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Most Renters Don't Intend to Exit Pool for a While

By Sule Aygoren Carranza

ARLINGTON, VA-There's good news for apartment owners: 67% of those currently renting a multifamily unit have no intention of going into the homeownership market within the next year. What's more, 69% of renters plan to remain in the renter pool for as many as five more years.

That's what the National Apartment Association found in its latest survey, released last week. Conducted by Harris Interactive, the study polled 2,041 adults across the US, comprised of 1,258 homeowners and 563 renters. The data has been weighted to reflect the composition of the US adult population.

Faced with a recession and the subprime crisis, many households are choosing to remain in multifamily units, relates NAA president Douglas Culkin. That's caused apartment occupancy to reach its highest level since 1965, in the low-90% range, on average, he says. The number of rental housing units in the nation has also hit an all-time high of about 34.7 million units, or 83 million people.

"Renters are not eager to take a chance on homeownership this year. If the economy improves, that trend may abate, but, for now, people are generally staying put," he says. Indeed, half of the renters in the study plan to remain in their current unit for the next 12 months.

Among those polled, 71% said there were financial benefits to renting versus owning today. More respondents cited the financial benefits as a reason, with the percentage who believe renting is more profitable, rising from 43% last year to 48% in 2008. Among those benefits, explains Culkin, are having a fixed monthly payment and the lack of maintenance issues, upkeep, taxes and the like. "When consumer confidence is low, all of those factors become much more important."

One somewhat surprising finding, points out Culkin, is the level of consumer confidence --80% of survey respondents said the situation of the US housing market will get worse or remain the same over the next six months. "That dovetails with some of the figures I've seen, in terms of the numbers of subprime mortgages scheduled to come due this year," he relates. "So even with the package that was passed by Congress, it's not going to help everyone."

Additionally, it looks like the predictions, that the multifamily market will benefit from an influx of former homeowners, won't come to fruition. Of the homeowners who participated in the survey, 72% said they expect to remain in their current home over the next year. "A factor that probably has impacted everything," says Culkin, "is the shadow market of available housing--all of these homes that have been foreclosed on or people have walked away from. Whoever holds the paper on those will do whatever they can to have some revenue coming in, so there are a lot more homes on the rental market as a result.

"The other thing we're seeing, is as new multifamily projects are continuing to be built, it increases the supply in the market," he adds. "So even though we have more leased units than ever before, depending on how many are built, it could actually decrease the overall occupancy rates until those units are finished and leased up."

Indeed, potential oversupply is a situation that always looms above the heads of those in the apartment sector. Culkin notes that the recent upswing in building data was driven by multifamily construction, rather than single-family. However, he notes that those in the industry today are being more careful in terms of how much they build, and not repeat history. "Certainly the multifamily industry has gone through that several times, where they have overbuilt and had excess supply. As typical as has happened in the industry, they have offered concessions to get people into those buildings, and that doesn't help anybody," the executive maintains. "That is an ongoing concern and everyone in the industry is aware of what's happened in the past. I think people are doing a much better job now of trying to predict where housing is needed, and how much is needed."

Yet, the economic fallout from the housing market is beginning to hit renters, too. NAA found that 39% of the adults surveyed feel that the financial security of renters and homeowners is equally affected by the current stage of the housing market. The results of the survey, says Culkin, shines a light on the impact of the nation's push for homeownership in recent years. "Every administration pushes people to purchase homes, and certainly the subprime mortgage has stressed homeownership at any cost," he says. "Look at the consequences that resulted from that policy. This study shows that a lot of people choose to live in rental housing because they want to, not because of the economic strata they might live in."

And with the triple-hit of baby boomers selling large homes in favor of renting, echo boomers entering the pool, and the increase in immigration, the multifamily industry is heading into some favorable dynamics, he contends. "There are a number of factors, that you can logically predict, that it could prove to be a very strong market for multifamily for a number of years to come," he says.

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