TRENDS IMPACTING HABITATION ALTERNATIVES

Stewart Rubin
Senior Director
New York Life Real Estate Investors

INTRODUCTION

Demographic, economic and social trends are positively impacting demand for various habitation alternatives. The trends include; 1) the large cohort of millennials[1] reaching prime renting age, 2A) the growing prevalence of singlehood, 2B) the increase of adult years without children at home, 3) the aging of baby boomers and as a corollary the growth of 65+ population combined with extended US life expectancy, and 4) the economic stress being experienced by large sectors of American society.

Millennials (born 1980-2000) are in their prime renting years of 20-34 years of age and now represent the largest age cohort. The population of the 20-34 years of age bracket is expected to continue growing over the next several decades in most of the major US metros. The growing prevalence of singlehood will continue to spur demand growth for rental units. The confluence of longevity, the increase in childless-by-choice Americans, and overall lower US birthrate is resulting in a greater number of adult years spent without children at home. Unmarried adults are more likely to rent apartments than to own homes. Furthermore married couples without children at home are more likely to rent apartments than those with offspring in their domicile[2]. American longevity and the size of the baby boomer age cohort are resulting in the largest 65+ population segment in US history. We believe that although the majority of seniors will continue to reside in owned housing, a significant percentage of this large age cohort will rent apartments. This will also drive demand for the spectrum of senior housing[3]. In addition, since the majority of seniors rely primarily on social security for retirement income, we expect that demand for low cost housing including pads in manufactured home communities will increase. Finally, the economic stress being experienced by large sectors of American society has resulted in the inability of many to buy homes and as a result, they remain part of the tenant pool. This will drive demand for assorted moderately priced housing solutions.

We expect that certain markets and subsectors will gain disproportionately from the aforementioned demographic, economic and social trends. For example, urban multifamily will benefit in metro areas with the largest projected growth in prime renter age population. Although national trends point to the increased desirability for multifamily in urban cores, we expect non-downtown and suburban multifamily to be attractive as well.

DEMAND FOR MULTIFAMILY RESULTING IN VALUE APPRECIATION AND IMPROVED MARKET FUNDAMENTALS

These factors are already having a significant impact on multifamily housing. In terms of value appreciation, apartments are 31.7% above the previous peak. Apartments in major markets have

[1] They are referred to as millennials because they started becoming adults around the millennium. The millennial age cohort generally refers to those born between 1980 and 2000. There are other definitions including those born 1981/1982-2000. Other permutations are used as well. They are sometimes referred to as "Echo Boomers" because most are the children of baby boomers (born between 1946 and 1964).

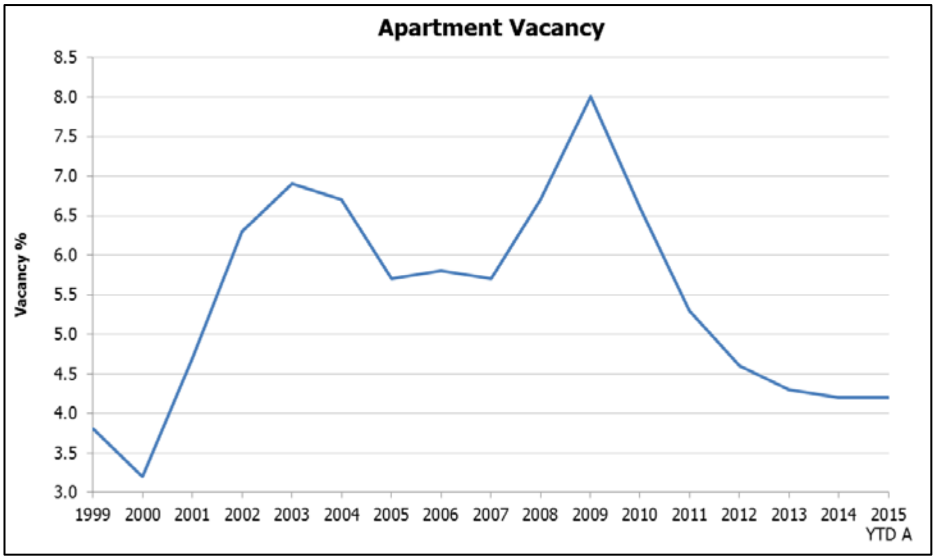
[2] Jordan Rappaport "Millennials, Baby Boomers, and Rebounding Multifamily Home Construction", Federal Reserve Bank of Kansas City, July, 2015.

[3] Since the typical age for entry in to the Assisted Living and Skilled Nursing sectors of seniors housing is 80-85, those facilities will not see demand spike until ten to fifteen years hence. Age restricted multifamily and independent living facilities are beginning to experience the spike now.

outperformed all other property types at 54.0% above the previous peak, while apartments in non-major markets are up 17.4% from the previous peak[4].

Market fundamentals have also rallied. As of Q2 2015, the national apartment vacancy rate was 4.2% representing a 14 year low.

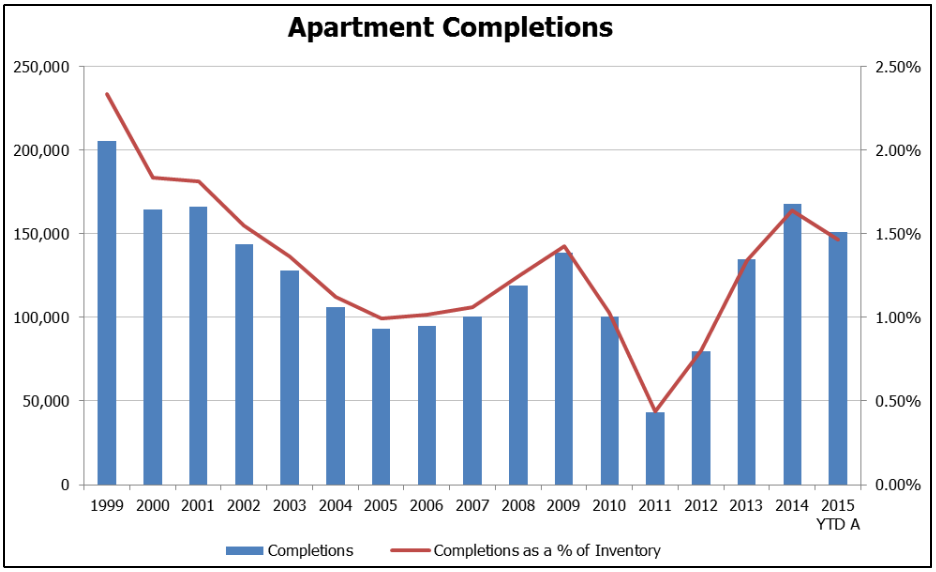
Table 1



Source: Reis, June 2015.

Construction as a percentage of existing inventory is at its highest point since 2001. Despite the new construction, supply has not kept up with demand. In addition, much of the new product is in the luxury category[5].

Table 2



Source: Reis, June 2015.

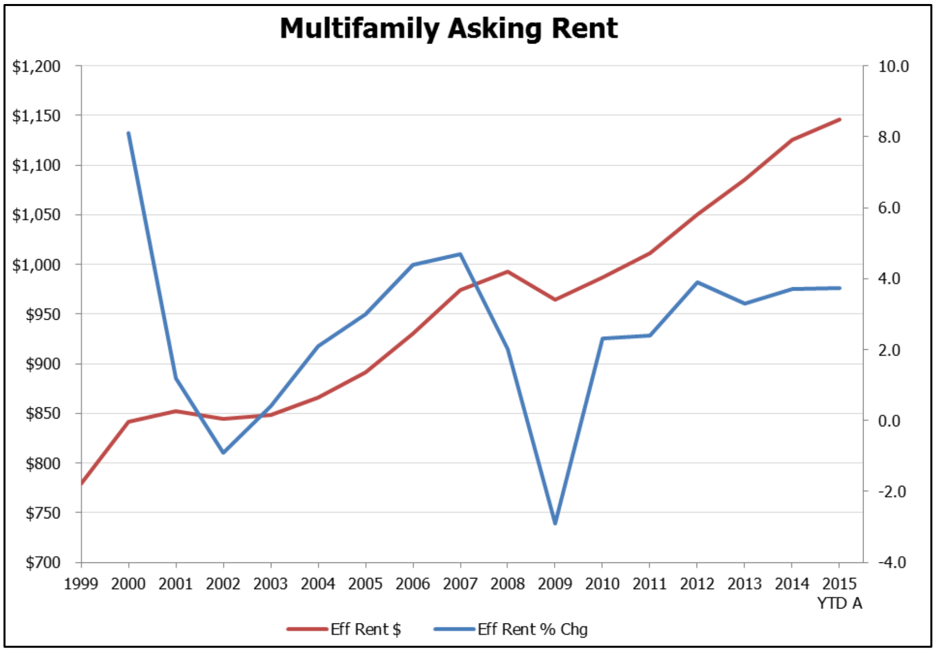
---

[4] Tad Philip and Kevin Fagen "Moody's/RCA CPPI: Moody's/RCA CPPI: CBD Office Prices Gain 7% in Past Three Months", September, 2015.

[5] Laura Kusisto, "New Luxury Rental Projects Add to Rent Squeeze", The Wall Street Journal, May 20, 2015.

The effective annual rent growth rate averaged 3.6% from 2011 to 2014. In contrast the Consumer Price Index experienced an annual average growth of 1.7% during the same time period.

