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O'Connor Apartment Forecast Luncheon - Speakers - Stacy Hunt, Executive Director-Greystar; Ricardo Rivas, CEO-Allied Orion Group

Takeaway: Nationally and locally the multi-family (MF) segment is very healthy.



- MF starts nationally are at a record of 300-350,000 units per year
- Sales of single family homes are lagging as renters are renting longer and Millennials are choosing to rent instead of to buy
- Fancy student housing projects 'train' college grads to look for the same amenities in their apartment projects
- Between 2010 and 2017 tenant 'turnover' has fallen from 62% to 52% per annum, and the longer occupancy periods save money for MF operators nationwide as they pay fewer locator fees, renovate less often, and lose less revenue in the gaps between rentals
- There is a lot of individual and institutional equity available for MF developers now, and quality of MF developments is getting higher nationwide on average
- In cities where rent control or quasi rent control is being tried, development dries up as equity flees-nonetheless, there is the challenge nationwide of providing affordable housing to lower income employees-how to do it is the problem
- There are about 680,000 apartment units in the Houston area and we are the healthiest MF market overall in the US, all things considered
- Houston has good supply of B-C-D units at more affordable prices, but upper units don't degrade in quality and rental rate fast enough to keep up with need for low income housing
- When lenders foreclose on unsold 'for sale' units they become rental units nationwide, adding to supply
- Construction costs currently are \$125 SF for traditional garden units; \$150 SF for separate structured parking; \$190 SF for podium (midrise) construction; and \$310 SF for high-rise...numbers are subject to variance
- Equity investors are mostly not in the game for a long ownership and they want to know the exit strategy before they invest
- Large MF developers are a 'three-legged stool' with development, management, and investment 'legs'
- Average lease term today is 13 months but operators have to be flexible; many tenants make first contact by phone and some lease online sight-unseen; tech and the project's website are very important to tenant base, and they rely on online/social media reputation of project before leasing



- With escalation of construction and operating costs, landlords need to boost rents on average by 4.5% per year to stay even; today operators are experiencing operating cash flow, where in the past often the first profit came on sale of project
- Eleven million American households pay over half of monthly income for housing; 40% pay more than 30% of income
- 600,000 renter households enter the national market each year, creating big demand
- Changes in construction codes with relation to floodplain issues in Houston will add significantly to construction cost for MF developers and by extension will lead to higher rents
- The guys who stand on the street corners and spin the signs calling attention to apartment projects earn \$100 per hour