October, 2021

Global Research

Growth opportunities in living

Key Takeaways

1 Shifting capital allocations will favor the living sector

The living sector's cash-flow stability and operational resilience is garnering increased attention, driving appetite and liquidity for suitable assets from buyers and lenders. In fact, living boasts the least volatile total return profile of any major real estate sector and the second highest average annual return over the last decade. As construction pipelines accelerate and investible inventory broadens and deepens in new geographies, opportunities to gain exposure to the sector will expand. JLL anticipates that the living sector will account for one-third of direct real estate investment globally by 2030.

2 Supply-demand imbalances support long-term investment thesis

Demand drivers underscore the sector opportunity. Urbanization in recent decades has resulted in supply-demand imbalances and housing affordability challenges in many markets. Demographic shifts are further benefiting demand, as traditional catalysts for homeownership – of note, marriage and childbirth – are increasingly delayed, prolonging the tenancies in rental accommodations of renters by necessity as well as those by choice.

3 Living provides investment diversification benefits through cycles and downturns

Shorter lease terms and the needs-based nature of the living sector allow for resilient performance through cycles. Operators' ability to adapt quickly to market conditions can minimize turnover and protect property income. Living product had the highest total returns during the Global Financial Crisis and more than 90% of residents paid their rent during the height of the pandemic in the U.S. and United Kingdom.

4 Investment broadening and intensifying as liquidity heats up

Leading institutional markets allow for direct and indirect investment at scale. The U.S. market has stood in a league of its own, boasting the largest inventory and most diverse lender and investor pools. However, the growing availability of comparable assets in transparent markets with favorable demand fundamentals has broadened opportunities to more markets, such as Germany, the United Kingdom and the Netherlands. Over the past decade, the count of markets with more than US$2 billion in annual direct transactions has increased from 5 to 11. Elevated liquidity and cross-border investment is now trickling from the most institutional to intensifying markets, including Canada, Japan and France. This is expected to further broaden to 20+ markets by 2030.

5 Nascent markets present opportunities for yield, but with increased deployment complexity

Growing fragmented markets – including Spain, Portugal and Ireland – offer investors the ability to acquire smaller scale assets with relatively higher yield from private owners. Living portfolios in these markets are beginning to consolidate, and construction pipelines are increasing in secondary cities. Additionally, high barrier markets such as China and South Korea offer tremendous demand tailwinds but with increased regulatory risk and market entry constraints. The upside potential in these future growth markets is significant but often requires joint ventures or alternative investment structures to deploy capital.

6 Growth opportunities in living are significant and quickly evolving

As the sector globalizes further, markets across the world will shift amongst market segments, and new markets will come into the fold. Remaining at the forefront of changing market conditions will provide investors with unique opportunities to expand, diversify and capitalize on the growth of the living sector over the next decade and beyond.

The emergence and globalization of the living sector

Over the past decade, the expansion of living as an institutional investment sector has broadened from a few markets in the Western world to many markets globally. This geographic expansion has elevated both the sector's profile and its share of capital flows globally, increasing from 14% in 2010 to 25% in 2020.

For-rent housing has the unique opportunity to address affordability challenges, improve the standard and quality of accommodations, evolve with shifting demographics and address ESG commitments while providing compelling risk-adjusted returns to investors and developers. As such, living assets have been among the biggest beneficiaries of shifting capital allocations and portfolio diversification. The pandemic has only amplified this focus.

By 2030, JLL anticipates that one-third of annual real estate investment will occur in the living sector.

Recognizing the cash-flow stability and operational resilience of the living sector, particularly through cycles and periods of economic uncertainty, investors and developers have aggressively entered and expanded their positions in the market. Favorable demographic, economic and capital markets tailwinds are driving expansion in established markets and accelerating growth in emerging and new markets. The opportunity for growth in the living sector globally is significant over the next decade. However, risk and return potential are not evenly distributed. To better understand the landscape of this opportunity, JLL has developed a global framework to assess its favorability, maturity and momentum across major global markets.

JLL's Living Market Segmentation evaluates 24 of the largest and most promising rental housing markets. The subsequent report and analysis were created to help guide strategic considerations associated with sector expansion. Our data-driven framework highlights the investment opportunities worldwide by assessing the demand favorability for living product and the maturity of the institutional investment market. Although the living sector is inclusive of various types of for-rent product – of note, student housing, multifamily, single-family rentals and age-restricted housing – capital flows are most concentrated in the conventional multifamily, multi-housing or build-to-rent segments of the markets. For this reason, the analysis contained within the report is focused on this market segment. With portfolio diversification accelerating and strong capital inflows, competition for living product has increased markedly in recent years. To benefit from first-mover advantages, investors and developers should consider new strategies and alternate geographies to acquire or build inventory and scale.

Demand drivers and considerations

The opportunities for the living sector in a given country and city are dependent on key demographic trends, economic fundamentals and local regulations. Understanding the current and future need for housing alternatives is paramount to the development of the sector across the various geographies. Markets where supply and demand imbalances are most severe offer the greatest opportunity for sector permeation and growth.

