Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	25,409
UNITS DELIVERED	5,213

MARKET FUNDAMENTALS

VACANCY RATE	5.6%
YEAR-OVER-YEAR CHANGE	+0bps
ASKING RENTS	$1,690
YEAR-OVER-YEAR CHANGE	+2.8%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$212,500

Orlando Multifamily

2Q 2023

MARKET INSIGHTS

Investors favoring large transactions

HIGHLIGHTS

- Property performance metrics in Orlando remain strong, with vacancy tightening in the second quarter and asking rents pushing higher. Several years of growth have attracted multifamily developers, with projects totaling roughly 25,400 units under construction.
- Area vacancy improved during the second quarter, after rising at the start of the year. The vacancy rate dropped 40 basis points in the last three months to 5.6 percent. The current vacancy rate equals the figure from one year ago.
- Asking rents trended higher during the last three months, rising 1 percent in the second quarter to $1,690 per month. Rents are up 2.8 percent during the past 12 months and additional increases are forecast for the second half.
- Multifamily sales activity has occurred at a slow, but consistent pace through the first two quarters of 2023, following elevated levels in recent years. The median sales price thus far in 2023 is $215,000 per unit, while cap rates have been between 4.5 percent and 5.25 percent.

ORLANDO MULTIFAMILY MARKET OVERVIEW

The Orlando multifamily market strengthened during the second quarter, following a slower start to the year. After recording negative net absorption in the previous period, renter demand improved significantly in recent months. The result was a 40 basis point decline in the local vacancy rate, the largest quarterly drop in nearly two years. Apartment developers have completed roughly 5,200 units to this point in the year, including large projects in the International Drive submarket. Construction activity will remain elevated throughout the remainder of the year and into 2024 with approximately 25,400 multifamily units currently in the development pipeline.

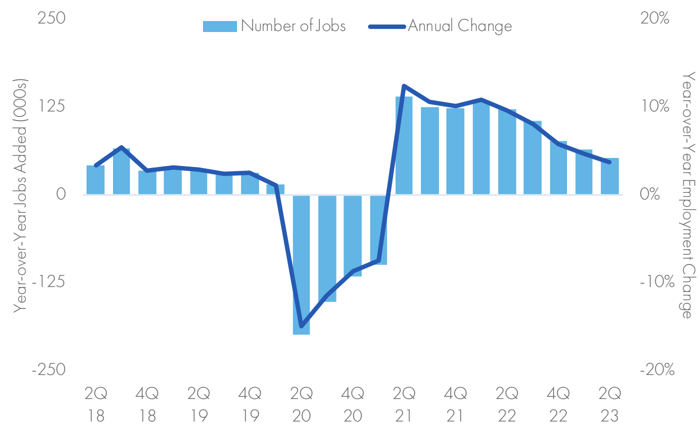
Multifamily investment activity in Orlando has been slow to this point in 2023, although the properties that are trading are generally large assets that are 1990s or newer construction. While investors in several markets across the country have steered clear of significant transactions, several deals priced at $50 million or more have closed in Orlando. The average transaction size year to date is approximately $75 million, nearly identical to the average in 2022. Institutional investors are forecast to deploy dry powder in the second half of this year, with Orlando likely to be one of the markets that attracts this capital.

EMPLOYMENT

- The local labor market continued to expand in recent months although the pace of growth tapered off from recent periods. Year over year, employers added more than 52,000 net new jobs in the area, a gain of 3.8 percent, outpacing the statewide rate of growth.
- While several industries have been expanding across Orlando in the past year, the leisure and hospitality sector remains the primary driver of the local economy. Leisure and hospitality employment growth totaled 26,400 new jobs during the past 12 months, a 10 percent spike.
- Universal Orlando Resort, located in South Orange County, is in the process of hiring more than 2,500 people. The resort is looking to fill a range of part-time, seasonal, and professional positions at its parks and CityWalk.
- **FORECAST:** Total employment in Orlando is forecast to grow by about 2.1 percent in 2023, with businesses on pace to add 30,000 jobs in 2023.

Leisure and hospitality employment growth totaled 26,400 new jobs.

