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Multifamily Real Estate Experts Share Top 5 Trends for 2023

CHICAGO (Nov. 17, 2022) Post-pandemic lifestyles have multifamily dwellers asking more of their homes, leaving it up to real estate developers, designers and property managers to deliver. But with seemingly everything on the rise – from rents and interest rates to construction costs and material delivery times – can the sector's momentum be sustained in 2023?

According to [Taylor Johnson](#)'s experts, the coming year presents a unique mix of opportunities and challenges that could transform multifamily construction, the spaces renters and condominium owners call home, and the neighborhoods that surround them. Here are five industry trends to watch in the year ahead.

1. The Industry Looks for Silver Linings

Cautious, uncertain, guarded – these are common descriptors for the multifamily sector heading into 2023. But there are bright spots, and experienced developers and designers are finding silver linings to position themselves for the longer-term future.

Interra Realty

While economists warn of a market slowdown, multifamily investors remain undaunted. Why? According to David Goss and Jon Morgan, co-founders and managing principals of [Interra Realty](#), shifts in the marketplace since the last downturn have created stable ground for continued investment activity. The pair founded Interra amid the Great Recession and have closed more than \$2 billion in transactions to date – evidence that the right strategy can prove fruitful in any environment. Today, healthier lending practices, new rental assistance programs and other advancements have helped insulate multifamily owners from market fluctuations, giving investors the confidence to make deals even during uncertain times.

BKV Group

With the fate of many office buildings in question due to the prevalence of hybrid work arrangements, owners are looking for ways to repurpose underused buildings. One popular option for these empty buildings: converting them into apartments. In fact, according to a [report from RentCafe](#), apartment conversions are up 25% over the past two years.

Multidisciplinary design firm [BKV Group](#) has long championed adaptive reuse for its sustainability and influence on architectural character and community heritage. BKV's work converting a full block of C.J. Duffey Paper Co. buildings in downtown Minneapolis into a vibrant 188-unit, mixed-use community – Duffey Lofts – exemplifies the transformative opportunities inherent in adaptive reuse. In the year ahead, the BKV Group-designed Duffey II will take shape, revitalizing vacant historic buildings with new housing and retail uses while diverting would-be demolition materials from the landfill.



Evergreen Real Estate Group

One bright spot in 2022 for affordable housing developer [Evergreen Real Estate Group](#) was improved communication with community residents during a project's initial phases. "With increased use of Zoom allowing more people to join virtual meetings, and the overall slower pace of development since the pandemic, we have enjoyed deeper connections and increased dialogue with local community members while planning new developments," says Steve Rappin, president of Evergreen Real Estate Group. "We also see a shift toward greater public acceptance of affordable projects and an awareness of housing equity, as the public is starting to realize how difficult it is for lower-income residents to find homes near their places of employment."

Fifield Companies

According to Erin Spears, president of [Fifield Companies](#), developing at a time when banks are more conservative and equity partners are looking for the strongest fundamentals works in favor of firms with proven track records that can offer the financial, development and construction expertise to get shovels in the ground. "Though current market headwinds are creating challenges for any company in the multifamily sector, opportunities still exist for more experienced and nimble developers who have the creativity and patience to see deals through," she says. This might translate to pursuing deals in new geographic markets. Case in point: Fifield Companies has recently broadened its reach outside of Illinois, Texas and California with two apartment buildings under construction – the 266-unit [Aventura](#) in suburban Miami and the 302-unit [Englewood Station](#) in suburban Denver.

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2. One Less Link in the Sluggish Supply Chain

Industry analysts agree that multifamily developers in many markets can't build fast enough to keep up with demand. Yet rising construction costs and diminished availability of materials continue to pose a challenge – one developers and contractors are willing to accept as they explore creative solutions to supply chain issues in 2023 and beyond.

CRG

National real estate developer [CRG](#) effectively uses parent company Clayco's fully integrated design/build model with its national development and investment expertise to cost-effectively deliver innovative, world-class properties across all residential asset classes. By capitalizing on its integrated platform, CRG can lock in material prices and manage price escalation, giving it a competitive advantage in overcoming challenges posed by supply chain delays, inflation, labor shortages and other economic headwinds.

This will help CRG execute its \$1 billion multifamily development pipeline across the U.S. over the next two years – and \$4 billion over the next five years – including apartments for middle-income users in 12 to 15 cities, off-campus student housing near top universities, and flagship opportunities like One Fulton Market, a 260-unit mixed-use development in Chicago.