Table 3



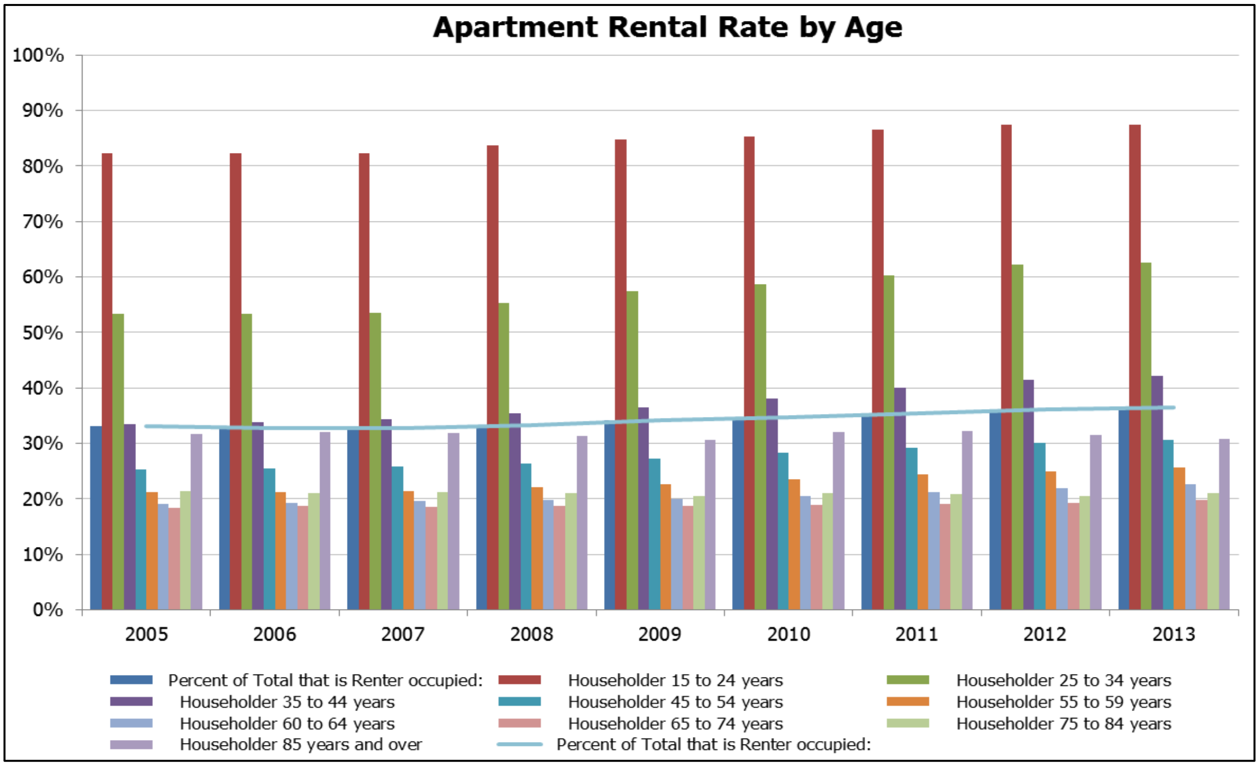
Source: Reis, June 2015.

WHAT IS BEHIND APARTMENT DEMAND SURGE?

PRIME RENTING AGE POPULATION GROWTH

The primary demand generator for apartments is households headed by someone between the age of 20 and 34. The likelihood that the aforementioned age group is renting apartments has increased substantially since 2005.

Table 4



Source: US Census Bureau.

The above chart highlights that young households headed by someone 34 or younger are much more likely to rent than all other age segments. In addition, younger households were more likely to rent in 2013 than they were in 2005. For example households headed by someone 25-34 years old had a 2013 renter share of 63% compared to the 53% recorded in 2005[6].

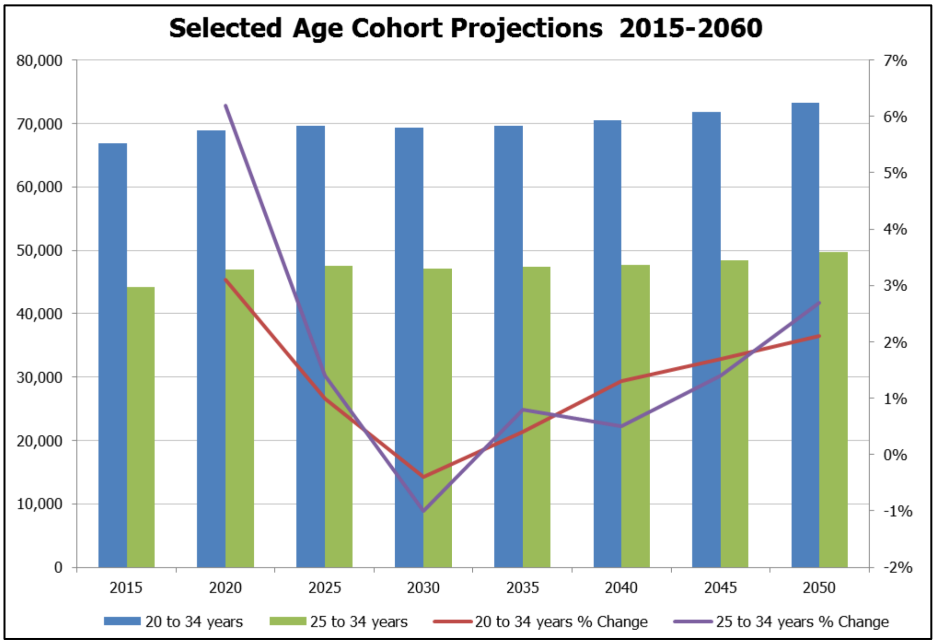
The large 87 Million strong age cohort of the American population born between 1980 and 2000 is now 15-35 years old and has driven a surge in rental housing demand. This age bracket is expected to grow through 2025 and then decline by 2030. It will then resume its ascent by 2035.

---

[6] In terms of individuals (as opposed to households) a recent study of those born between 1978 and 1995 (now 20-37 years old) by ULI found that 50% were renters. Of those, 60% rent apartments or townhouse style units and 40% rent single-family or mobile homes - M. Leanne Lachman and Deborah L. Brett “Gen Y and Housing”, Urban Land Institute, 2015.

Table 5

PROJECTED SIZE OF AGE COHORT

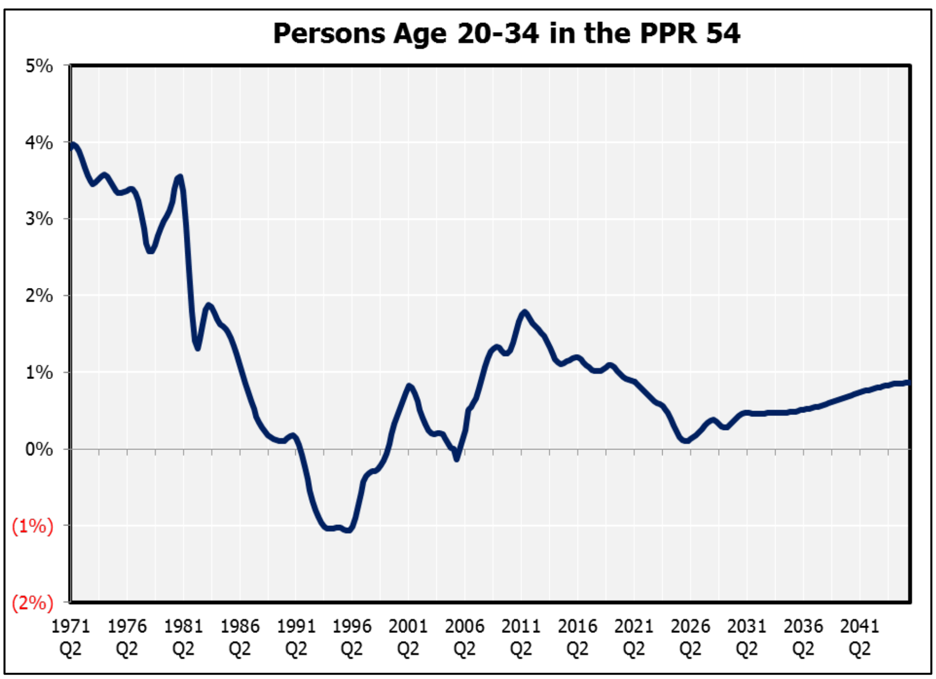


Source: US Census Bureau.

However, when isolating the top 54 markets tracked by CoStar (PPR 54) collectively, the population is not projected to decline.

