



## MULTI HOUSING REPORT Q3 2018

### PALM BEACH COUNTY MARKET



#### MARKET TRENDS Q3 2018



CONSTRUCTION



VACANCY



ABSORPTION



RENT GROWTH

**LUKE MAUGER, P.A.**  
Director

📍 | 1200 N. Federal Highway, Suite 200  
Boca Raton, FL 33432

✉ | [luke.mauger@BAWONS.com](mailto:luke.mauger@BAWONS.com)

☎ | 561 294 8335

🌐 | [www.BAWONS.com](http://www.BAWONS.com)

**WENDY PIERRE, CCIM**  
Managing Director

📍 | 777 Brickell Avenue, Suite 500  
Miami, FL 33131

✉ | [wendy.pierre@bawons.com](mailto:wendy.pierre@bawons.com)

☎ | 305 509 8336

🌐 | [www.BAWONS.com](http://www.BAWONS.com)



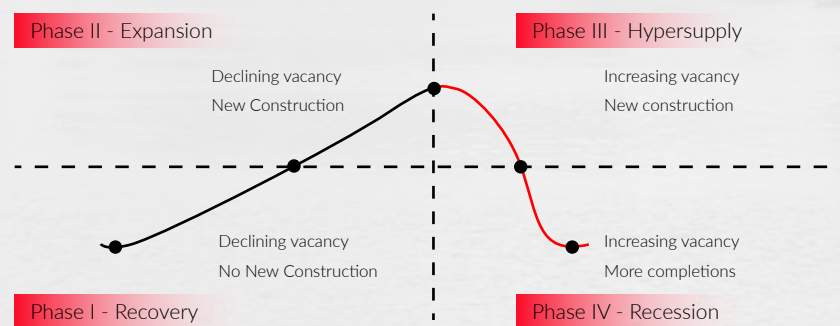
## MARKET ANALYSIS

The Palm Beach County apartment market has remained in the Hypersupply phase of this real estate cycle in Q3 2018 (See Market Cycle Figure Below). This phase of the real estate cycle is characterized by high vacancy primarily in recently built apartments and excessive development of housing units. The multifamily market has entered this Hypersupply phase through a combination of factors not limited to the improving market fundamentals, strong employment, strong household formation growth, low homeownership rate, and historically low cost of capital.

Due to this recent construction boom, Apartment inventory has increased 30% in Palm Beach County alone this real estate cycle resulting in the highest vacancy rates in South Florida. As we continue to see more development of housing units, vacant or unsold units will enter the shadow rental market and compete with traditional apartment buildings. As a result of an oversupplied market, landlords should expect a weakening of market fundamentals and a softening in value of their apartment buildings.

Affordable market rate apartments have been the top performers this real estate cycle, Landlords with aggressively priced apartments should be aware that tenants will move-up to newer or more amenitized properties as competition to fill in vacancy increases. Recently, older apartment rent growth has slowed down considerably which indicate that their rents have peaked due to limited household income growth. Investors should be cautiously optimistic as we are nearing the end of a fantastic real estate cycle.

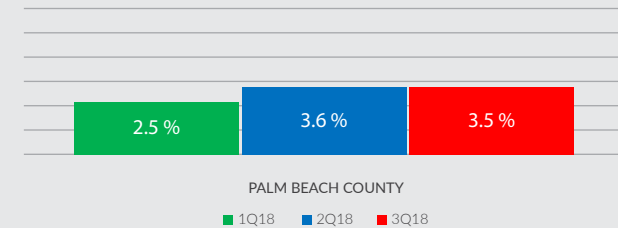
### MARKET CYCLE QUADRANTS



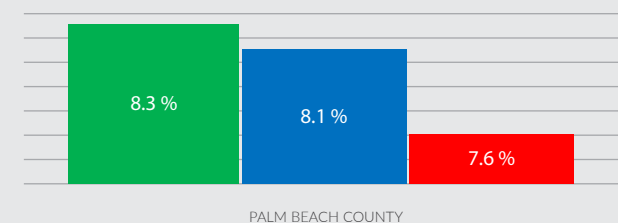
Source: Mueller, Real Estate Finance, 1995

