



**DANTER
COMPANY**

Apartment Resources

A Real Estate Research Periodical

Apartment Resources is a monthly publication designed for apartment developers, lenders and builders involved in all forms of multifamily housing.

Volume 7 Number 9 September 1993

PAGE

2 Renters and Home Affordability 1991

A new government study details how many renters could not afford single-family housing in 1991: who they are, what their household composition is, and the factors that keep them from homeownership.

6 StartsWatch

The starts information that multifamily professionals need to know

7 Market at a Glance

A look at Columbus, OH MSA housing trends

Renters and Home Affordability 1991

Most renters have an uphill climb toward buying a house, according to *Who Can Buy Afford to Buy a House 1991?*, a report recently released by the US Census Bureau. According to this report, 77.9% of renters cannot afford even a low-priced home in their area using FHA financing.

Study Methodology

The study makes several important assumptions: First, prevailing interest rates and underwriting terms, including closing costs, are based on the Federal Housing Finance Board's *Monthly Interest Rate Survey*. At the time of the survey, the prevailing interest rates were 9.51% for conventional 30-year fixed-rate financing and 9.50% for FHA 30-year fixed-rate financing. For this article and the accompanying charts, conventional and FHA assume 30-year financing.

All closing and down payment costs were assumed to be due upfront without the possibility of financing. Down payments were assumed at 5.0% for conventional loans and 3.0% for the first \$25,000 and 5.0% for additional acquisition costs for FHA loans. The inability to finance upfront down payment and closing costs is important, because it precludes help from an outside source, such as a friend, family member, or inheritance. According to the 1989 *American Housing Survey*, 4.4% of first-time home buyers received the major part of their down payment as a gift or inheritance. Because there is no way to determine which individuals are likely to benefit from a gift or inheritance, the study assumes only current household assets can be applied toward the down payment.

The criterion homes were determined based on home prices by census subregion and central city, suburb, or nonmetropolitan area residence status. For example, a resident of rural Ohio would have home affordability compared to the average nonmetropolitan home price for a resident of the East North Central region.

Affordability was determined for three basic home types: a median home, a modestly-priced home, and a low-priced home. Median homes are priced at the 50th

percentile. A modestly-priced home is priced at the 25th percentile: 25% of area homes are priced below and 75% are priced above. A low-priced home is priced at the 10th percentile.

Taxes are estimated by census region based on the *American Housing Survey*.

Given that renters are more likely to purchase a starter home, we will focus primarily on modest and low-priced home data, when available. All data reflect renter households only for 1991. Since then, the economy has picked up and interest rates have dropped even lower impacting home affordability.

Affordability by Home Type

As Table 1 indicates, over three-fourths of all renters cannot afford even a low-priced home using FHA financing (which has lower down payment requirements than conventional financing). For a typical newly-constructed home, this percentage increases to 95.2%. A total of 84.9% cannot afford a modestly-priced home using FHA financing, and this increases to 87.9% using conventional financing.

Affordability by Family Status

Married couple renter families are far more likely to be able to afford a home than other types of renter households, as indicated on Table 2 on Page 3. In

Table 1

Percent of Renter Households Who Cannot Afford By Home and Financing Types		
	Conventional	FHA
Home type	Percent	Percent
Median home	91.6%	90.6%
Modestly-priced home	87.4%	84.9%
Low-priced home	82.9%	77.9%
New single-family home	95.2%	95.3%
Condominium	95.0%	94.7%

Table 2

Percent of Renter Households Who Cannot Afford a Modest Home by Household Type		
Household Type	Conventional	FHA
Families	86.9%	84.0%
Married couple families	80.3%	75.8%
With children under 18	86.6%	82.7%
No children under 18	71.7%	66.5%
Male householder, no wife present	91.6%	90.3%
With children under 18	93.1%	91.8%
No children under 18	90.4%	89.0%
Female householder, no husband present	96.6%	96.0%
With children under 18	97.6%	97.0%
No children under 18	92.8%	91.7%
Other households (nonfamily)	87.8%	85.7%
Male	89.0%	86.3%
Female	86.6%	85.1%

addition, the presence of children makes home ownership less likely. A total of 86.6% of married couple families with children cannot afford to buy a modest home using conventional financing; however, this drops to 71.7% of married couple families without children.

