The multifamily market is experiencing extraordinary demand. In terms of value appreciation, apartments are 31.7% above the previous peak. Apartments in major markets have outperformed all other property types at 54.0% above the previous peak, while apartments in non-major markets are up 17.4% from the previous peak. Market fundamentals have also rallied. As of Q2 2015, the national apartment vacancy rate was 4.2% representing a 14-year low. Construction as a percentage of existing inventory is at its highest point since 2001. Despite the new construction, supply has not kept up with demand. The effective annual rent growth rate averaged 3.6% from 2011 to 2014. In contrast, the Consumer Price Index experienced an annual average growth of 1.7% during the same time period.

The demand surge has its roots in underlying demographic, economic and social trends. These include: the large cohort of millennials, those born between 1980 and 2000 reaching prime renting age; the growing prevalence of singlehood; the increase of adult years without children at home; the aging of baby boomers and as a corollary the growth of 65+ population combined with extended US life expectancy; and the economic stress being experienced by large sectors of American society. These trends portend demand stability for a variety of habitation alternatives including luxury and moderately priced multifamily product in urban, suburban, and non-downtown city neighborhoods as well as for manufactured home communities and seniors’ housing.

**Prime Renting Age Population Growth**

The primary demand generator for apartments is households headed by someone between the age of 20 and 34. Young households headed by someone 34 or younger are much more likely to rent than other age segments. In addition, younger households were more likely to rent in 2013 than they were in 2005. For example, according to the US Census, households headed by someone 25-34 years old had a 2013 renter share of 63% compared to the 53% recorded in 2005. The large 87 million strong age cohort of the American population born between 1980 and 2000 is now 15-35 years old and has driven a surge in rental housing demand. This age bracket is expected to grow through 2025 and then decline by 2030. It will then resume its ascent by 2035.

![Table 1](image1.png)

**Table 1**

**Projected Size of Age Cohort**

Source: US Census Bureau.

However, when isolating the top 54 markets tracked by CoStar (PPR 54) collectively, the population is not projected to decline.

![Table 2](image2.png)

**Table 2**

**PPR 54 – Age 20-34 Age Cohort Historical and Projected Growth Rate**

Source: CoStar and US Census Bureau.

Although some of the individual PPR54 markets’ population of 20-34 year-olds is expected to decline between 2015 and 2030, most of the individual PPR 54 markets are projected to exhibit an increase in this age category.
“The demand surge has its roots in underlying demographic, economic and social trends.”

Table 3
PPR 54 – Age 20-34 Age Cohort Projected Growth Rate by Metro

Source: CoStar and US Census Bureau.
Economic Stress of Millennials

The employment to population ratio for the 25-34 age cohort stands at 76.8%. This is an improvement over the low point of 73.4% reached in April 2011, but not recovered back to its prerecession peak of 79.8% and certainly not back to the 82.4% achieved in April 2000. The employment to population ratio is lower among the 25-34 age bracket than it is for the 25-54 age bracket.

Table 4
Employment-to-population Ratio, Ages 25-34


Other signs of stress include the burden of student loans. According to a recent Joint Center for Housing Studies of Harvard University (JCHS) report, 39% of households headed by individuals aged 25-34 had student loans in 2010 up from 26% in 2001 and more than double the level in 1989. The median amount of that debt rose from $10,000 to $15,000 in real terms between 2001 and 2010. Within this group, the share with at least $50,000 in student debt more than tripled from 5% to 16% during the same time period.

More individuals in this age group are living in their parent’s household. Approximately 14.6% of the 25-34 year-old demographic were living in their parent’s household as of April 2015 and 47.3% were heading their own household. The balance (37.9%) constituted the spouses or roommates of household heads. The parent household dweller share is at a 21 year high and is the result of the coming of age during the recent recession and the economic stress of certain segments of American society. Nevertheless, it also indicates potential pent up demand. As the economy improves many of these individuals will move out of their parent’s homes and in to rental units. Even a small improvement will have a significant impact on rental demand growth in this large age cohort.

Table 5
Living Arrangements of 25-34 Year-olds

The Growing Prevalence of Singlehood

Single or Non-Family Households Are the Majority

Married individuals (married family households) head 48.4% of all households while single individuals (single or non-family households) head 51.6%. This is a significant reversal from previous decades when the respective numbers for married family households and single or non-family households where as follows; 2000: 52.8%, 47.2%, 1990: 56%, 44%, and 1980: 60.9%, 39.1%. In 1950 single or non-family households constituted only 21.8% of all households. About 50.2 percent or 124.6 million American adults are single compared to 22 percent in 1950².

