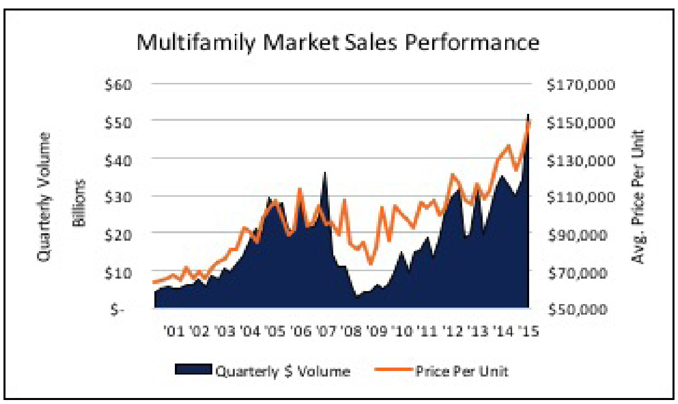
SVN COMMERCIAL REAL ESTATE ADVISORS

MULTIFAMILY Market Outlook

NEW SUPPLY MEETING DEMAND

The national multifamily market is experiencing peak levels of new supply as developers, investors, and lenders continue to start new projects in many metros across the nation. Thus, this sector, more than any other, is the subject of speculation about the potential for a bubble in pricing or physical oversupply or both. However, demographic data and economic indicators both show an increasing need for apartment units across the nation and new supply is meeting new demand. In fact, many markets are prone to undersupply as population and job growth are moving faster than developers can deliver units.

The national multifamily market set new all-time record highs in 2015 once more with over $151.7 billion in sales representing a 34% year over year gain, according to Real Capital Analytics®. National cap rates fell below 6% to 5.9% for the lowest average cap rate ever. Gains in both sales volume and lower cap rates were seen in both Garden and Mid/Highrise sub-sectors with 40% and 24% increases over 2014, respectively, and cap rates for the two types averaging 6.1% and 5.1%, respectively. The persistently low cap rates are making some investors nervous that pricing could see a reversal if interest rates rise. Thus, it is likely that some of the interest in multifamily acquisitions will move to other property types in 2016; however, multifamily is still poised to have a very good year.



Source: Real Capital Analytics®, Lakemont Group

Student housing is another unique form of multifamily that had an amazing 2015. Sales volume was up 70% from 2014 with over $5.4 billion in transactions at an average cap rate of 6.1%. Given the demographic flood of high school graduates entering college, this sector is poised to see more growth in 2016 with rising rents and very low vacancies.

The performance of multifamily assets will likely remain steady in 2016 as demographics favor renting versus buying. However, as rents grow (which has happened dramatically in some markets) owning will be cheaper and thus demand growth could be tempered. Thus, if a developer can supply units that can be rented at relatively affordable rents, they will likely be able to maintain very high occupancy for the long term. Any downward pressures would be experienced in the expensive Class A products first; however this is not expected to happen in 2016.

MARKETS TO WATCH

- BOSTON
- CHARLOTTE
- DENVER
- PHILADELPHIA
- PHOENIX
- PORTLAND
- RENO
- SAN JOSE
- SEATTLE
- TAMPA

Economic Projections - Multifamily		Real Estate Market Projections - Multifamily	
↗ GDP Growth	↑ Households	↗ Rental Rates	↑ New Construction
↑ Employment	↔ Interest Rates	↔ Occupancy	↗ Net Absorbtion
↗ Population	↔ Inflation	↔ Prices	↗ Transaction Vol.

