MULTIFAMILY RENTAL HOUSING IN THE 21ST CENTURY

Kent W. Colton, Ph.D.
Senior Scholar in Housing Studies and
Jacob Wertheim Research Fellow,
Joint Center for Housing Studies,
Harvard University, and
President, Kcolton, LLC

and

Kate Collignon
Master's Program in Public Policy
and Urban Planning
Kennedy School of Government
Harvard University

January 29, 2001

Acknowledgements: Work on this paper was supported in large part by the National Multi Housing Council in Washington, D.C. Support was also provided by the National Housing Endowment and the Joint Center for Housing Studies at Harvard University. The authors would like to acknowledge and express thanks for this support while at the same time recognizing that the responsibility for the content of the paper rests solely with them.

Multifamily Rental Housing in the 21st Century

Kent W. Colton and Kate Collignon

Joint Center for Housing Studies

W01-1

January 2001

Abstract

This paper examines the most pressing issues related to multifamily rental (apartment) housing. It begins with a brief review of the benefits apartments bring to communities and their residents and then discusses the changing nature and composition of multifamily rental housing. This is followed by an examination of the role multifamily rental housing plays in providing affordable housing. Finally, we review the financing of multifamily rental housing and the relationship between multifamily housing and smart growth. Our conclusions center on the likely role apartments will play in the 21st century.

Multifamily Rental Housing in the 21st Century

by

Kent W. Colton and Kate Collignon

Introduction

As we enter the 21st century it is appropriate to examine the role that multifamily rental housing plays within the nation's housing. In response partly to demographic shifts and a variety of government-sponsored incentives, homeownership rates have been rising steadily over the last five years. Despite this national focus on homeownership, it is important to recognize that multifamily rental housing -- often referred to as apartments -- plays an essential role in meeting the nation's housing needs.

Understanding the nature and composition of multifamily rental housing requires moving beyond the simple distinction between renters and homeowners, and between single-family and multifamily housing. Not all renters live in multifamily rental apartments (structures with five plus units), some rent single family houses and units in smaller properties. Likewise, not all homeowners live in single-family houses -- some own condominiums and cooperatives which are found in multifamily structures.

Looking at the 35 million renter households in 1999 who made up 34 percent of all households, recent data indicate that approximately 36 percent rented single-family houses and 21 percent rented in a smaller building with two to four units. [1] The remaining 43 percent of renters -- totaling 15 million households and 15 percent of all households -- lived in apartments. *Figure 1* provides a graphic representation of the housing stock by tenure and structure size.

The housing industry generally defines multifamily rental housing (apartments) as renter-occupied structures with five or more housing units, and this chapter will focus primarily on this segment of the housing stock. Apartment units comprise 43 percent of all rental units, but because apartment *properties* contain at least five and often many more units, they make up just

[1] Jack Goodman, "The Changing Demography of Multifamily Rental Housing," Housing Policy Debate, 10.1 (1999), 33. Note, this does not include the 4% of the population living in mobile homes.

10 percent of all rental properties.[2] (Unless otherwise noted, then, apartments are defined in this chapter as housing units in rental properties with five or more units.)

Residents of multifamily rental housing are as diverse as the population itself. They span the income distribution, from households who could buy a home but choose instead to rent, to moderate income renters, to lower-income households who rent out of economic necessity. Apartments also serve a variety of lifestyle needs. Upper income households are attracted to the convenience and location of upper-scale apartments, often found in cities and high-end neighborhoods. Lack of maintenance, ease of relocation, and convenience in terms of location and transportation are other factors which encourage households to choose rental multifamily housing.

Thanks in part to government-sponsored incentives, apartments have long served a critical niche within the housing market by providing essential affordable housing. In recent years, however, a variety of factors have contributed to an ever-worsening shortage of decent, Affordable rental housing for both lower- and moderate-income families. These factors include changes over the last two decades in federal housing programs; public tax and regulatory policies that have reduced incentives for private investment in apartments; and the stagnation of real income for some people. Recently, modest federal efforts have been made to increase affordable multifamily rental housing, but the impact also appears to be modest.

While apartments are best known for their affordability, in recent years the traditional stereotypes about who lives in apartments have been challenged by the growing number of discretionary renters and people who are at the higher-end of the market. Many of these are young professional and empty nester households, living in both the inner city or the suburbs close to employment centers or subways, who are looking for better commutes and freedom from the burdens of homeownership. The apartment industry has responded to these nontraditional renters in ways that have revolutionized apartment living and made it more competitive with single-

[2] Estimated from Simmons, Patrick A., (ed), Housing Statistics in the United States, Second Edition (Washington, DC: Berman Press, 1998),128. 1990 Census data used in *Housing Statistics* presents data per household, rather than per building. However it does indicate the number of units in the structure in which each household lives, broken into categories by building size. The total number of multifamily buildings was estimated by dividing the number of households per category by the mean structure size for that category. For example, the 4,283,000 renter households living in structures containing five to nine units were estimated to represent 611,857 (4,283,000 / 7) multifamily buildings.

family housing. Improved designs, new technologies, increased amenities, and a focus on resident satisfaction are all helping to further apartment demand at the top end of the market.

In addition, the growing concern over suburban sprawl has renewed both public and private interest in the role apartments can play in creating more livable communities. Recognized for their often more efficient use of infrastructure and service delivery, and their contributions toward reducing congestion and pollution, apartments are becoming an important ingredient in the smart growth agenda.

The Benefits of Multifamily Rental Housing

Multifamily rental housing provides a broad range of benefits to both the communities in which it is located and to the residents it houses. It provides economic benefits through its construction; it fills diverse and significant market needs; and it can enrich the communities where it is located. Each of these benefits is discussed below.

Economic Benefits

Economic benefits related to multifamily rental housing are provided at both the national and local scale. The nation benefits from the construction of new apartments through the jobs created to produce the housing, the jobs required to create the products that go into the buildings, and the jobs related to the design, finance and management of the project. For example, the production of the 341,000 multifamily units (in buildings with two or more units) nationwide generated 350,000 jobs, $10.9 billion in wages and $5.4 billion in federal, state and local taxes, as calculated in 1997.[3]

Beyond the job creation and tax revenue benefits at the local level, new apartment construction also produces "ripple effects" as the construction wages generated by the project are spent on local goods and services and as the new residents begin spending in the local economy. According to the National Association of Home Builders, a typical 100-unit apartment project

[3] Kent W. Colton, David A. Crowe, and Paul Emrath, The Benefits of Multifamily Housing (Washington, DC: National Association of Home Builders, September 1998), 4.

generates, over 10 years, 445 jobs, $15.5 million in local income, and $2.6 million in local taxes.[4] *(See Figure 2)*

Once the project is constructed ongoing economic benefits are generated in the form of property taxes, employment for people who work to manage and maintain the apartment, and consumer spending by the renters. Benefits are also generated by the more efficient delivery of services from both the public and private sectors because of the greater densities found in apartment living.

For example, senior citizens are often served better, and at less cost, when living in multifamily projects. Naturally some of these efficiencies will depend on the scale of the development and the way projects are clustered, but the benefits which come from being able to provide greater densities and to economize on the use of available land can be important both for the renter and for the community.

Market Need

In addition to the economic benefits of new apartment construction, apartments serve several market needs. For many residents, apartments provide the only affordable living opportunity available. Because of their higher density nature and the ability to spread land costs across more housing units, apartments are more affordable than single-family houses.

Apartments also serve the lifestyle needs of many community residents. First, the high density nature of multifamily housing makes it easier for apartment owners to provide a wide range of amenities that attract upper-income households. Over the last few years upscale apartments have added such things as high speed Internet access, on-site business centers, fitness facilities, cyber cafes and dedicated concierge services to make daily living more convenient for their residents. The lack of maintenance chores is a draw for many renters, while others are attracted by the ability to relocate for career and other reasons without incurring the costs of selling a home. Apartments, when well designed and monitored, can also provide important security benefits and protection from crime. Apartments can also offer a location advantage not available in single-family developments. Multifamily housing tends to be located closer to

[4] Colton, Crowe and Emrath, 4-5.

employment centers, public transportation and neighborhood services.[5] Because of this location advantage, apartments can serve as a leading component in urban revitalization.

Community Benefits

Multifamily rental housing can create community-wide benefits, even for those who choose to live in single-family homes. The presence of multifamily housing can create pedestrian-friendly neighborhoods and make communities more pleasant places to live. The local jobs and spending created by new multifamily construction add economic vitality to a community. Communities that include apartments make it possible for citizens who choose to do so to remain in the same community throughout the different stages of their lives by increasing the residential options available. Recent graduates are able to stay in an area when there is an affordable housing option, and empty nesters, looking for a simpler lifestyle, are not forced to relocate if a suitable apartment or retirement community is available.[6]

Multifamily housing helps relieve traffic congestion and pollution by providing housing closer to the workplace and by creating the densities required to support public transit. Apartments also provide significant environmental benefits by using land more efficiently and making it possible to preserve open space.[7]

Apartment housing also supports an area's continued economic development by providing the housing necessary for workers living in the area. Without a variety of housing options, local employers find it difficult to attract the employees needed to expand, and prospective employers are discouraged from locating or creating new businesses in such a community. Multifamily rental housing has historically provided a wide range of benefits and filled essential housing needs. In order to better understand the past and future roles of apartment housing, the chapter will now examine the changing nature and composition of multifamily housing.

The Changing Composition of Multifamily Housing

The residents served by multifamily housing are indeed diverse. While they are often associated with urban, lower-income households, multifamily residents also include higher

[5] Urban Land Institute, The Case for Multifamily Housing (Washington, DC: Urban Land Institute, 1991), 5.
[6] Urban Land Institute, ULI on the Future: Smart Growth (Washington, DC: The Urban Land Institute, 1998), 23.

income lifestyle renters and a broad "middle market." The section which follows will show that in absolute numbers lower- and moderate-income households make up the majority of the market, but in percentage terms the fastest growing segment of the multifamily market is the upper income lifestyle renter who rents by choice. As a result, new construction trends in recent years have generally focused on the top end of the market.

As noted above, the housing industry generally defines multifamily rental housing (apartments) as renter-occupied structures with five or more housing units. While apartments are found both in cities and in the suburbs that surround those cities, they are traditionally, and correctly, associated with urban living. Fifty-one percent of central city households rented their homes in 1997, compared with 27 percent outside of cities. Also, rental properties located in the central city are more likely to have multiple units than are properties in the suburbs or outside metropolitan areas. In central cities, 52 percent of rental units are located in multifamily properties. This compares to 42 percent in the suburbs and only 23 percent outside metropolitan areas.[8] Because of these facts, fully 60 percent of center city residents live in an apartment compared to 27 percent of suburban residents and 13 percent of those living outside metropolitan areas.[9]

Apartments are more prominent in some areas of the country compared to others. The South has led the country's four regions in apartment construction since 1980, and has increased its rate of construction each year since 1992.[10] As a result, the South today surpasses the other three regions in apartment units. The South's 4.2 million apartment units comprise 29 percent of the nation's total apartment stock while their 11.1 million rental units comprise a third of the rental units across the country. That said, the Northeast has the highest proportion of rental units located in multifamily structures (50 percent), compared to the South's 37 percent.[11]

When people think of apartments, they often think only of high-rise apartment buildings in lower income neighborhoods. On the contrary, in 1997 apartments in large buildings (structures with 50 or more units) comprised just 22 percent of all multifamily units and large

---

[7] Urban Land Institute, The Case for Multifamily Housing, 5.
[8] American Housing Survey 1997.
[9] Goodman, 37.
[10] Joint Center for Housing Studies, The State of the Nation's Housing 1999 (Cambridge, MA: Joint Center for Housing Studies, 1999), 23. The country's four regions include the Northeast, the Midwest, the South and the West.

structures comprise an even smaller percentage of multifamily properties.[12] While a greater proportion of households in lower-income neighborhoods live in apartments, these multifamily units are less likely to be located in huge apartment buildings than are the multifamily units that are found in higher income neighborhoods. For example, using the 1991 Residential Finance Survey, Bogdon and Follain found that while low-income census tracts (with median incomes below 80 percent of area median) contained 26 percent of housing units, they contained 38 percent of all multifamily units. They contained an even greater share – 48 percent – of multifamily properties, indicating that multifamily properties located in lower-income tracts tended to be smaller than properties in higher income neighborhoods. [13]

Demographic Diversity of Apartment Renters

Just as the diversity within the apartment housing stock defies stereotypes, so do multifamily renters. While apartment households are often perceived of as being low-income, this characterization is inaccurate in many instances. In fact, the decision to rent rather than buy is often based on factors other than affordability. According to Fannie Mae's 1999 National Housing Survey, nearly a third of renter households (28 percent) report that they rent as a matter of choice and not economic necessity.[14] *(See Figure 3).* These often educated and affluent households eschew the burdens of homeownership and are presumably attracted to apartments because of the flexibility and convenience associated with apartment living; because of the package of amenities and services offered by apartments; or by the proximity of many apartment properties to employment, entertainment and retail centers.

When measured by group averages, the characteristics of apartment renters tend to reinforce many of the stereotypes. The average income of apartment households is below the national average; the 1997 median annual income for apartment renters was $21,000 compared to $35,172 for households generally. *(See Figure 4).* They are more mobile; over one-third (34 percent) of apartment renters reported moving in the previous year, compared to 32 percent of other renters and six percent of homeowners. They are more likely to be younger; 30 percent of

---

[11] American Housing Survey 1997.
[12] American Housing Survey 1997
[13] Amy S. Bogdon and James R. Follain "Multifamily Housing: An Exploratory Analysis Using the 1991 Residential Finance Survey, "Journal of Housing Research, 7.1 (1996),89.
[14] Fannie Mae, National Housing Survey 1999 (Washington, DC: Fannie Mae, 1999), 6.

apartment household heads were under the age of 30, compared to 14 percent of all households. They tend to be smaller households; 46 percent were one-person households compared to 25 percent of total households. Also, they are more likely to be immigrant households. Nationally, just three percent of U.S. residents report having arrived here within the past ten years, but that figure triples among multifamily households. Finally, multifamily households are also more likely than homeowners to be people of color. Over one quarter (27 percent) of multifamily renters are African-American or other nonwhite ethnicities, while the comparable number nationwide is 16 percent of all households.[15]

However, focusing on the broad view of apartment renters fails to capture the full diversity of multifamily households. Defying the view of apartment renters as low income, highly mobile and typically young are the facts that:

- Fully 3.5 million renters (of all housing types) earn 150 percent or more of the local area median income;
- Fifteen percent of multifamily renters remain in the same apartment for at least four years; and
- Sixteen percent of multifamily renters are age sixty-five or older.[16]

One recent analysis offers a classification scheme that places apartment households into three broad groups: renters in affordable housing, lifestyle renters, and the middle market (*Figure 5*).

The Affordable Housing Group includes apartment renters who cannot afford to pay the market rent in their area and who must pay more than 30 percent of their incomes to rent decent housing. As shown in Figure 5, the affordable housing group makes up nearly half (49 percent) of all apartment households and includes renters who live in privately-owned but federally-assisted housing and public housing. Fully 19 percent of all apartment renters and 39 percent of the affordable housing group live in assisted housing. The households are more likely than other multifamily renters to be nonwhite, and by definition have lower incomes. They are also older and less mobile than other apartment renters. Assisted housing residents are even more likely than public housing residents to be older and less mobile as well as to have at least one child.[17]

[15] Data highlighted in this section and in Figure 4 is from the U.S. Bureau of Census, 1997, found in Goodman, 36.
[16] Goodman, 36; Joint Center for Housing Studies, 1999, 22.
[17] Goodman, 40-41.

The Lifestyle Renters Segment choose apartment living for primarily nonfinancial reasons and in 1997 accounted for 14 percent of all apartment households. Lifestyle renter households meet each of three criteria: they are old enough to be established in the labor force and to have stopped being highly mobile; they have adult interests and schedules; and they earn enough income to purchase a home if they choose to do so. They include renters age 25 and older, who are single-person households or married without children, and have income above the average required to buy a starter home. In contrast to the affordable group, the lifestyle renters have a median income of $48,928, and 80 percent are non-minority compared to 67 percent of affordable renters.[18] This renter-by-choice segment is also expanding. In 1998 and 1999, the fastest growing segment of apartment renters was households making $50,000 or more a year.

