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INTERESTING DATA POINTS FROM SOUTHEAST MULTIFAMILY FORUM

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The Southeast Multifamily Forum provided information and statistics regarding the state of the multifamily real estate market, investment opportunities, trends. Below are some of the highlights.

State of the Market

- After the election, growth in the multifamily real estate market picked up, not because of who was elected, but because uncertainty dissipated.
- The Southeast multifamily real estate market continues to outpace the national average. With development going hand-in-hand with job growth and population growth, the continued growth in the Southeast is fueled by job growth, population growth, and a dynamic and robust economy.
- Capital is coming to the Southeast at a record pace. As activity and transactions in other regions are beginning to slow down, investors are flocking to markets throughout the Southeast.
- New units completed in 2018 are expected to be less than 2017; 335,000 new units are anticipated to be delivered in 2018, 50% of which are anticipated to be in 10 markets including Dallas, New York, Los Angeles, Washington D.C., Denver and Atlanta.
- Although new multi-family units are being delivered, the number of units is not keeping up with demand.
- The cost of owning a home is increasing more than the cost of renting.
- Workforce and affordable housing rent is increasing more than Class A and Class B rental rates.
- Class A and Class B vacancy rates are increasing more than Workforce and affordable housing vacancy rates.
- The velocity of multifamily products being sold today has dropped 4.5% from 2015.
- Although an adjustment in the market is inevitable, it is anticipated that any adjustment will be much more subtle than the past recession.
- At this point in the cycle, the headwinds facing the multifamily real estate market are labor shortages and costs and construction costs.
- Affordability and mobility continue to be the big issues for the multifamily real estate market.

Investment Opportunities

- Urban expansion, with more retail moving to secondary and tertiary markets, is creating more investment opportunities in secondary and tertiary markets.
- Investors who are chasing yield, rent growth and low vacancy rates are moving to secondary and tertiary markets; currently there is more investment in secondary and tertiary markets than primary markets. There

is also good opportunity on the fringes of primary markets.

- Key to a good investment is transit; successful projects are located in close proximity to mass transit centers and hubs.
- Opportunities in the current market are harder to find; most good opportunities are off-market, relationship driven, all-cash deals with little or no due diligence.
- Job growth and population grown markets are where to find opportunities.
- Opportunities come with patience and by looking not at the state of the market today, but where the market is headed.
- Investors give little or no value to retail within a project and are often providing incentives or free rent for 6, 9 and up to 12 months to bring in retail tenants.

Trends

- The major trend in the multifamily real estate market can be summarized as ease of living and includes: shared workspaces within a multifamily project which allows residents to easily work from home; connectivity and technology, including strong and high-speed wifi; reliable cell phone reception; "smart" buildings with easy interface to personal devices; smart thermostats; sufficient number of electric car charging stations; smartphone use for access as opposed to fobs and other access control devices; bike storage; facilities that can handle the volume of packages being delivered, including refrigerated storage for grocery deliveries; on-demand services and "valet living".
- Amenities spread throughout a community or project as opposed to being concentrated or centered in one area.
- Fitness facilities are becoming less important as residents increasingly have gym memberships.
- Traditional cable television is becoming a thing of the past; there are less bulk agreements and less exclusive agreements.
- Data analytics and intelligence that is available leads to less guessing and more efficiency in developing and operating a project.
- Virtual property managers and chat bots are becoming more popular as residents want less human interaction.

For more information, please contact the author Jeffrey Margolis on our Business, Finance & Tax Team.

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