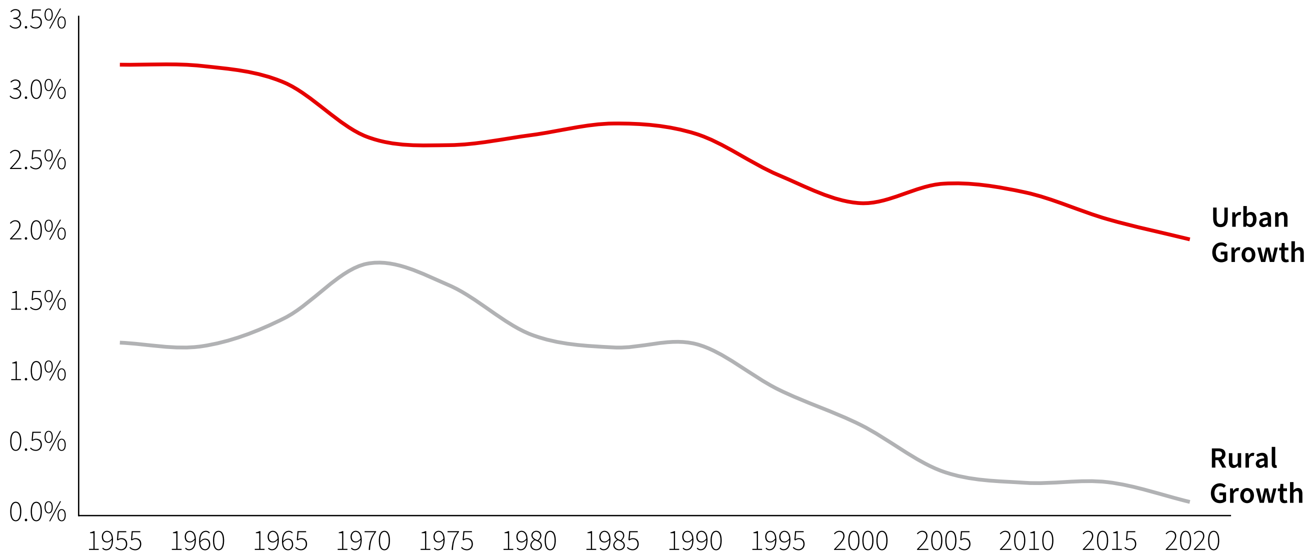
The following demand drivers are critical considerations in assessing market potential:

1

Urbanization

Over the past 70 years, developed and emerging markets have experienced rapid urban population growth. Globally, average annual population growth in urban geographies has outpaced rural counterparts by 1.6 percentage points since the 1950s. The desire to reside in core, walkable and lively neighborhoods is not limited to younger generations. Empty nesters and older singles are also increasingly testing urban markets. These factors highlight the favorability of denser neighborhoods in terms of renter demand and development pipelines.

Global Annual Population Growth, Urban vs Rural, 1955–2020



Source: JLL Research, United Nations, September 2021

2 In-migration

Within cities (between urban and suburban submarkets) and countries, population movement is a key consideration in living demand. Exacerbated by the pandemic, some residents have relocated from small units in the urban core to spacious accommodations in the suburbs; however, the long-term trend continues to favor urban submarkets. Dispersion of employees from the traditional gateway markets – such as Paris, New York and San Francisco – to secondary markets is also playing a critical role in development and investment pipelines. An individual's migration pattern through time can be complex, but understanding where age cohorts prefer to live in relation to city centers can identify sources of demand for various living products.

3 Demographic fundamentals

Historically reliant on younger age cohorts, particularly residents in their 20s and 30s, rental housing offerings have expanded and now attract wider swaths of the population. University students (aged 18 to 24) generally reside in student housing and often provide support to conventional multifamily inventory, especially in Europe. An aging Millennial population will be complemented by the comparably large Generation Z, underscoring sustained growth opportunities in the mid to long term.

4 Housing affordability

The ability to purchase a home is a determinant of for-rent housing demand. Over the past decade, for-sale accommodations have become increasingly unaffordable to much of the population across the globe, a function of tight lending conditions and constrained for-sale housing inventories. Across the 24 markets analyzed, the median home price is more than 12 times the median household income. Single-family housing development has not kept pace with population growth – both in economically strong regions like the U.S. West Coast and developing nations across Africa and South East Asia. Therefore, residents are limited to rental housing alternatives.

5 Renters by choice

Although for-rent housing traditionally catered to renters by necessity, many of whom fall into the demand drivers outlined, investors and developers are keen to increase their exposure to renters by choice. This profile of renter typically desires flexibility and can often afford higher-quality units, all while paying consistently and on time.

6 Household formation

Traditional catalysts for homeownership, such as getting married and having children, are increasingly delayed as younger generations opt to prioritize careers and live-work-play neighborhoods. The prevalence of marriage has declined and the average age of first childbirth has increased over the last 40 years. These ideological shifts have prolonged tenancy in rental accommodations, supporting desired flexibility for younger age cohorts in particular.

7 Economic conditions

Median household income, macroeconomic momentum and industry diversity impact the strength and stability of housing markets. These factors influence effective rents, rent growth and operational stability. Markets with a diverse set of industries and employers typically experience more stable demand, whereas markets with high exposure to a single industry can experience more volatile, prolonged outperformance and underperformance.

8 Local regulations

National and local legislation can affect the feasibility and scope of rental and for-sale housing markets. Policies and programs created to increase homeownership rates, such as low-cost financing options for first-time purchasers, can dilute demand for rental housing. Policymakers may implement rent controls to combat housing unaffordability, impacting income returns. Conversely, local zoning laws in urban markets may support higher-density accommodations, spurring development and rental housing demand. Housing policy varies by locality, so understanding the regulatory environment is paramount for prospective investors.

The investment thesis for living

Capital flows into the living sector have accelerated over the past five years as investors increasingly recognize the favorable return profile, growth opportunities and leasing fundamentals. With the sector's expansion and maturation broadening to new geographies, buyer and lender pools are deepening and diversifying. Structural tailwinds are poised to persist, providing current and future support for investment.

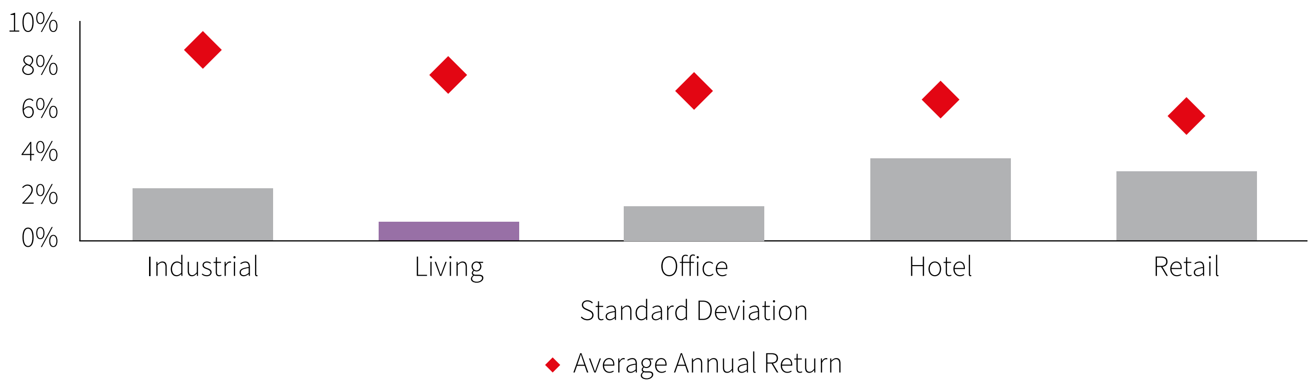
Strong and consistent returns through cycles and downturns.
Over the past decade, living assets have boasted the least volatile returns of the major commercial real estate sectors. Additionally, the sector has achieved the second highest average annual return at 7.5%[1]. Capital appreciation is strong in developing and growing living markets, while established geographies benefit from stable income returns.

