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COMING BACK DOWN TO EARTH

The multifamily sector is on track for its first annual decrease in sales volume in nearly a decade.

By John Nelson

For the first time since 2009, it appears that the U.S. multifamily real estate sector's annual sales volume won't outpace the preceding year. Through the first half of 2017, U.S. multifamily investment sales totaled $62.6 billion, a 13 percent decrease compared to the first half of 2016 when sales totaled more than $72 billion, according to Real Capital Analytics (RCA), which tracks sales of multifamily properties and portfolios that are $2.5 million and greater.

Experts don't anticipate sales activity in the second half of the year to be enough to surpass last year's grand total of $160.6 billion in trade volume.

"Sales volume is down pretty meaningfully; there's a low flow of product available to purchase," says Greg Willett, chief economist at RealPage Inc., a real estate data analytics firm based in Richardson, Texas. "There are plenty of willing buyers, but there are not many owners that are particularly interested in selling right now."

Deal volume jumped by $8.75 billion from 2015 to 2016, a 5.7 percent increase, according to RCA. Interestingly, though, more individual apartment properties sold in 2015 (8,070) than in 2016 (8,033). Following that trend, pricing doesn't appear to be a factor in the slowdown in sales volume through the first two quarters.

"We're seeing prices hold, if not rise," says Josh Goldfarb, vice chair of Cushman & Wakefield's Atlanta office. Goldfarb attributes the decrease to the many investors that have recognized multifamily as a stable investment, thus they've filled their portfolios with apartments.

Kevin Jenkins, vice president and producer at NorthMarq Capital's Charlotte office, agrees with RealPage's Willett that the dip in volume has more to do with a lack of sellers than the inflexibility of investors.

"I have two clients that have received offers to sell their properties, but they don't want to sell because what's available for purchase now is priced too high for their criteria," says Jenkins. "Several companies are sitting on the sidelines and waiting to see what happens."

Last year set an all-time record for investment sales volume for the multifamily real estate sector, so a decrease in 2017 doesn't mean the sky is falling. Goldfarb says the slowdown isn't concerning to the overall vitality of the multifamily sector because fundamentals remain strong and deal volume is still relatively healthy.

"With the dramatic rise in sales volume in 2015 and 2016, I was worried we'd fall off a cliff like we did after 2007," says Goldfarb, referring to when year-over-year sales volume for multifamily dropped by nearly 60 percent. "Since this year so far is just a tapering off, we're not going to have a repeat of 2007. It's healthier for our economy."

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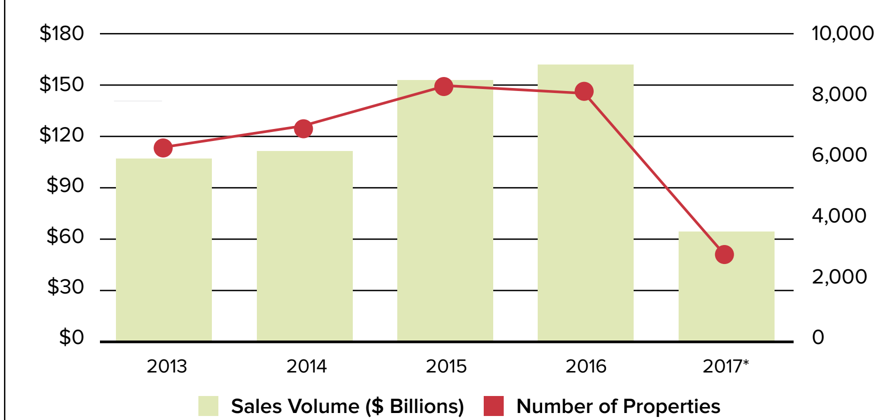
U.S. Multifamily Sales Dipping in 2017



The U.S. multifamily industry experienced strong investment sales totals in 2015 and 2016, combining for more than $310 billion. So far in 2017, however, there appears to be a slowdown in the investment market as sales totaled roughly $62.6 billion through the end of June, a 13 percent drop from the first half of 2016 when sales totaled more than $72 billion.

*through June

Source: *Real Capital Analytics*

ARE WE ON SOLID FOOTING OR SHAKY GROUND?

Slowdown in personal income growth gives the retail sector another hurdle to clear, says economist.

By Richard Moody of Regions Bank

Along with its initial estimate of the second quarter of gross domestic product (GDP), the Bureau of Economic Analysis (BEA) released its annual benchmark revisions to the recent historical data contained in the GDP accounts, in this case covering the first quarter of 2014 to first quarter-2017 period. For the most part, the revisions were pretty much of a wash, at least in the sense that the post-revision data show average annualized quarterly real GDP growth of 2.1 percent since the end of the 2007 to 2009 recession, the same as the pre-revision data. Lurking in the details, however, is a potentially significant revision that has caused us to question our assumptions about the financial health of U.S. consumers and, in turn, our outlook on the growth of consumer spending over coming quarters.

