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The High-Income Apartment Renter

Patrick Lynch
703.291.6352
plynch@livemiddleburg.com
Middleburg Real Estate Partners

- Multifamily renter households with incomes over $100,000 ("High-Income Renter Households)[1] are a fast-growing market segment but they account for only 13% of all U.S. multifamily renter households.
- High-Income Renter Households are highly concentrated in just six large metro areas.
- Although High-Income Renter Households can theoretically afford rents of $2,500 per month and higher without being "rent-burdened," most spend far less.
- High-Income Renters are more likely to live with a spouse and be in their 30s than other multifamily renters.
- High-Income Renters are more likely to live in the urban core than other renters but most still live in the suburbs.

Background

Rising construction costs and an apartment industry that has shifted towards the development of high-rise and mid-rise properties over the last decade, as opposed to less costly garden apartments, have caused the average rent at new apartment properties to rise rapidly. As a result, apartment developers may find themselves increasingly reliant on High-Income Renters to fill their units. As of 2017, 41% of apartments with rents over $1,600, roughly the median rent of a new apartment in the United States,[2] were occupied by High-Income Renter Households.

This trend raises basic questions about the size of the High-Income Renter market, the demographics of these renters, and where they live. This paper intends to explore brief answers.

High-Income Apartment Renters are a Small, but Rapidly Growing Market Segment

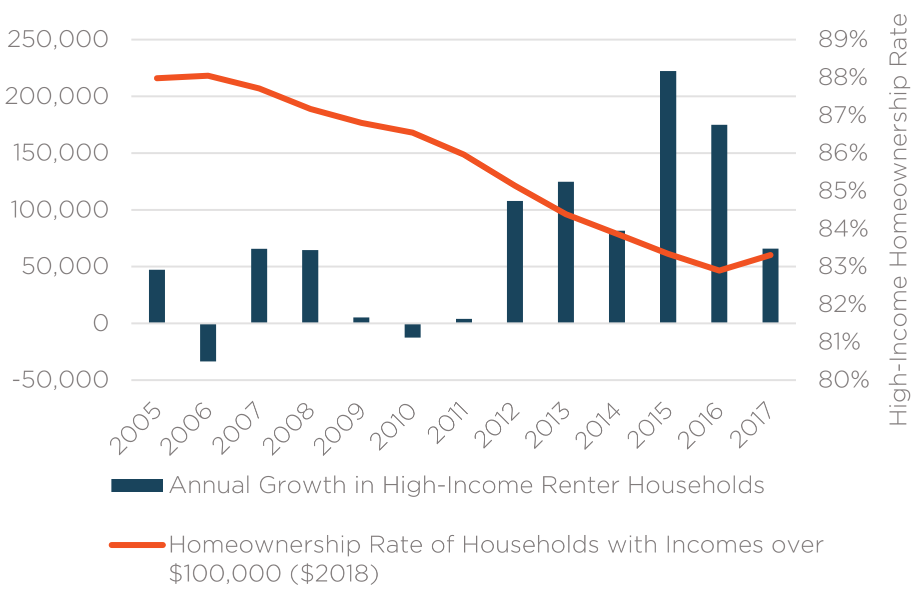
As of 2017, the American Community Survey estimates that there were 18.8 million multifamily renter households in the United States. Of these households, 12.6%, or 2.37 million, had incomes of $100,000 or more.[3] High-Income Renter Households' share of the total apartment market has grown rapidly. In 2005, only 8.8% of all multifamily renter households had incomes over $100,000 in 2018 dollars. From 2005 to

[1] For purposes of this paper, High-Income Renters denotes members of High-Income Renter Households.
[2] According to the U.S. Census Bureau's Survey of Market Absorption, the median average monthly rent of new apartments delivered in the year prior to the 2nd quarter of 2018 was $1,588.
[3] All statistics cited in this report that reference the American Community Survey, or which are not otherwise referenced, are based on the author's analysis of public use microdata from the American Community Survey. The data was accessed from IPUMS USA, University of Minnesota, hosted at www.ipums.org. Note that these statistics are all derived from a sample and should be treated as estimates only.

2017, the American Community Survey estimates that the U.S. added 870,000 new High-Income Renter Households, accounting for 46% of the total growth in multifamily renter households over the same period.

