



Housing affordability gap emphasizes the multifamily appeal

Dear Investors and friends,

We would not normally write a report outside of our quarterly routine but we are encouraged to do so by the current situation affecting investment decisions. Stock and currency markets volatility ; inflation and higher interest rates and the threat of recession all force us to periodically review our investment strategies.

We are happy to report that investing in Multifamily projects continues to be a good strategy although finding good opportunities that meet with our modeling criteria is getting more difficult. Demand in our target markets is fueled by a continuing gap in the supply of multifamily rental housing. With interest rates jumping on top of already expensive housing stock, potential homebuyers are finding themselves sidelined.

The biggest tailwind for multifamily real estate investment continues to be rent growth. A rental housing shortage in many major U.S. cities has fueled huge rent increases as apartment vacancies have plunged. To keep up with demand and tackle the shortages, apartment developers need to build more than 4 million units nationwide over the next 13 years, according to a study by the National Multifamily Housing Council and the National Apartment Association.

Currently the U.S. is short by about 600,000 apartments. The demand is even greater for affordable units. The number of U.S. apartments priced at less than \$1,000 a month fell by 4.7 million units between 2015 and 2020, according to industry analysts.

Interest rates impact the financing costs of multifamily investments, but they also impact the financing costs to buy a home. With interest rates topping 5% and housing prices predicted to rise another 10.8% this year even after an 18.8% increase in 2021, would-be homeowners are seeing their financing costs impacted as homes become even less affordable, creating a higher demand for rental housing. A slowdown in building during the Great Recession, restrictive zoning laws and rising construction costs have kept apartment building totals below what's needed in many metro areas.

Fewer Households Can Afford to Own Homes



Additionally, we apologize for our recent oversight in not properly communicating the delay in issuing the 2021 K1 forms for your taxes. Rest assured this will not occur again as we have taken corrective actions to avoid it in the future.

We take this opportunity to thank you for trust and support and we look forward to continue to grow and serve your investment needs and strategies.

Sincerely,

The Bluegrass Multifamily Team

