U.S. Needs 4.3 Million Apartments Over Next Decade Just To Tread Water

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The U.S. needs 4.3 million new apartments over the next 13 years just to meet projected demand, a total that includes the current shortfall of 600,000 units, according to a new report (https://www.weareapartments.org/resources/) published by the National Multifamily Housing Council (https://www.bisnow.com/tags/national-multifamily-housing-council) and the National Apartment Association (https://www.bisnow.com/tags/national-apartment-association).

The shortfall is largely a legacy of the late 2000s financial crisis and deep recession, when U.S. development ground almost to a halt, the report said.

The country needs to build 266,000 apartment units each year to meet demand, the report said, as households form among young workers leaving college or home, immigrants come to the U.S. and older people downsize from homeownership, among other demand drivers.

Dallas-Fort Worth, Houston, New York, Phoenix, Austin and Atlanta will need the most new apartments, requiring more than 100,000 additional rental units, or almost a million new units in total, by 2035. Smaller markets will see healthy demand for apartments including Boise, Idaho; Las Vegas; Raleigh, North Carolina; and Orlando, Florida.

Population growth has been less of a factor in apartment demand in recent years. The U.S. population grew about 1% per year from 1991 to 2011, but only 0.6% annually over the past decade, and is forecast by the report to slow even further, to 0.4% per year, through 2035. Without immigration (https://www.bisnow.com/tags/immigration), population growth would slow to only 0.2% growth per year by that year.

Immigration is a wild card in apartment demand. The number of immigrants to the U.S. is now expected to remain relatively low through 2035, averaging only 562,000 per year, roughly half of historic norms, the report says. The pandemic (https://www.bisnow.com/tags/pandemic) put a large dent in immigration to the United States, but numbers were already declining before 2020.

Other wild cards include homeownership rates — a function of such variables as housing affordability and interest rates — and inflation (https://www.bisnow.com/tags/inflation).

Another scenario posited by NMNC and NAA includes very low immigration, high ownership rates and lingering inflation, which would slow demand for apartments over the years until 2035. In that scenario, the need for new rental units would only be 2.4 million units by 2035, plus the current shortfall.

The report found that the U.S. has an aging apartment stock, with 46% of all units built before 1980. Nineteen percent were built before 1959, and 24% date from any time in the 21st century.

Also, new apartments have skewed toward higher rents over the last five years, the report found, because of escalating construction and other costs associated with housing development, including the increasing likelihood for designers and developers to include high-end finishes in new apartments.

The upshot is that between 2015 and 2020, about 4.7 million rental units with rents less than $1K per month disappeared from the rental housing stock, which will put further stress on underserved households.

For the purposes of the report, only rental structures with five units or more are included, mirroring the practice of the Census Bureau in collecting data on apartments. Hoyt Advisory Services (https://www.bisnow.com/tags/hoyt-advisory-services) and Eigen10 Advisors conducted the research for the report.

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