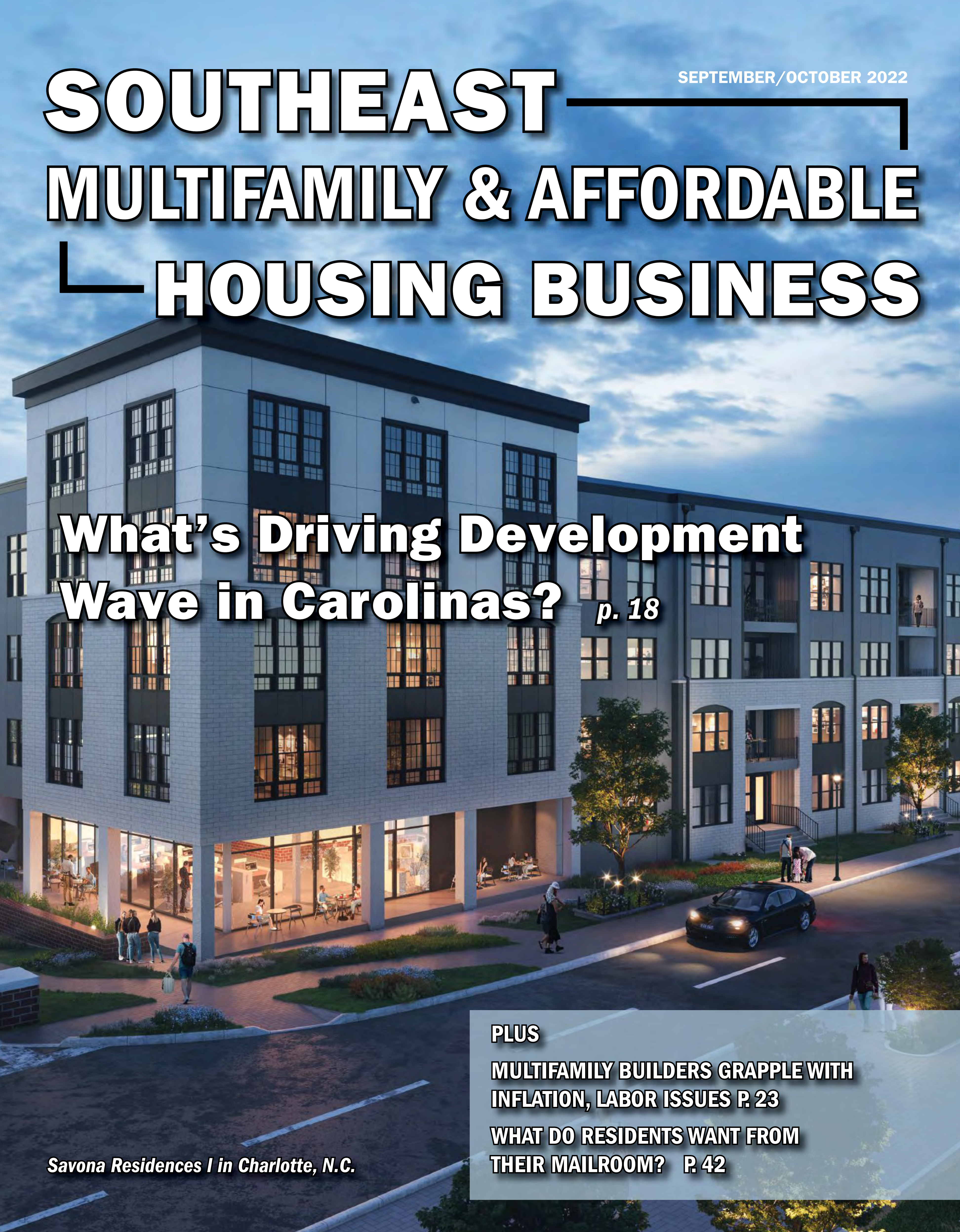
SEPTEMBER/OCTOBER 2022

SOUTHEAST MULTIFAMILY & AFFORDABLE HOUSING BUSINESS



What's Driving Development Wave in Carolinas?

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Savona Residences I in Charlotte, N.C.

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WHAT DO RESIDENTS WANT FROM THEIR MAILROOM? **P. 42**

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PUBLISHER'S LETTER

Jobs Lead Investors to Carolina Markets

Scott France
President
and Publisher

North Carolina's research universities, well-educated work force and low corporate tax rate are attracting employers — a trend, our sources say, that is propelling apartment demand.

In this issue's cover story, we visit Charlotte, Raleigh and neighboring areas some investors call "emerging Southeastern corridors." Infrastructure projects, including the deepening of the port in Charleston, can be indicators of a healthy multifamily market, investors say.

Up-and-comers such as Greenville, Greensboro and Charleston are beginning to stand out in the Carolinas, and some investors are so impressed by the potential growth in these areas that they're rejecting the cautious strategy typically employed during challenging economic periods. Read our story on page 18.

We also take a deep dive into the current state of the low-income housing tax credit (LIHTC) program. Launched in the late 1980s, the program is the largest source of federal assistance for affordable housing development. But what will happen when the nation's estimated 94,000 affordable units roll off their compliance periods in 2024? Turn to page 38 to find out.

On the operations side of the industry, package management is a top concern at every community today. Smooth, secure, reliable deliveries are directly linked to resident satisfaction. We cover this topic on page 32, and on page 42, NMHC's Rick Haughey shares data and insights on apartment residents' package pick-up habits and expectations.

Make plans to join us Nov. 16 for InterFace Nashville Multifamily and Dec. 1 in Atlanta for our annual Southeast Multifamily conference. To register, visit interfaceconferencegroup.com.

SOUTHEAST MULTIFAMILY & AFFORDABLE HOUSING BUSINESS

SEPTEMBER/OCTOBER 2022
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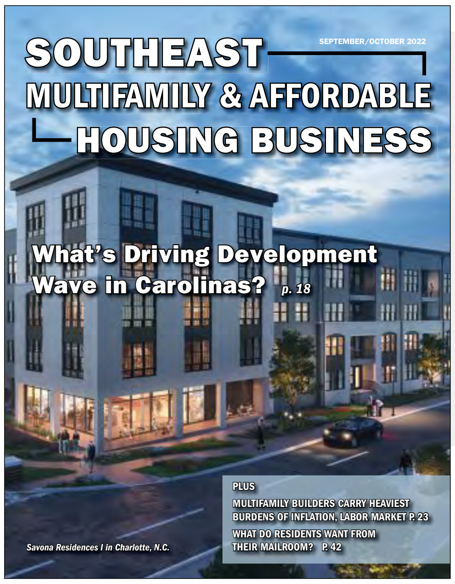

ON THE COVER

What's Driving Development Wave in Carolinas?

Corporate expansions, relocations fuel tenant demand, leading to surge in new construction and investment.

Lynn Peisner

Pictured: Savona Residences I in Charlotte, N.C. Photo courtesy of Portman.

see page 18

BLACKFIN SELLS PRESSLEY SOUTH END FOR $78 MILLION

CHARLOTTE, N.C. — Blackfin Real Estate Investors has sold Pressley South End, a 504-unit community located at 1210 Pressley Road in Charlotte's South End submarket. The undisclosed buyer purchased the community for $78 million. Built in 1969, the property comprises one-, two- and three-bedroom units and features onsite management and maintenance teams, a basketball court, playground, pet park and a walking trail. Deaton Investment Real Estate represented Blackfin in the transaction, which is the firm's third sale in 2022. Blackfin purchased Pressley South End in June 2017 for $19 million.

Blackfin Real Estate Investors recently sold Pressley South End in Charlotte for $78 million after purchasing the asset in 2017 for $19 million.

CBRE ARRANGES $50.6 MILLION CONSTRUCTION LOAN FOR CHAPEL HILL REDEVELOPMENT

CHAPEL HILL, N.C. — CBRE has arranged $50.6 million in construction financing for Link Apartments Calyx, a 304-unit redevelopment project in Chapel Hill. Nate Sittema, Kristen Reilley, Elliott Voreis and Ben Hardee of CBRE Capital Markets' Debt and Structured Finance team in the Carolinas originated the 10-year, 60 percent loan-to-stabilized value construction loan through an unnamed life insurance company on behalf of the borrower, Grubb Properties.

Link Apartments Calyx is located at the intersection of Lanark and Maxwell roads within Phase II of the redevelopment of Glen Lennox, an approximately 70-acre historic master-planned neighborhood that was purchased by Grubb Properties in 1985.

Link Apartments Calyx will offer studio, one- and two-bedroom apartments, as well as a fitness center, coworking space, a cycle center, pool, rooftop resident lounge and a parking garage. Construction is expected to be completed in 2023. Overall, the second phase of the Glen Lennox redevelopment is set to include 650 residential units, 90,000 square feet of retail space, a 150-room hotel and 275,000 square feet of office space.

MONUMENT CAPITAL MANAGEMENT SELLS PARK WEST APARTMENTS FOR $39 MILLION

GREENVILLE, S.C. — Monument Capital Management has sold Park West Apartments in Greenville. Tai Cohen of Cushman & Wakefield represented the seller in the $39 million transaction. The buyer was not disclosed. Located on 20 acres at 357 Hillandale Road, the 359-unit Park West Apartments comprise 305 one- and two-bedroom garden-style residences and 54 two-bedroom townhomes. Monument Capital Management originally purchased the community in 2016 and upgraded unit interiors, amenities and common areas.

WALTON STREET CAPITAL ORIGINATES $69.8 MILLION ACQUISITION LOAN FOR METRO RALEIGH COMMUNITY

CARY, N.C. — An affiliate of Walton Street Capital LLC has originated a $69.8 million acquisition loan for Aventura Crossroads, a 344-unit community located at 1010 Legacy Village Drive in Cary, a suburb of Raleigh. The borrower is a partnership between The Bainbridge Cos. and Virtus Real Estate Capital. Built in 2009, Aventura Crossroads was 98 percent occupied at the time of sale. The garden-style community features one-, two- and three-bedroom units averaging 1,154 square feet. Amenities include a recently renovated clubhouse, upgraded fitness center, pet spa and an outdoor pool. The seller and sales price were not disclosed.

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CORAL ROCK TO DEVELOP MIXED-USE AFFORDABLE HOUSING PROJECT

NORTH MIAMI, FLA. — Coral Rock Development Group, a developer based in Coral Gables, Florida, plans to build Kayla at Library Place, a mixed-use affordable housing project in North Miami. The 10-story property will comprise 138 units ranging from 660 to 930 square feet, as well as amenities including a fitness center, rooftop patio, business center and a conference room. Fifty-five apartments will be reserved for households earning 60 percent of area median income (AMI) while 83 units will be designated for renters earning 100 percent of AMI.

Coral Rock Development will break ground on Kayla at Library Place in North Miami in the second quarter of 2023.

Additionally, Kayla at Library Place will feature 10,000 square feet of retail space on the ground level, an adjacent parking garage and 8,000 square feet of office and conference space preleased to the Greater North Miami Chamber of Commerce. Behar Font designed Kayla at Library Place to achieve LEED Silver certification. Coral Rock expects to break ground in the second quarter of 2023 and deliver the project by the end of 2024.

BERKADIA BROKERS $66 MILLION SALE OF TOPAZ VILLAS

JACKSONVILLE, FLA. — Berkadia has brokered the $66 million sale of Topaz Villas, a 444-unit community located at 5327 Timuquana Road in Jacksonville. Greg Rainey of Berkadia's Jacksonville office led the transaction on behalf of the sellers, Topaz Capital Group and The Lynd Co. Mitch Sinberg, Brad Williamson and Wesley Moczul of Berkadia arranged $53 million in acquisition financing on behalf of the buyer, ROI Capital Group, which plans to rebrand the community. Voya Investment Management provided the three-year, floating-rate loan with extension options and interest-only payments. The loan includes approximately $5.3 million in future funding for capital improvements. Topaz Villas offers one-, two- and three-bedroom apartments that range from 500 to 1,400 square feet in size. Community amenities include two swimming pools, a fitness center, dog park, playground, tennis court and 24-hour maintenance. The property is situated within Ortega Farms, a suburban neighborhood along the Ortega River, and offers access to I-295 and the Naval Air Station Jacksonville.

PRESTWICK, ANDP TO DEVELOP 58-UNIT AFFORDABLE HOUSING COMMUNITY

ATLANTA — Prestwick Development Co. and Atlanta Neighborhood Development Partnership Inc. (ANDP) will develop 1055 Arden, a 58-unit affordable housing community in Atlanta's Capitol View neighborhood. Twenty-eight of the 58 total units will be available for individuals and families earning at or below 50 percent AMI, with six of those units set aside as permanent supportive housing through a program with Atlanta Housing and Partners for HOME for individuals who are experiencing homelessness. Twenty apartments will be available for individuals and families earning at or below 60 percent AMI, and 10 apartments will be available at market-rate rents. Funding for 1055 Arden comes from multiple partners and sources. The development team includes general contractor J.M. Wilkerson Construction and architectural firm Dwell Design Studio. Completion is slated for 2024.

SUMMIT CONTRACTING GROUP BREAKS GROUND ON MIDLAND PROJECT

GAINESVILLE, GA. — Multifamily general contractor Summit Contracting Group has started construction on Midland Gainesville Apartments. The developers are The Macallan Group and McNeal Development. The project is located off Queen City Parkway and Banks Street near the Midtown Greenway in Gainesville, Georgia. Midland Gainesville will consist of 214 units in three buildings. Floor plans will be a mix of studio, one- and two-bedroom apartments. Amenities include a roof-top clubroom facing the downtown square, resort-style pool, outdoor covered porch, outdoor entertainment area, fitness and yoga studio, a co-working area and a pet spa. Completion is slated for spring 2024.

RESIA OBTAINS CONSTRUCTION LOAN FOR MIXED-INCOME PROJECT

DECATUR, GA. — Resia, formerly known as AHS Residential, has obtained $60 million in construction financing for a 476-unit apartment development in metro Atlanta. Located at 4151 Memorial Drive in Decatur, the community will feature five seven-story midrise buildings comprising one-, two- and three-bedroom floor plans. Twenty percent of the units will have income restrictions, which were not disclosed. Amenities will include assigned parking, a business center, fitness center and a swimming pool. Bank of America provided the loan to Resia, which broke ground on the unnamed community in the first quarter of 2022 and expects to deliver the asset in the third quarter of 2023.

COLLIERS BROKERS SALES IN LOUISIANA, ALABAMA

GONZALES, LA., AND OPELIKA, ALA. — Colliers has arranged the sale of Silver Oaks Apartments in the Baton Rouge suburb of Gonzales. Albert Elmore led Colliers' Louisiana multifamily team in brokering the sale. The buyer was a California-based DST, and the seller was Gonzalez-based Silver Oaks Apartments LLC.