“The Growing Prevalence of Singlehood

Single or non-family households are the majority.”
This trend is not only attributed to divorce and widowhood, but also to never married adults that constitute a significant and growing part of single people.

**Delayed Marriage**

Age at time of first marriage has increased 3.2 years since 1990 and 6.6 years since 1960. The age at first marriage was 28.2 (29.3 for men and 27.0 for women) in 2014 compared to 25.0 (26.1, 23.9) in 1990 and 21.6 (22.8, 20.3) in 1960. If these trends continue more demand will be created for multifamily housing.

**Table 7**

**Estimated Median Age at First Marriage: 1890–Present**

Source: US Census Bureau.

In 2014 unmarried headed households were more likely to be apartment rental candidates than married headed households. The chart below details the homeownership rates for married and unmarried households since 1990.

**Table 8**

**Homeownership by Marriage Status**

Source: US Census Bureau.

As the share of adults that are married has declined over the past 65 years, the pool of potential renters increased. People who are not married are more likely to rent apartments than to own a home. There are several demographic and social trends that indicate that more Americans are spending a larger share of their adult years being single and/or not having children at home. A growing part of the US population is childless by choice. Married couples between the ages of 20 and 50 without children are considerably more likely to live in multifamily units than are married couples in the same age category with children. This is most pronounced in the 30-34 age category. Sixty-one percent of individuals aged 30 to 34 who occupied a multifamily unit in 2013 lived alone compared with 35 percent of those who were married without children and 18 percent of those who were married with children.

**Growth of 65+ Population**

The world has experienced unprecedented human lifespan growth over the past 115 years. In the United States life expectancy at birth increased from 47 years in 1900 to nearly 79 years in 2013. The US life expectancy rate at age 65 has increased to 19.3 years in 2013 from 17.2 years in 1990.

Longevity has resulted in more adult years without children at home. As the “empty nester” years are elongated, more years of potential apartment renting exist. Similarly the delay of marriage creates more years of likely apartment renting in the early years of adulthood.
As Americans are living longer and healthier lives, the 65+ age cohort will continue to grow. This age cohort is large both because of the size of the baby boom generation and increased longevity.

As baby boomers age, the largest population increase will be in the 65+ age category. The number of Americans age 65+ is expected to increase by 61% from 46 million in 2014 to 74 million by 2030. The increase for the top 44 markets tracked by CoStar is expected to be 63%.

**Table 9**

<table>
<thead>
<tr>
<th>Year</th>
<th>Life Expectancy at Age 65</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>15.5</td>
</tr>
<tr>
<td>2015</td>
<td>15.6</td>
</tr>
<tr>
<td>2016</td>
<td>15.7</td>
</tr>
<tr>
<td>2017</td>
<td>15.8</td>
</tr>
<tr>
<td>2018</td>
<td>15.9</td>
</tr>
<tr>
<td>2019</td>
<td>16.0</td>
</tr>
</tbody>
</table>

Source: Centers for Disease Control and Prevention.

Older Americans are more likely to own a home than younger Americans. In 2014 79.9% of adults 65+ owned a home compared to 76.3% of those 55 to 64 years, 70.7% of those 45 to 54 years, and 59.7% of those 35 to 44 years. Home ownership rates taper off after age 75. Even though individuals in the 65+ age bracket are less likely to rent apartments, the significant growth of this age segment will add substantial numbers to the potential rental pool. Even if the current share of seniors that downsize from owning to renting remains steady – the large size of the age cohort will increase demand for multifamily units. Future seniors are less likely to own homes as evidenced by the current home ownership rate of the 55-64 and 45-54 age categories. Indeed renting levels have increased over the past 10 years for those 45 to 64 according to the recent JCHS study.

**Economic Stress Being Experienced by Large Sectors of American Society**

Although the economy has improved significantly, since the great recession, a considerable sector of American society has been left behind. Despite significant improvements in the unemployment rate (U-3) to pre-crisis levels, and a lower rate of the more expansive U-6 measure of unemployment, the employment to population ratio remains significantly below prerecession levels. The employment to population ratio for those aged 25-64 is 73.5% vs. 76.5% prerecession.

The recovery economy is tarnished by weak wage growth and a record number of civilians not in the labor force. Real median household income in the United States has declined since its most recent peak in 2007. Although median household income experienced a slight increase in 2013, it has not recovered back to the level achieved in 1996.