Single-parent renter families with a female householder are the family group least likely to be able to afford a modest home. A total of 97.0% of such households could not afford a modest home using FHA financing. This compares to male-headed single-parent renter families, where 91.8% could not afford a modest home.

For other households, the disparity between the sexes is not as large. For unrelated and single-person households headed by a man, a total of 86.3% could not afford a modest home using FHA financing, compared to 85.1% of female-headed households.

Affordability by Age

Not surprisingly, the number of persons who could afford a house increases with age. As Table 3 indicates, 95.5% of all renter households in the Under 25 age group could not afford a modestly-priced home using FHA financing, but only 66.0% of those in the 65 or older category could not. In the prime multifamily rental age of 25 to 34 (also the most likely for a first-time homebuyer to buy a home) a total of 87.1% of renters could not afford a modest home using FHA financing.

Affordability by Region

The Midwest, particularly the West North Central, was the area in which renters were more likely to be able to afford a home. In the West North Central region only 76.9% of renters could not afford an FHA-financed modest home, compared to 91.7% in the high-cost New England region. Other higher-cost regions included the Pacific (88.2%) and the South Atlantic (86.6%). (See Table 4 on Page 4.)

Maximum-priced Home Affordable

Given their existing financial circumstances, the maximum-priced home most renter households could afford was under \$20,000. Using FHA financing, only 8.2% of renters could afford a home priced over \$100,000, and only 17.6% could afford a home priced over \$50,000. (See Table 5 on Page 4.)

Table 3

Percent Who Cannot Afford Modest Home by Age of Householder and Type of Financing		
Age of householder	Conventional	FHA
Under 25 years	97.1%	95.5%
25 to 34 years	90.5%	87.1%
35 to 44 years	86.3%	82.9%
45 to 54 years	82.4%	79.9%
55 to 64 years	81.1%	79.6%
65 or older	75.9%	75.6%
Overall	87.4%	84.9%

Table 4

Percent Who Cannot Afford Modest Home By Region and Financing Type		
Region	Conventional	FHA
United States	87.4%	84.9%
Northeast	88.5%	86.6%
New England	92.0%	91.7%
Middle Atlantic	87.5%	85.1%
Midwest	83.2%	80.3%
East North Central	84.7%	82.1%
West North Central	80.3%	76.9%
South	88.1%	84.8%
South Atlantic	88.3%	86.3%
East South Central	89.3%	83.7%
West South Central	87.3%	83.0%
West	89.3%	87.7%
Mountain	88.2%	85.9%
Pacific	89.6%	88.2%

Reason Renters Cannot Afford a Home

The study determined three basic reasons why a household could not afford a home: insufficient income to afford monthly payment, a too-high debt level, and insufficient savings/assets to pay down payment and closing costs. Most renters failed the affordability test under more than one category. Using FHA financing for a modest home, 42.3% had a debt level that was too high and they could not afford the monthly payment. This indicates that a significant percentage of lower-income renter households are in significant debt. An additional 25.5% could not afford the monthly payment and had insufficient savings/assets for a down payment, which indicates that many lower-income renter households have a difficult time saving money. Overall, 55.5% had a too-high debt level, 57.0% could not afford the down payment, and 79.0% could not afford the monthly payment.

Effect of Interest Rate Changes

The study also identified the results of changing some of the variables involved in computing affordability. Table 7 on Page 5 indicates how affordability increases with a decrease in interest rates. Using FHA financing, an additional 1.3% of renter households could afford a house if interest rates were 3.0% lower, equating to roughly 630,000 renter households in 1991.

