



# Multifamily Real Estate Guide for Passive Investors: 2025-2026



KEYSIGHT GROUP

# Wealth-building assets.

**What are they?** A wealth-building asset is anything that stores economic value, plus is expected to provide a future benefit in the form of income, appreciation, equity growth, utility, and market trade value to whoever owns or controls it.

**How are they organized?** Although subcategories exist, everything of value in the world can be classified neatly into seven overarching asset classes. In simple and practical terms, these can be understood as follows:

1. **Cash/Currencies** - traded on the foreign exchange market (FOREX), the *most liquid asset class*
2. **Crypto** - digital currencies *sometimes* pegged to real-world assets (i.e. US\$, commodities, etc.)
3. **Paper Assets** - CDs, insurance policies, and exchange-traded securities (i.e. stocks, bonds, etc.)
4. **Commodities** - anything coming from the Earth (i.e. gold, oil, lumber, metals, elements, etc.)
5. **Businesses** - privately-held equity in companies, partnerships, and venture capital investments
6. **Collectibles** - rare items (i.e. art, classic cars, watches, wine, baseball cards, etc.)
7. **Real Estate** - residential (i.e. house) or commercial (i.e. multifamily), the *least liquid asset class*



# Are you a fit for multifamily investing?

**Commercial Multifamily Real Estate has many benefits, but this asset class isn't for everyone.**

**Are you an accredited or retail investor?** To be accredited, an individual must have a net worth of \$1M+, not including their primary residence, or make \$200K individually/\$300K as a couple per year; and a retail investor is non-professional individual who buys and sells securities for their own personal account.

**Do you have access to investable assets of \$50,000 or more?** Most high-quality private commercial real estate investments have minimum investment requirements of \$50,000 or more.

**Do you generally understand that private real estate is illiquid?** Most sponsors cannot provide a "market" for private real estate portfolio. That said, you should expect a premium for that illiquidity. More on that later.

**Are you interested in learning?** If you're new to private commercial real estate, we highly recommend getting educated on the key terms and fundamentals. Investing in private real estate is like becoming part owner of a business with pro-rata access to the asset or fund level P&L. It's not difficult, but it's worth learning the basics.

If you answered yes to all of the above, then I'd like to show you why commercial multifamily real estate is used by the strongest investors in the world - insurance companies, endowments, pension funds, sovereign wealth funds, and institutions - and how you can get access too.

# Disclaimer

**This is a confidential, information-only presentation for current and prospective Keysight Group clients and investors.**

The information set forth herein has been prepared by Keysight Group, LLC ("Keysight") to summarize the potential benefits of investing in multifamily research backed by years of research and experience.

This is a confidential overview solely for your limited use. By receiving this confidential overview, you agree that you will not, directly or indirectly, disclose any part of its contents to any other person, firm or entity without prior written authorization from Keysight.

We are not investment or tax professionals. However, we have worked with hundreds high-net-worth investors over the years and will review some of their successful strategies. We encourage you to consult with your investment and tax professionals.

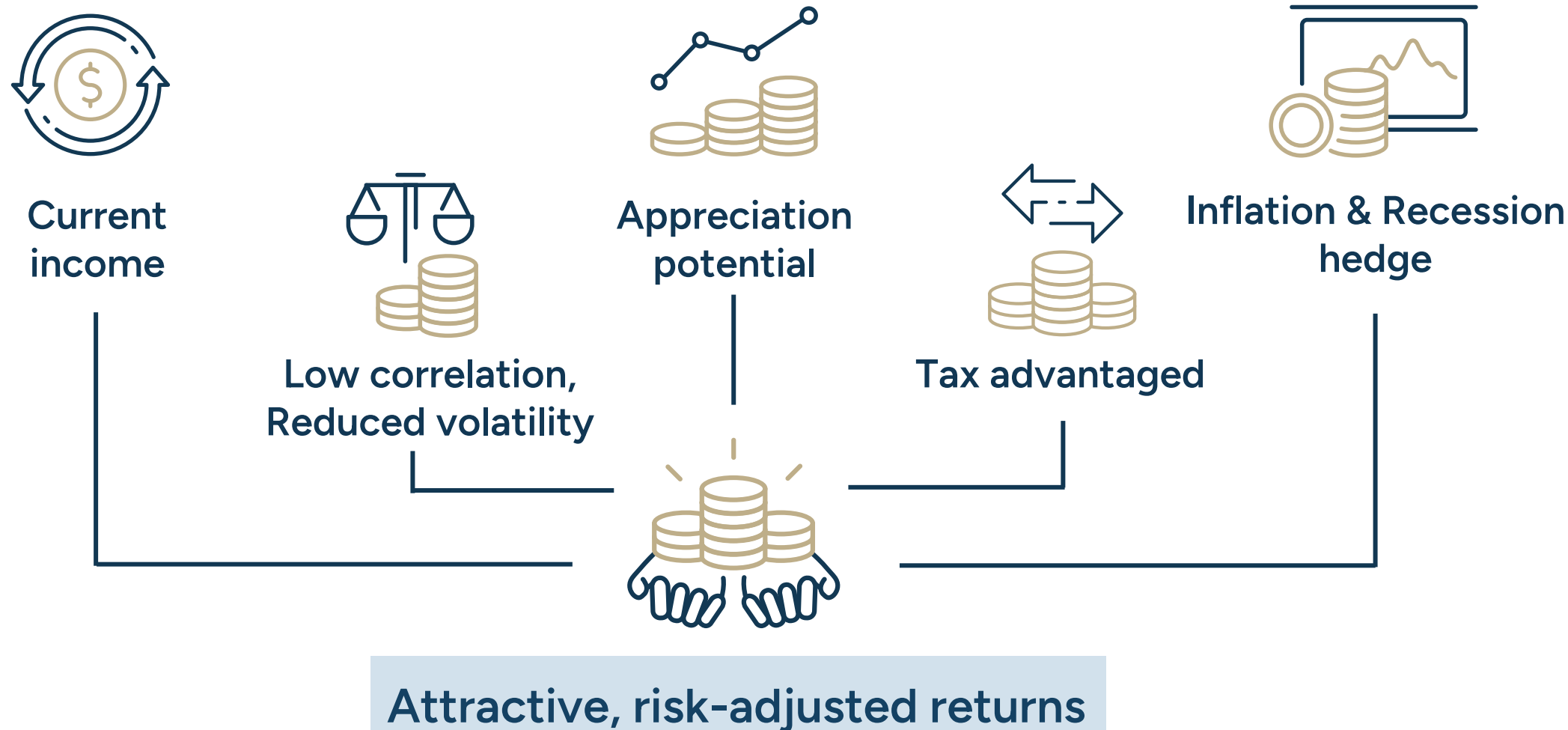
Certain information in this document contains forward-looking statements, which can be identified by terminology such as "may," "will," "should," "expect," "project," "intend," "plan," "estimated," or "believe" or similar terms. Forward-looking statements are based on certain assumptions, are subject to risks and uncertainties and speak only as of the date on which they are made.



# **Multifamily Real Estate's Unique Combination of Investor Benefits**



# Multifamily Provides a Unique Combination





# Commercial Real Estate is a Fundamental Portfolio Component

|                              | <b>FIXED INCOME <sup>1</sup></b><br>(BONDS, TREASURIES, ETC.)<br>Market Cap<br><b>\$51T</b> | <b>REAL ESTATE <sup>2</sup></b><br>(RESIDENTIAL & COMMERCIAL)<br>Market Cap<br><b>\$21T</b> | <b>EQUITIES <sup>3</sup></b><br>(STOCKS, ETFs, MUTUAL FUNDS, ETC.)<br>Market Cap<br><b>\$39T</b> |
|------------------------------|---------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| <b>Income-oriented</b>       | ✓                                                                                           | ✓                                                                                           |                                                                                                  |
| <b>Appreciation-oriented</b> |                                                                                             | ✓                                                                                           | ✓                                                                                                |

<sup>1</sup> Securities Industry and Financial Markets Association (SIFMA)

<sup>2</sup> NAREIT (public and private estimate) 2022. Multifamily is the largest segment.

