AMERICA'S RENTAL HOUSING

EVOLVING MARKETS AND NEEDS

Joint Center for Housing Studies of Harvard University

JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

HARVARD GRADUATE SCHOOL OF DESIGN
HARVARD KENNEDY SCHOOL

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INTRODUCTION AND SUMMARY

Rental housing has always provided a broad choice of homes for people at all phases of life. The recent economic turmoil underscored the many advantages of renting and raised the barriers to homeownership, sparking a surge in demand that has buoyed rental markets across the country. But significant erosion in renter incomes over the past decade has pushed the number of households paying excessive shares of income for housing to record levels. Assistance efforts have failed to keep pace with this escalating need, undermining the nation's longstanding goal of ensuring decent and affordable housing for all.

THE RESURGENCE OF RENTING

Reversing the long uptrend in homeownership, American households have increasingly turned to the rental market for their housing. From 31 percent in 2004, the renter share of all US households climbed to 35 percent in 2012, bringing the total number to 43 million by early 2013.

A confluence of factors drove this increase. The enormous wave of foreclosures that swept the nation after 2008 certainly played a role, displacing millions of homeowners. The economic upheaval of the Great Recession also contributed, with high rates of sustained unemployment straining household budgets and preventing would-be buyers from purchasing homes. Meanwhile, the experience of the last few years highlighted the many risks of homeownership, including the potential loss of wealth from falling home values, the high costs of relocating, and the financial and personal havoc caused by foreclosure. All in all, recent conditions have brought renewed appreciation for the benefits of renting, including the greater ease of moving, the ability to choose housing that better fits the family budget, and the freedom from responsibility for home maintenance.

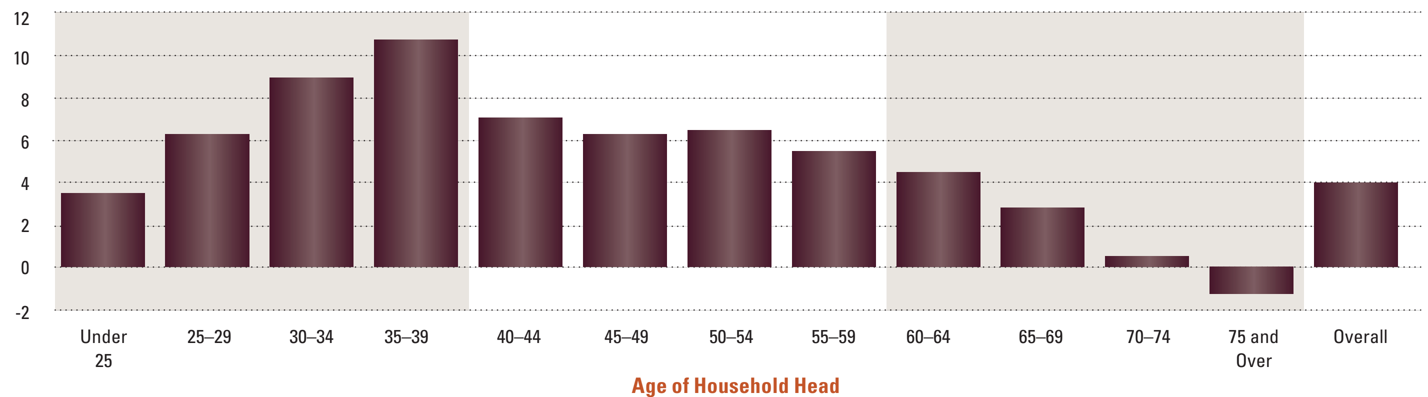
Households of all but the oldest age groups have joined in the shift toward renting **(Figure 1.1).** The largest increase in share is among households in their 30s, up by at least 9 percentage points over an eight-year span. But shares of households across all five-year age groups between 25 and 54 also rose by at least 6 percentage points. In fact, the jump in rental rates for most age groups was well above the 4.0 percent overall rise, reflecting how the movement of the population into older age groups (when owning is more prevalent) stemmed some of the drop in homeownership.

With these widespread increases in the shares opting to rent, the 2000s marked the strongest decade of growth in renter households over the past half-century. After a modest rise early in the decade, the number of renter households soared after 2005, boosting average annual growth to more

FIGURE 1.1

Renting Has Increased Sharply Across Most Age Groups…

Change in Share of Households Renting 2004–2013:2 (Percentage points)

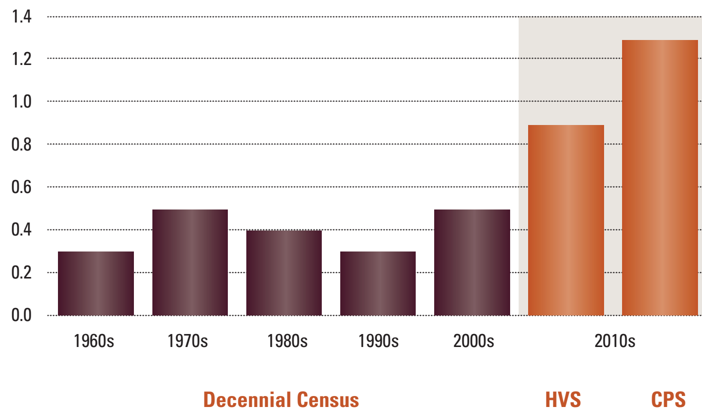


Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

FIGURE 1.2

…Generating a Surge in Renter Household Growth

Average Annual Growth in Renter Households (Millions)



Note: Renter growth in 2013 in the HVS was calculated by averaging the number of renters in the first and second quarters of the year and subtracting the average number of renters in the first and second quarters of 2012.
Source: JCHS tabulations of US Census Bureau, Decennial Censuses, Current Population Surveys (CPS), and Housing Vacancy Surveys (HVS).

than 500,000. Although estimates from the two key Census Bureau sources for 2010–13 differ widely, they both indicate that renter household growth continued at a torrid pace—rising at double the rate of recent decades **(Figure 1.2).**

The future pace of growth will depend largely on how the share of households that rent evolves. This in turn depends primarily on economic factors such as changes in household incomes, the direction of prices and rents, and the availability and terms of mortgage finance. But given the ongoing recovery in the homeowner market and the fact that rentership rates for households aged 30–64 are at their highest in the last 30 years, further increases in renter share are likely to be small and growth in the number of renters is likely to slow.

The Joint Center for Housing Studies has estimated renter household growth over the next decade applying current homeownership rates to recent household projections—in essence isolating the contribution of demographic forces from changes in rentership rates. Depending on the pace of immigration, the number of renter households is likely to increase by between 4.0 million and 4.7 million in 2013–23. While a considerable slowdown from the current rate, growth would still outstrip increases in both the 1960s and 1990s. These projections would of course understate renter household growth if renting becomes more popular over the next decade and overstate growth if homeownership rates rebound.

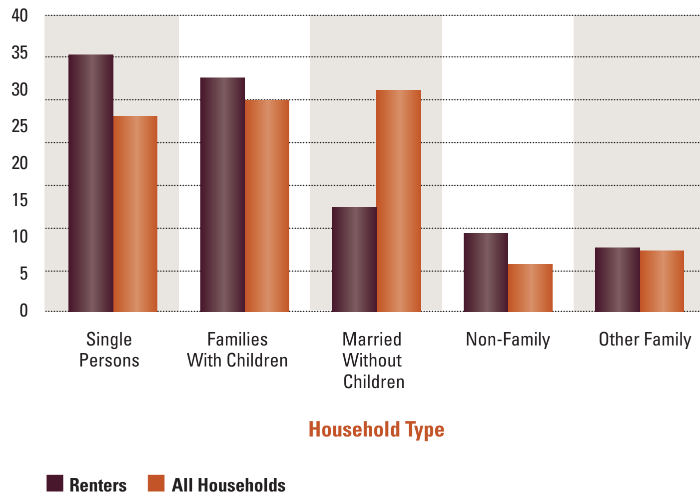
HOMES FOR A DIVERSE AMERICA

Offering greater flexibility and requiring less of a financial stretch than homeownership, renting is most common during the young adult phase of life when changes in work and relationships are frequent. But while four out of ten renters are under age 35, renting has appeal for households of all ages. In fact, more than a third are middle-aged (between 35 and 54), similar to that age group's share among all households.

FIGURE 2

Families with Children Are Nearly as Likely to Rent Their Homes as Single Persons

Share of Households (Percent)



Notes: Families with children may be headed by married couples or single parents, and only include children of the household head that are under age 18. Other family households include children under age 18 that are not those of the household head, such as grandchildren.
Source: JCHS tabulations of the US Census Bureau, 2013 Current Population Survey.

Even during the phases of life when people are most likely to own, many households rent for at least some period of time. For example, nearly one in five households that were in their 30s in 2001 switched from owning to renting at some point in 2001–11, as did nearly one in seven of those in their 40s. Even among households in their 50s and 60s in 2001 with longer histories of homeownership, 11 percent of those switched from owners to renters at some point during the ensuing decade. A return to renting is even more common later in life, with 24 percent of households over age 70 making that transition between 2001 and 2011.

Rental living often conjures up images of single people and unrelated roommates. Singles are indeed the most common type of renter, reflecting both their growing share of all households and the fact that renting often suits their need for less space at a lower cost. But contrary to the stereotype, families with children account for nearly as many renters as single persons **(Figure 2).** In fact, the share of families with children among renters is higher than the share among owners.

Since renting is more financially feasible for households of modest means, renters' incomes are disproportionately low. Nearly a quarter of renters have annual incomes under $15,000 (roughly equivalent to earnings from full-time work at the minimum wage), while only 13 percent of all households fall into this income category. A similar share of renters takes home between $15,000 and $30,000 a year, again much higher than this group's share of all households. Still, people at all income levels rent. More than a third of renters have moderate incomes (between $30,000 and $75,000), roughly matching their share of all households. The most underrepresented income group, earning $75,000 or more a year, still accounts for 17 percent of renters.

Over the next decade, two broad demographic trends—the aging of the population and the increasing importance of minorities for household growth—will drive significant changes in rental demand. Assuming current rentership rates, the aging of the baby-boom generation will lift the number of renters over age 65 by 2.2 million in the ten years to 2023, generating roughly half of overall renter growth. The older profile of renters means much of the increase will be among single persons and married couples without children, each group accounting for about 30 percent of growth. Many of these older households are already renters, but will be aging into the next phase of life. This trend suggests growing demand for smaller rentals, with good access to transportation and located near communities where households in their 50s and 60s are currently living.

Mirroring overall population growth, minorities will contribute virtually all of the net increase in renters over the coming decade, with Hispanics alone accounting for more than half of the total. Again assuming today's rates of renting, minorities will add between 1.8 million and 2.2 million renter households in the 25–44 age group, with the wide range reflecting different assumptions about future immigration levels. Significant shares of these younger renter households will be married couples with children and single-parent families, which together will account for another 30 percent of new renters. This group of households will seek more spacious homes to accommodate their larger families and in locations with access to good schools and employment opportunities.

THE RANGE OF RENTAL HOUSING OPTIONS

Unlike owner-occupied housing, rentals come in a variety of configurations. Still, nearly four out of ten rental properties are single-family homes, and another fifth are in small buildings with two to four units **(Figure 3).** The more prototypical apartment buildings of 10 or more units account for 30 percent of rentals. Rental housing is more likely to be located

in urban areas, with central cities home to 43 percent of renters. But nearly as large a share (40 percent) of renters reside in the suburbs—only slightly below the 49 percent of all households that live in these areas.

In keeping with the large share of renters of modest income, rental housing is concentrated in low-income communities. Based on American Community Survey (ACS) data from 2007 to 2011, 45 percent of occupied rental homes in the 100 largest metropolitan areas were located in low-income neighborhoods (with median incomes below 80 percent of the metro area median). In contrast, only 28 percent of all households lived in these areas. Nonetheless, rental housing is found in neighborhoods across the income spectrum, with nearly a fifth in communities where median income exceeds 120 percent of the metro area median.

Yet the location of newly built rental units within metropolitan areas nearly matches the distribution of existing owner and renter housing combined. Indeed, renter-occupied housing units built since 2000 are evenly distributed across neighborhoods by income level, as well as across core cities, suburbs, and exurban areas. In contrast, new owner-occupied units are highly concentrated in higher-income neighborhoods and in exurban areas.

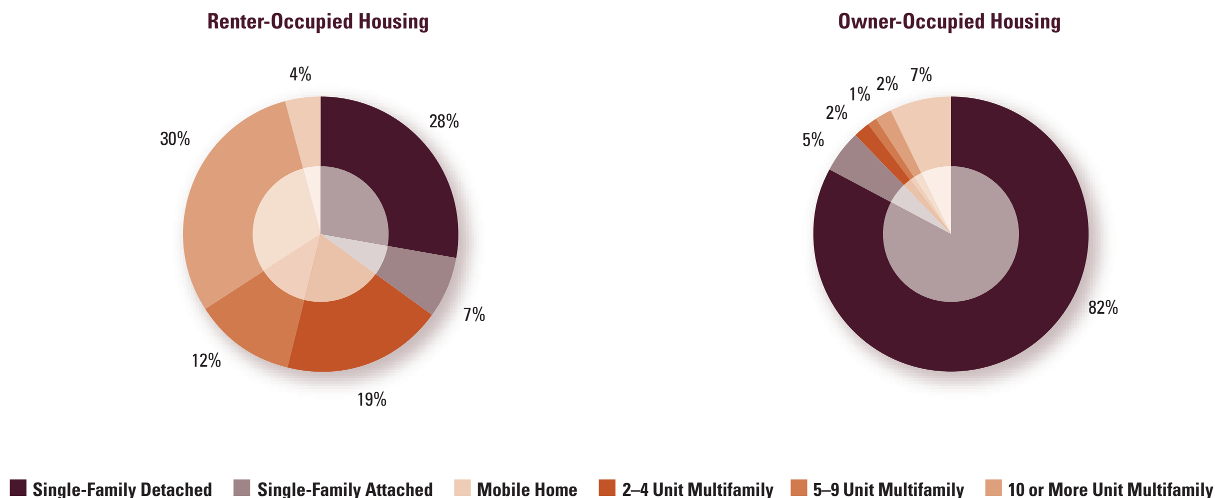
The recent housing market upheaval has highlighted the dynamic nature of the housing stock. According to the Current Population Survey, the number of renter households increased by 3.4 million from 2007 through 2011. With construction volumes depressed, most of this new demand was met by the migration of 3.0 million units—primarily single-family homes—from the owner-occupied to the rental housing stock. This influx pushed the share of single-family rentals up 4 percentage points, to 35 percent, in 2011. While still a small share of the overall market, institutional investors also began buying up single-family properties for rentals, testing new business models for owning and managing portfolios of individual homes that may further expand rental housing options.

RENTAL MARKET REVIVAL

The collapse of the housing market was a key factor in the genesis of the Great Recession, and its painfully slow rebound is one of the major impediments to the broader economic recovery. Even so, the rental sector bounced back relatively quickly both because demand has been so strong and because it was less caught up in the lending excesses that fueled the housing bubble. By a variety of measures, the rental sector has been strengthening for several years, starting with the downturn in vacancy rates in 2010 **(Figure 4).** Rents picked up in 2011 as markets tightened. With these gains, the financial performance of rental properties also improved, with net operating income and property values making up much of the ground lost during the downturn.

FIGURE 3

The Rental Stock Provides a Broad Array of Housing Choices



Note: Includes vacant for-sale and for-rent units.
Source: JCHS tabulations of US Department of Housing and Urban Development, 2011 American Housing Survey.

FIGURE 4

The Rental Housing Market Rebound Is Well Under Way

	2009	2010	2011	2012	2013 YTD
Vacancy Rates (Percent)					
All Rentals	10.6	10.2	9.5	8.7	8.5
Professionally Managed Apartments	7.9	6.6	5.6	4.9	4.9
Rents (Percent change)					
All Rentals	2.3	0.2	1.7	2.7	2.8
Professionally Managed Apartments	-4.1	2.4	4.8	3.0	3.1
Multifamily Construction (Thousands of units)					
Permits	142	157	206	311	337
Starts	109	116	178	245	299
Completions	274	155	138	166	181
Financial Indicators (Percent change)					
Net Operating Income	-2.4	9.2	10.4	6.1	4.9
Property Values	-27.8	-3.7	19.2	14.2	14.0

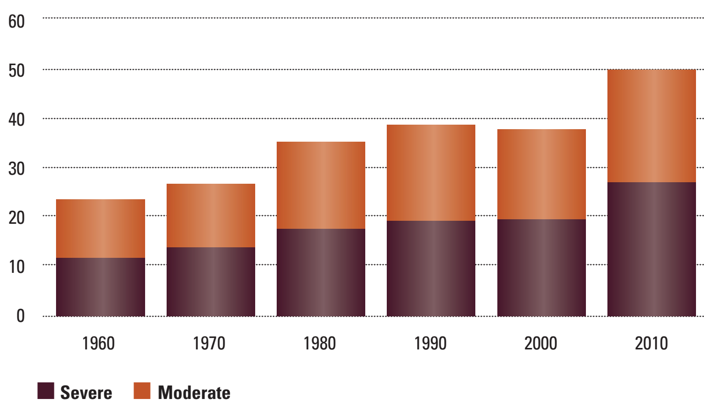
Note: Data for 2013 are through the second quarter.

Sources: US Census Bureau, New Residential Construction; MPF Research; National Council of Real Estate Investment Fiduciaries (NCREIF); and Moody's/RCA Commercial Property Price Index—Apartments.

FIGURE 5

Renter Cost Burdens Spread at an Unprecedented Pace in the 2000s

Shares of Cost-Burdened Renter Households (Percent)



Notes: Moderate (severe) burdens are defined as housing costs of 30–50% (more than 50%) of household income. Households with zero or negative income are assumed to be severely burdened, while renters not paying cash rent are assumed to be unburdened.

Sources: JCHS tabulations of US Census Bureau, Decennial Census and American Community Surveys.

Most important for the economy, construction activity also accelerated in 2011 as multifamily starts—the vast majority intended for the rental market—jumped 54 percent. Midway through 2013, starts were on pace to total 294,000 for the year, still below the 340,000 annual rate averaged in the early 2000s before the housing bust. Because of the lengthy construction process for large properties, however, completions are still far below levels a decade ago.

The rental housing recovery is widespread, with lower vacancies, higher rents, and higher construction levels evident in a large majority of markets. Indeed, multifamily permitting has accelerated in two-thirds of the 100 largest metropolitan areas, exceeded averages during the 2000s in a third of those markets, and even surpassed previous peaks in a few metros. The rapid expansion of production has raised alarms about potential overbuilding, particularly since long development periods may mask the total volume of new multifamily housing coming on the market. So far, though, there are no signs of large increases in vacancies or decreases in rents that would indicate an oversupply of units. Still, vacancy rates do appear to be bottoming out and rent increases are slowing in many markets, suggesting that supply and demand are moving into balance.

One aspect of the rental market that does bear watching, however, is multifamily finance. During the downturn, most credit sources dried up as property performance deteriorated and the risk of delinquencies mounted. Much as in the owner-occupied market, though, lending activity continued through government-backed channels, with Fannie Mae, Freddie Mac, and the Federal Housing Administration (FHA) playing an important countercyclical role.

But as the health of the multifamily market improved, private lending revived. According to the Mortgage Bankers Association, banks and thrifts greatly expanded their multifamily lending in 2012, nearly matching the volume for Fannie and Freddie. Given fundamentally sound market conditions, multifamily lending activity should continue to increase. The experience of the last several years, however, clearly testifies to the importance of a government presence in a market that provides homes for millions of Americans, particularly during periods of economic stress.

THE SPREAD OF COST BURDENS

Against the backdrop of the rental market recovery, declining renter incomes continue to add to longstanding affordability pressures. Already up sharply before the recession began, the share of cost-burdened renters took a turn for the worse

after 2007. As a result, the share of renters paying more than 30 percent of income for housing, the traditional measure of affordability, rose 12 percentage points over the decade, reaching 50 percent in 2010 **(Figure 5).** Much of the increase was among renters facing severe burdens (paying more than half of income for rent), boosting their share nearly 8 percentage points to 27 percent. These levels were unimaginable just a decade ago, when the fact that the severely cost-burdened share was nearly 20 percent was already cause for serious concern.

In 2011, the last year for which detailed information is available, both the overall share of renters with cost burdens and the share with severe burdens moved up by about half a percentage point. These increases expanded the ranks of cost-burdened renters to 20.6 million, including 11.3 million that pay more than half their incomes for housing. Initial estimates for 2012 indicate the number of cost-burdened households again increased to a record 21.1 million. Although the share of cost-burdened renters receded slightly, this modest improvement occurred only because the number of higher-income renters rose sharply.

Housing cost burdens are nearly ubiquitous among lowest-income renters. An astounding 83 percent of renters with incomes of less than $15,000 were housing cost burdened in 2011, including a dismal 71 percent with severe burdens. But the largest increases in shares in 2001–11 were for moderate-income renters, up 11 percentage points among those with incomes of $30,000–44,999 and 9 percentage points among those with incomes of $45,000–74,999.

Rising unemployment clearly contributed to deteriorating affordability. In 2011, three-quarters of renters with household heads that were unable to find work in the previous year had housing cost burdens. The number of such households nearly quadrupled between 2007 and 2011, adding 830,000 to the ranks of cost-burdened renters. But high unemployment rates are not the main culprit because the spread of burdens has been even greater among households with full-time workers. The cost-burdened share of renters who worked throughout the preceding year rose by nearly 10 percentage points between 2001 and 2011, boosting their numbers by more than 2.5 million over the decade.

For families and individuals unable to find affordable housing, the consequences are dire. Among households with less than $15,000 a year in expenditures (a proxy for low income), severe cost burdens mean paying about $500 more for housing than their counterparts living in units they can afford. With little else in their already tight budgets to cut, these renters spend about $130 less on food—a reduction of nearly 40 percent relative to those without burdens. Severely burdened households with expenditures between $15,000–30,000 (one to two times full-time federal minimum wage work) cut back on food by a similar amount. Housing affordability is thus clearly linked to the problem of hunger in America. Both lower-income groups with severe housing cost burdens also spend significantly less on health care and retirement savings, with direct implications for their current and future well-being. But even those lower-income households that manage to secure affordable housing face difficult tradeoffs, often living in inadequate conditions or spending more on transportation.

