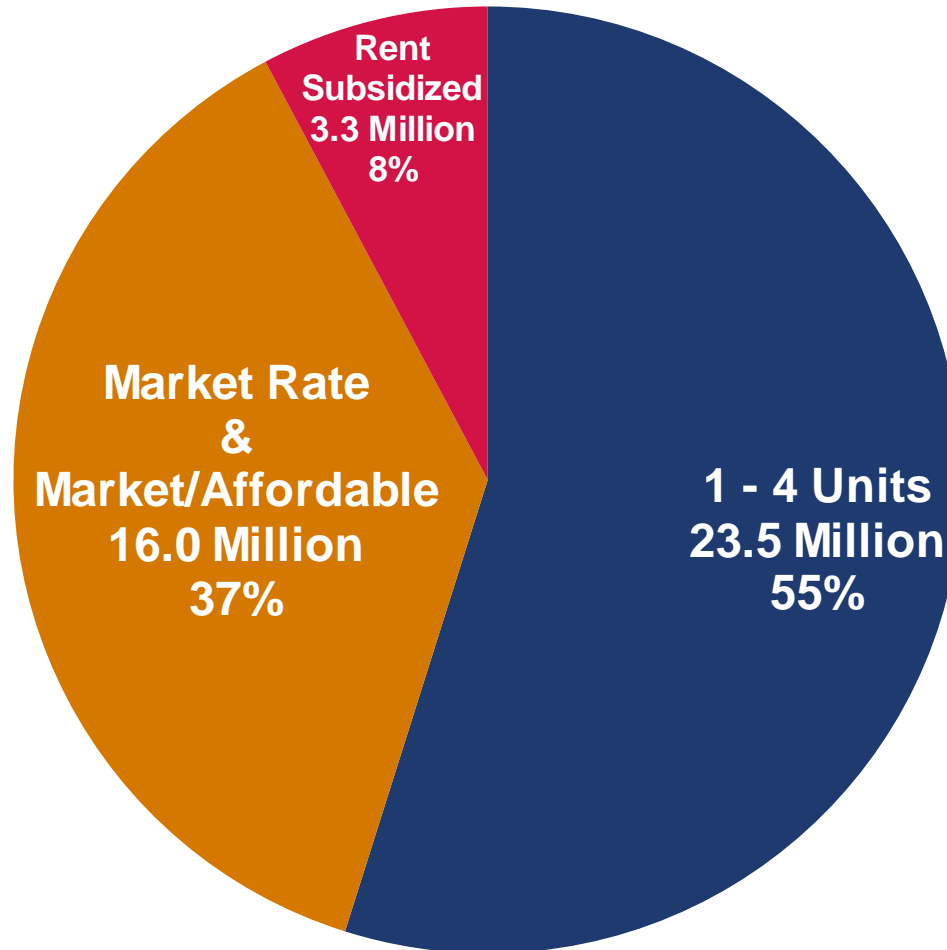




# Naturally Occurring Affordable Housing

NAAHL & ULI Symposium | October 11, 2016

## U.S. Rental Housing Inventory By Units

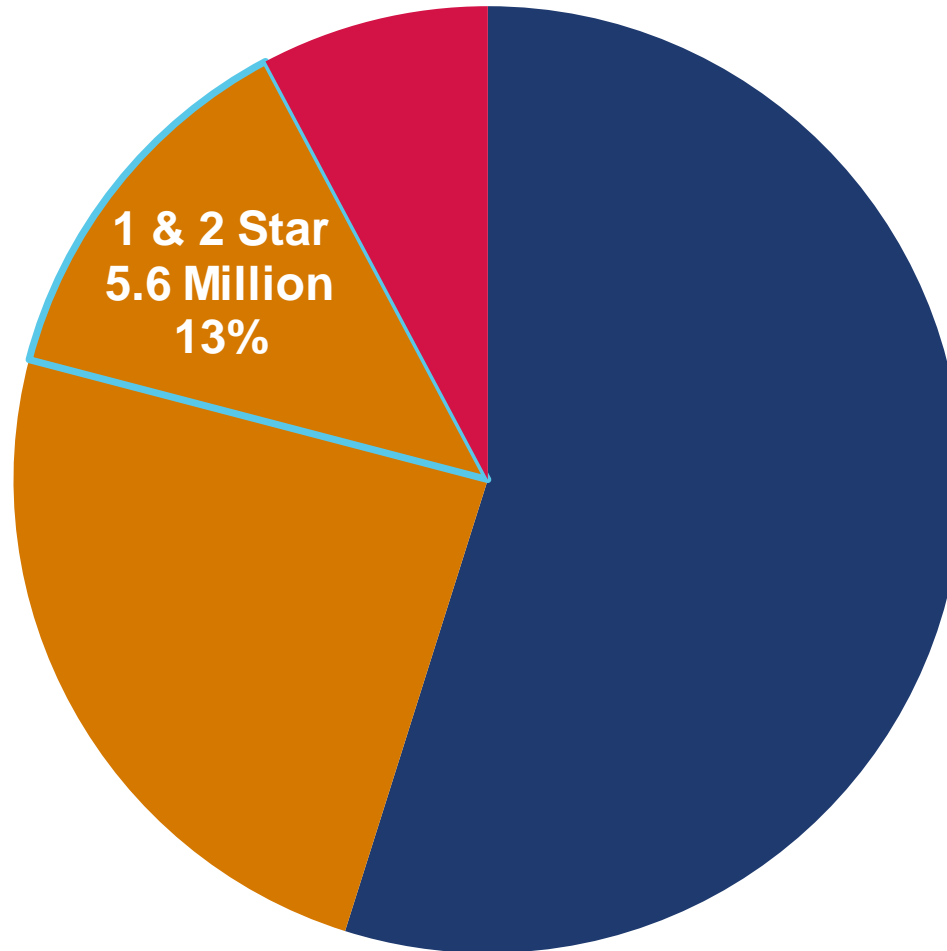


Sources: U.S. Census Bureau; CoStar Portfolio Strategy

As of August 2016

# Slicing And Dicing Rental Housing

## U.S. Rental Housing Inventory By Units



Sources: U.S. Census Bureau; CoStar Portfolio Strategy

As of August 2016

# One- And Two-Star Rating Criteria

## CoStar Building Rating System (BRS)

RATING	GROUP	DEFINITION	
★★	Architectural Design	Exterior Materials/Façade	Brick, stucco, EIFS, precast concrete, siding with noticeable aging.
		Fenestration/Glazing/Views	Small, seemingly inadequate windows.
		Overall Aesthetics	Average, functional.
	Structure/Systems	Purely functional.	
	Amenities	Unit Amenities/Design	Below average finishes, inefficient use of space.
		Site Amenities	Likely only one or no on-site shared facilities.
	Site/Landscaping	Minimal or no landscaping, no exterior spaces.	
	Certifications	Unlikely a certified/labeled green and energy efficient building.	
★	Practically uncompetitive with respect to typical multi-family investors, may require significant renovation, possibly functionally obsolete.		

# Three-Star Rating Criteria

## CoStar Building Rating System (BRS)

RATING	GROUP	DEFINITION
★★★	Architectural Design	Exterior Materials/Façade Brick, stucco, EIFS, precast concrete, vinyl or fiber cement siding, possibly 4 Star materials with signs of age.
		Fenestration/Glazing/Views Punched windows, fair mix of glazed and opaque surfaces that provide adequate natural light.
		Overall Aesthetics Average with respect to background buildings, contextually appropriate.
	Structure/Systems	Likely smaller and older with less energy-efficient and controllable systems.
	Amenities	Unit Amenities/Design Average quality finishes, layout conducive to compact lifestyle but not necessarily an open floor plan.
		Site Amenities A few on-site shared facilities and spaces such as a Clubhouse/Party Room, Fitness Center, Business Center, Pool, Laundry Facilities, etc.
	Site/Landscaping	Modest landscaping and likely small or no exterior spaces.
	Certifications	Possibly a certified/labeled green and energy efficient building.


# Four-Star Rating Criteria

## CoStar Building Rating System (BRS)

RATING	GROUP	DEFINITION
★★★★★	4-Star buildings are constructed with higher end finishes and specifications, providing desirable amenities to residents and designed/built to competitive and contemporary standards.	
	Architectural Design	Exterior Materials/Façade
		Durable materials, well-detailed and constructed metal panel, wood veneer or terracotta cladding; possibly exhibiting minor signs of weathering and wear.
		Fenestration/Glazing/Views
		Large windows, great natural day lighting and views.
		Overall Aesthetics
		Representing recent trends and standards in design and/or of a timeless, perhaps an historic quality.
	Structure/Systems	Likely to have some 5 Star qualities, or of a prior generation of buildings.
	Amenities	Unit Amenities/Design
		Includes some high quality finishes such as hardwood floors, granite countertops, stainless steel appliances, bay window(s), crown molding, a balcony/patio and in-unit washer/dryers. Also may have an open floor plan and high/vaulted ceilings.
	Site/Landscaping	Site Amenities
		Several on-site shared facilities such as a Clubhouse/Party Room, Fitness Center, Business Center, Pool, Concierge, etc.
	Certifications	Well maintained landscaping where applicable; likely to have exterior gathering spaces, roof terrace or courtyard.
		Possibly a certified/labeled green and energy efficient building.

# Five-Star Rating Criteria

## CoStar Building Rating System (BRS)

RATING	GROUP	DEFINITION
	A 5-Star building represents the luxury end of multi-family buildings defined by finishes, amenities, the overall interior/exterior design and the highest level of specifications for its style (garden, low-rise, mid-rise, or high-rise).	
	Architectural Design	Exterior Materials/Façade
		Fenestration/Glazing/Views
		Overall Aesthetics
	Structure/Systems	High ceilings; modern energy-efficient, central HVAC, individually controlled systems, high-speed elevators, likely new or newly renovated.
	Amenities	Unit Amenities/Design
		Site Amenities
	Site/Landscaping	Continually maintained landscaping where applicable; exterior gathering spaces, roof terrace or courtyard.
	Certifications	Possibly a certified/labeled green and energy efficient building.

