Eastern Michigan Real Estate Investment Association

Eastern Michigan Real Estate Investment Association

March 2014

Inside this issue:

Investing in Senior Housing	2
Risk Factor…	4
A Sterling Reputation	6
Rental Housing Demand	8

A Coming of Age

By Mark Obrinsky, National Multifamily Housing Council

The 65+ crowd is set to feed significant rental growth

Young people have long been considered the key renter demographic for the apartment industry. But following the bursting of the housing bubble and the Great Recession, overall rentership rates climbed and apartment firms found the age profiles rising in many of their communities. And what's happened so far my be just a small precursor of what is to come.

Future demand for apartment residences is largely determined by the interaction of demographic, economic and cultural, or lifestyle, trends. While none of those trends are particularly easy to forecast, current demographic trends offer a pretty good look into the future.

One key fact: the number of U.S. births has varied much less in the past 25 years than it has in the prior 50 years. As a result, the number of young people expected to enter the housing market should vary comparatively little over the next 20 years. Including likely immigrants and expected deaths, the Census Bureau projects that the number of people 18-34 years of age should rise by 2.6 million in the next 10 years.

However, to estimate apartment demand, we also need to know: (i) the number of households; (ii) the share of renter among those households; and (iii) the share of all renters that will choose apartments. While each of these factors is subject to economic, social and cultural influences and forecasting can be made trickier by a number of data problems, examining the increasing population and its changing age structure can still offer considerable insight into these trends alone.

Older households lead rental household growth

For some perspective on how the age distribution of apartment renters could change over the next decade, we compare two periods: 2003-2013 and 2013-2023. We use data from the Census Bureau's Current Population Survey (CPS) to supply the data points for 2003 and 2013. For 2023, we use the latest (May 2013) Census population projections, by age, then apply the headship, rentership and apartment rentership rates, by age, from the 2013 CPS. Given the large pent-up demand, we believe this produces a conservative estimate.

The total number of households increased by 11.2 million between 2003 and 2013; more than half (58 percent) of that increase came among householders from 55-64 years of age, those in the heart of the Baby Boomer generation. Over the next 10 years, however, that age group will make up only 12 percent of the increase in households. The Boomer bulge shifts and the bulk (72 percent) of the (continued on pg 2)

A Coming of Age

By Mark Obrinsky, National Multifamily Housing Council

increase in households from 2013-2023 will occur instead among older householders, aged 65 and older.

The picture is a little different when looking at the change in the number of renter households. Over the past 10 years, 7.6 million new renter households were formed. Just over half the increase came from households in the 45-54 and 55-64 age groups, again in the Baby Boomer sweet spot. Looking forward, the 25-34 age group will make the largest contribution (31 percent) of any single age group to renter household growth. However, it's noteworthy that the 65-74 and over 75 age groups combined will make up 52 percent of renter household growth. Put another way, the growth in the formation of 65 and older renter households will outpace that of younger households in the next decade.

65+households drive apartment share of renter household growth

For the apartment market specifically, there is a similar shift in the age makeup of the growing number of new apartment renter households. In particular, three age groups will make up the bulk of the growth in apartment renter households as a share of all renter households: 75 and over (31 percent), 65-74 (28 percent) and ages 25-34 (28 percent).

While these shifts in household growth are noteworthy, it's also necessary to maintain some perspective between household growth shares and absolute number of households. To clarify with an example: the chart on the previous page shows the share of the increase in apartment renters for the next 10 years in the 15-24 age group will be slightly negative. Specifically, the number of apartment renter households in that age group edges down from 2.61 million in 2013 to 2.59 million in 2023. Even so, those 2.59 million will make up 12 percent of all apartment renters. And apartment renters in the 15-24 and 25-34 age groups combined will make up 40 percent of all apartment renters. Clearly, younger households will still be crucial to apartment demand in the future.

What is new and different, however, is the projected increase in the number of older apartment renter households. While only one in five renter householders in 2023 will be 65 or older, they will account for almost 60 percent of the overall increase in apartment renter households. Some will be new to the apartment industry; others are already renters and will simply age into a different age category. Regardless, industry executives certainly will need to consider how best to accommodate this projected increase in the number of older apartment renters. ■

Investing in Seniors Housing
The Sector is on the upswing, but long-term challenges remain

By Poonkulali Thangavelu, Contributing Editor

A new upcycle in seniors housing constriction is now in evidence as building activity in the sector recovers from the impact of the recession.

David Hegarty, president and chief operating officer, Senior Housing Properties Trust, Newton, Mass., notes that prior to the recession-with growing demand anticipated from people at the forefront of the "Baby Boomer" demographic of those born roughly between 1946 and 1964-a good amount of construction activity had been going on. As a result of the recession, financing for new construction had largely shut down. "Now that the economy is picking up, the unemployment rate is going down and the housing market has improved, all of that bodes well for demand picking up again," Hegarty says.

Rising activity

In the fourth quarter of 2013, assisted living facilities saw the most construction activity, at 8,500 units, compared to other seniors housing types, according to the Annapolis, Md.-based National Investment Center for the Seniors Housing & Care Industry (NIC). And memory-care, or dementia-care, facilities, the fastest-growing type in the last few years, saw the most construction activity relative to their existing stock of inventory, at 9.5 percent, in the fourth quarter. Hegarty notes that the independent-living niche is being developed at a slower pace because it is less need-driven and also took the biggest occupancy hit during the recession.