Multifamily Market Statistics

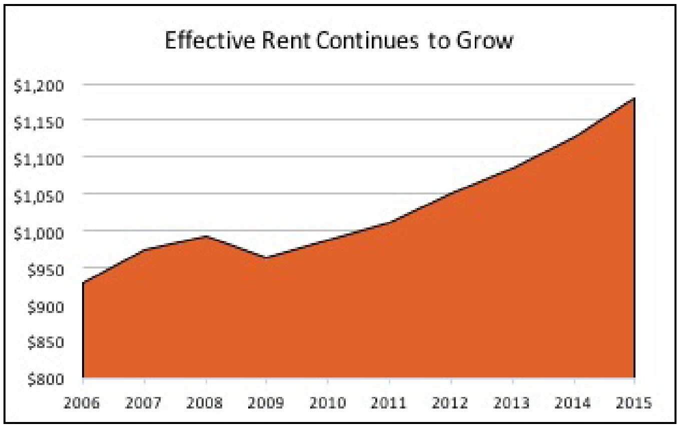
RENT GROWTH FUELS SUPPLY EXPANSION

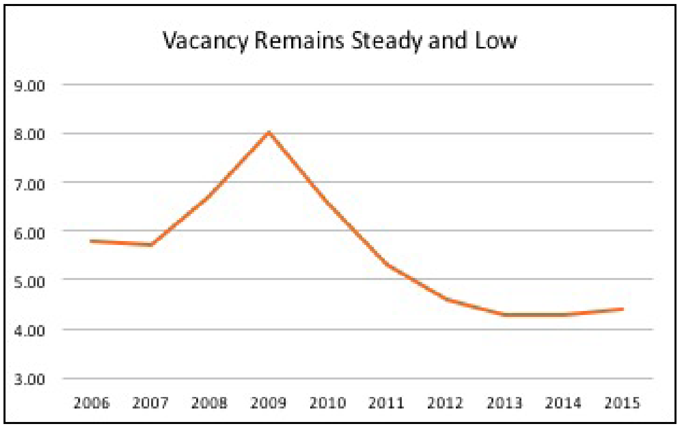
The catalyst of the boom in multifamily construction has been growth in effective rents nationwide, which has averaged above 3% since the recession ended. In fact, they have accelerated in 2015 with growth of 4.7%, according to commercial real estate research firm REIS®, and are expected to continue to grow in 2016 and beyond. Effective rent averages $1,180 per unit today, the highest amount on record. Rent growth and average effective rent growth can vary substantially by market, with popular markets experiencing rent spikes significantly higher than the national average.

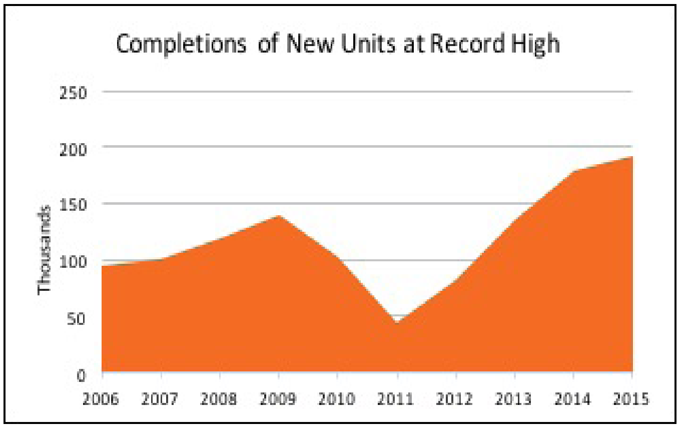
Vacancy has remained virtually flat since 2013 and sits at 4.4% nationally as of 2015. This represents full occupancy from an economic standpoint and indicates that landlords are choosing to push rents rather than achieve full physical occupancy. Given the increasing rate of rent growth, it is logical to suspect that most landlords are experiencing significant growth of net operating incomes and cash flows, and those with fixed debt rates will enjoy even more growth in this dimension in 2016. Of course, the quickening of new supply additions will impact the market and thus REIS® forecasts vacancies to actually move back over 5% in the next few years; but they also predict effective rents to continue to average over 3% growth.

New supply deliveries now sit significantly higher than pre-2007 levels and are projected to grow even higher in 2016. In fact, net absorption fell behind completions in 2015 with 168.3 thousand units absorbed while 192.0 thousand units were delivered. This trend is also forecast to continue in 2016 and beyond. Thus, the fears of oversupply are not completely irrational. Still, the pace of household formation and job creation combined with demographics that favor renting are likely to keep supply and demand in balance nationwide.

On a local basis, it is highly plausible that certain markets and even sub-markets will break from the national trend and see falling effective rents and rising vacancies as too much supply is added at once. Thus, it is important to examine the specific characteristics of each market before investing or developing. There still exists much opportunity in many markets for savvy investors and builders.







Source: REIS®, Lakemont Group

Multifamily Market Statistics

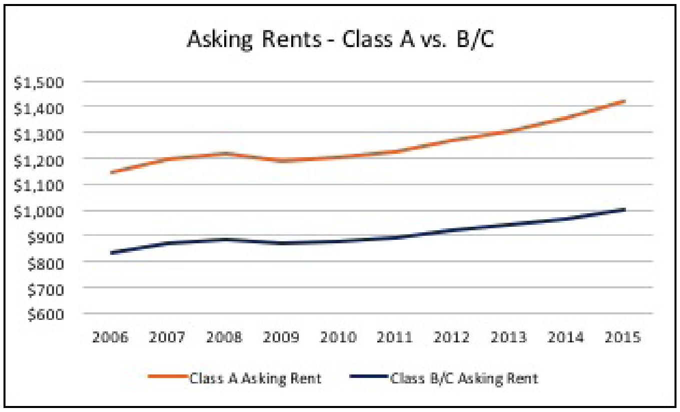
CLASS 'A' LEADS IN RENT GROWTH, 'B/C' IN OCCUPANCY

