Multifamily rental units can be found in high-rise structures or in garden-style buildings, but there are a number of properties that house between just five and 50 housing units. These properties are usually identified as small multifamily and can be found in many different metros across the country. In many places, they can also be a key source of affordable rental units.

### How Many Small Multifamily Properties Are There?

Identifying and estimating the nation’s total number of small multifamily properties can vary widely, as shown in the table below. Three third-party data vendors offer what appears to be the best available data on estimating these small multifamily properties: CoStar Group, Inc., CrediFi Corp., and CoreLogic, Inc., but all provide different estimated totals. That said, it seems that there are between 296,000 and 330,000 small multifamily properties.

#### Estimated Number of Small Multifamily Properties by Vendor

<table>
<thead>
<tr>
<th>Source</th>
<th>Number of Properties</th>
<th>Number of Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>The CoStar Group</td>
<td>296,000</td>
<td>4.4 million</td>
</tr>
<tr>
<td>CrediFi - Confirmed</td>
<td>102,000</td>
<td>1.7 million</td>
</tr>
<tr>
<td>CrediFi – Additional</td>
<td>228,000</td>
<td>1.8 million</td>
</tr>
<tr>
<td>CrediFi - Confirmed + Additional</td>
<td>330,000</td>
<td>3.5 million</td>
</tr>
<tr>
<td>CoreLogic</td>
<td>360,000</td>
<td>2.3 million</td>
</tr>
</tbody>
</table>

**Sources:**
2. CrediFi Corp. Identified additional properties without unit counts as being likely small multifamily properties based on property characteristics.
3. CoreLogic, Inc. Estimate is based on land parcels and includes only data with unit counts reported.

### CoStar Identifies Small Multifamily Properties

CoStar Group has an extensive property level multifamily database and estimates that there are 296,000 small multifamily properties with about 4.4 million units total. CoStar has the ability to acquire extremely detailed property level information based on a combination of public and private data sources, including daily electronic downloads. This advantage allows for a more detailed analysis and estimate of the nation’s existing small multifamily rental stock.

### CrediFi Identifies Small Multifamily Funding Sources

CrediFi Corp., which tracks debt funding, states that it can confirm there are at least 102,000 small multifamily rental properties. However, based on property characteristics, CrediFi can expand that estimate to a larger 228,000 additional small multifamily properties, bringing its estimated total to about 330,000 properties with 3.5 million units.

### CoreLogic Identifies More Small Multifamily Properties but Fewer Units

Although CoreLogic has the highest estimate of 360,000 small multifamily properties, it estimates there are only about 2.3 million units. It should be noted that CoreLogic data is land parcel-based rather than property-based. Since a single multifamily property may potentially be made up of more than just one land parcel, this estimate likely overstates the actual number of small multifamily properties somewhat. CoreLogic estimates that it might be over by only 10 percent or less. In addition, CoreLogic’s unit count estimate includes only units that were identified in its database.
Small Multifamily Everywhere

According to CoStar, small multifamily properties are highly concentrated, with the top 10 states containing almost three quarters of the stock - just under 215,000 properties, as of August 2016.

As shown on the map below, California and New York contain the most small multifamily properties. California leads with nearly 99,000 properties identified – that’s about one-third of the entire nation’s estimated small multifamily property stock. New York comes in a distant second with about 37,000 – about a 14 percent share. Illinois and Florida also have a significant number of multifamily properties, with about 14,000 each.

The vast majority of states have far fewer properties. Just nine states have between 5,000 and 10,000 properties. Another 16 states, along with the District of Columbia, have between 1,500 and 5,000 properties and the remaining 22 states have fewer than 1,500. Four states have fewer than 500 small multifamily properties: Montana, Delaware, Vermont, and Wyoming.

Estimated Number of Small Multifamily Properties by State

Average Units Per Property Higher in Less Populous States

While there are some exceptions, in general, the lower the population density, the higher average number of units per property. For instance, Montana, Wyoming, and South Dakota each have 19 or more units on average per small multifamily rental property. In fact, North Dakota had the highest average number of units per property with 24 on an estimated 600 properties.