As the seniors housing sector gradually recovers, occupancies in the sector have also gone up in the fourth quarter of 2013 to about 90 percent, from the cyclical low of about 87 percent seen in the first quarter of 2010, the NIC reports.

Mel Gamzon, president of Senior Housing Global Advisors, a Miami-based seniors housing real-estate advisory firm, says, "The reason new development is progressing is that the cost associated with acquisitions is approaching in many markets the cost of new construction."

Still, investor interest in the sector has also gone up, with financing more readily available from a variety of sources such as Fannie Mae, Freddie Mac, HUD, commercial banks, real estate investment trusts and equity investors. In one recent transaction, for example, Dallas-based Capital Senior Living Corp. acquired four seniors housing communities in Indiana and South Carolina for a total price of about $65 million, including a debt component of about $49 million. The company has invested about $150 million in senior living acquisitions in 2013.**Operations drive value**

Investors looking to get into this sector are attracted by the demographics and the stable returns, with this being seen as more of a recession-resistant sector than some other commercial real estate sectors.

Investing in Seniors Housing
The Sector is on the upswing, but long-term challenges remain

By Poonkulali Thangavelu, Contributing Editor

However, seniors housing is an operations-heavy sector, and investors should also look into the management and operations practices of the third-party managers who typically manage the properties for investors. Gamzon notes, "It's really the operations that drive the value for the real estate in this industry. It's nothing more than a hotel for seniors, a very sophisticated model of a hotel."

Thus, investors should investigate factors such as the track record of operators, resident satisfaction levels, and whether the operators are adding on revenue through ancillary businesses such as home health-care, rehabilitation services and food services. As well, operators should be keeping up with technology developments.

"It really boils down to the quality of the executive director at the property, and the management team at that location for the best-quality care. We look to the resumes of the key personnel running the company and their depth of experience. We also look at their quality controls with regards to policies and procedures and compliance with regulatory authority," Hegarty says.

John McIlwain, a senior resident fellow with the Washington-based Urban Land Institute (ULI), says that operators are facing a growing resistance from seniors to the sense of being in an institution. This has caused the better operators to do away with aspects such as meal hours in an attempt to tone down the institutional approach. Some larger operators are also running restaurants that serve their residents as well as people from the outside world.

McIlwain also advises investors to consider the activities that operators provide at the facilities, and the facility design. While the seniors that now make up the bulk of residents-from the so-called "Greatest Generation" of those approximately age 85 and up-are in favor of traditional design, younger populations are interested in more innovative designs, according McIlwain.

In addition to looking into occupancy and turnover rates at a facility, as well as how well it is maintained, investors should also take into account access to high-quality healthcare, or even a research hospital.

Urban facilities a draw

Urban areas, with their access to high quality healthcare along with proximity to employment opportunities and recreation, continue to be a draw for seniors. More seniors are working in their retirement years, and also want to be close to their working age children employed in metropolitan areas. Investors can also get better returns here considering that there are more barriers to entry in large metropolitan areas, creating less competition for established seniors living properties.

According to McIlwain, "There is a growing desire among seniors not to be out in the cornfields, but to be in a place that has younger people, stores and places they can get out and walk to on their own." However, these urban facilities tend to be more expensive because of the higher investment required to build them, and there will still be more overall demand for facilities in more suburban locations.

While the largest U.S. metro areas saw the largest growth, in absolute numbers, of those age 65 and older during the period 2000 to 2010, according to a study by McIlwain, the fastest rate of growth in this population was in the smaller cities such as Raleigh, N.C. and Las Vegas.

There is also continued interest in the warmer states of Texas, California and Florida, where there is significant amount of new building activity going on, according to Hegarty.

The challenges ahead

Along with the opportunity that the seniors housing sector presents, there are also some challenges. For one, there is a tendency for senior populations to avoid institutional settings and continue to age at home. Gamzon believes that this can also present opportunities for innovative operators to provide food and health-related services to seniors on an a la carte basis. And there is only so long that most seniors, as they get older, can continue to take care of themselves at home.

Another development is the rise in the number of multigenerational households, which are those consisting of two or more adult generations living together. While this sort of arrangement used to be more of the norm-with 57 percent of the U.S. population age 65 and up in such households back in 1990, according to the ULI—the trend had been on a decline.

However, there has been an upswing in multigenerational living in recent years, with the impact of the Great Recession spurring this. Thus, adults living in multigenerational households went up to 20 percent in 2010, after dropping to 17 percent by 1990. However, it remains to be seen if this trend will continue, even though this sort of arrangement remains more popular with Asian and Hispanic families.

Also, seniors housing tends to be expensive and a lot for seniors look to the government, as well as to adult children, to supplement their expenses. Thus, any changes in government policy, such as cutbacks in social security payments, could impact seniors' ability to afford these facilities.

And the anticipated demand from the Baby Boomers will not kick in for at least 10 to 15 years.

Gamzon remains cautiously optimistic about the outlook. He points out, "Lenders and investors are investing in new construction, but in a very cautious manner. Is it totally resistant to overbuilding? No. There will be pockets of overbuilding. There will be operators who will not be successful. There will be increased consolidation likely in the next two to four years from the underachievers." ■

Risk Factor
FHA resident screening compliance still a challenge for multifamily industry

By Jeffrey Steele, Contributing Editor

The Fair Housing Act has been on the books since 1968, when then –President Lyndon B. Johnson signed it into law. Among other objectives, the act is designed to outlaw discrimination in the rental or sale of housing. More than 45 years later some multifamily operators still are finding it difficult to adhere to the guidelines of the Fair Housing Act.

