DEMOGRAPHIC AND HOMEOWNERSHIP TRENDS WILL CONTINUE TO BOOST DEMAND FOR MULTIFAMILY HOUSING

PART 2 – DEMOGRAPHICS

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INTRODUCTION

Demographic and homeownership trends are powerful structural forces which will create healthy U.S. multifamily housing demand over the foreseeable future. These trends shape multifamily demand more gradually than economic variability but are equally significant. Multifamily's emerging build-to-rent (BTR) sector is especially well-suited to capture a rising portion of overall demand.

Demographic and homeownership trends help explain why multifamily has been a preferred property sector for many years. They also explain why multifamily capital markets activity should bounce back quickly once interest rates have stabilized.

This paper is structured in two parts. The first, published last month, click here examined the challenging climate for moving into homeownership. The second examines nine principal demographic trends and their impressive influence on household formation, housing choice, and multifamily demand.

The most important demographic trends shaping multifamily demand — including demand for multifamily's emerging BTR sector — impact the:

- Number of households: current number and expected growth in an area
- Housing choice: the decisions which individuals and families make with respect to their housing (particularly the rent vs. buy decision)

Demographic trends are slow-moving changes to society and lifestyle. The trends gradually influence and shape multifamily demand, and their long-term influence can be very powerful. Taken together, these nine demographic trends translate into continued high demand for multifamily housing.

POPULATION GROWTH SLOWING BUT STILL SUBSTANTIAL AT 1.7 MILLION

The nation's population continues to grow. Over the past year, the U.S. added 1.7 million residents, bringing the total to 335 million (July 2023). The growth rate, currently at 0.5%, has slowed from prior decades. Yet, U.S. population growth is still significant and translates into new household formation either immediately (via immigration) or in future years (natural increase).

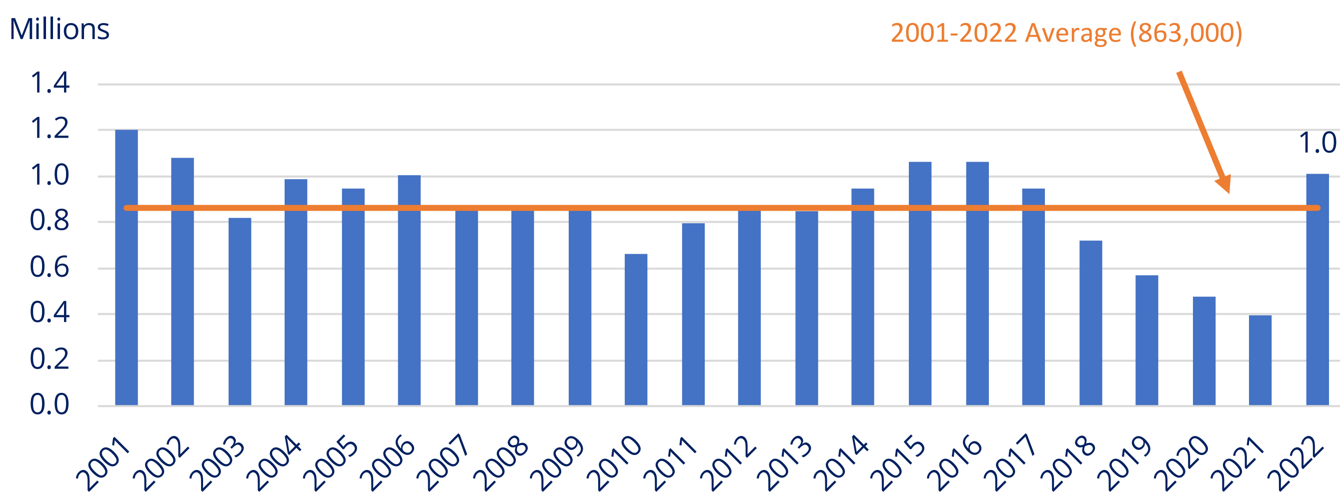
Population projections for the next decade suggest a fairly stable national growth rate in the 0.4% to 0.5% range or 1.5 million to 1.8 million people per year. The forecasts' largest variable comes from different assumptions on immigration.