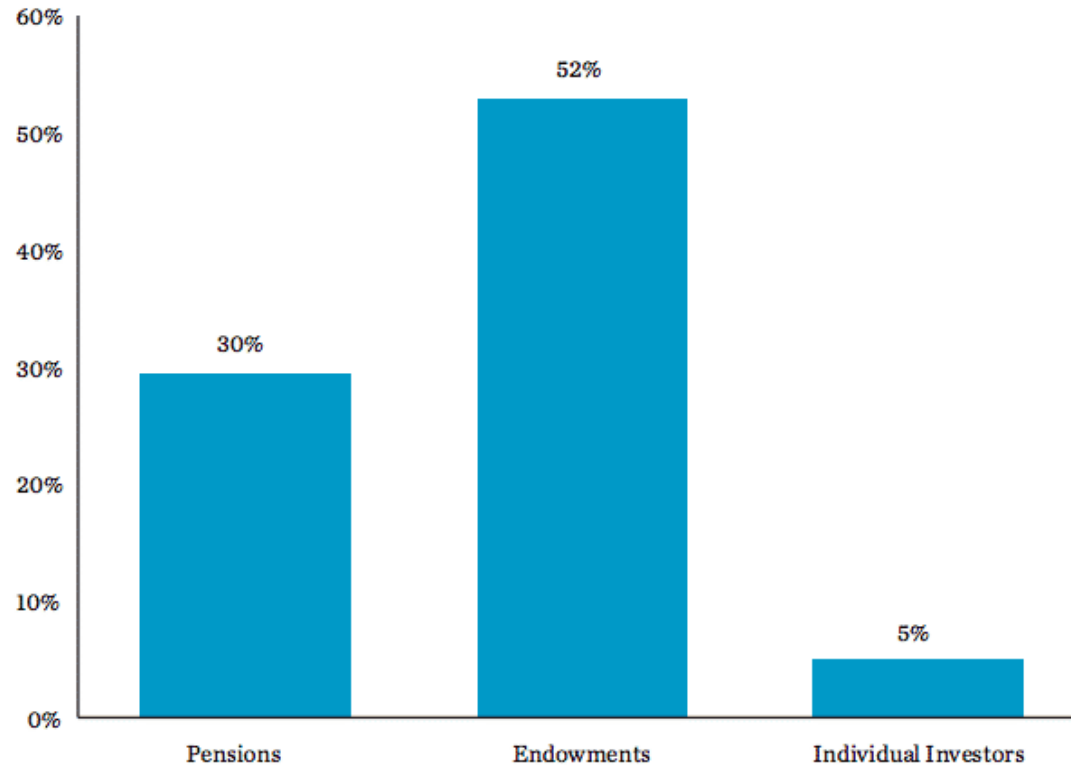
<sup>3</sup> Wall Street Journal; Represents total U.S. stock market capitalization.



# Institutions are already much more invested into alternatives than individual investors

**Institutions vs. Individual Allocations**

Alternatives Exposure



Source: Willis Towers Watson, "Global Pension Assets Study," 2019; National Association of College and University Business Officers, "TIAA Study of Endowments," 2018; Money Management Institute, "Retail Distribution of Alternative Investments," 2017. Averages provided are dollar-weighted.

# 20% Portfolio Allocation in Commercial Real Estate Improves Stock/Bond Portfolios

Including commercial real estate in a portfolio can provide several advantages:

1. **Low Correlation:** Commercial real estate has historically demonstrated a low correlation with the stock and bond markets, meaning its value doesn't necessarily move in relation to those market assets. This has a demonstrated ability to reduce the overall volatility of the portfolio.
2. **Steady Income Streams:** Commercial real estate can provide a consistent cash flow. Income is delivered based on the economic performance of the asset, by owning direct fractional access to the P&L of the property fund of properties.
3. **Inflation Hedge:** Real assets like commercial real estate have the potential to act as a hedge against inflation. Rental income and property values may increase in tandem with rising prices, providing a level of protection for investors. Multifamily Net Operating Income (NOI) Growth is highly correlated to CPI.

# Private Real Estate has a low correlation to publicly-traded securities

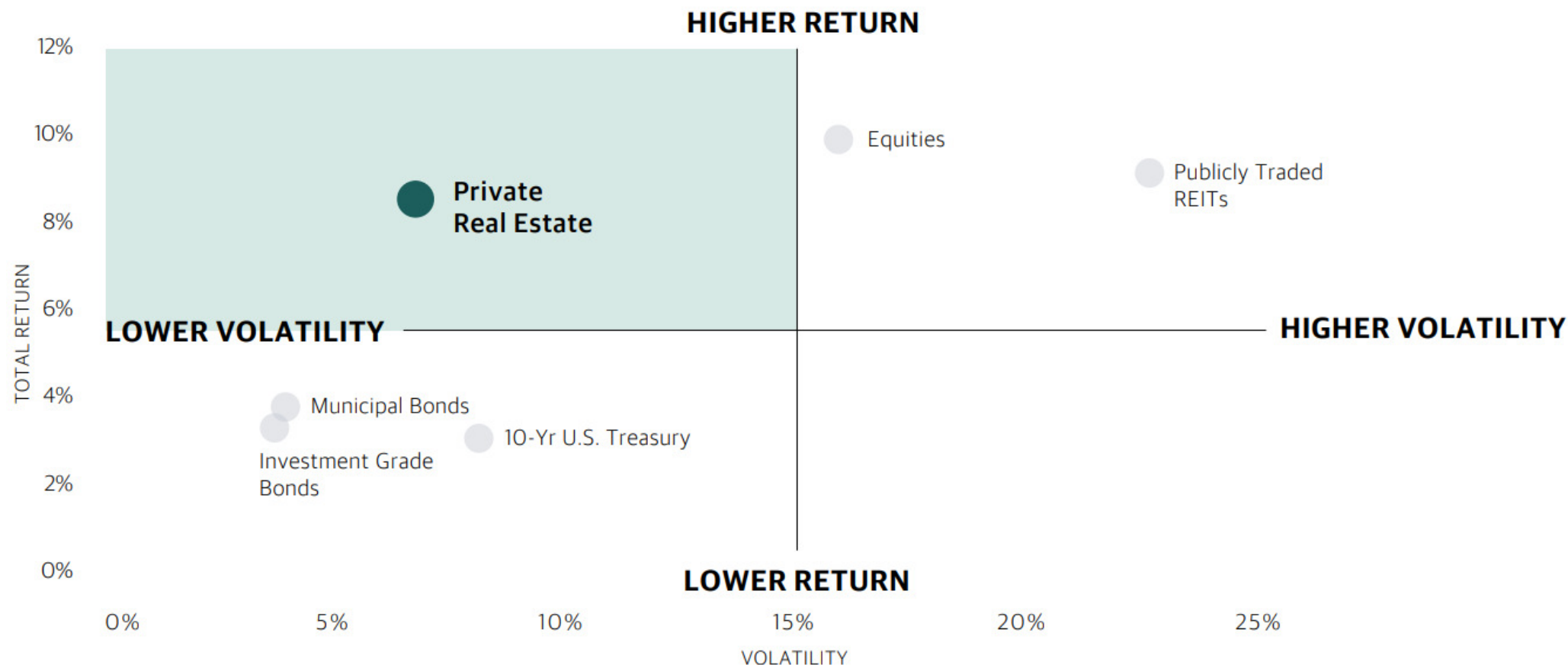
| Asset Class         | Private Real Estate | REITs | U.S. Stocks | Bonds |
|---------------------|---------------------|-------|-------------|-------|
| Private Real Estate | 1.00                | 0.17  | 0.08        | -0.30 |
| REITs               | 0.17                | 1.00  | 0.81        | 0.16  |
| U.S. Stocks         | 0.08                | 0.81  | 1.00        | 0.05  |
| Bonds               | -0.30               | 0.16  | 0.05        | 1.00  |

Private real estate is essentially non-correlated to the public markets, while REITs are highly correlated (.81) to the stock market. *A correlation ratio of 1.0 equals 100% correlated performance.*

Source: NFI-ODCE Index (private real estate), FTSE Nareit Equity REITs, S&P 500 (U.S. stocks), Bloomberg Barclays U.S. Aggregate Bond Index (bonds) and Vanguard Total International Stock Index Fund Investor Shares (VGTSX) (international stocks). 15-year correlation of total returns for all asset classes as of Q1 2023. Past performance is not indicative of future results.



# Private Commercial Real Estate delivers attractive risk-adjusted returns



Source: Note: 20-year look back, BREIT (as of June 30, 2023), Morningstar Direct, NCREIF, NFI-ODCE index, S&P 500 Index, MSCI U.S. REIT Index, Bloomberg U.S. Aggregate Bond Index, Bloomberg U.S. Municipal Index. Unlevered returns.