Nadeen Green, senior counsel with ForRent.com in Atlanta, who has taught the multifamily industry about fair housing for 25 years, says the larger property management companies are in greater compliance than small, independent landlords. "Anecdotally, it appears larger property management companies are in fact handling compliance with the Fair Housing Act well, when it relates to the resident screening and selection process," she says.

"In fact, many of them use third-party vendors to handle such screening and selection. The PMCs establish rental qualification guidelines, generally related to ability to pay, past landlord history and criminal background. The applicants are vetted by such vendors and either qualify to be residents or do not. The advantage of the use of vendors is that evaluation is consistent, and the applicant is never seen by the humans who say 'yes' or 'no' as to the qualifications. There is not the illusion that, 'The landlord did not want me because they do no like how I look: my race, color, religion or wheelchair.'"

Evidence also suggests it is the small, or independent landlords handling the applicant vetting themselves who have difficulty complying with the Fair Housing Act's guidelines. There are three reasons for this.

First, Green says, "such landlords actually do have problems with certain people because of race, color, their children or their wheelchair. And because of their prejudices, they are not going to be compliant with the law."

Second, landlords that are not bigoted in the traditional sense may view applicants stereotypically, Green reports. A landlord may say of a female, "She seems nice and her child's a delight. But since she is recently divorced, and men don't always make child support payments, I worry she won't be able to pay the rent if her ex doesn't pay her." Finally, she says, landlords may not have established objective criteria for applicants. Or if they do, they do not consistently apply the criteria.

Patrick Hennessey, Boston-based vice president and general manager of Yardi Resident Screening, a division of Yardi Systems, says that as long as apartment operators have vacancies there will always be some level of temptation to override the screening requirements of the owner.

"Each exception that is made opens the door to situations that could potentially be perceived as violations of the Fair Housing Act," he adds.

Jeanne McGlynn Delgado, vice president, business and risk management policy with the Washington, D.C.-based National Multifamily Housing Council, says rather than asking why multifamily operators still have trouble following the guidelines of the Fair Housing Act, the question should rightly be "What are the concerns of the multifamily industry with HUD's disparate impact rule?"

It's safe to say there are divergent opinions as to HUD's authority in promulgating this rule, Delgado says. "In fact, two cases were headed to the Supreme Court challenging the legitimacy of 'disparate impact' liability under the Fair Housing Act," she reports. "Both of these cases settled before the court could weigh in, but there remains outstanding another challenge to HUD's authority in a case brought by the insurance industry against HUD."

That backdrop suggests the rule creates new uncertainty over what constitutes a discriminatory housing practice.

"Our industry understands the Fair Housing Act makes it unlawful to engage in 'intentional' discrimination, and strives in good faith to operate their properties in compliance with the law. They have adopted policies and practices consistent with this understanding and expend significant resources to ensure their employees are well versed and trained in all relevant areas of the law." This HUD rule expands the general prohibition to say that not only is "intentional" discrimination unlawful, but also "unintentional," referring for instance to those practices or policies that have a discriminatory "effect."

This includes practices that may seem neutral, but statistically are shown to disproportionately affect a protected class.

"This broad-brush interpretation can place almost any rental practice at risk, making compliance much more difficult," Delgado reports.

Impact on the industry

Fair housing violations often result in costly settlements and judgments, Green reports. Exacerbating the situation is that fair housing violations often don't qualify as insured events, meaning the costs are genuinely "out of pocket."

Green doesn't sense shame within the industry for the misdeeds or mistakes of some landlords. But she says the industry's reputation as viewed by others is harmed by inci-

FHA resident screening compliance still a challenge for multifamily industry

By Jeffrey Steele, Contributing Editor

dents involving "bad landlords."

"I sometimes feel fair housing advocates seem to see all landlords as bad or evil, and when someone is wrongly denied the right to rent, this just reinforces that perspective, as in, 'See, just another landlord like so many others who doesn't care or get it, and who is keeping people from having equal housing opportunity,'" she observes. "Each time a landlord violates the Fair Housing Act in selecting who gets to rent, it furthers the position of the advocates, encourages them to do more testing, and raises the financial ante if a landlord is caught doing it wrong. And impacts all."

Delgado notes that currently "We have not been able to quantify the impact of this rule, but we do feel confident it will spur additional testing and enforcement activity. We anticipate resident screening practices, especially those that include criminal background checks, may be scrutinized. Another area that can raise some uncertainty is rental practices relative to the acceptance of Section 8 housing vouchers and associated practices."

Avoiding the pitfalls

Sidestepping issues requires several actions. First, Green says, landlords should establish reasonable standards for applicants to meet when they are being evaluated for a housing opportunity.

"What makes a good resident?" she asks. "The first thing is the ability to pay the rent. The second is the ability to take care of the premises and the common areas. The third is the ability to abide by the reasonable rules of the community. The fourth is a likelihood that the applicant is not a risk to others or the property itself, because of previous relevant criminal convictions."

Second, landlords should apply those standards consistently. There should be no cutting slack for an applicant that "really seems like a good person," Green says. There also should be no denial of an applicant who meets the standards because the landlord worries that other residents may not like him.

