SJI PROPERTIES

Key Considerations for Multi-Family Investment

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About the Publisher

SJI is a commercial property investment fund that specializes in acquiring existing multi-family properties. Multi-family assets can be homes, townhomes, mid-rises, and high-rises that rent to families and individuals. SJI identifies properties that are under-performing and employs strategies to increase their value. Upon successful operation, the property realizes both increased income and high property value. The fund sells the appreciated asset within 5-7 years; and returns the profits to its investors.

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Introduction

This paper offers a comprehensive analysis of multifamily investments, focusing on issues such as rising insurance costs, the importance of basis, and leveraging depreciation. It also explores the significance of partnerships and provides an overview of the multifamily market in the south. The summary provides a end of the year forecast. The analysis seeks to equip investors with ideas to maximize returns and mitigate risk in the multi-family real estate sector.

Notices

This paper is intended for informational purposes only. It does not constitute investment advice or an offer of solicitation, and is not the basis for any contract or other agreement or investment. The content of this research may contain forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates, and projections about the industry. These statements are not guarantees of future performance and may contain assumptions that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Actual results and outcomes may materially differ from what may be expressed or forecasted in this paper.

I. Insights into Multifamily Investments

Real estate funds have several unique advantages. In general, the cash buyer has significant advantages. Thus, pooling capital is a great strategy to acquire multi-family real estate.

Speed and Certainty: Cash transactions close faster, eliminating the need for lengthy mortgage approvals. Sellers often prefer cash buyers to reduce the risk of arranged capital transactions and financing.

Negotiating Power: Without financing constraints, cash buyers hold the upper hand in negotiations. They can secure lower prices and negotiate better terms. These savings also lower long-term asset management costs which also improves profits.

Simplified Process: Cash transactions involve fewer parties and paperwork, streamlining the closing process -- saving time and money.

Higher Returns: By avoiding interest payments, cash buyers lower their acquisition and operations costs.

Pooled Capital: Provides proportionate opportunity for different size investors to benefit from an opportunity to acquire property.

Navigating Rising Insurance Costs

Property owners have been experiencing a continuous increase in insurance costs. This surge not only impacts the profitability of multi-family property operations, but has the potential to significantly impact the longterm business model of property ownership. Higher premiums impact property valuation and inherently the number of buyers interested in the property. It can be expected that excessive increases in insurance costs will ultimately impact property liquidity. All of this means that insurance and insurance cost projections must be considered in asset analytics.

The real estate industry is making several adjustments to account for the new insurance landscape. It is investing in preventive maintenance programs and improving safety features. This provides the surest path to sustaining property value and lower premiums. Striking a balance between cost control and responsible management is critical to navigating rising insurance costs and safeguarding investor returns.

Raising rents is not a foolproof solution to adjust for new cost. Instead, it is better to increase knowledge to best better predict insurance cost and their implications. It is best to invest considerable time in studying assets with insurance professionals to anticipate risk.

Basis is the Key to Multifamily Investments

Every asset class is inundated with forecasts, prophecies, and predictions about their future. This is to be expected. In multi-family, there is constant trepidation about vacancy and how different multifamily properties will compete – new vs. old… old vs. older… We constantly look at demographics, workforce expansion, taxes, etc. While all of these varioables are compelling, the best strategy to mitigating risk is to buy/invest in multi-family at the right price – which is: as low as possible!

Investing in preventive maintenance programs and improving safety features is also strategic means to manage asset performance. It provides a tool to sustaining property value and lowering insurance premiums. Striking a balance between cost control and responsible management is critical in asset manager. Regardless of income, operations costs are unpredictable. Thus, predicting net income is always a challenge. In 2024, a key variable will be insurance costs, which none of us can really predict.

Depreciation Advantages and Real Estate Investment

Taxes are an unavoidable reality for real estate investors. Depreciation accounting provides an excellent means to address tax obligations.

Depreciation is the gradual decrease in the value of an asset over time due to factors such as wear and tear, obsolescence, or reduced market demand. Depreciation reflects the decrease in asset value as it is used or ages. Depreciation can be used in the reduction of property value.

