Q2’ 25 South Florida

Multifamily Market Overview

FURROW

Executive Summary (Q2 2025) – South Florida Multifamily

- **Migration & Demand**: Florida remains net positive but normalized (~+250k 2022 → +126k 2023 → ~+64k 2024); Miami +~325k residents since 2020, supporting durable rental demand.
- **Rents & Occupancy:** Average rent ~$2,500 (YoY ~0.1%–1.5%); occupancies above U.S. average; net absorption ~25,870 units projected to slightly exceed deliveries—new supply is being leased.
- **Class B/C Outperformance:** Workforce submarkets led gains (+14.8% North Central Miami; +4.7% Homestead/South Dade); Class A flat/negative amid concessions and heavy luxury deliveries.
- **Insurance: Reforms:** (SB 2-A; HB 13 windstorm expansion) are slowing hikes, but premiums remain near record highs—models assume elevated, only modestly easing costs.
- **Pricing & Debt:** Cap rates reset to ~5.1% (mid-2024); smaller deals often low-6%; debt ~5.5%–6.5% → tight/negative spreads; requires disciplined pricing and execution.
- **Deal flow is gaining momentum and liquidity is normalizing:** ~$1B in South Florida multifamily trades Jan–Apr 2025 (≈3× the same 2024 period) as sellers reset and buyers deploy dry powder.
- **Policy Tailwinds:** Live Local Act (SB 102) enables by-right multifamily on commercial land with affordability set-asides; ~$811M incentives/tax breaks; Miami-Dade adds trust funds, faster permitting, Miami Forever Bond, and large projects (e.g., 63-acre Little River).
- **Base-Case Outlook (2025–2026):** Vacancy peaks mid–high-6% in 2025 (up to ~7% in pockets) as supply crests; 2026 improves as starts fall and absorption catches up. Rent growth ~1–2% (’25), ~1–2% (up to 3%) (’26); if rates ease, cap rates compress ~50–100 bps by ’26.

Managing Partner’s Message

As we close Q2 2025, Furrow continues to execute from a position of discipline and focus. South Florida’s multifamily market remains fundamentally sound—supported by sustained in-migration, healthy occupancy, continued job growth, and strong quality-of-life fundamentals. While insurance and tax pressures require prudent planning, our approach emphasizes resilient submarkets, conservative underwriting, risk-mitigation (including insurance and capex), and Class B/C workforce housing where supply is limited and demand is persistent.

We are leveraging deep lender, broker, and operating relationships to source opportunities that meet strict return and risk parameters, with business plans stress-tested for today’s financing environment. As supply crests and capital conditions gradually normalize, we believe disciplined, value-add execution is positioned to create durable cash flow and long-term value. Thank you for your continued trust—we look forward to updating you as we reach our next milestones.

Marcos Ledesma
Furrow Capital LLC

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Market Snapshot & Key Takeaways

Florida is still a net in-migrant state, but the surge has cooled sharply (≈250k in 2022, 126k in 2023, ~64k in 2024). Even so, South Florida’s growth—Miami alone has added ~325k residents since 2020—keeps rental demand firm. Rents have largely flattened (≈0.1%–1.5% YoY) around $2,500, occupancies remain above the U.S. average, and liquidity is thawing, with roughly $1B in multifamily trades in the first four months of 2025—nearly triple 2024. Against that backdrop, disciplined, value-add execution in Class B/C assets—backed by conservative exit assumptions and creative structuring—remains the most attractive path as the bid-ask gap narrows.

Regarding regulatory last changes, to mention that Florida’s 2022 insurance reforms (SB 2-A, etc.) are beginning to work—lawsuit abuse is down, new carriers are returning, and hikes are easing—while 2025 tweaks (HB 1551, SB 554) and HB 13 (expanding Citizens windstorm coverage) seek further stability. On the Live Local Act (SB 102) continues to be a game-changer, pre-empting local zoning to allow by-right multifamily with affordability set-asides and pairing it with $811M in incentives and tax breaks, as Miami-Dade layers in trust funds, faster permitting, Miami Forever Bond dollars, and large-scale projects like the 63-acre Little River redevelopment. Lastly, Post-Surfside event in 2021, tougher 30-/10-year recertifications and rising climate/flood-resilience standards add capex and compliance pressure, demanding rigorous underwriting—especially on older assets.

The outlook for the upcoming months, we foresee a soft landing: inflation glides toward ~2%, rates ease, financing pressure lightens, vacancies peak in 2025 (mid–high 6%, ~7% in pockets) as supply crests, and fundamentals begin to re-tighten in 2026. Expect rent growth of ~1%–2% in 2025 and ~1%–2% (up to 3%) in 2026, with Class B/C outperforming on tighter supply and “trade-down” demand; if the Fed cuts as expected, cap rates could compress 50–100 bps by 2026.

Multifamily Market Overview

Despite capital market headwinds, the South Florida multifamily market remains fundamentally resilient. Below we summarize current trends and data points shaping our investment environment:

Net Migration & Demand: Florida remains a net in-migrant state, but the surge has normalized: ~250k net domestic migrants in 2022 → ~126k in 2023 → ~64k in 2024. The inflow still supports housing demand, though higher housing/insurance costs have narrowed the gap. South Florida continues to stand out—Miami has added ~325k residents since 2020—providing a durable tailwind for apartment demand even as growth moderates.

