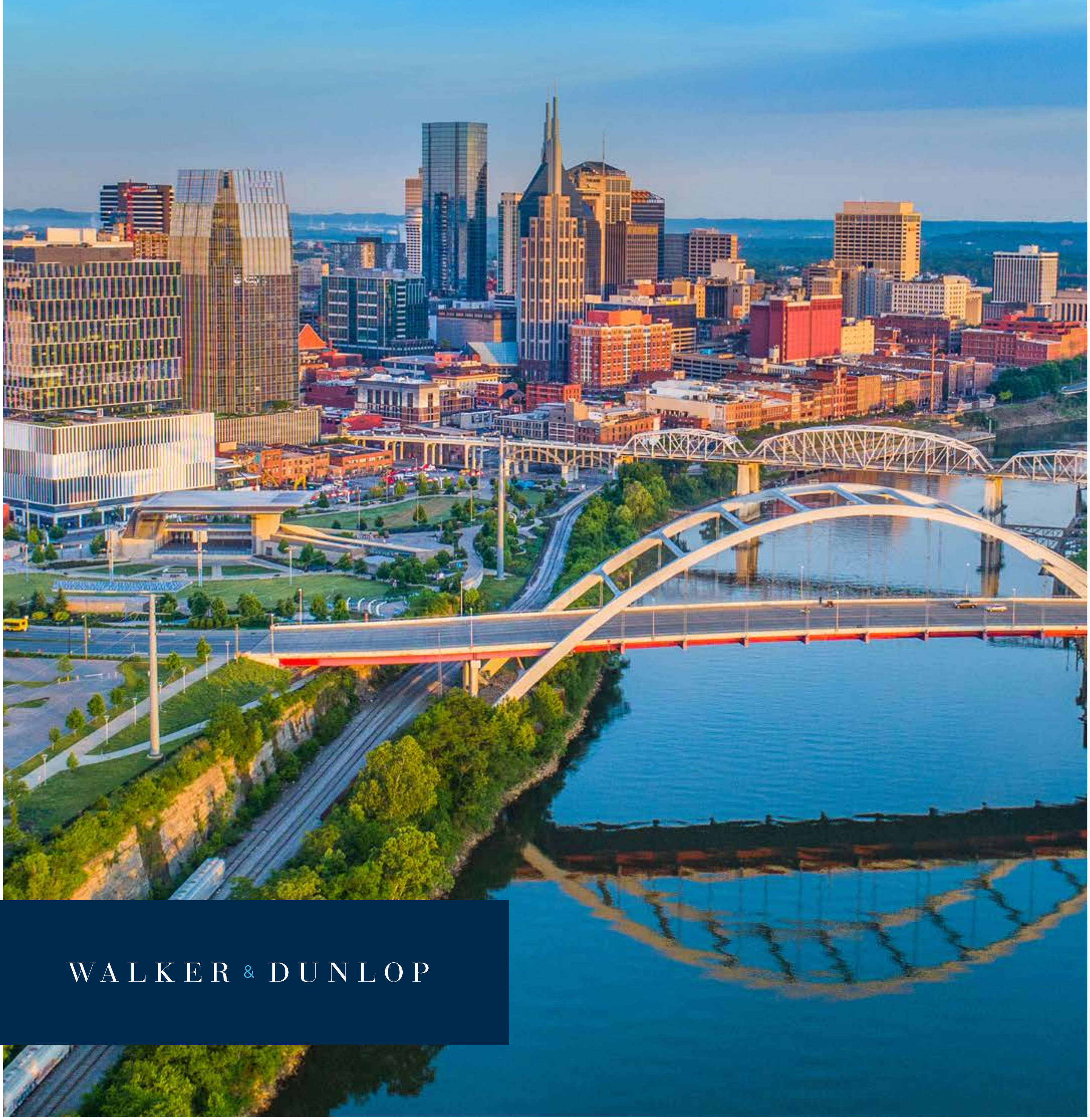
MULTIFAMILY OUTLOOK

QUARTERLY REPORT // ISSUE 13

NASHVILLE SPOTLIGHT



WALKER & DUNLOP

EXECUTIVE SUMMARY

After 2021 ended on a strong note for the U.S. economy, stock market, incomes, and employment, 2022 brought new headlines: Labor market challenges, lingering supply-chain constraints, rising inflationary pressures, the invasion of Ukraine—and we're not even halfway through the year.

What does this all mean for the multifamily sector, and what's ahead, especially after a period of historic growth?

In good news for CRE investors, developers, and operators, the underlying fundamentals remain strong. Economic expectations are in line with a maturing economy. Real GDP growth is expected to remain robust at 3.2 percent in 2022, with unemployment remaining near currently low levels.

In the multifamily space, revenue growth and development metrics are surging higher, and the national multifamily market is expected to remain stable in 2022 as new supply meets demand.

IN THIS ISSUE OF THE MULTIFAMILY OUTLOOK, WE:

- Analyze the state of the U.S. economy, from historical trends to what's ahead
- Take an in-depth look at Build-for-Rent, with guidance for navigating this booming space
- Spotlight the Nashville market, where innovation is turning the Music City into a rising tech titan
- Provide a rental market forecast from Zelman & Associates, the leading housing research firm in the country
- Host a Q&A with Zelman & Associates Managing Director Peter Carroll about the Cristo Rey Corporate Work Study Program

ECONOMIC OUTLOOK

INFLATION AND A NEW ERA OF MONETARY TIGHTENING

Amid 40-year high inflation rates, home prices that have surged by over 40 percent in the past three years, and double-digit price increases in basic necessities such as food, gas, and electricity, the U.S. seems to be reeling from yet another surprise. Inflation has become the question of the day with little relief even after monetary tightening began earlier in the year. After a quarter point increase in the Federal Reserve target rate in March, the Fed implemented a whopping 50 basis point increase in the target Federal Funds rate in May after April inflation remained at 8.2 percent, near the March high of 8.6 percent.[1]

The employment base, the Fed's other prime objective, seems to remain strong. Unemployment at 3.6 percent in April, remains low and employment growth of 428,000 in April beat economist expectations. The Fed's job now is to beat inflation and prevent it from becoming embedded in consumer expectations. Why? Because once inflation becomes embedded in expectations, it changes consumer behavior and becomes somewhat of a self-fulfilling prophecy, making it more difficult to tame without throwing the economy into a recession. In fact, it may be too late for that already. The New York Fed Survey of Consumer Expectations indicates that consumers expect inflation to remain near 6 percent over the next year and just under 4 percent over three years – well above the Fed's goal of near 2 percent inflation. Additionally, the latest estimate of GDP growth for the first quarter (–1.5%) indicates that economic growth may have already turned negative, led by declines in private inventory investment, exports, and government spending.

While it is easy to suggest in hindsight that the Fed was late to the game to tame inflation, economist expectations just six months ago were that inflationary pressures were all short-term: accommodative monetary and fiscal policy stimulus, supply chain shocks related to the pandemic, and a surge in demand for goods. Unfortunately, inflation has turned out to be stickier, further supported by geopolitical instability and significant increases in the money supply.

Whether or not the economy can withstand rapid monetary policy tightening at the same time the fiscal policy punchbowl has been withdrawn remains to be seen. An already tight labor market could limit continued corporate expansion, particularly as the labor force participation rate of prime working-age individuals remains below its pre-pandemic level. Consumers may be in better shape today than they were heading into the global financial crisis (GFC) of 15 years ago, given significantly less balance sheet debt. However, consumers have used up their excess savings from pandemic-era stimuli, and personal disposable income growth per capita has turned negative which could impact expenditures going forward, the largest component of gross domestic product. A series of swift interest rate hikes that derail the housing and equity markets (which are already down by 16.7 percent ytd (S&P 500) as of mid May) would only accelerate the degree to which households rein in their spending, increasing the chance of driving the economy further into recession.