The rapid growth in High-Income Renter Households has been driven by two key factors: a declining homeownership rate and an improving economy that has lifted incomes. In 2006, 88.0% of households with incomes over $100,000 in 2018 dollars, owned their home. As of 2017, the homeownership rate among this group had fallen to 83.3%, although it was even lower, at 82.9% in 2016, indicating that the decline may have stopped. Although a rapid increase in the homeownership rate, even in this group, is unlikely due to rising home prices and a lack of available for-sale supply, even a stable or gradually rising homeownership rate could cause a material slowdown in the growth of High-Income Renter Households.

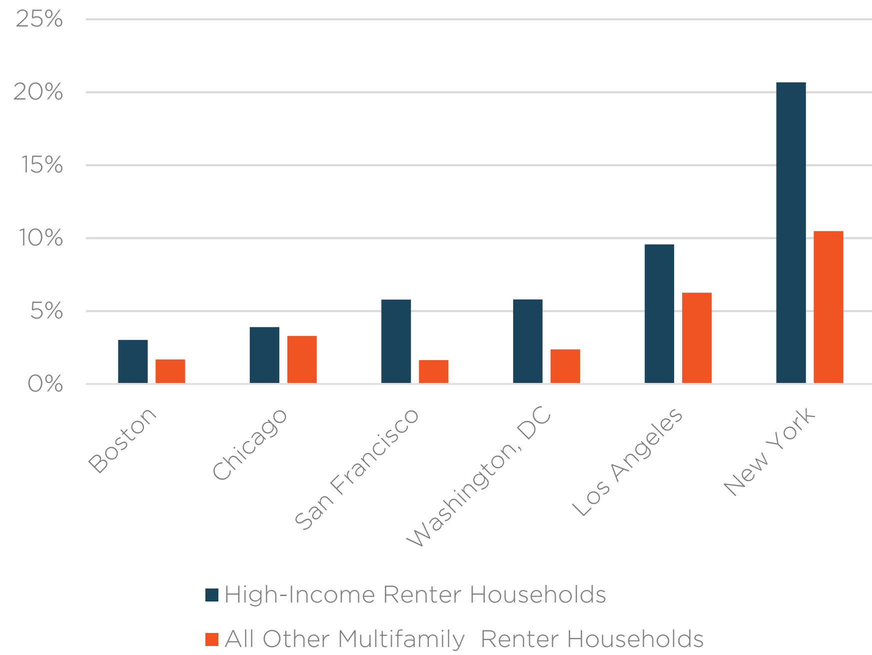
Figure 1: Homeownership Rate Among Households with Incomes over $100,000 ($2018) and Annual Growth in High-Income Renter Households (Source: American Community Survey)



High-Income Renters are Concentrated in Six Major Metros

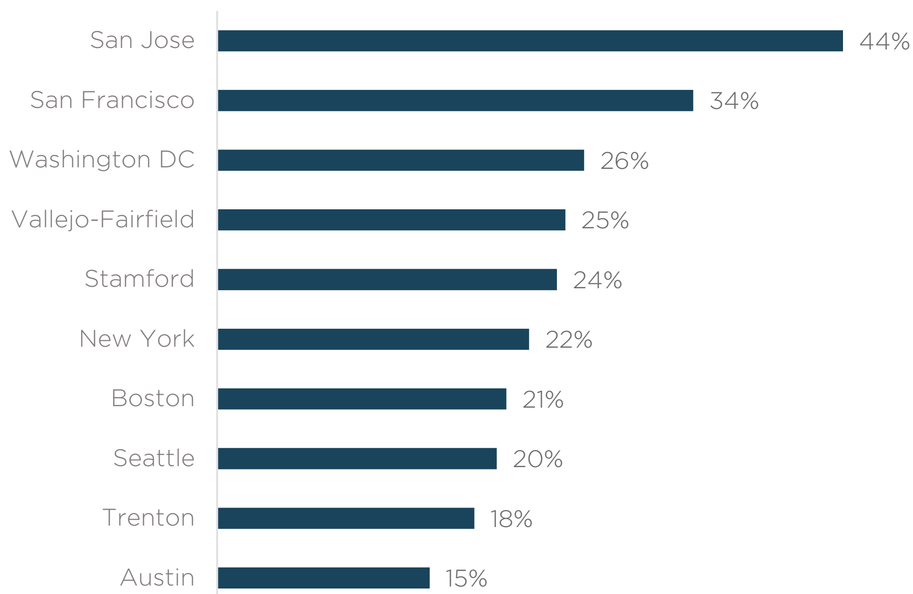
High-Income Renters are highly concentrated in the following six metropolitan areas: Boston, Chicago, New York, Los Angeles, San Francisco, and Washington, DC. Together, they account for 48.9% of all High-Income Renter Households in the United States. For comparison, only 25.7% of U.S. multifamily rental households earning less than $100,000 live in these metro areas. Outside of those six large metros, High-Income Renter Households make up just 9.0% of all multifamily renter households as of 2017.

