

family housing in their downtown areas and find that people are eager to move in.

Multifamily housing is a mature part of the real estate business. People have been developing multifamily housing, both in this country and elsewhere, for centuries. Not surprisingly, the industry has risen and fallen with cyclical changes in the real estate market. For instance, in 1972 building permits were issued for more than 900,000 multifamily housing units in the United States, but by 1992 that figure had fallen to fewer than 139,000 units.<sup>3</sup> Developers of multifamily housing have been hit hard when they discovered, too late, that they had built more units than the market would absorb.

Since 1995, however, the multifamily sector has been doing very well. Most industry analysts agree that the sector is largely in equilibrium, apart from potential overbuilding in the luxury segment and in certain metropolitan markets. Investments in multifamily housing have provided solid, steady returns over the past few years, the credit quality of multifamily mortgages is high, and delinquency rates are near record lows.<sup>4</sup>

The multifamily business looks set for continued growth, and more of the innovation that has characterized the sector over the past few years will undoubtedly occur. Changes in lifestyles and changes in attitudes toward multifamily housing, to say nothing of the demographic trends that have always driven the housing market, point favorably in the direction of multifamily housing. Developers are discovering a number of niche markets where

demand is unmet. Moreover, as the inventory of multifamily units ages, opportunities for rehabilitation and repositioning, along with improved property management, will grow. With skill, care, good analysis—and just a bit of luck—the multifamily industry will continue on its successful path.

## What Is Multifamily Housing?

Based strictly on design, multifamily housing refers to a building that contains more than one dwelling unit. Multiple units can be stacked one on top of the other within the same building, or they can be side by side. The U.S. Census Bureau considers multifamily housing to be a structure with five or more dwelling units (the definition also used for this book). Multifamily housing includes more than high-rise apartment buildings. Moreover, all rental housing is not necessarily multifamily housing, and multifamily housing need not be for rent.

### Forms of Ownership

Multifamily housing comes in a variety of ownership forms.<sup>5</sup> Most multifamily housing units are rented to residents. In 1990, according to the U.S. Census Bureau, of the occupied units in structures with five or more units, 14,253,445 units (90.3 percent) were occupied by renters, and 1,522,411 units (9.7 percent) were occupied by owners. And not all renters live in multifamily housing. One-third of the nation's rental housing units are in single-family detached dwellings.<sup>6</sup>

Multifamily housing may be owner-occupied, either as a condominium or a cooperative. A condominium is an arrangement whereby the household has individual ownership of its unit (defined as the space enclosed by the unit's interior walls) plus an undivided ownership interest in the property's common elements. Condominium ownership dates back to when the ancient Romans allowed individual citizens to own dwelling units in multiunit buildings. Only in 1961, however, was condominium ownership made legal in the United States, under Section 234 of the National Housing Act. Since then, the condominium has become an increasingly common form of ownership. Condominiums are very common throughout Florida and Hawaii, where resorts and senior housing communities abound.

In contrast, cooperative ownership arrangements arose in the United States in cities like New York, Chicago, and San Francisco in the years before Section 234 of the National Housing Act became law. Cooperatives were formed so that the households living in an apartment building could own, rather than rent, the homes they lived in. In a cooperative, the residents of the building form a nonprofit corporation and buy shares in the corporation, which uses those funds to purchase the building. The corporation actually holds the title to the building, and the residents lease their units from the corporation. Therefore, the residents do not technically own their units, but they do own shares in the corporation that



Multifamily housing is better designed than in the past. Bridgecourt in Emeryville, California, brings high style to a mixed-income community.

Today's multifamily housing provides all the comfort, style, and amenities of single-family living, such as found in Jefferson Estates in Richardson, Texas.



Suburban garden apartments are the most common type of multifamily housing built today.



Burch Design Group

owns the building. Although complicated, cooperative ownership did succeed in the objective of giving residents ownership of their real estate. Since the passage of condominium legislation, however, cooperative forms of ownership are rarely used in multifamily housing.

Another special type of ownership of multifamily housing is timeshare ownership. It refers to the right to use, or the fee simple ownership of,<sup>7</sup> real estate for a specified period of time each year, usually in one-week increments. Timeshare ownership need not apply only to multifamily buildings. In fact, even space on cruise ships has been sold as timeshares. Still, many multifamily buildings in vacation destinations around the world use this form of ownership.

### Product Types

Just as ownership of multifamily housing takes a variety of forms, so do product types that make up multifamily housing. One common way of differentiating multifam-

ily products is according to their size and density. At one end of the spectrum are large single-family houses that have been subdivided into apartments. Such apartments were common early in the 20th century. At the other end of the spectrum are very-high-density high-rise apartment buildings, which may contain hundreds of units and sometimes even other uses, such as offices or stores. In between are low-rise multifamily buildings, commonly referred to as garden apartments.

