

Hot Topics: [Metrics Monitor](#), [Distressed Assets](#), [MFE Top 50](#)

From: [MULTIFAMILY EXECUTIVE October 2011](#) | Posted on: October 18, 2011

Ready to Launch

Moving forward, multifamily projects are squarely positioned to succeed.

By: [Henry Cisneros](#)

[Be the first to comment](#)

[Related Articles](#)

[Share](#)

1



There's no doubt: Multifamily is best poised to lead the real estate sector toward a recovery.

Major demographic and global capital transformations unfolding in the wake of the economic downturn are creating a new foundation for the U.S. real estate industry. Consider that America is experiencing a rapid population increase and is expected to swell from 306 million residents in 2009 to more than 400 million by 2050. The majority of that escalation will be absorbed into the nation's metropolitan areas—the leading hubs for population growth and the engines of the national economy—as the country becomes increasingly more urbanized.

At the same time, the global financial markets are undergoing significant change, with the introduction of new sources of equity such as foreign capital and private equity, as well as a restructuring of global capital flows. This evolution has helped to usher in a new investment model for the future.

These trends will have substantial implications for the multifamily development marketplace, which is experiencing a promising resurgence and attracting considerable attention from communities, governments, investors, and news media alike.

A Tale of Numbers

Of all real estate sectors, multifamily projects are emerging as the clear leaders in the aftermath of the economic decline by being directly positioned to capitalize on the rising influx of renters in urban centers across the country. Data projections from the U.S. Census estimate that for the years 2010 to 2015, approximately 4 million renters are expected to have entered the market as homeownership rates decline and new households are formed. Additionally, 4 million more Echo Boomers (those ages 20 to 34) will benefit from expected job growth, enabling them to seek independent residences, which are anticipated to be primarily rental properties.

According to Jeff Courtwright, executive vice president for the Southwest at Dallas-based Lincoln Property Co., a clear demographic shift is occurring with the Echo Boomers coming of age. "Echo Boomers are renters 60 percent of the time," he says. "As Baby Boomers are retiring and downsizing, they're another large demographic to target. Both should increase multifamily demand for the near term."

Also at work is the fact that so little production in multifamily housing has occurred in recent years. This lack of new supply, coupled with the growing number of renters in metropolitan cities, is effectively sharpening demand in those areas.

To meet this demand, developers and real estate holding companies are expected to ramp up production. The CoStar Group, a leading provider of commercial real estate research, predicts a sharp spike in new units for 2012. Following a forecast of more than

Services: [Blogs](#), [Webinars](#), [Videos](#), [Events](#), [Jobs](#), [RSS](#)

Advertisement

The fast lane for small business.

BUSINESS LINK



[WATCH VIDEO](#)

[VISIT WEB SITE](#)

[FIND A DEALER](#)

SUBSCRIBE TO MFE'S WEEKLY NEWSLETTER!

Get the latest multifamily news and analysis delivered to you with Multifamily Executive's weekly update.

E-mail address

[Sign-Up](#)

Or follow us on



Advertisement

SPONSORED WEBINAR



[NEW WEBINAR: The Best Leasing Decisions Begin with the Best Data.](#)

Boost collections, identify high-quality residents. Industry experts will share the benefits of rental payment history data

to reduce skips and improve bad debt recovery.

[View all Webinars](#)

Advertisement

SPONSORED WEBINAR



[The ROI of MRO](#)

Join a few of multifamily's maintenance masters for this webinar on how apartment operators can save with a strategic maintenance, repair and operations program.

[View all Webinars](#)

22,000 new units for 2011, CoStar anticipates that more than 94,000 units will come on to the market in 2012, growing to more than 109,000 units in 2013.

It's All a State of Mind

The numbers alone, however, don't tell the full story. Growth of the multifamily industry will also be driven by the rising trend toward sustainable, innovative, and more livable high-density residential projects, as well as smart-growth principles, including urban redevelopment initiatives. Additionally, as the growth of cities becomes a predominant driver for cultural and economic change, more opportunities for adaptive reuse and urban infill will create attractive locations for Echo Boomers.

In addition, there seems to be a growing desire among young professionals to live in urban areas, which afford greater proximity to city amenities and places of employment. Along these same lines is a greater inclination toward smart transportation. In particular, according to an independent study by Zipcar, nearly half of drivers ages 18 to 34 say they've made an effort to reduce their driving.

Taken together, these trends point toward a need for more transit-oriented development, a niche that urban areas are almost exclusively positioned to fill. Transit-oriented projects will almost always include multifamily developments and therefore will attract Echo Boomers.

Depending on Dollars

Despite this perfect storm of demographic, economic, and psychological factors, the sustained growth of the industry will rely heavily on capital investments in multifamily over the years to come. Traditionally, the bulk of multifamily investments have originated from institutional investment groups such as REITs, pension funds, insurance companies, endowments, and high-net-worth individuals, all of which value the steady revenue streams that rental communities can generate. These well-capitalized entities, which are joined today by new sources of private capital, increasingly recognize the advantages of investing in urban centers and are seeking strategic opportunities in the strongest urban markets for securing long-term returns.

A key source of funding for multifamily today is foreign investors, who are showing greater interest in apartment properties, especially considering the comparative value of investing in the United States and the advantage of present currency valuations. 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.

As the rental markets in metro areas strengthen and development accelerates, multifamily projects and investments are positioned 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.

Henry Cisneros, founder of Los Angeles-based real estate investor CityView, served as secretary of HUD from 1993 to 1997.



KEYWORDS

SUBJECT

[Multifamily](#), [Demographics](#)

LOCATION

[Null](#)

[View all keywords](#)

RELATED ARTICLES

[Case Study: LEED-Platinum Co-op Hits All the Right Notes](#)

[Market-Rate Multifamily](#)

[Baby Boomers, Gen Y, and the Recession Shift Long-Held Housing Tastes and Trends](#)

[ULI Fellows Identify Forces Shaping The 'New Normal' For Real Estate](#)

[Demographer's Upbeat Assessment Bodes Well for](#)

RELATED TOPICS

- [Multifamily](#)
- [Demographics](#)