Drivers of Multifamily Housing Costs and Affordability in Florida
September 2020

FAA  FLORIDA APARTMENT ASSOCIATION  HR&A
Housing affordability is critical to Florida's economic competitiveness and resilience.

The COVID-19 crisis has underscored the importance of access to stable, affordable housing, and housing affordability will remain a critical issue post-pandemic. Estimates project that Florida needs to build up to 48,000 new apartments each year to meet growing demand. Housing that is affordable to all residents is critical to a thriving state economy that provides equitable access to opportunity. Florida’s multifamily development community is a key partner in providing housing to meet the state’s consistently growing demand.

The rent required to support the construction of new apartment communities is determined by the cost to develop and operate these properties. As demand, construction, and operating costs have increased over the last decade in Florida, rents have increased in tandem. Since recovering from the Great Recession, rents in Florida have increased steadily. Average multifamily rents have increased by 47%, from an average of $0.92 per square foot in 2010 to $1.34 per square foot in 2019.

What contributes to the rising cost of housing in cities across Florida?

- Florida’s economic growth has led to rapid increase in the demand for housing and lack of supply, particularly in Jacksonville, Miami, Orlando, and Tampa. Population growth in the cities of Miami and Tampa has outpaced growth in the wider metro areas. The demand for housing is significantly influenced by job growth — households will move to the region and increase demand for housing. This has been a key factor in Florida, where state gross domestic product (GDP) has increased faster than national GDP.

- Exclusionary zoning and historical economic and racial disparities across neighborhoods in Florida’s cities limit new multifamily development, constraining the supply of new apartments to a few neighborhoods where renters are willing to pay market-rate rents and zoning permits new multifamily development.

- Land and construction costs have increased rapidly, contributing to higher costs of development and the higher rents necessary to support new apartments.

- Municipal policies can also have a significant impact on rent. Local property taxes favor single-family housing over multifamily housing. Impact fees and project delays are a significant and growing part of total development costs. Additionally, most neighborhoods remain opposed to multifamily housing development. The uncertainty of the development process and delays in plan review lead to added costs. Both the state of Florida as a whole and its 410 municipalities can influence affordability through policies, programs, and resources that affect underlying construction and operation cost drivers. As policy leaders grapple with strategies to improve affordability, it is imperative that new programs and policies consider these root cost drivers.
Multifamily development can only occur when rents generated fully cover development, financing, and operating costs.

Constructing new apartments incurs development costs — land costs, hard costs (labor and building materials), and soft costs (design, entitlements and permitting) that are paid for with financing. As development costs increase, more financing is needed to cover these costs — increasing overall operating expenses. In turn, these operating expenses are supported by the revenue that a project generates through rent. As operating expenses increase, rent must increase in tandem to support the project and maintain its feasibility.

Development Costs
Costs associated with planning, designing, and constructing apartments. These costs are further divided into three categories:

- **Land.** Purchase of land and associated costs such as legal and transfer taxes.
- **Hard costs.** Labor and building materials.
- **Soft costs.** Design, entitlements (legal approval to develop property), building permits, and other non-direct construction costs.

Operating Expenses
Costs associated with operating and maintaining apartments after construction.

- **Financing.** Comprised of debt service and equity returns. Debt is secured in the form of loans from a financial institution to support the building. Equity is an investment of money in exchange for an ownership stake in the resulting revenue from a property. Equity investors expect to receive competitive returns in exchange for taking on the risk of investing in the project.
- **Property Management.** Ongoing property costs, including routine maintenance, staffing, insurance, and property taxes.

Revenue
Income generated by the property.

- **Rent.** Payments by residents to occupy apartments. There also may be supplementary sources of income such as parking fees, laundry, or amenity fees which are a small portion of the revenue.
Increasing demand for urban living

Population growth has been concentrated in urban centers with amenities such as parks, walkable retail, and entertainment options. One measure for this is the change in population within cities versus their larger metro areas, which include more suburban and rural communities. Both Miami and Tampa (the densest cities among the four) have seen increases in population between 2010 and 2018, considerably outpacing regional metro growth.

Population Growth 2010-2018, City versus Metropolitan Statistical Area (MSA)

Another indicator for increased demand for denser residential living is an urban index, a measure of residential density by census tract. Using FiveThirtyEight’s tract-level urban index, HR&A found that between 2010 and 2018, denser neighborhoods in Florida saw a higher increase in median rents. ¹

Increasing household income for renters

New renters across the four cities have mostly been high-income households — those that are able to spend more on housing costs, further driving up prices. Between 2010 and 2018, the number of renter-households earning more than $100,000 more than doubled in Miami and Tampa and grew by more than 68% in Orlando and Jacksonville. In the same time period, renters earning below $50,000 grew far slower, by less than 10% in Miami, Orlando, and Tampa, and by 21% in Jacksonville.

Change in Renter Households Earning More Than $100,000, 2010-2018

¹ FiveThirtyEight is a data journalism publication part of ABC News. FiveThirtyEight measures the urban index as the natural logarithm of the average number of people living in each census tract. More information can be found at: https://fivethirtyeight.com/features/how-urban-or-rural-is-your-state-and-what-does-that-mean-for-the-2020-election/.
Residential Land Use

Exclusionary zoning in many parts of cities prohibit new multifamily construction, while other neighborhoods are starved of development due to a lack of public investment in infrastructure and amenities. These constraints limit the supply of new apartments to a few neighborhoods where renters are willing and able to pay market-rate rents and zoning permits new apartments.

**New multifamily development is limited through zoning**
Over the last few years, there has been a growing consensus that single-family zoning, enshrined in most post-war American neighborhoods and strengthened since then through exclusionary zoning practices, has made cities less affordable. Except for a few neighborhoods in denser cities in south Florida, most residential land in Florida’s cities is zoned exclusively for single-family residential housing. For instance, more than 90% of residential land in Jacksonville is zoned exclusively for single-family housing. As a result, multifamily housing is built almost exclusively along large corridors and highways, or in downtowns — seldom in neighborhoods — and this constriction of supply further increases the premium on new multifamily housing, wherever it is able to be built.
New multifamily development is limited by historical economic and racial disparities

Development of new multifamily housing is further limited to the nodes and corridors in which rents can support the cost of new construction, along with permitted zoning. Historical disparities between neighborhoods and decades of institutional disinvestment have led to a significant gap in the demand for and the ability of the market to supply new housing in large parts of most cities in Florida. Census tracts with median rents below $1,000 often cannot support the operation and construction of new market-rate apartments. As with most other disparities across the country, new multifamily housing is also inversely correlated with census tracts that are majority non-white (shown in darker red). This contributes to a vicious cycle — new multifamily development is limited by income and racial disparities, which then further exacerbates those disparities.
EXECUTIVE SUMMARY | MARKET FACTORS
Rapid growth in construction and land costs have increased the cost of development and the rents necessary to support new apartments.

As land prices increase, developers often have to increase density (where permitted), increasing the cost of construction further — resulting in higher required rents per square-foot of development.

**Land prices have escalated drastically since 2012**
As a result of both zoning and market feasibility, the potential land for new multifamily development is limited to a few neighborhoods and corridors. This increases the land prices of these neighborhoods. As land becomes more expensive, development costs rise — requiring higher rents to ensure development feasibility. Since 2012, residential land prices across Florida have increased steadily — from an annual increase of 5% in Jacksonville to more than 11% in Miami and Tampa.

**Residential Land Value per Acre Growth by Metropolitan Statistical Area (2012-2018)**

![Residential Land Value per Acre Growth by Metropolitan Statistical Area (2012-2018)](image)

*Source: Federal Housing Finance Authority (FHFA) February 2020, Federal Reserve of St. Louis. 2012 values normalized to $100*

**Higher construction costs have increased the rents required to support new development**
Construction costs have increased dramatically across the country since 2000 because of the increasing cost of materials and rising construction wages. Since 2018, costs have been especially volatile due to uncertainty in tariff policy and new tariffs on Canadian and Chinese raw materials. Since 2000, construction costs in Florida have increased almost 100%, more than 26% of that since 2017. On average since 2000, construction costs have increased 3.5% annually, 68% faster than inflation.

**Florida Construction Costs versus Consumer Price Index Inflation (2000-2018)**

![Florida Construction Costs versus Consumer Price Index Inflation (2000-2018)](image)

*Source: RS Means, Federal Reserve of St. Louis. 2000 values normalized to $100*
Property Taxes
Local property taxes favor single-family housing over multifamily housing. Developers have noted that across the state, there is often little predictability in the county appraisal process, with some operators in central Florida reporting that property taxes account for about 50% of total rent proceeds. This often incentivizes developers to sell units as condominiums, further reducing the supply of rental housing and increasing median rents.

Impact Fees
Impact fees are a significant and growing part of total development costs. These fees are one-time taxes designed to offset costs borne by local governments as a consequence of population growth. These may include payments for school districts, utility extensions, or infrastructure projects. A study by the Florida Housing Finance Agency found a wide variety of methodologies and formulas for calculating impact fees, from flat fees per units to dollars per net square foot. In the last few years, developers note that these fees have increased considerably, especially in counties that have seen significant growth, like Hillsborough and Orange counties.

