BIRLING CAPITAL ADVISORS, LLC

# Think Strategically

# The Multifamily Investment Funds: The Hidden Powerhouse of a Well Diversified Portfolio

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### Evaluating Investment Options: The Role of Multifamily Investments in a Diversified Portfolio

In a world where market volatility can erode returns overnight, investors must seek stable, high-performing assets to balance risk and reward. Real estate has long been a pillar of wealth preservation and income generation, but not all sectors deliver the same level of resilience.

As institutional and private investors evaluate their options, one asset class consistently outperforms in stability, demand, and long-term growth—Multifamily Investment Funds. With rising rental demand, affordability challenges limiting homeownership, and demographic shifts favoring renting, multifamily real estate stands out as a strategic, high-yield investment opportunity.

This report dives deep into why Multifamily Investment Funds dominate the U.S. rental market, how they compare to REITs and Private Equity Real Estate Funds, and why investors should look seriously at one of the most compelling multifamily investment platforms today.

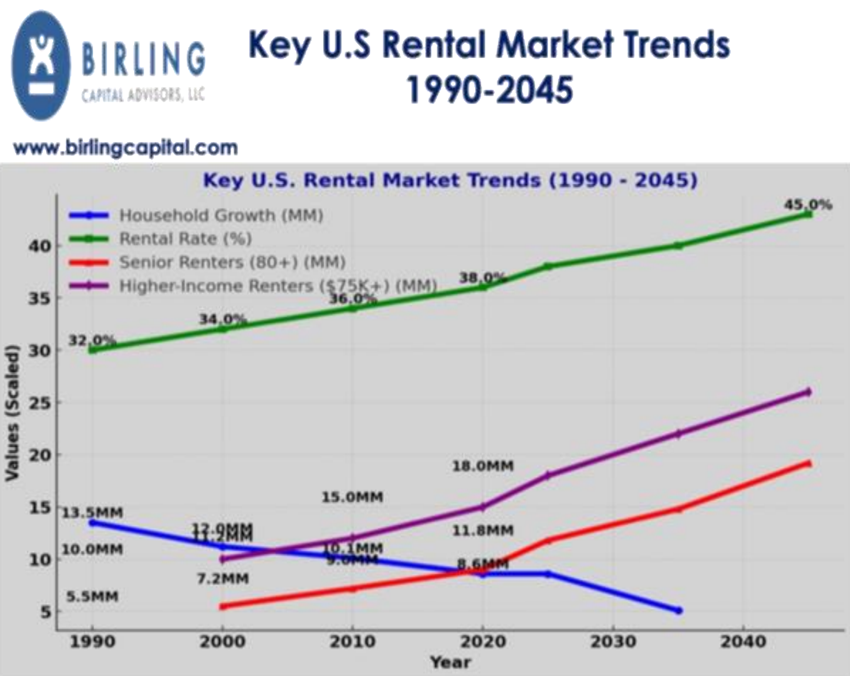
A well-diversified portfolio is the best foundation for achieving long-term financial success, always striving to balance risk and rewards by adding a defined mix of asset classes.

In today's dynamic economic landscape, real estate remains a critical pillar of diversification, offering stability, income generation, and capital appreciation. Investors must carefully assess all available options within real estate, from publicly traded Real Estate Investment Trusts (REITs) and Private Equity Real Estate (PERE) funds to Infrastructure Funds and Multifamily Investment Funds.

Among these, Multifamily Investment Funds stand out as one of the most resilient and attractive real estate asset classes, benefiting from strong rental demand, demographic shifts, and affordability challenges in homeownership. With its ability to generate consistent cash flows, maintain low vacancy rates, and adapt to economic cycles, multifamily real estate has increasingly become a core component of institutional and private investment portfolios.

This report explores current U.S. rental housing market trends, evaluates the growth trajectory of Multifamily Investment Funds compared to other real estate asset classes, and highlights why multifamily real estate remains one of the most compelling investment opportunities in today's market.

### U.S. Rental Market Trends: Multifamily Funds Market: A Steady Performance Amid Changing Conditions




The U.S. rental housing market 2024 saw a stabilization in the multifamily sector while Single-Family Rentals (SFRs) experienced fluctuations. Despite economic uncertainty, multifamily assets proved resilient, driven by a nationwide housing shortage and strong rental demand.

### By September 2024, multifamily investment activity surged:

- Sales volumes increased by 40% year-over-year
- Loan originations jumped 56%
- Construction activity peaked, allowing investors to benefit from lower interest rates and improved financing conditions

However, affordability remains a concern. The Low-Income Housing Tax Credit (LIHTC) program bridges the affordability gap. At the same time, the incoming administration has signaled support for expanding the Housing Choice Voucher program.

### SFR Market: Investment Surge Amid Declining Households

While SFRs remain the second-largest rental housing type, with 14 million households, their growth has declined in five of the past six years. By 2022, the number of SFR households fell by 1.2% due to mom-and-pop landlords selling properties into homeownership amid rising home values.

Despite institutional investor interest, detached single-family rentals are losing market share, while attached rental homes (part of purpose-built SFR communities) grew to 20.8% of the market in 2022.

### Looking Ahead: Multifamily's Market Dominance

The U.S. rental market is transforming, with multifamily housing continuing to attract capital due to:

- Stable occupancy rates
- Consistent rental demand
- Affordability challenges limiting homeownership growth

While SFRs are evolving through purpose-built communities, the multifamily sector remains the primary driver of institutional real estate investment.