## EXTERIOR

## INTERIOR



**1 Star**



**2 Star**



**3 Star**



**4 Star**



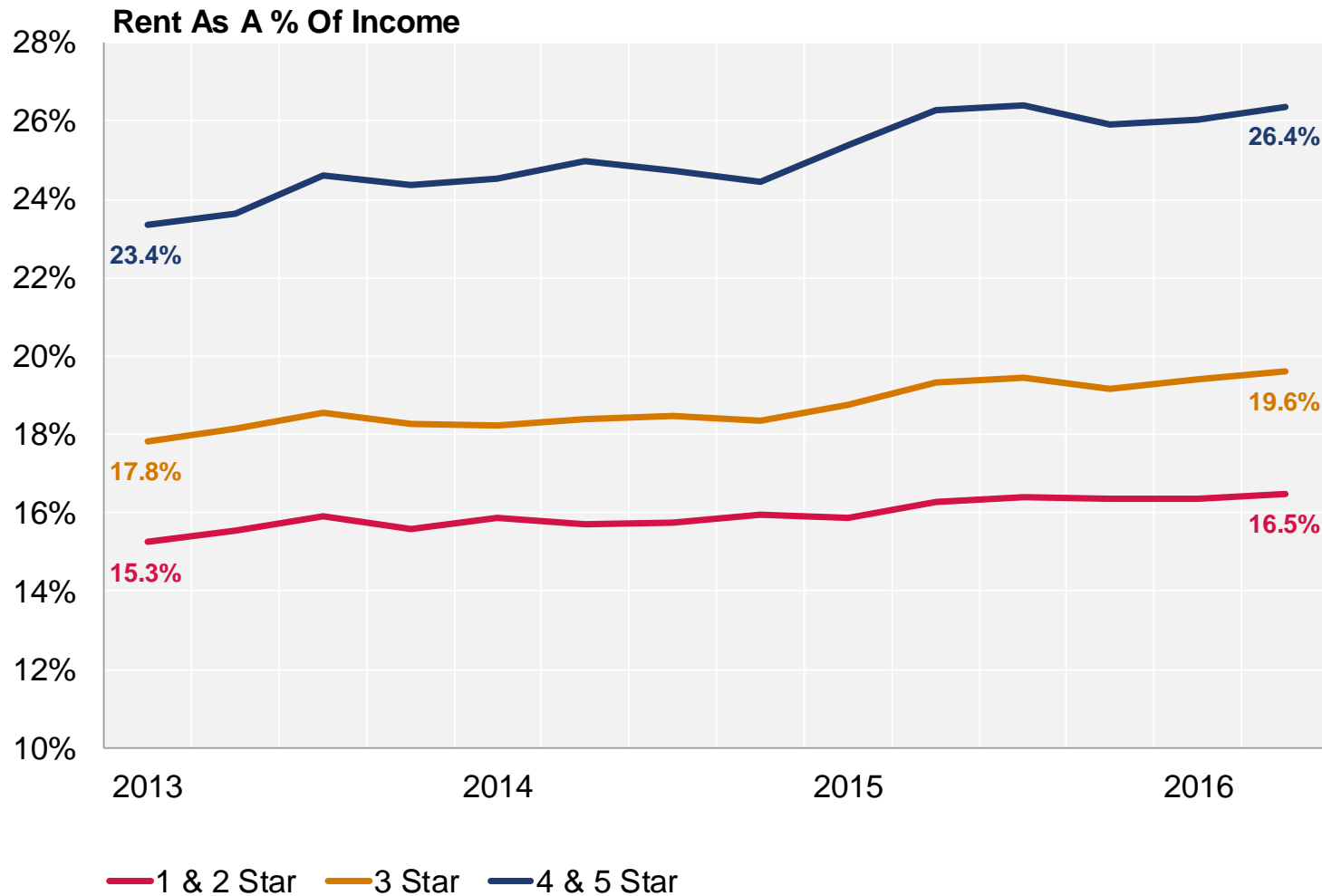
**5 Star**



# Affordability Issues More Significant At Top End Of Market



## Rent As A % Of 100% Area Median Income By Star Rating

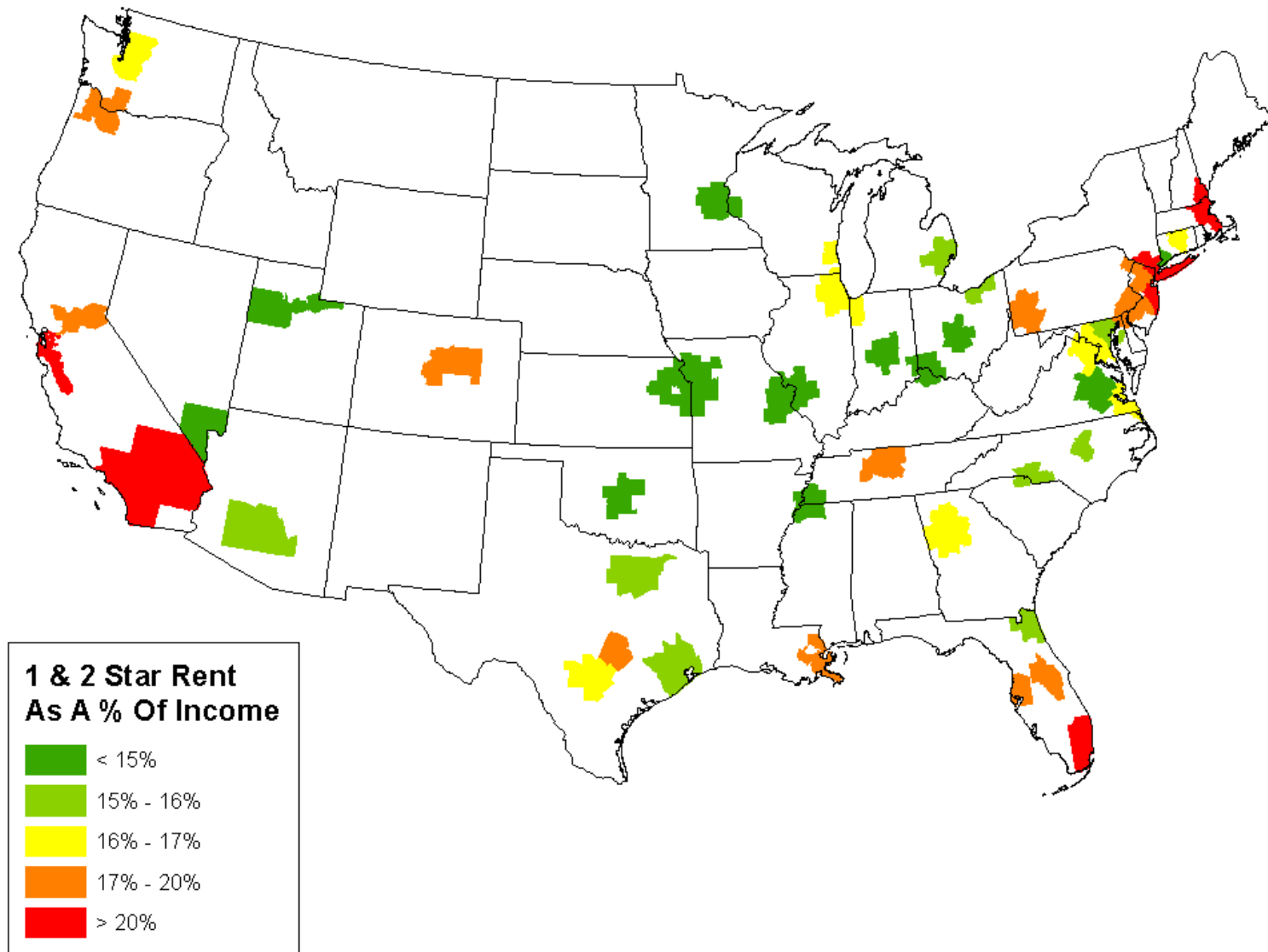


Source: CoStar Group

As of 16Q2

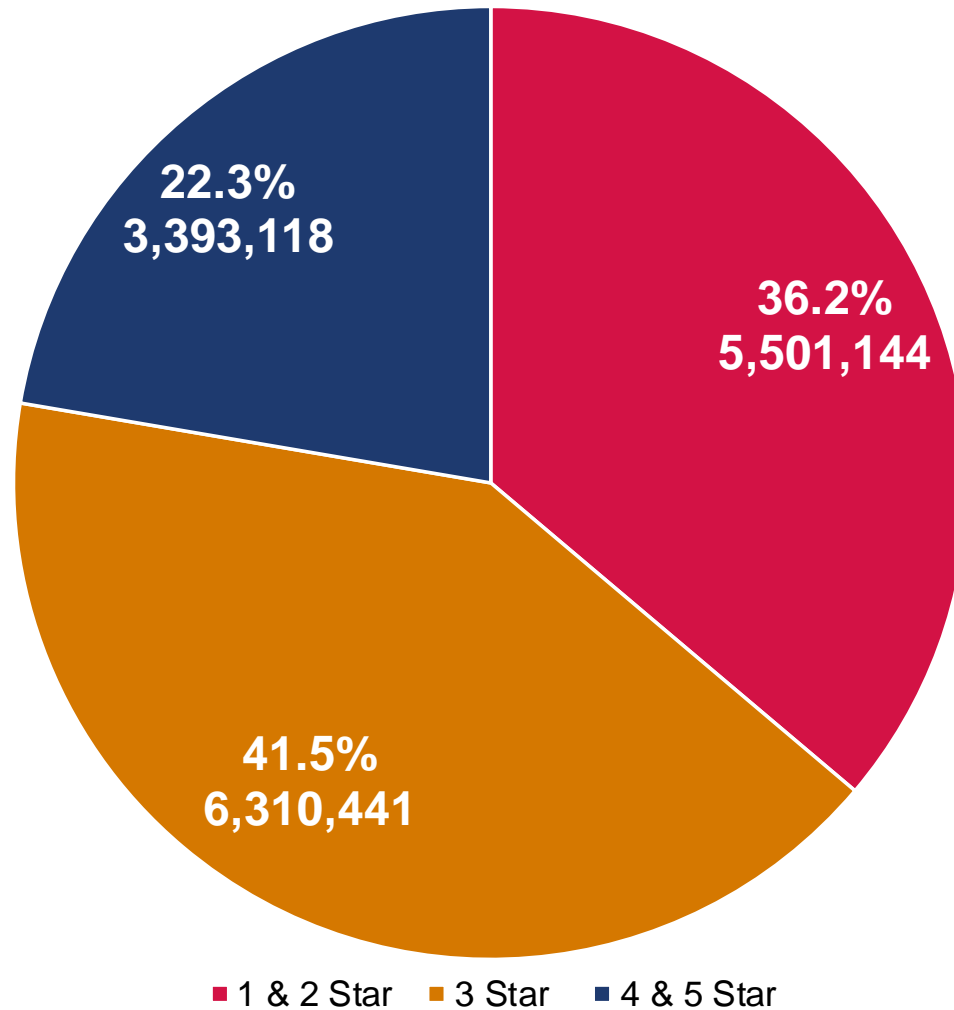
# 1 & 2 Star Rents Remain Affordable In Most Metros