Third, landlords should keep good records as to the use of the standards mentioned and their consistent application. That way, if violations are alleged, the records will show that sound policies were consistently followed, she says.

Finally, Green adds, "landlords should consider the use of third parties to handle this administrative function," helping make compliance easier.

Hennessey says that operators should work closely with their legal counsel and their screening provider to establish standardized screening procedures that align with their business objectives. "Once established, they should revisit their standards on a regular interval and as market conditions dictate to ensure their criteria aligns with both their business needs and the law."

Delgado says the NMHC recommends its members examine their rental practices with counsel in light of this new rule. Overly broad policies without regard for accommodations should be avoided if possible.

"If a plaintiff can make the case against a housing provider for an alleged violation of the FHA, the housing provider will then have the burden of proving the practice is necessary to achieve a substantial, legitimate, non-discriminatory interest that cannot be served otherwise," she observes.

"Without further clarification from HUD or safe harbors, operators should evaluate their policies and practices to meet this standard."

How can compliance be made easier? Delgado recommends reviewing company policies and practices with legal counsel to highlight any additional areas of concern relative to this new rule. The NMHC also recommends viewing the NMHC/NAA Webinar "Navigating the HUD Disparate Impact Rule," available at www.nmhc.org. ■

A Sterling Reputation

Best practices reduce the need for damage control-even in the age of social media

By Keith Loria, Contributing Editor

Social media has given people the freedom to say whatever they want, and while that could be for a multi-housing community's reputation when positive word of mouth comes in, it can be harmful if the reviews are geared towards the negative side.

The problem is that people are more prone to vent their anger before thinking things through, and once a negative post is out in social media cyberspace, it most likely cannot be erased.

It's important for a community's management to look at social media as an ongoing conversation and an opportunity to engage with people, be open to criticism, and use it as an opportunity to solve any problems or set the record straight.

Melissa D. White, national director of marketing and training for GFI Management Services Inc., says it is necessary to measure all platforms (Yelp.com, Google Plus, Apartment Ratings and Yahoo Local) for online reviews to ensure the company has equal representation on reviews and responses on multiple sites.

"Every property has a different audience and website which gains more attention for review postings," she says. "For example, Property A may have a demographic of residents that post more reviews to Yelp over Apartment Ratings.com Therefore we have to constantly monitor all four of the major review sites to understand where the consumer reviews are most relevant for that community. By doing this we can also properly campaign to equally distribute postings to sites that allow us to respond and that have a high click through rate to our property websites."

White says the biggest challenge in monitoring social media activity is to determine the best platform for the company's communities, given there are so many different social media platforms to help gain exposure.

"The most effective method to leverage our online presence to best reach our resident demographic is to use an online reputation management tool, which helps us understand our online share of voice, track where our brand name is mentioned and monitor social media activity anywhere keywords associated with our company are used," she says. "For example, we discovered that Four Square is a highly active social media platform for Villas at Sugarloaf by weekly monitoring the number of check-ins and posts of people at our community."

By doing so, GFI was able to be part of the conversation and offered contests to check in and special shout outs to the "Mayor" of Four Square and those spreading the word about the community.

Shailene Casio-Smith, vice president business development for FirstService Residential Realty, says of chief concern is ensuring content is current, relevant, and in alignment with the company's brand and image.

"Provide social media guidelines and training, closely monitor the content, and make the process fun instead of a hindrance, she says. "Require the use of tools such as HootSuite to save time on posting new content."

In one of FirstService Residential's properties, content on its social media pages was stale and dated and it was clear the team was not active or engaged with updating content and information. To rectify this, the company held internal contests for "page of the month," which recognized the property with the highest increase in fans on Facebook; "tweet of the month," which recognized the property that posted the most active Tweets; and "social butterflies of the month," which recognized the property that had the most engaged fans or followers on their social pages.

"Providing positive reinforcement and creating friendly competition increased interest, pride and involvement from employees," Casio-Smith says. "Not enough time is spent managing social media reputation. Renters are very savvy. They are aware that a world of information is available to them with just a few key strokes, and are relying on reviews and ratings more than ever to make renting decisions."

Dealing with the negatives

Judith Brower Fancher, CEO of Brower, Miller & Cole, a marketing firm that specializes in commercial real estate, has counseled on reputation issues for multifamily communities for more than 20 years.

"People who are unhappy are more likely to take time to post a social media comment than people who are perfectly pleased. The challenge is therefore that a few unsatisfied people can create an online total of the negative outweighing positive comments," she says. "This can be particularly challenging now that a majority of prospective tenants are likely to read online reviews of a community to which they are considering moving."

The best way to balance this is by having as many positive comments as possible online, which can be done through on-site management asking renters who are happy in their community to post positive comments.

"If your community is generally a well-liked place, the best think to do is put out positive stories on your community through social media in order to create a positive online reputation, which will have a huge impact," Fancher says. "If there are lots of photos of people having fun, showing activities, etc. in several various online channels, and a few people have complained on Yelp, the Yelp review may be of less impact."

When less-than stellar reviews do come in, Casio-Smith says it is important to respond timely, ethically, professionally, and in line with your company's standards.

"It shows good faith effort from management in trying to resolve the situation," she says. "Don't delete the post. It will perpetuate a negative situation to a worse situation, and management will lose credibility in its ability to effectively assist custom-

ers."

