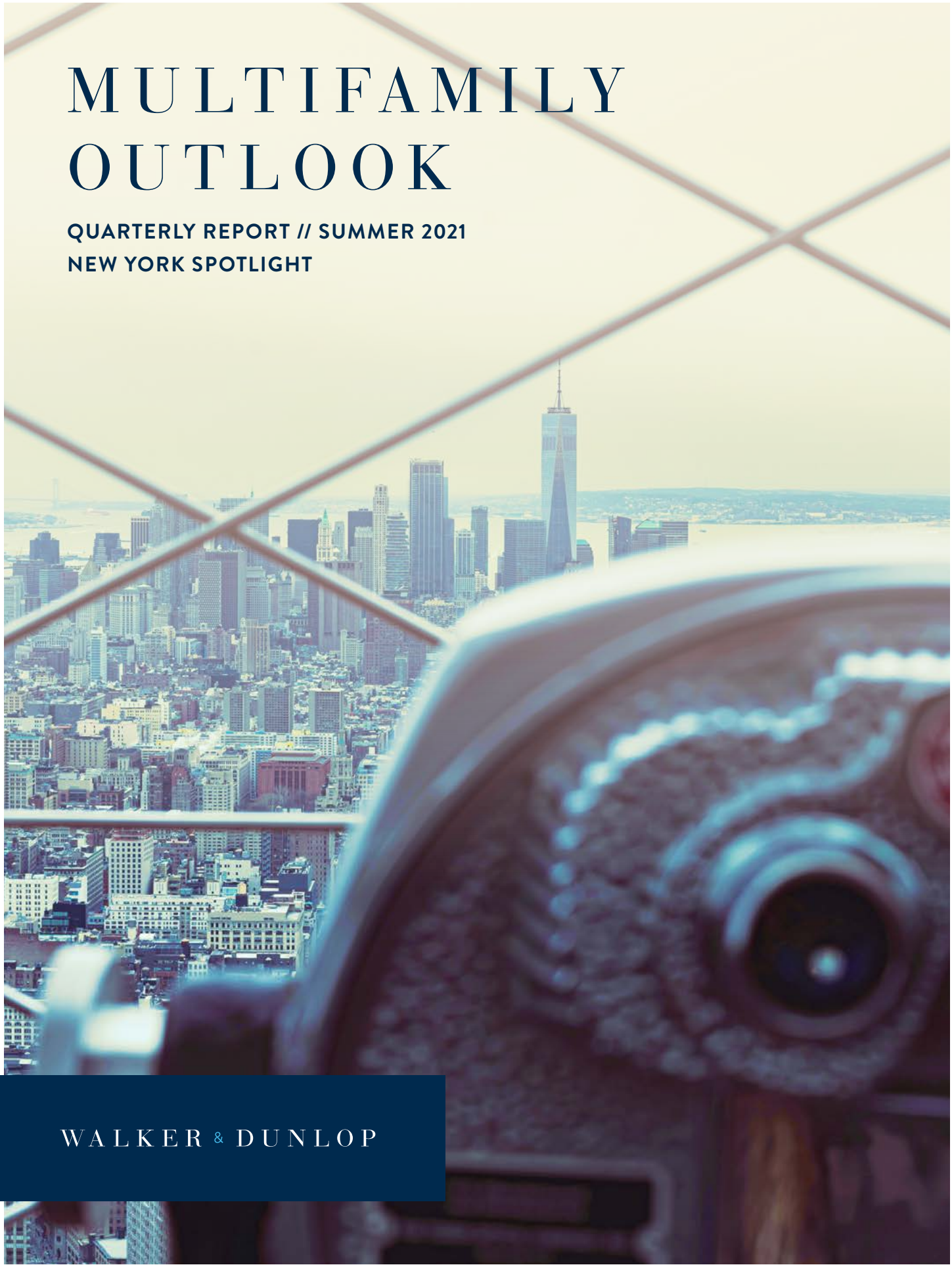
MULTIFAMILY OUTLOOK

QUARTERLY REPORT // SUMMER 2021
NEW YORK SPOTLIGHT



WALKER & DUNLOP

OUR TOP-RANKED TEAM

#1
MBA MULTIFAMILY CAPITAL PROVIDER (LENDING AND ORIGINATIONS) IN 2020

#1
FANNIE MAE DUS LENDER IN 2020

#3
INVESTMENT SALES MULTIFAMILY BROKER IN 2020 BASED ON AVERAGE LOAN SIZE

#4
FREDDIE MAC OPTIGO LENDER IN 2020

#5
MBA CRE ORIGINATOR IN 2020

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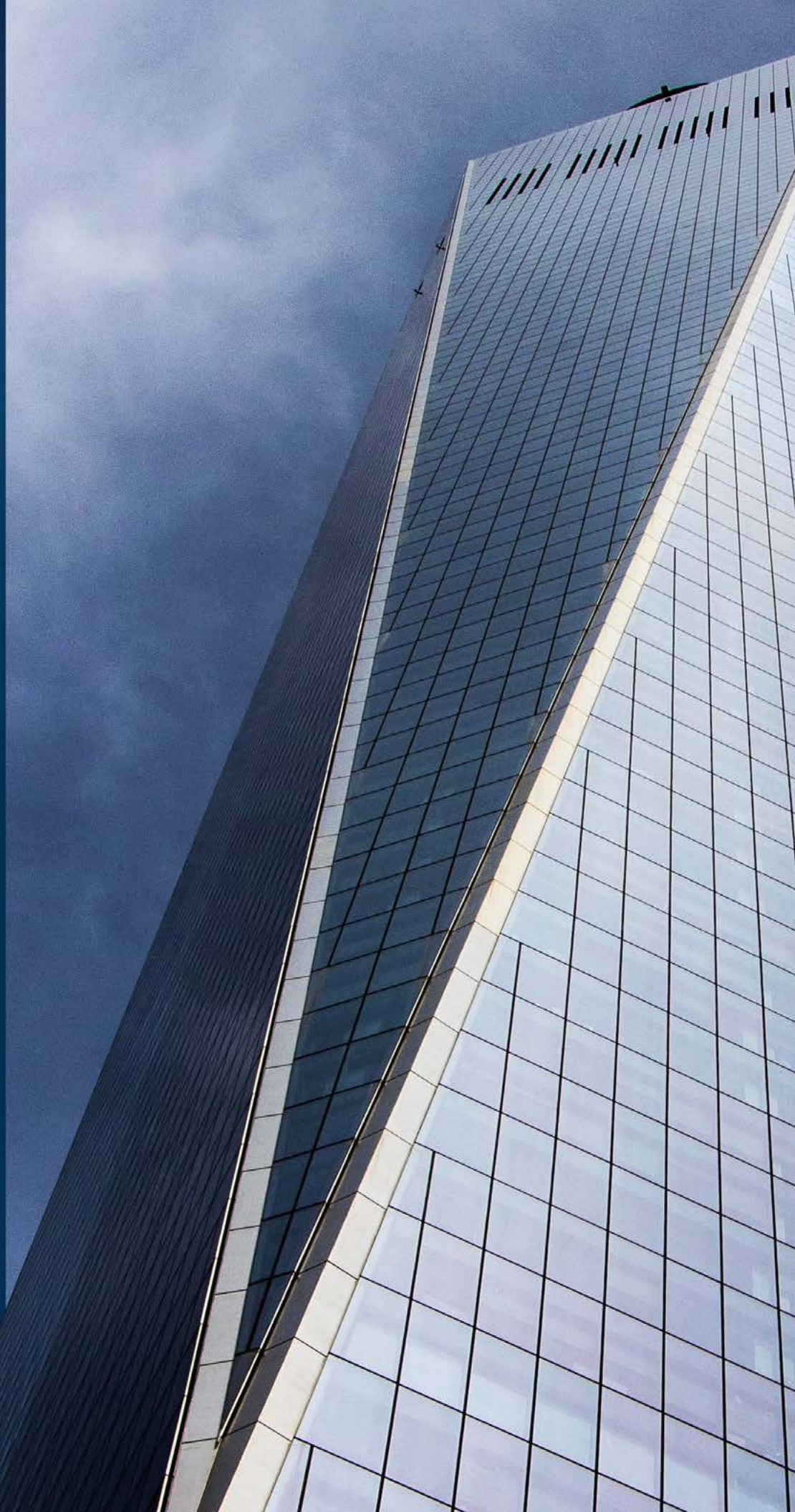
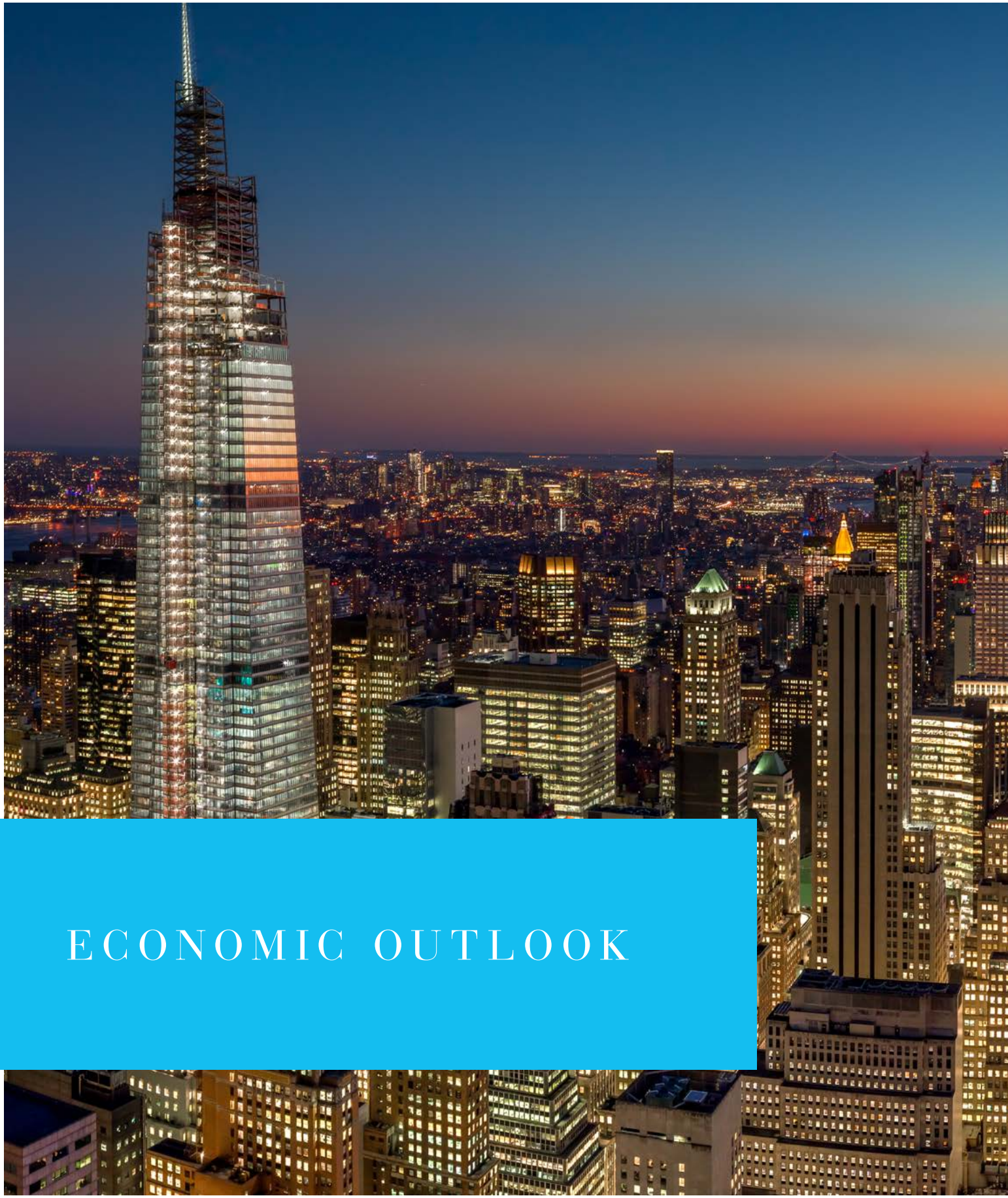
HUD MULTIFAMILY LENDER IN 2020



