Why Invest in Multifamily Real Estate

Multifamily Real Estate for Portfolio Investors

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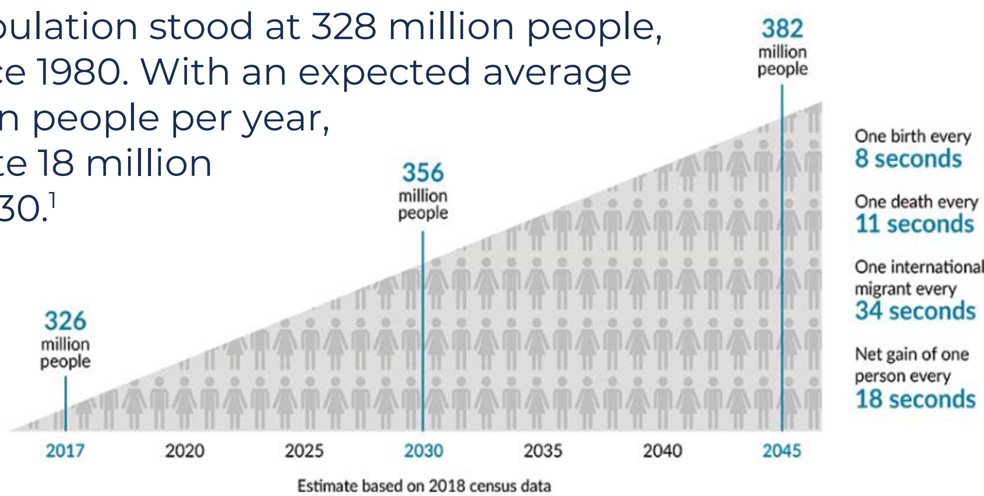
Demographic Trends are Favoring Multifamily

Often people discount investing in multifamily assets because they believe “you have to have millions to buy an apartment building” or “it’s too complicated”.

The following pages are intended to demonstrate the strengths of truly diversifying your portfolio through multifamily investing. You’ll find that the housing market is currently undersupplied with a demand that demographic trends show isn’t going to slow anytime soon creating an excellent investment. We’ll also cover the impact of the economic environment, inflation as well as multifamily’s historical outperformance as compared to bonds, equities and other real estate asset categories.

Continued Population Growth

In 2019 the U.S. population stood at 328 million people, a 45% increase since 1980. With an expected average growth of 1.8 million people per year, it’s safe to anticipate 18 million more people by 2030.[1]

