MARKETBEAT
U.S. Multifamily Market
Q2 2019

CUSHMAN & WAKEFIELD

Executive Summary

- The U.S. multifamily market remained healthy in the second quarter of 2019, with a vacancy rate of 4.1% and solid year-over-year (YoY) effective rent growth of 3.1%. Net absorption nationwide continued to be positive in the first half of the year, an improvement over the first half of 2018. Deliveries through the first half of 2019 declined to their lowest level since 2015.
- Multifamily volume totaled $77.5 billion (B) in the first half of 2019—up 13% from the first half of 2018. Multifamily's share of total investment volume increased from 30% in the first half of 2018 to 34% in the first half of 2019. Volume rose in all regions in the U.S. but was strongest in secondary markets.
- Volumes rose across multifamily subtypes in the first half of 2019; however, assets that offer highly walkable locations (+37%), garden (+22%), and suburban mid/highrise (+24%) increased most.
- Apartment cap rates compressed by 26 basis points (bps) quarter-over-quarter (QoQ) and 13 bps YoY to 4.91%. Class A rates, however, remained flat.
- Multifamily generated a 5.7% annualized total return in the first half of 2019 according to NCREIF—down from 6.0% in calendar year 2018.
- Looking ahead, average effective rent growth is projected to remain in the low 3.0% range for the year and vacancy in the mid-4.0% range. Multifamily transaction volume for the year as a whole is expected to exceed that of 2018.

Vacancy Improves Amid Continued Demand and a Steady Construction Pipeline

The U.S. multifamily market experienced positive net absorption of 197,000 units through the first half of 2019, more than doubling from the first to the second quarter of the year (QoQ) and an overall improvement compared to the second half of 2018. Net absorption was highest in the New York metro, Chicago, Washington, DC, and Seattle, and also in secondary markets with strong in-migration patterns—Dallas, Chicago, Houston, Atlanta, Denver, and Phoenix.

National multifamily inventory grew 0.3% QoQ and 1.5% YoY in the second quarter of 2019.[1] This annual rate is 20 basis points (bps) lower than second quarter 2018 YoY, but still well above the trough of 0.2% YoY net inventory growth in 2006. Approximately 114,000 units delivered in the first two quarters of 2019; that is the smallest number of net units added to supply through midyear since 2014.

The number of multifamily permits approved in the first half of 2019 nationwide was flat compared to the first half of 2018. The pipeline, however, remains elevated relative to 2012 and 2013. The six major markets accounted for 23% of multifamily permitting in the second quarter and 25% for the first half of 2019. Permits in the first half amounted to less than 1% of current inventory in these markets as a whole.

Positive and improving net absorption and a slowdown of deliveries in 2019 drove national vacancy down 50 bps YoY and 70 bps QoQ to 4.1% by the end of the second quarter of 2019. Markets with the lowest vacancy—all at or below 3.0%—include New York metro, Providence and the Midwest markets of Minneapolis, Detroit and Milwaukee. Major markets continued to exhibit below-average vacancy at 3.7%, 70 bps lower than non-major markets

Annual Rent Growth Edges Toward Equilibrium and Mid-Expansion Secondary Markets Shine

Effective rents[2] grew 1.9% QoQ and 3.1% YoY in the second quarter of 2019. Non-major markets (rent growth of +3.4%) continued to outpace major markets (+2.7%) on a YoY basis. The gap in rent growth between non-major and major markets narrowed to 2.0%-to-4.0% compared to 2014 and 2015 when average annual effective rent growth rates were between 4.0% and 6.0%. Of the major markets, San Francisco, Washington, DC and Los Angeles outperformed Chicago and New York.

Overall, Las Vegas (8.9%) and Phoenix (8.4%) stand out as high-growth rental rate markets on a YoY basis, posting rates of at least 340 bps over the next tier of high-growth markets—Sacramento, Atlanta, Austin and Raleigh/Durham.