For example, a $600,000 real estate acquisition includes a depreciation advantage. Using a straight line depreciation calculation, this asset could prospectively produce $20,0000 in an annual depreciation. As an expense, this amount could be claimed for 25 years to offset income tax. Via other accounting methods, this amount can be even more significant. In some cases, depreciation can exceed the income tax obligation, removing investor yearly tax obligations.

Depreciation allows property owners to deduct a portion of the cost of their property each year as an expense. Subject to each individual tax situation and criteria, depreciation deductions can be used to offset active or passive income – even addressing passive losses from other investments.

The Value of Partnership

Real estate investment uncertainty can be expected to continue in 2024. With this consideration, reliable partnerships will be essential. Unlike the economy, partner ship choice is a variable can produce certainty and predictable outcomes. Vendors, service providers, and experienced operators can significantly improve real estate performance. Asset managers should take every opportunity to increase expertise, reputation, and best practices within its circles. In addition, asset managers must work harder to build teams capable of managing adversity and anomalies in real estate ownership. The asset manager needs ability to manage immediate crisis and implement strategies to stabilize its future.

Partnership efforts should include improving employee recruitment. Changes in the real estate industry have created a larger pool of quality talent. The current market correction is an opportunity to improve personnel. In addition, education partners, consultants, and advisors are an effective means to improve the self-sufficiency and productivity of the enterprise.

The asset manager can always improve its partnerships and its teams.

Top 10 Markets for Rent Growth: Apartments and SFR

Apartment YoY Rent Growth Leaders

Rank	Metro Area	YoY Rent Change
1	Buffalo, NY	6.4%
2	Rochester, NY	6.3%
3	Springfield, MA	6.3%
4	Syracuse, NY	6.1%
5	Lansing/East Lansing, MI	5.7%
6	Madison, WI	5.5%
7	Providence, RI	5.4%
8	Tulsa, OK	5.3%
9	Grand Rapids, MI	5.2%
10	Dayton, OH	5.0%

Single-Family Rental Rent Growth Leaders

Rank	Metro Area	YoY Rent Change
1	Chattanooga, TN	11.2%
2	Knoxville, TN	10.6%
3	Savannah, GA	9.9%
4	Lexington, KY	9.7%
5	Grand Rapids, MI	8.7%
6	Visalia, CA	8.3%
7	Charleston, SC	8.2%
8	Columbia, SC	8.0%
9	Wichita, KS	7.7%
10	Modesto, CA	7.5%

Exhibit 1.

Table highlights the top metro areas in the U.S. for year-over-year rent growth in both apartment and single-family rental markets. In the apartment sector, Buffalo, NY, leads with a 6.4% increase, closely followed by Rochester, NY, and Springfield, MA, indicating strong demand in these regions. Cities in the midwest and northeast dominate this list, reflecting regional trends where affordability and demand pressures are driving rent growth. In contrast, the single-family rental market is led by Chattanooga, TN, with an 11.2% growth, followed by Knoxville, TN, and Savannah, GA. The new prominence of southern cities is increasing the demand of single-family homes.

II. Multifamily in the South

Total Units

Multifamily development in the southeastern United States has dramatically surged to meet demographic shifts and demand. Figures vary from within the population centers of each respective state. According to Cushman & Wakefield, demand for multifamily units in the southeast has been rising steadily since 2022 and peaked in Q1 2024. New supply has consistently exceeded demand for ten quarters due to high levels of new unit construction. The anticipated population growth is attributed to this trend. The average occupancy rate is expected to remain above 94%, providing a means for demand to meet new unit availability over time.

Forecast

New unit inventory in the south remains strong. Areas of significant activity includes states such as Texas, Florida, and Louisiana. The 2024 U.S. Multifamily Outlook by Yardi Matrix reports that the growth of supply has reached levels not seen in decades, with over 1.2 million units under construction. It is expected that in 2024, more than 500,000 units will be completed, particularly in the rapidly expanding markets of the south and west.

Total Demand

Demand for multifamily units in the southeast is growing consistently, driven by population growth, economic expansion, and urbanization trends. Although, the demand for rental properties varies significantly across different metropolitan areas. Austin, where there's been a surge in the number of new apartments, rents have actually decreased by 6.0% in 2023. This is also the case for other cities with a similar increase in new apartments, such as Jacksonville and Phoenix, where there has been a decline in rent growth over the past six to twelve months. In the 2024 National Multifamily Outlook Report, cities like Kansas City where there aren't many new apartments have seen an increase in rents. The monthly increase in rents was only 0.2%, but the annual increase was among the highest in the nation, at 7.6% for St. Louis and 7.4% for Cincinnati. Despite the variations in demand and rent growth across different cities, the overall trends point towards potential for significant growth in the sector. The south accounts for 58.2% of multifamily unit demand in the first quarter of 2024. On a trailing 12-month basis, the south leads the US with three of the top four markets for demand.