Shorter lease terms allow operators to adapt quickly to market conditions.
Leases typically spanning from one to three years, depending on the country, mean that rental housing operators and investors can react to rapidly changing rental conditions, adjusting asking rents and offering concession packages to retain or attract residents. Therefore, for-rent assets experience pronounced income appreciation during periods of economic expansion, coupled with shorter periods of weak leasing fundamentals through cycles. This is in contrast to office and logistics assets in particular, where lease agreements often exceed seven years.

Stable income and low vacancy.
The needs-based nature of the sector results in strong cash flows. Renters prioritize paying rent to ensure long-term housing stability, even during economic downturns. This is illustrated by rent collection rates in the mid- to upper-90% range in the U.S. and UK throughout the pandemic. Additionally, governments and property managers can provide stability by offering rental assistance and payment plans to reduce financial burdens in select situations.

Living returns have a low correlation with other commercial property sectors.
During the Global Financial Crisis, in 2009 and 2010, residential returns were the strongest of any sector. This performance provides unique portfolio diversification benefits.

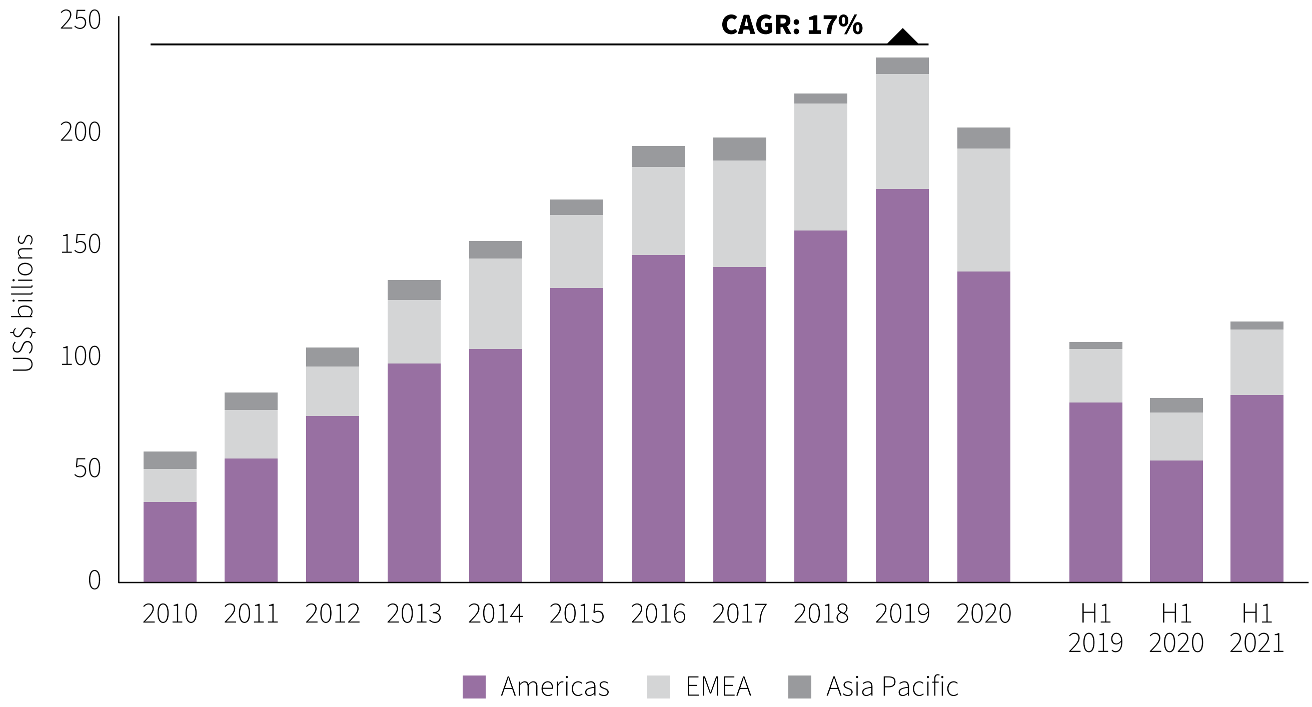
Average Annual Total Return and Volatility by Sector, 2010–2020[1]



Source: JLL Research, NCREIF, MSCI

1 Total return calculated using equal weighted average in following markets: Austria, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, UK and U.S., September 2021

Regional Living Transaction Volumes, 2010 – H1 2021



Source: JLL Research, September 2021; CAGR: compounded annual growth rate

Strong returns and leasing performance in the living sector have allowed it to become the most liquid asset class in the U.S., and it is now challenging the office sector's leading position globally.

