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LEADERSHIP
SERIES

Nooks, Balconies and Beyond: Rethinking Multifamily Design Post- Pandemic

DECEMBER 2020

NEWMARK





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This document was prepared by Newmark in partnership with Hartman Design Group.

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Key Findings

- 01** **Nine months into the pandemic, an estimated 35% of all employed adults are working mostly or entirely from home because of COVID-19.** It is probable that most of the nation's suddenly-remote employees will return to the workplace once a sense of safety and normalcy has been restored; however, the number of people working remotely likely will remain higher than the pre-pandemic level, carrying implications for the design of multifamily projects.
- 02** Multifamily industry participants are thinking critically about current remote working trends and how they may impact future strategy, **yet there is a demonstrated aversion to overcorrection** considering the volatile and fluid nature of the current environment.
- 03** Some designers and developers have begun to make **incremental changes** in support of an anticipated modest increase in remote work among their tenant base. Others have made no significant change to their existing strategy and do not plan on doing so.
- 04** Changes in strategy have been reported by some multifamily developers and designers in key areas: **building amenities, unit mixes, and in-unit design.**
- 05** One of the most notable changes developers and designers are anticipating in response to a potentially larger remote workforce is increasing diversity in unit mixes, especially when it comes to including more units with dens. **There is clear expectation that the one-bedroom-plus-den format (1BR+den) will emerge as an increasingly attractive unit option.** A rise in common-area workspace amenities and further growth in tenant demand for outdoor space, **particularly balconies**, are other key themes in the multifamily industry response to remote work trends.

I.

Introduction: An Evolving New Normal for Multifamily Owners and Tenants

Since the first wave of COVID-19 emerged in March 2020, remote work has been the “new normal” for a significant portion of the nation’s labor force able to conduct business from the relative safety of home.

Three highly-effective vaccine candidates were announced by major pharmaceutical firms in November 2020 amid a larger wave of COVID-19 infections, yet as vaccine approvals are not complete, and a vaccine is unlikely to see widespread dissemination until Spring 2021, many of those who shifted their work to home offices are likely to continue in that mode for at least a few more months.

There are indications that many firms forced into work-from-home arrangements during this pandemic period may implement remote work strategies even when it is a choice unfettered by public health concerns. Surveys conducted throughout 2020 suggest many office tenants are at least considering more flexible scheduling even after a vaccine is in place. There has been an increase in

remote job listings advertised on online job aggregator sites, such as LinkedIn. And importantly, even before the arrival of COVID-19, remote work was already an accelerating trend, catalyzed by technological advancement and increasing digitization. While it is likely that most office tenants will return to the office in whole or in part for the collaboration and talent development that comes with being together, high-quality home office spaces will remain valuable.

These macro trends are playing out on a micro level: within the private home. Thirty-six percent of country’s households are rentals, the majority of which are in multifamily buildings. Participants across the multifamily industry are now considering how best to respond to current conditions that bring new meaning to the

concept of a “live-work-play” environment, and whether to make material changes in design. With less than a year of unprecedented, abnormal market activity by which to gauge next steps, many members of the multifamily development industry have not yet made substantial changes to existing strategies or are in the midst of contemplating that decision. Others have already started to pivot in anticipation of marketing to more tenants who prioritize the value of a good home workspace.

This report, produced in partnership between Newmark and Hartman Design Group, explores considerations around the future of remote work and presents a sampling of the multifamily industry’s response to what is a fluid environment.

