

# THE COMMERCIAL FLOORING REPORT

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## The Multi-Family Housing Market

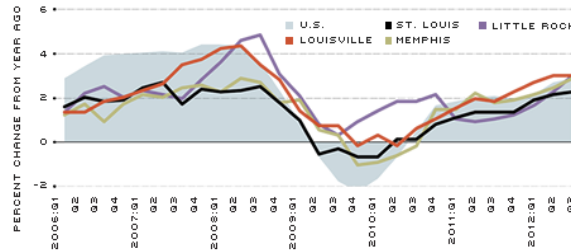
Multi-Family housing is described as buildings with more than four residential units. It is primarily residential rental property but also includes townhouses and condominiums. The market itself is fragmented with individuals who own multiple properties, local singleton properties held by one owner, and large complexes owned by larger corporations who also build and operate other commercial properties such as class A, B and C space. In addition companies who build developments of single family homes often own multi-family apartment complexes or townhouses both of which may be co-mingled in the same development. The flooring industry is broken into several segments and the Multi-Family housing market is one of them. The unique feature of this market is that it is serviced by three varying flooring groups; commercial flooring contractors who often have a division for this, retail dealers who participate in the segment, possibly with a Main Street Market (small business) division and true dedicated multi-family flooring contractors who often supply other services such as kitchens and bathrooms. In addition the manufacturers may be selling direct to the large projects.

Not all flooring manufacturers participate in the multi-family market since this market typically does not purchase above a particular level of quality or performance and the life cycles can be fairly short for a unit. Succinctly put, this is the lower end of the flooring market but a high volume segment for those that are in it. So the manufacturers of carpet supplied to this market are the biggest of the big producing massive volumes of these products. Small to medium sized flooring manufacturers who provide product strictly to the commercial market won't be found participating in the multi-family market. Having said that the size of the multi-family market is huge and getting bigger.



Typical Multi-Family Carpet

Just look at the following information from the Federal Reserve Bank of St. Louis in The Regional Economist issue of January 2013 entitled, "Multifamily Rental Housing is Growing: Yesterday's Buyer is Today's Tenant by Silvio Contessi and Li Li. "New construction remained a rarity in most markets until 2012 and is only now developing steam. This is despite the fact that the overall population has continued to grow at the same basic pace. The result has been record low vacancy and explosive rental growth. Only 17 of the 49 major metropolitan markets that we track currently have a multifamily vacancy rate above 5%, with just two of those reporting vacancy in excess of 7%. Most first tier gateway markets have seen aggressive double digit rental rate growth over the past three years (at least for product not impacted by the local rent control policies that are in place in a handful of markets), even markets where the recovery has been subpar have posted above average growth. We are underbuilding multifamily units in many U.S. markets.



<http://www.stlouisfed.org/publications/re/articles/?id=2320>

At the center of this pent up demand are young people—especially those who have lived with their parents but are now seeking to nest in a place of their own.

## REASONS

What explains the fast-closing gap between the demand and supply of apartments? First, the availability of finance has become an important barrier for potential homeowners. Despite the historically low mortgage interest rates and the high housing affordability index, many prospective buyers for new and existing homes are being rejected by mortgage providers due to underwriting standards that are stricter now than before the real estate crisis. According to several real estate agents applicants with even the slightest blemishes on their credit records are being refused mortgages, even if they are well-employed.

Second, potential first-time homebuyers are facing competition from investors, who can pay cash up front. Private investor, real estate investment trusts (REITs), public and private pension funds, and venture capitalists are becoming more active in the housing market. Some of these companies, such



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as venture capital enterprises, pool financial resources to invest in the apartment segment, anticipating hefty profits from "buy now and sell later" strategies.

Third, renting has become more appealing to younger people who, before the crisis, would have been eager homebuyers. In part, this is a response to changes in lifestyle, as younger more-educated households prize their mobility and flexibility; they are also discouraged by the substantial responsibilities, costs and, especially, risks attached to homeownership. In the end, they are more willing to pay rent than to own equivalent properties. Another reason for younger generations to be skittish about buying homes stems from their being scarred by the labor market outcomes of the Great Recession; they are having trouble finding jobs that match their skills—or finding any job.

### **WHAT DOES THE FUTURE HOLD?**

The robust multifamily rental market is triggering a strong response in the multifamily construction segment. Anecdotal evidence suggests that multifamily developers have intensified the search for new projects; even those companies that normally focus on offices are looking to invest in multifamily housing.

Multifamily recovery is mainly driven by two factors. First, millions of families were displaced from single family homes to apartments as a result of foreclosures. Second, without promising job opportunities, young, newly formed households tended to choose renting apartments over buying single-family houses."

The growth in any market starts a feeding frenzy like sharks drawn to blood. The manufacturers who provide the flooring products are seeing growth, the supply and installation of those products is where to be wary. As was the case when the economy started to tank, retail flooring dealers started showing up on commercial flooring projects ill equipped to handle the task at hand, often muddying the waters, complicating projects,

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undermining qualified commercial flooring contractors and driving down pricing which only resulted in costing more overall from botched jobs. Though the multifamily markets installation of flooring materials is more like residential installations, it still requires the work of firms who have skilled installers with the financial wherewithal to be able to do the job and remain financially sound. This is a price driven market but one always has to remember you get what you pay for and if you don't pay much that's what you get.

**THE FLOORING PRODUCTS**

The majority of the multifamily housing market has traditionally used broadloom carpet and sheet vinyl flooring but, as with all market segments, hard surface flooring continues to encroach on soft surface products. Depending on the geographic location, tile is taking more space on the floor as well as wood and luxury vinyl tile. Most of these products are going to be from the residential side of the market but used in a pseudo commercially oriented application. That being said you have to consider the economic category of the multifamily space and select the appropriate product. Some will be inexpensive with planned obsolescence, sometimes replaced at almost every turn of tenant and others will be higher end, with greater long term integrity and more expensively positioned in the category.



## THE CARE OF THE PRODUCTS

One thing we've found over the years is regardless of the product, the care is less than stellar. Unfortunately price drives this market and the lowest priced cleaner, who basically blows in and out at several cents a square foot pricing, cannot do an adequate job of cleaning the carpet. This has lead owners and managers to think there's a problem with the product. We've proven this incorrect time and again. By taking products said to be impossible to clean or those felt to have a problem because they don't respond to the cleaning attempts being made, we've actually removed the carpet from whole units to subject them to proper cleaning and have achieved excellent results. The challenge lies with what has to be done to get the carpets clean and it requires efforts above the costs being expended by a complaining owner or manager. So, maintenance has to be adequate to the longevity and appearance of the carpets being used. Another factor is the tenants themselves creating problems in common spaces with carpet "ugly out." This is caused by trash being taken to the waste bins or dump chutes, dripping, spillage and contamination due to leaking plastic bags. Another killer culprit is bleach dripping which will damage the color of the carpet. All of these things will leave tell-tale signs that are irrefutably exhibited by the evidence. These conditions are often seen in the corridors of high rise condos and present unexpected problems.



The multifamily market poses unique challenges to flooring materials. It can present disillusionment to those who don't fully understand what the performance levels are of the products being used and, if not properly specified or cared for, can cost far more than a low initial cost. Remember, the flooring material doesn't care what you think it should do, it only responds to what it is capable of doing. You can't put a square peg into a round hole.

If you have any questions about flooring materials, performance characteristics or anything related to flooring, regardless of what it is, we have answers.

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