

ORLANDO | MULTIFAMILY OUTLOOK

OVERVIEW

Orlando is a strong growth oriented metropolitan in the central region of Florida. It has consistently posted strong job gains, almost all sectors of its economy is expanding, and demand for housing has been strong. As the population booms due to job growth, demand for housing is expected to increase.



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.

ORLANDO ECONOMY

Orlando is famous for its tourism industry with heavy weights such as Disneyworld, Universal Studios, and much more. **Yet Orlando's economy has much more rich and diverse economic story than that.** Years after the recession, Orlando has recovered tremendously with fantastic job growth in business and financial services, healthcare, construction, leisure and hospitality, and technology. **GDP growth in the region has had a 4.5% compounded growth rate since 2001 and has had an overall growth of 77% in the same time period.**

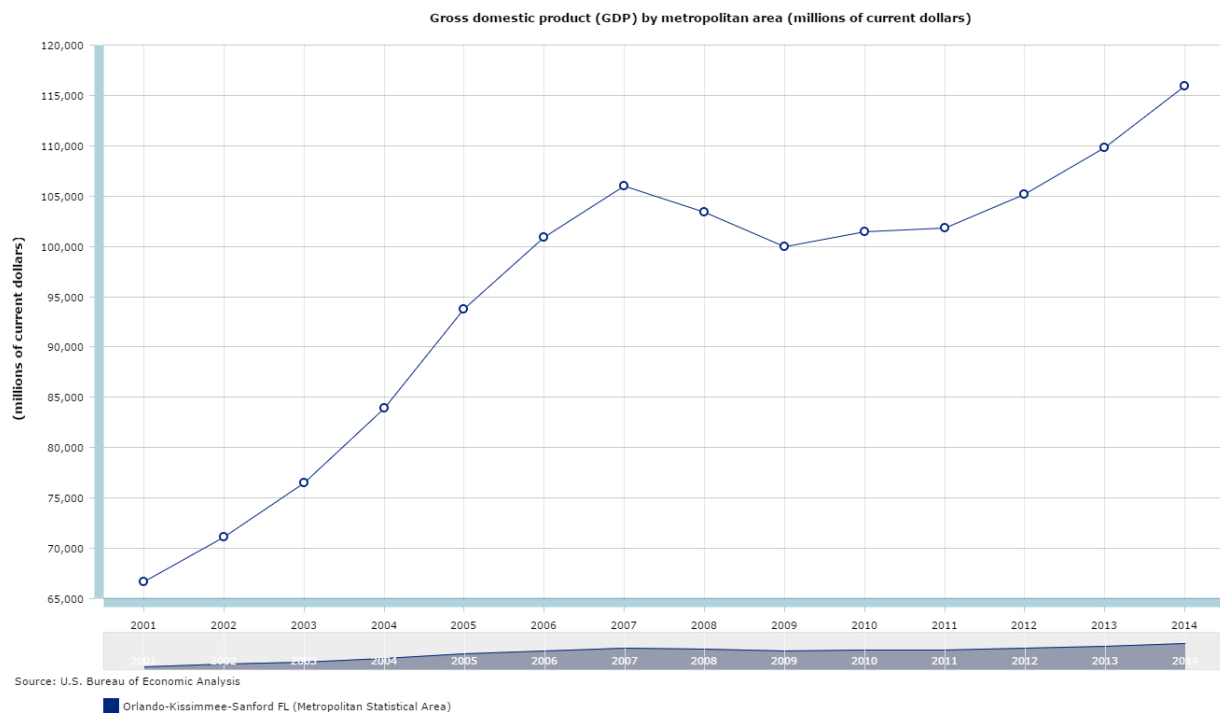


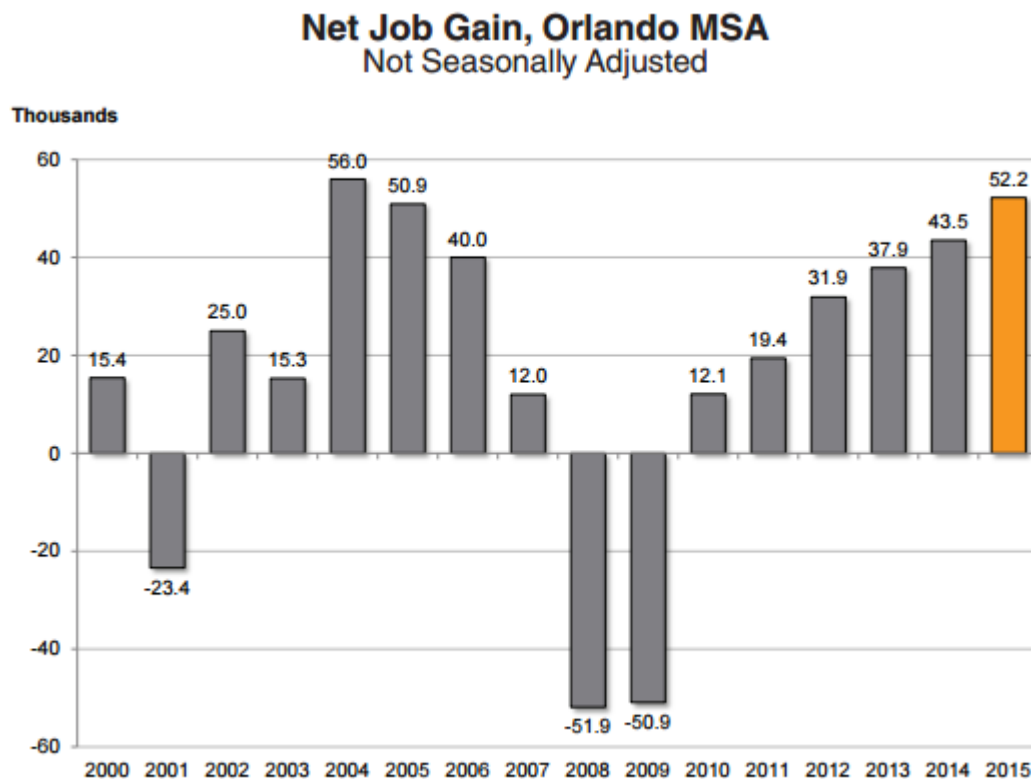
Figure Above: GDP for Orlando Metropolitan (Millions of Current Dollars)

EMPLOYMENT

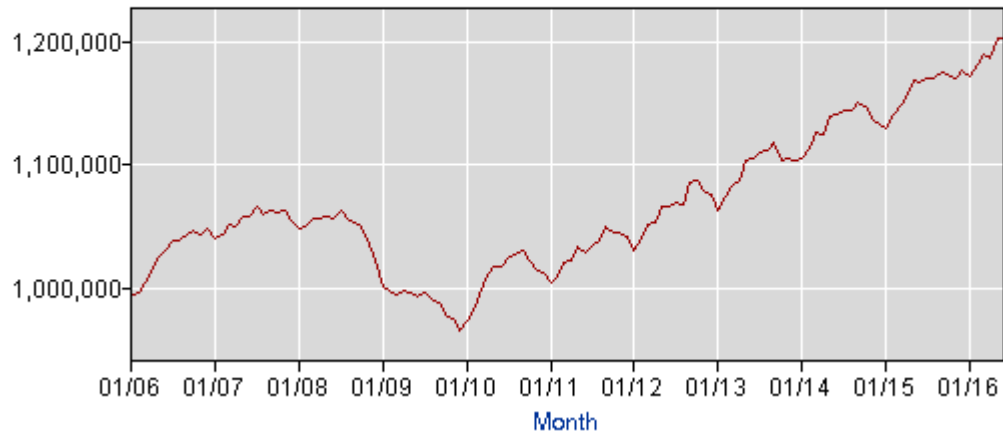
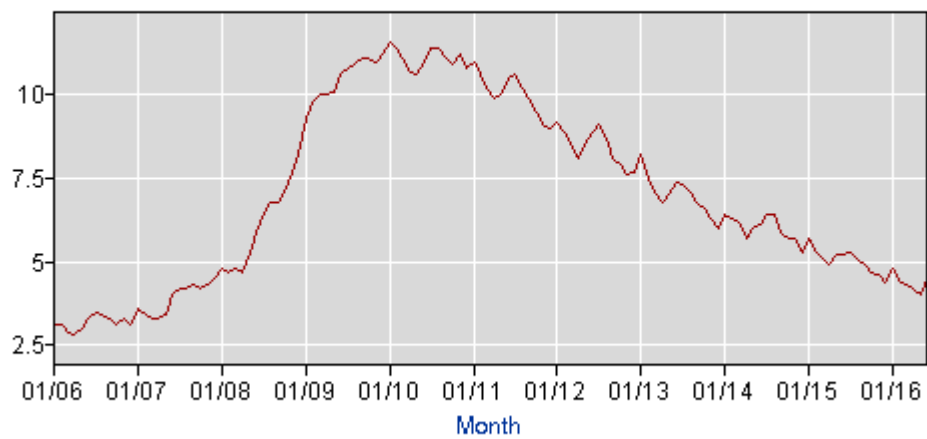
Orlando's economy has recovered from the recession much faster than other local economies in Florida. The city's economy has been **thriving due to substantial investments** in the expansion of Orlando's tourism industry. **Significant expansion projects in the area's major theme parks** should ensure strong tourism growth for the next couple of years. In addition, **the University of Central Florida** is also emerging as a potential economic driver. **High wage employment growth has been robust** with gains in technology, life sciences, and business services.