THE CHALLENGE OF SUPPLYING LOW-COST HOUSING

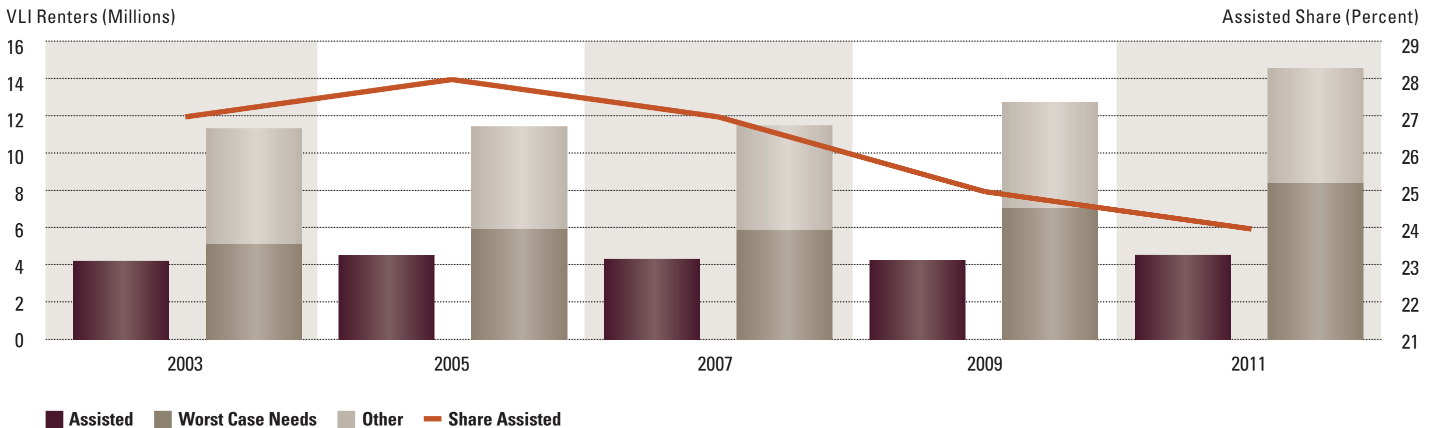
While the steady erosion of household incomes has helped lift the ranks of cost-burdened renters, the affordability problem fundamentally reflects the simple fact that the cost of providing decent housing exceeds what low-income renters can afford to pay. Consider the case of renters with $15,000 in annual income. To meet the 30-percent-of-income affordability standard, they would have to find housing that costs no more than $375 a month. By comparison, the 2011 median monthly cost for housing built within the previous four years was more than $1,000. Less than 34 percent of these new units rented for less than $800, and only 5 percent for less than $400.

Given this mismatch, it is no surprise that the gap between the number of lower-income renters and the supply of affordable units continues to grow. In 2011, 11.8 million renters with extremely low incomes (less than 30 percent of area median income, or about $19,000 nationally) competed for just 6.9 million rentals affordable at that income cutoff—a shortfall of 4.9 million units. The supply gap worsened substantially in 2001–11 as the number of extremely low-income renters climbed by 3.0 million while the number of affordable rentals was unchanged. Making matters worse, 2.6 million of these affordable rentals were occupied by higher-income households.

Housing affordable to lowest-income renters tends to be older. Nearly half of unassisted rentals available for $400 a month or less in 2011 were built more than 50 years ago. These low-rent units are also more likely to be in poor condition, with 13.7 percent failing to meet the criteria for adequacy defined by the American Housing Survey, compared with 9.8 percent of all rentals. As a result, these homes are

FIGURE 6

As the Number of Very Low-Income Renters Has Grown, the Likelihood of Assistance Has Diminished



Notes: Very low-income (VLI) renters have incomes below 50% of area median. Worst case needs are defined as having no government housing assistance and paying more than 50% of income for rent or living in severely inadequate housing, or both.
Source: US Department of Housing and Urban Development, Worst Case Housing Needs Reports to Congress.

most at risk of being demolished or otherwise permanently lost from the housing stock. Over the 10 years ending in 2011, 5.6 percent of all units available for rent were removed from the inventory. The rate for those renting for less than $400, however, was more than twice as high at 12.8 percent. While filtering of higher-cost units into the lower-cost segment offsets some losses, the net result is that the number of affordable units has stagnated for the past decade.

To make progress on the nation's legislative goal of affordable homes for all requires a multi-pronged approach. Part of the solution is to persist in efforts to reduce regulatory barriers to construction of rental housing in general, because expanding the supply helps to reduce rent inflation for all households. But efforts to develop low-cost rentals deserve particular attention. A growing number of jurisdictions have in fact put some form of requirements or incentives in place to include more affordable housing in larger developments. State and local governments are also under growing pressure to provide greater allowances for the construction of smaller units, higher-density developments, and rentals with fewer amenities. For example, building accessory dwelling units (ADUs) within established neighborhoods is a promising means of adding modest rentals in convenient locations. Development of very small apartments, or micro units, may also help increase the affordable supply in high-density, high-cost areas.

At the same time, there must be greater incentives to invest in existing affordable housing. These might entail more generous tax breaks for maintenance and improvements or exemption from certain local building code requirements, allowing the rehabilitation of properties in cost-effective ways that fully protect residents' safety but not necessarily to the standards of new construction. And for households with incomes too low to cover the costs of operating even lower-quality units in less desirable markets, public subsidies are essential.

POLICY DIRECTIONS

Rental subsidies are generally targeted at households with very low incomes, defined as not exceeding 50 percent of area median income. Between the onset of the Great Recession in 2007 and the latest count in 2011, the number of such renters soared by 3.3 million while the number able to obtain housing assistance expanded by just 225,000 **(Figure 6).** As a result, the share of income-eligible households receiving assistance shrank from an already modest 27.4 percent to 23.8 percent. Meanwhile, the number of unassisted very low-income renters with worst case needs (paying more than half of income for housing or living in severely inadequate homes) jumped by 2.6 million to 8.5 million. Continued economic recovery will ultimately boost renter incomes and thereby alleviate these conditions, but even in the best of times, the scale of need for assistance far outstrips available resources. And over the coming decade, rapid growth in the senior population will bring another surge in demand for assisted housing, straining the already limited capacity of programs specifically aimed at older Americans.

The limited growth in rental housing assistance reflects a range of challenges facing the programs delivering support. While funding for Housing Choice Vouchers—the main vehicle for expanded assistance—increased over the past decade, rising rents and falling incomes combined to raise the per-tenant costs of aid, limiting the program's ability to reach more households. Public housing, the nation's oldest assisted units, requires an estimated $26 billion in capital investments that remain unfunded. Many privately owned subsidized developments were also built more than 30 years ago and are now at risk of loss from the assisted stock due to aging and/or expiration of contracts. Mandatory funding cuts under federal budget sequestration have added to these pressures and could lead to a reduction of 125,000 vouchers this year.

So far, the Low Income Housing Tax Credit (LIHTC) program has been spared from sequestration because it operates through the tax code and therefore does not require annual appropriations. Since its inception in 1986, the LIHTC program has provided a critical piece of the financing used to support construction or preservation of some 2.2 million affordable housing units, filling a void left by the termination of most other assisted housing production programs several decades ago. The program has been highly successful in part because it puts private investors at risk of loss if developments fail.

By itself, however, the LIHTC does not provide deep enough subsidies to make units affordable for extremely low-income tenants, so it is often combined with other forms of assistance. The LIHTC program will come under scrutiny when debate about tax reform begins in earnest. In considering which tax expenditures to rein in, it will be important to recognize the LIHTC program's exceptional track record and its unique role in adding to the affordable housing supply. It is also essential to look holistically at reforms of the LIHTC program and other assisted housing efforts to ensure that these resources work together effectively to meet the needs of the nation's lowest-income renters.

With Fannie Mae, Freddie Mac, and FHA providing the lion's share of longer-term, fixed-rate multifamily rental loans, impending reform of the housing finance system will also have profound implications for the cost and availability of multifamily credit. Although some have called for winding down Fannie's and Freddie's multifamily activities and putting an end to federal backstops beyond FHA, most propose replacing the implicit guarantees of Fannie Mae and Freddie Mac with explicit guarantees for which the federal government would charge a fee. Proposals for a federal backstop differ, however, in whether they require a cap on the average per unit loan size or include an affordability requirement to ensure that credit is available to multifamily properties with lower rents or subsidies. While the details are clearly significant, what is most important is that reform efforts do not lose sight of the critical federal role in ensuring the availability of multifamily financing to help maintain rental affordability, as well as in supporting the market more broadly during economic downturns.

A variety of proposals for rental housing assistance reform are on the table that are intended to make more efficient use of existing resources, tailor interventions to serve as a springboard for individual opportunity, revitalize distressed neighborhoods, and expand the scope of assistance. In particular, the US Department of Housing and Urban Development (HUD) has proposed a number of improvements to existing programs, including major changes to public housing. The Bipartisan Policy Center Housing Commission has attempted to jumpstart an even broader policy debate by laying out a framework of guiding principles and identifying a series of specific proposals that support those principles. The Housing Partnership Network has also created a detailed blueprint for reforms, while the Center on Budget and Policy Priorities has designed a new mechanism for delivering rental subsidies through the tax system, similar to the support provided by housing vouchers. Meanwhile, many organizations are calling for finally funding the National Housing Trust Fund, which was created in 2008 to support production of housing affordable to households with extremely low incomes. The question now is whether Congress will recognize the vital importance of this assistance to millions of Americans and take action on these promising new directions.

RENTAL HOUSING DEMAND

Renting provides a flexible and financially suitable housing option for many Americans. While the likelihood of renting declines with age, many households switch between owning and renting at various points over their lives as their housing needs change. Although it is difficult to predict whether the recent shift toward renting will persist, the aging of the baby boomers and growth in the minority population alone will keep rental demand strong over the next decade.

THE BENEFITS OF RENTING

The recent turmoil in for-sale housing markets and the broader economy has highlighted the many advantages of renting. Since the onset of the Great Recession, unemployment has remained stubbornly high and incomes have fallen, straining household budgets. In this environment, renting offers a flexible housing choice that enables households to adapt to changing financial circumstances—including the need to relocate quickly, whether to find a more affordable home or to take a job elsewhere in the country.

The recent plunge in house prices also underscored the financial risks of homeownership. Falling home values are especially devastating to low- and moderate-income households, who often invest a substantial share of their resources in this single asset. And if forced to move when they owe more on their mortgages than their homes are worth, owners must cover the gap between the sales proceeds and the mortgage debt, or walk away from their loans and face the consequences of impaired credit for years to come.

For most households, renting is less of a financial stretch than buying a home. Even in the best of times, homeowners must come up with a substantial amount of cash to cover the downpayment and closing costs, as well as the expense of any immediate repairs. While renters typically have to pay a security deposit plus the last month's rent, the total outlay is usually more modest than the upfront costs of buying. Equally important, renters who want to move do not incur the steep costs associated with selling a home.

Renting also brings greater certainty to household budgeting because tenants do not have to cover the costs of unexpected but necessary home repairs. Owning a home, however, requires money, time, and skill to manage its upkeep. Renting transfers responsibility for maintenance to a landlord, reducing risk and worry for those who are either ill-suited to such tasks or who simply prefer to avoid these obligations.

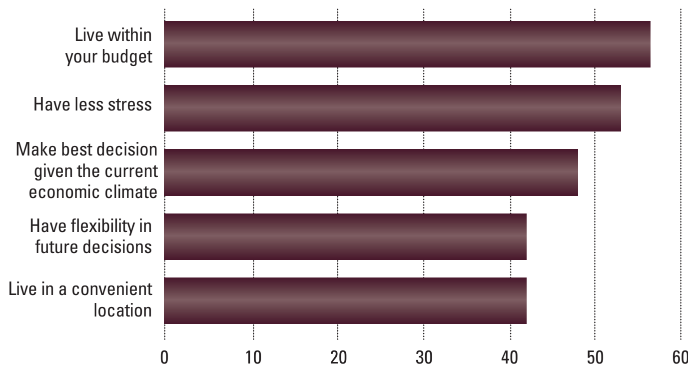
A 2012 Fannie Mae survey reveals many of the reasons some households favor renting over owning. More than half of the renter respondents considered renting a better choice for living within a budget and having less stress **(Figure 7).** The other common reasons cited for preferring to rent are that it is the best decision in the current economic climate, allows one to live in a more convenient location, and provides more flexibility in future decisions. At the same time, current homeowners overwhelmingly held the view that owning a home is a better way to achieve these goals, although 28 percent agreed that renting is less stressful.

Perhaps not surprisingly, attitudes toward renting have shifted somewhat as a result of the Great Recession. For example, slightly more than half (54 percent) of the households surveyed by Hart Research Associates in early 2013 stated that renting had become more appealing given the country's economic situation. Consistent with a variety of other sources, however, the same survey also found that a solid majority of renters (72 percent) still aspire to own homes in the future.

FIGURE 7

Renting's Appeal Lies in Affordability, Reduced Stress, and Flexibility

Percent of Renters Stating that Renting Is a Better Way to:

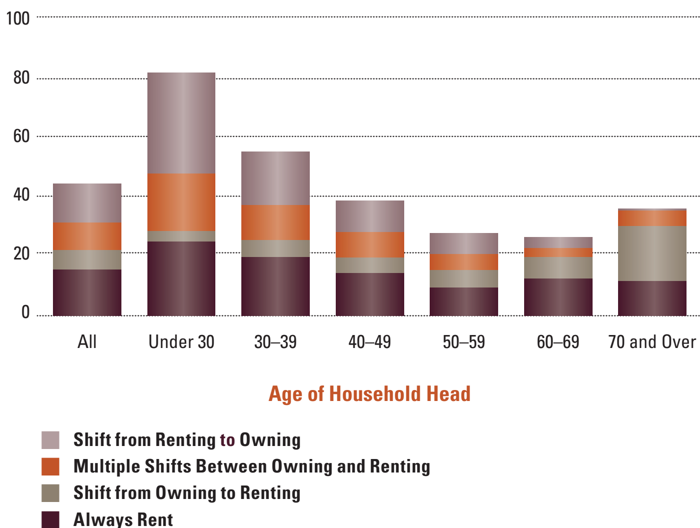


Source: Fannie Mae National Housing Survey, Q3 2012 Data Summary.

FIGURE 8

Households of All Ages Often Shift Between Renting and Owning Over the Course of a Decade

Share of 2001 Households Renting Sometime in 2001–11 (Percent)



Source: JCHS tabulations of the 2001–11 Panel Study of Income Dynamics.

RENTING OVER THE LIFECYCLE

Young adults are the most likely age group to rent. For those first leaving their family homes, the lower transaction costs and flexibility of renting makes it a natural choice during a stage in life marked by frequent changes in jobs, periods as a student, and shifts in personal relationships. As a result, nearly four out of five individuals under age 25 who live independently choose to rent. As people age and become more settled, the share that rent declines until late in life when the likelihood of renting increases slightly. Nevertheless, nearly two-thirds of 25–29 year-olds and more than half of households in their early 30s rent their homes.

While a majority of US households own homes at some point in their lives, many return to renting in response to changing fortunes and housing needs. For example, the Panel Study of Income Dynamics reports that 44 percent of families rented for some period between 2001 and 2011, but the renter share of households never exceeded 34 percent during the decade. Indeed, 16 percent of all households rented for the entire period, 13 percent started out as renters but made the transition to owning, 7 percent started out as owners but switched to renting, and 9 percent shifted between owning and renting multiple times **(Figure 8).**

Tenure transitions are most common among younger households, but increase again among the oldest households. In particular, the share that move from owning to renting rises first among those in their 60s and then more sharply as they reach age 70. According to the 2011 American Housing Survey, households that had recently shifted from owning to renting typically made the move to accommodate a change in employment or in marital status. Slightly more than half

of these households also stated that their housing costs declined as a result of the change.

Preferences for location and type of housing depend on renter household type. Non-family households, including roommate situations that are more common among the young, are more likely to live in multifamily housing in central cities **(Table A-2).** As they move into the childrearing phase of life, renters tend to prefer single-family homes in suburban or rural locations. In fact, married couples with children choose single-family rentals more than any other housing type. Single persons, many of which are seniors, are more likely to live in central cities and the most likely of all renters to live in multifamily structures.

Reflecting differences in housing costs, demographic characteristics, and the nature of the housing stock, renter shares also vary across metropolitan areas. Renting is somewhat more common in markets with higher house values, larger shares of young households, fewer senior households, and smaller shares of single-family homes. In the 20 largest metropolitan areas in the country, rentership rates thus range from 52 percent in Los Angeles to 30 percent in St. Louis **(Figure 9).** Most of the markets that have larger shares of renters are coastal metros with high home prices, including New York and San Diego. Renter shares are smaller in markets with lower house values, such as Detroit and Tampa.

GEOGRAPHIC VARIATIONS IN RENTING

Renting is much more prevalent in central cities, where land prices are high and low-income households are concentrated. In general, rentership rates are highest in cities of the Northeast, where more than 60 percent of households rent compared with 45–50 percent in other regions. About a quarter of households rent in suburban and non-metropolitan areas in most parts of the country, although rentership rates in these areas exceed 30 percent in the West.

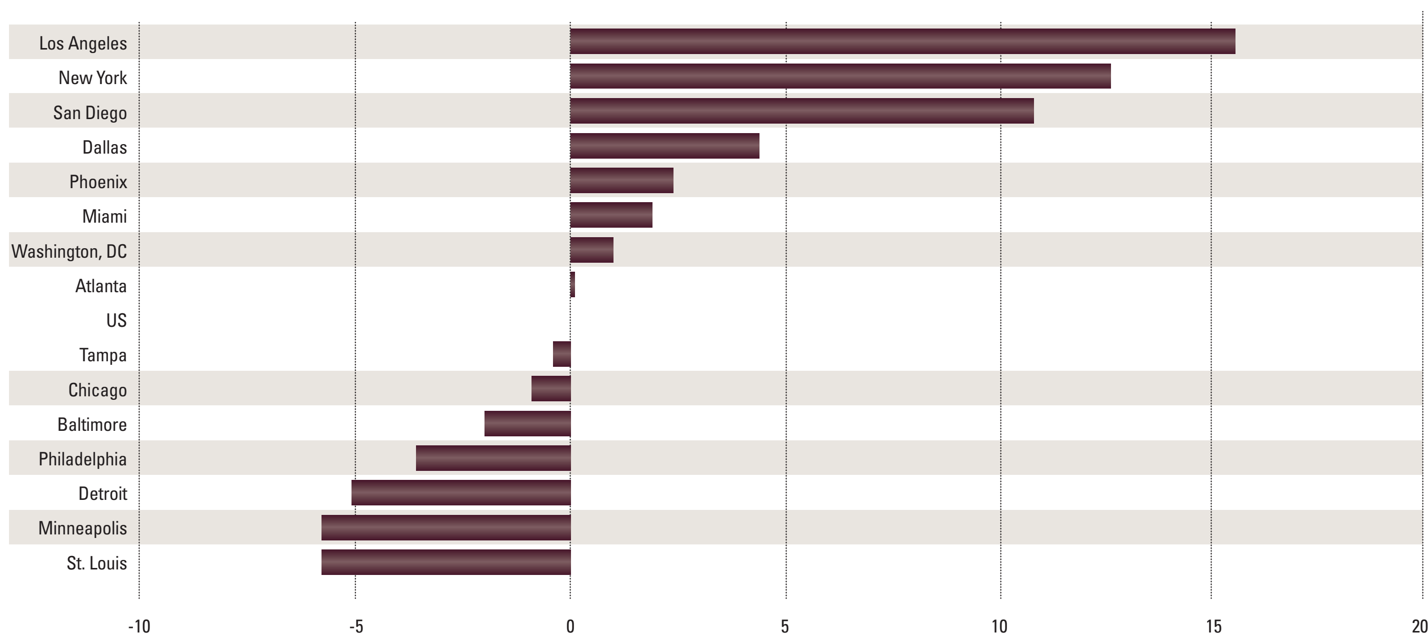
HOMES FOR A DIVERSE POPULATION

According to the Current Population Survey, 43.0 million US households rented their homes in 2013. Given the appeal of renting for young adults, 39 percent of these renters were under age 35—almost twice their share in the overall population **(Figure 10).** But nearly as many renters were between the ages of 35 and 54 (36 percent). Households aged 55 and over currently make up a small share of renters (25 percent) relative to their share of all households.

FIGURE 9

Rentership Rates Vary Widely Across Metro Areas, Reflecting Differences in Housing Costs and Demographic Profiles

Percentage Point Difference from US Rentership Rate of 36 Percent



Source: JCHS tabulations of US Census Bureau, 2012 American Community Survey.

With their need for less living space and their lower incomes, single persons are the most common renter household. Even so, nearly as many renters are households with children. Fully 32 percent of renters are married couples with children and single-parent families. Married couples without children are the most underrepresented household type among renters relative to their share of all households.

While households of all incomes rent their homes, it is nonetheless true that a disproportionate share of renters have low incomes. Nearly half (46 percent) of renters have incomes below $30,000, including 22 percent with annual incomes below $15,000 (roughly equivalent to working year-round at the minimum wage) and 24 percent earning between $15,000 and $30,000. By comparison, only 30 percent of all households have incomes this low. However, the renter share of moderate-income households (with $30,000–74,999 in annual income) is 37 percent—just above their share of total households. Higher-income households make up only about one in six renters, compared with about a third of all households.

Many lowest-income renters are among the country's more vulnerable households. Roughly four out of ten renters with incomes under $15,000 are out of the workforce because they are disabled or retired. Of the remainder, half are employed but earn only modest amounts, while another sixth are unemployed and looking for work. Among renters earning $15,000–29,999, nearly a quarter are disabled or retired and fully 80 percent of the rest are employed.

