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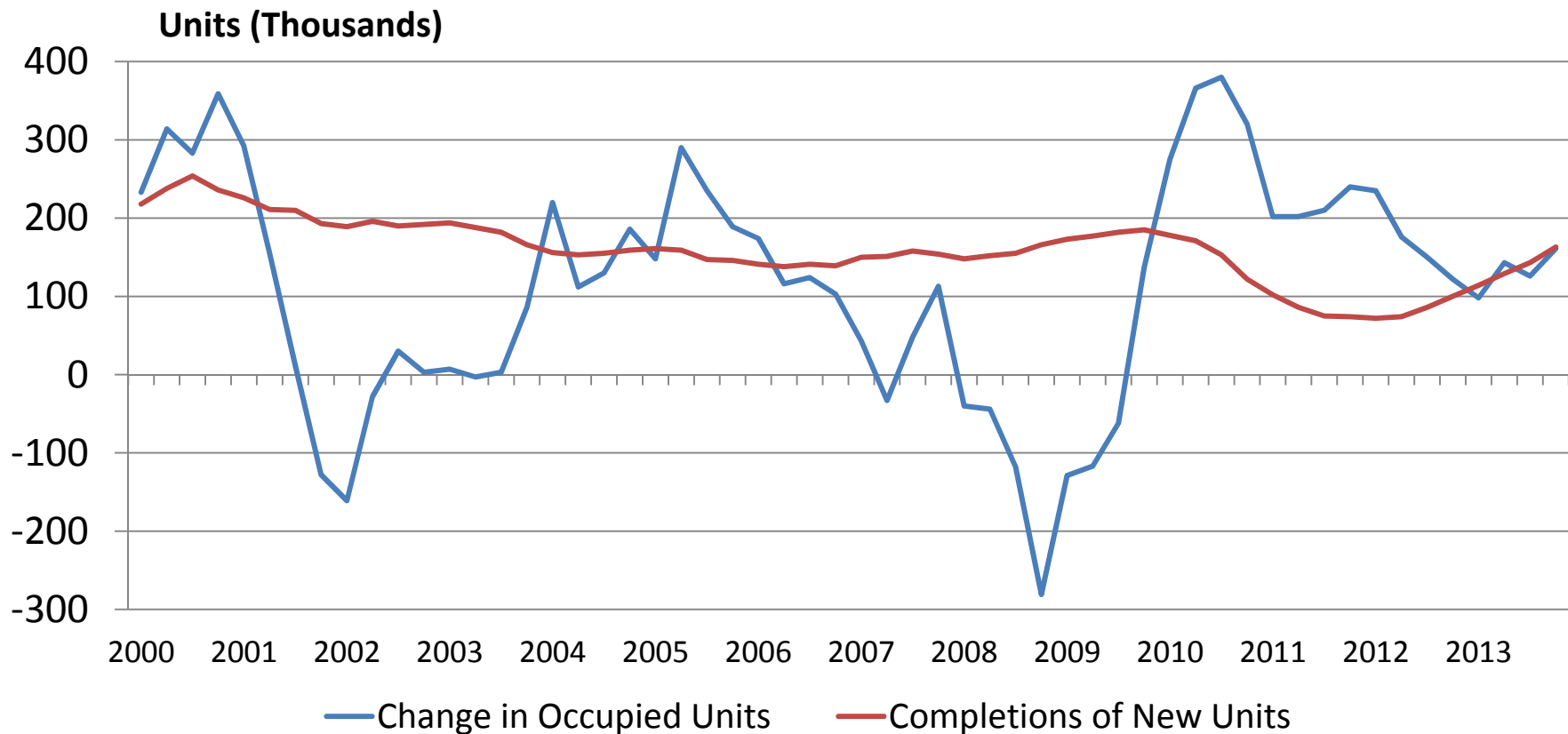
Rental Housing: the affordability crisis

September 26, 2014

New York Times, August 25, 2014

- ▶ Developers started buildings with 332K apartments over the past 12 months, according to the Census Bureau, the highest since 1989.
- ▶ Apartment starts are up 7% since 2005, while single-family start are down 60% over the same period.
- ▶ July multifamily starts were 34% of total starts, the highest share since 1974.

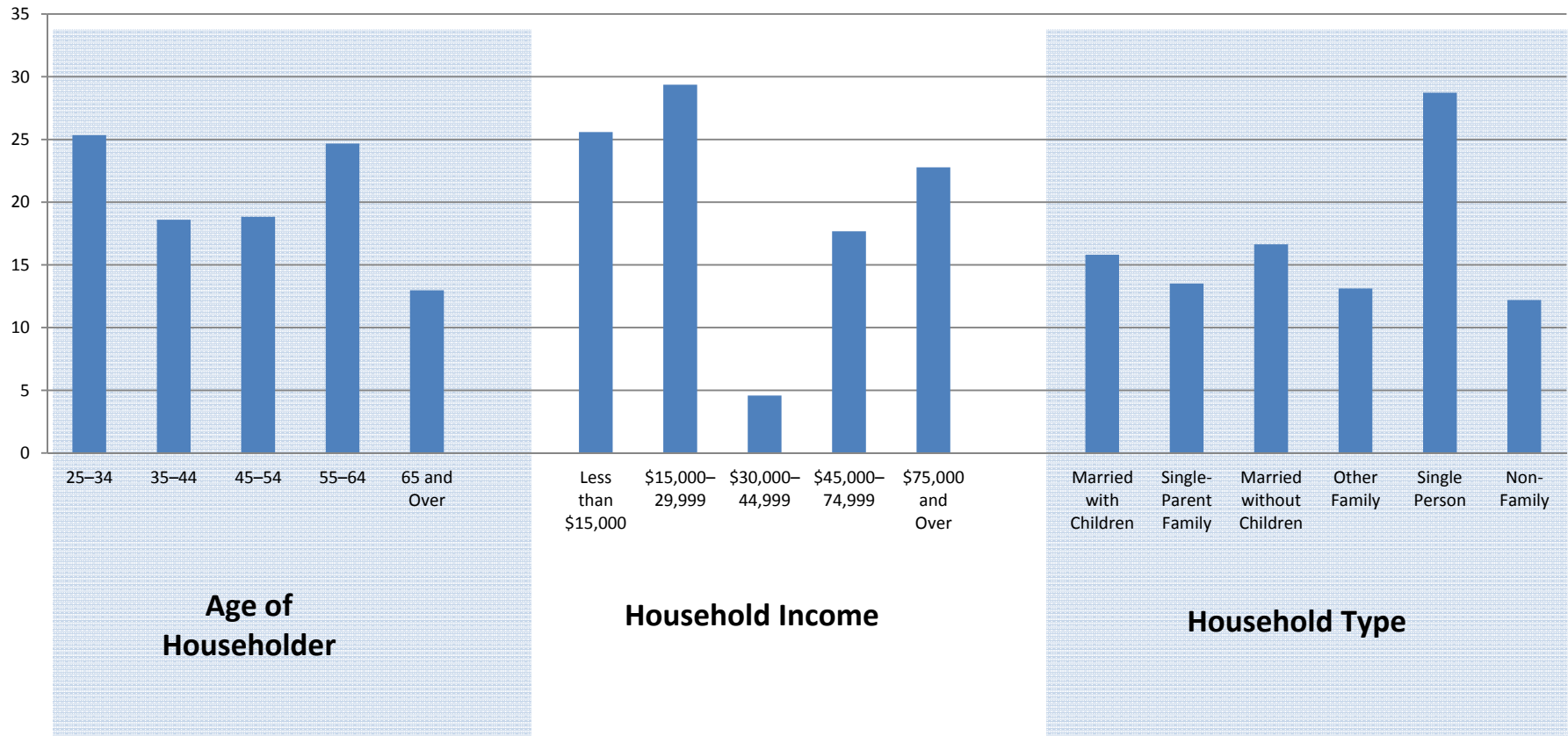
Figure 1. Multifamily Rental Supply and Demand Returned to Balance in 2013



Notes: Data cover investment-grade multifamily properties. Completions and changes in occupied units are four-quarter totals.
 Source: Harvard Joint Center for Housing Studies, The State of the Nation's Housing, 2014, www.jchs.harvard.edu. All rights reserved.

