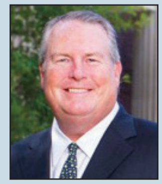
Crow Holdings

The living sector

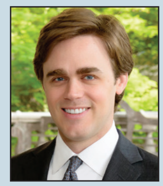
__Crow Holdings__ has a deeply informed point of view on the current state of rental housing. Led by a highly experienced team, Crow Holdings' investment management company, Crow Holdings Capital, leverages a diverse network of longstanding relationships, including direct transactions with established development partners, operating partners, noninstitutional sellers and local brokers, to pursue attractive investment opportunities. The team has developed or acquired more than 85,000 units and invested more than $4 billion in capital in the multifamily sector alone in past 20-plus years. Trammell Crow Residential (TCR), the company's multifamily development platform, is a pioneer of multifamily real estate and one of the largest developers in the United States, having built more than 269,000 premier residences over the past 40 years.

Members of the team recently sat down to discuss the current state of the "living sector."



Dodge Carter
Senior Managing Director, Housing Strategies
Crow Holdings Capital

Steve Bancroft
Senior Managing Director, Residential Development
Trammell Crow Residential



Daniel Branch
Managing Director, Student Housing
Crow Holdings Capital

Kevin Fraker
Director, Multifamily
Crow Holdings Capital

Dimitri Mastorakos
Director, Manufactured Housing
Crow Holdings Capital

Discuss Crow Holdings' overall housing strategies. Are your strategies driven primarily by geography or product type?

Dodge Carter: Crow Holdings' housing strategies focus on acquisition and development opportunities across multiple product types: class A conventional and attainable apartment communities, manufactured housing, student housing, and select single-family rental communities. We identify markets and micro-markets based on long-term secular trends affecting those areas, such as demographics, domestic migration, population and job growth, and then we tailor the product to the needs of the market. When you look at the United States today, we have a tremendously undersupplied market.

Kevin Fraker: On the multifamily development front, we typically invest in 20 of the top 25 markets – markets with domestic migration and job growth, but generally not the five core gateway markets. So that also leads us to the Sun Belt as our primary markets, and then we also are looking at some markets that have great demand characteristics but where the supply side of the equation isn't keeping up, such as some of the Southern California markets and Boston. We aren't typically building high-rises in urban infill areas. Instead, we like to build lower-density garden-style or wrap in first- or second-ring suburban locations.

Daniel Branch: In student housing, we focus on large, flagship universities with growing student populations and strong economies. We tend to look for opportunities in the Sun Belt states, where you see strong migration patterns and diversified growing economies with larger flagship universities having around 30,000 students on average and in-state tuition is $8,000 to $12,000 a year. Getting plugged into these large universities with name brands and large alumni bases is more attractive to us.

Dimitri Mastorakos: In manufactured housing, we're focused on affordability, comparing our properties to traditional housing options. We analyze average housing values within a one-, three-, and five-mile radius to gauge the general affordability of the area and determine the competitive advantage between manufactured housing and traditional options. We compare apartment rents in the area – our pad rent versus typical class B and C two- and three-bedroom apartments. We aim to offer a 50 percent discount on a per-pad basis versus those rents on the older, less-amenitized apartments.

How has the current interest rate and inflationary environment impacted Crow Holdings' investment and development strategies?

Steve Bancroft: On the development side, several of our equity partners have suggested the market is in a period of repricing risk, given the rise in rates. That said, long-term, the fundamentals of the multifamily development industry are as strong as they have ever been — maybe even stronger, given the variance in the cost of homeownership versus renting.

Carter: In our investment-management business, we have taken a decisively more conservative approach for a couple of reasons. One, with the rise in rates and, correspondingly, the perceived rise in cap rates, it's too soon to have clarity as to where pricing may settle. Secondly, with this recent uptick in rates, the big question when we're looking at a model is: What is our exit cap going to look like? That said, we continue to have conviction in the sector. Looking at vacancy rates, rent growth, secular trends of demographics and domestic migration, and the housing shortage, the fundamentals are strong.

