



# 2021

## POWERHOUSE POLL

MID-YEAR REPORT

**BERKADIA**<sup>®</sup>

a Berkshire Hathaway and Jefferies Financial Group company



The Powerhouse Poll has quickly become an exciting tradition at Berkadia. Twice a year, the boots-on-the-ground commercial real estate perspective serves invaluable to guiding our clients and setting priorities for the months ahead. The study provided a new level of insight over the past year to give us a sense of how our investment sales agents and mortgage bankers are viewing and approaching the market during such an uncertain time.

For this 2021 Mid-Year survey, we continued to ask our producers how the COVID-19 pandemic and resulting near- and long-term impacts are affecting the industry. Despite the many challenges the multifamily

industry has faced during the pandemic, the poll reveals a sense of confidence in building across the country and a return to normal before the end of the year.

Berkadia remains optimistic in the multifamily market, with these key findings:

- The multifamily market continues to evolve
- Acquisition momentum is expected to remain strong through end of year
- Investors remain committed to addressing the Affordable housing crisis
- Institutional investors are turning their attention to the Southeast and Southwest

We look forward to our latest Powerhouse Poll providing an outlook on how to approach the months, years and investments ahead.

- Ernie Katai

EVP, Head of Production

Look for direct insights from our producers throughout the report.



## ABOUT THE POWERHOUSE POLL

The 2021 Mid-Year Powerhouse Poll data was collected in an online survey by Berkadia through Microsoft Forms in July 2021 to assess expected commercial real estate activity and opportunities for the second half of 2021. The sample was based among Berkadia's 60 offices throughout the U.S., consisting of 65 investment sales brokers and 114 mortgage bankers, totaling 179 overall respondents.



# EVOLUTION OF THE MULTIFAMILY MARKET

The COVID-19 pandemic accelerated many of the trends we've seen in the multifamily industry recently, from the rise of popularity in secondary markets to the use of technology across the industry.

While GSEs are expected to remain the primary source of financing, the reduced caps and the availability of capital have seen debt funds more active in the market. The influx of sidelined capital is driving activity in new regions and bringing new players into the multifamily market. Inflation and interest rates continue to gain ground as trends on the radar for lenders and investors alike as the impact of COVID on the economy evolves.



While only 4% of Berkadia's professionals see insufficient real-time market intel and data as a common pain point among institutional clients, in today's real estate market, **data** and **strategy** are beginning to play a larger role. Our markets today have performed in different ways than they ever have due to the pandemic. **Technology** will allow us to keep a pulse on fluctuating migration and demographic trends and provide real-time intel that's relevant to investors for the future.



*Insights derived from data support more efficient and accurate business decision-making."*

## FIVE MAJOR TRENDS THAT WILL AFFECT MULTIFAMILY INVESTING IN THE SECOND HALF OF 2021

01 Interest rates

02 Inflation

03 Institutional investor interest

04 Multifamily rental demand outpacing supply

05 Local investor interest

## FIVE MAJOR TRENDS THAT WILL AFFECT MULTIFAMILY FINANCING IN THE SECOND HALF OF 2021

01 Interest rates

02 Inflation

03 Institutional investor interest

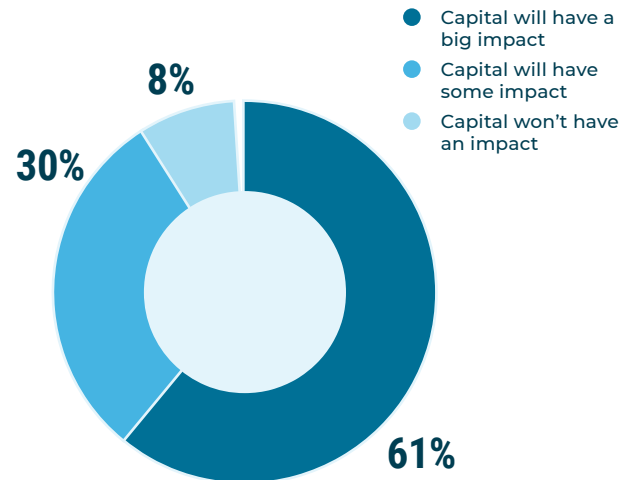
04 Debt underwriting, willingness/unwillingness to underwrite new income

05 Multifamily rental demand outpacing supply

## CRE ACTIVITY

Berkadia professionals expect the availability of capital to have a significant impact on lending and sales.

