Green Street

Real Estate Alert

THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

Rising Rates Curb Frothy Apartment Market

After a long run of record sales volume, sky-high valuations and rapid-fire deal-making, a reset in investment behavior is beginning to take hold in the multifamily sector.

As the **Federal Reserve** raises interest rates to cool inflation, the pandemic-era party is slowing down, market pros said. Rising rates translate to more expensive financing, prompting once-aggressive buyers to rethink assumptions. Deals are still getting done, but buyers are pushing back on pricing, with bids coming in anywhere from 5% to even 15% below expectations. And some deals are falling apart or being rewritten with lower prices.

"It's a buyer's market all of a sudden, and this happened in the matter of a month," said **Matt Ferrari,** co-chief investment officer and head of acquisitions at **TruAmerica Multifamily.** "What was a 3% [capitalization rate] before is probably a 3.5% cap today. I think higher-quality and better-located product will continue to trade."

Jason Morgan, a principal at **Morgan Properties** and president of its special-situations group, called the market very uncertain. "On the one hand, rents have continued to rise significantly and justify lower cap rates — no question," he said. "On the other hand, long-term interest rates have risen materially this year, which is impacting valuations, so buyers and sellers are trying to figure it all out."

Morgan said his firm was a net seller over the last 12 months, offloading nearly $1 billion of properties. Now, however, it's starting to see much more compelling valuations on properties coming to the market over the last 60 days. "We've been able to secure deals at pricing that we'd have thought would be impossible a few months back," he said.

Another prospective buyer said he was recently contacted by brokers regarding an apartment listing in Austin that 60 days ago was priced at $298,000/unit. Today, the pricing is $270,000/unit. "This type of messaging is consistent," he said.

Some properties are being listed without pricing guidance as sellers attempt to gauge the market. Case in point: **Starwood Capital** this month launched a portfolio of five value-added, garden-style apartments in South Florida totaling 2,127 units. Six months ago, that 1998-vintage portfolio would have easily priced around $925 million, but instead, market insiders said it hit the block without any pricing expectations.

"The market doesn't really know how to price things right now given the state of the credit markets," one pro said.

The Starwood properties are the 562-unit St. Andrews at

See CURB on Page 2

Green Street

Real Estate Alert

THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

MAY 17, 2022

8 EXECUTIVE-SEARCH FIRMS
2 PacLife, Walker & Dunlop Form JV
2 Twitter's NY Base Pitched To Buyers
2 Offices In Minneapolis Tower Listed
4 Lifestyle Center Up For Grabs In Pa.
4 Partner Eyed For Austin Development
6 TA Buys New England Retail Portfolio
7 JPMorgan Offers Texas Warehouses
13 Prime Offices In Phila. On the Block
13 Pebblebrook Nabs Rhode Island Resort
14 Historic Washington Hotel Shopped
15 Seattle Redevelopment Play Available
16 Office Condo In Connecticut Pitched
16 Renovated LA Creative Offices Shown
16 Foreclosed Florida Offices Teed Up

THE GRAPEVINE

Apartment specialist **Shem Streeter** moved to **Green Leaf Capital Partners** this month as a partner and head of acquisitions. He spent the past 12 years at Beverly Hills-based **Kennedy Wilson,** leaving as a managing director. Before that, he had stints at **Casden Properties, KB Home** and **Wells Fargo.** Green Leaf, based in Pleasanton, Calif., buys value-added apartment properties in the Western U.S.

SkyREM tapped industry veteran **Kenneth Meszkat** as its chief operating officer. He's tasked with expanding the firm's New York business and reports to founder and chief executive **Alex Dembitzer.** Meszkat most recently was a director of dispositions at **DRA Advisors,** a New York-based

See GRAPEVINE on Back Page

Brookfield Tees Up Huge Nashville Complex

Brookfield has listed a new mixed-use project in Nashville that could lead to Tennessee's largest-ever property trade, with bids potentially topping $880 million.

The trophy complex, dubbed Fifth + Broadway, encompasses 367,000 sf of office space, 381 apartments and 249,000 sf of retail space. It also has the largest garage in downtown Nashville.

Brookfield, which finished construction last year, is shopping it as a package. The estimated valuation works out to some $900/sf, or roughly $884 million. A breakdown of valuations for the individual components couldn't be learned. **Eastdil Secured** has the listing.

As with many growing Sun Belt markets, Nashville has become more popular among institutional investors in recent years. Population growth, increased tourism and company relocations/expansions have prompted new construction across every

See NASHVILLE on Page 18

Rising Rates Curb Frothy Apartment Market

After a long run of record sales volume, sky-high valuations and rapid-fire deal-making, a reset in investment behavior is beginning to take hold in the multifamily sector.

As the **Federal Reserve** raises interest rates to cool inflation, the pandemic-era party is slowing down, market pros said. Rising rates translate to more expensive financing, prompting once-aggressive buyers to rethink assumptions. Deals are still getting done, but buyers are pushing back on pricing, with bids coming in anywhere from 5% to even 15% below expectations. And some deals are falling apart or being rewritten with lower prices.

