NOVEMBER 2020

COLIVING DURING COVID-19

How Communal Living Has Adapted to the New Normal

KEY TAKEAWAYS

- Coliving is a multifamily model where residents share the common areas of units such as living rooms and kitchens while retaining their private personal spaces.
- Coliving occupies a unique position in the multifamily ecosystem by offering Class A quality builds and locations with the affordability of workforce housing.
- Prior to the COVID-19 crisis, coliving provided a 30% industry average discount to gross housing costs[1] for renters on a per lease basis while increasing NOI for asset owners by an industry average of 15% through higher densities.
- Since the beginning of the COVID-19 crisis, coliving rents and occupancy have declined in line with declines in conventional Class A urban asset rents. Coliving assets continued to maintain a 23.2% rent per square foot (psf) premium over the average of Class A studio rents PSF in comparable markets as of Q3 2020.
- Several indicators point to continued demand from the coliving target demographic despite the ongoing crisis. Leasing metrics for coliving assets did rebound and exceed pre-COVID rates due to continued depth of demand relative to supply. Rent collections for coliving have exceeded performance of both multifamily generally as well as for Class A comparable product.
- As the economy recovers, affordable rents will be a key value-add for renters still attracted to urban submarkets. As demand for amenity-rich urban submarkets continues to rebound, coliving assets will benefit from the overall improvement in demand further supported by their competitive niche positioning in the rental ecosystem.

1 This discount is inclusive of furnishings and utilities, cable and wifi which are bundled into a coliving lease, and often are separate costs paid by renters of conventional units.

COLIVING MATURING INTO AN ESTABLISHED NICHE SECTOR

Prior to the COVID-19 crisis, coliving was a rapidly growing niche asset class throughout major markets in North America—expanding from fewer than 100 beds in 2014 to more than 7,000 at the end of 2019. Driven by high and rising housing costs for renters in top job markets, coliving has emerged as an alternative to conventional multifamily, combining Class A builds and locations at a workforce housing price point. Through higher density, coliving delivers lower per lease rents for renters and higher per square foot rents for owners. While early coliving projects often involved repurposing existing assets at a small scale, current coliving developments are typically purpose-built and have evolved to generally exhibit the following features:

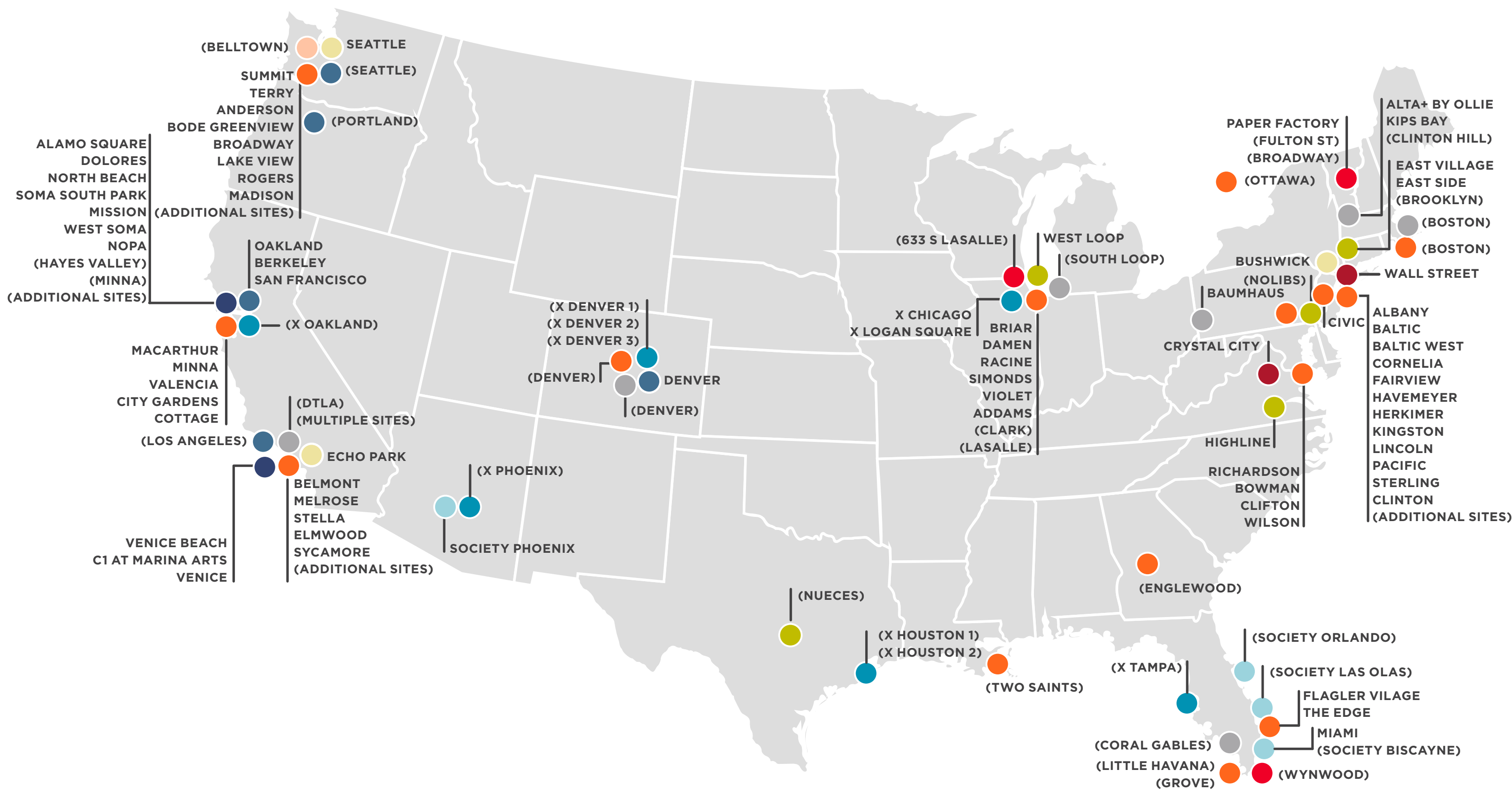
- **Larger build-to-suit assets**, with the average bed size of planned assets increasing to 180 beds, enabling consideration for institutional investors looking to place capital at scale
- Coliving rents generally offer a **20% - 30% discount in total housing costs** to comparable studio product on a per unit basis
- **Per square foot rents are generally 25% - 50% higher than comparable assets** (varying widely based on unit mixes, floorplates and market), while operating expenses are generally 5% higher than traditional multifamily
- Unit mixes that **can include some percentage of studio or other traditional unit types** to allow for tenants to upgrade while remaining in place
- For coliving units, frequently a **1:1 ratio between bedrooms and bathrooms**
- Lease terms generally increasing to nine and 12 months and **reducing or removing 3-month, 6-month and short-term stay leases**
- Making furnished common areas in units standard and including utilities and WIFI in rent
- Some operators have opted for an amenities-light model to optimize for affordability while others opt for an amenities-heavy model to entice demand and expand the capacity for community building

By the end of Q2 2020, there were nearly 8,000 institutionally-operated coliving beds across a dozen markets with over 54,000 beds in various stages of evaluation and development.[2] The existing inventory of assets has been concentrated in the top urban submarkets of New York City, Los Angeles, Chicago, the San Francisco Bay Area, Washington, DC, Southern Florida, Boston and Seattle. Many of these major markets have high competition for sites and regulatory hurdles affecting all multifamily development. These challenges are driving coliving developers to widen the search for new opportunities, including lighter regulatory markets primarily in the Sunbelt. Markets that fall under this secondary wave of coliving development include Atlanta, Denver, Austin, Houston and Phoenix. Additionally, interest in Toronto has also grown for coliving projects.