Wingspan Development Group

Christopher Coleman, vice president of development for [Wingspan Development Group](#), which builds mixed-use properties in suburban Chicago, southeast Wisconsin and central Florida, has been leasing small local warehouses to store everything from appliances to HVAC components so they're ready when needed, avoiding costly delays that would disappoint partners and tenants. Coleman, a 30-year industry veteran, expects this just-in-case inventory strategy will benefit the firm as it spreads its wings in several new markets in 2023. "There are all kinds of supply chain interruptions, and we've worked very hard to anticipate and respond to them," Coleman says. "You need to be a bit more robust of a company to front those costs, but we believe it's critical."

Pangea Properties

Over the next 12 to 24 months, tighter financing, rising material costs and other economic challenges will lead to more apartment rehabs as ground-up developments wane. General contractors that specialize in multifamily renovation will be in greater demand during this period of economic uncertainty, especially if they have strategies to keep projects moving forward. Justin Wood, senior project manager at [Motus Construction](#), the construction arm of [Pangea Properties](#), says these plans include early conversations with the general contractor to identify potential cost overruns before a project gets off the drafting table, as well as real-time tracking of material costs to ensure smarter procurement decisions.



McHugh Construction

“The supply chain risks outside of North America are of great concern, not only for us but also for owners, developers and lenders, given the financial and design-related implications of substitutions and delays,” says John Sheridan, executive vice president at [McHugh Construction](#). “In 2023, we will continue trying to source construction materials closer to home, a strategy we’ve found more reliable.”

For example, at 1000M, a 73-story apartment tower under construction in Chicago, McHugh pivoted from installing glass made in China to products from Guardian Glass, a U.S.-based glass manufacturer. With frequent plant shutdowns in China because of the country’s zero-COVID policy, the supply of construction materials was significantly reduced, which led to some of the erratic pricing over the past year.

Mary Cook Associates

Ongoing disruption in the supply chain is not only a challenge for developers and contractors, but also for designers. Projects are more likely to encounter material shortages, delays and cost overruns during the design process due to logistics-related issues, so it is more imperative than ever for multifamily clients to partner with design firms skilled at navigating these challenges while staying on budget and on schedule. “We are having to do more re-selections and adjustments during the design process with our clients due to materials being delayed, unavailable or simply beyond our budget due to supply chain factors,” said Mary Cook, founder and president of commercial interior design firm [Mary Cook Associates \(MCA\)](#). “Moving forward, that will make our firm’s ability to be creative and flexible in delivering our design vision for a project – using a variety of finishes, materials and furnishings across a range of price points, and tapping into our extensive network of vendors – an incredibly important asset for our clients.” To further manage these challenges, MCA also recently added a dedicated procurement director to its team to help ensure projects meet installation dates and budget parameters.

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3. The Friendly, Well and Sustainable Amenities Arms Race

If 2022 was the year of the remote workspace, 2023 is the year of respite and wellness. Multifamily developers and property managers say residents are prioritizing features that enhance their increasingly wellness-focused lifestyles, including an even greater emphasis on sustainability, proxemics and pickleball.

Lendlease

“Before the pandemic, multifamily residents were already considering how the built environment impacted their health and well-being – a trend that has only accelerated these past few years along with more sustainably focused lifestyles,” says Ted Weldon, executive general manager of development for [Lendlease](#)’s Chicago office. The firm’s multifamily portfolio, including [Cascade](#) in Chicago’s Lakeshore East neighborhood and [The Reed](#) in Chicago’s South Loop, has achieved, or has been designed to achieve, Fitwel and LEED Gold certification across all properties. In alignment with Lendlease’s industry-leading carbon-reduction goals, all future multifamily developments will be all-electric, including [1 Java Street](#) in New York City and [Hayes Point](#) in San Francisco.

RMK Management Group

For as much as renters enjoy the social aspects of living in a multifamily building, property management firm [RMK Management](#) says it’s seeing more residents also seek out quiet spaces. According to RMK, “quiet rooms” are a new concept in wellness, and the firm will see its first one debut at 2929 on Mayfair in Wauwatosa, Wis., in 2023. “These are spaces where residents go not to work, but to relax, unwind, meditate and avoid distractions,” says Diana Pittro, executive vice president of RMK. By contrast, when residents aren’t looking for alone space, they want to be sociable, connecting with neighbors through contests, painting nights, holiday gatherings and charity donation drives. For example, one of RMK’s most popular events is its “12 Strangers Dinner” at 1000 South Clark in Chicago, which brings 12 unfamiliar residents together to enjoy a chef-prepared meal.

Optima, Inc.