By-Right Development vs. Discretionary Approval
Most neighborhoods remain opposed to multifamily housing development. Moreover, uncertainty of the development process and delays in plan review lead to added costs. This has led municipalities to rely almost fully on discretionary processes instead of by-right multifamily zoning—either through de jure (required by law) or de facto (required in practice) entitlement processes. In a district with by-right multifamily zoning, multifamily development that complies with applicable zoning regulations does not require any discretionary approvals by local government, streamlining the review process. Developers noted that there are some exceptions, especially in municipalities that are struggling to grow and are trying to attract residents and development. Not-In-My-Backyard (NIMBY) sentiments present a particularly challenging obstacle to housing affordability. In neighborhood debates about planning and zoning policy, many still seek to block the construction of new multifamily housing, fueling an exclusionary status quo. NIMBYism is often rooted in the fear that increasing the supply of housing will lower home values and the value of neighborhood amenities. Often related, single-family zoning reinforces racial and economic disparities by limiting access to non-white and lower-income residents. In jurisdictions with strongly discretionary development processes, community opposition to new multifamily construction and density — either affordable or market-rate — creates significant barriers to delivering homes that could improve housing affordability for renters. In addition, developers noted that some jurisdictions have significant delays in site plan and design review and inspections to receive certificates of occupancy, which can drastically increase costs.
EXECUTIVE SUMMARY | MUNICIPALITY-CONTROLLED COST DRIVERS
Although these municipal policies may seem to have a small individual impact, the costs often compound and together substantially increase rents.

If a project faced all the cost increases in the table, rents may need to increase by 12%-17% to maintain consistent returns. This is the difference between a new garden-style apartment in Orlando being affordable to a two-person household earning $64,000 annually and to a household making $75,000. If household affordability is a public goal for these jurisdictions, they must consider the collective and cumulative costs on overall affordability.

<table>
<thead>
<tr>
<th>Municipal Policies Evaluated:</th>
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<tbody>
<tr>
<td>1 Increase real estate taxes by 15% annually</td>
</tr>
<tr>
<td>2 Delay projects by six months and increase construction costs by 5%</td>
</tr>
<tr>
<td>3 Increase impact fees by $8,000 per unit</td>
</tr>
<tr>
<td>4 Increase design review by $2,000,000</td>
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Cumulative Impact of Hypothetical Municipal Policies: Podium Development in Jacksonville

Municipalities can have the greatest effect on affordability by allowing developers to grow the supply of housing in accordance with demand, to help stabilize and lower rents through by-right development. By-right development improves affordability by lowering the cost of development and increasing the supply of housing. Faster, more predictable approval processes lower risk and the amount of investment required, reducing overall development costs. Creating new housing also reduces the competition between new and long-time residents for existing housing that drives up rents and can harm affordability.
EXECUTIVE SUMMARY | KEY TAKEAWAYS

Municipalities across the state should consider the following steps to partner with the development community to ensure that the region remains affordable for all Floridians:

1. Understand and evaluate the cumulative impact of all municipal policies on rent.
When municipal policies are layered together, they can significantly raise the rent required to expand the supply of multifamily housing and can hurt affordability. Municipalities should consider an approach for new policies that assess the impact of housing affordability before introducing new policy.

2. Expand by-right zoning for apartments — especially in parts of the region that are experiencing the most growth.
Cities across Florida have significant potential to increase the amount of land zoned for apartments to increase the supply of new housing and meet rising demand. Apartments offer a cost-effective and sustainable opportunity for the state to meet demand. Effectively conveying the benefits of multifamily housing is key. Multifamily housing stimulates and sustains local economies, neighborhood health, and overall economic competitiveness. Additionally, expanding development while ensuring affordability is preserved can help avoid displacement — which occurs most commonly when higher-income renters replace existing lower-income renters due to a lack of available housing options. Comprehensive plan and zoning updates should evaluate where housing costs exceed the regional average to determine where the demand for housing exceeds supply. Within these neighborhoods, sites should be targeted for additional density.

3. Streamline and reform permitting processes to reduce delays.
Municipalities across the state should streamline and reform permitting processes and issuing certificates of occupancy. Development experts report that securing these approvals is a major factor increasing the cost and speed of development. These delays in completing final inspections and imprecise building requirements do not appear to result in any public benefit.

4. Consider tax incentives to produce affordable units and increase overall supply.
Municipalities should consider offering property tax incentives in return for affordability. Tax incentives impact property management expenses directly by reducing the annual property tax paid by an owner. A reduction in these costs leads to lower operating expenses and a lower required rent to make the project viable.

5. Frame increasing housing opportunities as a step toward redress of racial inequities.
Municipalities should recognize the historical role and the continued impact of zoning and planning policies on economic and racial segregation. As municipalities develop new plans and districts, municipalities should leverage private investment to increase opportunities in historically marginalized neighborhoods without exacerbating displacement.
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1 Introduction

Housing affordability has become a critical issue in Florida with significant implications for the state’s economic competitiveness and resilience following the COVID-19 pandemic. The crisis has underscored the importance of access to stable, affordable housing as a public health necessity. At the same time, we know that housing affordability will remain a critical issue post-pandemic, as estimates project that Florida needs to build up to 48,000 new apartments each year to meet growing demand pre-pandemic.\(^1\) Housing that is affordable to all residents is critical to a thriving state economy that provides equitable access to opportunity. **Florida’s multifamily development community is a key partner in providing housing to meet the state’s consistently growing demand.**

The rent required to support the construction of new apartment communities is determined by the cost to develop and operate these properties. As demand, construction, and operating costs have increased over the last decade in Florida, rents have increased in tandem. Both the state of Florida as a whole and its 410 municipalities can influence affordability through policies, programs, and resources that that affect underlying construction and operation cost drivers. As policy leaders grapple with strategies to improve affordability, it is imperative that new programs and policies consider these root cost drivers. In response to COVID-19, local governments have already shown flexibility to work with developers to ensure projects can still be planned and constructed. For example, Orange County has set aside a $10 million fund to waive building permit fees for six months, or until the funds are exhausted.\(^2\) Similarly, the City of Kissimmee waived building permit fees for 120 days, beginning May 1, 2020.\(^3\)

The Florida Apartment Association (FAA) and HR&A Advisors, Inc. (HR&A) produced this report to identify which factors impact housing affordability in Florida with a key focus on four metro areas: Jacksonville, Miami, Orlando, and Tampa. Founded in 1971, FAA is the multifamily housing trade association for the state of Florida. The association is an affiliate of the National Apartment Association (NAA). Currently, FAA represents more than 80% of the apartment homes in Florida—more than 750,000 units and almost three in four apartment communities across the state. FAA is a federation of associations representing and advocating the interests of the Florida multifamily rental housing industry.

HR&A is an industry-leading real estate, economic, and public policy consulting firm with more than 40 years of experience evaluating the impact of urban policies. HR&A has completed multiple assessments of citywide housing policies and programs and has shown its ability to identify improvements in regional housing policies to facilitate development and broaden affordability. HR&A has worked extensively in Florida for both public- and private-sector clients.

To identify and examine the factors contributing to rising rents and affordability challenges across the state, HR&A conducted the following analyses:

- Assessed the demand and supply-side drivers of housing costs.
- Conducted interviews with developers and operators active across the state to better understand building costs and the regulatory environment affecting housing development and operations.
- Evaluated the impact of common policies on the rents required to make development of new apartments viable through eight hypothetical pro forma models for common new multifamily typologies across the state.

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\(^3\) Orlando Sentinel, “Kissimmee waiving building permit fees for 120 days starting May 1,” April 30, 2020.
1.1 Rents in Florida have grown steadily in the last decade

Since recovering from the Great Recession, rents in Florida have increased steadily. Average multifamily rents have increased by 47%, from an average of $0.92 per square foot in 2010 to $1.34 per square foot in 2019. At these rents, the income required to spend less than 30% of household income\(^4\) for a 1,000 SF apartment increased from $36,800 to $53,600. While housing supply grew considerably as well, increasing from 1.33 million multifamily units in 2010 to 1.53 million units in 2019 (15%), it was outpaced by rent growth. This trend holds true for metro areas across the state—rents have grown about twice as fast as supply in Jacksonville, Miami, Orlando, and Tampa.

Figure 1.1: Average Multifamily Rents per SF in Florida

![Figure 1.1: Average Multifamily Rents per SF in Florida](source: CoStar, 2019 (5+ unit buildings only))

Figure 1.2: Rents versus Inventory Growth by City (2010-2019)

![Figure 1.2: Rents versus Inventory Growth by City (2010-2019)](source: CoStar, 2019 (5+ unit buildings only))

1.2 Understanding the relationships among rent, costs, supply, and demand

The development of effective policies to address housing affordability requires an understanding of the relationship between market rents, development costs, and the overall supply of housing. Market rent is broadly determined by the housing demand and the supply of units available. If demand exceeds supply, competition among renters for limited units will drive up rents — potentially displacing low-income residents. The demand for housing is significantly influenced by job growth — households will move to the region and increase demand for housing. This has been a key factor in Florida, where state gross domestic product (GDP) has increased faster than the national GDP, and especially true for Florida’s metro areas, most of which have seen GDP increases faster than increases at the state level. Between 2010 and 2018, the gross domestic product of Jacksonville, Miami, and Orlando (44%, 43%, and 50% respectively) have all grown faster than the state of Florida (41%), while Tampa trailed close behind at 39%. Growth in all four metro areas outpaced national growth (37%).