EXECUTIVE SUMMARY

It's summer and the sun is shining on the multifamily market! As the U.S. continues on its path to recovery, we have been monitoring everything from rebounding geographies to the state of different sectors within the multifamily space. In this issue, we:

- Analyze the state of the economy and how the multifamily space is influenced
- Cover the state of multifamily policy with Doug Bibby, the President of the National Multifamily Housing Council (NMHC)
- Discuss the current state of the small balance lending sector
- Chat with Alison Williams, Walker & Dunlop's Chief Production Officer overseeing small balance financing
- Provide a market spotlight on New York City and the greater Tri-State area
- Introduce CREUnited, an alliance of industry heavyweights dedicated to increasing minority involvement in CRE



ECONOMIC OUTLOOK

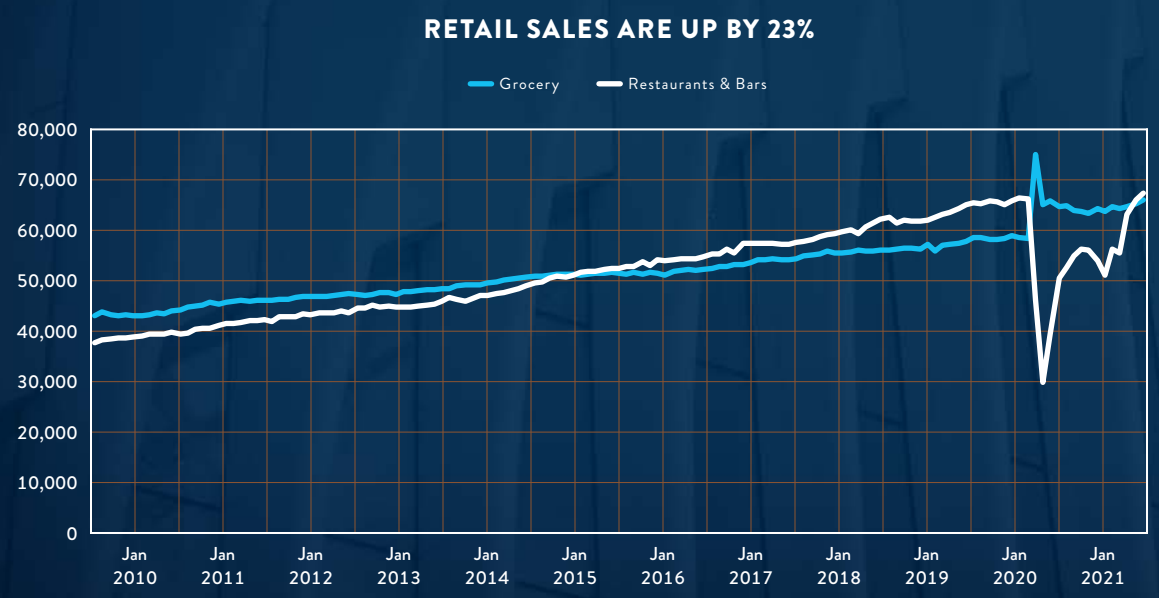
THE ROARING 20'S AND THE GREAT WEALTH TRANSFER

The U.S. is well on a path of recovery from the Covid-19 pandemic shutdown that began in March 2020. More than half of the U.S. population has now received at least one dose of the vaccine, and 48% are fully vaccinated. Those figures increase significantly by age, particularly for the 65+ population[1]. The economy is booming this year – estimated to have grown by 7.8%[2] in the second quarter following 6.4% growth in the first quarter of 2021. Unemployment remains low at 5.9% in June due to 7.9 million jobs created in the past year. Retail sales are up by 23% year-over-year[3]. Even the battered restaurant industry has recovered, with sales again surpassing grocery sales as of April 2021. Pandemic-induced disruptions to labor and trade finally began showing in inflation figures. Even excluding the more volatile food and energy sectors, inflation soared from 1.6% in March to 4.5.% in June, the highest pace since 1991. However, expectations are that the price pressure is a temporary adjustment as the economy recovers. Core inflation is expected to end the year at around 2.2%[4]. And while air traffic is still down by 21% from 2019, it is running at around double the pace of a year ago[5].

LAGGING MARKETS CATCH UP

Job markets that were slow to recover are now catching up. Of the 1.7 million jobs created in the second quarter of 2021, 57% were in the leisure and hospitality sector, and another 18% were state and local government jobs. Note, however, that leisure and hospitality jobs remain 12.9% lower than the peak in 2019, exceeded only by the mining and lodging industry, but both continue to grow. Regional markets show similar patterns. Los Angeles, Miami, Las Vegas, and New York metropolitan areas top the year-to-date job growth rankings as of May, although they are also among the top markets that have not recovered to peak employment levels. Unemployment rates in these markets exceed 8%, apart from the Miami metro area at 6.1%[6]. The Southeast, with its relatively low costs, attractive weather, and growing demographics, remains strong. Tampa, Jacksonville, Orlando, and Atlanta all ranked in the top job growth markets, but with unemployment rates in the 4% to 6% range.

