

Workforce Housing, The Hottest Investment Class

There is huge investor demand for workforce housing product, and the latest deals are setting market records.

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Chris Tourtellotte

In the midst of California's affordability crisis and housing shortage, workforce housing is becoming one of the most in-demand product types for investment. **LaTerra Development** recently completed construction on a new construction workforce housing project and sold it ahead of schedule for a market-record price of \$33 million or \$340,000 per unit. Providence Capital purchased the 97-unit property, which is located in Chula Vista. The sale illustrates the strong market demand.

"We are very bullish on the Chula Vista submarket, so we were expecting strong pricing. This was higher than our expectations, but we were not surprised. We knew that we would do well on this asset," **Chris Tourtellotte**, managing director of acquisitions and capital markets at LaTerra Development, tells GlobeSt.com. "It is in a great submarket, and it is a good class-A product with nice amenities. Workforce housing is also becoming a favored asset class right now."

The housing crisis is certainly a factor in driving the demand, both for investors and renters. "There is a housing crisis in California, and people need a place to live. 80% of apartment product built this cycle has been luxury housing," explains Tourtellotte. "To the extent that you can offer a class-A product without sky-high luxury prices, you are going to have strong demand, which is what we are seeing here."

LaTerra's initial plan was to complete lease-up and stabilize the property before bringing it to market, but the developer received a strong offer that pushed its timeline up. "We sold it ahead of schedule," explains Tourtellotte. "We contemplated finishing the lease-up and stabilizing the product and then selling it or even holding it long term. In this instance, we got an unsolicited offer that was above our proforma, so we sold."

This property is particularly interesting because it is a new construction workforce housing project, which is rare. Land and construction costs have made the development of workforce product difficult—but Tourtellotte says it isn't impossible. “If you are in an area where you can build lower-density project with more land, then the construction is less costly,” he says. “If you are not building subterranean parking, which we are not here, then you are able to spend less money on construction costs. You can still include quality amenities and deliver a nice product. It is a function of the market partly as well as having more land and building the right product.”

This property is actually competitive with class-A product in terms of amenities, but is at a lower price point. “We really like Chula Vista. It has a really high occupancy rate and it has good demographics,” says Tourtellotte. “We wanted to build a project that was lower density with two-and-three story surface-parked, walk-up product, which would lower construction cost, but still include class-A amenities. So, this property has a pool, clubroom, a bridge that passes over a protected creek. We were able to build a beautiful project while offering lower rents than what you would see at a luxury product, and that was really the vision.”

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