# MARKET REPORT

**Multifamily**

*Orlando Metro Area*

IPA INSTITUTIONAL PROPERTY ADVISORS

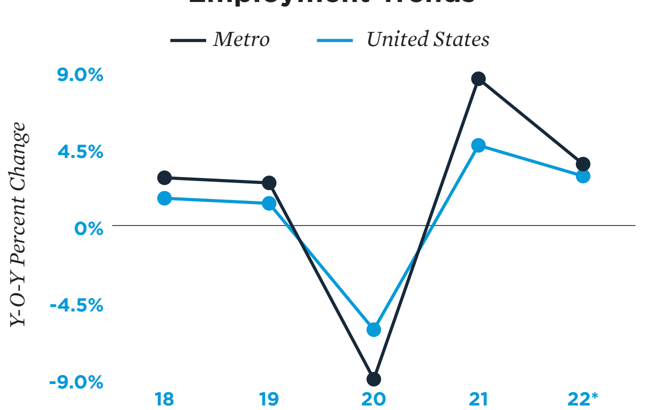
3Q/22

## Orlando Among U.S. Leaders in Rent Gains; Growth Prospects Spur a Flurry of New Builds

**Developers show confidence in Orlando.** Similar to many major markets across the nation, multifamily performance in Orlando softened slightly in the second quarter. However, apartment demand is still strong by historical standards, as renters absorbed more than 10,300 units over the trailing 12-month period ending in June. Vacancy contracted 110 basis points during this span to 2.8 percent, the second-lowest rate among major Florida markets. Responding to these tight conditions, developers broke ground on more than 20 new projects during the first half, lifting the active pipeline to nearly 24,000 units as of July. This delivery pace may place upward pressure on availability over the near term. Nevertheless, a rate of household formation nearly three times the national average and a projected increase of more than 230,000 new residents over the next five years suggests renter demand will remain elevated in Orlando.

**Luxury and mid-tier apartments lead rent gains.** Effective rents in Orlando advanced by more than 5 percent during the second quarter alone, lifting annual rent growth to 27 percent in the yearlong period ending in June, the third-highest rate among all major U.S. markets. This growth was driven by the Class A and Class B apartment segments, each posting annual increases of at least 27 percent, compared to a Class C rise of 18 percent. This could shift the renter pool, with some residents moving from mid-tier apartments to lower-quality units to cut costs. Nonetheless, newly arriving households in higher-paying fields should backfill demand for Class A and B rentals.

### Employment Trends




* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

## Multifamily 2022 Outlook

**48,000 JOBS**
*will be created*

### EMPLOYMENT:

The addition of nearly 20,000 new positions during the first half lowered the metro's unemployment rate to 2.9 percent in June. Orlando's total workforce will rise by 3.6 percent this year, bolstered by robust gains in the leisure and hospitality sector.

**7,200 UNITS**
*will be completed*

### CONSTRUCTION:

More than 7,000 units are delivered in Orlando for the third consecutive year, as developers increase the local rental inventory by 2.9 percent. South Orange County and Kissimmee-Osceola County are slated to receive the bulk of second half deliveries.

**130 BASIS POINT**
*increase in vacancy*

### VACANCY:

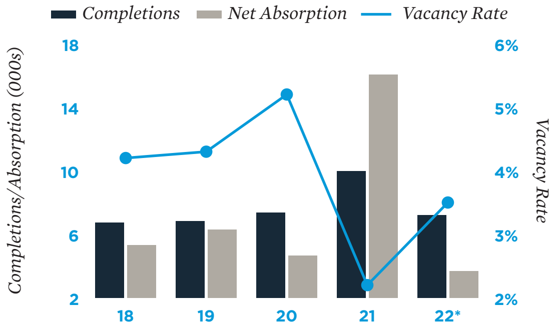
Supply additions place upward pressure on vacancy, resulting in the largest annual rise observed in Orlando since 2007. Still, at 3.5 percent, the year-end rate is more than 200 basis points below the long-term average.

**18.7% INCREASE**
*in effective rent*

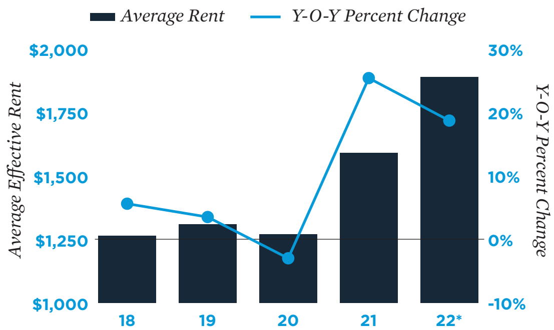
### RENT:

Excluding last year's 25.4 percent surge, rent gains in 2022 will outpace every previous annual measure by at least 1,000 basis points. By the end of this year, the average effective rent in Orlando will reach $1,890 per month.

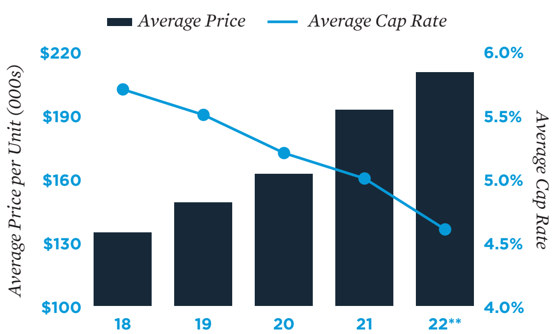
## Supply and Demand




## Rent Trends




## Sales Trends




** Forecast ** Through 2Q*

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

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*Price: $250*

## 2Q 2022 - 12-Month Period

### CONSTRUCTION

**8,555 units completed**

- Developers expanded metro stock by 3.2 percent over the past year ending in June, the largest increase in terms of percentage of existing inventory among major Florida markets.
- Local inventory grew by at least 5 percent in the Central Orlando, Ocoee-Winter Garden-Clermont and South Orange County submarkets.

### VACANCY

**110 basis point decrease in vacancy Y-O-Y**

- Entering the second half, 12 of the metro's 15 submarkets had a vacancy rate of 3.0 percent or lower. Three of these areas had a rate below 2.5 percent, exhibiting the unprecedented tightness across Orlando.
- Apartments in North Lake County are in high demand, due to the submarket's comparatively lower rent costs, with local vacancy at 0.9 percent.

### RENT

**27.0% increase in the average effective rent Y-O-Y**

- All submarkets registered growth rates exceeding 20 percent during the previous four-quarter span ending in June, lifting the metrowide average effective rent to $1,749 per month.
- East Orange County, Kissimmee-Osceola County and Ocoee-Winter Garden-Clermont each recorded gains exceeding 30 percent during this span.

## Investment Highlights

- Robust population growth is driving strong household formation across the Orlando metro, and institutions have taken notice. Transaction velocity nearly doubled over the past year ending in June relative to the previous 12-month span, an indication buyers are confident in Orlando's long-term demand drivers. An intense bidding environment has emerged as a result, lifting the average sale price to $210,000 per unit in the past four quarters. The boost in pricing compressed the average first-year return to 4.6 percent, the second-lowest rate among major Florida markets.
- All Orlando submarkets are recording historic rent gains, which is helping investors find attractive opportunities across the metro. Institutional buyers concentrating on the fastest Class A rent increases will favor Northwest Orlando, North Lake County and West Orlando. At midyear, annual rent climbs in the luxury segment exceeded 34 percent in all three locations.
- Institutions pursuing large-scale properties are most active in Central Orlando, Sanford, Winter Park and along the International Drive corridor. In these locales, assets with over 250 units in the $50 million to $100 million price tranche are changing hands most often.