Housing Demand

66% of new households will rent, NMHC predicts As new lifestyles tilt balance toward sustainability

Located within a short train or ferry ride from lower Manhattan, The Pier in Jersey City, N.J., exemplifies the kinds of properties that Equity Residential develops: Close to transit and jobs and on infill site in existing urban areas.

Community facilty at Northpark Apartments in Burlingame, Calif., a property of Equity Residential

BY ANDRE SHASHATY

When George W. Bush was president, homeownership rates reached a record high of 69 percent, and everyone from the White House to Congress on down to local officials sucked all the political advantage they could get from the growing ranks of young homeowners. Apartment operators wondered how it came to pass that a young family could get a mortgage even if they could not qualify for a lease. Single-family cul de sac subdivisions sprouted in outlying areas of every U.S. city with a pulse.

What a difference a few million foreclosures makes. Today, the homeownership rate is dropping and rental housing is making a comeback that could last for decades. It's about time, according to apartment owners and their association, the National Multi Housing Council (NMHC), which has been arguing for years for government policies that value rental housing.

"The single-family housing meltdown confirms that homeownership alone is not sufficient to meet our housing and community needs," said Doug Bibby, NMHC president. "We need a more balanced housing policy—and that policy needs to begin with ensuring a consistent and abundant capital flow to rental housing."

The shift toward rental housing dovetails perfectly with the preference of many mayors and city planners to see growth channeled into transit corridors and infill locations, as opposed to development of single-family homes in subdivisions far from services or jobs.

"Not only do apartments offer housing to a wide range of households," >>

said Bibby, "they can also help us meet critical national goals like reducing greenhouse gasses, growing more sustainably and creating mixed-use, pedestrian-friendly communities."

NMHC says the nation is experiencing a boom in renter households that will continue for years to come. "We saw a surge of 2.7 million renters from 2005 to 2007 alone," Bibby said. "Between 2008 and 2015, nearly two-thirds of new households formed will be renters. That's 6 million new renter households," he stated.

PHOTO: DENNIS WHITEHEAD

▲ **NMHC President Doug Bibby**

Homeownership Not a Can't Miss Investment

This is partly because of a change in attitudes about the financial benefits of ownership. Until the recent spike in foreclosures, a large percentage of home sales were premised on the idea that buying was a financial investment, not just a way to obtain shelter. That is shifting dramatically as more and more households make housing choices based on lifestyle or even environmental factors, and no longer assume that owning is a good investment.

These housing choices are largely a function of changing demographics, according to NMHC. The aging members of the Baby Boomer generation are increasingly opting to trade in their suburban houses for apartments as they age and their children move away from home, NMHC said. According to Census data, 75 percent of all seniors will change housing type between ages 65 and 80.

A more powerful force for rental demand is the Echo Boomers, that is, the children of the baby boomers. By 2015, there will be 67 million people aged 20-34 years of age, the prime years for renting.

"We have reason to believe that this generation of young people will rent for longer than earlier generations," said Bibby. "Not only have they seen first-hand that owning is not a can't-miss investment, they've also learned through the recession that they need to be more mobile to respond to changing economic opportunities and not be burdened by owning a house."

Immigration is another factor driving future rental demand because immigrants rent for a long time after arriving in the U.S. Eighty-two percent of immigrants who have been here for five years or less rent, and 71% of those here for 10 years or less rent, according to Bibby.

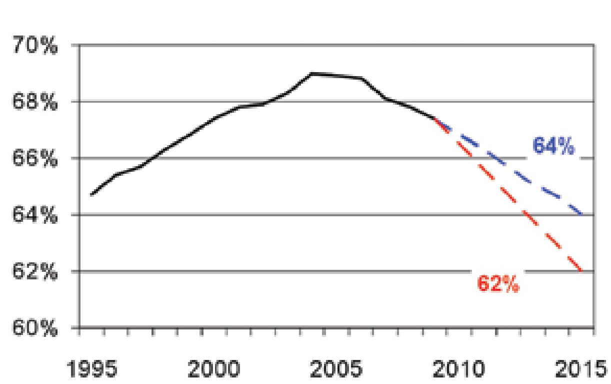
Demographic Change

Thanks to an enormous wave of immigration in the 1990s – the largest ever – one in five heads of U.S. households is now either foreign born or the native-born child of an immigrant.

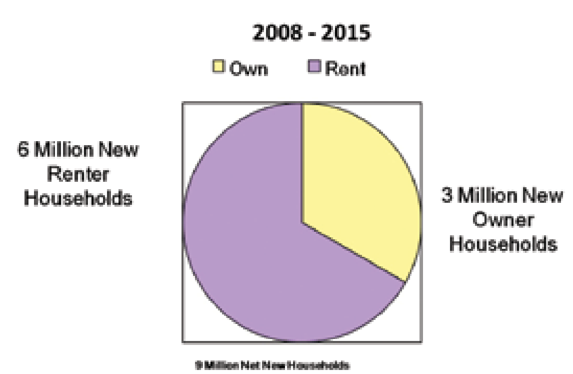
There is also a dramatic change in what constitutes the "typical" American household. "For generations, married couples with children dominated our housing markets and they caused the suburbs to grow explosively. But now they are less than 22% of households and that number is falling. By 2030, nearly three-quarters of our households will be childless," Bibby said.

