CRITTENDEN Multifamily Report™

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AMENITIES SHIFT AMID TENANT DEMAND

Watch for amenities to evolve as managers adapt to the continued realities of COVID-19, with value-add plans focused on outdoor amenities and social distancing initiatives likely to continue for the foreseeable future. Future-proofing against potential pandemics will be a key component of amenities development. Managers will be keen to entice new and existing residents for long-term tenancy, while preventing the specter of potential lockdowns and shelter-in-place orders from pushing residents to single-family home options. **Lincoln Property Company** has engaged in a partnership to expand its amenities in terms of quality and national growth. **Goldrich Kest** and **Greystar** can be expected to continue the pursuit of luxury amenities for their properties.

Competition with suburban single-family units will be a driving factor in amenities development and additions, as managers will be required to focus on offering unique amenities experiences and features that seemingly cannot be achieved in single-family homes, treating amenities more as a "service" option rather than an automatic inclusion that residents might taken for granted, such as a pool or a spa. Dog parks can also be expected to be spruced up, as residents will be keener to utilize on site solutions to maintain social distancing. As such, expect size to be a consideration, with pet-focused amenities such as "pet spas" and larger outside areas to be a focus during development.

Fitness centers, game rooms and similar amenities in value-add acquisitions will have to be re-adjusted to consider social distancing and lockdown protocols, while developers will want to focus on appearances and usability. Rents will likely increase as there will be a growing demand and response for in-unit amenities in Class A units designed to appeal to the booming and increasingly normalized work-from-home segment. Higher quality internet and Wi-Fi solutions will be key priorities, and managers can be expected to maintain improvements in buildings that prevent Wi-Fi "dead spots," as interruptions in service and internet speed will likely be sources of frustration for residents working from home.

Goldrich Kest recently acquired two assets in Charlotte, N.C., both of which feature notable outdoor amenities. The Sterling Magnolia Apartments, a 174-unit property, along with the Cedar Flats Apartments, an 82-unit property, both include a bike repair station, a game room, outdoor kitchens, outdoor fireplaces as well as a fitness center.

Greystar's Foundry on 19th community in Houston will focus on community-based amenities, along with in-unit perks such as smart home features. Community focused amenities will include a pool terrace, a club room with a kitchen, a courtyard and a yoga/fitness studio.

Expect amenities partnership deals to continue, as property managers look to keep pace with competitors, re-igniting the "amenities arms race" of recent years. **Pinnacle** entered a partnership early last year with PrintWithMe, to expand mobile and wireless printing amenities within residencies, particularly in student housing. Student housing in general will still face massive demand as colleges begin the process of reopening, and as such, expect property managers within that segment to keep a close eye on similar amenities, particularly Wi-Fi. **Global City Development** will focus on strong Wi-Fi and broadband solutions for its planned and current student housing developments, noting the demand in that segment.

Expect Class A buildings to rely more heavily on the integration of smart devices. Smart locks in units will see a huge spike in 2021 and in the coming years, particularly as social distancing concerns are likely to stick around for the time being, despite the vaccine rollout. Residents will value privacy and greater control of who comes in and out of the building, and they will want better control over package delivery and pickups. Amazon and other package storage lockers for package drop off will also see a rise in popularity as demand increases, particularly in city centers where Amazon and Instacart deliveries are frequent and more prone to theft.

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AMENITIES SHIFT AMID TENANT DEMAND...

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Though luxury amenities will still be a huge focus for Class A developers and managers, watch for a surge in amenities within the middle market. As middle market demand is likely to grow, outdoor amenities can be expected increase in student housing and off-campus communities, as well as in Class B and C spaces. **PEG Companies** has begun its conversion of an extended-stay hotel into a Class B development in Austin, known as the Habitat Suites Austin. The company has been growing its book of hotel-to-apartment conversions in recent years, making this its 14th addition. The space will likely leverage existing outdoor amenities such as a pool and courtyard, though the company has yet to finalize value-add plans.

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ACQUISITION OF THE WEEK

Property: Bradford Pointe, a 264-unit apartment property in Austin
Buyer: **Wildhorn Capital**
Seller: **Hamilton Zanze**
Price: In the $35M+ range
Debt: $24.4M, 10-year with **Freddie Mac**

The seller received 48 different offers with 360+ confidentiality agreements signed for the value-add property. This is due in part to the location within north Austin's tech corridor, dubbed "Silicon Hills," which has become a major hub for high-tech employment. The biggest challenge with this transaction was that the property ownership would not allow in-person tours out of an abundance of caution due to COVID-19 concerns. Therefore, a virtual tour was utilized, including marketing literature with numerous photos of the property.

Photo provided courtesy of Newmark

Bradford Pointe, with 168,400 s.f. of living area and a lot size of 9.23 acres, appealed to the buyer as there has been a scarcity of 1980s vintage assets on the market in Austin. The buyer plans to institute a full value-add program that includes enhancing the amenities and upgrading the unit interiors. The current community amenities include two resort-style pools with lounge seating and a spa/hot tub; a covered outdoor grilling area with picnic tables and a giant chess board; a state-of-the-art fitness center; a clubhouse with a coffee lounge and a fireplace; a computer lab and printer; an Amazon package hub and a dog park.

