MULTIFAMILY

INNOVATION WATCH

The Rise of Co-Living

Co-living housing was reborn four years ago and has captured the attention of the entire multifamily industry ever since. Market demand and product are both rapidly growing.

CBRE + streetsense.

MODERN CO-LIVING

While co-living housing has existed as long as people have, modern co-living properties are much like student housing for young professionals.

The purpose-built or renovated multifamily assets are designed around several unrelated individuals sharing an apartment unit, sometimes referred to as a "pod." The residents (usually four to eight to a unit) typically have private bedrooms and share common spaces in the unit (kitchen, dining, living, bathrooms).

The properties also have common area amenities enjoyed by all residents of the community. Co-living communities can be standalone or a section within a larger conventional multifamily property.

CBRE Research found that the U.S. had more than 5,000 beds in roughly 150 modern co-living communities at the end of 2019. While the total is still small, it represents phenomenal growth. Four years ago, there were only a handful of co-living properties in the country. Industry interest in co-living is vast despite the small size of the product inventory.

HIGH DEMAND + INVESTOR APPETITE

Sub-3% vacancy rates — plus long waiting lists and applications far outpacing available units — have confirmed outsized demand for co-living housing. While it's hard to calculate the depth of near-term demand at this point, operators, their capital partners and the multifamily industry predict that demand will soar.

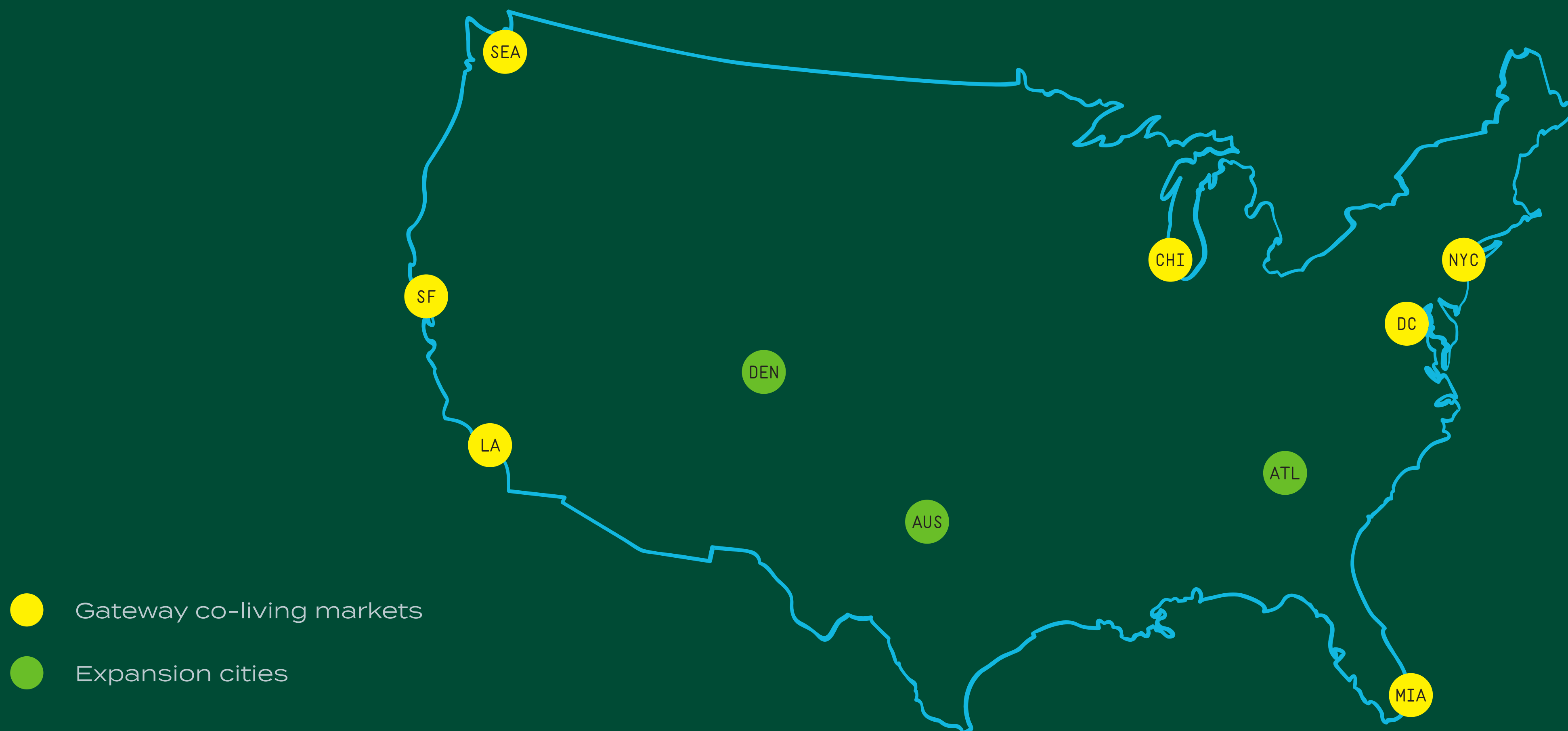
Co-living companies plan to open more than 55,000 beds in the next few years and have raised hundreds of millions of dollars of equity to meet their expansion targets. Institutional investors have taken notice and interest by traditional real estate buyers is rising rapidly.