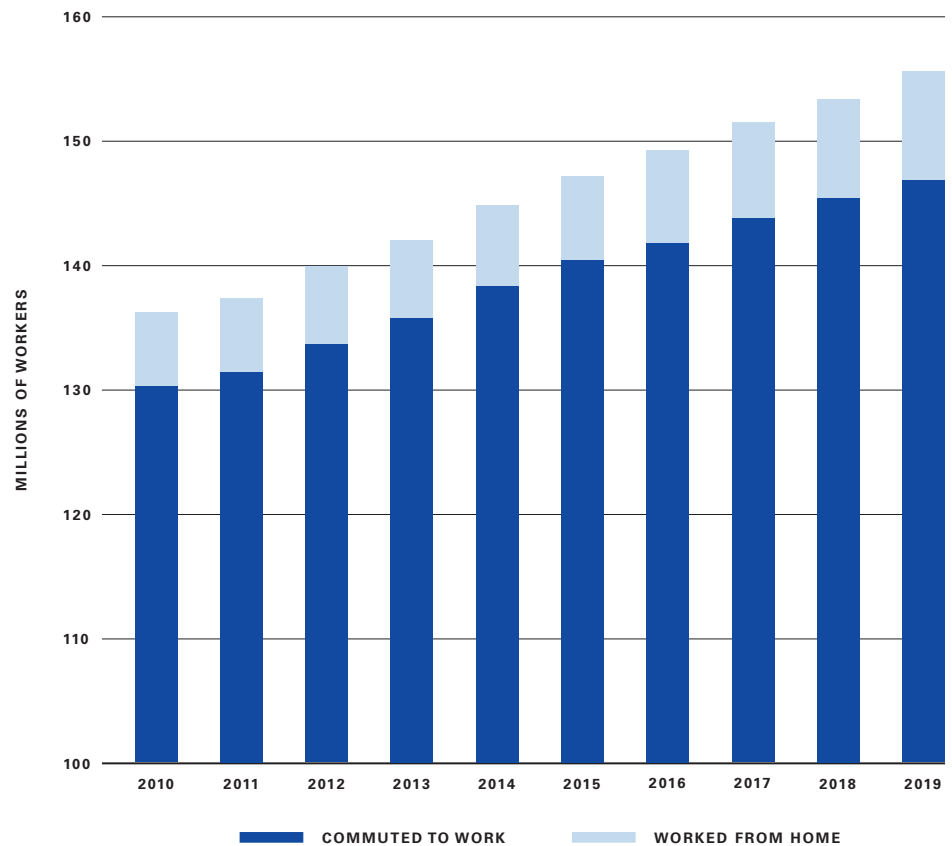


II.

Remote Work: Past, Present and Future

Nine months into the pandemic, 35% of all employed adults are working mostly or entirely from home because of COVID-19, according to the U.S. Census Bureau's Household Pulse Survey. This percentage has remained remarkably stable during the past few months of the survey's implementation, signaling that in this new era of social distancing, remote work will remain abnormally elevated, at least in the short term while the world awaits production and dissemination of a vaccine. Yet, before COVID-19 emerged, more Americans were already joining the remote workforce. A long-term structural shift away from goods-production to a services-providing national economy, coupled with accelerating digitization and sophisticated technological advancement, has made remote work increasingly accessible and acceptable. Between 2010 and 2019, growth in the remote workforce vastly outpaced overall labor growth, 52% to 15%, according to the U.S. Census.

Employees Working from Home Versus Commuting to Work
United States | 2010-2019



Source: U.S. Census ACS data, Newmark Research; December 2020

While Census data showed the swiftly-growing work-from-home sector remained modest at 5.7% of the overall labor force in 2019, that may not provide a full picture of the pre-pandemic remote landscape due to the fluid nature of workers' needs. If in a given week an employee with flexible scheduling works from home two or three days and goes into an office for the balance, would this employee self-classify as working from home? The answer is subjective. Data from the Federal Highway Administration's most recently-administered National Household Travel Survey (NHTS) in 2017 shows a significantly higher percentage (11.9%)

of the populace noting they usually work from home. The next NHTS, initially set for collection in 2020, will occur once mobility levels approach a normal baseline (or when a "new normal" post-pandemic baseline is determined). Those results may be revealing about how home-based work patterns have shifted post-pandemic. Across the spectrum of governmental data sources, however, strong pre-pandemic growth in remote working is a key theme.

