The Apartment Report™

CRITTENDEN RESEARCH, INC. • P.O. BOX 635107, SAN DIEGO, CA 92163 • CUSTOMER SERVICE: (800) 421-3483

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INVESTORS VENTURE CAUTIOUSLY

Watch for investors to proceed with cautious optimism in the second half of 2018. A plethora of capital searching for deals and cap rates holding steady despite interest rates creeping up will lead to buyers being selective moving forward. This current market requires investors to be more tactical, as the low-hanging fruit of secondary markets has mostly been harvested. Investors will need to temper expectations and have convictions of the micro location they enter.

The good news is the development pipeline has slowed, so there won't be as many new properties coming online. Apartments are still arguably one of the best real estate investments, but yields will be down, which means capital will view office and industrial properties more favorably. The labor market and wage growth will be healthy for short-term rent increases, but expect job growth to plateau as a result, which could be a headwind for the expanding economy. Vacancy is also increasing slightly because of the new apartment buildings coming online — particularly in the Sunbelt — but absorption has been able to keep up.

The economy is being spooked by the length of the cycle, full employment, tariffs and the increasing cost of money. Those factors suggest the cycle is ending. Predictions expect there to be some type of economic dip in 2019 or 2020 and multifamily companies are taking notice. Long-term owners, REITs and institutional money should weather the storm if their leverage is realistic. Look out for major multifamily players to also expand their presence in more recession-resistant options like student and senior housing. **Greystar Real Estate Partners** recently acquired **EdR** in an all-cash transaction at approximately $4.6B to expand its student housing reach. **Alliance Residential Company** is dipping its toes in senior housing with the announcement of Marvelle, its 55-and-up active adult brand.

Companies such as **Lincoln Property Company**, **Waterton**, **TH Real Estate**, **Bell Partners**, **Bentall Kennedy**, **Advenir**, **Atlantic | Pacific Companies**, **FCP**, **Citymark Capital**, **Western Wealth Capital**, **Insula Companies**, **Aukum Group**, **Pantzer Properties**, **Robbins Property Associates**, **Weinstein Properties**, **Hilltop Residential**, **JBT Investments**, **Passco Companies**, **FreemanWebb Inc.** and **Pacific Real Estate Partners** will actively look for opportunities.

This cycle has made it apparent that the amount of capital and liquidity in the space affects cap rates the most. However, rising interest rates will eventually impact cap rates, most likely in late 2018 and on. As long as capital markets can raise money and remain fluid, cap rates won't change much. Too much capital will keep valuations up as buyers are willing to take a lower yield for a slowly climbing risk. Pricing conversations will happen if interest rates rise 25 to 50 basis points. Also, keep an eye out for spread compressions from the debt side of acquisitions.

Value-add properties ranging from 1970s to early 2000s vintage will be the most the sought after. Levered returns will be in between 12% and 13% for major markets and 14% to 15% in secondary markets. Buyers can generally receive 70% to 75% LTV. Expect to see more core-plus deals going forward because of the rising construction costs and shrinking returns for value-add.

Bentall Kennedy is cautiously optimistic about investment opportunities in the multifamily space. It will continue to be an active buyer, developer, and lender in the sector, but will also selectively sell to take advantage of current pricing and investor demand. The firm has been largely focused on urban core locations, although it opportunistically targets suburban locations; particularly first suburban rings near transportation and retail where many millennials are moving. Bentall Kennedy will favor Class A amenities or properties with an opportunity for amenity improvements.

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New Contacts Added to Directory

See Online Directory http://multi.crittendenonline.com/ for Complete Contact Information with Email Addresses

MULTIFAMILY FIRM	ADDRESS	CONTACT
MAA	6815 Poplar Ave. Suite 500 Memphis, TN 38138	Anna Harris, SVP of Marketing Rob DelPriore, General Counsel/EVP David Ward, EVP Joe Fracchia, SVP/ Chief Information Officer Chuck Konas, EVP Melanie Whitson, SVP
Madison Realty Capital	825 Third Ave. 37th Floor New York, NY 10022	Marc Zegen, VP of Acquisitions & Originations
Marquette Companies	135 Water St. Fourth Floor Naperville, IL 60540	Mindy Helms, HR Director Scott Eberly, Director of Management
McCaffery	875 N. Michigan Ave. Suite 1800 Chicago, IL 60611	Pierre Melhado, Managing Director
MEB Management Services	1215 E. Missouri Ave. Suite 100 Phoenix, AZ 85014	Tracie Culler, Director of Strategic Marketing
Metis Legacy Partners	2024 Arkansas Valley Drive Suite 504 Little Rock, AR 72212	AJ Gilbert, Senior Managing Director
MG Properties	10505 Sorrento Valley Road Suite 300 San Diego, CA 92121	Kim O'Brien, Regional Manager Troy Lane, VP of Asset Services
Milestone Management	5429 LBJ Freeway Suite 800 Dallas, TX 75240	Tom Klaess, Regional VP of Operations Ben Bennett, Regional VP of Operations
Milestone Group	8333 Douglas Ave. Suite 1600 Dallas, TX 75225	Chris Bartlett, VP of Finance Michael Sauer, VP of Asset Management
Mill Creek Residential	2001 Bryan St. Suite 3275 Dallas, TX 75201	Harvey Wadsworth, National Director of Atlanta
Morgan Properties	160 Clubhouse Road King of Prussia, PA 19406	Sean Organ, Area VP
Napa Ventures	1464 E. Whitestone Blvd. Suite 801 Cedar Park, TX 78613	Shravan Parsi, Co-CEO/Principal
National Equity Fund	10 S. Riverside Plaza Suite 1700 Chicago, IL 60606	Michael Jacobs, SVP of Originations Maureen Mullady, Marketing & Brand Manager

