MARCH 2024

Multifamily Investors Expected to Stay Focused on South Florida Despite Climate Challenges

Miami is a cosmopolitan city, with long-held connections to Latin America, both culturally and business-wise. Among the metro's key drivers are an extensive international trade and tourism economy, a wide variety of global investments, all while offering world-class amenities. With year-round warm weather, the area has attracted many new residents, including a number of high-income households, in the years since the beginning of the pandemic. Despite climate-related challenges, as well as other external factors, including elevated interest rates, higher construction costs, and sky-rocketing property insurance premiums, both residents and real estate investors have a positive longer-term outlook on the southeastern region of the Sunshine State, especially for the multifamily sector.

Positive Current and Future Demand Drivers

As seen in the table below, the Miami metro's economy is expected to remain stable over the longer-term. Moody's is expecting that the local economy will continue to add jobs, with above average job growth expected in 2024, and then staying closer to the national average, in the range of 1.0% annually over the remainder of the forecast.

Miami's economy is diverse, and while about 11% of total jobs are focused on tourism, it is only the third-largest employment sector: professional and business services is the largest sector at 16.6% of all jobs, closely followed by the education and health sector at 16.4%. Additionally, thanks to its well-established logistics infrastructure, which includes the Florida East Coast Railroad, the Port of Miami, Miami International Airport, as well as four major interstate highways, the transportation sector represents more than 7.0% of all jobs, with the wholesale trade sector not far behind at 6.0%. And despite its elevated construction pipeline, construction jobs currently represent only 3.9% of employment. Although the metro's unemployment rate is projected to rise to just 3.4% in 2025, it would still be below where it was in 2017 when it was at 4.8% and at 3.7% in 2018. Net migration is expected to slow but remain positive, reversing previous negative trends that had been occurring pre-pandemic. In addition, median household income levels are expected to keep rising, with personal income growth slowing to above 4.0% over the long-term forecast, compared to an expected 5.1% increase this year.

Miami Metro Area Key Economic Indicators – Historical and Forecast

2017	2018	2019	2020	2021	2022	INDICATORS	2023	2024	2025	2026	2027	2028
147.9	152.7	155.9	151.5	165.0	172.8	Gross metro product (C17$ bil)	179.5	184.4	189.2	195.3	201.5	207.8
3.8	3.3	2.1	-2.8	8.9	4.7	% change	3.9	2.7	2.6	3.2	3.2	3.1
1,173.6	1,197.8	1,221.1	1,136.3	1,180.6	1,254.1	Total employment (ths)	1,301.1	1,319.6	1,332.6	1,345.5	1,356.8	1,368.4
1.5	2.1	1.9	-7.0	3.9	6.2	% change	3.7	1.4	1.0	1.0	0.8	0.8
4.8	3.7	2.9	8.4	5.6	2.6	Unemployment rate (%)	1.9	2.9	3.4	3.4	3.3	3.2
10.9	9.2	4.2	2.9	14.2	7.1	Personal income growth (%)	8.4	5.1	4.4	4.6	4.5	4.5
50.0	52.8	55.7	57.7	61.7	67.3	Median household income ($ ths)	71.3	73.8	76.2	78.9	81.7	84.5
2,712	2,710	2,712	2,695	2,669	2,702	Population (ths)	2,727	2,746	2,763	2,781	2,800	2,820
0.4	-0.1	0.1	-0.6	-1.0	1.3	% change	0.9	0.7	0.6	0.6	0.7	0.7
-1.7	-12.7	-8.0	-22.3	-26.7	32.1	Net migration (ths)	20.5	14.8	13.7	14.3	15.7	17.4
2,285	2,449	2,343	2,133	2,477	2,445	Single-family permits (#)	1,828	3,179	3,895	4,376	4,427	4,278
8,269.0	9,254.0	7,665.0	7,698.0	10,916.0	9,160.0	Multifamily permits (#)	12,746.9	8,611.9	8,440.7	8,458.5	8,247.4	7,964.6
7.6	7.0	5.1	5.7	15.1	24.4	FHFA house price index (% change)	10.1	-1.1	-2.3	-0.1	1.7	2.3

Source: Moody's

New and Wealthier Households Driving Housing Demand

Although the Miami metro continued to experience negative net migration in 2021, the trend reversed itself starting in 2022, and more importantly is expected to remain positive over the longer-term forecast, according to Moody's Analytics. What is interesting to note about the 2021 migration flow data is where the new residents to the metro came from and where the exiting ones went, as seen below.

For example, many New York residents did move to the Miami metro area in 2021, totaling a little more than 9,300. But some Miami residents also left the metro and moved to New York, albeit at a much smaller number, at just about 2,500. There were far fewer migrants coming from outside of Florida than there were from within the Sunshine state, with the vast majority coming from Fort Lauderdale in Broward County and a number from even further up the coast in Palm Beach. As seen below, this inflow of new residents has consisted of wealthier households, especially during 2021. The influx of these households has in part pushed up housing prices quickly across the spectrum, for both homeowners and renters.

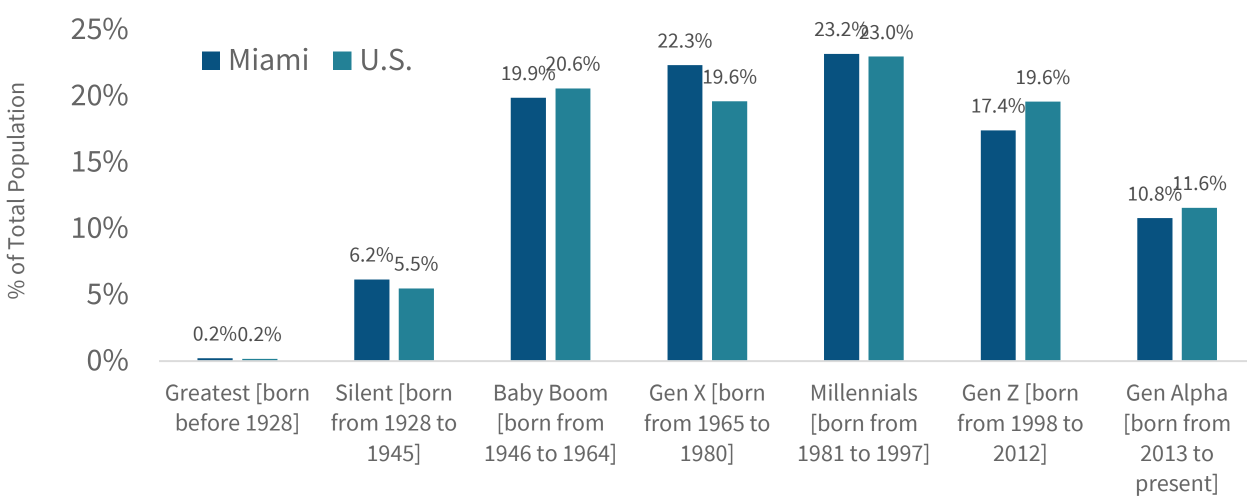
Florida Household Adjusted Gross Income – Select Metros – 2019-2021

Source: IRS Migration Data

Miami Rental Market Demographics Positive Long-Term

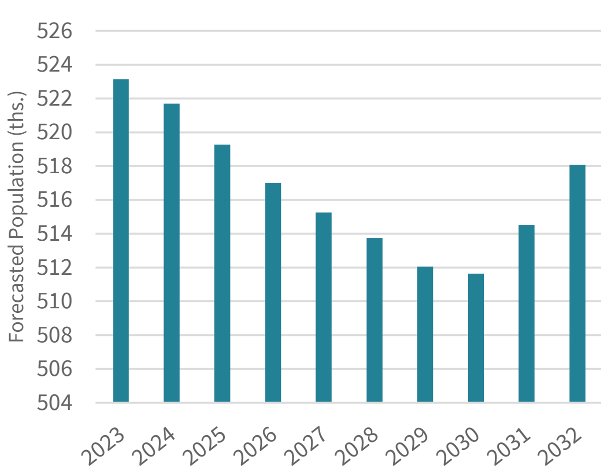
As seen in the charts below, the Miami metro has a sizeable younger-aged population, with 40% consisting of Generation Z and Millennials, providing a fairly reliable demand driver for multifamily rental units, since these are the two cohorts most likely to rent apartments. Even looking further out into the forecast, as seen in the tables at the bottom, although the 20-34-year-old cohort is expected to decline over the remainder of the decade, the group remains sizeable at more than 500,000 people. The 35-44-year-old cohort is expected to increase but will continue to consist of fewer people than the 20-34-year-old cohort. Nevertheless, these two age cohorts combined are large enough to help spur demand not only for multifamily, but single-family rental as well over the longer term.

National and Miami Population Share by Generational Cohort, 2022

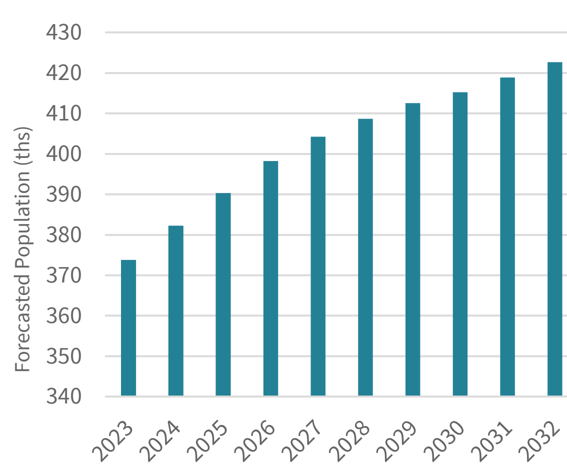


Source: U.S. Census Bureau, per Moody's Analytics

Miami Population Aged 20-34 Forecast



Miami Population Aged 35-44 Forecast

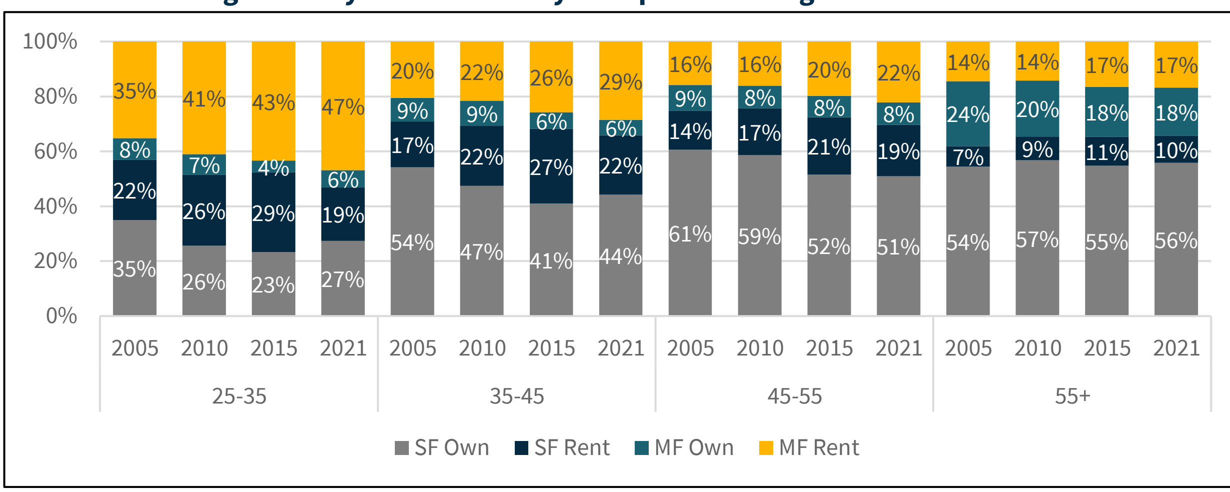


Source: Oxford Economics

Scarce Housing Inventory Also Spurs Demand for Rental

That's because, looking at the larger Miami core-based statistical area region, demand for both multifamily and single-family rental has been increasing for most age cohorts, with the 25-to-34-year-old cohort seeing a bigger increase in multifamily rental demand since 2005. And with mortgage rates staying below 5% since 2010, there was also an increase in single-family homeownership, not just for 25- to 34-year-olds, but also for 35- to 44-year-olds, as seen below. Nevertheless, homeownership shares remain below 2005 levels for both groups, as well as for those aged 45-55 years old. Indeed, the only age cohort to see an increase in single-family homeownership compared to 2005, albeit a small one, was the older 55+ age group in 2021. Interestingly, the share of condo owners in the region, noted below as multifamily owners, across all age cohorts is well above the national average of just 2%, reflecting the limited inventory of single-family housing coupled with an older demographic looking for an easier or seasonal lifestyle. Indeed, the population aged 60 and older in the Miami metro accounts for more than a fifth of the population.

Miami Metro Single-Family and Multifamily Occupied Dwellings



Source: Fannie Mae ESR calculations of the American Community Survey 1-Year PUMS Estimates.

Note: Single-family includes housing units in structures with 1-4 units. Multifamily includes units located in 5+ unit structures. Excludes manufactured/mobile homes and other less common types of housing units (e.g., boat or RV).

