



TRISTAR

REAL ESTATE INVESTMENT

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THE AFFORDABLE HOUSING CRISIS: A Landlord's Perspective (Part 1 of 3)

Every city in the country is on the verge of a crisis in housing. Atlanta has an estimated shortage of over 80,000 units. Simply put, the metric of applying 30% of one's wages toward housing costs is being challenged by many factors. The ripple effect of this to the standard of living is far reaching. The everyday workers who teach our children, defend our cities and operates the grocery stores and restaurants of America are having a difficult time finding an affordable place to live. The result is that they will move further out of central cities for affordability or compromise on their budgets to afford housing. Your favorite barista may not show up on Monday, because they now live 45 minutes away and can't get to work. The solution seems to rest on the shoulders of the government, who are doing their best to regulate development and to invent programs to support working families. They often will move forward with good intentions without considering the unintended consequences to the owners of the properties they are trying to regulate. This series will examine the bigger picture of affordable housing from the unpopular side - the owners. What is causing the crisis?

Cost of Construction

The cost of new construction is approximately \$175,000 per unit. Land has gone up in price due to scarcity. A labor shortage has increased the costs of labor, and this will not decrease anytime soon. The operating expenses to run an apartment is around \$5,300 per unit, so rent has to start at \$442/month just to cover costs. If the total cost of capital (debt and equity) is conservatively at 4%, this would add another \$583 to the operating expenses for a total of \$1,025/month. Suffice to say, people building apartments have investors who want a return higher than 4%.

Regulatory Environment

The costs to build, renovate and even operate apartments are mired in bureaucracy and inefficiency from well-intentioned people trying to make life better for residents without the experience of being on the receiving end of the regulations. Ask any builder about getting permits in any major city, and they will tell you the challenges and why some won't do business in certain cities. Fire codes are a huge challenge. Why is a 2-story apartment building, built in 1970 without a sprinkler now required to have a sprinkler system? The delays that regulations add to the cost of renovations and new construction are a part of the problem.

NIMBY

"Not in my back yard" - neighborhoods will fight against affordable housing because of uninformed opinions of unfavorable change that will occur in their neighborhoods. This phenomenon is not solely related to affordable housing but to change in general. The easiest decision politicians can make is no change at all...

As this series continues, solutions will be suggested and discussed that might help affect changes and progress going forward.

Please Review Investment Profile of the Month

Deal Review of the Month:

SUMMERDALE COMMONS

ATLANTA, GA



- **Average Rents \$850**
- **Affordable for those making \$32,000/year**
- **Free after school program for residents**

One solution to the affordable housing crisis is renovation of existing stock of apartments that have good structures and can be transformed at a price point cheaper than building new. TriStar launched a social impact fund to purchase this 100-unit development and spent over \$350,000 to put the units back into working order. We partnered with the Atlanta Housing Authority, with financing from Invest Atlanta, and the apartments now have rents that serve those earning 40% of Average Median Income (\$79,700 in Metro Atlanta) at an all-in cost that is less than 35% of new development.

Are You an Investor?

We are in pursuit of several investments. If you are an accredited investor and want to be considered for one of these offerings, please reach out to us. Call us today to learn more at 404-698-3535 or dgibbs@tristarinvest.com.

Sincerely,

TriStar Real Estate Investment

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