The borrower liked that the property is located two miles from The Domain, a high-density office, retail and residential center that at full build-out will contain more than four million s.f. of office space leased by companies including Facebook, Amazon and Indeed. Currently IBM, National Instruments, Apple, Samsung, Dell and 3M all have major campuses in the area. The property is also less than two miles from the new soccer stadium that is expected to be complete by mid-2021, which will host games for the Major League Soccer team Austin FC. The property is also is within walking distance of the Walnut Creek Metropolitan Park.

Newmark: 2530 Walsh Tarlton Lane, Suite 200, Austin, TX 78746. Patton Jones, Vice Chairman, (512) 637-1213. patton.jones@ngkf.com

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BOARD OF ADVISORS

We asked: What are your predictions for multifamily development in general for 2021, and what are your specific 2021 multifamily development plans?

W. Dean Henry, CEO — Legacy Partners

As we have now entered 2021, it is too early to confidently predict the mid- to long-term status of development as globally we are still experiencing the rise and fall of statistics and variants of the COVID-19. Many questions will remain unanswered in the short term: Are we going to be in a stable or unstable environment? Will confidence in the investment markets return? Will apartments and real estate continue to be popular with capital sources? Currently, we are experiencing a combination of yes and no to all. That said, as we know this is not a financially driven market disruptor, we can likely assume we will be in a relatively stable investment environment. I believe investing in apartments will continue to be a very popular choice for capital sources. The industry is not likely going to be overbuilt because of the constraints imposed by the markets, as well as the developers, so the threat of too much supply is not going to be a reality in most locations.

Legacy Partners is very focused on completing the seven to eight projects we have under construction on time and on budget. We also have three to four projects already financed and ready to start, and we are committed to commencing as soon as we satisfy all pre-development conditions.

Larry Curtis, President/Managing Partner — WinnDevelopment

The fundamentals of multifamily development are still strong, with demand for a quality home at an affordable price point far outweighing supply. We do think the cost of construction has driven a continuous push for higher and higher rents. Some of that is achievable, some not. You can see that in the heavy concessions offered in New York, Boston, etc. now for top product where the price point may not have been there to begin with prior to COVID-19. It will be a while before those markets normalize.

Our 2021 plans are focused on mixed-income housing that provides product where the demand and need is. We are also primarily focused on suburban areas and secondary markets which we feel are increasingly attractive places to live in a world where people don't need to commute five days a week to a downtown office building.

Tim Harris, VP of Multifamily Development — Rosewood Property

In general, I'm feeling quite positive about multifamily development here in Texas, the only market we self-perform developments. I predict multifamily developers will continue to be bullish in 2021, planning for a comeback later this year. Many speculate that the job market will turn around by the middle of the year, as the vaccine continues to roll out. Home prices will continue to provide good momentum for renting alternatives, as prices are up more than 10% across the county, (Dallas home prices are up 10.5% year-over-year). Home inventory is reaching record lows, causing people to rent instead of own. Some of the biggest headwinds for multifamily development beyond the coronavirus and job markets is the cost of construction, with prices of lumber and other wood products soaring in recent months. Single-family home demand is driving most of these cost increases.

Our 2021 plan is to build the highest value product within our submarkets on land we currently own. By the end of the year, we plan to break ground on projects in San Antonio and Plano, a suburb north of Dallas. Both are quality land sites that will be great fits for the areas.

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LENDERS STRIVE TO COMPETE FOR MHC

The manufactured housing community (MHC) sector will be strong this year with ample capital chasing deals with competitive terms. Lenders will be drawn to the logical, predictable and durable cash flows, along with the fact that this property type naturally lends itself to social distancing versus large high-rise apartments. MHC also offers an affordable alternative to tenants on a limited budget or fixed income. Many lenders that had capital set aside for retail, hotels and office are now looking toward MHC to put money out this year. This allows them to enter a less-crowded sector without taking on additional risk. **FHFA** adjusted the mission-rich component of MHC so pricing is not as advantageous as it was for the agencies in previous years. However, expect **Fannie Mae** and **Freddie Mac** to be bullish in the sector.

Anticipate lenders to compete with attractive rates and longer interest-only terms. Borrowers will see 65% to 75% leverage on acquisitions, in some cases even going up to 80%. Refinances will be looked at with more scrutiny but will generally top out at 70%. Fixed rates will start in the 3% range, although loans with lower leverage may see some sub-3% rates. Smaller deals will be priced at 4%+ and properties without in-place cash flow will see 6% to 8% pricing. Heavy transitional properties will have single-digit rates depending on leverage. DSC will be 1.25x. Debt yield will need to be 6.5% to 8%. There have been payment reserves instituted by most lenders, however these reserves could decrease or be eliminated if collection trends hold.