INTERNATIONAL IMMIGRATION HAS REBOUNDED

International immigration rebounded in 2022. The 1 million legal immigrant total came close to the peak levels achieved in the prior two decades and exceeded the 2001-2022 historical annual average of 863,000 immigrants. (**Figure 1**)

Figure 1

INTERNATIONAL IMMIGRATION INTO U.S.



SOURCE: EMBREY; Rice Economics, LLC; U.S. Census Bureau.

While immigration levels can vary dramatically from year to year due to public policy, economic conditions, and other events (like the recent pandemic), current perspectives suggest that immigration rates are likely to remain at higher-than-average levels for the near term at least. Among other factors, persistent labor shortages in many industries are putting pressure on policy makers to help ease immigration hurdles.

Immigration is a significant driver of household formation and housing demand. Census data show that in the first decade of living in the U.S., foreign-born residents are largely renters. (After 20 years of residency, their homeownership rates are on par with non-immigrant households.) Immigrants entering the U.S. from 2010 to 2021 had a low homeownership rate of 30.5% in 2021 (therefore, 69.5% were renters). The 2010-2021 immigrant cohort occupied 2.7 million rental housing units in 2021.

Immigration — and its recent rebound — is particularly important not just to traditional "gateway" markets, but also to many Sunbelt cities. In 2021, the largest number of recent immigrants (those who moved to U.S. in the 2010-2021 period) lived in New York, Miami/South Florida, Los Angeles, Houston, and Dallas/Fort Worth. Combined, these five metros were home to 33% of all foreign-born residents who entered the U.S. from 2010 to 2021.

The five metros are also the nation's leaders for the number of rental homes occupied by newer immigrants. In 2021, immigrants who came to the U.S. from 2010 to 2021 leased a combined total of 942,700 units in the five metros including 245,300 in Houston and Dallas/Fort Worth combined. Three additional EMBREY markets — Orlando, Austin, and Phoenix — have fairly high levels of rental housing occupied by recent immigrants (all more than 30,000 units each).

HOUSEHOLD SIZE IS SHRINKING

Household size in the U.S. is gradually declining, mitigating the slowing population expansion. The average number of people in a household has been falling since the mid-1960s (the end of the baby boom family formation era).

Nearly two-thirds (64%) of all U.S. households were comprised of only one or two people in 2021, the latest data available. Specifically, one-person households rose to a new high of 29% in 2021 — more than one-quarter of all households! Two-person households climbed to 35%. The percentages in the larger household sizes all continued to fall. (**Figure 2**) Furthermore, over the 20-year period, the average household size fell from 2.58 people to 2.50 people.

With smaller households becoming more prevalent, population growth translates into more households — and housing demand — than when larger households were more dominant.

Figure 2

HOUSEHOLD SIZE

NUMBER OF PEOPLE IN HOUSEHOLD	TOTAL 2021 (MILLIONS)	PERCENT OF TOTAL IN 2021	PERCENT OF TOTAL IN 2001	DIRECTIONAL CHANGE
All	131.2	100.0	100.0	-
One	37.9	28.9	26.1	↑
Two	45.5	34.7	33.2	↑
Three	19.8	15.1	16.1	↓
Four	16.2	12.3	14.5	↓
Five	7.3	5.6	6.4	↓
Six	2.8	2.1	2.4	↓
Seven or more	1.6	1.3	1.3	↓

SOURCE: EMBREY; Rice Economics, LLC; U.S. Census Bureau (American Community Survey).

Additionally, the housing choices made by smaller households are often different than those of larger households — and beneficial for multifamily demand. Individuals, couples without children, and single parents can and do buy homes. But smaller households often place homeownership at a lower priority than larger households, thereby helping to sustain high multifamily demand.