While this trend may seem surprising at first, it makes sense. Small multifamily rental properties in these less populous states are usually found in the larger metropolitan areas and tend to be the predominant form of multifamily housing. There is also more, yet less expensive, land available in these metros than compared to many more expensive coastal metros, allowing for more units per property. By contrast, more densely-populated places, such as those in California or Florida, end up averaging just 13 or fewer units per small multifamily rental property.
Top Metros Usual Suspects for Small Multifamily

As might be expected from the state concentrations of small multifamily properties, the top five metros for small multifamily are largely located in California and New York, as shown in the table below. Los Angeles has the highest number of small multifamily properties by far with an estimated 51,100 properties resulting in a whopping 637,500 units – about one quarter of the total number units in small multifamily properties. New York City follows a distant second with 30,800 properties and 498,500 units.

The only metro in the top five outside of New York and California is Chicago with 12,800 properties and almost 175,000 units. Four out of the top five average only 12 units per property while New York City averages 16 units per property.

### Top Five Metros for Small Multifamily Properties – CoStar Estimates

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>Number of Small Multifamily Properties</th>
<th>Number of Units</th>
<th>Average Number of Units per Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles</td>
<td>51,100</td>
<td>637,500</td>
<td>12</td>
</tr>
<tr>
<td>New York City (five boroughs)</td>
<td>30,800</td>
<td>498,500</td>
<td>16</td>
</tr>
<tr>
<td>San Francisco-Oakland</td>
<td>15,100</td>
<td>176,600</td>
<td>12</td>
</tr>
<tr>
<td>Chicago</td>
<td>12,800</td>
<td>174,900</td>
<td>12</td>
</tr>
<tr>
<td>San Diego</td>
<td>9,900</td>
<td>111,500</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: CoStar Group. Excludes senior, student and corporate housing as well as proposed small multifamily properties. Includes subsidized affordable properties.

Small Multifamily Lending – Alive and Well

Based on CrediFi’s data for confirmed small multifamily rental properties, there were $88 billion in loan originations on 11,970 loans in 2015 resulting in an average loan balance of $7.3 million, as shown in the table below.

However, taking into account property characteristics to identify small multifamily properties where no units were listed, CrediFi estimates that there may have been an additional $32 billion in loan originations on an additional 11,464 loans. In this case, the total origination volume in 2015 may have been as high as $120 billion on an estimated 23,434 loans, bringing the average loan balance down to about $5.1 million. Through June 2016, CrediFi estimates that there may have been as much as $15.5 billion originated on 3,952 loans resulting in an average loan size of about $3.9 million.

### Loan Volumes on Small Multifamily Properties January 2015 – June 2016

<table>
<thead>
<tr>
<th>Source:</th>
<th>Number of Multifamily Properties</th>
<th>2015 Number of Loans</th>
<th>2015 Original UPB ($B)</th>
<th>2015 Avg. Loan Size ($M)</th>
<th>YTD 2016 Number of Loans</th>
<th>YTD 2016 Original UPB ($B)</th>
<th>YTD 2016 Avg. Loan Size ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CrediFi Confirmed 5-50</td>
<td>102,000</td>
<td>11,970</td>
<td>$88</td>
<td>$7.3</td>
<td>2,209</td>
<td>$13.1</td>
<td>$5.9</td>
</tr>
<tr>
<td>CrediFi 5-50 Likely 5-50</td>
<td>228,000</td>
<td>11,464</td>
<td>$32</td>
<td>$2.8</td>
<td>1,743</td>
<td>$2.4</td>
<td>1.4</td>
</tr>
<tr>
<td>Total</td>
<td>330,000</td>
<td>23,434</td>
<td>$120</td>
<td>5.1</td>
<td>3,952</td>
<td>$15.5</td>
<td>3.9</td>
</tr>
</tbody>
</table>

Sources: CrediFi. Includes all types of financing including second liens. YTD = Year to date; Data through June 17, 2016
Increased Sales of Small Multifamily Properties

CoStar provides sales data and trends for small multifamily rental properties. As shown in the chart below, CoStar is reporting that sales of small multifamily properties have been climbing since 2009, with about $24 billion in sales in 2015, the last full year of sales data available.

