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DISAPPEARING ACT

APARTMENT BUILDINGS AND RENTAL HOMES VANISH ONE BY ONE, WITH FEW REPLACEMENTS IN SIGHT

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Disappearing Act

Apartment buildings and rental homes vanish one by one, with few replacements in sight.

Source: MULTIFAMILY EXECUTIVE MAGAZINE

By Les Shaver

Imagine 2 million houses and apartments just disappearing from the American landscape. As dramatic as that sounds, that's exactly what happened between 1993 and 2003, according to the Joint Center for Housing Studies at Harvard University.

On the surface, that sounds like great news for landlords. Diminishing supply means the number of remaining rentals becomes even more limited, particularly in some areas of the country. Consequently, apartment owners can expect to see higher rents and growing revenues.

What's the problem with that? Here it is: Many of the units lost are of the affordable variety, which is often the only housing that the next wave of renters–namely, echo boomers, immigrants, and even many seniors–can afford, according to housing experts.


Brian Hubble

Serving this increasing group of renters represents a huge business opportunity for landlords, but between today's high construction and land costs, it's incredibly difficult without subsidies to build moderately priced replacement housing at reasonable costs in the cities and suburbs where the jobs, and the renters, are.

"The declining supply of the entry-level product is creating a gap where an increasing number of our citizens are being forced to pay more for housing than they can afford," notes Tom Bozzuto, president and CEO of The Bozzuto Group in Greenbelt, Md., and a longtime advocate on housing issues. "That has a whole bunch of social and economic development issues. For communities to thrive, they need a balanced housing stock."

Mixed Losses

Remember that 2 million figure from the Harvard Joint Center? On a yearly basis, that breaks down to an annual loss of 200,000 rentals a year. That's a lot of housing, and it comes in all sizes and shapes.

Some of the vanished are subsidized units. Others are market-rate. A portion of the disappeared are due to the demolition of outdated and dangerous big-city high-rises in the name of urban renewal. In other cases, viable suburban or urban apartments are being taken for other uses, such as condo conversions or higher-density residential, especially near mass transit. Or the lost property may just be an eight- or 10-unit structure in the countryside that provides much-needed affordable hometown housing to a handful of elderly renters on fixed incomes.

Not all of this housing is worth keeping. "There's nothing wrong with losing some of the housing stock we're losing because much of it is inadequate for the lifestyles of people in the twenty-first century," Bozzuto says.

But other properties–both apartments and rental single-family homes–are threatened because of mediocre maintenance, which often comes from a lack of money. "At some point, if you have a 30- or 40-year old property, you have to put money in it," says Denise Muha, executive director of the National Leased Housing Association, a Washington, D.C.-based organization that represents the private and public participants in the affordable multifamily rental housing industry. "If the funds aren't there or the will isn't there, you will eventually lose these to deterioration."

Aging isn't the only way to lose affordable stock though. For subsidized units operated under programs such as HUD's Section 236, project-based Section 8, or low-income housing tax credits in good locations, owners have the option of making their units go market-rate. According to Muha, about 250,000 units have been lost during the last eight years as owners have opted out of these affordable programs.

In hot spots, formerly subsidized rentals can even become for-sale housing. "They can now convert these to condos and make a lot more money, be completely deregulated, and be done with the property," says Vincent F. O'Donnell, vice president for preservation at Local Initiatives Support Corp., or LISC, a New York-based group that helps lineup financing to keep older housing stock on the market.

Of course, losing rental stock to condos isn't just a problem in the subsidized arena. Jack McCabe of McCabe Research and Consulting says South Florida rental inventory has plummeted from 174,995 units in 2002 to 104,714 units in 2005. Nationally, Real Capital Analytics, a New York-based firm that tracks apartment sales, reports that 200,000 rental units were bought for the purpose of conversion last year.

Losing these apartments and rental homes wouldn't hurt quite so bad if developers could build something new to replace them. But with land costs and construction costs escalating, that's next to impossible at the moment. "The best way to increase affordable housing is to go back in time and build more new stuff," says Mark Obrinsky, chief economist and vice president of research for the National Multi Housing Council. "You can't do that."

The low-income housing tax credit helps, but not enough. The 90,000 units it produces yearly covers fewer than half of the 200,000 units lost each year. "We are losing affordable housing units faster than we're creating them," O'Donnell says. "It's certainly reasonable to consider that a major problem."

A Million-Person Problem

That 110,000-apartment gap does represent a major problem to at least one million Americans. Why one million? That's the number of units renting for less than $400 monthly (in inflation-adjusted 1993 dollars) that were lost from 1993 to 2003, which turns out to be a 13 percent drop in the housing stock for that particular product segment.

RENTALS LOST

Las Vegas, Washington, D.C., and South Florida have lost a number of rentals recently to condo conversions.