New Multifamily Lenders in Directory

See Online Directory http://multi.crittendenonline.com/ for Complete Contact Information with Email Addresses

COMPANY	ADDRESS	CONTACT
Madison Realty Capital	11111 Santa Monica Blvd. Suite 400 Los Angeles, CA 90025	Brad Ross, VP
Nevada State Bank	750 E. Warm Springs Road Fourth Floor Las Vegas, NV 89119	Jeff Jenkins, EVP
New York Community Bank	1 Jericho Plaza Third Floor, Wing A Jericho, NY 11753	John Adams, First SVP/Chief Admin Officer
New York Life	51 Madison Ave. Suite 906 New York, NY 10010	Eric Becher, Senior Director Rob Boyd, Senior Director Kirk Kniss, Senior Director John Howard, Senior Director Leslie Cassingham, Senior Director
New York Private Bank & Trust	6 E. 43rd St. New York, NY 10017	Andrew Randall, Managing Director
Newport Capital Advisors	3131 Turtle Creek Blvd. Suite 1200 Dallas, TX 75219	Jeffrey Juster, CEO Hayley St. Claire, VP
NexBank	2515 McKinney Ave. Suite 1100 Dallas, TX 75201	Jeff Kocher, VP Commercial Real Estate Lending
NorthMarq Capital Finance	14841 N. Dallas Parkway Suite 275 Dallas, TX 75254	David Schmidt, FHA Production Manager
Northrim Bank	3111 C St. Suite 400 Anchorage, AK 99503	Marsha Fry, Assistant VP/CRE Loan Officer Sue Wolfe, VP/CRE Loan Officer Ray Dinger, VP/CRE Officer Catherine Claxton, SVP
Northwestern Mutual	720 E. Wisconsin Ave. Milwaukee, WI 53202	Rob Francour, Central Regional Director Dan Knuth, East Regional Director Wally Smith, West Regional Director Chris Misiti, Managing Director, Asset Management Donna Lemanczyk, Managing Director Real Estate

INVESTORS VENTURE CAUTIOUSLY…

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Freeman Webb Inc. will be on the hunt for value-add properties with at least 200 units in the Southeast. The opportunistic buyer generally holds for 12 years or more. The value-add component can go as high as $25K per unit, but the average is around $10K per door. The firm looks for double-digit IRRs. Freeman Webb expects to see 20% ROI on value-add renovations. If the company can get its targeted returns with lower leverage, then it will stay at 65% LTV.

There's a cloud on the horizon that will ultimately translate into demand for housing. Demand for single-family homes and condos have been on the rise. Although rising interest rates and less favorable treatment of homeowners with the new tax law will be beneficial for apartment owners in major MSAs with expensive locations. **Real Capital Solutions** expects to start one development this year with a focus on condo development. RCS sold most of its apartment portfolio and sits on a lot of capital waiting for the apartment industry to cool down.

SMALL MULTIFAMILY GRABS LENDERS

Anticipate banks and agency lenders to aggressively seek sub-$10M multifamily deals going forward. Banks have traditionally been a major player but will see increasing competition from GSE lenders as **Freddie Mac** and **Fannie Mae** expand their reach. Fannie Mae has increased its focus in small-balance lending recently, which will create greater liquidity in the space. This sector is rich in naturally occurring affordable housing that is central to the agencies' mission and highly desirable as a result. Multifamily vacancies remain very low, rental rates are stable or rising and absorption is positive. Look for a shift in loan volume from the biggest markets such as New York, Boston, Chicago, Los Angeles and San Francisco to smaller markets that have had less exposure to GSE small-balance products.

Banks such as **Wells Fargo**, **Chase**, **Opus Bank**, **Citizens Bank**, **Signature Bank**, **Bank of Oklahoma (BOKF)**, **EverBank**, **MUFG Union Bank**, **Texas Capital Bank**, **Fidelity Bank**, **Country Bank** and **New York Community Bank** will be active.