Portfolio Growth Fuels 1H 2019 Multifamily Sales Volume Gains

U.S. multifamily volume totaled $77.5 billion in the first half of 2019, a 13% increase from the first half of 2018. This was driven by growth in portfolio sales including Starlight U.S. Multifamily Core Fund's $1.4 billion (B) entity-level sale to Tricon, Lone Star Fund's $1.1B sale to Kushner Companies, Simpson Housing's $850 million (M) portfolio sale to Nuveen, Lone Star Fund's $890M Mid-Atlantic portfolio sale to Morgan Properties and Praedium's $739M sale to Blackstone.

Secondary Markets Activity Picks Up in 1H 2019

Secondary market volume increased the most YoY (+$43B / +19%) and gained momentum quarter-over-quarter (+30%). Transaction activity increased the most

U.S. MULTIFAMILY TRANSACTION BY DEAL TYPE

	2Q19			1H19	
	Vol ($B)	QoQ	YoY	Vol ($B)	YoY
Single Asset	31.5	12%	16%	59.6	8%
Under 100M	17.9	1%	5%	24.0	0%
Over 100M	13.6	30%	35%	35.6	21%
Portfolio	10.4	39%	45%	17.9	34%
Total	**41.9**	**18%**	**22%**	**77.5**	**13%**

Source: Real Capital Analytics, Cushman & Wakefield Research
Deals over $5 million

[1]*All rent trend data is sourced from Axiometrics. The major markets consist of the New York, San Francisco, Chicago, Los Angeles, Boston, and Washington, DC metros. The non-major markets are defined as the remaining top 50 markets. The overall U.S. trends are based upon all 577 markets that Axiometrics tracks, which includes approximately 53,300 multifamily conventional properties totaling more than 10.8 million units.*

[2]*Effective rents are net asking rents minus concessions.*

MARKETBEAT
U.S. Multifamily Market
Q2 2019

in a number of Sunbelt markets in the first half of 2019, including Dallas ($4.2B / +6%), Phoenix ($4.0B / +36%), Atlanta ($3.6B / +18%), Houston ($3.1B / -3%), and Austin ($2.1B / +57%) and are largely concentrated in the Southwest. Volume also rose strongly in Seattle ($2.8B / +59%), and Baltimore's volume ($1.5B / +260%) in the first half of 2019 stood out due to Lone Star Fund's $890M Mid-Atlantic portfolio sale.

Transaction activity in major markets moderated YoY (+6%) but gained momentum in the second quarter of 2019 with a 20% increase. Despite a YoY slowdown in transaction volume (-12%), New York continued to boast the most liquid multifamily market nationally. Los Angeles remained the second most active metro, despite a slowdown of activity compared to the first half of 2018 ($5.2B / -5% YoY), partially mitigated by a positive recovery in the second quarter (+83% QoQ). San Francisco (+43% YoY) and Boston (+172% YoY) remained bright spots among the major markets.

Tertiary markets were up marginally YoY (+5%) in the first half of 2019. Top performing tertiary markets through mid-2019 were Honolulu (+69%), Richmond (+92%), Birmingham (+259%) and Greenville (+108%).

Persisting Momentum for "Walker's Paradise" and Suburban Highrise Assets

Transaction activity increased YoY across multifamily product subtypes in the first half of 2019. Garden (+13%) and suburban mid/highrise (+19%) drove transaction activity. Garden product sales moderated in major metros (-2%) but that moderation was more than offset by strong activity in the secondary markets (+19% YoY). In contrast, suburban highrise product posted considerable gains in both major (+39%) and secondary markets (+16%).

Walkability has become an increasingly important consideration for multifamily investment.[3] In the first half of the year, Car-Dependent (+16% YoY) and Somewhat Walkable (+19%) multifamily product recorded the greatest

U.S. MULTIFAMILY TRANSACTION ACTIVITY BY REGION

	2Q19			1H19	
	Vol ($B)	QoQ	YoY	Vol ($B)	YoY
Mid-Atlantic	5.5	58%	91%	9.0	48%
Midwest	2.6	-9%	-17%	5.5	-12%
Northeast	4.3	-20%	9%	9.7	4%
Southeast	9.8	23%	15%	17.7	10%
Southwest	9.5	6%	17%	18.5	11%
West	10.2	51%	32%	17.0	18%
Total	**41.9**	**18%**	**22%**	**77.5**	**13%**

