



# 2023: Breaking Down \$1 of Rent in California

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 state average.

### Only 7 cents of every \$1

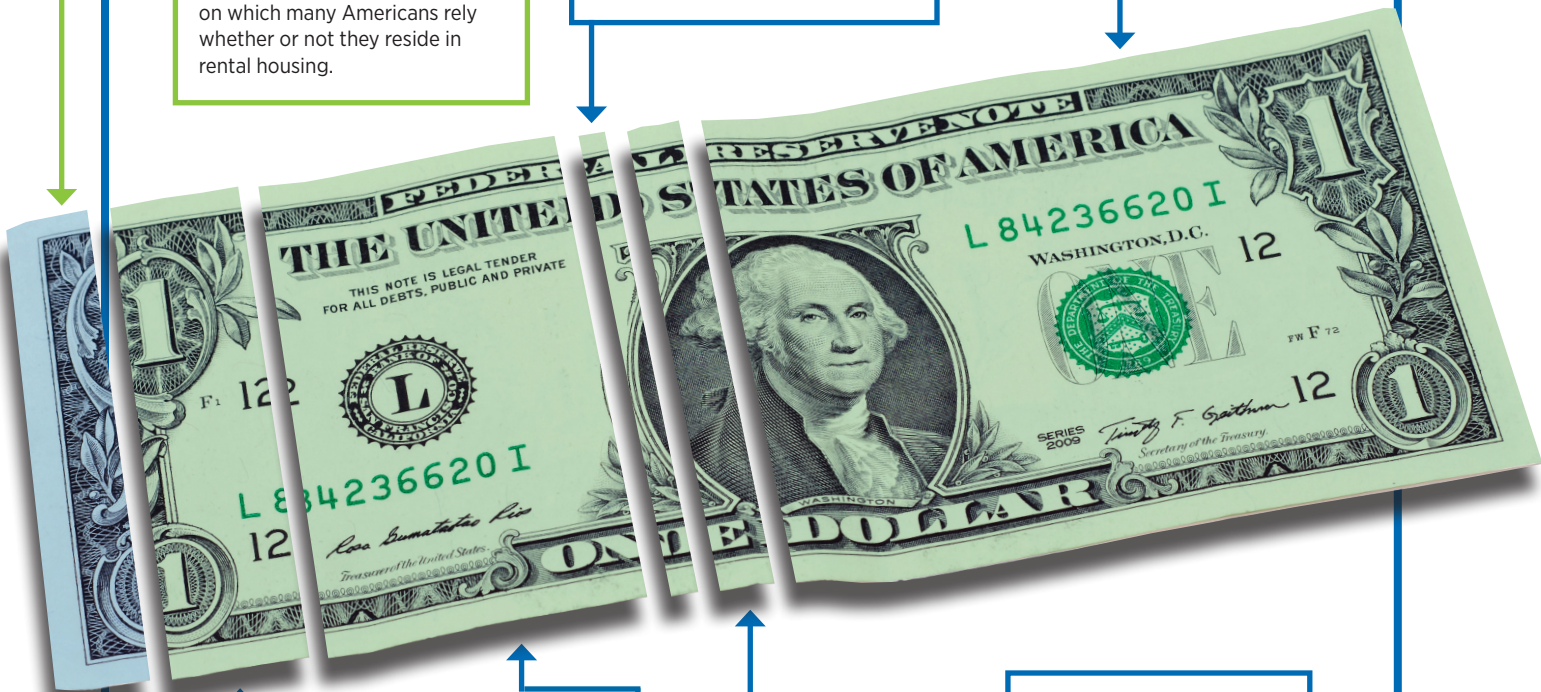
is returned to owners as profit, including the many apartment owners who are themselves small businesses and rely on this revenue to make ends meet, and investors, which include public pensions and retirement plans, on which many Americans rely whether or not they reside in rental housing.

### 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 California's 6,400,000 rental housing residents.

### 54 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.



**10 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.

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

### 4 cents of every \$1

covers payroll expenses, including pay for employees who operate and maintain the community as part of the 2,100,000 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.

# California Expenses Breakdown

## Operating Expenses

Employee Payroll.....	\$ 0.04
Property & Liability Insurance .....	\$ 0.03
Taxes .....	\$ 0.10
Utilities .....	\$ 0.07
Management Fees.....	\$ 0.05
Professional Fees .....	\$ 0.01
General & Administrative Fees .....	\$ 0.02
Marketing Fees.....	\$ 0.00
Other Expenses .....	\$ 0.00
Repair & Maintenance .....	\$ 0.06
<b>Total Operating Expenses .....</b>	<b>\$ 0.37</b>

**Capital Expenditures Reserves .....** **\$ 0.02**

**Mortgage Payment .....** **\$ 0.54**

**Total Expenses .....** **\$ 0.93**

**Profit/Loss .....** **\$ 0.07**

Note: Totals may not sum \$1.00 due to rounding.

### Data Sources:

Data is based on 2022 operating statements from multifamily 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.