Castle Lanterra Properties

How multifamily owner/operators can invest in the U.S. workforce

Rental housing markets across the United States have experienced major growth in demand over the last decade, outpacing supply, according to the Joint Center for Housing Studies of Harvard University (JCHS). Today, renter households make up about 37 percent of all U.S. households, growing by nearly 1 million per year since 2010; there are now more than 43 million renter households across the country.

With regulatory and construction cost burdens driving developers to build mostly luxury housing targeted at upper-income households, the supply of moderate- and lower-cost units is shrinking. This has left nearly half of today's renters cost burdened, spending more than 30 percent of their income on rent. As a result, there is a growing demand for high-quality workforce housing at an affordable price — and the demand grows by an estimated 150,000 units per year. Through 2025, it is expected to increase by more than 7 million.

While developers prefer to focus on the luxury housing market, local policymakers are more likely to focus on severely cost-burdened Americans who are spending more than 50 percent of their incomes on housing. Municipalities nationwide are enforcing inclusionary zoning programs, which require that a certain number of units in new construction be set aside for families with low to moderate incomes; the units have set prices that are affordable for such families.

As policymakers and municipalities focus on affordable housing and developers focus on luxury housing, the needs of the middle class who do not qualify for affordable housing continue to grow. While this segment of the market has historically been overlooked, that will start to change because of the opportunities this sector provides.

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Elie Rieder is the founder and chief executive officer of Castle Lanterra Properties. An active real estate investor, owner and manager since 1998, Rieder was named to *Real Estate Forum's* "50 Under 40" list in 2017 and was awarded Manager of the Year in 2017 for performance, innovation and strategy by *Real Estate Finance & Investment.* In his personal life, he volunteers his time and energy to numerous charitable organizations and community associations focused on providing food, shelter and education for underprivileged families, both locally and abroad.

A niche opportunity for savvy multifamily investors

The affordability challenge presents a unique opportunity for savvy real estate investors looking to strengthen and diversify their portfolios. Restoring and enhancing existing — and often more affordable — rental housing property is a compelling strategy that also addresses workforce housing needs. While this market has not typically been a focus for institutional investors, many are beginning to take note of the market.

According to Real Capital Analytics (RCA), investments in core apartment buildings were down 10 percent in 2017 from the previous year, with the sharpest decline being in major metropolitan areas. Concurrently, investors realized the opportunity in the higher-risk, value-add properties, particularly in secondary markets. Investments in this segment of the market saw a 13 percent increase.

Foreign investors are now starting to favor value-add properties that yield higher returns, as well. While foreign investment traditionally has focused on big-city properties, interest is shifting to multifamily and class B and C properties. Drawn by increased demand for apartments, which is at a 25-year high, foreign investors are pouring capital into the multifamily housing space.

In 2017, four of the top 10 buyers of multifamily properties were based outside the United States. The most active of those was Singapore's GIC Private Ltd, which acquired $4.3 billion in apartment properties from first quarter 2017 to first quarter 2018 — much of which was class B and C housing. Two of the other top buyers were Canadian firms Caisse de Depot et Placement du Quebec and Canada Pension Plan, and the fourth was Amsterdam-based firm APG Group.

Foreign investment into the U.S. multifamily housing market continued to grow into 2018, with international buyers of U.S. apartments spending more than $10 billion per quarter in the second half of 2017 and first quarter of 2018, according to RCA. In that time, Canadian investors reclaimed the top spot for investments in U.S. multifamily housing, investing nearly $20 billion for the 12 months ending in June 2018, according to RCA. In January, GIC and Canada Pension Plan entered into a $550 million joint venture with U.S. firm Cortland Partners to acquire and renovate 8,000 to 10,000 class B multifamily units in the United States. In November, the joint venture of Carroll Organization and PGIM Real Estate, two U.S.-based firms, expanded its multifamily portfolio with a $600 million investment in three Southeast properties. The acquisition

marks the latest in the venture's strategic pursuit of workforce housing in well-located metropolitan markets with high demand for affordable housing options.

The workforce and multifamily housing market meets an important need in our society and offers valuable returns for investors. It is an especially attractive bet as workforce and multifamily housing continue to outperform other property sectors, and it generally has the lowest vacancy and turnover rates of all major property types. Historically, the sector also has steady rent growth and high occupancy, and presents low volatility. These characteristics help protect against the cycle, yielding high ROI in up markets and remaining comparatively safe even in down markets.

Workforce and multifamily housing also provides opportunities for environmental, social and governance (ESG) investing, which is becoming more established among institutions and high-net-worth individuals looking to diversify and enhance their portfolios in meaningful ways. Part of the value-add strategy of multifamily housing includes adding security measures, smart-home technology and energy efficiency to properties, making them sustainable, responsible investments. This is becoming increasingly important to the rentership society and, therefore, more important to the investor community.

As the balance continues to shift toward renting versus owning among middle-income earners, there will be a greater demand for quality workforce housing. This demand can only be met if investors and developers focus more on this sector. It is a win-win for all parties involved. Investors earn attractive risk-adjusted returns, and developers have the ability to add a socially responsible component to their projects, and the workforce benefits with more quality housing options.

CORPORATE OVERVIEW

Castle Lanterra Properties is focused on the acquisition and management of quality, income-producing workforce and multifamily properties within strategic growth markets throughout the United States. Through a rigorous value-enhancement program that includes thoughtful renovations, operational improvements and ancillary income development, CLP aims to reposition each asset with the goal of maximizing NOI, elevating its competitive position within the market, and generating attractive risk-adjusted returns for its investment partners.

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