Source: Real Capital Analytics, Cushman & Wakefield Research
Deals over $5 million

NUANCE IN INDIVIDUAL MARKETS
Top 25 Multifamily Markets by 1H 2019 Volume

		Year-Over-Year Percent Change					
		TOTAL	BUILDING TYPE		WALKABILITY		
Metro Area	1H19 Volume ($M)	All Apartment	Garden	Mid/Highrise	Car Dependent	Somewhat Walkable	Very Walkable
NYC Metro	$6,734	-12%	22%	-16%	-62%	-82%	-38%
LA Metro	$5,185	-5%	-14%	7%	-12%	-2%	-5%
Dallas	$4,181	6%	-3%	86%	-12%	33%	71%
DC Metro	$3,989	11%	-19%	50%	-21%	84%	-4%
Phoenix	$3,963	36%	63%	-23%	8%	171%	8%
Atlanta	$3,560	18%	3%	90%	12%	65%	132%
SF Metro	$3,112	43%	24%	66%	124%	58%	16%
Houston	$3,092	-3%	-1%	-9%	17%	14%	-73%
Seattle	$2,803	59%	60%	58%	104%	-24%	145%
Boston Metro	$2,437	172%	95%	238%	141%	-39%	47%
Austin	$2,101	57%	63%	42%	73%	87%	-41%
Philly Metro	$2,063	72%	202%	7%	253%	776%	-23%
Denver	$1,970	18%	-12%	120%	-35%	40%	20%
Tampa	$1,753	63%	74%	13%	129%	5%	34%
Charlotte	$1,746	53%	-4%	365%	25%	4%	98%
Chicago	$1,617	-18%	-20%	-17%	-23%	-79%	108%
Las Vegas	$1,591	49%	61%	-64%	40%	119%	102%
Miami/So Fla	$1,539	-19%	-34%	27%	-6%	-7%	-80%
Baltimore	$1,536	260%	428%	38%	352%	262%	-69%
Orlando	$1,536	-11%	13%	-51%	0%	-16%	-100%
San Diego	$1,016	31%	-31%	193%	-49%	211%	195%
San Antonio	$915	-10%	27%	-63%	-22%	5%	-
Raleigh/Durham	$881	-21%	-12%	-40%	-11%	-22%	-17%
Nashville	$706	0%	55%	-68%	33%	23%	-65%
Portland	$694	17%	-9%	87%	230%	-9%	-83%

Source: Real Capital Analytics, Cushman & Wakefield Research
Deals over $5 million

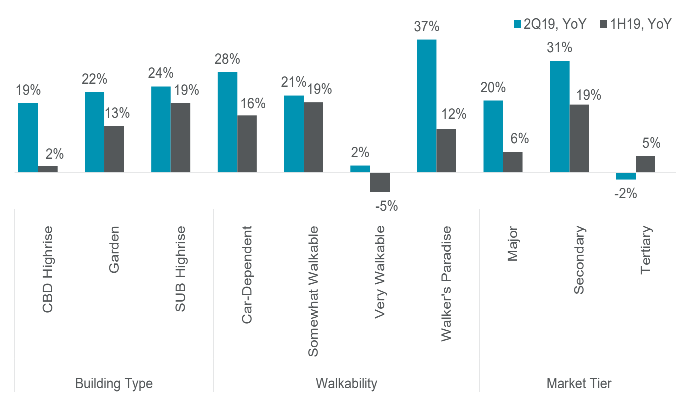
MARKETBEAT
U.S. Multifamily Market
Q2 2019

increases in transaction activity. Walker's Paradise asset activity nearly doubled in tertiary markets and increased 69% in secondary markets YoY in the first half of 2019. This activity outpaced CBD highrise activity despite the product overlap between the two because Walker's Paradise volume increased the most among suburban highrise assets (+18%) compared to garden (-4%), and CBD highrise (+12%).

Private Capital's Sustained Multifamily Appetite

Private capital accounted for 67% of transaction activity in the first half of 2019, increased 14% YoY in the first half of 2019, and accounted for 76% of the overall increase in transaction volume during the same period. In comparison, This investor group increasingly focused on suburban highrise product (+37%) and secondary markets (+19%) and decreased their activity in Class C assets (-14%) in H1 2019 compared to H1 2018.