The emergence of co-living communities over the last few years has largely been a response to rising housing costs and need for more affordable housing options — especially in major U.S. markets which are attracting young professionals from other parts of the country.

Co-living offers a less expensive alternative for young adults (co-living is typically targeted at 25 to 35-year-olds, but certainly not limited to this age range). Co-living is also appealing for its upscale amenities and finishes (without the commensurate "upscale" rents), plus the leasing and move-in flexibility.

CO-LIVING ACROSS THE COUNTRY

Geographically, co-living communities are largely concentrated in the large and expensive 'gateway' markets such as New York City, Los Angeles, San Francisco, Washington, D.C. and Chicago. Expansion plans include other coastal markets as well as secondary cities like Atlanta, Austin and Denver, to name a few. Within metro areas, co-living properties are predominantly located in the trendy central neighborhoods, which appeal to younger professionals.



THE BIG PLAYERS IN CO-LIVING

The largest operators — all with over 400 beds currently — include Common, Ollie, Quarters, Starcity and X Social Communities. CBRE Research has identified more than 40 smaller and mostly regional operators that have emerged in the past few years as well.

The larger and small companies span the spectrum of operational models with some serving as just property operators (managers) to others, such as Starcity, serving as developer, owner and operator.

“Co-living started as a promising solution to impersonal housing and disconnectedness in multifamily living and, over time, has morphed into potentially the only market rate (relatively) affordable housing movement in the country, outside of suburban low density development. Building community and connection amongst residents is accomplished through design, programming and culture — companies that do this successfully will have to nail all three.”

Martin Ditto
CEO of Ditto Residential

The Rise of Co-Living

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Welcome to Multifamily Innovation Watch, a collaboration between CBRE and Streetsense thought leaders. The series highlights key trends across multifamily housing, current examples of industry innovation, and forward-looking predictions for what's next.

01

EVOLUTION OF HOUSING

Evolution of Housing

According to Pew, 31% of the U.S. adult population was sharing a home with someone they are not romantically involved with in 2017.[1]

While co-living began as an extension of student housing, the tight urban housing market is pointing to a future in which co-living is a viable and beneficial housing option for all life stages, offering community and shared amenity cost currently missing from traditional multifamily.

[1] pewresearch.org

02

SOLUTION FOR RISING HOUSING COSTS

Solution for Rising Housing Costs

While most co-living concepts are priced slightly below market rate, some co-living operators are exploring how co-living can ease affordable housing market woes.

New York City's Department of Housing Preservation and Development announced a pilot program competition, ShareNYC, that will provide developers access to public funding for more affordable co-living projects.

Common, one of the biggest co-living players, won this competition with its East Harlem location, which will feature 253 beds of affordable co-living designed to suit a variety of incomes. [2]

[2] common.com

03

CONNECTED CONVENIENCE

STARCITY

Connected Convenience

The popularity of co-living has been bolstered by the "subscription economy" — more and more consumers are intrigued by bundling living amenities like utilities and WiFi. Most offer everything from the basic necessities to kitchen appliances, furniture, and even towels.

Move-in ready concepts like San Francisco's Starcity allows the resident to arrive with nothing but a suitcase.[3]

[3] starcity.com

04

A FOCUS ON FURNISHES + PROGRAMMING

Furnishings + Programming

Co-living communities typically offer high-quality unit furnishings and amenities. WeLive[4], the co-living arm of the co-working brand WeWork, takes it a step further, with bedrooms furnished with books and accessories. Focused on a hotel-like experience, U.S.-based Ollie[5] offers premium bath products, Italian furnishings and amenities like pools, gyms and juice bars.