A debate has now ensued as to whether this decade will repeat the "Roaring Twenties," which followed the 1918 flu pandemic, subsequently ending in the great depression. While that topic is worthy of its own article, the current growth should be considered in light of the

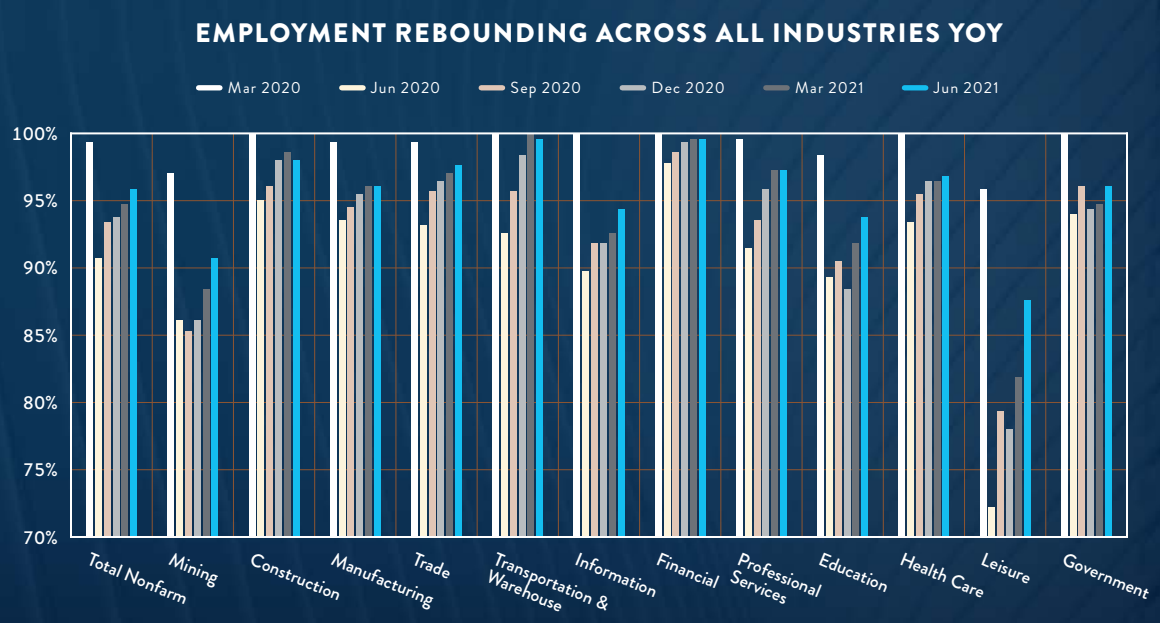


recovery needed to return to pre-pandemic levels. In fact, the 2020 recession was swifter and more volatile than the 2008 recession, or any recession over the past 70 years. Despite the high growth rates, the U.S. economy is still 1% smaller than pre-pandemic[7]. Similarly, the job market is still down by 6.2 million jobs (4.1%) from pre-pandemic levels. Thus, employment cost pressures remain moderate, with the exception of financial, health care, and leisure and hospitality sectors, where average hourly earnings are up by 6% to 8% year-over-year[8].

Like the Valley of Ashes in the Great Gatsby, stress continues to be concentrated in lower-income households – those whose smaller spending levels are less likely to move national GDP and similar figures. For the nearly one-third of the labor force with a high school degree or less, unemployment is high and rising, increasing from 7% in Q1 2021 to 7.7% in Q2 2021. However, this figure may be underestimating official unemployment numbers – because labor participation rates are down due to pandemic-related reasons, this could potentially add another 3–4% to this sector's unemployment situation. With corporate profits up strongly since the second half of 2020, the labor market should be able to further absorb new employees as stimulus efforts wear off.

WEALTH TRANSFERS

With inflationary pressures expected to be temporary, the interest rate environment remains near historic lows. Ten-year Treasury yields, at 1.45% at the end of June, allowed mortgage rates to also remain near historic lows. Two key factors are thus driving wealth. First, higher-income households were minimally impacted by the recession, particularly those who have jobs that could be moved to work-from-home environments. Unemployment for those with a Bachelor's degree or higher is only 3.5% as of June and rose briefly to only 8% during the recession. Second, prolonged periods of low interest rates typically benefit borrowers (who tend to be a younger population) rather than savers (who tend to be an older population). Thus, money has moved into levered assets (real estate) as well as other asset classes. Existing home sales, benefiting from low mortgage rates, were up by 39% year-over-year as of May, and inventories remained low, driving existing home prices up by 24% year-over-year[9]. Stock values also soared as the S&P 500 reached new record levels in June, up by 38.6% year-over-year[10]. Overall, household net worth increased by 16.8% from 4Q 2019 to 1Q 2021[11].



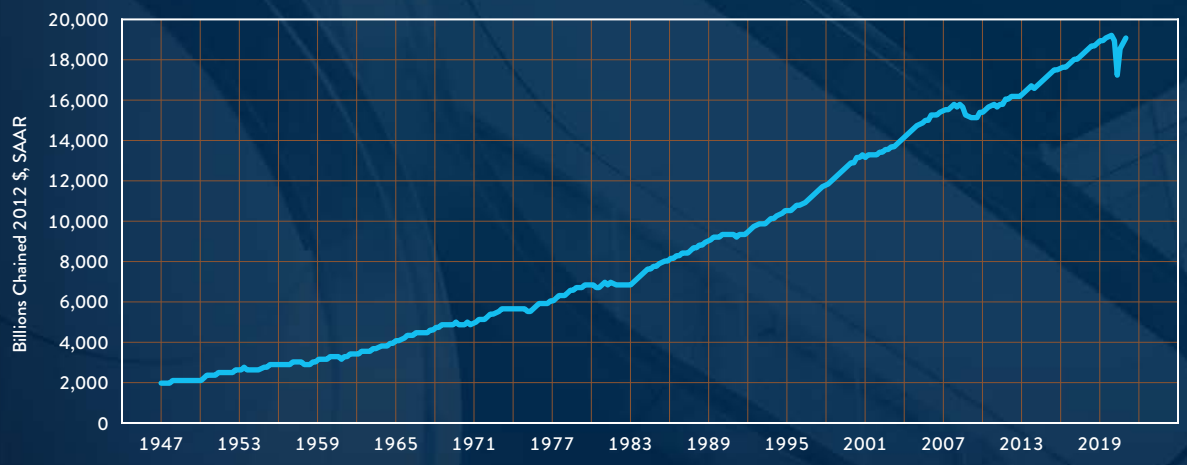
LIMITED CONSTRUCTION AND BOOMING DEMAND SUPPORT APARTMENT MARKETS

Unlike many recessions, real estate was neither a cause nor a casualty of the recession in 2020. Net-absorption of market rate apartments rebounded in the second half of 2020 and ended the year up 6.8% from 2019 levels. In the first half of 2021, net absorption reached record levels, more than double the 2020 pace and 60% higher than that of 2019. Vacancy rates fell by 80 basis points in the second quarter of 2021 to 5.7%, driving rents up by 6.3% over the quarter and by 9.4% year-to-date.

The rental market has been a beneficiary of an eviction moratorium enacted by the Centers for Disease Control (CDC) in September 2020 and extended through July 2021. The moratorium prevented landlords from removing people from their home for nonpayment of rent but did not forgive rent or fees owed. The good news is that as of June 2021, 95.6% of rents were paid, down only slightly from 96.0% in June 2019 and 95.9% a year ago[12]. The forward goal is that employment gains will offset a reduction in federal and state subsidies to households that were enacted to support households through the pandemic. There is near-term risk that this transition does not go smoothly, e.g. the July 31 moratorium expired for a few days before it was extended, at least in part, to October 3. As of early July, 19% of renters surveyed in the U.S. Census Bureau Household Pulse Survey felt that they were 'very likely' to be evicted in the next two months, up from 15% at the end of Q1 and 17% at the end of 2020. However, concerns vary significantly by demographics and region of the country[13]. For example, only 4% of renters with a Bachelor's degree or higher were very concerned they would be evicted in the next two months.

While higher rents support new construction, higher construction and land costs, as well as COVID-induced labor shortages, have inhibited new supply-of the major industry sectors, only residential construction jobs have returned to pre-peak levels. Apartment units under construction in the second quarter of 2021 were equivalent to only 3.6% of stock compared to a peak of 5.3% in the third quarter of 2019[14]. Single-family builders face a similar situation. While the median price of new homes is up by 18.1% year-over-year as of May and the volume of new homes sold over the past twelve months is up by 31% from the previous twelve months, new home sales began slowing after the first of the year[15]. However, permits for single-family homes rose sharply in 2021. May permits are at the highest level since 2007.

