2017 Housing Survey

LANCASTER POLLARD

About Lancaster Pollard

Lancaster Pollard helps health care, senior living and housing providers expand and improve their services by delivering sound financial strategies. The firm offers a full range of investment banking, mortgage banking, private equity, balance sheet financing and M&A advisory services.

Based in Columbus, Ohio, Lancaster Pollard consists of four affiliated companies and has regional banking offices in Atlanta, Austin, Bozeman, Chicago, Denver, Kansas City, Minneapolis, Newport Beach and Philadelphia. Through Lancaster Pollard & Co. LLC we are able to underwrite taxable and tax-exempt bonds and provide interest rate risk management and M&A advisory services. The firm is a registered broker/dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA) and Securities Investor Protection Corporation (SIPC). Lancaster Pollard Mortgage Company originates, underwrites and services mortgage loans insured or guaranteed by governmental agencies, including Fannie Mae, the Federal Housing Administration (FHA), Government National Mortgage Association (GNMA) and United States Department of Agriculture (USDA), and is a U.S. Department of Housing and Urban Development (HUD)-approved LEAN and Multifamily Accelerated Process (MAP) lender. Lancaster Pollard Finance Co. LLC provides balance sheet financing. The Propero™ Seniors Housing Equity Fund LLC provides equity financing for the new development and acquisition of seniors housing and care properties.

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2017 HOUSING SURVEY

Methodology

In January of 2017, Lancaster Pollard sent an online survey to approximately 2,400 leaders in affordable and multifamily housing throughout the U.S. Over the course of two weeks, 243 respondents completed the online survey. The survey has a 95% confidence level and a confidence interval of 6.26, meaning that the differences in responses of 7 percentage points or more are meaningful.

Key Findings

Overall, our survey findings depict an active environment where a variety of capital projects are being pursued, particularly affordable multifamily housing new construction and substantial renovation projects. A majority of respondents (76%) own, develop or manage affordable multifamily or seniors apartments so the results are more representative of affordable housing than market-rate housing. Some of the key findings include:

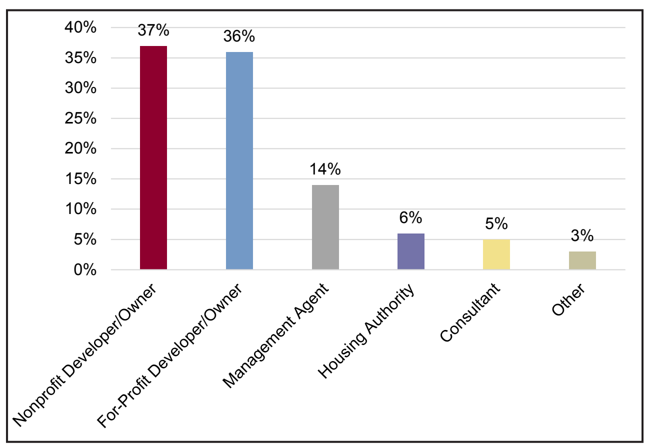
- A majority of respondents (62%) indicated they are extremely likely to pursue a construction project in the coming year. Additionally, 14% indicated they are somewhat likely, resulting in a total of 76% who will likely pursue a new construction project in 2017. This is similar to our 2016 survey findings.
- A plurality (37%) of respondents indicated they are extremely likely to pursue a refinance project in 2017. This is down from 2016, when 46% of respondents indicated they were extremely likely to pursue a refinance project. When extremely and somewhat likely are combined, a total of 56% are likely to seek a refinance in 2017, as compared to 67% in 2016. We judge that this may be due to an expectation of rising interest rates as well as a diminishing stock of properties that need to be refinanced.
- A meaningful plurality of respondents (47%) predicted that if tax reform is passed in 2017, the new top rate will be 25%. Twenty-five percent of respondents predicted it will be 20% and 14% predicted no change.
- A majority of respondents (79%) indicated they expect no change in the occupancy level of their housing properties over the next six months. This is an increase of 11 percentage points as compared to the 68% of respondents that expected no change in 2016.

Demographics

Out of the 243 respondents, a total of 73% were either for-profit or nonprofit developers/owners, an increase from the 67% that were either for-profit or nonprofit developers/owners in our 2016 survey. Job titles were evenly distributed with no meaningful difference between the top four descriptors (other, chief executive officer, director and executive director). Forty-five percent of respondents own, manage or lease 500 or more affordable housing units.