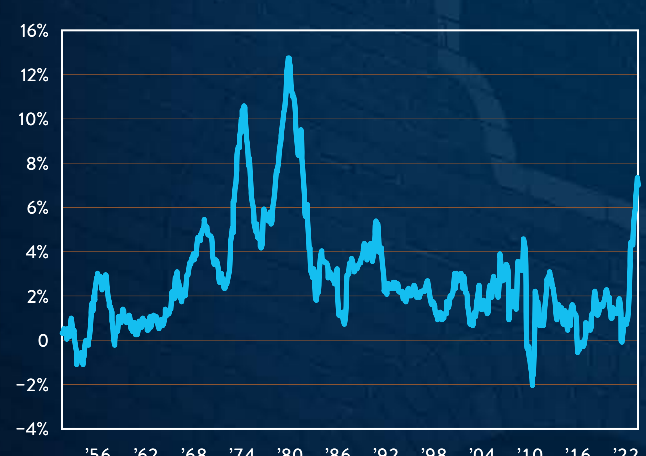
Policy guidance is for monetary tightening, both in terms of increases in the federal funds target rate as well as shrinking the Federal Reserve balance sheet, with 50 point hikes possible at the next couple of Federal Reserve meetings in June and July. As of May, estimates are for Federal Funds at around 2.0 percent to 2.25 percent by year-end, up from a 1.0 percent target currently. The perception that the Fed will now have to act more aggressively than in prior cycles has led to a rapid rise in Treasury rates, which rose from around 0.5 percent in August 2021 to over 3.0 percent in early May, as well as a steady climb in real rates (though the latter still remain in negative territory). However, notably, the yield on the ten-year treasury declined to around 2.8 percent by mid May after the Fed Funds target rate was raised on May 5.

Economists surveyed by the Philadelphia Federal Reserve Bank remained optimistic as of May, forecasting Q2 GDP growth at 2.3 percent, albeit down from a forecast of 4.2 percent in the previous survey, with GDP growth for the full year of 2022 forecast at 2.5 percent.

HOUSING MARKETS: BUBBLE TERRITORY?

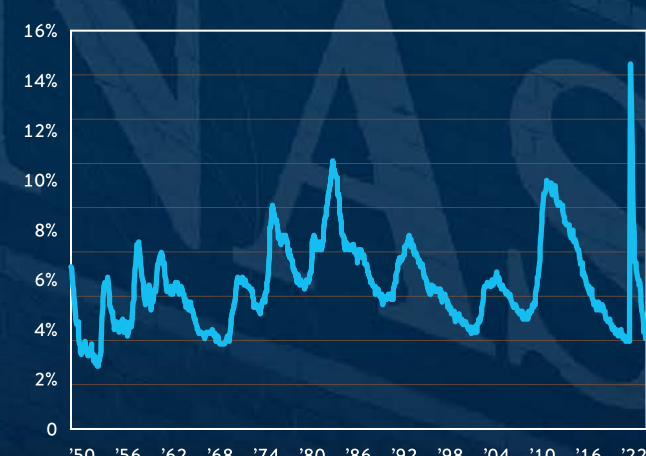
Mixed signals on consumer confidence, still-rising construction costs, and an increase in 30-year mortgage rates to above 5 percent from 2.8 percent in early August 2021 has many worried about possible frothiness in the housing market; the Dallas Fed noted in a recent research piece that there were signs of a "brewing housing bubble."[2] This would stand in contrast to the strength of the residential market in 2021, where the desire for more space alongside reduced concerns over commuting distances led to double-digit gains in single-family home prices. Similarly, apartment rents are above pre-pandemic levels in many places and vacancy rates stand at record lows. As a result, multifamily investment sales reached an all-time record in 2021 with almost $290 billion in transactions—more than double the total from 2020. Investment activity was most robust in Atlanta, Houston, Dallas-Fort Worth, and Phoenix in Q1 2022, with interest firmly having shifted away from coastal markets in favor of the Sunbelt region. Cap rates for the sector are at record lows, and per unit pricing has risen 11 percent over the past four quarters to $239,000.

INFLATION OVER THE YEARS



Source: AUS BLS, FRED

UNEMPLOYMENT RATES REMAIN HISTORICALLY LOW



Source: Federal Reserve Bank of St. Louis, Bureau of Labor Statistics

PERSONAL SAVINGS RATES PLUMMET POST-PANDEMIC

Source: BEA, FRED

Part of the rebound in the multifamily market reflected a return by many renters who had vacated their urban apartments during the height of the pandemic, but vacancy levels were also flattened by the lack of new multifamily completions. However, Zelman & Associates reports that new completions are likely to be higher in 2022 than in 2021, modeling a 13 percent increase in starts this year. This sets the stage for more multifamily completions over the next three years than any comparable period dating back to 1988, with an above-average concentration in the suburbs.

However, just as supply is likely to increase, concerns over the pace of household formation have come to the fore, which could weigh on net absorption. Similarly, whether due to higher mortgage rates or home-buying that was brought forward due to Covid-19, existing and new home sales are forecast to slow down. According to Fannie Mae's housing market forecast (April 2022), total home sales are expected to decline by 7.4 percent in 2022 and a further 9.7 percent in 2023.

Longer term, according to the U.S. Census Bureau, U.S. population growth increased just 0.12 percent year-over-year as of July 2021, the weakest annual rate ever for the country, reflecting elevated deaths through the pandemic and weak immigration trends. Zelman & Associates notes that annual population growth, which averaged 0.71 percent per year over the last decade, is forecast to increase by 0.39 percent growth per year for the 2020-30 decade.

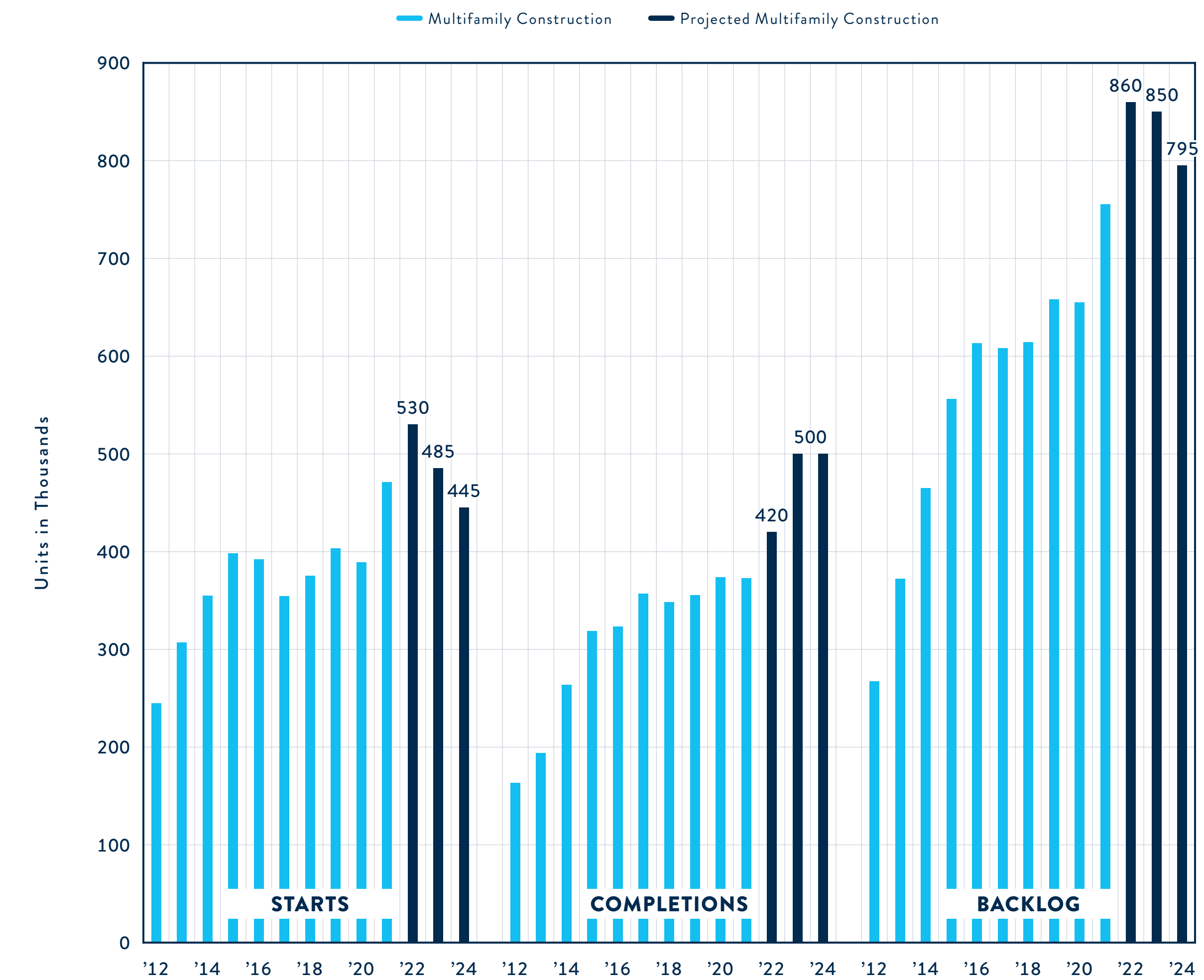
While the multifamily market will face numerous headwinds in the year ahead, with U.S. average vacancy rates at 5.5 percent and effective rents up by 14.3 percent in the first quarter of 2022, the market has room for adjustment to much more 'normalized' levels of growth. With housing supply limited by the lingering effect of eviction moratoriums, delays in new construction cycle times and institutional investors absorbing an increasing share of single-family home purchases, multifamily fundamentals have outperformed Zelman's recent forecasts, leading them to increase 2022 economic revenue growth to 7.8 percent from 5.8 percent.[3] Despite inflation, rising rates, and war in Europe, the multifamily industry maintains many of the same strong fundamentals as it did at the end of 2021 and remains the top-performing commercial real estate asset class.