AMERICANS ARE MARRYING LATER THAN PREVIOUS GENERATIONS

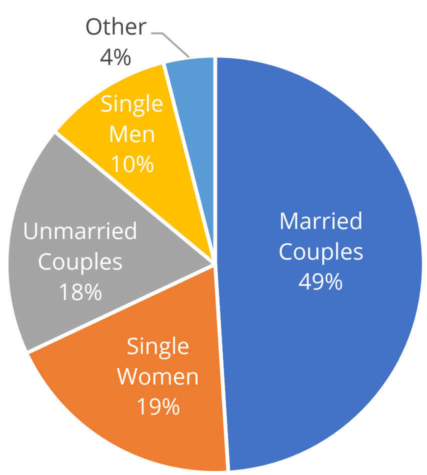
Americans are marrying at older ages than previous generations, a trend that has been particularly favorable for multifamily demand. Young adults are spending most of their 20s sidestepping marriage — and that particular trigger point for homeownership — thereby staying in rental housing longer.

Marriage has long been a major "trigger point" for buying a home. Even in American culture today with a large percentage of unmarried couples living together, marriage still stimulates homebuyer decisions.

The National Association of Realtors' 2022 Profile of Home Buyers and Sellers revealed that 49% of first-time homebuyers were married couples. The percentages for other categories have risen over the past decade but remain much smaller than married couples. (**Figure 3**)

Figure 3

HOUSEHOLD STRUCTURE OF FIRST-TIME HOMEBUYERS, 2022 INTO U.S.

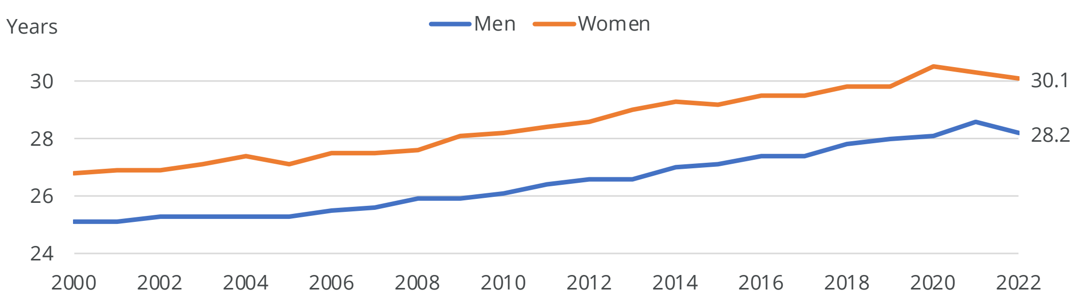


SOURCE: EMBREY; Rice Economics, LLC; National Association of Realtors.

The age of first marriage has been on an upward trend for decades until very recently. In 2022, the median age of first marriage for men was 30.1 years and for women 28.2 years. Both figures are two years higher than in 2010 when the respective medians were 28.2 years and 26.1 years. First marriage ages were lowest in the 1950s and early 1960s (when the baby boomers were being born), averaging around 23 years old for men and 20 years for women. (**Figure 4**)

Figure 4

MEDIAN AGE AT FIRST MARRIAGE



SOURCE: EMBREY; Rice Economics, LLC; U.S. Census Bureau.

The nearly 60-year trend of waiting longer to tie the knot reversed in the past two years. Recent findings likely reflect limitations in the COVID-period statistics, temporary COVID-related changes in marriage trends, and/or increased numbers of same-sex marriages. The data could also indicate a permanent reversal in the marriage age trend, but that is unlikely given other social patterns.

