



WHY THE FUTURE OF HOUSING IS MULTIFAMILY

The United States saw a frenzy of home buying in 2020. Interest rates tumbled to record lows, and COVID-19 forced urban dwellers to seek more space, accelerating an ongoing exodus to the suburbs. Existing home sales soared to their highest level in 14 years, up 5.6 percent, and new construction sales rocketed 19 percent. But despite the flurry of headlines about the white-hot, single-family market, the momentum is likely to be fleeting. Longer-term trends suggest the future belongs to multifamily housing.

In 2017, more U.S. households were headed by renters than at any point since at least 1965, according to the Pew Research Center. This has considerable implications for multi-housing, since most renters – about 62 percent -- live in dwellings of two or more units. While the U.S. homeownership rate hit 65.8 percent in the fourth quarter of 2020, up 0.7 percent year-over-year, it has been falling since 2004, when it peaked at 69.2 percent. The Urban Institute estimates the homeownership rate will decline to 62 percent over the next two decades.

By contrast, renter households jumped by 9.1 percentage points between 2010 and 2018. That's more than twice the pace of homeowner households, which rose 4.3 percent. That gap is expected to continue through at least 2040. Meanwhile, the profile of renter households is undergoing significant transformation -- skewing wealthier, older and larger than in the past.

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At Presidio Bay, we develop and build multi-housing in strategic urban locations, viewing it as a crucial component in mixed-use developments that activate communities and generate long-term value. In this white paper we examine the diverse and matrixed drivers of multi-housing demand. We discuss the evolving economic, demographic, and social trends that support the case for more multifamily housing, as well as favorable macro developments in sustainability, construction, and land use. We also explain how Presidio Bay is positioning its multifamily properties and implementing technologies and amenities to successfully capitalize on quickly shifting consumer values, lifestyle preferences and service expectations.

A person is seen from behind, standing on a paved path that leads towards a large, solid brick wall. The person has their hands on their hips and is looking at the wall. The sky above is blue with some light clouds. The overall scene suggests a barrier or a challenge.

ECONOMIC BARRIERS TO HOMEOWNERSHIP

What's behind the rapidly changing dynamics in the rental market? First and foremost, it's the higher cost of homeownership. Single-family home prices have soared as supply waned. The last two decades have seen an "underbuilding gap" of between 5.5 million and 6.8 million housing units, according to the National Association of Realtors. Meanwhile, incomes have lagged: One study found that the median home price skyrocketed nearly 70 percent over the last decade, while median income rose less than 30 percent. As a result, nearly all of the net growth in homeowners from 2010 to 2018 occurred among households with incomes of \$150,000 or more. Most new construction has been aimed at the upper end of the market, squeezing out lower-income buyers.

Millennials, age 25 to 40, have been particularly hard-hit by negative economic trends. The so-called "brokest generation" has lower earnings, fewer assets and less wealth than earlier generations at the same age, according to a Federal Reserve study. Millennials also carry more student loan debt than any other generation, with an average balance of \$38,877 per borrower. These factors make it difficult to save for a down payment, develop good credit, and achieve the debt-to-income ratios needed to qualify for a mortgage. As a result, younger, first-time buyers now account for just 30 percent of sales, down from the long-term average of 39 percent.

By the end of 2018, only one in three Millennials under age 35 owned a home, according to Census Bureau data, roughly 9 percent less than previous generations at the same age. In fact, Millennials who expect to rent forever rose to 20 percent in 2020, one survey found. Nearly three-quarters of those who have given up on homeownership say they can't afford it. Some of them may end up renting single-family homes: Investors have been snapping up houses since 2008, and more recently, building new homes for rent. But these units still represent a fraction of the market, and with few large tracts of well-located land available to build, construction of large-scale, single-family rental communities is likely to stall. In short, Millennials who can't buy are most likely to live in multifamily housing.



MILESTONES DELAYED

In addition, when it comes to major life milestones, Millennials are late bloomers. They are postponing marriage and children, which are both strongly correlated with home buying; the ownership rate is 30 percent higher among married couples than other households. In 2019, more than half of adults aged 18 to 34 did not have a romantic partner – the highest level since 1985, according to the General Social Survey. When they do find one, they take longer to commit – an average of 6.5 years before marrying, compared to five years for prior generations.

