CBRE AFFORDABLE HOUSING

AFFORDABLE HOUSING REVIEW

Second Quarter 2016

CBRE

AFFORDABLE HOUSING TRENDS UPDATE

184

Sales Transactions

$1.7B

Total Sales Volume

37

States fee simple transactions were conducted in

$1.1B

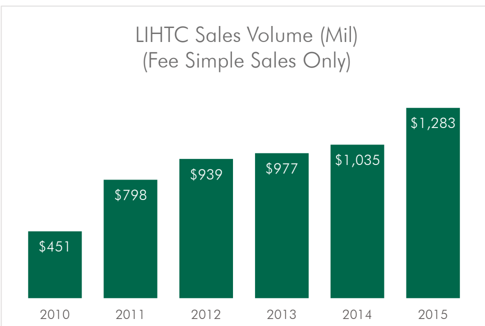
Total Value of Current Pipeline

In 2015, we closed 184 sales transactions involving 23,991 units for a sales volume in excess of $1.7 billion for all transaction types, the highest yearly volume in our history. As in previous years, we are limiting our analysis of 2015 data to the fee simple transactions in order to normalize the information and make it more comparable to other published market information. It is important to remember that the material in this article is based only on our experiences and therefore, may not be representative of the overall market.

TRANSACTIONS

Last year we brokered 136 fee simple LIHTC sales transactions involving more than 18,000 units, totalling just under $1.3 billion. As the graph below demonstrates, our annual LIHTC fee simple sales volume has nearly tripled since 2010 as velocity has continued to grow.

Our sales were spread over 37 states in every region of the country. Investors pursued the whole spectrum of available product, as we sold projects as small as 21 units in South Dakota, to a community with 506 units in Maryland. The majority of our fee simple sales (54%) were transfers involving properties with stabilized operations and rents below the maximum allowed.



REGION	2015 FEE SIMPLE SALES	2015 FEE SIMPLE SALES VOLUME
Midwest	22	$ 145,560,100
Mtn. West	14	$ 126,171,000
West Coast	26	$ 469,525,000
Southwest	6	$ 41,025,000
Southeast	57	$ 396,478,544
Northeast	11	$ 104,285,000
TOTALS	136	$1,283,044,644

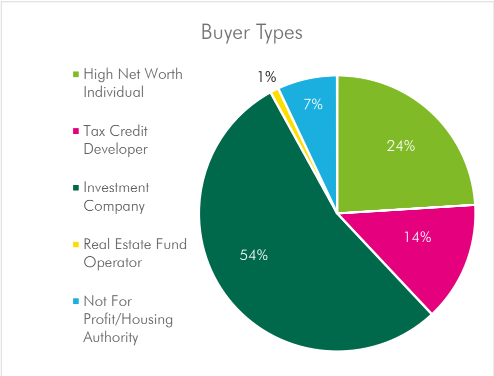
REGIONAL METRICS

Market values for our LIHTC transactions varied widely by region last year. The median price for units sold in the Southeast was $42,700, while the West Coast median price was $109,722 per unit. The highest price per unit in a single transaction closed was in Lincoln, CA, where the asset traded at $221,600 per unit. Depending upon the region, median cap rates ran between the low-6 percent to mid-7 percent range. We saw the lowest current asking rent at a property in West Virginia with $413 per month, while a community in Hawaii had the highest asking rent at $1,640.

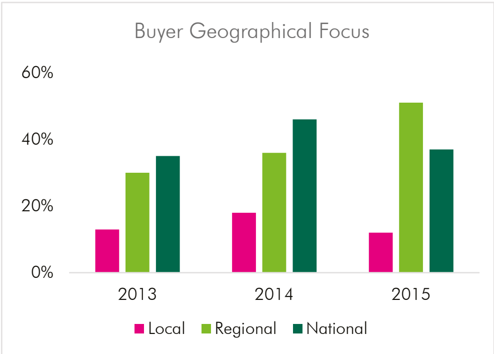
REGION	MEDIAN $/UNIT TRANSACTION	MEDIAN CAP RATE
Midwest	$ 43,612	7.63%
Mtn. West	$ 48,300	6.54%
West Coast	$ 109,722	6.25%
Southwest	$ 49,800	6.98%
Southeast	$ 42,700	7.24%
Northeast	$ 57,700	7.27%

BUYER PROFILES

Last year saw the continued migration of market-rate investors into the affordable housing space, as yields from market-rate assets remained below desired levels. The types of buyers transacting in the LIHTC space remained consistent with what we saw in 2014. There was a slight uptick in tax credit developer purchases last year after a steady decline saw this group's transactions drop from 39 percent of our sales in 2012 to just 11 percent in 2014. Last year, that number increased to 14 percent, still well below the dominant position these investors held in 2012.

