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Navigating the
multifamily reset

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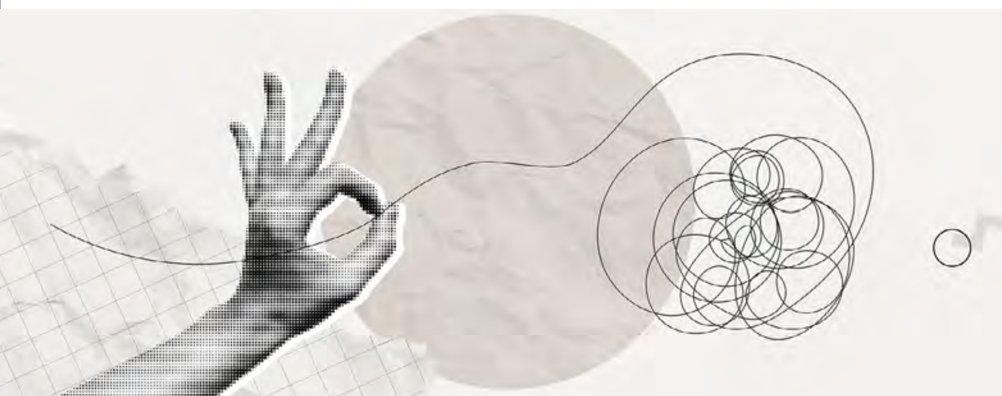

PUBLISHER'S NOTE

The value of chaos

The phrase for 2025 is strategic optimism as the economy moves on from the anxieties of 2023. While some markets continue to experience challenges, multifamily investors and developers see opportunity driven by solid housing demand and affordability pressures—rather than stuck interest rates.

Favorable to multifamily operators is the emergence of a strong "flight to quality." In major metros like Austin, Chicago and Dallas, compressed cap rates for Class A assets underscore investor confidence in stabilized, high-quality buildings.

Even in oversupplied markets like Austin, premium properties are boasting near-full occupancy—a testament to continued demand from high-income renters who are either priced out of homeownership or choose to rent. This preference creates fertile ground for developers and operators focused on amenity-rich, well-located product anchored to growing business centers.

The value-add segment is another bright spot. In multiple U.S. regions, declining cap rates for acquisitions are signaling investors' belief in renovation and operational improvement strategies. Even where regional headwinds persist, the appetite for value-add properties remains ever-strong.

Those who adapt quickly to receding regulatory and other favorable market conditions are already finding success. Wood Partners shifted focus from highly regulated West Coast markets to the Southeast, capitalizing on lower barriers and strong demand for workforce housing. It's another indicator of the sector's resilience.

The noise of politics is hard to ignore as it runs through it's seemingly chaotic machinations and contortions. By design. Chaos begets innovation by disrupting the status quo and forcing new ways of thinking.

Unpredictable environments expose gaps and weaknesses in existing systems, motivating experimentation, adaptation, and innovation. When the usual rules no longer apply, bold ideas and unconventional approaches gain traction.

History shows that many of the greatest advances—in technology, business and society—arise during periods of uncertainty. In short, chaos acts as a catalyst: breaking patterns, freeing resources, and accelerating the search for transformative breakthroughs that may not have emerged in more orderly times.

I'm very much looking forward to the final product.

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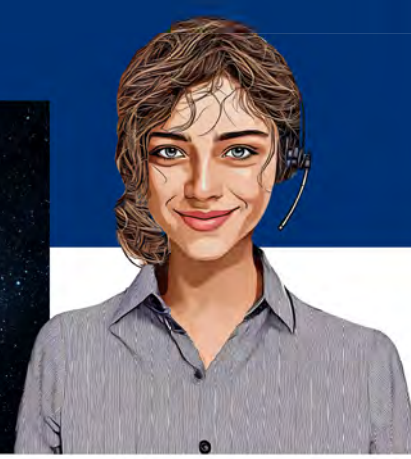
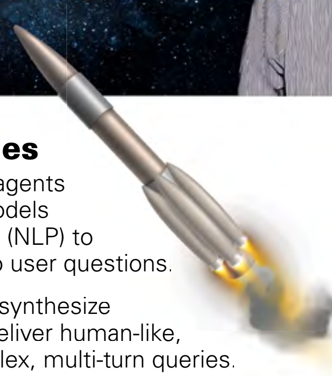
What just happened?

AI-powered answer engines are quickly supplanting search engines, upending a paradigm that has defined how billions of people accessed information for decades. Traditional "blue link" results have suffered from the rise of zero-click searches, and AI is accelerating this trend.

As the information age matured, users' demand for immediate, context-rich answers grew. AI-powered answer engines, built atop massive large language models (LLMs) and generative AI advancements, have greatly improved the quality and precision of responses, essentially removing the need for click-throughs.



Evolution of information access



AI-powered answer engines

Advanced AI systems or conversational agents use machine learning, large language models (LLMs), and natural language processing (NLP) to provide direct, context-aware answers to user questions.

Output: AI answer engines can reason, synthesize information from multiple sources and deliver human-like, dynamic responses—even solving complex, multi-turn queries.

Chatbots

Automated programs designed to conduct conversations with users, often using scripted responses or simple decision trees.

Output: Chatbots excel at handling basic, repetitive tasks—such as answering common support questions, providing information from a knowledge base, or guiding users through a set-up process.

Search engines

Search engines like Google index, crawl, and rank websites to help users find relevant information based on keywords or phrases.

Output: Lists of blue links, each leading to external content. Users then choose and synthesize information themselves.

The 20-year crawl

Search engines crawl the world's web pages and return a ranked list of related links—effective but reliant on the user's ability to interpret results. The process, while comprehensive, still required users to read and prioritize results.

Aristotle (384–322 BC) is credited with inventing formal logic and the foundations of scientific inquiry. Aristotle's taught that rational activity in accord with virtue leads to human flourishing. Thus, excellence is not just intellectual, but involves cultivating moral virtues and living in harmony with oneself and society.

Even as LLMs become more logically capable, their reasoning is not yet equivalent to symbolic nor formal logic systems. Best results come from combining both neural and logical approaches. Despite these advances, LLMs still struggle with deep logic reasoning, especially with more variables, abstract concepts or unfamiliar situations. They can sometimes guess or pattern-match instead of truly applying logic. Their logical reasoning is often brittle to context changes or phrasing tweaks.

AI-powered browsers

by U.S. market share

Google Chrome (Gemini) **51.05%**
Apple Safari (Apple Intelligence) **31.06%**
Microsoft Edge (Copilot mode) **6.96%**
Mozilla Firefox (AI Limited) **6.2%**
Brave (Leo AI) **2.5%**

The remaining users are divided among rising competitors like Opera (Aria), Perplexity (Comet), OpenAI Browser (limited), Arc (Dia) and Vivaldi (anti-AI) each holding less than 1 percent.

AI-powered chatbots

by U.S. market share

ChatGPT OpenAI **60.5%**
Microsoft Copilot (uses GPT-4) **14.3%**
Google Gemini **13.5%**
Perplexity **6.2%**
Claude AI Anthropic **3.2%**

The remaining users are divided among rising competitors like Grok, Deepseek, Brave Leo AI and Komo, each holding less than 1 percent.

-64%
the erosion of high-traffic keywords to sites after AI-generated answers were launched. AI-generated results often satisfy user queries, hard stop. Click-through rates (CTRs) drop greatly when AI summaries appear.

-34.5%
The average CTR drop for organic links. This aligns with Google's own experiments: the Search Generative Experience (SGE) tests confirmed that AI summaries reduce clicks on traditional results.

The few clicks that do occur concentrate on AI citations or related questions, rather than the lower-ranked organic results. Google's CEO Sundar Pichai noted that content and links inside an AI Overview get higher CTRs than if they were only in the regular results.

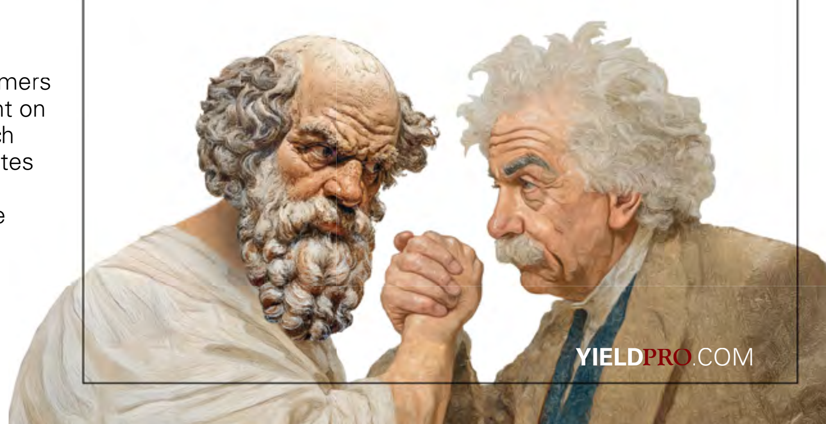
+40%
of visits went to LLMs among early adopters already using LLMs on desktop browsers in April, 2024 (up from over 24 percent, June, 2024).

-15%
Traditional search engines' share of the desktop browser traffic from these early adopters in the same period.

-3%
The time consumers worldwide spent on traditional search apps and websites (April, 2024 to April, 2025). The drop was twice as high in early LLM adopters.

Reason v. logic

Socrates and Einstein. One the father of Western philosophy. The other, the father of modern physics having laid the groundwork for quantum theory. As AI begins to permeate more of our daily world, will their contributions wrestle or unite?



