The Apartment Report™

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

Vol. 28, No. 1 **August 13, 2018**

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DEVELOPERS FIRED UP

Trammell Crow Residential, **AvalonBay**, **JPI** and other large players will pick up the development pace going forward. After seeing absorption rates demonstratively surpassing predictions this year, developers will want to fire back up their pipelines. Developing in a more mature environment takes greater discipline and often more work. Challenges such as moderating rent growth, increasing construction costs and rising land costs will favor larger, established industry veterans, so there shouldn't be a huge ramp-up in the overall nationwide development pipeline.

Watch for **StreetLights Residential**, **The Bainbridge Companies**, **Jefferson Apartment Group**, **UDR**, **Equity Residential**, **Crescent Communities**, **Wood Partners**, **Landmark Companies**, **Prometheus**, **Laramar**, **Realm**, **Embrey Partners**, **Mill Creek Residential** and **Stoneleigh Companies** to also be active developers going forward.

Financing will continue to be challenging, but favorable liquidity is available on the lending and equity side. Count on construction lending to be strong going forward. Multifamily has performed well in the long term and produced the best risk-adjusted returns historically, which is why lenders will be a little more bullish. Lenders will go up to 70% leverage with 60% to 65% being the standard. Spreads have dropped from the low 300s to 250 basis point range over Libor. Banks are becoming more flexible with extension terms, and developers are getting 48- to 60-month total terms. Developers can also get away with relatively low recourse if they don't go too high on leverage.

Look for lenders such as **Wells Fargo**, **Chase**, **Bank OZK**, **U.S. Bank**, **Associated Bank**, **Madison Realty Capital**, **FCP**, **CIM Group**, **Buchanan Street Partners**, **HALL Structured Finance** and **UC Funds** to be active with multifamily construction lending.

Developers will spend the second half of 2018 working through their last closings for the year and then focus on building a full pipeline for 2019. Profit spreads will be reduced, so it's more important to have the right team and cherry-pick the best projects. Developers will be on the hunt for extremely well-located sites with strong fundamentals and an attractive basis that are better insulated from market conditions.

There will be plenty of capital chasing development deals, and yield and IRR metrics will continue to tighten as deal flow becomes more difficult as a result. Rising interest rates will cause substantial compression with spreads. Multifamily fundamentals remain strong as housing production is still below where the country needs it to be. The biggest headwinds have been the trade wars and tariffs as they add an element of uncertainty to the building process in addition to rising material costs.

Trammell Crow Residential expects to start 20 projects totaling around 6,000 units by year's end. The firm has a positive view of Dallas, Southern and Northern California, which have been keeping up well with all the new higher-end supply. Houston, Orlando, Fla., and suburban Boston also look strong. TCR generally holds its properties for three to five years before deciding to refinance or sell. The company usually takes 60% leverage for new developments.

JPI will start approximately $900M of new development by the end of the year and expects to start $800M in 2019. The firm will be active in Southern California and Dallas-Fort Worth with $620M worth of developments starting in the second half of 2018 alone. JPI targets the renters by choice and will deliver podium, wrap and midrise properties with some hybrids of walk-up and wrap. The company underwrites 300 deals per year to find the best risk-adjusted return.

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DEVELOPERS FIRED UP…

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AvalonBay completed the development of two communities and started construction of three communities last quarter. These communities are expected to contain a total of 828 apartments and 23,000 s.f. of retail space when completed. Total development costs will equal approximately $265M. This makes AvalonBay's development pipeline consist of 19 projects containing over 6,000 units estimated at $2.7B.

Bainbridge will close on the acquisition and corresponding financing of five development sites located from Maryland down to Florida and plans to begin construction of all five of these communities in 2018. By the end of this year, the company will have approximately 4,250 units either well under construction or just coming out of the ground. The firm will look to add approximately 1,500 to 2,000 units in 2019.

