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MULTIFAMILY

INNOVATION WATCH

The Future of Multifamily Living

As impressive recovery stands to drive multifamily investment and development, there are three key areas of innovation we have our eyes on: adapting residential and alternative spaces, designing for the future, and renewing focus on resident experience. In this report, we explore the key drivers of the next generation of multifamily living.

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The Future of Multifamily Living

Adapting Residential + Alternative Spaces: Demand for agile space was evolving even before the pandemic started uprooting daily lives across the globe—repurposing assets to fill the need for more flexible space will be crucial for innovative stakeholders.

Designing for The Future: The way people think about home, work, gym, and shared space has also changed. Throughout the pandemic, people needed their home spaces to provide everything—office, gym, recreation, and more. The evolving renter profile has created significant new design needs.

Focusing on Resident Experience: Creating a sense of home is what attracts renters and drives renewals—but the definition of home has changed.

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Steady Market Gain

Multifamily fundamentals are poised for notable improvement through the remainder of 2021. For some multifamily segments — notably suburban, Southeast, Southwest and smaller markets — market gains will be a continuation of 2020. These segments experienced rent growth last year despite the recession.

For segments hit harder by COVID-related migration and economic trends — notably urban cores, gateway markets and Class A properties — 2021 brings a welcome turnaround in market fundamentals, especially rents. The harder-hit segments won't fully recover this year, but improvement will be significant, and 2022 gains could be very impressive.

National Rebound

National economic rebound and fiscal stimulus are big drivers of multifamily performance, which we define as rents and vacancy. CBRE recently increased its 2021 GDP outlook to 6.7%. Expected employment gains will continue to put thousands of Americans back to work and improve income levels of many more households. April's unemployment rate of 6.1% already reflects significant progress towards a return to a healthy economy.

Market vacancy stands at 4.7% today (Q1) according to CBRE Econometric Advisors, only 50 basis points higher than the prior year. Effective rents fell 4.2% year-over-year but rose 0.4% in Q1 alone.

Capital Markets

Unlike in other recessionary periods, capital appetite for multifamily assets remained strong last year, translating into a total investment volume of $145 billion in the U.S. Investment is positioned for further gains in 2021. Some of the capital has migrated from other sectors (such as office). Investors are drawn to the multifamily sector for its resilience throughout the pandemic and long-term favorable demand outlook.

CBRE Capital Markets professionals from across the country confirm strong bidding activity for suburban properties across the U.S. in particular, and expectations for increased transaction activity through the balance of 2021. The second half of 2021 will also bring more urban transactions, as market conditions improve, helped by office workers gradually returning to the office and rental rates, climbing back up due to increased market demand.

Source: CBRE Research, CBRE Econometric Advisors, RealPage, Real Capital Analytics, U.S. Bureau of Labor Statistics

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Adapting to Residential

Adapting to Alternatives

Adapting to Residential

The world is rethinking where and how we work and live. Some places and industries may never rebound to office populations at pre-2020 levels, and the shift to residential is already underway.

ADAPTING

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While commercial building layouts may pose a challenge, there are major opportunities. The **average renter wants more unique amenity space** (pet amenities, gyms), **as well as more office space** (whether in-unit or shared space), a need office assets are uniquely positioned to fill. We may see more underperforming office and hotel assets convert to multifamily in the near future.

Adapting to Alternatives

According to CBRE's 2021 U.S. Investor Intentions Survey, investor interest in multifamily alternatives (senior housing/active adult, student housing, single-family rentals and coliving) is on the rise. With all alternate sectors still innovating to find their footholds, the potential post-pandemic asset class shakeup is the perfect time for opportunistic investors looking to diversify their portfolios.

Both office and traditional hospitality assets seem uniquely positioned to fit needs specifically for senior housing, student housing, and coliving — all assets with unique space needs. Whether it's office or even underperforming hospitality assets shifting to residential, we expect to see an increase in adaptive reuse projects.


The Apollo

DESIGNING FOR THE FUTURE

Developing for Renter Needs

Activating Ground Floor Retail

Activating Thoughtful Amenity Space

Next-Gen Design Considerations

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Developing for Renter Needs

Class A multifamily properties in traditional urban settings are faced with a challenge in adapting to the new renter dynamic.

Going forward, **renters will prioritize a few key amenities and features,** and many innovative developers are developing and designing to meet emerging needs, among others:

+ outdoor living space
+ office space or work-enabled flex space
+ sophisticated cold storage and package acceptance solutions
+ flexible fitness and wellness space

Activating Ground Floor Retail

We know that vacant and underperforming ground-floor retail hurts the rent prices of a community. Given how consumer retail behavior has become even more hybrid, developers need to do everything they can to get the right tenant for the space, location, neighborhood, and demographics.