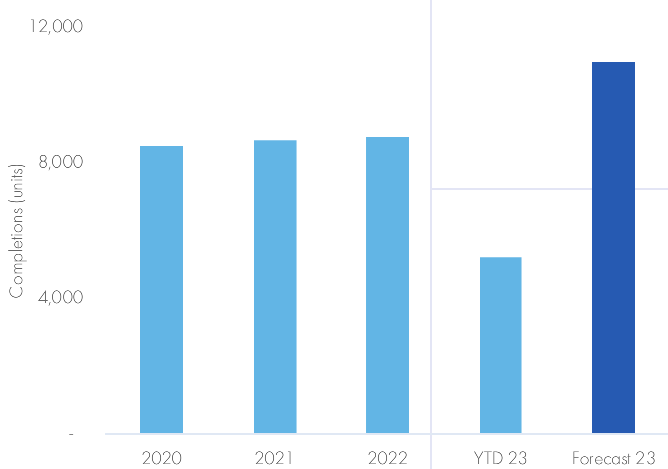
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling 11,000 units are scheduled to come online in 2023.

DEVELOPMENT TRENDS



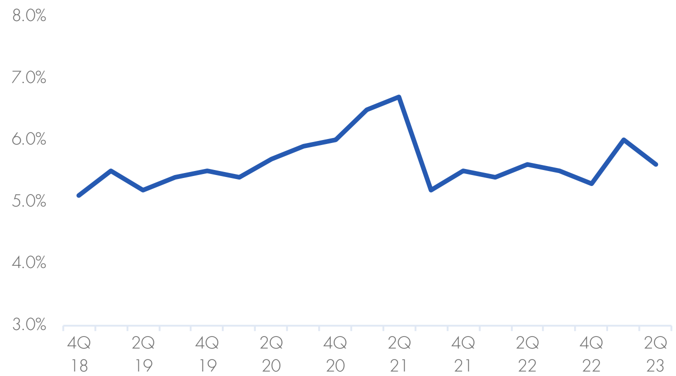
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Orlando developers continue to bring new projects online at a healthy pace as more than 2,300 units were completed during the second quarter. Projects totaling approximately 5,200 units have come online year to date.
- The development pipeline includes ongoing projects in nearly every submarket in the Orlando region. Roughly 25,400 units are currently under construction, a 14 percent increase from one year ago.
- After multifamily permitting surged during 2021 and 2022, the pace of issuance has slowed. Developers pulled permits for 4,950 multifamily units in the first half of 2023, down nearly 30 percent from the first half of last year.
- **FORECAST:** Apartment development activity is expected to maintain an active pace in the second half of the year. Projects totaling 11,000 units are scheduled to come online in 2023, after deliveries averaged about 8,650 units per year since 2020.

The local vacancy rate fell 40 basis points in the last three months.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

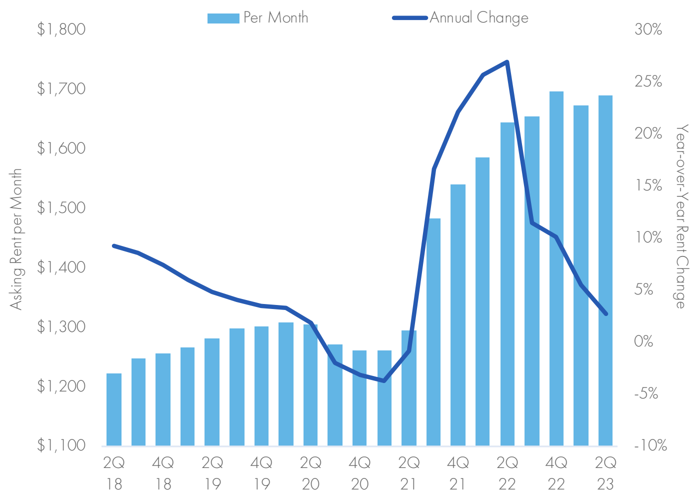
- Vacancy conditions in Orlando improved during the second quarter, after rising at the start of the year. The local vacancy rate fell 40 basis points in the last three months to 5.6 percent.
- Despite some modest fluctuations in recent periods, overall vacancy trends in Orlando have proven to be very stable over the past several years. The current rate matches the figure from one year ago, and vacancy has averaged 5.5 percent during the past five years.
- While the overall vacancy rate in Orlando has remained fairly steady during the past 12 months, there have been some tightening conditions in the top tier. The Class A vacancy rate dropped 40 basis points during the past 12 months, ending the second quarter at 6.5 percent.
- **FORECAST:** Year-end vacancy in Orlando has remained between 5 percent and 6 percent since 2018, and the heightened construction activity is expected to push the rate toward the high-end of that range. The local vacancy rate is forecast to reach 5.9 percent this year.