"It's a buyer's market all of a sudden, and this happened in the matter of a month," said **Matt Ferrari,** co-chief investment officer and head of acquisitions at **TruAmerica Multifamily.** "What was a 3% [capitalization rate] before is probably a 3.5% cap

See CURB on Page 19

Real Estate Recruiting Remains Challenging

Commercial real estate firms continue to navigate an extremely competitive hiring environment amid the ongoing pandemic and broader market volatility.

The sector is not immune to the larger national labor shortage. An unprecedented level of demand for real estate professionals across function and rank shows no signs of abating, recruiters said. The upshot: Recruits have the upper hand, and companies must adapt to attract and retain talent.

"In today's environment, firms need to be more aggressive, creative and competitive in their recruiting process … and mindful of how long a candidate is involved in the process," said **Anthony LoPinto,** global real estate sector leader at **Korn Ferry.** He added that if an employer zeros in on an ideal candidate early in a search, "our advice is to … strike while the iron is hot because of the highly competitive recruiting environment, at all organizational levels."

Real Estate Alert's annual review of recruiters identified 56 firms working in the sector (see Executive-Search Firms on Page 8). Many reported they are as busy

See RECRUITING on Page 8

REAL ESTATE ALERT: May 17, 2022

Click here for more information or call 949-640-8780.

Green Street

Real Estate Alert

THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

Curb ... From Page 1

Winston Park, at 5400 Lyons Road in Coconut Creek; the 540-unit Preserve at Deer Creek, at 500 Jefferson Drive in Deerfield Beach; the 464-unit Winston, at 11099 SW Fifth Street in Pembroke Pines; the 304-unit Welleby Lake Club, at 10931 NW 39th Street in Sunrise; and the 257-unit Park at Turtle Run, at 6150 Wiles Road in Coral Springs. **Cushman and Wakefield** has the listing.

"The question we are positing is, 'How much off the whisper are prices straying?' " another investor added. "As things have progressed, brokers have also adjusted their [broker opinions of value] accordingly. That is indicative that sellers are coming to terms with what is going on."

Last year, sales of apartment properties worth at least $25 million nearly tripled to a record $238.9 billion, making the multifamily market the most active sector for the third year running, according to **Green Street's** Sales Comps Database. The heady pace continued into the first quarter, soaring 56% year over year to $63 billion, according to **CBRE.** As early as March, it was common for bids to exceed broker opinions of value, and bidders routinely offered large nonrefundable deposits to lock in deals.

That practice has subsided as price discovery unfolds. "There has definitely been a change in tempo. The tide is starting to change," said **Saul Levy,** co-founder and managing partner of investments at **PIA Residential.** "We're at a tipping point at this moment."

Richard Kulick, chief executive at **Beacon Real Estate,** noted that the market across the Southeast is very choppy in terms of the bid-ask spread. "Valuations are dropping, and cap rates are expanding, market participants are just beginning to acknowledge the changed environment," he said.

Prices for interest-rate caps, hedges that protect borrowers of floating-rate debt from upward movement in benchmark rates, also have exploded in recent weeks, adding even more costs to debt that already was becoming more expensive. "It's quite dramatic. You can't ignore the cost of the interest-rate caps, and this, I think, was the canary in the coal mine that valuations would have to contract," Kulick said.

Most market pros stress that the recent dislocation has nothing to do with apartment fundamentals, which remain rock solid. Many of the same conditions that led to last year's historic seller's market are still in place — most notably, the dearth of supply of single-family homes. Meanwhile, rent growth remains at historic highs as multifamily development lags demand.

Some buyers are so confident in the continued strength of apartment-market fundamentals that they're taking on negative leverage — that is, borrowing at rates that exceed their projected returns, at least in the short term — with expectations that rents will continue to rise at current rates. Even if a buyer is upside down in year one, two or even three, the long-term outlook for the property is so positive that they expect to make a return at the exit.

"There is no question that higher interest rates are changing the dynamic of how buyers are looking at deals, but the exceptionally strong rent growth we've seen in the last 12 months … is an incredible offset," said **Marcus & Millichap** president and chief executive **Hessam Nadji.** While he anticipates that rent growth will throttle back to 10% for full-year 2022, it will remain well above average for the next 18 to 24 months due to favorable demographics.

Some note that moderating investor sentiment could be good for the multifamily sector if it helps keep buyers and sellers from succumbing to euphoria and driving prices to overly inflated levels.

"In a number of cases, the extreme price premium we've seen over the last 18 months is likely to ease, and pricing will have to adjust moderately in response to higher interest rates. It's just a matter of time," Nadji said. "A lot of people will hear this and expect significant price corrections … and I don't think that will be the case. What we're talking about is just an adjustment from the intense pressure on prices over the last 18 months to a more sustainable and logical rent and debt cost-supported valuation."

Nadji said that because there are still so many buyers and so much capital chasing multifamily deals, "the market will absorb this adjustment." ❖

Click here for more information or call 949-640-8780.