White shares a philosophy she discovered on an industry Twitter chat that she feels is apropos on how to handle negative review responses; the acronym, L.A.T.T.E. (Listen, Apologize, Thank, Take Action, Evolve.)

"This is a simple and effective way to approach every review. Listen and understand what the underlying issues are that need to be addressed. Apologize and do not be defensive. Take Action and actually state what you intend to do to immediately improve the situation (the key is that you must actually keep your word and take action immediately to be considered effective in the eyes of the reviewer). And finally evolve by viewing every review as an opportunity to create a new brand advocate and improve operations for a better customer experience.

Fancher has seen tremendous success from two solutions in dealing with negative posters. The first is, if the person is using their name and can be contacted, a phone call from someone at the management company saying "we saw your comment and are hoping to resolve it with you." That often leads to the poster posting a new comment commending the community for reaching out.

The second solution, and Fancher recommends it be done very, very sparingly (as in perhaps once a year), is that if the person is anonymous, the company can post a statement saying, "We do care about your concerns. If you will please contact XYZ person at our company, he or she would like to learn more about how we can help you."

Tracking the data

GFI utilizes SatisFacts, which serves as its resident satisfaction survey and resident retention partner. The program sends surveys to prospective tenants after they visit, once they move in and after they have a work order placed.

According to White, investing the time to ask for a genuine resident survey response and share via review sites, social media and its property websites helps to spread positive word of mouth online.

"They help boost our online reputation through a social networking integration program and the ApartmentRatings.com Verified Resident Program, which are tools to proactively promote resident survey feedback results online to help control our online reputation," White says. "There are four online surveys sent to our residents and prospects to rate their experience: Unclosed Traffic, New Move Ins, Work Orders and Pre-Renewals. The VRP (Verified Resident Program) is a part of the survey responses where respondents can elect to have their survey responses shared on ApartmentRatings.com."

For the first 90 days of using SatisFacts in Q4 2013, postings were up 517 percent year to year, the recommended score was up five percent, and the satisfaction score was up 21 percent.

White adds that equal attention must be delegated to ensuring GFI's communities offer value-added resources and an exceptional customer service experience so that it continues to garner authentic and positive reviews based on merit and not merely relying on incentives. "I advise to invest in an employee to help monitor review posts for timely responses within 24 hours and to measure the analytics of your company's RM goals and progress," she says.

More than social media

Obviously, a great deal of time and effort has been put into managing social media reputation management, but companies need to be aware of avenues other than these sites when protecting their image.

"Brand recognition is important," Casio-Smith says. "Residents attribute a positive or negative experience not with the property, but with the management company. This is the most important for FSRR and why 'Service Excellence' and 'People Matter' are two of our four core values."

As mentioned, social media is extremely important in every business-to-consumer marketing program. It is important to ensure that each community has the most positive online reputation it can gain. However, if the true challenge is that your community has an onsite team that is making residents miserable, or if the hot water doesn't work all the time, the online reputation is not the true challenge-and the attention should go first to managing the actual issues.

Fancher says that in addition to social media that is specifically a Yelp review, or some other type of property review, there is an entire world of reputation tools that can be important.

"We find a majority of the multifamily management firms we work with benefit from positive word of mouth, which can be gained through holding events that are so much fun that your residents post photos of themselves and their friends enjoying the activities on their own social media sites," she says. "Some communities can benefit from holding contests, either on-or-off-line, that benefit a charity. These are great ways to build a true sense of community for the residents who are more likely to renew if they feel connected, and also can generate positive buzz through both social media and word of mouth."

As the years go by, the current teens will move into their renting years. Pinterest and Vine will become more important to apartment seekers as the Millennials become a greater majority of the renting pool.

However, seniors who are downsizing will also be a large group of prospective renters over the next decade, so everything from Yelp to Facebook to local magazines and daily newspapers will continue to be strong avenues for multifamily managers as they seek to build and maintain the best reputation possible. ■

RENTAL HOUSING DEMAND

FROM HARVARD UNIVERSITY

Renting provides a flexible and financially suitable housing option for man Americans. While the likelihood of renting declines with age, many households switch between owning and renting at various points over their lives as their housing needs change. Although it is difficult to predict whether the recent shift toward renting will persist, the aging of the baby boomers and growth in the minority population alone will keep rental demand strong over the next decade.

The Benefits of Renting

The recent turmoil in for-sale housing markets and the broader economy has highlighted the many advantages of renting. Since the onset of the Great Recession, unemployment has remained stubbornly high and incomes have fallen, straining household budgets. In this environment, renting offers a flexible housing choice that enables households to adapt to changing financial circumstances—including the need to relocate quickly, whether to find a more affordable home or to take a job elsewhere in the country.

The recent plunge in house prices also underscored the financial risks of homeownership. Falling home values are especially devastating to low-and moderate-income households, who often invest a substantial share of their resources in this single asset. And if forced to move when they owe more on their mortgages than their homes are worth, owners must cover the gap between the sales proceeds and the mortgage debt, or walk away from their loans and face the consequences of impaired credit for years to come.

For most households, renting is less of a financial stretch than buying a home. Even in the best of times, homeowners must come up with a substantial amount of cash to cover the down payment and closing costs, as well as the expenses of any immediate repairs. While renters typically have to pay a security deposit plus the last month's rent, the total outlay is usually more modest than the upfront costs of buying. Equally important, renters who want to move do not incur the steep costs associated with selling a home.