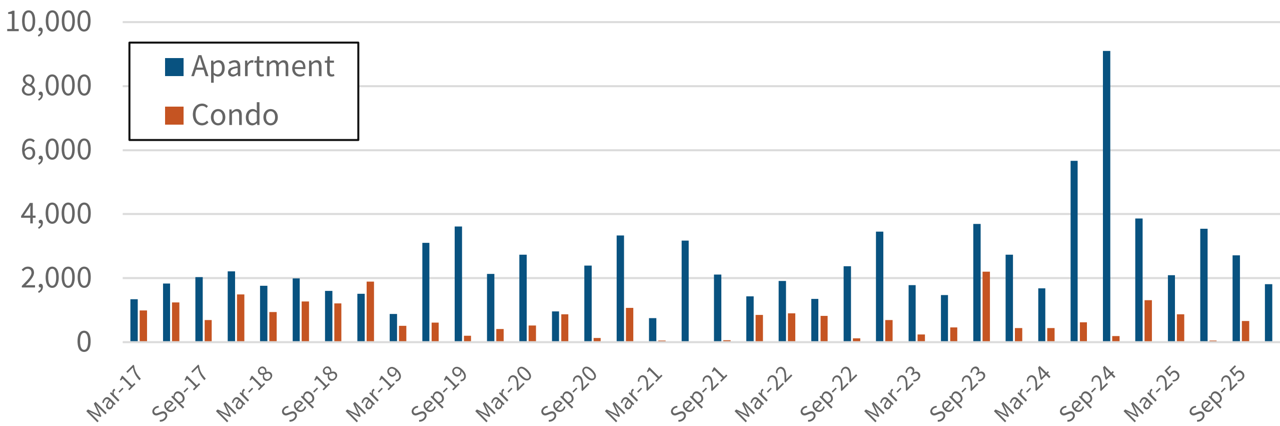
Miami a Bifurcated Housing Metro

Although the Miami metro added more than 52,000 multifamily rental units and 21,762 condo units between 2015 and 2021, it remains severely undersupplied in terms of housing, both owned and rental. Based on data from the 2021 American Community Survey, there was an estimated metro-wide shortage of more than 82,000 for-sale homes for households earning 60% or less of area median income as well as a shortage of more than 248,000 rental units. Even higher-earning households face a housing shortage. There is an estimated shortage of more than 50,000 for-sale homes for households earning between 80% and 120% of area median income and a shortage of more than 380,000 rental units. One of the primary reasons for the supply/demand imbalance is that although the local economy is diversified, it still relies on tourism and lifestyle as some of its key drivers. As a result, the metro tends to attract wealthy investors that are willing — and more importantly, able — to pay higher housing prices. This means that many locals, who typically earn far less than out-of-state visitors and recent transplants, as previously seen in the chart on page 2, are competing for housing with not only higher-income households, but in many cases also seasonal, part-time occupants. However, more supply is on the way.

Multifamily Development Remains Elevated in Miami…

According to the Dodge Construction Network – Real Estate Analyzer, there are an estimated 30,000 multifamily rental units currently underway in the Miami metro, as well as another 3,345 condominium units. As seen in the chart below, the number of multifamily units underway has been rising over the past several years, with peak deliveries expected in late 2024. In contrast, condo development has remained muted, with nearly no deliveries expected after early 2025. The majority of both multifamily and condo units are being constructed in larger-sized properties consisting of more than 50 units each.

Multifamily Construction Pipeline - Miami Metro



Multifamily Rental Construction Pipeline by Property Size - Miami Metro

	Pre-Planning	Planning	Final-Planning	Bidding	Underway		Completed		
					All	Jan 2024	2023	YTD	Jan 2024
1 - 4 units	0	27	0	0	4	0	0	0	0
5 - 9 units	0	168	0	5	5	5	23	0	0
10 - 19 units	0	433	0	21	56	13	127	0	0
20 - 49 units	86	2,203	137	21	257	0	199	21	21
50+ units	21,885	120,153	7,298	0	30,457	579	9,336	200	200
Unknown	0	0	0	0	0	0	0	0	0
Total	**21,971**	**122,984**	**7,435**	**47**	**30,779**	**597**	**9,685**	**221**	**221**

Condominium Construction Pipeline by Property Size - Miami Metro

	Pre-Planning	Planning	Final-Planning	Bidding	Underway		Completed		
					All	Jan 2024	2023	YTD	Jan 2024
1 - 4 units	0	24	0	0	0	0	0	0	0
5 - 9 units	6	106	9	0	9	0	29	0	0
10 - 19 units	10	191	11	0	0	0	68	0	0
20 - 49 units	67	479	0	0	250	0	109	0	0
50+ units	2,386	13,868	1,657	165	4,096	0	3,139	0	0
Unknown	0	0	0	0	0	0	0	0	0
Total	**2,469**	**14,668**	**1,677**	**165**	**4,355**	**0**	**3,345**	**0**	**0**

Source: Dodge Construction Network – Real Estate Analyzer

… and Much of It In Just a Few Submarkets

As seen below, the Downtown Miami/South Beach submarket is seeing the bulk of new multifamily construction that is underway at more than 9,700 units, as well as a tremendous number of units – more than 28,000 – in the planning stage alone. More than 9,000 units are currently underway, with an estimated 1,522 units delivered in 2023.

An estimated 1,120 condo units also came online in 2023 in the submarket, even though the overall Miami metro only has about 4,300 condo units underway. That's because most of those condo units are in just two submarkets: Homestead/South Dade County and Downtown Miami/South Beach, as seen in the table below.

Multifamily Rental Construction Pipeline by Submarket - Miami Metro – Number of Units

					Underway		Completed		
	Pre-Planning	Planning	Final-Planning	Bidding	All	Jan 2024	2023	YTD	Jan 2024
Coral Gables/South Miami	1,696	23,106	1,295	21	3,587	0	2,176	21	21
Downtown Miami/South Beach	13,127	28,695	3,583	5	9,750	0	1,522	0	0
Hialeah/Miami Lakes	72	4,587	537	0	1,451	58	1,875	0	0
Homestead/South Dade County	1,995	21,686	308	0	3,527	183	1,541	0	0
Miami Gardens	1,718	3,638	504	0	741	0	513	0	0
North Central Miami	2,072	11,673	524	21	3,489	198	902	200	200
Northeast Miami	1,291	15,904	306	0	4,187	158	925	0	0
West Miami/Doral	0	10,853	0	0	1,595	0	0	0	0
Westchester/Kendall	0	2,842	378	0	2,452	0	231	0	0
Total	**21,971**	**122,984**	**7,435**	**47**	**30,779**	**597**	**9,685**	**221**	**221**

Condo Construction Pipeline by Submarket - Miami Metro – Number of Units

					Underway		Completed		
	Pre-Planning	Planning	Final-Planning	Bidding	All	Jan 2024	2023	YTD	Jan 2024
Coral Gables/South Miami	50	1,180	0	0	186	0	24	0	0
Downtown Miami/South Beach	1,738	5,692	970	0	1,740	0	1,120	0	0
Hialeah/Miami Lakes	0	0	0	0	112	0	0	0	0
Homestead/South Dade County	79	5,185	11	0	1,458	0	1,563	0	0
Miami Gardens	10	175	0	0	0	0	11	0	0
North Central Miami	0	276	0	0	303	0	553	0	0
Northeast Miami	592	2,131	696	165	522	0	65	0	0
Westchester/Kendall	0	29	0	0	34	0	9	0	0
Total	**2,469**	**14,668**	**1,677**	**165**	**4,355**	**0**	**3,345**	**0**	**0**

Source: Dodge Construction Network – Real Estate Analyzer

New Multifamily Projects Spread Throughout the Miami Metro…

There are a number of multifamily projects underway all throughout the greater metro area, with only a limited number actually located on the shoreline, as shown in the map below. Indeed, in speaking with several multifamily property owners, most were focused further inland to avoid the higher land purchase and development costs associated with shoreline projects.

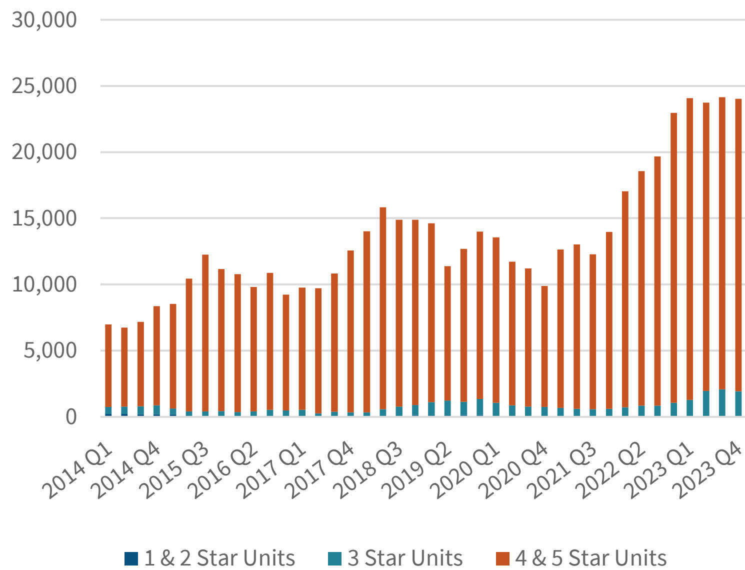
… but Many Are Higher-Cost Units

Nevertheless, most of the metro area's multifamily projects consist of higher-end market-rate units, classified as 4 & 5 Star in the chart to the right. More moderately priced units, classified in the chart as 3 Star, only account for 1,941 units of the estimated 24,000 units that were underway, as of fourth quarter 2023, according to data from CoStar, Inc.

That said, it doesn't mean that there aren't any new affordable units being built, they are just limited in number. According to the Dodge Construction Network – Real Estate Analyzer, at least 13 projects that were underway as of 2023 were expected to offer more than 2,300 subsidized affordable units in the Miami metro area.

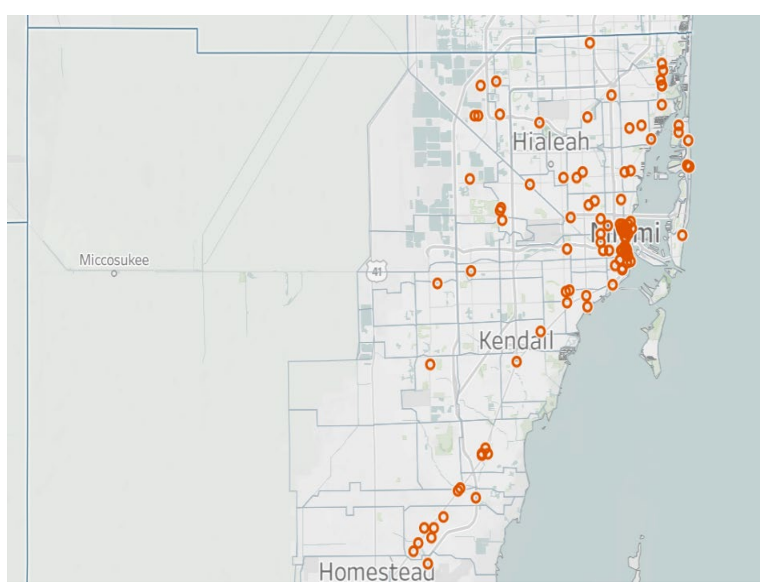
One such project is Related Urban Development Group's **Serenity Liberty Square**, 193-unit affordable rental property that is the fourth phase of its redevelopment project and is scheduled to complete in early 2025. According to *Multi-Housing News*, the financing consisted of two loans totaling $47.5 million, from Florida Housing Finance Corp. and Wells Fargo Bank, as well as financing from tax exempt bonds, LIHTC equity, and the Florida Housing State Apartment Incentive Loan program. There will be three buildings with units affordable to households earning between 30% and 80% of area median income. Additionally, 27 households that had lived there prior to the redevelopment will move back in.

