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2011 MFE CONFERENCE: WELCOME TO RENTER NATION

# Cisneros, CEOs Remain Bullish on Apartment Industry

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The executives on the annual CEO Power Panel at the 2011 Multifamily Executive Conference are bullish on the apartment industry, but they know the fun won't last forever.

Asked to pinpoint how long the rental run will end, the panelists--which included Denver-based UDR CEO Tom Toomey; Houston-based Camden Property Trust CEO Ric Campo; Charleston, S.C.-based Greystar Real Estate Partners CEO Bob Faith; and Los Angeles-based CityView CEO and former HUD Secretary Henry Cisneros--said things look good until the 2014-2016 timeframe.

## An Open Window

It was the two REIT CEOs, Toomey and Campo, who saw the smallest window. Faith wondered if this time would be different, and we could actually see a fundamental shift to rental housing. Campo wasn't so sure. "It's going to be like it always is--good for a while and bad for a while," he said.

Campo predicted a bottoming out of single-family prices would ultimately pull renters out. "At the end of the day, we know apartment residents will move out to buy homes," Campo said.

Faith thinks Echo Boomers may have a little different mentality than their parents, however. "The leading edge of the Echo Boom have watched people get slaughtered with their investment in homes," he said.

As always, new supply could also be a threat to ruin the party, but the CEOs didn't really see that manifesting itself until 2014 at the earliest. One reason is because lenders aren't giving everyone debt to build new apartments. "The lenders are dividing the world into the haves and have-nots," said Faith, who is obviously a "have," with more than 20 projects in the pipeline. "Not everyone with a pick-up truck gets a loan anymore."

Another reason for the CEOs' ambivalence about new supply affecting business anytime soon is that it takes a while to get approvals and build in many markets. And to make it to this point, developers need to staff up. "The industry was obliterated," Campo said. "It takes time to build back up."

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## Dry Powder

Campo said that even in a double-dip recession, the industry would see positive NOI. But that doesn't mean everything will be easy. Campo lamented the decline in REIT stock prices and the greater strain that would put on their ability to fund new development and acquisitions. "This volatility in the stock market is a huge issue," he said.

Campo also pointed out that public markets can be a leading indicator for the business. For instance, if large institutional investors are whacked in the market, they'll often eventually sell assets to generate funds. But Toomey disagreed, emphasizing that the overall picture, with rents and dividends going up, was good. "We're headed for a recession, but the public REITs will do fine," he said.

In fact, he saw an upside to the issues the other panelists pointed out. "Volatility represents opportunity," he said.

Cisneros also sees opportunity in the market, though he emphasized that the country needed to get a handle on its debt issues and see political cooperation on housing before things would stabilize. He also assured the attendees that he was confident that an entity to provide liquidity to the market would remain. "We need a mechanism like Freddie and Fannie, even if they aren't called Freddie and Fannie," Cisneros said.

## Portfolio Preferences

When bad times do come, the CEOs had words of advice for how to weather the storm. Campo said keeping low leverage was the key, while Toomey suggested that his strategy of focusing on high-barrier markets would help his REIT.

Campo, whose portfolio isn't primarily on the coasts, took exception to the often-held belief that urban, transit-oriented coastal housing is the only place to be. He pointed out that, despite being dragged down with 7 percent of its portfolio in Las Vegas, Camden still outpaced all others in the REIT space in revenue increases. "There are lots of employment nodes in the suburbs, and they do just fine," he said.

Cisneros said CityView has found success following an "eds and meds" strategy by building near medical and educational facilities in overlooked markets like Cleveland. "There are a lot of places that are overlooked," he said.

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