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\(^4\) Department of Housing and Urban Development (HUD) standard definition for affordability for households.
To prevent rents from rising as a function of growth in jobs and demand, housing supply must increase to meet the demand. Housing supply is influenced by the cost to finance, construct, and operate apartment communities. The higher the cost incurred by a developer, the higher the rent required to support operations and deliver a sufficient return to investors. As long as demand continues to support higher costs, rents will increase.

Successful development requires that land, zoning regulation, capital investment, and market demand align. If any of these elements are absent, development will not proceed. Developers rely on funding from lenders and investors to build new projects:

- The developer provides expertise and takes on a substantial amount of risk associated with the project (entitlement, construction, interest rate, market, etc.).
- Investors provide funds (equity) in exchange for a share of the resulting profits.

Development deals must offer sufficient returns (typically between a 15%-22% internal rate of return) to compensate equity investors. If project risks increase or the potential returns decrease, investors are likely to pursue other investment opportunities in less restrictive market settings where desired returns can be achieved.

If a project can meet these capital investment expectations and if there is suitable land, then development of new apartments can occur. Based on consultation with FAA members and interviews with active local developers, HR&A selected a return on cost metric (ROC) of 5.5%-7% as the benchmark financial return metric for analyses in this report. Detailed assumptions are available in Appendix A.

If the demand for apartments continues to increase and developers are unable to adequately meet supply, competition among renters will drive up rents. Eventually, rents will increase enough to offer attractive
returns to investors and new construction will resume. However, this will come at the exclusion of those renters who cannot afford the elevated rents.

1.3 Methodology

To evaluate the factors contributing to the affordability challenges across metro areas in Florida, HR&A undertook the following methodology:

- Interviewed local real estate development experts and analyzed real estate and demographic data to identify the factors contributing to the rising cost of housing.
- Built hypothetical proformas for typical multifamily development across common development typologies.
- Identified three potential policies affecting the cost of housing development or operations for further analysis.
- Tested the impact of the policies on the financial performance and required rent for the hypothetical developments.

HR&A and FAA identified a range of real estate experts with insight into the local real estate market to help identify the factors contributing to rising rents in metro areas across Florida. We also conducted an analysis of multifamily housing development and demographic data to analyze demand trends.

Development of hypothetical multifamily projects

To test how various policies could impact the cost of developing new apartment communities, HR&A developed proformas modeling eight hypothetical 250-unit multifamily developments across three typologies. These eight projects represent multifamily development typologies currently seen across Jacksonville, Miami, Orlando, and Tampa area metros. A proforma is a financial analysis tool used to calculate the future potential return of real estate developments based on cost, revenue, and capital assumptions. HR&A reviewed the development assumptions with FAA members to ensure that they reflect current development conditions.

Garden Apartments: Low-rise multifamily communities, characterized by a considerable amount of open space around multiple buildings and surface parking. These communities are often found at the outer edges of cities with easy access to highways and in suburban counties with cheaper land prices.

Podium: A building of five to six stories of wood framed apartments built on a concrete base. The concrete base, or podium, may be used as parking or retail. Additional parking is often provided in an adjacent structure. These communities are increasingly seen in downtown, downtown-adjacent neighborhoods, and near universities.

Tower: A building with nine or more stories constructed with steel and concrete. Towers may exceed 60 stories and are mostly found in downtown cores and along the coast in south Florida. Towers have the highest density of the three typologies as well as the highest construction costs.5

5 Due to the limited availability of data for southern-Florida highrise products, only one scenario modeled a tower development typology.
Figure 1.4: Summary of Housing Typologies

<table>
<thead>
<tr>
<th>Typology</th>
<th>Garden</th>
<th>Podium</th>
<th>Tower</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units per acre</td>
<td>15-25</td>
<td>75-110</td>
<td>175-225</td>
</tr>
<tr>
<td>Parking</td>
<td>Surface parking</td>
<td>Structured spaces</td>
<td>Structured or underground spaces</td>
</tr>
<tr>
<td>Development Costs</td>
<td>$180K/unit</td>
<td>$200K/unit</td>
<td>$300K+/unit</td>
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Identification and testing of policies affecting the cost of development

With guidance from FAA, HR&A identified policies that affect the cost of developing and operating housing across the four metros studied in this report to model how they affected required rents to develop new apartment communities. This report focuses on some of the policies and regulations that municipalities (cities and counties) control to demonstrate how the public sector can influence development costs and can help increase supply to limit the increase in housing rents. Using proforma models, HR&A then evaluated the impact of the identified policies on each of the three typologies across the four markets. For each policy, HR&A calculated the change in rent required to maintain the baseline return on cost, between 5.5%-7% depending on the market and the typology.

1.4 A framework to understand apartment development economics

Development costs influence the operating costs for a property, which determine the rent required to make a project feasible. Constructing new apartments incurs development costs — land costs, hard costs (labor and building materials), and soft costs (design, entitlements and permitting) that are paid for with financing. As development costs increase, more financing is needed to cover these costs — increasing overall operating expenses. In turn, these operating expenses are supported by the revenue that a project generates through rent. As operating expenses increase, rent must increase in tandem to support the project and maintain its feasibility.
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**Operating expenses:** Costs associated with operating and maintaining apartments after construction.

- **Financing.** Comprised of debt service and equity returns. Debt is secured in the form of loans from a financial institution to support the building. Equity is an investment of money in exchange for an ownership stake of the resulting revenue from a property. Equity investors expect to receive competitive returns in exchange for taking on the risk of investing in the project.
- **Property management.** Ongoing property costs, including routine maintenance, staffing, insurance, and property taxes.

**Revenue:** Income generated by the property.

- **Rent.** Payments by residents to occupy apartments. There also may be supplementary sources of income such as parking fees, laundry, or amenity fees which are a small portion of the revenue.
2 Market Factors Influencing Housing Costs

2.1 Summary of findings

There are multiple macroeconomic factors influencing rent, development costs, and operating costs across the state — directly impacting overall affordability. These macroeconomic factors bear a portion of the responsibility for the increase in overall rents in the past decade and are largely beyond the influence of developers, municipalities, or housing advocates. While macroeconomic conditions are outside their control, municipalities can implement policies and strategies that have significant impacts on local development costs and housing supply and can either ameliorate or worsen some of these risks. The influence of municipal policy on development costs and supply of housing is examined in Section 3.

Demand

Florida’s economic growth has led to rapid increase in the demand for housing. This is especially true for Miami and Tampa, where population growth in the city has outpaced growth in the wider metro area. Additionally, many of these households are higher-income renters — in Florida, the number of high-income renters (earning more than $100,000 annually) increased by 54% between 2010 and 2018, compared to a 34% increase of moderate-income renters (earning between $50,000 and $100,000 annually), and an 8% increase of renter households earning below $50,000.

Supply

Restrictive zoning and historical economic and racial disparities in neighborhoods across Florida’s cities limit new multifamily development. Exclusionary zoning in many parts of cities prohibit new multifamily construction, while other neighborhoods are starved of development due to a lack of public investment in infrastructure and amenities. These constraints limit the supply of new apartments to a few neighborhoods where renters are willing to pay market-rate rents and zoning permits new apartments.

Cost

Rapid growth in construction and land costs have increased the cost of development and the rents necessary to support new apartments. As land prices increase, developers often have to increase density (where permitted), increasing the cost of construction further — resulting in higher required rents per square-foot of development.
2.2 Growth in Florida’s cities have increased demand and rents

Numerous studies have concluded that location, population increase, and household income are the three greatest determinants of housing costs over time.6,7 The key drivers that factor into the cost of rent of an apartment are:

- **Location and amenities.** The location of housing and the accessibility of job centers is one of the primary determinants of rent. Through various public investments, cities across Florida have become increasingly desirable places to live. Within cities themselves, high-income renters, both young professionals and retirees who may have previously chosen to live in suburban communities, are increasingly choosing neighborhoods near walkable amenities. This is consistent with national trends reflecting an increase in the desirability of city living.8

- **Number of households and household income.** Net migration of households into Florida metros has played a large part in the overall demand for housing. This is especially true for Miami and Tampa, where population growth in the city has outpaced growth in the wider metro area. Additionally, many of these households are higher-income renters — in Florida, the number of high-income renters (earning more than $100,000 annually) increased by 54% between 2010 and 2018, compared to a 34% increase of moderate-income renters (earning between $50,000 and $100,000 annually), and an 8% increase of renter households earning below $50,000.9 This is especially the case for Miami and Tampa, where the number of high-income renters more than doubled between 2010 and 2018.

- **Unit-specific features.** Individual unit factors such as size or quality of finishing materials play a lesser, but significant, part of housing unit value and rent. While these factors are important, this report considers macroeconomic cost drivers and does not address individual unit characteristics.

**Increasing demand for urban living**

While most parts of the state have seen population growth, the growth has been concentrated in urban centers with amenities such as parks, walkable retail, and entertainment options. One measure for this is the change in population within cities versus their larger metro areas, which include more suburban and rural communities. Both Tampa and Miami (the densest cities among the four10) have seen increases in population between 2010 and 2018, considerably outpacing regional metro growth.