It is highly probable that most of the nation's suddenly-remote employees will return to the workplace once a sense of safety and normalcy has been restored;

the current pandemic-induced patterns have been a forced experiment, not a well-considered choice. However, the number of people working remotely is unlikely to return to pre-pandemic levels. There is likely to be at least a modest sustained increase in remote work or flexible scheduling, an assertion supported by a few key factors:

- Employer/employee surveys
- Major corporate announcements
- Current job listings

Employer/Employee Surveys

Throughout 2020 a preponderance of major surveys deployed by a vast range of interested parties explored the personal, professional and economic stakes of current remote work conditions, and what future expectations are for remote work. Considering the volatile, unprecedented nature of events in 2020 it is unsurprising that for every survey indicating a strong desire to return to the workplace, there's a study countering with a preference for remote work remaining the norm. Newmark analyzed a group of more than 20 large studies conducted across the nation at different points during the pandemic by a variety of surveyors, including business services and financial firms, consulting groups, news organizations, polling companies and more. Taking into consideration both employer and employee perspectives, an average of 69% of those surveyed across the grouping would prefer or expect at least partial remote work arrangements to continue post-COVID-19. Remote work is a volatile concept now, and opinions taken during a pandemic are subject to change, but as the country continues to recover jobs lost during the pandemic-induced recession and the labor pool begins to tighten, top-talent preferences will likely continue to guide decisions around flexible work arrangements.

Major Corporate Announcements

Numerous national corporations whose

non-essential employees are working from home because of COVID-19 have delayed re-boarding of office space throughout the pandemic as conditions evolved. In recent months, companies such as Microsoft, Ford Motor Company, Target, Slack and DocuSign have pushed anticipated re-boarding to the summer of 2021. On the other hand, some major employers have mandated a return to the office amid the pandemic, some more successful than others; according to ACEC Research Institute's September 2020 Business Impact Survey, 70% of firms polled opened offices for employees to return and then closed them again, considering the ongoing pandemic. Still others, predominantly tech firms like Twitter, Shopify and Facebook, have announced employees could elect to go permanently remote, although Facebook, for example, continued to add more office space during the pandemic, signaling that embracing flexibility does not necessarily negate the need for a physical workplace. These decisions by leading tech firms could have a ripple effect if smaller companies follow their lead. Data on rising office sublease volume from around the country is complemented by market participants noting that the increase is partially due to firms across various industries deciding to go remote long-term and putting existing space up for sublease. Those decisions are less likely to move the national news needle, but some still-unclear share of the nation's companies have already moved – or will move – to a partial or fully-remote model. However,

some of the firms that have announced plans to shift more operations to remote work also may reconsider once the pandemic has passed, if their talent asks to return to the office or executives deem a return would boost productivity.

Current Job Listings

Hiring managers planning for their future workforce are increasingly choosing to advertise for remote positions in 2020. Data from job aggregator site LinkedIn showed a surging interest in remote work from both prospective employers and employees between March and May 2020—as the first wave of the pandemic was cresting.

These trends observed earlier in the year are mirrored in more recent data from job market analytics firm Burning Glass Technologies, which saw a 63.5% jump in remote work postings between July and October 2020. According to Burning Glass data, remote job posting increases this year have been especially noticeable in traditionally office-using occupations: office and administrative support, legal support and financial specialists have seen the largest increases in job ads indicating work-from-home. This dramatic increase may be partially attributed to social-distancing necessities of the moment, and what is offered as remote now may shift along with company strategy; nonetheless, current job ad data trends point to more workers hired on a remote basis.

Remote Job Posting Metrics on LinkedIn *March 1st to May 31st, 2020*

Source: LinkedIn, Newmark Research;
December 2020

2.8x

increase in remote
job postings

60%

increase in remote
job searches

2.3x

applications submitted
for remote jobs

III.

How “Remote-able” is the Future Workforce?

