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Apartment assets: An "alternative" going mainstream

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Over the next 19 years, some 10,000 Baby Boomers will retire every single day, according to Pew Research. That is a powerful demographic trend, and one that will have a dramatic impact on the future shape of the commercial real estate investment market.

Today's investors - both institutional and individual in nature - continue to live through turbulent times. The traditional universe of investment alternatives - stocks, bonds, private equity and debt - has exhibited volatile tendencies for the better part of the past five years now. The beneficiary of this uncertainty is commercial real estate, which is becoming much more of a mainstream asset class rather than an alternative among a larger investing universe.

In many ways, real estate is the perfect fit given the times. In general, it provides investors with much-needed steady monthly income, low correlation to publicly traded equities and significant portfolio diversification. The demand for income has never been greater, based on the changing face of demographic trends.

The Baby Boomers, those born between 1946 and 1964, will turn 65 in the period between 2011 and 2029; on average each of those years will see an increase of 1.6 million people in the 65+ cohort and by 2029 people older than 65 will represent 19% of the total U.S. population. 2011 was the first year in which the Baby Boom generation started turning into the "Golden Boom" generation, retiring and beginning to receive their main income stream from savings instead of jobs.

This fact has put more pressure on institutional investors to produce sustained, healthy income flows, which will become more important than ever but also increasingly difficult to find.

As an asset class, commercial real estate has historically delivered attractive income returns relative to other asset classes. From 1978 through 2011, income returns from commercial real estate averaged 7.6% annually, second only to corporate bonds, a more volatile asset class that had a very strong decade in the 1980s but slipped below real estate in the last decade.

In the current investment climate, the lack of viable alternatives has seen many investors gravitating to U.S. Treasuries as a safe haven. However, T-Bills continue to generate extremely low returns, and rates are expected to remain low for quite some time as the Federal Reserve shows few signs of tightening its monetary policy.

Another familiar alternative, the public equity markets, have risen to record-breaking new highs of late, but stock trading remains a day-to-day, quarter-to-quarter grind, which speaks to anything but surety and low volatility.

This challenging investment landscape, coupled with the continued drive to find higher yielding investments, has led many institutional and private individual investors directly to something better, and that is high-quality multifamily real estate. The apartment market represents a $1 trillion industry for the U.S. economy, according to the National Multi Housing Council and National Apartment Association. In particular, well-located apartment properties with proven performance continue to be in high demand in 2013. This is for good reason, as these properties and their 35 million residents provide consistent and predictable income streams that are easily quantifiable over time.

Given the sustainable nature of the long-term demographic trends, coupled with investors' continued appetite for steady, predictable income streams, apartment properties present an attractive alternative compared to investment strategies based on loyalty or lack of research. Perhaps it will not be long before real estate is viewed as the mainstream asset class over stock and bond alternatives.

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