**Figure 2.1: Population Growth 2010-2018, City versus Metropolitan Statistical Area (MSA)**

Source: U.S. Census Bureau; ACS 2018, 2010 1-year estimates

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6 A 2017 paper from the Amsterdam Business School and the MIT Center for Real Estate found through a regression model that these three factors have been the most reliable indicators of housing price increase since World War II. The study found that historically, a 1% increase in the working age population has a 2% to 14% effect on housing prices.


9 American Communities Survey 2018, 2010 (1-year) estimates.

10 Miami has a density of 13,000 people per sq. mile, compared to 3,450 in Tampa, 2,600 in Orlando, and 1,200 in Jacksonville. American Communities Survey, 2018 (1-year) estimates.
Another indicator for increased demand for denser residential living is an urban index, a measure of residential density by census tract. Using FiveThirtyEight's tract-level urban index, HR&A found that between 2010 and 2018, denser neighborhoods in Florida saw a higher increase in median rents. This finding holds true within the metro areas for the four cities as well, in which the densest neighborhoods of each city have seen the highest growth.11

Figure 2.2: Percentage Change in Rents 2010-2018 by Density of Census Tract

Source: U.S. Census Bureau; ACS 2018, 2010 1-year estimates, FiveThirtyEight analysis12

Increasing household income for renters

New renters across the four cities have mostly been high-income households — those that are able to spend more on housing costs, further driving up prices. Between 2010 and 2018, the number of renter-households earning more than $100,000 more than doubled in Miami and Tampa and grew by more than 68% in Orlando and Jacksonville. In the same time period, renters earning below $50,000 grew far slower, by less than 10% in Miami, Orlando, and Tampa, and by 21% in Jacksonville.

Figure 2.3: Change in Renter Households Earning More than $100,000, 2010-2018

Source: U.S. Census Bureau; ACS 2018, 2010 1-year estimates

The increase in high-income renter households follows national trends with several potential reasons, from changes in preference to the inaccessibility of homeownership.13 The effects of this trend are consistent — this increase in high-income renters increases the demand for high-end rental construction, which is just about being met by new construction.14 As Daniel McCue from the Harvard Joint Center for Housing Studies states, “when new construction is only just meeting demand from new high-income renters…new high-end units are being rented out to new renters… and therefore fewer old units are left to ‘filter down’ to lower income renters.” Research indicates that the construction of new units could increase affordability through filtering; as new units are delivered, a share of older units will “filter” down the market, becoming more

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11 Defined as the top ten percentile of neighborhoods by density.
12 FiveThirtyEight measures the urban index as the natural logarithm of the average number of people living in each census tract. More information can be found at: https://fivethirtyeight.com/features/how-urban-or-rural-is-your-state-and-what-does-that-mean-for-the-2020-election/.
14 Ibid
affordable to lower-income renters.\textsuperscript{15} The increase in housing supply could reduce competition for housing units, thereby benefiting renters across multiple income levels.\textsuperscript{16} Most rental housing begins at the top of the market, especially in higher cost-of-living areas. As units age, prices decrease, and expand the number of units affordable to lower income renters. This can be seen in Florida’s multifamily market, where the median rent for units built after 2014 is $1,604 (affordable to households earning approximately $64,000)\textsuperscript{17}. However, for units built between 2010 and 2013, the median rent is $1,385 — a $219 drop (now affordable to households earning $55,000).

Figure 2.4: Florida Median Rents by Decade Building Built (in 2018 Dollars)

\begin{figure}
\centering
\includegraphics[width=\textwidth]{Figure2.4.png}
\caption{Florida Median Rents by Decade Building Built (in 2018 Dollars)}
\end{figure}

\textit{Source: U.S. Census Bureau; ACS 2018 1-year estimates}

2.3 New multifamily development is limited through zoning

Over the last few years, there has been a growing consensus that single-family zoning, enshrined in most post-war American neighborhoods and strengthened since then through exclusionary zoning practices, has made cities less affordable.\textsuperscript{18} Cities and states have begun to push back, with the Minneapolis City Council voting to end single-family zoning in 2019 and the Oregon legislature ending exclusive single-family zoning in 2019.\textsuperscript{19}

Except for a few neighborhoods in denser cities in south Florida, most residential land in Florida’s cities is zoned exclusively for single-family residential housing.\textsuperscript{20} This form of exclusionary zoning has created a shortage of multifamily housing development through zoning restrictions. As a result, multifamily housing is built almost exclusively along large corridors and highways, or in downtowns — seldom in neighborhoods.

\textsuperscript{16} Cortright, Joe, “If you want less displacement, build more housing.” City Observatory. August 27, 2018.
\textsuperscript{17} Affordability based on 30% of pre-tax monthly income as per HUD guidelines.
More than 90% of residential land in Jacksonville is zoned exclusively for single-family housing, with multifamily housing relegated to only 10% of the remaining land zoned for residential uses. Even in Miami, which is one of the densest large cities in the country, almost 50% of all residential land is zoned exclusively for single-family housing. This constriction of supply further increases the premium on new multifamily housing, wherever it is able to be built.

2.4 New multifamily development is limited by historical economic and racial disparities

Across the four cities, development of new multifamily housing is further limited to the nodes and corridors in which rents can support the cost of new construction, along with permitted zoning. Historical disparities between neighborhoods and decades of institutional disinvestment have led to a significant gap in the demand for and the ability of the market to supply new housing in large parts of most cities in Florida. Census tracts highlighted in purple in Figure 2.8 have median rents below the citywide median, and have seen far less development since 2010, compared to census tracts highlighted in green. These disparities are also consistent with other demographic and economic indicators, including income and educational attainment.

These disparities directly impact the feasibility of new multifamily housing. Census tracts with median rents above $1,000 can typically support the development of new multifamily housing (if permitted by zoning). Conversely, tracts with median rents below $1,000 often cannot support the operation and construction of new apartments. Even in Miami where density is relatively widespread, tracts in green along the coast have seen most recent development, with less construction further west.
These disparities are also present when considering racial inequities across the state. As most other disparities across the country, new multifamily housing is also inversely correlated with census tracts that are majority non-white (shown in darker red in Figure 2.9). This contributes to a vicious cycle — new multifamily development is limited by income and racial disparities, which then further exacerbates those disparities. Single-family zoning limits the amount of rental housing in a community, since single-family homes are more likely to be owner-occupied. Single-family zoning has also been found to further exacerbate housing segregation by race and class, and through artificially constraining the housing supply in areas of high opportunity. This drives up prices in these areas and makes the path to upward mobility significantly more difficult.

Single-family zoning is interwoven with race- and class-oriented discrimination; following the end of policies that explicitly zoned separate residential areas for Black and white residents, local governments

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23 Richard Reeves has written extensively on this topic in Dream Hoarders (2017) — an examination of how the upper-middle class (the top 20% of Americans) have used structural barriers including zoning to exclude a vast number of Americans from the economic prosperity of the last 50 years.
turned to regulatory constraints that limited the construction of residential product other than single-family homes, largely restricting access to Black and low-income residents.\textsuperscript{24}

In order to relieve pressure from growing housing demand and grow \textbf{equitably}, it is important to increase the feasibility of new housing development in neighborhoods that cannot currently support new development by increasing public investment in infrastructure, services, and amenities. Local municipalities have a large role to play here to prime these neighborhoods for equitable development and ensure that existing residents can benefit from private investment into previously disinvested neighborhoods.

\textbf{Figure 2.9: Recent and Pipeline Development 2010-2022 Planned with Non-White Population Share by Tract}

\begin{itemize}
\item \textbf{Jacksonville}
\item \textbf{Miami}
\item \textbf{Orlando}
\item \textbf{Tampa}
\end{itemize}

\textit{Source: CoStar, U.S. Census Bureau; ACS 2018}

\textsuperscript{24} Richard Reeves has written extensively on this topic in \textit{Dream Hoarders} (2017) — an examination of how the upper-middle class (the top 20% of Americans) have used structural barriers including zoning to exclude a vast number of Americans from the economic prosperity of the last 50 years.
2.5 Land prices have escalated drastically since 2012

As a result of both zoning and market feasibility, the potential land for new multifamily development is limited to a few neighborhoods and corridors. This increases the land prices of these neighborhoods. As land becomes more expensive, development costs rise — requiring higher rents to ensure development feasibility. Since 2012, residential land prices across Florida have increased rapidly — from an annual increase of 5% in Jacksonville to more than 11% in Tampa and Miami.

Figure 2.10: Residential Land Value per Acre Growth by Metropolitan Statistical Area (2012-2018)

As the demand for multifamily development continues to rise, landowners continue to raise prices, looking to maximize the return on their asset. Developers respond to these higher land prices by increasing the density of projects to spread the costs over a larger number of units (when zoning and entitlements permit.) However, denser development typologies are more expensive per unit to construct.

For example, a new 1,000 square-foot unit in a typical garden apartment in the Orlando metro on a 12-acre lot could rent for approximately $1,600 per month with existing market land costs at approximately $450,000 per acre. As land costs increase, the required rent becomes prohibitive. At $2 million per acre, the same garden apartment unit would require almost $2,050 in rent to be feasible for development. In comparison, if the same unit were in a podium style-development with land at $2 million an acre, the land costs can be absorbed at a lower rent (at $1,860 per month), even though the construction cost per unit is greater.

