Marcus & Millichap

Multifamily Research
Market Report

Fourth Quarter 2017

Orlando Metro Area

Developers and Investors Active In Orlando Apartment Market

Robust need for rentals. Job gains almost twice the national rate contributed to the in-migration of nearly 76,900 people over the last 12 months. Roughly 20 percent of these additional residents are 20- to 34-year-olds, the prime renter cohort, which is generating a significant need for housing. The relative affordability of renting compared with homeownership in the most desired neighborhoods of the market, as well as the convenience and mobility of an apartment lifestyle, will continue providing a sizable renter pool.

Redevelopment brings apartments downtown. A large portion of rentals underway are in amenity-rich, walkable neighborhoods. For example, in the Parramore section of downtown Orlando, the former Amway Arena site is in the process of being converted into a mixed-use, transit-oriented development dubbed Creative Village. The project will include up to 1,500 apartments, as well as office, studio, hotel, education and retail uses. One focal point will be the UCF/Valencia Downtown Campus. The first phase of the university will draw more than 7,700 students to the area upon completion in 2019. Marketwide, the flood of new luxury apartments entering the market in the coming year will inch vacancy higher and put downward pressure on Class A rents.

Multifamily 2017 Outlook

7,700 units will be completed

Construction: Inventory additions climb to a 15-year high in 2017 as 7,700 rentals are completed. Builders are most active in southern Orange County.

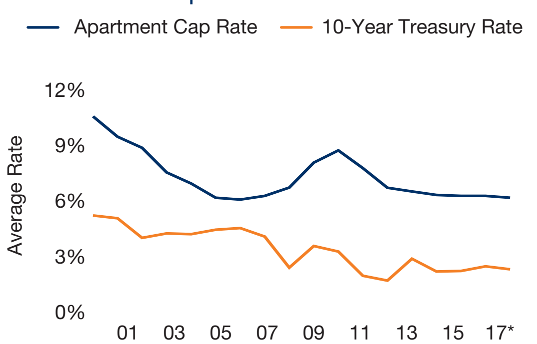
50 basis point increase in vacancy

Vacancy: The heightened pace of deliveries will overtake demand, pushing vacancy up 50 basis points to 3.8 percent at year end. Last year vacancy fell 40 basis points.

6.0% increase in effective rents

Rents: Effective rents jump 6.0 percent to an average of $1,161 per month in 2017, building on last year's 4.8 percent gain.

Local Apartment Yield Trends



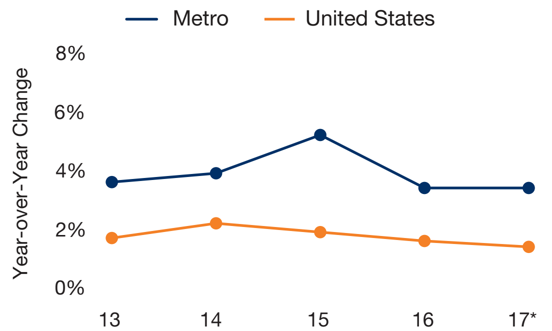
* Cap rates trailing 12 months through 3Q17; 10-year Treasury rate through Oct. 20.
Sources: CoStar Group, Inc.; Real Capital Analytics

Investment Trends

- Robust population growth, the potential for higher first-year returns and the recent storms are motivating some investors to diversify to markets away from the coasts, boosting interest in Orlando. Cap rates have generally plateaued in the 5 to 6 percent range.
- Investor demand outpaces available listings but many owners are holding onto properties amid a perceived lack of investment alternatives. Complexes containing 30 to 80 units are especially being sought after by private investors and small syndicates. Assets in Kissimmee are particularly gaining buyers' attention.
- Revitalization efforts in walkable urban areas with a variety of amenities, such as the Parramore neighborhood near downtown Orlando, attract investors. Infill redevelopment projects in these areas offer additional buying opportunities at cap rates that can dip below 5 percent.