[1]Numbers reference the more broadly quoted CPI-U inflation index, although the Fed follows more closely the Core PCE inflation index which has followed similar trends but is up by 5.2 percent year-over-year as of March 2022.

[2]"Real-Time Market Monitoring Finds Signs of Brewing U.S. Housing Bubble," Dallas Fed, March 29, 2022. https://www.dallasfed.org/research/economics/2022/0329.

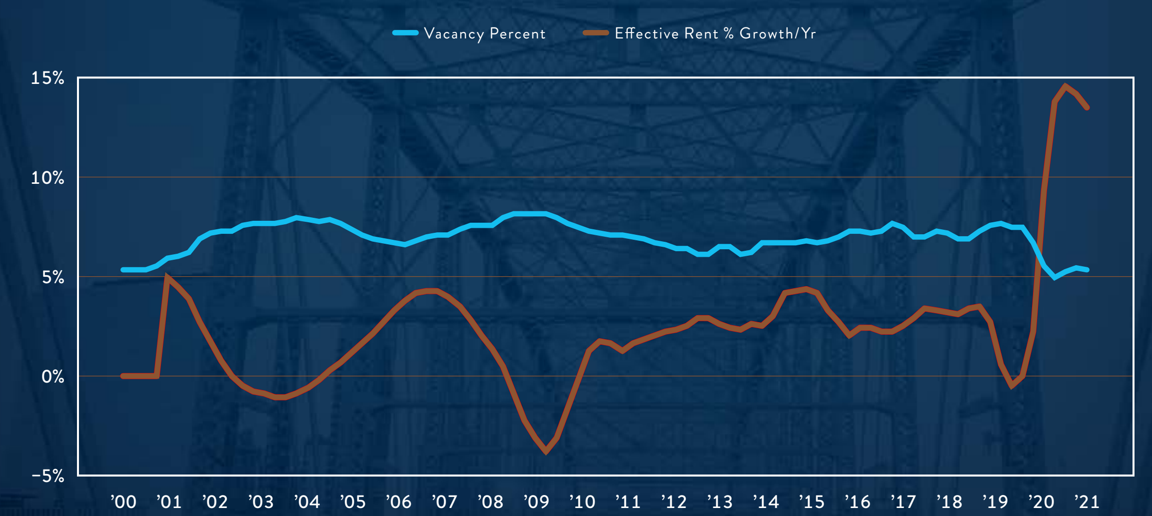
[3]Source: Macro Rental Markets Forecasts March 29, 2022, Zelman & Associates

MULTIFAMILY DEVELOPMENT ACCELERATING ON ALL METRICS



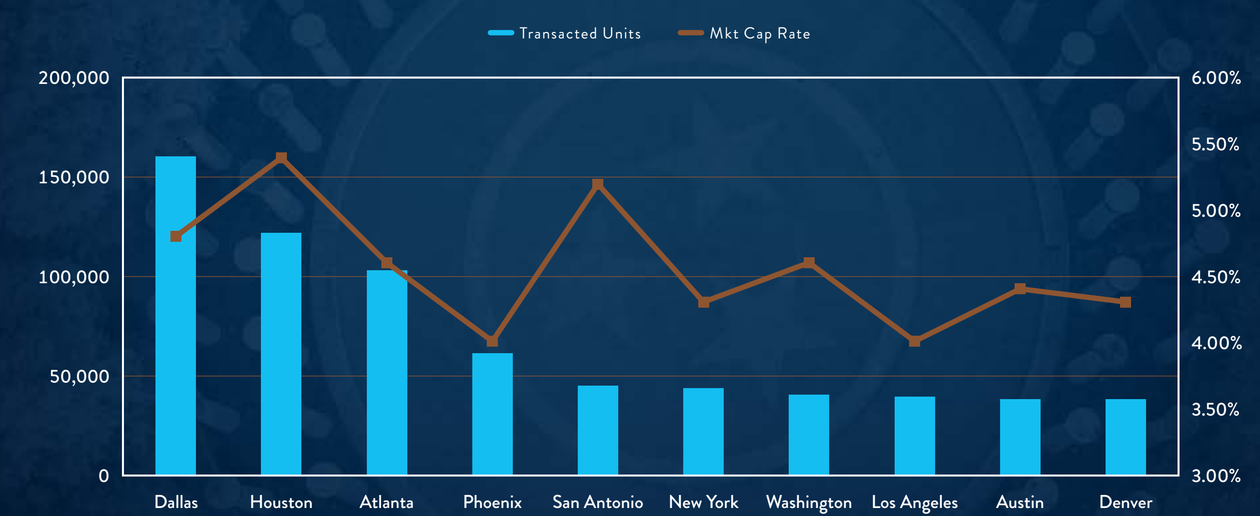
Source: Census Bureau, Zelman & Associates analysis

MULTIFAMILY RENT GROWTH AND VACANCY RATE



Source: CoStar

MF INVESTMENT SALES (NUMBER OF UNITS) AND MARKET CAP RATE, 12M THROUGH MARCH 2022



Source: CoStar

MACRO RENTAL MARKET FORECASTS

Published March 29, 2022

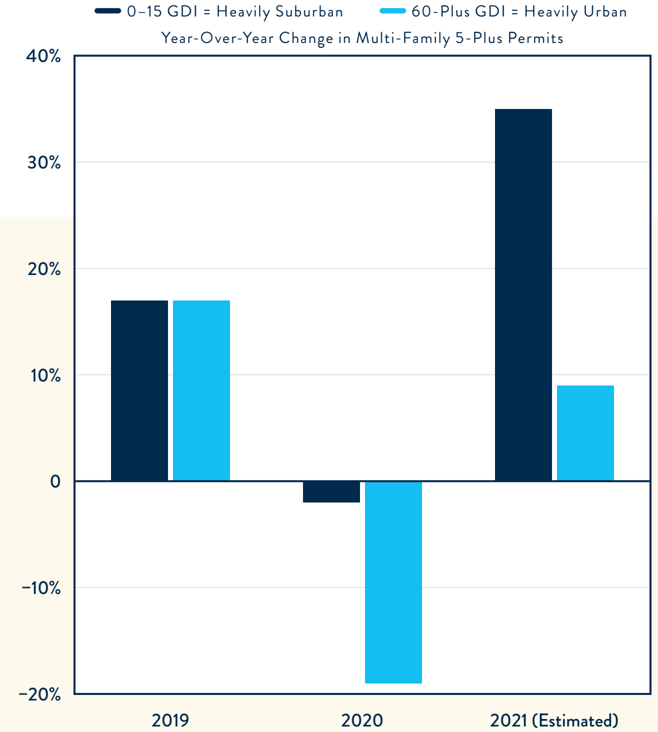
Last year, economic revenue growth for single-family rentals and apartments both approximated 7 percent and we forecast similar 7-8 percent increases again in 2022, amounting to historically-strong growth over the two-year period. We believe that this will translate to 2022 housing Consumer Price Index (CPI) increasing at the fastest pace in over 35 years, contributing to the upward bias of interest rates. Robust growth of late has naturally encouraged development, leaving combined single-family and multifamily backlog entering the year at the highest level since 1972, up 21 percent year over year. We expect a double-digit increase in total housing completions in 2022 and 2023, which when combined with the absence of various government support programs, normalizing evictions, greater economic uncertainty, and a deteriorating demographic outlook leaves us more cautious in our 2023-24 forecasts, modeling minimal growth for both single-family and multifamily rental revenue.