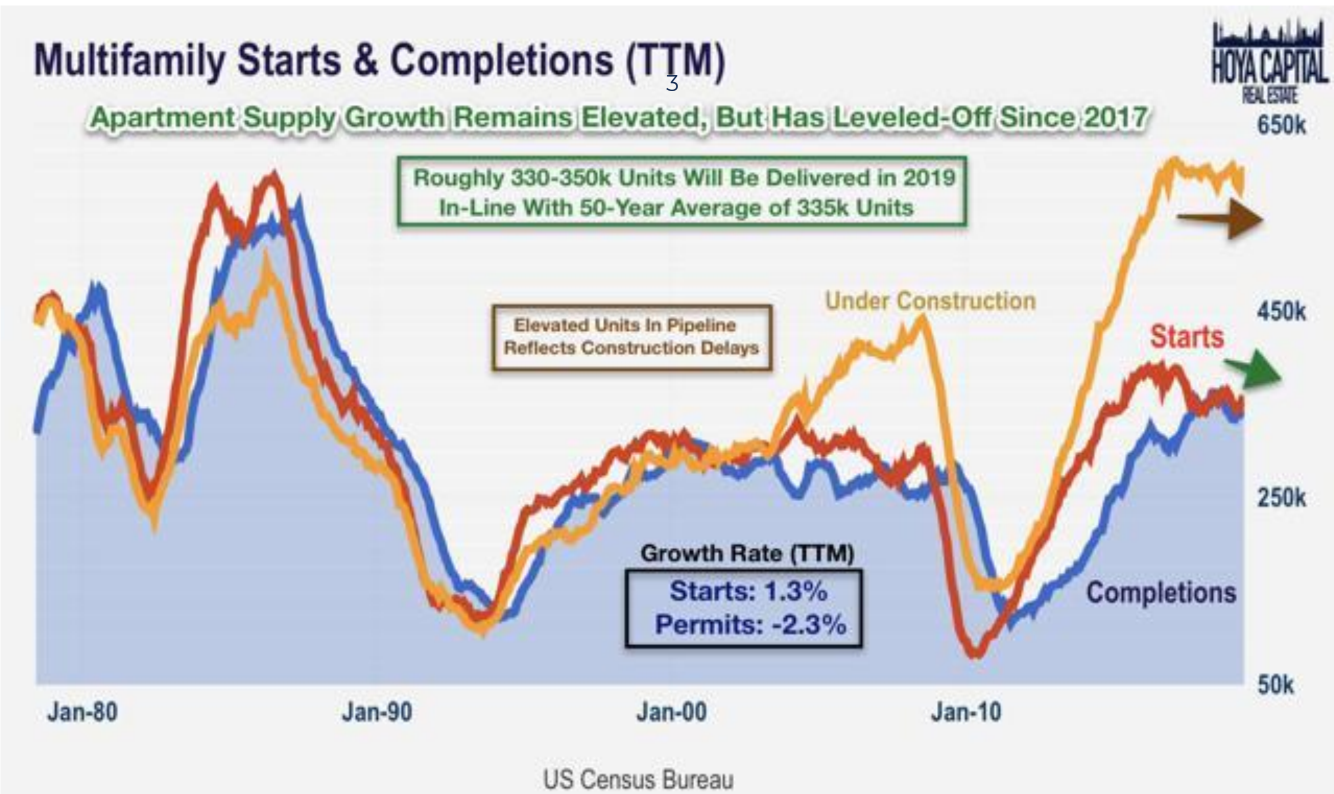


[1] Demographic Turning Points for the United States: Population Projections for 2020 to 2060, Census.Gov 2020

Lagging New Construction

Mirroring the Great Recession, construction slowed creating a housing deficit. Despite an economic recovery from the Great Recession and low interest rates, housing development remained slow exacerbating a housing shortage.

A Freddie Mac study suggests 1.62 million units are needed annually to accommodate population growth, replacement of depreciating units and compensate for previous years' inventory shortfall.[2] As demonstrated by the below chart, multifamily starts began to rise in 2014 they leveled off in 2018 and the future starts are uncertain. Years of underbuilding present another housing crisis: Where will these people live?



[3]

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[2] The Major Challenge of US Housing Supply, Freddie Mac, 2018

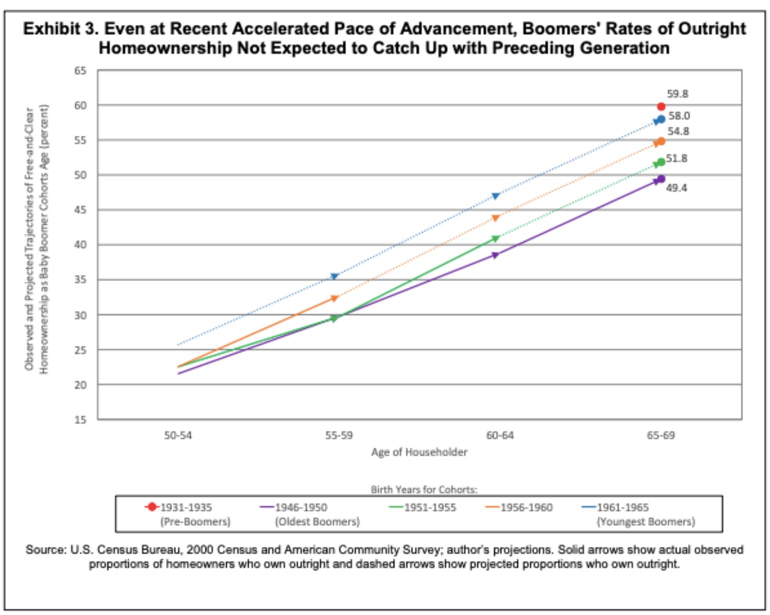
[3] Apartment REITs: Roaring Rents, Seeking Alpha 2019

The Boomers- The Silver Tsunami

The Baby Boomers, now often referred to as the "Silver Tsunami", are the largest population cohort in the United States. Born between 1946 and 1964, Boomers range in age from 55 to 73 with 10,000 turning 65 every day[4].