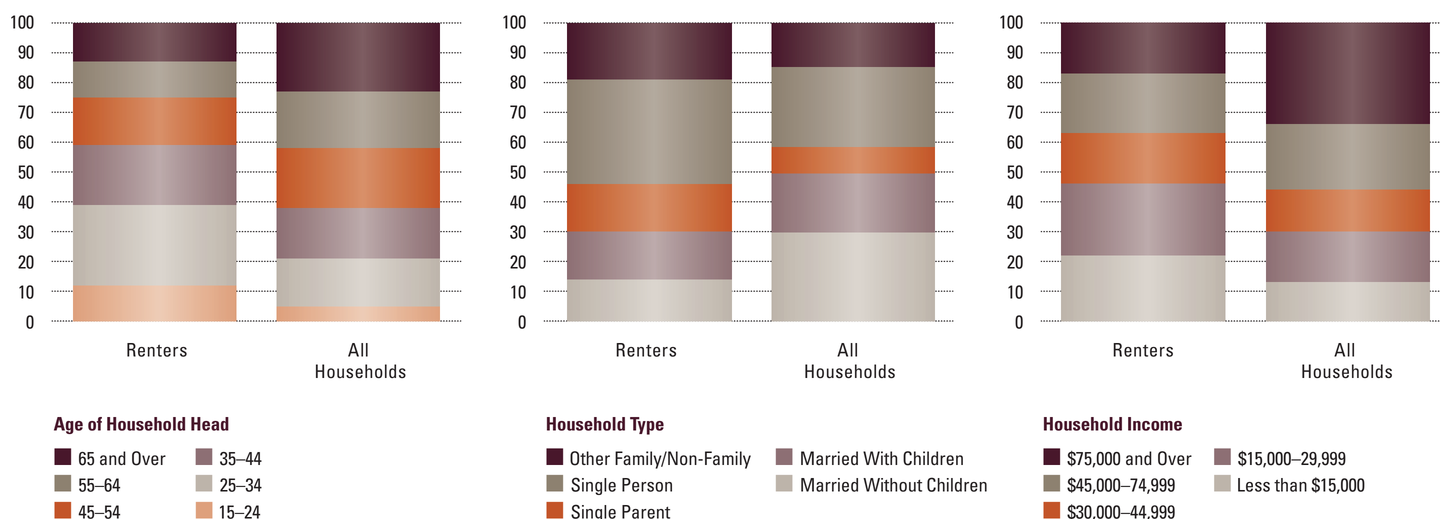
Since the mid-2000s, rentership rates have risen across all household types, income categories, and age groups except the oldest. While the sharpest increases have been among young adults, fewer individuals in this age group have been striking out on their own. As a result, adults under age 35 as a share of all renters actually fell between 2005 and 2013. And while the overall number of households aged 35–54 dropped by over 1.2 million during this time, higher rentership rates meant the number of renters within this age group actually rose by over 3 million. The aging of the baby-boom generation also meant that seniors accounted for a large share of renter household growth over this period.

With their overall numbers climbing, low-income (under $15,000) and Hispanic households also contributed a large share of the recent increase in renters. Indeed, while each group currently represents approximately 13 percent of all households, low-income households were responsible for 26 percent of renter growth in 2005–13 while Hispanic households accounted for 29 percent.

FIGURE 10

Renters Reflect the Diversity of US Households

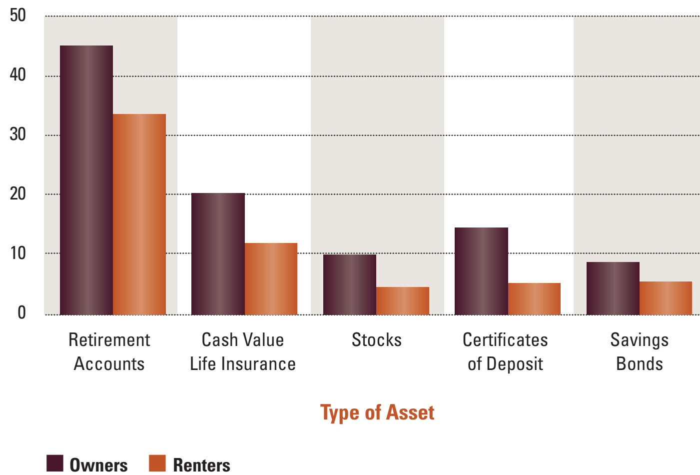
Share of Households (Percent)



Source: JCHS tabulations of US Census Bureau, 2013 Current Population Survey.

FIGURE 11

Lower-Income Renters Are Much Less Likely than Owners to Hold Various Financial Investments



Note: Income quartiles are equal fourths of all households by income.
Source: JCHS tabulations of Federal Reserve Board, 2010 Survey of Consumer Finances.

WEALTH ACCUMULATION AMONG RENTERS

Savings and other forms of wealth provide economic security in times of job loss, poor health, or unexpected expenses. They also support life-changing investments in education and business opportunities, and lay a solid foundation for retirement. Even after controlling for their lower average incomes, though, renters accumulate much less wealth than homeowners. For example, among households in the upper-middle income quartile, the median net worth of homeowners in 2010 was nearly nine times that of renters. The median for all owners was 34 times that of renters.

Home equity accounts for a significant share of the difference, but by no means all. Excluding housing wealth, homeowners still had a median net worth of $72,520 in 2010—more than 14 times that of renters. And even accounting for differences in the ages as well as the incomes of owners and renters, the disparities remain wide. Among households aged 35–44 in the upper-middle income quartile, for example, median net wealth in 2010 was just $13,300 for renters but $69,700 for owners.

With the housing market crash, the median net wealth of homeowners plunged 30 percent between 2007 and 2010. Renters' median wealth fell only 5 percent. This modest decline largely reflects the fact that what little wealth they had was mostly in lower-risk, lower-yielding accounts. Even so, the median wealth of renters in the highest income quartile, who held a broader range of investments, dropped nearly 50 percent as the recession drove down the values of a full range of financial assets as well as housing.

Again, even after accounting for differences in income, renters are less likely than owners to own assets such as retirement accounts, cash-value life insurance policies, stocks, certificates of deposit, or savings bonds **(Figure 11).** The gap in retirement savings is especially large, and may be due to differences in the nature of owners' and renters' employment as well as the types of benefits they receive. But what is perhaps most troubling is that holdings of these and other financial assets are low for owners as well as renters, underscoring the urgent public policy need to promote saving outside of employment and by means other than homeownership.

DEMOGRAPHIC DRIVERS OF FUTURE DEMAND

Two key factors will drive rental housing demand over the next decade: changes in the number and characteristics of households, and changes in the tendency of different groups to own their homes. Of these, changes in the distribution of households is somewhat easier to project because the age structure of the adult population is already known with some certainty and the rate at which they form different types of households changes relatively slowly.

In contrast, homeownership rates can fluctuate significantly over a several-year span as economic conditions change. Consider trends in rental demand between 2005 and 2012. If homeownership rates had held constant, overall household growth would have lifted the number of renter households by 2.0 million. Instead, plummeting homeownership rates boosted the number of renters by some 6.6 million over this period.

Homeownership rates are determined in large part by household incomes, housing prices, and the cost and availability of mortgage financing—all of which are highly uncertain. Preferences for owning or renting also play a role, but are similarly hard to gauge. Joint Center estimates of renter household growth therefore assume that homeownership rates by age, race/ethnicity, and household type remain at their 2012–13 averages. If current trends continue and homeownership rates decline further over the next decade, growth in the number of renters will be stronger than projected. At the same time, however, homeownership may well rebound, given that current rates for 25–54 year-olds are at their lowest point since annual recordkeeping began in the 1970s. In that case, the projections will overstate renter growth.

Given constant homeownership rates and using the Census Bureau's high and low population projections, the Joint Center estimates that the number of renter households will increase between 4.0 million and 4.7 million in 2013–23. Immigration rates are the major source of difference between the two scenarios. While a slowdown from its recent pace, growth in the number of renters would be comparable to increases in the 1980s—that is, somewhat slower than in the 1970s when the baby boomers entered the rental market, and in the 2000s when homeownership rates plunged.

The changing age structure of the population and the growing racial/ethnic diversity of Americans will alter the face of rental demand over the next decade. With the aging of the baby boomers, the number of renters over age 65 will increase by 2.2 million and account for roughly half of renter household growth **(Figure 12).** The echo boomers will provide the impetus for much of the rest of growth, replacing the smaller baby-bust generation in the 25–44 age group and adding between 1.9 million and 2.4 million renter households. The number of renters under age 25 will dip somewhat over the next 10 years as the echo boomers move out of this age group.

The aging of the population means that the numbers of renter households that are either single or married couples without children will rise. These two groups are each projected to account for 1.2–1.3 million additional renter households over the decade, or roughly 30 percent of overall growth. The number of renter households with children is also expected to climb as the echo-boom generation moves into the 25–34 and 35–44 year-old age groups. In combination, the number of married couples with children and single-parent families that rent housing is projected to increase by 1.1–1.5 million.

The growing diversity of American households will be evident in the sizable increase in the number of Hispanic renters. While currently making up about 20 percent of renter households, Hispanics are projected to account for more than half of renter household growth in 2013–23, with increases in the 2.2–2.4 million range. African-Americans, Asians, and other minorities will drive the rest of renter household growth over the decade as the net number of white renters holds steady.

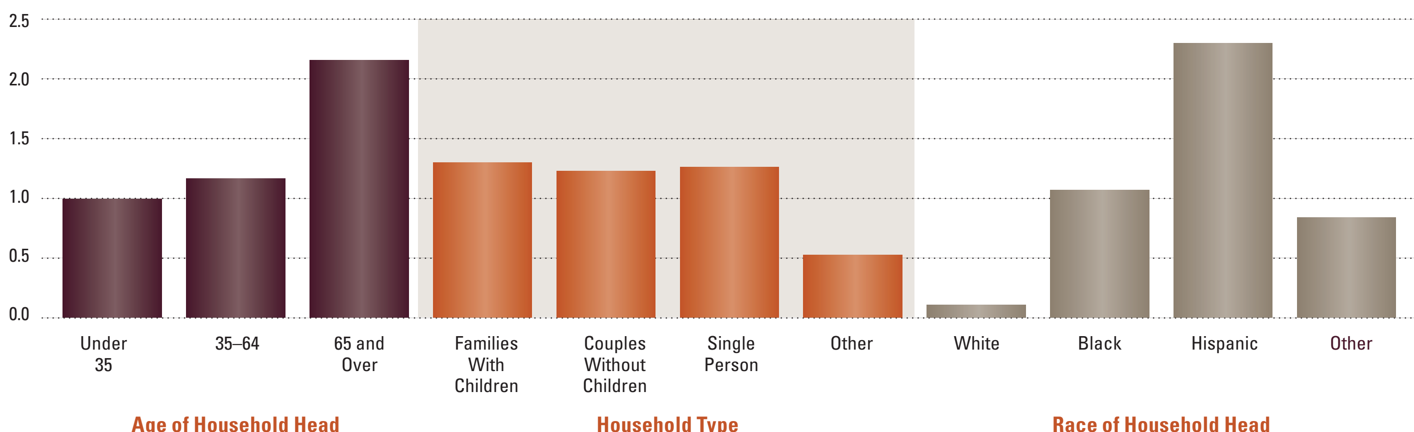
THE OUTLOOK

Projected changes in the age and race/ethnicity of US households have important implications for housing markets and for policymakers. The burgeoning number of seniors points to increasing demand for housing that meets the needs of aging renters. While many of these households may be able to stay in their current homes, others may have to move to housing with better access to services and social networks when they can no longer drive. In addition, the growing number of seniors on fixed incomes is likely to outstrip the limited supply of affordable rentals. With the number of families with children also on the rise, demand for larger rental units will increase as well, particularly in communities with access to good schools and employment centers.

FIGURE 12

Broad Changes in the Age and Racial Composition of Households Will Drive Future Rental Demand

Projected Renter Household Growth 2013–23 (Millions)



Notes: Families with children may be headed by married or partnered couples or single parents, and only include children of the household head that are under age 18. Other family households include children under age 18 that are not those of the household head, such as grandchildren. White, black, and other household heads are non-Hispanic. Hispanics may be of any race.
Source: JCHS 2013 household projections, middle series.

RENTAL HOUSING SUPPLY

The rental stock provides a broad range of housing options for the growing numbers of US households seeking to rent. To meet the rising tide of demand, construction activity has picked up pace in many markets across the country. The millions of homes switched from owner-occupied to rental in the aftermath of the housing crash have also helped to expand supply. The persistent challenge, however, is that the costs of adding new rentals or adequately maintaining existing units far exceed the ability of low-income renters to pay.

PROFILE OF THE STOCK

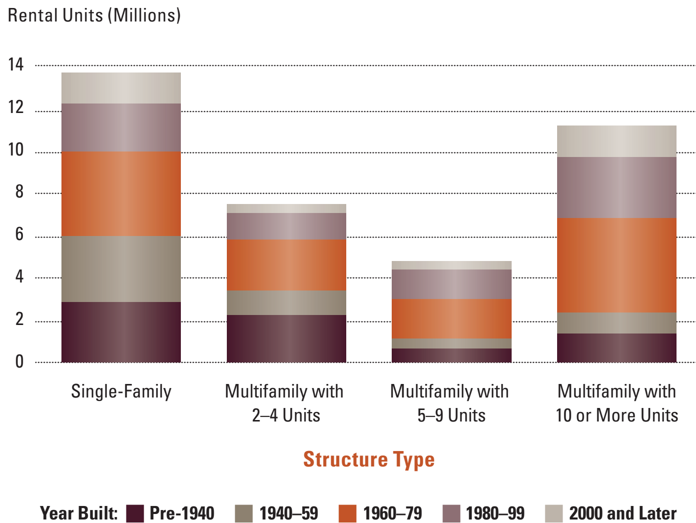
Contrary to popular perceptions, most rental units are not located in large apartment buildings. According to American Housing Survey estimates for 2011, about 35 percent of occupied rentals are in fact single-family homes and another 19 percent are in buildings with two to four units. Indeed, only 29 percent are in buildings with 10 or more units. It is important to note, however, that these estimates likely overstate the share of rentals in smaller properties, given that these structures may be part of large apartment complexes—a critical distinction when considering the ownership and financing of this housing. For example, the 2001 Residential Finance Survey reported that 43 percent of rentals were in properties with 10 or more units, while the AHS for that year also indicated that 29 percent were in buildings of this size.

The rental housing stock is somewhat older than the owner-occupied inventory. In 2011, the median-aged rental home was built in the early 1970s, or about five years earlier than the typical owner-occupied unit. During the 1960s and 1970s, multifamily construction took off in part to accommodate the first wave of baby boomers as they began to live on their own. Multifamily construction was strong again in the early 1980s, spurred by generous tax provisions intended to stimulate the economy after the 1981 recession. Building activity then slowed to a moderate pace for much of the next two decades. Overall, about a third of the nation's rental supply was built before 1960, another third in the two decades between 1960 and 1979, and the final third in the years since 1980.

The oldest rentals are primarily single-family detached homes or in two- to four-unit buildings, 44 percent of which were built before 1960 **(Figure 13).** The older age of single-family rentals reflects the tendency for growing shares of owner-occupied homes to switch to rentals over time. Meanwhile, construction of apartment buildings with two to four units has become less common over the years, with only 22 percent built since 1980. Apartments in buildings with 10

FIGURE 13

Smaller Rental Buildings Are Apt to Be Much Older than Larger Structures

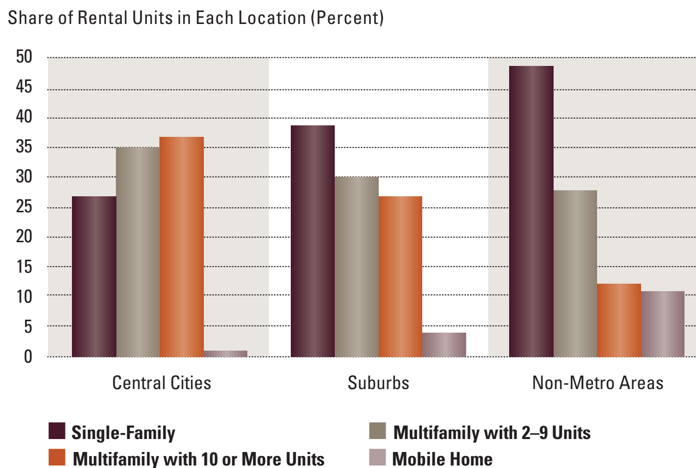


Note: Data exclude mobile homes and vacant units.

Source: JCHS tabulations of US Department of Housing and Urban Development, 2011 American Housing Survey.

FIGURE 14

Large Multifamily Buildings Predominate in Central Cities, While Single-Family Homes Are Most Common in Rural Areas



Note: Data exclude vacant units.

Source: JCHS tabulations of US Department of Housing and Urban Development, 2011 American Housing Survey.

or more units are newest on average, with large shares built during the 1960s and 1970s construction booms, as well as after 1980.

Rental housing is in generally good condition, with only 3.1 percent categorized as severely inadequate and 6.7 percent as moderately inadequate. These shares are, however, nearly twice those for all housing units. Given that older housing is more likely to be inadequate, more than 13 percent of rentals built before 1960 have some structural deficiencies. Still, a large majority of renters are satisfied with their living conditions. A 2012 Fannie Mae survey found that more than three-quarters of respondents were satisfied with the ongoing maintenance of their rentals, including 43 percent who were very satisfied. In keeping with the AHS estimate of housing adequacy, only 8 percent of respondents to that survey were very dissatisfied with the maintenance of their homes.

GEOGRAPHIC DISTRIBUTION

While available in communities across the country, rental housing is more concentrated in the central cities of metropolitan areas. Indeed, about 43 percent of all occupied rentals are located in central cities, compared with 29 percent of all households. The share of rentals in suburbs is nearly as large (40 percent), although lower than the share of households (49 percent) residing in those areas. The remaining 17 percent of rental homes are in non-metro areas, also below the 22 percent share of households living in those locations.

Rental housing is particularly common in lower-income neighborhoods. Across the 100 largest metropolitan areas, 45 percent of occupied rental units in 2011 were located in low-income neighborhoods, compared with 28 percent of households. At the other end of the spectrum, 20 percent of rentals were in high-income neighborhoods, compared with 36 percent of households. In moderate-income areas, the shares are similar. The concentration of rental housing in low-income communities reflects in part the simple fact that more low-income households rent. But the limited supply of rental housing in higher-income neighborhoods may also constrain renters' ability to find affordable housing in areas offering access to better schools and suburban employment centers.

The prevalence of particular structure types is a function of land costs, zoning regulations, and historical development patterns. In central cities, where land costs are high and more

land is zoned for multifamily buildings, the majority of the rental stock is in fact made up of multifamily buildings, with larger structures dominating. Rentals in buildings with 10 or more units constitute fully 37 percent of the rental stock in central cities, compared with only 27 percent in suburban areas **(Figure 14).** This pattern is also due to the heavy volume of multifamily construction in the 1960s and 1970s, much of it built with federal support and concentrated primarily in urban areas. Even so, single-family rentals still represent a significant share of the central city stock (27 percent), albeit substantially less than in the suburbs (39 percent).

Renters in rural locations typically live in single-family or mobile homes, which account for six out of 10 rentals. In contrast, rentals in buildings with 10 or more units are relatively rare in these communities. The one constant across geographies, however, is the relative importance of small multifamily rentals, with the shares of buildings with two to nine units varying only between 35 percent in central cities and 28 percent in non-metro areas.

ADDITIONS THROUGH NEW CONSTRUCTION

Most additions to the rental housing inventory through new construction are in multifamily buildings, although not all multifamily units are built as rentals. At the height of the homeownership boom, more than four out of 10 new multifamily units were built for sale. But with the recent rental market recovery, the share of multifamily units intended for renter occupancy rebounded to more than nine out of 10. A small though important share of single-family construction is also targeted to the rental market. Indeed, while just 6 percent of new single-family homes were built as rentals in 2012, these additions represented more than 30,000 units.

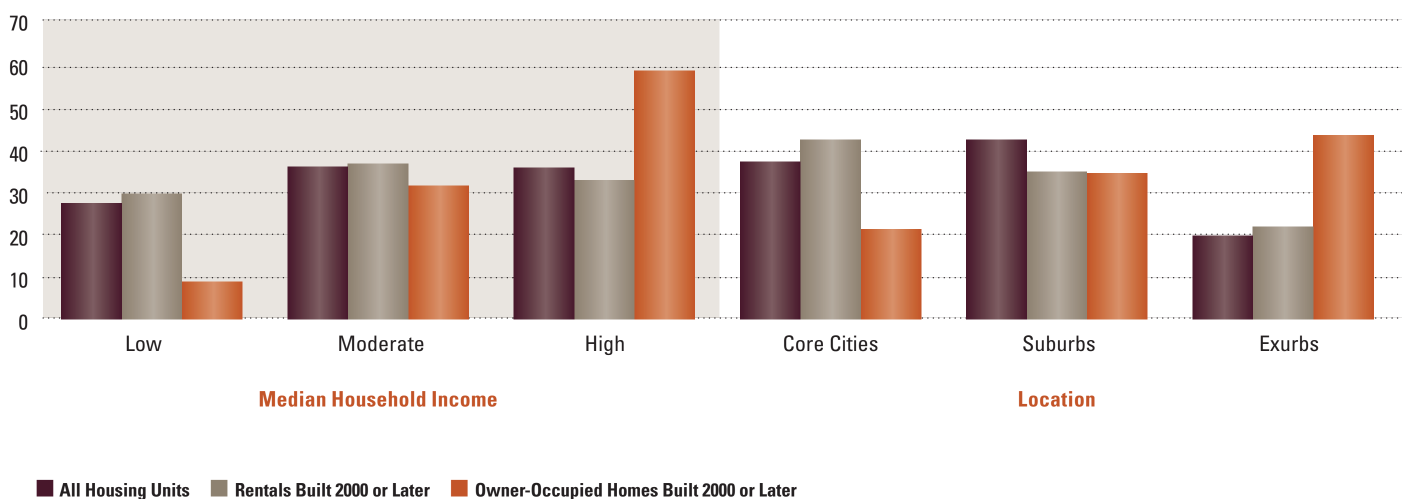
On average, 260,000 new rental housing units were completed each year between 2000 and 2009, including 41,000 single-family homes. But at the depth of the downturn in 2010, completions of homes intended for rent totaled a mere 151,000. Although rebounding to 186,000 in 2012, rental completions remain well below average annual levels in the ten years leading up to the recession despite the strength of renter household growth.

