housingfinance.com

Aging Boomers, Net Generation Fuel Continued Demand for Apartments

Leading developers cater to baby boomers and their children

- Housing developers should proceed cautiously with boomer buildouts
- A look at the typical renter
- Immigrants also likely to rent apartments
- Upscale apartments: a growing market

With data from the 2000 census starting to be released, apartment marketers will be inundated with new reports on demographic trends driving the rental housing market in coming years. But two trends will continue to play a key role in this business: the aging of the baby boom generation and the household formations of that generation's children, often known as the Internet generation.

Aging baby boomers represent the affluent, upscale renter by choice market of "empty nester" couples and single people who no longer wish to live in a single-family home or in a suburban location far from shopping and nightlife.

But experts point to a jump in luxury apartment rentals to indicate that many baby boomers are also boosting the market by choosing to rent instead of owning a home. Even though renters with annual incomes in excess of $50,000 are still in the minority, they comprise the fastest growing group, increasing 13.5% between 1996 and 1997, according to *Growing Smarter With Apartments*, a report by the National Multi Housing Council (NMHC) and the National Apartment Association (NAA).

"We expect the home purchasing market to slow further as job growth moderates, interest rates rise and housing affordability becomes less attractive," reported Bank of America Securities in a review of the multifamily REIT industry. "We estimate an increase of 160% in apartment demand over the next five years" because of "sharp increases" in numbers of new families and retirees, BofA wrote.

Housing developers should proceed cautiously with boomer buildouts

Although most baby boomers will retire in the next 10 to 20 years, seniors housing developers are warned not to overbuild now, as the full impact of this demographic shift is not expected to be felt until after 2015.

With their children grown and retirements near – or already here – aging baby boomers are starting to redefine the housing needs of empty nesters, couples whose dependents have moved out on their own.

But unlike their elders before them, boomers tend to live a fast-paced lifestyle. Freed from the responsibilities of young children, many are selling their single-family suburban spreads and renting instead, said Kevin Kazimer, director of Bloodgood Sharp Buster (BSB) Architects and Planners, Inc., in suburban Chicago. BBB is one company that is targeting that market directly. It has designed a new product that specifically targets this changing cohort. The Farmington Hills, Mich., company describes its new community, Regents Park of Troy, in Troy, Mich., as a response to the new demographic, lifestyle and "attitude shifts" seen nationally.

For many apartment owners, another choice market in the late 1990s and into 2001 was the so-called Internet generation, the 19- to 33-year-olds who are a generation following the baby boomers.

Many of this demographic age group graduated from college into a highly prosperous economy and earned more income to pay higher rents at an earlier age than their parents did. While significant numbers were employed in the high technology sector and suffered financial setbacks in 2001, the generation as a whole remains a solid market for apartments for years to come.

The Net generation is already exhibiting strong growth in household formation, responsible for many of the 1.1 million households formed per year over the last decade, according to Lend Lease Real Estate Investment's report, "Evolving America: Real Estate's Demand Profile."

Although the Net generation currently accounts for only 5 million apartment rentals nationwide, this number is expected to increase dramatically in the next 10 years as these people move out of their parents' homes and start their own families, according to a report issued by Trammell Crow Residential.

A look at the typical renter

People less than 25 years old are historically the most likely to rent, accounting for an average of 75% to 82% of the nation's rental market. To reap profits, apartment renters and owners will have to cater to the distinct needs of this computer-savvy group. This college-educated cohort grew up in the age of the Internet, and technological perks like DSL wiring are likely to be a strong selling point.

Location should also be a primary consideration for owners and developers targeting twentysomethings. Suburban sprawl is expected to continue at a slower rate, as members of the Net generation seem to prefer more convenient lifestyles and are more likely to settle in metropolitan areas.

Immigrants also likely to rent apartments

Other research shows that immigrants will be increasingly important in the rental market, contributing to population growth of major "gateway" cities and filling vital labor force needs while keeping rental housing and retail demand strong, according to Lend Lease.