StreetLights Residential will start construction on over 1,500 units nationwide by the end of 2018. Next year is also looking strong as the firm will pursue a number of different opportunities in Dallas-Fort Worth, Austin, Texas, Atlanta, Phoenix and San Diego. The company will be looking for more urban opportunities with higher barriers to entry as many developers have been looking heavily in suburban areas due to slower rent growth over the last few years.

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

COMPANY	ADDRESS	CONTACT
Northmarq Capital	3500 American Blvd. W. Suite 500 Minneapolis, MN 55431	William Ross, President Jeffrey Weidell, President Jayson Donaldson, President Jeffrey Erxleben, EVP/Regional Managing Director Tony Gray, SVP/Regional Managing Director David Link, SVP/Regional Managing Director Greg Duvall, SVP/Regional Managing Director Melissa Marcolini Quinn, SVP Robert Hernandez, SVP/Regional Managing Director Susan Blumberg, SVP/Regional Managing Director William Rosenbauer, SVP/DUS Chief Underwriter Fortunat Semadeni, SVP/FHA Chief Underwriter Scott Suttle, EVP/DUS National Production Director
Northwest Bank & Trust	100 E. Kimberly Road Davenport, IA 52806	Emily Blaylock, SVP/Senior Loan Officer
NXT Capital	1701 Barrett Lakes Blvd. Suite 400 Kennesaw, GA 30144	Kevin Rostowsky, Senior Managing Director
NY Urban	80 Park Ave. Suite B Hoboken, NJ 07030	John Lama, Principal Chris Lama, Principal
Oasis Financial	1212 E. Baseline St. Suite 101 Tempe, AZ 85283	Paul Sargent, Principal
Ohio National Life Insurance Co.	1 Financial Way Cincinnati, OH 45242	Timothy Biggs, VP Mortgage & Real Estate
Old National Bank	1 Main St. P.O. Box 718 Evansville, IN 47705	Darryl Moore, Chief Credit Officer
One Nevada Credit Union	2645 S. Mojave Road Las Vegas, NV 89121	Michael Zufelt, Commercial Loan Officer
OneAmerica	1 American Square P.O. Box 368 Indianapolis, IN 46206	Steven Holland, VP Steve Maniago, Director Mortgage Loans Christopher Johns, Regional VP Chris Meisner, Regional VP
Opus Bank	19900 MacArthur Blvd. 12th Floor Irvine, CA 92612	Ed Padilla, Income Property Banking
ORIX USA	1717 Main St. Suite 1100 Dallas, TX 75201	James Dunn, Head of Real Estate Ron Lawrie, Managing Director James Dunn, President/CEO Casey Deskins, Director, Securitized Investments Andrew Garvey, Head of Finance Jim Croft, Chairman/Senior Managing Director
Owens Financial	2221 Olympic Blvd. Walnut Creek, CA 94595	Brian Haines, Principal
Pacific Continental Corp.	111 W. Seventh Ave. Eugene, OR 97401	Damon Rose, Chief Credit Officer

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STUDENT HOUSING HOOKS CAPITAL

American Campus Communities (ACC), **Blue Vista**, **Campus Advantage** and other industry veterans will lead the pack in student housing. Expect fierce competition in student housing as companies strive to acquire properties in the second half of Q3 and early Q4. In addition to the foreign capital that's flooded the space, student housing will start to draw the eyes of conventional multifamily owners now that **Greystar** made a splash by acquiring **EdR** for $4.6B.

The asset type is recession-resistant as many people will go back to school when the job market gets tough. Investors such as **Goldman Sachs**, **Allianz Real Estate** and **GIC** and pension funds such as **The California State Teachers Retirement System** (CalSTRS) and **The Canada Pension Plan Investment Board** (CPPIB) view student housing very favorably this late into the cycle.

Groups with plentiful capital and long-term plans will have better odds, as pricing remains strong thanks to very attractive agency debt. The lending community has embraced student housing, generally offering a little bit of a spread premium and slightly higher leverage. The majority of acquisition deals will have 70% to 75% leverage. More institutional investors will target 60% to 65% leveraged-deals. Institutional groups with in-house capital will be the most active and aggressively target deals.