Challenges and Opportunities in the South

Strengths
High demand driven by population growth and economic opportunities. Economic development and strong job markets are increasing renters.

Weaknesses
Risk of oversupply remains a concern in certain submarkets.

Opportunities
Significant growth of urban centers in the region with governmentbacked policies to support housing development.

Threats
Downturns in the economy may have a negative effect on demand and rental occupancy. There will be increasing costs involved in construction and operations that will directly impact profitability.

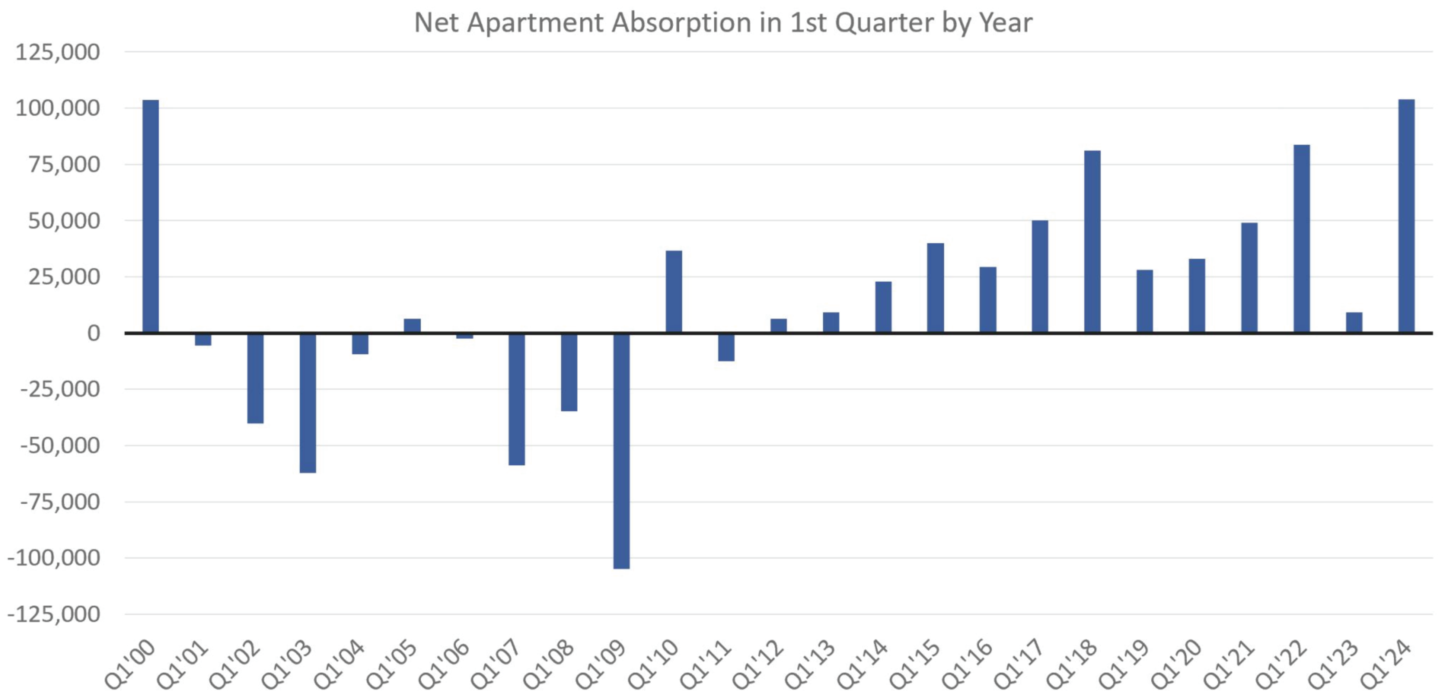

Exhibit 2.