Banks such as **Wells Fargo**, **U.S. Bank**, **Capital One**, **PNC Bank**, **Axos Bank**, **HomeStreet Bank**, **Fidelity Bank**, **MUFG Union Bank**, **Royal Bank** and **Independent Bank** will be active. Community banks that know the market, the barriers to entry and the local demographics will be competitive. Anticipate banks to seek borrowers with experience and decent balance sheets. Count on banks to prefer some level of recourse.

Life companies, including **Northwestern Mutual**, **John Hancock**, **Voya Investment Management**, **RiverSource**, **StanCorp Mortgage Investors**, **Lincoln Financial Group**, **Symetra**, **Aegon** and **Thrivent**, will look for deals. Borrowers will see 55% to 60% leverage. Life companies will target four- and five-star parks. CMBS lenders such as Wells Fargo, **BofA**, **Morgan Stanley**, **JP Morgan Chase**, **Citi**, **Deutsche Bank**, **Greystone**, **Starwood Mortgage Capital**, **Argentic** and **Sabal Capital Partners** will also pick up market share. CMBS lenders will want to see 8% debt yield.

Lenders will target larger stabilized assets. Age-restricted/retirement communities will be the most sought after, followed by family properties. Look for lenders to become more comfortable with a larger number of rental homes than in the past. Communities with a clubhouse, pool and paved streets will see the most available capital, especially from life companies and CMBS lenders. Expect more emphasis on doublewide and triple-wide housing. However, lenders that previously only provided capital for owners of top-tier four- or five-star parks with doublewide homes have shown a willingness to lend on two- and three-star parks with older, single-wide homes.

The number one concern will be understanding rent recollection trends. Lenders want to make sure that the landlords are collecting the majority of available rents, rather than only being able to collect a fraction of their rent roll. Lenders are now also taking a deeper look into the tenant profile of a community. They will want to know that the tenants had dependable jobs that will continue to provide the landlord their recurring, durable cash flow. An overabundance of tenants in the hospitality industry could be a problem as that industry has been devastated by COVID-19.

Lenders will seek communities in coastal markets in California up to the Pacific Northwest, along with Arizona, Florida, Texas, Tennessee, Kentucky, the Carolinas and throughout the Southeast. Hot Sunbelt markets such as Atlanta, Dallas and Austin will be highly targeted. Any markets with a large number of retirees, low tax jurisdictions and population growth will be desired. Those that have a big oil/energy exposure, such as Odessa and Midland, Texas, have taken huge hits during the pandemic and lenders are very cautious of those markets. Count on less activity in the Midwest and major metros such New York City and Chicago for the time being.

Borrowers with a portfolio of more than one property will see the most lender interest, although owners with one park will be considered if they have a proven track record. Lenders are now taking a deeper dive on the financial capabilities and operational track records of their borrowers and how they operated during the pandemic.

Lenders will look for a net worth of one to two times the loan amount and liquid assets at 10% of the loan amount or 12 months debt service, whichever is less. The ideal borrower will have six to 12 months of post-closing cash reserves to pay debt service on their portfolio if there is another problem that impairs cash flow and the tenant's ability to pay rent. Recourse will frequently be required on smaller deals and prior MHC experience is becoming a bigger and bigger gateway to lending. Experience in other residential real estate asset classes can work if a borrower's balance sheet is large enough, but those are taken case by case.

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TOP CMBS LENDERS

Loan Amounts & Preferences

LENDER	DETAILS
Goldman Sachs	$5M+ loans for all property types; terms vary based on multiple factors; nationwide
Wells Fargo	$1M+ loans for multifamily and MHC; terms vary; nationwide
Morgan Stanley	$5M-$1B+ loans for multifamily and MHC; up to 75% LTV; five- to 10-year terms, interest only depending on leverage and asset; global markets
Argentic	$5M-$300M loans for cash-flowing multifamily, student housing and MHC; 50%-75% LTV; 4%-5% rates; five- to 10-year terms; 7%-11% debt yield; 1.20x DSC; primary, secondary, select tertiary markets
KeyBank	$5M+ loans; less than 75% LTV; less than 1.30x DSC; five-, seven- and 10-year terms with varying amortization and interest only; nationwide
Starwood Mortgage Capital	$3M-$150M loans for all property types; typical conduit terms; nationwide
Sabal Capital Partners	$2M-$50M loans for multifamily with five+ units, student housing, mixed-use with a 35% NRSF threshold to determine if the property is multifamily or commercial, MHC (four or five star only); five-, seven- or 10-year Swap rates; 25- to 30-year amortization, non recourse with standard carve-outs
Greystone	$5M+ loans for all eligible properties; first mortgage loans of 70%-75% LTV, mezz loans up to 85% LTV; mid- to high 4% rates; 7.75% or higher debt yield; five- and 10-year terms; Mid-Atlantic, Sunbelt states, Midwest markets
Ready Capital	$1M-$45M loans; Core+ deals: multifamily, Non Core: student housing; up to 80% LTV; 3% to low 4% rates; minimum 7% debt yield; five-, seven- and 10-year terms; 30-year amortization; nationwide with a focus on Tier 1-3 markets
Basis Investment Group	$3M-$75M loans for all property types; five- to 10-year terms; nationwide

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