



# MULTI HOUSING ADVISORS

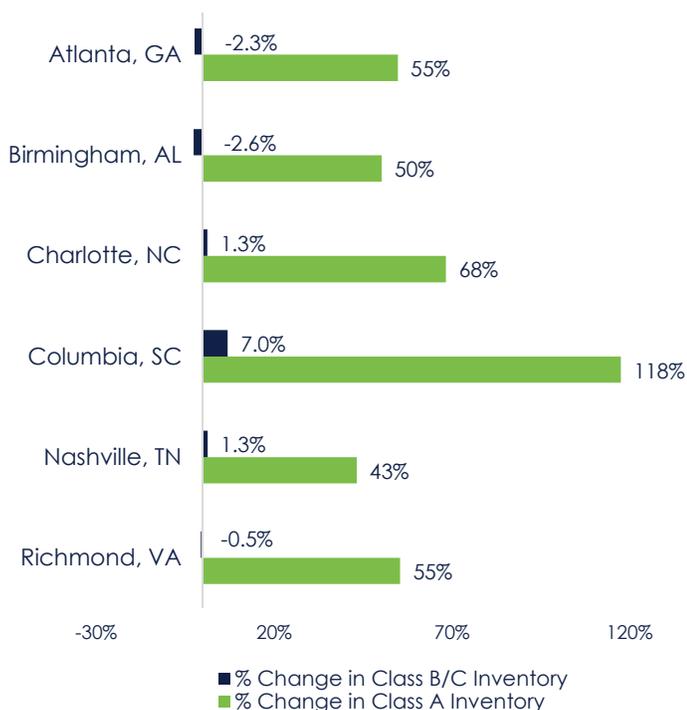
## THE DECLINING INVENTORY & RISING VALUE OF CLASS B & C PROPERTIES

### DECLINING INVENTORY AMIDST RISING DEMAND

Per REIS, Class B/C inventory has considerably contracted since 2000 in select Southeast markets, such as Atlanta and Birmingham. While Class B/C inventory has grown in markets such as Charlotte and Columbia, the proportion of Class B/C is shrinking in these markets in the face of Class A new construction. For example, Class B/C comprised 60% of Charlotte's inventory in 2000 and has since declined to 41%. Meanwhile, household growth remains strong and demand for this product type, from both renters and investors, is increasing.

Per CoStar, the number of Class A and Class B/C transactions increased by approximately 125% from 2010 to 2014. While demand for both asset classes have risen in lockstep, **the value of Class B/C properties has skyrocketed**. From 2010 to 2015, Class A pricing per unit grew by 70% from 2010 to 2015 compared to **an increase of 93% for Class B/C product**.

### DECLINING SHARE OF CLASS B/C INVENTORY



Source: REIS

### RENTER-DRIVEN DEMAND

With the rise of rents across all markets, renter demand for Class B/C rents has risen for affordability reasons. Per Multifamily Executive, **Class A rents have a 41% premium** over the rents at Class B/C properties based upon nationwide averages. The rent gap effectively siloes Class B renters into Class B/C product, thereby magnifying the need for this asset class. This trend of heightened demand for Class B product is projected to continue **as rents are growing faster than wages and inflation**.

### INVESTORS FOLLOWING SUIT

The majority of properties in the development pipeline are Class A assets with lavish amenity packages and steep rents. As a result, **Class B/C properties are facing limited competition**. In addition, rather than allowing their older Class A assets to slip into the Class B category, owners are upgrading these properties to take advantage of top-end rent lift. Finally, Class B/C competition is further limited as some owners are opting to demolish their Class C product in favor of new construction.

From an investor perspective, Class B/C assets have become prize properties as they are reporting **lower vacancy rates, higher cap rates, and faster NOI growth than Class A**.

All of these factors - renter and investor demand, limited wage growth, and minimal competition - contribute to an ongoing favorable outlook for Class B/C assets.

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- [The Biggest Shift in Apartment Management](#)
- [Apartment Rents Grow Faster Than Incomes](#)