STARTING FAMILIES COMES LATER IN LIFE

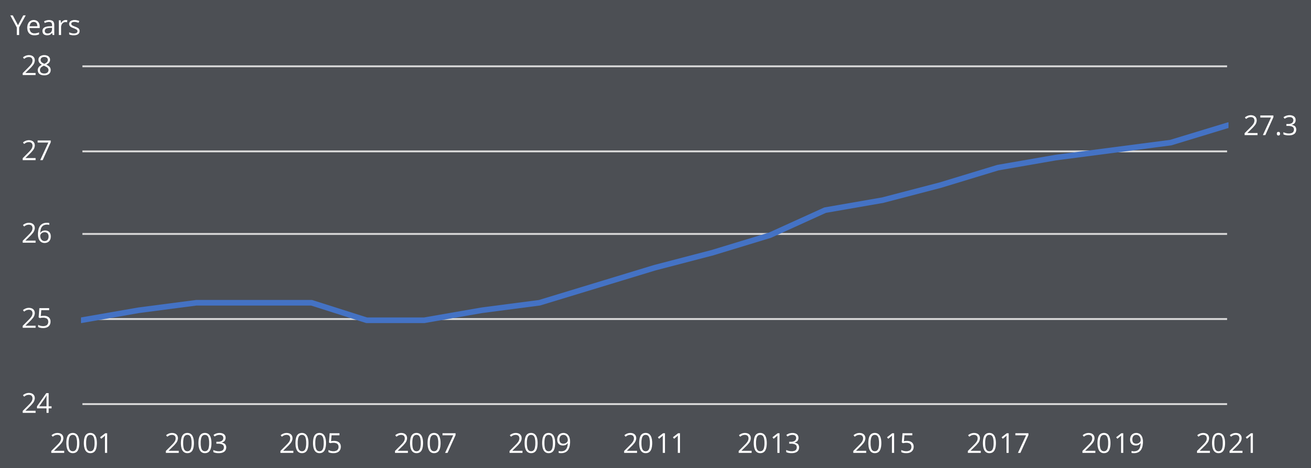
Individuals and couples are waiting longer to start a family or are not having children at all, a trend that has and will continue to benefit multifamily demand. Not only are young adults spending most of their 20s sidestepping marriage, the majority of 20-somethings have no children yet.

Like marriage, having a child is a trigger point for considering a move into homeownership. Households with children are more motivated to find a residence with indoor and outdoor space for children's activities than households without children. If the family cannot or does not want to buy a house, they are excellent candidates for BTR homes.

Statistics for the average age of women at first birth capture the rising ages for starting families. As of 2021, women were 27.3 years old when they gave birth to their first child, almost two years older than the 2010 average of 25.4 years. (**Figure 5**)

Figure 5

AVERAGE AGE OF WOMEN AT FIRST BIRTH



SOURCE: EMBREY; Rice Economics, LLC; National Center for Health Statistics. Data for 2022 has yet to be released.

Women having children at older ages is also reflected in the total births by age cohort. In 2018, births for women aged 30 to 34 years became the largest cohort, surpassing the 25-to-29 cohort, which had been the leading cohort for many years. Additionally, the 30-to-34-year-old cohort has the highest fertility rate among all age cohorts of 97 (meaning that out of 1000 women in that cohort, 97 gave birth).

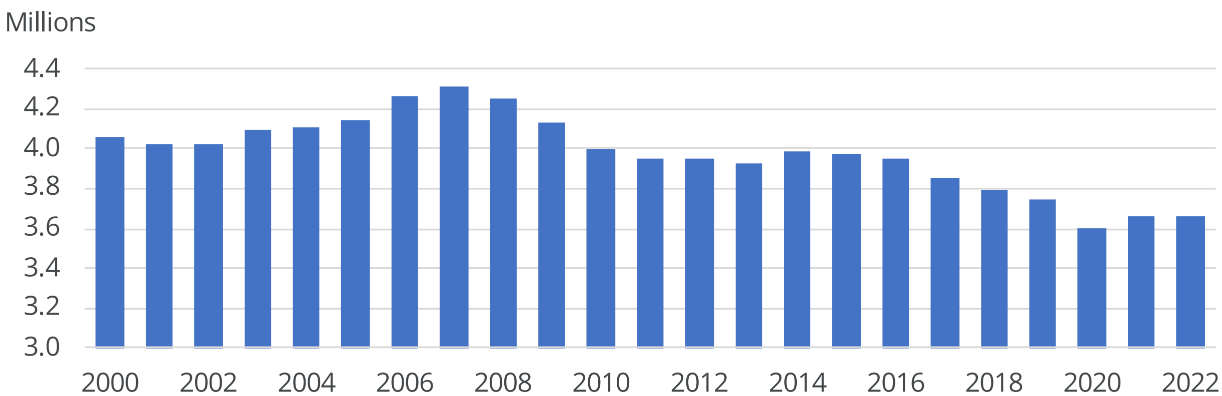
71% OF AMERICAN HOUSEHOLDS HAVE NO CHILDREN