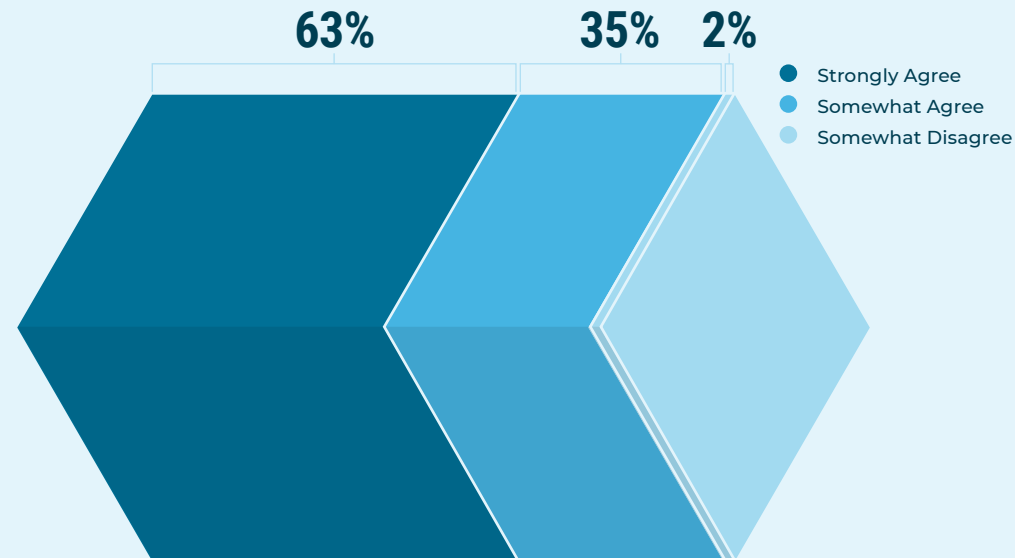
For the remainder of 2021, how big of an impact do you expect the availability of capital will have on CRE lending and investment sales activity?



## DIGITAL FUTURE

The CRE industry will continue to operate digitally more than we did before.

Even when COVID-19 and social distancing are behind us, the commercial real estate industry will continue to operate digitally more than we did before.



*"The future of CRE is data and technology. As this becomes a growing focal point for the industry and continues to evolve, we'll reap benefits like increased efficiency, speed and streamlined processes."*

*"Investors across the industry are making more and more decisions powered by data-driven, actionable insights. Combining our advisors' market expertise with our tech-enabled platform, which provides us with a wide range of industry data at our fingertips, allows us to deliver solutions with the utmost value to clients."*





# INDUSTRY OPTIMISM IN ACTION

At the beginning of 2021, we were optimistic about multifamily for a multitude of reasons. The momentum behind development was as strong as ever, most groups remained extremely well capitalized and the industry was eager to return to the “business as usual” mindset.

Six months into the year, we’ve seen this industry enthusiasm in action through record-setting activity in the market. Berkadia has had its strongest first six months of investment sales activity, closing more than \$8 billion in transactions, indicating that investors across the industry are taking advantage of the favorable interest rates and improved fundamentals. Berkadia professionals expect this momentum will continue in the months ahead, leading 2021 to outpace last year in multifamily transactions.

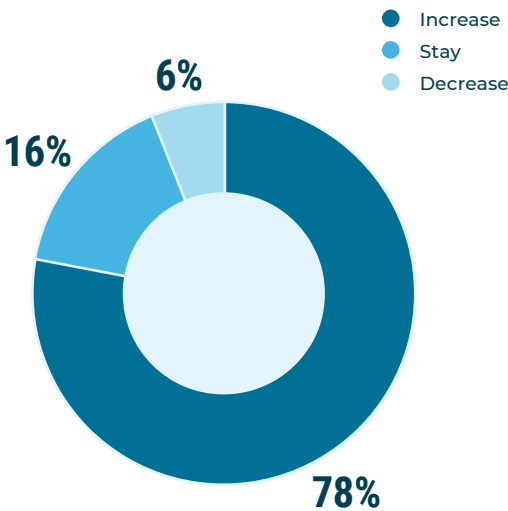


“An increased desire for the transient, renter lifestyle and migration patterns have led to increased renter demand, and corresponding investor interest, particularly in secondary markets across the country.”