Comprised of 78 million people just under half (47%) are already in retirement leaving 41 million Boomers anticipating retirement[5].

According to Forbes and echoed by financial institutions, this generation is ill-prepared for retirement[6] partially due to a lack of planning as well as the timing of the Great Recession. With 47% of Boomers continuing to make average mortgage payments of $1,200 with an average social security benefit of $1,503, Boomers have tough decisions to make[7].



This often means moving out of their homes and into apartments with no intent to purchase a home again. Apartments are being converted to active adult communities at a rapid rate with a need that will only continue to grow[8].

[4] Creating Communities Where Baby Boomers Want to Live, Builder Online
[5] Baby Boomers Accelerate Their Advance into Free-and-Clear Homeownership Fannie Mae, 2017
[6] Baby Boomers Face Retirement Crisis, CNBC 2019

[7] Are We in a Baby Boomer Retirement Crisis?, Investopedia, 2020
[8] Creating Communities Where Baby Boomers Want to Live, Builder Online

Millennials

The second-largest group in America is the Baby Boomers' grandchildren, the Millennials. Born between 1981 and 1997 this generation grew up with a surge of technological change and entered adulthood with the challenge of the Great Recession[9].

This generation, known for embracing experiences over possessions, chooses to rent because it compliments their upward mobility[10]- hands off maintenance[11] lifestyle, but this is not the primary reason.

Despite plans to purchase homes in the future, traditional timeless for purchasing a home are significantly delayed.

72% of Millennial renters specifically cite affordability as their reason to continue to rent.

Considering 45% of Millennials are encumbered by an average of $29,800 in student loan debt it makes sense this generation struggles to save.[12]

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[9] The Anatomy of a Millennial Renter, Smart Move 2017
[10] Why Millennials are Renting More — And Why It Works for Them 2018
[11] 2018 Millennial Homeownership Report: American Dream Delayed, Apartment List 2018

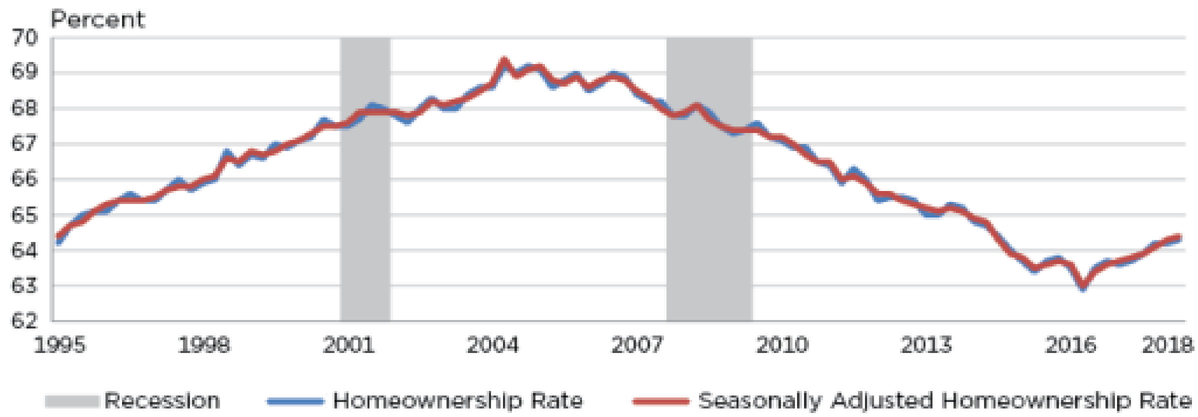
[12] Meet the average American millennial, who has an $8,000 net worth, is delaying life milestones because of student-loan debt, and still relies on parents for money

With a rise in housing prices and the impact of the Great Recession as they began careers (time will tell the impact of COVID-19) it makes sense that Millennials struggle to save for a down payment to purchase a home.

