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Multi-Family Looks to be the Investment Vehicle of the Future

By Paul Daneshrad



It's no secret that investors are jumping into the multi-family market. In fact, some institutional investors are snapping up portfolios of single-family homes with the intent of converting them into a portfolio of rental properties. As you can imagine, this is creating a stir in the multi-family market, and we expect it to continue well into 2013. Why is this happening? It all boils down to the strong fundamentals that the multi-family market holds. This is particularly true when multi-family is compared to other product types – such as retail and office – and viewed on a national basis.

In fact, in the multi-family sector, we've seen rental growth in about 70 to 80 percent of the nation overall, with stronger and substantial rental growth showing up in some coastal regions. For example, most of California's coastline has seen rental growth anywhere from 4 to 8 percent with outliers such as Northern California and San Francisco that are doing even better. Because of the tech boom, we've seen rental growth there between 6 and, in some cases, 12 percent. So, it's a relatively healthy sector. Our firm is anticipating between \$150 million and \$250 million in multi-family acquisitions in 2012, entering into 2013. While this is on the conservative side, we remain cautiously optimistic as we watch world events unfold and analyze what risks are on the horizon, especially the European and US structural debt concerns, which still need to be properly addressed.

With that said, there are institutional entities that prefer to stay away from multi-family and we predict an uptick in their interest in other product types, such as the industrial sector, through 2013. While multi-family remains our first choice, industrial is ranking a close second, and factors are pointing to a strengthening of that market throughout the year.

Will we stay in the multi-family market? Absolutely. The fundamentals have been strong, and all factors point to a continued upward trend in the market. With the gen X and Y pension for preferring rentals in an urban environment, and the weak housing market, the multi-family market will be a mainstay as we push forward into 2012.

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