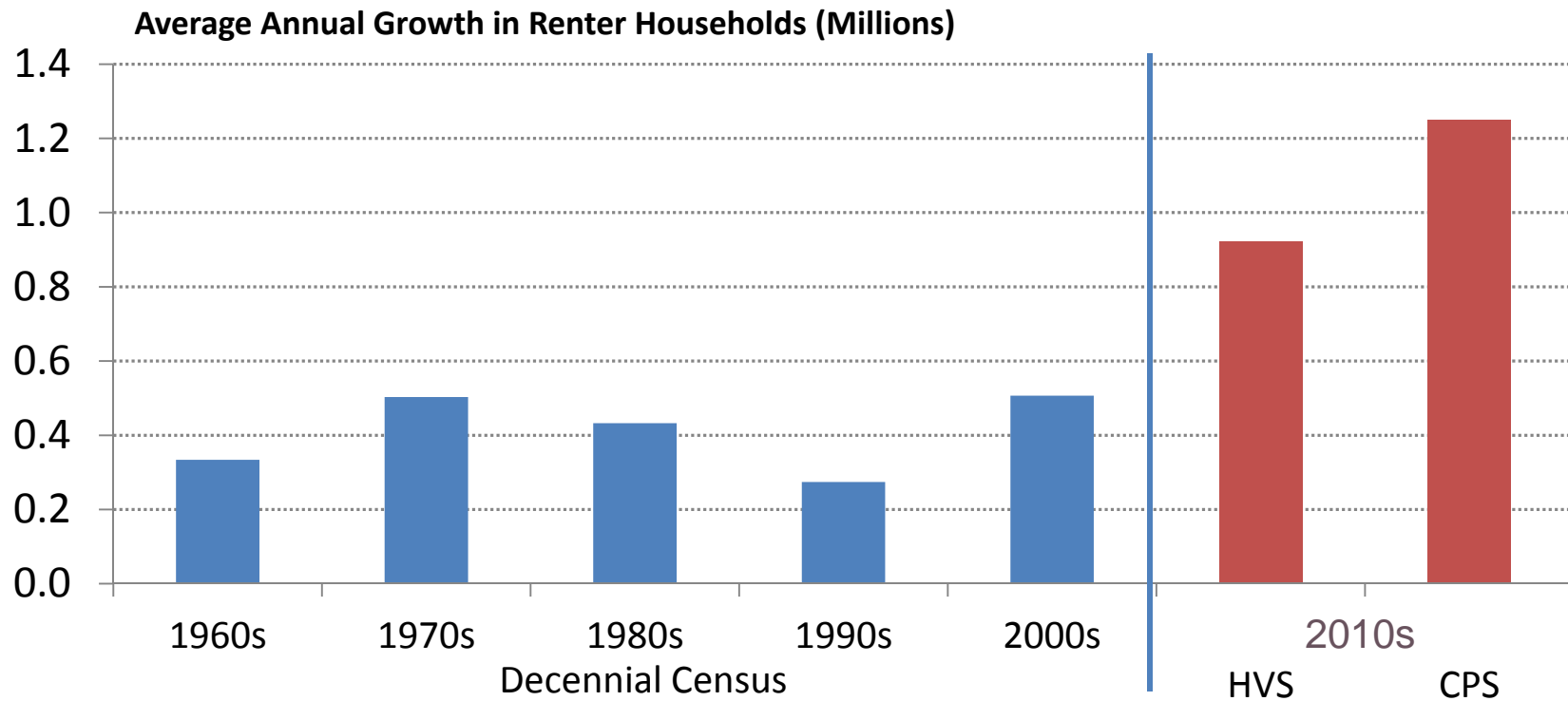
Figure 2. Households Across the Spectrum Have Fueled the Growth in Renters

Share of Renter Household Growth 2005–13 (Percent)



Source: Harvard Joint Center for Housing Studies, The State of the Nation’s Housing, 2014, www.jchs.harvard.edu. All rights reserved.

Figure 3. ...Generating a Surge in Renter Household Growth

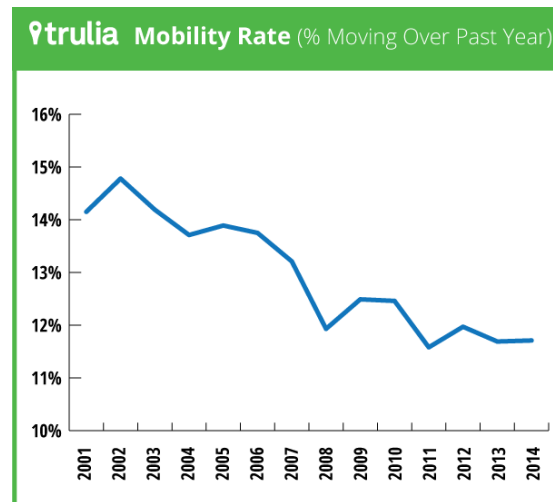


Note: Renter growth in 2013 in the HVS was calculated by averaging the number of renters in the first and second quarters of 2013 and subtracting the average number of renters in the first and second quarters of 2012.

Source: Harvard Joint Center for Housing Studies, America's Rental Housing, 2013, www.jchs.harvard.edu. All rights reserved.

While American Mobility is at Historic Low

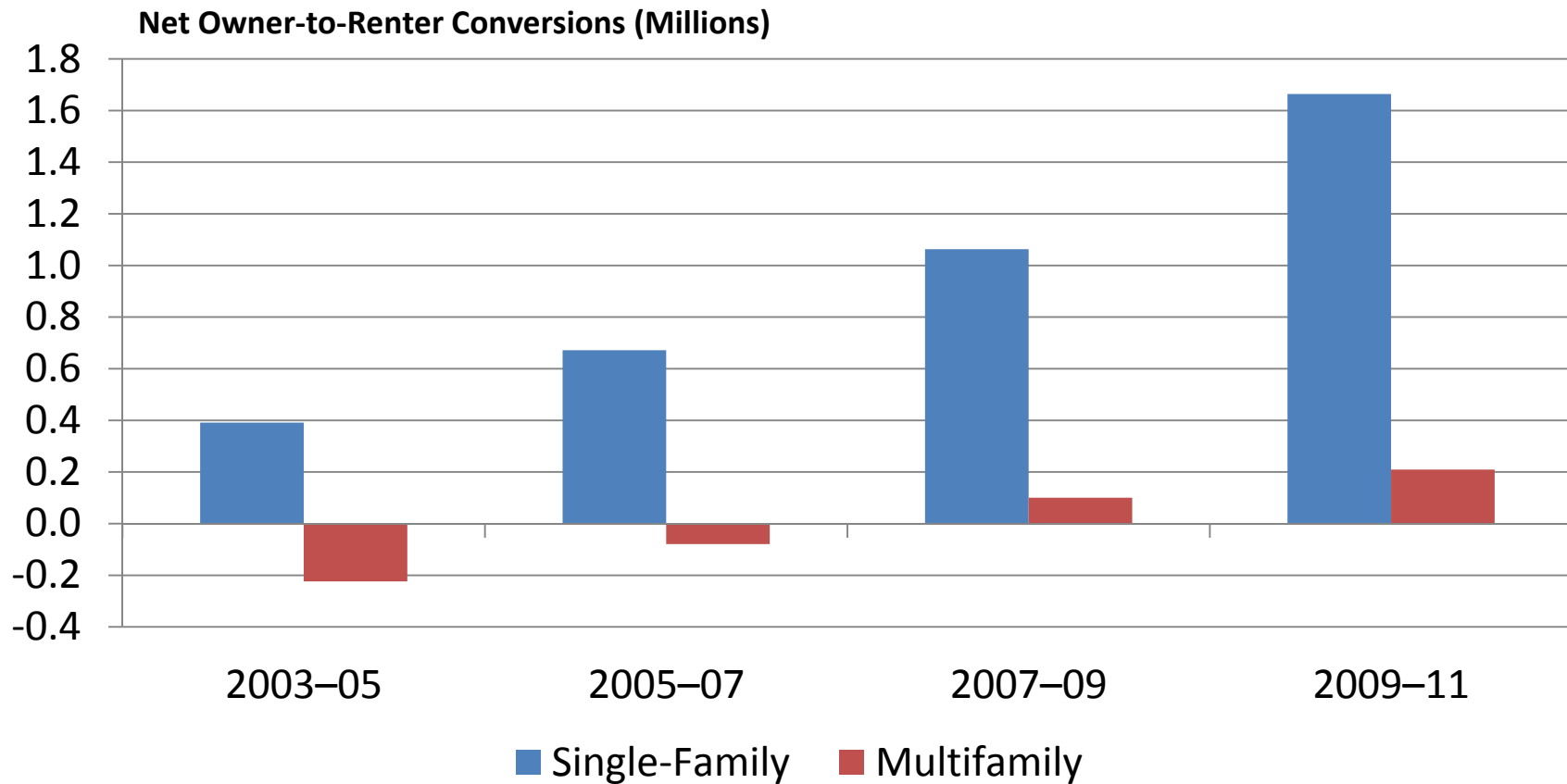
- ▶ The **U.S. Census Bureau's** current population survey released on September 16, 2014 shows that mobility is flat – at the same low level of 11.7% as the year before.



