CBRE Multifamily Summit 2022
April 19-20, 2022

Key Takeaways

Overall

- Outlook is bullish; demand is still strong and there is plenty of capital in the space – both equity and debt. Buyers have many options, as sellers still capitalize on increased valuations (up 20-40% from 1Q21).
- Strong fundamentals persist – record rent growth, low vacancy, and strong demand. 1Q22 outperformed expectations.
- Threats include inflation, slowing GDP, geopolitical risk, and increased interest rates. All of these lead to capital markets volatility. Recession risks are low, but the Fed's planned hikes and timing could play an increased role.
- Capital markets volatility will influence the investment sales market, but the impact will vary. Buyers are willing to accept slightly lower returns but will look for some sort of adjustment as overall debt costs continue to rise. Consensus was a 2-5% adjustment, but that continues to evolve and vary by market. Those markets with double digit rent growth projections will be less impacted.

Day 1

General Session: The Global Economy and its impact on U.S. Multifamily Housing

- Bullish. Consensus by the professional community is that recession risk is low, but if one should occur, likely a short recession beginning in 2023. GDP is forecasted to be 2.2% for 2023 vs. 3.3%. One variable that could increase recession risk is the Fed increasing short term rates too rapidly.
- Geopolitical environment hasn't historically had much impact on the economy or derailed a cycle.
- Inflation is the highest it has been in 40 years, but the Federal Reserve is taking steps to mitigate.
- Labor market is the tightest it has been since the 1960's.
- Apartment and housing are driven by jobs. Labor market is extremely tight, immigration is low, and we are not building enough housing. More households created than housing being permitted.

General Session: Demographic Trends and the Cities Best Prepared to Promote Growth

- Renter demand faces a few headwinds…but benefits from far more tailwinds. Household formation, shifting demographics and housing shortage support many years of strong renter demand.
- Migration to the Sun Belt is driving record renter demand and rent growth today (620,000 units absorbed nationally in 2021 and Q1 the highest since 2000), but large coastal markets are positioned to lead rent growth this year as occupancies tighten and pricing accelerates.
- Assessing the long-term growth potential of a market depends on a matrix of factors: things like market fundamentals, infrastructure, political risk, and environmental risk matter more than ever when considering the marketability of an asset in 10 years. The top 20 markets are mix of large coastal markets and smaller high growth markets—but the top 10 in our example include: Salt Lake City, Raleigh/Durham, Colorado Springs, Indianapolis, Philadelphia, Austin, Tampa, Phoenix, Atlanta, and Charlotte.

The Future is Now: How Capital is Aligning Around ESG

- ESG is a process-you need to be intentional with your plan. Once you create a plan, it's important to follow it.
- ESG integration is being contemplated or required from all participants in the capital stack - investors, funds, lenders. Also, various jurisdictions are requiring ESG aspects.
- The "E" is fairly baked; the "S" and "G" are harder to define and measure.

Growth of Recapitalization Strategies as Investors Maintain AUM

- Institutional recap partners are still active and can provide all cash solutions and/or assume existing debt.
- Operators/GP partners need to provide institutional recap partners the opportunity to deploy at least $50 million of equity day one in addition to an opportunity to scale going forward.
- Non target markets are ok if the operating partner can demonstrate ability to take advantage of dislocation before the herd decides to re-enter the market…i.e. Houston, Chicago.

Cutting Edge Solutions to Debt Capital

- Market has shifted from a borrower's market to a lender's market.
- Non-Agency Lenders are seeing unprecedented deal-flow, so they are being choosy about what deals to work on and quote.
- Market has shifted largely away from fixed-rate loans to floating-rate loans.
- Cap costs are exorbitant, so borrowers are putting a lot of focus on strike rates, shorter duration caps and spring caps.
- Lenders are waiting for the market to settle for a brief period before jumping back in full force. They had strong Q1's, giving them flexibility to reduce lending volumes right now during this period of volatility.

Development and Value-Add: What to Do Now

- Robust returns on deals under construction delivering due to favorable basis and ability to deliver product amid supply chain issues.
- Developers with supply chain control provides a competitive advantage to delivering on time
- ESG is big. From green building materials to EV charging stations (retro or as-built) are becoming very important to residents and investors.
- Value-add yields are compressing, which is resulting in some moving toward the core/core+ space.

Day 2

Multifamily Permanent Debt Market: It's Now or Never

- Plenty of perm debt capital to deploy in the fixed and floating space – still anticipate having a record year. Allocations to multifamily are increasing.
- Spreads are not anticipated to decrease meaningfully in the near term...keep an eye on corporate bond yields for directional guidance re: Life Co fixed spreads.
- Life Co lenders feel they have stretched their credit to max terms, not willing to ignore cash flow/DSCR constraints because the leverage is low (approximately sub 50%)...YET.

The Rise of Build to Rent

- There continues to be immense capital demand for the BFR space, even with the rising interest rates. We have not seen any impact on pricing yet.
- It will be difficult for all capital to be deployed in the space due to challenges with entitlements and increasing construction costs. John Burns estimates there is over $50B in dry powder earmarked for BFR, as of January.
- Investors are beginning to widen their investment mandate to include more tertiary markets as well as more dense, horizontal apartments.

Global Capital Perspectives on Investing in U.S. Multifamily

- Multifamily Pricing
  - Foreign capital feeling the bid / ask gap relative to seller expectations
  - Having trouble making the yields work on super core, trophy product
  - Seeking yield relief by focusing on core-plus and/or non-trophy locations and alternative product types within MF student, seniors, SFR, etc., providing foreign investors an additional avenue to place equity in the U.S. rental market
- Currency Hedging
  - Cost from the EUR to USD approaching multi year highs
  - Will have an impact on meeting yields for some opportunities (highly competitive, trophy product for example)

Workforce Housing Panel

- There will continue to be a shortage of workforce housing but there is a focus on development of workforce housing product. Modular construction in a centralized regional factory is one strategy, or building the same basic product as luxury housing with fewer amenities in the community and within the unit.
- Return expectations are not different for workforce yet.

General Session: What are Sales Trends Telling Us?

- Sellers Perspective: Relationships matter and certainty of execution matters more now than ever. Sellers are focusing on how buyers are capitalized and scrutinizing lenders more closely.
- Buyers: More weight being placed on NOI growth during the hold than the exit cap rate. Capital is willing to accept a slightly lower return to offset the increased debt costs.
- Sellers are still sellers - pricing will not escalate as high, but still a great price. Anticipate cap rates will remain low.
- Anticipate a 3-4% downward adjustment on pricing guidance in the near term.

Closing Session

- Funds are looking to raise $534B; up 30% from 2020. There are over 560 active funds. 82 funds held final closings in 2021, up 95% from prior year and up 82% from prior high of 45 in 2014.
- Allocations to the space continue to rise – weighted average real estate targets will increase by 30 bps – which translates to $60B.
- Prevalence of mega funds continues - over 158 funds are raising or have raised at least $1B of equity to deploy.

Women in Multifamily Reception: Embracing Opportunities in a Time of Change

- While you may not know when you're "ready" for that next step – and imposter syndrome is real – everyone experiences this; give yourself the grace to grow into it.
- Professional coaches have been meaningful to several and could be a great investment in your career.
- Building culture and creating an environment where folks feel heard and included is how you attract and keep the best talent.