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Multi-family market sector and housing for the aging boomer generation

By Eric Jensen
Rendering by DAVIS

At first glance, one might think that a suffering single-family housing market might be a good thing for multi-family. Foreclosures create an instant demand for rentals — shouldn't the multi-family market be booming? Well, it isn't — at least not at the moment.

In Phoenix and Tucson, multi-family generally followed single-family trends over the past 10 years. Nationwide, the National Association of Homebuilders reported in August 2009 that while some sectors of the housing industry are showing signs of rebounding, the apartment sector isn't one of them. Data from NAHB for the second quarter of 2009 show a continued downward movement across all rental sectors.

"The continued contraction in multi-family starts is exacerbated by the 'shadow market' of empty foreclosed single-family homes and condos that are being rented at below-market rates by investor-owners," says NAHB chief economist David Crowe in a press release. "Lenders see the high apartment vacancy rates and vacant condo inventory, and step away from backing any new production."

Industry experts in Arizona agree. "One of the big challenges in the multi-family market is that it continues to compete with the single-family market," says Tyler Anderson, vice chairman of CB Richard Ellis' Institutional Group. "So many of the homes investors buy are becoming rentals. It's a great time to be a renter with the deals you can cut, but it's a tough time for owners."

For 2009 in the Phoenix area, about 5,100 units are projected to be built. Anderson adds that if it's not under construction today, "Then it's not going to happen this year."

These numbers are a far cry from the mid 1980s, when up to 35,000 units a year were constructed. Yet the problem now doesn't stem from an oversupply of multi-family, Anderson explains, but from a glut in supply of single-family homes. Currently, few multi-family properties are seeing any rental growth, other than senior housing. Yet senior housing has felt the pinch too, with one distressed senior housing property in Phoenix and another in bankruptcy in Tucson, says David Rothschild, a CBRE executive vice president and leader of the national senior housing services group.
"Phoenix and Tucson are not unlike other places in the U.S. that have been impacted by the real estate market" Rothschild says. "No. 1, it's difficult to get financing. No. 2, the lease up of facilities is difficult."

Many seniors that are interested in multi-family senior housing can't access the equity in their homes because of the economy, Rothschild says. "It's difficult for them to sell their homes; 401Ks

are moving down — many people are delaying because of the market. And not only does it directly affect the 75 to 80 year olds, but also their children. People are putting off that decision, and Mom and Dad are moving in with the kids."

Bright Spots

The news isn't bad for everyone, though. Opportunities exist to purchase properties for 30% to 50 % of peak pricing, Anderson says. "There's not a lack of money out there to buy these properties. There's plenty of capital out there — 25 to 30 offers on a sale is not unusual."

And those deals will probably be around for some time.

"You're going to see more properties available at these corrected prices. I think the challenge is in the next 12 months for the rental market," he says. "Operations will continue to struggle. But struggling operations make it a great opportunity to buy today, because the market will not remain this soft forever. When job growth returns, rent rates will return quickly."

Senior Housing – Waiting for the Boom(ers)

Rothschild predicts that within the next 2 years, things will start to come back for senior housing, because "demographic forces are pushing it."

In the short term there are problems, Rothschild says, but there is a huge bubble of demand in the next 20 years as baby boomers begin to retire.

Baby boomers are loosely defined as those who were born between 1946 and 1964. U.S. Census data indicates that in 2000, 12.8% of the U.S. population was 65 years of age or older — about 1 in 8 Americans. By the time all of the surviving boomers reach 65, there will be 80 million Americans who are 65 years of age or older. By 2030, the U.S. looks a lot grayer — 1 in 5 Americans will be aged 65 years and older.

"There aren't enough facilities for this generation," Rothschild says. "When the bubble breaks, it will be very good for current operations; occupancies will be very strong — it will raise rents dramatically."

Projects like Classic Residence at Silverstone, a Scottsdale project due to be completed in early 2010, will be in high demand. Silverstone is a joint project of Classic Residence by Hyatt in Chicago and Plaza Companies, located in Peoria. The developers have combined a targeted mix of healthcare levels and individual living spaces to fit the lifestyle of just about any retiree.

Silverstone's developers used their first project, Classic Residence at Grayhawk in Scottsdale built in 1999, as a pattern for their continuing success. "We're excited about how it's being received," says Sharon Harper, Plaza Companies' CEO. "We were very innovative 12 years ago when we built Grayhawk, and we are very attentive to how residents' needs evolve. That's really been the secret of our success." Grayhawk currently has a waiting list, and interest is spilling over to Silverstone as well, Harper says.

Currently, Arizona has a robust aging population with more than 180 nursing homes, 1,700 assisted living facilities and more than 500 independent-living communities. By the end of 2009, an additional 2,300 units and 8 senior housing projects will be completed.

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