



Global urban renaissance and the multifamily solution

London is a leading global city, grappling with issues arising from its own prosperity. Because of London's long-standing economic success and subsequent boom in population, a housing shortage is approaching near-crisis levels. House prices are so high that even well-paid professionals find it difficult to purchase a home. Despite years of assurances from local politicians on increased homebuilding, houses are only built at approximately half the rate of demand. This acute housing problem impacts London's residents, as they are burdened by costly and deficient housing, and limits London's economic growth, as residents are redirecting commercial spending back into their high housing costs.

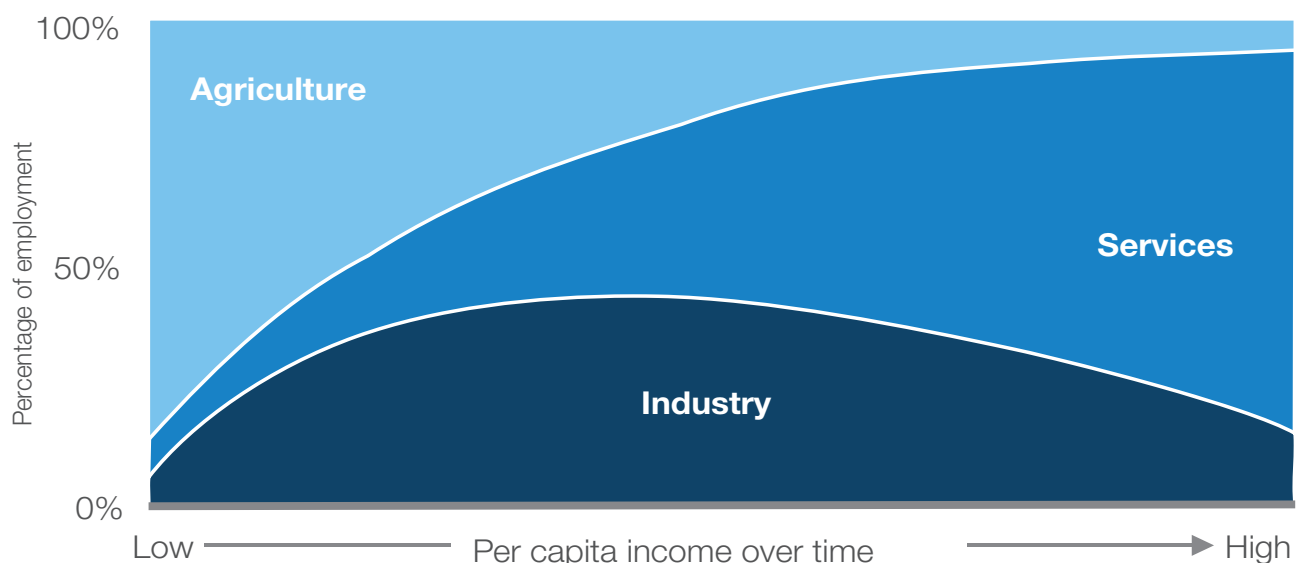
Economic development changes land-use and migration patterns

The world's economic engine has transformed the last few centuries. Prior to the Industrial Revolution, global trade centered around what could be produced directly from the land. Economic prosperity was dependent upon soil fertility, climate and the abundance of

natural resources, and most work interactions were directly between humans and nature. In the industrial boom of the 1800s, a turning point in history, the invention of complex machines sparked a new kind of productivity. Natural resources were used to improve the means of production, rather than becoming the product itself. Labor interactions were, in many cases, between humans and the machines they now used as work tools. As a result, factories hosted groups of laborers and their machines in relatively small spaces to yield new levels of industrial production, also inadvertently forming new population hubs.

In the late 1900s, the world's leading economies evolved once more. As industrial advancement freed human resources for new activities, more individuals began to think beyond mere subsistence to new forms of innovation that would improve the quality of life for all. The industrial advancements of the early part of the century dramatically increased human mobility and communication, and the world's brightest

Textbook evolution of developing economies



individuals increased their accessibility both to one another and to the greater public. Today, the rewards of these human-to-human interactions are still being counted.

