

The American Experience: Building and Financing Rental Housing

Alex Schwartz
The New School
New York, NY
July 10, 2011

Presentation Overview

- Overview of Rental Housing in the US (Size, Age, Building Size, Subsidies, Construction Trends etc.).
- Ownership
- Financing
- Concluding Observations

Overview

Rental housing comprises 1/3 of the housing stock in the US—39.4 million units, of which 35.4 million are occupied.

The private sector owns about 90% of all rental housing

About 20% of the rental stock is subsidized for low-income households, under for-profit, nonprofit, and public ownership.

Overview: Age of Stock

Year of Construction (Percent Distribution of Units)

Year Built	Renter	Owner
2005-2009	3.6	6.0
2000-2004	4.9	8.3
1990 to 1999	8.2	14.3
1980 to 1989	13.2	12.2
1960 to 1979	35.3	28.9
Before 1960	34.8	30.2
Median	1971	1975

Overview: Building Size (2009)

Building Size: Number of Units in Building (Percent Distribution of Units)

	Owner	Rental	New Rental
1, detached	82.9	27.6	25.9
1, attached	5.2	5.7	9.9
2 to 4	1.8	19.8	12.3
5 to 19	1.5	24.9	20.8
20 to 49	0.7	8.9	12.6
50 or more	1.0	9.1	15.4
Manufactured etc.	7.1	4.0	3.0
Total Units (000s)	76,428	35,378	941

Source: American Housing Survey, 2009.

Rental Property Size Distribution

Distribution of Rental Housing in 2001 by Property Size

	1-Unit	2-4 Units	5-49 Units	50+ Units	Total
<i>Properties</i>					
Total	9,854,000	2,036	473,414	71,207	10,400,657
Percent Share	94.7	0.0	4.6	0.7	100.0
<i>Estimated Units*</i>					
Total	9,854,000	6,108	16,569,490	9,612,945	36,042,543
Percent Share	27.3	0.0	46.0	26.7	100.0
*Assumptions	1	3	35	135	
<i>(units per property)</i>					

Source: US Census, Residential Finance Survey

Overview: Condominiums (2009)

	Owner-Occupied		Rental	
	Total	New Construction	Total	New Construction
Number (in 000s)	4,815.0	302.6	2,405.7	107.3
Percent of Total Units	6.3	7.9	6.8	11.4

Condos and Coops comprise a larger share of the rental market than of the owner-occupied market

Source: American Housing Survey, 2009

Overview: Subsidized Housing (2009)

	All Units	New Units	Percent Distribution	
			Total	New Units
No Subsidy	28,706	758	81.1	80.6
Public Housing	1,679	20	4.7	2.1
Other Subsidy	4,173	147	11.8	15.7
Total with Subsidy	5,852	167	16.5	17.8
Subsidy Not Reported	820	15	2.3	1.6
Total	35,378	941	100.0	100.0

About 20% of all rental housing is subsidized

Source: American Housing Survey, 2009

For-Profit Share of Low-Income Housing Tax Credit Portfolio in 2007 (% Share)

	Properties	Units
For-Profit	78.1	81.2
Nonprofit	21.9	18.8
Total	25,236	1,574,667

Source: HUD, LIHTC data base

Overview: Income and Wealth

Income and Wealth of Renters and Home Owners

	Renters		Owners	
	Total	New Construction	Total	New Construction
Median Household Income (2009)	\$25,030	\$34,000	\$60,000	\$78,000
Percent Below Poverty	26.4	19.9	8.4	4.7
Percent with Incomes of \$100,000+	4.5	8.8	25	35
Median Net Wealth (2008, in 000s)	\$5.3	NA	\$243.2	NA

Source: American Housing Survey, 2009; Schwartz, Housing Policy in the US.

