

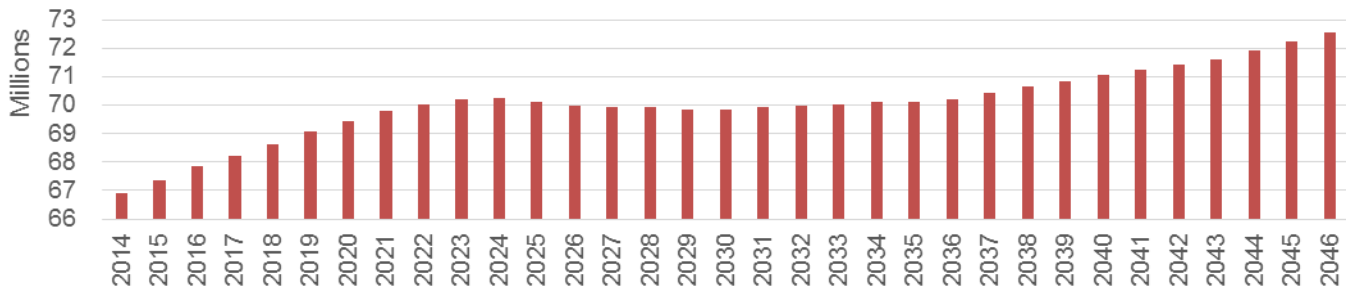
# Multifamily Market Commentary – March 2016

## The Future of Multifamily: Generation Z

Some members of the post-Millennial generation – or “Generation Z” – are getting ready to form their own households over the coming decade. What will their housing needs be? How will they compare with baby boomers and Millennials? Most likely, they won’t be very different at all, at least when it comes to multifamily demand.

Today, there are more than an estimated 65 million people under the age of 16. Over the next decade, the oldest of this cohort will start forming households. As the chart below shows, about 70 million people will be between the ages of 20 and 34 by 2024. And if they are anything like previous generations, a sizable percentage of them will become renters of multifamily housing. Despite all the new multifamily construction going on today, there might not be enough of the right rental housing, in the right locations, to meet the demands of this generation.

**Population Forecast for 20-34 Year Old Cohort**



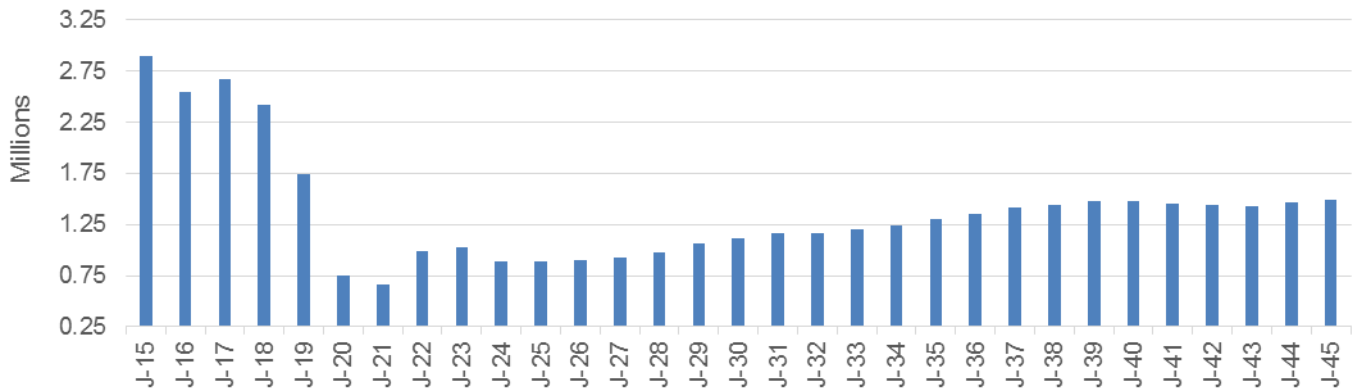
Source: Census Bureau

### A More Moderate Employment Future for Generation Z

The demographic forecast for Generation Z is fairly robust. But the jobs picture is vastly different, as the chart below shows. According to Moody’s Analytics forecasts, non-farm employment looks relatively stable over the next four years, with well over one million new jobs annually. Yet, they forecast significant decline in job growth in 2020 and again in 2021 – to fewer than 750,000 new jobs each year. In addition, forecasted job growth appears to remain slow but steady for much of that decade, at less than 1.2 million new jobs each year. That’s just as Generation Z is reaching adulthood and entering the workforce.

Anticipated job growth does start improving a little further out into the forecast, starting in 2027. But over the longer term, the expectation is that job growth between 2027 and 2045 will return to a more normalized trend. That could be well below the current post-recession level of more than two million jobs per year.

