

## Greystar

# Housing as a service

## 2024 outlook for multifamily investment

**Chase McWhorter**, Institutional Real Estate, Inc.'s managing director, Americas, recently spoke with **Michael Joyce**, senior managing director and leader of Greystar's global investment strategy and research, and **Jordan Kabbani**, senior director, U.S. investment strategy and research, about the outlook for real estate investments markets in 2024. Following is an excerpt of that conversation.

*What are current market trends in the multifamily industry, and how are they impacting your strategy?*

**Michael Joyce:** We believe multifamily fundamentals remain healthy, albeit with growth normalizing from the double-digit rent increases we have seen in previous years. One of the elements buoying renter demand is the affordability equation. With elevated for-sale house prices and "higher for longer" mortgage rates, we are seeing our tenants continue to rent for extended periods of time. Our proprietary data shows a direct correlation between mortgage rates and the decline in "move out to buy," which keeps occupancies healthy.

From a supply perspective, multifamily completions were delayed by COVID-19 shutdowns, and we are seeing those assets now in lease-up. Broadly speaking, supply/demand fundamentals remain attractive for the medium term.

The volatility for us has been in the capital markets. While interest rates affect a renter's desire to move out and purchase a home, they also have broader investment implications. As U.S. Treasury rates have moved higher relative to historical lows, yields have moved higher, as well.

Because apartment fundamentals are healthy, we're not expecting broad market distress. That said, there are likely one-off opportunities to purchase from some aggressively leveraged buyers who bought at very low cap rates two years ago, who are now faced with negative leverage and a slow transaction market. We know the market is not what it was two years ago, and we are being thoughtful to ensure that we are deploying into "new" attractive pricing in the current capital markets environment.

*Greystar invests in a variety of rental housing product – conventional, build-for-rent, student, active adult. Do any sectors seem more or less attractive in today's environment?*

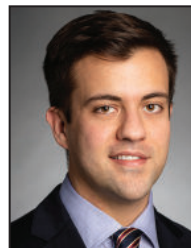
**Joyce:** While our long-term investment thesis across the living sector is largely unchanged, current market conditions are shaping our deployment priorities. We are particularly drawn to sectors experiencing short-term growth exceeding

## CONTRIBUTORS



**Michael Joyce**  
**Senior Managing Director,  
Investment Strategy &  
Research**

Michael Joyce leads Greystar's global investment strategy and research and is also a member of the Greystar Executive Committee. He is responsible for the formulation, capitalization and deployment of the company's investment strategies and pursuit of enterprise strategic opportunities and data strategy. He also provides ongoing macro research, including monitoring markets and investment performance across geographies and asset classes. Prior to joining Greystar in 2017, Joyce worked on the consumer discretionary and homebuilding portfolio at hedge funds Diamondback Capital, Citadel Investment Group and CDP Capital.



**Jordan Kabbani**  
**Senior Director, Investment  
Strategy & Research**

Jordan Kabbani is a senior director of investment strategy and research at Greystar. Kabbani works across all U.S. residential product types, including conventional multifamily, student housing, active adult and single-family rental strategies. He is responsible for the formulation, capitalization and deployment of the company's U.S. investment strategies, as well as broader corporate strategy efforts.

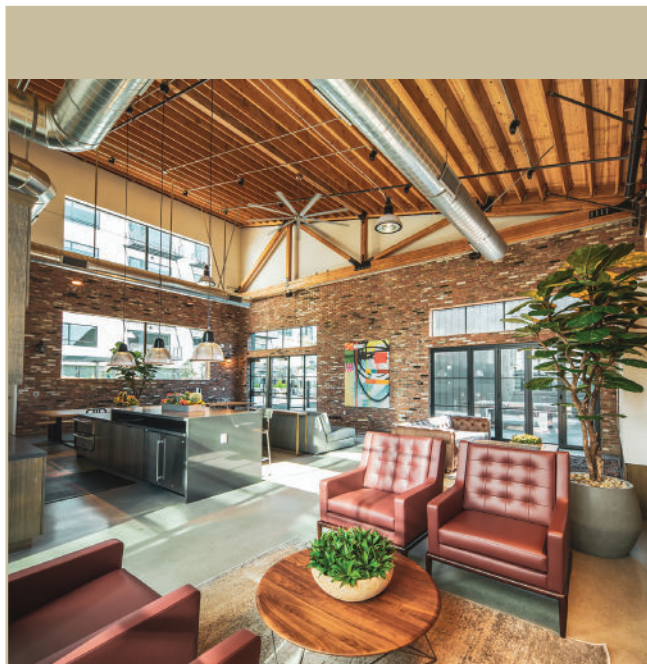
historical trends, coupled with pricing adjustments that create attractive entry points for new investments. I would highlight student housing and single-family build-for-rent communities as reflecting those subsectors where we see short-term growth being exceptionally strong. In student housing, we anticipate high-single-digit growth for the current academic year, showcasing a surge in demand. Similarly, single-family build-for-rent communities exhibit solid mid-single-digit growth. These factors make them the focus of our immediate evaluation efforts for the next round of investments.