CHANGE IN TRANSACTION VOLUME BY TYPE
YOY PERCENT CHANGE



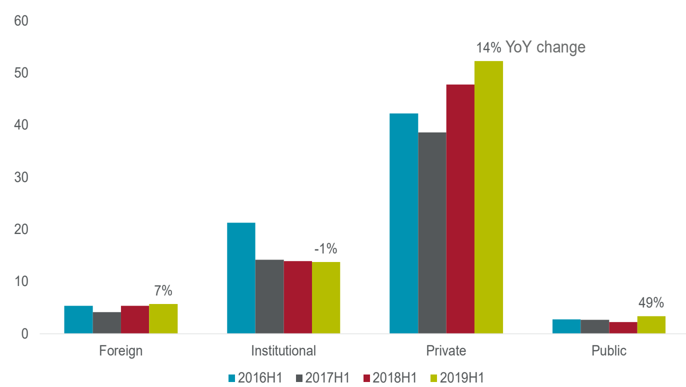
Source: Real Capital Analytics, Cushman & Wakefield Research
Deals over $5 million

Foreign capital accounted for 7.4% of total multifamily investment in the first half of 2019 and increased by 6.9% compared to the first half of 2018. The majority (64%) of foreign capital deployed in H1 2019 targeted secondary markets, with nearly $1.7B deployed in the top secondary markets of Orlando, Baltimore, Austin and Atlanta combined—followed by 23% in major markets. Canadian investment ($5.4B / +33% YoY) accounted for 31% of capital deployed in the U.S. in the first half of the year. Other major sources of capital included Israel ($1.4B / +8%), Germany ($1.1B / +7%), and UAE ($1.1B / +6%).

Institutional investment declined nominally $158M (-1.1% YoY) but still drove 18% of multifamily transaction volume in the first half of 2019.

Public vehicles increased their acquisition volume significantly in the first half of 2019 but still accounted for just 4.3% of total acquisition volume. Much of the increase was due to acquisition of suburban mid/highrise product (+$756M / +116% YoY).

MULTIFAMILY SALES VOLUME BY INVESTOR TYPE
DOLLLARS IN BILLIONS, YOY PERCENT CHANGE



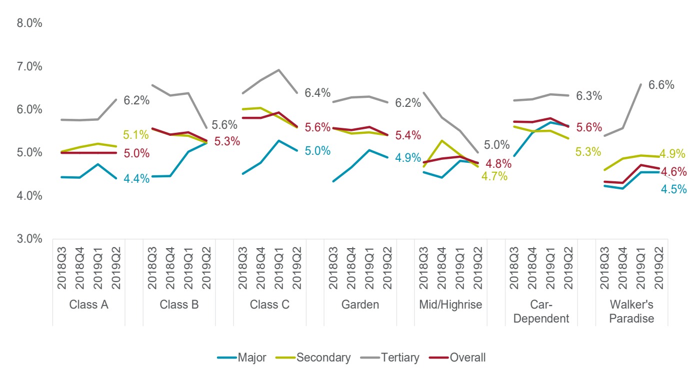
Source: Real Capital Analytics, Cushman & Wakefield Research
Deals over $5 million

Cap Rate Convergence across Tiers among Class B and Mid/Highrise

Apartment yields in the second quarter of 2019 compressed by 26 basis points (bps) QoQ and 13 bps YoY to 4.91%. Overall multifamily cap rates in major market yields remained stable YoY while secondary markets compressed by 20 bps. Tertiary market cap rates increased by 40 bps over the same period, alongside declining sales volume.

Cap rates in major and secondary markets offering neighborhood walkability—namely those that are designated as "Walker's Paradise"—were stable in the first half of 2019 while Car-Dependent asset yields compressed by 20 bps overall. The most walkable properties continued to trade at significantly lower yields than the least walkable ones. This was particularly true in major markets where the spread was 110 bps between Walker's Paradise and Car-Dependent product.

