

Scouring the Datascape

This Time, Joint Center Finds Landlord Discontent

It hardly pays to be a landlord these days. Slightly more than one-third of property owners report that they are earning a profit on their rental investments. If given the opportunity to buy their properties again, only one-half say they would do so.

The raw data behind these observations come from a federal government survey of property owners nationwide. The insights themselves, however, come courtesy of the Joint Center for Housing Studies, which teased the data apart and made sense of it all. In doing so, the Joint Center continues a 10-year tradition of identifying major housing trends and highlighting them in its annual report, *The State of the Nation's Housing*.

In the 1997 assessment of the housing market, released in September, the Joint Center reprises one of the report's major strengths, namely the breadth of **micro-data sets** that are employed to describe the nation's housing markets. The data plumbed this time include some old favorites of mine, including the age of the country's housing stock, renovation expenditures and homeowner equity positions. New this year is a study sponsored by the Department of Housing and Urban Development (HUD) that traces the contours of the rental-housing investor community. Although the Property Owners and Managers Survey—the first of its kind—was released in late 1996, it has received limited public notice.

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EXHIBIT 1: Rental Returns and Investor Satisfaction

Owner Type	Earned a Profit Previous Year	Would Buy Again
On-site Owner	29%	59%
Off-site Owner Smaller Property	37	40
Off-site Owner Larger Property	58	49

Note: A smaller property consists of nine units or less, a larger property of 10 units or more.
Source: Joint Center for Housing Studies

Real estate is a risky business, and the rental sector is no exception. On average, one-half of all landlords would not buy their rental property again.

In with the New

The Joint Center uncovered a sea of discontent among rental investors once it crunched some of the HUD numbers (*Exhibit 1*). For off-site owners, satisfaction appears to increase with project size. Even so, when asked whether they would buy their properties again, only about 50 percent of large-rental owners said they would. Perhaps such disgruntlement has something to do with the fact that only 58 percent managed to clear a profit in the prior year.

Then again, less than one-third of on-site landlords—those who live in one unit and rent out the others—experienced a profitable year. Nonetheless, nearly 60 percent would repeat their investment experience. Clearly, the imputed value of living on-site improves their satisfaction with the property, perhaps by making homeownership costs more affordable.

Disappointment with rental housing as an investment could signal trouble in maintaining the apartment supply in the future, which raises important public policy concerns. However, lacking a comparison of alternative-investment returns, it is

impossible to conclude from the data presented whether the present lack of profitability across rental properties will lead to a transfer of owner funds into competing investments.

Weak on Investment Analysis

In contrast to the report’s strengths, the discussion of financial issues is, at times, too casual. To illustrate, the report notes that home equity accounts for at least one-half of net wealth for about 50 percent of all homeowners and suggests that this will continue to be the case in the future. While housing has served as an excellent investment for families over much of the past 40 years, extrapolating this trend into the future is chancy. **Real appreciation** in home prices is likely to prove modest at best.

Again, the analysis would benefit from a comparison between the return on homeowning and other investments.

Validating the Numbers

Freddie Mac analysis of Home Mortgage Disclosure Act (HMDA) data largely confirms the minority homeownership gains found by the Joint Center (*Exhibit 2*). Between 1993 and 1996, the Joint Center reports, minorities enjoyed more rapid growth in their homeownership ranks than did White households. HMDA data also show that the number of home-purchase loans increased the most for minorities. Although not directly comparable—the HMDA growth figures are based on changes in the annual flow of new mortgages, while the Joint Center’s figures capture aggregate increases in the country’s homeownership rolls—the patterns track closely. Furthermore, HMDA data indicate that the greatest growth in lending occurred among low-income families. Loans to low-income borrowers were up 30 percent, while loans to families with

EXHIBIT 2: Mortgage Lending, Homeownership by Race/Ethnicity, 1993–1996

Racial/Ethnic Group	Growth in Annual Home-Purchase Loan Activity	Growth in Aggregate Homeownership Rolls
White	14.0%	4.5%
African-American	52.5	7.5
Hispanic	55.6	16.3
Other Minority	16.6	11.8

Sources: Federal Financial Institutions Examination Council, Joint Center for Housing Studies

Minority families posted larger gains in home-purchase loans obtained and joined the homeownership rolls at a greater rate than White families.

incomes above the area median increased by only 20 percent. This differential is consistent with evidence of a strong first-time-buyer market during 1996. These trends pushed the country’s homeownership rate to its highest point in 17 years; the rate reached 65.7 percent in second quarter 1997.

Overall, this year’s report from the Joint Center merits an A-.

To obtain a copy of The State of the Nation’s Housing, fax a request to the Joint Center at (617) 496-9957. The report costs \$15.