LAKELAND CAPITAL

Older vintage properties in Savannah find favor with investors

Older properties have traditionally been overlooked in favor of newer vintages, but we believe that perception is changing in Savannah. This is partly by necessity in a metro region where the housing stock averages 50+ years old. And perhaps just as importantly, older properties have shown strong rent growth and sustained occupancy levels, while a temporary glut in supply continues to weigh more on newly delivered vacant buildings still stuck in initial lease-up periods as well as already stabilized recent constructions.

The cap rate spread between 3-star and 4- and 5-star properties–which can effectively frame the measurement of risk return potential between newer and older properties–has tightened considerably versus a 10-year moving average. In Pooler and Port Wentworth, for instance, there is now virtually no difference between the two categories of properties. Meanwhile, in Southside Savannah, the average cap rate for 4- and 5-star properties even exceeds that of 3-star properties.

We feel this trend has been driven by a divergence in core indicators. In Savannah, 3-star properties recorded 58.4% rent growth over the past decade versus 36.5% for 4-and 5-star properties. Looking at occupancy levels, in the East Savannah submarket, 4- and 5-star properties had an average vacancy rate of about 16.3%, nearly three times that of 3-star properties.

Older properties are certainly not without their unique set of considerations. They may incur additional maintenance costs, for example, or face a lower re-sale value versus newer properties. But they still benefit from the same structural tailwinds driving demand for multifamily housing. And in many cases, their fundamentals are stronger, proving once again the old adage that nothing beats location, not even building age.