- **Housing CPI on Track for Largest Increase Since 1986** With inflation at the heart of the economic outlook and monetary policy, and housing responsible for a significant share of CPI, we are introducing formal multi-year projections for housing CPI into our macro forecasts. We anticipate continued acceleration in housing CPI to culminate at a 5.7 percent peak rate in 3Q22, before moderating thereafter. Nevertheless, relief for the consumer will not be noticed for some time, as we expect 2022 housing inflation (5.2 percent) to be the most substantial since 1986.
- **Multifamily Revenue Growth to Set Record High** Historically-high and better-than-expected rent growth witnessed during 2H21 has carried into 1Q22 thus far. While we expect rent growth moderation throughout 2022 against more difficult comparisons, rising supply and softer demand fundamentals, average economic revenue growth is still expected to be robust for the year at 7.8 percent given the starting point, up from our prior estimate of 5.8 percent, though we anticipate minimal growth in 2023 and 2024.

ANOTHER ROBUST YEAR BEFORE CONCERNS RISE TO SURFACE

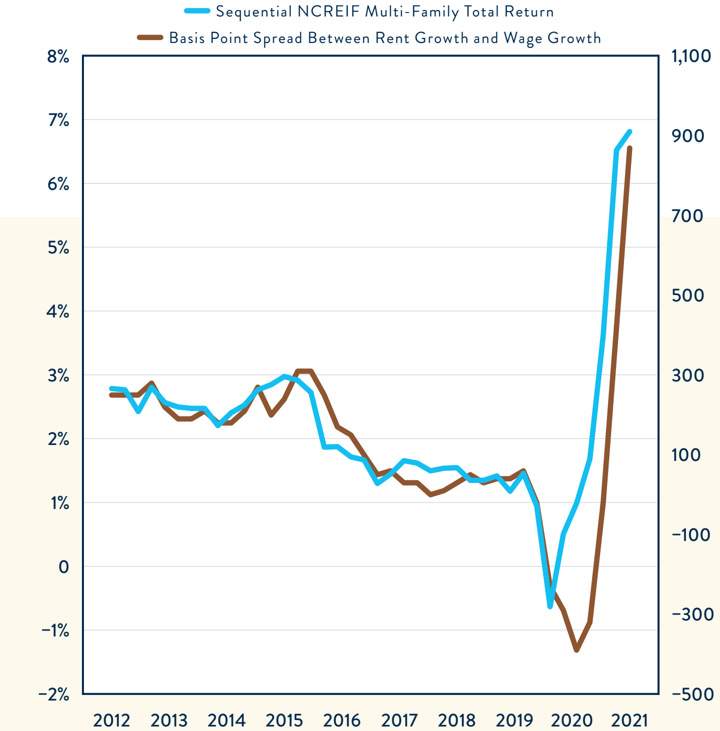
- **Supply to Govern Single-Family Growth After 2022** Single-family economic revenue growth finished 2021 at 8.1 percent and we forecast another 7.0 percent increase for 2022, bringing the 2020-22 annual average to 6.5 percent due to the well-documented shift in demand during the pandemic to suburban locations in search of space, largely at the expense of multifamily, while supply has been slow to adjust. However, we believe the cyclical pull-forward of demand is moderating and the next several years will face significantly more supply, leading us to model revenue growth near 1 percent in both 2023 and 2024.
- **Built-for-Rent Supply Minor, but Growing Rapidly** New construction of single-family purpose-built rentals is a minor share of overall single-family supply, but it is ramping extremely quickly, with more than $50 billion raised for the asset class in 2021 alone. At this point, the capital surge has had limited effect on completed supply, but we expect that to gradually accelerate through 2022 before a more material impact next year.

SURGE IN SUPPLY RISK HIGHEST IN SUBURBS



Source: Census Bureau, Zelman & Associates analysis

ROBUST RENT GROWTH HAS BEEN A KEY INGREDIENT TO MULTIFAMILY RETURNS



Source: BLS, NCREIF, Zelman & Associates analysis

ALL MULTIFAMILY DEVELOPMENT METRICS SURGING HIGHER

After a lull in 2020, all multifamily development metrics surged higher in 2021, including a 21 percent increase in starts that left backlog at the highest level since 1973, despite materially less-favorable demographics compared to that point. Despite that contrary view, we see little evidence that incremental development will slow in the near term, modeling a 13 percent increase in starts this year, setting the stage for more multifamily completions over the next three years than any comparable period dating back to 1988, with an above-average concentration in the suburbs.

MULTIFAMILY RETURNS IN RARE AIR

In 2021, multifamily total returns surpassed the average yield of the 10-year Treasury by 1,820 basis points, the most significant outperformance since 1979. We are again raising our 2022 forecast (8.4 percent) but maintain a more conservative expectation thereafter given our view that the pandemic did little to positively alter the medium-term outlook for multifamily housing demand. We also find no correlation between inflation and multifamily returns, questioning the validity of the sector serving as an attractive hedge if excessive inflation persists.

Q&A
The CRISTO REY CORPORATE WORK STUDY PROGRAM

The Cristo Rey Network® is the only network of high schools in the United States that integrates four years of rigorous college preparatory academics with four years of professional work experience through its Corporate Work Study Program. Its mission: to equip students from families of limited economic means with the knowledge, character, and skills to achieve their aspirations.

One of Cristo Rey's 38 network schools is Saint Martin de Porres High School in Cleveland, Ohio. Walker & Dunlop has had an office in Cleveland since acquiring MSF in 2020 and has been involved in the Saint Martin's Corporate Work Study Program for the past year.

Brandon being mentored by Danny Chambers of Zelman & Associates

ZELMAN & ASSOCIATES MANAGING DIRECTOR PETE CARROLL AND SAINT MARTIN SENIOR BRANDON DONEGAN TALK ABOUT THEIR EXPERIENCES.

PETE CARROLL

Q ***How did you get involved with Cristo Rey?***

A I first heard about Cristo Rey when I met a couple of graduates of the program and learned how it put them on a path to college and helped them become part of the business community. I thought, "Wow, this is a school that really gets results and changes peoples' lives. I want to be part of that."

Q ***How does the program work?***

A Students at Saint Martin spend one full day each week working in a corporate setting. In our office, they do a lot of project-based activities, like researching the historical prices of raw materials for a report or looking up companies and contacts. No two days are the same.

Through sitting in on calls with business owners and CEOs and talking to people in the office, students learn the "language of business." What's a market cap? What's a cap rate? It's like following a new sport—you have to know the lingo to fully understand the game.

Q ***What do students gain from this partnership?***

A All of this experience adds up. By the time Brandon graduates, for example, he will have 1,600 hours of work experience in a corporate environment. Moreover, students gain a different level of exposure. They're in situations you don't have in a typical high school job, like sitting in on calls with some of the biggest investors on Wall Street.

Through all of these experiences, their confidence grows. I keep in touch with alumni, and one student I recently talked to said that he was more prepared to speak with teachers and people at the university he attends. Had he not been in this program, he told me, he wouldn't have had the confidence or wherewithal to navigate a lot of challenges at college.

Q ***What do companies gain from this partnership?***

A In our day-to-day work, everyone in the office looks forward to seeing the students. Personally, they inspire me to try new things, like teaching me how Tik Tok works or Brandon showing me how he creates a sweatshirt or t-shirt prototype for his clothing company. Just as the students are learning our business, I'm learning what it's like to be an 18-year-old in 2022.

In the long-term, we're building a strong pipeline of future commercial real estate professionals. But it's a win-win for all parties. Let's say Brandon is interested in a career in real estate and so comes back as a full-time employee after college and then he's supervising his own work-study student. This has happened a couple times: alumni get the opportunity to talk to the 15-year-old version of themselves and watch how the student steps up, grows, and develops. That's the program coming full circle.

Q ***What's next for the partnership with Cristo Rey?***

A Walker & Dunlop has 40 offices throughout the country, and the Cristo Rey Network® has nearly 40 schools. I would love for this partnership to extend to our offices in other cities.

Peter Carroll is a Managing Director on Zelman & Associates' Research Sales Team, working with institutional investors in New York and the Midwest since 2010. He holds an MBA from Case Western Reserve University and is a member of the Board of Trustees at Saint Martin de Porres High School in Cleveland, Ohio.