Many Americans are simply not having children at all, a long-term boost for multifamily housing demand. Childless households have less pressure to seek a larger residence or find a neighborhood with good schools and amenities conducive to raising children. The percentage without children under 18 years was 70.5% of all U.S. households in 2021, up almost four percentage points from 2010's 66.9%.

Births have been falling also. In the 2000s, annual births in the U.S. peaked in 2007 at 4.3 million and have been dropping since. In 2022, births totaled only 3.7 million. (**Figure 6**) The last three years of data hint that the long-term decline in births may have stabilized, but there is still no strong evidence yet to suggest a reversal of falling births.

Figure 6

ANNUAL U.S. BIRTHS



SOURCE: EMBREY; Rice Economics, LLC; National Center for Health Statistics.

Fewer babies born contributes to lower U.S. population growth and lower household growth down the road. Therefore, in the long term, declining births could have a small drag on future multifamily demand, especially in the country's low-growth regions and metros with limited domestic and international in-migration.

GEN Z IS BACKFILLING MULTIFAMILY DEMAND LEFT FROM MILLENNIALS

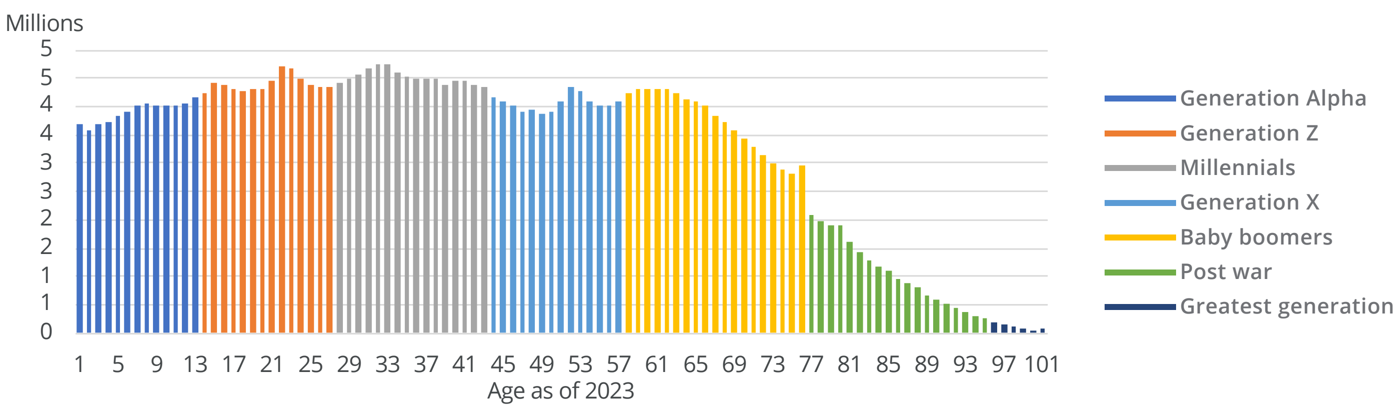
Millennials, today aged 28 to 43, gave a significant boost to multifamily demand when the generation entered the rental market beginning in the early 2000s. That lift continued for another 20 years. Today, a substantial percentage of renters are millennials. In addition to high housing costs, many factors have kept millennials in rental housing including lifestyle preferences like urban living and maintaining geographic mobility.

Most millennials today are in traditional homebuying ages, and they have been buying homes. Millennial homeownership rates will continue to rise. But, Gen Zers are readily backfilling multifamily units left behind. Gen Z represents teenagers and young adults from about age 14 to age 27. The older Gen Zers are the newest renters today, and Gen Z will continue to enter the rental market over the next 10 years and backfill units vacated by first-time homebuyers.

