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TOP METROPOLITAN AREAS

FOR MULTIFAMILY INVESTMENTS IN 2020

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INTRODUCTION

WHY INVEST IN MULTIFAMILY PROPERTIES?

Investing in multifamily properties holds many advantages for all types of real estate investors. While experienced commercial real estate investors are already in the know, the benefits of owning multifamily properties are numerous. While more established commercial real estate investors focus on the larger, high-end properties, there is a large supply of multifamily buildings that include duplexes, garden complexes, condo complexes and more.

- Multifamily investing allows real estate portfolios to grow faster than other types of real estate. Instead of buying multiple structures, multifamily investors can easily add more rental units than a single family investor or even investors focused on other commercial properties like retail or warehousing.
- Investment into multifamily carries less risk than other types of real estate. With a larger number of rental units, a tenant vacancy has less impact on income than other properties.
- The management of a multifamily building requires less effort than other types of properties. A professional property manager can easily be hired to manage the day to day operations of the building.

Now that it is clear that investing in multifamily properties is a lucrative and less risky endeavor than other types of real estate, the question then becomes where to invest. As with any type of real estate, location is the key.

US MULTIFAMILY MARKETS OVERVIEW

According to Marcus & Millichap's 2020 North America Multifamily Investment Forecast, the record low unemployment, tight labor markets and the protracted growth cycle have improved the demand for apartments across the United States. Real estate investors are increasingly drawn to second and third level metro markets, also improving the demand for multifamily properties. Overall new construction of multifamily homes is not expected to keep up with demand so the outlook for 2020 looks strong. Rental rates are expected to grow with fewer vacancies. Overall, the expected multifamily vacancy rate will remain under its long-term average of 5.1%. Current construction costs prohibit profitability on anything other than Class A buildings so there will be even greater demand for Class B and Class C multifamily properties.

The U.S. states that offer the best multifamily markets in 2020 are California, Texas, Florida, Ohio and Pennsylvania. Listed below are the top metropolitan areas for multifamily investments in 2020 according to the National Multifamily Index (NMI).

1. ORLANDO, FLORIDA

Employment
UP 2.9%

Vacancies
UNCHANGED

Construction
3.0% (AS % OF INVENTORY)

Rents
UP 4.8%

Orlando maintains its top rated metropolitan area standing for multifamily investments again this year. Local employers are hiring nearly three times the national average. The city has a high quality of life, favorable tax advantages and is attracting workers and retirees alike. Rent growth in Orlando has risen steadily since 2013 and has outpaced the rest of the U.S.

2. SEATTLE-TACOMA, WASHINGTON

Employment UP 2.3%	Vacancies UP 70 BPS
Construction 2.5% (AS % OF INVENTORY)	Rents UP 2.1%

Tech companies continue to expand and compete for workers in the Puget Sound region. Seattle is one of the top economies in the U.S. which looks to continue expansion for many years. The healthy economy coupled with a strong jobs market which created 65,000 jobs in 2019 will further drive rental demand.

US MULTIFAMILY MARKETS | **OVERVIEW**

3. SAN DIEGO, CALIFORNIA

Employment UP 1.1%	Vacancies UP 20 BPS
Construction 1.3% (AS % OF INVENTORY)	Rents UP 2.4%

San Diego's inviting climate and diversified economy provides a consistent model for rental demand and steady growth. Local employers include technology companies, research firms and defense contractors. Home prices are some of the highest in the country with median home prices at $660,318, contributing to easy absorption of rental units. In 2020, 4,000 new units are expected to be built.

4. RIVERSIDE-SAN BERNARDINO, CALIFORNIA

Employment UP 2.2%	Vacancies UNCHANGED
Construction 1.1% (AS % OF INVENTORY)	Rents UP 4%

The Riverside-San Bernardino ranks as Southern California's top metropolitan area for employment growth in 2019. This trend looks to continue into 2020 with significant demand for industrial spaces and strong population increases. There is strong hiring in healthcare services and logistics employers with an expected 30,000 new jobs created. There are limited multifamily options resulting in higher rental rates and lower vacancies. Outlying areas such as in Coachella Valley offer some attractive options with values slightly lower than within the major cities.

