#### The Apartment Report™

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

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## EXECUTIVE FORECAST FOR 2019

(2019 PROJECTED INVESTMENT VOLUME AND EXPECTATIONS)

| COMPANY & EXECUTIVE | VOLUME | PREDICTIONS |
|---|---|---|
| **American Landmark**<br>Joe Lubeck, CEO | $1B-$1.5B | A lot of new players entered the space over the past five years and now that the rubber's hit the road, they'll need to hit their pro formas. Those who can't will be in trouble and offer opportunities for buyers. There's also going to be a shakeout of technology. There are so many apps, smart devices and software now, so the cream of the crop will rise up to become the standard. |
| **Inland Real Estate Group**<br>Joe Cosenza, Vice Chairman/President | $800M+ | You're going to see more concessions in 2019. Everyone's competing for the same people to rent. Everyone's trying to be unique and giveaways and amenities will be how they do that. You have to fight to get that tenant into that apartment. And to give away something means it's being deducted from that rent. |
| **JPI**<br>Brad Taylor, Chief Development Officer/National Managing Partner | $800M | Our markets generally look to be healthy with good balance between supply and demand. We continue to closely watch job creation and future supply in our markets – tracking deliveries to the neighborhood level. Our expectation is that the markets, over the next few years, will track more closely to the long-term averages for rent growth. |
| **Security Properties**<br>Ed McGovern, Managing Director of Capital Markets | $700M± | 2019 will be a year of constraints. You'll need to do some sharp shooting and tactical execution. The fundamentals are strong and the economy is still growing. Groups targeting just value-add will face a lot of competition in addition to potentially higher interest rates and land prices thanks to the booming economy. |
| **Universe Holdings**<br>Samuel Landman, Senior Managing Director Capital Markets/Investor Relations | $250M | Opportunity Zones will be huge in multifamily in 2019 and I expect we'll see a significant investment in them during the next 12 months. In addition, I expect cap rates to either stay the same or go a bit higher. |
| **Castle Lanterra Properties**<br>Elie Rieder, Founder/CEO | TBD | Even though we have a prolonged cycle, it should be good for multifamily – especially for workforce housing. Workforce housing focuses on millennials, baby boomers and Gen X. It's making the most returns and makes the most sense. Unemployment is on a 50-year low, and more people are renting not just by necessity. Student debt and flexibility is keeping millennials renting. Amenities and communities are also highly desired by all renters. |

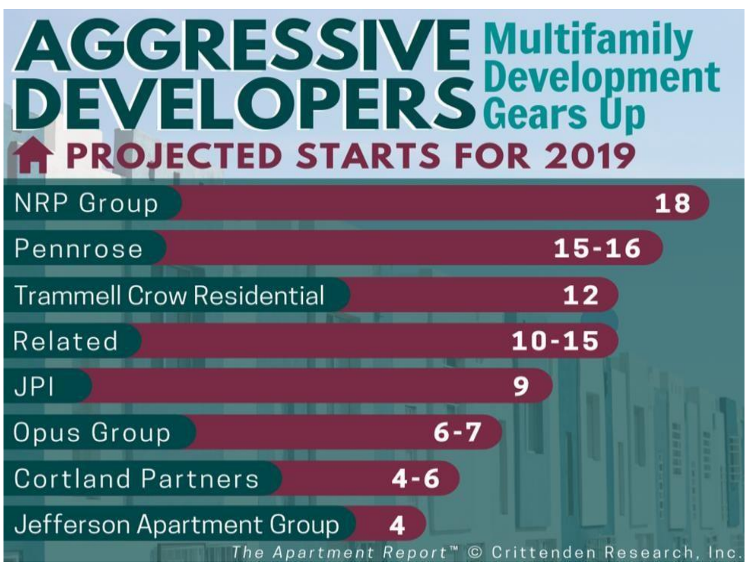
## Developers Double Down on Debt

Expect more developers to turn toward stretch senior loans, mezz debt and pref equity in 2019 as ground-up returns tighten further, and institutional equity providers sit on the sidelines. The debt markets are saturated, so developers can creatively finance projects with stretch senior construction loans and minimize the amount of sponsor equity required. Multifamily fundamentals remain strong, so developers are more comfortable juicing their leverage with secondary capital for the projects they really want to pursue, especially in urban locations. Leverage in infill areas will typically top out at 60% and secondary construction financing can bump that to around 75% to 85%. Banks will still offer up to 75% LTC for strong suburban deals.

