

JACKSONVILLE | MULTIFAMILY OUTLOOK

OVERVIEW

A growing local economy will make the Jacksonville apartment market tighten with rents expected to rise and new housing demand being generated. Vacancies are expected to decrease as newly constructed units are slow to enter the local market. 70s and 80s vintage product will remain popular for renters due to attractive rents. Job and economic growth is occurring in nearly every sector as companies expand. Regional private investors will remain the main active buyer in Jacksonville, targeting higher yields. This leaves us with the excellent opportunity to purchase multifamily in Jacksonville as this market is often overlooked among larger metropolitan areas.



ECONOMIC INDICATORS

MACRO ECONOMY

The U.S. nationwide homeownership rate has declined again during the first quarter of 2016, reaching its lowest level in nearly two decades. Obtaining a mortgage for a single family home is more difficult than before the recession due to tight credit standards. On the other hand, the multifamily sector has been experiencing **sustained growth**. Tenant and investor demand for multifamily housing has been on the rise. **Median rental rates have been increasing over the past two decades and demonstrate less volatility/sensitivity to recessions and economic downturns than single family homes and other commercial property**, making them a relatively safe investment option. In addition, nationwide demand for multifamily housing has also been increasing as a fairly strong labor market increases employment opportunities for young adults, the key market segment for the apartment rental industry.

JACKSONVILLE ECONOMY

By the end of 2015, Jacksonville recorded a \$71.9 billion economy. It had grown 5.5% since the year before. Estimated household income is about \$47,424 which is higher than the Florida average of \$46,036. Jacksonville is an important transportation hub that has deep-water ports that rival with New York as the top two vehicle handling ports in the nation. On top of that, it has the largest deep-water port in the South Atlantic. It is also the hub of seven major highway shipping corridors with direct connection to other major cities in the US such as Los Angeles, Houston, Miami, and New York, among others. Import-export is a major segment of the Florida economy with Jacksonville playing a large part of that. The city also experienced a boom in the aviation sector in the early 2000s due to its proximity to three naval air stations within the city limits. **Economic fundamentals are strong in the region due to diverse, growing, and settled in industries.**

Jacksonville remains an attractive city for expanding companies due to an abundance of workers due to in-migration, natural growth, a strong military presence, and the metropolitan's educational institutions. The city is also extremely welcoming to economic growth in that there 8,300 acres of developable land entitled to industrial and distributional facilities.