3Q17 – 12-MONTH PERIOD

Employment Trends

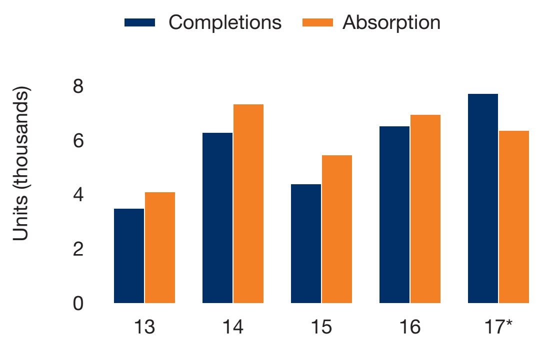


EMPLOYMENT:

2.0% increase in total employment Y-O-Y

- Employment losses due to the hurricane cut into third quarter hiring performance. Just 24,600 positions were created in the last four quarters, less than half of the jobs added one year earlier.
- During the last 12 months, the leisure and hospitality, and office-using sectors led staff increases with the addition of 7,700 and 4,800 workers, respectively.

Completions and Absorption

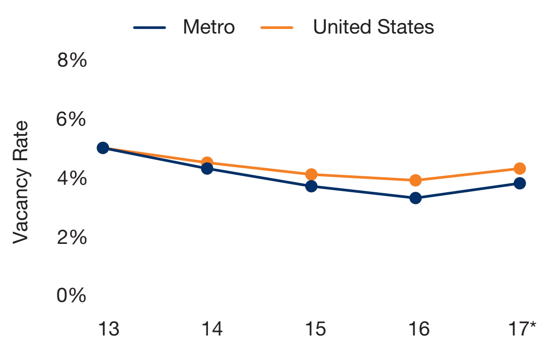


CONSTRUCTION:

6,000 units completed Y-O-Y

- Following the completion of 6,700 apartments one year ago, deliveries have eased to 6,000 in the most recent four quarters.
- The pace of deliveries will increase as developers have more than 13,200 rentals under construction and more than 10,100 of these are expected to be brought into service by the end of 2018.

Vacancy Rate Trends

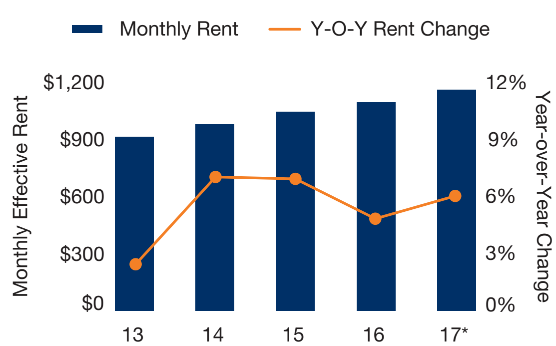


VACANCY:

30 basis point increase in vacancy Y-O-Y

- New supply outpaced the net absorption of 4,800 apartments in the last four quarters, pushing vacancy up 30 basis points to 3.5 percent in September.
- More affordable rents have tightened third quarter vacancy in Class C buildings to 1.4 percent, down an annual 10 basis points. The rate in Class B properties, meanwhile, rose 60 basis points to 3.8 percent.

Rent Trends



RENTS:

5.0% increase in effective rents Y-O-Y

- Effective rent jumped to an average of $1,159 per month in the last four quarters, building on a 6.6 percent gain registered one year earlier.
- Strong rent growth was posted among all vintages except buildings constructed since 2010, where the average effective rent declined nominally to $1,513 per month. Rent in properties built in the 1970s jumped 8.0 percent.

* Forecast

DEMOGRAPHIC HIGHLIGHTS

FIVE-YEAR POPULATION GROWTH*

405,100

FIVE-YEAR HOUSEHOLD GROWTH*

193,000

* 2017-2022

3Q17 POPULATION AGE 20-34
(Percent of total population)

Metro 22%

U.S. 21%

POPULATION OF AGE 25+
PERCENT WITH BACHELOR DEGREE+**

Metro 28%

U.S. Average 29%

**2016

3Q17 MEDIAN HOUSEHOLD INCOME

Metro $55,610

U.S. Median $58,218

2Q17 TOTAL HOUSEHOLDS

42% Rent

58% Own

SUBMARKET TRENDS

Lowest Vacancy Rates 3Q17

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
North Lake County	1.8%	-640	$850	7.5%
Southwest Orlando	2.3%	20	$1,016	8.1%
University	2.4%	120	$1,696	4.2%
West Orlando	2.7%	60	$1,122	5.8%
Sanford/Lake Mary	2.7%	-20	$1,123	4.3%
Kissimmee/Osceola County	2.9%	130	$1,059	8.4%
Northwest Orlando	3.0%	100	$935	8.0%
East Orlando	3.2%	40	$1,072	7.4%
Winter Park/Maitland	3.2%	110	$1,103	0.4%
Casselberry/Winter Springs/ Oviedo	3.3%	120	$1,291	5.7%
Overall Metro	**3.5%**	**30**	**$1,159**	**5.0%**

