Multifamily Investment Outlook

United States | Q4 2016

MULTIFAMILY

Investment sales in secondary markets reached $52.7 billion in 2016, an all-time high

U.S. Multifamily property market		U.S. Multifamily investment	
-10	1.6%	$150.3	4.3%
12-month change in total vacancy (bps)	12-month net absorption (as a % of inventory)	Investment sales (FY, billions of $US)	FY investment sale growth (%)
1.8%	3.8%	4.4%	-9
12-month completions (as a % of inventory)	12-month rent growth (per unit)	Average cap rate (%)	12-month change in cap rate (bps)

Overall strength in rent growth despite a decelerated pace throughout 2016. National annual rent growth was reported at 3.8 percent for the most recent period. The national rate dipped below 4.0 percent for the first time since 2014. The market has gradually shifted in favor of tenants in select markets due to sustained deliveries of Class A product.

Despite sustained deliveries, leasing fundamentals remain stable. In spite of an environment of sustained deliveries, absorption has remained resilient. The national absorption rate of 1.6 percent remained unchanged quarter-over-quarter. Absorption remains positive across the top 40 tracked markets.

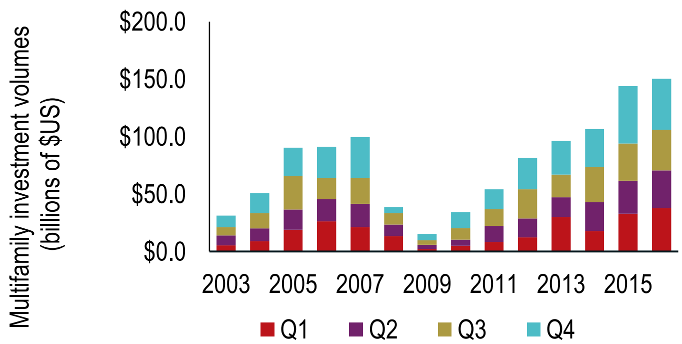
Southeast region's persistent growth for 2016 highlights another record in volumes. The multifamily investment landscape reached yet another year of record-setting volumes. With $44.2 billion of overall deal activity occurring in the fourth quarter, multifamily investment sales set a cumulative record of $150.3 billion for 2016. This outpaced 2015's total by 4.3 percent.

Led by the West Coast, secondary market activity set its own record. Secondary market activity finished the year with $11.5 billion of activity in the fourth quarter. Year-end investment sales volumes in secondary markets reached $52.7 billion, up 8.2 percent compared to 2015 figures. This year-end figure represents a record high for secondary market activity.

Offshore investment continues to trend up for multifamily product. Foreign investment continued to flow into multifamily product. Inbound capital flows contributed nearly $7.3 billion of acquisitions in 2016. Canadian and Middle Eastern capital remain the most active, with select Asian sources of capital emerging.

Multifamily investment sales

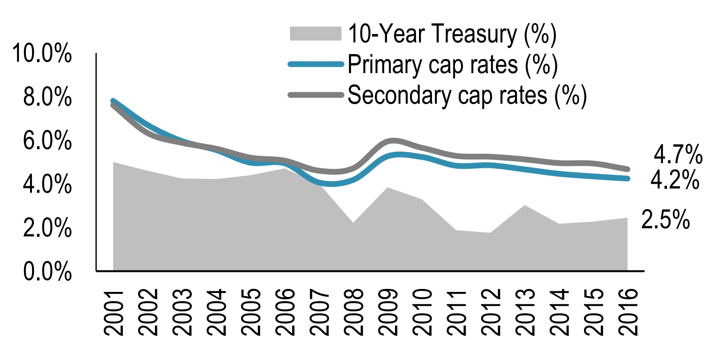
Multifamily investment sales increased another 4.3 percent in 2016, capped off by $44.2 billion of transactions in the fourth quarter



Source: JLL Research, Real Capital Analytics (Transactions larger than $5.0M)

Multifamily cap rates

Overall multifamily cap rates remained stable in 2016 with compression evident in select secondary markets, including Minneapolis, Portland and West Palm Beach



