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## Industry Outlook

In the coming years, economic expansion and favorable demographic trends will help the Apartment Rental industry continue to grow. However, an increasing supply of rental units and a modest recovery in the housing market will temper the industry's expansion rate. Therefore, IBISWorld forecasts that revenue will rise at an annualized rate of 2.0% to \$183.1 billion in the five years to 2020, growing 2.0% in 2016 alone.

### Economy provides stimulus

In the five years to 2020, the national unemployment rate is forecast to continue falling. With more employment, the slack in the labor market will subside and wages will rise. Consequently, more people will be able to afford to move into apartments. For example, those who moved back in with their families during the recession will now be looking to move out. Higher incomes will also leave tenants with more money after accounting for living expenses. Consequently, landlords will be able to charge higher rents. As a result of increasing demand, industry revenue is expected to climb.

### Favorable demographics

In the coming years, the number of people between the ages of 25 and 35 is expected to rise. This age group is the most likely to rent because young adults have often not yet earned enough income to purchase a home. Moreover, since an increasing number of people in this age group are holding off on both marriage and having kids, they are stalling family formation. Married couples can combine their incomes and are likely to have kids and have enough money to support them. Thus, not only can they afford to buy a home, but also have the space requirements that would encourage them to do so. Conversely, singles do not require a lot of space and favor renting. They also prefer to live in cities where homeownership is expensive and renting is more prevalent. Therefore, as this demographic grows, so will demand for rental apartments. In particular, this trend will boost demand for multiunit apartment buildings in major metropolitan areas. Such buildings can have as many as 50 apartment units, which is particularly advantageous in cities where space is limited. In addition to young single adults, retiring and single baby boomers will boost industry demand. These so called "empty nesters" are increasingly selling their homes in the suburbs and moving into apartments because they do not need the space and wish to better manage their funds for retirement.

### Increasing supply and competition from housing

However, increasing demand has caused the construction of new apartment buildings, especially multiunit ones. It has also encouraged the entry of more lessors into the market, with the number of enterprises increasing at a forecast annualized rate of 1.3% to 653,988 in the five years to 2020. Consequently, the supply of apartments is set to rise, which will also increase industry employment in the next five years at an estimated annualized rate of 1.6% to 957,715 workers. Additionally, with home prices still relatively low and incomes increasing, more people are likely to buy houses. As a result of the expanding supply of apartment units and competition from the housing market, rental vacancy rates will rise from 7.0% in 2015 to a forecasted 7.5% in 2020, restraining landlords' ability to raise rental prices.

Nevertheless, the combination of favorable demographic trends and an improving economy will allow the industry to keep filling most of the new apartments coming online. Furthermore, with interest rates set to rise and lending standards remaining stringent, the housing market is not likely to go through the boom it went through before the recession. Additionally, since most of the industry's growth and construction will take place in urban areas, where homeownership and vacancy rates are lower, landlords will not be as heavily impacted by a housing recovery. In fact, because operators are increasing the proportions of units that they own in more profitable urban areas, profit margins will slightly increase from 32.9% in 2015 to an estimated 34.0% in 2020.

### Revenue Outlook

Year	Revenue \$ million	Growth %
2016	169,589.5	2.0
2017	174,459.1	2.9
2018	177,131.2	1.5
2019	179,616.2	1.4
2020	183,132.3	2.0
2021	188,349.0	2.8



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## Industry Life Cycle

This industry is **mature**

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The Apartment Rental industry is in the mature stage of its life cycle. Moderate enterprise growth and little product innovation characterize a mature industry. In the 10 years to 2020, industry value added (IVA), which measures the industry's contribution to the overall economy, is forecast to grow at an average annual rate of 3.9%. In comparison, GDP is forecast to increase at an annualized rate of 2.2% during the same period. Nonetheless, this growth is slightly misleading because operating profit for apartment owners tends to be high and stable. Property is typically purchased on debt and day-to-day operating costs are minimal. Consequently, margins are high.