# Multifamily outperforms other real estate asset classes on a risk-adjusted basis

| 5-YEAR HOLDING PERIOD |       |       |              |
|-----------------------|-------|-------|--------------|
| Property Type         | Mean  | S.D   | Sharpe Ratio |
| All                   | 7.79% | 4.73% | 0.58         |
| Apartment             | 8.97% | 3.74% | 1.05         |
| Industrial            | 8.23% | 5.03% | 0.63         |
| Office                | 6.79% | 6.19% | 0.28         |
| Retail                | 8.73% | 4.59% | 0.80         |

| 10-YEAR HOLDING PERIOD |       |       |              |
|------------------------|-------|-------|--------------|
| Property Type          | Mean  | S.D   | Sharpe Ratio |
| All                    | 8.39% | 2.47% | 0.89         |
| Apartment              | 9.35% | 1.98% | 1.59         |
| Industrial             | 8.83% | 2.44% | 1.08         |
| Office                 | 7.72  | 3.20% | 0.48         |
| Retail                 | 9.02% | 2.64% | 1.07         |

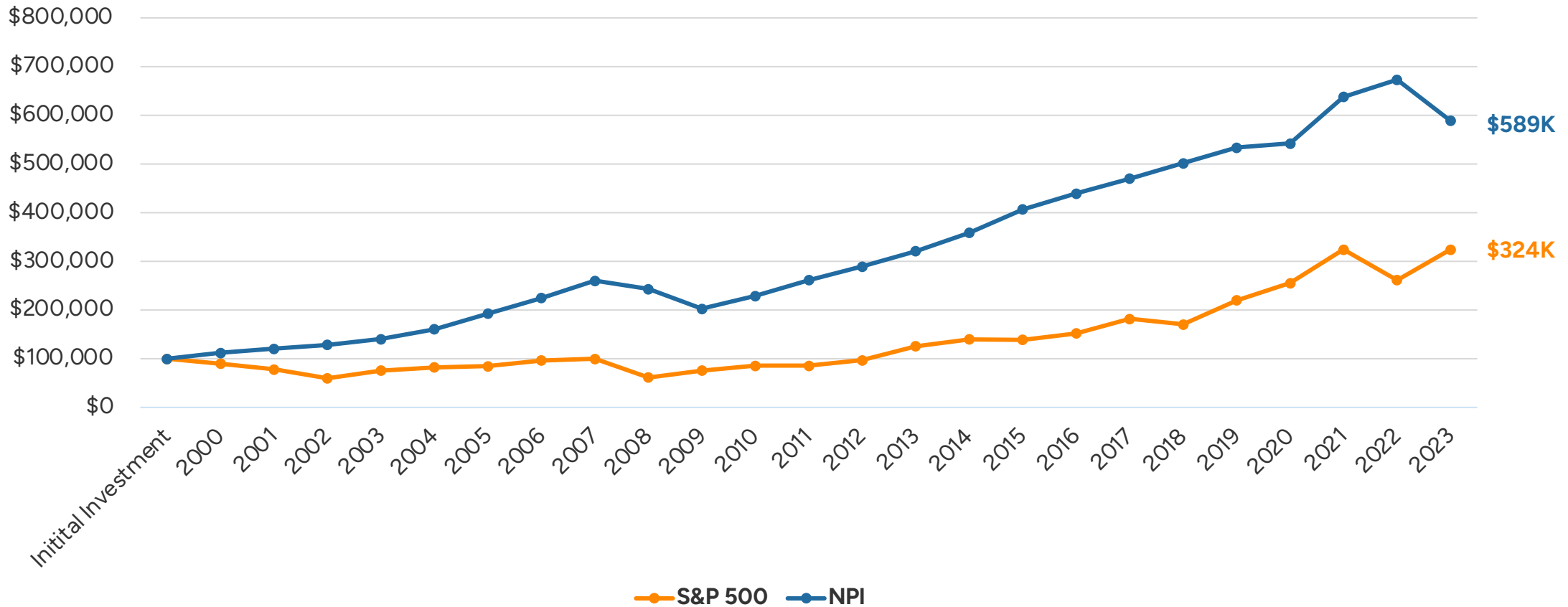




# Real Estate vs. Stock Investment Returns

Over more than two decades, Commercial Real Estate has outperformed the S&P 500.

*The chart below is based on a hypothetical initial \$100,000 investment made on January 1, 2000, and does not include tax adjustments or leverage.*



Source: S&P 500, NCREIF

# Tax Advantaged Returns

**Significant tax advantages are available to passive real estate investors.**

- Pass-through depreciation can defer and reduce your taxable annual income from the property. This can permanently eliminate the net investment income tax (3.8%) for most of your ownership period. You can also transfer the max earned income tax from (~37%) to the depreciation recapture rate of (25%).
- Using 1031 Exchange rules, you can defer capital gains on sale, reinvesting into a new “like-kind” property. This can accelerate your current yield and provide more overall equity per asset working for you over time. You can participate in multiple exchanges over one investment.
- “Stepped basis on death” provides a significant wealth transfer tool and, depending on the total value of your estate, can eliminate any capital gains obligations for your heirs.



## **Deferring Federal and State Taxes**

By investing in a “like-kind” property, an investor can defer federal and, in most cases, state taxes



## **Building Generational Wealth over Time with Multiple Exchanges**

Tax-deferred gains can be reinvested over time in multiple like-kind properties



## **Eliminating Capital Gains & Depreciation Recapture with Current Step-Up Basis Upon Death**

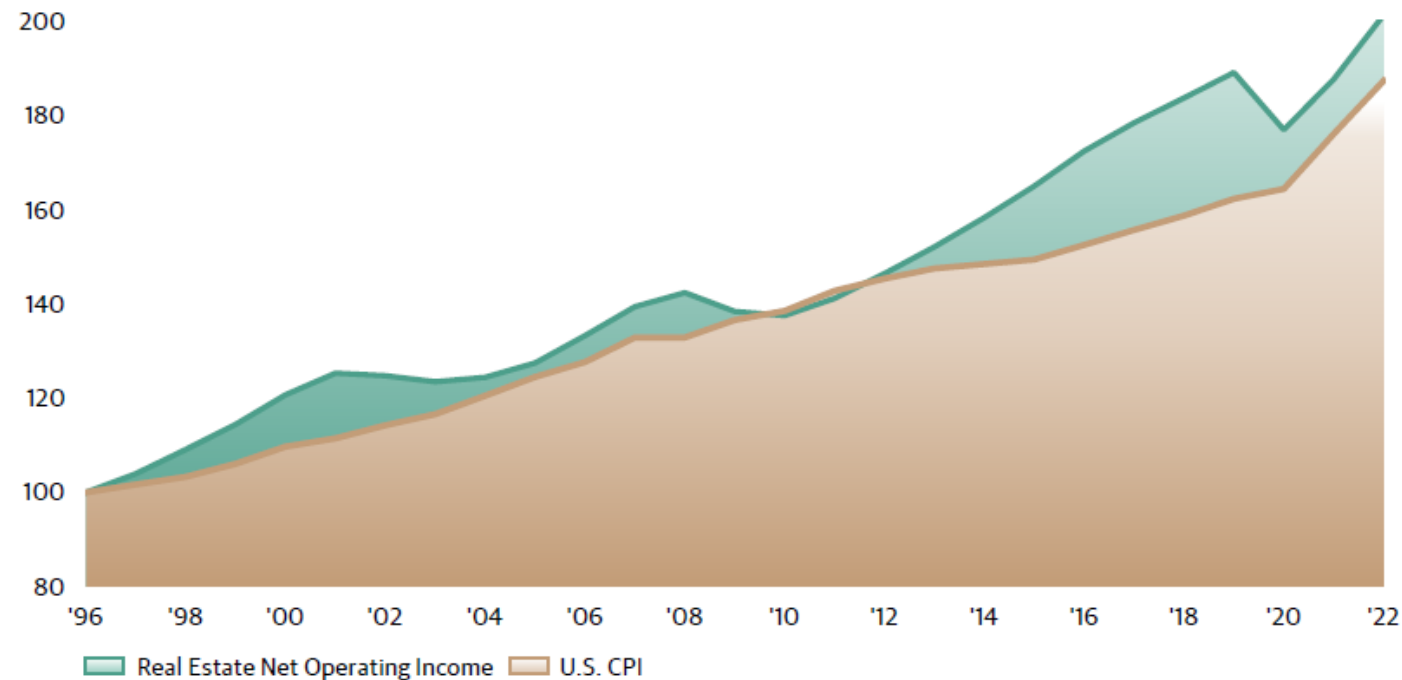
The investment basis is reset to market value for properly structured estates on death. This can be a significant benefit for your heirs.