PBC Employment Numbers	September 2017-2018	
Sector	Gain / Loss	Rate
Professional and Business Services	3435	3.0%
Transportation, Trade, and Utility Services	2406	2.1%
Education & Health Services	-1626	-1.7%
Leisure and Hospitality Services	8187	9.4%
<b>Construction Services</b>	6110	<b>15.0%</b>
Government Services	-1560	-2.5%

### Rent Growth Comparison



### Vacancy Rate Comparison



## DEVELOPMENT ANALYSIS

As construction costs have steeply risen nationally, development of apartment properties in Palm Beach County have been heavily weighted towards luxury units. This high cost of development has created an environment where only rents achieved on luxury apartments can produce the required returns. Thus, an over-development of luxury units has amplified the pent-up demand for the limited supply of more affordable Class B and Class C apartments. This strong demand for affordable housing has accentuated the robust year over year rent growth and historically low vacancy rates for older apartments. The capital markets are not incentivizing developers enough to meet the pent-up demand for affordable housing. As this trend continues apartment developments will remain skewed towards the luxury market, putting more strain on the limited supply of older and more affordable apartments.

The strong Spring leasing season in Q3 2018 has allowed vacancies to notably decrease in the luxury sector of the Palm Beach County multifamily market. Nonetheless, sophisticated investors remain skeptical in the market's ability to absorb the glut of new housing units to be delivered with the nearly 16,000 units in the planning stages in Palm Beach County. Landlords should be monitoring the new projects coming into their submarket, and how that supply could affect the demand for their units





## Construction & Absorption Analysis

Markets	1Q18 Units Built	Absorption	2Q18 Units Built	Absorption	3Q18 Units Built	Absorption
Palm Beach County	841	1073	579	663	526	864

## West Palm Beach Construction Details

Name & Address	# of Unit	# of Floors	Completion
Town Southern 10345 Acme Rd, Wellington	392	2	Dec-18
Atlantico at Palm Beach Gardens Alton Road & Edison Place, Jupiter	353		Jan-19
Phase II- Bld IV South 777 E Atlantic Ave, Delray Beach	343	4	May-20
Cortina 1002 Audace, Boynton Beach	300		Feb-19
Flagler Banyon Square 200 2nd st, West Palm Beach	400	8	Oct-19
Village at Mangonia Lake 2101 N Australia Ave, West Palm Beach	240	6	Mar-19
Azola West Palm 8230 Okeechobee Blvd, West Palm Beach	179	4	Sep-19
Central Gardens Grand 3333 Central Garden Cir, Palm Beach Gardens	124	4	Dec-18
Haverhill 5408 Trevor Cir, West Palm Beach	110	4	Dec-18
APOK Townhomes 950 Broken Sound Pkwy NW, Boca Raton	90		Jan-19
The Preserve at Hypoluxo 555 Hypoluxo Rd, Hypoluxo	49	2	Dec-18
<b>Total Under construction</b>	<b>2580</b>		

## VALUATION ANALYSIS

In the long term, population growth, demographic, and psychographic trends in South Florida are expected to favor apartment market fundamentals, whereas in the near term, current market statistics are pointing to a major correction due to Class A development excessively outpacing demand for luxury units.

At this Hypersupply phase of the real estate cycle, fluctuation in the cost of capital is expected to negatively affect capitalization rates due to the relative increase in the yield of alternative investments. Sophisticated investors will be looking for increased yield and higher capitalization rates as the market's risk increases with the upcoming recessionary phase of the real estate cycle. Although there is a lot of capital chasing real estate assets, the South Florida real estate market has been heavily dependent on cross-border capital adding another layer of risk to the illiquidity of real estate in the event of an economic shock. Such dependency in cross border capital has been detrimental to the market in the past downturns, and as we reach the end of this cycle professional investors are constantly being reminded of the inherent liquidity risk of South Florida real estate.

The combination of historically low cap rates, rising interest rates, and maturity of the economic expansion have already spurred a pricing expectation gap between buyers and sellers. Overall, current is the prominent term that could be used to describe the state of the multifamily market. As investor appetite is still strong, the timing for a sale could not be more advantageous to an owner as we are near the end of an historic eight years of appreciation and positive rent growth.