Miami Multifamily Rental Construction Underway by Property Type Classification



Source: CoStar

Multifamily Construction Pipeline - Overall Miami Metro Area



Source: Dodge Construction Network – Real Estate Analyzer

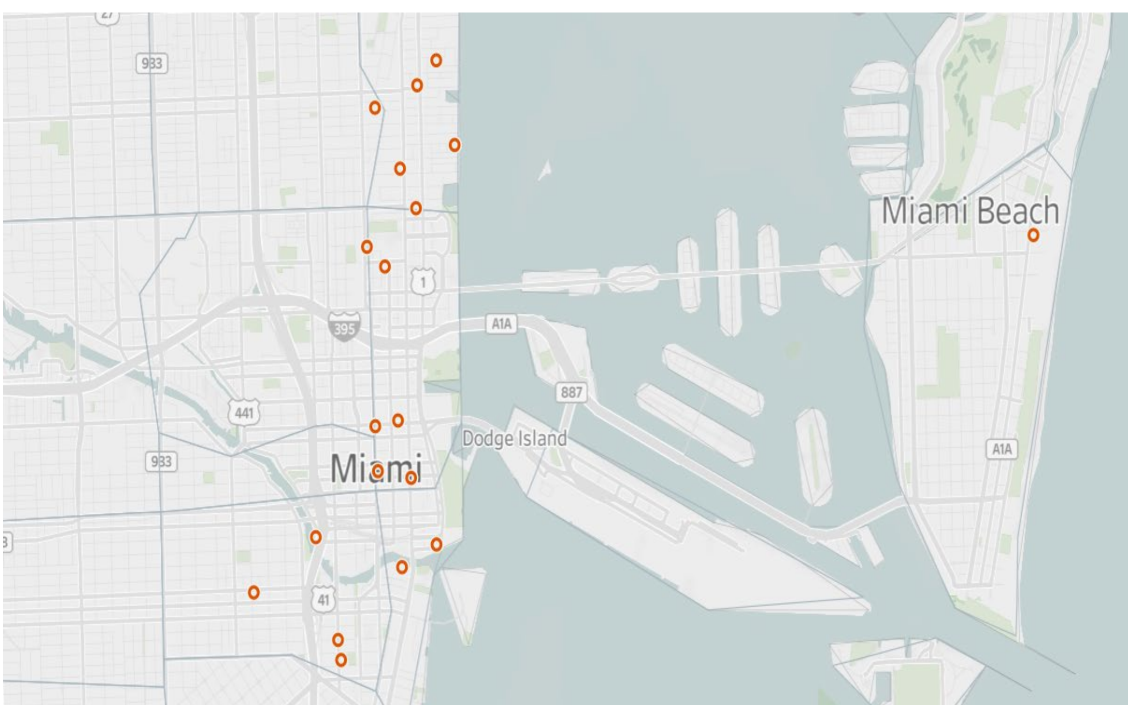
Downtown/South Beach Submarket Boasts the Largest Pipeline

With more than 9,000 multifamily units under construction in the Downtown Miami/South Beach submarket, it has the metro's largest number of new rental units underway, as seen in the map below, many of which are being marketed as being in luxury properties. One of these is the **Waterline Miami River Apartments**, with 342 apartments located on over 2.7 acres along the Miami River, which is becoming a popular neighborhood as development and population increase. Mast Capital financed the second phase of the project with a $70.5 million loan from Wells Fargo. It is located at 999 NW 7th Street and is expected to deliver this year, with construction costs totaling $55 million.

According to data from the Dodge Construction Network – Real Estate Analyzer, there are more than 1,700 condo units underway in this submarket, with a little more than 1,100 units having been completed and delivered in 2023. **The Raleigh-Richmond and South Seas Hotel** is one example of a high-end condo/hotel project, combining three adjacent hotels located at 1751, 1757, and 1775 Collins Ave in Miami Beach. SHVO and Deutsche Finance America acquired all three hotels for $243 million in 2019, and Rosewood Hotels & Resorts will manage the properties, which will include 111 condo units and 86 hotel rooms. Construction costs totaled $131 million for this property, and amenities will include a spa/fitness area, restaurant and bar, and pool deck. Completion is expected in June 2025.

The **Aria Reserve Residential**, located at 700 NE 24th Street and owned by the Melo Group, is another example of some of the larger condo projects underway. It will offer two 62-story towers totaling more than 700 luxury condos, along with more than 4,800 square feet of retail and 5,000 square feet of dining, as well as a nine-story parking garage. Construction costs are estimated at $700 million, and it is expected to deliver in March 2025.

Multifamily Rental Construction Pipeline Map – Downtown Miami/South Beach Submarket



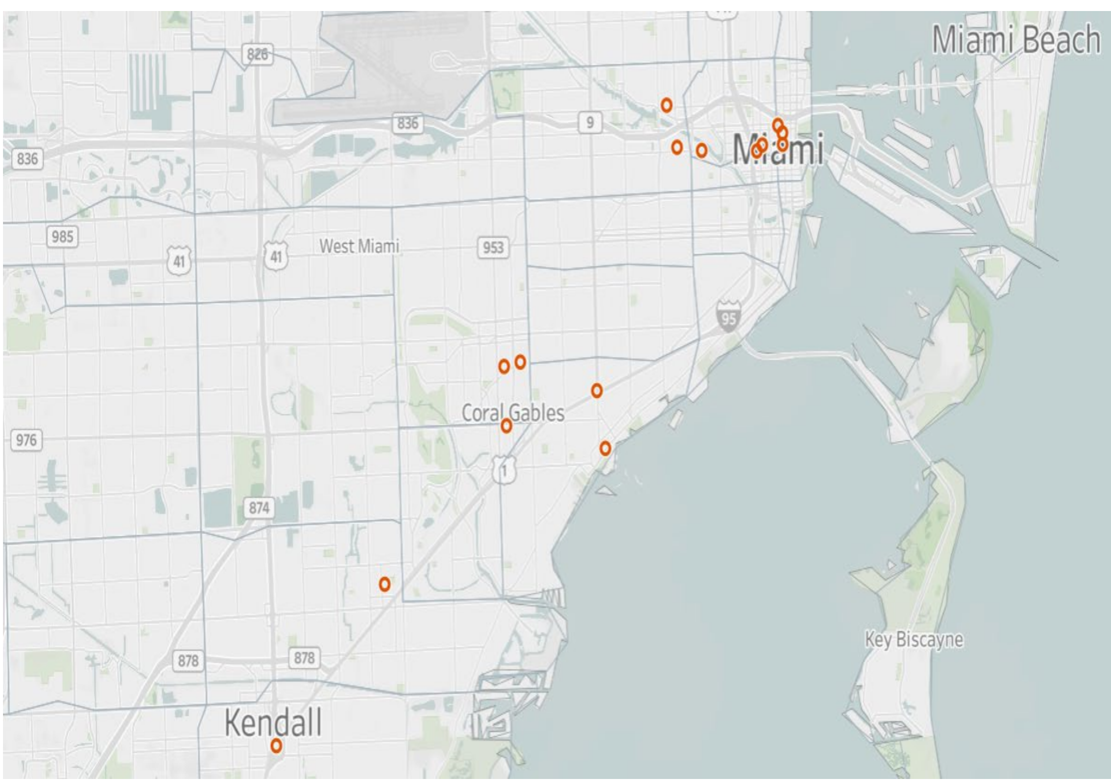
Source: Dodge Construction Network – real Estate Analyzer

Coral Gables Development More Inland But Still Expensive

Coral Gables/South Miami is one of the metro's busiest submarkets, with more than 3,500 multifamily rental units underway. One of these is the **Summerhill Apartments**, located at 2655 S Bayshore Drive. In 2019, the Terra Group acquired $185 million in construction financing from Mack Real Estate Credit Strategies for the project. The property will offer 303 luxury apartment units, along with amenities like a swimming pool, spa, and business room. Construction costs have totaled $131 million for this property, and delivery is expected in 2024.

Despite the elevated number of rental units underway, there are not many condo projects under construction here, according to data from the Dodge Construction Network – Real Estate Analyzer, with only an estimated 186 condo units underway. One condo project that recently broke ground is the **Gables Village**, which is scheduled to deliver in 2025. It is being marketed as a "boutique 48-residence community" and will consist of various housing units, including condos, townhouses, and some duplexes located at 535 Santander Avenue. Starting prices are currently set at a whopping $2.03 million.

Multifamily Rental Construction Pipeline Map - Coral Gables/South Miami Submarket



Source: Dodge Construction Network – Real Estate Analyzer

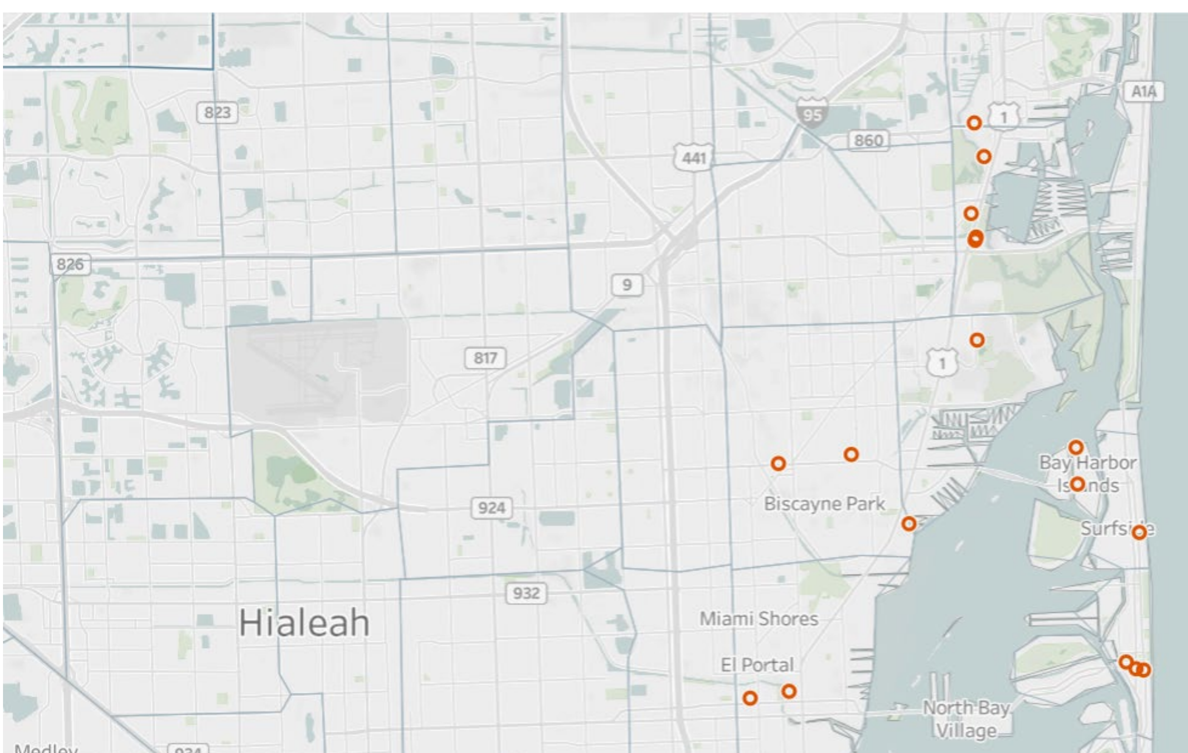
Northeast Miami Includes Some Shoreline Projects

The Northeast Miami Submarket, which includes Surfside and Bay Harbor Islands, has more than 4,000 rental units underway. One sizeable project here is the **Biscayne Shores Apartments and Townhouses**, located at 11295 Biscayne Boulevard, with 380 planned luxury apartments. This property was financed last year when Integra Investments obtained a $101.4 million loan from Synovus Bank. In 2021, the Shoreline Development Review Committee approved this project, conditional on the owners donating to improve access to the bay. Construction costs have totaled $101 million, and completion is expected in July 2024.

There are also some smaller projects underway here. Clara Homes secured a $26 million loan from Maxim Credit Group earlier this year and the **Clara BH Hay Harbor Island Apartments** project includes just 28 luxury apartments located at 10281 W Bay Harbor Drive, and construction costs have totaled $12.6 million. Amenities for residents will include a pool, fitness center, and roof deck. Delivery is expected in July 2024.

There are an estimated 522 condo units underway in this submarket, but more are on the way with more than 2,100 units in the planning stage. One project currently underway is the **Seaway Villas Surf Club Condominiums**, expected in early 2024. This property is one of several that Fort Partners, which recently received $50 million in financing for a nearby shoreline property, has been developing in Surfside. Consisting of 79 units – 48 condo units and 31 hotel rooms – this property is located at 9133 Collins Avenue. Construction costs have totaled $35 million, and the property will include a gym, spa, pool, and shared workspaces.

Multifamily Rental Construction Pipeline Map - Northeast Miami Submarket



Source: Dodge Construction Network – Real Estate Analyzer

Limited Number of Federally-Assisted Multifamily Properties

More Affordable Multifamily Needed

There are less than 98,000 existing federally-assisted multifamily units located in the Miami-Dade, Broward, and Palm Beach counties in Florida, out of a total of 1.8 million multifamily units for all three counties combined. With more than 80% of renters in the Miami metropolitan statistical area considered cost-burdened (spending more than 30% of their household income on rent) and about 50% of renters considered severely cost-burdened (spending more than 50% of household income on rent), there is clearly a need for a lot more affordable multifamily rental housing.

Miami-Dade Accounts for the Majority

As seen in the map and table to the right, of the three counties mentioned above, Miami-Dade county has the lion's share of federally-assisted multifamily properties, totaling nearly 60,000 units. The city of Miami accounts for the bulk of the units, at more than 33,000 units, with Homestead far behind in second place, with just under 7,000 units, and Hialeah is in third place with less than 4,000 units.