MARKET MOMENTUM

Multifamily transaction volume is expected to increase.

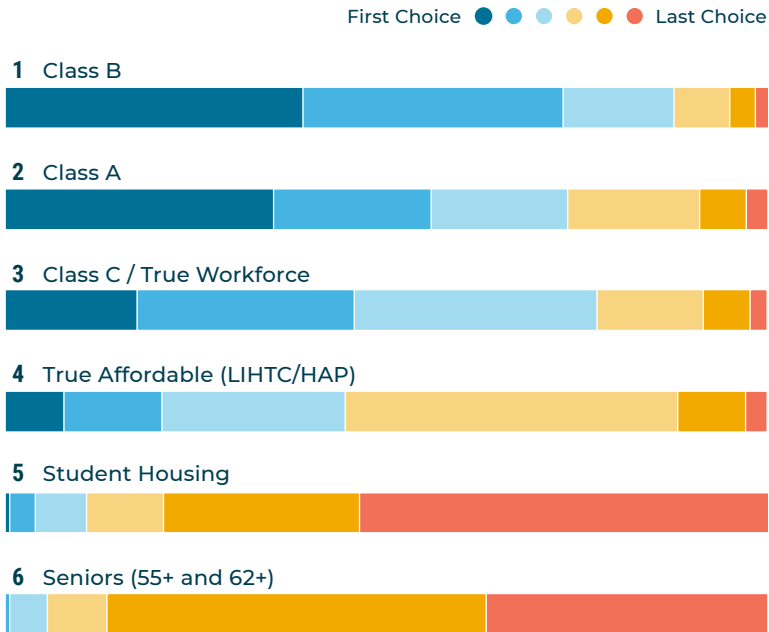
By the end of 2021, do you expect the number of transactions within the multifamily industry to:



INVESTOR INTEREST

Investor interest will be focused on Class B and Class A housing in the months to come.

Rank the following types of housing by anticipated investor interest in the second half of 2021, in order from most of-interest to least of-interest.



## TOP FIVE INVESTOR TRENDS FOR THE REMAINDER OF 2021

01 Actively pursuing acquisitions

02 Seeking financing on currently owned properties (refinancing, supplemental, etc.)

03 Looking to sell properties they currently own

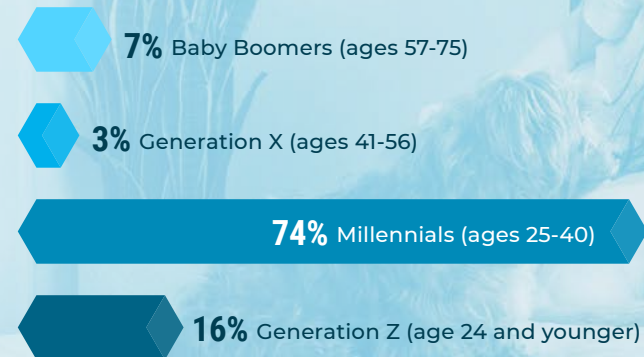
04 Turning investment attention to new property types not previously in their portfolios (workforce, Affordable, etc.)

05 Finding unique ways to retain residents (e.g., added amenities, smart home technologies, etc.)

## RENTER DEMOGRAPHIC

Millennials will dominate as renters over the next one to two years.

In the next 1-2 years, which generation do you believe will make up the highest percentage of multifamily renters?



“Multifamily real estate transactions may have taken a pause at this time last year, but the length of a market slowdown was much shorter than initially predicted.”





# AFFORDABLE REMAINS A TOP PRIORITY

The need for more Affordable housing across the country remains a top priority for the industry as Americans continue to grapple with the economic effects of the pandemic. Majority of Berkadia professionals strongly/somewhat agree (92%) that investors are more interested in Affordable housing properties now than they were last year. A third of Berkadia's advisors anticipate to see an increase in Affordable housing development in the West (32%) and Southeast (30%) over the next two years.



