5 Must-Know **Trends for Multifamily Investors**

With fierce competition for most multifamily investments and cap rates increasingly under pressure as lending rates rise, now is the time for potential landlords to add some clever sleuthing skills to their market research arsenal.

The following are ***Five Must-Know Trends*** *that multifamily property investors should investigate as the easy pickings go away.*

no.1 Add Value to Well-Located Properties with Easy but Overlooked Renovations

With home ownership increasingly out of reach for more Americans, a key consolation prize is living in a well-located apartment community with multiple amenities. Shrewd investors of older properties in "A" locations know that the right mix of renovations can boost both prices and occupancy levels, especially as more people return to urban cores as the COVID-19 pandemic wanes.

Since curb appeal is just as important for potential renters as home buyers, start with exterior upgrades to modernize the community while also choosing a classic look that will age gracefully. These upgrades may include new color schemes, replacing obsolete façade accents, revising signage (and branding), updating landscaping and making common areas look more like high-end condominium communities. Let your buyers feel as if they're living a luxury lifestyle without the costs of homeownership.

Inside the homes, most savvy multifamily operators of aging properties have replaced carpeting with tile or wood-like flooring (including easy-to-clean vinyl planks), scraped old-style acoustic ceilings and removed old, cultured marble and tile countertops in favor of granite, soapstone or Corian. Also, since tenants spend just as much time in their kitchens and bathrooms as homebuyers, pay special attention to these areas with some well-placed cosmetic fixes.

Finally, for those operators with the budgets and space in the units, adding hook-ups for washers and dryers (even stacked units in a hallway, kitchen or in a master bedroom closet) can not only help tenants avoid the dreaded laundry room, but boost both rent prices and occupancy levels in the process.

Depending on the scope of renovations, multifamily operators can expect an increase of 10 to 30 percent per month, or even more in high-demand areas.

no. 2 Partner With or Buy Out Developers of Affordable Housing

With lengthy waitlists at many affordable housing communities and rents continuing to rise throughout the country, the demand for rent-subsidized housing remains far greater than supply. After 15 years, many developers of affordable housing communities sell out their interests, which can mean a steady income stream and pent-up demand for new investors.

In markets where more affordable housing needs to be built, market-rate developers often partner with affordable housing experts to build out required units in order to obtain building permits for their own subdivisions. Those affordable housing developers, in turn, often partner with investors or syndicators to raise the money for construction. However, the affordable housing space is complex, and tax credits for LIHTC (Low-Income Housing Tax Credit) properties are limited. Fortunately, Affordable Housing Finance magazine has published a recent how-to guide on how to get started in this sector.

no. 3 Look for Adaptive Re-Use Opportunities of Obsolete Properties

With fewer workers returning to offices and more shoppers moving online, there is a boom emerging in the conversion of obsolete land to new housing. In some cases, this is simply adapting older warehouses, hotels or office buildings to apartments, whereas in other instances, it can include demolishing failed malls or big box stores to new housing.

Adaptive re-use properties are also frequently located in areas which can benefit from Opportunity Zones. Introduced in late 2017 as part of the $1.5 billion Tax Cuts and Jobs Act, these zones are designed to encourage new investments in 8,700 areas of the United States. While these opportunities often include new construction, they can also include the significant rehabbing of existing properties when made through an approved opportunity fund.

Opportunity Zone investments can also provide tax incentives even more valuable than with 1031 exchanges, such as allowing for the elimination versus deferral of taxes until a sale. These incentives can include up to 15 percent on the contributed gain and up to 100 percent of the gain on the new investment.

no. 4 Discover the Hidden Geographic Demand for Multifamily Housing

In the past, developers could simply follow new jobs to predict housing demand, but today, with the rise of remote work, the picture is more complicated. While essential jobs in manufacturing, medicine, transportation and retail will continue to require employees to physically show up to work each day, those who can work remotely are finding their housing budgets go a lot further in small cities and outlying suburbs of major metro areas.

As home prices increasingly rise out of reach for many first-time buyers, some of them will still relocate to these areas. As a result, the geographic demand will include a mix of traditional on-site jobs and those relocating from the coasts. One key trend that accelerated during COVID-19 pandemic was Americans moving to Sun Belt states. According to recent Census Bureau data, 15 of the fastest-growing areas are located in Florida, Georgia, Idaho, Arizona, Texas, Alabama and North Carolina. For more details, 24/7 Wall Street has compiled statistics on the fastest-growing cities between 2020 and 2021.

In addition, some tenants are willing to trade living space for a preferred location. According to a recent study by RentCafe, the average personal space per person shrunk from 565 square feet in 2011 to 540 square feet by 2020. With an average of 1.69 renters per unit in the U.S., each renter has the equivalent of about 1.5 rooms to themselves, although that ratio can vary widely throughout the country, with renters in the Midwest enjoying the most space, while those in California have the least amount.

no. 5 The Airbnb Effect: Target Digital Nomads

With employers like Airbnb offering their employees a full-time remote lifestyle (with no decrease in pay), many of them will take full advantage of a nomad lifestyle, which means greater demand for turn-key, fully furnished apartments with amenities including on-site gyms, workspaces and social gathering places. By offering smaller spaces with more amenities at a higher price, the return on investment could be even higher versus traditional apartments.

Today's digital nomads have come to expect some basic features, including contactless check-in and check-out options, fast, reliable internet (ideally Wi-Fi), multiple charging outlets, secure locks for front doors, safes and even laptops, access to office supplies and printers, and dedicated spaces for working and cooking.

For those multifamily operators willing to pursue the short-term rental business, it is important to note that while well-located properties in touristy areas can command up to 50 percent more in rent, additional costs associated with running a hospitality business – especially listing fees on websites such as Airbnb or VRBO – can eat into profits. That's why investing upfront in technology (such as keyless entries which can be recoded for new guests) and hiring the right on-site or off-site managers is critical. With potential guests generally looking first at past reviews before booking their stays, getting it right from the start is critical.

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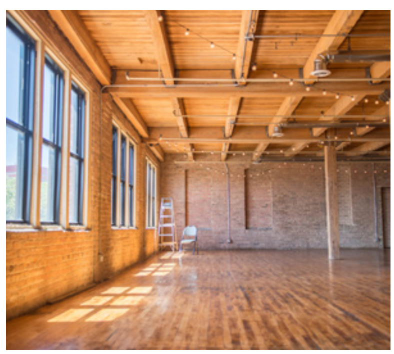

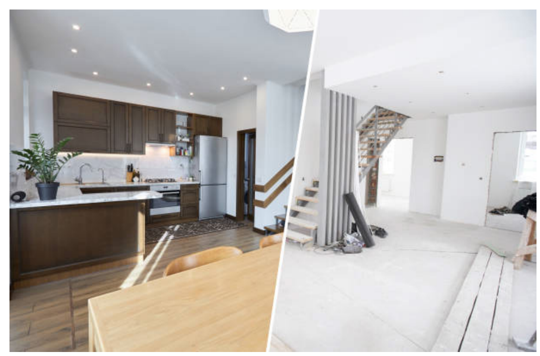

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