# Inflation Hedge Potential

- Over the 26-year period ending December 2022, real estate NOI growth kept pace or surpassed the rate of inflation <sup>1</sup>
- Inflation increases the cost of new supply, which can either limit new supply, or push rent increases to earn an appropriate return on equity

## Real estate income and inflation

Indexed, 1996 = 100



<sup>1</sup> Green Street Advisors and Bureau of Labor Statistics as of December 31, 2022

# Multifamily Benefit Summary

- Preferred returns of 7% to 9% annually depending on share class
- Potential for annual average returns of 11% to 15%+ using conservative leverage
- Proven Inflation Hedge
- Proven Relative Performance in recessionary environments
- Non-correlated to the stock or bond markets
- Tax-advantaged income
- Tax-advantaged capital gains
- Tax-advantaged wealth transfer options
- Reduced volatility

# Multifamily Fundamentals

# Multifamily Fundamentals & Key Drivers

There are several interrelated multifamily performance drivers both intermediate and long-term. Historically, 31% to 37% of the US population lives in rental housing of some type.



## Population Growth

At the national level, overall population growth influences household formation and increases apartment demand.



## Employment Growth

Job growth drives both population growth and income growth at the metro-area level, which is ultimately supportive for occupancy and rent growth.



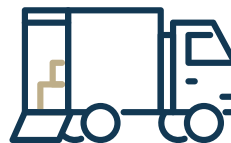
## Interest Rates

Interest rates (i.e., financing costs) are historically stable. *However, short-term interest rate volatility can create pricing opportunities.*



## Household Formation

Population growth, the overall economy, and psychographic preferences drive new renter household formation, which drives multifamily absorption.



## Net Domestic Migration

Looking at intra-US migration patterns to understand where and why households are moving is a key success factor for multifamily investment.



## State & Local Considerations

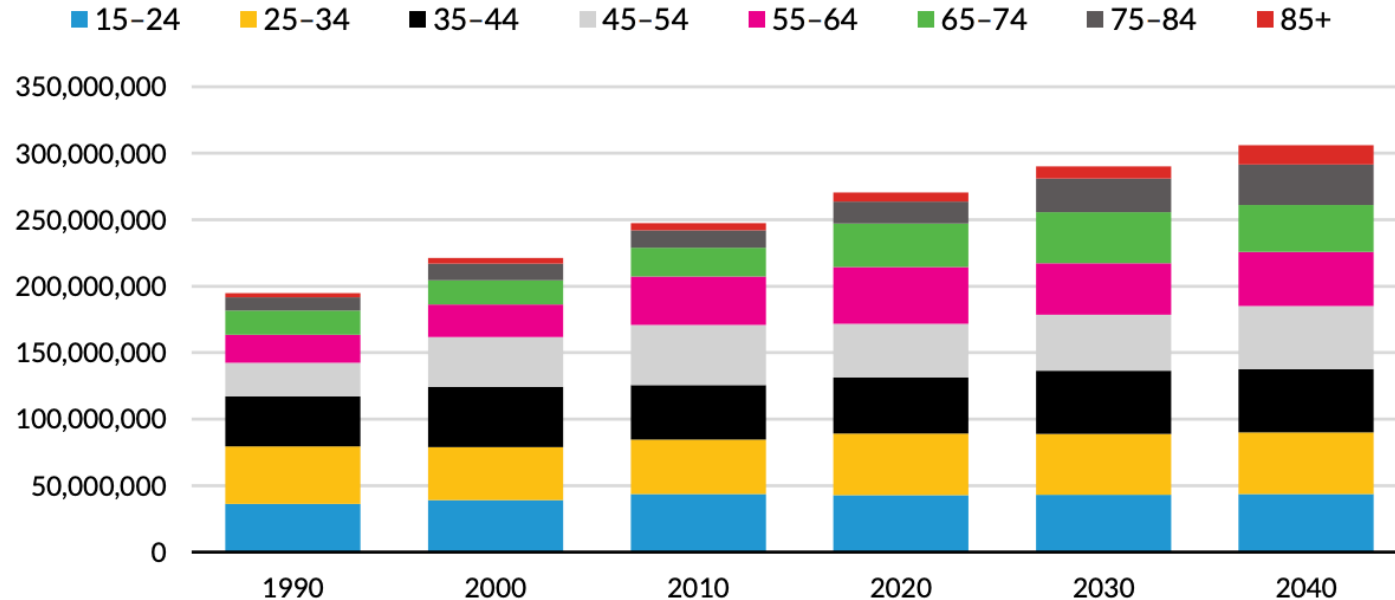
Landlord-tenant laws, zoning, business-friendly/unfriendly states and localities, and geographic proximity to natural disasters are all key considerations and can impact investment returns.

# Multifamily Fundamentals

## Population demand drive long-term performance

- Multifamily value generation is primarily a function of demographics
- Two key positive long-term demographic factors:
  - Positive overall population growth for the next 20+ years
  - Overweighted growth in renter household formation for the next 20 years

### Net Gains in Population, 15 and older, 1990-2040



URBAN INSTITUTE



# Continued Positive Household Formation

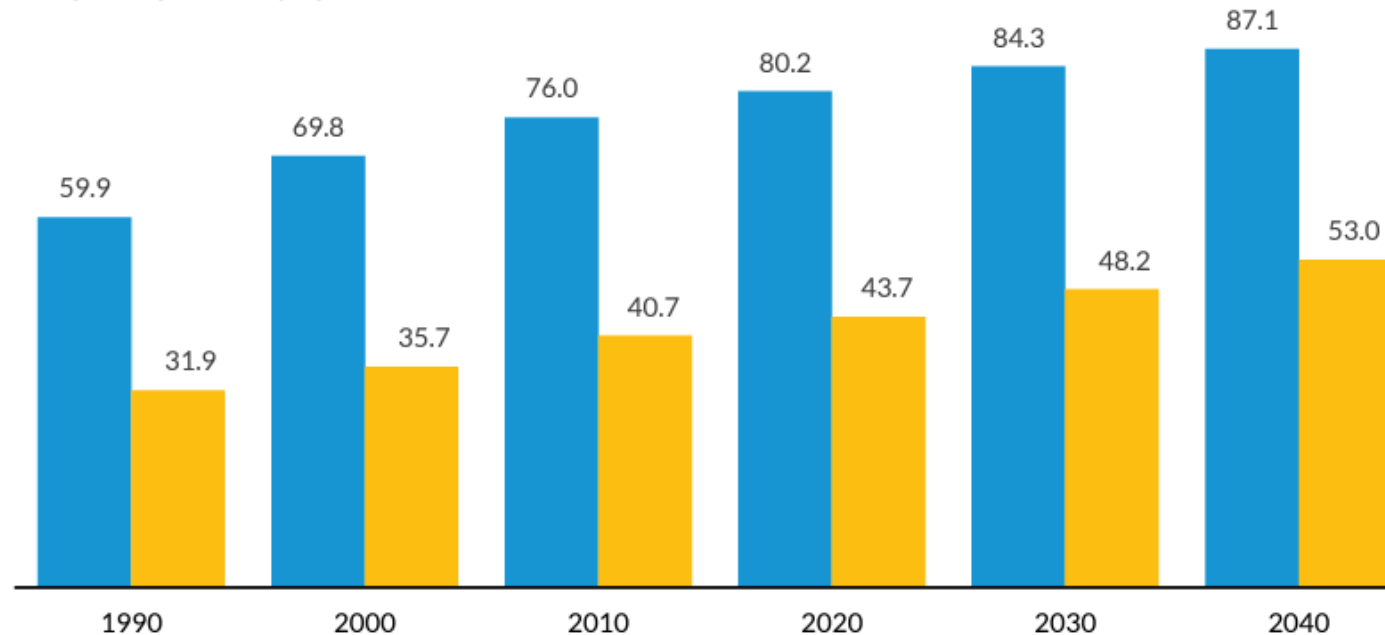
**Renter growth is forecasted to be more than twice the pace of homeowner growth from 2020 to 2040**

Homeowner Households are projected to increase from 80.2 million to 87.1 million between 2020 and 2040, a 9% increase. Notably, Renter Households are projected to increase from 43.7 million to 53.0 million, a 21% increase over the same period.