Several elements underpin our excitement about these specific sectors. In student housing, the demographic trend of a rising college-aged population and increasing urbanization are fueling demand. Meanwhile, the single-family build-for-rent market addresses the evolving housing preferences of young professionals and families seeking the advantages of single-family living without the burden of ownership. Additionally, the faster yield adjustments in these sectors provide an opportunity for potential attractive returns in a volatile market.

***What factors do you consider when determining the target markets for a new rental project?***

**Jordan Kabbani:** Determining target markets involves thinking through the short-term growth outlook and what are those markets or product types are that have the strongest ability to capture long-term growth. When we think about markets on a long-term basis, we consider: Which markets do we see durable long-term net-migratory trends continuing to support demand? Where do we see some barriers to supply? Corporate friendliness and corporate relocations tend to help that net migration story. Then, for us, fundamentally, it is about marrying that with our short-term growth outlook.

We can look at third-party views on where we will see the strongest growth, minimal supply risk, and net migration, but given the size and scale of our business, Greystar has real-time proprietary data to identify where we see the greatest short-term growth potential. When you pair those two pieces together with our view on market pricing, it gives us a strong sense of where we see the strongest relative value in risk-adjusted returns, across the globe and between product types.



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We focus on relative value and apply that same investment framework between domestic and global markets for our partners to think through: Where do we see, on a risk-adjusted basis, the best sort of pricing and growth prospects to support the most compelling investment opportunities?

*In a dislocated capital markets environment like today, we need to be thoughtful about where we believe exit cap rates will be in five or 10 years, depending on the investment profile, while also considering growth prospects.*

– Jordan Kabbani

***What strategies do you employ to stay competitive in the multifamily rental market, especially given a dislocated capital markets environment?***

**Kabbani:** In a dislocated capital markets environment like today, we need to be thoughtful about where we believe exit cap rates will be in five or 10 years, depending on the investment profile, while also considering growth prospects. These metrics then frame our discussions around attractive pricing.

Given current capital markets volatility, this approach allows us to stay patient for the appropriate repricing to deploy capital, depending on strategy. For example, we believe the opportunity in student housing is attractive today. This space has an outsized short-term growth outlook but forms the thesis of staying patient and judicious when the market is not providing that same level of real-time transaction volume.

***How have you identified and prioritized international market expansion for Greystar?***

**Joyce:** We have local teams and operations in 17 countries. As we scale, we focus on those opportunities where we can build a great team of local experts and scale a platform. We take a long-term view of opportunities and think about the best window to enter new markets or sectors and then how to scale them. We focus on countries where we don't have to create renters – where the established renter demand is there. We focus on structural factors such as transparency, rule of law and renter regulations. We focus on gateway cities with strong labor markets supported by knowledge-based job sectors.

Fundamentally, we look for a structural undersupply of housing. Whether you look at Santiago or Melbourne, there is established demand and a shortage of housing. Lastly, we certainly want to make sure the returns make sense. Is there

compelling pricing? Is there access to capital? Is there capital appetite from our partners? Each of those levers is required to manufacture attractive investment returns.

***How do you approach risk management in underwriting differently in international markets compared with domestic markets?***

**Joyce:** It is difficult because not every market has the same institutionalization that the United States does in terms of data transparency, professional services and capital markets liquidity. We underwrite opportunities globally using a consistent framework, which we call our Greystar Global Next Buyers Analysis. This framework creates a measure of consistency in how we underwrite growth and exit cap rates. It screens out opportunities that we like fundamentally, but that are too expensive relative to the risk. Our framework is dynamic and can reflect changing data inputs, from interest rates, inflation expectations, supply/demand fundamentals or rent growth. Ultimately, it creates a level playing field for how we assess relative value on a global basis and construct a portfolio by investment strategy.

