

MULTIHOUSING

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Multifamily:
still king of the
real estate jungle



standards and I think that puts us at a significant competitive advantage over the shadow rentals and all of the difficulties that a renter has to deal with renting a unit in a building like that," said West.

Washington, D. C., with 27,300 apartment units currently under construction, it is the market most at risk for overbuilding.

West believes ZOM's projects there are somewhat immune to the softness affecting multifamily in D.C. because of the strength of the highly desirable, high-barrier R/B corridor. "Our Clarendon location is retail rich because of all the bars and restaurants and is a popular place to live for young professionals," he said.

It's what's outside that counts

This generation of luxury apartments is targeting renters who can afford to pay more than \$2 per sq. ft. The secret to catering to this demographic is creating a lifestyle experience with the amenities of a five-star resort.

"When we decide to build a high-rise, it is because it is on a site with an extremely attractive location, and the reason I say that is because the first reason people are deciding to live there is less about what's inside

their unit and more about what's in their area. And, even in the building itself, it's more about what's outside their unit than inside," said West.

ZOM provides lounges arranged more like hotel lobbies than traditional club-rooms, where renters can meet and socialize.

"Having those kinds of areas, both indoors and outside—pool decks, outdoor fireplaces, lounges, bars, game areas—are all things that are critically important to the luxury renter.

"They want a nicely appointed unit, relatively small, and a great community space in the building and the ability to walk out the door to a lot of fun things," said West.

Luxury amenities paid off for BNE Real Estate Group, which pulled out all the stops at its 139-unit, 11-story Warren at York in Jersey City's historic Paulus Hook neighborhood. The property was already 90 percent leased when renters began moving in on May 1 with rents ranging from the \$3,000s for 607 sq. ft. studios to the upper \$5,000s for 1,789 sq. ft. penthouse units. pre-leasing began in April.

Another year of the rental

Most housing experts agree that 2014 will be another great year for the apartment industry.

Development slowed substantially during the recession, but prior to that, the housing boom shut out the rental market. The confluence of these two things created enormous pent-up demand and plenty of room for good development for years to come, said West.

"Because there was no supply for so long, as the economy started to improve, the rent growth was astronomical, unprecedented in my career. Will it continue? Absolutely not! It's going to moderate substantially, I'm sure, and it will be flat in some places, but not the six, seven, eight, nine and ten percent increases, which is what it's been," said West.

A new renter outlook

One reason apartment demand remains strong is because Americans no longer view homeownership in the same way.

"Renters leave because they are going to buy and that's always been the case in our business and will continue, but there is a permanent shift in people's bias for renting, because they no longer see investment in a home as a risk free venture.

"To be able to avoid the risk and have the convenience of a professional manager taking care of the property and, in our case, to have urban amenities nearby, creates a good demand for urban living in rental housing," said West.

Another reason people are choosing to

rent, says Jack McCabe, founder and CEO of McCabe Research and Consulting LLC, has to do with jobs and where people are finding them.

"People are moving for jobs because it's difficult to get one that pays well. The pitfall in Florida during the downturn was we didn't have a lot of jobs created. There were jobs in Texas, however, but homeowners in Florida couldn't move to Texas because they couldn't sell their homes. So, to young people who learned from the recession, mobility is one reason they don't see homeownership as the greatest thing. They know they may have to move to get a good paying job," points out McCabe.

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Condos back in a big way

The flipside of the high-rise rental story is that a resurgence of condo development is underway from coast to coast. Still 30 percent short of the previous peak, condos' share of total existing home sales is approaching pre-recession levels, reports CoStar Group.

New York City is leading the way with some of the tallest buildings, while the West Side waterfront along the Hudson River is being called the new condo coast.

In Chicago, construction is underway in the South Loop on the city's first condo tower since the housing bust—the 15-story, 144 unit 1345 Wabash by developer CMK Companies.

And, in Boston, The Related Group and partner The Beal Company, revamped their previously approved 14-story apartment tower in the West End Bulfinch submarket—switching from rental to for-sale.

But nowhere is condo activity frothier than in South Florida, where condo was once king.

Those projects are funded by the buyers, not the banks, with a very heavy deposit structure designed to help developers avoid overleveraging, said West. As much as 80 percent of the purchase price of the unit is buyer-funded through deposits through the

course of construction.

At least 186 condo towers with 25,125 units are proposed in South Florida—some already in development with sales prices that top the previous boom. Around 50 with a total of 14,000 units are proposed or under construction along a 60-mile stretch of Miami’s Brickell Ave., representing more than 65 percent of the construction pipeline for South Florida’s entire tri-county area.

The Related Group has proposed more than half of those—29 projects with a total of 7,500 units—and in January broke ground on the SLS Hotel and Residences Brickell, a condo project that stalled during the last housing bust. Like all condos being built in South Florida today, they are aimed at ultra-wealthy international buyers.

McCabe warns, “Buyer beware!” He believes hedge funds are artificially pumping up prices in many markets. “In South Florida, we’ve seen increases of 20 to 37 percent in real estate values in the last year. There’s no legal investment I know of that has returned those kinds of appreciation,” he said.

He explained that hedge funds swooped into South Florida after the 2007 housing bust and bought tens of thousands of condos in bulk. Entire projects were bought at bargain prices – discounts of 50 to 75 percent off 2006 top-of-market prices.

“Then, around 2011, the hedge funds and other corporate buyers changed strategies and bought foreclosed-on single-family homes at huge discounts. In 2013, they shifted again, now paying full price and above, artificially inflating prices and values. High net worth individuals from South America followed suit,” he said.

McCabe believes the majority of South Americans and Asians who would or could buy new condos in South Florida have already bought most of the existing inventory and put deposits on the newly announced projects in the Brickell area and Eastern Dade.

“So new projects and those yet to be announced face increased competition for a dwindling supply of buyers,” he said, noting that the hedge funds have now moved on to greener pastures in secondary markets.

McCabe, who forecast the previous housing bust, is seeing signs of a bubble in the for-sale housing market. “It’s a hot topic right now and analysts are split. I personally think there is danger of a bubble, not nationally, but in those states where we saw the greatest rise in artificial appreciation and the rocket came crashing back to earth with 50 to 60 percent drops in prices. California is getting into bubble territory and Florida and, three or four years from now, Las Vegas and Phoenix,” he predicts.



(above) The Beacon at Clarendon West in Washington, D.C., consists of a six-story and 10-story tower with two levels of underground parking and a dedicated street over the garage that separates the two buildings.

(below) ZOM's Brickell Ave. high-rise is directly across from Brickell City Center, encompassing a hotel and condos, office space and a multi-level open-air shopping center covered with a unique “climate ribbon” that keeps out rain and influences temperature.