Overview: Rent Levels

Gross Rent in 2009 (Percent Distribution)

	All Units	New Units
Less than \$400	11	7
\$400-799	36	23
\$800-999	17	16
\$1,000-1,499	21	29
\$1,500-1,999	6	12
\$2,000 +	4	11
No cash rent	6	2
Median	\$808	\$1,045
N	35,378	941

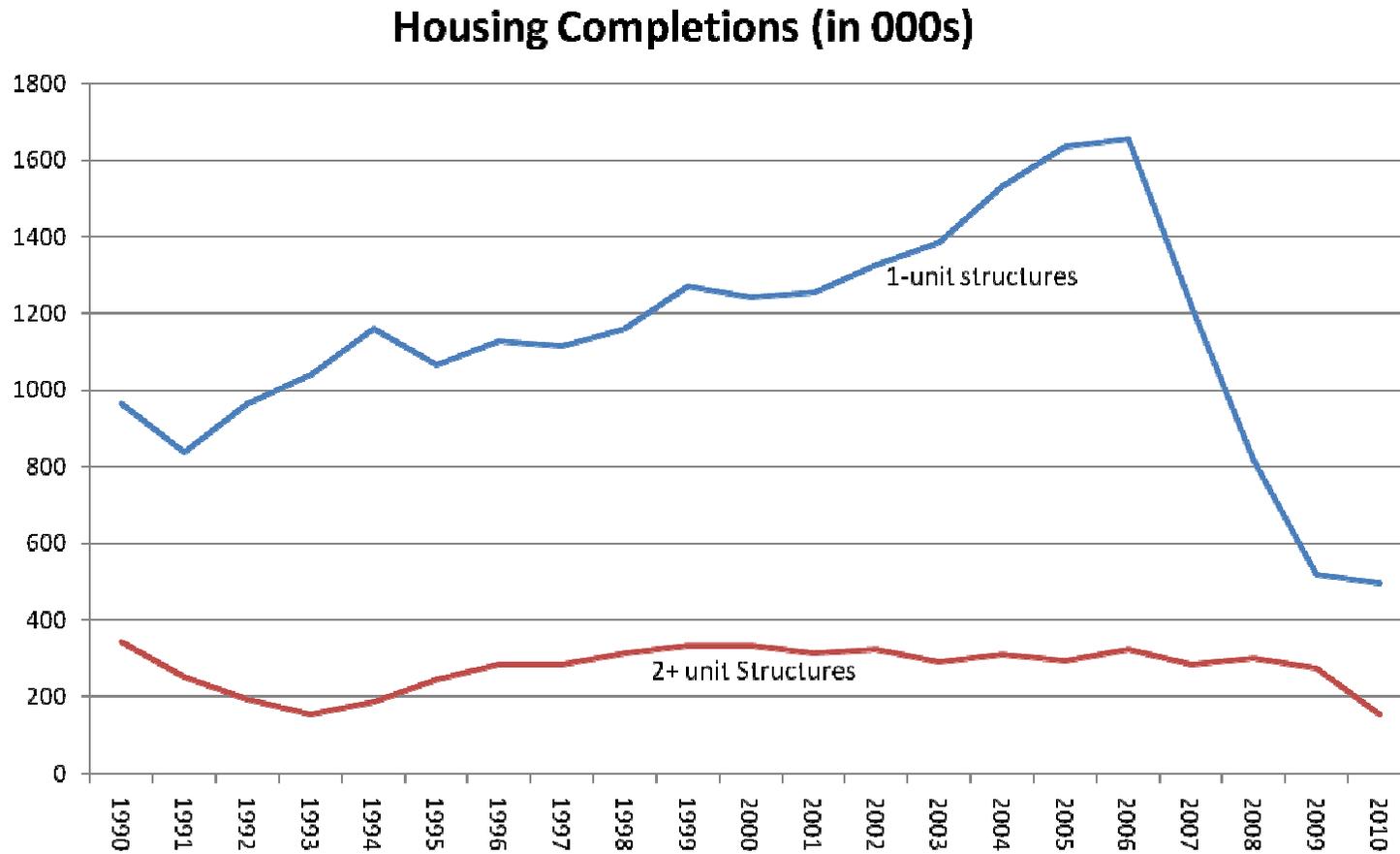
Source: American Housing Survey, 2009

The Incomes of Many Renters Are Too Low to Support Development of New Market-Rate Housing