Sophisticated investors have found current real estate prices to be unsustainable and therefore shifted their interest to alternative investments offering better risk adjusted return. Nonetheless, the South Florida apartment market has remained attractive to broad investor bases mainly because of the strong property fundamentals in the long term. Due to the anticipated rising insurance, interest and capitalization rates, property owners should fully re-assess their property fundamentals and submarket conditions in order to maximize value on their investments.



## SALES ANALYSIS

### Palm Beach County

Name & Address	Sale Date	Sale Price	Price / SF	Price / Units	Cap Rate	# of Units	Total SF	Year Built
Crossroads at Downtown Boca 150 SW 2nd Ave, Boca Raton	10/31/18	\$16,800,000	\$190.54	\$157,009	5.10%	102	88,172	1966
South Palms Suites 1401 S Federal Hwy	10/16/18	\$1,850,000	\$113.11	\$92,500	7.35%	20	16,356	1971
701 S G St 701 S G St, Lake Worth	10/11/18	\$1,100,000	\$105.12	\$84,615	7.50%	13	10,464	1971
1919 Doffer Ln 1919 Doffer Ln, North Palm Beach	10/1/18	\$1,937,500	\$174.11	\$161,458	6.00%	12	11,128	1976
Villas of Jupiter Gardens 6567 Jupiter Gardens Blvd, Jupiter	9/21/18	\$1,900,000	\$150.79	\$135,714	6.76%	14	12,600	1988
BelAire Tower Apartment Homes 22573 SW 66th Ave, Boca Raton	9/17/18	\$12,900,000	\$133.40	\$132,989	7.60%	97	96,700	1973
Spruce Apartments 1801 Spruce Ave, West Palm Beach	9/5/18	\$1,512,000	\$192.93	\$84,000	7.90%	18	7,837	1925
Colonial Palms 1101 Colonial Palms Way, Palm Springs	8/30/18	\$5,300,000	\$131.64	\$176,666	5.97%	30	40,260	2007
Nocera 101 NE 6th Ave, Boynton	8/10/18	\$2,100,000	\$102.94	\$91,304	5.30%	23	20,400	1974
Oakwood Apartments 2425 2nd Ave N, Lake Worth	7/31/18	\$25,642,000	\$128.01	\$160,262	5.75%	160	200,320	1993
250 Seminole Ave 250 Seminole Ave, Palm Beach	7/30/18	\$1,700,000	\$283.33	\$141,666	5.00%	12	6,000	1925
2130 Avenue S 2130 Avenue S, Riveria Beach	7/23/18	\$1,740,000	\$128.09	\$87,000	7.80%	20	13,584	1967
East Ocean Apartments 1302-1402 S Federal Hwy, Lake Worth	7/16/18	\$4,275,000	\$146.26	\$83,823	6.25%	51	29,228	1956
Tuscan Villas 1001 N Federal Hwy, Lake Worth	6/28/18	\$4,000,000	\$100.53	\$250,000	5.50%	16	39,788	2007
High Ridge Landing 3609 High Ridge Way, Boynton	5/24/18	\$41,900,000	\$217.07	\$227,717	4.25%	184	193,024	2016
608 5th St 608 5th st, West Palm Beach	4/20/18	\$1,500,000	\$161.29	\$93,750	8.06%	16	9,300	1968
Young Apartments 1600 Center St, Jupiter	3/29/18	\$3,175,000	\$168.24	\$105,833	6.50%	30	18,872	1959
Cambridge Apartment Homes 4824-4910 Cambridge St	3/19/18	\$2,258,500	\$145.82	\$141,156	6.26%	16	15,488	2008
Pine Terrace Apartments 5112-5120 Stacy St, West Palm Beach	3/1/18	\$2,760,000	\$132.34	\$115,000	7.10%	24	20,856	1985
Arbor Grove Apartments 4696-4742 Grove St, West Palm Beach	3/1/18	\$2,646,000	\$126.82	\$94,500	7.50%	28	20,865	1979
Colony Park 8215 Belvedere Rd	1/16/18	\$12,600,000	\$93.05	\$96,923	6.25%	130	135,414	2008
			<b>\$148.51</b>	<b>\$129,704.00</b>	<b>6.46%</b>			