"In fact, between 2000 and 2040, fully 86% of our household growth will be households without children," Bibby said. "That's a profound change that has serious implications for the kind of housing we need. Our future society will be domi-

DECLINING HOME OWNERSHIP RATES



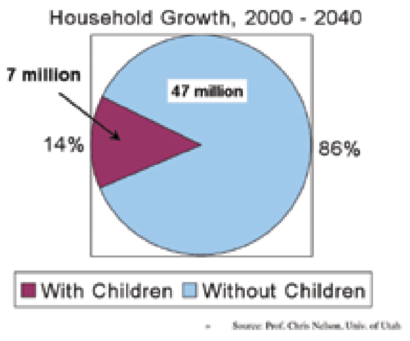
US HOUSEHOLD GROWTH PROJECTIONS



nated by single people, unrelated people living together, couples without children and empty nesters, and these households are much more likely to choose the flexibility, convenience and superior locations offered by rental housing."

To meet this future demand requires a fundamental re-thinking in how we approach housing in this country. To meet emerging housing demands, half of all new homes built between now and 2030 will have to be rental units, according to Professor Arthur "Chris" Nelson, director of Metropolitan Research at the University of Utah.

CHANGING DEMAND, HOUSEHOLD COMPOSITION



The multifamily industry will have to get busy to meet that projected demand. New apartment construction set an all-time post-World War II low in 2009 at 97,000 new starts. Construction levels in 2010 were predicted to be even lower. "At the current rates of starts and completions, we're not even building enough to replace the units that are lost every year to old age," according to NMHC.

If It's Not Broke, Don't Fix it

Ironically, most casual observers see the current oversupply of vacant single-family houses because of the foreclosure crisis, and assume that the U.S. has a housing glut. That's not true, Bibby said. "We do indeed have a glut of single-family houses, but on the apartment side we are heading toward a shortage as early as 2012. The shortage of affordable rental units is particularly acute."

NMHC is calling for federal, state and local policies that encourage the development of compact, sustainable housing located near transportation and employment centers. Bibby lauded the efforts of HUD and other federal agencies to coordinate housing and transportation to give Americans more affordable housing near jobs and transit.

Bibby said that the Obama Administration's proposal for changes to Fannie Mae and Freddie Mac single-family finance programs appears to move government policy away from an overreliance on homeownership. But he expressed concern about the plan's lack of specificity about the future of Fannie and Freddie multifamily finance programs. (For details, see separate story.)

"We urge policymakers to be very cautious and not cause unintended consequences by trying to solve a problem that doesn't exist in Fannie's and Freddie's multifamily business," Bibby said. "Their multifamily programs are not broken. They have default rates of less than one percent and they actually produce net revenue (profits) for the U.S. government. They pose no risk to the taxpayer. But they—and the nation's supply of workforce rental housing—stand at risk of becoming a collateral victim of the single-family meltdown."

"Over the past 40 years, there have been numerous occasions when the private sector has been unable or unwilling to finance multifamily loans," he continued. "A federally backed secondary market with an explicit federal government guarantee is absolutely critical to our industry's continued health."

Without the two federal mortgage firms, from 2008 through 2010, there would have been widespread foreclosures of otherwise performing apartment properties because owners would have had no capital source to refinance maturing mortgages, according to NMHC.

Bibby said that 90% of apartment loans purchased by Fannie and Freddie are for properties targeted to people earning the median income. "Fannie and Freddie's multifamily lending is the government's most efficient way of producing workforce housing," he said. ❧

FHA INSURES LARGEST "GREEN" RENOVATION

The largest "green" transaction done with Federal Housing Administration insurance was closed recently by CWCapital LLC, a full-service, national lender to the multifamily and healthcare real estate industries. The loan was for $36 million to finance renovation of The Fay Apartments in Cincinnati, Ohio.

The loan will support a 30-month renovation of the Fay Apartments between October 2010 and March 2013. Details of the renovation project include the demolition of 17 buildings, reducing the number of units to 703, and the implementation of "green" features for all units, such as energy efficient windows and doors, eco-friendly carpet and new HVAC systems.

The loan represents both the FHA's largest Mark-to-Market transaction as well as its largest "green" transaction closed to date, according to CWCapital. To complete the financing, CW worked collaboratively with Cincinnati-based CMC Mortgage Services Inc., who had initiated the finance project before enlisting CW to complete the deal and assume servicing responsibilities upon the loan's closing.