Effect of Down Payment Changes

An additional 817,000 renter households (2.1%) could afford a modest home using conventional financing if the down payment requirement were changed from 5% to no money down. Increasing the down payment to 10% from 5% using conventional financing puts housing out of reach for 479,000 renter households who otherwise could afford a home. (1.6%) (See Table 8)

Table 5

Maximum-priced Home Renter Households Currently Able to Afford				
Price Range	Conventional		FHA	
	Total (000)	Percent	Total (000)	Percent
Less than \$20,000	29730	75.5%	25854	65.7%
\$20,000 to \$29,999	1741	4.4%	2920	7.4%
\$30,000 to \$39,999	1268	3.2%	2017	5.1%
\$40,000 to \$49,999	779	2.0%	1616	4.1%
\$50,000 to \$59,999	819	2.1%	1016	2.6%
\$60,000 to \$69,999	687	1.7%	878	2.2%
\$70,000 to \$79,999	482	1.2%	601	1.5%
\$80,000 to \$89,999	580	1.5%	748	1.9%
\$90,000 to \$99,999	409	1.0%	485	1.2%
\$100,000 to \$124,999	834	2.1%	984	2.5%
\$125,000 to \$149,999	737	1.9%	1070	2.7%
\$150,000 to \$199,999	543	1.4%	565	1.4%
\$200,000 or over	752	1.9%	611	1.6%
Total	39361	100.0%	39365	100.0%

Table 6

Reason Renters Cannot Afford Modest Home		
Reason	FHA	Conventional
Debt level too high	10.0%	9.9%
Cannot afford down payment	14.6%	11.0%
Cannot afford monthly payment	7.6%	5.7%
Debt too high/can't afford payment	42.3%	46.0%
Can't afford down payment or monthly payment	25.5%	27.3%
Total	100.0%	100.0%

Conclusions

First, a substantial number of household are stuck in rental housing because they cannot afford to buy a home for a variety of reasons.

Second, given the affordability by family status, single-parent households, particularly those headed by a female, are also not likely to be able to afford a single-

family home; therefore, substantial opportunity exists for multifamily developers to target product to this group.

Third, these numbers indicate that a very high percentage of renters cannot afford modest (starter) homes. Our research into mobility patterns indicates that a substantial number of renters want homes that are of higher quality than modest homes, particularly renters in upscale multifamily developments. Renters in upscale multifamily housing are often renters by choice who prefer the lifestyle. To them, a modest home would be a significant step down in perceived quality. Even though they may be able to afford a home, they are likely not interested in one unless it has a higher quality level than a starter home.

Fourth, as interest rates continue to stay low, more renters will be able to afford single-family homes. In addition, as renters age, they are more likely to be able to afford a house as their savings increase and they receive advances in their careers, receive higher salaries, and marry at a higher rate. Should interest rates continue to stay low, it will be necessary to give renters who can afford to buy a single-family home better incentives to stay in rental housing.

Table 7

Effect of Interest Rate Changes on Modest Home Affordability		
Interest rate change	Percent of Renters Who Cannot Afford	
	Conventional	FHA
Rate 3.0% lower	86.1%	83.6%
Rate 2.0 % lower	86.5%	83.6%
Rate 1.0% lower	87.0%	84.3%
Rate 0.5% lower	87.2%	84.6%
Same rate	87.4%	84.9%
Rate 0.5% higher	87.7%	85.1%
Rate 1.0% higher	87.8%	85.5%
Rate 2.0% higher	88.2%	86.1%
Rate 3.0% higher	88.5%	86.4%

Table 8

Effect of Down Payment Requirement Changes on Modest Home Affordability		
Interest rate change	Percent of Renter Households Who Cannot Afford	
	Conventional	FHA
20% down required	90.4%	89.2%
15% down required	89.6%	88.0%
10% down required	88.6%	86.7%
7.5% down required	88.0%	85.9%
5% down required	87.4%	84.9%
2.5% down required	86.4%	84.0%
No money down	85.3%	83.1%

StartsWatch

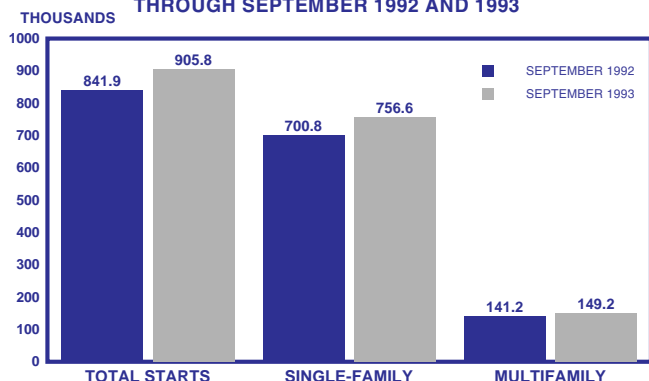
Total housing starts through September 1993 are up 7.5% from September 1992 according to StartsWatch, a tracking of housing starts as reported by the United States Census Bureau C-40 Construction Reports.