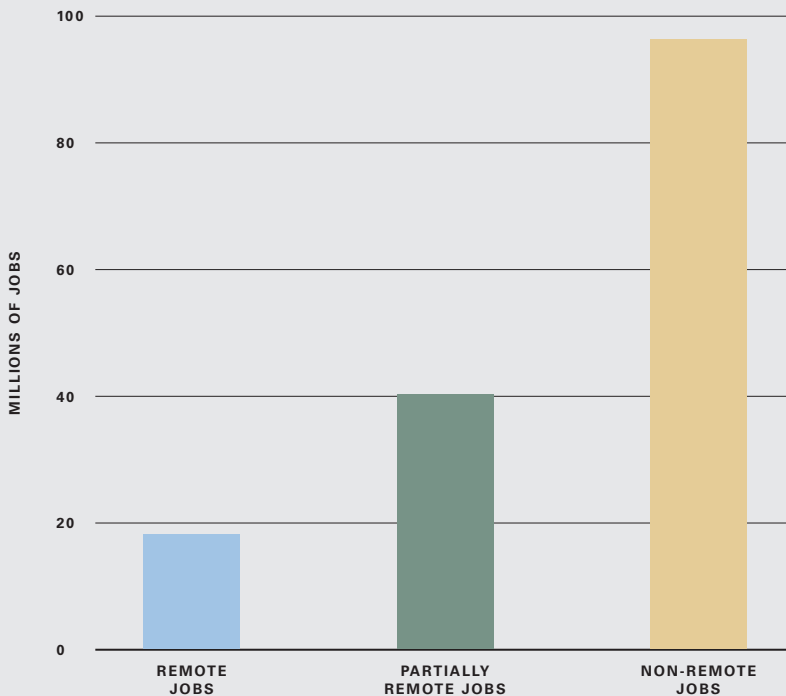
Remote working rates were accelerating on the heels of technological advancement and likely would have continued to grow this year had COVID-19 never upended daily life. Yet, employees in many occupations are unable to conduct their job from home: case in point, “essential workers,” ensuring the nation’s fundamental needs were still met during the height of lockdown measures earlier in 2020. An analysis conducted by the Becker Friedman Institute

for Economics at the University of Chicago in April 2020 estimated that 63% of jobs in America require a significant onsite presence and that the remaining 37% can be performed at home. Labor market data provider JobsEQ identified remote, partially remote, and non-remote occupations with a similar breakdown: 38% of occupations could potentially be conducted partially or fully remotely.

63% of jobs in America require a significant onsite presence and the remaining 37% can be performed at home.

— BECKER FRIEDMAN INSTITUTE FOR ECONOMICS AT THE UNIVERSITY OF CHICAGO

How “Remote-able” is the Future Workforce?
United States | 2Q 2020




Source: JobsEQ, Newmark Research; December 2020

These studies correlate strongly with Census findings noted earlier in this report stating that 35% of all employed adults were working mostly or entirely from home because of COVID-19 as of October 2020 – so the country has essentially reached the peak “remote-ability” for current economic and demographic circumstances. There will be a significant decline to a new normal when the pandemic has passed, but there is compelling evidence supporting the prediction that remote work will remain at least modestly higher than it was pre-pandemic. There are significant implications of this potential scenario for multifamily properties, many of which are now pulling improvised double-duty as home and workplace for their tenants.



Remote work will likely remain at least modestly higher than it was pre-pandemic.



The country has essentially reached the peak “remote-ability” for current economic and demographic circumstances, and there will be a significant decline to a new normal for remote work when the pandemic has passed.

IV.

The Multifamily Industry Responds to Remote Workers' Needs

Many renters faced with a sudden and indefinite shift to working from home in March 2020 discovered limitations and challenges with their existing space, and the multifamily industry has turned a keen focus on how to address immediate concerns around safety and flexibility but has also begun to seriously consider the idea that more of their current and future tenant base may be remotely employed long-term. Some designers and developers have even begun to make incremental changes in support of that direction. Should the nation see higher remote work levels moving forward, it is likely that most remote workers will choose to conduct their jobs in their own homes: pre-pandemic, 80% of workers who self-identified as remote employees primarily worked from their homes.