- ▶ “With the percentage of Americans moving stuck at 11.7% in 2014, mobility remains near the all-time low of 11.6% in 2011. That’s considerably below the 14% rate from the early 2000s,” Kolko writes for Trulia. “The housing bust and recession offer possible explanations why people are stuck in place – things like negative home equity and few job opportunities to move for.”

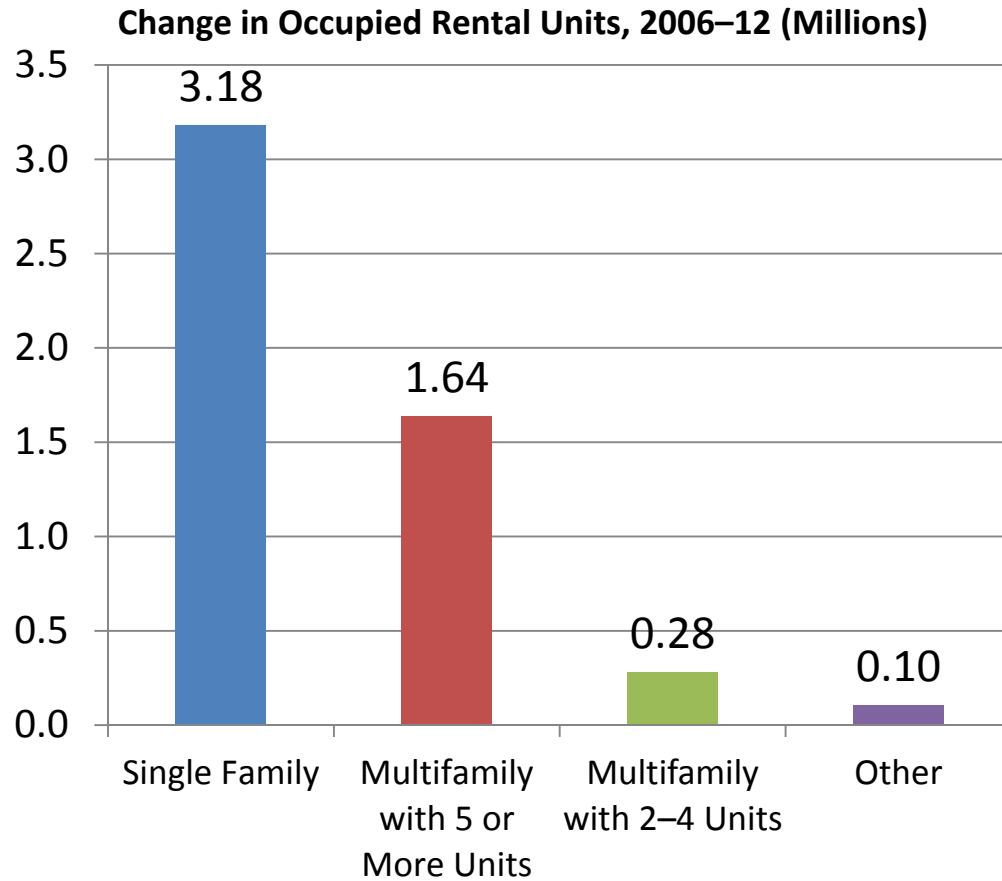
Source: Garrison, Trey. "American Mobility at Historic Low and Not Changing Soon." *U.S. Housing Finance News*. Web. 18 Sept. 2014.

Figure 4. Millions of Single-Family Homes Have Become Rentals Since the Recession

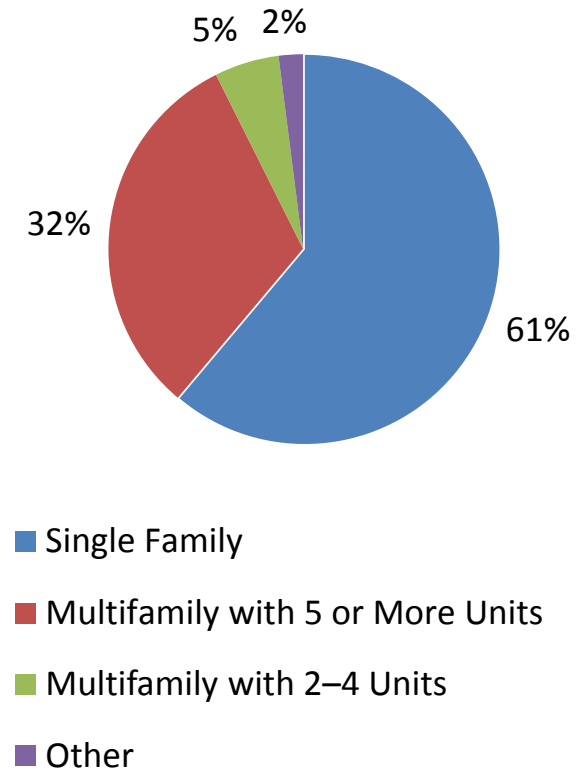


Source: Harvard Joint Center for Housing Studies, America's Rental Housing, 2013, www.jchs.harvard.edu. All rights reserved.

Figure 5. Most of the Recent Increase in Rental Supply Has Come from Single-Family Homes