Some psychologists suggest these delayed milestones reflect a distinct new life stage of identity exploration between adolescence and adulthood, called “emerging adulthood.” Others say it’s mostly about money. Harvard developmental psychologist Nancy Hill notes that between the late 1890s and the Great Depression, the percentage of 18- to 29-year-olds who lived with their parents ranged from 41 to 48 percent. That trend only changed mid-century due to astronomical growth in high school enrollment, which jumped from 17 percent to 73 percent between 1910 and 1940. A post-war economic boom, offering an abundance of well-paid manufacturing jobs, facilitated an early and easy transition to adulthood in the mid-20th century. “Young adults are not less mature today than in the past,” Hill writes. “The rise of a knowledge-based economy means that this generation needs more education and training to gain the skills they need to succeed financially.”

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— Nancy Hill, Harvard developmental psychologist

The economic factors and the coronavirus proved to be a double whammy for the youngest Millennials and oldest members of Gen Z, born between 1997 and 2012. They moved home

in droves. The percentage of 18- to 29-year-olds living with their parents spiked to 52 percent in summer 2020. That trend is bound to reverse as cities and workplaces spring back to life, and could power multi-housing demand well into the next decade, analysts suggest. Gen Z represents the second-largest share of renters after Millennials, but is the fastest-growing segment.

“As Gen Z starts coming out of school and into the workforce, they’re going to revitalize the urban core,” said Frank Nothaft, chief economist at CoreLogic. In the first half of 2021, Gen Z was already driving a huge rebound: Their rental application activity jumped 39 percent compared to the same period in 2020, while the number of applications from all other age groups increased by 10 percent or less.

Declining home ownership rates also mean more of the Millennials who actually do have children are renters. Between the 2004 homeownership peak and 2018, the number of married couples with children who owned their homes decreased by 2.7 million, while the number renting rose by 680,000. As a result, families with children now comprise a larger share of renter households (29 percent) than owner households (26 percent). However, families with children living in owner-occupied housing still outnumber their peers living in rental housing.

Amid the growing number of renter households with children, multi-housing construction is moving beyond the urban core. About one-third of multifamily building has shifted to low-density markets in the suburbs and exurbs, where populations are growing faster than in city centers, according to the National Association of Home Builders. The suburban trend is likely to be amplified as more large companies adopt decentralized hub-and-spoke models, with a downtown flagship complemented by suburban satellite offices.

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LIFESTYLES OF THE RICH, MOBILE AND AGING

Given the barriers to homeownership, it's not surprising that renter household incomes are on the rise – with most of the upswing driven by college-educated, white Americans under age 35, living in major metros such as New York and San Francisco. Between 2010 and 2018, households with incomes of at least \$75,000 made up more than three-quarters of the growth in renters (3.2 million), while the number earning less than \$30,000 plunged by nearly 1 million. That's a sharp reversal from early 2000s, when low-income households fueled 93 percent of renter growth, and high-income households declined by 160,000.