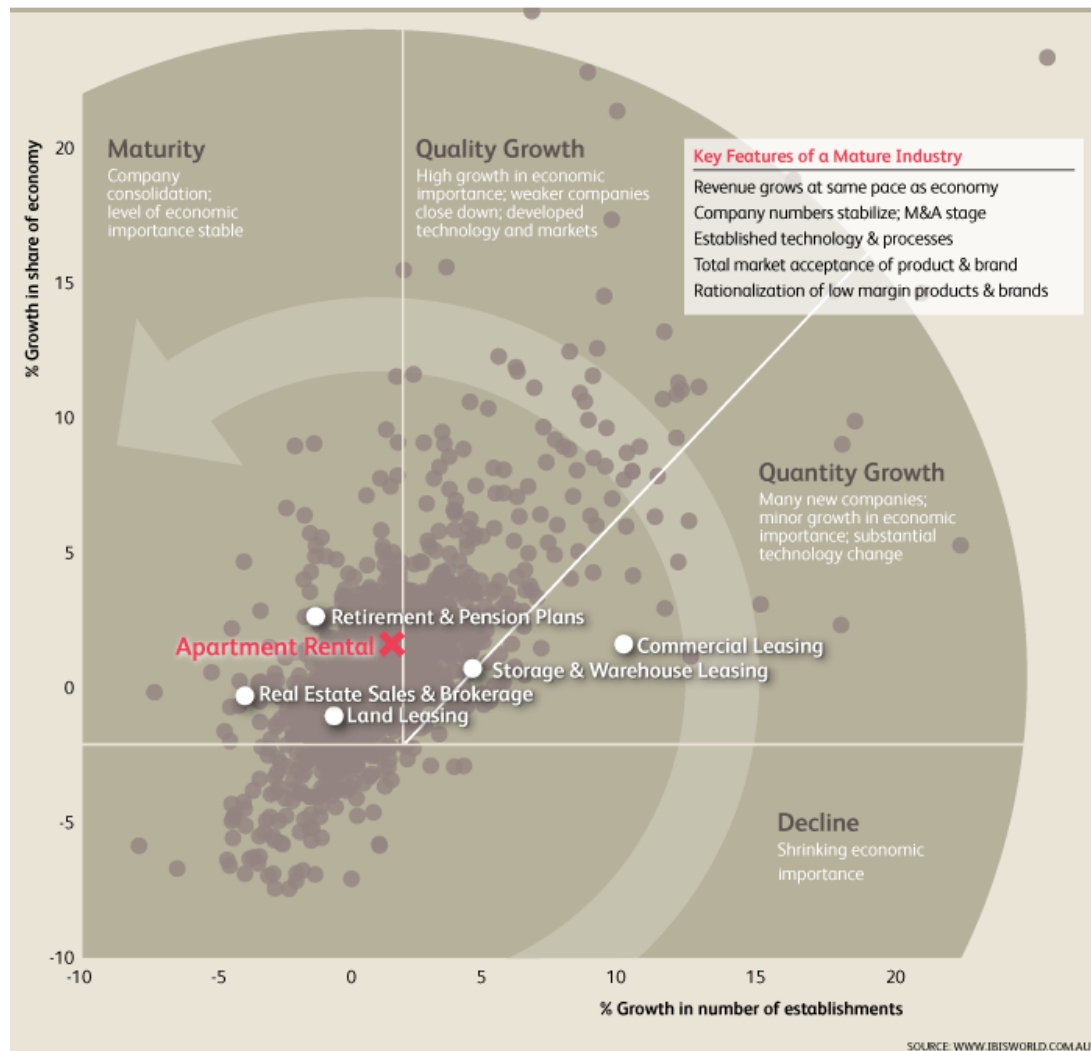
Consistent with a mature industry, new product innovation among apartment rental companies is relatively slow, with industry innovations, such as eco-friendly apartment buildings, focused on improving profitability by lowering costs and raising rent rates. Other advances in technology have allowed larger industry participants to improve operating efficiencies. These systems include investment in real estate software systems that provide sophisticated transaction processing and analytical tools. In addition, the industry has benefited from improvements in internet technologies associated with real estate rentals. The internet has transformed the process of searching and renting apartments, as owners no longer need to rely on brokers and can market properties directly to a large audience of potential renters, causing apartments to be rented at faster rates.

**Life Cycle Reasons**

**Industry growth depends highly on underlying economic growth**

**Larger companies in this industry are expanding operations**

**The demographics of people who rent have not dramatically changed**



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