Renting also brings greater certainty to household budgeting because tenants do not have to cover the costs of unexpected but necessary home repairs. Owning a home, however, requires money, time and skill to manage its upkeep. Renting transfers responsibility for maintenance to a landlord, reducing risk and worry for those who are either ill-suited to such tasks or who simply prefer to avoid these obligations.

A 2012 Fannie Mae survey reveals many of the reasons some households favor renting over owning. More than half of the renter respondents considered renting a better choice for living within a budget and having less stress. The other common reasons cited for preferring to rent are that it is the best decision in the current economic climate, allows one to live in a more convenient location, and provides more flexibility in future decisions. At the same time, current homeowners overwhelmingly held the view that owning a home is a better way to achieve these goals, although 28 percent agreed that renting is less stressful.

Perhaps not surprisingly, attitudes toward renting have shifted somewhat as a result of the Great Recession. For example, slightly more than half (54 percent) of the households surveyed by Hart Research Associates in early 2013 stated that renting had become more appealing given the country's economic situation. Consistent with a variety of other sources, however, the same survey also found that a solid majority of renters (72 percent) still aspire to own homes in the future.

Renting Over the Lifecycle

Young adults are the most likely age group to rent. For those first leaving their family homes, the lower transaction costs and flexibility of renting makes it a natural choice during a stage in life marked by frequent changes in jobs, periods as a student, and shifts in personal relationships. As a result, nearly four out of five individuals under age 25 who live independently choose to rent. As people age and become more settled, the share that rent declines until late in life when the likelihood of renting increases slightly. Nevertheless, nearly two-thirds of 25-29 year-olds and more than half of households in their early 30s rent their homes.

While a majority of US households own homes at some point in their lives, many return to renting in response to changing fortunes and housing needs. For example, the Panel Study of Income Dynamics reports that 44 percent of families rented for some period between 2001 and 2011, but the renter share of households never exceeded 34 percent during the decade. Indeed, 16 percent of all households rented for the entire period, 13 percent started out as renters but made the transition to owning, 7 percent started out as owners but switched to renting, and 9 percent shifted between owning and renting multiple times.

Tenure transitions are most common among younger households, but increase again among the oldest households. In particular, the share that move from owning to renting rises first among those in their 60s and then more sharply as they reach age 70. According to the 2011 American Housing Survey, households that had recently shifted from owning to renting typically made the move to accommodate a change in employment or in marital status. Slightly more than half of these households also stated that their housing costs declined as a result of the change.

Preferences for location and type of housing depend on renter household type. Non-family households, including roommate situations that are more common among the young, are more

RENTAL HOUSING DEMAND

FROM HARVARD UNIVERSITY

likely to live in multifamily housing in central cities. As they move into the childrearing phase of life, renters tend to prefer single-family homes in suburban or rural locations. In fact, married couples with children choose single-family rentals more than any other housing type. Single persons, many of which are seniors, are more likely to live in central cities and the most likely of all renters to live in multifamily structures.

Geographic Variations in Renting

Renting is much more prevalent in central cities, where land prices are high and low-income households are concentrated. In general, rentership rates are highest in cities of the Northeast, where more than 60 percent of households rent compared with 45-50 percent in other regions. About a quarter of households rent in suburban and non-metropolitan areas in most parts of the country, although rentership rates in these areas exceed 30 percent in the West.

Reflecting differences in housing costs, demographic characteristics, and the nature of the housing stock, renter shares also vary across metropolitan areas. Renting is somewhat more common in markets with higher house values, larger shares of young households, fewer senior households, and smaller shares of single-family homes. In the 20 largest metropolitan areas in the country, rentership rates thus range from 52 percent in Los Angeles to 30 percent in St. Louis. Most of the markets that have larger shares of renters are coastal metros with high home prices, including New York and San Diego. Renter shares are smaller in markets with lower house values, such as Detroit and Tampa.

Homes for a Diverse Population

According to the Current Population Survey, 43.0 million US households rented their homes in 2013. Given the appeal of renting for young adults, 39 percent of these renters were under age 35—almost twice their share in the overall population. But nearly as many renters were between the ages of 35 and 54 (36 percent). Households aged 55 and over currently make up a small share of renters (25 percent) relative to their share of all households.

With their need for less living space and their lower incomes, single persons are the most common renter household. Even so, nearly as many renters are households with children. Fully 32 percent of renters are married couples with children and single-parent families. Married couples without children are the most underrepresented household type among renters relative to their share of all households.

While households of all incomes rent their homes, it is nonetheless true that a disproportionate share of renters have low incomes. Nearly half (46 percent) of renters have incomes below $30,000, including 22 percent with annual incomes below $15,000 (roughly equivalent to working year-round at the minimum wage) and 24 percent earning between $15,000 and $30,000. By comparison, only 30 percent of all households have incomes this low. However, the renter share of moderate-income households (with $30,000-74,999 in annual income) is 37 percent—just above their share of total households. Higher-income households make up only about one in six renters, compared with about a third of all households.

Many lowest-income renters are among the country's more vulnerable households. Roughly four out of ten renters with incomes under $15,000 are out of the workforce because they are disabled or retired. Of the remainder, half are employed but earn only modest amounts, while another sixth are unemployed and looking for work. Among renters earning $15,000-29,999, nearly a quarter are disabled or retired and fully 80 percent of the rest are employed.

