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August 11, 2016

Commercial Basis: The How And Why Of A Millennial-Centric Investment Strategy

The media is rife with attention to the predilections of millennials (born between 1982 and 2001) who form a demographic cohort of nearly 76 million, that is now the largest living generation in America. In this post I explain why an urban real estate investment strategy attuned to Millennial tastes is on target. I also describe how to implement a millennial-oriented real estate investment plan.

Millennials seek to live and work in walkable urban areas

Resurgent American Downtowns have long been attributed to aging baby boomers, who as empty nesters were eager to swap suburban homes for urban condos. Millennials are even more inclined than boomers to live in walkable urban areas, particularly if these neighborhoods re-enhanced by the availability of a wide range of transportation options. A Rockefeller Foundation survey in 2014 found that up to 86 percent of millennials said it was important for their city to offer opportunities to live and work without relying on a car. Nearly half of millennials who owned a car said they would give it up if they could count on public transportation options. A 2014 Harris poll of millennials found that over three-quarters agreed to the importance of affordable and convenient transportation options other than cars in deciding where to live and work. For millennials the fifteen most desirable US metropolitan areas include those with some of the nations' strongest mixed-use neighborhoods where residents can work, live and play without heavy reliance on owned vehicles: San Diego, New York, Boston, Denver/Boulder, San Francisco, Seattle, Chicago, Los Angeles, Portland, Washington, Austin, Phoenix, Charlotte, Atlanta and Miami.

Millennials need to rent

Most millennials are not financially equipped to purchase urban homes or apartments. Despite a persistently low interest rate environment, millennials are far less likely to purchase rather than rent because of tighter availability of credit and far more rigorous mortgage underwriting standards since The Great Recession. Not only do millennials have more personal debt (particularly student loan debt) than earlier generations, but having witnessed the distress caused by the housing bubble of the late 2000s, most Millennials believe that owning a home may not offer the kinds of financial benefits it once did. As a result, the rate of home ownership among millennials aged 25-29 is only 31.8%, the lowest rate on record for any adult age cohort, according to the US Census. In a rising interest rate environment, none of these conditions are expected to mitigate.

Supply of rental housing has fallen

Since The Great Recession, new housing production (single and multi-family) has fallen far behind the pace of new household formation and demand. Amidst this backdrop, the private equity firm Blackstone has become the largest owner of both private homes and multi-family apartments and its enormous portfolio across 25+ markets has a total vacancy rate under 4% and has seen rents rise more than 5% per year.

I recently attended a lecture by Laurie Goodman, Director of the Urban Institute's Housing Finance Policy Center and her research confirms my recommendations. Most fascinating was that even with the housing construction industry now largely recovered, net new housing units in 2015 represented only 75% of the number of homes demanded by new households in that one year.

Once you establish your own cap rate threshold, implementing a millennial-oriented real estate investment plan should incorporate these strategies:

- Invest through LLC entities in single family and multifamily properties in urban neighborhoods where new housing supply is constrained and where recent rent growth can be quantified. This doesn't mean avoiding areas attractive to new development – as long as new housing development is a different typology –i.e., invest in existing single family and two-five family homes in neighborhoods where land values and construction costs only justify much larger multifamily condominium and rental apartment development.

- Select properties which combine architectural appeal with walkability to shopping and amenities and good access to public transportation. The average millennial drove 23% less in 2009 than in 2001 – the sharpest reduction for any age group. Lack of bike storage could be a deal breaker for a 2-wheeled commuter. Outdoor space – whether a back yard or roof deck is also an important amenity to attract tenants

- Don't be afraid of neighborhoods in the midst of socio-economic transition – these may represent the greatest opportunity for future appreciation of value. However remember that for many millennials, safety is a top priority. 76% of millennials reported safe streets as the Number 1 priority for urban living. Install alarm systems and security cameras to enhance a property's appeal.

- Be prepared to accept pets and alternative forms of rent payment. More than 76% of millennials own cats or dogs. And they rarely write a check. I always offer my millennial tenants the options of

Quickpay, Paypal and my personal favorite, Venmo. In fact any of these payment systems give me greater piece of mind than hearing from a tenant that “the check is in the mail.”