Gen Z is slightly smaller than the millennial generation, but the difference is not dramatic. The average number of Gen Zers per age year is 4.41 million. This is less than the millennials' average of 4.52 million, but only by 2.4%. (**Figure 7**)

Figure 7

U.S. POPULATION BY AGE AND GENERATION



SOURCE: EMBREY; Rice Economics, LLC; U.S. Census Bureau. 101 years = 101+. 2023 estimates based on July 1, 2022 estimates moved one year forward. Oldest generation (aged 96+) is "Greatest."

Ten years down the road, when Generation Alpha kids come of age, the number of new renters will be lower based on the current population by age statistics. For example, in 2023, the U.S. has about 4.7 million young adults aged 23. In 2033, the number of 23-year-olds will be around 4.2 million and trend down slowly from there. International and domestic migration could make up the difference, but in parts of the country where in-migration and economic growth are minimal, the lower levels of new renters could be noticed.

AMERICA IS A NATION OF MOVERS

America is a nation with high residential mobility, and this characteristic is especially powerful for sustaining current multifamily demand and creating new demand. Conventional wisdom indicates that an individual or family should not buy a house unless they are committed to staying in that residence for at least five years. Whether following conventional wisdom or immediate practicalities, renting is common among recent movers and households which move often.

In 2022, the Census Bureau reported that 28.2 million people or 8.7% of all Americans aged one or above changed residences in the past year. This represents one out of every 11 Americans. The largest portion of movers changed residence locally (within the same county) followed by movers between counties of the same state. Interstate movers and movers from abroad represented the balance. (**Figure 8**)

Figure 8

POPULATION MOBILITY CHARACTERISTICS, 2022

CATEGORY	MOVER RATE: PCT OF TOTAL POPULATION 1+	PERCENT OF ALL MOVERS
Population 1+ Years Old	8.7	100.0
Geographical Types of Moves		
Within County		53.5
Within State, Different County		24.3
Between States		17.3
Between Regions		9.1
From Abroad		4.9
Age Cohorts with Most Movers		
20-24 years old	18.0	13.4
25-29 years old	19.1	14.7
30-34 years old	13.2	10.7
Housing Tenure		
Owner-occupied Housing	5.2	41.2
Renter-occupied Housing	16.2	58.8

SOURCE: EMBREY; Rice Economics, LLC; U.S. Census Bureau (Current Population Survey). Mover rate is number of people who moved in the past year compared to total population or population in cohort. Interregional moves is subset of interstate moves and references the Census Bureau's four regions.

The Census data confirmed that mobility is highest among young adults. Nearly one in five (19%) Americans aged 24 to 29 years moved in 2022. The rate was almost as high for the 20–24-year-olds at 18%. The mover rate for the 30-to-34-year-old cohort was also high at 13%.

Young adults' propensity to change residences confirms that they remain vital to multifamily leasing strategies and to capturing new demand. Capturing new multifamily demand of older renters (i.e., mid 30s and up) may be more difficult since they move less often. However, longer tenure — length of time one stays in a residence — among renters is not necessarily detrimental to the multifamily industry since it mitigates turnover costs.

Further breakdown of the data confirms that renters are far more mobile than homeowners; 16% of renters moved in the past year versus 5% of homeowners. Residential lease structures allow much greater flexibility than homeownership, especially with the standard U.S. lease term at only one year. RealPage reported that multifamily lease renewals averaged 51% in the year ending July 2023 (therefore, turnover was 49%).

Single-family renters move less. For example, DBRS Morningstar, which tracks about 128,000 SFR homes in securitized portfolios, reported an average turnover rate of 30.7% for the year ending April 2023. Solid turnover statistics do not yet exist for BTR renters, but tenure in BTR homes likely lands somewhere between conventional multifamily and SFR.

GEOGRAPHIC MOBILITY FAVORS THE SOUTH AND INTERIOR WEST

Migration — the movement of people into and out of different geographical areas — is the demographic variable that may be the most crucial for shaping multifamily demand. Migration creates immediate housing demand from all individuals and families that move. Long-distance migration — moves between regions, states, or metros — also often creates temporary renters among households that typically are homeowners. BTR homes are particularly suited for this demand.

