Southwest Montana Properties

Your Partner In Multifamily Real Estate Investment

Newsletter **Q2, 2016**

What's Next for Multifamily

Multifamily Investment - Outlook Remains Positive

This week, Yardi's Jeff Adler (Vice President of Matrix) and Jack Kern (Director of Research/Publisher of MHN, CPE) presented a biannual webinar on the health and welfare of the U.S. multifamily investment sector.

In an hour-long presentation, Adler and Kern summarized the various forces that impact investment, including job growth, oil prices, rent growth and supply. Data is derived from the reports created by Yardi Matrix, the industry's most comprehensive apartment market intelligence platform.

While striking a more cautionary note than six months prior, the outlook for multifamily investment remains very positive, Adler said. Occupancy is high and rent growth strong at 6 percent.

"U.S. multifamily is still the place to be (for investors), even if the ride is at risk of a few potential transitory bumps in the road," he commented. "The only caution I have is that the risk of global, debt driven macroeconomic dislocation, has, in our view, risen."

Concern about unstable economies in China, Japan and Europe, as well as slow growth in GDP at home, prompted the tempering of the outlook.

"The US economy is the one eyed man leading the blind. If you look at the Eurozone, performance has been horrific. In Japan, it is a 20 year deflationary deadbeat. China is going through the right kind of transformation, but it's going to take time and they've misallocated a whole bunch of capital," Adler said.

Looking at markets on a regional basis, some slowdown has been noted in previously red hot cities, Adler noted.

"There's deceleration going on in Houston, Denver, and San Francisco, but acceleration in Orlando, Atlanta and Phoenix," he said. One factor that is influencing growth is what Adler called "intellectual capital nodes," suburban neighborhoods with an abundance of creative individuals, a supportive business climate, and lifestyle amenities.

"These are places where the value of place is most likely to increase," Adler said. Seattle, Denver and Atlanta are all home to such submarkets.

When it comes to supply, new apartment stock is being delivered – about 250,000 new units are in lease-up now, with a half-million under construction. But consumer demand remains high enough to absorb those new units and remain hungry for more.

"Occupancies are high and sustainable in the 96 percent range for stabilized property," Adler said. A big differentiator for apartments these days remains the in-unit washer dryer, he noted. Investors looking to add value to their properties should consider that amenity first as a way to stand out.

The next Matrix outlook webinar will be presented in November, 2016.

Article Courtesy of Leah Etling of Yardi.com, full version can be found at http://www.yardi.com/blog/news/multifamily-investment/15295.html

Larger Apartment Markets Push Down Rent Growth According to Axiometrics Recent Survey

Increasing moderation in larger markets pushed national annual effective rent growth down to 3.9% in April 2016, the first time the rate has been below 4.0% since July 2014, according to Axiometrics, the leader in apartment and student housing market intelligence.

Even though the 4.0% streak ended, the apartment market showed signs of strength in April: Occupancy increased to 95.1%., The $1,277 average effective rent was $12 higher than March's average.

"Many of the nation's largest apartment markets precipitated the drop," said Jay Denton, Axiometrics' Senior Vice President of Analytics.

Denton mentioned that annual effective rent growth decreased in April: By 97 to 136 basis points (bps) in the three San Francisco Bay Area metros in April.

"The national market is still achieving rent growth above the long-term average."

Also, Denver's April rent growth was the second lowest of this cycle, and New York's fell below 1.0% for the first time since February 2014.

Finally, Houston's 89-bps rent-growth decline in April put that market in negative territory (-0.6%) for the first time since August 2010, as oil and gas industry jobs continued to decline, despite the recent rebound of oil prices past $40 per barrel.

"Our forecast has annual effective rent growth at about 3.8% for 2016," Denton said. "Many metros are still coming down from exceedingly high rent growth figures in 2015, but the national market is still achieving rent growth above the long-term average. And, some large markets did experience increased effective rent growth in April, including Seattle, Dallas and Phoenix."