A large wave of international money flowing into student housing will keep cap rates historically low. Many deals have been priced up now that foreign capital is attracted to the space. Cap rates have compressed but are reaching their valuation limit with rising interest rates. Properties are typically priced 50 basis points over conventional multifamily now. Many deals are approximately a 25 basis point debt increase away from approaching negative leverage. More investors in primary markets are beginning to discuss valuation and markets will begin to see a material shift of 10 to 20 basis points if they already haven't.

Other companies such as **Blackstone**, **Harrison Street**, **Campus Apartments**, **Virtus Real Estate Capital**, **The Preiss Company**, **TH Real Estate**, **Scion Group**, **Waypoint Residential**, **MJW Investments**, **Mapletree Investments**, **AMCAL**, **Collier Companies**, **Aspen Heights**, **Nelson Brothers**, **Kayne Anderson Real Estate Advisors** and **Pierce Education Properties** also expect to be active in student housing.

More and more conventional multifamily capital groups have jumped into the student housing space. It's become a very discernable asset class for institutionally focused capital mindful of any economic bumps coming up. Anticipate more competition coming from within the student housing space as well. Greystar's acquisition of EdR leaves ACC as the last student housing specific public company. This means there's only one major player who's chained to whims of the stock market, and Greystar is expected to grow their portfolio even more.

Count on a wave of student housing properties to be sold after owners get them fully leased for the school year. Early pre-leasing deals will have opportunities come up. The wave of supply coming online means slower lease-ups and sellers wanting to hit certain occupancies before listing their properties, which will hit September, October and November.

The perception of a recession-resistant higher yield will have many groups reconsider student housing. Lenders prefer student housing with established operators as the current space is a tale of two worlds. Newer entrants with a lot of capital are entering overbuilt markets, while occupancies for large operators are strong. Lease-ups can also be tricky for newcomers because management only has one window to fill beds and will be unable to backfill.

Tier 1 universities will be highly competitive, but more companies are searching and building in secondary markets/universities. Colleges with low barriers to entry such as LSU and Texas A&M are experiencing the most supply. Current pricing on student housing will also have some owners looking toward conventional multifamily as there's more risk with student housing than ever before with tightening returns.

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DEALMAKER DATABANK	
ARA, A Newmark Company 4221 W. Boy Scout Blvd., Suite 440, Tampa, FL 33607 Patrick Dufour, Vice Chairman (813) 981-5119 pdufour@aranewmark.com	ARA arranges the sale of Axis West, a newly constructed, 268-unit community in Orlando Fla., for $62M. The four-story luxury garden community is along Orlando's International Drive Corridor with popular nearby destinations such as downtown, Universal Studios, SeaWorld and Walt Disney World Resort.
ARA, A Newmark Company 901 S. MoPac Expressway, Barton Oaks Plaza II, Suite 275, Austin, TX 78746 Ryan Lang, Executive Managing Director (512) 637-1296 rlang@aranewmark.com	ARA arranges the sale of three student housing properties in just one week across the southern U.S. The three sales cost more than $120M combined and consist of 1,622 beds. The properties were located in Tuscaloosa, Ala., Huntsville and Bryan, Texas.

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STUDENT HOUSING HOOKS CAPITAL…

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Campus Advantage hopes to invest approximately $350M in student housing by the end of the year. The firm will look around Tier 1 and growing Tier 2 universities. Campus Advantage typically focuses on core-plus or light value-add opportunities where it can incrementally move the needle with customer service and rehab in addition to true value-add deals. The company partners with large state pension plans such as CalSTRS and private capital; leverage is around 50% for pension plans and 68% to 70% for its private capital portfolio.

Blue Vista expects to be very active and close a total of eight deals by the end of 2018. It will target larger core and core-plus assets with long-term holds of seven to 10 years and value-add properties with holds ranging from three to seven years. The firm is almost done investing its fifth fund of $241M and expects to have the first closing of its sixth fund focused on development and value-add acquisitions in Q1 of 2019 with the last closing in Q4. The sixth fund will consist of $300M to $400M.