While the overall rental housing stock is concentrated in central cities and lower-income neighborhoods, the location of newer rentals closely matches the distribution of all existing housing **(Figure 15).** In contrast, new owner-occupied units are nearly twice as likely to be located in high-income

FIGURE 15

Newer Rental Housing Is More Evenly Distributed Across Metro Areas

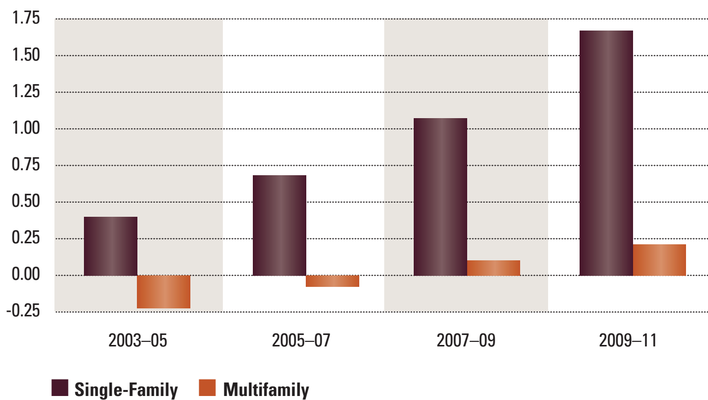
Share of Occupied Units in the 100 Largest Metros (Percent)



Notes: Low-/moderate-/high-income neighborhoods are census tracts with median income that is under 80%/80–120%/at least 120% of the metropolitan median. Core cities have populations above 100,000. Suburbs are urbanized areas in metros that are outside of core cities. Exurbs are all other areas.
Source: JCHS tabulations of US Census Bureau, 2007–11 Five-Year American Community Survey.

FIGURE 16

Millions of Single-Family Homes Have Become Rentals Since the Recession



Source: JCHS tabulations of US Department of Housing and Urban Development, American Housing Surveys.

neighborhoods. Newer rental housing is also fairly evenly distributed across cities, suburbs, and exurbs, expanding the available housing options without contributing to sprawl. New owner-occupied housing, however, remains heavily concentrated in exurban areas.

It is also noteworthy that increasing shares of new rentals are in large buildings. From the 1970s through much of the 1990s, multifamily buildings with two to nine apartments were the most common rental structure. But a trend toward larger buildings emerged in the late 1990s. In both 2009 and 2010, nearly four out of five new rentals were in structures with at least 20 units, and nine out of 10 were in buildings with at least 10 units. In fact, some 43 percent of new apartments in 2010 were in buildings with 50 or more units. Although the housing market downturn reduced its share of new construction, the large building segment of the market still accounted for more than two-thirds of rental completions in 2012. Buildings with two to nine units accounted for less than 11 percent.

INFLUX OF OWNER-OCCUPIED HOUSING

While new construction and a reduction in vacant for-rent housing helped to meet the recent surge in rental demand, much of the increase in the rental inventory came from the flood of formerly owner-occupied homes into the market. In 2009–11 alone, about 1.9 million homes switched on net from the owner-occupied to the rental stock. Another 1.1 million units had been converted on net to rentals between 2007 and 2009, bringing the inflow to more than 3.0 million homes over the four-year period. With signs that this trend continued after 2011, total additions are likely to be even higher today.

Most of the homes converted to rentals are single-family residences **(Figure 16)**, lifting the single-family share of the rental housing stock to a new high of 35 percent in 2011. While the share of single-family homes that are rentals also ticked up from 14 percent to 16 percent over this period, this increase only brought the share back in line with its long-run average. Much of the growth in single-family rentals may thus reflect the fact that these homes have become a larger share of the overall housing stock since the late 1990s.

Although small-scale investors have traditionally owned the vast majority of single-family rentals, large investment pools began to buy up foreclosed homes after the housing crash to manage the properties as rentals. The largest of the groups amassed portfolios of 10,000–20,000 homes, many of them concentrated in a few select markets. While systematic information is hard to come by, CoreLogic found that institutional investors (defined as those acquiring at least five foreclosed properties or using a corporate identity) were most active in 2012 in Miami, where they bought 30 percent of foreclosed properties, followed by Phoenix (23 percent), Charlotte (21 percent), Las Vegas (19 percent), and Orlando (18 percent). These shares of corporately owned single-family rentals are in fact close to historical levels. At the same time, though, the scale of operation of the largest institutional investors is unprecedented.

These new, large-scale ventures may have importance not only in reviving moribund housing markets, but also in developing new models for financing and managing single-family homes as rental properties. Until now, institutional investors have shown little interest in this arena, presumably because of the high cost of managing geographically dispersed properties as well as the challenges of financing and titling individual units. If these business models can be profitable, they could help to expand the rental options in both the market-rate and affordable housing sectors. Some investors have recently sought to securitize the cash flow from these portfolios, while others have formed real estate investment trusts (REITs) as a way to sell off a portion of their interest. However, it remains to be seen whether large-scale investment in single-family rentals will become a permanent part of the landscape or fade as house prices recover and demand from owner-occupants picks up, reducing the financial returns to investors.

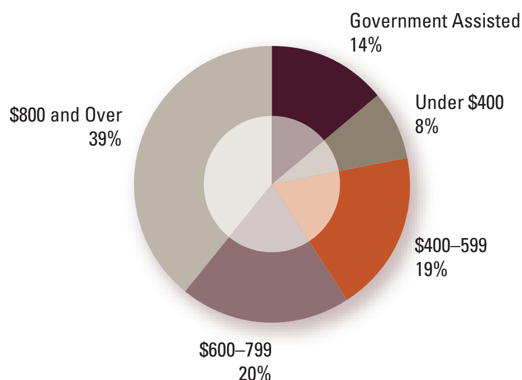
THE SUPPLY OF LOW-RENT HOUSING

According to AHS data, the median contract rent (excluding tenant-paid utilities) was $725 in 2011. When factoring in typical monthly utility costs, the median gross rent was $843. At the 30-percent-of-income standard, households would have to earn at least $33,700 a year—several thousand dollars more than the median renter income—to afford this home. And for the nearly one-quarter of renters with incomes of $15,000 or less, rents plus utilities would have to total well under $400 a month to be affordable. Only 8 percent of units have such low costs, although another 14 percent receive some form of public subsidy that helps to close the gap between the demand for affordable housing and the private supply **(Figure 17).**

Affordable private market rentals are likely to be single-family or mobile homes, which together account for 56 percent of residences renting for less than $400. Moderately priced units (with rents between $400 and $800) are more likely to be in multifamily buildings with two to nine apartments. Meanwhile, 32 percent of units renting for at least $800 are located in larger multifamily buildings—almost double the share (17 percent) of units renting for less than $400 in such buildings. A large percentage of single-family rentals also has high rents, given that these homes are often more spacious and located in higher-income areas.

FIGURE 17

Very Few Rental Homes Are Affordable for Lowest-Income Renters



Notes: Excludes units without cash rent or with rent paid other than monthly. Affordable rents are defined as no more than 30% of household income. Monthly rents of $400 are roughly 30% of income for a household earning $15,000 per year, which is also roughly equivalent to full-time work at the federal minimum wage.

Source: JCHS tabulations of US Department of Housing and Urban Development, 2011 American Housing Survey.

Much of the lowest-cost rental stock is at least 50 years old. Nearly half (46 percent) of all unassisted housing with rents under $400 were built before 1960, compared with just a third of all units. In addition, many of the homes renting in the $400–599 range were built between 1960 and 1979. Newer housing is much more likely to have higher rents, with 52 percent of unassisted cash rentals built in 1980 or later leasing for at least $800 a month and just 6 percent renting for less than $400.

ONGOING LOSSES OF THE LOW-END STOCK

With little revenue to cover operating and maintenance costs, the low-rent housing stock is especially vulnerable to removal. Of the 34.8 million rentals that existed in 2001, some 1.9 million were demolished by 2011—a loss rate of 5.6 percent. Losses of units renting for less than $400, however, were nearly twice as high at 12.8 percent **(Figure 18).** Although making up only a small share of the overall rental supply, homes renting for less than $400 thus accounted for more than a third (650,000) of total removals. Removal rates for units with rents between $400 and $600 were also relatively high at 6.7 percent. Loss rates decline as rents increase, falling to just 3.0 percent for units with rents of $800 or more.

Age is a key factor in the high loss rates for low-cost rentals, with removals of homes built before 1960 at roughly 8 percent. Removal rates for single-family homes and two- to four-unit apartment buildings are also comparatively high. Fully 8.1 percent of rental units in non-metro areas were lost from the stock over the decade, compared with 5.7 percent in central cities and 4.7 percent in suburbs. High losses in rural areas reflect the greater presence of mobile homes, particularly in the South and West where they account for more than 10 percent of rentals. Mobile homes have by far the highest loss rates of any structure type, with more than one in five removed from the stock between 2001 and 2011.

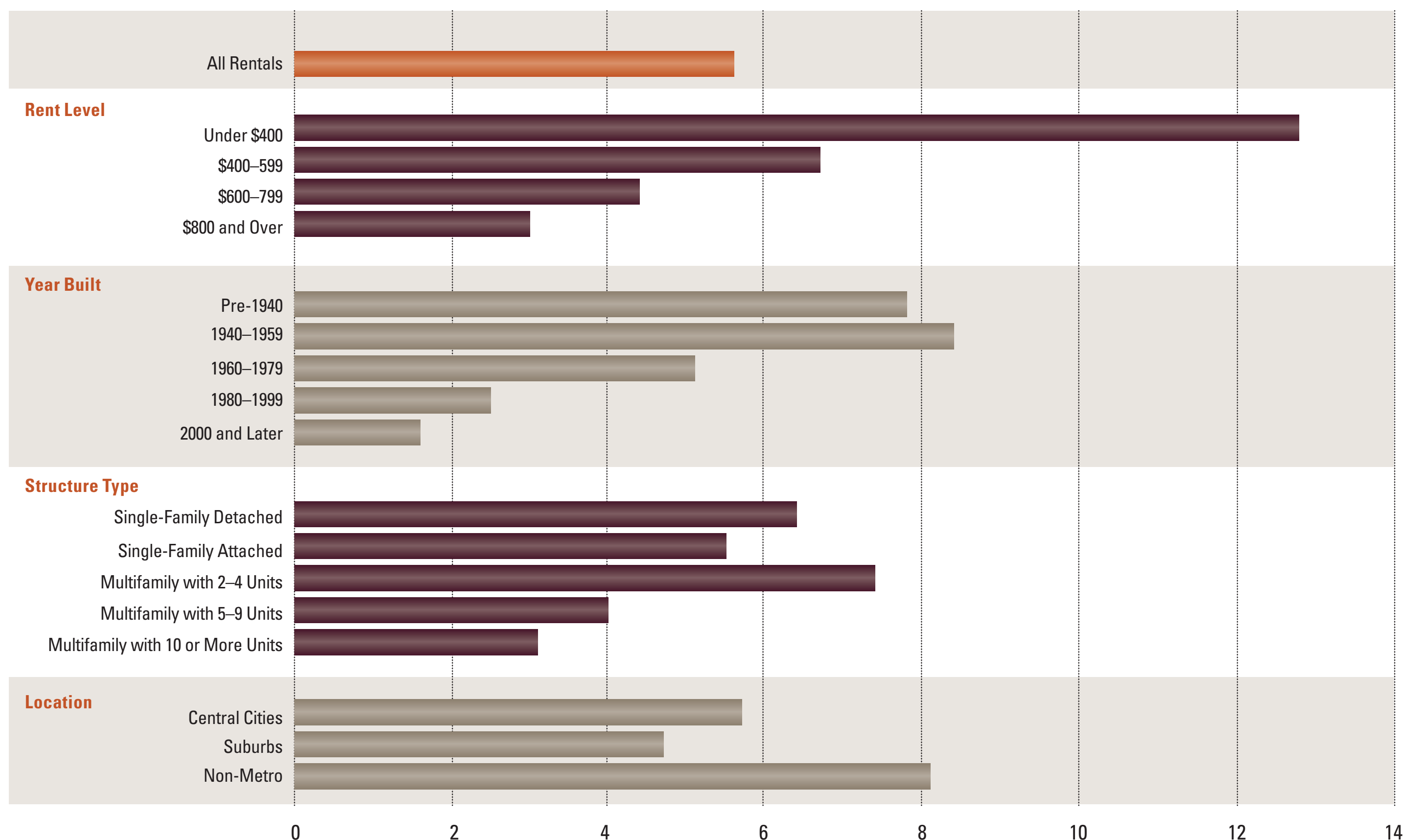
SUPPLYING LOW-COST HOUSING

While losses of existing rentals are concentrated among low-rent units, new construction typically adds residences at the upper end of the rent distribution. The 2011 AHS reports that the median monthly gross rent for units built in the preceding four years was $1,052—affordable only for households earning at least $42,200 a year. Only 34 percent of new units had rents below $800, or roughly at costs affordable for the median renter.

FIGURE 18

Low-Cost and Older Rentals Are Especially at Risk of Loss

Share of Units Permanently Removed from Stock 2001–11 (Percent)



Note: The removal rate for all rentals includes mobile homes.
Source: JCHS tabulations of US Department of Housing and Urban Development, 2001–11 American Housing Surveys.

One possible approach to lowering the costs of new construction would be to reduce the regulatory constraints on certain types of housing—for example, by allowing higher-density construction to economize on land costs, permitting smaller unit sizes, and relaxing requirements for parking or other amenities. In addition, requiring that rehabilitation of existing rental properties meet the same building standards as new construction can make preservation efforts extremely costly. Allowing more flexibility in meeting these goals, but without requiring specific building materials or techniques, could help relieve some of these costs. Any relaxation of land use regulations and building codes must of course ensure the safety of residents and limit the costs imposed on surrounding communities.

Accessory dwelling units (ADUs) also offer a promising way to add more affordable rentals in higher-cost locations without subsidies. ADUs are generally modest units located inside of or attached to a single-family home, or in a structure on the same property, providing homeowners a rental income stream or a place to house relatives or caregivers. But they also increase the housing options for people otherwise unable to afford to live in the communities where they work, help satisfy demand for smaller residences (including from owners who may want to downsize and rent out their primary residences), and add housing without the loss of open space or the need for new infrastructure.

Yet local regulations enacted to preserve a community's character often pose barriers to the creation of ADUs. If allowed at all, ADUs may be subject to minimum lot or house sizes, minimum and maximum unit sizes, and requirements for landscaping and design, off-street parking, and having an

owner-occupant on site. A number of communities around the country, however, have now created or liberalized ADU regulations and offer technical assistance, low- or no-interest loans to modify or create units, or amnesty programs to bring illegal housing into compliance.

Like accessory units, micro-units are a potential housing alternative for those seeking affordable urban living. Given that these apartments are typically just a few hundred square feet, development of micro-units frequently requires changes to zoning laws related to minimum unit size or maximum number of dwellings per parcel. Off-street parking requirements pose another barrier, though some cities provide waivers in areas well served by transit. Despite growing demand for smaller, centrally located rentals, concerns about increased density and the untested nature of new developments of this type have led some communities to establish initial limits on micro-units and to require evaluation of their impacts on neighborhoods and affordability to inform future changes to regulations.

THE OUTLOOK

The recent housing boom and bust highlighted the dynamic nature of the nation's rental supply. Although new construction slowed sharply following the Great Recession, surging demand was met by the conversion of some 3 million owner-occupied units into rentals, pushing the single-family share of the rental stock to a new high. But while the market has proven highly responsive to changing conditions, supplying housing for very low-income renters continues to be a challenge because of the fundamental gap between the cost of development and what these households can afford to pay.

The deterioration and loss of low-cost rental housing are grave concerns. To some extent, the loss of older rentals may be inevitable as time takes its toll, particularly when maintenance is deferred. Older housing may also be less efficient to operate and have outdated designs. While renovation and improvements might address some of these deficiencies, the costs of upgrading older properties to current building codes are often prohibitive. Still, rehabilitation of older buildings would provide the kind of modest but secure housing that is difficult to add through new construction. To encourage these investments, one strategy would be to offer tax incentives for upgrades to existing rentals that meet affordability standards. At the local level, it may be important to exempt renovated housing from some current building code requirements where doing so would help maintain affordability without compromising residents' safety.

RENTAL MARKET CONDITIONS

By most measures, the rental housing market has recovered from the Great Recession. Now that vacancy rate declines and rent increases are moderating, markets may be approaching balance. A clear sign of renewed health is the strong return of most private sources of mortgage financing. Going forward, though, a large unknown is how impending reform of the government role in the mortgage market will affect the cost and availability of credit for rental properties.

MOVING INTO BALANCE

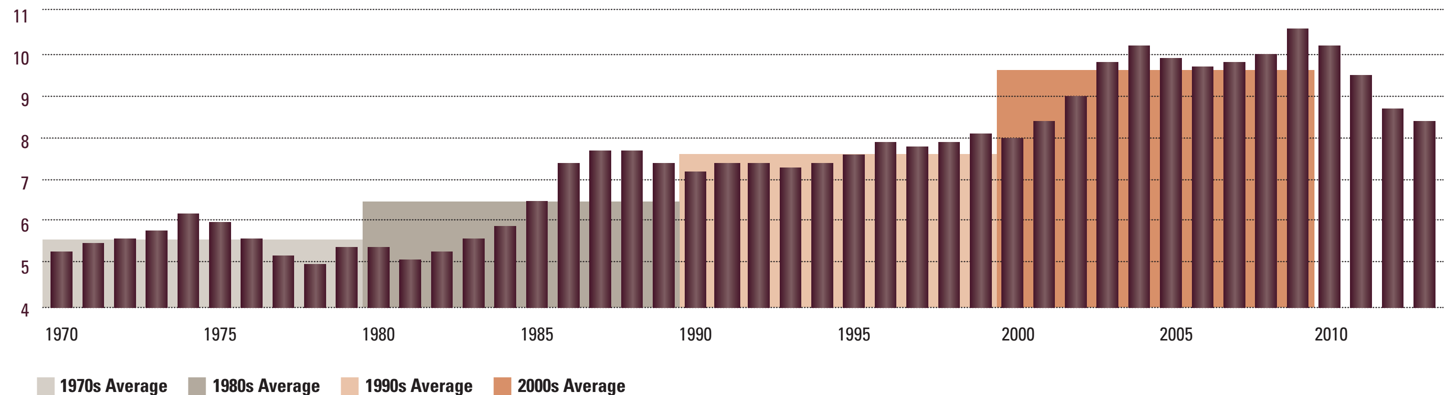
While the owner-occupied market only began to show clear signs of recovery in 2012, rental markets have steadily improved for several years. From a record high of 10.6 percent in 2009, the vacancy rate turned down in 2010 and has continued to slide, averaging 8.4 percent in the first three quarters of 2013. After four consecutive years of downward momentum, the US rental vacancy rate is now well below its average in the 2000s and approaching levels last seen during the 1990s **(Figure 19).** Whether vacancy rates have further to fall is difficult to judge because there is no clear benchmark for what represents market balance, given the upward drift in vacancy rates over the last few decades.

While vacancies for larger rental buildings posted both the sharpest rise before and the sharpest drop after their recessionary peak in 2009, rates for all structure types have eased. Over the past three years, the vacancy rate for apartment buildings with 10 or more units declined by 3.1 percentage points and that for buildings with five to nine units by 2.8 percentage points. The overall rate for buildings with at least five units—accounting for 42 percent of the rental housing stock—stands at about 9.1 percent. Remarkably, soaring demand was more than enough to absorb the 2.7 million single-family homes that flooded into the rental market after 2007. Indeed, vacancy rates for single-family rentals barely increased during the recession and have fallen 1.8 percentage points since 2009 to just 8.1 percent. Vacancy rates in small multifamily buildings with two to four units have followed a similar path.

Throughout the downturn and recovery, vacancy rates for professionally managed apartments—favored by large institutional investors—started out and remained much lower than in the broader rental market. Still, MPF Research data indicate that vacancy rates in this segment spiked by more than 4.1 percentage points from 3.9 percent in mid-2006 to 8.0 percent at the end of 2009, before retreating to 4.7 percent in the second quarter of 2013. Meanwhile, the cycle in

FIGURE 19

After Stair-Stepping Upward for Decades, Rental Vacancy Rates Are on the Decline



Note: The vacancy rate for 2013 is the quarterly average through the third quarter.
Source: US Census Bureau, Housing Vacancy Surveys via Moody's Economy.com.

vacancy rates for all multifamily rentals was similar in timing but slightly more subdued.

RENTS ON THE RISE

The consumer price index (CPI) for contract rents—which excludes tenant-paid utilities and covers all rental housing in the country—is a key indicator of national trends. By this measure, the increase in nominal rents began to slow in late 2008 as the recession took hold and then bottomed out in mid-2010 **(Figure 20).** Rent growth then accelerated steadily through 2011 before stabilizing at about a 2.8 percent annual rate through September 2013, outpacing the rise in overall prices.

Data from MPF Research for professionally managed properties, however, show much more volatility in rents over the past few years. The disparity between the two sources reflects both differences in management of the properties and how each survey measures changes in rents. The MPF data show a much steeper falloff at the start of the recession, with nominal rent declines reaching fully 4.8 percent year-over-year in the third quarter of 2009. Like the CPI, though, this measure indicates that rents turned up in mid-2010 and continued to gain momentum into late 2011, reaching 4.8 percent by year end. The MPF measure also suggests that rental market tightening began to moderate in 2012, with rent increases slowing to a 3.1 percent annual rate by mid-2013—roughly matching the change in the CPI rent index but still exceeding general price inflation by more than a full percentage point.

Nearly every major metropolitan area has shared in the rental recovery. As of the second quarter of 2013, 90 of the 93 metro areas tracked by MPF Research reported annual rent increases, about the same number as at the end of 2012. Of this group, 20 metros posted gains of 3.5 percent or more, outstripping overall inflation by more than 2.0 percentage points. In 27 other metros, rents rose somewhat more slowly but were still up by at least 2.5 percent, or 1.0–2.0 percentage points above inflation.

The metropolitan areas where rents have risen the most tend to have the strongest employment growth. For example, metros with rent increases exceeding 3.5 percent saw job gains of 2.4 percent in 2012. Most of these areas—including Austin, Corpus Christi, Houston, San Francisco, San Jose, and Santa Rosa—are concentrated in the West and South. In contrast, job growth in metros with the smallest rent increases or actual declines averaged just 1.4 percent in 2012.