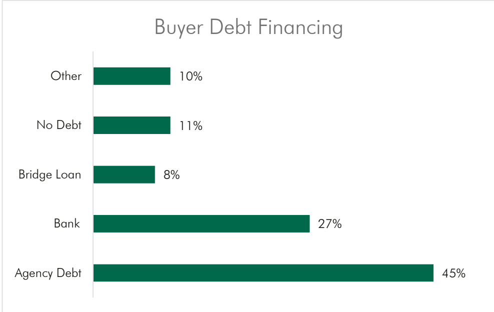


Another buyer profile we track is the geographical preferences of investors purchasing LIHTC properties. The trend away from the "local" purchases that started in 2013 continued last year as the "regional" investor became our predominant buyer in 2015, accounting for 50 percent of all our fee simple sales. We believe this trend will continue as existing LIHTC owners expand their holdings in the affordable housing space.



BUYER FINANCING

Consistent over the past several years, loans from the agencies (Fannie Mae and Freddie Mac) were the major source of financing for our buyers last year. The Freddie-Fannie battle for affordable housing debt moved back in favor of Fannie Mae last year with 26 percent of the financing to Freddie's 17 percent. In 2014, Freddie Mac surpassed Fannie Mae, closing 29 percent of the debt to Fannie's 16 percent. All indications are that the agency competition for affordable housing debt will continue as both agencies offer a wide range of programs specifically designed for this market segment. Another change worth noting is the decline in transactions involving no debt. In 2014, 16 percent of the fee simple sales we made were cash transactions. Last year, that number dropped to 10 percent, evidence that the financing climate for affordable housing was extremely favorable. We expect that environment to continue throughout 2016.



Consistent with previous years, the majority of equity used to purchase LIHTC properties in 2015 came from our buyers' private equity sources. Private buyer equity accounted for 56% of our sales transactions in 2015. Buyers used institutional and non-institutional syndication sources for their equity in 44% of our transactions, up from 41% in 2014.

THE OUTLOOK

Once again, we broke both our number of sales record and sales volume record in 2015. The pace has continued into 2016 as we have already closed 48 sales transactions through April 30 for nearly $500 million. Our current pipeline has 169 properties representing over $1.1 billion in real estate value. Affordable housing continues to be an attractive alternative for market-rate multifamily investors. As more investors enter the affordable housing space, we expect the strong market conditions to continue.

DEBT & STRUCTURED FINANCE: 2015 RECAP

58
Loans Facilitated

$569M
Total Loan Volume

$37M
Largest Loan Closed

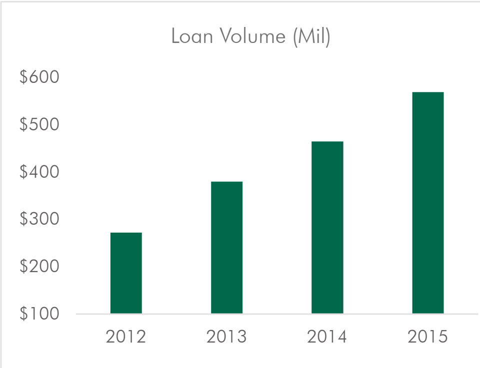
$9.8M
Average Loan Size

CBRE Affordable Housing has provided our clients with unmatched success in the affordable housing industry for more than a decade. The Debt & Structured Finance team has been a natural extension of our industry-leading national brokerage activity, aimed at expanding the range of services and expertise we bring to our clients. For four years, our unique knowledge and experience in the affordable housing market has allowed us to tailor the right type of financing to each borrower and property. The result has been robust growth each year, reaching $1.5 billion in total financing during 2015.

As we move forward and continue to provide even more reliable financing options to our clients, we wanted to take a look back on our 2015 results and the insights they provide into affordable housing finance.

OVERVIEW

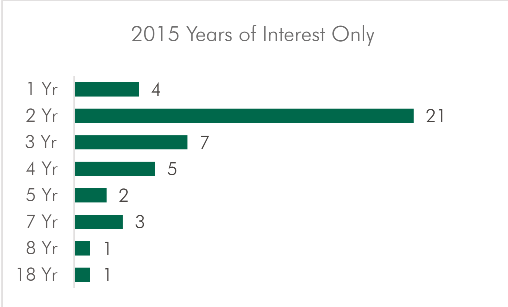
Last year, we facilitated 58 loan transactions with our capital sources. Loan volume grew to nearly $570 million, an increase of 22% over 2014. The largest loan closed at $37 million, and the average loan amount was $9.8 million.