Silver Oaks Apartments was constructed in 2018 by Prairieville, Louisiana-based Ascension Properties Inc. The property's 336 units include features such as full-sized washers and dryers, stainless steel appliances and granite countertops. Community features include a swimming pool with a grilling area, dog park, playground, coffee bar and covered carport parking.

Colliers has also arranged the sale of Paces at The Estates, a 270-unit community in Opelika, Alabama, approximately 100 miles southeast of Birmingham. Colliers represented the seller, RREAF Holdings based out of Dallas, and procured the undisclosed New York-based buyer.

Paces was constructed in two-phases. The first phase was completed in 2008 and the second phase in 2018. The apartment building includes in-unit features such as stainless steel appliances, washer and dryer hookups, granite countertops and balconies or patios.

Silver Oaks Apartments in Gonzales, La., was recently acquired by a California-based DST. Colliers arranged the sale.

MARCUS & MILLICHAP ARRANGES $7.4 MILLION SALE OF BELL OAKS

MONTGOMERY, ALA. — Marcus & Millichap has arranged the sale of Bell Oaks Apartments, a 101-unit community located in Montgomery. The asset sold for $7.4 million, or $74,747 per unit.

Caleb Frizzell, vice president of investments in the firm's Birmingham, Alabama, office and Josh Jacobs marketed the property on behalf of the seller, Thomas Ventures.

The buyer is Texas-based 2BEEG, LLC. The property was built in 1984 on a 10-acre site.

CLK PURCHASES PARK APARTMENTS FOR $15.8 MILLION

MOBILE, ALA. — CLK, a Long Island-based commercial real estate investment firm, has acquired The Park Apartments, a 201-unit community in Mobile. Lakewood, N.J.-based Walden Asset Group sold the property for $15.8 million, or $78,600 per unit. Aaron Jungreis and David Wildes of Rosewood Realty Group represented both the buyer and seller in the off-market transaction. Built in 1975, Park Apartments features 20 two-story buildings, a pool, fitness center, playground and a picnic area. The property is situated on 11.5 acres within three miles of the Mobile Regional Airport and the University of Southern Alabama. The community was 95 percent occupied at the time of sale.

RCP DEVELOPING MIXED-USE ANTHEM HOUSE

HUNTSVILLE, ALA. — RCP Cos. will break ground later this year on Anthem House, a $110 million mixed-use development in Huntsville's new MidCity district. The property will include 330 apartments, 35,000 square feet of office space and 32,000 square feet of street-level retail space. Completion is slater for 2025. Anthem House will offer furnished units, shorter lease contracts and hotel-like amenities, according to the developer.

SUBTEXT BREAKS GROUND ON 15-STORY NASHVILLE PROJECT

NASHVILLE, TENN. — Subtext, a residential development firm, has broken ground on LOCAL Midtown, a 15-story building located at 1904 Hayes St. in Nashville's Midtown district. The property will comprise 307 apartments in a mix of studios, one-, two- and three-bedroom layouts. Designed by Dynamik Design, LOCAL Midtown will feature 10,000 square feet of amenity space, including a coffee bar and market on the first floor, music studio and recording booth on the fifth floor and several spaces on the sixth floor, such as a media lounge, a speakeasy, collaboration spaces, a gaming room, a fitness center with coach-led classes and a library and outdoor amenity deck with a swimming pool. The 15th floor will feature a sky lounge and deck with views of downtown Nashville. A five-level covered parking garage will also be available to residents. The general contractor, Brinkmann Constructors, expects to deliver LOCAL Midtown in 2024. Subtext and Brinkmann recently completed LOCAL Boise in Idaho. The new venture is the first Nashville project for both St. Louis-based firms.

Subtext has begun building LOCAL Midtown, a 307-unit project in Nashville's Midtown district. The developers are estimating completion of the project by 2024.

FAIRSTEAD, KEYBANK ACQUIRE AFFORDABLE HOUSING PORTFOLIO

LOUISVILLE, KY. — Fairstead and KeyBank Real Estate Capital have acquired 950 units of affordable housing for families and seniors across Kentucky.

Home to more than 1,500 residents, the 16 properties are located near Louisville and Lexington, Kentucky. The residences are a mix of family and senior housing and are affordable, at various rent-restriction levels, through U.S. Department of Housing and Urban Development Section 8 and LIHTC programs.

Fairstead now owns 1,300 units of affordable housing in Kentucky. The New York City-based firm entered the state's market in 2020 with the acquisition of Colony Apartments, a 137-unit affordable senior housing property in Covington. Fairstead applies a value-add strategy to its affordable-housing acquisitions.

ENTERPRISE COMMUNITY DEVELOPMENT CLOSES ON CONSTRUCTION FINANCING FOR REDEVELOPMENT

COLUMBIA, MD. — Enterprise Community Development, Inc. (ECD) has closed on construction financing for Roslyn Rise in Columbia. Roslyn Rise represents the first portion of a multiphase redevelopment of a housing community originally built in the 1960s.

Upon completion, which is slated for 2024, Roslyn Rise will include 153 units in a mix of one-, two-, three- and four-bedroom floor plans and amenities such as a fitness center, playground, dog park and a business center.

Grimm & Parker is the project architect and Harkins Builders is the general contractor. Enterprise Residential, an Enterprise Community Development affiliate, will serve as the property management company. The project will partially be financed through LIHTC equity. Rental restrictions on the units were not disclosed.

NORTHMARQ NEGOTIATES $43 MILLION SALE OF BAYVILLE APARTMENTS

VIRGINIA BEACH, VA. — Northmarq has negotiated the $43 million sale of Bayville Apartments, a 240-unit, Class B property located at 1512 Kindly Lane in Virginia Beach.

Wink Ewing, Mike Marshall and Matt Straughan of Northmarq represented the seller, Thalhimer Realty Partners, in the transaction.

Keith Wells, Reina Abboud and Hunter Wood of Northmarq's debt and equity team arranged an undisclosed amount of acquisition financing on behalf of the buyers, Linden Property Group and Matador Capital Management. Bayville Apartments consists of one-, two- and three-bedroom floor plans with short-term leases available for residents. Community amenities include a business center, dog park, onsite maintenance and management, package receiving, a playground and a pool.

AMERICAN LANDMARK PURCHASES ELEMENT AT STONEBRIDGE

CHESTERFIELD, VA. — American Landmark has purchased Element at Stonebridge, a 400-unit community located in Chesterfield, about 18 miles south of Richmond. The seller and sales price were not disclosed. Built in 2016, Element at Stonebridge offers one- and two-bedroom floor plans ranging from 563 to 1,236 square feet.

Amenities include a saltwater pool, 24-hour fitness center, yoga studio, clubroom with billiards and TVs, outdoor game and TV lounge, courtyard with grills and firepit, 24-hour business center and community Wi-Fi. Element at Stonebridge marks American Landmark's second acquisition in Virginia this year, following Boulders Lakeside Apartments in January.

BROOK FARM GROUP LAUNCHES MULTIFAMILY DEVELOPMENT FIRM

ATLANTA — **Peter DiCorpo** and **Eric Hade** have launched Brook Farm Group, a new multifamily development firm that will focus on projects throughout the Sun Belt and Mountain States. According to the company, Brook Farm Group has several development projects in the pipeline and expects to start construction in the first quarter of 2023. The Atlanta-based company says it will pursue garden-style, mid-rise, high-rise, townhomes and single-family build-to-rent projects.

NMHC NAMES SHARON WILSON GÉNO PRESIDENT

WASHINGTON, D.C. — The National Multifamily Housing Council (NMHC) has named **Sharon Wilson Géno** as the organization's president-elect effective Oct. 11. Wilson Géno will assume the role of president from Doug Bibby at NMHC's Annual Meeting in January 2023, when he officially steps down after more than 20 years of leading the organization. Wilson Géno most recently served as executive vice president and chief operating officer of Volunteers of America National Services.

GÉNO

IAN ANDERSON JOINS CUSHMAN & WAKEFIELD'S SUNBELT MULTIFAMILY ADVISORY GROUP

NASHVILLE, TENN. — Cushman & Wakefield has hired **Ian Anderson** to join the Sunbelt Multifamily Advisory Group where he will focus on multifamily investment sales in the Nashville and Eastern Tennessee markets. Before joining Cushman & Wakefield, Anderson, a Nashville native, worked for JLL where he was responsible for multifamily investment sales throughout Tennessee.

ANDERSON

KEVIN PALMER APPOINTED TO LEAD THE FREDDIE MAC'S MULTIFAMILY BUSINESS

MCLEAN, VA. — Freddie Mac has appointed **Kevin Palmer** to head its multifamily business. In the role, Palmer serves as a member of the company's senior operating committee and reports to the company's president, Mike Hutchins. Palmer has served at Freddie Mac in a variety of positions since 2001, most recently as senior vice president for single-family portfolio management. In previous roles, Palmer had broad responsibility for Freddie Mac's single-family portfolio.

CAPSTONE PROMOTES CORRAO, LIEBICH, OPENS RALEIGH OFFICE

CHARLOTTE, N.C. – Capstone, headquartered in Charlotte, has promoted **Ron Corrao** to managing director and **Eric Liebich** to director of the multifamily investment sales team. They are joined by investment sales advisors Cole Carns, based out of Richmond, Virginia, and Thomas Colaiezzi, Jourdan Sullivan and Matt Weinstein, who are all based in Charlotte. The team is also supported by Travis Cundiff and Chief Executive Officer Mike Mosher, both of whom are based in Capstone's new Raleigh office.

JOSH DARBY JOINS NORTHMARQ'S ATLANTA DEBT-EQUITY OFFICE

ATLANTA — **Josh Darby** has joined Northmarq as vice president at the company's Atlanta debt and equity office. Darby will work with the company's network of lending partners as well as with an in-house investment sales team to deliver financing solutions for clients. Darby spent seven years in the commercial mortgage originations group at Allianz Real Estate of America, where he was most recently a director. After starting with Allianz in New York City in 2015, he moved to Atlanta to open a new office in 2017. Prior to his time at Allianz, Darby had stops at Hanover Street Capital and Aareal Capital in New York City.

FINANCIAL SCOREBOARD

Loans Recently Closed For Southeast Multifamily Properties

PROPERTY	LOCATION	SIZE	AMOUNT	LENDER	ARRANGED BY
5150 JB Drive Apartments	Murfreesboro, Tenn.	384 units	$76.8 million	Nataxis Corporate & Investment Banking	JLL
Fourteen Residences Allapattah	Miami	237 units	$57.5 million	Churchill Real Estate	Berkadia
Topaz Villas	Jacksonville, Fla.	444 units	$53 million	Voya Investment Management	Berkadia
NuLu Yards	Louisville, Ky.	189 units	$28 million	Thorofare Capital	Wave Capital Partners

STOCK SNAPSHOT

Publicly Traded REITs

REIT	STOCK SYMBOL	CURRENT PRICE 10/4/22	1 MONTH CHANGE 9/2/22	12 MONTH CHANGE 10/4/21
Mid-America Apartment Communities	MAA	$157.20	-4.3%	-15.6%
AvalonBay Communities	AVB	$186.49	-7.1%	-14.6%
Equity Residential	EQR	$67.87	-8.0%	-15.6%
Essex Property Trust	ESS	$243.72	-7.5%	-23.4%
UDR Inc.	UDR	$42.15	-7.0%	-19.4%
Camden Property Trust	CPT	$122.51	-2.5%	-17.0%
Apartment Income REIT Corp.	AIRC	$39.21	-4.6%	-18.4%
Independence Realty Trust Inc.	IRT	$17.53	-7.5%	-14.5%
NexPoint Residential Trust	NXRT	$46.29	-11.7%	-25.0%
Centerspace	CSR	$69.20	-7.5%	-26.9%
Apartment Investment and Management Co.	AIV	$7.61	-12.9%	5.3%
Bluerock Residential Growth REIT	BRG	$26.95	0.7%	111.2%
BRT Apartments Corp.	BRT	$20.79	-9.6%	12.6%
Clipper Realty Inc.	CLPR	$7.34	-12.5%	-5.5%
Invitation Homes	INVH	$35.12	-3.7%	-7.4%
American Homes 4 Rent	AMH	$34.28	-1.7%	-9.2%

What's Driving Development Wave in The Carolinas?

Corporate expansions, relocations fuel tenant demand, leading to a surge in new construction and investment.

Lynn Peisner

North and South Carolina may fly under the radar when it comes to ranking the nation's top multifamily markets. But a closer look at the region reveals metrics that rival some of the busiest cities in the country.

"One of the common themes across metros in these two states is just how differently both investors and developers view the region versus how they viewed it 10 years ago — and certainly versus 20 years ago," says Carl Whitaker, director of research for Richardson, Texas-based RealPage, which provides data, analytics and property management software to the multifamily industry.

"For example, take a look at construction. Simply put, the Carolinas punch above their weight in terms of new construction. With 69,000 apartment units under construction, the Carolinas rank fourth in the United States for total development volume. Only much bigger states like Texas, California and Florida rank ahead in that regard."

In the pro column, the Carolinas' story reads the same as many other Sun Belt locales. Migration of young, well-educated working people from cooler climes is on the upswing, as are corporate relocations. Apartment investors also view unattainable for-sale home costs as additional fuel for demand.

HOWARD JENKINS
CBRE | Raleigh

Howard Jenkins, executive vice president of capital markets with CBRE | Raleigh, calls it the "for-sale rub" and shares with *Southeast Multifamily & Affordable Housing Business* that, in Raleigh, housing prices are up 18.2 percent year-over-year to an average of $485,000, and 30-year mortgage rates have jumped approximately 90 percent year-over-year as of June.

While demand is reportedly healthy, investors and developers remain cautious. High interest rates, inflation and construction costs are slowing the momentum of post-pandemic, double-digit rent growth on a national scale, and the Carolinas are following suit.

Atlanta-based CARROLL owns ARIUM FreeMoreWest in Charlotte. The 212-unit property was acquired in June and is one of two communities CARROLL owns in Charlotte. The company owns 12 properties in North Carolina. (Photo credit: CARROLL)

It may not sound like much, but the $1 decrease from July to August in monthly asking rents for a national average of $1,718, "presages a deceleration that may extend to the second half of 2022," according to August's Yardi Matrix National Multifamily Report.

Those who watch the Carolinas offer similar prognostications.

CINDI REED
ApartmentData.com

"In 2022, rents are starting to flatten out in Raleigh and Charlotte," says Cindi Reed, director of sales for Houston-based ApartmentData.com, from MRI Software. "In both markets, it's a textbook case of supply and demand. The multifamily industry is thriving simply because of population growth, but we won't see the double-digit rent growth figures that we did in 2021."

Reed explains that post-pandemic pent-up demand moved the rent-growth needle significantly. But that jump was an anomalous extreme, spurred by the COVID-19 pandemic — when move-ins as well as construction activity stalled dramatically then resumed, full-tilt.

Multifamily rent growth figures are coming back down to earth but are expected to resume the modest, long-term growth trajectory that rates were following prior to the COVID-19 shutdowns.