Borrowers will see leverage reach 75% to 80%. Rates will start at 4.5% but watch for rate minimums to be in the 5% range in small markets and for loans that feature prepay flexibility or interest only. DSC will be 1.20x to 1.30x; major markets will see 1.20x-plus. Lenders will want to see 7%-plus debt yield. Look for lenders to be more conservative on cash-out refinances and more cautious on underwriting in general due to the perception that the economy is in the late innings of a cycle. Watch for more conservative underwriting and scrutiny of the characteristics of the deal.

Freddie Mac will be one of the biggest players in the space, and Fannie Mae will be more aggressive on its small-balance program, particularly in tertiary markets. Borrowers will see 80% leverage with agency lenders. **Hunt Mortgage Group** targets all multifamily assets with five or more units nationwide. Rates will be 4.5% to 5.25% depending on term and leverage. Look for 55% to 80% LTV and a 1.20x minimum DSC.

Arbor Realty Trust will be active in the Class B and C space nationwide and aggressively target deals in top markets, especially New York City. The majority of the small loans in higher cost markets fall in the five- to 50-unit range, however Arbor frequently finances properties with 100-plus units nationwide. Look for leverage to max at 80%. **RED Capital Group** seeks conventional apartments with at least five units, along with age restricted, multifamily dominated mixed-use and select affordable and cooperative properties along with MHCs. The primary small-balance loan focus is workforce housing across all markets exhibiting the fundamental traits of stable cash flow, structurally sound improvements and safe living conditions. Maximum leverage is 80% LTV in most markets with small markets at 75% LTV.

Sabal Financial Group provides both acquisition and refinance loans nationwide, specifically surrounding major cities. The lender will target smaller properties, many of which are a bit older and require some rehabilitation efforts. Sabal provides loans up to 80% LTV for multifamily properties in major MSAs, with a 70% average. DSC for non-recourse loans in top MSAs can be as low as 1.20x, however the average DSC is 1.38x.

Lenders will seek smaller loans in markets with job and population growth such as Portland, Ore., Seattle, Minneapolis, New York City, Boston, Miami, Chicago, Washington, D.C., Dallas, Houston, Austin, Texas, Phoenix, Denver, Charlotte, N.C., and Atlanta. Deals in major California cities such as Los Angles, San Francisco, San Diego and Sacramento will be highly sought after. There will be significant capital chasing deals in highly populated urban cities where re-tenanting risk is limited.

Look for top executives from **Pensam Residential**, **Hunt Mortgage Group**, **JLL**, **Cushman & Wakefield** and **Grand Peaks** to discuss multifamily lending during the "Multifamily Debt, Equity & Investing: Finding the Right Fit" panel at Crittenden's Real Estate Finance Conference on September 13 in Miami. The panel will cover multifamily debt, investing and predictions for 2019.

DEALMAKER DATABANK	
HFF 1775 Pennsylvania Ave. N.W., Fifth Floor, Washington, DC 20006 Walter Coker, Managing Director (202) 533-2537 wcoker@hfflp.com	HFF arranged an $87.8M deal for a 468-unit apartment community in Germantown, Md. The property is near Washington, D.C., train stations and consists of 39 three-story properties over 40 acres.
Marcus & Millichap 2005 Market St., Suite 1510, Philadelphia, PA 19103 Andrew Townsend, First VP Investments (215) 531-7020 andrew.townsend@marcusmillichap.com	Townsend arranged the sale of a 127-unit property in Philadelphia for $13M. The property is completely vacant, allowing the buyer to perform value-add renovations quickly. The building is located near St. Joseph's University.

PORTFOLIOS JUMP IN POPULARITY

Count on seeing more multifamily portfolios on the market than in years past. Large institutional groups or owners looking to make a splash in a certain MSA will want to buy in bulk. Fluid and abundant capital for the space make a portfolio sale much easier than it ever has been. The same large groups are also generally selling portfolios to get a premium with current valuations. Other sellers might want to lower their exposure to multifamily and invest in other types of real estate.

Companies such as **Aimco**, **Starwood**, **Blackstone**, **Exponential Property Group**, **Strata Equity Group**, **Harbor Group**, **Kay Apartment Communities**, **Inland Real Estate Group**, **Aion Partners**, **Morgan Properties**, **Slipstream Properties**, **American Landmark**, **ASB Real Estate**, **Wharton Equity Partners** and **Icarus Investment Group** will target portfolios.

Both buyers and sellers looking to save time and effort will view these transactions favorably as they typically have to work with one buyer, one attorney, one agreement to sale, etc. Sellers are able to bundle an array of properties, some stronger than others. Portfolios can be a mixed bag consisting of value-add, core and core-plus properties or be a collection of properties with a similar investment story. The latter will be more common, but the mixed-bag approach can appeal to investors that prefer a diversified portfolio. They will generally be within the same region to make management easier, but the more intricate deals could include more than one MSA made of multiple properties. Bundles can vary in size from a couple of properties to the more rare double-digit property acquisition that can exceed $1B.

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