Coliving developers and operators have continued to evaluate and source new sites since the COVID-19 pandemic began. This activity is predicated on the common view that respective markets will be in recovery by the time new projects deliver in 2022 and beyond.

2 Common, Open Door, The X Company, Ollie, Quarters, Starcity, PMG, The Collective, WeLive

MAJOR U.S.COLIVING DEVELOPMENTS



OPERATORS/DEVELOPERS

- NODE
- OPEN DOOR
- COMMON
- THE X COMPANY
- OLLIE
- QUARTERS
- STARCITY
- SOCIETY
- THE COLLECTIVE
- WELIVE

Note: developments with parentheses "()" have an executed agreement and are in some phase of pre-development or construction.

TBD Operator

** Mapped developments have been publicly announced*

- Pipeline cleared

COMPANY	CURRENT U.S. BEDS ESTIMATED	ESTIMATED BEDS IN PIPELINE LOWER BOUND
Common	2,400	17,600
Open Door	255	11,850
The X Company	1,600	7,800
Society	1,200	7,500
Starcity	500	5,200
Quarters	530	1,800
Ollie	700	1,570
Node	355	1,250
The Collective	125	1,000
WeLive	510	
TOTAL	**7,820**	**54,350**

Source: Common, Open Door, The X Company, Ollie, Quarters, Starcity, PMG, The Collective, WeLive as last reported in news publications or CRE data sources such as CoStar or Axiometrics. Many coliving operators and developers have additional projects that are in various phases of sourcing that are not captured in this chart.

COMPARATIVE PERFORMANCE IN THE COVID-19 ERA

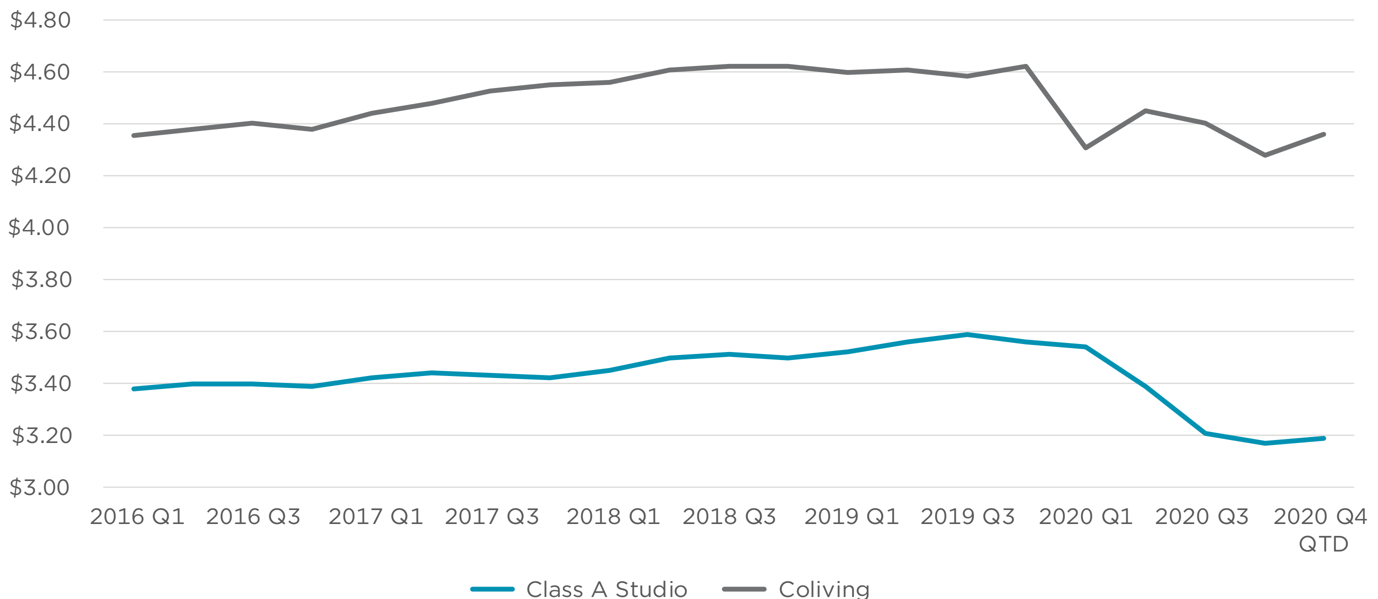
COVID-19 has had an undeniable downward impact on overall rental demand in urban submarkets due to both the risks of living in dense population areas and the growing work-from-home paradigm. How have coliving operators fared under these adverse conditions? Recent announcements indicate certain operators are struggling, namely those who utilize a cohousing model—that is, operators that lease individual single-family homes and units and convert them to coliving units. Two recent examples include Hubhaus, which announced its closure in September 2020, and Bungalow, which announced that it would be looking to renegotiate its leases with landlords.

