

Affordability

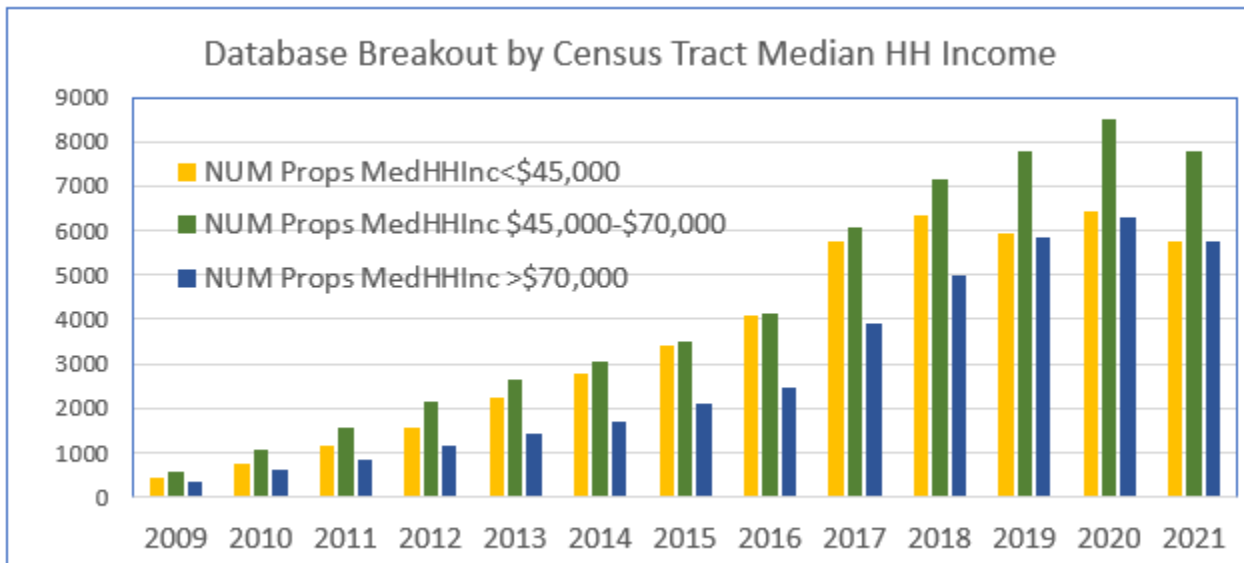
Higher Income Returns for Properties Located in Low-Income Census Tracts

August 30, 2022

Summary: Affordability is one of the most important topics in Multifamily investing. Despite the much talked about shortage of affordable housing, investor demand, as measured by a lower CAP Rate, tends to be concentrated in higher income neighborhoods. The natural question arises as to whether the lower CAP Rate for properties located in high income neighborhoods is justified by higher NOI growth. Data from Freddie Mac CMBS lending programs since 2009 shows just the opposite. Properties located in lower income neighborhoods have both higher CAP Rates and higher NOI growth - both by persistent and significant margins over the time-period analyzed. The combined effect has resulted in sharply higher income returns for properties located in the lower-income neighborhoods.

Property Locations: The Multifamily Comps database geo-maps each property in the Freddie Mac CMBS lending program to a unique US Census Tract. This mapping allows us to compare performance of properties located in Lower Income Census Tracts to those in Higher Income Census Tracts. Chart 1 below shows a breakout of garden, mid-rise, and high-rise multifamily properties by Census Tract Median Household Income since the start of the database in 2009:

Chart 1

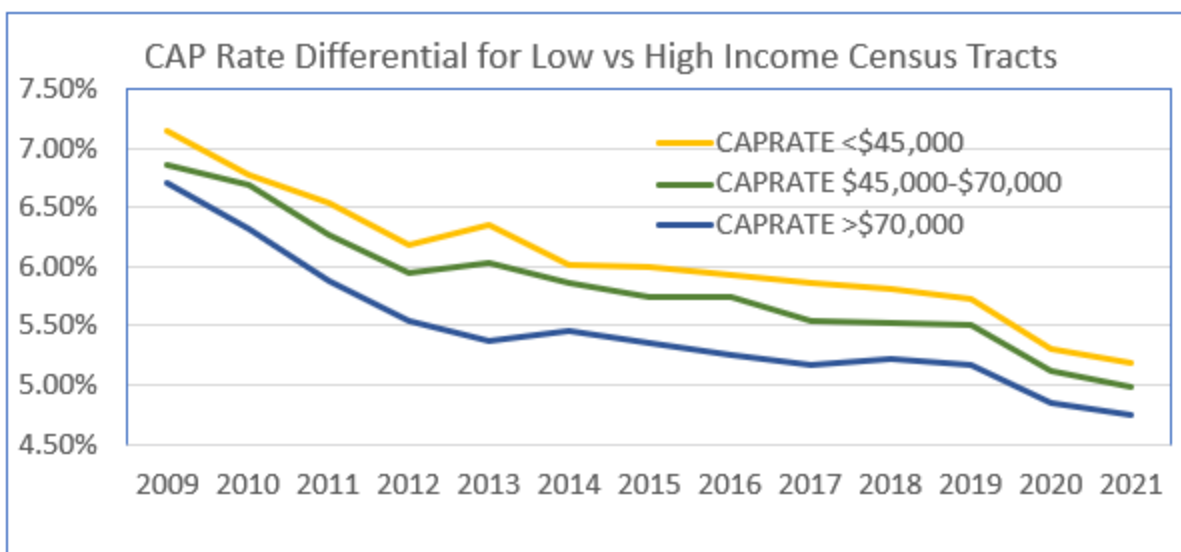


Source: Multifamily Comps

Average Census Tract Median Household Income across the full database is roughly \$60,000. The columns segment the database into the 3 categories depending on whether the Census Tract Median Household Income is <\$45,000, between \$45,000 and \$70,000, or >\$70,000. For this analysis, the <\$45,000 category identifies properties in lower income neighborhoods and >\$70,000 category identifies properties in higher income neighborhoods.

