

2023: BREAKING DOWN ONE DOLLAR OF RENT

With so much discussion around rent payments and the prevailing misconception that rental housing owners enjoy large margins, the industry would like to offer this explanation of the breakdown of \$1 of rent based on the national average.

Only 7 cents of every \$1

is returned to owners as profit, including the many apartment owners who are themselves small businesses and rely on this revenue to make ends meet, and investors, which include public pensions and retirement plans that many Americans rely on whether or not they reside in rental housing.

2 cents of every \$1

goes toward capital expenditure reserves. The funds in these reserves cover roof and HVAC replacements and other important repairs that help ensure quality housing for America's 38.9 million rental housing residents.

46 cents of every \$1

pays for the mortgage on the property. This is a critical expense, as mortgage foreclosures put all residents at risk of losing their housing.

11 cents of every \$1 goes to property taxes, which in turn support the community through financing for schools, teachers, emergency services and other important local needs.

27 cents of every \$1 pays for operating expenses such as property and liability insurance, utilities and ongoing maintenance.

7 cents of every \$1 covers payroll expenses, including pay for employees who operate and maintain the community as part of the 17.5 million jobs that the industry supports.

Between mortgage payments, investor returns—which help support many Americans' retirement plans—and dollars put back into the apartment community to ensure quality living for residents, a rent payment is much more important than one might otherwise realize.

10 Things to Know About Where a Dollar of Rent Goes

BY DAVID CHOU

The National Apartment Association (NAA) partnered with Thirty Capital Performance Group to break down \$1 of rent by analyzing 2022 financial data from over 9,000 federally financed rental properties. Below are 10 things you might not know about each \$1 of rent.



1 Contrary to popular belief, rental housing providers make minimal profit from rental income. On average, for every dollar of rent paid, only 7 cents is returned to rental housing providers as profit. Meanwhile,

a significant 93 cents is allocated to cover essential operating expenses.

2 Looking at the breakdown of operating expenses, the largest expense housing providers must pay for is the mortgage. Almost half (46 cents) of every dollar is dedicated to covering the mortgage. This financial responsibility ensures that residents are protected from the risk of losing their homes.

3 For every dollar received in rent, 45 cents is allocated to cover a property's operating expenses, which ranks as the second-largest expenditure for most properties. These costs encompass a variety of essential outlays including employee salaries, property and liability insurance premiums, utilities for the property, marketing campaigns for vacant units and regular maintenance and repair.

4 From every dollar received in rent, 11 cents is dedicated to property taxes. These taxes play an instrumental role in supporting both the local community and the state at large. Funds derived from rental property taxes help strengthen public education, emergency services, infrastructure like public roads, and various other community-centric necessities.

5 On a national scale, the typical property allocates 7 cents of every dollar specifically for payroll. These expenses cater to the compensation of employees responsible for the operation and upkeep of the community.

6 For every dollar collected in rent, 8 cents is reserved for utility bills. These utilities encompass costs such as electricity for common areas, internet services and water supply for amenities like swimming pools.

7 Nationally, the average property dedicates roughly 2 cents of every dollar toward a capital expenditure reserve fund. While small, these funds serve an important role in covering long-term fixed assets such as HVAC systems, appliances in each unit, roof repairs and other key spendings.

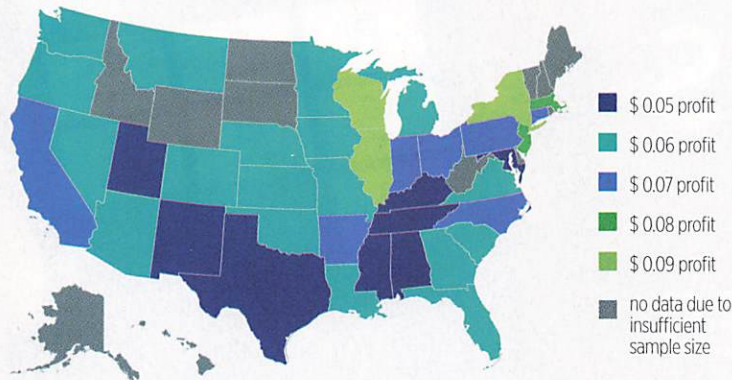
8 Properties in many states operate on small margins. Nearly half of the states and Washington, D.C., rely on a margin under 7 cents. Those on the thinnest margin (5 cents) tend to be in the south, e.g., Texas and Florida. Interestingly, the states with the highest average profit margin for a dollar of rent are also those with large populations and higher property taxes. New York, Illinois and Wisconsin each have a margin of 9 cents per dollar of rent.

