NOW IS A GOOD TIME TO INVEST IN U.S. MULTI-FAMILY REAL ESTATE, DESPITE RISING INTEREST RATES

What are the Current Macro Concerns?

It is inherently difficult to predict the future, especially with today's changing political landscape and concerns around a sustained rise in U.S. interest rates adding an additional level of uncertainty in the eyes of real estate investors. In reality, the stock market has reacted positively after the recent U.S. presidential election, and the current increases in U.S. interest rates are driven by improving economic and employment conditions, which are positive factors for real estate fundamentals.

Why Invest in U.S. Multi-Family Real Estate?

Due to its defensive nature and the continued demand for yield and income stability, the U.S. multi-family real estate sector provides an attractive opportunity for investors seeking stable income combined with above-average growth prospects.

Strong job growth and steadily increasing wage growth in the U.S., along with reduction in home ownership, have lifted the multi-family real estate sector over the last economic cycle, providing attractive risk-adjusted returns. The sector has also outperformed other real estate sub-segments, with rental rate growth over the 2005 - Q2 2016 period of 2.7% versus 0.5% to 2.2% over the same cycle, according to CBRE Research.

Share of rental households has reached a high of 37% of all households, adding 18 million new Americans to the renter pool over the past five years

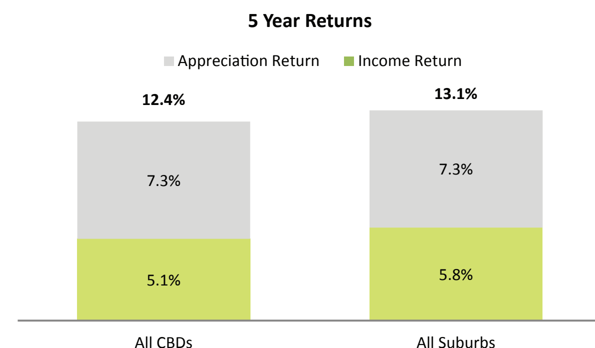
The multi-family sector fundamentals point to its continued strength, fueled by steadily increasing demand against a reduced supply of new product. Supply of U.S. rental housing is expected to taper down, as new construction will face lower levels of available construction debt and increased debt financing costs. Demand continues to be driven by demographic and lifestyle changes, coming mostly from millennials and baby boomers who prefer a maintenance free lifestyle and flexibility of movement - these have led to homeownership levels reaching a 50 year low, according to the U.S. Census Bureau.

THE MILLENNIAL COHORT PREFERS RENTING DUE TO THE DESIRE FOR MOBILITY TO PURSUE JOB OPPORTUNITIES AND HIGH LEVELS OF STUDENT DEBT MAKING HOME DOWN PAYMENTS DIFFICULT

BABY BOOMERS ARE DEVELOPING AN APPETITE FOR RENTING, WITH MANY DOWNSIZING INTO CLASS "A" APARTMENTS WITH ACCESS TO HIGH-END AMENITIES NOT PROVIDED BY HOME OWNERSHIP

Spotlight is Shifting to the Suburbs

Investors can increase their risk-adjusted returns by investing in suburban U.S. multi-family real estate, which stands to benefit from reduced supply of new product, greater rent growth potential and higher initial yields. Further of interest is the multi-family development cycle, which has been heavily concentrated in Central Business Districts (CBD's), where inventories are currently growing at nearly 4 times the pace of suburban markets, according to JLL Research.



Source: MPF/YieldStar Research analysis of NCREIF data, as of Q2 2016

The U.S. remains a largely suburban nation. In 2014, the U.S. suburbs account for 80% of the population and 68% of employment, according to PricewaterhouseCoopers LLP. Further, there is a solid trend of leading companies creating high quality jobs in strong suburban markets - Toyota, for example, recently moved 5,000 jobs to suburban Dallas, Apple moved 7,000 jobs to suburban Austin and Intel has announced plans to create 3,000 jobs in suburban Phoenix. Migration of jobs to the suburbs is increasing the interest in multi-family product in these markets, as millennials prioritize convenience and proximity to living near their places of work.