RENTS

- Rents in Orlando trended higher in recent months. Asking rents rose 1 percent in the second quarter, reaching $1,690 per month.
- Apartment rents are up 2.8 percent during the past 12 months, after annual growth rates peaked at more than 20 percent in 2021. The market's longer-term growth rate is between 3.5 percent and 4 percent.
- Rent growth has slightly outperformed across the mid- and lower tiers. The combined average annual rent increases in Class B and Class C properties reached 3 percent as of the second quarter, settling in at nearly $1,400 per month.
- **FORECAST:** Following rapid gains in recent years, asking rents are expected to rise at a more modest pace in 2023. Apartment rents in Orlando are forecast to advance 2.2 percent this year to $1,735 per month.

Rents are up 2.8 percent during the past 12 months.

RENT TRENDS



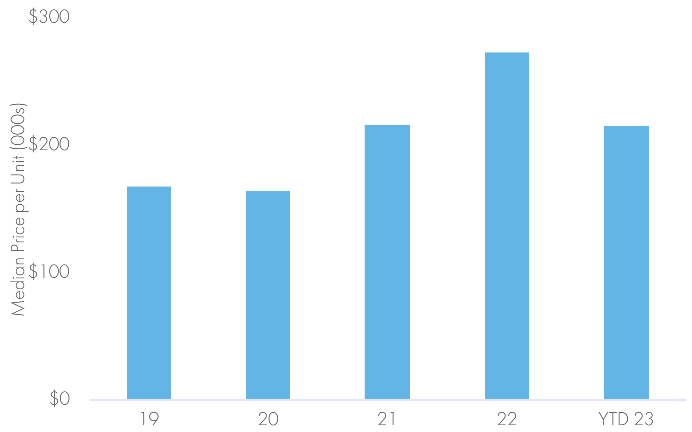
Sources: Northmarq, Reis

MULTIFAMILY SALES

- Multifamily sales activity during the second quarter was limited to a few transactions and closely tracked levels from the first three months of the year. Sales velocity through the first half of 2023 is down approximately 75 percent year over year.
- As transaction volume declined significantly in recent periods, per-unit pricing trended lower. The median sales price thus far in 2023 is $215,000 per unit, down 21 percent from last year's peak. Properties have traded within a fairly tight range in recent months; the median price in the second quarter was $223,600 per unit.
- Cap rates in Orlando have generally ranged between 4.75 percent and 5.25 percent during the first half. One year ago, local cap rates averaged 4 percent, with some properties trading with cap ratesin the mid- to high-3 percent range.

The median price in 2023 is $215,000 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

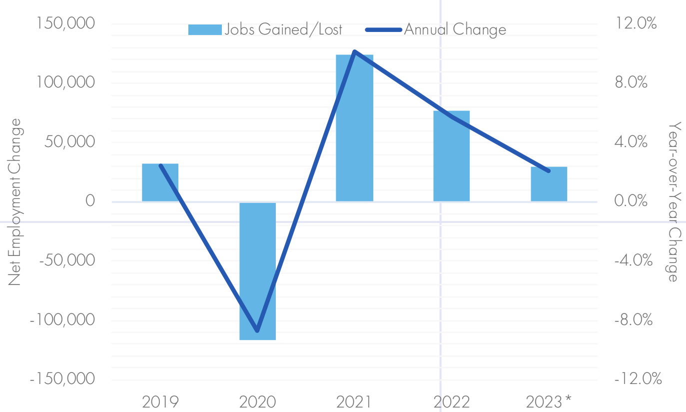
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Alta Cypress	375 Summer Cypress Cove, Longwood	342	$90,000,000	$263,158
Estates at Park Avenue	2801 Biltmore Park Dr., Orlando	432	$89,519,300	$207,221
The Wesley	6600 Banner Lake Cir., Orlando	400	$87,000,000	$217,500
Arrow Ridge	4100 Arrow Ridge Pl., Kissimmee	320	$59,662,800	$186,446
Integra Lakes	3160 Integra Lakes Ln., Casselberry	203	$54,300,000	$267,488

LOOKING AHEAD

The Orlando economy has grown at a rapid pace during the past several years, and this expansion is driving demand for rental housing. Looking ahead, both population and job growth will remain healthy. Construction activity has accelerated and developers are on track to complete approximately 11,000 units in 2023, an annual total that is about 25 percent higher than recent averages. Construction is spread out throughout the region, with new projects under way in Northwest Orlando, International Drive, Sanford, and Hunters Creek. Local vacancy is forecast to tick higher in the second half, but the rate is not expected to trend outside of the Orlando region's long-term range.