Table 6

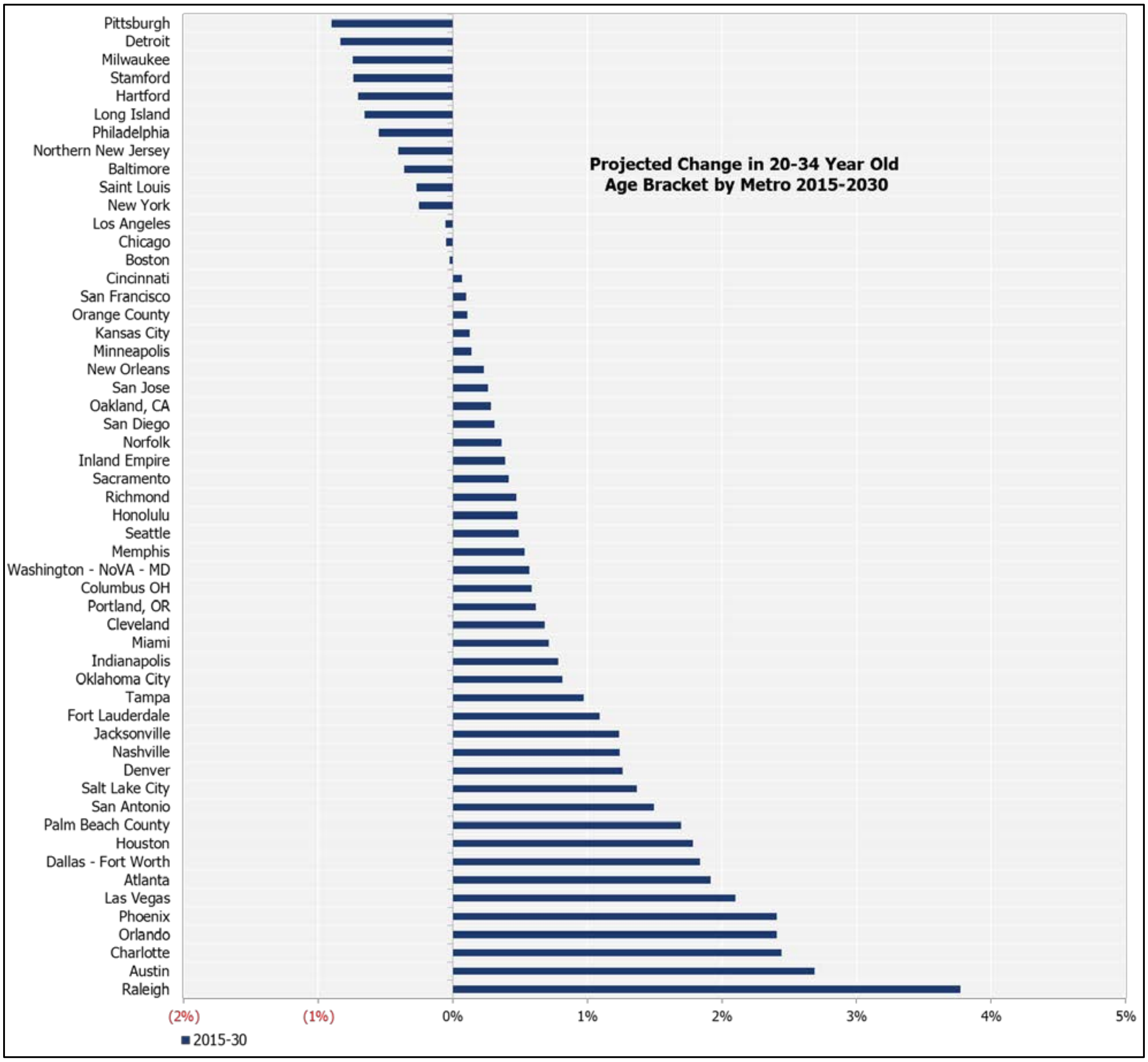
PPR 54 - AGE 20-34 AGE COHORT HISTORICAL AND PROJECTED GROWTH RATE



Source: CoStar and US Census Bureau.

Although some of the individual PPR54 markets' population of 20-34 year olds is expected to decline between 2015 and 2030, most of the individual PPR 54 markets are projected to exhibit an increase in this age category.

Table 7

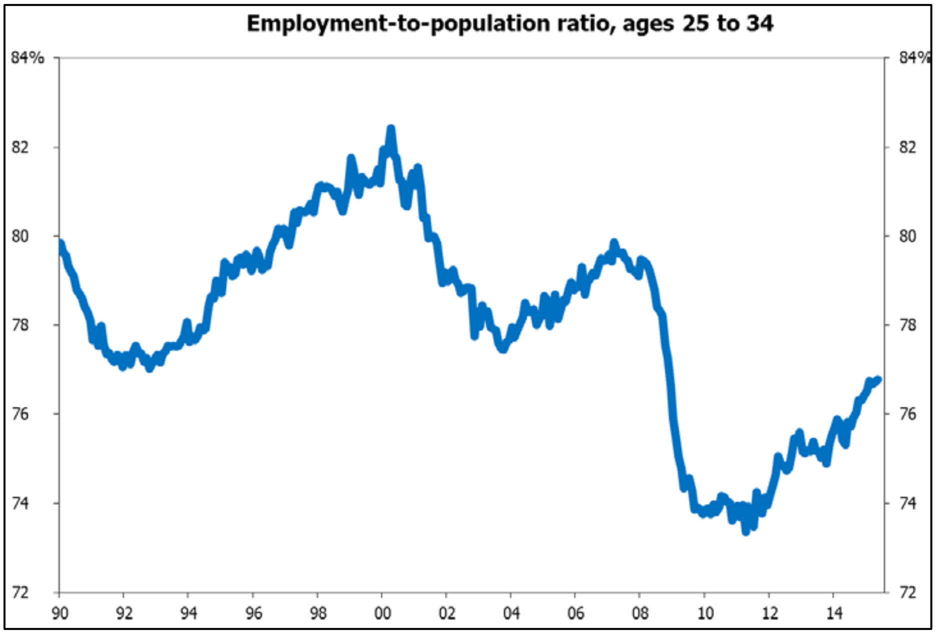


Source: CoStar and US Census Bureau.

ECONOMIC STRESS OF MILLENNIALS

The employment to population ratio for the 25-34 age cohort stands at 76.8%. This is an improvement over the low point of 73.4% reached in April 2011, but not recovered back to its prerecession peak of 79.86% and certainly not back to the 82.43% achieved in April 2000. The employment to population ratio is lower among the 25-34 age bracket than it is for the 25-54 age bracket.

Table 8



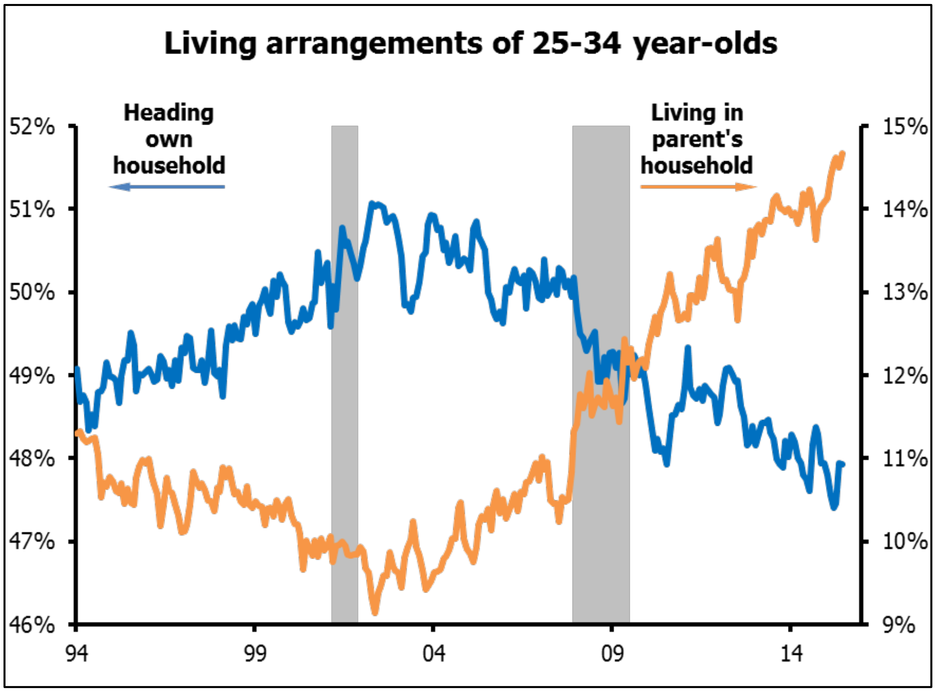
Source: Deutsche Bank, Bureau of Labor Statistics.

Other signs of stress include the burden of student loans. According to a recent Joint Center for Housing Studies of Harvard University (JCHS) report, 39% of households headed by individuals aged 25-34 had student loans in 2010 up from 26% in 2001 and more than double the level in 1989. The median amount of that debt rose from $10,000 to $15,000 in real terms between 2001 and 2010. Within this group, the share with at least $50,000 in student debt more than tripled from 5 percent to 16 percent during the same time period[7].

The data exhibited in Table 4 titled "Apartment Rental Rate by Age" is for those who are head of households (also known as headship rate), however, many of that age cohort are not heads of households. A growing share of the individuals in this age group are living in their parent's household. Approximately 14.6% of the 25-34 year-old demographic were living in their parent's household as of April 2015 and 47.3% were heading their own household. The balance (37.9%) constituted the spouses or roommates of household heads. The parent household dweller share is at a 21 year high and is the result of coming of age during the recent recession and the economic stress of certain segments of American society. Nevertheless, it also indicates potential pent up demand. As the economy improves many of these individuals will move out of their parent's homes and in to rental units. Even a small improvement will have a significant impact on rental demand growth in this large age cohort.

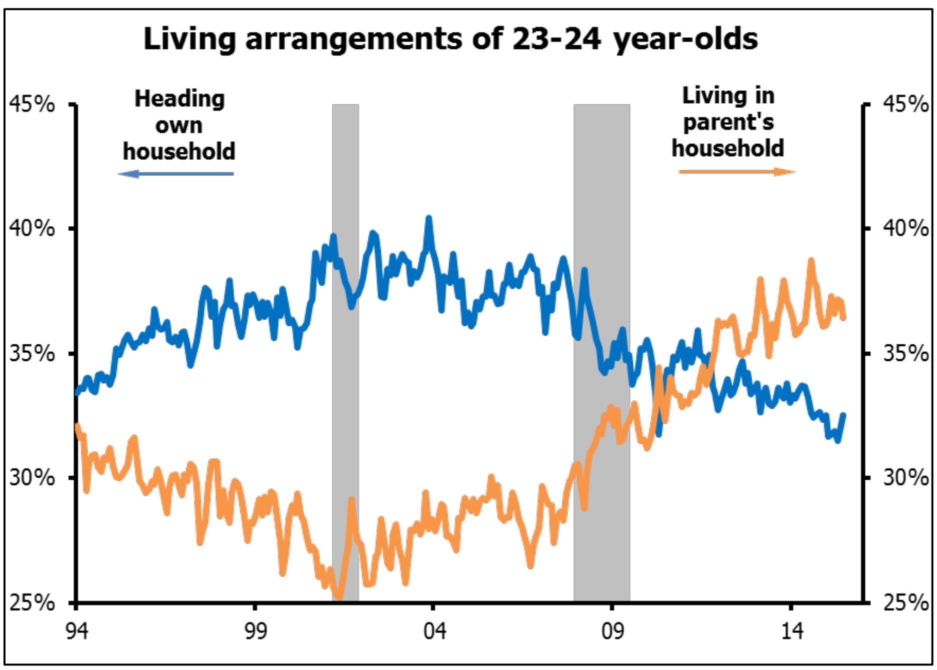
[7] The State of the Nation's Housing 2014, Joint Center for Housing Studies of Harvard University, 2014.

Table 9



Source: Bureau of Labor Statistics, J.P. Morgan.