Figure 2.11: Land Costs and Minimum Required Rents

<table>
<thead>
<tr>
<th>Land Cost (per acre)</th>
<th>Minimum rent required for 1,000 SF apartment:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Garden</td>
</tr>
<tr>
<td>$0</td>
<td>$1,480</td>
</tr>
<tr>
<td>$500 thousand</td>
<td>$1,600</td>
</tr>
<tr>
<td>$1 million</td>
<td>$1,750</td>
</tr>
<tr>
<td>$1.5 million</td>
<td>$1,880</td>
</tr>
<tr>
<td>$2 million</td>
<td>$2,050</td>
</tr>
</tbody>
</table>

Source: HR&A proforma analysis based on inputs from CoStar, developer surveys, RCA Analytics

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25 Estimated to be approximately $450,000-$500,000 per acre, 2019 Q4. CoStar and developer interviews.
2.6 Higher construction costs have increased the rents required to support new development

Construction costs have increased dramatically across the country since 2000 because of the increasing cost of materials and rising construction wages. Since 2018, costs have been especially volatile due to uncertainty in tariff policy and new tariffs on Canadian and Chinese raw materials. Since 2000, construction costs in Florida have increased almost 100%, and more than 26% since 2017. On average since 2000, construction costs have increased 3.5% annually, 68% faster than inflation.

Figure 2.12: Florida Construction Costs versus Consumer Price Index Inflation (2000-2018)

[Graph showing construction costs and consumer price index inflation]

Construction costs across Florida’s cities are higher compared to the national average by about three percentage points. One of the key drivers of this increase is a shortage of skilled local construction labor. Since 2010, residential unit permits grew by 10%-14% annually. In comparison, construction employment grew by only 4%-5% annually across the four metros. The construction industry is still recovering from the contraction in the labor force since the 2008 recession. Apartment operators also report an increase in labor costs in the operation of apartment communities.

Figure 2.13: Construction Cost Premium by City

<table>
<thead>
<tr>
<th>Geography</th>
<th>Const. Costs</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>100.00</td>
<td>+0.00</td>
</tr>
<tr>
<td>Jacksonville</td>
<td>103.24</td>
<td>+3.24</td>
</tr>
<tr>
<td>Miami</td>
<td>102.99</td>
<td>+2.99</td>
</tr>
<tr>
<td>Orlando</td>
<td>103.07</td>
<td>+3.07</td>
</tr>
<tr>
<td>Tampa</td>
<td>102.84</td>
<td>+2.84</td>
</tr>
</tbody>
</table>

Source: RS Means, 2020, National Average indexed to 100

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26 Federal Reserve of St. Louis (FRED) price indices for multifamily construction.  
27 JD Supra, February 2019.
3 Municipal-Controlled Cost Drivers

While population growth, rising household incomes, and limited areas for feasible apartment development are the primary factors driving increased rents, municipal policies can also have a significant impact on rent. A region’s regulatory environment, from property tax rate to a city’s impact fees, directly affect development or operating costs. These costs directly determine the rents required to make new multifamily projects feasible.

Multifamily developers and operators noted that while it has become more difficult to develop in Florida, most municipalities are still generally supportive of development. However, there were a few specific factors that stakeholders noted caused significant frustration for developers across the state:

- **Local property taxes favor single-family housing over multifamily housing.** Developers have noted that across the state, there is often little predictability in the county appraisal process, with some operators in central Florida reporting that property taxes account for about 50% of total rent proceeds. This often incentivizes developers to sell units as condominiums, further reducing the supply of rental housing and increasing median rents.

- **Impact fees are a significant and growing part of total development costs.** These fees are one-time taxes designed to offset costs borne by local governments as a consequence of population growth. These may include payments for school districts, utility extensions, or infrastructure projects. A study by the Florida Housing Finance Agency found a wide variety of methodologies and formulas for calculating impact fees, from flat fees per units to dollars per net square foot. In the last few years, developers note that these fees have increased considerably, especially in counties that have seen significant growth, like Hillsborough and Orange counties.

- **Most neighborhoods remain opposed to multifamily housing development.** This has led municipalities to rely almost fully on discretionary processes instead of by-right multifamily zoning — either through de jure (required by law) or de facto (required in practice) entitlement processes. In a district with by-right multifamily zoning, multifamily development that complies with applicable zoning regulations does not require any discretionary approvals by local government, streamlining the review process. Developers noted that there are some exceptions, especially in municipalities that are struggling to grow and are trying to attract residents and development, like St. Petersburg. Not-In-My-Backyard (NIMBY) sentiments present a particularly challenging obstacle to housing affordability. In neighborhood debates about planning and zoning policy, many still seek to block the construction of new multifamily housing, fueling an exclusionary status quo. NIMBYism is often rooted in the fear that increasing the supply of housing will lower home values and the value of neighborhood amenities. Often related, single-family zoning reinforces racial and economic disparities by limiting access to non-white and lower-income residents. In jurisdictions with strongly discretionary development processes, community opposition to new multifamily construction and density — either affordable or market-rate — creates significant barriers to delivering homes that could improve housing affordability for renters.

- **Uncertainty of the development process and delays in plan review lead to added costs.** Developers noted that some jurisdictions have significant delays in site plan and design review and inspections to receive certificates of occupancy.

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3.1 Municipality influence on development and operating costs

The regulatory environments created by municipalities and public agencies affect the development and operating costs of new housing at all stages of a project, from initial design to stabilized operation.

**Figure 3.1: Apartment Development Framework: Municipal Cost Drivers**

### Hard Costs

Municipalities impact hard costs by setting **building codes** — standards and requirements that new buildings must meet to receive construction permits. These codes are designed to ensure the safety and habitability of a building and the residents living within it. In Florida, the minimum standards all municipalities must enforce are set by the International Code Council to regulate building, fire, fuel gas, mechanical, and other codes. Some communities have adopted standards more stringent than these national standards, which significantly increases the cost of construction. Others have developed design and amenity standards — for example, some jurisdictions mandate a minimum of 10% active recreation space. 31

### Soft Costs

Municipalities can impact soft costs by increasing the number of reports or studies required from proposed developments, increasing entitlement fees, delaying the plan review period, and imposing impact fees on new apartment development.

### Impact Fees

Impact fees are imposed on new development to pay for the cost of providing public services. In Florida, municipalities are permitted to collect these fees for transportation facilities, parks/open space, public safety such as police and fire department services, libraries, water supply, wastewater collection, and storm water collection. Fees must be approved by the municipality through an ordinance and earmarked for specific projects in the municipality’s capital improvement plan. The use of impact fees is often necessary to ensure that cities have the funds to provide for new infrastructure needs. However, like building codes, municipalities often use these fees as deterrents for new development. The table below summarizes the impact fees of the four municipalities studied.

**Figure 3.2: Impact Fees by Jurisdiction**

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Impact Fees (per unit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duval County</td>
<td>$2,000</td>
</tr>
<tr>
<td>Hillsborough County</td>
<td>$12,300</td>
</tr>
<tr>
<td>Miami-Dade County</td>
<td>$8,000-$10,000</td>
</tr>
<tr>
<td>Orange County</td>
<td>$6,000</td>
</tr>
</tbody>
</table>

Source: Duval, Orange, Hillsborough, and Miami-Dade counties planning documentation

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31 Palm Beach Gardens Municipal Code.

32 Based on fees in effect January 1, 2021, represents an increase of 2.8x existing fees. These fees do not include school impact fees, which can add significant costs to a project.
Entitlement and building fees

Municipalities set the permit costs to review proposed apartment projects. These payments reimburse the municipality for the staff time spent on each permit to ensure that the proposed project meets all required standards and regulations. The fees also facilitate a public feedback and comment period. For a prototypical garden apartment in Tampa, these fees result in an increase of approximately $5 per month for a two-bedroom apartment. Although these fees seem nominal, the effect adds up when considered in the context of all municipal policies impacting development costs. Municipalities should consider how proposed new fees directly affect the cost to supply new housing and should limit these fees.

Plan review period

In addition to entitlement fees and building fees, the period it takes to review and approve plans represents a significant cost to developers. Each month a building is delayed from opening represents lost rent revenues for the development team as well as added financing costs. Stakeholders interviewed stated that delays in the plan review period were one of the most significant drivers of project delays and added costs. The added development costs from inspection-related delays can be significant — a six-month delay to a project timeline can increase rents by $55 per month for a prototypical podium development in Orlando.33 These delays should be minimized to limit costs as much as possible.

Operating Costs

Real estate taxes are a significant operating cost and increases can cause building operators to raise rents. Stakeholders note that increases in assessed values of real estate are unpredictable and drastic, especially when new development occurs nearby. This places significant pressure on property owners to raise rents to cope with increased operating costs.

After a property has been built and an initial assessment established, an assessor may substantially change the assessed value based on recently completed units and nearby development. These increases have been aggressive in parts of Orange and Miami-Dade counties, resulting in property taxes after development increasing 15%-20% in initial years.

For the prototypical two-bedroom apartment in a garden-style community in Tampa or Orlando, a tax increase of 15% would increase rents by $36 per month (from $1,600 to $1,636). The uncertainty of these taxes and potential for future tax increases may also cause operators to increase rents to hedge against future increases.

