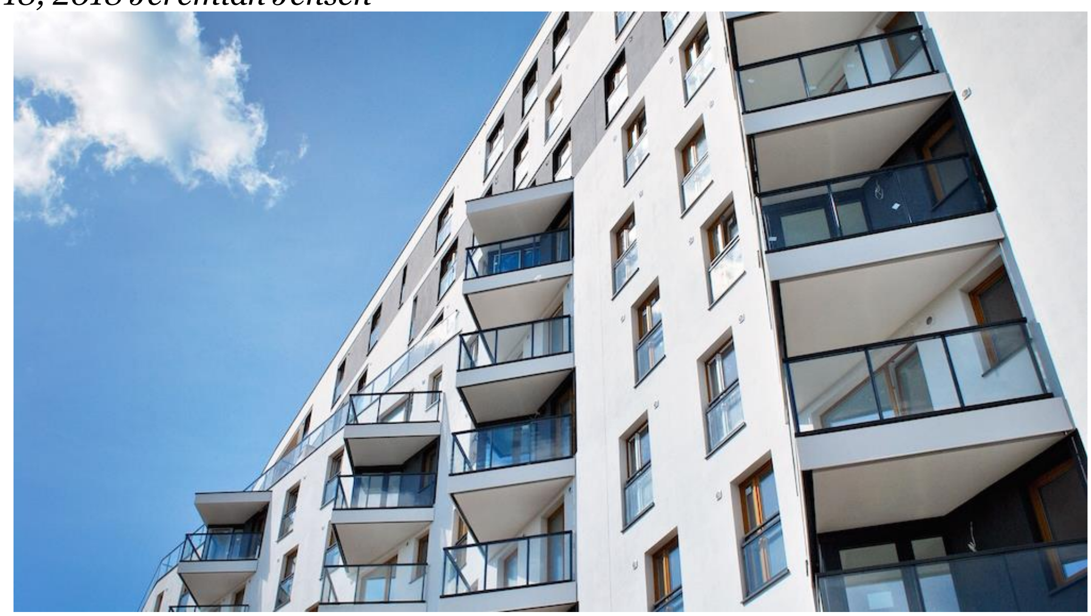
In the pipeline: Only one thing can stop multifamily's march

Demographics, economics, momentum are all in favor of multifamily performance

June 18, 2018 Jeremiah Jensen



Multifamily real estate is proving itself to be a rock-solid investment, and as the economic cards fall in favor of the asset class, its strong fundamentals are cementing into place and turning it into a nearly unstoppable barge of respectable returns on investment. But will the good vibes last?

“Our investors find that it is so much more volatile in other areas of investing that they would prefer to put [capital] in something that is slow and steady and more predictable, and even when it goes down, it always goes back up,” Monument Capital Management Principal Stuart Zook told HousingWire about investing in multifamily housing.

“It’s a hedge against volatility,” he added.

The reasons multifamily real estate is so stable can largely be attributed to favorable demographic trends. Millennials and Gen-Zers are flocking to cities with high job growth and snapping up the units almost as fast as they go up. These two generations are large and largely cannot afford homes at this point, nor will they be able to for some time.

The average age of the first-time homebuyer recently rose above the age of 30, and rising home prices/interest rates along with lifestyle preferences will most likely keep these two generations renting for a long, long time.

The second, lesser known demographic trend in favor of multifamily demand is Baby Boomers downsizing. The second largest living generation is showing strong demand for many of the same amenities that Millennials and Gen-Zers want. Walkability, access to cultural centers and entertainment. Many Baby Boomers are choosing to sell off their homes and rent to allow for travel or more luxurious lifestyle in their golden years.

What this means is that the multifamily market is in a generational sandwich, getting major love from the whippersnappers and the fogeys.

“It’s kind of funny; you kind of have bookends now. You’ve got the younger people getting out school who want that [flexibility, walkability, etc.]…and now you have the seniors people back into that [lifestyle],” Zook said.

There is only one thing Zook thinks could shake up the multifamily market, and it has to do with whether Americans are goldfish or elephants.

“It depends on the memory of the people because most people I’ve talked to kind of got burned in that 2008, 2010, 2012 market, and they said they would never buy a house anymore as an investment,” he said.

What would push people over the edge into homeownership is if it became cheaper than renting, and Zook said that starts with a return to what sent the world to fiscal hell in the first place: relaxing lending standards.

“What can change is a change in mortgage credit standards…it basically goes back to, ‘how good is our memory?’ If you have no money down or 2% or whatever with rental rates rising like they have been you can actually buy something at the same price that you would to rent it, would you do that?” Zook asked.

“What they’re going to do is say, ‘OK, I want to do this because it is going to cost less money to [buy] there versus renting because credit is relaxed, I can now get a mortgage where I couldn’t have got a mortgage.’ And if they did something like that again, that could cause a slight ripple in the multifamily side,” he added.

But for now, the multifamily lake is glassy smooth. Nary a ripple to be found.