As you can see in the chart below, the combination of these trends have contributed to a decline in homeownership rates for over a decade.

While 2017-2018 show a slight increase, the longer term impact of COVID-19 on the economy and on housing is not yet known.

Figure 2.
Quarterly Homeownership Rates and Seasonally Adjusted Homeownership Rates for the United States: 1995-2018



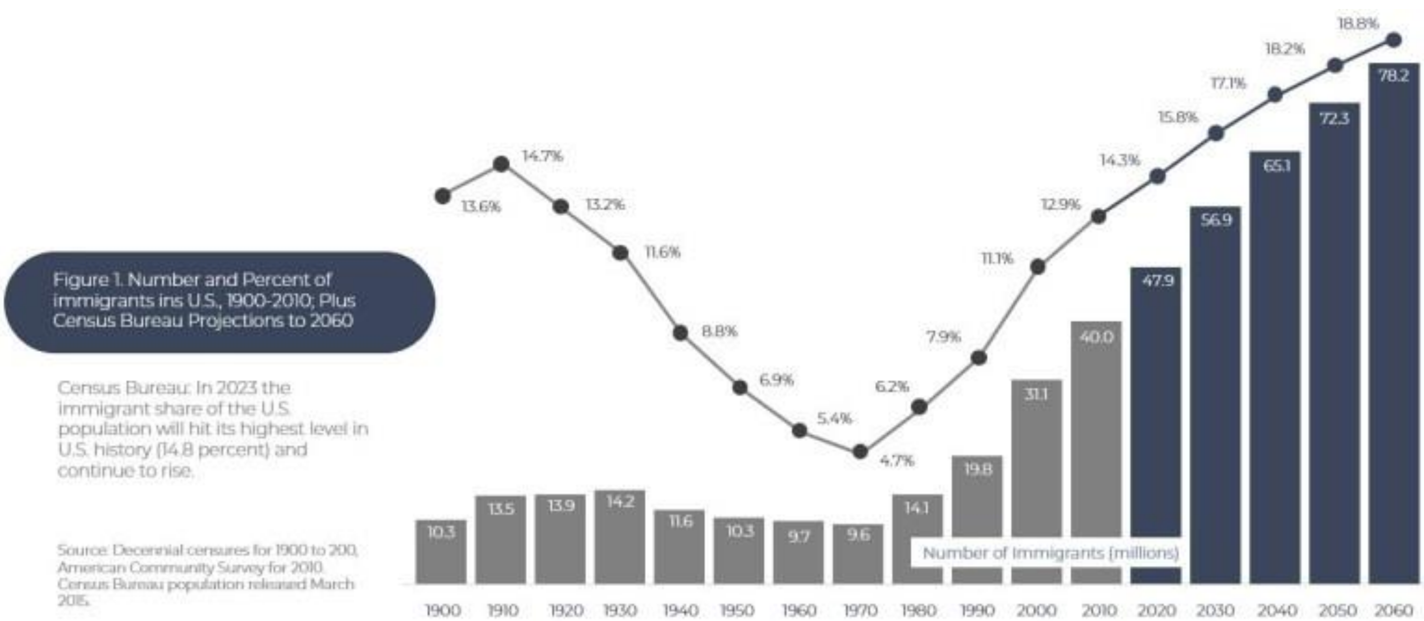
Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, July 26, 2018, Recession data: National Bureau of Economic Research, <www.nber.org>.

Immigrants

Since the 1970's the United States has seen a rapid increase in immigration. In 2018 immigrants comprised 44.7 million of the 327 million US population and 17% of the workforce[13]. Put in perspective, immigrants represented 38% of the US population growth between 2018-2019.[14]

Projections anticipate the immigrant share to reach 15.8% or 56.9 million people by 2030[15]. In 2016 roughly 40.7% of immigrants were homeowners leaving 59.3% utilizing other housing options.