Figure 2: Selected Metropolitan Areas' Share of Total High-Income Renter Households in the U.S. (Source: 2017 American Community Survey)



There are only ten metro areas in the United States, with a population greater than 200,000, where High-Income Renter Households make up more than 15% of the existing multifamily renter market. This underscores how small and concentrated the High-Income Renter market is. With the exception of Austin, Texas, all of these metro areas are on the coasts.

Figure 3: Top 10 Metro Areas by High-Income Renter Households' Share of All Multifamily Rental Households (Source: 2017 American Community Survey)



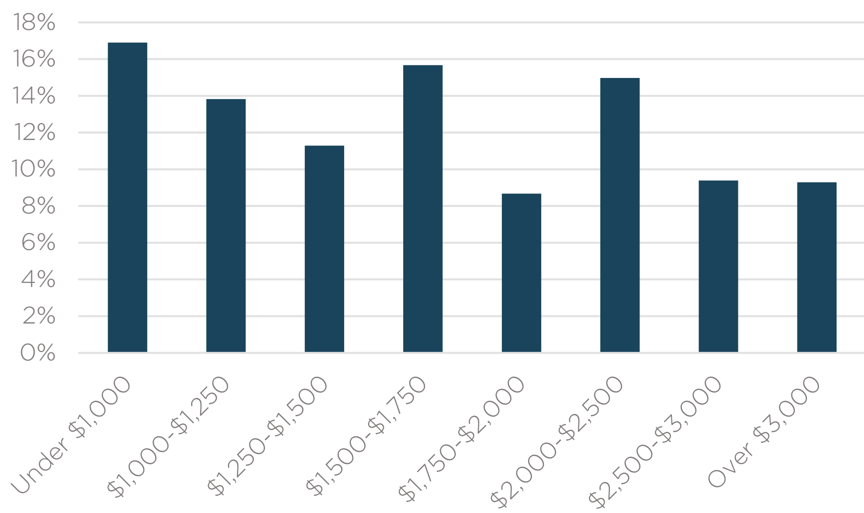
Nearly Half of High-Income Renters Spend Less than $1,500 on Rent

Figure 4 shows the distribution of High-Income Renter Households by the monthly amount they pay for rent. 16.9% of High-Income Renters spend less than $1,000 on their rent and 42.0% spend less than $1,500 on rent. On average, High-Income Renter Households spent 14.1% of their income on rent in 2017.

Two possible interpretations emerge from this data. One is that, with such a high share of High-Income Renters spending less than they probably could, a substantial pool of high-rent demand remains for new apartments to absorb. Another possibility is that a significant portion of High-Income Renters do not feel able or would simply prefer not to spend enough on rent to afford the typical new apartment.

Both interpretations have merit. Since 2005, the average amount of income spent on rent by High-Income Renter Households has risen from 12.6% to 14.1%, perhaps indicating that they are increasingly willing to spend more to live in the newest apartments. On the other hand, even in the New York metro area, where the average rent for even a Class B/C apartment is $1,876[4], 28.6% of High-Income Renter households were living in a unit that rented for $1,500 or less in 2017. Clearly, the need or desire to preserve income for other purposes motivates many High-Income Renters to choose units renting for less, sometimes far less, than they theoretically could afford.

