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## The Increasing Wealth Gap through the Lens of Real Estate

COVID 19 is showing the clear divide between the economic fortunes of the "haves vs. the have nots." This article looks into the disparity through the lens of real estate to paint a picture of concerns to those who aren't worried about it today...and they should be.

### **Minimum Wage vs Area Median Income (AMI)**

In Georgia today, minimum wage is \$7.25/hour, which totals to a little over \$15,000 per year in income. Remember this number. Housing metrics would have you understand that 30% of this compensation should go toward housing cost. In this example, rent is affordable up to a monthly rent of \$375/month for an individual. Where in Atlanta can you find housing at \$375/month? Many at this level are "rent burdened," because they are allocating more than 30% of compensation to their housing costs.

The Area median income ("AMI") in the Atlanta MSA is \$82,700/year. Most affordable housing metrics look to this as a benchmark to discuss housing affordability.

- Extremely low income: 0-30% of AMI= \$0-\$24,810/year
- Very low income: 30% to 50% of AMI = \$24,810-\$41,350
- Lower income: 50% to 80% of AMI = \$41,350-\$66,160
- Moderate income: 80% to 120% of AMI = \$66,160-\$99,240

From a general perspective, if rents are affordable (i.e., no more than 30% of income) for a family of four earning up to 80% of area median income, then that housing is considered affordable. At this income level, that translates into monthly rent on a two bedroom of less than \$1,654 per month, which can be challenging to find and out of reach for lower income earners.

### **Housing**

TriStar continues to search for affordable housing in blighted areas with our Social Impact Fund. It is an extremely competitive market, as Atlanta has found favor from value investors around the world who see rents in Atlanta as too cheap and are buying with the thesis of putting on a coat of paint and increasing rents dramatically. This has worked extremely well in the past few years at the cost of affordability and gentrification/displacement of longtime communities. The transiency this causes displaces families, and more importantly, pulls kids out of school 2-3 times per year as parents jump from apartment to apartment, chasing affordability.

Here is the simple math we are seeing the demonstrates the crisis at hand. From experience, the cheapest apartments we see coming to the market...and I mean, blighted, little income, problem properties, are selling at \$40,000-50,000 per unit, if you can find them at this price. The cost to put it back into working order and achieve a normal rent roll is approximately \$35,000-\$50,000 per unit. Much of this are costs associated with governmental regulations. As an example, two-story apartments built in the 1970's are being required to have sprinklers. The cost burden is excessive to put into working order for those in need of housing. As you add the costs up, the best-case scenario has a property at \$75,000/unit with all-in costs. The rent for this would need to be approximately \$875/month to pay debt and have a modest return. This means at the low end of the affordable housing spectrum, a two-bedroom 2 bath unit would be affordable to a family making \$35,000 per year, which is 42% of the area median income in Atlanta. This is a wage worker at \$16.83/hour. To be clear, a \$875/month

apartment in livable condition is difficult to find.

Market rate housing costs a minimum of \$200,000 per unit to build. Rents translate into a starting price of \$1,500/month for two-bedroom apartment. You need to be making \$60,000/year to afford this rent.

**Translation**- a roof over your head is at the basic level of human need as defined by Maslow's hierarchy of needs. When you have no place to live and winter sets in, the homeless population will rise, along with the desperation. An increase in minimum wage would go along way to keep people in housing and to ward off homelessness in a crisis, such as the one we are in.

### **Retail**

The hardest hit sector by COVID-19 has been the retail sector. From restaurants, to gyms, everyone who works in the retail sector has been affected, and the largest job losses have been in the service sector of the retail industry. The workers most hit by the pandemic work in these areas and have lost wages and jobs. The retail damage is first seen at malls. There have been a handful of owners who have filed bankruptcy, as online shopping has taken over the buying experience that was once on foot at your favorite shopping destination.

**Translation** - we will see fewer restaurants and conventional retailers moving forward, and unless wages and affordable housing are improved, your favorite barista, hair professional, or custodian may not be there in the morning.

### **Conclusions**

The wealth gap in the United States is frightening and growing larger each day. While many will go along with their day to day activities, the problem will manifest in ways you haven't thought of and in ways that are detrimental to society.

- Education - Transiency from poverty pulls kids out of school and rarely allows them hope for a better education.
- Crime - Poverty pushes bad decisions in the wake of survival. The answer is not to build more prisons, but to provide jobs and skills set to get those jobs.
- Taxes - Poverty will need to be paid for through higher taxes....it's as simple as that.

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Deal Profile of the Month:

## **DUTCH VALLEY LOFT OFFICES**



**562 Dutch Valley Road  
4,400 Free Standing Building on Atlanta Beltline**

### What We Liked

- Occupancy Cost will be cheaper than high rises in Midtown that charge \$150/space for parking
- Will appeal to professional service and technology companies that want their own "safe" building that avoids a COVID environment
- Will be designed to fit the market w loft office feel

### What was Challenging

- Price - we are always looking for the home run and this will be a solid base hit

### **Are You an Investor?**

We are in pursuit of several investments. If you are an accredited investor and want to be considered for one of these offerings, please reach out to us. Call us today to learn more at 404-698-3535 or [dgibbs@tristarinvest.com](mailto:dgibbs@tristarinvest.com).

Sincerely,

TriStar

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