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BRIGHT OUTLOOK FOR SOUTHEAST MULTIFAMILY INVESTMENT AND DEVELOPMENT

April 5, 2022

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Despite inflation, rising interest rates, increased construction costs, and supply chain issues, investors, developers, and lenders all agree that the outlook for Southeast multifamily investment and development is bright. The Southeast Multifamily Forum 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.
- Although the unemployment rate in the Southeast and particularly Florida is currently higher than the national average as a result of the lagging tourism market recovery, labor market improvements and migration patterns will continue to have a positive impact on the Southeast multifamily market.
- New construction of apartments and multifamily projects continues to increase, and vacancy rates continue to decline. Most new construction is high-income, Class-A properties. The number of Class-B and Class-C housing remains stagnant despite increasing demand. This will add to the housing crisis that was compounded by the pandemic.
- The Southeast and, in particular, South Florida, continues to see 20-34-year olds as the growth age group, with Fort Lauderdale, West Palm Beach, and Orlando seeing some of the highest population growths in this age group. Population growth in the Southeast region is increasing more than the national average.
- The Southeast region, especially South Florida, is benefiting from massive migration from other regions which is being fueled by the ease of doing business, a favorable regulatory environment, job growth, politics, and less fear of rent control.
- The Southeast did not experience the rent moratoriums which were put in place and caused major unpaid rent problems which continue to exist on the West Coast and Northeast.

Opportunities and Challenges:

- The Southeast region has seen a tremendous amount of capital coming from investors located in other areas including the Northeast, Southwest, West Coast and Midwest.
- Apartments and multifamily projects offer competitive yields and better returns compared to alternative investments.
- Inflation and interest rates will have an impact on the multifamily real estate market. As inflation rises, costs will increase as will rents, but sentiment seems to be that this will not have a negative impact on returns.
- Construction costs have increased 30-40% over the past 2 years. The massive cost increases will continue into 2022, however rent growth will help offset and absorb cost increases. It remains to be seen how cost increases will affect cap rates and returns.

- In addition to construction cost increases, supply chain issues also top the list of the biggest challenges for multifamily development. We have not yet seen the effects of the conflict in Ukraine on cost and supply issues; the conflict will have an effect on the real estate development industry.
- The remote work environment which allows people to work from anywhere is benefiting secondary and tertiary markets which, unlike before, are now seeing rent growth and leading to more development opportunities.The “working nomads” will continue to change what secondary and tertiary markets look like.
- The Southeast, like other regions, has experienced increased rents. However, although rents in the Southeast and especially South Florida are higher, they are still lower than other regions such as the Northeast. In addition, although rents are up, they have not increased as much as home prices.
- Population growth, job growth, the business-friendly environment, corporate re-locations, and better affordability than other regions is resulting in lots of opportunity in the Southeast.

Trends:

- A major trend in multifamily projects include co-working and shared working spaces with incorporated “micro working spaces” for privacy. Micro working spaces include “zoom rooms” with soundproofing. Such spaces allow residents to easily work from home. Some multifamily operators are partnering with co-working companies to set up and design co-working spaces.
- In-unit amenities include smart technology with easy interface to personal devices for connectivity including strong high-speed Wi-Fi and reliable cell phone reception.
- Storage spaces and facilities that can handle high-volume package deliveries are being incorporated into projects, including cold storage for groceries.
- Improved STC ratings and soundproofing to reduce noise within Units is very important, especially with residents working from home, as well as dedicated workspaces within unit.
- More one-bedroom units are being built as a result of roommates realizing that they do not want to quarantine, if necessary, with anyone else. In addition, developers can maximize rents by decreasing unit sizes, which has led to smaller units.
- Because of supply chain issues, there is an increasing trend for less customization and use of more “off the shelf” materials. In addition, labor shortages have led to more simplified buildings to lessen the need for the expertise needed to design and build complex buildings.

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