Chart 2 below shows average property-level Underwritten (UW) CAP Rates for properties located in the 3 categories. The UW CAP Rate is the ratio of Underwritten NOI divided by Appraised Value pulled from Loan Origination Tapes reported in the CMBS Offering Circulars. These numbers are scrutinized and documented values used to calculate DSCR and LTV on Loan Originations. The difference between the yellow and blue lines shows the average difference between the UW CAP Rates for properties located in the lower versus higher income neighborhoods.

Chart 2

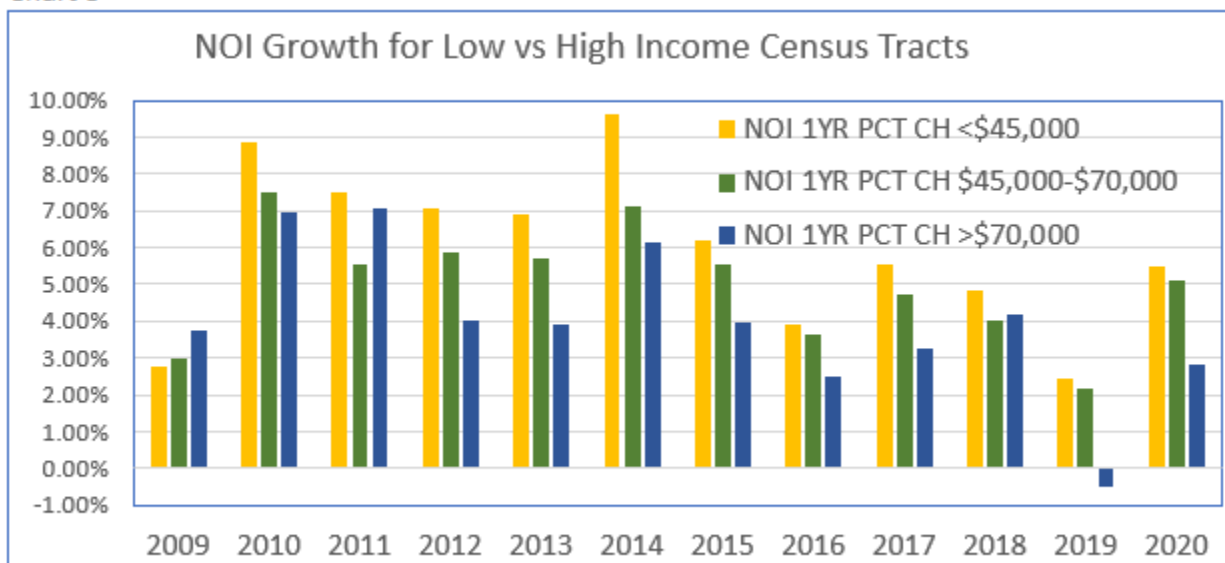


Source: Multifamily Comps

Over the past 13 years, Properties in Low-Income Census Tracts have been valued at an average 60 basis points higher CAP Rate than Properties located in High-income Census Tracts. This relationship should not be surprising given typical investor preference for higher income neighborhoods.

Chart 3 below shows average property-level NOI Growth for properties located in the 3 categories. NOI Growth is calculated from successive year Operating Statements extracted from monthly CMBS Trustee Reports. The numbers are derived from annual borrower financial statements, reported to lenders, which the lenders then scrub and normalize.

Chart 3



Source: Multifamily Comps

Over the past 12 years, Properties in Low-Income Census Tracts generate consistently higher NOI Growth by on average 192 basis points higher. This relationship may or may not be surprising to the reader, but it certainly is notable when defining and executing an investment strategy.

Conclusion: Properties in Lower Income Census Tracts offer both a higher going-in CAP Rate and generate persistently higher NOI Growth. The result is approximately 250 basis points high income returns before leverage. In the next articles we review standard deviations and breakouts by CMSA.

Multifamily Comps LLC (MFC): The MFC Database is comprised of 45,000+ Lender Underwritten Financials and Appraised Values, and 150,000+ serialized Operating Statements extracted from Multifamily CMBS Offering Circulars and Trustee Reports. The primary database concentration is Garden style apartments serving middle income households. The database also includes significant groupings of Mid-Rise, High-Rise, Senior, Healthcare, Student, and Manufactured Housing. The Multifamily Comps (MFC) Statistical Valuation (STATVAL™) Application provides an automated and cost-effective method to perform a Benchmark Underwriting using the Income Capitalization Method in a manner that statistically matches underwriting assumptions on recent Loan Originations. Once a Subject Property has been entered into STATVAL™, a Benchmark Underwriting may be executed in as little as 5-10 minutes and cost as little as \$200-\$300 per Property for Clients who take advantage of volume pricing discounts. For further information, demos, and/or to set up a STATVAL™ User Account please contact our sales representatives:

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