

3Q 2018
UNITED STATES
**MULTIFAMILY CAPITAL
MARKETS REPORT**

TABLE OF CONTENTS

- 3** Key Takeaways
- 4** Sales Volume
- 5** Sales Volume Heat Map
- 6** Yield Spread
- 7** Cap Rates
- 8** Price Per Unit
- 9** Top Buyers and Sellers
- 10** Capital Flow
- 11** International Capital Buyers
- 12** International Capital Destinations
- 13** Supply and Demand
- 14** New Supply and Inventory Growth
- 15** Absorption Trends
- 16** Annual Effective Rent
- 17** Rent Growth and Forecast
- 18** Employment Growth
- 19** Homeownership Rate
- 20** Mortgage Debt Outstanding
- 21** Mortgage Maturities



KEY TAKEAWAYS



SALES VOLUME

The third quarter experienced record levels of capital flow with \$48.3 billion in sales volume, a 33.7% quarter-over-quarter increase. Large markets such as New York and Los Angeles remain the leading recipients of investment, although several top-tier secondary markets experienced material growth as well.



CAP RATES

The U.S. average cap rate compressed to 5.4%, a decrease of six basis points year-over-year. Yields currently average 4.7% in major markets and 5.6% in non-major markets. The continued compression in non-major market stems from the high levels of interest in suburban value-add product.



RENT GROWTH

Annual effective rents were up 2.7%, an increase of seven basis points quarter-over-quarter. Rental growth was strongest in Orlando and Las Vegas, both of which averaged increases of 6.1%, double the national rate. Austin, Charlotte and San Francisco are expected to see significant rental growth over the next twelve months.



SUPPLY AND DEMAND

Nationally, 321,529 units have been absorbed in the past 12 months, with 298,567 new units being delivered. Although high levels of new supply have been a theme of this phase of the cycle, demand has outpaced new supply lately and has been particularly strong in Houston, Las Vegas, Los Angeles and Phoenix.



INTERNATIONAL CAPITAL

Direct acquisitions by international capital sources totaled \$11.1 billion over the past 12 months. CapitalLand closed on a 3,787-unit, Class B portfolio from Starwood Capital for \$835 million in the third quarter, one of the largest conventional multifamily portfolio acquisitions by international capital this year.



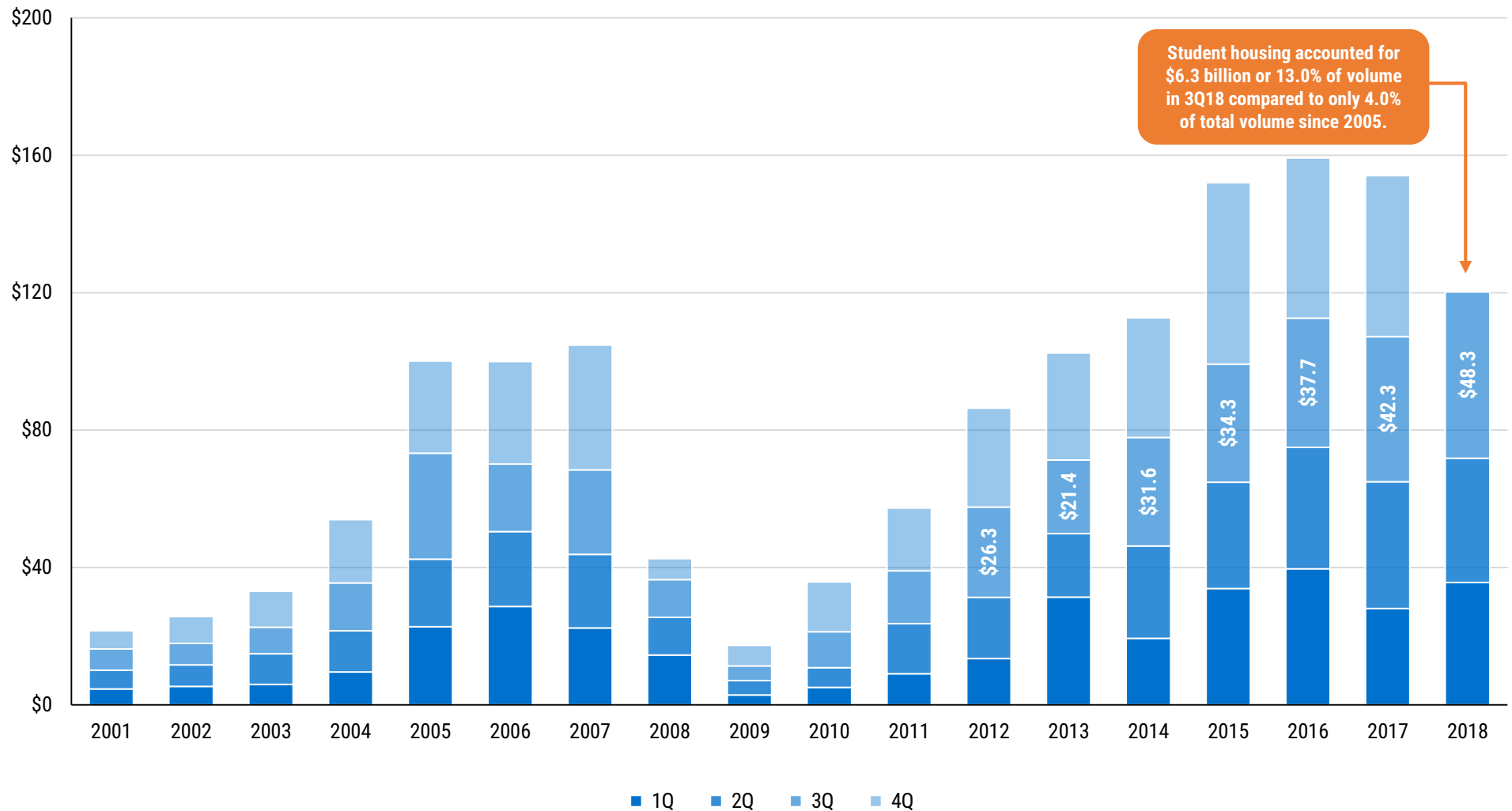
DEBT MARKETS

Despite a rising rates environment, debt capital for multifamily remains plentiful, as credit spreads compressed to absorb increases in underlying indices. Mortgage debt outstanding grew to \$1.3 trillion for a \$20.0 billion quarterly increase. Quarter-over-quarter, GSE debt outstanding rose 2.4%, with a 2.2% increase from life insurance companies.

SALES VOLUME

UNITED STATES; DOLLARS IN BILLIONS

Quarterly sales volume rose to \$48.3 billion, a 33.7% quarter-over-quarter surge. With the exception of 4Q15, this marks the largest quarterly volume total on record. Additionally, 12-month total volume accelerated 8.6% year-over-year to \$167.0 billion, as a number of large portfolio transactions continued to fuel the market.

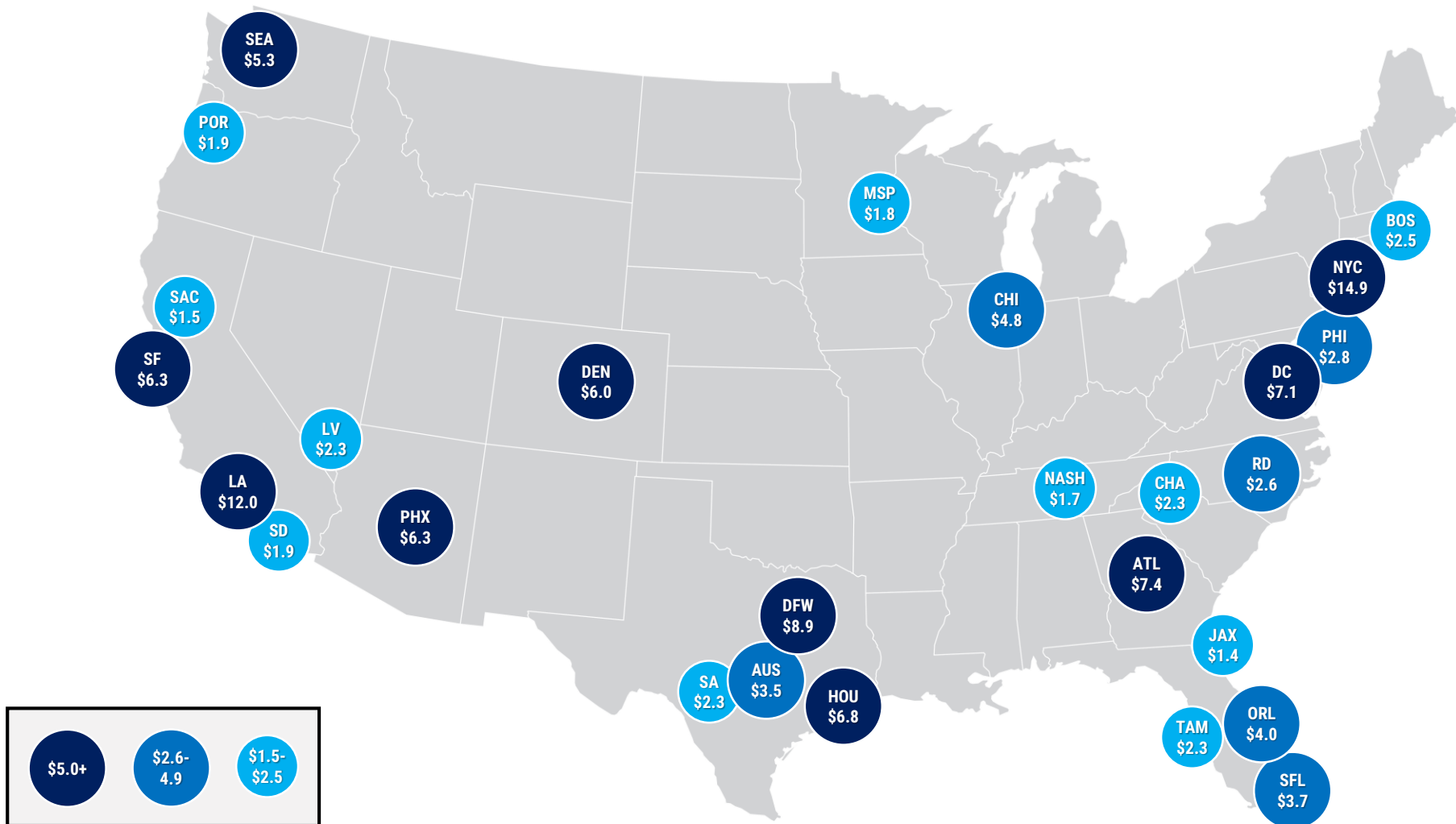


Source: NKF Research, Real Capital Analytics

SALES VOLUME HEAT MAP

12-MONTH TOTALS; DOLLARS IN BILLIONS

While sales volume in supply-constrained markets such as New York and Los Angeles remains robust, many investors continue to seek out higher-yielding assets with significant year-over-year volume growth in Phoenix (32.7%), Orlando (33.1%), Philadelphia (45.2%), Houston (50.0%) and Raleigh-Durham (50.8%).

