Apartment Forecast:

Presentation by Ed Nwokedi

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Ed Nwokedi, Senior Director of the Cushman & Wakefield's Multifamily Advisory group, was the speaker at a luncheon on July 19 at the H.E.S.S. Club in Houston. The luncheon was sponsored by O'Conner & Associates. The topic of Ed's presentation was Houston's Apartment Forecast. Ed covered 1. Houston Market Fundamentals, 2. Value Add applied to existing properties, and 3. Current Value Add Targets with Examples.

1. Houston Market Fundamentals

For the period 2016-2017, more than 40,000 new units have been/will be added to the Houston apartment marketplace as illustrated in the following chart.

2016	# Projects	Units
Under Construction	29	8728
Proposed	5	1536
Delivered	-	20984

2017	# Projects	Units
Under Construction	13	3771
Proposed	6	1886
Delivered	-	~20000

With the multi-year drop in oil prices and its resulting effect on the Houston economy, we are seeing an over capacity of apartments with pressure on rent prices. The current economic landscape looks similar to that seen in 2009.

As a result, Ed predicts the number of new units will drop to approximately 3,500 in 2018. This will likely result in an increase in occupancy rates and a resulting increase in rents in 2018 and beyond.

Some locations have fared well, such as Montrose/ Memorial Heights, Midtown, and Greenway Plaza.

Across all classes and geographies, Houston has seen a 21.9% rent increase in the 2012-2017 period.

2. Value Add

Ed next discussed a key current opportunity: identifying existing properties can afford an excellent investment return by focusing on value add improvements.

A heavy supply of Class A assets has been delivered in recent times. The economic downturn has resulted in dropping rents over the last two years. With excess inventory expected to stabilize in the coming year, there is a significant opportunity to capture value from earlier built properties. A key opportunity exists in Class A apartments built in 2009-2012 that could see excellent returns with value adds.

Generally, such properties have "dated" interiors. Value adds such as faux wood floors, black-on-black or stainless appliances, granite counter tops, and upgrading lighting can bring the units to comparable newer construction with a resulting increase in rental rates.

Ed has been engaged in finding such value add opportunities.

3. Case Study

CARRIAGE PLACE APARTMENTS

The property has 276 units and is located in North Houston at the crossroads of I-45 and FM 1960. The occupancy rate is 97.8% and the average income is $50,550.

Ed presented an analysis of Carriage Place compared to five other properties in the neighborhood. All had higher rents/sq. ft. The rate for Carriage Place was $0.68/sq. ft vs the other five properties which ranged from $0.82-$1.05/sq. ft.

Analysis of these data showed that Carriage House was approximately $100 below market for a one-bedroom apartment and $200 below market for a two-bedroom apartment.

Suggested value adds such as faux wood floors, black-on-black appliances, granite counter tops, and upgrading lighting could be carried out for about $4,500/unit and an approximate $150 rent increase per unit could be realized. This translates to an approximately 40% return.

Carrying out the suggested value adds will repositioning the property to be more in line with the surrounding Class A and B complexes. This property holds promise for substantial untapped value.

Ed presented several additional examples with return on investment of up to 100%.

4. Conclusions

Expect demand to catch up or exceed supply in 2018. This will result in high occupancy and subsequently higher rents. During the interim period, investment in value adds to existing properties will afford the opportunity to capture higher rental fees.

Mr. Nwokedi focuses on assisting clients with the acquisition and disposition of class A, B and C multifamily properties, as well as sourcing sites for new development. Mr. Nwokedi also acts as council to C&W on commercial real estate in Sub Sahara Africa.

Mr. Nwokedi began his real estate career in 2003 and has proven to be a Houston market leader by consummating more than $800 million in multifamily sales. He was awarded the CCIM Institute's (Certified Commercial Investment Manager) 2006 Rising Star Award. In 2009, Mr. Nwokedi reached the Top 5 production level for C&W's Houston office. Prior to C&W, he worked for Colliers International of Houston where he served as a broker in the Multifamily Investment Group. Having formed a partnership to strengthen the Multifamily Sales Division, and as co-partner and vice president, he led his team to successful negotiations for many prominent clients.