A city — or urban area — is the natural and necessary outcome of the rising service-based economy that thrives on human-to-human interactions. More advanced countries that have long hosted these service-based economies have experienced increased urbanization as industries specialize to better compete in the global marketplace, requiring subject matter experts to interrelate to train and advance. Job responsibilities are becoming increasingly specialized, and workers are more reliant on a broader network of interconnected experts. This fuels the concentration of new businesses in urban areas and necessitates that people live close to these new jobs. Multifamily housing, a form of high-density rental housing, offers an attractive solution for city residents.

Long-term forecasts project “going to the city” trends will continue

In 1950, just 30 percent of the world’s population lived in urban areas, compared with 54 percent, or more than 3.9 billion people today. Even more striking, the United Nations projects that nearly all global population growth from 2017 to 2030 will occur in urban areas, while rural populations decline. As such, urban global populations are expected to increase by more than two-thirds by 2050, as both natural population growth and urbanization forces persist.

Per the United Nations’ long-term forecasts, global population growth and continued urbanization will add 2.5 billion people to urban areas by 2050, and the urbanization rate — urban residents as a percentage of total population — is expected to reach two-thirds of the global population.

Nearly half of today’s urban residents live in smaller cities with fewer than 500,000 inhabitants, most often in Europe, while approximately one in eight city dwellers lives in one of the world’s “mega-cities” that host populations of more than 10 million people. The number of these mega-cities has nearly tripled since 1990 to 28 and is expected to reach 41 by 2030. Since 2000, the fastest growing urban

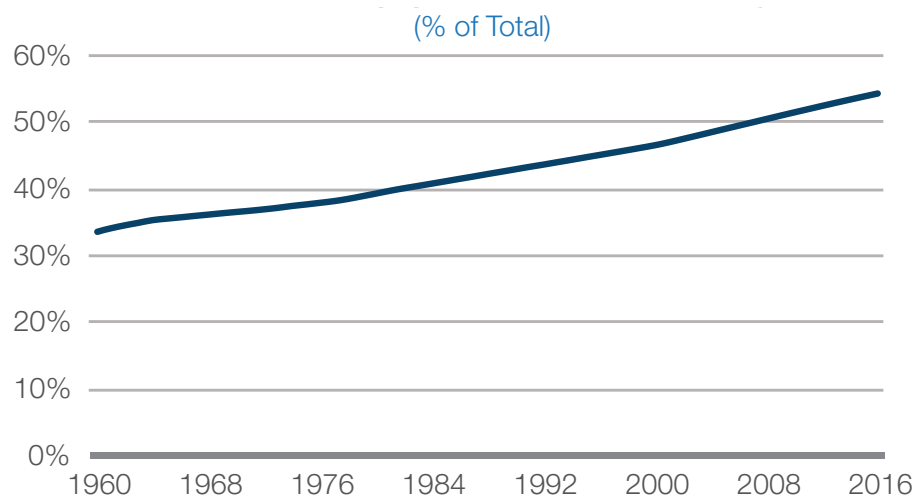
agglomerations are medium-sized cities with 1 million to 5 million residents. Medium-sized city populations are forecasted to grow by 36 percent from 2014 to 2030, reaching over 1.1 billion inhabitants. Though levels of urbanization vary widely across geographies, led by Latin America and Northern America at or above 80 percent, all regions are expected to see a material increase in the future. Historically, upper- and middle-income geographies have experienced the fastest and earliest pace of urbanization. In the future, however, the United Nations expects that Africa and Asia, which host predominantly rural populations today, will witness the fastest pace of urbanization in the 21st century.¹

Millennials’ preferences toward convenience and urban rentership

At the forefront in reshaping the current urbanization trend is a generation of young professionals, collectively called millennials, who show distinct living preferences when compared with older generations. Cities have historically hosted these younger, more educated residents, which has led to long-term economic outperformance. While urbanization formerly was necessary for economic survival, urbanization trends are further enhanced by changes in the city-centric consumer preferences of the millennial generation, which are unique compared with the values of their elders. The blend of structural changes in the modern economy and secular changes in consumer preferences combine to drive powerful population tailwinds for cities that should continue for many years ahead.