Rents & Occupancy: After two years of double-digit gains, rents have normalized: ~$2,500/month in South Florida, essentially flat (+0.1%–1.5% YoY) versus the U.S. at $1,736 (+0.2%). Occupancies remain above national levels, and despite record deliveries, net absorption is set to slightly exceed new supply, confirming that new product is leasing. Population growth and would-be buyers sidelined by high mortgage rates continue to support demand.

Class B and C Outperformance: Workforce housing continues to outpace luxury. Class A rents are flat to down in several high-end submarkets amid heavy new supply and concessions, while Class B/C shows stronger gains—e.g., North Central Miami +14.8% and Homestead/South Dade +4.7%. Limited workforce supply and “trade-down” demand from renters priced out of Class A are driving this divergence; by contrast, the priciest areas logged minimal to negative growth, with the balance of submarkets averaging only ~+0.5%.

Insurance Pressures: Premiums remain near record highs after years of hurricane losses, carrier exits, and litigation—now the fastest-growing expense pressuring NOI, especially on older multifamily. Reforms are helping at the margin: SB 2-A (2022) curtailed AOB and one-way attorney fees; My Safe Florida Home expanded in 2024 ($200M for resiliency retrofits); and HB 13 (2025) broadened Citizens windstorm eligibility, with some Miami-Dade premiums reduced for 2025 as new carriers re-enter and hikes slow. We continue to underwrite elevated costs with only modest future relief, and prioritize mitigation and storm-hardening to contain long-run insurance spend.

Cap Rates & Financing Spreads: The market remains in price discovery. Cap rates have widened off 2021 lows, but well-located South Florida multifamily still trades at mid-5% (≈5.1% mid-2024), while debt sits around 5.5%–6.5%, leaving tight/negative spreads and making underwriting tougher. Smaller middle-market assets often clear at low-6% caps as sellers adjust; cap rates have inched up over the last two quarters. Liquidity is thawing—about $1B traded in the first four months of 2025 (≈3× the same 2024 period) as buyers with dry powder re-enter. Our stance: value-add execution and creative structuring, with conservative exit caps and below-ask bidding, while the bid-ask gap continues to narrow.

Regulatory Watch – Policies and Legislation Update

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Property Insurance Reform: Florida's fixes are taking hold. SB 2-A (2022) curtailed lawsuit abuse and helped bring carriers back; the Governor reported near-zero average homeowner rate hikes in 2024. In 2025, lawmakers advanced refinements (HB 1551, SB 554) and HB 13 (effective July 1, 2025) expanded Citizens windstorm eligibility to widen access in high-risk areas. The state also earned $1B+ (2024) for tax relief and mitigation grants. For multifamily, this points to stabilization—not relief yet; we'll monitor 2025 renewals through hurricane season and continue underwriting elevated premiums with only modest easing.

Zoning & Affordable Housing (Live Local Act): A statewide overhaul that preempts local zoning to speed affordable/workforce housing—allowing by-right multifamily on commercially zoned sites when a share of units is affordable, even where local density limits would have blocked it. The law pairs this with $811 million in housing programs and new property-tax incentives for landlords that set aside workforce units. Bottom line: a "carrot-and-stick" framework that cuts entitlement risk, improves project feasibility, and should accelerate multifamily supply, especially in the Class B/C and attainable segment.

Local Affordability Initiatives: South Florida is leaning into incentives over rent control to add attainable supply. Miami-Dade is expanding its Affordable Housing Trust Fund and offering faster permitting; the City of Miami's Miami Forever Bond allocates funding for affordable projects. In April, the city approved the 63-acre "Little River" mixed-use redevelopment, set to be Miami's largest affordable/workforce housing project. Municipalities are also deploying city-owned land, grants, and tax abatements to catalyze deals, while Florida law largely pre-empts rent control. For Class B/C investors, these programs lower entitlement friction and improve feasibility, supporting sustainable rent growth without pricing out residents. We remain attentive to evolving tenant-protection ordinances and manage to full compliance.

Building Safety & Climate Resilience: Post-Surfside rules now require recertification at 30 years and every 10 years thereafter, driving capex needs for structural/electrical upgrades—especially on older assets nearing deadlines. At the same time, South Florida cities are tightening flood-resilience standards (higher finished-floor elevations, stormwater improvements), adding compliance costs but reducing long-run risk. Our approach: front-load property-condition diligence, underwrite elevated reserves, verify flood-zone exposure, prioritize mitigation (roofing, impact glazing, drainage), and maintain robust insurance to protect NOI and preserve downside.

Outlook 2025-2026

Our base case is a soft landing: inflation trends toward ~2%, rates ease, and financing pressure lightens. Demand stays positive, with affordability pushing more renters toward Class B/C; absorption remains net-positive but modest. 2025 is the supply apex—vacancy likely peaks in the mid–high-6% (≈7% in pockets) as ~15k regional units lease up—then conditions re-tighten in 2026 as starts fall and absorption catches up. Rent growth runs ~1–2% in 2025 and ~1–2% (up to 3%) in 2026, with Class B/C outperforming on limited new competition and "trade-down" demand. If the Fed cuts as expected, cap rates could compress ~50–100 bps by 2026, stabilizing values and improving refinancing. Key risks: sticky inflation/recession, hurricane-driven insurance shocks, and policy changes. Strategy: stay disciplined in Class B/C value-add, underwrite conservative exits and elevated insurance, and buy through the lull to capture the next leg of growth.

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Sources

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