High construction costs, tight yields on new buildings, and passive JV equity for urban core/build-to-core projects will be the biggest challenges in 2019. Banks, life companies and debt funds will be very selective on specific projects, sponsors and markets but aggressive on the deals that will pass credit requirements. Equity is very passive right now and will continue to be through the rest of this cycle. This will reduce the number of active/new apartment projects and essentially remove developers that have been trying to time the market.

Banks are pumping the brakes a bit, but absorption is still strong. This year should see continuing absorption, strong fundamentals but with slowing rent growth. The construction pipeline will slow down in 2019. If the economy continues to show signs of slowing throughout 2019, expect new construction to continue to stall later in 2019 and further into 2020. The supply of apartments will be limited until the new projects kick off in late 2019 and early 2020. Banks will get back into the business for the wrap product. As a result, suburban areas will expand even further. Also, keep an eye out for more rental subdivisions. The current landscape means developers could be more willing to build single-family projects with the purpose to rent them out.

Anticipate continued upward pressure on construction costs. As a result, more developers will begin transitioning to design/build projects with contractors that utilize cost-effective techniques such as modular, prefab panels, plug-and-play interiors, etc. As the affordability factor continues to challenge renters, watch for more group housing developments to enter the market to bring down costs on a per-unit basis.




**JPI** expects to start $800M in new multifamily construction in 2019. About half of that will be in Dallas-Fort Worth and half in Southern California. JPI currently has $2.5B under construction or in lease-up and expects to sell about $800M in 2019.

**BUILD** recently completed a 25-year development agreement with the city of San Francisco, which provides entitlements to build up to 1,575 units and 150,000 s.f. of commercial space at India Basin, a 17-acre parcel of land on the southeastern waterfront of the city. The firm will spend the better part of 2019 designing and permitting the horizontal improvements for India Basin, including eight acres of public and private parks and infrastructure. Its current plans this year include four high rises, two mid-rises and one light industrial building. BUILD focuses on the long-term fundamentals of the Bay Area apartment market, and its new $42M GP co-invest fund combined with its strategic institutional equity partners will ensure that its current projects move forward.

**Ezralow** will start a couple of development deals and complete another this year. It will break ground on a 195-unit project in Rockland, Calif., and 182 units in San Jose, Calif. In addition to Seattle and California, the company will also look for opportunities in Portland, Ore., Phoenix, Las Vegas, Salt Lake City, Austin, Texas and Nashville, Tenn. Ezralow will also improve and add units to its existing portfolio, such as adding 90 units to one of its Folsom, Calif., properties.

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## OWNERS, DEVELOPERS, LENDERS & MANAGEMENT FIRMS

American Landmark: 4890 W. Kennedy Blvd., Suite 240, Tampa, FL 33609. Joe Lubeck, CEO, (813) 443-4656.

BUILD, Inc.: 315 Linden St., San Francisco, CA 94102. Scott Eschelman, Managing Partner, (415) 551-7610.

Brown Investment Properties: 440 W. Market St., Greensboro, NC 27401. Chester Brown, President, (336) 541-5504.

Castle Lanterra Properties: 1 Executive Blvd., Suite 204, Suffern, NY 10901. Elie Rieder, CEO, (212) 201-8055.

Ezralow: 23622 Calabasas Road, Suite 200, Calabasas, CA 91302. Sid Paul, VP of Acquisitions, (818) 223-3500, Ext. 1207.

Inland Real Estate Group: 2901 Butterfield Road, Oak Brook, IL 60523. Joe Cosenza, Vice Chairman, (630) 218-4948.

JPI: 12250 El Camino Real, Suite 380, San Diego, CA 92130. Brad Taylor, Chief Development Officer/ National Managing Partner, (858) 299-4755.

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

Southeast Venture: 4011 Armory Oaks Drive, Nashville, TN 37204. Wood Caldwell, Principal, (615) 250-8676.

Universe Holdings: 1875 Century Park E., Suite 1800, Los Angeles, CA 90067. Samuel Landman, Senior Managing Director of Capital Markets/Investor Relations, (310) 785-0077.

### DEVELOPERS DOUBLE DOWN ON DEBT…

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**Southeast Venture** is finishing up a couple of projects in the east Nashville area, as well as another redevelopment project to start off the year. The firm is also looking at a few alternatives in Houston and more in east Nashville. **Brown Investment Properties** will break ground on two projects in 2019 in Raleigh and Charlotte, N.C. This adds to its pipeline of nearly 400 units in North Carolina.