## Number of New Jobs by Year

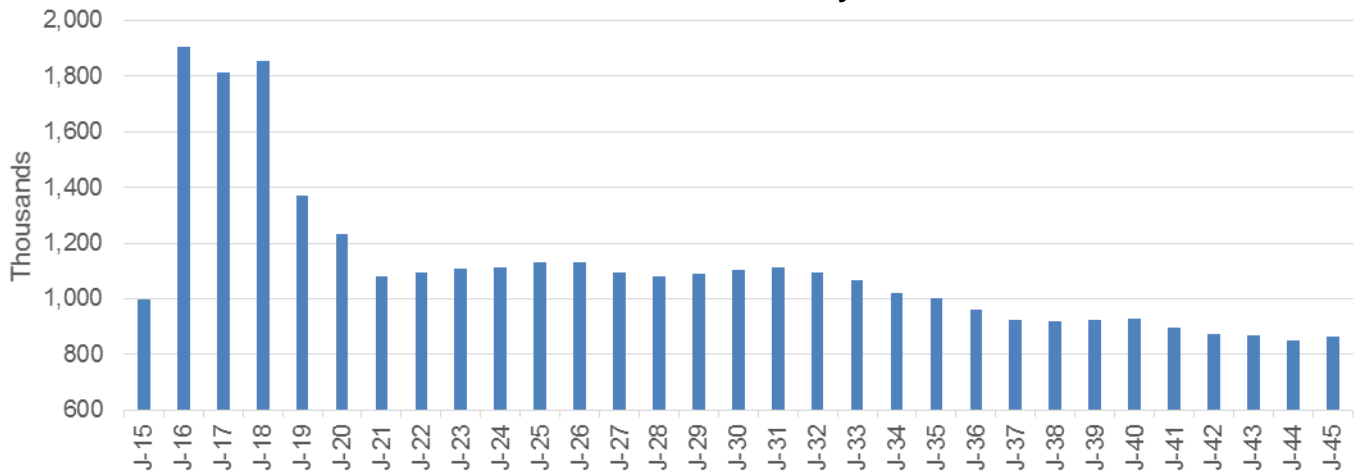


Source: Moody's Analytics

## Longer-Term Household Growth Lower but Stable

Despite the lackluster forecast for employment growth, overall household formations over the long term are expected to be somewhat subdued but positive, as the chart below shows. The bulk of new household formations traditionally come from younger-aged cohorts. So it would not be unusual to see a slowdown in household formations just as Generation Z comes of age. There are fewer of them in comparison to baby boomers and Millennials, most of whom have already formed their households.

## Number of New Households by Year

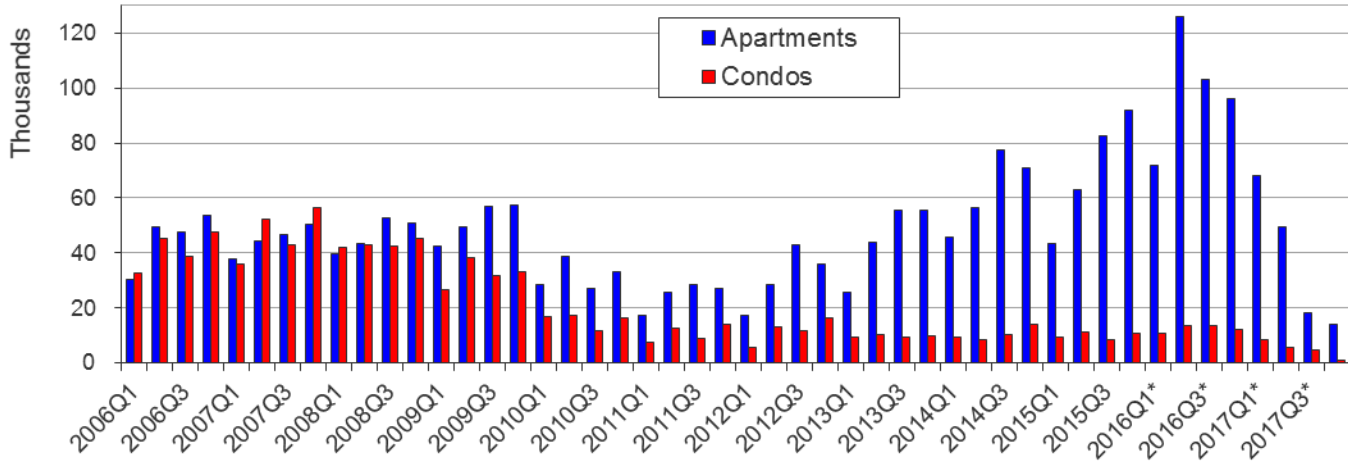


Source: Moody's Analytics

## New Multifamily Supply Short-Lived Over the Short Term

There are more than 582,000 apartment and condominium units currently underway. But we expect that amount of new multifamily supply to be short-lived. As the chart below shows, the bulk of this construction should come online this year, with the remainder completing in 2017 and 2018.