It's reasonable to conclude this substantial portion of immigrants are, and will continue to be, served well by apartment rentals.[16]



[13] Frequently Requested Statistics on Immigrants and Immigration in the United States, Migration Policy Institute 2020

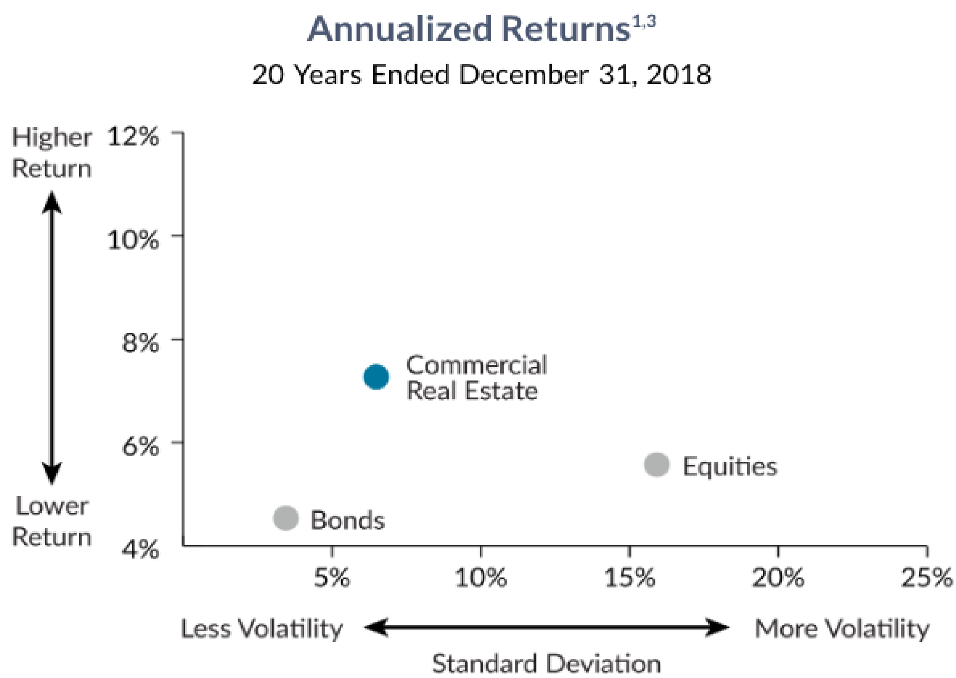
[14] How is the Population Changing and Growing? USA Facts

[15] The US Population Climbed to a Record 43.1 Million in 2016, Forbes 2017

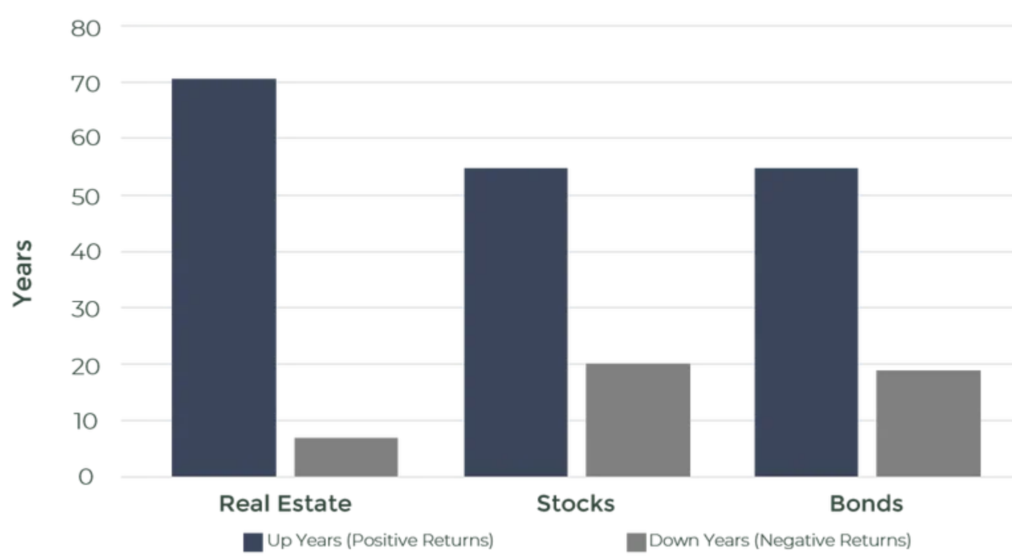
[16] How Immigrants Are Transforming the American Dream—and Real Estate Along With It, Realtor.Com 2017

