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BRIGHT OUTLOOK FOR SOUTHEAST MULTIFAMILY

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Despite economic and market uncertainty, high interest rates, inflation, and an increasingly dynamic market, owners, investors, and developers all agree that the outlook for Southeast multifamily investment and development is bright. There is agreement that the fundaments of multifamily are strong. The Southeast Multifamily Forum examined the opportunities and challenges in the Southeast apartment industry and provided the latest market data, analytics, and analysis of the Southeast multifamily market. Data presented at the Southeast Multifamily Forum on the Southeast multifamily real estate market, opportunities, challenges, and trends is highlighted below.

State of the Southeast Multifamily Real Estate Market:

- The Southeast multifamily real estate market is doing better than any other region in the U.S.
- There will be a record number of new multifamily unit deliveries during 2024. 2024 completions and unit deliveries for South Florida are anticipated to be 3-5% of current inventory. The percentage of new dwelling units that are multifamily apartments is continuing to increase.
- As new units are absorbed into the market, there is not much in the form of new units in the pipeline for 2025-2026. Lending markets have tightened and institutional lenders are more stringent on underwriting, resulting in a decrease in new construction.
- New unit deliveries during 2024 will help to resolve the supply issue, while at the same time the anticipated decrease in new units during 2025-2026 is expected to result in rent growth.
- The spread between the average cost of owning versus the average cost of renting is the widest on record with the different between average rents and payments on a median priced home larger than ever. South Florida has one of the largest affordability gaps which signals that the cost of living is too expensive. However, the population continues to grow, unlike other areas with large affordability gaps.
- South Florida continues to see a burgeoning build to rent sector.
- The fundamentals of population growth and job growth are strong in the Southeast. Investors and Developers will continue to follow population.

Opportunities and Challenges:

- Since the pandemic, the Southeast region has seen a tremendous amount of capital coming from investors located in other markets including the Northeast, Southwest, West Coast and Midwest. However, it has become harder to raise capital over the past 18 months and fewer opportunities generally. As a result, the focus has shifted from new construction and projects to asset management.
- Investors are actively looking for opportunities to invest meaningful capital, but the opportunities are few and far between. Where there is an attractive opportunity, there is fierce competition.
- Construction costs which increased 30-40% or more over the past few years are starting to come down.
- One of the biggest challenges in the Southeast and specifically South Florida is the massive increases in insurance costs which is keeping new investors out of the market and making it hard for current investors

and a challenge to exit strategies.

- Local affordability requirements also pose a challenge and make it more difficult for new development. Construction and other cost pressures make affordability of new projects a challenge.
- Pressure on the office market is creating opportunities in the multifamily market. Office conversion is seen as a big opportunity in the multifamily market and the level of interest in converting office buildings into multifamily housing has grown exponentially. Offices were built to higher standards than apartments and office conversion where the skin of the building is not being replaced allows for a quicker construction turn than new construction. Although a big opportunity, the actual process to rezone, repurpose and redesign an office building for residential use present challenges, in addition to economic challenges such as acquisition costs, incentives and financing.
- Tax abatements and other incentives from the new Live Local Act will present opportunities in the multifamily market and the development of multifamily residential housing. The Live Local Act is a comprehensive, statewide workforce housing strategy, designed to increase the availability of affordable housing opportunities for Florida's workforce, who desire to live within the communities they serve. This Act provides historic funding for workforce housing in addition to new programs, incentives, and opportunities.
- Multifamily developers must strike a delicate balance between providing amenities that tenants desire and keeping costs affordable.

Overall sentiment regarding the Southeast multifamily market outlook, and specifically the South Florida multifamily sector, is positive and solid. The Southeast continues to be the outperformer in investors' portfolios Owners. Investors and developers feel good about the current state of the market and where the market is anticipated to go over the next five years.

Berger Singerman's Real Estate Team remains dedicated to keeping you informed about significant legislative developments that may impact your future developments and business operations. Should you have any questions or require further guidance on how these changes may affect your projects, please contact Jeffrey R. Margolis.

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