However, some loss of momentum was also evident in 2012, with rent increases and occupancy growth moderating in most major metropolitan areas. Only a few metros—again primarily in the South and West—posted annual gains surpassing the previous year's change. Data through the first half of 2013 suggest that occupancy rates and rent increases in most areas were roughly similar to those in 2012.

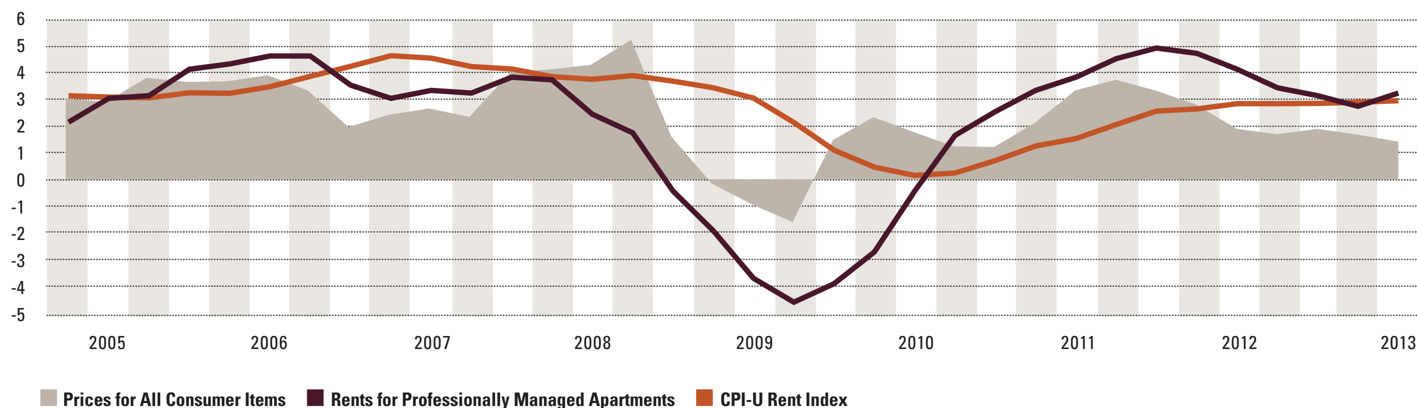
MULTIFAMILY CONSTRUCTION OUT IN FRONT

After hitting an all-time low in 2009, multifamily construction ticked up in 2010 and then surged in 2011 even as single-

FIGURE 20

Rent Increases Have Picked Up Pace and Now Exceed Overall Inflation

Annual Change (Percent)

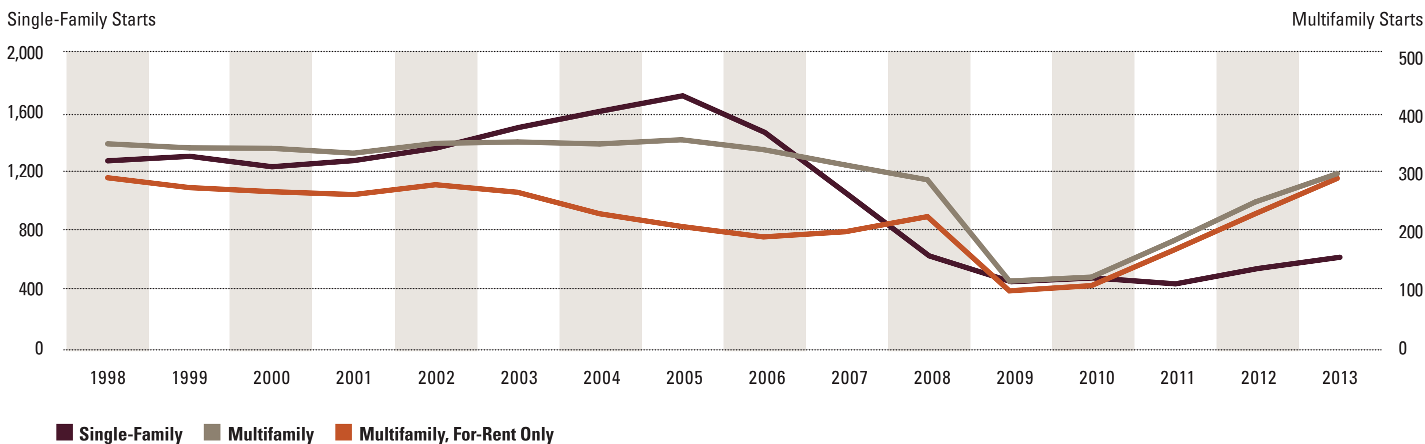


Notes: Prices for All Consumer Items is the CPI-U for All Items. Rents for professionally managed apartment communities are from MPF Research. The CPI-U Rent Index is for primary residence.
Sources: US Bureau of Labor Statistics; MPF Research.

FIGURE 21

Multifamily Construction Has Rebounded Much More Strongly than Single-Family Activity

Thousands of Units



Note: The 2013 estimate is based on the average monthly seasonally adjusted annual rate through August.
Source: JCHS tabulations of US Census Bureau, New Residential Construction.

family starts found a new bottom **(Figure 21).** The momentum continued in 2012, with multifamily starts up another 38 percent. Overall housing starts rose by 194,000 units between 2010 and 2012, with multifamily construction accounting for two-thirds of the increase. Multifamily starts climbed another 31 percent through the first eight months of 2013 to a seasonally adjusted annual rate of 294,000 units—still well below the 340,000 annual average prevailing in the decade before the downturn. While single-family construction has recently regained steam, the multifamily sector is still responsible for an outsized share of construction activity, accounting for one in three new units as of mid-2013 compared with just one in five in the 1990s and 2000s.

The rebound in multifamily construction is evident across the country. Over two-thirds of the 100 largest metros issued more multifamily permits in 2012 than 2011, while fully one-third issued more in 2012 than in the 2000s on average.

Through August 2013, the number of multifamily permits in these metros was up by more than 20 percent from a year earlier. However, there are some notable differences across markets. At one extreme, the pace of permitting in Portland (OR) and Orlando more than doubled, while activity in Miami, Atlanta, and Phoenix jumped by 70 percent or more. At the other extreme, Dallas, Houston, Charlotte, and Washington, DC, posted year-over-year declines after several years of strong growth.

The surge in multifamily construction has raised some concerns about potential overbuilding in certain markets. While activity in some metros has indeed surpassed peak rates in the 2000s, growth in renter households has also been much stronger than in that decade. Rather than past construction volumes, rent levels and rental vacancy rates are more reliable indicators of whether supply is outstripping demand.

By those measures, there is no evidence of overbuilding yet in areas with the most construction activity in recent years. Nevertheless, the lags between multifamily starts and completions mean that units begun in 2011 only began to come on line in 2012. In fact, the number of newly completed units rose to only 166,200 in 2012, representing a 20 percent increase over 2011 and the first year-over-year gain since 2007–08. Indeed, in all three markets where multifamily permits exceeded their 2000s peaks in 2012 (Austin, Raleigh, and Washington, DC), the pace of permitting slowed markedly through the first half of 2013 while vacancy rates held below 5.0 percent. Rent increases in Washington, DC, also slowed noticeably, which may signal that additions to supply have caught up with demand.

PROPERTY OWNERS PROSPERING

With vacancy rates falling and rents rising, the financial performance of investment-grade properties improved markedly over the past three years. According to the National Council of Real Estate Investment Fiduciaries (NCREIF), the net operating income (NOI) for institutionally owned apartments was up by at least 4.9 percent annually over the past 12 quarters.

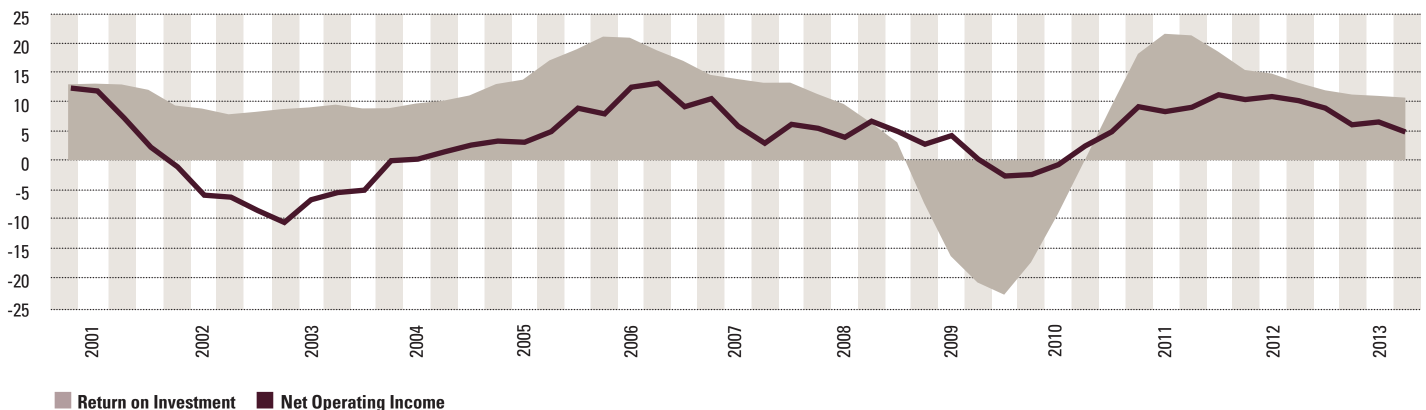
The rebound in apartment property prices is even more impressive. Since bottoming out in the fourth quarter of 2009, Moody's Commercial Property Price Index for apartment buildings climbed by 62 percent to a new high in mid-2013. NCREIF's transaction-based price index shows a more moderate but still substantial increase of 53 percent. By contrast, the S&P/Case-Shiller® US National Home Price Index indicates that single-family house prices rose only 6.0 percent over this period. With these increases in NOI and appraised property values, the annual return on investment for apartment owners has remained above 10 percent since late 2010 **(Figure 22).**

Declines in delinquency rates for multifamily loans mirror the strength of the apartment property market. Through the early and mid-2000s, the share of multifamily loans held by FDIC-

FIGURE 22

Rental Properties Have Generated Solid Returns for the Past Three Years

Annual Rate (Percent)

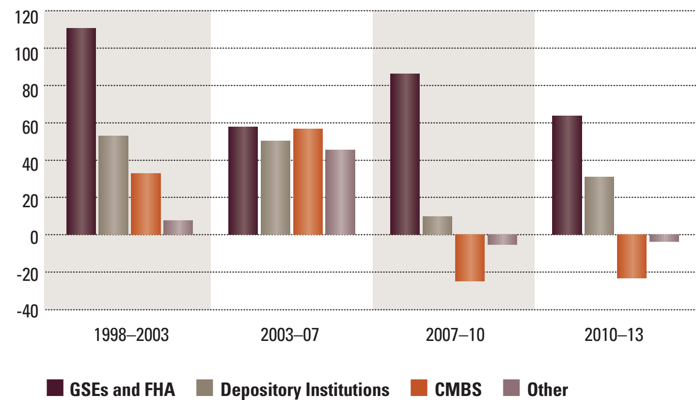


Notes: Data are for apartments. Net operating income is defined as gross rental income plus any other income less operating expenses. Annual rates are calculated across four quarters.
Source: JCHS tabulations of National Council of Real Estate Investment Fiduciaries (NCREIF) data.

FIGURE 23

Federal Sources of Lending Have Backstopped the Rental Market Throughout the Downturn and Recovery

Change in Outstanding Loan Volume (Billions of dollars)



Notes: Data for 2013 are through the second quarter. CMBS are commercial mortgage backed securities issued by private firms. Other includes state and local governments, life insurance companies, pension funds, REITs, finance companies, and businesses.
Source: Mortgage Bankers Association calculations based on Federal Reserve Board, Flow of Funds, and FDIC data.

insured institutions that were at least 90 days past due or in nonaccrual status hovered below 1.0 percent. But by the third quarter of 2010, that share had shot up to 5.4 percent. Since then, though, the share of noncurrent multifamily loans held by FDIC-insured institutions fell for 10 consecutive quarters, retreating to 1.5 percent in the first half of 2013. By comparison, the recovery in the owner-occupied market has been much slower, with the noncurrent share of loans on one- to four-unit properties hitting 11.4 percent in the first quarter of 2010 before moderating to a still high 9.5 percent in mid-2013.

Delinquencies on multifamily loans held in commercial mortgage backed securities (CMBS) have been slower to recede. According to Moody's Delinquency Tracker, the share of CMBS loans that were 60 or more days past due, in foreclosure, or in possession of the lender—a much broader measure of troubled loans than reported by the FDIC—peaked at 15.9 percent in early 2011 and then eased to 10.5 percent by mid-2013. While this market segment is finally on a path to improved performance, at this rate it will be a long time before delinquencies return to those prevailing before the housing market crash.

Meanwhile, the share of multifamily loans held or backed by Fannie Mae and Freddie Mac (government sponsored enterprises or GSEs) that are 60 or more days delinquent remained under 1.0 percent throughout the housing market downturn. This performance indicates that, unlike on the single-family side, the GSEs did not participate in the "race to the bottom" by relaxing screening and underwriting standards. On the contrary, the low delinquency rates on their loans indicate that Fannie and Freddie remained more disciplined than other market players through risk sharing arrangements and careful oversight of lenders.

MULTIFAMILY LENDING IN RECOVERY

Over the past two decades, multifamily lending activity has fluctuated with the financial fortunes of rental properties. The dollar volume of multifamily loans outstanding increased steadily in the late 1990s as the market recovered from weak conditions at the start of the decade. Multifamily lending picked up even more in 2003–07 as the housing market boomed. But when the Great Recession took hold, both net operating incomes and property values plunged while loan delinquencies soared, bringing lending growth to a halt. Increases in outstanding loan volumes dropped off sharply in 2008 and remained weak through 2010, but then rebounded in 2011 as low interest rates and a burgeoning recovery in the broader rental market created a favorable environment for both borrowers and lenders.

In the decade leading up to the Great Recession, the GSEs fueled a substantial share of the growth in outstanding loans—outdistancing depository institutions that had once been the single largest source of multifamily lending—and greatly expanded their market shares **(Figure 23).** Much of the growth in federally backed lending occurred before the market heated up after 2003. Private asset-backed securities then emerged as an increasingly important source of funding, accounting for more than a quarter (27 percent) of net loan growth in 2003–07. A combination of state and local governments, life insurance companies, and other financial institutions also expanded their lending during those years, sourcing another 22 percent. The strong flow of credit for multifamily properties during this period helped to propel a sharp rise in property values, mirroring trends in the owner-occupied market.

Once the recession hit, however, loans backed by the GSEs and FHA accounted for the lion's share of multifamily lending, supporting the market between 2007 and 2010 when private capital was scarce. During this period, depository institutions and other lenders substantially reduced loan originations as market conditions deteriorated. New issuances of private asset-backed securities also ceased amid the overall weakness of the market and the very high default rates for such loans.

The GSEs and FHA have continued to play a prominent role in the multifamily market since the recovery in private lending began in 2010. The Mortgage Bankers Association (MBA) estimates that annual originations backed by the GSEs nearly doubled between 2009 and 2012, while loans insured by FHA were up five-fold. The MBA data also indicate that private lending is reviving, attesting to lenders' confidence in the multifamily recovery. Originations by depositories exceeded their pre-recession levels in 2012, and those by life insurance companies approached their previous peak. In contrast, lending through the private-label securities market, state and local governments, and other sources remained moribund.

However, lending activity varies considerably by market segment. According to data reported under the Home Mortgage Disclosure Act (which excludes many of the largest commercial lenders that are not involved in the single-family market), the volume of small-balance loans fell off much more sharply between 2006 and 2011 than that of large-balance loans. Multifamily loans of less than $1 million dropped by 42 percent over this period, while loans of $1.0–2.5 million were down by 16 percent. These declines are several times larger than the 3 percent dip in loans between $2.5 million and $25 million, which account for about half the market. Indeed, the volume of loans over $25 million actually increased by 19 percent even as the rest of the market had yet to recover.

Since depository institutions had been the principal source of financing for smaller properties (and hence small-balance loans), it is no surprise that the lending decline was more severe in this part of the market. But given that smaller multifamily properties account for an outsized share of affordable rental units, it will be important to monitor whether the lending recovery extends to this segment.

Lending activity in low-income and minority neighborhoods also plunged in 2006–11, reflecting in part the greater reliance on small-balance loans in these areas as well as widespread neighborhood distress. Over this period, multifamily loan volumes were down 15 percent in low-income areas and 22 percent in minority communities, although up 8 percent in high-income neighborhoods and 12 percent in predominantly white areas.

To foster further increases in private participation, the Federal Housing Finance Agency (FHFA—the regulator and conservator of the GSEs) has signaled its intent to set a ceiling on the amount of multifamily lending that the GSEs can back in 2013. While the caps are fairly high—$30 billion for Fannie Mae and $26 billion for Freddie Mac—FHFA intends to further reduce GSE lending volumes over the next several years either by lowering these limits or by such actions as restricting loan products, requiring stricter underwriting, or increasing loan pricing. With lending by depository institutions and life insurance companies increasing, the market may well be able to adjust to these restrictions. The bigger question, however, is how the financial reforms now under debate will redefine the government's role in backstopping the multifamily market. Recent experience clearly demonstrates the importance of federal support for multifamily lending when financial crises drive private lenders out of the market.

THE OUTLOOK

By virtually all rental market indicators, the recovery from the Great Recession has been strong. The most telling sign is the occasional alarms raised by some analysts that new rental construction may be overshooting the mark. But with vacancies still falling, rents rising, and the number of renter households increasing rapidly, there seems little reason for immediate concern. Given the lengthy lags in multifamily completions, though, overbuilding could occur in select markets. The more important issue for the multifamily rental market is how proposed reforms will affect the availability of financing for a range of rental properties—and particularly the traditionally underserved small property segment that makes up a significant share of the privately owned affordable rental stock.

RENTAL HOUSING AFFORDABILITY

After a decade of falling incomes and rising rents, unprecedented shares of renters in markets across the country pay more than half their incomes for housing. While lowest-income renters have the greatest challenge finding affordable housing, nearly half of moderate-income renters also pay more than 30 percent of their incomes. The lack of low-cost housing options undermines quality of life for these families, forcing difficult tradeoffs in both housing quality and spending on other vital needs.

COST-BURDENED HOUSEHOLDS AT HISTORIC HIGHS

According to initial estimates from the American Community Survey, the number of renters paying more than 30 percent of income for housing (the traditional measure of affordability) reached another high in 2012. Excessive housing costs strained the budgets of more than half of all renters, or 21.1 million households—a slight increase from the year before. The only glimmer of good news is that the share of cost-burdened renters declined slightly for the first time since the recession began in 2007, to 50 percent. But this modest improvement came about only because the number of higher-income renters increased sharply, reducing the overall cost-burdened share.

The recent deterioration in rental affordability comes after a decade of lost ground. The share of cost-burdened renters increased by a stunning 12 percentage points between 2000 and 2010, the largest jump in any decade dating back at least to 1960. The cumulative increase in the incidence of housing cost burdens is astounding. In 1960, about one in four renters paid more than 30 percent of income for housing. Today, one in two are cost burdened. Even in 1980, following two decades of worsening affordability, the cost-burdened share of renters was just above a third.

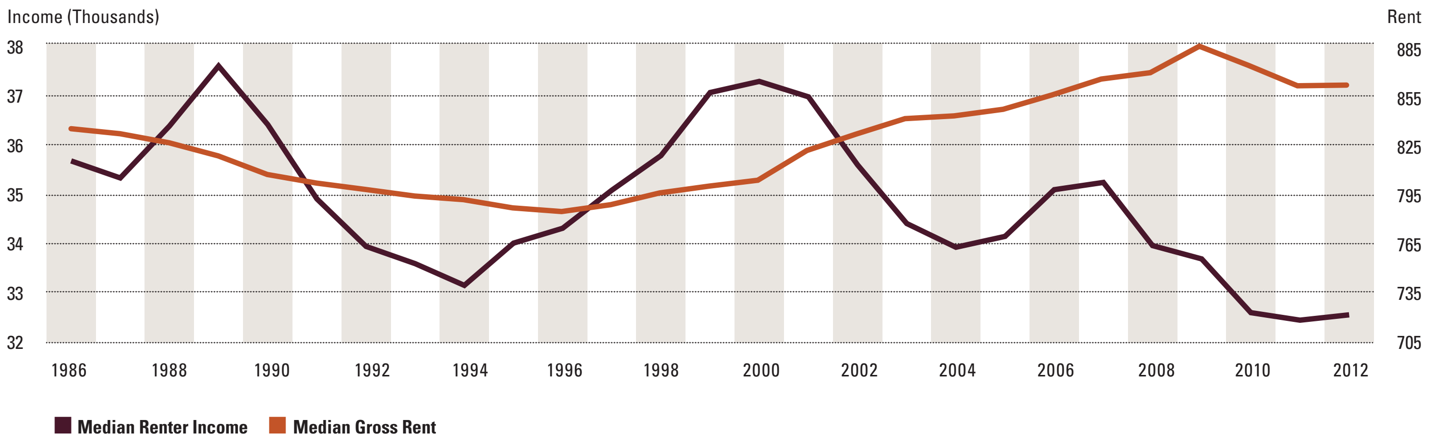
The spread of severe cost burdens during the Great Recession and its aftermath is particularly alarming, accounting for roughly two-thirds of the total increase in the number of cost-burdened renters during the 2000s. By 2011, 28 percent of renters paid more than half their incomes for housing, bringing the number with severe cost burdens up by 2.5 million in just four years, to 11.3 million.