Since the mid-2000s, rentership rates have risen across all household types, income categories, and age groups except the oldest. While the sharpest increases have been among young adults, fewer individuals in this age group have been striking out on their own. As a result, adults under age 35 as a share of all renters actually fell between 2005 and 2013. And while the overall number of households aged 35—54 dropped by over 1.2 million during this time, higher rentership rates meant the number of renters within this age group actually rose by over 3 million. The aging of the baby-boom generation also meant that seniors accounted for a large share of renter household growth over this period.

With their overall numbers climbing, low-income (under $15,000) and Hispanic households also contributed a large share of the recent increase in renters. Indeed, while each group currently represents approximately 13 percent of all households, low-income households were responsible for 26 percent of renter growth in 2005—13 while Hispanic households accounted for 29 percent.

Wealth Accumulation among Renters

Savings and other forms of wealth provide economic security in times of job loss, poor health, or unexpected expenses. They also support life-changing investments in education and business opportunities, and lay a solid foundation for retirement. Even after controlling for their lower average incomes, though, renters accumulate much less wealth than homeowners. For example, among households

RENTAL HOUSING DEMAND

FROM HARVARD UNIVERSITY

in the upper middle income quartile the median net worth of homeowners in 2010 was nearly nine times that of renters. The median for all owners was 34 times that of renters.

Home equity accounts for a significant share of the difference, but by no means all. Excluding housing wealth, homeowners still had a median net worth of $72,520 in 2010—more than 14 times that of renters. And even accounting for differences in the ages as well as the incomes of owners and renters, the disparities remain wide. Among households aged 35—44 in the upper-middle income quartile, for example, median net wealth in 2010 was just $13,300 for renters but $69,700 for owners.

With the housing market crash, the median net wealth of homeowners plunged 30 percent between 2007 and 2010. Renters' median wealth fell only 5 percent. This modest decline largely reflects the fact that what little wealth they had was mostly in lower-risk, lower-yielding accounts. Even so, the median wealth of renters in the highest income quartile, who held a broader range of investments, dropped nearly 50 percent as the recession drove down the values of a full range of financial assets as well as housing.

Again, even after accounting for differences in income, renters are less likely than owners to own assets such as retirement accounts, cash-value life insurance policies, stocks, certificates of deposit, or savings bonds. The gap in retirement savings is especially large, and may be due to differences in the nature of owners' and renters' employment as well as the types of benefits they receive. But what is perhaps most troubling is that holdings of these and other financial assets are low for owners as well as renters, underscoring the urgent public policy need to promote saving outside of employment and by means other than homeownership.

Demographic Drivers of Future Demand

Two key factors will drive rental housing demand over the next decade: changes in the number and characteristics of households, and changes in the tendency of different groups to own their homes. Of these, changes in the distribution of households is somewhat easier to project because the age structure of the adult population is already known with some certainty and the rate at which they form different types of households changes relatively slowly.

In contrast, homeownership rates can fluctuate significantly over a several-year span as economic conditions change. Consider trends in rental demand between 2005 and 2012. If homeownership rates had held constant, overall household growth would have lifted the number of renter households by 2.0 million. Instead, plummeting homeownership rates boosted the number of renters by some 6.6 million over this period.

Homeownership rates are determined in large part by household incomes, housing prices, and the cost and availability of mortgage financing—all of which are highly uncertain. Preferences for owning or renting also play a role, but are similarly hard to gauge. Joint Center estimates of renter household growth therefore assume that homeownership rates by age, race/ethnicity, and household type remain at their 2012-13 averages. If current trends continue and homeownership rates decline further over the next decade, growth in the number of renters will be stronger than projected. At the same time, however, homeownership may well rebound, given that current rates for 25—54 year-olds are at their lowest point since annual recordkeeping began in the 1970s. In that case, the projections will overstate renter growth.

Given constant homeownership rates and using the Census Bureau's high and low population projections, the Joint Center estimates that the number of renter households will increase between 4.0 million and 4.7 million in 2013-23 . Immigration rates are the major source of difference between the two scenarios. While a slowdown from its recent pace, growth in the number of renters would be comparable to increases in the 1980s—that is, somewhat slower than in the 1970s when the baby boomers entered the rental market, and in the 2000s when homeownership rates plunged.

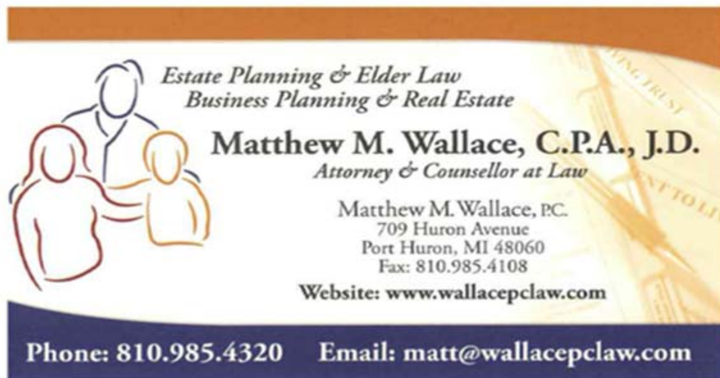
The changing age structure of the population and the growing racial/ethnic diversity of Americans will alter the face of rental demand over the next decade. With the aging of the baby boomers, the number of renters over age 65 will increase by 2.2 million and account for roughly half of renter household growth. The echo boomers will provide the impetus for much of the rest of growth, replacing the smaller baby-bust generation in the 25-44 age group and adding between 1.9 million and 2.4 million renter households. The number of renters under age 25 will dip somewhat over the next 10 years as the echo boomers move out of this age group.