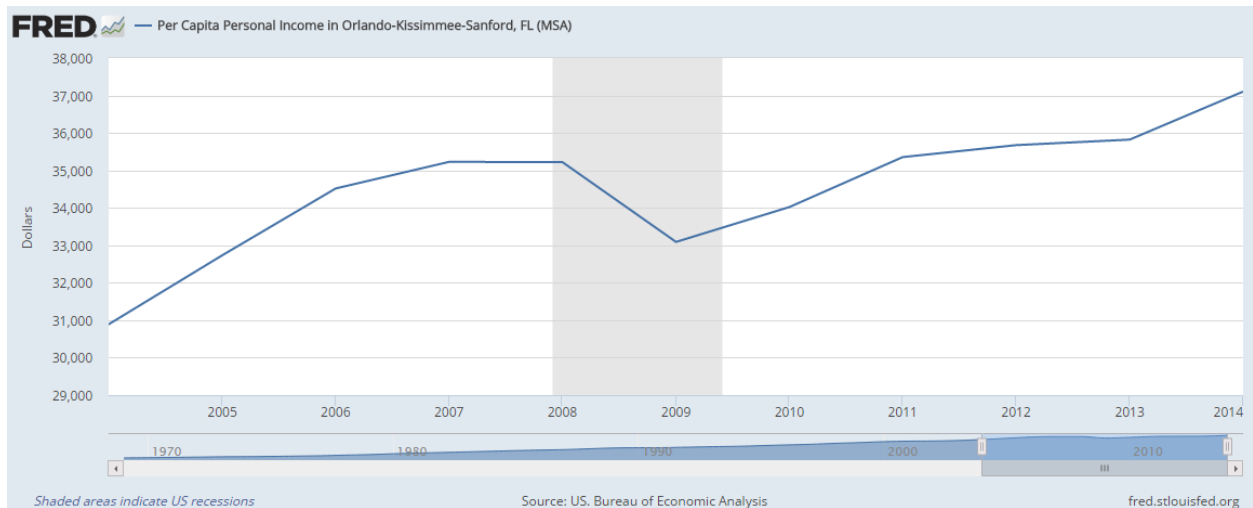
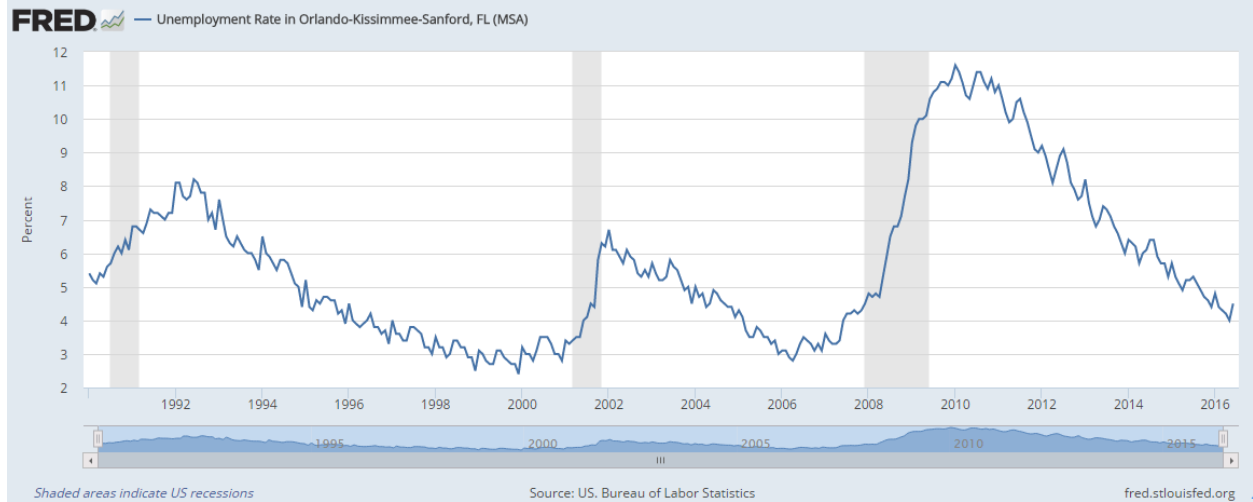
Employers in the Orlando metro area are expected to **add more than 36,000 jobs in 2016 – growth of 3.1 percent, compared to 1.9 percent nationally**. During the first quarter of 2016, about 11,500 new jobs were created, a strong growth that if sustained could easily push the expected increase to above 36,000 new jobs.

