How Multifamily Investments Can Potentially Offer a Hedge Against Inflation

By: Brian Nelson, President of Versity Investments, LLC

Now that we’re more than halfway through the year with the election behind us and a new political administration in the White House, it’s time to re-evaluate what may be in store for the commercial real estate industry. As with any contest, we believe there will be winners and losers in the post-COVID Biden economy.

Especially when it comes to real estate.

With the outbreak of the Delta variant bringing uncertainty associated with lockdowns, there are consequences that will affect the economy. These include the “new normal” of working-from-home, online consumerism, long-term lease contracts, potential adjustments to taxes, minimum wage increases, shortages in labor and supplies; not to mention that the retail, office and hospitality categories might be more volatile and less predictable. No doubt there will be opportunities in office and retail, but it will take money, market savvy, creativity and experience to stand a chance at harvesting them.

The challenge is that with waning demand and high supply, the risk-adjusted returns may not be attractive. For apartments, it could be the opposite.

Everything experienced thus far in 2021 – high multifamily occupancy, rising inflation, escalating home prices, increases in income and population growth through migration to business friendlier states – these all point to the potential for continued stable performance with steady demand growth – in certain markets.

As Republicans and Biden close in on a trillion dollar plus infrastructure bill, it is likely the cost and timing of construction, from labor to materials to obtaining permits, will escalate over the next several years.

While rampant new supply in multifamily is inevitable given the strength of demand, the costs for new deliveries might soar which may present a challenge for these new projects. What types of innovations and amenities can be offered to justify the prospects of needing markedly higher rent premiums? We believe the newer, Class A properties with excellent amenities offering a modern living experience today might be well positioned to offer superior value.

Since these markets are already performing well, new acquisition at lower interest rates may be able to help mitigate risk by striving to preserve stability. Especially if inflation kicks up and makes market disruption more difficult with new entrants coming in at potentially higher prices.

The potential advantages of what we see for the multifamily models are as follows:

- P.I.E – Markets anticipating strong population, income and employment growth
- No-income tax and business-friendly states such as Nevada, Texas and Florida may benefit from rising federal taxes as these are states that have consistently benefited from demographic shifts and corporate relocations out of California, Illinois, New Jersey and New York
- Growing economies with diverse industries, affordable housing and strong anchors – Orlando, Austin, Denver, Phoenix, Salt Lake City
- Younger populations with sustainable population growth from multiple avenues – snowbirds from the North,

immigration from the South, etc.
- Growth in STEM and green sector jobs for potential sustained income and job growth
- Vibrant markets with diverse populations

The overall play is that the well- located, well-positioned multifamily properties in certain markets have the potential to offer compelling risk-reward ratios; with stable occupancy with steady increases to net operating income and growing property values.

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