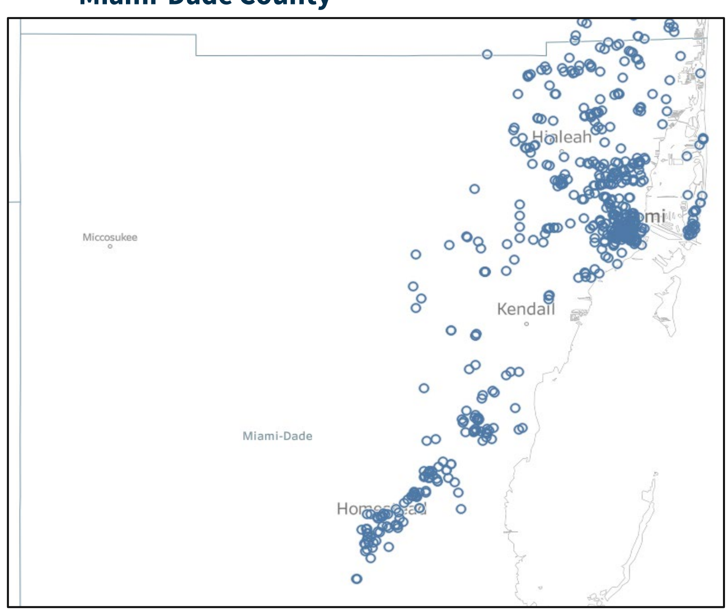
Far Fewer in Broward and Palm Beach

As seen on the next page, Broward and Palm Beach counties have far fewer federally-assisted multifamily properties, with only a total of 23,517 and 14,148 units, respectively, out of a total inventory of 362,598 and 224,652 multifamily units, respectively.

Federally-Assisted Multifamily Properties by City in Miami-Dade County

City	Properties	Units
Miami	312	33,038
Homestead	59	6,911
Hialeah	34	3,867
Cutler Bay	24	3,520
Opa Locka	14	2,353
Miami Beach	30	2,243
Florida City	15	1,925
Miami Gardens	13	1,451
Naranja	8	1,131
Other cities	32	3,550
Subtotal	541	59,989

Location of Federally-Assisted Properties in Miami-Dade County



Source: National Preservation Database, retrieved 11/3/2023

Locations of Federally-Assisted Multifamily Properties – Broward and Palm Beach Counties

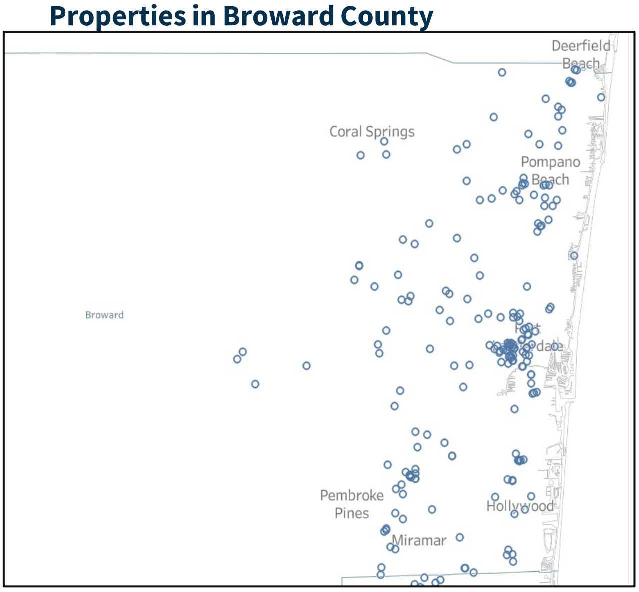
Federally-Assisted Properties by City in Broward County

City	Properties	Units
Fort Lauderdale	49	2,805
Pompano Beach	26	2,609
Hollywood	21	2,058
Ft Lauderdale	15	1,931
Lauderhill	4	1,564
Deerfield Beach	11	1,461
Miramar	5	1,254
Plantation	7	1,254
Lauderdale Lakes	5	1,111
Other cities	52	7,470
Subtototal	195	23,517

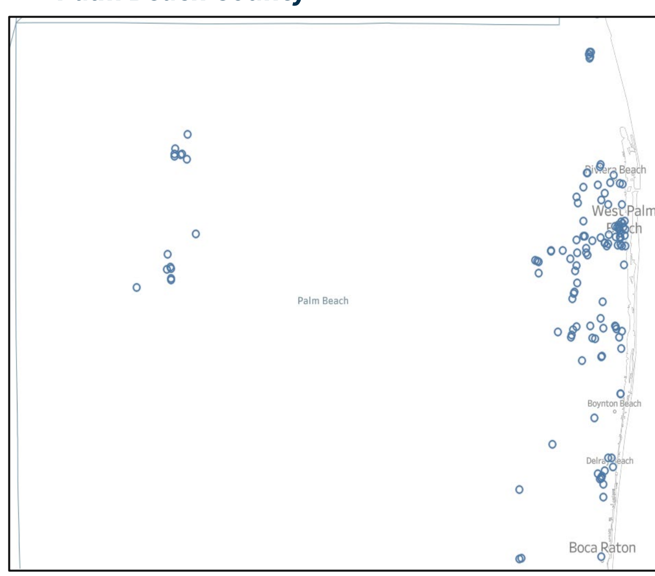
Federally-Assisted Properties by City in Palm Beach County

City	Properties	Units
West Palm Beach	56	6,028
Lake Worth	13	1,564
Belle Glade	7	1,199
Delray Beach	12	1,145
Boynton Beach	4	906
Riviera Beach	8	903
Other Cities	26	2,403
Subtotal	126	14,148

Locations of Federally-Assisted Properties in Broward County



Locations of Federally-Assisted Properties in Palm Beach County



Source: National Preservation Database, retrieved 11/3/2023

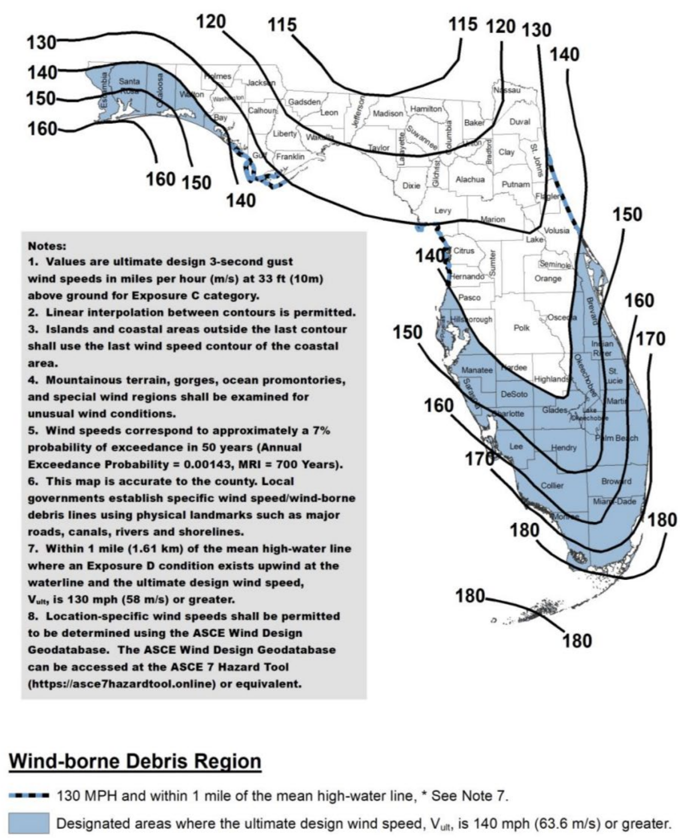
Strict Building Standards in Place

According to the International Code Council, the Insurance Institute for Business & Home Safety has determined that the [state of Florida]has the strictest building codes in place, but that doesn't mean more affordable housing can't be built. The state's code is updated every three years, with the most recent update being implemented this year. One new code update includes installing a sealed roof deck in high wind zones, as shown in the map below, which is designed to keep out up to 95% of water entering the building, even if the roof has been damaged.

There are other building requirements in place that have been improving the sustainability of new construction. For example, new properties located in flood surge zones must be raised up above the expected flood range. That means that in some places new buildings in these areas could be elevated as much as by 10 feet off the ground.

For multifamily properties built on the shoreline, erosion is a primary safety concern. So, how are some of these shoreline properties constructed? According to an article in the *Tampa Bay Times*, for at least one property, the Parkshore Plaza, it entailed drilling down 75 feet into bedrock, with the property being anchored by 76 concrete and steel pilings. In speaking with local lenders and investors, this type of construction has become commonplace with luxury properties built on sand along the shoreline.

2023 Florida Building Code Wind Speed Line Map



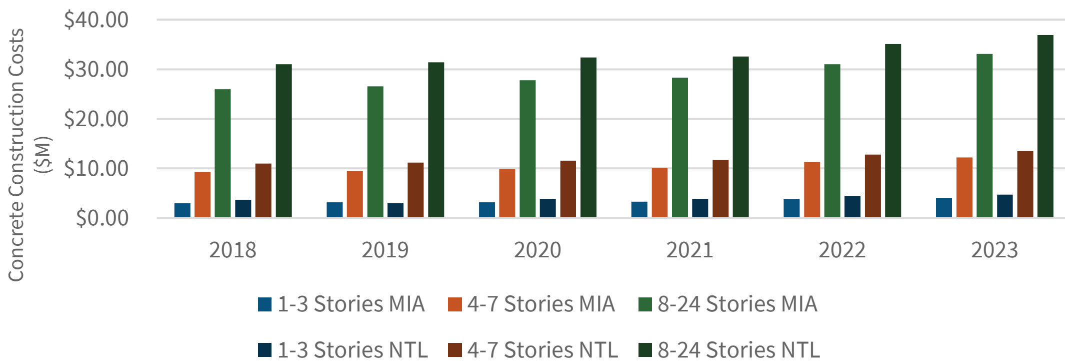
Source: https://www.geoplan.ufl.edu/portfolio/wind-speed/

In addition, many developers have already been designing buildings that have storage or garage parking on the first floor, a set of stairs leading to the lobby, with high street retail located at the same level, or sometimes even above the lobby floor. For example, some newer high-rise office buildings have lobbies with ceiling heights that range between eight and 12 feet high. Indeed, older buildings have ended up with entrances that are now below street level because sidewalks have been rebuilt higher up over the past few years. As a result, many buildings now have either stairs or ramps leading up to the lobby floor.

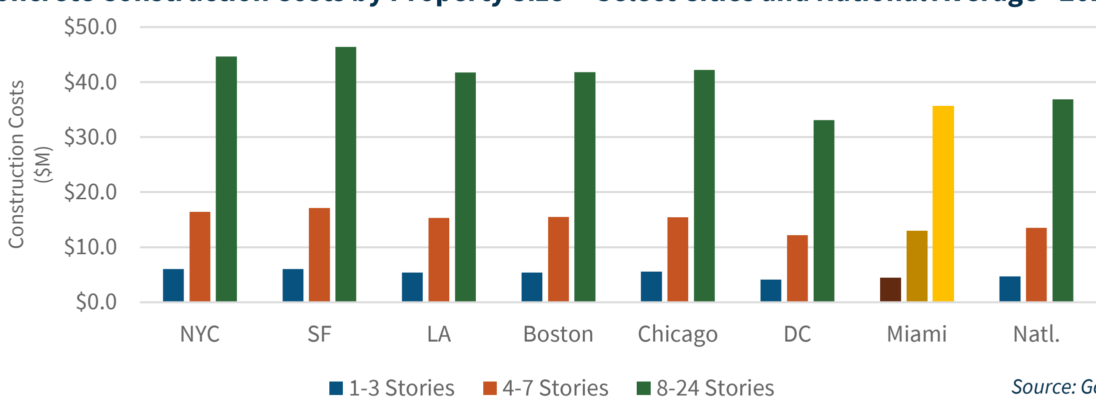
Stricter Building Codes Does Not Preclude Affordable Housing

According to Gordian's RSMeans data, construction costs have been rising across the country over the past several years, including Miami, but the metro's costs are still below the national average. Interestingly, they are also below the averages of many of the nation's largest multifamily metros, as seen below.

Concrete Construction Costs by Property Size – National and Miami Averages – 2018-2023



Concrete Construction Costs by Property Size – Select Cities and National Average - 2023



Source: Gordian

While the increase in construction costs have partially contributed to the metro's overall lack of affordability, the same can be said of many places across the country, as noted above. There are affordable rental units available in the Miami metro, but as is the case in many metros, there are just a limited number of them.

According to data from CoStar, the average effective multifamily rent level in the Miami metro for what it classifies as 1 & 2 star properties (those properties with the lowest rent levels in their corresponding location) was $1,438 as of fourth quarter 2023. However, that rent level is still higher than many local renters can afford. The median renter household income for the Miami metro area is estimated at $52,900 according to data from the American Community Survey, therefore rents need to be at $1,320 to be considered affordable for the average renter household.