The unemployment rate in Orlando has been steadily declining in recent years. Since its peak in 2010, the city's unemployment rate has dropped more than 7 percent. **The current unemployment rate in Orlando is 4.5% which is below Florida's state average of 4.7% and the US average of 4.9% (July 2016).**

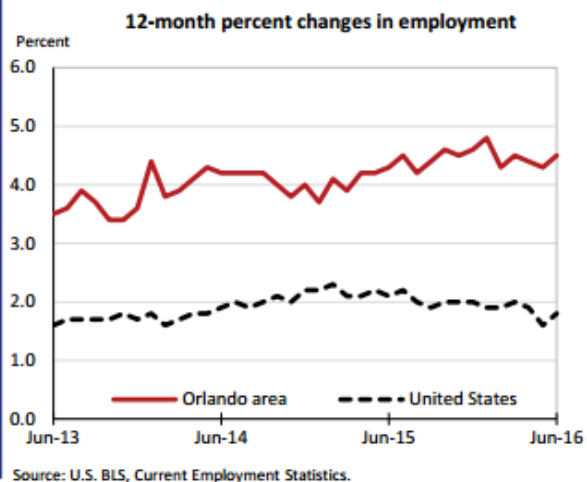
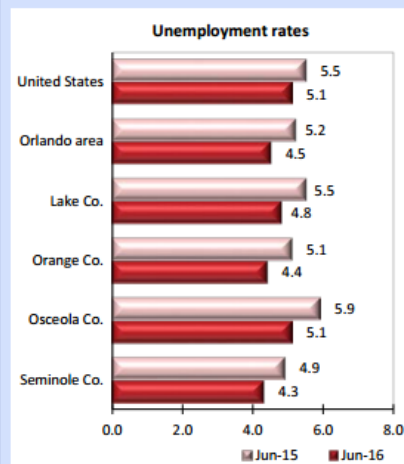


Source: U.S. Department of Labor, Bureau of Labor Statistics

employment**unemployment rate**



Unemployment rates for the Orlando area, selected area counties, and the nation



MAJOR EMPLOYERS & INDUSTRIES

Major industries in Orlando include **Aviation and Aerospace**, life science fields such as **biotechnology**, **pharmaceuticals**, and **medical devices**, **finance and professional services**, **tourism**, and finally **technology**. The region boasts many high paying jobs and tremendous job growth. **Technology was the fastest growing industry** in the metropolitan area posting 13% growth since the decade before, higher than the US average. Tourism is what Orlando is most famous for, welcoming **57 million visitors** in 2014.

