

# INVESTMENT FORECAST

Marcus & Millichap

## MULTIFAMILY

Orlando Metro Area


2020

### Robust Job Gains, Favorable In-Migration Trends Produce Vibrant Rental Outlook

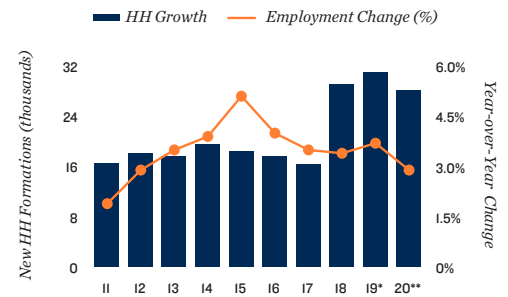
Apartment market flourishes amid strong demand drivers. Orlando will retain its top spot in the nation for employment growth during 2020 as organizations add positions at a pace that is nearly triple the nation's rate. Job opportunities, the metro's quality of life and a favorable tax climate attract workers and retirees to the region. This year, 28,000 households are expected to be formed, a gain that generates a margin of increase more than double that of the nation. Many of these households will favor the flexibility, amenities and affordability of renting. The monthly cost of housing is a mounting concern in the market as rent growth has outpaced the U.S. rate since 2013. As a result, vacancy in Class C units has been below 2 percent since mid-2017, driving up rent in this class much faster than the metro average. A surge in market-rate deliveries this year will assist in providing additional housing but will do little to alleviate the growing need for lower-cost apartments, holding vacancy extremely tight in Class C rentals.

Orlando's healthy economic trends lure new buyers to the metro. Many of these investors are seeking value-add opportunities, although fewer properties are available as many operators have made improvements, refinanced and are holding for the long-term. This is increasing competition for the limited supply of buildings listed for sale. Investors searching for steady cash flows may find opportunities in Class C properties near the university or in West Orlando. In these areas, Class C vacancy rested below 1 percent at the end of last year, which produced double-digit rent growth. No new apartments are scheduled for delivery in these locales during 2020, which should hold vacancy tight in the quarters ahead. Yield-driven investors can find cap rates above the metro average to the north of the city of Orlando. Class C buildings constructed in the 1960s and 1970s with less than 50 units in outlying areas including Sanford and Apopka can trade at first-year returns above 6 percent.

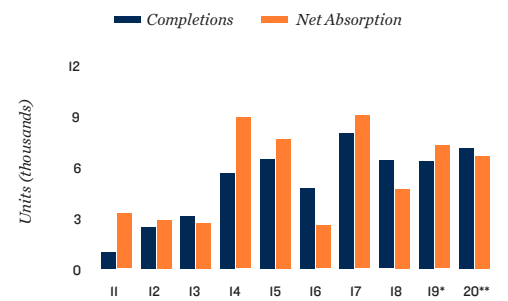
### 2020 Market Forecast

- Employment** up 2.9%  Following a 3.7 percent vault last year, employment growth wanes as 40,000 positions are created during 2020.
- Construction** 7,100 units  Completions jump from 6,300 apartments in 2019 to the second-highest level since 2002 this year. Construction activity is shifting from central Orlando to southern Orange County.
- Vacancy** up 10 bps  The hike in new inventory will push the vacancy rate to 3.5 percent at the end of 2020. Last year a 50-basis-point contraction was recorded.
- Rent** up 6.4%  The average effective rent surges to \$1,393 per month, up from a 6.1 percent advance last year.
- Investment**  The wave of new inventory will keep institutional investors active in the metro. Class A properties less than 10 years old have been typically trading at cap rates in the 4 percent span.

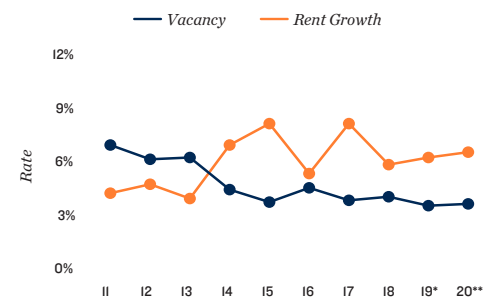
#### Economic Trends



#### Completions vs. Absorption



#### Vacancy and Rents



\* Estimate; \*\* Forecast

Sources: CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of November 2019. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.