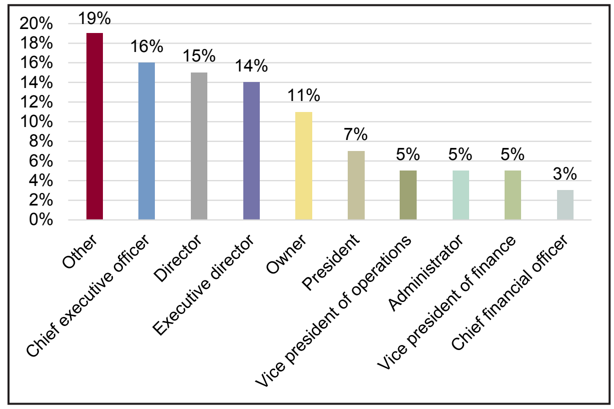
1. Which best describes your housing organization?

The most-selected answer was “for-profit developer/owner” by 37% of the responses, the exact same percentage as 2016. The 36% that selected “nonprofit developer/owner” was six percentage points higher than 2016. Conversely, the 14% that selected “management agent” was down six percentage points as compared to 2016.



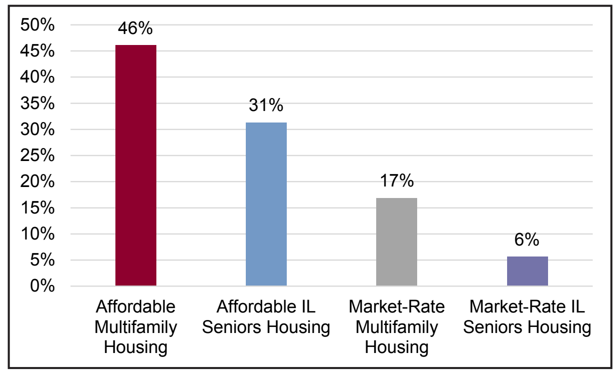
2. Which best describes your job title?

Responses were evenly distributed with no meaningful difference between the top four descriptors (other, chief executive officer, director and executive director). This is similar to the 2016 results.



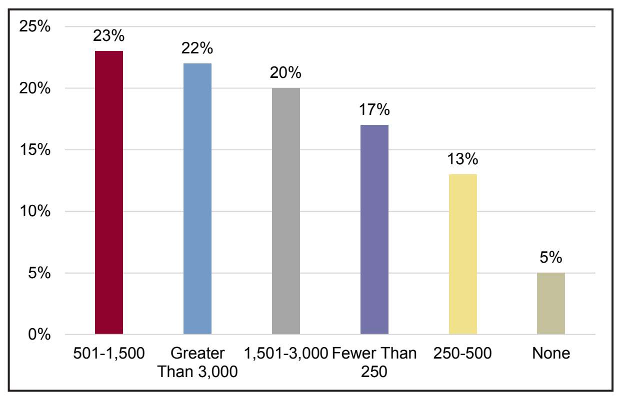
3. Which elements of housing does your organization currently own, develop or manage?

A majority of respondents (77%) own, develop or manage affordable apartments−either affordable multifamily or affordable IL seniors. A plurality of respondents (46%) own, develop or manage affordable multifamily housing units. Market-rate multifamily and market-rate IL seniors housing comprise a total of 23% of respondents. All the figures are in line with our 2016 results.



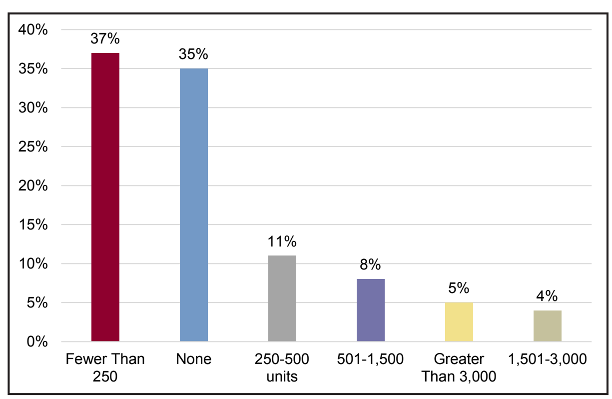
4. How many affordable housing units does your organization currently own, manage or lease?