## National Condo and Apartment Completions and Units Underway

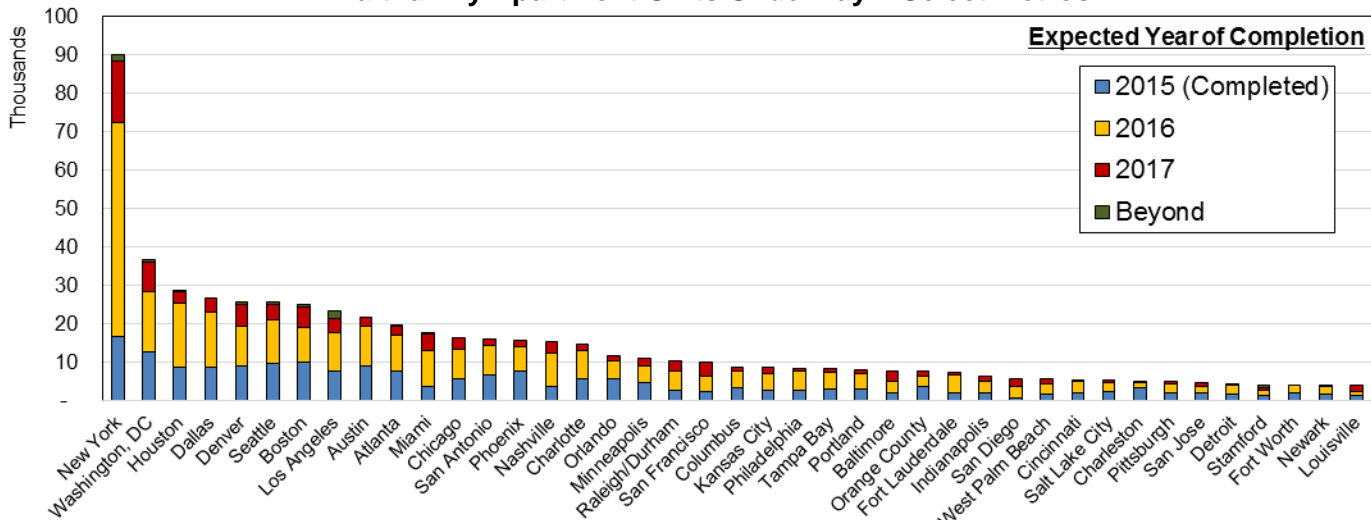


Source: CBRE-EA/Dodge Data & Analytics. NOTE: Pipeline data is not an actual forecast of activity. It is a monitor of activity reported on to date. As more projects are planned and tracked, figures in future periods might go up.

### Submarket Concentration is a Concern

Complicating matters over the short term, there is a concentration of most of this new multifamily supply in about 12 major metros, as the chart below shows. At a national level, this amount of new multifamily development is not entirely unfounded. For example, Moody's Analytics expects about 1.8 percent job growth in 2016. That would mean an addition of 2.6 million new jobs. With that number of new jobs, the demand for new multifamily rental housing could be as high as 520,000 additional units. But with the concentration of new supply in just a few metros and further concentration in certain submarkets, there is a slight mismatch between the growth markets for jobs and the areas receiving substantial new development. That is why supply may outpace demand in several submarkets over the next few years.

### Multifamily Apartment Units Underway – Select Metros



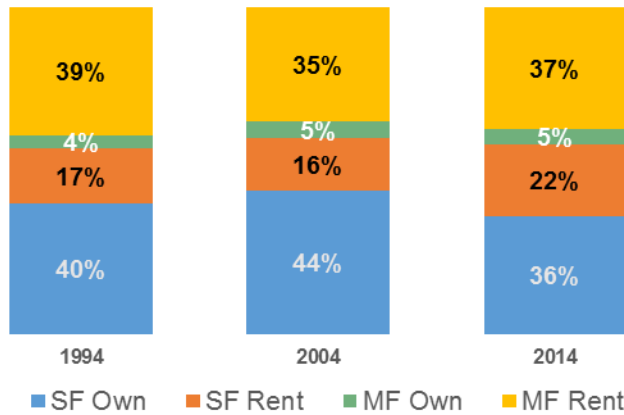
Source: CBRE-EA/Dodge Pipeline, January 2016 – Metros with 4,000 or more units underway and/or completed in 2015. NOTE: Pipeline data is not an actual forecast of activity. It is a monitor of activity reported on to date. As more projects are planned and tracked, figures in future periods might go up.