Wellness amenities with a focus on year-round outdoor space will be a key draw at several [Optima, Inc.](#) luxury rental communities in 2023, including the newly opened 198-unit [Optima Lakeview](#) in Chicago, which offers the region’s first heated outdoor rooftop pool, swimmable in all seasons, as well as the six-story [Optima Verdana](#) in Wilmette, Ill., which will deliver in spring 2023 and offer a heated indoor lap pool with retractable glass walls that open onto a sun deck so residents can enjoy plenty of fresh air and sunshine.

The developer is also at the forefront of the pickleball trend, the country’s fastest-rising sport and wellness amenity that appeals to all ages. Optima currently offers indoor pickleball at 7140 and 7180 [Optima Kierland](#) in Scottsdale, Ariz., and at Optima Lakeview, which features a unique sunken court with street-level windows that maximize natural light and views. Upon delivery, Optima Verdana will offer a similar sunken court, while at 7190 Optima Kierland – the fifth luxury apartment tower in the Kierland development in Scottsdale – residents will be able to enjoy a dedicated, outdoor pickleball stadium when it delivers in 2023.



Mary Cook Associates

Fostering resident wellness and emotional well-being will remain a priority in 2023, according to commercial interior design firm [Mary Cook Associates](#). “It isn’t enough for developers to simply ‘check boxes’ with communal amenities like lounges, fitness centers, coworking spaces and pet spas,” says Mary Cook, the firm’s founder and president. “These spaces must be beautiful and appropriately scaled and proportioned but, more importantly, thoughtfully designed around factors that impact comfort and well-being, such as ergonomics and access to natural light and fresh air.” She adds that the pandemic brought proxemics – the study of space and how we use it – sharply into focus. “Since residents have varying comfort levels for closeness to others, we’re incorporating private nooks and pocket spaces in the next generation of work-from-home and recreational amenities to create a sense of separation while still providing a feeling of being part of a larger communal area.”

Downtown Apartment Co.

The pandemic prompted developers and managers of multifamily communities to reevaluate shared amenities not only to comply with short-term COVID-mitigation measures such as social distancing, but also to accommodate lasting shifts in behavior. [Downtown Apartment Co.](#) (DAC), which matches renters with over 300 multifamily properties in neighborhoods in and around Chicago’s downtown, has seen the work-from-anywhere revolution prompt a shift away from underused amenities such as theater rooms toward reconfigured spaces including coworking areas for residents. Work-from-home offerings, such as a business suite with a tech bar and conference center at Hubbard Place in Chicago’s River North neighborhood, rank among the most-requested amenities, according to DAC leasing specialists.

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4. Building Affordable with a Bigger Impact

According to Harvard University's annual ["State of the Nation's Housing"](#) report, from March 2021 to March 2022, home prices rose 20.6%, and rents increased 12%, both indications that affordability declined in the past two years. The U.S. now has a deficit of 3.8 million homes, with the greatest supply shortages at low-income price points. Compounding the pressure on lower-earning households has been a surge in the prices of gas, food and other necessities, especially now that most pandemic emergency assistance programs have ended. As such, the need for more affordable rental housing will be top of mind for developers in the year ahead.

The Counselors of Real Estate®

According to Paige Mueller, CRE®, and Paula Munger, CRE®, members of [The Counselors of Real Estate®](#), a global organization of commercial property advisors, numerous factors have led to the housing shortage in the last decade, including limited land availability; increasing costs for development sites, labor and materials; more regulatory barriers; and NIMBYism, particularly for larger apartment developments. Higher multifamily construction levels have not kept pace with demand, and more than 4 million new rental units will be needed by 2035.

"Going forward, the U.S. is in dire need of affordable housing in locations where people want to live," Munger says. "Businesses, local leaders and policymakers need to come together to create an environment conducive to building a variety of housing units at all price points."

Evergreen Real Estate Group

As the need for affordable housing grows nationwide, mission-driven firms like [Evergreen Real Estate Group](#) are focusing on one underserved market segment: families. Three of the firm's new low-income developments offer three-bedroom floor plans, including Auburn Gresham Apartments and Encuentro Square, both in Chicago, and 4995 Washington St. in Denver. In addition to providing more living space for families, Evergreen and partners also worked closely with area residents to ensure these developments bring essential retail and community resources to their respective neighborhoods by incorporating first-floor commercial space in each project.

BKV Group

Mike Krych, senior design leader and managing partner at [BKV Group](#), notes a growing interest among affordable housing developers in dynamic spaces that integrate affordable housing with other community facilities, a strategy often described as co-location. The firm's Brooklyn Center project in suburban Minneapolis, which began construction in October 2022, will feature mixed-income housing, as well as 1,200 parking spaces in underground and surface lots, with long-term plans to add administrative offices, expanded childcare services and a grocery store.