Watch for developers such as **Jonathan Rose Companies**, **The John Buck Company**, **Alamo Manhattan**, **Advance Realty**, **DeBartolo Development**, **Wilson Meany**, **Middleburg** and **Riverpoint Partners** to be active in starting new multifamily construction this year.

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

| COMPANY | ADDRESS | CONTACT |
|---|---|---|
| **Square Mile** | 350 Park Ave.<br>New York, NY 10022 | Jeffrey Fastov, SVP |
| **Stabilis** | 767 Fifth Ave.<br>12th Floor<br>New York, NY 10153 | Salman Khan, CEO/Managing Principal |
| **Standard Insurance Co. (StanCorp)** | 19225 N.W. Tanasbourne Drive<br>Hillsboro, OR 97124 | Mike Morey, Assistant VP/Real Estate Finance |
| **Starwood Capital Group** | 1140 Avenue of the Americas<br>Fifth Floor<br>New York, NY 10036 | David Auerbach, SVP, Loan Origination<br>Steve DeRose, SVP, Loan Origination<br>Jim Freel, SVP, Loan Origination<br>Lance Johnson, SVP, Loan Origination<br>Craig Picket, SVP, National Loan Origination<br>Jaime Ruggiero, SVP, Loan Origination |
| **State Farm Life** | 1 State Farm Plaza, E7<br>Bloomington, IL 61710 | Christine Dierker, Account Officer<br>Paul Heller, Account Officer<br>Katie Hubbard, Investment Officer |
| **Sterling National Bank** | 500 Seventh Ave.<br>New York, NY 10018 | Kenneth Cohen, SVP |
| **Stock Yards Bancorp** | 1040 E. Main St.<br>Louisville, KY 40206 | Nancy Davis, EVP/CFO<br>Philip Poindexter, Chief Lending Officer |
| **Stonegate Bank** | 400 N. Federal Highway<br>Pompano Beach, FL 33062 | Staci Bluestein, Chief Credit Officer |
| **Trevian Capital** | 757 Third Ave.<br>Suite 2023<br>New York, NY 10017 | Andrew Smeltz, COO<br>Charlie Zabriskie, Managing Director, Originations |
| **UC Funds** | 745 Boylston St.<br>Suite 502<br>Boston, MA 02116 | Dan Palmier, CEO/President<br>Joe Ambrose, SVP, Production |
| **ULLICO** | 1625 Eye St. N.W.<br>Washington, DC 20006 | Herb Kolben, SVP SE Region<br>Michael Pistner, Managing Director<br>William Weeks, Regional VP NW<br>Alan Robertson, Senior Regional Manager SW<br>Matthew Downs, Regional VP NE<br>Robert Ship, Regional VP Midwest |
| **Umpqua Bank** | 1 S.W. Columbia St.<br>Suite 1200<br>Portland, OR 97258 | Bradley Howes, SVP, Director Of Investor Relations<br>Brandon Eberhardt, Direct Lending Officer<br>Brian Nelson, Direct Lending Officer<br>Jeff Pfahler, Direct Lending Officer |
| **Unify Financial Credit Union** | 1899 Western Way<br>Torrance, CA 90501 | Scott Johnson, Chief Investment Officer<br>Nathan Montgomery, CFO |
| **Univest Bank and Trust Co.** | 14 N. Main St.<br>P.O. Box 197<br>Souderton, PA 18964 | Philip Jackson, President, Commercial Banking |
| **Unum** | 150 JFK Parkway<br>Fourth Floor<br>Short Hills, NJ 07078 | Ben Vance, Senior Managing Director |

| DEALMAKER DATABANK | |
|---|---|
| SVN \| Chicago Commercial<br>940 W. Adams St., Suite 200, Chicago, IL 60607<br>Angelo Labriola, VP; Paul Cawthon, VP<br>(312) 676-1870<br>angelo.labriola@svn.com | The Cawthon-Labriola Group sold a 13-unit mixed-use building in Chicago's Pilsen neighborhood for $2.1M. The property consists of 13 renovated units with a mix of one, two and three-bedroom units and a retail unit with a long-term tenant. Below market rents also allow for additional value. |

## SMALL MULTIFAMILY SIZZLES

Smaller players fleeing from the stock market will keep demand high for smaller multifamily properties. Returns for assets under 50 units will be relatively conservative around 6% to 9.5% cap rates or IRRs ranging from 8% to 20%. Pricing is expected to remain fierce due to less institutional money dominating the space and lower asking prices. As a result, cap rate compression is in full effect and will continue for the short term. When a correction does happen, cap rates for smaller properties should expand around 50 to 100 basis points depending on interest rates.

