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.

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 reportrecommendation 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).

### 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

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 | Vacancy | Management Fee (% EGI) | Cap Ex  (Per Unit) | Constant | Cap |
| Multifamily – CBD Class A | 5.0% | 3-5% | $250 | 8.25% | 7.75% - 9.25% |
| Multifamily – CBD Class B/C | 5.0% - 7.5% | 3-5% | $250 | 9.00% | 8.00% - 9.50% |
| Multifamily – Suburban Class A | 5.0% | 3-5% | $250 | 8.50% | 8.00% - 9.50% |
| Multifamily – Suburban Class B/C | 5.0% - 7.5% | 3-5% | $250 | 9.25% | 8.25% - 9.75% |
| Multifamily - Student | 5.0% - 7.5% | 3-5% | $250 | 9.25% | 8.25% - 9.75% |