While the cohousing model enables operators to scale quickly, it also increases risk. First, operators are liable for numerous leases as opposed to flexible management agreements. Second, they enter into lease agreements with many individual landlords who are more susceptible to the economic effects of COVID-19, whereas institutional multifamily owners are more insulated with larger financial reserves to draw from as well as assets that enable economies of scale for services and amenities.

Most coliving operators utilize a multifamily model, and the story here is more nuanced:

RENTS: From March 2020 to August 2020, average coliving effective rents have fallen 9.4% compared to a 11.7% drop among Class A studio rentals on a psf basis in comparable markets. This drop in effective market rents is due to a COVID-19 surge in concessions in major markets, with a significant portion of multifamily assets in lease up or renewals offering two months (or 16.6%) off lease terms. While coliving and conventional multifamily have been affected by both concessions and reductions in face value of rents, the overall net effect has been less for coliving assets generally.

Accordingly, coliving has maintained its psf premium over studios during the pandemic. During the peak of Class A studio rents in Q4 2019, coliving rent psf attained an average estimated premium of 18.2%. As of Q3 2020, coliving assets increased their effective rent psf premium over studio rents to 22.2%. Even



Source: CoStar, Axiometrics, Cushman & Wakefield. Coliving rents were collected from third party sources as well as surveys conducted by Cushman & Wakefield. Traditional multifamily comparables were Class A, 2014+ year built studios in same urban markets as coliving assets: New York City, Los Angeles, San Francisco Bay Area, Miami, Washington DC, Chicago, Seattle, Boston and Philadelphia.

so, coliving rents continue to offer an average 20%+ discount in housing costs per lease to competing studio product. Notably, housing cost components such as included furnishings in coliving rents have remained as static separate initial costs to the conventional renter entering a new lease.

