# The Apartment Report™

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

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## MULTIFAMILY TO THRIVE IN YEAR OF CONSTRAINTS

The fundamentals of the multifamily space will stay strong in a year full of constraints and uphill battles. Macro trends such as the declining homeownership rate, millennials' desire for mobility, delayed marriage and family formation will continue to reduce demand for homes and increase demand for apartments in turn. Even traditional homebuilders such as **DR Horton** and **Lennar** have an apartment development arm, while **KB Home**, **Taylor Morrison**, **Meritage Homes** and **Beazer Homes** operate in the active adult/ 55-plus space.

The gap between home ownership and renting is the largest it's ever been. The expected increases in mortgage interest rates will continue to exacerbate this housing trend even further. Strong demand for apartments will be particularly pronounced in major markets in the western U.S. such as Seattle, Portland, Denver and several California cities, which have been magnets for millennials. Income growth and employment growth continue to drive opportunity in the multifamily space. The demand for multifamily is holding strong as people sharing durable assets and a sense of community is here to stay.

Rising interest rates have a dual impact. Any financial asset is the present value of future cash flow. When rates go up it puts pressure on the discount rate. Higher interest rates mean higher mortgages and making owning less affordable. People are locked into extremely large mortgages, so they aren't planning to move into other houses. Interest rates will be another factor of constraints and likely get a couple of bumps throughout the year. Count on a pronounced impact on cap rates in 2019 because if they don't rise, the market will die down.

Lenders have been keeping their spreads tighter to get more deal volume, and this trend will likely stick around in 2019. Equity will continue to be very cautious, but there's still a tremendous amount of discretionary capital that's looking for investments. There could be a shift of who the players are given all the funds. Most activity will be from the money raised already. If the stock market were to recede substantially, the denominator starts to affect real estate and pension funds/investors become overweight in real estate. Pension funds would like to place more funds in real estate. If the stock market remains steady or strong, they will be able to invest in real estate since their allocation will be on target.

## VALUE-ADDERS CHOMPING AT THE BIT

Veteran value-add investors will be eager for previously mismanaged deals in 2019. The flood of newcomers to the multifamily space over the past five years, rising interest rates and high prices of properties will make it more challenging to generate the same investment returns and add more pressure on existing investors. Now the rubber hits the roads and the new entrants will need to meet their pro formas. Agencies also tightening leverage to around 59% to 70% will lead to more deals being financed with mezz debt or pref equity, which indicates the tide is changing. This spells opportunity for more experienced players looking to scoop up deals. Keep an eye out for **American Landmark**, **TruAmerica**, **Cortland Partners** and more to be some of the active players in the value-add space.

Except for the current pricing of properties, the value-add fundamentals are still strong. Virtually all the new supply is in the Class A sector, which is unaffordable for many. There is considerable demand for more affordable options, which are being fulfilled by owners of older apartments upgrading those properties. Considerable supply of new apartments has been delivered during the past few years, but 2018 was likely the peak year for new supply for the foreseeable future. Pricing for value-add deals has also started to budge a little, so expect that to slowly inch downward as supply and interest rates catch up. Count on the second half of 2019 to have more worthwhile value-add deals.

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**VALUE-ADDERS CHOMPING AT THE BIT…**

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Returns will likely fall for Class A properties, where rent growth appears to be flat to down. Similar returns are still achievable for value-add, Class B apartments but investors will have to add more value by working harder to achieve the same returns. Affordability was a major discussion last year, and it's not going away anytime soon. New supply has mostly been in the urban core and the costs of construction have crept up over the 30% income range for many renters. Suburban markets near major cities will still be hot and value-add and workforce housing deals are the only way to appeal to the rent-burdened demographic, with the sole exception being rare adaptive reuse projects.

American Landmark expects to have another $1B to $1.5B this year for acquisitions. The firm will focus on markets with job and population growth that show no signs of slowing. The company also expects a blow up in the north bicoastal markets. The central Midwest and smile markets will also support the multifamily industry. American Landmark will focus on value-add deals with 1980s to 2000s vintage. Renovations range from $4K to $15K, and the company likes to stay at the lower end of private capital. It will also do its best to lock in all costs in case tariffs adjust further.