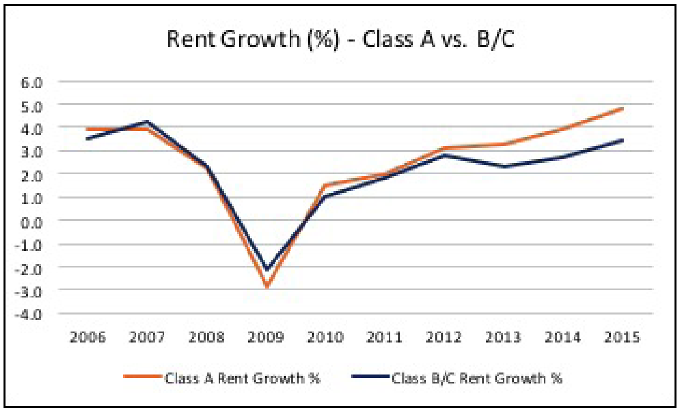
As housing is a human necessity, renters will typically choose the highest quality apartment unit they can afford as close to where they work or go to school as possible. Thus, the dynamic between Class A and Class B/C apartments is as meaningful as any sub-class set in real estate. Class A apartments are averaging asking rents of $1,424 per unit per month versus $999 for Class B/C, both amounts representing all-time record highs, according to REIS®. The premium for Class A, 42.5% over Class B/C, is also a record high indicating the strength of the upper end apartment market.

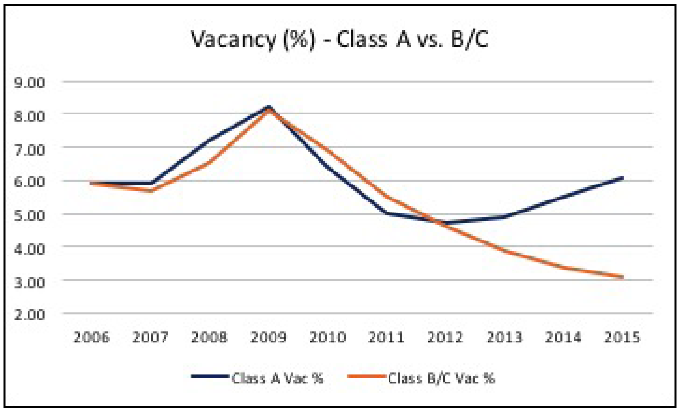
This spread is so wide because Class A has been growing its rents meaningfully faster than Class B/C, 4.8% versus 3.4% in 2015. Class B/C is always slightly constrained in its ability to grow rents as the incomes of those who occupy the units tend to grow slower than the incomes of those who rent Class A units. However, in 2016 and beyond, it is quite plausible that the growth rate in A will slow relative to B/C as almost all new supply is Class A and thus more prone to oversupply.

In fact, the rate of new supply has moved vacancy rates in Class A properties up to 6.1% in 2015, up from 5.5% in 2014. Class B/C on the other hand fell to 3.1% from 3.4%. The very low vacancy rate in B/C means that this sub-sector is likely to see faster growing rents due to undersupply. This is already occurring in many cities where lack of affordable/workforce housing is being considered a crisis by public officials. Since new supply is effectively zero in Class B/C and net absorption is significantly positive, this situation will only get worse in 2016.

Investors looking to acquire multifamily properties in 2016 may find better returns and yields in Class B/C properties than Class A as they are much more relatively undersupplied. Further, the Class B/C landlord has the ability (with limitations) to make capital expenditures to make the units more competitive with Class A properties and of course faces substantially less risk from new supply. The downside is that rent growth and thus NOI growth in Class B/C cannot exceed less-than-median-income affordability; wages in these sectors are not likely to grow substantially in 2016 and beyond.