**Total Owners and Renters, 1990–2040**

Millions

■ Owners ■ Renters



# Psychographic Preferences

Understanding household rentorship/ownership preferences is a critical long-term success factor.

## Key preferences to consider:

1. **Covid Echo:** Covid's impacts created a permanent long-tail preference for lower-density locations (e.g., suburban garden-style). Individual entrances, heating/cooling, individual outdoor space, and larger floorplans are more desirable today than pre-Covid.
2. **Work-from-Home:** This is both a psychographic and demographic phenomenon. More and more employees want a certain level of work-from-home flexibility. Increasingly, though, there are companies and staff that 100% work from home. This is a strong driver of the following preferences.
3. **Technology Integration:** Smart home features, high-speed internet access, and tech-friendly common spaces
4. **Work-Life Balance:** On-site fitness centers, relaxation areas, and proximity to recreational spaces
5. **Cultural and Entertainment Amenities:** Proximity to entertainment areas is important to several resident profiles. In addition, cultural amenities such as theaters, museums, and art galleries, attract tenants who value cultural experiences as part of their lifestyle.
6. **Eco-Conscious Living:** Green building preferences and eco-conscious living are growing goals in certain demographic groups. Its desirability is asymmetric across different markets, though. Where feasible and impactful, showcasing the sustainable features and green initiatives available to residents will drive eco-conscious renter decisions.

# Multifamily Class/Grades

|                       | CLASS A                                                                                                                                                                                                                                                                                 | CLASS B                                                                                                                                                                                                                                                                                             | CLASS C                                                                                                                                                                                                                                                                  |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                       | <p>Generally, new construction through the first 10-15 years, depending on continued maintenance. Typically, in prime locations with modern design, layouts, and amenities. Attracts higher-income tenants renting out of amenity/location preference at or close to premium rents.</p> | <p>Offer a solid investment, providing dependable real estate in well-located areas, sturdy construction, and attracting middle-income tenants with reasonable rental rates, making them a balanced choice for investors seeking affordability and growth potential with competitive cap rates.</p> | <p>Situated in transitioning or less affluent neighborhoods, offer budget-friendly options with older construction requiring more maintenance and updates. Typically lacking the the most current or desirable resident amenities. Potential for subsidized renters.</p> |
| <b>Location</b>       | <ul style="list-style-type: none"> <li>• Prime locations in desirable neighborhoods</li> <li>• Proximity to amenities, cultural attractions, and business centers</li> </ul>                                                                                                            | <ul style="list-style-type: none"> <li>• Good locations in established neighborhoods</li> <li>• Accessible to amenities, schools, services</li> </ul>                                                                                                                                               | <ul style="list-style-type: none"> <li>• Found in transitioning or less affluent neighborhoods</li> <li>• Proximity to basic amenities, may lack proximity to upscale attractions</li> </ul>                                                                             |
| <b>Tenant Profile</b> | <ul style="list-style-type: none"> <li>• Typically attracts high-income tenants</li> <li>• Demanding higher rents</li> <li>• Moderate tenant turnover</li> </ul>                                                                                                                        | <ul style="list-style-type: none"> <li>• Attracts middle-income tenants</li> <li>• Offers reasonable rental rates</li> <li>• Moderate tenant turnover</li> </ul>                                                                                                                                    | <ul style="list-style-type: none"> <li>• Attracts a diverse tenant base, including middle-income and budget-conscious renters</li> <li>• May experience higher tenant turnover</li> </ul>                                                                                |
| <b>Investment</b>     | <ul style="list-style-type: none"> <li>• Higher upfront investment</li> <li>• Typically, lower cap rates</li> <li>• Lower maintenance costs</li> </ul>                                                                                                                                  | <ul style="list-style-type: none"> <li>• Moderate upfront investment</li> <li>• Competitive cap rates</li> <li>• Potential for value-add strategies</li> </ul>                                                                                                                                      | <ul style="list-style-type: none"> <li>• Lower upfront investment compared to Class A</li> <li>• Potential for higher cap rates</li> <li>• Regular upkeep/updating likely necessary</li> </ul>                                                                           |

# Market Selection Matters

# Why Market Selection Matters

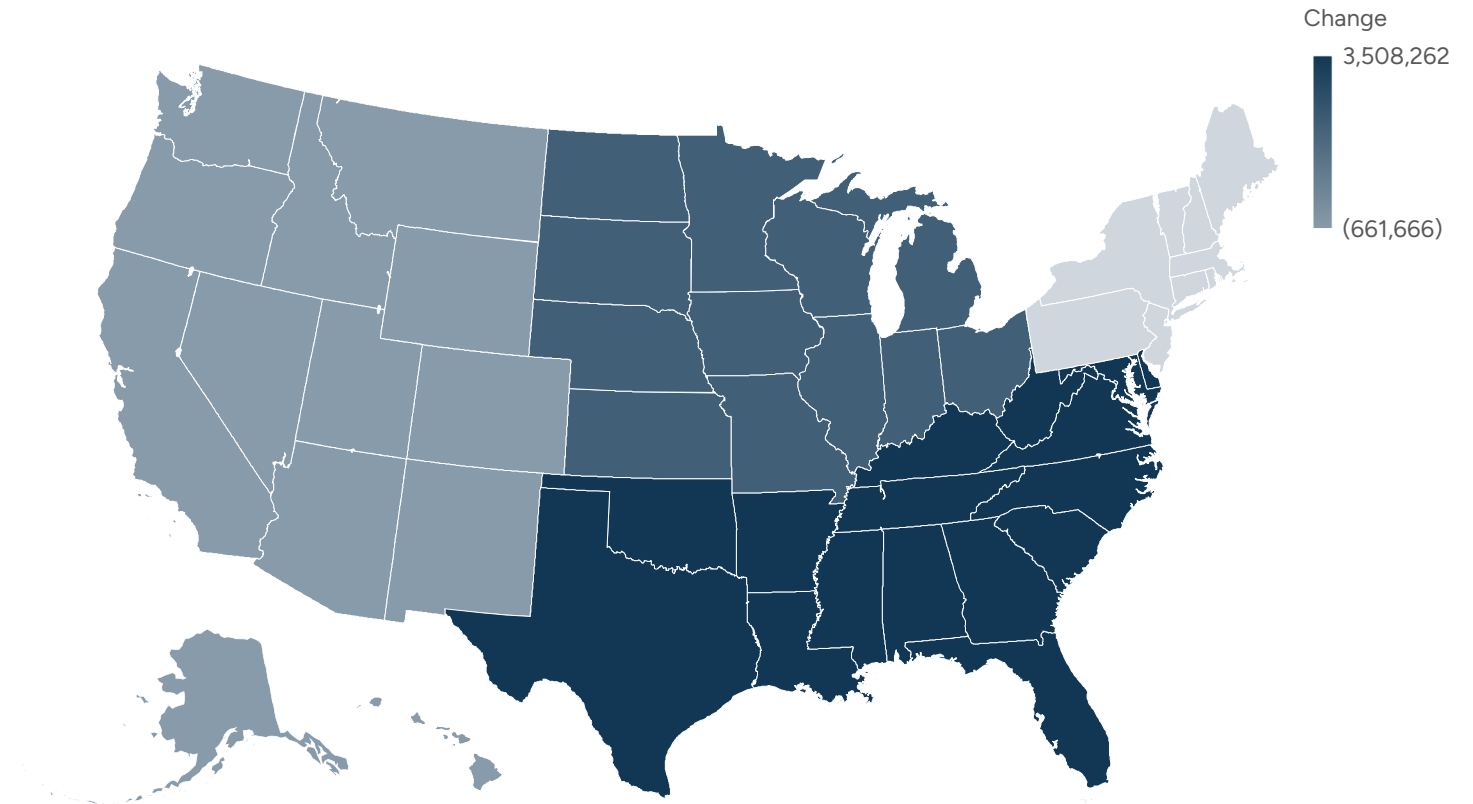
**Strong Net Migration:** The South and Southeastern U.S. stand out with a materially positive population change driven by strong net domestic migration.