U.S. GDP GROWTH 1% LOWER THAN PRE-PANDEMIC LEVELS



Regionally, the strongest apartment markets are concentrated in the Southeast and parts of the West. Markets in which vacancy was less than 5% as of June and rents increased at a double-digit pace over the past year include Baltimore, Fort Lauderdale, Inland Empire, Las Vegas, Miami, Orange County, Phoenix, Sacramento, Salt Lake City, and Tampa[16]. While vacancy rates remain relatively high in the San Francisco Bay Area, the market is improving rapidly, with effective rents up by nearly 7% in the second quarter.

Sales volume of market-rate apartments at $46.6 billion in the first half of the year was up by 35% from a year ago, but at a similar pace as the average for the first half of the year over the previous five years. Cap rates remain low, averaging 5.3% in the second quarter, similar to the previous quarter and down by 8 basis points from a year ago[17]. Centeral business district cap rates averaged just under 5%, with suburban cap rates at 5.6%.

Going forward, low interest rates should continue to support both real estate buyers as well as corporations, supporting both owners and tenants of real estate. Real estate yields also remain highly attractive as compared to both public equity and debt markets. While inflationary pressures are expected to be temporary, the multifamily market with strong demand, limited construction and soaring short-term rents is also on track to provide inflation protection to mixed asset portfolios, should inflationary pressures remain more prolonged.

[1] *https://www.mayoclinic.org/coronavirus-covid-19/vaccine-tracker/ as of July 6, 2021*

[2] *GDPNow Federal Reserve Bank of Atlanta estimate as of Jul 2, 2021, annualized quarterly growth*

[3] *U.S. Census, Total Retail and Food Services Sales, preliminary April cumulative year-to-date, year-over-year growth*

[4] *Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters, May 14, 2021*

[5] *Transportation Security Administration checkpoint travel numbers as of July 5, 2021*

[6] *U.S. Bureau of Labor Statistics, May 2021 data*

[7] *1Q 2021 as compared to 4Q 2019 real GDP in billions 2012 chained dollars.*

[8] *Bureau of Labor Statistics, June 2021 preliminary data*

[9] *National Association of Realtors, retrieved from FRED, Federal Reserve Bank of St. Louis*

[10] *S&P Dow Jones Indices LLC, S&P 500, retrieved from FRED, Federal Reserve Bank of St. Louis*

[11] *Federal Reserve, Z.1 Financial Accounts of the United States, First Quarter 2021*

[12] *National Multifamily Housing Council Rent Payment Tracker*

[13] *www.cdc.gov, August 3 order applicable only to counties experiencing "substantial or high levels" of SARS-CoV-2*

[14] *Apartment data from Costar includes only apartment market rate units and not specialty residential rental property types.*

[15] *U.S. Census Bureau and U.S. Department of Housing and Urban Development*

[16] *Costar*

[17] *Costar*

SMALL BALANCE MULTIFAMILY: SIZABLE AND RESILIENT

THE SMALL MULTIFAMILY MARKET MAKING BIG WAVES

While new builds and top-of-the-line, large-scale developments typically attract the most buzz in the multifamily world, the vast majority of apartment properties in the United States have fewer than 100 units and these smaller properties play a vital role in delivering affordable and workforce rental housing inventory to the US population. While the commercial real estate industry may refer to this sector of the multifamily market as 'small', make no mistake, 'small' multifamily is not insignificant or inferior - it's sizable and resilient.

As other commercial real estate sectors paused during COVID-19, why have smaller multifamily properties and small balance lending thrived? And what does the future hold for this market? The answers lie in a confluence of factors.

FIRST, THE SMALL MULTIFAMILY MARKET DEFINED

The small multifamily market is highly fragmented with no clear definition of what constitutes "small" among capital sources. Generally, market statistics define the "small' multifamily sector by at least one of two measures:

- Unit count between five and 99 units; and/or
- Principal loan balance at origination between $1 and $10 million*

STRONG DEMAND AND OPERATING FUNDAMENTALS

While the pandemic negatively impacted many areas of commercial real estate, with offices, retail shops and hotels largely shuttered across the U.S, the multifamily market remained resilient. Despite the past year's challenges, multifamily rental rates increased, cap rates decreased, and valuations increased. Heading into the second half of 2021, investment and lending activity is not only back to pre-COVID levels, but is actually on pace to exceed peak levels experienced in 2019. The small multifamily sector is no exception.

Accounting for roughly 85% of apartment inventory in the US, small multifamily properties play an essential role in combating today's affordable housing crisis. As the largest contributor to our nation's affordable and workforce housing stock, small multifamily presented a unique advantage during the pandemic relative: comparatively steady rent collections. Many renters in affordable and workforce housing income brackets found their bank accounts bolstered by the three rounds of COVID-relief stimulus checks. While increases in delinquency was a reality for nearly every property regardless of size or class, affordable and workforce housing (Class B and C) assets still managed to maintain low vacancy rates. Their Class A counterparts, on the other hand, saw an increase in vacancy due to new supply, millennials moving back home, and renters seeking less expensive housing options due to reductions in household income.

SUSTAINED LIQUIDITY AND INVESTMENT POTENTIAL

With the uncertainty around COVID, commercial banks, private equity, and other capital sources paused in early 2020, while Fannie Mae and Freddie Mac filled in the gaps by fulfilling their mission to provide liquidity and promote market stability for the multifamily housing market. For loans of $1 million to $7.5 million, GSE lending made up a full quarter of 2020 lending, representing $13.9 billion of a total of $55.7 billion originated across more than 3,000 capital sources.

Summer 2021 presents a very different picture than summer 2020. The debt markets beyond Fannie and Freddie have rallied and are full throttle ahead, providing valuable liquidity back to the market. As a result, funding uses are shifting from refinances to acquisitions, demonstrating how multifamily finance – including small balance lending – is a sector with a quick rebound, delivering stability and opportunity in both good times and bad.

Given the continued economic optimism, low interest rates, and abundance in capital, we expect the multifamily market, small and large, to be a top performer in 2021 and 2022.

**Freddie and Fannie Mae Small Balance loans are capped at $7.5 million and $6 million, respectively and generally focus on properties with 150 units or less.*

The *Future* of SMALL BALANCE *lending*

Q&A WITH ALISON WILLIAMS

Having originated debt and equity for over $3 billion in large commercial real estate transactions, Alison Williams brings her client-centric perspective to small balance lending through her new role as senior vice president and chief production officer. Formerly a Senior Director with Walker & Dunlop's Capital Markets team, Alison's experience structuring highly-customized financing solutions for a wide range of large commercial real estate investors and property types offers a fresh and unique perspective to the largely volume-focused small balance lending sector.

Here Alison shares her thoughts on the future of small balance lending at Walker & Dunlop and the prospects for smaller properties in the multifamily sector.

Who is—and will be—the typical borrower in this space?

There is no typical buyer in small multifamily properties. Buyers range from entrepreneurial, high-net-worth individuals interested in building a portfolio and creating generational wealth to large real estate firms with portfolios expanding from coast to coast.

What are the friction points in small balance lending?

Regardless of the investor's familiarity with the marketplace, the small multifamily lending landscape remains deeply fragmented and difficult to navigate, with over 3,000 different lending sources providing liquidity in the $1 million to $10 million range. Investors need resources and a true debt partner who can help them execute on their business and investment strategies. That's why Walker & Dunlop is augmenting our capabilities in this sector. We're bringing bankers and brokers with a proven track record in deals both large and small—people who've seen it all and understand how to navigate financing complexities. This framework promises borrowers certainty of execution and an overall smooth financing experience.

Talk about technology. How are innovations streamlining the process—and changing the game?

In today's fast-paced world, time is priceless. Borrowers need strategic partnerships that offer a highly-personalized customer experience while delivering real business value through everything from knowledge, tools, and insights to business-plan-specific debt options. Not only must these partnerships deliver tangible value, but such delivery must be fast, efficient, and customizable to accommodate any borrower's schedule or preference. This is where technology comes in.

As we've seen in other industries, digital innovations giving way to automation, AI, and advanced analytics are the future. Tools are emerging that put information in one place and automate time-consuming and repetitive tasks such as filling out forms. In the single-family space in particular, there has been steady innovation in how people find and finance their homes. Being as broad and dynamic as it is, we believe the small multifamily lending sector is poised for the next digital revolution.