Source: JLL Research, NCREIF, Board of Governors of Federal Reserve

TOP 5 MULTIFAMILY THEMES

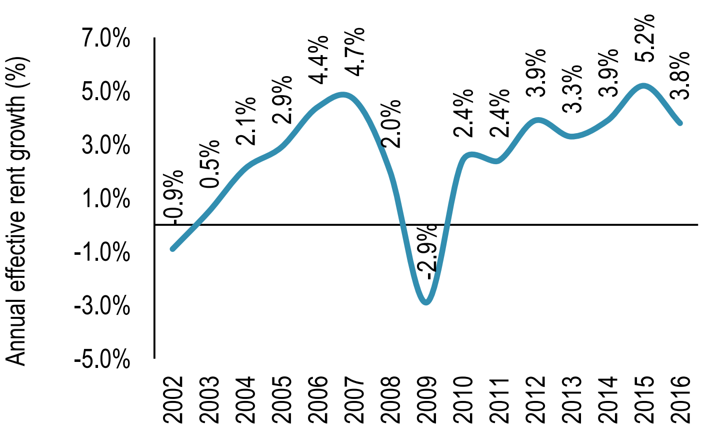
1 Overall strength in rent growth despite a decelerated pace throughout 2016

National annual rent growth was reported at 3.8 percent for the most recent period. The national rate dipped below 4.0 percent for the first time since 2014. The market has gradually shifted in favor of tenants in select markets due to sustained deliveries of Class A product. In spite of the decelerated pace of rent growth throughout 2016, the current 3.8 percent figure demonstrates the market's overall strength, as each successive year since 2012 has demonstrated rent growth gains of at least 3.3 percent. New drivers of national rent growth remain in the West region. In spite of the end of a sustained run of rent growth for the trio of Bay Area markets, six markets in the West region drove rent growth gains, with Salt Lake City, Phoenix and Seattle-Bellevue each seeing year-over-year gains of at least 130 basis points.

In conjunction with this, the national vacancy rate was reported at 4.4 percent. The rate softened 10 basis points year-over-year, despite more than 385,000 units delivering during the last two years. Houston leads this trend, softening 100 basis points year-over-year to 6.7 percent. While fundamentals have softened slightly from 2015 levels, sub-5.0 percent vacancy persists in spite of sustained supply gains. Supply concerns will continue to linger in select markets and well-served urban submarkets therein as 2017 starts, but the demand for multifamily product overall remains positive.

Multifamily rent growth remains positive but is slowing

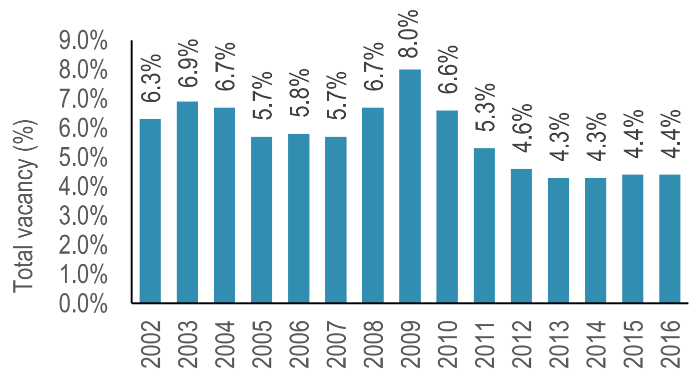
Effective rent growth of 3.8 percent marks the fifth straight year of 3.0+ percent growth levels



Source: JLL Research, Reis

National vacancy rates demonstrate strength at 4.4 percent

In spite of a sustained run of deliveries since 2014, national vacancy rates have held stable



