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South Florida Multifamily Overview

In the first half of 2024, there were 170 multifamily sales in South Florida totaling a little over $2 billion. My team and I have completed just under $920 million of these multifamily sales representing 45% of the total transaction YTD volume within South Florida.

Market conditions are improving. At the beginning of 2024, I wrote in the WeaveReport *"Easing interest and insurance rates, along with improved financial conditions will start the thaw in '24, resulting in increased multifamily sale activity in South Florida."* We are now starting to see this play out. Specifically, the first 6 months of 2024 saw over $2 billion in sale activity which is the highest six-month sale activity since Q3-Q4 2022. We expect more sale activity in the second half of 2024 and in 2025.

Interest Rates

In October 2023, the 10-year Treasury topped out at 5.0%. At the time of writing this report, it's around 3.94%. We are past peak interest rates, and they are coming down. We expect the Fed to reduce interest rates in September and have numerous more cuts thereafter. This bodes well for buyers and sellers and will fuel more sales.

The floor for cap rates has been established. Cap rates today range between 4.75%-5.15% for Class A properties; 5.25%-5.50% for Class B properties; and 5.75% to 6.25% for Class C properties. We anticipate cap rates will begin to decrease in the second half of 2024 and in 2025 as lower interest rates work through the system. Deals are still working as buyers are placing more equity and receiving lower loan-to-value loans in the 50-60% range, often with an interest-only period that still allow for favorable cash-on-cash and IRR metrics. Investors are looking for a blended 6% blended cash-on-cash over the duration of the hold period, which is unlikely on in-place, or possibly year one numbers.

Insurance

Year over-year growth in insurance expenses actually went down in Q2—a trend we expect to continue as the growth in insurance premiums normalizes. Although insurance premiums vary widely, this year we have seen 15%-20% decreases on many properties in South Florida. Eight new insurers recently entered the Florida market, attributing their decision to last year's statewide tort reform legislation. We anticipate that commercial insurers will follow suit.

Summary

Sentiment is changing. Money that has been sidelined from real estate by attractive alternatives such as bonds and treasuries will begin to come back into multifamily real estate as interest rates come down. First movers are always rewarded in these times. Occupancies and rents remain strong. New supply has been delivered at record levels, yet it has been well received and absorbed at unprecedented levels. Consequently, the macro and micro-outlook ideally positions the South Florida multifamily for improved performance and sale activity.

Multifamily Sales

- In the first half of 2024 there were 170 multifamily sales totaling $2.05 billion. Sale volume increased 9% from first half of 2023.
- The CBRE Multifamily team in the first half of 2024 completed 45% of the entire sale activity within South Florida (this includes any multifamily sale with 5+ units and over $1 million).
- In the first half of 2024, Class A and B sales increased 22%-23% in South Florida. Class C sales decreased 25%.
- Both Broward and Palm Beach experienced just over a 50% increase in sale activity versus the first half of 2023. Miami-Dade sale activity was down 38% from first half of 2023.
- The average Miami-Dade sale was $272,000 per unit; Broward $283,000 per unit and Palm Beach $282,000 per unit.
- 43% of the first half of 2024 sale volume was in Broward, 30% in Palm Beach County, and 27% in Miami-Dade.
- Expect deal volume to increase with lower interest rates.

Rents

- In the first half of 2024, effective rents grew 1.7% in Miami-Dade, 1.0% in Broward and decreased -0.6% in Palm Beach.
- Year-to-Date Class A rents grew the most in Miami-Dade at 2.2%. In Broward Class C rents grew the most at 1.8%.
- Miami-Dade and Broward have record average effective rents of $2,332 and $2,260 respectively. Average effective rents in Palm Beach are $2,408 – down slightly from their record highs.
- Aventura, Brickell/Downtown Edgewater, Coconut Grove, Coral Gables, Fort Lauderdale, Pembroke Pines, Boca Raton, Delray Beach, and Palm Beach Gardens/Jupiter submarkets each have rents averaging over $2,500 per unit.
- Collections remain strong with minimal bad debt. Collections remain a focal point for investors and lenders when underwriting opportunities.

Vacancy Rates and Absorption

- In the first half of 2024, vacancies decreased from 5.8% to 5.5% in Miami-Dade. In Broward and Palm Beach vacancies increased from 6.90% to 7.3% and 8.0% to 9.5% respectively.
- Vacancies increased due to new supply. In the first half of 2024, there were 6,910 net units absorbed in South Florida, which is 89% of the total net absorption in 2023 and more than the

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entire net absorption in 2022, however, in the first half of 2024 there were 8,841 new units delivered to the market.

- All three counties delivered around 3,000 units each in the first half of 2024. Miami-Dade was the only County where net absorption outpaced the supply causing lower vacancy rates.
- Vacancies are likely to further increase in the coming months as new supply outpaces absorption levels (see next section).
- Submarkets with a less than 5% vacancy include: Aventura, Coral Gables, Hialeah, Little Havana Kendall, Doral and Westchester/Tamiami.
- Submarkets with the most year-to-date net absorption include: Miami Gardens, Plantation/ Sunrise, and West Palm Beach.

New Supply

- There are 31,988 units under construction (8.5% of total inventory).
- Brickell/Downtown/Edgewater; Ft. Lauderdale; Hollywood/Dania; and West Palm Beach submarkets each account for over 2,000 units under construction and 44% of the total under construction supply.
- Just under 17,000 units are expected to be completed this year. This is a 2.5x last year's net absorption for South Florida.
- Questions remain regarding the operating fundamentals in markets with high property deliveries. Vacancies are likely to increase in the short-term in specific submarkets as new supply outpaces demand.
- New construction starts have slowed. Despite construction costs stabilizing, the cost of development equity and debt has increased dramatically, meaning the cost to build has started to border on prohibitive in some markets.