Source: REIS®, Lakemont Group

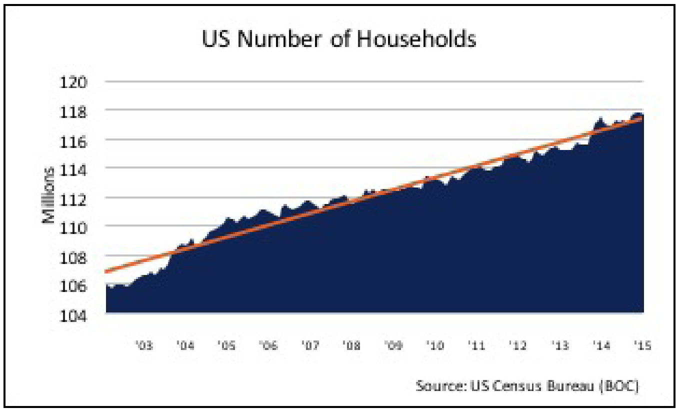
Multifamily Economic Statistics

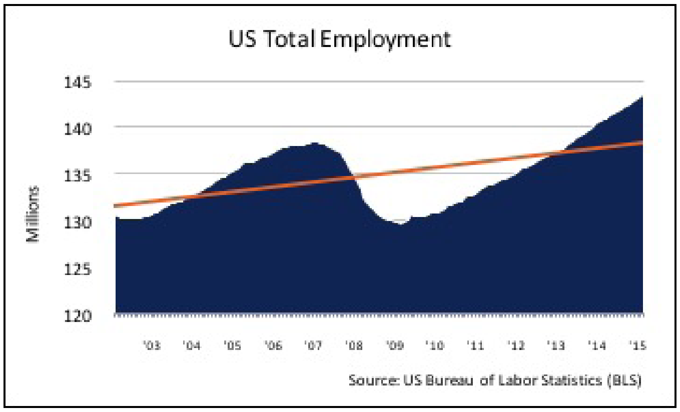
RECORD HOUSEHOLDS AND JOBS INCREASE DEMAND GROWTH

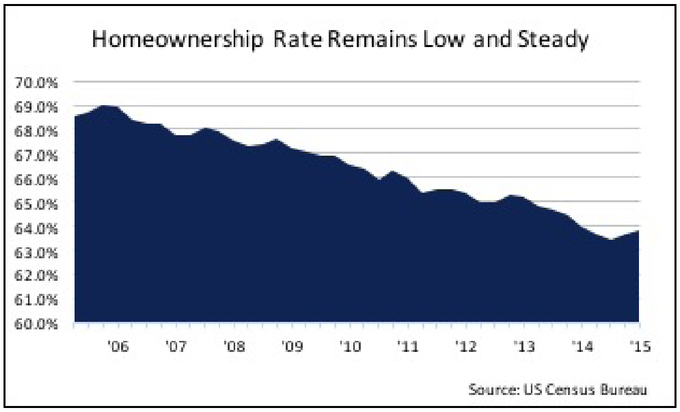
The performance of multifamily assets can be explained by the underlying macro economic variables that determine rental housing demand. First, as GDP growth has been sustained and positive since 2011, total employment in the United States has surpassed new records almost every month since May of 2014. In fact, monthly job growth has exceeded 200,000 in most months of 2015 and has persisted into 2016 with positive prospects to continue for some time. At present the national unemployment rate is 5.0% as of March 2016 and job creation is occurring at an annual rate of 1.9%, according to the Bureau of Labor Statistics (BLS). Less reported is the improvement in the underemployment rate (the rate that includes part-time workers seeking full-time work and other similar situations); it has improved from a recessionary peak of 17.1% in 2010 to 9.7% in February 2016, showing the completeness of the jobs recovery as this number is close to its level of historical full employment.

Job growth, along with natural population growth and net migration, has led to a record level of households in the nation. Household formation slows during recessions, but tends to exhibit rapid growth during recoveries as pent up demand is released. This can be observed in the U.S. Census Bureau data in late 2014 and 2015. The net effect is millions of new residents seeking housing, the majority of such will rent for many years prior to buying. Population growth and household formation trends are very stable and long lasting; thus it is rational to expect long-term, consistent growth in demand for multifamily housing.

Naturally, there will be a mix of new housing dwellers that will buy versus rent. What determines the rent versus buy decision is a mixture of income, credit, savings, and life stage. The Millennials (generically those under 30) are one of the most dominant demographic cohorts today and are dramatically predisposed to renting given their allotment of the aforementioned income, credit, and savings. Further, many of this generation owe significant sums in student loans with relatively high monthly payments; the net effect of which is prolonged use of rental housing past the point where life stage suggests buying. The national homeownership rate its at 63.8%, close to recent lows, and struggles to gain despite the improved job situation and record low mortgage rates. Over time, this should move upward as Millennials age and increase savings for down payments.



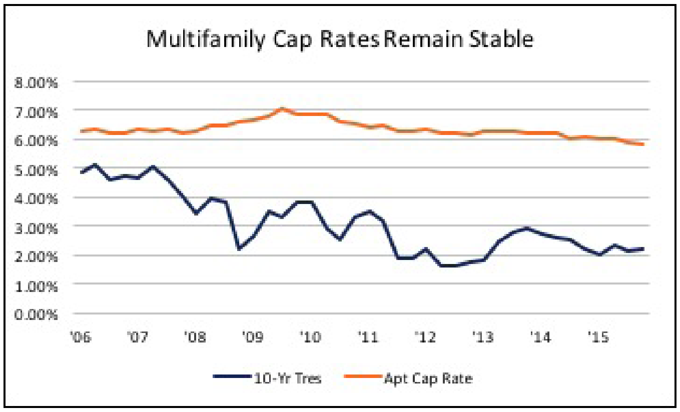




Multifamily Capital Markets Outlook

LOW CAP RATES ENGENDER PRICE RISK FEARS

With many large multifamily assets trading at cap rates at and below 5%, there is reason to be concerned that if interest rates rise, cap rates will rise and thus lead to lower values. This risk is logical and certainly has long-term implications. However, in the short term, the spread between multifamily cap rates and long-term bonds rates is almost 300 basis points in many instances and shows little risk or similar form compared to the past bubble. Investors are relying on sustained NOI growth rates of above 3% to counter any negative effects of long-term interest rate moves; given the demographic forces, this is not unrealistic. It can be rationally argued that 2016 and 2017 may be the time to sell and raise liquidity.