Historically Higher Risk-Adjusted Return

Historically, real estate has delivered higher investment returns than other major asset classes, and with less volatility.



The bar graph below shows that real estate on the whole has relatively more up years, and fewer down years, as compared to stocks and bonds.



Source: NCREIF, Bloomberg, Barclays, Lehman, RCG

Amongst the commercial real estate categories, multifamily outperformed all other major categories over 7-year hold periods between 1987 and 2016. With the economic impact of COVID to the Hotel, Retail, and Office categories, this trend is likely to continue.

7-year Holding Period Return (1987-2016)			
Property Type	Mean	S.D.	Sharpe Ratio
All	7.87%	3.56%	0.62
Apartment	**9.05%**	**2.81%**	**1.21**
Industrial	8.27%	3.75%	0.70
Office	6.99%	4.76%	0.28
Retail	8.68%	3.54%	0.85
Hotel	8.63%	4.43%	0.67

[17]

Monetary & Fiscal Policy

The Feds efforts to stimulate the economy following the Great Recession included zero interest rate policy and quantitative easing.[18] Home values rose nearly 59% since 2012's rock-bottom,[19] and the stock market had an equally impressive run. How long can the Fed prop these markets up?

As COVID-19 hit in early 2020, the Fed very swiftly responded with more monetary stimulus.

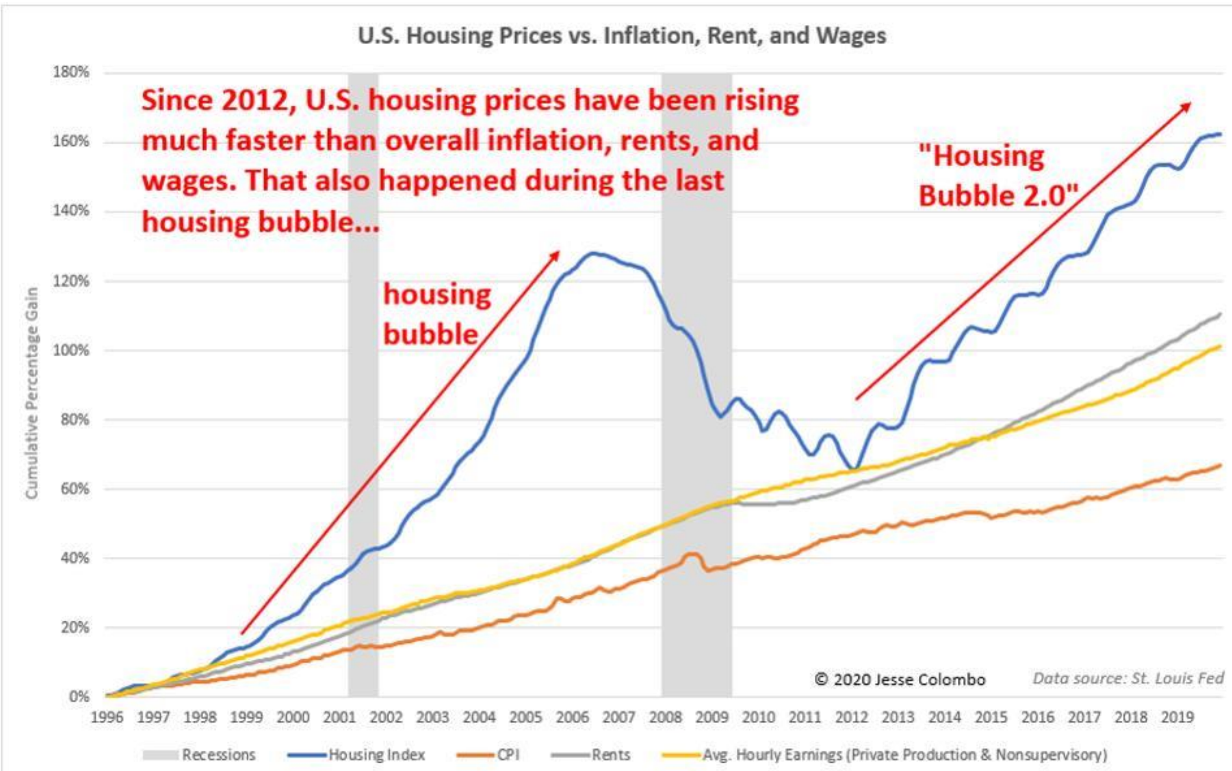
[17] Why Invest in Apartments?, PassiveInvesting.Com