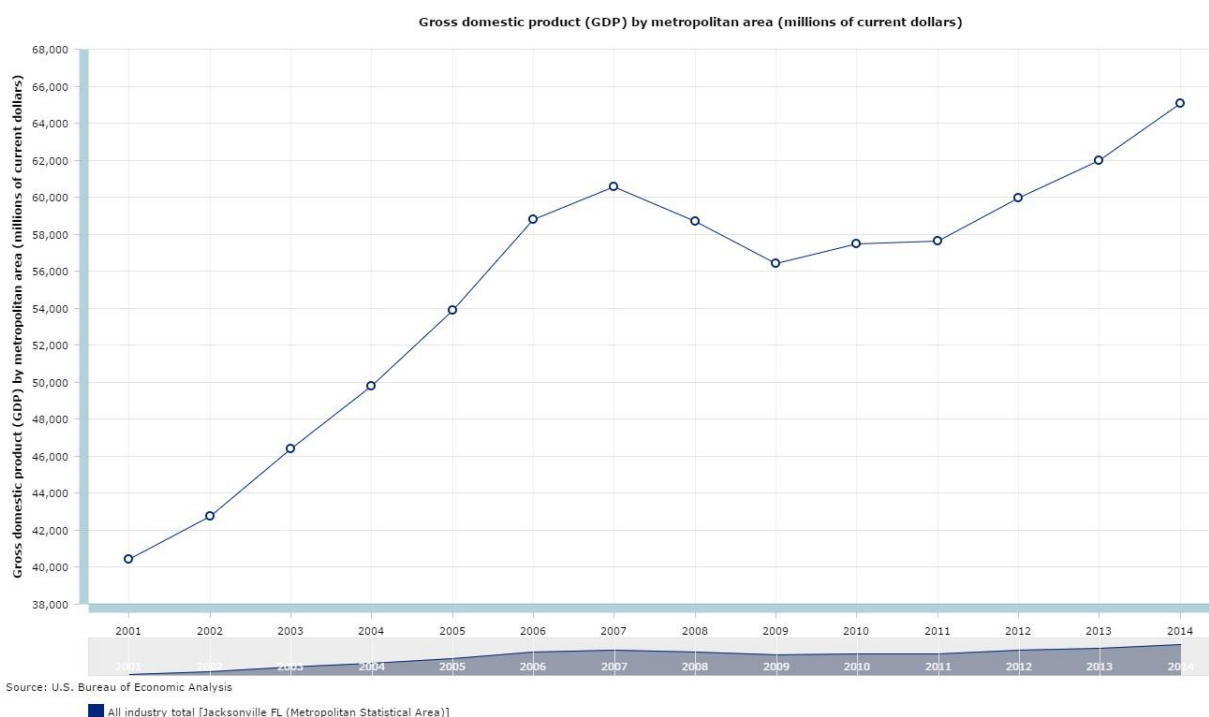


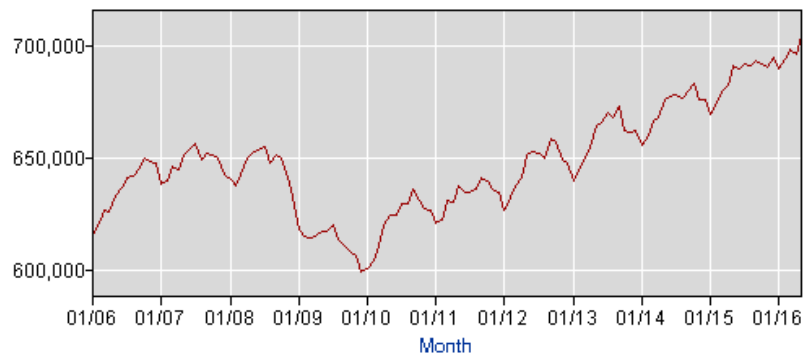
Figure above: **GDP of Jacksonville Metropolitan**

EMPLOYMENT

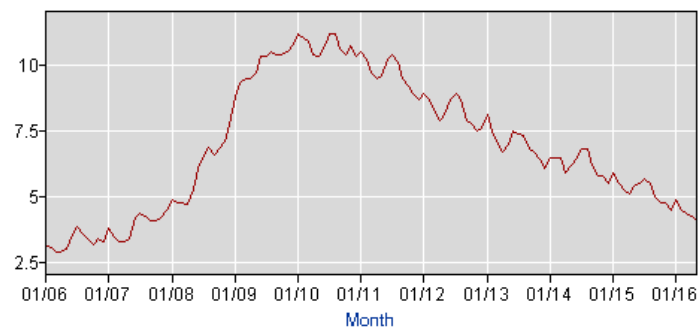
The **unemployment rate** in Jacksonville has been **continuously declining** in recent years. **As of May 2016, the unemployment rate in Jacksonville was 4.1%**, a substantial **0.8% decrease, in five months**, from 4.9% in January 2016 (Bureau of Labor Statistics). Jacksonville's unemployment rate is also **below the state average of 4.7%**.

Jacksonville's **employment rate has been steadily increasing over the past few years, exceeding its pre-recession peak**. Employers are expected to **increase payrolls by 2.2 percent in 2016 by creating 14,250 jobs**, surpassing the 13,500 new positions that were created in 2015. In addition, hiring is occurring in almost all major industry sectors. The largest companies that are expected to increase their operations and add new jobs are: Amazon (1,500 new jobs), Citibank (800 new jobs), Ernst and Young (450 new jobs), and Randrr (200 new jobs).