Reed says that as long as local governmental bodies do what they can to keep construction attainable while builders face cost and labor problems, then absorption will work in favor of continued rent growth, and rates will return to the approximate 5 percent year-over-year average that marked the years preceding 2020. Or perhaps even higher.

"Going into 2023, we may even see a 7 or 8 percent increase," says Reed.

Overall, growing industries, such as manufacturing and life sciences, coupled with North Carolina's concentration of higher education institutions and an educated workforce, keep the job market strong.

Investors Bet on Triad's Growing Submarkets

The Triad comprises a region due west of Research Triangle that includes Greensboro, Winston-Salem and High Point.

Charleston, South Carolina-based multifamily owner, operator and developer Blaze Capital Partners is active in the region. The firm

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Charleston, S.C.-based Blaze Capital Partners owns the 384-unit Arbor Steele Creek in Charlotte. Blaze owns 11 properties in North and South Carolina and is bullish on the region.

acquired the 240-unit Fieldstone Apartments in Greensboro in June. Blaze saw a good value-add opportunity in the acquisition and plans to invest $2.5 million into the property.

"Given the apartment community's prime location and high-growth potential, this was a great opportunity for us to kick-start our presence in the greater Triad area," says Eddy O'Brien, co-founder and managing partner at Blaze.

Blaze's acquisition of Fieldstone builds off the firm's recent buying and selling activity across the Sun Belt and most recently in Greenville, South Carolina, including 630 Fairview, a townhome community, and a 66-acre site that will serve as the future home of a new community of single-family and townhome units. The firm also closed the sale of two Charlotte communities, as well as one Tampa community and two Atlanta communities, in May. Blaze owns 11 properties in North and South Carolina and is bullish on the region.

The company is currently raising a dedicated build-for-rent investment vehicle in preparation for about $1.2 billion in planned transaction volume, not only for single-family rentals, but also active adult, conventional multifamily and investment in hotel-to-apartment conversions.

"We like to play offense when others don't," says O'Brien. "With some volatility in the market, a number of groups are on the sidelines, saying, 'we'll hit pause and reassess later.' But we've been active and will continue to be active. Part of the benefit of us focusing on our own backyard here in the Carolinas is that we bet big on what we like to call 'emerging Southeastern' markets. Everyone knows about Charlotte, Raleigh and Tampa. But not as many people know about everything that's happening in Savannah or Greenville."

O'Brien says economic drivers like infrastructure investments and job growth are fueling some of these under-the-radar markets in the Southeast.

The Triad is home to large employers and distribution sites, including Publix's $300 million, 1.2-million-square-foot distribution center under construction in Greensboro and Honda Aircraft's Co.'s $15.5 million expansion of its global headquarters in Greensboro that will add 82,000 square feet to its 133-plus-acre campus.

"We're continuing to see a number of large and small companies relocate or launch in the region, which is attracting educated, affluent labor pools," says O'Brien. "In the public sector, we're seeing federal, state and local investments in infrastructure."

EDDY O'BRIEN
Blaze

For example, the Army Corps of Engineers this year will complete a $500 million port-deepening project in Charleston, making the city the ninth largest port in the nation by total cargo volume. The new 52-foot depth of the Charleston Harbor enables mega container ships to enter and exit the waterway, which the Army Corps of Engineers says will increase cargo volume.

"These types of long-term, multimillion-dollar projects provide clues in a lot of these markets that investors unfamiliar with the region may not pay attention to," says O'Brien. "Taking I-26 from Charleston to Greenville up to Asheville, we like to take bets on growth corridors."

Research Triangle Degrees Elevate Economy

The Research Triangle includes Raleigh, Durham and Chapel Hill and is home to blue chip employers like Google, IBM, Apple and Biogen. The Raleigh-Durham market includes Wake, Durham and Orange counties, among others.

CBRE's Jenkins identifies the Research Triangle's colleges and universities — and the research-and-development funding they attract — as "recession-resistant demand drivers" that are helping to sustain healthy multifamily market fundamentals during uncertain times.

North Carolina State University in Raleigh, Duke University in Durham and the University of North Carolina at Chapel Hill are classified as Tier 1 research institutions that attract approximately $3 billion in federal research and development funding each year and have spun off hundreds of start-up companies, according to the Research Triangle Regional Partnership (RTRP), an economic development organization.

According to RTRP, life sciences, manufacturing, fintech and cybersecurity are a few of the industries regional leaders want to attract with the state's educated workforce and 2.5 percent corporate tax rate. Per the Tax Foundation, an independent tax policy nonprofit organization, North Carolina's is the lowest corporate tax rate in the country. Some of the nation's highest rates include Pennsylvania's 9.99 percent rate or New Jersey's 11.5 percent rate. Additionally, about half of the region's residents have a bachelor's degree or higher.

In September, Wolfspeed announced plans to build a new semiconductor plant at a 400-acre site in Chatham County with an estimated investment of $5 billion and a commitment to create more than 1,800 jobs paying $77,000 a year on average.

In July, VinFast announced it had received a $1.2 billion incentive package from the state of North Carolina for its electric vehicle manufacturing project.

VinFast's manufacturing facility will be built on 2,000 acres at the Triangle Innovation Point in Chatham County with a total investment of about $2 billion in the first phase. Construction on the project's first phase will begin later this year, with full completion slated for July 2024. When the plant is up and running, the company says it expects to produce 150,000 electric cars and buses per year.

Another example of a recent Triangle development is a joint venture project between Starwood Capital Group and Trinity Capital Advisors that will develop Spark LS, a $1 billion life sciences campus in Morrisville, a suburb of Raleigh.

The 109-acre development will be located at the intersection of McCrimmon Parkway and Airport Boulevard, four miles from the Raleigh-Durham International Airport and five miles from Apple's new $1 billion office campus.

The 1.5 million-square-foot project is set to include 12 to 15 buildings with lab and biomanufacturing space, green spaces, restaurants, retail, a STEM education and amenity center, and several multi-use outdoor recreation areas.

Morrisville is sixth (out of 22) on ApartmentData.com's ranking of Raleigh-Durham submarkets. The September 2022 ranking is based on the combination of rental rate growth and absorption over the past three months. The area about 15 miles northwest of downtown Raleigh recorded 16 percent year-over-year rent growth as of September.

"We believe our market has the best risk-adjusted net value and we have the most affordable rents," says Jenkins.

Raleigh's average monthly rent of $1,551 is below the $1,718 national rate.

"If you look at our average monthly rental rate as a percentage of regional median income, which is close to $80,000 per year, you're only paying about 20 percent of your salary for rent," says Jenkins. "A lot of investors look at these metrics and determine we're the No. 1 state to do business with."

Jenkins reports that the first half of 2022 has been a record breaker in investment sales for Raleigh, showing an increase of 53 percent, or $154 billion.

A majority of Raleigh's buyers are non-traded real estate investment trusts, 1031 exchange buyers and high net-worth individuals who can acquire without taking on excessive debt, says Jenkins.

Raleigh has an active development pipeline despite high construction costs and labor challenges. Fourteen communities containing 3,910 units are under construction. Another 106 communities totaling 31,630 units are proposed, according to ApartmentData.com. Marcus & Millichap forecasts Raleigh's apartment stock to grow 4.6 percent in 2022.

"Year to date through September, we've delivered about 3,800 units, and we've absorbed about 2,800, so absorption is slowing down and occupancies are flattening out," says Reed.

Charlotte: Banking City 2.0

Charlotte weathered the pandemic well. In 2020, rent growth moderated to an annual rate of 3.4 percent. "That was nothing compared to the rest of the nation," says Reed. "Most markets experienced negative growth."

In 2021, developers delivered 6,300 new units to Charlotte and its submarkets, and about 8,000 units were absorbed, according to ApartmentData.com. The average effective rent for the Charlotte apartment market increased 19 percent for the year. "Occupancy jumped to 92.9 percent," says Reed. "We were filling up units. Everyone was moving to the Sun Belt from both coasts, which kicked up construction, occupancy rates and rental rates like crazy."

Cushman & Wakefield reports similar data: "Per CoStar Group, over the past 12 months, Charlotte has absorbed 6,269 units," says Austin Green, executive managing director of Cushman & Wakefield's Sunbelt Multifamily Advisory Group. "Based on our research, nearly 24,000 units are currently under construction and 32,000 have been proposed in the Charlotte MSA. While the population has increased rapidly, demand should be able to be met harmoniously through expected deliveries."

Mission Matthews Place, pictured, was one of three properties the Solomon Organization sold in the metro Charlotte area in August. Along with Waterford Hills and Matthews Point, the three assets sold for $173.5 million.

PAUL MARLEY
Cushman & Wakefield's Sunbelt Multifamily Advisory Group

"Charlotte has been a major beneficiary of the population and employment exodus from gateway markets into the Sun Belt that was only sped up by the effects of the pandemic," says Paul Marley, executive managing director of Cushman & Wakefield's Sunbelt Multifamily Advisory Group. "Despite economic uncertainty, Charlotte continued to see major job announcements over the past two years, which in turn led to heightened in-migration and a lack of availability that ultimately kept rent growth positive from 2020 until present."

But leasing activity has moderated greatly in 2022. Reed reports that in the first quarter of 2022, Charlotte absorbed 661 units, 1,523 in the second quarter, and as of August, the midpoint of the third quarter, 583 units were absorbed.

"It has slowed down quite a bit and will likely be about half of what it was in 2021," says Reed.

Market insiders, however, are putting a good deal of confidence behind the gold standard of job and population growth, which has helped investors maintain a favorable outlook on rent growth and occupancy.

"Population increases outpaced the national average significantly in 2021, and projections show no signs of slowing," says Marley. "Charlotte's population is projected to grow by 1.3 percent in 2022 according to Moody's, while the national average is 0.3 percent. The majority of the in-migration has come from major cities in the Northeast including New York, D.C., Baltimore and Philadelphia."

ALEX MCDERMOTT
Cushman & Wakefield's Sunbelt Multifamily Advisory Group

Charlotte is still primarily a banking city, but Alex McDermott, executive managing director of Cushman & Wakefield's Sunbelt Multifamily Advisory Group, says it continues to see major expansion in other industries. "The fintech industry has had an increasing presence," he says. "The move by companies like Honeywell and LendingTree to relocate their headquarters to Charlotte has drawn talented young professionals."

Many of Charlotte's new development projects are making headlines as large, high-dollar mixed-use projects that target millennial or Generation Z residents, workers and visitors. Pew Research Center defines millennial birth years from 1981 to 1996 and Generation Z birth years from 1997 to 2012.

One such development is 2161 Hawkins. Atlanta-based developer Portman is breaking ground in October on the transit-oriented project in Charlotte's South End that will include connections with the Rail Trail and LYNX Light Rail. The 24-story community will include 370 units, ground-floor retail and green space. The project is expected to be complete by the third quarter of 2024. The residential portion of 2161 Hawkins will be built over the site of Sycamore Brewing, which will be relocated to The Line, an office and retail tower that Portman also developed and opened in May before selling the property in June for $206 million. According to *The Charlotte Observer*, Portman bought the parcel of land in 2018 for $12.7 million.

Atlanta-based developer Portman is breaking ground in October on 2161 Hawkins. The transit-oriented project in Charlotte's South End will include 370 apartment units and ground-floor retail.

Portman is also about to break ground on Savona Residences I in Charlotte. The developer secured construction financing in September. The project will be the first of two multifamily phases planned for the redevelopment of Savona Mill in the West End.

The community will be anchored by a 105-year-old former textile mill, which Portman is transforming into a mixed-use destination featuring ground-floor retail, office space and a public plaza adjacent to the Stewart Creek Greenway. Construction will begin in November.

Savona Residences, which the developer is expected to deliver by the third quarter of 2024, will consist of 321 mid-rise multifamily residences. Portman is planning amenities such as a pool with cabanas, a pet spa and dog park, yoga and Pilates studios, game rooms and a fitness center.

Alliance Residential Co. is also busy developing around Charlotte. The multifamily developer has closed on the land purchase of 18.3 acres at 9741 Mount Holly Road in northwest Charlotte for the development of Prose Rhyne, a 330-unit community. Prose Rhyne is one of five active projects around Charlotte.

AUSTIN GREEN
Cushman & Wakefield's Sunbelt Multifamily Advisory Group

"A highly anticipated project expected to be delivered in 2025 is Riverside Investment's Queensbridge Collective," notes Green. "The project will consist of 650 multifamily units, 750,000 square feet of office space, and 30,000 square feet of retail space. Another exciting development is Crosland Southeast's redevelopment of the former Eastland Mall. The project will consist of 500 multifamily units along with office and retail space. This project will have a very positive impact on that pocket of East Charlotte."

Stylish new developments aren't the only high-value assets trading in the market. In August, Blackfin Real Estate Investors sold the 504-unit Pressley South End, built in 1969, for $78 million.

Blackfin purchased the property in 2017 for $19 million. The Solomon Organization recently sold a 762-unit, three-property portfolio in suburban Charlotte for $173.5 million.

Atlanta-based multifamily investor CARROLL is also active in Charlotte and throughout North Carolina. The firm owns 12 properties in the state and two in Charlotte, one of which is the 212-unit Arium FreeMoreWest that was acquired in June. CARROLL acquired Arium FreeMoreWest around the same time it acquired a property in Texas and another in Arizona. The three separate transactions were valued at a grand total of approximately $200 million.

"We were attracted to ARIUM FreeMoreWest in Charlotte given its high-growth location that offers excellent proximity to the major employment and entertainment districts in South End and Uptown with rent levels at a massive discount to other properties in those locations," says Casey Barber, senior vice president of investments at CARROLL.

The property was built in 2015. According to the community's website, rents range from $1,610 for a 785-square-foot, one-bedroom unit to $2,065 for a 1,119-square-foot, two-bedroom unit.

"Charlotte continues to benefit from strong in-migration and job growth spurred by its business-friendly climate, attractive lifestyle, relative affordability and diverse entertainment offerings," says Barber. "Along with Raleigh-Durham, Charlotte continues to be a top target market for us given the current supply-demand imbalance, continued job growth and corporate relocations as well as attractive rent-to-income levels that position the markets for continued growth and strong performance."

While value-add deals can be challenging to find, a "flight to quality," as Jenkins calls it, signifies an investor appetite mostly for the safe bet of Class A assets.

"Absorption in Class A properties in Charlotte, for example, is high because there's not as much available in the B's and C's," says Reed. Apartmentdata.com reports that 17 Class A properties in Charlotte are currently in lease-up, while only six Class B's are in the same, just-delivered early stage.