Born between 1982 and 2004, millennials — or “Generation Y” — form the largest U.S. generation

Global urban population has risen steadily



Source: The World Bank

in history and are still in the very early stages of their prime spending years. The millennial generation in the United States contains more than 90 million individuals and is a substantially larger group than the baby boomers. A byproduct of their immensity is the generation's dramatic influence on the economy. Modest changes in millennials' behavior send large waves through the harbor of free enterprise. Though young adult characteristics vary by region and age within the cohort, they have entered economic productivity in a time of substantial economic disruption, technological change and globalization that has built in them a distinct set of experiences and preferences when compared with prior generations.

U.S. millennials are not as financially secure as prior generations, experiencing lower employment and income levels comparatively while facing a great encumbrance in their student loans. Likely a result of unique experiences and technologies, millennials have demonstrated a distinct preference in delaying key life milestones, including marriage and child-rearing, that push back the average date of first-time home buying. In the United States, the median age of marriage has shifted from 23 years old in the 1970s to 30 years old by the 2010s.²

The "Sharing Economy" has resulted from the combination of technological advancement and the millennial generation's rejection of property accumulation. Just as Uber and Lyft have impacted the millennial car-buying universe, institutional-quality apartments revolutionize the global dwelling industry. Sixty percent of millennials choose to rent, which offers convenience and financial flexibility and accommodates their desires to live in a community with peers. As sociologists and economists alike

have acknowledged, despite their relative weaker financial positioning, the millennial cohort is more likely to move to high-cost urban centers for the perceived benefits of improved career opportunities and lifestyle amenities. With both economic necessity and behavioral changes driving urban migration, pressure only builds on the already-stretched cities of the world. This dilemma has become a fixture on the modern policymaker's agenda.

Urbanization will continue to pressure housing affordability and supply if not addressed

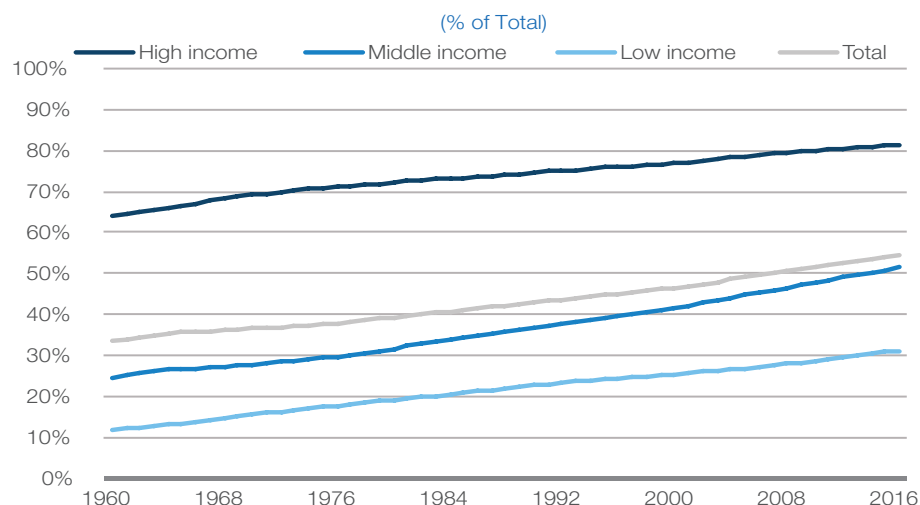
Developing and advanced urban economies alike are struggling to meet the housing needs of growing populations across the world. Rising housing demand that outpaces residential construction catalyzed a crisis of affordability both for rentals and for home purchases. This has forced middle-class individuals and families to decide between poor alternatives: live in tightly packed, even substandard, housing units or make compromises with the remainder of the household budget. These dilemmas, manifested by the ever-growing affordability gap, are most acute in city centers, where supply cannot keep pace with the surge in demand.

