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New Renters Will Outstrip the Supply of Apartments Despite Economic Downturn, Says Associated Estates CEO

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By Keat Foong, Executive Editor

New York—The number of new renters will exceed the supply of apartments by as much as two times, according to the president and CEO of Associated Estates Realty Corp. Jeffrey Friedman.

In an interview with MHN, Friedman argued that demographic patterns in this and next decade dictate that there will be strong demand for apartments that will outstrip supply.

Friedman explained that the homeownership rate is about 65 percent currently, and that the total number of households in the US is about 120 million. “If 35 percent of the population rents, we are talking about 40 million households that are renters,” he said.

According to the census bureau, there will be 15 million new households over the next 10 years, translating to about 1.5 million new households per year. If only 30 percent of these households rent, says Friedman, this will mean there will be 450,000 new rental households per year in the next 10 years.



However, apartment starts have been hovering at around only 200,000 units from the supply standpoint. “We know there is no overbuilding,” says Friedman. If this pattern holds, “In fact, there will be half as many new apartments built as new renters coming into the market,” he says.

The difficulty for the apartment sector in the mid-2000s was the number of renters going into homeownership, says Friedman. “There is a tremendous number of young people coming into the market. If there is a high number of new households and the propensity to rent is high, what keeps them from renting is homeownership.”

Friedman argues that the level of homebuying will not likely return to the levels seen in the past few years. “In 2004 to 2006 was the worst time for us when everyone can obtain a home loan, because our customers can go out and buy a home. We will not see thing getting to that level again.”

The “spoiler” now for the apartment industry, says Friedman, is unemployment. In 1980 to 1981, when unemployment reached 10.8 percent, occupancy was about 92.5 percent in the 49 largest rental markets, he says.

Friedman says with current unemployment levels, the industry is likely to be able to maintain an occupancy level of 92 to 95 percent, “but we won’t be able to raise rents as much,” he says.

He argues that household formation, rather than job growth and wage increase, is the main driver of the

apartment business. For this reason, Friedman suggests, demand for apartments should not be as affected by the economic downturn than if job growth were the major engine of demand for apartment.

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