1 & 2 Star Apartment Rents As A Percent Of 100% Area Median Income



# 1 & 2 Star Represents A Major Portion Of The Market

## Number Of Units By Star Rating



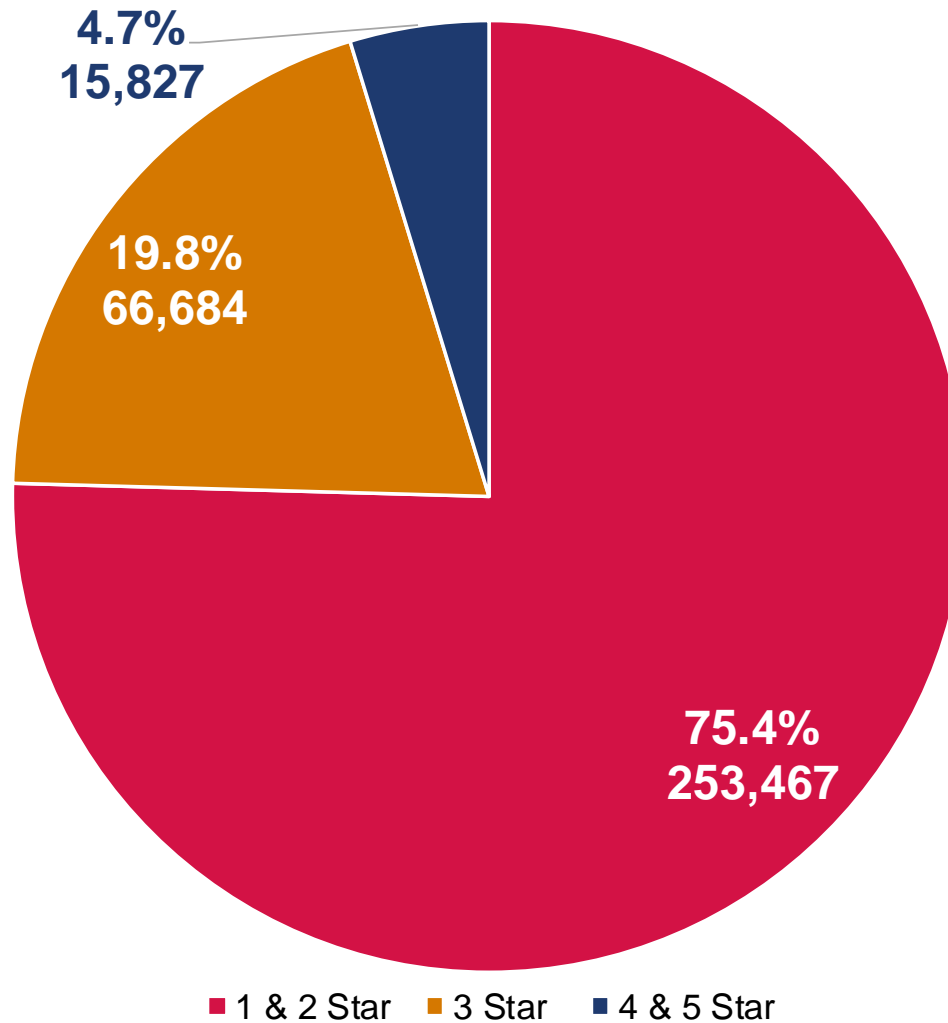
Source: CoStar Group

As of August 2016

# The Vast Majority Of Multifamily Properties Are 1 & 2 Star



## Number Of Properties By Star Rating

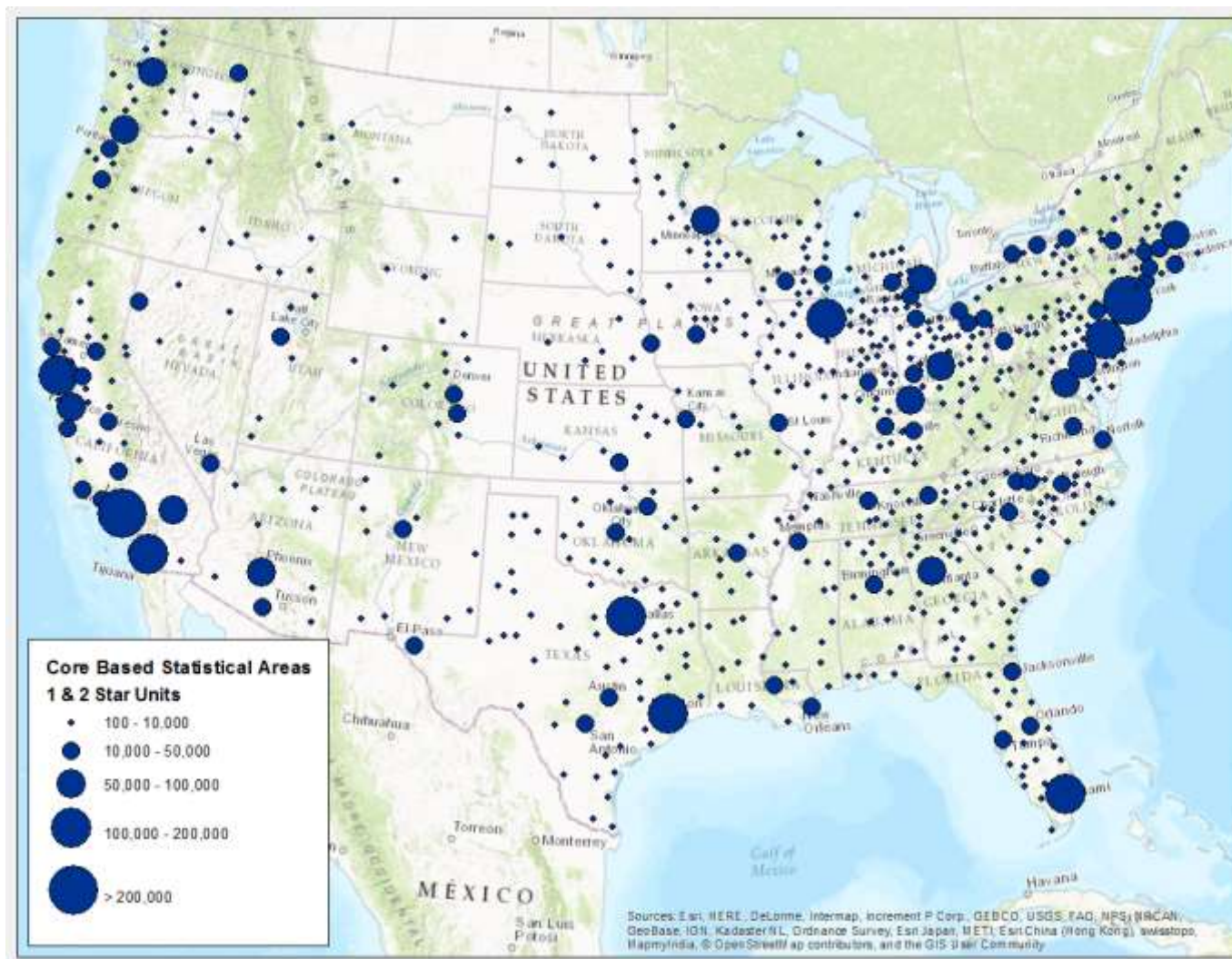


Source: CoStar Group

As of August 2016

# 1 & 2 Star Properties Can Be Found Almost Anywhere

## 1 & 2 Star Units By Metro

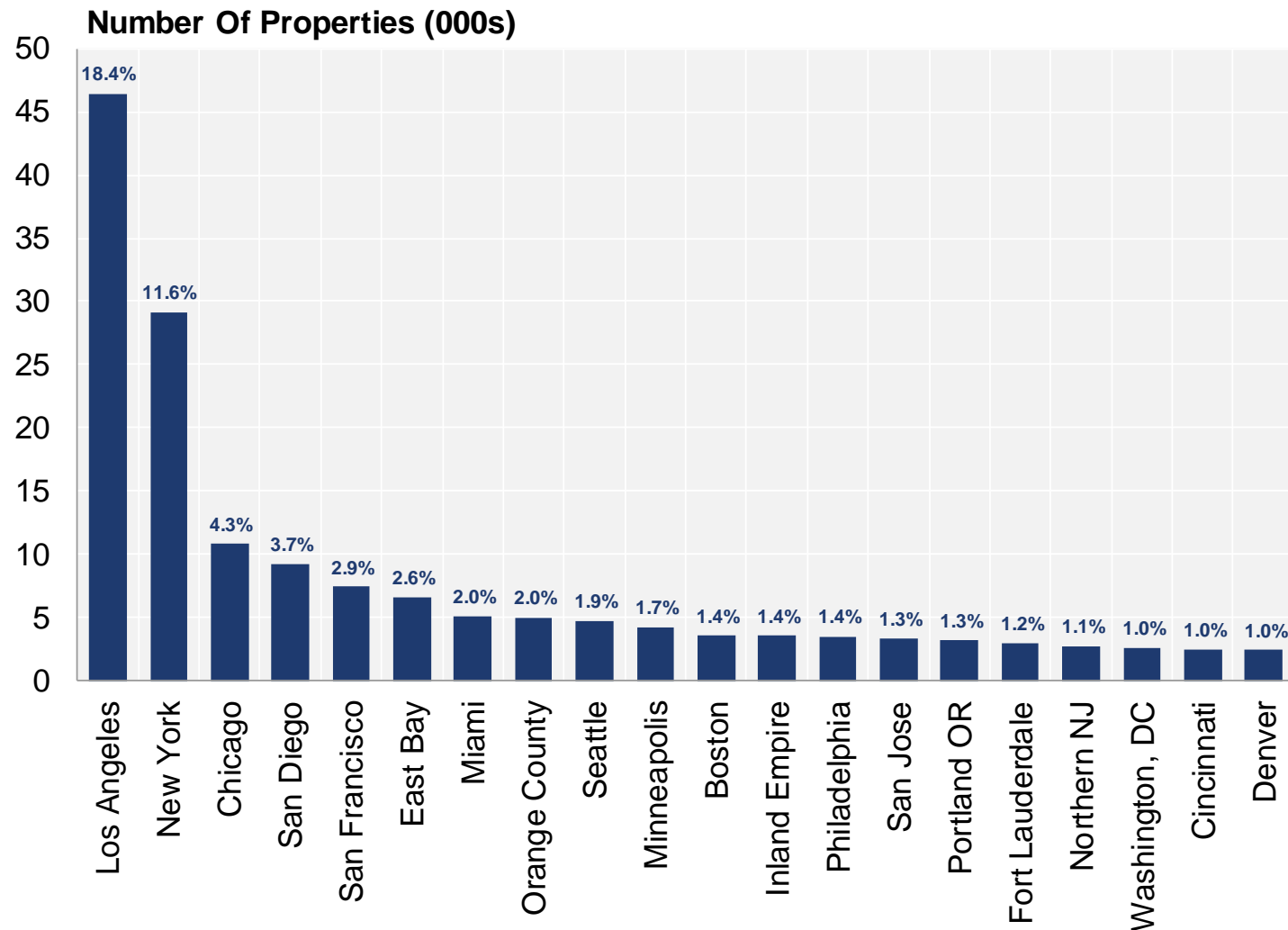


Sources: ESRI; CoStar Portfolio Strategy

As of 16Q2

# Los Angeles And New York Dominate

## 1 & 2 Star Properties By Metro



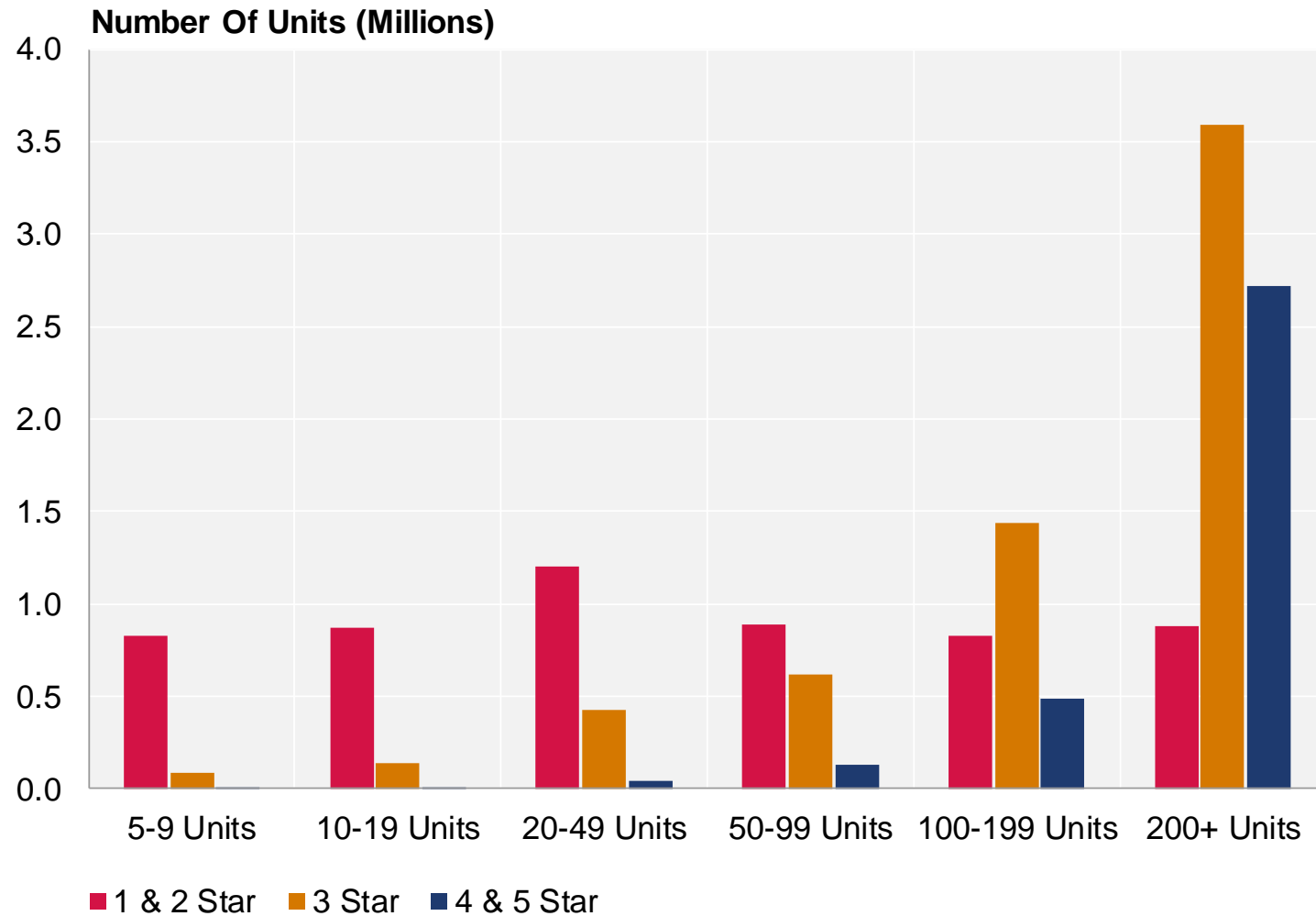
Source: CoStar Group

As of August 2016