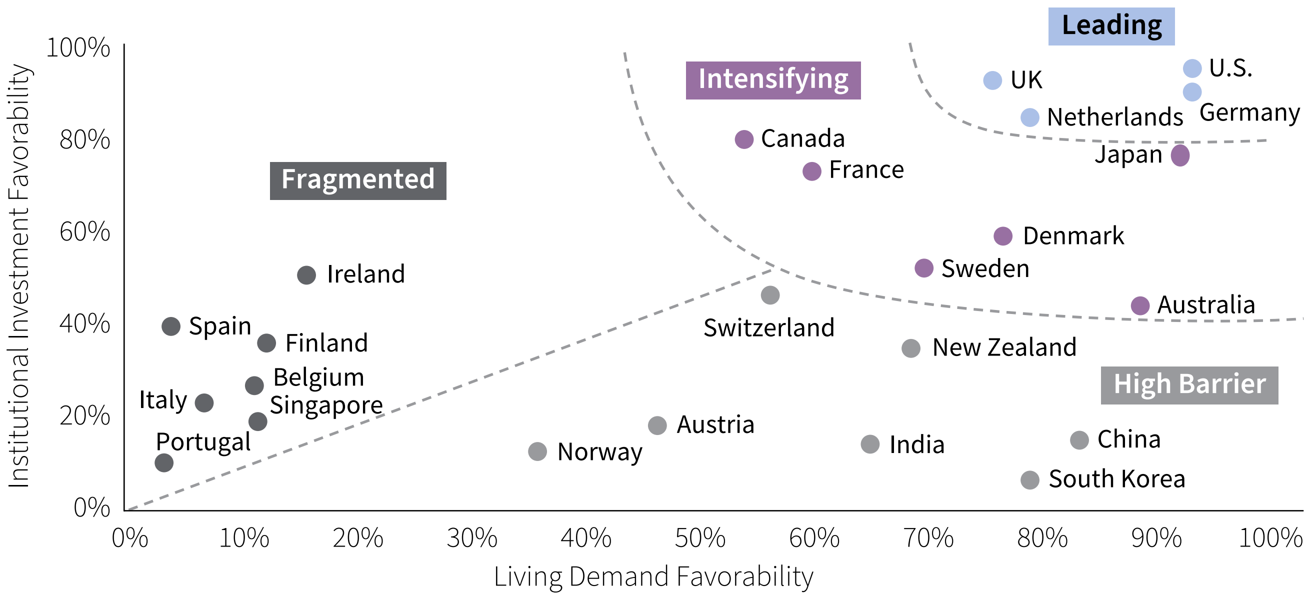
In the previous economic cycle, compounded annual growth in living investment volumes reached 17%, notably higher than office and retail in particular.

Swelling capital flows are leading to heightened levels of competition for on-market product and pushing investors into previously nascent living markets – notably in parts of Europe and Asia Pacific. Construction pipelines and sustained demand in many countries will lead to strong investment performance over the long term.

Living market segments

JLL's segmentation framework clusters markets with similar demand and investment performance. This allows investors to compare market opportunities and maturity across a geographically diverse set of markets. Within the segmentation framework, we have highlighted key characteristics and conditions, demand drivers, capital markets themes and market opportunities. The commentary in each segment may not relate to all cities or countries in the clusters, but rather addresses broad-based similarities.

Living Market Segmentation



Source: JLL Research, September 2021

Methodology:

Living Demand Favorability
assesses market drivers including renter propensity, scale of the potential renter base, and economic fundamentals.

Institutional Investment Favorability
assesses the current state of the multi-housing capital markets and the relative ease of conducting business in the market, including transparency.

	Average Renter Ratio	Average Home Price to Income Multiple	Average Annual GDP Growth (2017–2020)	Average Transparency Index	Living Share of Investment (H1 2021)
Leading	42.8%	10.9	1.6%	1.6	33.6%
Intensifying	38.7%	10.7	1.2%	1.7	19.7%
Fragmented	26.5%	11.0	0.6%	2.1	18.1%
High Barrier	34.3%	16.7	2.8%	2.3	3.8%

Source: JLL Research, Oxford Economics, NCREIF, MSCI; JLL's Transparency Index is ranked on a 1–5 scale, with the most transparent being 1 and the least transparent being 5, September 2021

Leading Institutional Epicenters

The **Leading Institutional Epicenters ('leading')** are the largest and most liquid living markets in the world. With strong demand drivers and established living capital markets, these countries provide the blueprint for the creation and expansion of the sector in nascent geographies. The transparent nature and accessibility of these markets – from a regulatory and scalability standpoint – create favorable investment opportunities to private and institutional sources of capital.

Key Characteristics	Liquid Living Markets	Strongest Return Profiles	Expansive Investible Stock
Highly Transparent	Diverse Debt Markets	Geographically Dispersed Inventory	High Rentership Rates
Affordability Constraints	Robust Target Cohort (aged 15–34)	Consistent Economic Growth	Healthy Investor Competition

Source: JLL Research, September 2021

Underlying demand for rental housing is robust across the leading segment. On average, 43% of the population rents their accommodation across the markets, markedly higher than any other segment. Housing affordability constraints have limited the ability of younger age cohorts to purchase a home, especially in high-cost gateway markets, thereby prolonging tenancy in rental accommodations. A quarter of the population falls within the target demographic – those 15 to 34 years old. This is comprised of residents in student accommodations, coliving, conventional multi-housing / build-to-rent and single-family rentals. In the U.S., this age cohort is increasingly living alone, reversing a multi-year trend and supporting demand for smaller units in urban locations.

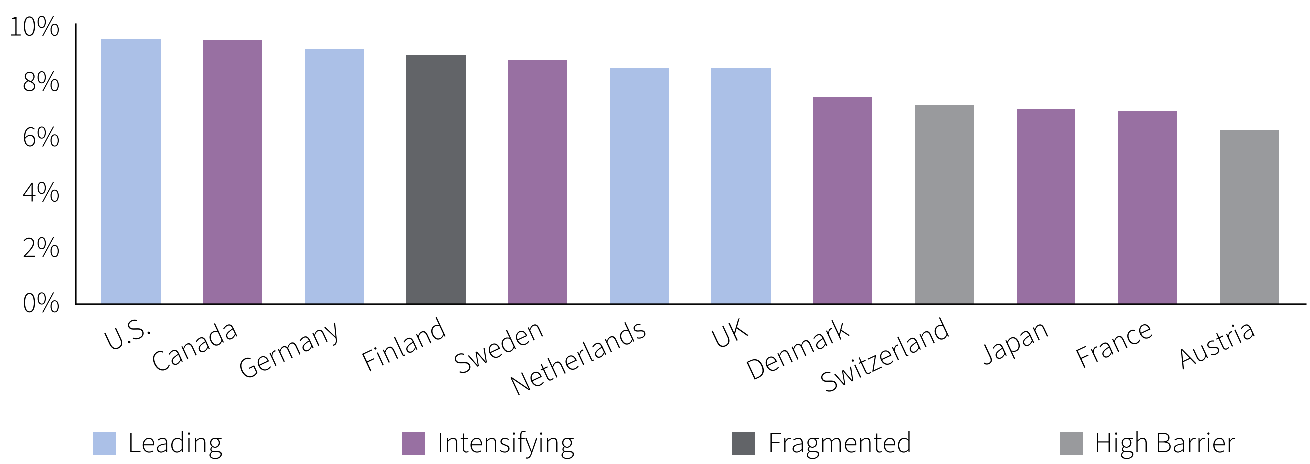
The scale of living assets along with the broadening footprints of rental housing operators is enhancing the overall renter experience in the leading segment. Expansive and state-of-the-art amenity spaces are found in new-build assets – often boasting gyms, pools, lounges and workspaces. Such features appeal to renters by choice, residents who can afford to purchase a home but opt to reside in high-quality rental accommodations. Additionally, operators with geographically-diverse footprints can retain residents that in-migrate, creating loyalty to specific operator brands and housing features or amenities.