Company	City	County	Industry	Employment
Walt Disney World Resort	Lake Buena Vista	Orange	Leisure & Hospitality	69,000
Florida Hospital (Adventist Health)	Various	Various	Health Care	25,712
Universal Orlando (Comcast)	Orlando	Orange	Leisure & Hospitality	17,300
Orlando Health	Orlando	Orange	Health Care	14,201
Darden Restaurants Inc.	Orlando	Orange	Restaurants	7,600
Lockheed Martin Corporation	Orlando	Orange	Aerospace/Defense	7,400
SeaWorld Parks & Entertainment	Orlando	Orange	Leisure & Hospitality	6,032
Marriott International, Inc.	Orlando	Orange	Leisure & Hospitality	5,635
Westgate Resorts	Orlando	Orange	Leisure & Hospitality	5,323
Siemens	Orlando	Orange	Aerospace/Defense	4,448
Rosen Hotels & Resorts	Orlando	Orange	Leisure & Hospitality	3,963
Wyndham Worldwide Corp.	Orlando	Orange	Leisure & Hospitality	3,509
CenturyLink	Apopka	Orange	Telecommunications	3,200
AT&T Corp.	Various	Various	Telecommunications	3,063
JP Morgan Chase	Orlando	Orange	Finance & Insurance	3,000
Bright House Networks	Various	Various	Diversified Communication Services	3,000
Southwest Airlines Co.	Orlando	Orange	Transportation	3,000
HCA Inc.	Winter Park	Orange	Health Care	2,950
Hyatt Corp.	Various	Various	Leisure & Hospitality	2,842
Mears Transportation Group	Orlando	Orange	Transportation	2,825
FedEx Corp.	Various	Various	Transportation & Business Services	2,821
CNA Insurance Companies	Maitland	Seminole	Finance & Insurance	2,756
Loews Corp.	Orlando	Orange	Leisure & Hospitality	2,756
SunTrust Banks, Inc.	Various	Various	Finance & Insurance	2,670
CuraScript	Lake Mary	Seminole	Health Care	2,500
Wells Fargo	Various	Various	Finance & Insurance	2,415
Starwood Hotels & Resorts Worldwide Inc.	Orlando	Orange	Leisure & Hospitality	2,375
Connexions, Inc.	Orlando	Orange	Finance & Insurance	2,331
Hilton Hotels Corp.	Orlando	Orange	Leisure & Hospitality	2,310
Full Sail University	Orlando	Orange	Education	2,260
Holiday Inn Club Vacations - Orange Lake	Kissimmee	Osceola	Leisure & Hospitality	2,250
Convergys Corp.	Lake Mary	Seminole	Business Services	2,136
United Parcel Service	Orlando	Orange	Transportation and Business Services	1,852
Aon Corp. (Hewitt Associates)	Orlando	Orange	Business Services	1,615
Leesburg Regional Medical Center	Leesburg	Lake	Health Care	1,506
Digital Risk, LLC	Maitland	Orange	Business Services	1,461
Bank of New York Mellon	Orlando	Orange	Finance & Insurance	1,450
JetBlue Airways Corp.	Orlando	Orange	Transportation	1,389
Duke Energy	Orlando	Orange	Utilities	1,249
OUC	Orlando	Orange	Utilities	1,096
Sprint	Various	Various	Telecommunications	1,095
Charles Schwab	Orlando	Orange	Finance & Insurance	940
Massey Services	Orlando	Orange	Business Services	854
Electronic Arts	Orlando	Orange	Digital Media	800
American Automobile Association (AAA)	Heathrow	Seminole	Business Services	689

*Excludes government and retail operations

Source: Direct Company Contact; Orlando Sentinel; Orlando Business Journal - updated December 16, 2013

Figure Above: List of Largest Companies by Employment

POPULATION TRENDS

Orlando has experienced great population growth and is **one of the fastest growing metropolitan areas in the country**. The current population in Orlando Metropolitan area is 2,330,100 in 2015 (Census). From 2014-2015 the city added more than 50,000 people. In 2015, Orlando had a population growth of 2.9% which was considerably better than the 0.8% national average. **Since 2000, the city has had a population growth of 41%**. Net migration in 2014 was around 11,430 people. **The median age is 32.9 years old**, which is quite young and more likely to rent. According to the United States Census Bureau, the demographics is made up of 61.1% White, 26.9% Black or African American, 2.7% Asian and a small percentage of other races.