Income Standard	Equivalent Annual Income	Affordable Monthly Rent	Supportable Per-Unit Development Costs
Household Income Needed to Afford Typical New Unit	\$51,800	\$1,300	\$110,000
Median Renter Income	30,500	760	64,800
Full-Time Minimum Wage Equivalent	14,500	360	30,800

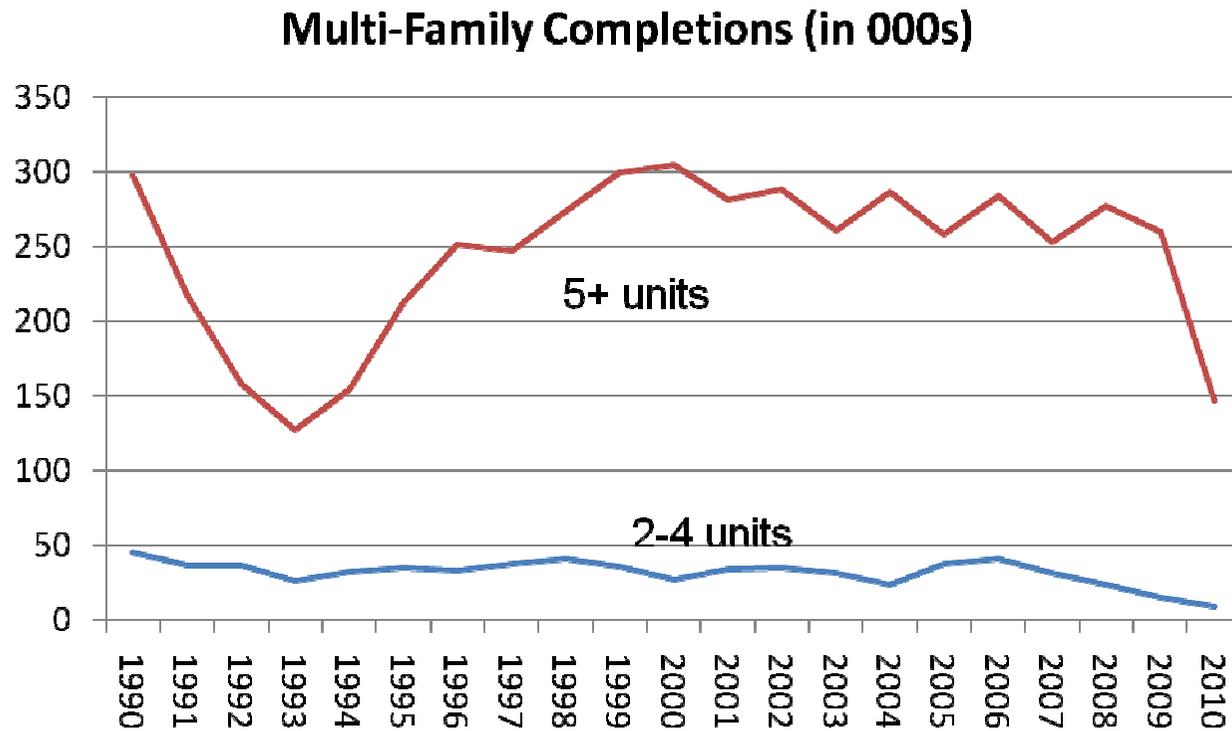
Source: Joint Center for Housing Studies, *America's Rental Housing*.

