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2021 BEST IDEAS - PART 2

Moving Out: The Growth Of The Suburban Rental Market



PGIM REAL ESTATE

MOVING OUT: THE GROWTH OF THE SUBURBAN RENTAL MARKET

Big-city living has long been the dream of many Americans. Exciting nightlife, convenient public transportation and great restaurants are a tough combination to beat. The horrific wrath of the COVID-19 outbreak, however, has helped contribute to an unlikely trend: the suburban rental market is becoming the place to be.

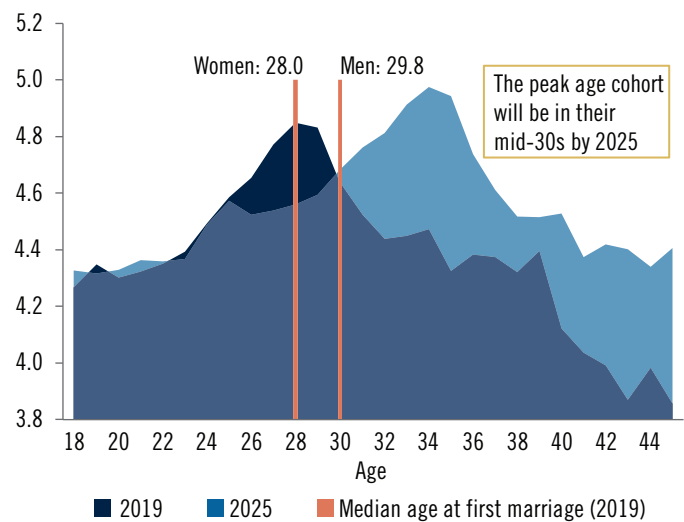
It's clear that the pandemic has diminished the relative benefits of urban housing and increased the adoption of work-from-home arrangements. The desire for the extra living space usually found in the suburbs comes at the same time that there's likely to be a growing acceptance of flexible working arrangements in the post-COVID world. And while the office environment is not expected to become obsolete, being able to work from home more regularly may make a longer commute from the suburbs more palatable.

THEY'RE GROWING UP

But the urban exodus isn't solely a function of the virus. In fact, [the pieces were already coming into place for such a transformation](#), driven by the shifting underlying demographic profile of the United States. The large, millennial population that drove the strong demand for urban housing after the global financial crisis is now entering the age of "settling down" and is expected to increasingly prioritize such features as more space and proximity to good schools.

In 2019, the most common age in the U.S. was 28, near the median age for the first marriage for men (29.8) and women (28.0). By 2025, the most-populous age range will be in their mid-30s, and many will have had children or be close to starting a family, providing a tailwind to the suburban market. (See figure 1).

2019 VS. 2025 POPULATION BY AGE (MIL)



Sources: Census Bureau, PGIM Real Estate. As of October 2020.

In such a scenario, an abundance of studio apartments and one-bedroom units is unlikely to meet the changing lifestyle needs of millennials who are looking for more space and accommodations suitable for families. Instead, there will likely be a growing preference for two- and three-bedroom units, which are usually built in suburban submarkets. As such, there will be opportunities to either develop or redevelop rentals with larger

units or intentionally design properties that preserve the option to cost-efficiently shift unit mixes over time.

What's more, supply growth in suburban submarkets continues to be more contained than in urban locations. Indeed, urban supply pipelines remain full, which should continue to weigh on rents. Although land may be scarcer in urban areas, barriers to development are often lower.

AFFORDABILITY STILL A CONCERN

A key risk to the outlook for suburban rental housing will be the extent to which homeownership continues to rise during the next decade. The homeownership rate has been steadily increasing over the past five years, from a cyclical trough of 63.1% in 2016 to 65.3% in early 2020. Nonetheless, most renters still view affordability as a significant hurdle to homeownership. A 2019 survey of renters from Freddie Mac found that 84% believed renting to be a more affordable option than owning — a figure that has trended upward during the past several years. Even for those who do eventually become homeowners, suburban rentals may still serve as attractive transitional options.

BRINGING IT HOME

Years from now, the COVID-19 pandemic and accompanying economic slowdown may be viewed as sparks that ignited renewed demand for suburban living. However, the shift toward the suburbs was already occurring, pandemic or not, because of the changing lifestyle demands of an aging millennial cohort. Accelerated adoption of more flexible work-from-home arrangements should give a boost to suburban living, but the demographics were already pointing in that direction.

Housing demand is set to favor suburban locations in the near term and during the next decade. Both multifamily and single-family rental properties should benefit from that suburban demand shift, which supports investment strategies focused on the acquisition, development and redevelopment of suburban rental housing.

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