The Changing Demography of Multifamily Rental Housing

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Abstract

The residents of multifamily rental housing are different from both homeowners and single-family home renters, and these differences have implications for the housing market and for public policy. This article describes apartment residents today, discusses recent changes in their number and characteristics, projects their future growth and composition, and highlights business and policy implications of future changes.

For purposes of business and public policy, a segmentation of apartment residents into three submarkets is useful: the "affordable" market serving low- and moderate-income households, some of which receive government housing assistance; the "lifestyle apartment market" serving higher-income adult households; and the substantial "middle market." The number of apartment renters is likely to grow moderately over time. The combination of multifamily structure type and rental tenure form offers unique opportunities not only for provision of affordable housing but also for revitalization of downtown areas and balanced "smart" growth in suburban areas.

Keywords: Demographics; Multifamily; Rental housing

Introduction

The choice by consumers to own or rent their housing is a well-traveled path of inquiry for housing market analysts and policy wonks. Differences between owners and renters, the decision to own or to rent, and the consequences of this choice have all been investigated in a large number of studies. Time trends and interpretations are available in a number of recent studies, including Joint Center for Housing Studies (1998), Gyourko and Linneman (1993), and DiPasquale and Glaeser (1998).

Housing choices by consumers are not, however, one-dimensional. In selecting their housing, individuals and families pick not only a tenure form—ownership or rental—but also a structure type. All four major combinations of tenure (owning or renting) and structure (single family or multifamily) are widely available in most metropolitan housing markets. For purposes of market analysis as well as for public policy issues, the choice between multifamily or single-family housing is no less important than the split between owning and renting. There has been little systematic analysis of the choice of structure type and even less examination of the combined choice of structure and tenure.

Multifamily rental housing is the second most prevalent combination of tenure and structure, following only single-family homeownership. The purposes of this article are to describe apartment residents today, discuss how they have changed recently in number and characteristics, explain how apartment renters may evolve in the future, and highlight some of the business and policy implications of future changes.

Overview of today's apartment residents

Apartment renters account for 15 percent of all U.S. households by a narrow definition that restricts the count to residences in structures with at least five apartments (figure 1).[1] By a broader measure that includes structures with two to four apartments, the national percentage increases to 22 percent.[2] This article employs the narrower definition. Renters of apartments in larger buildings are different not only from single-family renters but also from renters of housing in smaller, two- to four-unit structures (who tend to have characteristics intermediate between those of single-family renters and apartment renters). Ownership, financing, and locations of these different property types also are distinct, which provides additional reasons for looking at large and small buildings separately.[3]

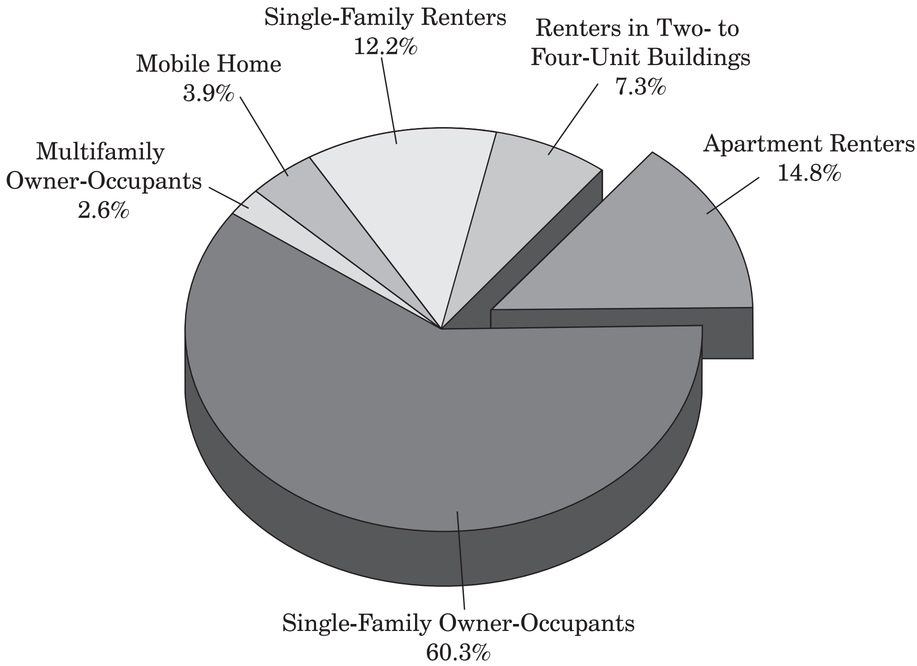
Like other housing types, multifamily rental housing offers consumers a unique package of housing attributes. Specifically, apartments can provide a combination of physical features, location, and afford-

[1] Unless otherwise indicated, all statistics in this article are the author's tabulations of data from the March 1997 Current Population Survey (U.S. Bureau of the Census 1997b), as enhanced by Census Bureau staff to permit apartment renters to be accurately identified in the public use microdata file.

[2] Town houses are defined by the Census Bureau and in this article as single-family attached housing. Although the official definition is more complicated, as a rule of thumb, attached housing units are classified as multifamily if they share a furnace or boiler; otherwise, they are considered to be single-family units.

[3] Most rental apartments are in rental buildings, but approximately 10 percent of all renter-occupied apartments are in condominium buildings, according to residents surveyed in the 1995 American Housing Survey (U.S. Bureau of the Census 1997a).

Figure 1. **Who Lives in What?**



Source: U.S. Bureau of the Census (1997b).

ability not obtainable in single-family rental structures or owner-occupied housing of any structure type. These features largely determine the demographic composition of apartment residents.

The characteristics of, and outlook for, apartment residents have not received much attention from housing researchers. One reason is that finding accurate national statistics about them is difficult. Printed reports and Web sites from government agencies, private groups, and academics are full of information on owners and renters, but researchers have to dig for separate information on multifamily renters and typically generate the statistics from basic data. One purpose of this article is simply to provide baseline information on apartment renters.

