Single Family Rental CMBS Evaluation

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January 2014

# Executive Overview

# Introduction

Sustainable net cash flow

Direct capitalization

Property score 1 – 5

Scenario adjusted

net cash flow

debt service coverage

LTV

Default Probability

Term

Maturity

Loss given Default

Expected Loss

Market Rent Stress

Occupancy Stress

**Explain why Single family rental properties are not like multi family investments. Large number of properties, dispersed locations,**

* **Operational Challenges**
  + **Volume and location**
    - **Micro vs Macro**
  + **Stabilization**
    - **Contractor backlog**
    - **Quality and cost control**
  + **Property Management**
    - **Tenants**
    - **Buildings**
    - **Legal**
* **Asset Management**
  + **Highest and Best Use**
    - **Income vs market value**
  + **Quality vs Yield**
  + **Spotting deferred maintenance**
  + **Disposition and replacement**
* **Securitization**
  + **What is being securitized?**
    - **Mortgage or income stream**
    - **Does income cover mortgage + expenses**
  + **Tranche Identification**

KBRA Multifamily Analysis

CMBS multifamily properties range from small garden-style apartment complexes to upscale, urban high rise

buildings with many amenities. A multifamily property’s physical appearance, parking availability and distance

from employment centers and major transportation nodes influence a property’s pool of potential renters and

overall income potential.

Due to the short-term nature of multifamily property leases, the cash flow analysis will generally be largely

influenced by the property’s historical performance rather than the current rent roll. It is especially critical to

account for any free rent or other concessions in determining a property’s average rents as compared to market.

KBRA’s multifamily analysis, property evaluation criteria and cap rate ranges are as follows:

INCOME:

Gross Potential/Base Rent

 Current rent roll: Gross potential rent will generally be based on the trailing twelve month period and

historical rental collections but a current rent roll will be reviewed to determine trends.

 Above-market rents: In most cases, if the property’s aggregate weighted average rent is higher than the

market, the property’s rental income will likely be adjusted downward. Credit for above market rents at

certain properties that are considered among the best in their class will be considered on a case-by-case

basis so long as there has been consistent historical performance at these levels.

Other Income



KBRA will typically exclude non-recurring components of other income. However, we will consider other

income items, such as laundry and vending income, when supported by historical trends.

Credit Loss



KBRA will generally base any credit loss on historical percentages.

Vacancy

 KBRA will gross up vacant space to 100% occupancy based on the weighted average in-place rent based

on the most recent 12-month reporting period. If there are employee and/or model units, they will also

be included in this analysis.

 Vacancy will then be applied to base rent, generally calculated based on the greatest of actual vacancy

at the property, market vacancy, or the KBRA minimum vacancy determined by multifamily property

sub-type, which is typically between 5-7.5% (please see the Multifamily Property Evaluation Parameter

Chart at the end of this section).

 We will generally apply a reduced vacancy rate for properties that are considered among the best in their

class or those that have consistently outperformed their markets.

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Free Rent/Concessions:

 Free rent will generally be based on the higher of the trailing twelve month period and current

concessions, with consideration given to historical trends.

 KBRA will generally incorporate free rent/concessions, if recurring, into average rents.

EXPENSES:

Management Fee

 KBRA will determine a stabilized management fee based on the actual property management

agreements, the market rate and the KBRA minimum management fee, which is typically between 3-

5% of EGI. However, if there is an affiliated property manager in place and the agreement is

subordinated, we will consider the actual contract within the context of the market rate as determined

by the appraisal and/or other independent market sources (please see the Multifamily Property

Evaluation Parameter Chart at the end of this section).

 The management fee may be capped at a lower percentage under certain circumstances. For example,

this may occur if the fee’s absolute dollar amount is large owing to high rental rates at the property, if

the manager can achieve benefits from economies of scale that result from a either a large number of

units or the management of multiple properties in the same geographic region.

Operating Expenses

 Based on current actual expenses (real estate taxes, insurance) and contracts when possible.

