

SPECIAL REPORT

Rental Population Trends

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Structural Demographic and Housing Conditions Provide Foresight for Multifamily Momentum

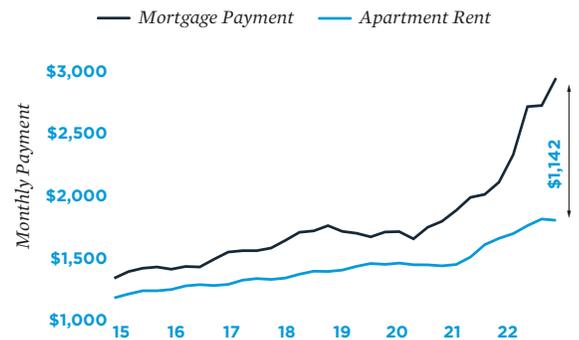
Millennial flow to homeownership postponed. The age 28- to 34-year-old subset is among the largest population groups by size, and will play an important role for the multifamily sector going forward. This bulky cohort was responsible for strong apartment demand over the past decade, as they started their careers and formed households. Now, many are reaching a life period that historically correlates with growing their households and transitioning to homeownership; however, the conditions in the single-family market will encourage many to remain renters for a longer duration. The U.S. had been facing an acute housing shortage prior to the pandemic, since exacerbated by a surge in homebuying that drove up prices, followed by a rapid mortgage rate escalation. These dynamics led to a drastic cooldown in home purchases, with the pace of buying in early 2023 being the slowest since the global financial crisis. Meaningful price relief for prospective homebuyers has not materialized amid this demand ease, as listings remain very low and could stay that way for some time. Owners locked into lower-rate mortgages have limited incentive to move up the quality stack, keeping many entry-level homes off the market.

Spacious suburban and luxury lifestyle units could be favorites. Residents in their late-20s to early-30s that are unable to become homeowners, or are opting for the cost-saving benefits of renting, may have particular priorities. Those with growing families could favor roomy suburban options in locales with preferred school districts, helping backfill units potentially vacated by remote workers returning to in-person jobs. At the same time, many are waiting longer to enter marriage or start families than in the past. The lifestyle advantages of a well-located luxury apartment could appeal to this renter group.