9 Each rental property is safeguarded by property and liability insurance. Currently, many states are witnessing significant surges in insurance expenses. Notably, housing providers in Louisiana allocate the highest portion of their rents toward insurance, dedicating 8 cents for every dollar. Following Louisiana, Mississippi and Oklahoma are allocating 6 cents per dollar to insurance costs.

10 Kentucky and D.C. allocate the largest portion of their rental income toward operating expenses, at a rate of 34 cents per dollar of rent. On the other hand, New Jersey spent 22 cents per dollar on its operating expenses, the smallest proportion in the United States.

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WHERE \$1 OF RENT GOES BY STATE



Data Sources:

Data is based on 2022 operating statements from 9,263 rental properties with 5 or more units securing loans in Freddie Mac CMBS. Data is comprised of lender underwritten financials and appraised values and serialized operating statements extracted from agency multifamily CMBS offering circulars and trustee reports.

Notes:

1. Capital Expenditure Reserves:

These funds are reserved for long-term improvements and unexpected repairs on the property. This might include expenses like replacing roofs, upgrading HVAC systems, repaving, flooring and appliances.

2. Operating Expenses: Operating expenses cover the day-to-day costs associated with running a rental property. This category covers expenses such as utilities (water and sewer, electric, gas, etc.), routine repairs and maintenance (HVAC, plumbing, electrical and regular supplies and service). It also includes fees like property and liability insurance, legal and accounting services, management fees, marketing fees, general and administrative fees (equipment, eviction expenses and office supplies) and other operational expenses.

3. Mortgage Payment: This refers to the payments made on any loans taken out to finance the purchase of the property.

4. Payroll Expenses: These costs relate directly to the salaries, wages and benefits of individuals employed to manage or maintain the rental property.

5. Property Tax Expenses: Property taxes are levied by local governments and are typically based on the assessed value of the property. These funds often support local infrastructure, schools and public services.

