

INVESTMENT FORECAST

Marcus & Millichap

MULTIFAMILY

2020

Tampa-St. Petersburg Metro Area

Housing Demand Soars as Construction Pipeline Thins; Out-of-State Investors Dominate Trading Activity

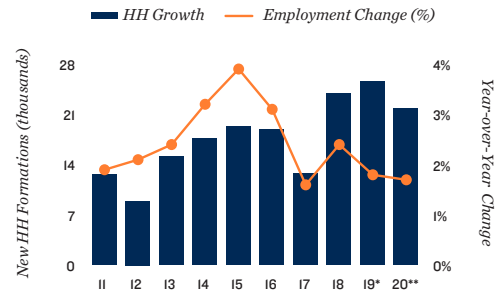
Corporate headquarter prominence, a strong financial sector and an expanding tech center produce solid job gains. Employment opportunities are contributing to the population expanding at a rate double that of the U.S. and the added residents will create almost 22,000 households, generating a need for additional housing. To meet the increased demand, deliveries rose above the five-year average last year, yet vacancy continued to tighten. This year, the construction pipeline thins, further lowering vacancy and driving rents higher. After investors concentrated in the urban cores during recent years, rising construction and land costs, as well as the need for cost-conscious rental options, drew them farther from the central cities. During 2020, the western portion of Pasco County will receive its largest inventory supply since 2002 with more than 660 units scheduled for delivery. Throughout the market, rising rents are generating robust demand for lower-cost housing. Vacancy in Class C units has sat below 3 percent for more than a year, producing sizable rent growth.

Economic and demographic gains draw attention to apartment assets. Lower entry costs and cap rates that average roughly 80 basis points above nearby Orlando are luring more out-of-state capital to the market. Yield-driven investors will find initial returns above the metro average in older Class C properties with less than 50 units in neighborhoods outside the urban core including University Square. Many other buyers are seeking value-add prospects. Buildings that can readily be upgraded and amenities improved to raise rent to market rate are desired but are scarce as a large number of assets have already been renovated. Investors seeking a steady cash flow may find opportunities in the Temple Terrace area, where vacancy rests below 4 percent, producing healthy rent growth. A lack of new inventory in this neighborhood during 2020 should keep rental demand strong, especially as employment growth along the Interstate 4 corridor flourishes.

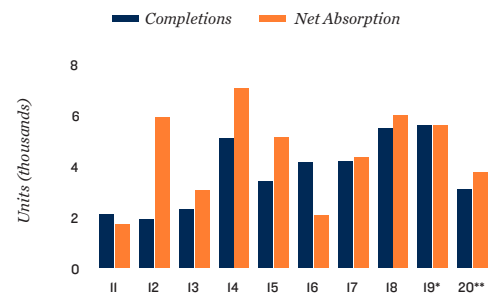
2020 Market Forecast

- Employment up 1.7%** During 2020, employers will add 23,600 workers to payrolls, slightly lower than last year's 1.8 percent increase.
- Construction 3,100 units** Deliveries decline sharply from the 5,600 rentals placed into service in 2019 as 3,100 apartments are completed this year, the lowest annual level in seven years.
- Vacancy down 30 bps** The drop in new inventory reduces vacancy to 4.2 percent at the end of 2020, the tightest year-end rate of the current cycle.
- Rent up 5.7%** Following a 5.3 percent hike last year, the average effective rent will end 2020 at \$1,323 per month. Rents have soared roughly 35 percent over the past five years.
- Investment** Higher cap rates than the Orlando or Miami metro's coupled with favorable demographic and operational trends will put Tampa Bay on more investors' radar this year.

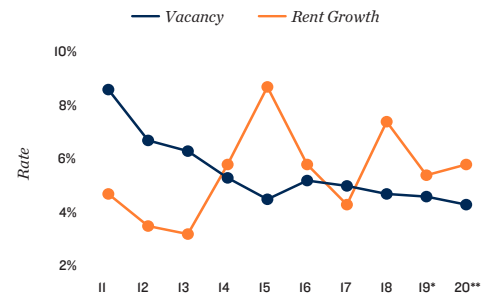
Economic Trends



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.