Source: JLL Research, Reis

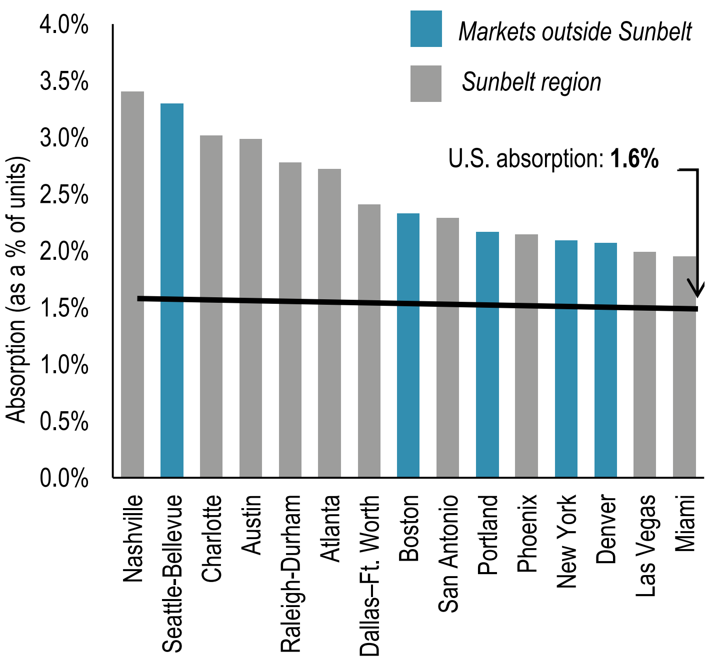
2 Despite sustained deliveries, leasing fundamentals remain stable

The rate of national completions with respect to inventory was 1.8 percent, declining 10 basis points year-over-year and 30 basis points from a 2.1 percent cycle high in the first quarter of 2016. Sunbelt markets are currently propelling development, as Charlotte and Nashville outpace markets for recent development activity—at 4.3 and 4.1 percent of respective market inventories. Additionally, Austin (3.6 percent) and San Antonio (3.4 percent) have seen sizable development gains come to market over the past year. In spite of this environment of sustained deliveries, absorption has remained resilient. The national absorption rate of 1.6 percent remained unchanged quarter-over-quarter, while softening 20 basis points year-over-year—a level not seen since 2014. In spite of this, absorption remains positive across the top 40 tracked markets. Markets in the Southeast region lead annualized absorption rates, as Nashville (3.4 percent), Charlotte (3.0 percent), Raleigh-Durham (2.8 percent) and Atlanta (2.7 percent) outperform the national average.

Looking at the development pipeline, primary markets New York, Dallas–Ft. Worth and Houston each have in excess of 30,000 units under construction. Among construction leaders, New York leads with respect to current inventory due to a sizable upswing in activity in Queens; comparatively, Los Angeles is only seeing construction at 2.1 percent of current inventory, lagging peer markets. While the ability of certain markets to absorb stock will continue to be tested as deliveries continue in 2017, the resilience of major markets throughout 2016 demonstrates that demand drivers remain in place to fill multifamily product at the moment.

Sunbelt region remains the key driver of multifamily absorption

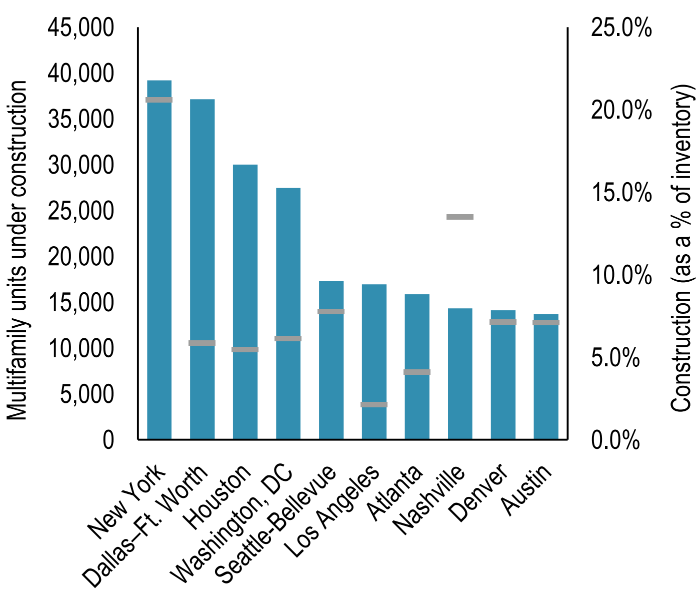
Led by Nashville's 3.4 percent, the Sunbelt continues to drive absorption in spite of sustained deliveries



Source: JLL Research, Reis

New York's development pipeline outpaces peer markets

In comparison, Los Angeles lags peer markets at 2.1 percent of current inventory under construction



