

THE HELM

Multifamily insights, navigated monthly

JUNE, 2025 | VOLUME 01



ANCHORED NORTHERN
INVESTMENTS



SPOTLIGHT

In this inaugural issue we explore the Houston multifamily market and explain why we see it bottoming.

MARKET INSIGHT

Why We're Actively Exploring Houston for Multifamily Investment

STRATEGY CORNER

How We Think About Cash Flow vs. Equity Growth

DEAL TRACKER

Interesting findings on a Houston multifamily property.

INVESTOR EDUCATION

We dive into Cost Segregation + Bonus Depreciation to help understand how paper losses can reduce your tax liability.

Thank you for reading. We hope to bring you a balance of education and insight — rooted in strategy, backed by data, and anchored in trust.

Disclaimer: This newsletter is for informational purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any securities. Past performance is not indicative of future results. The content may contain forward-looking statements and reflects our opinions as of the date of publication. We recommend consulting with a licensed financial advisor, CPA, or attorney before making any investment decisions.





MARKET INSIGHT

Why We're Actively Exploring Houston for Multifamily Investments

Based on our research, Houston is showing signs of bottoming and setting up for a compelling long-term value play.

Here's what's informing our interest:

The Upside:

- **Population + Jobs:** With 16.2% population growth over the last decade and over 300,000 jobs added since the pandemic, Houston is among the fastest-growing large metros in the U.S.
- **Affordability Advantage:** Average rent of ~\$1,380 is ~\$400 below the national average and ~\$200 below Austin and DFW —keeping Houston competitive for renters.
- **Optimal Unit Mix:** Vacancy is elevated (11.5%), but 1- and 2-bed units outperform studios and 3-beds. We target properties with a higher share of these to drive occupancy and cash flow.
- **Supply Tapering:** New deliveries through 2029 are expected to be lower than any year since 2019, easing pressure on vacancy and supporting future rent growth.
- **Cap Rate Opportunity:** 3-star cap rates have expanded to ~6.5%, up from 5%. This creates stronger yield and potential equity upside as rates stabilize.

Headwinds:

- **Leasing Lag:** A surge of new units in 2023–24 saturated the market. Absorption (19K units) is strong, but rebalancing will take time.
- **Muted Rent Growth:** Year-over-year rent growth remains under 1%, though projections show a rebound to 3%+ by 2026.
- **Economic Cooling:** Slowing job growth adds pressure. We're focused on submarkets with resilient employment bases and strong fundamentals.





STRATEGY CORNER

Weighing income today against wealth tomorrow — for LPs and GPs alike.



Cash Flow

For **LPs**, cash flow means regular income from operations — usually paid quarterly after expenses and debt service. It funds preferred returns and signals a stable, well-managed asset.

For **GPs**, cash flow supports asset management fees and helps demonstrate operational strength. However, high cash flow isn't always a good thing—it can suggest the property is in a slower-growth market with high cap rates and limited appreciation potential.



Equity Growth

For both **LPs** and **GPs**, the biggest wealth driver is typically equity growth, which is realized at refinance or sale. This is where the promote (for GPs) and most of the upside (for LPs) comes from.

In value-add deals, equity is “forced” by increasing NOI through renovations, rent increases, and cost control—not just waiting for market appreciation.

The Balance

Too little cash flow makes it hard to pay preferred returns and maintain investor trust. Too much emphasis on cash flow may limit long-term gains.

The best deals balance both — providing enough income to keep distributions flowing while reinvesting smartly to drive future equity upside.

At Anchored Northern, we look for deals with this balance in mind — so our LPs receive income today and wealth tomorrow.





DEAL TRACKER

What one property taught us about debt risk, NOI, and cap rate realism.

Property always appreciates, right? Not commercial property. In this case, value is primarily related to the Net Operating Income of the property, along with some other factors.

We underwrote a property that is on the market without a list price. At first glance, the current NOI (from trailing 12 month Profit & Loss records) is ~\$60,000, and the local Cap Rate is ~7.6 for 2-star properties, which would put a reasonable offer around \$800k (NOI divided by Cap Rate). However, based on public records, the property was refinanced 4 years ago at a much higher valuation. Current debt service exceeds NOI, which highlights the risk of over-leveraging – something we carefully evaluate in our underwriting process. Also, there is no property manager currently, so adding a property manager will provide drag on the NOI. We will dig in to find out more.

We are heading to Houston and San Antonio later this week to tour properties and meet other syndicators. We will share our take-aways in an upcoming issue.

INVESTOR EDUCATION

How paper losses like bonus depreciation can boost real returns.

Cost Segregation

This strategy breaks out short-life assets (like appliances and landscaping) from the building so they can be depreciated over 5–15 years instead of 27.5. That front-loads depreciation to create early paper losses.

Bonus Depreciation

As of 2025, 60% bonus depreciation allows most of these short-life assets to be written off in year one – producing large K-1 losses while receiving cash flow. Bonus depreciation phases down to 40% in 2026. A proposal to restore 100% is under review in Congress.

Example

A \$100K investment could generate \$50K+ in year-one depreciation. That can offset passive income and reduce your tax bill – without reducing your actual returns.

Tax Efficiency

For taxable investors, these paper losses can offset passive income. For retirement accounts (like SDIRAs), depreciation doesn't provide direct tax benefits but may help reduce exposure to UBIT or UDFI in some cases.

Note: This is not financial or tax advice. Please consult your CPA.