US MULTIFAMILY MARKETS | **OVERVIEW**

5. TAMPA-ST. PETERSBURG, FLORIDA

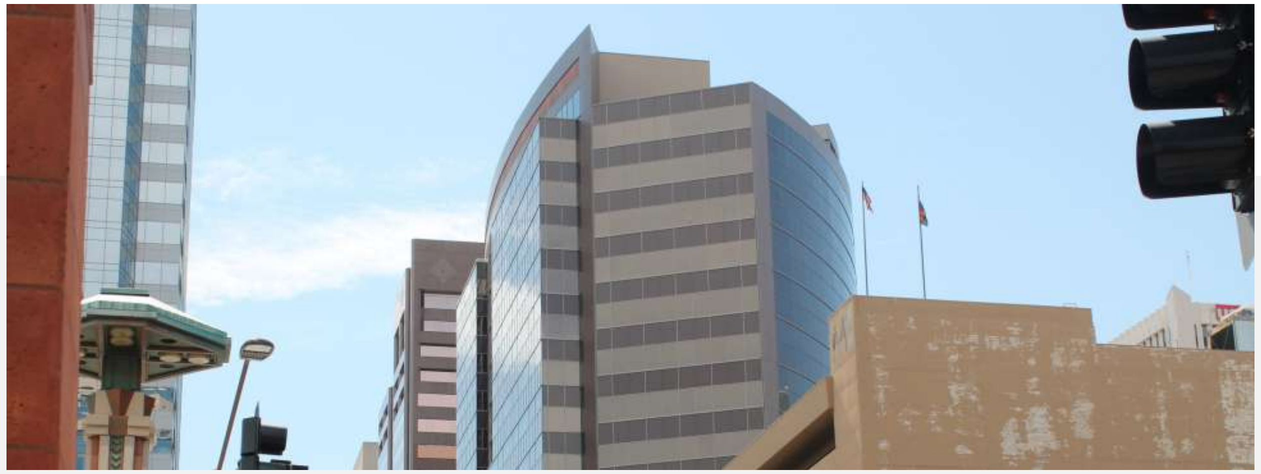
Employment UP 1.7%	Vacancies DOWN 20 BPS
Construction 1.2% (AS % OF INVENTORY)	Rents UP 5%

Construction of new multifamily properties has slowed, while demand continues to soar. Rising construction costs and land acquisition expenses hampered developers forcing them to look elsewhere for new opportunities. Tampa-St. Petersburg is expected to have nearly 22,000 new households arriving in 2020. The resulting demand and lack of supply will allow for higher rental rates. Institutional investors have noticed, pouring in $20 million in multifamily transactions in 2019. Tampa-St. Petersburg looks to be a solid area for multifamily investment for many years to come.

6. PHOENIX, ARIZONA

Employment UP 1.8%	Vacancies UP 60 BPS
Construction 2.5% (AS % OF INVENTORY)	Rents UP 9%

The warm climate and strong economy, consistently brings new residents to the Phoenix metro area. In 2020, 77,000 new residents are expected to call this city home. Businesses moving operations out of California are finding a welcoming environment with an educated population and overall lower costs. Top employers are in financial services and software industries. While all kinds of multifamily properties will do well, luxury apartments are expected to see the biggest growth this year.



US MULTIFAMILY MARKETS | **OVERVIEW**

7. MINNEAPOLIS-ST. PAUL, MINNESOTA

Employment UP 0.6%	Vacancies UP 30 BPS
Construction 2.2% (AS % OF INVENTORY)	Rents UP 4.3%

Minneapolis-St. Paul has consistently had one of the lowest vacancies across major metropolitan areas. The rate crept up slightly with increased construction and employment softening a little bit, due to a tight labor market. The metro area is home to 18 Fortune 500 companies and has a strong manufacturing base. Minneapolis-St. Paul has a population of 3.4 million with a median home price of $286,765. Potential investors can still expect solid returns here and should even consider Class B properties as well.

8. BOSTON, MASSACHUSETTS

Employment UP 0.7%	Vacancies UP 40 BPS
Construction 2.4% (AS % OF INVENTORY)	Rents UP 5.1%

Higher homeownership costs (median home prices are at $500,802), creates a steady demand for multifamily units and one of the lowest vacancy rates in the U.S. Boston's economy is growing adding new jobs and attracting residents. 2020 is expected to have less construction further depressing the vacancy rate. Class A vacancies are up slightly, but suburban areas are down as residents are looking for lower rental rates.

