Scattered Site Rental Housing

Definitions

• Small Scale
  - fewer than 10 units
  - 50 or fewer units
• Scattered Site
  - Non-contiguous lots located throughout a community

Background

• Rental properties with fewer than 10 dwellings make up the backbone of the privately owned, non-subsidized affordable rental stock in this country.
• Small rental properties (fewer than 50 units) house 66% (4.3 million) of the nation’s lowest income renters
Why is this Stock Important

• Homeownership rate in US is dropping
• Renter occupied housing increased by 3 Million Households 2005-2009
• While population 2005-2009 has steadily increased the number of homeowners has remained relatively constant

2010 Local Data

• Miami-Dade County 32,587 multi family complexes with 2-9 units
  – 87,182 units /20% of all 2-9 unit multi family complexes in the state
• Broward County 18,364 complexes
  – 51,151 units/11%
• Palm Beach County 10,622
  – 28,122 units/6%
  Source: Shimberg Center

More Local Data

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<tbody>
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<td>Broward</td>
<td>19,990.00</td>
<td>19,789.00</td>
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<td>38,364.00</td>
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<td>32,483.00</td>
<td>3.9%</td>
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<tr>
<td>Palm Beach</td>
<td>10,077.00</td>
<td>10,716.00</td>
<td>-6.3%</td>
<td>10,622.00</td>
<td>-0.9%</td>
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What is Being Built

• 1999 - 2004 alone, the share of rental construction in apartments with 50 or more units grew from 13 to 24 percent
• Average project size of tax credit developments has increased steadily since the program’s inception and as of 2007 stood close to 80 units.

Why

• High fixed costs linked to land acquisition and permitting.
• Growing acceptance of apartment living

Rents are Rising

• For the ten year period beginning in 1994, the number of units renting for $400 or less in inflation adjusted terms fell by 13 percent – a loss of more than 1.2 million units.
• By comparison, the number of housing units renting for more than $800 a month increased by 1.7 million over the same 10-year period.
**Much of the Affordable Small Multifamily Inventory is at Risk of Loss**

- According to the American Housing Survey
  - Most of inventory is at least 30 years old
  - 3 million of these private market rental units have severe structural deficiencies and are at risk of loss.

**Who Owns Smaller Complexes**

- Nearly 90 percent of one- to four-family properties and 75% of five- to nine-family properties are owned by an individual or a couple
- Few private owners of small rental properties are full-time landlords

**Cash Flow**

- Less than 50% of the owners of two- to four-family properties made an operating profit from their buildings
- Over 75% of the owners of apartment buildings with 50 or more units made an operating profit
Small Deals & Cash Flow
- Small rental properties typically have narrow margins
- Operating expenses are high
- The low incomes of tenants in many of the neighborhoods where these rentals are located make it impossible for owners to charge rents that might generate a healthier cash flow.

- A small scale of operations is typically associated with less expertise in property management
- Small-scale owners lack economies of scale in tenant and property management.
- Small-scale operations are likely less well-capitalized than large ones, with small if any reserves for unanticipated expenses.

- Such budget stress adversely affects the maintenance and repair activities of absentee-owners of 1 to 9 family structures.
- These units are most likely among all property types to have structural deficiencies, 14% report spending nothing on maintenance, while 22% defer required major and minor repair.
Tax Code Implications

- From 1969-1986, syndication of tax-shelter benefits was the primary vehicle for funding the portion of development cost not funded by mortgage debt
- Tax shelter benefits were achieved through the sale of limited partnership interests to investors
- Investors used losses and depreciation to shelter other income from taxes

Disadvantages of Tax Shelter Strategy

- Focus on tax losses
- Sensitivity to marginal tax rates
- Tax-on-sale problems
- Changes in Ordinary Income Tax Rates
- “Passive Loss” Rules

Cash Flow Example for 12 Unit Building