To better understand the implications of remote work trends on multifamily design and development, Newmark and Hartman Design Group conducted a mix of formal surveys, interviews and research, as well as engaging in wide-ranging conversation with industry participants on what may – or may not – change in multifamily design and development. Specific quantitative change remains challenging to measure because of the fluid environment and an industry aversion to overcorrection. Some local and national developers appear bullish on work-from-home trends, while others have adopted a “wait-and-see” position and have not made any changes and do not yet plan to. Others expect no significant shift in the way units are designed and developed, and that most changes made to multifamily properties in the wake of COVID-19 will be short-term only. The one through-line was that all industry participants acknowledged they are thinking critically about current trends and how they may impact future strategy. Reported material changes to existing units, or units in design or development, thus far have been modest but telling. Some key themes emerged relating to a handful of factors:

- Building amenities
- Unit mixes
- In-unit design

Building Amenities

A multifamily “amenities war” that ran the gamut from gyms and housekeeping services to rooftop community gardens,

personal shoppers and digital driving ranges has, on one hand, been temporarily laid low by social distancing concerns preventing residents from fully and freely utilizing facilities. However, the multifamily industry has continued to innovate in the next generation of cutting-edge amenities for a post-COVID-19 world (with a TikTok content creator studio just one example). Developers and landlords have also homed in on amenities that meet their residents’ current remote work needs, anticipating elevated, sustained usage in the future. Coworking spaces were gaining favor as an amenity before 2020, but current conditions are likely to underscore the importance of comfortable, safe and efficient coworking spaces within multifamily properties.

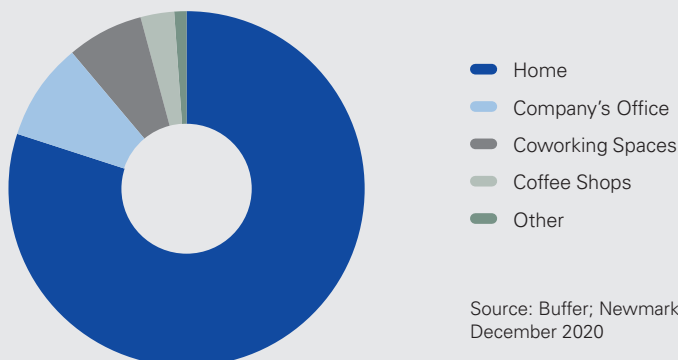
The Wall Street Journal reported that Philadelphia-based multifamily developer Post Brothers pivoted to adding coworking space in lieu of entertainment amenities in a couple properties under construction as a direct result of trends that emerged during the pandemic. This is echoed in other industry responses, many of which include plans to incorporate more common spaces for remote workers. Multifamily developer Greystar noted increased demand for work-from-home spaces among their tenant base and envisioned changes will be made to meet the trend. According to Noelle Sharbaugh, managing director with Greystar, “permanent modifications will include working nooks, booths, or pods that provide separate working spaces for all residents.”

We’re thinking about “future-proof” changes that will stand the test of time. For us, that means changes like providing more balconies, finding more ways to be flexible with space, and not being afraid of more diversity in unit mixes.

— BRITT SNIDER, PRINCIPAL AND HEAD OF DEVELOPMENT AT REDBRICK, LMD

Primary Working Location for Remote Employees

Data compiled November 2019



Source: Buffer; Newmark Research; December 2020

Phyllis Hartman, president of Hartman Design Group, noted her firm was already expanding coworking amenities in new construction and repositioned properties to meet the demand of the remote worker before the pandemic, but now the design of coworking amenities has shifted, with a greater focus on safety, privacy, and purpose. "In new coworking spaces, we are designing fewer communal tables and increasing the number of private work pods. Residents want to have spaces for virtual meetings, podcasting and conference calls, and these work pods are equipped with the appropriate acoustical properties, lighting and backgrounds to enhance the user."

Unsurprisingly, fast and reliable internet service and strong cell phone coverage continue to be of utmost importance in the building amenity hierarchy. Apart from amenities directly relating to remote work, a broader theme of increased overall amenities usage due to more time spent at home puts additional emphasis on package lockers and management, as well as refrigerated storage to accommodate online grocery purchases.