Since World War II, migrants have been pouring into high-growth regions of the American South and West, and this trend shows no letup. Once again, Sunbelt states dominated the list of top gainers last year. Texas and Florida led for both total population gains and for net migration totals, followed by North Carolina and Georgia. Other states with large increases were Arizona, South Carolina, and Tennessee. In addition to Arizona, five Western states rounded out the top 13 list: Washington, Utah, Idaho, Nevada, and Colorado. (**Figure 9**) The states where EMBREY is actively developing or buying multifamily assets are all among the states with large growth totals.

Figure 9

LEADING STATES FOR POPULATION GROWTH, 2022

RANK	STATE	TOTAL INCREASE	PERCENT INCREASE	INTERNATIONAL MIGRATION	DOMESTIC MIGRATION	TOTAL NET MIGRATION
United States		1,256,000	0.4%	1,010,900	0	1,010,900
Largest Population Gains						
1	**Texas**	470,700	1.6%	118,600	231,000	349,600
2	**Florida**	416,800	1.9%	125,600	318,900	444,500
3	**North Carolina**	133,100	1.3%	26,400	99,800	126,200
4	**Georgia**	124,800	1.2%	27,300	81,400	108,700
5	**Arizona**	94,300	1.3%	22,200	71,000	93,200
6	**South Carolina**	89,400	1.7%	10,700	84,000	94,700
7	**Tennessee**	83,000	1.2%	8,100	81,600	89,700
8	**Washington**	45,000	0.6%	37,500	-3,600	33,900
9	**Utah**	41,700	1.2%	5,400	12,900	18,300
10	**Idaho**	34,700	1.8%	1,800	28,600	30,500
11	**Nevada**	31,400	1.0%	10,200	20,800	30,900
12	**Colorado**	28,600	0.5%	10,400	5,400	15,700
Largest Population Losses						
48	**Illinois**	-104,400	-0.8%	31,500	-141,700	-110,100
49	**California**	-113,600	-0.3%	125,700	-343,200	-217,500
50	**New York**	-180,300	-0.9%	77,900	-299,600	-221,600

SOURCE: EMBREY; Rice Economics, LLC; U.S. Census Bureau. Total increase includes births and deaths. EMBREY target states highlighted in orange shading.

The 2022 state-level data also revealed new migration patterns. COVID-related migration added growth momentum to states like Idaho and Utah and to smaller metros such as Charleston and Cape Coral-Fort Myers. Montana had never been a high-growth state, but it experienced a 1.5% population increase (all due to net migration), three times the national growth rate. COVID-related out-migration contributed to 2022 population declines in New York and California among other states.

Two COVID-related migration trends will continue at least over the near term. The increased popularity of smaller metros is likely to persist. Second, some fully remote workers will continue to live outside major employment centers (an option not available before COVID). However, these will not be dominant migration themes going forward. The movement of people to the Sunbelt and interior West will remain the dominant migration pattern in the U.S. and continue to create high levels of multifamily demand in the regions' principal metros.

DEMAND FORECASTS MAY UNDERESTIMATE THE POWER OF DEMOGRAPHICS AND HOUSING DECISIONS

Most of the demographic and homeownership trends discussed above are positive forces for creating high levels of multifamily housing demand in the future. BTR multifamily may benefit the most, and we expect dramatic BTR demand growth. Conventional multifamily will also experience robust demand over the coming years.