## Gen Z Should Help Drive Future Multifamily Demand

As the chart below shows, 37 percent of those aged 25-34 rented multifamily units in 2014. We believe it is likely that the rental pattern will continue to be the same for Generation Z as for previous generations. So it is not unreasonable to expect that a similar percentage of Generation Z – at least 35 percent of them at the low end – will become multifamily renters.

Over the long term, that should help produce enough demand to absorb most of the vacant units lingering in some oversupplied submarkets; however, it is uncertain what the job growth will be in these metros in 10 years, and more importantly, whether Gen Z will want to live in these submarkets.

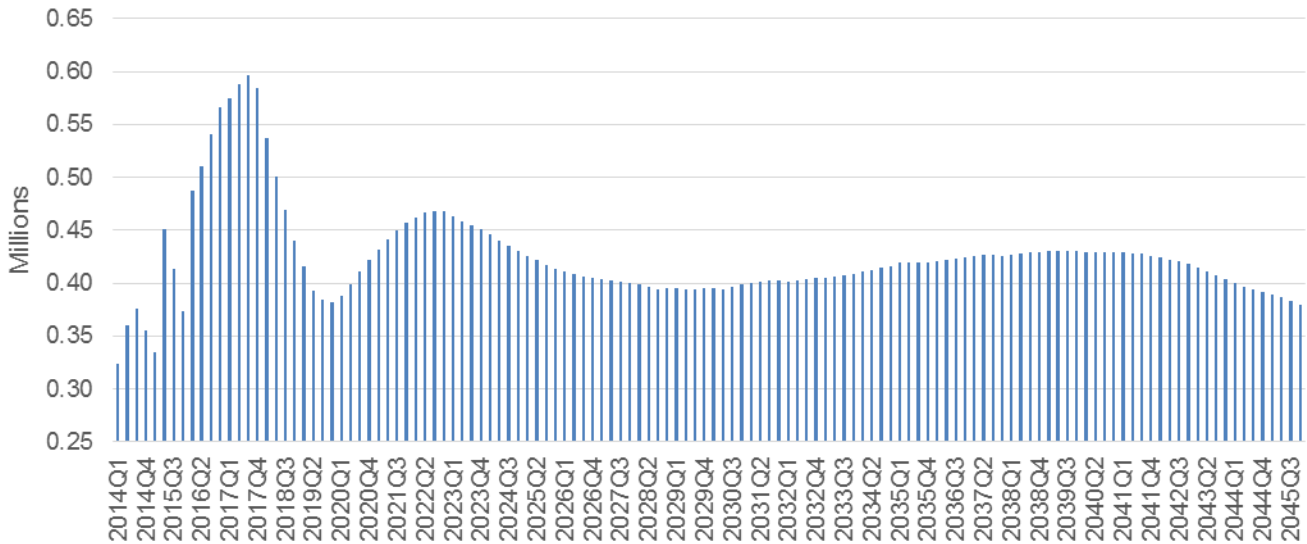
**Age 25-34 Single-Family and Multifamily Occupied Dwellings**



Source: MBA

Future Generation Z household formations should produce sufficient multifamily demand. But it is important to keep in mind that this demand may occur a little further out in the forecast than some property owners would like to see. We believe multifamily property owners and developers should see Generation Z multifamily housing demand start accelerating again after 2021.

**Quarterly Multifamily Housing (2+) Starts - SAAR**



Source: Moody's Analytics



## **National Multifamily Long-Term Outlook Remains Stable**

Moody's Analytics' forecasts for a general slowdown in job growth and new household growth between 2019 and 2021 may not be good news for developers. But that should give members of Generation Z time to create pent-up demand as they resume forming new households as job growth improves.

Most of today's multifamily development is taking place in core and downtown submarkets in a handful of major metros. These are places where Millennials and some baby boomers say they want to live, work, and play. But what about Generation Z? The expectation is that they will want the same amenities and lifestyle as the Millennials. But they are sophisticated users of technology. They may feel less constrained about where they can live, if social media and technology allow them to live anywhere. And they might not choose to live in urban centers, but in the suburbs, exurbs, or even more rural areas. If that happens, there could be a dramatic shift in the location of future multifamily demand – to very different metros and submarkets than today.

But overall, Generation Z helps provide a more stable outlook for multifamily further out into the long-term forecast. Despite a more subdued job growth forecast, there will be a healthy overall number of people in the Generation Z cohort. And that should provide ongoing, steady demand for multifamily rental housing over the coming decade, although the location of the bulk of that demand is not clear.

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