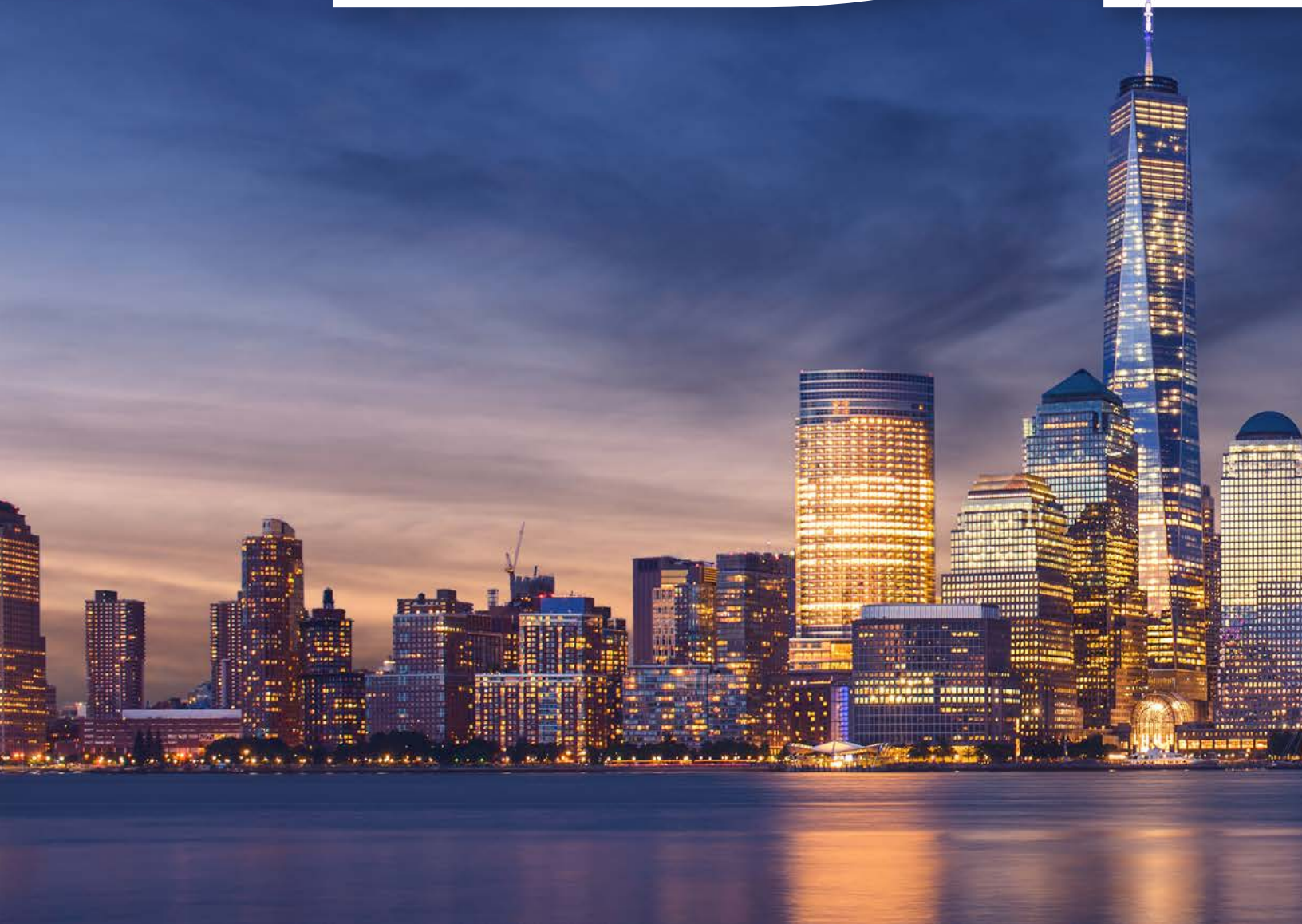
Walker & Dunlop is working on exciting new offerings in this area to streamline processes and augment deal underwriting and decision-making methods – all while delivering a transparent and frictionless experience to our borrowers. What this means for our employees is more time to focus on delivering a highly personalized client experience and, for our borrowers, less time spent working through underwriting and closing requirements, and more time to focus on achieving their investment and operational goals.

What do you see ahead in terms of performance and growth?

I believe the multifamily sector is positioned for favorable performance and growth in 2021 and beyond due to favorable debt markets, stable investment fundamentals, and the surge in demand for affordable housing which is proving to be immune to market fluctuations. As the multifamily market continues to grow and technology continues to transform the customer experience, Walker & Dunlop's focus on small multifamily lending positions us well to help clients navigate the evolving landscape.

Interested in learning more? Contact us for more details.

The Return *of the* B



BIG APPLE

MULTIFAMILY AWAKENS IN THE CITY THAT NEVER SLEEPS

SPOTLIGHT ON NEW YORK CITY AND THE TRI-STATE AREA

Throughout the 2010s, New York City's story had been one of continued growth, optimism, and expansion. With the onset of COVID-19, lockdown measures led to job losses, shuttered businesses, and devastation across key industries like retail, entertainment, and hospitality. MultiHousing News' Winter 2021 report for Manhattan estimated that, beginning in March 2020, roughly 300,000 residents left the city.

What does the city's narrative look like in 2021 and beyond?

Demand, both near-term and year-over-year, is up. According to an April 2021 research report by New York real estate company Douglas Elliman, Manhattan rentals saw a 546% increase in new leases (excluding renewals) year-over-year. Brooklyn had the highest number of lease signings since monthly tracking began in 2008.

New York City is no stranger to tough times. During the 1970s and most recently in 2008, the city got hit with severe economic crises, and it hit back even harder to return to prosperity. All signs point to a similar rebound in 2021 as renters and the overall multifamily industry realize anew the value of a city like no other.

> "Why work from your couch when you're living in the Big Apple?"
>
> Ian Hawk, Walker & Dunlop Senior Analyst

THE BIG APPLE EXPERIENCES RETURNS, WITH DEALS FOR RENTERS AND BUYERS

As COVID-19 vaccines continue to roll out, New York City's quiet streets and empty office buildings have been flickering back to life. While workers in other parts of the United States may continue to favor remote work, businesses and professionals in Manhattan are viewing the situation differently. Why work from your couch when you're living in the Big Apple?

The finance industry has led the way so far. "We're going to try and make this, frankly, as normal as possible," Gerry Keefe, head of global banking for the Americas at HSBC Holdings Plc, told Bloomberg. "Although the floors won't be at the same density as they were pre-COVID-19, we'll still have a critical mass in place."

Global leaders like JPMorgan Chase, Deutsche Bank, and Goldman Sachs have resumed their in-person programs for interns and entry-level professionals, long considered stepping stones to lucrative careers, and many institutions are bringing employees of all levels back throughout the summer and fall. Expanding the view beyond finance, Facebook announced the re-opening of its Manhattan office, and a recent survey by Partnership for New York City anticipates that 62% of Manhattan office workers will return to their workplace by the end of September.

The resumption of office work sets off a chain reaction. Bars and restaurants have reopened at full capacity, and subway service runs 24/7 again. Shops, entertainment venues, and other retail outlets eagerly open their doors to receive the ample disposable income these well-paid professionals have saved up during lockdown.

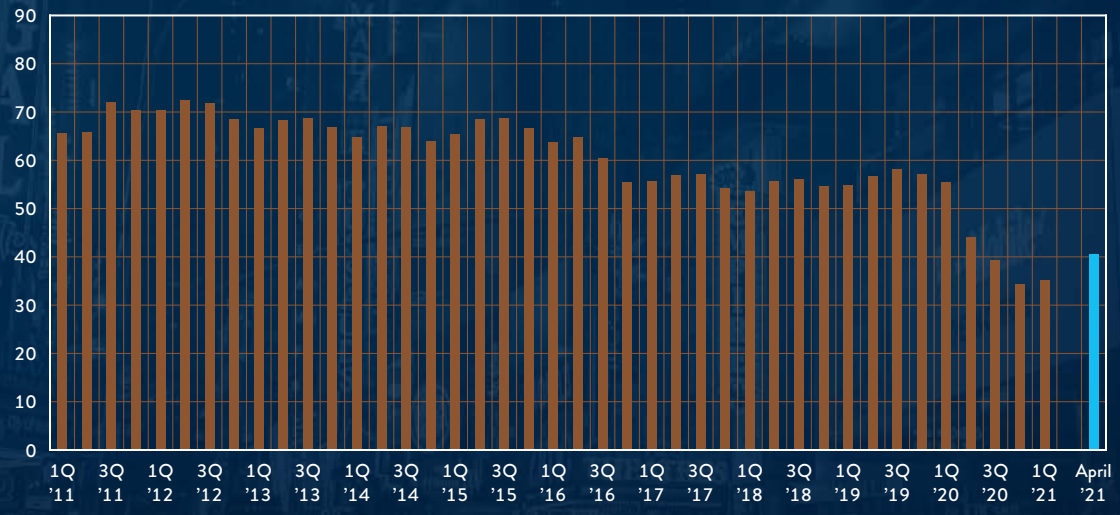
But it's not just wealthier renters finding a home in the city in 2021. Imagine finding a two-bedroom in Brooklyn for $3,000, a Manhattan loft for $3,995 or a doorman building in Manhattan for $3,482 a month. As the city re-opens, younger workers previously priced out of the city are finding historically low rents. In May 2021, "the net effective median rent in Manhattan, defined as the gross monthly rent less landlord concessions, fell 11.1% year-over-year, to $3,037, but rose by a record 8.8% from the prior month," Elliman reports.