Fraker: Costs definitely are reflecting the impact of inflation. But if we can still build, albeit at a higher cost than we did a year or two years ago, and achieve attractive yield-on-cost, we will continue to do so because we believe there's a fundamental housing shortage. We have the same questions about where our exit caps are going to be and are building in cushion to account for a potential increase. As we look at projects that start six, 12, 18 months from now, we're building more cushion into our construction budgets to account for inflation. While potential upticks can widely vary and sometimes be difficult to predict, building in this cushion helps protect us from surprises down the road.

Branch: The current environment has made homeownership more expensive, thus expanding the gap between being a renter and being an owner. I think, long-term, it bodes well for fundamentals of rental housing.

How are you addressing the current housing and affordability crisis in the United States, as a developer and as an investment manager?

Bancroft: There are three main strategies for addressing housing affordability in the United States. First, reduce the cost of capital; second, reduce regulation at the local/state/federal level; and third, design and build a project as efficient and quickly as possible to lessen the rental burden on our renters. TCR only can control the third. In the mid-2000s, TCR introduced our Allora product — class A market-rate apartments designed for renters who earn between 80 percent and 120 percent of the area median income. This product was successful, but the capital markets were more focused on luxury developments at the time, so the business plan was put on hold. After the Great Recession, it was apparent to our leadership that the vast majority of product built was targeted toward the luxury segment, and there was a "missing middle" of renters — teachers, firefighters, service workers, police, etc. — that was not being adequately addressed. As a company, we redesigned our Allora plans to become more efficient while maintaining class A finishes and amenities. In total, we have demonstrated that we can build three- and four-story Allora projects 10 percent to 15 percent cheaper and quicker than a typical, luxury-garden community. These cost savings can be passed through to renters by way of a lower monthly rental payment. To date, we are in process of building more than 5,000 units totaling over $1 billion in capitalization of Allora product across the U.S. with plans to expand over the coming years. Also, our single-family, build-to-rent brand, Arista, is focused on delivering three- and four-bedroom homes with two-car garages and private backyards, located in strong school districts. With the cost of ownership up 50 percent year-over-year and mortgage rates stabilizing around 5 percent currently, we believe this sector will continue to perform well in a higher interest-rate environment.

Carter: Our workforce and attainable housing product resonates well when we're talking with investors, whether they're domestic or international. They understand the need for this type of housing, providing options for first responders, teachers, healthcare workers and the like.

Branch: It's allowed us to meet more of the housing demand. Up until a few years ago, we focused solely on our Alexan-branded luxury apartments, and if the rents didn't exist, then the deal didn't work. But that didn't mean housing demand wasn't there. This new kind of attainable living accessed through our Allora properties, where we've been able to strip down some of the additional costs and offer a lower rent profile, allows us to meet the housing demand in a greater number of submarkets or micro markets and all of these major metros we love.

What are some of the current assumptions about manufactured housing that aren't true for your investment strategy?

Mastorakos: As it relates to manufactured housing, it's not too different than the rest of the institutional-investor base that is looking to or active in this product type. I think the biggest differentiator is what we're able to do on the development side. We have three development deals under construction right now in North Texas, where development remains very difficult. Entitlements are still incredibly hard to secure because of the reluctance by some municipalities to offer them. These communities are going to be fully amenitized, fully gated, with programming and study areas for the younger individuals and the families that are going to be living in these communities. We're going to have several miles of walking trails throughout the community of what otherwise would be dead space. And the home configuration is a differentiator, too. We're doing it with singles, doublewides and two-story homes, which I think will be a first for this region and in manufactured housing, which we're excited about. One of our biggest focuses when we look at a value-add strategy for our manufactured housing properties and their communities is how can we improve this? In terms of value-add improvements, we look at the addition of amenities, deferred maintenance, underground infrastructure, things of that nature that you wouldn't necessarily point to. These value-add improvements really make the day-to-day livelihoods of the residents better.