Table 10



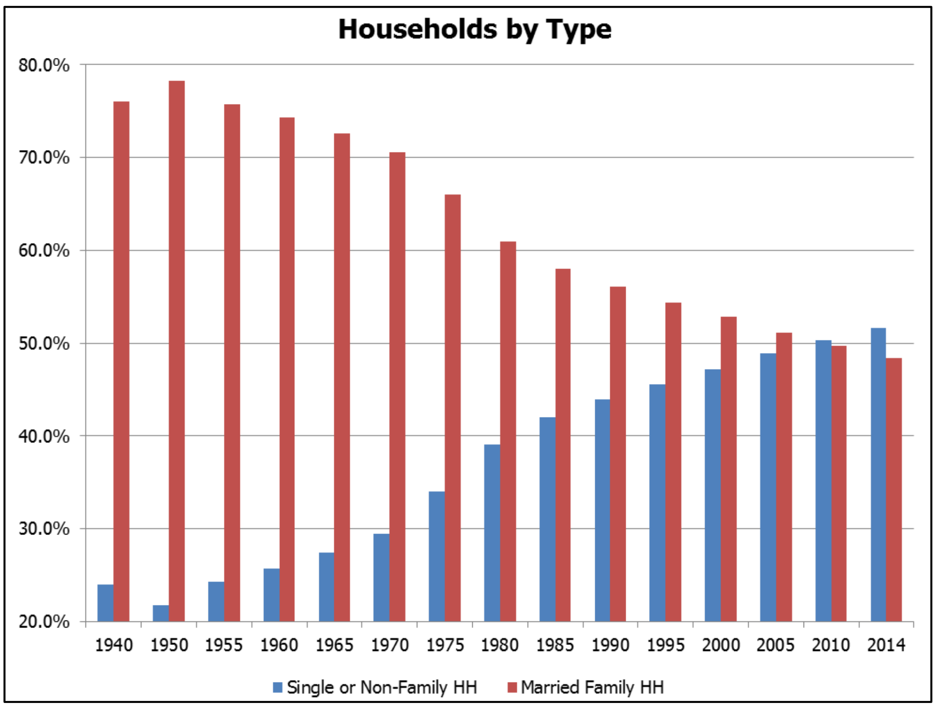
Source: Bureau of Labor Statistics, J.P. Morgan.

THE GROWING PREVALENCE OF SINGLEHOOD

SINGLE OR NON-FAMILY HOUSEHOLDS ARE THE MAJORITY

Married individuals (Married family households) head 48.4% of all households while single individuals (single or non-family households) head 51.6%. This is a significant reversal from previous decades when the respective numbers for married family households and single or non-family households where as follows; 2000: 52.8%, 47.2%, 1990: 56%, 44%, and 1980: 60.9%, 39.1%. In 1950 single or non-family households constituted only 21.8% of all households. About 50.2 percent or 124.6 million American adults are single compared to 22 percent in 1950[8].

Table 11



Source: US Census Bureau.

This trend is not only attributed to divorce and widowhood, but also to never married adults that constitute a significant and growing part of single people[9].

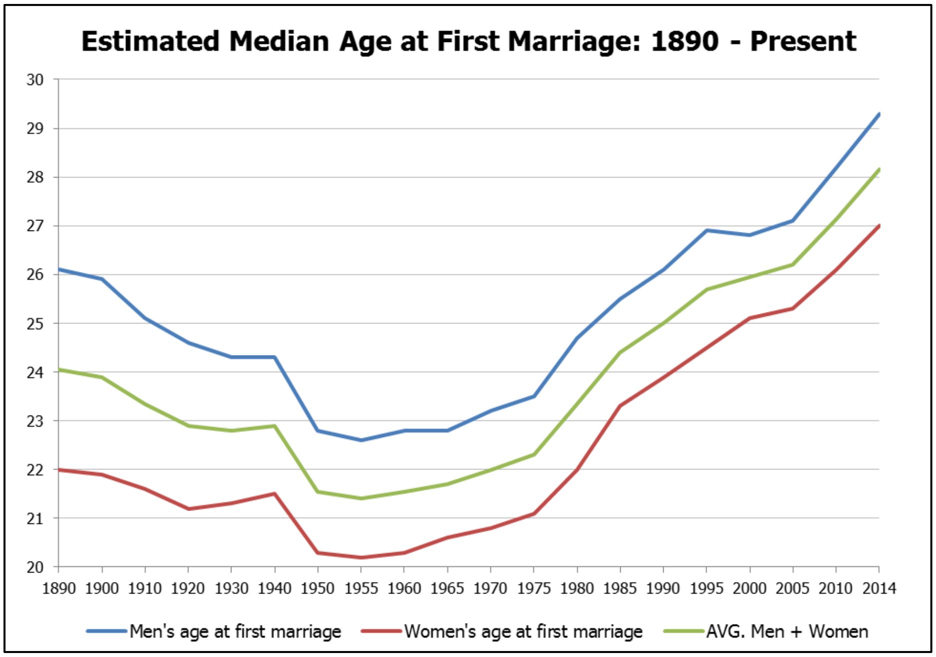
DELAYED MARRIAGE

Age at time of first marriage has increased 3.2 years since 1990 and 6.6 years since 1960. The age at first marriage was 28.2 (29.3 for men and 27.0 for women) in 2014 compared to 25.0 (26.1, 23.9) in 1990 and 21.6 (22.8, 20.3) in 1960. If these trends continue more demand will be created for multifamily housing.

[8] Eric Klinenberg, “Going Solo: The Extraordinary Rise and Surprising Appeal of Living Alone”, Penguin Books, February, 2012.

[9] For possible reasons see June Carbone and Naomi Cahn, “Marriage Markets: How Inequality is remaking the American Family”, Oxford University Press, May, 2014.

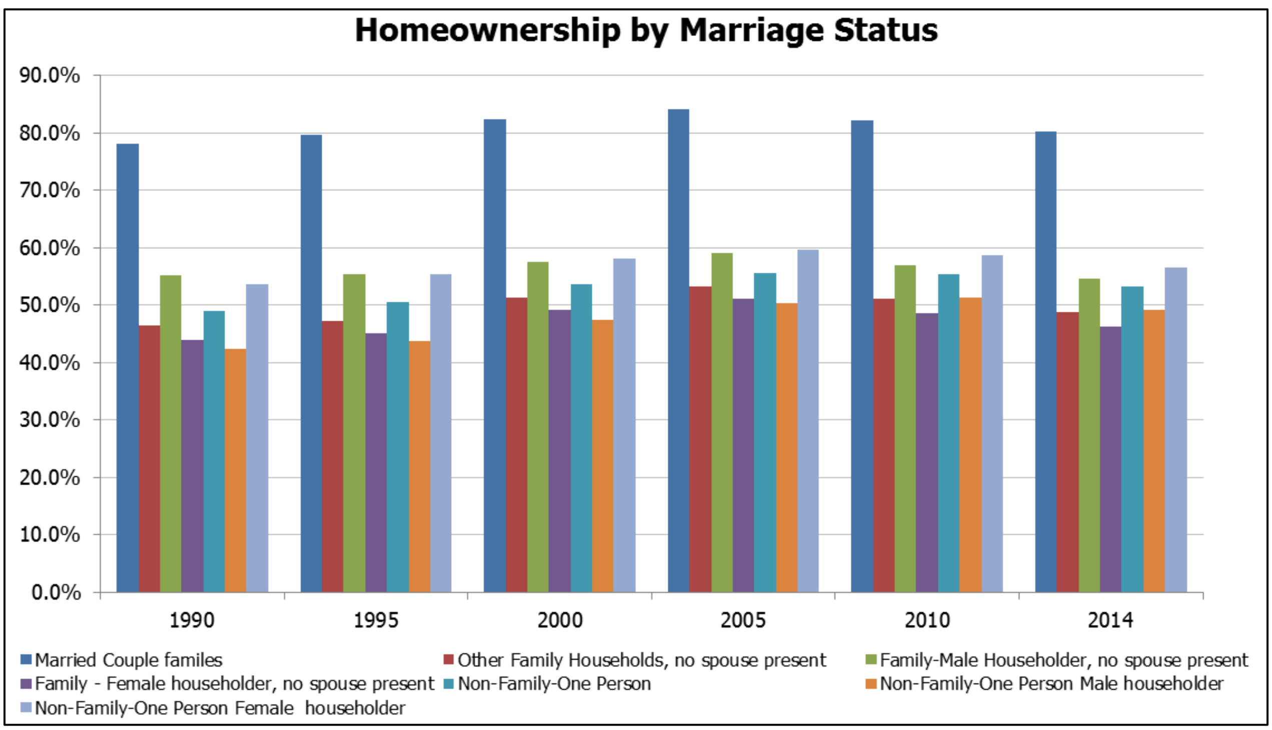
Table 12



Source: US Census Bureau.

In 2014 unmarried headed households were more likely to be apartment rental candidates than married headed households. The chart below details the homeownership rates for married and unmarried households since 1990.

Table 13



Source: US Census Bureau.

As the share of adults that are married has declined over the past 65 years, the pool of potential renters increased. Sam Zell considers this to be "perhaps (the) most significant factor in keeping multifamily as the strongest investing area in commercial real estate" [10].

People who are not married are more likely to rent apartments than to own a home. There are several demographic and social trends that indicate that more Americans are spending a larger share of their adult years being single and/or not having children at home. A growing part of the US population is childless by choice[11]. Married couples between the ages of 20 and 50 without children are considerably more likely to live in multifamily units than are married couples in the same age category with children.

This is most pronounced in the 30-34 age category. Sixty-one percent of individuals aged 30 to 34 who occupied a multifamily unit in 2013 lived alone compared with 35 percent of those who were married without children and 18 percent of those who were married with children[12].

GROWTH OF 65+ POPULATION

The world has experienced unprecedented human lifespan growth over the past 115 years. In the United States life expectancy at birth increased from 47 years in 1900 to 78.9 years in 2012. Longevity has resulted in more adult years without children at home. As the "empty nester" years are elongated, more years of potential apartment renting exist. Similarly the delay of marriage creates more years of likely apartment renting in the early years of adulthood. As Americans are living longer and healthier lives, the 65+ age cohort will continue to grow. This age cohort is large both because of the size of the baby boom generation and increased longevity.

