

CRE FINANCE COUNCIL



EDUCATION SERIES

MULTIFAMILY E-PRIMER

A Comprehensive Overview of
Multifamily Real Estate



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CHAPTER 1

An Overview of US Multifamily Lending

Introduction

The cornerstone of American housing, the multifamily rental housing industry encompasses a diverse range of households across the US. This robust industry provides quality units, enabling over 35 million renters¹ to house themselves and their families — and to make comfortable homes. This chapter provides a sweeping overview of the industry, including its scope, and a review of property demographics, renter trends, and lending options.

Multifamily Housing Overview – Property Demographics and Trends

Delineated by residential structures containing five or more units, multifamily rental housing covers the entire income spectrum. Over 16 million households live in these structures, representing over 13% of all US households and nearly 43% of residential renters.²

Housing types are unique — and address specific renter groups with high-rise, mid-rise, garden-style, and walk-up structures, manufactured housing communities, and special-purpose property.

Types	Multifamily Property Description
High-Rise	A building with nine or more floors and at least one elevator
Mid-Rise	A multi-story building with an elevator, typically in an urban area
Garden-Style	A one-, two-, or three-story apartment development built in a garden-like setting in a suburban, rural, or urban location; buildings may or may not have elevators
Walk-Up	A four- to six-story building without an elevator
Manufacturing Housing Community	A community in which the borrower lease ground sites to owners of manufactured housing
Special Purpose Housing	<ul style="list-style-type: none"> • Student housing: a multifamily property with a student occupancy rate of more than 50% • Seniors housing: a multifamily property dedicated to providing housing for elderly residents • Subsidized housing: a property made affordable by rent and income restrictions that is targeted to low income renters or special needs
<u>Can be any of the above</u>	

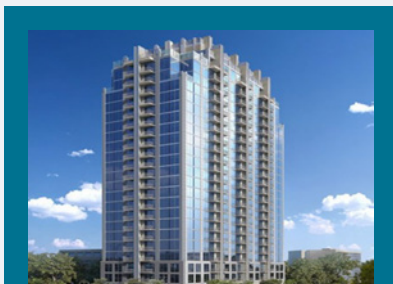
Properties are referred to by class: A, B, C, and D.

Class A properties are often newly constructed or fully renovated. They tend to include top-of -the-line design and appliances, and to offer a variety of up-to-date amenities.

Typically built within the last 20 years, Class B structures are slightly older than Class A. These structures might offer dated fixtures and a more limited amenity package, but overall, their quality is strong.

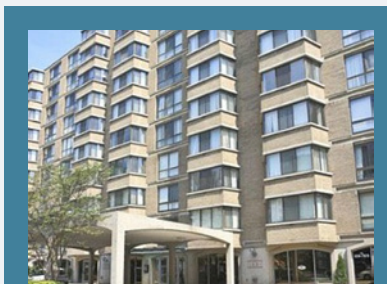
Class C is typically aged housing stock, up to 30 years old. Class C properties tend to offer older amenity packages and more dated layouts and fixtures.

Exhibit 1: Multifamily Class Classifications



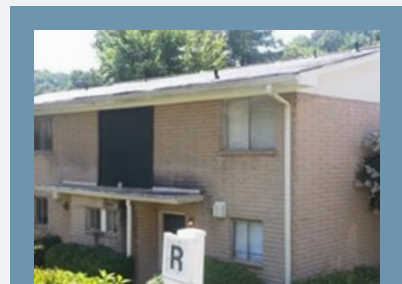
Class A is synonymous with “Investment Grade” referring to:

- New properties no more than 10 years old
- Includes 200 units or more
- Have finish quality that represents the top of their market



Class B refers to properties that are somewhat older than class A properties:

- Includes 100 to 200 units
- May have typical rather than top-of-market finish quality



Class C properties have one or more of the following conditions:

- More than 20 years old
- Generally considered lower-grade investment
- Finish quality reflecting more than 20-year-old standards

Class D multifamily rental housing stock is more than 30 years old with visible signs of aging or in marginal condition. In addition, because these properties are in mediocre locations and offer no amenities, they command low rental fees and their operational budgets are constrained by high tenant turnover.

Property classes — along with descriptors such as excellent, good, fair, and poor — enable the multifamily rental housing industry to speak a common language, and use shorthand to reference a given property’s characteristics and condition.

Industry participants can also use these classifications to predict factors that affect a property’s performance and, correspondingly, an investor’s level of risk and return. For example, the age of a property may hinder its long-term sustainability and its attractiveness to desirable tenants. A property’s condition, location, and access to business districts, transportation, schools, and shopping can also drive demand.



Metropolitan Statistical Areas (MSAs)

Just as property classifications characterize housing, Metropolitan Statistical Areas (MSAs) help define markets.

The US Office of Management and Budget delineates MSAs in each locale, noting social and economic factors typical to each one. For example, a rural MSA might involve a long commute to work, to a shopping district, and to urban-based community events. Counties and cities are grouped into specific geographic areas, for which data is gathered and parsed.

MSAs enable the industry to see which areas are growing and which are stagnant. Their data yields rich information about population growth, affordability requirements, and other factors. These factors help the industry to understand rental market needs in any given area — either on their own, or in combination with other economic forces.

The exhibit below tallies multifamily structures in larger MSAs, as of January 2019³ As shown, multifamily properties are concentrated in larger city areas.

Exhibit 2: Occupied Apartment Stock in 10 Largest Metropolitan Areas, as of January 2019

Metro Area	Total Housing Stock	Total Apartment Stock
New York-Newark-Jersey City, NY-NJ-PA	7,461,875	2,315,949
Los Angeles-Long Beach-Anaheim, CA	4,483,136	1,324,688
Chicago-Naperville-Elgin, IL-IN-WI	3,632,091	694,239
Dallas-Fort Worth-Arlington, TX	2,658,825	672,152
Houston-The Woodlands-Sugar Land, TX	2,448,794	610,789
Washington-Arlington-Alexandria, DC-VA-MD-WV	2,247,389	565,898
Miami-Fort Lauderdale-West Palm Beach, FL	2,227,877	540,596
San Francisco-Oakland-Hayward, CA	1,738,470	427,021
Atlanta-Sandy Springs-Roswell, GA	2,192,651	413,340
Seattle-Tacoma-Bellevue, WA	1,533,137	372,860

Source: 2018 American Community Survey, 1-Year Estimates, US Census Bureau. Updated 1/2019.