# Almost Half Of 1 & 2 Star Inventory In 50+ Unit Buildings



## Number Of Units By Building Size And Star Rating

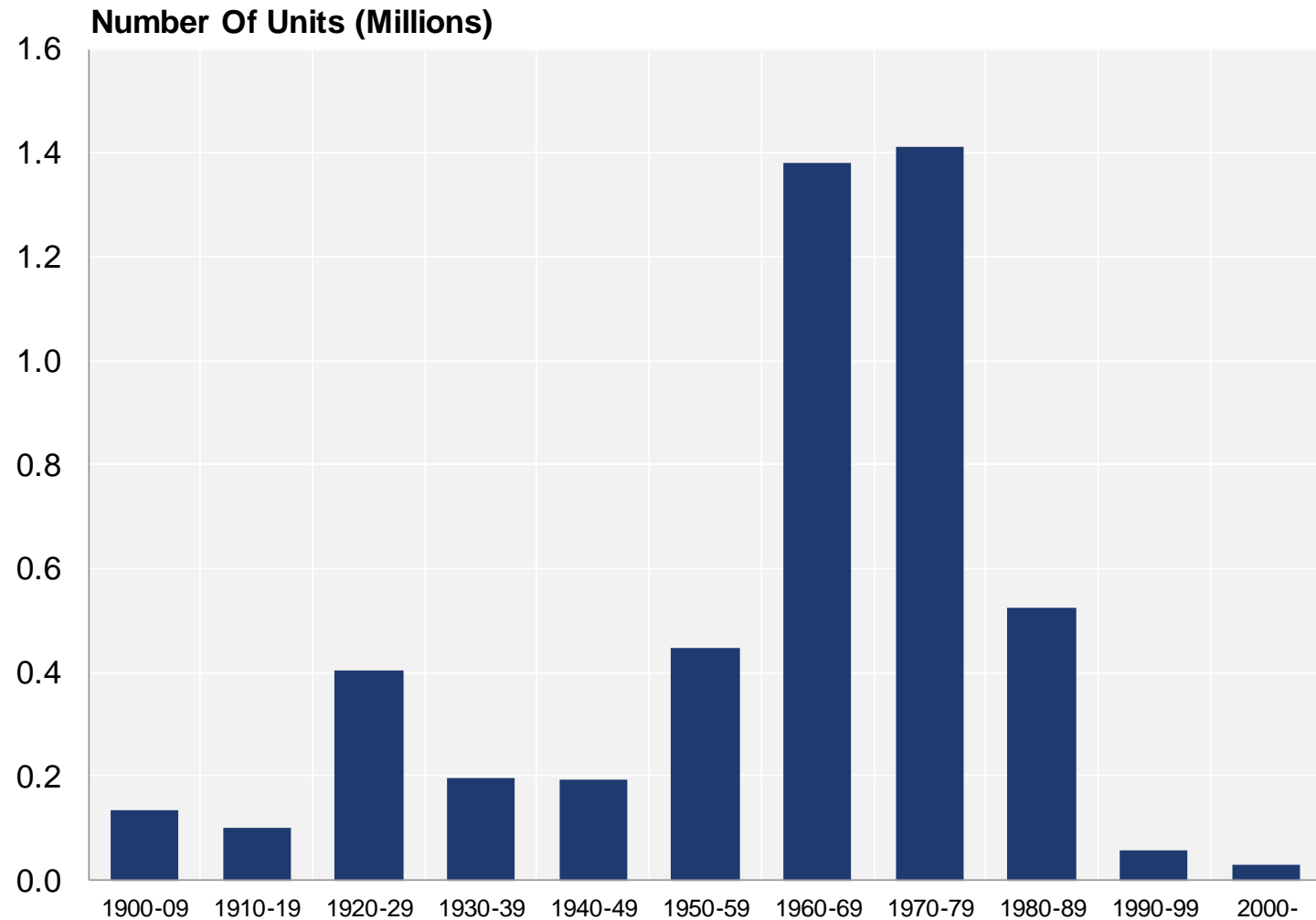


Source: CoStar Group

As of August 2016

# Most Units Built More Than 35 Years Ago

## 1 & 2 Units By Building Age



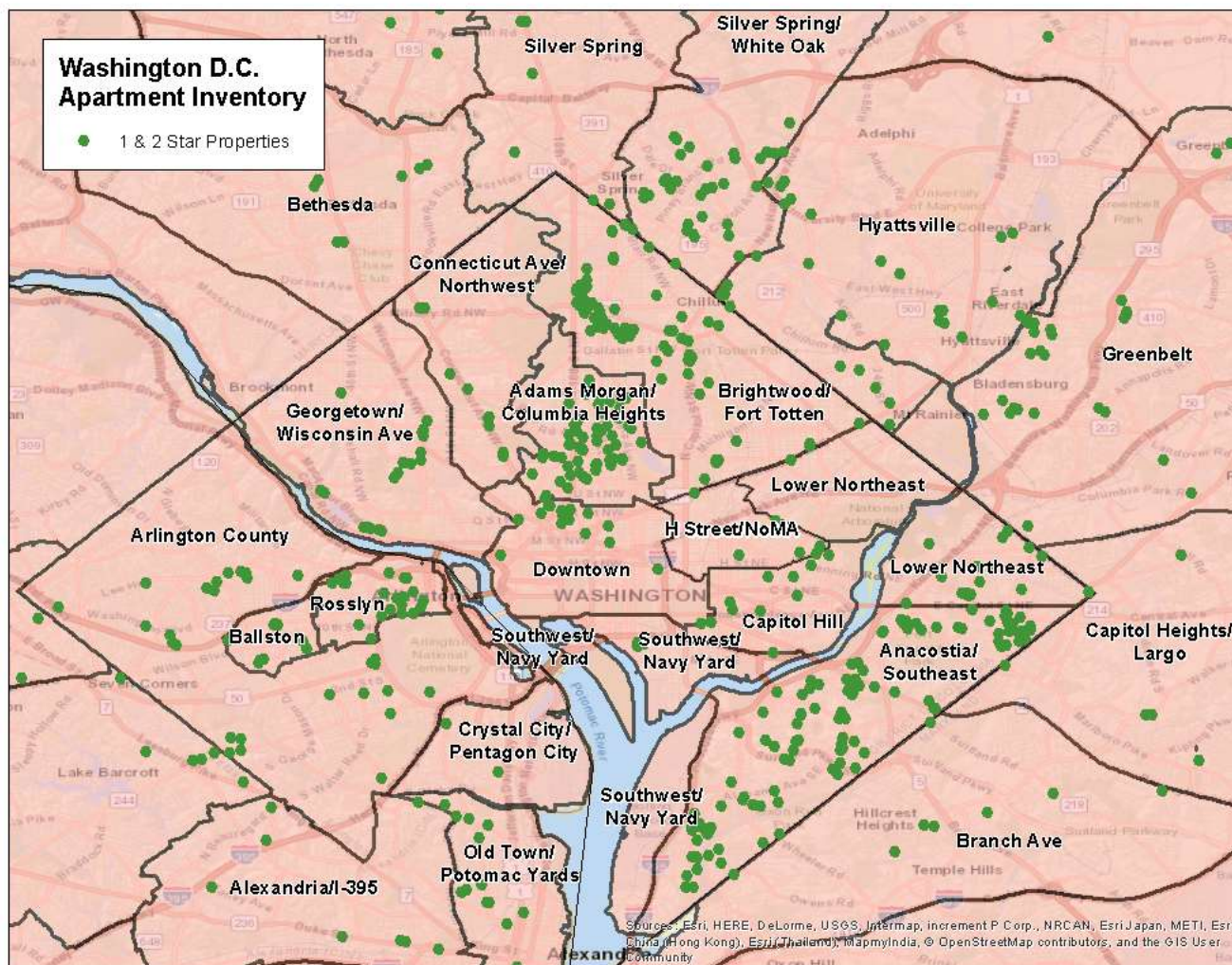
Source: CoStar Group

As of August 2016

# 1 & 2 Star Properties Spread Out Around The D.C. Area



## Washington, DC 1 & 2 Star Inventory

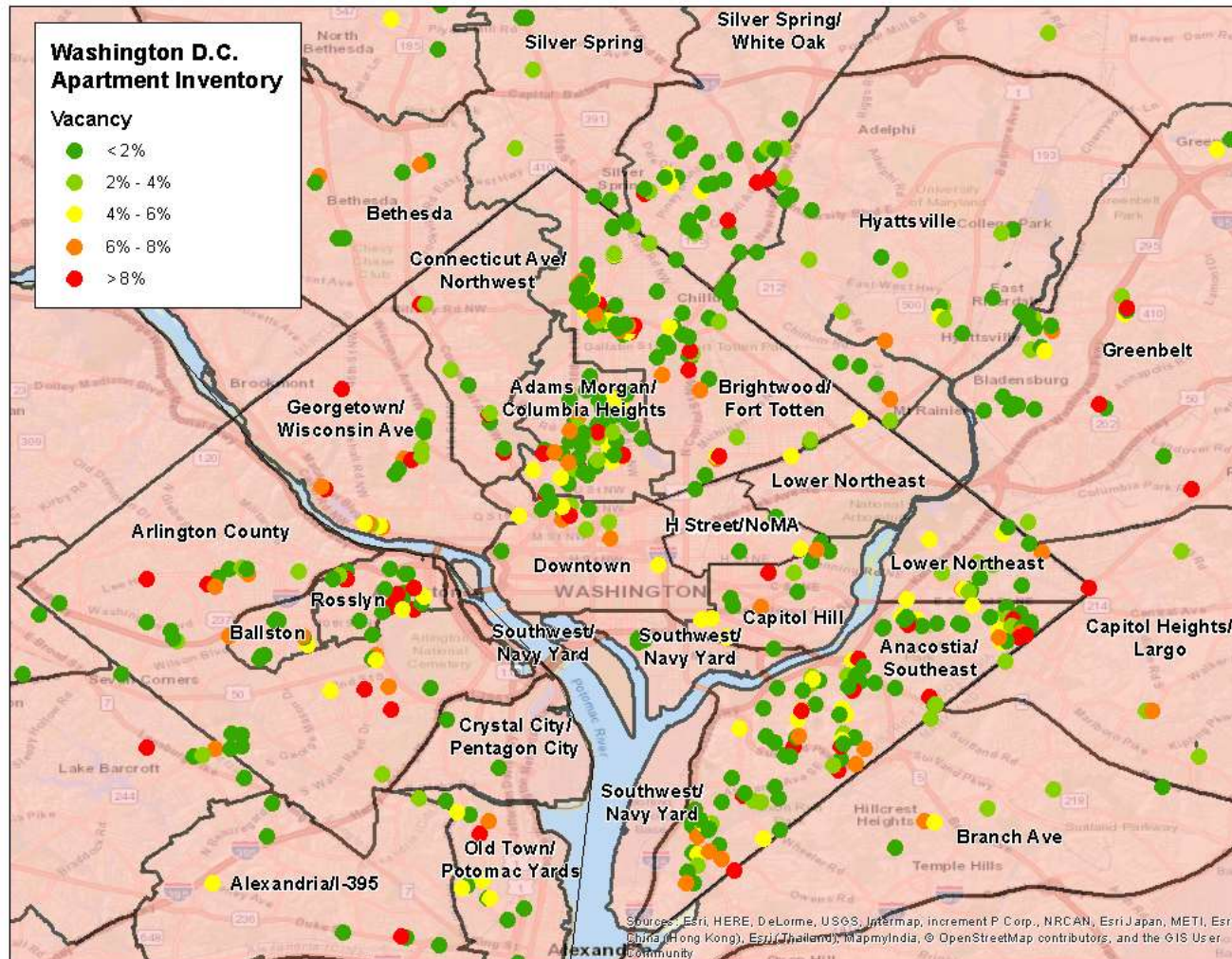


Sources: ESRI; CoStar Portfolio Strategy

As of 16Q2

# High Vacancy Properties Are Few And Far Between

## Washington, DC 1 & 2 Star Vacancy Rates



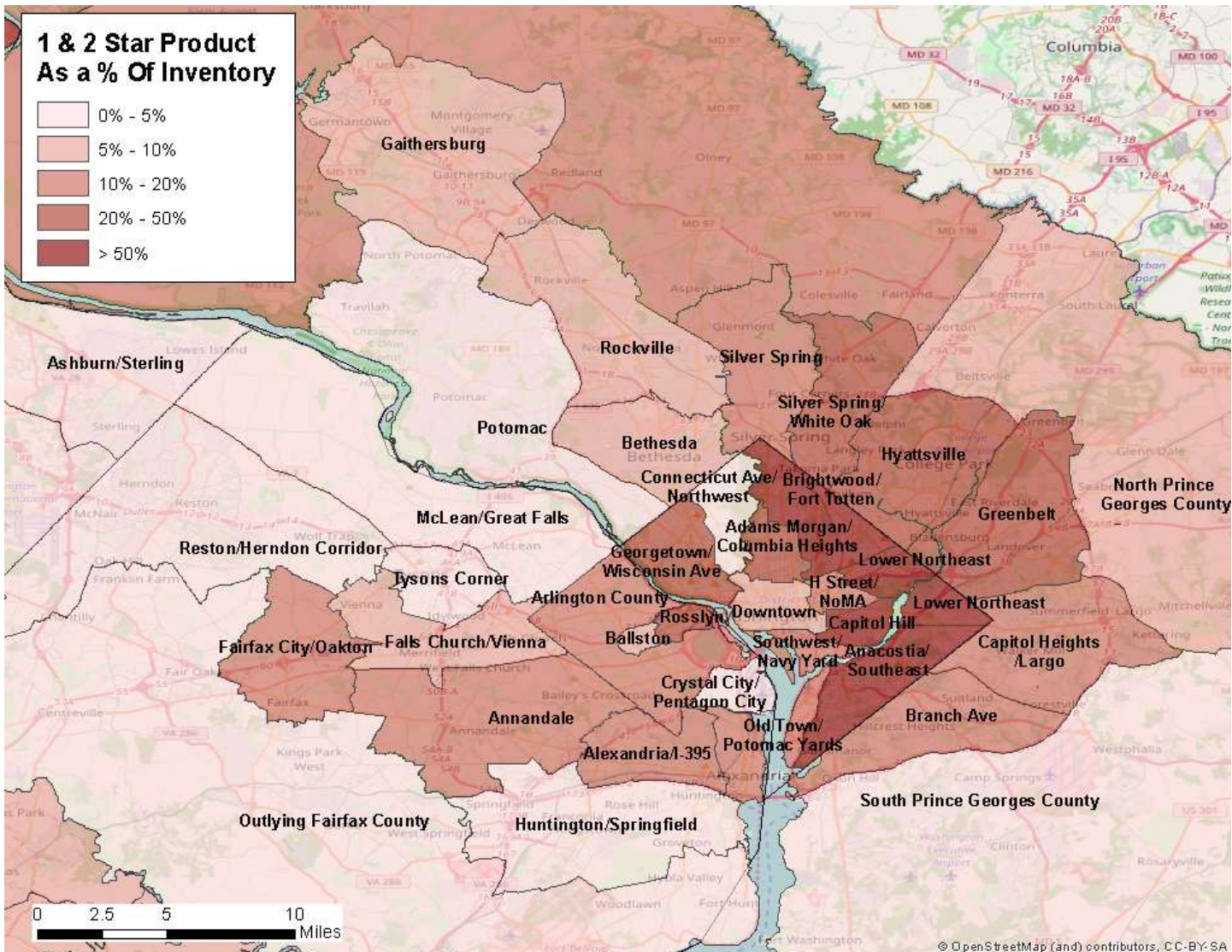
Sources: ESRI; CoStar Portfolio Strategy

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# 1 & 2 Star Large Part Of Inventory In Close-In Submarkets



