

Urban household growth in Europe is now three times the rate of population growth, says Greystar

Driven by the ‘three gears’ of population growth, urbanisation and household formation. Further analysis suggests market renters will overtake mortgage owners by 2024

LONDON, 16 November 2020 – Urban household formation is now more than three times the broader rate of population growth in Europe, new research from Greystar, a global leader in rental housing, has revealed. The trend is driven by the ‘three gears’ of population growth, urbanisation and household formation, all of which are closely interlinked. Population growth is levered by urbanisation trends in towns and cities, which is then levered by the rise of single-person households. This has resulted in urban household growth of 10% since 2010, compared with the European population (EU incl. UK) which has grown by 3% over the same period.

Independent of these trends, there has been a sharp rise in home prices around the world largely driven by supply-side pressures and historically low interest rates. In Germany, which arguably boasts Europe’s most developed Private Rented Sector market, home prices have risen 20.0% faster than income and 25.0% faster than rents over the last five years. Meanwhile London and Paris are amongst the most expensive housing markets in developed countries in terms of home price-to-income ratios.

Along with increased deposit requirements, this has put home ownership out of reach for many, with renting being the only affordable option. In 2010, 28% of the EU population were mortgaged owners but by 2018 this had declined to 26%. Market renters increased from 17% to 22% over the same period. At these rates of growth, market renters will overtake mortgage-owners by 2024 – a trend that could be accelerated by the impact of COVID-19, given falling household savings and rising deposit requirements.

Nigel Allsopp, Senior Director – Investment Strategy & Research, Greystar, said: “It is widely understood that demand for housing is driven by demographic trends – the more households there are, the more housing they need. However, our analysis reveals that there are three distinct and interlinked ‘gears of demand’ that work together to drive demand for urban housing. An increase in the general population increases demand for housing at the country-level. Next, urbanisation concentrates demand in towns and cities. Finally, that demand splinters into smaller, often single person, urban households. Most of this growth in urban household formation accrues to rental housing, as home price affordability is a barrier to entry for first-time buyers. As a result, we expect rental housing to overtake mortgaged owner-occupation over the course of the next cycle.”

Mark Allnutt, Senior Managing Director – Europe, Greystar, said: “European housing markets are chronically undersupplied with completions failing to keep pace with household formations. Permits are still two-thirds below the previous peak and a third below the long-term average. The current stock is outdated, poorly configured and under-managed with much of it built pre-WWII. It is no longer fit-for-purpose, especially when you consider the shift towards working from home and the increased emphasis on wellbeing. It is important to note that as aspirant homeowners rent for longer, they are more likely to have higher wages and a willingness to write a larger rent cheque for the right home. They will want a rental housing option that is well-suited to their needs and the expectations of contemporary lifestyles pointing to increased demand for highly amenitised build to rent properties.”

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About Greystar

Greystar is a leading, fully integrated real estate company offering expertise in investment management, development, and management of rental housing properties globally. Headquartered in Charleston, South Carolina, Greystar manages and operates over an estimated \$200 billion+ of real estate in nearly 200 markets globally including offices throughout the United States, United Kingdom, Europe, Latin America, and the Asia-Pacific region. Greystar is the largest operator of apartments in the United States, managing approximately 693,000 units/beds, and has a robust institutional investment management platform with approximately \$35.5 billion of assets under management, including over \$15 billion of assets under development. Greystar was founded by Bob Faith in 1993 with the intent to become a provider of world-class service in the rental residential real estate business. To learn more, visit www.greystar.com.