The final group – the *"Middle Market"* – makes up the remaining 37 percent of multifamily households. As a whole, middle market multifamily renters are younger and more mobile than affordable or lifestyle renters. Among the several subgroups within this category, one includes younger, more mobile households who make up approximately a quarter of the middle market. These households may be recent college graduates or others who are on a track to earn enough money to purchase a home, but have not yet reached that point or are too mobile to settle down. Another important subgroup includes mature single women with no children, and they comprise 12 percent of the middle market. The third subgroup consists of family households. Married couples with no children represent seven percent of the middle market, couples with children comprise 17 percent, and single-parent households make up 14 percent.[19]

Future Demand for Multifamily Rental Housing

Looking to the future, the demand for apartments is likely to continue to grow. Ultimately such demand depends on demographic factors and the housing decisions made by households. Much attention has been paid to the rising homeownership rates the nation has recorded over the last five years. But at the same time homeownership rates were increasing, the number of apartment households was also growing. In 1999, the number of people who rent apartments in buildings with five or more units was up 2.2 percent, while the total number of households grew just 1.4 percent. These seemingly contradictory trends have occurred because apartments seem to

[18] Goodman, 41-43.
[19] Goodman, 43-45.

be picking up market from single-family house rentals or rental apartments in properties with less than five units. These two segments of the rental market benefit less from the renewed growth in young adult and single-person households than do apartments. Although homeownership may continue to increase, both economics and demographics suggest that future growth will be at a slower rate than has been recorded in recent years.[20]

Over the last few decades, apartment demand and homeownership rates have followed the life cycle of the baby boomers. In the 1960s and 1970s, apartment demand increased as the baby boomers began to form their own households and enter the housing market, typically in a rented home. As this group aged, however, many transitioned to homeownership. At the same time the generation behind the boomers, the "baby busters," were a much smaller group, thus decreasing the number of people under 35 and the number of prospective first-time renters.
Despite an 8.7 percent growth rate in the total number of households between 1991 and 1998, the number of renter households increased by only 2 percent over that time.[21]

Going forward, however, demographic changes suggest that the pendulum may swing back to favor apartment living. Using Census Bureau projections and assuming that the housing choices of households of different ages and types do not change, Goodman projects that the demand for multifamily rental housing is likely to increase at a rate faster than growth among total households. *(See Figure 6).* Whereas total household growth is projected to grow a constant 1.1 percent from 2000 to 2010, the annual growth for apartment households is expected to increase from 0.9 percent in 1995 to 2000, to 1.1 percent from 2000 to 2005, and to 1.2 percent from 2005 to 2010. This increase in multifamily rental housing demand at the same time that homeownership goes up is possible, because, as noted above, the overall declines in renting are not coming from a decline in the number of apartment renters, but from declines in households who are renting single-family housing or multifamily housing with two to four units.

The growth in apartment renters will result primarily from the passage of the echo boomers (the so called "echo boom" children of the baby boom generation born since 1977) into adulthood. For almost two decades the number of households aged 20 to 29 decreased in

---

[20] Goodman, 47.
[21] Joint Center for Housing Studies, 1999, 21; U.S. Bureau of the Census, Statistical Abstract of the United States: 1992 (119th edition) (Washington, DC: U.S. Bureau of the Census, 1992), 46; U.S. Bureau of the Census, Statistical Abstract of the United States: 1999 (119th edition) (Washington, DC: U.S. Bureau of the Census, 1999), 60.

absolute numbers. According to the Joint Center for Housing Studies, however, echo boomers "are reversing this trend, adding an average of 20,000 young households (18 to 24 year-olds) each year. The number of households headed by 25 to 34 years-olds will also show substantial increases after 2005 [22], and both of these younger households have a higher propensity to rent. Not only is the number of young adults increasing after years of declining, but many young adults are postponing buying a home until later in life. Between 1976 and 1997, the average age of first-time homebuyers rose from 28 to 32. [23] This is likely due to young adults pursuing higher education and postponing marriage, as well as greater mobility among young workers in today's economy.

A demographic shakeup in what constitutes the typical American household is also likely to boost apartment demand. Traditionally, the typical household has been a married couple with children. But these households have been decreasing in absolute numbers since the 1970s and now account for less than one-quarter of all U.S. households. The Census Bureau projects future declines in the number of these traditional families. In their place are a growing number of single adult, single-parent and childless couples. In fact, in the 1990s, households headed by single adults or single parents accounted for two-thirds of all new households. These smaller households have traditionally been attracted to apartment living and are likely to continue to do so in the future.

The precise housing tenure choices of the echo boomers are still evolving. On the one hand, echo boomers earn less than their parents' generation and are more likely to live alone, which could help encourage new apartment demand. On the other hand, more single echo boomers are buying homes than their parents did, and those echo boomers who do marry are more likely to live in dual-income households, which is more likely to promote homeownership.[24]

Movement of the echo boomers into the overall rental market has also shifted the demographics of who rents apartments. *(See Figure 7).* Echo boomers are more racially and ethnically diverse than their parents' generation. Twelve percent are second-generation Americans, and 10 percent are foreign born. The rate of minorities among young adult echo boomers -- 34 percent -- is more than double that for the baby boomers when they were of

[22] Joint Center for Housing Studies, 2.
[23] Simmons, 245.
[24] Joint Center for Housing Studies, 10.

comparable age (17 percent). As a result, by 1998, 38 percent of all renters were minorities, up from 33 percent in 1990, and the proportion of immigrants rose from 13 percent to 16 percent.[25]

A final factor supporting increased demand for apartments is immigration. Foreign-born households today comprise 10 percent of the US population. While likely to double-up with other adult households when first arriving in the United States, immigrant households head out on their own once they get settled, increasing the total number of households in the market. Fully 25 percent of the household growth through 2010 is expected to be from immigrant households.[26] Looking specifically at the impact of immigration on the overall rental market (renters in all property types), another study expects immigrants to account for 44 percent of the growth in all renter households between 1995 and 2010.[27]

In summary, the number of renters should increase sharply for the next decade as the echo boomers begin to form independent households and the 20 to 30 year old population begins to increase after two decades of decline (see Figure 8), and this overall growth in renters should also stimulate a growth in apartment renters. The continued aging of the postwar baby boom generation and the increasing propensity of these households to seek a simpler lifestyle and to shed their homeowner chores could yield a significant growth in the renters aged 50 to 64. Only the renter group aged 30 to 44 is expected to decline sharply. That means that the fastest growing segment of renters will be two very different sets of households: young adults with modest incomes, many of them minorities and immigrants; and older, higher income households who choose to rent rather than own for a variety of lifestyle reasons.[28]

This dual phenomenon is highlighted in Figure 9. On the one hand, we see that very low-income households accounted for most of the growth in all renters (apartment renters in buildings with five units or more, and other renters combined) between 1985 to 1991 and 1991 to 1997. But at the same time, approximately 250,000 of the new renters created between 1991 and 1997 had incomes that exceeded regional median income by 20 percent or more. "In 1995 (the last year for which local income comparisons are possible), more than six million renter households

[25] For a discussion of these demographic drivers of housing demand, see Joint Center for Housing Studies, 10-22.
[26] Joint Center for Housing Studies, 1999, 9, 12
[27] Goodman, 48, citing James H. Carr, "Multifamily Housing Demand into the Next Millennium: Growth, Diversity, and Opportunity," paper presented at the Annual Meeting of the National Multi Housing Council, January 16, 1998, Boca Raton, FL.

earned incomes that exceeded the local area median by at least 20 percent. In fact, nearly 3.5 million of these renter households had incomes that topped area medians by 50 percent or more."[29] Tracking this same phenomenon in apartment renters, analysis of the Census Department's current population survey between March, 1998 and March, 1999 found that the fastest growing segment of apartment renters were those making $50,000 or more a year. In terms of the percentage change in 1998, apartment renter households making less than $20,000 actually dropped by 3 percent, while apartment renter households making $20,000-$49,999 rose by 4.2 percent, and those making $50,000 or more rose by 11.6 percent.[30]

The growth in higher-income apartment renters is even more evident when one looks at the characteristics of residents in newly built apartments. Utilizing unpublished data from the U.S. Census Bureau's American Housing Survey for 1995, the National Multi Housing Council found that 17 percent of households in newly built apartments had incomes of $55,000 or more, whereas the percent for all apartment residents was 9 percent.[31]

Affordable Housing Needs and the Role of Multifamily Rental Housing

The U.S. has experienced an unprecedented economic expansion and housing boom over the last nine years. Unfortunately, not all households have benefited equally from the rising tide of prosperity, and in many cases the economic growth has actually served to exacerbate the nation's shortage of decent, affordable housing. In 1997, there were only 76 affordable apartments for every 100 extremely low-income renter households.[32] And those low-income households lucky enough to find affordable housing were often paying a higher percent of their income for it in 1998 (27.7 percent) than they did in 1978 (25.5 percent), because rent increases during that period surpassed renter household income growth.[33] While homeowners face

---

[28] Joint Center for Housing Studies, 1999, 24.
[29] Joint Center for Housing Studies, 1999, 22.
[30] National Multi Housing Council, "Growing Smarter with Apartments," (Washington, D.C., National Multi Housing Council, 1999), 2.
[31] National Multi Housing Council, Research Notes, "The Residents of Newly Built Apartments," (Washington, D.C., National Multi Housing Council, September 1997), 1-2.
[32] U.S. Dept. of Housing and Urban Development, Office of Policy Development and Research, Rental Housing Assistance – The Worsening Crisis: A Report to Congress on Worst Case Housing Needs (Washington, DC: U.S. Department of Housing and Urban Development, March 2000), A-18.
[33] Joint Center for Housing Studies, 1999, 35.

housing problems of their own, housing affordability and adequacy problems are a greater challenge among renters -- both apartment renters and other renters. This section discusses the nature and causes of the affordability problem, the role of housing subsidies and future challenges.

The Affordability Problem

According to a March 2000 report by the U.S. Department of Housing and Urban Development (HUD), "Worst Case Housing Needs," 15 percent of all households (all renters and all owners) paid between 30 and 50 percent of their income on housing, and another 12 percent paid more than 50 percent.[34] These 27.3 million households were split almost evenly between renters and homeowners. However, affordability issues are generally discussed in terms of renters because a far greater proportion of renters pay more than they can afford for housing, 40 percent compared to 21 percent of homeowners. And nearly 20 percent of renters (6.7 million households) are severely rent burdened, paying more than 50 percent of their incomes on rent. *(See Figure 10).*

The gap between the number of low-income renters and the supply of affordable units would be even wider were it not for federal housing subsidies. From 1975 to 1995, the proportion of low-cost housing units that were subsidized rose from one-fourth of all low-cost rental units to over half.[35] *(See Figure 11).* However, this increase did not result from an increase in the amount of subsidies provided, per se. Instead, it primarily reflects a decline in the total number of low cost units over which to spread the existing subsidy dollars.

The physical quality of available affordable housing is another problem. In 1997, over one million renter households (approximately 2.9 percent of all renter households and 6.7 percent of apartment renter households) lived in severely inadequate housing; housing with problems in plumbing, heating, electrical systems, upkeep or hallways *(See Figure 12).* Over 2.5 million renters (all types of housing) lived in housing that both cost more than they could afford and was physically inadequate or overcrowded (with more than one person to a room).[36] While these 2.5

[34] U.S. Dept. of Housing and Urban Development, A-1.
[35] Daskal, Jennifer, <u>In Search of Shelter: The Growing Shortage of Affordable Renter Housing</u> (Washington, DC: Center on Budget and Policy Priorities, 1998), 35.
[36] U.S. Dept. of Housing and Urban Development, A-1.

million renters represent under 17 percent of the total apartment renter population, their numbers are significant.

Housing problems are, not surprisingly, worst among households with the lowest incomes. In 1997, the overwhelming majority (nearly 70 percent) of extremely-low-income renters (defined as having an income below 30 percent of area median) without any housing assistance paid over half their income for rent or lived in substandard housing. Extremely-low-income households represented 21 percent of all unassisted renter households in 1997, but they comprised over 69 percent of renter households with priority housing problems[37] *(See Figure 13)*. The nation's housing affordability problem would look even worse if one were to take into account the approximately 700,000 individuals who are estimated to be homeless on any given night – a cumulative 2 million per year – and are not included in national housing surveys.[38] The significance of the problem is highlighted even more in light of the fact that 5.6 million renter households were receiving public rental assistance in 1997. Without this assistance, the shortage of affordable housing would be even greater.

In contrast to conventional wisdom, however housing affordability issues are not restricted to low-income households. The Center for Housing Policy reports that more than three million moderate-income, working households had critical housing needs in 1997 (critical housing needs is defined as spending more than half their income on housing and/or living in a severely inadequate unit.)[39] And their numbers are increasing. In the two years between 1995 and 1997, the number of these households jumped 17 percent (or by 440,000). Overall, the Center says that 14 percent of the nation's families have critical housing needs, and that increasingly, "having a job does not guarantee a family a decent place to live at affordable cost."[40]

[37] U.S. Dept. of Housing and Urban Development, 29.
[38] National Coalition for the Homeless, http://nch.ari.net/numbers.html. Estimated by the National Law Center on Homelessness and Poverty, 1999, drawing from Burt and Cohen's 1989 estimate of 500,000 – 600,000 homeless nightly, and increased by 5percent annually. National Law Center on Homelessness and Poverty, Out of Sight - Out of Mind? A Report on Anti-Homeless Laws, Litigation, and Alternatives in 50 United States Cities (Washington DC: National Law Center on Homelessness and Poverty, 1999); Martha Burt and Barbara Cohen, America's Homeless: Numbers, Characteristics, and Programs that Serve Them (Washington DC: The Urban Institute, 1989).
[39] This is the same definition used by the U.S. Department of Housing and Urban Development in their "Report to Congress on Worst Case Housing Needs," March, 2000.
[40] Michael A. Stegman, Robert G. Quercia and George McCarthy, Housing America's Working Families (Washington, DC: The Center for Housing Policy, June, 2000), 1-9.

Central cities have more renters with severe housing problems than the suburbs, due to higher poverty concentrations found in urban areas. In 1997, 2.7 million households in central cities had worst case housing needs, compared to 1.8 million suburban households. However housing affordability and quality is still a significant problem among suburban renters. In fact, very-low-income renters (with incomes below 50 percent of area median) in the suburbs are more likely to have worst case needs than their urban counterparts. Over 41 percent of suburban unassisted renters with very low incomes had worst case housing needs in 1997, compared with 37 percent of renters with comparable incomes in cities.[41]

Causes of The Expanding Affordability Gap

The growing affordability gap is the result of two trends: a shrinking supply of low-cost housing, and an expanding demand from an increase in the number of low-income households. Even though the nation's total housing stock has grown substantially in recent decades, the stock of low-cost rental housing declined. Whereas there were 4.9 million unsubsidized units renting for $300 or less in 1973, by 1995 the inflation-adjusted number had been reduced to 2.8 million.[42] *(See Figure 14).*

At the same time as the supply of affordable housing has been falling, demand has been increasing caused by stagnating incomes and two recessions. Between 1975 and 1995, while monthly income for homeowners rose by ten percent (from $3,287 to $3,617 in 1998 dollars), income among renters fell eight percent from $1,909 to $1,758.[43] At the same time, the gap between the "haves" and the "have nots" widened. In 1970, the two-fifths of the population with the lowest income had 14.9 percent of national wealth, compared to 67.8 percent among the top two-fifths. By 1990, the gap had widened to 13.5 percent and 70.6 percent.[44] Also, between 1970 and 1995, the number of renter households earning under $12,000 (1995 dollars) rose by 67 percent, from 6.2 million to 10.5 million. [45]

More recently, renters have benefited from the economic boom of the late 1990s. By 1998, monthly incomes had risen to $1,787 – the highest level since 1990. However this is still

---

[41] U.S. Dept. of Housing and Urban Development, 36-37.
[42] For a further discussion of these trends see Daskal, 30-40.
[43] Calculated from U.S. Statistical Abstract 1998, Table 718.
[44] Robert W. Burchell and David Listokin, "Influences on United States Housing Policy," Housing Policy Debate, 6.3 (1995): 582.

below incomes of two decades ago, and reflects only a 1.6 percent increase from 1995, compared to the 5.6 percent increase experienced by homeowners. [46]

The Role of Housing Subsidies

The gap between the number of low-income renters and the supply of affordable units would be even wider were it not for federal housing subsidies. As noted earlier, the proportion of all low-cost units that depended on subsidies to remain affordable rose from one-fourth in 1975 to over half in 1995.[47] *(See Figure 15).* Yet, according to Goodman, as discussed in the prior section on changing composition, by 1997 federally assisted renters represented only 19 percent of apartment renters.[48] This apparent discrepancy is explained by the fact that the increase in the percentage of affordable properties that receive subsidies reflects a decline in the total number of low cost units, as opposed to an increase in the provision of subsidized units. In fact, the country saw a retrenchment in housing subsidies in the last part of the decade in the 1990s. Between 1995 and 1998, virtually no funding was allocated for new vouchers or housing certificates, not even the amount required to keep up with the increases in the low-income population that would be expected from overall population growth alone.[49] Furthermore, the focus of housing subsidies has shifted away from very low-income households toward households with somewhat greater incomes. This is because the Low-Income Housing Tax Credit has become the dominant federal subsidy program for new construction (see the section on Financing), and in 1996 there was a suspension of the public housing rules which required preference for families with the most severe housing needs (who also were the poorest).[50] In the last several years, the federal government has demonstrated a renewed, albeit modest, commitment to affordable housing. Congress funded 50,000 new housing vouchers in 1999 and 60,000 in 2000. And approximately 79,000 new vouchers were funded in the FY 2001 HUD budget. *(See Figure 16).*

---

[45] Daskal, 32.
[46] Joint Center for Housing Studies, 1999, 35.
[47] Daskal, 35.
[48] Goodman, 42.
[49] U.S. Dept. of Housing and Urban Development, 50.
[50] Daskal, 39.