Across the Affordable housing opportunities available in the market, Berkadia's professionals foresee Affordable housing **property acquisitions (49%)**, **rehabilitations** of existing Affordable housing properties (31%) and **ground up construction projects (24%)** to be most attractive to investors over the next two years.

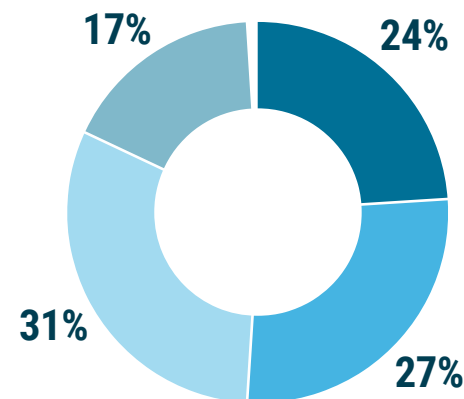
“Affordable housing is an easy way for investors to meet ESG requirements. Building LEED certified buildings, while very costly, has been a popular trend for a while.”

## AFFORDABLE OPPORTUNITIES

Rehabilitations of Affordable and existing Affordable acquisitions will attract investors.

What types of Affordable housing opportunities do you anticipate will be most attractive or see the most investor interest over the next 1 -2 years?

- Ground-up construction projects
- Existing Affordable housing property acquisitions
- Rehabilitations of existing Affordable housing properties
- Adaptive reuse projects



## TOP FIVE TYPES OF HOUSING EXPECTED TO BE OF MOST INTEREST TO INVESTORS IN THE SECOND HALF OF 2021

01 Class B (39%)

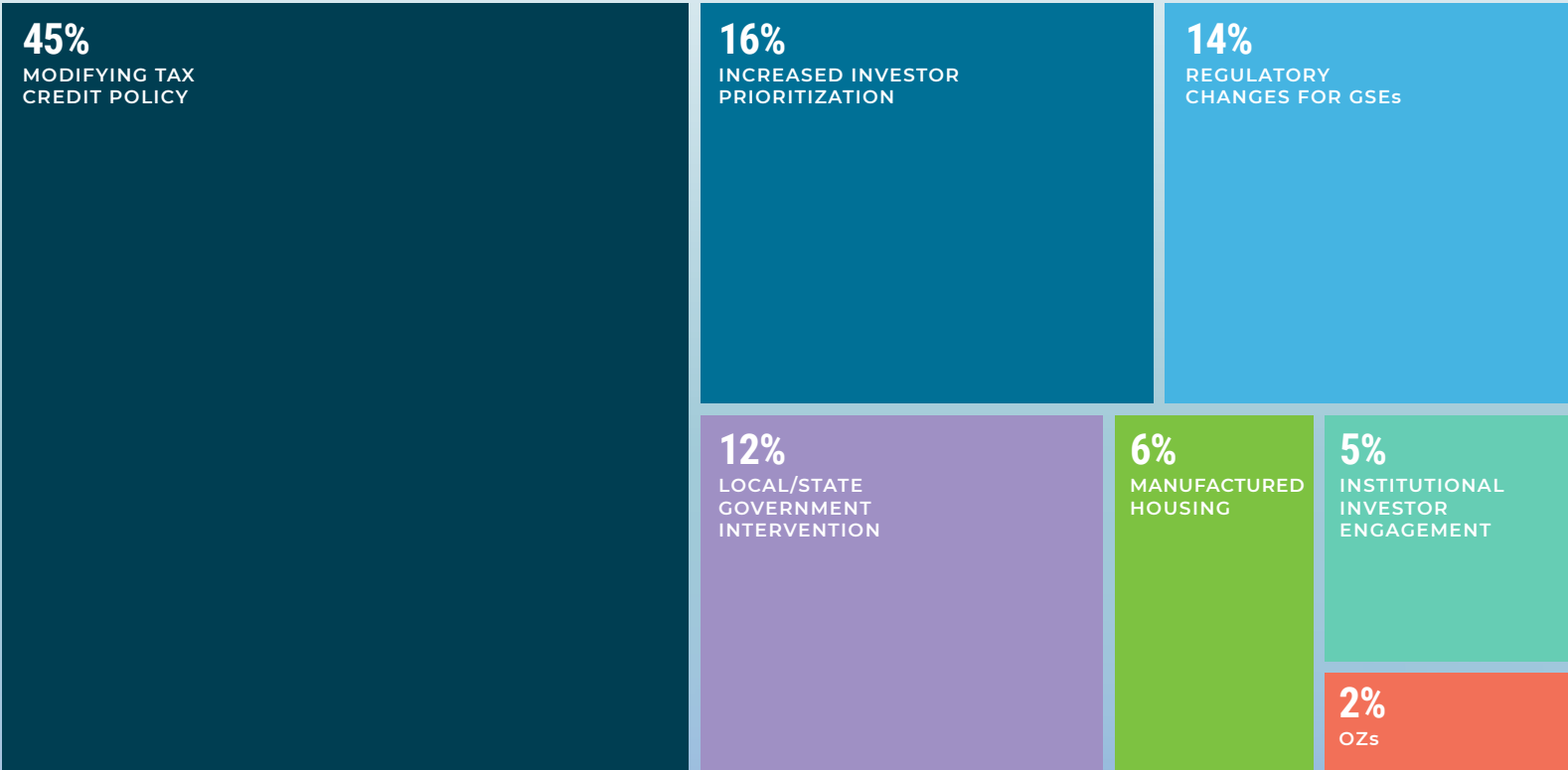
02 Class A (35%)