Worldwide, the McKinsey Global Institute estimates that approximately 330 million urban households live in substandard housing or pay housing costs that exceed 30 percent of their household income. This number is projected to increase to 440 million households by 2025 if current imbalances are not addressed. Beyond the negative impacts on households' standard of living, this constrains potential economic growth, as disproportionate spending on housing confines other avenues of consumption. Young adults are

particularly impacted by the lack of affordable housing options; nearly one-third of all young adults in the United States live with their parents. Home prices have outpaced household income growth for years globally, putting the dream of homeownership further out of reach for many would-be households.

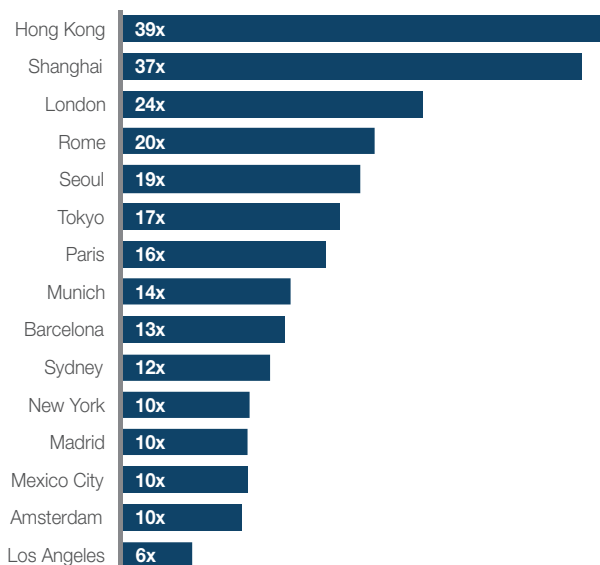
Beyond the short-term inconvenience of imperfect housing options, the prevailing shortage of affordable accommodations hampers young adults' long-term financial security.³

Higher income countries lead urbanization rates



Source: The World Bank

Home price to discretionary income ratio



Source: Numbeo

Global rental housing stands to benefit from urbanization and offers a housing solution

With urbanization's additional boost to already solid demand fundamentals expected to persist and housing shortages increasingly becoming front-of-mind for residents (and voters), local and national governments are seeking to address housing policy with creative solutions and ever-greater urgency. Institutional-quality rental housing presents a compelling solution that addresses both sides of the demand and supply equation.

Multifamily apartments offer a high-density housing option that makes strategic sense in an urban area where land is precious, requiring specialized design to serve the needs of the local renter base. From the perspective of the renter, apartments offer households freedom from a long-term mortgage, to follow work opportunities across town (or country), and provide a set of services and amenities that fits a mobile, active lifestyle. Multifamily housing offers a housing solution for young professionals who likely prefer the flexibility and convenience of renting, or families that feel squeezed out of homeownership due to lack of affordability or financing.

From a supply perspective, the shortage of global affordable housing is likely, in part, a function of local and country-specific regulatory barriers. Governments across the world are increasingly reviewing their existing regulatory frameworks and zoning laws that discouraged housing construction or restricted the type of properties to be built and are adopting a more market-based philosophy when planning land use. Governments are increasingly cognizant of apartments as both desirable and economically necessary to realize a local economy's full potential, providing another option to public housing and homeownership to their respective urban populations. Multifamily housing's high-density solution can, and should, play a critical role in housing growing urban populations globally to address residents' preferences, necessities and long-term financial well-being.

¹ United Nations World Urbanization Prospects

² Goldman Sachs

³ McKinsey Global Institute

Authors



Michael Joyce
Senior Associate,
Investment Strategy & Research
Greystar



Jonathan Taylor, CFA, CPA
Managing Director, Investment
Strategy & Research
Greystar

Corporate Contact

Adam Pillay
Senior Managing Director,
Global Head of
Investor Relations
Greystar
+1 212 364 6336
adam.pillay@greystar.com



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