Diversity throughout

It is useful in describing apartment renters to compare and contrast them with two other groups. The first is other renters, that is, renters in structures with one to four housing units. The second comparison group is all homeowners, regardless of structure type.

Most observers know that apartment renters, relative especially to homeowners, tend to be younger, of smaller household size, with more moderate incomes, and more ethnically diverse. But those same observers would probably be surprised by the diversity among apartment renters. Description of the average apartment renter masks the fact that the full range of demographic and socioeconomic characteristics is represented among apartment residents, as shown in figure 2 and table 1.

Rental apartments provide a home for many young adults. Nearly one-third of all apartments are rented by someone under the age of 30. But apartments also house many seniors, especially as a share of all senior renters.

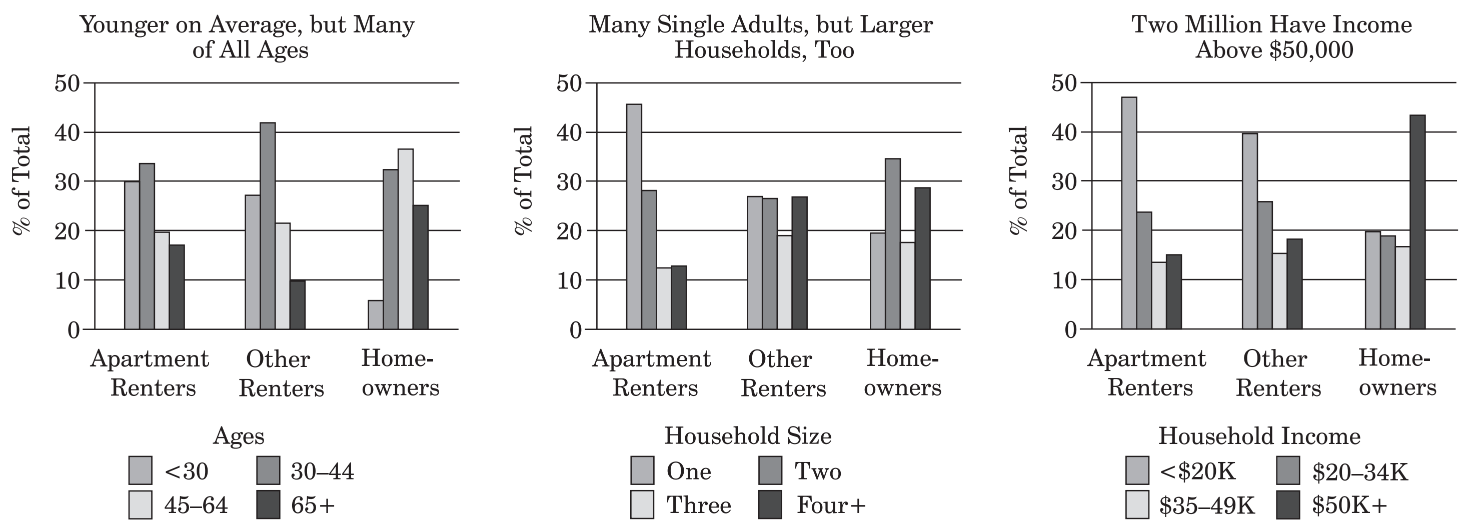
Household size is the demographic trait that most distinguishes apartment residents from others. Singles represent nearly half of all apartment households. Single women who live alone account for over half of this group and 26 percent of all apartment households, making them the single largest household type in apartment housing. At the same time, nearly one-quarter of all apartments are occupied by families with more than two members. Unrelated roommates account for another 14 percent of all occupied apartments.

Although apartments provide affordable housing to 7 million households with incomes below $20,000, apartments also house 2 million households with incomes above $50,000. Fully 30 percent of all apartment residents have incomes above the national median.

The locations of apartment residents also differ from the population averages (table 2). Apartment households represent the largest share of all households in the Northeast and West and in central cities, although their share is increasing in suburbs and even outside of metropolitan areas. In addition, apartment residents are found disproportionately in the largest metropolitan areas. The New York metro area (primary metropolitan statistical area definition) ranks first by number of apartments, accounting for 10 percent of the U.S. total; adding the next two metropolitan markets, Los Angeles and Chicago, brings the total to 20 percent. By comparison, these three metro areas account for only 10 percent of the nation's population (National Multi Housing Council 1998).

The demographics of apartment residents align to some extent with the location and design of their apartment communities (table 3). Compared with residents of suburban garden apartments, renters in high-rise buildings in central cities tend to be older, have fewer

Figure 2. **Characteristics of Apartment Renters and Others, 1997**



Source: U.S. Bureau of the Census (1997b).

Table 1. **Changes in the Characteristics of Apartment Renters and All Households, 1987 to 1997**

	All Households		Apartment Households	
	1987	1997	1987	1997
Age of householder				
Median	45	46	36	37
Mean	48	48	43	43
% <30	16	14	33	30
% 65+	21	20	18	16
Household size				
Mean	2.6	2.6	1.9	2.0
% 1 person	24	25	48	46
% 4+ persons	11	10	4	5
Household income ($)				
Mean	31,141	47,110	20,823	29,603
Median	24,000	35,172	17,000	21,000
Constant 1987 $				
Mean	31,141	33,411	20,823	20,994
Median	24,000	24,944	17,000	14,893
Race				
White	86.0	84.2	75.6	72.7
African American	11.3	12.0	18.7	20.6
Other	2.7	3.8	5.8	6.7
Hispanic origin (%)				
Yes	6.2	8.1	11.5	14.9
No	93.9	91.0	88.6	84.2

Source: U.S. Bureau of the Census (1997a, 1997b).
Note: Apartment households are defined as those renting a unit in a structure with at least five apartments.

residents per apartment, and earn slightly less income, and they are more racially and ethnically diverse.