Increasing assessment values are especially concerning for operators of older market-rate affordable housing. These older properties typically provide units at lower rents without requiring subsidy. As taxes on these properties increase due to nearby development raising values, operators are pressured to sell the property for conversion to higher-rent apartments or condominiums. Municipalities should work with assessors’ offices to examine how reassessments of older and aging properties impact the supply of affordable housing and to consider tax abatement options for these units.

Developers also reported increases in liability insurance and increases in operating labor expenses as significant operating cost drivers. Insurance premiums for existing multifamily buildings have been unpredictable from one year to the next and have been increasing faster than insurance premiums for commercial real estate. Additionally, insurance premiums for new multifamily construction are also rising.34

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33 Based on a simulated delay in a discounted cashflow. Project delays primarily add to carrying costs — the cost of holding capital and paying interest without construction or operation of the property. This carrying cost is based on a blended cost of capital of 9% with a 4% cost of debt and 16% cost of equity.

3.2 The impact of potential policies on rent

The following examples demonstrate how rents for apartments increase in response to specific policies that increase development or operating costs. These examples showcase cost drivers that impact projects across the four metros studied (Jacksonville, Miami, Orlando, and Tampa), as well as potential pitfalls seen in other cities across the country that cities in Florida should avoid.

This analysis uses a proforma of typical development styles across the four metros to estimate the amount that rents would need to increase to maintain a constant financial return in response to a policy that increases development or operating costs. The report evaluates four policies:

1. Tax increase
2. Project delay and added construction costs
3. Impact fee increase
4. Hard cost increase

In isolation, each of these cost drivers may seem inconsequential to rents and affordability. However, the cumulative impact can be substantial and might significantly exacerbate the housing affordability crisis. The analysis highlights the reason that municipalities should consider housing affordability and cost implications for apartment residents when evaluating the impact of any proposed policies.

Increasing real estate taxes by 15% annually

As previously discussed, stakeholders interviewed reported initial annual tax increases of more than 15%. These increases in taxes translate to increased property management expenses for apartment operators and have a significant impact on the overall minimum rent required for the four prototypical projects used in the evaluation. A conservative increase of an initial 15% tax increase results in a 3% increase in monthly rents to maintain previous return on cost metrics.

Figure 3.3: Property Tax Increase

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>Garden Apartments</th>
<th>Podium Development</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Base Rent</td>
<td>Increase</td>
</tr>
<tr>
<td>Jacksonville</td>
<td>$1,500</td>
<td>+$35 (2%)</td>
</tr>
<tr>
<td>Miami</td>
<td>Refer to footnote 36</td>
<td></td>
</tr>
<tr>
<td>Orlando</td>
<td>$1,600</td>
<td>+$47 (3%)</td>
</tr>
<tr>
<td>Tampa</td>
<td>$1,590</td>
<td>+$47 (3%)</td>
</tr>
</tbody>
</table>

35 Based on prototypical rents for an average of 1,000 SF per unit (approximately a 2-BR unit).
36 In Figures 3.3 through 3.7, the garden apartment typology was not included in the Miami analysis, as it is not a common typology in the new construction, multifamily rental market.
Six-month delay due to permit review and 5% increase in construction costs

A six-month delay in the project opening due to a lengthy site review and a 5% increase in construction costs can require rents increase by about $100 per month to maintain constant returns. This scenario is based on the experience of developers who have reported delays in securing approvals and seeing construction costs rise substantially during this period. These delays are often avoidable by having a by-right approval process. Multifamily development that complies with applicable zoning regulations in districts that permit by-right multifamily development does not require any discretionary approvals by local government, reducing delays in the review process. The increase in construction costs affect both hard and soft costs, while the project delay increases soft costs and can also impact financing costs.

Figure 3.4: Delay and Construction Cost Increase

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>Base Rent</th>
<th>Increase (%)</th>
<th>New Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jacksonville</td>
<td>$1,500</td>
<td>+$109 (7%)</td>
<td>$1,609</td>
</tr>
<tr>
<td>Miami</td>
<td>Refer to footnote 36</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Orlando</td>
<td>$1,600</td>
<td>+$103 (6%)</td>
<td>$1,703</td>
</tr>
<tr>
<td>Tampa</td>
<td>$1,590</td>
<td>+$103 (6%)</td>
<td>$1,693</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>Base Rent</th>
<th>Increase (%)</th>
<th>New Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jacksonville</td>
<td>$1,650</td>
<td>+$100 (6%)</td>
<td>$1,750</td>
</tr>
<tr>
<td>Miami</td>
<td>$2,100</td>
<td>+$93 (4%)</td>
<td>$2,193</td>
</tr>
<tr>
<td>Orlando</td>
<td>$1,840</td>
<td>+$97 (5%)</td>
<td>$1,937</td>
</tr>
<tr>
<td>Tampa</td>
<td>$1,840</td>
<td>+$97 (5%)</td>
<td>$1,937</td>
</tr>
</tbody>
</table>

Increase in impact fees by $8,000 per unit

Increasing impact fees by $8,000 per unit (as estimated with new changes to impact fees in Hillsborough County) would increase monthly rents by $40-$50. If other cities follow this lead and substantially increase costs, project feasibility could suffer and rents across the state could increase substantially.

Figure 3.5: Increase in Impact Fees

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>Base Rent</th>
<th>Increase (%)</th>
<th>New Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jacksonville</td>
<td>$1,500</td>
<td>+$51 (3%)</td>
<td>$1,551</td>
</tr>
<tr>
<td>Miami</td>
<td>Refer to footnote 36</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Orlando</td>
<td>$1,600</td>
<td>+$48 (3%)</td>
<td>$1,648</td>
</tr>
<tr>
<td>Tampa</td>
<td>$1,590</td>
<td>+$48 (3%)</td>
<td>$1,638</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>Base Rent</th>
<th>Increase (%)</th>
<th>New Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jacksonville</td>
<td>$1,650</td>
<td>+$45 (3%)</td>
<td>$1,695</td>
</tr>
<tr>
<td>Miami</td>
<td>$2,100</td>
<td>+$42 (2%)</td>
<td>$2,142</td>
</tr>
<tr>
<td>Orlando</td>
<td>$1,840</td>
<td>+$43 (2%)</td>
<td>$1,883</td>
</tr>
<tr>
<td>Tampa</td>
<td>$1,840</td>
<td>+$43 (2%)</td>
<td>$1,883</td>
</tr>
</tbody>
</table>
Design Review Increase of $2 million

Community opposition to a proposed project significantly influences the likelihood that the zoning review board or design review commission will deny required entitlements. To secure these approvals, projects often have to increase curb appeal by qualitative standards, substantially increasing construction costs. A facade improvement of $2 million would require rents to increase by $50-$60 per month to maintain constant returns.

Figure 3.6: Increase in Hard Costs

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>Base Rent</th>
<th>Increase</th>
<th>New Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jacksonville</td>
<td>$1,500</td>
<td>+$64 (4%)</td>
<td>$1,564</td>
</tr>
<tr>
<td>Orlando</td>
<td>$1,600</td>
<td>+$60 (4%)</td>
<td>$1,660</td>
</tr>
<tr>
<td>Tampa</td>
<td>$1,590</td>
<td>+$60 (4%)</td>
<td>$1,650</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>Base Rent</th>
<th>Increase</th>
<th>New Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jacksonville</td>
<td>$1,650</td>
<td>+$57 (3%)</td>
<td>$1,707</td>
</tr>
<tr>
<td>Miami</td>
<td>$2,100</td>
<td>+$52 (2%)</td>
<td>$2,152</td>
</tr>
<tr>
<td>Orlando</td>
<td>$1,840</td>
<td>+$54 (3%)</td>
<td>$1,894</td>
</tr>
<tr>
<td>Tampa</td>
<td>$1,840</td>
<td>+$54 (3%)</td>
<td>$1,894</td>
</tr>
</tbody>
</table>
3.3 The cumulative impact of municipal policies

Although these policies may seem to have a small individual impact, the costs often compound and together substantially increase rents. If a project faced all of the cost increases discussed in Section 4.2, rents may need to increase by 12%-17% to maintain consistent returns. This is the difference between a new garden-style apartment in Orlando being affordable to a two-person household earning $64,000 annually and to a household making $75,000. If household affordability is a public goal for these jurisdictions, they must consider the collective and cumulative costs on overall affordability.

Figure 3.7: Cumulative Impact of Municipal Policies

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>Base Rent</th>
<th>Increase</th>
<th>New Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jacksonville</td>
<td>$1,500</td>
<td>+$261 (17%)</td>
<td>$1,761</td>
</tr>
<tr>
<td>Miami</td>
<td>Refer to footnote 36</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Orlando</td>
<td>$1,600</td>
<td>+$260 (16%)</td>
<td>$1,860</td>
</tr>
<tr>
<td>Tampa</td>
<td>$1,590</td>
<td>+$260 (16%)</td>
<td>$1,850</td>
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</table>

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>Base Rent</th>
<th>Increase</th>
<th>New Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jacksonville</td>
<td>$1,650</td>
<td>+$246 (15%)</td>
<td>$1,896</td>
</tr>
<tr>
<td>Miami</td>
<td>$2,100</td>
<td>+$259 (12%)</td>
<td>$2,359</td>
</tr>
<tr>
<td>Orlando</td>
<td>$1,840</td>
<td>+$249 (14%)</td>
<td>$2,089</td>
</tr>
<tr>
<td>Tampa</td>
<td>$1,840</td>
<td>+$248 (14%)</td>
<td>$2,088</td>
</tr>
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3.4 By-right development versus discretionary approval

Municipalities can have the greatest effect on affordability by allowing developers to grow the supply of housing in accordance with demand, to help stabilize and lower rents through by-right development. By-right development improves affordability by lowering the cost of development and increasing the supply of housing. Faster, more predictable approval processes lower risk and the amount of investment required, reducing overall development costs. Creating new housing also reduces the competition between new and longtime residents for existing housing that drives up rents and can harm affordability.

