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New Housing Trends Jolt Multifamily Real Estate

By Tom Stabile May 2, 2018

New developments and projects catering to Millennials, Baby Boomers, students, and middle class renters are shaking up the multifamily residential real estate investing sector, moving it past its core rental apartment focus and its recent fixation on luxury properties.

Managers are building up expertise to develop or modernize workforce, senior, and student housing and even gearing up for newer co-living and micro-unit properties designed for the Millennial “roommate” market. Consultants and investors also are scouring these new areas for potential returns, and while only a few strategies are dedicated to these narrower slices, interest in them is growing, market watchers say.

Part of the evolution stems from greater competition, with capital and managers flowing into multifamily real estate in recent years, forcing market players to search harder for returns, says Sunder Jambunathan, principal at Certes Partners, which launched in 2012 with partners from Deutsche Bank’s RREEF real estate group. Certes faced a choice to grow from its primary market multifamily property investment target by either expanding to smaller regions or finding new ways to invest within gateway cities – and it chose the latter by focusing on co-living and microhousing for Millennials, he says.

“We’re looking at where there are opportunities to take an asset class that moves slowly and is resistant to change and to generate yield by doing something different in the market,” he says.

Even slightly more established segments such as student and senior housing are evolving to meet demographic trends and renter appetite for better options, and investors are following these shifts more closely, says Philip McAndrews, head of real estate equity at Aegon USA Realty Advisors, an arm of Aegon Asset Management.

“Institutional investors want to allocate in a more finite way where they put their dollars,” he says. “They now will say they want a student housing or senior living fund, and even workforce housing.”

Multifamily stands as a safer port in the real estate asset class, with the office segment facing structural changes, retail brick and mortar assets deeply challenged by digital competition, and industrial and logistics properties prone to technology risk, says Paul Jayasingha, global head of real estate manager research at Willis Towers Watson. Indeed, 56% of private fund investors in a Preqin survey say residential presents the best real estate investing opportunity this year, making it the top segment.

“The demographic trends – and the fact that you can be certain people need places to live – make multifamily attractive relative to other sectors,” Jayasingha says.

But the word has been out on multifamily investing for years, including a more recent flood of capital aimed at the luxury rental apartment market, says Scott Lawlor, CEO at Waypoint Residential. “What we have is a very, very crowded playing field in the apartment sector,” he says. “Folks now are saying they like rental housing but maybe want to search around for opportunities other than in the dead center of the fairway.”

That awareness has helped managers launch funds dedicated to senior and student housing in recent years, including Kayne Anderson Real Estate Advisors, Nuveen’s TH Real Estate, and Harrison Street Real Estate Capital. Co-living and micro-units may be a few years away from seeing stand-alone funds, with institutional investors and lenders still needing to get comfortable with the concept, market norms still lacking for pricing, business models, and contracts, and many localities still having restrictive housing regulations, Jambunathan says.

And not all multifamily sector managers should be dabbling in these newer areas, unless they are hiring or partnering with specialists, Jayasingha says.

“Every manager in multifamily can’t make the leap to some of these subsectors,” he says. “They do require different skill sets, and there is reputation risk and regulatory risk.”

One example is student housing, which requires a hyperfocus on closing leases in a short timeframe before the school year starts – not how normal apartment leasing takes place, Jayasingha says.

Co-living and microhousing are in the vanguard of these newer housing types. Younger renters have created vast demand for shared housing in order to afford living in primary cities, and now newer arrangements are trying to “formalize that roommate market,” Lawlor says.

Those options take on various flavors: properties built with a layout expecting property owners to rent individual rooms to different individuals within a single apartment unit, sharing kitchens and other features; properties in which renters simply lease a bedroom and have shared common amenities on a floor; and self-contained microunits packaging a studio into small – as little as 150 sq ft – but well planned, high-end spaces. The current housing stock in most cities was designed for families, not for shared living among roommates or strangers, which often requires new development to execute these concepts, Jambunathan says.

One hallmark of these newer properties is higher-end amenities and finishes, as well as a “turnkey” model of renting in which all utilities and services are pre-arranged and packaged and the rental process is modernized through digital apps and processes, he adds. “It should feel more like AirBnB,” he says.

Such properties already can be part of a normal diversified multifamily real estate fund, but it may take time for institutional investors to embrace the concept, says Alan Pardee, managing partner at Mercury Capital Advisors, a placement agent. “This is kind of cutting edge,” he says. “Investors still need to get their minds around what the cash flow looks like.”

Workforce housing – largely geared toward affordable, non-subsidized housing for the middle class – is another burgeoning market, and has the benefit of a nationwide footprint, McAndrews says. Aegon has done multiple deals involving upgrading existing properties with better common areas or improvements to units that make them more attractive but don’t bump them up into class A pricing markets. “It’s a category that’s very broad, and we’re really excited about it,” he says.

Even more established specialty areas such as student and senior housing are undergoing a transformation as expectations for what these properties offer in terms of finishes, services, and amenities have greatly expanded in recent decades, forcing managers to upgrade and redevelop properties or start fresh. “I don’t think any kid today would look at my dorm room in 1982 and find it acceptable,” Lawlor says. “There has been a huge evolution in the market.”