## 1 & 2 Star Construction As A Percent Of Inventory



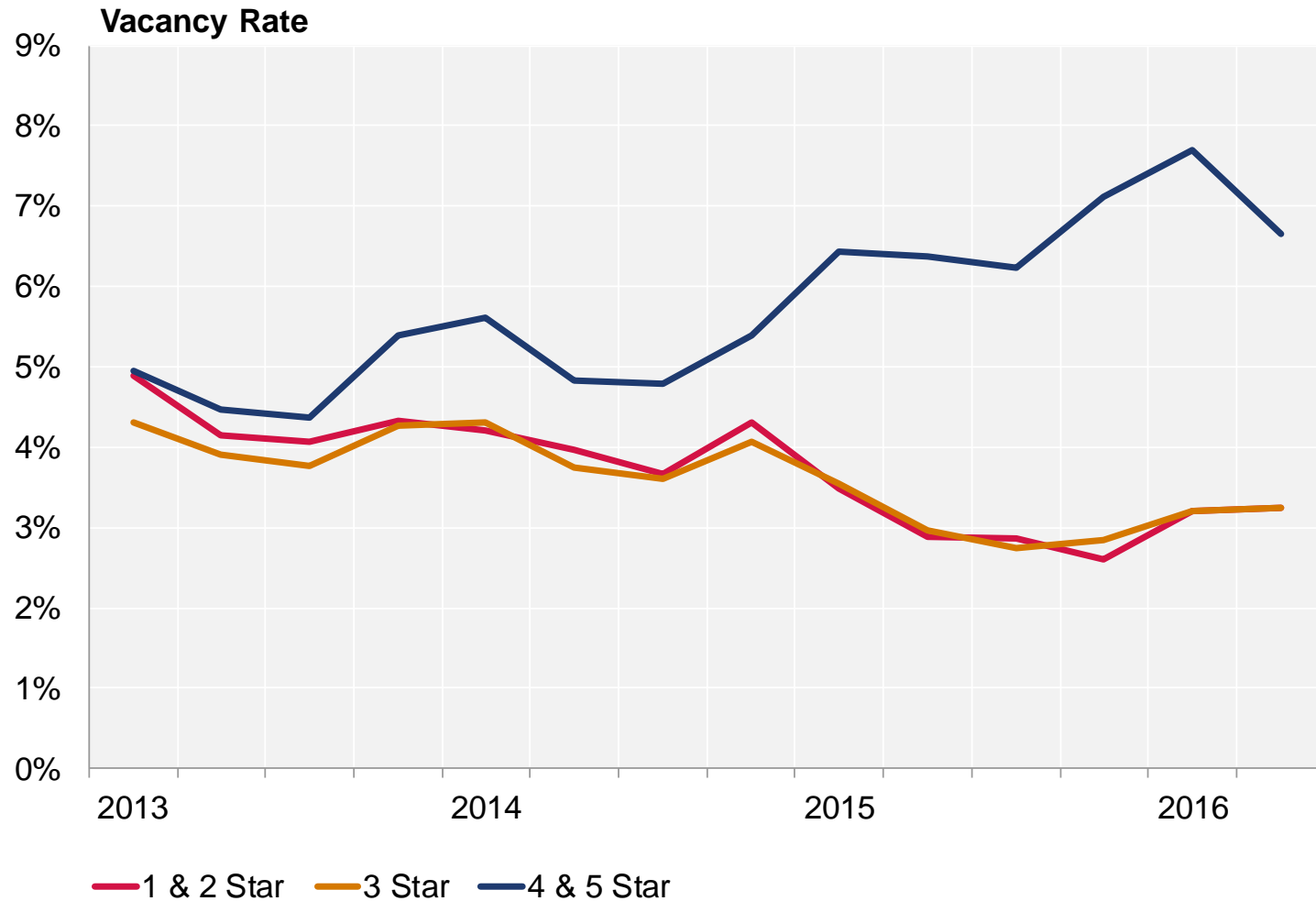
Sources: ESRI; CoStar Portfolio Strategy

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# Vacancies Show The Effect Of Construction



## Average Vacancy By Star Rating



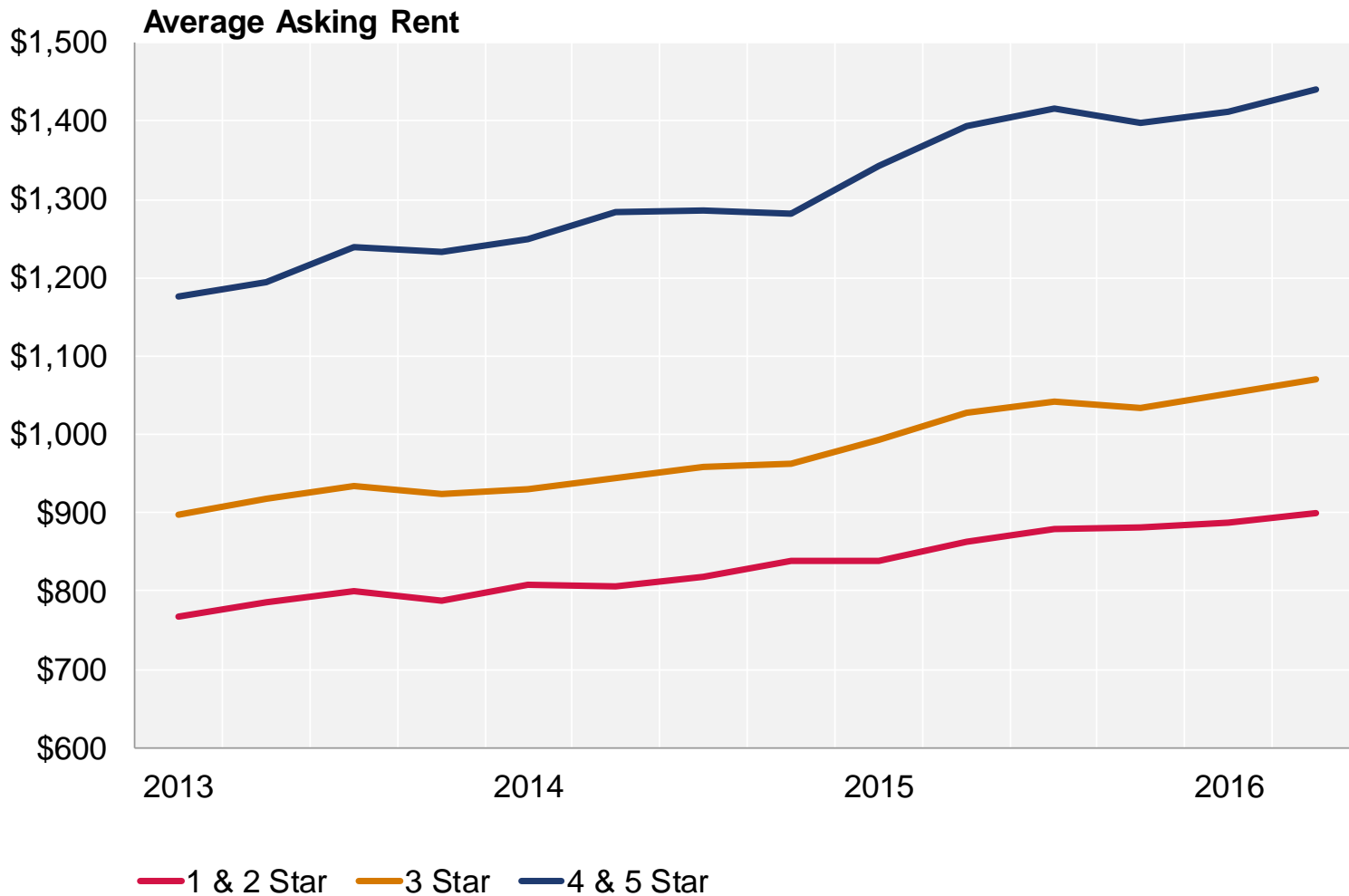
Source: CoStar Group

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# Rent Spread Has Widened Slightly



## Average Asking Rent By Star Rating



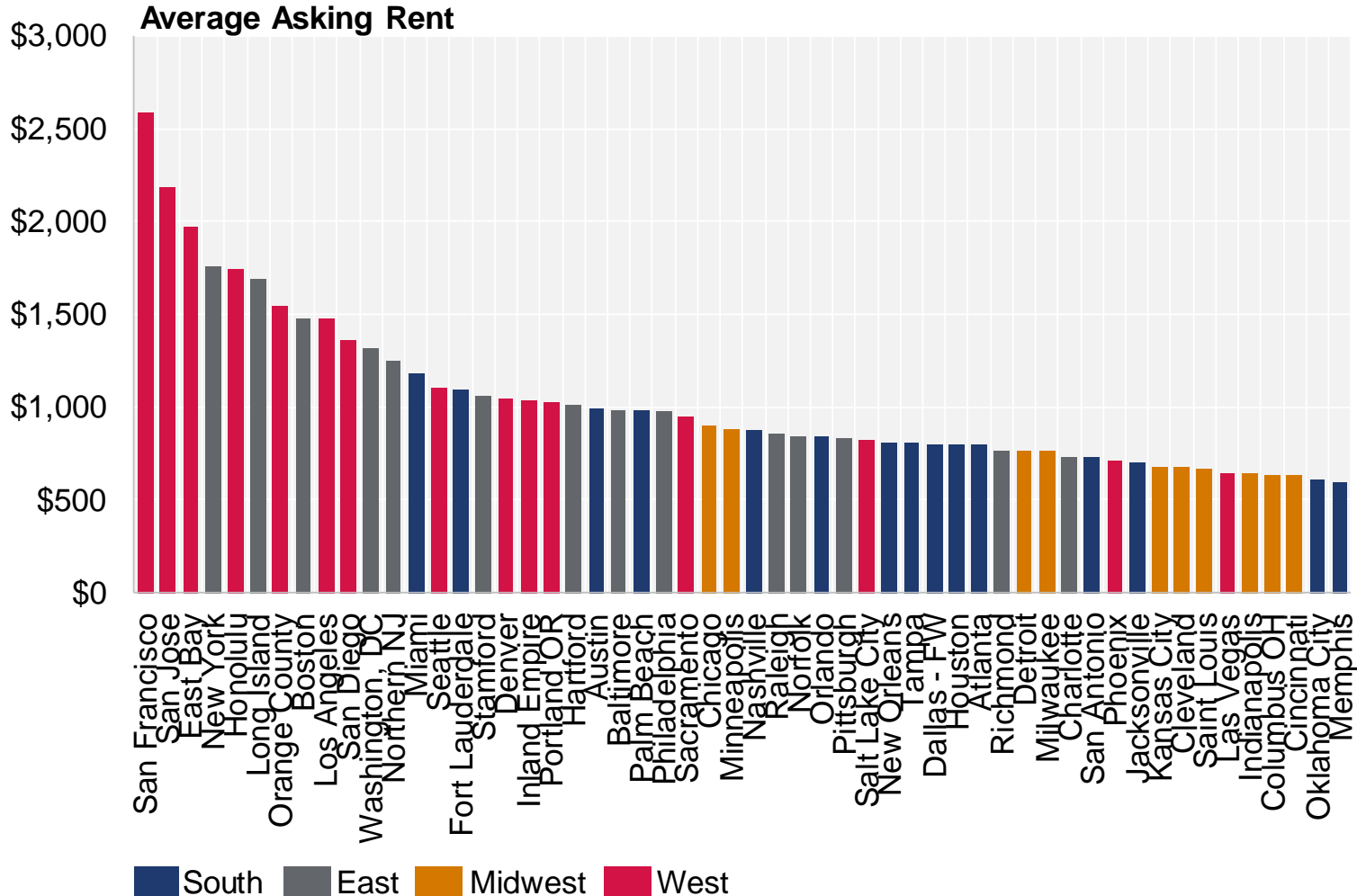
Source: CoStar Group

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# Core Coastal Metros Are The Priciest



## 1 & 2 Star Average Asking Rent By Metro



Source: CoStar Group

As of 16Q2



**1 & 2 Star Rent  
As A % Of Market Rent**

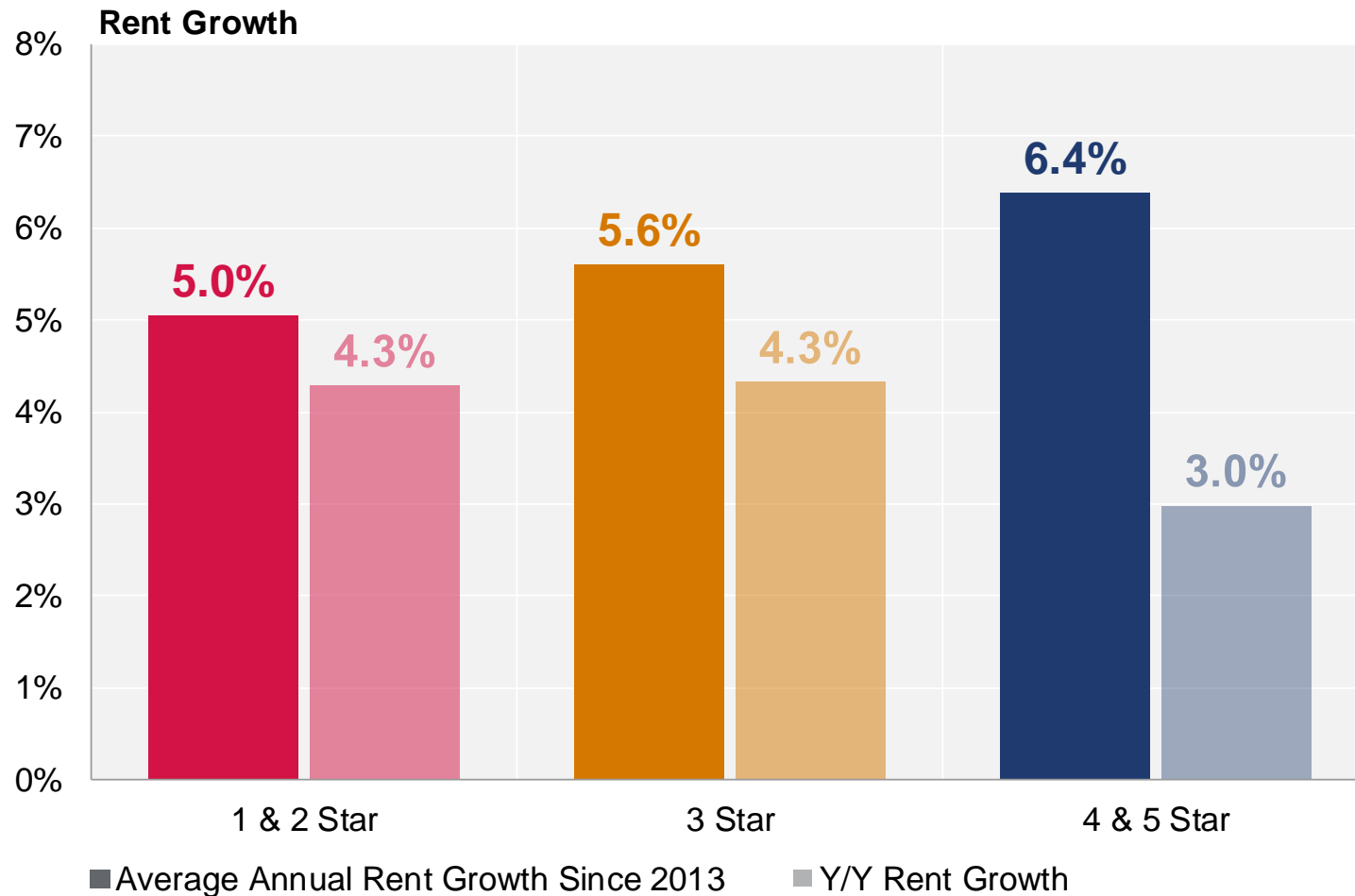
- < 75%
- 75% - 77.5%
- 77.5% - 80%
- 80% - 82.5%
- > 82.5%