Source: JLL Research, Reis

3 Southeast region's persistent growth for 2016 highlights another record in volumes

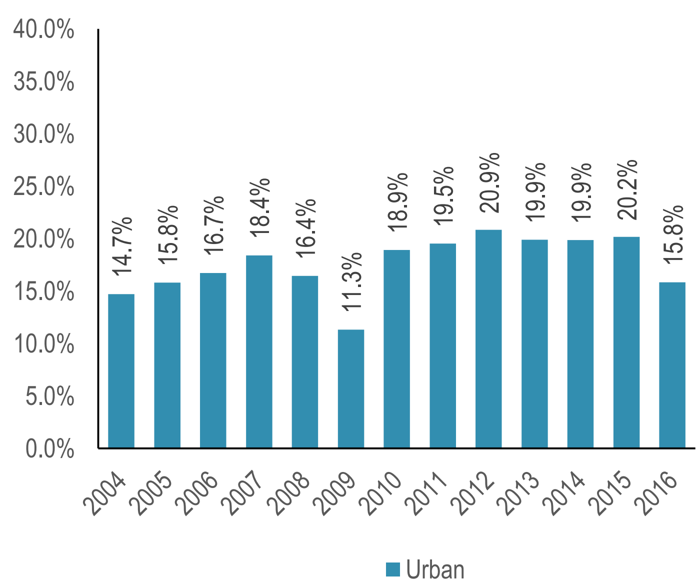
The multifamily investment landscape reached yet another year of record-setting volumes with a strong push at year-end. With $44.2 billion of overall deal activity occurring in the fourth quarter, multifamily investment sales set a cumulative record of $150.3 billion for 2016. The full-year 2016 volume outpaced 2015's total by 4.3 percent. With this, the fourth-quarter figure was the second highest recorded for the current cycle. While another $22.1 billion in investment volumes transacted in CBDs on the year, this represented a nearly 4.5 percent decline in CBD activity compared to 2015, indicative of a notable diversification into the suburbs. Despite volume gains, multifamily cap rates remain stable across primary and secondary markets nationally, currently averaging 4.4 percent.

While unable to eclipse last year's record volumes, the New York market still managed to see $14.3 billion in the year, the second highest total of the last 16 years for the market. Primary markets in the Southeast otherwise drove volumes, highlighted by $8.0 billion in investment sales volumes in Atlanta, a 20.1-percent increase year-over-year. With this, Atlanta saw the largest cap rate compression among primary markets, compressing 31 basis point over the last 12 months to 4.8 percent. Of primary multifamily markets, Miami saw the greatest increases in activity, growing 44.3 percent to $1.5 billion.

Favorable shifts toward renting have supported a sustained run of strength in leasing fundamentals, despite the recent modest softening of rent growth. The relatively weak supply and affordability of single-family houses will remain a barrier to homeownership, benefiting the multifamily space and impacting supply-demand dynamics in 2017.

Investment sales activity moving away from CBDs

A deeper diversification into the suburbs evident in 2016;
with 15.8 percent of full-year investment sales in the CBD, this lags the prior five years, which saw levels at a minimum of 19.5 percent



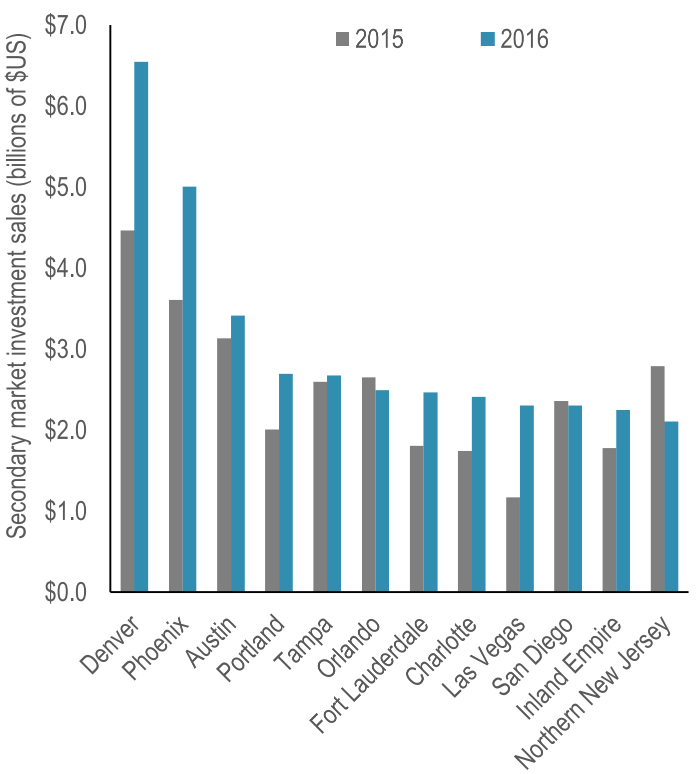
Source: JLL Research, Real Capital Analytics (Transactions larger than $5.0M)