SOURCE: THE RISE OF ANSWER ENGINES: WHY SEARCH ENGINES MAY SOON BE A THING OF THE PAST, SOFTWAREREVIEWS; AI ENGINES ARE STARTING TO CHALLENGE GOOGLE'S SEARCH DOMINANCE, VOCAL MEDIA; GOOGLE'S AI OVERHAULS SEARCH, SHIFTING FROM LINKS TO DIRECT ANSWERS, THE AI JOURNAL; ANSWER ENGINES: HOW ARTIFICIAL INTELLIGENCE IS UPENDING HOW WE SEARCH THE WEB, LBB ONLINE; THE SHIFT TO AI ANSWER ENGINES. A CHALLENGE FOR GOOGLE? BIZCOMMUNITY; WILL AI REPLACE SEARCH ENGINES? WHAT MARKETERS MUST KNOW! WRITESONIC; WHAT IS NLP (NATURAL LANGUAGE PROCESSING)? IBM; WHAT IS NATURAL LANGUAGE PROCESSING (NLP)? ORACLE; NATURAL LANGUAGE PROCESSING - WHAT IS NLP IN AI? CLOUDFLARE; DATOS; 2024 SPARKTORO AND DATOS STUDY

The problem with overreach

3,000-4,500
number of new rules published each year

$100 million
added cost to the economy of new regs annually (avg.)

$1 trillion
economic cost of federal regs added over last 3.5 years

This does not include state/ local regulations. The cost of regulatory burden falls to workers, businesses and consumers.

What is government itself, but the greatest of all reflections on human nature? The very need for government with checks and balances reflects the reality that humans cannot be trusted with unlimited power—they will inevitably overreach if given the opportunity.

—James Madison
Federalist Paper #51

The Trump administration's repeal of the EPA's 2009 "endangerment finding" for greenhouse gas emissions eliminates approximately **$54 billion in annual regulatory costs** across all sectors. This massive deregulatory action directly reduces compliance burdens that have been filtering through to apartment development costs, as regulatory expenses currently account for **40.6 percent of multifamily development costs.**

Clean Air Act no longer applies to carbon dioxide, greenhouse gases

Energy Secretary Chris Wright and EPA Administrator Lee Zeldin have determined that CO_2 is fundamentally different from traditional pollutants as it is "odorless, does not affect visibility and has no toxicological effects at ambient levels." This legal interpretation removes the Clean Air Act's application to greenhouse gas regulation, eliminating a major source of environmental compliance costs for apartment buildings and construction projects.

Energy Secretary Chris Wright said that the last "sixteen years of uncertainty" are being eliminated for businesses. **By establishing legal precedent that agencies cannot regulate greenhouse gases without explicit Congressional authorization,** apartment builders and operators gain long-term regulatory certainty—enabling more confident investment and development planning. Wright's agency is rolling back many other regulations including climate-based zoning and land-use restrictions.

SOURCE: BEN SHAPIRO'S INTERVIEW WITH ENERGY SECRETARY CHRIS WRIGHT, JULY 30, 2025; NAHB, JUNE, 2022; "TRUMP'S EPA TARGETS KEY HEALTH RULING UNDERPINNING ALL US GREENHOUSE GAS RULES," REUTERS, JULY 29, 2025; "EPA TO REVOKE 'ENDANGERMENT FINDING,' LANDMARK BASIS FOR REGULATING GREENHOUSE GASES," CBS NEWS, JULY 29, 2025; "EPA RELEASES PROPOSAL TO RESCIND OBAMA-ERA ENDANGERMENT FINDING REGULATIONS PAVED WAY FOR SWEEPING CLIMATE RULES," EPA NEWS RELEASE, JULY 30, 2025; "ENERGY DEPARTMENT GOES ON DEREGULATION BINGE," THE WELL NEWS, MAY 2, 2025; "ENERGY DEPARTMENT SLASHES 47 BURDENSOME AND COSTLY REGULATIONS," U.S. DOE, MAY 12, 2025; "EPA LAUNCHES NEW ENERGY STAR RESIDENTIAL STANDARD," MULTIFAMILY DIVE, MAY 9, 2024; "MULTIFAMILY PROGRAM REQUIREMENTS," ENERGY STAR, JAN. 1, 2016

Regulating air: A fast history

1970

Clean Air Act authorizes EPA to regulate pollutants such as ozone, particulate matter, sulfur dioxide and others that "may reasonably be anticipated to endanger public health or welfare."

2007

Clean Air Act
Supreme Court ruled in Massachusetts v. EPA that greenhouse gases could qualify as pollutants under an expansive reading of the law. As such, the EPA must regulate them if it finds they endanger the public.

2009

Obama endangerment finding is used to mandate massive regulations costing the economy billions of dollars.

2025

EPA repeals endangerment finding making it harder to mandate the types of cars, tools and more that may be manufactured.

Gone regulations

Eliminating building code changes related to climate regulations

Wright commissioned five climate scientists who found that climate regulations don't meaningfully impact global emissions but "massively grow the government" and "increase costs." This supports rolling back building code changes that have added **11.1 percent to multifamily development costs over the past decade,** the largest regulatory cost category for apartment developers.

Massive reduction in federal building energy regulations

The DoE has eliminated 47 regulations in its "largest deregulatory effort in history," including rules affecting commercial and multifamily high-rise residential buildings. These rollbacks **remove compliance costs and operational restrictions that have burdened apartment operators,** particularly regarding energy efficiency mandates.

Natural gas infrastructure development for apartment buildings

Wright emphasized that natural gas will be "the dominant growth" source for electricity generation, describing it as "abundant, affordable and works all the time." This benefits apartment operators by ensuring reliable, cost-effective energy for buildings and reducing pressure to convert to more expensive electric heating and cooling systems.

Elimination of federal appliance efficiency standards

DoE's rollback of efficiency regulations for "shower heads to stoves to dishwashers and microwaves" reduces compliance costs for apartment builders and operators. These standards previously required more expensive appliances and systems, increasing both construction costs and ongoing replacement expenses for multifamily properties.

SOURCE: JAN. 1, 2016; "CHRIS WRIGHT BACKS AGGRESSIVE BUILD-OUT OF THE US POWER GRID," E&E NEWS, JANUARY 16, 2025; "REGULATORY WINS: SUPPORTING HOUSING AFFORDABILITY AND LOWERING DEVELOPMENT COSTS," NAA, APRIL 17, 2025; "REGULATION: 40.6 PERCENT OF THE COST OF MULTIFAMILY DEVELOPMENT," NAHB/NMHC, JUNE 2022; TRUMP'S TAX BILL: BONUS DEPRECIATION & COST SEGREGATION IN 2025," CBH, JULY 15, 2025; "REAL ESTATE INVESTMENT AND CAPITAL GAINS ON EXIT," WINDES, JAN. 22, 2025; "HOW DEREGULATION, TARIFFS, & IMMIGRATION IMPACT COMMERCIAL REAL ESTATE," THE CAUBLE GROUP, NOV. 20, 2024; "ELIMINATING EXCESSIVE REGULATIONS WILL EASE THE NATION'S HOUSING AFFORDABILITY CRISIS," NAHB, APRIL 1, 2025

The deflated promise of suburban prosperity

A new study reveals the depth of a problem that has plagued the U.S. for decades. While the number fluctuates, the latest academic research submits that the U.S. is short 15 million homes—not merely due to coastal regulations or urban planning failures, but because of a systemic collapse in the mechanism that helped build the American middle class.

According to research by Harvard University's Edward Glaeser and the University of Pennsylvania's Joseph Gyourko, if housing construction had continued at its 1980-2000 pace through 2020, the nation would have avoided the rent burden, displacement, and homelessness that now plague the nation.

Instead, homebuilding ground to a halt precisely where it should have thrived: in the sprawling suburbs of Phoenix, Miami, Dallas and Atlanta—metros once celebrated as "building superstars."

This is a stark reversal in American housing dynamics. From 1950 to 1980, metros added over 50 million homes as builders responded to rising prices with increased supply. The suburbs, aided by interstate highways and permissive zoning, absorbed millions of new households and their growing families. When demand surged, construction followed—a feedback loop that defined postwar prosperity.

But after 2000, this market responsiveness disappeared. Glaeser and Gyourko document how housing growth rates continued to decline to an anemic 1.2 percent annually in the 2010s. Such uniformity signals, not market forces, but systemic barriers overriding local variation and consumer demand.

The numbers are stark. In 1970s Dallas, doubling home prices triggered a 72 percent increase in local construction. By the 2010s, the same price spike yielded just 7 percent more building.

In Phoenix, supply elasticity collapsed from 65 percent to 10 percent. As Zillow Chief Economist Dr. Skylar Olsen observed, "It seems straightforward. We need to build more homes. Changes through policies like modest densification will give us more 'at bats' to create density and help communities stay livable for everyone."

The regulation trap

The culprit is not land scarcity—a persistent myth that obscures the real problem. If space were the constraint, dense urban cores would see construction slowdowns while suburban areas picked up the slack. Instead, the opposite has occurred.

