BLACK CREEK GROUP

Market Insights

FOUR THINGS EVERY INVESTOR NEEDS TO KNOW ABOUT MULTIFAMILY REAL ESTATE

As stay-at-home orders were issued in the wake of COVID-19, Americans experienced firsthand the significance of housing. In a short period, people's homes were transformed into offices, schools and gyms. This amplified importance brought with it an increased focus on multifamily real estate. Understanding this sought-after sector of commercial real estate can provide investors with insight into how potential value is created.

> **PEOPLE'S HOMES WERE TRANSFORMED INTO OFFICES, SCHOOLS AND GYMS**

1. How is multifamily real estate categorized and valued?

Multifamily real estate is typically described as a residential property that has more than five units, such as an apartment building. Student housing and assisted living facilities are considered their own, unique sectors.

Multifamily real estate is categorized according to the year constructed and amenities available. Class A buildings are attractive, newer built communities targeting higher-income residents. They are typically in centrally located markets and feature upscale finishes and desirable amenities – from fitness rooms and pools to dog runs and coffee bars. Class B buildings are generally older, typically built between 1990 and 2010 but often with recent renovations. These properties tend to attract residents who may not be able to afford Class A units but still seek upgraded amenities and finishes. Class C buildings are generally built prior to 1990 and do not feature recent renovations or upgrades and are thus more affordable.

Location is also a driving force in determining property value. This has become an even bigger factor in the wake of COVID-19 with tenants migrating away from urban areas to suburban ones that provide more space, along with other financial perks such as lower rents and taxes.

MULTIFAMILY REAL ESTATE CLASSES

CLASS A
Newly Built
High-end Amenities

CLASS B
Built Between 1990 & 2010
Recent Renovations

CLASS C
Built Prior to 1990
No Recent Renovations

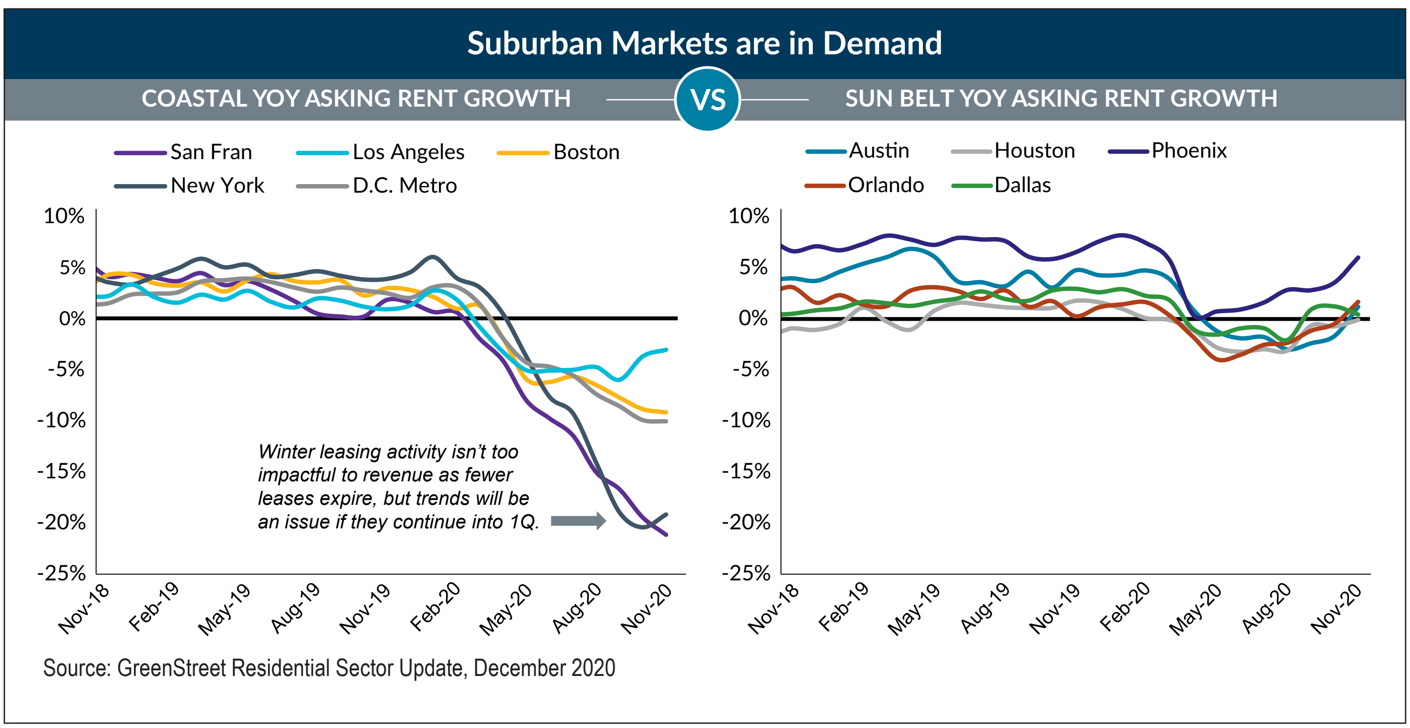
2. Who is renting and where?

Since the early 2010s, Millennials have made up a large portion of renters.[1] As this generation finds themselves contemplating home ownership, many are choosing to delay due to economic uncertainty and rising home prices. Even if Millennials slowly exit the renter world, a new generation is poised to take over. It is projected that an estimated 45 million people in Generation Z will enter the housing market by 2025 with most of them likely to rent.[1] In addition, Boomers – people age 55 and older – represented the largest increase in renter population in the U.S., growing 38 percent from 2007 to 2017.[2] Much like Millennials and Generation Z, this population may favor renting over homeownership due to the benefits that apartment communities offer, such as upscale amenities and lower overhead and maintenance.