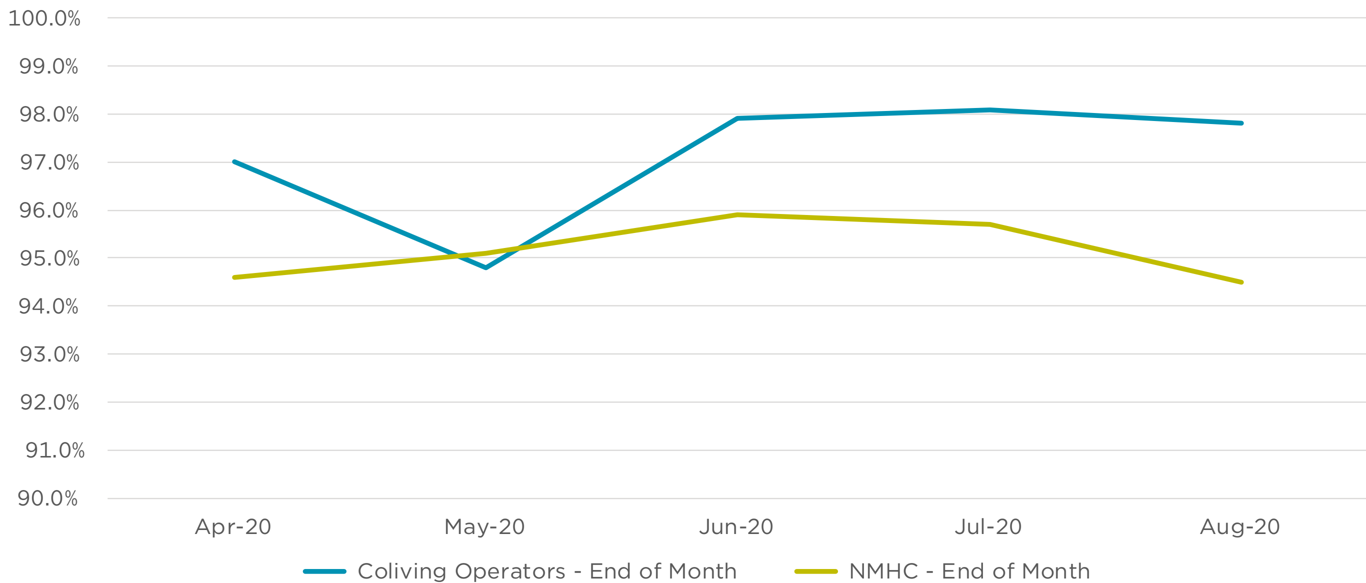
OCCUPANCY: Similar to conventional multifamily trends of the past several months, the U.S. coliving inventory has seen a decline in overall occupancy. Notably, coliving boasted some of the highest pre-COVID occupancies among stabilized multifamily assets, ranging from 96% - 99% depending on the operator. As of July, occupancies have fallen to 91.2% for assets in Los Angeles, Washington, DC, Seattle, San Francisco and Miami. However, these rates outperform stabilized downtown Class A multifamily in the same markets, which fell from 94.4% in Q4 2019 to 90.0% in Q3 2020.[3] The greater immediate drop off in occupancy is likely due to initial economic shocks of the pandemic affecting lifestyle choices for middle-income coliving residents who may work in vulnerable industries or were part of reductions in entry level staff. However, prior to COVID-19, coliving assets recorded applications that were 30 to 40 times the number of beds available, representing a deep demand pool of residents. This was born in the months following the outbreak as marketing for U.S. coliving neared a record 30,000 leads per month in August 2020 for our sample set, and application and conversion numbers returned to or exceeded pre-COVID benchmarks.

Lease terms for coliving product average nine months, and peak leasing and renewal season occurs from May to July. Prior to COVID-19, coliving operators were increasingly focused on full-term 12-month leases. Since the arrival of the pandemic, a number of operators have begun offering more flexible lease terms. Long-term, the trend towards full-term leases will likely remain the norm as operators seek more stable occupancy and reduced operating expenses associated with reduced resident turnover.

In the recovery phase from COVID-19, investors can expect a rebound in occupancy rates in 2021 as major cities reopen and the workforce returns to the office in some capacity. As urban Class A multifamily competes for residents during recovery, coliving assets' differentiation in terms of pricing, amenities and target demographic can reduce direct competition against the larger set of conventional multifamily competitors.

[3] CoStar; Multifamily – Class A, 2014+ Year Built, 25+ Units, Downtown CBD

RENT COLLECTIONS[4]: Rent collections among coliving assets have consistently been in-line with or higher than that of conventional multifamily. Whereas delinquencies for traditional product have ranged from 4.5% to 5.2%[5], coliving assets have stayed below 4%. Coliving assets also exceeded the performance of collections in same-market Class A multifamily assets, which recorded delinquencies at 8.4% as of August 2020.[6] This robust performance is likely due to coliving's middle-income, college-educated target demographic—average age of 29 with an income of $71,500.[7] According to the Pew Research Center, 73% of middle-income U.S. adults were capable of covering all of their bills in April compared to only 46% of low-income U.S. adults.[8] Relative to conventional multifamily residents, an even higher percentage of coliving residents completed their payments within the first week of the month throughout the COVID-19 pandemic. This data both



Source: NMHC Rent Payment Tracker, Cushman & Wakefield. Cushman Wakefield survey set of coliving operators include between 2,455 – 3,116 beds each month, while NMHC aggregated data for 11.1M – 11.5M units monthly.