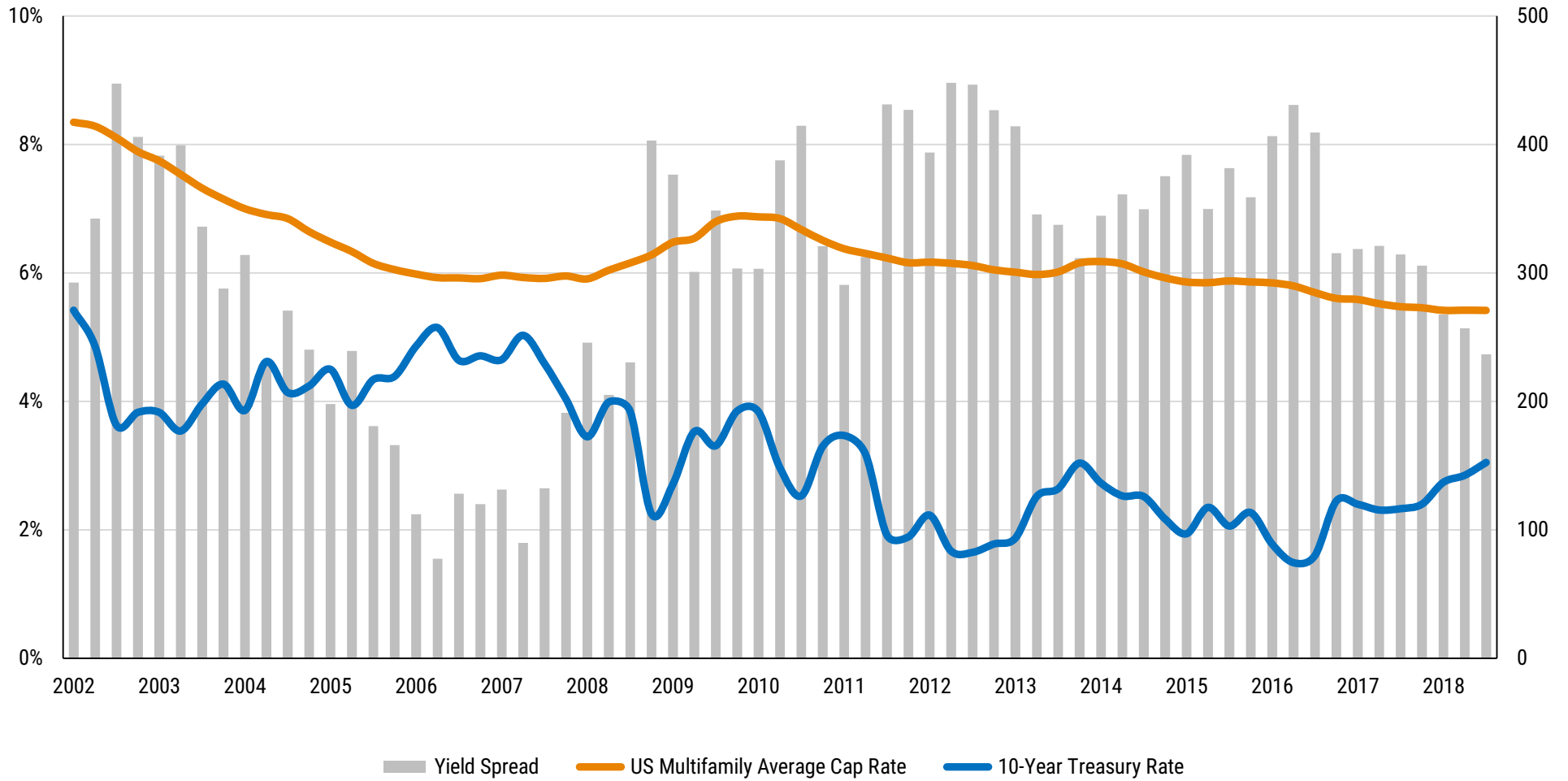


Source: NKF Research, Real Capital Analytics

YIELD SPREAD

UNITED STATES

The 10-year Treasury rate increased to 3.05% at the end of 3Q18, as the yield spread between cap rates and the Treasury note compressed to a cyclical low of 237 basis points. Cap rates have remained relatively unchanged over the past 12 months, even as the Federal Reserve has raised rates.

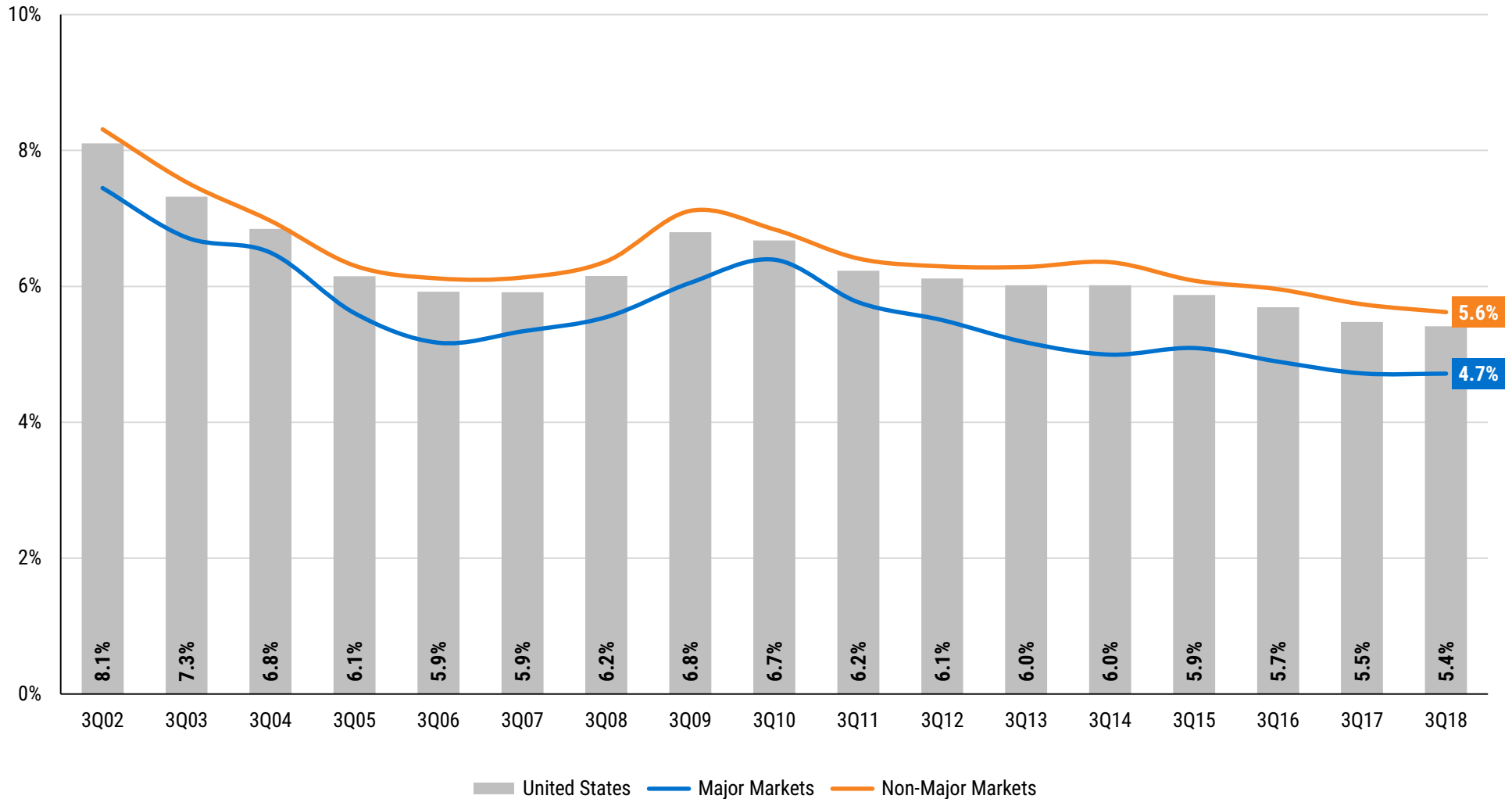


Source: NKF Research, Real Capital Analytics (Transactions \$10 million and greater)

CAP RATES

UNITED STATES; 12 MONTH AVERAGE

Yields compressed six basis points year-over-year nationally. The third quarter of 2018 marks the tightest spread between major markets and non-major markets since 2012 at 91 basis points. Investors are selectively looking at core and core plus, while the search for yield has created intense competition for value-add product and is disproportionately driving down yields in non-major markets.



