THE Fundamental Role OF MULTIFAMILY HOUSING

— by MARY KINNEY —

The future of multifamily housing remains bright in the United States. Ginnie Mae is committed to playing a robust role in the sector.

The theme at the Mortgage Bankers Association's (MBA's) 99th Annual Conference & Expo in October, "Investing in the American Dream," could not have been more appropriate. As the executive vice president and chief operating officer at Ginnie Mae, this theme particularly resonated with me. After all, it is at the core of what we do at Ginnie Mae every day. ¶ Our mission is to support affordable housing in America by linking global capital markets to the nation's housing finance market. And we have delivered on that mission by playing a critical role in providing homeownership and housing opportunities for millions of Americans for more than 40 years. ¶ The roles of private and public organizations alike are changing and evolving. Industry leaders and those involved in policy decisions agree that the government's role in the industry needs to be transformed. It needs to grow into one focused more on oversight and consumer protection, and less on providing a financial backstop for credit losses. It should be designed to provide ongoing market stability and respond to crises, only when needed. It must also provide targeted assistance for low- and moderate-income homeowners and renters.

All Americans should have access to quality housing that they can afford. That does not mean, however, that every American should be a homeowner.

What it does mean is that Americans who want to own—and can afford to—should have the appropriate resources available to them. It also means individuals and families who prefer to rent should have a wide range of options accessible to them as well.

GINNIE MAE's multifamily portfolio stood at $67.4 billion at the end of FY 2012, up from $58 billion in FY 2011—representing an annual growth rate of more than 16 percent.

The housing market has shown signs of stabilization, but still remains fragile. However, emerging from the shadows of the 2008 financial crisis, the U.S. housing industry has found a bright spot in multifamily housing.

Ginnie Mae's multifamily mortgage-backed securities (MBS) program has proven to be a marked success during this period, becoming the fastest-growing participant in this market since the housing crisis began. Ginnie Mae's multifamily portfolio stood at $67.4 billion at the end of fiscal year (FY) 2012, up from $58 billion in FY 2011—representing an annual growth rate of more than 16 percent.

Signs of economic recovery are emerging

Of course, housing recovery remains partially dependent on economic factors beyond the industry's control. *The Financial Stability Oversight Council Annual Report,* released in July 2012, reported that the U.S. economy continues to improve at a moderate pace, even though it has not met the rate of growth required to match the employment needs of an expanding workforce.

While corporate balance sheets are improving, smaller businesses continue to face obstacles. Unfortunately, this continued uncertainty has led to slowed growth in the limited investment spending we saw during the first half of 2012. In addition, while the country still faces many domestic challenges, we are also faced with the potential risk of another Eurozone financial crisis.

However, some real signs of optimism have also surfaced. The Obama administration's Housing Scorecard has noted tangible progress not seen since before the crisis of September 2008.

The economy is starting to improve, more job creation is evident and the foreclosure trend is shifting downward. While encouraging, our country still needs to agree on a sustainable, long-term housing solution so the industry can move forward.

Despite policymakers not having an agreed-upon solution, the health of the multifamily segment reaffirms that not all Americans want to be homeowners. Renting has proven to be a preferred option for many households in today's changing economy.

The demand for rental housing currently outweighs supply and is forecasted to increase markedly as the country continues to emerge from the financial crisis. Multifamily housing is becoming a central cornerstone of America's housing system as we move into this industry's next generation.

A major shift is under way

The U.S. housing industry is experiencing a significant transition. Nearly 89 million Americans, or one-third of the U.S. population, rent their homes. And as homeownership rates continue to decline across most demographics, growth in the number of rental households likely will continue.

Rental housing remains essential to the country's expanding population. Now more than ever, we are seeing increasing diversity across rental households.

Most notably, the 20-to-34-year-old age group has demonstrated significant support for the rental housing market. Likely a result of a recent uptick in employment growth for this segment, young professionals—referred to as the echo-boom generation—have begun to leave their parents' homes and move into their own apartments or multifamily housing units with friends or other peers. This demographic has been known to favor multifamily housing over homeownership, suggesting this trend likely will continue for years to come.

Another growing segment within the multifamily housing sector is minority households. Harvard University's Joint Center for Housing Studies' *State of the Nation's Housing 2012* report indicated that minority households accounted for 46 percent of renters in 2011. That trend likely will continue to grow as well.

We have also seen a rising number of married couples choosing to rent rather than own. *The State of the Nation's Housing 2012* also shows that married couples were responsible for 50 percent of the increase in rental households over the past five years. And more middle- and upper-income households also are choosing to rent rather than buy a home.

Changing demographics, new economic realities

American families need choices when deciding what kind of housing best serves their interests.

Last June, Richard Mostyn, vice chair and chief operating officer of The Bozzuto Group, Greenbelt, Maryland, testified on behalf of the National Multi Housing Council (NMHC) and the National Apartment Association (NAA) before the Insurance, Housing and Community Opportunity Subcommittee of the House Committee on Financial Services.

