

Q1 Underwriting Survey Reflects Stable Expectations for Prime Multifamily Assets

KEY FINDINGS OF Q1 SURVEY

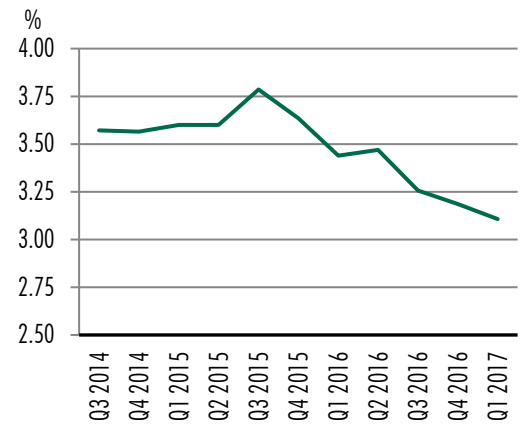
CBRE Research’s Q1 2017 Buyer Underwriting Survey reflected little change in underwriting standards and return expectations despite the reduced investment activity of prime multifamily properties in Q1 2017.

The Q1 underwriting characteristics represented continued confidence in the multifamily sector and a willingness to accept lower returns for high-end, mid- and high-rise assets in the best submarkets.

The average rent growth assumption did ease slightly, edging down to 3.1% (average for first three years of underwriting), from 3.2% in Q4 and 3.4% a year ago. However, the expected IRRs (average 6.12% in Q1) and cap rates (going-in 4.30%) used in underwriting were essentially unchanged from the prior quarter and prior year.

San Francisco had the lowest target IRR among markets surveyed.

Figure 1: Annual Rent Growth for Underwriting*



Source: CBRE Research, Q1 2017. *Average for first three years.

Figure 2: Buyer Valuation Underwriting Survey for Prime Class A Multifamily Assets: Ranked by IRR Target and Cap Rate

Market	Submarket	Subtype	Current Monthly Asking Rent	Avg. Ann. Rent Growth Underwriting	IRR Target Unlevered	Going-in Cap Rate	Exit Cap Rate	Holding Period
			(\$/SF)	First 3 Years (%)				
San Francisco	South of Market	Mid-rise	4.91	2.0	5.25	4.00	4.75	10
Boston	Downtown	High-rise	4.85	3.0	5.75	4.00	4.75	7 - 10
Los Angeles	West Los Angeles	Mid-rise	4.53	5.0	6.00	3.50	4.50 - 4.75	5 - 7
Washington, D.C.	West End	High-rise	4.85	3.5	6.00	4.25	4.50 - 4.75	5 - 7
Miami	Downtown/Brickell	High-rise	3.00	3.0	6.00 - 6.25	4.00 - 4.50	5.00 - 5.25	7 - 10
Austin	Downtown	High-rise	3.25	3.5	6.00 - 6.25	4.00 - 4.25	5.00 - 5.25	10
Chicago	River North	High-rise	3.50	2.5	6.00 - 6.25	4.25 - 4.75	5.25	10
Dallas	Intown Dallas	High-rise	3.00	3.0	6.00 - 6.50	4.25 - 4.75	5.00 - 5.50	5 - 7
Atlanta	Midtown	High-rise	2.75	3.0	6.25	4.50	5.25	7 - 10
Denver	Downtown	High-rise	2.65	2.0	6.00	4.50	5.00	7 - 10
Houston	Inner Loop W/Grnwy Plaza	High-rise	2.30	3.0	6.00 - 6.50	4.25 - 4.75	5.00 - 5.50	7 - 10
Seattle	Downtown	Mid-rise	3.75	3.0	6.50	4.25 - 4.50	5.00	10
New York*	Manhattan	High-rise	5.80	3.0	6.50	4.50	4.75	10
Phoenix	South Scottsdale	Mid-rise	2.30	4.0	6.50	4.75	5.50	10
Average			3.67	3.1	6.12	4.30	5.02	8.6

Source: CBRE Research, Q1 2017. Values as of April 2017. The "prime" statistics displayed above are estimates of current buyer underwriting assumptions for the highest quality asset in the best location of a particular market. The quoted prime rents reflect the level at which top-tier relevant transactions are being completed. Estimates are based on the expert opinion of CBRE investment professionals that handle transactions in these particular markets. *New York values for Q1 were not reported; these values are as of Q4 2016.