 Remaining line items will be based on the most recent twelve month period with consideration given to

the historical trends and the Borrower’s budget.

 Individual expenses and overall expense ratios should be consistent with multifamily industry standards

for comparable properties.

Capital Expenditures/Replacement Reserves:



Generally based on the highest of the actual average annual reserve, the engineering report

recommendation and the KBRA multifamily minimum capital expenditure amount, which is typically

$250 per unit, depending on the age and quality of the building and multifamily property sub-type

(please see the Multifamily Property Evaluation Parameter Chart at the end of this section).

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Key Considerations Used to Determine Quality Scores and Cap Rates for Multifamily Properties

KBRA stressed multifamily property cap rates will be determined based upon many qualitative factors, including

the key characteristics listed below:

Physical Characteristics/Condition





















class of asset

age of asset

LEED certification status

total number of units

layout and unit mix (i.e. number of 1-bedrooms, 2-bedrooms, etc.)

style of property (high rise, garden style, etc.)

type of construction (exterior and interior)

on-site amenities

adequacy of parking (residents and visitors)

general curb appeal

Location

















primary, secondary, tertiary/urban vs. suburban

strong/weak neighborhood

road network/visibility/accessibility/ingress/egress

proximity to interstates, employment centers, shopping, hospitals, airports and other amenities

infrastructure, including planned improvements, if any

future highways/interchanges

zoning (special use, if applicable)

land use in vicinity and availability of land for future development

Market Information





trade area demographics

• population/population growth/average household size

• average household income

• employment (major employers, stability, professional vs. blue collar)

• growth trends in area

rental rates vs. single family home prices in area

Financial Considerations









legal or other restrictions on rent (rent control, rent stabilization, 80/20, etc.)

legal or other restrictions on tenant profile (seniors only, student housing, etc.)

analysis of turnover and leasing activity

tenant retention history

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Competition/Supply and Demand Dynamics





existing primary and secondary competitors

• name and distance from subject

• class, age, # of units/unit mix, and occupancy

• asking rents/concessions, if any

• advantages/disadvantages

new competitive developments-planned or under construction

Property Management







experience with property-type

on-site vs. remote

process for prospective tenants (pre-screening, reference checks, late payment)

Please refer to the chart below for the evaluation parameters for each multifamily property sub-type.

KBRA Multifamily Property Evaluation Parameter Chart

Property Type Vacancy1 Management Fee Cap Ex Tenant Leasing KBRA KBRA Cap

(% EGI) 1 (Per Unit) 1 Improvements Commissions Constant Rate Range

Multifamily - CBD, Class 5.0% 3-5% $250 N/A N/A 8.25% 7.75% - 9.25%

A

Multifamily - CBD, Class 5.0% - 7.5% 3-5% $250 N/A N/A 9.00% 8.00% - 9.50%

B/C

Multifamily - Suburban, 5.0% 3-5% $250 N/A N/A 8.50% 8.00% - 9.50%

Class A

Multifamily - Suburban, 5.0% - 7.5% 3-5% $250 N/A N/A 9.25% 8.25% - 9.75%

Class B/C

Multifamily - Student 5.0% - 7.5% 3-5% $250 N/A N/A 9.25% 8.25% - 9.75%

Housing/Specialty

1

For vacancy, management fees, and capital expenditures, we will generally use the greatest of the KBRA parameter, actual, market, and the engineers report (for capex). In

certain circumstances, we may use a different parameter for these items, or the other parameters noted on this chart. Should this occur, it will be disclosed in our transaction

write-up.

# Template Examples

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## Sed sit amet nulla non nisl ultrices vehicula.

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  | | --- | --- | --- | |  | Column 2 | Column 3 | | Category 1 | 123 | 234 | | Category 2 | 234 | 345 | | Category 3 | 345 | 123 | | Category 4[[1]](#footnote-2) | 456 | 543 | |  |

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1. [↑](#footnote-ref-2)