As some of the largest economies in the world, these commerce hubs benefit from continued economic expansion and are widely viewed as stable financial centers. That stability trickles into the living market in the form of healthy rent collection rates and rent growth, offering persistent returns.

Proven track records through times of both economic distress and expansion capture the attention of institutional and private investors. The deep and diverse pool of capital has allowed the Leading Institutional Epicenters to notch the highest average annual return rate of any segment, at 8.9%, during the last cycle. Concurrently, the living sector's share of investment has climbed from 18% to 34% between 2010 and 2020. Of note, living was the most active real estate sector in 2020 in the U.S. and the Netherlands.

The opportunity for investors to acquire assets of scale with consistent returns is enticing and will allow the sector to maintain dominance in the capital markets for years to come. The U.S. rental housing market stands in a league of its own, boasting the most diverse lender and investor pools and an unparalleled scale of investment opportunities. More broadly, the established nature of the leading markets provides a lower-risk entry point for investors to deploy capital into the living sector.

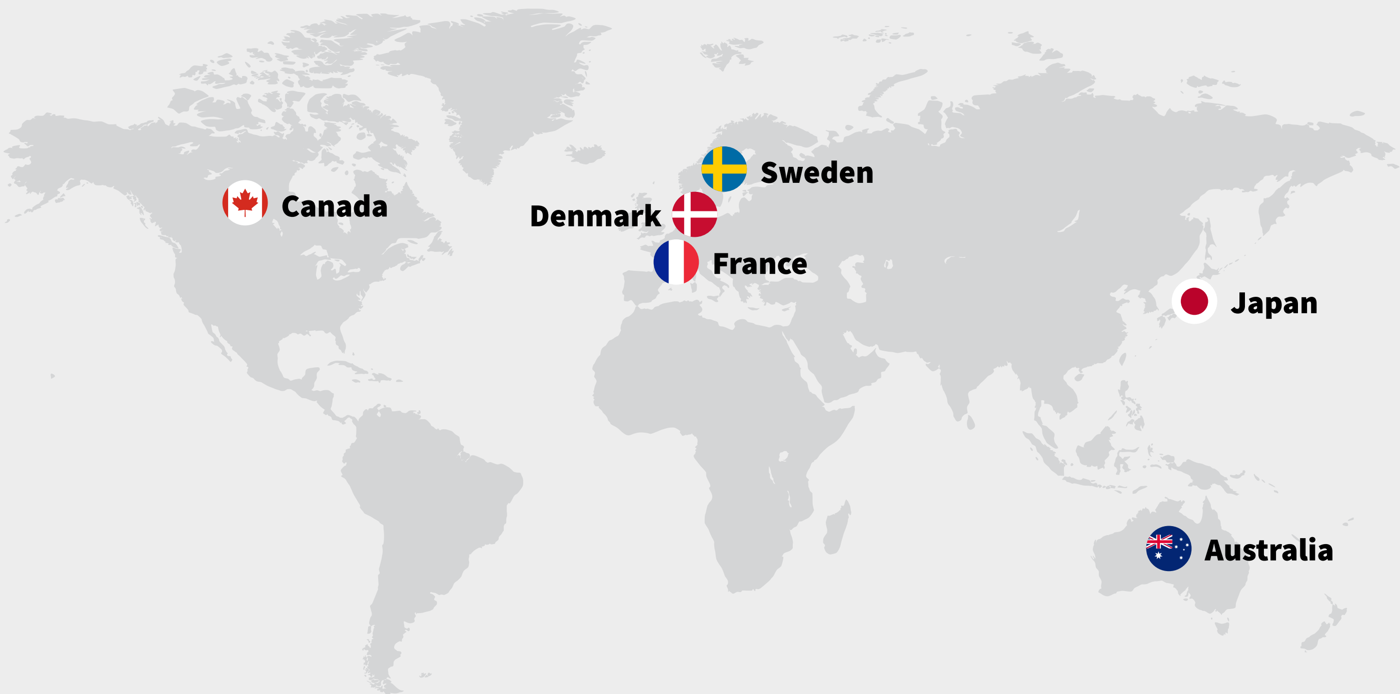
Average annual total return by market, 2010–2020



Source: JLL Research, NCREIF, MSCI; Analysis conducted for markets that have comprehensive total returns datasets, September 2021

Intensifying Investment Hubs

Amid a period of living sector maturation, the **Intensifying Investment Hubs ('intensifying')** are benefitting from portfolio and sectoral diversification. Although rental housing is not new in these markets, the size and scope of living assets has recently begun to mimic peer leading markets, evidenced by expanding investor conviction and investment. Larger investors are acknowledging the mounting opportunities and expanding inventories in these markets. Favorable business environments, elevated transparency and a growing track record of stable capital and income appreciation mitigate risk.