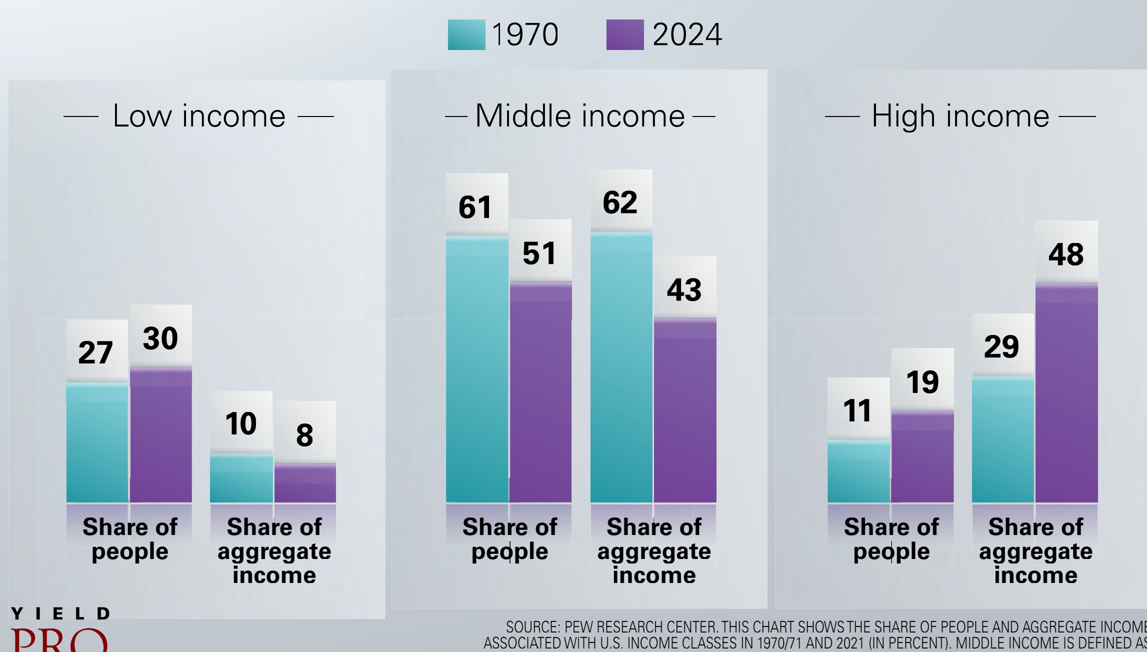
By the 2010s, dense neighborhoods were adding more housing relative to their land area than suburbs. In Miami, 44 percent of new housing was built in low-density areas in the 1970s. By the 2010s, that figure had plummeted to 12 percent.

The Wharton Residential Land Use Regulatory Index, which measures local regulatory constraints, correlates strongly with housing market dysfunction. Communities with higher regulatory scores see far less construction when demand increases—not just an academic finding but an indictment of local political choices that prioritize incumbent property values over regional housing needs.

Joseph Gyourko, a leading housing economist at Wharton, has long argued that "land-use regulation that limited building in some cities" drives up prices by artificially capping housing supply. In highly regulated markets like New York City, "prices will be determined almost solely by demand" rather than construction costs.

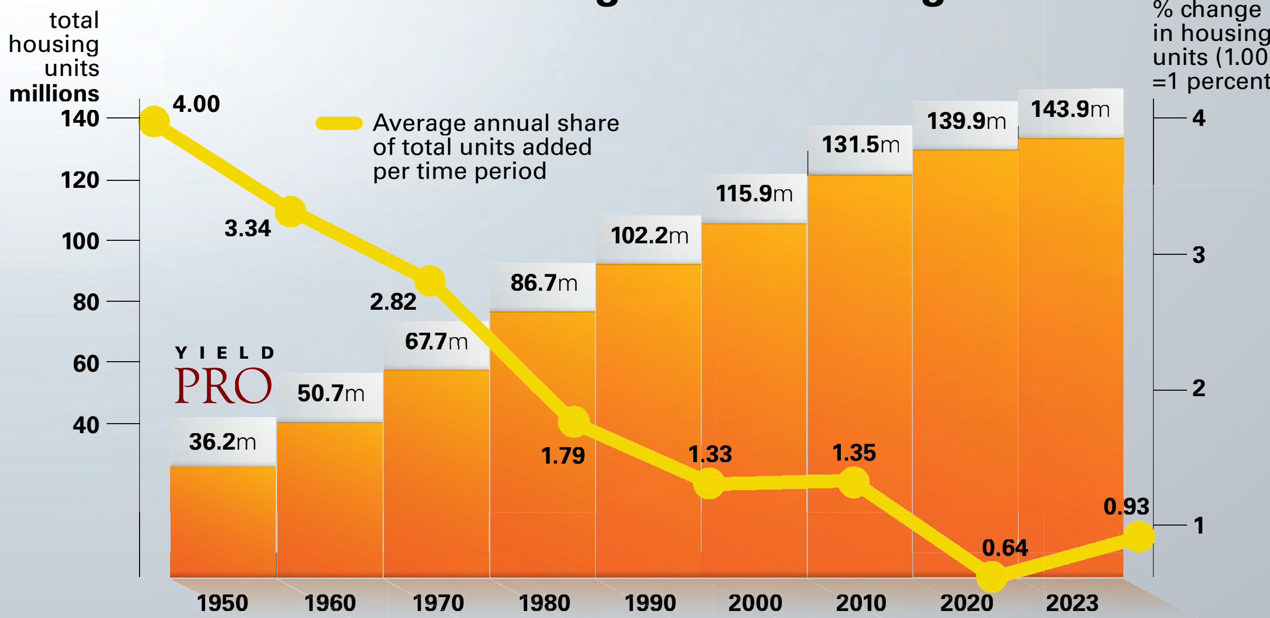
America's middle class is shrinking

Over the past five decades, the distribution of Americans across income classes—and their share of total income—has changed. The middle class has shrunk both as a share of the population and in terms of aggregate income. The high-income group's size and share of income have increased, while the low-income group's population share edged up while its income share declined. *Share of people and aggregate income associated with U.S. income classes in 1970 and 2024 (by percentage):*



SOURCE: PEW RESEARCH CENTER. THIS CHART SHOWS THE SHARE OF PEOPLE AND AGGREGATE INCOME ASSOCIATED WITH U.S. INCOME CLASSES IN 1970/71 AND 2021 (IN PERCENT). MIDDLE INCOME IS DEFINED AS AN ANNUAL HOUSEHOLD INCOME BETWEEN TWO-THIRDS AND DOUBLE THE NATIONAL MEDIAN INCOME.

American housing stock and its growth



SOURCE: AMERICA'S HOUSING SUPPLY PROBLEM: THE CLOSING OF THE SUBURBAN FRONTIER?EDWARD L. GLAESER, JOSEPH GYOURKO, WORKING PAPER 33876DATA: HOUSING STOCK NUMBERS FOR 1950 AND 1960 ARE CONSTRUCTED USING THE COUNT OF HOMES BUILT BEFORE 1950 AND 1960, RESPECTIVELY, IN THE 1970 CENSUS. ALL OTHERS ARE FROM THE DECENNIAL CENSUS (1970-2020) OR BUILT UP FROM COUNTY LEVEL DATA FROM THE 2019-2023 5-YEAR ACS ESTIMATES. THE AVERAGE ANNUAL SHARE ADDED IS CALCULATED BY DIVIDING THE PERCENTAGE CHANGE OVER TIME PERIOD. FOR EXAMPLE, THE 4 PERCENT BETWEEN 1950 AND 1960 IS CALCULATED BY ((50,742,992—36,243,836)/36,243,836)/10*100 PERCENT

The cost of exclusion

These regulatory barriers manifest in multiple forms: minimum lot sizes, maximum height limits, discretionary review processes, and environmental or historic preservation rules that make building slow, expensive, or impossible. Often justified as protecting "community character," these policies systematically exclude working families, minorities and renters—anyone not already fortunate enough to own property.

The National Association of Home Builders quantifies the burden: regulatory costs account for nearly 25 percent of a single-family home's final price and over 40 percent of a typical apartment's cost. NAHB Chairman Buddy Hughes testified to Congress that "regulatory costs, which include complying with building codes, zoning issues, permitting roadblocks and other costly challenges," represent the primary barrier to addressing the housing affordability crisis.

Up for Growth CEO Mike Kingsella summarized the challenge: "Restrictive and exclusionary zoning, artificial barriers, and NIMBY opposition have combined to create an unprecedented and persistent housing shortage." The organization's research shows a 3.79-million-unit gap in home production across 230 metropolitan areas.

This regulatory strangulation extends far beyond California's notorious restrictions. The pattern appears in red-state suburbs, Sun Belt cities, and small towns nationwide. Senior White House economist Jared Bernstein identified the core problem: "From the perspective of developers, building affordable housing just does not pencil out" because regulations create market failures where development costs exceed what middle-income families can afford.

The federal government has begun responding. Bernstein explained how infrastructure grants now incorporate housing incentives: "When we structure some of the grants and loans that we provide, we say, 'Look, if you want an infrastructure grant, that's great. We want to give it to you. Tell us how you're going to free up some exclusionary zoning, and we'll make sure you have a better chance of getting that bid.'"

The YIMBY response

Pro-housing advocates have mobilized to address these failures. California YIMBY, with over 80,000 members, has helped pass eight pro-housing bills enabling at least 1.5 million additional homes statewide. The organization's mission reflects the stakes: "California's housing shortage—and the affordability, environmental, equity, and health crises it has caused—is the result of decades of deliberate policies to limit the supply of housing."

Research by the California YIMBY Education Fund found that roughly 30 percent of the state's eight million addressable parcels could accommodate additional housing absent regulatory barriers. Yet, jurisdictions permitted fewer than 140,000 units annually between 2018 and 2021—less than 1 percent of market-feasible opportunities.

The solution requires coordinated action across all levels of government. Following California, Oregon, and Washington in allowing duplexes, triplexes, and accessory dwelling units by right would continue to reverse the housing doom loop in which the nation has found itself. Federal leadership tying transportation funding to zoning reform and establishing stronger national housing equity standards would also revitalize the path back to a stronger and mobile middle class.

As U.S. Chamber of Commerce President Suzanne Clark and former White House National Economic Council Director Brian Deese argued in the Wall Street Journal, "For decades, exclusionary zoning laws—like minimum lot sizes, mandatory parking requirements and prohibitions on multifamily housing—have inflated costs and locked families out of areas with more opportunities."

The stakes extend beyond housing. Research suggests that housing misallocation costs up to 2 percent of GDP—more than

The incredible shrinking middle class

10%
share of middle class earners gone since 1970. Why?