---

[10] David Benoit, "Sam Zell on Marriage, Multi-Family and Single-Family Real Estate", Wall Street Journal, October 29, 2013 and http://blogs.wsj.com/moneybeat/2013/10/29/sam-zell-on-marriage-multi-family-and-single-family-real-estate/ Mr. Zell said the continued trend to defer marriage until later in life has proved a boon to apartments and condos across the country, and to his own company, Equity Group Investments.

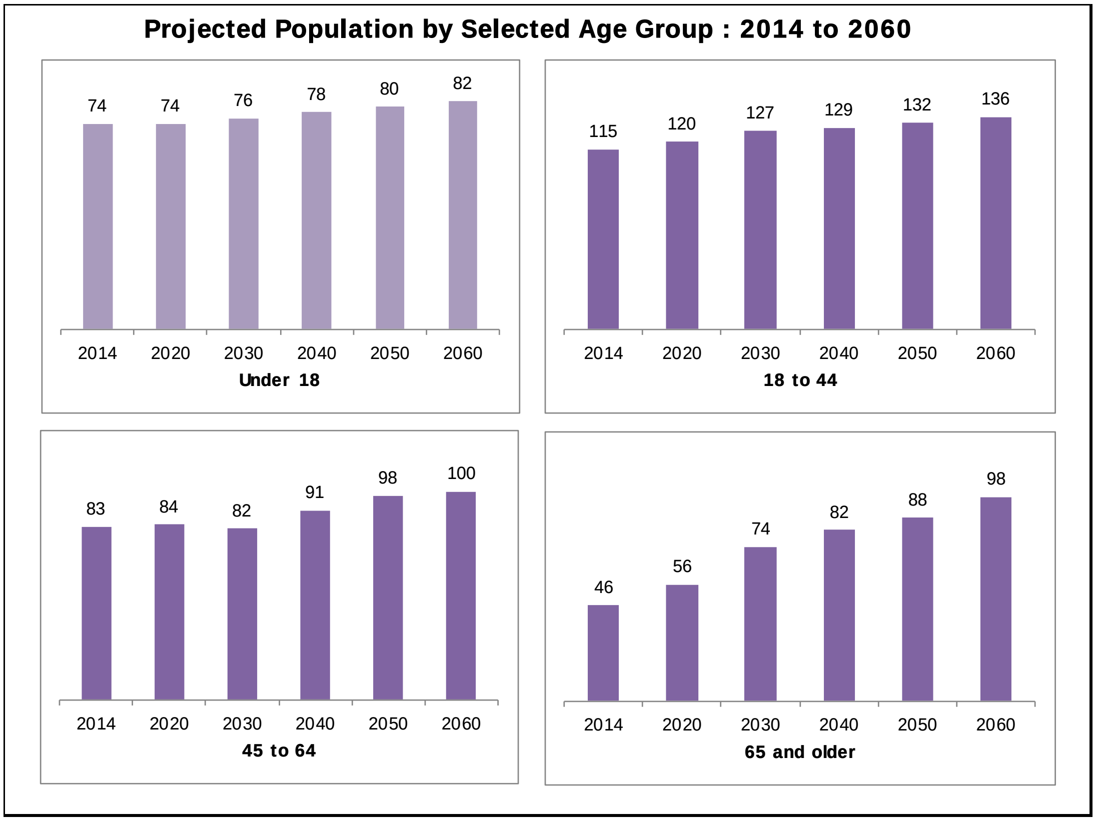
[11] Teddy Wayne, "No Kids for Me, Thanks", New York Times, April 3, 2015.

[12] Jordan Rappaport "Millennials, Baby Boomers, and Rebounding Multifamily Home Construction" Page 13, Federal Reserve Bank of Kansas City, July, 2015.

SIZE OF BABY BOOM GENERATION

As baby boomers age, the largest population increase will be in the 65+ age category. The number of Americans age 65+ is expected to increase by 61%[13] from 46 million in 2014 to 74 million by 2030.

Table 14



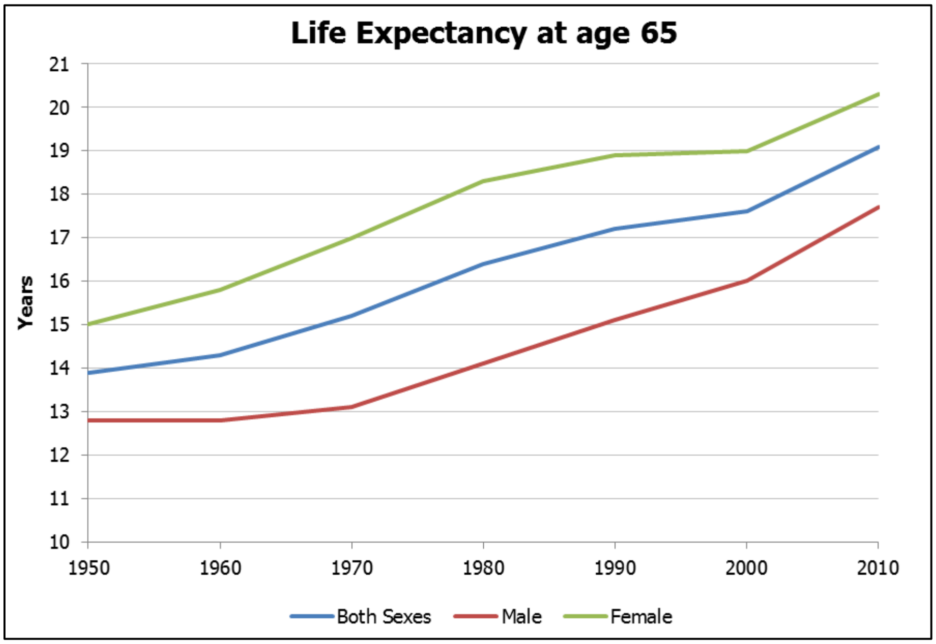
Source: U.S. Census Bureau, 2014 National Projections.

[13] The increase for the top 44 markets tracked by CoStar is expected to be 63%.

AMERICANS ARE LIVING LONGER

Americans are living longer. The US life expectancy rate at age 65 has increased to 19 years in 2016 from 17 years in 2000 and 16 years in 1990. This has resulted in more years of adulthood without children living at home.

Table 15



Source: Centers for Disease Control and Prevention.

Older Americans are more likely to own a home than younger Americans. In 2014 79.9% of adults 65+ owned a home compared to 76.3% of those 55 to 64 years, 70.7% of those 45 to 54 years, and 59.7% of those 35 to 44 years. Home ownership rates taper off after age 75. Even though individuals in the 65+ age bracket are less likely to rent apartments, the significant growth of this age segment will add substantial numbers to the potential rental pool. Even if the current share of seniors that downsize from owning to renting remains steady – the large size of the age cohort will increase demand for multifamily units. Future seniors are less likely to own homes as evidenced by the current home ownership rate of the 55-64 and 45-54 age categories. Indeed renting levels have increased over the past 10 years for those 45 to 64[14].

There are two other sectors likely to benefit from senior demand. The first is manufactured home communities. A significant portion of the 10,000 Americans who turn 65 every day are facing life on a fixed monthly income of $1,200 or less. As many Americans have not been able to save sufficiently for retirement, their housing options are limited. The burgeoning cohort of elderly Americans with a lack of resources will point many in the direction of more affordable housing such as manufactured home communities. Those that have not accumulated home equity and rely primarily on social security benefits will have more limited housing choices[15]. In fact social security income constitutes the primary income source for the majority of American seniors[16].

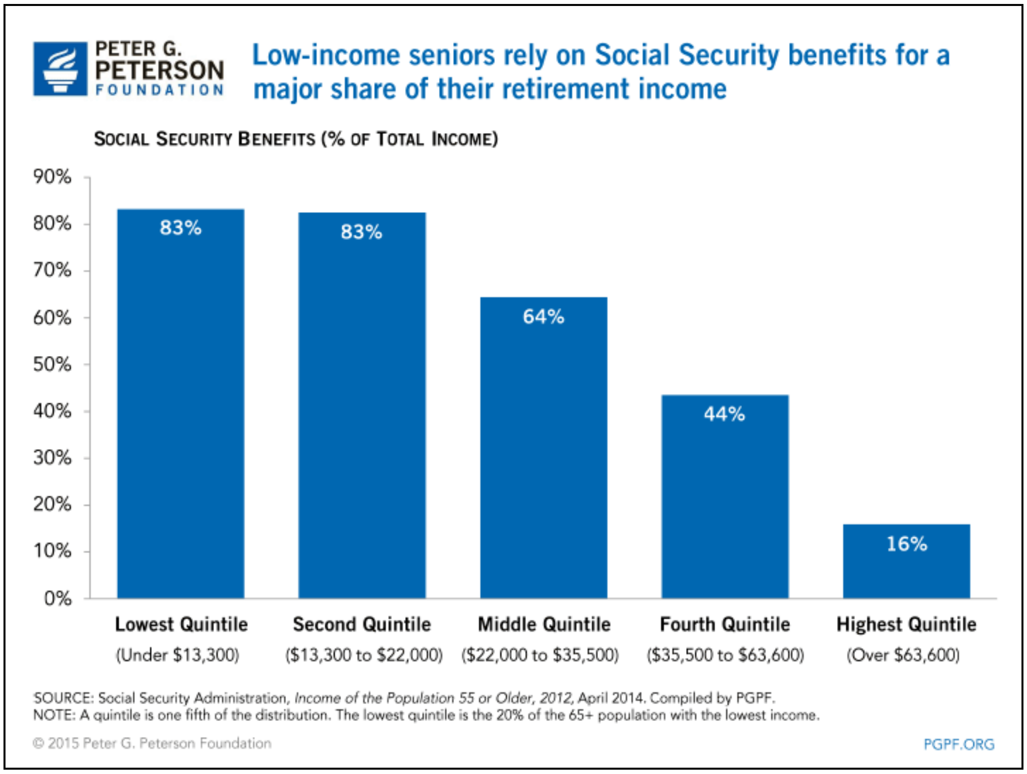
---

[14] The State of the Nation's Housing 2014, Joint Center for Housing Studies of Harvard University, 2014.