Interestingly, the percentage of sales volume financed with debt has remained relatively steady since 2011 with about half of all sales volume involving at least some amount of debt.

Another Busy Transaction Year Expected in 2016

According to CoStar, lenders financed an estimated $12.3 billion on 5,800 loans backed by small multifamily rental properties through the end of August 2016, with an average loan balance of about $2.1 million. This does not include student, seniors, or corporate property types nor does it include bulk portfolio sales.

Many of the most active lenders were well-known multifamily lenders, with JP Morgan Chase, The Dime Savings Bank, Greystone, and Arbor among the top lenders through the first half of 2016. In fact, JP Morgan Chase led in lending for small multifamily properties.

Other smaller, less well-known lenders were also quite active, including Portland, Oregon-based Umpqua Bank, New Jersey-based Peapack-Gladstone Bank, and Luther-Burbank Savings Bank, headquartered in Santa Rosa, California.

Some Average Loan Balances are Quite High

While the average balance for most small multifamily rental property loans was well under $5 million, a few lenders had significantly higher loan balances. For instance, the average small multifamily rental property loan balance for New York Community Bank was $10.5 million, for Capital One Bank it was $11.4 million, and for Virginia-based Eastern Bank, it was $13.5 million.
Private Lenders and Individuals Also Active

Surprisingly, private lenders and private individuals (likely high-net worth individuals) have also been active small multifamily rental property lenders. In fact, according to data from CoStar, private individuals were the second most active lending source for this property type, providing nearly $700 million in liquidity this year through August alone.

Together, the categories of Private Individual and Private Lender accounted for an estimated $1.3 billion in financing on small multifamily rental properties so far this year, totaling about 1,145 loans with a combined average loan balance of about $1.1 million.

Seller Financing Plays an Important Role

Another interesting observation is that seller financing also appears to play an important role. According to data from CoStar, while New York Community Bank was the fourth-largest lender by loan volume financing with an estimated $313 million on just 30 loans, the Seller Financing category placed fourth by loan count, with property sellers financing an estimated $311 million on 170 loans, with an average loan balance of just $1.8 million.

Based on this information, it seems that there is a variety of financing sources available in the financing of small multifamily rental properties, indicating there is sufficient and ongoing liquidity for this property type.

Apartment Properties Growing Larger

According to data from the Dodge Data & Analytics Construction Pipeline, the number of new multifamily projects being started has been declining since peaking in second quarter 2015, falling to 678 projects during first quarter 2016, as seen in the chart below. However, the average number of units rose, however, to about 117 units per project. This trend of maximizing square footage in multifamily development, rehabilitation, and renovation is not unsurprising, given the high land acquisition and construction costs in most metros.

Unfortunately, it does have implications for the small multifamily segment, which in many places tends to offer more affordable rents when compared to newer properties.
Fewer Small Multifamily Properties in the Pipeline

As might be expected, with the average number of units per project rising, a much smaller percentage of new construction is for new units in projects with five to fifty units. In fact, as seen on the chart below, only ten percent to fifteen percent of new units are in properties with five to fifty units.

### Distribution of Apartments in Completed Construction Projects

![Distribution of Apartments in Completed Construction Projects](image)

**Source:** CBRE-EA/Dodge Pipeline; YTD 2016 through October 15

**NOTE:** Pipeline data is not an actual forecast of activity, it is a monitor of activity reported on-to-date. As more projects are planned and tracked, figures in future periods might go up.

An Uncertain Future for Small Multifamily

Over the next decade, the nation’s multifamily stock will likely see an influx of higher unit count properties. As older small multifamily rental properties age and/or fall into disrepair, they will likely be replaced with properties with more density per square foot. Developers will likely create more, but much smaller, units on the same size lot. As a result, these small multifamily properties may end up moving out of the 5-50 unit category and push up into the 50+ unit category, making preservation of the existing stock of small multifamily rental properties offering more affordable rents even more critical.

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