



The World's Billionaires Are Betting Big On Multifamily in the United States



The multifamily industry is becoming a more popular investment choice for the ultrawealthy.

According to Bloomberg, which cited research from Knight Frank, some of the richest people in the world have more than doubled their investments in flats abroad over the previous ten years, with a focus mostly on the United States.

Amancio Ortego, the founder of the clothing line Zara and the 13th richest person in the world, paid \$231 million in August to buy the opulent Chicago apartment complex 727 Madison. It is the most expensive multifamily acquisition made in the city so far this year.

A Manhattan apartment building close to Gramercy Park was purchased by the billionaire Eyal Ofer-led Global Holdings Management Group in June for \$30 million. A David Rubenstein-backed investment company raised \$240 million late last year to make multifamily investments. Tom Steyer, a billionaire from California, is making investments in multifamily buildings in Western towns.



When it comes to billionaire investment, multifamily appears to have overtaken office buildings. The office market was growing before the epidemic, and owners could get a significant return on their investment with a prize tower in a crowded metro. However, billionaires have changed their strategies in light of the acceptance of remote work and open positions in offices.

According to CBRE, the asset class most favored by investors overall in the second quarter was multifamily.

The need for housing has increased. Due to this, rent growth has increased dramatically, albeit slowly; from a countrywide annual increase of 17.6% in 2021 to 3.5% in 2022 and 2.5% year-to-date. Following a year-long decline, net absorption increased in the asset class during the second quarter, according to RealPage.

Property prices have decreased in the past year due to the multifamily market's glut and the impending construction of new apartments. In February and August, apartment building prices fell by 17% and 16%, respectively. Blackstone sold off its entire Manhattan multifamily portfolio last month for \$142 million, a 43% loss from the time it was bought in 2015.



Rent Now, Never Buy? Cities where it Makes More Sense to Pay Cheap Rent Than to Buy a Home



Making the enormous switch from paying a renter each month to paying a mortgage is sometimes the difference between paying just another bill and making a real investment in one's future for first-time homebuyers. It may alter your life.

But as property prices and mortgage rates have increased, it has become more difficult to make that transition. The annual Rent vs. Buy analysis conducted by Realtor.com® demonstrates how challenging it has become for many first-time homebuyers nationwide. Determining where renters can save some money (and we do mean some) by buying while still finding areas where it's still more affordable to buy was our goal.

There aren't many locations remaining where buyers will spend less each month for their mortgage than they would have if they had rented. In just three of the 50 largest metro regions, buying was less expensive than renting. Residents could spend less money overall by renting. We determined how much more and which locations provide the highest discounts for renting compared to buying.



Homeowners' monthly expenses, which include expected property taxes and insurance charges, increased to more than \$2,860 in August due to higher mortgage rates above 7%. The 50 largest metro areas' median rent, meanwhile, is around \$1,750 per month.

Renters who are considering buying a home will therefore have monthly expenses that total \$1,100 more, even after they have saved tens of thousands of dollars for a down payment and closing charges.

According to Realtor.com analyst Jiayi Xu, the effect of the high cost of buying a home is compounded by the fact that rentals have decreased in recent months, widening the gap between buying and renting.

According to Xu's comprehensive study on renting versus buying, "the median asking rent for two-bedroom units decreased by 0.7% in August 2023, marking the fourth consecutive month of annual declines."

Metro	Median Aug. 2023 Rent	Median Aug. 2023 Buy Cost	Difference in dollars (Buy-Rent)	Percent Difference (Buy-Rent)
<i>U.S. Average</i>	\$1,752	\$2,863	\$1,110	60.3%
Phoenix, AZ	\$1,595	\$3,015	\$1,420	89.0%
Nashville, TN	\$1,665	\$3,088	\$1,423	85.5%
San Diego, CA	\$2,944	\$5,434	\$2,490	84.6%
Dallas, TX	\$1,535	\$2,815	\$1,280	83.4%
San Antonio, TX	\$1,281	\$2,274	\$993	77.5%
Houston, TX	\$1,406	\$2,433	\$1,027	73.0%
Raleigh, NC	\$1,587	\$2,745	\$1,158	73.0%
Minneapolis, MN	\$1,515	\$2,606	\$1,091	72.0%
Denver, CO	\$1,990	\$3,363	\$1,373	69.0%

Buying a home has always been difficult in the nation's priciest housing markets, particularly areas in the West that have experienced the biggest price growth. But as rental prices have simultaneously dropped in many of these markets, the scales may tilt toward renters putting off homeownership longer.

To calculate whether it's cheaper to rent or buy, we used the August 2023 median rental prices for studio, one-bed, and two-bed homes, weighted by the number of listings, in each metropolitan housing market, and compared that with the monthly buying costs for a median-priced home—assuming a 7% down payment, with a mortgage rate of 7.07%, and including all fees and taxes. Only the 50 largest metropolitan areas were included in the analysis.



MSCI: Apartment sales volume drops 74% YOY



Prices fell 14.9% from last year, but the declines have begun slowing.

Despite the Federal Reserve's interest rate increases beginning earlier in the year, the boom in apartment transaction volume following COVID-19 peaked in August 2022. In the past 10 months, sales have fallen more than 60% year over year. It is therefore unsurprising that apartment transaction volume fell 74% YOY to \$8.2 billion this August, according to a report that data firm MSCI Real Assets shared with Multifamily Dive.

Apartment prices fell 14.9% from a year earlier in August 2023. MSCI notes that the pace of decline is decelerating, with values only dropping 9.7% from July to August. However, MSCI also states that "even this pace of price decline may not be enough to inspire investors to jump into the sector at higher levels."

In summary, the apartment market is cooling rapidly, with transaction volume and prices falling sharply. While the pace of decline may be slowing, it is still unclear when investors will be willing to re-enter the market.

Dive Insight:

The deal volume decline was evident in both the garden and mid- and high-rise segments. Both fell at over 70% YOY in August. Individual sales of mid- and high-rise properties declined 44%, while those trades for garden apartments dropped 69%.

MSCI points to negative leverage on new acquisitions as the biggest roadblock standing in the way of new deals. Average mortgage rates on seven- and 10-year fixed-rate apartments rose from 3.4% in October 2021 to 5.5% by June 2023.

As mortgage rates increased 210 basis points, cap rates only rose 40 bps to an average of 5.1% in August 2023. For deals to start happening again, MSCI said the relationship between interest rates and cap rates needs to normalize to "where leverage provides a boost to returns."



Price declines

But leverage isn't the only factor for apartment investors. As values decline and the potential for more distress increases, some buyers may not want to make purchases in an environment where prices may still be falling.

"The main factors affecting the apartment market in the near term are buyers and equity sources taking a wait-and-see approach looking for signs of distress or price concessions due to the uncertainty around future rent growth and financing costs," Hugh Frater, former Fannie Mae CEO and current chairman of the board at New York City-based housing product development company Vessel Technologies, told Multifamily Dive.

Michael McClearn, acquisitions manager and operations coordinator for Long Beach, California-based private apartment owner Plenty of Places Apartment Homes, is one of those who expects to see more distress in the market.

"I think there will be some pain and the best buying opportunity we've seen in the past five, six or seven years," McClearn said. "You take the window when you can get it."