## How Shifting Rental Demographics Strengthen Multifamily Investment Funds

As homeownership affordability declines and generational shifts favor renting, Multifamily Investment Funds are emerging as a dominant asset class. While some economists project that U.S. household formation could slow from 8.6 million to just 5.1million by 2045 or in twenty years time, rental demand remains robust due to:

- **Affordability barriers** – Rising mortgage rates and high home prices force households to remain renters.
- **Generational preferences** – Millennials and Gen Z prefer urban, flexible living, driving demand for high-quality, professionally managed rental housing.
- **Demographic shifts** – Immigrants and people of color are projected to account for all net household growth, reinforcing long-term stability in the rental sector.

## Multifamily Investment Funds: The Prime Beneficiary

Multifamily Investment Funds are **best positioned to capitalize** on these demographic trends by targeting high-demand rental segments:

1. **Urban & Lifestyle Renting Gains Traction**
    - **Millennials and Gen Z** drive demand for luxury rentals in urban and suburban mixed-use developments.
    - **Remote work shifts demand** to secondary markets, particularly in Sun Belt states.

2. **Higher-Income Renters Strengthen Market Stability**
    - **Households earning over $75,000 annually** now represent a growing share of renters (+43% since 2010).
    - **Demand for Class A and premium multifamily properties is rising**, boosting rental income potential.

3. **Senior Rental Market: A Growing Niche**
    - **Households headed by seniors (80+) will double by 2045**, increasing demand for age-friendly multifamily housing.
    - **Multifamily investors tapping into independent living** and healthcare-integrated rentals will see long-term growth.

4. **Build-to-Rent (BTR): Expanding Investment Options**
    - **Institutional investors are accelerating BTR developments**, capturing the renter-by-choice segment.
    - **Multifamily funds investing in BTR diversify their portfolios**, reducing exposure to homeownership cycles.

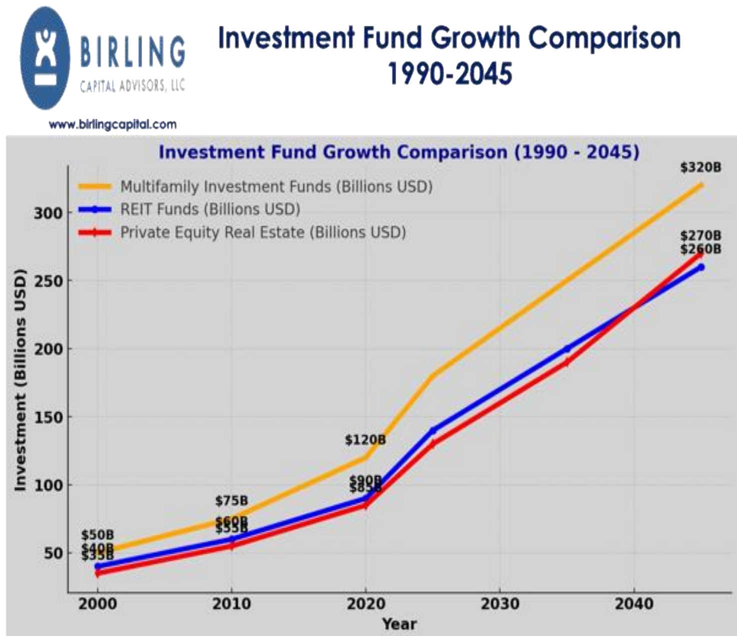
## Multifamily Investment Funds Growth Analysis vs. Comparable Funds 1990 - 2045

As capital flows into real estate investments, Multifamily Investment Funds have consistently outperformed comparable assets, demonstrating long-term stability and strong returns.

### Growth Trajectory & Comparative Performance

1. **Multifamily Investment Funds: The Fastest-Growing Real Estate Asset Class**

    - Growth Rate from 1990 - 2045 Expanded from $50B to $250B, and by 2035, it will reach $320B, representing a 6.4x increase over 55 years.
    - Decadal Growth:
    - 1990 - 2000: +50% increase to $75 B
    - 2000 - 2010: +60% increase to $120B
    - 2010 - 2020: +50% increase to $180B
    - 2020 - 2025: +39% increase to $250B
    - Future Outlook: Growth will remain strong, with double-digit growth rates reaching $320 billion by 2045.




**2. REIT Funds: Strong Growth but Higher Volatility**

- Growth Rate from 1990 - 2045 Grew from $40B to $260B a 6.5x increase.
- More volatile due to stock market fluctuations
- 2025 - 2035: Expected to grow 30%, lagging behind Multifamily Funds.
- Market Sensitivity: REIT funds are subject to economic cycles and interest rate risks, unlike Multifamily Funds, which remain stable.

**3. Private Equity Real Estate: High Growth, Lower Liquidity**

- Growth Rate from 1990 - 2045 Expanded from $35B to $270B, a 7.7x increase.
- Fastest-growing segment but with high entry barriers
- More illiquid compared to Multifamily Funds
- While PERE funds may outperform in total growth, Multifamily Funds offer more liquidity and predictable cash flow.

### The Final Word: Why Multifamily Investment Funds Lead the Market

Multifamily Funds grow at a rate comparable to REITs but with more excellent stability, making them the preferred long-term option. Multifamily's institutional appeal has driven strong capital inflows, ensuring steady cash flows. While Private Equity Real Estate funds have slightly higher returns, their illiquidity makes Multifamily Funds the practical choice for diverse investors. 2000 - 2025 marked the most decisive phase of Multifamily Fund growth, with continued demand through 2045.

The Bottom Line is that Multifamily Investment Funds combine growth, stability, and liquidity, making them one of the most resilient and high-yielding real estate investment options today.

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