Most small multifamily deals are value-add plays and consist of old, renovated stock from the 1880s to 1920s, so investors can add minor aesthetic upgrades. It's manageable for smaller buyers that are looking for money to park. Borrowers will see up to 80% leverage on purchases and 75% on cash-out refinances. Rates will be in the 4.5% to 5.5% range. Five- to 10-year fixed-rate loans will see 5% to 5.5% rates. DSC will start at 1.20x to 1.25x. Debt yield will be in the 7% to 8% range. Lower leverage loans will grab some interest-only provisions.

As a result of low unemployment, small-balance multifamily properties will be an extremely attractive investment for non-institutional investors looking for in-place cash flow in a yield-starved environment. As investors hunt for yield, small-balance lenders will become more comfortable with tertiary markets. Increased deal flow will ultimately drive lenders into new markets in order to place capital.

Deals in California, Texas, South Florida, New York, Seattle, Atlanta, the D.C. metro area and major New England MSAs will be hot. Investors will continue to pile money into big-ticket coastal cities and regional hubs as they hunt for yield. Even though most development has been toward luxury Class A properties, the demand for housing is so insatiable that even if occupancy and rents soften, there is an underlying class of tenants ready to step in to rent these units for only a small difference to pro forma rents. Lenders will steer clear of small markets with populations decreasing yearly.

Current market projections indicate there is little on the horizon that would cause a major disruption to the small-balance multifamily lending market. Although, lenders will keep a close eye on rates and how they will impact the markets. The increase in Treasury rates and spreads means the small-balance sector could be hit, as the size of the projects can't handle the increase in capital cost as easily as a larger project. Count on lenders to underwrite flat rent growth and increased cap rates. There will be more scrutiny on cash-out refinances going forward and the strength of the sponsor will be more important than ever this year.

There is plenty of capital chasing deals, which will lead lenders to become more aggressive. More lenders will enter the space, and underwriting standards will loosen. Demand for small-balance multifamily lending has increased considerably over the past few years and is expected to see continued growth in 2019.

**Fannie Mae** and **Freddie Mac** will offer competitive pricing despite market volatility, because current valuations are now high enough for properties with a unit count in the teens. Keep an eye out for the agencies to increase the minimum eligible loan size to meet borrower demand this year. Both agencies will aggressively underwrite and price loans for properties with five to 50 units, as well as assets that meet their affordability criteria. Freddie Mac will seek Class B and C assets in the top 150 metros. Fannie and Freddie will cater to large MSAs, as well as secondary and tertiary markets.

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## Small Multifamily Sizzles…

*Continued from Page 5*

**Greystone & Co.** provides $750K-plus loans for all types of multifamily properties that the agencies seek, including workforce housing with five to 50 units. Leverage will reach 70% to 80%. The company will offer five- to 30-year terms and low-4% to mid-5% rates. DSC will start at 1.20x in strong markets, 1.25x nationwide. **Arbor Realty Trust** sees a real need and opportunity to create and preserve workforce housing. Small-balance loans will play a major role in supporting the growth of workforce housing. Leverage will reach as high as 80% and DSC will be 1.40x.

**Hunt Real Estate Capital** targets assets with stronger underwriting and pricing for top markets and properties with five to 50 units and/or affordability components. The company will provide up to 80% leverage for both acquisitions and cash-out refinances. Borrowers will see 4.5% to 5.5% rates depending on loan structure and 1.20x-plus DSC. **Sabal Capital Partners**, **RED Capital Group** and **Lancaster Pollard** will also be active in the space.

Major banks such as **Wells Fargo**, **Chase**, **BofA**, **Morgan Stanley**, **Citi** and **UBS** will dip below $10M for the right multifamily deal. Regional and local players such as **Comerica**, **MUFG Union Bank**, **Provident Savings Bank**, **Bridgeview Bank Group**, **Inland Bank & Trust** and **Pinnacle Bank** will also be active. Watch for banks to seek assets in Opportunity Zones. Life companies such as **PGIM**, **AEGON**, **Ameritas**, **Security National Commercial Capital**, **Symetra** and **StanCorp** will also fund small-balance loans.



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