BRANDON DONEGAN

Q ***Tell us about your experiences in the Corporate Work Study Program.***

A This is my second job through the program. In my first job, I learned about entrepreneurship, and it led me to start my own clothing brand, which is something I always wanted to do. My company, Deuce, is named after my brother, and I sold out the first batch of t-shirts and hoodies in the first week.

In my current work study job with Pete, every day is different. When I come into work at the office, I get a list of tasks. I might be reading a news article and summarizing it or filling out spreadsheets or listening in on calls and taking notes. I'm eager to learn about what everyone in the office does. Whether it's about market caps, stocks, or the real estate market, I take it all in.

My friends who aren't in the Saint Martin program think it's too good to be true. In other high school jobs, like at the grocery store or a retail store, you're just there; it's not really a connection to anything bigger. Here, we're trying to achieve something. We're preparing for the future. We're being inspired.

Q ***How do you see the program benefitting you and your classmates?***

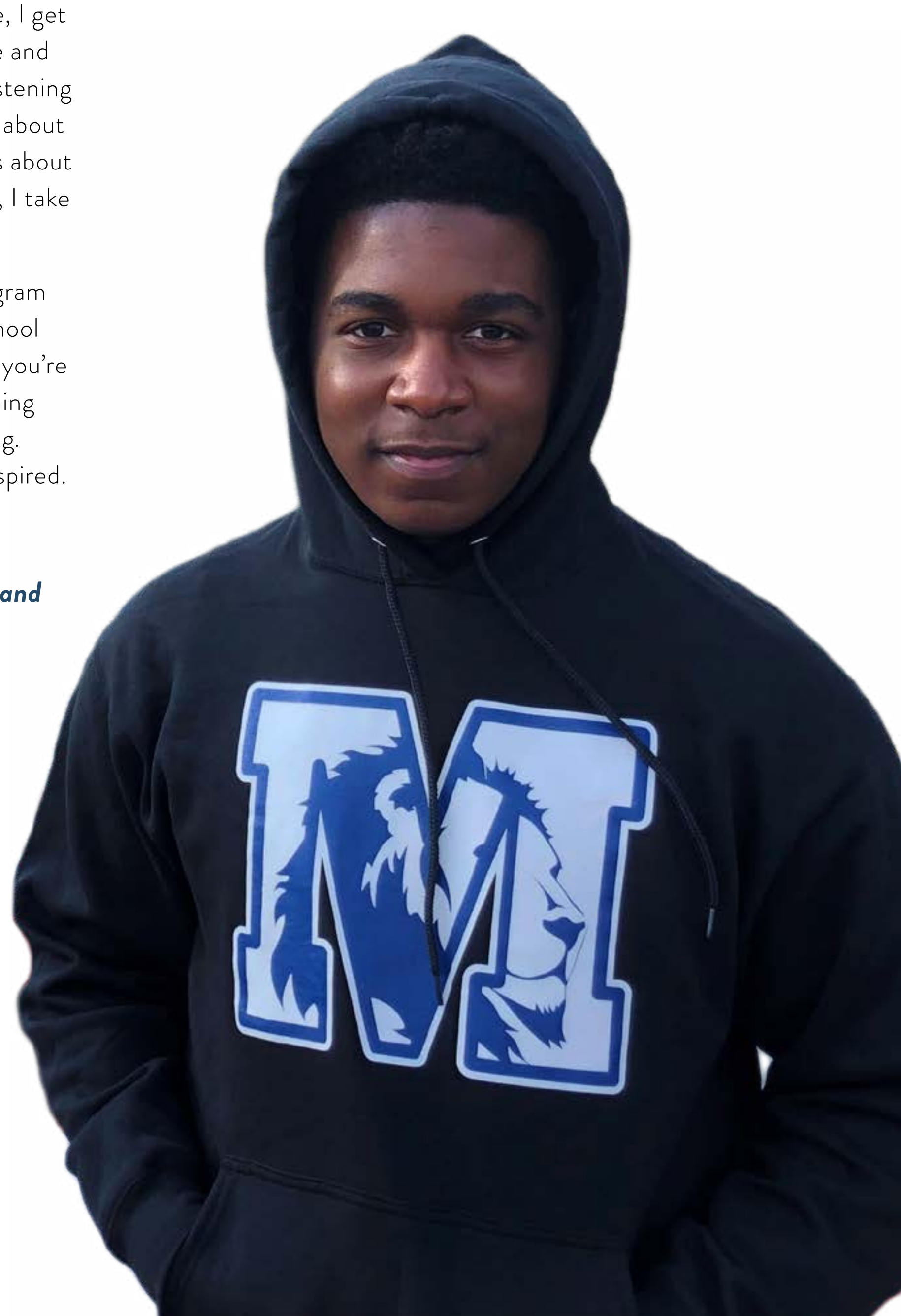
A The program has definitely been beneficial to me and my peers. It helps you take all the knowledge from school to build a career and helps you prepare for the real world by creating connections and interacting with different people. I've learned a lot.

Brandon Donegan is a senior at Saint Martin de Porres High School in Cleveland, Ohio. Brandon is the founder of his own clothing line called "Deuce," and will be attending Kent State University this fall.

Q ***What's next for you?***

A I plan to go to Kent State University, and I'm staying in touch with Pete and the people I've met at Walker & Dunlop. I'm really grateful for the Corporate Work Study Program and how it's inspired me.

Walker & Dunlop is a proud partner of Cristo Rey. Learn more here: cristoreynetwork.org.



THE BFR BOOM

Trends and Opportunities in the Build-For-Rent Space

Common Questions **EXPERT ANSWERS, NEXT STEPS**

WITH A 444 PERCENT SURGE IN INVESTMENT OVER THE PAST YEAR, ONE COMMERCIAL REAL ESTATE SECTOR CEMENTED ITS PLACE IN HEADLINES, DEAL BOOKS, AND BALANCE SHEETS: BUILD-FOR-RENT (BFR).

Bungalows on Estrella
Goodyear, AZ
Bridge & Equity Financing: **$76,083,250**
Units: **183**

In 2021, more than $50 billion in capital from large institutional investors, banks, government-sponsored entities (GSEs), and more flocked to single-family homes built from the ground up for renters. Behind this boom lies a convergence of trends. As skyrocketing real estate prices made purchasing a home more difficult for people nationwide, BFR properties offered these thwarted homeowners a yard, garage, and neighborhood experience. When COVID-19 lockdowns kept people homebound for weeks, then months, tenants swapped compact apartments and dense neighborhoods for the expanded living space offered by single-family rentals.

Zelman & Associates, a Walker & Dunlop Company, has analyzed the sector for over a decade, acting as a thought leader for all aspects of the housing industry from apartment properties to BFR and single-family rentals, among others. Single-family rental homes have always been a critical component of housing, according to Walker & Dunlop Executive Vice President Dennis McGill, and build-for-rent communities are an evolution stemming from increased institutional capital targeting the asset class. Importantly, financing sources have gotten more comfortable with the product. While the need for construction lenders still exists, banks, debt funds, GSEs such as Fannie Mae and Freddie Mac, and even life companies have gotten into the mix—and grown more aggressive with pricing and leverage.