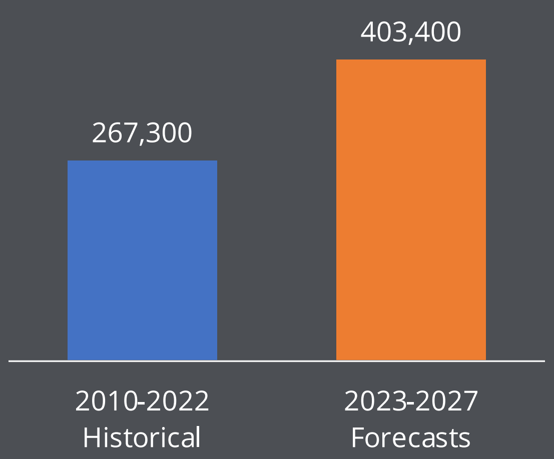
Future multifamily demand will also be determined by cyclical forces — employment, consumer confidence, available multifamily supply, rental costs, etc. — not discussed in this paper. All projections must take them into consideration.

RealPage forecasts net absorption (demand) to rise to 403,400 units per year over the next five years (2023 through 2027). (**Figure 10**) The forecast is considerably higher than the 267,300 units absorbed annually since the Great Financial Crisis. Demand-to-inventory ratios for the 2023-2027 period are projected to average a robust 2.0% annually, exceeding the 2010-2022 ratio of 1.6%.

While the projection indicates impressive demand, it may be on the conservative side. Multifamily demand in the coming years may outstrip the forecasts given many compelling demographic trends and homebuyer obstacles.

Figure 10

ANNUAL NET ABSORPTION, 2023-2027



SOURCE: EMBREY; Rice Economics, LLC; RealPage, forecasts as of Q2 2023

NORTH TRYON | CHARLOTTE, NC

TIN TOP FLATS AT THE CREAMERY | SAN ANTONIO, TX

THE HARPER | FRANKLIN, TN

BEL AIRE | LAKEWOOD, CO

COLLECTION AT GRUENE | GRUENE, TX

CITRON AT THE PACKING DISTRICT | ORLANDO, FL

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Ms. Rice is one of the country's leading multifamily economists. She is the founder of Rice Economics, LLC, a consulting firm providing real estate economics and business consulting for commercial real estate firms.

Before Rice Economics, LLC, Ms. Rice was Americas Head of Multifamily Research for CBRE, the largest multifamily debt and equity intermediary in the U.S. At CBRE, Ms. Rice covered nearly all aspects of the U.S. multifamily property and capital markets. She was a frequent speaker at industry events and wrote hundreds of white papers and research briefs on the sector. Her more notable white papers included: The Case for Workforce Housing; The Single-Family Built-to-Rent Housing Sector; The Way Forward – Path to Urban Multifamily Recovery; Global Outlook 2030 – Multifamily; and U.S. Multifamily Primer for Offshore Investors.

Ms. Rice began her career in the multifamily sector. One of her first positions was with EMBREY Investments where she conducted feasibility analysis for prospective developments and provided investment strategies for EMBREY's geographic expansion in the 1980s. Following EMBREY, Ms. Rice held research leadership positions with HFF (now part of JLL), Lend Lease Real Estate Investments, Crescent Real Estate Equities, and Verde Realty.

Ms. Rice has been involved with many professional organizations through her 40-year career. In particular, she has been active with the National Multifamily Housing Council for many years. She is a Counselor of Real Estate and has held numerous leadership positions with the Counselors of Real Estate organization. Ms. Rice currently serves as an advisor to the TCU Center for Real Estate.

Ms. Rice earned a B.A. in history from the University of Washington and M.A. in urban geography from Queen's University in Canada. She also completed two years of graduate coursework in urban geography at The University of Chicago. Ms. Rice is a 40-year Texas resident, currently based in Fort Worth.

ABOUT EMBREY

EMBREY is a diversified real estate investment company that owns, develops, builds, acquires, and manages multifamily and commercial assets. Since 1974, EMBREY has developed more than 46,000 apartments and over 6 million square feet of commercial property in Texas, Arizona, Colorado, Tennessee, North Carolina, and Florida. San Antonio-based EMBREY is a leading developer in the multifamily sector, with more than 5,000 units under construction.

49+
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$1B+
CURRENT ANNUAL DEVELOPMENT PRODUCTION

46,000+
MULTIFAMILY UNITS DELIVERED

5,000+
UNITS UNDER CONSTRUCTION

11,000+
UNITS UNDER MANAGEMENT

$652MM
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