Marley confirms that many investors are looking to hunker down with a top-of-the-line property or portfolio. "We are currently working with several groups to best position their assets, whether that be property performance or how to better improve the physical asset," says Marley. "Many groups are looking to longer-term holds to weather potential upcoming storms, so they want to be the best-in-class asset." ●

CHARLOTTE ECONOMIC PROFILE

2021 City of Charlotte Population Estimate:
879,709

2020 City of Charlotte Median Household Income:
$65,359

July 2022 Unemployment Rate Charlotte-Gastonia-Rock Hill:
3.5 percent

September 2022 Occupancy Rate:
92.6 percent

August 2022 National Occupancy Rate:
96 percent

September 2022 Effective Average Monthly Rental Rate for City and Surrounding Submarkets:
$1,595

Sources: U.S. Census Bureau, U.S. Bureau of Labor Statistics, Apartmentdata.com from MRI Software, Yardi Matrix

RALEIGH ECONOMIC PROFILE

2021 City of Raleigh Population Estimate:
469,124

2020 City of Raleigh Median Household Income:
$69,720

July 2022 Unemployment Rate Raleigh-Cary:
3.1 percent

September 2022 Occupancy Rate:
93.5 percent

August 2022 National Occupancy Rate:
96 percent

September 2022 Effective Average Monthly Rental Rate for City and Surrounding Submarkets:
$1,551

Sources: U.S. Census Bureau, U.S. Bureau of Labor Statistics, Apartmentdata.com from MRI Software, Yardi Matrix

Multifamily Builders Grapple with Inflation, Labor Issues

Contractors are reacting nimbly and quickly to market conditions to fulfill some of the nation's highest-volume pipelines.

Compiled by Lynn Peisner

Broad social and economic trends become brick-and-mortar realities on the job site. Rising materials costs, a shrinking pool of skilled laborers and supply chain disruptions are pain points that builders experience in apartment development projects in real time.

But general contractors are tackling these challenges head-on with creative solutions that maximize new technology, streamlined execution plans and old-fashioned relationship-building.

Southeast Multifamily & Affordable Housing Business e-mailed timely questions to a handful of construction firms and general contractors actively building multifamily throughout the Southeast to find out what they're working on and how they're working smarter to fulfill the high demand for apartments in the Sun Belt.

The respondents include Brett Callaghan, director of business development for Progress Carolina; John Hoover, project executive, Choate Construction Co.; Scott Hoppa, senior vice president and regional manager, Southeast region, McShane Construction Co.; Mike Macon, senior vice president and Georgia business unit leader for Balfour Beatty; and Marc Padgett, president, Summit Contracting Group Inc. Their edited responses follow.

McShane Construction Co. built The Enzo, a 265-unit community in Buford, Ga. The developer was TPA Residential. The property is made up of two four- and five-story wood-framed buildings.

Southeast Multifamily & Affordable Housing Business: Tell us about your company. Approximately what percentage of your business consists of multifamily? What types of multifamily projects do you build?

Callaghan: We specialize in affordable housing through the Low-Income Housing Tax Credit (LIHTC) program within a 500-mile radius of our headquarters of Myrtle Beach, South Carolina. While most of our projects are in North and South Carolina, our target market is the entire Southeast. Approximately 70 percent of our projects are three- and four-story affordable housing projects. The remaining 30 percent of our projects are three- and four-story buildings with some podium construction, consisting of market-rate apartments, hospitality and timeshare communities.

Hoover: Choate Construction Co. is headquartered in Atlanta. We currently employ approximately 500 employees in six offices across the Southeast. Choate Construction operates in the market-rate multifamily, affordable housing, senior living, mixed-use and student housing market segments. Choate Construction operates primarily in the Southeast region, but Choate does work nationally for specific clients. We have offices in Raleigh, North Carolina; Charlotte, North Carolina; Charleston, South Carolina; Savannah, Georgia; Atlanta; and Nashville, Tennessee.

Hoppa: McShane Construction was founded in 1984 and is headquartered just outside of Chicago. Our Southeast regional headquarters is in Auburn, Alabama. Approximately 70 percent of our business consists of multifamily, and we're very active in market-rate, affordable housing and senior living product types.

Here in the Southeast, we're most active in the Georgia, Tennessee, North Carolina, South Carolina and Alabama markets.

Macon: Balfour Beatty is headquartered in Dallas and serves California, Texas and the Northwest, Southeast and Mid-Atlantic regions. Within Georgia, 40 percent of our projects are multifamily. In this region, we are building high-rise, garden-style and affordable housing types.

In the Southeast, we are active in Fort Lauderdale, Jacksonville and Orlando, Florida; Atlanta and Savannah, Georgia; Charlotte, Raleigh and Wilmington, North Carolina; and Charleston, South Carolina.

Photo courtesy of Big Shots Golf

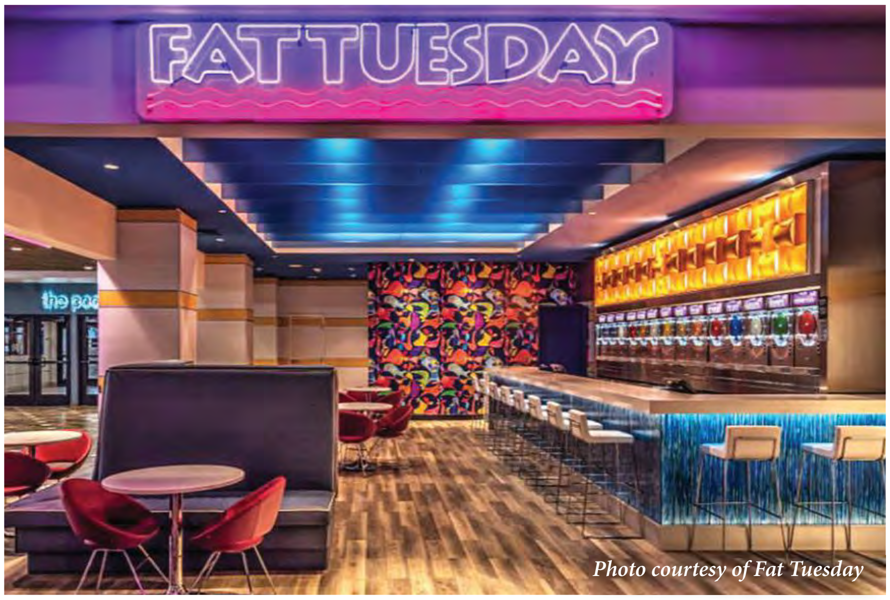

Photo courtesy of Fat Tuesday

CONFIRMED SPEAKERS *(as of September 20)*

Chuck Steelman
VP of Customer Exp., Programing & Partnership
Trademark Property

Brad Merriman
President
Mr-ProFun

John Moncke
President
Kansas City Power & Light District/The Cordish Companies

Lauren Abernethy
VP, Marketing
Atlanta Braves

George Wade
Founder & President
Bay Laurel Advisors

Robb Wagner
Owner
Stimulated

Mathew Focht
CEO
EMERGING

Ben Donsky
Principal
Agora Partners

Rob Hunden
President
Hunden Strategic Partners

Matthew Winn
Partner
What If... Syndicate

Paul Dergarabedian
Sr. Media Analyst
Comscore

Ira Jay Mitchell
President
IJM Enterprises

Greg Silvers
Chairman & CEO
EPR Properties

Bruce Nussbaum
Managing Partner
Trifecta Management Group

Mitra Esfandiari
Senior Principal
RDC

TJ Schier
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Big Shots Golf

Najila Kayyem
EVP, Marketing
Pacific Retail Capital Partners

Paul Kurzawa
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Chris Pine
Executive Vice President
Brookfield Properties

Howard Samuels
President
Samuels & Company

Eric Nordness
Managing Principal
Marquee Development

Josh Poag
President & CEO
Poag Shopping Centers

Richard Brail
Chairman of M&A
Solomon Partners

Photo courtesy of ItSugar

Photo courtesy of Kansas City Power & Light District.


Progress Carolina built The Belmont in Florence, S.C. The developer was Schaumber Development. The project consisted of a mix of two- and three-bedroom units.

Padgett: Summit is a national general contractor that is focused on construction in the Southeast. We are based in Jacksonville, Florida, with an additional office in Atlanta.

One hundred percent of our projects are multifamily. We build in all product segments from market-rate to tax-credit housing. We build affordable housing, senior living and student apartments. Currently, the most popular building type is low- and mid-rise wood-frame (garden-style) apartments, but we're also great at building high-density wrap projects with parking garages and concrete podiums. We build what our clients and their markets dictate. We've seen trends shift over time between market locations and building types, and our product will shift in response to that.

We're currently most active in Florida, including Orlando, Tampa, Daytona, Panama City and Pensacola; Georgia, South Carolina and North Carolina. We're also active in Nashville, Tennessee.

SMAHB: While the real estate fundamentals of multifamily demand remain strong, the U.S. economy is in choppy waters due to high inflation, rising interest rates and supply chain issues, among other factors. How has your business been affected by these headwinds?

Callaghan: We have seen many projects come back across the table for value engineering or repricing to assist the developers in cutting costs for the project to be financially feasible. Basically, this is a day-to-day challenge.

Construction firms are buying products early and bulk purchasing to reduce costs. I don't believe there is any golden ticket, but if I had to list one item that could get the project headed in the right direction, that would be to work with your general contractor from the date of project inception.

This allows the developer, architects and engineers to communicate with the general contractor. Forming a relationship between the general contractor, developer and the architect early on allows for great communication when formulating the budget, project timelines and product scope.

When scheduling our projects, we have significantly increased the project duration as some sourcing of materials can have lead times as long as 50 to 60 weeks. If the project timeline doesn't allow for an extended schedule, then we are working with the owner/developer to procure product prior to the closing of the construction financing.

Overall, the past two years in construction have been a roller coaster ride, and we have seen pricing increases of approximately 27 percent. Some costs are rising up to 5 percent per month until the project goes into contract. The key is to buy early and do the best you can to lock in the sub-contractors.

As we know, the market-rate industry has been able to absorb these cost increases to some extent as rents have been proportionally increasing. In the LIHTC housing market, this has become a constraint with a massive uphill battle.

Our team has been sourcing additional funding, pursuing the path in obtaining grants, bonds and other sources of soft money to supplement the cost increases. This has placed an enormous burden on the local and state housing agencies as the need for housing is high, and costs have increased to the point that some projects just can't be built.

Hoover: The economic impacts of the pandemic coupled with the impacts to the supply chain have complicated construction planning and budgeting. Our teams have encountered cost escalation of about 1.5 to 2 percent per month.

Lead times for items that typically do not impact the critical path have increased to durations that force our teams to handle the purchasing of previously mundane supplies and materials as critical procurement targets.

Hoppa: To combat supply chain challenges, we're ordering materials sooner, especially critical-path materials. We're also not building as quickly as we were a year ago due to smaller trade crews stemming from a tight labor market. Overall, volume is slightly higher than it was a year ago. Pricing has continued to increase over the past year, and we're seeing building costs about 20 percent higher than we did in 2021.

Macon: Construction pricing for apartment projects has increased approximately 20 percent. Standard inflation is anywhere from 3 to 5 percent year-over-year, and the industry is currently experiencing four times more than the standard inflation rates. The inflated project costs have gone up due to interest rates, supply chain issues, labor shortages and the growing appeal to live in suburban areas. These impacts have resulted in project suspensions across the industry because lenders are providing less capital for project costs due to the high-risk nature of this current inflationary period.

Padgett: We have continued to increase the number of projects we take on at a very calculated rate, based primarily on how much our team and our subcontractors can manage. The volume of construction reflects the current demand levels and favorability of multifamily developments in specific markets.

This Southeast region has seen rising costs, but at the same time there's an influx of people moving to the region. For this reason, rents have increased substantially, and those higher rents have offset the rising costs.

We have not seen things slow down yet, but we feel that if interest rates continue to rise and the material manufacturers continue with sudden increases, then we may see some impact from that.

SMAHB: The Association of General Contractors says about 90 percent of construction firms have a difficult time finding workers to hire, and this challenge often causes delays in project scheduling. How is the workforce shortage playing out in your projects and throughout your region?

Callaghan: Fortunately for us, we have not had any significant construction schedule delays based on labor shortages, but we are having trouble finding qualified field construction managers. The market is so lucrative that most construction managers are 'project-hopping' for top compensation. We pride ourselves on keeping our construction managers satisfied and creating an environment where they want to come to work.

We also promote within our company and train new employees to become better, rather than try to source personnel from the open market. We have carried our trade partners in the subcontractor market from project to project, creating a relationship that has lasted for years and continues to grow.

We have personal relationships that have enhanced our sub-contractor pool. We give them the respect they deserve and create job site events that have made them feel welcome and appreciated for their work. I know we are fortunate, and I see in the market that many companies are suffering with skilled trades and labor.

Hoover: Choate works hard to ensure that all our partners experience success on our projects. Choate teams are constantly on the lookout for subcontractors who may be struggling to provide adequate manpower at all times.

Choate understands that the uncertainty created by the supply chain issues and subsequent delays can lead to stacking of activities that, during better times, may not have been required to be performed concurrently.

When a subcontractor appears to be falling behind due to a lack of manpower, Choate reviews all current projects for the subcontractor in question and helps prioritize which projects receive the over-allocated resources. We work with the subcontractor partner to ensure our demands are reasonable and appropriate. Whenever necessary, Choate acts swiftly to provide supplemental labor and works with the subcontractor to minimize any detrimental effect to the subcontractor's financial situation.

Hoppa: The subcontractor labor shortage is resulting in smaller trade crews on our projects. This is leading to longer project durations than we've experienced in the past. It forces us to be more thoughtful on the construction timelines to complete our projects. There's been more emphasis on overall timeline and sequencing during the pre-construction phase to mitigate labor challenges.

Padgett: We have not experienced scheduling delays due to a lack of workforce. As a general contractor, we have found that maintaining good relationships with experienced subcontractors has kept our projects moving.

SMAHB: Are you still experiencing an increase in the cost of building materials? If so, are there any materials that are particularly costly?

Callaghan: As we all know, costs have skyrocketed. Lumber on the futures market is hovering around the one-year low, and pricing is seemingly starting to reflect this downturn. We can only hope that this continues into the fourth quarter. Despite the slight downward trend in lumber prices, the cost of most materials is still on the upswing.

Drywall, insulation, all petroleum products, HVAC equipment and electrical wiring have seen increases up to 30 percent over the past year. More importantly, lead times are really driving the project. Ductile iron pipe in most markets has a 54-week lead time; some markets have concrete restrictions; and meter centers for electrical services are facing 60-week lead times, to name just a few challenges.

Hoppa: We are still experiencing material price increases. While lumber has started to level out, virtually every other multifamily construction material is still increasing at a pace of approximately 2 percent each month.

Macon: Yes, there still is an increase in building material costs, but costs are not as high as they were from 2021 to 2022. We are experiencing a 5 to 8 percent [year-over-year] increase on building materials currently.

Multifamily projects break down into the building material categories of wood-frame and concrete and metal studs. Wood-frame, multiple-story multifamily projects experienced increases in material costs in 2021 when lumber prices increased. Those projects are now ramping back up because lumber pricing has dropped. Now, concrete and metal-stud type projects are impacted by increased material costs, causing us to mitigate project schedule impacts.