Apartment residents are mobile. Of all apartment renters in 1997, 34 percent reported moving in the previous year, compared with 32 percent among other renters and 6 percent among homeowners. Much of the mobility of apartment residents is associated with their age: Fifty-three percent of apartment householders age 30 and younger moved in the previous year. Indeed, many households choose rental apartment housing because they anticipate moving within the next year or two, and this choice offers relatively low transaction costs both at moving in and at departure.

Some households choose multifamily rental housing on a temporary basis, but for others apartments are a more long-term selection. Approximately 15 percent of all households that move into an apartment stay there for at least four years (National Multi Housing Council 1997). For perhaps 10 to 15 percent of the U.S. population,

Table 2. **Apartment Households as a Share of All Households (%)**

Region		Metropolitan Area	
Northeast	18.9	Central city	27.4
Midwest	11.9	Suburbs	12.4
South	12.3	Nonmetro	6.0
West	18.6		

Source: Regional estimates are from U.S. Bureau of the Census (1997b); metropolitan statistics are from U.S. Bureau of the Census (1997a).
Note: Apartment households are defined as those renting a unit in a structure with at least five apartments.

Table 3. **Demographics by Apartment Location and Type**

	Central-City High-Rise	Suburban Garden Apartment
Age of householder (median)	46	32
Household size (mean)	1.8	2.0
Household income (median, $)	20,320	23,960
Race (% distribution)		
White	59	81
African American	26	10
Other	15	9
Ethnicity (% distribution)		
Hispanic	17	11
Non-Hispanic	83	89

Source: U.S. Bureau of the Census (1997a).
Note: "Central-city high-rise" refers to buildings of four or more stories located in the central city of a metropolitan area. "Suburban garden" refers to all apartments in buildings with fewer than four stories in a metro area's suburban ring.

apartments or other rental housing will be their home for their entire lives (Berkovec and Zorn 1996). Lifelong renters may move from place to place, but they always remain part of the rental housing market.

The mobility of residents needs to be contrasted with changes in the resident profiles of apartment communities (Downs 1997). Properties can experience high turnover but little net change in the types of individual and family residents. For many business and policy purposes, stability in the composition of the residents of an apartment property and neighborhood is more important than retention of the same residents over time.

Recent immigrants to the United States are an important segment of the apartment market in some parts of the country. Approximately 3 percent of all households report that they have lived in the United States for less than 10 years. Among apartment residents, the figure is a significantly higher 9 percent. Of the larger states, in California 14 percent of all apartment residents have moved to the United States within the past 10 years, and in New York recent immigrants constitute 12 percent of the market. By contrast, in Pennsylvania recent immigrants account for only 3 percent of apartment renters, and in Ohio the figure is 6 percent. Although some recent immigrants residing in apartments have low incomes, as a group recent immigrants in apartments have a median household income of $21,484, slightly above the median for all apartment renters. The importance of immigrants to the apartment market varies widely from place to place, reflecting differences in destination choice among immigrants.

Changes over the past 10 years

Changes in the composition of U.S. apartment renters over the past 10 years have in general tracked with those of the total population (table 1). The typical apartment renter today is slightly more likely to be middle aged than in 1987. The average size of apartment households is little changed, and their incomes have risen, although by less than for the population overall. Changes in the racial composition and ethnicity of apartment residents have also been in line with the national trends.

The percentage of the U.S. population that rents apartments has been remarkably stable. In 1987 the figure was 14.7 percent; in 1997 it was 14.8 percent. The increase in homeownership in the last year may have reduced the apartment share fractionally, but it still probably rounds to 15 percent.

Today's three markets of multifamily rental housing

The diversity of apartment renters has been recognized by some policy analysts and industry professionals, who have used a variety of techniques for disaggregating the population. One creative approach was adopted by Varady and Lipman (1994), who used a national survey and multivariate statistical methods to disaggregate and categorize all renters, including single-family renters, into six market clusters: families moving up the housing ladder, lifestyle renters, recent college graduates, black renters, elderly life-cycle renters, and struggling blue-collar workers. Clearly many individuals and families fall into more than one of these categories, but the clusters are broadly consistent with intuition.

The market disaggregation approach is pursued even further by some large apartment companies. Apartment owners, like other businesses, market to niches, and sophisticated businesses find sophisticated ways of matching their product with the customer. For example, Equity Residential Properties Trust, owner of more than 140,000 apartments nationwide, commissions detailed demographic studies of the customer base in local markets that it serves or is considering entering. Proprietary data products, developed from a base of detailed demographic data from the decennial U.S. Census of Population and Housing, have become increasingly sophisticated tools for target marketing of apartments, just as they have for other goods and services (Lang, Hughes, and Danielsen 1997).

This article offers another method for disaggregating the nation's 15 million households that reside in rental apartment homes. It partitions the apartment market into three segments that have distinct implications for both business and public policy. The first of these segments is composed of apartments serving low- and moderate-income households, some of which receive housing assistance. This segment receives the most attention, certainly in housing policy discussions in Washington, DC, and elsewhere. For shorthand, and in keeping with common usage, I will call this the "affordable" market, even though that is something of a misnomer because housing is definitely not affordable for many of these households. A second segment of the apartment market, serving households at the top end of the income distribution, intrigues multifamily developers, is already of substantial size, and has the potential to grow in coming years. This is the luxury market, serving the lifestyle renter. Both the affordable and the luxury markets get their share of attention from researchers, policy and business analysts, and the media. But many residents of multifamily rental housing are neither low income nor affluent lifestylers; they are somewhere in between. This middle market is substantial but easily the least publicized of the three markets for multifamily rental housing.

One way of calibrating and sizing these three markets is to look at apartment renters' incomes and rent-paying ability relative to actual rents in their local markets. From a business perspective, this makes sense as a way of determining the size of market segments. Also, from a policy perspective, it holds some appeal as a way of determining housing affordability, which is typically determined by looking at incomes relative to area averages. This standard approach has the drawbacks of being sensitive to the distribution of incomes and the relative wealth of the local (typically metropolitan) market and of not considering local differences in housing costs.