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[4] Reporting from both coliving operators and NMHC was collected on a weekly basis, with 'late payments' first determined after non-payment during the first week. NMHC survey set approximated 11.5 million apartment units nationally. NMHC's delinquency rate is determined by the percent of units that did not receive a full or partial payment.

[5] NMHC Rent Payment Tracker, April through August

[6] Pinnacle Living, markets included: New York City, Los Angeles, San Francisco / Oakland, Chicago, Miami, Seattle, Washington DC, South Florida. Note that collections are calculated based on percent rent total paid compared to rent billed for the month as opposed to on a lease basis. Also note that delinquencies excluding New York City & San Francisco totaled 5.6%, suggesting market specific phenomena.

[7] Common, Open Door, Starcity, Quarters

[8] Pew Research Center, "About Half of Lower-Income Americans Report Household Job or Wage Loss Due to COVID-19", April 2020

reflects the stronger financial position of coliving residents as well as the effects of digital first payment systems among coliving operators compared to the overall market.

Going into 2021, investors should expect collections to remain supported, particularly as the labor market continues to recover, albeit gradually. While coliving residents are less dependent on stimulus programs compared to the overall renter population, payment rates should benefit on the margin if Congress passes further stimulus.

CHALLENGES AND OPPORTUNITIES GOING FORWARD

While it has been suggested that the shift to remote work might jeopardize the future of coliving, coliving operators are responding. Several are planning to accommodate more remote work, whether in the form of reorienting amenities toward coworking spaces or including in-unit work spaces. Further, some data suggest that residents of coliving properties will likely continue to need a traditional office, at least in part. According to one operator, 65% of their residents are new to the market when they join a coliving community, suggesting many of those residents likely have an early career role or are beginning a new position. These are the type of employees that typically require a significant amount of training and mentoring, activities that have been challenging in work from home environments. That is why for this particular demographic group, coliving housing near key office locations will remain relevant as employers will once again seek new talent during the recovery.

COVID-19's impact on the experience economy—retail, dining, entertainment venues and more—has been well documented. And coliving assets are typically located in highly desirable urban submarkets that feature those elements. While the appeal of those locations may be tempered now, in our view they shall recover in the long term. The scale of major population centers create variety and unique opportunities for companies, restaurants, museums and many other social venues, which are impossible in less dense markets. Historic recoveries for cities from previous recessions support this fundamental thesis. Coliving assets, as well as conventional assets, will benefit when people are again able to enjoy all of the cultural amenities that large population centers sustain. That said, when urban menities are effectively being discounted as they are today, affordability will be more important as an amenity for renters, benefiting both urban coliving and cheaper housing in the suburbs as well.

One of the most significant questions for coliving is whether demand will be able to keep pace with its significant pipeline of roughly 54,000 beds. As noted, there have been consistent waitlists for the current inventory of nearly 8,000 beds. However, no one can say with confidence what demand will look like when these beds come online over the course of the next several years. One can surmise that reported trends

COVID-19 has amplified, such as the migration of 18- to 29-year olds moving in with family members, will also subside in that time – driving that population to work where jobs are located, which is still overwhelmingly large cities.

Our view is that while coliving is likely to remain a relatively small percentage of the overall rental market, considerable opportunity for growth remains. Additionally, as with coworking, we are likely to see some versions of coliving becoming integrated into conventional concepts. Indeed, we have already seen a shift towards management agreements over master leases among coliving operators, often incorporating conventional units and micro-units into unit mixes. In time, we are likely to see the growth in private label coliving offerings from conventional multifamily operators and owners. All of which is to say that the road is open for coliving to continue growing into an established part of the multifamily market ecosystem and one that has a place in diversified portfolios.

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