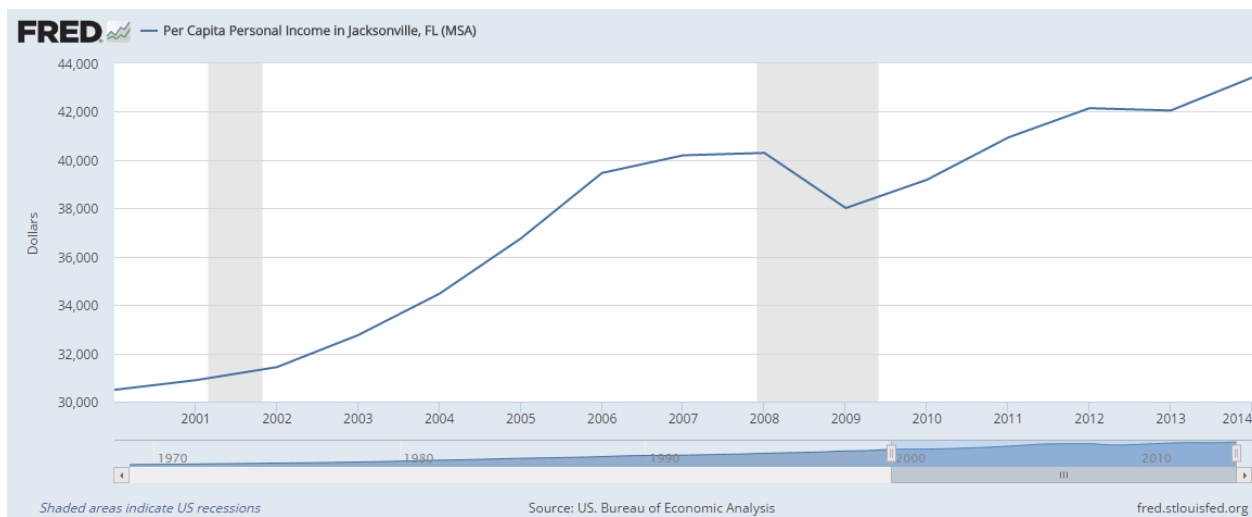
employment



unemployment rate



On top of robust employment growth, **per capita personal income in Jacksonville has been on the upward trend since 2009**, which bodes well for future rental increases.



MAJOR EMPLOYERS & INDUSTRIES

The major industries in the Jacksonville area include: **Advanced Manufacturing, Aviation & Aerospace, Finance and Insurance, Information Technologies, Medical Products & Services, and Logistics & Distributions.**

Major employers in the area reflect the top industries in the area:

Company	Employees	Industry
Baptist Health	8,270	Medical
Bank of America Merrill Lynch	8,000	Finance
Florida Blue	6,500	Finance
University of Florida Health	6,000	Medical
St. Vincent's Medical Center - Riverside	5,300	Medical
Mayo Clinic	4,970	Medical
Citi	4,000	Finance
Fleet Readiness Center SE	3,920	Logistics & Distributions
CSX Corporation	3,600	Logistics & Distributions
JP Morgan Chase	3,500	Finance
Wells Fargo	3,500	Finance
AT&T	2,600	Information Tech
Southeastern Grocers	2,500	Lifestyle
Black Knight Financial Services	2,400	Finance
Jacksonville Electric Authority	2,300	Utilities

POPULATION TRENDS

Population growth has been strong in Jacksonville. The current population in the Jacksonville Metropolitan area is estimated to be 1,449,481 in 2015 (Census). **Compared to 2010 that is a 7.7% growth in population.** Since 2000, the city has had a population growth of 20.35%. Net migration in 2014 was around 4,560 people. The median age is 37.4 years old. The demographics is made up of about 60 percent White alone, 30 percent Black or African American, 7 percent Hispanic or Latino and a small percentages of other races (US Government Census Data). **The growth comes about through company expansions, natural growth, and low cost of living.**

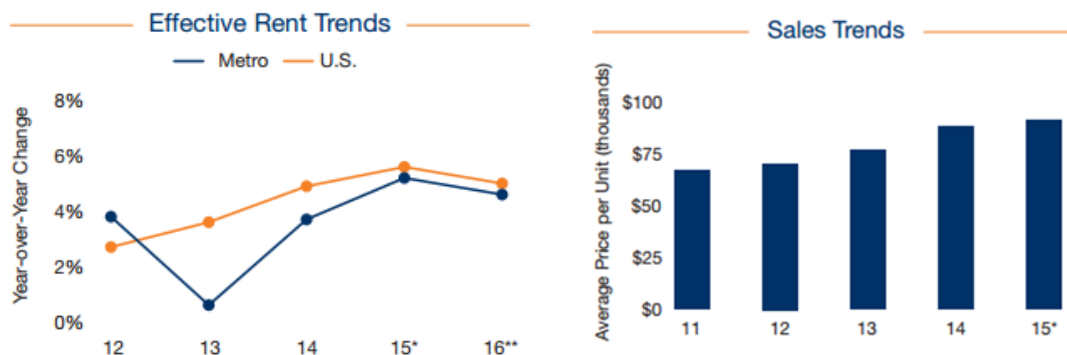
LOCAL MULTIFAMILY TRENDS

VACANCY

The vacancy rate at the middle of 2016 stood around 4.5% according to Berkadia. Vacancies have **fallen 6%** in the last 5 years, and 1.4% in 2015. Marcus and Millichap are expecting continuing vacancy decreases. Demand is greatest in the Urban Core and in the cross section of the Baymeadows, South, and Southeast markets-- those markets that are in immediate proximity of major job centers. Absorption has outpaced new additions each year for the past five years allowing vacancies to lower. **Vacancies are expected to hit around 4.6% by the end of 2016 as strong hirings continue.**