Key Characteristics	Maturing Living Capital Markets	Increasing Asset Sizes	Highly Transparent
Diversifying Pools of Capital	Healthy Returns	Institutionalizing Ownership	
High Rentership Rates		Educated & Urban Workforce	Elevated Investor Competition

Source: JLL Research, September 2021

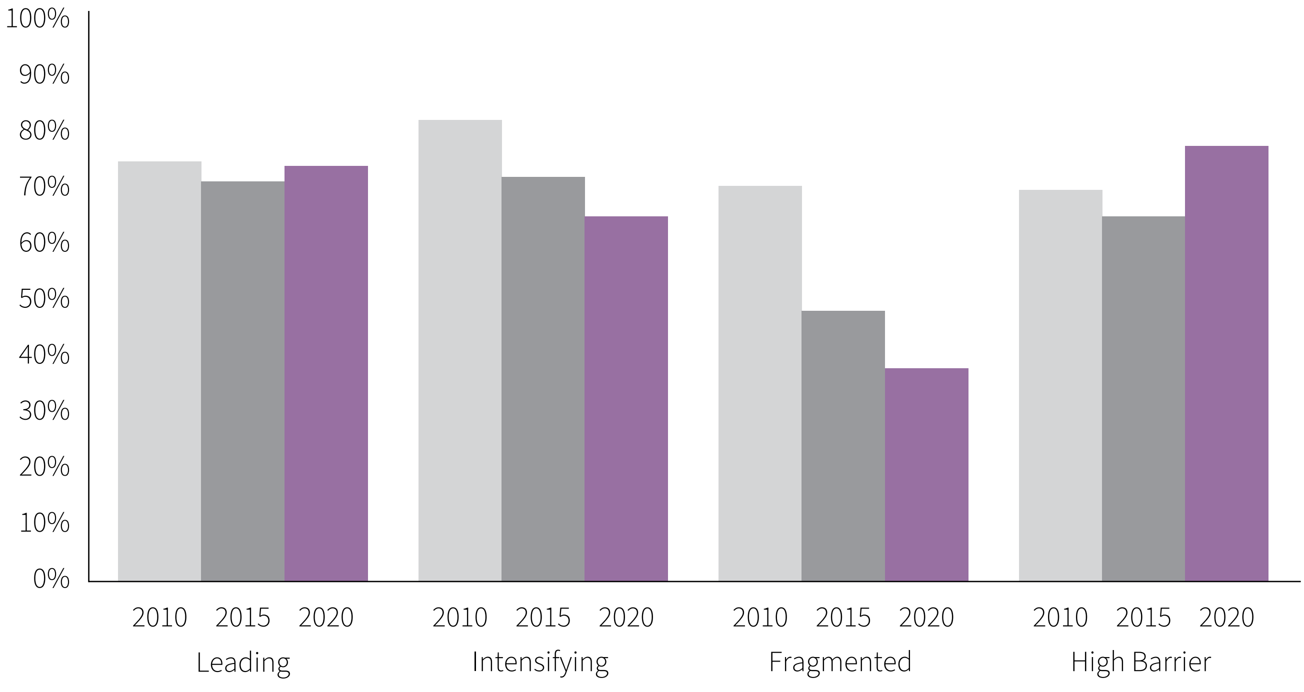
Demand drivers in this segment are comparable to the leading epicenters. A wide swath of the population rents their accommodations, 39% on average. Highly educated and ambitious workforces are delaying or abstaining from household formation, prioritizing career ambitions and aspiring to take advantage of city amenities for longer. As such, the average household size is a mere 2.3 people, considerably lower than some of the other living segments. This bodes well for urban areas and accommodations which cater to young professionals or smaller families. The elevated propensity to rent coupled with favorable demographic shifts provide a runway for the continued growth of the sector.

The competitiveness of the most mature markets – which fall in the Leading Institutional Epicenters segment – has proven beneficial to the Intensifying Investment Hubs. Investors facing deployment challenges in the U.S., UK, and Germany can often better access and acquire product in markets like Canada, France and Denmark. For that reason, a growing share of the buyer pool is comprised of cross-border capital. In 2010, more than 80% of investment was domestic; by 2020, this figure had declined to 64%.

Diversifying and globalizing sources of capital have helped spur investment activity and development in these markets. Growing inventories are presenting new opportunities for capital deployment and driving the sector to represent a wider share of overall investment volumes. The living sector accounted for 20% of annual investment in 2020, considerably higher than just a few years ago. In Canada and Japan, living's share of investment notched all-time highs in 2020, exceeding 25% and 20% respectively. Capital flows illustrate the attractive returns offered in the markets, ranging from 6% to 9% annually over the past decade.

Presenting investors with a healthy return profile and transparent conditions, intensifying markets are strong candidates for both first-time living purchasers and firms seeking to expand current portfolio holdings. Development pipelines are strong and net inflows into the living sector are poised to climb in the mid to long term.

Domestic Investor Share of Living Investment



Source: JLL Research, NCREIF, MSCI, September 2021

Fragmented Growth Markets

The **Fragmented Growth Markets ('fragmented')** are growing in favorability and are increasingly targeted by investors in Europe. Build-to-rent assets are historically owned, operated and developed by a diverse set of smaller, local firms. As institutional investment has increased significantly, ownership has begun to consolidate and ground-up development has expanded. Assets of scale are concentrated in major cities, but construction pipelines are now increasing in secondary cities.

Key Characteristics		Smaller Asset Sizes	Nascent Living Capital Markets
Concentrated in Major Cities	Tempered Investor Competition	Aging Populations	
	Opportunity for Yield	Consolidating Ownership	More Volatile Returns