One concept in Los Angeles, Treehouse, offers its own cafe, art studio, library, music studio and free laundry[6]. WeLive puts on happy hours, comedy open mic nights, and yoga.

[4]businessinsider.com [5]ollie.co [6]treehouse.community

WELIVE

05

COMMUNITY BUILDING THROUGH PROGRAMMING

Programming

Programming is key to retention — the more friends a resident has in their building, the more likely they are to renew their lease[7]. Large screens for movie night, reading clubs and live music events are just a few of the activations at Quarters in New York City and Chicago.

Community programming is oftentimes activiated through mobile apps, which serve as a central hub for communicating with roommates, RSVPing to events, as well as requesting property management assistance.

[7] coho.in

06

DEDICATED SPACE FOR NICHE GROUPS


UP(ST)ART

Dedicated Space for Niche Groups

The desire to connect with like-minded, ethos-focused groups is popping up in co-working and has trickled into co-living. Some concepts now target residents that gravitate toward a specific niche. Up(st)ART Creative Living in Los Angeles offers co-living for "artists, actors, musicians, DJs, models, comedians, writers, directors and dancers," with complementary programming to support the residents' careers and passions.[8]

The niche concepts are not widespread, but are showing interesting movement. HackerHome targets "the weary traveler and the constant coder" and Ollie has a property geared specifically toward hospital employees.

[8]liveatupstart.com

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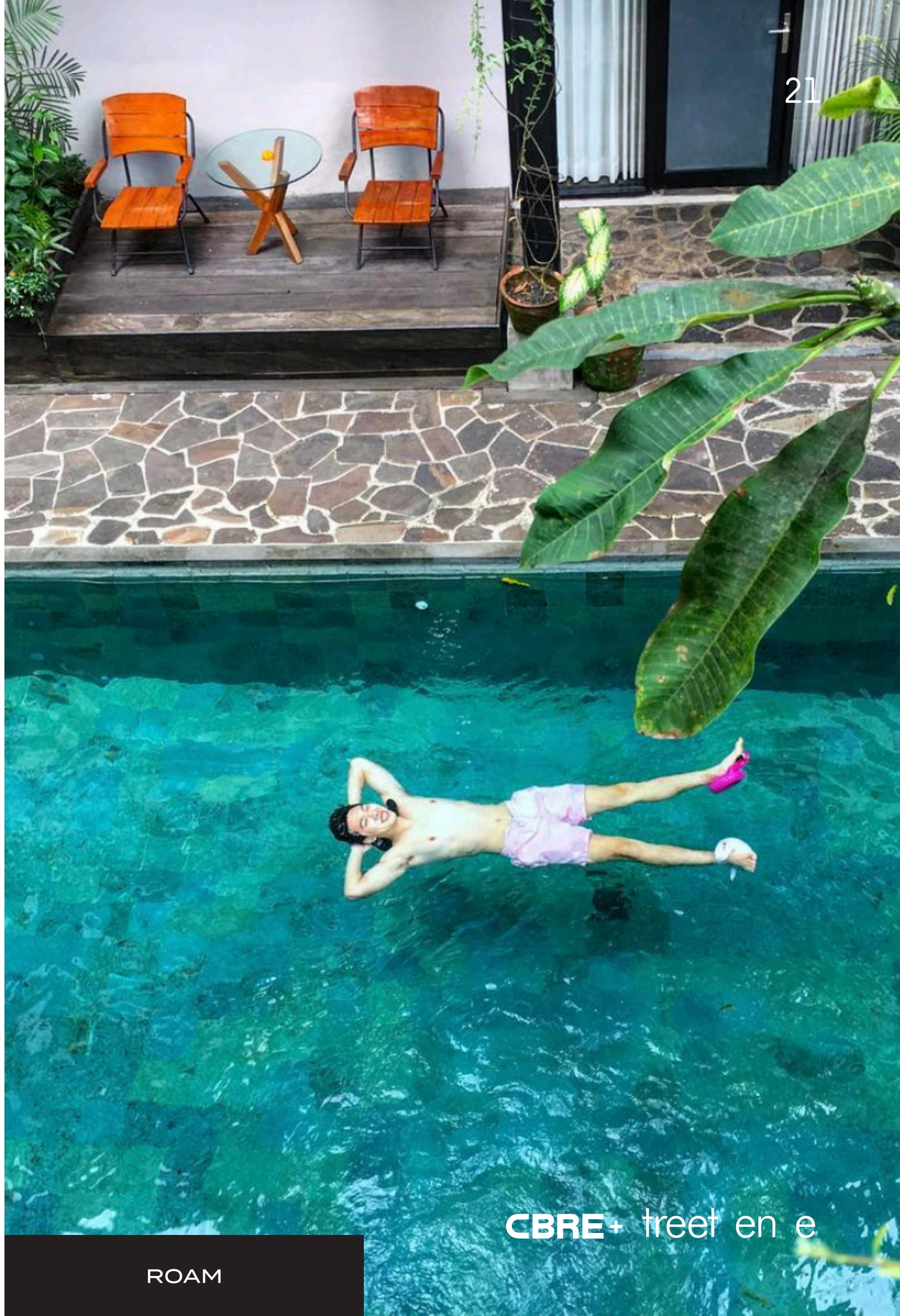
RESIDENTS OF THE GLOBE