Figure 2: Historical Summary of Buyer Valuation Underwriting Survey for Prime Class A Multifamily Assets

Quarter	Survey Taken	Current Mo. Asking Rent (\$/SF)	Avg. Ann. Rent Growth Underwriting 1st 3 Years (%)	IRR Target Unlevered %	Going-in Cap Rate %	Exit Cap Rate %	Holding Period Years	Spread Btw. Going In & Exit Cap Rates BPs
Q2 2014	July 2014	3.52	3.6	6.44	4.33	5.04	8.1	72
Q3 2014	Oct 2014	3.56	3.6	6.28	4.37	5.02	8.2	65
Q4 2014	Jan 2015	3.59	3.6	6.23	4.22	4.95	8.1	73
Q1 2015	April 2015	3.61	3.6	6.18	4.23	4.94	8.1	71
Q2 2015	July 2015	3.64	3.6	6.17	4.23	4.95	8.4	72
Q3 2015	Oct 2015	3.68	3.8	6.15	4.21	4.95	8.4	75
Q4 2015	Jan 2016	3.77	3.6	6.15	4.20	4.97	8.5	77
Q1 2016	April 2016	3.74	3.4	6.18	4.28	4.98	8.5	70
Q2 2016	July 2016	3.61	3.5	6.20	4.27	5.06	8.5	79
Q3 2016	Oct 2016	3.73	3.3	6.18	4.27	5.02	8.5	75
Q4 2016	Jan 2017	3.68	3.2	6.18	4.32	5.02	8.6	70
Q1 2017	April 2017	3.67	3.1	6.12	4.30	5.02	8.6	71
Most recent quarter		%	BPs	BPs	BPs	BPs	%	BPs
Q-o-Q change		-0.3	-8	-6	-2	0	0.0	2
Y-o-Y change		-1.8	-33	-6	2	4	1.3	1

Source: CBRE Research, Q1 2017. Values as of April 2017. The "prime" statistics displayed above are estimates of current buyer underwriting assumptions for the highest quality asset in the best location of a particular market. The quoted prime rents reflect the level at which top-tier relevant transactions are being completed. Estimates are based on the expert opinion of CBRE investment professionals that handle transactions in these particular markets. Sums may not total due to rounding.

BUYING ACTIVITY

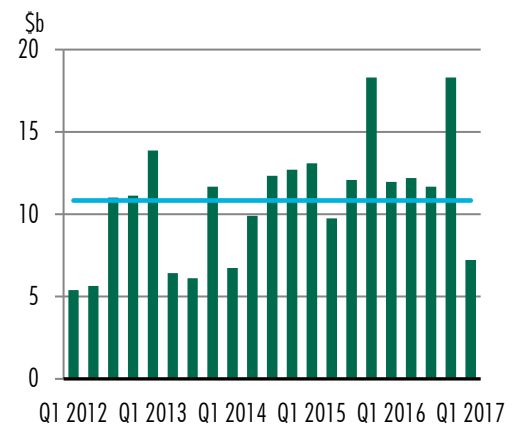
CBRE investment sales professionals note that while pricing is generally holding up for prime Class A multifamily assets, the bidding velocity has thinned out in recent quarters.

This is partly due to institutional capital's more cautious approach to core buying. Concerns about market performance and short-term overbuilding in urban core submarkets, the shortage of asset availability in the marketplace and sellers holding fairly firm on price also have contributed to the caution and pricing trends.

Yet, over the next few months, buying activity could very well pick up. Based on informal polls conducted by CBRE, client conversations and data from groups that track capital (such as Prequin), there's no shortage of capital available for acquisitions nor investment interest in the multifamily sector.

Through April 2017, total multifamily acquisitions dropped considerably from 2016 (-26.5%). For individual-asset sales the change was smaller at -14.1%. Mid-rise/high-rise purchasing totaled \$9.9 billion or 27.5% of all investment year-to-date through April, reflecting a -33.1% decline from last year.

Figure 4: Midrise/Highrise Acquisitions Volume



Source: CBRE Research, Real Capital Analytics, Q1 2017.

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