

Guess Who's Driving the Demand for Rental Apartments?

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The housing market is supposedly roaring back. Home prices are seeing their biggest annual gains since 2006.

Renters must be rushing back to buy, right?

Not exactly.

In fact, even as housing and the greater economy improve, a shift in demographic trends will likely favor the rental apartment market for the foreseeable future. It is all about women.

"I rent in an apartment building because it gives me a certain amount of freedom: I'm not positive that I want to stay in D.C. long term so I could leave at year's end if I wanted to," says 25-year-old Caitlin Huey-Burns, a working journalist. "My building has nice, built-in amenities, and it's in the location I want, but where I know I wouldn't be able to afford to buy."

Most of Huey-Burns' single, female friends, some in their thirties, who live in major cities, also rent in apartment buildings. Just one owns, and she lives in Canton, Ohio.

"What drives demand for single family homes is, 'Oh honey, I'm pregnant,'" says Buck Horne, a housing analyst at Raymond James.

(Read More: [America's Most Expensive Rentals 2013](#))

But those words are being uttered less and less. Horne claims the shift in female education, marriage and fertility rates will drive rental apartment demand going forward. He points to a growing educational imbalance, that is, 3.1 million more women enrolled in college than men and 4 million more college-educated women in the workforce than men.

"That creates a structural imbalance in the number of suitable partners. Women leave college with good income prospects and are not finding suitable husbands and fathers," says Horne.

Consequently, the millennial generation is delaying marriage and motherhood, and birth and fertility rates are dropping. The female fertility rate is at its lowest level in recorded U.S. history, according to the Centers for Disease Control/Raymond James research. 41 percent of children are born out of wedlock. Horne's research finds single mothers prefer living closer in to cities and staying in full amenity apartment rentals. This all points to more structural, long-term demand for rental housing.

(Read More: [Home Builders Turn to Rental Apartments](#))

But, again, shouldn't that rebound in home prices and growing confidence in housing still push more renters to buy, despite the female argument? Investors certainly think so. While stocks of the nation's homebuilders are up over 60 percent from a year ago on the [PHLX Housing Sector Index](#), multi-family REIT's actually under-performed and inversely correlated to home builders. Investors were concerned about the single-family home recovery stealing renters. But should they be?

No, according to a recent Raymond James report:

Renter household formation remains at the strongest level in decades. Roughly 1.32 million new renter households were formed in the past year (including owner conversions), while the number of owner-occupied households declined by 175,000. Resident turnover and move-outs to homeownership remain near historic lows for most operators. Incoming leasing traffic is more than offsetting move-outs while paying higher rates.

The home ownership rate declined yet again in the fourth quarter of 2012, according to a new report from the U.S. Census today. It now stands at 65.4 percent, down from 66 percent a year ago and from a high of 69.2 percent in 2004. If you include the 5.3 million borrowers who are delinquent on their mortgages or in the foreclosure process, per Lender Processing Services, the real home ownership rate is even lower.

"The fact that the housing recovery is being driven principally by investor demand means that the slight decline in the homeownership rate in the fourth quarter is unlikely to be the last," notes Paul Diggie of Capital Economics.

(Read More: [World's Most Expensive City to Rent Is...](#))

There is also a tremendous amount of pent-up demand for the rental market, as nearly 23 million young adults, male and female, under age 35 (31 percent of the cohort) are currently classified as 'living at home' with parents, according to Raymond James' analysis. As job growth improves, they will move to rental apartments; the homeownership rate for this group is only 34 percent.

(Read More: [Rentals Chip Away at Home Builder Gains](#))

Investors are also concerned about a 49 percent jump in multi-family construction permits from a year ago, but those permits are still running well below normal levels, and every year about 150,000 units are removed from housing stock for various reasons, like age and damage.

Suffice it to say that the apartment sector and the multi-family REITs will likely see a surprise to the upside in 2013. Rents will still rise, despite housing affordability and growth in the single family market.

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