**Table 10**

<table>
<thead>
<tr>
<th>Year</th>
<th>Real Median Household Income 1967-2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967</td>
<td>$27,000</td>
</tr>
<tr>
<td>1968</td>
<td>$30,000</td>
</tr>
<tr>
<td>1969</td>
<td>$33,000</td>
</tr>
<tr>
<td>1970</td>
<td>$36,000</td>
</tr>
<tr>
<td>1971</td>
<td>$39,000</td>
</tr>
<tr>
<td>1972</td>
<td>$42,000</td>
</tr>
</tbody>
</table>

Source: US Census Bureau.

Since the financial crisis 86% of Americans have seen their wages fall in real terms, while 14% have experienced a real wage rise. Measures of income inequality include the Gini Ratio and the distribution of income and wealth between the top 1% and the bottom 99%. Tables 12 and 13 illustrate that the Gini Ratio is near a 50 year high and lopsided income distribution is near a 90 year high.
The effect of the economic bifurcation is not limited to the 20-34 year old prime renter group; less people in all age categories can afford homes or can qualify for mortgages. Table 14 illustrates that the employment to population ratio for those in prime working years of 25-54 has not recovered to its pre-crisis level. According to JCHS “the real median income for households aged 50–64 in 2012 fell to $60,300, back to mid-1990s levels. Incomes of renters in this age group have declined especially sharply, dropping 12 percent from 2002 to 2012 and now back to 1980s levels. Real median annual incomes have fallen by $9,100 among 50–54 year olds and by $5,700 among 55–59 year olds since 2002”. Consequently, renting levels are up for those 55 to 64 and they accounted for almost a quarter of the growth in renter households between 2005 and 2013.

Table 12
Top 1% US Pre-Tax Income Share, 1913–2013

Source: Piketty and Saez, 2003 updated to 2013. Series based on pre-tax cash market income including realized capital gains and excluding government transfers.

Nevertheless, the prime renter age bracket of 25-34 is of more concern. According to the JCHS study, median incomes of younger and middle-aged adults are at their lowest levels since 1970. The steepest declines have been among younger adults. The median income for households’ aged 25–34 fell 11% from 2002 to 2012, leaving their real incomes below those of same-aged households in 1972. Some of this economic stress is manifested in the growing share of the 25-34 year olds as well as 23-24 year olds living in their parents’ home. In addition it has also resulted in a lower homeownership rate.

The home ownership rate has declined precipitously from the 2005 high water mark of 69.2% reached in December 2005. The Q2 2015 homeownership rate of 63.4% is the lowest it’s been since the 63.4% achieved in March 1967 according to the U.S. Census Bureau.
The Urban Institute forecasts that homeownership will continue to decline for at least 15 years. The downturn would push homeownership below 62% in 2020, and it would hold the rate near 61% in 2030, below the lowest level since records began in 1965. The lower home ownership rate has resulted in a larger potential renting population.

New multifamily construction has been concentrated in the luxury sector. Amongst the 370,000 multifamily rental units completed from 2012 to 2014 in 54 U.S. metropolitan areas, 82% were in the luxury category defined as attracting rents in the top 20% of the market according to CoStar Group Inc. In certain US metros such as Atlanta, Baltimore, Denver, Phoenix, and Tampa virtually all new apartment construction has been in the luxury sector.

Renting in America's largest cities is becoming more expensive. In many of the 11 largest US cities studied in a recent NYU Furman Center/Capital One report, new rental units are not being added as quickly as new rental households. This has caused considerable apartment rental rate increases in these 11 markets and limited affordability. Whereas in 2006 only Miami, Boston, San Francisco, Los Angeles, and New York were majority renter markets, in 2013, Washington, DC, Dallas, Houston, and Chicago joined that category as well.

There has been a surge in demand for moderately priced apartment rental housing and because most of the new product is luxury, older housing is not getting cheaper as newer housing is being built. In fact rents in class B multifamily properties are growing faster than those for class A multifamily. Demand is not limited to the prime renter age population. According to the Federal Reserve of Kansas City, “Adults in their 50s and 60s accounted for most of the increase in the actual number of occupied multifamily units both before and after the housing crisis. Older adults (ages 50-69) accounted for most of the increase in multifamily occupancy from 2000 to 2007 and from 2007 to 2013, and nearly all of the net increase over the two periods combined.”