Most apartment projects across the state require discretionary approval processes. The discretionary approval process includes significant neighborhood input that lengthens the development process, increases costs, and introduces the risk that elected officials will reject projects. As noted previously, most of the cities (with the exception of Miami) are exclusively zoned for single-family development, limiting the areas in which multifamily development can proceed by-right and with minimal delay.

While discretionary approvals and plan reviews enable essential public input to large changes to a city, the increased risk reduces the overall supply of new housing. Projects can often be stuck in a long entitlement process to up-zone parcels intended for multifamily development, and neighborhood opposition to increased density is generally most pronounced in neighborhoods with the highest demand for new housing. Development experts report frequently that they reduce the density of proposed projects in response to neighborhood opposition. This loss of units reduces overall housing supply and increases the rent required to make new development feasible.

37 Based on prototypical rents for an average of 1,000 SF per unit, approximately a two-bedroom unit.
4 Affordable housing and the need for subsidy

Rents that are affordable to low- and middle-income households cannot support the cost of construction and operation of new apartments. A four-person household earning 50% of Tampa’s area median income ($53,500) can afford to spend $835 per month (30% of their income) on rent for a two-bedroom apartment. The required rent for a two-bedroom apartment to support new garden apartment development is approximately $1,590 per month, a difference of $755 per month. Market investors would lose approximately $17 million in project value if the project had set aside 30% of units to rent at $835 per month. With these metrics, developers would be unlikely to raise capital in a competitive market — unless they secured low-cost, mission-based equity. Incentives to provide affordable housing must fully account for this rent differential if the development community is to provide new affordable apartments.

Figure 4.1: Potential Change in Project Value Based on Portion Set Aside for Families Earning 50% of Area Median Income

<table>
<thead>
<tr>
<th>Set-Aside Portion</th>
<th>Loss in Value</th>
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<tbody>
<tr>
<td>5%</td>
<td>$1,680,000</td>
</tr>
<tr>
<td>10%</td>
<td>$3,370,000</td>
</tr>
<tr>
<td>15%</td>
<td>$5,050,000</td>
</tr>
<tr>
<td>20%</td>
<td>$6,740,000</td>
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<tr>
<td>25%</td>
<td>$8,420,000</td>
</tr>
<tr>
<td>30%</td>
<td>$10,100,000</td>
</tr>
</tbody>
</table>

Source: City of Tampa AMI Thresholds, Prototypical Tampa Garden Apartment

4.1 Potential capital subsidy required for affordable units

Housing units are typically considered affordable if the household spends no more than 30% of their income on housing. Households earning 30%, 50%, and 80% of the area median income are only able to afford rents that are below the market-rate rent for new development across the four metros studied. Figure 4.2 shows the capital subsidy required per unit for 20% of the units in a typical 250-unit garden-style apartment building to be affordable at various income levels. This gap is calculated as the difference between the financing that an affordable unit can support and the amount required to develop and operate the unit.

Figure 4.2: Required Capital Subsidy for 20% set-aside

<table>
<thead>
<tr>
<th>Affordability Level:</th>
<th>30% AMI</th>
<th>50% AMI</th>
<th>80% AMI</th>
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<tbody>
<tr>
<td>Affordable rent:</td>
<td>$643</td>
<td>$835</td>
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<tr>
<td>Total subsidy required:</td>
<td>$8.4 million</td>
<td>$6.7 million</td>
<td>$1.7 million</td>
</tr>
<tr>
<td>Per unit subsidy required:</td>
<td>$33,700</td>
<td>$27,000</td>
<td>$7,100</td>
</tr>
<tr>
<td>Change in return without subsidy:</td>
<td>-122 bps</td>
<td>-97 bps</td>
<td>-25 bps</td>
</tr>
</tbody>
</table>

Source: City of Tampa AMI Thresholds, Prototypical Tampa Garden Apartment with ROC of 6.43%

The need to incentivize the construction of affordable housing is not a foreign concept in the State of Florida. One important tool that the state uses to address affordable housing is the Sadowski Affordable Housing Trust Fund. The Sadowski Act (1992) created a dedicated revenue source to fund Florida’s affordable housing programs. The housing trust fund, which is also known as the Sadowski fund, is financed by document stamp taxes that are paid on all real estate transactions that take place in the state. Usage

38 Basis points (bps) describe the percentage point change in return on cost; one basis point is equivalent to 0.01 percentage point. For example, a change in the return of cost from 6% to 5.25% results in a 75-basis point reduction.
of the Sadowski Affordable Housing Trust Fund dollars requires an appropriation by the state legislature. As a result, Sadowski Housing Trust Fund dollars are often the target of funding sweeps when revenue is needed for other priorities within the state budget.

Once appropriated, Sadowski funds are reinvested into the community to help Florida’s most vulnerable populations, which include veterans, the elderly, those experiencing homelessness, and persons with special needs. These funds aid in the construction or refurbishment of affordable units. In general, 30% of the funding is used for initiatives such as the State Apartment Incentive Loan (SAIL) program and 70% of the trust fund resources are used for single-family housing initiatives (SHIP). In the apartment industry, SAIL funds are used to rehabilitate existing apartments or build new units where additional affordable housing is needed.

It is important to note that the process of obtaining SHIP or SAIL funding is extremely competitive and only a select number of projects are ultimately funded each year. Therefore, while the Sadowski Affordable Housing Trust fund is a useful tool, it is not a silver bullet to address Florida’s growing affordable housing needs. In light of the challenges posed by these limited resources, a property tax incentive for affordable housing could be a powerful tool to fill the current gap that exists in the traditional market.
5 Key Takeaways

Based on the analysis of housing cost drivers across Florida, municipalities across the state should consider the following steps to partner with the development community to ensure that the region remains affordable for all Floridians:

1. Understand and evaluate the cumulative impact of all municipal policies on rent. City councils should study the impact of new municipal policies on area rents before taking action and study the impact of all their policies on area rents.

2. Expand by-right zoning for apartments — especially in parts of the region that are experiencing the most growth. Communicate the benefits of multifamily housing to municipalities and residents — especially related to the positive environmental, fiscal, and affordability impacts.

3. Streamline and reform permitting processes to reduce delays.

4. Commit local resources to preserve existing housing affordability and subsidize new affordable units.

5. Frame increasing housing opportunities as a step towards redress of racial inequities. While expanding housing opportunities will not solve all the problems of exclusion, recognizing its role in the larger conversation about racial and economic segregation is critical.

Evaluate the cumulative impact of municipal policies on rent

When municipal policies are layered together, they can significantly raise the rent required to expand the supply of multifamily housing and can hurt affordability. As Figure 3.7 demonstrates, the cumulative effect of multiple policies can add up to overall rent increases of 12%-17%, shifting affordability away from middle-income households.

Municipalities should consider an approach for new policies that assess the impact of housing affordability before introducing new policy. This assessment will need to respond to two key questions:

- What is the direct result of this policy on future rents? How would this policy change required rents for units currently in the pipeline?
- What is the indirect effect on overall housing affordability? How will this policy change the number of households in the region that can afford an apartment?

Answering these questions will enable municipal officials to make informed decisions about taxes, fees, and other cost drivers that impact housing affordability goals.

Expand by-right zoning for apartment communities

Cities across Florida have significant potential to increase the amount of land zoned for apartments to increase the supply of new housing and meet rising demand. As the state continues to grow, population growth will continue. Apartments offer a cost-effective and sustainable opportunity for the state to meet demand. In a step towards addressing housing affordability, Florida lawmakers recently approved House Bill 1339, authorizing local governments to approve affordable housing in residential, commercial, or industrial zoning. Effectively conveying the benefits of multifamily housing is key. Multifamily stimulates and sustains local economies, neighborhood health, and overall economic competitiveness. Additionally, expanding development while ensuring affordability is preserved can help avoid displacement — which occurs most commonly when higher-income renters replace existing lower-income renters due to a lack of available housing options.

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36 In 2019, NHMC released an article developed by HR&A describing the benefits of multifamily from economic vitality, to fiscal health, environmental sustainability, and enhanced quality of life — as part of the housing affordability toolkit, https://housingtoolkit.nmhc.org/wp-content/uploads/2019/04/D_NMHC_PDF-Sections_Multifamily-Benefits_PG-36-TO-44.pdf
Municipalities should especially focus on areas where housing costs are higher than average. Comprehensive plan and zoning updates should evaluate where housing costs exceed the regional average to determine where the demand for housing exceeds supply. Within these neighborhoods, sites should be targeted for additional density.

**Streamline and reform permitting processes to reduce delays**

Municipalities across the state should streamline and reform permitting processes and issuing certificates of occupancy. Development experts report that securing these approvals is a major factor increasing the cost and speed of development. These delays in completing final inspections and imprecise building requirements do not appear to result in any public benefit.