Home Prices Continue to Increase

- The gap between renting and owning is now greater than 100% - the widest it's ever been. The median home price in South Florida is over $600,000. With a 5% down payment, the mortgage would be around $5,200 (including tax & insurance) which is ±$3,000 more than the average rent in the market.
- The single-family home market in South Florida remains strong. In 2023, the median home value increased by 8.1% in Miami-Dade; 6.5% in Broward and 7.4% in Palm Beach.
- In the last 10 years, South Florida's single family median home price has increased by 245%.
- Average home values are increasing at greater rate than rents, making ownership for many even tougher. The current homeownership rate in South Florida is 58.8%. In 2005 it was 69.2%.

Cap Rates and Underwriting Assumptions

- Cap rates have likely peaked. Its likely cap rates will begin to decrease later in 2024. This will depend on how many interest rate cuts are enacted.

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- Cap rates today range between 4.75%-5.15% for Class A properties. 5.25%-5.50% for Class B properties; and 5.75% to 6.25% for Class C properties.
- Cap rates increased in 2023 by 50-100 basis points depending on location and historical performance. We expect cap rates will decrease by 25-50 basis points over the next year. In the past two years, cap rates increased but not to the same extent as interest rates, thereby creating near term negative leverage on deals. One or two interest rate cuts will likely not lower cap rates significantly, however, a series of interest rate cuts would meaningfully lower cap rates.
- Net Operating Income continues to grow. Property value accretion or dilution will primarily be driven by Net Operating Income. The bad news from insurance is already baked into the numbers, and costs may start to lower. Rent growth is still happening. Most groups are underwriting 3%-4% rent growth plus the upside income potential realized by increasing below market rents in the early years of ownership.

Today's Buyers

- The overwhelming dominant buyer in the market remains private capital investors.
- Levered cash-on-cash returns targeted at a 6.0% blended over the duration of the hold period, which may not be available on in place, or year one numbers.
- Targeted unlevered IRR's in the 8.0-8.5% range for Class A properties; 9.0-9.5% range for Class B properties; and 10.0-12.0% range for Class C properties.
- Spread between in-place and exit cap rate is extremely narrow, if any, suggesting that investors are optimistic we are nearer the end of the higher interest rate cycle.
- In first half of 2024, sub-$20 million deals captured 22% of total sales. In 2023 they captured 31%, in 2022 20% and 2021 13%. Negative going-in debt arbitrage is commonplace. Other deals, mostly less than $10 million, are being done on an all-cash basis and will be refinanced at a later point in time.

Looking Ahead

There is liquidity - on both the debt and equity side. We anticipate this will become more pronounced as interest rates decrease and investors move from the sidelines back into real estate. This bodes well for both buyers and sellers which will contribute to increased sale activity. If you are thinking of selling, now is the time to begin positioning the asset for a sale to take advantage of lower interest rates. If you are thinking of buying, now is the time to look for opportunities before too many investors enter the market. Opportunities exist today. You can acquire high quality assets at a discount to replacement cost. Replacement costs for Garden, Surface Park is +/- $335-365k per unit; Mid-Rise, Surface Park +/- $350-385k per unit; and Mid-Rise, Structured Park is +/- $400k-465k per unit. There are deals to be done on certain new construction property below these costs.

Value-add deals, which in the past two years have been limited in sales, will start to command more investor interest. There is a $414 and $797 per month difference between the average Class A and Class B and between Class B and C rents in South Florida respectively. Older properties in good locations that have notable loss-to-lease or value-add potential will be primed candidates for investors.

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Earlier this year, we produced a report on South Florida loan maturity trends. There are $26.3 billion in multifamily loan maturities South Florida through 2035, of which $14 billion will come to term by 2028. The average interest rate on these loans is 4.4%. Selling based out of some sort of necessity, whether that be distress, loan maturity, fund maturity or in response to redemption requests has not materialized in South Florida. There may be specific instances of properties with fixed rate loans maturing in 2024 or floating rate loans that do not have extension options that will face significantly higher coupon rates, but this will be few and far between.

Inflation came quickly, peaked, and is largely in the rear-view mirror. The CPI trailing three-month annualized rate is less than 1%. Rent growth accounts for 34% of Total CPI and 43% of Core CPI. Nationally rents have been flat or decreased in certain markets. The way the Fed accounts for these numbers is 9-12 months in arrears (don't ask me why!). Consequently, I expect inflation will continue to decrease as the flat national rents get reconciled into the CPI. One could contend the battle of inflation will be won through an economic slowdown. Perhaps, but not necessarily impacting South Florida. The fundamentals referenced herein suggest the region is uniquely positioned to withstand, and continue to thrive at the expense of other areas of the U.S. A business-friendly environment, climate/lifestyle, and existing and new infrastructure projects have more individuals, companies and investors looking to be part of the South Florida experience. These trends are expected to continue.

Thank you for taking the time to read report. Enclosed please a summary of our team's capabilities and experience in the sale of multifamily properties throughout South Florida. If you would like any of the supporting statistics, data or to learn more about a specific market or submarket, please call or email at 786.443.3105 or calum.weaver@cbre.com