Multifamily starts through September 1993 are up 5.7% from September 1992 and single-family starts are up 8.0%. This overall increase is due entirely to a large increase (26.2%) in the South. Multifamily starts were down or steady in all other regions, which is not good news considering that 1992 was the worst year for

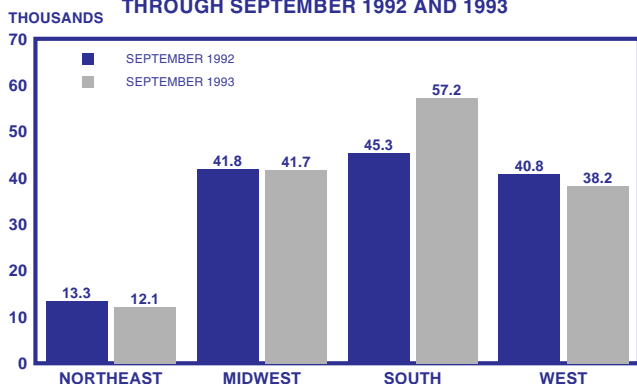
multifamily starts in the last 20 years. So far, three of the four regions do not appear to be recovering. Multifamily starts were down 0.2% in the Midwest, down 6.2% in the West, and down 9.0% in the Northeast.

Single-family starts through September 1993 are up in all regions, led by a 10.2% increase in the South. In other regions, single-family starts are up 9.3% in the West, 4.3% in the Midwest, and 4.1% in the Northeast.