As of 16Q2

# Strong Long-Term Rent Growth In 1 & 2 Star Segment



## Average Rent Growth By Star Rating

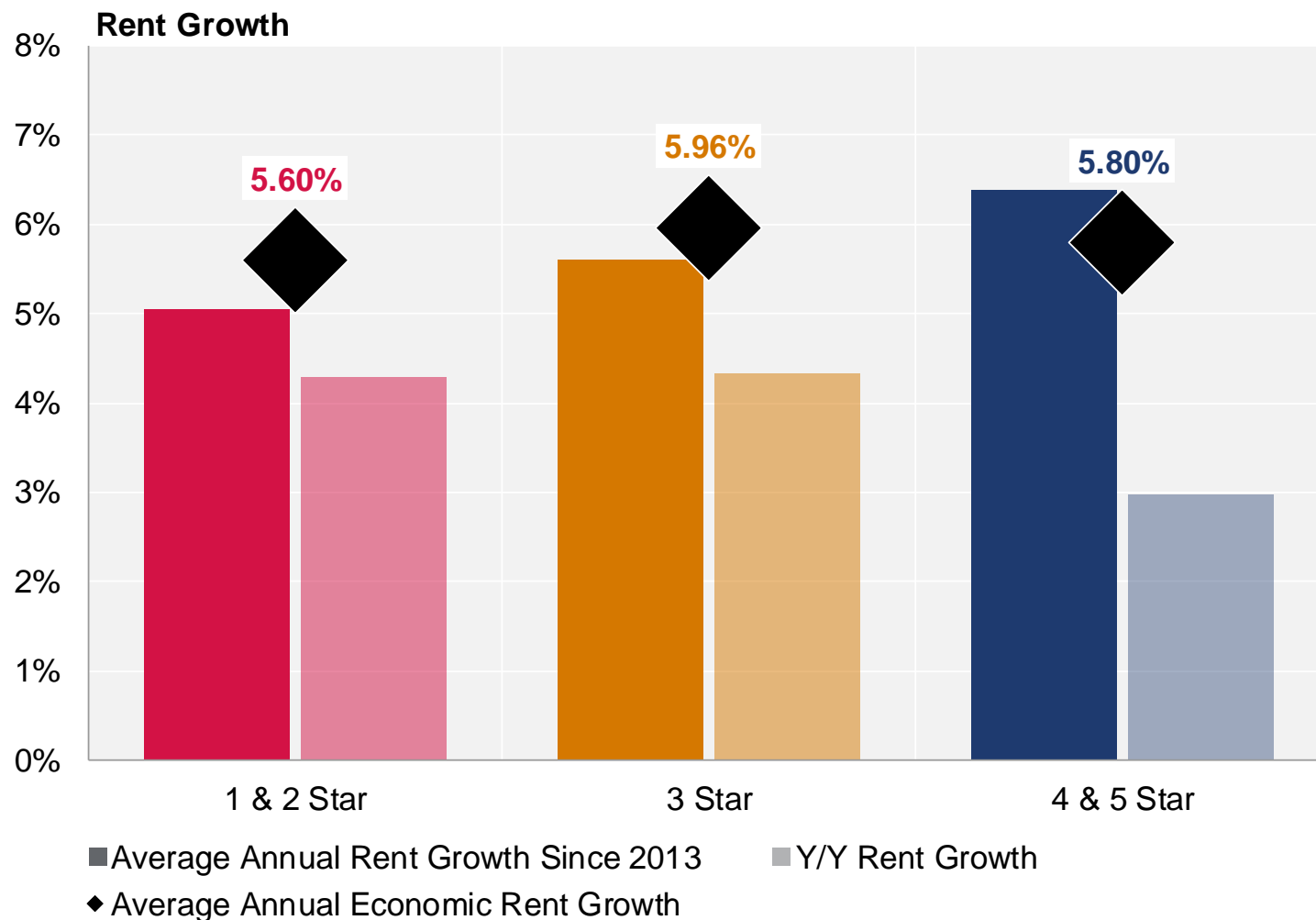


Source: CoStar Group

As of 16Q2

# Lower Vacancies Levels The Playing Field

## Average Rent Growth By Star Rating

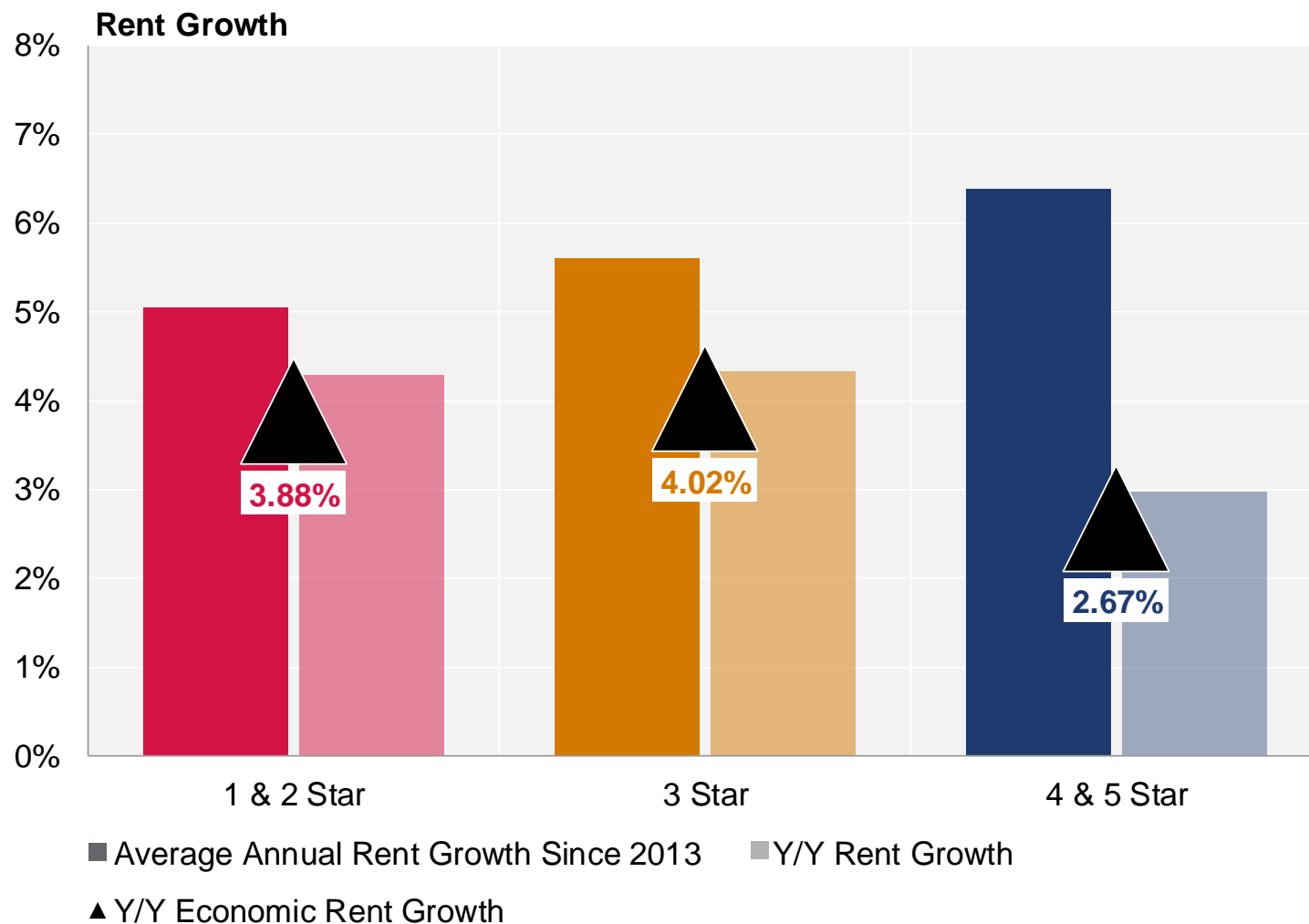


Source: CoStar Group

As of 16Q2

# Lower Vacancies Levels The Playing Field

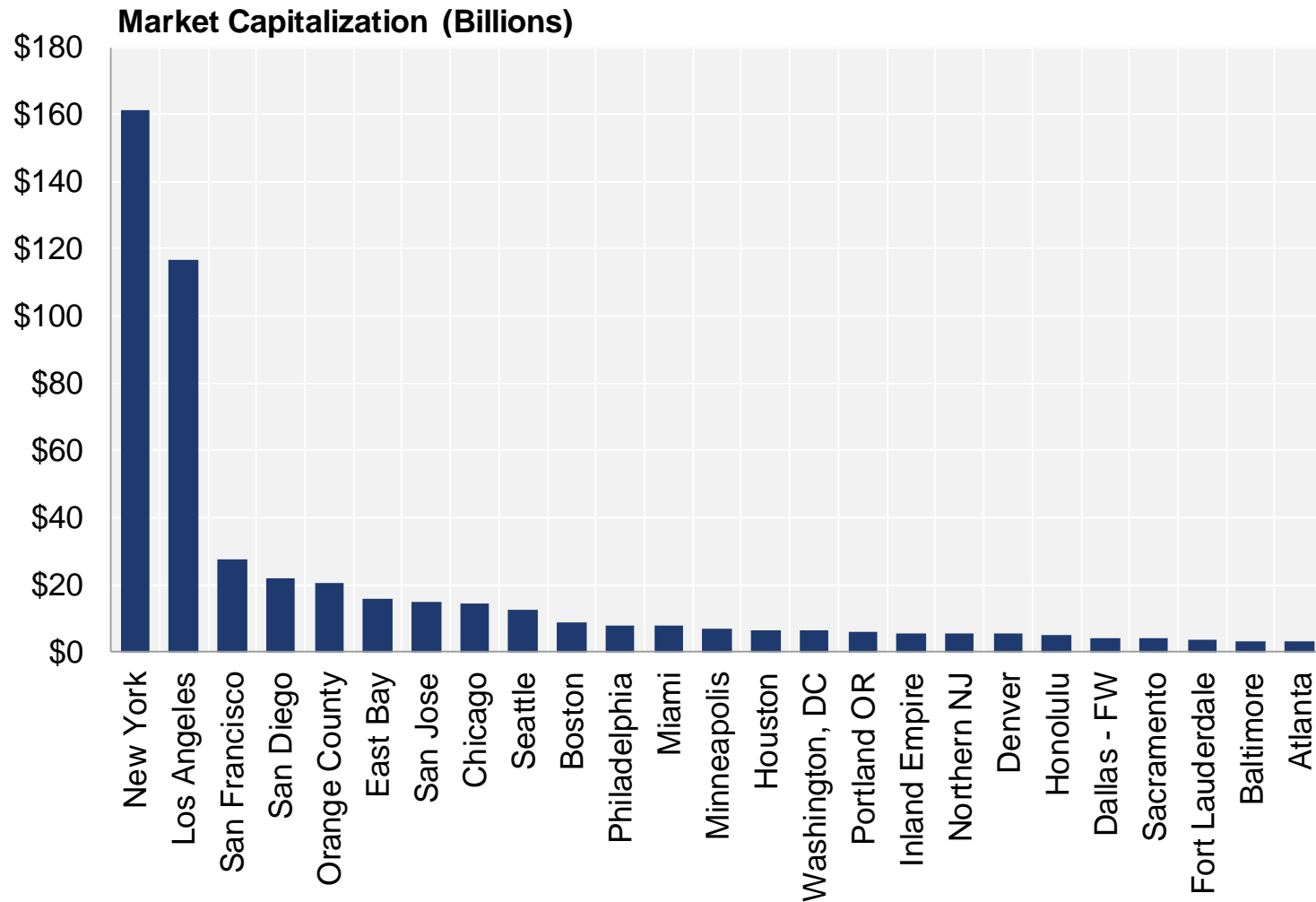
## Average Rent Growth By Star Rating



Source: CoStar Group

As of 16Q2

# Market Capitalization Of 1 & 2 Star Inventory



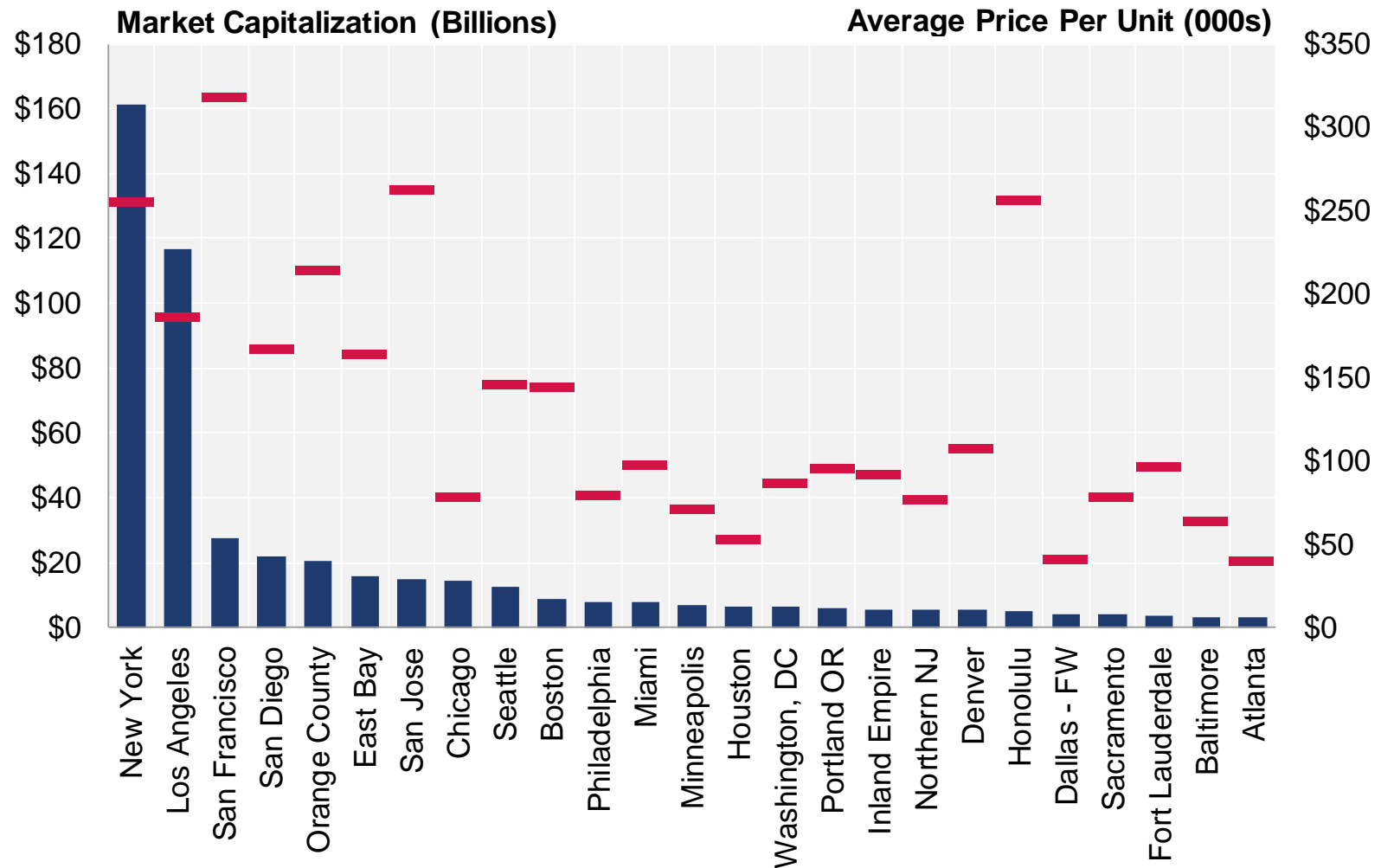