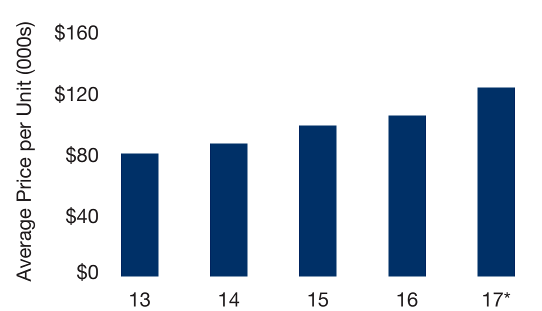
SALES TRENDS

More Investors Destined for Multifamily Assets in the Orlando Metro

- The limited supply of available listings reduced transaction activity 14 percent during the last four quarters. Buildings in the Southern portion of the city of Orlando were especially desired.
- Increased competition contributed to driving the average price up 19 percent year over year to $123,300 per unit at an average cap rate of 6.2 percent. Initial yields for Class A assets were 50 basis points less.

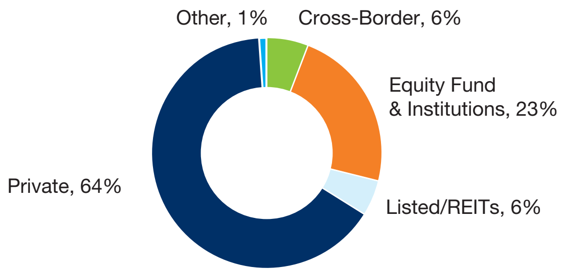
Outlook: Favorable demographic trends will continue drawing a wide range of investors to the metro, keeping competition stiff, especially near infill redevelopments.

Pricing Trends

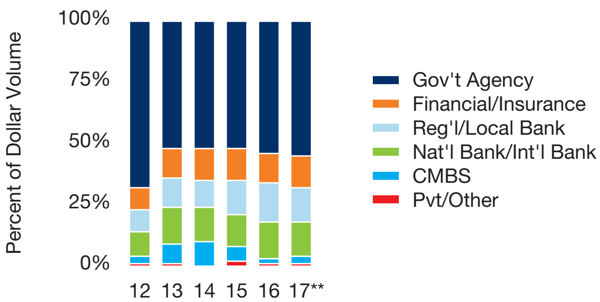


* Trailing 12 months through 3Q17
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

Apartment Acquisitions By Buyer Type*



Apartment Mortgage Originations By Lender



* Trailing 12 months through 2Q17
** Through first half 2017
Include sales $2.5 million and greater
Sources: CoStar Group, Inc.; Real Capital Analytics

CAPITAL MARKETS

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- **Monetary policy in transition.** Despite the Fed raising its benchmark short-term rate three times in seven months and signaling another rise before the end of the year, long-term rates have remained stable. The yield on the 10-year U.S. Treasury bond remained in the low- to mid-2 percent range throughout the third quarter of 2017. The Federal Reserve wants to normalize monetary policy and, in addition to raising its funds (or overnight lending) rate, has announced it will begin to taper its balance sheet by allowing an initial $10 billion in securities to mature without reinvestment. By reducing its acquisitions of securities, 10-year Treasury rates should drift upward, thereby widening the spread between short- and long-term rates.
- **Increase in interest rates over the course of the year, pushing up the cost of capital.** While commercial real estate fundamentals remain strong, rising costs associated with debt financing will tighten the spread between cap rates and lending benchmarks. This environment could weigh on transaction activity as investors evaluate their yield options. Cap rates have remained relatively stable over the last year, but upward movement in Treasury rates has amplified the expectation gap between buyers and sellers.
- **The capital markets environment continues to be highly competitive.** Government agencies continue to consume the lion's share, just slightly over 50 percent, of the apartment lending market. National and regional banks control approximately a quarter of the market. Growing uncertainty about federal policy and global geopolitical concerns are keeping long-term interest rates down with pricing residing in the 4 percent realm with maximum leverage of 80 percent. Portfolio lenders will typically require loan-to-value ratios closer to 75 percent with interest rates in the high-3 to mid-4 percent range. As uncertainty remains regarding the possibility of tax policy revision, rental demand remains strong with the national apartment vacancy at 4.5 percent.

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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; MPF Research; TWR/Dodge Pipeline; U.S. Census Bureau