In discussing the retail landscape, we've consistently made it a point to distinguish between "how" and

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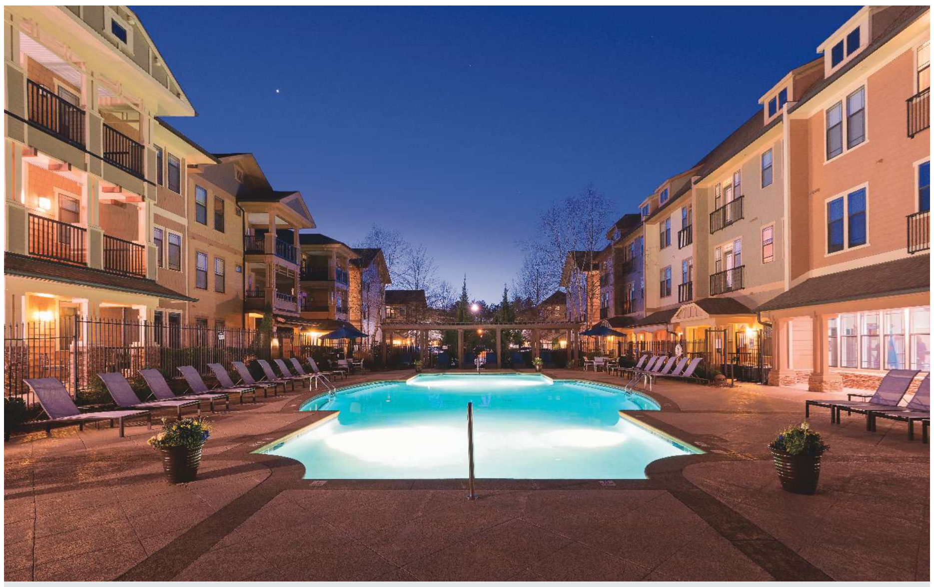

JLL Income Property Trust acquired The Reserve at Johns Creek Walk, a 210-unit apartment community in metro Atlanta, for $47 million.

Ripple Effects

The dip in apartment sales volume comes at a time when there are more buyers than ever. With unwilling sellers and an increase in the number of companies looking to invest in the multifamily sector, sales prices are reflecting the reality of it being a seller's market.

"There is limited multifamily product out there so buyers are getting into bidding contests, which is leading to higher pricing," says Jenkins.

The makeup of the buyer pool isn't changing necessarily, it's more accurate to say that it's getting deeper. One of the new entrants coming into the Southeast is TruAmerica Multifamily, a value-add investment firm that launched in 2013, acquiring apartment assets in the Western United States.

The Los Angeles-based company purchased two portfolios in the Baltimore area last year and has since opened a regional office in Washington, D.C., and purchased multiple assets in Florida this year, including the 300-unit Ashley Lake Park in Palm Beach County for $49 million, the 640-unit Sienna at Vista Lake in Fort Myers for $66 million and a two-property portfolio in Orlando for $98 million.

The company will continue to search for attractive deals in Florida and other top metros in the region, including Atlanta, Nashville and Charlotte, according to Matt Ferrari, director of acquisitions for TruAmerica Multifamily's East Coast office. Ferrari says that the competition for acquiring apartment assets in the Southeast is especially fierce right now.

"Competition is extremely aggressive given the lack of product available for sell. There are dozens of buyers for every marketed deal, so buyers are having to provide more aggressive terms to win deals," says Ferrari. "These include larger deposits with some at-risk money, shorter due diligence periods and shorter closing periods. More capital is chasing fewer deals so of course you have to also outbid your competitors."

In advising his clients on both sides of the transaction table, Dan Phelan, director of ARA Newmark's Atlanta office, offers sage advice on how to navigate today's competitive landscape.

"For owners, take advantage of the seller's market as new and aggressive buyers continue to emerge," says Phelan. "For buyers, opportunities are rare, so do whatever it takes to win the deal. Stronger terms and hard money are often the tie-breakers."

In the Southeast, buyers are emerging from around the globe, especially in Florida's top metros. In July, Emma Capital, an investment firm based in Toronto, purchased the 408-unit Advenir at Broadwater in Orlando. In June, Marlin Spring Realty Ltd., also based in Toronto, bought the 468-unit Cottage Cove apartment community in Miami for $50 million.

"Foreign capital investment in the United States is no longer limited to New York City, Los Angeles, San Francisco and Boston," says Marc deBaptiste, vice chairman of ARA Newmark's Boca Raton, Fla., office. "We are transacting with more foreign capital investors in South Florida than ever."

Multifamily ties with industrial as the No. 1 property type in the U.S. for foreign investors in 2017, according to a survey conducted by the Association of Foreign Investors in Real Estate (AFIRE). The survey concluded that 95 percent of international investors plan to maintain or increase their investment levels in the country this year, underscoring the safety and returns of U.S. commercial real estate. In one of the larger portfolio deals in the region this summer, El-Ad National Properties, an Israeli investment firm, purchased a portfolio of nine multifamily properties in Louisiana totaling 2,079 units for $250 million.