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Q&A with Daniel Farber, Executive VP at HLC Equity

by Alexandra Pacurar

The HLC Equity principal discusses the company's recent foray into the multifamily market, and the changes foreseen for this attractive real estate sector.

Pittsburgh—Multifamily assets have become the crown jewel of the real estate market recently, thanks to their long-term stability and growth potential. HLC Equity (http://www.hlcequity.com/) is one of the companies that adapted to the current shifts in the industry and is now allocating significant resources to their newly opened multifamily portfolio.

Daniel Farber, executive vice president of HLC Equity, spoke with <u>Multi-Housing News</u> (<u>https://www.multihousingnews.com/</u>) about the company's strategy on multifamily acquisitions and the challenges in real estate investment.

MHN: Did HLC Equity change its focus from commercial real estate to multifamily? What are the reasons behind this new strategy?

Daniel Farber: Over the past 20-some years, HLC Equity has focused on investing in shopping centers and other retail real estate assets throughout the U.S. Thankfully, our retail portfolio weathered well throughout the recession and through the recovery. However, in 2014, we



Daniel Farber, Executive Vice President of HLC Equity

began to look into other real estate asset classes that we felt had growth potential over the long term. We took note of the significant demographic and behavioral shifts occurring across the U.S., many of which make multifamily all the more desirable as an asset class.

For example, renting is proving to be much more conducive to the millennial lifestyle, baby boomers are continually downsizing and looking for a more flexible lifestyle, less people are buying homes today for a wide range of reasons (bringing home ownership to a 51-year low), and today our society has a strong emphasis on community, which is something that our multifamily investments offer to our residents.

Additionally, as these significant shifts are occurring, the construction of multifamily developments is not able to keep up with demand nationwide. To put things into perspective, according to a recent Harvard study, renters account for 43 million households out of a total of 116 million, which is the highest percentage of renters since the mid-1960s. This creates a situation in which there is tremendous demand for apartment rentals, and the limited supply that is coming to market is generally priced above median rent levels.

So, while investing in the multifamily sector is by no means a replacement for our retail portfolio, we have allocated significant resources to building out our multifamily platform for the long term.

MHN: Would HLC Equity consider expanding its business horizons to new branches (e.g. construction)?

Farber: We are continually analyzing the market to try and determine whether our current strategy is exactly where we should and where we want to be. Right now, our key focus is buying and improving existing assets. However, we have a few projects that we are working on behind the scenes which could involve more construction, and may include a major development project in an up and coming neighborhood. Stay tuned...

MHN: How would you describe the multifamily market in the U.S. today in terms of trends and challenges?

Farber: We are focused on ensuring that we have well-located, walkable and transit-oriented properties with a competitive amenity package. Additionally, we aim to provide a thriving community living experience for our residents. We are constantly working on what we call "add-on" services that integrate today's modern way of living and technologies with traditional apartment communities.

From an investment standpoint, the key challenges we face are -a) a highly competitive acquisitions market that we are in for quality multifamily assets and b) buying into such a competitive market at a price that makes sense, given our expectation that the sector will not see the same exponential rent growth that it has experienced over the past few years.

Industry data confirms that the multifamily sector is outperforming the majority of all other real estate assets when measuring the increases in purchase prices. However, it is clear that the more than 10 percent year-over-year sales increase that has occurred over the past few years will not continue in perpetuity. Simultaneously, rents across the sector have begun to grow at slower rates. So, while we still feel that multifamily is a high-performing sector over the long term, we adjust our investment projections to factor in expected market corrections

MHN: There was a discussion regarding the banks' stricter financing processes for companies looking to invest in the construction of new multifamily buildings. Does this apply to financing for purchases or leveraging of existing residential buildings?

Farber: Given the competitive environment that we are in, lenders across all real estate sub-sectors are approaching their underwriting with caution. The primary concern is the underlying purchase prices in every asset class, from development land to existing product, mixed with the uncertainty in the global economy. With that said, we continue to see that lenders are cautiously choosing their borrowers and will give very favorable terms to credible sponsors who are financing worthy projects backed by strong fundamentals.

MHN: Which do you think are the most attractive real estate assets for investors right now and why? Is it residential? Retail? Office?

Farber: I think that it is impossible to answer that question in a vacuum as it's always dependent on the specific goals, strategy, and risk appetite of the investor. However, given current market conditions, mixed with the overall economy, I would go with value-add multifamily assets for long term stability and growth potential, data and e-commerce oriented industrial properties for long term upside, and the repositioning of B and C Class retail assets into alternative uses for more opportunistic pursuits.

Unfortunately, we can't do it all, so we are mainly focused on our multifamily growth strategy, and our existing retail portfolio. Most recently, we <u>purchased Sage Brook (https://www.multihousingnews.com/post/hlc-equity-to-manage-216-unit-mile-high-city-community/)</u>, a 216-unit, value-add Class B property, positioned in a continually improving core location in Denver. We see great growth prospects for this asset over the long term, and we are looking to invest in similar assets going forward.

MHN: How do you think the real estate industry will evolve in the coming years?

Farber: It is an exciting time to be in the real estate industry given the vast changes and innovations occurring in the world in general, and specifically in our industry. We see the industry drastically changing over the next decade. From the start up and VC (venture capital) world, that has taken a keen interest in CRE Tech, to the established real estate powerhouses, that have been in the business for decades and are incorporating innovative programs within their already successful business models, there is innovation occurring on all fronts. We believe that the most successful real estate companies going forward will be the real estate companies that have a significant track record in the business and that are also bold enough to take steps towards meeting the needs of the innovation economy.

The majority of the changes within the real estate industry are technology driven. Some of the key shifts that we are watching as it pertains to the evolving real estate industry, are the internet-of-things and more technologically sophisticated living quarters for millennials in the multifamily space, a consolidation of space and the increasing use of beacon technology and pop-ups in the retail sector, repurposing industrial buildings (https://www.cpexecutive.com/industrial/) to facilitate the expansion of data centers and e-commerce uses, and the significant changes in work patterns as it pertains to office spaces.

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