Source: Real Capital Analytics®, Lakemont Group

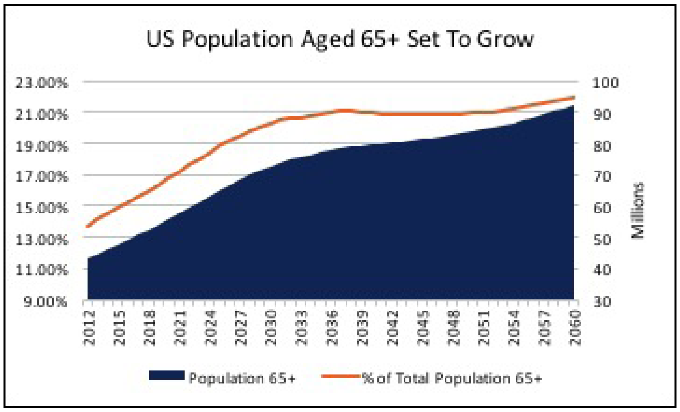
Multifamily Market Trend Watch

BABY BOOMERS MAY FORM NEXT RENTAL WAVE

While Millennials get the majority of the press and attention when discussing demographic trends and multifamily real estate, there is a larger, potentially equally influential cohort being ignored: the Baby Boomers. The population over the age of 65 is actually the fastest growing demographic cohort and will become over 20% of the total US population in the next ten years, according to Census Bureau data.

This population will typically have no children living at home and in many instances face declining wages and real incomes. Thus, from an income and use standpoint, rental apartments may make more sense for their housing choice for some of this generation. The ability to sell the family home, capture the equity, and reduce housing expenses (assuming the home was still mortgaged) may look increasingly attractive as aging homes will require expensive capital improvements to maintain.

Thus, savvy apartment landlords and developers may find a market in catering to this population with amenities and unit configurations designed for their needs. These include elevators, larger units (guest rooms for visiting adult children), and social amenities and gathering points. This should not be confused with "senior housing" where the average resident age is typically above 80. These are simply minor modifications of standard apartment designs and layouts because this is a demographic wave too large to ignore.



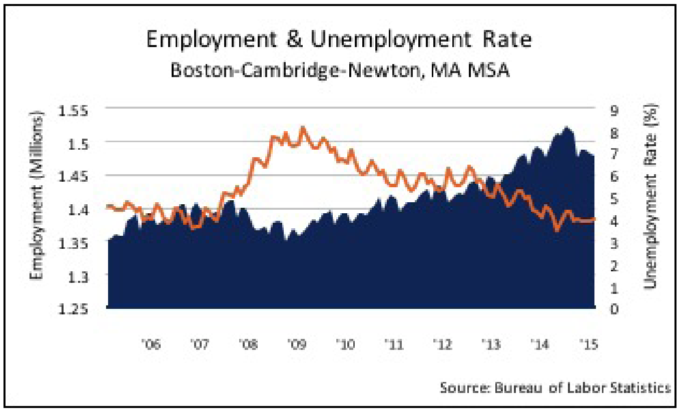
Source: Real Capital Analytics®, Lakemont Group

MARKETS TO WATCH

Not necessarily the largest or the most actively contested markets, the 2016 Multifamily Markets to Watch are each at an important juncture that presents unique opportunities for investment. Together, they reflect the diversity of trends that is driving the economy and commercial real estate performance in markets across the country.