Unit Mixes

Many renters who pivoted to remote work

in 2020 had to improvise within small units, catalyzing demand for larger space at similar cost. This has manifested in a wave of urban-to-suburban residential relocations as city amenities remain challenged during the pandemic. Nearly two dozen industry veterans surveyed in this study implicitly saw this trend as temporary, with not a single respondent noting a shift in geographical focus for future development. Yet, every developer is considering if, and how, tenant space needs may fundamentally shift. Financial considerations on the tenant side will likely deter developers from dramatically increasing unit sizes overall, especially for urban multifamily development. Doug Firstenberg, Principal at Stonebridge, noted that "while we expect growing numbers of younger urban renters working from home, we will not significantly increase the size of our units as price-point will continue to be a governor for this demographic."

One of the most notable changes developers and designers are anticipating in response to a potentially larger remote workforce is increasing diversity in unit mixes, especially when it comes to including more units with dens. There is clear expectation that the one-bedroom-

plus-den format (1BR+den) will emerge as an increasingly attractive unit option. One respondent noted that 1BR+den units had fallen from favor somewhat before COVID-19 hit but now are gaining more traction in designs for future projects. One project reported in development within a major Eastern Seaboard market has already retooled the unit mix to add more than double the amount of 1BR+den units included in the initial plans. As some multifamily owners and occupiers see it, dens offer more space for potential remote work/flexible use while keeping renter costs lower than 2BRs.

We will create more niche common spaces for remote working. This has been a major part of our plans historically, so in light of the events of 2020, we continue to view this as a permanent part of our strategy.

— DOUG FIRSTENBERG, PRINCIPAL AT STONEBRIDGE

Coworking pods at 1800 Oak Apartments in Arlington, VA
Photo courtesy of Hartman Design Group



In-Unit Design

Common-area workspaces were a recurring theme among industry responses, but so were in-unit changes to support remote work—and more broadly, overall flexibility. Developers expressed interest in re-examining layouts to maximize usability and accommodate work stations, exercise spaces, and drop zones. Britt Snider, head of development for Redbrick, LMD, noted that the firm was rethinking unit design layouts to find nooks for either in-unit fitness or workspace, rather than having straight demising walls, and finding ways to be flexible by designing apartments with wider floor plates. For existing units, several asset owners and developers noted

a focus on creative furniture solutions. Richard Ellis, vice president with Boston Properties, described enhancing existing units by including mechanical furniture systems to be easily maneuvered to make more space for work during the day. “We are also focusing on creative furnishing options for more units in a building than a typical one-or-two model marketing approach and in some cases are marketing those as turnkey furnished units, allowing prospects to see firsthand how a given floor plan can function as both a comfortable remote working environment as well as a unit meeting their traditional living needs.”

Balconies were often mentioned in interviews with developers. A Washington metro area firm specializing in multifamily housing noted requests and demand for balconies have increased substantially, which many developers are aiming to meet.

One developer noted that pre-pandemic, it aimed to include balconies in 40%-50% of its units; now, that share has grown to 70%. Other respondents highlighted increasing demand for a variety of outdoor areas, including balconies, terraces and patio spaces, and they anticipate rising rent premiums for properties that provide them.



In-unit desk nook, Windsor at Contee Crossing in Laurel, MD
Photo courtesy of Hartman Design Group

BY THE NUMBERS

Select Multifamily Development Changes

76'
is the
new 65'

Some developers are considering wider floor plates to accommodate larger and more flexible spaces.

14%

of units were retooled in a major proposed project to accommodate more space for working.

70%

of one developer's units are being designed with balconies, compared to about 50% pre-pandemic.

1BR+
Den

Multiple multifamily developers and designers noted a substantial increase in 1BR+den units in design.



V.