These increases are largely driven by the growing disparity between renter incomes and housing costs. Throughout the 1980s and 1990s, real renter incomes moved up and down with economic cycles, while real rents, though less volatile, also went through periods of gains and losses. Affordability thus waxed and waned over the two decades as incomes and rents drifted apart and converged again. Since 2000, however, the two mea-

FIGURE 24

Declining Incomes and Rising Rents Continue to Erode Affordability

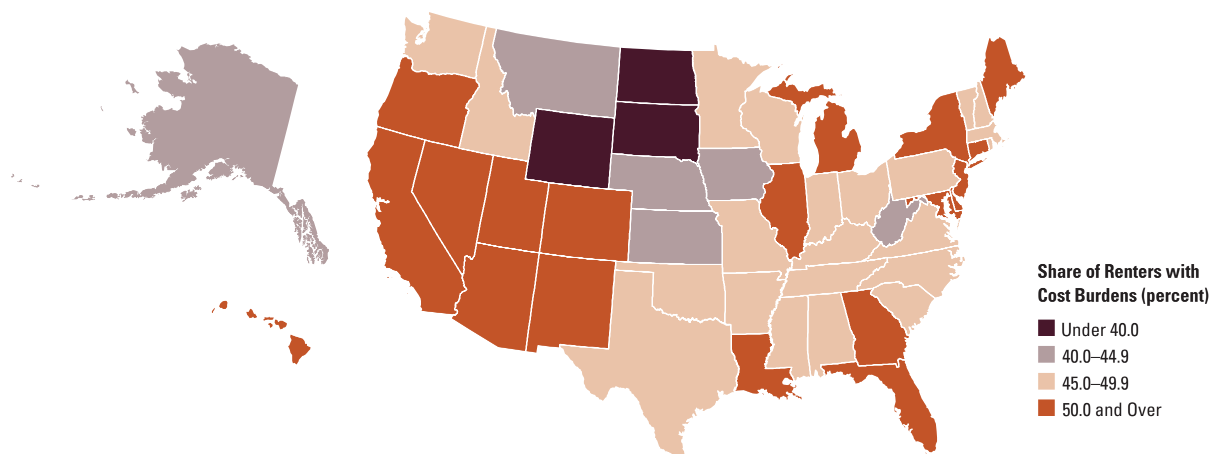
2012 Dollars



Source: Table A-1.

FIGURE 25

Large Shares of Renters Across the Country Are Housing Cost Burdened



Note: Cost burdens are defined as housing costs of more than 30% of household income.
Source: JCHS tabulations of US Census Bureau, 2011 American Community Survey.

sures have diverged sharply **(Figure 24).** After remaining almost flat through the 1990s, rents climbed 6 percent in real terms between 2000 and 2012. Meanwhile, real median renter incomes fell over much of this period, ending 13 percent lower in 2012 than in 2000. As a result, the gap between rental costs and renter incomes in 2012 was wider than in any year except 2010.

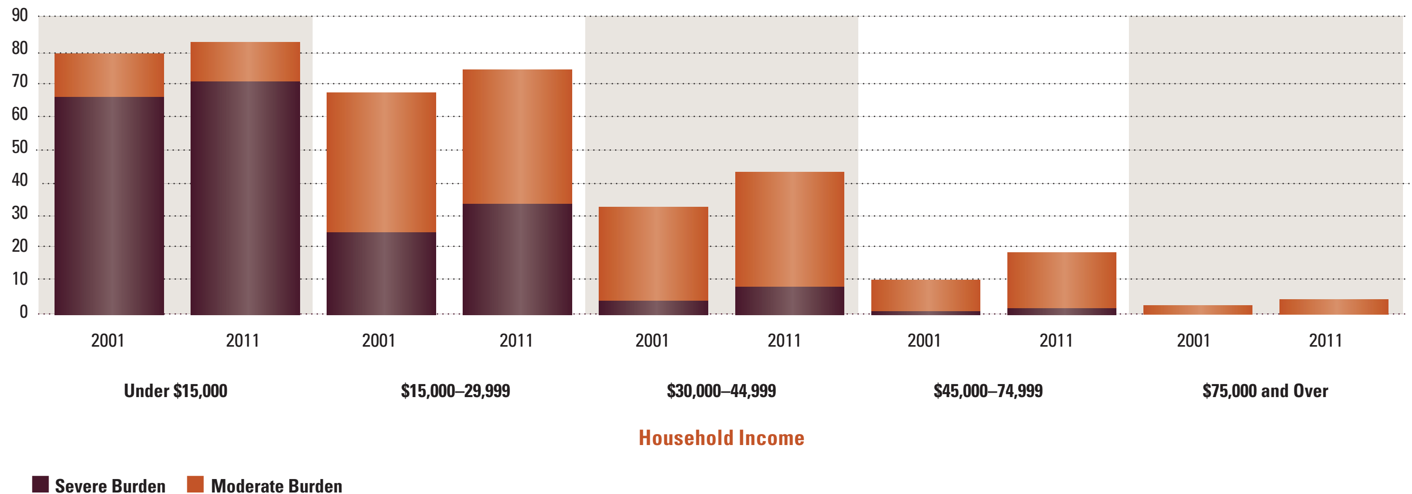
NATIONWIDE SPREAD OF COST BURDENS

While housing costs and incomes vary significantly across states, the incidence of renter cost burdens is similar. Indeed, the share of moderately burdened renters is 45 percent or higher in 41 states and the District of Columbia, and exceeds 40 percent in all but three states. More than half of all renters in 19 states, along with Washington, DC, are cost burdened **(Figure 25).**

Many of the states with the largest shares of cost-burdened renters have high housing costs, although the correlation with rents is less than perfect. High-cost California and Hawaii rank among the top three states in terms of cost-burdened share. But more than half of renters in Michigan, New Mexico, Maine, and Louisiana—states where both rents and incomes are relatively low—are also cost burdened. States such as Massachusetts

FIGURE 26

Higher-Income Renters Increasingly Face Affordability Challenges



Notes: Moderate (severe) burdens are defined as housing costs of 30–50% (more than 50%) of household income. Households with zero or negative income are assumed to be severely burdened, while renters not paying cash rent are assumed to be unburdened.
Source: JCHS tabulations of US Census Bureau, American Community Surveys.

and Virginia have high rents, but are in the middle of the pack in terms of affordability because renter incomes are also relatively high. The states with the smallest shares of cost-burdened renters are Wyoming and the Dakotas, where there are few renters, rents are low, and incomes are high relative to rents. Nonetheless, the shares of renters with cost burdens in all states are well above levels prevailing a decade ago.

The widespread incidence of renter housing cost burdens reflects the gap between what lower-income households can afford to pay in rent and what housing costs to build and operate across the nation. An analysis by the National Low Income Housing Coalition (NLIHC) compares the rent for a modest two-bedroom home in each state in 2013 to the average hourly wage that full-time workers would have to earn to afford that housing. In the highest-cost states, the estimated wage is more than $20 an hour—well above the earnings of a typical renter. But even in the lowest-cost states, the wage needed to rent a modest home is at least $12 an hour, considerably more than the federal minimum wage of $7.25. In no state did the mean hourly wage of renters exceed what was needed to afford a modest home.

PRESSURES MOVING UP THE INCOME SCALE

Housing affordability is an almost universal challenge for low-income households. Some 83 percent of renters with incomes below $15,000 were cost burdened in 2011, with the vast majority paying more than half their incomes for housing. Three-quarters of renters with incomes between $15,000 and $30,000 were also burdened, although less than half severely so. But while the incidence of cost burdens among these low-income renters did not rise significantly over the past decade, the numbers of households with incomes below $30,000 did. Between 2001 and 2011, the number of cost-burdened renters with incomes below $15,000 rose by 2.5 million, while the number with incomes of $15,000–29,999 was up by 1.8 million.

Meanwhile, affordability problems among higher-income groups increased substantially. Between 2001 and 2011, the share of renters earning $30,000–44,999 and paying more than 30 percent of income for housing jumped by 11 percentage points, to 44 percent **(Figure 26).** At the same time, the cost-burdened share among those earning $45,000–74,999 nearly doubled, reaching nearly one in five of these relatively well-off households. With the sharp rise in share, the number of cost-burdened renter households with incomes of $30,000–44,999 increased by 800,000, while the number with incomes between $45,000 and $75,000 increased by 651,000. The concentration of household growth among low-income renters, together with the creep of burdens up the income scale, thus propelled the spread of housing affordability challenges.

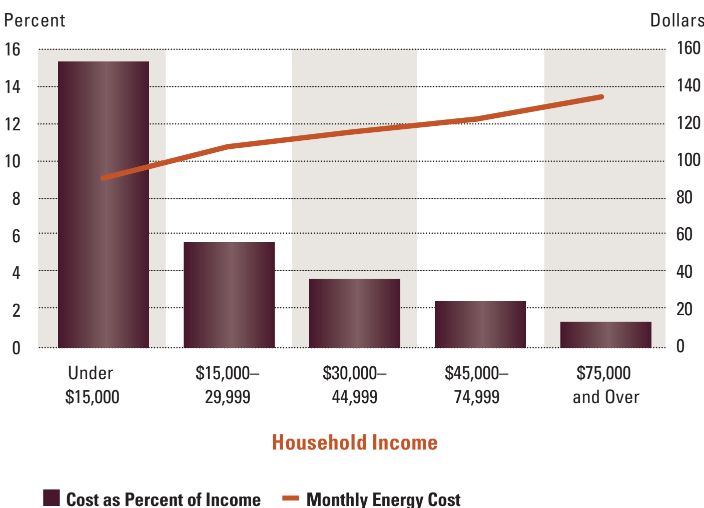
Working full time is no antidote. In fact, the increase in burdens has been especially dramatic among full-time workers. The cost-burdened share of fully employed renters jumped from just 28 percent in 2001, to 34 percent in 2007, and to 38 percent in 2011. These increases boosted the cost-burdened ranks by more than 2.5 million over the decade, including 1.4 million since 2007. Among those in the labor force, about two-thirds of the growth in cost-burdened renters since the Great Recession has been among the fully employed.

THE CONTRIBUTION OF ENERGY COSTS

Energy accounts for a substantial share of rental costs. The 2011 American Housing Survey reports that direct payments by the typical tenant to energy suppliers represented 13 percent of total monthly housing costs and 4 percent of household income. And since the principal uses of energy—heat, refrigeration, and lighting—are necessities, the amount spent on energy varies little with income. As such, the median monthly outlay for energy was $91 among renters with incomes below $15,000 annually, rising only to $135 among those with incomes of $75,000 or more. Given the large disparity in the incomes of the two groups, lowest-income renters have to pay a much larger share of their income for energy costs. Indeed, utility costs represent some 15 percent of income for renters with incomes below $15,000, but just 1 percent for those with incomes of $75,000 or more **(Figure 27).**

FIGURE 27

Low-Income Renters Pay a Disproportionately Large Share of Their Incomes for Energy Costs



Note: Values shown are medians.
Source: JCHS tabulations of US Department of Housing and Urban Development, 2011 American Housing Survey; and US Energy Information Administration, 2009 Residential Energy Consumption Survey.

But these estimates understate the total cost of energy consumed in the home, given that landlords bear some costs for energy used in common areas of multifamily buildings and in cases where the rent includes heat. One way to gauge full energy costs is to consider the outlays by renters who pay for their own heat. For renters in this group with incomes below $15,000, the median monthly energy expense was $116 in 2011—raising the share of income they spent on energy costs to 21 percent.

The smaller shares of incomes and rents that higher-income households devote to energy costs also reflect the greater efficiency of their housing. Low-income renters typically live in older buildings and are more likely than higher-income renters to reside in units in two- to four-unit structures or mobile homes. Older homes, especially in small multifamily structures, are generally less energy efficient, while mobile homes—even though not as old—use more energy per square foot than conventional structures. Furthermore, a recent study published by the National Bureau of Economic Research found that among renters living in structures of five or more units, those with lower incomes were less likely to have Energy Star appliances, programmable thermostats, or other energy-efficient features.

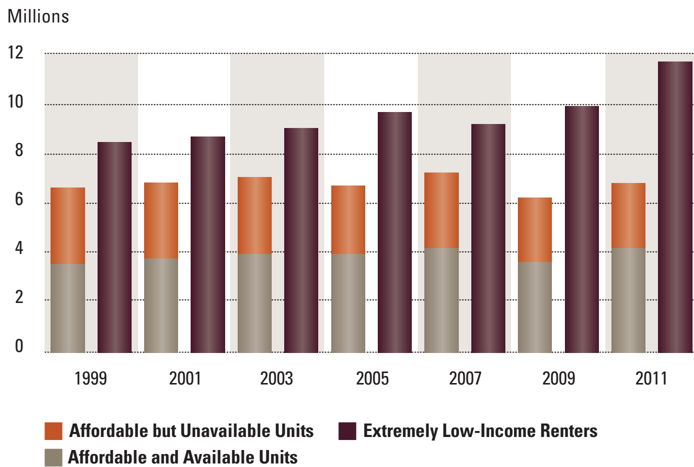
Among the biggest hurdles preventing rental property owners from investing in energy improvements is the so-called "split incentives" problem. The property owner bears the costs of appliance purchases and upgrades to insulation, windows, doors, and other features affecting efficiency. But tenants that pay directly for energy use are generally the ones that benefit from these investments. Unless landlords can recoup the cost of such upgrades in higher rents, they have no incentive to improve the energy efficiency of their rental properties. Potential mechanisms for addressing this problem include subsidizing investments in efficiency, mandating standards for energy efficiency, and improving the transparency of energy efficiency and costs so that households can apply that information in choosing a rental and landlords can better recover their costs.

THE GROWING SUPPLY GAP

While growth in the number of low-income renters is an important factor driving the spread of cost burdens, the difficulty of supplying housing at rents these households can afford is also a problem. As a result, the gap between the demand for and supply of affordable rentals continues to widen. The shortfall for extremely low-income renters (earning up to 30 percent of area median income or AMI) is most

FIGURE 28

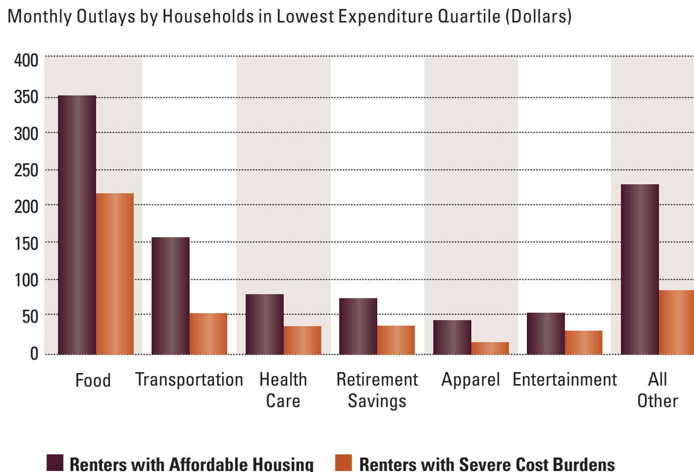
The Affordable Supply Gap Continues to Widen



Note: Extremely low income is defined as no more than 30% of area median income.
Source: US Department of Housing and Urban Development, Worst Case Housing Needs Reports to Congress.

FIGURE 29

Low-Income Renters with Severe Cost Burdens Have Much Less to Spend on Critical Necessities, Including Food



Notes: Expenditure quartiles are equal fourths of all households ranked by total spending. Renters with affordable housing (severe burdens) devote less than 30% (more than 50%) of monthly expenditures to housing.
Source: JCHS tabulations of US Bureau of Labor Statistics, 2012 Consumer Expenditure Survey.

acute, more than doubling from 1.9 million units in 2001 to 4.9 million units in 2011 **(Figure 28).** Most of this increase reflects the 2.5 million rise in the ranks of extremely low-income renters between 2007 and 2011, while the stock of low-cost rentals was essentially flat. Competition from higher-income households further limits the supply of affordable rentals available to lowest-income households. Of the units that extremely low-income renters could afford in 2011, more than a third were occupied by households with higher incomes. For every 100 extremely low-income renters, only 36 units were both affordable and available.

The shortage is evident in central cities, suburbs, and non-metropolitan areas alike. In 2011, 36 central city rentals were affordable and available for every 100 extremely low-income renters, compared with 31 in suburbs and 46 in non-metro areas. The larger supply of affordable and available units in rural areas is offset somewhat by higher rates of inadequacy within the low-cost stock. Excluding inadequate housing, only 39 rentals were therefore affordable and available for every 100 extremely low-income rural renters.

THE TOLL OF HOUSING COST BURDENS

When households pay more than half their incomes for housing, they have much less to spend on other necessities that profoundly affect quality of life. For lowest-income households, high housing costs mean skimping on other basic needs to the detriment of their health and well-being. Cost-burdened households with even modest incomes spend less on vital needs, although there are some notable differences in where they make cutbacks. At the same time, limited spending on non-housing items by these households has significant implications for large segments of the economy, including the transportation, apparel, and entertainment sectors.

According to the 2012 Consumer Expenditure Survey, renters in the bottom quartile (corresponding to an annual income of about $15,000) spend about $1,300 each month. Renters in this group with severe cost burdens spend about $500 more each month on housing than their counterparts living in affordable units. Cuts in spending to accommodate their higher housing costs fall most heavily on the two largest items in their household budgets—food and transportation **(Figure 29).** The tradeoff between spending on housing and food is particularly troubling and underscores the link between the lack of affordable housing and the problem of hunger in America. The next-largest spending cutbacks are for health care and retirement savings, further undermining renters' well-being both now and in the future. Together, these four categories account for more than 60 percent of the difference in spending between bottom-quartile renters that are housing cost burdened and those who are not. Cost-burdened households also spend less on apparel and entertainment, which together account for another 11 percent of the disparity in expenditures.

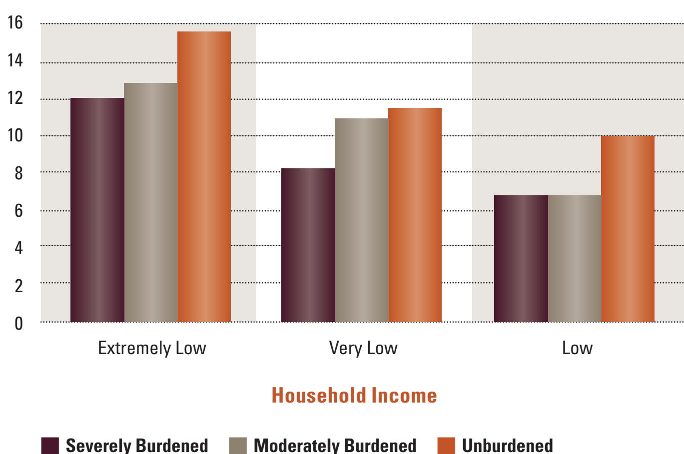
Patterns for households in the second-lowest expenditure quartile are similar. Renters in this group spend roughly $2,500 monthly on average (corresponding to an annual income of about $30,000). Those with severe cost burdens spend nearly $1,000 more each month for housing than their counterparts devoting less than 30 percent of expenditures to rent. As with renters in the lowest-expenditure quartile, these households meet their high housing costs by spending less on food than those with affordable housing.

The biggest differences, however, are in outlays for transportation. Cost-burdened renters in the second-lowest expenditure quartile spend more than $200 per month less on transportation than those living in affordable units, reflecting in part the tradeoff between living in a unit that is less expensive but far from work and one that is more expensive and convenient to work. Also like the lowest-expenditure renters who are cost burdened, this group cuts back on retirement savings ($110 less each month than their counterparts in affordable housing) and health care ($78 less). All told, these four critical spending categories account for more than half of the cutbacks needed to offset high housing costs, with negative effects that are likely to be cumulative and enduring.

FIGURE 30

Low-Income Renters Often Compromise on Quality to Keep Their Housing Costs Down

Share Living in Inadequate Units (Percent)



Notes: Extremely low income is defined as no more than 30% of area median income; very low income as 30–50% of AMI, and low income as 50–80% of AMI. Moderate (severe) burdens are defined as housing costs of 30–50% (more than 50%) of household income. Households with zero or negative income are assumed to be severely burdened, while renters paying no cash rent are assumed to be unburdened.

Source: JCHS tabulations of US Department of Housing and Urban Development, 2011 American Housing Survey.

AFFORDABILITY AND HOUSING QUALITY

In searching for rentals they can afford, low-income households may settle for structurally deficient housing. Based on the American Housing Survey's comprehensive measure of housing adequacy, lower-income households are much more likely to live in structurally deficient housing. Some 12.8 percent of extremely low-income renters, as well as 10.3 percent of very low-income renters (earning 30–50 percent of AMI), live in units with structural deficiencies. By comparison, 7.1 percent of moderate- and higher-income renters (with incomes above 80 percent of AMI) live in housing that fails to meet AHS standards of adequacy.

The likelihood of living in inadequate housing is somewhat higher for renters without cost burdens, highlighting the tradeoff these households must make between affordability and quality. In fact, across all income categories below 80 percent of AMI, the share of renters without cost burdens living in inadequate housing is more than 3 percentage points higher than the share for those with severe burdens **(Figure 30).** For example, 15.7 percent of extremely low-income renters without cost burdens live in inadequate housing, compared with 12.1 percent of those with severe burdens—nearly a 30 percent difference. Very low-income renters fare a little better, although 11.6 percent of those without cost burdens live in inadequate housing, along with 8.3 percent of those with severe burdens.

THE OUTLOOK

The significant decline in real renter incomes since 2000, together with a rise in rents, has fueled the spread of housing cost burdens. The latest measures indicate, however, that renter incomes have stopped falling, providing reason for hope that continued employment gains will help to stem the erosion of rental affordability. Still, renter income growth has a long way to go to catch up with housing cost increases.

Conditions on the cost side may in fact improve if rent increases moderate as new rentals now in the pipeline come on line. With the high cost of development and the scale of the problem, however, making housing affordable for lower-income renters will require a range of approaches that might include allowances for more efficient forms of development, as well as reducing the operating costs of existing rentals through energy improvements.

RENTAL HOUSING ASSISTANCE

Rental housing assistance is vital to the well-being of many of the country's most vulnerable families and individuals. But even before the recession, only a fraction of those eligible were able to secure this support, and that share continues to shrink as funding pressures mount. Given the scale and importance of today's rental affordability challenges, policymakers must ensure that reform and expansion of housing assistance efforts are not lost in the federal budget debate.

THE RISING NEED FOR ASSISTED HOUSING

While eligibility criteria vary, many programs target rental housing assistance to very low-income households, or those earning no more than 50 percent of area median income. But because assistance is not an entitlement, qualified renters increasingly outnumber assisted units. In the aftermath of the Great Recession, the number of potentially eligible households mushroomed from 15.9 million in 2007 to 19.3 million in 2011 while the number of very low-income renters benefiting from some form of support only edged up from 4.4 million to 4.6 million. This trend stands in stark contrast to entitlements, like the Supplemental Nutrition Assistance Program, that scaled up to meet growing need among unemployed workers.