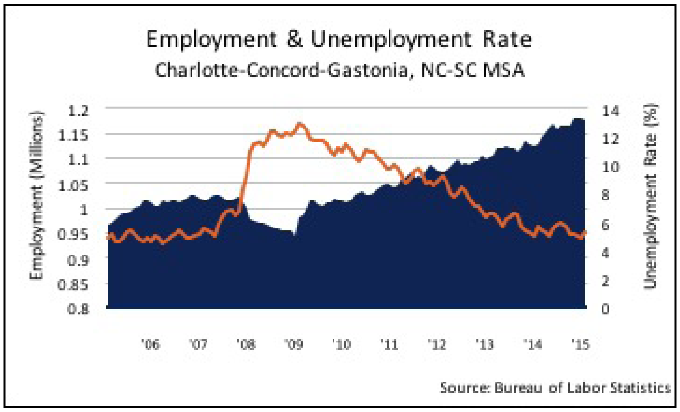
BOSTON, MA

Boston's economy has experienced significant job growth such that its unemployment rate is now 4.0% as of January '16 and new jobs are being created at a 1.4% annualized rate, according to the Bureau of Labor Statistics. Further, population has grown 6.2% from 2010 to 2014, according to the Census Bureau, and has thus significantly increased the demand for rental housing in the metropolitan region. Bostonians are highly predisposed to renting as over 65% of the housing units in the city are rentals according to Census data; thus prolonged population and job growth will place great pressure on rents which could grow over 6% in 2016 and keep occupancies above 97% while new supply is likely to remain less than 2% . The top sectors for job growth include Financial Activities and Education and Health Services which are growing at 3.1% and 2.9% annualized rates, respectively.



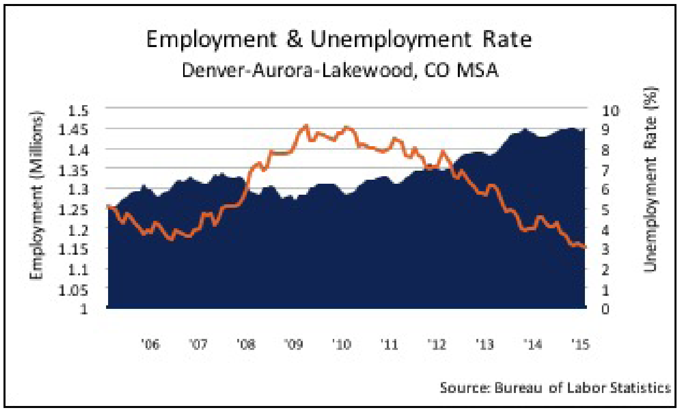
CHARLOTTE, NC

The multifamily market in Charlotte has experienced strong growth in demand as the city has gained 10.1% in population from 2010 to 2014, according to the Census Bureau. This has been fueled by significant job growth that has set new records substantially above pre-recession peaks, leading the present unemployment rate to sit at 5.3% as of January '16 with new job creation occurring at an annualized rate of 2.8%, according to the Bureau of Labor Statistics. Approximately 45% of the city's housing stock is renter occupied. Thus, a good deal of the new population is likely to demand an apartment. Further, gross rents are below national averages, making Charlotte affordable and capable of seeing meaningful rent growth. New supply has grown approximately 4% in 2015 which will lower rent growth slightly in 2016, but still likely to be robust and above 4%. Many sectors are adding jobs at annualized rates above 4%, including Financial Activities, Professional and Business Services, and Leisure and Hospitality. However, this city does face a unique risk to continued growth from the new "bathroom" law, perceived very negatively by many; this could jeopardize new job growth and thus the market if firms choose to relocate or otherwise curtail operations in the state.



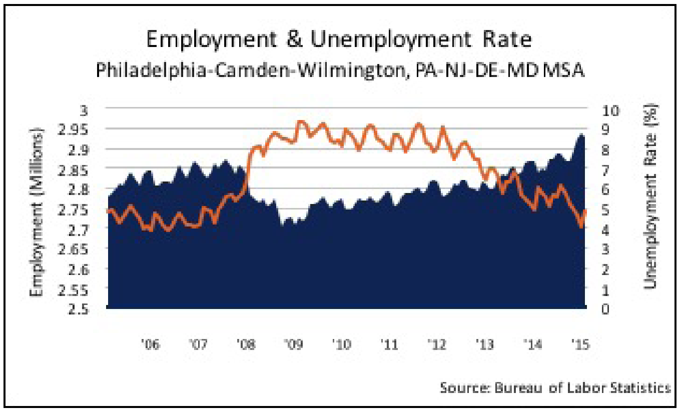
DENVER, CO

The Denver multifamily market has experienced significant additions of new supply as its population has grown 10.6% from 2010 to 2014, according to the Census Bureau. Further, the employment market is outstanding with 3.0% unemployment as of January '16 and annualized job growth of 2.5%, according to the Bureau of Labor Statistics. Denver features a larger renter population with approximately 50% of its metro's housing units used for rental purposes; still rental rates are relatively affordable for a metro of its size, giving it room to grow. Top sectors for employment growth include Leisure and Hospitality, Financial Activities, Manufacturing, and Professional and Business Services growing at annualized rates of 6.0%, 3.9%, 3.5%, and 3.2%, respectively. As such, rent growth could hit 7% in 2016.