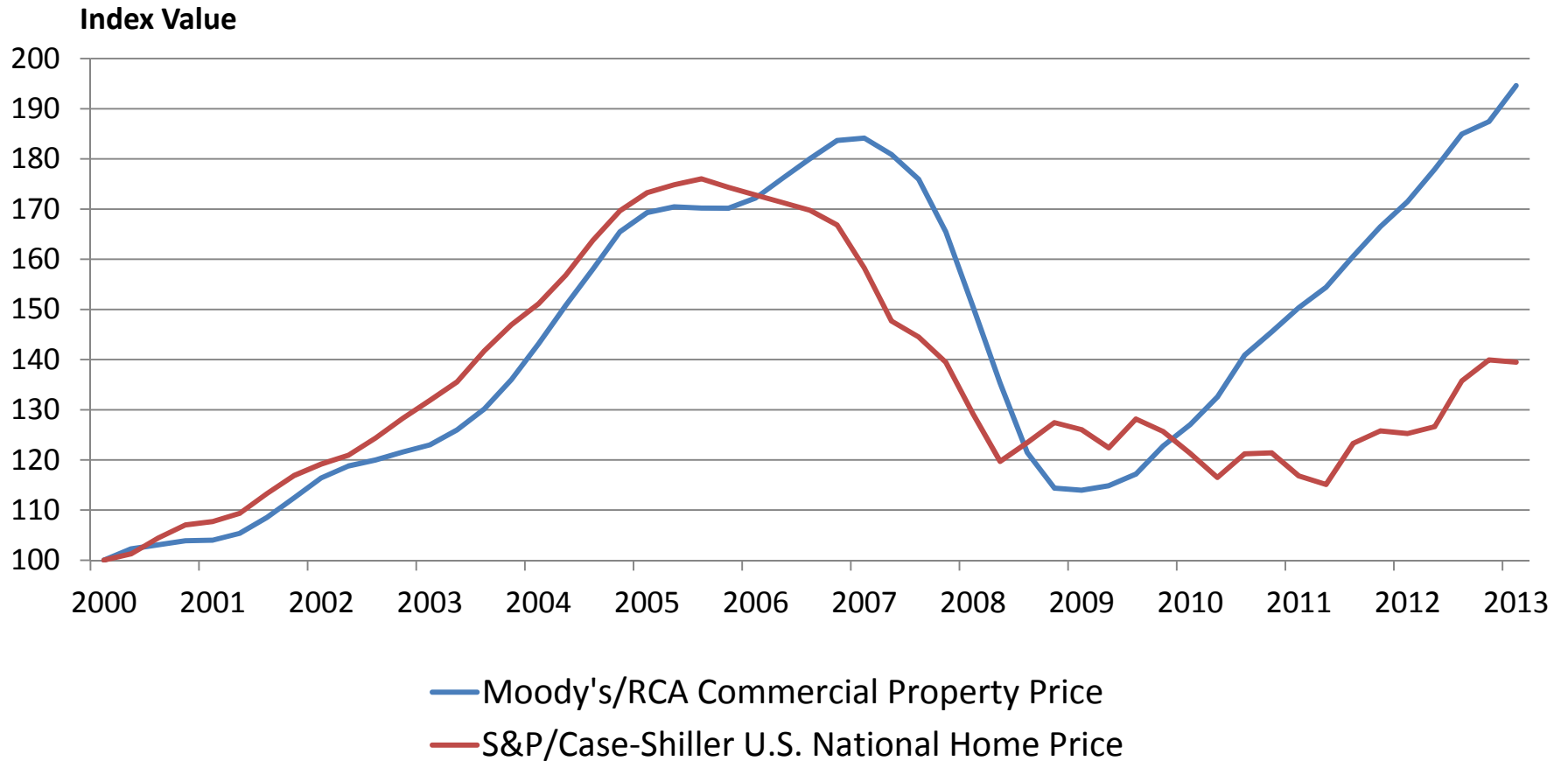
Share of Increase in 2006–12 (Percent)



Note: Other units include mobile homes, trailers, boats, recreational vehicles, and vans.

Source: Harvard Joint Center for Housing Studies, The State of the Nation’s Housing, 2014, www.jchs.harvard.edu. All rights reserved.

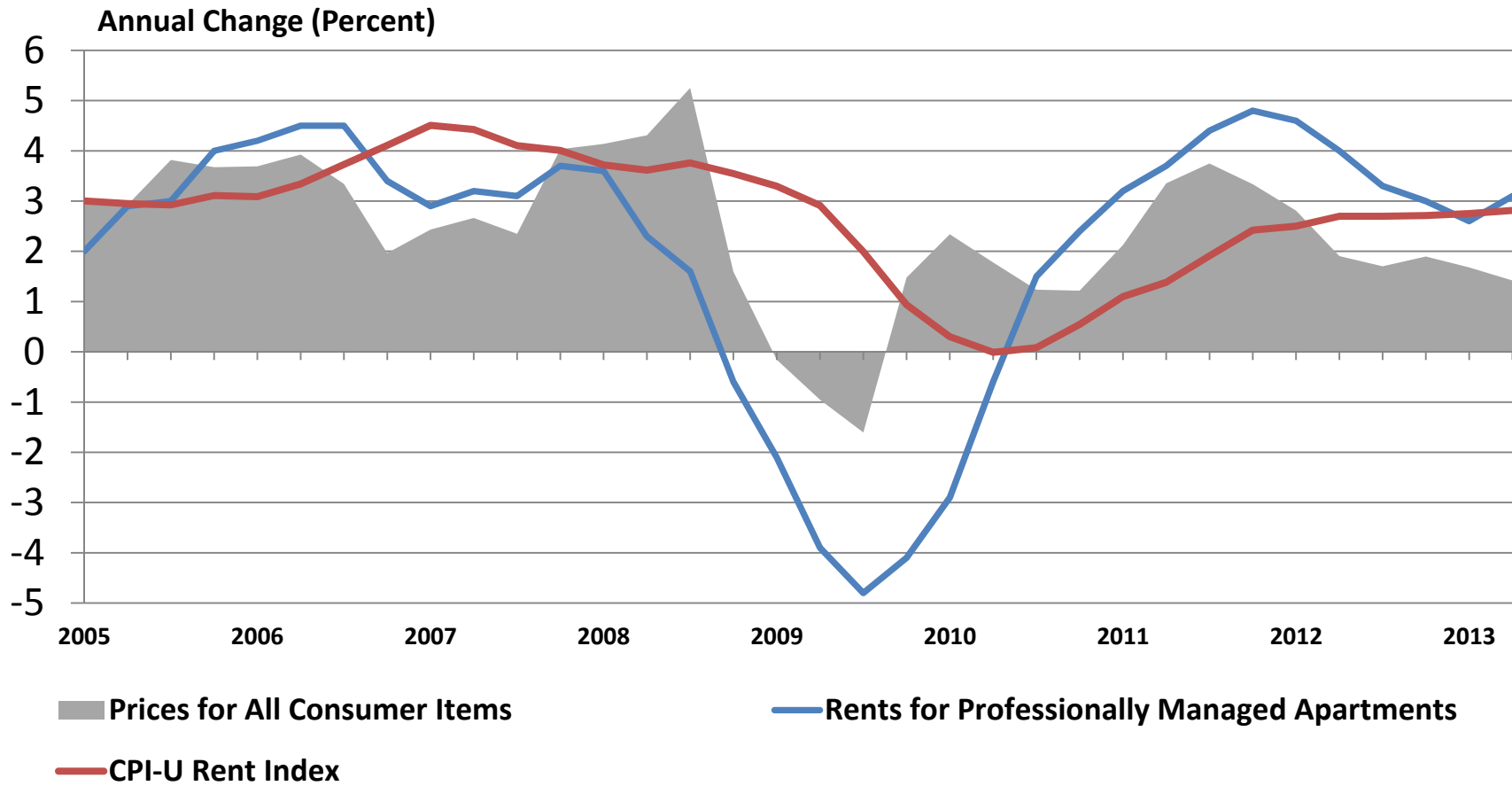
Figure 6. Prices of Apartment Properties Have Recovered Much Faster than Those of Single-Family Homes and Now Exceed Their Recent Peak



Note: S&P/Case-Shiller U.S. National Home Price Index is re-indexed to equal 100 in Q4 2000.

Source: Harvard Joint Center for Housing Studies, The State of the Nation's Housing, 2014, www.jchs.harvard.edu. All rights reserved.

Figure 7. Rent Increases Have Picked up and Now Exceed Overall Inflation



Notes: Prices for All Consumer Items is the CPI-U for All Items. Rents for professionally managed apartment communities are from MPF Research. The CPI-U Rent Index is for primary residence.
 Sources: Harvard Joint Center for Housing Studies, America’s Rental Housing, 2013, www.jchs.harvard.edu. All rights reserved.

The Roughed-Up American

- ▶ The table below represents family income over three years: 1989 is the SCF's base; 2007 is the economy's peak before the financial crisis; and 2013. All figures are adjusted for inflation and are given in "2013 constant dollars."

	Family Income	
	Median Family	Solid Middle Class
1989	\$46,500	\$73,500
2007	\$53,100	\$84,300
2013	\$46,700	\$76,400

The Great Recession hurled incomes all the way back to the late 1980s and early 1990s.

SCF: The Federal Reserve's 2013 Survey of Consumer Finances

Source: Samuelson, Robert J. "The Roughed-Up American." *The Washington Post*. 15 September 2014: A17. Print.