*Major Markets: Boston, Chicago, Los Angeles Metro, New York City Metro, San Francisco Metro, Washington DC Metro

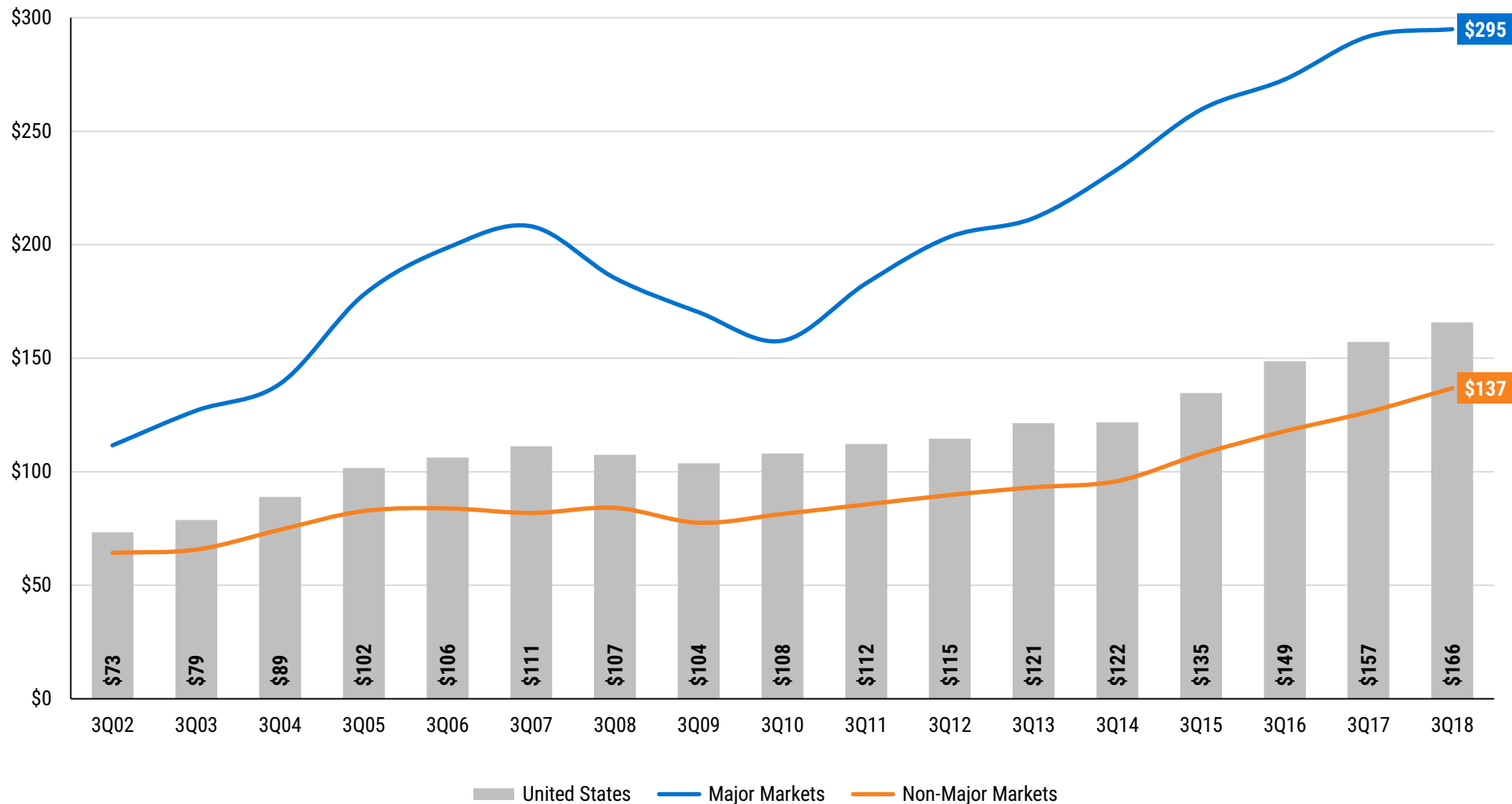
*Non-Major Markets: All other markets

Source: NKF Research, Real Capital Analytics (Transactions \$10 million and greater)

PRICE PER UNIT

UNITED STATES; DOLLARS IN THOUSANDS; 12 MONTH AVERAGE

The average price per unit rose to \$165,875. This represented a 5.5% year-over-year increase, led by an 8.3% increase in non-major markets, compared with just a 1.1% growth in major markets. Several markets experienced an upswing in pricing year-over-year, with an increase of 23.8% in Nashville, 17.2% in Seattle and 15.3% in Denver.



*Major Markets: Boston, Chicago, Los Angeles Metro, New York City Metro, San Francisco Metro, Washington DC Metro
 *Non-Major Markets: All other markets

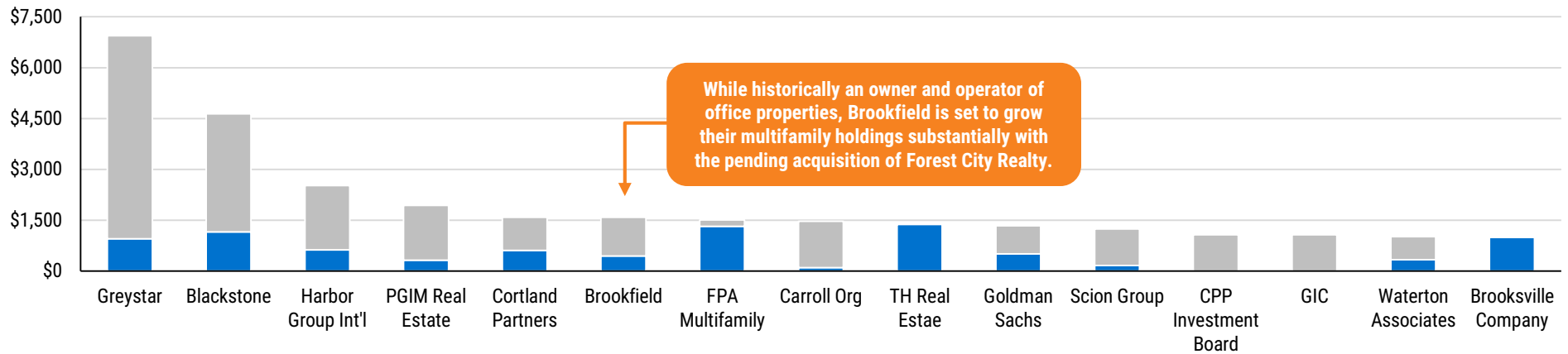
Source: NKF Research, Real Capital Analytics (Transactions \$10 million and greater)

TOP BUYERS AND SELLERS

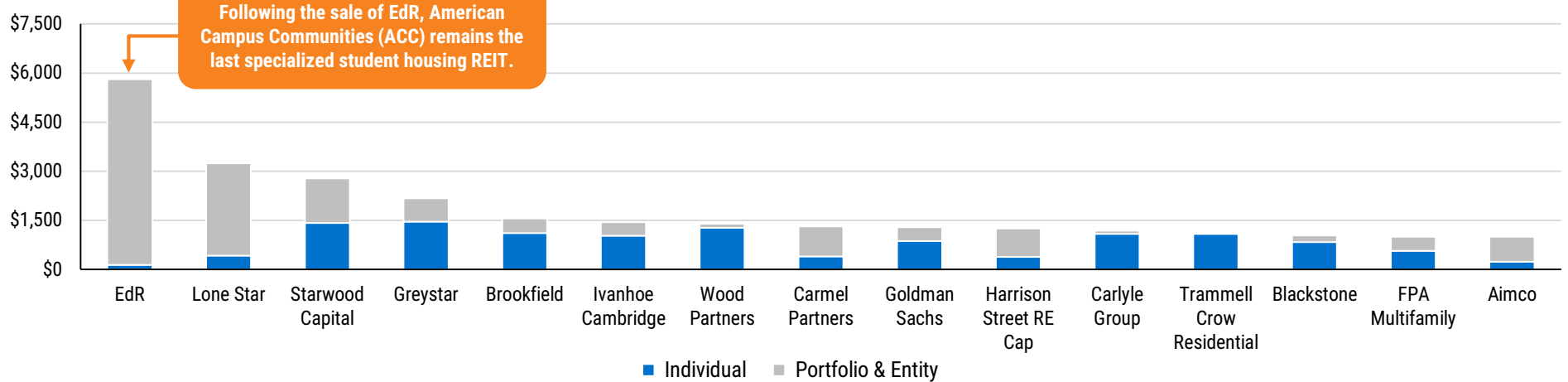
UNITED STATES; 12-MONTH TOTALS; DOLLARS IN MILLIONS

Portfolio and entity-level transactions over the past 12 months made up the majority of acquisition volume of the top buyers. Greystar, Brookfield, Blackstone, FPA Multifamily and Goldman Sachs have been among both the top buyers and sellers in the past year.

Top Buyers



Top Sellers



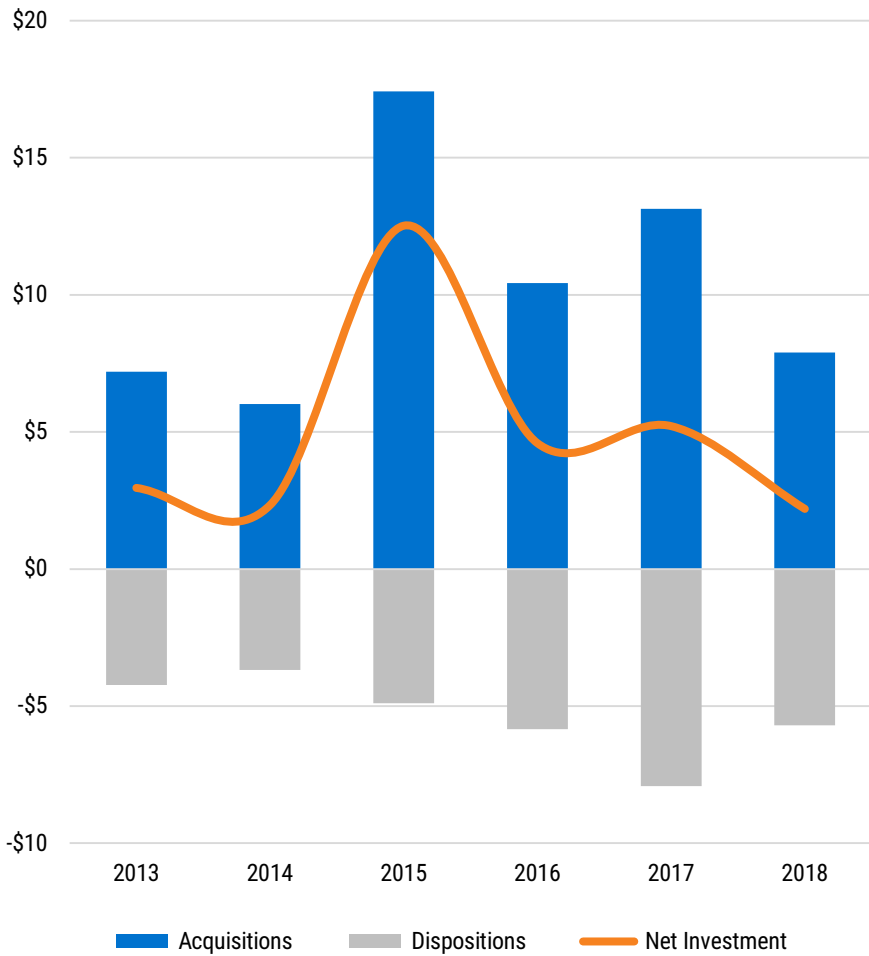
Source: NKF Research, Real Capital Analytics

