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# What Keeps Attracting Investors To Multifamily?

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**SAN DIEGO—Superior long-term, risk-adjusted returns and substantial supply-demand imbalances in many markets make this property sector a sure bet for Pathfinder Partners, Mitch Siegler tells GlobeSt.com EXCLUSIVELY.**

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SAN DIEGO—Superior long-term, risk-adjusted returns and substantial supply-demand imbalances in many markets make **multifamily** a sure bet for **Pathfinder Partners**, senior managing director and co-founder **Mitch Siegler** tells GlobeSt.com. As we **recently reported**, the San Diego-based company that acquires **value-add**, opportunistic and **distressed** real estate has closed **Pathfinder Partners Opportunity Fund V, L.P.**, its fifth fund focused on acquiring real estate assets in mid-tier cities throughout the western US. The firm received $87 million in commitments for **Fund V**, a private equity fund focused on acquiring value-add

multifamily and other **residential real estate**. We spoke exclusively with Siegler about the new fund, the multifamily market and why it remains so attractive to his company.

***GlobeSt.com: What kind of returns can investors expect for Fund V?***

***Siegler:*** The target returns for Pathfinder V are 18% to 20% IRR. Our prior funds have had target IRRs of 20%. Based on nearly 40 dispositions to date, our aggregate IRR has outperformed (about 33%). The portfolio we have built to date for Pathfinder V underwrites to levels in excess of target returns.

***GlobeSt.com: Why the Fund's focus on multifamily and residential? Do you anticipate investments outside of these sectors?***

***Siegler:*** We anticipate allocating the lion's share (75% or more) of Pathfinder V capital to multifamily/residential, but may make a few selected investments in other asset classes if we find truly compelling opportunities. Our focus on multifamily/residential is based on the fact that we believe these sectors have superior long-term, risk-adjusted returns relative to other real estate asset classes. Other property types have particular challenges (the changing face of **office** and the Internet disintermediating traditional **brick-and-mortar retail**, as two examples). And, multifamily has substantial supply-demand imbalances in many markets in which we're active, which we believe will drive high occupancies and rent growth for the next several years.

***GlobeSt.com: Do you expect the housing market to continue on its white-hot streak?***

***Siegler:*** We expect multifamily to remain a very strong sector in the markets in which we operate during the next few years because there are strong demand drivers (population and job growth and a dramatic decline in the **homeownership** rate) coupled with significant supply constraints (barriers to entry by virtue of entitlement difficulties, coupled with limited buildable land and shortages of **construction** labor, driving costs higher). **Single-family home** sales should also remain strong because home construction is still rebounding from very depressed levels following the 2008 downturn and because mortgage interest rates remain at multigenerational lows—and the likelihood of major, near-term rate hikes remains very low. Homes remain very affordable in our target markets, especially because they're creating more high-paying jobs.

***GlobeSt.com: Why the focus on San Diego, Portland, Seattle, Phoenix, Denver and Las Vegas? What are your recent acquisitions in these cities?***

***Siegler:*** All of these markets share a few factors—strong population and employment growth, outdoor recreational activities that make them attractive places to live, art and cultural attractions, strong transportation networks, an educated workforce and the presence of local universities and **technology employment**. These factors make these cities attractive to **Millennials**, in particular. Pathfinder V's recent investments total nearly $30 million and include **Cedardale Apartments**, a 126-unit apartment complex in Seattle; **Red Tail Townhomes**, 75 townhomes in Portland, OR; **Sky Condominiums**, 64 condos in Las Vegas;

and apartments and developable land comprising an entire city block in San Diego's Pacific Beach neighborhood. We are also under contract and expect to deploy an additional $10 million of equity in February when we close on the **acquisition** of two partially sold condominium projects.

***GlobeSt.com: What obstacles will challenge the multifamily market in the coming year?***

***Siegler:*** Geopolitical and external factors (China slowdown, challenges in the Middle East, threat of terrorism, presidential elections) will play a substantial role and are likely to make 2016 a year of high volatility and uncertainty. The collapse in energy and commodity prices will also play a role and may have ripple impacts on particular regions, cities and/or industries as well as implications for lenders with heavy concentration in these areas. The consensus is that the **Fed** will raise rates in 2016, but the Fed's statements suggesting four increases are out of alignment with the bond market's belief (just one or two increases) and the actions of other major central banks (many of which are still loosening, not tightening). The cost of debt will remain relatively low, but not all borrowers may be able to borrow at the levels they desire. Private (hard money/unregulated) lenders will continue to play a key role, and the debt markets will be characterized by the best borrowers having access to **capital** at low rates from money-center, regional and community banks, but terms may tighten and lenders may become choosier. And the most highly regulated **financial** institutions, the largest money-center banks, will continue to tighten covenants and loan-to-value. Meanwhile, many borrowers will not be able to borrow from the least-expensive lenders (banks) and will need to look to private lenders at higher costs.

***GlobeSt.com: Can you discuss your strategy when investing in multifamily?***

***Siegler:*** Most of our recent **acquisitions** are of properties that are not optimally managed by owners who have become fatigued and who have under-invested in the properties. We typically have the opportunity to increase income through better management and to increase rents following a significant infusion of capital for**renovations** and property improvements. While these acquisitions may be acquired at market capitalization rates, income is generally well below the level we bring it to 12 to 18 months later, so we ultimately stabilize them at cap rates which are 50 to 100 basis points higher.

Also, we've been acquiring a number of partially sold condominium projects and employing some of the same strategies noted above. For these, if interest rates and, thus, cap rates remain low, an attractive exit option for these could be to sell in bulk to an investor looking for a stabilized multifamily asset. Or, in markets where home prices continue to appreciate, we may also have the opportunity to sell individual units to homebuyers.

***GlobeSt.com: Can you touch on current properties under contract?***

***Siegler:*** We are currently under contract on two partially sold, purpose-built condominium properties—one in Phoenix and another in Las Vegas.