MARKET REPORT

Multifamily

Orlando Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

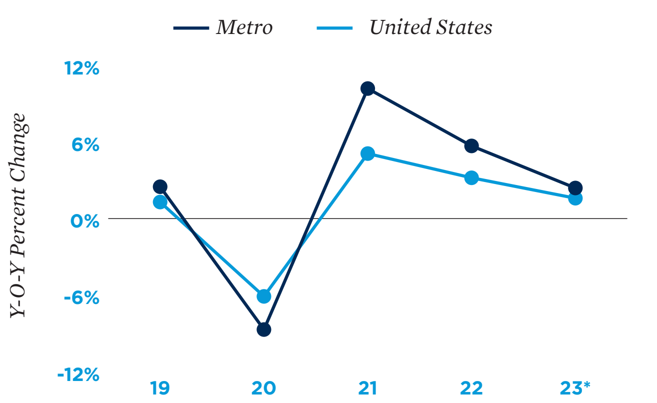
3Q/23

Vacancy Remains Elevated as Builders Ramp up Construction to Support a Growing Resident Base

Metro supply pressure is evident. During the first half, roughly 3,800 units were taken off the market on a net basis, the most among all major Florida markets. Renter demand returning to positive territory during this span is a welcome sign, as the metro recorded three consecutive quarters of negative net absorption entering this year for the first time since 2007. Leasing activity has been strongest in Kissimmee-Osceola County and South Orange County in recent quarters, as these submarkets contain key employment centers that are proximate to major entertainment options. Despite this recent momentum, metrowide vacancy has continued to increase, climbing 30 basis points in the first half. A historic wave of apartment development heavily contributed to this rise in rental availability. Although vacancy may remain elevated in the near-term, the influx of new supply is warranted, as the metro is projected to gain roughly 220,000 new residents over the next five years.

Apartments remain relatively affordable. With a median household income roughly 7 percent below the national average, many renters are opting for more affordable options during widespread inflation. As a result, vacancy in Class A units rose to 6 percent in June, roughly 180 basis points higher than the rate in lower-tier apartments. Despite the recent softening in fundamentals, long-term prospects remain optimistic. The typical mortgage payment on a median priced home is still $1,000 per month higher than the mean Class A rent, steering incoming residents toward the metro's rental market.

Employment Trends



** Forecast*

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

Multifamily 2023 Outlook

34,000 JOBS
will be created

EMPLOYMENT:

Local employers will increase the total number of jobs by 2.4 percent in 2023. CMG Cleantech announced its first U.S. flagship facility in Osceola County, and is expected to create 1,200 jobs alone over the next three years.

11,500 UNITS
will be completed

CONSTRUCTION:

Completions will eclipse the 10,000-unit threshold for the first time since at least 2000, with developers expanding local inventory by 4.5 percent. As of August, there were nearly 28,000 units underway.

80 BASIS POINT
increase in vacancy

VACANCY:

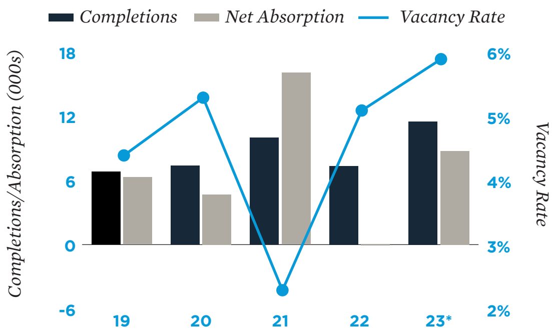
A record supply wave places upward pressure on vacancy for the second straight year, lifting the rate to 5.9 percent. Still, net absorption is projected to reach the second-highest level in the past 23 years.

2.2% INCREASE
in effective rent

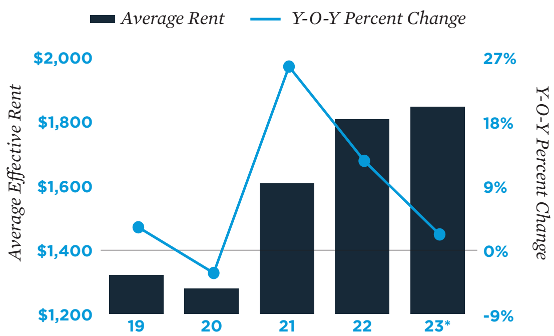
RENT:

Vacancy in Class A units approached 6 percent in June, which will likely increase the use of concessions and moderate rent growth. The overall average effective rate is expected to reach $1,845 per month by year-end.

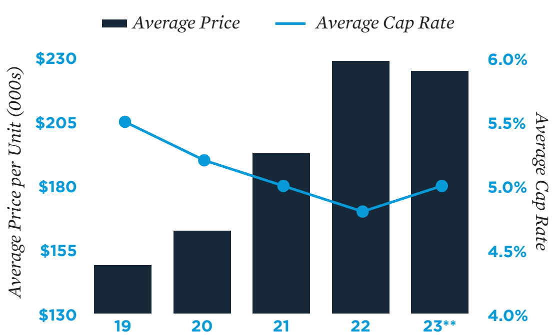
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

IPA Multifamily
John Sebree
Senior Vice President, Director
Tel: (312) 327-5400 | jsebree@ipausa.com

IPA Multifamily Research
Greg Willett
First Vice President
Tel: (972) 755-5200 | gwillett@ipausa.com

Price: $250

2Q 2023 - 12-Month Period

CONSTRUCTION

9,037 units completed

- Developers increased local apartment inventory by 3.6 percent during the past 12 months ending in June, with nearly half of all supply delivering in the Kissimmee-Osceola County and South Orange County submarkets.
- Supply additions were less prevalent in submarkets like Winter Park-Maitland, Southwest Orlando, University and North Lake County.

VACANCY

250 basis point increase in vacancy Y-O-Y

- Completions outpaced net absorption by nearly 7,000 units over the past four quarters ending in June, lifting metro vacancy to 5.4 percent.
- Local vacancy was highest in the Central Business District, registering at 6.4 percent in June. The suburban rate also rose to the highest level since 2014, as vacancy outside Central Orlando reached 5.3 percent.

RENT

3.3% increase in the average effective rent Y-O-Y

- Annual rent growth fell to the lowest level since the first quarter of 2021 during the trailing year ending in June. Still, the average effective rate advanced to $1,824 per month, which was only $1 short of the all-time high.
- Rent growth in Class A apartments was the lowest among property tiers, as the average effective rent inched up 1.3 percent during this span.

Investment Highlights

- Transaction velocity through the first half of 2023 fell to a 13-year low, as rising vacancy and elevated borrowing costs have investors taking a more cautious approach. Despite recent headwinds, the market's projected population growth and strong interest from relocating businesses should continue to drive buyer demand once more stability emerges in the financial markets. Entry costs over the past year ending in June were up roughly 7 percent relative to the previous period, while the average cap rate rose 10 basis points during this span to 5.0 percent.
- Despite softer fundamentals relative to lower-tier assets, Class A and B apartments have changed hands more frequently as of late. Proximity to major entertainment options is driving demand around International Drive, while the presence of several major employment centers is underpinning activity in North Orlando. Properties with more than 200 units in the $20 to $100 million price tranche are trading most often.
- Institutions are also targeting older Class C communities with over 300 units. Pricing for these types of assets average around $148,000 per unit, with cap rates trending in the low-5 percent span.