CAPITAL FLOW

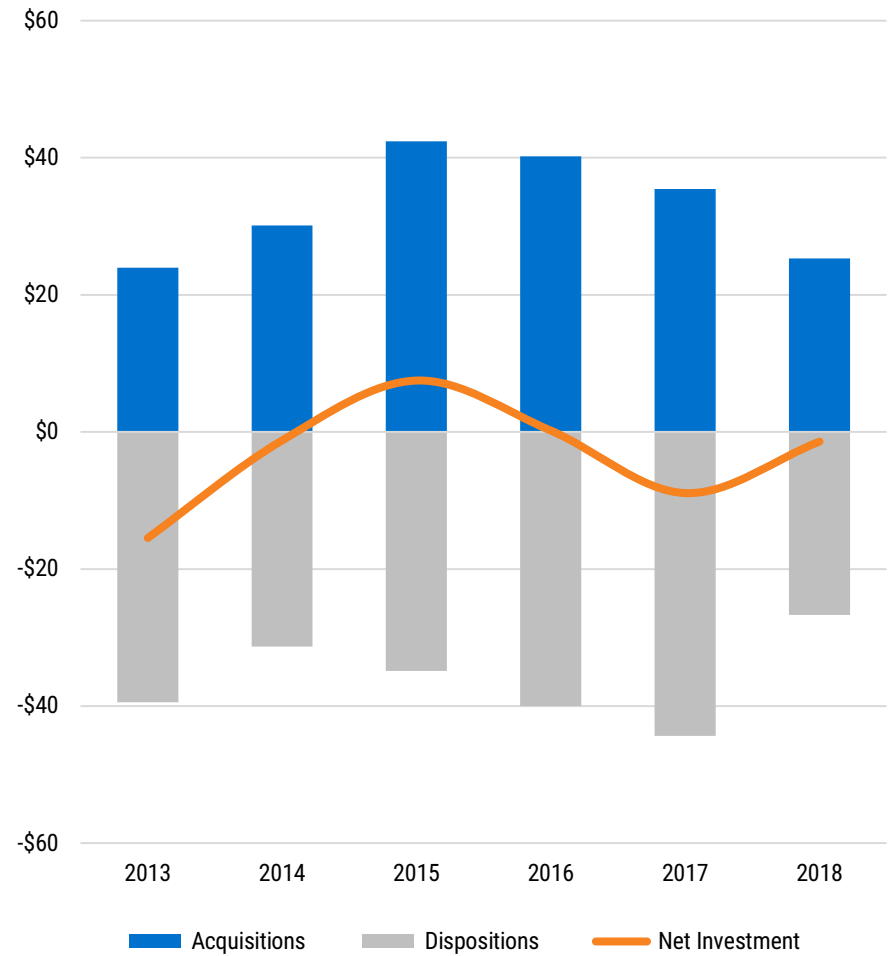
DOLLARS IN BILLIONS

Acquisitions from international capital sources continue to outpace dispositions for the sixth year in a row. Institutions and equity funds have been net sellers during four of the past six years.

INTERNATIONAL



INSTITUTIONS AND EQUITY FUNDS



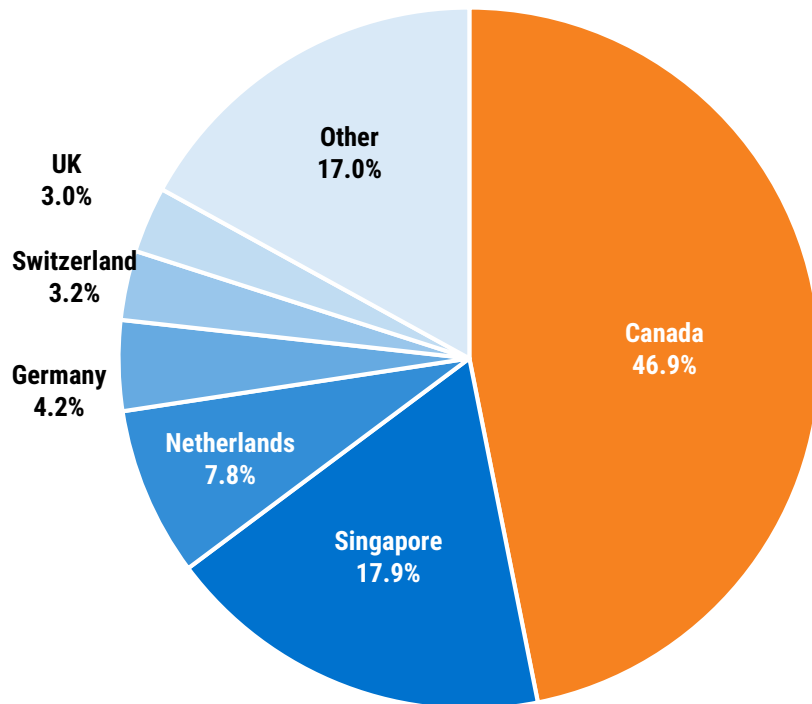
Source: NKF Research, Real Capital Analytics

INTERNATIONAL CAPITAL BUYERS









12-MONTH TOTALS

Direct acquisitions by international capital sources totaled \$11.1 billion over the past 12 months. Although Canadian firms remain the largest source of foreign capital, recent market entrants, such as CapitaLand of Singapore with its acquisition of a 3,787-unit portfolio for \$835 million, are expanding their U.S. multifamily holdings.

BY COUNTRY



TOP BUYERS (\$100M+)

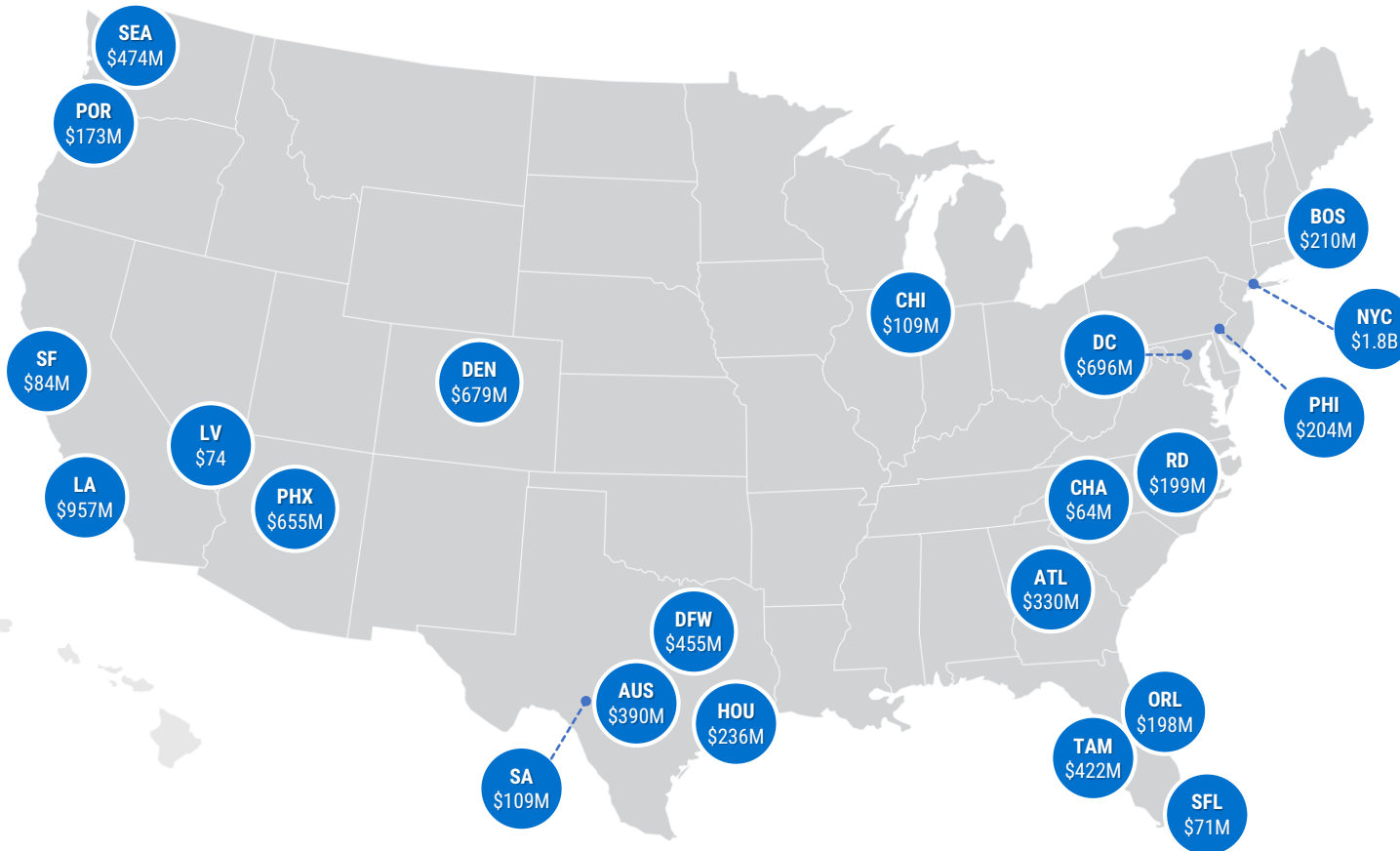
	Canada Brookfield, CPP Investment Board, Starlight Investments, H&R REIT, Western Wealth Capital, OMERS, MDC Property Services, Venterra Properties, Pure Multi-Family REIT, PSP Investments, Emma Capital, Alberta Investment Mgmt. Corp, Healthcare of Ontario Pension Plan
	Singapore GIC, CapitaLand, Mapletree Investments, Centurion Corp, ACRE Real Estate
	China Jiyuan Finance
	Germany Allianz, Jamestown
	Israel Profimex
	Japan Sekisui House
	Kuwait Wafra
	Mexico Hasta Capital
	Netherlands PGGM, Bouwinvest
	Sweden Akelius Residential AB
	Switzerland Varia US Properties, GMF Capital
	United Kingdom Henley, Balfour Beatty

Source: NKF Research, Real Capital Analytics

INTERNATIONAL CAPITAL DESTINATIONS

12-MONTH TOTALS

While global gateway markets such as New York, Los Angeles and the Washington metro area attracted the highest levels of capital, investment into higher-yielding non-major markets represented 62.3% of total investment over the past 12 months. The markets with the strongest demand are in the Southwest, including Dallas, Denver and Phoenix.