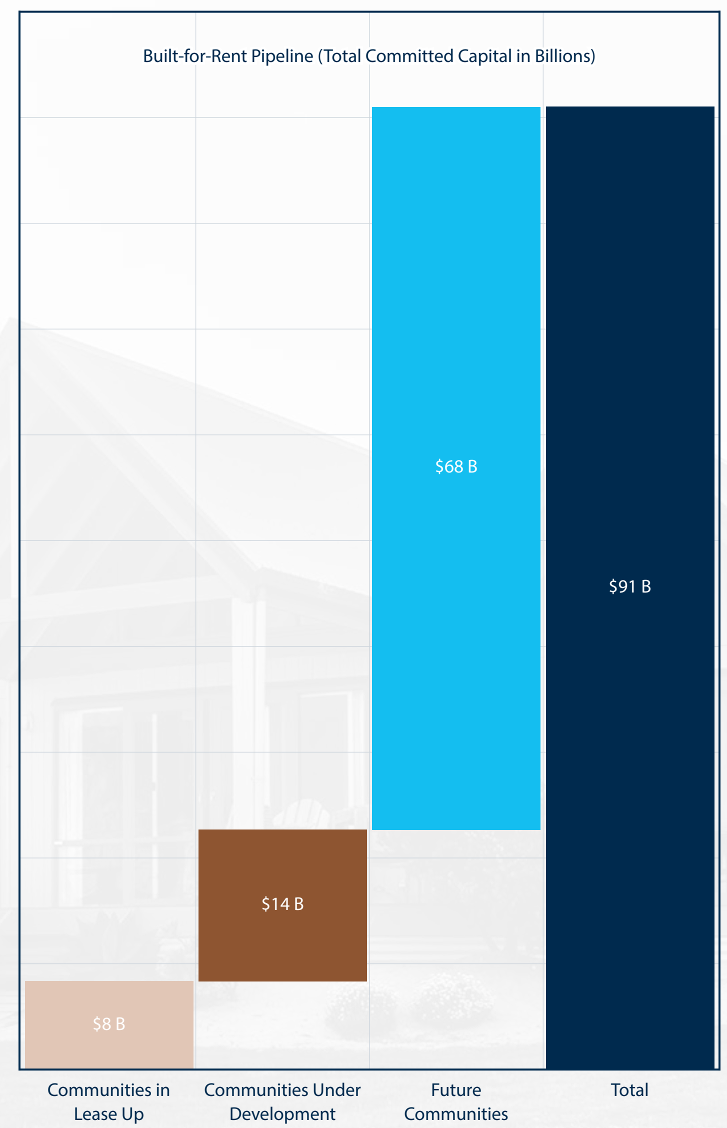
According to Zelman & Associates' Single-Family Rental Survey, $22 billion has been deployed for BFR communities in development and lease-up and another $68 billion committed to future communities, with notable concentrations of BFR activity in Texas, Florida, the Southeast, and Phoenix, which accounts for nearly 20 percent of the pipeline.

How can multifamily developers of all sizes get their piece of the BFR pie and maximize their investment?

We asked some of Walker & Dunlop's BFR experts these questions and more in a recent webinar.

DENNIS MCGILL
Executive Vice President
dmcgill@walkerdunlop.com

CAPITAL IS FLOODING INTO THE BFR SPACE WITH OVER $68 BILLION COMMITTED OR PLANNED



WHICH IS BETTER: SINGLE-PLOT OR MULTI-PARCEL PROPERTIES? IS THERE A MINIMUM UNIT SIZE?

GSEs are willing to finance both types of properties and a range of unit sizes as long as the properties are contiguous, purpose-built, and look like a cohesive community. Many equity groups prefer multi-parcel properties because this option gives them multiple exit strategies. Some municipalities have a strong preference for single-plot or multi-parcel.

It's important to carefully consider the pros and cons of a chosen approach in terms of tax and costs, and to seek expert counsel in these areas. BFRs can get complicated tax-wise, particularly with individual plots. Those developing a multi-parcel property may want to include options on the back-end for breaking up the property.

HOW DOES THE BFR DEVELOPMENT TIMELINE COMPARE TO THAT OF A MULTIFAMILY GARDEN PRODUCT?

BFR construction is typically faster, as it generally takes less time to build a single home compared to a multi-unit garden property with stairs and multiple access points to consider.

Lease-up tends to take less time as well because BFR units can be delivered on a roll-up basis, whereas delivery of multifamily units inherently takes place in "chunks."

HOW DO YOU STRUCTURE DEBT FINANCING THROUGH MULTIPLE PHASES OF CLOSING?

Some lenders have issues with closing financing in phases or not having control of the HOA. Walker & Dunlop addresses this by serving as the HOA declarant and works with lenders who are willing to lend in tranches and are able to fund structured tranches.

FOR BFR TOWNHOME PROPERTIES, WHICH IS MORE IMPORTANT: A PRIMARY BEDROOM ON THE MAIN FLOOR OR A GARAGE?

The garage is definitely more important. Renters choose a BFR property for the garage—for extra storage and hobby space as well as their car—as well as a fenced, private back yard where they can host barbeques, send the kids outside to play, and let their dog run off the leash.

HOW DOES UNDERWRITING FOR BFR DIFFER FROM MULTIFAMILY UNDERWRITING?

Many of the analyses in areas like income are the same, as are many of the expenses: utilities, insurance, administrative, advertising, and payroll, to name a few. In terms of differences, the lower density of BFR properties increases landscaping costs and impacts land valuations, and historical comparable data for areas like repairs and maintenance may be limited.

BFR properties tend to have lower turnover rates: closer to 30 percent compared with the 40 percent–50 percent for multifamily in 2018–2019. (During the past two years of the COVID-19 pandemic, multifamily turnover dropped to one third. Public REITs reported turnover of approximately 45 percent in 2021.) But higher turnover costs—sometimes 30 percent–40 percent higher—may erode these cost savings.

It's important to keep in mind that BFR is a relatively new property type, with limited historical data and comparables in areas like expenses and rent. This may pose underwriting challenges, depending on your market and lending partner.

WHAT ABOUT REPLACEMENT RESERVES?

Replacement reserve requirements tend to be lower for BFR properties, with components that differ from multifamily properties, such as central vacuums and power washing. As most BFR assets are newer properties, big-ticket maintenance items won't drive up these reserves until these properties age—say 10–20 years from now.

WHAT ABOUT APPRAISALS?

Be aware of and prepared for tax implications, particularly in the case of individual detached homes. In these cases, appraisers may be looking at home values in adjacent areas and neighborhoods, which are typically higher.

BFR and traditional multifamily properties are similar in many areas of asset management, such as inspection protocols, payment tax, and insurance impounds. With multiple properties in a BFR portfolio, however, insurance monitoring could be more complex, and property inspections may take longer to complete.

WHAT ON-SITE EMPLOYEES DOES A BFR PROPERTY NEED?

BFR properties require on-site staffing during lease-up for management of the site, construction, and curb appeal. After lease-up and during stabilization, staffing depends on the size of the community. Properties with fewer than 170 homes typically do not require on-site management. Invest instead in fleet vehicles for maintenance and a customer care service and/or resident portal for renters. Owners can administer leasing activities through their central headquarters or an online service.

Compared with multifamily renters, BFR residents typically place less priority on maintenance and concierge services and are willing to do more of their own repairs. BFR tenant leases can be structured to give residents more responsibility—over interior repairs such as a clogged drain, for example—while the property owner takes care of landscape management for a fee. In the BFR market, such landscaping services are an opportunity for ancillary income, as are smart home technologies and services.

PUT THE BFR BOOM TO WORK FOR YOU

With a combined 20+ years of team experience, Walker & Dunlop has a finger on the pulse on all things SFR and BFR. Our dedicated SFR and BFR Practice Group provides expert guidance on construction, bridge lending, permanent financing, structuring equity, and property sales to generate optimal returns and strategic relationships for clients. The team has closed 100 transactions in this burgeoning sector. Our team is active with over fifty groups in the space, ranging from institutional clients, homebuilders, multifamily developers, and individual investors, and has an active pipeline of over $3.75 billion.

The Bungalows on Pine Cliff
Multiple Locations
Bridge & Equity Financing: **$51,286,000**
Units: **155**

The Clublands Of Antioch By Moda Homes
Antioch, IL
Construction Financing: **$30,388,000**
Units: **110**

780 Townhomes
Franklin, TN
Sale: **$51,650,000**
Units: **68**

CONTRIBUTORS

DENNIS MCGILL
Executive Vice President
Head of Research
dmcgill@walkerdunlop.com
Mobile 917.658.5514

SHANNON HERSKER
Director | Capital Markets
shersker@walkerdunlop.com
Phone 602.522.0063
Mobile 480.518.5761

HEATHER MCCLURE
Senior Director | Capital Markets
hmcclure@walkerdunlop.com
Phone 469.364.7005
Mobile 972.375.5070

JOHN COLLINS
Senior Vice President | Servicing
jcollins@walkerdunlop.com
Phone 781.972.4931
Mobile 617.962.2400

OUR TEAM OF BFR EXPERTS

DEBT & EQUITY CAPITAL LEADERSHIP

TED PATCH
Executive Vice President & Group Head
tpatch@walkerdunlop.com
Phone 301.215.5580
Mobile 301.466.2468

C. CHRISTOPHER HARRIS
Senior Director
Capital Markets
charris@walkerdunlop.com
Phone 469.248.1224
Mobile 214.532.6590

KEATON MERRELL
Managing Director
Capital Markets
kmerrell@walkerdunlop.com
Phone 602.926.7429
Mobile 602.617.1167

