

Beckon Collective – Owning Superior Multifamily Assets



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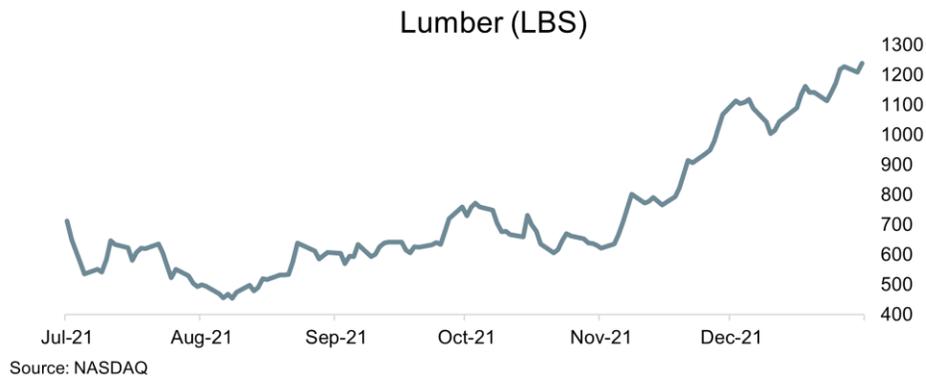
Petiole secured an attractive new asset despite higher construction costs.

Inflationary Environment Made New Supply Attractive

In December 2021, U.S. inflation reached its highest level since 1982 with the consumer price index rising 7.0% year-on-year. The impact of the COVID-19 pandemic and policy tools used in response caused prices of many goods to surge as strong consumer demand coalesced with supply-chain issues and labor shortages.

Home prices were not exempt from this bout of inflation. Median home price appreciation accelerated in 2021 with Zillow reporting a year-on-year increase of 19.3% as of November, the largest such increase since reporting began in 2000 and well above the historical average of 4.1%. Consequently, more aspiring buyers found themselves unable to afford a home and were opting for rentals instead. According to RealPage, net demand for market-rate apartments totaled over 673,000 units in 2021, eclipsing the previous high set in 2000 by 66% for the highest level in three decades of recorded data. Yardi Matrix also reported that the national occupancy rate for apartments was at or near record highs for each of the last six months of 2021.

This demand significantly outweighed apartment supply and rising construction costs only widened the imbalance. Lumber prices, for example, nearly tripled over the past four months. New supply also faced other hurdles, such as uncertain real estate taxes and pandemic-related limits on the number of workers allowed on a job site at once. This challenging environment presented an opportunity to purchase newly completed, high-quality assets before development costs become too exorbitant.



Key Suburb Features Stable Employers

Given the strength of West Chester and its continued draw for apartment renters, Petiole invested in the acquisition of Beckon Collective Apartments (“Beckon”) in November 2021. Beckon was completed just a few months earlier with designer finishes and best-in-class amenities including a business center, a state-of-the-art fitness center, a yoga studio, multiple resident lounges, an outdoor swimming pool with sundeck, a pet park, and a courtyard with outdoor gas grills and fire pits. The property is located just outside downtown West Chester and is a 10-minute walk from West Chester University.

Beckon represented an opportunity to buy a high-quality property in a well-occupied area where the five most comparable properties averaged less than 3.0% vacancy as of September 2021. Further, Petiole came to own the newest asset in this peer group at a time when construction costs were becoming increasingly burdensome.

Superior Amenities

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Strong Outlook as Inflation Picks Up

Lofty home values continue to drive demand for multifamily units as more aspiring homeowners are forced to put off purchases. According to Yardi Matrix, asking rents at the end of 2021 were up 13.5% year-on-year, more than doubling the growth of any previous year on record. Though recent concerns about higher interest rates raise questions about real estate cap rates, the chart below shows that negative real bond yields are being obscured by inflation. At over 5.7% as of November 2021, the spread between U.S. apartment cap rates and real yields is still relatively wide compared to the last 20 years, implying ample room for cap rates to compress further before rising.



Sources: Real Capital Analytics, Board of Governors of the Federal Reserve System (US)

Petiole sees Beckon Collective as an attractive new asset in an inflationary environment. Real estate investments can help protect portfolios in times of inflation, and multifamily revenues grow with inflation as rental rates reprice annually.

Contact our team to know more about Petiole's Real Estate Investment Strategy.

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