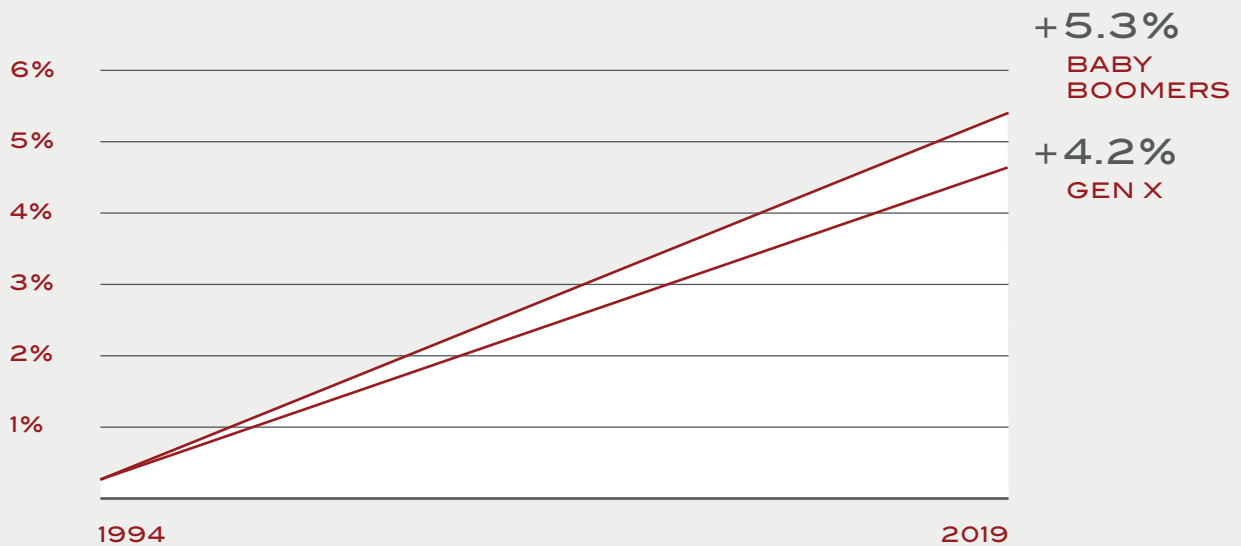
Millennials aren't the only ones turning their backs on homeownership. Overall, about 44 million American households rent their homes, according to the most recent Census figures. Over the 25 years ending October 2019, renter-ship rates rose 5.3 percentage points among Gen X households aged 45 to 54, and 4.2 percentage points among Baby Boomers, aged 55 to 64. Some of these consumers got burned in the 2008 meltdown, and don't believe a home will appreciate over time; they would rather invest in equities or other sectors than real estate.

Still other renters want the flexibility to relocate quickly and capture job opportunities. Some are digital nomads – location independent, technology-enabled professionals, who travel and explore while working. Their ranks spiked nearly 50 percent during the pandemic, to 11 million, according to MBO Partners. These professionals provide yet another catalyst for rentals: In the first quarter of 2021, 24 percent of nights booked on Airbnb were for long-term stays of 28 days or more – up from 19 percent in 2019. “The big trend is flexibility: People are traveling anytime, anywhere, and they're staying longer,” said Airbnb CEO Brian Chesky on the firm's earnings call in May. “We think all these trends are here to stay.” An estimated 65 percent of Airbnb rentals are multifamily homes.

While younger professionals seek affordability and flexibility in multifamily homes, massive numbers of older Americans are joining them. Between 2007 and 2017, Americans over age 60 represented the largest increase in the renter population, at 43 percent. During that time, 16 of the 30 most populous U.S. cities saw a more than 40 percent increase in renters age 60+ – with Austin and Phoenix seeing growth of more than 110 percent. Seniors want convenient lifestyles close to rich cultural amenities, restaurants and activities, just like their younger counterparts. Meanwhile, older adults are divorcing at higher rates than past generations — the divorce rate of couples over age 50 nearly doubled between 1990 and 2015 — a development that also favors multifamily housing.

Baby Boomers, the generation born between 1946 and 1964, own 32 million homes and account for two out of five homeowners in the U.S., according to a study by Fannie Mae and the University of Southern California. Researchers estimate that between 2026 and 2036, cohorts aging into the 65+ age range could shrink by as much as 14.6 million homeowners, as they move into multifamily rentals or senior care facilities.

RENTER-SHIP RATE INCREASES 1994-2019





REIMAGINING MULTIFAMILY DESIGN AND AMENITIES

As higher-income Americans across the age spectrum are choosing to rent, luxury multifamily housing has experienced an “amenities arms race.” Developers seize on the hot trend of the day to stay competitive, whether it’s kitchen islands with granite countertops or fitness centers with meditation rooms. The most luxurious condominiums in New York City, for instance, offer access to private jets and yachts, rehearsal studios equipped with professional guitars to jam with friends, indoor skate parks, on-call sommelier services, and cryotherapy, among other perks.

At Presidio Bay, we believe all successful development begins with the higher concepts of placemaking and “hospitable thinking.” Behavioral psychology has validated the impact of the built environment on our well-being. Humans are social beings at their core, craving meaningful interaction and memorable experiences. Presidio Bay designs multifamily developments that underscore these physiological effects, inspiring emotional connections, a spirit of welcome, and a sense of arrival.