**Garden Apartments.** Garden apartments are generally two to three stories, do not have an elevator, and can have interior hallways or allow direct access to the units from the outside. They usually have ten or more units in each structure. Site plans for garden apartment developments typically include landscaped common areas as well as surface parking. Increasingly, covered parking is provided, and some developers have begun to offer garden apartments that feature garages with direct access to their units. Such communities are often designed to resemble neigh-

borhoods of large single-family houses, but they can still achieve densities of ten to 20 units per acre.

In this country, garden apartments began to be built in substantial numbers in suburban areas during the housing boom that followed World War II. Then as now, garden apartments appealed to a variety of markets, particularly households that could not afford a single-family house, such as singles, young couples, and the elderly.

**Mid- and High-Rise Buildings.** Mid- and high-rise apartments differ from garden apartments not just in terms of their size but also in how they are designed and built. As a rule, buildings with more than three to as many as eight stories are considered mid-rise, while buildings taller than eight stories are considered high rise. Nevertheless, these definitions may vary to some extent according to local conventions. For instance, in New York City a 12-story building might be considered mid-rise.

Perhaps the most important difference between mid- and high-rise buildings is found in their design and construction. Garden apartments are usually constructed of wood framing, while mid- and high-rise apartments, for structural reasons, must be built with steel frames or reinforced concrete. State and local building and fire codes help to determine how these structures will be built. For instance, buildings with more than three stories are usually required to install sprinkler systems. Mid- and high-rise buildings today are also generally required to have elevators.

Mid- and high-rise buildings can be virtually any form and height (above three stories) and therefore density, subject to the restrictions of local zoning codes. They can be constructed as rectangular slabs with single- or double-loaded corridors, or they can be towers with units opening from a central service core. Any number of combinations are possible. Depending on the location of the development, parking may be in surface lots surrounding the building, at grade but below the first floor of the building (which may sit on a podium), in a full-fledged parking structure, or in a below-grade parking garage. Both mid- and high-rise buildings have come to be designed with more articulated facades, employing a variety of building materials and other design features, such as gables, bays, and balconies.

## The History of Multifamily Housing in the United States

Before the 19th century, multifamily housing did not exist in the sense that we understand it today. In colonial times, it was common for multiple households to live under the same roof, whether those people were family members or unrelated, or even if they were employees of the homeowner. These living arrangements in early towns and cities were usually born of economic necessity, reflecting the fact that in the late 1700s, most residents could ill afford a home of their own: only one in six inhabitants in the newly created United States owned any property.<sup>8</sup>

Beginning in New York City in the colonial era, landowners began to use ground leases. The owner of the land rented it to other parties for a specified number of years, with the lessee being encouraged, or even required, to build improvements on the land. Maintaining these improvements was the responsibility of the lessee, but when the lease expired the land and improvements generally reverted back to the landowner.<sup>9</sup> In many cases, these improvements were multifamily buildings.

### Tenements and Apartments: Multifamily Housing in Nineteenth Century America

By the 19th century, America was industrializing rapidly as factories sprang up in and around the nation's towns and cities. Every year, the country's population grew as families formed and immigration continued. Industrialization encouraged people to move into cities, thereby creating the demand for affordable housing, which often meant higher-density multifamily housing. Many of the buildings constructed during this time came to be known as tenements, and although strictly defined as any building accommodating three or more households under a single roof, tenements quickly developed a sordid reputation.

For poor immigrants and migrants from the countryside, the tenements often proved to be the only viable form of housing in big cities like New York and Chicago. Tenements had the advantage of being within walking distance of work, and they at least provided some form of housing that these workers found comparatively affordable. But life in the tenement houses was difficult, to say the least. Most tenements were plagued by shoddy construction, with inadequate lighting and nonexistent plumbing. Overcrowding was rampant. These deplorable conditions made illness and disease a common feature of life in the tenements. Landlords often packed so many people into their tenements and spent so little on maintenance that these slum properties could actually be very profitable.<sup>10</sup> For the wealthier classes, a further benefit of the tenement slums was that they segregated and concentrated the poor, immigrants, and others deemed undesirable into ghettos where they would never have to tread.

By the middle to late 19th century, continuing economic growth and the introduction of new transportation technologies like the electric trolley began to allow better-off families to move to new homes in the suburbs. Left behind in the inner cities were the tenement slums that, in the face of continued immigration and poverty, became more crowded than ever. In fact, in 1893 a Board of Health census concluded that more than 1 million New Yorkers—70 percent of the population—lived in multiple-family dwellings, about 80 percent of which were tenements.<sup>11</sup>

Around that time a reform movement began that sought to improve the deplorable conditions in the tenements. In 1890, Jacob Riis, a journalist and social reformer in New York, published his landmark book, *How the Other Half Lives*, which documented with grim photographs the