Myth Busting: The Truth About Multifamily Renters
Multifamily Economics and Market Research

With more and more Millennials entering the workforce and forming households, as well as foreclosed homeowners turning to renting, rentership in the U.S. has been increasing. It should then come as no surprise that there has been growing interest in the multifamily rental sector over the past few years, from developers, property owners, lenders, investors, and of course, renters. Alongside that growth, there are anecdotal themes or myths in the multifamily sector regarding renters often accepted as fact but not supported by our research. Overall, these myths portray a stronger long-term interest in renting in general and the multifamily sector in particular than is warranted by our analysis. Therefore, those involved in the U.S. multifamily sector should remain vigilant about separating fact from fiction, and more importantly, identifying fact-based future trends involving the nation’s 44 million renter households to better support their strategies.

Some Common Renter Myths

What are these misconceptions about renters? Some of the more common ones include:

1. Renters primarily rent multifamily units;
2. Young people mostly rent multifamily apartments;
3. Most multifamily renters, especially Millennials, are not interested in homeownership; and
4. Renters rent because they can’t afford to buy a home.

In many cases, these “myths” are simply not true. Others are more complex and contain a kernel of truth but ultimately may cause some to form misleading conclusions.

Finding Out What Renters Think – and Want

There is quite a bit of data available on the multifamily sector from a wide variety of sources, including vacancy rates, asking rents, concessions, and more – some of which we use here. But to provide a deeper picture of renters, we have also used sentiment data from the monthly Fannie Mae National Housing Survey® (NHS) to provide more insight into current thinking, wants, and possible future behaviors.

Fannie Mae launched the NHS in 2010 to generate new information about consumer attitudes, intentions, and financial conditions that pertain to housing and mortgage markets. The NHS is the only large, national, monthly survey of consumers focused primarily on housing. The responses of the nationally-representative sample of 1,000 Americans aged 18 or older each month to about 100 survey questions promptly provide information on a wide range of housing-related topics. For the sample to accurately represent the U.S. population, 70 percent of calls are made to cell phones.

The survey results highlighted in this report are from the first quarter 2018 NHS, focusing on four key audiences: All Renters, Single-Family Renters, Multifamily Renters, and All Owners, as illustrated below.
Myth #1 – Renters Primarily Rent Multifamily Units

There are both multifamily and single-family renters, leading us to one of the more widely held misconceptions regarding renting: that more renters live in apartment units than in one- to four-unit homes.

In fact, there are more renters living in one- to four-unit dwellings than there are living in five- or more-unit buildings, and that has been true for quite some time. As seen in the chart to the right, as of 2015, nearly 53 percent of renter households lived in one- to four-unit dwellings, compared to nearly 43 percent of renter households living in five- or more-unit dwellings. And nearly 5 percent of renters lived in other types of housing structures, such as mobile homes, houseboats, or vans.

Much of the increase in renter households between 2007 and 2015 has been in single-family detached dwellings, increasing to 28.4 percent of all renter-occupied stock as of 2015, compared to 25.9 percent in 2007. Even semi-attached dwellings experienced an increase in renters, climbing to 6.3 percent in 2015, compared to 5.7 percent in 2007.

By comparison, 2- to 4-unit dwellings experienced a decline over that time, falling to 18.1 percent of all renter occupied stock, compared to 19.7 percent just a few years earlier. Even 5- to 19-unit dwellings saw a decline, falling to 22.5 percent of all renter occupied stock in 2015, compared to 24.2 percent in 2007. The decline in both structure types reflects the ongoing decline in this type of housing stock, as seen in the chart to right, and is not necessarily from a lack of demand.
Myth # 2 – Young People Mostly Rent Multifamily Apartments

As seen in the chart below, renters, especially multifamily renters, skew younger than owners. However, all age cohorts rent multifamily dwellings, although many more rent one- to four-family dwellings, especially those in the 25- to 34-year old cohort. Unsurprisingly, older people tend to be majority homeowners, especially those in the 45-year old and older cohorts.

What might be surprising is that, as of 2015, more young people rented single-family structures than multifamily: 34 percent compared to 29 percent, respectively. Although this is likely driven more by lifestyle preference, it may also be influenced by the type and amount of multifamily housing stock available in some parts of the country.

Single-Family and Multifamily Occupied Dwellings

Source: U.S. Census Bureau, American Community Survey 1-Year Estimates.
Note: Single-family includes housing units in structures with 1-4 units. Multifamily includes units located in 5+ unit structures.

As seen in the chart below, much of the nation’s new multifamily housing stock is clustered in about 10 metros, including high cost metros such as New York, Washington, DC, and Boston. This suggests that some younger aged rental households may not have access to more affordable multifamily rental units, or they may live in an area with a dearth of multifamily rentals and have turned to single-family rentals instead.

Multifamily Apartment Units Underway – Select Metros

Source: Dodge Data & Analytics Construction Supply Track, June 2018
Myth #3 – Most Multifamily Renters, Especially Millennials, Are Not Interested in Homeownership

This is one of the biggest fallacies regarding renters. Not only do renters frequently report wanting to own their own home someday, they have felt this way for a long time. As seen in the pie charts below, the vast majority of survey respondents believe that owning a home is better, for both financial and lifestyle reasons.

Fannie Mae NHS Survey Results

Generally speaking, would you say people are better off owning a residence or better off renting?

<table>
<thead>
<tr>
<th>Year</th>
<th>Owning</th>
<th>Renting</th>
<th>Depends/Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>13%</td>
<td>8%</td>
<td>79%</td>
</tr>
<tr>
<td>1996</td>
<td>4%</td>
<td>7%</td>
<td>89%</td>
</tr>
</tbody>
</table>

Which is closer to your view?

