Multifamily update: Fundamental forces continue to support demand in the face of rising supply

Fundamentals for the multifamily housing sector remain firm, even in the face of rising supply.

- **Vacancy rates remain at their lows for the cycle**.
- **Rent growth has firmed.**

As we highlighted in a 2012 study of the fundamental forces driving supply and demand for multifamily housing*, an extremely low level of household formation since the onset of the financial crisis has yielded an unprecedented level of pent-up demand for apartments that is likely to meet or exceed new supply for several years into the future.

With job growth gaining momentum in 2014, we anticipate that household formation will continue to keep pace with construction trends, keeping vacancy rates low and supporting rent growth and valuations.

*http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2048815

Household formation is the ultimate source of demand for housing, both rental and owner-occupied

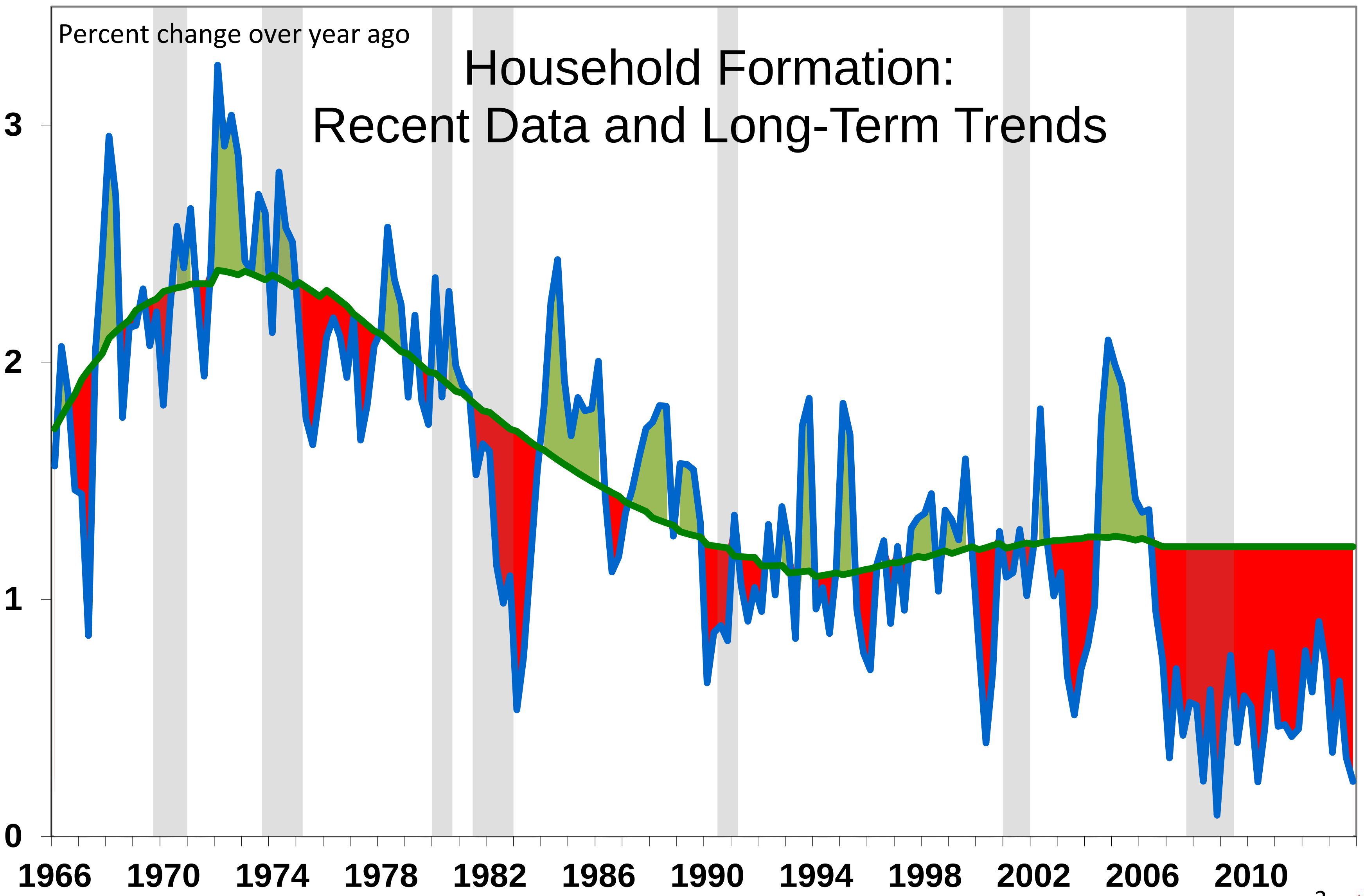
Three factors drive the rate of household formation:

- **Demographics.** When Baby Boomers came of age in the 1970s and 1980s, household formation rose to above 2% per year. It subsequently slowed to a bit over 1% per year. There was a slight rise from Echo Boomers in the 1990s.

- **Business cycle.** Household formation slows in recessions (shaded areas in chart)—people don’t sign new leases if they are unemployed!

- **Pent-up demand.** In all previous business cycles over the past half-century, the pent-up demand that built up during recessions (red areas in chart) was quickly reversed by above-trend household formation in subsequent years (green areas in chart). The current recovery has been slower.

Household formation remains below population trends



The level of pent-up demand for housing is at a record high