The most selected answer was "501-1,500" at 23%, with "greater than 3,000" next at 22%, meaning 45% of our respondents own 500 or more affordable units. This is similar to our 2016 results.



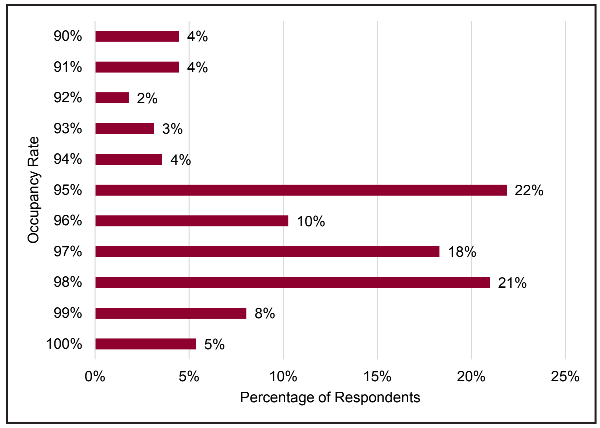
5. How many market-rate units does your organization currently own, manage or lease?

The majority of respondents (72%) own, manage or lease fewer than 250 or no market-rate units. That is consistent with our findings in question number three where 77% of respondents reported they owned affordable units. It is also consistent with our 2016 findings.



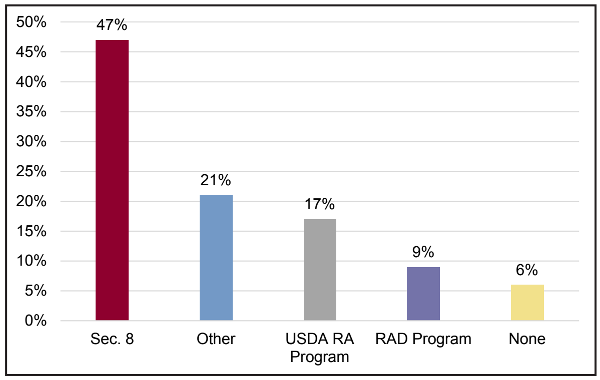
6. What was the average occupancy rate of your housing properties over the past year?

Twenty-two percent of respondents reported average occupancy at 95%, the most selected rate. There was no statistical difference in the percent of respondents who chose the 98% occupancy rate. The 95% to 98% range accounted for a total of 71% of responses. In 2016, the most selected answer was 98% occupancy which was selected by 21% of respondents.



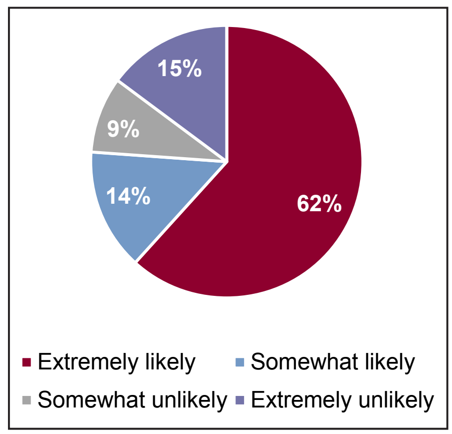
7. What rental assistance, if any, is currently being used at one or more of your properties?

A meaningful plurality of responents (47%) indicated they are currently using Sec. 8 rental assistance. Twenty-one percent selected "other" while only 9% selected the Rental Assistance Demonstration (RAD) program. These figures are nearly identical to our 2016 findings.



Respondent's Likelihood for 2017 Projects

Overall, respondents indicated they are very likely to pursue new construction and substantial renovation projects. In addition, 66% of respondents indicated they are at least somewhat likely to pursue an acquisition project.

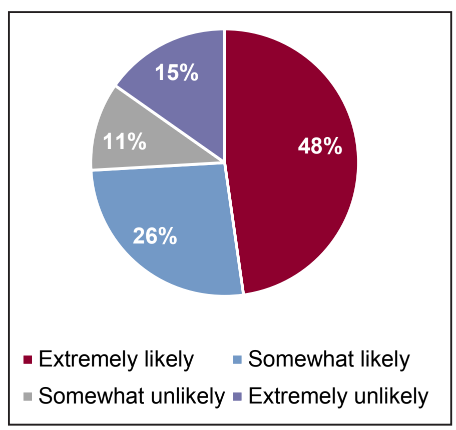


8. Likelihood you will pursue a new construction project in the next 12 months.

The majority of respondents will likely pursue a new construction project in 2017, as 62% are extremely likely and 14% are somewhat likely, a total of 76%. In 2016, 69% were extremely likely and 11% were somewhat likely.