68.3%
middle-class consumption drives well over half of the U.S. GDP

In the 1957 movie, "The incredible shrinking man," radioactive mist and insecticide are to blame. The gradual and persistent contraction of the middle class since the 1970s, however, is a little more complex.

manufacturing job losses
automating this middle-class stronghold wiped out 50-70 percent of U.S. manufacturing jobs

white collar automation
AI, computerization eliminated 15-30 percent of U.S. white collar jobs

trade deficits
Jobs outsourced or lost to China have drained millions of American jobs

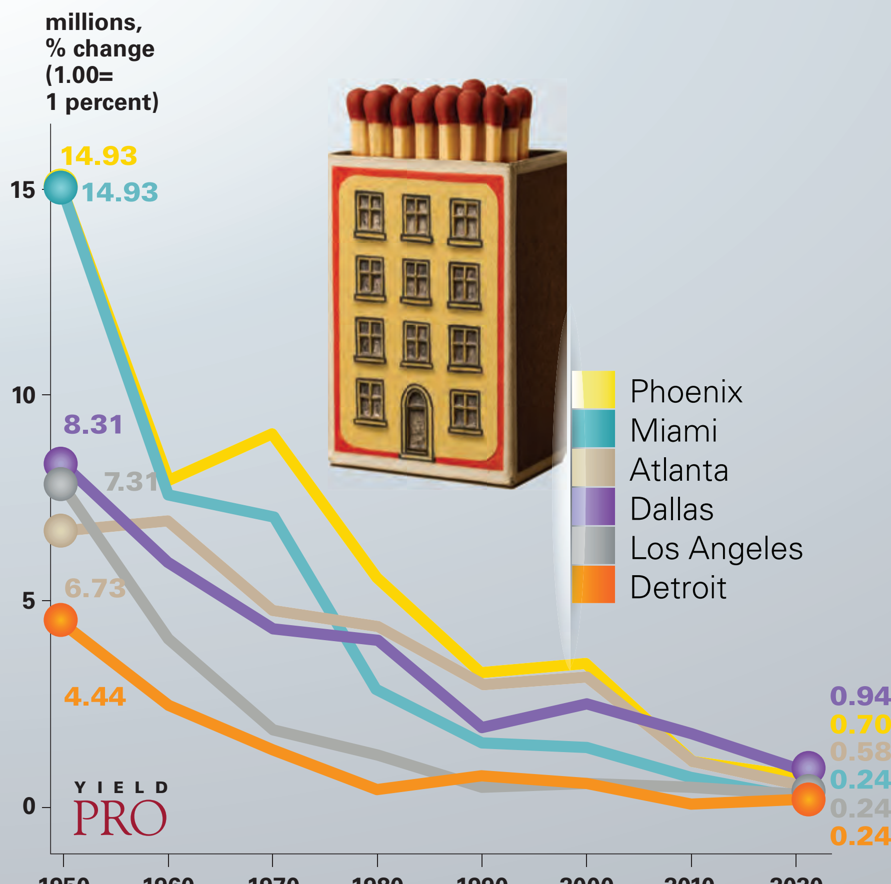
housing affordability
housing costs have risen faster than wages leaving 40 percent of the middle class cost burdened

healthcare costs
The share of middle class earners vanished since 1970

wage competition
global competition has created downward pressure on wages

Average annual growth of housing units

by decade, six metropolitan areas, 1950-2023



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$400 billion annually in lost economic output. In the words of National Association of Realtors Chief Economist Lawrence Yun, "The losers are clearly the rising rental population that can't participate in this housing equity appreciation. They are missing out on [a big] source of middle-class wealth."

Reopening the suburban frontier

Fifteen million missing homes represent more than a housing shortage—they embody a broken promise to generations of Americans seeking economic mobility. The suburban frontier that once provided escape from high-cost coastal cities has been systematically closed by local regulations prioritizing preservation over opportunity.

Reopening this frontier requires not paving over every field but allowing neighborhoods to evolve, welcome new residents, and build homes that reflect 21st-century demographic realities. The alternative—rationing the American Dream by ZIP code—contradicts the nation's founding principles of opportunity and upward mobility.

As Glaeser and Gyourko conclude, America's housing markets no longer respond to demand. Restoring that responsiveness—through zoning reform, permitting streamlining, and federal leadership—represents perhaps the most pressing domestic policy challenge of our time. The costs of inaction compound daily in rising rents, longer commutes, and diminished prospects for an entire generation locked out of homeownership.

The time for incremental reform has passed. America needs bold action to rebuild the housing abundance that once defined the nation's promise to working families. Only then can we restore the suburban frontier as a pathway to middle-class prosperity rather than a barrier to it.

Author Bill Johnson

Navigating the multifamily reset

From developers pivoting away from stalled markets to value-add investors navigating tighter margins, the multifamily sector is adjusting to a new reality—one shaped less by interest rates and more by housing need, supply imbalances, and affordability pressures.

Investor sentiment is evolving in select markets, with cautious optimism replacing early 2023 anxiety. But make no mistake, this is a reset, not a recovery.

As Gray Capital co-founder, president and CEO Spencer Gray puts it, "Reset means we're not just watching prices climb back. It means performance expectations, valuation assumptions, and even what a good deal looks like all need to be redefined." This echoes research from John Burns, which characterizes the current moment as a "multifamily reset" rather than a rebound.

Outcomes remain highly market-specific. CBRE's latest U.S. Cap Rate Survey shows that cap rates for Class A "core" assets compressed in five major metros—Austin, Chicago, Dallas, Los Angeles, and Tampa—during the first half of 2025. That suggests renewed demand for stabilized, high-quality assets, as investors accept lower yields in exchange for long-term stability.

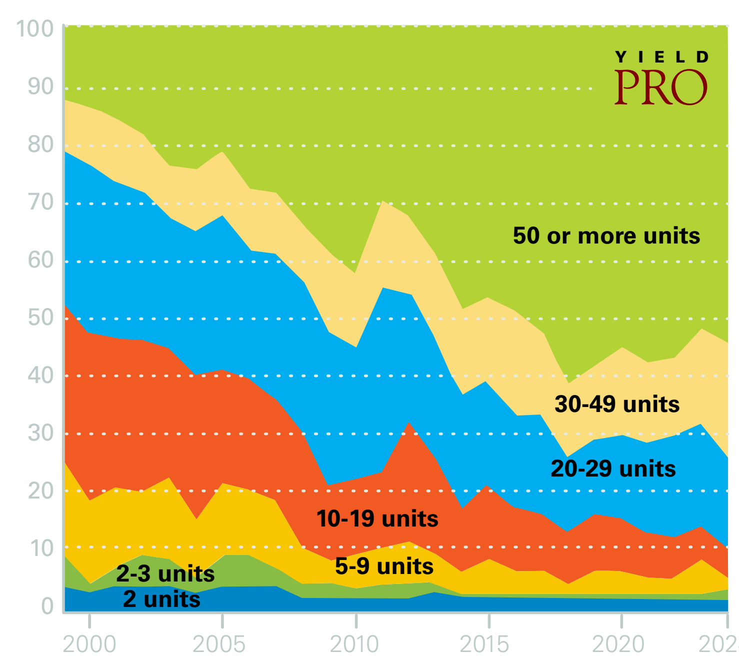
The value-add segment is also attracting fresh attention. Cap rates on acquisitions declined in five U.S. regions during the same period, signaling investor confidence in renovation and operational improvement strategies. But the picture remains uneven. In Denver, for example, value-add cap rates rose by 63 basis points, pointing to caution amid localized headwinds like softening demand and elevated supply.

Development struggles amid structural shortages

While value-add buyers are finding opportunities, developers face growing constraints. Capital markets remain tight, and the economics of new construction are deteriorating in many regions. Costs for land, labor, and materials continue to rise, while restrictive zoning and prolonged permitting timelines add

Built-for-rent remains in dense buildings

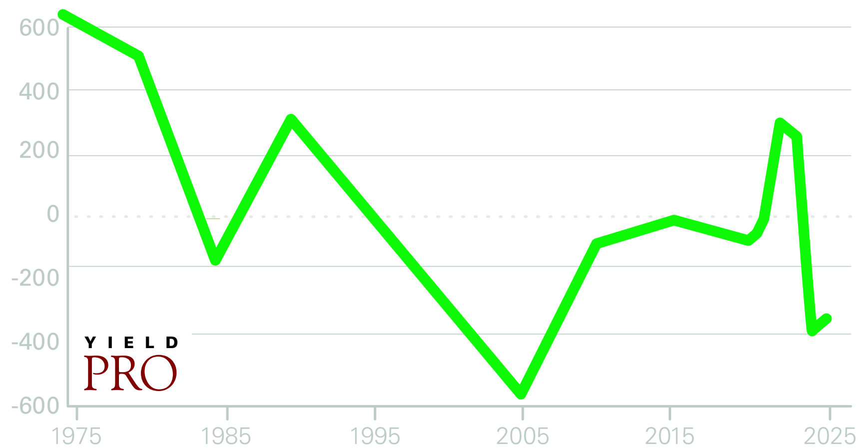
Among multifamily units completed in 2024, 95 percent (580,000) were built-for-rent. Over half of these units (55 percent) were in a building with 50 units or more. This is a seismic shift toward high-density buildings, as this share was only 25 percent in 2004. Over the past twenty years, there has consistently been a falling share of units in buildings with 10-19 units, as the share in 2004 was 24 percent, while in 2024 this share only accounts for 4 percent of completed units.