The national rate was 16 bps lower than March's 4.1% and 115 bps below the 5.1% of April 2015.

On a more positive note, the national occupancy rate increased for the third straight month, rising 14 bps to 95.1% from March's 95.0%. The April rate represents the ninth month of the past 13 in which the national apartment market achieved occupancy of 95.0% or higher - the level at which Axiometrics considers an apartment market full.

April's occupancy rate was essentially the same as that of April 2015.

Sacramento, with a rate of 11.4% was the only metro among Axiometrics' top 50, based on number of units, to achieve double-digit annual effective rent growth in April. As such, it maintained its No. 1 position among the top 50 for the second straight month.

And why not? The metro added more than 22,000 jobs in the 12 months ending March 2016, increasing apartment demand, and only 665 new units were delivered in 2014 and 2015 combined. Just 255 have been identified to come to market this year, and 341 for 2017 have been identified.

California's capital padded its lead over No. 2 Portland, as the Oregon city's 8.7% rent growth marked the first time since March 2015 that its rate was below 10%.

Seattle and Riverside traded the Nos. 3 and 4 spots.

Fort Worth was the biggest mover, rising from No. 13 to No. 7.

Tampa-St. Petersburg and Orlando were Nos. 8 and 9, jumping from Nos. 10 and 12, respectively.

Article Courtesy of MultifamilyBiz.com

Property Spotlight: Edgewood Apartments

Edgewood Apartments, located in Billings, MT, is a 62-unit low rise apartment complex acquired in 2013. Edgewood has shown exceptional performance with consistently high occupancy rates of 94%+ since acquisition. Combined with effective expense management, this property is exceeding projected expectations.

Improvements include a sports court, a children's playground, detached resident garages, three coin-op equipped laundry room facilities, and a maintenance shop. The property offers an excellent mix of attractive floor plans and large units.

"It's truly exciting to see this property performing at its full potential. Our management team has done an excellent job retaining tenants and driving profits by carefully keeping expenses in check. This property is a leading example of just how important asset management is over the long term," Marketing Specialist Tevin Apedaile comments.

Edgewood Apartments

Acquisitions Manager Brad Osen adds, "Edgewood has been an excellent addition to our portfolio, setting the bar high for both our current and future assets. As we continue to expand our holdings, this property strongly builds on our prior performance with hard evidence that we possess the expertise to succeed."

Edgewood Apartments is fully subscribed but be sure to stay tuned for other similar investment opportunities as the Southwest Montana Properties Team is actively searching for new acquisition targets. If you or someone you know is interested in learning more, visit SouthwestMontanaProperties.com or give us a call at (800) 287-9620.

Millennials' Gathering Tendencies Impact Real Estate

New research has shown that since millennials are now moving into the work force, the real estate industry is starting to feel an impact from this younger generation. For the first time, millennials are showing very unique requirements and spending habits in both office and residential.

Mark Harris of Avison Young stated for globest.com that since millennials have a much closer, collaboration-style working preference, there is much higher density in office buildings and this is leading to hidden costs. With the larger than expected occupancy, owners are seeing an increase in building maintenance costs resulting from increased traffic in restrooms, elevators, & common areas.

What is more impactful yet, is the effect on suburban living areas. Since most millennials prefer a small town feel over large, urban city centers, but also have a large craving for entertainment services, additional multifamily properties are being developed in smaller sub-metro areas more conducive to the needs of this demographic.

Jeff Henley Jr., associate at Avison Young, told GlobeSt.com: "Today's millennials seek constant innovation and embracement. With their influence, we are seeing many suburban areas, once suited for families, developing into densely populated hybridized urban centers outfitted with high-quality amenities."

An example of this is Hill Country Galleria located in Bee Cave, TX. The 1.3 million square foot class A lifestyle/mixed development is undergoing a $16 million renovation. Along with apartments, restaurants, and offices, there are also large retailers such as Dillard's, Whole Foods Market, and Barnes & Noble. The goal in mind is to provide everything millennials will need in their smaller community.