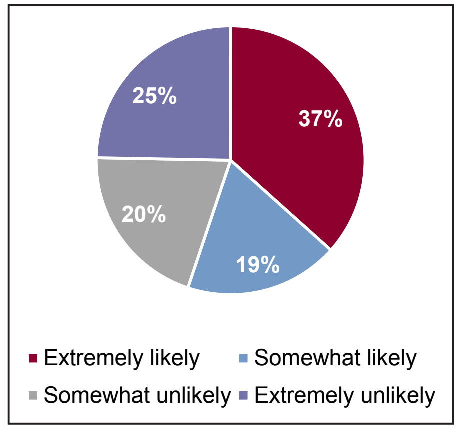
9. Likelihood you will pursue a substantial renovation project in the next 12 months.

Similar to the new construction question, a strong majority of respondents (74%) indicated they are either extremely likely or somewhat likely to pursue a substantial renovation project in the next 12 months. That combined total is down five percentage points from our 2016 results.



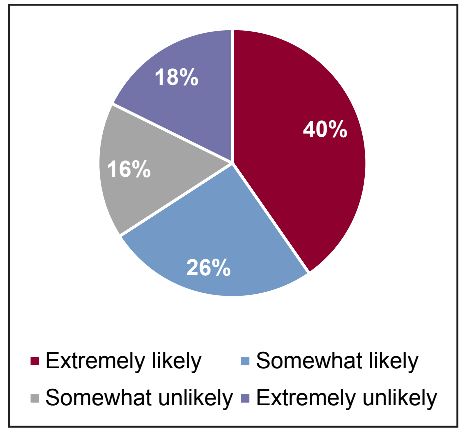
10. Likelihood you will pursue a refinance project in the next 12 months.

A plurality (37%) of respondents indicated they are extremely likely to pursue a refinance project in 2017. This is down from 2016, when 46% of respondents indicated they were extremely likely to pursue a refinance project. When extremely and somewhat likely are combined, a total of 56% are at least somewhat likely to seek a refinance in 2017, as compared to 67% in 2016. We judge that this may be due to an expectation of rising interest rates as well as a diminishing stock of properties that need to be refinanced.



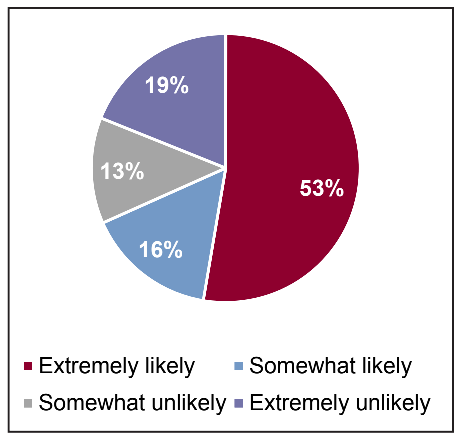
11. Likelihood you will pursue an acquisition project in the next 12 months.

A significant plurality (40%) of respondents indicated they are extremely likely to pursue a refinance project in 2017. When combined, 66% indicated they are either extremely or somewhat likely. Both figures are in line with 2016's results.



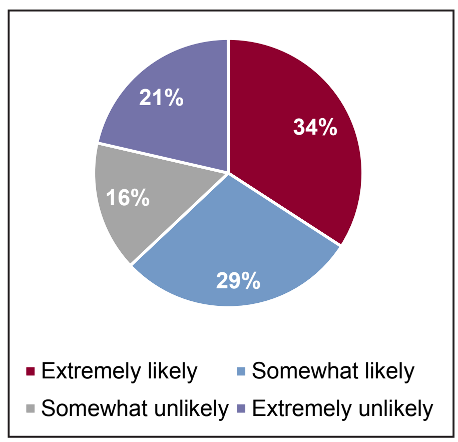
12. Likelihood you will pursue a 9% LIHTC project in the next 12 months.

A majority of respondents (53%) indicated they are extremely likely to pursue a 9% LIHTC project in 2017. When combined with somewhat likely, a total of 69% indicated they plan to pursue a 9% LIHTC project. However, there is no statistical differences in the percent of respondents who answered "somewhat likely," "somewhat unlikely," and "extremely unlikely."



