

The Secret to Gatsby Investment's Success in the Declining Los Angeles Multi-Family Market

While developers are fleeing LA, Gatsby Investment is making strategic changes to its development models to continue supporting the local real estate industry.

LOS ANGELES, CALIFORNIA, USA, November 7, 2023 /EINPresswire.com/ -- Many multi-family developers in LA have struggled to remain profitable throughout 2023. High interest rates, increased transfer taxes, and rising labor and material costs have all contributed to the decline of the local multi-family market, but Gatsby Investment is finding creative strategies to combat current market conditions.



Finding Success in Declining Market

While many developers are leaving the expensive LA area, or halting new construction altogether, Gatsby Investment is continuously finding new ways to be successful in local multi-family development. Through a strategic combination of smaller developments, zoning changes, and marketing to a new audience of buyers and renters, Gatsby has seen [annualized returns of over 20%](#) on projects completed in 2023.

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Dan Gatsby

High Development and Sales Expenses Lead to Lower Industry Returns

Like all LA-area developers, Gatsby Investment is working with more difficult market conditions than we've seen in recent years. Several factors are creating challenges for

today's developers.

Take higher-than-normal interest rates, for example. With 30-year-fixed rates topping 8% for the

first time this millennium, financing is costly. Interest rates also directly impact buyer demand, as fewer buyers are willing to pay the high interest expense of financing a new real estate purchase. Additionally, higher labor and materials costs have reduced profit margins for developers nationwide.

Then there is LA's new transfer tax. Officially known as "Measure ULA," but more commonly referred to as the "mansion tax," this measure imposes a substantial tax of up to 5.5% on sales of properties in the city for over \$5 million. Imposed to generate funds to assist with the local homeless crisis, this well-intended, voter-approved tax has been cited as the primary reason many developers have given up on LA.

Gatsby Investment, however, has remained committed to serving the Los Angeles community by continuing to build much-needed residential units in LA neighborhoods. Gatsby's multi-pronged approach is designed to combat these developer deterrents.

Smaller Projects Can Mean Higher Profit Margins

A staple of Gatsby's long-standing success has been smaller multi-family developments with 10 units or fewer. Smaller structures can be constructed quickly, often in as little as 18 months, with lower construction costs and less need for financing. Furthermore, with fewer units to fill, Gatsby can stabilize these developments quickly, resulting in recurring rental income for investors, or a more appealing investment opportunity for individual buyers.

Additionally, many of these developments can take advantage of recent zoning law changes, which allow single-family lots to hold small multi-family structures of up to four units. This allows developers to purchase distressed single-family properties, demolish the insufficient structure, and build a more useful (and more valuable) structure in its place. This strategy enables developers to create new housing units to help with the housing shortage while making a profit.

Finally, as many of these small multi-family developments remain under the \$5 million mansion tax threshold, this tax expense does not warrant consideration.

Build-to-Rent Creates Recurring Cash Flow for Investors

Knowing that interest rate hikes are making homeownership less accessible, Gatsby is employing a [build-to-rent \(BTR\) strategy](#), creating cost-effective long-term housing units for would-be buyers who want the comfort of a home without the high mortgage payment.

Small structures with townhome-style architecture are ideal multi-family BTR projects in LA's current economic climate. They can be built quickly and filled with reliable long-term renters.

Section 8 Developments Support Renters and Investors

The current lack of affordable housing in Los Angeles, compared to the high demand, gives developers and investors an opportunity to serve those in need while maintaining profitability.

Section 8 (S8) is a federal housing program designed to provide safe, sanitary housing for low-income families, veterans, seniors, and the differently-abled. This program entitles qualified participants to a federal subsidy that covers up to 70% of their rent and utilities. For investors, this can mean reliable rent payments from the local program administrator, as well as low resident turnover, as there is exceptionally high demand for S8 units.

Plus, by renting out the property rather than selling, Gatsby creates passive income for investors and avoids the Measure ULA transfer tax.

Selling to Tenants in Common for 10-20% Higher Sales Prices

Tenants in Common (TIC) is an underutilized exit strategy in Los Angeles. But it has been employed successfully in other high-value markets, like San Francisco, for decades.

Similar to condos, TIC properties are multi-family structures that are sold to multiple buyers. However, while condos are sold as “divided” interest, with each buyer purchasing their specific unit, TIC properties are sold as “undivided” interest, with all owners sharing equal ownership in the property. In practice, each TIC buyer is effectively purchasing their specific unit. But on paper, all buyers of the TIC property share ownership of the whole property, with occupancy rights for each unit outlined in a TIC Agreement.

For buyers, TIC properties offer a more affordable path to homeownership, as TIC ownership is generally less expensive than condo ownership. For investors, TIC properties come with multiple key benefits. Firstly, there is increasing demand for this type of ownership as single-family home prices have skyrocketed. And, secondly, selling interest in the completed development to multiple buyers allows investors to command a sales price up to 20% higher than if the development were sold to a single investor-buyer.

There are Opportunities in Every Market

Dan Gatsby, founder and CEO of Gatsby Investment, is the first to admit that market conditions have changed for multi-family developers in LA. “Everything changed this year. The opportunities we saw in 2021 and 2022 have run their course. To be successful in this new market, we’re shifting our strategies to capitalize on current conditions, while carefully watching trends to forecast what’s coming next.”

The only constant in real estate is that market conditions are always changing. Developers who can find creative solutions in ever-evolving markets will continue to be profitable.

To learn more about Gatsby Investment, including its goals, strategies, and investment opportunities, visit the [Gatsby Investment Website](#).

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