SOURCE: U.S. BUREAU SURVEY OF NEW CONSTRUCTION; NAHB ANALYSIS

Household formation v. housing supply

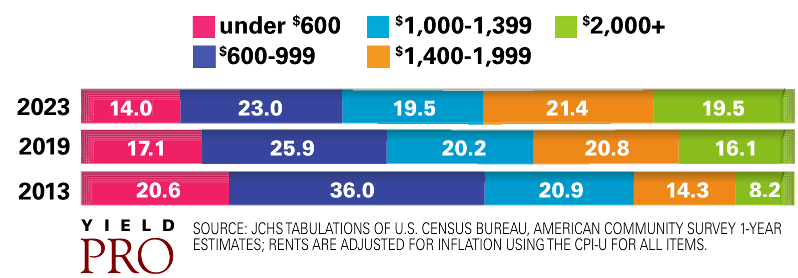
The housing market has alternated between periods of construction surplus and shortage by way of household formation exceeding supply. Recent years show a volatile pattern.



SOURCE: FREDDIE MAC; ST. LOUIS FED; ENTERPRISE COMMUNITY; EYEONHOUSING; U.S. CENSUS BUREAU; CONSTRUCTION COVERAGE; CBO NAHB

Affordable rentals continue to decline

Share of national inventory, by year



SOURCE: JCHS TABULATIONS OF U.S. CENSUS BUREAU, AMERICAN COMMUNITY SURVEY 1-YEAR ESTIMATES; RENTS ARE ADJUSTED FOR INFLATION USING THE CPI-U FOR ALL ITEMS.

delays and uncertainty, especially in semi-urban or high-demand Class A locations.

The need for housing is clear. The U.S. Chamber of Commerce reports a shortage of over 4.5 million rental homes. Meanwhile, the rental housing stock is aging: the median age is now 44 years, up from 34 two decades ago, according to the Harvard Joint Center for Housing Studies. Yet building affordable or workforce units is increasingly difficult without subsidies.

New and evolving regulations add further friction. States like California and New York impose high entry barriers. Rent control policies and expanded tenant protections complicate operations. In California, a new law (AB 130) freezes most building code updates until 2031, except for certain health and safety standards, further dampening innovation and efficiency.

Some developers are adapting. Wood Partners, ranked number three on the National Multi Housing Council's Top 50 Developers list, exited the West Coast in 2024 and shifted focus to the Southeast, citing lower regulatory friction and stronger demand for "attainable" housing targeting essential workers. In April, they broke ground on three projects in Georgia, Tennessee, and Florida—markets where opportunity still outweighs obstacles.

Regional divergence

It's officially a renter's market in many metros, with over 600,000 new units delivered in 2024, the most since 1986. Rents are down nationally by 0.8 percent year-over-year. Absorption is slow, and landlords are competing more aggressively to fill units.

But this slowdown and reset is far from uniform. The Sunbelt, which absorbed the brunt of recent deliveries, is grappling with oversupply, declining rents, and widespread concessions. In contrast, the Midwest and Northeast are showing signs of stabilization.

"The Sunbelt is still digesting a flood of new supply," said Matt Bastnagel, director of communications and marketing at Gray Capital. "But the Midwest and Northeast are further along in the reset. Fundamentals there are improving, and sentiment is stabilizing."

National averages often obscure local realities. Take Austin: rents are down nearly seven percent year-over-year, yet the city presents a classic tale of two markets. Over the past year, Austin delivered a record 26,800 new units—an 8.5 percent increase in total inventory. But contrary to expectations, Class A occupancy rose to 95.1 percent in Q2—effectively full.

While Class B and C properties struggle with falling rents and rising concessions, top-tier buildings are thriving. This is the flight to quality in action, driven by robust population and job growth, particularly in high-income sectors, and persistently high for-sale home prices. High-earning professionals, priced out of homeownership or opting to rent by choice, are flocking to new, amenity-rich properties without compromise.

Even in oversupplied markets, premium, well-located assets can command strong demand. It's a reminder that you can't generalize across a metro. Submarket fundamentals and asset class distinctions matter most.

Meanwhile, pockets of strength in Indianapolis, Pittsburgh, and smaller secondary markets are emerging.

Distress deals, cyclical opportunity

Even with generally healthy multifamily fundamentals, distress is emerging at the margins. Properties that secured short-term loan extensions between 2022 and 2024 without improving performance are now out of runway. Undercapitalized Class C assets or those that failed to execute renovations are especially vulnerable.

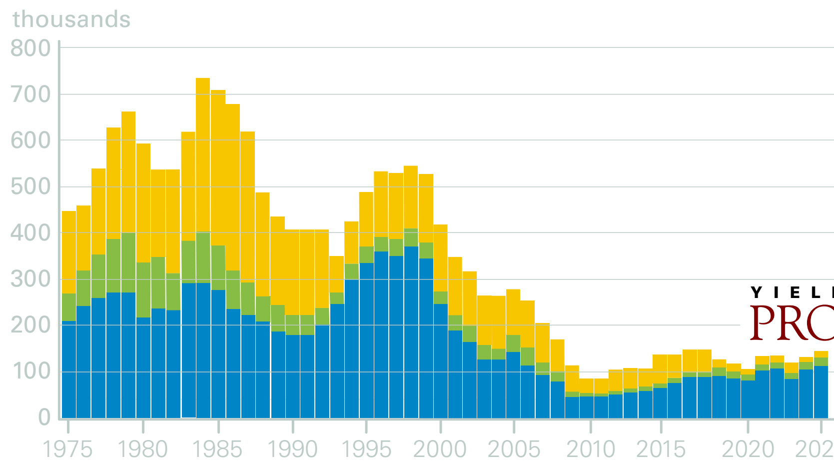
As Chicago-based Essex Capital Markets notes, the "extend-and-pretend" era is ending. Properties facing expiring rate caps or refinancing pressures may hit the market at discounted pricing. Mesirow Financial recently closed a $1.245 billion fund targeting these opportunities, and other value-add funds are raising capital in anticipation of motivated sellers by late 2025.

Debt funds are also active in the space, so long as buyers bring additional equity and a de-risked business plan. Overbuilt Sunbelt metros and older assets needing rehab are likely acquisition targets.

Cap rate dynamics further support the "buy now" thesis. With stabilized cap rates hovering in the mid-five percent range and mild compression forecasted into 2026, today's acquisitions could yield upside from both NOI growth and valuation normalization. Essex notes that soft pricing may not last. "There's a sense that this window could close by 2026."

New supply of traditional affordable housing segments are shrinking

The data guarantees this crisis will only get worse, as this chart from Freddie Mac makes all too clear. Housing is a continuum. Fewer homeowners mean more renters, more renters mean higher rents, and higher rents mean more economic homelessness, which is driving our national homeless numbers higher every year. It's the law of supply and demand and that law cannot be repealed.



SOURCE: FREDDIE MAC; ST. LOUIS FED; ENTERPRISE COMMUNITY; EYEONHOUSING; U.S. CENSUS BUREAU; CONSTRUCTION COVERAGE; CBO NAHB

Rates matter—but they're not the whole story

"Interest rate uncertainty is the bad thing hanging over the market," said Bastnagel. "Arguably worse than trade wars." While investors had hoped for rate cuts in 2025, inflation data remains stubborn, and the political fog post-2024 election continues to cloud policy direction.

Still, fundamentals remain strong. Matt Vance, head of multifamily research at CBRE, argues that affordability—not rates—is the primary driver. "Homeownership remains out of reach for many households due to high prices and credit barriers. That keeps rental demand strong, regardless of financing costs."

And, in markets like Austin with a high concentration of institutional-grade (often luxury) units, applicants are exhibiting less concern about affordability compared to other segments of the population, an observation linked to the idea that increasing the supply of housing, including market-rate and even higher-end units, can ultimately improve affordability across the housing market through a process called "filtering."

Vance notes that supply is the solution to affordability challenges. As an example, Austin rents are now only 6.5 percent higher than 2019—below inflation.

In this light, interest rates function more like temporary headwinds than systemic constraints. Operators have adjusted, with many now focused on leaner operations and recalibrated rent expectations. "The era of five percent annual rent growth is over," Gray said. "Now it's about delivering value and managing risk.

Selectivity in action

Gray Capital's disciplined approach reflects this reality. After a year-long search, the company secured a single deal for 2025—a testament to their commitment to underwriting rigor and market fundamentals. "We love to do multiple deals a year," said Grey, "but this market won't let you overpay. Deals must check all the boxes of location, metrics and investor interest."

Their latest acquisition is a textbook example of a high-quality A-Class property in a growing Indianapolis submarket experiencing 20 percent population growth since 2010, with solid household incomes and expanding retail and medical infrastructure. A recently passed Indiana tax bill reducing property tax assessments by 35 percent over six years further sweetened the deal, a hidden advantage uncovered only through thorough due diligence that gave Gray Capital a strategic edge few others had recognized.

Importantly, Gray Capital is putting substantial capital at risk, investing 10 percent of the equity themselves and offering investors an 80-20 profit split — far more favorable to limited partners than many competitors' fee-heavy structures. They are underwriting conservatively, targeting mid-to-high five percent cap rates, while leveraging operational efficiencies including AI-driven leasing and centralized management. "It's a steady asset with upside, a solid base case with real growth potential," Grey noted.

Concessions: The hidden signal

Concessions are widespread in the current market, particularly among new Class A assets in oversupplied metros. But as Gray explained on his most recent podcast, they're less about weak demand and more about lease-up velocity and interest carry.

"We're seeing large one-time concessions—like $1,000 gift cards—not because demand is weak, but because developers are racing to stabilize," Gray said.

These incentives also serve accounting purposes. "Gift cards don't show up on the rent roll," he noted. "They're sometimes booked as marketing expenses, which makes financials look stronger when selling or refinancing."

He noted that in some markets, concessions are already tapering off. "We underwrote for concessions, but our competitive survey showed very few still offering them. That suggests we may be exiting that phase in certain submarkets."

This aligns with RealPage Analytics, which reports that while concession values remain high, usage is dropping, indicating that some submarkets are regaining their footing.

Realistic expectations lasting opportunity

David Sherer, CEO of Origin Investments, urges investors to calibrate expectations to the new environment. "We're seeing a notable imbalance between supply and demand," Sherer said. "Starts are down, but demand remains robust. That supports strong fundamentals."