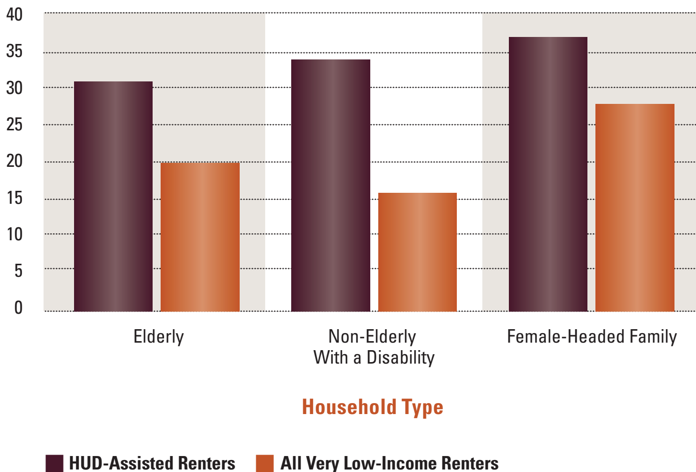
HUD estimates indicate that less than a quarter (23.8 percent) of very low-income renter households received housing assistance in 2011, a drop from 27.4 percent in 2007. Not only is the share without assistance rising, but so, too, is the share of these renters with severe cost burdens or living in severely inadequate housing (referred to as worst case housing needs). Among very low-income renters without assistance, the share with worst-case needs climbed steadily from 46 percent in 2003 to 50 percent in 2007 and to 58 percent in 2011.

Federal rental assistance programs support the nation's most vulnerable families and individuals. Among residents of assisted housing in 2012, 31 percent were age 62 or older, 34 percent were under age 62 but disabled, and 36 percent were female-headed families **(Figure 31).** The incomes of these assisted households are meager, with 47 percent having annual incomes under $10,000 and another 37 percent having incomes between $10,000 and $20,000. While more than half of recipients are elderly or disabled, a substantial share (23 percent) receives most of their income from wages.

For those able to secure housing assistance, the aid plays a critical role in relieving cost burdens. The 2011 American

FIGURE 31

Assisted Housing Serves the Nation's Most Vulnerable Households

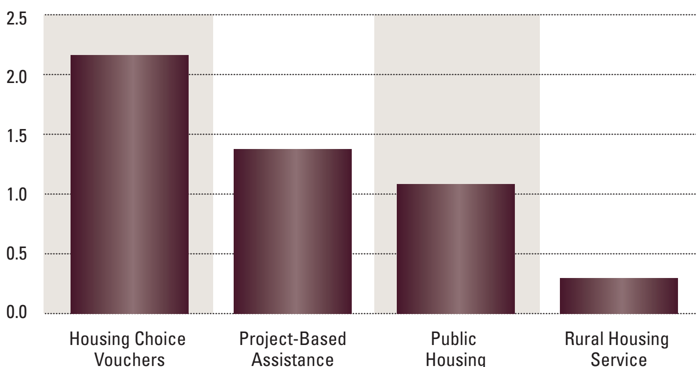


Notes: Elderly households have a householder or spouse aged 62 and over, and disabled households have a householder or spouse with a disability. Female-headed families have minor children living in the home. Very low-income renters have household incomes that are less than half of HUD-adjusted area median incomes.

Sources: US Department of Housing and Urban Development, 2012 Picture of Subsidized Households and 2011 Worst Case Needs Report to Congress.

FIGURE 32

Federal Rental Assistance Is Provided Through a Broad Range of Programs



Notes: Project-based assistance includes Section 8 New Construction and Substantial Rehabilitation, Section 236, and other HUD programs where subsidy is linked to a specific housing unit. Rural Housing Service includes only units with Section 521 rental assistance.

Sources: US Department of Housing and Urban Development, 2012 Picture of Subsidized Households; Rural Housing Service from 2012 Multi-Family Housing Annual Fair Housing Occupancy Report.

Housing Survey reports that very low-income households without housing assistance faced average monthly housing costs of $745, while those with assistance paid an average of just $311 per month. Such significant savings go a long way toward helping these households pay for the other necessities of life.

ONGOING FUNDING PRESSURES

Rental housing assistance is delivered through a medley of programs, reflecting shifts in policy priorities and changing views about the most efficient means of providing affordable housing. In 2012, 2.2 million households lived in rentals found on the open market and subsidized by housing choice vouchers **(Figure 32).** Another 1.3 million renters lived in privately owned developments with subsidies tied to the housing units through programs that were primarily active from the late 1960s into the 1980s. A further 1.1 million families and individuals lived in public housing, owned and operated by local housing authorities. These units represent the oldest form of housing assistance, with most built in the two decades following World War II. Finally, slightly more than 270,000 renters received subsidies through the US Department of Agriculture, Office of Rural Development, with most residing in properties also benefiting from below market-rate financing that restricts the residences to lower-income tenants.

Each program has come under significant funding pressures in recent years. Since the early 1990s, the housing voucher program has been the main vehicle for expanding assistance. Between 1997 and 2004, increases in funding and improvements in program management helped to lift the number of vouchers by some 649,000. But despite a 12 percent increase in outlays for the program from 2007 to 2012, higher market rents and utility costs—along with income losses primarily resulting from recession-induced unemployment—raised the per tenant cost of vouchers, thus leaving the number of assisted renters almost unchanged.

Since vouchers provide the largest share of rental assistance, the program will bear the brunt of federal budget cuts under sequestration. With across-the-board reductions of 5 percent, HUD estimates that 125,000 families will lose their vouchers in 2013, with additional cuts ahead if the next stage of sequestration is implemented in 2014. The voucher program is also affected by cutbacks in funding for administrative functions at the public housing authorities (PHAs) that manage the program. To achieve the mandated spending cuts for the fiscal year, PHAs had to reduce

administrative funds by about a third. According to a May 2013 survey, half of the 300 PHA respondents had already stopped issuing vouchers, and more than a quarter had been forced to cut staffing. PHAs have also reported other stopgap measures, such as reducing the amount of subsidy they provide—adding to the financial burden that tenants must bear and limiting the incentive for landlords to participate in the program.

Project-based and public housing assistance have been subject to sequestration cuts as well, forcing property managers to make difficult choices about absorbing losses while tenant contributions toward rent remain capped at 30 percent of income. Although they may make up for some of the shortfall by reducing administrative expenses or tapping reserves, landlords will still need to take additional steps—particularly if the cuts continue. The fear is that they will find ways to pass some additional costs on to tenants and thus raise rent burdens, or scrimp on property maintenance and security to the detriment of the health and safety of residents as well as the longer-term viability of the properties.

Budget cuts have also hastened the physical deterioration of public housing projects. Despite a HUD-sponsored study in 2010 estimating the need for $26 billion in capital repairs, outlays for these investments fell 18 percent between 2008 and 2012. Sequestration will bring further funding cuts. Federal efforts are under way to address the capital needs backlog through the Rental Assistance Demonstration (RAD) program with PHAs, which are testing whether private capital can be leveraged to fund needed improvements in a cost-effective way while still maintaining long-term affordability. But the current political climate threatens the viability of these programs as well. If the impasse continues, many public units will be subject to further undermaintenance, making it even more costly to attend to cumulative problems.

After rising rapidly from the 1970s into the 1990s, the number of families helped through rural housing assistance programs plateaued and began to decline as few new units were added. Other federal programs that support assisted housing have undergone outright cuts. In particular, appropriations for the HOME program in fiscal 2012 were down 45 percent from two years earlier, while those for the Community Development Block Grant program were off by 26 percent. These deep cuts undermine state and local capacity to stave off losses of affordable rental housing and improve conditions in distressed communities.

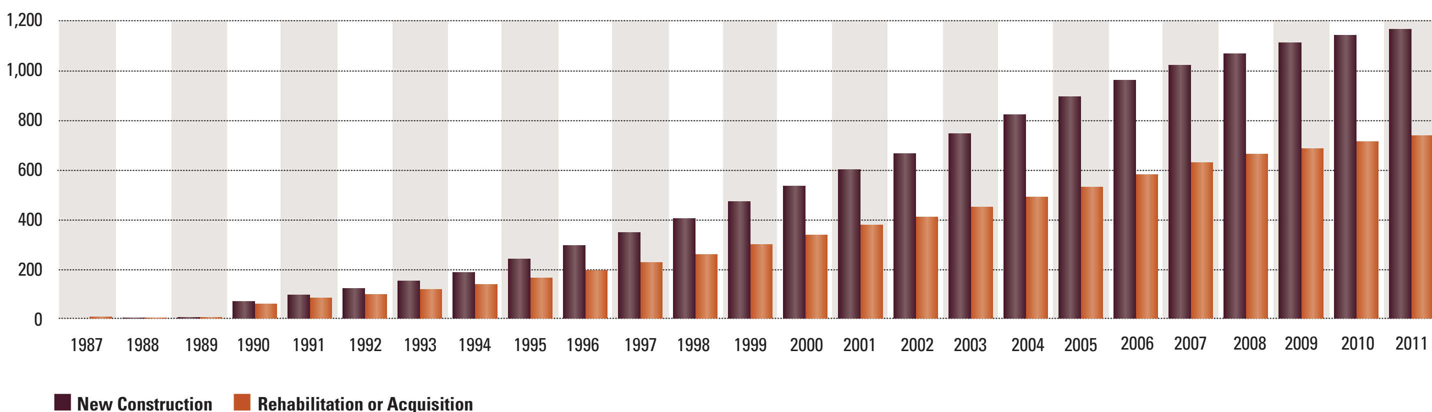
THE CRITICAL ROLE OF THE LIHTC PROGRAM

The Low Income Housing Tax Credit (LIHTC) program has been the primary source of funding for both development of new low-income housing and preservation of existing subsidized properties since 1986. Over the quarter-century from 1987 through 2011, the LIHTC program supported construction of roughly 1.2 million new units and rehabilitation of another 749,000 homes **(Figure 33).** Compared with earlier generations of supply-side programs, LIHTC projects have a very low failure rate, with only 1–2 percent of properties undergoing foreclo-

FIGURE 33

The LIHTC Program Has Supported Development and Preservation of More than Two Million Affordable Rentals

Cumulative LIHTC Units Placed in Service (Thousands)



Source: JCHS tabulations of US Department of Housing and Urban Development, LIHTC database.

sure. An important factor in this success is that private investors, rather than the federal government, provide the equity up front and bear the financial risk for the projects.

Rather than providing direct subsidies that reduce tenants' monthly contributions to rent, the LIHTC program reduces the effective cost of developing rental housing by generating capital through the sale of tax credits. In exchange for the credits, developers must set aside a minimum of either 20 percent of the units for renters with incomes that do not exceed 50 percent of area median income, or 40 percent of units for those with incomes up to 60 percent of area median income. In practice, nearly nine out of 10 rental units in developments supported by the tax credits have been set aside for low-income renters.

Rents for set-aside units are capped at levels affordable at the specified income limit and are not tied to the tenants' income. But since many qualifying renters have significantly lower incomes, developers often have to apply other forms of subsidy to make the homes affordable. This layering of subsidies has enabled the LIHTC program to serve extremely low-income tenants. Indeed, a 2012 New York University study found that 43 percent of LIHTC occupants had incomes at or below 30 percent of AMI and that nearly 70 percent of these extremely low-income residents received additional forms of rental assistance. With the benefit of this support, only 31 percent of renters in this income group were severely housing cost burdened—significantly less than the 63 percent share of extremely low-income renters overall. In addition, these extremely low-income residents benefit from newly built or renovated housing that is of higher quality and often offers better access to supportive services than housing they would otherwise be able to secure.

To date, federal fiscal pressures have not yet directly reached this off-budget program. In fact, to help spur housing development after the recession, Congress boosted the value of the tax credit through the end of 2013. But cuts to the HOME program have sharply diminished the pool of funds available to close gaps between what the tax credit can deliver and what is needed to bring rents down to more affordable levels. In addition, deficit-reduction efforts may yet lead to meaningful tax reform, and many proposals call for substantial elimination of tax expenditures (indirect means of funding such as deductions, credits, and other measures that reduce taxes owed).

The LIHTC program could no doubt be improved to make housing more affordable for lowest-income renters and to work more efficiently with other subsidy programs. But eliminating or significantly curtailing this program would create a substantial void in affordable housing production and preservation—and at the expense of one of the most successful efforts on record in terms of sound financial performance and delivery of good-quality rentals.

HOUSING AS A PLATFORM FOR OPPORTUNITY

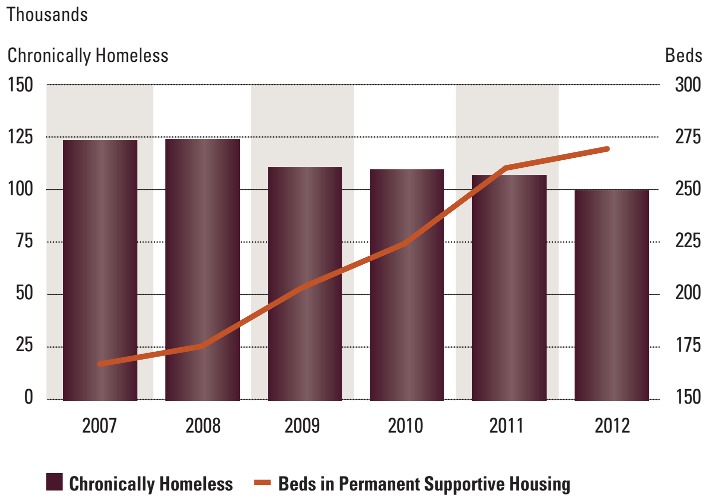
Linking supportive services and housing assistance can provide residents a springboard to economic self-sufficiency by addressing the underlying causes of poverty. A landmark effort in this vein is the Jobs-Plus demonstration, run from 1998 to 2003 in six public housing developments across the country and funded by HUD and a consortium of foundations and private funders. The program used a three-pronged approach to improve employment and earnings among working-age, non-disabled residents: on-site job centers where participants could get job search help and referrals to vocational training and support services; modified rent rules so that they could increase their earnings without worrying that their rents would also rise; and neighbor-to-neighbor outreach to circulate news of job opportunities and encourage community support for engaging in work. A rigorous evaluation of the program found a modest but long-lasting increase in earnings for participants at sites where the program was fully implemented. On the basis of these promising outcomes, HUD has requested funding for a Jobs-Plus pilot for FY2014.

Another such initiative is the Family Self-Sufficiency (FSS) Program, first authorized in 1990, which targets housing voucher holders as well as public housing residents. Under this program, housing authorities take a case management approach to connect residents with employment assistance, job training, child care, financial literacy classes, and other supportive services in the community. Participating tenants enter into a contract that lays out specific goals for achieving economic independence over a five-year period. The housing authority creates escrow accounts on behalf of residents and deposits any increments in rent that they pay as their incomes rise. If program participants fulfill their contracts, they are awarded the amount accrued in the escrow account plus interest.

A recent evaluation of the program found that among a small sample of participants tracked over a four-year period, roughly 24 percent had completed their contracts, 39 percent were still engaged in the program, and slightly more than a third had dropped out. Those who completed the program had accrued an average of $5,300 and saw their

FIGURE 34

Recent Additions to Permanent Supportive Housing Have Helped Those Most at Risk of Homelessness



Sources: US Department of Housing and Urban Development, Homelessness Resource Exchange and 2012 Annual Homelessness Assessment Report.

incomes increase by more than two-thirds. Despite the positive results, participation in the program remains relatively limited, with only 57,000 tenants enrolled as of 2012.

Yet another example of HUD partnerships with PHAs to foster self-sufficiency among assisted renters is expansion of the Moving to Work (MTW) demonstration program in FY2014. This program exempts high-performing state and local PHAs from certain public housing and voucher rules, allowing them more flexibility to use federal funds to design and test locally driven policies related to helping tenants find employment.

One dramatic success in using housing as a platform for opportunity has been in assisting the formerly homeless. Homeless individuals and families often struggle with substance abuse, mental illness, or domestic violence. In growing recognition of these root causes, efforts to end homelessness have shifted from emergency shelter-based services toward a model that links supportive services with housing. Since passage of the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act in 2009, the availability of permanent supportive housing has increased by 55,000 beds **(Figure 34).** As a testament to the success of this strategy, the number of chronically homeless individuals fell by 10 percent during this period despite the severity of the recession.

There is growing evidence that supportive housing can also reap significant savings for federal, state, and local governments compared with emergency shelters and institutionalized care for the homeless. For example, a 2013 report from the Economic Roundtable found that placing high-cost hospital patients in Los Angeles into permanent supportive housing resulted in a net public cost avoidance of nearly $32,000 per individual in the first year, even including the costs for housing subsidies and housing placement.

ASSISTING ELDERLY RENTERS

With the leading edge of the baby-boom generation crossing the age 65 threshold, 2010 ushered in an era of significant growth in the senior renter population. The Joint Center estimates that if current homeownership rates hold, the number of renters age 65 and older will increase by 2.2 million, or some 40 percent, in the decade ending in 2023. With substantial shares of these households living on fixed incomes, both the need and eligibility for rental assistance will soar.

In 2012, 1.5 million residents of HUD-assisted units were 62 or older, which is the eligibility standard used for housing reserved for “elderly” residents. To just keep pace with the 40 percent projected growth in these older renters, the number of assisted units dedicated to this segment of the population would have to increase by some 600,000 **(Figure 35).** And this figure does not account for the 2.5 million very low-income elderly renters that lacked housing assistance in 2011, fully 1.5 million of which had worst case needs.

Among the population of older renters assisted through federal programs, a large share reside in housing developments reserved for the elderly. The Government Accountability Office estimated that there were 943,000 units specifically designated for older households in 2004. In keeping with this estimate, HUD administrative data indicate that, as of 2012, 1.0 million elderly renters lived in either public housing or privately owned developments with unit-based assistance. Another 435,000 seniors, or 30 percent of all assisted older renters, relied on housing choice vouchers—a significantly lower share than the 47 percent among all assisted households.

Since the design of elderly housing should include accessibility features, project-based assistance may be better suited for older households than vouchers. Indeed, few rentals in the private market offer such features and landlords that accept vouchers have little incentive to add them. Many states in fact use some degree of targeting in their LIHTC

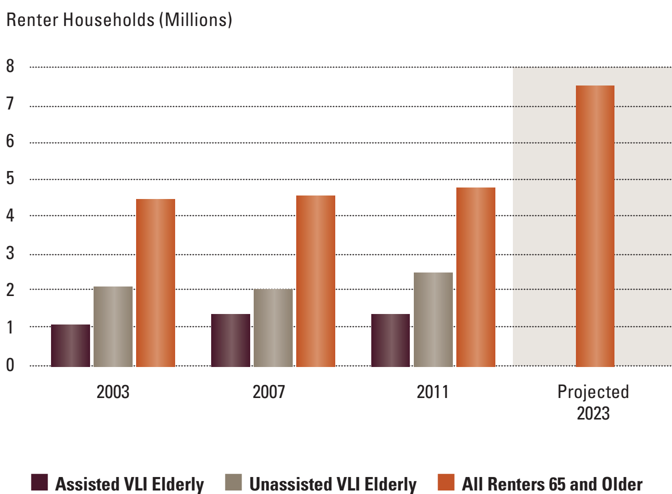
programs to increase the supply of elderly housing. Over its history, the tax credits have supported roughly 311,000 units for older renters. Given its current scale, however, the LIHTC program has made only a marginal contribution toward meeting escalating demand, with only about 13 percent of tax credit properties so far dedicated to senior housing.

The population over age 75 is also increasing rapidly, and the pace of growth will accelerate in 2020 as the oldest baby boomers reach this age. At that time of life, renters are more likely to require additional assistance with activities of daily living. HUD's Section 202 program, established in 1959, has long been the primary means of expanding housing with supportive services for the elderly, but only an estimated 263,000 units were still in operation as of 2006. In its current form, the program provides an upfront capital grant to reduce development costs, as well as ongoing funding to close the gap between the cost of providing housing and what tenants can afford to pay.

The Section 202 program faces a number of significant challenges. Many developments are quite old and in need of reinvestment. In addition, the subsidy contracts on an estimated 65,000 units—about a quarter of the total—will expire by 2023, requiring action to preserve this housing as affordable. Development of new units has also slowed because the capital grants alone cannot support the costs, requiring the layering of additional subsidies including the LIHTC. The Obama Administration has proposed halting the capital grants to allow redesign of the program, and legislation was passed in 2010 to improve provision of operating funding and prevent developments from opting out of the program. Given the future need for this type of housing, revitalization of this production program is critical.

FIGURE 35

Rapid Growth in Senior Renters Will Exert Pressure on Housing Assistance for the Elderly



Notes: Elderly is defined as age 62 and older. Very low income (VLI) is defined as less than 50% of area median.

Sources: US Department of Housing and Urban Development, Worst Case Housing Needs Reports to Congress; US Census Bureau, Current Population Surveys; JCHS 2013 household growth projections.

THE URGENT NEED FOR POLICY DEBATE

It is hardly hyperbole to call the growing lack of rental affordability a crisis. More than half of all renters pay more than 30 percent of income for housing, including more than one in four that pay more than 50 percent. For the nation's lowest-income families and individuals, the situation is especially dire, with more than seven out of 10 paying more than half their income for rent.

Even before the Great Recession took hold, the steady erosion of renter incomes had already led to worsening affordability. And since 2007, the number of very low-income households that are generally eligible for housing assistance has surged, unmatched by a meaningful increase in the availability of assisted units. Any increases in funding that have occurred have been eaten up by the growing shortfall caused by rising rents and declining renter incomes. As a result, the share of income-eligible households receiving rental assistance stands at its lowest point in years.

Given the costs of land, building materials, labor, and capital, market forces face a fundamental challenge in supplying housing that is within reach of the lowest-income segments of society—the elderly, the disabled, the working poor, and those underemployed and unemployed workers seeking full-time jobs. Given this sober calculus, there is a clear and compelling need for public assistance to close the gap between what these families and individuals can afford and what it costs developers to provide decent housing and a suitable living environment.

Expanding the reach of housing assistance should, of course, include efforts to make more efficient use of existing resources. And current assistance efforts should be tailored as much as possible to help address the underlying causes of economic instability, connecting recipients to communities, services, and supports that create a pathway to self-sufficiency. Housing production programs can also be better designed to improve the fabric of the neighborhoods of which they are a part. Nonetheless, greater efficiency and

better targeting alone are not enough to bring existing assistance programs to the scale necessary to meet the country's spiraling need for affordable housing.