**Economic Magnet:** These regions are significant employment growth and income growth centers attracting professionals seeking better career opportunities in business-friendly environments.

**Lifestyle Appeal:** Beyond economic factors, the South and Southeast have highly attractive lifestyle features. Warmer climate, diverse entertainment options, and recreation opportunities are all attractive features to renter households.

## Sun Belt Leads Largest Population Growth In US Cumulative Change, April 1, 2020 to July 1, 2024

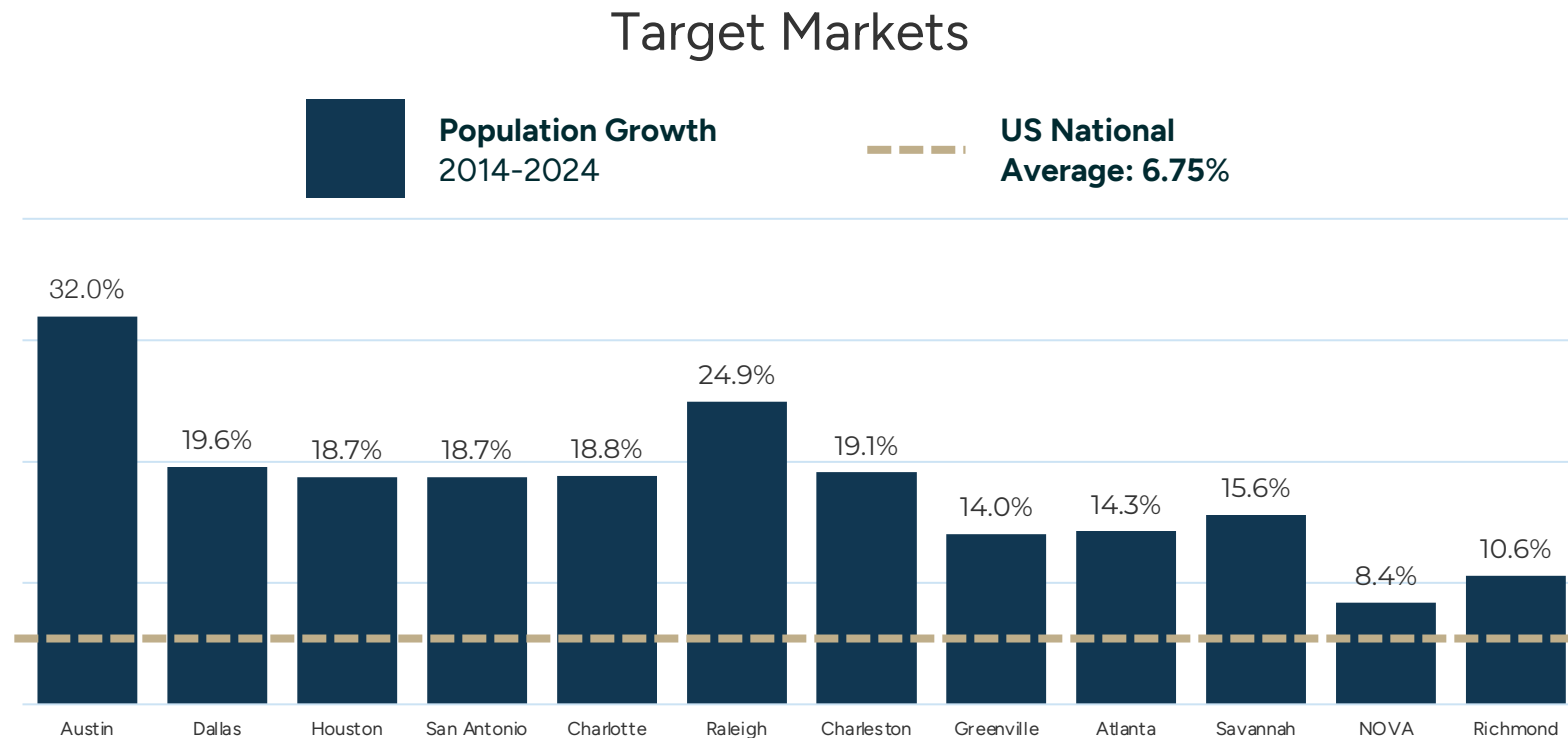
Net Migration by Region





# Outsized Population Growth

Population growth in our target markets is typically over 2x the national average. On a relative basis, faster growing markets will drive stronger demand and rent growth and keep occupancy higher than slower growing markets.<sup>1</sup>



<sup>1</sup> US Census Bureau, Real Estate Center at Texas A&M University



# Employment Growth

Employment growth in our target markets typically outpaces the national average.  
On a relative basis, markets with faster employment growth will attract more households and more renters.<sup>1</sup>



<sup>1</sup> US Census Bureau, Real Estate Center at Texas A&M University, Bureau of Labor Statistics

# **2025-2026 Headwinds and Opportunities**



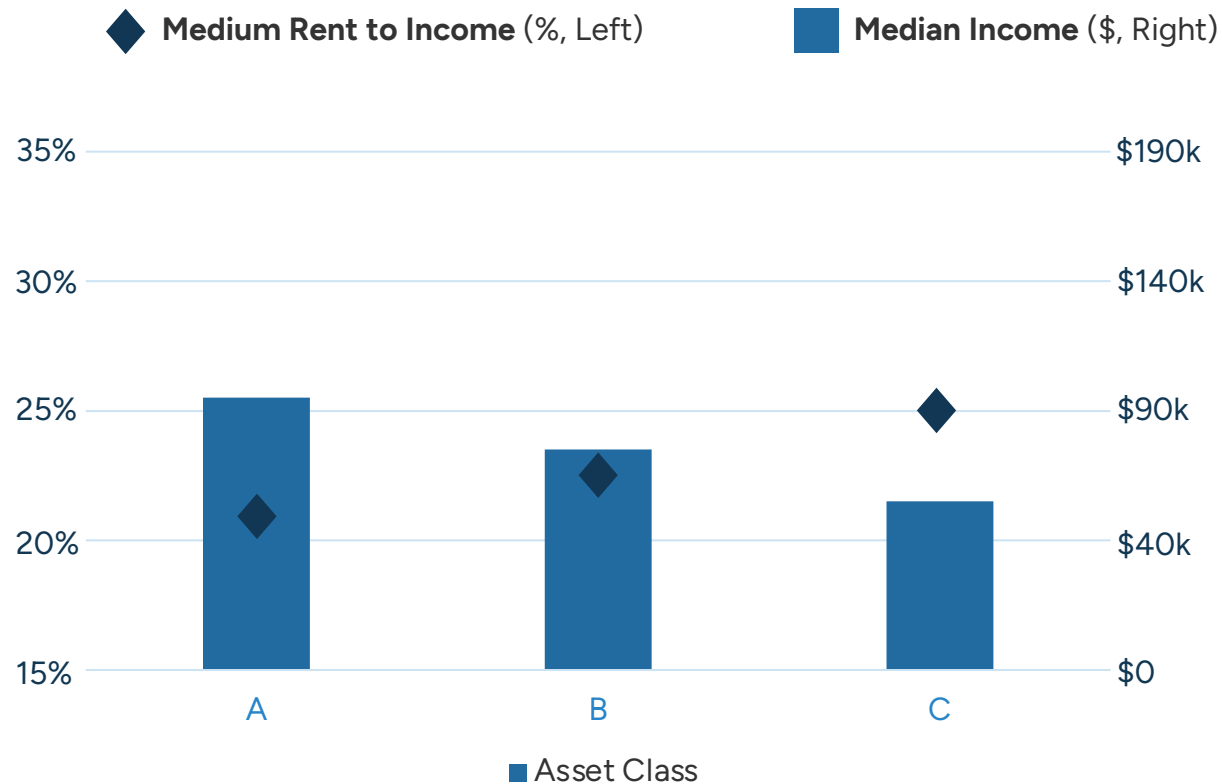
# Headwinds

- Transactions will be limited in Q1-Q2 2025. This is expected to improve once the Fed provides more clarity on rate cuts or a rate hold.
- Higher current interest rates increase borrowing costs even though the current 10-year rate is close to the long-term average. The prior decade's interest rates were lower than average.
- Oversupply in certain submarkets will increase vacancy and lower rent growth in those locations. However, that oversupply is forecasted to be absorbed in the next 12 to 24 months.

