

# Strategic Driver

## Multifamily Future More Than Millennials

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### Apartments' Secret Demographic Demand Driver

Since the end of the Great Recession, the demographic demand driver that has received the majority of focus in the multifamily industry has been the coming of age of the millennial generation. Millennials originally matched the size of the baby boomer generation, but today, due to immigration, the millennials have surpassed the boomers in size with almost 80 million young adults between 18 and 34 years old. The millennials have been poised to take the apartment market by storm just as the baby boomers did in the 1970s and 1980s, and the excellent multifamily results over the past seven years signify their importance.

As the millennials began renting apartments in earnest, other demographic trends that have and will underpin stronger than expected demand have been brought to light. Delayed marriage, higher educational attainment, increased diversity and pent-up household formations are emerging trends invigorating apartment demand. However, a trend not highlighted or maybe even not noticed that has had and will continue to have a significant impact on apartment demand going forward is the rise of single households.

#### Delayed Marriage

According to studies on first-time homebuyers, a person is most likely to purchase his or her first home one year before or one year after getting married. Thus, marriage can be viewed as a definitive demographic change affecting the propensity to rent. The longer a person stays single, the higher likelihood of renting. In the early 2000s, when the first millennials began entering adulthood, the median age for marriage stood at 26.8 years for men and 25.1 years for women. As of 2016, those numbers had increased to 29.5 years and 27.4, respectively. The increased median age for marriage has significantly delayed households reaching the potential inflection point to purchase a home. Therefore, millennials are renting longer than previous generations and creating a deeper renter pool every year.

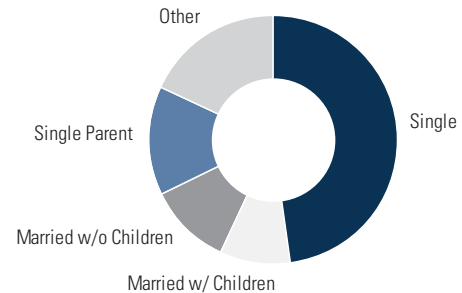
#### Diversity

Millennials are much more diverse ethnically than the baby boomers. Almost 75 percent of baby boomers are white compared with 56 percent of millennials. The homeownership rate for minority households ranged from 42 to 55 percent in 2016 while the rate sat at 71.9 percent for white households. Thus, a larger share of millennial households will most likely remain renters compared with the baby boom generation and they will continue adding to long-term multifamily demand.

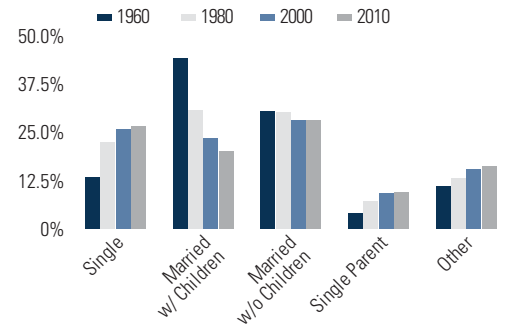
#### Higher Educational Attainment

Millennials have the highest education attainment of any previous generation. Of millennials older than 25 years old, 37 percent have a bachelor's degree or higher. Gen X's educational attainment resides at 29 percent and the baby boomers sit in the mid-20 percent range. At first glance, the higher educational attainment would seem to be a huge positive for millennials in terms of their housing options. But along with the high number of college-educated millennials comes high student debt. The average 2015 college graduate has \$30,000 in debt, which will limit the ability to save for a downpayment. The Federal Reserve Bank of New York just released a study stating that 35 percent of the decline in the homeownership among 28- to 30-year-olds is due to higher student debt loads. The result of course has meant more millennial households renting apartments for longer than some anticipated, which has maintained high apartment occupancy rates.

Apartment Household Types



Historical Household Distribution



Sources: NMHC; U.S. Census

## Pent-Up Household Formations

The Great Recession and moderate pace of recovery prevented almost 2 million households from being formed over the past 10 years. These pent-up households pushed the number of millennials living with their parents to a record high in 2016. However, with the labor market tightening significantly over the past 12 months and almost 1 million people making the transition from part-time to full-time employment, pent-up households finally appear to be releasing. The increased demand for apartments from these releasing pent-up households can be seen in the second quarter 2017 absorption total, which hit 177,000 units, the strongest quarterly absorption since the 1980s. As these millennial households continue to be released, their propensity to rent will be high, adding another level of demand to the baseline growth and keeping multifamily absorption elevated for the foreseeable future.

## Rise of Single Households

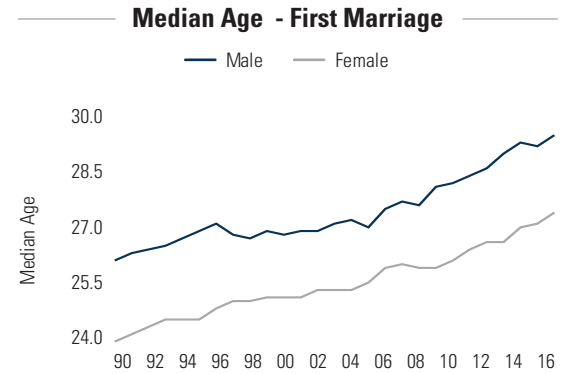
While the above demographic trends are currently acting as positive accelerators on apartment demand, an underlying trend that has substantially added to demand and has the potential to maintain upward growth of absorption hardly gets discussed: the rise of single-person households.

Over the past 40 years, a continued shift in household composition has been occurring that has been little noticed but has a dramatic impact on the type of housing being demanded in the country today. The number of single-person households has been on the rise and now accounts for almost 27 percent of all households while the number of married households with or without children had dropped from 61 to 48 percent. The implications for multifamily housing are significant. Single-person households have the highest propensity to rent of any household type with almost 50 percent all singles currently renting. From 2005 to 2015, the number of single-renter households increased by 2.8 million. Singles represent the largest household type renting apartments today, accounting for 48 percent of all apartments, or about 11 million units.

The outlook for single households remains strong given the trend of delayed marriage and declining marriage rates in the United States. Over the past 25 years, the number of married couples has declined from 57 to just under 50 percent. The Pew Research Center estimates that the number of American adults who have never been married is at an historical high with one in five adults above 25 years old (about 42 million people) having never been married. One recent study estimates that 20 percent of millennials will remain single their entire life. That would equal almost 16 million single-person households, and given that 50 percent of singles rent, it represents a significant potential increase in the pool of renter households going forward. The demographic forces that created the rise in single households started well before the millennials' coming of age, but the impact of this change will be magnified as the millennial generation matures. The long-term impact for apartments looks positive with single-person households primed for further growth.

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Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Federal Reserve; Moody's Analytics; Real Capital Analytics; Standard & Poor's; U.S. Bureau of Labor Statistics



## The Generations Defined

	Born:	Size:	Age of adults in 2016:
Millennial	1981 to 1997	80 million	18 to 35
Generation X	1965 to 1980	66 million	36 to 51
Baby Boom	1946 to 1964	75 million	52 to 70
Silent Generation	1928 to 1945	28 million	70 to 88

Sources: U.S. Census Bureau; Pew Research Center

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