Lack of Home Listings Preventing Price Plunge

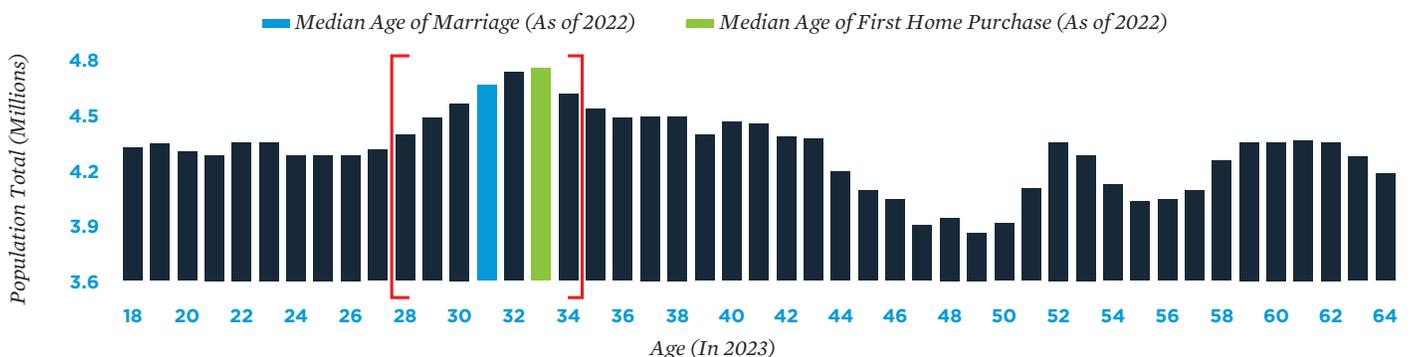


Renting is More Cost-Friendly Than Owning



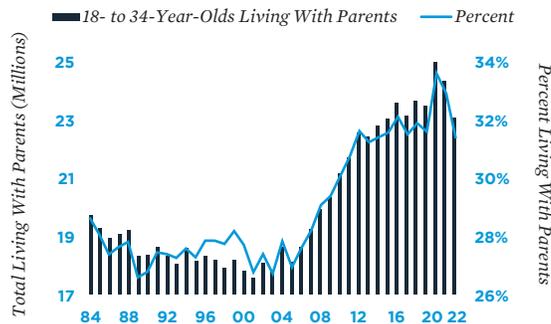
Note: Mortgage payments based on quarterly median home price for a 30-year fixed-rate mortgage, 90% LTV, taxes, insurance, and PMI

Swell of Millennials' Pursuit to Homeownership Delayed by Affordability Barriers



Sources: Marcus & Millichap Research Services; Capital Economics; Freddie Mac, John Burns Real Estate Consulting; Moody's Analytics; Mortgage Banker's Association; National Association of Home Builders; National Association of Realtors; RealPage, Inc.; U.S. Census Bureau; U.S. Bureau of Labor Statistics; Wells Fargo

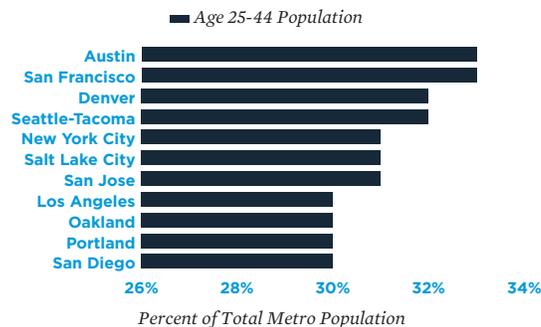
Pent-Up Household Formation on the Horizon



Rent and Wage Growth Realignment



Metros With Largest Prolonged Renter Pools



* Forecast

Young Adult Rental Demand Has Been Building Up

Pandemic circumstances and inflation stunted household creation. The share of 18- to 34-year-olds living with parents surged to an all-time high during 2020, as remote work and education limited the reasons for one to move out on their own. That measure has begun to trend down since; however, broad-based inflation, including cost-of-living increases, is keeping the metric relatively high. Softer rent growth and sustained wage advancements this year should help more young adults gain the financial confidence to form their own households, most often choosing to rent amid steep barriers to becoming a first-time homeowner. The release of this pent-up household formation may stretch beyond 2023 as well, with potential upcoming economic headwinds reducing hiring and opportunities for young adults to enter the workforce.

Millennials delayed from buying and Gen Z combine to grow renter pool. The eventual release of pent-up young adult household formation once economic conditions improve, paired with a very large subset of prolonged 28- to 34-year-old renters, could squeeze rental housing supply. Historically, the structural flow of mid-30-year-olds from rentals to first-time homeownership opens up apartment stock for younger adults entering the workforce behind them. This natural process will be obstructed in the years ahead, as a backlog of millennials choosing to remain renters for longer than in previous generations overlaps with Gen Z household formation. These dynamics showcase the imperative need for new apartments to be built, which is in-line with the record number of rental units expected to be completed during 2023. While this large influx of supply may cause some near-term pressure amid a flattening economy, it is necessary in the longer term to keep pace with demand. Additionally, some construction indicators signal a development ease in the medium term.

Recent drop in early-stage development could aggravate shortage. As housing performance metrics moderated in recent quarters and construction financing costs skyrocketed, builders began to move to the sidelines. Project permits across single- and multifamily housing were down more than 25 percent year-over-year in early 2023. Various estimates indicate that the U.S. is facing a shortage of millions of homes over the next decade, making a slowdown in development a counteractive trend. An inadequate pace of new supply would likely keep for-sale volumes low and reinforce prices, sustaining challenges for those considering becoming a homeowner. As these residents remain renters and new households are created, demand for apartments could also surpass supply if the construction pace slides. While the number of projects underway is sizable, a slowdown could begin to be reflected beyond 2024.

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