BEYOND THE GLOBAL HEALTH CRISIS

Marcus & Millichap

SPECIAL REPORT **YOUNG ADULTS LIVING AT HOME** NOVEMBER 2020

Shift in Young Adults' Living Arrangements Impacts Apartment Sector

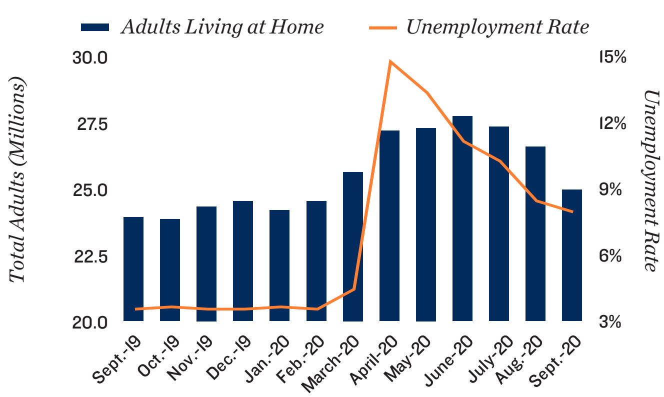
Health crisis amplifies existing trend among Generation Z and millennials. The impact of the pandemic on young adults is weakening short-term household formation and apartment demand. Widespread job losses and college closures recorded during March and April significantly increased the number of 18- to 34-year-olds who live with parents or relatives, bringing the tally to a record 27.7 million in June. The level has declined in subsequent months, though the volume of young adults living at home sat well above the prior four-year average in September at 25 million. This measure appears positioned to remain historically high in the near term as half of the jobs lost in the U.S. during the initial months of the pandemic have yet to be recaptured. Additionally, October filings for jobless claims remain relatively elevated, with an increase in filings under the Pandemic Unemployment Assistance emergency program recently recorded.

College reopenings create uncertain outlook. A return to in-person classes and on-campus living across major U.S. universities has the potential to notably impact the number of young adults living at home. While many institutions are tentatively preparing to return more students in the spring, recent spikes in many states' weekly COVID-19 case numbers could alter those plans. The possibility of campuses not reopening until fall 2021 or the distribution of a widely available vaccine is likely to cause demand for rentals that target students to remain low.

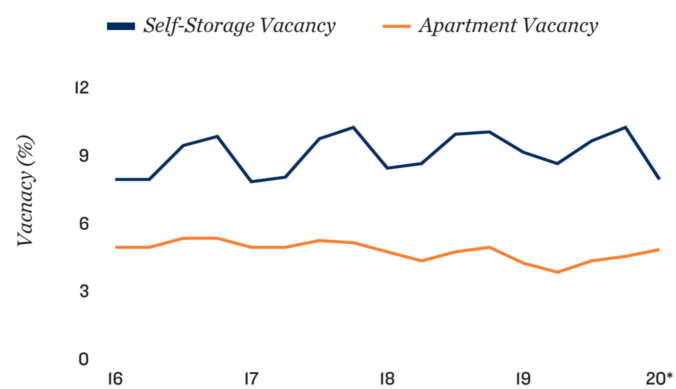
Short-term rental and self-storage vacancies affected. The potential for more young adults to live with family throughout next year is creating uncertainty surrounding future apartment demand. Following the delivery of 250,000 units nationwide during the first three quarters of this year, vacancy has risen slightly despite a nationwide eviction moratorium. A historic volume of 18- to 34-year-olds living with family over a more extended period would notably impact the nation's renter base, placing further upward pressure on availability. However, young adults living with family for a longer span could benefit the self-storage industry, which could receive up to 25 million square feet of supply additions during the second half of this year. The sector has already performed well during the pandemic, having recorded a 230-basis-point reduction in vacancy from April to June.

Investors bet on future move-outs. Continued job growth and the reopening of universities should translate to an eventual wave of young adults leaving their parents' residences. This movement will boost apartment demand, as these individuals are unlikely to pursue homeownership. In anticipation, investors may target metros that are further along in their economic recovery or those with unemployment rates below the national average. Midwest and Florida markets with less of a reliance on young adult renters and below-average rents should appeal to buyers looking to deploy capital in the near term.