Origin targets markets in the Southeast and Southwest with strong demographics and barriers to new supply. For Sherer, the long view is clear: "Multifamily isn't a short-term trade. But for those with patience, it can be a resilient component of a diversified portfolio."

Spencer Gray echoes that sentiment, "This is a moment to be selective, not reactive. You buy low in uncertainty and sell high when confidence returns."

The key is discipline. Investors must underwrite conservatively, manage risk proactively, and lean into operational strength. "Opportunities come through work," Gray said. "Not just from passively watching values rise."

Smart capital will be patient—but ready.

Author Wendy Broffman

From energy to insurance: Navigating 2025's property expense storm

Business environments ebb and flow, but perhaps none as rapidly as apartment operations. Often getting by on very slim margins, rising operations costs have been particularly hard on the sector in the last few years. Energy, labor, repairs and insurance premiums have all increased greatly, adding pressure on net operating income. Even as inflation moderates, property-related expenses continue to rise, causing many owners to raise rents or hold back on property improvements.

The top 7 expenses of an apartment operation are typically, in order, property taxes, payroll, maintenance, utilities, insurance, property management fees and administrative expense. While the order may change depending on property size, location and ownership structure, solvency is found in the steady and predictable. Neither of which describe today's operation's costs.

In order of highest expense, utilities may come in fourth, but utility costs, especially for electricity, may be gaining momentum. Nationally, utility companies requested and received approval for a staggering $29 billion in rate increases in just the first half of 2025—a figure that nearly doubles last year's energy cost growth.

"Americans are experiencing an unprecedented utility affordability crisis," said Charles Hua, executive director of PowerLines. "As high temperatures during the summer months put additional strain on the electric grid in many parts of the country, electricity system costs and utility bills will continue to spike."

Maine leads the nation in terms of the single largest year over year increase in residential electricity rates, rising 37.3 percent from April 2024 to April 2025. Other states with high increases include Rhode Island (+23.4 percent), Connecticut (+9.2 percent) and Idaho (6.34 increase Q1 2024 to Q1 2025).

The drivers of these increases range from distribution and transmission system upgrades to the impact of fire and weather events. According to the U.S. Bureau of Labor Statistics, average household electricity bills in 2025 rose approximately 6 percent over just six months, pushing annual costs to near $1,900—a jump of $219 since 2022.

Escalating labor and repair costs

Property maintenance and construction remain persistently high. The real estate and property management industries are grappling with tight labor markets, which affect hiring and retention across maintenance, janitorial, security and skilled trades. "The tight labor market continues to challenge the real estate industry, impacting property management, construction and tenant operations," noted the Commercial Real Estate Development Association in its Jan. 2025 industry outlook.

Meanwhile, the cost of repairs and building materials has surged past the rate of general inflation. The Q1 2025 Verisk Remodel Index reports that average home repair costs jumped 3.97 percent y/y, compared with just a 2.4 percent rise in the broader Consumer Price Index.

Over the past decade, repair and remodeling prices rose a staggering 61 percent, highlighting the cumulative effect of labor shortages, material price hikes and supply-chain disruptions. Construction materials alone are set to increase by 5–7 percent in 2025, and labor shortages in the trades continue to push up contractor rates. "The rate of increase in Q1 2025 jumped back up to 0.91 percent, resulting in an annual cost increase of 3.97 percent, well above the rate of inflation," said Greg Pyne, VP of pricing at Verisk.

Insurmountable insurance premiums

Insurance costs are another major stressor for property owners. The multifamily property insurance market experienced significant increases in 2024, with the Federal Reserve Bank of Minneapolis reporting an average 45 percent increase from 2023 to 2024. This followed previous increases of 22 percent from 2022 to 2023 and 14 percent from 2021 to 2022.

Industry experts project continued increases of 10-20 percent for primary liability plans and 10-15 percent for umbrella insurance in 2025. However, there are signs of market stabilization, with the National Multifamily Housing Council (NMHC) noting the first decline in rates since 2017 after 27 consecutive quarters of growth. Extreme weather events and fires have forced insurers to hike rates to guard against financial losses. In states like California, Florida, and Nevada, policyholders are particularly exposed to these upward adjustments.

Pressure on net operating income

These expense increases directly erode NOI, a measure of a property's profitability before financing and taxes. Since 2021, property operating expenses have risen two to three times faster than in the preceding decade. Payroll, utility, repairs, and insurance expenses per unit have all climbed significantly, with Moody Analytics reporting average annual jumps of $75 to $120 for labor, $55 to $95 for utilities, and up to $95 for repairs in multifamily buildings. As a result, NOI growth in the apartment sector slipped to just 2.8 percent in Q1 2024, down from an explosive 24.8 percent in late 2021.

Given that essential expenses are rising faster than either rents or inflation, many property owners are being pushed into difficult decisions: raise rents, sometimes beyond what markets or residents can tolerate, or curtail investment in property maintenance and improvement.

Owners are increasingly seeking justification for above-normal rent increases based on documented expense growth. In regulated markets, such as Oakland, Calif., landlords must prove their rising costs to obtain approval for rent hikes above inflation, citing expenses like utility increases and uninsured repairs.

The pressure on NOI is also causing property owners to prioritize only the most necessary repairs and to defer capital improvements. National data show a marked slowdown in capital improvement spending, with a projected decline of more than 7 percent for 2025 compared to the prior year. Homeowners, residential landlords, and even major commercial owners are "opting for more budget-friendly alternatives due to rising borrowing costs and a slow housing market recovery," (CBRE Research, 2024).

This trend is reflected in the strategies of many landlords, who are deferring upgrades in favor of essential repairs, often choosing to repair rather than replace where possible, and actively seeking low-cost, high-impact energy efficiency retrofits. Property managers stress proactive, preventative maintenance to avoid even costlier emergency repairs in the future.

Expert insights and coping strategies

To navigate this storm of rising costs, property owners and managers are urged to focus on careful budgeting, embrace energy efficiency, and leverage available technology for cost control. AI solutions help manage repair and maintenance costs more effectively—though the extent of savings varies. Experts recommend early booking for contractors and strategic purchasing of materials to avoid mid-year price spikes.

Investment in resident-centric amenities and robust employee engagement strategies is seen as a key to both retention and long-term property value, even as labor costs rise.

While inflation has eased in many sectors, property-related expenses—utilities, labor, repairs, and insurance—remain elevated due to a convergence of economic, regulatory and policy shifts. By focusing on energy efficiency, regular maintenance, and smart budgeting, property owners can mitigate these expenses while improving property value and tenant satisfaction.

Without substantial policy changes or a sudden decrease in these core expenses, both residential and commercial property owners will continue to wrestle with raising rents or cutting back on improvements as the principal means to balance their books in the years ahead.

Author Andrew Stephens

American businesses adapt as domestic workforce gains footing

The decline in foreign-born workers across the U.S. has created both challenges and opportunity for American businesses. At the least it is driving innovation in hiring practices, the adoption of automation and workforce development strategies.

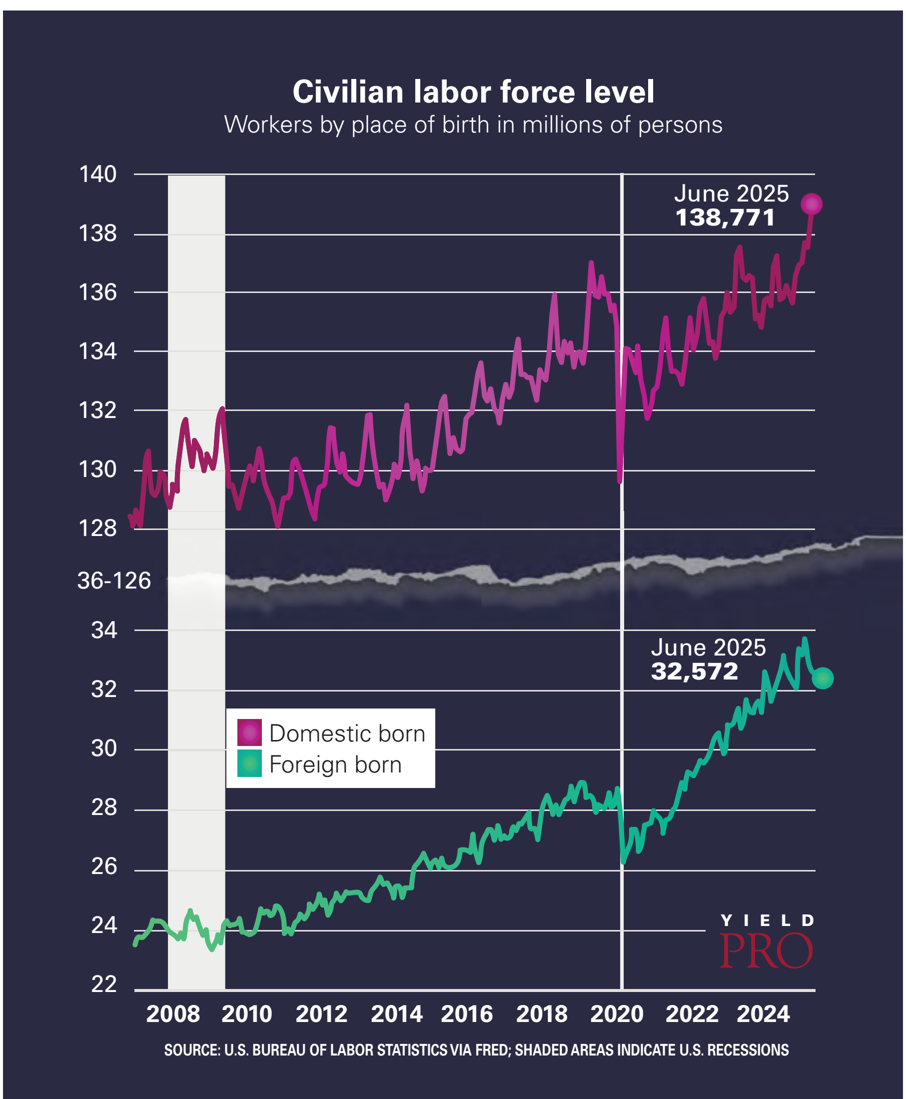
As border enforcement normalizes and foreign worker flows recalibrate through proper channels, companies are discovering that the much-predicted labor crisis is spurring creative solutions that benefit American workers, and harden U.S. security.