LOCAL RENTAL ECONOMICS

Rental rates have been exhibiting strong growth in the Jacksonville multifamily market. **In 2016, the effective rental growth rate is expected to outpace inflation at 4.6 percent to \$917 per month.** This also posts higher than the U.S. year over year change of 3.4%. As companies fill new positions and bring residents to the market, apartment vacancy will lower for the 5th consecutive year. Rent growth is widely expected to grow past the previous five-year average. Demand for apartment renting is expected to continue growing past absorption rates, leading to higher asking rents and lower vacancy rates.



CAP RATES

CBRE categorizes Jacksonville as a Tier III market for multifamily. **Class B stabilized cap rates go at 5.75-6.75, while value add goes for 6.25-7.00. Class C stabilized cap rates are at a 6.75-7.75, while value add are floating around 7.50-8.00.** Jacksonville's cap rates are favorable compared to other metropolitan areas, especially tier I assets, that have cap rates between 3.75% - 5.00% for stabilized class B assets and 5.00% to 6.00% for class B value add assets. **This is due to the fact that many of the tier I are overheated and overbought, thus going to tier II and III markets fulfills our mission of chasing higher yields.**

MULTIFAMILY SUBURBAN | UNITED STATES KEY RATES

	CLASS A				CLASS B				CLASS C				
	CAP RATES FOR STABILIZED PROPERTIES (%)		EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)		CAP RATES FOR STABILIZED PROPERTIES (%)		EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)		CAP RATES FOR STABILIZED PROPERTIES (%)		EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)		
		CHANGE ¹		CHANGE ¹		CHANGE ¹		CHANGE ¹		CHANGE ¹		CHANGE ¹	
TIER I	ATLANTA	5.00 - 5.50	↔	6.25 - 6.75	▲	5.75 - 6.25	▲	6.50 - 7.00	↔	6.50 - 7.00	▲	7.25 - 7.75	↔
	BOSTON	4.50 - 5.00	↔	5.75 - 6.25	↔	5.00 - 5.50	↔	6.50 - 7.00	↔	6.25 - 6.75	↔	7.00 - 7.50	↔
	CHICAGO	4.75 - 5.00	▼	5.25 - 5.50	↔	5.50 - 5.75	↔	5.50 - 5.75	↔	6.50 - 7.00	↔	6.25 - 6.50	↔
	DALLAS/FORT WORTH	4.75 - 5.75	▲	4.50 - 5.50	↔	5.50 - 6.50	▲	5.25 - 6.25	▲	6.75 - 7.50	↔	8.00 - 9.00	↔
	HOUSTON	5.25 - 5.75	↔	5.25 - 5.75	↔	6.00 - 6.50	▲	5.75 - 6.25	▼	7.25 - 7.75	▲	7.00 - 7.50	▼
	N. CA - OAKLAND	4.50 - 5.00	—	4.50 - 5.00	—	4.75 - 5.25	—	4.75 - 5.25	—	5.00 - 5.50	—	5.00 - 5.50	—
	N. CA - SAN FRANCISCO	3.75 - 4.25	↔	4.00 - 4.50	↔	4.25 - 4.75	↔	4.25 - 4.75	↔	4.75 - 5.25	↔	4.50 - 5.00	↔
	N. CA - SAN JOSE	4.00 - 4.50	↔	4.00 - 4.75	↔	4.25 - 4.75	↔	4.25 - 5.00	↔	4.50 - 5.00	↔	4.50 - 5.25	↔
	NY: N. NEW JERSEY	4.75 - 5.25	↔	5.75 - 6.25	↔	5.50 - 6.00	↔	6.50 - 7.00	↔	—	—	—	—
	NY: STAMFORD	5.50 - 6.00	↔	6.25 - 6.75	↔	6.25 - 6.75	▼	6.75 - 7.25	▼	—	—	—	—
	S. CA - INLAND EMPIRE	4.75 - 5.25	↔	5.00 - 5.50	↔	5.00 - 5.50	↔	5.50 - 6.00	↔	6.00 - 6.50	↔	6.50 - 7.00	↔
	S. CA - LOS ANGELES	3.75 - 4.25	▼	4.25 - 4.75	▼	4.25 - 5.25	▼	4.75 - 5.75	▼	5.50 - 6.50	—	5.75 - 6.75	—
	S. CA - ORANGE COUNTY	4.00 - 4.50	▲	4.75 - 5.25	—	4.25 - 5.00	↔	5.25 - 5.75	—	5.25 - 5.75	↔	6.25 - 6.75	—
	S. FL: FORT LAUDERDALE	4.25 - 5.00	—	5.00 - 5.50	—	4.75 - 5.00	—	5.00 - 5.50	—	6.25 - 7.00	—	6.75 - 7.50	—
	S. FL: MIAMI	4.25 - 4.75	▼	5.00 - 5.50	▼	4.50 - 5.00	▼	5.00 - 5.50	▼	6.00 - 6.75	▼	6.75 - 7.50	▼
	S. FL: WEST PALM BEACH	4.25 - 4.75	—	5.00 - 5.50	—	4.50 - 5.00	—	5.00 - 5.50	—	6.00 - 6.75	—	6.75 - 7.50	—
	SEATTLE	4.50 - 5.00	↔	4.75 - 5.00	↔	5.00 - 5.50	↔	5.25 - 5.75	↔	5.75 - 6.25	▼	6.00 - 6.50	↔
WASHINGTON, D.C.	4.50 - 5.25	↔	4.75 - 5.50	↔	5.25 - 5.75	↔	5.75 - 6.50	↔	6.00 - 6.75	↔	6.75 - 7.75	↔	

