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MULTI-FAMILY HOUSING

Why It's the Darling of Real Estate Investors



FOR REAL ESTATE INVESTORS, THE DEMAND FOR MULTI-FAMILY HOUSING IN LOS ANGELES IS EXTREMELY HIGH, AS IT IS IN ALL MAJOR METROPOLITAN CITIES IN THE UNITED STATES. For example, we are witnessing buyers pay sub 4% Cap Rates to lock in prime multi-family assets in the select sub-markets of the Westside of LA. Additionally, multi-family investment sales by real estate investors reached a new record of \$105.4 billion in volume in 2013, up 30% from 2012 and it was reported at the end of Q1 2014 that the national multi-family occupancy rate was at a 10-year high, standing at near 96%.¹ Why is the demand so high? **THERE ARE SEVERAL REASONS – BUT NOT ALL OF THEM ARE AS OBVIOUS AS YOU’D THINK. LET’S TAKE A LOOK:**

1. THE BRASS TACKS

The Westside of Los Angeles has its own unique set of characteristics but most US centers have similar tangible limitations that affect the demand on multi-family housing. For instance, low inventory, aging stock, density and height restrictions, and limited developable land remaining mean there is simply not enough to go around. In addition, global buyers are willing to pay more for less – causing an ever-increasing demand.

2. THE HIGHS OF THE LOWS

Low interest rates + Low carrying costs = Low Inventory For Sale. The rental market is extremely healthy these days because many people cannot afford

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a mortgage. Due to recent refinancing options at historically low interest rates, many of today’s homeowners are in no rush to sell their homes since the cost of carrying their home is now much lower than they may have initially expected. In fact, the refinancing done in the last 2 years has created a situation where existing homeowners who are upgrading to

a new home aren't selling their previous residence and opting to rent it out instead. These factors have led to a very low inventory of homes for sale. Simply, people looking to make the leap from renting to owning don't have a very large selection to choose from and what is for sale is often out of their price range, leaving them to continue renting and, in turn, increase the demand for multi-family rental dwellings.²

3. TILL DEBT DO US RENT

According to the Federal Reserve Bank of New York, outstanding student loan debt mushroomed from \$364 billion in 2005 to \$1.10 trillion by the end of 2013. The percentage of 25-year olds with student loan debt rose from 25% in 2005 to 43% in 2013 and the debt balances nearly doubled from \$10,649 to \$20,326 during that time. Add to the fact that nearly 11.5% of these debts are at least 90 days delinquent and you'll quickly understand why demand in this segment of the rental market is so high. If these individuals cannot pay their minimum debt payments they certainly can't save for a relatively large down payment that mortgage lenders now require. This effect greatly benefits the apartment industry since these twenty and thirty-somethings unable to buy homes will remain in rental housing longer than their predecessors. While much has been said about this generation's desire to enjoy a live-work-play lifestyle and not feel tied down to a mortgage, the cold reality is that most aren't renters by choice – but it appears they will remain so for a good while longer.³



4. EMPTY NEST SYNDROME

The Baby Boomers, the wealthiest generation in our history, are at a point of transition. If they haven't already retired, their pace of work has slowed; their once boisterous, energy-filled home is much quieter now that their kids have grown and left the nest; and their large family residence boasts a positive home equity that is hard to ignore, particularly when half the house is in the dark all day. It's the Empty Nest Syndrome and many Baby Boomers are embracing it. The Baby Boomer generation is a big one and with them downsizing into smaller living spaces a huge shift in the housing demand will occur, leading to a strong and sustainable need for multi-family assets.⁴

5. UNCOUPLING


Due to the financial crisis in 2008 and the vast repercussions it had on every segment of the economy, there was a trend among younger urban

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employees to give up their single person rentals and move in with a friend or a colleague to save on rent and reduce the risks from the fallout. In the real estate world, the effect was famously termed "coupling". With the economy now on steady ground, unemployment rates significantly improving, and

consumer confidence rising, these "couplers" are once again searching for their own living space. Fittingly coined "uncoupling", this effect has caused even more demand for multi-family properties.





CONSIDER THE FOLLOWING: New builds for multi-family assets have been low; no new inventory can be built on what very little land is left to be developed on the Westside of Los Angeles; zoning and densities are strongly controlled in our sub-markets, regardless of a new or

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existing property; plus these factors are nationwide issues. With these points in mind, there's little wonder why multi-family property remains the darling for real estate investors and why it will likely perform well for years to come. **WE ALSO LIKE MULTI-FAMILY PROPERTY AND ITS FUTURE PROSPECTS, BUT WE WILL NOT PAY PRICES THAT**

AREN'T REALISTIC AND WILL CONTINUE TO BE GUIDED BY OUR FIVE CORE PRINCIPLES OF REAL ESTATE INVESTING: LOCATION, LOCATION, LOCATION, PRICE & SPONSOR!!

SOURCES

¹ <https://www.joneslanglasalle.com/1.GMP/en-gb/Documents/First-Quarter-2014/Global-Market-Perspective-Q1-2014.pdf>

² <http://www.redfin.com/research/reports/real-time-market-sentiment/2014/buyer-survey-q1-2014.html#.U08Cj2dOWUk>

³ http://nreionline.com/multifamily/high-student-debt-translates-low-apartment-vacancies?utm_source=twitterfeed&utm_medium=linkedin

⁴ <http://blogs.wsj.com/economics/2014/01/07/aging-boomers-to-boost-demand-for-apartments-condos-and-townhouses/>