Despite the magnitude of the affordability crisis and the clear need for new thinking about assistance, active debate on rental housing policy has just begun. HUD's many reform proposals are a start. So, too, is a recent analysis from the Bipartisan Policy Center's Housing Commission that presents a thoughtful set of recommendations. A variety of other organizations has also identified opportunities for operational improvements in existing programs and outlined new approaches for funding affordable housing. Hopefully, Congress will take up this lead to engage in a much-needed dialogue. While the political climate remains fractious, the work of the BPC Commission demonstrates that common ground on these issues can be found.

The country faces difficult choices as an aging population and rising health care costs strain the federal budget. It would be all too easy for rental housing concerns to get lost in the debate. But given how vital good quality, affordable housing is to the well-being of individuals and communities, the nation needs to decide that the time has come to recommit to its longstanding goal of ensuring that every American can afford a decent home in a suitable living environment.

APPENDIX TABLES

Table A-1 Renter Incomes and Housing Costs: 1986–2012

Table A-2 Renter Household Characteristics by Structure Type and Location: 2011

Table A-3 Characteristics of the Rental Housing Stock: 2011

Table A-4 10-Year Rental Stock Loss Rates: 2001–11

Table A-5 Tenure Shifts by Structure Type: 2003–11

Table A-6 Renter Household Characteristics and Housing Cost Burdens: 2001, 2007, and 2011

Table A-7 Multifamily Housing Market Indicators: 1980–2012

The following tables can be downloaded in Microsoft Excel format from the Joint Center's website at www.jchs.harvard.edu.

Table W-1 Rentership Rates by Age, Race/Ethnicity, and Region: 1995–2012

Table W-2 Household Tenure Trajectories and Mobility: 2001–11

Table W-3 Renter Housing Cost Burdens by State: 2011

Table W-4 Renter Housing Cost Burdens by Household Income Quintile: 1960–2011

Table W-5 Average Monthly Rent by Region, Metro Status, and Assisted Status: 2011

Table W-6 Affordable Rental Supply Gaps: 1999–2011

Table W-7 Share of Households Holding Assets by Tenure and Income Quartile: 2010

Table W-8 Median Net Worth and Median Cash Savings by Tenure, Age, and Income Quartile: 2007 and 2010

Table W-9 JCHS Renter Household Growth Projections: 2013–23

TABLE A-1

Renter Incomes and Housing Costs: 1986–2012

Year	Monthly Income and Housing Costs (2012 dollars)				Housing Costs as a Share of Income (Percent)		
	Median Renter Income	Contract Rent	Gross Rent	Asking Rent for New Apartments	Contract Rent	Gross Rent	Asking Rent for New Apartments
1986	2,972	708	834	957	23.8	28.1	32.2
1987	2,943	711	831	1,045	24.2	28.2	35.5
1988	3,031	709	825	1,067	23.4	27.2	35.2
1989	3,133	703	817	1,092	22.4	26.1	34.9
1990	3,033	695	806	1,054	22.9	26.6	34.7
1991	2,908	690	801	1,035	23.7	27.5	35.6
1992	2,827	687	797	959	24.3	28.2	33.9
1993	2,798	683	793	910	24.4	28.3	32.5
1994	2,761	682	790	892	24.7	28.6	32.3
1995	2,833	680	785	987	24.0	27.7	34.8
1996	2,858	678	783	983	23.7	27.4	34.4
1997	2,922	682	787	1,036	23.3	26.9	35.4
1998	2,981	693	795	1,034	23.2	26.7	34.7
1999	3,088	699	799	1,090	22.6	25.9	35.3
2000	3,106	701	802	1,121	22.6	25.8	36.1
2001	3,080	712	821	1,142	23.1	26.6	37.1
2002	2,965	729	831	1,172	24.6	28.0	39.5
2003	2,866	733	840	1,162	25.6	29.3	40.5
2004	2,826	733	842	1,186	25.9	29.8	42.0
2005	2,844	730	846	1,107	25.7	29.7	38.9
2006	2,923	733	855	1,178	25.1	29.2	40.3
2007	2,935	743	865	1,133	25.3	29.5	38.6
2008	2,828	742	869	1,169	26.2	30.7	41.3
2009	2,806	761	885	1,138	27.1	31.5	40.5
2010	2,715	751	873	1,134	27.6	32.2	41.8
2011	2,702	740	860	1,084	27.4	31.8	40.1
2012	2,711	744	861	1,090	27.4	31.8	40.2

Notes and Sources: Values are adjusted for inflation using the CPI-U for All Items. Renter incomes are median renter household incomes from the US Census Bureau, Current Population Survey (CPS). Renters exclude those paying no cash rent. Contract rent equals median contract rent from the US Department of Housing and Urban Development, 2011 American Housing Survey (AHS), indexed by the CPI rent of primary residence. Gross rent equals median gross rent from the 2011 AHS, indexed by a weighted combination of the CPI rent of primary residence, the CPI energy services index, and the CPI water and sewer maintenance index. Asking rent is the median asking rent from the US Census Bureau, Survey of Market Absorption, and is for newly completed, privately financed, unsubsidized, and unfurnished rental apartments in structures of five or more units.

TABLE A-2

Renter Household Characteristics by Structure Type and Location: 2011

Households (Thousands)

	Single-Family			Multifamily: 2–4 Units			Multifamily: 5–9 Units			Multifamily: 10 or More Units			Mobile Home		
	Central City	Suburbs	Non-Metro	Central City	Suburbs	Non-Metro	Central City	Suburbs	Non-Metro	Central City	Suburbs	Non-Metro	Central City	Suburbs	Non-Metro
Age of Householder															
Under 25	457	385	272	495	280	208	367	253	104	894	452	220	0	103	86
25–34	1,345	1,595	830	1,101	797	379	673	609	171	1,690	1,267	150	28	165	176
35–44	1,049	1,573	733	650	513	211	441	376	76	930	679	76	13	126	149
45–54	770	1,196	598	586	440	177	337	323	67	904	629	97	29	93	180
55–64	477	698	452	387	323	146	240	252	63	718	451	95	13	91	67
65–74	251	291	197	218	182	93	105	102	53	456	279	44	3	51	46
75 and Over	153	250	202	149	115	78	60	97	34	595	471	156	8	28	48
Race/Ethnicity of Householder															
White	1,954	3,689	2,462	1,560	1,470	904	877	977	377	2,765	2,200	646	43	476	551
Black	1,235	913	321	959	441	182	616	448	109	1,393	871	72	10	36	70
Asian / Other	298	364	167	261	191	81	195	169	18	624	425	67	5	25	33
Hispanic	1,015	1,022	333	807	547	127	534	418	64	1,406	732	53	37	119	99
Education of Householder															
Less than High School	896	864	572	742	464	273	447	321	119	1,072	574	174	35	238	255
High School Graduate	1,153	1,709	1,129	919	815	426	497	540	146	1,303	1,024	237	26	222	307
Some College	1,536	2,048	1,098	1,025	825	424	727	676	212	1,816	1,291	339	26	156	159
Bachelor Degree	917	1,367	485	900	546	169	552	476	91	1,997	1,340	88	8	40	31
Household Type															
Married without Children	526	891	518	386	306	140	195	240	44	699	471	56	16	58	108
Married with Children	882	1,558	721	395	354	116	266	272	48	510	467	30	25	149	107
Single Parent	934	1,078	612	653	544	287	407	366	118	674	554	102	19	97	137
Other Family	536	624	293	323	250	73	176	183	30	471	279	31	6	62	111
Single Person	1,001	1,287	854	1,270	925	504	884	741	259	3,128	2,034	493	22	205	187
Other Non-Family	623	550	285	560	269	172	294	211	68	707	424	127	6	86	102
Household Income Quartile															
Bottom	1,691	1,643	1,235	1,566	1,067	780	1,030	763	348	2,875	1,638	591	43	355	400
Lower Middle	1,338	1,678	1,095	1,086	843	320	674	636	151	1,571	1,207	172	38	196	223
Upper Middle	944	1,659	730	593	516	152	389	403	62	1,097	955	61	11	92	110
Top	529	1,009	224	342	224	41	129	211	7	645	429	14	3	13	21
All Households	4,502	5,988	3,284	3,587	2,650	1,293	2,223	2,013	568	6,188	4,229	838	95	657	753

Note: Totals exclude a small number of households for which structure type was unavailable.
Source: JCHS tabulations of US Department of Housing and Urban Development, 2011 American Housing Survey.

TABLE A-3

Characteristics of the Rental Housing Stock: 2011

Occupied Rental Units (Thousands)

	Single-Family		Multifamily			Mobile Home	Total
	Detached	Attached	2–4 Units	5–9 Units	10 or More Units		
Census Region							
Northeast	1,039	506	2,180	870	2,890	124	7,609
Midwest	2,348	407	1,676	951	2,124	162	7,668
South	4,610	965	1,958	1,677	3,352	924	13,486
West	3,122	778	1,715	1,305	2,889	294	10,103
Metro Area Status							
Central City	3,308	1,194	3,587	2,223	6,188	95	16,594
Suburbs	4,762	1,226	2,650	2,013	4,229	657	15,536
Non-Metro	3,048	236	1,293	568	838	753	6,736
Region/Metro Status							
Northeast							
Central City	242	267	1,172	415	1,932	0	4,028
Suburbs	566	210	804	362	817	86	2,845
Non-Metro	231	29	204	93	140	38	735
Midwest							
Central City	731	175	834	398	985	17	3,140
Suburbs	832	174	478	391	825	59	2,759
Non-Metro	785	58	364	163	313	86	1,770
South							
Central City	1,286	417	821	787	1,717	42	5,070
Suburbs	1,893	465	678	666	1,379	407	5,489
Non-Metro	1,431	82	458	224	256	475	2,927
West							
Central City	1,049	335	759	623	1,554	35	4,356
Suburbs	1,472	376	690	594	1,207	105	4,443
Non-Metro	601	66	266	88	129	154	1,304
Year Built							
Pre-1940	2,496	376	2,244	660	1,359	18	7,153
1940–1959	2,814	317	1,165	464	1,016	48	5,824
1960–1979	3,202	817	2,440	1,880	4,488	533	13,360
1980–1999	1,552	731	1,243	1,404	2,891	742	8,563
2000 or Later	1,055	413	437	396	1,502	163	3,965
Rent Level							
Less than $400	1,196	280	991	562	1,396	363	4,787
$400–599	1,772	387	1,800	1,157	2,028	556	7,700
$600–799	1,951	539	1,721	1,309	2,485	216	8,221
$800 or More	4,654	1,278	2,660	1,651	5,038	111	15,393
No Cash Rent	1,315	122	175	28	101	211	1,953
Other Rental / Rent Not Paid Monthly	230	48	182	96	208	48	812
Number of Bedrooms							
0	24	18	96	93	612	0	843
1	568	417	1,995	1,748	5,530	98	10,355
2	2,820	1,198	3,990	2,397	4,322	739	15,467
3	5,379	845	1,250	507	678	620	9,279
4	1,882	149	161	54	95	43	2,383
5 or More	446	27	36	5	19	5	539
Unit Size							
Under 800 Sq. Ft.	812	351	2,059	1,675	4,748	331	9,975
800–1,199 Sq. Ft.	2,235	728	2,553	1,783	3,690	607	11,596
1,200 Sq. Ft. and Over	6,713	954	1,464	634	1,126	365	11,256
Rental Assistance							
Without Rental Assistance	10,533	2,300	6,472	3,967	9,049	1,460	33,782
With Rental Assistance	586	355	1,057	836	2,206	44	5,084
Total							
All Renters	11,119	2,655	7,529	4,803	11,255	1,504	38,866

Note: Assisted units include public housing and other government-subsidized units, as well as rentals where the tenants use vouchers.

Source: JCHS tabulations of the US Department of Housing and Urban Development, 2011 American Housing Survey.

TABLE A-4

10-Year Rental Stock Loss Rates: 2001–11

Share of 2001 Stock Permanently Removed within the Decade (Percent)

	Total	Single-Family		Multifamily			Mobile Homes
		Detached	Attached	2–4 Units	5–9 Units	10 or More Units	
Cash Rentals	5.6	6.4	5.5	7.4	4.0	3.1	20.7
Occupied	5.1	5.9	5.2	6.7	3.8	2.8	19.6
Vacant	9.7	12.5	8.0	15.1	6.0	5.4	28.0
No Cash Rentals	16.1	9.4	31.8	15.3	29.9	10.1	34.3
Rent Level							
Under $400	12.8	10.6	15.9	16.8	9.4	9.2	22.6
$400–599	6.7	7.7	6.9	7.4	3.3	3.8	23.2
$600–799	4.4	5.4	4.6	5.4	4.0	3.0	10.6
$800 and Over	3.0	4.3	2.8	4.8	2.6	1.5	19.2
Year Built							
Pre-1940	7.8	8.0	6.6	9.4	9.3	3.8	33.7
1940–1959	8.4	7.2	12.9	12.6	6.5	5.6	0.0
1960–1979	5.1	5.8	5.1	5.2	2.8	3.7	21.0
1980–1999	2.5	1.9	2.0	1.8	1.3	1.4	20.9
2000 and Later	1.6	0.0	4.4	0.0	0.0	0.0	46.2
Location							
Central City	5.7	5.9	7.2	8.0	4.8	4.0	21.5
Suburbs	4.7	6.3	4.1	5.9	3.2	1.9	23.8
Non-Metro	8.1	7.3	6.1	8.7	3.5	5.2	19.2

Note: Loss rates by year built and location exclude no cash rentals.
Source: JCHS tabulations of US Department of Housing and Urban Development, American Housing Surveys.

TABLE A-5

Tenure Shifts by Structure Type: 2003–11

Units (Thousands)

Structure Type	Type of Switch	2003–05	2005–07	2007–09	2009–11
Single-Family					
Total					
	Own to Rent	2,587	2,723	3,032	3,673
	Rent to Own	2,196	2,051	1,968	2,009
	Net Shift to Rental	391	672	1,063	1,664
Detached					
	Own to Rent	2,291	2,395	2,707	3,284
	Rent to Own	1,877	1,838	1,731	1,850
	Net Shift to Rental	414	558	976	1,433
Attached					
	Own to Rent	295	327	325	389
	Rent to Own	318	213	237	158
	Net Shift to Rental	-23	114	88	231
Multifamily					
Total					
	Own to Rent	541	680	692	690
	Rent to Own	767	760	592	480
	Net Shift to Rental	-226	-80	100	210
2–4 Units					
	Own to Rent	272	312	271	288
	Rent to Own	356	304	269	233
	Net Shift to Rental	-84	8	1	55
5 or More Units					
	Own to Rent	270	368	421	403
	Rent to Own	410	456	322	248
	Net Shift to Rental	-140	-87	99	155

Source: JCHS tabulations of US Department of Housing and Urban Development, 2003–11 American Housing Surveys.

TABLE A-6

Renter Household Characteristics and Housing Cost Burdens: 2001, 2007, and 2011

Thousands

Renter Characteristics	2001 No Burden	2001 Moderate Burden	2001 Severe Burden	2001 Total	2007 No Burden	2007 Moderate Burden	2007 Severe Burden	2007 Total	2011 No Burden	2011 Moderate Burden	2011 Severe Burden	2011 Total
All Renter Households	21,658	7,335	7,457	36,450	19,813	8,174	8,880	36,866	20,006	9,267	11,342	40,615
Household Income												
Less than $15,000	1,543	1,009	5,056	7,608	1,614	1,122	5,686	8,423	1,706	1,223	7,293	10,222
$15,000–29,999	2,589	3,411	2,016	8,015	2,451	3,546	2,567	8,563	2,410	3,961	3,270	9,641
$30,000–44,999	4,674	1,997	295	6,966	4,072	2,212	486	6,771	4,002	2,489	611	7,103
$45,000–74,999	7,070	758	81	7,909	6,311	1,072	129	7,512	6,296	1,331	158	7,785
$75,000 and Over	5,782	160	9	5,951	5,365	221	11	5,598	5,591	264	10	5,865
Age of Householder												
Under 25	2,432	1,086	1,475	4,993	1,861	986	1,487	4,335	1,457	927	1,672	4,056
25–44	11,700	3,512	3,078	18,290	9,926	3,876	3,692	17,495	9,942	4,347	4,756	19,045
45–64	5,198	1,620	1,603	8,421	5,727	2,125	2,300	10,152	6,150	2,646	3,255	12,052
65 and Over	2,328	1,117	1,300	4,746	2,299	1,186	1,400	4,885	2,457	1,348	1,659	5,463
Household Type												
Married Without Children	3,499	680	451	4,630	3,095	776	521	4,393	3,300	935	696	4,931
Married With Children	3,835	1,037	606	5,478	3,144	1,202	791	5,137	3,244	1,390	1,110	5,744
Single Parent	2,733	1,553	1,851	6,136	2,523	1,699	2,289	6,510	2,505	1,858	2,829	7,193
Other Family	1,778	546	455	2,779	1,724	623	607	2,954	1,800	831	907	3,538
Single Person	7,213	2,927	3,511	13,651	6,897	3,210	3,986	14,092	6,772	3,441	4,859	15,071
Non-Family	2,599	592	583	3,775	2,431	665	685	3,781	2,384	812	941	4,138
Race/Ethnicity of Householder												
White	13,754	4,118	3,924	21,796	12,301	4,344	4,465	21,109	12,161	4,832	5,534	22,528
Black	3,433	1,436	1,705	6,574	3,169	1,661	2,131	6,960	3,129	1,855	2,665	7,650
Hispanic	2,956	1,291	1,226	5,472	2,919	1,606	1,640	6,166	3,112	1,928	2,277	7,317
Asian/Other	1,515	491	602	2,608	1,424	563	644	2,631	1,603	652	866	3,121
Education of Householder												
No High School Diploma	3,967	1,906	2,307	8,180	3,053	1,730	2,281	7,064	2,680	1,742	2,574	6,997
High School Graduate	5,883	2,118	2,048	10,050	5,710	2,571	2,793	11,074	5,023	2,657	3,272	10,952
Some College	6,268	2,143	2,074	10,485	5,788	2,494	2,587	10,869	6,335	3,133	3,827	13,295
Bachelor Degree and Higher	5,539	1,168	1,028	7,735	5,262	1,379	1,219	7,860	5,967	1,735	1,669	9,371
Weeks Worked in Last 12 Months												
Fully Employed	14,730	3,887	1,790	20,407	13,250	4,453	2,332	20,035	13,544	5,097	3,088	21,729
Short-Term Unemployed	2,147	928	874	3,949	1,920	933	1,016	3,869	1,503	893	1,158	3,553
Long-Term Unemployed	1,247	582	1,444	3,274	1,093	647	1,643	3,383	878	593	1,623	3,094
Fully Unemployed	95	71	223	388	127	80	276	483	355	251	875	1,480

Notes: Moderate (severe) burdens are defined as housing costs of 30–50% (more than 50%) of household income. Households with zero or negative income are assumed to be severely burdened, while renters paying no cash rent are assumed to be unburdened. Children are the householder's own, step, or adopted children under the age of 18. White, black and Asian/other householders are non-Hispanic, while Hispanic householders may be of any race. Asian/other includes multiracial householders. High school graduates include those with a high school diploma, GED, or other alternate credential. Fully employed householders worked for at least 48 weeks, short-term unemployed for 27–47 weeks, and long-term unemployed for 1–26 weeks. Fully unemployed householders did not work in the previous 12 months but were in the labor force.

Source: JCHS tabulations of US Census Bureau, American Community Surveys.

TABLE A-7

Multifamily Housing Market Indicators: 1980–2012

Year	Permits [1] (Thousands)	Starts [2] (Thousands)	Completions [3]		Size of New Units [3] (Median sq. ft.)	Rental Vacancy Rates [4] (Percent)	Value Put in Place: New Units [5] (Millions of 2012 dollars)
			For Sale (Thousands)	For Rent (Thousands)			
1980	480	440	174	371	915	5.4	46,554
1981	421	379	164	283	930	5.0	44,100
1982	454	400	148	226	925	5.3	36,968
1983	704	635	152	314	893	5.7	51,744
1984	759	665	197	430	871	5.9	62,362
1985	777	669	184	447	882	6.5	60,896
1986	692	626	133	503	876	7.3	65,020
1987	510	474	134	412	920	7.7	51,440
1988	462	407	117	329	940	7.7	43,275
1989	407	373	90	307	940	7.4	41,297
1990	317	298	76	266	955	7.2	33,815
1991	195	174	56	197	980	7.4	25,535
1992	184	170	44	150	985	7.4	21,428
1993	213	162	44	109	1,005	7.3	17,141
1994	303	259	49	138	1,015	7.4	21,815
1995	335	278	51	196	1,040	7.6	26,950
1996	356	316	50	234	1,030	7.8	29,740
1997	379	340	54	230	1,050	7.7	32,734
1998	425	346	55	260	1,020	7.9	34,614
1999	417	339	55	279	1,041	8.1	37,807
2000	394	338	60	272	1,039	8.0	37,678
2001	401	329	75	240	1,104	8.4	39,288
2002	415	346	63	260	1,070	8.9	42,054
2003	428	349	56	236	1,092	9.8	43,818
2004	457	345	72	238	1,105	10.2	48,549
2005	473	353	97	199	1,143	9.8	55,602
2006	461	336	127	198	1,192	9.7	60,135
2007	419	309	116	169	1,134	9.7	54,213
2008	330	284	101	200	1,089	10.0	47,281
2009	142	109	66	208	1,124	10.6	30,541
2010	157	116	30	125	1,137	10.2	15,463
2011	206	178	16	123	1,093	9.5	15,078
2012	311	245	11	155	1,056	8.7	21,348

Notes and Sources: Value put in place is adjusted for inflation using the US Bureau of Labor Statistics Consumer Price Index for All Urban Consumers (CPI-U) for All Items. Web links confirmed as of November 2013.

1. US Census Bureau, New Privately Owned Housing Units Authorized by Building Permits, http://www.census.gov/construction/pdf/bpann.pdf
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5. US Census Bureau, Annual Value of Private Construction Put in Place, http://www.census.gov/construction/c30/historical_data.html

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