Additionally, each state has its own set of pricing challenges based on the materials they use to build structures. In Atlanta, structures are built with concrete, which is experiencing increased costs as the cement that goes into the ready mix is not sourced locally. Charlotte and Raleigh use steel for their buildings, and those cities are experiencing supply chain storages for this material due to increased demand and a limited subcontractor pool that sources the material.

Padgett: Material pricing will always rise. That's nothing new. What is new in the past two years is the rate of cost increases due to supply chain shortages. More often than not, there have been unanticipated increases.

We try to use larger subcontractors with buying power to control increases better. But in the past two years, many of the manufacturers that we all deal with have issued price increases with no warning at all, and often they don't even recognize the pricing they provided even a day prior to that announcement.

Some pricing on materials seems to be leveling out, and lumber has dropped back down but can still be volatile because it is market-driven pricing.

Summit Contracting Group built the 300-unit Novo Kendall Town in Jacksonville, Fla. The company says the project is a good example of the garden-style, wood-frame builds that are popular in suburban markets of the Southeast.

SMAHB: Do you anticipate revenues and the total number of projects to be higher by year's end than they were at the close of 2021?

Callaghan: Surprisingly enough, we are still seeing construction at an all-time high for the number of projects. For obvious reasons, the total revenue is proportional. Developers are still contacting us to look at future projects. Based on our quarterly updates and our forecast for year-end 2022, we are tracking ahead of our projected revenue totals for this year. We have one of our largest project backlog lists for next year, provided all the projects come to fruition.

Hoover: Our current backlog indicates that the market volume is holding for 2023.

Hoppa: We anticipate our business to be similar in terms of revenue and number of active projects through 2023.

Macon: Balfour Beatty has a strong pipeline of projects that supports our business's bottom line. In the Southeast, the revenues and number of projects with new and repeat clients have increased from 2021.

Padgett: Yes, the number of projects delivered and revenue for 2022 will be higher than last year. We strategically plan for growth each year, and our project volume will continue a steady trajectory as the market maintains this level of demand. Summit started construction on 10,000 units in 2021, and in 2022 that number will likely exceed 14,000 units.

SMAHB: How can developers save on costs without compromising quality?

Callaghan: Working with the general contractor and the entire design team from the early onset of the project is the best way to control costs and ensure that the quality is accurately represented.

It is best to engage the entire team early and work through the design expectations rather than wonder if the scope is affordable when the project goes out for bid.

Building efficiency is sometimes overlooked and should be compared to the net square footages that are represented in the current market. Increasing the building efficiency can add great value to the project and should be incorporated into the overall building design.

Hoover: Move quickly. Protracted value engineering efforts can often be counteracted by continuously increasing prices.

Hoppa: The best advice I have for developers to save on costs without compromising on quality is to have their construction documents completed with the specific materials and finishes they want on the first version.

The length of time that the value engineering process takes is negating the cost savings since material prices are rising so quickly.

If it takes six weeks to value engineer a project to save 2 percent on overall project cost, but material prices have gone up 3 percent during the same period, it's difficult for the developer to save on overall construction costs.

Choate Construction Co. built Midtown Villages in Gainesville, Ga. The affordable-housing project was a redevelopment of 200 units led by the Gainesville Housing Authority (GHA) and Collaborative Housing Solutions.

Padgett: I point to planning and partnerships. The biggest savings come from partnerships with the entire project team, and especially the architect and general contractor. Plan each detail with your general contractor and architect to create the most efficient design and to source quality materials at the best pricing. Work with an established general contractor with buying power, a reliable base of subcontractors and a steady track record of success.

Macon: At Balfour Beatty, one of the most effective best practices is aligning with our clients and partners early in the design phase. Our preconstruction and operations teams seek to understand owners' unique goals or circumstances driving project completion dates. Based on their desired outcomes, we provide detailed and accurate cost-escalation projections to guide and empower project decision-making.

By engaging design partners before we bid out projects, our teams also ensure that trade partners base their estimates upon the most complete drawings, thereby reducing — or in many instances eliminating — the cost impacts of design modifications during construction.

Utilizing this process early in the construction process allows our preconstruction teams to add value to the design process through active and ongoing collaboration with owners, architects, designers and trade partners across the country.

SMAHB: How is the Southeast unique from a construction/building perspective?

Callaghan: Our home base in Myrtle Beach, South Carolina, is a unique location because we are within driving distance of a vast array of markets. Charlotte, Raleigh, Charleston, Columbia and Greenville are all special in their own way and have varied costs of construction.

This allows us as a company to pursue many projects and be well versed in entitlement and construction phases of projects. The same project would have very different costs associated with it based on the municipality issuing the permit.

For example, Charleston, South Carolina, has a very in-depth design review board with special requirements, and the review process could take months. Most general contractors shy away from this as the costs are just not feasible for a typical LIHTC project.

Other coastal communities have tree ordinances that basically trump all buildings. You typically have to design the site around the trees or pay hundreds of thousands of dollars for tree mitigation.

Most would think that in the suburbs of Charlotte, permitting and entitlement would be simplified. However, this county has adopted its own ordinances that impact the development of projects. County officials are very protective of their fire codes, landscaping and inspections.

Hoppa: With a fixed subcontractor pool, we find that constructing multifamily residences throughout the Southeast is fairly consistent from city to city.

Macon: Each region has its unique building perspectives when constructing apartments. Based on location, general contractors may experience higher construction costs because the cost of living is higher in that area. With more relocations to growing, economically developed areas of the United States, firms will also experience increased construction costs to meet the residential demand.

Since there is an increase in multifamily construction demand, zoning, permitting and entitlement challenges also rise. There has been more pushback on apartment development in communities, and developers are having to adjust their building plans to incorporate components such as affordable housing and shared retail, office and co-working spaces.

MARC PADGETT
Summit Contracting Group Inc.

Padgett: We build wood-frame, stick-build construction in the Southeast. Current market conditions favor more suburban builds. A five-story over two podium and similar downtown urban products can be significantly higher in cost to build due to material costs and location. That cost combined with higher interest rates is pushing more development of three- and four-story garden product.

SMAHB: How does your company leverage technology to its advantage and to the advantage of your clients?

Callaghan: This is probably one of the greatest advances in the construction industry. Most of us are cutting man-hours by implementing technology. At Progress Carolina, it seems every six months we implement new software to streamline our process.

Our project management department has multiple new software products that assist with pay applications, and RFI (request for information) tracking.

Our field staff has implemented Autodesk Build for daily reporting with picture logs, safety meeting documentation, storage of building plans and contracts, just to name a few.

Within the office, we are also implementing remote workers who report directly to an individual office member. This has been successful as work productivity is up and office space has been reduced, ultimately saving money.

Hoover: Choate Construction Co. remains a leader in virtual design and construction tools. We leverage digital tools every day to ascertain and resolve constructability and design issues.

Macon: An innovative tool our teams are leveraging is OpenSpace for progress tracking that detects changes from one capture to the next for framing and drywall work. The tool also features photo documentation that saves project teams valuable time and money by preventing or minimizing unnecessary work.

If an issue does arise during project delivery, teams can resolve the situation faster, potentially avoiding an expensive and time-consuming demolition to stay on track with project schedule and budget.

Balfour Beatty has also partnered with Beck Technology to implement and further advance the use of the industry-leading estimating technology, DESTINI Estimator, to compare current costs on Balfour Beatty bids throughout diverse market sectors and geographies in the United States. This technology provides our preconstruction teams with an estimate using high-level project data such as total building square footage or elevations from schematic plans.

SMAHB: How has the pandemic changed the type of buildings you're constructing?

Callaghan: In relation to the LIHTC projects, we really haven't seen any significant changes. Typically, the unit sizes are governed by the QAP (quality assurance plan). Some projects have seen the addition of more outdoor amenities with gathering spaces for the residents, but nothing like the changes occurring in the market-rate sector.

Market-rate apartment complexes have seen a reduction in unit sizes with the implementation of a den or small office spaces in certain markets. Some projects are also creating outdoor gathering spaces where residents can work without the confines of being in a smaller indoor space.

I am also seeing the internet capacity being upgraded to allow for video conferences, as many people are working remotely more often. All of this is directly driven by the market and geographical location. Urban infill markets are seeing growing demand for affordability with specific workspaces.

Macon: Amid the COVID-19 pandemic, larger apartment units were being built as many tenants were moving to the suburbs and desiring a true work-from-home room [environment] versus working from their bedroom.

Now, return-to-office plans are in place, and developers are building apartments closer to areas such as Midtown, Atlanta, where many offices are located to provide a solution for shorter commutes. With apartment complexes closer to offices, the units are becoming smaller but providing more amenities, like flexible co-working spaces.

Additionally, many baby boomers are retiring and/or becoming empty nesters, making downsizing and renting an affordable option for this generation. Build-to-rent (BTR) is a big trend targeting baby boomers who want to downsize from a home that they bought 10 to 15 years ago to a multifamily property. The industry is also seeing more subdivisions with rental housing for this generation.

SMAHB: Is the cost of insurance going up, and is this a big challenge for your firm?

Callaghan: There have been significant rate increases the past several years. However, and without diving into the specifics of each type of coverage, insurance premiums appear to be stabilizing. One ongoing challenge with regard to property insurance coverage is the use of wood-framed product in the coastal market. Insurance companies have seen above-average claims in that market and reacted accordingly to reduce their liability.

Hoppa: We are experiencing rising insurance costs, particularly with builder's risk coverage. (Builder's risk insurance covers property on construction sites when it's damaged or destroyed by fire, vandalism or other unexpected events.) Some insurance companies have pulled out of the builder's risk market, so we need to think about this early on during pre-construction to ensure that there's a path to cover the project.

SMAHB: Is green building still a priority, or have you found that goal becoming less prevalent in the face of today's challenges?

Callaghan: Green building and energy efficiency are quickly gaining traction in all markets, especially because a majority of states, municipalities and housing agencies are implementing new energy standards.

Now, with climate change at the forefront, new energy codes are being implemented in many states, and it is becoming more common to implement these standards on many projects.

For example, developers in the LIHTC program that select EarthCraft, a green building certification for energy compliance, will earn more points, thus increasing their chances of being awarded the project.

Ultimately, green building, LEED and net zero [initiatives] are driven by the market and the geographical locations where the area can financially support these energy-efficient and sustainable programs. In the suburban markets these programs can be financially challenging for some developers, but they still provide a great benefit to energy efficiency.

Macon: Green building is still a priority and standard for multifamily projects as tenants want to live sustainability. National Green Building Standards (NGBS) and WELL Building Standards are popular building sustainability and health and wellbeing certifications for multifamily projects.

SMAHB: Please provide us with a sample project that you feel is exemplary for your firm.

Callaghan: One of our projects that stands out is The Belmont in Florence, South Carolina. We built this project, and the developer was Schaumber Development. The project consisted of a mix of two- and three-bedroom units totaling 40 units.

Although the project was on the smaller side, it was representative of many of our company practices. Since Florence, South Carolina, was in need of affordable housing within the city limits, our developer went to work and acquired an urban in-fill parcel of approximately 2.2 acres.

BRETT CALLAGHAN
Progress Carolina

This was going to be a challenge as we entitled the site, so we tried to maximize the number of units and implement the required parking. Since the parcel was already mostly concrete and asphalt, the pre- and post-drainage calculations allowed us to design the project with no stormwater retention pond, saving vast amounts of land necessary for the parking requirements.

Since we were confined to a smaller site, we struggled finding the necessary space for mechanical equipment. Our architectural team was able to design a building in which condensers were roof-mounted on the third story flat roof. Without these valuable land savings, we would have never been able to achieve the necessary parking requirements for the project.

The project is located on a bus route, which made it very accessible for the residents to utilize public transportation. We were concerned about outdoor space for the residents, and we felt that designing an outdoor plaza area for the residents with a fountain was an added amenity that still promoted social gathering even though it was completed during the COVID-19 pandemic.

The project management team and field staff were able to secure most of the materials for the project early, which was stored on site allowing them to successfully complete the project two months ahead of the scheduled delivery date.

Hoover: One example is Midtown Villages in Gainesville, Georgia. It was a redevelopment project led by the Gainesville Housing Authority (GHA) and Collaborative Housing Solutions. They completed a substantial rehabilitation of 200 former public housing units in Gainesville.

The units are located on six sites within one mile of each other, ranging from six to 114 units on each site. All 200 units were converted to Section 8 project-based rental assistance through the HUD Rental Assistance Demonstration program (RAD). The properties used 4 percent LIHTCs, tax-exempt bonds and subordinate financing to transform the properties.

JOHN HOOVER
Choate Construction Co.

The $44.5 million redevelopment provides residents with significant physical upgrades, including central air conditioning for the first time and green-building features that have improved their physical health.

Some of our major challenges were working during the COVID-19 pandemic and all the curve balls that came during that time from labor shortages to supply chain challenges. Renovating occupied units was another challenge. In addition, we had an aggressive schedule, turning 66 units every 30 days, based upon the needs of the funding stakeholders.

A new community building was built which serves as the hub for on-site services that include tutoring, counseling, summer programs, mentoring, mothers' and children's reading programs, parenting programs, life skills training, senior programs and health services.

Hoppa: The Enzo is a 265-unit luxury apartment development in Buford, Georgia, developed by TPA Residential. The community incorporates two four- and five-story wood frame apartment buildings with an exterior of siding and brick. The amenity-rich development features a workout room, outdoor pool, grilling area, gazebo and lounge. The Enzo also includes a precast parking deck. Units feature granite countertops throughout, tile backsplashes and private balconies.

SCOTT HOPPA
McShane Construction Co.

As we commenced site work, rock was encountered underneath the surface. Rather than a costly haul-off, we were able to reuse the material throughout the site as base underneath the building slabs. Having the excess rock onsite also helped us avoid mud during the winter months. Overall, the project was completed on time.

Padgett: Novo Kendall Town is an example of our garden-style, wood-frame builds in suburban markets of the Southeast. This type of build is the most popular right now due to more favorable conditions for development in many suburban cities, with fewer regulations. We are also able to meet budget requirements with this build type, while still delivering a Class A product.

Novo Kendall Town is a 300-unit, garden-style apartment community, located in the heart of Jacksonville, Florida, on Kendall Town Road near I-295 and Monument Road in the East Arlington neighborhood. Residents will enjoy close proximity to the Jacksonville Arboretum and a central location in Jacksonville. Shelton McNally Real Estate Partners was the developer, and Group 4 Design Architectural Services was the architect. Construction was completed in August 2022. ●

Package Management Systems: What's Best for Your Communities?

Multifamily properties are receiving higher volumes of packages than ever before. There are a variety of resources available to owners and property managers to mitigate this need, including package rooms, locker systems and third-party outsourcing.

Channing Hamilton

Americans rely on online shopping now more than ever. Consumers' online shopping behaviors have led to a notable increase in the volume of package deliveries over the past few years, as some buying habits and preferences established during the pandemic remain firmly in place.

