TIMBERLAND PARTNERS
INVESTMENTS

May 2025

A Q&A with Our Investment Team

Contributors

Matt Fransen
Chief Investment Officer

Mike Savides
Director of Acquisitions

Matt Fransen, Chief Investment Officer, and Mike Savides, Director of Acquisitions, recently spoke with Sam Eaton, Vice President of Capital Markets and Investor Relations, about how Timberland evaluates multifamily investments, how it's investing in the current market environment, and what excites them most about the future.

Q What is unique or different about Timberland's approach to multifamily investing?

MF: For over 30 years, we have been investing and managing multifamily apartment properties. We manage all of our properties in-house and don't manage for any other owners. Combine the data we receive from that, with our strong focus on suburban garden-style apartments in secondary and tertiary central and southeastern markets, and the result is a platform that can quickly and accurately underwrite new potential acquisition opportunities.

Continued on the next page →

(Continued) Our alignment with our limited partners is particularly unique. We are the largest investor in every partnership, contributing between 10%-20% of all cash equity. My dad, Bob Fransen, founded the company, and my sister Erin is our COO, so we have a natural long-term perspective and patient approach to value creation. Our investors profit from the tax advantages afforded to long-term owners, including refinancing and 1031 tax-deferred exchanges.

Q How do you assess investments?

MS: Discipline has been key. We underwrite and analyze hundreds of deals each year, but we're highly selective in what we actually invest in. We lean on our national footprint and local relationships with brokers and owners to find opportunities. Population growth, employment trends, supply-demand dynamics are just a few of the factors we look at. We leverage real-time data from our operations and asset management teams, and we spend time on-site assessing various elements at the property and within the local market.

Q What were Timberland's investment highlights in 2024?

MS: With value-add opportunities a less attractive strategy last year, we focused on purchasing newer assets at a discount to per-unit replacement costs. In our hometown submarket, Richfield-Bloomington, we purchased Indigo Apartments and Rya Apartments, both also newer Class A assets near numerous major employers. Both assets are great additions to our portfolio, allow us to leverage our property management footprint, and offer the latest in amenities for residents.

Q How would you describe the environment for multifamily real estate right now?

MF: We are seeing a mix of opportunities and challenges for multifamily. People need places to live and demographic trends are driving them to markets we invest in, and demand remains strong. The record wave of new supply – nearly 600,000 units delivered in 2024 – has softened rents in some markets. Rent growth has been flat or negative for the last two years in many markets. Most of that new supply has been absorbed as of Q1 2025, and demand is beginning to outpace supply once again. Broad economic conditions affecting multifamily, including fraudulent applications and regulatory risk, continue to be challenges we're keeping an eye on.

MS: The volatility in capital markets is making it difficult to value real estate. Rapid and unpredictable changes in interest rates, driven by policy changes and economic concerns, directly impact buyers and sellers. The gap in pricing expectations between buyers and sellers, already large, is further complicated in a fluctuating market.

Q Where does Timberland see the best opportunities?

MF: We're finding the best opportunities in secondary and tertiary markets, particularly in the Southeast and Central U.S. Markets like Chattanooga, Tennessee, or Peoria, Illinois. Given the current capital market environment, we are focused on newer, stabilized assets, typically 20-25 years or newer.

Continued on the next page →

(Continued) Heavy value-add deals are riskier today, because the rent increases needed to achieve the desired returns are more difficult in this environment. We are also looking at opportunities where we can leverage our management platform and economies of scale to elevate property performance. Our track record and reputation in the market should allow us to see the best opportunities as they arise.

MS: I would add that after years of struggling to locate quality investment opportunities in our home market, the Twin Cities, we were recently successful in acquiring two newer, large stabilized suburban properties (Indigo & Rya) at purchase prices far below replacement cost.

Q Why focus on secondary and tertiary markets?

MS: There are a number of trends now that benefit secondary and tertiary markets specifically. These areas are seeing major population and employment growth as people have migrated from expensive coastal cities like San Francisco and New York. Both rent and purchase prices have become unattainable for many in major coastal cities and other Tier-1 markets. People are choosing secondary and tertiary markets for affordability and quality of life. They can afford more space and have easier access to nature and outdoor recreation. Businesses are attracted by lower regulatory costs and strong labor markets. While institutional buyers tend to focus on primary gateway markets due to their scale and perceived liquidity, their relative absence in secondary and tertiary markets can mean better pricing and the potential for higher yields.

Q Where do you see the most risk in today's market?

MF: Cities like Austin and Orlando have seen a ton of new construction over the last few years, and while demand is strong, that supply has put downward pressure on rents. It's a potential oversupply issue for a period of time, particularly if demand softens. Overall economic health is also a factor. The uncertainty – if we hit a recession or see employment challenges, it will impact demand.

Recent policy instability and concerns about inflation could hurt multifamily demand. Labor shortages haven't fully eased, particularly in construction and property management. It's a headwind for operational expenses across the industry, in addition to increases in insurance and property taxes. Development is difficult today, due to interest rates and rising construction costs, but has given us the opportunity to purchase newer deals at 70-80% of replacement cost. We will be heavily acquisitions focused for at least the next 24 months.

Q What is your outlook for multifamily real estate going forward?

MF: We expect apartment market fundamentals to be strong for the foreseeable future. Despite a massive wave of supply, demand has nearly caught up in many markets. The cost to own today is still significantly higher than the cost to rent. Capital markets activity is expected to be more active in the second half of this year compared to the previous two years. Maturing loans will provide opportunities for strong acquisitions. There is a lot of capital waiting to be deployed in the apartment market, but the owner-buyer bid-ask-spread has not unlocked. There are more buyers out there than willing sellers.