"Evolving America" predicts that these renters will eventually follow the boomers' lead from cities into suburbs.

Currently, immigrants account for 10% of the total apartments currently rented in the United States, with the West at 14%, the Northeast at 12%, the South at 9% and the Midwest at 7%, according to NMHC.

Immigrants' contributions to regional population growth during the last five years have been felt most profoundly in the Northeast, with immigrant renters increasing at an astounding 173%, compared with 45% in the West, 23% in the Midwest and 16% in the South.

General trends in the number of rental households have fluctuated over the past 35 years, starting at about 21.5 million in 1965, peaking just under 36 million in 1994, and remaining relatively stable since then, according to NMHC. The number of owners, however, has increased steadily since 1990, from 60 million in 1990 to just more than 68 million in 1998.

Absorption of newly built apartments has also varied greatly over the past 20 years, shifting with demographic changes. Starting in 1980 at around 150,000, the number dropped by more than 50,000 in 1982 and then peaked at around 275,000 in late 1985. Absorption fell steadily after the mid-1980s and bottomed out in 1993 at around 50,000. But the growth of the Net generation may be giving the industry the kick it needs to get back on its feet, as absorption rose to just more than 150,000 in 1998.

Demographic profiles of apartment renters are similar in all regions, but renters tend to be slightly older in the Northeast, with more unmarried renters in the Midwest and more racially and ethnically diverse populations in the South and West.

Upscale apartments: A growing market

The apartment market experiencing the most growth looks to be the upscale market, which has been increasing nearly 8% annually, which is well above the 1% growth rate of the larger, middle-income market. This is based on the findings of a research report commissioned by the NMHC titled *The Upscale Apartment Market: Trends and Prospects*.

The report defines "upscale renter" as an apartment household with a real income exceeding $50,000 per year. In an attempt to characterize the upscale apartment market across varying national markets, the report determines upscale rental apartments to be those renting for $700 and higher.

The report profiles upscale renters, examining how they differ from other apartment renters and how they are similar. Among all apartment residents, "upscalers" are less likely to be single-person households, are more concentrated in the Northeast and West Coast markets and are more likely to be found in the suburbs. They are similar in age and mobility, though, and are as likely to have children as other renters.

They are more likely to have made a recent move for a job, more likely to have looked in more than one neighborhood and more likely to have considered houses as well as apartments. Financial considerations are the most common reason for apartments that are selected, although proximity to the place of employment is the driving reason behind the neighborhood choice. As such, upscale apartments are more likely to be concentrated in cities than rental houses or condos.

The report also shows that upscale renters are not homogenous. Roughly half of all upscalers are "transitionals," meaning that they have been in their apartment for a year or less, but nearly 30% have been there for at least four years. These long-term "lifestyle" tenants also tend to be older than the transitionals.

Upscale renters also are more likely to seek out apartments that are fully wired. They exceed the national averages for use of home computers at 69%, and use of the Internet at 59%, as well as for high-speed Internet connections.

Upscale renters are found disproportionately in new apartments, which makes them especially important to apartment developers.

The defining characteristic of the upscale market is the age of the apartment. The higher quality of newly constructed apartments attracts the upscale renter.

Direct access from an outside entrance, attached garages and exteriors that are reminiscent of single-family homes also are attractive to the upscale consumer.

The number of upscale renters is expected to increase. In population projections for the next 10 years, information from the Census Bureau indicates that there will be a slowdown in growth of 20- to 29-year-olds, a jump in the growth of 30-year-olds and a fall-off in the number of 40-year-olds.

Also, the trend toward urban congestion is not expected to drop off soon, which will keep demand for the convenient apartment lifestyle strong.

The long-term prospects for the upscale apartment market seem set for continued, steady growth.

Demand will grow from a demographic push and will be further boosted by higher consumer valuations of the time savings from convenience to work places.

The report also indicates that the upscale market looks like it is poised to either match, or even surpass, the overall growth rate for housing demand in the next 10 years.

Return to Table of Contents