THE SURGE INTO THE SOUTHEAST:

HIGHLIGHTS FROM BISNOW'S MULTIFAMILY ANNUAL CONFERENCE – SOUTHEAST

Industry-leading real estate experts converged to discuss trends pervading the Southeast multifamily market and forecasts of what is to come at Bisnow's September 'Multifamily Annual Conference – Southeast' event. Panel experts relayed that investors continue to exhibit growing interest in the Southeast multifamily space, as populations are moving to the Sunbelt from urban gateway markets. With rent law changes taking place in select markets, the Southeast is gaining capital inflows from market-centric investors in search of safer returns.

When considering renter and job growth as an investment driver, top Southeast multifamily markets include Austin, Charlotte, Nashville, Raleigh, and Tampa. The Southeast overall is surpassing investment expectations, as capital and jobs are finding their way to the region and promoting higher yields than other regions of the United States. One concern is subsequently increased competition for investment in the Southeast, with investors coming from outside markets and dipping into the Southeast's overall return potential on multifamily investment. However, through strategic investing, investors should experience quick and noticeable returns to mitigate effects of increased competition. Other highlights from the conference include:

AMENITIES REVOLUTIONIZING THE NEAR TERM

A panel of developers and amenity strategists examined the development of amenities in recent years as well as where they are headed, with the most prevailing trends including land choice, future proofing, and app technology.

- Several Southeast real estate experts note a shift from a focus on providing highly-amenitized assets to leaning on **location and transit access** as value drivers, with walkability and light-rail access to the urban core seen as especially important – as the new urban luxury is time. For example, Fairfield has been experimenting with smaller zero-amenity assets and have found success in achieving target rental revenue while minimizing construction costs and non-revenue generating amenities.

- **Future-proofing** is also vital in multifamily development as technology is constantly changing. With fiber soon to become obsolete, future-proofing and anticipating the communication protocols that exist in IoT is necessary to avoid having to retrofit a stabilized asset to accommodate new technologies.

- Multifamily experts also consider **app integration** necessary to enhance the tenant experience. App technology can provide synchronicity in living spaces, with the best full-solution providers offering sidewalk-to-sofa technology in a single place to combat app fatigue. With owners and property managers across asset classes seeking single-service payment platforms that handle communications with management, integration is a must that investors will continue to keep in mind.

COLIVING ENDING URBAN LONELINESS

Brad Hargreaves, Founder & CEO of Common, described co-living as 'keeping the good parts of living with roommates but getting rid of a lot of the annoyances.' Rent growth has been outpacing wage growth over the course of this cycle, leaving 25 million Americans needing to live roommates. Coliving began in gateway markets and has since expanded into the Southeast. With conventional studios now coming to market at $1,600 per month, coliving creates the opportunity to live in a highly-amenitized building with shared living spaces and rental costs 30-35% below conventional apartments but with a competitive amenity package. Beyond amenities, a key differentiator with coliving is the sense of community, allowing new residents and digital nomads to break down the separatist feel of a new city. From an investor and owner perspective, coliving is an attractive niche because it has very limited competition and is less susceptible to oversupply, while offering above-average returns.

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THE SURGE INTO THE SOUTHEAST:

CONSTRUCTION, DEVELOPMENT, AND VALUE-ADD

A panel of developers emphasized the worsening effects of the construction shortage, materials and land prices, and time issues on overall development costs. Developers continue to employ alternative materials, seeing positive results in the use of panelized walls, steel framing, and minimal customizations. Current trends in development over the last two years include smart technology, the "new suburb," and right-sizing rental units.

The panelists agreed that Class-A tenants want smart homes that incorporate usability and technology integration in flexible space. Additionally, multifamily developers are capitalizing by providing urban convenience in suburban markets to create the "new suburb." The Urban Land Institute anticipates suburban areas will attract nearly 80 percent of US household growth through 2025, with millennials seeking out neighborhoods sporting boutique retail, entertainment, and transportation infrastructure. With transit improvements and ride-share providers adding value and access to areas outside of the urban core, modern renters desire the lifestyle of an urban core anchored in neighborhoods with highly-rated schools and low crime rates.

Another notable trend seen in Southeast development recently is a process called right-sizing. Developers are reconsidering past notions on required rental unit sizes and amenity offerings, implementing strategies that accommodate different renter segments that may not see value in having a big screen TV, bathtubs, or ovens compared to historical preferences. Even Class-A developers now look to ways to cut costs by deprioritizing amenities that do not drive value in favor of lower rents, as rents cannot be pushed much further. However, developers feel that even with cutbacks on amenities, affordable housing cannot work without subsidizing land or construction costs.

"BIG A" AFFORDABILITY & WORKFORCE HOUSING

Panelists focused on affordability in Atlanta, first addressing the fact that Atlanta rents for Class-B product are likely $300 less per month than the other seven largest cities in the Southeast by coincidence rather than intention. With the percentage of cost-burdened renters growing larger and less affordable units in the pipeline, the City of Atlanta created the One Atlanta initiative. The plan calls for the city to invest $1 billion and create 20,000 units of affordable housing through 2026 by looking to private companies and individuals to aid in the effort to tackle affordable housing through mezzanine financing. The program aims to utilize 45 action items to subsidize affordable housing, streamline permitting, and capitalize on vacant public land to mitigate land costs.

Atlanta also enacted a mandatory inclusionary zoning ordinance in January 2018, requiring developers to designate 10% of all units as affordable at 60% AMI or 15% of all units as affordable at 80% AMI at any site within ½ mile of the Beltline corridor and in four neighborhoods in the Westside. Charlotte and Miami were named as two Southeast markets making strides in affordable, as they both have long term plans in place to move the needle in the direction of addressing their affordable housing needs.

TRENDS AND TAKEAWAYS

The Southeast renter market will boast strong fundamentals in upcoming years, with the "renter-by-choice" demographic increasing as more high earners and empty nesters transition from homeowning to renting. However, multifamily experts worry that rents cannot be pushed much further. Cutting amenities can only reduce costs so much, illuminating a growing need for innovative construction and policy solutions for multifamily. Overall, experts agree that the future looks strong for the Southeast so long as it prepares for cost-reduction strategies in the years to come.

Bisnow's Annual Multifamily Conference – Southeast was hosted by Westin Buckhead in the Buckhead neighborhood in Atlanta.

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