APARTMENT SUPPLY SHORTAGE

To meet existing demand for apartments, the market requires at least 300,000-400,000 new apartments to be built every year. However, the housing market collapse and economic recession brought apartment construction to a near halt for a number of years. In fact, in 2009, the U.S. Census Bureau reported a 50-year low in starts of new apartments—just 97,300.

While apartment construction is ramping up as the economy continues to recover, it remains well below historical averages and the level needed to meet demand. In 2013, only 186,200 new apartments were built, barely half the needed number. Keeping in mind that we lose apartments every year to destruction, demolition, and deterioration (estimates are as high as 125,000 a year), it’s clear that talk of overbuilding in the apartment sector is premature.

Importantly, this supply-constrained market comes at a time of historic growth in renter households. Changing lifestyle preferences and major demographic shifts are driving growing apartment demand. Only five times since 1966 has the annual growth in renter households exceeded one million; three of those have been in the last four years.

The 76 million Baby Boomers who may consider downsizing their homes and moving to more walkable neighborhoods where rental housing is prevalent are just part of what’s driving the growth of renter households to historic levels. There are also the nearly 80 million Millennials who will create 25 million new households from 2015-2025. Their preferences, which initially favor rental housing, will reshape housing demand. Finally, the primary driver of suburban development—married couples with children—has fallen from 44% of households in 1955 to under 20% today, and that number continues to fall.

This fundamental supply-demand imbalance is causing rents to rise temporarily at an above-average rate in some areas. In addition, more regulations, municipal mandates and zoning requirements further restrict development and increase costs, exacerbating market-driven rent increases. However, more normalized levels of new apartment construction are expected to mitigate rent increases going forward.

Given the widespread need for more apartments, it’s critical that housing policy and regulations support new apartment development and construction activity.