Apartment renters are widely distributed by their rent-paying ability relative to local rents. In table 4, all apartment renters are distributed by the ratio of their income to the local U.S. Department of Housing and Urban Development (HUD)–determined fair market rent (FMR) for households of that size in that local market.[4] Clearly the households reporting less income than the required rent for a household its size are in an untenable situation. At the other end of the distribution, 26 percent of all apartment renters have incomes at least six times the FMR in their metropolitan area.

Table 4. **Apartment Households by Ratio of Income to Fair Market Rent, 1996**

Income/FMR	Apartment Households (% of total)
<1.0	12.4
1.0–1.9	18.1
2.0–2.9	13.6
3.0–3.9	12.6
4.0–4.9	9.2
5.0–5.9	8.1
6.0–6.9	6.1
7.0–8.9	8.6
9.0–10.9	4.3
11.0+	7.0
Total	100.0

Source: Author's calculations based on data from U.S. Bureau of the Census (1997b) and HUD fair market rents for metropolitan areas in 1996 (HUD 1998).

The affordable market

One way of sizing the affordable apartment market is to calculate it as the percentage of apartment renters who cannot afford to pay the market rent in their local area. How much people can afford to pay is a subject of long and continuing debate; many of these issues are discussed in Nelson (1994). While recognizing the complexity of

[4] Fair market rents are estimated annually by HUD for each of the nation's metropolitan areas and each nonmetropolitan county. The current definition of FMR is the rent (including all utilities except telephone) for the 40th-percentile rental housing unit of standard quality, that is, the dollar amount below which 40 percent of these units are rented. The 40th-percentile rent is drawn from the distribution of rents of all units occupied by recent movers (renter households who moved to their present residence within the past 15 months). Public housing units and units less than two years old are excluded. FMRs are adjusted for number of bedrooms. The tabulations in table 4 assign the average of the FMRs for efficiencies and one-bedroom units to one-person households and for larger households assume two persons per bedroom. The estimates are for apartment residents in metropolitan areas, 91 percent of all apartment residents.

this determination, the analysis here will use the measure—30 percent of household income—currently being used in federal housing programs.

Just under half of all apartment renters need to spend more than 30 percent of their income to secure housing of the quality represented by the FMR for their area. As shown in table 5, those served in the affordable market tend to be older and are more likely to have children than other apartment households, although the large number of one-person households keeps the average near the all-apartment average. They are slightly more likely than other apartment residents to be nonwhite or Hispanic and are slightly less mobile than other apartment residents.

Included in the affordable apartment market are households that receive housing assistance through one of the federal government's main rental assistance programs: public housing, resident-based Section 8, or project-based assistance through Section 8 or other smaller programs. Approximately 19 percent of all apartment renters (defined as those living in buildings with five or more units) participated in one of these programs as of 1993 (McGough 1997). The 749,000 units of public housing (in structures with five or more units) boost this percentage considerably. Among privately owned apartments, the assisted percentage is 13 percent. Inclusion of other forms of federal and state/local housing assistance—notably the low-income housing tax credit program—would increase these percentages somewhat, although available statistics do not allow an accurate count. The 19 percent estimate of McGough (1997) implies that roughly 40 percent (that is, 19 percent divided by 49 percent) of all apartment households in the affordable market are assisted.

Even more so than other households in the affordable market, federally assisted apartment renters differ from other apartment renters in some important respects (table 5). Assisted renters are less likely to be young and are much more likely to have at least one child living with them (at least in part because assistance is often directed toward families with children). Large families are more common in federally assisted housing than in other apartments, and assisted apartments are more racially diverse. Finally, assisted renters, whose assistance is often conditional on residence in a specific property, tend to move less often than other apartment renters.

Lifestyle renters

Lifestyle renters, or renters by choice, are at the other end of the income distribution from apartment renters who receive govern-

Table 5. **Resident Characteristics in the Three Markets for Multifamily Rental Housing**

	Affordable Market				
	Total	Federally Assisted	Middle Market	Lifestyle Market	All Apartment Households
Share of all apartment households (%)	49	19	37	14	100
Age of householder					
Median	41	44	33	38	37
Mean	47	49	38	42	43
% <30	26	21	39	20	30
% 65 +	23	31	8	10	16
Household size					
Mean	2.1	2.3	2.2	1.4	2.0
% 1 person	50	43	31	65	46
% 4+ persons	17	19	14	0	5
% with 1 or more children	35	50	31	0	29
Household income ($)					
Mean	11,795	10,944	42,752	62,382	29,603
Median	10,444	7,608	32,100	48,928	21,000
Race (%)					
White	66.7	59.1	74.2	79.7	72.7
African American	26.8	34.8	18.8	11.9	20.6
Other	6.5	6.1	7.0	8.4	6.7
Hispanic origin (%)	23.0	14.6	11.4	8.1	14.9
Moved in past year? (% yes)	30.1	21.8	38.7	31.3	33.4
U.S. resident less than 10 years? (% yes)	10.2	NA	8.6	6.9	8.9

Source: U.S. Bureau of the Census (1997b) for all but the "federally assisted" column.
Note: Apartment households are defined as those renting a unit in a structure with at least five apartments. Statistics for the three markets are for apartment households in metropolitan areas (91 percent of all apartment households). The "total" column includes apartment households in nonmetropolitan areas. Federally assisted characteristics are from U.S. Bureau of the Census (1997a) and refer to households reporting that they live in public housing or that the federal government pays some of the cost of their apartment. Comparisons with HUD program records indicate that these questions in the American Housing Survey are often answered incorrectly, so the statistics on characteristics in this column should be viewed as approximations. The federally assisted percentage (19%) is from McGough (1997).
NA = not ascertained.

ment assistance. The national count of these lifestyle residents depends on the definition used, and no one definition exists because the term is used loosely. One reasonable definition and quantification describes lifestyle renters as those apartment renters who meet three requirements:

1. They are old enough to be established in the labor force and do not have to move every year or two for reasons of job or school. About 87 percent of all apartment renters are age 25 or older.