"People got used to ordering things online during the pandemic," says Jessica Reznik, senior director of procurement at Greystar Real Estate Partners, which is based out of Charleston, South Carolina. "And they've stuck with doing that."

An April 2022 poll from Pitney Bowes, a technology company based in Stamford, Connecticut, which offers mailing and shipping services and global e-commerce logistics, found 23 percent of U.S. shoppers felt they were shopping online more than they did earlier in the year and around 37 percent of all purchases made were online.

"Package deliveries are increasing in volume every year," says Reznik. "Even before the pandemic, deliveries were increasing year-over-year already, by about 15 to 20 percent. During the pandemic, that number went up over 30 percent."

Billions of packages a year, in fact.

Package Demand by the Numbers

According to data from Pitney Bowes, 55 million packages were delivered every day in 2020. On average, each person in the United States received 61 packages in 2020, an increase from 45 packages in 2019. Parcel volume grew 33 percent year-over-year in 2020, reaching 20 billion packages delivered, compared with 15 billion packages delivered in 2019. This number continued to grow into 2021, when parcel volume grew by 6 percent and reached a record high of 21.5 billion.

In 2021, the United States Postal Service shipped 6.9 billion packages, UPS shipped 5.3 billion packages, and FedEx shipped 4.2 billion packages. Amazon generated 8.4 billion parcels in 2021, of which 57 percent were delivered by Amazon Logistics and 43 percent were passed to carriers for last-mile delivery.

Maple Street Lofts is a Class A luxury community located in Mount Prospect, Ill. Wingspan Development Group began preleasing the community in April 2021. Studio 222 Architects designed the property. Amenities include a business center, lounge, pool, fitness center and package room.

The cultural change surrounding package delivery happened rapidly, with the rise of e-commerce companies such as Amazon, eBay and Etsy over the past decade. Knoxville, Tennessee-based logistics company Red Stag Fulfillment reported that in 2010, less than 5 percent of retail sales were conducted online. By 2020, that number had more than tripled to 18 percent. In 2010, the amount of retail purchases made online in the U.S. totaled \$165.4 billion. In 2020, it was \$861.1 billion.

DIANA PITTRO
RMK Management

"Ten years ago, you could have a package room that was about five by six feet — half the size of a normal office — because most of your packages were smaller in size," says Diana Pittro, executive vice president at RMK Management. "Maybe people belonged to a book club. No one had food and groceries delivered. That was unheard of. Tenants have changed their lifestyle habits."

Tim Kramer, director of operations at property and investment management company Draper and Kramer Inc. states that the number of packages a typical multifamily building receives in a day can be expected to be about 20 percent of the unit count.

"So, a 120-unit property should plan on seeing about 24 packages per day," Kramer explains. "A 300-unit property could expect to average about 60 packages per day. That number will of course be higher during the holiday season."

With so many tenants shopping online, multifamily communities can quickly become overwhelmed without a system in place. Luckily, property managers can streamline deliveries with lockers and package rooms to free up staff and avoid inconveniences to residents

Option One: Package Lockers

Package locker systems are one of the most widely used package management solutions in the multifamily industry. In 2019, the National Multifamily Housing Council (NMHC) reported in its "Package Delivery Survey" that 57 percent of multifamily property managers rated package lockers such as Luxer One and Amazon Hub as the best method for handling resident packages.

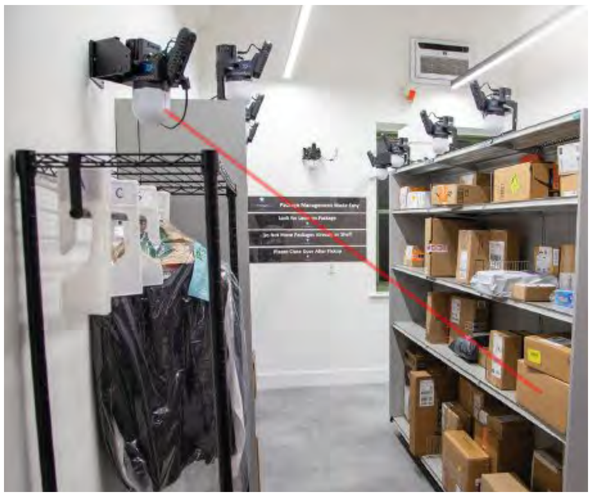
Package lockers are generally located in a community's common area. A carrier such as UPS or Amazon will bring packages to the package locker and use a scan-in function to open the locker and place the package inside. Residents then receive a notification of their package's arrival and a secure access code. Using this access code, they can retrieve their package.

Package lockers are contactless and offer a secure place for packages to be kept until residents can retrieve them, and the one-time code prevents package theft and ensures deliveries. Locker systems save time for property staff, who would otherwise be occupied with logging and organizing packages, securely storing packages and notifying residents.

"When the office accepts packages, it takes up a lot of work hours," says Dave Dexter, vice president of multifamily sales at Luxer One. "The carrier comes in; the leasing agent takes the package and logs it in; the resident is no-

The Smart Package Room

Multifamily Housing’s Next Must-Have Amenity



Amazon ships approximately 1.6 million packages daily, which equals more than 66 thousand orders per hour or 18.5 orders per second. The enormous increase in package delivery creates significant challenges for multifamily residents and property managers because securing and storing packages of all types and sizes, such as bikes, grocery, dry cleaning, mattresses, and more, adds to the staff’s time and responsibilities..

According to a Swiftlane survey, 20% of residents aren’t happy with how their property handles packages, and 84% of residents would like secure, self-serve, 24/7 package access. Many property managers are exploring package management solutions to improve residents’ satisfaction and reduce the time staff devote to package management. One solution that provides 24/7 access and a secured room is Position Imaging’s Smart Package Room.

The Smart Package Room®

More multifamily property owners are turning to the latest innovative technology to handle package management and away from legacy locker systems that can’t scale. Property managers, residents, and couriers are raving about the convenience and time-saving features of Position Imaging’s Smart Package Room, which automates package delivery and reduces the processing time to 10 seconds.

With the Smart Package Room, couriers simply scan each package to unlock the room and place the item on a shelf. Once the courier enters the room, computer vision technology virtually tags and monitors the location of each package, essentially keeping eyes on the packages 24/7 until the resident picks them up. To retrieve a package, residents receive a QR code via text or email to scan at the intelligent kiosk, which shows the package location in the room using laser, light, and audio guidance. If residents enter the package room and pick up the wrong package, then an audio alarm alerts and a red laser notifies the resident they picked up the wrong package.

Smart Package Room Benefits

For property managers everywhere, Position Imaging’s Smart Package Room has become the clear choice for ensuring simple, secure package pickup and delivery because of the solution’s ability to:

- Value added Amenity Using Laser & Audio Guidance
- Scalable, Maximize Capacity
- Agnostic Package Size & Type
- Easier & Faster Package Pickup
- Better Courier Adoption
- Provides 24/7 Access & Security

“I just flash my phone, and the Smart Package Room’s lights tell me where to go inside the room. I can go any time of day, 24/7, at 5 a.m. or 10 p.m., and it doesn’t matter; it’s super easy.”

Kelly Forrister - resident at Country Club Towers.

Once Installed, Property Owners and Residents Can’t Live Without the Smart Package Room

Constructed in 2017, Country Club Towers contains 558 units with 850 residents. Once the buildings reached 100% occupancy, they received 520 packages per day. About 400 to 500 boxes would be tossed on the floor by the courier, and it took the concierge team three to four hours to manage them all.

“The back hallway was the overflow for packages. Anything that did not fit into our former package system would overflow into the hallway, creating a mess with people walking into items– it was not a secure location,” said Dane Groteluschen, Concierge, Country Club Towers. “Things will get misplaced, and it would be tough to find the package. Smart Package Room was step-by-step and explanatory. It made storing packages twice as easy. Now you can scan a package, place it on the shelf, and the system registers it.”

“In my experience, picking up packages is easy. I don’t have to bother the front desk because they’re so busy,” said Kelly Forrister, resident at Country Club Towers.

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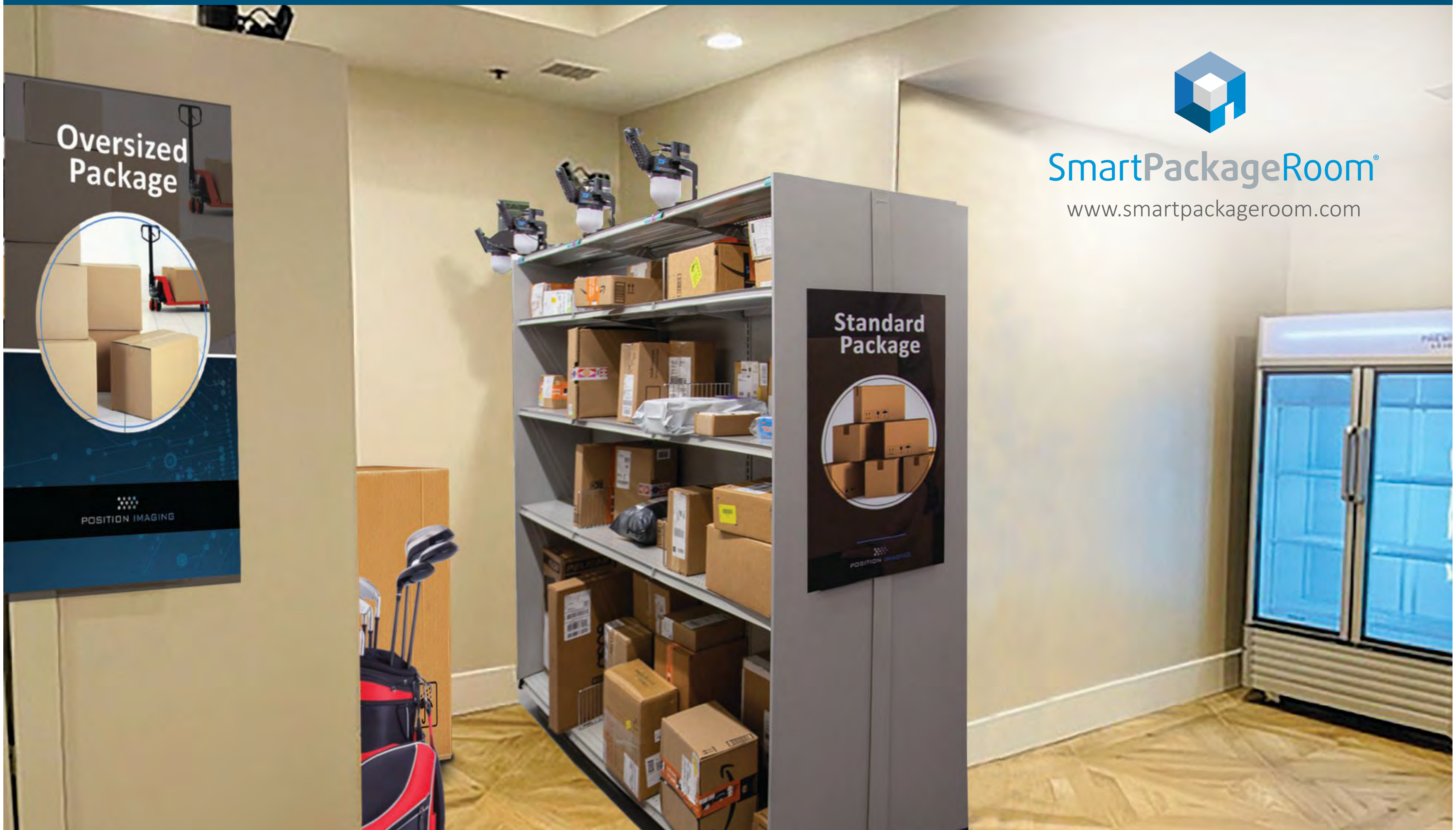

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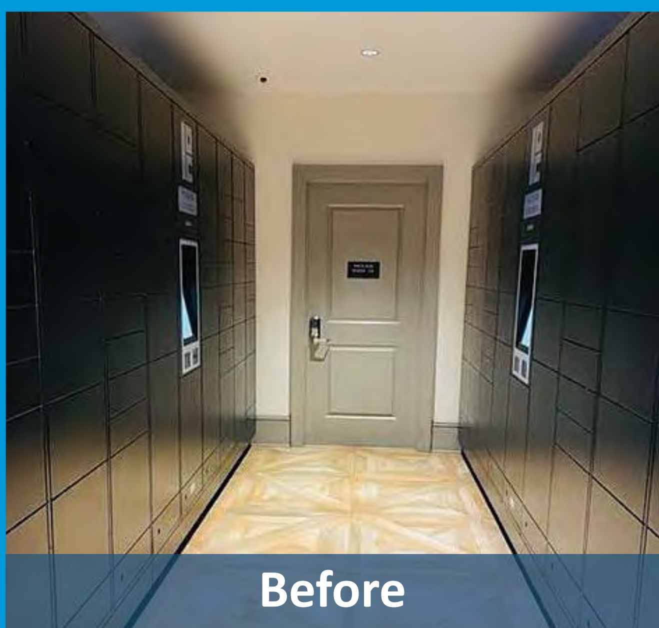
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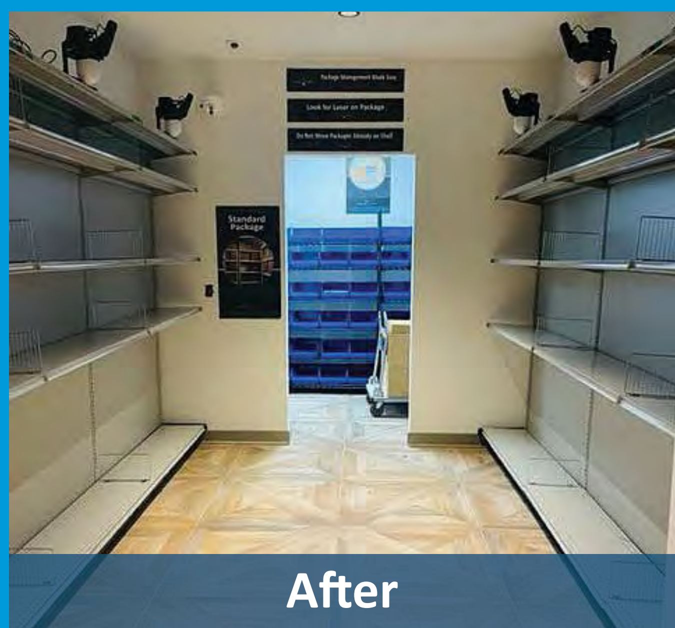

After

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tified that their package has arrived; the resident comes to the office (which is hopefully still open); and the resident receives the package. That's a lot of work, and a lot of liability.

DAVE DEXTER
Luxer One

"When you have an effective in-house package management solution, leasing agents spend less time on packages, and more time managing the property, giving tours and planning and executing marketing strategies," Dexter concludes.

