

MULTIFAMILY UPDATE

1Q - 2017

THE UNCERTAIN MARKET CLIMATE APPEARS TO BE WEIGHING ON MULTIFAMILY INVESTORS IN FIRST QUARTER 2017, ACCORDING TO THE RESULTS OF SITUS RERC'S INSTITUTIONAL INVESTMENT SURVEY.

Respondents noted that multifamily was still fully priced and in some markets "overheated," which is attributable to plenty of new supply. They were also concerned that valuation still has dipped below pricing even though this product is seeing moderating rent growth. On the flip side, sellers are recalibrating their pricing expectations, which will enable transactions to take place and create potential solid buying opportunities in the multifamily sector.



Despite the concerns, Situs RERC's investment conditions rating for the multifamily sector increased to 6.1 on a scale of 1 to 10, with 10 being excellent (refer to Exhibit 1). After falling to the lowest rating historically in fourth quarter 2016, the multifamily sector rating bounced back in the first quarter with the highest rating over the past two years. Furthermore, respondents indicated that investment conditions for the multifamily sector were better than the majority of the property sectors surveyed, except for CBD office and industrial warehouse sectors.

EXHIBIT 1

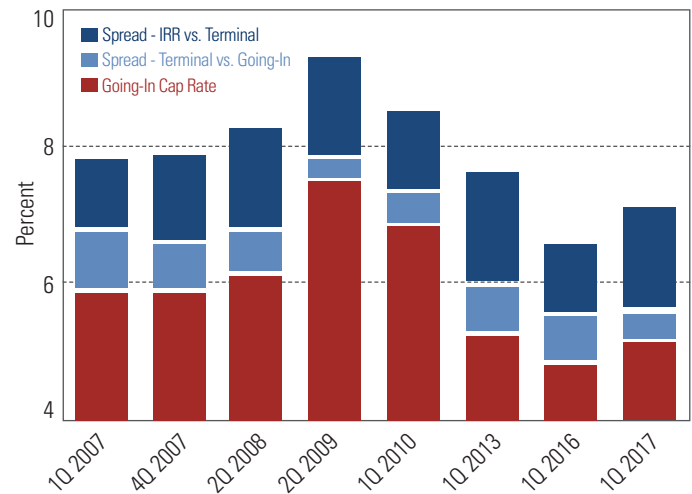
Situs RERC Investment Conditions - 1Q 2017

INVESTMENT CONDITIONS*				
	1Q 2017	4Q 2016	1Q 2016	1Q 2015
Office - CBD	6.4	5.3	5.9	6.4
Office - Suburban	5.6	5.3	4.9	5.3
Industrial - Warehouse	7.2	6.3	6.4	6.8
Industrial - R&D	5.9	5.5	5.1	5.7
Industrial - Flex	5.6	5.5	5.7	5.4
Retail - Regional Mall	5.1	5.4	4.9	5.7
Retail - Power Center	5.2	5.3	5.1	5.4
Retail - Neigh/Comm	5.8	5.9	6.4	6.5
Apartment	6.1	5.1	5.5	6.1
Student Housing	5.7	5.6	5.6	6.1
Hotel	5.5	5.3	5.4	6.6

* Investment Conditions rated on a scale of 1 = poor to 10 = excellent. Source: Situs RERC, 1Q, 2017.

Situs RERC's required pre-tax yield rate (IRR or discount rate) for the multifamily sector was unchanged at 7.2 percent during first quarter 2017. While the required going-in cap rate for the multifamily sector was unchanged at 5.2 percent, the required terminal cap rate declined 10 basis points to 5.6 percent. This change is not significant, but it does show that the exit rate is being compressed for the multifamily sector due to rising going-in rates and terminal cap rates not responding (see Exhibit 2). Of particular note is the IRRs or discount rates are up over 50 basis points from a year ago with a larger spread over the going-in rate. This would suggest that earnings need to grow to decrease the spreads. This seems to be a challenge in a market that is faced with rent-pricing pressure.

EXHIBIT 2: Situs RERC Multifamily Sector IRR & Cap Rate Compression – 1Q 2017



Source: Situs RERC, 1Q, 2017.



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