SAY HELLO TO THE NEW RENTERS

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SAY HELLO TO THE NEW RENTERS: UNDER-SAVED RETIRING BOOMERS!

I have had three speaking engagements in the last few months in the apartment and home rental arena: one to apartment investors, another to an affordable apartment housing company, and a third with investors who convert larger suburban homes into assisted living centers at high rents.

When it comes to rentals, the households that have dominated in the past are clear: young people as they get married and form households. Most can’t afford to buy right away, so they rent until they can. Then the kids are born and that boosts the motivation to buy a home in a good neighborhood. But many can’t do that for a few years.

This chart shows that the Millennials should have already peaked in apartment rentals in 2018 at their higher marriage age of 28…. But they are not. High home prices have caused them to shift in buying starter homes from age 31 to age 34 by the best most recent estimates from Zillow. And I am seeing a deep downturn from 2020 into 2023 that will cause more people to rent and fewer to qualify for mortgages – or just be too scared to buy in a second and even deeper collapse in prices.

So, that should extend this younger rental market into around 2024 by my best estimates, before the next boom with lower home prices and mortgage rates gives Millennials the reason to finally buy if they are going to.
But I also always stress that Baby Boomers are massive in size and a change generation. They have changed every life stage they have passed through.

Guess the first thing I found when digging down into my demographic research? Not only have over 60 households dominated home and apartment rentals in the last decade; they will dominate even more in the decades ahead... as they retire, and as the Millennials finally get into full home buying mode and wean off renting.

Did your parents rent when they retired? I don’t know many older folks who did. Most either stay in the house they own, or downsize to own a smaller one. Yes, there are people who always rented as they couldn’t afford to buy, and that wouldn’t change.

The new trend is that a growing minority of retiring Baby Boomer owners are selling their home or McMansion and converting to renting for a sorely needed savings boost, flexibility, and enhanced lifestyle.

The sad truth is that Boomers came of age and grew up in the best of times; that they helped create with their own massive demographic force. Hence, unlike their Bob Hope Generation parents, who faced the Great Depression and World War II, they never learned how to save for a rainy day. They are woefully under-saved, as the next chart shows.

### Boomers Behind on Retirement Goals: To Fund, More Sell Than Rent

<table>
<thead>
<tr>
<th>Age</th>
<th>Median Income</th>
<th>Retirement Savings Benchmark</th>
<th>Percent on Track</th>
<th>Percent Behind</th>
</tr>
</thead>
<tbody>
<tr>
<td>24</td>
<td>$34,605</td>
<td>Started a Retirement Fund</td>
<td>48%</td>
<td>52%</td>
</tr>
<tr>
<td>30</td>
<td>$54,243</td>
<td>$16,272.90</td>
<td>33%</td>
<td>67%</td>
</tr>
<tr>
<td>40</td>
<td>$66,693</td>
<td>$100,039.50</td>
<td>20%</td>
<td>80%</td>
</tr>
<tr>
<td>50</td>
<td>$70,832</td>
<td>$212,496.00</td>
<td>22%</td>
<td>78%</td>
</tr>
<tr>
<td>60</td>
<td>$60,580</td>
<td>$260,484.00</td>
<td>26%</td>
<td>74%</td>
</tr>
</tbody>
</table>

Source: BiggerPockets.com
The Boomers now range from age 58 to 85 by our definition of the rising birth wave from 1934 to 1961. This chart shows that people age 60 with a post-peak median income of $60,580 should have $260,494 saved, but only 26% have that or more. 74% are under-saved coming into retirement.

By the way, you can multiply your income by that median and use that as a ratio to the Retirement Savings Benchmark and calculate where you stand at your age. Hence, more are seeing that the easiest solution is to sell their McMansion or primary home, and instead of downsizing, simply rent your retirement home: their profits in a booming market from their home become their catch-up retirement savings plan… Bingo!

My demographic research and economic projections say selling to rent for retirement is exactly the right thing to do now, with a peak to the second and final real estate bubble near.

Now, this is not a mad rush to renting. Not every retiree is selling their home and renting a house. It’s just a rising percentage of those who choose to rent who formerly owned. But given the size of the Boomer population and the smaller size of the rental vs. owned market, this turns out to be a very significant trend for the apartment and home-rental developers, operators, and investors.
This trend peaks more around 2024-26, but this crash and downturn of a lifetime will cause more Boomers to retire later if anything. Over the last decade, renters over the age of 60 have grown cumulatively by 43% vs. only 7% for the Millennials under 34.