# Continued Room for Rent Growth

Rents are still affordable in our Class B and Class C target resident group<sup>1</sup>

## Apartment Property Class and Affordability are Inversely Correlated

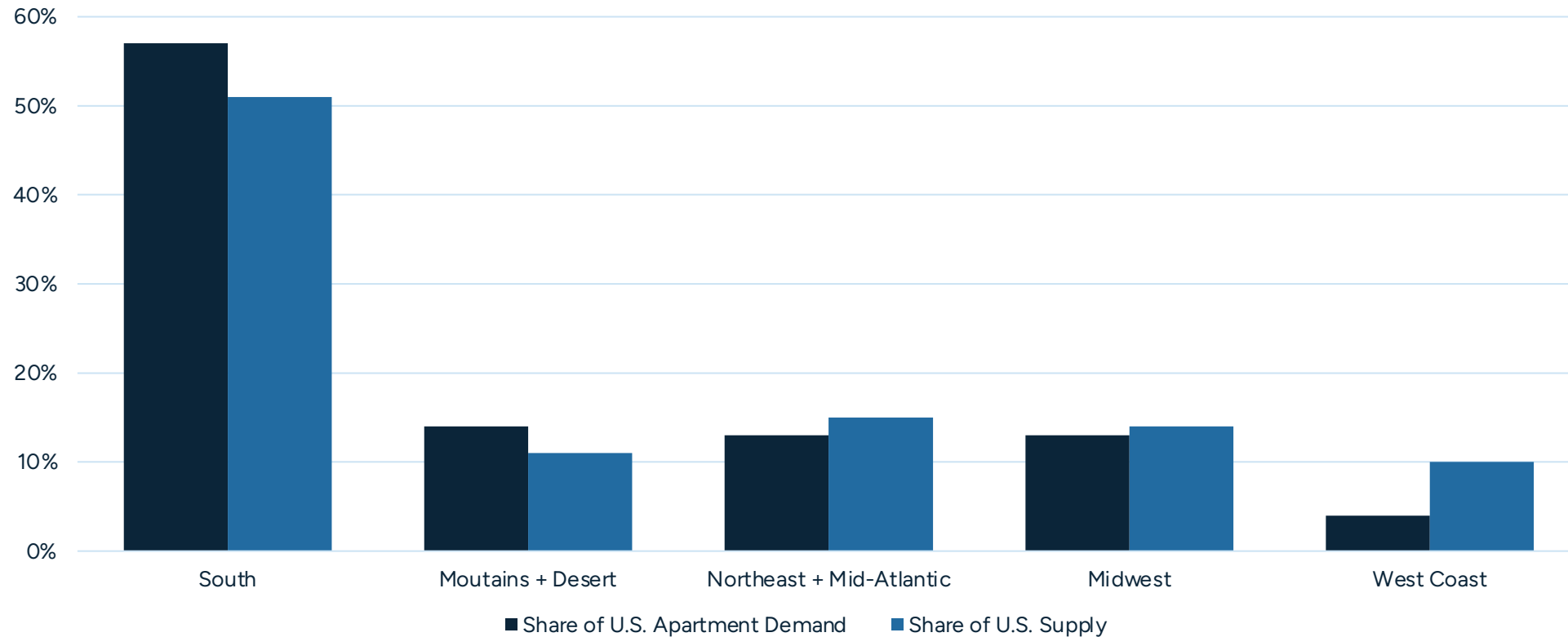


Best practices utilize the **3x Rent Rule**, which states that a prospect's annual gross income must be 3x the monthly rent amount (33% Rent to Income Ratio)

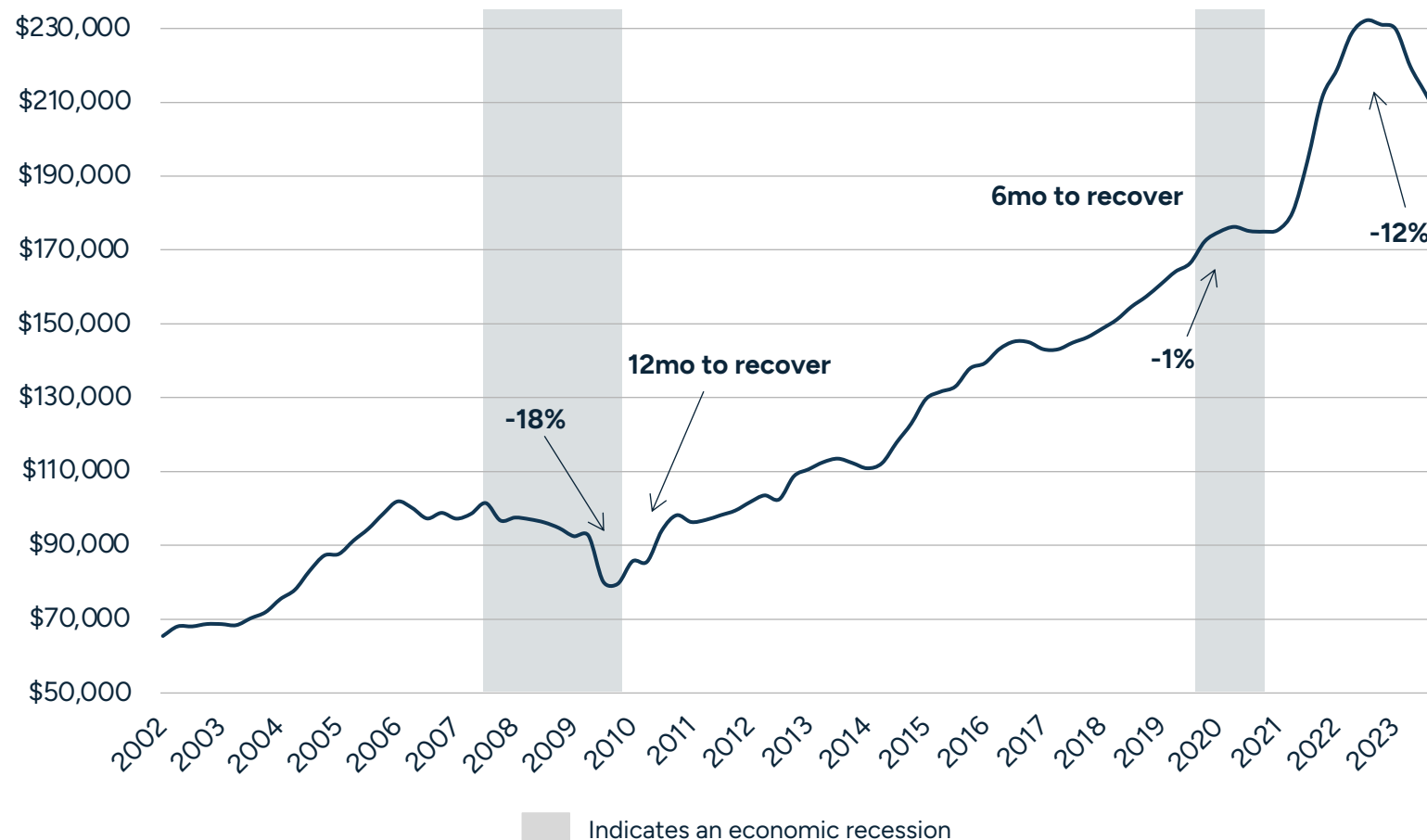
<sup>1</sup> RealPage Q3 2023 Market-Rate Apartment Affordability Report