The Roughed-Up American (cont.)

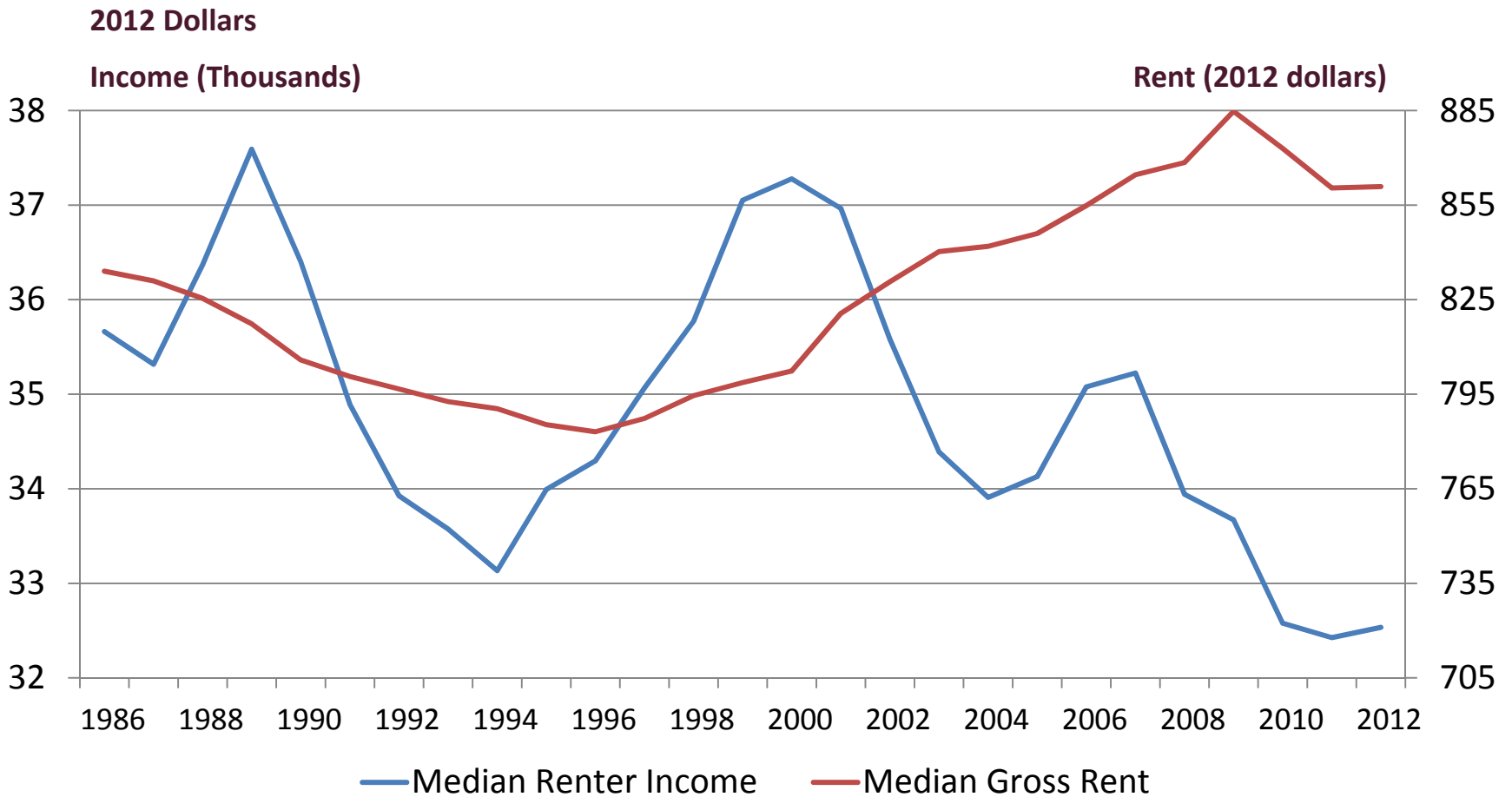
- ▶ The table below shows net worth: assets (homes, stocks, bonds, retirement savings) minus debts (mortgages, auto loans, student loans, credit card debt). The story is the same. Until 2007, net worth rose gradually. Then it crashed and fell to late 1980s or 1990s levels. Lower housing prices especially hurt.

	Net Worth	
	Median Family	Solid Middle Class
1989	\$84,800	\$120,200
2007	\$135,400	\$231,100
2013	\$81,200	\$159,200

The financial crisis and Great Recession have powerfully affected the national psyche – for the worse. We will be living with that legacy for a long time.

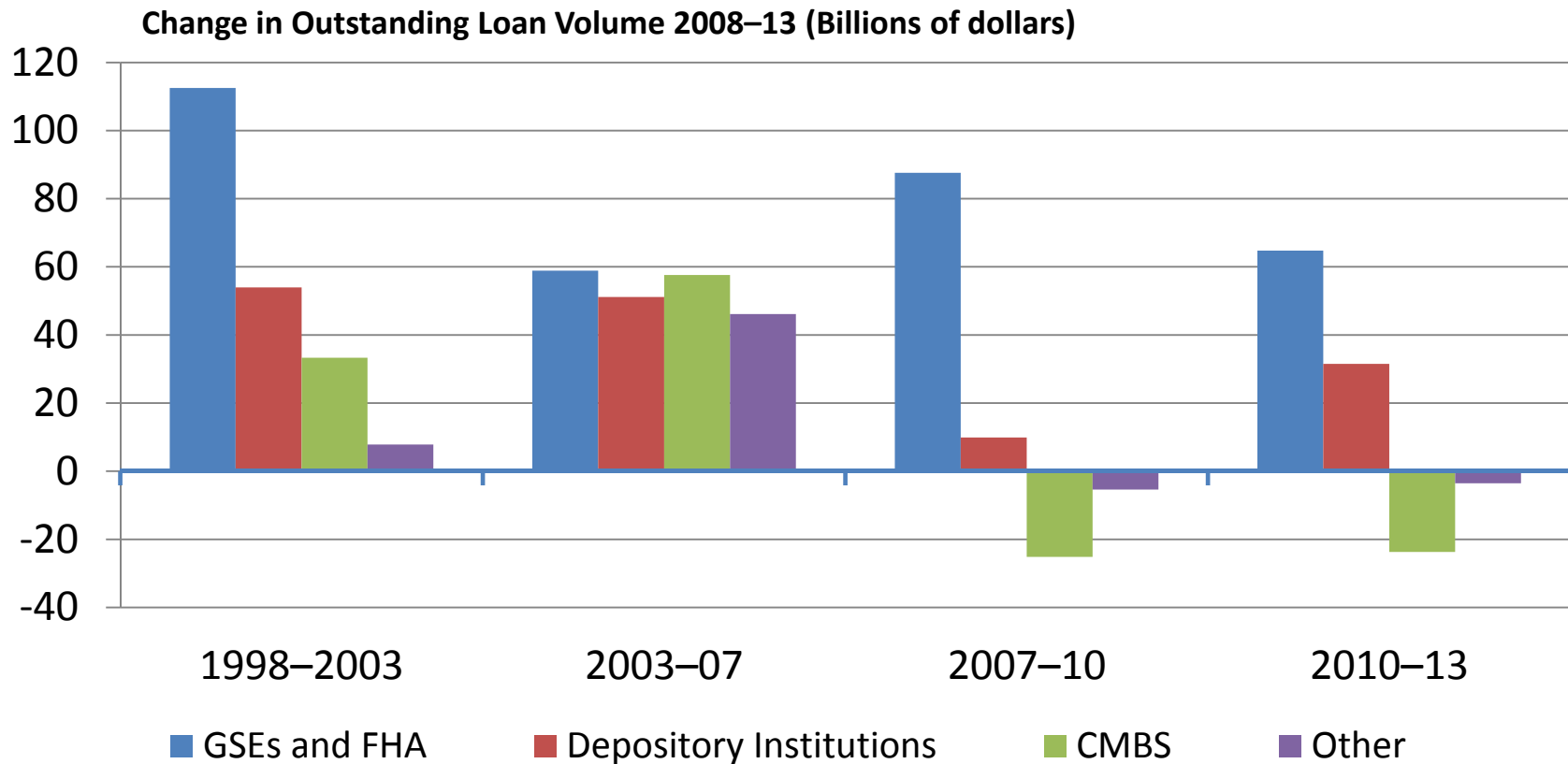
Source: Samuelson, Robert J. "The Roughed-Up American." *The Washington Post*. 15 September 2014: A17. Print.

