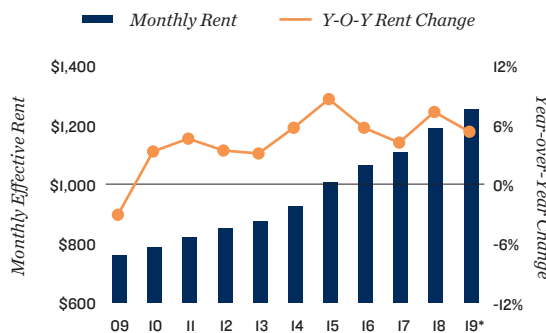


#### VACANCY

**30** basis point increase in vacancy Y-O-Y

- New inventory outpaced demand during the past four quarters, moving vacancy to 4.3 percent in September. This follows a 60-basis-point contraction registered last year.
- Vacancy is especially tight in more affordable Class C rentals, resting at 2.7 percent in the third quarter. Effective rent in this class also outperformed, jumping 5.5 percent since this time last year to \$956 per month on average.

### Rent Trends



#### RENT

**3.9%** increase in the average effective rent Y-O-Y

- Building on last year's 7.6 percent surge, the average effective rent metrowide rose to \$1,238 per month in September. Roughly 17 percent of units are offering concessions, up from 11 percent one year ago.
- Class A vacancy resting at 5.0 percent suppressed effective rent growth to 2.1 percent year over year in the third quarter as the monthly average reached \$1,677. Class B rent advanced 4.0 percent to \$1,192 per month during the same period.

\* Forecast

Source: CoStar Group, Inc.

## Demographic Highlights



### 3Q19 Median Household Income

Metro **\$58,689**  
U.S. Median **\$65,205**



### 3Q19 Affordability Gap

Renting is **\$286** Per Month Lower  
Average Effective Rent vs. Mortgage Payment\*



### Multifamily (5+ Units) Permits\*

**8,277** 1H 2019  
↗ **33.2%** Compared with 1H 2016-2018



### 3Q19 Median Home Price

Metro **\$241,413**  
U.S. Median **\$272,227**



### Five-Year Household Growth\*\*

**117,800** or **1.8%** Annual Growth  
U.S. **1.0%** Annual Growth



### Single-Family Permits\*

**14,457** 1H 2019  
↗ **18.3%** 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
West Pasco County/ Hernando County	3.0%	50	\$990	4.0%
Carrollwood/Citrus Park	3.1%	-50	\$1,155	4.3%
Temple Terrace	3.4%	0	\$1,043	2.4%
University	3.6%	10	\$998	6.5%
Largo-Seminole	3.8%	-60	\$1,154	9.4%
South St. Petersburg	4.0%	-90	\$1,419	3.7%
Peninsula	4.1%	-100	\$1,299	1.0%
Egypt Lake/Lowry Park	4.4%	110	\$1,048	1.8%
North Pinellas County	4.4%	80	\$1,317	5.4%
New Tampa/East Pasco County	4.5%	40	\$1,257	4.9%
<b>Overall Metro</b>	<b>4.3%</b>	<b>30</b>	<b>\$1,238</b>	<b>3.9%</b>

## SALES TRENDS

### Lower Price Points Than South Florida Move More Buyers North to Tampa-St. Petersburg

- The number of transactions vaulted 20 percent since September 2018, with out-of-state investors dominating trading. Buyers from New York, Illinois and California were particularly active.
- An increase in Class A sales helped to push the average price up 12 percent year over year to \$127,500 per apartment in September. During this period, cap rates posted a 20-basis-point decrease to an average of 6.2 percent.

**Outlook:** Lower entry costs and the potential for higher returns than are available in larger Florida markets will keep drawing a wide range of investors to Tampa-St. Petersburg.



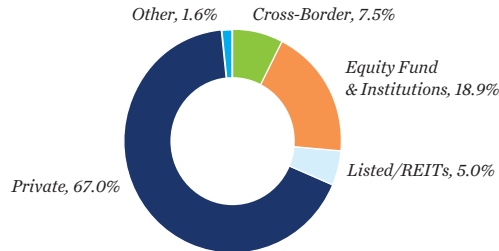
\* Trailing 12 months through 3Q19

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

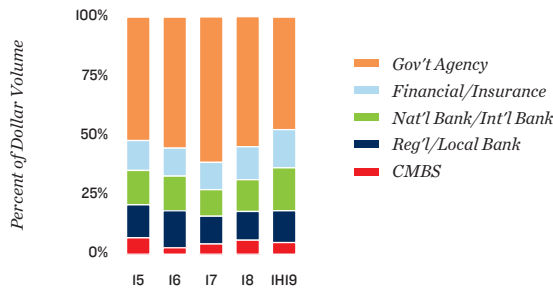
## CAPITAL MARKETS

By DAVID G. SHILLINGTON, President,  
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### 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

- 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