[15] Gary Rivlin, "The Cold, Hard Lessons of Mobile Home U.", New York Times, March 13, 2014.

[16] Source: Peter G. Peterson Foundation, pgpf.org, http://pgpf.org/Chart-Archive/0018_social-security-low-income.

Table 16



On the other end of the economic spectrum there are seniors that are doing well[17]. The higher income segment benefits from income from social security, pensions and investments, as well as working. In addition many benefit from the astounding six year bull market in US equities as well as the partially recovered residential real estate market. Many are staying in the workforce longer. The 65+ age category is the only one to have an improved employment to population ratio over the past 10 years. As a result, the pool of potential residents of 55+ communities and independent living facilities will also grow.

ECONOMIC STRESS BEING EXPERIENCED BY LARGE SECTORS OF AMERICAN SOCIETY

Although the economy has improved significantly, since the great recession, a considerable sector of American society has been left behind. Despite significant improvements in the unemployment rate (U-3)[18] to pre-crisis levels, and a lower rate of the more expansive U-6[19] measure of unemployment, the employment to population ratio remains significantly below prerecession levels. The employment to population ratio for those aged 25-64 is 73.5% vs 76.5% prerecession.

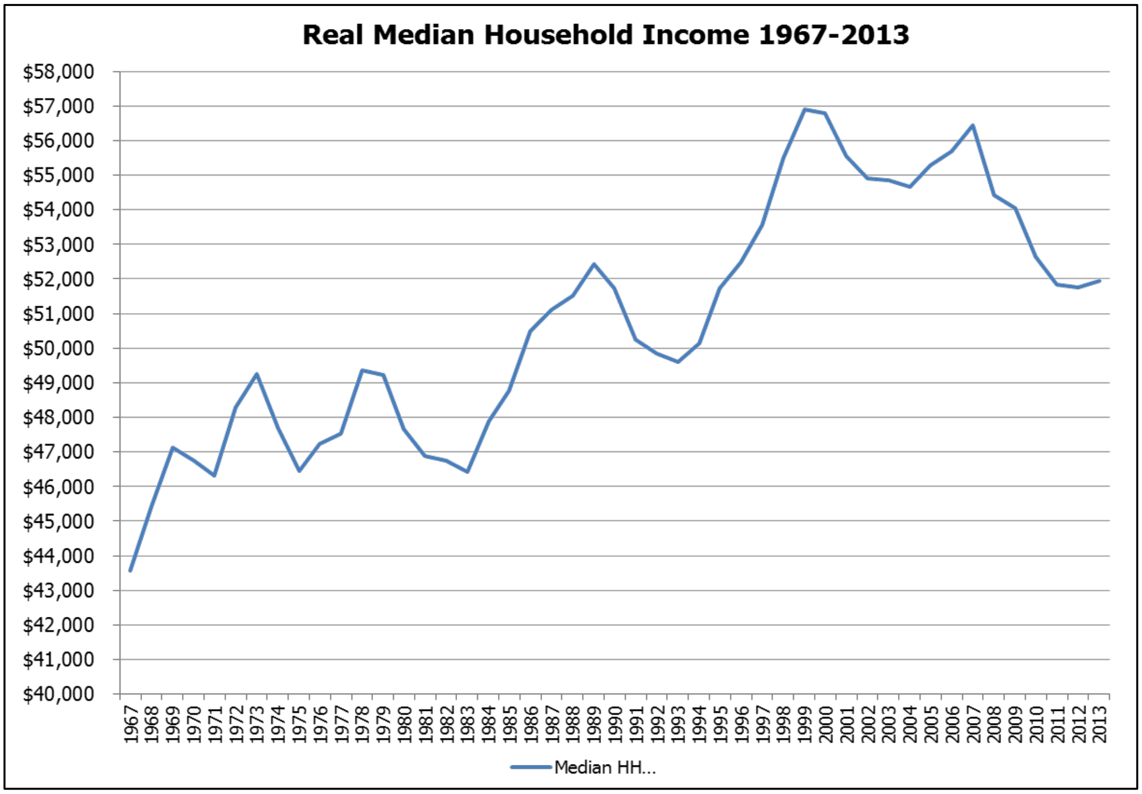
The recovery economy is tarnished by weak wage growth and a record number of civilians not in the labor force. Real median household income in the United States has declined since its most recent peak in 2007. Although median household income experienced a slight increase in 2013, it has not recovered back to the level achieved in 1996.

[17] Dionne Searcey and Robert Gebeloff, "America's Seniors Find Middle-Class 'Sweet Spot' , New York Times, June 14, 2015.

[18] Total unemployed, as a percent of the civilian labor force (official unemployment rate) from BLS .

[19] U-6 Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force.

Table 17



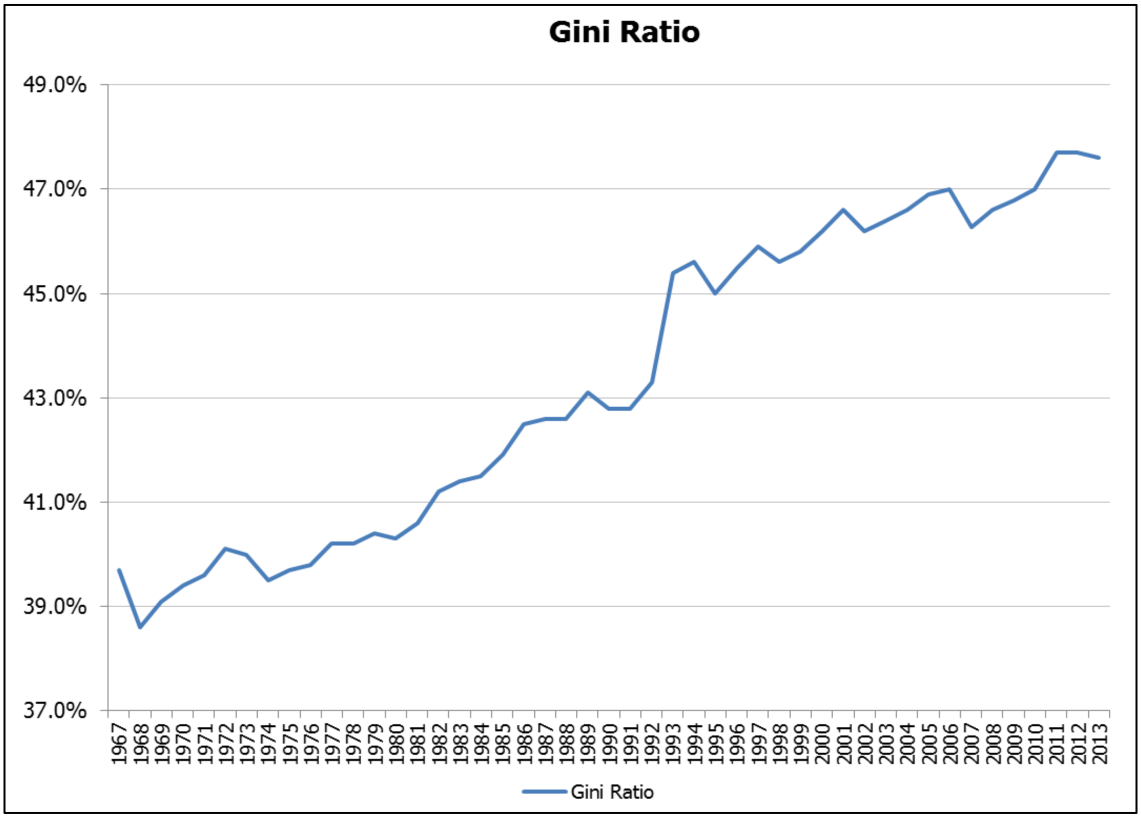
Source: US Census Bureau.

Since the financial crisis 86% of Americans have seen their wages fall in real terms, while 14% have experienced a real wage rise[20]. Measures of income inequality include the Gini Ratio[21] and the distribution of income and wealth between the top 1% and the bottom 99%. Tables 18 and 19 illustrate that the Ginni Ratio is near a 50 year high and lopsided income distribution is near a 90 year high.

[20] Andy Kiersz, "Since the financial crisis, almost all Americans have seen their wages fall.", Business Insider, July 13, 2015. Based on BLS data and covering years 2007 to 2014.

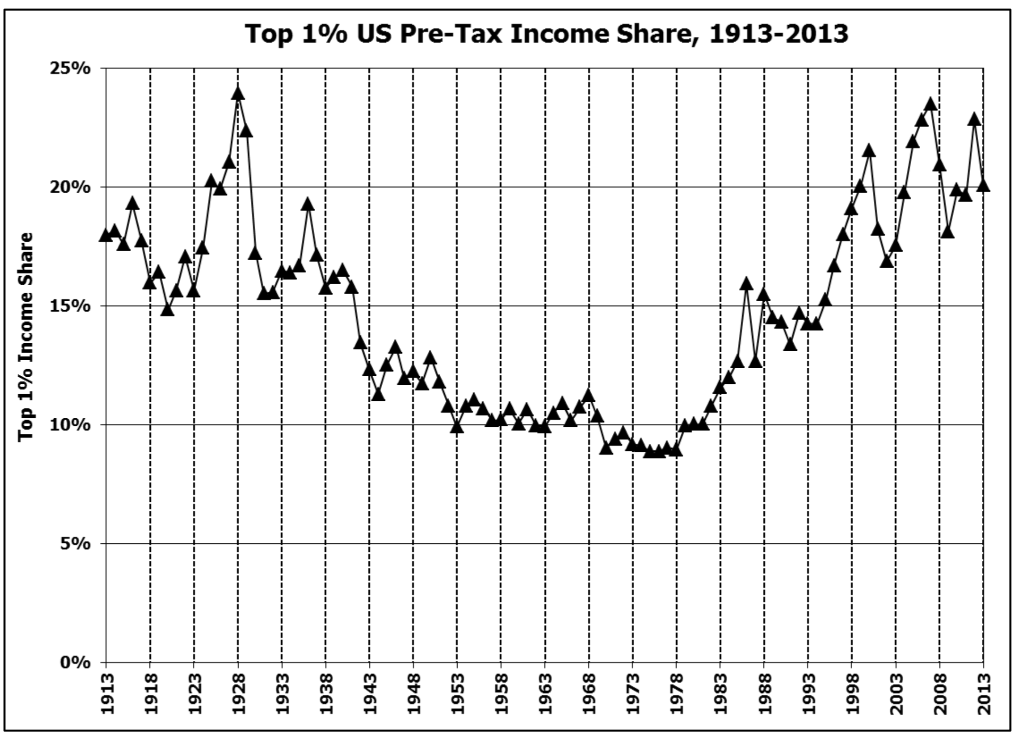
[21] The Gini Ratio (also referred to as the Gini Coefficient) is a measure of income inequality. The higher the Gini Ratio number, the greater the income concentration.

