Sung Nam

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Apartments and Residential

Courtesy: CCIM

Multi-family properties are attractive real estate, considering the stable occupancy rates and rent growth over the past few years. It is more hands on than a typical office building, with no NNN agreements available, but that provides more upside opportunity with activist renovation in place. Lately, cap rates in the metro are 6%, while secondary are 7%. But due to the shortage of investment properties, many investors are looking out to tertiary properties, outside of the arterial center. When investors do offer purchase bids, they don't close because sellers are countering with a lower cap rate. So, there is a standstill in the tertiary market since buyers are reluctant to sell since they can't reinvest in a similar yield generating property.

New unit developments are reaching highs as demand for multi-family increases, in particular, high luxury end apartments. Some investors are selling their multi-family properties and investing in foreclosed single-residential properties. Housing starts at 1.1MM, existing home sales at 5.0MM, new home sales at 590K. Nearly double for new home and housing starts compared to last year. West residential prices has gone up 16%. Buyers are paying more for the residential and some need to be cash buyers to pick-up a condo, which can be renovated for rental purposes. More foreclosed homes are exiting the inventory pool and buyers have been re-entering the market since 2011. The secular growth will happen in 2013. However, this data is coming from CCIM, where many are brokers, or CCIM data may be geared for brokers, so we want to be careful of bias. One thing is for sure, the real estate market is much more stable than 2008, and talk of recovery may become a self-fulfilling prophecy.