



# NEWS RELEASE

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## **NAREIT ANALYSIS SHOWS 2.5 MILLION-UNIT SUPPLY-DEMAND SHORTFALL IN U.S. APARTMENT MARKET**

*New Multifamily Housing Construction At A 20-Year Low*

*Pent-Up Demand For Apartments Is Triple Normal Level*

### **Imbalance Expected To Support Apartment REIT Fundamentals Beyond 2012**

**WASHINGTON, DC, March 1** – The apartment sector has been one of the best performing segments of the REIT market as the mortgage crisis has channeled millions of households from single-family homeownership to rental housing. Apartment REIT price returns are up 225 percent through February 2012 since the REIT market’s trough in March 2009.

The surge in apartment REIT share prices has caused some investors to question whether apartment REIT stocks are fully valued. However, new research from the National Association of Real Estate Investment Trusts (NAREIT) shows a dearth of new apartment construction, coupled with a record level of pent-up demand for apartment space, have created an approximately 2.5-million unit supply-demand imbalance in apartment inventory – an imbalance likely to support strong financial performance by apartment REITs in 2012 and well beyond.

“The distortion in supply and demand fundamentals for the U.S. multi-family housing market that has been caused by the financial crisis and Great Recession will support further declines in vacancy rates and increases in rents for apartment REITs well into the future, even though new construction now is increasing to meet the growing demand,” said NAREIT Vice President of Research and Industry Information Calvin Schnure. “It will take several years to bring enough new apartment stock to the market to meet the pent-up demand, and that gap will create a continuing tailwind for apartment REIT operating fundamentals,” he said.

#### ***Supply Side: A Plunge in Apartment Construction***

NAREIT’s analysis shows that construction of multifamily units plunged to a nearly 20-year low during the recession, creating a supply shortfall. According to the analysis, between 2008 and 2010, construction of multifamily units fell as much as 70 percent from its trend growth rate over the past decade.

Although multi-family construction starts have increased since the beginning of 2010, the number of units under construction remains at nearly 60 percent below its long-term average.

“Squeezing off the construction pipeline for four years, on its own, has produced a shortfall of more than 500,000 apartment units relative to the number that would be needed just to satisfy the demand produced by normal population growth over that period,” Schnure said. “However, there is nothing *normal* about the demand scenario for apartment units that will come into play as the economy continues to recover, accelerating the job growth we are beginning to see now.”

### ***Demand Side: A Tidal Wave of Pent-up Demand***

According to NAREIT, the normal rate of household formation, as a result of population growth, adult children moving out of parents’ homes, divorce and other demographic events, is approximately 1.2 percent annually. Over the last four years, however, the annual rate of growth of household formation has fallen to approximately 0.5 percent, as people who otherwise would have moved into rental or single-family housing are continuing to live with parents, other family members, friends or roommates.

Some level of pent-up demand for new households normally forms during any economic recession. However, NAREIT’s review of 50 years of data indicates the current level of pent-up demand for new households is three times higher than it was at this point in the economic cycle in past recoveries. According to NAREIT, the current level of unmet demand represents approximately 2 million households.

### ***A 2.5 Million Unit Supply-Demand Imbalance***

“As the job market improves and confidence rises, over the next two or three years, that demand for new households will be released into the market,” Schnure said. “Given the continued dislocation in the single family housing market, most of the demand will be directed to the rental market.

“The bottom line,” Schnure said, “is that the demand for 2 million new rental households will combine with the shortfall of more than a half-million apartment units, which has resulted from the downturn in construction starts, to produce a total supply-demand imbalance of approximately 2.5 million apartment units.”

To view charts illustrating the results of NAREIT’s analysis, [click here](#).

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