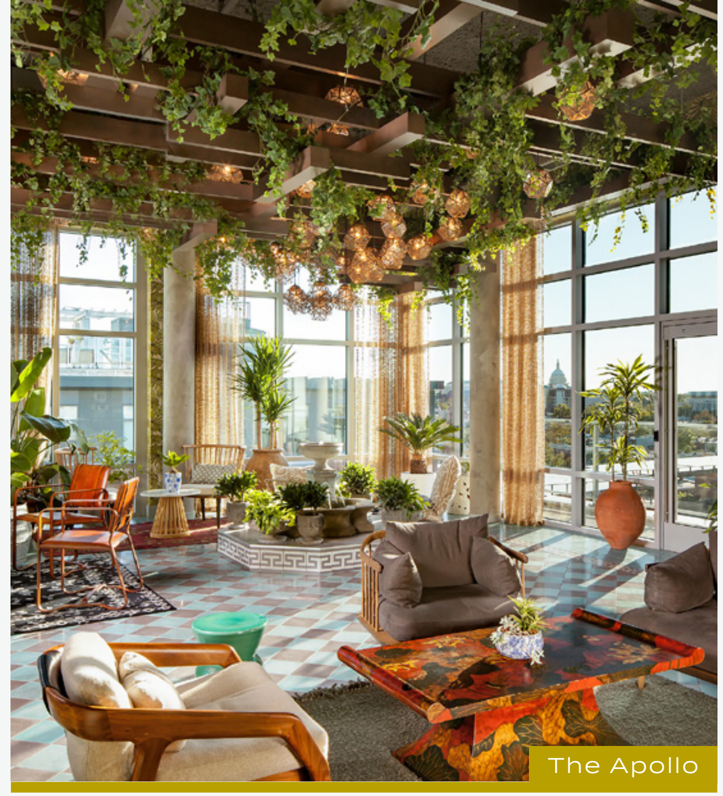
The Wydown at the Apollo

It's not enough to secure a lease from a big retail name — owners and investors need to combine pro forma with a qualitative understanding of the neighborhood their community is in, and **create solutions that work for the demographic, the streetscape, and more.**

Activating Thoughtful Amenity Space

Active spaces are a powerful leasing tool. Owners, developers, operators, and partners put so much effort into the amenity spaces of residential communities — but too often amenity spaces languish, gathering dust and adding to overhead rather than providing value for residents and operators.

To create truly valuable, activated amenity space, developers should counterprogram for their neighborhood and the individual apartments. If the neighborhood has tons of great coffee shops, skip a cafe for the ground-floor retail activation. If the apartments themselves are spacious with lots of room to lounge, don't bother equipping amenity space with big couches. To get people into an amenity space, give them something they aren't already getting.



The Apollo

The Apollo in DC is a community located in a dense urban environment without much greenspace, so Streetsense created a lush rooftop lounge with tons of natural light, plants, and places to sit and relax.

The Lockwood's surrounding neighborhood is full of parks and gardens, but not as many bars and restaurants — so Streetsense created a clubroom space with a pub feel.

The Lockwood

streetsense.

Next-Generation Design Considerations

Renters today want more space in their individual apartments, and places to work, be active, and relax. Even when working and exercising outside the home becomes more viable, people will want to retain the option to stay home while fulfilling those needs.

+ **Design with the mindset of a resident:** how they think of space, how they use space, and what they need in 2021 and going forward. Outdoor space is likely to remain a focus — consider how new projects can enhance outdoor space, both for amenities and within the unit.

+ **Don't prioritize trendy design.** While tapping into trends like subway tile and Edison bulbs feels fresh, it can quickly date your project. The fundamentals never go out of style — focus on natural light and comfortable space and your community will be evergreen.

Integrated Property Marketing

Integrated Property Marketing

FOCUS ON RESIDENT EXPERIENCE

There's huge value to someone forming an emotional connection to the places they live — lease renewals are the most significant performance indicator for any multifamily asset. However, design alone can't foster that emotional connection. It takes a combination of the staff, the space, the programming, design, and more. Positive experiences for residents means measurable value for owners and investors.

+ **There's a science to service:** Owners need to connect with operators who have a wealth of knowledge in operational efficiency, energy management, structural integrity, building system longevity, and more.
+ **Service expectations have never been higher:** Residents want informed, courteous service partners to simplify their lives. Property managers are solution providers and also community builders.

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