2. They have adult interests and schedules. About 69 percent of all apartment renters are single-person households or married couples without children under age 18.

3. They have enough income to buy a house and may previously have been homeowners. About 31 percent of all apartment renters have incomes above $33,220, which the National Association of Realtors estimates is the national average income required to buy a starter home as of 1997.

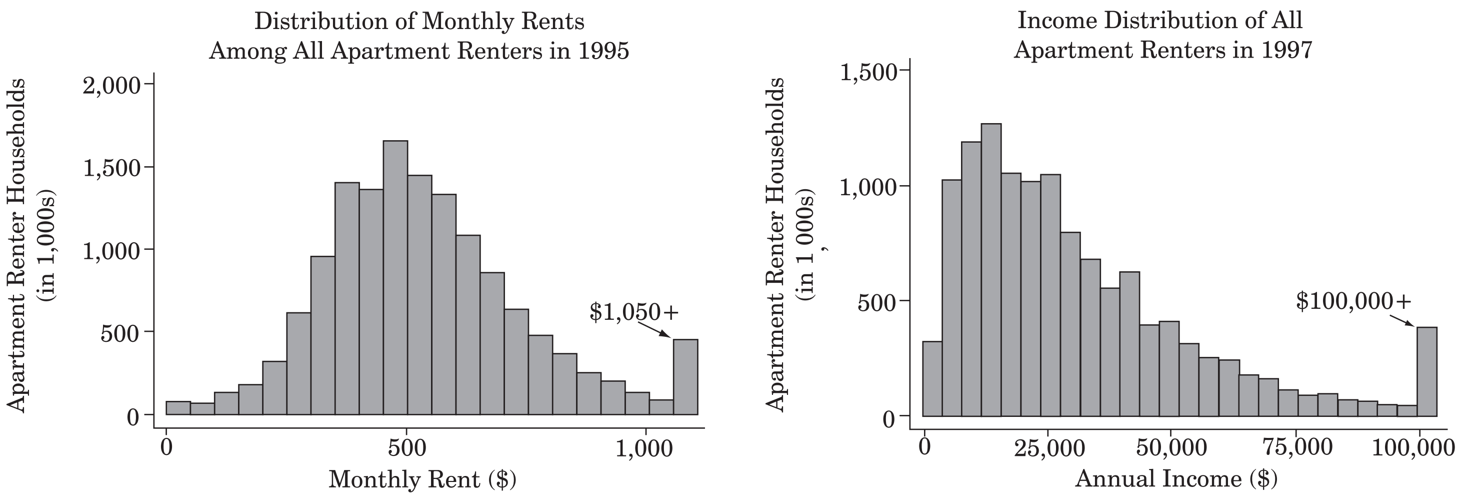
Combining all three characteristics, approximately 14 percent of all apartment renters could be called lifestyle renters by this definition. They are established, adult households with multiple housing choices open to them, and they choose to rent an apartment.

The unheralded middle market of apartment renters

Although the affordable and the lifestyle market segments get much of the attention, many apartment residents are found in the middle range as defined by either rent or resident income (figure 3). Neither assisted nor typically affluent but certainly underpublicized, these apartment renters have always accounted for much of the demand for multifamily rental housing and will continue to do so for the foreseeable future.

The middle market can be defined as a residual. My estimates of the affordable and lifestyle markets suggest that approximately 37 percent of all apartment renters are in this middle market. Many of the middle-market apartment dwellers could afford to own; their median income almost matches that required to purchase a starter home. But they have chosen either to save their money (perhaps for a bigger house), to spend it on other goods and services, or to invest it in something other than housing. The middle market, as we define it, includes some higher-income households (for example, families with children and recent college graduates)

Figure 3. **Rents and Incomes of Apartment Residents**



Source: U.S. Bureau of the Census (1997a, 1997b).

that do not meet the age or household-type criteria for the lifestyle market. Some other apartment renters in the middle market are in a personal or job transition; for them a rental apartment can provide an inexpensive and hassle-free residence.

As a group, middle-market apartment residents are younger and more mobile than those in either the affordable or lifestyle markets. In most other characteristics they are intermediate, as shown in table 5. Although most share the middle ground of both income and rent, the individuals and families that make up the middle market of apartment renters are far from homogeneous in other respects. Young (under 30) adults living alone account for 10 percent of the middle market, and young unrelated roommates occupy an additional 15 percent of the middle-market apartments. Most of these young adults are in a transitional stage in terms of both their personal and work lives. Roommate apartment renters are found disproportionately in big cities and in university communities.

Mature women are another significant segment of the middle market. Women age 30 or over who live alone account for 12 percent of the middle market. Many women choose apartments because they require little maintenance and may offer a sense of personal security that is often lacking in single-family homes. Finally, families make up most of the rest of the middle market, with significant representation by married couples (7 percent of the market), husband/wife families with children (17 percent), and single-parent households (14 percent).

Projecting the growth and composition of apartment residents

How the number and characteristics of apartment residents will change over the next 10 to 20 years will depend on both U.S. demographic evolution and changes in households' housing choices.

A useful baseline projection of the pure demographic effects is derived by using the most recent projections of households from the U.S. Bureau of the Census (Day 1996b) and assuming that housing choices of households of different ages and types do not change. That is, if 23 percent of all married couples ages 25 to 34 are apartment renters now, the projections assume that 23 percent of the households with this profile will be apartment renters in the future.