Table 18



Source: US Census Bureau.

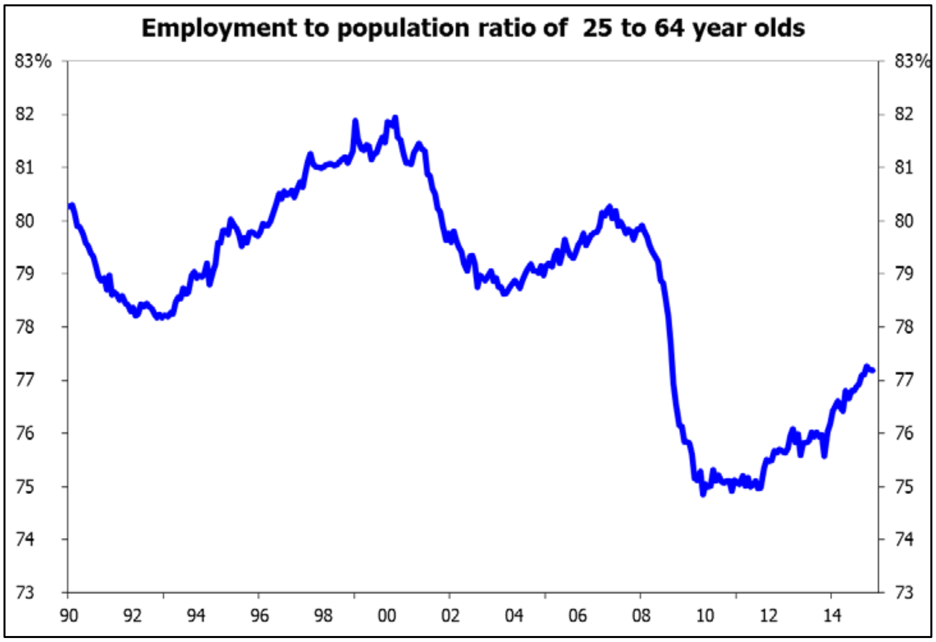
Table 19



Source: Piketty and Saez, 2003 updated to 2013. Series based on pre-tax cash market income including realized capital gains and excluding government transfers.

The effect of the economic bifurcation is not limited to the 20-34 year old prime renter group; less people in all age categories can afford homes or can qualify for mortgages[22]. Table 20 illustrates that the employment to population ratio for those in prime working years of 25-54[23] has not recovered to its pre-crisis level. According to JCHS "the real median income for households aged 50–64 in 2012 fell to $60,300, back to mid-1990s levels. Incomes of renters in this age group have declined especially sharply, dropping 12 percent from 2002 to 2012 and now back to 1980s levels. Real median annual incomes have fallen by $9,100 among 50–54 year olds and by $5,700 among 55–59 year olds since 2002"[24]. Consequently, renting levels are up for those 55 to 64 and they accounted for almost a quarter of the growth in renter households between 2005 and 2013[25].

Table 20



Source: Deutsche Bank, Bureau of Labor Statistics.

Nevertheless, the prime renter age bracket of 25-34 is of more concern. According to the JCHS study, median incomes of younger and middle-aged adults are at their lowest levels since 1970**.** The steepest declines have been among younger adults. The median income for households' aged 25–34 fell 11% from 2002 to 2012, leaving their real incomes below those of same-aged households in 1972[26]. Some of this economic stress is manifested in the growing share of the 25-34 year olds as well as 23-24 year olds living in their parents' home. In addition it has also resulted in a lower homeownership rate.

The home ownership rate has declined precipitously from the 2005 high water mark of 69.2% reached in December 2005[27]. The Q2 2015 homeownership rate of 63.4% is the lowest it's been since the 63.4% achieved in March 1967[28]. Many young adults are finding it difficult to qualify for a mortgage.

---

[22] Dionne Searcey, "More Americans Are Renting, and Paying More, as Homeownership Falls.", New York Times, June 24, 2015.

[23] The employment to population ratio for the 25-65 age bracket has also not recovered. However, the 25-54 age bracket is presented here in order to illustrate that the decline is not the result of early retirements.

[24] The State of the Nation's Housing 2014, Joint Center for Housing Studies of Harvard University, 2014.

[25] IBID

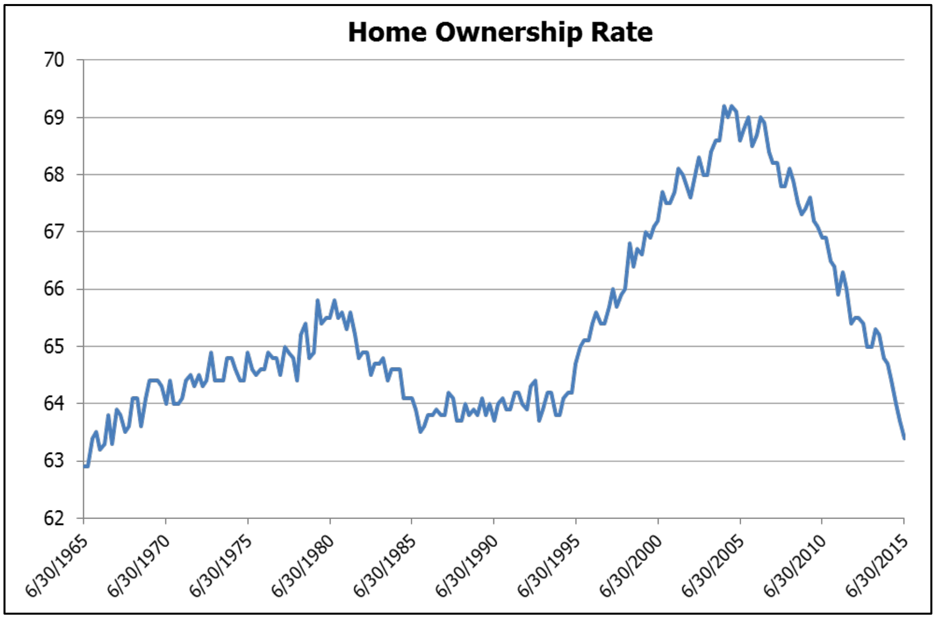
[26] IBID

[27] While it is true that the 2005 rate was achieved by qualifying many non-credit worthy borrowers for mortgages that they should not have qualified for, the current rate represents a 25 year low point.

[28] U.S. Census Bureau

Table 21

HOME OWNERSHIP RATE 1965-2015



Source: U.S. Census Bureau, Bloomberg.

The Urban Institute forecasts that homeownership will continue to decline for at least 15 years. The downtrend would push homeownership below 62% in 2020, and it would hold the rate near 61%[29] in 2030, below the lowest level since records began in 1965[30]. The lower home ownership rate has resulted in a larger potential renting population.

New multifamily construction has been concentrated in the luxury sector. Amongst the 370,000 multifamily rental units completed from 2012 to 2014 in 54 U.S. metropolitan areas, 82% were in the luxury category defined as attracting rents in the top 20% of the market according to CoStar Group Inc. In certain US metros such as Atlanta, Baltimore, Denver, Phoenix, and Tampa virtually all new apartment construction has been in the luxury sector[31.]

Renting in America's largest cities is becoming more expensive. In many of the 11 largest US cities studied in a recent NYU report, new rental units are not being added as quickly as new rental households[32]. This has caused considerable apartment rental rate increases in these 11 markets and limited affordability. Whereas in 2006 five of these cities[33] where majority renter markets, in 2013 more than 50% of the population rented in nine[34] of the markets.

---

[29] In a recent Mortgage Bankers Association study titled "Housing Demand: Demographics and the Numbers Behind the Coming Multi-Million Increase in Households", Dr. Lynn M. Fisher and Jamie Woodwell argue that the homeownership rate will either remain at its current level or increase to 66% by 2024. They also expect the number of renter households will grow by 13 percent between 2014 and 2024.

[30] Laurie Goodman, Rolf Pendall, Jun Zhu "New Headship and Homeownership: What Does the Future Hold?", Urban Institute, June 8, 2015.

[31] Laura Kusisto, "New Luxury Rental Projects Add to Rent Squeeze" , The Wall Street Journal, May 20, 2015.

[32] Sean Capperis, Ingrid Gould Ellen, Brian Karfunkel "Renting In America's Largest Cities", NYU Furman Center/Capital One National Affordable Rental Housing Landscape, May 28, 2015. The eleven markets are Atlanta, Boston, Chicago, Dallas, Houston, Los Angeles, Miami, New York City, Philadelphia, San Francisco, and Washington, DC.

[33] Miami, Boston, San Francisco, Los Angeles, New York City.

[34] Miami, Boston, San Francisco, Los Angeles, New York City, Washington, DC, Dallas, Houston, and Chicago.