- **The development approval process should be predictable.** Predictability reduces the cost of development by reducing project risk and allows developers to focus on projects that will be approved, increasing overall supply.
- **A streamlined approval process should limit discretionary reviews.** Projects that require minor variances or no zoning or entitlement changes should be subject to administrative approval by staff, rather than go through a larger review process.

**Consider tax incentives to produce affordable units and increase overall supply**

Municipalities should consider offering property tax incentives in return for affordability. Tax incentives impact property management expenses directly by reducing the annual property tax paid by an owner. Lower property management expenses may also help underwrite more favorable financing terms. Counties and municipalities should explore regulatory mechanisms that would enable them to grant property tax incentives that support the construction of affordable housing. Florida Statute 196.1978 provides an affordable housing tax exemption if the property is affordable and is at least 50% owned by a nonprofit entity. Similar tax exemptions for naturally occurring affordable housing and moderate-income (workforce) housing could increase the total yield of units.

A reduction in these costs leads to a lower amount of operating expenses required, and a lower required rent to make the project viable. Policies that require affordability as a condition of tax incentive must ensure that the reduction in rent can be offset by the savings in operating expenses.

In stronger neighborhoods and markets, municipalities might reduce property taxes in exchange for a commensurate reduction in rents. Each dollar of tax abatement provided can result in an additional dollar of affordability per unit. In weaker markets, providing a property tax incentive to encourage construction of new apartments can have an indirect impact on affordability by increasing overall supply at rental rates that would not otherwise make the project feasible.

**Frame increasing housing opportunities as a step towards redress of racial inequities**

Municipalities should recognize the historical role and the continued impact of zoning and planning policies on economic and racial segregation. Single-family zoning often reinforces economic and racial disparities, and constrained supply in areas experiencing rising demand will remain a key driver in increasing housing costs. In jurisdictions with highly discretionary development processes, community opposition to new multifamily construction and density can perpetuate an exclusionary status quo. Expanding by-right zoning for multifamily housing while considering anti-displacement strategies will help cities work toward more inclusive zoning policies. Moreover, as municipalities develop new plans and districts, municipalities should leverage private investment to increase opportunities in historically marginalized neighborhoods without exacerbating displacement.
### Project Specification

<table>
<thead>
<tr>
<th></th>
<th>Jacksonville</th>
<th>Podium</th>
<th>Podium</th>
<th>High Rise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
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<td>Podium</td>
<td>Podium</td>
<td>High Rise</td>
</tr>
<tr>
<td>Parking Type</td>
<td>Surface</td>
<td>Structure</td>
<td>Structure</td>
<td>Structure</td>
</tr>
<tr>
<td>Parking Ratio</td>
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<td>Total Units</td>
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<td>250 units</td>
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<td>250 units</td>
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<tr>
<td>Net / Gross SF Ratio</td>
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<td>80%</td>
<td>81%</td>
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<tr>
<td>Land Size (SF)</td>
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<td>65,602 SF</td>
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### Development Costs

<table>
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<th>Podium</th>
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<td>Land Costs (per land SF)</td>
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<td>$180/SF</td>
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<td>Hard Costs (GSF) (excluding contingency and parking)</td>
<td>$92/SF</td>
<td>$140/SF</td>
<td>$170/SF</td>
<td>$200/SF</td>
</tr>
<tr>
<td>Soft Costs (GSF)</td>
<td>$17/SF</td>
<td>$25/SF</td>
<td>$31/SF</td>
<td>$36/SF</td>
</tr>
<tr>
<td>Parking Costs (per space)</td>
<td>$1,500/space</td>
<td>$18,000/space</td>
<td>$25,000/space</td>
<td>$35,000/space</td>
</tr>
<tr>
<td>Developer Fee (as percentage of hard and soft costs)</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

### Revenue

<table>
<thead>
<tr>
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<th>Podium</th>
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<tbody>
<tr>
<td>Average Rent per SF</td>
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<td>Annual Rent Escalation</td>
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<tr>
<td>Vacancy</td>
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<td>6.0%</td>
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### Operation Costs

<table>
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<tr>
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<th>Podium</th>
<th>High Rise</th>
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<tr>
<td>Annual Opex (inclusive of replacement reserve and utilities)</td>
<td>$4,000 /unit</td>
<td>$4,200 /unit</td>
<td>$5,500 /unit</td>
<td>$6,000 /unit</td>
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<tr>
<td>Annual Taxes</td>
<td>$2,000 /unit</td>
<td>$2,400 /unit</td>
<td>$4,000 /unit</td>
<td>$4,000 /unit</td>
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<tr>
<td>New Taxes</td>
<td>$2,000 /unit</td>
<td>$2,400 /unit</td>
<td>$4,000 /unit</td>
<td>$4,000 /unit</td>
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<tr>
<td>Opex Escalation</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
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<tr>
<td>Tax Escalation</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
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<tr>
<td>Capitalization Rate</td>
<td>5.76%</td>
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### Return Metrics

<table>
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<tr>
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<th>Podium</th>
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</thead>
<tbody>
<tr>
<td>Target Yield on Costs</td>
<td>6.78%</td>
<td>6.02%</td>
<td>5.54%</td>
<td>5.04%</td>
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</tbody>
</table>

**Sources:** CoStar, FAA member survey, CBRE Cap Rate Report Q12020
## Appendix A: Model Assumptions

### Project Specification

<table>
<thead>
<tr>
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<th>Podium</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type</strong></td>
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<td>Garden</td>
<td>Podium</td>
</tr>
<tr>
<td><strong>Parking Type</strong></td>
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<td>Surface</td>
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</tr>
<tr>
<td><strong>Parking Ratio</strong></td>
<td>2.00 space/unit</td>
<td>1.80 space/unit</td>
<td>1.80 space/unit</td>
<td>1.25 space/unit</td>
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<tr>
<td><strong>Total Units</strong></td>
<td>250 units</td>
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<td>250 units</td>
<td>250 units</td>
</tr>
<tr>
<td><strong>Net / Gross SF Ratio</strong></td>
<td>81%</td>
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<tr>
<td><strong>Land Size (SF)</strong></td>
<td>520,000 SF</td>
<td>65,602 SF</td>
<td>520,000 SF</td>
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</tr>
<tr>
<td><strong>Average Unit Size</strong></td>
<td>1,000 SF</td>
<td>800 SF</td>
<td>1,000 SF</td>
<td>800 SF</td>
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</table>

### Development Costs

<table>
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<tr>
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<th>Orlando</th>
<th>Podium</th>
<th>Tampa</th>
<th>Podium</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Land Costs (per land SF)</strong></td>
<td>$10/SF</td>
<td>$90/SF</td>
<td>$5/SF</td>
<td>$49/SF</td>
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<tr>
<td><strong>Hard Costs (GSF) (excluding contingency and parking)</strong></td>
<td>$100/SF</td>
<td>$150/SF</td>
<td>$100/SF</td>
<td>$150/SF</td>
</tr>
<tr>
<td><strong>Soft Costs (GSF)</strong></td>
<td>$18/SF</td>
<td>$27/SF</td>
<td>$18/SF</td>
<td>$27/SF</td>
</tr>
<tr>
<td><strong>Parking Costs (per space)</strong></td>
<td>$1,500/pace</td>
<td>$18,000/pace</td>
<td>$1,500/pace</td>
<td>$18,000/pace</td>
</tr>
<tr>
<td><strong>Developer Fee (as percentage of hard and soft costs)</strong></td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

### Revenue

<table>
<thead>
<tr>
<th></th>
<th>Orlando</th>
<th>Podium</th>
<th>Tampa</th>
<th>Podium</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average Rent per SF</strong></td>
<td>$1.60/SF</td>
<td>$2.30/SF</td>
<td>$1.59/SF</td>
<td>$2.30/SF</td>
</tr>
<tr>
<td><strong>Annual Rent Escalation</strong></td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td><strong>Vacancy</strong></td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

### Operation Costs

<table>
<thead>
<tr>
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<th>Podium</th>
<th>Tampa</th>
<th>Podium</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Opex</strong> (inclusive of replacement reserve and utilities)</td>
<td>$4,000 /unit</td>
<td>$4,500 /unit</td>
<td>$4,000 /unit</td>
<td>$4,500 /unit</td>
</tr>
<tr>
<td><strong>Annual Taxes</strong></td>
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<td>$3,000 /unit</td>
<td>$2,700 /unit</td>
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<tr>
<td><strong>New Taxes</strong></td>
<td>$2,700 /unit</td>
<td>$3,000 /unit</td>
<td>$2,700 /unit</td>
<td>$3,000 /unit</td>
</tr>
<tr>
<td><strong>Opex Escalation</strong></td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td><strong>Tax Escalation</strong></td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td><strong>Capitalization Rate</strong></td>
<td>5.42%</td>
<td>4.81%</td>
<td>5.42%</td>
<td>4.81%</td>
</tr>
</tbody>
</table>

### Return Metrics

<table>
<thead>
<tr>
<th></th>
<th>Orlando</th>
<th>Podium</th>
<th>Tampa</th>
<th>Podium</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target Yield on Costs</strong></td>
<td>6.43%</td>
<td>5.81%</td>
<td>6.43%</td>
<td>5.82%</td>
</tr>
</tbody>
</table>