February 1, 2017
To be seen in this month's issue of *Apartment Management Magazine.*

Specialized Wealth Management
Experience Counts

Apartments – An Attractive Asset Class

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Recently, I've done a lot of business in two asset classes; net leased properties and apartments. This month, I'll talk about why I like apartment properties as an asset class.

Why I Like Apartments

The United States population is, through immigration and births, growing at an annual rate of about 0.75%. (Three-quarters of a percentage point per year.) That doesn't sound like much on its own, but when you multiply it by our 2016 estimated population of 323,127,513, you get a big number: 2,423,456. This means that we can expect almost 2.5 million new residents of our country in 2017. This means that we are adding the equivalent of the Charlotte, NC or Las Vegas, NV metropolitan areas to our population ***every year.*** All these people will need places to work, shop and sleep.

Of course, all these people aren't moving to the same place – they are spread out all over the country. We can potentially take advantage of these growth trends, however, by investing in the places people are moving to. Certain areas of Texas, the Raleigh-Durham North Carolina area the Atlanta suburbs and the Phoenix suburbs are all areas that have seen large numbers of new residents *annually* for the last 10-20 years.

According to the Census Bureau (2010 Census); 40% of all these new residents are immigrants, while the remaining new residents are "natural:" the result of more births than deaths. Even if immigration declines substantially, we still have those 1.5 million new residents who need a place to live – the growth numbers from 1990 were similar, and those men and women are following the jobs and moving into their apartments today.

"…That means we can expect almost 2.5 million new residents of our country in 2017…"

Source: US Census Bureau: www.census.gov/programs-surveys/popest.html . Accessed December 29, 2016.
[2] Source: http://www.usatoday.com/story/news/2016/05/19/census-shows-big-us-cities-continue-grow/84552378/
[3]

About the Author

Christopher Miller is a Managing Director with Specialized Wealth Manage-ment in Tustin, California and specializes in tax-advantaged investments including 1031 replacement properties. Chris' real estate experience includes work in commercial appraisal, in institutional acquisitions for a national real estate syndicator, and as an advisor helping clients through nearly 300 §1031 exchanges. Chris has been featured as an expert in several industry publications and on television and earned an MBA emphasizing Real Estate Finance from the University of Southern California. Call him toll-free at (877) 313 – 1868.

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Which Cities Are Growing?

As mentioned before, and as seen on lists of fastest growing metropolitan areas, Texas, Raleigh-Durham, NC, the Atlanta Suburbs and Phoenix areas are growing fast. In addition to these places, areas such as Nashville, TN and certain Florida **areas** are also showing the type of growth that I look for.

While researching metropolitan areas, make sure and remember that *total population growth* is a major factor that will drive demand for your apartments – not necessarily *population growth rates.* For example, the Manhattan-Junction City, KS metropolitan statistical area (56 miles west of Topeka) saw it's population grow by 6% between 2010 and 2012. When you look deeper, however, you'll notice that the 2012 population of that area was 136,576, so we're talking about 7,900 residents. Additionally – small areas can take away just as fast as they give: The population was 2,330 residents *lower* by 2014. The Nashville MSA, saw "only" 2.9% growth (this is a large number for a major area) from 2010 to 2012 – but this equated to 52,128 new residents. Atlanta, Georgia's MSA saw a similar growth rate of 2.7%; adding 160,165 new inhabitants. My apartments will often be seeking new tenants: I'd feel much better owning in an area where 52,000 or 160,000 new potential renters are moving in every year.

Income Stability

Although you won't know ***exactly*** what you'll receive in income every year as with a triple net leased property, you may expect at least some rental income coming in. Apartment complexes, after all, very rarely see 100% vacancy. By focusing on apartments in growing metropolitan areas, we can seek situations where population growth is driving apartment demand – thus sending occupancy rates and rental rates up.

A popular and oft-repeated quote says "Buy land – they aren't making any more of it." I prefer a variation on this theme that says "Buy Apartments – There Won't be *Less* People Around Next Year." If we stick to growing metropolitan areas, this can ring true for us. Shrinking cities don't shrink all of a sudden: it is a long process. Detroit, MI and Cleveland, OH each saw their peak populations in 1950. Today, their annual population growth rates are close to zero. I often remind my investors that buying in Orange County, California in the 1980's was, in hindsight, a great move. I think that we've seen all the explosive growth in the LA Metropolitan area that we are going to see. By looking for the "next Orange County" in another part of the country, we can follow the growth trends and seek similar gains.

If you have any questions, please call my office at (877) 313-1868.