4 Led by the West Coast, secondary market activity sets its own record

Secondary market activity finished the year on a strong note with $11.5 billion of activity in the fourth quarter. As a result, year-end investment sales volumes in secondary markets reached $52.7 billion, up 8.2 percent compared to 2015 figures. This represents a 16-year high, while 12 secondary markets experienced year-over-year gains in excess of 26.0 percent—concentrated most in the West region. Denver and Phoenix led secondary market activity with $6.5 and $5.0 billion, respectively, of activity. This highlights the sustained attention these markets are receiving from investors due to their favorable local economies and above-average household formations. While Denver's gains have been concentrated in midrise product (accounting for $1.5 billion of annual activity), 85.3 percent of Phoenix's volumes remained concentrated in garden-style stock with only select high-rise activity, such as Invesco's acquisition of the 25-story CityScape – Residences in Downtown Phoenix for $75.2 million. In addition to these two secondary market leaders, gains were evident in Las Vegas (97.3 percent), Portland (34.2 percent), Oakland–East Bay (31.9 percent) and Inland Empire (26.6 percent). The continued attention on the West Coast speaks to the favorable economies and demographics of these markets, complemented by favorable leasing fundamentals and leading rent growth levels. This focus is expected to continue in the near term.

Secondary market activity increases 8.2 percent in 2016

Led by Denver and Phoenix, 12 separate secondary markets gained in excess of 26.0 percent



Source: JLL Research, Real Capital Analytics (Transactions larger than $5.0M)

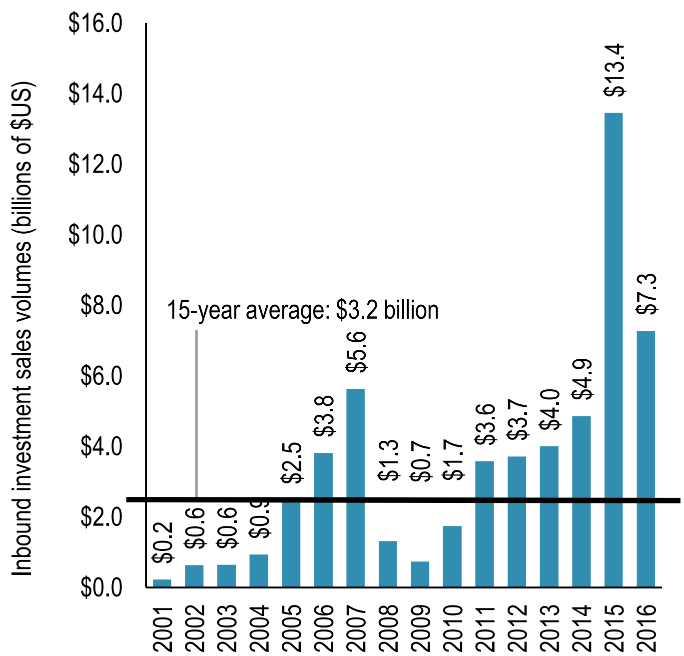
5 Offshore investment continues to trend up for multifamily product

While unable to surpass the clear outlier of 2015, foreign capital continued to flow into the multifamily sector at increasing levels. Offshore investors acquired nearly $7.3 billion of multifamily product in 2016. This represents the second highest total on record, paling compared to 2015's $13.4 billion. Investors from abroad have expanded their familiarity with the sector and, with that, their respective portfolios of assets. This is critical given the absence of institutionally owned, multifamily rental housing in the vast majority of markets globally.