As we select international markets, we focus on the fundamentals, the rule of law and the greater opportunity set, but we will not enter a market if we cannot find a talented team that we believe can execute the business and investment strategy and then scale it appropriately. We have

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a global framework, but we allow the local team to create the nuance that the framework cannot capture. Within our investment committee, we then focus risk management on the following: What is unique? What is different? It allows for more focused conversations led by local teams.

**Kabbani:** Greystar is a global platform, but real estate is still a local business. With local expertise, we work to understand each deal and capital markets landscape and leverage that expertise when we consider international markets and countries with different regulatory and building environments. This relationship helps us ensure that we lean



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on that expertise, capture that nuance and mitigate the risk between markets when we are deploying capital.

***What roles do sustainability and environmental considerations play in your investment strategy? What are the key differences and similarities you have observed between domestic and international multifamily rental market conditions?***

**Kabbani:** Greystar and our partners are committed to ESG efforts. To start, we have dedicated ESG and innovation leads that are consistently trying new and innovative technologies within our operating platform. Measurement-emissions technologies and development and construction technologies continue to be forward-thinking and help us understand what will be effective to get to better sustainability and environmental efforts across our platform. What that can mean by country will vary slightly.

There are also market-specific climate and ESG risks that carry incrementally more risk to climate events. Ultimately, this nuance can impact long-term NOI growth and liquidity. Climate risk is increasingly becoming part of our investment framework as we think about our exit cap rates in markets that are more susceptible to that type of risk. We also carefully analyze the potential implications of increasing insurance and ongoing capex requirements, particularly their ability to erode the yield from underwriting activities.

***What long-term trends do you see shaping the future of multifamily rental development?***

**Kabbani:** There has been nothing thesis-changing in the long-term trends impacting supply/demand fundamentals



in the United States and globally. We are in a global housing shortage, and we need more housing of all types. The current capital market dislocation is putting downward pressure on supply and will only add to the thesis that we need more housing across the affordability spectrum. With Greystar's platform, we are aiming to deliver more student housing and more build-for-rent in the absence of a for-sale market, which has not met the moment in delivering the housing sorely needed. Conversely, even in our conventional business, we are seeing more net migration to the same cities that drive a lot of the economic growth in the United States. To meet this housing demand effectively, we need a diversified approach to deliver additional housing across the globe.

**Joyce:** First, in terms of how we expect the housing product to change, post-COVID, the amenity set is being used differently than prior to the pandemic. Before, the clubhouse was used for group gatherings or the big movie night to foster a sense of community. Today it serves more as a working café given the shift to many remote and hybrid work schedules. If you walked through one of our assets on a given weekday in the middle of the afternoon, you would see many of our residents with their laptops open, performing duties that were previously reserved for the office. They want to work from home but don't necessarily need to work from their apartment. They still crave that escape from the home and want to feel a sense of community.

Second, the technology stack we offer to our residents must be seamless. How does it improve their living experience?



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How do you foster that sense of community? That is something Greystar is really focused on – thinking of housing as a service, rather than just the conventional place to stay for your traditional one-year lease.

Lastly, residents are prioritizing health and wellness within the home and larger community. Fitness centers, spas and green initiatives have all become increasingly desired by residents. It is no longer enough to just put some weights in a room and call it a gym. Many residents are seeking that full-service experience within their development. We expect this trend to be a permanent fixture moving forward.

## ABOUT GREYSTAR

**Greystar** is a leading, fully integrated global real estate company offering expertise in property management, investment management, development and construction services in institutional-quality rental housing, logistics and life sciences sectors. Headquartered in Charleston, S.C., Greystar manages and operates more than \$290 billion of real estate in 247 markets globally with offices throughout North America, Europe, South America and the Asia Pacific region. Greystar is the largest operator of apartments in the United States, manages more than 857,400 units/beds globally, and has a robust institutional investment management platform that comprises more than \$76 billion of assets under management, including more than \$34 billion of development assets.

Greystar was founded by Bob Faith in 1993 to become a provider of world-class service in the rental residential real estate business. To learn more, visit [www.greystar.com](http://www.greystar.com).

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