Current recovery trends bode well for multifamily investors as well. Even before the pandemic, many buyers had been moving their money to the Sun Belt for fewer restrictions and higher yields.

Flash forward to 2021. As these areas face historic inventory shortages—down 66% in Raleigh and 59% in Sarasota, for instance—Manhattan is one of the only markets where for-sale inventory is up: 35%, to be precise. In fact, Douglas Elliman research for May 2021 reports total inventory in Brooklyn up 478.3% (year-over-year). Furthermore, pricing power for markets such as New York City, remain below historic levels.

PRICING POWER FOR TOP MARKETS STILL BELOW HISTORICAL LEVELS

0–100 index covering NYC, San Fran, San Jose, Boston, Chicago, Seattle and DC



Source: Zelman & Associates Apartment Survey

SUBURBAN SHIFTS AND AN OVERALL FLIGHT TO QUALITY

As for the fabled COVID-19 flight from New York City?

This story of New York has been misunderstood and overexaggerated. "There is a shift within the region, and between asset classes, there's more a flight to quality than a flight from the city," Ian Hawk, Walker & Dunlop Senior Analyst, explained.

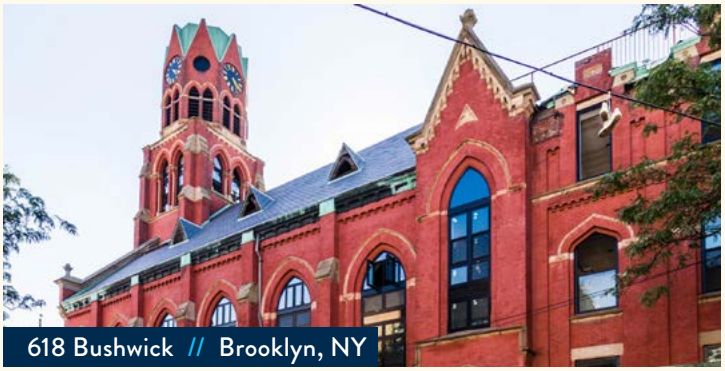
During the pandemic, some millennial renters already eyeing the suburbs for family life simply moved, which shifted their timeline up by three to five years. This timeline acceleration impacted everything from city and suburb demographics to trends in e-commerce and the industrial space. As the city recovers, suburbanites at a later stage in life have been selling their homes at record prices to return to the city as renters. Many of these renters have the money to afford the New York City lifestyle they want: amenity-rich buildings in prime locations. "Market share of luxury market concessions continued to be less than in the remainder of the market," Douglas Elliman reports.

Such a flight to quality is taking place in the suburbs as well. Whether they're Manhattanites looking to get more bang for their buck or well-off suburbanites nevertheless priced out of the post-COVID-19 housing boom, many renters are willing to pay for larger units and more amenities in the regions surrounding New York City.

They're looking at Class A properties like The Mariner in the heart of downtown Port Chester, which offers direct access to midtown Manhattan, a fitness studio, concierge service, a landscaped roof, and spacious units with premium fixtures and finishes. The property was a deal for its buyers as well. "This sale represented a very rare opportunity to acquire a luxury residential asset in one of the nation's highest barriers to entry metropolitan areas," Hawk said.

Even as many New Yorkers return to the city, the suburban multifamily market remains strong, even growing, in many communities. "Properties in Jersey City, NJ, Nassau and Suffolk, Long Island, and Bergen County, New Jersey, have been leasing up at an impressive pace, and Bergen County and Hackensack have been seeing a lot of development due to incentives like tax pilots and abatements," said Thomas Walsh, Walker & Dunlop Managing Director.

"We're seeing deals, transactions, and institutional momentum in Stamford, Connecticut, and a considerable amount of demand for anything towards the beach or Jersey Shore, like Asbury Park or Belmar," said Walsh.



618 Bushwick // Brooklyn, NY

Long Island Multifamily Portfolio // Long Island, NY

101 East 10th Street // New York, NY

AFFORDABLE HOUSING AND THE ROAD AHEAD

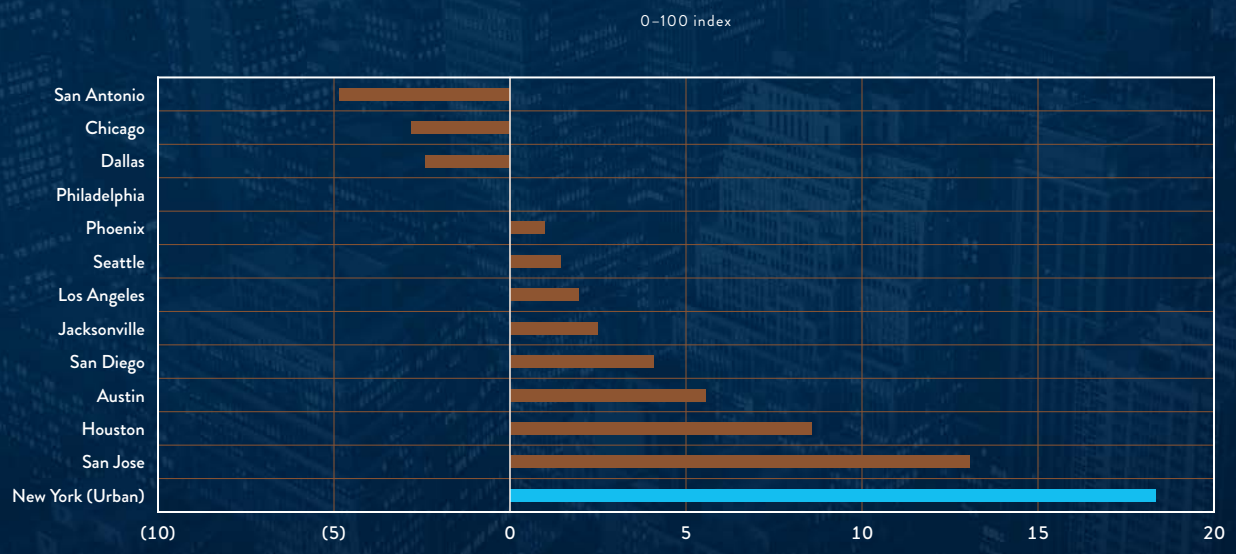
"While rent drops have facilitated great deals and better apartments for people to pick up and move—largely upper- and middle-class professionals—they haven't made a dent in increasing the stock of truly affordable housing," New York Magazine reported in May.

Affordable housing has long been a complex problem and urgent need in the metropolitan area, further complicated by New York City's unique set of regulatory challenges. On the positive side, candidates across the board in city elections, including the mayoral race, have expressed a strong commitment to affordable and workforce housing. Meanwhile, GSE programs have been providing support throughout the pandemic. In September 2020, for example, Walker & Dunlop structured $87,429,870 in Fannie Mae financing to preserve 710 units of workforce housing throughout Monmouth, New Jersey.

For the multifamily sector overall, the future looks bright. In April, Queens reported the highest market share of new development listings in 18 months, and New York City's forward development outlook increased the most of any city in the nation.

> "Multifamily is back in New York City—and for those who recognize all the city has to offer, it never left."
>
> Ian Hawk, Walker & Dunlop Senior Analyst

FORWARD DEVELOPMENT OUTLOOK INCREASED MOST IN NEW YORK



Source: Zelman & Associates Apartment Survey

The Partnership for New York City reported that as of May 2021:

- The city had recovered half of the 901,000 private-sector jobs lost during the early months of the pandemic.
- Personal income tax collections exceeded the city's April projections by more than $1.4 billion, with projected growth of $1.2 billion in FY 2021 compared to FY 2020.
- Sales tax collections were up 51% from 2020 and 3% from 2019.
- Moody's and S&P Global Ratings both elevated their outlooks on the city's general obligation bonds from negative to stable.