State	Employee Payroll	Property Taxes	Operating Expenses	Capital Expenditures Reserves	Mortgage Payment	Profit for Every Dollar of Rent
Alabama	\$ 0.11	\$ 0.07	\$ 0.30	\$ 0.03	\$ 0.44	\$ 0.05
Arizona	\$ 0.08	\$ 0.04	\$ 0.27	\$ 0.02	\$ 0.53	\$ 0.06
Arkansas	\$ 0.11	\$ 0.07	\$ 0.31	\$ 0.03	\$ 0.41	\$ 0.07
California	\$ 0.04	\$ 0.10	\$ 0.23	\$ 0.02	\$ 0.54	\$ 0.07
Colorado	\$ 0.05	\$ 0.06	\$ 0.26	\$ 0.02	\$ 0.56	\$ 0.06
Connecticut	\$ 0.04	\$ 0.15	\$ 0.28	\$ 0.02	\$ 0.43	\$ 0.07
Florida	\$ 0.07	\$ 0.11	\$ 0.26	\$ 0.02	\$ 0.47	\$ 0.06
Georgia	\$ 0.09	\$ 0.09	\$ 0.28	\$ 0.02	\$ 0.45	\$ 0.06
Illinois	\$ 0.03	\$ 0.14	\$ 0.28	\$ 0.02	\$ 0.45	\$ 0.09
Indiana	\$ 0.10	\$ 0.08	\$ 0.31	\$ 0.03	\$ 0.40	\$ 0.07
Iowa	\$ 0.09	\$ 0.12	\$ 0.29	\$ 0.02	\$ 0.42	\$ 0.06
Kansas	\$ 0.11	\$ 0.09	\$ 0.30	\$ 0.03	\$ 0.40	\$ 0.06
Kentucky	\$ 0.09	\$ 0.08	\$ 0.34	\$ 0.03	\$ 0.42	\$ 0.06
Louisiana	\$ 0.10	\$ 0.06	\$ 0.32	\$ 0.03	\$ 0.43	\$ 0.06
Maryland	\$ 0.09	\$ 0.10	\$ 0.27	\$ 0.02	\$ 0.47	\$ 0.05
Massachusetts	\$ 0.04	\$ 0.10	\$ 0.26	\$ 0.01	\$ 0.50	\$ 0.08
Michigan	\$ 0.09	\$ 0.11	\$ 0.31	\$ 0.02	\$ 0.39	\$ 0.08
Minnesota	\$ 0.06	\$ 0.13	\$ 0.30	\$ 0.02	\$ 0.42	\$ 0.06
Mississippi	\$ 0.13	\$ 0.08	\$ 0.31	\$ 0.03	\$ 0.40	\$ 0.05
Missouri	\$ 0.09	\$ 0.07	\$ 0.32	\$ 0.03	\$ 0.44	\$ 0.06
Nebraska	\$ 0.10	\$ 0.11	\$ 0.30	\$ 0.02	\$ 0.41	\$ 0.06
Nevada	\$ 0.10	\$ 0.04	\$ 0.26	\$ 0.02	\$ 0.53	\$ 0.06
New Jersey	\$ 0.03	\$ 0.16	\$ 0.22	\$ 0.02	\$ 0.49	\$ 0.08
New Mexico	\$ 0.09	\$ 0.05	\$ 0.30	\$ 0.02	\$ 0.49	\$ 0.05
New York	\$ 0.03	\$ 0.11	\$ 0.23	\$ 0.01	\$ 0.52	\$ 0.09
North Carolina	\$ 0.10	\$ 0.07	\$ 0.27	\$ 0.02	\$ 0.47	\$ 0.07
Ohio	\$ 0.09	\$ 0.11	\$ 0.32	\$ 0.03	\$ 0.40	\$ 0.06
Oklahoma	\$ 0.12	\$ 0.06	\$ 0.33	\$ 0.03	\$ 0.40	\$ 0.06
Oregon	\$ 0.05	\$ 0.08	\$ 0.25	\$ 0.02	\$ 0.54	\$ 0.06
Pennsylvania	\$ 0.07	\$ 0.09	\$ 0.28	\$ 0.02	\$ 0.48	\$ 0.07
South Carolina	\$ 0.09	\$ 0.12	\$ 0.28	\$ 0.02	\$ 0.44	\$ 0.06
Tennessee	\$ 0.10	\$ 0.09	\$ 0.27	\$ 0.02	\$ 0.47	\$ 0.05
Texas	\$ 0.10	\$ 0.14	\$ 0.29	\$ 0.02	\$ 0.40	\$ 0.05
Utah	\$ 0.08	\$ 0.06	\$ 0.24	\$ 0.02	\$ 0.55	\$ 0.05
Virginia	\$ 0.09	\$ 0.08	\$ 0.28	\$ 0.02	\$ 0.47	\$ 0.06
Washington	\$ 0.05	\$ 0.10	\$ 0.23	\$ 0.01	\$ 0.54	\$ 0.06
Wisconsin	\$ 0.06	\$ 0.12	\$ 0.25	\$ 0.02	\$ 0.46	\$ 0.09
Washington, D.C.	\$ 0.02	\$ 0.06	\$ 0.34	\$ 0.02	\$ 0.51	\$ 0.05

NOTE: TOTALS MAY NOT SUM TO \$1.00 DUE TO ROUNDING.

Sources: National Apartment Association, Thirty Capital Performance Group, Weareapartments.org