The Future Challenge

As we look to the future, the affordable housing gap presents a significant housing policy challenge. By any variety of measures, the gap between the "housing haves" and the "housing have nots" is growing. At the same time, the federal resources available to deal with this issue have essentially been frozen or declining for a number of years. Resources are growing in some state and local communities, but that growth is sporadic and varies widely.

After World War II, federal housing programs focused on a variety of direct spending and tax incentives in order to stimulate the production of low and moderate income housing. However, in the last several decades, major shifts have occurred in the federal approach, and now, to the extent that public dollars are available, the resources are directed primarily on housing vouchers and the Low Income Housing Tax Credit (LIHTC). By themselves, these programs will not come close to meeting the affordable housing gap.

The production of affordable rental housing is essential if we are to meet this housing need. Higher density construction allows land costs to be split across multiple units, and these units can generally be provided at lower prices than single-family housing, or even structures containing 2-4 units. However, with only limited federal, state and local resources, the problems in addressing these issues are huge.

The overall challenge is to provide housing that working families can afford, but in many communities the economics will simply not allow developers and builders to construct units where the rents will be affordable (where renters spend no more than 30 percent of their total income on rent). It is possible to build lifestyle, upper end apartments, and such housing production will indirectly address the affordability issue since people moving up may provide some "trickle down" housing at a more moderate level. However, the benefits of the "trickle down" approach will be very small for working families, so if the problems are ever to be addressed, some way must be found to unleash the private sector to work in concert with the public sector. However, while some "smart growth" advocates are calling for greater housing densities and rental housing solutions (as will be discussed in the section on smart growth), regulatory barriers and local zoning provisions often discourage new apartment construction. In many areas, then, the challenge is not just a lack of public financial support, but also finding a way to deal with the "not in my back yard" phenomenon and to remove the regulatory barriers in such areas as zoning, building codes and development processing.

To succeed in meeting the affordable housing gap will require a focused public/private partnership. For example, the Low Income Housing Tax Credit, the largest current publicly funded program for construction of affordable housing, continues to fund housing for low-income households, and brings together a wide range of private as well as public players such as builders, financial entities, state housing finance agencies, and local officials. Nevertheless, the LIHTC does not target the lowest income households in greatest need, and it can only begin to address the problem since the available funding is constrained. New ideas and housing production programs at the federal level are essential, along with further creativity and resources at the state and local level. Without the provision of additional support at the federal, state and local level, as well as a concentrated approach from the private sector, the nation's affordable housing crisis is likely to get worse, not better.

Financing Multifamily Rental Housing

Financing apartment communities -- both existing buildings and new construction -- is more complex than single-family financing, due to the greater diversity of properties and the perceived higher risk associated with apartments. Apartment financing is a complicated venture, involving a whole range of stakeholders.[51] In addition, unlike single-family construction, no standardized debt instruments or financing process exists and multiple funding needs and multiple funding sources are common. Financing needs include funding for acquisition, development and construction, long-term debt, and equity. Each may come from different sources, and sometimes multiple sources are required to meet a single need. Affordable housing properties add to this the need for additional subsidies or "gap financing" to bridge the shortfall between available debt and equity.

Multifamily rental housing also involves financing for new construction and then, over time, refinancing for existing projects as mortgages "rollover" every five to ten years. Financing is also required to rehabilitate existing apartments. Sources to fund all of these types of debt and equity instruments are found from traditional lenders such as commercial banks, savings and loan

---

[51] Denise DiPasquale and Jean L. Cummings, "Financing Multifamily Rental Housing: The Changing Role of Lenders and Investors," Housing Policy Debate, 3.1 (1992), 91.

associations, pension funds and life insurance companies, and more recently through the secondary mortgage market and the broader capital markets.

Multifamily housing finance has undergone important evolutions and shifts over the last several decades. This chapter reviews those developments in five sections including: (1) a quick review of the early days dating back to the depression; (2) the thrift crisis of the 1980s; (3) taxes and multifamily housing; (4) innovation and adaptation related to multifamily financing; and (5) public assistance for multifamily finance.

Early Days

Before the depression of the 1930s, apartment properties were either owned, debt free, by individuals or small associations of individuals or financed by local banks or individuals. In fact, until the late 1920s, the largest category of lenders in the U.S. was individuals not financial institutions.[52] With the depression came the virtual collapse of the nation's housing finance system, necessitating more involvement from the federal government.

The first federal efforts came when Congress passed the Home Owners Loan Act (HOLA) in 1933 and established the Home Owners Loan Corporation (HOLC) to help refinance the mortgages of home owners threatened with foreclosure. In June, 1934, Congress passed the National Housing Act which created the FHA, and in 1938 the FHA Section 207 and General Insurance (GI) Fund were created to provide long-term loans for apartment properties. These loans were fully amortizable for up to 20-25 years, offered loan-to-value ratios as high as 90 percent and interest rates in the range of five to six percent. The Section 207 program was not nearly as important in multifamily finance as its single family counterpart, the Section 203(b), but it did provide an important framework to establish a federal role in apartment financing and the experience needed later to meet the market need for large-scale garden-style and high-rise apartments at the end of World War II.

When the GIs returned from World War II, there was a sudden and dramatic need for large-scale garden-style and high-rise apartments. However, despite this new market need, the

[52] Kerry S. Vandell, "Multifamily Finance: A Pathway to Housing Goals, a Bridge to Commercial Mortgage Market Efficiency," paper presented at the Mid-Year Meetings of the American Real Estate and Urban Economics Association, Washington, D.C., May 30, 2000, 5.

FHA continued to focus on smaller and more affordable properties. Eventually a growing number of institutional investors, such as pension funds and life insurance companies, entered the multifamily loan market, and some of the nation's mortgage banking firms began originating apartment loans to sell to these investors. According to Vandell, most large loans were originated by savings associations, but life insurance companies were not far behind. Banks remained in third place until 1984 when they surpassed life insurance company balances.[53]

The Thrift Crisis of the 1980s

Over the last 25 years, the sources of apartment financing have changed and shifted. Until the 1980s, the savings associations – savings and loans and mutual savings banks, also commonly known as thrifts – dominated multifamily finance. However, these thrifts experienced serious financial problems in the 1980s.

In the early 1980s, the country's thrift institutions, the traditional providers of residential mortgage debt, faced a mounting crisis. The reliance of these institutions on short-term savings deposits to invest in long-term, fixed-rate single family mortgages put them in a tenuous position when interest rates began rising steeply in the 1970s, especially the later part of the decade. By the early 1980s, hundreds of savings and loans and mutual savings banks were close to insolvency and were being forced out of business.[54] To keep them afloat, Congress provided emergency assistance to thrifts and deregulated them to allow the thrifts to invest in nonresidential properties. With this change, thrifts were able to invest in almost any type of income-producing property, opening doors to opportunities for diverse – and often unfamiliar and riskier – investments.[55] Many thrifts used deregulation to expand heavily into apartment financing in the mid-1980s. (*See Figure 17).*

Deregulation of the thrift industry in the early-1980s made it possible for savings and loans to invest in unfamiliar projects. As a result, according to Brueggeman and Fisher, some thrifts "with limited underwriting experience proceeded too aggressively in order to establish market share. They also reasoned that if they failed in these more aggressive and risky endeavors, depositors would be protected with insurance provided by the Federal Savings and

---

[53] Vandell (2000), 8.

[54] Ann Meyerson, "The Changing Structure of Housing Finance in the United States," in Housing Issues of the 1990s, Sara Rosenberry and Chester Hartman, eds. (New York: Praeger, 1989), 155-156.

Loan Insurance Corporation (FSLIC)."[56] The "softening" of the domestic energy market in 1986, however, created an economic slowdown in certain parts of the country – particularly in the Southwest – and sent a limited, but significant, number of thrifts into bankruptcy.

The FSLIC repaid depositors, but by 1987 its reserves were severely depleted. In August of that year, Congress passed emergency legislation to provide the FSLIC with $10 billion in additional reserves. However, government regulators and Congress felt a more permanent solution was necessary to replenish not only the FSLIC reserves, but the reserves of the FDIC which were also at an all-time low. In 1989, Congress passed the Financial Institutions Reform Recovery and Enforcement Act (FIRREA), which imposed new regulations on the thrifts; created the Office of Thrift Supervision (OTS) to regulate them; and created a special organization, the Resolution Trust Corporation (RTC) to take over and close insolvent savings and loans. The new regulations imposed by FIRREA were designed to reduce the risk under which the thrifts were allowed to make investments. In this new regulatory environment, thrifts were prohibited from making direct equity investments in real estate. While FIRREA guidelines allowed for a 95 percent loan-to-value ratio for homeowner mortgages, loans for acquisition, development and construction (AD&C) were limited to 70 percent. This severely restricted the availability of AD&C loans in certain regions. FIRREA also established minimum risk-based capital requirements, and identified multifamily mortgages as being riskier as compared to single-family mortgages.

During this time an increasing number of competitors to thrifts also sought to securitize their loan portfolios. This heightened competition contributed to a major reduction in the share of thrift loans in the multifamily finance market. In 1985, thrift institutions held 44 percent of multifamily debt held in portfolio, but by 1999 their share had dropped to only 16 percent. Another important source of multifamily debt has been commercial banks. As of 1999 they held 18 percent of all apartment debt. Insurance companies lost shares of holdings to thrift institutions during the 1980s, but since the late 1980s their market share has remained at about their 1999 level of nine percent.[57]

---

[55] Brueggeman and Fisher, 158.
[56] Brueggeman and Fisher, 566.
[57] Vandell (2000), 8, 11-12.

The Federal Tax Code and Multifamily Rental Housing

Because private investors provide most of the equity for rental projects, return on investment is an important determinant of apartment construction. And in the past, tax code provisions providing incentives for multifamily investments were an important determinant of investment return. Changes in these tax policies over time have had an important influence on the kinds of financing sources available to private developers. DiPasquale and Cummings identified three different tax regimes that defined multifamily development: (1) the era prior to the 1981 Economic Recovery Tax Act (ERTA); (2) the period between 1981 and the 1986 Tax Reform Act (TRA); and (3) today's post-Tax Reform Act regime.[58] *(See Figure 18).* Through its effects on depreciation, required tax life, tax rate on income for investors, and tax rate on capital gains, each act changed the incentives for investors to fund apartments.

Congress passed ERTA in 1981 as a response to the recession of 1981. To counteract relatively high income tax rates, ERTA accelerated depreciation rates and provided lenient initial-period expense write-offs and large construction period and passive loss write-offs. These changes gave apartment investors significant tax breaks which, in turn, spurred new construction. Between 1981 and 1986, the strong economy brought many new participants into the apartment market, including new capital from foreign investors and new debt financing from the deregulated savings and loans. With an abundance of funding sources, the apartment stock surged over the first half of the decade. The number of multifamily housing starts in 1985 reached nearly 600,000, their highest level since 1973. *(See Figure 19).*

By 1986 it became clear that the growth in the apartment industry stimulated by ERTA had resulted in the rental housing market becoming overbuilt, largely among higher end units. To discourage apartment investment motivated solely by tax policy and not market need for new apartments, the Tax Reform Act of 1986, among other things, eliminated much of the tax-favored status of rental housing. Specifically, the TRA increased the required tax life to nearly pre-ERTA levels, eliminated accelerated depreciation, and prohibited "passive" investors (including most investors in limited partnerships of rental housing) from offsetting ordinary income with losses from real estate investments.[59] The act also decreased income tax rates across the board.

---

[58] DiPasquale, Denise and Jean L. Cummings, "Financing Multifamily Rental Housing: The Changing Role of Lenders and Investors," Housing Policy Debate, 3.1 (1992), 87.
[59] DiPasquale and Cummings, 87.

The TRA's combination of reforms and lower tax rates effectively discouraged limited partnerships, the most popular mode of investment in apartment housing at the time. This sent apartment starts plummeting. *(See Figure 19).* While the 1986 tax act clearly eliminated numerous investor incentives to develop apartment properties, it also established the Low-Income Housing Tax Credit to leverage private sector dollars to invest in affordable housing. Construction under the LIHTC, discussed later, currently represents approximately 20 to 25 percent of multifamily construction nationwide.

These key events -- the thrift crisis and major changes in the tax code -- culminated in a shortage of both equity and debt financing for multifamily housing in the 1980s. Without the tax incentives for investment, investors had limited reasons to invest equity in new projects, and with the new loan-to-value ratio and risk-based capital requirements discussed previously as a part of the thrift crisis of the 1980s, the incentives for thrifts and commercial banks to lend money for multifamily projects were significantly reduced.

Innovation and Adaptation in Multifamily Rental Financing

The crunch in both debt and equity financing in the 1980s required adaptation and innovation. Three responses stand out as key developments in multifamily financing, and help define the industry today: secondary mortgage markets, Commercial Mortgage-Backed Securities (CMBSs), and Real Estate Investment Trusts (REITs).

Secondary Mortgage Market. A secondary market provides mortgage originators with a venue to sell their mortgages to third parties in order to replenish their funds and make new loans. It also facilitates the flow of funds between geographic regions. A secondary mortgage market has always existed in some form for both single-family housing and apartments. Prior to the 1950s, large life insurance companies and thrifts provided a secondary market for mortgages.[60] In 1938 Congress established the Federal National Mortgage Association, now known as Fannie Mae, to create a secondary market for government-insured residential (single-family) mortgages. In 1968, Fannie Mae was converted into a government-sponsored, private corporation, and the Federal Home Loan Mortgage Corporation (FHLMC), now known as Freddie Mac was formed to

[60] William B. Brueggeman and Jeffrey D. Fisher, Real Estate Finance Investments, 10th Edition (New York: Irwin McGraw-Hill, 1997), 566.

further expand the secondary market. As Government Sponsored Enterprises (GSEs), both Fannie Mae and Freddie Mac provide a secondary market for conventional mortgages.

Freddie Mac and Fannie Mae became involved in the apartment industry in the late 1970s when they began issuing securities that "pass through" to the security holders the regular interest and principal payments on a pool of mortgages. Although these early mortgage-backed securities accounted for just three percent of the multifamily originations in the 1971-1975 period, their entry into the multifamily market spurred later innovations by the GSEs and encouraged other participants to begin serving the apartment market.