Which Habitation Sectors Will Benefit from the Demographic, Social and Economic Trends?
The combination of the growth in the size of the prime renter age population, the growing prevalence of singlehood, the growth in the 65 plus age segment, and the economic stagnation of certain sectors of American society will lead to further demand for multifamily housing.

Most multifamily subsectors should benefit from the current and projected demographic social and economic changes in the United States. The same economic changes that are inflicting pain on the single-family home market are benefitting multifamily housing.

The concentration of wealth in the upper income and wealth sectors of American society is fueling demand in the luxury apartment sector. The relative lack of construction in the moderate priced multifamily segment proportionate to demand has resulted in increased rent levels for the moderate priced sector as well.

Areas with Demographic Growth of Prime Renter Age Population
As noted earlier in Table 3, there are certain metros that are forecast for significant Compound Annual Growth Rates (CAGR) in the prime renting age population over the next 15 years. These metros include Raleigh (3.8%), Austin (2.7%), Charlotte (2.4%), Orlando (2.4%), Phoenix (2.4%), Las Vegas (2.1%), Atlanta (1.9%), Dallas-Ft. Worth (1.8%), Houston (1.8%), Palm Beach County (1.7%), San Antonio (1.5%), Salt Lake City (1.4%), Denver (1.3%), Nashville (1.2%), and Jacksonville (1.2%). These CAGRs are significant when considering that the expected CAGR for the PPR 54 is 0.6%.

Table 14
Home Ownership Rate 1965–2015

Source: U.S. Census Bureau, Bloomberg.

“Real median household income... has not recovered back to the level achieved in 1996.”

CRE Finance World Winter 2016
Urban

Demand for apartments in the urban core has accelerated. City centers have become a desirable place for Americans to live and work. Deindustrialization of center cities eliminated the reasons the affluent wanted to move away\(^9\). The loss of manufacturing jobs and the facilities that served them resulted in the loss of working class neighborhoods\(^10\), but also opened up areas close to the urban core for residential development and conversion. Perhaps the most important development has been the astounding 49% decline in the violent crime rate since 1992\(^11\). Demographic trends also favor center cities as more Americans are remaining single and childless longer and prefer a city lifestyle.

Urban desirability is not confined to major first-tier cities; urban cores nationwide are experiencing a renaissance. The increased attraction of urban centers is further punctuated by a shortage of functional and desirable urban locations in the U.S.\(^12\).

Suburban and Non-Downtown City Neighborhoods

Although an increasing share of Americans and young adults in particular reside in center city areas, the vast majority of all age groups, including young adults, do not. A significant share of the nation's middle income housing can be found in the suburbs. Opportunities may exist in Class B and C suburban and downtown neighborhood multifamily near good transportation linkages and in good school districts.

Manufactured Home Communities

Significant sectors of American society have not recovered from the great recession and in fact certain groups have been experiencing long-term decline. Approximately one in four American households' survives on less than $25,000 a year\(^13\). There is also economic stress in a significant segment of the growing 65+ age bracket. Accordingly, demand for affordable manufactured home communities (MHCs) will increase. MHCs situated in or near metro areas will be particularly attractive.

Seniors' Housing

We expect that demand for all types of seniors' housing will accelerate at unprecedented levels. There should also be an increase in demand for multifamily in general and age restricted 55+ housing in areas with a high percentage of 65 + Americans. Those who desire services such as a common dining room with meal plan will spur demand for independent living facilities (ILFs). We expect that Multifamily, age restricted 55+ communities, and ILFs will be of particular demand in metros with high barriers to entry. Assisted living facilities which offer assistance with one or more activities of daily life and nursing facilities for high acuity patients should see demand begin to spike in 10 to 15 years time when baby boomers begin to enter their ninth decade of life.

The Information presented herein does not involve the rendering of personalized investment advice, but is limited to the dissemination of general information on Market conditions. This is an abridged version of a larger paper that can be found on http://www.newyorklife.com/rei-docs/Trends-impacting-habitation-alternatives.pdf. See same link for important disclosures pertaining to this article. Real Estate Investors is an investment group within NYL Investors LLC. NYL Investors is a wholly owned subsidiary of New York Life Insurance Company.

10. Richard Florida, Zara Matheson, Patrick Adler & Taylor Brydges, “The Divided City: And the Shape of the New Metropolis" , The Martin Prosperity Institute (MPI), Rotman School of Management, 10 University of Toronto September 2014.