All of these positive indicators are making their presence known in the multifamily sector. "We're seeing tremendous transaction activity year-over-year, with strength across price points," said Hawk. "Multifamily is back in New York City—and for those who recognize all the city has to offer, it never left."

MEET THE CONTRIBUTORS

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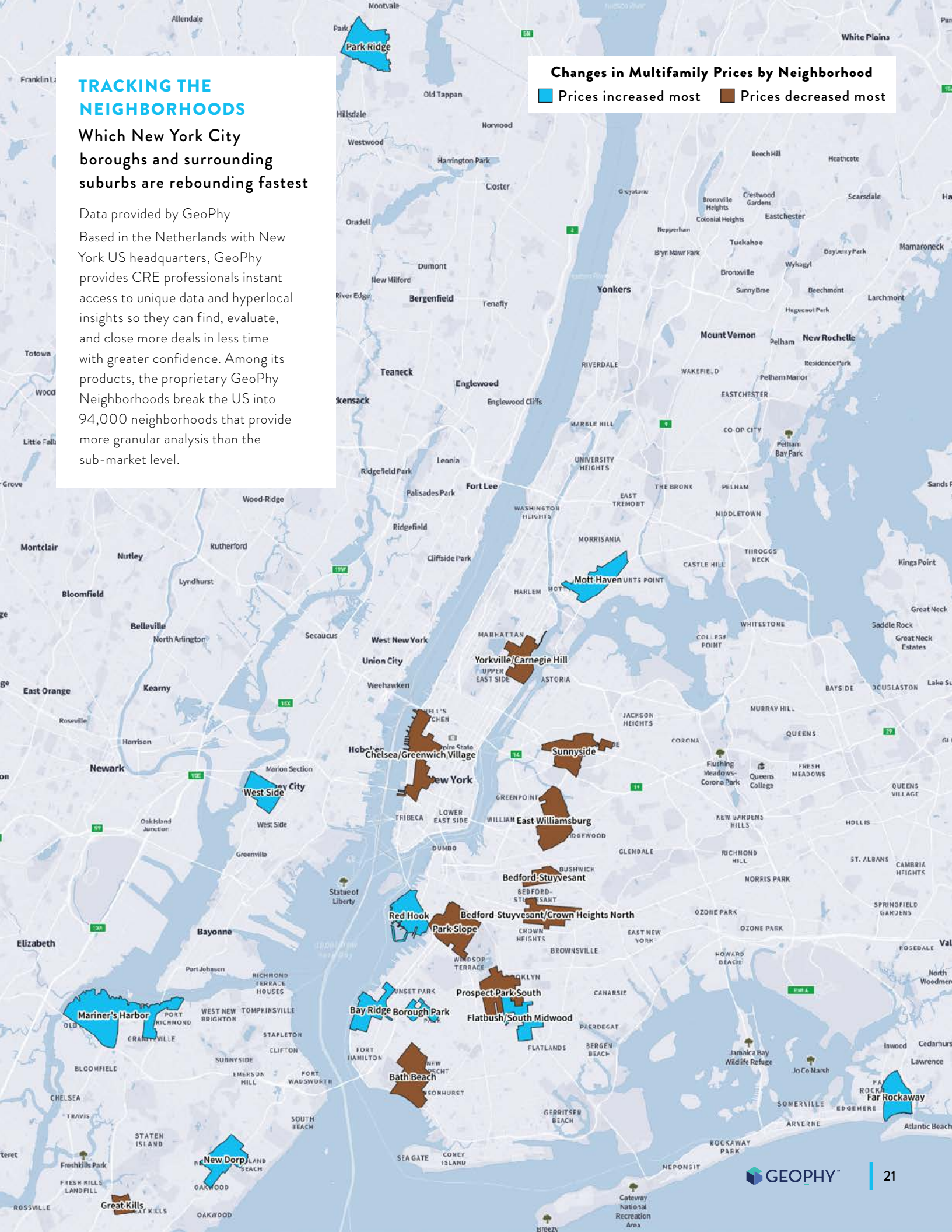
TRACKING THE NEIGHBORHOODS

Which New York City boroughs and surrounding suburbs are rebounding fastest

Data provided by GeoPhy

Based in the Netherlands with New York US headquarters, GeoPhy provides CRE professionals instant access to unique data and hyperlocal insights so they can find, evaluate, and close more deals in less time with greater confidence. Among its products, the proprietary GeoPhy Neighborhoods break the US into 94,000 neighborhoods that provide more granular analysis than the sub-market level.



Introducing...

CREUnited

WALKER & DUNLOP HAS LAUNCHED CREUNITED, A NEW ALLIANCE THAT AIMS TO INCREASE MINORITY PARTICIPATION IN THE COMMERCIAL REAL ESTATE INDUSTRY. THE OVERARCHING GOAL IS TO GROW ASSETS UNDER MANAGEMENT BY MINORITIES.

Fannie Mae

Freddie Mac

KKR

CAMBER CREEK

PACIFIC LIFE

GREYSTAR

Manulife Investment Management

SYMETRA

Kayne Anderson
Capital Advisors, L.P.

UNIBAIL-RODAMCO-WESTFIELD

THE PARTNERSHIP COVERS ALL ASPECTS OF THE INDUSTRY, INCLUDING LENDERS AND PRIVATE EQUITY FIRMS, INSTITUTIONAL INVESTORS, AND OWNERS AND OPERATORS OF ALL ASSET CLASSES.

The commercial real estate industry's lack of diversity is glaring, and industry leaders agree that transformation is imperative. While minorities account for over 48 percent of the U.S. renter population, according to the U.S. Census, just four percent of real estate companies are owned by women or minorities. According to a study by Harvard University, minority-owned companies control only a little over 1.2 percent of all assets under management (AUM). To bridge this gap, Walker & Dunlop has launched CREUnited – an alliance amongst industry heavyweights and minority-owned businesses – dedicated to increasing minority representation and AUM.

"We have seen good intentions in the industry to increase the participation of minority owners and operators, but real, sustainable change requires the industry to come together," TJ Edwards, Managing Director of Walker & Dunlop's Proprietary Capital group. "CREUnited brings together organizations from across the CRE industry – all under one common interest: knocking down barriers that have hindered minority owners and operators from thriving in this industry."

"The collective power of this alliance will help us create real change for all players in the industry. This will create a domino effect resulting in growth of AUM for minority businesses," said Bo Okoroji, CREUnited Advisory Board Member and Vice President of Investments & Divestments, Unibail-Rodamco-Westfield. "There is also an important element of accountability here – the entire industry is accountable for the change needed to improve diversity, and the corporate partners within this initiative are committed to doing their part to expand ownership and growing representation."

Earlier this year, the alliance hosted a listening session with executives from 11 leading minority-owned CRE firms to commence the initiative. Leaders from Banneker Ventures, Dantes Partners, FLGA, Gateway Merchant Banking, Mohanna Development, New Faze Development, Osso Capital, Rule Enterprises, Standard Real Estate Investments, LA Bolden, and The Menkiti Group shared their personal stories and perspectives to help further illustrate the challenges and obstacles ingrained in the industry.

Stemming from the discussion, CREUnited identified five objectives and developed prospective solutions for each. Collectively, these provide a blueprint for measurable progress.