03 Class C/True Workforce (17%)

04 True Affordable (LIHTC/HAP) (8%)

05 Student Housing (0.6%)

SOLUTIONS THAT WILL HELP TO IMMEDIATELY ADDRESS THE AFFORDABLE HOUSING CRISIS



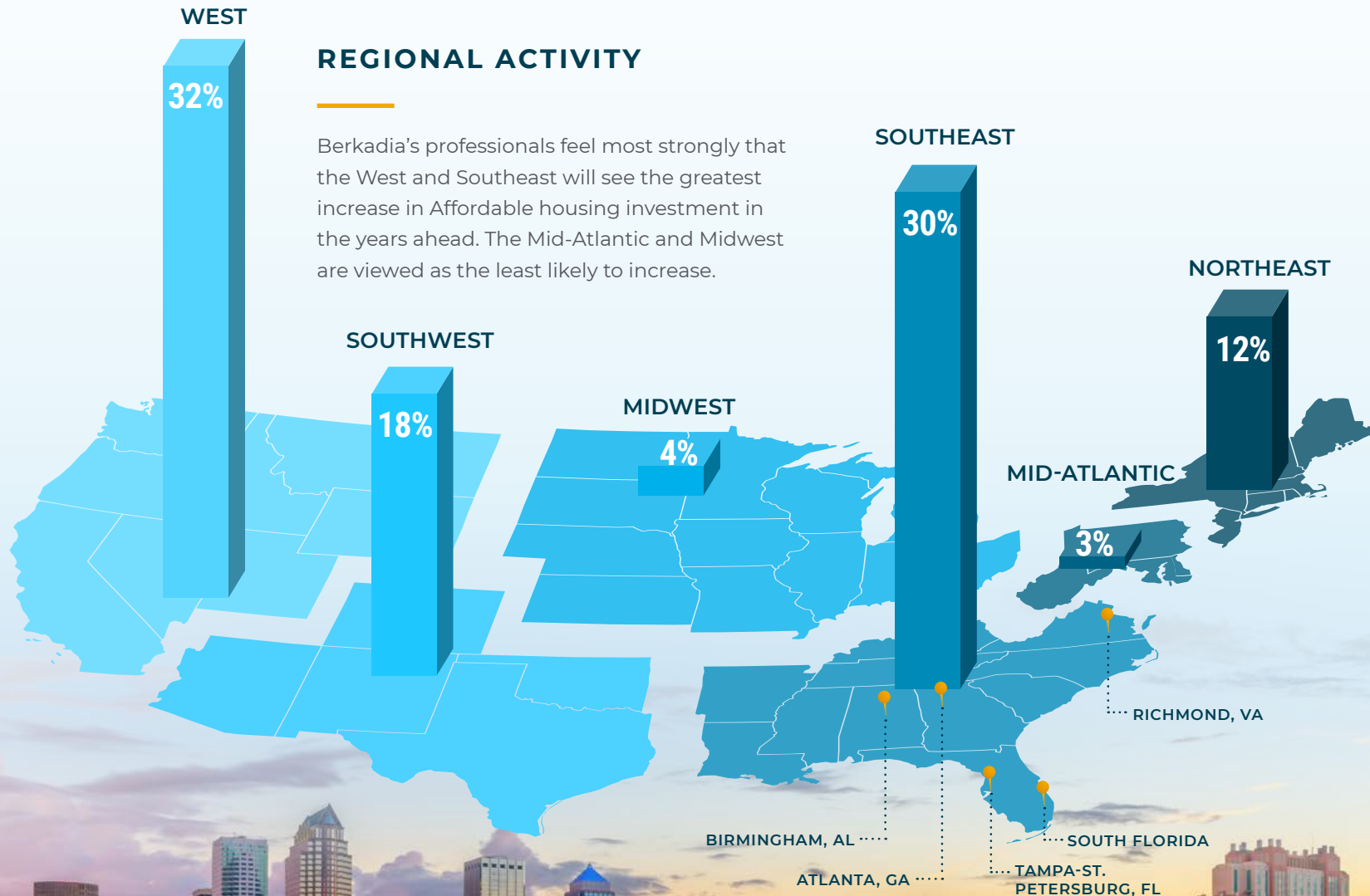
“ Compared to last year, Berkadia’s Affordable transaction volume grew 400% in the first quarter of 2021, indicating that investors are committed to diversifying their portfolios with Affordable properties to support the industry’s effort in solving the affordable housing crisis.”