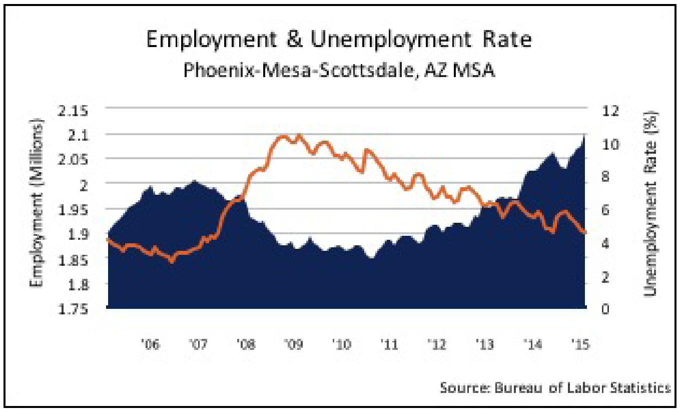
PHILADELPHIA, PA

Job growth in Philadelphia has brought the city back above pre-recession employment levels as unemployment stays steady at 4.8% as of January '16 with modest annualized employment growth of 2.1%, according to the Bureau of Labor Statistics. Population growth has been below the national average as the city only gained 2.2% from 2010 to 2014, according to the Census Bureau. Accordingly, demand for new apartment units is modest compared to other metros of similar size; yet the city does have a relatively high use of housing units as rentals at approximately 47%. Philadelphia does have an advantage in affordability, especially compared with other East Coast metros, and thus has growth potential with rents forecast to grow by over 3% in 2016. The city's top- which are expanding at annualized rates of 8.2% and 3.7%, respectively.



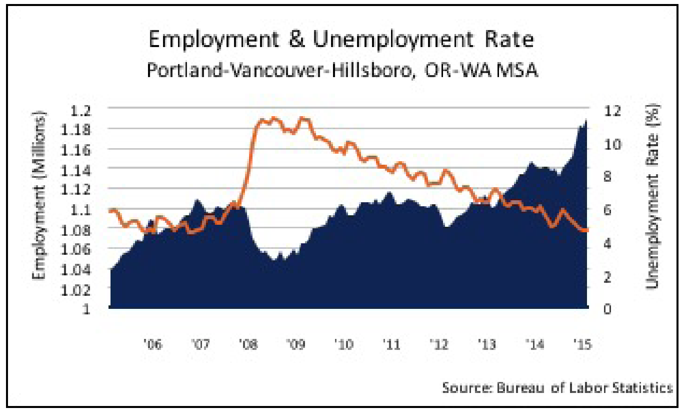
PHOENIX, AZ

Phoenix experienced significant gains in overall employment in 2015 that moved the number of jobs significantly above pre-recession peaks as unemployment fell to 4.6% in January '16 with continued annualized employment gains of 3.6%. The population grew by 6.2% from 2010 to 2014, according to the Census Bureau, helping to fuel new demand for apartment units. The city utilizes approximately 46% of its housing units as rentals and has relative affordability with high quality of life making the market a prime one to grow in 2016 and beyond, with rents expected to grow over 5% this year. The leading employment sectors are Information, Construction, Financial Activities, Education and Health Services, and Professional and Business Services, growing at annualized rates of 7.6%, 6.3%, 5.3%, 5.2%, and 5.1%, respectively.



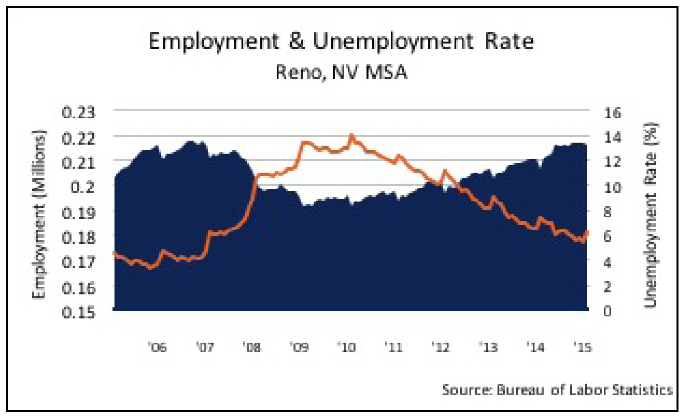
PORTLAND, OR

Portland has experienced rapid employment growth in 2015 bringing the unemployment rate down to 4.7% as of January '16 while sustaining new job creation at a rate of 3.1%, according to the Bureau of Labor Statistics. Population in the city grew by 6.1% between 2010 and 2014 according to the Census Bureau who also reports that approximately 47% of the housing stock is used for rentals. Portland is a relatively high priced market for the nation but still affordable for a major West Coast metro with an excellent quality of life. Leading employment sectors include Information, Leisure and Hospitality, and Education and Health Services growing at 9.4%, 4.6%, and 4.5% respective annualized rates. These dynamics should lead to strong performance of the multifamily sector in 2016 and beyond with rents growing over 10% this year as new supply remains relatively moderate.