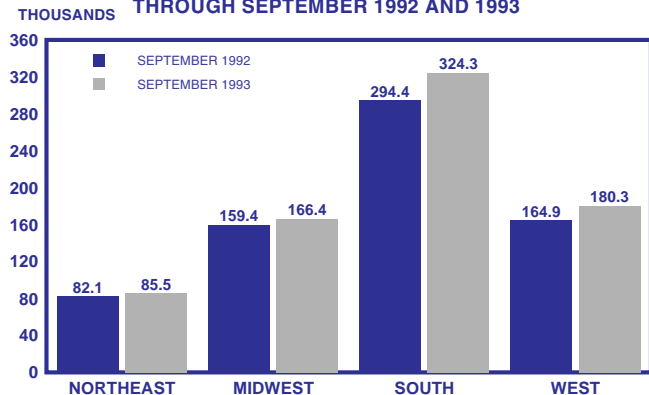
YEAR-TO-DATE HOUSING STARTS BY TYPE THROUGH SEPTEMBER 1992 AND 1993



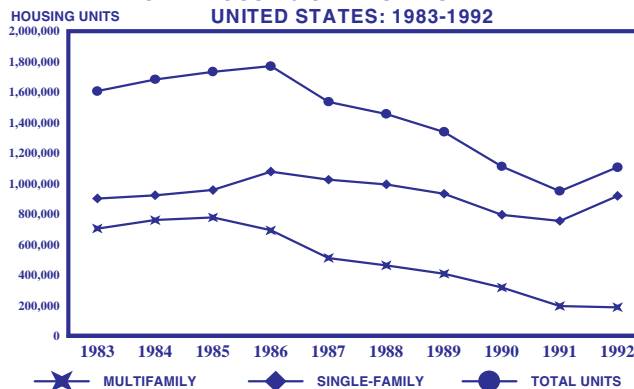
YEAR-TO-DATE MULTIFAMILY STARTS BY REGION THROUGH SEPTEMBER 1992 AND 1993



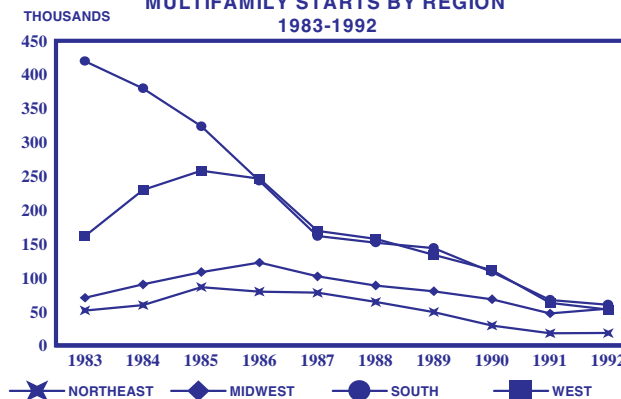
YEAR-TO-DATE SINGLE-FAMILY STARTS BY REGION THROUGH SEPTEMBER 1992 AND 1993



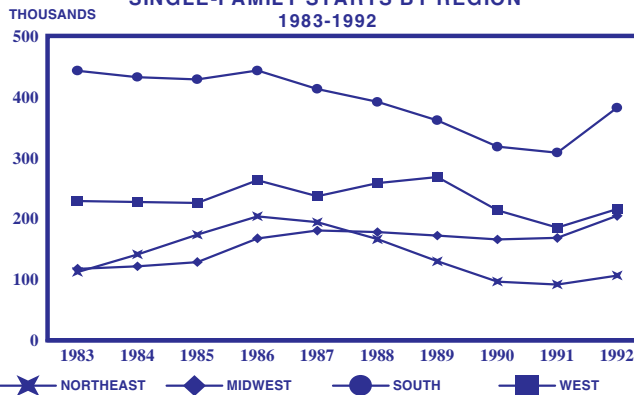
TOTAL HOUSING STARTS BY UNIT TYPE UNITED STATES: 1983-1992



MULTIFAMILY STARTS BY REGION 1983-1992



SINGLE-FAMILY STARTS BY REGION 1983-1992



Danter Company Named to "Best 100" List

The Danter Company has been named to *American Demographics'* "Best 100 Sources for Marketing Information" for 1994, our fifth year on the list.

Information and services are judged based on five criteria:

- Demographic content of the product
- Geographic scope of the information
- General availability of the information
- Experience of the company and length of existence of the product
- Level of customer service

In citing The Danter Company, two products in particular were singled out for mention. First, *The Danter Apartment Rent and Vacancy Series* was cited. This series is our ongoing attempt to create a national

data base of apartment communities with over 100 units in the Top 298 metropolitan areas.

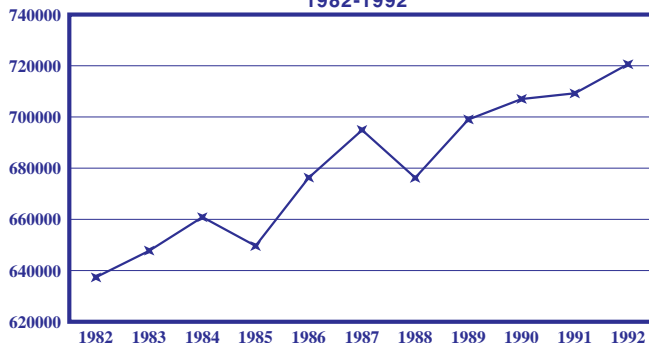
The second service mentioned was this newsletter, *Apartment Resources*, for the second straight year. We are extremely proud that experts in the information field recognize *Apartment Resources* as an outstanding source of information available nowhere else.

We know there are easier ways to do what we do. We could content ourselves with doing market studies the easy way, picking out a few comparable projects, and plugging in some demographic numbers. We do not have to spend the money to do consumer research to identify apartment shopper and tenant preferences and trends. We do it because we think it's the best way, and we are proud to be recognized for that extra effort. Give us a call at (614) 221-9096 and see what we can do to meet your real estate research needs.