Table 6 summarizes the results of this projection, which combines the Census Bureau's most recent household projections with housing choices as of 1997, as estimated by the Current Population Sur-

Table 6. **Projected Growth in Households, 1995 to 2010**

	All Households				Apartment Households				
	Number in 1995 (Millions)	Annual Growth (%)			Percent of All Households (in 1997)	Number in 1995 (Millions)	Annual Growth (%)		
		1995 to 2000	2000 to 2005	2005 to 2010			1995 to 2000	2000 to 2005	2005 to 2010
Total	97.72	1.1	1.1	1.1	14.8	14.18	0.9	1.1	1.2
By age of head									
Under 25	4.83	0.6	1.7	1.2	37.3	1.84	0.7	1.8	1.3
25 to 29	7.95	−1.4	0.4	1.8	28.7	2.27	−1.1	0.6	2.0
30 to 34	10.83	−2.3	−1.4	0.4	18.5	2.00	−1.9	−1.0	0.7
35 to 44	22.76	1.0	−1.2	−1.8	12.8	2.91	1.6	−0.5	−1.2
45 to 54	17.72	3.6	2.4	1.1	9.6	1.61	4.1	2.9	1.6
55 to 64	12.33	2.5	4.3	3.5	9.0	1.08	3.0	4.7	4.0
65 to 74	11.85	−0.7	0.3	2.7	9.7	1.12	−0.8	0.1	2.6
75 or over	9.45	2.4	1.4	0.6	14.8	1.35	2.1	1.2	0.3
By household type									
Married couple	53.43	0.8	0.7	0.7	6.2	3.32	−0.2	0.1	0.4
Other family, female head	11.44	1.4	1.3	1.2	20.4	2.22	1.1	1.1	1.2
Other family, male head	3.51	2.1	1.8	1.7	16.4	0.54	1.3	1.3	1.4
Nonfamily, female head	16.08	1.2	1.4	1.5	25.8	4.21	1.1	1.3	1.4
Nonfamily, male head	13.23	1.8	1.7	1.8	29.0	3.90	1.5	1.5	1.6

Source: The household projections are the preferred series from Day (1996b). Figures for apartment households in 1995 are from U.S. Bureau of the Census (1997a).

Note: The apartment household projections are the author's estimates derived from the household projections. The apartment projections assume that each of 40 age/household type groups will maintain the apartment proportion recorded in U.S. Bureau of Census (1997b). Nonfamily households are predominantly one-person households.

vey (U.S. Bureau of the Census 1997b).[5] For comparison, the projections for the entire population are included as well. As shown, overall apartment household growth roughly matches the rate of growth in total households: about 1 percent annually between 1995 and 2000, with apartment household growth accelerating slightly. For apartments as for other housing types, the demographic boost to housing demand in the next decade is almost certain to be less than in the decades of the 1970s and 1980s, when household formations among baby boomers pushed the rate of household formations above 2 percent annually.

The fact that apartment household growth keeps pace with even the reduced overall household growth in this constant housing choice projection may seem at odds with the baby boomers' moving squarely into middle age, where propensities to rent apartments are relatively low. But two other demographic trends offset this baby boomer influence. First, after 10 years of decline, the number of 20- to 29-year-olds—a key age group for apartment residency—has begun increasing once again, and the Census Bureau projects this growth to continue. Second, the Census Bureau projects that adult U.S. residents of all ages will increasingly live by themselves. One-person households have long been particularly attracted to apartment living, and this trend will also boost demand for apartment living.

In projecting housing demand, it is important to distinguish growth by housing tenure (owning or renting) from growth by structure type (multifamily or single-family). In this constant housing choice exercise, the Census Bureau population projection does imply a reduction in the percentage of households that are renters. But the decline comes exclusively among renters of single-family houses, a segment of the market that benefits less than do apartments from the renewed growth of young adults and one-person households.

The demographic mix of apartment residents also changes according to this projection. The average age of apartment resident householders increases, consistent with national trends. Even though middle-aged households are less likely to be apartment renters than are the young and the old, the sheer number of households entering middle age between now and 2010 implies that growth will be most pronounced in this segment.

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[5] These projections update those in Goodman (1997), which were based on housing choices as of 1993, as estimated from the 1993 American Housing Survey. The projections in both that study and this one estimate the housing choices of 40 separate age- and household-type segments of the population and hold those choices constant into the future.

The projections of apartment household growth in table 6 are conditional on the Census Bureau's projections of total household growth. However, alternative household projections developed by Harvard's Joint Center for Housing Studies (Masnick, McCardle, and Agpar 1996) that rely on different projection methods from those of the Census Bureau provide similar results on the outlook for apartment household growth. Compared with the Census Bureau's projections, those from the Joint Center are nearly identical for total household growth, but the age group definitions and composition of household growth projected by the Joint Center are slightly less positive for apartments.[6]

The demographic outlook of steady, moderate growth in the number of apartment renter households is robust in light of most plausible changes to recent patterns of marriage, divorce, immigration, living arrangements, and mortality. Of these possibilities, immigration probably represents the biggest question mark. Immigration is much more important to future growth in apartment residency than to the current market. One recent projection is that immigrants will account for 44 percent of the growth in the number of total renter households between 1995 and 2010 (Carr 1998). Although apartment renters were not projected separately from other renters, it is likely that immigrants' share of apartment renter growth would be similar. Likewise, immigrants will increasingly be the source of diversity for the apartment population as they will be for the population at large.

Projecting beyond 2010

Projecting household formations, and therefore housing demand, beyond the year 2010 is even more speculative because it depends on future births as well as on immigration, mortality, marital status, and living arrangements. But nothing in the Census Bureau's longer-term outlook for fertility, immigration, or mortality (and consequently population growth) would hint of significant deviations from the established growth path for households, although some gradual reduction in household formations is implied. Annual growth of the total population aged 20 and over is projected to slow from about 1.0 percent during the period from 2000 through 2010 to approximately 0.75 percent between 2020 and 2025. At the same

[6] The Joint Center, like the Census Bureau, projects 1.1 percent annual growth in the number of households through the year 2010. Applying this article's method of assigning housing choices to detailed household categories, the Joint Center's household projections imply that the number of apartment households will grow 0.7 percent annually from 1995 to 2000, then 0.9 percent annually until 2005, and then 1.0 percent through 2010.

time, household growth will shift more and more to the older age groups, where population growth is projected to accelerate and become concentrated between now and 2025. In fact, in the Census Bureau's middle series of population projections, 99 percent of the growth projected for the adult (ages 20 and over) population between 2020 and 2025 occurs among those ages 65 and over (Day 1996a).