But What About the Impact of Rising Interest Rates?

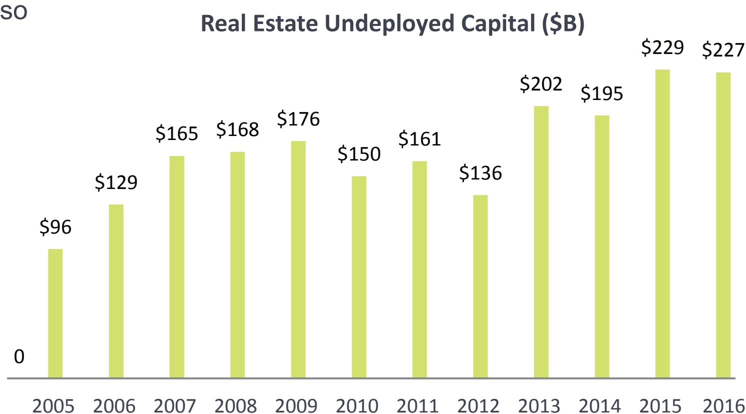
U.S. interest rates are at historic low levels and have been for a long time. The prospect of rate hikes may raise concerns about the potential impact on real estate property values and investment performance. The reality, however, is that real estate values are driven by prospects for economic growth, not interest rates.

According to research by TIA-CREG Global Real Estate, in periods of rising U.S. ten year treasury yield of 50bps, U.S. REIT's have outperformed the S&P 500 five out of seven times over the last 20 years. Additionally, historical data shows no significant relationship between changes in Treasury yields and changes in cap rates; instead, these findings confirm that cap rates are influenced by a wider range of variables, including real estate fundamentals, capital flows and investor risk appetite.

Rate hikes in the current environment are reflective of expected strengthening of U.S. economic and employment conditions, which supports interest in real estate

The current U.S. administration's plan to boost fiscal spending and lower taxes should drive job growth, wage inflation and consumption, which will drive demand for apartments and rent growth. Multi-family is particularly well positioned, given the shorter lease terms of typically 12 months relative to other property classes, allowing operators to realize increases in asking rents quickly. Higher inflation and an increase in spending on infrastructure projects by the new federal administration is also expected to put further pressure on the construction environment, due to higher labor, materials and financing costs, which will negatively impact supply.

Finally, the level of global capital earmarked for investment in real estate remains high, estimated at a near record of $227 billion at the end of June 2016. According to Prequin, the majority of undeployed capital earmarked for real estate is focused on North American and European strategies, with North American allocations rising by 23% since December 2014.



Source: Preqin report as of Q4 2016

Final Thoughts

Investor concerns about the potential impact of rising interest rates on U.S. property values and returns are likely exaggerated. Strong domestic and foreign investor demand for U.S. real estate is likely to continue, supported by favorable economic and employment conditions, which combined with a forecast of reduced supply and continued strong rental demand are expected to continue to support attractive fundamentals and solid operational performance.

Due to its defensive nature, multi-family real estate in particular is expected to remain an attractive and important part of investor's portfolios. Investing in strong suburban markets provides a further opportunity to increase their risk-adjusted returns.

For more information, please contact:

Evan Kirsh
President, Starlight U.S. Multi-Family
ekirsh@starlightinvest.com

Martin Liddell
CFO, Starlight U.S. Multi-Family
mliddell@starlightinvest.com

Andrea Rubakovic
Manager, Private Capital & Partnerships
arubakovic@starlightinvest.com

Starlight U.S. Multi-Family targets recently constructed, Class "A" apartment communities in the Sunbelt States. The investment platform capitalizes on geographic locations experiencing population growth, employment growth and lifestyle trends. **Starlight U.S. Multi-Family (No. 5) Core Fund (TSXV: STUS.A/STUS.U)** has generated gross returns in the mid 20% range.