Construction Trends



Source: US Census Bureau

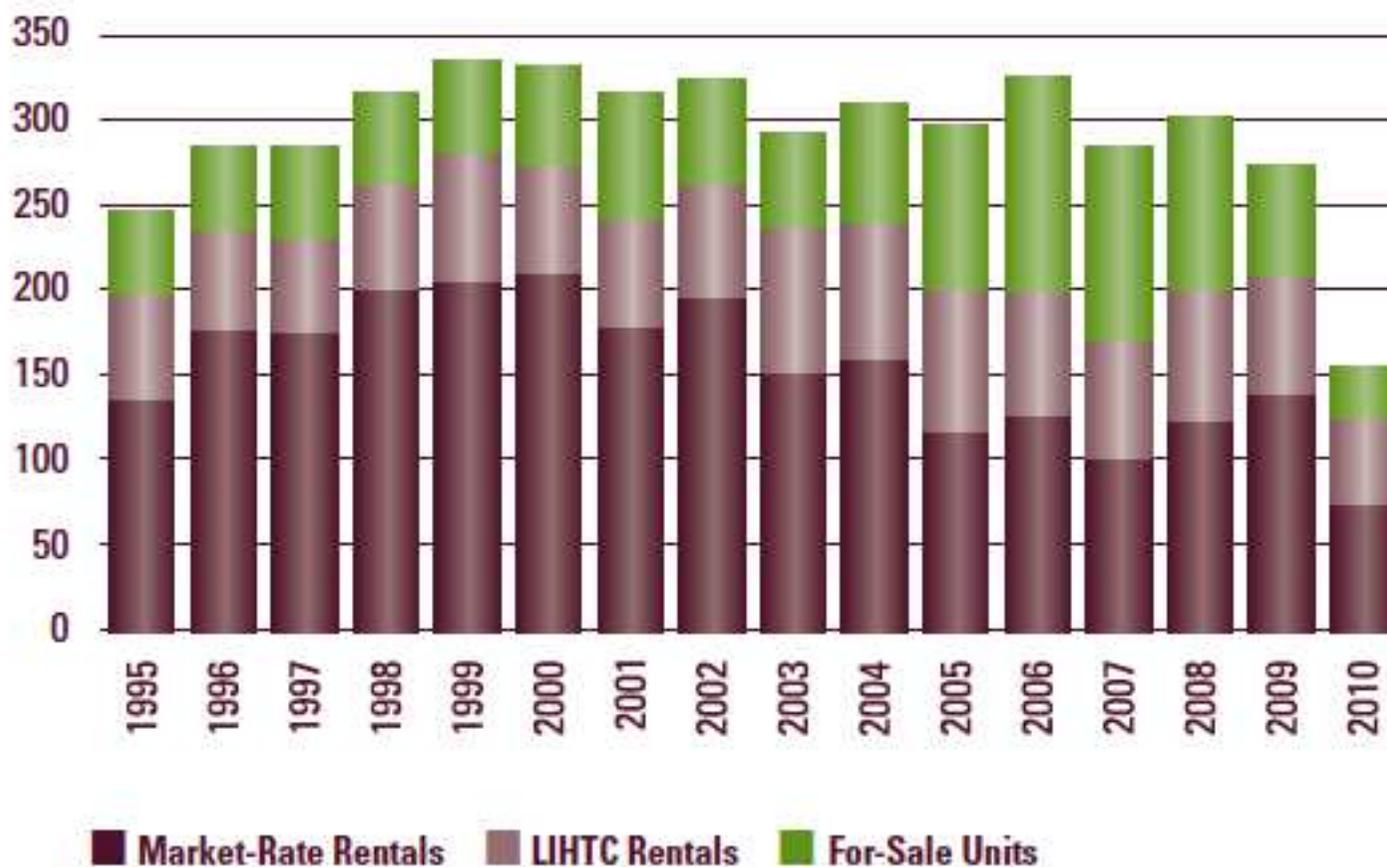
Multifamily Construction Trends



Source: US Census Bureau, New Residential Construction