The possibility of changing housing choices

The number and characteristics of future apartment residents overall and in each of the three markets will depend not only on the changing national demography but also on the housing choices made by households of different types. In the past these changes in housing choices have almost always been gradual, and this pattern is likely to continue in the future. Nonetheless, over the course of several years the cumulative impact can be significant.

Outlook for ownership. One of the more striking changes in housing choice in recent times has been the increase in homeownership since 1995. After essentially 15 years of no change, the proportion of U.S. households that own their principal residence rose from 64.2 percent in the first quarter of 1995 to 65.9 percent in the first quarter of 1998. The increase is partly the result of a shift of the population into age groups of higher homeownership by percentage, but changing housing choices by households of specific types are also responsible (Carliner 1998).

Homeownership will probably not continue its recent rate of increase. The demographic impetus from aging is moderate, and the age-specific rates are unlikely to increase, certainly not at their recent pace. Assuming that age- and household-specific ownership rates hold at 1997 levels, the increase in overall homeownership over the next 13 years will no more than match the increase of the three-year period from 1994 through 1997 (Joint Center for Housing Studies 1998).

Homeownership might even decline in the future. Although the aging of the population biases the pure demographic impetus toward increasing ownership, both economics and attitudes might cause offsetting changes in housing choices. The low interest rates and high consumer confidence that have boosted home purchase will not continue forever. More generally, consumer attitudes and political orientation toward homeownership cannot be much more favorable than at present, so apartments seem more likely to gain than to lose from any future changes in consumer perceptions and public policy. Attitudes may already be shifting. The proportion of adults who say that a single-family detached house is their preferred housing choice, while still dominant, declined to 73 percent in 1996 from 80 percent in 1992 (Fannie Mae 1996).

Even under the scenario of constant housing choice, apartment demand will grow more rapidly than overall rental demand because of the likely composition of population growth as explained previously. In addition, following national trends, apartment renters will get older and will be more likely to be individuals living on their own. Apartment demand may be boosted further by changing housing choices. One, affecting the top end of the market, is particularly intriguing.

Homeowners' capital gains tax and demand for rental housing. Federal tax changes enacted in 1997 eliminate taxation of capital gains on owner-occupied housing for the vast majority of homeowners. Under the previous law, home sellers were liable for the capital gains tax unless they bought another house of equal or greater value within two years of the sale. Sellers ages 55 and over could claim an exemption from the tax, but only once and for no more than $125,000 of gain. Under the new law, the first $500,000 of capital gains on homes sold by joint filers is exempt from the tax. For single filers, the cap is $250,000. The maximum gain can be claimed every two years and is conditional only on the house's being the sellers' principal residence. Very few homeowners will ever again have to worry about the tax.

This tax change opens up rental housing as a viable option for millions of homeowners who have been locked into ownership by the specter of the capital gains tax. Homeowners previously had been loath to switch to renting because the old law made a tax accrued over many years payable all at once. This sum has dominated the consumer's calculations of whether, looking forward for the next couple of years, owning or renting made more economic sense for them. Not only the amount of the tax but also the record-keeping requirements and the thought of paying the Internal Revenue Service even a dollar made repeat home purchases—of ever-more-expensive properties—an easy call for many homeowners. One indicator of the housing choice distortion caused by the capital gains tax is that very few home sellers have paid it; instead, they have made housing choices that avoid the tax.

Three groups of homeowners are now more likely to consider renting: owners ages 55 and over with more than $125,000 of capital gains, owners younger than 55 who want to downsize or simplify their housing, and job transferees and other owners who are moving long distances.

Because many homeowners have incomes that make them prospects for high-quality rentals, luxury apartments and other top-end properties should benefit the most.

No one can say for sure exactly how consumers will respond to the new tax treatment of homeowners' capital gains. Consumer behavior will not change overnight. But home buyers' subsequent housing choices will, over time, come to reflect the new opportunities created by this major change in the federal tax treatment of housing. Two early studies, by Burman, Wallace, and Weiner (1997) and Sinai (1998), project moderate effects. But we are entering uncharted territory, and studies based on historical data are of limited use in forecasting how consumers will respond. The virtual elimination of taxation of homeowners' capital gains clearly should boost consumer demand for apartment living and spur expansion of the lifestyle segment of the market. The only questions are "How much?" and "How fast?"

Implications for housing providers and policy makers

In light of all the evidence, the most likely national demographic path for apartment residents is for moderate long-run growth in their numbers, with the resident profile changing in ways that are broadly consistent with the evolution of the rest of the U.S. population.

Even if the national outlook for apartment residents is tame, how it plays out locally will be quite different. As always, local apartment markets will be a mix of boom, bust, and everything in between. This local diversity will offer challenges and opportunities to both business and government.

Business challenges and opportunities

Apartment owners and managers will continue under competitive pressure to provide the best product and superior resident service. For the top end of the market, offering the right design and amenities at the right location will be key to luring the lifestyle renter. Cost is important to all consumers, but most so among those of moderate means. The rent-paying ability of moderate- and even middle-income households will be impeded if the economy should slide. And property owners and managers serving the government-assisted resident will be challenged by redesigns and cutbacks in current housing and income assistance programs.

