Synergetic Investment Group LLC

Building Wealth Through Real Estate

Newsletter 1st Quarter 2013

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2013 Promising for Multifamily

With the first newsletter of the New Year we look very optimistically toward 2013. The economy and job growth is improving, albeit slow and steady, interest rates are the lowest in many years, yet many first time home buyers are locked out due to tight lending practices. The demographics are pushing the demand for more housing, and new construction will take years to catch up in most markets. Forecasts for the coming years are showing 4%+ increase in rents with 4% and below vacancy rates. 2013 looks to be promising for the multifamily asset class.

Optimism for Apartments Sector for 2013

NATIONAL REAL ESTATE Investor

"Assuming current trends hold, over the rest of this decade, we will need at least 300,000 new apartments annually, and possibly as many as 400,000, to meet demand," says Mark Obrinsky, vice president of research and chief economist for the National Multi Housing Council.

That would be great news, if it happened. Right now multifamily developers are happy to be building at a rate slightly faster than 250,000 a year. Most apartment analysts think market will be able to absorb that new construction—but not too much more.

NMHC's Obrinsky says demand for apartments will soon be as strong as it was before the financial crisis. Ostensibly, that is not a radical suggestion, but this week's events illustrate a potential problem. More chaos in Congress jolted the markets on Friday, driving the Dow Jones Industrial Average down more than 100 points. Investors worry that the collapse of budget talks may lead the country back into recession. It seems that every time our economic recovery has begun to pick up speed over the last few years, something has happened that makes investors question their most basic assumptions about growth and demand. Uncertainty in Europe has been followed by uncertainty in the Middle East, more uncertainty in Europe, and now uncertainty in Washington, D.C.

Despite these challenges, strong demographics help apartments. The number of people who are in the age group most likely to rent apartments—20 to 34 years old—will grow by 2.4 million people over next five years. That's the fastest rate of growth for that age group since the early 1980s. The demand from Echo Boomers entering the work force and renting apartments plus rising immigration levels will continue to "significantly surpass new construction of rental units," according to analysis from Marcus & Millichap.

Developers have taken out permits to build new multifamily housing at an annualized, seasonally-adjusted rate of more the 250,000 a year every month since summer 2012, according to Census data. The rate was 296,000 in November—more than twice the rate of construction just after the recession, when almost the only projects built were financed with federal housing subsidies. Housing economists expect "continued, modest growth" in new-home construction through 2013, says David Crowe, chief economist for the National Association of Home Builders.

Before the crash, new construction of more than 300,000 apartments a year was normal. However, to push the new construction towards 400,000 a year will require a stronger recovery than we have seen yet. The number to watch is new household formation. The decade from 2000 to 2010 had the slowest household growth in U.S. history, averaging just 1.0 percent a year. That's largely because of the Great Recession, which caused many households to double up and led to reduced immigration. In comparison, from 1990 to 2000, the number of households grew by roughly 1.2 percent. The return of that kind of household formation, combined a strong share of those new households choosing to rent apartments will push demand higher, to a maximum of 437,000 a year from 2013 to 2000, say Obrinsky.

Reading today's bad news, it's nice to hear something positive. However, even NMHC's happy prediction comes with a caveat: "Financing constraints, rising construction costs and traditional NIMBY opposition could keep actual construction below that level," says Obrinsky.

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Commercial Real Estate Vacancies Slowly Declining, Rent Rising

NATIONAL ASSOCIATION of REALTORS®

WASHINGTON (November 26, 2012) - Most of the major commercial real estate sectors show gradually improving fundamentals and are easily absorbing the relatively small amount of new space that is coming online, with a full recovery already in the multifamily market, according to the National Association of Realtors® quarterly commercial real estate forecast

MULTIFAMILY MARKETS

The apartment rental market - multifamily housing - is projected to see vacancy rates decline from 4.0 percent in the fourth quarter to 3.9 percent in the fourth quarter of 2013; vacancy rates below 5 percent are considered a landlord's market with demand justifying higher rents.

Areas with the lowest multifamily vacancy rates currently are Portland, Ore., at 2.1 percent; New York City, 2.2 percent; and Minneapolis, 2.3 percent.

Average apartment rent should increase 4.1 percent in 2012 and another 4.6 percent next year. Multifamily net absorption is likely to be 219,700 units this year and 234,600 in 2013. Read More

COMMERCIAL FORECAST

MULTI-FAMILY	2012	2013	2014
Vacancy Rate	4.2%	4.0%	3.9%
Net Absorption (Units)	219,725	234,576	281,518
Completions (Units)	88,517	143,222	187,018
Inventory (Units in millions)	9.9	10.0	10.2
Rent Growth	4.1%	4.6	4.7%

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Synergetic Investment Group, LLC acquires multi-family assets in emerging U.S. markets. We look for stabilized and distressed assets that provide our investors above average rates of return and a strong equity position. Our investment strategy provides qualified investors an opportunity to expand and diversify their investment portfolio and participate in all the benefits of owning commercial real estate without any of the acquisition, management or sale responsibilities.

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