Figure 8. Declining Incomes and Rising Rents Continue to Erode Affordability



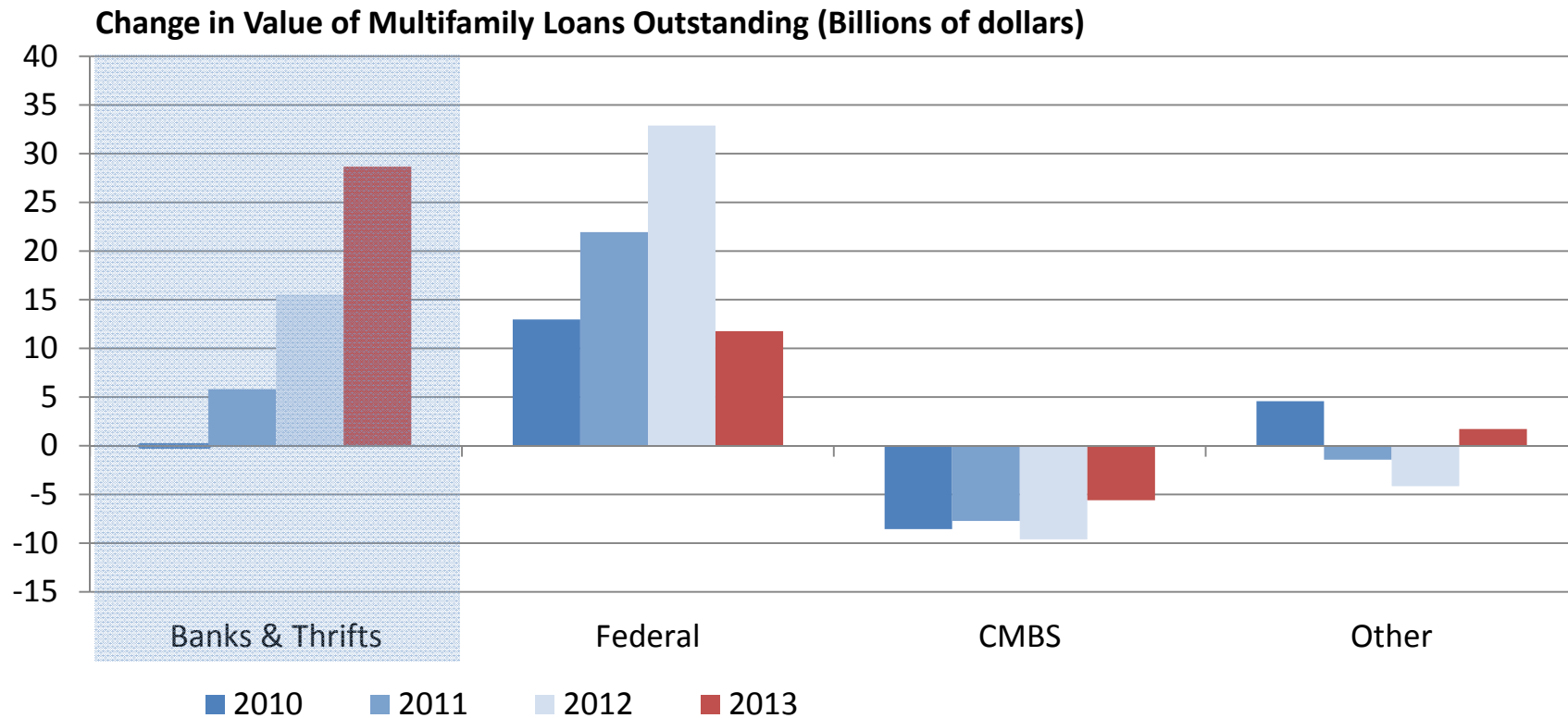
Source: Harvard Joint Center for Housing Studies, America's Rental Housing, 2013, www.jchs.harvard.edu. All rights reserved.

Figure 9. Federal Sources of Lending Have Backstopped the Rental Market Throughout the Downturn and Recovery



Notes: Data for 2013 are through the second quarter. CMBS are commercial mortgage backed securities issued by private firms. Other includes state and local governments, life insurance companies, pension funds, REITs, finance companies, and businesses. Source: Harvard Joint Center for Housing Studies, America’s Rental Housing, 2013, www.jchs.harvard.edu. All rights reserved.

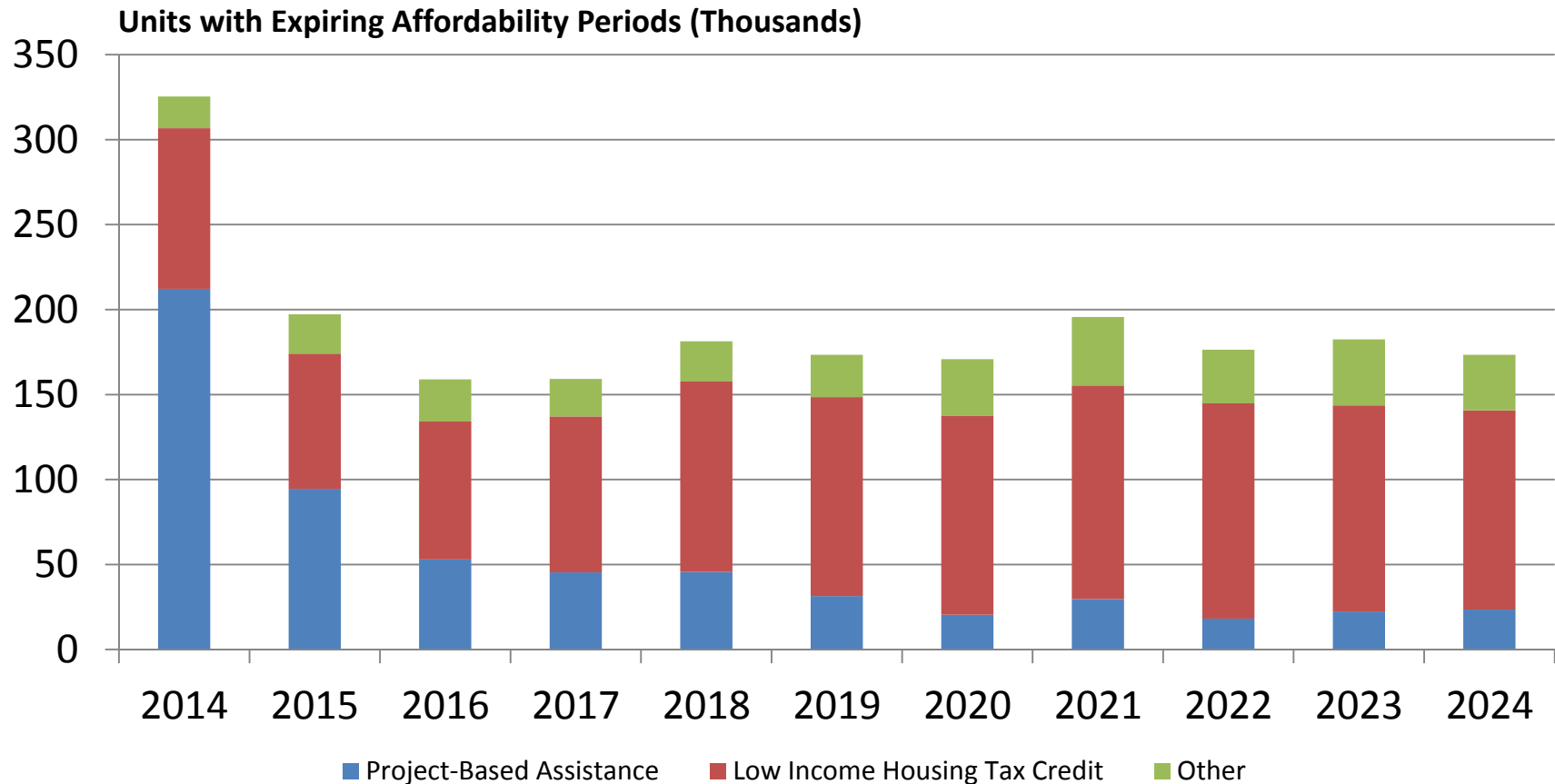
Figure 10. Multifamily Lending Activity at Banks and Thrifts Picked up Sharply in 2013



Notes: CMBS are commercial mortgage backed securities issued by private firms. Other includes state and local governments, life insurance companies, pension funds, REITs, finance companies, and businesses.