Specialized apartment markets will be fueled by changing demographics interacting with public policy. For example, the baby boom echo of young adults is contributing to the development of apartments designed and operated as student housing. At the other end of the age distribution, seniors' housing—rental facilities offering the elderly health and recreational services as well as housing—will continue to expand. In between, empty nesters are candidates for upscale multifamily housing in communities nationwide.

A final business challenge is to combat inaccurate characterizations of apartment residents that work to the detriment of the apartment industry as well as apartment residents and prospective residents themselves. As shown in this article, apartment households are much like the rest of the population in many respects. In particular, most apartment households are neither assisted nor affluent but of moderate or middle incomes. Inaccurate perceptions of the social involvement of apartment residents is another hurdle. Recent research has shown that many of the common perceptions of homeowners as better neighbors and citizens than renters have little empirical basis (Rossi and Weber 1996).

Public policy orientation

At a recent apartment industry gathering, the renowned architect Niles Bolton scolded multifamily developers for not aggressively presenting their case to government officials (Bolton 1998). He presented the following set of social problems and solutions, using examples of each:

Problem: Suburban sprawl
Solution: Multifamily housing

Problem: Unaffordable housing
Solution: Multifamily housing

Problem: Urban decay
Solution: Multifamily (infill) housing

Problem: Housing our parents
Solution: Multifamily (seniors') housing

Problem: Boring, homogeneous development
Solution: Multifamily housing (in mixed-use, traditional development)

Although unabashedly promotional and simplistic, this litany contains kernels of truth for multifamily developers and policy makers.

And the litany is applicable both to the more than 80 percent of all new multifamily construction that is built as rental housing and to multifamily condominium construction.

The three markets of multifamily rental housing map onto this litany; each of the markets raises policy issues. Those related to the affordable apartment market have received much attention in past issues of *Housing Policy Debate* and many other forums. The policy challenge, simply put, remains to develop strategies for opening housing alternatives in all jurisdictions that are affordable to low- and moderate-income households. Alternative approaches to achieving this objective have been debated, tested, and implemented. No one thinks the challenge has yet been met. This article offers no new insights for this debate but only notes that the demographic projections, conditioned on feasible macroeconomic futures, give no reason to expect that the size of the affordable apartment market or the policy challenges it represents will soon diminish.

The middle market of apartment renters and the lifestyle market raise policy issues as well. But unlike policy discussions about the affordable market, where the emphasis is on the residents' well-being, discussions about these two other markets are directed more toward the well-being of communities and regions. Two policy focuses in this regard are the inner areas of big cities and the growth centers on the suburban peripheries. Certainly, there has been no shortage of research about and policy attention to these areas either, including the role of higher-density housing (Danielsen and Lang 1998, and references therein). Rather than repeat those ideas, here the focus will be on the unique contributions that multifamily rental housing can make—that is, the combination of high-density structures *and* rental tenure form.

Signs are beginning to emerge that in many big cities' downtowns, resident populations are once again beginning to grow after decades of decline. Anecdotes of this turnaround are expanding into harder evidence (Brookings Institution and Fannie Mae Foundation 1998; Knack 1998). Cities anxious to attract middle- and upper-income households from the suburbs should look at the lifestyle renter as a prime candidate who can contribute to the fiscal and social benefits that come from maintaining an income mix in the local jurisdiction (Quercia and Galster 1997).

Higher-income households otherwise attracted to living in or near downtown areas may, however, be unwilling to make the financial bet involved in buying a house or condominium in a turnaround neighborhood. Multifamily rental housing provides a vehicle for these households to move into central-city neighborhoods without incurring the financial risk involved in a property purchase. Of course, for new residential development to occur, someone has to be willing to incur the risk. In the case of rental apartments, the developer bears that risk. Cities may need to consider risk-sharing schemes with developers to induce new construction, especially if the turnaround is just beginning.

In suburban areas, higher-density housing has clear advantages for avoiding sprawl and for promoting the goals of smart growth, including preservation of green space and efficient use of existing roads and other infrastructure (Danielsen and Lang 1998). Multifamily rental housing combines the structural advantages of higher-density housing with economic advantages that can promote balanced development and population diversity. As in center cities, rental apartments in suburban areas provide an opportunity for the prospective lifestyle renter to test the market without making a major financial commitment. Even those long-term community residents who have become "empty nesters" may be unsure about multifamily housing, despite their complete familiarity and comfort with the community. Rental apartments allow them to determine whether multifamily housing meets their needs. For the middle market, rental apartments can serve to familiarize long-distance movers with a local community and help them to decide whether they would like to live and work there indefinitely.

A major challenge is provision of affordable rental housing in suburban jurisdictions. New construction is expensive, in part because zoning restrictions reduce the supply of land available for multifamily construction and in part because building codes sometimes go well beyond what is required to ensure that housing is safe and sanitary. Even with support from the low-income housing tax credit program, it is difficult to make the numbers work for new construction that is affordable for low- and moderate-income households. And in newly developed suburban communities, no older multifamily stock can be drawn upon to help house this segment of the population. But the economic self-interest of these jurisdictions often calls upon them to provide housing opportunities for service workers and others who cannot afford more expensive housing.

Federal policy affects all three markets for multifamily rental housing. Federal tax treatment of apartments and rules affecting property construction and operation are significant influences on the availability and costs to residents of multifamily rental housing. The federal policy challenge is to establish laws and regulations that promote achievement of national goals while not working against the goal of making a variety of housing options equally available, at the lowest possible cost, in all communities.

All three demographic markets of multifamily rental housing—the affordable market, the lifestyle market, and the middle market—are likely to grow in coming years. The opportunities they provide for business and metropolitan development are distinct, as are the challenges they present. Knowledge of the number and characteristics of apartment residents, and how these might change, are key to exploiting those opportunities and meeting those challenges.

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The author is grateful to Christina Lucas for her assistance on this project and to the staff of the U.S. Bureau of the Census for special coding of the data used in this analysis. Views expressed are not necessarily those of the National Multi Housing Council or its member firms.

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