Year	Washington, D.C.	Las Vegas	South Florida
2003	2,900	negligible	7,260
2004	6,500	1,390	17,106
2005	11,700	8,092	34,424
2006	900	6,812**	11,274**

* through the second quarter ** estimated

Sources: Washington, D.C.: Delta Associates; Vegas: Restepo Consulting; South Florida: McCabe Research and Consulting

Who are these people that are losing their homes? The elderly. The disabled. The financially strapped. "A significant number are working poor or people really don't have many resources at all," O'Donnell says. "They may have the same income as those in public housing."

If the housing being lost is subsidized, residents usually will receive governmental rent vouchers that generally cover 85 percent of the cost of a new rental, according to O'Donnell of LISC.

But that doesn't mean they'll find quality housing.

"We're seeing a return of overcrowding," says Nicolas Retsinas, director of Harvard University's Joint Center for Housing Studies. "We're seeing people paying a much higher percentage of their income for rent. We continue to see people trying to find rental apartments and housing to buy further and further out. All of those issues are result of a tight housing market and one with a dwindling supply of low-cost units."

They also can create new problems. "Preserving existing affordable housing is important for neighborhood stability, period," says Lisa Davis, project manager for the New Boston Fund, a Boston-based real estate investment management firm that has built and redeveloped affordable housing. "A lot of times, people have been living for a long time in the properties that are expiring. They belong to the neighborhood, and they need to stay there if they want to."

Residents who have been condo-converted out of their apartments also face the prospect of a big move as a diminishing rental supply pushes rents upward. That's what has happened to many people in South Florida, says McCabe, who reports that rental rates in the area jumped 13 percent in the first half of 2006.

Usually this would be an ideal situation for apartment owners, but Bozzuto cautions his counterparts to remember the bigger picture. Apartment firms employ many lower-cost workers–maintenance supervisors, leasing consultants, landscapers–and these employees need places to live that they can afford. "It's impossible to grow an economy that's dependent upon entry-level workers or low-wage workers if there's no housing for them," Bozzuto says.

Many think that solving such a problem will require a broad effort. "If no one steps up, it won't get better by itself," says Retsinas of the Joint Center. "The market forces will make it worse."

Preservation Strategies

The public sector does offer different solutions, both at the state and federal level. For multifamily owners considering taking their subsidized properties market-rate, the government offers a few incentives. Under the 236 program, which requires that the property stay affordable for its first 20 years, owners can refinance while keeping their 236 subsidy in place. Upon contract renewal, most project-based Section 8 owners can receive a government payment that covers the difference between market-rate rents and the rents paid by low-income residents at the property.

When such funds are combined with the property's management revenue, many owners of subsidized properties will recommit, according to O'Donnell. "If they've been in a regulated environment and protected from the market for the past 30 years, they might not really be ready for that [market-rate competition]," he says.

Apartments with modest rents and no subsidies receive no such federal benefits, although cities and counties may have their own programs to keep affordable properties in the mix. "Local governments can provide incentives by providing services, providing tax abatement, providing subsidies, or credits," says Sal LeCesse, president and CEO of LeCesse Development in Orlando, Fla.

However, saving rental units is only part of the battle. "You can only preserve so much of the stock," says David Cardwell, vice president of capital markets and technology for the National Multi Housing Council. "Some of it is not worth preserving. You have to deal with production. That's a big-dollar issue. I don't know what the politicians are going to do. At some point, they must address production."

Until that happens, though, multifamily owners and developers are looking at a business opportunity all their own. "Throughout the country there are older apartments and older homes in need of repair," Bozzuto says. "The opportunity to purchase those and make the improvements that are necessary is available to the industry."

Local Leaders

Cities and states preserve affordable rentals.

In the absence of significant government spending on housing, cities and states have taken a stronger role in preserving their own housing stock. Here are a few examples of their efforts:

- New York City: In an older program, the Big Apple offers tax abatement to keep owners investing in an asset. "If landlords maintain rent control, they'll give them a tax break," says David Cardwell, vice president of capital markets and technology for the National Multi Housing Council.
- Fairfax County, Va.: This locality is so committed to maintaining affordable stock that it will personally foot the bill for housing it deems essential. "They have bought up apartments to keep them affordable," says Denise Muha, executive director of the National Leased Housing Association.
- Illinois and Rhode Island: These states require owners to notify local government before deregulation, "Notice creates a little more time for everyone to talk," says Vincent F. O'Donnell, vice president for preservation of Local Initiatives Support Corp. The group, also known as LISC, helps arrange financing that will keep properties. "It gives someone time to put together a better deal and stop the train for three to six months."

Going, Going, Gone

From 1993 to 2003, the same type of properties kept disappearing from the apartment and single-family rental market: at-risk and inadequate housing. Here are the statistics on housing units that were rentals in 1993, but had been lost by 2003, according to the Harvard Joint Center for Housing Studies.

- Percentage of all apartment and single-family rental units lost: 6.3
- Percentage of one- to four-unit structures lost: 8.1
- Percentage of structures built between 1960 lost: 9.2
- Percentage of one- to four-unit structures that were built before 1960 lost: 9.5
- Percentage of at-risk units lost: 12.4
- Percentage of at-risk and inadequate units lost: 20.2


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