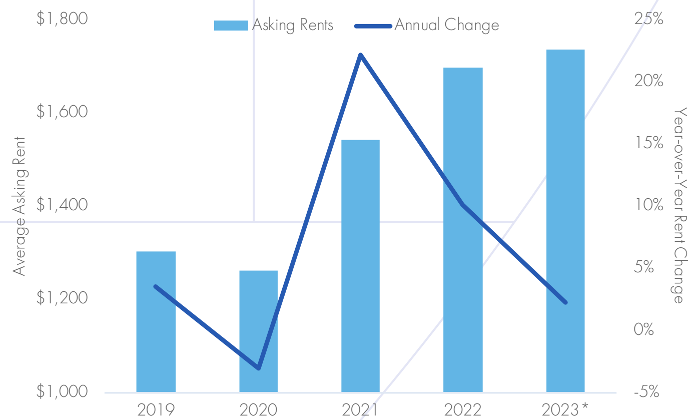
While Orlando's surging property fundamentals in recent years have attracted new development and a wave of investment capital to be deployed, the steep rise in interest rates is currently restricting deal flow. While clear signs of a closing expectations gap have been slow to emerge, there are some reasons to suggest investment activity could gain some momentum and bounce off of recent lows. Specifically, investor sentiment should be boosted by the rent gains recorded in recent months. Additional increases are likely, which should support underwriting of future acquisitions. Further, the prospect of flattening or declining interest rates combined with cap rates that are higher than throughout much of 2023 should move some buyers off of the sidelines to acquire properties before year end.

EMPLOYMENT FORECAST



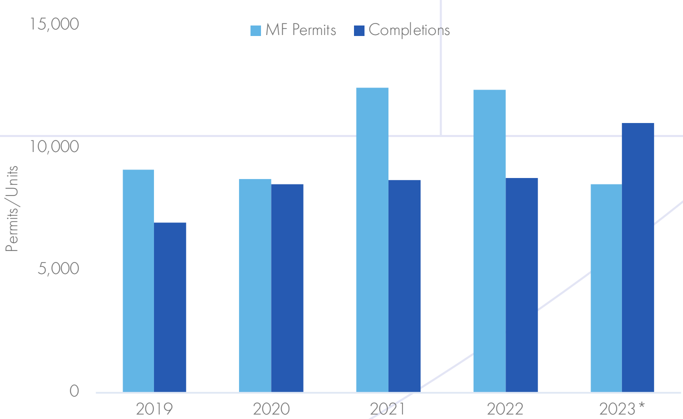
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



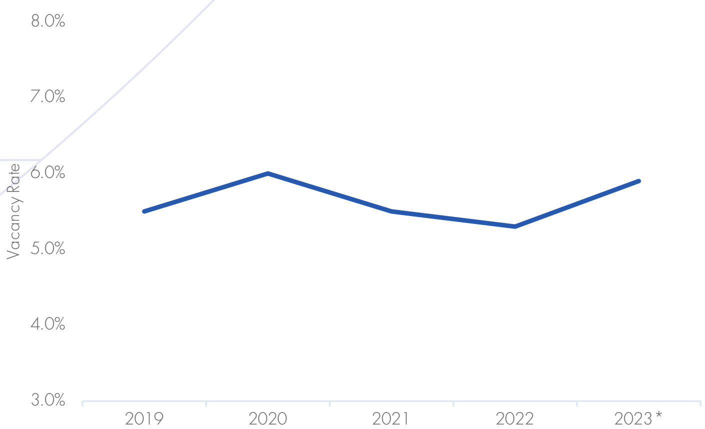
* Year End Forecast
Sources: Northmarq, REIS,

CONSTRUCTION & PERMITTING FORECAST



* Year End Forecast
Sources: Northmarq, Census Bureau, CoStar

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, REIS

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ABOUT NORTHMARQ

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