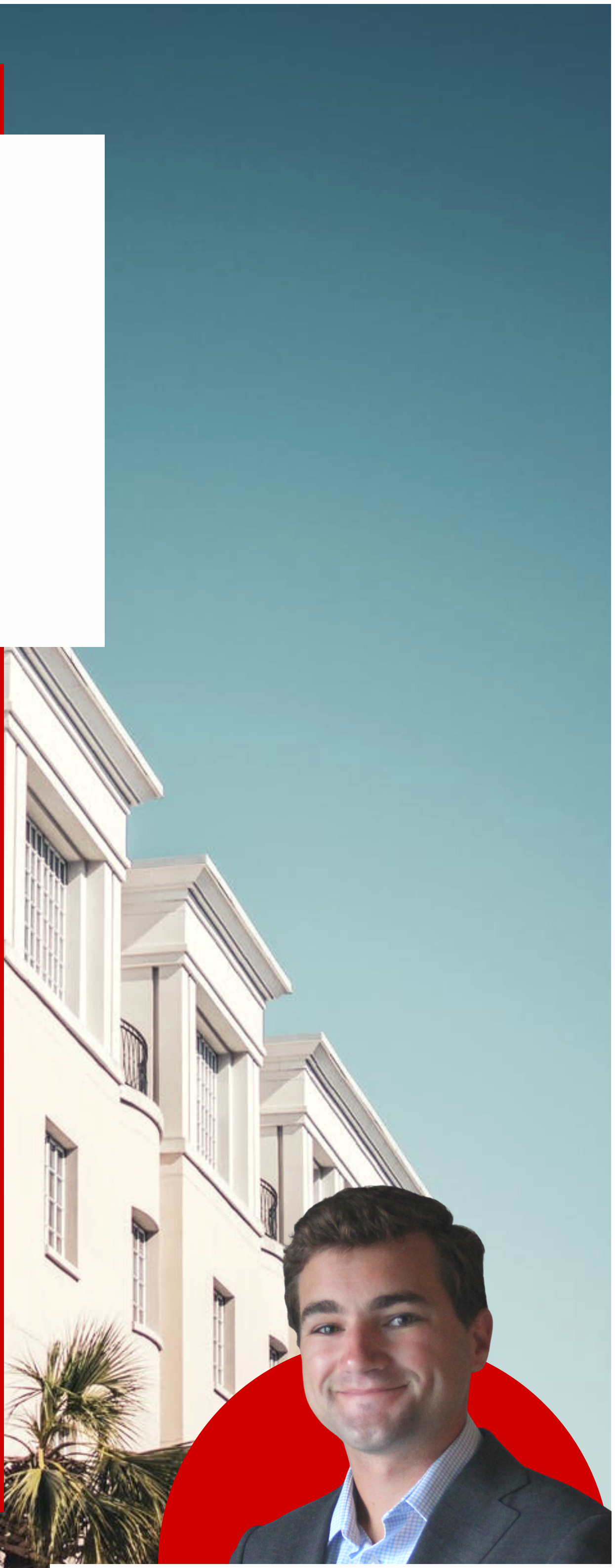
FEBRUARY 2021

COMMERCIAL REAL ESTATE

News, Trends & Developments
in the World of Real Estate



State of the Tampa Bay Multifamily Market

With uncertainty and concerns across the country about the state of Commercial Real Estate both during and post COVID era shutdowns, the Tampa Bay Multifamily Market remains strong, although not absent of problems. Even with unemployment rates still troubling and the multifamily eviction moratorium extended until March 31st, 2021, there are still opportunities for investors to find success within the Multifamily market.

"If you would like to discuss anything regarding your portfolio, please do not hesitate to reach out!"

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CAP RATES

While a Cap Rate is literally defined as the annual return on investment, assuming the Buyer paid all cash and based solely on rental income, it is more accurately viewed as the amount of risk involved with each investment. As risk decreases, Cap Rates, and therefore returns decrease. Buyers have been willing to accept lower Cap rates year after year for Multifamily properties, showing the perception that Multifamily investments are relatively low risk compared to other product types.

Average Capitalization Rates across all Multifamily sales within the greater Tampa Bay markets have been dropping at an average of 3.22% annually since 2017, compared to Industrial Sales (decreasing at an average rate of 1.08%), Retail Sales (decreasing at an average rate of 0.71%), and Office sales (increasing at an average rate of 0.72%).

Additionally, Multifamily deals have had far lower Cap Rates than any other product type, averaging 5.57% in 2020, close to two percentage points below the next lowest product type – retail.