BY MARKET TIER

As a % of Cross-Border Capital

MAJOR MARKETS **37.7%**

NON-MAJOR MARKETS **62.3%**

BY REGION

As a % of Cross-Border Capital

MID-ATLANTIC **9.6%**

MIDWEST **6.4%**

NORTHEAST **20.9%**

SOUTHEAST **16.6%**

SOUTHWEST **25.1%**

WEST **21.4%**

*Major Markets: Boston, Chicago, Los Angeles Metro, New York City Metro, San Francisco Metro, Washington DC Metro

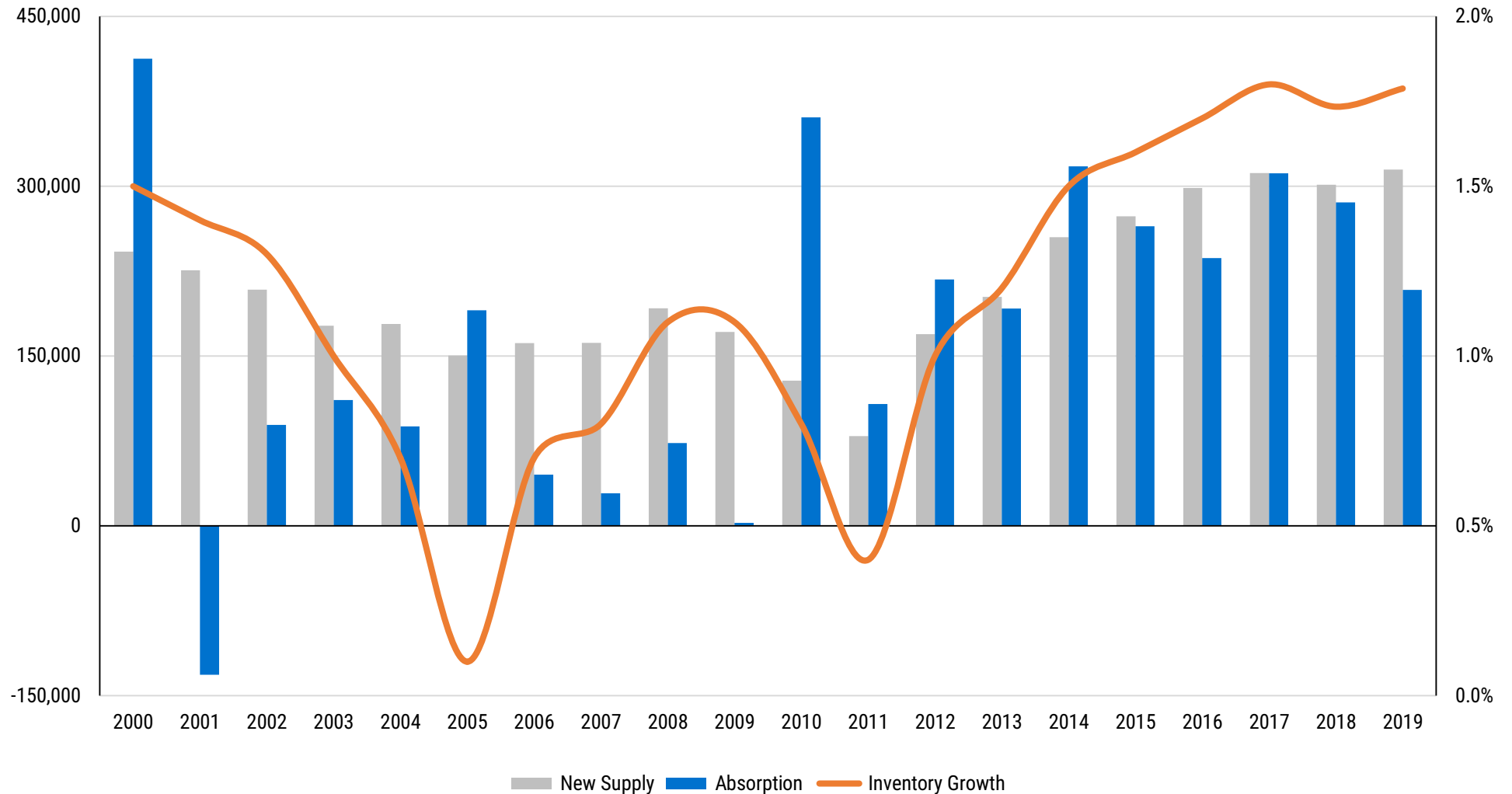
*Non-Major Markets: All other markets

Source: NKF Research, Real Capital Analytics

SUPPLY AND DEMAND

UNITED STATES

Over the past 12 months, 298,567 new units have been delivered, while 321,529 units were absorbed. The third quarter saw particularly strong levels of demand with 104,492 units absorbed. Historically, absorption over the past three years has averaged 72,092 units per quarter.

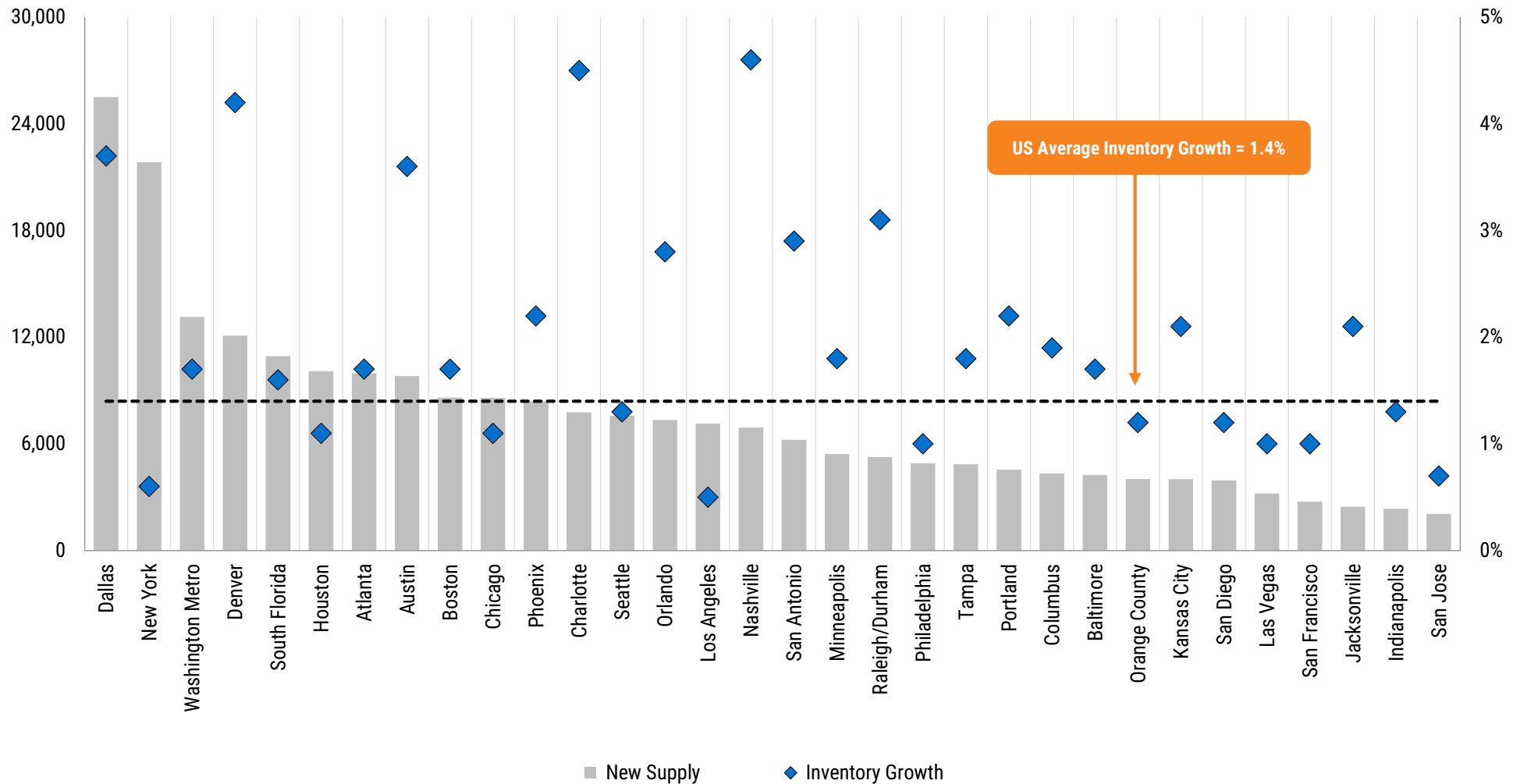


Source: NKF Research, Axiometrics

NEW SUPPLY AND INVENTORY GROWTH

SELECT MARKETS; 12-MONTH TOTALS

The top 10 markets by deliveries over the past 12 months comprise 43.7% of national new supply. Annual inventory growth as of third-quarter 2018 totaled 1.4%, although some markets, including Charlotte, Denver and Nashville, are experiencing growth of more than 4.0%.