The earlier section on the thrift crisis discusses the changing sources of multifamily finance over the last 25 years. However, perhaps the most dynamic story has been the growth of securitization and the secondary market. According to Vandell, Fannie Mae and Freddie Mac held only about three to six percent of total multifamily balances between 1973 and 1999 (six percent in 1999). However, federally related mortgage pools -- which include conventional and FHA/VA securities issued through Fannie Mae, Freddie Mac, Ginnie Mae and the Farmers Home Administration -- grew dramatically, from less than one percent of balances outstanding in 1973 to almost 16 percent in 1999, with the most dramatic growth taking place after 1985.[61]

Commercial Mortgage-Backed Securities. Commercial Mortgage-Backed Securities (CMBSs), issued against mortgages on apartments and non-residential properties by investment banks and other major financial institutions, have become a primary vehicle through which debt capital enters the multifamily market. The CMBS market first emerged in the mid-1980s, with an initial focus on apartment loans, for which Fannie Mae and Freddie Mac had already created a secondary market. However CMBSs only really took off after 1991 when the Resolution Trust Corporation was aggressively marketing the mortgage portfolios of failed thrift institutions. The RTC absorbed some of the initial risk in demonstrating to investors that private-sector securitization of mortgages on apartments and other income producing property (often referred to as commercial property) was both feasible and potentially profitable. The CMBS market grew from $34.6 billion in 1990 to $176.6 billion by the end of 1997 – a change from 3.3 percent of outstanding commercial mortgage credit to 15.1 percent. The apartment industry benefited from this growth along with office, retail, and industrial properties. By the end of 1997, the apartment

[61] Vandell, (2000), 12.

market was one of the most heavily securitized markets ($86.1 billion which was 25.5 percent of apartment mortgage credit outstanding),[62] although single-family mortgages remain the most securitized.

Real Estate Investment Trusts (REITs). REITs are real estate companies or trusts – often organized or sponsored by a financial institution such as an insurance company, commercial bank, or mortgage banker – that qualifies as a "pass-through" entity under a certain tax status. As pass-through entities, REITs distribute to their shareholders nearly all of their earnings as well as capital gains from property sales. While the REIT itself pays no taxes on earnings, shareholders pay taxes on dividends and capital gains.

Three types of REITs have developed over the last century: equity trusts; mortgage trusts; and hybrid trusts. An equity trust acquires property interests. A mortgage trust "purchases mortgage obligations and thus becomes a creditor with mortgage liens given priority to equity holders."[63] Hybrid trusts, combine the benefits of equity and mortgage trusts. Mortgage trusts were responsible for early growth in the market. However as many mortgage trusts ran into financial difficulty and were liquidated in the early 1970s, equity trusts became the dominant kind of REIT.[64] By 1999 equity trusts made up 95 percent of the total REIT market.[65]

With the collapse of the REIT market for mortgage trusts in the early 1970s, coupled with strong competition from other mortgage lenders and from limited partnerships, the growth of REITs was restrained in the late 1970s and 1980s. But in the 1990s REITs really came to the forefront of the commercial and multifamily real estate market. In the 1990s, several factors created new interest in REITs. Key among them was the capital crunch of 1990-93, during which debt and equity became scarce in the private market and forced real estate owners to look to the public markets for their financing needs. Another important event was the 1986 Tax Reform Act, which eliminated the significant tax advantages for private real estate ownership, especially limited partnerships, by stretching out the depreciation period and restricting the ability to claim "passive losses" on real estate investments. These changes helped make public vehicles for real estate

[62] Vandell, Kerry S., Strategic Management of the Apartment Business in a "Big REIT" World (Washington, D.C.: National Multi Housing Council, 1998), 5-6.
[63] Brueggeman and Fisher, 661-663.
[64] Brueggeman and Fisher, 675-676.

ownership and financing more attractive. As a result, total market capitalization of equity REITs grew from $11 billion in 1992 to over $140 billion at their peak in 1997. *(See Figure 20). REIT*s have been even more important to apartment financing. Most industry analysts estimate that REITs now own between five and ten percent of all apartments nationwide and between 15 and 20 percent of the apartments in larger properties of at least 100 units or more.

As REITs have grown increasingly important within real estate finance generally, and apartment development specifically, some have speculated that consolidation will continue until ultimately a few of the largest and strongest REITs "swallow the world", dominating public equity markets. Others have countered that large size beyond a certain point actually has disadvantages for REITs, and that new Initial Public Offerings (IPOs) and spin-offs will preserve diversity among REITs. More likely, according to Vandell, is that two different kinds of REITs will emerge within the market and exist side by side: aggressive large national REITs and smaller REITs that focus on local and regional markets.[66] Thus, while it is not likely that REITs will swallow the world, they will continue to fill an important role within multifamily housing finance.

Public Sector Involvement in Multifamily Rental Finance

The government influences the apartment industry in a number ways. It regulates, finances, subsidizes and in some cases operates apartment properties. It also provides tax incentives to encourage private apartment construction. Indirectly, it influences the industry by providing low income households with income support (through welfare and housing vouchers) which translates into money for housing, and it promotes homeownership which decreases demand for multifamily housing.

The public policy role related to multifamily housing has historically focused on promoting housing affordability, primarily for low-income households. The goals and means of this involvement have shifted dramatically since the creation of the country's first public housing program in 1937. In the beginning the government had a supply-side focus in which it constructed and managed its own affordable housing in the form of public housing. Later it began providing incentives for the private sector to construct and operate the housing, and

---

[65] National Association of Real Estate Investment Trusts 1999.
[66] Vandell, (1998), 9-10, 31.

eventually supply-side interventions shifted away from only subsidizing the construction of new affordable housing toward also encouraging preservation and rehabilitation. Still later, federal efforts shifted to a demand-side focus that involved providing residents with rental vouchers to subsidize their rents and make them affordable. Also, as federal resources have become scarce, some of the public activity in affordable housing has moved to the state and local level, which has served to further expand the role of the private sector in affordable housing and has created a new role for nonprofits in multifamily housing. Each of these areas of focus will be discussed below.

The Federal Shift from Supply Side to Demand Side Subsidies. The federal government began actively building multifamily housing in response to the Great Depression. By 1960, more than 400,000 units of public housing had been produced.[67] *(See Figure 21).* While public housing construction continued over the next several decades – tripling the number of units from 400,000 to 1.2 million between 1960 and 1980 – over time, the public sector turned to the private sector to build the nation's affordable housing needs.

The U.S. Department of Housing and Urban Development (HUD) and Congress created several programs -- Section 236, Section 221(d)(3), and Section 202, and Section 8 – to provide private developers with low-interest mortgages to build rental housing. Key among these was Section 8, which was authorized in 1974 and paid developers the difference between fair market rent and the amount of income that qualified tenants – earning less than 80 percent of the area median income – could afford to pay for housing (25 percent of income, later amended to 30 percent). The number of units constructed with these kinds of subsidies grew from 400,000 in 1975 to more than 3 million by 1994.[68]

Beginning in the 1970s however, the focus of federal affordable housing programs shifted to demand-side subsidies, largely through a modified Section 8 program for existing housing. The new Section 8 provided certificates and vouchers to residents with incomes less than 50 percent of the metropolitan area median to help them pay the rent in privately-held apartments. By 1994, approximately 1.3 million households received housing subsidies through HUD (one million through HUD's Housing Certificate Program, and an additional 300,000 through Housing Vouchers).[69]

---

[67] Burchell and Listokin, 598.
[68] Burchell and Listokin, 598-599.
[69] Stuart A. Gabriel, "Urban Housing Policy in the 1990s," Housing Policy Debate, 7.4 (1996), 683.

The 1980s-1990s: Federal Retrenchment and A Focus on Preservation. After 40 years of public involvement in creating and sustaining the nation's stock of affordable housing, in the 1980s the federal commitment to affordable housing scaled back considerably. This was in part due to a growing suspicion that government regulatory interference with the private market was at least partially responsible for the shortage of affordable housing. Another important factor was the recognition that federal resources to continue to construct new subsidized housing were no longer available.

Massive retrenchment of federal involvement in affordable housing followed, particularly in the area of new construction. New funds for subsidized housing fell by 60 percent between 1980 and 1990, from approximately $25 billion to $10 billion. Annual subsidized housing starts dropped even more steeply, by almost 90 percent, from 175,000 to 20,000. Total expansion of the HUD-subsidized inventory slowed to half the rate of the previous decade.[70]

With no resources to construct new housing, federal efforts began to emphasize rehabilitation and preservation of the existing affordable housing stock and to continue reliance on demand-side subsidies. Funding for existing or rehabilitated units comprised 80 percent of HUD subsidies by the late 1980s, up from just five percent in the early 1960s. [71]

The shift to preservation was a response to both the loss of low-rent unsubsidized units (estimated at a reduction of 2.8 million units between 1974 and 1984) and the significant needs of the existing stock.[72] Public housing suffered from management and structural problems. By 1990, approximately 1.4 million public housing units were threatened by advancing age and depreciation, and it was estimated that $12.2 billion would be necessary to bring the entire stock up to acceptable physical condition. Aggravating this situation was the fact that admission policy changes made earlier to emphasize serving the poorest of households had caused the proportion of residents with special needs – such as drug addictions or violent criminal records – to grow dramatically. Average resident income fell lower and lower, forcing the federal government to allocate more and more dollars to keep public housing projects open and with affordable rents. One response by HUD to this situation was to begin to turn over ownership of some existing public housing facilities to the residents, first with a 1985 demonstration program and then later

[70] Burchell and Listokin, 599, 601.
[71] Burchell and Listokin, 588.
[72] Gabriel, 680.

with the Housing Opportunities for People Everywhere (HOPE) Program. The theory behind the program was that if public housing residents owned their units, they would have more incentive to take care of properties and to manage their finances efficiently.

Public housing was not the only affordable housing to reach a crisis point in the late 1980s. A similar situation was also developing in the privately-owned affordable housing built under the Section 236 and Section 221(d)(3) programs. A significant portion of the stock was in need of rehabilitation and recapitalization. More importantly, the affordability restrictions on these properties were beginning to expire. As originally built, the owners agreed to keep the properties affordable for 10 to 20 years in exchange for below market rate loans. But once these periods expired, federal law allowed the owners to repay their mortgages, and convert the properties to market-rate housing and raise the rents, threatening to further reduce the available stock of affordable housing. Some of the affordability restrictions began expiring in the 1980s, but the majority did not come up until the 1990s.

In 1987 Congress acted to preserve these properties as affordable housing by passing the Emergency Low-Income Housing Preservation Act (ELIHPA). That was followed by the Low-Income Housing Preservation and Resident Homeownership Act (LIHPRHA) in 1990 and the Multifamily Assisted Housing Reform and Affordability Act ("Mark to Market") in 1997. All three acts provided incentives and requirements for owners related to keeping their properties affordable.[73]

Shift to an Increasing State and Local Role for Affordable Housing. States and localities support affordable apartment development in three ways: (1) through their local functions to oversee and set standards for housing construction; (2) through their administration of federal programs; and (3) increasingly, through funding and administration of their own programs.

State and local governments have always influenced housing markets through their authority to oversee and set standards for housing construction. This authority includes building codes, zoning and land use regulation, minimum housing standards and real estate taxation.[74]

[73] Gabriel, 680-681.
[74] Mary K. Nenno, "Changes and Challenges in Affordable Housing and Urban Development," in Affordable Housing and Urban Redevelopment in the United States, Willem Van Vliet ed. (Thousand Oaks, CA: Sage Publications Ltd. 1997), 10.

They also participate directly in multifamily affordable housing programs. Their original role was to implement federal programs, beginning with the creation in 1937 of local public housing authorities charged with managing federally-funded projects. This role expanded after 1949 when local redevelopment authorities were established to administer federal community development activities under the Urban Renewal Program. Their responsibility for federal programs was solidified in 1974 when the Housing and Community Development Act created the Community Development Block Grant (CDBG) program which allocates federal money directly to localities to support a broad range of housing and urban development activities.

Beginning in the 1970s, state and local governments began using the capacity and experience they developed over 40 years of administering federal housing programs to take on a new role – as direct funders and developers of affordable housing. In many cases, this evolution was necessary to fill the void created by the gradual cutback in federal assistance.[75] According to Mary K. Nenno, by 1980 "13 states had established housing rehabilitation grant or loan programs, and 15 had provided tax incentives for housing. Between 1980 and 1989 it is estimated that more than 300 new state housing programs were enacted, and almost every state had a state housing finance agency."[76] Today, in addition to providing financing, states and localities also assess regional affordable housing inventories, develop lists of potential priority buyers for affordable properties that private owners seek to sell, provide state-level technical assistance, assist in predevelopment and equity funding, train property managers, and provide buyers of last resort.[77]

The Low-Income Housing Tax Credit. Perhaps the most significant recent development in the public finance and taxation of affordable multifamily housing took place in 1986 with the creation the LIHTC. Today, the LIHTC represents the largest federal commitment to affordable housing construction and rehabilitation. It also represents a clear redirection of public housing policy toward devolution, preservation, and a greater reliance on private investment to create affordable housing.

[75] Nenno, "Between fiscal years 1981 and 1988, low-income housing assistance was cut by 75percent, CDBG by 32percent, and Urban Development Action Grants by 100percent," 9.
[76] Nenno, 12.
[77] Gabriel, 681.

The LIHTC offers private investors who provide the equity needed to build or rehab qualified housing properties with a 10-year federal income tax credit. These tax credits are first allocated to proposed projects through state and local housing finance agencies. Developers who receive the credits then sell them to private investors in order to generate equity for the property and to reduce the costs of construction or rehabilitation. In exchange for these credits, owners are required to maintain a portion of the units as affordable to households earning more than 60 percent of the area median income for 15 years. In practice, most properties reserve all of their units for affordable housing in order to receive the maximum number of tax credits and to be able to combine tax credit equity with other state and federal subsidies.

The program has proven highly successful at both creating affordable housing and providing strong returns on investments. Competition for tax credits has increased as investors have become more familiar with the program. For example, the amount of private investment raised per dollar of tax credit rose from $0.47 when the program was originated in 1987 to $0.62 by 1996. As investors have become more comfortable with the program's minimal risk level, the returns they require in order to invest in an LIHTC property has fallen from an Internal Rate of Return (IRR) of 28.7 in 1987 to 18.2 by 1994 (assuming an eight-year pay-in).[78]

The LIHTC has been modified over the years, in some cases to reflect heightened public concern over the preservation of the nation's affordable house stock. In 1989 Congress was already grappling with the expiring contracts for Section 236 and 221(d)3 properties, so they extended the LIHTC's 15-year affordability period to prevent a similar situation from developing in that program. Properties which received credits in 1990 were required to remain affordable for 30 years, although some latitude was provided for partners to opt out under certain conditions. As competition for credits has increased, state and local housing finance agencies have been able to bolster affordability protections even more through their allocation process. They now give preference to project proposals that commit to even lengthier affordability periods, relinquish their latitude to opt out of extended affordability periods, and/or agree to sell properties to nonprofit agencies interested in preserving affordability when affordability commitments expire.

[78] Jean L. Cummings and Denise DiPasquale, Building Affordable Rental Housing: An Analysis of the Low-Income Housing Tax Credit (Boston, MA: City Research, 1998), 46.

Preference is also given by some states to projects that target households with incomes even lower than legislatively required.

Since the LIHTC's inception, over 750,000 housing units have been constructed under the program, and their financing, design and target populations have varied significantly according to state and local needs and preferences. On average, an additional 62,500 units are created each year, representing approximately 20 to 25 percent of all multifamily housing construction annually.[79] The earliest Tax Credit projects, those with the least affordability protections, will begin to expire in 2002, and preparation for these expirations will represent the next affordable housing public policy challenge.

Multifamily Rental Housing And Smart Growth

The issue of growth management moved to the front of the political landscape in 1998 when voters passed some 200 separate ballot initiatives designed to curb the effects of suburban sprawl and preserve open space. With the economy soaring and crime rates falling, Americans began to increasingly turn their attention to quality of life issues such as traffic congestion, pollution and overcrowded schools. With that change came a new focus on the role apartments play in housing the nation's population. Smart growth strategies often place a high value on multifamily housing because of the greater residential density it enables, because it uses existing infrastructure more efficiently, and because it is pedestrian-friendly.

Nonetheless, serious obstacles remain to promoting apartment housing in suburban neighborhoods, including overcoming community objections to proposed new development and enticing more consumers to accept higher density living. However, demographic and lifestyle trends have led to a growing number of young professionals and empty nester households who prefer the conveniences and location of apartment living. And demographic trends and growth related challenges are forcing communities to change their opinion of apartment properties within their borders.

