

Multifamily Boasts Solid Fundamentals in Weak Economy

By Chris Wood — June 26, 2008
Multifamily Executive Magazine

Key players in the multifamily industry offered insight on the industry's strengths and challenges in the next few years at the Multifamily Trends Conference portion of the Pacific Coast Builders Conference, held in San Francisco this week.

Putting a finger on the industry pulse, conference chairman and Houston-based Camden Property Trust CEO Ric Campo noted that "multifamily is a great place to be" in his opening address. "Underlying fundamentals are good, and as a result of foreclosures on the single-family side, we are seeing an increase in the renter pool from 30.9 [percent] to 32.2 percent. That's 1.5 million new renters looking for an apartment," Campo explained.

Among a litany of positive industry fundamentals, Campo did recognize a void in the construction and asset transaction arenas. He also conceded that broader economic issues could impact multifamily operators in the coming 12 to 18 months, particularly among unprepared players. But overall, Campo urged the conference to turn their focus away from the "woe is me" mentality infecting American industry today.

"Some of the forecasting at NMHC indicates that by 2011 we might even be facing rental shortages," Campo said. "The next several years are going to be a time of great opportunity but in a market in which there is no place to hide. You will take part in the value creation of the industry, or you will get run over by it."

In a keynote address, Chip Conley, founder and CEO of San Francisco-based boutique hotel chain Joie De Vivre, detailed how his company accomplished just that during the dot-bomb Internet crash. Events such as the attacks of Sept. 11 and the global outbreak of SARS drove down revenues at the Bay Area-centric hotel empire by 42 percent in

the four-year period between 2001 and 2005. Joie de Vivre used the downturn to begin applying Maslow psychoanalytic theory on the hierarchy of needs to hotel ownership and management—a technique that could easily transfer to the multifamily industry, Conley said.

Conley also advised his multifamily audience to continue to leverage the opportunities of the Internet, which he said has created a promiscuous customer that changes product with the click of a mouse. When it comes to concessions, "add value rather than dropping prices," Conley advised. "Instead of cash discounts, offer to throw a \$5,000 move-in party, or provide a \$1,000 gift card to Best Buy for a resident to outfit their apartment with the latest technology. Instead of creating a better transaction, create a memory."

Not all the observations were upbeat. Babcock & Brown Residential CEO Philip Payne opened up the moderation of a leadership panel by reading a laundry list of everything wrong in business and society, citing the credit crunch, the housing recession, \$4-per-gallon gas, and Midwestern floods. "Throw in a couple of locusts, and things are almost Biblical in proportion," Payne said jokingly.

But how is this affecting multifamily? In a dearth of dealmaking and construction activity, said the panelists, which were Ackman-Ziff Real Estate Group director Brad Kraus; Muruelo Maddux Properties CEO Richard Meruelo; BRE Properties president and CEO Connie Moore; Stellar Management CEO Robert Rosania; and Mid-Peninsula Housing president Fran Wagstaff.

Moore said that plummeting land prices have created tension in the M&A market as well as internally at BRE, where she is stressing calm. BRE will stay on track

to deliver projects already committed to in the company's \$1.5 billion development pipeline, Moore said, but will be "extremely selective with what is added moving forward." Despite solid fundamentals in BRE's California-centric portfolio, Moore warned that pushback is coming on rent growth. "Our markets don't feel firm," she said. "With \$4 gallon gas, people are price-sensitive and weary of ginormous rent increases."

The leadership board was unanimous in stressing operational efficiencies as the key to bottom-line success. "Be a revenue rat," Rosania suggested, quoting a maxim that he includes in all of his emails. "The revenue rats of 2008 will become the bulls of 2009 and slaughter the pigs of 2010. The burden to execute now is 100 percent."

During his market outlook address, Bob Gardner, managing director of Bethesda, Md.-based consulting firm RCLCO, noted that there are very little economic surprises in multifamily. While condo prices have plummeted nationally on average by 40 percent, the apartment market has enjoyed a different ride, as vacancies drop and effective rents rise.

Gardner paid much heed to the Gen Y set, citing U.S. Census numbers that indicated 82 percent of the under-25 set will be more likely to rent than to buy housing. The largest segment of Gen Y will be graduating from college in 2009, Gardner noted, and the best Gen Y market will fall between then and 2013, when this set is first likely to begin exiting rentals for home ownership. Regardless, Gardner saw a propensity toward higher density, urban lifestyle living across all age demographics. "Multifamily is a product type that is now a lifestyle product of choice, and that holds for the long term," he said.