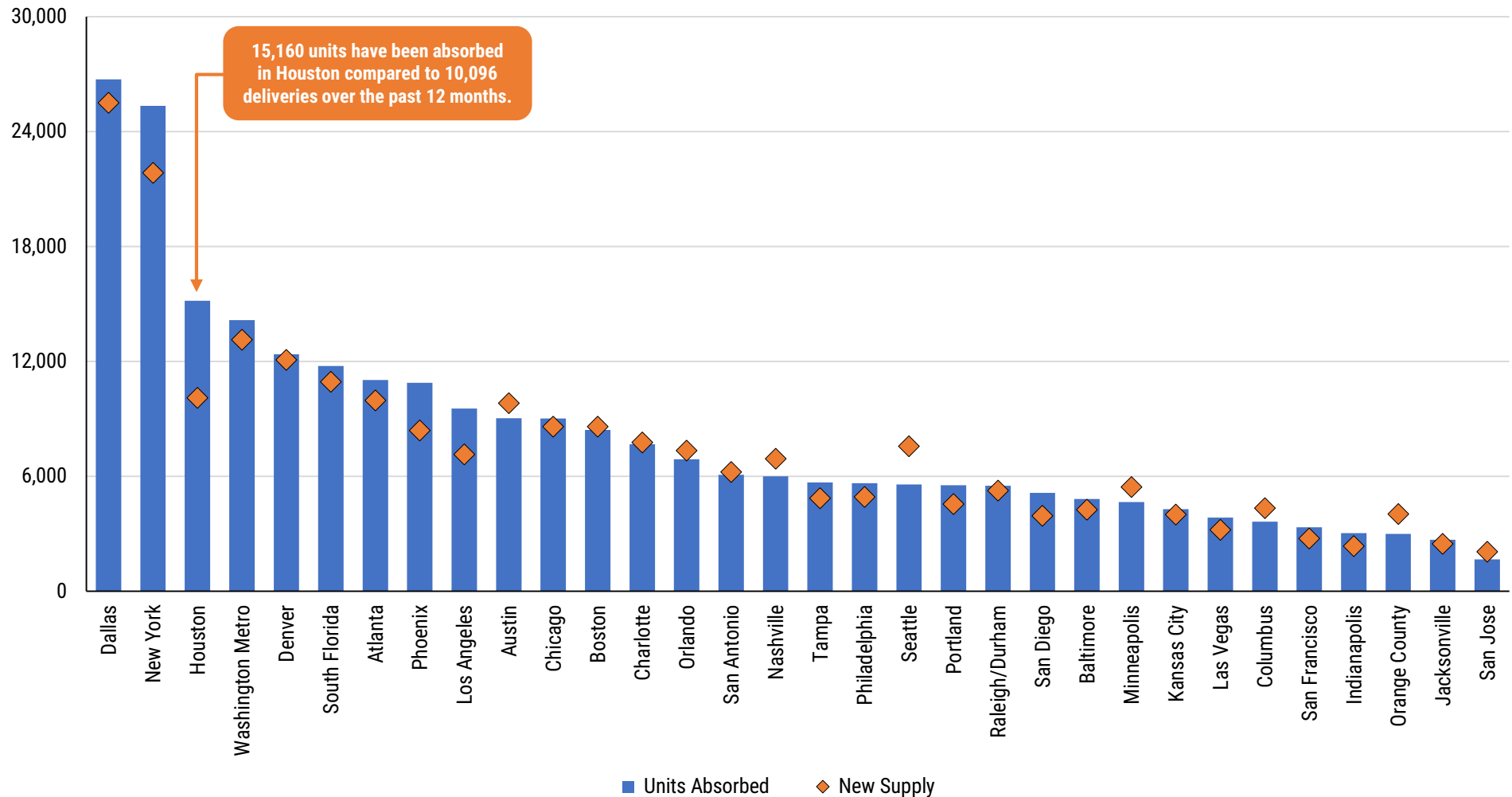


Source: NKF Research, Axiometrics

ABSORPTION TRENDS

SELECT MARKETS; 12-MONTH TOTALS

Despite high levels of new supply over the current cycle, 22 of the 32 largest markets in the country have experienced absorption in excess of new supply over the past 12 months.

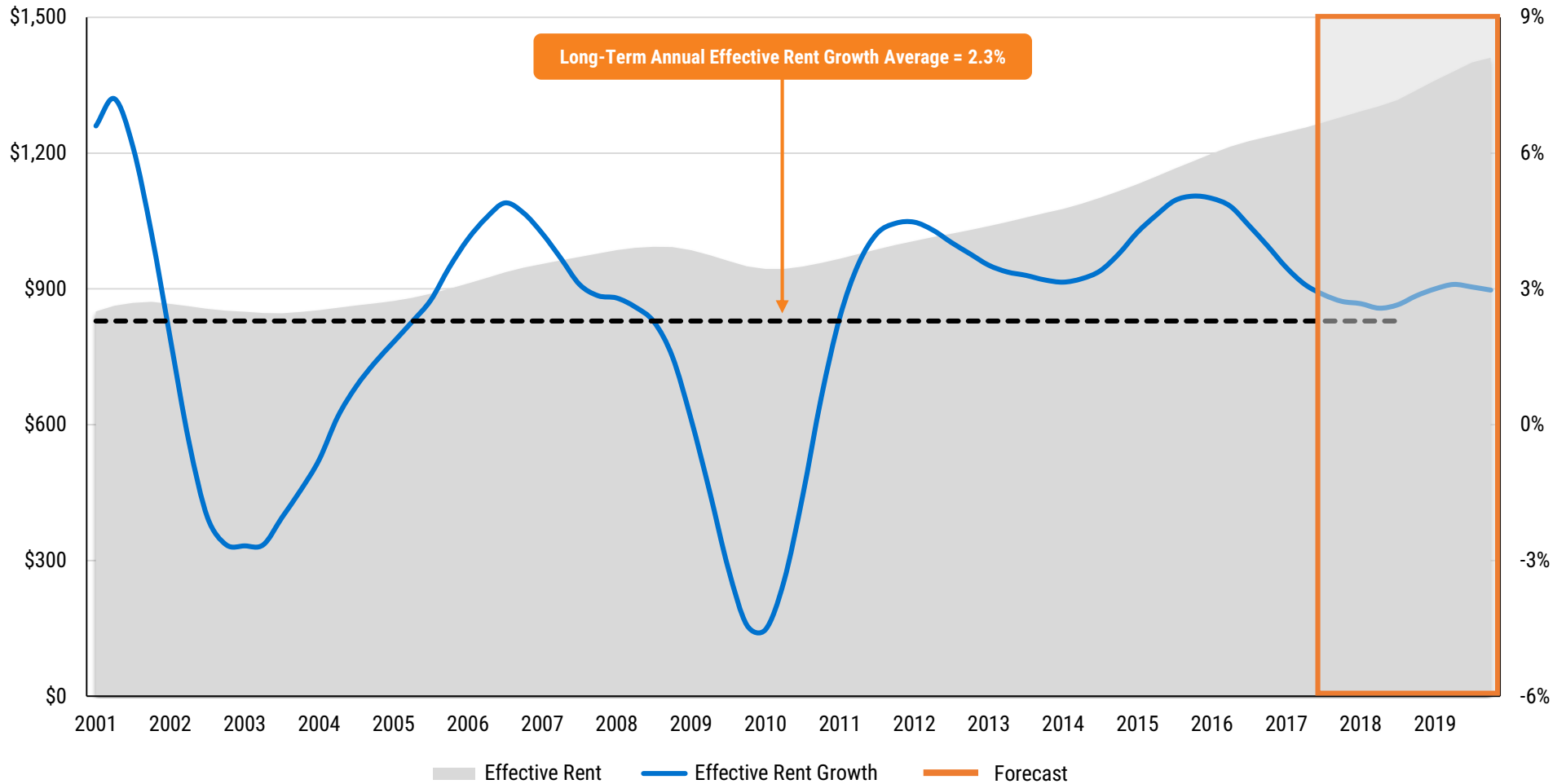


Source: NKF Research, Axiometrics

ANNUAL EFFECTIVE RENT

UNITED STATES

Annual effective rents grew 2.7% nationally, up seven basis points quarter-over-quarter. Rental growth as of 3Q18 is currently 36 basis points greater than the long-term average and is expected to rise an additional 45 basis points over the next few quarters. Average rents rose to \$1,318 per month, an increase of \$50.00 year-over-year.

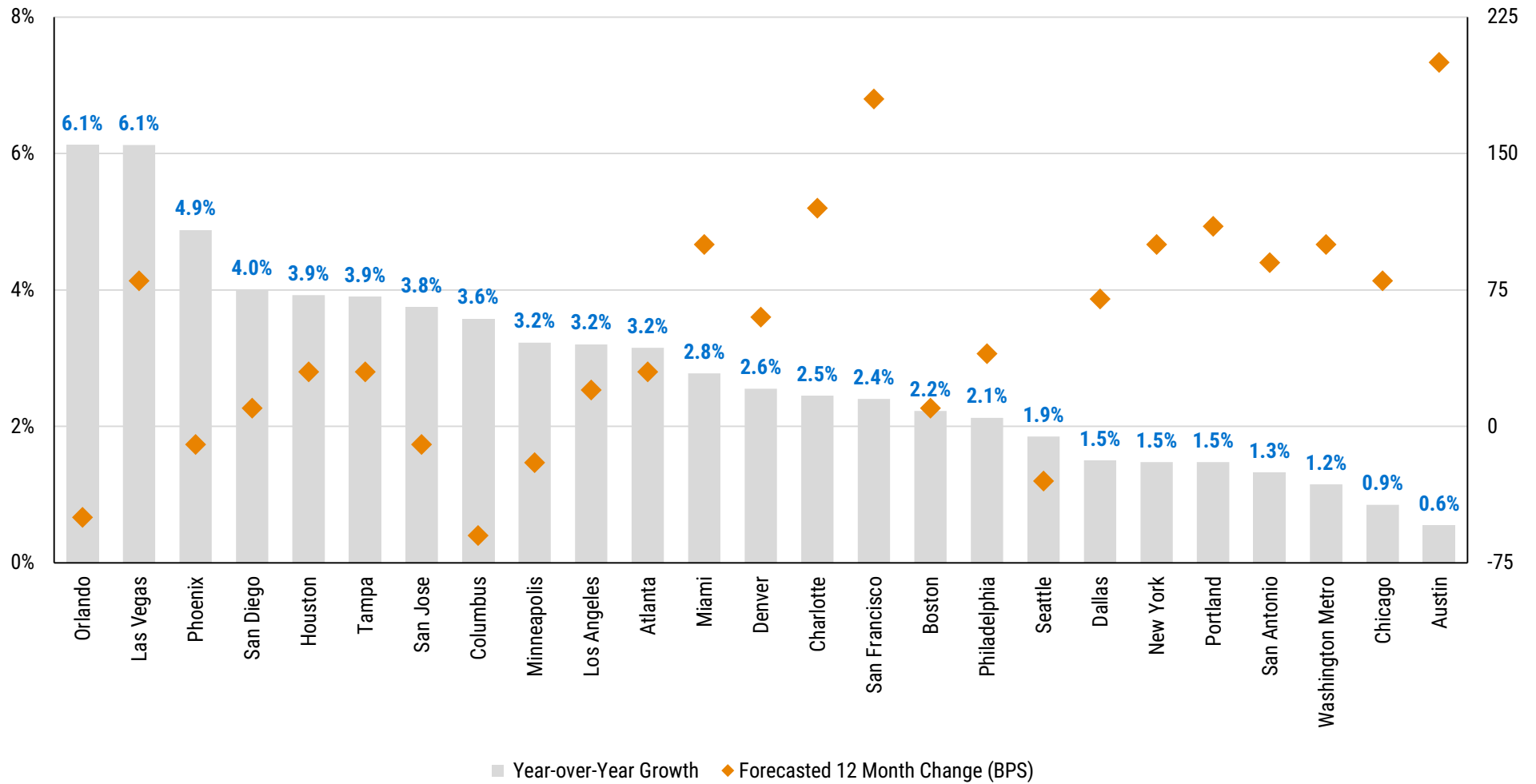


Source: NKF Research, Axiometrics

RENT GROWTH AND FORECAST

SELECT MARKETS; ANNUAL EFFECTIVE RATE

On a 12 month basis, Orlando and Las Vegas experienced more than double the national rental growth rate of 2.7%. Over the next 12 months, several markets are expected to see sizeable upticks in rental growth. These include Austin, where rents are expected to rise 200 basis points from current levels.