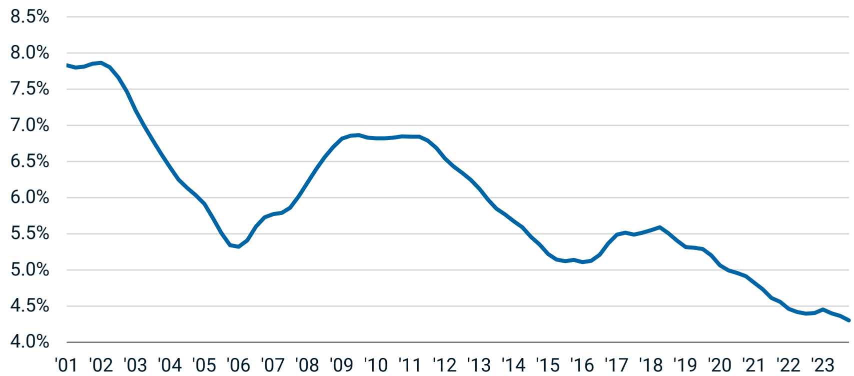
There are also some affordable multifamily projects underway as well, showing that stricter building codes don't preclude the construction of new affordable units. One project that is currently underway is the **Waterside**, being developed by the Richman Group, and it is slated to contain 266 subsidized housing units in two mixed-use, mid-rise buildings of seven and eight-stories located in the Naranja neighborhood at 27077 South Dixie Highway. The developer obtained $44 million in financing last year from PNC bank and it is expected to be completed in July 2024. The Naranja area is south of Miami proper and closer to Homestead, with a large amount of undeveloped land, which has been attracting new development over the past few years.

Pace of Multifamily Investment Cooling Down

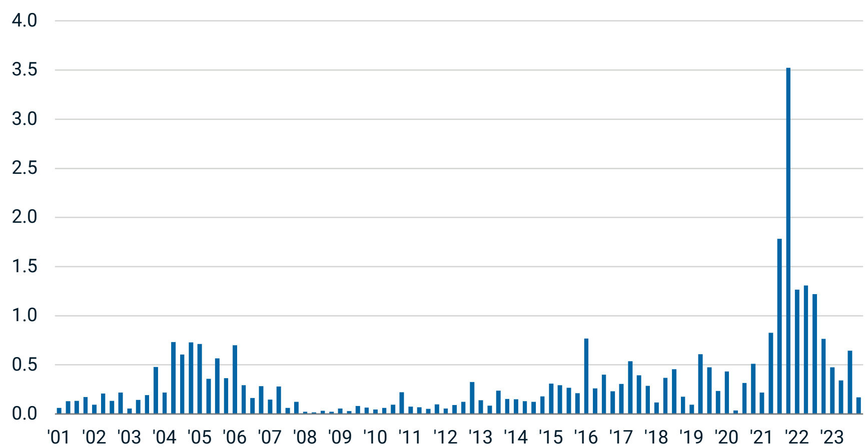
Multifamily sales transactions have slowed down across the country and the southeastern Florida metros are no different.

In Miami-Dade county for example, in 2023, multifamily sales valued at $2.5 million or higher totaled just $1.6 billion, compared to $4.6 billion for 2022 and $6.4 billion in 2021. Capitalization rates, however, averaged 4.3% in 2023, down 10 basis points from 2022's average of 4.4%, as seen in the top chart on the right.

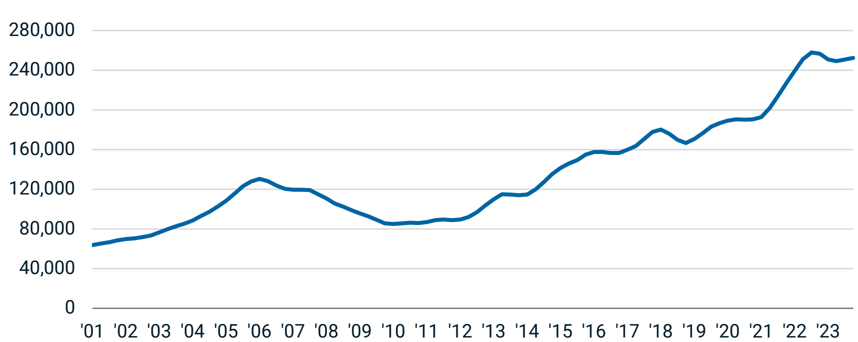
Miami-Dade Multifamily Quarterly Capitalization Rate – 1Q2001 – 4Q2023



Miami-Dade Multifamily Quarterly Property Sales Volume ($Bil.) – 1Q2001 – 4Q2023

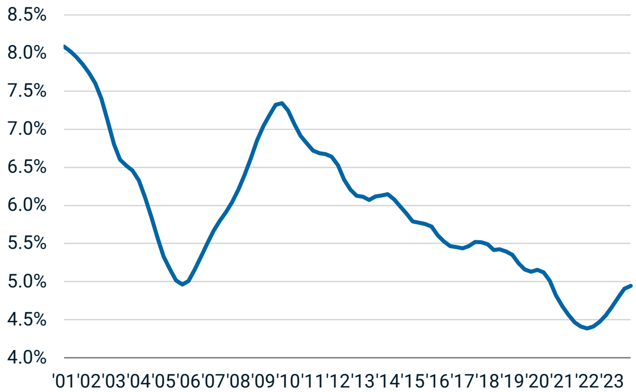


Miami-Dade Multifamily Quarterly Price-Per-Unit – 1Q2001 – 4Q2023

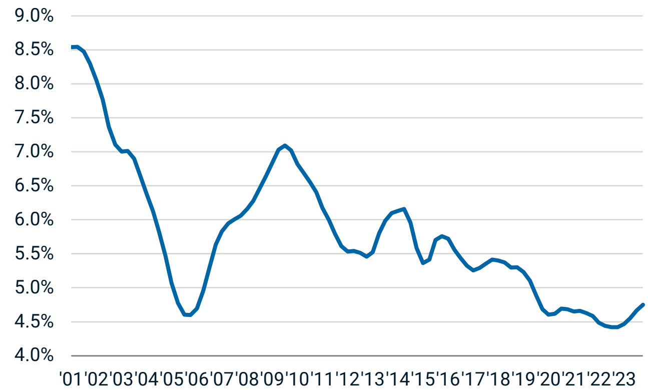


Source: MSCI Real Assets

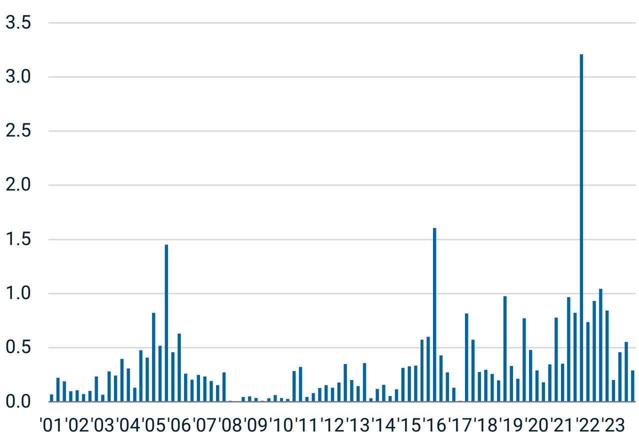
Broward County Multifamily Quarterly Capitalization Rate – 1Q2001 – 4Q2023



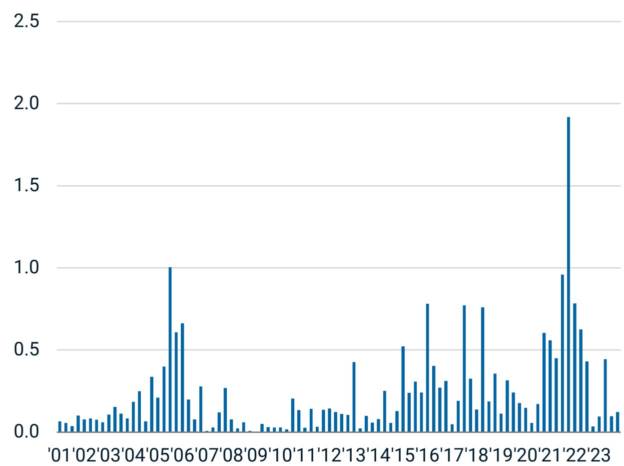
Palm Beach County Multifamily Quarterly Capitalization Rate – 1Q2001 – 4Q2023



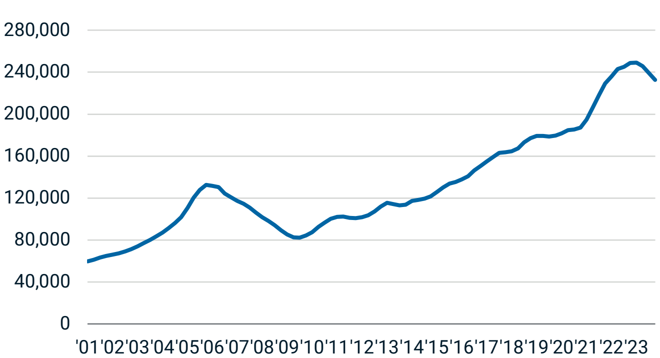
Broward County Multifamily Quarterly Property Sales Volume ($Bil.) – 1Q2001 – 4Q2023



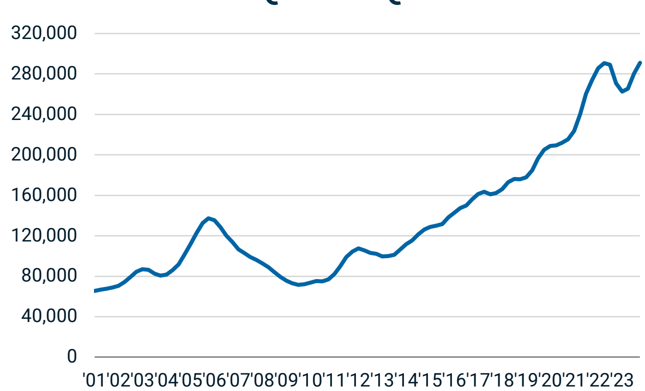
Palm Beach Multifamily Quarterly Property Sales Volume ($Bil.) – 1Q2001 – 4Q2023



Broward County Multifamily Quarterly Price-Per-Unit – 1Q2001 – 4Q2023



Palm Beach Multifamily Quarterly Price-Per-Unit – 1Q2001 – 4Q2023



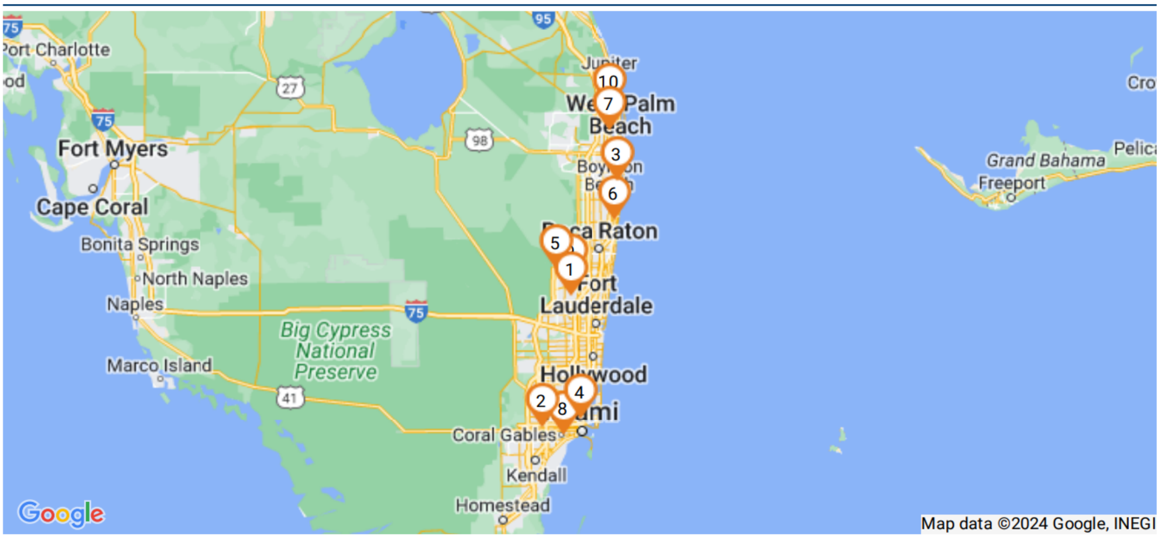
Source: MSCI Real Assets

Investor Interest Varies by Property Type and Location

Although the volume of transactions has slowed considerably, investors are focused on a variety of locations across the Miami/South Florida area, focusing on both mid/high-rise and garden-style multifamily rental properties.

As seen in the map and table below, sellers of some of the top properties included Investcorp, Related Group, BlackRock, AEW Capital, and Caryle Group. There were a wide range of buyers, including Sergey Brin's family office Bayshore Global Management, Stockbridge, the Connor Group, and Harbor Group International.