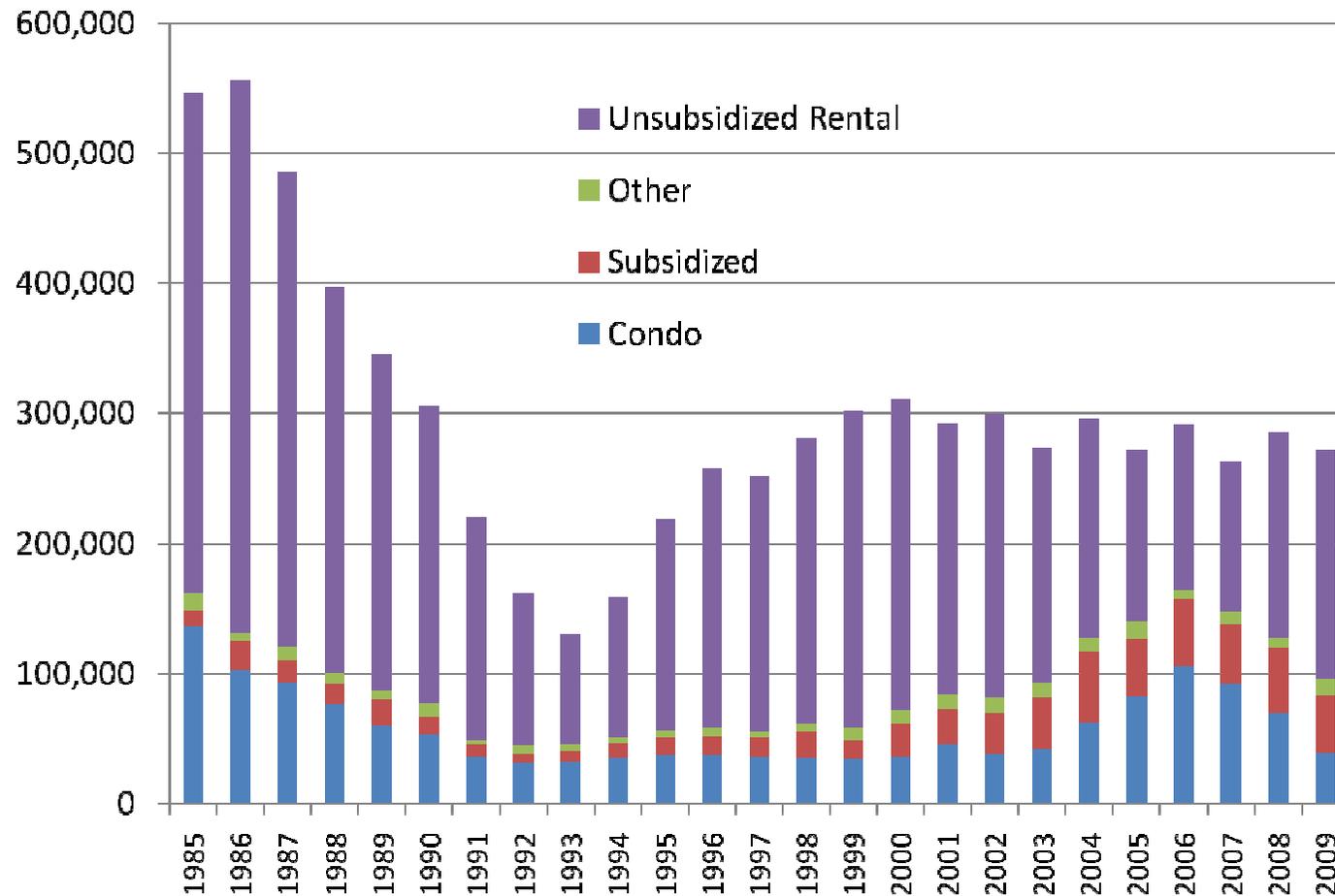
Private Multifamily Rental Construction Dipped in the Mid-2000s When Condo Production Surged

Multifamily Completions (Thousands of units)