**The Connor Group** will mostly look for deals with management plays in strong submarkets. The firm has been net-sellers for the past few years but expects that to change in 2019. Its average hold period has traditionally been around five years but is looking to do more 24- to 36-month deals in the future. Connor Group looks for Class B assets in A locations that have a lot of white-collar jobs and young professionals that can sustain growth over a long period of time. The company will be active in Columbus, Ohio, Cincinnati, Charlotte, N.C., Chicago, Denver, Minneapolis and study the Tampa area closely. Acquisitions are typically in the 70% LTV range but will go up to 75% if DSC is still safe. The firm will be conservative with new build lease-ups because of the abundance coming online and looks for returns in the mid- to high teens with a very high degree of probability.

**Buckingham Companies** will focus on garden-style acquisitions in Midwest and Southeast MSAs such as Nashville, Tenn., Atlanta and Indianapolis. Properties should have strong walkability profiles relative to suburban products, good school districts and accessibility to primary employment drivers. The real estate investment firm expects acquisitions to meet its return threshold and be at a discount to replacement cost. Hold periods can vary from four to eight years, and the firm targets value-add products that primarily need cosmetic upgrades versus more heavy value-add opportunities.

**Pathfinder Partners** plans to acquire $100M-plus in multifamily value-add assets in 2019. The firm will be focused on Class B '70s to '90s vintages typically in the 100- to 250-unit size. The company will be active in major markets in the western U.S., such as Seattle, Portland, San Diego, Phoenix, Denver, Sacramento and Las Vegas. Holds generally last five to seven years.

Companies such as **Praedium Group**, **Waterford Residential**, **Kairoi Residential**, **Pensam Capital**, **Carroll Organization**, **Bridge Investment Group**, **Bell Partners**, **Decron Properties**, **Waypoint Residential**, **New Standard Equities**, **Carmel Partners**, **Ambleside Properties**, **MWest Holdings**, **Highpoint Property Group**, **MG Properties Group**, **The Marquette Companies**, **URS Capital Partners**, **The Clairmont Group**, **EBEX Holdings**, **FriedLam Partners** and **Phoenix Group** will be on the hunt for value-add deals.

# New Contacts Added to Directory

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

| MULTIFAMILY FIRM | ADDRESS | CONTACT |
|---|---|---|
| **Valcap Group** | 3203 McKinney Ave.<br>Dallas, TX 75204 | John LeBeau, Director of Property Management |
| **Van Metre** | 9900 Main St.<br>Suite 500<br>Fairfax, VA 22031 | Courtney Alford, VP Business Development<br>Mary Hasty, VP Residential Management |
| **Ventas** | 353 N. Clark St.<br>Suite 3300<br>Chicago, IL 60654 | Ryan Shannon, Investor Relations |
| **Venterra** | 20333 Highway 249<br>Suite 650<br>Houston, TX 77070 | Craig Marbach, Managing Director |
| **Village Green** | 3890 W. Northwest Highway<br>Suite 601<br>Dallas, TX 75220 | Kellie Sanders Gardner, VP |
| **Washington REIT** | 1775 Eye St. N.W.<br>Washington, DC 20006 | Andrew Leahy, VP Investments |
| **Waterton** | 30 S. Wacker Drive<br>36th Floor<br>Chicago, IL 60606 | Julie Heigel, VP, Acquisitions<br>Virginia Love, VP, Leasing & Marketing<br>Mendowa Martin, VP, Business Development |
| **Wheelock Street Capital** | 660 Steamboat Road<br>Third Floor<br>Greenwich, CT 06830 | Rick Kleeman, Managing Partner<br>Jon Paul, Managing Partner<br>Jeffrey Lailberte, Managing Director<br>James Eberhart, Principal<br>Lawrence Settanni, Principal/CFO |
| **Wilson Investment Properties** | 14435 Big Basin Way<br>Suite 240<br>Saratoga, CA 95070 | Tom Wilson, CEO/Founder<br>Niel Wahlgren, Director of Operations<br>Rita Meehan, Director of Investor Relations<br>Jennifer Zhang, Director of Marketing |
| **Wolff Co.** | 6710 E. Camelback Road<br>Suite 100<br>Scottsdale, AZ 85251 | Steve Jasa, CFO, Investment Management<br>Nicholas Killebrew, VP, Credit Origination<br>Eric Inabinet, Director of Capital Markets |
| **WRH** | 415 First Ave. N.<br>St. Petersburg, FL 33701 | Daniel Dumala, Asset Manager |
| **ZOM Living** | 2001 Summit Park Drive<br>Suite 300<br>Orlando, FL 32810 | Darryl Hemminger, VP, Development<br>Brian Warner, CFO |
| **29th Capital Street** | 343 W. Erie St.<br>Suite 300<br>Chicago, IL 60654 | Stan Beraznik, Founder/Managing Principal<br>Robb Bollhoffer, Managing Principal<br>Patrick Hinsberger, Controller/SVP |