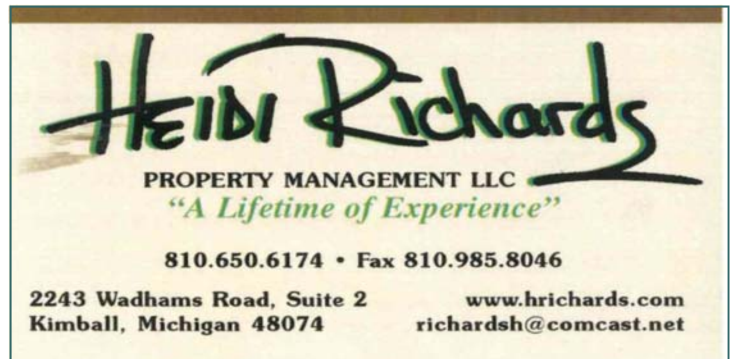
The aging of the population means that the numbers of renter households that are either single or married couples without children will rise. These two groups are each projected to account for 1.2-1.3 million additional renter households over the decade, or roughly 30 percent of overall growth. The number of renter households with children is also expected to climb as the echo-boom generation moves into the 25-34 and 35-44 year-old age groups. In combination, the number of married couples with children and single-parent families that rent housing is projected to increase by 1.1-1.5 million.

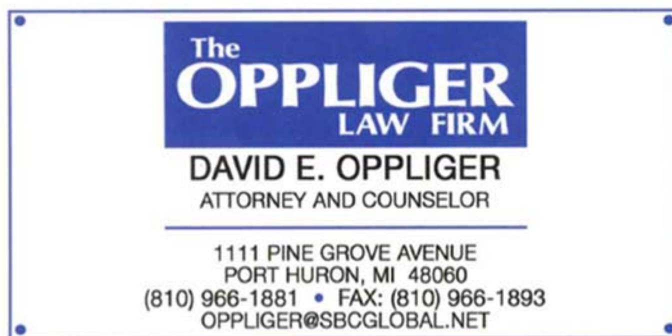
The growing diversity of American households will be evident in the sizable increase in the number of Hispanic renters. While currently making up about 20 percent of renter households, Hispanics are projected to account for more than half of renter household growth in 2013-23, with increases in the 2.2-2.4 million range. African-Americans, Asians, and other minorities will drive the rest of renter household growth over the decade as the net number of white renters holds steady.

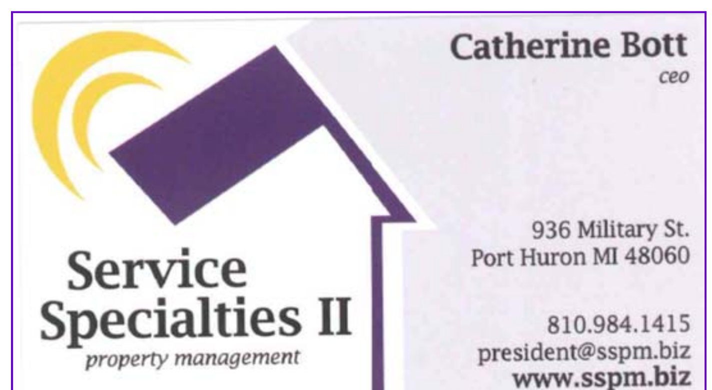
The Outlook

Projected changes in the age of race/ethnicity of US households have important implications for housing markets and for policymakers. The burgeoning number of seniors points to increasing demand for housing that meets the needs of aging renters. While many of these households may be able to stay in their current homes, others may have to move to housing with better access to services and social networks when they can no longer drive. In addition, the growing number of seniors on fixed incomes is likely to outstrip the limited supply of affordable rentals. With the number of families with children also on the rise, demand for larger rental units will increase as well, particularly in communities with access to good schools and employment centers.









Advertising Price Rates in our Newsletter and on our website:

1/8 page: $125/yr $14/mo
1/4 page: $165/yr $18/mo
1/3 page: $185/yr $20/mo

1/2 page: $200/yr $22/mo
Full page: $400/yr $44/mo
*based on 9 issues per year

Eastern Michigan Real Estate Investment Association

3051 Commerce Dr, Ste 5
Fort Gratiot, MI 48059

Phone: (810)385-2332
Fax: (810)385-8875

Email: jgalbraith@innovativehousing.org

E.M.R.I.E.A. ADVISOR

Our office is located at:

3051 Commerce Dr, Ste 5
Fort Gratiot, MI 48059

Phone: (810)385-2332
Fax: (810)385-8875

www.emrha.org

Office Hours:

Monday - Thursday
8:30 a.m. - 5:00 p.m.
Friday
8:30 a.m. - 4:00 p.m.

Board of Directors

President	Edward Schultz	810-385-2332
Vice President	Judy Harris	810-385-3284
Secretary	David Oppliger	810-966-1881
Treasurer	Renae Kiehler	810-385-2332
	Matt Wallace	810-985-4320
	Kathy Swantek	810-388-1200
	Virginia Irland	810-982-6239
	Ken Montgomery	810-385-3150