Canadian investors accounted for 41.8 percent of total foreign investment volumes for 2016, $3.0 billion of activity. Canadian investors were active in several segments of the market this quarter: Bentall Kennedy and Multi-Employer Property Trust acquired The Addison, a pair of high-rise apartments completed in 2011 in New York's Brooklyn submarket. This transaction was the largest single-asset, primary market transaction on the quarter. Canadian investors such as CPP Investment Board, H&R REIT and Starlight Investments also were active: Starlight and H&R each acquired assets in the Sunbelt region across Atlanta, San Antonio and Tampa. In addition to the Canadians, Middle Eastern capital remains active in this sector, while demand from Asian-based capital has emerged: Singapore-based Mapletree Investments acquired a national, seven-property student housing portfolio for $653.2 million. As foreign investors develop a deeper understanding of the multifamily sectors, offshore capital is expected to continue to diversify the investor base for multifamily product.

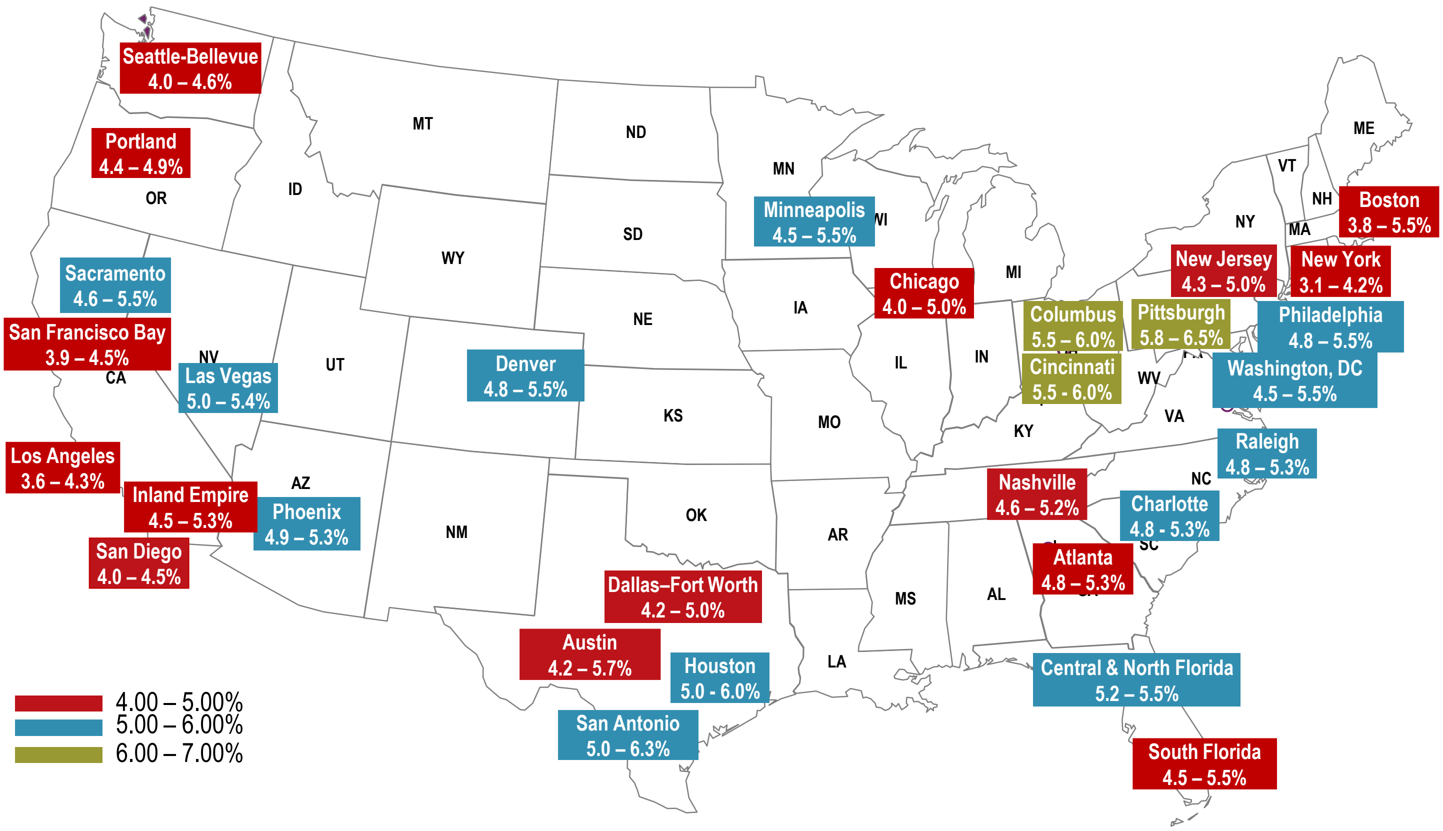
Inbound capital contributed nearly $7.3 billion of 2016 volumes

