MULTIFAMILY EXECUTIVE
MFE

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Roundtable: Multifamily Investors Discuss What's Ahead for 2021

Hear from five industry experts on challenges, opportunities, and hot markets.

By Christine Serlin

*Courtesy JVM Realty*JVM Realty Corp. announced in July that acquired Ceylon Apartments, a boutique, luxury multifamily community in the St. Louis suburb of Clayton, Missouri.

While multifamily deal activity hit a pause at the start of the pandemic, transaction volume started to pick back up by the third quarter of 2020 and is expected to see a boost in 2021. According to Newmark's "Multifamily Capital

Markets Report," multifamily investment sales volume saw a quarter-over-quarter increase of 55.9% in the third quarter, the strongest sequential gain since 2011.

*Micciche Photography*Lili Dunn, president, Bell Partners

"Multifamily sales volume was down 28% in 2020 versus 2019, according to Real Capital Analytics. However, activity rebounded significantly in Q4, making it one of the most active quarters in recent years," says Lili Dunn, president at Bell Partners. "With the onset of the pandemic, we intentionally paused activity for about six months until there was better visibility on risk, underwriting, and pricing. By year-end, Bell closed approximately $1.2 billion in transactions, and we were able to exceed pre-COVID pricing levels on our disposition activity."

Multifamily investment firms LYND and Rastegar Property Co. also reported strong performance for the overall year.

"Considering the fact we are in the middle of a global pandemic, our team was happy with what we achieved last year," says David Lynd, president and CEO of LYND. "We finished up 2020 at $400 million in acquisitions and new development combined, up about $50 million over 2019."

Ari Rastegar, founder and CEO of Rastegar Property Co., adds that he considered 2020 to be the "greatest real estate buying opportunity of the last 100 years with vintage multifamily apartments in up-and-coming cities, like those in the Sun

Belt. Because of this, our transaction rate remained steady throughout the year and will likely continue into 2021 as well."

For Avanath Capital Management president and chief investment officer John Williams, it's important to look at "2020 as the aberration it was" when assessing year-over-year sales.

"More relevant than comparing last year's transaction volume to 2019's is noting how multifamily fared in comparison to other asset classes during the pandemic and its outlook for the future," he says. "While COVID-19 had a dampening effect on sales in virtually all commercial real estate asset classes, multifamily was comparatively one of the least-impacted sectors. Even though overall apartment vacancy did rise a bit during the pandemic, it is expected to make a full recovery by early 2022, according to CBRE, with affordable housing as one of the star sectors."

Looking at 2021, CBRE Research also expects to see multifamily investment volume rebound with 33% growth. It predicts that volume will reach about $148 billion, lower than 2019's record of $191 billion but higher than 2020's estimate of $111 billion.

Experienced investors Dunn, Lynd, Rastegar, Williams, and Jay Madary, president and CEO of JVM Realty, discuss what's ahead for 2021, including their outlooks, the biggest challenges, and the hottest markets.

MFE: What is your investment activity outlook for 2021?
Dunn: We expect to be more active this year, which is driven by the relative risk-adjusted returns that apartments offer, fueled by attractive long-term fundamentals. At the same time, we expect to remain cautious and judicial about our underwriting and investment selection.

David Lynd, president and CEO, LYND

Lynd: We are ramped up and looking for as many development and value-add acquisitions that align with our strategy. We are fully invested during all cycles. We believe there are always opportunities.

Rastegar: We have no plans of slowing. We expect to continue investing in cities all along the Sun Belt.

Williams: While we seek to achieve economies of scale by investing heavily in certain markets, each property we acquire in those markets has to make sense for us before we will commit to it. We also have plans to expand our footprint in new markets that fit within our investment thesis. For example, we recently purchased our first property in Boston late last year and plan to continue to expand in the region.

MFE: What are your biggest concerns as an investor this year?
Dunn: The appeal for U.S. multifamily has generated strong demand from global investors. This could drive prices up and compress yields. In addition, the cost of debt has been rising and could continue to increase if inflation pressures persist.
Lynd: My biggest concern is simply jobs. Jobs equal renters. I believe in the U.S. economy, and we will rebound.

Madary: The incoming administration and potential government intervention in the multifamily industry is of concern. If implemented, tax changes to capital gains and the elimination of 1031 exchanges may affect valuations and reduce transaction activity. Mandated lockdown orders, eviction moratoriums, and rent controls in some markets all create challenges to our industry. Furthermore, the damage to our economy from the economic shutdowns may exacerbate what we were already seeing as an insatiable desire/need by many local governments to increase commercial property taxes.

*John B. Reilly*Jay Madary, president and CEO, JVM Realty

Rastegar: My only concern is all the fuss that has been made about the office being dead and people will no longer need to base their living situation off of where they work. I can assure you that the future of work is going to mostly be in the office. As the pandemic subsides, we will likely begin establishing a hybrid schedule of different teams congregating in the office on different days of the week, but we need in-person communication and interaction; we cannot all just move away to secluded summer homes and work remotely forever. We need to break bread and exchange ideas together, and, with that, people will still need to live within reasonable distance of their workplaces.

Williams: A major concern for all investors is how quickly the economy will recover relative to the COVID-19 shutdowns. This will depend on how fast the vaccine is distributed, how soon businesses reopen, and the pace at which people feel comfortable interacting in person again. The more quickly all of this takes place, the sooner we can get back to rebuilding our economy and restabilizing the investment landscape.