“ We predict our institutional clientele may be interested in building more secular focused, Affordable housing in a post-pandemic world.”



## REGIONAL ACTIVITY

Berkadia's professionals feel most strongly that the West and Southeast will see the greatest increase in Affordable housing investment in the years ahead. The Mid-Atlantic and Midwest are viewed as the least likely to increase.



## SOUTHEAST LEADS NATION IN RENT GROWTH MARKETS

Tampa-St. Petersburg, Atlanta, Richmond, South Florida and Birmingham occupy five of the top ten places when it comes to rent growth year-over-year.

### TAMPA-ST. PETERSBURG

Tampa-St. Petersburg's rental market proved resilient in the face of economic hardship and showcased strong performance, with a **12.7%** annual rise.

### ATLANTA

Falling unemployment and greater renter mobility over the last year have greatly improved Atlanta's apartment fundamentals, with a **11.9%** annual rise.

### RICHMOND

With the rise in apartment occupancy, Greater Richmond effective rent increased **9.5%** from one year prior.

### SOUTH FLORIDA

Apartment occupancy in South Florida averaged 96.5% in the second quarter of this year, with a year-over-year rent growth of **7.9%**.

### BIRMINGHAM

Robust hiring activity and the addition of thousands of new residents contributed to a healthy recovery in Birmingham in the last year, reflected in a **7.2%** annual increase.





# INSTITUTIONAL A GROWING FORCE

The COVID-19 pandemic caused uncertainty across the real estate market. While confidence, stability and liquidity have been returning to the marketplace in areas like multifamily and Affordable housing, institutional investors have seen challenges in the competitive primary market. In fact, Berkadia's advisors see that the lack of deals to purchase (58%), lower risk-adjusted returns (19%), and decreasing cap rates (18%) are institutional investors' most common pain points in today's real estate market.

Regardless of challenges, institutional investors have continued to show interest in the commercial real estate industry, throughout the pandemic and particularly as we work towards recovery. The multifamily industry is an area where there's been a surge of liquidity in 2021 thanks to increase in demand and Berkadia's professionals anticipate the Southeast (49%) and Southwest (28%) regions to be of most interest.



## INSTITUTIONAL INVESTOR INSIGHTS

When it comes to institutional clientele, only 5% of Berkadia's professionals predict that converting to Affordable housing properties will be an attractive opportunity type for them in the next two years.

Institutional domestic capital is anticipated to be the second most active capital source in the second half of 2021, trailing private domestic capital.

Institutional investor interest ranks among the top three major trends expected to impact multifamily investing for the remainder of 2021, along with inflation and interest rates.



