



## Multifamily Projects Capitalize on the ‘New Normal’ in Housing

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In the wake of the recent economic downturn, there are significant trends moving beneath the foundation of the real estate industry that are creating a “new normal” for the decade ahead. For the first time in history, more people in the world live in urban areas than in rural communities. In the United States, this means that America’s metropolitan areas are the true centers for population and economic growth. At the same time, the sources and flows of global capital have experienced major shifts, reconfiguring funding sources to achieve goals.

We are seeing these trends impact the multifamily development marketplace, which is experiencing a promising resurgence. Of all real estate sectors, multifamily rental seems to be leading the pack in recovery. The CoStar Group predicts a sharp spike in new units for 2012, with more than 22,000 units forecast for 2011. CoStar anticipates that number to jump to more than 94,000 units in 2012 and just over 109,000 units in 2013.

Multifamily is also attracting investment attention thanks to new demographics and increased demand. U.S. Census projections for 2010-2015 indicate 4 million renters are projected to enter the market as home-ownership rates decline; at the same time, an additional 4 million echo boomers will benefit from expected job growth, enabling them to seek independent residences. They are expected to seek out primarily rental properties.

As Jeff Courtwright, executive vice president for the southwest U.S. for Lincoln Property Co., observes, “clearly there is a demographic shift with echo boomers coming of age. Aged 20 to 34, echo boomers are renters 60 percent of the time. As baby boomers are retiring and downsizing, they are another large demographic to target. Both should increase multifamily demand for the near term.”

As the growth of cities becomes a predominant driver for cultural and economic change, real estate

development will need to seek out opportunities for adaptive reuse and urban infill, offering attractive locations for the echo boomer demographic segment. As one example, an independent study by Zipcar Inc. found that nearly half of drivers aged 18 to 34 said they have consciously made an effort to reduce their driving. This trend points toward transit-oriented development, a need that urban areas are almost exclusively positioned to fill. Transit-oriented projects will almost always include multifamily developments and therefore will attract echo boomers, who prefer to rent as they begin their professional lives.

Our CityView team is currently raising capital for urban projects, and therefore we see many proposals for apartment funds also seeking investors. Overall, we see more investment fund interest for multifamily development than for any other segment, to such a degree that some analysts have cautioned about the near-term risk for oversaturation of the marketplace as investors flock to this growing and attractive segment of the real estate industry.

Traditionally, multifamily investment has come primarily from institutional sources such as REITs, pension funds, insurance companies, endowments, high net worth individuals and family offices. These investors appreciate the steady revenue streams available from investment in rental properties. Increasingly, there is interest from foreign investors in the U.S. real estate market. Both the dollar and real estate values in the U.S. are currently down, making for an attractive value proposition as the market begins its climb back upward. A recent survey by the Association of Foreign Investors in Real Estate found that foreign investors plan to boost capital allocations for U.S. assets, with projected increases of 62 percent for equity investments and 83 percent for debt above 2009 levels. Much of that foreign capital will be invested in creative multifamily projects.

As the recovery gains momentum and development accelerates, multifamily projects and investments are poised to lead the way toward the overall improvement of the real estate industry and will be a major factor in the renaissance of urban living and city development.

*Executive Chairman of CityView Henry Cisneros devotes his efforts to improving the urban environment through CityView's investment funds and the "Smart Capital for Smart Growth" strategy. He has also served as Secretary of the U.S. Department of Housing and Urban Development and was a four-term Mayor of San Antonio, Texas.*

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