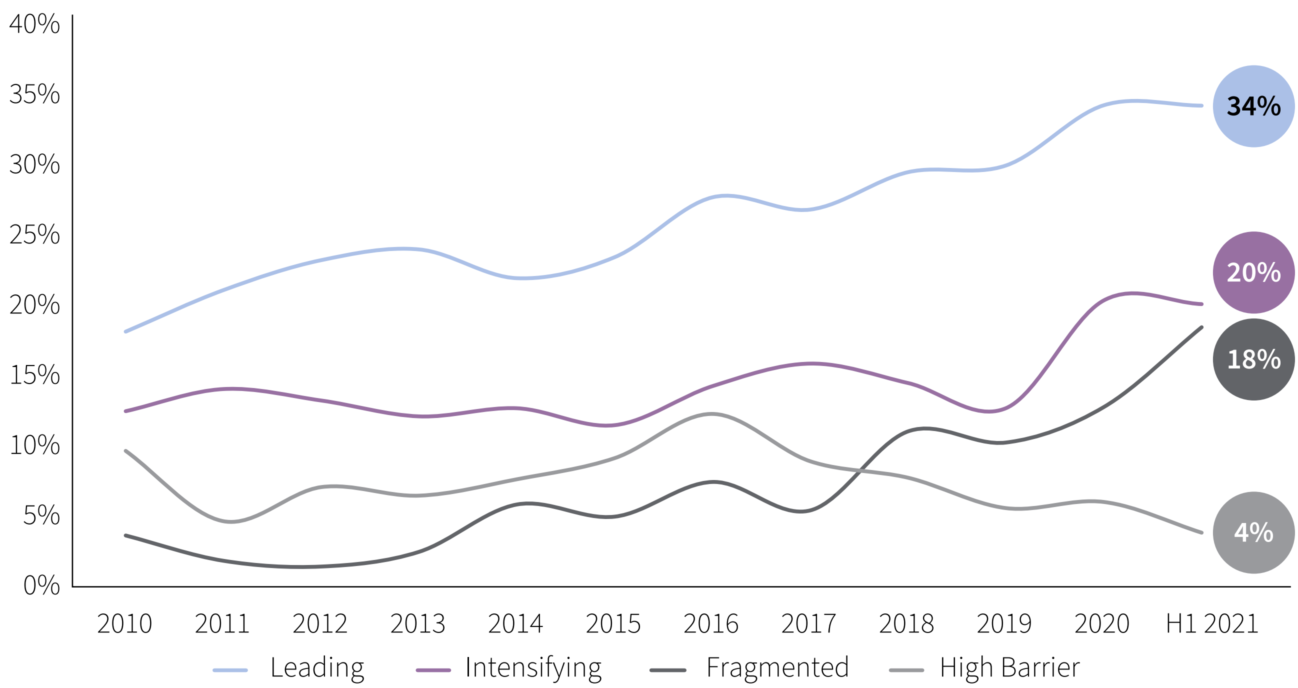
Source: JLL Research, September 2021

Demand fundamentals are stable, but not strengthening in these markets. Although national populations are aging, broadly speaking, urban centers remain magnets for younger age cohorts. A concentrated pool of prospective renters bodes well for leasing fundamentals in bustling submarkets close to transit nodes, universities and business districts. Stagnant household income growth is exacerbating housing affordability concerns across several geographies and underscoring the need for rental housing. Societal norms have prolonged residency in family homes across several countries, but as alternative housing options mount, young professionals may initiate moves.

Despite the lack of large-scale inventory, the living capital markets are quickly maturing. Similar to the preceding market segments, the living sector provides strong returns in the fragmented segment. The buyer pool is diversifying and capital flows are growing, with the increased presence of cross-border investors. While assets are traditionally owned by private investors, investment managers are actively expanding portfolios in these markets. Between 2018 and 2020, institutional capital represented 41% of transaction activity – considerably higher than the three preceding years when such groups accounted for 16% of capital flows. These shifts have contributed to notable sectoral diversification, with the sector's share of total activity increasing from 4% to 18% over the last decade.

Competition is increasing, but opportunities remain for firms to engage in less intense bidding processes. Muted competition offers opportunities to capture yield without sacrificing total returns or needing to absorb unnecessary risk. Investors that are willing to acquire and aggregate smaller-scale assets into broader portfolios, or engage in ground-up developments, can capture efficiency gains by reducing operational redundancies, implementing standard rent increases and improving leasing practices to support occupancy.

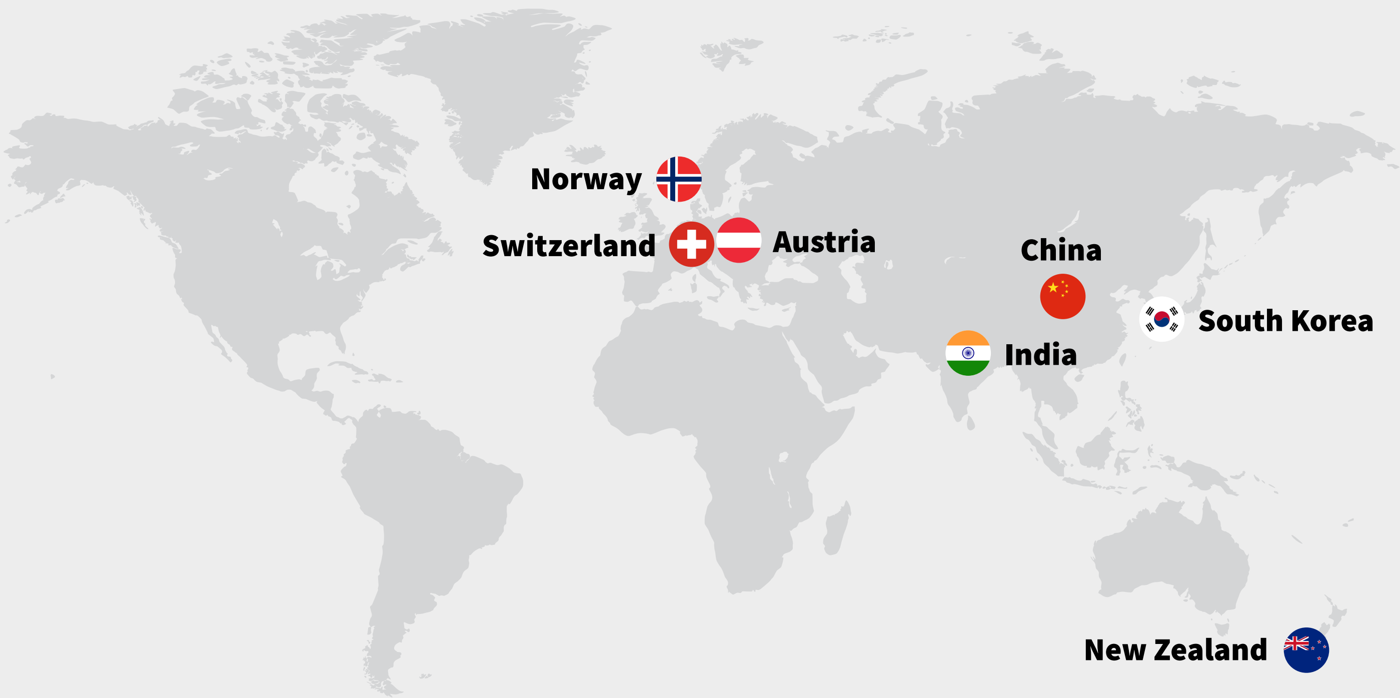
Living Share of Total Real Estate Investment by Segment, 2010–H1 2021

