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A PROFILE OF ELDERLY RENTERS: THE AMERICAN HOUSING SURVEY OF 1989

The rental market of the future will be much more niche-oriented than today. Multifamily professionals will need to develop, design and market their product to a target audience in order to survive. The number of young renters needing entry-level housing will continue to decline. Projects having difficulty attracting younger "traditional" renters will need to find another market, and one of the most important will be older renters.

We have used the *American Housing Survey of 1989* by the US Census Bureau, to provide a profile of elderly renters.

Of the roughly 93.7 million occupied housing units in the United States in 1989, 20.1 million (21.4%) were occupied by elderly households. Of these, 15.3 million (76.2%) were in owner-occupied units and 4.8 million (23.8%) were renters.

Over two-thirds (71.0%) of all elderly householders were in a detached or attached single-family home. Of the rest, 6.1% were in a mobile home or trailer, with 22.9% in a multiunit structure.

Elderly are less likely than nonelderly to live in a metropolitan area. A total of 73.0% of elderly households live in a Metropolitan Statistical Area (MSA), compared to 79.8% of nonelderly households.

A substantial number of elderly renters in subsidized housing are included in this survey. Unless specifically noted (as in the income section), these subsidized renters are included, as the Census Bureau does not break them out separately. Our studies show that elderly renters tend to make up around 15% of the market for modern, upscale rental housing.

Elderly Renters

Most elderly renters live in a multiunit structure, with only 19.4% in a detached single-family home and 6.7% in a single-family attached unit. Following is a distribution of elderly rental households by the number of units in the structure in which they live:

| Units in Structure | Percent of Elderly Renters |
|------------------------|----------------------------|
| 1, Detached | 19.4% |
| 1, Attached | 6.7% |
| 2 to 4 | 21.4% |
| 5 to 9 | 9.8% |
| 10 to 19 | 9.7% |
| 10 to 49 | 9.1% |
| 50 or More | 21.7% |
| Mobile Home or Trailer | 1.8% |
| Total | 100.0% |

Contrary to popular belief that elderly want only smaller units, over half of elderly renters are in units with two or more bedrooms, with 10.6% in a three-bedroom unit.

| Number of Bedrooms | Elderly Renters | Nonelderly Renters |
|--------------------|-----------------|--------------------|
| None | 5.1% | 3.4% |
| One | 44.6% | 26.4% |
| Two | 37.4% | 43.1% |
| Three | 10.6% | 21.2% |
| Four or More | 2.0% | 4.8% |
| Total | 100.0% | 100.0% |

Public transportation is likely to be much more important to elderly renters than nonelderly renters. Half (50.0%) of all elderly renters did not have a car, truck, or van available, compared to only 16.8% of nonelderly renters. It should be noted that this survey *does not* include households in institutions such as nursing homes.

Tenure

One of the key reasons that elderly renters will be important as a niche market is that *once they move* they are much more likely to stay put. *Only 13.0% of elderly renters had moved within the year prior to the survey, compared to 44.6% of nonelderly renters.* When considering the previous five years the disparity is even greater: 39.6% of elderly residents moved

compared to 80.7% of nonelderly residents. The median tenure for elderly renters was seven years, compared to between one and two years for nonelderly renters. A distribution of renters with the year they moved into their current unit follows.

| Year Moved Into Unit | Elderly Renters | Nonelderly Renters |
|----------------------|-----------------|--------------------|
| 1985 to 1989 | 39.6% | 80.7% |
| 1980 to 1984 | 20.4% | 10.9% |
| 1975 to 1979 | 14.1% | 4.5% |
| 1970 to 1974 | 8.7% | 1.8% |
| 1960 to 1969 | 9.2% | 1.4% |
| 1950 to 1959 | 4.4% | 0.4% |
| 1940 to 1949 | 2.3% | 0.1% |
| 1939 or Earlier | 1.3% | 0.1% |
| Total | 100.0% | 100.0% |

Age and Likelihood of Renting

Not surprisingly, the percentage of renters decreases with age, from 83.8% of householders under 25, to 20.0% of householders between 65 and 74. However, the figure does not drop under 20.0%, indicating that at least one in every five households in every age group are renters. A graph indicating the percentage of overall households who rent by age group can be found below:

The Neighborhood

In general, elderly renters report problems with their neighborhood at a lower rate than nonelderly renters. When asked what bothered them about their neighborhood, over two-thirds replied that they had no problems (69.2%). Only 52.9% of nonelderly renters claimed no problems in the neighborhood, as indicated in the following chart.

| Problem | Elderly Renters | Nonelderly Renters |
|------------------------------|-----------------|--------------------|
| None | 69.2% | 52.9% |
| Crime | 6.1% | 11.6% |
| Noise | 7.2% | 11.2% |
| Traffic | 4.1% | 5.3% |
| Litter/Housing Deterioration | 2.7% | 4.2% |
| People | 9.2% | 16.5% |
| Other | 5.0% | 8.8% |

Household Size

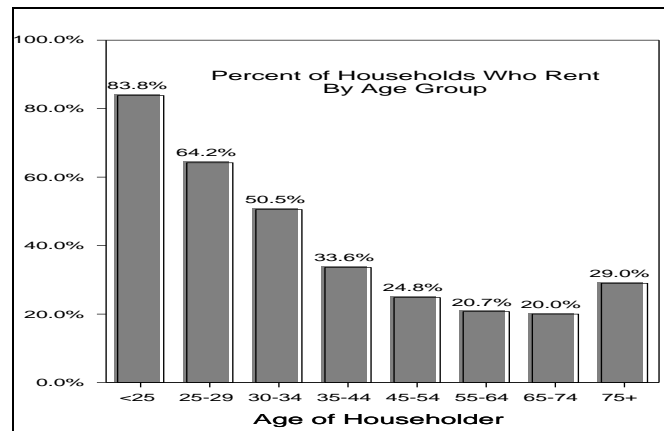
Not surprisingly, elderly renters are much more likely to be single-person households than nonelderly renters. Only 5.7% of elderly renter households had three or more members, compared to 42.6% of non-elderly renter households. A distribution of households by size for elderly and nonelderly renters is on the following page.

| Household Size | Elderly Renters | Nonelderly Renters |
|----------------|-----------------|--------------------|
| One | 68.3% | 29.5% |
| Two | 26.0% | 27.9% |
| Three | 3.6% | 27.9% |
| Four | 1.2% | 17.7% |
| Five | 0.5% | 13.7% |
| Six or More | 0.4% | 6.7% |
| Total | 100.0% | 100.0% |

Almost one-fifth of elderly renter households were married couples. A total of 12.1% of elderly renters had a relative not a spouse or child in the household. A total of 3.1% had a child under 18, 1.8% had a single adult offspring between 18 and 29, and 5.6% had a single adult offspring over 30 in the household.

Income Characteristics

A distribution of income for elderly renters indicates that the majority of renters earned less than \$15,000. A total of 29.0% of the elderly renter households were in some sort of subsidized housing, compared to 11.7% of nonelderly households. The median income for elderly renter households in *nonsubsidized* housing is less than half of that of



nonelderly renter households. A distribution of household income for renters in *nonsubsidized* housing for the year prior to the survey (1988-1989) is as follows.

| Household Income | Elderly Renters | Nonelderly Renters |
|----------------------|-----------------|--------------------|
| Less than \$5,000 | 14.8% | 7.6% |
| \$5,000 to \$9,999 | 32.5% | 10.9% |
| \$10,000 to \$14,999 | 17.4% | 13.5% |
| \$15,000 to \$19,999 | 10.0% | 13.4% |
| \$20,000 to \$24,999 | 7.9% | 12.7% |
| \$25,000 to \$29,999 | 6.9% | 11.8% |
| \$30,000 to \$39,999 | 6.0% | 14.4% |
| \$40,000 to \$49,999 | 2.4% | 7.1% |
| \$50,000 or More | 2.1% | 8.6% |
| Total | 100.0% | 100.0% |
| Median | \$10,789 | \$21,820 |

Housing Costs

In addition to income, the survey identified housing costs (rent plus basic utilities). A distribution of housing costs shows that elderly renters generally had lower housing costs than nonelderly renters. Elderly renters tend to occupy less-expensive housing units.