US MULTIFAMILY MARKETS | **OVERVIEW**

9. NEW YORK CITY, NEW YORK

Employment UP 1.4%	Vacancies UNCHANGED
Construction 0.8% (AS % OF INVENTORY)	Rents UP 2.7%

The New York metro area is home to five boroughs and represents the largest metropolitan market in the U.S. The area is home to over 8 million residents and 40 Fortune 500 companies. Rental demand is outpacing supply as there are fewer expected rental construction completions this year. New York City continues to experience a larger tech presence from companies such as Google, Facebook and Amazon diversifying the economy and adding jobs. Higher rent growth is expected to continue and New York City will be a top area for multifamily investors in 2020.

10. OAKLAND, CALIFORNIA

Employment UP 1.1%	Vacancies UP 30 BPS
Construction 2.2% (AS % OF INVENTORY)	Rents UP 2.1%

Oakland has been experiencing a resurgence and a kind of refresh to the city. Companies like payment processor Square have moved into downtown Oakland bringing 2,000 jobs to the city. Other companies looking to lower their business expenses are tempted to move out of San Francisco or Silicon Valley, find Oakland a promising option. There are an expected 4,600 rental units to be delivered this year to help meet the anticipated demand. Investors should note that rental properties that are less than 15 years old are not applicable to the established rent control caps. The resurgence of Oakland is definitely worth evaluating for investors who think valuations are too high in some of the other high growth metropolitan areas.

US MULTIFAMILY MARKETS | **OVERVIEW**

11. HOUSTON, TEXAS

Employment UP 2%	Vacancies UP 40 BPS
Construction 1.7% (AS % OF INVENTORY)	Rents UP 2.4%

The steady inflow of retirees and millennials into the city is helping make Houston a metropolitan area to watch this year. There are an expected 5,000 rental units to be delivered this year to help accommodate the continuing influx of new residents. Houston has strong demographics and solid job growth with the city's economy adding 63,200 jobs over the past year. The city is home to more Fortune 500 companies than any other city in the U.S. outside of New York and Chicago. As one of the fastest growing MSAs in the country, Houston should be on the list for any multifamily investor for 2020.

OTHER NOTABLE METROPOLITAN AREAS FOR MULTIFAMILY INVESTMENTS

Other markets ranked on the 2020 National Multifamily Index include:

- **Ft. Lauderdale, Florida**
- **Los Angeles, California**
- **Raleigh, North Carolina**
- **Atlanta, Georgia**
- **Portland, Oregon**
- **San Jose, California**
- **San Francisco, California**
- **Denver, Colorado**
- **Northern New Jersey**
- **Orange County, California**
- **Columbus, Ohio**
- **Dallas / Fort Worth, Texas**
- **Miami-Dade, Florida**
- **Austin, Texas**
- **Washington, D.C.**
- **West Palm Beach, Florida**
- **San Antonio, Texas**
- **Chicago, Illinois**
- **Cincinnati, Ohio**
- **Baltimore, Maryland**
- **Cleveland, Ohio**

OTHER METROPOLITAN AREAS THAT ARE ATTRACTIVE FOR 2020

In addition to the highlighted areas above, there are many other locations that are expected to be attractive for multifamily investments this year. Smaller markets with less than 2 million residents and suburban markets offer opportunities that may be overlooked by other investors. Metro areas that experienced 4 percent or more rent growth from third quarter 2019, include the following:

- **Albuquerque, NM**
- **Birmingham, AL**
- **Colorado Springs, CO**
- **Dayton, OH**
- **Greensboro, NC**
- **Memphis, TN**
- **Tucson, AZ**

CONCLUSION

2020 looks to be a strong year for multifamily properties. The top metropolitan areas are expected to experience higher growth and larger valuations than in other areas. Coupled with low vacancy rates and stable to rising rental rates make multifamily investments in these cities a solid investment for commercial real estate investors.

ABOUT CIVE

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Corporate Headquarters
5444 Westheimer Rd, Suite 1440
Houston, Texas 77056
Phone : 281-870-8727
Fax : 281-870-8728
Toll Free : 1-800-979-4442

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