	CLASS A				CLASS B				CLASS C				
	CAP RATES FOR STABILIZED PROPERTIES (%)		EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)		CAP RATES FOR STABILIZED PROPERTIES (%)		EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)		CAP RATES FOR STABILIZED PROPERTIES (%)		EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)		
		CHANGE ¹		CHANGE ¹		CHANGE ¹		CHANGE ¹		CHANGE ¹		CHANGE ¹	
TIER II	AUSTIN	4.75 - 5.50	▲	4.75 - 5.25	▲	5.00 - 6.00	▲	5.00 - 5.75	▲	5.50 - 6.50	▲	5.25 - 6.00	↔
	BALTIMORE	5.00 - 5.50	↔	5.25 - 5.75	↔	5.25 - 5.80	↔	6.75 - 7.25	↔	6.25 - 7.00	↔	8.00 - 8.00	↔
	DENVER	5.00 - 5.50	↔	6.00 - 7.00	↔	5.50 - 6.00	↔	6.75 - 7.50	↔	5.75 - 6.25	↔	7.50 - 9.00	↔
	ORLANDO	4.75 - 5.25	↔	—	—	5.50 - 6.00	↔	6.25 - 6.75	▲	6.50 - 7.00	↔	7.50 - 8.00	↔
	PHILADELPHIA	4.50 - 5.00	▼	6.25 - 6.75	▼	5.50 - 6.00	▼	6.75 - 7.25	▼	6.00 - 6.75	▼	7.25 - 7.75	▼
	PHOENIX	5.00 - 5.25	↔	6.25 - 6.50	↔	5.00 - 5.50	▼	6.25 - 6.75	▼	5.75 - 6.25	▼	7.00 - 7.50	▼
	SAN DIEGO	4.00 - 4.50	▼	4.25 - 4.75	↔	4.75 - 5.25	↔	5.00 - 5.50	↔	5.25 - 5.75	↔	5.50 - 6.00	↔
	TAMPA	4.75 - 5.25	↔	5.25 - 5.75	↔	5.50 - 6.00	↔	6.00 - 6.50	↔	6.50 - 7.00	↔	7.00 - 7.50	↔

MULTIFAMILY SUBURBAN | UNITED STATES KEY RATES CONT.