"Affordable housing that incorporates facilities like libraries, community centers and retail enhances livability for residents and results in more seamless integration into the surrounding community," Krych says.

The Habitat Co.

As gas prices remain high and inflation persists, developers must look for creative solutions to address both challenges in 2023 and beyond. [The Habitat Co.](#) has created a blueprint for other cities to follow in 43 Green, which will bring approximately 300 new apartments to Chicago's Bronzeville neighborhood, half of which are affordable units. [Equitable Transit-Oriented Development](#) units (ETODs) have proven to reduce segregation, car dependency and daily costs of living (in some cases [up to \\$10,000 a year in transportation costs](#)). And in Chicago's North Lawndale neighborhood, Habitat's Ogden Commons project will be at the intersection of housing and healthcare with 350 mixed-income apartments and the newly opened One Lawndale Community Care and Surgery Center, which provides a broad range of health care services provided by Sinai Health System. Generations Housing Initiative (GHI), a nonprofit entity of The Habitat Co., will provide social services to the affordable housing residents at Ogden Commons and 43 Green.

GI Stone

Contractors who work on luxury multifamily buildings are finding new growth opportunities in the affordable housing sector. [GI Stone](#), the stone subcontractor for five-star hotels and Class A residential towers, has committed to several affordable housing projects for 2023. Sandya Dandamudi, president of GI Stone, brings a deep knowledge of stone to these projects, including cost and functionality, two important factors in affordable multifamily design and construction.

"Granite countertops and engineered stone kitchen and bath floors are the perfect choice for affordable multifamily developments because of their long-term durability," Dandamudi says. "We invested in machinery that can quickly and cost-effectively cut and polish stone slabs, which is ideal for these more conservative project budgets where you want a high-end look for less while maintaining quality."

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5. One Bedroom – and Then Some

Desire for additional space in the past two years has multifamily developers seeing new potential in one-bedroom floor plans, including ways to creatively optimize space to align with current resident lifestyles – we’re looking at you clo-ffice, alcove, loft and den.

CRG

According to national real estate developer [CRG](#), the plus-den layout used to be an afterthought for developers, placed only in deep units that would otherwise have wasted space. But with more renters now working from home and in need of dedicated workspace in their units, the layout has become wildly popular with working professionals. As a result, it's a growing, and intentional, part of the unit mix in new developments, with the den being more thoughtfully designed to accommodate a variety of uses, including home office space.

M&R Development

Another way to maximize square footage and the efficiency of one-bedroom designs is to increase the functionality of spaces like closets. [M&R Development](#) is adding the “clo-ffice” to select apartments at 2929 on Mayfair, a 258-unit luxury apartment building under construction in suburban Milwaukee. Part closet, part office, it's a work-from-home nook that includes a desk shelf, electrical outlets and space for a chair. “While we offer coworking spaces in the common areas of our buildings, work-from-home residents want a way to create boundaries between work and personal time inside their unit as well,” says Anthony Rossi Sr., managing partner of M&R Development. “Built into an apartment’s main living area, the clo-ffice is a great alternative to working at the kitchen island or dining table, especially since at the end of the day, residents can close the doors and walk away.”

Optima, Inc.

[Optima, Inc.](#) has always prided itself on its generously sized apartments. But after seeing so many of its residents adjust to remote work during the pandemic, the developer decided to create even more elbow room in some of its newest projects. At the recently opened [Optima Lakeview](#) in Chicago, a number of one-bedroom [configurations](#) feature a 9'5" by 10'9" flex-space room. And at [7190 Optima Kierland](#), its new rental tower in Scottsdale, Ariz., that's scheduled to open in 2023, the developer increased its mix of one-bedroom-plus-den floor plans to meet expected demand. “Because today’s renters are using their home differently than they did just five years ago, we need to give them different floor plans that fit their new lifestyle,” says David Hovey Jr., AIA, president, COO and principal architect of Optima, Inc. “Maybe they’ll use the den as an office, but they could also use it for a hobby room or yoga studio. There are plenty of options for the space and renters have responded extremely favorably to these new plans.”

Draper and Kramer, Incorporated

Renters who would typically choose a studio are also seeking floor plans that offer “and then some,” which will create a push for more convertible units in 2023, according to [Draper and Kramer, Incorporated](#). “In 2022, convertibles were some of our most in-demand floor plans across our properties, as renters who weren’t quite ready to step up to a one-bedroom still sought out apartments with an extra alcove or nook for a work-from-home area with separation from their sleeping space,” says Draper and Kramer Vice President Jim Losik. “I expect that same strong leasing trajectory for convertibles to continue next year, and that we’ll also see more of these units being included in our new multifamily developments.”

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