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“If we take the route of the permanent handout, the American character will itself be impoverished”

-- Richard M. Nixon, 37th President of the United States

Push to \$15 per Hour Minimum Wage to Impact the Multifamily Apartment Market Dramatically

Many promises made will not be kept, but \$15 per hour minimum wage is one to watch. With another presidential cycle looming before us, and rhetoric ramping on both sides of the political spectrum, we cannot help but watch with this season unfold with a certain fascination. To the joyful glee of Donald Trump, Democrats have certainly moved very far to the left, one-upping each other in a great giveaway bonanza of Free College Tuition, student debt forgiveness, unlimited free healthcare/Medicare for all, open borders for anyone who wants to come, reparation payouts for African Americans, free childcare, a living wage for even those who do not want to work, and more. While most of these giveaway promises will be broken in the general election, or will get tied up like a pretzel in Congress, one trend that has real momentum is the move to a \$15 per hour minimum wage.

\$15 per hour minimum wage has legs. We have seen it with Amazon, becoming the first multinational US corporation to guarantee all US-based employees a minimum \$15 per hour

wage. We have seen it in New York City, and other jurisdictions. A number of states already have passed legislation to raise their minimum wage to \$15 in coming years including California, Illinois, Maryland, Massachusetts, New Jersey, and New York, plus Washington DC. Seattle has a \$15 minimum wage law now. And, not to be outdone, the US House of Representatives just approved its measure to raise the national minimum wage to \$15 per hour, where it will quickly die in the Republican-controlled Senate. But the move to \$15 per hour is undeniable and, over time cannot be stopped. So what does it mean for the Multifamily Apartment market, and the Workforce Housing segment in particular?

Multifamily apartment rents driven by affordability. It is no secret that multifamily apartment owners and operators charge what the market, and their tenants, can bear. The more income their customers make, the more rent those customers can and will pay. In defense of Landlords, expenses are also increasing on an ongoing basis, sometimes dramatically, including Payroll, Property Taxes (a big one), Insurance, Utilities, Maintenance Supplies & Repairs, Mortgage costs (another very big one) and so on. But a general rule of thumb is that Tenants will spend 35% of their pre-tax salaries on housing, with some markets (like Manhattan and San Francisco) seeing that ratio rise to 50% of pre-tax salaries. Here is what the 35% rule equates to (back of the envelope) for a single-earner household:

Figure 1. Apartment Values Rise as Rents Rise, as Wages Rise

Hourly Wage	Annual Pre-Tax Salary	35% Spent on Rent	Monthly Rent Affordability	Resale Value of an Apartment Unit
\$12	\$24,000	\$8,400	\$700	\$50,000
\$13	\$26,000	\$9,100	\$758	\$60,000
\$14	\$28,000	\$9,800	\$817	\$70,000
\$15	\$30,000	\$10,500	\$875	\$85,000
\$16	\$32,000	\$11,200	\$933	\$95,000
\$17	\$34,000	\$11,900	\$992	\$110,000
\$18	\$36,000	\$12,600	\$1,050	\$115,000

Source: Avid Realty Partners

Conclusion: Apartments purchased for less than \$65,000 in decent areas with decent ‘bones’ will inevitably turn out to be solid investments over time. The above table shows that, as a rule of thumb, as wages rise, rents rise, and apartment values also rise. We assigned a general value of an Apartment Unit based on its rent levels, though that is highly generalized and based on our knowledge of the apartment market. But a conclusion can be

drawn: as wages rise, the ability to pay more rent increases, and the value of a typical apartment also increases. We further conclude that any quality apartment property that can be bought today for under \$65,000-\$70,000 per unit will, over the next 5-10 years, turn out to be a worthwhile investment with a strong return profile in the form of both cash flows and property appreciation.

Value must be given for value received. Some additional comments are appropriate here. Most of the country's rental market is unregulated (ie, no rent control laws), acts as a free market, and is highly competitive. So, Landlords must offer value in the form of amenities and apartment renovations in order to attract tenants and effectively compete against other neighboring properties. So there is a component of value given for value received. Some of these Community Amenities include a clubhouse, coffee bar, business center, fitness center, swimming pool with cabanas, granite grilling stations, dog park (with doggie doo-doo bags), car wash station, valet trash, community events with free food, and so on. In Class A communities, these amenities can rival those found in Hotels and include linen service, weekly housecleaning, and so on. Other value is delivered by renovating apartment interiors with new appliances, luxury vinyl plank flooring, tile backsplash, granite/quartz countertops, lighting fixtures, cabinets, updated bathrooms and showers, and so on. Where we own in Houston, for example, there are many many Renters, and the market is highly competitive for said Renters. We, as Landlords, must deliver a strong value proposition if we are to effectively compete, and doing so costs a significant amount of capital. This is one of the many beautiful things about a free market!

We Seek Off-Market Deals

Let us know if you are looking to sell any of your Multifamily assets. We will underwrite the asset quickly and can give you a fair price, while allowing for a quiet and easy exit.

Investors are Welcome to Reach Out

We are always working on our next deal, and continuously seek well-capitalized Equity partners to work with as Limited Partners, or even on a co-JV basis. We are open to deal structure and seek the most strategic partners that we can find as we carefully build and scale our portfolio further. We focus on creating tremendous Customer Experiences, realizing solid cash-on-cash yields, and managing risk at all levels of the Project and throughout our organization. Please [Contact Us Here](#) if you are interested in discussing this further.

About Avid Realty Partners

Founded by a former Wall Street equities analyst, [Avid Realty Partners](#) brings high-powered analytics, risk management, and institutional sophistication to commercial Real Estate investing, allowing us to deliver outsized Alpha for our Investors. Our passion is owning Multifamily Apartments, Hotels and other Commercial Realty Assets that deliver the best possible Customer Experience, while generating robust risk-managed returns for our investors. In Multifamily apartments, we focus on Class B/C value-add properties in growth markets where we proudly bring enhanced unit upgrades and property renovations to our Residents, improving their Quality of Life metrics. In Hotels, we build or buy properties that deliver everything that our Guests deserve, and more than they expect. We are proud of the hard work and results that our Team delivers everyday on behalf of our Customers, Investors, and other Stakeholders.

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