# New Multifamily Lenders in Directory
## See Online Directory http://multi.crittendenonline.com/ for Complete Contact Information with Email Addresses

| Company | Address | Contact |
|---|---|---|
| **RRA** | 3333 E. Camelback Road<br>Suite 170<br>Phoenix, AZ 85018 | Marcus Goodwin, VP of Capital Markets |
| **RSF Partners** | 3899 Maple Ave.<br>Suite 250<br>Dallas, TX 75219 | Christopher Mahowald, President |
| **S&T Bancorp Inc.** | 800 Philadelphia St.<br>Indiana, PA 15701 | David Antolik, Chief Lending Officer |
| **Silverpeak Argentic** | 40 W. 57th St.<br>29th Floor<br>New York, NY 10019 | Doug Tiesi, CEO |
| **SKB** | 222 S.W. Columbia St.<br>Suite 700<br>Portland, OR 97201 | Todd Gooding, President<br>Adam Haber, Director/Principal<br>Richard Morean, EVP<br>James Paul, EVP |
| **Solamere Group** | 137 Newbury St.<br>Seventh Floor<br>Boston, MA 02116 | Taggart Romney, Co-Founder/Managing Partner<br>Mitt Romney, Executive Partner Group Chairman<br>Eric Scheuermann, Managing Partner<br>Spencer Zwick, Co-Founder/Managing Partner |
| **South End Capital Corp.** | 17412 Ventura Blvd.<br>Suite 271<br>Encino, CA 91316 | Antoine Anderson, SVP/Account Director<br>Matt Naughton, SVP/VP, Business Loans |
| **South State Corp.** | 520 Gervais St.<br>Columbia, SC 29201 | Joseph Burns, Chief Credit Officer |
| **Southern Farm Bureau Life** | 1401 Livingston Lane<br>Jackson, MS 39213 | Jim Barclay, Director<br>Becki Pitts, Real Estate Administrator<br>Mike Brinson, Senior Regional Manager<br>Harper Keeler, VP, Realty Investments<br>David Munn, Regional Manager<br>Austin Moore, VP, Realty Investments |
| **Southern National Bancorp (Sonabank)** | 1002 Wisconsin Ave. N.W<br>Washington, DC 20007 | Rod Porter, President |
| **Southside Bancshares** | 1201 S. Beckham<br>Tyler, TX 75701 | Julie Shamburger, EVP/CFO |
| **Southwest Bancorp Inc.** | 608 S. Main St.<br>Stillwater, OK 74074 | Mark Funke, President/CEO<br>Joe Shockley, EVP/CFO<br>Nick Presson, Market President, Tulsa<br>Matt Cassell, Market President, Colorado<br>Patrick Gearhart, Market President, Witchita<br>Clay Jett, Regional President, South TX<br>Rick Sirchio, Regional President, North TX |
| **Specialty Lending Group** | 6301 Ivy Lane,<br>Suite 601<br>Greenbelt, MD 20770 | Jeff Levin, President |
| **Spectrum Commercial Lending** | 2302 Martin Ave.<br>Irvine, CA 92612 | Amjad Osmani, SVP |
| **Spencer Savings Bank** | 11 River Drive<br>Elmwood Park, NJ 07407 | Dave Denooyer, VP/Team Leader, CRE |

## OWNERS, DEVELOPERS, LENDERS & MANAGEMENT FIRMS

American Landmark: 4890 W. Kennedy Blvd., Suite 240, Tampa, FL 33609. Joe Lubeck, CEO, (813) 443-4656; Christine DeFilippis, Chief Investment Officer, (813) 252-4290.