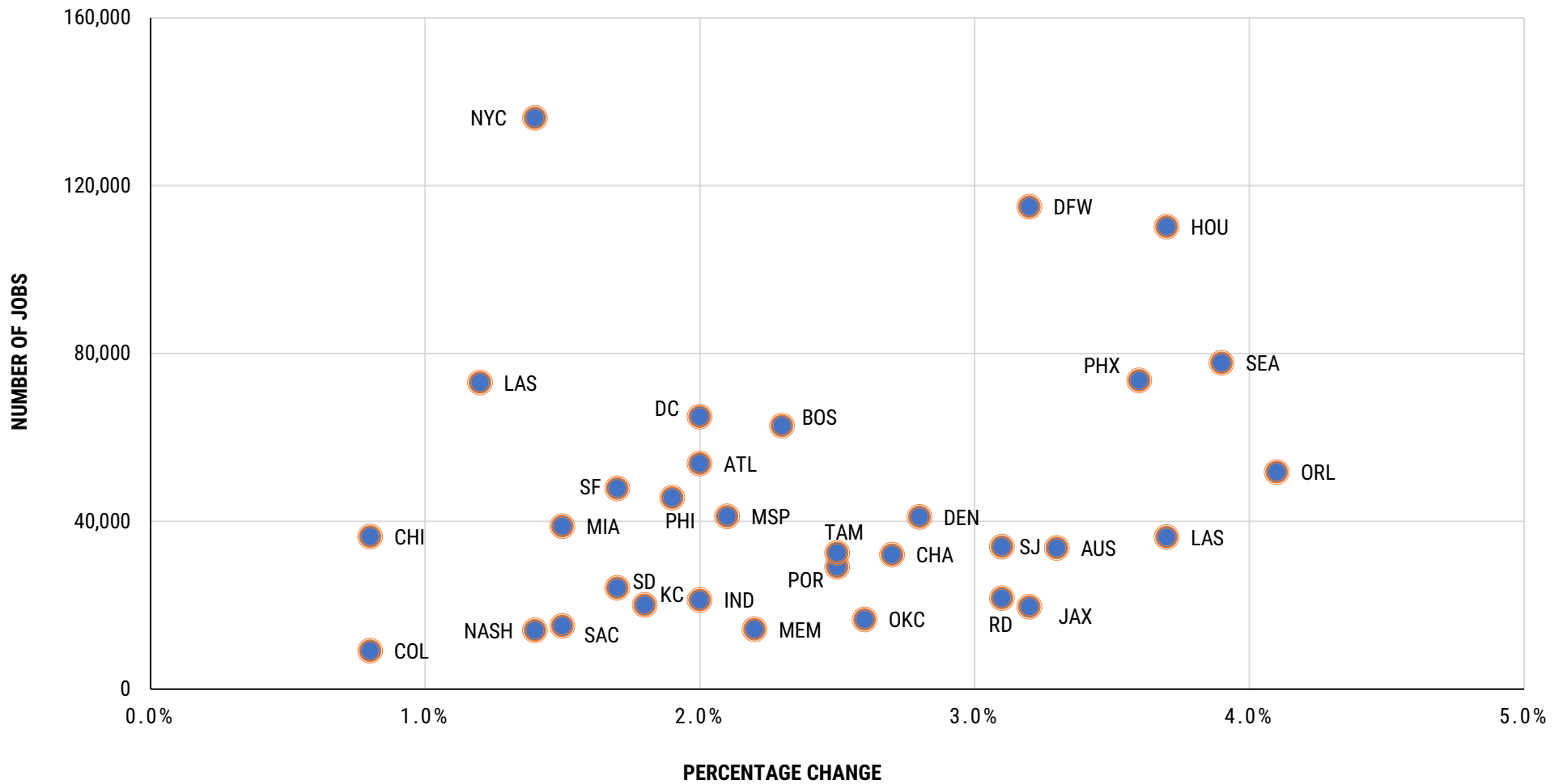


Source: NKF Research, Axiometrics

EMPLOYMENT GROWTH

SELECT MARKETS; YEAR-OVER-YEAR CHANGE

While New York, Dallas and Houston have added the most new jobs on a nominal basis over the past 12 months, employment growth has been strongest in Orlando at 4.1% and Seattle at 3.9% annually.

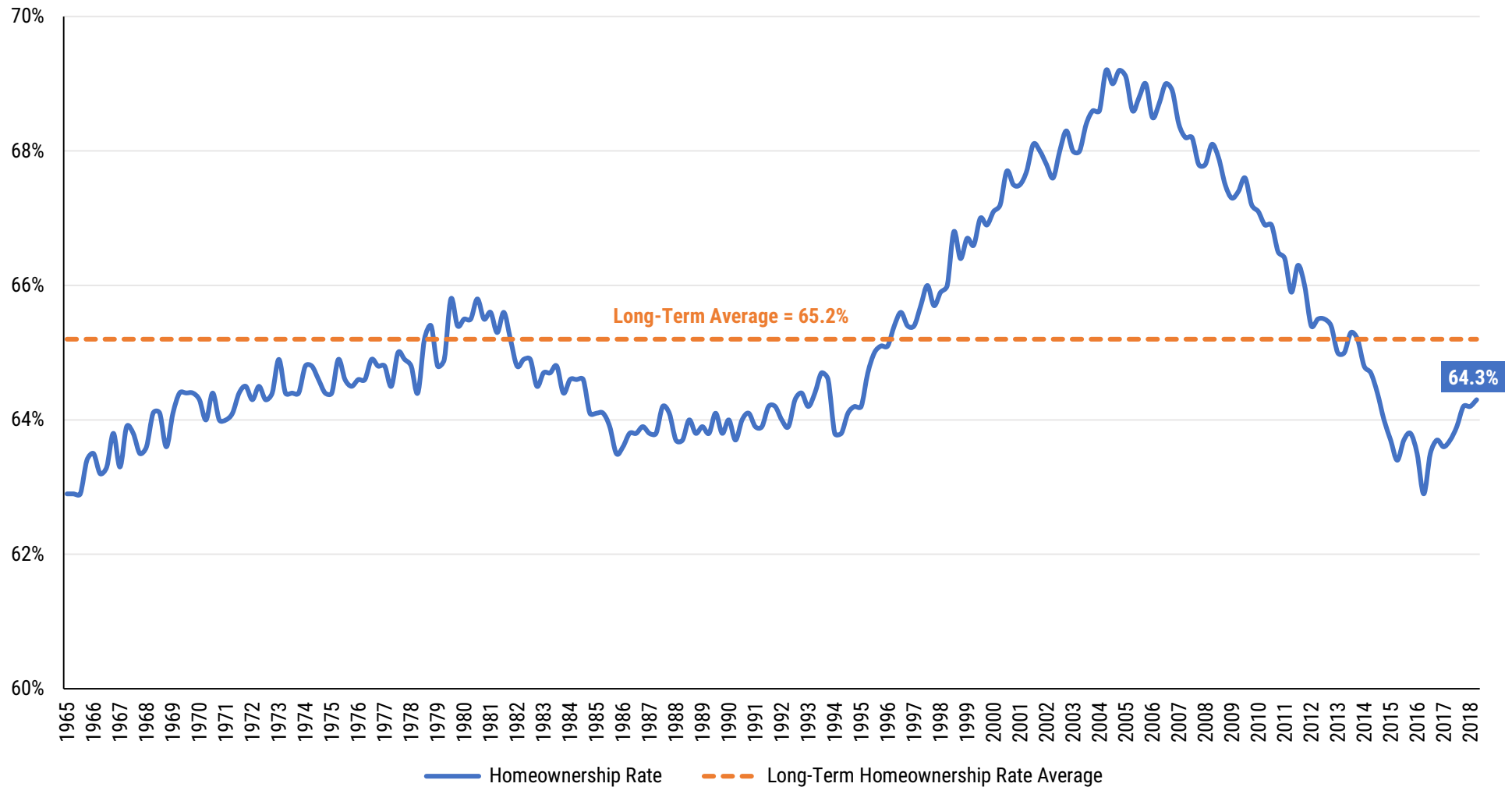


Source: NKF Research, U.S. Bureau of Labor Statistics

HOMEOWNERSHIP RATE

UNITED STATES

Although the homeownership rate has recovered from 2016 levels, the market remains flush with renters as a result of the rising cost of single-family homes, changes to the tax code and the increasing number of people who choose to rent.



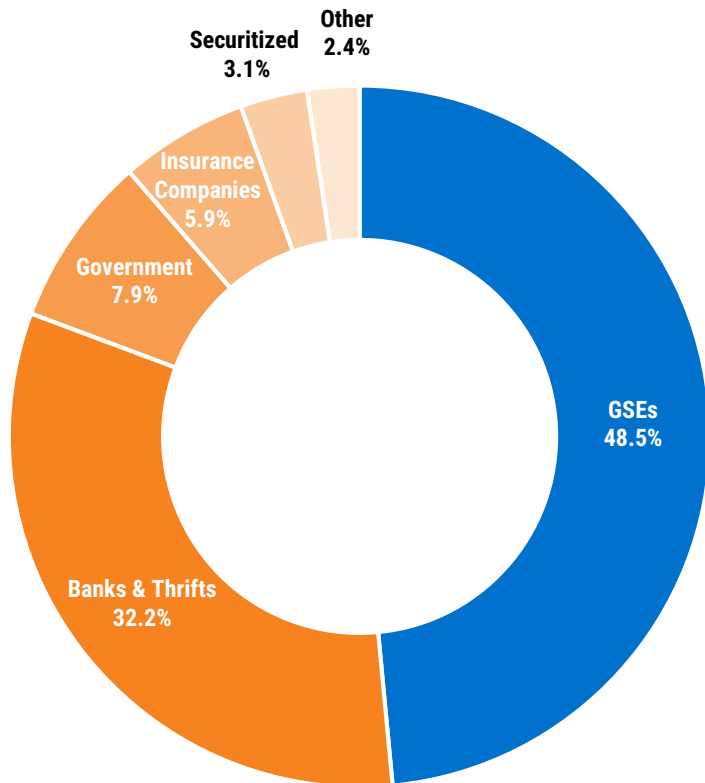
Source: NKF Research, Federal Reserve Bank of St. Louis