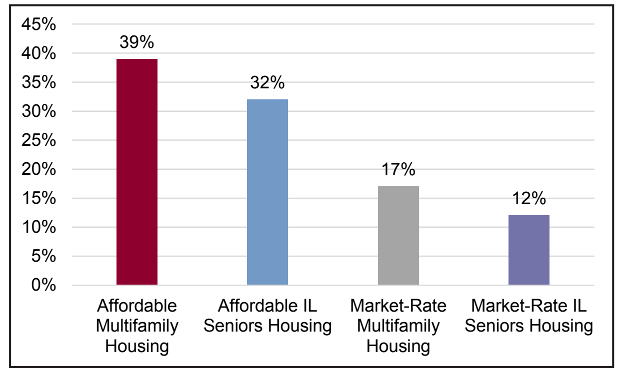
13. Likelihood you will pursue a 4% LIHTC project in the next 12 months.

Thirty-four percent of respondents indicated they are extremely likely to pursue a 4% LIHTC project in 2017, down from 44% in 2016. The 29% that are somewhat likely is up from 20% in 2016 however, making the 2017 combined total of 63% nearly identical to the 2016 combined total of 64%.



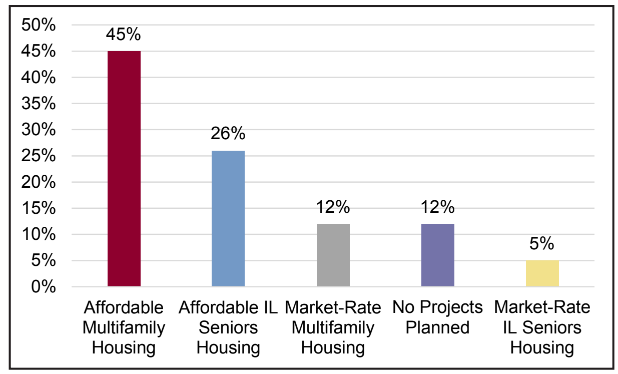
Expectations for 2017

Looking forward, a majority of respondents believe that affordable multifamily housing will see the most growth.



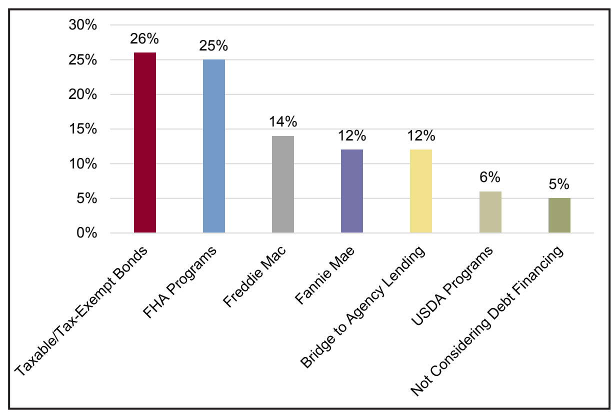
14. Which elements of housing do you think will experience the most growth in demand during the next 12 months in your market area(s)?

A meaningful plurality (39%) of respondents predict that affordable multifamily will experience the most growth in 2017, similar to 2016's results (41%). The second most selected answer was affordable IL seniors housing at 32%. In 2016, only 23% selected affordable IL seniors housing.



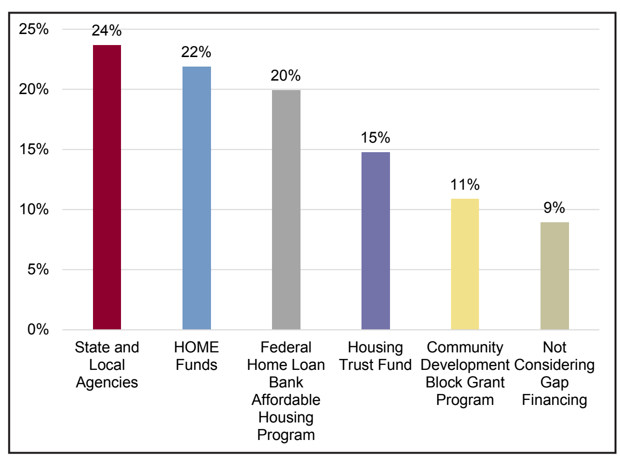
15. For which of the following elements of housing do you have construction projects planned in the next 12 months?