Many investors stood on the sidelines during the pandemic waiting to see which way the pendulum would swing. Now that we have a new administration and a clearer picture of what this year holds, investors will become increasingly confident about placing capital in the market again, albeit with a few altered strategies due to the pandemic.

MFE: What opportunities do you see in the year ahead?

Dunn: While the markets and opportunities continue to change, our focus and disciplined approach will not. We are focused on leveraging our research and data analytics platform with our extensive local market experience to continue our successful track record of out-performance. We are paying close attention to new supply, which will likely be a key focus area in the Sun Belt markets that are experiencing strong population and job growth.

Lynd: I feel like the market is wide open, and the playing field is leveled. Companies that are able to figure out what residents want and need in the future will be able to carve out niches and do very well.

Madary: Although we are not yet out of the woods from the pandemic, vaccines are becoming more readily available, and it appears that COVID may be under control later this year. I believe there is significant pent-up demand for apartments, and we will see a sharp recovery by the end of the year.

Ari Rastegar, founder and CEO, Rastegar Property Co.

Rastegar: The biggest opportunity will come in the form of millennials currently living with their parents. There are more young people living at home than any previous generation, including the Great Depression. As jobs begin to return and it comes time to move out of mom and dad’s house, vintage multifamily units will be the perfect, affordable option for many of them. A multifamily unit is the perfect choice for millennials who haven’t saved up enough to buy a house and don’t want to live in an expensive shoebox apartment in the urban core.

Williams: We believe there will be opportunities to acquire assets at a discount in the urban cores of primary markets that show promise for a comeback in the coming years. Cities are still a big population and business draw, and once the pandemic is behind us, with the help of vaccines, they should once again attract people and companies. In the meantime, the opportunity exists to leverage any distressed assets that are up for sale in these markets, make improvements to them as needed, and enhance the long-term value of the asset.

MFE: What markets do you anticipate being hot for multifamily investors?

Dunn: The markets in highest demand are suburban areas of most major metros and Sun Belt markets that are benefiting from migration trends. However, if demand for assets in these heavily sought-after markets outpaces the opportunity set, the risk-adjusted return may no longer be appealing.

Lynd: I think the obvious ones are South Florida and Texas (major markets). Less obvious ones are Colorado Springs, Colorado; Boise, Idaho; and San Antonio and El Paso, Texas.

Rastegar: The Sun Belt is going to continue to be a hot spot for those looking to relocate amid the ongoing pandemic, especially for young people hoping to break into the tech industry. Cities like Austin; Tulsa, Oklahoma; and Raleigh and Charlotte, North Carolina, are seeing massive growth as traditionally coastal firms are setting up roots in these cities. Already we've seen Tesla and Oracle make moves to Texas while Fujifilm is considering a larger presence in Charlotte.

Williams: Avanath is currently in the process of acquiring two properties in Orange County, California. In addition to being where our company is based, we like Orange County for its temperate climate and lifestyle and will continue to seek out opportunities in this market, which is less expensive and less crowded than Los Angeles. It also fared better during the pandemic than L.A., with fewer cases and better outcomes.

We have also recently completed acquisitions in Denver; Boston; San Jose, California; Detroit; Orlando, Florida; and Sterling, Virginia, and have a very positive outlook on those markets. Our strategy is selecting markets and specific locations that have a definitive need for affordable/workforce housing, strong demographic trends relative to job/population growth, are near employment and transportation centers, and have barriers to developing new supply.

John Williams, president and chief investment officer, Avanath Capital Management

MFE: What is an emerging trend you're seeing as an investor?

Dunn: Investors will be watching the urban segment of the market and how the return to the office environment will affect demand for urban housing. Some investors see a permanent structural change in demand for housing in gateway and urban areas toward the Sun Belt and suburban markets, while others expect demand for urban housing to return. Also, the purpose-built, single-family-for-rent business has gained a lot of momentum. This segment of the rental market offers attractive growth prospects; however, investors, developers, and operators have a lot to learn about the space.

Lynd: Renters want outside space, outside amenities, and the nicest, largest units they can get—all due to staying inside more or for more potential lockdowns.

Madary: Multifamily investments are in demand—some investors who had been pursuing other commercial investments (such as office, hospitality, or retail) pre-COVID are now looking to deploy equity in apartments. Increased demand has created lower yield requirements and increased valuations. Also helpful to valuations has been the low interest rate environment and lack of alternate investment options offering cash flow.

Rastegar: Right now, vintage multifamily properties have emerged as a winning investment and the best buying opportunity in the last 100 years. Vintage multifamily assets combine certain elements of Class A, B, and C multifamily properties. Generally, vintage multifamily assets are heavily renovated Class C properties located in areas adjacent to the urban core, amongst Class A properties that attract Class B level property rents.

Williams: We are seeing renewed focus and interest in workforce and affordable housing. COVID-19 placed an emphasis on our first responders and front-line workers, many of whom live in these types of communities. Senior housing is also garnering more attention from investors.

All three of these asset classes are generally more stable than market-rate Class A luxury apartment communities, which suffered far more in terms of rent collection and vacancy during the pandemic. Investors are realizing the stability and downside protection in workforce, affordable, and senior housing and therefore are increasingly placing capital in those sectors.