The Smart Growth Dilemma

[79] Kate Collignon, Expiring Affordability of Low-Income Housing Tax Credit Properties: The Next Era in Preservation (Cambridge, MA: Joint Center for Housing Studies and Neighborhood Reinvestment Corporation,

Over the last century, the U.S. population has steadily moved from urban areas to the suburban periphery. Within the last 15 years alone, the suburbs have captured between 80 and 85 percent of the newly constructed homes.[80] Evolutions in transportation -- first streetcars and railroad lines and eventually automobiles -- made it possible for consumers to move further from the city. The federal government reinforced this trend with legislation, such as the Federal Highway Act and the GI Bill, that supported infrastructure expansion and homeownership.[81]

With this mass movement to the suburbs, increasing amounts of land have been used at decreasing densities, although urban land still makes up only three percent of the 1.9 billion acres found in the contiguous United States.[82] As an example of the move to the suburbs, between 1960 and 1990, the population of the greater Kansas City metropolitan area increased by 29 percent, but its land mass increased by 110 percent. Similarly, the land covered by the population of Chicago and Philadelphia grew 30 percent between 1970 and 1990 despite a population increase of less than five percent. And some have called Atlanta "the most rapidly expanding settlement in human history". Its size, end to end, increased from 65 miles in 1990 to 110 miles by 1997.[83]

The movement to the suburbs has been driven by consumer demand for more space, higher quality housing, safer and more effective schools, and other amenities perceived to be scarce within larger cities. Many households have individually benefited from the great urban exodus, but the resulting "sprawl" has also created challenges for urban and suburban residents alike. Most visible among these are quality of life concerns such as loss of open space, traffic congestion, pollution, and the expansion of urban blight in some areas from inner cities to inner suburbs. In addition to quality of life concerns, there are fiscal issues such as the cost of infrastructure and the means to fund the requirements for growing schools.

These concerns highlight a three-way dilemma related to smart growth. First, consumer preferences for the benefits that the suburbs can provide will continue to drive suburbanization as long as positive alternatives are not available. Second, efforts to provide alternatives in the

---

1999), 4.

[80] Alexander von Hoffman, "Housing Heats Up: Home Building Patterns in Metropolitan Areas," (Washington, DC: The Brookings Institution, December 1999), 3.

[81] Urban Land Institute, Future, 5-6.

[82] National association of Home Builders, Smart Growth: Building Better Places to Live, Work and Play (Washington, DC: National Association of Home Builders, 1999), 9.

context of more efficient construction patterns must overcome fears that denser development will eliminate the benefits of suburban living. And third, government and regulatory efforts intended to slow down growth and "sprawl" often drive up housing and construction costs, further reducing the availability of affordable housing. True "smart growth," then, must seek a balance between consumer preferences, the probability that extensive growth restrictions will limit housing opportunities for the housing "have nots", and the hope that reasonable land use will improve the quality of life for generations to come.

Smart Growth and Multifamily Rental Housing

Apartments can play an important role in achieving this balance. Well-designed multifamily rental housing can help renew interest in downtown and urban living. It can also encourage new development to take on a more town-centered character by preserving open space and making it possible to locate housing within walking distance of retail and public transit.

Not only does it meet smart growth guidelines, but higher density housing offers numerous advantages for individuals in addition to the lifestyle benefits discussed earlier. Land costs are lower per unit, making the housing more affordable and thus making it possible for moderate-income households to move into better neighborhoods. Higher density developments within a suburban neighborhood also allow households to remain in the same community throughout the different stages of their lives.

Barriers to Smart Growth and Multifamily Development

Despite the intellectual appeal of apartments, significant barriers have long stood in the way of both building more apartments and attracting suburban-oriented households back into denser, more urban environments. Developers seeking to build apartments in suburban towns or urban communities have often faced tremendous legal and political resistance. Many suburbs have zoning laws that restrict residential development to single-family homes with large lots. And in urban communities the morass of regulatory constraints and uncoordinated government agencies can lead to costly delays or complete stoppage. When developers do appeal for zoning variances or local government cooperation, they often encounter intense local opposition and "Not In My Back Yard" (NIMBY) responses.

---

[83] Urban Land Institute, Future, 5.

Communities fear development of multifamily housing for a variety of often unfounded reasons. Key among these are fears of: rising local fiscal deficits as a result of apartment residents using public services, particularly schools; increased traffic and parking congestion; apartment residents that will differ from those already living in the community (by income, race and/or culture), and potentially increasing crime and decreasing property values.[84]

Objective research has refuted many of these fears. For instance, apartment properties typically pay higher property tax rates than single-family homes, yet they place less demand on public service. The average apartment household consumes $1,647 in public services, compared to $2,361 for single-family homeowners.[85] It is less expensive to provide public infrastructure and service such as police and fire protection to higher density construction. *(See Figure 22)* Apartment households also place less demand on local school systems, with 36.1 children per 100 multifamily households versus 55.6 across all kinds of homes.[86]

Apartment properties can also help municipalities accommodate growth without worsening traffic congestion because multifamily households generally own fewer vehicles and use public transportation more frequently. In fact, many choose where they live, at least in part, because of proximity to public transportation. While only four percent of single-family homeowners use public transportation or walk to work, fully 19 percent of apartment residents do.[87]

And finally, the concerns that apartment properties will cause the value of nearby single-family homes to decrease remains unsubstantiated. In fact, one study found that between 1987 and 1995 single family homes located within 300 feet of a multifamily building appreciated just one-tenth of a percent less than the 3.2 percent appreciation seen among single family homes without multifamily structures nearby.[88] Nevertheless, the costs of overcoming political resistance have discouraged many builders from even attempting to build apartments.

---

[84] Black, 16-17; Burchell and Listokin, 573.
[85] Colton, Crowe, and Emrath, 6-7. From Paul B. Downing and Richard D. Gustav, “The Public Service Costs of Alternative Development Patterns: A Review of the Evidence”, in Paul B. Downing (ed.), *Local Service Pricing Policies and Their Effects on Urban Spatial Structures* (Vancouver, B.C.) University of British Columbia Press, 1977) Table 8.
[86] Colton, Crowe and Emrath, 6-7. From 1995 American Housing Survey. See also National Multi Housing Council, “Growing Smarter with Apartments,” (Washington, D.C.: National Multi Housing Council, 1999), 4.
[87] Colton, Crowe and Emrath, 6-7. From 1990 U.S. Census.
[88] Colton, Crowe and Emrath, 5.

The Future of Multifamily Rental Housing and Smart Growth

Despite these barriers, it is likely that a variety of factors including economics, public policy pressures, demographics, and housing demand within the context of smart growth will lead to greater urban and mixed use development. Multifamily and rental housing will be an important component of this activity.

"Edge cities" – employment centers outside of center cities, surrounded by suburban development – are discovering that if they restrict residential development to large, expensive single-family homes, they do so at the expense of economic growth. Affordable, multifamily housing makes it possible for moderate and lower-wage workers – such as teachers, nurses, police, administrative personnel, and restaurant and retail staff – to provide the services on which a locality depends on a day-to-day basis. Furthermore, employers of even upper-income employees find they have to pay higher salaries to attract talent to areas with high housing costs. Without the affordable housing that higher-density and multifamily construction makes possible, localities jeopardize their own future development.

In the face of these kinds of pressures, as well as in response to fair housing concerns, some strategies to encourage higher-density development have begun to emerge at the federal, state and local level. For example, the federal government has taken steps to promote higher density development in some situations. State and local governments have more flexibility in how they use Highway Trust Fund, including the ability to allocate these funds to improve urban transportation systems."[89] Brownfield redevelopment programs, created under the leadership of the U.S. Environmental Protection Agency, HUD and the Department of Commerce, have helped remove the disincentives for redeveloping sites contaminated from previous use.

Even without government intervention, demographic changes, as discussed earlier, are likely to increase demand for apartment housing within mixed-use areas. The fastest growing household types between now and 2010 are smaller households – single adult households, childless couples and single-parent households – which all have a higher propensity to select apartment living. The number of individuals seeking smaller housing units will be further increased as the echo boomers move out of their parents' homes and the baby boomers become empty nesters.

---

[89] Black, 10.

If truly balanced smart growth efforts gain strength, apartment housing should play an even more important role in urban and suburban development. Nonetheless, despite the linkage between smart growth and apartment development, and despite the demographic and public policy pressures supporting increased apartment production, there still remains a long road ahead to achieve greater consumer and community acceptance of apartment housing.

Conclusion

As the nation moves forward in the 21st Century, multifamily rental housing will play an essential, and possibly expanded, role in housing our country's residents. The apartment industry currently provides housing to a wide diversity of renters that can generally be classified into three groups: lower-income residents of affordable housing apartments, higher-income lifestyle renters, and a vast middle market of moderate-income households. Both by necessity and by choice, a significant portion of the nation's households will look to apartments to meet their housing needs.

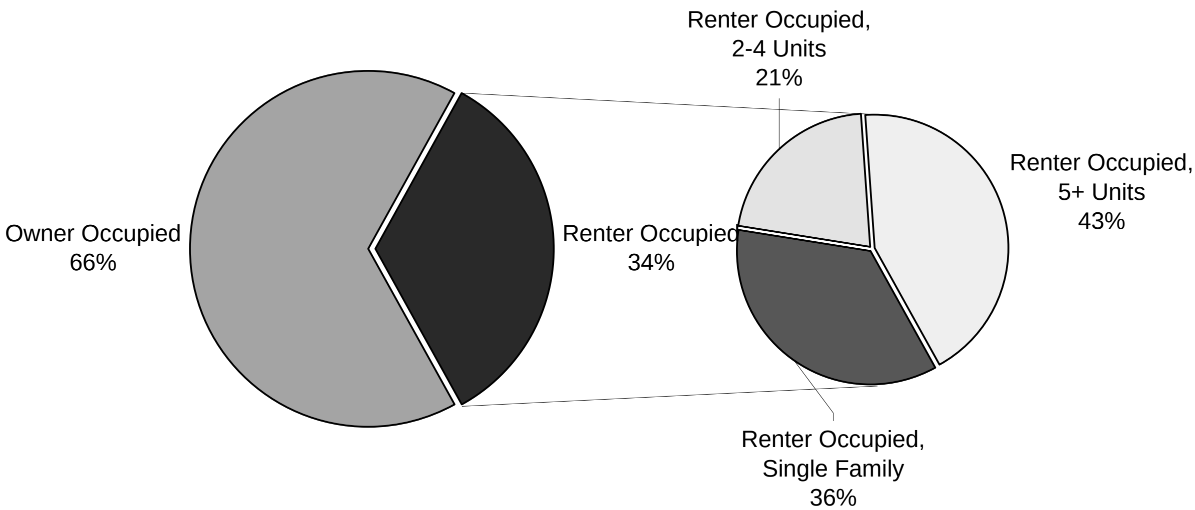
Recently, much of the industry's attention has been focused on lifestyle renters. These households, defined as earning $50,000 or more, have been the fastest growing sector of apartment renters for the last several years. Such attention should continue in order to meet market demand, but the greatest housing needs are clearly in the affordable housing arena. Over the last two decades federal resources devoted to housing programs have leveled off, or declined, while the needs have grown. At the same time, public policies related to taxes and financial regulations have reduced the incentives for private investment in multifamily housing, particularly at the affordable end of the market. The result is a growing gap between the housing "haves" and "have nots", and an increasing number of working families who cannot find or afford decent housing. Without a renewed commitment to provide federal, state and local financial support for new housing production, along with a sustained public/private housing partnership, it is likely that the affordable housing gap will continue to widen.

In the 21st century multifamily housing will continue to be an important resource. To help counter the diminished federal role, the activities of state and local governments related to affordable housing have grown, and the Low Income Housing Tax Credit has provided a steady, albeit modest, level of new construction and rehabilitation for low and moderate income housing. Recent efforts by HUD and Congress over the last several years have also resulted in a modest increase in the number of housing vouchers. Still, at the same time, regulatory burdens to providing affordable housing at the state and local level have gained strength in numerous communities.

The challenge of suburban sprawl should provide an incentive to look to the development of multifamily residential alternatives in both suburban and urban locations. This can be achieved within the context of smart growth by recognizing the need to balance community growth and lifestyle concerns with the fact that growth controls raise construction and development costs and thereby limit the availability of affordable housing. Perhaps by learning from the successes and mistakes of the past, leaders and communities nationwide can achieve the appropriate mix of public policy guidance and private sector initiative necessary to support the role that apartment housing can play across the country to provide greater housing choice and to help meet the nation's critical affordable housing needs.

Figure 1

Housing Units by Tenure and Structure Size



Adapted From: Jack Goodman, "The Changing Demography of Multifamily Rental Housing," Housing Policy Debate*, 10.1 (1999), 33.*
Based on Data from US Bureau of the Census, 1997.

Figure 2

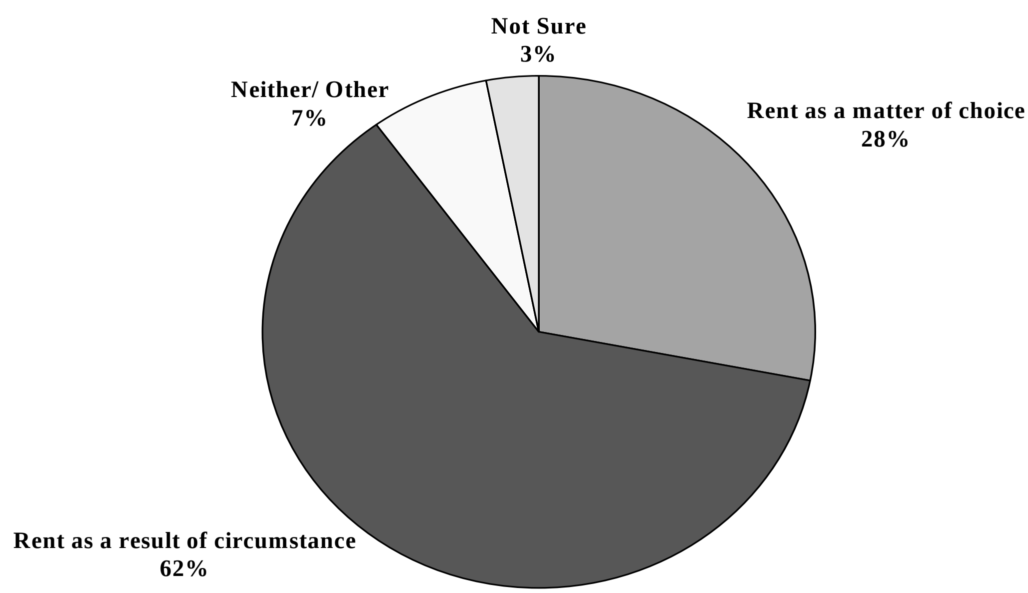
Local Economic Impact of 100 Multifamily Home

	Year of Construction	On-Going	Over 10 Years
Local Income ($000)	$4,824	$1,183	$15,471
Local Taxes and Fees ($000)	$409	$243	$2,596
Local Employment (jobs)	121	36	445

From: Kent W. Colton, David A. Crowe, and Paul Emrath, The Benefits of Multifamily Housing (Washington, DC: National Association of Home Builders, September 1998) 5. Note: Based on data from National Association of Home Builders model of local economic impact of home building. Average value of home is $74,500; average property tax is $907; average builder fees are $2,315.

Figure 3

Why Do Renters Choose to Rent?



Fannie Mae, National Housing Survey 1999 (Washington, DC: Fannie Mae, 1999).

Figure 4

Demographics Of Multifamily Renters Versus All Households, 1997

	All Households	Multifamily Renters
Age		
Under 30	14%	30%
30-65	66%	54%
Over 65	20%	16%
Household Income		
Mean	$47,110	$29,603
Median	$35,172	$21,000
Race		
White	84.2%	72.7%
African American	12%	20.6%
Other	3.8%	6.7%
Hispanic Origin		
Yes	8.1%	14.9%
No	91.0%	84.2%
Household Size		
Mean	2.6	2
1 person	25%	46%
4+ persons	10%	5%
US resident less than 10 years		
Yes	3%	8.9%

Adapted From: Jack Goodman, "The Changing Demography of Multifamily Rental Housing," *Housing Policy Debate, 10.1 (1999),36, 42.* Data from U.S. Bureau of the Census, 1997.