However, package lockers can be an expensive investment, both in terms of money and in terms of space. Pittro also points out that, while technology allows for better efficiency and security, it cannot wholly remove the factor of human error.

"If I have a courier who's running late at seven o'clock at night, they are not going to take the 15 seconds it takes per package to put them in a locker or make sure they're in the room," says Pittro. "More likely, the courier will bring them to the building, hit the code and drop them outside the door of the room."

GEORGIA MALONE
Wingspan

Additionally, many locker systems now include refrigerated units for food and grocery deliveries. "A lot of packaged rooms do come equipped with a refrigeration portion. And, of course, any perishable items would be delivered to those areas," says Georgia Malone, property manager for Wingspan's Maple Street Lofts in Mount Prospect, Illinois. "Residents typically know when they have received a perishable item, and they will come pick it up promptly. Carriers can also mark certain packages as perishable, so the resident would get a notification specifying that there has been a perishable item delivered to them. Perishable items account for a small percentage of total deliveries received in package rooms."

Option Two: Smart Package Rooms

Like package lockers, smart package rooms are a contactless package management system that relieves property staff of the time and energy involved with dealing with packages.

With a smart package room, carriers will use a scan-in technology to enter and leave packages inside a secure, locked room within the community. Residents receive a notification regarding their package's arrival and a secure access code, which they can use to enter the mail room and pick up their package at their convenience.

NED HILL
Position Imaging

Ned Hill, CEO of Position Imaging, notes that a major advantage many package rooms have over locker systems is the former's ability to accommodate packages of more varying sizes and shapes. "One of the big pain points in the industry right now is how to handle not only the volume of packages, but the larger sizes. People aren't just ordering more often; they're ordering a wider variety of items. And some of those items are big, such as furniture or appliances," Hill explains. "That's the sort of thing that having a package room can be really helpful for."

Smart package rooms also come with many of the same drawbacks as package locker systems. Even with security measures such as cameras and access codes, the factor of human error remains. Ultimately, residents can still accidentally take, or steal, packages that do not belong to them.

In addition, the investment can be an expensive one. The exact cost of fitting a space with a package locker or a smart package room varies across companies and properties, but Pittro estimates that it can run "at least $50,000 just to outfit them because you need to have cameras, you need to have shelving, you need to have the software, and besides the cost of the install, you have to pay a monthly fee."

However, due to their simplicity, package rooms are often less expensive than lockers. "If you buy the lockers, it can be even more expensive, because now you're adding another element to that room," explains Pittro. "So they are not a cheap room to build or retrofit."

Option Three: Outsource Package Management

Some properties have chosen to address the problem by forgoing in-house package management systems entirely. Instead, they are outsourcing their package management through third-party direct-to-door delivery companies.

For instance, Draper and Kramer Inc. works with Fetch Package Inc., a company that provides direct-to-door delivery to multifamily communities. The goal of Fetch and other similar third-party package delivery companies is to allow properties to eliminate the need to devote time and staff to package management entirely.

With Fetch, residents have their packages delivered to a Fetch warehouse rather than their home address. When the package arrives at the Fetch facility, residents can then schedule the delivery of their packages to their doors for a two-hour window of their choosing.

"The volume of packages has become difficult for our staff to manage, especially at larger properties," says Kramer. "And it can become

Provenza at Windhaven is a 324-unit, Class A community located in Lewisville, Texas. The property is owned by Momentum Real Estate Partners and is managed by Allied Orion Group. Provenza at Windhaven offers one-, two- and three-bedroom floor plans as well as amenities such as a swimming pool, fitness center and lounge. Provenza at Windhaven uses an Amazon Hub smart locker system. (Photo credit: Provenza at Windhaven)

TIM KRAMER
Draper and Kramer

a point of dissatisfaction for our residents because if they need to wait for packages to be scanned in at the building, or for somebody to go into the receiving room and get the package, that can be very inconvenient."

Outsourcing package management certainly frees up property staff to focus on community management and leasing, as well as offering residents the advantage of having packages delivered directly to their doors, but there are drawbacks.

For starters, outsourcing package management can cost residents both in time and money, with extra monthly fees and potential slower deliveries due to packages being initially delivered to a warehouse, rather than the property or resident. Additionally, in many cases, when residents accidentally use their home address rather than the Fetch warehouse address, the package gets returned. When issues such as this arise, community staff may not be able to assist residents, since they have little to no insight into deliveries.

"Every building has a different kind of demographic — seniors don't shop online as often as young people do, for instance— and I'm very careful not to roll out something that someone really doesn't need," says Pittro. "But there are a lot of resources out there, more and more so as package management systems continue to evolve. There are so many different kinds of products that we can use to make sure our properties are able to keep track of the volume of packages they receive and residents receive them on time." ●

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Rising Interest Rates, Economic Headwinds Test Affordable Housing Industry

From a loss in affordable units to a widening financing gap, developers and LIHTC investors face increasing difficulties. Meanwhile, the need for low-income housing keeps growing.

Joe Gose

Supply chain shortages and delays, a lack of labor and rising construction costs have pestered commercial real estate developers and investors ever since the world locked down in early 2020. Not only do those difficulties persist, but rising interest rates also are providing yet another challenge. A recession is certain to add more adversity.

The environment has been especially hard on the affordable housing space. Higher interest rates mean less proceeds for development and permanent loans. In conjunction with a decline in low-income housing tax credit (LIHTC) prices over the past several months, which is curbing equity proceeds, the financing gap common in such deals is growing larger.

At the same time, proposed changes to the Community Reinvestment Act (CRA), which incentivizes banks to purchase the tax credits, may ultimately shrink LIHTC demand (see sidebar).

These events are happening at a time when the need for affordable housing continues to outstrip supply by a sizable margin. From 2015 through 2020, the United States lost 4.7 million apartment units with rents less than $1,000 per month, according to a report by the National Multifamily Housing Council and National Apartment Association titled, "U.S. Apartment Demand Through 2035."

Additionally, tens of thousands of units are coming to the end of their mandatory affordability compliance period, which could lead to a further erosion of affordable units.

DUDLEY BENOIT
Alliant Capital

"In times of stress and a downturn in the economy, folks need more affordable housing, not less," says Dudley Benoit, an executive vice president responsible for LIHTC production at Woodland Hills, California-based Alliant Capital.

"COVID-related eviction moratoriums have been expiring, and apartment rents, despite everything we're hearing about a recession, have increased significantly over the past year or so while wages haven't increased anywhere near the same rate. So, I'm seeing the strongest demand for affordable housing that I've ever seen in my career."

In late 2021, Alliant Capital provided $82 million in LIHTC funding for the renovation of the Lawson House, a former 24-story YMCA hotel that Holsten Real Estate Development intends to turn into 409 units of affordable housing. The $128 million project also received Federal Historic Tax Credit program financing and state and local funding.

Critical Initiative

Launched in the late 1980s, the LIHTC program is the largest source of federal assistance for affordable housing development. In a LIHTC deal, private investors like banks, life insurance companies and other organizations funnel equity to affordable housing developers by buying the housing tax credits. They then use the credits to offset taxable income over 10 years.

In turn, LIHTC-funded deals must provide housing to people earning 60 percent or less of area median income (AMI). There are two LIHTC categories: a 9 percent tax credit, which finances 70 percent of construction; and a 4 percent tax credit, which finances 30 percent of construction.

As of April, the housing tax credit program had financed more than 3.4 million affordable apartment units, according to the Office of Policy Development and Research within the U.S. Department of Housing and Urban Development (HUD). The properties must remain available to low-income residents for 15 years. In many states, that affordability requirement is then extended for another 15 years, or sometimes longer.

At the end of the first 15-year compliance period, new investors often use housing tax credits to recapitalize and rehabilitate the properties. The industry will soon discover to what extent investors will repeat the process after the second 15 years.

In 2021, Alliant Capital provided $82 million in LIHTC funding for the renovation of the Lawson House, a former 24-story YMCA hotel in Chicago. Developer Holsten Real Estate Development intends to turn the property into 409 units of affordable housing. The project also received Federal Historic Tax Credits and state and local financing.

That's because 94,000 affordable apartment units are scheduled to roll off their compliance periods in 2024, about 30 years after the LIHTC program first began to produce affordable units, says Jon Killough, an executive vice president in the Montgomery, Alabama, office of Bellwether Enterprise Real Estate Capital, a commercial mortgage banker.

In addition to providing a 40-year, $14.8 million loan to recapitalize and renovate a 47-year-old affordable housing project in Mobile, Alabama, late last year, Bellwether recently arranged a $14.1 million Fannie Mae loan for the development of Lawsons Ridge Apartments, a 228-unit affordable housing community in Spartanburg, South Carolina. The $42.4 million project is using $17.7 million in 4 percent LIHTC equity as well as $10.3 million in state tax credit equity.

"The LIHTC program produces about 150,000 units a year, and that's great," states Killough. "But new construction alone just can't meet the demand. So, I think we're going to have a heavy appetite for acquisition and rehabilitation deals."

JON KILLOUGH
Bellwether Enterprise Real Estate Capital

Preservation Obstacles

But will rehab-minded developers keep projects in the affordable program or move them into the market-rate pool? Owners of properties coming out of compliance may look at the significant growth in market-rate apartment rents over the past 30 years and take them out, remarks Paul Weissman, a senior managing director and head of affordable housing production in the Denver office of mortgage banking firm Lument.

As if high market-rate rents weren't enough to lure developers out of the housing tax credit program, California, Colorado, Washington and several other states are generally not issuing tax-exempt bonds for affordable housing preservation transactions, reveals Weissman. That's because state agencies are prioritizing funds for the creation of new units, he adds. Others, like Florida, are providing property tax relief to make staying in the program more appealing.

From a cost-benefit analysis perspective, acquiring and preserving affordable housing is about half as expensive as new development, Weissman points out, although it is highly variable from market to market. In one case, a developer in a relatively inexpensive market recently pegged the cost of new construction at $250,000 per unit and an acquisition and rehab at $150,000 per unit, he says.

PAUL WEISSMAN
Lument

"Without some form of subsidy or funds to incentivize developers coming out of compliance to maintain affordability, there's a real risk that a lot of those units could be lost," explains Weissman. "States and local governments have to seriously consider whether they're willing to accept that risk."

Deteriorating Investment Environment

Undertaking affordable housing development is a much more time-consuming process than preservation — akin to a "three- to four-year real estate program in college," suggests Killough. It typically takes 12 to 18 months to assemble land and apply for and receive an award of housing tax credits. It then takes another 12 to 18 months to build the property and an additional six to eight months to stabilize it.

Surrounding neighbors that fight the project or municipalities that throw up zoning and permitting obstacles, or that are slow to resolve them, can further complicate the process, he points out.

Bellwether Enterprise Real Estate Capital recently arranged a $14.1 million Fannie Mae loan for the development of Lawsons Ridge Apartments, a 228-unit affordable housing community in Spartanburg, S.C. The $42.4 million project also received $17.7 million in 4 percent LIHTC equity and $10.3 million in state tax credit equity.

Supply chain and labor shortages that cause delays, volatility in the cost of materials, and a rising cost of capital have created even more challenges. In some cases, developers are facing construction cost increases of nearly 20 percent if groundbreaking is pushed back beyond 30 or 60 days after receiving an initial price from a contractor, says Stephen Green, executive vice president and chief investment officer of NHP Foundation, a New York-based nonprofit developer of affordable housing for families and seniors.

"Because of the supply chain issues, contractors are realizing that they have to pay a premium to get product delivered on time," he notes. "Most have been able to manage through it, but it is definitely being priced into these increases."

While supply chain disruptions still present challenges, the Federal Reserve's efforts to harness inflation are pushing up interest rates and contributing to funding difficulties. Short-term construction loans are typically priced at 200 to 225 basis points over the 30-day Secured Overnight Financing Rate (SOFR), which soared to nearly 3 percent in late September from virtually zero at the beginning of the year.

Permanent mortgages have roughly doubled to around 6 percent as the benchmark U.S. 10-Year Treasury yield hovered around 3.8 percent in late September, an increase of about 220 basis points since early January. That has had a material constraint on the amount of proceeds available to borrowers, observers say.

On the bright side, HUD has increased median incomes for 99 percent of U.S. counties by an average of 10.5 percent, according to Novogradac, an accounting, valuation and consulting firm. That will allow affordable housing developers to raise rental rates, which will improve pro forma net operating income (NOI), says Weissman. "That helps a little," he adds, "but those rent increases are also offset by somewhat higher expenses."

Higher interest rates are also affecting certainty of execution in the sales of existing affordable housing projects, particularly because such deals take so long to complete, points out Christopher Scanlan, president of the LIHTC Group, an affordable and market-rate multifamily broker and consultant with offices in Illinois, Florida and California.

"There is still an appetite for acquisitions of affordable multifamily assets, but the biggest problem right now is how to model these deals," he explains. "They're not like market-rate transactions where you have 30 days to do inspections, 30 days to get the mortgage, and then 30 days to close. Affordable deals can take five months or more to close, and we just don't know where interest rates are going to be at that point."

CHRISTOPHER SCANLAN
LIHTC Group

Growing Gap

Raising debt isn't the only piece of the financing puzzle that has become harder to solve. The median LIHTC price has dropped from 92 cents in early 2020 to 89 cents, and most deals in June and July this year were priced between 85 cents and 90 cents, according to CohnReznick, an advisory, assurance and tax firm. Similar to the effect of higher interest rates on debt proceeds, lower LIHTC pricing limits the amount of equity a developer can raise.

Financing struggles are nothing new in the LIHTC space. Even in more certain economic times, affordable housing developers generally have a financing gap and often turn to local and state agencies as well as federal programs to help fill it. Today that gap is widening. But so far, the market is adapting.

Among other solutions, the Department of the Treasury in July made it easier for states and local governments to use American Rescue Plan Act of 2021 recovery funds to support LIHTC transactions, says Julie Sharp, an executive vice president who leads the tax credit equity platform for Carmel, Indiana-based Merchants Capital. "That has been a game-changer that will get many projects off the sidelines

REFORM OF COMMUNITY REINVESTMENT ACT CASTS UNCERTAIN LIGHT ON FUTURE OF LIHTC PROGRAM

After five years of working on a reform of the Community Reinvestment Act of 1977, banking regulators could finalize the new rules by the end of the year. Affordable housing advocates warn that the changes could severely curtail affordable housing development at a time when the need is surging.

The CRA was enacted to ensure that banks address the needs of all the communities they serve, especially low and moderate-income neighborhoods. Buying federal low-income housing tax credits (LIHTC) and funneling the proceeds to developers has been a primary way that banks have met that obligation.

LIHTC investments totaled $22.4 billion in 2021, and about $19 billion of that — or nearly 85 percent — came from banks motivated by the CRA, according to CohnReznick, an advisory, assurance and tax firm.