LOCAL MULTIFAMILY TRENDS

VACANCY

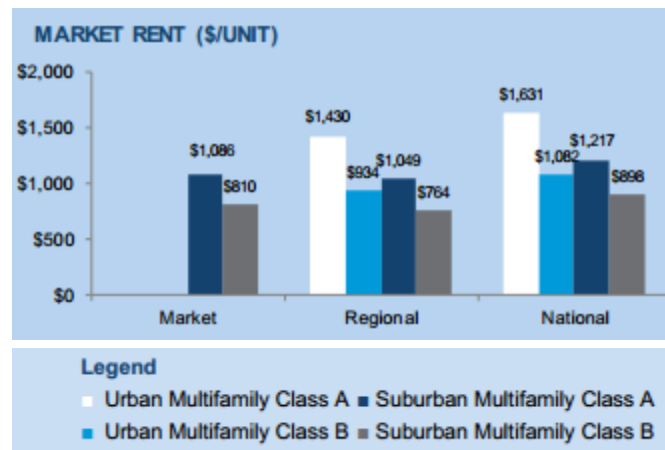
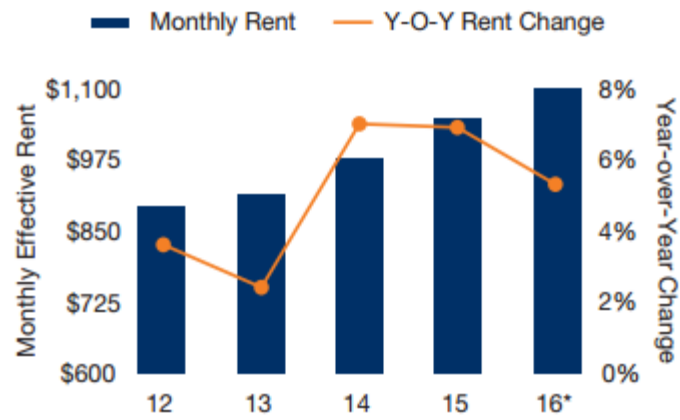
A surge in population growth and an expansion in employment has created **higher demand for housing the metropolitan area**. Multifamily has thus far not been held back by new development as **demand has outpaced new construction in the last few years**.

Vacancy remains tight throughout most submarkets, **dipping below 3 percent in some areas** during the last 12 months. The Kissimmee/Osceola County and University submarkets each posted a vacancy rate of 2.9 percent after declining 80 basis points and 40 basis points, respectively. The average vacancy rates currently stand around 3.8% (2nd quarter 2016).

LOCAL RENTAL ECONOMICS

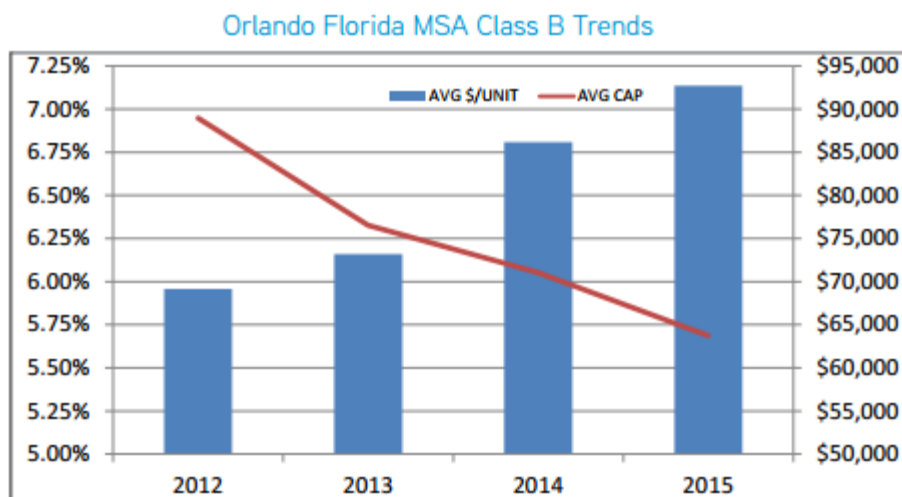
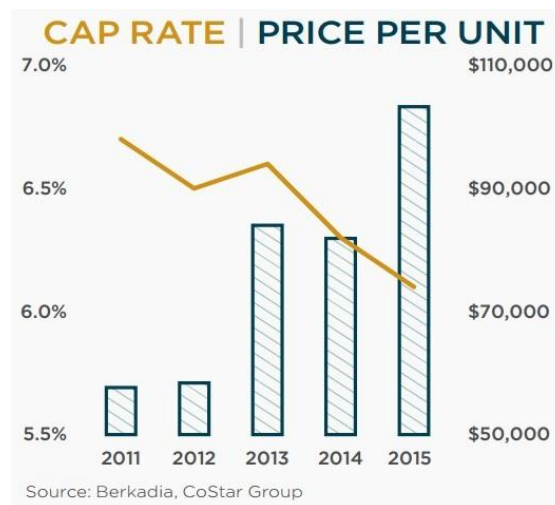
The metro's for-rent market saw a minimal supply of new units prior to 2013, paving the way for **steady tightening and solid performance in the apartment market through 2015**. The vacancy rate has been steadily falling and the rate of rent growth has been solidly positive since 2010. Fannie Mae believes that pent-up household formation is paving the way for much of the rent growth. Home prices have consistently increasing in Orlando, further incentivizing rental demand.