| Monthly Housing Costs | Percent | |
|-----------------------|-----------------|--------------------|
| | Elderly Renters | Nonelderly Renters |
| No Cash Rent | 11.0% | 5.0% |
| Less Than \$100 | 1.6% | 0.6% |
| \$100 to \$199 | 8.5% | 3.4% |
| \$200 to \$249 | 7.2% | 4.8% |
| \$250 to \$299 | 7.7% | 6.9% |
| \$300 to \$349 | 9.4% | 9.9% |
| \$350 to \$399 | 8.4% | 10.5% |
| \$400 to \$449 | 9.6% | 9.7% |
| \$450 to \$499 | 7.7% | 9.0% |
| \$500 to \$599 | 12.1% | 15.0% |
| \$600 to \$699 | 7.5% | 10.4% |
| \$700 to \$799 | 3.5% | 6.1% |
| \$800 to \$899 | 5.7% | 8.7% |
| Total | 100.0% | 100.0% |
| Median | \$408 | \$459 |

Elderly renters pay a significantly higher percentage of their household income for housing costs, as indicated in the following table:

| Housing Costs as a Percent of Income | Percent | |
|--------------------------------------|-----------------|--------------------|
| | Elderly Renters | Nonelderly Renters |
| Less than 5% | 0.4% | 0.7% |
| 5% to 9% | 1.7% | 3.8% |
| 10% to 14% | 4.5% | 10.9% |
| 15% to 19% | 5.8% | 15.3% |
| 20% to 24% | 7.8% | 15.1% |
| 25% to 29% | 8.7% | 11.2% |
| 30% to 34% | 7.4% | 8.7% |
| 35% to 39% | 6.5% | 5.6% |
| 40% to 49% | 12.8% | 7.0% |
| 50% to 59% | 8.2% | 4.1% |
| 60% to 69% | 6.9% | 2.6% |
| 70% to 99% | 9.4% | 4.0% |
| 100% or More | 8.2% | 4.6% |
| Zero or Negative Income | 0.6% | 1.3% |
| No Cash Rent | 11.0% | 5.0% |
| Total | 100.0% | 100.0% |
| Median | 41% | 26% |

Conclusions

Elderly renters should not be overlooked by multifamily professionals. While they are less likely to be renters than those in younger age groups, they have a lower turnover rate and are more likely to be satisfied with the neighborhood. In addition, they have a tendency to occupy less-expensive housing units, making them a prime, replacement, market for the declining number of entry-level households. Attracting a good elderly tenant base may be the difference between success and failure for owners and managers of less-expensive entry-level and mid-level projects (particularly those with a large number of one-bedroom units) as the number of younger twentysomething households continues to decrease.

Attracting a good elderly tenant base could be the difference between success and failure for entry-level projects, as the number of young renters declines.

A National Apartment Rent and Vacancy Report

For years, the multifamily industry has suffered from an inability to get reliable rent and vacancy information on a national and local level. As a result, the industry has hurt itself by basing critical decisions worth millions of dollars on inaccurate information.

At the national level, the industry has been forced to use US Census Bureau figures because they were the most reliable available. However, this information is based on samples, does not include only modern apartments, and generally includes only units in buildings with more than four units. (A large project consisting of fourplexes is usually not considered multifamily, regardless of the number of units in the project.)

At the local level, most information is again based on samples. Such samples may magnify problems or successes at individual projects. In addition, such surveys are not comparable across markets, with each surveying firm defining key terms like rent and vacancy differently.

The Pitfalls of Definition Differences

In addition to sampling problems, there is also the problem of differing definitions for key terms. Let's look first at "rent" and "vacancy." These are the key words used to describe market conditions, yet there is no industrywide agreement on what they mean. As a result, many million-dollar mistakes are made because market conditions are misinterpreted.

For example, rent is usually expressed as a median, but sometimes it is expressed as an average, which is considerably different. Median rent is the halfway point in a range of rents at which half of the rents will be above and half will be below. Average rent is derived by totalling rents for all units and then dividing by the number of units. Yet, despite the differences in calculation, many in the industry use "average" and "median" interchangeably. Recently we received an account listing an "average median," a usually meaningless statistic.

Besides confusion over what exactly "median" means, there are problems with its use as an analytical tool. It lacks the depth of a 100% data base. Median rent only shows an artificially contrived midpoint, which may or may not be relative to the conclusions put forth. A 100% data base indicates a distribution of units at all rent ranges, showing the state of the market at **any rent level**.