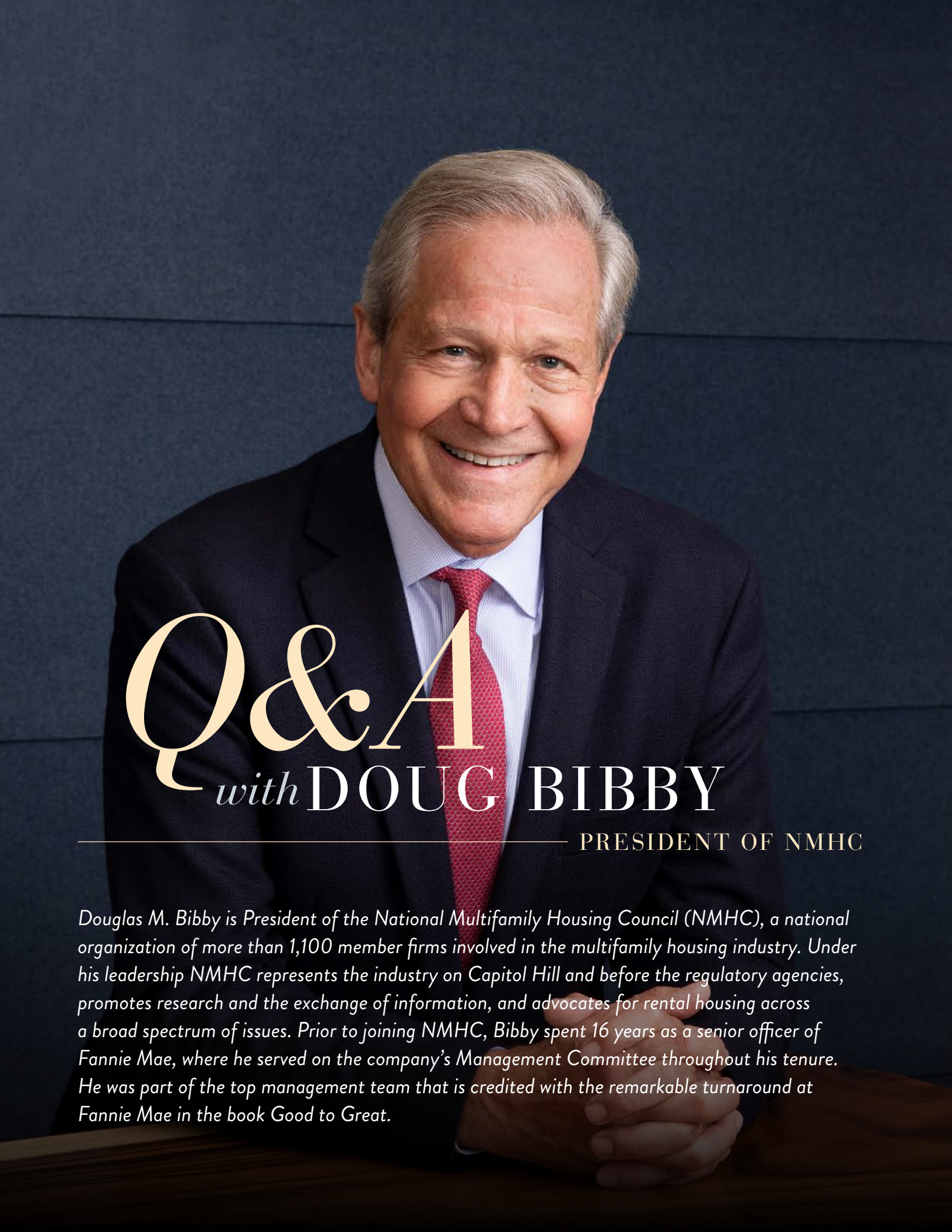
- Increase transparency through industry reporting and tracking
- Build new channels for minorities to access established professional networks
- Expand access to debt and remove barriers to equity capital
- Assist in expanding the portfolios of minority owners beyond affordable housing to market-rate multifamily and other asset classes, such as retail, office, industrial, and hospitality
- Implement best practices to ensure capital flows from institutional investors to minority-owned firms

Members of CREUnited's advisory board will oversee these five pillars and foster new partnerships to make tangible progress on these strategies and solutions.

"Walker & Dunlop kickstarted this initiative because our team realized that taking a company-by-company approach to diversity is not enough," said Willy Walker, Walker & Dunlop Chairman and CEO. "Through the power of partnership, we will transform the industry."

"The collective power of this alliance will help us create real change for all players in the industry. This will create a domino effect resulting in growth of AUM for minority businesses."

Bo Okoroji, CREUnited Advisory Board Member and Vice President of Investments & Divestments, Unibail-Rodamco-Westfield



Q&A *with* DOUG BIBBY

PRESIDENT OF NMHC

Douglas M. Bibby is President of the National Multifamily Housing Council (NMHC), a national organization of more than 1,100 member firms involved in the multifamily housing industry. Under his leadership NMHC represents the industry on Capitol Hill and before the regulatory agencies, promotes research and the exchange of information, and advocates for rental housing across a broad spectrum of issues. Prior to joining NMHC, Bibby spent 16 years as a senior officer of Fannie Mae, where he served on the company's Management Committee throughout his tenure. He was part of the top management team that is credited with the remarkable turnaround at Fannie Mae in the book Good to Great.

What are your top takeaways from the NMHC Annual meeting?

First, I witnessed across-the-board exhilaration for the return of in-person meetings.

Second, there is a palpable sense of optimism about the sector's prospects in light of multifamily's preferred status in real estate. Still, there is an underlying apprehensiveness about possible changes in tax policy as "pay fors" for proposed legislation.

Can you comment on the current multifamily market and your projection for the remainder of the year?

A

It's a great market for sellers, but buyers face a double whammy of low cap rates and increased competition, especially from non-traditional players. The "wall of capital" seeking placement in our sector reflects investors' belief that there aren't better opportunities to deploy capital in real estate. It will be a big year for transactions, but a little off for deliveries of new units due to construction costs and delays. Overall, a very solid year.

How have the stimulus packages impacted the multifamily market?

A

The stimulus packages have been HUGE! Starting with the CARES Act that provided direct assistance to consumers and $600 per week in unemployment benefits through July, Congressional action has stabilized what could have been a disaster in rental housing as millions of people lost jobs overnight. The subsequent packages in December 2020 and the spring of this year provided for an unprecedented amount of rent relief of nearly $50 billion that will further stabilize and strengthen the market when it makes its way to renters and owners. I'm proud to say that NMHC had a big hand in securing the funds under the Emergency Rental Assistance Program (ERAP).

What potential tax policy changes are you tracking most closely?

A

Given the uncertainties surrounding the next two omnibus bills proposed by the Biden administration and the funds required to pay for the programs, we must watch a panoply of potential tax changes to protect the industry from deleterious consequences like those that really hurt the real estate market in the mid-1980s. Of most concern are proposals affecting the 1031 Exchange program and stepped-up basis, along with concerns about overreach on both capital gains and ordinary rates. We're working hard with industry allies to convince policymakers not to disrupt our real estate markets just when the economy is poised to rebound.

What is being done to bring down the price point to make housing more affordable?

A

Unfortunately, not enough at any level. The Biden administration has come out forcefully against exclusionary zoning, which inhibits the ability to deliver the right kind of housing to the areas where it's most needed. However, these and other manifestations of NIMBYism are still stifling affordable housing at the local level. I'm hopeful that the infrastructure bill that finally sees the light of day will incorporate some teeth into the federal government's ability to force change among states and localities. But the cost of land, pervasive and onerous regulation, cost to construct affordable housing, and myriad financing challenges all combine to frustrate everyone who cares about closing the gap.

Q ***What, if any, lasting impacts do you believe the COVID-19 pandemic will have on the multifamily market?***

A Two come to mind. We've discovered that we can use virtual reality in our business lives more quickly and effectively than most imagined. This will have a significant bearing on staffing and business travel in the months and years ahead. Second, where we work will change too, given that we found that working remotely can get the job done. I don't see the demise of the office, as we continue to need face-to-face interactions for a variety of reasons, including, as we just found out in San Diego, the importance of the human touch in our lives. I most certainly do not buy the "end of the city" prognostications that have been bandied about. We've come too far in revitalizing our downtown areas to step back to a suburban-centric model!

Q ***Thinking back on your time leading NMHC, what are you most proud of?***

A There are so many things to be proud of, and I share so much of the credit with my incomparable staff, a long line of talented and caring volunteer Officers of NMHC, and the membership at large. If forced to single out one thing, I would say that I am enormously proud that multifamily housing is properly understood and valued as an asset class in real estate. When I took this job twenty years ago, investors demanded 250 to 300 basis points to compensate them for the "risk" of investing in our sector, and rental housing was seen as housing for the poor or as a way station on the journey to homeownership. We are now attracting institutional capital from all over the world and are THE preferred asset class in real estate. We can all be proud of how far we have come!

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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.

Register online to watch live. Replays are available at YouTube.com/WalkerDunlop.

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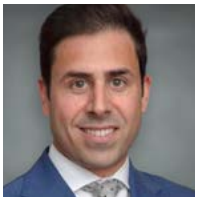

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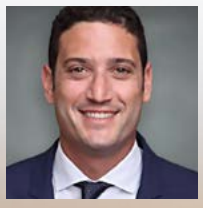

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Capital Markets

CONCLUSION

There are a number of economic and social tailwinds pushing the multifamily industry forward. As always, our team will be closely monitoring the trends that will have the greatest impact. 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 the largest provider of capital to the multifamily industry in the United States and the fourth largest lender on all commercial real estate including industrial, office, retail, and hospitality. Walker & Dunlop enables 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 enables us to meet any client need – including financing, research, property sales, valuation, and advisory services. With over 1,000 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.

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