COLIVING MEETS THE SUNBELT

HYBRID HOUSING TO ADDRESS AFFORDABILITY GAP IN THE SUNBELT

The Sunbelt's year-over-year rent growth as of Q3 2019 demonstrates no sign of slowing despite the maturity of the cycle. Looking ahead, this rate is projected to normalize at 1.3% annually through 2024. Rent growth has been outpacing wage growth over the course of this cycle, leaving nearly 79 million Americans needing to live in a shared household in 2017, according to Pew Research Center. With newly-graduated and lower-earning residents regularly looking to combat affordability issues, developers have created a new approach.

Coliving began appearing in highly-priced coastal markets over the last five years as a real estate solution to address the growing affordability gap between market rents and market wages. The idea is simple – renters can live in a highly-amenitized building with shared living spaces and rental costs 30-35% below conventional apartments. Typically, coliving providers include additional services and perks, including fully furnished units, all utilities included, and even housekeeping, while still providing as much as a 35% discount compared to conventional apartments on a per unit basis.

Nationally, coliving supply in 2019 is estimated to be 3,300+ units, but with new entrants to the market, Cushman & Wakefield Research expects this number to rapidly rise over the next few years. In 2019, high-profile coliving operators Common and Quarters announced plans to invest a combined $600 million to expand their respective coliving US footprints. Coliving concepts are beginning to trickle into the Sunbelt territory, with markets like Austin and Atlanta developing nearly 700 coliving units combined over the next few years. While this type of housing product bodes well for the high-cost gateway markets, how will it fare in the Sunbelt territory as more coliving product delivers in the region?

Examining the presence of target coliving demographics in Sunbelt markets will shed light on the capability of the product type's success in foreseeable future.

RENTER DEMOGRAPHICS SIGNAL COLIVING PROMISE IN SELECT SUNBELT MARKETS

As we have seen in recent years, an influx of jobs and capital investment generated upward pressure on rental rates in urban centers across the Sunbelt. Average effective rents across Cushman & Wakefield's Sunbelt MAG territory grew by 6.1% year over year as of third quarter, breaking the $1,000 threshold for the first time. Economic powerhouse markets such as Atlanta, Birmingham, Charlotte, Huntsville, Nashville, and Piedmont Triad felt even sharper rent growth spikes, ranging from 6.4% to 9.2% year over year.

The affordability gap in the Sunbelt continues to grow as wages have not kept pace to balance out rent growth. According to a report released by PayScale, Atlanta ranked sixth nationally for cities with the lowest wage growth at 2.2%, with other Southern cities such as Houston, Nashville, Dallas, and Charlotte producing wage growth rates below 3.0% year-over-year. Across the Sunbelt, the Joint Center for Housing Studies reported between 35% and 55% of renter households spent more than 30% of their monthly income on housing costs, leaving them cost overburdened.

With limited solutions, coliving presents an opportunity to counteract cost-burdenship trends by providing quality housing and efficiently increasing the overall housing supply. The following demonstrates the percentage of cost-burdened and severely cost-burdened households across MSAs within the Sunbelt, typically a key determinant of attractive coliving markets:

- ATLANTA – 47% / 23%
- BIRMINGHAM – 43% / 21%
- NASHVILLE – 42% / 21%
- PIEDMONT TRIAD – 47% / 22%
- RESEARCH TRIANGLE – 44% / 22%
- NEW ORLEANS – 54% / 31%
- MEMPHIS – 49% / 26%
- LITTLE ROCK – 45% / 20%
- DALLAS – 45% / 22%
- GREENVILLE – 46% / 23%
- AUSTIN – 46% / 23%
- CHATTANOOGA – 42% / 19%
- CHARLOTTE – 44% / 21%
- HOUSTON – 47% / 25%
- CHARLESTON – 51% / 25%
- BATON ROUGE – 46% / 28%

Source: Harvard Joint Center for Housing Studies tabulations of US Census Bureau, 2017
Note: Cost-burdened and severely cost-burdened renters are defined as spending more than 30% or 50% of one's income on housing, respectively.

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MARTHA KIFLE
Senior Research Analyst
+1 470 344 1434
martha.kifle@cushwake.com

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Renter households have greatly expanded over the last several years, priming the market for a need of alternative housing options that preserve affordability. Market experts find coliving product attracting a broader demographic than the imagined newly-graduated or in-migrated millennial. While the niche asset class appeals to newly-graduated millennials and digital nomads, other renter groups also benefit from inhabiting highly-amenitized buildings with shared communal spaces.

A key portion of the target coliving segment also consists of unmarried renters belonging to single-person or nonfamily households, typically with lower household incomes compared to multi-person households. Additionally, renters earning between 60% to 80% of the market's area median income also present potential to boost coliving demand in the Sunbelt, given the product's lower overall monthly housing cost. The following depicts performance indicators of the coliving segment across the top five markets in Cushman & Wakefield's Sunbelt MAG territory by population:

DEMOGRAPHICS FUNDAMENTALS

	ATLANTA	CHARLOTTE	DALLAS	AUSTIN	NASHVILLE
Millennials (25 to 44)	1,663,246 (2019)	725,549 (2019)	2,168,380 (2019)	716,690 (2019)	564,595 (2019)
Pop. with Bachelor's+	36.6%	33.1%	33.3%	42.2%	33.1%
2017 Net In-migration	6,156/year	21,625/year	25,968/year	27,776/year	18,160/year
% Renter Households	37.1% (2019)	34.2% (2019)	39.6% (2019)	41.7% (2019)	34.8% (2019)
Projected Growth	47,858 new HHs by 2024	34,755 new HHs by 2024	100,309 new HHs by 2024	46,963 new HHs by 2024	26,046 new HHs by 2024
% 1-Person Households	25.6% (2019)	25.1% (2019)	26.0% (2019)	27.7% (2019)	26.5% (2019)
Projected Growth	47,417 new HHs by 2024	33,551 new HHs by 2024	84,756 new HHs by 2024	39,960 new HHs by 2024	25,506 new HHs by 2024
60% AMI - Gross Rent	$837	$829	$873	$994	$840
80% AMI - Gross Rent	$1,116	$1,106	$1,382	$1,164	$1,120
100% AMI - Gross Rent	$1,395	$1,383	$1,455	$1,658	$1,400
120% AMI - Gross Rent	$1,674	$1,659	$1,746	$1,989	$1,680

Source: Cushman & Wakefield, Novogradac & Company Rent & Income Limit Calculator, Jan 2018.
Note: Area median incomes are based upon one-person HHs.

Overall, the Sunbelt, with its projected renter and single-person household growth, will continue to draw educated millennials to its urban centers in oncoming years. Coliving presents an opportunity to allow entry-level workers the chance to have highly-amenitized housing in the heart of the urban core by sharing living spaces. The once-affordable Sunbelt markets are now leaving renters more cost-burdened than ever, paving the way for coliving to thrive.

For more, Cushman & Wakefield's national report entitled, Survey of the Coliving Landscape, explores the state of coliving, strategies and funding of key players and future growth potential.

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MARTHA KIFLE
Senior Research Analyst
+1 470 344 1434
martha.kifle@cushwake.com