SUZANNE JONES
Senior Director
Multifamily Finances
sjones@walkerdunlop.com
Phone 469.248.1253
Mobile 972.832.9454

SHANNON HERSKER
Director
Capital Markets
shersker@walkerdunlop.com
Phone 602.522.0063
Mobile 480.518.5761

MARK STRAUSS
Managing Director
Capital Markets
mstrauss@walkerdunlop.com
Phone 949.208.8442
Mobile 949.500.6335

ROB QUARTON
Senior Director
Capital Markets
rquarton@walkerdunlop.com
Phone 949.208.8443
Mobile 213.760.1826

HEATHER MCCLURE
Senior Director
Capital Markets
hmcclure@walkerdunlop.com
Phone 469.364.7005
Mobile 972.375.5070

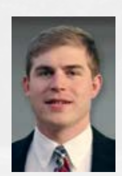
WILL BAKER
Senior Managing Director
Multifamily Finance
wbaker@walkerdunlop.com
Phone 301.215.5510
Mobile 202.210.1485

ERIC MCGLYNN
Managing Director
Capital Markets
emcglynn@walkerdunlop.com
Phone 305.459.3239
Mobile 954.579.4587

INVESTMENT SALES LEADERSHIP

KRIS MIKKELSEN
Executive Vice President
Investment Sales
kmikkelsen@walkerdunlop.com
Phone 404.832.7612
Mobile 404.964.4666

JEFF PRICE
Managing Director
Investment Sales
jprice@walkerdunlop.com
Phone 469.364.7008
Mobile 214.543.1684



WALKER HARRIS
Vice President,
Director of Operations
wharris@walkerdunlop.com
Phone 404.832.7614
Mobile 781.801.8177

Interested in taking the next step? Our team of experts is perfectly positioned to finance, sell, and advise on debt and equity formation to generate the best possible returns and strategic capital relationships for our investor clients.

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The Walker Webcast series brings listeners fresh perspectives on leadership, business, the economy, commercial real estate, and more. Walker & Dunlop Chairman & CEO, Willy Walker, hosts an incredible and diverse network of leaders as they share wisdom that cuts across industry lines.

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WALKER WEBCAST

NASHVILLE

A RISING

TECH TITAN

TAKES THE SPOTLIGHT

HOW DID THE MUSIC CITY BECOME THE MULTIFAMILY CITY? INNOVATION IS A LARGE PART OF THE ANSWER.

In 2021, Nashville's multifamily sector led the nation in new construction growth rates[1], with luxury high rises[2] popping up from downtown to the Gulch and beyond, fueled by an abundance of debt and equity funding from sources old and new. Institutional groups from top-tier markets now view Nashville as an institutional-grade market—and the area's longstanding advantages such as good schools and plenty of entertainment options, are only part of the story.

Contributors

Brett Kingman, Doug Hart, Russ Oldham

THE SINGERS, SONGWRITERS, AND STUDIO ARTISTS WHO HAVE LONG FLOCKED TO Nashville now share the city with a growing number of software developers, systems architects, startup founders, and more—many with ample budgets and a desire to live in a vibrant community. The pandemic drove these numbers even further as remote tech workers, untethered from offices in New York and San Francisco, migrated to Nashville for its lower cost of living and vibrant entertainment scene. As their numbers continue to grow, this highly skilled workforce is bringing even more top employers to the metropolitan region.

STABLE SECTORS CATALYZE A DIVERSIFYING—AND BOOMING—ECONOMY

Technology leadership is nothing new for Nashville. Since 1968, the city has been home to the headquarters of HCA Healthcare, which currently manages over 32 million[3] annual patient encounters across 185 hospitals and more than 2,000 sites of care. "HCA's reach influences healthcare delivery worldwide and its knowledge base and expertise has resulted in a host of startups, spinoffs, and subsidiaries," said Walker & Dunlop Managing Director Russ Oldham.

Healthcare IT has evolved hand in hand with a regional presence in the auto industry. Since Bridgestone[4] Americas moved its headquarters to Nashville in the 1990s, and then to the city's southern suburb of Franklin in the mid-2000s, a host of subsequent relocations have made the area an automotive hub: Nissan's[5] North American headquarters in Franklin, Korean tire manufacturer Hankook's[6] North American headquarters downtown and factory in Clarksville, two GM battery cell manufacturing plants[7], and a manufacturing plant for the new Cadillac LYRIC electronic vehicle in Spring Hill[8].

Nashville's workforce gains its STEM skills both on the job and on campus. Vanderbilt University regularly ranks among the nation's leading universities for science, technology[9], and innovation, and it's only one of 29 institutions[10] of higher education in the metropolitan area.

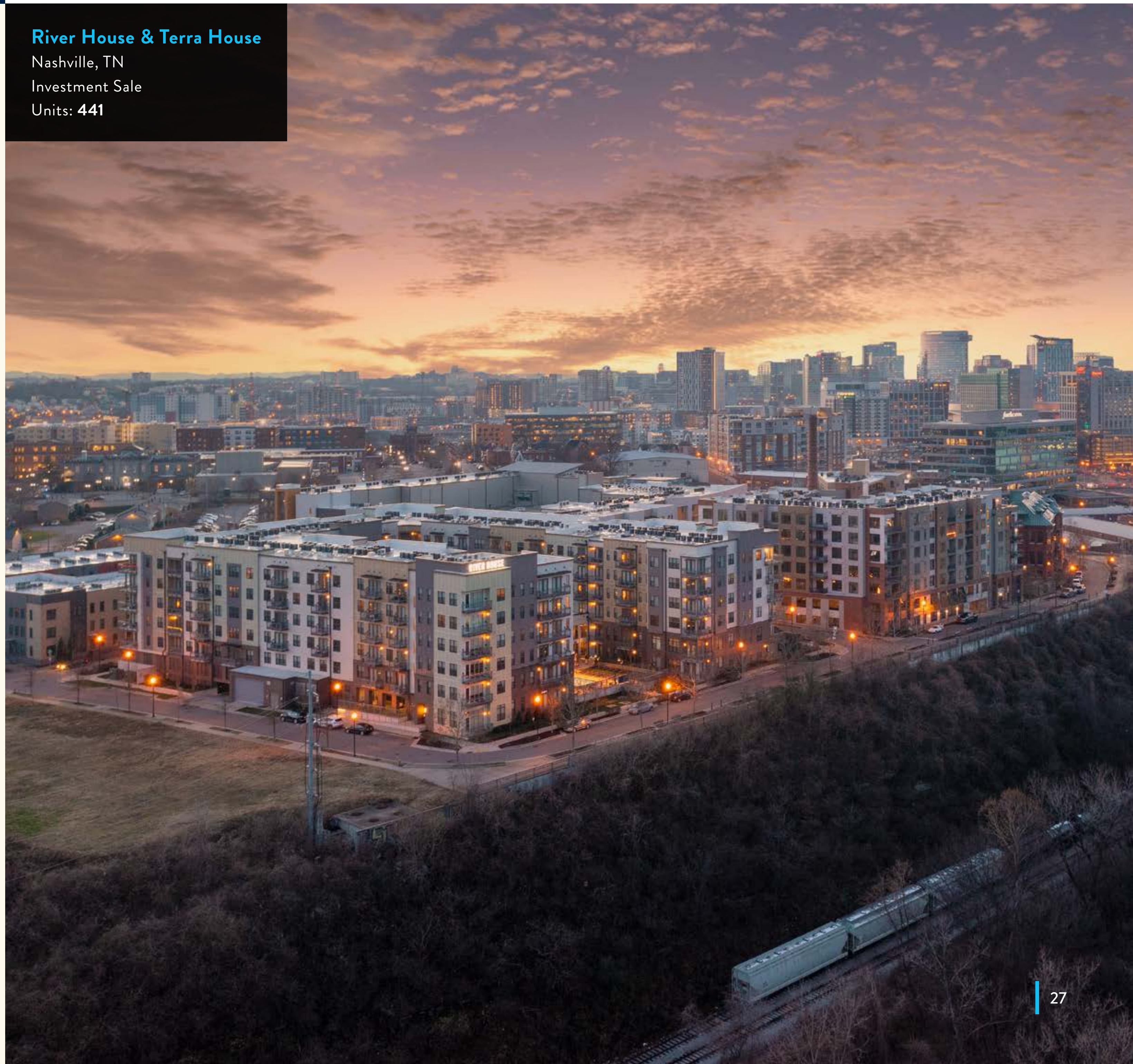
All of these factors, plus a business-friendly climate, ultimately attracted some of the biggest names in tech: a much-coveted Amazon[11] Center of Excellence, an 8,500-worker riverfront campus for Oracle[12], relocated from Austin, and a Capgemini[13] delivery center, which will provide more than 1,500 new jobs in areas such as cloud, artificial intelligence, custom software development, digital customer experience, and data.