Figure 4: Distribution of High-Income Renter Households by Monthly Rent Paid (Source: 2017 American Community Survey)

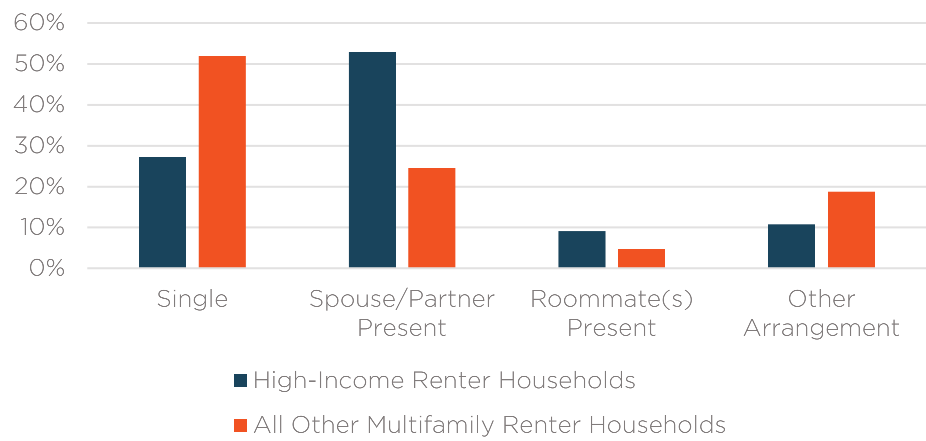


[4] CoStar

High-Income Renters Less Likely to Live Alone and More Likely to be in their 30s

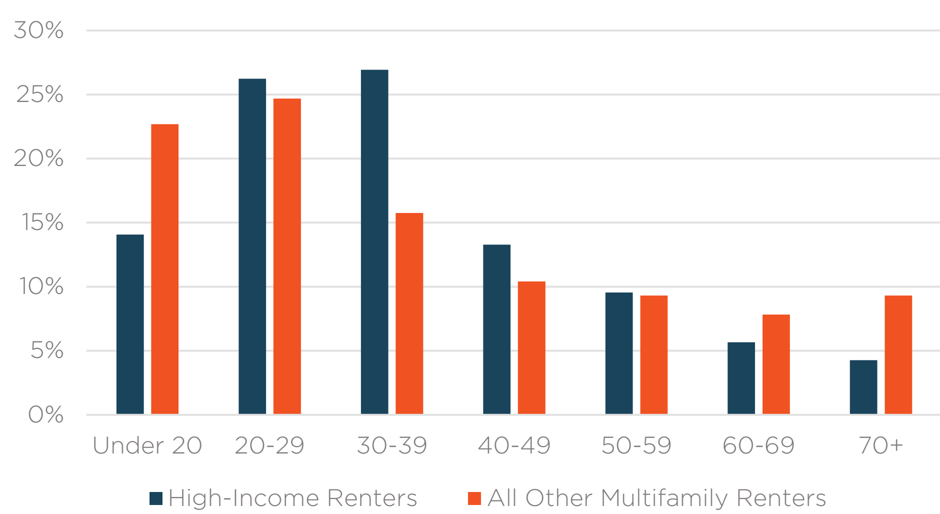
High-Income Renter Households have an average size of 2.4 people, as compared to 2.0 for all other multifamily renter households. This is explained by the much higher prevalence of High-Income Renters who live with their spouse or partner. Even roommate situations are more likely among High-Income Renters than all other multifamily renters. Nevertheless, children are actually less common in High-Income Renter Households than all other multifamily rental households.

Figure 5: Distribution of Multifamily Renter Households by Living Arrangement (Source: 2017 American Community Survey)



High-Income Renter Households are much more likely to contain members in their 30s. 26.9% of High-Income Renters are in their 30s, compared to just 15.8% of all other multifamily renters.