	CLASS A				CLASS B				CLASS C				
	CAP RATES FOR STABILIZED PROPERTIES (%)		EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)		CAP RATES FOR STABILIZED PROPERTIES (%)		EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)		CAP RATES FOR STABILIZED PROPERTIES (%)		EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)		
		CHANGE ¹		CHANGE ¹		CHANGE ¹		CHANGE ¹		CHANGE ¹		CHANGE ¹	
TIER III	ALBUQUERQUE	5.50 - 6.00	▼	6.50 - 7.00	↔	5.75 - 6.50	↔	7.00 - 7.50	↔	6.75 - 7.50	↔	8.00 - 9.00	↔
	CHARLOTTE	5.00 - 5.25	↔	5.00 - 5.25	↔	5.25 - 5.75	↔	5.25 - 5.75	↔	6.00 - 6.50	↔	6.00 - 6.50	↔
	CINCINNATI	5.00 - 6.00	▼	7.00 - 8.00	↔	6.25 - 6.75	▲	8.00 - 9.00	▲	8.00 - 9.50	▲	9.00 - 10.00	▲
	CLEVELAND	6.50 - 7.50	↔	7.50 - 8.50	↔	6.75 - 7.75	↔	—	—	8.50 - 10.00	▲	9.00 - 11.00	↔
	COLUMBUS	5.50 - 6.50	↔	6.25 - 6.75	↔	6.50 - 7.50	↔	7.25 - 7.75	↔	7.75 - 9.00	↔	8.75 - 9.25	↔
	DETROIT	6.25 - 7.00	↔	6.75 - 8.00	↔	6.75 - 7.50	▼	7.00 - 8.00	▼	7.75 - 9.00	▼	8.75 - 10.00	▼
	HONOLULU	—	—	—	—	—	—	—	—	—	—	—	—
	INDIANAPOLIS	5.25 - 5.75	↔	6.00 - 6.75	▼	5.75 - 6.25	↔	6.50 - 7.25	▼	7.00 - 8.25	↔	8.00 - 10.00	↔
	JACKSONVILLE	4.25 - 5.25	▼	5.25 - 6.00	↔	5.75 - 6.75	↔	6.25 - 7.00	↔	6.75 - 7.75	↔	7.50 - 8.00	↔
	KANSAS CITY	5.25 - 5.50	↔	5.75 - 6.00	↔	5.25 - 5.50	↔	5.75 - 6.00	▼	6.00 - 6.50	▼	6.75 - 7.25	▼
	LAS VEGAS	5.00 - 5.25	↔	5.25 - 5.50	↔	5.25 - 5.75	↔	5.50 - 6.00	↔	6.25 - 7.00	↔	6.50 - 6.50	▼
	MINNEAPOLIS	5.00 - 5.25	↔	5.50 - 5.75	↔	5.25 - 5.75	↔	6.00 - 6.50	↔	6.25 - 6.75	▲	6.50 - 7.00	↔
	NASHVILLE	4.75 - 5.50	↔	5.75 - 6.25	↔	5.50 - 6.00	↔	6.00 - 6.50	↔	6.00 - 6.50	↔	6.75 - 7.25	↔
	OKLAHOMA CITY	5.50 - 6.00	↔	7.50 - 8.00	▼	5.50 - 6.00	▼	8.00 - 8.50	▼	7.50 - 8.50	▲	8.50 - 9.50	▲
	PITTSBURGH	6.00 - 6.50	↔	6.50 - 7.00	↔	6.50 - 7.00	↔	7.00 - 7.50	↔	7.50 - 8.00	↔	8.50 - 9.00	↔
	PORTLAND	4.75 - 5.25	↔	4.50 - 5.00	↔	5.00 - 5.50	▼	4.75 - 5.25	▼	5.25 - 5.75	▼	5.00 - 5.50	▼
	RALEIGH-DURHAM	4.75 - 5.25	↔	4.95 - 5.45	↔	5.25 - 5.50	↔	5.50 - 5.75	↔	6.50 - 7.00	↔	6.75 - 8.00	↔
	RICHMOND	5.75 - 6.25	↔	6.25 - 7.00	↔	6.00 - 7.50	↔	6.75 - 8.00	↔	7.25 - 8.50	↔	8.00 - 10.00	↔
	SACRAMENTO	4.25 - 5.00	▼	5.00 - 5.50	▲	5.00 - 5.75	↔	5.50 - 6.00	↔	5.75 - 6.25	↔	6.25 - 7.00	↔
	SALT LAKE CITY	5.00 - 5.50	↔	5.50 - 5.75	↔	5.25 - 5.75	↔	5.75 - 6.25	↔	6.00 - 6.50	↔	6.00 - 6.50	↔
SAN ANTONIO	5.00 - 5.75	↔	4.75 - 5.50	▼	5.25 - 6.00	↔	5.25 - 6.00	▼	5.75 - 6.50	↔	5.75 - 6.50	▼	
SAINT LOUIS	5.50 - 5.75	↔	—	—	6.00 - 6.75	↔	—	—	7.25 - 8.25	↔	—	—	

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