The "scarcity of skilled workers" may be in the process of self-healing. From January to May 2025, the foreign-born labor force declined by 735,000 workers, marking one of the largest drops in three decades, according to a National Foundation for American Policy analysis of Bureau of Labor Statistics (BLS) data. Simultaneously, U.S.-born employment surged, with more than 830,000 American workers finding jobs between May and June 2025 alone. This shift represents a historic reversal from recent trends, where foreign-born workers drove nearly all net job growth.

As many as "a million foreign-born workers have exited the workforce since March." The Washington Post frames this as "a sign of the weakening labor supply." At the same time it notes that "average hourly wages accelerated, rising by 0.4 percent over the month, to $36.24 in May, as earnings continue to beat inflation in a boost to workers' spending power."

This transformation is particularly striking in construction where American workers are filling roles previously dominated by illegal immigrant labor. With 30 percent of construction workers traditionally drawing from the foreign-born according to the Urban Institute, the sector may be making a pivot. Major construction companies report successful recruitment drives targeting domestic workers by offering enhanced wages and benefits packages that were previously considered uncompetitive.

"No one hires an illegal alien out of the goodness of their heart," said Tom Holman, U.S. border czar. "They hire them because they can work them harder, pay them less, and withhold benefits." Illegal labor causes a market distortion that allows workers to be underpaid and to fall outside labor protections. This creates unfair disadvantages for legal workers and law-abiding employers.



There is no occupation in the U.S. where the majority of workers are illegal immigrants, states House testimony by Steven A. Camarota of the Center for Immigration Studies. So one might conclude that there is no work in which an American wouldn't participate. Camarota's study also finds that the growth of illegal immigrants in the U.S. coincides with a decades-long increase in the share of less-educated U.S.-born men not in the labor force. Four percent of "prime-age" (25 to 54) U.S.-born men with a high school education or less were not in the labor force in 1960—neither working nor looking for work. By 2000 it was 13 percent, and in 2024 it is 18 percent.

Competition for jobs, including with illegal immigrants, is not the sole reason for this decline. However, immigration, especially tolerating large-scale illegal immigration, has allowed the country to ignore this drop and its accompanying social pathologies like drug use, crime, suicide, and social and political alienation.

The presence of illegal workers also creates systematic market distortions that extend far beyond supply and demand economics. These distortions include wage depression, debased pricing advantages for non-compliant businesses, weakened regulatory enforcement, displacement of legal workers and institutional degradation of labor standards.

The cumulative effect is a two-tier labor market where illegal employment undermines fair competition, worker protections and economic efficiency while concentrating benefits among employers willing to exploit vulnerable workers and imposing costs on law-abiding businesses and workers throughout the economy. The presence of cheap labor also stifles the intrinsic need for innovation, delaying such capital investments.

While 20 percent of small businesses lost employees due to renewed border enforcement, adaptive strategies emerging from this challenge demonstrate American entrepreneurial resilience.

The shift in labor has accelerated adoption of automated technologies across industries, creating higher-skilled positions for American workers. Companies that previously relied on low-wage immigrant labor are investing in robotics and AI systems, then training domestic workers to operate and maintain these advanced systems.

Amazon's new Shreveport facility exemplifies this transformation, featuring 10 times more robotics than previous warehouses while creating 30 percent more skilled jobs for local workers. Similar investments are reshaping manufacturing, where companies like Schneider Electric have retooled facilities for greater automation while requiring more skilled American operators.

Aamir Paul of Schneider Electric believes he's not replacing people with machines. Instead that he's creating better jobs that require American workers to partner with advanced technology.

Workforce renaissance

Border enforcement and Trump administration trade policies have sparked a manufacturing renaissance that directly benefit American workers and housing development. Companies are moving production stateside to avoid tariffs while tapping into the unemployed or underemployed domestic workforce.

The steel and aluminum industries—both critical to apartment construction—benefit from tariff protection and workforce availability.

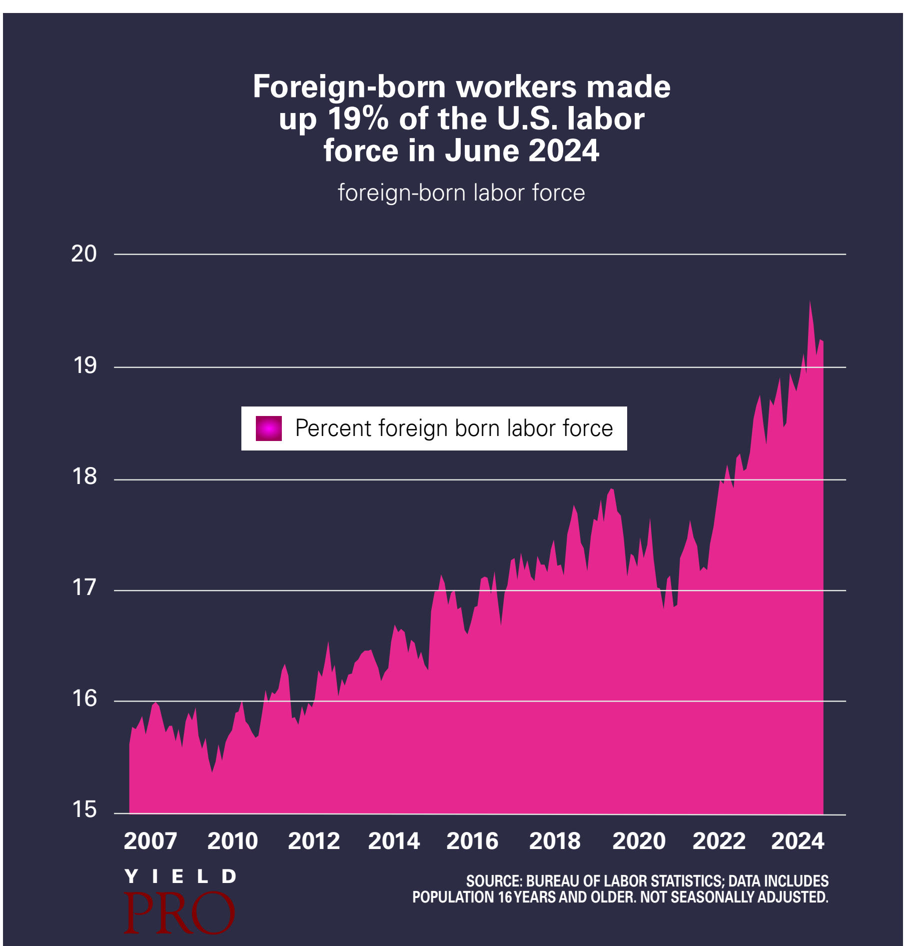
JSW Steel USA CEO Robert Simon praised policies that "flood the U.S. with jobs as trading partners move their industries to U.S. soil."

Texas construction companies are another line of success. Domestic worker employment rose 25 percent in the past year as wages increased to attract American labor. In the past year, Texas added 28,700 new construction positions—leading the nation—and saw significant gains in worker employment, particularly among domestic-born workers. This hiring surge is enabled by strong demand from infrastructure, housing, and technology sector projects and is part of a broader statewide economic boom.

To address competition for talent and fill hard-to-staff positions, many Texas construction firms have boosted pay rates, often offering more than $20 per hour for entry-level roles and over $44 per hour for skilled or hard-to-fill jobs. Recent data show construction wages in Texas and similar high-growth states have grown at one of the fastest paces nationwide—up 24 percent above the private sector average and still climbing due to intensified demand and union negotiations. Employers are also offering additional benefits: overtime, bonuses, and improved schedules to help retain their American workforce.

Regional workforce initiatives and training programs, such as hands-on career coaching in Texas high schools and community college partnerships, further support these trends by connecting local workers with construction careers and helping businesses meet staffing needs. These efforts produce tangible outcomes—success stories include significant new hiring, quick job placement for trainees, and recognition from business and workforce organizations.

The Texas experience demonstrates that targeted wage increases and robust local recruitment, when paired with investment in training, can deliver strong employment gains and help meet the construction industry's persistent demand for skilled talent



Skills development programs show promise

The worker shortage has catalyzed investment in American workforce development programs. Companies are partnering with technical schools and community colleges to create specialized training programs that prepare domestic workers for industries previously dependent on immigrant labor.

The Trump administration's Pledge to America's Workers program, which secured commitments for over 16 million new education and training opportunities, is seeing renewed relevance as businesses seek to develop domestic talent pipelines. These programs focus on practical skills training that leads directly to employment in growing industries.

"Skills-first hiring practices can be a way of helping workers get ahead through good jobs," said Acting Secretary of Labor Julie Su.

Despite initial disruptions, economic indicators suggest the workforce transition is generating positive outcomes for American workers. Native-born worker employment increased significantly thus far through 2025, with unemployment rates remaining low even as foreign worker availability declined.

The employment-to-population ratio for U.S.-born workers has improved, indicating that Americans are finding work at higher rates than in previous years.

Wage growth has accelerated in industries most affected by immigrant worker departures, with construction wages rising 15 percent. This increase reflects genuine labor market tightening that benefits American workers.