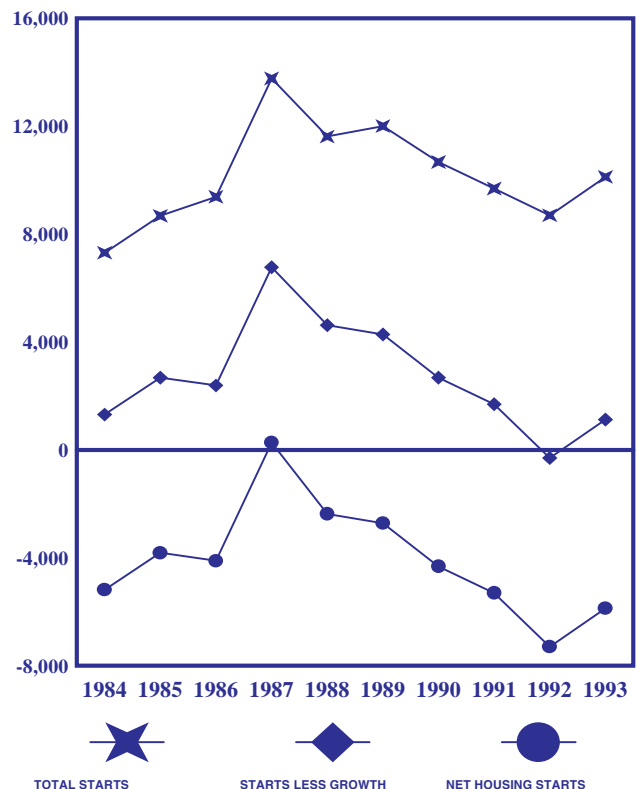
Market at a Glance

Market at a Glance is a regular feature of *Apartment Resources* that examines housing and employment trends in MSAs across the country. This month, we feature the Columbus, Ohio MSA. The employment chart below tracks historic employment trends. The Housing Demand AnalysisSM chart at right tracks housing supply (Total Starts) against housing demand from household growth (Starts Less Growth) and internal mobility (Net Housing Starts). As the chart indicates, the Columbus MSA has exhibited a net housing deficit (demand exceeds supply) for the last several years, indicating opportunity exists for housing development in Columbus.

COLUMBUS, OHIO MSA EMPLOYMENT
1982-1992



HOUSING DEMAND ANALYSIS
COLUMBUS, OH MSA: 1984-1993
HOUSING UNITS



Source: The Danter Company

News and Notes

- In case you missed the article by Kenneth Danter, President of The Danter Company, in the July issue of *Mortgage Banking*, give us a call and we will be happy to send you a copy. Issues addressed include interpreting rent and vacancy surveys and trended versus untrended rents.
- The Danter Company is pleased to announce *The Danter Apartment Rent and Vacancy Series*. Call us at 1-800-532-6837 to find out for which cities the report is available.
- Don't forget that The Danter Company is more than the best source of information on apartments. We are a full-service real estate firm that also studies condominium, single-family, golf course, motel/hotel, retail, office, industrial, congregate care/assisted-living, nursing home, resort, marina, and mobile/manufactured home development. Call us to find out how we can meet all of your real estate research needs.
- We would like to welcome members of the National Housing and Rehabilitation Association. As an official analyst for the organization, The Danter Company provides this newsletter without charge to all association members.
- Kenneth Danter, President of the Danter Company and nationally-recognized expert on real estate development and trends, is available for speaking engagements. He has addressed numerous regional and national associations and conferences and local apartment associations throughout the country on issues of importance to multifamily professionals.
- In case you missed it, "Apartment Lending After the Boom" is now available in reprint. Written by Kenneth Danter especially for *Mortgage Banking*, this article details survival strategies for the nineties that no multifamily professional should be without. Call, write, or fax us today to get your copy.
- The Danter Company has moved. Our new address is 30 Spruce Street, Columbus, OH 43215. Our phone and fax numbers remain the same: (614) 221-9096 (phone) and (614) 221-4271 (fax).

Apartment Resources is published monthly by The Danter Company-- 30 Spruce Street, Columbus, Ohio 43215. Kenneth Danter, President and Publisher, Greg Grant, Editor. Phone: (614) 221-9096; FAX (614) 221-4271. Second-class postage paid at Columbus, Ohio.

Send all address changes to 30 Spruce Street. Additional copies and back issues may be obtained by subscribers only for \$20 each by writing to the above address. Reproduction in whole or in part prohibited without written authorization by The Danter Company

30 SPRUCE STREET
COLUMBUS, OHIO 43215

BULK RATE
US POSTAGE
PAID
COLUMBUS, OH
PERMIT NO. 2836