
RENTAL APARTMENTS IN THE UNITED STATES: AN ATTRACTIVE MARKET SEGMENT

Rental apartments in the United States remain attractive to tenants. According to real estate consulting firm JLL, USD 66.2 billion was invested in multi-family homes in the first half of this year, a year-over-year increase of around 10 percent. The average rent rose 2.4 percent, and the vacancy rate remained stable at 5.2 percent.

The background to these figures is a fundamental shift in the U.S. residential housing market. Although home ownership had represented the fulfillment of the American Dream for decades, more and more Americans have been actively choosing rental apartments for several years now. This is evidenced by official statistics from the U.S. Census Bureau. These numbers indicate that the home ownership rate stood at 64.3 percent in the second quarter of this year. In 2005, however, 69.1 percent of Americans had owned a home of their own.

“Renting today enjoys much more social acceptance than in previous generations,” concluded experts from real estate consulting firm CBRE in a study of the U.S. rental housing market. One reason is that many Americans have realized that rental units offer greater flexibility than owning a home.

This advantage has been amplified considerably by the rise in interest rates in the United States, says brokerage firm Marcus & Millichap. The firm reports that many owners are currently refraining from selling their homes because purchasing a new home would mean taking on a mortgage at a much higher interest rate. As a result, the number of sales of existing homes in July of this year was 1.4 percent lower than in the same month last year.

Higher interest rates and purchase prices have also led to homeowners carrying a greater financial burden. According to Marcus & Millichap, this additional liability totals an average of USD 130 per month more than at the beginning of the year for a mid-priced home. That means that a homeowner must now pay USD 320 more per month for housing than the average renter of a comparable rental unit. Marcus & Millichap reports that this development is causing an even stronger shift in preference among tenants for rentals over home ownership.

Investors who put their money in multi-family homes benefit from another trend: the expected decline in the construction of new apartments. This year, JLL anticipates the completion of approximately 373,000 apartments. However, in 2019 this figure is expected to decrease to just 308,000 units as a result of rising construction costs and land prices. As a result, the expected decline in construction activity combined with ongoing strong demand for rental apartments could lead to further rising rents.

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