Innovation is also taking shape at the intersection of technology and entertainment, from industry household names like Live Nation and iHeartRadio, to home-grown[14] startups like Soundstripe[15], which helps video producers connect to royalty-free musical content. Apple Music[16] announced a content creation office in the emerging Wedgewood-Houston neighborhood in 2018, joining longtime Nashville employer Asurion[17], which provides protection plans for iPhones and other devices. On the hospitality side, Marriott[18] has been piloting innovations like voice-guided checklists in its Nashville properties.

Entrepreneurship spans a broad range of industries here. Walker & Dunlop[19] recently made a minority investment in Fortress Technology Solutions, an innovator in property management software. Silicon Ranch[20], one of the largest independent solar power producers in the country, was founded by former Nashville Mayor and Tennessee Governor Philip Bredesen[21]. In fact, Nashville often appears alongside cities like Austin and Miami on lists of America's next startup hubs.

"So many people have come here over the years with a guitar and a dream," Sam Davidson, founder of online gift retailer Batch, told Inc. magazine. "Now, instead of wanting to make it big on Music Row, you want to make it big with a business idea."

> "Investors and lenders have been giving Nashville the green light, and you can expect this interest to continue given the city's solid fundamentals and forecasts."
>
> Sam Davidson, founder of online gift retailer Batch



River House & Terra House
Nashville, TN
Investment Sale
Units: **441**

> So many people have come here over the years with a guitar and a dream. Now, instead of wanting to make it big on Music Row, you want to make it big with a business idea."

Sam Davidson, founder of online gift retailer Batch

The Harper
Nashville, TN
Investment Sale
Sale Price: **$145,000,000**
Units: **328**

A GROWING TECH WORKFORCE RESHAPES THE SKYLINE

All of these innovators need a place to live, work, shop, and play, and this is where developments like Nashville Yards and River North come in.

With Amazon's new facilities as its cornerstone, the Nashville Yards development is growing into a full-fledged district, with a 4,000-capacity live music venue, restaurants, retail, 275,000 square feet of office space, and three residential towers in the works and more mixed-use development and green space to follow.

Driven by Oracle's $253 million investment for a regional campus, River North is similarly driving mixed-use development along Nashville's Cumberland River, an "underutilized industrial island within Nashville's downtown loop," according to Hastings Architecture, one of the firms involved in the project. With a pedestrian bridge over the river connecting East Nashville to Germantown, "activating this site provides a unique opportunity to create a cohesive urban core," complete with new greenways and park space.

Projects like these, and the residents they cater to, have ushered in a new density, walkability, and high-rise feel to the city, while driving trends in the apartments themselves.

"On one hand, there's been a shift to higher density and smaller floor plans, like studios and one bedrooms of 450–500 square feet," Oldham said, citing the Martin Flats 200-square-foot microunits in Wedgewood-Houston as one of the more dramatic examples and a response to the need for affordable housing. "At the same time, with so many people working from home, we're also seeing demand for two bedroom units and units with dens, plus technology that can accommodate a remote worker's data needs."

In terms of amenities, "Package management systems have been popular everywhere as owners struggle to keep up with Amazon and other delivery services," said Walker & Dunlop Managing Director Brett Kingman. "In the suburbs, properties are also offering coffee shops, outside retail, and branded bars for residents and guests."

While suburban multifamily outperformed urban markets through 2020 and much of 2021, urban markets have since taken over the spotlight. The exception has been inner-ring suburbs and resurgent areas like Antioch. Antioch will soon be home to the 300-acre Century Farms mixed-use project that is currently in development. Once completed, the mixed-use development will feature the Nashville Soccer Club's training facility, a Tanger Outlets mall, restaurants, medical services, Class A multifamily developments, and a variety of entertainment options. Community Health Systems, which employs 1,500 professionals, already announced the relocation of their corporate headquarters to the development in 2020. Century Farms joins a new innovation district at the site of the former 600,000-square foot Global Mall at the Crossings and the North American headquarters of global auto parts provider, LKQ Corporation in this "rising phoenix" suburb southeast of downtown.

WHAT'S NEXT ON THE MULTIFAMILY PLAYLIST?

The Nashville multifamily market has seen an abundance of new equity, including sources from outside the region. On the debt side, a landscape previously dominated by agency financing on existing assets has expanded into a proliferation of debt fund lenders, some offering more competitive terms than the agencies. Also entering the mix: life companies and bridge financing for class A properties.

"Investors and lenders have been giving Nashville the green light, and you can expect this interest to continue given the city's solid fundamentals and forecasts," said Walker & Dunlop Director Doug Hart. "Rent growth in 2021 was around 16 percent. The forecast for 2022–2023 is 10 percent with some micro-pockets of 15–16 percent."

This still-encouraging rent growth, along with a steady influx of jobs and single-family home prices continuing to outprice rents, is a positive indicator for supply and absorption.

"The MSA is in a better position than historically for employment and the multifamily pipeline," Kingman said. "Between 2014-2020, there were 3.21 jobs per unit delivered. Over the next four years, we're expecting to see 5.5 jobs per unit for the properties delivering between 2022 and 2024."

"The demand story is better than it's ever been, and the story of growth is clear and apparent to people who want to invest or lend in this market," Hart said. "The future for Nashville is bright."

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MEET THE NASHVILLE TEAM

When seeking financing, sale, or debt and equity advisory expertise, you want a local guide that understands the trends and rates in your area. Our team of experts specializes in the Nashville multifamily market and knows the space inside and out. If you're interested in taking the next step or have specific questions, reach out to a member of our team.

INVESTMENT SALES

BRETT KINGMAN
Managing Director
bkingman@walkerdunlop.com
Phone 615.721.0709
Mobile 404.247.4179

RUSS OLDHAM
Managing Director
roldham@walkerdunlop.com
Phone 615.721.0723
Mobile 678.898.0594

ROBBIE O'BRYAN
Managing Director
robryan@walkerdunlop.com
Phone 615.224.7809
Mobile 404.405.6620

BRAD BOSTON
Director
bboston@walkerdunlop.com
Phone 615.435.1954
Mobile 615.596.2087

ANNE MCGINN
Director
amcginn@walkerdunlop.com
Phone 615.721.0720

MULTIFAMILY FINANCE

DOUG HART
Senior Director
dhart@walkerdunlop.com
Mobile 615.224.7816

FHA FINANCE

DAVID STRANGE
Senior Managing Director
dstrange@walkerdunlop.com
Phone 615.435.1951
Mobile 615.668.6333

KEITH MELTON
Senior Managing Director
kmelton@walkerdunlop.com
Phone 615.435.1950
Mobile 615.473.9064

KIM MILES
Senior Director
kmiles@walkerdunlop.com
Phone 615.435.1955
Mobile 615.403.1532

AFFORDABLE PRODUCTION

RYAN SMITH
Senior Director
ryan.smith@walkerdunlop.com
Phone 615.224.7808
Mobile 615.499.9065

For more information visit
www.walkerdunlop.com

CONCLUSION

The multifamily market is still hot, and our team doesn't see it cooling off anytime soon. We will be tracking the numbers to continue providing updated analysis as the year comes to an end. Please visit our **Driven By Insight** hub to remain up-to-date on our latest reports, commentary, and analysis.

ABOUT WALKER & DUNLOP

Walker & Dunlop (NYSE: WD) is one of the largest providers of capital to the commercial real estate industry, enabling real estate owners and operators to bring their visions of communities — where Americans live, work, shop and play — to life. The power of our people, premier brand, and industry-leading technology makes us more insightful and valuable to our clients, providing an unmatched experience every step of the way. With over 1,400 employees across every major U.S. market, Walker & Dunlop has consistently been named one of Fortune's Great Places to Work® and is committed to making the commercial real estate industry more inclusive and diverse while creating meaningful social, environmental, and economic change in our communities.

CORPORATE HEADQUARTERS
7272 Wisconsin Ave
Suite 1300
Bethesda, Maryland 20814
Phone 301.215.5500

WalkerDunlop.com