TYPES OF EXECUTIONS

With the exception of three HUD loans, all loans facilitated by CBRE in 2015 were with Fannie Mae and Freddie Mac. Freddie Mac again provided the most loan closings with 29, while Fannie Mae posted a close second with 26. Less than $20 million dollars separated the two agencies in loan volume. Freddie Mac was stronger for clients seeking substantial rehabs because their ARM bridge product provides more loan proceeds for acquisitions that become 4% LIHTC resyndications using their Tax Exempt Loan (TEL). Fannie was very competitive on loan terms longer than ten years, perfect for those wanting to take advantage of historically low rates through the remainder of their LIHTC compliance periods.

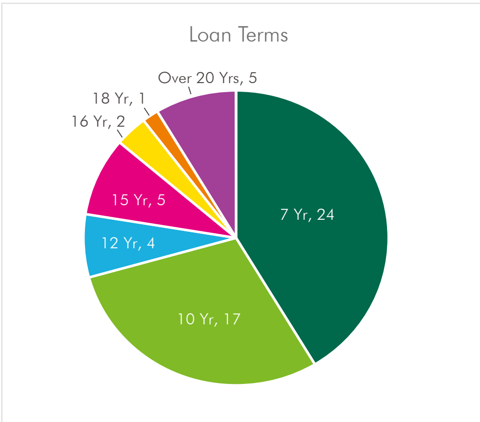
Demand for interest-only financing continued and our Debt & Structured Finance team delivered: 75% of our transactions involved interest only terms. Responding to the robust demand, the agencies offered even more years of interest-only, especially when the deal economics were strong.



DEAL TERMS

Nearly all clients continue to request and receive full leverage at 80% LTV. All-in interest rates on the agency loans ranged between 3% and 5%, with an average of 4.2% for fixed rate debt (7- and 10-year terms). For floating rate loans, they ranged between 2.3% and 3.0% with an average of 2.6%.

While seven and ten year loan terms constituted 75% of our closings last year, we also saw some clients choosing longer term loans, running between 12 and 20 years.



LOOKING AHEAD

Interest in the affordable housing space continues to grow as investors are finding market-rate yields less attractive. With the growing array of resources available at CBRE Affordable Housing, we expect 2016 to be another record-breaking year for our clients.

AMI UPDATE:
HIGH HOUSING COST AREAS AND GROWING MAX RENTS

In past issues of the Affordable Housing Review, we have discussed the methodology used by HUD to calculate the Section 8 and MTSP Income Limits used to set rents at LIHTC properties. The most recent issue dealt with the "High Housing Cost" adjustment, which increases the income limit using the Two-Bedroom Fair Market Rents (FMRs) for areas in which tenants pay a disproportionately large portion of gross income on housing. As rent growth outpaced income growth since the downturn (and continues to do so), the number of areas with FMR-based rent limits has more than doubled.

SELECT METROS RECEIVING HUD'S HIGH HOUSING COST ADJUSTMENT IN 2016	
Santa Ana-Anaheim-Irvine, CA	New York, NY
Atlantic City-Hammonton, NJ	Oakland-Fremont, CA
Fort Lauderdale, FL	Orlando-Kissimmee-Sanford, FL
Lakeland-Winter Haven, FL	Oxnard-Thousand Oaks-Ventura, CA
Los Angeles-Long Beach-Glendale, CA	Riverside-San Bernardino-Ontario, CA
Miami-Miami Beach-Kendall, FL	San Diego-Carlsbad, CA
Napa, CA	West Palm Beach-Boca Raton, FL

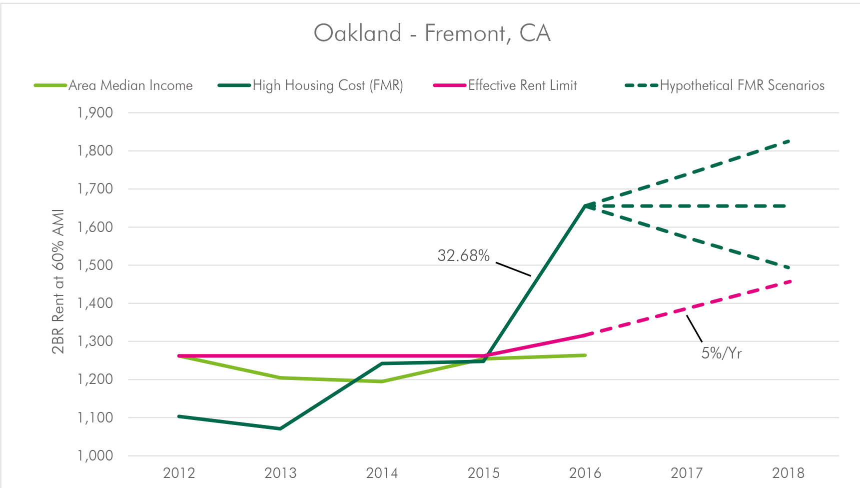
While FMRs have a direct impact on hundreds of thousands of LIHTC units, their primary purpose is to serve as pricing guidance for Section 8 subsidies. A higher FMR in a given area allows for higher voucher rents and more housing options for voucher holders. For this reason, increased FMRs are in the best interest of the Public Housing Agencies (PHAs) in a given metro. Beginning in 2012 and facing sequestration, HUD began using Census Bureau estimates from three years prior instead of their own updated surveys. The result was a methodology that applied a nationwide three-year estimate of inflation to five-year survey data for each area. For example, the 2014 FMRs for the Seattle, WA metro were the result of housing surveys performed by the Census Bureau from 2007-2011, adjusted to 2014 using inflation factors derived nationally.