Buckingham Companies: 941 N. Meridian St., Indianapolis, IN 46204. Sourav Goswami, Managing Director, Capital Partnership & Strategies, (317) 974-1234.

Connor Group, The: 10510 Springboro Pike, Miamisburg, OH 45342. Greg Roberto, Partner/VP of Investor Relations, (937) 350-3355.

Jefferson Apartment Group: 1420 Spring Hill Road, Suite 420, McLean, VA 22102. Jim Butz, President/CEO, (703) 563-5200.

Lowe Enterprises Investors: 11777 San Vicente Blvd., Suite 900, Los Angeles, CA 90049. Andy Sands, Managing Director/Head of Multifamily, (310) 571-4230.

Pathfinder Partners: 4380 La Jolla Village Drive, Suite 250, San Diego, CA 92122. Mitch Siegler, Senior Managing Director, (858) 875-4455.

Praedium Group, The: 825 Third Ave., 36th Floor, New York, NY 10022. Russell Appel, Founding Principal, (212) 224-5666.

Security Properties: 701 Fifth Ave., Suite 5700, Seattle, WA 98104. Ed McGovern, Managing Director of Capital Markets, (206) 628-8019.

SPI: 8226 Douglas Ave., Suite 455, Dallas, TX 75225. Michael Becker, Principal, (972) 521-8183.



## CORE CHARMS LONG-TERM INVESTORS

Newer properties will be sought after by buyers who believe in the long-term strength of the multifamily space. There are still plenty of groups targeting value-add, so core and core-plus options will be for those who have risk-adjusted returns at the front of their minds. The softness in the high-end space means there are opportunities for long-term holders. Expect **Aimco**, **Equity Residential**, **Harbor Group International** and more to be active buying newer properties.

Anticipate 2019 to be a year of constraints. Core and Class A buyers will need to do some sharp shooting and tactical execution. Projects are getting harder to capitalize for new developments and there's a plateauing of what people can afford on the higher end. With that said, there are fewer pure value-add plays as most deals are partially or fully renovated. This has led to some companies encroaching on core-plus territory for a property's first round of light renovations. Count on the Southeast to be hot for core and core-plus buyers.

The fundamentals are still present as multiple generations seek out apartments. New housing is built for the luxury to justify land costs, so there's no slack being generated for the apartment market overall. There are still plenty of newcomers searching for value-add deals to keep prices high, so expect core to be more active at the beginning of 2019. Lenders are holding tight and leverage is going down as a result of debt service coverage. Look for Class A deals to max out at 65% to 70% leverage.

**Security Properties** covers a spectrum of core, value-add, opportunistic and affordable deals. The firm expects to buy and sell around $700M in assets for 2019. The company likes the prospects of longer-term core deals, as it will be able to lock in debt and withstand a short-term downturn. Value-add deals that have an opportunity to upgrade units with washers and dryers will be targeted. Security Properties will look for deals in Nashville, Tenn., D.C., Phoenix, Las Vegas, Boise, California, Oregon, Washington and the Inland Northwest.

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### Core Charms Long-Term Investors…

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**Lowe Enterprises Investors** will be active in core and core-plus space and look for higher quality assets where there are some favorable risk-adjusted returns for that product type. With that said, it will still do some value-add deals if they pencil. Lowe will invest $500M to $600M gross for all multifamily this year. The firm will be active in all major U.S. markets.

**Jefferson Apartment Group** will primarily focus on development but expects to grow its acquisition platform and buy $150M in assets. The firm is also migrating away from value-add to target more core-plus product built in the 2000s.

**SPI** expects to be bullish yet cautious moving forward for 2019. It plans to syndicate three to four deals and sell two. The firm has shifted focus to larger scale Class B to A- from workforce housing. The company follows a lighter renovation strategy and spends around $5K to $6K. It focuses predominately in Dallas and Austin, Texas. SPI also targets loan assumptions to get a bit of a cost basis break and win over deals. Rates are a bit better at the cost of giving up interest-only.

Look for **FPA Multifamily**, **Pacific Reach**, **The Praedium Group**, **Ilan Investments**, **Continental Realty Corporation**, **Waypoint Residential**, **Starlight Investments**, **Azure Partners**, **Davlyn Investments**, **Bell Partners** and **Time Equities Inc.** to be active in the core and core-plus space.



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