Source: Harvard Joint Center for Housing Studies, The State of the Nation’s Housing, 2014, www.jchs.harvard.edu. All rights reserved.

Figure 11. More than Two Million Assisted Rentals Are at Risk of Loss from the Affordable Stock



Notes: Other units include those with HOME Rental Assistance, FHA insurance, Section 202 Direct Loans, USDA Section 515 Rural Rental Housing Loans, USDA Section 538 Guaranteed Rural Rental Housing Program, and State Housing Finance Agency Funded Section 236.

Data include properties with active subsidies as of May 16, 2014.

Source: Harvard Joint Center for Housing Studies, The State of the Nation’s Housing, 2014, www.jchs.harvard.edu. All rights reserved.

Figure 12. The LIHTC Program Has Supported Development and Preservation of More Than Two Million Affordable Rentals

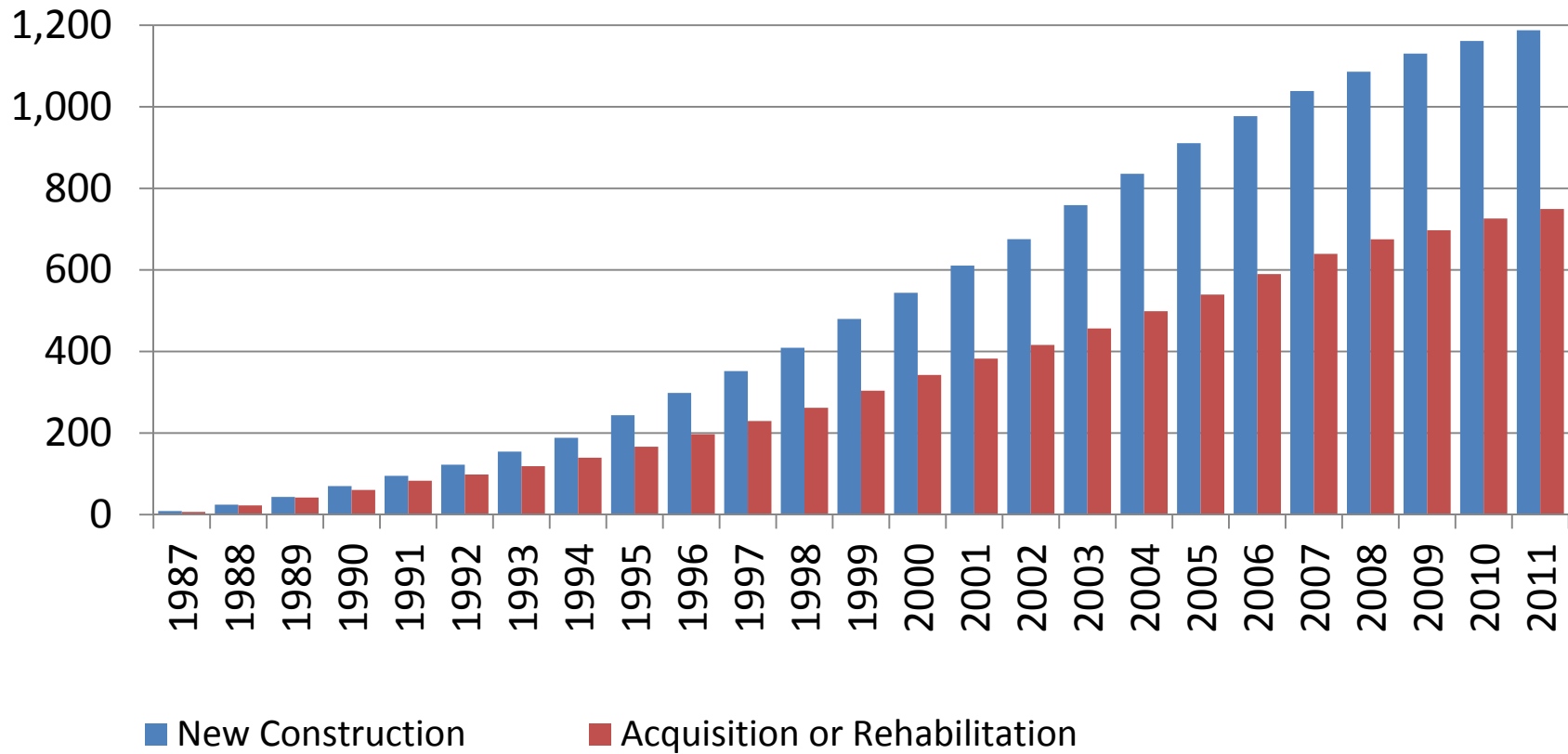
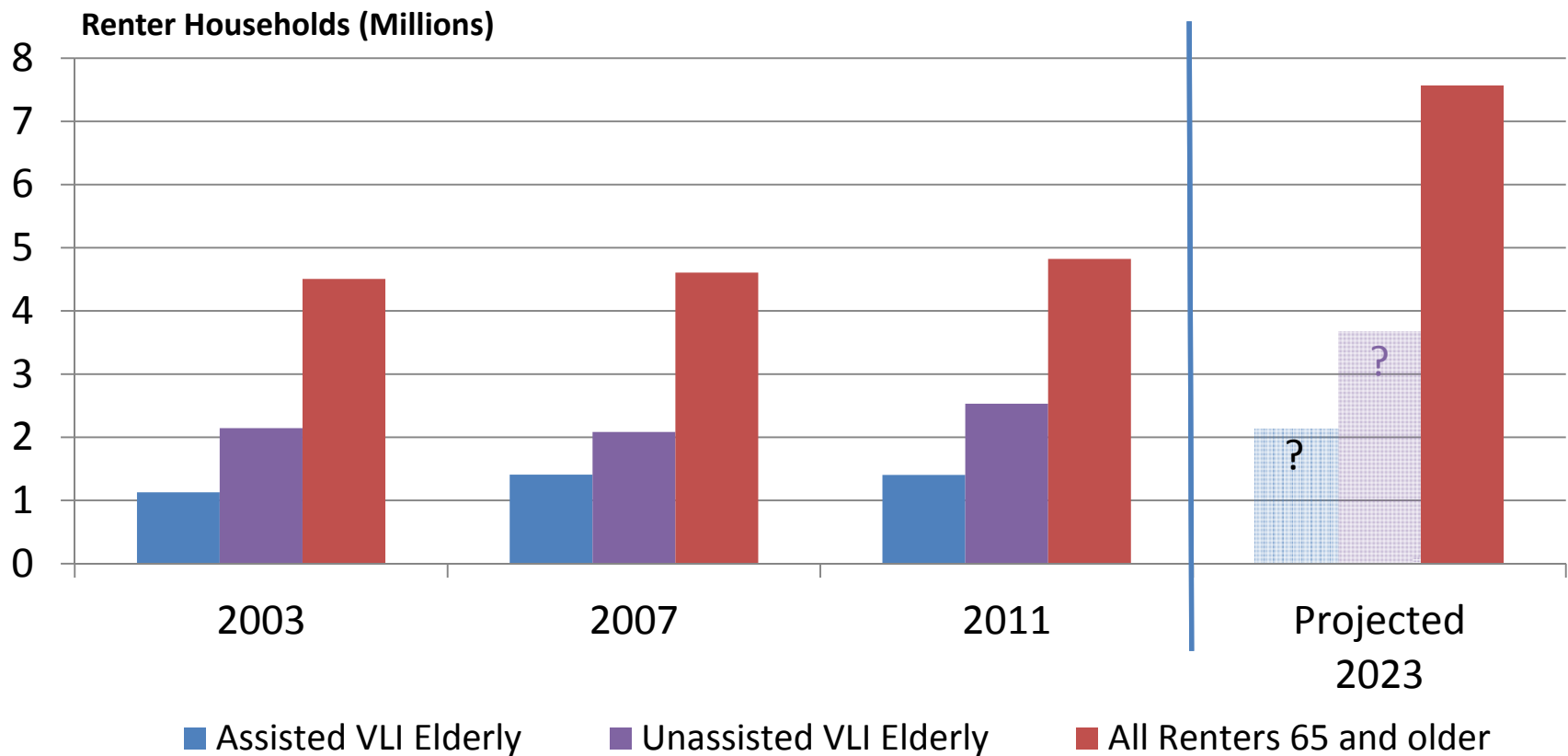
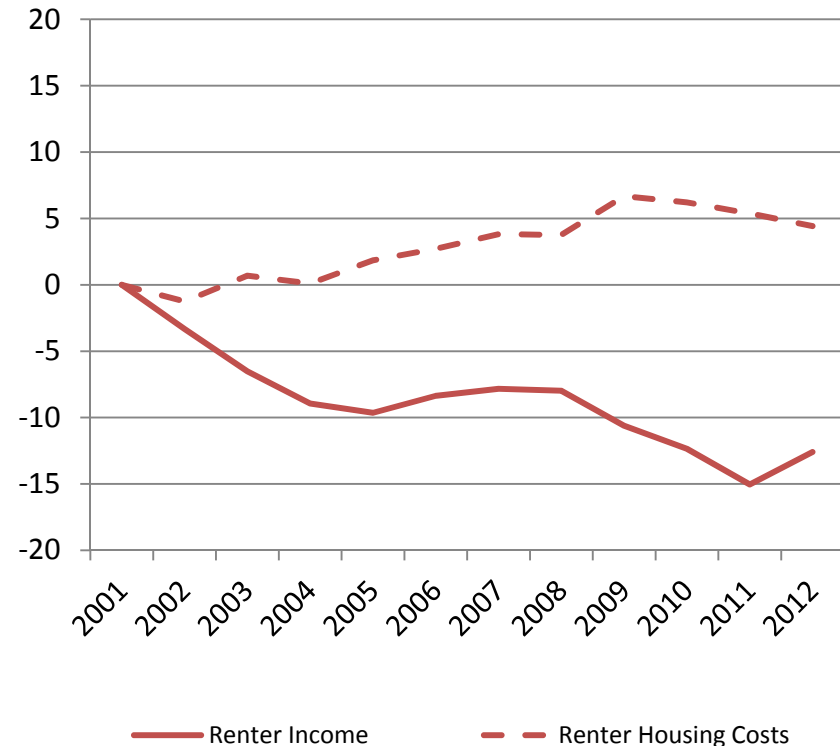
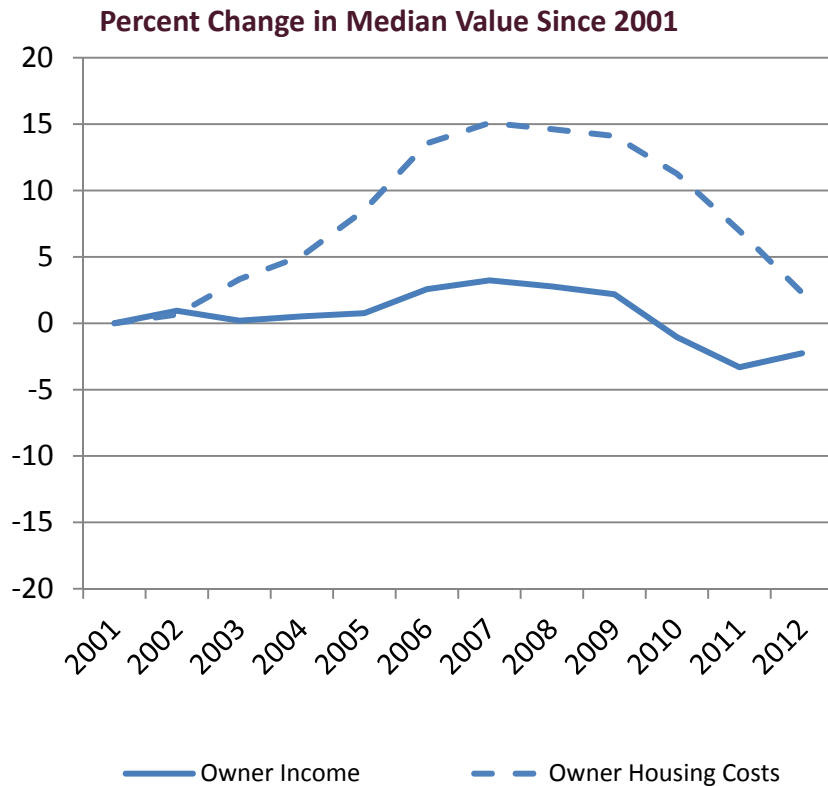