Seeing that an inflation factor based on the national economy and not area-specific was resulting in lower FMR estimates, in 2015 the King County Housing Authority in Seattle spearheaded the effort to perform a third-party survey with the most updated data possible. As a result, the 2015 2-Bedroom FMR for King County grew by 26.00% from 2014 to 2015. An increased FMR meant higher voucher values, allowing tenants more housing options in the face of the metro's skyrocketing rents. The survey was again updated in 2016, resulting in 7.63% of additional growth and bringing the Seattle MSA within 1.66% of joining the aforementioned High Housing Cost areas.

In 2016, PHAs in other larger metros followed suit, including Portland, OR, Burlington, VT, and Oakland, CA. Comprehensive rent surveys took the form of mailers and were required to meet HUD's standards for statistical relevance and significance. In the case of Oakland (for HUD purposes – comprised of Alameda and Contra Costa counties), the initiative was driven by a coalition of nine local housing authorities, along with cities, nonprofits, and quasi-public entities. The result was 32.68% FMR growth in 2016, catapulting the area well beyond the High Housing Cost threshold, as the graph below demonstrates.

The implications for LIHTC properties against maximum allowable rents in this area are astounding. Each year, income limits are capped at the greater of 5% or twice the growth in the national median income. Therefore, while the 32.68% of FMR growth will not be realized immediately, each year a minimum of 5% growth is, until the full amount is captured. In the case of the Oakland area, this could mean at least five additional years of 5% growth moving forward (assuming the current HUD methodology is not modified). It is also important to note, however, that FMRs do not receive the same hold harmless protection as LIHTC Income Limits, and therefore a reduction from the current FMR levels in upcoming years would limit the potential to capture the entire increase (see graph below). Regardless, a dramatic FMR decrease in such a supply-constrained market is unlikely, giving investors a strong argument to expect 5% rent growth for at least the next two to three years in LIHTC properties with a large spread from max allowable to market rents. These recent developments in calculation methodology are having profound impacts on both the Section 8 and Section 42 programs, and we will be watching closely as other Public Housing Agencies in major markets pursue their own rent surveys.

Please feel free to contact us if you have any questions about these or other topics, or for additional information related to rent and income limits.



KEY CONTACTS

Leadership

ROBERT SHEPPARD
Managing Director
E robert.sheppard@cbre.com

JEFF ARROWSMITH
Senior Director
E jeff.arrowsmith@cbre.com

ARMAND TIBERIO
Vice Chairman
E armand.tiberio@cbre.com

SPENCER HURST
Vice Chairman
E spencer.hurst@cbre.com

Research

JOHN FIORAMONTI
Senior Research Analyst
E john.fioramonti@cbre.com

Investment Sales

JEFF KUNITZ
Executive Vice President
E jeff.kunitz@cbre.com

TIM FLINT
Senior Vice President
E timothy.flint@cbre.com

DMITRY GOURKINE
First Vice President
E dmitry.gourkine@cbre.com

BRANDON GRISHAM
First Vice President
E brandon.grisham@cbre.com

JOHNATHAN SMITH
Vice President
E johnathan.smith@cbre.com

BEN BARKER
Senior Associate
E benjamin.barker@cbre.com

ALEX MEDEIROS
Associate
E alex.medeiros@cbre.com

JOSH RUSSELL
Associate
E joshua.russell@cbre.com

MICHAEL TERRY
Associate
E michael.terry@cbre.com

Debt & Structured Finance

KARU ARULANANDAM
Chief Underwriter
E karu.arulanandam@cbre.com

ALEX PEDERSEN
Deputy Chief Underwriter
E alex.pedersen@cbre.com

KIMBERLY BORJA
Capital Markets Operations Manager
E kimberly.borja@cbre.com

STEPHEN LANG
Lead Production Analyst
E stephen.lang@cbre.com

ANTJE WOLF
Senior Production Analyst
E antje.wolf@cbre.com

MICHELLE SCHLIITER
Senior Loan Underwriter
E michelle.schliiter@cbre.com