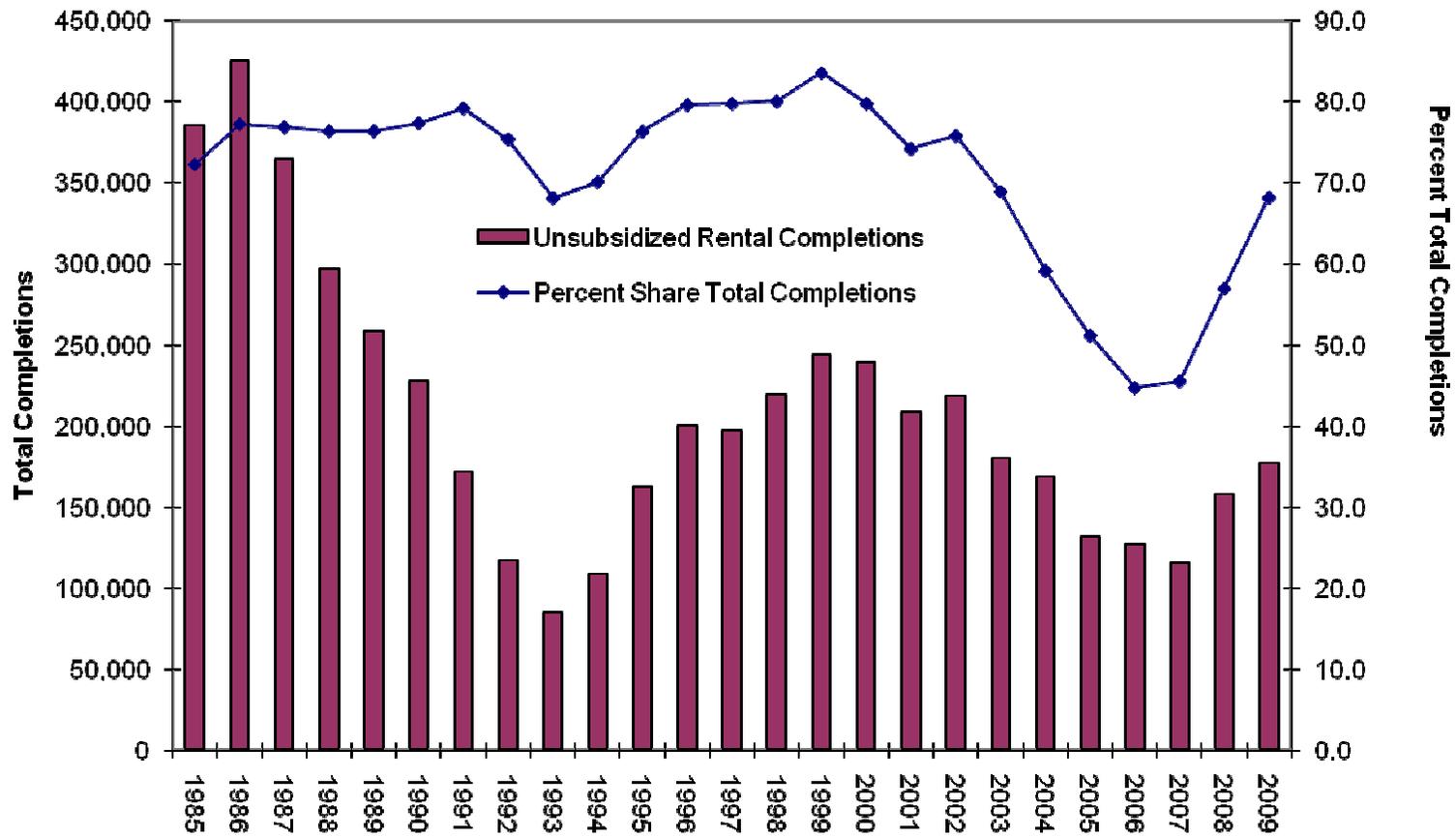
Source: Joint Center for Housing Studies, *America's Rental Housing*

Apartment Completions, Structures With 5+ Units, By Type, 1985-2009



Source: US Census Bureau, Survey of Residential Absorption

Unsubsidized Rental Completions: Total and Percent of Total Multifamily Completions, 1985-2009



Ownership Varies by Property Size

Ownership Type by Property Size in 2001 (Percent Distribution)

	1-Unit	2-4 Units	5-49 Units	50+ Units	Total
Individual Investor	82.7	85.1	61.2	13.1	81.3
Limited Partnership	5.6	5.2	14.9	40.6	6.3
General Partnership	1.1	1.4	5.0	7.7	1.3
Real Estate Investment Trust	0.5	0.1	0.5	3.2	0.6
Corporation other than REIT	4.5	4.7	11.2	20.4	5.0
Nonprofit or Church-related Institution, or Cooperative	2.6	1.1	3.1	10.4	2.6
Other	3.0	2.5	4.1	4.6	3.0

Source: US Census, Residential Finance Survey

RESIDENTIAL REIT PROFILE

Residential Real Estate Investment Trusts (REITS)