Figure 13. Rapid Growth in Senior Renters will Exert Pressure on Housing Assistance for the Elderly



Note: Elderly are age 62 and over. Very Low Income (VLI) is less than 50 percent of area median income.
 Source: Harvard Joint Center for Housing Studies, America’s Rental Housing, 2013, www.jchs.harvard.edu. All rights reserved.

Figure 14. Over the Past Decade, Homeownership Has Become More Affordable While Renting Has Not



Notes: Values are adjusted for inflation by the CPI-U for All Items. Data exclude renters paying no cash rent.
 Source: Harvard Joint Center for Housing Studies, The State of the Nation's Housing, 2014, www.jchs.harvard.edu. All rights reserved.

It's officially unaffordable to rent in almost all major cities:

Housing Wire

➤ Zillow study outlines renting's deep impact on buying

Brenda Swanson, August 21, 2014

According to the latest real estate market report from Zillow, homes remain more affordable to buy in 94 of the country's 100 largest metros compared to historic averages. On the other hand, **renting is more expensive than ever in 88 of the country's 100 largest markets.**

"The affordability of for-sale homes remains strong, which is encouraging for those buyers that can save for a down payment and capitalize on low mortgage interest rates. But **the health of the for-sale market is directly tied to the rental market, where affordability is really suffering**" said Zillow Chief Economist Stan Humphries.

This report confirms the concerns of Shaun Donovan, former Secretary of the U.S. Department of Housing and Urban Development, in March.

Since rents didn't experience the massive drop that home values witnessed during the recession, rent prices just keep climbing. Meanwhile, home values jumped 6.5% year-over-year, while national rents increased 2.8% for the same time span.

And now due to low mortgages rates and housing affordability, homeowners at the end of the second quarter only have to expect to pay 15.3% of their income to a mortgage, significantly below the pre-bubble days of 22.1%.

"As rents keep rising, along with interest rates and home values, saving for a down payment and attaining homeownership becomes that much more difficult for millions of current renters, particularly millennial renters already saddled with uncertain job prospects and enormous student debt," Humphries said.

"In order to combat this phenomenon, wages need to grow more quickly than they are, particularly for renters, and growth in home values will need to slow," he continued.

The benefits of homeownership may not outweigh renting forever. Zillow noted that mortgage rates are expected to rise in the coming year.

"When mortgage rates hit 5%, still very low by historical standards, the number of unaffordable metros for homeowners among the top 100 will more than double, to 13," the report said. **When rates hit 6%, the number of unaffordable metros will almost double again, to 24.**



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