Figure 5

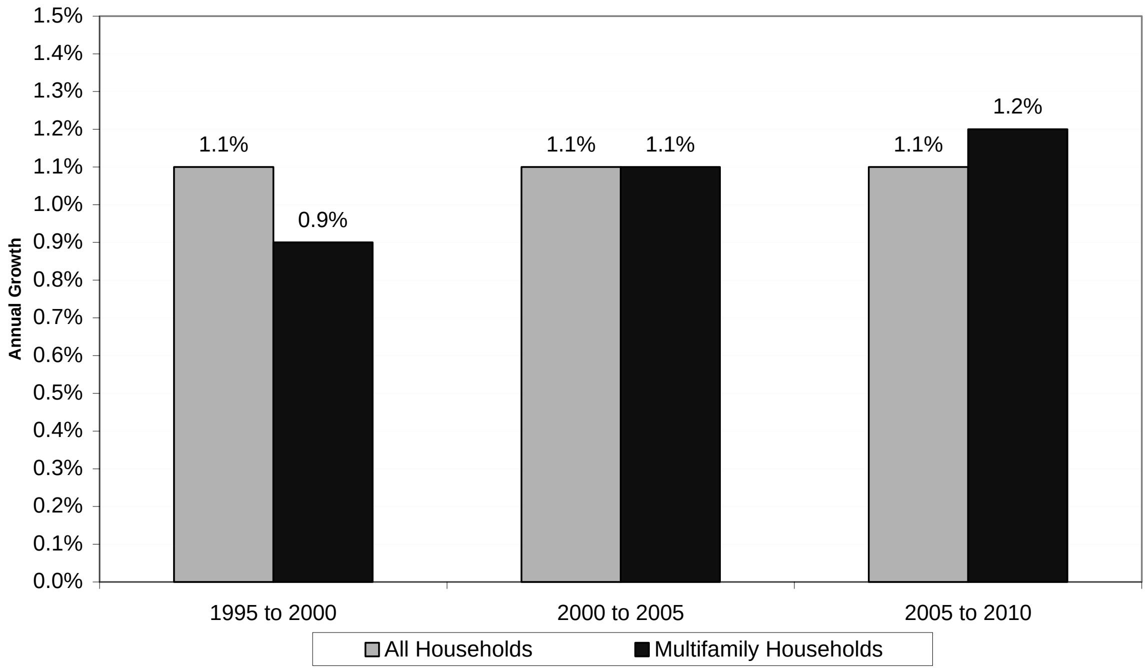
Resident Characteristics In The Three Markets for Multifamily Rental Housing

	Affordable Market		Middle Market	Lifestyle Market	All Apartment Households
	Total	**Federally Assisted**			
Share of all Apt. Householders	49%	19%	37%	14%	100%
Age of Householder					
Median	41	44	33	38	37
Mean	47	49	38	42	43
<30	26%	21%	39%	20%	30%
30-65	51%	48%	53%	70%	64%
65+	23%	31%	8%	10%	16%
Household Size					
Mean	2.1	2.3	2.2	1.4	2.0
1 person	50	43	31	65	46
4+ persons	17	19	14	0	5
With 1+ children	35	50	31	0	29
Household Income					
Mean	$11,795	$10,944	$42,752	$62,382	$29,603
Median	$10,444	$7,608	$32,100	$48,298	$21,000
Race					
White	66.7%	59.1%	74.2%	79.7%	72.7%
African-American	26.8%	34.8%	18.8%	11.9%	20.6%
Other	6.5%	6.1%	7%	8.4%	6.7%
Hispanic Origin	23%	14.6%	11.4%	8.1%	14.9%
Residency					
Moved in past year	30.1%	21.8%	38.7%	31.3%	33.4%
US resident less than 10 years	10.2%	NA	8.6%	6.9%	8.9%

From: Jack Goodman, "The Changing Demography of Multifamily Rental Housing," *Housing Policy Debate, 10.1 (1999),42.* Data from U.S. Bureau of the Census, 1997.

Figure 6

Projected Growth In All Households And Multifamily Households, 1995 to 2010



Source :Jack Goodman, "The Changing Demography of Multifamily Rental Housing," *Housing Policy Debate*, *10.1 (1999), 46*
Based on Data from US Bureau of the Census 1997and Jennifer Day Cheeseman, Projections of the Number of Households and Families in the United States, 1995 to 2010 (Washington, DC: US Bureau of the Census, Current Population Reports, 1996) .

Figure 7

Baby Boomer And Echo Boomer Demographics

	Baby Boom	Echo Boom
Population		
Minority	16.8%	34.0%
Foreign-Born	3.4%	10.1%
Second-Generation	9.8%	11.7%
Never Married	67.0%	88.4%
Women in Labor Force	52.3%	66.1%
Single-Person	13.7%	23.1%
Married-Couple	69.0%	21.4%
Any Household W/Children	43.5%	32.4%
Homeownership Rate	16.2%	15.2%
Single-Person Homeownership Rate	8.5%	11.4%

From: Joint Center for Housing Studies, The State of the Nation's Housing 1999 (Cambridge, MA: Joint Center for Housing Studies, 1999), 10.

Figure 8

The Baby Boomers and the Echo Baby Boomers Will Bolster the Ranks of Renters

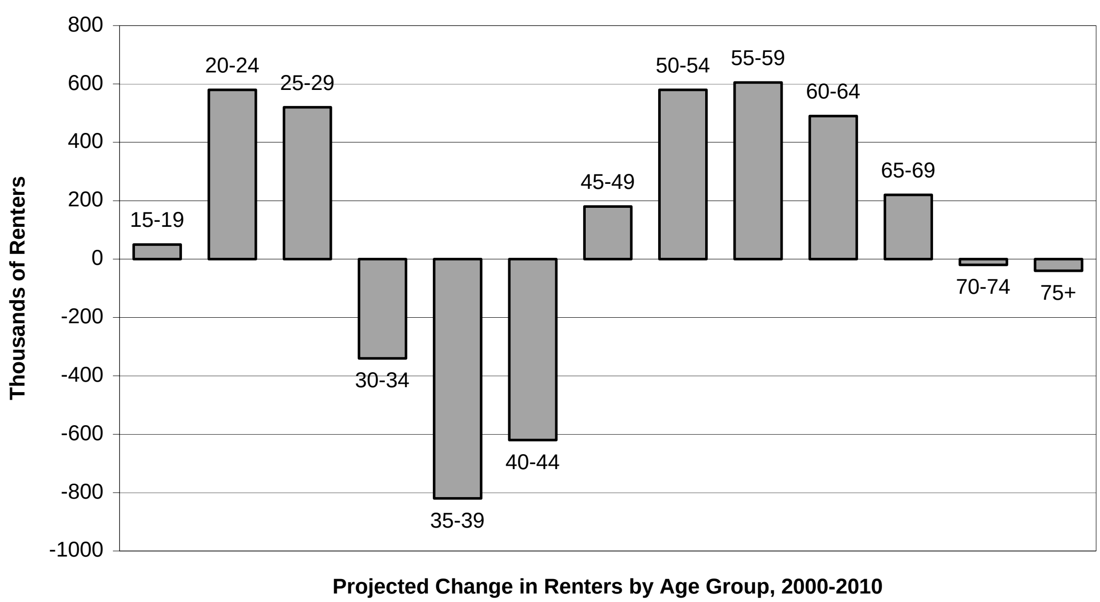
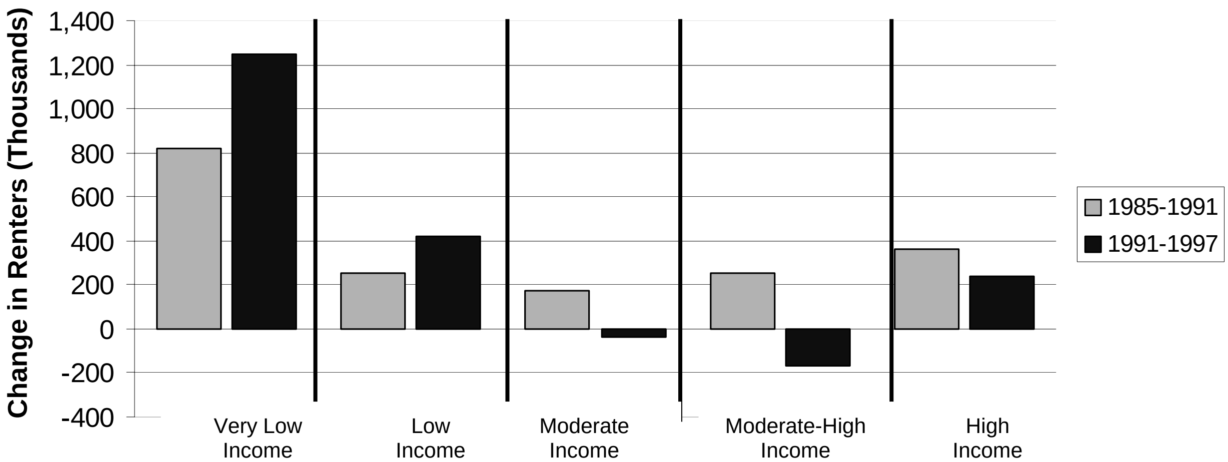


Figure 9

Growth In Renters By Income Group, 1985 To 1991, And 1991 To 1997

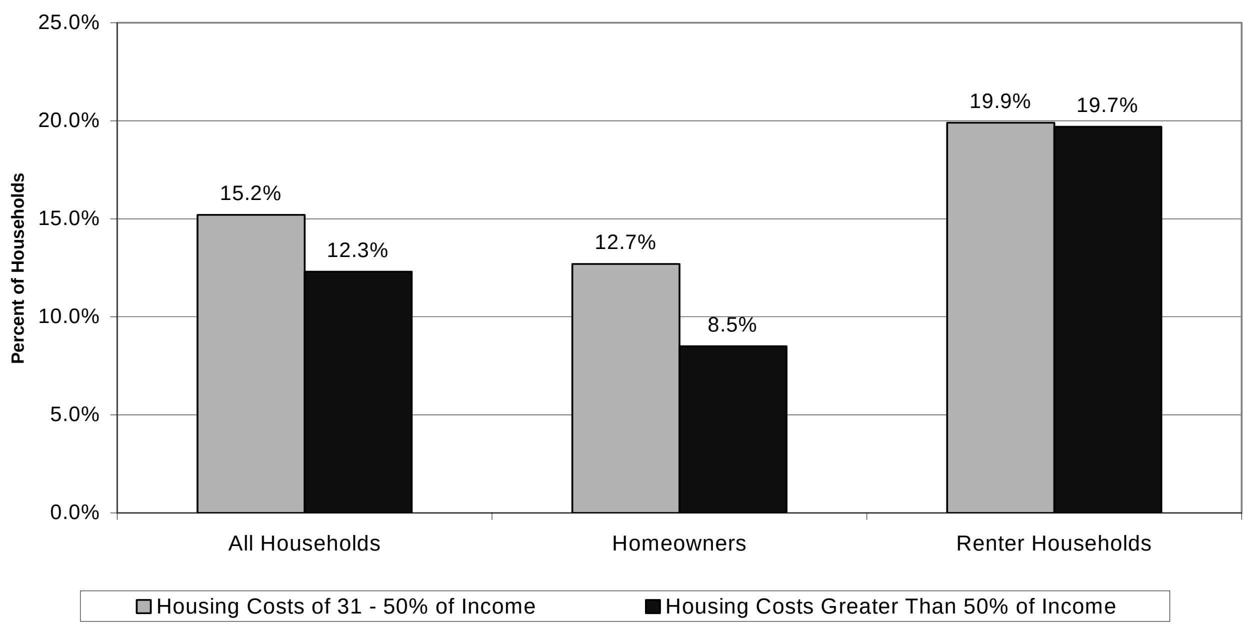


Notes: Very low income defined as less than 50% of regional median incomes: low is between 50% and 80%; moderate is between 80% and 100%; moderate-high is between 100% and 120%; high is above 120%.

From: Joint Center for Housing Studies, The State of the Nation's Housing 1999 (Cambridge, MA: Harvard Joint Center for Housing Studies, 1999), 22.

Figure 10

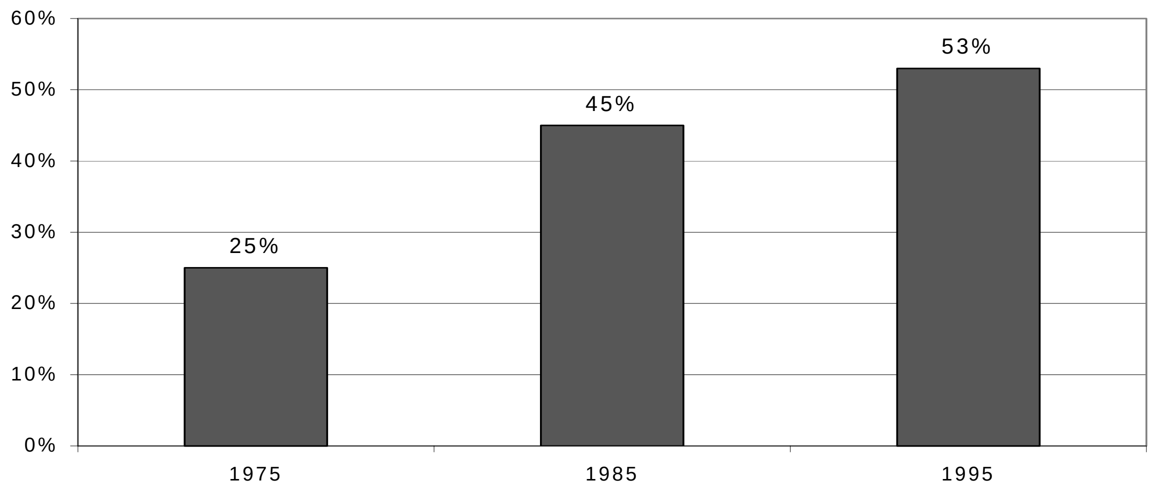
Percent Of All Households, Homeowners And Renters By Rent Burden, 1997



Source: U.S. Dept. of Housing and Urban Development, Office of Policy Development and Research, *Rental Housing Assistance -- The Worsening Crisis: A Report to Congress on Worst Case Housing Needs* *(Washington, DC: U.S. Dept. of Housing and Urban Development, 2000), A-1.* Based on data from 1997 American Housing Survey.

Figure 11

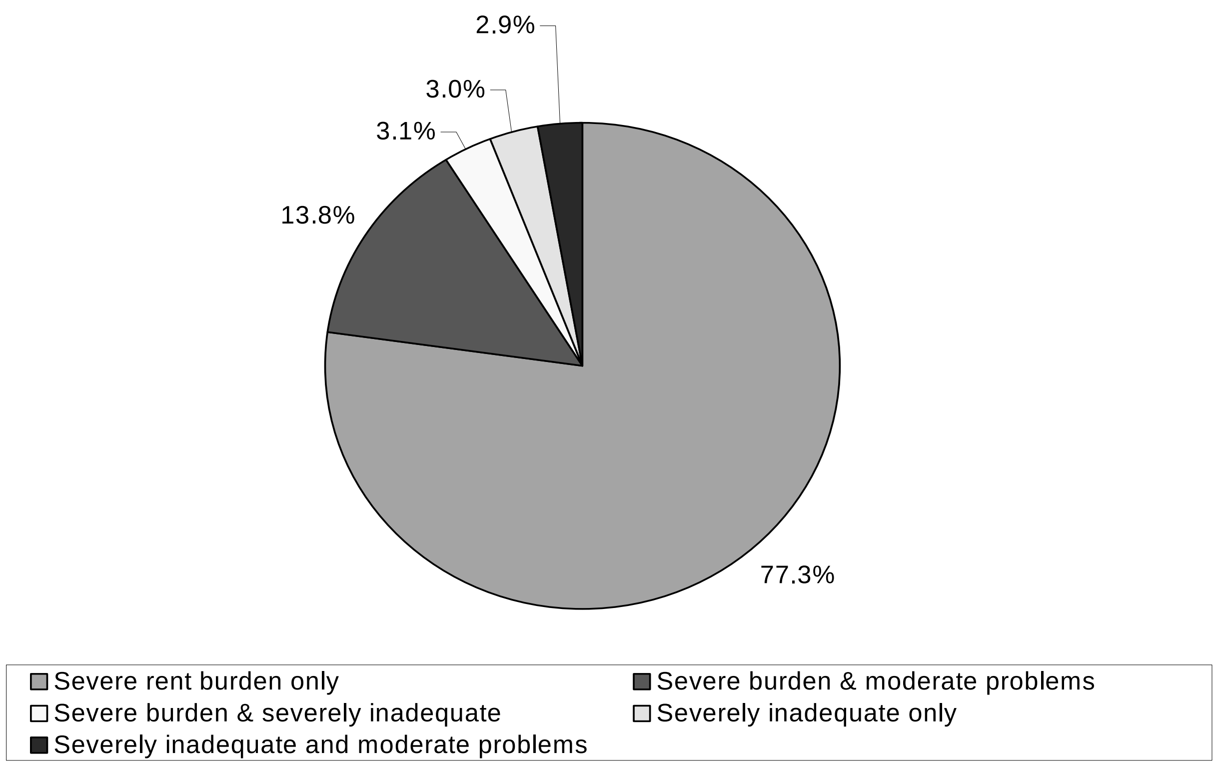
Subsidized Housing Units As A Percentage of All Low-Cost Rental Units, 1975 To 1995



From: Jennifer Daskal, *<u>In Search of Shelter: The Growing Shortage of Affordable Rental Housing</u>* *(Washington, DC: Center on Budget and Policy Priorities, 1998), 35.* Based on data from American Housing Survey 1995.

