Why a long-term approach is a smart strategy, regardless of the economic outlook

It's nearly impossible to turn on the television or read an economic journal without being confronted with news about stock market volatility, inflation and the possibility of rising interest rates. Ultimately, market factors are always in play. Economies, and the components that make them up, are always fluid.

"While interest rate hikes during the first six months of 2022 have affected our ability to buy properties, the fundamentals of the properties haven't changed much," says Whittier Trust Senior Vice President of Real Estate Juliana Ricks, who advocates a long-term approach to real estate investing. "We're still finding quality properties that we like and ones we feel could ride out any cycle in terms of valuation." Here are some of the reasons why a long-term approach is a winning strategy for real estate investing.

A Good Buy

As with any potential investment, vetting every element of not only the property itself but also the environment around it can help predict whether the investment will pay off in the long run.

When Whittier Trust's real estate division evaluates a new piece of multi-family real estate in which to invest, they are looking for population growth and job growth over time. While any location is open for consideration, Whittier tends to be most focused on major cities that have a long-term track record, as opposed to small towns with sudden surges. "We want to be invested in places that we think will do well over a long period. It's less speculative," Ricks says, which can translate into more secure investments for Whittier Trust's clients.

Although the team looks at all property types, most of Whittier Trust's recent investments have been in multifamily properties. Since the three to five real estate investments each year involve between $15M and $20M in client equity, their team investigates whether rents are increasing in the market and occupancy rates and demand for housing are high. Whittier Trust's investment group becomes the sole limited partner, holding 95% of a project's equity, while an operating partner familiar with the market and property type typically holds a 5-10% investment and the responsibility of the day-to-day management. Key elements are investigated and evaluated to determine whether or not a project has the potential to be a smart long-term investment.

Patience for the Long-Haul

When Whittier Trust embarks on a new real estate investment, they generally look at investments on a 10 to 12 year horizon, although they would sell sooner if a great opportunity comes along. It's a vastly different approach than the goal of making a quick return or planning to "flip" a property. "Within that range, there will likely be an opportunity to have a good outcome for the asset. That sort of staying power in real estate is important because it allows us to ride out the economic cycles," Ricks explains.

With housing costs—both for single-family homes and rents—on the rise across the United States and interest rates climbing, it's vital to look toward markets that have a proven track record. "While everything's fair game, there are certain markets that have fared better [during economic downturns]. We certainly think about which markets would be okay if there were a down cycle," Ricks says. Even with some market volatility, planning to hold onto a piece of real estate for a decade or more gives the investment time to produce solid returns for Whittier's clients.

Interest Rates' Impact on Real Estate Investing

As any real estate investor knows, a property is worth what someone is willing to pay for it. However, during a period of ultra-low interest rates, buyers could afford to pay more for properties in some cases. That's changing as interest rates rise, and it requires a nuanced approach to get the best result for Whittier Trust clients.

"We're at a certain place in terms of valuation based on cap rates," Ricks explains, adding that interest rates have increased by two full percentage points since the beginning of 2022. "Valuations haven't necessarily gone down as quickly. Interest rates are significantly higher than the cap rates on many properties, which means that the unlevered yield would be lower than the interest you're paying. You're back in this position where you're having to fund debt service initially, as the property stabilizes."

Whittier Trust's Real Estate division looks for investments that are both solid buys and growth opportunities, with the objective to generate lucrative returns, even in the face of interest rate fluctuations. And, should interest rates drop over the life of a property, refinancing for a more advantageous position is possible.

Building a Legacy

This long-term approach perfectly aligns with one of Whittier Trust's core focuses: legacy-building by passing wealth intergenerationally. "We know that there is staying power in real estate. If you can hold on to assets, historically they tend to recover their value" Ricks says.

Approaching real estate investments conservatively so that they will perform well over time includes going back to basics to make sure the fundamentals are solid, choosing a good location, partnering with top-notch management and not putting too much debt on the property. By the time Whittier Trust closes any deal, "we've researched the market to understand the conditions that will make the property perform well," Ricks says.

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