Source: CoStar Portfolio Strategy

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# Pricing Plays A Role In Values



## Market Capitalization Of 1 & 2 Star Inventory

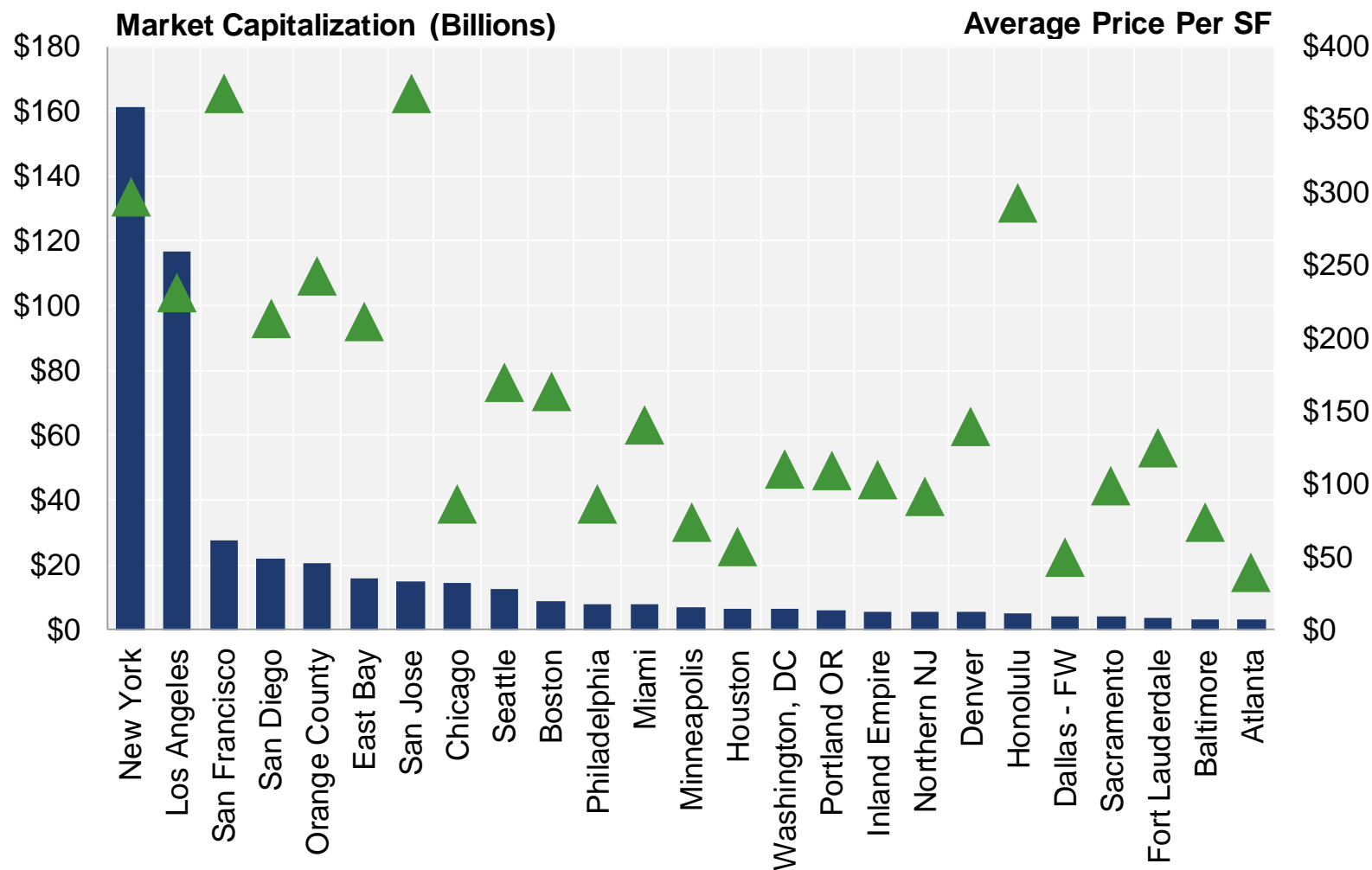


Source: CoStar Portfolio Strategy

As of 16Q2

# Pricing Plays A Role In Values

## Market Capitalization Of 1 & 2 Star Inventory



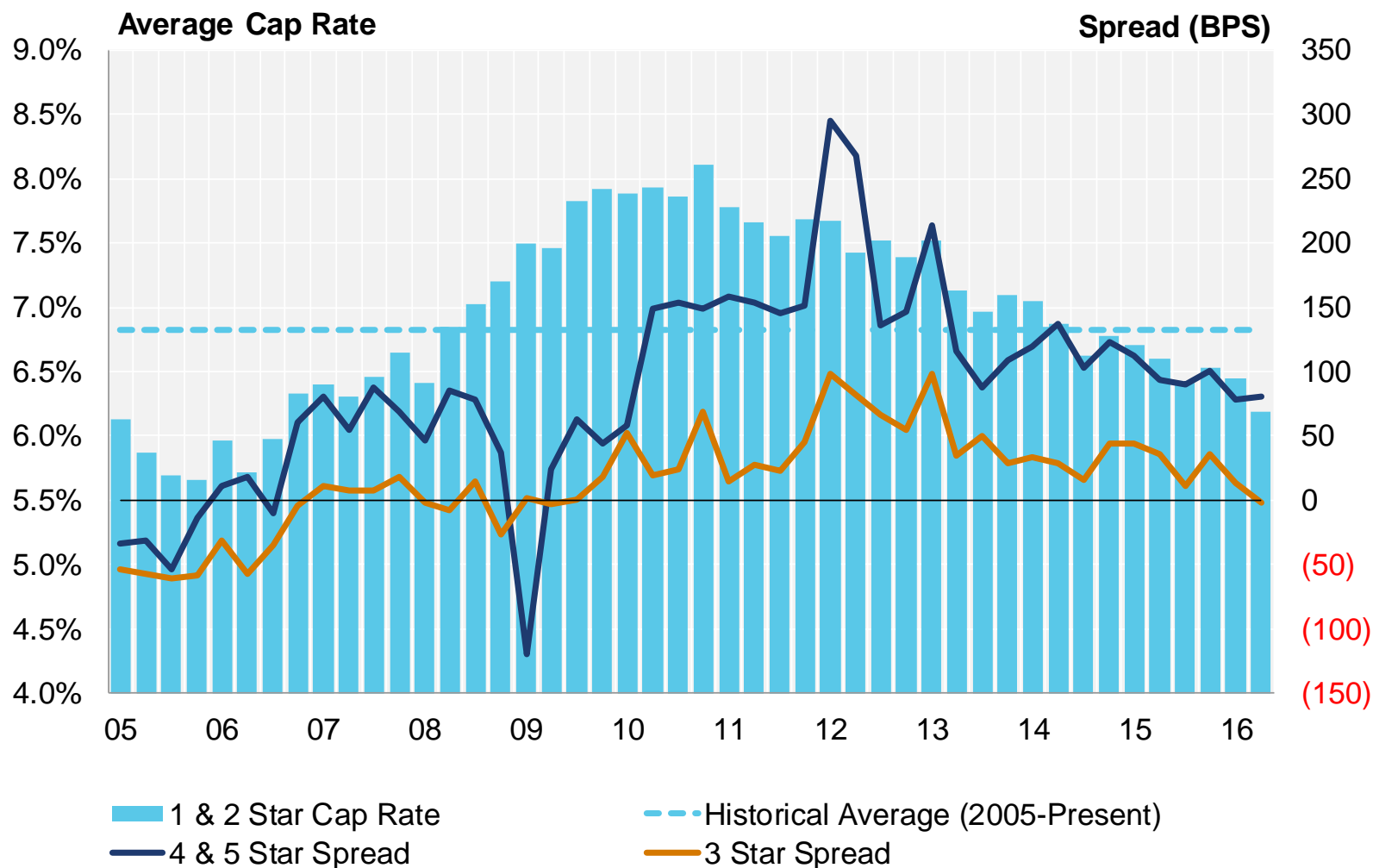
Source: CoStar Portfolio Strategy

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# Cap Rate Spreads Are Narrowing



