CROW HOLDINGS

Crow Holdings

# Tomorrow's core

## Q&A with Nathan Schubert, senior managing director, Crow Holdings

*To level set, how have core and core-plus investment strategies been historically defined?*

Historically, both core and core-plus strategies have primarily consisted of the four main property sectors: multifamily, industrial, retail and office. From an asset-characteristic perspective, core assets are typically high-quality, well-located, stabilized properties with a healthy yield. On the core-plus side, you're still going to ultimately have a portfolio of high-quality assets in great locations, but you're more likely to see assets that need a little bit of renovation or maybe some lease-up work on the front-end so as to generate the "plus" that differentiates them from a down-the-middle core asset.

*Currently, one of those sectors is not like the others – namely, office. Retail is challenged, also. Has the recent performance of those sectors changed investors' appetites for those product types?*

I think the challenges some sectors are facing right now are highlighting the importance of finding assets that are structurally well positioned to withstand downturns. I know I don't need to belabor the point, but there are serious questions around demand for office space going forward, which makes it a challenging sector to invest in today. In the current environment, we're really focused on sectors such as multifamily, industrial, manufactured housing, and a few other niche strategies we think are fundamentally well positioned to outperform during the next decade. It's our continued belief that demographic trends and single-family affordability concerns should continue to drive strong demand for rental housing, going forward. On the industrial side, there has been a notable increase in demand for industrial space as ecommerce continues to grow, and markets begin to feel the demand impact related to the nearshoring and onshoring efforts of manufacturers.

*Let's pivot from asset type to location. What markets stand out as opportunities for multifamily and industrial assets?*

When you look at the data of where people are moving in the United States, which cities are continuing to grow and add jobs, the high-opportunity markets are typically in the Southeast and Southwest. The domestic migration during the past few years has continued that trend, and that population growth drives demand not only in the housing sector, but in industrial, self-storage, and food and service retail. From an opportunity perspective, not all of those markets are on equal footing at the moment, as the supply wave we're seeing in industrial and multifamily will certainly impact some of the Sun Belt markets more significantly over the next year or two. But long term, we're still believers that there will be a lot of opportunities in the Sun Belt markets, and we don't expect the domestic migration trends to slow down.

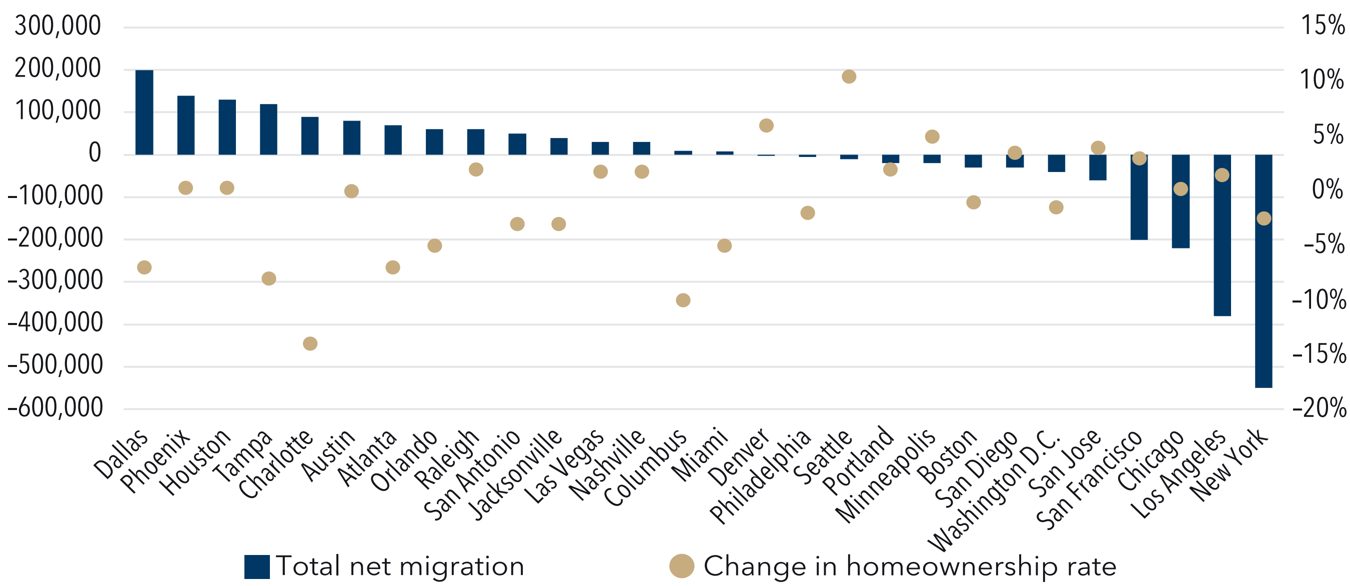
*You mentioned a few niche sectors outside of those two primary "food groups." Which do you think have upside?*

Manufactured housing is a sector we're very focused on at the moment. Affordable housing is an ongoing challenge across the country, and manufactured housing is one of the most affordable ways for people to own their home. The supply-demand dynamic is the most attractive of any sector we study, as the market is losing tens of thousands of pad sites per year and building very little new inventory on an annual basis. And on the single-family side, you can't build new homes at a cost that is affordable for lower-income workers, so we really believe manufactured housing will continue to experience strong demand, going forward.