Financial Considerations
- Owning protects against rent increases and is a good investment over the long term
- Renting protects against house price declines and is actually a better deal than owning

Lifestyle Considerations
- Owning you have more control over where you live and a better sense of privacy and security
- Renting is less stressful and gives you more flexibility in future decisions

For the most part, this preference for home ownership is shared among owners and renters, among single-family and multifamily renters, and among younger and older renters, as seen in the chart below. Survey respondents overwhelmingly stated that they want to own a home at some point in their lifetime. Younger renters in particular - 92 percent - want to own a home someday. But it appears that won’t be happening anytime soon. Most multifamily renters - 61 percent - stated that when they move, they were very likely going to rent again. And that’s even with 63 percent of multifamily renters believing that rents will rise over the next 12 months, with most believing rents will rise nearly 5 percent during that time.

Fannie Mae NHS Survey Results

Note: Single Family and Multifamily renter classification questions were not asked from 1Q2016 – 1Q2017.
Myth #4 – Renters Rent Because They Can’t Afford a Home

While it is true that there are many renter households that can’t afford to buy a home, there are still many that can. In fact, the number of renter households earning more than 120 percent of their area median income has been increasing steadily, rising to nearly 10 million households in 2015 compared to 6.7 million households in 2011. Clearly, there are a number of households in this income category that are choosing to rent instead of own for reasons other than cost of housing.

So why rent if you can afford to buy? As seen in the chart below, there are a myriad of reasons for households to rent. According to the first quarter 2018 NHS, reasons for renting include: more flexibility in housing choices; less “hassle and stress;” living in a “better neighborhood;” and being protected against falling home prices. The majority of renters, most notably younger renters, are primarily renting to save money to put toward buying a home. But it is not just younger renters; many surveyed single-family renters and older renters are also renting to save money toward buying a home.

### Fannie Mae NHS Survey Results

<table>
<thead>
<tr>
<th>What is your primary reason for renting now?</th>
<th>Q3 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>You are making yourself financially ready to own</td>
<td>34%</td>
</tr>
<tr>
<td>Renting is a more affordable option</td>
<td>37%</td>
</tr>
<tr>
<td>Renting gives you more flexibility in your future choices</td>
<td>22%</td>
</tr>
<tr>
<td>Living in a rented home is less hassle and stress</td>
<td>26%</td>
</tr>
<tr>
<td>You cannot afford a mortgage</td>
<td>13%</td>
</tr>
<tr>
<td>Renting allows you to live in a better neighborhood</td>
<td>10%</td>
</tr>
<tr>
<td>Renting protects against declines in housing prices</td>
<td>23%</td>
</tr>
</tbody>
</table>

Although income levels among renters have been rising, saving enough to afford a down payment continues to be difficult for many. In 2016, there were fewer renter households than in 2010 that were able to afford to buy a home with a 5 percent down payment, as seen in the chart to the right.

Nevertheless, more than 25 percent of renters did have the financial assets to do so. For a mortgage with a 3 percent down payment, a product offered by both Fannie Mae and Freddie Mac, an even greater percentage of renter households, 32 percent, have enough financial assets for a down payment.

Source: ACS
About 22 percent of renters in 2016 could afford to make the monthly principal and interest payments on a home, if they were not paying more than 30 percent of their household income. When that assumption is increased to 40 percent, then the number of renters being able to afford the monthly principal and interest payments on a home increases to 34 percent.

However, just because some renter households can afford a down payment doesn’t mean that they believe they will qualify for a mortgage. As seen in the chart below, many renters surveyed believe that the biggest obstacles to getting a mortgage are not limited to affording the down payment or having sufficient income but also include an “insufficient credit history or score,” the “lack of job security or stability,” and simply that the process is “too complicated.”

**Fannie Mae NHS Survey Results**

The perception that the process is too difficult has been changing over time, however, as seen in the chart below. Today, 66 percent of multifamily renters believe that it would be difficult for them to get a home mortgage. That is down from 72 percent in 2011. The results are more striking for younger renters, with 57 percent today believing it would be difficult, down from 78 percent seven years ago.

**Fannie Mae NHS Survey Results**

*Note: Single-Family and Multifamily renter classification questions were not asked from 1Q2016 – 1Q2017.*
Demographics on Multifamily’s Side – For Now

What are the possible implications for the multifamily sector? One of the most critical is that at least a portion of today’s renters are tomorrow’s homeowners, which may be happening sooner than later. As shown in the chart below, the 20-to 34-year old cohort – the group most likely to rent multifamily dwellings – is projected to top out in 2024, only six years from now.

That suggests that, as today’s Millennials age and transition into homeownership, or even rent single-family homes, there won’t be as many new, younger renters to replace them. Additionally, much of the recent multifamily construction expected to deliver in the next decade has been designed with the vacating generation’s preferences in mind.

U.S. Renter Population: Age 20-34 Cohort

Source: U.S. Census, Fannie Mae

A Need for All Types of Housing

There is an ongoing need for all types of housing, both today and in the future. Because the Baby Boomers and Millennials are the nation’s two largest cohorts in terms of population size, they will still influence the types of housing that will be available over the coming decade. This includes one- to four-family and five- or more-unit rentals, student housing, and seniors housing, as well as condominiums and single-family owned homes.

Developers, lenders, and investors should be aware of the changing and evolving housing needs of not only today’s renters, but homeowners as well. Housing needs are fluid and can change within a few years’ time. The housing sector, especially multifamily, needs to be able to adapt quickly and efficiently. Using both historical data and forward-looking consumer attitudes should provide a foundation to build business strategies that address a changing marketplace.
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