But the “WOW factor” comes when you look at projections provided by rentcafe.com. The over-60 category will roughly double in numbers by 2035 from 9.4 million in 2017 to 18.6 million, while the under 34 barely grow from 14.9 to 16.1 million, and the 35 – 59 grows modestly from 19.1 to 25.7 million.

60+ Renters Will Nearly Double by 2035
Renter Households Projections by Age, Millions

So, who’s your daddy if you’re in the rental business? Aging old farts… And they just happen to be the best customers:

- Higher Income, Less Rent-Burdened, No Children
- Lean More Towards Luxury Segment
- More Stable, Longer Tenure
- Seeking Liquidity, Flexibility, and Lifestyle
- Still Prefer Suburbs, Lower Cost, and Being Closer to Grandkids
- Want One Story or Elevator, No Stairs
• Want Low Maintenance and No or Less Yard
• Watch Home, Plants and Pets While Gone
• Concierge, Package and Grocery Delivery
• Walkable Neighborhoods and Near City Centers
• Close to Shopping and Restaurants
• Easy Access to Public Transportation

Even though many older households want to be in larger downtown areas with great entertainment and health care access, they still favor the suburbs. 60+ renters in suburbs grew 39% between 2009 and 2015 vs. 21% in cities as this chart shows.

And in both, they grew faster than the 35-59 and under 34 age groups.

When I was in Tampa I always noticed the new hip, upscale community, including a major rental complex at Westchase. It was modern, 10-15 minutes from either the airport or downtown, and it had a Starbucks, a bar, a number of good restaurants, a dry cleaner, bus lines...
I could see renting there as an upscale younger Millennial or an older Boomer in retirement. In fact, my wife and some of our friends like being in closer to downtown neighborhoods that have more younger people as they attract cool places and restaurants!

It wouldn’t be surprising that the best markets for older renters are in the Sunbelt, especially the retirement-oriented and more affordable Southwest and Texas.

This chart shows the fastest growth in over 55 rentals has been in Riverside, Tampa, Phoenix, and Dallas.

In all of the top 20 cities, the 55+ group has grown faster than the under 34. DC, Atlanta, Seattle, and Denver have the best showings for those under 34.

This next chart shows the fastest past 10-year growth rate led by Austin, Phoenix, Fort Worth, Jacksonville, and Charlotte – all in the Sunbelt and most on the west side of it. Note that the percentage of 60+ renters of the whole rental market is low at 12% for Austin and below the 22% average nationwide for most of the cities on this chart – as it and other ones here are more affordable – which makes ownership more attractive and attainable. New York tops at 27% 60+ renters due to its very high home prices.
This final chart from rentcafe.com (the best source I have found for rental market statistics) shows how you can bring such analysis down to zip codes as a developer, operator or investor.
Who leads here: Las Vegas at a 93% increase, followed by Austin. Again, notice the dominance of Texas and the Southwest in this chart.

There is another good source of demographic and lifestyle information for investors serious about targeting the best rental and lifestyle segments: ESRI. The next two charts show an example of the income breakdown and lifestyle segments you can get down to zip codes.

This sample chart is from zip code 60606 in downtown Chicago, in the financial district which I am highly familiar with – and yes, it’s very upscale. But the point is, you can get such analysis for any zip code you may be interested in to find if it has your type of income range for renters.

The chart on the next page is from zip code 78113 in Dallas. It shows the top 20 lifestyles as a percent of the population there.

ESRI has six broader lifestyle groups by urbanization. The most appropriate two for aging, more-upscale renters would be Suburban Periphery and Principal Urban Centers. They have 14 Life Modes, with the most appropriate one: Senior Styles. That one has 6 out of the 67 more targeted lifestyles groups: Silver and Gold, Golden Years, The Elders, Senior Escapes, Retirement Communities and Social Security Set.
The more you can determine the lifestyle and income segmentation that best fits your most profitable customers or investments, the more you can narrow your analysis down to zip codes for the best growth and profits.

SUMMARY

Make no mistake about it. The rental market for apartments and single-family homes has shifted from the Millennials to the aging Baby Boomers. They just can’t help but dominate at each life season they move into. Who would have thought that retirees would dominate the rental markets… it’s not just for young people anymore!

And above all, recall that the Winter Season – which we are about to see the worst of – only favors a narrow group of investment sector as deflation brings a great reset to the risk asset sectors: high quality bonds (Treasury and AAA corporate), the U.S. dollar… and in real estate: cash-flow positive residential rentals (commercial gets hit the worst).

The more upscale apartment buildings and suburban McMansions will likely become the best bargains for buying cheap and renting out in the downturn and recovery. And those larger McMansions are the best suited to converting to smaller assisted living facilities that have the highest rental value and specialization of features for holding value.