Figure 6: Distribution of Multifamily Renters by Age (Source: 2017 American Community Survey)

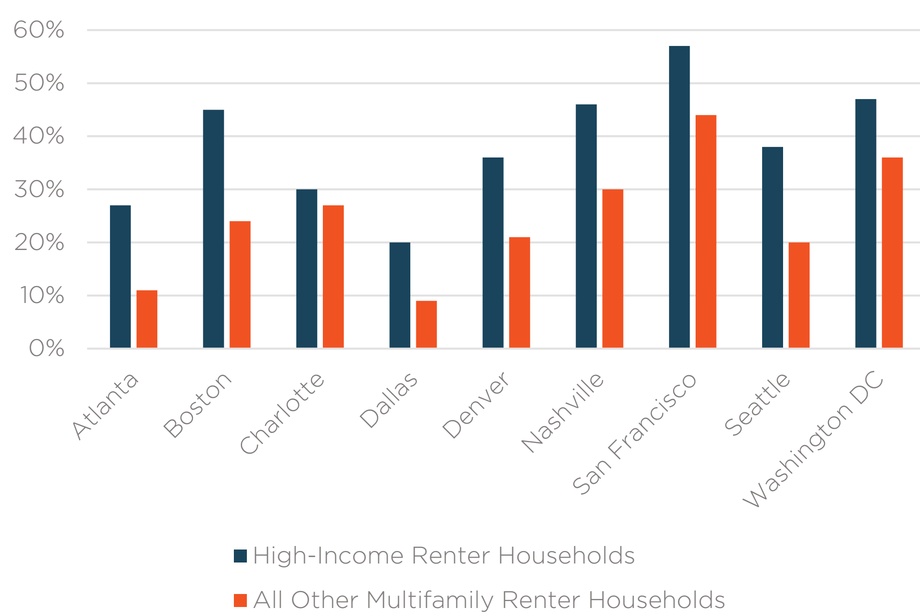


Most High-Income Renters Live Outside the Urban Core

Amid the renaissance of urban America in the last fifteen years and the rapid pace of luxury apartment construction in urban areas, High-Income Renters have become associated with the urban core. To an extent, that association is correct. In each of the nine metro areas analyzed for this report, Atlanta, Boston, Charlotte, Dallas, Denver, Nashville, San Francisco, Seattle, and Washington, DC., the "urban core" contains a higher share of the metro's High-Income Renter Households than it does of all other multifamily rental households.[5] The chart below depicts the share of the metro's High-Income Renter Households in the urban core, as compared to all other multifamily renter households, in these nine metro areas.

However, the more interesting point may be that, in all of the metro areas studied except San Francisco, more than half of all High-Income Renter Households live outside the urban core. In fact, in Atlanta, Charlotte, and Dallas, 70% or more of High-Income Renter Households live outside the urban core. Although this analysis makes no claim to be comprehensive or definitive, it suggests that in most metro areas of the country, the majority of High-Income Renters live outside the urban core.

Figure 7: Share of Multifamily Renters Living in the Urban Core of Selected Metropolitan Areas (Source: 2017 American Community Survey[5])



[5] This analysis required the use of "Public Use Microdata," which are only published for relatively large geographic units, usually somewhat larger than zip codes, known as "Public-Use Microdata Areas," or "PUMAs". They do not allow for a precise or consistent definition of the "urban core" across multiple metro areas. For purposes of this report, the urban cores of each of the nine subject metro areas were defined per manual selection of the PUMAs believed by the author to most closely approximate the "urban core."

Conclusions

Despite rapid growth in the last five years, the High-Income Renter market remains small and concentrated. Nearly half of all the High-Income Renter Households in the U.S. are located in just six metro areas, and there are only ten metro areas where High-Income Renter Households' market share is greater than 15%. Moreover, now that the homeownership rate has stabilized, growth in this market segment is likely to slow even if economic growth continues.

Therefore, developers of new luxury apartments, in particular developers of urban core mid- and high-rises outside of large coastal metro areas, will have to carefully assess the depth of demand at their projected rent levels. They must take account of likely slowing growth among High-Income Renters and the fact that a substantial portion of High-Income Renter Households do not want to pay more than $1,500 for rent, even if they could afford it.

Developers should also be aware that High-Income Renter Households tend to have more people in them and are much more likely to include a married couple. Therefore, larger units may be more appropriate for this demographic than other renters.

Finally, suburban locations are not necessarily a deterrent for High-Income Renters. Although they gravitate to the urban core more than other renters, the evidence presented here, although not definitive, indicates that in most metro areas across the country, the majority of High-Income Renters still live outside it. Quality suburban locations, especially those with walkable retail, that can offer more affordable rents than the urban core, may be particularly attractive.