In the hearing entitled "Oversight of the Federal Housing Administration's Multifamily Insurance Programs," Mostyn explained in detail the growing national demand for rental housing. He noted that this shift is due primarily to changing demographics and new economic realities.

Today, less than 22 percent of American households are married couples with children. By 2030, nearly 75 percent of households across the nation will be childless.

Robust demographic trends, including the aging of 75 million baby boomers exploring senior housing options and a steady increase in immigration, have also helped gradually raise the demand for rental housing.

Our country also faces new economic realities. Since the housing crisis began, more than $14 trillion in personal wealth has been lost. This sobering reality serves as a daily reminder that housing is not necessarily viewed as the long-term investment it once was.

In addition, the rising cost of education has resulted in higher levels of college debt for echo boomers. This, in turn, limits the purchasing power of young professionals. Instead, this generation has shown a renewed interest in urban living, where amenities can be obtained by renting.

Indicators such as these all point to a healthy rental market for years to come.

Demand exceeds supply

The U.S. apartment rental market shows no signs of weakening, as demand for apartments now seems to transcend age and income. In May, the Census Bureau reported that renter households in America reached a 15-year high and homeownership reached a 15-year low. However, the supply of multifamily housing is now falling short of demand. During the second quarter of 2012, the national apartment vacancy rate dipped to its lowest point in a decade, according to Calabasas, California–based Marcus & Millichap Real Estate Investment Services Inc.'s *National Apartment Report 2012*.

The Harvard Joint Center for Housing Studies reported that an estimated 300,000 units a year must be built to meet expected demand, as forecasts project up to 7 million new renter households within the next decade.

Further, as households become more mobile due to changes in employment and for other reasons, rental apartment living has begun to outperform the for-sale housing market.

Overall, the Joint Center for Housing Studies estimates a nationwide housing shortfall of 3 million units. This shortage is particularly apparent across the affordable-housing sectors.

The competition for low-cost units remains high, but the volume of rental units considered "adequate and affordable" to these households is on the decline. Unfortunately, rental costs on most of the newly constructed units today are well out of reach for those who need affordable housing, accomplishing very little when it comes to alleviating this shortage. No doubt, figuring out how to most effectively manage this ongoing need will be an important issue that will need to be addressed during the housing-reform discussions.

Multifamily housing proves valuable for the U.S. economy

In his testimony, Mostyn emphasized how the aggregate value of America's apartment stock is $2.2 trillion. What does that term "aggregate value" mean exactly? According to Mostyn, that figure represents the impact multifamily housing has on our nation's economy.

For example, construction of 1,000 apartment units generates 1,160 full-time jobs in construction and related industries. This equates to $55 million in wages and $33 million in combined federal, state and local revenue and fees. We can also look at the impact from the community level: For every 100 apartments built, there are 32 local jobs created and $2.3 million in annual revenue is generated, according to the NMHC.

Rental housing also provides social benefits that deliver fiscally responsible advantages, according to the NMHC. For example, apartments often use existing infrastructure and reduce the cost of providing public services such as water, sewer and roads. Nationwide, the NMHC estimates that the United States can save $100 billion in infrastructure costs if more compact forms of housing, such as apartments, are considered.

The future of multifamily housing financing

Keeping the multifamily housing sector intact is imperative while policymakers continue to build a sustainable housing finance system here in the United States. Most can agree that multifamily housing did not contribute to the recent housing crisis; the multifamily housing market is not broken. In fact, it has consistently posted default rates of less than 1 percent and has performed extremely well during all economic conditions. Further, it continues to attract significant amounts of private global capital and is viewed as the strongest rental industry in the world.

The federal government participates in the multifamily housing finance market through programs involving Ginnie Mae; the government-sponsored enterprises (GSEs), such as Fannie Mae and Freddie Mac; and the Federal Housing Administration (FHA).

According to the Federal Housing Finance Agency (FHFA), "During 2008, all sources of multifamily financing, with the exception of the GSEs and FHA, [have] virtually dried up." Maintaining federal involvement will help guarantee that credit will remain available to ensure adequate liquidity and financing necessary to meet the nation's multifamily housing finance needs.

MOST CAN AGREE that multifamily housing did not contribute to the recent housing crisis; the multifamily housing market is not broken.

The debate surrounding the future of America's housing finance system will continue. No matter how that debate is resolved, in the end Ginnie Mae remains committed to delivering liquidity to the housing finance system as a powerful supplier of global capital that finances affordable housing, backed by the full faith and credit of the U.S. government.

Regardless of the outcome, one thing remains certain: Multifamily housing plays a vital role in the U.S. economy today and will continue to do so for the long term. **MB**

Mary Kinney is executive vice president and chief operating officer of Ginnie Mae in Washington, D.C., where she manages the organization's daily operations, including contracting and budgeting, issuer and portfolio management, enterprise risk, capital markets, securities operations and legislative initiatives.