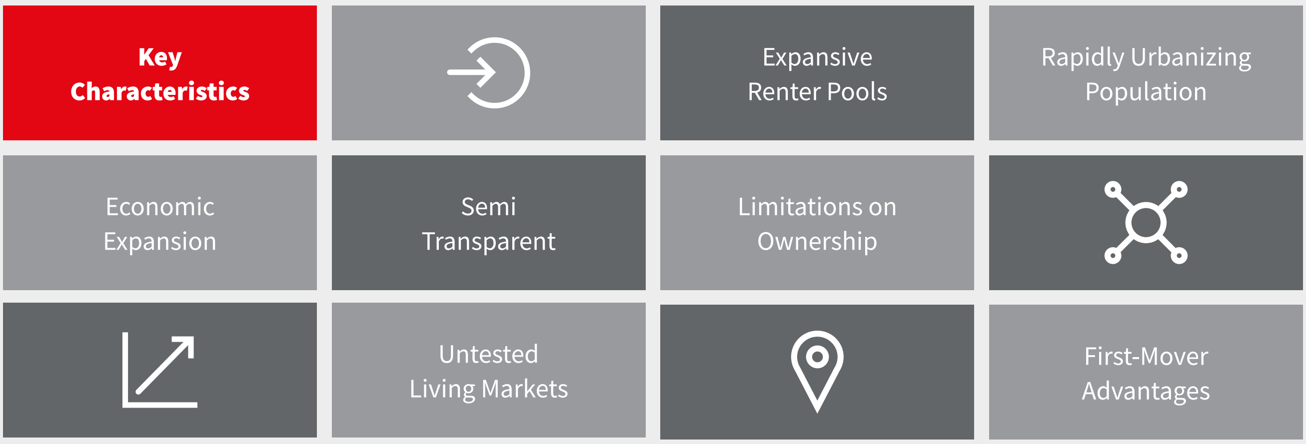


Source: JLL Research, September 2021

High Barrier Opportunistic Pursuits

A diversified group of markets comprises the last living segment, the **High Barrier Opportunistic Pursuits ('high barrier')**. These markets contain some of the strongest demand tailwinds but are challenged by regulatory risk and market entry constraints. Opaque transparency in preexisting rental housing markets and regulatory uncertainty on development and ownership are key barriers to the institutionalization and expansion of the sector in these countries.





Source: JLL Research, September 2021

High barrier markets – Switzerland, Austria and Norway – offer some of the strongest leasing fundamentals in Europe. Rentership rates are high, at 53% on average, and stable and diversified economies mitigate return risk. That said, the capital markets are heavily reliant on domestic capital due to limitations on ownership. This is evident in interregional capital flows, which represented a mere 6% of volumes between 2018 and 2020. Difficulties for cross-border investors and developers – who are experienced in building out and operating assets in more mature, established markets – weigh on the overall acceleration in investment.

High barrier markets in Asia Pacific – China, India, South Korea and New Zealand – boast tremendous upside potential due to strong demographics and economic performance. Gross domestic product expanded more than 4% per year since 2017, nearly two times the nearest segment. Urban populations have swelled in recent years, triggering deep demand for housing. Despite abundant opportunities, the lack of regulatory transparency and untested for-rent housing markets has deterred some investors from entering the markets. Central governments dictate housing policy, including regulations regarding who can own and operate assets, ultimately disrupting the market entry opportunity for some experienced living owners, operators and developers.

Although the capital markets in these countries remain dependent on office, retail and industrial trades – with living representing a modest 6% in 2020, the need for housing alternatives, alongside shifting allocations and fundraising efforts, underscores the significant growth potential in the High Barrier Opportunistic Pursuits segment. Development pipelines are building throughout the markets, which will provide entry points for large multinational investors and shed light on evolving investment strategies and structures. Joint ventures with domestic owners or developers are key to entering these less mature, growing living markets.

Final Word

Whether a seasoned living investor or a first-time purchaser, the landscape of opportunities in the living sector is significant and quickly evolving. A firm's risk appetite, willingness to be a first mover and business model will shape the target market strategy for living investment and development. Nascent geographies – namely Fragmented Growth Markets and High Barrier Opportunistic Pursuits – offer first-mover advantages and yield, with less competitive capital markets. However, challenges associated with deploying capital at scale and regulatory concerns result in heightened risks. Mature and expanding living markets in the Leading Institutional Epicenters and Intensifying Investment Hubs segments provide stable and strong returns, but deep pools of capital result in competitive hurdles and elevated pricing.

As the sector globalizes further, markets across the world will shift among the segments, and new markets will come into the fold. Remaining at the forefront of changing market conditions will provide investors with unique opportunities to expand, diversify and capitalize on the growth of the living sector for years to come.

To find out how we can support your global real estate market strategy with research insights and strategic advice, please contact one of the members of the global research team.

Shawn Lambert
Manager
Capital Markets Research
shawn.lambert@am.jll.com

Adam Challis
Executive Director
Research and Strategy, EMEA
adam.challis@eu.jll.com

Sean Coghlan
Global Director
Capital Markets Research
sean.coghlan@am.jll.com

Tom Colthorpe
Senior Analyst
EMEA Research
tom.colthorpe@eu.jll.com

Carol Hodgson
Senior Director
Global Research
carol.hodgson@eu.jll.com

About JLL
JLL (NYSE: JLL) is a leading professional services firm that specializes in real estate and investment management. JLL shapes the future of real estate for a better world by using the most advanced technology to create rewarding opportunities, amazing spaces and sustainable real estate solutions for our clients, our people and our communities. JLL is a Fortune 500 company with annual revenue of $16.6 billion in 2020, operations in over 80 countries and a global workforce of more than 92,000 as of June 30, 2021. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit jll.com.

About JLL Research
JLL's research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today's commercial real estate dynamics and identify tomorrow's challenges and opportunities. Our more than 450 global research professionals track and analyze economic and property trends and forecast future conditions in over 60 countries, producing unrivaled local and global perspectives. Our research and expertise, fueled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.