[18] Why U.S. Housing Bubble 2.0 Is About To Burst, Forbes 2020

[19] Home prices increase 3.8% in December, a big jump from November, according to S&P Case-Shiller, CNBC 2020

This time the government also threw in fiscal stimulus measures (CARES) act which puts more money in the hands of consumers.

Many anticipate these measures to lead to far greater inflation than we've seen in recent decades. Here again, real estate shines as tangible asset which historically has proven to be one of the top hedges against inflation.[20]



[21]

With the stock market, shareholders lack anything tangible. Even if an investor visited Wall Street, shares worth millions, are no longer slip of paper but digitized ones and zeros.

Funds invested in multifamily assets are secured by a physical asset. Multifamily assets are composed of raw materials and land. These are commodities that have an intrinsic value. Unlike some investments, such as bonds, that lose value with inflation, tangible multifamily investments mirror the rising value of similar goods and services.

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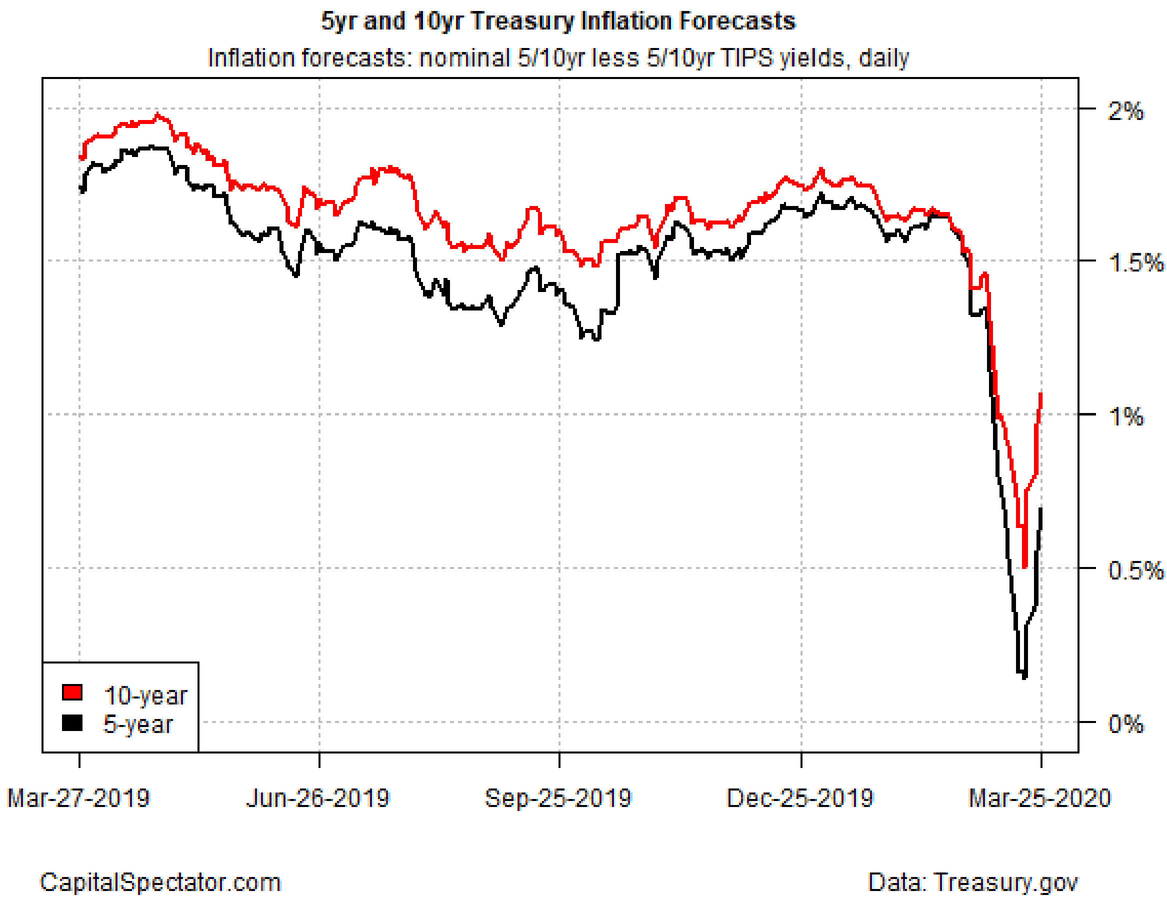
[20] Hard Assets: Using Real Estate to Hedge Against Inflation, Fundrise