MORTGAGE DEBT OUTSTANDING

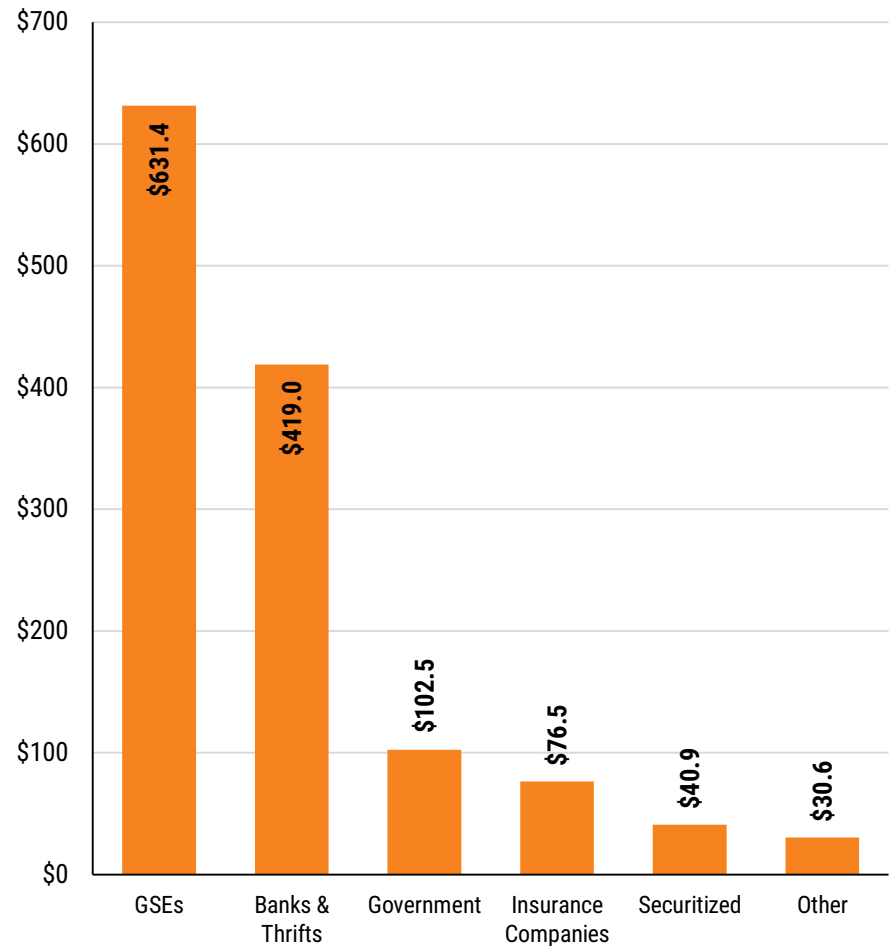
UNITED STATES

Mortgage debt outstanding for multifamily grew to \$1.3 trillion, a \$20.0 billion increase from the previous quarter. Quarter-over-quarter, GSE's debt outstanding grew 2.4%, and life insurance companies increased debt outstanding by 2.2%.

DEBT OUTSTANDING BY GROUP AS A PERCENTAGE



DEBT OUTSTANDING BY GROUP IN BILLIONS

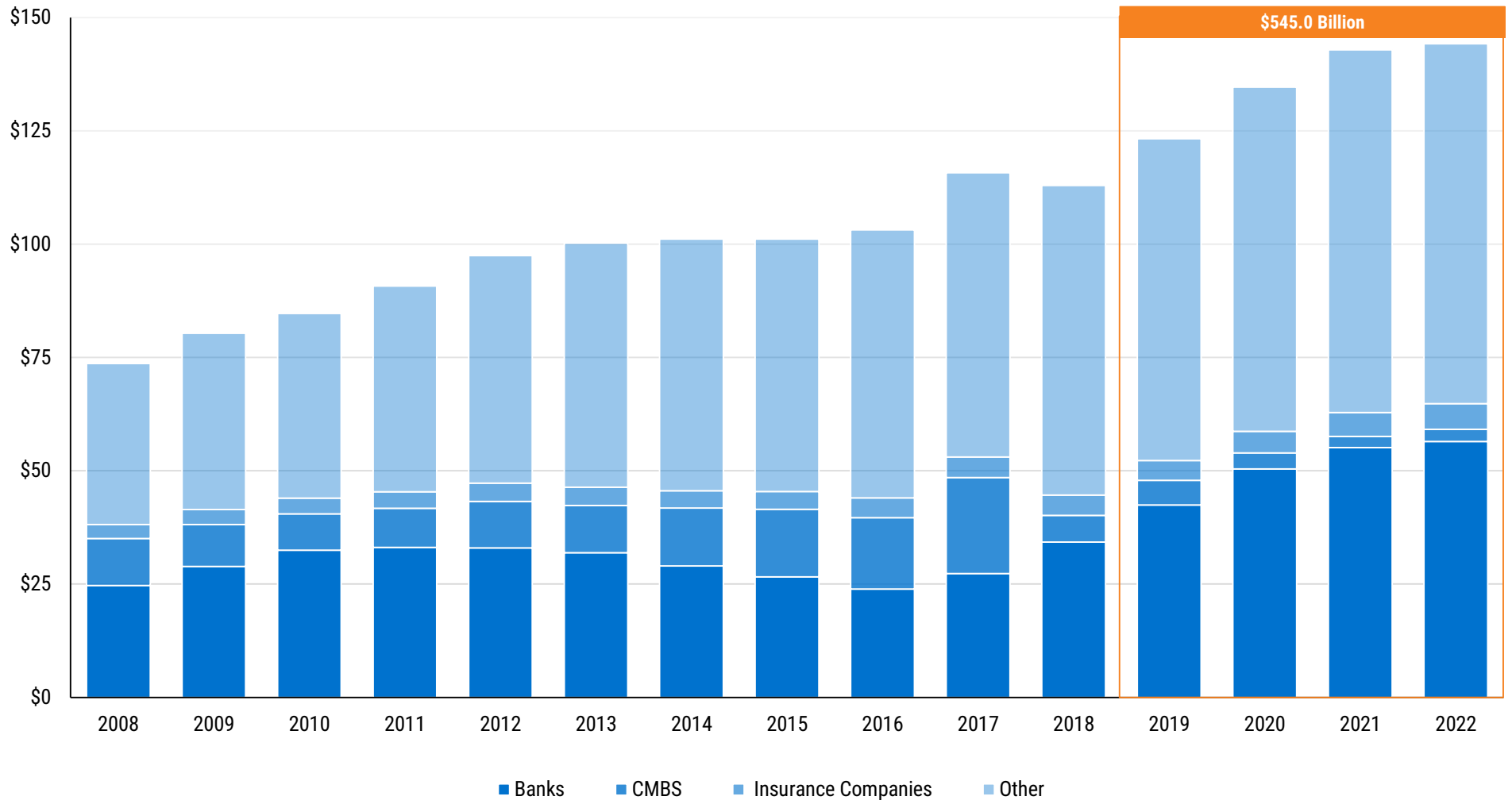


Source: NKF Research, Mortgage Bankers Association

MORTGAGE MATURITIES

UNITED STATES; BY LENDER TYPE; DOLLARS IN BILLIONS

\$112.9 billion of U.S. multihousing mortgages is set to mature in 2018. The debt markets are flush with capital, although they are adjusting to higher rates. Another \$545.0 billion is set to mature between 2009 and 2022.



Source: NKF Research, Federal Reserve, Trepp

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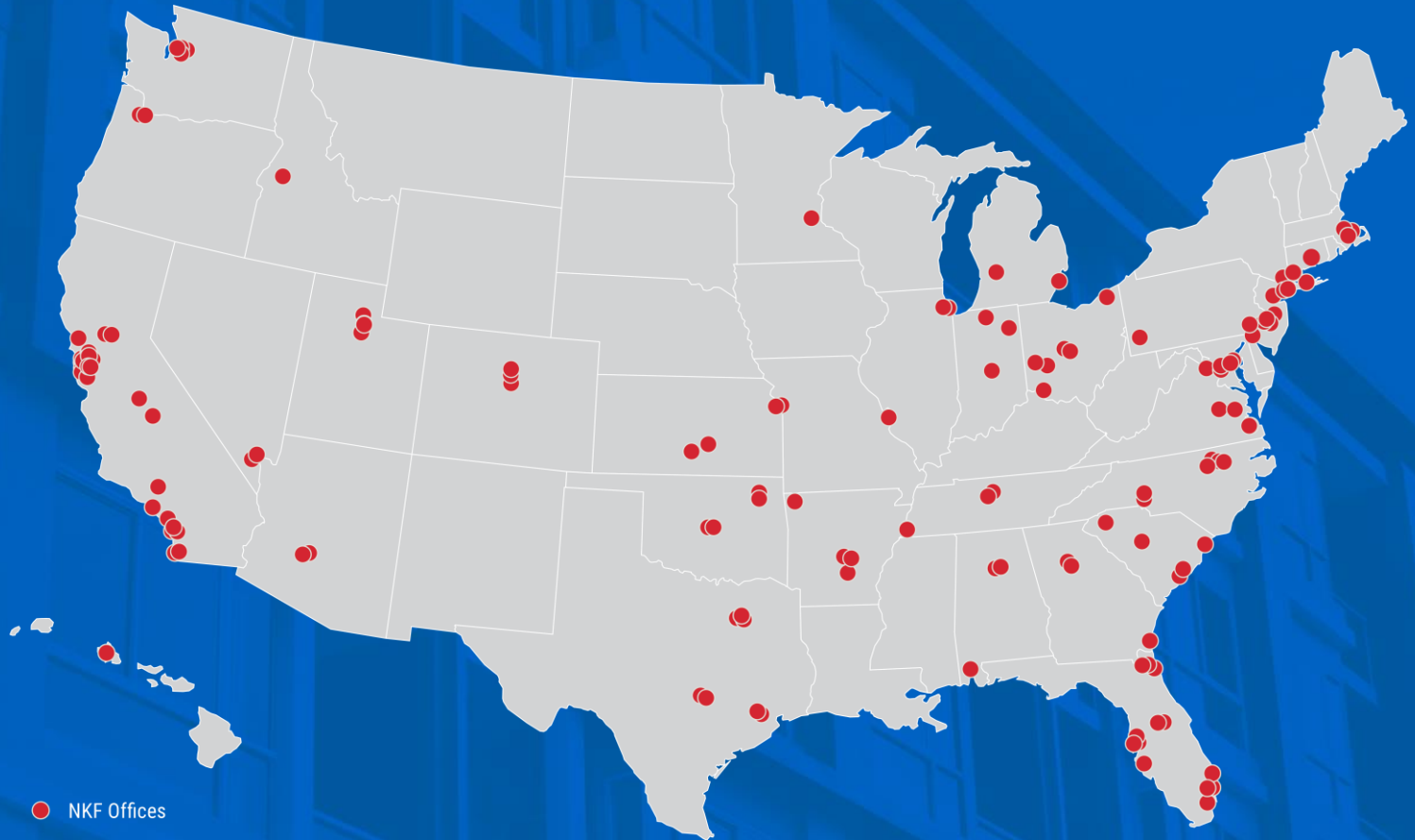
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