



# Issue Fact Sheet

NMHC/NAA Joint Legislative Program • Suite 540 • 1850 M Street, NW • Washington, DC 20036 • (202) 974-2300 • Fax (202) 775-0112 • [www.nmhc.org](http://www.nmhc.org)

## The Apartment Market Correction and Rising Rents

Today's strong rent growth is unusual and temporary given the cyclical nature of the apartment business. The current market correction stems from an unprecedented lack of new apartment construction for the past two years because of the financial collapse. This lack of new supply comes at a time when housing preferences are changing to favor renting over buying. Apartment construction is ramping up, however, and while new units take time to complete, as they arrive rent increases will moderate. The good news is that rising rents are a sign that the economy is improving, as rents fell during the recession. A long-term solution to rising rents, however, requires meaningful income growth and removing the many barriers to apartment construction.

**Supply:** The housing bubble resulted in a tremendous oversupply of single family houses. However, the same cannot be said for the multifamily apartment market. The apartment sector did not overbuild during the boom, and then built nearly nothing for two years after the crash because no financing was available.

- To meet current demand for apartment living, the market requires some 300,000 new apartments every year, yet in 2009, the Census reported a 50-year low in starts of new apartments, just 97,000 (Source: U.S. Census Bureau).
- As capital markets loosen up, the industry will begin to catch up to the demand over the next two to four years – perhaps longer in high-barrier markets.
- That is starting to happen. As of November 2011, the U.S. Census Bureau estimated 128,000 completions for 2011, which would be the lowest number of completions since 1993 (Source: U.S. Census Bureau). New apartment construction in 2012 could approach 200,000 units.

**Demand:** This supply-constrained market comes at a time when rental demand is up significantly by lifestyle renters (young and old) who find renting better suits their lifestyle.

- The foreclosure crisis has changed consumer attitudes about homeownership by illustrating that it isn't always a good investment and entails disadvantages as well as benefits.
- Demographics also favor renting. Households with children drive the single-family market, yet they have fallen from 50% of households to just 22% (Source: U.S. Census Bureau).
- 76 million echo boomers are entering the market, primarily as renters. This group prefers the convenience, amenities and pedestrian-friendly locations offered by apartment life, not to mention the flexibility of being able to relocate for job opportunities
- Renters could make up half of all new households this decade—more than seven million new renter households.

**Rent Growth:** Today's rising rents are a temporary situation in what is a highly cyclical market and due to factors outside of the industry's control, namely the financial collapse that virtually shut down new apartment construction.

- Rents also go down and have. Most recently, the industry endured significant rent declines during the downturns of 2001 and 2009.
- Much of the rent growth experienced to date is just returning rents to their pre-recession levels.
- When adjusted for inflation, however, rents are actually lower than they were 10 years ago. The average inflation-adjusted rent in 2011 (3Q) was \$1,059, compared to \$1,117 in 2000 (Source: Reis and NMHC).
- That means the purchasing power of the rents apartment owners collect today is less than what they collected 10 years ago.

**Barriers to New Apartment Construction:** While apartment construction is ramping up, it remains below the levels needed to meet rising demand because of the many non-financial obstacles to new development.

- Unnecessary regulations, outdated zoning codes and Not-In-My-Backyard opposition to apartments stifle new construction and raise the costs (and thus the rents for residents) of those properties that do get built.

**Incomes:** America's affordable housing shortage is not a housing problem, but an income problem. It's not that rental housing has gotten so expensive, but rather that the income of too many renter households is too low to afford rents that the market can reasonably offer.

- Because of income stagnation, the median income of renter households is lower now than it was 10, 20 or 30 years ago (Source: U.S. Census Bureau).

**Last Updated:** January 2012