There has been a surge in demand for moderately priced apartment rental housing and because most of the new product is luxury, older housing is not getting cheaper as newer housing is being built. In fact rents in class B multifamily properties are growing faster than those for class A multifamily[35]. Demand is not limited to the prime renter age population. According to the Federal Reserve of Kansas City, "Adults in their 50s and 60s accounted for most of the increase in the actual number of occupied multifamily units both before and after the housing crisis. Older adults (ages 50-69) accounted for most of the increase in multifamily occupancy from 2000 to 2007 and from 2007 to 2013, and nearly all of the net increase over the two periods combined"[36].

WHICH HABITATION SECTORS WILL BENEFIT FROM THE DEMOGRAPHIC, SOCIAL AND ECONOMIC TRENDS?

The combination of the growth in the size of the prime renter age population, the growing prevalence of singlehood, the growth in the 65 plus age segment, and the economic stagnation of certain sectors of American society will lead to further demand for multifamily housing.

Most multifamily subsectors should benefit from the current and projected demographic social and economic changes in the United States. The same economic changes that are inflicting pain on the single-family home market are benefitting multifamily housing.

Demand should continue to grow in both the luxury and moderately priced segment of the multifamily housing sector. The concentration of wealth in the upper income and wealth sectors of American society is fueling demand in the luxury apartment sector. The relative lack of construction in the moderate priced multifamily segment proportionate to demand has resulted in increased rent levels for the moderate priced sector as well. Moderately priced multifamily is less likely to be built as it is not economically feasible in many markets[37]. In addition moderately priced housing is getting eliminated in certain urban areas due to gentrification and even in some suburban locations due to redevelopment[38].

AREAS WITH DEMOGRAPHIC GROWTH OF PRIME RENTER AGE POPULATION

As noted earlier in Table 7, there are certain metros that are forecast for significant Compound Annual Growth Rates (CAGR) in the prime renting age population over the next 15 years. These metros include Raleigh (3.8%), Austin (2.7%), Charlotte (2.4%), Orlando (2.4%), Phoenix (2.4%), Las Vegas (2.1%), Atlanta (1.9%), Dallas-Ft. Worth (1.8%), Houston (1.8%), Palm Beach County (1.7%), San Antonio (1.5%), Salt Lake City (1.4%), Denver (1.3%), Nashville (1.2%), and Jacksonville (1.2%). These CAGRs are significant when considering that the expected CAGR for the PPR 54 is 0.6%.

URBAN

Demand for apartments in the urban core has accelerated. City centers have become a desirable place for Americans to live and work. Alan Ehrenhalt in his 2012 book "the Great Inversion" describes the trend of the more prosperous locating in the center city to benefit from cultural offerings, restaurants, nightlife, and easy access to work. He postulates that deindustrialization of center cities eliminated the reasons the affluent wanted to move away[39]. The loss of manufacturing jobs and the facilities that served them resulted in the loss of working class neighborhoods[40], but also opened up areas close to the urban core

---

[35] Laura Kusisto, "Rents Rise Faster for Midtier Apartments Than Luxury Ones" , The Wall Street Journal, August 16, 2015.

[36] Jordan Rappaport "Millennials, Baby Boomers, and Rebounding Multifamily Home Construction", Federal Reserve Bank of Kansas City, July, 2015.

[37] Laura Kusisto, "Rents Rise Faster for Midtier Apartments Than Luxury Ones" , The Wall Street Journal, August 16, 2015.

[38] As an example, see Joe Cortright, City Observatory, "Why aren't we talking about Marietta, Georgia?" July 7, 2015.

[39] Alan Ehrenhalt, The Great Inversion and the Future of the American City" , Knopf, April 2012.

[40] Richard Florida, Zara Matheson, Patrick Adler & Taylor Brydges, "The Divided City: And the Shape of the New Metropolis" , The Martin Prosperity Institute (MPI), Rotman School of Management, University of Toronto September 2014.

for residential development and conversion. Perhaps the most important development has been the astounding 49% decline in the violent crime rate since 1992[41]. Certain sections of major cities are becoming luxury products affordable only to the wealthy[42]. Demographic trends also favor center cities as more Americans are remaining single and childless longer and prefer a city lifestyle. Urban cores are popular with recent college graduates, millennials, and empty nesters. The confluence of these trends has resulted in major city urban areas becoming less affordable to significant sectors of the population. Development of modern “student” style housing in cities such as San Francisco and New York may present a partial solution to an affordable rental housing shortage[43].

Urban desirability is not confined to major first - tier cities such as San Francisco, New York, and Boston or even ascendant cities such as Seattle, Portland, and Denver. Urban cores nationwide are experiencing a renaissance. Midwestern cities such as Cleveland, Milwaukee, Indianapolis, and Pittsburgh have experienced population gains in their urban cores after decades of decline. In addition smaller cities nationwide are experiencing renewed interest in their long neglected downtowns. The increased attraction of urban centers is further punctuated by a shortage of functional and desirable urban locations in the U.S.[44]. Joe Cortright of City Observatory maintains that “High housing prices in American cities are a symptom of our shortage of great urban neighborhoods”. Accordingly, multifamily in underappreciated, but functional downtown urban markets may be an attractive opportunity.

SUBURBAN AND NON-DOWNTOWN CITY NEIGHBORHOODS

Data from the 2010 census reveal that 57.6% of the population of the historical core municipalities[45] resided in functional suburbs or exurban areas[46]. While for all metropolitan areas it was 85.6% suburban and exurban[47].

In their survey of Gen Y, those born between 1978 and 1995[48], the Urban Land Institute determined that 13% reside in or near downtowns, while 35 percent live in other city neighborhoods, and 28% are situated in the suburbs[49]. An additional 24% live in small towns or rural areas. In terms of self-characterization; 37% described themselves as a “city person”, 36% as a suburbanite, and 26% as a small town or country person. This implies that there will be ample future demand for multifamily in non-downtown urban neighborhoods and in the suburbs. Although an increasing share of Americans and young adults in particular reside in center city areas, the vast majority of all age groups, including young adults, do not. A significant share of the nation’s middle income housing can be found in the suburbs. Opportunities may exist in Class B and C suburban multifamily near good transportation linkages and in good school districts. Similarly, Class B and C non-downtown neighborhood multifamily near good transportation linkages are desirable.

---

[41] Source: Federal Bureau of Investigation. Rate per 100,000 residents 1992-2011. The violent crime rate dropped 49% while the volume of violent crime dropped 38%. The difference represents the increased US population as the rate is expressed as a share of population.

[42] Simon Kuper, “Urbanism: the new ideas for city living” , The Financial Times November 28, 2014.

[43] This would be similar modern to student housing on college campuses. Each resident would have their own bedroom and bathroom and share a common living room and kitchen area.

[44] Joe Cortright, “Our Shortage of Cities”, City Observatory, August 4, 2014.

[45] Defined at http://www.demographia.com/db-hcm.pdfIs as follows: pre-war core; nearly all included land area was developed by 1940. Little development that is post-war suburban in character. Little or no change in boundaries since 1940.

[46] Urban core cities are defined by “NewGeography” as areas that have high population densities (7,500 or per square mile or 2,900 per square kilometer or more) and high transit, walking and cycling work trip market shares (20 percent or more). Urban cores also include non-exurban sectors with median house construction dates of 1945 or before. See New Geography.

[47] http://www.newgeography.com/content/004453-urban-cores-core-cities-and-principal-cities.

[48] As defined by the Urban Land Institute (ULI).

[49] Lachman, M. Leanne, and Deborah L. Brett. Gen Y and Housing: What They Want and Where They Want It. Washington, D.C.: Urban Land Institute, 2015.

MANUFACTURED HOME COMMUNITIES

Significant sectors of American society have not recovered from the great recession and in fact certain groups have been experiencing long-term decline. Approximately one in four American households' lives on less than $25,000 a year[50]. As noted earlier, the majority of those over 65 are relying on social security as their primary source of income. Accordingly, demand for affordable manufactured home communities will increase for all age categories. MHCs situated in or near metro areas will be particularly attractive.

SENIORS' HOUSING

The 65 + age category is the fastest growing demographic group in the US. Even though the majority of this age cohort relies primarily on social security there is a significant share of 65+ Americans that are doing very well. In contrast to the overall trend, seniors' income has risen since the recession[51]. We expect that demand for all types of seniors' housing will accelerate at unprecedented levels. There should also be an increase in demand for multifamily in general and age restricted 55+ housing in areas with a high percentage of 65 + Americans. Those who desire services such as a common dining room with meal plan will spur demand for independent living facilities (ILFs). We expect that Multifamily, age restricted 55+ communities, and ILFs will be of particular demand in metros with high barriers to entry. Assisted living facilities which offer assistance with one or more activities of daily life (ADLs) and nursing facilities for high acuity patients should see demand begin to spike in 10 to 15 years time when baby boomers begin to enter their ninth decade of life.

[50] Carmen DeNavas-Walt and Bernadette D. Proctor, "Income and poverty in the United States", US Census Bureau, September, 2014.

[51] Dionne Searcey and Robert Gebeloff, "America's Seniors Find Middle-Class 'Sweet Spot' , the new York Times, June 14, 2015.

IMPORTANT DISCLOSURES

The Information presented herein does not involve the rendering of personalized investment advice, but is limited to the dissemination of general information on Market conditions. This document is for information purposes only and is not a solicitation or a recommendation for the sale or purchase of any financial product, service, investment or security. It is intended solely for use by the recipient and may not be copied or redistributed without prior written consent of Real Estate Investors.

The information presented is current only as of the date hereof, and is subject to change without notice as market and economic conditions change. Any forward-looking statements are based on a number of assumptions concerning future events and although we believe that the sources used are reliable, the information contained in these materials has not been independently verified and its accuracy is not guaranteed. In addition, there is no guarantee that market expectations will be achieved. Past performance is not indicative of future results.

Third-party information providers make no representation or warranty as to the appropriateness, accuracy, completeness, or applicability of such information nor are they responsible for the results obtained there from. The information provided by these entities is an opinion only and not a recommendation to take any action.

Real Estate Investors is an investment group within NYL Investors LLC. NYL Investors is a wholly owned subsidiary of New York Life Insurance Company.