~45
MILLION IN GENERATION Z WILL ENTER THE HOUSING MARKET BY
2025

Prior to COVID-19, telecommuting was becoming increasingly popular, rising 173 percent from 2005 to 2018. Despite this immense growth, only 3.6 percent of the entire U.S. workforce was working remotely either part-time or more in 2018.[3] The pandemic triggered this to accelerate as companies across the country were forced to implement work-from-home policies.

People are now finding it easier to relocate as their primary office location may no longer dictate their living situation. Individuals are now considering moving to locations that are better suited for their desired lifestyle, such as suburban areas with lower taxes and warmer climates. The Sun Belt states – Texas, Florida, Georgia, North Carolina and Arizona – continue to attract new residents and boast steady rent growth.[4]



Renters are not the only ones relocating, companies are also transitioning out of high-density, high-tax central business districts and opting for more suburban locations closer to where employees live. As people and companies leave dense urban markets with generally higher costs, multifamily real estate in suburban areas should continue to perform.[5] Additionally, while rents dropped in many urban areas as a result of COVID-19, they have rebounded to almost pre-pandemic levels in suburban markets.[6]

3. How has the pandemic impacted multifamily real estate?

Multifamily real estate is inherently resilient, as tenants prioritize paying rent over other expenses and this behavior has stayed consistent throughout the pandemic.[7] The National Multifamily Housing Council (NMHC)'s Rent Payment Tracker found 94.6 percent of apartment households made a full or partial rent payment in October 2020 – only down 1.2 percent compared to October 2019, demonstrating the resiliency of multifamily real estate.

Multifamily classes have not performed equally as tenant income and employment status have become more of a factor in terms of rent payments and expected rent growth. Tenants in Class A properties, with higher income levels and more flexibility to work from home, have not been as impacted; yet many tenants in Class C properties, who generally are blue-collar workers, have been impacted as a result of job loss or financial strain due to the pandemic. While tenant demographics range, Class A tenants are driving what amenities people want such as high-speed Wi-Fi, business centers and storage lockers for deliveries, each of which have become increasingly more important during COVID-19.

Even though year-over-year multifamily construction starts were up 19.9 percent through August 2020, permits have decreased 17.9 percent[5], which signifies a decline in new supply in the upcoming years. Financing was also limited during parts of 2020, halting not only construction starts, but also the buying and selling of multifamily properties. Now that financing is available, cheaper debt with lower interest rates is fueling demand in certain markets.

4. Where will multifamily investments offer the most opportunities?

With asset values up three percent on average in the third quarter of 2020, mainly due to lower interest rates, multifamily real estate offers plenty of opportunities.[4] Class A assets, that are nearly full or slightly under leased in higher-end suburban areas, represent attractive investments. Especially as tenants continue to migrate out of urban areas, which rent data suggests is an accelerating trend with suburban areas posting higher rent growth than larger cities since the onset of the pandemic.[8] Market demographics, including household incomes, employment drivers, and strong historical and projected population growth will also continue to play an important role.

Class A assets in higher-end suburban areas represent attractive investment opportunities

Additionally, newer Class A properties typically require very little immediate capital expenditures – for example, the roof generally will not need to be replaced in the short-term. Many investors are also looking toward Class B properties located in lower cost growth markets as these buildings usually have been recently renovated, providing investors with more predictability in terms of deferred maintenance or rent collections and a larger potential tenant base as people prioritize where to live.

Investing in Multifamily

Multifamily real estate was well positioned heading into the pandemic and while the sector is not immune to COVID-19's impacts, it has remained relatively resilient. We believe that the key to creating value through multifamily real estate will be to maintain a thoughtful approach that takes into consideration the shifting demographics as well as economic changes.

ABOUT BLACK CREEK GROUP

Black Creek Group, LLC (Black Creek Group) is a leading real estate investment management firm that has bought or built over $22 billion of investments throughout its more than 25-year history.[9] The firm manages diverse investment offerings across the spectrum of commercial real estate — including industrial, multifamily, office and retail — providing a range of investment solutions for both institutional and wealth management channels.

Find out more about Black Creek Group at BlackCreekGroup.com.

[1] GlobeSt. – We're On Track to be a Renter Nation Again, November 2020

[2] U.S. Census Bureau, 2017

[3] GlobalWorkplaceAnaytics.com, March 2020

[4] GreenStreet – Apartment Sector Snapshot, September 2020

[5] CBRE, Q3 2020 U.S. Multifamily Figures

[6] GlobeSt. - Suburbs Apartment Rents Close to Their Pre-Pandemic Peak, November 2020

[7] Freddie Mac Multifamily – Uncovering Rent Payment Tracking Data, September 2020

[8] GlobeSt. - Apartment Rents Fall in 40% of the Largest Cities, November 2020

[9] As of September 30, 2020.

This is not a recommendation for an investment in real estate. Real estate investments have many risks and the risks of investing in multifamily real estate include but are not limited to the risk of tenants' inability to pay rent on their leases or the manager's inability to lease space that becomes vacant, risks of the effect of COVID-19 to cause severe disruption and create difficulty to renew leases and adversely affect the valuation of financial assets which could have a material effect on real estate business.

To learn more about Black Creek Group, visit blackcreekgroup.com

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