[21] Why U.S. Housing Bubble 2.0 Is About To Burst, Forbes 2020

Historically, commercial real estate provides overall returns that exceed inflation. Paired with organic rental growth multifamily investing provides a strong hedge against inflation.[22]



[22] Is It Time To Buy A Multifamily Investment Property?, Forbes 2020

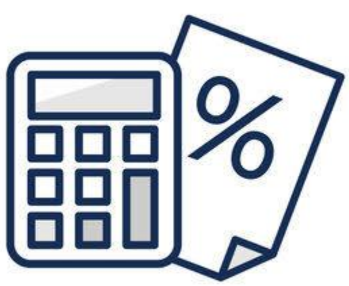
Top Benefits of Investing in Apartments

Consistent Cash Flow

When purchased correctly, multifamily assets will cash flow from day one and continue to cash flow even in times of economic turmoil.

Appreciation

Multifamily assets are value primarily by its net operating income (NOI) rather than comparable properties. Often, in addition to market appreciation, the value of an asset can be forced through physical and operational improvements.



Principal Paydown

Each month the loan balance is reduced as income from rent is applied to the mortgage. This also grows the equity in the property. Upon sale of the property, principal reduction is returned to investors.

Higher Risk Adjusted Returns than the stock market

Risk is leveraged when investing with general partners with proven track records. Multifamily investing allows you to adjust your investment to a comfortable risk level

Tax Benefits

The government uses the Federal Tax Code as an incentive for citizens to participate in specific activities. Multifamily is one such incentive.

Because State and Federal governments understand the demographic shifts discussed above, and the growing need for safe/clean apartment inventory, they continue to make Multifamily Real Estate one of the most tax advantaged investment assets. The advantages include accelerated depreciation, favorable loan programs, 1031 exchanges, opportunity zones and a laundry list of deductions including property taxes, loan interest, and depreciation.

Velocity Capital leverages these tax incentives to maximize investment returns net of taxes. When you invest with us, you'll receive your pro-rata share of these tax benefits.

Summary

With multifamily real estate investing your hard-earned money will earn higher risk adjusted returns in a tax advantaged investment. While your money is working for you, you'll sleep well at night knowing you have an inflation hedge that is less impacted by economic turmoil.

When well partnered, investing in multifamily real estate is as rewarding as it is exciting!

Steve Breton, MBA

Steeve has invested in over 2,000 apartment units and has diverse real estate experience. He has built a strong network of seasoned real estate professionals and trusted advisers. His conservative approach and analytical skills enable him to clearly assess risk and invest wisely to maximize client returns while preserving their principal.

For more information on multifamily investing to compliment your portfolio visit:

www.VelocityCap.com

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