Multifamily Market Commentary – October 2014

A Sunny Outlook for the Sunshine State

The state of Florida was dealt a big economic blow from the Great Recession. Although the recovery there has been slow, the state can finally exhale as its economic pace appears to be catching up to the rest of the nation. Robust job growth, healthy demographics, and positive net migration are just a few of the fundamental drivers helping Florida on the road to a solid economic – and multifamily housing – recovery.

Florida Fundamentals Improving

Miami contains the largest number of multifamily rental units in Florida as estimated by CBRE Econometric Advisors at 300,000 units, followed by Tampa Bay at 226,000. Orlando, Fort Lauderdale, and Jacksonville have 197,000, 172,000, and 111,000 units, respectively. West Palm Beach is the smallest of these major Florida metro areas, with CBRE Economic Advisers estimating its multifamily rental inventory at just 100,000 units. Vacancies also have recovered from their recession highs. The vacancy rates of the major Florida metros during the second quarter of 2014 ranged from a very low 3.25 percent in Miami to a moderate level of 6.25 percent in Jacksonville.

Recovery at Last

The overall outlook in Florida has changed significantly within the last year. The state was hit hard by the financial crisis and it appears that the recovery has been tied directly to the resurgences of both the financial and construction sectors within the state.

In fact, the growth in the Florida metros within the financial and construction sectors, which also are tied to the single-family housing market, are outpacing the national growth rates. Much of the state still is working through shadow supply left over from the housing boom, but the overall housing sector is performing much better as of late.

Key Demographic Statistics – Select Florida Metros

	Fort Lauderdale	Jacksonville	Miami	Orlando	Palm Beach	Tampa Bay
Population	5,900,000	1,400,000	5,900,000	2,300,000	5,900,000	2,00,000
Projected Annual Population Growth through 2018	+1.3%	+1.1%	+1.3%	+1.5%	+1.3%	+1.0%
Total Employment	1,000,000	632,000	2,600,000	1,100,000	2,700,000	1,200,000
Projected Average Annual Job Growth through 2018	+2.2%	+1.8%	+1.7%	+2.9%	+2.5%	+1.8%
Median Household Income	$45,000	$49,000	$45,000	$45,000	$45,000	$44,000

Source: *Nielson Pop-Facts 2014*

Employment and Population Growth

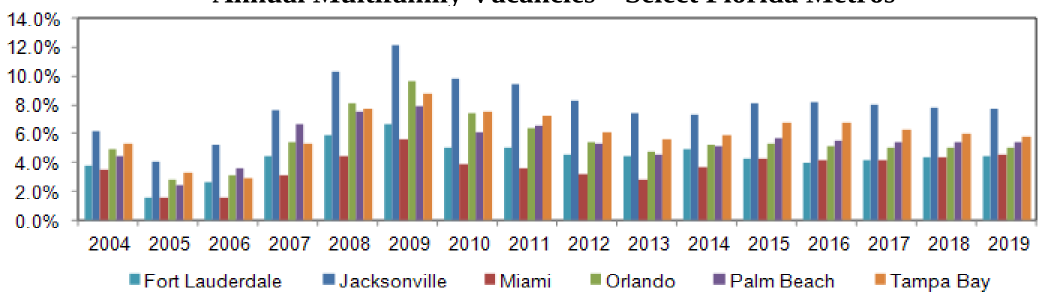
Through 2018, the forecasted average annual job growth for the major Florida metros is expected to be a healthy 2.2 percent. Much of the expected employment growth is driven by the professional/business services, financial services, and construction sectors. The resurgence of single-family housing is helping to fuel job growth in these three sectors, as a good number of jobs are tied to the industry.

All of the major Florida metros are expected to have job growth on par with or above the national average through 2018. Orlando, Palm Beach, and Fort Lauderdale are expanding faster than the national rate and, more importantly, are projected to keep seeing these exceptional growth rates through 2018.

Moderate Growth Expected to Keep Vacancies Down

As shown in the chart below, vacancies have returned to their pre-recession levels in most Florida metros. Vacancies soared to record peaks in 2008 and 2009. Even though some have come down quite a bit, we expect some Florida metros, such as Jacksonville, to have elevated vacancy levels through 2019. The single-family housing market is affordable in the Florida metros, which poses as somewhat of a threat to the rental markets. Since Florida was greatly impacted by the Great Recession, the existing shadow supply gives renters multiple options, as they can choose from renting single-family housing instead of apartments or opt for homeownership while costs are still down from pre-recession highs.

Annual Multifamily Vacancies – Select Florida Metros



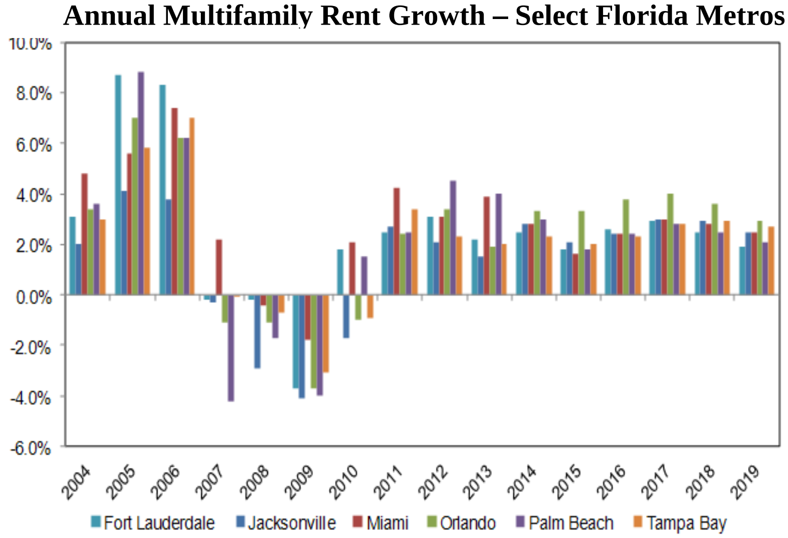
Source: CBRE-EA

Multifamily Rent Growth Remains Positive

In 2007, multifamily rent growth in the major Florida metros took a major hit – one that lasted until late 2010. Since 2011, multifamily rent growth has rebounded and remained positive in all of the major Florida metros.

This year, we expect all major Florida metros to experience rent growth exceeding 2.0 percent, as shown below. Through the 2019 forecast, all of the Florida metros are expected to stay on equal footing with the exception of Orlando, which is expected to grow at a slightly higher rate, thanks to the anticipated acceleration of job growth and increased net migration.

Annual Multifamily Rent Growth – Select Florida Metros



Source: CBRE-EA

Full Recovery: Still a Ways to Go

Through 2018, average annual job growth in the majority of the Florida metros is expected to exceed 2.0 percent, which is expected outpace the anticipated national average of 1.7 percent over the same period. Single-family housing oversupply – specifically condo development – is still a problem that plagues many of the major Florida metros.

Due to shadow supply in the metros, there is limited apartment supply coming online, with the exception of Miami and Fort Lauderdale. The limited supply coming online in oncoming quarters should actually be beneficial to the Florida metros as job growth, demographics, and apartment fundamentals are establishing level footing with their national peers.

Although the current economic recovery in Florida continues to be long and drawn out compared to other metro areas across the country, it appears as if the worst of the Great Recession is finally in the past and Florida's overall economic and housing recovery is progressing nicely.

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