ACC continues to progress on the construction of its 15 Class A development projects totaling in $1.1B located on or pedestrian-to-campus. The projects are set to achieve a stabilized development yield in the 6.25% to 7% range and 5.7% to 6.25% for presale developments.

Campus Apartments will deliver four new properties by the end of the year in addition to looking for acquisition opportunities. Leverage for development projects will be around 65%, while acquisitions can go as high as 70% to 75%.

Waypoint Residential focuses on student housing investment opportunities at private and public universities with strong fundamentals. Waypoint will continue to invest in both newer properties and traditional value-add opportunities. The company is close to completing construction of additional beds at one of its existing properties and expects to pursue other ground-up developments in the sector. Waypoint's hold periods generally range from three to 10 years. In addition to student housing, this vertically-integrated firm continues to expand its conventional multifamily and senior housing portfolio.

MJW Investments plans to buy $100M of scattered sites and purpose-built student housing. The company targets Class B and C value-add properties in walking distance of major schools with strong sports programs such as the Big 10 and PAC 12. MJW also focuses on conventional apartments, which is looking more attractive because of all the new entrants in the student housing space.

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SUBURBAN BUILDING BOOMS

Related, **MAA**, **Cortland Partners** and more developers will hone in on the suburbs going forward. The capital market is still very interested in multifamily, but will be more selective in urban areas and focused on the underserved, strong suburban markets. Developers are also seeing more room for rent growth in first-ring suburbs and beyond, making them the most challenging sites to find. Companies also need to be certain sites are well-located and can handle less population density

Suburban densification will be big in areas that are typically lower density going forward. As the millennials want to start families, look for the industry to target family-oriented units. Expensive rents in urban cities will exasperate the housing crisis, so workforce housing will be in very high demand. Keep an eye on MSAs with low barriers to entry and a very active development pipeline. The higher vacancy and concessions will attract more price-sensitive tenants back to urban areas from the suburbs for a period until they spread back out to suburban areas when the market recovers.

Developers such as **Camden**, **WinnCompanies**, **Aimco**, **The Beach Company**, **ZOM Living**, **Inland Real Estate Group of Companies**, **Guardian Real Estate Services**, **Pennrose**, **AMLI Residential**, **Middleburg**, **Allied Orion**, **Cambridge Development Group** and **Wangard Partners** will also focus on suburban communities.

Related currently has 2,300 units under construction and will deliver four projects in late Q4 or early Q1. The company will start construction on another 2,000 units by the end of the year and expects to double or triple that in 2019, as it already has 2,000 units under contract slated for next year. Related will be active in Florida, Dallas, Las Vegas, suburban Atlanta and Scottsdale, Ariz. The firm can generally receive 65% to 70% leverage for its garden-style projects as their strong price point and corresponding rents attract lenders.

Cortland Partners expects to start around four to six properties by the end of 2018. The firm will look to build conventional multifamily and active adult communities in Atlanta, Dallas, Austin, Texas, and Tampa, Fla. Cortland's leverage is usually 55% for ground-up development.

WinnCompanies focuses on developing workforce and affordable housing. The firm is working on 15 development projects now, eight of which involve historic conversions, and hopes to start another four by the end of the year. Yields vary from 5% to 20% depending on the opportunity from a combination of tax credits and cash-on-cash returns. WinnCompanies will invest $20M in equity toward ground-up development and historic conversions this year.

MAA had four development communities under construction consisting of one new development community and three new expansion projects. Total development costs for the four communities are projected to be $219.8M. MAA expects to complete two developments in the second half of 2018.

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The Apartment Report™ is published by Crittenden Research, Inc., 201 Alameda del Prado, Suite 220, Novato, CA 94949. Send address changes to *The Apartment Report*™, P.O. Box 635107, San Diego, CA 92163. Contents copyright © 2018 Crittenden Research, Inc. Sample reports may be requested online at http://www.crittendenonline.com.

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