Residents of the Globe

Some co-living concepts have evolved to specifically service those with transient and/or global lifestyles. With Roam, residents sign one lease and get access to co-living locations around the world, from Miami and San Francisco to Bali and London.[9]

Roam caters primarily to the co-living audience, but as it evolves, we may see this concept beginning to overlap more with the short-term rental industry.



ROAM

[9] roam.co

"Common has seen our fastest growth this year — we're ending 2019 with almost 1,500 members and 14,000 beds under development in 20 cities across the U.S. and Canada. I'm particularly excited about how co-living can become a mechanism for housing affordability, and cities are starting to catch on, including New York City and our partnership with its ShareNYC program."

Brad Hargreaves

Founder + CEO of Common

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CO-LIVING CAPITAL MARKETS

Co-Living Capital Markets

With the modern co-living world so young, small and evolving rapidly, traditional real estate capital markets players are still trying to figure out the opportunity and the risks of investing in the product.

Interest is growing rapidly — investors of all types are paying close attention to potential increased opportunity from the rising amount of co-living product and from growing market acceptance and demand.

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LENDER AFFORDABILITY MANDATES

Lender Affordability Mandates

Many lenders are providing construction and/or permanent debt capital to co-living developers and owners. For lenders in particular, co-living's affordability angle makes it particularly appealing. Many lenders have "affordability mandates" — goals to finance housing with rents affordable for renters at or below median incomes — and much of the current co-living product qualifies.

The affordability driver of co-living communities also makes this asset class of particular interest given the high cost of rentals in many cities and tight performance of affordable housing.

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CO-LIVING MITIGATES RISK

Co-Living Mitigates Risk

Some investors' first step into co-living capital will come from bankrolling assets which are mixed conventional and co-living units.

This mitigates some risk of investing in standalone co-living assets, but also raises the question of what the optimal balance is between co-living and conventional units in a property.

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CO-LIVING'S INFANCY

Co-Living's Infancy

Other challenges include steep competition, wide variation of product and operators, and relatively high turnover rates. It's exciting, but an evolution with risk as well as significant upside opportunity. For the next several years, the industry will have considerable flux with new entrants as well as some mergers and acquisitions.

The product will continue to evolve as operators experiment with amenities, services and design. The pricing models and the operating expense side of the equation are also works in progress.

"Experienced" operators have only a few more years of operational history than the brand new companies, so debt and equity investors are challenged to understand the strengths and character of operating partners and their co-living assets.

THE COLLECTIVE

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HIGH DEMAND, BRIGHT FUTURE

High Demand, Bright Future

Co-living market performance today clearly shows high demand and high occupancy of existing product — metrics that will continue to spur further development and investor interest. **Current product also reveals a significant premium on rents per square foot for co-living units than for conventional apartments — 32% to 38%, according to a recent study by CBRE and Common.**

As the asset class matures, the performance metrics will become richer and deeper. In particular, the industry will produce much needed data points and understanding of development and investment return metrics. Richer operational data will also provide further transparency of co-living's investment opportunity.

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CBRE and Streetsense's joint venture helps unlock value for brands and their customers; reimagine environments where people live, work, and play; drive demand for clients; and foster community and sense of place. Together, we strengthen our ability to connect with end users across industries and geographies.

For more on our partnership, please visit us at cbre.us/streetsense.

Jeanette Rice
Americas Head of
Multifamily Research
CBRE
jeanette.rice@cbre.com

George Entis
Senior Research Analyst
CBRE
george.entis@cbre.com

Jamie Sabat
Director of Trends +
Consumer Forecasting
Streetsense
jsabat@streetsense.com

Eric Burka
Managing Principal
Streetsense
eburka@streetsense.com