Top Sales Last 12 Months



	Transaction Date Prop Type	Property Name Address City, State, Postal / CN	Units Yr. Blt/Renov # Bldgs / Flrs	Price ($m) $/Units Cap Rate	Owner/Buyer Broker Seller Broker Lender (Loan Amt)	Comments
1	Sale Jun '23 Apartment	The Hamptons 1400 Avon Ln North Lauderdale, FL 33068 USA	668 units 1986/2010 32 bldgs / 2, 3 flrs	n/a est	Two Sigma Real Estate from Investcorp JV Carroll Organization by CBRE ; Newmark ; Walker & Dunlop ; Eastdil Secured	Garden property; prior sale: Oct-18; part of 5 property portfolio
2	Sale Sep '23 Apartment	Alexan Fontainebleau Lakes 8300 Park Blvd Miami, FL 33126 USA	368 units 2022 7 bldgs / 4 flrs	$155.9 confm'd $423,628 /unit	Stockbridge from Trammell Crow Res JV Carlyle Group by Walker & Dunlop	Mid/Highrise property; prior sale: Dec-20 ($19.2m);
3	Sale Jun '23 Apartment	Manor Lantana 1199 W Lantana Rd Lantana, FL 33462 USA	348 units 2022 18 bldgs / 4, 2 flrs	$138.0 confm'd $396,552 /unit	Praedium Group from Related Group JV Rockpoint Group by Newmark Northwestern Mutual ($75.9m approx)	Mid/Highrise property;
4	Sale Sep '23 Apartment	Wynwood 29 2828 NW 1st Ave Miami, FL 33127 USA	248 units 2023 2 bldgs / 12, 8 flrs	$135.0 confm'd $544,355 /unit	Bayshore Global Management JV Berkshire Group from Related Group JV Metro 1 Commercial Wells Fargo ($79.5m approx)	Mid/Highrise property; street retail (26,700 sf);
5	Sale Jun '23 Apartment	Wyndham West Villas 11500 NW 56th Dr Coral Springs, FL 33076 USA	332 units 1998/2022 22 bldgs / 3 flrs	$121.0 confm'd $364,458 /unit 5.4% unwrtn	The Connor Group from AEW Capital by Newmark Freddie Mac 2023-KF159 ($78.7m approx)	95% occ.;Garden property; 8 Low-Income Units; prior sale: Apr-18 ($88.5m);
6	Sale Nov '23 Apartment	Worthing Place 32 SE 2nd Ave Delray Beach, FL 33444 USA	217 units 2010 5 flrs	$116.0 confm'd $534,562 /unit 4.7% next yr	CDR Realty from BlackRock Realty by CBRE ; Cushman & Wakefield	Mid/Highrise property; street retail (12,000 sf); prior sale: Aug-10 ($75.6m);
7	Sale Jun '23 Apartment	Locklyn West Palm Apartments 3600 Village Blvd West Palm Beach, FL 33407 USA	280 units 2022 6 bldgs / 4 flrs	$105.5 confm'd $376,786 /unit	Harbor Group Int'l from Carlyle Group JV Alliance Residential by Newmark Government Agency ($56.6m approx)	95% occ.;Mid/Highrise property; prior land sale: Jan-21 ($11.5m);
8	Sale Apr '23 Apartment	Milagro Coral Gables 2263 SW 37th Ave Miami, FL 33145 USA	237 units 2013 1 bldgs / 8 flrs	$97.5 confm'd $411,392 /unit 4.7% next yr	Pantzer Properties from Wafra by Cushman & Wakefield Freddie Mac ($58.5m approx)	95% occ.;Mid/Highrise property; street retail (6,700 sf); prior sale: Jun-17 ($78.2m);
9	Sale Dec '23 Apartment	Pinebrook Pointe 3495 Pinewalk Dr N Margate, FL 33063 USA	394 units 1989 20 bldgs / 3 flrs	$93.0 confm'd $236,041 /unit 6.0% quoted	Bar Invest Group from LivCor by CBRE BankUnited ($50.0m approx) ; BankUnited ($50.0m approx)	95% occ.;Garden property; prior sale: May-17 ($69.9m);
10	Sale Jul '23 Apartment	Avana Palm Beach Gardens 2750 Rio Vista Blvd Palm Beach Gardens, FL 33410 USA	448 units 1991/2000 7 bldgs / 2 flrs	$92.2 confm'd $205,705 /unit	Greystar from Carroll Organization JV PGIM Real Estate by Newmark Freddie Mac ($72.7m approx)	Garden property; prior sale: Dec-21;

Source: MSCI Real Assets

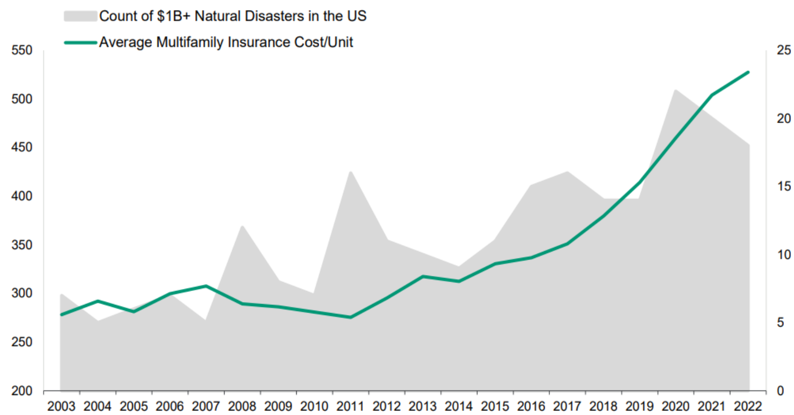
Property Insurance Premium Increases Impacting Multifamily Sector

One of the biggest issues impacting the multifamily sector this year has been the significant increase in property insurance coverages. As seen in the chart to the right, the average insurance cost per unit as of 2022 was about $525. In Miami, however, costs are nearly double that. Indeed, the median insurance cost is estimated at a little more than $1,000 per unit, making it the third-most expensive metro, according to an August 2023 report from Moody's Analytics CRE. That is nearly on par with the estimated cost in New York City but is still well below the nation's top two metros of San Francisco at nearly $1,087 per unit, followed by New Orleans at about $1,020 per unit.

Inflation is not the only reason for the sudden run-up in insurance costs, especially in Florida. One major issue, which was resolved in mid-2022, was the so-called "25% rule" which was implemented in 2014 and stated that if 25% or more of a roof needed to be repaired or replaced, then the insurer would have to pay to replace the entire roof. Now, if the rest of the roof meets the building code, only the specific section need be replaced. However, insurers complained that they had spent many years paying out more than expected in roof repairs, leading to increased premiums across all property types.

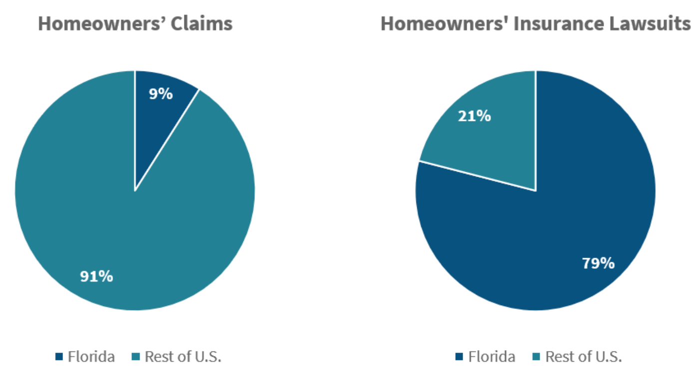
Fraud is another reason cited for rising insurance costs. According to the Florida Office of Insurance Regulation, the state of Florida accounts for only about 9% of national homeowner property insurance claims, but 79% of homeowner property insurance lawsuits, as seen in the chart middle right.

Multifamily Insurance Costs and US Natural Disasters – 2003-2022



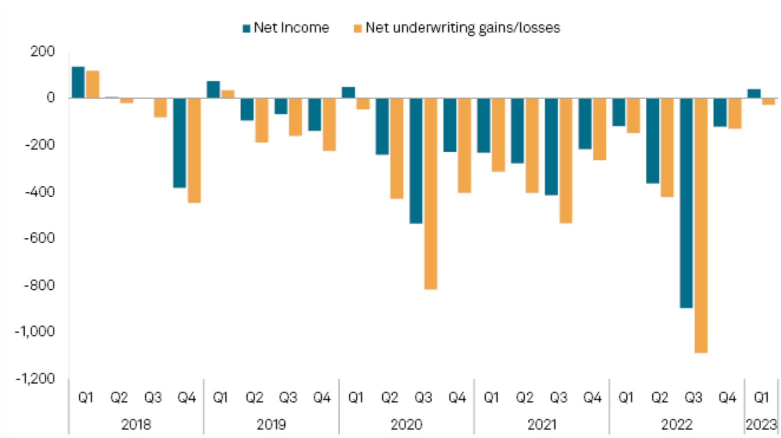
Source: Moody's, Insurance Costs Trends Becoming a Headache for the CRE Market

Homeowner Insurance Claims and Lawsuits – U.S. vs Florida - 2022



Source: Insurance Information Institute

Florida Domestic Insurance Companies Net Income and Net Underwriting Gains/Losses ($Mil.) 2018-1Q2023



Source: S&P Global

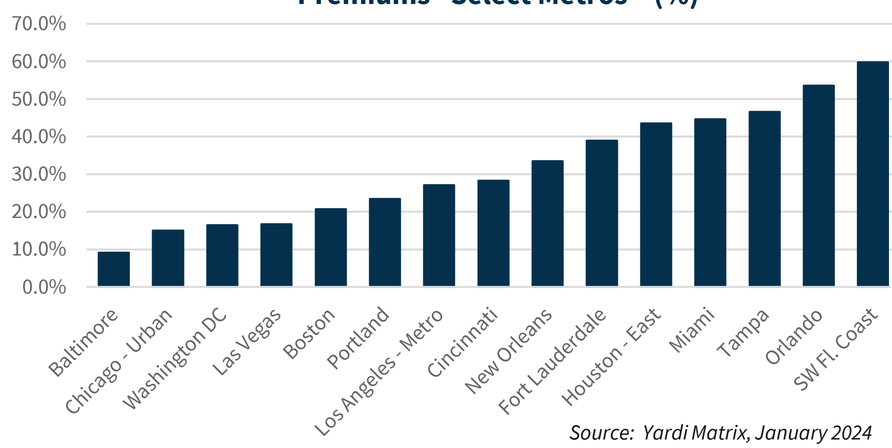
Excludes Citizens Property Insurance Corp.

Insurance Fraud and Litigation Contribute to Higher Premiums

The primary reason for the increase in lawsuits stems from the abuse of the assignment of benefits option by many Florida roofing contractors over the past few years. This was a fraudulent practice where a contractor would offer to fix a homeowner's roof and instead of charging the homeowner directly, they would have the homeowner assign their insurance benefits over to the contactor. And if the contractor didn't get paid by the insurer, they would then sue. These payouts totaled more than $3 billion in 2021 alone.

As seen in the chart to the right, many areas across the country saw double digit premium increases in multifamily insurance premiums this year, except for only a few, such as Baltimore. In contrast, New Orleans, Houston, and some Florida metros saw increases of 33% or more, due to their locations being prone to natural disasters and high winds.

Year-Over-Year Increase in Multifamily Insurance Premiums - Select Metros – (%)

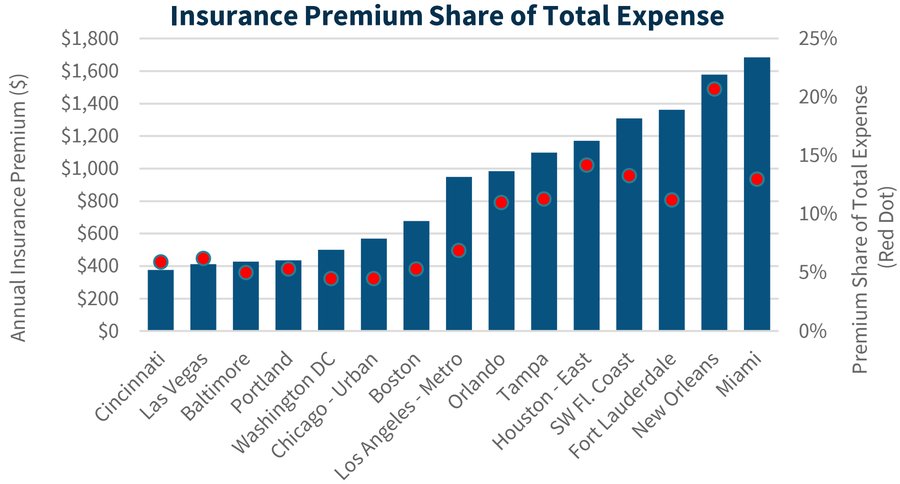


Source: Yardi Matrix, January 2024

As of this year, there have been several legislative changes to the state laws governing property insurance claims, including a prohibition of the assignment of benefits and mandatory arbitration, but the insurance industry is still looking to recoup its recent massive losses, as seen in the chart at the bottom of the previous page. This has led to significant increases in multifamily property insurance premiums across the country, but especially in the Florida metros, as highlighted in the chart above. Although Miami experienced an increase of over 40% in its average multifamily property insurance premiums, Orlando and the southwest coastal region of the state had a much higher spike, over 50%. That has also led to property insurance becoming a larger share of overall multifamily property expenditures, as seen in the chart below.

