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Multifamily Outlook for 2012: The Bar Has Been Raised

By Matt Slepin, Terra Search Partners

Among real estate property types, multifamily continues to be the belle of the ball. The outlook is bright, especially when compared to the other major property types—office, industrial and retail. On an absolute basis, the apartment industry is looking forward to a strong three- to five-year upcycle. Even with a murky economic recovery, demographics continue to be with us. We are building again, and investment dollars are chasing the asset class. Everyone loves the upswing, but as recruiters, we view this from a different perspective. We look beyond rent growth and new starts to see how trends impact people and organizations within the business. So what are we seeing?

Obviously, employment in the multifamily residential real estate sector has rebounded from the depths of the recession. While everyone cut back in 2008 and 2009 and held steady in 2010, companies hired again in 2011. We see this trend continuing in 2012 and beyond. Where companies had cut back to the bone during the dark days, they've clearly put the skin back on, although we believe with a new discipline to stay lean. The areas most deeply cut—development and acquisitions—are certainly back, and we've seen companies hiring out of necessity as they start new construction and compete for new acquisitions. Also, as companies begin hiring again, they need to focus on retention of existing staff, which has resulted in compensation and bonus increases as well as a reloading of benefits, training and other retention programs.

These hiring trends are probably the headline of our outlook, but the deeper message is that the bar has been raised throughout the multifamily sector, which means we will see a more competitive and institutionalized business going forward. Indeed, we have evolved light years over the past decade and, coming out of the recent downturn, the changes are particularly obvious.

First, we have players in the business whose size, scale and sophistication transcends the genre with which we grew up. In particular, REITs like Equity Residential, AvalonBay, Camden, UDR, and others are able to invest in and deploy a level of corporate-wide initiatives, integrated approaches, technologies and strategies that could not be accomplished in the good ol' days. They raise the bar in a way that has transformed the entire industry, one in which every player must now compete.

The large REITs are leading the way, but the higher bar applies equally to other segments within the industry. The large, national third-party managers get to play at the same game, albeit from a different perspective. We have watched as Riverstone and Greystar in particular have grown and increased market share, utilizing similar tools that REITs are using, although the nature of their business does not allow the same across-the-portfolio perspective and strategy brought by the large REITs.

The bar has also been raised in the development business, both for the REIT developers and merchant builders. Wood Partners, Mill Creek, Hanover, Lincoln, Greystar and other national developers now play at a higher level of sophistication and with much more complex building types than in the old days. They are also able to bring more financial resources to the table, which is required to win building sites and RFPs, as well as to gain financial partners. In addition, these firms are hiring and rebuilding their development teams.

So far we've focused on the national players, which is not meant to discount the ability of significant regional players and the multifamily-focused private equity funds to play at the same, higher-level game. Leading developers like Bozzuto in the Mid-Atlantic and Sares Regis and Pacific Urban in the West, as well as private equity players like Berkshire, Carmel and Waterton, now all compete at the same level as the national firms and are often more successful. Yet make no mistake: they are playing in the same raised-bar business.

These trends also apply to the affordable housing side, which we often forget represents about half ofthe institutional size of stock value and half of new construction starts. While the affordable sector plays by somewhat different rules and has different drivers, the bar has been raised similarly in terms of the need for sophistication in property management, portfolio management, technology and capital resources. Significant cutbacks in subsidies will result in some consolidation and a need to raise the bar among the surviving organizations. These firms, which have not considered themselves peers of companies in the market-rate sector, will nevertheless begin to share technologies and approaches with their market-rate brethren.

Technology is, of course, a major driver of this trend and helps to democratize the business. The growth of companies like RealPage, the accessibility of outsourced solutions and the pervasiveness of the Web and social media are all major drivers. Remember 10-plus years ago when Archstone and several other major companies developed their own revenue management technologies? At the time, it was seen as too far-out for a conservative industry. Yet revenue management is now widely accepted and available to all companies, no matter their size or scale.

These trends have been with us for a while, but coming out of the quiet period of the recession, this new level of sophistication is made all the more obvious. Companies throughout the industry have to play in this competitive field if they are going to survive and thrive over the next decade. Individuals in this business have to accept it as a more corporate rather than cowboy environment, and thus, have to step up their games in order to cultivate a career.

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Matt Slepin is the Founder and Managing Partner of Terra Search Partners, a retained executive search firm helping real estate companies build great teams. Terra Search Partners serves many of the country's foremost REITs, private equity firms, pension fund advisors, private developers and owners, family owned businesses and non-profits. Matt writes frequently on matters pertaining to human capital in the real estate business. To see additional articles written by Matt and others at Terra Search, click through to www.terrasearchpartners.com. Contact Matt Slepin at matt@terrasearchpartners.com or 415.433.2244.