This chart shows that the U.S. apartment market experienced the strongest first-quarter leasing demand in over two decades, with a net absorption of over 100,000 units in Q1 2024. This surge surpasses previous peaks in Q1 2010 and Q1 2022, reflecting a robust rebound in the rental market. Factors such as population growth, delayed home purchases due to high-interest rates, and increased urban migration post-pandemic may have contributed to this heightened leasing activity. The trend underscores the resilience and strength of the multifamily sector, which has not only recovered from previous lows but is now experiencing unprecedented demand.

III. Luxury Apartment Investing

Pros of Luxury Apartment Investing

Luxury apartments are Class A properties that feature characteristics and amenities which make the distinguishably different from Class B and C properties. State-of-the-art fitness centers, swimming pools, rooftop terraces, and even concierge services are a few of the offerings which are available at luxury rentals. These properties sell exclusivity, comfort, and convenience.

The “target tenants for luxury properties will likely be wellestablished individuals or families looking for a highquality home to live in”, according to Patrick Freeze, a licensed real estate broker from BMG. They value comfort, convenience, and an exclusive lifestyle, and are willing to pay a premium for it. These tenants often have strong credit histories, ensuring their ability to meet the high costs associated with luxury living.

Safety is a paramount concern for many people, and luxury apartments often come with advanced security features. These services patrol and onsite manned security, pass card systems and 24-hour surveillance. This level of security provides privacy and personal services.

Luxury apartments are often situated in prime locations with such close proximity to business hubs, entertainment districts, and cultural landmarks. This provides convenience for daily commuting and enhances quality of life. There is strong demand for additional luxury rentals in upscale neighborhoods.

James Harris, a business partner and co-host of Parnes, notes that “Luxury real estate investments often yield higher returns than the stock market, with less volatility. Top-performing markets are reaping significant benefits. Luxury real estate values in the U.S. will always increase over time.”

Real estate developer Van den Bossche commented, Luxury real estate may prove more resilient when traditional real estate or stocks falter. As explains, “Luxury real estate investments tend to recover better when markets soften because they are desirable, unique, and have a strong intrinsic value that surpasses the cost of replacement.”

Market Variability

Yet, not all luxury markets are the same. While luxury real estate can generally offer lucrative opportunities, the attractiveness of the market can vary significantly from one location to another. In cities with high demand, there’s been exponential growth in luxury home prices as these areas are renowned for warm climates and scenic landscapes, becoming a magnet for tenants renowned for warm climates and scenic landscapes, becoming a magnet for tenants.

Louisville, Kentucky saw rent prices increase 5.1% year over year in May 2024, in contrast, Austin, Texas witnessed a decline of 5.2% in the same period highlighting strong demand and potential value appreciation. InThere has been steady new construction of A properties in Austin. However, Austin’s multifamily vacancy rate stands at 14.8%, significantly higher than the national average of 7.9%.

Many cities experienced a construction boom during Covid. This was in response to an influx of new residents and rental demand. As the pandemic effects subsided and rental demand eased, construction projects continued, resulting in higher vacancy rates. This has forced new luxury apartment developers to lower rent prices. With a surplus of luxury apartments, renters are benefiting from lower rents and attractive rent concessions. The vacancy rate for luxury apartments in some markets is reaching double digits in some cities/ This means that rent prices will take time to stabilize.

RealPage commented, "Investing in luxury apartments might face challenges...due to a forecasted surge of 671,953 units in 2024. This anticipated boom, a volume not seen in the last five decades, presents potential risks for investors."

The surge in home sales is creating a competitive landscape for investors in the luxury apartment rental market. A report from Coldwell Banker Global Luxury showed that the luxury market saw sales during the last quarter of 2023 increase nearly 4.2% for single-family homes and 14.2% for attached properties compared to the previous year. This trend, while signaling a robust market, is intensifying competition for investors.

Jade Mills of Jade Mills Estates comments, “In contrast to the pandemic home-buying boom, we’re seeing luxury homebuyers more than willing to wait to find the perfect house in 2024 that meets every single one of their needs whether it’s privacy, wellness amenities, lifestyle experiences, latest technology or a combination of all those factors.” This shift in buyer behavior could potentially impact the rental market.