For example, property insurance costs make up 13% of total expenses in Miami and a whopping 21% in New Orleans. By comparison, in metros like Baltimore, Cincinnati and Washington DC – which do not have as much exposure to natural disasters – the annual insurance cost is under $550 per unit annually and makes up less than 6% of total expenses, according to Yardi Matrix data.

Multifamily Insurance Premiums and Insurance Premium Share of Total Expense



Source: Yardi Matrix, January 2024

Affordable Multifamily Properties Impacted More Severely

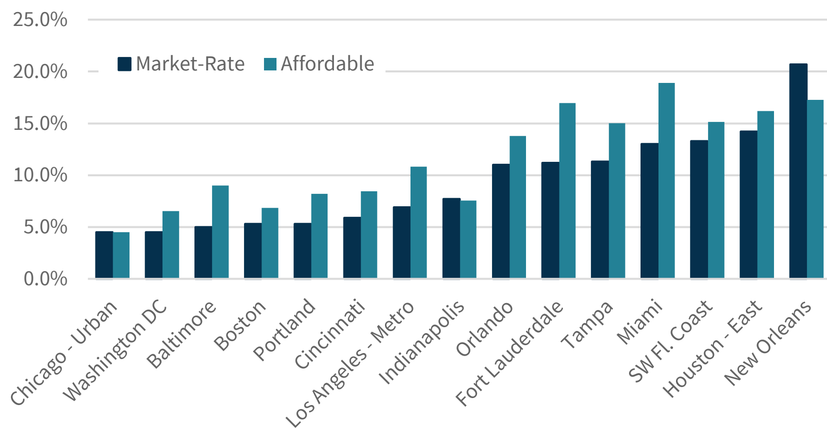
Property insurance costs at affordable multifamily properties such as those subsidized with Low Income Housing Tax Credits, generally make up a slightly larger share of expenses, even in those metros that are not prone to natural disasters. Baltimore and Boston insurance premiums are about 5% of expenditures for market-rate properties but are at least 7% for affordable multifamily properties.

It is concerning that multifamily affordable properties in Florida are experiencing significant insurance premium increases even though they already account for a larger share of property expenses. For instance, insurance premiums account for an estimated 13% of expenses at market-rate multifamily properties in Miami but are 19% of total expense at affordable properties. Yet both property types saw over 44% increases in insurance premiums year-over-year as of January 2024.

In addition, insurance premiums at affordable properties in Florida cost about the same as those at market-rate properties. In Fort Lauderdale, property insurance is just over $1,300 per unit on average at both.

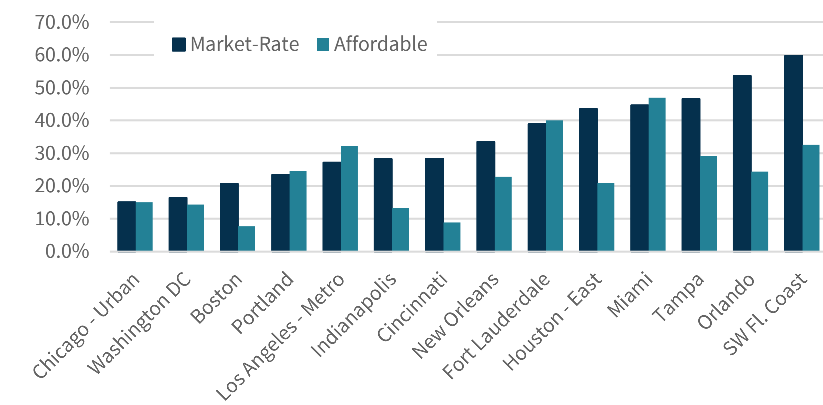
However, the average rent at affordable properties in Florida is less than 60% of market-rate rent, according to Moody's Analytics CRE. But LIHTC properties do not have the ability to raise rents to cover additional insurance costs because maximum allowable rents are set annually by the U.S. Department of Housing and Urban Development.

Insurance Premium Share of Total Expense for Multifamily Market-Rate and Affordable Properties (%) – Select Metros



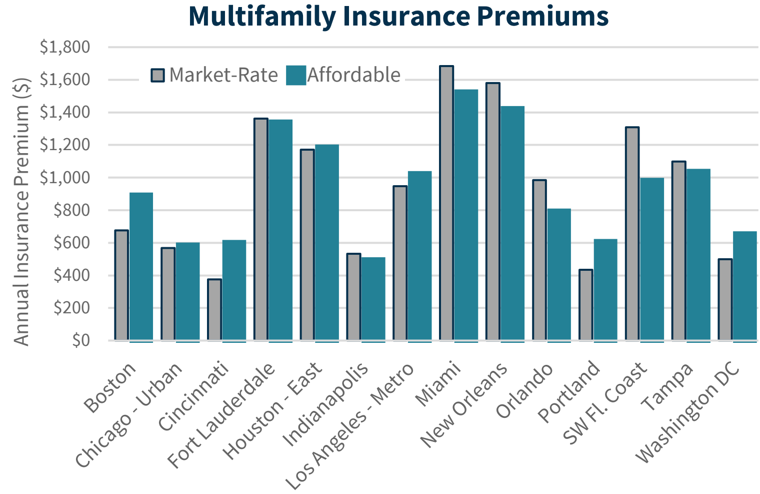
Source: Yardi Matrix, January 2024

Year-Over-Year Increase in Insurance Premiums for Multifamily Market Rate and Affordable Properties (%) – Select Metros



Source: Yardi Matrix, January 2024

Multifamily Insurance Premiums



Source: Yardi Matrix, January 2024

Some Property Owners Take On Insurance Risk

The rising cost of insurance premiums, especially in Florida, is not a new phenomenon. In the aftermath of large storms and elevated insured losses, property insurance premium increases can become volatile.

As a result, some property owners have established their own insurance companies, known as a captive insurer. This is an insurance company wholly owned and controlled by its insureds, whose primary purpose is to insure the risks of its owners while at the same time allowing its insureds to benefit from the captive insurer's underwriting profits.

And this practice is not just limited to real estate property owners. There are many different types of companies that have captives, including major corporations and non-profits. For example, British Petroleum established a captive insurance company to provide insurance to its operating units, which then also ended up being utilized to fund part of the subsequent cleanup of the Gulf of Mexico after the Deepwater Horizon oil spill. According to the National Association of Insurance Commissioners, an estimated 90% of Fortune 500 companies have captive subsidiaries. And more importantly, the captive company operates like any other insurer and is subject to state regulatory requirements and oversight.

Larger Property Owners with Diversified Portfolios Fare Better

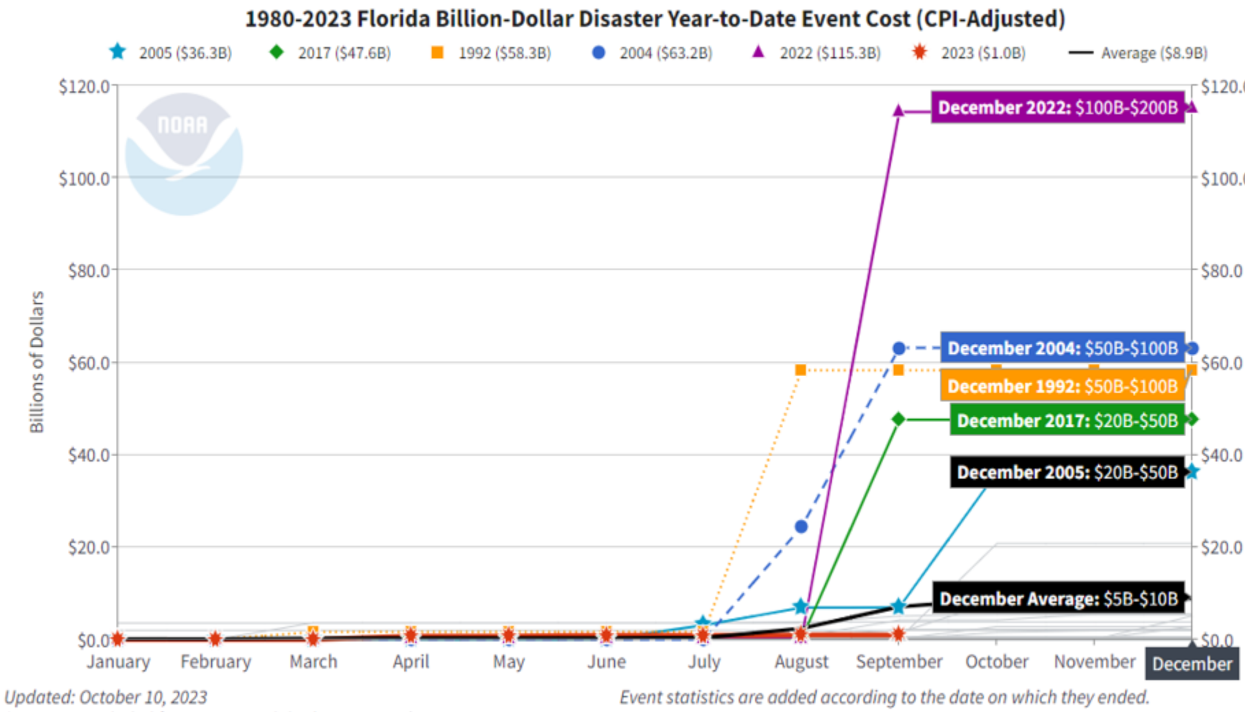
But not all real estate companies need to establish a captive; many are able to secure insurance property coverage with less onerous increases. In speaking with various market participants, it seems that large- and medium-sized real estate property owners that have geographically-diversified portfolios located across the country tend to fare better in terms of insurance renewal premiums, even during periods of increased costs.

For example, according to one large reinsurance company, these larger and diversified multifamily property owners have been able to receive all-in insurance coverage this year at an estimated cost of between $1,500 and $2,500 per unit, and up to $4,000 for an umbrella policy that includes both property and liability coverages, with a 5% to 10% deductible for wind coverage. Property owners with geographically diverse portfolios are oftentimes preferable to insurers because the premiums collected on the low-risk properties tend to be more than sufficient to compensate for the potential payout on the higher-risk properties.

In contrast, newer, less experienced, or smaller property owners with properties concentrated in disaster-prone locations such as Florida, and without a long-term relationship with an insurer, could easily end up paying closer to $5,000 per unit for limited coverage and most likely it would be from a state-funded insurance company, like Florida's Citizens Property Insurance Company.

Citizens Property Insurance – The State's Insurer of Last Resort

The largest insurer in Florida is now the state's own not-for-profit, insurer of last resort, Citizens Property Insurance Corp. Created by the state in 2002, its role is to provide insurance at below-market rates for those property owners who are unable to secure insurance coverage from private companies. It is important to note that according to its Auditors Report, "…Citizens is not subject to Risk-Based Capital (RBC) requirements or required to have a pledged deposit on file with the State of Florida. For purposes of its tax-exempt status, Citizens is considered a political subdivision and an integral part of the State of Florida."



Source: National Centers for Environmental Information
Note: Costs not included for Hurricane Idalia (August 2023)

Citizens Takes On More Policies When Insurers Exit the Marketplace

As recently as in 2020, Citizens had just 486,773 policies, but as of September 2023, that number had ballooned to a little more than 1.4 million policies, totaling $613 billion in coverage, due to losses from Hurricane Ian in 2022. Hurricane Ian was the nation's second-largest insured loss at $112.9 billion in damage, as seen in the chart on the next page.

Currently, as seen in the chart above, the nation's highest losses were caused by Hurricane Katrina, at an estimated $196 billion based on the 2023 Consumer Price Index adjusted cost, according to the National Centers for Environmental Information.

The surge in the number of policies placed with Citizens tends to occur after a large natural disaster as private insurers either go bankrupt or simply leave the state entirely. As the market stabilizes, Citizens later sells some of those policies to other insurers. As of September 2023, Citizens held 17% of all Florida policies.

In addition to selling off policies, it can rely on the Florida Hurricane Catastrophe Fund, which has a $17 billion statutory limit and stood at $7.7 billion in liquid resources as of October 2023. It was established in the 1990s after Hurricane Andrew. It is essentially a tax-exempt reinsurance fund that Citizens can access when needed.

Lastly, Citizens has the authority to impose a surcharge on the insurance policies of all Florida residents, not just its own customers. Indeed, it has done that in the past. After Hurricane Wilma in 2005, Citizens imposed a 1% surcharge on all homeowner policies. And it can impose surcharges on other types of insurance, including life and automobile policies, allowing it to increase its funding capacity.