Rental Rates

In addition to passive investors who are willing to accept lower returns for lower risk properties, more aggressive investors looking for “value add” properties can still find attractive deals that will allow them to increase rents, hedging against inflation. While Multifamily rents have not been increasing as sharply year over year as other product types...

...they have been the most consistent, and the least affected by the pandemic.

Considering the 2017-2020 average rental rate increases, you can see how Multifamily rents have fared compared to other product types:

Industrial – 5.78%
Retail – 4.89%
Office – 4.04%
Studio Apartments – 3.41%
Bedroom Apartments – 3.52%
2 bedroom Apartments – 3.08%
3 Bedroom Apartments – 4.21%

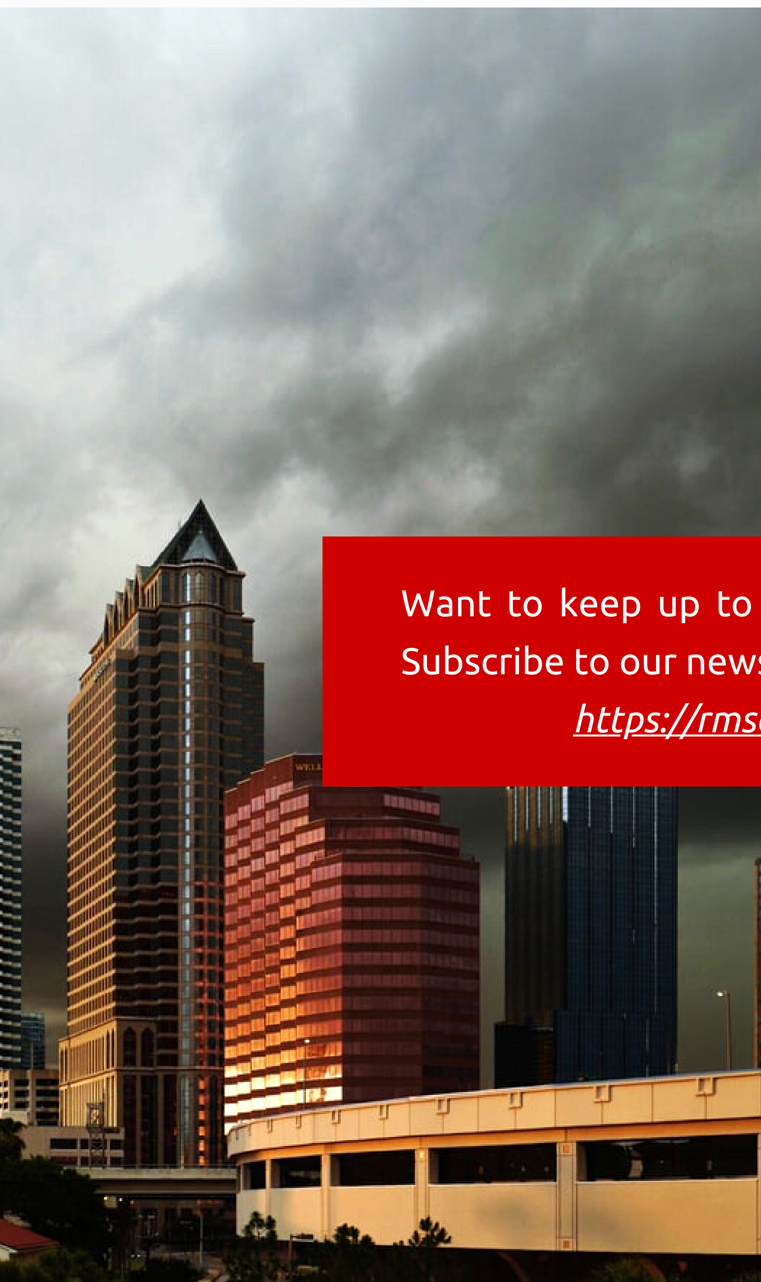
Inventory

A surge of Multifamily development in Tampa Bay, and more specifically in St. Petersburg, is both the biggest threat to smaller, local Multifamily investors, and one of the biggest attractors to larger out-of-state investors. Currently, there are 2,725 units proposed for development and another 2,855 units already under construction in St. Petersburg alone.

The increased inventory is normally seen as a benefit to smaller apartment buildings, as it increases the desirability for investors to move the equity from other areas of the state or country into a booming market.

A larger buyer pool almost always leads to higher real estate prices.

However, if the inventory of affordable living outgrows the job market, there will be a surplus of apartment inventory which will most likely drive up vacancy rates, and decrease rental rates. Additionally, a surplus of newly constructed luxury housing will put pressure on smaller investors to renovate their units in order to compete for tenants.



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