Job Losses Force Young Adults Back Home



Apartment Vacancy Rises as Self-Storage Improves



* Through second quarter

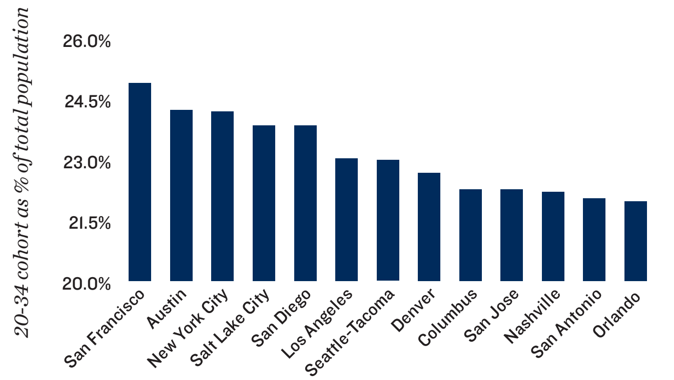
Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; Union Realtime, U.S. Census Bureau

Young Adult Relocations Linked to Spike In CBD Vacancy Rates

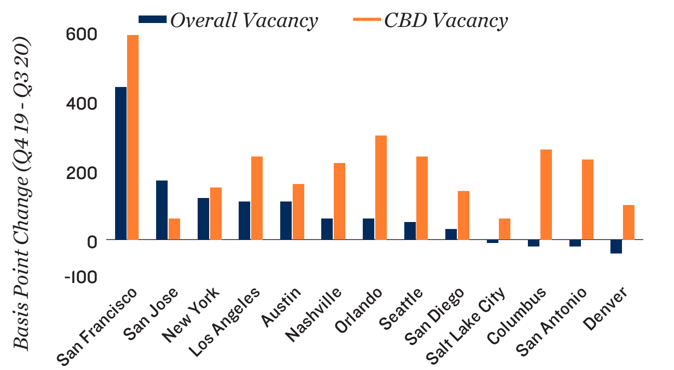
Metros with large millennial populations record surge in downtown availability. Residents moving to areas of reduced density or lower housing costs has notably increased unit availability in many metros' central business districts (CBDs). Recent job losses have also hurt young adults who reside in higher-priced downtown neighborhoods, forcing some to relocate at a time when urban cores continue to record an influx of new apartments. Entering the fourth quarter, the nationwide core vacancy rate had risen 170 basis points over the past nine months to 5.8 percent, the highest rate since at least 2000. In half the markets with the highest concentration of young adults, vacancy gains in CBDs exceeded 200 basis points, led by San Francisco and Orlando. In response, developers with projects in lease-up or landlords with significant recent move-outs in these markets are likely to increase concessions usage in the coming quarters.

Circumstantial acquisition opportunities could emerge. Investors that historically acquire newly built, core-located assets in gateway and primary markets may see an increase in potential targets as developers sell recently completed properties in struggling CBDs prior to stabilization. By assuming lease-up risk, interested buyers could attain bargaining power, creating scenarios in which newer assets are purchased at discounted pricing. Additionally, a possible decline in project proposals in some CBDs may influence buyers confident in a specific metro's recovery to strike while pricing uncertainty remains. Other investors are likely to expand their investment criteria, pursuing properties in locations popular among renters who have vacated downtown neighborhoods.

Metros With Largest Share of Young Adult Population*



CBD Vacancy Rising in Millennial Metros



* Fourth quarter 2019

Sources: Marcus & Millichap Research Services; RealPage; CoStar Group, Inc.

Prepared and edited by

Erik Pisor
Research Analyst | Research Services Division

For information on national healthcare real estate trends, contact:

John Chang
Senior Vice President, National Director
Research Services Division
Tel: (602) 707-9700 | john.chang@marcusmillichap.com

National Multi Housing Group

John Sebree
Senior Vice President, National Director | National Multi Housing Group
Tel: (312) 327-5417 | john.sebree@marcusmillichap.com

For information on Marcus & Millichap Capital Corporation, contact:

Tony Solomon
Senior Vice President, National Director | MMCC
Tel: (310) 909-5500 | tony.solomon@marcusmillichap.com

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; Moody's Analytics; Real Capital Analytics; U.S. Census Bureau

 Price: $500