Rent Trends

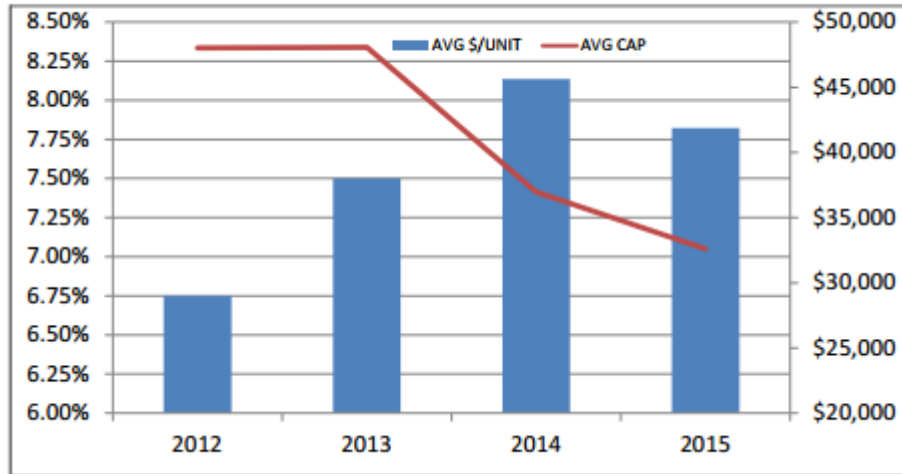


CAP RATES

Cap rates have been on the downward trend for a few years now with average cap rates per door in the high sixes in 2011 and further compressing to the low sixes in 2015. According to CBRE, Orlando is a Tier 2 multifamily market. Class A multifamily posts low cap rates at 4.75%-5.25%. Class B stabilized properties go for between 5.50%-6.00% while value add class B goes for 6.25%-6.75%. Class C Stabilized can have around 6.50%-7.00% cap rates while value add class C post attractive 7.50%-8.00% caps. The cap rates in the Orlando area are competitive compared to many overheated class A markets that can have caps in the 4.00%-5.00% range.