*Institutional investors continue to show interest in the commercial real estate industry as we continue towards recovery."*

## INSTITUTIONAL INTEREST

Build-for-Rent and renovation/rehabilitation opportunities will attract attention.

### What types of opportunities will be most attractive to institutional clientele in the next 1-2 years?

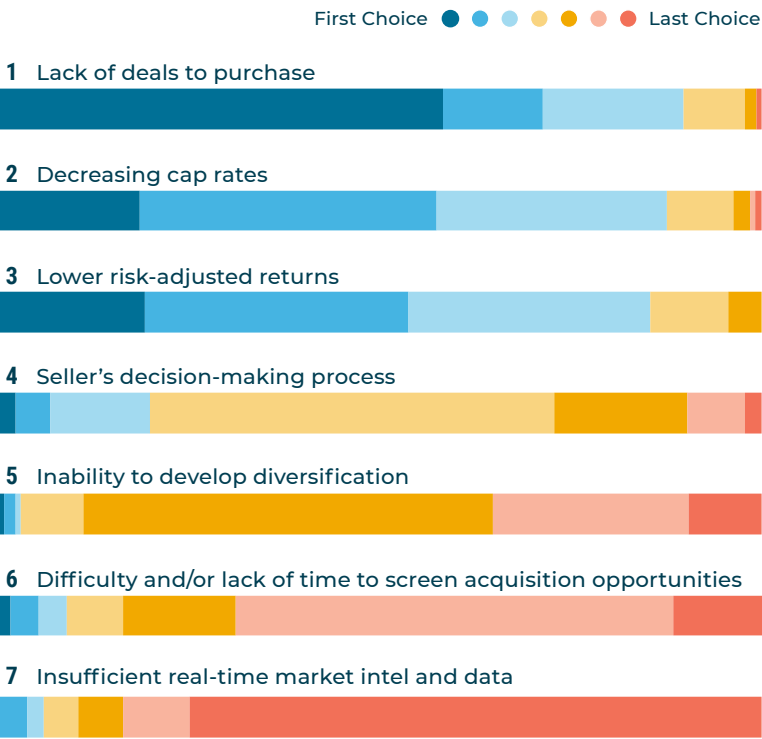


*As we continue to advise more institutional investors through our Berkadia Institutional Solutions, powered by Moran platform, we're seeing that there's a heightened awareness and focus among institutional investors to do the right thing and invest where it matters. We look forward to seeing more deals with good social aspects in place."*

INSTITUTIONAL PAIN POINTS

A lack of deals to purchase is the leading pain point for institutional investors.

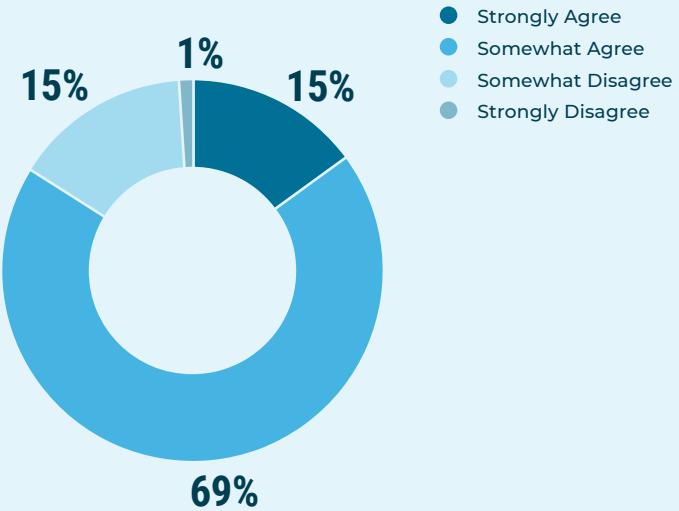
What’s the most common pain point among institutional clients in today’s real estate market?



ESG SPOTLIGHT

The importance of ESG policies and practices is growing.

Institutional investors now place greater importance on ESG (Environmental, Social and Governance) policies and practices when making real estate investment decisions.



“During the COVID-19 pandemic, we saw the market pause to understand the near- and long-term impacts the pandemic would have. However, we’ve quickly seen investment sales activity pick up again this year, leading to a strong first few months of 2021 and continue to see capital spread across institutional and middle market investor groups.”



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