The goal of reform is partly aimed at better aligning banks with the needs of their communities. But the latest proposal, released earlier this year, could reduce bank investment in housing tax credits, according to the Affordable Housing Tax Credit Coalition (AHTCC), a Washington, D.C.-based LIHTC trade organization and advocate.

As it stands now, the CRA rates bank compliance on three tests — lending, services and investment in the community — with investment being the driver of housing tax credit purchases. The proposal would reduce the number of tests to two: a retail test that would include lending, and a lesser-weighted community development test, which would also include lending as well as investment and services.

Under the new test regime, banks would not need to rely so heavily on investing in housing tax credits to meet their CRA obligations, argues Emily Cadik, CEO of AHTCC. In a survey of 24 banks that represent $2.4 billion in annual LIHTC purchases conducted by her organization and other affordable housing groups, 42 percent of respondents said that eliminating a separate investment test would have a negative impact on their LIHTC appetite.

What's more, it would be extremely difficult for banks to earn an "outstanding" CRA rating, Cadik adds, which would also diminish the incentive structure.

"Once the final rules come out, I expect that banks will figure out how all the different pieces affect them, the rating that they're striving for, and how they're going to achieve that rating," she declares. "We could start seeing some real changes in behavior."

Ultimately, dampening the incentive to buy housing tax credits could lead to a pricing imbalance and render many affordable housing projects unfeasible, especially with interest rates rising, predicts Julie Sharp, leader of the tax credit equity platform for Carmel, Indiana-based Merchants Capital.

Still, the proposed changes could level out LIHTC pricing between areas with high and low CRA demand — that is, areas where big banks have a large presence versus where they don't. In 2020 and 2021, properties with the least CRA demand typically received about 20 percent less equity for the same amount of housing tax credits as properties with the highest CRA demand, CohnReznick reports.

"Everyone generally believes that the physical footprint of a bank is fairly outdated with the rise of online banking, so smoothing out some of these artificial CRA hotspots and deserts would be a positive," says Cadik. "But that is secondary to the much bigger impact on affordable housing investments that the other changes could have."

— Joe Gose

and back on track to closing," she points out.

In other cases, developers may defer some of their fees or rein in construction costs through value engineering, adds Weissman. "I haven't seen a lot of situations where deals just die," he reports. "They typically stall as it takes more time for developers to work with local jurisdictions and states to cover those gaps."

Credit Glut

Several catalysts are behind the drop in LIHTC pricing. After holding the federal funds rate at around zero during the pandemic, the Fed began hiking the rate in March and through late September had raised it five times to 3.25 percent. That has increased the cost of capital for banks, which purchase the lion's share of tax credits as part of their (CRA) obligations, say observers.

Additionally, an influx of tax credits in general have hit the market, creating competition. A late 2020 law that converted the 4 percent tax credit to a fixed rate from a floating rate is partly responsible. That alone created a few billion dollars of excess credits in 2021, states Sharp.

JULIE SHARP
Merchants Capital

The Inflation Reduction Act could also influence the LIHTC demand and supply equation, she asserts. But it's not yet clear whether it will be a benefit or detriment to affordable housing. On one hand, the law instituted a minimum corporate tax of 15 percent, which could drive housing tax credit purchases to offset the liability. On the other, it introduced numerous energy tax credits that may be more appealing to investors to the detriment of housing tax credits.

Sharp thinks the LIHTC program will overcome the myriad challenges it currently faces.

"We are optimistic that the housing credit will continue to be an attractive investment option for banks that need to meet their CRA requirements," says Sharp. "The credits also remain attractive for insurance companies and large corporations that are looking to be more involved in ESG (environment, sustainability and governance) initiatives, and to invest in safe, long-term and predictable asset classes." ●

What Do Residents Want From Their Mailroom?

Today's apartment renters receive packages containing everything from golf clubs to live animals. The onus is on apartment owners and managers to make these deliveries secure and easy.

Rick Haughey

Prior to the pandemic, home delivery for many households was a luxury, reserved for times when residents needed a unique product, were seriously short on time or had some extra money to spend on the convenience. However, a major side effect of COVID-era lockdowns was a democratization of deliveries, both in terms of which items were deemed deliverable, as well as the variety of households ordering online and receiving deliveries.

Deliveries have moved beyond books and clothing to include everything from household goods and groceries to restaurant-prepared meals and beyond. Despite the abatement of the pandemic and its restrictions, many have yet to return to their pre-pandemic shopping ways.

Consumers have permanently incorporated delivery services into their everyday lives, placing a significant value on the convenience and time-saving nature of services such as same- and next-day deliveries, as well as grocery and meal deliveries.

Additionally, supply-chain shortages continue to disrupt product availability, forcing people to order items that they cannot find locally.

For apartment communities, this influx of deliveries poses operational challenges as on-site teams need to manage, track, safeguard and ultimately ensure residents receive the packages delivered. But how to most efficiently manage that process remains a question.

The 2022 National Multifamily Housing Council/Grace Hill Renter Preferences Survey Report, a comprehensive survey of nearly a quarter of a million renters, offers some data and insights on apartment residents' delivery habits and expectations.

RICK HAUGHEY
NMHC

Big takeaways include an uptick in deliveries of everyday goods, as well as an expanding array of products and services residents expect to be delivered to their doors. For both community owner-operators and developers, meeting these expectations involves changing both spaces and services to accommodate increased demand.

Beacon Communities' North Square Apartments, located in North Amherst, Mass., provides smart lockers to fit mail of varying sizes. The lockers keep packages secure until residents are ready to retrieve them. NMHC data indicate a majority of apartment tenants today prefer locker systems to other modes of pick-up.

How Often Do Residents Receive Packages?

Most survey respondents (renters) are receiving more packages than they were prior to the pandemic, according to data from previous iterations of the renter preferences survey.

In the 2022 survey, 39 percent of residents responded that they receive three to five packages per month, while the next largest group (at 26 percent) receive six to 10. At the top end of the scale, 2 percent of respondents receive 21 or more packages per month.

Many respondents also reported receiving oversized or heavy objects, such as furniture or sports equipment. This is a testament to an expanding category of goods that can make it to residents' doors. Previous NMHC package surveys cited the delivery of items such as mattresses, treadmills, televisions, automotive parts, coolers of seafood and even crates with live animals as some of the more challenging and unique delivery items observed by property managers.

With the growth of grocery and restaurant delivery options, perishables are another emerging challenge on site.

Survey results showed that nearly one in four respondents (23 percent) orders perishables requiring refrigeration less frequently than once per month.

Another 9 percent receive them once a month and, similarly, 9 percent once a week. Those receiving perishables more than once per week weighed in at 2 percent of respondents, matching the number of "frequent" package recipients.

What Are the Best Delivery and Management Options?

In addition to delivery frequency, the NMHC survey asked respondents about their preferences for pick-up or delivery options in their communities. Respondents were allowed to choose more than one option.

At 72 percent, the most popular choice was on-site, 24/7 self-service parcel pickup. The next most popular option, at 56 percent, was direct doorstep delivery.

Of those looking for a self-service pickup option, the vast majority (80 percent) favor package lockers, which offer security and dedicated space for individual packages.

One of the biggest, though not surprising, shifts, between the 2020 and the 2022 survey results was the change in desire for in-unit home delivery.

In 2020, 21 percent of respondents indicated interest in this delivery method; however, it dropped to 13 percent in 2022. It's unclear why the shift occurred, but it could reflect resident respondents' increasing sensitivity to privacy and security concerns.

What Challenges Come with More Deliveries?

For 21 percent of respondents, the increased use of home delivery services has resulted in problems with the disposal or recycling of the packaging involved.

Of those who see this as an issue, 61 percent said that their community has an insufficient collection area for trash and recycling associated with packaging.

Another 49 percent of residents said that the collection area in their community was disorganized and/or unclean. (Note that totals add up to more than 100 percent because respondents were able to choose more than one concern.)

More property operators are taking note of these concerns and the waste that comes along with growing deliveries and investing in various package and waste-management solutions.

Electric Lofts in Oakland, Calif, which is managed by FPI Management, offers package lockers as well as valet trash services so that residents can securely receive deliveries and conveniently dispose of cardboard and packing waste.

For example, Beacon Communities' North Square Apartments in North Amherst, Massachusetts, has installed smart lockers to fit mail of all sizes, so renters don't have to worry about the security of their deliveries. Similarly, FPI Management's Electric Lofts in Oakland, California, offers both valet trash services and package lockers to manage both sides of the delivery lifecycle for residents.

The changes adopted by these communities represent the wider shift toward increased availability and use of delivery services, as well as the measures need to provide residents with greater convenience and security in both package delivery and disposal of the materials that come along with the additional use of these services. ●

Rick Haughey is vice president of industry technology initiatives at the National Multifamily Housing Council (NMHC). Since its inception in 2013, the NMHC/Grace Hill Renter Preferences Survey Report has provided data for apartment owners, managers, developers and industry suppliers as well as architects, financial institutions and others seeking insights into the minds of renters. For more information, visit NMHC.org.

How to Take Action as Rent and Eviction Moratoria End

Property owners need to exercise empathy and flexibility for residents facing hardships while enforcing zero-tolerance policies for other non-paying tenants.

Todd Watkins

COVID-19 is over. Well, not literally of course. The reality is that it's been more than two years since the pandemic hit the United States, and as new variants of the virus continue to make headlines, it appears as though it's here to stay.

What is coming to an end, however, is the patchwork of eviction restrictions, rent-relief payments and extended notice provisions implemented at the pandemic's peak. And just like there was no plan, rhyme nor reason for enacting them on property owners, there is no plan, rhyme nor reason for removing or responding to them.

If you're lucky, you've had very little delinquency, and with hard work and dumb luck, you've gotten most of your non-payers out. Good for you.

If you're like many others, you've got properties in tenant-friendly jurisdictions, with backed-up court systems whose inspectors are slowly emerging from hibernation and tenants who think they're owed a free place to live. You worry that the lesson from the past two years will be: "Don't pay your rent because there's always another program that will cover it."

No Easy Fix

Many property owners and management companies have tried everything to collect on rents.

And then along came the agency moratorium that prevented anyone with a Fannie Mae, Freddie Mac or FHA loan from evicting any tenant who signed an affidavit that said they'd be homeless if they were evicted. Most property owners didn't challenge the affidavits.

Some tried asking delinquent tenants if they'd be willing to leave in exchange for not going after their credit. Without dinging a non-paying tenant's credit, however, that sets up another owner to rent to someone who isn't going to pay. None of us should be in the business of creating problems for others, even competitors.

Other property managers made the case that getting non-paying tenants out would free up space for paying tenants. We personally tried it. It didn't work. Neither did offering to pay our delinquent tenants to leave. Yes, seriously.

Bureaucracy Compounds Problem

Luckily, many of us started getting rental assistance payments, but the system was broken from the start. Some states paid tenants directly. Others paid landlords directly. Another group paid landlords directly, but tenants had to fill out parts of the application. It was a free-for-all with ever-changing rules.

In one case, we had a property for which we submitted an application for our delinquent tenants from June 2021 through March 2022, only to be told that the county would just pay for September through March. We didn't know if we were supposed to eat the losses from those months or whether we could add new people who'd gone delinquent after the time we'd submitted the application. We knew that our delinquency was climbing, but at least we had hope that the state would help.

But now COVID-19 relief is over. In most states, the window for filing assistance applications has closed. They're making final payments and wrapping up their books. Yet some properties still have high levels of non-payment. Even though courts have reopened, there's a massive case backlog, and sheriffs are stretched thin. And now a possible recession is adding insult to injury.

Ultimately, this means bringing down tenant delinquency by recognizing some losses and not letting bad debt rise. All of this begs the question: What's a property owner to do?

The following strategy doesn't involve a pivot table or regression analysis of the available units at a comparable price point within a five-mile radius. Instead, it's a simple, two-pronged approach toward delinquent tenant relations: love 'em longer or, if that doesn't work, hit 'em harder.

Love 'Em A Little Longer

We're in the business of building communities. We've learned that no matter how new a property is when purchased, a newer one will inevitably open up shortly thereafter. No matter how nice your amenities may be, there soon will be nicer ones available down the street. For these reasons, we don't compete on properties, rather we compete by making our communities places where people want to live.

TODD WATKINS
RailField Partners

To do this we have to love 'em a little longer — even if (and especially when) they're delinquent.

No one wants to have an assistant property manager banging on his or her door. The key is to find out which tenants are willing to work with you, and which tenants won't. Property management teams need to get to know their tenants. This will help determine which residents are avoiding management because they're scared, and which residents are avoiding management because they don't care.

Tenants who make promises to pay (and keep them) — even if it's any amount of money — and stay in regular contact with the property office, can be worked with (and loved) a little longer. We must remember that people are financially struggling. When we can, we must work with them to provide the same level of service and care that we provide for our best-paying tenants.

Hit 'Em A Little Harder

Still, there are some people who flat out refuse to pay. How do you handle those tenants who aren't interested in being loved?

When it comes to identifying tenants who won't pay, we should make an important distinction. There are those who genuinely cannot pay because of hardships. We are not referring to these tenants. Rather, we mean renters who can pay all, or pay some, but don't want to because they've been protected by moratoriums. These tenants need to be hit harder.

Once again, no one wants to have an assistant property manager banging on his or her door. Likewise, no one wants to be publicly shamed with an eviction notice on his or her door. At the same time, no one in our business wants to tell investors they're running a shelter instead of providing them with a decent financial return.

Community Outreach Is Critical

Yes, sheriff's offices aren't all back at full strength. Some localities still won't allow evictions purely for non-payment of rent. Some property managers are afraid of how it'll look if occupancy falls because of too many evictions or skips, which occur when tenants vacate prior to the legal expiration of their lease.

Instead of doing nothing, try forming connections with your local sheriff's offices. Get to know your community resource officer by name and encourage him or her to visit your properties by hosting events that foster community and positive relationships between residents and the local authorities.

From there, start filing evictions. Triage your delinquency list by how much is owed and how long it's been owed. Then take the top 10 percent or top 10 people — whichever figure is smaller — and address them first. Generally speaking, half of those will try to make an accommodation or give their notice to vacate. A smaller percentage will usually skip, but one public eviction of a non-payer sends a clear message to other non-payers. Recognizing that they may be hit harder makes them open to being loved longer

Part of what goes into building desirable communities is making sure everyone is treated fairly. This includes both residents and property owners alike. The fear and uncertainty of COVID-19 led to federal, state and local restrictions on property owners that no one thought through before mandating — certainly no one with experience in the multifamily asset or property management business.

The result has placed tremendous strains on the industry as a whole, the costs of which ultimately get passed along to our residents in one form or another. The lives and well-being of those residents who are willing and able to work with their property managers shouldn't have to suffer further at the hands of those who seek to game the system. ●

Todd Watkins is co-founder, chief operating officer and general counsel of RailField Partners, a Bethesda, Maryland-based investment and asset management firm focused on multifamily real estate. At RailField, Watkins is responsible for asset management, internal operations and legal matters.