*What about student housing?*

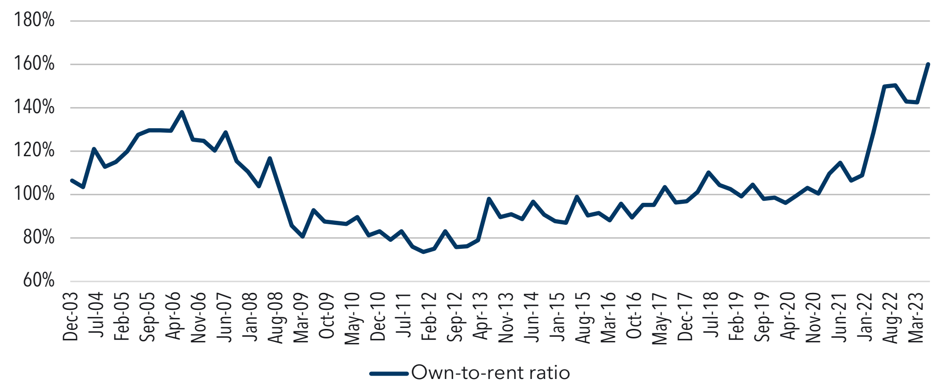
We like the student housing sector, but we have a pretty narrow focus when it comes

**Net migration and homeownership rate (2021–2022)**



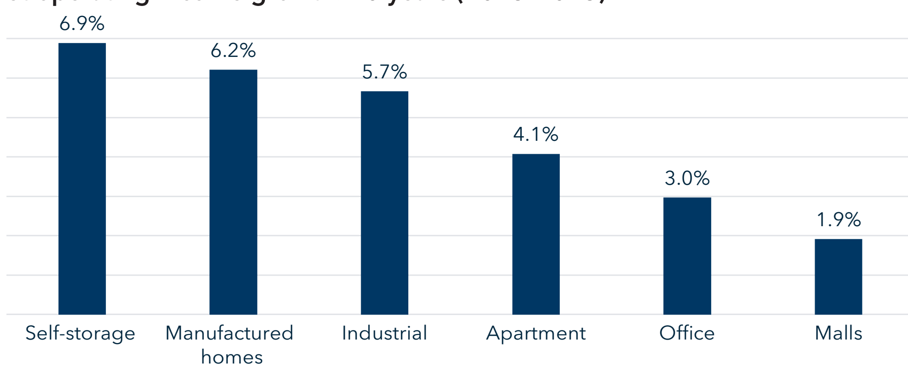

*Source: Newmark 1Q23 US Multifamily Capital Markets Report, US Census Bureau*

**Monthly cost of owning vs. renting**




*Source: Crow Holdings Research & Strategy using data from Bloomberg for the median home price in the United States and CoStar's effective rent per unit across the United States. To calculate the monthly cost of homeownership, we assumed a 20 percent down payment and 80 percent loan-to-value ratio. A 30-year mortgage rate was assumed to reset quarterly, and 1.5 percent of the median home price was applied to the median home price to account for property taxes and insurance.*

**Net operating income growth: 10 years (2013–2023)**




*Source: Green Street*

to where we will invest. We're really only looking for assets at large, flagship public universities, in states with clearly growing populations and with strong job-growth projections. These schools consistently experience strong enrollment growth, given that they provide students with affordable tuition, as well as access to a broad employer base across all industries via their large alumni networks. Supply-demand dynamics are very healthy in student housing today, as new deliveries will be less than half of the 10-year average this year and are expected to remain low during the next few years, as well.

*Self-storage?*

Self-storage is a sector that typically has steady and consistent cash-flow streams due to the sticky tenancy and relatively low operating costs. When people move, downsize, get a divorce, or have some other life event that results in the need for a storage unit, you find they tend to move their stuff in and are very reluctant to move it out. In addition, the short-term lease structure, typically month-to-month, can provide a nice hedge against inflation.

*Food and service retail?*

Small-format, convenience-oriented, open-air, food and service shopping centers are proving to be a thriving, internet-resistant segment of the retail sector and an interesting investment opportunity. Here, too, the secular trends of domestic migration provide tailwinds for the strategy, as do the favorable supply-demand dynamics. The total amount of retail space under construction remains near the lowest levels of the past decade, and vacancy rates are at historic lows, as well.

*Can you expand on the investment thesis for someone looking at a core or core-plus strategy, given today's market dynamics?*

I think the capital market disruption we're experiencing today and the rapid rise in interest rates are creating an environment where high-quality assets are going to trade at pricing not seen since right after the global financial crisis. So, when you compare where you can buy great assets today with where those same assets would have traded a year and a half ago, prices look attractive. And given that competition is scarce right now for core and core-plus assets, with a lot of market participants on the sidelines for a variety of reasons, I think we're entering an environment that should produce some strong opportunities for buyers looking to own high-quality assets.

## CONTRIBUTOR

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**Crow Holdings**

Nathan Schubert is a senior managing director and leads the firm's growth-and-income platform. He also sits on the investment committee of Crow Holdings Capital. Schubert began his real estate career in 2003 and has been with Crow Holdings and affiliated entities since 2014. Prior to joining CHC, Schubert was with JPI, where he served in various multifamily development, acquisition and asset management roles.

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## COMPANY OVERVIEW

**Crow Holdings** is a leading real estate investment and development firm founded in 1948 and based in Dallas. With 20 offices across the United States, Crow Holdings' local, on-the-ground presence amplifies its hands-on capabilities across a broad range of investment strategies, product types, and ventures in partnership with institutional investors. Crow Holdings has $30 billion in assets under management; one of the largest multifamily and industrial development platforms in the nation; investments across the energy sector, including solar and battery storage projects; and a broad, diversified investment portfolio, pursuing compelling investment opportunities to capitalize on evolving, secular growth potential. For 75 years, Crow Holdings' success has been rooted in its founding principles of partnership, collaboration and alignment of interests. For more information, please visit: **www.crowholdings.com.**