Action Steps for the Multifamily Industry

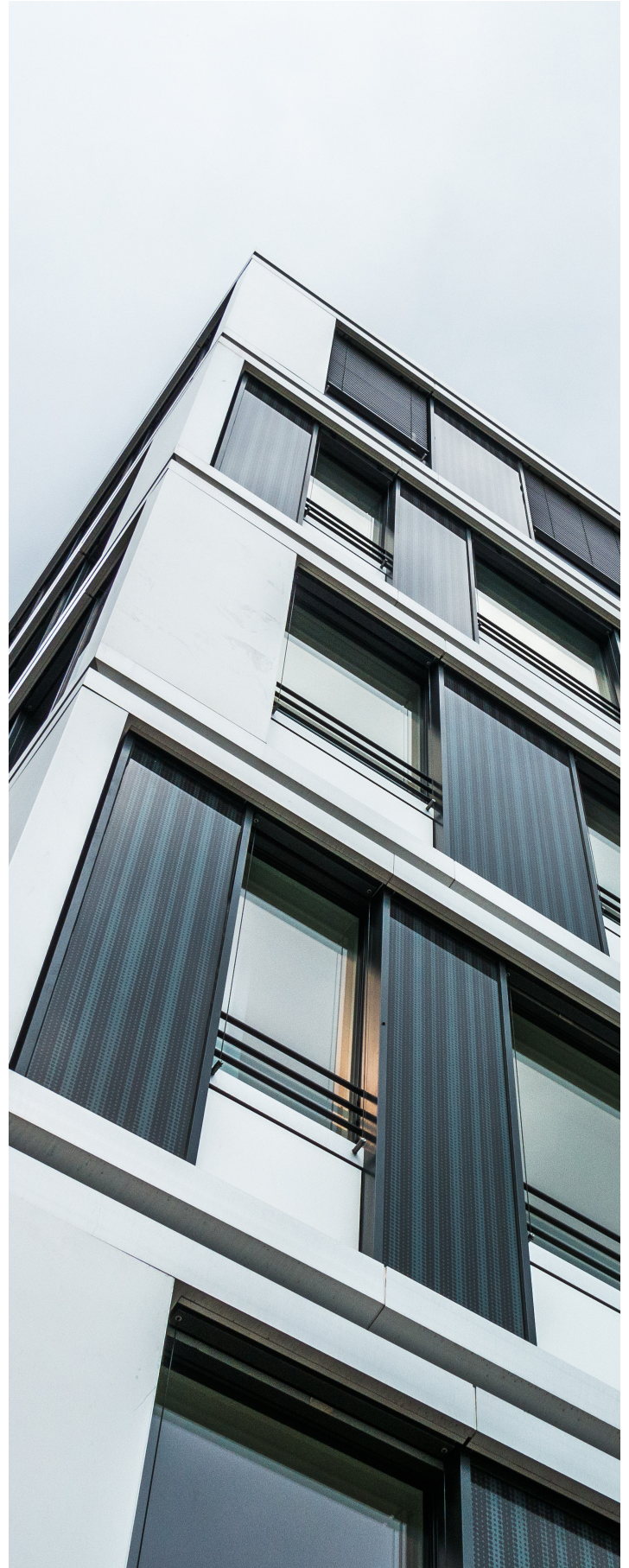
COVID-19 has wreaked economic and humanitarian havoc in 2020, yet the multifamily industry has remained resilient due to a fundamental need for shelter.

Post-pandemic, it is likely that more people will work remotely from their homes than was occurring pre-pandemic, adding another important element to the value of multifamily assets but also requiring new design considerations during the development (or renovation) process.

Indicators suggest the remote workforce will remain at least somewhat elevated as a legacy of COVID-19, but regardless, underlying growth trends in remote working already present pre-pandemic will likely cause a greater percentage of renters to consider layout design, amenities, and location carefully in relation to remote work needs.

Action steps for multifamily developers and investors to consider include:

- Multifamily developers may want to remain vigilant about reacting too quickly to trends birthed in a crucible of volatility.
- Developers and asset owners should continue to make every effort to intimately know the demographics of their current and prospective tenant bases.
- Learning the staffing and office occupancy plans of regional large and midsize employers could yield valuable insights for future design choices.
- Developers with multifamily projects in the pipeline may want to explore making incremental changes to unit mixes, amenity packages, and in-unit design to embrace flexibility where it can be found.



Sources and Acknowledgments

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