## Cap Rates By Star Rating



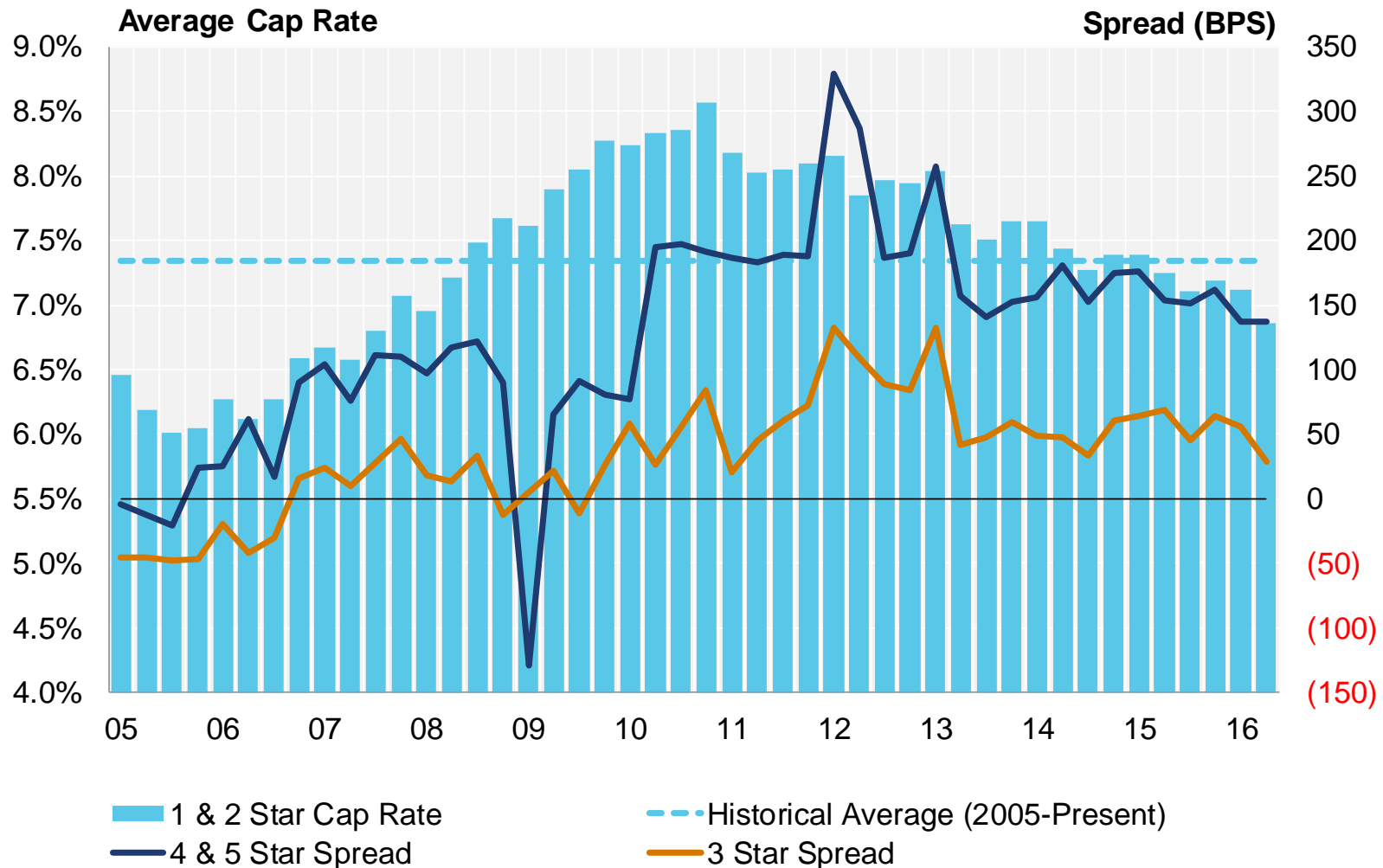
Source: CoStar Group

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# More Attractive Spreads Outside Of New York And L.A.



## Cap Rates By Star Rating Excluding New York And Los Angeles



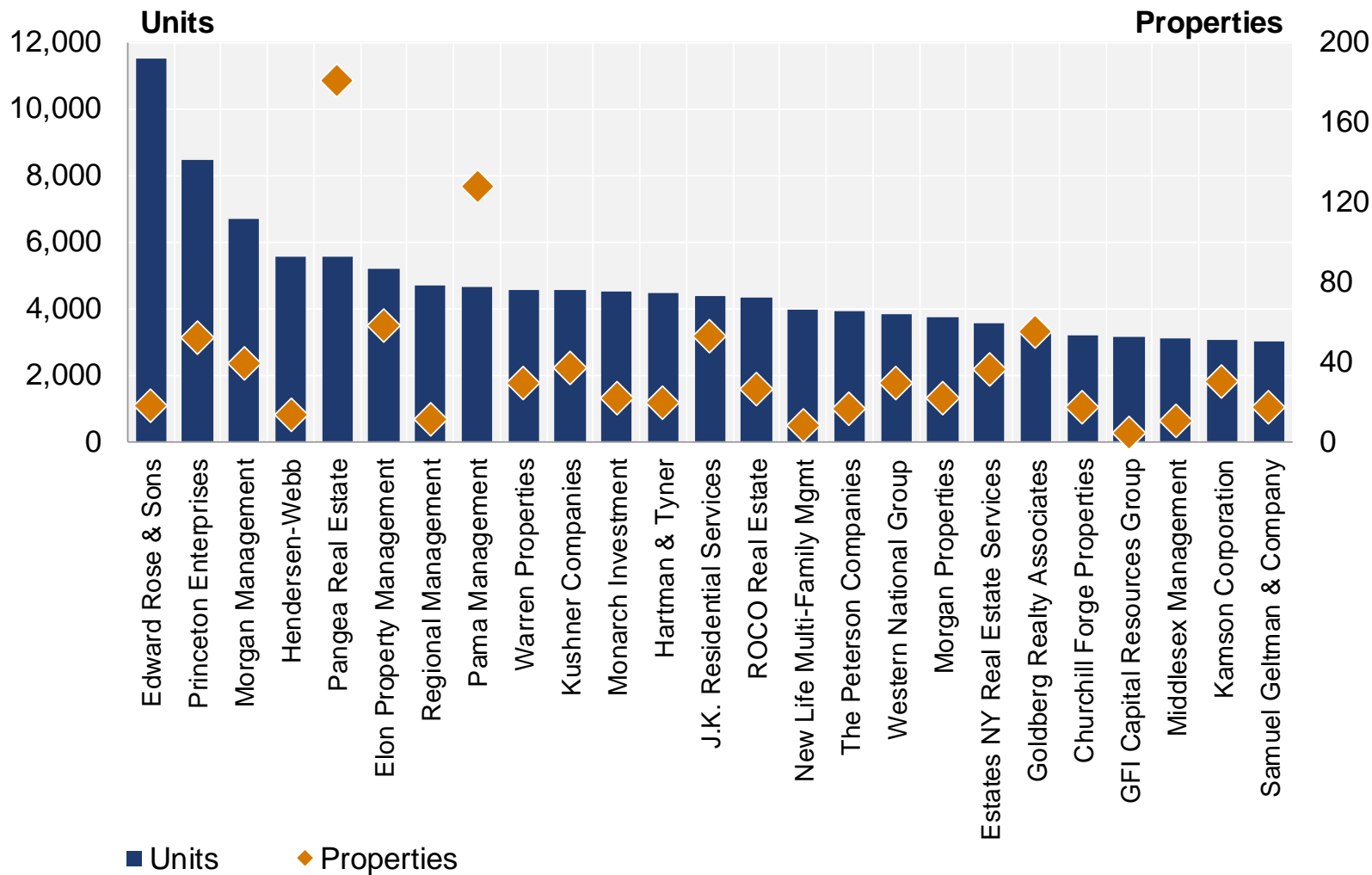
Source: CoStar Group

As of 16Q2

# Ownership Concentrated In Regional And Local Players



## Top Owners Of 1 & 2 Star Properties



Source: CoStar Group

As of 16Q2






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# Appendix



## MULTI-FAMILY

Rating	Definition		
	A 5-Star building represents the luxury end of multi-family buildings defined by finishes, amenities, the overall interior/exterior design and the highest level of specifications for its style (garden, low-rise, mid-rise, or high-rise).		
	Architectural Aesthetic / Design	Exterior Materials / Façade	High-quality durable materials – natural stone, glass, well detailed and constructed metal panel, wood veneer, or terracotta cladding; accentuating lighting.
		Fenestration / Glazing / Views	Large windows, abundant natural day lighting, generally available exterior views, high efficient glazing specification.
		Overall Aesthetics	Representing current trends and standards in design and/or of a timeless, perhaps a historic quality. Aesthetically exceptional arrangement of forms, massing and materials. Possibly designed by a notable or signature architect.
	Structure / Systems	High ceilings; modern energy-efficient HVAC, digitally controlled systems, high-speed elevators, likely new or newly renovated.	
	Amenities	Unit Amenities / Design	Numerous high quality finishes such as hardwood floors, granite countertops, stainless steel appliances, bay window(s), crown molding, a balcony/patio and in-unit washer/dryers. Also typically has an open floor plan and high/vaulted ceilings.
		Site Amenities	Plentiful on-site shared facilities and spaces including a clubhouse/party room, fitness center, business center, pool, concierge, etc.
Site / Landscaping	Continually maintained landscaping where applicable; exterior gathering spaces, roof terrace or courtyard.		
Certifications	Possibly a certified / labelled green and energy efficient building.		
	4-Star buildings are constructed with higher end finishes and specifications, providing desirable amenities to residents and designed/built to competitive and contemporary standards.		
	Architectural Aesthetic / Design	Exterior Materials / Façade	Durable materials, well detailed and constructed metal panel, wood veneer or terracotta cladding; possibly exhibiting minor signs of weathering and wear.
		Fenestration / Glazing / Views	Large windows, great natural day lighting and views.
		Overall Aesthetics	Representing recent trends and standards in design and/or of a timeless, perhaps an historic quality.
	Structure / Systems	Likely to have some 5 Star qualities, possibly with older systems.	
	Amenities	Unit Amenities / Design	Includes some high quality finishes such as hardwood floors, granite countertops, stainless steel appliances, bay window(s), crown moulding, a balcony/patio and in-unit washer/dryers. Also may have an open floor plan and high/vaulted ceilings.
		Site Amenities	Several on-site shared facilities and spaces such as a Clubhouse/Party Room, Fitness Center, Business Center, Pool, Concierge, etc.
Site / Landscaping	Well maintained landscaping where applicable; likely to have exterior gathering spaces, roof terrace or courtyard.		
Certifications	Possibly a certified / labelled green and energy efficient building.		
	Architectural Aesthetic / Design	Exterior Materials / Façade	Brick, stucco, EIFS, precast concrete, vinyl or fiber cement siding, possibly higher quality (4 Star) materials with signs of age.
		Fenestration / Glazing / Views	Punched windows, fair mix of glazed and opaque surfaces that provides adequate natural light.
		Overall Aesthetics	Average with respect to background buildings, contextually appropriate.
	Structure / Systems	Likely smaller and older with less energy-efficient systems.	
	Amenities	Unit Amenities / Design	Average quality finishes, layout conducive to compact lifestyle but not necessarily an open floor plan
		Site Amenities	A few on-site shared facilities and spaces such as a Clubhouse/Party Room, Fitness Center, Business Center, Pool, Laundry Facilities, etc.
	Site / Landscaping	Modest landscaping and likely small or no exterior spaces.	
Certifications	Possibly a certified / labelled green and energy efficient building.		
	Architectural Aesthetic / Design	Exterior Materials / Façade	Brick, stucco, EIFS, precast concrete, siding with noticeable aging.
		Fenestration / Glazing / Views	Small, seemingly inadequate windows.
		Overall Aesthetics	Average, functional.
	Structure / Systems	Purely functional.	
	Amenities	Unit Amenities / Design	Below average finishes, inefficient use of space.
		Site Amenities	Likely only one or no on-site shared facilities.
	Site / Landscaping	Minimal or no landscaping, no exterior spaces.	
Certifications	Unlikely a certified / labelled green and energy efficient building.		
	Practically uncompetitive with respect to typical multi-family investors, may require significant renovation, possibly functionally obsolete.		

# Average 1 & 2 Star Asking Rents By Metro



Rank	Metro Name	Average Asking Rent
1	San Francisco	\$ 2,589
2	San Jose	\$ 2,188
3	East Bay	\$ 1,973
4	New York	\$ 1,763
5	Honolulu	\$ 1,742
6	Long Island	\$ 1,696
7	Orange County	\$ 1,551
8	Boston	\$ 1,484
9	Los Angeles	\$ 1,477
10	San Diego	\$ 1,362
11	Washington, DC	\$ 1,321
12	Northern NJ	\$ 1,249
13	Miami	\$ 1,180
14	Seattle	\$ 1,103
15	Fort Lauderdale	\$ 1,094
16	Stamford	\$ 1,060
17	Denver	\$ 1,042
18	Inland Empire	\$ 1,034
19	Portland OR	\$ 1,030
20	Hartford	\$ 1,012
21	Austin	\$ 991
22	Baltimore	\$ 987
23	Palm Beach	\$ 987
24	Philadelphia	\$ 975
25	Sacramento	\$ 950
26	Chicago	\$ 898
27	Minneapolis	\$ 882

Rank	Metro Name	Average Asking Rent
28	Minneapolis	\$ 882
29	Nashville	\$ 875
30	Raleigh	\$ 860
31	Norfolk	\$ 841
32	Orlando	\$ 840
33	Pittsburgh	\$ 835
34	Salt Lake City	\$ 821
35	New Orleans	\$ 806
36	Tampa	\$ 805
37	Dallas - FW	\$ 796
38	Houston	\$ 795
39	Atlanta	\$ 794
40	Richmond	\$ 765
41	Detroit	\$ 761
42	Milwaukee	\$ 761
43	Charlotte	\$ 729
44	San Antonio	\$ 729
45	Phoenix	\$ 713
46	Jacksonville	\$ 702
47	Kansas City	\$ 682
48	Cleveland	\$ 677
49	Saint Louis	\$ 670
50	Las Vegas	\$ 646
51	Indianapolis	\$ 645
52	Columbus OH	\$ 635
53	Cincinnati	\$ 635
54	Oklahoma City	\$ 610

Source: CoStar Group

As of 16Q2

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