Multifamily Maintains High Significance in Institutional Real Estate

KEY TAKEAWAYS

- Multifamily plays a very significant role in institutional real estate investment today.
- The sector represents nearly one-quarter of the total institutional holdings in the NCREIF NPI.
- Multifamily's rise in importance in previous decades came from its diversification benefits, better yield opportunities and declining risk.

MULTIFAMILY IN INSTITUTIONAL WORLD

In the U.S., multifamily housing holds a significant position in institutional real estate. It is considered one of the four major "food groups" and a must-have for diversified portfolios. But this has not always been the case. Moreover, the key role of multifamily in U.S. institutional real estate is fairly unique compared to other countries.

NCREIF has long tracked the value and performance of commercial real estate investment via its NCREIF Property Index (NPI) based on data contributions of its member companies (institutional real estate owners). Examination of historical NPI data provides a clear view of the significance of multifamily in current portfolios and increases over time.

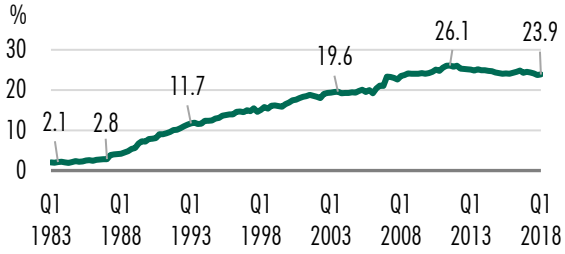
Multifamily's market value represented 23.9% of all assets in the NPI as of Q1 2018. Thirty-five years ago, multifamily represented only 2.1%. The most significant periods of change occurred from the late 1980s through the early 2000s and then in the mid-2000s to early 2010s.

Figure 2: Current Market Shares, All Property Types

Property Type	Market Value ($ Billions)	Percent of Total	Q1 1983 Percent
Office	208.8	36.8	45.1
Multifamily	**135.4**	**23.9**	**2.1**
Retail	130.5	23.0	28.2
Industrial	88.8	15.6	22.2
Hotel	4.0	0.7	2.5
Total	567.5	100.0	100.0

Source: CBRE Research, NCREIF, Q1 2018.

Figure 1: 35-Year History of Multifamily's Share in NPI



Source: CBRE Research, NCREIF, Q1 2018. Percentage based on total market value.

The rapid increase in the sector's significance began in 1987 when multifamily represented 2.8% (Q1 1987). From there, the market share rose steadily through the early 2000s, reaching 19.6% in Q3 2003. Through this period, institutional capital was drawn to multifamily for many reasons including product diversification; expanded investment opportunity; greater yield potential; the industry's increasing professionalism, sophistication, transparency and scale; and perceived and actual reduction of risk.

During the peak years of the past real estate cycle—especially 2006 and 2007—and in the early recovery years following the 2008 recession, multifamily's market share rose considerably again. The rise immediately following the recession was due largely to multifamily experiencing a less severe downturn during the recession and more speedy recovery after. The environment created a preference for multifamily, as well as greater reductions in the value of non-multifamily assets.

The moderate market-share drop since 2011 reflects a normalization from the post-recession period. Yet, as investors consider options today, the sector's share may rise again due to relatively solid fundamentals and the likehood of multifamily weathering the next recession better than other sectors.

MULTIFAMILY RESEARCH

Jeanette I. Rice CRE®
Americas Head of Multifamily Research
+1 214 979 6169
jeanette.rice@cbre.com

cbre.us/multifamily