A meaningful plurality (45%) of respondents indicated they have affordable multifamily housing construction projects planned in 2017, up five percentage points from 2016. The only other directional difference from 2016 was for market-rate multifamily housing, which dropped in 2017 to 12% from 17%.



16. What type(s) of debt financing are you considering for your construction projects or refinance projects or both in the next 12 months?

The top two selected answers were taxable/tax-exempt bonds at 26% and FHA programs at 25%. All the figures are similar to the results from 2016.

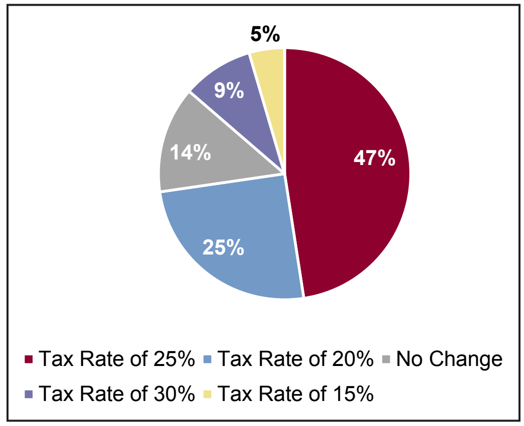


17. What sources of gap financing are you considering for your construction projects or acquisition projects or both in the next 12 months?

There was no statistical difference among the top three choices–state and local agencies, HOME Funds and the Federal Home Loan Bank Affordable Housing program. Statistically, none of the responses were different than the responses in 2016.

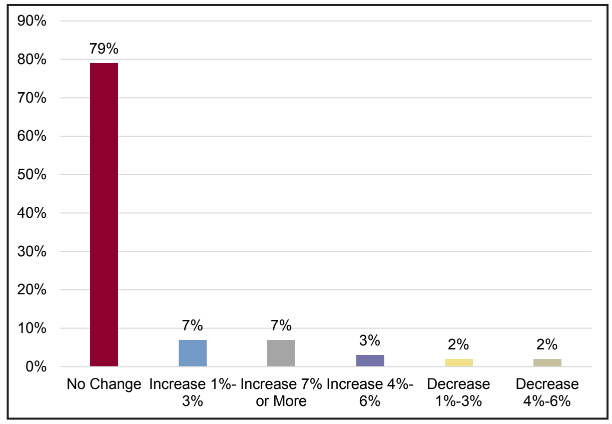
18. Currently, the top tax rate for C corporations is 35%. If tax reform is passed in 2017, what do you think the new top tax rate will be?

A meaningful plurality of respondents (47%) predicted that if tax reform is passed, the new top rate will be 25%. Twenty-five percent of respondents predict it will be 20% and 14% predict no change.



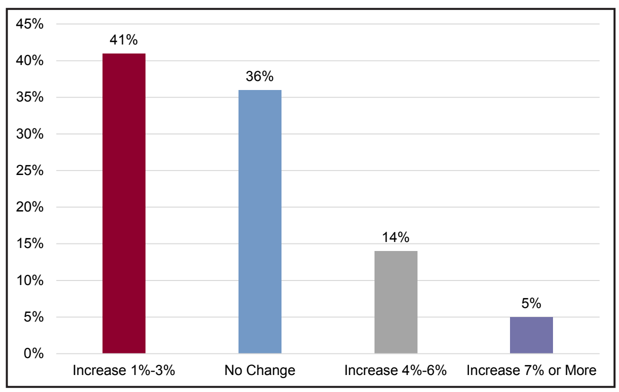
19. How much do you expect the occupancy level of your housing properties to change over the next six months?

A majority of respondents (79%) indicated they expect no change in the occupancy level of their housing properties over the next six months. This is an increase of 11 percentage points as compared to the 68% of respondents that expected no change in 2016.



20. How much do you expect the rent levels of your housing properties to change over the next six months?

A plurality of respondents (41%) indicated they expect the rent levels of their housing properties to increase by 1% to 3% in the coming six months. This is down from 2016 when 49% of respondents expected a 1% to 3% increase. Thirty-six percent expect no change, up 13 percentage points from 2016.



To learn more about any of the elements discussed in the survey results, please contact your local Lancaster Pollard banker who can be found on our website at www.lancasterpollard.com/find-local-banker.aspx.

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