Looking forward: Sustainable workforce solutions

The experience of 2025 demonstrates that American businesses possess remarkable adaptability when faced with workforce challenges. Rather than economic collapse, the foreign worker shortage has spurred innovation in automation, training, and compensation that creates

AI

Processes leading the charge in workforce efficiency include:

- AI-Driven automation
- Automation as a Service
- Autonomous processes chains
- User experience as a priority
- Sustainability, green automation

sustainable advantages for domestic workers.

Legal immigration channels like the expanded H-2A program provide models for meeting legitimate labor needs while ensuring fair wages and working conditions. The success of these programs suggests that American immigration policy can balance economic needs with worker protections.

The transformation occurring across American industries represents more than a temporary adjustment to border enforcement. It reflects a fundamental rebalancing toward domestic workforce development, technological innovation, and sustainable business practices that position American companies for long-term competitiveness.

As businesses continue adapting to the new reality, evidence suggests that predictions of economic disaster from border security were premature. Instead, American ingenuity is creating solutions that strengthen both individual opportunity and national economic resilience. The ongoing transition demonstrates that when properly managed, workforce challenges can become catalysts for positive economic transformation that benefits all Americans.

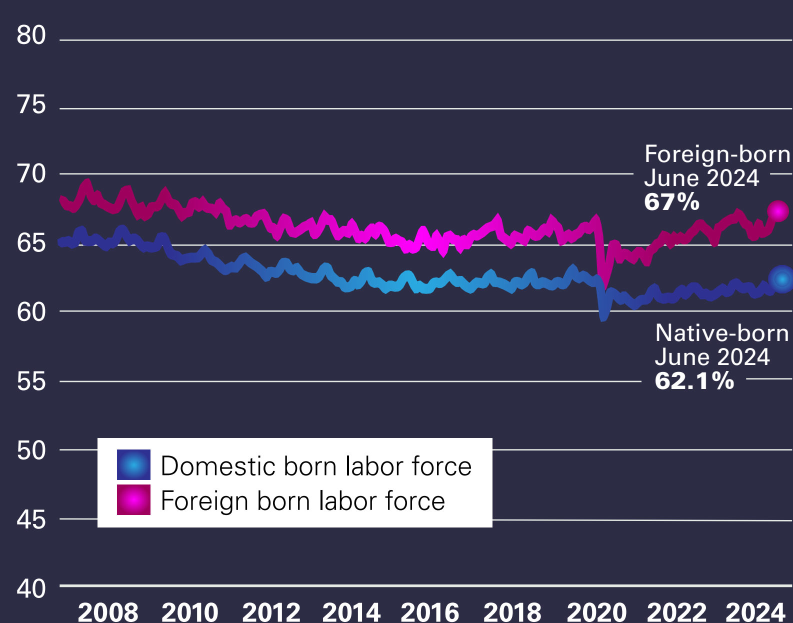
Secured borders and enforcement against illegal labor are viewed as essential for national security, economic regulation, the protection of domestic workers, and the upholding of national law. It is also a binding agent across U.S. citizenry.

"Why are we on the verge of Curacaos on the Hudson in New York? Why is this guy getting traction?" asked Scott Bessent about the socialist candidate for New York City, Zohran Mamdani at a recent policy event. "Because young people are disillusioned with the system. So when you do this, (the boost in working class wages) you make everyone a shareholder. You make everyone a stakeholder. People who are a part of the system do not want to bring down the system."

Author Yield Pro

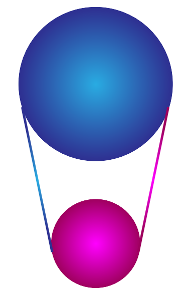
Immigrants were more likely to be in the workforce than native-born citizens

Labor force participation rate, by birth country. Following a Great Recession spike, the unemployment rate for both native- and foreign-born workers generally declined through the 2010s before rising even higher in 2020 during the pandemic. The June 2019 foreign-born unemployment rate was 2.7 percent. The native-born unemployment rate was 4.1 percent. Rates for both groups fell back to below 4 percent in June 2022 and 2023 before rising in the ensuing year.



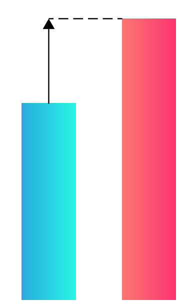
SOURCE: BUREAU OF LABOR STATISTICS; DATA INCLUDES POPULATION 16 YEARS AND OLDER. NOT SEASONALLY ADJUSTED.

Employees lead the charge for AI and automation



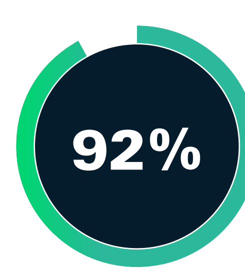
3x

more employees are using AI for a third or more of their work than their leaders realize. Over 70 percent of employees believe that within 2 years AI will change 30 percent of their work.



1.4x

more likely for Millennials to report high familiarity with gen-AI tools than co-workers in other age groups.



of companies plan to invest more in AI over the next 3 years

SOURCE: MCKINSEY & CO. SURVEYED 3,613 EMPLOYEES (MANAGERS, INDEPENDENT CONTRIBUTORS) AND 238 C-LEVEL EXECUTIVES IN OCT. AND NOV. 2024. EMPLOYEES SPANNED MANY ROLES, INCLUDING BUSINESS DEVELOPMENT, FINANCE, MARKETING, PRODUCT MANAGEMENT, SALES AND TECH. SURVEY FINDINGS PERTAIN SOLELY TO U.S. WORKPLACES.

The ultimate maintenance assistant

One priority keeps coming up among residential property management leadership: "We need to do something about maintenance." For most operators, maintenance presents the next major challenge in centralization. As the industry evolves, there is a pressing need for a fresh approach to maintenance, yet many grapple with the next step in refining their best practices.

Maintenance is one of the main challenges of operating any residential property. Failing to promptly and effectively respond to the upkeep and repair issues that emerge is a surefire way to cause residents to move and increase turn, leading to lost ROI and a plummeting reputation.

And while most property management companies keep dedicated onsite teams, this can cause service to vary widely across a portfolio, denying some properties of the best professionals, and even of key technicians.

Decentralized and disorganized

Maintenance breaks down into multiple categories: Intake, triage, scheduling, outsourcing, and actually performing the maintenance. Traditionally, on-site teams handle intake and triaging, but those tasks don't take a lot of localized knowledge—a central team or even an AI can do that from anywhere.

When it comes to performing maintenance tasks, the traditional multifamily maintenance model is to have one staff member for 100 units or so. At any three-hundred-unit property, for example, a dedicated maintenance team might employ only three people to handle the work orders as they come in. This functions overall, but it blunts the levers for efficiency.

If team members are strictly assigned to their properties, some properties may receive better service, or be left without specialists (HVAC, plumbing, electrical, etc.) when their dedicated specialist takes time off or leaves the company. Centralization allows a single skilled labor pool to provide equally excellent service across an entire portfolio, sharing institutional knowledge and expertise while being scheduled by a dedicated AI system.

Forward-thinking property management leaders worldwide are looking to centralize their maintenance and upkeep operations. By leveraging AI chatbots as well as AI-driven scheduling and triage capabilities, companies can create a single, centralized maintenance team. This way, every property shares the best team members and has access to the same specialists.

Centralization is the best way to bring greater specialization and consistency to property management. A centralized system dispatches team members where they're needed, and can even shift outsourcing practices to rely on outside contractors only when necessary, while still dispatching these professionals automatically whenever necessary.

Data, analytics and machine learning can optimize outsourcing decisions to only use outside vendors when necessary, for example after hours, or if no dedicated maintenance staff are available. Minimizing unnecessary outsourcing this can have a huge impact on overhead.

The role of AI

An AI platform can handle intake and

triage, then schedule and assign tasks all on its own. That same AI platform, working through a chatbot, can help residents with minor issues and avoid a lot of those service requests altogether. AI can do these things more accurately and with a higher level of service than people expect.

Residents using an AI chatbot to make maintenance requests are having a text or chat conversation while the AI determines what the resident needs, and whether their issue is an emergency that needs to be escalated. This way, requests follow the same process every time while minimizing the amount of time team members spend taking calls, especially after hours. This can dramatically improve the work-life balance and job satisfaction across a team.

AI chatbots to handle maintenance requests are only the tip of the centralization iceberg. AI can also provide route optimization, which is incredibly meaningful to property management companies with a widespread portfolio. Route optimization can help a single centralized team operate efficiently across multiple sites within a geographical area.

Under a full centralization model, property management companies can take the best members of all their dedicated property teams and form one core team to dispatch throughout their portfolio. This way, no residents need to wait much longer than those at another location or deal with a lower quality of service.

No one property becomes significantly costlier in terms of outsourcing, as the central team always has the general staff and specialized staff to provide service within business hours. With a centralized AI-driven dispatching service, the right professional always arrives in a timely manner, based on the urgency of each task, and is routed to most efficiently handle the day's issues.

Why centralization works

Imagine a water extraction problem in the middle of the night. That sort of issue can't wait, but the regular team is off the clock. AI-driven outsourcing systems can immediately contact the all-hours water extraction vendor to perform that service seamlessly. This is just one way in which centralized maintenance systems work better than the disorganized alternative.

Centralized systems also make it easier to meet the needs of the maintenance team and ensure they have all the supplies and instructions they need to arrive at the correct sites and resolve the necessary issues before moving along. Because the system is fully integrated and centralized, there is no chance of any important step, tool, or information getting lost, as happens often with disparate or isolated systems.

AI takes every request through every step from intake to completion, which is not at all assured with a decentralized, analog maintenance model.

Ultimately, centralization is about making every aspect of maintenance easily available whenever it is needed. This convenience and flexibility is prompting the entire residential property management industry to pivot toward a centralized way to work.

Author Ken Murai, CEO, FacilGo

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