Problems also occur when increases in median rent are interpreted as increases in rents attained by existing units. Median rent is highly influenced by new construction at the high end of the market. In the December 1990 *Apartment Resources* we detailed how median rent increased by the addition of two upper-end projects **even though all other rents remained the same**. During the mid-1980s, the industry added over 600,000 units per year and saw a 4% to 6% increase in median rents with little or no real change in the marketplace. The result: projects which failed to achieve their expected rent increases and an industry, having been burned once, forcing the developer to use untrended rents, no matter how well increases in the market could be documented.

In addition, with the high percentage of new construction in the Tax Credit program, the median *may decline*, while existing rents are increasing.

Another problem is that there are several types of rent. Rents can be **gross rents** (which include utilities), **net rents** (which have been adjusted to exclude traditional tenant-paid utilities and factor in landlord-paid utilities), or **street or "contract" rents** (which are not adjusted from the rents quoted by the rental agent) or even **fair market rent** (which is neither "fair" nor "market").

Similar problems exist with vacancies. First of all, there is the question of whether the vacancy rate is a market vacancy rate or an economic vacancy rate. The **market vacancy rate** is the number of units available for rent divided by the total number of rentable units. The **economic vacancy rate** is the number of units (regardless of rentability) not generating revenue divided by the total existing number of units. The economic vacancy rate will

always be higher because it includes managers' units, model units, and units being prepared for occupancy, regardless of whether they are already rented to a new tenant. In addition, economic rates also often calculate the effects of rental incentives. Mistaking one of these rates for the other can have devastating consequences on gross revenue expectations.

Vacancies also vary depending on who you talk to. We recently received a call from a consultant asking us our "perceptions" of the vacancy rate in Columbus. After discussing the information we had based on our 100% survey, we wondered what this approach of asking for perceptions would glean in another market.

We called various sources in a market in which we had recently completed a field survey and asked for their "perceptions", with the following results:

| Source | Vacancy "Perceptions" | Rent "Perceptions" |
|-----------------------------|-----------------------|--------------------|
| Local Apartment Association | 6% to 8% | Up 3% to 4% |
| Recent newspaper article | 9% to 10% | Down |
| Recent newspaper article | Less than 5% | Up 2% to 3% |
| Local appraiser | 5% to 6% | Up slightly |
| Another appraiser | 8% to 9% | Even |
| Local owners | 4% to 11% | Up/down |

Depending on the source, vacancies varied between 4% and 11% and rents are up **and** down. This might be an interesting study in how perceptions can differ if it were not so critical : when you submit a package for funding, you don't know who **they** are going to talk to.

The Danter Apartment Rent and Vacancy Report Series is designed to solve these problems. This report is an ambitious attempt to create a new standard for apartment rent and vacancy reporting by creating a national apartment data base that includes every market-rate project with over 100 units in the top 298 MSAs in the country. The result: not only accurate local reports, but also a true national performance indicator.

In the process of working on our national data base over the last two years we have tracked a national

apartment vacancy rate specifically for modern apartments based on a sample from our data base. This rate is indicated on the graph below. Soon, we hope that our national figure will be reflective of a national 100% data base.

Features of the report series include:

- **The 100% Data Base** methodology pioneered by The Danter Company means that all the modern apartment projects with over 100 units will be surveyed in each market. In some markets the survey will include even smaller projects. No sampling errors. No gaps. Just the real story.
- **Standard definitions of rent and vacancies** for all projects insures comparability. The Danter Company uses a special computer application to adjust all rents to net rent. We also use the same definition of vacancy in every market. The result: reports that provide consistent rent and vacancy information that is comparable across all markets.
- **Top 298 MSAs.** The Danter Apartment Rent and Vacancy Report Series will be available for the top 298 MSAs, with each market being released as completed.
- **Four Report Levels** insures that the report you need is available. Reports available include the standard metro area overview, which can be supplemented by a Danter-established submarket, or a submarket that you can define. In addition, we can track data for a selected apartment community.

Give us a call at 1-800-523-6837 for the price list for available cities, and to find out when the cities you need will be available.

**National Vacancy Index 1991-1993*
The Danter Company**