# Even at record levels of supply the South and Southeast have more than enough demand

South Region Claims Half of All New Supply in 2024, and Nearly 60% of All Demand



# Downturns are rare and create buying opportunities



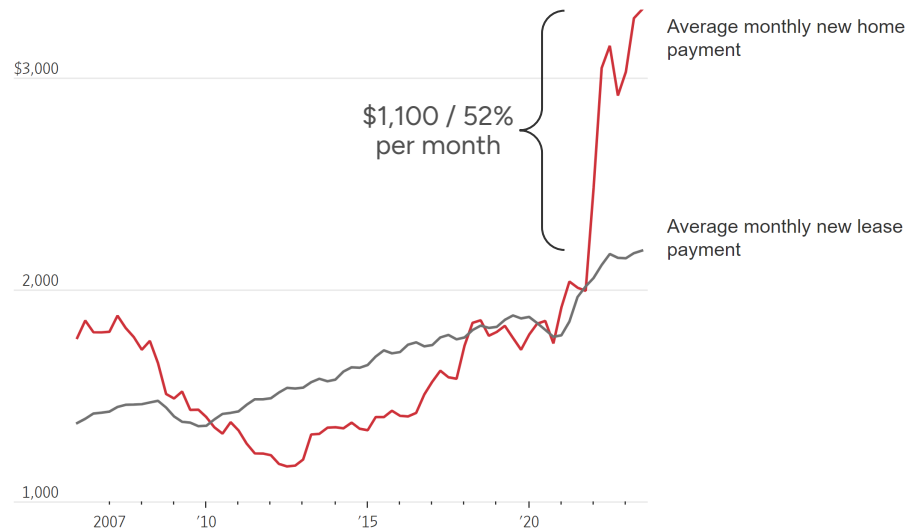
Source: RCA Export Data, Q4 2023

# Affordability at its Lowest

Lack of affordability and new housing is a long-term driver of apartment demand

## Premium/Discount to Buy a U.S. Home Versus Renting

Cost of renting vs. owning

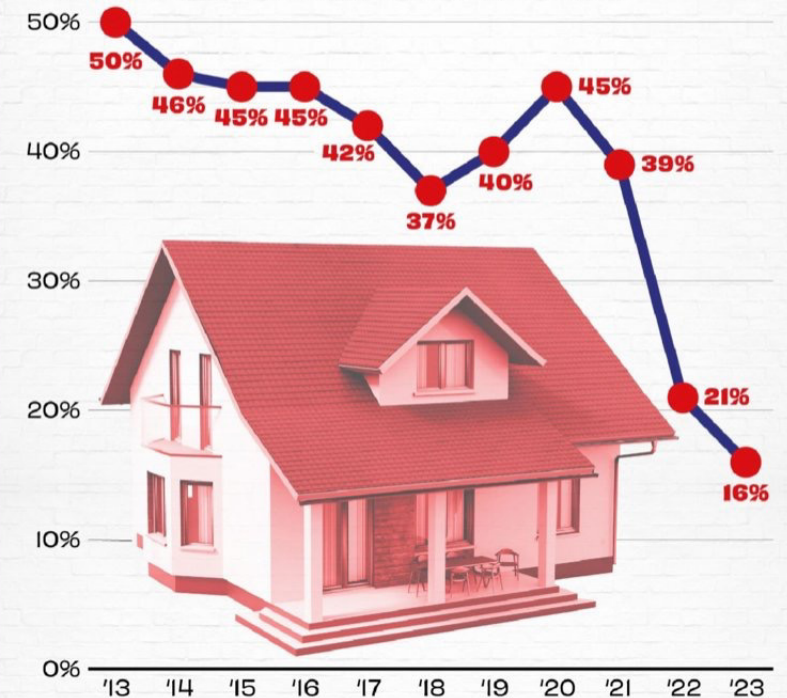


Sources: CBRE Research, CBRE Econometric Advisors, Freddie Mac, U.S. Census Bureau, Realtor.com, FHFA

## U.S. Home Affordability in Decline

An affordable listing has a monthly mortgage payment **no more than 30%** of the median monthly income of that county.

Share of Home Listings Affordable on Median Income



Source: Redfin

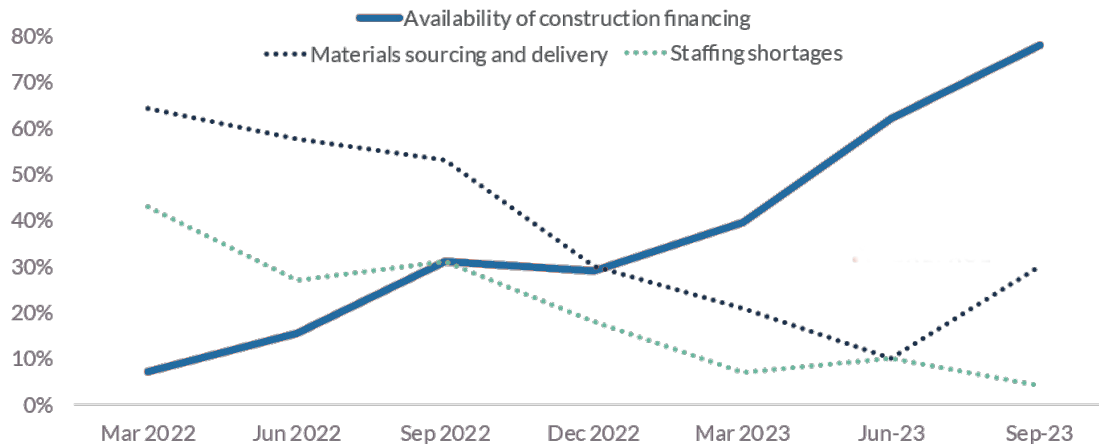
# Construction Starts Falling

## Limited New Construction Supports Pricing Power for in-place Assets

Rental housing undersupply of 4 million homes since the Global Financial Crisis, with greatest concentration in the southeast, which has experienced 8x growth vs. the greater U.S.

### Apartment Starts Now Seeing Indefinite Delays Due to Lack of Construction Financing

NMHC Survey: Reasons for Delayed Apartments Starts (select shown)



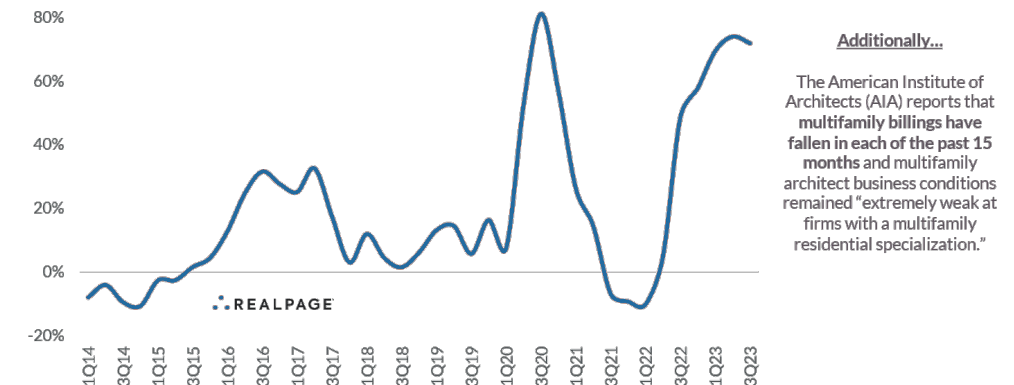
Source: National Multifamily Housing Council (NMHC) Quarterly Survey of Apartment Construction & Development Activity Multiple responses allowed, but narrowed to only three select reasons shown in chart. For full survey results, visit: <http://www.nmhc.org/research-insight/nmhc-construction-survey/>

### Historical & Forecast Multifamily Construction Starts



### Nearly 75% of U.S. Banks Further Tightened Construction Lending in Q3'23

Fed: Share of Banks Tightening Loan Standards for CRE Construction



# Interest Rates to Decline

It appears to be a matter of 'when' rather than 'if' the Federal Reserve will lower rates, as indicated by the central bank. Despite ongoing inflation concerns, the Federal Reserve increased the federal funds rate 11 times between March 2022 and July 2023. In their January 2024 session, the Fed outlined a plan for **three quarter-point cuts by the end of 2025**, aiming to bring the benchmark rate down to 4.6%.

While inflation has eased slightly, the Federal Reserve has indicated it needs more consistent progress before initiating meaningful rate cuts. At its first policy meeting of 2025 on January 28-29, the Federal Open Market Committee (FOMC) held the federal funds rate steady at a target range of 4.25 % to 4.50 %. Later, on September 17 the Fed reduced the target range by 25 basis points—bringing it to 4.00 % to 4.25%. In the short to mid-term, the markets expect additional cuts.

## Buying when others are fearful

Investing in multifamily real estate during market fear allows for acquiring discounted properties with potential for long-term appreciation and income generation. Taking a contrarian approach, investors can leverage temporary downturns to secure fundamentally sound assets at lower prices.

**Want to Learn More?**



# Continued Learning

How can we help?

**Schedule a Call**

Victor Hernandez,  
Founder | CEO  
Keysight Group, LLC

If you are unable to find a time,  
feel free to call Victor directly  
at 305.724.9633 (mobile).

**KeysightGroup.com**



Learn More