Apartment REITS

Total REITS	13	Mean Properties	182
Total Units	623,655	Median Properties	132
Total Properties	2,185	Min units	2,572
Mean Units	47,973	Max Units	125,000
Median Units	39,328		

Other Residential REITS(1)

Total REITS	4
Total Units/Beds/home sites	292,600

Note: (1)Includes student housing (1), resort housing, manufactured housing (2)

Source: REIT Websites

REIT Share of Multifamily Mortgage Debt Peaked in 1998

Multifamily Mortgage Liabilities (in Billions of 2010 Dollars)

	1995	1998	2004	2008	2010	Change: 1995-2010	
						total	percent.
<i>Total (billions of \$2010)</i>							
Nonfarm Corporate business	30.2	31.4	37.4	40.2	40.3	10.1	33.5
nonfarm noncorporate business	350.3	380.3	631.7	782.5	772.1	421.8	1,396.7
REIT	11.3	31.6	28.7	25.4	27.7	16.4	54.3
TOTAL	391.8	443.4	697.8	848.1	840.1	448.3	1,484.5
<i>Percent Share</i>							
Nonfarm Corporate business	7.7	7.1	5.4	4.7	4.8	-2.9	(9.6)
nonfarm noncorporate business	89.4	85.8	90.5	92.3	91.9	2.5	8.3
REIT	2.9	7.1	4.1	3.0	3.3	0.4	1.4

Source: Federal Reserve Bank, Flow of Funds

Multi-Family Mortgage Holdings

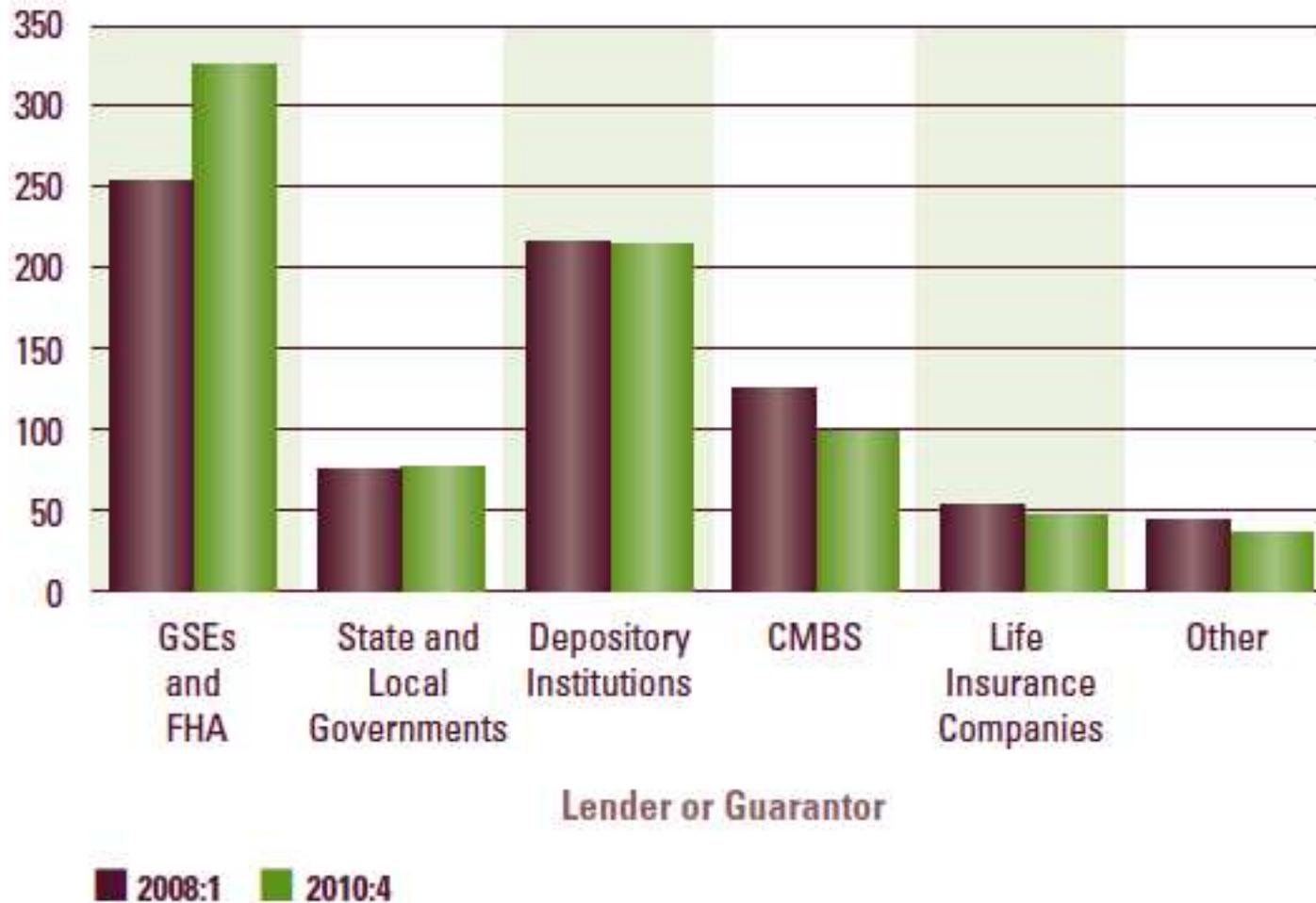
Percent Distribution of Multi-Family Mortgage Holdings