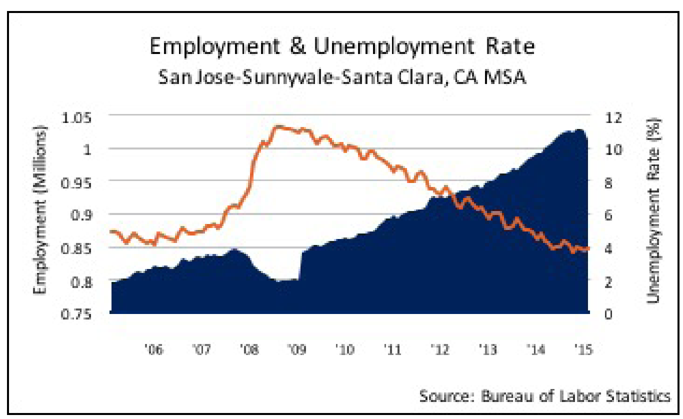
RENO, NV

Reno is experiencing sustained gains in employment with a 4.4% annualized rate after being severely impacted by the past recession; unemployment has improved dramatically and now sits at a still relatively high 6.2% as of January '16, according to the Bureau of Labor Statistics. Population has grown robustly with a 4.9% increase from 2010 to 2014, according to the Census Bureau. As is common with tourist market economies, the percentage of city housing used for rental purposes is high at 53% meaning that job growth will quickly mean growth for the multifamily sector. The city's economy is rapidly diversifying with the biggest gains coming from Construction, Professional and Business Services, Financial Activities, and Education and Health Services with annualized growth rates of 9.6%, 9.5%, 5.2%, and 5.0%, respectively.



SAN JOSE, CA

San Jose is one of the hottest cities in the Bay Area and thus has experienced very strong employment growth since 2011 which has brought the unemployment rate down to 3.9% as of January '16 while jobs are still being created at the robust pace of 3.8% annualized according to the Bureau of Labor Statistics. Population growth is also significant at 6.6% from 2010 to 2014 as people find this market rrelatively more affordable. The San Jose housing stock is traditionally owner oriented with only 43% used for rentals. Given the rate of regional growth, local multifamily assets are very well positioned to pick up demand from surrounding areas a well as localized growth. Rent growth is expected to exceed 5% with relatively low new supply in 2016. Top sectors in job creation include Construction, Information, and Professional and Business Services with annualized growth rates of 10.3%, 8.4%, and 6.8% respectively.



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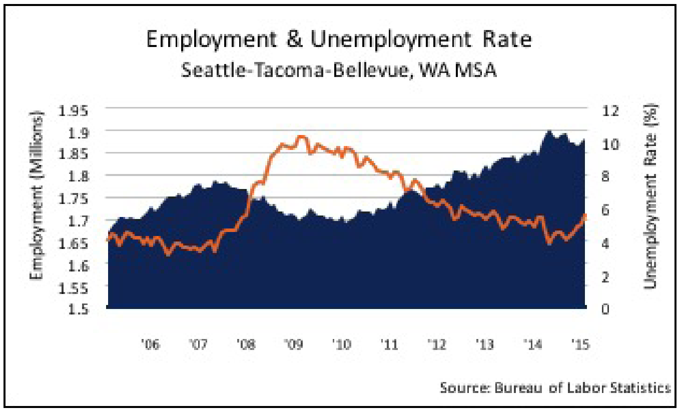
SEATTLE, WA

Seattle is one of the fastest growing cities on the West Coast, with a population that grew 9.8% from 2010 to 2014, according the Census Bureau. Job growth continues at an annualized pace of 3.0% while unemployment has been stable with the latest reading in January '16 of 5.6%, according to the Bureau of Labor Statistics. Seattle is an expensive city to live in and as such approximately 54% of the housing units are rentals, according to the Census Bureau. The need for ample housing is real and multifamily assets should perform well for 2016 and beyond. Rents are expected grow over 5% as new supply hits record highs to fill new demand. The best sectors for job creation include Information, Leisure and Hospitality, Trade, Transportation, and Utilities, and Financial Activities, which are growing at 8.1%, 5.0%, 4.2%, and 4.1% annualized rates, respectively.



TAMPA, FL

Tampa has recovered significantly after experiencing deep impacts from the recession and is now growing jobs at an annualized pace of 3.6% with an unemployment rate of 4.8% as of January '16, according to the Bureau of Labor Statistics. Job growth also helped sustain population growth of 6.8% from 2010 to 2014, according to the Census Bureau. This growth has caused the multifamily sector in Tampa to expand with growing rents, falling occupancies, and lots of new supply. 2016 should bring approximately 5% rent growth with stable occupancy levels. The city is approximately 50% rental housing based and should demand more units as economic expansion continues. Top sectors for employment growth include Construction, Professional and Business Services, Leisure and Hospitality, and Financial Activities which have annualized growth rates of 7.1%, 7.1%, 6.6%, 3.4%, respectively.