Orlando Florida MSA Class C Trends



MULTIFAMILY SUBURBAN | UNITED STATES KEY RATES

CLASS A											
		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 (%)	
			CHANGE!		CHANGE!		CHANGE!		CHANGE!		CHANGE!
TIER I	ATLANTA	5.00 - 5.50	↔	6.25 - 6.75	▲	5.75 - 6.25	▲	6.50 - 7.00	↔	6.50 - 7.00	▲
	BOSTON	4.50 - 5.00	↔	5.75 - 6.25	↔	5.00 - 5.50	↔	6.50 - 7.00	↔	6.25 - 6.75	↔
	CHICAGO	4.75 - 5.00	▼	5.25 - 5.50	↔	5.50 - 5.75	↔	5.50 - 5.75	↔	6.50 - 7.00	↔
	DALLAS/FORT WORTH	4.75 - 5.75	▲	4.50 - 5.50	↔	5.50 - 6.50	▲	5.25 - 6.25	▲	6.75 - 7.50	↔
	HOUSTON	5.25 - 5.75	↔	5.25 - 5.75	↔	6.00 - 6.50	▲	5.75 - 6.25	▼	7.25 - 7.75	▲
	N. CA: OAKLAND	4.50 - 5.00	—	4.50 - 5.00	—	4.75 - 5.25	—	4.75 - 5.25	—	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	↔
	N. CA: SAN JOSE	4.00 - 4.50	↔	4.00 - 4.75	↔	4.25 - 4.75	↔	4.25 - 5.00	↔	4.50 - 5.00	↔
	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	↔
	S. CA: LOS ANGELES	3.75 - 4.25	▼	4.25 - 4.75	▼	4.25 - 5.25	▼	4.75 - 5.75	▼	5.50 - 6.50	—
	S. CA: ORANGE COUNTY	4.00 - 4.50	▲	4.75 - 5.25	—	4.25 - 5.00	↔	5.25 - 5.75	—	5.25 - 5.75	—
	S. FL: FORT LAUDERDALE	4.25 - 5.00	—	5.00 - 5.50	—	4.75 - 5.00	—	5.00 - 5.50	—	6.25 - 7.00	—
	S. FL: MIAMI	4.25 - 4.75	▼	5.00 - 5.50	▼	4.50 - 5.00	▼	5.00 - 5.50	▼	6.00 - 6.75	▼
	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	—
	SEATTLE	4.50 - 5.00	↔	4.75 - 5.00	↔	5.00 - 5.50	↔	5.25 - 5.75	↔	5.75 - 6.25	▼
	WASHINGTON, D.C.	4.50 - 5.25	↔	4.75 - 5.50	↔	5.25 - 5.75	↔	5.75 - 6.50	↔	6.00 - 6.75	↔
CLASS B											
		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 (%)	
			CHANGE!		CHANGE!		CHANGE!		CHANGE!		CHANGE!
TIER II	AUSTIN	4.75 - 5.50	▲	4.75 - 5.25	▲	5.00 - 6.00	▲	5.00 - 5.75	▲	5.50 - 6.50	▲
	BALTIMORE	5.00 - 5.50	↔	5.25 - 5.75	↔	5.25 - 5.80	↔	6.75 - 7.25	↔	6.25 - 7.00	↔
	DENVER	5.00 - 5.50	↔	6.00 - 7.00	↔	5.50 - 6.00	↔	6.75 - 7.50	↔	5.75 - 6.25	↔
	ORLANDO	4.75 - 5.25	↔	—	—	5.50 - 6.00	↔	6.25 - 6.75	▲	6.50 - 7.00	↔
	PHILADELPHIA	4.50 - 5.00	▼	6.25 - 6.75	▼	5.50 - 6.00	▼	6.75 - 7.25	▼	6.00 - 6.75	▼
	PHOENIX	5.00 - 5.25	↔	6.25 - 6.50	↔	5.00 - 5.50	▼	6.25 - 6.75	▼	5.75 - 6.25	▼
	SAN DIEGO	4.00 - 4.50	▼	4.25 - 4.75	↔	4.75 - 5.25	↔	5.00 - 5.50	↔	5.25 - 5.75	↔
	TAMPA	4.75 - 5.25	↔	5.25 - 5.75	↔	5.50 - 6.00	↔	6.00 - 6.50	↔	6.50 - 7.00	↔

HIGHLIGHTS

2015 PERFORMANCE HIGHLIGHTS

EMPLOYMENT

32,500

▲ 2.9% YOY

UNEMPLOYMENT RATE

4.7%

▼ -70 BPS YOY

VACANCY

4.2%

▼ -40 BPS YOY

ASKING RENTS

\$1,088

▲ 6.4% YOY

CONCESSIONS

0.3%

▼ -50 BPS YOY

CONSTRUCTION

6,160 Units

▲ 23.7% YOY

MARKET FACTS

POPULATION

2,422,900

YE 2015 ▲ 2.9% YOY

HOUSEHOLDS

943,100

YE 2015 ▲ 4.1% YOY

MEDIAN
HOUSEHOLD
INCOME**\$49,400**

YE 2015 ▲ 2.5% YOY

RENT
SHARE OF
WALLET**26.4%**

YE 2015 ▲ 100 BPS YOY

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