Offshore demand for multifamily product continues to steadily rise, with 2016 seeing the second highest year of inbound acquisitions in history



Source: JLL Research, Real Capital Analytics (Transactions larger than $5.0M)

U.S. Class A multifamily cap rates



Source: JLL Research, January 2017

Notable primary market single-asset transactions, Q4 2016

Market	Property	Buyer	Seller	Price ($)	Size (units)	Price (per unit)
New York	The Addison	Bentall Kennedy / MEPT	Waterton Associates	$154,250,000	271	$569,188
Los Angeles	Trio Apartments	Cherng Family Trust	TIAA-CREF	$154,000,000	304	$506,579
Seattle-Bellevue	Bridges at Northcreek	Griffis Residential	Grosvenor	$145,000,000	524	$276,718
New York	90-92 Queens Boulevard	Ding K Wai	Steven Wu	$125,000,000	144	$868,056
Washington, DC	Sutton	Dweck Properties Ltd	Crow Holdings / JLB Partners	$104,000,000	420	$247,619
Los Angeles	Noho Lofts	KBS Strategic Opportunity REIT II / M West Holdings	Rockwood Capital / Redwood Partners	$102,500,000	292	$351,027
New York	Red Square	Dermot Co / Rockwood Capital	Alpha-Beta Flats	$100,000,000	130	$769,231
Chicago	River North Park	Angelo Gordon	Waterton Associates	$99,041,666	399	$248,225
Los Angeles	Pierce Park Apartments	Desola Capital	Investment Property Group	$98,000,000	430	$227,907
Seattle-Bellevue	Carriages at Fairwood Downs	Sequoia Equities	TruAmerica Multifamily / Guardian Life Insurance / Allstate	$97,750,000	400	$244,375

Notable secondary market single-asset transactions, Q4 2016

Market	Property	Buyer	Seller	Price ($)	Size (unit)	Price (per unit)
San Diego	BLVD 63	TIAA-CREF	Carmel Partners	$156,000,000	332	$469,880
Portland	LaSalle	Invesco RE / Holland Partners	Waterton Associates	$141,750,000	554	$255,866
Denver	Solana 3100 Pearl	Rockwood Capital	Reylenn Properties LLC / UBS	$136,000,000	319	$426,332
Denver	Pembrooke on the Green	Heslin Holdings	Bridge Investment Group / Redhill Realty	$129,000,000	959	$134,515
Portland	The Yard	Land & House PLC	Key Development Corp / Sortis Capital	$126,680,000	284	$446,056
Portland	Eddyline Bridgeport	Sequoia Equities	Mill Creek Residential	$118,100,000	367	$321,798
Denver	Amli at Lowry Estates	Mesirow Financial	Morgan Stanley	$112,250,000	414	$271,135
West Palm Beach	Las Ventanas	Pollack Shores RE Group	Epoch Properties / PGIM Real Estate	$109,330,000	494	$221,316
Denver	Alexan Sloan's Lake	Castle Lanterra Equity	Trammell Crow Residential / BlackRock	$102,800,000	369	$278,591
San Diego	Sterling Alvarado	Heitman	Dinerstein Cos	$98,100,000	320	$306,563

For more information, please contact:

Multifamily
Michael Morrone
Analyst, Multifamily Research
+1 312 228 2304
michael.morrone@am.jll.com

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