The pool of luxury renters is diminishing. This escalates competition among landlords, vying to attract and retain tenants. As individuals transition from renting to homeownership, it further reduces the potential tenant base. The niche characteristics of luxury apartment renters significantly limits the customer base; limiting potential revenue for investors. The high costs associated with luxury properties, coupled with a limited customer base that can afford such apartments, inherently limits revenue income.

The allure of luxury real estate remains strong, but a strategic and well-informed approach is essential for maximizing returns and achieving long-term success in this sector. As Fabrizio Perilli, CEO of the luxury property developer TOGA Group, points out, “Investing in luxury apartments doesn’t come without significant financial risks. When considering the purchase of a property, a prospective buyer must conduct thorough due diligence on the developer, builder, and architect.”

While the luxury real estate sector is promising, successful investment requires careful consideration of the potential financial risks involved. The landscape is complex and dynamic, with market viability varying across locations.

IV. Q3/Q4 Outlook in Multifamily Unit Availability

Multifamily unit availability in Q3 and Q4 2024 is robust throughout the U.S. These numbers reflect Class A for new units, and Class A,B and C for existing units.

East Coast
450,000 units are expected to be completed by year-end, impacting rent and vacancy dynamics. The average rent reached $2,400 in Q1 2024, while vacancy rates have increased from 4.8% pre-pandemic to 5.8%, with a forecasted rise to 6.1%.

West Coast
1.2 million units under construction, with 510,000 expected to be completed by year-end. Despite an average rent of $2,163 in Q1 2024, vacancy rates have risen to 6.5% and projected to reach 6.9%.

Northwest
Average rent stands at $1,340, with vacancy rates decreasing to 7.1% in Q1 2024 from 8.2% in Q4 2023. Notably, higher-end properties are experiencing higher vacancy rates (9.0%) compared to lower-rated properties.

Southeast
Robust development, with many units under construction. The average rent in Q1 2024 was $1,600, with vacancy rates increasing from 5.3% pre-pandemic to 6.3%, and a further rise to 6.6% is anticipated by year-end.

Southwest
50,000 units under construction with 350,000 rental units spread across major cities. Average rents vary, with Phoenix at $1,300 and Las Vegas at $1,200, driven by strong demand and limited supply.

Midwest
65,000 units under construction. Average rent varies by city, with Chicago at $1,800 and Detroit and Cleveland between $950 and $1,300. Vacancy rates are stable between 5% and 6%, with approximately 2,200 multifamily unit sales in Q1 and Q2.

Summary

In summary, the multi-family real estate market presents both challenges and opportunities as the remainder of 2024 unfolds. Strategic investment decisions, including careful consideration of rising insurance costs and the importance of acquisition at an appropriate basis, are crucial in managing risk and enhancing returns. Additionally, leveraging depreciation for tax benefits and building strong partnerships will be key in navigating the current market landscape. The Southern U.S. market continues to show promise, fueled by ongoing population growth and economic development, though caution is advised due to potential oversupply in certain areas. For luxury apartment investments, while the potential for high returns is evident, it is important to remain mindful of the risks posed by market saturation and heightened competition. The Q3-Q4 forecast indicates a continued demand for multi-family housing, yet an anticipated increase in new supply may lead to rising vacancy rates and downward pressure on rents. Staying vigilant and adaptable to these evolving conditions will be essential for success in this dynamic environment.

Forecast Sources

- 2023 CBRE U.S. Real Estate Market Outlook Midyear Review
- Yardi Matrix: Challenges Ahead for Multifamily Market
- July Rental Report: Nationwide Rent Holds Steady Despite Big-City Resurgence by Realtor
- Freddie Mac 2024 Multifamily Outlook
- RealPage: Six Neighborhoods Building the Most Apartments in the U.S.
- Average Rental Price in Chicago, IL & Market Trends by Zillow

About SJI

SJI Fund I is an equity fund that acquires and manages multifamily properties in key US markets. Our primary investment objectives are to:

- Preserve and protect investor capital
- Provide reliable preferred returns
- Realize strong IRR

Investment Strategy

Our focus is to acquire existing, income-producing Class B and Class C multi-family apartments in the United States. These units ofter require capital improvements. Later, they can be sold profitably to new management firms. SJI and SJI partners manage over 1,000 multi-family units in the US.

Case For Strategy

- Workforce stability in most markets
- Excellent resale prospects.
- Significant housing shortage in the US.
- Strong regional economies