Article based on information from www.Globest.com

Rent Growth and Occupancy According to Yardi Matrix Spring Report

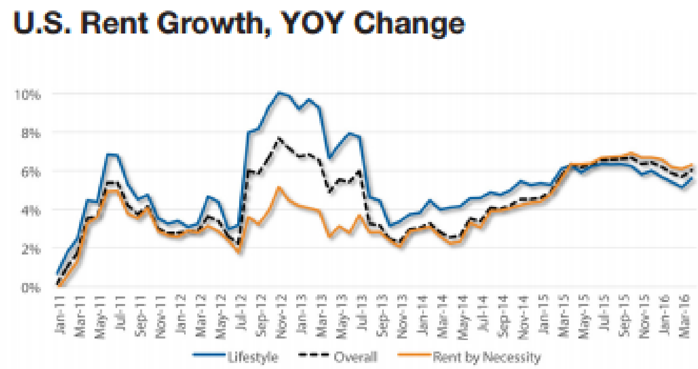
We continue to expect multifamily rent growth to moderate this year, but it is not happening just yet. As of April, the average national rental rate rose to an all-time high of $1,194, as rents were up 2.6% year to date and 6.0% year over year. The strong performance comes as something of a surprise, since rent growth is expected to moderate this year after two years of above-trend increases.

Fundamentals continue to be supportive of steady rent growth, with demand for units led by the growing number of Millennials entering the prime renter age range, enabled by the strong employment market to earn enough to form households. Meanwhile, on the other end of the age spectrum, the large Baby Boomer generation is retiring and, increasingly, trading down into rental units. The homeownership rate continues to decrease, fallling to 63.5% in the first quarter, down 0.2% year over year.

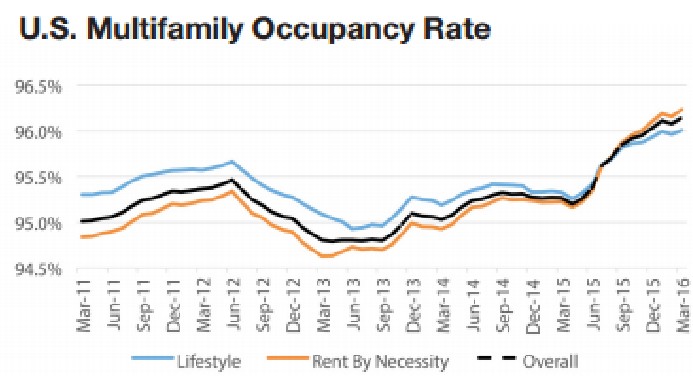
Consequently, occupancies of stabilized properties remain at or near all-time highs in most metros. Nationally, the occupancy rate for stabilized and completed properties was 96.1% as of the end of the first quarter, the highest in the current cycle, according to Yardi Matrix's database. Occupancy rates were boosted by the dearth of new supply in the wake of the Great Recession, and are likely to decline slightly in the coming year due to the amount of new supply coming online in 2016.

For now, though, occupancies are high across the board. In April, the rate was 96.2% for working-class Renter by Necessity properties and 96.0% for luxury Lifestyle units. On a metro basis, occupancies came in high throughout the largest markets, ranging from 97.2% at the high end (the Inland Empire and Orange County) to 94.8% at the low end (San Antonio). The top three metros—the Inland Empire, Orange County and Los Angeles (97.0%)— are in California. Other high-rent-growth West Coast metros that have high occupancy rates include San Diego (96.9%), San Francisco (96.7%), Sacramento (96.6%) and Seattle (96.0%).

Full Report can be found at http://www.yardimatrix.com/Institutional-Research



Source: YardiMatrix



Source: YardiMatrix

Investors are increasingly leveraging private placements with a portion of their retirement portfolio to diversify away from Wall Street and into asset-based opportunities in real estate.

Investing with your IRA is easy. Please call or email us if you have interest in learning more about how to do take this important step with your IRA.

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