The Multifamily Investment Perspective

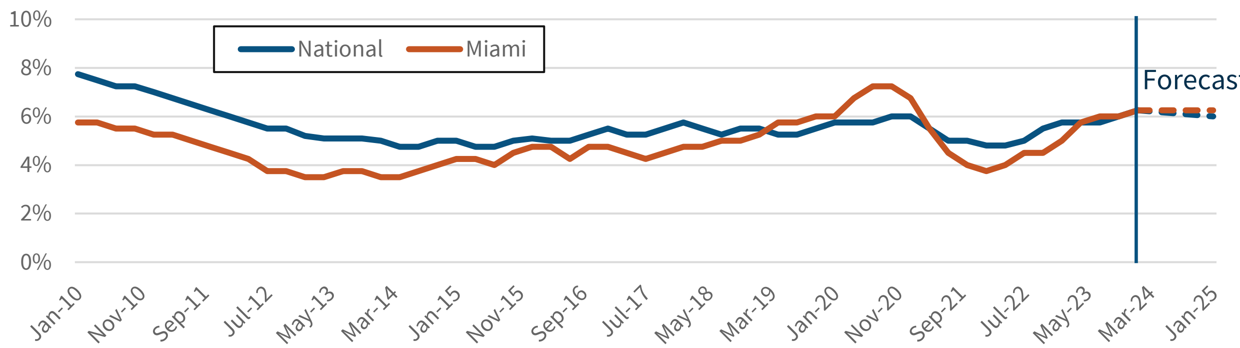
Multifamily Fundamentals Holding Steady in the Short Term

As discussed earlier, there are a number of key market fundamentals that draw investment to the region, consisting of lifestyle, warm weather, job growth, positive net migration, local amenities, and most importantly, demographic trends. These factors have led to steady demand for multifamily rental housing. As seen in the chart below, rent growth has been positive even after remaining flat in second quarter 2023. In many instances, the pace of rent growth in the metro has exceeded that of the national average, especially during 2021 when the metro saw a surge in net migration.

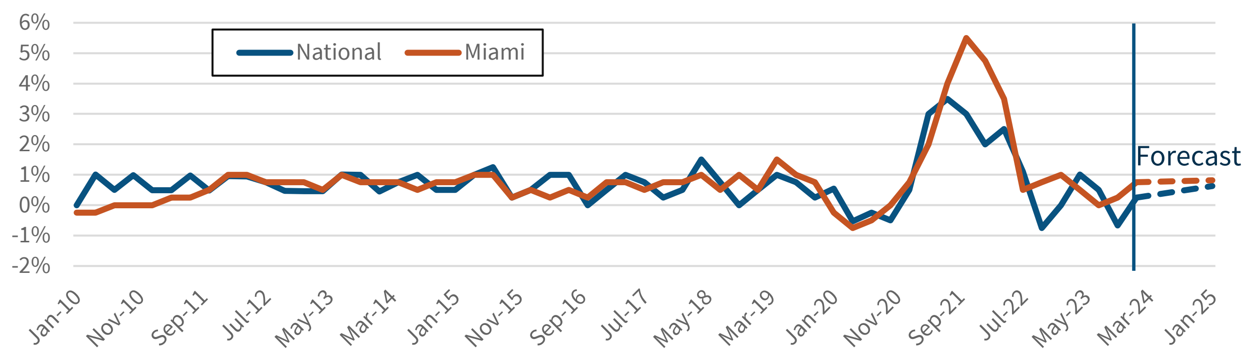
The estimated vacancy rate had remained fairly steady after the Great Recession, staying below the national average for quite some time, as illustrated below. It did increase during the pandemic, but quickly declined as more people moved to the metro, pushing up positive net absorption. Nevertheless, the elevated level of new supply that entered the market in 2023 and is expected again in 2024, is likely to push up the vacancy rate to an estimated 6.25% by 2025, putting it just slightly above the national average.

Estimated Multifamily Vacancy and Rent Changes – Miami Metro

Vacancy Rate



Rent Growth

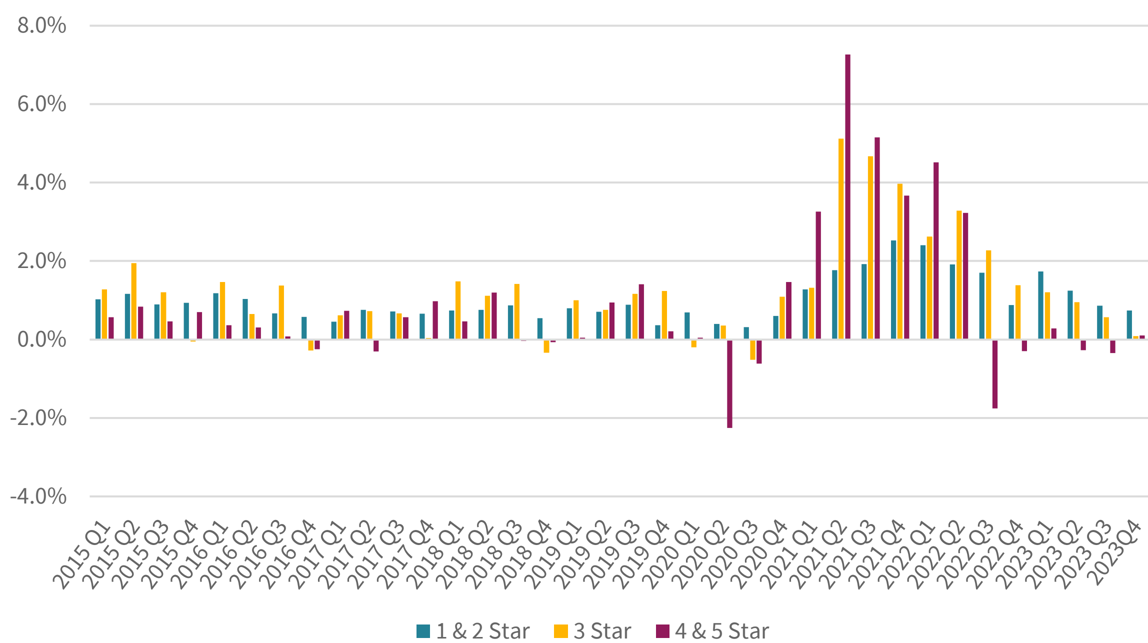


Source: Fannie Mae Multifamily ESR Estimates

Recent Rent Increases Primarily on Less Expensive Units

As seen in the chart below, according to data from CoStar, the largest rent increases in terms of percentages in the Miami metro over the past few years have been concentrated in properties classified as 1 & 2 star and 3 star properties, which are those at the lower end and mid-range, respectively, of effective market rents. As is typical for more expensive units, rents at 4 & 5 star properties can be the most volatile, rising briskly when demand is high but also dropping precipitously as new supply enters the market, which has been the case in the Miami metro since 2022. Indeed, the demand for less expensive rental units has remained a constant in the metro for quite awhile, even throughout the period of the pandemic. As seen in the chart below, although 4 & 5 star properties saw a decline in rent growth during much of 2020, 1 & 2 star properties still saw slight rent increases, demonstrating the lack of more affordable rental supply.

Estimated Multifamily Rent Growth by Property Classification Type – Miami Metro



Source: CoStar, Inc.

Putting Their Money Where the Demand Is: Why Investors Are Still Drawn to South Florida

In speaking with a variety of market participants, including lenders, servicers, property owners, and reinsurers, the consistent message was that Miami/Southeastern Florida was a location that is expected to see continued demand for housing over the long term, despite the challenges from climate change and current external pressure from insurance premium increases and higher interest rates. The multifamily property owners we spoke with stated that although they are invested in the metro and the region for the long term, they are thoughtful and deliberate in their investment decisions. They agreed that location was critically important.

Demand for Well-Maintained Properties In Good Locations

None of the owners we spoke with own any beachfront properties, which tend to be higher-end, luxury-type properties, but instead were owners of class A/B+ type properties located throughout the larger metro area, as well as in Broward and Palm Beach counties, and in some other locations in Florida, including Orlando. These property owners have been in the South Florida area for more than 20 years and believe that the area will continue to see positive multifamily housing demand over the long term.

In addition, they all believed that the area's stringent building codes were an effective prevention against future climate disasters. Indeed, these property owners had not incurred any significant damage to their Florida properties as of earlier this year. But they did note that they also tended to look for properties that had slightly higher elevation levels, were not located in flood zones, and were built well after 1992, when more stringent building codes were implemented.

These property owners stated that their properties had seen strong rent growth and occupancy over the past several years, even through 2020 and the pandemic, which they attributed to having quality properties in good locations. They also were not overly concerned about insurance costs, despite recent increases. They noted that fluctuating insurance premiums is part of the cyclical nature of the Florida market.

Indeed, several market participants we spoke with believe that the insurance premiums will likely come down over the next few years, as more reinsurers re-enter the marketplace, which is what has occurred in the past after a year or two of no massive storms or widespread property damage. The ongoing demand for insurance in the Florida market will continue to attract insurance and reinsurance capital but is expected to remain volatile based on the possible frequency and severity of hurricanes, flooding, and wind damage.

Additionally, the property owners noted that because they have geographically-diversified portfolios, as well as good relationships with their insurers, they have not been negatively impacted by the recent increases in premiums. Some tend to have a 60%/40% split in their portfolios, with 60% of the properties located in low-risk areas of the country and only 40% in higher-risk ones, allowing them to take out a blanket insurance policy to cover their entire portfolios at a much more reasonable cost. Indeed, most had experienced increases of less than 20% year-over-year in 2023, which is below the average multifamily property increase of 31%, as noted on page 18.

One property owner stated it utilizes a captive insurance company for wind coverage and has had it in place for more than a decade. Some lenders mentioned that they knew of other property owners that did self-insure, either through a captive or by having a substantial amount of cash on hand, but these were not frequent occurrences.

Insurance Coverage is Mandated by Lenders…

Every lender/servicer we spoke with emphatically stated that sufficient insurance coverage is not negotiable: it is required for all multifamily and commercial properties. Often the issue was not that multifamily and commercial real estate borrowers could not get insurance, but instead they could not get insurance at the *right price* to make the deal "pencil out." In some cases, borrowers had to put more equity into the transaction, or simply accept less proceeds with a lower loan amount. As one lender stated, "What started as a request for a $20 million loan may become an $18 million loan."

That said, there are instances when a property can not get any insurance due to capacity constraints imposed by the insurers, especially for wind coverage. Earlier this year many insurers had reached their maximum limit on issuing new policies. If insurance coverage was simply not available – and this did occur earlier this year – then these multifamily loan requests were either rescinded by the borrower or denied by the lender. Very recently, however, this unavailability of insurance seems to have eased with some insurers again having slightly more capacity due to a lack of significant storms this year.

… but Waivers Have Been Granted

Lenders this year had to work on providing alternative solutions, known as waivers, to get some multifamily loans in high-risk areas closed, including parts of Florida. Most of these waivers accounted for the deductible amounts on the insurance coverage, not the premiums themselves. To ensure that a higher deductible amount could be paid, lenders offered a few different waiver options, including the establishment and funding of an escrow account, the acceptance of a letter of credit, or even a personal financial guarantee from the borrower.

Other waiver requests might be for replacement costs, requesting that replacement costs be allowed at 80% instead of the required 100%. This was sometimes also granted, but then supplemented with an escrow account or a financial guarantee. It is important to note that the lenders stated that these type of waiver requests are not easily granted and are very property- and borrower-specific, requiring a great deal of review and ongoing oversight.

Additionally, not all properties in high-risk locations require waivers. There are instances where the borrowers can get the required insurance coverages quite readily. This tends to be the case for large, investment-grade institutional investors and real estate firms with strong balance sheets that already have full blanket insurance policies in place, sometimes consisting of upwards of $1 billion in coverage. Newly-constructed properties also tend to have no issue getting insurance, according to lenders, since the properties are up-to-date on building code requirements and are considered the least risky by insurers.

Miami Multifamily Outlook: A Sunny Long-Term Outlook

Market participants stated – and the data bears it out – that many people want to live in the region, especially as close to the water as possible, even if it means driving to get there. And coupled with the area's strict building codes, many residents and investors believe that the potential after-effects of climate-related disasters are well mitigated to justify that uncertainty as well as the higher cost-of-living. Indeed, the area's barriers-to-entry in terms of building codes, construction costs, as well as insurance costs, tend to curtail the number of marginal multifamily investors over the long-term.

Based on these barriers to entry, coupled with forecasted net migration, anticipated job growth, a wide array of lifestyle amenities – and yes, warm weather – we expect that the Miami metro and the southwest Florida region will continue to attract both residents and real estate investors over the remainder of the decade.

Despite the current lull in multifamily sales volume, we believe that once interest rates decline, then stabilize, and demand for multifamily remains strong, coupled with higher for-sale housing prices, investors will pick up the pace of multifamily transactions, returning to more normalized activity levels. Renting in the metro is expected to continue to be a less expensive alternative to owning a home, and, therefore, we maintain a steady outlook for the Miami multifamily sector over the long term.

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