Multifamily Metro Outlook:

Fort Lauderdale – Q3 2024

Overview:

- Multifamily demand in the metro continued to strengthen in Q3, with increased absorption and a stabilization of the vacancy rate. However, job growth and immigration in the metro are below their historical levels, leaving the market stable but not tight overall. Rent growth was stagnant in Q3, below the nationwide average.
- The metro's economy continues to slightly outperform the nation's and is expected to continue to do so over the next two years. The mix of jobs being added includes a larger ratio of higher-income jobs than neighboring metros, but, like much of South Florida, it is skewed toward lower-wage jobs, which typically demand rental housing.
- The metro is also buoyed by relatively high levels of foreign investment and by immigration, though both drivers are volatile.
- The local multifamily market is bifurcated, with a large pipeline of Class A development to satisfy positive but weakening demand for luxury rentals, and very limited development of Class B and C properties that serve the large population working relatively low-wage jobs. The latter market is seeing relatively higher rent growth, but also increased affordability pressures, highlighting long-term concerns about continued labor availability.

Market Strengths:

- While rent growth is expected to decline in the second half of 2024, it is expected to remain positive in 2024 and 2025, and supply faces natural geographic constraints from the Atlantic Ocean and the Everglades.
- The metro has followed nationwide trends in for-sale costs and affordability, keeping many higher-income households out of homeownership and in the rental market, bolstering rents.

Market Weaknesses:

- The geography of the metro is challenging, as the metro has a history of being hard-hit by hurricanes and faces substantial climate risk going forward, which is also likely to continue to increase insurance premiums.
- Although the metro is expected to continue to gain population over the next two years, out-migration from the metro is relatively high, outpacing in-migration during the pandemic years of 2020 and 2021, limiting metro growth. Growth is particularly weak in the 20- to 34-year-old cohort.
- Class A multifamily in the metro is likely to face substantial headwinds as supply burgeons and demand weakens. Class B and C multifamily is expected to outperform due to limited supply and stable demand.
- Multifamily expense growth is substantially higher than U.S. averages, largely driven by insurance premium growth. Coupled with affordability pressures, this could stress multifamily NOI in the next few years.

New Development:

- Even in the context of Florida, the metro has a historically large pipeline of projects, representing around 5.9% of total inventory, 80% of which are Class A properties. Bucking national trends, construction levels rose in early 2024, with over 3,600 units breaking ground. Single-family permitting is anemic at less than 1,000 in the past 12 months.

Multifamily Outlook:

- Demand has stabilized relative to supply after lagging since 2022. Q1 absorption was relatively high, outpacing completions, but the large multifamily pipeline, particularly of Class A properties, has led to an increase in concessions and is expected to result in increased vacancies. This will put downward pressure on rent growth for higher-end properties, which was negative and below national averages in early 2024. However, the lower-end Class B and C market segments are expected to see rent growth that is higher than national averages, as little supply is added to these segments and job growth in low-wage jobs continues. Sales activity is down about 40% from its five-year historical average, and cap rates have risen, largely due to rising interest rates. We expect sales activity to remain below historical averages until financial conditions loosen.

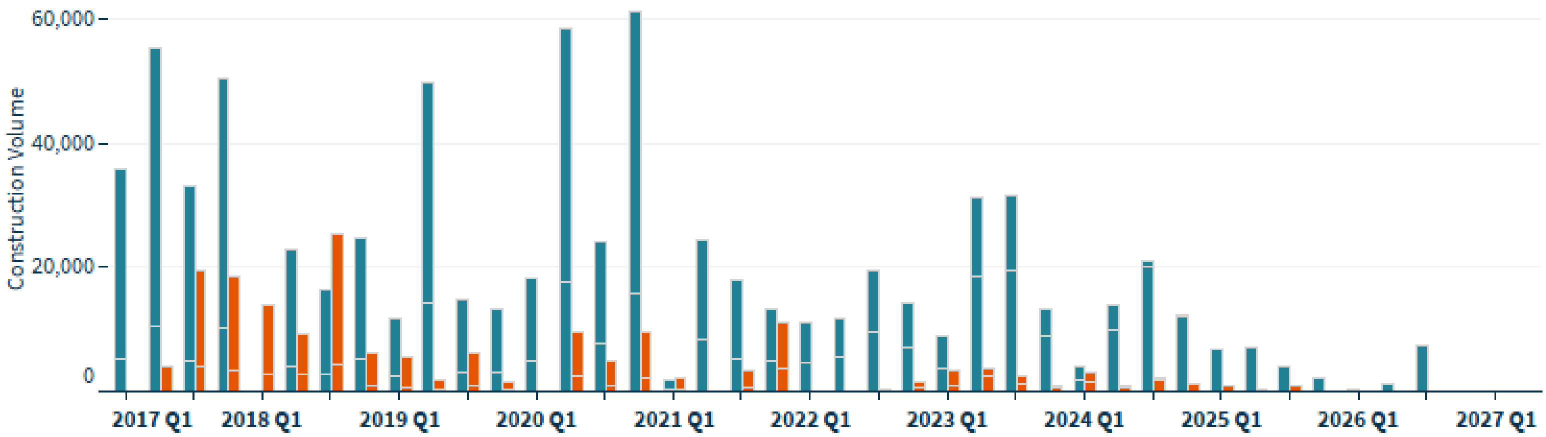
Economy:

- The metro's economy provides a greater proportion of higher-wage jobs than Miami, particularly in finance, but overall is concentrated in lower-wage sectors such as transportation and warehousing, retail, construction, and especially hospitality and leisure. The metro currently has a tight labor market, with unemployment around 3%, below the national average. While incomes have increased faster than U.S. averages, affordability has worsened in the metro, largely driven by exceptionally large increases in shelter costs. Major current and planned infrastructure investments are also uplifting the economy and will likely continue to do so. These include the newly completed Brightline high-speed rail line, connecting the metro to Orlando and Miami, and the Downtown Development Authority's plans to create around 20 urban core developments, using substantial real estate investments.

Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

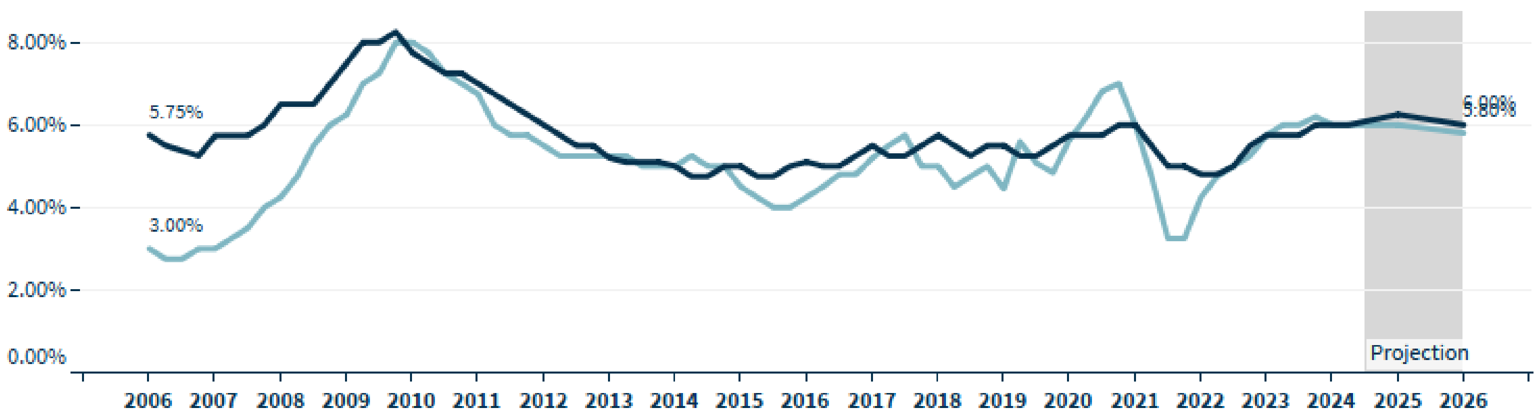
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Fort Lauderdale | National

Q3 2024 Vacancy Rate:

6.50%

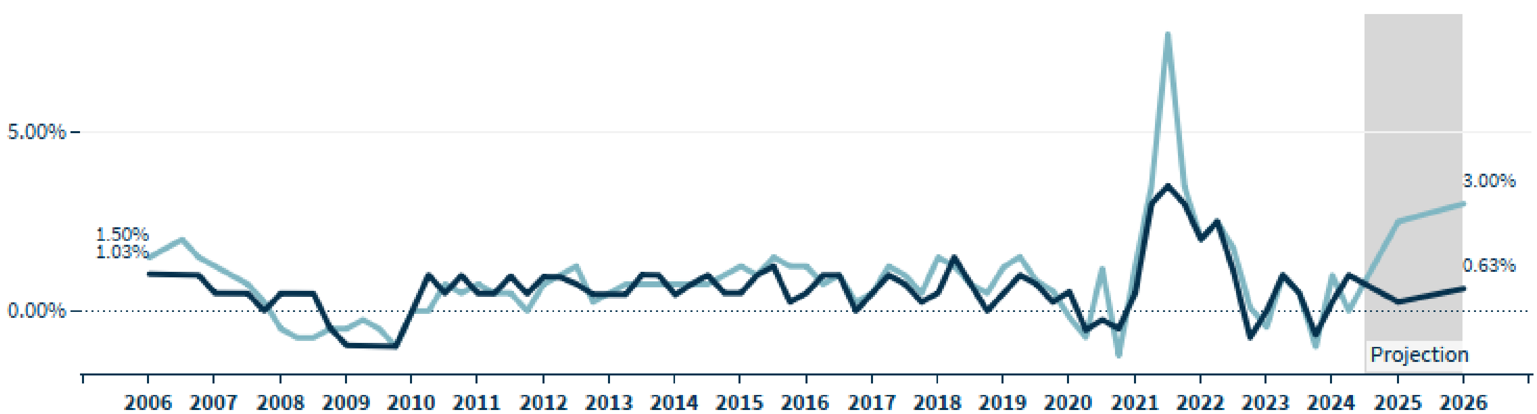


Asking Rent Growth

Fort Lauderdale | National

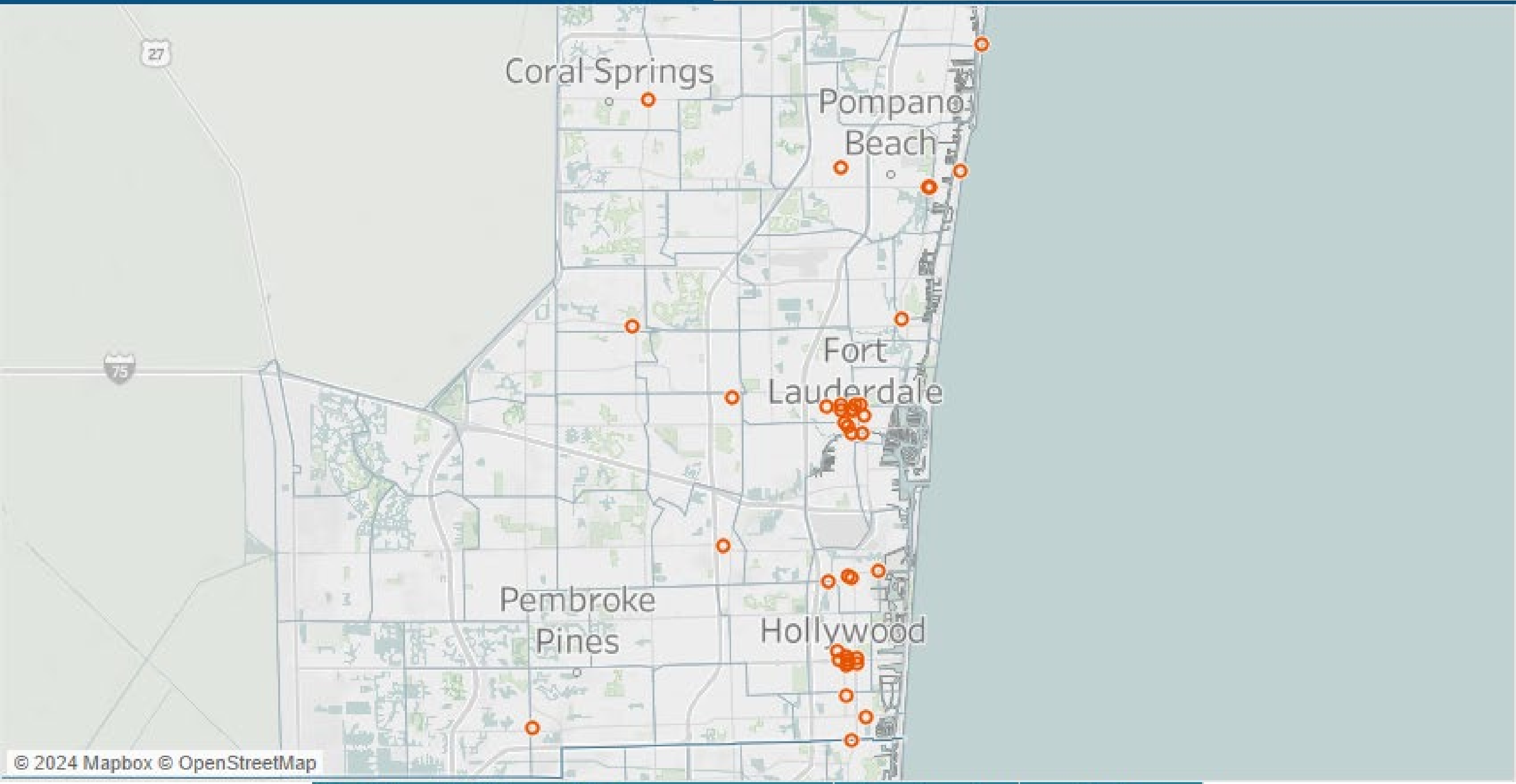
Q3 2024 Asking Rent:

$2,270



Source: Fannie Mae Multifamily Economics and Research

Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Coral Springs	1	353
Fort Lauderdale	13	4,772
Hollywood	15	3,727
Pembroke Pines/Miramar	1	44
Plantation/Davie/Weston	2	406
Pompano Beach/Deerfield Beach	5	564
Sunrise/Lauderhill	1	235
Grand Total	**38**	**10,101**

Source: Dodge Data & Analytics SupplyTrack Pipeline

Multifamily: ESR Team

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Multifamily Economics and Market Research Team

Nat Decker, Economic and Strategic Research – Economics – Lead Associate

Sources Used

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- U.S. Bureau of Labor Statistics
- CBRE-Econometric Advisors
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- Dodge Data and Analytics
- Fannie Mae
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- MSCI Real Assets
- RealPage
- Redfin
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- Yardi
- Zillow