Figure 12

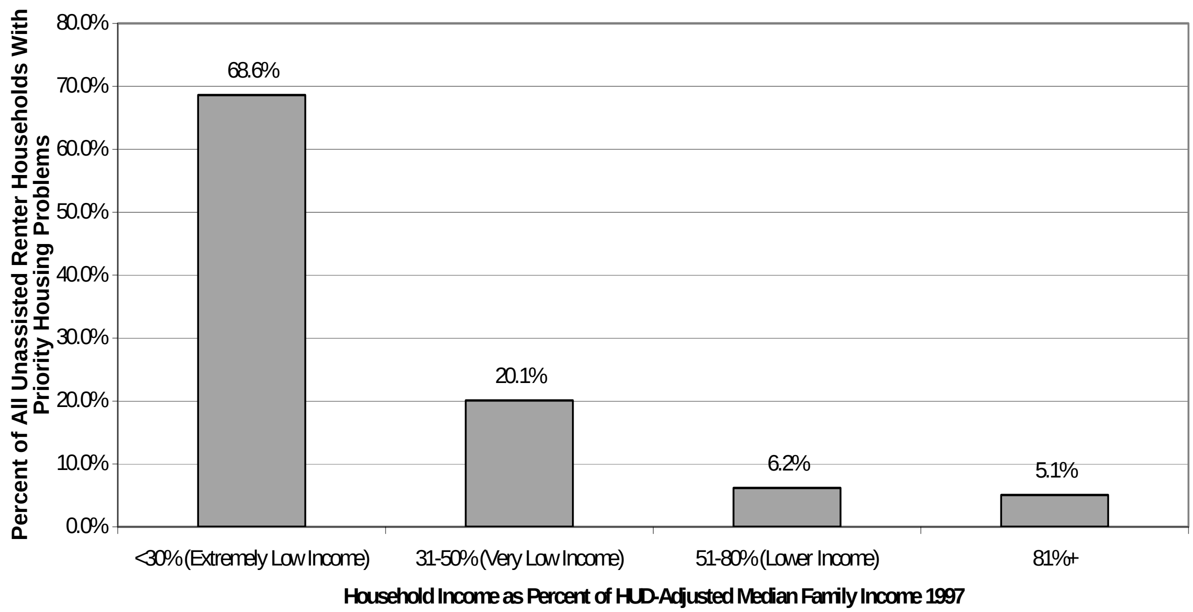
Prevalence of Problems Among Families With Worst Case Needs



From: U.S. Dept. of Housing and Urban Development, Office of Policy Development and Research, Rental Housing Assistance -- The Worsening Crisis: A Report to Congress on Worst Case Housing Needs (Washington, DC: U.S. Dept. of Housing and Urban Development, 2000), 14.

Figure 13

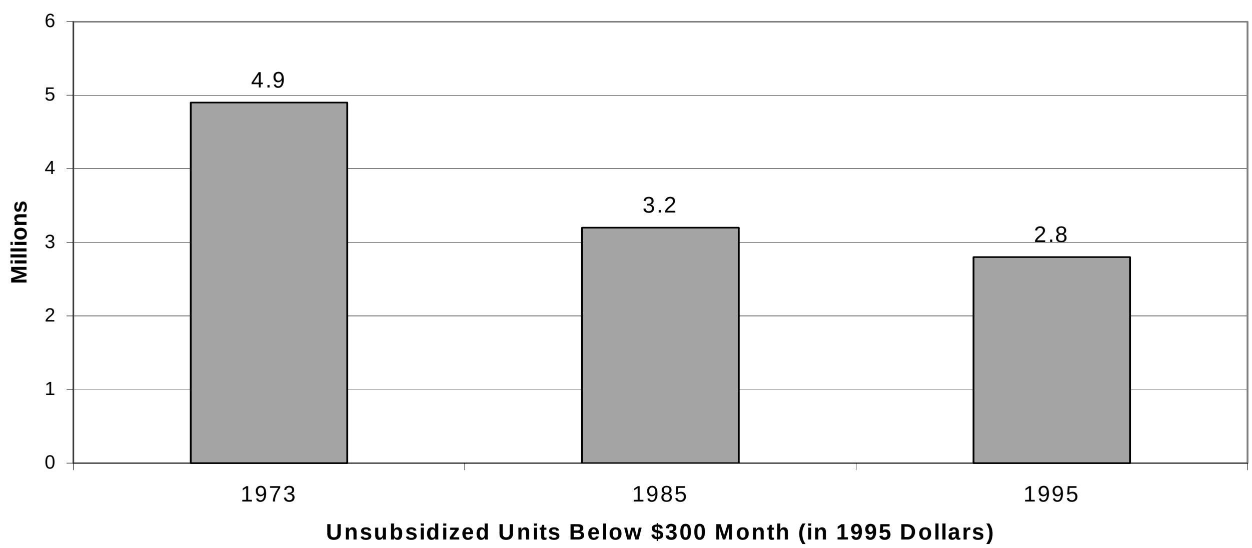
All Unassisted Renter Households With Priority Housing Problems By Income Group



Source: U.S. Dept. of Housing and Urban Development, Office of Policy Development and Research, *Rental Housing Assistance – The Worsening Crisis : A Report to Congress on Worst Case Housing Needs* *(Washington, DC: U.S. Dept. of Housing and Urban Development, 2000), 29.* Based on data from 1997 American Housing Survey.

Figure 14

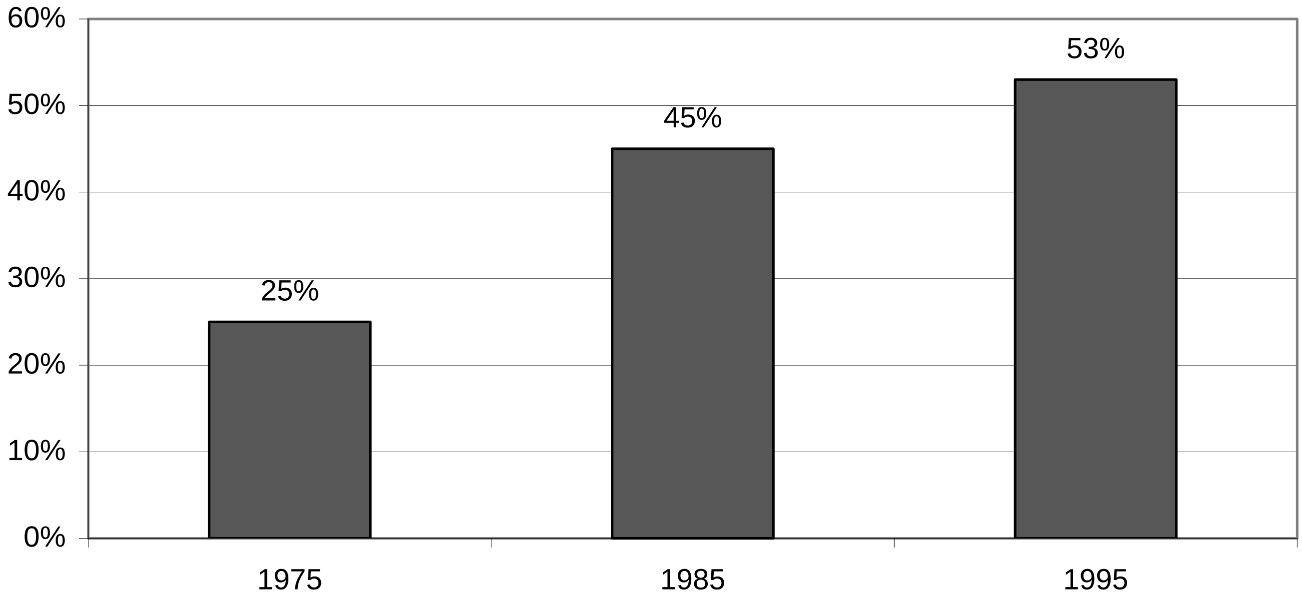
Supply of Unsubsidized Low-Cost Rental Housing 1973 to 1995



From: Jennifer Daskal, *In Search of Shelter: The Growing Shortage of Affordable Rental Housing* *(Washington, DC: Center on Budget and Policy Priorities, 1998), 32.* Based on data from American Housing Survey 1995.

Figure 15

Subsidized Housing Units as a Percentage of All Low-Cost Rental Units, 1975 to 1995



From: Jennifer Daskal, In Search of Shelter: The Growing Shortage of Affordable Rental Housing (Washington, DC: Center on Budget and Policy Priorities, 1998), 35. Based on data from American Housing Survey 1995.

Figure 16

New Units of Federal Rental Assistance, 1978 - 2000

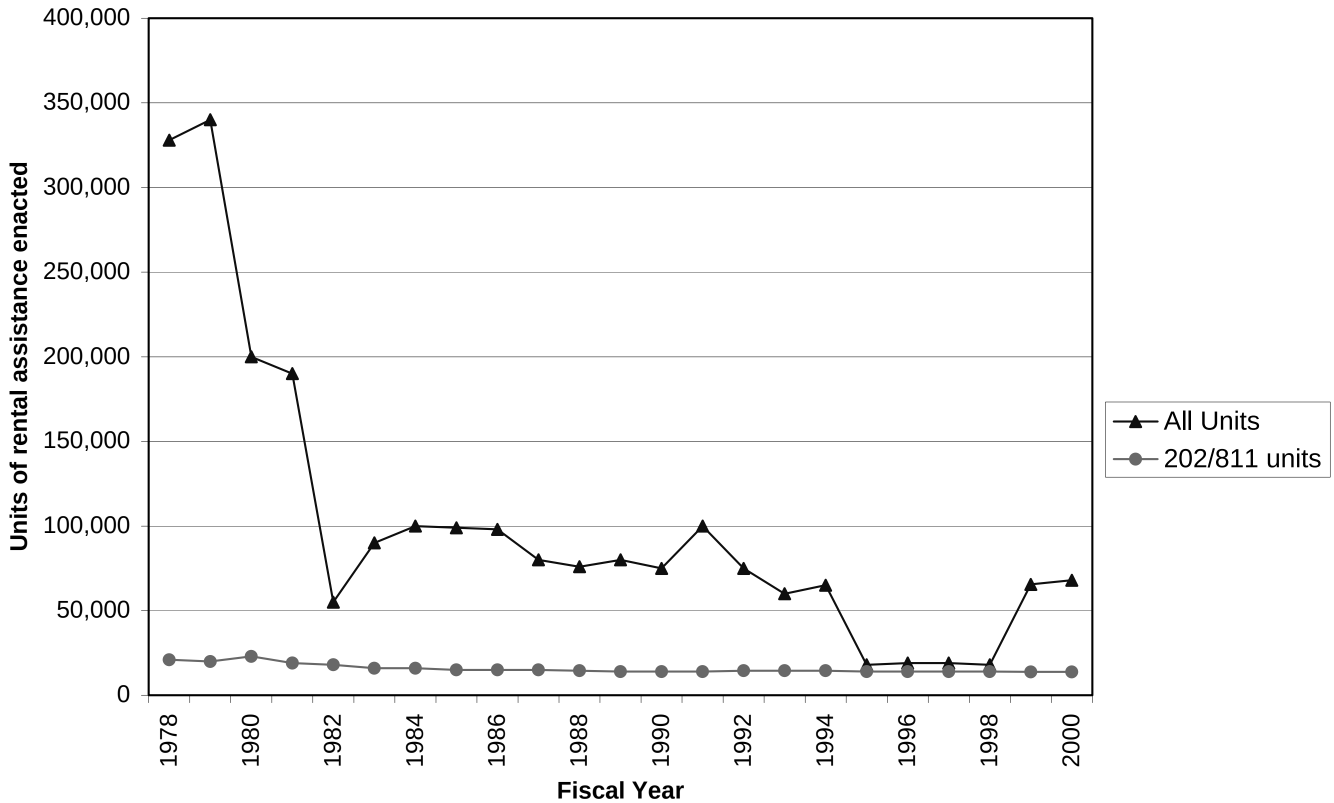
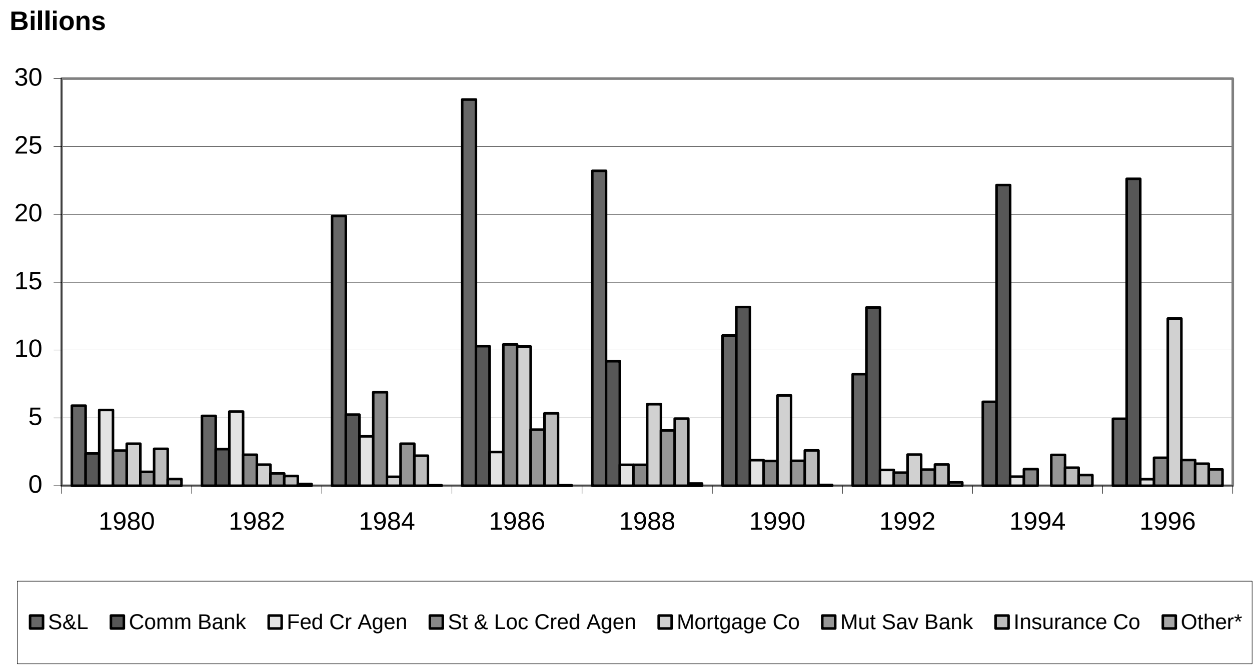


Figure 17

Multifamily Mortgage Originations for New and Existing Properties, 1980-1996 (1996 Dollars)



*Includes pension and retirement funds and private MBS conduits

Source: U.S. Department of Housing and Urban Development, *Survey of Mortgage Lending Activity*, Annual Tables, table 4.