ROLLING 4-QTR VOLUME-WEIGHTED CAP RATES
PERCENT (%)



Source: Real Capital Analytics, Cushman & Wakefield Research
Deals over $5 million

[3]*Walkability for each asset is determined by Walkscore.com's rating of each asset's location: Walker's Paradise (daily errands do not require a car); Very Walkable (most errands can be accomplished on foot); Somewhat Walkable (some errands can be accomplished on foot); Car-Dependent (most or almost all errands require a car).*

MARKETBEAT
U.S. Multifamily Market
Q2 2019

Class B and C apartment cap rates compressed by 20 and 30 bps YoY, respectively, while Class A cap rates remained flat overall. In contrast to Class B, Class A yields varied notably by market tier with Class A product in secondary markets trading at a 70-bps spread above similar product in the major markets.

Suburban and Non-Major Markets Prove their Value Amid Moderating Price Growth

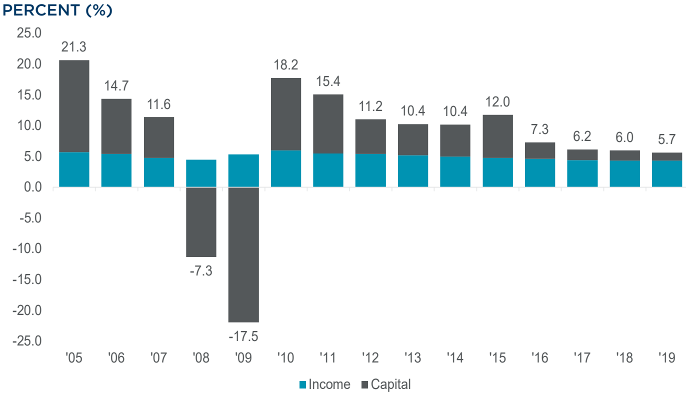
Multifamily price growth moderated to 7.3% YoY in June compared to a three-year average increase of 10.9%, per the RCA Commercial Property Price Index (CPPI). However, multifamily outperformed the all-property price index, which rose 6.5% YoY. Non-major markets, garden-style product, and walkable suburban assets demonstrated the strongest price growth YoY.

Multifamily assets in NCREIF's National Property Index (NPI) generated a 5.7% annualized total return in the first half of 2019—down from the 6.0% return recorded in calendar year 2018. Both garden (8.9%-to-7.8%) and low-rise (6.5%-to-5.8%) product returns decelerated in 1H 2019 compared to 2018, although both continued to outperform highrise product (4.7% YoY).

Secondary markets (+6.7% YoY) outperformed both major (+5.1%) and tertiary markets (+5.9%). For more information on returns for all major commercial real estate product types, see the 2Q 2019 Capital MarketBeat report.

NCREIF NPI MULTIFAMILY TOTAL RETURNS

PERCENT (%)



Source: NCREIF, Cushman & Wakefield Research

Note: 2019 refers to 1H 2019 annualized

Outlook

- Looking ahead, average effective rent growth is projected to remain in the low 3.0% range through year end 2019 and vacancy is expected to be in the mid-4.0% range.
- Cap rate compression across multifamily subcategories is projected to moderate.
- Experian projects that the U.S. will gain an additional 2.25 million renter households from 2018 to 2023, maintaining a renter-occupied rate of 36.4%—well below the trough of 30.8% in late 2004 when U.S. homeownership rates were at historic highs.
- Private capital is projected to continue to lead multifamily investment in the near term.
- Transaction volume for the year as a whole will exceed that of 2018.
- Opportunity zones (OZs) will play a significant role in directing investment into multifamily. We are currently tracking more than $44B in equity, and 82% of the capital is expected to be invested in multifamily. For more on OZs, see our "In the Opportunity Zone" July 2019 report.

Kristina Garcia
Associate Director
Capital Markets Multifamily Research
Phone: +1 404 751 2671
kristina.garcia@cushwake.com

David Bitner
Americas Head of Capital Markets Research
Phone: +1 408 761 9328
david.bitner@cushwake.com

Revathi Greenwood
Americas Head of Research
Phone: +1 202 463 2100
revathi.greenwood@cushwake.com

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 51,000 employees in 400 offices and 70 countries. In 2018, the firm had revenue of $8.2 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.