	1995	2004	2008	2011Q1
Commercial Banks	15.5	19.5	25.7	23.1
Savings Institutions	22.6	14.0	7.8	7.3
Total Depositories	38.2	33.4	33.5	30.3
Life Insurance Companies	10.5	6.7	6.2	5.6
GSEs (Fannie Mae & Freddie Mac)	6.8	13.6	22.4	30.5
Agency & GSE-Backed Pools	9.8	17.5	11.1	8.5
Private-Label Issuers	4.3	12.1	13.5	11.7
Other	30.4	16.7	13.3	13.4
Total Mortgage Holdings (Billions of \$ 2010)	392.0	697.8	848.0	826.5

Source: Federal Reserve Bank, Flow of Funds.

Federal Sources Account for Virtually All of the Growth in Multifamily Debt Since 2008

Outstanding Multifamily Debt (Billions of 2010 dollars)



Source: Joint Center for Housing Studies, *America's Rental Housing*

Fannie and Freddie Central to Multifamily Financing

Change in Multifamily Mortgage Holdings, 2004-2011

	2004-2008		2008-2011	
	Total (\$ bil.)	Percent	Total (\$ bil.)	Percent
Depositories	50.5	21.6	-33.0	-11.6
Commerical Banks	82.0	60.3	-27.2	-12.5
Savings Institutions	-31.5	-32.3	-5.8	-8.8
Life Insurance Companies	5.7	12.2	-5.8	-11.1
GSEs (Fannie Mae & Freddie Mac)	94.9	99.6	61.8	32.5
Agency & GSE-Backed Pools	-28.0	-23.0	-23.8	-25.4
Private Label Issuers	1.5	12.1	-1.9	-13.7
Other	-3.3	-2.9	-2.4	-2.1
Total	150.2	21.5	-21.5	-2.5

Source: Federal Reserve, Flow of Funds.

Financing for 1-4 Unit Rental Properties

- Reliant on “single-family” home mortgages
- Financing difficult to obtain, especially in wake of mortgage crisis
- Financing for smaller properties and structures generally more difficult and expensive to obtain compared to larger properties.

Concluding Observations

- Rental housing in the US is dominated by the private sector.
- Rental housing is extremely diverse, with many submarkets.
- Most new unsubsidized rental housing is targeted to the “luxury”/high-end market.
- Financing for rental housing is almost entirely dependent on the public sector (Fannie/Freddie/FHA)

Concluding Observations

- New rental construction for low-income households requires government subsidy
- For-profit owners offer some advantages compared to nonprofits as owners of low-income housing—stronger financial and technical resources, access to capital markets. Less likely than nonprofits to build in poor neighborhood; questionable long-term commitment to low-income occupancy.