Industry Performance

Key External Drivers

Rental vacancy rates

Vacancy rates indicate the relationship between industry supply and demand. High rates represent an oversupply of residential rental property relative to demand. These rates are also a good indicator of trends in industry revenue and profitability. Profit margins tend to shrink as vacancy rates grow because residential rentals are being underused. Rental vacancy rates are expected to decrease in 2015, representing a potential opportunity for the industry.

National unemployment rate

The unemployment rate is a benchmark for determining the overall health of the US economy. In times of strong economic growth, individuals tend to spend more money on living expenses. At the same time, strong economic growth may also lead to a rise in homeownership, which can adversely affect industry demand. Consequently, the effect of economic growth on both homeownership and rental activity is complicated. The national unemployment rate is expected to drop in 2015.

Homeownership rate

The homeownership rate in the United States is a strong indicator of industry demand. An increase in homeownership typically decreases demand for rental property. Conversely, when the homeownership rate declines, industry operators typically benefit. The homeownership rate is expected to decrease in 2015.

Yield on 10-year Treasury note

The industry relies on the capital markets to finance construction and property and business acquisitions. Higher interest rates increase capital costs for industry operators, which hurts profitability. However, higher rates also tend to decrease homeownership, while lower rates make buying property more affordable. As a result, higher rates are often associated with increased rental demand, as rental units become more cost-effective compared with purchasing property. The yield on the 10-year Treasury note is expected to decrease in 2015, representing a potential threat to the industry.

Urban population

Urban population measures the percentage of the total US population living in urban areas. Due to a lack of space, higher real estate prices and urban demographic makeup, homeownership rates are much lower in urban areas than in suburbs. As a result, people in these areas typically live in apartments. Thus, as the urban population grows, so does demand for apartments. In 2015, the urban population is expected to rise.

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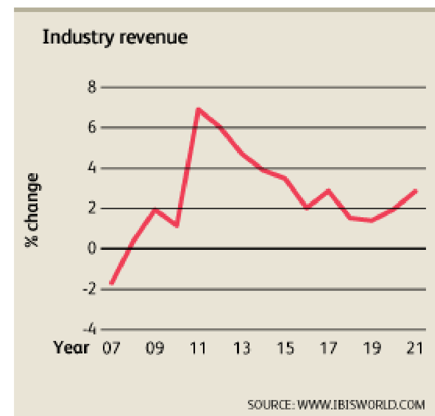
Current Performance

In the five years to 2015, operators in the Apartment Rental industry recovered strongly after facing adverse recessionary conditions. The industry is mostly composed of small companies, many of which are individuals who rent out spare rooms in houses, secondary residences or homes converted into apartment units. However, larger players that own large apartment complexes containing more

than 50 rental units generate the majority of revenue. After initially taking a hit during the recession, the industry was able to benefit from the economic downturn. Many people lost their homes and had incomes fall during the housing crisis. More stringent lending standards have also prevented would-be homeowners from purchasing property. Consequently, with homeownership rates declining, people had no choice but to rent, resulting in increased demand for apartments. At the same time, the reduced supply of apartments caused by the recession's early impact restricted the amount of rental units available for occupancy. The combination of increased demand and reduced supply caused rental vacancy rates to plummet, which allowed apartment owners to raise rents and generate more revenue. IBISWorld expects industry revenue to increase at an annualized rate of 5.0% to $166.2 billion in the five years to 2015, including a 3.5% jump in 2015 alone.



Recession benefits industry

The Apartment Rental industry was a major beneficiary of the subprime housing crisis. Before the crisis, easy lending practices and low interest rates allowed people to buy homes that they could never pay off. The buying spree led to skyrocketing home prices and the ensuing economic growth boosted wages and spending. Eventually, interest rates rose and the housing market crashed. Millions lost their homes and, during the subsequent recession, lost their jobs or portions of their incomes. With less money and banks unwilling to lend out for home purchases, would-be homeowners lost the chance to own property. Consequently, the homeownership rate dropped from 66.9% in 2010 to 63.7% in 2015. At first, the rising national unemployment rate and declining income levels caused a severe drop in demand for apartments. However, the eventual need for people to find alternative residences pushed up demand for rentals. At the same time, the initially severe impact of the recession forced many industry participants to cancel apartment building development projects and decrease the amount of units up for rent. This combination of climbing demand and reduced supply pushed rental vacancy rates down from 10.2% in 2010 to 7.0% of total available rental units in 2015, enabling apartment owners to increase rent rates.

Dynamics of recovery

Most of the industry's recovery has occurred in urban areas. Major metropolitan centers, such as New York City, have a high population density and a shortage of space. Therefore, real estate prices are high, which makes homeownership an expensive proposition. Under such conditions, renting is typically a less expensive and more practical alternative to owning property. On the national level, the exodus from homeownership forced families who once owned property to move into apartments. As a result, demand for single-unit rentals that can house an entire family rose. In more recent years, low interest rates, declining unemployment, rising income levels and bargain real estate prices have made homeownership more attractive, driving the housing market's recovery. While this has slowed demand for rentals, it has not yet morphed into a serious problem for operators. Mortgage lending standards have remained strict and Americans are still in the process of deleveraging the debt they built up prior to the recession. Therefore, the threat from the housing market has remained minimal.

Industry structure

As the economy began to grow and demand for rental apartments rose, industry revenue not only recovered, but also exceeded its prerecessionary high. Industry participants that survived the initial downturn found themselves able to buy failed competitors' assets at reduced prices and began to expand. Consequently, the market share of large companies greatly expanded. Large operators used less expensive financing to dispose of property in stagnant markets and purchased buildings in cities where they could charge higher rents. Combined with overall low vacancy rates, this leveraging pushed profit margins from 32.2% in 2010 to 32.9% in 2015. However, growing demand and less costly financing also encouraged new competitors to enter the market and hire workers. In particular, many unsold homes and condominiums were converted to rental units. Therefore, the number of enterprises is estimated to increase at an annualized rate of 1.9% to 614,238 in the five years to 2015. Similarly, employment increased by an annualized 2.1% to 883,364 employees over the five-year period.

Revenue Growth

Year	Revenue $ million	Growth %
2005	132,725.4	0.0
2006	127,962.1	-3.6
2007	125,807.2	-1.7
2008	126,294.5	0.4
2009	128,754.1	1.9
2010	130,248.8	1.2
2011	139,241.3	6.9
2012	147,637.0	6.0
2013	154,604.1	4.7
2014	160,620.0	3.9
2015	166,225.6	3.5

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