NATIONAL APARTMENT ASSOCIATION
We Lead the Way Home

4300 Wilson Blvd., Ste. 800
Arlington, VA 22203
703-518-6141
www.naahq.org

# 2023 Advocate Hot Topics – Talking Points

****Please refer to these talking points *only if* these topics come up during Lobby Day meetings.****

## *Rising Rents*

- Rents rising are a response to market forces and are in large part fueled by a severe supply/demand imbalance.
  - Three generations are choosing/occupying rental housing (Boomers who are downsizing, millennials and recent Gen Z graduates).
  - The metros seeing the largest rent increases are the ones seeing the largest net migration (i.e. Florida, Austin, Texas).
- Typically, rent growth calculations don't include renewal leases, only new ones:
  - With occupancy at an all-time high, renewal leases are very common.
  - Renewal rents typically grow at 1/3 of new lease rents. This widens the "loss to lease" ratio for many companies.
  - Keeping renewal rents in the equation reveals that rent growth is really 3.6% YOY, according to RealPage.
- The U.S. needs to build 4.3 million apartments by 2035 to meet future demand and address the current apartment deficit (600,000 units short).
  - That's 266,000 new apartments per year, but that number can drastically increase if languishing immigration returns to historical norms.
  - Limited supply = more competition = higher rents.
  - The data is clear – there is a current shortage of housing and we are not building enough to meet future demand.
- Climbing home prices have in-the-moment implications for housing providers in the form of mandatory operational expenses like property taxes and insurance premiums.
  - Long-term home equity doesn't address skyrocketing costs that an owner must pay to keep their properties operating like property taxes, insurance premiums and utilities.
  - Coupled with severe undersupply, labor shortages, inflationary pricing and supply chain delays, housing providers face rapidly rising costs just to keep rental housing on the market.
  - As the rental market stabilizes post-pandemic, owners who obtained new properties may need to bear the burden of raising rents to keep up with operational expenses and overdue capital improvements not addressed by the previous owner.
- A shortage of all housing types – both rental and owner-occupied – is fueling a white hot housing market.
  - Mortgage growth is substantially outpacing rents. Pre-pandemic, mortgages averaged $387 higher than apartment rents; but as of 2022, that gap soared to $1,002. (Marcus & Millichap, August 2022)
  - The tight for-sale market increases costs for new apartment development, acquisitions of existing units and undertaking major capital improvements – all of which place upward pressures on rents.
- The industry advocates for responsible policies that will address the underlying issues placing upward pressures on rent – the nation's supply/demand imbalance.
- This is the unfortunate reality that none of us want, however affordability issues are nothing new – we need to build more housing to meet demand, which will take pressure off of rising rents and a stressed rental market.

## *Private Equity/Institutional Investors*

- Institutional investors are regularly characterized as faceless and uncaring corporate behemoths. This ignores the simple fact that investment in rental housing comes from a variety of sources, which includes public pensions and 401(k) plans that teachers, firefighters and countless other Americans rely on for retirement.
    - Every sector of the economy is incredibly complicated and includes businesses of all sizes – this isn't unique to rental housing.
    - Institutional investors are not inherently bad, nor does the type of housing provider negate consequences for bad actors.
        - There are state/local laws in place to protect renters and bad actors should face consequences and penalties.
        - Removing institutional investment from rental housing doesn't eliminate bad actors.
        - Driving investment out of the industry doesn't fix the problem but contributes to it.
    - Institutional investment is not always a case of the "rich getting richer" – the money invested through public pensions and 401(k) plans funds retirements for average Americans and public servants.

- Our nation faces a severe housing supply shortage, at all price points and types of housing. Projects that will substantially address this shortage requires large amounts of capital that mom-and-pop and smaller firms do not have access to.
    - We need to build 328,000 more apartment homes annually – mom-and-pop housing providers alone do not have the capital to fund that amount of development.
        - Only hit that number 4 times since 1989, does not take into account pandemic losses.
    - Development is a complex, lengthy and expensive process; in addition to the money required to purchase property and rehabilitate and/or construct housing, there are costs associated with holding the property in addition to fees, etc.
        - Missing middle in development world; smaller firms may complete a handful of projects a year, institutional investors regularly navigate the process and have capital to engage in numerous projects.
    - Anti-development and detrimental housing policies (NIMBY, zoning regulations, labor shortages/costs, local fees, rent control) make many markets inaccessible to anything other than institutional investment, and in some cases outright discourage investment.
        - It takes capital, knowledge of the local/legal process and capacity to complete projects in adverse environments.

- There is room for everyone in the rental housing industry – though mom-and-pops play a very important role particularly by supplying naturally-occurring affordable housing, that does not negate the positive impact and stability that institutional investors bring to markets.
    - America's housing stock is not only insufficient, but it's also aging. Nearly half of the nation's stock was built before 1980, meaning substantial repairs, renovations and even rehabilitation may be required.
        - Dedicated capital is needed to take on many projects due to sheer size, cost and timeline.
        - Institutional investors decrease unemployment in local markets and bring job growth, particularly in the construction-sector (Philadelphia Federal Reserve Bank).
    - Investment can revitalize neighborhoods for all residents and provide stability by improving local economies (increasing employment, property taxes, etc), quality of life for residents and ensuring units remain within the rental pool.
    - The goal is not to push out current residents, but to ensure housing at all price points remain within the housing stock and quality of life is improved for the community.