We curate and combine all of the key components of a development in an organic way, transforming physical locations into highly desirable destinations where people are excited to live, connect, engage, achieve, relax, and play. These elements include land planning, architecture, building materials, art, interior layouts and features, common spaces, technology, amenities, and activity programming. We believe interior and exterior amenities should maximize the variety of experiences offered to occupants, inspire flexible uses and spontaneous interactions, and elevate the sense of community.

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Our development process begins with deep research into demographics, psychographics, and personas to understand our residents' lifestyles and desires. Given the prolonged development cycle, Presidio Bay forecasts future behavioral patterns and pushes the envelope of design and operational innovation. We do meticulous scenario mapping, visualizing a day in the life of each resident, so we can predict behavior patterns through the flow of space, enhance daily routines, and promote an innate feeling of security, ease, and delight. Our meticulous planning positions Presidio Bay as a trendsetter for our markets, and allows us to continuously stay a step ahead of residents' expectations. (For more on this, see our white paper "The Transformative Power of Hospitable Thinking.")



A final element of our hospitable thinking strategy is purposeful programming. In an era when roughly half of Americans say they feel lonely, left out or isolated, we bridge the digital/personal divide through classes, events, friendly fitness competitions and exclusive opportunities – such as pre-sale tickets to local concert events -- that encourage higher levels of engagement with neighbors.

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RESPONDING TO CHANGING PREFERENCES AND VALUES

Presidio Bay's amenities are inspired by cutting-edge trends at the most luxurious communities, pushing the edge of what's possible. But more importantly, they are designed to precisely reflect the lifestyles, preferences, and values of our target markets. We closely monitor sociological trends and embed these themes in our approach to amenities.

For example, the COVID-19 pandemic inspired many people to reassess their lives -- where, when, how and with whom they spend their time, the meaning of work, and the aspects of life they truly value. Millions relocated, reexamined their relationships, and quit jobs to reduce stress or maintain flexibility. As Adam Grant, an organizational psychologist with the Wharton School of Business [writes](#), "For several generations, we've organized our lives around our work. Our jobs have determined where we make our homes, when we see our families and what we can squeeze in during our downtime. It might be time to start planning our work around our lives."

In the post-pandemic era, many of our tenants will do their jobs from home at least part of the time, and will need more flexible living spaces. To that end, we partnered with a modular furniture company started by veterans of MIT Media Lab to offer tenants multifunctional, robotic-powered, smart space solutions that enable effortless room expansion. We also anticipate residents will want physical separation of activities to help maintain work-life boundaries. We've expanded our ground-

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— Adam Grant, Wharton School of Business

floor lounge areas to accommodate multiple styles of work, offering a 24/7 concierge, created spaces to receive packages, and invested in robotic delivery and automated tracking. At our Springline development in Menlo Park, residents can work or hold meetings at an integrated café and wine bar with outdoor seating, or order coffee or food through our custom app.

The pandemic has also elevated the desire for outdoor leisure, so we provide access to the kinds of experiences tenants would enjoy in a single-family home: entertainment areas with pools and spas, cabana seating, outdoor living rooms, gardens, fire pits, and barbecues. With a record 70 percent of American households owning a pet, we also incorporate dog parks and pet spas.

In addition, with the growth of specialty food sales outpacing all U.S. retail food by a margin of three-to-one, we know that our residents include adventurous foodies who want to create memorable gourmet experiences with friends. Our indoor entertainment spaces offer fully equipped, professional chefs' kitchens with the highest-end appliances.

As for wellness, our fitness centers are equipped to reflect some of the high-end, at-home workout trends that emerged in the pandemic – such as interactive fitness bikes and Woodway treadmills, favored by major league sports teams for training. Other features are designed to encourage socialization and community, such as a yoga deck and a golf simulator with entertainment suite.