Figure 18

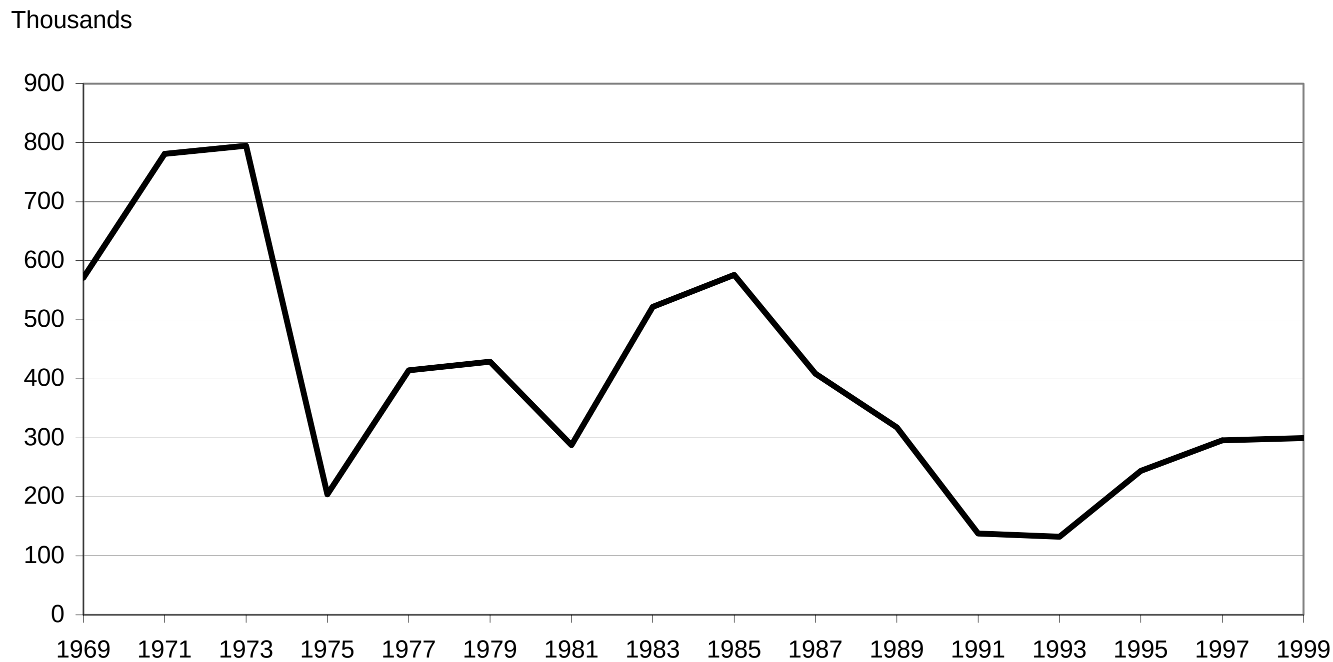
Changes In Tax Variables: 1960 - Present

	Pre-ERTA	**ERTA 1981-1986**	**Tax Reform 1987-Present**
Depreciation Method	Double-Declining Balance	Double-Declining Balance	Straight-Line
Tax Life (years)	30-40	15-19	27.5
Tax rate on income for investors	.50	.45	.28
Tax rate on capital gains	.25	.18	.28

Adapted From: Denise DiPasquale and Jean L. Cummings, "Financing Multifamily Rental Housing: The Changing Role of Lenders and Investors," Housing Policy Debate, 3.1 (1992), 87.

Figure 19

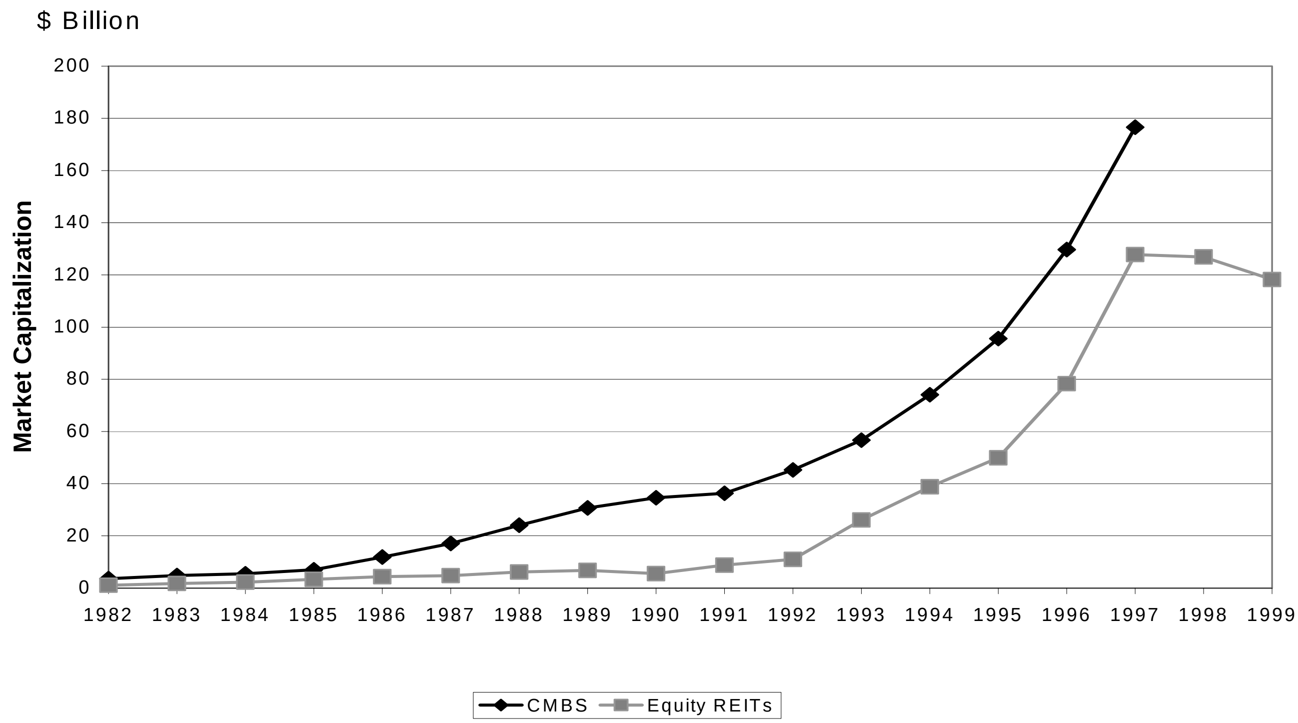
Multifamily Housing Starts, 1969-1999



Source: U.S. Census Bureau, Census Construction Division.

Figure 20

Growth of the Public Markets in Real Estate, 1982-1999



From: Kerry S. Vandell, Strategic Management of the Apartment Business in a "Big REIT" World (Washington, DC: National Multi Housing Council, 1988), 8.
Based on data from the Federal Reserve Board and National Association of Real Estate Investment Trusts.

Figure 21

Cumulative Number Of Assisted Housing Units By Major HUD Programs (End Of Fiscal Year 1955-1994; Units In Thousands)

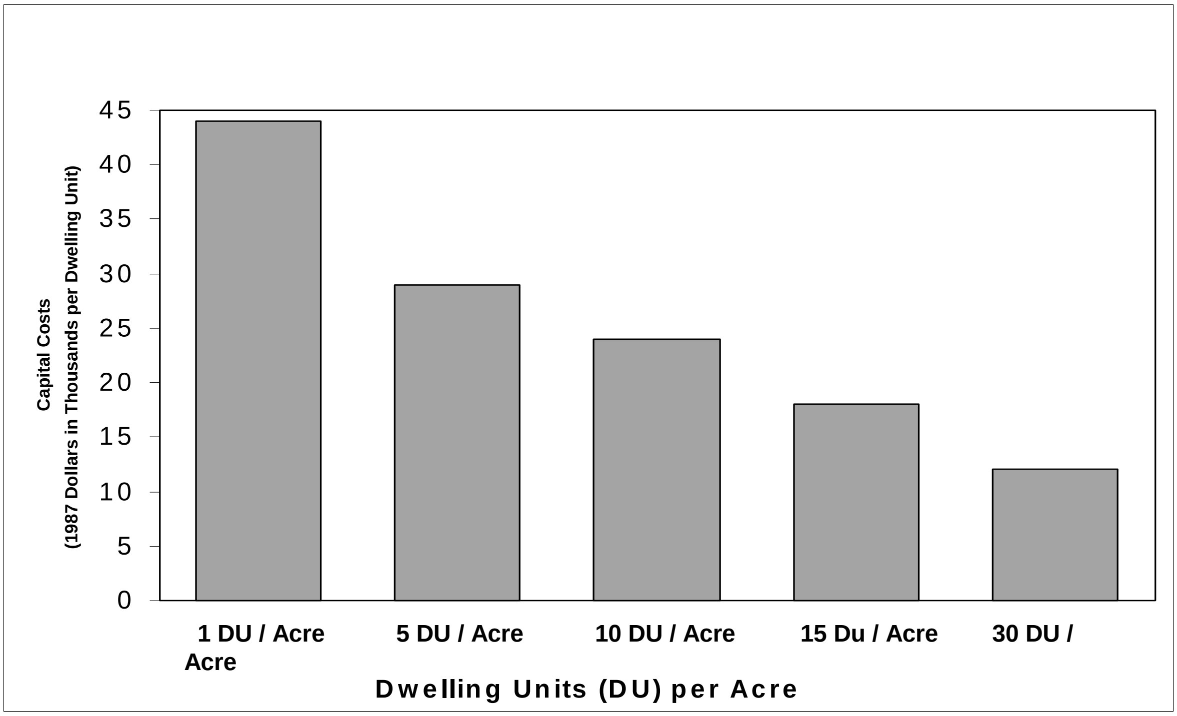
Fiscal Year (end of)	Public Housing	Section 236	Section 235	Rent Supplement	Section 8 (Including Voucher)	Total HUD	
						Gross[1]	Net[2]
1955	344	NA	NA	NA	NA	344	NA
1960	425	NA	NA	NA	NA	425	NA
1965	577	NA	NA	NA	NA	577	NA
1970	830	5	66	31	NA	932	NA
1975	1,151	400	409	165	NA	2,126	NA
1980	1,192	377	219	165	1,153	3,268	3,107
1985	1,355	332	200	46	2,010	4,140	3,943
1990	1,405	331	130	20	2,500	NA	4,386
1995	1,398	318	76	21	2912	NA	4,725
1999	1,274	274	43	21	2,985	NA	4,597

Note: Does not include approx. 150,000 units with Section 221(d)(3) and Section 202 below market interest rates, but no additional subsidies, nor do they include Community Development Block Grant-assisted units. Indicates number of subsidies to units (i.e. a single unit receiving dual subsidies would count as two units. Indicates the number of units subsidized (i.e. a single unit receiving dual subsidies would still count as one unit.

From: Robert W. Burchell and David Listokin, "Influences on United States Housing Policy," Housing Policy Debate, 6.3 (1995), 599. Data from U.S. Dept. of Housing and Urban Development, Division of Program Monitoring and Research, Office of Policy Development and Research, March 1994

Figure 22

Capital Costs Of Development Of Alternative Residential Densities



References

Apgar Jr., William C., George S. Masnick, and Nancy McArdle, Housing in America: 1970-2000: The Nation'’ Housing Needs for the Balance of the 20th Century (Cambridge, MA: Joint Center for Housing Studies, 1991).

Armijo, Gretchen A., David W. Berson, Mark H. Obrinsky, and Bragi Valgeirsson, “Demographic and Economic Trends,” Journal of Housing Research, 1:1 (1991): 21-42.

Black, J. Thomas, Opportunity & Challenge: Multifamily Housing in Mixed Use Activity Centers (Washington, DC: National Multi Housing Council, 1998).

Bogdon, Amy S. and James R. Follain, “Multifamily Housing: An Exploratory Analysis Using the 1991 Residential Finance Survey,” Journal of Housing Research, 7.1 (1996): 79-116.

Brueggeman, William B., and Jeffrey D. Fisher, Real Estate Finance and Investments, 10th Edition (New York: Irwin McGraw-Hill, 1997).

Burchell, Robert W., and David Listokin, “Influences on United States Housing Policy,” Housing Policy Debate, 6.3 (1995): 559-617.

Burt, Martha and Barbara Cohen, America’s Homeless: Number, Characteristics, and Programs that Serve Them (Washington, DC: The Urban Institute, 1989).

Coates & Jarratt, Inc., The Future of the Apartment Industry (Washington, DC: National Multi Housing Council, 1995).

Collignon, Kate, Expiring Affordability of Low-Income Housing Tax Credit Properties: The Next Era in Preservation (Cambridge, MA: Joint Center for Housing Studies and the Neighborhood Reinvestment Corporation, 1999).

Colton, Kent W., Housing at the Millennium, John T. Dunlop Lecture (Joint Center for Housing Studies, Harvard University, May 4, 1999).

Colton, Kent W., David A. Crowe, and Paul Emrath, The Benefits of Multifamily Housing (Washington, DC: National Association of Home Builders, 1998).

Cummings, Jean L., and Denise DiPasquale, Building Affordable Rental Housing: An Analysis of the Low-Income Housing Tax Credit (Boston, MA: City Research, 1998).

Daskal, Jennifer, In Search of Shelter: The Growing Shortage of Affordable Rental Housing (Washington, DC: Center on Budget and Policy Priorities, 1998).

DiPasquale, Denise, and Jean L. Cummings, “Financing Multifamily Rental Housing: The Changing Role of Lenders and Investors,” Housing Policy Debate, 3.1 (1992): 77-116.

Fannie Mae, National Housing Survey 1999 (Washington, DC: Fannie Mae, 1999).

Gabriel, Stuart A., “Urban Housing Policy in the 1990s,” Housing Policy Debate, 7.4 (1996): 673-693.

Goodman, Jack, “The Changing Demography of Multifamily Rental Housing,” Housing Policy Debate, 10.1 (1999): 31-58.

Joint Center for Housing Studies, The State of the Nation’s Housing 1999 (Cambridge, MA: Joint Center for Housing Studies, 1999).

Listokin, David, “Federal Housing Policy and Preservation: Historical Evolution, Patterns, and Implications,” Housing Policy Debate, 2.2 (1991).

Meyerson, Ann, “The Changing Structure of Housing Finance in the United States,” in Housing Issues of the 1990s, Sara Rosenberry and Chester Hartman, eds. (New York: Praeger, 1989): 155-189.

National Association of Home Builders, Smart Growth: Building Better Places to Live, Work and Play (Washington, DC: National Association of Home Builders, 1999).

National Coalition for the Homeless, http://nch.ari.net/numbers.html. National Law Center on Homelessness and Poverty, Out of Sight – Out of Mind? A Report on Anti-Homeless Laws, Litigation, and Alternatives in 50 United States Cities (Washington, DC: National Law Center on Homelessness and Poverty, 1999).

National Multi Housing Council, “Growing Smarter with Apartments,” (Washington, D.C., National Multi Housing Council, 1999).

---------, Research Notes, “The Residents of Newly Built Apartments,” (Washington, D.C., National Multi Housing Council, September 1997).

Nelson, Kathryn P., “Whose Shortage of Affordable Housing?,” Housing Policy Debate, 5.4 (1994): 401-441.

Nenno, Mary K., “Changes and Challenges in Affordable Housing and Urban Development,” in Affordable Housing and Urban Redevelopment in the United States, Willem Van Vliet (ed.), (Thousand Oaks, CA: Sage Publications Ltd. 1997): 1-21.

Simmons, Patrick A. (ed.), Housing Statistics in the United States, Second Edition (Washington, DC: Bernan Press, 1998).

Stegman, Michael A., Robert G. Quercia and George McCarthy, Housing America’s Working Families (Washington, DC: The Center for Housing Policy, June 2000).

Urban Land Institute, The Case for Multifamily Housing (Washington, DC: Urban Land Institute, 1991).

---------, ULI on the Future: Smart Growth (Washington, DC: ULI-the Urban Land Institute, 1998).

U.S. Bureau of the Census, Statistical Abstract of the United States: 1992 (119th edition) (Washington, DC: U.S. Bureau of the Census, 1992).

---------, Statistical Abstract of the United States: 1999 (119th edition) (Washington, DC: U.S. Bureau of the Census, 1999).

U.S. Dept. of Housing and Urban Development, Office of Policy Development and Research, National Analysis of Housing Affordability, Adequacy, and Availability: A Framework for Local Housing Strategies (Washington, DC: U.S. Dept. of Housing and Urban Development, 1994).

---------, Rental Housing Assistance – The Worsening Crisis: A Report to Congress on Worst Case Housing Needs (Washington, DC: U.S. Dept. of Housing and Urban Development, 2000).

Vandell, Kerry S., Strategic Management of the Apartment Business in a "Big REIT" World (Washington, DC: National Multi Housing Council, 1998).

---------, "Multifamily Finance: A Pathway to Housing Goals, A Bridge to Commercial Mortgage Market Efficiency," paper presented at the Mid-Year Meeting of the American Real Estate and Urban Economics Association, May 30, 2000.

von Hoffman, Alexander, "Housing Heats Up: Home Building Patterns in Metropolitan Areas," Washington, DC: (The Brookings Institution, December 1999).