THE RISE OF HIGH-RISE

Developers are fulfilling demand for luxury urban living in major American cities.

By Trip Stephens, CIO of ZOM

In the aftermath of the housing bubble a few years back, many Americans have changed their views on homeownership. Homeownership rates have dropped from a peak of 69.4 percent in 2004, to just 64.8 percent today — the lowest level the U.S. Census Bureau has reported in 15 years. Demographic shifts are also influencing tenure choice. People in the expanding 25-34 year age group want to live closer to work, be more socially engaged with their peers and prefer the freedom and flexibility of renting instead of owning. Many are also less inclined to own a car. A growing segment of these younger renters are also drawn to top-tier U.S. cities, which offer higher paying jobs, more attractive public spaces and cultural venues and 24-hour lifestyle environments. These trends are driving a surge in demand for higher density, urban apartments, many of which will be developed in mid- and high-rise formats due to land scarcity in the best urban locations.

Check Your Walk Score

How are developer’s capitalizing on this notable shift in demand? It’s all about location. When developers decide to build a high-rise, they are looking for an extremely attractive location, because the first reason people are deciding to live there is less about what’s inside their unit and more about what’s in the local area. Even in the building itself, it’s more about the project’s amenities than their individual units.

A site’s “Walk Score” is an emerging metric for both developers and consumers alike. The reputable Seattle-based firm (www.walkscore.com) employs a proprietary scoring system to rank neighborhoods and housing sites in terms of their proximity to retail, restaurants, services, employment hubs, public transportation and other desired goods and services. The best urban sites typically score above 90 in terms of walkability. More than 30,000 web-based marketing sites now provide Walk Score data to guide their users in making relocation decisions and housing choices.

During the past year, Orlando-based multifamily developer ZOM has snared two prime urban locations in Miami for new high-rise apartment construction. Monarc at Met 3, a 462-unit, 32-story luxury rental tower, is being built over a new upscale Whole Foods grocery at the epicenter of Miami’s central business district. The site has more than 7.5 million square feet of office space in the immediate area, an array of restaurants and entertainment venues...
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— Trip Stephens, Chief Investment Officer of ZOM

and convenient proximity to the Miami Metromover. Not far from downtown Miami, ZOM’s Solitair Brickell project will break ground in late 2014, and is strategically located in the Brickell Avenue market on the block between the highly successful Mary Brickell Village and Brickell CityCentre, the new $1.05 billion mixed-use project being developed by Swire Properties. Both of the ZOM sites have Walk Scores above 90, and those scores are likely to climb even higher as newly announced commercial and office projects in the area open during project construction.

Less is More

Locational priorities and social trends are also driving developers to make changes in the unit size and mix of units within new high-rise projects. The average square footage is trending down, as tenants are spending more and more time outside of their living spaces. Developers are shifting to a higher mix of studios and one bedroom units as opposed to the larger percentage of two- and three-bedroom units in earlier generation buildings. For example, the combined average square footage in ZOM’s two new Miami projects is 870 square feet versus 1,170 square feet in the developer’s first four Florida high-rises.

The desire for more social interaction is also driving amenity area design and resident services. Developers are now designing lounges that are arranged more like hotel lobbies than traditional clubrooms, where residents can meet and comfortably socialize. Having those kinds of areas, both indoors and outside — such as pool decks, outdoor fireplaces, lounges, bars, game areas — are all features that are critically important to the new urban luxury renter.

Residents in higher end properties now also benefit from an on-site concierge and 24-hour guard service.

Going Green

Today’s renters are more environmentally conscious now than ever. Successful developers are incorporating more environmentally friendly materials and energy saving appliances into their projects. LEED certified projects are increasingly prevalent, and are now man-dated in some jurisdictions. While such designations are cost additive, recent surveys reflect that many consumers are willing to pay more for environmentally sustainable products, including their housing.

The Beacon at Clarendon West high-rise in Arlington, Va., is LEED Silver-certified, as is a nearby sister project, 19Nineteen Clarendon, both being developed by ZOM in partnership with USAA. And while the LEED designation is more prevalent in high-rise construction than in frame/low-rise formats, developers of lower density projects can still follow state green guidelines, if available, or the National Association of Home Builder’s National Green Building Program, to get in on the trend. These various green initiatives are spawning an array of new or improved project features, including Energy Star appliances, LED and compact fluorescent lighting, high SEER (seasonal energy efficient ratio) air-conditioning units, remote control thermostats and low-flow water fixtures. Changing attitudes about car ownership and gasoline consumption are also driving the addition of bike storage and repair stations, shared car availability and electric car charging stations to project amenity offerings.

Today’s multifamily investor is also more environmentally sensitive. Most of ZOM’s capital partners require some level of green building standard in their new projects, and many institutional buyers are also adding green standards to their checklists. Developers see an increasing number of investors that are willing to pay more for a project if it is a green building. The real estate investment community sees it as both a more socially responsible investing approach and also perceives that their tenants will be increasingly drawn to such environmentally responsible projects, and perhaps willing to pay more rent to live there.

The Cost/Rent Equation

Developers are increasingly getting on the urban bandwagon. According to Axiometrics, 74 apartment high-rises are slated for delivery this year, with another 81 scheduled to deliver in 2015. With increasing construction volume in the more popular markets, construction costs are escalating. Markets like Houston and Miami also have renewed construction activity in other sectors. Houston’s energy industry is driving a significant increase in office construction, on top of already active multifamily production. Miami’s condo market is hot again, keeping the best contractors busy and driving material and labor costs higher. Condo developers are also beginning to edge out apartment developers for the best sites — condos typically are feasible at higher land values than what an apartment project will support. In the last cycle, Miami land values climbed to more than $100,000 per unit, making condo development the only viable option.

With vertical costs for South Florida high-rise construction now well above $200 per rentable square foot, and likely going higher, apartment developers need to be increasingly mindful of the required rent to generate acceptable yields. Required high-rise rents are now north of $3.00 per square foot, so new projects need to be supported by a more affluent tenant base and healthy job formation in higher wage positions.

Regardless of market, an investment in upfront research is recommended in order for the developer to make sure that, 1.) The target market has a sufficient number of qualified households willing to pay pro forma rents, and 2.) Household incomes in the market are rising in order to support future rent increases. Smaller unit sizes and a higher percentage of smaller units in the mix are also important factors, as there is a deeper market of people who can afford $3 per square foot for 600 square feet ($1,800 per month) than those who can afford $3 per square foot for 1,200 square feet ($3,600 per month).

With more than 4 million echo boomers turning 21 annually, the influx of new households to the urban core is likely to continue. Developers will need to watch their markets and their customers closely as they pursue this growing stream of new generation renters who want the best that major U.S. cities and their housing alternatives have to offer.

Greg West, chief development officer at ZOM, contributed to this article.

The 32-story Monarc at Met 3 will be located above a ground-level Whole Foods grocery store in the heart of Miami’s central business district.