MULTI-FAMILY AMENITIES AND FEATURES

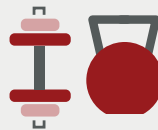
HEALTH ASSESSMENTS



MUSIC SERVICES



FITNESS & WEIGHTS



BIKES & SERVICES



POOLS & LOUNGES



BBQS & FIRE PITS



OUTDOOR PET SPACES



GOLF SIMULATORS



INTEGRATING TECHNOLOGY, SERVICES AND COMMUNITY

Technology is foundational to everything we do at Presidio Bay. We are early-seed investors in Property Technology (PropTech) firms, giving us a window into innovations that offer the most promising opportunities. We implement technology to improve the resident experience, enhance the value of our real estate portfolio, and future-proof our investments. Our goal is to facilitate the same high-tech experiences that occupants benefit from in every other aspect of their lives, including effortless connectivity, greater convenience, and sustainability.

If there is a single amenity that every resident expects, it's connectivity. For example, more than 90 percent of renters in a recent survey said reliable cell phone reception is critical – and nearly half test the connectivity at a property before renting. Presidio integrates Blueport managed technology solutions in our developments. Blueport custom designs, installs, and supports wired and wireless internet systems, with best-in-class equipment to ensure reliability and performance. Our residents enjoy a single network offering turnkey connectivity anywhere on the property for all their devices, without having to engage their own internet service providers.

Convenience is also paramount to our technology offering. For example, our multifamily homes offer one-touch and voice activation to control lights, locks, thermostats, and shades. Our digital platforms and online portals simplify guest access, automate the reservation and use of amenities, and foster connection and communication with neighbors. In addition, we are investors in a startup called Amenify, a platform for powering a managed marketplace of vetted service providers, who offer cleaning, dog walking, fitness training, catering, delivery drivers and the like, with a centralized concierge support team. At a time when 84 percent of renters say they want secure, 24/7 package access, we are deploying autonomous robots for deliveries and security.

Finally, we deploy sustainable technology to build smarter, more efficient multifamily properties that ensure a superior experience and anticipate residents' ever-changing needs. Presidio Bay has adopted the WELL Building Standard™ (WELL), the premier

vehicle for cultivating health and wellness in buildings, interior spaces, and communities. WELL's science-backed standards are integrated in design, construction and operations in 10 key areas: air, water, nourishment, light, movement, thermal comfort, sound, materials, mind, community, and innovation. We also adhere to FitWel Scorecards, which include 55+ evidence-based design and operational strategies that enhance buildings by addressing a broad range of health behaviors and risks. They include strategies that increase physical activity, promote occupant safety, and enhance access to healthy foods, among others.

Our multifamily developments are designed and operated to optimize light, improve air quality, conserve water and promote cleanliness and hygiene. We deploy energy- and water-saving devices, waste reduction, recycling and the use of non-toxic building materials. As our residents have shifted toward more sustainable forms of travel, we have responded with EV chargers for electric vehicles, car share and e-scooter rentals, and bicycle storage with repair workbenches.

Just as importantly, we have implemented sensors, software, and other tools to measure environmental impact and report this data to residents, many of whom are already accustomed to tracking their behavior, from exercise to nutrition to sleep. Our reporting gives occupants actionable information about their energy and utility consumption and carbon footprint, including trash and recycling volumes; water consumption; number of plastic bottles 'saved' through water stations; electric miles traveled through use of EVs and electric bike share; and more. This is the kind of real-time feedback consumers want: A survey by EY found that after the pandemic, nearly half of Americans plan to prioritize the environment and climate change in their life choices and product purchases. Presidio Bay gives residents the data they need to act on their values.

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CONCLUSION

The U.S. population is projected to grow about 26 percent to 417 million people by 2060, the Census Bureau *estimates*, requiring 38 million additional housing units. We believe the need is best addressed by denser, mixed-use developments in lifestyle-oriented neighborhoods that connect residents to their communities and one another. Multi-housing of the future will be smarter, more sustainable, healthier and more flexible than ever before. Hospitality-inspired, technology-driven services will reshape concepts of home, and make apartment living as compelling as single-family housing. In a nation of first-time and lifestyle renters who are increasingly diverse, affluent, aging and mobile, we anticipate an explosion of innovative change.

Multi-housing of the future will be smarter, more sustainable, healthier and more flexible than ever before.

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